Transcription
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Q&A

Operator

[Operator instructions]

Our first question comes from Görkem Göker from Yapi Kredi. Please go ahead.

Görkem Göker

I have two questions. The first one is about your customer traffic. Could you please provide more details according to your store ages, because in your presentation at the time of IPO, five years and older stores were hosting around 500 customers per day, so if we extrapolate that number to here and expect newly opened stores to mature, 2.5% customer traffic seems to me quite low, because even if it is own nature, it should be around 3-4%, I guess, if I'm not mistaken. Is your new store openings are hard to reach the average or your old stores are losing customers from that perspective.

My second question is about your 2020 guidance on the top line front. You are projecting 21% growth, but when I check your numbers, even if you don't open any new stores, you should have around 9-10 higher working days for 2020, considering the last two years openings. What is your inflation assumption or like-for-like assumption, or are you too conservative considering the challenges in front of you. Thank you very much in advance.

Uğur Demirel

So the first question is about the customer traffic. You know that all over the quarters of 2019, if I look at our figures in traffic, you will be able to see 4.8% in Q1, 5.1 in Q2, Q3 4.1, and last year also our average was almost 3.7, so in fact the main reason for the Q4 especially on the traffic side, kind of high base of 2018, on average let me say, and we don't see any other negativity on that, other than this.

If you come to what old stores bringing to our traffic, we did 2.4% again. The biggest contributor, of course, is coming from maybe not older stores, they are stable in Q4 basis, quarter to quarter. Of course, young stores are bringing more traffic contribution, but the old ones also not diluting too much, so that's why we have to look at it on a yearly basis rather than just one quarter. If you look at 2019, overall, our average was almost 4.1%, which is well ahead of our other players in the market. Of course, within this 4.1%, there are stores contributing that coming from new or like-for-like stores, but all the stores are contributing. I can explain that this is mainly because of the high base of 2018.

If we come to 2020 guidance about 21, of course we are now at the beginning of the year, so what we said that lower inflation will be the key macro indicator for 2020, at least it seems from today. For the inflation for February year-to-date is also below 10%, so our assumption days on that for the inflation will be lower, so we base our growth level, which is 21% plus or minus based on this. Of course, if the economic activity increases, and if the inflation and price increases comes, of course we don't want to just reclaim our revenue, so we will grow, as we grew in the past. But it's the assumption, at least we took at the beginning of the year, from today's point of view. Again, traffic will be there. Our basket size growth will be there, and our openings will be there. But this is assumption we took at the beginning of the year.

The first two months clearly show that our sales revenue growth at the high level of our guidance, so that if things go well, we may always option to revise our top line growth accordingly. So please consider this from this perspective.

Görkem Göker

Your base case scenario, I guess, single-digit inflation then I guess, if I understand correctly.

Uğur Demirel

From today's point of view for the inflation, which is around 10%, roughly, today.

Görkem Göker

An additional question, if I may, is there any room for further increase in your days in payables from these levels going forward? Thank you very much.

Uğur Demirel

In fact, we roughly said that we will be over 60 days, so 51 is almost over there, we are there. For the moment, we don't have a plan to lengthen it, we already come to certain stabilized number, around 50 and just above 60, let me say.

Operator

[Operator instructions]

Our next question comes from Hanzade Kilickiran from J.P. Morgan. Please go ahead.

Hanzade Kilickiran

I have two questions. The first one is related to your margin. I can see that you are guiding a rather limited margin expansion on the EBITDA in 2020, but you mentioned about a good start in gross margin so far in this year. What is the main reason behind this, because I presume you may have better operating leverage in stores with the maturity, but is that something that is putting pressure on the margin improvement in 2020.

The second question is with the decline in the interest cost, what is your target in terms of saving on the trade payable cost. On the financing side, what do you see in terms of savings? Thank you.

Ziya Kilickiran

About the EBITDA and gross margin, for EBITDA, let's say, guidance of 2019, it is 5.5, you can see that almost 50 bps improvement compared to 2019 number. Normally, we expect more than this, because there is a hidden part of financial expenses coming from the payable days, which we expect to go to lower levels in 2019 because of the interest rate, so the real one, which is excluding or keeping away as a financial part in our gross margin EBITDA, is operating profitability coming from our [inaudible] gross margin and cost leverage, which is more than 50 basis points, I should say.

So 50 basis points is net of operational performance, which hit the bottom line positively, which we assume, and also minus the dilution impact of financial impact on the trade payables because of the lower interest rate. So our operating performance will be much beyond 50 basis points, let's just say.

Hanzade Kilickiran

Is this 5.5% EBITDA margin, do you include the working capital cost in this EBITDA margin calculation, or it's just like a naked EBITDA margin that you are guiding?

Ziya Kilickiran

What I would like to say, we discussed previously 5.5, you deduct expenses on payables. These expenses on payables will be lower in 2020 because of the lower interest rate. When you deduct it even, our EBITDA margin after deducting this number will be better than 0.5% compared to 2019. Performance coming from the operational side, has nothing to do with, let's say, with the financials issue on trade payables, will be better than 2019, better than 0.5% or 50 bps. This is what I would like to underline.

Hanzade Kilickiran

Sorry to cut you off, do you mean that under the current environment, you are looking for around 50 basis point improvement coming from the operational leverage in stores and more improvement coming from the cut in the financial cost on the working capital side, right?

Ziya Kilickiran

Yes. In fact, you can think like that 0.5% you will see in EBITDA level, which will impact our bottom line more than 50 bps, let me say, because of two things. As I already said that our operational performance will be better, more than 0.5%. Also, financial expenses, we have written down very high financial expense we have seen, this will be lower because of two things. The financial expenses will be reduced by the lower interest rate. Secondly, the base of financial expenses will be lower because they will be able to generate more operational profit. So our bottom line will be affected because of all this, better gross margin (much better) and better cost management is always in place with the leverage coming from sales, also lower interest rate.

Uğur Demirel

Or we can say that our bottom line will be affected by more than 50 basis points.

Ziya Kilickiran

Exactly, or more EBITDA margin, let's say.

Hanzade Kilickiran

Regarding to my second question, you partially actually answered it, but do you have any guidance about the savings in nominal terms according to your current working capital structure.

Ziya Kilickiran

We don't give guidance on that, unfortunately, but you can estimate that our payables side expense you can calculate from footnote, so it was almost, let me say… OK, the numbers are not with me, but let me say 3% roughly, or 2.7-3%, this will drop because of the lower interest rate, and just to remind that last year this number was higher, each and every quarter it's decreasing, and next year also it will continue, but we are not able to give for the moment to give any numbers including this impact, impact of lower interest rate.

Clearly, as Mr. Demirel said, EBITDA margin improvement plus interest rate and the lower base of financial expenses, which is clearly bringing much better bottom line profitability.

Operator

[Operator instructions]

Our next question comes from Conroy Gaynor from Bloomberg Intelligence. Please go ahead.

Conroy Gaynor

Could you speak a little bit about the store opening guidance of 750 and why you've lowered this for another year? Is there something you're noticing that's changing in the market itself, or is it because you would rather focus on efficiency?

Uğur Demirel

In the market, there are a lot of opportunities to open stores, and we were able to open more stores, but our main priorities for 2020 will be the bottom line, so we will be focusing on the bottom line. After we will be confident about the bottom line, there will be a lot of opportunity, and we can continue to open more and more stores. This is just the beginning and we will elaborate the market conditions, accordingly we can adjust the number of store openings. This is not the main topic for us.

Our main priority will be the bottom line.

Operator

[Operator instructions]

Our next question comes from [Regeni Amanar] from Morgan Stanley. Please go ahead.

Regeni Amanar

You mentioned about the first two months of 2020, that growth has been on track. Can you elaborate a little bit more – and the gross margin that you also mentioned – which kinds of actions you've been taking, something different [inaudible] something new in the beginning of the year, and also elaborate a little bit more on the like-for-like sales, like growth and basket, how you're seeing that compared to the fourth quarter.

Uğur Demirel

Actually, at the end of 2019, the last quarter of 2019, we have taken an action on gross margin. We started to renegotiate with the suppliers and we have improved significantly our gross margin. We are more confident about our gross margin for 2020. This is more sustainable right now, which will be affecting, again, positively our bottom line profitability. Coming to the first two months like-for-like sales, which is in line with our guidance that we have shared with you, so considering the high base of first quarter 2019, just to remind you that there was lots of [inaudible] sales, fruit and vegetables, issues over there and customers who are coming more frequently shopping with less basket size. This was the situation in the first quarter. But on the top line basis, we are more confident about our guidance that we have shared with you.

Operator

Ladies and gentlemen, there are no further questions over the conference call. I will now give back the floor to the speakers. Thank you.

Çağrı Demirel

We have some written questions. Actually, most of them have been answered by our management, but I'm going to read your questions for the answers.

From Paul [Treasure] we have three questions. One of them is related to – what explains expectations for EBITDA margin expansion for 2020, gross margin or OpEx efficiency. We have already answered—

Uğur Demirel

Yes, but I can again repeat once more for Paul. The first of it is of course… to start of the year we have much better gross margin than 2019 overall, and 2019 last quarter, a very good start. Of course, operational efficiency comes because our cost control is always in our mind and we know our costs for 2020. Electricity costs, we fixed it for the whole year almost, personnel cost is under control with headcount – controlling headcount in our stores. Other costs, also, are well managed, so we will again leave a very good year in the cost management and take the operational leverage. In summary, both gross margin and OpEx will bring better EBITDA margin, although, as I mentioned, the financial trade payables side on the financials, after this even we can have much better bottom line impact in addition to operational performance.

Çağrı Demirel

Second question is regarding the financial services. What is the percentage of sales of that, and all services available at all stores today?

Uğur Demirel

Paul, thank you very much again, this is very important for us. We always try to bring new ideas to the market to get benefit from the customers in terms of traffic. This is an action and we don't assume that it will bring huge, huge profitability, but what is important that this will bring traffic (customers) to us, and these customers they pay their invoices or remit their money transfers, so they will also spend money and we will have new customers, a good customer solution provided, a company for the industry, and that's why they are not included on sales, but the income we earned is recorded as a part of other income in our P&L, which is not significant, but mainly it's a traffic driver action.

Your third question about the Treasury shares.

Çağrı Demirel
Yes, any update regarding the Treasury shares held on the balance sheet? Has the board decided what to do with these shares?

Uğur Demirel
There is not any board decision yet on this, we keep it, but of course we will inform you if there is any news on that.

Çağrı Demirel
We have a few more questions from Olga, EBRD. “Can you please elaborate on the expected share of private label in 2020?”

Uğur Demirel
Of course, the private label share increased significantly in 2019 compared to 2018, from 28% level to 33%, roughly 5%. According to outlook from today’s point of view, 2020 it seems that more stable economic activity, a lower inflation, so that the trade may not continue with this speed, so the private label share can stay at this range. This is our assumption.

Çağrı Demirel
And Harry Whelpton from Vergent Asset Management. “Did you say that 67% of your store network is older than three years old or younger than three years old?”

Uğur Demirel
The answer is older than two years old, so we have still young stores almost composing up to 33% of our network.

Çağrı Demirel
And last question from Melis Pocar, Oyak Yatirim. “Could you please give some color about your market share among the discounters, and annual performance?”

Uğur Demirel
Discounters have gained a lot of market share in 2019, despite the fact that current macroeconomic conditions and with lots of new store openings. Traditional channel as of market share and they have declined in terms of volume around 10%, but there is a lot of room to go again switching from traditional channel to modern channel, I would say.

Conclusion

Çağrı Demirel
We do not have more questions. Actually, we have already answered all of them, so thank you for attending to our conference call for today.

Ziya Kayacan
For the last reminder that our prices, as Mr. Demirel said remain unchanged. This year, we will primarily focus on the bottom line, as we missed in 2019. Of course, store expansion, revenue growth are already are indicators we follow strictly, but cost control as well, but bottom line profitability, we will be keen to follow it.

Thank you very much again for your participation to our webcast and hope to see you in our next quarter results webcast and meetings during the year.

Thank you very much.