

05 September 2023

Ulker

Revise target price to TL95 and maintain BUY rating

We incorporate new macro forecasts, price adjustments reflecting the uptrend in food inflation, and a higher corporate tax rate. We, thus, increase target price per share to TL95 and maintain BUY rating. Ulker has recently taken steps to improve its financial position, including the refinancing of its syndication loan, reduction of short FX position, and repurchase of USD50 million-denominated notes (originally totalling USD 650 million). While we recognize that these efforts to strengthen the financial outlook will likely yield long term benefits for a potential re-rating, it's worth noting that there remains a susceptibility to the depreciation of the Turkish lira in the medium term. Ulker trades at an estimated 2023E EV/EBITDA ratio of 4.8x, representing a substantial 50% discount compared to its peers.

- Expect growth above management guidance:** We incorporate new macro forecasts, price adjustments reflecting the uptrend in food inflation, and a higher corporate tax rate. We, thus, estimate a 56% revenue growth to TL44bn, ahead of the management guidance of TL40.1bn. We also assume a 19.4% EBITDA margin (management guidance 19.2%), remaining unchanged y/y. While we factor in a slight improvement in net debt/EBITDA to 2.2x (from 2.45x in 1H23), we expect an increase in financial expenses y/y in 2H23.
- The key focus is on deleveraging going forward:** Ulker has managed to lower its net debt to EBITDA ratio since the acquisition of Onem Gıda, from 3.7x in 2021 to 2.5x in the first half of 2023. Additionally, the company has taken steps to improve its financial position, including the refinancing of its syndication loan, reduction of short FX position, and repurchase of USD50 million-denominated notes (originally totalling USD 650 million). While we recognize that these efforts to strengthen the financial outlook will likely yield long term benefits for a potential re-rating, it's worth noting that there remains a susceptibility to the depreciation of the Turkish lira in the medium term. Moreover, we observe the possibility of synergies arising from the merger of Ulker with its subsidiaries Biskot and Ulker Cikolata, as well as the collaboration between Godiva and Pladis, which could contribute further value.
- 2Q23 results:** Ulker recorded TL1,692m net loss, 12% worse than consensus (UNLU: -TL678m, cons: -TL1,516m), TL1,915m in EBITDA (UNLU: TL1,794m, cons: TL1,820m), and TL9,512m in revenues (UNLU: TL8,802m, cons: TL8,831m) in its 2Q23 financials. Revenue growth was 59% in 2Q23, fuelled by 72% growth in domestic revenues and 41% growth in international revenues. The key drivers of revenue growth were price increases and a mix effect, while consolidated snacking volumes saw a decline of 3% (domestic stable, international down 8.3%). Revenue growth in chocolate category was higher at 64%, vs. 54% growth in biscuits and 57% growth in cake categories, on a y/y basis. Consolidated EBITDA margin expanded 120bp y/y 20.1% in 2Q23, primarily driven by 210bp margin recovery in Turkey operations to 19.4%. On the other hand, the international EBITDA margin showed a more modest increase of 20 bp, reaching 21.6%. While net debt declined 3% in USD terms to USD706m, net debt/EBITDA increased to 2.45x in 2Q23 (2.1x in 1Q23). Note that Ulker had USD272m short FX position in 2Q23 (USD348m in 1Q23).

Recommendation: **BUY** (Maintained)

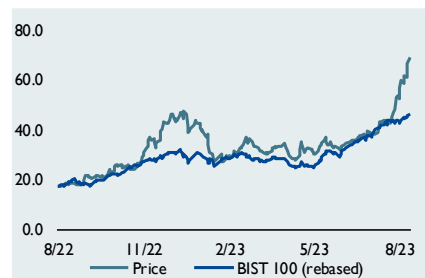
Target Price: **TL95** (Previously TL51)

* Stock ratings are relative to the relevant country benchmark.¹ Target price is for 12 months
Produced by: UNLU & CO

Share data

RIC	ULKER.IS
Sector	Food & Beverages
Price (04 Sep 2023)	TL 69.00
Market cap. (TLm)	25,480
Enterprise value (TLm)	45,324
Market cap. (USDm)	953
Enterprise value (USDm)	1,695
Avg. daily trade value (USDm)	20.62
Free float (%)	39

Price relative to BIST 100



Historical performance relative to BIST 100 (%)

Performance over	1M	3M	12M
Absolute (%)	59.4	99.5	267.8
Relative (%)	44.9	25.4	45.6

Source: BIST 100, UNLU & CO

The price relative chart measures performance against the Turkey BIST 100 which closed at 8,141 on 04 Sep 2023

Research Analyst

Ece Mandaci, CFA

ece.mandaci@unluco.com

+90-212-367-3689

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Valuation metrics ¹	2020A	2021A	2022A	2023E	2024E	2025E
P/E (x)	21.8	n.m.	n.m.	n.m.	8.0	4.3
EV/EBITDA (x)	10.9	12.4	6.2	4.8	3.6	3.1
EV/sales (x)	2.2	2.3	1.2	0.9	0.7	0.6
Dividend yield (%)	1.2	0.0	0.0	0.0	3.0	5.6

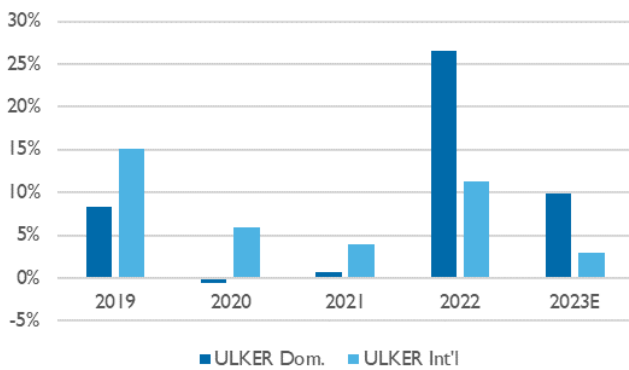
Ratio analysis	2020A	2021A	2022A	2023E	2024E	2025E
ROE (headline basis) (%)	18.5	-8.6	-5.9	2.4	22.7	26.4
ROIC (EBIT basis) (%)	20.5	48.9	73.9	35.6	25.6	23.1
Gross margin (%)	30.2	28.8	29.8	30.0	29.2	29.2
EBITDA margin (%)	19.8	19.0	19.4	19.4	19.0	19.0
EBIT margin (%)	17.7	16.7	18.2	18.0	17.5	17.5
Net margin (%)	11.1	-3.7	-1.3	0.5	4.8	7.6
Net debt/EBITDA (x)	0.1	3.7	2.4	2.2	1.8	1.6
Interest coverage (to EBITDA) (x)	-1.1	-3.6	-1.5	-1.4	-0.5	-0.4

Profit and loss (TLm) ¹	2020A	2021A	2022A	2023E	2024E	2025E
Revenue	9,716	12,537	28,197	44,023	66,713	77,964
Growth (y/y)	25%	29%	125%	56%	52%	17%
Gross profit	2,937	3,612	8,409	13,215	19,459	22,741
EBITDA	1,922	2,377	5,467	8,524	12,675	14,813
Growth (y/y)	47%	24%	130%	56%	49%	17%
EBIT	1,723	2,098	5,118	7,931	11,675	13,644
Growth (y/y)	52%	22%	144%	55%	47%	17%
Other income/expense	1,911	6,297	3,014	4,959	879	1,228
Financial income/expense	-2,058	-8,466	-8,051	-11,850	-6,878	-5,487
Profit before tax	1,576	-71	82	1,040	5,675	9,384
Tax	-308	-92	118	120	-1,334	-2,158
Effective tax rate	19.5%	-130.4%	-144.5%	-11.6%	23.5%	23.0%
Minorities	187	302	553	944	1,145	1,338
Net income	1,081	-464	-353	216	3,197	5,888
Growth (y/y)	9%	-143%	-24%	n.m.	1381%	84%
Weighted diluted number of shares (m)	342	342	342	369	369	369
Earnings per share (EPS) (TL)	3.162	-1.358	-1.032	0.585	8.657	15.945
Dividend per share (DPS) (TL) ¹	0.81	0.00	0.00	0.00	2.10	3.87
Dividend pay-out ratio	25.6%	0.0%	0.0%	0.0%	24.3%	24.3%

Cash flow (TLm)	2022A	2023E	2024E	2025E	Balance sheet (TLm)	2022A	2023E	2024E	2025E
EBIT	5,118	7,931	11,675	13,644	Cash	9,255	11,503	18,220	23,051
Depreciation and amortization	349	593	1,001	1,169	Total current assets	25,174	37,316	58,573	70,209
Change in working capital	-3,206	-6,687	-7,537	-3,860	Property, plant equipment	6,817	7,700	8,886	11,832
Taxes paid	118	918	-2,744	-3,138	Intangible fixed assets	2,018	2,880	4,365	5,611
Total capex	-705	-1,101	-1,801	-2,339	Total non-current assets	12,685	15,083	19,766	25,296
Capex/revenues	-2.5%	-2.5%	-2.7%	-3.0%	Total assets	37,859	52,399	78,339	95,506
Free cash flow	1,674	1,655	594	5,476	Current liabilities	16,887	14,355	22,470	25,837
Free cash flow margin	5.9%	3.8%	0.9%	7.0%	Total non-current liabilities	13,289	27,596	38,098	42,758
Dividends paid	0	0	0	-777	Total ordinary shareholders equity	7,682	10,448	17,770	26,911
Net increase (dec.) in debt (TLm)	-4,333	-5,429	-4,566	54	Total equity and liability	37,859	52,399	78,339	95,506
					Net working capital	8,665	15,353	22,889	26,750
					Net cash (debt)	13,090	18,520	23,085	23,032

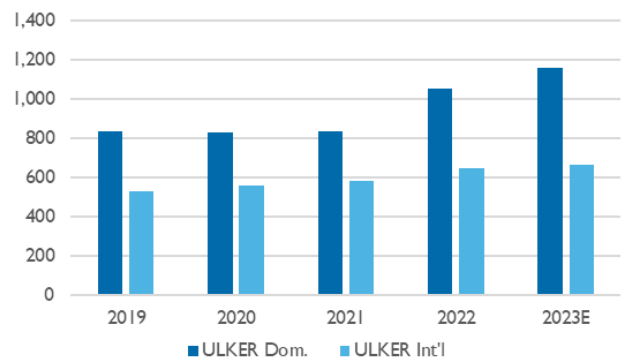
Source: Company data, UNLU & Co estimates. ¹ Onem Gida was acquired for TL3.7bn (USD447m) in 2021. 2020 figures were restated to include Onem Gida financials, which led to inorganic growth of 3% in revenues, 19% in EBITDA and 250bp in EBITDA margin in 2020. Net earnings increased by 6% inorganically in 2020.

Figure 1: Domestic vs. international revenue growth in USD terms



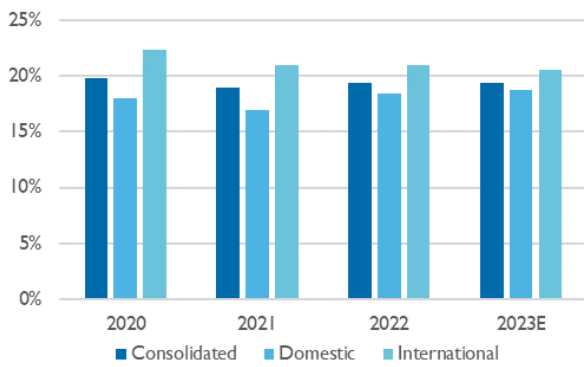
Source: Company data and UNLU & Co estimates

Figure 2: Revenues in USD terms (m)



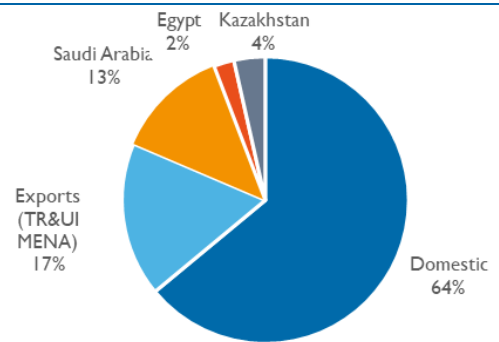
Source: Company data, UNLU & Co estimates

Figure 3: EBITDA margin by segments



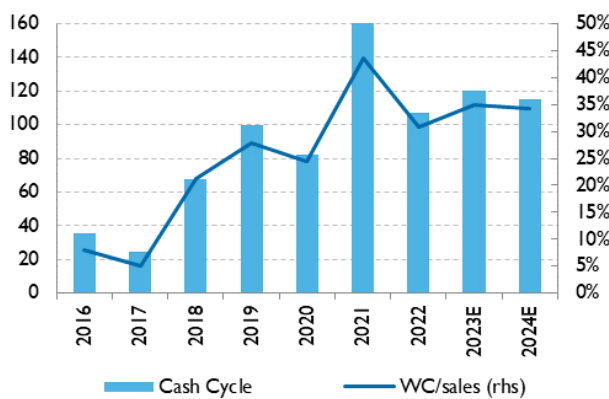
Source: Company data, UNLU & Co estimates

Figure 4: EBITDA breakdown as of 2Q23



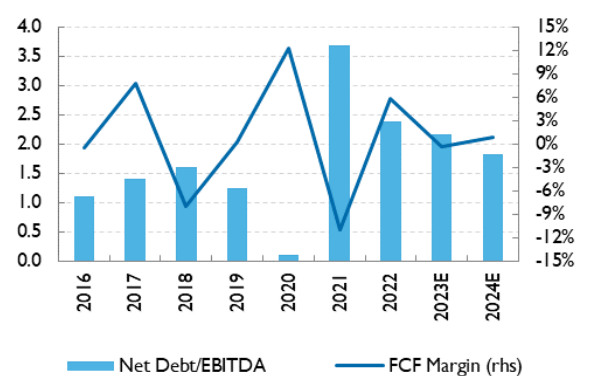
Source: Company data, UNLU & Co estimates

Figure 5: Working Capital



Source: Company data, UNLU & Co estimates

Figure 6: FCF margin vs net debt/EBITDA



Source: Company data, UNLU & Co estimates

Change to estimates

We have raised our target price for Ulker to TL95 per share, taking into account adjustments to macro forecasts, price adjustments reflecting the uptrend in food and beverage inflation, new volume growth assumptions, and a higher corporate tax rate. We have also increased terminal growth rate from 12% to 13%.

On Ulker's valuation, we use solely a discounted cash flow analysis in TL terms, based on a five-year forecast period, a 13% terminal growth rate and a 22.7% WACC (21% risk-free rate, 2% company risk premium, 6% equity risk premium and 1.0x beta). We also incorporate the book value of the Godiva assets of TL3.5bn, adjust for minority share values in FMC and Hi-Food and add TL1.8bn in non-commercial receivables from Yildiz Holding. The key downside risks are macro headwinds, regulatory changes and intensifying competition.

Figure 7: Change to estimates

TL m	2022	Old Estimates		New Estimates		Difference	
		2023E	2024E	2023E	2024E	2023E	2024E
Revenues	28,197	42,972	58,823	44,023	66,713	2%	13%
EBITDA	5,467	8,246	10,882	8,524	12,675	3%	16%
Net Income	-353	1,396	3,060	216	3,197	-85%	4%
EBITDA Margin	19.4%	19.2%	18.5%	19.4%	19.0%	0.2pp	0.5pp
Net Margin	-1.3%	3.2%	5.2%	0.5%	4.8%	-2.8pp	-0.4pp
Macro Estimates							
USD/TL average	16.566	24.042	33.082	24.117	35.789	0%	8%
EUR/TL average	17.383	24.942	33.634	26.203	37.878	5%	13%

Source: Company data, UNLU & Co estimates

Table 8: Peer comparison

Company	Country	Mcap (USD mn)	EV/EBITDA			P/E			EBITDA CAGR 22-24E	Earnings CAGR 22-24E
			23E	24E	25E	23E	24E	25E		
Europe & USA										
Lotus Bakeries	Belgium	3,129	30.9	27.6	24.8	48.1	42.9	38.7	14%	14%
Nestle	Switzerland	340,582	16.7	15.9	14.9	21.4	20.0	18.5	4%	3%
Lindt	Switzerland	20,207	23.4	21.9	20.2	39.5	37.7	34.8	6%	7%
Flowers Foods	USA	5,004	n.m.	n.m.	n.m.	18.9	17.6	16.7	4%	1%
Hershey	USA	30,386	15.5	14.6	13.9	22.4	20.7	19.4	10%	11%
Cloetta	Sweden	791	7.2	7.2	7.2	10.0	9.3	8.9	25%	7%
Median			16.7	15.9	14.9	21.9	20.4	18.9	8%	7%
Asia & EM										
Yamazaki Baking	Japan	3,579	8.1	7.6	7.2	30.8	26.7	25.3	13%	32%
Ezaki Glico	Japan	2,921	8.5	8.0	7.5	23.9	23.1	21.8	2%	0%
Grupo Bimbo	Mexico	8,686	8.2	7.0	6.2	19.7	17.4	15.7	10%	-4%
Mayora Indah	India	3,781	12.8	11.0	9.5	23.2	19.9	16.8	29%	35%
Bourbon	Japan	510	9.7	9.1	8.6	26.9	23.0	20.1	19%	83%
Nestle Nigeria	Nigeria	2,438	8.1	8.1	6.8	130.4	13.1	12.3	17%	1%
Median			8.4	8.0	7.5	25.4	21.4	18.4	15%	16%
Median of all			9.7	9.1	8.6	23.6	20.4	18.9	12%	7%
Ulker Biskuvi	Turkey	953	4.8	3.6	3.1	n.m.	8.0	4.3	4%	n.m.
Discount to Peers			-50%	-60%	-64%	n.m.	-61%	-77%		

Source: Bloomberg data, UNLU & Co estimates

Table 9: Ulker – Key performance indicators

	2020	2021	2022	2023E	2024E	2022-2024 CAGR
Consolidated (TL m)						
Snacking Volume (ton)	595	583	594	592	604	
y/y	3%	-2%	2%	0%	2%	
Price (USD/kg)	2.3	2.4	2.8	3.0	3.0	
y/y	-3%	4%	18%	9%	0%	
Revenues	9,716	12,537	28,197	44,023	66,713	54%
y/y	25%	29%	125%	56%	52%	
Snacking Revenues	9,400	12,123	27,006	42,225	63,914	
Other Revenues	315	414	1,191	1,798	2,799	
EBITDA	1,922	2,377	5,467	8,524	12,675	52%
y/y	47%	24%	130%	56%	49%	
EBITDA Margin	19.8%	19.0%	19.4%	19.4%	19.0%	
Net Income	1,081	-464	-353	216	3,197	n.m.
Turkey (TLm)						
Snacking Volume	407	392	410	412	420	
y/y	2.1%	-3.7%	4.4%	0.4%	2.0%	
Revenues	5,799	7,387	17,482	27,967	42,410	56%
y/y	23%	27%	137%	60%	52%	
EBITDA	1,047	1,251	3,220	5,234	7,937	57%
y/y	55%	20%	157%	63%	52%	
EBITDA Margin	18.0%	16.9%	18.4%	18.7%	18.7%	
International (TLm)						
Volume	187	191	185	180	184	
y/y	5.7%	1.8%	-3.1%	-2.3%	2.0%	
Price USD/kg	2.9	3.0	3.3	3.5	3.5	
y/y	0%	3%	12%	6%	0%	
Revenues	3,917	5,150	10,715	16,056	24,303	51%
y/y adj.	31%	31%	108%	50%	51%	
EBITDA	876	1,077	2,247	3,290	4,739	45%
y/y	40%	23%	109%	46%	44%	
EBITDA Margin	22.4%	20.9%	21.0%	20.5%	19.5%	
USD based						
USD/TL Avg	7.00	8.86	16.57	24.12	35.79	47%
Revenues	1,388	1,415	1,702	1,825	1,864	5%
y/y	1%	2%	20%	7%	2%	
EBITDA	275	268	330	353	354	4%
y/y	19%	-2%	23%	7%	0%	
Net Income	154	-52	-21	9	89	n.m.

Source: Company data, UNLU & Co estimates ¹ 2020 figures are restated to include Onem Gıda financials, which led to inorganic growth of 3% in revenues, 19% in EBITDA and 250bp in EBITDA margin in 2020. Net earnings increased by 6% inorganically in 2020.

Ulker 2Q23 Review

Ulker recorded TL1,692m net loss, 12% worse than consensus (UNLU: -TL678m, cons: -TL1,516m), TL1,915m in EBITDA (UNLU: TL1,794m, cons: TL1,820m), and TL9,512m in revenues (UNLU: TL8,802m, cons: TL8,831m) in its 2Q23 financials. The operational performance was slightly better than our estimates, while the company recorded higher FX losses of TL4.6bn, vs our estimate of TL2.4b. Additionally, Ulker recorded TL419m tax income.

- Revenues growth was 59% in 2Q23, fueled by 72% growth in domestic revenues and 41% growth in international revenues. The key drivers of revenue growth were price increases and a mix effect, while consolidated snacking volumes saw a decline of 3% (domestic stable, international down 8.3%). Revenue growth in chocolate category was higher at 64%, vs. 54% growth in biscuits and 57% growth in cake categories, on a y/y basis.
- Consolidated EBITDA margin expanded 120bp y/y 20.1% in 2Q23, primarily driven by 210bp margin recovery in Turkey operations to 19.4%. On the other hand, the international EBITDA margin showed a more modest increase of 20 bp, reaching 21.6%.
- While net debt declined 3% in USD terms to USD706m, net debt/EBITDA increased to 2.45x in 2Q23 (2.1x in 1Q23). Note that Ulker had USD272m short FX position in 2Q23 (USD348m in 1Q23).

Figure 10: Ulker – Q2 results analysis

TLm	2Q22	1Q23	2Q23	y/y	q/q	Estimates		Deviation vs.		1H22	1H23	y/y
						Ünlü	Cons	Ünlü	Cons			
Revenues	5,991	10,112	9,512	59%	-6%	8,802	8,831	8%	8%	11,877	19,624	65%
EBITDA	1,134	2,343	1,915	69%	-18%	1,794	1,820	7%	5%	2,379	4,258	79%
EBITDA margin	18.9%	23.2%	20.1%	1.2pp	-3.0pp	20.4%	20.6%			20.0%	21.7%	1.7pp
Net profit	-649	896	-1,692	161%	-289%	-678	-1,516	150%	12%	-1,119	-797	-29%
Net margin	-10.8%	8.9%	-17.8%	-7.0pp	-26.6pp	-7.7%	-17.2%			-9.4%	-4.1%	5.4pp

Source: Company data, Research Turkey survey, UNLU & Co estimates

Companies Mentioned (Price as of 4 September 2023)
 Company Name (ULKER.IS, RATING BUY, TP TL95)

Disclosure Appendix

Important Global Disclosures

The information and opinions in this research report was prepared by Unlu Menkul Degerler A.S ("Unlu&Co").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please contact Unlu&Co Research and / or Compliance - +90 212 367 3636.

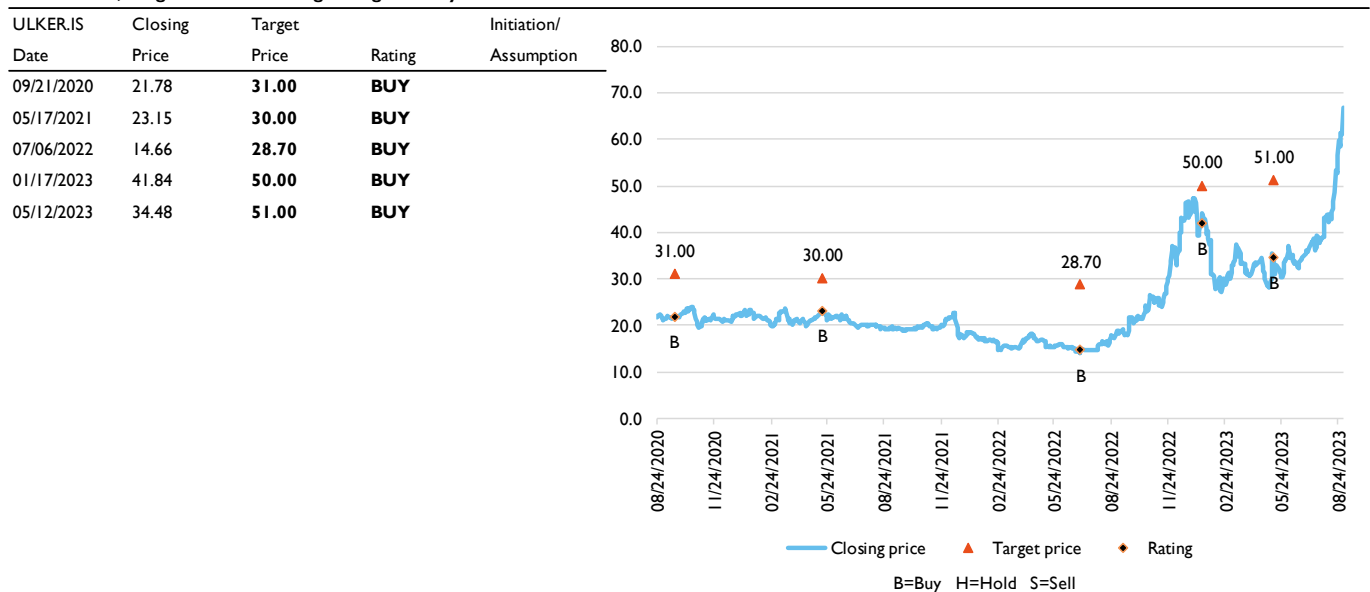
For valuation methodology and risks associated with any price targets referenced in this research report, please email: UnluResearch@unluco.com with a request for valuation methodology and risks on a particular stock.

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See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for ULKER.IS



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Buy (B): The stock's total return* is expected to be more than 20% (or more, depending on perceived risk) over the next 12 months.

Hold (H): The stock's total return is expected to be in the range of 10-20% over the next 12 months.

Sell (S): The stock's total return is expected to be less than 10% over the next 12 months.

Restricted (R): In certain circumstances, Unlu&Co and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Unlu&Co's engagement in an investment banking transaction and in certain other circumstances.

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This three month view may be different from and does not affect a stocks` fundamental equity rating, which reflects a longer-term total absolute return expectation.

Volatility Indicator [V]: A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts` coverage universe weightings are distinct from analysts` stock ratings and are based on the expected performance of an analyst`s coverage universe* versus the relevant broad market benchmark:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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*Total return is calculated as the sum of the stock`s expected Capital Appreciation and expected Dividend Yield.

*Unlu&Co Small and Mid-Cap Advisor stock: Stock ratings are relative to the Borsa Istanbul A.S ("BIST") index.

**An analyst`s coverage universe consists of all companies covered by the analyst within the relevant sector.

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Ratings Distribution as of the date of this report	BUY	Hold	Sell	RESTRICTED
All Recommendations (%)	58	40	2	0

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