

The potential increase in the competitive strength of the company with Egypt investment in African markets, the ongoing growth in production activities in Poland, and the consolidating of production activities in Turkey at a single point for more effective cost control are factors that we like and add Kervan Gıda to our watchlist, supporting income and profitability. **We are initiating our recommendation for KRVGD with a target price of 34.90 TL and an Outperform (OP) rating.** Our target price indicates a potential return of 55.1%. KRVGD is trading at multiples of 3.40x EV/EBITDA, 6.91x P/E, 2.17x Price/Book, and 0.50x Price/Sales based on our expectations for the year 2024.

Kervan Gıda operates in the confectionery segment of the food industry in both Turkey and Poland. As of June 2023, 75% of the company's total sales revenue is generated from international sales. Sales revenue primarily in foreign currencies provides the company with a natural hedge against its foreign currency debts.

The company's two main raw materials are sugar and gelatin. To manage the effects of price fluctuations in sugar, the company uses forward contracts to mitigate the impacts of price changes.

The company will complete the process of moving its production activities in Istanbul to Akhisar by 2023/4Q. It is expected that consolidating production activities in a single domestic location (Akhisar) will have a positive impact on the company in terms of efficiency and the management of logistic costs.

Additionally, the evaluation of the real estate in Istanbul to support the company's operations will also be a positive development for the company in terms of efficiency.

Kervan Gıda plans to commission its second jelly production line at the factory in Poland in the first quarter of 2024. We believe that the second production line, which will come into operation in 2024, will be a significant catalyst for the company in terms of increasing the jelly production capacity, which is the company's main production and sales channel, and will positively impact revenue and profitability.

For Kervan Gıda, our revenue estimates for 2023 and 2024 are approximately 7.5 billion TL and 10.9 billion TL, respectively. We believe that the company can maintain a gross profit margin of around 30%. Under these assumptions, we anticipate EBITDA of 1.4 billion TL for 2023 and 2.1 billion TL for 2024.

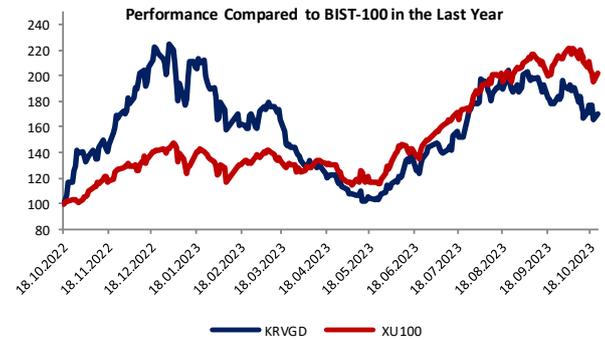
Risks

- The company's operations are subject to fluctuations in raw material prices and the availability of raw materials.
- In most of the main export markets (USA, UK, Iraq, Germany), there are significant and established competitors.
- The possibility of domestic monetary tightening and an inflation outlook pushing risk-free interest rates higher, along with the potential for a more severe economic slowdown than anticipated for global economies.

KRVGD

Outperform

Closing Price (TL)	22,50		
Target Price (TL)	34,90		
Upside	55,1%		
52 Week Range (TL)	12,74 / 29,83		
Beta (L1Y)	0,77		
BIST-100	7.750,39		
KRVGD	(Mn TL)		
Market Cap.	5.400		
Capital	240		
Free Float	28,0%		
ADTV (3 month)	94,2		
Price Performance (%)	L1M	L3M	L1Y
KRVGD	-4,42	12,46	46,09
BIST-100	-3,59	15,89	96,98
BIST-100 Relative	-0,86	-2,96	-25,84



FINANCIAL RATIOS	2023/12E	2024/12E	2025/12E
Revenues (Mn TL)	7.503	10.875	14.464
EBITDA (Mn TL)	1.413	2.144	2.934
EBITDA Margin (%)	18,83%	19,71%	20,28%
Net Profit (Mn TL)	252	782	1.279
Net Profit Margin (%)	3,36%	7,19%	8,84%
VALUATION RATIOS	2023/12E	2024/12E	2025/12E
P/E	21,45	6,91	4,22
P/B	3,10	2,17	1,47
EV/EBITDA	5,16	3,40	2,48
Price/Sales	0,72	0,50	0,37
HISTORICAL RATIOS	S1Y	S2Y	S3Y
P/E	16,10	16,13	16,61
P/B	3,30	2,84	2,93
EV/EBITDA	6,82	7,36	8,30
Price/Sales	1,02	1,12	1,53

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Kervan Gıda Summary

Company's Field of Operations

The company operates in the food and beverage industry, engaging in the production and sale of confectionery products that encompass soft candies (jelly, licorice, and marshmallow), chewing gum, hard candies, coated chocolates, surprise eggs, and toy-related items. A significant portion of the production capacity is dedicated to soft candy products.

Production and Sales

Kervan Gıda continues its operations with 3,277 employees in a total of 7 production facilities located in Akhisar, Istanbul, and Poland, covering a closed area of 110,000 square meters. As of the end of the 2nd quarter of 2023, the company's annual production capacity is 111,410 tons per year and 83.2 million units per year.

During the first half of 2023, the sales revenue increased by 54% compared to the same period in 2022, reaching 3.1 billion TL. In Turkey, the share of international sales within the company's turnover was 70.0% in the 2022/06 period, and this ratio increased to 70.3% in the 2023/06 period.

In the first half of 2023, the company's foreign currency-based revenues were 120.5 million US Dollars, while domestic sales revenues amounted to 741 million TL.

Channel-Based Sales (Turkey)				
Sales Channels	01.01.2023 – 30.06.2023	Market Share	01.01.2022 – 30.06.2022	Market Share (2022)
Export	1.751.278.840	70%	1.132.458.694	70%
Organized Trade	417.924.609	17%	253.276.368	16%
Traditional	323.081.858	13%	232.956.262	14%
Other	-	0%	-	0%
Total	2.492.285.307	100%	1.618.691.324	100%

Channel-Based Sales (Poland)				
Sales Channels	01.01.2023 – 30.06.2023	Market Share	01.01.2022 – 30.06.2022	Market Share (2022)
Export	47.083.760	7,4%	38.723.644	9,3%
B2B	211.566.188	33,1%	126.766.195	30,6%
Organized Trade	335.048.118	52,5%	214.078.653	51,7%
Traditional	44.572.400	7,0%	34.679.282	8,4%
Total	638.270.466	100%	414.247.774	100%

Source: Kervan Gıda Activity Report

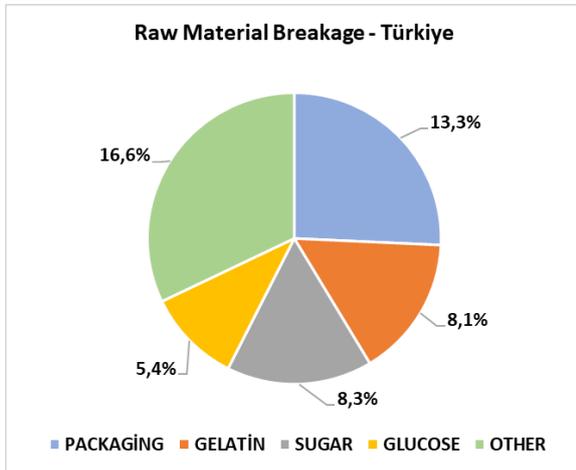
In the first half of 2022, the revenue generated from the jelly and licorice categories, which constituted 71.6% of sales, was 1.45 billion TL. With the impact of the newly established production lines, in the same period of 2023, this amount has increased to 2.36 billion TL, and its share within sales has reached 75.5%.

Category-Based Sales (Consolidated)				
PRODUCTS	01.01.2023 – 30.06.2023	Market Share	01.01.2022 – 30.06.2022	Market Share (2022)
JELLY	1.868.114.329	59,7%	1.143.783.791	56,4%
LİCORİCE	496.088.622	15,8%	309.491.474	15,2%
MARSHMALLOW	171.574.068	5,5%	148.877.365	7,3%
Toy Product	106.978.832	3,4%	99.786.661	4,9%
Dragee	107.909.549	3,4%	67.614.527	3,3%
Chewing Gum	89.816.101	2,9%	61.131.296	3,0%
Chocolate-coated Candy	90.307.651	2,9%	54.604.864	2,7%
Surprise Egg	56.321.334	1,8%	29.065.954	1,4%
Hard Candy	45.479.130	1,5%	32.808.650	1,6%
Snack Bar	38.529.759	1,2%	10.423.020	0,5%
Halva	16.953.587	0,5%	21.481.726	1,1%
Other	42.482.811	1,4%	53.869.770	2,6%
Total	3.130.555.773	100%	2.032.939.098	100%

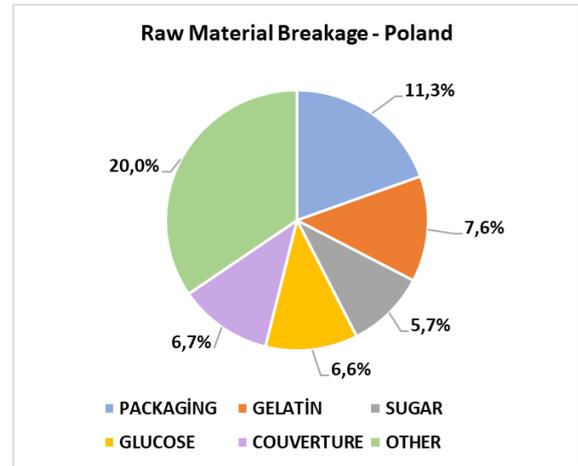
Source: Kervan Gıda Financial Report

Raw Materials Used in Production

The company's top four inputs in the breakdown of raw materials are packaging, gelatin, sugar, and glucose, and their shares within raw materials are shown in the tables below. Due to a significant portion of the costs of materials like gelatin, sugar, glucose, and about half of the packaging costs being in foreign currency, approximately 65% of the raw material costs are in foreign currency



Source: Kervan Gıda Analyst Presentation



Source: Kervan Gıda Analyst Presentation



Source: Tradingeconomics

Debt Breakdown

Short-Term Liabilities	Interest Rate (%)	Amount (Thousand TL)
Bank Loans		
Turkish Lira Loans	16,95	501.310
US Dollar Loans	8,73	410.501
Euro Loans	6,85	422.507
Russian Ruble Loans	12,00	12.134
Polish Zloty Loans	11,03	7.945
Factoring Debts		
PLN Loans	11,03	28.879
GBP Loans	5,00	70.622
Credit Card Debts		4.073
Total		1.457.971

Source: Kervan Gıda Financial Report

Long-Term Liabilities	Interest Rate (%)	Amount (Thousand TL)
Bank Loans		
Turkish Lira Loans	16,95	19.644
US Dollar Loans	8,73	349.439
Polish Zloty Loans	11,03	188.899
Leases		
USD Leases	6,50	8.602
EUR Leases	7,18	3.739
PLN Leases	1,50	4.045
Operating Lease Liabilities		19.239
Total		593.607

Source: Kervan Gıda Financial Report

Current Foreign Exchange Position and Sensitivity Analysis

Foreign Currency Assets (Original Currency)		Foreign Currency Liabilities (Original Currency)		Net Foreign Currency Position (Original Currency)	
USD	25.266.698	USD	-45.436.374	USD	-20.169.676
EUR	20.244.484	EUR	-22.408.232	EUR	-2.163.748
RUB	95.520.461	RUB	-44.596.807	RUB	50.923.654
SEK	288.810	SEK	-	SEK	288.810
PLN	11.985.883	PLN	-64.889.287	PLN	-52.903.404
GBP	7.887.562	GBP	-2.964.775	GBP	4.922.787
Total in TL Equivalent	1.587.072.675	Total in TL Equivalent	-2.327.532.052	Total in TL Equivalent	-740.459.377

Source: Kervan Gıda Financial Report

If Exchange Rates Change by 10% Against TL	Appreciation of Foreign Currency	Depreciation of Foreign Currency
US Dollar Net Impact (TL)	-52.084.356	52.084.356
Euro Net Impact (TL)	-6.091.816	6.091.816
British Pound Net Impact (TL)	16.150.483	-16.150.483
Total Net Impact (TL)	-42.025.689	42.025.689

Source: Kervan Gıda Financial Report

Valuation Sensitivity Analysis

Approximate Percentage Impact on Target Price	
Increase in SMM/Sales Ratio by 1 Percentage Point	-6,7%
Decrease in SMM/Sales Ratio by 1 Percentage Point	6,7%
Increase in Operating Expenses by 0.5 Percentage Points	-3,0%
Decrease in Operating Expenses by 0.5 Percentage Points	3,0%
1 Percentage Point Increase in AOFM	-6,5%
1 Percentage Point Decrease in AOFM	6,5%

Source: PhillipCapital Research

Valutaion Summary

Valuation Summary (Mn TL) - KRVGD

	Weight	Present Value	Weighted Present Value
Discounted FCF	50%	6.980	3.490
Market Multipliers 2023/12E	25%	5.199	1.300
Market Multipliers 2024/12E	25%	6.843	1.711
Total Weighted Present Value			6.501
12M Target Value			8.376
Capital			240
Target Price/share (TL)			34,90
Closing Price (TL)			22,50
Upside %			55,1%

Basic Assumptions

Risk Free Rate	25,00%
Equity Risk Premium	5,00%
Levered beta	0,77
Growth Rate	7,5%
WACC	24,3%

Discounted Free Cash Flow (DFCF)

DFCF - KRVGD	2023/12E	2024/12E	2025/12E	2026/12E	2027/12E	2028/12E	2029/12E	2030/12E	2031/12E	2032/12E	2033/12E
Revenue	7.503	10.875	14.464	17.920	21.504	24.730	28.440	32.706	37.611	43.253	49.741
<i>Growth Rate</i>	<i>55,0%</i>	<i>45,0%</i>	<i>33,0%</i>	<i>23,9%</i>	<i>20,0%</i>	<i>15,0%</i>	<i>15,0%</i>	<i>15,0%</i>	<i>15,0%</i>	<i>15,0%</i>	<i>15,0%</i>
Cost of Sales	5.214	7.591	10.125	12.544	15.053	17.311	19.908	22.894	26.328	30.277	34.819
Operating Expenses	1.350	1.903	2.531	3.136	3.763	4.328	4.977	5.723	6.582	7.569	8.705
Operating Profit	1.248	1.855	2.529	3.273	4.152	4.380	5.098	5.933	6.872	7.903	8.985
<i>Growth Rate</i>	<i>89,7%</i>	<i>47,3%</i>	<i>30,9%</i>	<i>23,9%</i>	<i>20,0%</i>	<i>15,0%</i>	<i>15,0%</i>	<i>15,0%</i>	<i>15,0%</i>	<i>15,0%</i>	<i>15,0%</i>
<i>Margin</i>	<i>16,6%</i>	<i>17,1%</i>	<i>17,5%</i>	<i>18,3%</i>	<i>19,3%</i>	<i>17,7%</i>	<i>17,9%</i>	<i>18,1%</i>	<i>18,3%</i>	<i>18,3%</i>	<i>18,1%</i>
Depreciation	165	289	405	514	570	652	774	894	1.024	1.165	1.343
Tax (-)	84	261	320	446	613	580	670	801	940	1.081	1.208
Change in Working Capital (-)	1.074	393	1.186	485	1.308	608	1.088	1.027	1.310	1.433	1.690
Investments (-)	450	544	723	1.155	1.309	1.411	1.606	1.890	2.232	2.522	2.875
Free Cash Flow	-195	947	704	1700	1492	2433	2508	3109	3414	4031	4555
WACC	24,30%	24,30%	24,30%	24,30%	24,30%	24,30%	24,30%	24,30%	24,30%	24,30%	24,30%
Discount Factor	1,09	1,36	1,69	2,10	2,61	3,25	4,04	5,02	6,24	7,76	9,64
Discounted Free Cash Flow	-178	696	416	809	571	749	621	619	547	520	473
Total DFCF for period	5.842										
Terminal Value	3.024										
Terminal Value Growth Rate	7,5%										
Total Cash Flow	8.866										
Net Debt (-)	1.886										
Present Value	6.980										

Valuation Based on Market Multiples
Valuation Based on Market Multiples - KRVGD

Market Multipliers	L3Y	Current	2023/12E	2024/12E
P/B (Max)	6,62			
P/B (Avr.)	2,93	2,99	3,10	2,17
P/B (Min)	-			
P/E (Max)	36,22			
P/E (Avr.)	16,61	14,81	21,45	6,91
P/E (Min)	-			
P/Sales (Max)	3,54			
P/Sales (Avr.)	1,53	0,91	0,72	0,50
P/Sales (Min)	-			
EV/EBITDA (Max)	15,44			
EV/EBITDA (Avr.)	8,30	5,49	5,16	3,40
EV/EBITDA (Min)	-			
Estimates		Current	2023/12E	2024/12E
Equity (Mn TL)		1.805	1.742	2.490
Net Profit (Annualized/Mn TL)		365	252	782
Revenue (Annualized/Mn TL)		5.938	7.503	10.875
EBITDA (Annualized/Mn TL)		1.327	1.413	2.144
Future Market Value Based on Average of Multipliers (Mn TL)			2023/12E	2024/12E
P/B (Avr.)			3.484	4.980
P/E (Avr.)			2.701	7.818
P/Sales (Avr.)			7.503	10.875
EV/EBITDA (Avr.)			9.891	15.007
Weighted and Discounted Value Based on Market Multiples			2023/12E	2024/12E
Weighted Value (Mn/TL)			5.423	9.198
Current Value (Mn/TL)			5.199	6.843

***In the valuation based on multiples, a conservative assessment has been made by using the following multiples: Price/Book multiple of 2.0, P/E multiple of 10.5, Price/Sales multiple of 1.0, and EV/EBITDA multiple of 7.0.**

Financial Statements

Income Statement (Mn TL) - KRVGD	2020/12	2021/12	2022/12	2023/12T	2024/12T	2025/12T
Revenue	1.012	1.848	4.840	7.503	10.875	14.464
<i>Change</i>	<i>47,2%</i>	<i>82,6%</i>	<i>162,0%</i>	<i>55,0%</i>	<i>45,0%</i>	<i>33,0%</i>
Cost of Sales	665	1.311	3.524	5.214	7.591	10.125
Gross Profit/Loss	347	537	1.317	2.288	3.284	4.339
<i>Change</i>	<i>64,8%</i>	<i>54,8%</i>	<i>145,3%</i>	<i>73,8%</i>	<i>43,5%</i>	<i>32,1%</i>
<i>Margin</i>	<i>34,3%</i>	<i>29,0%</i>	<i>27,2%</i>	<i>30,5%</i>	<i>30,2%</i>	<i>30,0%</i>
Operating Expensis	145	399	822	1.350	1.903	2.531
<i>Op. Exp. / Sales</i>	<i>14,3%</i>	<i>21,6%</i>	<i>17,0%</i>	<i>18,0%</i>	<i>17,5%</i>	<i>17,5%</i>
Net Other Operating Income/Expenses	11	202	215	310	474	721
Operating Profit/Loss	212	340	709	1.248	1.855	2.529
<i>Change</i>	<i>77,7%</i>	<i>59,9%</i>	<i>108,9%</i>	<i>75,9%</i>	<i>48,6%</i>	<i>36,3%</i>
<i>Margin</i>	<i>21,0%</i>	<i>18,4%</i>	<i>14,7%</i>	<i>16,6%</i>	<i>17,1%</i>	<i>17,5%</i>
Net Investment Activity Income/Expenses	5	45	28	63	112	155
Net Finance Income / Cost	-88	-275	-387	-975	-924	-1.085
Profit / Loss Before Tax	129	109	350	336	1.042	1.599
Tax	6	-3	-45	84	261	320
Net Profit / Loss	122	133	408	252	782	1.279

Financial Statement (Mn TL) - KRVGD	2020/12	2021/12	2022/12	2023/12T	2024/12T	2025/12T
Current Assets	833	1.703	2.613	4.773	6.472	9.352
<i>Cash and Cash Equivalents</i>	232	260	300	131	1.101	1.704
<i>Financial Investments</i>	-	-	33	17	25	33
<i>Trade Receivables</i>	309	573	1.009	2.401	2.338	3.616
<i>Inventory</i>	219	610	929	1.501	1.957	2.603
<i>Other Current Assets</i>	73	259	375	724	1.050	1.396
Non-Current Assets	560	1.183	1.694	2.383	3.005	3.713
<i>Property Plant And Equipment</i>	476	890	1.283	1.568	1.823	2.141
<i>Other Non-Current Assets</i>	84	292	411	816	1.182	1.572
Total Assets	1.392	2.885	4.307	7.157	9.476	13.065
Current Liabilities	404	1.465	2.254	4.156	5.399	7.457
<i>Short Term (ST) Financial Liabilities</i>	216	820	1.303	2.191	3.258	4.392
<i>ST Trade Payables</i>	152	524	686	1.576	1.577	2.314
<i>Other ST Liabilities</i>	35	122	265	389	564	751
Long Term Liabilities	148	210	315	979	1.308	1.665
<i>Long Ter (LT) Financial Liabilities</i>	93	160	293	765	998	1.253
<i>Other Long Term Liabilities</i>	55	50	21	214	310	412
Equity	840	1.210	1.739	2.022	2.769	3.943
<i>Net Profit</i>	122	133	408	252	782	1.279
Total Liabilities	1.392	2.885	4.307	7.157	9.476	13.065

Ratios	2023/06*	2020/12	2021/12	2022/12	2023/12T	2024/12T	2025/12T
EBITDA	1.326,63	237,37	412,42	841,44	1.413,05	2.143,89	2.933,89
P/B	2,99	2,98	2,97	4,64	3,10	2,17	1,47
P/E	14,81	20,29	23,46	17,64	21,45	6,91	4,22
P/Sales	0,91	2,45	1,69	1,49	0,72	0,50	0,37
EV/EBITDA	5,49	10,77	9,31	10,06	5,16	3,40	2,48
EBITDA Margin	22,34%	23,46%	22,32%	17,38%	18,83%	19,71%	20,28%
Net Profit Margin	6,14%	12,07%	7,20%	8,43%	3,36%	7,19%	8,84%

* 2023/06* data for the period are annualized.

The target value of a stock represents the value that the analyst expects to be reached at the end of our 12-month performance period.

Outperform (OP)

If this decision is made for a company, it indicates that better returns are expected for the stock compared to the index in the medium and long term. However, this decision does not guarantee that the stock will rise or outperform the index. Any changes in market conditions, developments in the macroeconomy, global economic developments, or news about the company after the report is published can change this decision.

In-Line with Index (IL)

If the decision of "In-Line with Index" is made for the relevant stock, there can be various reasons for this. This decision may have been made if the company's recent data and future estimates do not show significant differences compared to the past. The stock price of the company may be at levels close to what it should be in terms of valuations. Making an "In-Line with Index" decision for a stock does not mean that the stock will not move up or down. Generally, this decision indicates that in the medium and long term, a return similar to the index is expected for the stock. However, every new piece of news and change in market conditions can alter this decision.

Underperform (UP)

If the decision of "Underperform" is made for a stock, it indicates that weaker returns are expected in the medium and long term compared to the index. Even if the "Underperform" decision has been made for a stock, short-term price increases for the stock or short-term technical indicators giving a buy signal are possible. In some cases, even if returns are not expected from the stock in the medium and long term, short-term "Outperform" or "In-Line with Index" returns can be achieved when there is significant news, temporary profit increase news, or developments that will lead to a positive short-term price trend.

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