

MAVI

OVERWEIGHT

Bright outlook at attractive valuation

Jun 20, 2023

🔗 We start our coverage for Mavi with Overweight recommendation with 12M target price of TL112/sh (+TL4/sh expected DPS). We like Mavi's business model due to its strong brand strategy, dynamic product mix, favorable customer targeting, price planning and cost control mechanism. Although 1Q is traditionally Mavi's lowest season, its growth and operational performance was impressive. We believe that its operational performance will be stronger considering the robust 2Q and 3Q seasons when the summer and the back to school purchases kick off. Mavi trades at an attractive 2.6x EV/EBITDA and 5.9x P/E multiples based on our 2023 forecasts.

🔗 Set to have another strong year of financials... We expect Mavi to increase its revenues by 78% y/y in 2023E reaching TL18.8bn revenues. We foresee ~45% internal inflation & ~30% volume growth in 2023E. We believe that its domestic revenues will grow by 85% y/y and correspond to 87% of consolidated revenues vs. historic average of 82%. We incorporate 5 net new store rollouts with 7 store expansions in Turkey, while we calculate Mavi to reach ~170k sqm gross selling space in 2023E. During our valuation period, we anticipate 34% CAGR revenue growth and 18.4% average EBITDA margin (exc. IFRS 16 impact)

🔗 Solid Guidance for 2023E... Following its 1Q results, Mavi management shared 2023 guidance. Accordingly, i) consolidated revenue growth 70%-80% revenue growth, ii) domestic retail stores 5 net openings & 7 store expansions, iii) 17.5%-18.5% EBITDA margin (exc. IFRS16) 21.5%-22.5% inc. IFRS16, iv) net cash position maintained and v) capex to sales: 3%. After 1Q23, Mavi management shared that the revenues generated from domestic retail segment was up by 92% y/y in May 2023, while online sales in Turkey rose by 98% y/y in May 2023. Those would be solid indicators ahead of 2Q23 financials, which suggest that 2Q revenue trends are strong. Mavi's management guides that EBITDA margin will decelerate in 2023, mainly due to the fact that high base of 1H22, where Mavi enjoyed historic high EBITDA margin mainly driven by huge inventory income.

🔗 Main strength: High FCF generation... One of Mavi's key pillars is solid free cash flow generation, driven by notable EBITDA margin generation with working capital and capex under control. In our calculations, we foresee an average FCF margin of 11% during our valuation period. In 2023E, we calculate 13% FCF margin in our expectations. In addition, Mavi is sitting on a net cash of TL1.9bn corresponding to ~15 % of its Mcap.

🔗 Risks... i) increasing competition particularly in Turkey, ii) sharp rise in cost base could be the key risks for our valuation.

Price Data

| | |
|--------------------------------|--------|
| Current Price (TL, 20-Jun-23) | 63.75 |
| Current Mcap (TLmn) | 12,533 |
| 12-mth Target Price (TL/share) | 112.00 |
| 12-mth Target Mcap (TLmn) | 22,246 |
| 12-mth Return Potential | 76% |
| Dividend yield | 5% |

| Financials (TL mn) | 2021 | 2022 | 2023E | 2024E |
|--------------------|-------|--------|--------|--------|
| Revenues | 4,619 | 10,592 | 18,810 | 26,642 |
| % ch y/y | 92 | 129 | 78 | 42 |
| EBITDA | 1,016 | 2,481 | 4,232 | 5,954 |
| % ch y/y | 164 | 144 | 71 | 41 |
| Net Income | 400 | 1,439 | 2,129 | 3,378 |
| % ch y/y | 8638 | 259 | 48 | 59 |

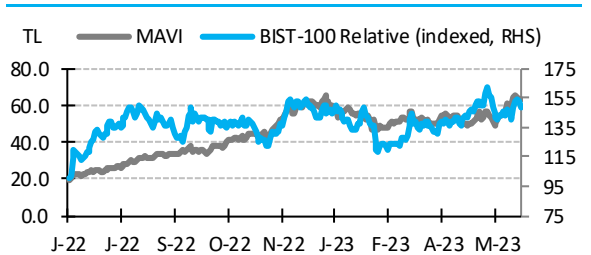
| Margins (%) | 2021 | 2022 | 2023E | 2024E |
|----------------------|------|------|-------|-------|
| EBITDA Margin | 22.0 | 23.4 | 22.5 | 22.3 |
| Net Margin | 8.7 | 13.6 | 11.3 | 12.7 |
| Gross Dividend Yield | 4 | 3 | 5 | 8 |

| Ratios | 2021 | 2022 | 2023E | 2024E |
|-------------------------|------|------|-------|-------|
| P/E (TL, x) | 7.2 | 4.2 | 5.9 | 3.7 |
| EV/EBITDA (TL, x) | 2.8 | 2.1 | 2.6 | 1.5 |
| Net Debt/EBITDA (TL, x) | -0.1 | -0.5 | -0.4 | -0.7 |
| ROE (TL, %) | 35.9 | 55.5 | 49.6 | 48.1 |

Stock Data

| | | |
|-----------------------|---------|---------|
| Ticker | MAVI.IS | MAVI TI |
| Sector | | Apparel |
| # of Shares (mn) | | 199 |
| 3M Av. Trd. Vol. (mn) | | US\$5.6 |

Price Chart



| Price Performance | 1M | 3M | YTD | YoY |
|-------------------|-----|-----|-----|-----|
| TL Absolute | 21% | 22% | -1% | 21% |
| BIST-100 Relative | -1% | 15% | 0% | 9% |

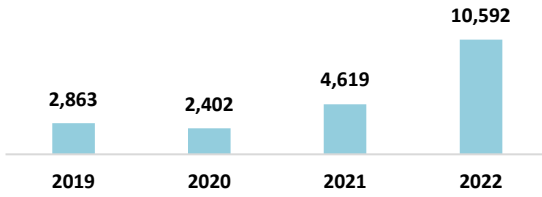
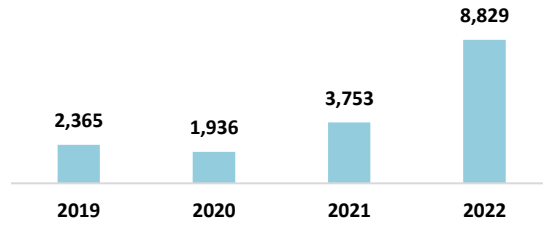
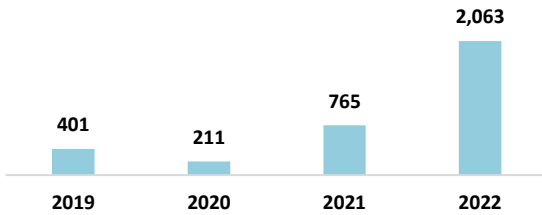
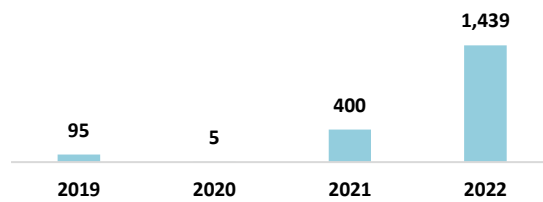
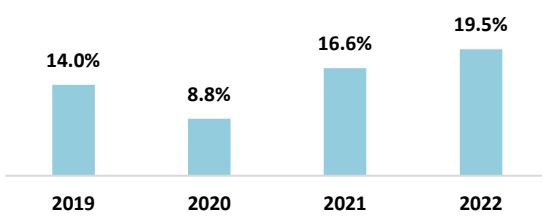
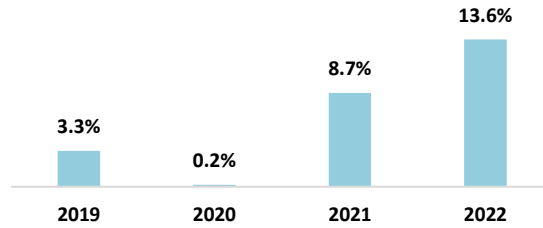
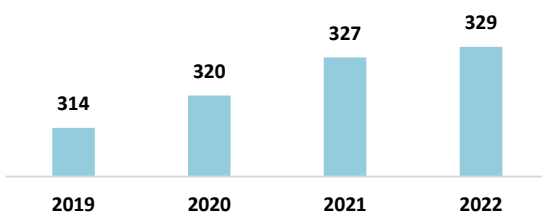
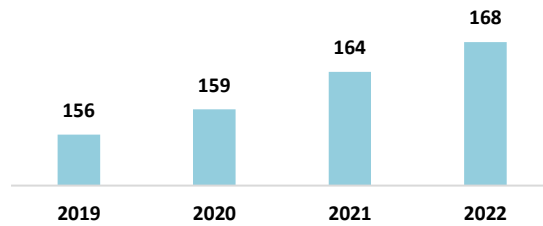
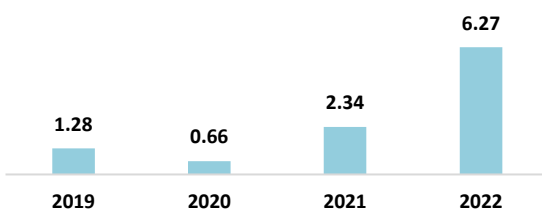
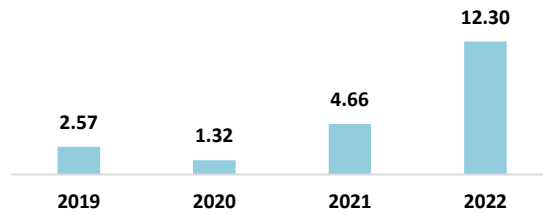
Major Shareholders

| | |
|---------------------------|-------|
| Fatma Elif Akarlılar | 9.1% |
| Seyhan Akarlılar | 9.1% |
| Hayriye Fethiye Akarlılar | 9.1% |
| Others | 72.8% |

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Exhibit: MAVI in a nutshell
Revenues (TLmn)

Domestic Revenues (TLmn)

Adj. EBITDA (TLmn)

Net Income (TLmn)

Adj. EBITDA Margin

Net Margin

of stores

Gross Selling Space (k sqm)

Adj. EBITDA Per Store (TLmn)

Adj. EBITDA Per sqm (TL '000)


Source: Company Data, Tera Yatirim

Valuation

We reached TL112/sh target price for Mavi. We incorporated risk-free rate of 20%, equity risk premium of 5.5% and a beta of 0.84x. We calculated a WACC of ~25% in our valuation period.

Exhibit: Mavi - DCF Model

| TLmn | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|-------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenues | 18,810 | 26,642 | 34,982 | 44,333 | 54,824 | 67,915 | 85,236 | 109,158 |
| Adj. EBITDA | 3,491 | 4,903 | 6,374 | 8,020 | 9,867 | 12,384 | 15,754 | 20,429 |
| Tax | -647 | -1,009 | -1,283 | -1,628 | -2,001 | -2,512 | -3,192 | -4,135 |
| CAPEX | -292 | -658 | -932 | -1,224 | -1,552 | -1,919 | -2,377 | -2,983 |
| Chg. in NWC | -35 | -356 | -448 | -634 | -834 | -1,157 | -1,638 | -2,393 |
| FCF from Operations | 2,516 | 2,880 | 3,710 | 4,534 | 5,480 | 6,797 | 8,547 | 10,917 |
| Revenue Growth | 78% | 42% | 31% | 27% | 24% | 24% | 26% | 28% |
| Adj. EBITDA Growth | 69% | 40% | 30% | 26% | 23% | 26% | 27% | 30% |
| Adj. EBITDA Margin | 19% | 18% | 18% | 18% | 18% | 18% | 18% | 19% |
| FCFF Margin | 13% | 11% | 11% | 10% | 10% | 10% | 10% | 10% |
| WACC | 25% | 25% | 25% | 25% | 25% | 25% | 25% | 25% |
| DCF | 2,020 | 1,856 | 1,919 | 1,883 | 1,827 | 1,819 | 1,836 | 1,882 |
| Terminal growth rate | 5.0% | | | | | | | |
| PV of Terminal Value | 1,741 | | | | | | | |
| PV of FCFF | 15,041 | | | | | | | |
| Enterprise Value | 16,782 | | | | | | | |
| Net Debt | -1,896 | | | | | | | |
| Minority | 148 | | | | | | | |
| Exp. Div. | -639 | | | | | | | |
| 12M Target Mcap | 22,246 | | | | | | | |
| 12M TP TL/sh | 112.00 | | | | | | | |
| Share Price (TL) | 63.75 | | | | | | | |
| Upside | 76% | | | | | | | |

Source: Company Data, Tera Yatirim

Exhibit: Mavi – Revenue Model

| | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Revenues (TLmn) | 18,810 | 26,642 | 34,982 | 44,333 | 54,824 | 67,915 | 85,236 | 109,158 |
| Domestic | 16,341 | 22,919 | 29,933 | 37,973 | 47,335 | 59,286 | 75,374 | 97,879 |
| International (USDmn) | 116 | 127 | 138 | 149 | 160 | 173 | 186 | 201 |
| Sales Disc. & Returns | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| y/y growth | | | | | | | | |
| Revenues (TLmn) | 78% | 42% | 31% | 27% | 24% | 24% | 26% | 28% |
| Domestic | 85% | 40% | 31% | 27% | 25% | 25% | 27% | 30% |
| International (USDmn) | 9% | 9% | 9% | 8% | 8% | 8% | 8% | 8% |

Domestic Operations
Revenues (TLmn)

| | | | | | | | | |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Retail | 12,025 | 16,568 | 20,923 | 25,078 | 28,736 | 32,279 | 35,934 | 40,003 |
| Wholesales | 3,087 | 4,630 | 6,945 | 10,417 | 15,626 | 23,439 | 35,158 | 52,737 |
| e-commerce | 1,229 | 1,721 | 2,065 | 2,478 | 2,974 | 3,568 | 4,282 | 5,138 |

y/y Revenue Growth

| | | | | | | | | |
|------------|------|-----|-----|-----|-----|-----|-----|-----|
| Retail | 80% | 38% | 26% | 20% | 15% | 12% | 11% | 11% |
| Wholesales | 130% | 50% | 50% | 50% | 50% | 50% | 50% | 50% |
| e-commerce | 55% | 40% | 20% | 20% | 20% | 20% | 20% | 20% |

Operations

| | | | | | | | | |
|------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| # of retail stores | 334 | 336 | 338 | 340 | 341 | 342 | 343 | 344 |
| Net new stores | 5 | 2 | 2 | 2 | 1 | 1 | 1 | 1 |
| Gross Selling Space (k sqm) | 170 | 171 | 172 | 173 | 174 | 174 | 175 | 175 |
| avg sqm per store | 510 | 510 | 510 | 510 | 510 | 510 | 510 | 510 |
| Domestic Retail Rev. Per sqm | 71 | 97 | 121 | 145 | 165 | 185 | 205 | 228 |

Int'l Operations
Revenues (USDmn)

| | | | | | | | | |
|------------|----|----|----|----|----|----|----|-----|
| Retail | 19 | 22 | 26 | 30 | 34 | 38 | 42 | 47 |
| Wholesales | 71 | 75 | 78 | 82 | 86 | 91 | 95 | 100 |
| e-commerce | 26 | 30 | 33 | 37 | 41 | 45 | 49 | 54 |

y/y Revenue Growth

| | | | | | | | | |
|------------|-----|-----|-----|-----|-----|-----|-----|-----|
| Retail | 20% | 18% | 16% | 14% | 13% | 12% | 12% | 12% |
| Wholesales | 5% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| e-commerce | 15% | 14% | 12% | 11% | 10% | 10% | 10% | 10% |

Source: Company Data, Tera Yatirim

Exhibit: Mavi – Revenue Model

| TLmn | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Revenues | 18,810 | 26,642 | 34,982 | 44,333 | 54,824 | 67,915 | 85,236 | 109,158 |
| COGS | -9,379 | -12,914 | -17,274 | -22,048 | -27,548 | -34,260 | -43,181 | -55,536 |
| Gross Profit | 9,431 | 13,727 | 17,708 | 22,285 | 27,276 | 33,655 | 42,055 | 53,622 |
| OPEX | -6,196 | -8,683 | -11,291 | -14,145 | -17,270 | -21,096 | -26,095 | -32,947 |
| S&M | -5,105 | -7,231 | -9,494 | -12,032 | -14,879 | -18,432 | -23,133 | -29,626 |
| G&M | -956 | -1,262 | -1,547 | -1,796 | -1,998 | -2,178 | -2,353 | -2,541 |
| R&D | -134 | -190 | -250 | -317 | -392 | -485 | -609 | -780 |
| EBIT | 3,235 | 5,044 | 6,417 | 8,140 | 10,006 | 12,559 | 15,960 | 20,675 |
| Depreciation | 997 | 910 | 1,336 | 1,628 | 2,022 | 2,503 | 3,154 | 4,057 |
| EBITDA | 4,232 | 5,954 | 7,753 | 9,768 | 12,028 | 15,062 | 19,114 | 24,732 |
| Profit Before Tax | 1,703 | 2,690 | 4,255 | 5,368 | 6,799 | 8,338 | 10,481 | 13,340 |
| Tax | -244 | -538 | -851 | -1,074 | -1,360 | -1,668 | -2,096 | -2,668 |
| Parent Shares | 2,129 | 3,378 | 4,264 | 5,404 | 6,630 | 8,339 | 10,620 | 13,784 |

Source: Company Data, Tera Yatirim

Tera Yatirim Stock Ratings

| Rating | Definition |
|--------------|--|
| OVERWEIGHT | The analyst expects that the stock will generate a return above that of the BIST-100 index over the next twelve months. |
| MARKETWEIGHT | The analyst expects that the stock will generate a return in line with that of the BIST-100 index over the next twelve months. |
| UNDERWEIGHT | The analyst expects that the stock will generate a return below that of the BIST-100 index over the next twelve months. |

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