

Transcription
Şok Marketler,
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Q&A

Operator

[Operator instructions]

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

Hanzade Kilickiran

I have a question on the margin performance. I'm struggling to understand the impact of the interest rate on your gross margin. Previously, I knew that gross margin actually doesn't include the interest and this was included under the financial expenses. Why do you see a negative impact from the declining interest rate on the gross margin rather than on the adjusted EBITDA margin?

Ziya Kayacan

To answer that, you know that we are considering the financial impact of working with high working capital. Of course, it creates some price difference in terms of financial implications, so when interest rates become high, it affects positively our gross margin and, of course, EBITDA. If you naturalize our EBITDA and in operating profit there is no impact. So when the interest rate goes down, on the contrary, what we see is both gross margin and EBITDA decline, but the financial implication on this also decreases. It is shown as financial income and revenue on payables or revenues in our profit and loss statement. In EBITDA level, our net income level, it is purely naturalized. That's why when we see dilution on our gross margin and EBITDA, at the same time because of interest rates, when the interest rate fluctuates, there's no impact at all on our operational profitability and net income, so that although you see dilution in our gross margin and EBITDA, you don't see it on our operating profit. On the other hand, our operating profit and EBITDA and net income show our real operational performance of the interest rate fluctuation.

Hanzade Kilickiran

So if interest rates were to increase, we should expect some sort of improvement in the gross margin, but stable EBITDA margin, I understand.

Ziya Kayacan

In fact, if interest rates increase, our gross margin and EBITDA, percentage-wise will increase, but neutral impact on operating profit, which is EBIT and net income.

Hanzade Kilickiran

One more question on the margin side, do you expect any additional cost or cost efficiency in the second half on your gross margin? How should we think about your gross margin progressing at the moment, other than the—

Ziya Kayacan

In fact, from operational side, we have done all of our jobs at the beginning of the year when we negotiated with our suppliers on the saving terms. Other than operationally, higher product mix also affects. For the rest of the year, from operational performance, on the gross margin side, we don't see a big room to go on the positive side, but to keep the current situation, other than interest rate, will be OK for us. Our lean performance, from now we should expect. Of course, on the cost side, again, I mean operational leverage will continue to support us. Also, the cost actions still continue with electricity cost, personnel cost, control of the personnel cost will definitely continue, and in any case, if the high inflation picks up, we will also put other actions on the rent fee negotiations. Currently, we are also doing that, but in the inflationary period, it's easier to negotiate. We can continue to put additional measures on the cost, but on the gross margin side, to keep it as it is this will be the most probable case for us, which is already a good level according to us.

Hanzade Kilickiran

A final question about your cash flow guidance. You mentioned that you will target to maintain your net cash position with potential to see an improvement here, right, because of the positive impact of the second half.

Ziya Kayacan

Of course, because of the second half... we keep our working capital days at -50 days around. As we grow, of course, this will contribute more and more to our cash flow, and it is difficult to give a number for the moment, but our cash generation, of course, [inaudible] excluding the information I gave you, because you know that there are some deferral payments of some tax and social security, this is valid for all companies in Turkey. We need to pay it out of what we created so far, TL 230 million, in the fourth quarter. But even excluding this, I said that our cash performance is over 3% of our sales and I think we can keep going with that. We take cumulated cash, I think we will be in a strong position at the end of the year.

Operator

[Operator instructions]

Our next question comes from Cemal Demirtaş, Ata Invest. Please go ahead.

Cemal Demirtaş

My first question is about sentiment in the third quarter. How do you see the trends in July and August? That's my first question.

The second question is related to your net interest expense on term purchases. I see that your numbers – that figure is coming down, which is supporting your bottom line. When you make your estimate for full year EBITDA margin, do you assume that trend that the net interest on term purchases will continue for the rest of the year? Thank you.

Ziya Kayacan

Cemal Bey, the interest rate already declined to certain level, of course as a percentage wise, whether it will decline less or more is purely dependent on the interest rate itself, other than our working capital, because our plan is to keep up with our working capital days, -50 days or over, so that the interest rate will be determined as a factor over that. But with the current numbers, it seems that it is more or less stabilized. If we see a further decrease in interest rates, of course, this line will shrink and net profit will be positively impacted from this, because our financial expenses burden will be less.

Cemal Demirtaş

So with the current trend, it's fair to assume that figure as a percentage we should expect to go at the same level, similar to second quarter, assuming that—

[All talking]

Because that was one of the key changes I was expecting. I didn't see that in the first quarter. I was conscious of that in the second quarter, so that's why I am trying to understand whether it is sustainable or not. Thank you.

Uğur Demirel

In terms of sales, maybe I can continue for the first question. In terms of sales, again, as I told you at the beginning, after the 1 June when the market has opened, sales started to be normalized, which is normal, I would say, people started to go out from their homes, but when we came to the third quarter, which is right now, it's a bit lower than the second quarter as we can expect, but still higher than our initial budget, which is again normal, because people are still home. The home consumption is still very high. Out of home consumption is not the level of pre-COVID-19 impact, so that when our home consumption continues as it is, that we can expect better growth for the third quarter of course, which could be lower than the second quarter.

On the other hand, as you know, we have some seasonal stores in Aegean and Mediterranean Sea, which was very strong for every year, but this year, because of the tourism, you know the situation better than me, they are not performing as expected, I can tell you the second thing. The third thing that there is a back to school period in front of us, so we have a good amount of stationery

sales every year so, clearly, I cannot comment about it, because school openings has postponed again. I don't know how we are going to make the better sales during this type of period for the stationery items.

Those uncertainties, we are trying to do our best, of course, but still at the end, as all, I can say that our sales is better than our initial budget.

Operator

Our next question comes from Berna Kurbay, BGC Partners. Please go ahead.

Berna Kurbay

I have two questions. The first one is related, again, to the revenue trend you observed in July and August. When I look at full year revenue guidance, at the high end, you're pointing to 26%, which indicates that in the second half, revenue growth would be around 21% versus 32% in the first half. I was wondering if the July and August trends are much better than the 21% so far. And you already mentioned some of the challenges for the quarter, like stationery sales and seasonal stores performance being lower than before, but have you seen that already? How are we, still maybe high-20s at the moment, and you're just being cautious in terms of the outlook. That's my first question.

My second question is about the dividend outlook for next year. Since you're now in the positive territory in the IFRS numbers, and I was wondering if you would need to do some sort of revaluation at the end of the year to boost equity and then... if that's, first of all, mandatory for you to be able to pay dividends next year or can you pay dividends at any rate if you have a positive bottom line this year. Thank you.

Uğur Demirel

Maybe I can answer again the first question and, Ziya Bey, you can continue for the second one. As I told you, I mentioned already about some challenges, but again the sales are OK and better than our expectation, but those challenges were only one for the third quarter, but the fourth quarter (the last quarter), I don't see any of these types of challenges at least for the FMCG items. There are many uncertainties, as you mentioned. It's not easy to forecast the sales for the coming quarters, it depends on the school situation, postponing the school opening, there are many impacts on our sales but, overall, in any case, you know that our business model is very defensive, we are very proximate to our customers and providing the best price, and when you look at our balance sheet, which is very strong, whatever the situation is, so we will be, each and every time, we will be positively affected from the situation, I believe.

Ziya Bey, for the next question.

Ziya Kayacan

For the dividend, you know there are some rules according to Turkish commercial cost so that both tax books and... I mean [SEPECA] or IFRS books are considered, so they look at which one is low, so according to that, the base is determined. There are also some other considerations like prior losses of the company, these are also concerned.

Of course, currently, we don't know what will happen to our profit as per tax books and also IFRS books, so this will mostly be determined towards the yearend. Then we will evaluate to carry forward the situation and, at the end, we calculate the base for a dividend. It's early to say something. We have still some time to determine it or to calculate or reconsider it.

Then, of course, if there is any base for this, then our board of directors will nominate some proposal and the general assembly will approve it. According to our main article, it says that 30% dividend subject to general assembly approval. Again, all these considerations, I think it's better to wait for the fourth quarter to see.

Operator

[Operator instructions]

We have no further audio questions. Dear speakers, back to you for the written questions.

Çağrı Demirel

Actually, we have a couple of questions. One of them is from [inaudible].

“Hi, thanks for the call, do you start to see any trading down by consumers? What’s the share of private label in total sales in second quarter of 2020 and July and August period? Thanks?”

Uğur Demirel

Maybe I can answer it. We don’t see such a big change in our private label sales, especially when you consider the first quarter and the second quarter. This continues as it is. On the other hand, as you know, discounters are getting more market share compared to traditional channel and the modern channel. They are growing much better than the other channels, so that there are some advantages, proximity and providing a better price. You can consider whether it’s trading down, but within our sales, there is not such a big change between branded items and the private label, only as all discounters, we are taking some market share from the market.

Çağrı Demirel

Second question from [Ilya].

“Dear Şok team, congrats with the great numbers. A couple of questions from my side. The first one, can you please comment on expectation for net financial expenses from credit purchases, and discount on receivables for the full year of 2020? What should be in terms of percentage of sales?”

The second one, “How are online and delivery sales going in the second quarter and the third quarter?”

Third question, “How are sales doing in July and August so far? Thank you.”

Ziya Kayacan

For the first part of the question, I can answer. Net financial expenses, I already mentioned that it is purely linked to the interest rate in the market, so currently there is a big jump and it came down almost from 25% to 14-15% in real terms, even – in the market I am saying – for the supplier side. But if it is further down, then we can see further down in net financial expenses as a percentage of sales, but I don’t think that, from interest rate side, there will be further impact, so it will be purely linked to this time to our working capital, but we don’t expect also working capital days to move. It will be, we assume, over -50 days.

Overall, I can say that, as a percentage-wise, second quarter gives some confidence for the rest of the year as a percentage, but I’m not able to give an exact percentage what it would be for the full year, but I should say that second quarter could be a good number for the rest of the year as well.

Uğur Demirel

For the second part the question, in terms of online business, as you know, we have launched our home delivery project at the end of March and beginning of April. We have achieved good enough sales during April and May, but starting from June when the market started to open, it has started to decline. Right now, during June, July, and August, it is one-fourth of the April and May period, so that there is a big drop in online delivery sales. But nevertheless, if there is a – I hope that it will not happen again – but if there will be a situation like in April and May, we are more experienced compared to April and May in terms of home delivery and online business.

The good thing is that according to our business model, we don’t lose money there, and if there are no sales, so there is not a big fixed cost over that, so that there is no negative impact when the sales go down. But when the sales go up, it’s on the contrary, it’s positively effecting, effecting to our bottom line. That’s the online situation.

For the July and August questions in terms of sales, I have already mentioned about it.

Çağrı Demirel

There are no further questions. We would like to thank you all for your participation to our webcast. Maybe I can turn the call to the management for the closing as well.

Conclusion

Uğur Demirel

Thank you very much for your participation. Hopefully see you in a more safe and happy days.

Thank you very much. Have a good day.