

4Q12 EARNINGS REVIEW

ARCELIK (ARCLK TI)

Another 4Q Miss

HOLD (L/T) MARKETPERFORM (S/T)

| | | | | | | |
|----------------------------|---------------|--------------------------|--------------|-------------|--------------|--------------|
| Current Price (TRL) | 10.95 | Target Price (TRL) | 12.50 | | | |
| Market Cap (TRL / US\$ mn) | 7,399 / 4,193 | 12M Abs / Rel Return (%) | 49 / 11 | | | |
| P/E (2013E) | 11.7x | EV/EBITDA (2013E) | 6.6x | | | |
| (TRLmn) | YE12 | YE11 | yoy Δ | 4Q12 | yoy Δ | qoq Δ |
| Revenues | 10,557 | 8,437 | 25% | 2,644 | 10% | -3% |
| EBITDA | 1,036 | 882 | 17% | 238 | 24% | -16% |
| Net Earnings | 525 | 507 | 4% | 100 | 8% | -27% |
| EBITDA Margin (%) | 9.8 | 10.5 | -0.6 pp | 9.0 | 1.0 pp | -1.4 pp |

4Q12 Results at a Glance

- **Another 4Q miss** -- Arcelik reported TRL100mn net income for the quarter, missing the consensus estimate of TRL141mn (BurSec: TRL150mn), once again on a softer-than-guided 4Q EBITDA margin.

Our View

- **Weak margins and other expenses** -- For the third year in a row, management missed its full-year EBITDA margin guidance that was given in November (following the 3Q financials), which was the main reason behind the miss. Some one-off expenses including those related to voluntary recall of problem products for the second year in a row also hurt the bottom line. We have adjusted our revenue and margin forecasts for the next couple of years and have increased our 12-month target price slightly to TRL12.5 (previously TRL12.0). The stock is trading at 2013E 11.7x P/E and 6.6x EV/EBITDA, not quite attractive, in our view. We maintain our HOLD (L/T) and MARKETPERFORM (S/T) ratings.

Comments

- **Revenue growth more-or-less in line with consensus** -- The Company posted TRL2.64bn revenues for 4Q12, just below the consensus estimate. Our apparently optimistic revenue estimate was TRL2.81bn. The Company does not provide volume data to make any proper analysis. White goods segment delivered 18% yoy revenue growth in the quarter, while consumer electronics segment saw its revenues contract 12% from a year ago. Organic growth and Defy together added 14% revenue growth in the quarter, while a weak currency compared to a year ago had a neg. 4% effect on revenue growth.
- **Revenue guidance is above 10% yoy growth in TRL for 2013E** -- Our revenue growth estimate is 12.5%.
- **Improvement in EBITDA margin** -- EBITDA of TRL238mn was 24% above a year ago, while EBITDA margin of 9.0% was 100bp stronger yoy. However, both trailed our expectations of TRL295mn (19% miss) and 10.5% (150bp miss), respectively. Management's EBITDA calculation method differs from ours: the reported 4Q12 EBITDA of TRL215mn also missed the consensus expectation of TRL277mn. Moreover, the reported EBITDA margin of 8.1% was 220bp below the consensus expectation.
- **EBITDA margin guidance appears optimistic** -- Management guides for ~10.5% EBITDA margin for 2013 vs. our estimate of 9.8% (with management's calculation method).
- **Improvement in working capital is positive** -- The Company managed to lower its working capital to 34% of revenues, in line with its 35% target for the year, down from 40% a year ago. Nevertheless, net debt (adjusted for TRL receivables) deteriorated to 0.5x EBITDA (from 0.3x in 3Q12).

Arcelik - Announced Financials (IFRS Basis; TRLmn)

| <i>Income Statement</i> | <i>YE12</i> | <i>YE11</i> | <i>YoY Δ</i> | <i>4Q12</i> | <i>4Q11</i> | <i>YoY Δ</i> | <i>3Q12</i> | <i>QoQ Δ</i> |
|----------------------------------|---------------|---------------|----------------|---------------|---------------|----------------|---------------|-----------------|
| Net Sales | 10,557 | 8,437 | 25% | 2,644 | 2,394 | 10% | 2,728 | -3% |
| COGS | -7,503 | -5,897 | 27% | -1,883 | -1,725 | 9% | -1,915 | -2% |
| Gross Profit | 3,054 | 2,540 | 20% | 761 | 669 | 14% | 813 | -6% |
| Operating Exp. | -2,284 | -1,882 | 21% | -590 | -533 | 11% | -594 | -1% |
| Operating Profit | 770 | 659 | 17% | 171 | 136 | 26% | 219 | -22% |
| EBITDA | 1,036 | 882 | 17% | 238 | 193 | 24% | 282 | -16% |
| Net Other Income | -13 | -13 | 2% | -26 | -14 | 91% | 7 | n.m. |
| Income from Associates | 35 | 28 | 22% | 3 | 4 | -22% | 8 | -59% |
| Net Financial Exp | -162 | -59 | 176% | -41 | -31 | 33% | -51 | -19% |
| Taxes | -78 | -74 | 5% | -2 | 7 | n.m. | -37 | -94% |
| Discont. Operations | 0 | 0 | n.m. | 0 | 0 | n.m. | 0 | n.m. |
| Minority Interest | -27 | -35 | -22% | -5 | -11 | -54% | -10 | -50% |
| Net Profit | 525 | 507 | 4% | 100 | 92 | 8% | 137 | -27% |
| Margins | | | | | | | | |
| <i>Gross</i> | <i>28.9%</i> | <i>30.1%</i> | <i>-1.2 pp</i> | <i>28.8%</i> | <i>28.0%</i> | <i>0.8 pp</i> | <i>29.8%</i> | <i>-1.0 pp</i> |
| EBITDA | 9.8% | 10.5% | -0.6 pp | 9.0% | 8.0% | 1.0 pp | 10.4% | -1.4 pp |
| <i>Operating</i> | <i>7.3%</i> | <i>7.8%</i> | <i>-0.5 pp</i> | <i>6.5%</i> | <i>5.7%</i> | <i>0.8 pp</i> | <i>8.0%</i> | <i>-1.6 pp</i> |
| <i>Eff. Tax Rate</i> | <i>13.1%</i> | <i>12.7%</i> | <i>0.4 pp</i> | <i>2.3%</i> | <i>n.m.</i> | <i>n.m.</i> | <i>20.8%</i> | <i>-18.5 pp</i> |
| Net | 5.0% | 6.0% | -1.0 pp | 3.8% | 3.8% | -0.1 pp | 5.0% | -1.3 pp |
| Balance Sheet | | | | | | | | |
| <i>Cash & Mkt. Sec.</i> | <i>1,741</i> | <i>1,174</i> | <i>48%</i> | <i>1,741</i> | <i>1,174</i> | <i>48%</i> | <i>1,174</i> | <i>48%</i> |
| <i>Fin. Debt</i> | <i>4,004</i> | <i>3,157</i> | <i>27%</i> | <i>4,004</i> | <i>3,157</i> | <i>27%</i> | <i>3,647</i> | <i>10%</i> |
| Net Debt | 2,263 | 1,983 | 14% | 2,263 | 1,983 | 14% | 2,473 | -9% |
| <i>Accounts Rec.</i> | <i>3,272</i> | <i>3,197</i> | <i>2%</i> | <i>3,272</i> | <i>3,197</i> | <i>2%</i> | <i>3,740</i> | <i>-12%</i> |
| <i>Inventories</i> | <i>1,600</i> | <i>1,530</i> | <i>5%</i> | <i>1,600</i> | <i>1,530</i> | <i>5%</i> | <i>1,755</i> | <i>-9%</i> |
| <i>Accounts Payable</i> | <i>1,169</i> | <i>1,242</i> | <i>-6%</i> | <i>1,169</i> | <i>1,242</i> | <i>-6%</i> | <i>1,382</i> | <i>-15%</i> |
| <i>LT Assets</i> | <i>3,491</i> | <i>3,164</i> | <i>10%</i> | <i>3,491</i> | <i>3,164</i> | <i>10%</i> | <i>3,242</i> | <i>8%</i> |
| <i>LT Liabilities</i> | <i>2,351</i> | <i>2,015</i> | <i>17%</i> | <i>2,351</i> | <i>2,015</i> | <i>17%</i> | <i>2,127</i> | <i>11%</i> |
| Total Assets | 10,228 | 9,198 | 11% | 10,228 | 9,198 | 11% | 10,004 | 2% |
| Equity (Cont. Int.) | 3,842 | 3,546 | 8% | 3,842 | 3,546 | 8% | 3,612 | 6% |
| Cash Flow Statement | | | | | | | | |
| <i>Free Cash Flow</i> | <i>265</i> | <i>-896</i> | <i>n.m.</i> | <i>252</i> | <i>-503</i> | <i>n.m.</i> | <i>160</i> | <i>57%</i> |
| <i>Net Cash from Operations</i> | <i>700</i> | <i>-86</i> | <i>n.m.</i> | <i>422</i> | <i>170</i> | <i>148%</i> | <i>270</i> | <i>56%</i> |
| <i>Net Cash from Investments</i> | <i>-435</i> | <i>-810</i> | <i>-46%</i> | <i>-171</i> | <i>-673</i> | <i>-75%</i> | <i>-110</i> | <i>55%</i> |
| Financial Ratios | | | | | | | | |
| <i>Debt/Equity</i> | <i>166.2%</i> | <i>159.4%</i> | <i>6.8 pp</i> | <i>166.2%</i> | <i>159.4%</i> | <i>6.8 pp</i> | <i>177.0%</i> | <i>-10.8 pp</i> |
| <i>Receivable Days</i> | <i>113</i> | <i>138</i> | <i>-25</i> | <i>114</i> | <i>123</i> | <i>-9</i> | <i>126</i> | <i>-12</i> |
| <i>Inventory Days</i> | <i>78</i> | <i>95</i> | <i>-17</i> | <i>78</i> | <i>82</i> | <i>-3</i> | <i>84</i> | <i>-6</i> |
| <i>Payable Days</i> | <i>57</i> | <i>77</i> | <i>-20</i> | <i>57</i> | <i>66</i> | <i>-9</i> | <i>66</i> | <i>-9</i> |
| <i>Net Work. Cap. Days</i> | <i>134</i> | <i>156</i> | <i>-22</i> | <i>135</i> | <i>138</i> | <i>-3</i> | <i>144</i> | <i>-9</i> |

Source: The Company, Burgan Research Estimates

Burgan Securities - Equity Rating System

12-month Rating:

Our 12-month rating system comprises the following designations: BUY (B), HOLD (H), SELL (S). The absolute upside to target value implied by the current market capitalisation is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation, price to book, return on equity, replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. Comparing the upside in a specific stock with the market's upside (determined through the aggregate upside of our coverage based on free float Mcaps), in addition to taking other yardsticks into consideration, analysts recommend BUY (B), HOLD (H), SELL (S) based on their 12-month total return views.

Sector Rating

Our investment horizon for industry ratings is again 12 months. This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are **Overweight (OW), Neutral (N), Underweight (UW).**

Overweight (OW): Due to improving sector related fundamentals and/or attractive valuations, the sector index is expected to perform better than the ISE-100 in the next 12-months

Neutral (N): The sector index is expected to perform in line with the ISE-100 in the next 12-months

Underweight (UW): Due to worsening sector related fundamentals and/or expensive valuations, the sector index is expected to perform worse than the ISE-100 in the next 12-months

Short-term Rating:

Our short-term rating system comprises the following designations: OUTPERFORM (OP), MARKETPERFORM (MP), UNDERPERFORM (UP). Considering possible triggers, catalysts, and/or company, sector & market views, we rate the stocks as:

Outperform (OP): If 3-month total return is expected to exceed the ISE-100 (sector index if specified) by more than 10%

Marketperform (MP): If 3-month total return is expected to be in line (+/- 10%) with the ISE-100 (Peerperform if sector index is specified)

Underperform (UP): If 3-month total return is expected to be below the ISE-100 (sector index if specified) by more than 10%

*To have a more balanced distribution of ratings, Burgan Securities has requested that analysts maintain **at least 20% of their ratings as Underperform and no more than 25% as Outperform**, subject to change depending on market conditions.*

Other Qualifiers Utilised:

NR: Not Rated

NC: Not Covered

UR: Under Review

Market Call

Our equity **market call** has an investment horizon of 3-12 months. **Our market calls are BUY, NEUTRAL, SELL.**

| S/T Stock Rating Summary | Relative Return |
|---------------------------------|--------------------------|
| Outperform (OP) | $\geq 10\%$ |
| Marketperform (MP) | $< +10\% \ \& \ > -10\%$ |
| Underperform (UP) | $\leq -10\%$ |



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