

DESA

Increasing sales volume & int'l footprint...

We initiated coverage for DESA <DESA TI> with 74,00 TL TP per share. The TP offers %68 upside potential. The main catalysts behind our valuation are i) sales volume hike expectation with thanks to upcoming driving season ii) potential contributions of Toscana Facility to brand awareness, operation efficiency and profit margins iii) flexible business model of the company. In our forecasts, DESA trades with 2.9x EV/EBITDA and 4.6x P/E ratios in 2023E.

Suitcase segment and the upcoming summer season... Although DESA is known as shoe and leather retailer, 41% and 32% of the revenue was generated from Samsonite Luggage and Leather Bag sales in 2022, respectively. (61% on average in the last 4 years). Thanks to the high sales volume in the suitcase segment, the upcoming summer season is the main catalyst for DESA's 2H23 outlook. Due to the conflict between Russia and Ukraine, Samsonite closed its all branches located in Russia. With an effect of that development, the suitcase sales volume to Russian tourists boosted. In March and May of 2023, DESA opened three branches in Antalya and Alanya, highly preferred destinations by Russian tourists for vacation. We assume that the suitcase segment is the catalyst for DESA due to i) high sales volume ii) branch opening in accordance with the demand trend.

Enlarging footprint in Europe with the contribution of Toscana... In 2022, 33% of the revenue came from export operations. The share of the exports in total sales were 37%, 41% and 48% in 2021, 2020 and 2019, respectively. We observe that the slice of exports in total sales decreased regularly in recent years, but the picture will be able to reverse with the contribution of the Toscana factory. The reasons impelling DESA to Toscana are i) to decrease geographical risks ii) to rise export with "Made in Italy" inscription. DESA will start production in Turkey and will end the process in Italy. In our forecast period, the share of exports will reach 47% in 2027 with 5% CAGR (percental). We observe that DESA will generate export revenue of TL1.2bn with an increase of 160% y/y in 2023E.

Flexible business model... DESA adopts its business model rapidly according to the changes in sectoral trends. The company opens stores, if the domestic demand starts to accelerate (Ex: Store opening in the South region for Russian demand). DESA also accelerates production in a scenario of the demand increase in int'l markets. With the contribution of rapid adaptation, DESA can benefit both from i) FX appreciations ii) domestic demand heightening.

Supplier of the textile giants... 70% of the export revenue came from leather sales to textile firms such as Prada, MiuMiu and Channel etc. through B2B channel in 2022. Being the supplier of textile giants gains various advantages to DESA, such as minimizing the trade receivable risks in the balance sheet and improving its brand awareness. This situation also protects the business model of DESA against changes in global economic conditions. In the P/L side, DESA can reflect the cost changes to prices and so the margins are affected relatively lower.

Rating

Buy

Target Price

TL 74,00

Return potential

68%

Share Data

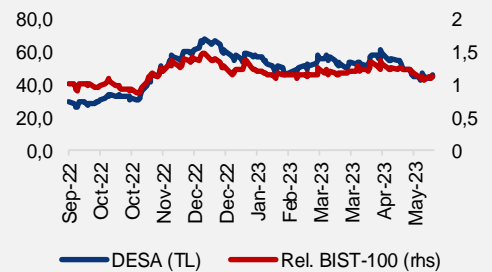
Ticker:	DESA TI
Share price (as of 18.05.2023)	44,14
Share price (52 week range)	26 / 67
Market cap. (TL mn - USD mn)	2172,7 - 109,9
# of shares (mn) & free float	49 - 22%
Foreign Ownership Rate	19,12%
Market	Star
Industry	Textiles, Apparel and Leather

Avg. trading volume	1M	3M	12M
USD mn	0,4	0,6	1,0

Price performance	1M	3M	Y-t-D
TL	-19%	-12%	-26%
USD	-20%	-16%	-30%
Rel. to BIST-100	-9%	-2%	-10%

Forecasts (TL mn)	2021	2022	2023E
Revenues	432	1.359	2.869
EBITDA	104	352	508
Net Earnings	46	287	471

Valuation	2021	2022	2023E
P/E	46,9x	7,6x	4,6x
P/BV	10,4x	3,8x	2,3x
EV/EBITDA	14,4x	4,2x	2,9x
EV/Sales	5,1x	1,4x	0,5x
Dividend Yield	0,0%	0,0%	0,0%



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Risks... i) unexpected decrease in demand for leather products, ii) disruptions in the global supply chain and possible sharp increases in freight prices

DESA & Samsonite JV... As of 2022-end, DESA operates 16 Samsonite stores as a joint venture with Samsonite. DESA consolidates the operation with the equity pick-up model through its 40% subsidiary "Samsonite Seyahat Ürünleri A.Ş.". The JV posted TL91.4mn net profit in 2022 and the company is added to our valuation 14.79x P/E in the light of the average P/E of Samsonite Global which is publicly traded in the USA and China.

DCF

TL mn	2019	2020	2021	2022	2023E	2024E
Revenues	428	233	432	1.359	2.869	3.383
Growth%	23,1%	-45,5%	85,3%	214,3%	111,1%	17,9%
EBITDA	69	58	104	352	508	691
Growth%	94,4%	-16,9%	80,1%	240,0%	44,0%	36,1%
<i>EBITDA Margin</i>	16,2%	24,6%	24,0%	25,9%	17,7%	20,4%
Taxes paid on EBIT	-4	-1	-7	-70	-117	-164
CAPEX	4	2	-64	-57	-53	-68
Change in Net Working Capital	-17	31	-12	-73	-227	74
Free cash flow from operations	52	111	894	608	690	785
FCFF Margin	12,2%	38,4%	4,7%	11,3%	3,9%	26,4%
WACC	25%	26%	26%	27%	27%	28%
DFC	13	22	5	38	70	551
Terminal growth rate	7,0%					
Terminal Value	5.696					
PV of Terminal Value	783					
PV of FCFF	1.945					
PV of Terminal Value	783					
Enterprise Value	2.728					
Latest Net Debt	-384					
Samsonite Seyahat Ürünleri A.Ş (JV)	530					
Equity Value	3.642					
# of shares outstanding	49					
Fair Value per share (12-mth fwd)	74,0					
Current share price	44,06					
Upside / (Downside)	68%					

Sanity Check

Company Name	Ticker	P/E		EV/EBITDA	
		2022/YE	2023E	2022	2023E
Samsonite USA	SMSEY	14,74x		10,75x	
Samsonite Hong Kong	1910	14,85x	13,77x	10,81x	8,61x

Source: Tacirler Investment, Bloomberg, Equity RT

Revenue Model

- In our estimate period, net sales grow to TL6.2bn with 12% CAGR.
- In our estimation period, the number of stores reaches 155 units with 7% CAGR.
- In our estimation period, revenue per sqm increases to TL148k with 3% CAGR.

	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Net Sales (TLmn)	1.359	2.869	3.383	3.847	4.303	4.771	5.242	5.709	6.162
Export	448	1.164	1.484	1.744	1.984	2.224	2.455	2.667	2.851
Domestic	911	1.705	1.899	2.103	2.319	2.547	2.788	3.042	3.310
Net Sales y/y									
Net Sales	214,3%	111,1%	17,9%	13,7%	11,9%	10,9%	9,9%	8,9%	7,9%
Export	182,1%	160,0%	27,5%	17,5%	13,8%	12,1%	10,4%	8,6%	6,9%
Domestic	233,0%	87,1%	11,4%	10,8%	10,3%	9,8%	9,4%	9,1%	8,8%

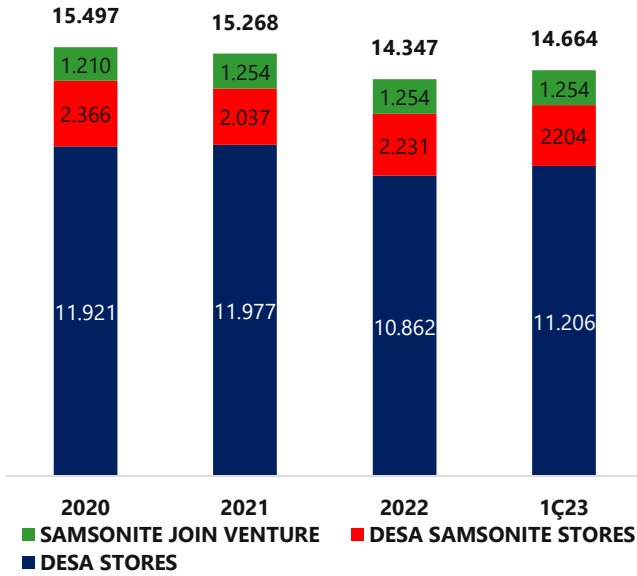
Domestic Operations

# of retail stores	93*	99	107	115	123	131	139	147	155
Net Stores Opening	-7	6	8	8	8	8	8	8	8
Gross Selling Space (k sqm)	13	14	15	17	18	19	20	21	22
Average sqm per store	142	144	144	144	144	144	144	144	144
Domestic Retail Revenues per sqm	69	119	123	127	131	135	139	144	148
Revenue per sqm, y/y %		73%	3%	3%	3%	3%	3%	3%	3%

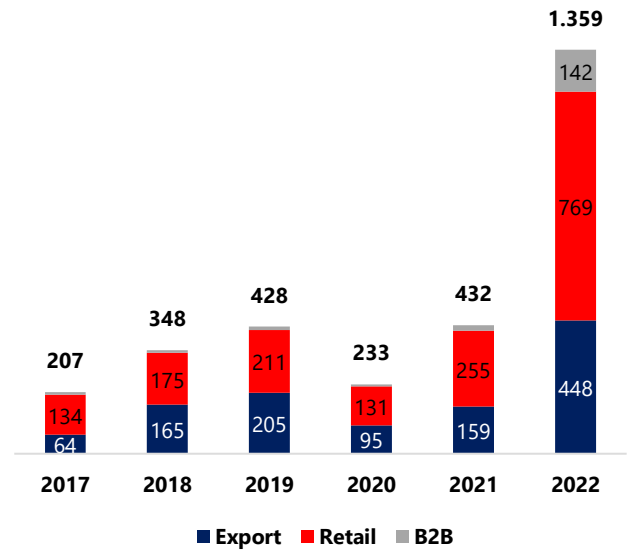
*93 stores in our revenue model are fully owned by DESA. Additionally, DESA operates 16 Joint Venture stores with Samsonite. JV stores were added to our valuation with equity pick-up model.

Key Charts

Total Sqm.



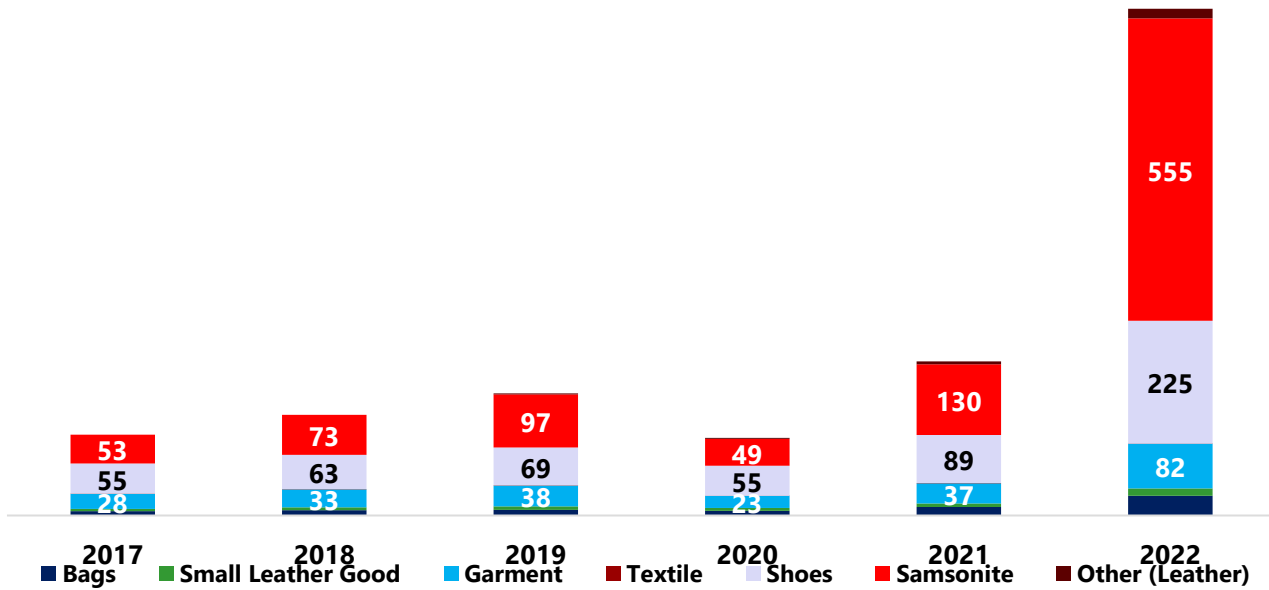
Net Sales (TLmn)



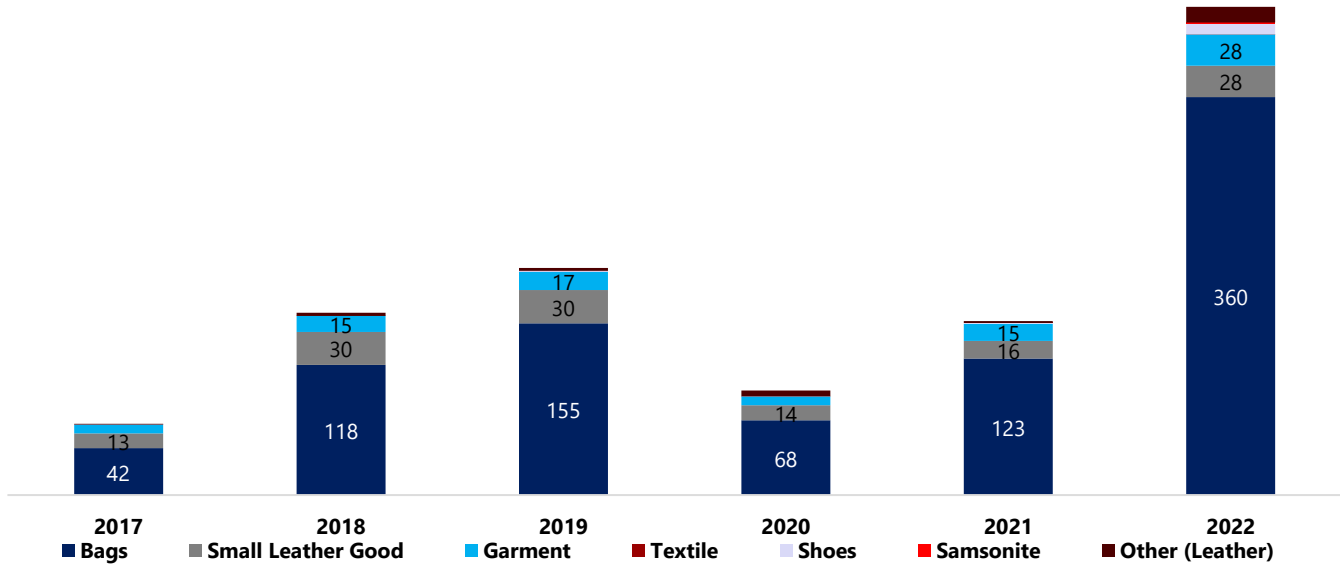
Source: DESA, Tacirler Investment

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Domestic Revenue Breakdown (TLmn)

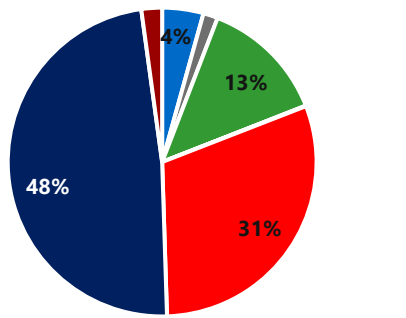


Int'l Revenue Breakdown (TLmn)



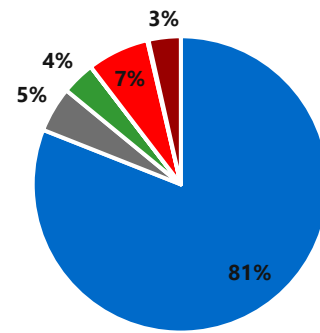
Source: DESA, Tacirler Investment

1Q23 Domestic Revenue Breakdown (TLmn)



■ Bags
■ Small Leather Good
■ Garment
■ Shoes
■ Samsonite
■ Other (Leather)

1Q23 Int'l Revenue Breakdown (TLmn)



■ Bags
■ Garment
■ Shoes
■ Small Leather Good
■ Samsonite
■ Textile

Source: DESA, Tacirler Investment

Projected Financials

Balance Sheet	2019	2020	2021	2022	2023E	2024E
Cash	19	62	147	205	647	1.256
Accounts receivables	36	26	89	190	291	334
Inventory	161	146	155	163	215	525
Financial investments	0	0	0	266	369	369
Fixed assets	52	49	126	237	246	248
Other non-current assets	101	72	118	222	289	-38
Total assets	369	354	635	1.283	2.057	2.692
Short-term financial loans	59	67	73	87	93	117
Accounts payables	126	69	153	335	715	632
Long-term financial loans	47	89	138	94	176	206
Other long-term payables	44	35	63	193	129	116
Total liabilities	275	259	427	709	1.112	1.071
Shareholders' equity	94	95	208	574	945	1.622
Paid in Capital	49	49	49	49	49	49
Other Equity	45	45	159	525	896	1.572
Total liabilities & equity	369	354	635	1.283	2.057	2.692
Net debt	29	68	17	-336	-748	-1.302
Net working capital	71	103	91	18	-209	226

Per share (TL)

EPS	0,37	0,03	0,94	5,84	9,57	13,75
BVPS	1,90	1,92	4,22	11,66	19,20	32,95
DPS	0,00	0,00	0,00	0,00	0,00	0,00

Ratios

Profitability						
ROE	21,6%	1,7%	30,6%	73,5%	62,0%	52,7%
Net margin	4,3%	0,7%	10,7%	21,1%	16,4%	20,0%
Asset turnover	1,3x	0,6x	0,9x	1,4x	1,7x	1,4x
Leverage	3,8x	3,8x	3,3x	2,5x	2,2x	1,9x
ROA	5,6%	0,5%	9,4%	30,0%	28,2%	28,5%

Leverage

Financial debt/Total assets	29%	44%	33%	14%	13%	12%
Net debt/Equity	0,31	0,72	0,08	-0,59	-0,79	-0,80
Net debt/EBITDA	0,42	1,18	0,16	-0,95	-1,47	-1,88

Source: Company Data, Tacirler Investment

* All figures are stated in millions of TL unless otherwise stated.

Income statement	2019	2020	2021	2022	2023E	2024E
Revenues	428	233	432	1.359	2.869	3.383
Gross profit	162	116	192	565	1.084	1.414
Operating expenses	-119	-81	-121	-289	-616	-756
Operating profit	42	35	71	276	468	657
EBITDA	69	58	104	352	508	691
Other income, net	5	-3	-3	38	89	105
Financial income, net	-27	-27	-29	2	12	67
Earnings before taxes	22	3	53	357	634	907
Tax expense	-4	-1	-7	-70	-162	-230
Net earnings	18	2	46	287	471	677
Cashflow statement						
EBITDA	69	58	104	352	508	691
Taxes on EBIT	-4	-1	-7	-70	-117	-164
Capital expenditures	4	2	-64	-57	-53	-68
Chg. in NWC	-17	31	-12	-73	-227	435
Free cashflows to firm	52	90	20	153	111	894
Growth & margins						
Revenues	23%	-45%	85%	214%	111%	18%
EBITDA	94%	-17%	80%	240%	44%	36%
Net earnings	118%	-91%	2714%	520%	64%	44%
Gross margin	37,8%	49,6%	44,3%	41,6%	37,8%	41,8%
Operating margin	9,9%	15,0%	16,4%	20,3%	16,3%	19,4%
EBITDA margin	16,2%	24,6%	24,0%	25,9%	17,7%	20,4%
Net margin	4,3%	0,7%	10,7%	21,1%	16,4%	20,0%
Free cashflow margin	12,2%	38,4%	4,7%	11,3%	3,9%	26,4%
Valuation						
P/E	119,1x	1319,2x	46,9x	7,6x	4,6x	3,2x
P/BV	23,2x	23,0x	10,4x	3,8x	2,3x	1,3x
EV/EBITDA	21,6x	26,0x	14,4x	4,2x	2,9x	2,2x
EV/Sales	5,1x	9,6x	5,1x	1,4x	0,5x	0,3x
Dividend Yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Free cashflow yield	2,4%	4,1%	0,9%	7,1%	5,1%	41,1%

Important Disclosures

Rating Methodology

Stock ratings are based on absolute return potential of the stock, which is defined as the percentage change in target price from the current share price. All recommendations and target prices are set with a 12-month horizon. Target prices are set by using one or more of the following methodologies: DCF, Net Asset Valuation, sum of the parts model and multiple comparison.

Rating Definition

Strong Buy: The stock is expected to generate a return of more than 40% in TL terms.

Buy: The stock is expected to generate a return of 15-30% in TL terms.

Hold: The stock is expected to generate a return of less than 15% in TL terms.

Sell: The stock is expected to generate a negative return within the forecast horizon.

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