

Transcription
Şok Marketler,
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Q&A

Operator

[Operator instructions]

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

Cemal Demirtaş

My first question is about demand side. In the third quarter, how was the distribution of revenue stream in monthly basis, July, August, and September, did you see any volatility throughout the quarter. You mentioned about October, I understand, and it's strong. Could we assume that it was parallel or above the third quarter average considering the delay in back to school period impact. That's my first question.

The second one is about the price inflation. What was your price inflation in third quarter, and do you see any initial indication of recent TL depreciation on the prices? Thank you.

Uğur Demirel

Maybe I can comment about the sales and Ziya Bey, you can continue with the inflation. In terms of monthly sales, July was OK. Due to tourism activities, August was a bit difficult on the market, I can say that. And in September, again, due to the back to school activities delay, it was, I would say, normal, but it could be higher than the expected one, because of the back to school effect, which we already shared those challenges on the previous call about tourism and back to school sales. That was the challenges. But for the rest of the year, we do not see any challenges, so that could be higher than the third quarter and, again, that's why we have revised our guidance on the top line.

Ziya Kayacan

For the inflation side, our internal inflation is almost in line with the consumer inflation, which was announced, so almost in third quarter we have seen that it's quite reasonably close to each other. Of course, we will see the trends for the rest of the year.

Cemal Demirtaş

Ziya Bey, I missed the number, you mentioned parallel to CPI or—

Ziya Kayacan

CPI, yes.

Cemal Demirtaş

Because you know the processed and unprocessed food inflation was much higher than the CPI, so I just wonder how was the trend for you.

Ziya Kayacan

Current trend in the third quarter was in line with CPI, Cemal Bey.

Cemal Demirtaş

What about October? How does it go? Do you see any pressure on the pricing side above TL depreciation?

Ziya Kayacan

October, of course, the month we are seeing good sales. So inflation was slightly high in consumer, but we will see our internal inflation, which is what we see according to our sales revenue, which will be calculated, I think, today or tomorrow, we will see

the real figure, but we don't expect too much difference from CPI, let's say. This is the trend. So far, we haven't seen the impact of the FX rate indication in our internal inflation, let me say, but we will see.

Operator

[Operator instructions]

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

Hanzade Kilickiran

I have two questions. The first one is about your space growth. You have very strong space growth so far this year. How should we read the growth going into 2021, will there be any slowdown, or will you keep the same space expansion, which is around 12% level next year.

The second question is about your like-for-like revenue trend. Obviously, in the market, we have been observing very high basket sizes, but do you think that some part of this basket size improvement is structural on Şok and a kind of permanent and could continue to help the 2021 basket sizes, or are we going to see a substantial drop in the basket sizes because of the normalization. Thank you.

Uğur Demirel

In terms of space growth, yes, there is an opportunity on the market. You know that white space opportunity is still big on the Turkish retail market for the coming years, but especially due to the pandemic period, there are some occasional opportunities on the market and we wanted to elaborate those occasions, so we wanted to decide to accelerate in this year. For next year, we are in the budgeting process right now. It's a bit early to talk about, but you know that for the long-term projects, we would like to take as much opportunity as we can.

On the basket size, the trend in the consumer side is to visit less in the store side. Actually, the number of receipts is decreasing, it's not the number of customers, you know that, so that the customer is visiting less, and the basket size is high. It depends on the pandemic. So, if the pandemic continues as it is, I think the trend will go as it is. But in the future, it depends on opening the market more and more, so if they open more and more, that can be more frequent shopping and maybe smaller basket size. But at the end, for us, the most important is to make the like-for-like growth more than the inflation. That's the crucial one for us.

Operator

[Operator instructions]

Our next question comes from Gorkem Goker, Yapi Kredi Yatirim. Please go ahead.

Gorkem Goker

My question is regarding your customer traffic. Your like-for-like customer traffic started to drop last quarter of next year, and now it is below 400 level. Of course, there is this pandemic effect that you have already talked about, but is it still wise, as much as it was, to sustain this physical growth, whilst your customer traffic is below 400. I know some part of it is compensated by – the bulk part of it is compensated by basket size growth, but should we take it for granted. I just want to wonder the trends on the customer traffic growth. Thank you.

Uğur Demirel

The trend is still the same. So, as I told already, if the pandemic goes relatively as it is, the number of traffic is almost – I think it's almost going to be the same.

Gorkem Goker

So, it will not change your physical growth plans, even if it is still at these levels, right?

Uğur Demirel

You're right.

Gorkem Goker

And additional question regarding your basket size growth. What percentage of your revenues or this growth could be attributable to spot product, sales of spot products? Did you see an increase there? if yes, how much is it?

Uğur Demirel

We haven't invested so much in those spot activities in this year, so it's on our agenda right now. There is not such a big impact. It's almost the same level as last year, I can say that. But for the rest of the year or coming years, we will have some action over there. so, it may impact even positively to the basket.

Operator

[Operator instructions]

We have a follow-up question from Cemal Demirtaş, Ata Invest. Please go ahead.

Cemal Demirtaş

My question is about the [net due date] difference as of sales. You record some interest expense about trade liability and credit sales and when we look at the figures from first quarter, second quarter, and third quarter, in the first quarter it was 3.2%, in the second quarter we see some decline, which was good, with the lower interest rate it was 1.9. but in the third quarter, Ziya Bey, we see some slight increase in that ratio, 2.3% as of net sales, net due date difference figure. Was it related to some interest rate increases or what could we assume for the fourth quarter about this? We see some interest rate increases, could we expect stable ratio to third quarter or any increase or decrease for the fourth quarter. Thank you.

Ziya Kayacan

So, you know that this number is calculated on the basis of two drivers. The first one, interest rate. The second one, the working capital days, or the level of the working capital. So, that in the third quarter, of course our sales revenue growth and our working capital in absolute Turkish lira terms it increased, but the interest rate we use on average, in fact, almost stable on a level of 15% in the calculation, so that there is no difference in the interest rate, I should say. But in the coming periods, current interest rate in the market is around 15-16%, but as a tendency to growth, we don't know, of course, what it will become. But we believe that in the fourth quarter, at least the 15% level is reasonable to keep, and so we don't expect too much change in this percentage during the fourth quarter. So, it will be around what you said, 2.3%, that number will be around this according to our outlook.

Operator

Our next question comes from [Virginia Yamanary] from Morgan Stanley. Please go ahead.

Virginia Yamanary

I have one regarding the customer behavior. With this rising inflation that we were discussing – one of the prior questions – are you seeing an increase in, already an increase in private labels in the basket or is it around that number, I think it was 35% in the second quarter. Are you already seeing in October a change in this kind of behavior in the basket size? Also, if you could also talk a bit about the online, how it is compared to when you launched, because when you launched was quite strong and then, I think, the second quarter was slowing down a bit. If you could just talk a bit how it has been going in October as well.

Uğur Demirel

In terms of private label, we don't observe any changes. It's still within the 30-35% of our net sales of private label. We don't see such a big change. even in this type of current environment, customers are choosing, or the customer preference is on the discounter side, but when they come to the discounters or Şok especially, they can find private label also as well as [inaudible] own brand, so that private label share is still in line with Q2.

In terms of online business, as you told, when we first launched, there was a big demand on the online business. During the summertime, demand slowed down, but after third quarter, it was the same again. But starting from end of October or mid-October, we launched electrical vehicles, as I mentioned before, so we are testing right now. So, it is well appreciated by the consumer, it's very sympathetic, so after launching these vehicles, we started to see some increase in our online sales. But again,

it's still testing and it's still a very small number of our business. Our aim is not the short-term, as I mentioned many times, it's to prepare the company for the future trends.

Virginia Yamanary

Can you just remind on the expansion for – the number of stores now I'm talking about – for next year? What's a rough (medium-term) a number of stores you have in mind that you would avoid cannibalization, or you think it would be good for the market.

Uğur Demirel

In terms of store openings, the question is not mainly coming from the cannibalization. As I told you, we are in the budgeting process right now. This is not the point that we consider for the cannibalization to reduce or slow down the number of store openings. But currently, we are in the budgeting process, we will see. We will explain for the coming period the number of store openings for next year.

Operator

[Operator instructions]

We have no other audio questions. We can now switch to written questions.

Çağrı Demirel

We have a couple of questions. Harry Whelpton. "Please can you remind us the impact of interest rates on gross margin and EBITDA margin?"

Ziya Kayacan

Im fact, this number we already told – I think we answered this question when I answered Mr Cemal Demirtas' question. He said what was the due date, or interest charge on your income statement. That was around 2% level in Q1 and Q2.

Çağrı Demirel

Second question from [inaudible]. "Hi, thanks for the presentation. Could you please talk about the recent competition environment among discounters? Do you recently see higher pressure from the competitors when it comes to pricing or finding new store locations? Thanks."

Uğur Demirel

In terms of competition environment, as we are opening more and more stores, the other discounters are at the same level, so those three discounters are opening stores, so they are taking market share. This is a fast-growing channel in Turkish retail market. Traditional channel is losing ground, especially for two years, so discounters are the clear winners on the market.

In terms of price competition, this is a daily business, so we have every time price competition with the others, but we have quite enough economies of scale to compete with the other competitors. We don't have any difficulties over there.

Çağrı Demirel

Another question from [inaudible]. "Thank you for the presentation, any initial thoughts on revenue growth or like-for-like and margins next year, as this year has quite a high base in terms of basket growth? Thank you"

Uğur Demirel

I think we already mentioned about those points, we answered all of them.

Çağrı Demirel

Next question from Ilya. "Dear Şok team, congratulations with a great set of results. Could you please share some thoughts about next year, if it is possible, how many new store openings do you plan to do and what should be CapEx side for 2021. Can you

share some view on EBITDA margin? Would it be [inaudible] close to current year level?" we have already answered this question as well.

Next question from Paul Fraser. "Please explain how you want to balance working capital and interest expense as interest rates rise?"

Ziya Kayacan

I think Paul's question is related to use of cash, I think this is what I understood. We will use our cash from working capital and operations for the use of our businesses, so we will use it where we will create value for our company. It could be payments for the suppliers, so that we can get extra margins, so that it can create additional value on net income for us. This is one of the options we have, which is good to think about it. As the interest rate rises, of course, this will give more flexibility, more power, and we can get more on that, if we can make this kind of thing, so it can impact our income statement positively, because we can get more discounts and much better terms in case. This is the answer I would like to share with you.

Operator

Dear speakers, I am very sorry, there is a follow-up from Hanzade Kilickiran. Madam, please go ahead.

Hanzade Kilickiran

Ziya Bey, you mentioned in the previous call that you are going to pay these deferred taxes, which is around 230 million in the fourth quarter. Is it still the case or is there any sort of further postponement in the payment of these deferred taxes?

Ziya Kayacan

This is the case, because it's the Government subsidy in the time of pandemic for March, April, and May, social security and also value added taxes. The Government gave opportunity to companies to defer it for six months. so, now we started to already pay in October and November and December we will pay. So, this 230 million will be paid.

Hanzade Kilickiran

But these are not going to be seen on your P&L, right, there won't be any impact from—

Ziya Kayacan

No, these are only the balance sheet and cash items, no impact on P&L.

Operator

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

Conclusion

Uğur Demirel

Thank you very much for all your participation.