



BIST Company Analysis Project

Company: Sok Marketler Ticaret AS

Financial Analysis

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General Company Information

ŞOK Marketler Ticaret AS is a chain of supermarkets, headquartered in Istanbul, Üsküdar, established in Turkey. The company was founded by Migros in 1995 and was acquired by Yıldız Holding in 2011. Yıldız Holding was founded by Sabri Ülker in 1944 and is a large company with approximately 75,000 employees.

ŞOK Market, which has opened approximately 3 stores a day since 2015, has grown rapidly and reached 1,012 stores in 2021. In addition, it has renewed 2,747 of its stores in the last 3 years. Currently, ŞOK Markets, which has more than ten thousand stores across the country.

The firm has a differentiated business model. In this model, it offers customers the best service to meet all their needs by applying a "low price every day" policy. In order to provide this service even better, it has made a significant contribution to the country's economy by launching brands such as Mis, Piyale, Mintax, Evin and Amigo.

The total share value of ŞOK Markets is 593,290,008 TL and its shareholders are Turkish Retail Investments B.V., Gözde Girişim Yatırım Ortaklığı Anonim Şirketi, European Bank for Reconstruction and Development, Istanbul Portfolio Yıldız Hedge Private Fund and approximately 35% of other stakeholders.

While its vision is to continue to create value for investors as Turkey's most preferred retail brand and leading food retailer; its mission is to offer its customers the most suitable shopping experience with its differentiated business model, quality product variety, reasonable prices, and advanced service approach, and to be the first choice of business partners and employees.

General Sustainability Approach

ŞOK Markets' Sustainability Committee was established in the program started by Yıldız Holding under the "*This World is Ours*" campaign. This committee meets twice a year to plan strategic investments in order to increase the value it creates in the field of environmental, social and corporate governance.

The committee performs its work processes in accordance with international standards such as ISO 14001 Environmental Management System and ISO 9001 Quality Management System. Aiming at a sustainable growth, the company works to implement practices that will strengthen the society, the environment and all its stakeholders. The Sustainability Committee works with the members of the Working Group within the company by focusing on current issues every year.

ŞOK Markets' sustainability priorities consist of two categories: “high priority” and “priority”. The “high priority” category includes topics such as recycling, packaging waste, occupational health and safety, food waste and losses, digitalization, employee rights, while the “priority” category includes accurate information about products, talent management, energy efficiency and logistics.

Adopting the motto "Sustainability is our promise to future generations", ŞOK Markets has set three basic goals in this context:

• ***Inspire:***

Products are of the highest quality, with a focus on customer safety, to ensure that they are delivered to customers in transparent and appealing conditions, while also inspiring customers to adopt healthy eating and lifestyles.

• ***Getting Stronger Together:***

To become stronger with business models that promote social equality by providing social and economic development for employees and society.

• ***Improve***

To improve environmental conditions for future generations by conserving natural resources and focusing on energy efficiency and savings.

Key Financial Highlights (Important Metrics, Figures)

When we look at the ŞOK Market's key financial and operational indicators (important metrics, figures, etc.), we observe an increase in financial performance. Net sales increased by 827 million TL in 2022, which can probably be attributed to the increase in the number of stores opened (10,281) since 2018.

While Gross Profit was 6.644.138.979 in 2021, this figure increased to 14,097 in 2022. When we look at EBITDA, it has shown an increasing trend since 2018 and reached 4,772 with an increase of approximately 2 times in the last year. Having completed 2022 with financial success, the company increased its net profit to TL 2.4 billion.

The Name of the Independent Auditor and the type of Audit Opinion

The name of the independent auditor is Mali Müşavirlik from the firm PwC, an independent auditing and certified public accounting joint stock company.

Part 2: Understanding Financial Statements

1)

	2021	2022	% change
Net Sales	28.411.812.112	59.292.346.817	109%
Cost of Sales	21.767.673.133	45.195.271.733	108%
Gross Profit	6.644.138.979	14.097.075.084	112%

From 2021 to 2022, there has been an increase in sales, COGS, and gross profit by 109%, 108%, and 112%, respectively. By looking at the net sales of the ŞOK Markets, we can say that the company was selling more goods and services, or maybe they were increasing the prices of their goods. In addition, different factors can change the COGS, such as the price of raw materials, the regularity of sales, and transportation costs. An increase in these factors led to a change in COGS. As a result, Gross Profit has doubled as compared to 2021 and reached approximately \$14 million in 2022

2)

	2021	2022	% change
Marketing and sales expenses	4.682.929.637	9.949.091.007	112%
General administrative expenses	172.889.056	522.844.369	202%
Other expenses from operating activities	839.555.800	575.461.405	-31%

While looking at the operating expenses between the years 2021 and 2022, we can clearly see that marketing and sales expenses and general administrative expenses have increased. Especially general administrative expenses have risen by 202%. Other expenses from operating activities have decreased by 31%. If revenues decrease and costs increase, we will see a decrease in cash flow from operating activities.

3)

Accounts	2021	2022	% change
Personnel expenses	2.464.312.359	5.015.534.515	104%
Utility expenses	506.281.870	1.726.945.376	241%
Depreciation and amortization expenses	830.724.105	1.143.009.478	38%
Transportation expenses	410.621.036	987.157.053	140%
Rent expenses	85.373.598	220.724.831	159%
Advertising expenses	123.515.153	210.221.600	70%
Tax expenses and duties	14.310.048	137.052.691	858%
Vehicle expenses	52.551.784	113.308.310	116%
Maintenance expenses	41.699.737	82.269.531	97%
Packaging expenses	18.816.591	25.189.016	34%
Other marketing and sales expenses	134.723.356	287.678.606	114%

As it can be seen on the table, tax expenses and duties showed the highest increase at 858%. The next biggest increase is seen in utility expenses and rent expenses (241% and 159%, respectively). An increase in all over expenses is a sign that the company is expanding. This means we can also expect to see greater cash flows in 2022.

4)

We can calculate net income as revenue minus expenses. In 2021, the net income of the company was 319,131.885 TL, while in 2022 it was 2,369,546.171 TL. An increase of approximately 87% was seen in net income. This increase in net income is important for the profitability of the company because it represents the d over that can be distributed to shareholders, invest back into the business, or save for future use.

PART 2.2

1)

Current Assets	2021	2022
Cash and Equivalents	1.343.778.022	859.080.628
Trade Receivables	99.962.387	135.975.765
Receivables from Related Parties	57.553.754	100.454.374
Receivables from Third Parties	42.408.633	35.521.391
Other Receivables	10.822.198	182.775.077
Inventories	2.849.358.576	8.828.538.186
Prepaid Expenses	15.797.639	43.793.810
Other Current Assets	50.036.159	408.274.446
Total Current Assets	4.369.754.981	10.458.437.912

“Inventories” and “Cash and Equivalents” form most of the current assets with values 8.828.538.186 TL and 859.080.628 respectively. The value of inventories is nearly four times that of 2021. The large increase indicates that the company is looking to expand the size of business in line with their increasing net income . The reason that inventories make up most of Şok Market’s total current account is that it involves many items like property, goods in stock, contents of a building, materials held by a business etc. so even though it is to be converted to cash within a year it represents the most part of what the company owns. Following it is the cash and equivalents account which displays the value of the most liquid assets which can be converted to cash immediately or directly cash itself. Şok Market A.Ş. has high amounts under cash & equivalents which indicates the financial health of it’s business. Cash gives businesses the ability to direct funds into good investments, overcome financial challenges and secure the ability to pay loans which prevents a company to go bankrupt. Although it is

the largest current asset, there is a significant decrease in cash account from 2021 to 2022 amounting to 484.697.394 TL. The reason is that trade receivables (cash expected to be paid to a company for product already provided) is nearly twice of 2021 in 2022. Moreover, the value of inventories is nearly four times that of 2021 due to buying of property or goods (this contributes to the decrease in cash as well).

2)

Yes, this company has an account for cash and cash equivalents. The following table provides a breakdown of them

Account Title	2021	2022
Cash on hand	196.941.526	452.045.347
Cash in banks (Time Deposits)	1.072.211.021	75.599.806
Cash in banks (Demand Deposits)	5.166.643	96.010.275
Credit Card Deposits	69.458.832	235.425.200
Total Cash and cash equivalents	1.343.778.022	859.080.628

3)

Total trade Receivables for 2 years are given in the table below along with their breakdown:

Account Title	2021	2022
Total Trade Receivable	99.962.387	135.975.765
<i>Trade receivables from related parties</i>	57.553.754	100.454.374

<i>Trade receivables from third parties</i>	42.408.633	35.521.391
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From the financial statements, we can see that the company has given 8.724.255 tl allowance for doubtful receivables in 2022 whereas they have given 8.907.806 tl allowance for this in 2021. This shows a clear sign that the company is expecting to not receive some amount of their trade receivables. There can be various reasons behind this for example, the parties that have to pay these amounts may be facing liquidity issues or they might default (go bankrupt). Furthermore, it is also possible that the lack of guarantee received by the company regarding this might also be a contributing factor to this.

4)

The below table will provide a breakdown of inventory and the different inventory sub-accounts

Account Title	2021	2022
Trade Goods	2.873.975.908	8.721.826.041
Other Inventories	40.421.638	210.141.517
Allowance for Impairment of Inventories	(65.038.970)	(103.429.372)
Total inventories	2.849.358.576	8.828.538.186

The company's costing method is Weighted Average Cost. Under the Weighted Average Cost method, the average cost of inventory items is calculated by dividing the total cost of goods available for sale during a specific period by the total quantity of goods available for sale. This average cost is then used to value both the goods sold and the ending inventory.

In this case, the company calculates the average cost over the month to determine the cost of inventory items. It implies that the company assigns the weighted average cost to the inventory, which aligns with the Weighted Average Cost method.

5)

Property,Plant& Equipment	2021	2022
Vehicles	4.304.665	69.478.859
Furniture and Fixture	2.591.530.427	3.734.035.327
Leasehold Improvements	759.204.652	1.177.312.564
Accumulated Depreciation	1.828.765.126	3.044.194.402
Total Property Plant&Equipment	3.355.039.744	4.980.826.750

6)

Borrowings	2021	2022
Short term Borrowings	958.494.362	1.464.436.220
Long term Borrowings	2.050.915.733	2.811.394.021
Total Borrowings	3.009.410.095	4.275.830.241

There is an increase of 505.941.858 TL in short-term borrowings and an increase of 760.478.288 TL in long-term borrowings from 2021 December 31 to 2022 December 31. Short-term borrowings has

increased by nearly half of its 2021 amount. The total borrowings for the year of 2021 is concerning considering the amount of current assets for 2021 (4.369.754.981) and total borrowings (3.009.410.095). Since borrowings are classified as liabilities, if the company paid them all in 2021 there would be a striking decrease in current assets and overall liquidity of the company assets (almost 3/4 of the current assets would have to be liquidated).

Long-term borrowings increased approximately 2 billion. However, this does not have a huge effect on the liquidity of the company as total current assets of 2022 amount to 10.458.437.912. This means that even though total borrowings went up to 4.275.830.241, it is not going to negatively effect the liquidity of the company to a great degree. Comparing both ratios from 2021 to 2022, 2022's borrowing is more feasible despite the amount of increase in short-term and long-term borrowings accounts.

PART 3 :TOTAL ASSET MANAGEMENT

NET SALES 2021 / AVERAGE TOTAL ASSETS	NET SALES 2022 / AVERAGE TOTAL ASSETS
28.411.812.112 / 14.255.914.024,5 = 1.992,98%	59.292.346.817 / 14.255.914.024,5 = 4,16%

ROA 2021 = NET INCOME 2021 / TOTAL ASSETS 2021	ROA 2022 = NET INCOME 2022/ TOTAL ASSETS 2022
319.131.885 / 9.734.829.839 = 0,00033%	2.369.546,171 / 18.776.998.210 = 0,00013%

Investors may be interested in the net sales to average assets ratio because it is a significant measure of a company's success. It reflects how well a corporation uses its assets to generate sales and profits. When the average total assets exceed net sales, as it is for ŞOK MARKETLER in both 2021 and 2022, it indicates that the assets are not being used properly to generate revenue and profit. Although net sales have increased in 2022, they are still insufficient to generate a positive ratio. This may make investors suspicious and lead them to consider investing in other companies with larger ratios. The 2021 and 2022 ratios of 1.992,98% and 4,16%, respectively, are regarded low and may not be

appealing to investors. Similarly, return on assets (ROA) is an effective metric for evaluating firms and deciding which ones to invest in. Higher ratios of 5% or more are generally considered good, while ratios of 20% or more are considered excellent. The ROAs for ŞOK MARKETLER in 2021 and 2022, at 0.00033% and 0.00013%, respectively, are insufficient for investors who prefer companies with higher ROAs because they imply that the company generates more profit per unit of investment.

Profitability

GROSS PROFIT RATIO 2021 (GROSS PROFIT/NET SALES*100)	GROSS PROFIT RATIO 2022 (GROSS PROFIT/NET SALES*100)
$6.644.138.979 / 28.411.812.112 * 100 = 23.36\%$	$14.097.075.084 / 59.292.346.817 * 100 = 23.79\%$

The gross profit ratio indicates the percentage of gross profit generated from net sales. Comparing the two years, we observe a slight increase in the gross profit ratio from 23.36% in 2021 to 23.79% in 2022. This suggests an improvement in the company's ability to generate gross profit from its sales.

NET OPERATING INCOME RATIO 2021 (NET OPERATING INCOME/NET SALES*100)	NET OPERATING INCOME RATIO 2022 (NET OPERATING INCOME/NET SALES*100)
$967.841.685 / 28.411.812.112 * 100 = 3.41\%$	$3.095.509.237 / 59.292.346.817 * 100 = 5.22\%$

The net operating income ratio measures the percentage of net operating income (operating profit) generated from net sales. The ratio has increased significantly from 3.41% in 2021 to 5.22% in 2022. This indicates improved operational efficiency and profitability, as the company has managed to generate higher operating income relative to net sales.

NET INCOME RATIO 2021 (NET INCOME/NET SALES*100)	NET INCOME RATIO 2021 (NET INCOME/NET SALES*100)
$324.323.116 / 28.411.812.112 * 100 = 1.14\%$	$2.379.833.822 / 59.292.346.817 * 100 = 4.01\%$

The net income ratio represents the percentage of net income generated from net sales. Comparing the two years, we observe a substantial increase in the net income ratio from 1.14% in 2021 to 4.01% in 2022. This suggests a significant improvement in the company's profitability, as it has been able to generate higher net income relative to net sales.

Overall, the profitability analysis indicates positive trends and improvements in the company's profitability for 2022 compared to 2021. The gross profit ratio, net operating income ratio, and net income ratio have all shown positive increases, suggesting enhanced efficiency and profitability in the company's operations.

Liquidity

CURRENT RATIO 2021 (CURRENT ASSETS/CURRENT LIABILITIES)	CURRENT RATIO 2022 (CURRENT ASSETS/CURRENT LIABILITIES)
$4.369.754.981 / 7.065.781.281 = 0,62$	$10.458.437.912 / 12.797.932.78 = 0,82$

The current ratio measures the company's ability to cover its short-term liabilities with its current assets. A current ratio above 1 indicates that the company has sufficient current assets to cover its current liabilities. Comparing the two years, we observe an increase in the current ratio from 0.62 in 2021 to 0.82 in 2022. This suggests an improvement in the company's current asset management and its ability to meet short-term obligations.

CASH RATIO 2021 (CASH + CASH EQUIVALENTS/CURRENT LIABILITIES)	CASH RATIO 2022 (CASH + CASH EQUIVALENTS/CURRENT LIABILITIES)
$1.343.778.022 / 7.065.781.281 = 0,19$	$859.080.628 / 12.797.932.78 = 0.07$

The cash ratio focuses solely on the company's ability to cover short-term liabilities with its cash and cash equivalents. A higher cash ratio indicates a stronger ability to meet short-term obligations with readily available cash. Comparing the two years, we observe a decrease in the cash ratio from 0.19 in

2021 to 0.07 in 2022. This suggests a decrease in the company's liquidity position in terms of readily available cash relative to short-term liabilities.

The analysis of current asset management using liquidity ratios shows an improvement in the company's ability to cover short-term obligations with its current assets, as indicated by the increasing current ratio from 2021 to 2022. However, the decrease in the cash ratio suggests a decline in the company's liquidity in terms of readily available cash.

LEVERAGE

DEBT RATIO 2021 (TOTAL LIABS / TOTAL ASSETS)	DEBT RATIO 2022 (TOTAL LIABS / TOTAL ASSETS)
$9.238.940.001 / 9.734.829.839 = 0,95\%$	$15.911.562.201 / 18.776.998.210 = 0,85\%$

DEBT TO EQUITY RATIO 2021 (TOTAL LIABS / TOTAL EQUITY)	DEBT TO EQUITY RATIO 2022 (TOTAL LIABS / TOTAL EQUITY)
$9.238.940.001 / 495.889.838 = 18,63\%$	$15.911.562.201 / 2.865.436.009 = 5,55\%$

The debt ratio, which compares a company's total debt to total assets, is a valuable metric for investors to use to determine whether a company's assets exceed its debts. A greater debt ratio may indicate that the company is borrowing more to fund its operations, which may increase risk for lenders. In case of ŞOK MARKETLER, Debt Ratio decreased by 0,10% point 2021 to 2022. This indicates decrease in leverage. However, the fact that the debt ratio is less than one in both years indicates that the company has more assets than debt, which is a good indicator for investors. Another metric of financial leverage that can be used to assess a company's risk profile is the debt-to-equity ratio, which compares a company's total debt to its total shareholder equity. A larger debt-to-equity ratio may signal that the firm is relying more on borrowing to fund its expansion, which may be a source of concern for shareholders if the company's equity is insufficient to service the debt. In case of ŞOK MARKETLER, Debt to Equity Ratio decreased by 13,08% point 2021 to 2022. It means that 2022 is less risky for lenders.

Conclusion:

In terms of liquidity, although we see an increase in the current ratio from 0.62% to 0.82%, the company still falls short on the benchmark liquidity ratio of 1. This means that the company might have trouble fulfilling its short term liabilities. With regards to profitability, the gross profit ratio has remained stable (23.36% in 2021, 23.79% in 2022) indicating a steady profit being made annually. However, we see a 1.81% in Net Operating Income in the year 2022 indicating an increase in operating profitability. The net income ratio reflects the company's profitability after accounting for all expenses, taxes, and interest. The ratio also experienced an increase from 1.14% in 2021 to 4.01% in 2022, indicating improved overall profitability. Regarding leverage, the debt-to-equity ratio represents the proportion of debt relative to equity. The ratio of 5.55% in 2022 suggests a relatively low level of debt compared to equity, indicating a favorable leverage position.

Based on this information, you should invest in this company. Although the company faces some issues with its liquidity, there is drastic improvement in the current ratio in one year. Moreover, the company has been making a stable profit over the years and has actually increased its net operating income greatly as well. The improving state of this company is also evidenced by the drastic decrease in the debt to equity ratio which indicates a very favourable leverage position.

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