EkspresInvest
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Turkey – An attractive investment opportunity

May 2013

- **Turkey – Path to investment grade**
- Turkey – Summary of relations with Russia
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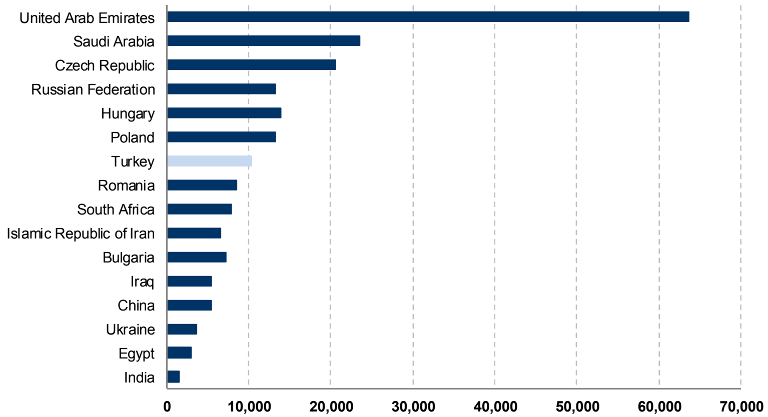
Turkey – big economy with young population and favorable demand dynamics

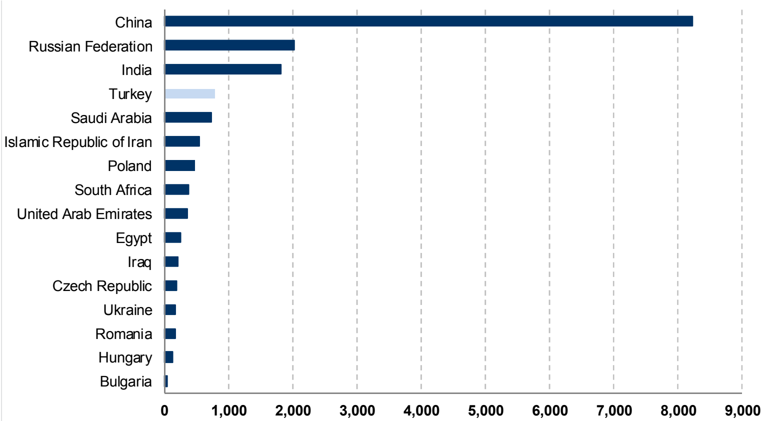
- World's largest 18th economy (GDP: US$800bn) according to 2011 numbers, with a vision of placing in first ten by 2023.
- Population of around 74 million, 47 million of which is between 15-60 years old and rising urbanization.
- A secular republic for almost 90 years run by a strong single party government throughout last decade.
- GDP/capita in excess of US$10k
- Low household liabilities
- Underpenetrated in many industries
- Free and deep capital markets
- Over US$120 bn FDI generation in last 10 years

GDP per capita for Selected EMEA Countries and BRIC: 2011 (US$)



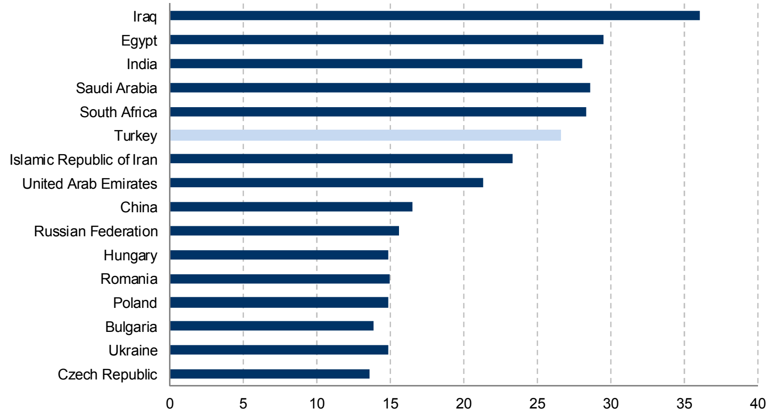
Source: WEO, IMF Forecasts, Ekspres Invest Research

Nominal GDP of Selected EMEA Countries and BRIC: 2012 (US$bn)



Source: WEO, IMF Forecasts, Ekspres Invest Research

Young Population for Selected EMEA Countries and BRIC: 2012 Estimate (as % of total)

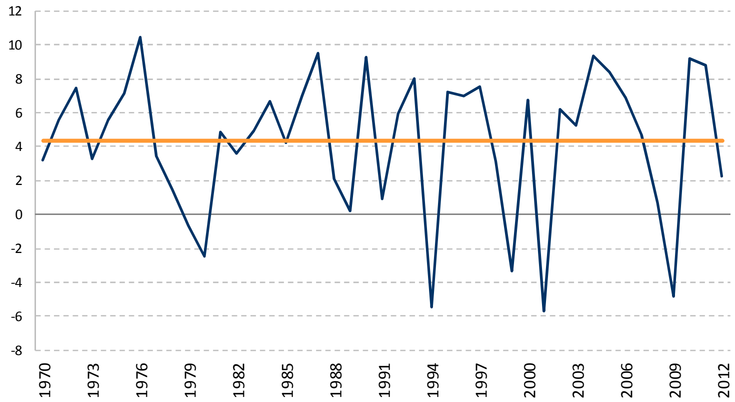


Source: WEO, IMF Forecast, Ekspres Invest Research

Turkey – GDP propelled by domestic consumption; private investments will follow

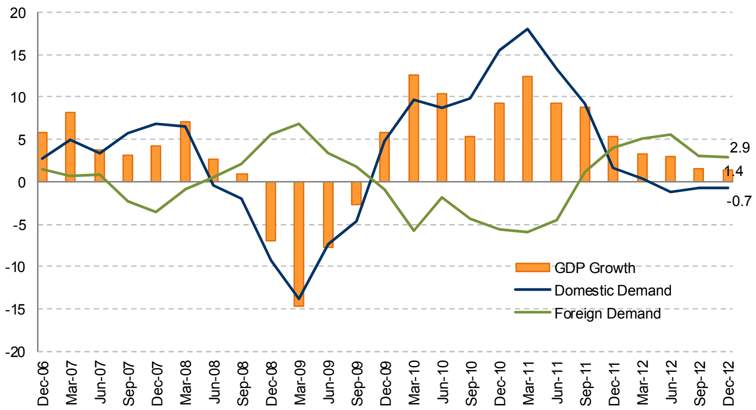
- Turkey was able to generate over 6.5% growth between 2002-2007, while its long term average growth rate is around 4.5%.
- It is a domestic demand driven economy where consumption constitutes roughly 75% of GDP.
- Domestic demand contribution to growth has somewhat diminished after 2009 crisis; however it is likely to recover starting 2013.
- Investments constitute some 25% of the economy
- Recovery in investment seems to lag behind consumption. Nevertheless, government efforts to shift growth composition to production from consumption as well as large scale infrastructure projects are likely to carry investments to higher levels going forward.

GDP Growth (%)



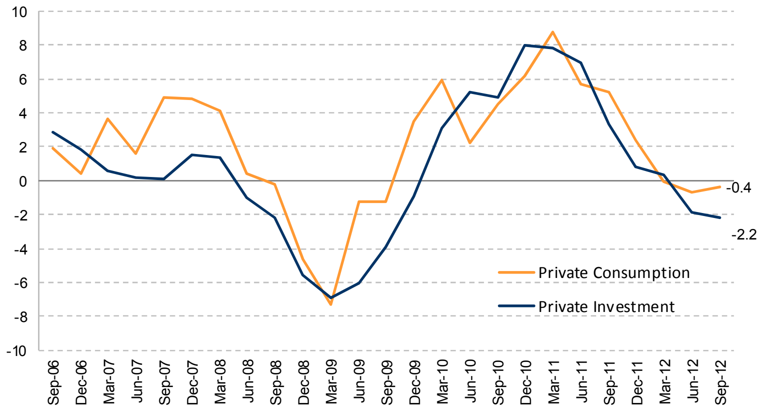
Source: Turkstat, Ekspres Invest Research

GDP Growth: Domestic vs. Foreign Demand (pps)



Source: Turkstat, Ekspres Invest Research

Private Consumption and Investment (contribution to GDP growth, pps)

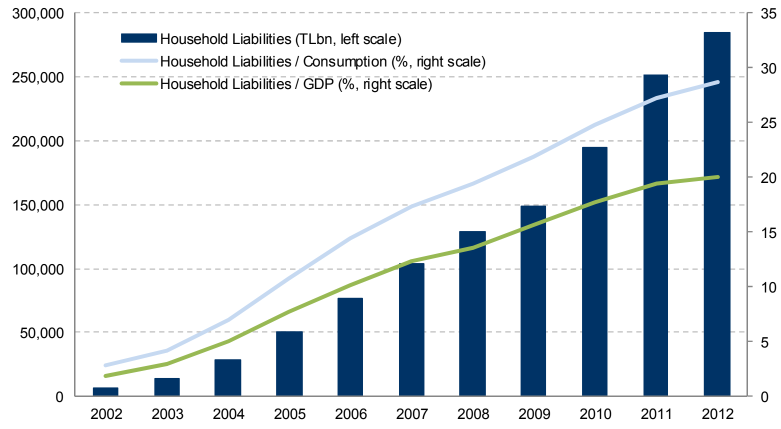


Source: Turkstat, Ekspres Invest Research

Turkey – Low household debt is favorable for demand growth

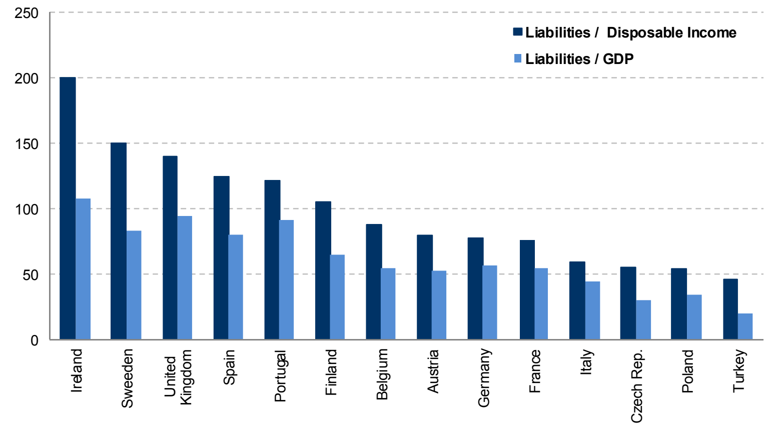
- Despite high dependency on domestic demand, ratio of household liabilities to GDP and disposable income remained low in comparison to the selected countries and carry no exchange rate and interest rate risk.
- The rapid rise in household liabilities slowed down on the back of measures taken by authorities. Parallel to the slowdown in liabilities, consumption expenditures financed with consumer loans slightly increased.
- The ratio of household liabilities to GDP, which stood at 19.4 percent at end-2011, rose to 20.1% percent in 2012 with slightly higher borrowing costs last year and slow GDP growth. However, recent decline in interest rates would alleviate the burden on households' borrowing cost and reverse the increase beyond 2012.

Household Liabilities



Source: CBT, Ekspres Invest Research

Ratio of Household Liabilities to Disposable Income and GDP in Selected EU Countries (%)

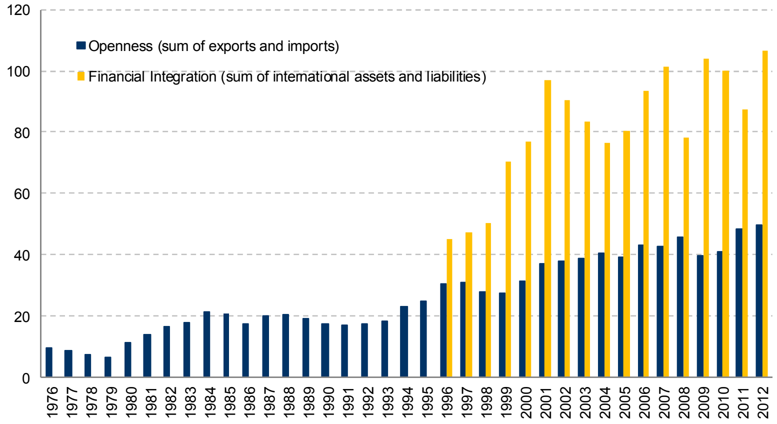


Source: CBT, Ekspres Invest Research

Turkey – Strong export base and succesful diversification

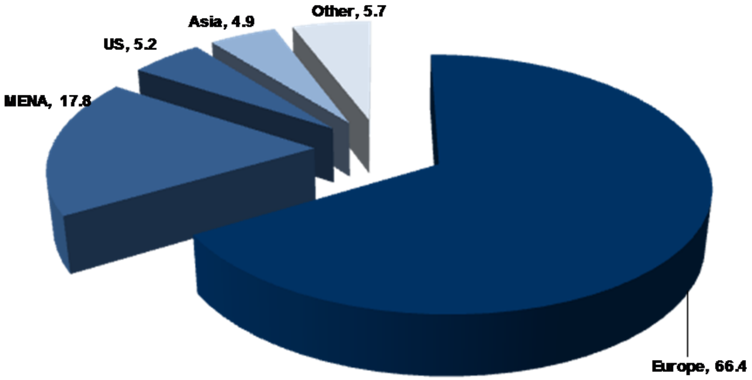
- As for foreign demand, Turkey is relatively an open country with 50% openness ratio, while its financial integration has improved dramatically since 1990s.
- Foreign demand contribution has always been weak mainly due to high dependency of exports on imports, however government's attempts to change growth composition started to geneate fruits as of 4Q2011.
- The successful export market diversification in recent years created a buffer against European crisis. The share of exports to EU in total has diminished from over 65% 5 years ago to 48% in 2012. The difference mainly channeled through MENA, Iraq, China and Turkic Republics.

Openness: Turkey (as % of GDP)



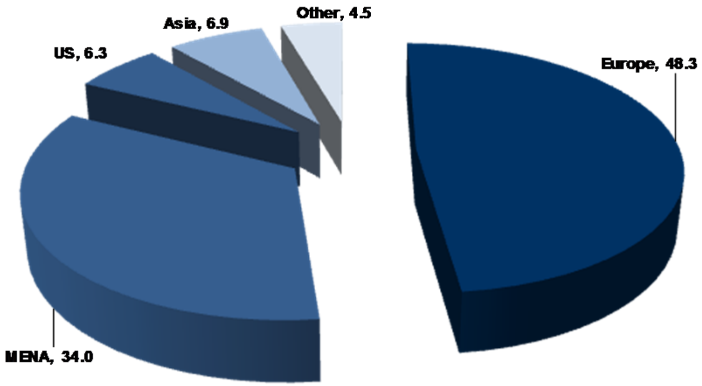
Source: CBT, Ekspres Invest Research

Composition of Exports (12-month rolling, as % of total): 2007



Source: Turkstat, Ekspres Invest Research

Composition of Exports (12-month rolling, as % of total): 2012

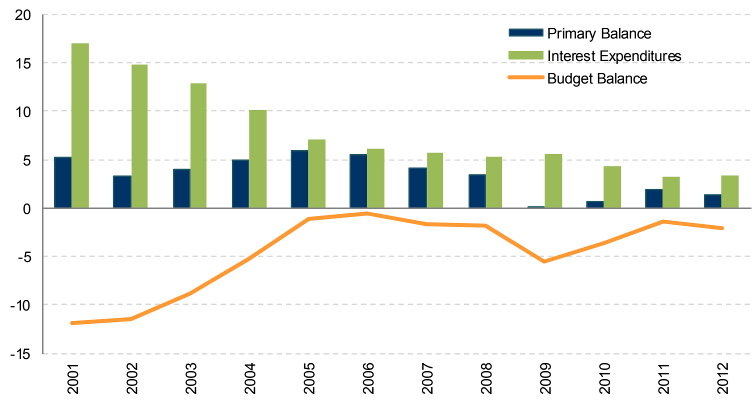


Source: Turkstat, Ekspres Invest Research

Turkey – Favorable fiscal dynamics

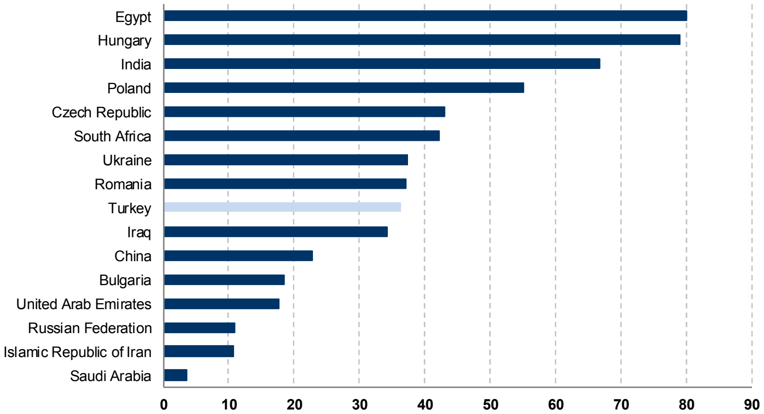
- Successful implementation of IMF program since 2001 crisis has led budget deficit over 10% to almost close by 2006.
- Tight fiscal policy has been the key to economic success as it helped interest rates ease, inflation decline and public savings increase preventing further deterioration in current account deficit.
- Despite the rise in budget deficit to 5% in 2009 partly due to counter cyclical policies in the midst of the crisis, fiscal discipline has been maintained thereafter, leading to 2% budget deficit at the end of 2012.
- Public debt to GDP declined from 70% in 2002 to below 40% as of 2012.

Central Government Budget Balance (as % of GDP)



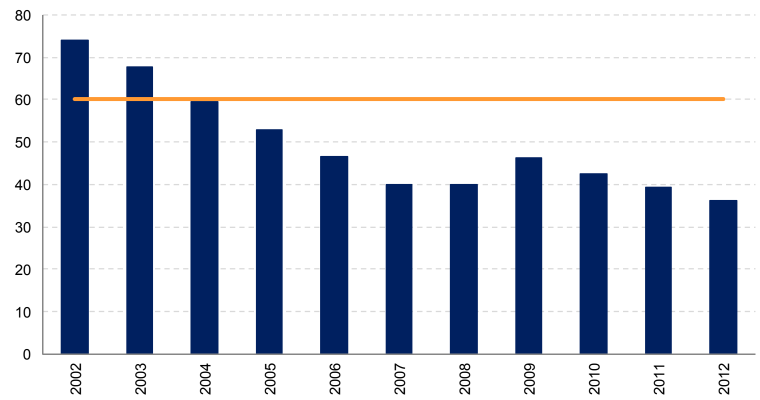
Source: Ministry of Finance, Ekspres Invest Research

General Government Debt Stock (as % of GDP)



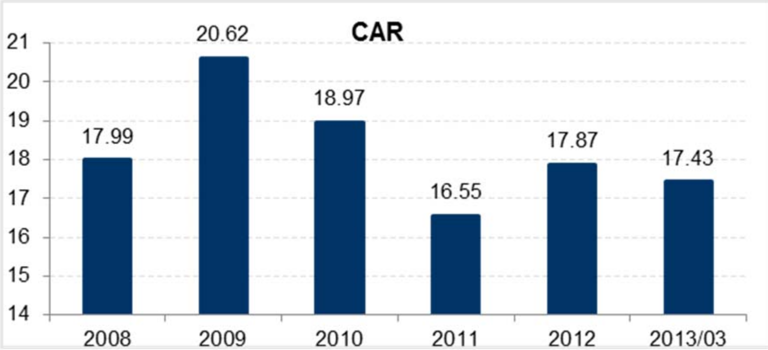
Source: WEO, Ekspres Invest Research

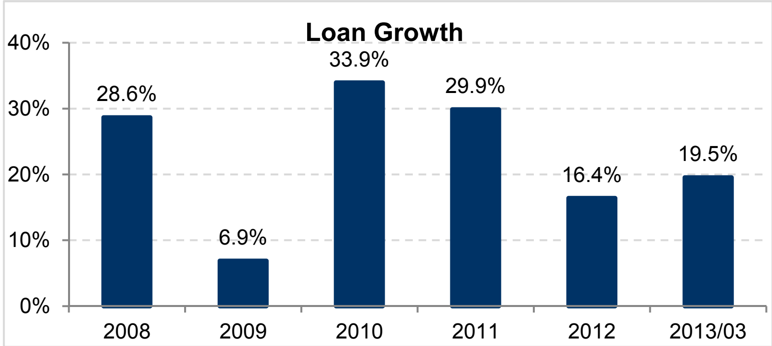
EU Defined General Government Debt Stock (as % of GDP)

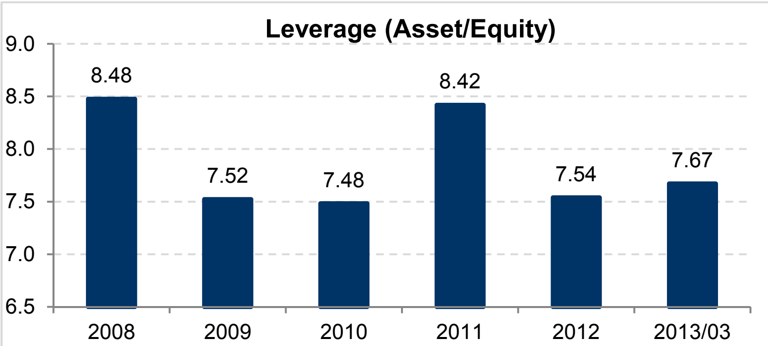


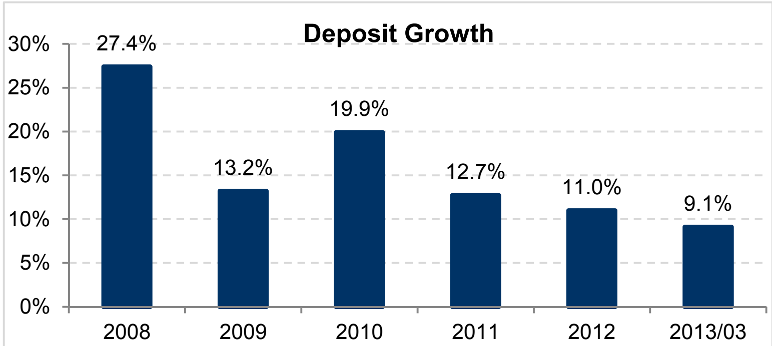
Source: Treasury, Ekspres Invest Research

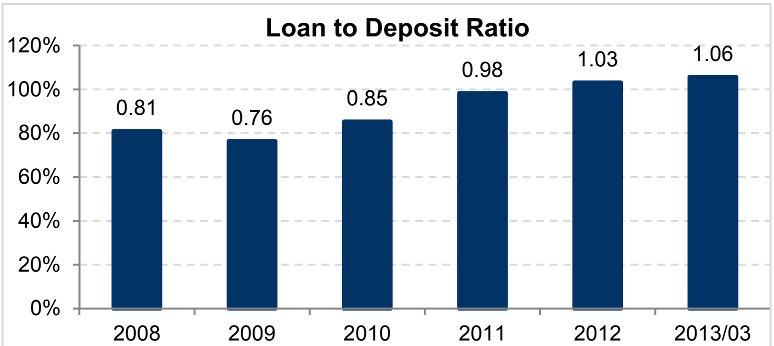
Turkey – Strong banking sector

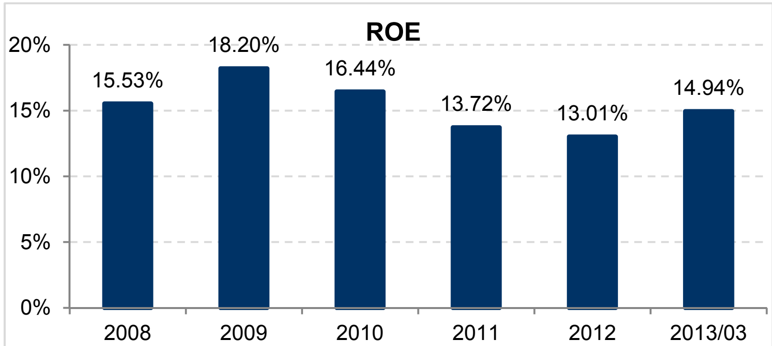










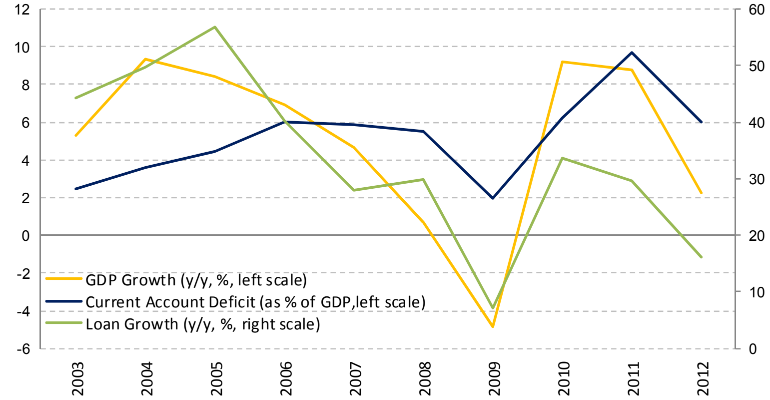


Source: Ekspres Invest

Turkey – CBT's unorthodox policies for price and financial stability

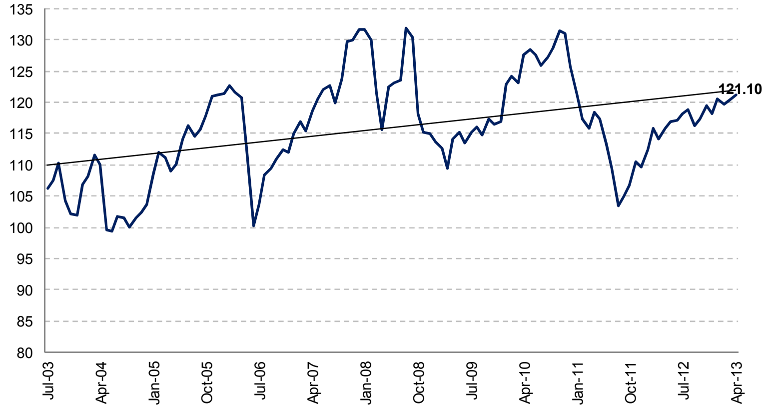
- The CBT pursues an unconventional monetary policy that looks after both price and financial stability. Main rationale behind the CBT's shift is that domestic driven economy coupled with strong capital flows could create the vicious cycle of overappreciation of currency, high credit use, high imports, high current account deficit. That's why it designs its monetary policy on the basis of two main pillars, namely credit growth and real appreciation.
- Sustainable rate of credit growth for 4% GDP growth is 15% according to the CBT, while a real effective exchange rate (REER) index level of 120 points to overappreciation. Currently y/y credit growth hovers above 20%, while REER is 121.1 as of end-April.
- It employs variety of tools to manage monetary policy, like policy rate (one-week repo rate) and macro prudential tools, namely interest rate corridor (O/N lending and O/N borrowing), reserve option mechanism and reserve requirement rates (RRR).
- Among others, ROM is a new instrument where the CBT allows banks to keep their TL required reserves in FX and gold. Thanks to strong capital inflows, banks used this option by 90% and over US$40bn reserves were accumlated in CBT accounts to be used in turbulent times. Currently, the CBT has US$113bn FX and US$20bn gold reserves.

Loan Growth, GDP Growth and Current Account Deficit



Source: Turkstat, CBT, BRSA, Ekspres Invest Research

Real Effective Exchange Rate (CPI-based, 2003=100)

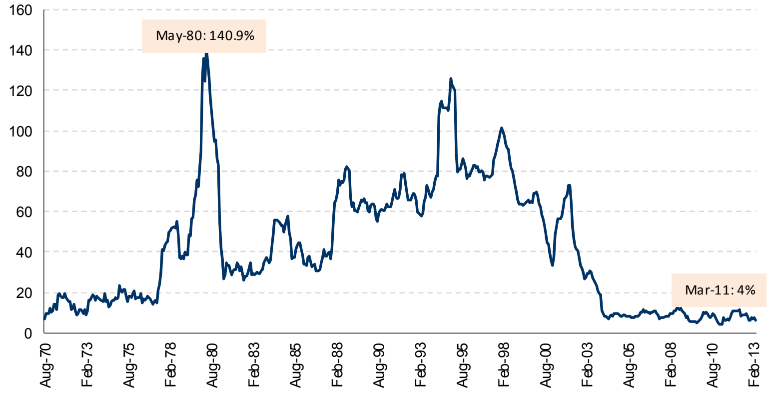


Source: CBT, Ekspres Invest Research

Turkey – CBT's unorthodox policies for price and financial stability

- In response to ongoing capital flows, the CBT continues to lower money market rates (i.e. interest rate corridor) to discourage speculative flows while it sterilizes TL via active liquidity management by OMO and accumulates reserves by ROM.
- Besides, it lowers policy rate to overcome the negative impact of weak global economic conditions.
- Thanks to this policy mix, benchmark bond yield came down to 5% from above 11% at the end of 2011
- US$/TL has stabilized between 1.78-1.82 within 2012 and thereafter.
- Price stability is somewhat considered as second priority and against the CBT's official estimate of 5.3% for end year, market expectations now hover around 6.5%-7%.

CPI Inflation: Long View (y/y, %)

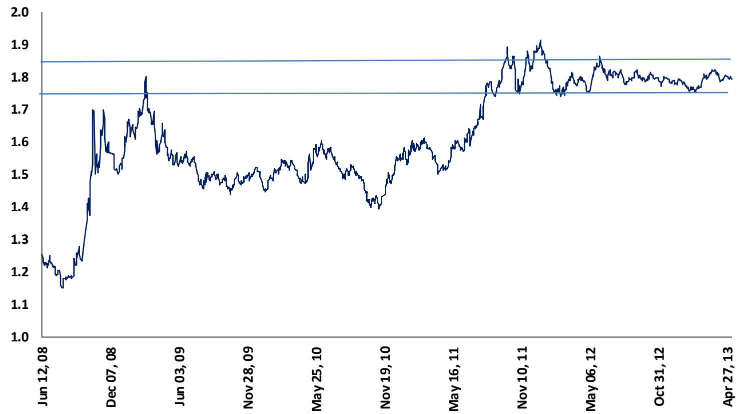


Source: Turkstat, Ekspres Invest Research

Secondary Market Benchmark Bond Rate (compounded, %)

Source: BIST, Ekspres Invest Research

US$/TL

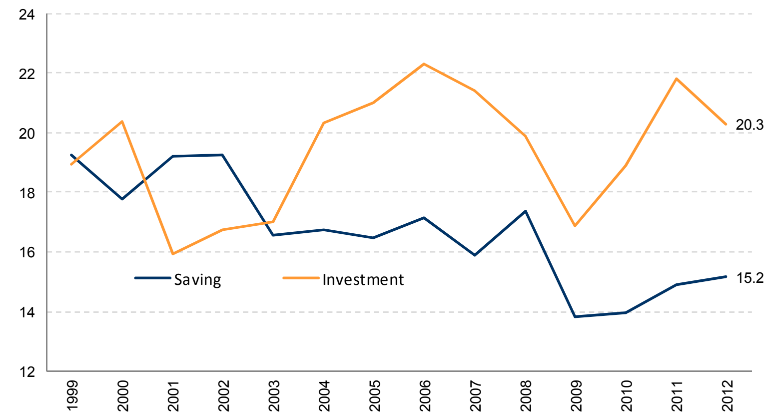


Source: CBT, Ekspres Invest Research

Turkey – Main caveat : Inflation & CA deficit

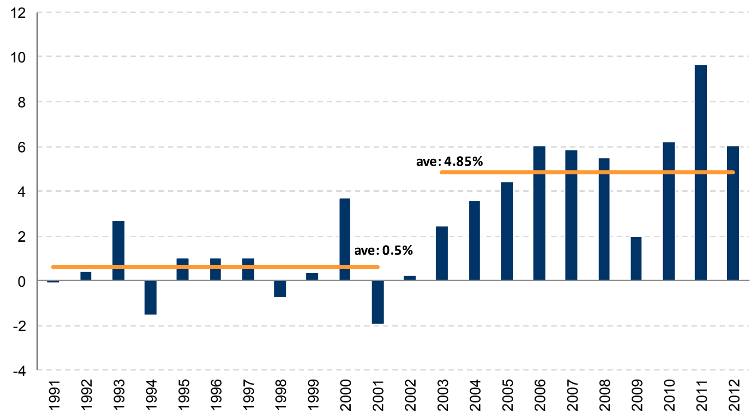
- Yet, as a saving deficit economy with saving rate of 14.5% of GDP and with the rising need of energy imports, current account and its financing remains to be the main source of vulnerability. Having decelerated to below 6% in 2012, from almost 10% in 2011, current account deficit is likely to edge up with the recovering domestic demand.
- Partly due to rating upgrade expectations, the weight of financing is highly skewed to portfolio inflows.
- We expect the quality of financing to improve in the medium term as cheap and ample liquidity is likely to prevail for some time and second upgrade would support FDI and long term financing in Turkey in the medium term.

Saving and Investment Rate (as % of GDP)



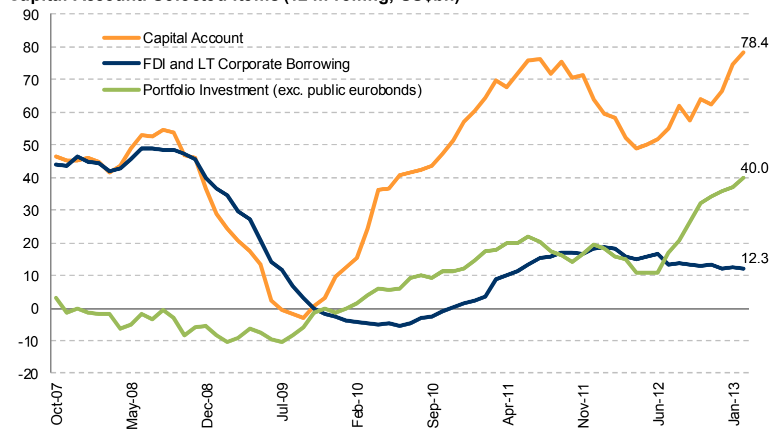
Source: Turkstat, Ekspres Invest Research

Current Account Deficit (as % of GDP)



Source: CBT, Ekspres Invest Research

Capital Account: Selected Items (12-m rolling, US$bn)



Source: CBT, Ekspres Invest Research

Turkey – Result: Investment Grade

- Turkey was rewarded by investment rating by Fitch in November 2012 mainly due to;
  - A favorable macro picture with efforts to achive sustainable growth
  - Structural reforms to increase savings and reduce current account deficit
- Lately, short-term expectations for an investment rating from Moodys' have also increased with;
  - Resolution of Kurdish problem that would pave the way for channeling investment projects and employment to the region in the medium term and reducing military spending that will add to both fiscal sustainability and efficient use of resources.
  - Israel's apology from Turkey for Blue Marmara attack as a crucial steps to gain control power over the region.
  - Continuation of balanced economic growth & CBT reserve build up which provides increased protection against external shocks.

Figure - Turkey Credit Rating

		S&P	Moody's	Fitch
Investment Grade	Prime	AAA	Aaa	AAA
	High	AA+	Aa1	AA+
		AA	Aa2	AA
		AA-	Aa3	AA-
		A+	A1	A+
		A	A2	A
		A-	A3	A-
		BBB+	Baa1	BBB+
		BBB	Baa2	BBB
		BBB-	Baa3	**BBB-**
Speculative Grade	Non-investment	**BB+**	**Ba1**	BB+
		BB	Ba2	BB
		BB-	Ba3	BB-
	Highly Speculative	B+	B1	B+
		B	B2	B
		B-	B3	B-
	Speculative	CCC	Caa1	CCC
		CC	Caa2	CC
		C	Caa3	C
	Default or the like	CI	Ca	D
		R	C	NR
		SD		
		D		
		NR		

Source: S&P, Moodys, Fitch, Ekspres Invest

- Turkey – Path to investment grade
- **Turkey – Summary of relations with Russia**
- BIST & Turkdex – Main figures
- BIST – Main Sectors
- Appendix I –Most preferred list
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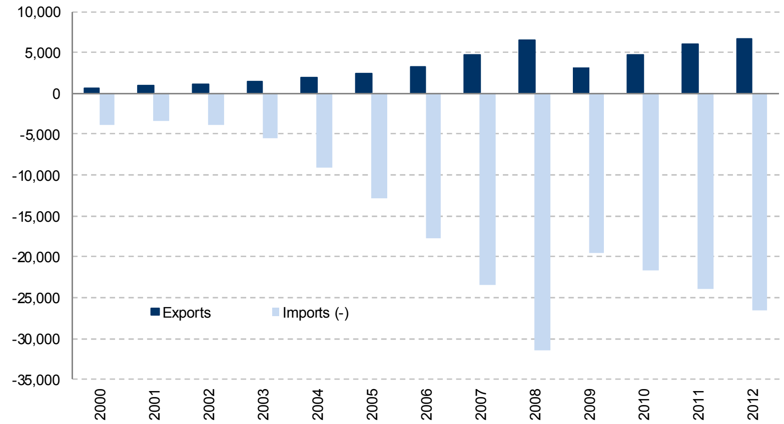
Turkey – Relations with Russia is in an upward trend

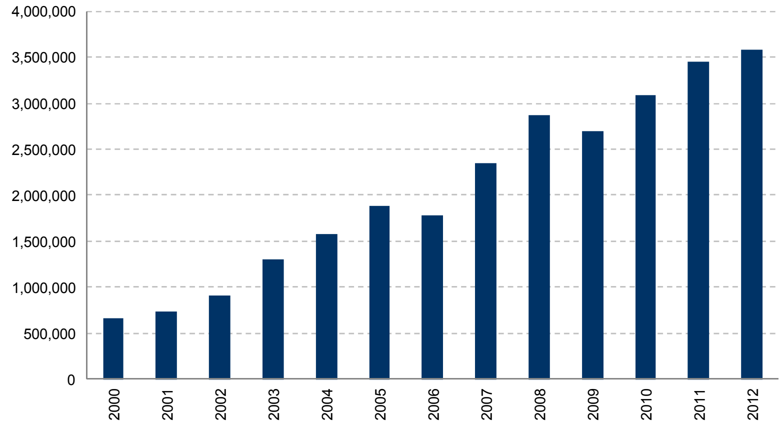
- Russia ranks first in Turkey's imports with US$26.5bn in 2012, while Turkey is among the highest 10 countries in Russia's imports and exports. Turkey constitutes some 5% of Russia's exports and 2% of imports.
- There are several large scale Turkish companies in tourism, oil/gas, construction and other service sectors in Russia. Value of Turkish investments in Russia is estimated at above US$6.5bn. Some of the firms that operate in Russia are Enka, Koc, Zorlu, Efes, Sisecam all listed in BIST.
- Energy is the main bridge in two countries relationship. After the Blue-stream natural gas pipeline project in Turkey, new nuclear power plant to be constructed in Akkuyu are two major joint projects that Russia and Turkey work as partners.
- A bilateral agreement has been signed in April 2011 that eliminates visa for Russian residents for staying in Turkey up to 60 days while it is 30 days for Turkish residents who want to visit Russia. Turkey is working on extending it to 90 days bilaterally. Following the agreement, number of tourists coming from Russia has increased by 16%.
- Russia has US$2.6bn worth of FDI investments in Turkey since 2002 whereas Turkish investors have US40.6bn. After Lukoil's acquisition of Akpet, a gas station chain in Turkey at US$500mn, Russia's recent exposure to Turkish market is Sberbank's acquisition of Denizbank for US$3.5bn. As it was acquired from Dexia, it is not included in total FDI numbers.

Russia-Turkey Trade Relations (US$mn)



Source:Ministry of Economy, Ekspres Invest Research

Number of Tourists Coming from Russia (persons)



Source:Ministry of Economy, Ekspres Invest Research

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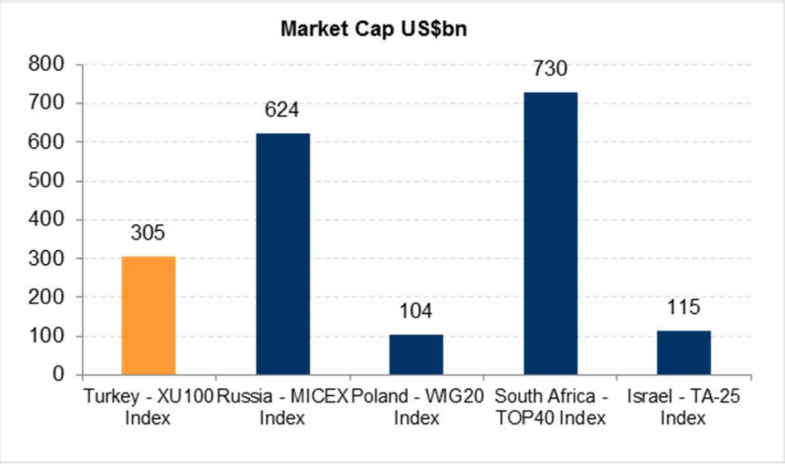
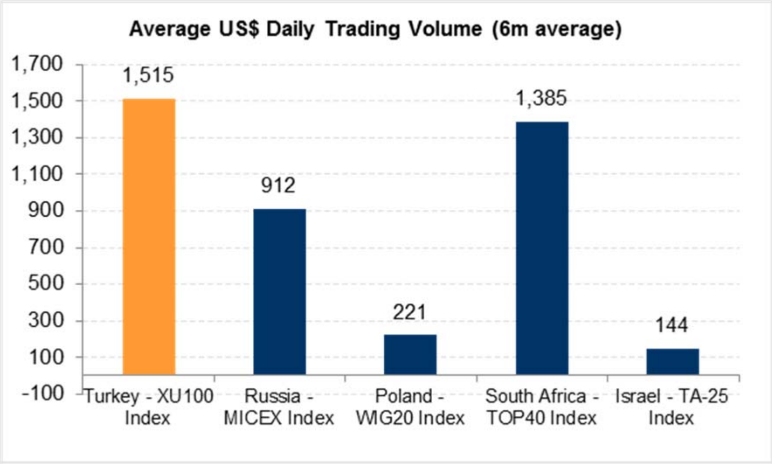
BIST– Main figures

- BIST provides trading in a wide variety of securities, namely, stocks, exchange traded funds, government bonds, Treasury bills, money market instruments (repo/reverse repo), corporate bonds and foreign securities.
- 416 companies are listed on BIST
- Total mcap is TL627.0bn/ US$348.3bn. The market's free-float is 29%, while free-float mcap is TL180.5bn /US$100.3bn)
- Average Daily Trading volume of BIST-100 is US$1.5bn
- Foreign ownership on the BIST is %65.58 – foreign investors realized 18.3% of total trading volume sofar this year, after 16.7% in 2012.
- There is no withholding tax and/or capital gains tax applied to Turkish equities.
- Banks comprise 43% of BIST100, the main index.

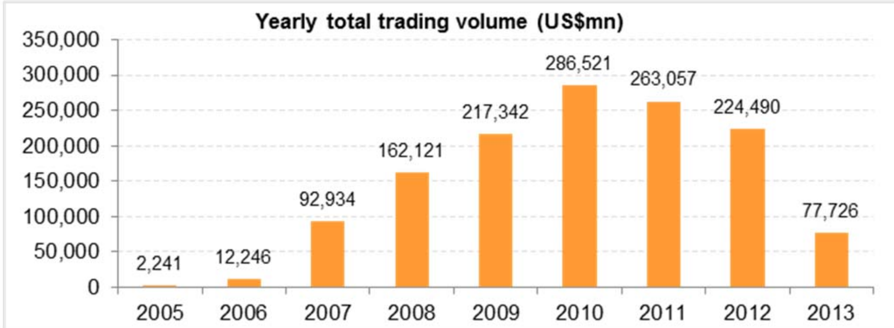


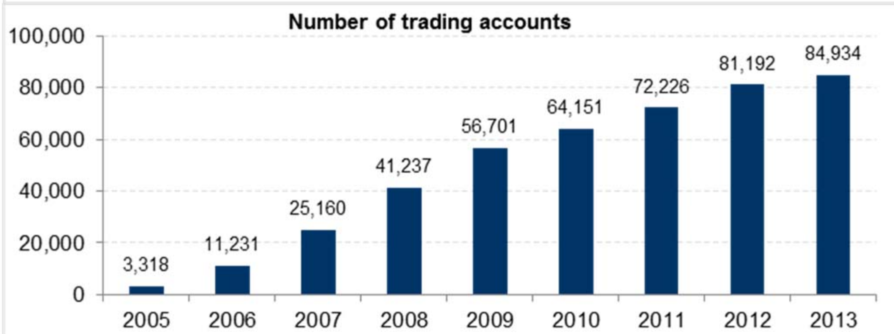


TURKDEX - Main figures

- Turkdex is a fully electronic derivative exchange in Turkey. The physical location is in Izmir; however, the ownership will be transferred under BIST on August 8th and the operations will be moved to Istanbul.
- BIST indices, interest rates and currencies as well as some commodity futures are traded on Turkdex.
- As of April 2013, the exchange has 100 members.
- Turkdex is tax free for foreign institutional investors, while locals pay 10% withholding tax for instruments other than equity future contracts.
- Turkdex ranked 30th among the world's derivative exchanges last year in terms of trading volume.
- On the other hand, single stock options started to trade under BIST on December 2012. Currently, BIST-30 contract and ten options related to the top ten biggest stocks are trading on the exchange.

TOP 30 Derivatives Exchanges		
	Number of contracts	Jan-Dec 2012 Volume
1	CME Group	2,890,036,506
2	Eurex	2,291,465,606
3	National Stock Exchange of India	2,010,493,487
4	NYSE Euronext	1,951,376,420
5	Korea Exchange	1,835,617,727
:		
9	Moscow Exchange	1,061,835,904
20	JSE South Africa	158,996,880
27	Tel Aviv Stock Exchange	67,179,795
30	**Turkish Derivatives Exchange**	**62,474,464**



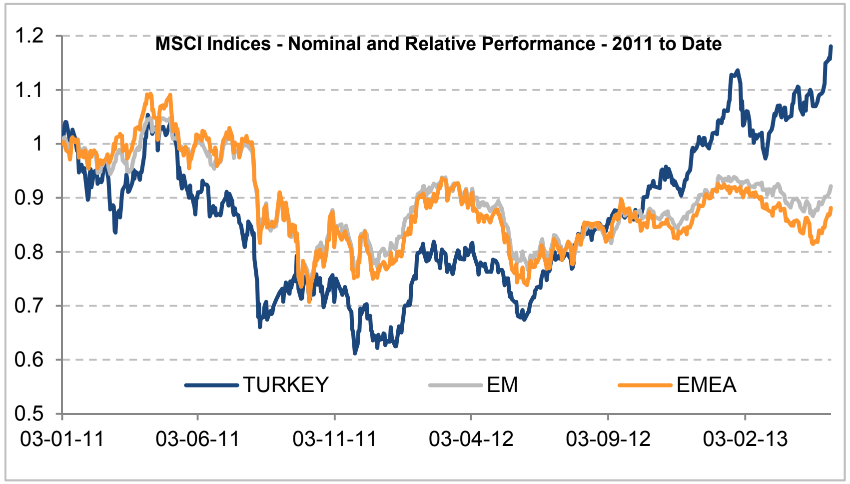


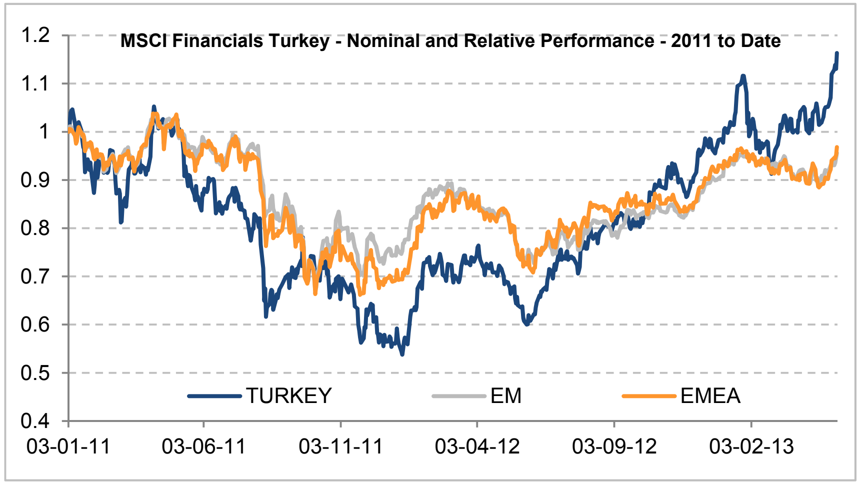
TURKDEX - Main figures

- **Listed Futures**
  - **Currency:** TLUSDollar - TLEuro - TLEuro/USDollar
    Cross Currency - Physically Delivered TLUSDollar
    Physically Delivered TRYUSEuro
  - **Index:** BIST 100 - BIST 30 - BIST 30-100
  - **Interest rate: T-Benchmark**
  - **Commodity:** Cotton - Wheat - Physically Deliverable Live Cattle - TL Gold
    USDollar /Ounce Gold - Base Load Electricity
  - **Single stocks:** AKBNK - EREGL - GARAN - ISCTR - SAHOL
    TCELL - THYAO - TUPRS - VAKBN - YKBNK
- **Listed Options**
  - **Index:** BIST 30
  - **Single stocks:** AKBNK - EREGL - GARAN - ISCTR - SAHOL
    TCELL - THYAO - TUPRS - VAKBN - YKBNK

BIST - Major outperformer since the start of 2012

Last year, MSCI Turkey index outperformed MSCI EM and EMEA by 44% and 31% respectively – on favorable global liquidity conditions, successful rebalancing in the economy, 5 ppt fall in bond yields and finally the country's first investment grade by Fitch in November. So far this year, the outperformance relative to MSCI EM and EMEA has been 16% and 21%. Massive global liquidity & ultra-low rates, falling commodity prices, further fall in bond yields to record low of 5%, peace process with terrorist PKK organization and the near-term expectation of a second investment grade from Moodys' have been the main drivers





BIST – Earnings outlook and multiples

BIST Multiples

	2011A	2012A	2013E	2014E
EV/EBITDA - indst	7.6	7.7	8.7	7.6
P/Bv - banks	1.1	1.5	1.6	1.4
P/E - banks	9.0	8.0	11.2	11.2
P/E - indst	14.6	9.6	13.8	12.2
P/E - total	11.9	8.9	12.7	11.9

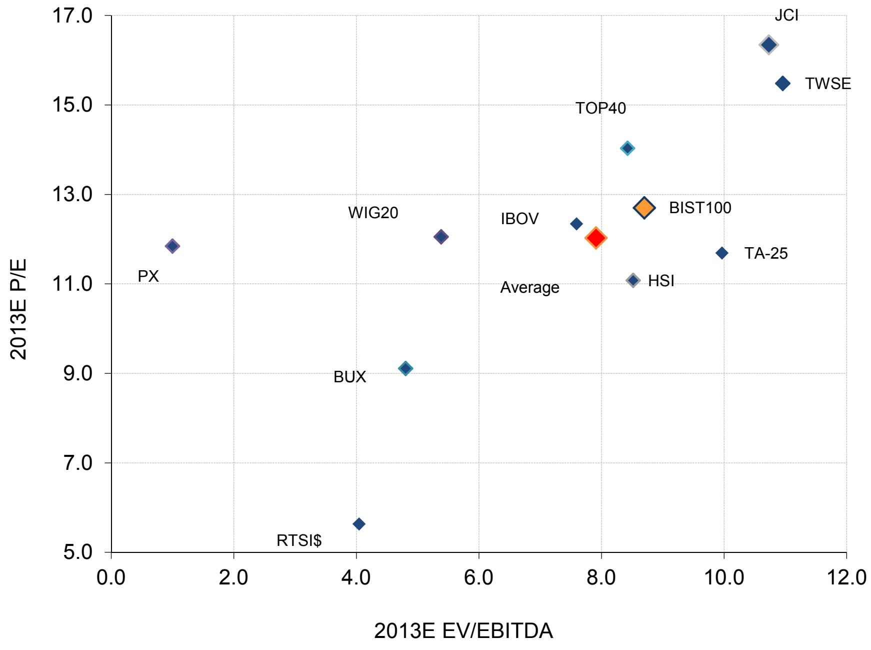
Source: Ekspres Invest Research

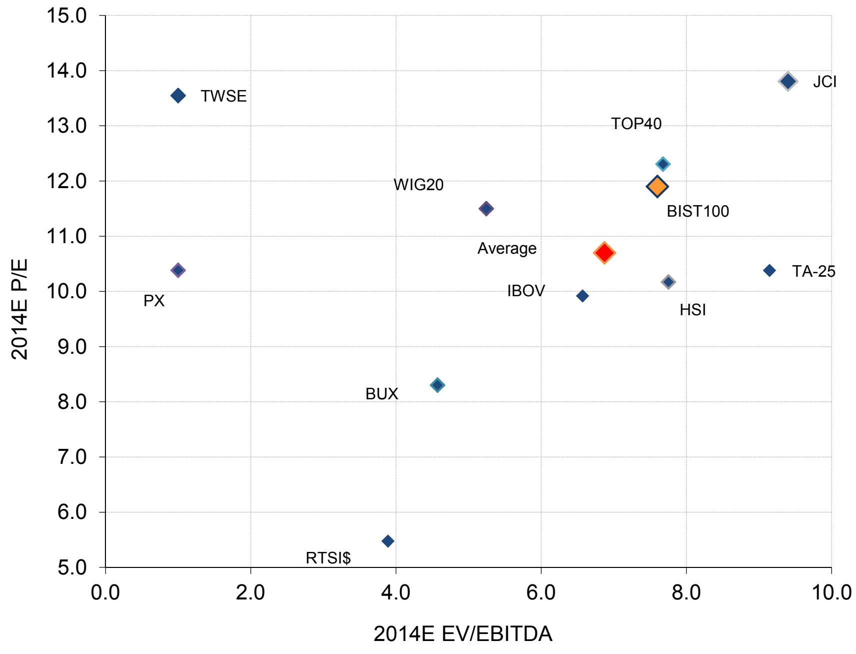
Earnings Growth of BIST

	2010/2011A	2011/2012A	2012/2013E	2013/2014E
EBITDA Growth (Industrials)	14%	4%	16%	13%
Net Income Growth (Industrials)	-16%	65%	-4%	13%
Net Income Growth (Banks)	-6%	15%	9%	0%
Net Income Growth (Market)	-12%	40%	2%	7%

Source: Ekspres Invest Research

BIST – Multiples offer some value relative to peers





(*) Based on estimates for Ekspres Invest Universe

As of May 9, 2013

- Turkey – Path to investment grade
- Turkey – Summary of relations with Russia
- BIST & Turkdex – Main figures
- **BIST – Main Sectors**
- Appendix I –Most preferred list
- Appendix II – Least preferred list

BIST - Main sectors

Banking

- Banking sector accounts for 43% of the free float in BIST-100 and 46% of the daily trading volume. Due to this massive liquidity, they are seen as Turkey proxies.
- Turkish banking system is still quite underpenetrated (51% loans/GDP) versus its peers and offers decent growth potential.
- Turkish households still remain significantly under-levered with a 35% financial liabilities to assets ratio. Significantly lower rates and longer maturities of consumer loans improved affordability for Turkish consumers over the past two years. Yet, consumer loan penetration still stays at a very low 17% versus EME peers 30% average.
- We expect Turkish Banks' loan book to grow with a CAGR of 17% in the following 5 years, much better than its peer group.

Company Name	TICKER
Akbank	AKBNK TI
Garanti Bank	GARAN TI
Isbank	ISCTR TI
Yapi Kredi Bank	YKBNK TI
TSKB	TSKB TI
Halkbank	HALKB TI
Vakifbank	VAKBN TI

- Turkish Banks performances during the last 3 years decoupled from their European and other developing country peers with their strong capitalization and solid asset quality. Mind that there were no toxic assets on Turkish banks' balance sheets which required write-offs during the European debt crisis.
- Banks in Turkey are great macro plays. Households short sighted savings habits cause a significant duration mismatch on balance sheet with 2 month deposits funding ca. 1.5 years loans.
- Hence a rule of thumb in investing in Turkish banks is riding monetary easing cycles, since their liabilities reprice quickly downwards and enable windfall expansion on NII and NIM.
- Yet, we believe that we are at the end of the easing cycle and the windfall margin expansion is set to rewind. We expect Turkish banks' NIM to stay broadly flat YoY in 2013 due to base effect, followed by 50bps contraction in 2014. Accordingly, we expect a meager 5% CAGR in Turkish Banks earnings over 2012- 2014.

BIST - Main sectors

Conglomerates

- Turkish conglomerates are very diversified, operating in almost all markets from banking to energy, durables, retail and construction.
- Koc and Sabanci holdings are among the biggest, comprising more than 10% GDP of the country with a total mcap around US$24bn. They are usually treated as market proxies in the sector.
- In contrast, some of the conglomerates are more specialized in some sectors such as construction, infrastructure and glass.
- Average growth rate of NAV of the large and middle-cap listed conglomerates is around 11% vs 3.6% GDP growth in last five years.

Company Name	TICKER
Koc Holding	KCHOL TI
Sabanci Holding	SAHOL TI
Enka Insaat	ENKAI TI
Tekfen Insaat	TKFEN TI
Alarko Holding	ALARK TI
Akfen Holding	AKFEN TI
Dogan Holding	DOHOL TI

Telecoms

- Generating over TL26bn annual turnover, Turkish telecom industry is dominated by three main operators: Turkcell, Turk Telekom and Vodafone.
- Turk Telekom has enjoyed an exhaustive market share, yet now has lost most of the traffic to mobile operators. Now only 10% of total voice traffic is via fixed services in line with the global trend.
- However, broadband services at the infant level, despite the favorable demographics in Turkey, which offers very young population (mean age at 28). Note that, the penetration for fixed broadband is only at 10.5% vs. 26.0% OECD average and for mobile at 16.1% vs. 56.6% of OECD. Mind that mobile broadband posts much higher growth (doubled up YoY) vs. fixed (flat in the last two years), as fixed broadband is offered by TTKOM (almost monopole), charging considerably higher vs. European peers.

Company Name	TICKER
Turk Telekom	TTKOM TI
Turkcell	TCELL TI

BIST - Main sectors

Durable Goods

- One of the biggest markets across Europe. Thanks to declining interest rates and replacement demand, the white goods sales jumped by 19% YoY, to 6.5mn units, which was the new record high figure, in 2011. 2012 domestic sales figure was flat YoY. Note that the size of Turkish white goods market is almost equal to 20% of Eastern Europe + Russia.
- Second largest capacity in Europe. The white goods sector (the manufacturing of refrigerators, washing machines, dishwashers and ovens) provides jobs for 2mn and has a production capacity of more than 25mn units per annum, which is the second largest capacity in Europe after Italy.
- Europe is the main export market for Turkish producers. Western Europe is the main export destination for Turkish appliance producers (c.50% of total exports), followed by Eastern Europe & the CIS (c.20% of total exports) and the MENA region (c.10% of total exports).

Company Name	TICKER
Arcelik	ARCLK TI
Vestel Beyaz	VESBE TI

Automotives

- The auto industry in Turkey is still underpenetrated with 146 cars per 1,000 inhabitants, vs c.500 in Western Europe and c.350 in Eastern Europe.
- Low interest rates support auto sales. Auto sales are highly correlated with interest rates, as three-quarters of sales are made are on credit. Prevailing low interest rate environment should keep auto demand alive.
- The government taxation policy hampers demand. While several factors support automotive demand in Turkey, new light vehicle sales may not post attractive growth in the medium term because of the government's taxation policy.
- Target is 1 mn sales in 2016. Domestic auto sales in Turkey have posted a 5-year CAGR of 7%, more than double real GDP growth of 3.5%. After a drop of 9% in 2012, we expect a 5-year CAGR of 6%, to reach 1mn in 2015.

Company Name	TICKER
Tofas Oto	TOASO TI
Ford Otomotiv	FROTO TI
Dogus Oto	DOASO
Turk Traktor	TTRAK TI
Otokar	OTKAR TI

BIST - Main sectors

Oil & Gas

- Turkey is almost fully dependent on foreign sources for oil & gas
- Tupras is the only producer of refined petroleum products with 28mtpa crude processing capacity.
- Consumption of petroleum products remained almost flat at 30mt (growth ~+2%p.a) over the last ten years due to shift in demand from gasoline to diesel and LPG.
- Turkey is diesel short with Tupras only meeting 50% of 15mtpa market.
- Petrol Ofisi of OMV, Shell (TRCAS has 30% stake) and OPET (Tupras has 40% stake) control around 60% of the 20mtpa fuel distribution market with their respective 24% and 18% and 17% shares.
- Petkim is the only petrochem producer. Has 1.8mtpa production capacity, 25% market share.

Company Name	TICKER
Tupras	TUPRS TI
Aygaz	AYGAZ TI
Petkim	PETKM TI
Turcas Petrol	TRCAS TI

Energy

- Consumption posted a 6% CAGR during the 2000-2011 period, reaching 230bn kWh.
- With 1.67x of GDP growth since 1990, the sector has remained relatively resilient to the downturns in the economy with the exception of 2009, when the contraction in industrial production pulled down consumption by 5% YoY.
- Growth drivers
  - increasing urbanization
  - industrialization
  - economic growth
- Industrial consumption takes the lion's share in total power consumption.

Company Name	TICKER
Ayen Enerji	AYEN TI
Aksa Enerji	AKSA TI
Akenerji	AKENR TI
Zorlu Enerji	ZOREN TI

BIST - Main sectors

Mining

- The limited but unexplored ore deposits offer significant growth potential. Turkey is known to produce 60 different metals and rank 28th in global mine production. Turkey's deposits constitute 2.5% of total industrial raw material reserves in the world, while these figures are 1.0%, 0.8% and 0.4% for coal, geothermal and metallic ores.
- The share of mining activity in total GDP and export has been rapidly increasing. In last ten years, mining sector's share in GDP has increased from 1.0% to 1.5%, while total export share rose from 1.8% to 2.8%.
- Average revenue growth in the market is 3x GDP for last six years. Considering average GDP growth of 5.4% in six years, 20.0% growth in metals and mining revenues proves the recent dynamism in the market.

Company Name	TICKER
Koza Anadolu	KOZAA TI
Koza Gold	KOZAL TI
Ipek Enerji	IPEKE TI
Park Maden	PRKME TI

Steel

- Turkey has reached 36mn tons of crude production in 2012 and became 8th largest producer of the world, 4th in Europe and 2nd in European Union. Between 2001-2012, Turkish crude steel production has grown at an average CAGR of 8.8%, which significantly surpassed world steel production growth rate of 5.9%.
- Despite its rapid development, Turkish steel market seems to have room for further growth. Turkey's production per capita figure of 400 tonnes is compared with 1,200 tonnes at South Korea, 860 tonnes at Japan and 730 tonnes at Ukraine.
- Steel production of Turkey grew at a GDP multiplier of 1.6x for last ten years on the back of strong growth seen in automotive, white goods and construction sectors and new entrants in the flat steel market.

Company Name	TICKER
Eregli Demir Celik	EREGL TI
Kardemir	KRDMD TI
Izmir Demir Celik	IZMDC TI

BIST - Main sectors

Basic Materials

- There are 48 integrated plants, 17 grinding mills (total of 65 plants) and 22 players in Turkish cement market.
- Total clinker capacity is 65mn tons and total domestic consumption is around 55.8mn tons and export is 14mn tons as of 2011-end.
- Young and dynamic population triggers housing, commercial real estate and infrastructural investments. Low interest rates support cement consumption.
- Cement per capita is estimated 750kg and it is expected to reach 800-1,000kg in the coming years.
- Sabanci Group is the market leader with 18% share in clinker capacity, while OYAK Group comes at the second place (13%).

Company Name	TICKER
Akcansa	AKCNS TI
Cimsa	CIMSA TI
Adana Cimento	ADANA TI

Real Estate

- Housing segment is the flagship of Turkish real estate sector. Housing sales grew by 1.1% p.a. (average 400k) between 1999-2012. Turkish housing demand materialised at 556k units on average between 1998 and 2012. Note that Turkey has 19mn building stock.
- Suitable demographic factors for sectoral growth. Population growth rate of 1.5% p.a. (0.4% growth rate in the EU), urbanisation rate of 2.7%, young population rate (the highest in the region - more than 50% below 30 years old).
- Demand for housing in Turkey suggests a vast potential for the future. Turkey needs some 600-650k new homes p.a. in order to meet the housing need created by population growth, urbanization, replacement requirements and urban regeneration.

Company Name	TICKER
Emlak REIT	EKGYO TI
Is REIT	ISGYO TI
Sinpas REIT	SNGYO TI
Torunlar REIT	TRGYO TI
Reysas REIT	RYGYO TI

BIST - Main sectors

Food

- Corresponding to 8% of total GDP, food industry is a TL102bn worth of market in Turkey. A wide range of crops grow in Turkey, supported by benign climate.
- Note the remarkable growth in food consumption in the last ten years, posting 27% CAGR in line with the growth in Turkish per capita income (14% CAGR in the last ten years) and young population with 28 mean age.
- Market entry barriers for the food business is low, yet incumbent players usually have dominance and create natural barrier. Accordingly, Ulker has c. 50% share in confectionary segment, Coca Cola Icecek has 70% in soft drinks, Anadolu Efes holds over 80% in beer and Pinar Sut has 32% in milk markets. However, meat segment is usually controlled by SMEs and quite fragmented.
- Per capita consumption is quite low for most of these FMCG groups compared to global averages, hence offering growth in line with the rise in per capita income in Turkey. Accordingly, per capita milk consumption in Turkey is at 24lt vs. 33lt world average. Likewise, per capita red meat consumption is at 11.3kg vs. 16.2kg of EU mean.

Company Name	TICKER
Banvit	BANVT TI
Pinar Et	PETUN TI
Pinar Sut	PNSUT TI
Ulker	ULKER TI
Coca Cola Icecek	CCOLA TI
Efes	AEFES TI

Retail

- Serving 75 million people in Turkey, generating nearly US$800bn GDP as of 2012
- Strong consumption pattern as mean age at 28 – the youngest in Europe.
- 12% CAGR recorded per capita income in the last ten years in US$ terms. Another 7% increase expected for the upcoming five years according to our house estimate.
- Only 45% of the total food & FMCG sales are sold through organized retail chains. Hence, there is a promising growth opportunity for the chain retailers against the grey market.
- Per capita retail sales is still below EU average as Turkish consumer spends c. Eur2,500 vs. Eur4,200 in EU.

Company Name	TICKER
Boyner	BOYNR TI
Migros	MGROS TI
BIM	BIMAS TI
Bizim	BIZIM TI
Kiler	KILER TI
Uyum	UYUM TI

BIST - Main sectors

Airlines and Handling

- Fastest growing aviation market with overall pax vol: +17% CAGR between 2003-2011 (5 x of GDP) Shown resilience to economic downturns. 2012 pax growth was 11%. We forecast another 11% YoY growth in 2013, bringing propensity for air travel to 1.85x.
- Supportive backdrop for further growth as Turkey is the 2nd largest population in Europe (74mn in 2011)
  - 6th largest economy
  - Low propensity for air travel: 1.74x in 2010 vs 3x in EU
  - Low penetration: pax km/capita of 0.5x vs. 0.8x in Italy, 2.1x in Germany
  - Limited alternative transport infrastructure
  - Transportation junction between Europe, North Africa and Asia
  - Young population with avg. age of 31 vs ~40 in Spain and UK.
  - 7th largest tourist destination in the world.

Company Name	TICKER
Turkish Airlines	THYAO TI
Pegasus Airlines	PGSUS TI
Celebi	CLEBI TI
TAV Airports	TAVHL TI

Pharmacaeuticals

- Pharma market in Turkey: one of the high-growth 'pharmerging' countries. Turkey is classified among the top growing pharma markets with a 15-17% growth expectation in the next five years.
- Unlike the mature markets like US, UK and France where only 1-3% growth is forecasted, pharmerging countries post a more attractive potential through improving purchasing power, change in healthcare policies, and rising awareness towards low-cost remedies.
- Turkey expected to grow more controlled pace, as government's strict budget control over pharma expenditures weigh on pricing and hence growth potential.
- Per capita pharma expenditure in Turkey is US$121 annually vs. US$495 of OECD average.

Company Name	TICKER
Selcuk Ecza	SELEC TI
Deva	DEVA TI

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Emlak REIT

EKGYO.IS	EKGYO TI
Stock Data	
Current Price (TL)	3.06
12M Target Price (TL)	3.90
Upside potential	27%
Current Mcap (TLmn)	7,650
Free Float (FF)	25%
FF. Mcap (TLmn)	1,913
Foreign share in FF	60%

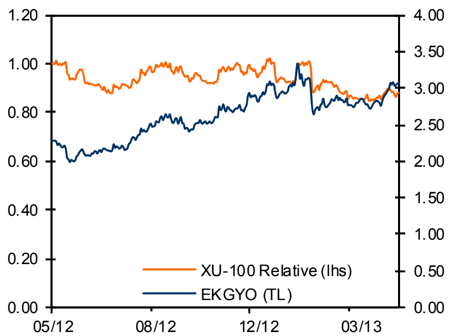
Report priced as of May 10, 2013

Relative Performance to BIST-100

1m	3m	6m	12m
3%	-1%	-9%	-12%

Avg. Daily Trading Volume (TLmn)

1m	3m	6m	12m
28.7	38.8	40.9	45.5



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- Low interest rate environment to support home sales. Considering the declining trend in mortgage rates, pull forward effect of VAT and stronger economic growth should support pre-sales of residential developers in 2013.
- SPO proceeds will be utilized for further growth. Emlak REIT could generate cash pile of TL5.5-6bn, including expected SPO (likely to be completed in June) proceeds of TL3.5-4bn on top of the current cash position of TL2.1bn as of 1Q13, and utilize it for being active in New Istanbul project, which is one of the major medium-term catalysts for the company as it would help NAV growth further.
- Time to buy now. We do not expect more than 10% SPO discount and significant dilution given Emlak REIT's strong fundamentals and growth potential. Also, Emlak REIT's weight in the MSCI Index should increase following the SPO, possibly leading to further institutional buying in the stock.

Summary Financials (TLmn)	2011A	2012A	2013E	2014E
Revenues	717	1,005	1,902	1,745
EBITDA	177	396	665	804
Net Income	228	523	684	795
EBITDA margin	24.6%	39.5%	35.0%	46.1%
Net Margin	31.9%	52.1%	36.0%	45.6%
Revenue growth	-52.2%	40.2%	89.3%	-8.3%
EBITDA growth	-73.0%	124.5%	67.7%	20.9%
Net Income growth	-58.8%	129.2%	30.6%	16.3%
P/E	27.6	11.6	11.2	9.6
EV/EBITDA	34.3	13.8	10.4	8.4
EV/Sales	8.5	5.4	3.6	3.9

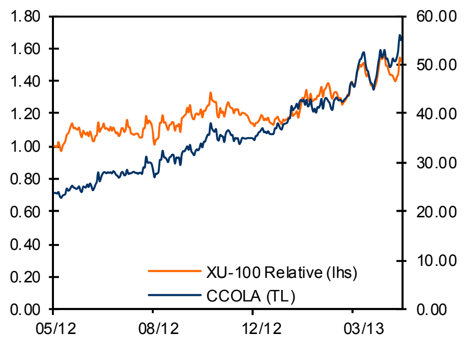
Coca Cola Icecek (CCI)

CCOLA.IS	CCOLA TI
Stock Data	
Current Price (TL)	55.00
12M Target Price (TL)	60.00
Upside potential	7%
Current Mcap (TLmn)	13,990
Free Float (FF)	25%
FF. Mcap (TLmn)	3,561
Foreign share in FF	97%

Report priced as of May 10, 2013

Relative Performance to BIST-100			
1m	3m	6m	12m
13%	18%	21%	52%

Avg. Daily Trading Volume (TLmn)			
1m	3m	6m	12m
12.0	9.0	6.6	4.6



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- The most refreshing growth figures in TCCC universe are held by CCI. Accordingly, CCI countries have 1.6% population CAGR on average for the next five years, materially higher than the global mean at 1.1%. Moreover, the median age of the operating countries is at 24 – against 29 of the world's average. Also, average GDP CAGR in the next five years for CCI countries stands at 5.9% vs. 4.2% of TCCC universe. In addition per capita income growth for CCI countries is at 8%, while global average is at 3%. On top of all, per capita soft drink consumption of CCI countries is at 24 vs. 45 of Turkey and 50 of global mean.
- …and we expect more: new acquisitions are watched and targeted by the company when rational enough. In the past seven years, CCI entered into nine countries, which more than quadrupled its target population and together with organic growth, it tripled its sales volume. Going forward, we estimate further acquisitions in MENA region that matches the current country portfolio. In our analysis, we looked into the countries that have low per capita soft drink consumption, as well as young population and relatively larger GDP growth. Based on findings, nine countries match these criteria, hence could be in the radar of the company if there is a viable opportunity.
- Strong 1Q13 results signal an attractive outlook for the year ahead. CCI recorded 7.5% volume growth in Turkey and 43% in international operations, surpassing its annual guidance despite that 1Q is usually a weak season. We slightly improved our estimates for international operations, as coming quarters bare even better seasonal activity. Hence our target price improved by 3% to TL60.0/shr. Moreover, on a growth adjusted basis, 2013E EV/EBITDA offers 37% upside compared to the peer median.

Summary Financials (TLmn)	2011A	2012A	2013E	2014E
Revenues	3,409	4,132	4,853	5,620
EBITDA	477	671	841	1,012
Net Income	141	380	458	579
EBITDA margin	14.0%	16.2%	17.3%	18.0%
Net Margin	4.2%	9.2%	9.4%	10.3%
Revenue growth	23.8%	21.2%	17.4%	15.8%
EBITDA growth	11.2%	40.8%	25.3%	20.4%
Net Income growth	-28.7%	168.7%	20.5%	26.5%
P/E	38.9	18.6	31.1	24.6
EV/EBITDA	13.9	12.1	18.4	15.4
EV/Sales	1.9	2.0	3.2	2.8

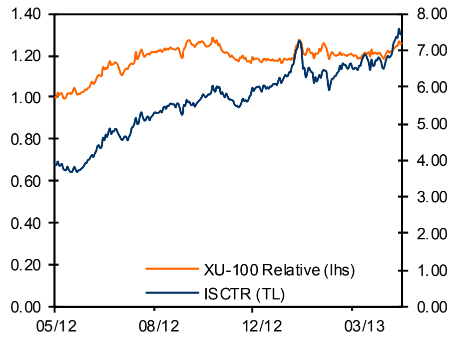
Isbank

ISCTR.IS	ISCTR TI
Stock Data	
Current Price (TL)	7.42
12M Target Price (TL)	7.94
Upside potential	7%
Current Mcap (TLmn)	33,390
Free Float (FF)	31%
FF. Mcap (TLmn)	10,351
Foreign share in FF	59%

Report priced as of May 10, 2013

Relative Performance to BIST-100			
1m	3m	6m	12m
4%	4%	4%	26%

Avg. Daily Trading Volume (TLmn)			
1m	3m	6m	12m
266.3	255.1	245.5	220.4



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- Multiples less demanding versus peers. Isbank trades at 13E 1.45x core P/B, which is at 7% discount to peers, while its 13E core ROE is ca.50bps higher than the sector average.
- Another year of good fee performance. Isbank is expected to post 18% fee growth in 2013, on top of 19% increase in 2012, introducing fees to previously free services, decreasing branch managers' right to waive fees and incentivizing employees for fee collection. Fees/core assets ratio of 1.1% vs. 1.4% for peers, gives ample room for improvement.
- Encouraged by stricter cost control. Isbank's employee/branch metric, which has been rigid at 21, came to 19.5 by YE12 with more efficient utilization of HR resource. Given peers 17.6 employee/branch metric there is still room for improvement. All in all, we expect the Bank's fees to opex ratio to improve from 38% in 2012 to 45% in 2013.

Summary Financials (TLmn)	2011A	2012A	2013E	2014E
Net Earnings	2,667	3,310	3,240	3,297
Change (YoY)	-11%	24%	-2%	2%
ROE	15.16%	16.49%	13.52%	12.45%
P/E	12.5x	10.1x	10.3x	10.1x
P/B	1.9x	1.5x	1.3x	1.2x

Migros

MGROS.IS	MGROS TI
Stock Data	
Current Price (TL)	24.05
12M Target Price (TL)	32.40
Upside potential	35%
Current Mcap (TLmn)	4,282
Free Float (FF)	19%
FF. Mcap (TLmn)	814
Foreign share in FF	23%

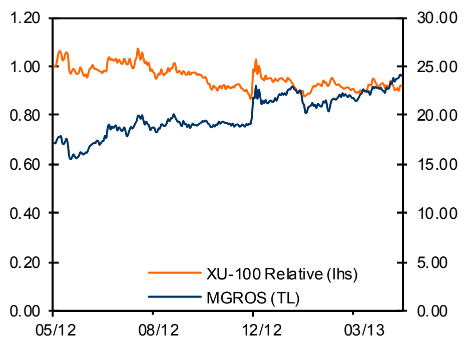
Report priced as of May 10, 2013

Relative Performance to BIST-100

1m	3m	6m	12m
-3%	0%	0%	-8%

Avg. Daily Trading Volume (TLmn)

1m	3m	6m	12m
29.6	25.1	42.8	35.0



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- Superb topline growth. On top of the aggressive store opening realized in 2012 with 132 net additions, we forecast another heavy year with 130 openings, in line with the company's 100-150 target. Apart from that, we also expect stronger L-f-L growth in 2013, since the company finalized its focus change towards higher traffic generating fresh goods and PLs. Hence now we estimate 13% YoY sales growth next year.
- The highest earnings growth in food retail sector is at Migros. Accordingly, its EPS has 15% CAGR in the next five years, considering that net debt /EBITDA will go below 2.5x after 2014 and hence interest burden will melt.
- The main weakness for the company is the Eur1.1bn financial debt, making the stock vulnerable to TL-devaluation. However, our house estimate for 2013-end suggest flat EUR/TL figure YoY. Accordingly, we foresee successful operational profitaibility to be reflected on the bottom line.
- A potential M&A target. BC Partners announced its will to exit Migros and several names cited to be interested with the widest supermarket network of the country. Considering its strong market positioning and locations, deal price can be at 10% premium to domestic 2013E EV/EBITDA mean, yielding TL30.50/shr target potential.

Summary Financials (TLmn)	2011A	2012A	2013E	2014E
Revenues	5,753	6,482	7,335	8,241
EBITDA	376	401	458	492
Net Income	-163	88	52	108
EBITDA margin	6.5%	6.2%	6.2%	6.0%
Net Margin	-2.8%	1.4%	0.7%	1.3%
Revenue growth	11.5%	12.7%	13.1%	12.4%
EBITDA growth	8.4%	6.5%	14.2%	7.5%
Net Income growth	-483.4%	-153.9%	-41.4%	109.3%
P/E	n.m.	35.5	83.3	39.8
EV/EBITDA	14.6	11.4	13.0	10.9
EV/Sales	1.0	0.7	0.8	0.6

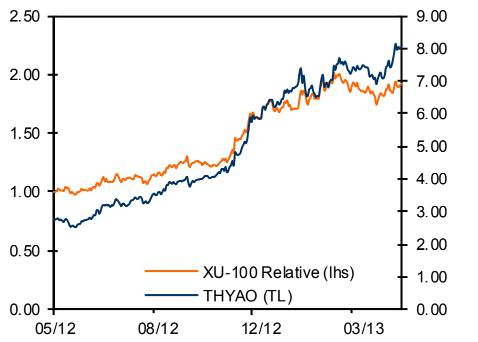
Turkish Airlines

THYAO.IS	THYAO TI
Stock Data	
Current Price (TL)	8.04
12M Target Price (TL)	8.80
Upside potential	9%
Current Mcap (TLmn)	9,648
Free Float (FF)	50%
FF. Mcap (TLmn)	4,824
Foreign share in FF	43%

Report priced as of May 10, 2013

Relative Performance to BIST-100			
1m	3m	6m	12m
5%	7%	53%	92%

Avg. Daily Trading Volume (TLmn)			
1m	3m	6m	12m
112.5	124.5	137.3	100.4



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- Trading at unwarranted discount. Turkish Airlines is currently trading at 2014e EV/Ebitda and P/E of 6.0x/6.3x, which are at discount to its global peers. However, considering that THYAO is one of the fastest growing airlines with improvements at the operating level, the relative discount is unwarranted.
- Passenger volume forecasts are likely to be raised. THY has a target to increase its pax vol by 18% and carry 46mn pax in 2013, which is higher than our 14.5% forecast. Given the management's track record of beating its targets and over 25% pax growth in the 3M period, our pax vol forecasts are likely to be revised upwards in during the next months.
- We forecast flat EBITDA margin performance in 2013. But considering the slow fleet growth set for the year and solid pax vol expansion, we are likely to see further YoY improvement in the company's profitability.

Summary Financials (TLmn)	2011A	2012A	2013E	2014E
Revenues	11,818	14,909	18,165	19,702
EBITDA	1,135	2,066	2,542	2,832
Net Income	19	1,133	1,102	1,404
EBITDA margin	9.6%	13.9%	14.0%	14.4%
Net Margin	0.2%	7.6%	6.1%	7.1%
Revenue growth	40.3%	26.2%	21.8%	8.5%
EBITDA growth	23.6%	82.0%	23.0%	11.4%
Net Income growth	-93.5%	nm.	-2.8%	27.4%
P/E	210.7	3.6	8.7	6.8
EV/EBITDA	9.0	5.3	7.4	6.3
EV/Sales	0.9	0.7	1.0	0.9

- Turkey – Path to investment grade
- Turkey – Summary of relations with Russia
- BIST & Turkdex – Main figures
- BIST – Main Sectors
- Appendix I –Most preferred list
- **Appendix II – Least preferred list**

Anadolu Efes

AEFES.IS	AEFES TI
Stock Data	
Current Price (TL)	28.50
12M Target Price (TL)	31.20
Upside potential	9%
Current Mcap (TLmn)	16,875
Free Float (FF)	32%
FF. Mcap (TLmn)	5,400
Foreign share in FF	76%

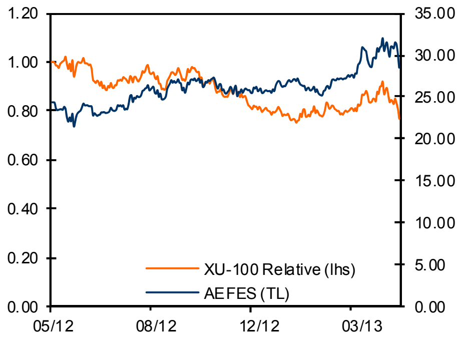
Report priced as of May 10, 2013

Relative Performance to BIST-100

1m	3m	6m	12m
-8%	-4%	-10%	-23%

Avg. Daily Trading Volume (TLmn)

1m	3m	6m	12m
8.0	9.0	7.6	6.4



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- Rising competition and excise tax hikes are slowing down the growth for domestic operations. Anadolu Efes started to face competition from rival Tuborg after the ownership change in the latter, which resulted in 6pps market share loss since 2010. Likewise, in 1Q13 volume decline of 10% came in line with our 9% forecast, which shows the negative effect of high 1Q12 base; destocking amid excise tax hikes came in September and January; and also rising competition. Yet, higher marketing expenses and on and off premise channel investments resulted in 6.1pps YoY drop in EBITDA margin, putting the company's annual guidance in jeopardy.
- Although SABMiller merger is a good opportunity to master in tightening Russian beer market, 1Q13 performance showed that the market contraction is worse than anticipated. Accordingly, after the regulatory changes in Russia ranging from kiosk ban, limit on alcohol selling hours to higher taxes, YoY volume decline at 23% came much more rigid, as the competition did not follow the price increases EBI placed. Also, higher fixed costs led by lower volumes resulted in 7pps YoY drop in gross margin and even a larger one for EBITDA margin (-14pps YoY). Hence, the company signaled that they may need to revise the guidance downward for the full year.
- Further act to limit alcohol advertising and the change of control in a nationwide retailer will harden the reach to customers. Prime Minister just declared their study that will ban the alcoholic drink advertising on print media, which reduces another channel to reach the customer. Plus, DiaSA – which has 1,100 stores nationwide – is acquired by Yildiz Holding, which will remove alcoholic SKUs from the stores.

Summary Financials (TLmn)	2011A	2012A	2013E	2014E
Revenues	4,761	6,417	9,663	10,106
EBITDA	940	1,296	1,958	2,119
Net Income	341	607	493	593
EBITDA margin	19.7%	20.2%	20.3%	21.0%
Net Margin	7.2%	9.5%	5.1%	5.9%
Revenue growth	14.2%	34.8%	50.6%	4.6%
EBITDA growth	-6.4%	37.9%	51.1%	8.2%
Net Income growth	-32.3%	77.9%	-18.8%	20.3%
P/E	28.7	23.2	36.3	30.2
EV/EBITDA	11.6	11.7	10.2	9.1
EV/Sales	2.3	2.4	2.1	1.9

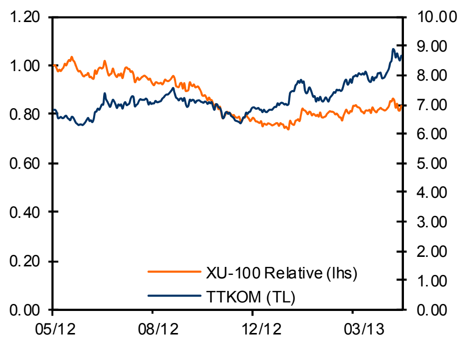
Turk Telekom

TTKOM.IS	TTKOM TI
Stock Data	
Current Price (TL)	8.66
12M Target Price (TL)	8.82
Upside potential	2%
Current Mcap (TLmn)	30,310
Free Float (FF)	13%
FF. Mcap (TLmn)	3,940
Foreign share in FF	76%

Report priced as of May 10, 2013

Relative Performance to BIST-100			
1m	3m	6m	12m
2%	4%	3%	-17%

Avg. Daily Trading Volume (TLmn)			
1m	3m	6m	12m
23.5	24.5	32.6	26.4



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- Recent strong outperformance pulled up multiples to unattractive levels. TT posted 6% outperformance in April and now trades at 6.9x 2013E EV/EBITDA vs. 4.5x international peer median.
- SPO is still on the table and the recent rally offers a good profit taking opportunity, in our belief. Despite the Minister of Communication and Transportation's speech in mid-March that says not to expect the SPO in the short run, the Privatization Administration officially announced that 6.7% stake of the treasury will be offered for SPO until the end of this year. Hence the recent rally may offer a profit taking opportunity from these levels.
- KPIs signal for growth at mobile and fixed broadband businesses, while core operations – fixed voice – will keep bleeding. Fixed line subscribers shrunk by 6% in the last five years and we estimate the leakage to continue with growing demand for 'on-the-go' technologies. Accordingly, we forecast 11.0% CAGR in Avea turnover and 11.6% for fixed broadband services in the next five years. We believe Avea will experience growth through the rising demand for mobile internet and VAS, whereas fixed broadband will enjoy the low penetration of Turkey (10.5% vs. 26.0% of OECD average). Hence, we forecast share of fixed voice revenues to decline from 34% of 2011YE to 11%, while Avea revenues to reach 33% (from 26%) and fixed broadband to 31% (from 24%) by the end of our forecast horizon.

Summary Financials (TLmn)	2011A	2012A	2013E	2014E
Revenues	11,941	12,706	13,294	14,120
EBITDA	5,077	5,096	5,124	5,485
Net Income	2,069	2,637	2,492	2,647
EBITDA margin	42.5%	40.1%	38.5%	38.8%
Net Margin	17.3%	20.8%	18.7%	18.7%
Revenue growth	10.0%	6.4%	4.6%	6.2%
EBITDA growth	4.9%	0.4%	0.5%	7.1%
Net Income growth	-15.6%	27.5%	-5.5%	6.2%
P/E	12.7	9.5	11.9	11.2
EV/EBITDA	6.1	5.9	6.9	6.6
EV/Sales	2.6	2.4	2.7	2.6

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