

Vestel Beyaz Esva

20/02/2023

Review of 4Q22 Financials

BUY

Upside Potential 35%

Actual vs Estimates

Bottom-line missed the market estimate. Vestel Beyaz Esva recorded TL15mn net loss in 4Q22, compared to TL413mn net income reported in 4Q21. The market was expecting the Company to record TL98mn net income while our house call was TL15mn net loss. The deviation in the consensus estimate was resulted from the weaker than expected operating performance on significant erosion in the profit margins. Broadly in-line with the estimates, the Company generated TL10..2bn revenues in 4Q22 (up by 108% YoY). The strong top-line growth was driven by i) double digit increase in export volumes ii) weaker TL YoY, iii) further price increases in the domestic market, and iv) favorable impact of new export model on export revenues. Below the expectations (ISY estimate: TL402mn and consensus: TL610mn), EBITDA came in at TL309mn in 4Q22, implying 65% YoY decrease. EBITDA margin plummeted to 3% from 18% a year ago on the back of persisting cost pressures, currency headwinds and higher opex/sales ratio driven by change in export model.

Highlights of the Quarter

Strong exports despite the challenging demand conditions. Domestic revenues surged to TL2.17bn in 4Q22, up by 140% YoY, thanks to additional price increases reflecting ongoing cost inflation. Both sell-in and sell-out figures for the MDA market were strong in 4Q22, recording 12% and 15% YoY growth. Pull-forward demand ahead of expected pay rises in early 2023 and year-end campaigns were the main drivers of the increased demand. Market demand in EU5 continued to contract and declined by 9% YoY due to ongoing geopolitical uncertainties, high inflation and diminishing consumer confidence. Consumer demand decreased by double digits in the main markets such as UK, Italy and Germany. Despite the weak demand environment, Company's export volumes had a double-digit increase thanks to above industry performance in Europe (and continued robust growth outside Europe such as Africa, CIS and North America regions. Export revenues were also supported by higher ASP mainly driven by the new export model. Export prices were relatively stable due to sluggish demand in Europe and rising competition from Chinese players who are re-gaining strength with declining logistic costs and relatively lower cost inflation in China. Overall, the export revenues grew by 98% YoY to TL8.03bn in 4Q22. Private label business has benefitted from the expanding presence in non-European markets that recorded higher growth as well as the demand shifting towards private label products in a high inflationary environment. On the other hand, A-brand business has negatively impacted by strong base and poor demand in Europe.

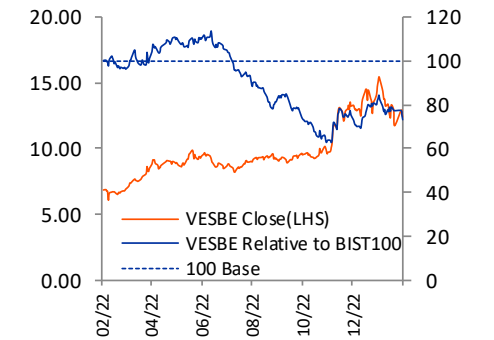
Significant EBITDA margin deterioration. Gross margin realized at 10.2% in 4Q22 vs. 19.0% in 4Q21 and 15.0% in 3Q22. Despite the easing raw material prices, the expected positive impact was delayed due to slower sales growth in 1H22. Also, limited EUR/USD parity hedges for 4Q provided negligible support to export margins compare to previous quarters. Therefore, with the relatively flat export prices and EUR/TRY in gross margin took a severe hit by the depreciated EUR against USD. Furthermore, increase in opex/sales ratio driven by higher energy and labor costs as well as the change in export model continued to put pressure on EBITDA margin both in QoQ and YoY. Accordingly, EBITDA margin realized at 3.0% compared to 18.0% in 4Q21 and 8.2% in 3Q22. Positive impact of easing raw material prices is expected to be seen in 1Q23.

| Stock Data | TL | US\$ |
|--------------------------------|--------|-------|
| Price | 12.44 | 0.66 |
| Target Price | 16.83 | 0.80 |
| Prev.TP | 15.95 | 0.80 |
| Mcap (mn) | 19,904 | 1,055 |
| Float Mcap (mn) | 3,847 | 204 |
| Avg.Daily Volume (3M, m) | 163.8 | 17.1 |
| No. of Shares Outstanding (mn) | | 1,600 |
| Free Float (%) | | 19 |
| Foreign Share (%) | | 12 |

| Price Perf. (%) | 1 Mn | Ytd | 12 Mn |
|-----------------|-------|-------|-------|
| TL | -18.8 | -9.7 | 81.6 |
| US\$ | -19.0 | -10.4 | 31.2 |
| Rel.to BIST-100 | -11.3 | -1.1 | -27.4 |

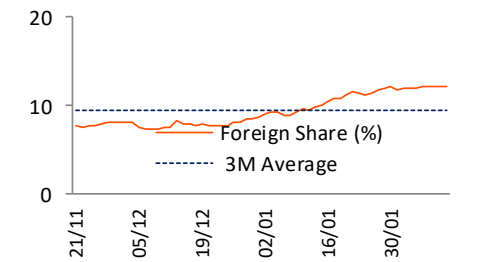
| Multiples | 2021 | 2022 | 2023 |
|-----------|------|------|------|
| P/E | 13.1 | 14.0 | 9.7 |
| P/BV | 4.1 | 3.1 | 2.6 |
| EV/EBITDA | 10.2 | 8.8 | 5.4 |

Price / Relative Price



52 Week Range (Close TL) 6.13 15.49

Foreign Share (%) Cur.(%) : 12.25



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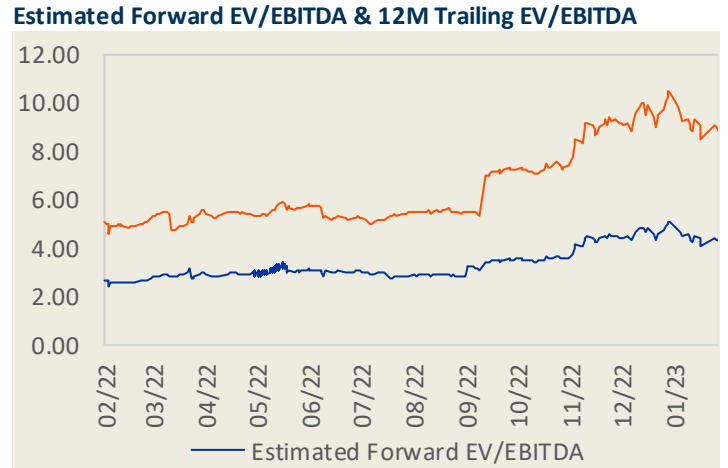
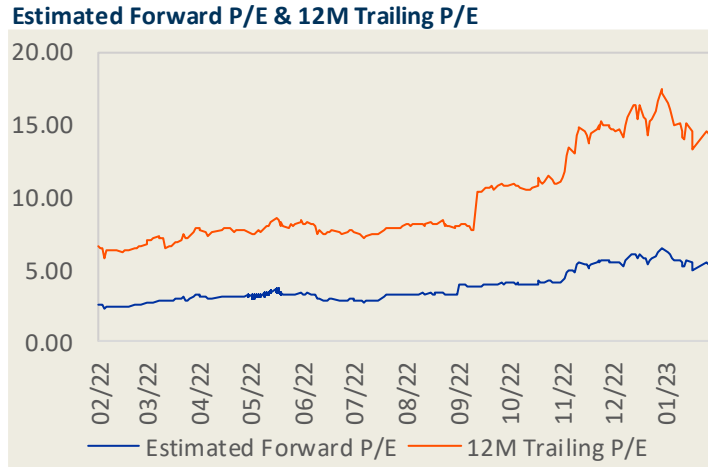
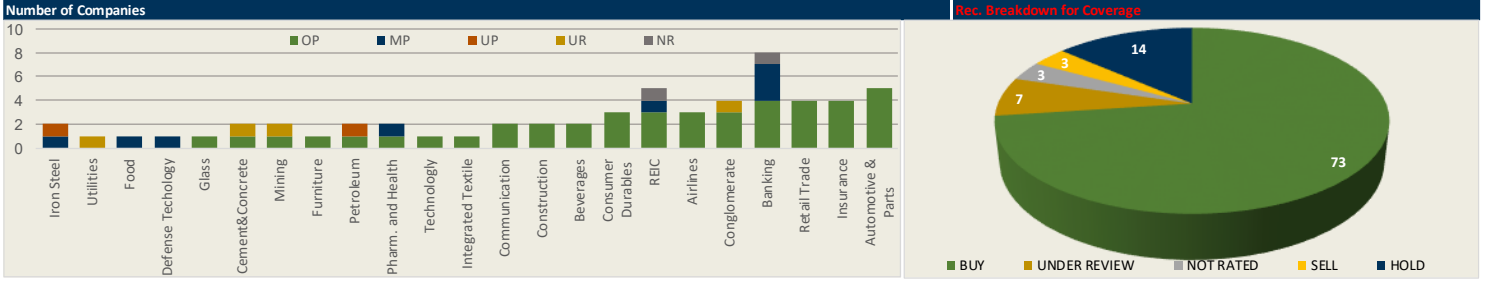
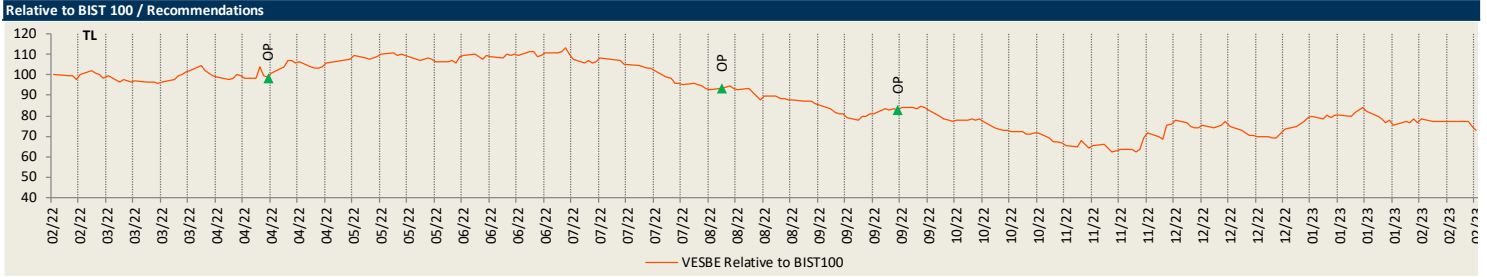
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Higher financial leverage. Despite the further improvement in WCR/sales ratio thanks to strong exports helping to reduce inventories and average collection period, net debt increased to TL5.60bn as of end-4Q22 from TL4.12bn as of end-3Q22 due to weaker EBITDA, increased capex and land purchase for TL674mn from Vestel Elektronik. As of 2022YE, the Company has net other receivable amount of TL1.66bn to Vestel Elektronik vs. net payable amount of TL2.21bn as of end-3Q22. Some part of the payment regarding the land purchase was netted off from the receivables from the parent. As a result, Net debt / EBITDA rose to 1.9x from 1.2x.

Impact on Valuation & Outlook

BUY Maintained. We might see some negative reaction on weaker than expected 4Q22 results. We are rising our TP for VESBE from TL15.95/share to TL16.75/share reflecting the revision in our macro assumptions (higher fx and rf rates). Despite the demand conditions are expected to remain muted in 2023, we expect Vestel Beyaz to continue its above market performance in both domestic and export markets by increasing its market share in the key markets and robust growth in non-EU markets. We expect export growth to be supported by both increasing demand from existing customer base and expected new customer acquisitions. The ongoing trend of outsourcing production among A-brands and trade down impact coming from consumers looking for cheaper alternatives due to high inflation continues to provide an opportunity for Vestel Beyaz to increase its market share in abroad. Therefore, we foresee a mid-single digit volume growth for 2023. While we expect the inflationary pricing in the domestic market to continue, we didn't project a significant increase in export prices due to rising competition. Overall, we estimate the Company to record 42% top-line growth in 2023. In-terms of EBITDA, we expect 1.4ppt margin improvement on the back of easing raw material and logistic costs. The Company has completed the first phase of capacity expansion program by increasing its total annual production capacity to 15.6mn units as of 22YE from 12.5mn in 20YE. As for the second phase (targeting to reach 19mn units), it may be postponed due to weak demand in Europe. Thus, we projected lower capex for 2023. We maintain our BUY recommendation with 35% upside potential. We continue to like Vestel Beyaz Eşya considering its i) high share of export revenues with 74%, ii) long-term prospect that supported by the recent capacity investments, iii) competitive asset base in Turkey with scale and logistic advantages, iv) outstanding R&D capabilities among other ODM's and, v) robust cash generation capacity with relatively limited WCR. The stock trades at 2023E EV/EBITDA of 5.4x and P/E of 9.7x, indicating %36 and 13% respective discounts to its international peers.

Vestel Beyaz Esya



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