Monthly Equity Strategy

Selling pressure rose in May…

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Following the strong first quarter fuelled by increased risk appetite in developed markets, sentiment has again turned negative over the past two months. The mood in the market went south in April on news from the U.S., while sales accelerated in May on increased uncertainty following the elections in France and Greece. In addition to this, the inability to establish a government in Athens, and the emergent likelihood of its exit from the euro increased selling pressure in the stock market in May. The ISE-100 index, remaining relatively strong compared to international peers in April, was also buffeted by international sell-off winds in the last month. The ISE-100 index, which started the month of May at 60,000 levels, has, aside from negative developments in foreign markets, been affected by S&P's downgrading of the country outlook from positive to 'stable', and Fitch's statement that the period leading to Turkey's uptick to investment grade would be longer than expected, and retreated to 54,000 levels. Tourism (down by 12.8% MoM), Beverages (down by 12.3% MoM) and Steel (down by 11.9% MoM) were May's big losers and together with the Banking sector (down by 10.3% MoM) led the 8.2% decline of the ISE-100.

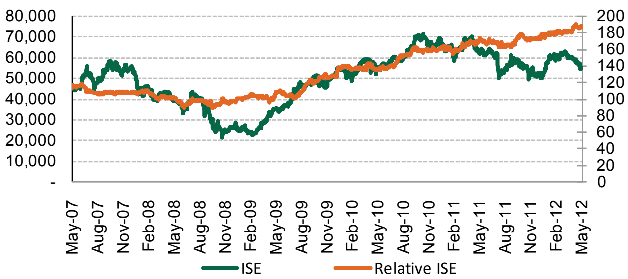
What do we expect? In June, the markets will focus on the *(i)* FED and ECB signals of further easing, *(ii)* macro data from US and Europe and *(iii)* EU Summit. In Europe, in addition to the debt crisis, rising political risk due to elections in Greece will also be watched closely. *We recommend continued caution before a concrete European plan is implemented, and until we observe a lasting recovery in global risk appetite.* Without doubt, one accurate conclusion that can be arrived at for the second half of the year is increased local and global volatility. On the other hand, following the sell-off pressure in the ISE-100 index parallel to foreign markets in May, we believe that some recovery efforts could occur in June. The strength and extent of the recovery will again be dependent on foreign markets. In particular, elections in Greece set for mid-June, and whether or not the FED takes action on monetary easing will determine the trend. We maintain our **HOLD** recommendation with a 12mo index target of **67,500** offering 22% upside potential. Turkish equities are trading at a slightly expensive **2012E 10.3x P/E** (3% premium to EM peers), but relatively cheap **2012E 1.2x P/BV** (10% discount to EM peers).

HOLD

Facts & Figures	Close	MoM
ISE - 100, TRY	55,099	-8.18
ISE - 100, USD	29,939	-12.75
Total Volume, TRY mn	43,471	-69.14
MSCI EM Turkey	413,199	-13.0%
MSCI EM	906	-11.7%
Benchmark Bond	9.45%	-13 bps
USD/TL	1.8404	5.23%
EUR/TL	2.2840	-1.26%
P/E Current		
ISE - 100	10.2	
Banking	7.9	
Industrial	13.2	
Steel	8.4	
REIT	10.4	
Telecom	11.2	
Food&Beverage	23.4	
2012E P/E	10.3	
2013E P/E	9.2	
TR Libor Rate, 3M %	10.36%	

Top Picks	Close	Target	Pot.
AKSA.TI	3.85	6.00	55.8%
THYAO.TI	2.52	3.80	50.8%
ARCLK.TI	7.82	8.60	10.0%
TAVHL.TI	9.02	11.70	29.7%
TOASO.TI	6.34	9.80	54.6%
HALKB.TI	11.45	14.70	28.4%
GARAN.TI	5.98	7.59	26.9%
TCELL.TI	8.14	11.20	37.6%

ISE vs. Portfolio



May highlights & insights

Turkey still has a long way to investment grade - In May, Fitch said that Turkey's elevation to investment grade is unlikely to be very soon, adding that Turkey has the potential to get the investment grade within the next two to three years. *"Evidence suggests Turkey is on track for soft landing, there are encouraging trends in current account adjustments and import and export dynamics"* said Ed Parker. However, the ratings agency is concerned about the high level of the current account deficit and external financing needs in the uncertain global environment. *"If we see further progress on achieving a soft landing and see inflation heading to the central bank's target and see Turkey getting back to its potential growth rate, then the chances of an upgrade will increase,"* Parker added.

Fitch’s Turkey rating is at BB+, one notch below investment grade, with a stable outlook. Meanwhile, S&P currently rates the government’s long-term foreign currency debt at BB with a stable outlook, which is two notches below investment grade, like Moody’s Ba2 rating with a positive outlook. Recall that last week S&P changed its outlook on Turkey’s long-term foreign and local currency rating from positive to stable, keeping ratings unchanged.

Downside surprise in May inflation - Monthly CPI inflation came in at -0.21%, notably lower than the market consensus (+0.32%) and our revised forecast (+0.3%). Hence, annual inflation declined to 8.28% from the 11.14% registered in April thanks to both base effects, correction in food prices and a lesser rise in clothing group prices compared to seasonal averages.

Food and transportation the key factors behind favorable monthly CPI print. Food group prices declined 2.4% MoM compared to an average flat reading for May over the past six years, erasing 0.66 pp from the monthly inflation print. On the other hand, clothing group prices rose 8.6%, hence less than the 11.4% seasonal average and 11.7% registered in May 2011, making a 0.62 pp contribution to monthly inflation. Meanwhile, transportation prices, declining 1.36% MoM thanks to lower gasoline prices, trimmed 0.24pp off monthly inflation.

Core inflation indicators returned south after the April break. The CBRT’s most preferred core inflation measurement (annual I index inflation) eased to 7.67% from 8.24%. The I index excludes food, non-alcoholic beverages, energy, tobacco products, alcoholic beverages and gold from the CPI basket. Meanwhile, annual H index inflation declined to 8.23% from 8.62%.

The favorable May inflation reading increases the chances of the CBRT achieving its 6.5% year-end inflation forecast. Yet we maintain our forecast of 7.3% inflation by year-end, given remaining uncertainty on the inflation outlook due to the draft tobacco product taxation law, as the government may introduce an additional lump-sum tax. The draft has not yet become law, and about a question mark remains over the potential rate itself, which the cabinet would be entitled to determine. We project annual inflation rising above 9% in June, and remaining there until the last quarter of the year before displaying a sharp decline.

No surprise in March IP - In March, industrial production rose by 2.4% YoY, broadly in-line with our forecast (2.3%), and slightly above the 2.0% market consensus. Hence, IP grew 2.8% over a year ago in the first quarter. On the other hand, adjusted for seasonal and calendar effects, industrial production increased 0.7% MoM in March, on top of 0.7% in February. Recall that IP had contracted 3.1% MoM in January.

Capital goods production was the weaker component of March IP. Manufacturing sector output rose 0.9% over February. According to our calculations, capital goods and energy production declined 4.7% and 1.3% MoM respectively in working day and seasonally adjusted terms. They erased 0.7 pp and 0.2 pp respectively from MoM growth in IP. Meanwhile, intermediate goods production rose 1.8% MoM, contributing 0.7pp to monthly IP growth. On the other hand, durable and nondurable goods production rose 3.7% and 1.8% MoM, respectively in March. Production of the automotive sector continued to decline after the break in February. Production in automotive industry declined 2.2% MoM in March, following 0.8% expansion in February. Production in the sector shrank by a cumulative 9.2% in the November-March period. On the other hand, we observe some recovery in chemical production as the sector's production rose 1.5% MoM, following a 2.1% MoM contraction in February. In addition, production in the basic metal industry rose 1.5% following 1.6% contraction in February.

The first quarter IP decline of 1.5% QoQ implies slightly negative or flat GDP growth (QoQ) for the first quarter, as we expect a positive contribution to growth from external demand. We retain our below-consensus growth forecast of 1.6% for 2012, as external financing conditions may worsen due to woes in the Euro zone. Meanwhile, the CBRT's additional tightening efforts to keep inflation under control will likely prevent acceleration in credit growth, which is necessary for further economic growth.

May capacity utilization rate and real sector confidence don't bode well for pace of recovery - At 74.7%, manufacturing industry capacity utilization declined 0.5 pp over May 2011. Recall that it was also at 74.7% in April. Meanwhile, adjusted for seasonal effects, the rate deteriorated by 1.1 pp in May over a month ago to 74.4%, on top of the 0.4 pp fall observed in April. Indeed, May's figure is the lowest level since August 2011.

Deterioration of the seasonally-adjusted capacity utilization in durable consumer goods and investment goods is worth highlighting. While the former declined by 1.9 pp over April, the latter eased by 1.5 pp. Meanwhile, capacity utilization in intermediate goods fell to 76.2% from 76.5%. Looking at the sectors themselves, we observe that capacity utilization in the manufacturing of coke and refined petroleum products declined by 7.1 pp over April. Meanwhile, CUR in basic metals manufacturing and the automotive sector declined by 3.0 pp and 1.6 pp respectively from a month ago.

The real sector confidence index also deteriorated in May. The headline index eased to 113.8 from 116.0. Meanwhile, the seasonally-adjusted index declined to 107.9 in May (April: 109.8) on the back of deterioration in sub-indices regarding total orders (current situation), total employment (for the next three months), and total orders (for the past 3 months), while the sub-index on export orders for the next three months remained broadly stable at around 120.

Second quarter data released to date provides mixed signals about the pace of recovery in the current quarter. Overall, the recovery will not likely be a strong one in Q2. While we see acceleration in credits thanks to seasonal factors, capacity utilization for the past two months, plus April tax figures do not bode well for the pace of recovery in the second quarter. Recall that taxes on domestic goods and services rose just 5.5% YoY in April, slowing down from the 12.7% rise of March, and suggesting continuation of weak private consumption growth going into the second quarter.

Improvement in CAD, but financing still dominated by short-term inflows - In March, the current account deficit came in at USD 6.1bn, in-line with our in house forecast (USD 6.1bn) and broadly in line with the market consensus (USD 6.0bn). The monthly figure improved by USD 3.4bn over the previous year from USD 9.6bn in March 2011. Hence, 12-month rolling CAD declined to USD 71.8bn in March from USD 75.2bn February.

USD 2.3bn of the monthly improvement over a year ago stemmed from improvement in the trade balance as the rebalancing in the economy continued with a slowdown in domestic demand and rising foreign demand as of March. The service balance improved by USD 0.2bn over March 2011, although income balance contributed more than services with a USD 0.9bn improvement thanks to lower income transfers compared to March 2011. Recall that GE transferred income of over USD 1bn following the sale of Garanti shares to BBVA in March of last year.

Non-energy current account deficit displayed stronger YoY improvement in March (USD 4.3bn) compared to February (USD 2.4bn). The non-energy current account deficit was USD 1.5bn, compared to USD 5.9bn in March 2011. Hence, the 12-month cumulative non-energy deficit declined to USD 21.9bn from USD 26.2bn, while the net energy bill rose to USD 49.9bn up from USD 49.0bn in February, thus continuing the upward trend observed since January 2010.

On the financing side, we observe the dominance of short term flows over FDI and long-term inflows in March both in monthly and cumulative terms. Net FDI was USD 0.8bn, as there was USD 2.8bn invested in Turkey by non-residents, while residents made USD 2.0bn of FDI abroad. Recall that beverage producers Anadolu Efes and SABMiller made a strategic partnership whereby SABMiller acquired a 24% stake in Anadolu Efes, and Anadolu Efes acquired SABMiller's operations in Russia and Ukraine for USD 1.9bn in March. Therefore, the deal had no effect on FDI.

Corporate MLT borrowing jumped in March. While banks paid a net MLT debt of USD 0.2bn in March, non-bank sectors made a net borrowing of USD 1.1bn (repaid USD 0.8bn, while borrowing USD 0.6bn). Hence, the corporate sector rollover ratio increased notably to 146% in March compared to 90% for the December-February period, which is a positive development for the external financing outlook in our view.

We note USD 0.1bn of equity inflows in March, which is weak when compared to the December-February period, in which a monthly average of USD 0.3bn came from this channel. While the government's domestic debt securities attracted USD 2.2bn, USD 1.1bn came thanks to a samurai bond issuance in March. The banking sector brought USD 2.3bn from banks' branches abroad, while corporateS sent USD 0.5bn of deposits abroad, the net effect being a USD 1.8bn inflow, which was an important financing item for CAD in March. On the other hand, non-residents contributed USD 1.5bn to financing by increasing their deposits in Turkey. While net errors and omissions jumped to USD 2.2bn in March compared to an average of USD 0.8bn in the first two months of the year, the CBRT's FX reserves rose by USD 2.2bn in March, partially thanks to the Treasury's samurai bond issuance.

Headline budget figures strong, but thanks to CBRT's dividend payment - In April the central government budget registered a budget and primary surplus of TRY 1.4bn and TRY 6.1bn, respectively. These figures imply improvement of TRY 0.4bn in the budget surplus and TRY 2.2bn in the primary surplus compared to April 2011. However, improvement in overall figures was on account of one-off factors. While total revenues seem particularly strong (up 24% YoY) in April, enterprise and ownership revenues of TRY 6.1bn in April compared to TRY 1.5bn in April last year was the main reason behind improvement in the budget and primary surplus. This mostly stemmed from one-off factors like the robust CBRT dividend payment to the Treasury. Therefore, adjusted for one-off transfers, the budget and primary balance figures would be compared unfavorably with April 2011 figures.

Primary expenditures remain elevated, and tax revenues were weak due to economic slowdown in April. While primary expenditures surged 18% YoY to TRY 23.1bn in April, tax revenues remained weak, rising a mere 3% over a year ago. The continuation of the weak underlying trend in tax revenues and heightened primary expenditures in April recalls existing risks to budget targets. The surge in the primary expenditures was partially on account of a 24% YoY increase in current transfers to TRY 9.8bn over a year ago. Social security deficit finance increased by TRY 0.9bn over April 2011 to TRY 2.6bn, most likely due to the lesser support from the restructuring of the unpaid premiums. Meanwhile, interest expenditures rose 64% YoY to TRY 4.6bn in April, increasing TRY 1.8bn over April of last year.

April budget bears strong signs of rebalancing in economic activity. Taxes on domestic goods and services rose just 5.5% YoY in April, slowing down from the 12.7% rise in March, and suggesting continuation of weak private consumption growth going into the second quarter.

12-month rolling cumulative primary surplus rose to some TRY 28bn (2.1% of GDP) up from 25.8bn (1.9% of GDP) in Ministry of Finance definitions. However, according to the IMF definition, which excludes one-off items, the primary surplus declined to TRY 16.9bn from TRY 19.7bn in March (from 1.5% of GDP to 1.3% of GDP). We maintain our forecast for the budget balance and primary surplus ending 2012 at -2.0% and 1.4% of GDP, respectively, slightly worse than the government's targets of a -1.5% budget balance and 2.0% primary surplus thanks to one-off revenue items like revenue from the sale of deforested land, better known as 2B.

Portfolio

Changes to our portfolio We are replacing Aksa Energy (AKSEN.TI; Outperform) with Turkish Airlines (THYAO.TI; Outperform) to our model portfolio and retaining the other stocks from the previous month's portfolio.

We are keeping **Aksa Akrilik (AKSA.TI; Outperform)** as the company is largest producer of acrylic fiber in the world. Aksa's global market share in acrylic fiber production is currently at 14.0% and its domestic market share at 72%. (2010: 13.2% and 67%). On the other hand, Aksa's global market share of carbon fiber production is 3.5%. Recall that the company produces carbon fiber with a capacity of 1,800 tons/year. Aksa plans to increase this to 3,500 tons in the next term. The company targets to increase its market share to 5% within five years and to 10% within ten years. We consider this increased capacity to be positive for the net sales revenues over the coming years. On the other hand, recall that the company announced that its carbon fiber activities would be transferred to Aksa Carbon Fiber. Furthermore, the company decided to sign a subscription and shareholders' agreement with Dow Europe Holding BV for the formation of a carbon fiber manufacturing unit called Aksa Carbon Fiber. Accordingly, Dow Europe Holding will have a 50% stake in the new company. We believe that Aksa will attain an important position in global carbon fiber production once its planned investments are realized in the coming years. We also expect the partnership with Dow to be positive for the company. Aksa intends to start up its 100 MW thermal (coal) power plant within this year, whereby its installed capacity will reach 170 MW. While the increased capacity is expected to gradually reduce costs by 40%, this condition will provide a positive contribution to margins and profitability. We derive a TRY 1,110 million target Mcap for Aksa Akrilik using a blended DCF model. Our target price for Aksa Akrilik stands at TRY 6.00 per share. Taking into consideration Aksa Akrilik's current market capitalization of around TRY 712 million (TRY 3.85 per share), our target value represents a 56% upside potential. Therefore, we initiate an **"Outperform"** rating for Aksa Akrilik.

We are keeping **Arcelik (ARCLK.TI; Outperform)** in our 2012 portfolio. The company's promising results in 2011, albeit with some loss of momentum, plus ongoing strong domestic demand and a regional growth story pave the way for our **"Outperform"** rating. On the other hand, Arcelik is actively seeking inorganic growth opportunities in order to become a leading regional player. We have also increased our target price from TRY 7.80 to TRY 8.60, mainly stemming from the revision to our macro estimates by pulling down the risk-free rate from 10% to 9%.

We are keeping **TAV Airport Holdings (TAVHL.TI; Outperform)** in our 2012 portfolio. Recall that in March, French airport operator, Aéroports de Paris (ADP), signed a purchase agreement with Akfen Holding, Tepe Insaat and Sera Yapi Endustri, for TAV Airports Holding. Accordingly, ADP purchased a 38% stake in TAV Airports Holding for USD 874 million. TAV's total sales price is USD 2.3 billion (TRY 11.30/share) and its current Mcap is USD 1.78 billion (TRY 9.02/share). TAV shares carry a 25% upside according to the announced sales price. We expect TAV's partnership with ADP to contribute to the company's development. On the other hand, we expect the number of passengers using airports operated by TAV to increase to 66 million in 2012 (the company plans for 69 million) due to new airport openings. Thus, we think that the increase in passenger number and the positive contribution of new airports (Medina and Izmir Adnan Menderes) will have a positive effect on net sales revenues. Consolidated sales revenues were at EUR 881 million in 2011, and we expect this to reach EUR 1,023 million in 2012. Also, we believe that TAV's EBITDA and EBITDAR will increase to EUR 316 million and EUR 460 million in 2012, respectively. In terms of net profits, we expect the company to announce a EUR 85 million net profit for 2012. We derive a TRY 4,250 million target market capitalization (TRY 11.70) for TAV Airports Holding using the DCF and Peer Comparison valuation models. Taking into consideration TAV's current market capitalization of TRY 3,277 million (TRY 9.02), our target value represents a 30% upside potential. Therefore, we maintain an **"Outperform"** rating for TAV Airports Holding.

We are keeping **Tofas (TOASO.TI; Outperform)** in our 2012 portfolio. We have revised our target market capitalization to TRY 4,900 million and TRY 9.80 per share. This represents 57% upside potential compared to the current market capitalization of TRY 3,120 million. Therefore, we maintain **"Outperform"** rating for Tofas's shares. The company expects overall domestic automotive market sales to decline to 790k in 2012, in line with our predictions. It expects company's domestic sales volumes to be moderated to 125,000 units and exports to be 180,000 units at the end of 2012. The additional export volume coming from the Opel deal is expected to compensate for the domestic sales contraction. On the top line, we expect net sales growth of 2.3% and sales revenues to reach TRY 7.5 billion in 2012. In addition, we estimate Tofas' EBITDA at TRY 718 million, bringing the EBITDA margin to 9.6% at the end of 2012.

We are keeping **GARAN (GARAN TI; Outperform)** due to its solid asset quality and its price-setter position in the industry. With its robust capital structure GARAN will not be affected under BASEL II as much as other banks. Recall that Basel II will be in operation as of July 2012, and with its implementation we expect the banking sector Capital Adequacy Ratio to decline by between 100-150bp from 16.5% in Dec-11. The banks with greater SME and mortgage exposure should feel the Basel II effect to a lesser extent than the rest, as the risk weighting of these segments was reduced. By our assumptions, the shares are trading at 1.26x 2012F P/BV and 7.8x 2012F P/E.

We are also keeping **Halkbank (HALKB TI; Outperform)** in our top-picks list for 2012. We like Halkbank's solid management and ability to generate the highest ROE in the Turkish Banking Industry. A greater retail focus should enable the bank to improve NIM above the sector this year, along with the advantages afforded by being the leading SME bank in Turkey. The sources of upside risk include the continuation of NPL recoveries and non-core asset sale. On the other hand, higher than expected NPL generation and lower than expected volume growth presents downside risk to our valuation. Based on our assumptions, it is trading at 1.4x 2012F P/BV and 6.5x 2012F P/E.

We are keeping **Turkcell (TCELL.TI; Outperform)** in our model portfolio. Both the company and accordingly its share price have long been under pressure from harsh competition in the Turkish mobile sector and a shareholder dispute. Yet while it is early to claim that the worst is over, we beleive that we are poised to bottom out on both fronts. Additionally, assuming that the mid to long term growth drivers of the sector remain supportive, Turkcell's competitive advantages against its rivals, along with its conceivable valuation lead us to believe that it offers an attractive risk-reward opportunity for 2H12 and beyond. In this regard, we raise our recommendation for the company from Market Perform to **"Outperform"** with a target price of **TRY 11.20.** We believe that the CMB's latest communiqué has increased hopes of a solution to the ongoing shareholder dispute. We will continue to closely monitor the ongoing dispute between Turkcell's shareholders. We believe that as long as the outstanding disputes remain up in the air, investors will maintain their cautious stance. And yet a satisfactory resolution of the ownership dispute (which we believe is not too far away) and any agreement on the dividend distribution may pave the way for a rally in the stock. Furthermore, a relatively softening legal environment, the trend for migration to postpaid supporting ARPU growth, the widespread use of 3G as an important source of mobile operators' revenue growth through increased use of mobile data and increasing contribution of subsidiaries on the company's top-line, all justify our positive view on Turkcell. Meanwhile, Turkcell disclosed a net profit of TRY 515 million in its Q1 financials, surging by 56% YoY and also up by 55.2% QoQ. The 1Q12 bottom-line significantly beat both our in-house estimate of TRY 373 million and market consensus of TRY 404 million. A Better-than-expected net income figure mainly emanated from higher net finance income of TRY 161.8 million due to increased interest income on deposits, together with a translation gain of TRY 37 million as opposed to a translation loss of TRY 24 million in 1Q11; this besides a strong operational performance. At the top-line, Turkcell also registered higher-than-expected revenues of TRY 2,382 million in the first quarter of 2012, up by 12.4% YoY thanks to an 8% increase in Turkcell Turkey's revenues and 43% improvement in the contribution of group companies. The 8% growth in Turkcell Turkey's revenues emanated from 25% growth in mobile broadband & services revenues, mainly on the 52% growth in broadband revenues, together with the 3% rise in voice revenues. The contribution of group companies improved to 17% from 13%. Turkcell Superonline revenues rose 59.2% to TRY 145.0 million, versus TRY 91.1 million a year ago, while Astelit's revenues climbed 16.9% to $91.4 million. Compared to the previous quarter, revenues fell 2.6%, mainly due to the lower voice revenues of Turkcell Turkey and flat contribution of group companies, mostly on seasonality. We think that Turkcell's 1Q12 financials are sufficiently encouraging to support our long-term positive view.

We add **Turkish Airlines (THYAO.TI; Outperform)** to our model portfolio. We expect better operational profitability in Q2 than Q1 due to declining oil prices. Also, we believe that increasing traffic data will affect the company's financials positively come tourism season. Recall that average oil prices increased to $118 per barrel in 1Q12 from $ 110 per barrel in 4Q11. However starting from Q2, oil prices have begun to decline. Oil prices decreased to $ 100 per barrel as of May 31, 2012. Based on our DCF and peer analysis, our target market capitalization for THY stands at TRY 4,560 million with a target price of TRY 3.80. Considering THY's current market capitalization of around TRY 3,024 million, our target value represents a 51% upside potential. Thus, we maintain our **"Outperform"** recommendation for THY.

Sector Expectations

We maintain our MARKET PERFORM rating on the Banking Sector. The ISE Banking Index decreased 5.3% in absolute terms and performed in line with the ISE-100 index. Year to date, the banking index has increased 6.3% and underperformed the ISE-100 Index by 2%. Amongst the banks, HALKB (HALKB TI) was the best performer and remained flat MoM. On the other hand, AKBNK (AKBNK TI) was the worst performer, underperforming the banking index by 5.8% MoM.

Monthly				
	Price (01/06/2012)	Price (02/05/2012)	MoM Absolute Ch.	MoM Relative Ch.
AKBNK	5.80	6.50	-10.8%	-5.8%
ASYAB	1.62	1.76	-8.0%	-2.8%
GARAN	6.00	6.17	-2.7%	2.7%
HALKB	12.00	11.90	0.9%	6.5%
ISCTR	3.80	3.89	-2.3%	3.1%
YKBNK	3.03	3.13	-3.2%	2.2%
VAKBN	3.01	3.04	-0.8%	4.7%
TSKB	2.15	2.28	-5.7%	-0.5%
XU100	55,568	58,944	-5.7%	-0.5%
XBANK	105,014	110,855	-5.3%	0.0%

In terms of growth, weekly data published by the BRSA shows that weekly loan growth was weak. We note slower loan growth (0.4% WoW) in the week ending 25th May compared to the previous week's 1.1% growth. Total loans in the system reached TRY 733bn (21.6% YoY and 5.7% YtD). Loan growth on a WoW basis was driven by a 1.1% increase in FX loans. Turkish Lira lending on the other hand was flat. Lending growth on an annualized 13 Weekly MA basis was also flat. When we look at the loan segments, corporate loans grew by 0.5% WoW and 6.2% YtD, and consumer loans grew by 0.4% WoW (4.3% YtD, 17.4% YoY). We expect 17% loan growth for the sector this year. Recently the Turkish Bankers Association announced that they expect loan growth in the system to realize at between 15-18% in 2012. On the funding side, deposits on a WoW basis declined by -0.4% bringing the year to date increase to 2.8% (11.7% YoY). Deposits declined both on the FX and local currency fronts. The NPL ratio meanwhile, remained flat when compared to the previous week, and currently stands at 2.8%.

We have an OUTPERFORM rating on Aviation TAV's total number of passengers rose by 34% YoY to 14.33 million from 19.18 million in 4M12. On the other hand, THY announced that the number of passengers carried during January-April 2012 had increased by 18.7% to 11.1 million from 9.3 million when compared to the same period last year. We think that the positive mood in the traffic data is due to the upcoming high traffic months of the summer season. Additionally, Turkish Airlines increased ticket prices as of April 1, 2012 hiking its domestic ticket prices by between TRY 5.00-10.00 and international ticket prices by between €7.00–10.00 due to higher oil prices. We believe that the increase in ticket prices is in line with rising passenger numbers as the tourist season will contribute positively to the company's net sales revenues. In 1Q12, despite increased sales volume, the rise in COGS (especially increased oil prices in Q1) negatively affected THY's operational profitability and margins. However, we believe that increasing traffic data will affect financials positively due to the approaching tourism season and decreasing oil prices. Please note that after further unrest connected to the MENA crisis the upwards movement in oil prices will spell more risk for sector players. Looking at the companies under our coverage, we maintain our **"Outperform"** recommendations for Turkish Airlines and TAV Airports Holding.

We have an OUTPERFORM rating on Durables After a promising performance in 2011 on the back of relatively strong economic conditions and increasing purchasing power domestically, we think that the record number of construction permits for the last two years (reflected with a ~1.5 year lag) and replacement cycle, which is expected to be more pronounced in 2012, will continue to support domestic white goods sales, despite slowing growth. Regarding the 20% growth of 2011 (strong base effect) and indications of cooling demand, our estimate for growth in the 2012 domestic market is about 3%. And although certain catalysts could have a negative impact (i.e. Euro debt crisis/recession), we will continue to track white goods sales and observe home sales during the first quarter of the year in order to better gauge the factors at play in 2012. We believe that the major risk for the sector would be a downward trend or prolonged global recession. All in all, we retain our modestly optimistic view for the sector, albeit with a slightly cautious stance.

We have an OUTPERFORM rating on Energy in Q1 of 2012, sector players saw a higher bottom-line due to rising FX gains on dollar depreciation against the Turkish Lira. Recall that sector players have a high FX debt position as a result of increasing financial loans related to ongoing capacity expansion investments. Also, the high capacity usage rate, increased electricity sales volume and rise in electricity spot prices due to increasing demand, plus Turkey's natural gas supply problems, in conjunction with cold weather in 1Q12, led to a positive top-line. However the increased sales volume and bottom-line, plus the rise in COGS (especially the natural gas price increase compared to Q1 of 2011) negatively affected sector margins in 1Q12. In Q2 of 2012, we expect companies' margins to be affected negatively as a result of the natural gas price hike at the beginning of Q2. Meanwhile, we estimate that if dollar appreciation against the Turkish Lira continues, it will be difficult for energy companies to sustain a higher bottom-line. Recall that natural gas prices increased by 18.72%, while average electricity prices rose by 8.1%, as of April 1, 2012. Thus, as the price hike in natural gas is higher compared to that of electricity prices, we expect this to reflect negatively onto the sector's Q2 results.

We have an OUTPERFORM rating on Retails We believe that the Retail sector has important growth potential as penetration rates are well below the EU average, and Turkey's young and rising population offers huge potential for future development. Note that 43% of the population of Turkey is below 25 and the population reached 74 million as of 2010 with an average growth rate of 1.6%. We expect Turkey to see 5% average long-term GDP growth, which gives the retail sector potential to expand. In addition, given the defensive character of food retailing, we think that the retail sector will be one most immune in case of downturns. We extend our coverage of the Turkish Retail Sector by including BIZIM and MIGROS (both with an **“Outperform”** rating) in addition to already covered BIMAS.

We have an OUTPERFORM rating on REITs After two strong years of growth with low interest rates in 2010 and 2011, 2012 looks to be a year of respite for the sector, although we are still positive for the long term. Mortgage rates have been on downside trend since 2002 and decreased from 5.1% to as much as 0.79% at the end of 2010 on a montly basis. Following the Central Bank’s actions in 2011, monthly interest rates on home loans increased significantly by 0.40 points on average to 1.20% in 2011 compared to the end of 2010. But we have again been observing some decline for a couple of weeks. This mainly stemmed from the decrease in benchmark rate due to increasing global risk appetite all around, which in turn will continue to support the sector.

We have a MARKET PERFORM rating on Autos In line with our expectations, auto sales started to moderate this year due to the slowdown in Turkish economic growth and high base effect. During the first quarter of this year, total domestic auto sales declined 26% compared to the prior year. While domestic PC sales declined by 21%, LCV sales shed 35% with the latent effect of price hikes stemming from higher taxes and depreciation of TRY. Overall in year 2012, we expect domestic automotive sales to slow down by 13%. Among all the companies, Tofas is our top pick since exports are guaranteed by take or pay agreements. In addition, the company is expanding its export base through its agreements with Opel/Vauxhall and Chrysler. And while exports to Chrysler will not start until 2013, Opel/Vauxhall exports started in 4Q11.

We have a MARKET PERFORM rating on Cement According to the Turkish Cement Manufacturers’ Association, domestic cement sales volume increased by 9.5% YoY to 52.3mn tons in 2011 due to the strong domestic demand and export volume declined by 24% YoY to 13.5mn tons, due to sales being directed towards the domestic market and the negative effect of the Arab Spring. We believe that both domestic and export volumes will increase by 5% YoY and 11% YoY in 2012, respectively. We believe that urban transformation, infrastructure investments, housing demand, new regulations (both Earthquake and 2B), and ongoing projects will continue in 2012. The expected slowdown in domestic demand and excess capacity will cause sector players to continue compensating with exports. The MENA region seems to be the primary destination for Turkey. On the other side, the negative effects of the Arab Spring will be a potential risk for cement exports. In light of the demand and price expectations for 2012, we believe the increase in electricity and petro coke prices will be more negative for the companies’ margins compared to 2011. We maintain our **"Market Perform"** rating for the sector in 2012.

We have a MARKET PERFORM rating on Glass After strong domestic demand from 2010, 2011 was another strong year. However, due to the fact that we are more cautious over the continuation of strong demand, mainly due to slowing global growth in the remainder of the year, we are somewhat doubtful as to whether production and sales would continue to increase with the same momentum over the coming months. We think the major risk for the glass companies would be a prolonged economic downturn or deterioration in demand conditions both in Turkey and abroad. In this case, the capacity utilization rate and production volumes, as well as the operational performance of glass companies would suffer, which may prompt them to postpone investments on their agenda. In addition, glass companies utilize natural gas and soda ash in their production processes and any increase in raw material prices would pressure the companies' profitability. The ISE fell 17% in 2011 and glass companies under our coverage: Trakya Cam and Anadolu Cam pulled back 21% and 18% in absolute terms, outperforming the ISE-100 by 1% and 5%, respectively. Yet the outperformance came mainly from the first half of the year. The second half of 2011 was more challenging for the sector. We had revised our Outperform recommendation for the glass sector down to "**Market Perform**" stemming from the fact that a slowdown in the global economy, especially in Europe posed downward risks at the beginning of the year, and we indeed maintain our recommendation.

We have a MARKET PERFORM rating on Iron & Steel In 2011, the iron and steel sector had a successful year overall thanks to the effects of higher product prices in 2011. Hot and cold product prices increased by 21% and 15%, respectively. Long-term product prices rose by 40%. This influenced the financials of sector players in 2011. However, product prices fell by 10% in 4Q11 compared to the previous quarter, while product prices decreased by 8% Ytd in Q1 of 2012. On the other hand, increasing raw material prices negatively affected sector profitability and margins in 1Q12. Product prices have been flat since the beginning of Q2. We believe that in parallel with the slowdown in the global economy, the regression in demand will have adverse effects on sector performance. We expect 2011 profitability levels not to be sustained due to low prices and higher cost in 2012 for the sector.

We have a MARKET PERFORM rating on Oil & Gas Since demand for petroleum products is linked to GDP growth, and given our 1% GDP growth assumption, we expect a slowdown in the pace of growth of demand for petroleum products in 2012. In addition, supply side pressures arising from rising crude oil and natural gas prices will have a negative impact on the sector profitability. However, we believe that the consumption of domestic petroleum products in Turkey will maintain its growth in the long-term, and that Tupras will be the key beneficiary given its leading position in the refining sector.

We have a MARKET PERFORM rating on Pharmaceuticals In 2012 the pharmaceuticals sector was quite busy. US company Amgen the world's largest biotechnology organization announced that it would acquire a 95.6 percent stake in Mustafa Nevzat Pharmaceuticals, a privately held Turkish pharmaceutical company, for the amount of $700 million in April, 2012. On the other hand, recall that the government passed a new regulation on the pricing of pharmaceutical products that went into effect in November 2011. Following the new regulation, drug prices decreased by 7%. Thus, sector players' top-lines were negatively affected in 1Q12. However, despite decreased net sales revenues, declining COGS had a positive effect on company margins and bottom-line. On the other hand, the sale of toiletry products positively affected the company's profit margins due to their higher profit margins than those of pharmaceuticals. Looking at the companies under our coverage, we maintain our recommendation for Selcuk Ecza Deposu **(SELEC.TI; Outperform)** for now.

We have a MARKET PERFORM rating on Telcos The Turkish mobile market remained competitive in 2011. In the post-paid segment, competitors continued to increase incentives. And in the pre-paid segment, despite observing some rational moves, competition continues with aggressive port-in offers, maintaining its focus on the young segment with low price bundled offers. On the terminal front, competition intensified with a wider portfolio of devices and segmented offers available for contracted smart phones. The market's focus on contracted smart phone sales continued in 2011, where additional monthly fees for smart phone acquisitions were again reduced, resulting in an upward trend in sales. On the other hand, though we may see some softening in competition in 2012, it will be limited as operators may concentrate on maximizing cash flows from existing customers rather than expanding market share due to the weakening economy in 2012. However, we do not expect a dramatic change in competition for the short-term. Considering the youthful population of Turkey, a lower penetration rate relative to Europe and increasing disposable income, we are positive for the mobile sector in the long-term. However, we do not expect rational competition in the short-term, which should continue to spell distress for both margins and profitability. Therefore, we maintain our "**Market Perform**" rating for the sector.

Expectations for June 2012 & beyond

- We maintain our **HOLD** recommendation with a 12m index target of **67,500** offering 22% upside potential. Turkish equities are trading at a slightly expensive **2012E 10.3x P/E** (3% premium to EM peers), but relatively cheap **2012E 1.2x P/BV** (10% discount to EM peers).
- The market will focus on global and local developments:
    - **FED and ECB's signals on further easing**
    - **Macro data from US and Europe**
    - **EU Summit for any new measures**
    - **Political risk due to elections in Greece**
    - **Balance of payment data to provide the most important macro headline** for Turkey
    - **CBRT's unorthodox (tightening) policy -** uncertainty in S/T rates regarding the **cost of funding** for Turkish banks
- Following the retreat of the past two months, we might see some recovery efforts in June
    - **Benchmark bond yields will continue to move between 9.0% ~10%**
    - **Forward P/E multiple is not looking attractive compared to EM peers, but P/BV still indicates good potential**

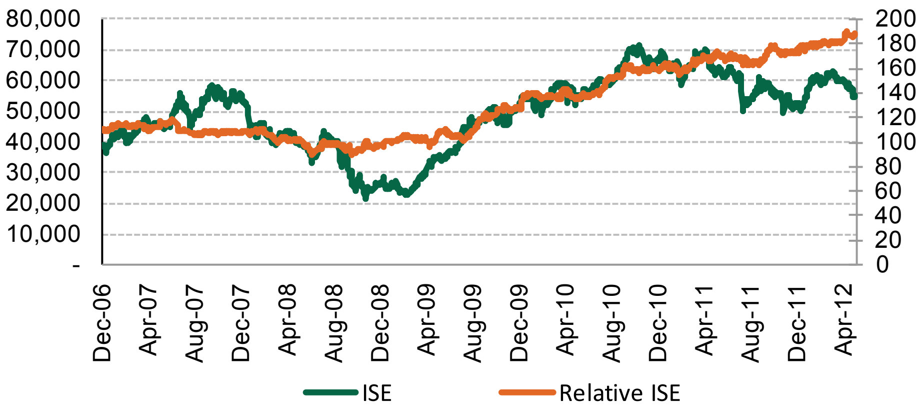
- Markets might remain under pressure:
  - Volatility may continue due to continuing global risks
  - Stronger than expected slowdown in economic activity may lead to worse-than-expected output (i.e. recession)
  - Uncertainty of market rates making valuations less reliable

Virtual Portfolio

Return, %	ISE	Portfolio	Relative
2005	59.3%	47.9%	-7.2%
2006	-1.7%	16.6%	18.6%
2007	42.0%	38.9%	-2.2%
2008	-51.6%	-56.3%	-9.7%
2009	96.6%	158.0%	31.2%
2010	24.9%	55.0%	24.1%
2011	-22.3%	-12.0%	13.4%
2012	7.5%	23.0%	14.5%
Jan-12	11.5%	13.9%	2.1%
Feb-12	6.2%	6.5%	0.3%
Mar.12	2.8%	3.6%	0.7%
Apr-12	-3.9%	-0.9%	3.1%
May.12	-8.2%	-5.7%	2.7%

Portfolio Recommend.	Inclusion Date	Inclusion Price	Last Close	Chg. (%)	ISE Relative
Tofas	08.09.11	5.84	6.34	8.6%	8.8%
TAV Airports	08.01.10	4.75	9.02	89.9%	89.5%
Garanti Bank	04.05.12	6.40	5.98	-6.6%	0.5%
Aksa Energy	08.09.11	2.73	3.51	28.6%	28.9%
Turkcell	04.05.12	8.83	8.14	-7.8%	-0.8%
Aksa Akrilik	10.01.12	3.90	3.85	-1.3%	-10.7%
Halkbank	04.05.12	12.00	11.45	-4.6%	2.7%
Arçelik	08.09.11	6.32	7.82	23.7%	24.0%
Portfolio Historical Yield					**88.0%**

ISE vs. Portfolio



Turkish Airlines

Maintain Outperform…

Fleet expansions to lift growth The total number of THY's aircraft grew from 168 in 1Q11 to 178 in 1Q12. The company also grew its seat capacity by 9% to 32,820 as of Q1 of 2012, while the number of destinations soared to 191. Thus, THY increased its passenger numbers to 15mn in 1Q12 due to rising capacity and the introduction of new destinations. THY plans to increase its fleet number to 189 by the end of 2012 and to 202 in 2013. It aims to carry 38.2 million passengers in 2012, while we predict the figure at about 36.2mn due to the new flight destinations thanks to the enlarging fleet and increasing number of transit passengers.

Increasing passenger numbers will reflect positively on net sales revenues 1Q12, Net sales revenues increased by 35.6% YoY to TRY 2,843 million in Q1 of 2012 in TRY terms. The main reasons for this are rapidly rising capacity and the introduction of new destinations in line with increasing pax numbers, strong passenger load factor (load factor was 72.7% in 1Q12, versus 62.7% in 1Q11) and lira depreciation against FX (especially Euro) in 1Q12 compared to the same period of last year. We expect the company to announce FY2012 net revenues of TRY 13.85 billion, while it targets revenues of TRY 14.6 billion due to increasing passenger number. On the other hand, the PLF rate decreased to 72.6% in 2011 from 74.1% in 2010, mainly due to fleet expansion in 2011.

Q2 will be better than Q1 Turkish Airlines recorded a net loss of TRY 29 million in 1Q12 due to increased FX loss and weak operational profitability in line with increasing oil prices, thus better than our estimate of TRY 92 million and the market consensus of a TRY 70 million net loss. The company had disclosed a net loss of TRY 220 million in 1Q11. THY booked TRY 372.5 million of deferred tax income in Q1 of 2012 (1Q11: TRY 105.3 million). Hence, the bottom-line was positively affected in Q1. The recorded high deferred tax income led the net loss to register below expectations. Recall that average oil prices increased to $118 per barrel in 1Q12 (1Q11: $118 per barrel) from $ 110 per barrel in 4Q11. Hence, despite the increased sales volume, the rise in COGS (especially in oil prices in Q1) negatively affected its operational profitability and margins in 1Q12. The company recorded negative EBITDA of TRY 8 million in 1Q12 as a result of rising oil prices, which was below our estimate of TRY 150 million and the market consensus forecast of TRY 215 million. In line with strong fleet expansion, higher personnel costs are also to further pressure EBITDA in Q1. We expect operational profitability to improve in Q2 compared to Q1 on declining oil prices. Also, we believe that increasing traffic data will positively affect the company's financials given the tourism season. We anticipate THY closing 2012 on a TRY 242 million net profit. And in terms of EBITDA, we estimate THY booking TRY 1,250mn at the end of 2012.

"Outperform" we maintain our **"Outperform"** rating and **TRY 3.80** target price for Turkish Airlines. The stock currently trades at TRY 2.52, whereby our target value represents 51% upside potential.

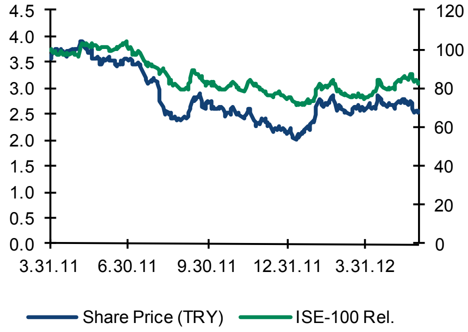
Quick Facts	2010A	2011A	2012E
Total Revenue	8,423	11,815	13,850
% Change, YoY		*40.3%*	*17.2%*
Total Profit	286	19	242
% Change, YoY		*-93.5%*	*1209.0%*
EBITDA	921	1,150	1,250
% Change, YoY		*24.9%*	*8.7%*

Multiples	2010A	2011A	2012E
P/E	10.6	163.3	12.5
P/BV	0.8	0.7	0.7
EV/EBITDA	9.6	7.7	7.1
EV/Sales	1.1	0.8	0.6

Valuation	
Current Price, TRY	2.52
Target Price, TRY	3.80
Upside Potential	51%
Rating	OP
Target Mcap, TRYbn	4,557

Performance	TRY	USD
Close	2.52	1.37
High, 52w	3.61	2.29
Low, 52w	2.01	1.08
Ticker	THYAO.TI /THYAO.IS	
# of Shares, mn	1,200.0	

Return	1 M	YOY	YTD
TRY Return (%):	-6.7	-29.6	18.4
US$ Return (%):	-11.1	-39.4	22.6
ISE-100 Relative (%):	2.2	-18.8	10.8
Avg. Daily Vol. (TRY Mn):	50.07		
Avg. Daily Vol. (US$ Mn):	28.48		



Arcelik

Deserves to be a top pick …

We maintain our "Outperform" rating The company's promising results in the first quarter of 2012 albeit with some loss of momentum, ongoing strong domestic demand and its growth story in its region pave the way for our "**Outperform**" rating for Arcelik. We keep our target price at TRY 8.60.

Dominates the domestic market with more than 50% share Arcelik is owned by Turkey's foremost banking, automotive, energy and consumer conglomerate Koc Holding, and is Turkey's leading white goods manufacturer commanding more than a 50% domestic market share with its unique dealer network of 3,500 exclusive retail shops and 600 after-sales service points. Vestel and Bosch are Arcelik's main domestic competitors. Arcelik is also a prominent exporter. Its major export markets are the EU, Eastern Europe, Russia, Middle East and North Africa.

Actively seeks inorganic growth opportunities On the other hand, Arcelik is actively seeking inorganic growth opportunities in order to become a leading regional player. As part of the company's growth strategy in emerging markets, Arcelik acquired a 100% stake in South African Defy Appliances in 2011.

The domestic white goods market maintains strong sales. Despite the fact that we are becoming more cautious over the continuation of strong demand, plus slowing global growth, the latest Turkish White Goods Manufacturers' Association's figures prompt us to stick to our relatively positive view for the sector, especially for domestic sales. Following an all time high domestic sales figure on a yearly basis for 2011 of 6.47 million units, implying a 19.3% annual increase, the first quarter figures for 2012 also point to a relatively strong performance on a yearly basis.

We assume sales revenues and EBITDA increasing by 23.1% and 24.5% YoY in 2012, respectively, supported by the Defy consolidation We expect the company to reach a revenue figure of TRY 10,390 million and EBITDA figure of TRY 1,091 million.

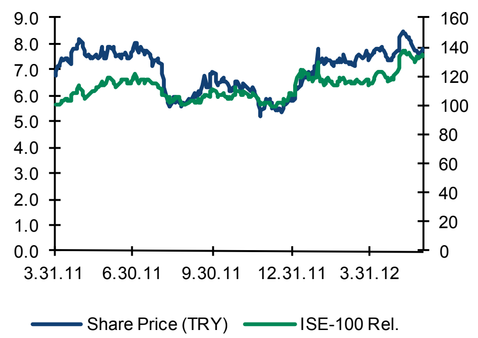
Quick Facts	2010A	2011A	2012E
Total Revenue	6,936	8,437	10,390
% Change, YoY		*21.6%*	*23.1%*
Total Profit	549	541	549
% Change, YoY		*-1.5%*	*1.5%*
EBITDA	758	876	1,091
% Change, YoY		*15.6%*	*24.5%*

Multiples	2010A	2011A	2012E
P/E	9.6	9.8	9.6
P/BV	1.6	1.5	1.2
EV/EBITDA	9.7	8.4	6.7
EV/Sales	1.1	0.9	0.7

Valuation	
Current Price, TRY	7.82
Target Price, TRY	8.60
Upside Potential	10%
Rating	OP
Target Mcap, TRYbn	5,808

Performance	TRY	USD
Close	7.82	4.25
High, 52w	8.46	5.00
Low, 52w	5.22	2.81
Ticker	ARCLK.TI /ARCLK.IS	
# of Shares, mn	675.7	

Return	1 M	YOY	YTD
TRY Return (%):	2.3	-0.1	36.2
US$ Return (%):	-2.5	-13.9	41.1
ISE-100 Relative (%):	12.1	15.4	27.5
Avg. Daily Vol. (TRY Mn):	7.92		
Avg. Daily Vol. (US$ Mn):	4.48		



Halkbank

Strong quarter prompts upward revisions to management's full year targets…

March quarterly results. Bank-only net income came in at TRY544m (up 3.7% YoY and 7.9% QoQ), which exceeded both our in-house and consensus estimates (Seker TRY 528m, vs. CNBC-e consensus of TRY518m). Quarter on quarter bottom line growth was driven by a lower provisioning expense (down 58% QoQ) and lower taxes (down 21%, vs. a quarter ago). ROE on a 12M rolling basis came in at 22.3%, vs. 25.1% in Dec-11. Overall we note a strong set of results that are in line with our expectations.

Balance sheet trends… On the lending side Halkbank grew its loan book slightly above the sector (HALKB 2.7%, vs. sector's 2.3%) in 1Q12. Loan growth was driven by TL lending, especially in the SME and consumer segments. Consumer segment loan growth was driven by credit card loans, which registered an 8.8% rise QoQ. By our calculations the blended yield of the loan book rose by 33bps thanks to increased focus on higher yielding segments. On the funding side deposit growth was strong, outpacing that of the sector (HALKB 6.5% QoQ, vs. 0.5% in the sector) driven by lower cost FX deposits, and hence a limited increase in cost of deposits. Meanwhile, quarterly balance sheet growth of 3.7% was driven by lending growth.

Asset quality trends…The bank managed to maintain asset quality this quarter thanks to the slower inflow of new NPLs and better than expected collections during the first quarter. Halkbank's NPL ratio improved slightly (only by 5bp) to 2.83%, vs. 2.88% in 4Q11. Were we to exclude Halkbank's legacy NPL stock from the total NPL book the ratio would decline to below the sector level, at 2.0%, vs. 2.7%, respectively.

Income statement highlights…Halkbank did a great job on the cost control front, and opex growth on a QoQ basis was contained at 2.6% (12.5% YoY), mainly driven by wage increases during the quarter. Fee growth was slower due to an accounting methodology change, losing 17% QoQ, but up 1.7% YoY. However, the management now guides for higher fee growth in 2H12, vs. a year ago.

Multiples & Recommendation We like the balance sheet growth and quality of the results published. We maintain our **"Outperform"** rating for the bank with a 12M target price of TRY 14.70. On our 2012F estimates the bank trades at PER of 6.5x and PBR of 1.41x.

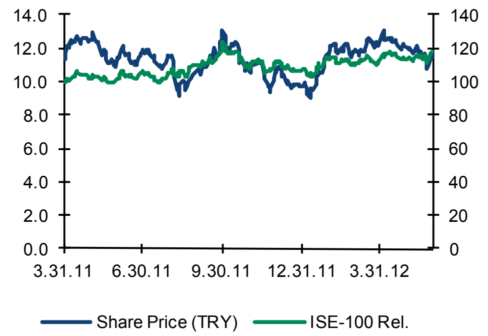
Quick Facts	2010A	2011A	2012E
Net Income	2,010	2,045	2,298
% Change, YoY		*1.7%*	*12.4%*
Total Book Value	7,445	8,640	10,588
% Change, YoY		*16.1%*	*22.5%*

Multiples	2010A	2011A	2012E
P/E	7.1	6.9	6.2
P/BV	1.9	1.6	1.3

Valuation	
Current Price, TRY	11.45
Target Price, TRY	14.70
Upside Potential	28%
Rating	OP
Target Mcap, TRYbn	18,375

Performance	TRY	USD
Close	11.45	6.22
High, 52w	13.12	7.72
Low, 52w	9.07	4.87
Ticker	HALKB.TI /HALKB.IS	
# of Shares, mn	1,250.0	

Return	1 M	YOY	YTD
TRY Return (%):	-5.7	-0.1	17.1
US$ Return (%):	-10.2	-13.9	21.3
ISE-100 Relative (%):	3.3	15.4	9.6
Avg. Daily Vol. (TRY Mn):	78.56		
Avg. Daily Vol. (US$ Mn):	44.46		



Garanti Bank

1Q12 results just as expected…

Income Statement highlights…. March's quarterly net income came in at TRY861.7m, up 9% QoQ and c.1% YoY. The bottom line exceeds both our and the consensus estimate (Seker 1Q12 TRY830m and consensus TRY827m). The QoQ increase in net income was driven by a 20% rise in trading & currency gains that Garanti booked during the March quarter (1Q12 trading gains TRY89m, vs. TRY74m in 4Q11) and lower provisioning. Fees were also strong, as net fee and commission income climbed 6% QoQ, but was down c.4% YoY due to the change in accounting and cap on mutual fund fees. Opex increased 17% YoY, although management maintains their CPI+2-3% cost growth guidance for the full year.

Balance sheet highlights… On the lending side Garanti's loan growth lagged the sector this quarter when looked at on an FX unadjusted basis. The loan book declined by 1%, vs. the sector's 2.3% growth (YoY loan growth came in at 18%). Deceleration in lending book growth was driven by corporate loans, which shed 2% QoQ. Consumer loans, on the other hand, grew 2% thanks to 4% growth in GPL loans and 2% growth in mortgages. On an FX adjusted basis TL loans grew by 2.1% and FX loans grew by 2%. Despite some pick up in the blended cost of deposits, the bank managed to keep the loan – deposit spread stable during the March quarter. On the funding side deposits on a QoQ basis declined 2%, vs. the sector's 0.5% increase in 1Q as Garanti relinquished costly big ticket corporate deposit holders to keep the cost of deposits under control. The share of loans within total assets decreased to 56%, vs. 57% in FY2011, whereas that of securities rose to 25% from a quarter ago.

Asset quality trends… Despite a slight deterioration in asset quality, all seems to be in place for now. The NPL ratio stood at 1.88% in 1Q12, vs. 1.80 in 4Q11, due to slower collections and new NPL inflow. Note that during their conference call management emphasized possible asset quality problems in the SME segment going forward.

CAR and ROE… Visible RWA optimization from Garanti and CAR ratio seems stable, at 16.92%, vs. 16.89% in 4Q11. ROE on a 12M rolling basis came in at 17.5%, vs. 18.5% in 1Q11.

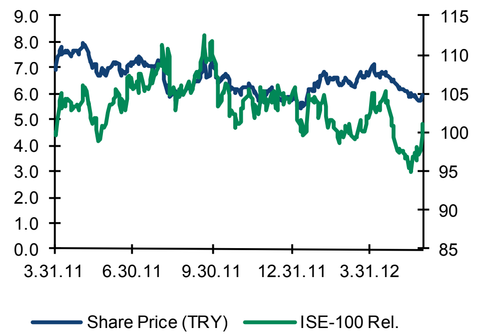
We rate the stock **"Outperform"**, with a target price of TRY7.59. By our assumptions, the shares are trading at 1.26x 2012F P/BV and 7.8x 2012F P/E.

Quick Facts	2010A	2011A	2012E
Net Income	3,145	3,071	3,260
% Change, YoY		*-2.4%*	*6.2%*
Total Book Value	16,475	17,577	20,034
% Change, YoY		*6.7%*	*14.0%*

Multiples	2010A	2011A	2012E
P/E	7.9	8.1	7.6
P/BV	1.5	1.4	1.2

Valuation	
Current Price, TRY	5.98
Target Price, TRY	7.59
Upside Potential	27%
Rating	OP
Target Mcap, TRYbn	31,878

Performance	TRY	USD	
Close	5.98	3.25	
High, 52w	7.41	4.60	
Low, 52w	5.40	2.90	
Ticker	GARAN.TI /GARAN.IS		
# of Shares, mn	4,200.0		
Return	**1 M**	**YOY**	**YTD**
TRY Return (%):	-6.1	-15.0	2.9
US$ Return (%):	-10.5	-26.8	6.6
ISE-100 Relative (%):	2.9	-1.9	-3.7
Avg. Daily Vol. (TRY Mn):	414.58		
Avg. Daily Vol. (US$ Mn):	234.57		



at TRY 9.02, and our target value

TAV Airports Holding

Positive results in 2012…

New strategic partner- French airport operator, Aéroports de Paris (ADP), has signed a purchase agreement with Akfen Holding, Tepe Insaat and Sera Yapi Endustri, for TAV Airports Holding. Accordingly, ADP purchased a 38% stake in TAV Airports Holding (18% from Akfen Holding, 18% from Tepe Insaat and 2% from Sera Yapi Endustri) for USD 874 million. TAV's total sales price is USD 2.3 billion (TRY 11.30/share) and its current Mcap is at USD 1.78 billion (TRY 9.02/share). TAV shares carry a 25% upside according to the announced sales price. The purchase is below the level that would trigger a mandatory tender offer for minority shareholders. We expect TAV's partnership with ADP to contribute to the company's development. We believe that such a grouping would result in the creation of an outstanding alliance with excellent growth potential - both organically and through further acquisitions.

Positive results in Q1 of 2012 - The number of passengers using TAV-operated airports increased by 35% to 13.7 million in 1Q12 due to organic growth and with the positive contribution of Izmir Airport (Domestic). TAV's revenues soared by 19% YoY to €211 million in 1Q12 on the back of strong growth. EBITDA came in at €46.8 million in 1Q12, up by 33% YoY. Meanwhile, increased duty-free operations and strong performance from ground handling operations also supported EBITDA growth. TAV Airports Holding disclosed a net profit of € 12 million in 1Q12. Recall that the first quarter of the year is seasonally the weakest. However, TAV announced a first quarter net profit for the first time ever.

Revenues to grow by about 15% annually in 2012- We believe that the number of passengers using airports operated by TAV will increase to 66 million in 2012 due to new airport openings. Thus, we think that the increase in passenger number and the positive contribution of new airports (Medina and Izmir Adnan Menderes) will have a positive effect on net sales revenues, which we expect to reach EUR 1,023 million in 2012. Also, we believe that TAV's EBITDA and EBITDAR will increase to EUR 316 million and EUR 460 million in 2012, respectively. In terms of net profit, we expect the company to announce a EUR 85 million net profit for 2012.

Still "Outperform" we maintain our **"Outperform"** recommendation for the stock. While our target price stands at TRY 11.70, TAV Airports Holding currently trades

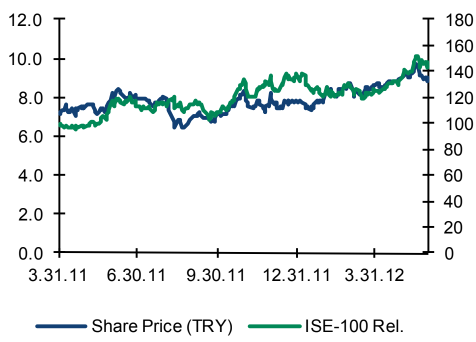
Quick Facts, EUR	2010A	2011A	2012E
Total Revenue	785	881	1,023
% Change, YoY		*12.2%*	*16.1%*
Total Profit	50	53	85
% Change, YoY		*6.0%*	*61.0%*
EBITDAR	342	387	460
% Change, YoY		*13.1%*	*19.0%*

Multiples, EUR	2010A	2011A	2012E
P/E	28.4	26.8	16.7
P/BV	3.2	3.0	3.1
EV/EBITDAR	7.4	6.6	5.5
EV/Sales	3.2	2.9	2.5

Valuation	
Current Price, TRY	9.02
Target Price, TRY	11.70
Upside Potential	30%
Rating	OP
Target Mcap, TRYbn	4,250

Performance	TRY	USD
Close	9.02	4.90
High, 52w	9.74	5.36
Low, 52w	6.45	3.62
Ticker	TAVHL.TI /TAVHL.IS	
# of Shares, mn	363.3	

Return	1 M	YOY	YTD
TRY Return (%):	-1.1	10.6	13.4
US$ Return (%):	-5.8	-4.7	17.4
ISE-100 Relative (%):	8.4	27.7	6.1
Avg. Daily Vol. (TRY Mn):	6.15		
Avg. Daily Vol. (US$ Mn):	3.49		



Tofas

Our top pick…

Our recommendation for Tofas is "Outperform". Our target market capitalization for Tofas stands at TRY 4,900 million and TRY 9.80 per share. This represents 57.1% upside potential compared to the current market capitalization of TRY 3,120 million. Therefore, we maintain our **"Outperform"** rating.

Tofas is a safe haven with take-or-pay agreements, despite fragile economic outlook in European markets. Growing concerns regarding slowdown in global economic growth and European debt woes is a key risk factor on automotive exports. Tofas's largest export markets are France and Italy. Stalling economic growth and debt problems in these countries leaves us cautious over these markets. However, Tofas's take-or-pay agreements with its parent company Fiat protect it from sharp slowdowns in exports. Note that currently 61% of Tofas' capacity is guaranteed under take-or-pay export agreements.

Opel/Vauxhall and Chrysler deals enhance exports. Tofas started production in its Doblo platform in 4Q11. According to the agreement, Tofas will produce 250,000 units until 2018. In addition, Tofas signed an agreement with Chrysler to produce the Doblo for the US market, which is expected to take effect in the first half of 2013. The agreement covers 190,000 units.

Tofas's 1Q12 results beat estimates. Tofas has reported a net profit of TRY 96.9 million for 1Q12, exceeding our estimate of TRY 77.2 million and the market consensus of TRY 74 million. Tofas generated TRY 1.5 billion in revenues in 1Q12, 16.7% below the same period of the previous year, due to a 28.6% decline in total sales volume. It generated an EBITDA of TRY 188.2 million in 1Q12, on a small YoY improvement of 1.2% since operating profit was 8.7% lower than for the same period of last year. Meanwhile, the EBITDA margin improved substantially from 10.1% in 1Q11 and 4Q11 to 12.3% in 1Q12.

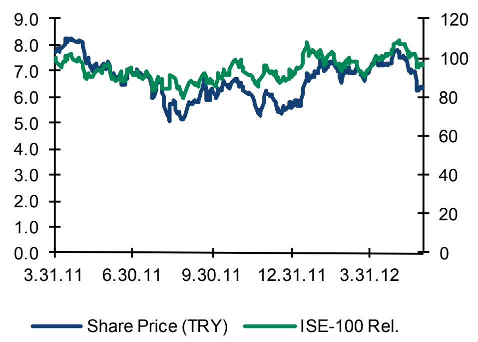
We anticipate Tofas's domestic sales slowing in parallel to the market. However, the decline in domestic sales could be compensated for by additional export volume coming from the Opel deal. On the top line, we expect net sales growth of 2.3% and sales revenues to reach TRY 7.5 billion in 2012. In addition, we estimate Tofas' EBITDA at TRY 718 million, bringing the EBITDA margin to 9.6% at the end of 2012.

Quick Facts	2010A	2011A	2012E
Total Revenue	6,410	7,337	7,505
% Change, YoY		*14.5%*	*2.3%*
Total Profit	384	474	376
% Change, YoY		*23.4%*	*-20.7%*
EBITDA	658	789	718
% Change, YoY		*19.9%*	*-9.0%*

Multiples	2010A	2011A	2012E
P/E	8.3	6.7	8.4
P/BV	1.9	1.8	1.5
EV/EBITDA	6.4	5.4	5.9
EV/Sales	0.7	0.6	0.6

Valuation	
Current Price, TRY	6.34
Target Price, TRY	9.80
Upside Potential	55%
Rating	OP
Target Mcap, TRYbn	4,900

Performance	TRY	USD	
Close	6.34	3.44	
High, 52w	7.78	4.55	
Low, 52w	5.06	2.85	
Ticker	TOASO.TI /TOASO.IS		
# of Shares, mn	500.0		
Return	**1 M**	**YOY**	**YTD**
TRY Return (%):	-19.8	-15.2	12.6
US$ Return (%):	-23.6	-26.9	16.6
ISE-100 Relative (%):	-12.1	-2.1	5.4
Avg. Daily Vol. (TRY Mn):	7.20		
Avg. Daily Vol. (US$ Mn):	4.11		



Turkcell

More resilient to economic slowdown …

Sources of underperformance likely to bottom out Both the company, and accordingly the share price have long been under pressure from harsh competition in the Turkish mobile sector and a shareholder dispute. Yet while it is early to claim that the worst is over, we beleive that we are poised to bottom out on both fronts. Additionally, assuming that the mid to long term growth drivers of the sector remain supportive, Turkcell's competitive advantages against its rivals, along with its conceivable valuation lead us to believe that it offers an attractive risk-reward opportunity for 2H12 and beyond. In this regard, we raise our recommendation for the company from Market Perform to **"Outperform"** with a target price of TRY 11.20, implying an upside potential of 27.3%.

CMB's latest communiqué has increased hopes of a solution to the ongoing shareholder dispute We will continue to closely monitor the ongoing dispute between Turkcell's shareholders. We believe that as long as the outstanding disputes remain up in the air, investors will maintain their cautious stance. And yet a satisfactory resolution of the ownership dispute (which we believe is not too far away) and any agreement on the dividend distribution may pave the way for a rally in the stock.

Furthermore, a relatively softening legal environment, the trend for migration to postpaid supporting ARPU growth, the widespread use of 3G as an important source of mobile operators' revenue growth through increased use of mobile data and the increasing contribution of subsidiaries to the top-line all justify our positive view on Turkcell.

Risks to our rating include further deterioration of the competitive environment putting further pressure on company margins, along with the prolonged shareholder dispute.

On the other hand, Turkcell disclosed a net profit of TRY 515 million in its Q1 financials, surging by 56% YoY, and also up by 55.2% QoQ. The 1Q12 bottom-line significantly beat both our in-house estimate of TRY 373 million and market consensus of TRY 404 million. A Better-than-expected net income figure mainly emanated from higher net finance income of TRY 161.8 million due to the increased interest income on deposits, together with a translation gain of TRY 37 million as opposed to a translation loss of TRY 24 million in 1Q11, this besides strong operational performance.

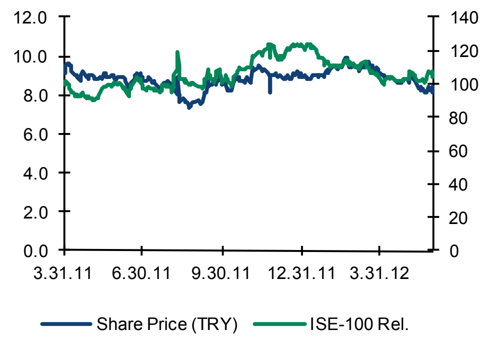
Quick Facts	2010A	2011A	2012E
Total Revenue	9,004	9,370	10,025
% Change, YoY		*4.1%*	*7.0%*
Total Profit	1,707	1,140	1,828
% Change, YoY		*-33.2%*	*60.3%*
EBITDA	2,948	2,913	3,148
% Change, YoY		*-1.2%*	*8.1%*

Multiples	2010A	2011A	2012E
P/E	10.5	15.7	9.8
P/BV	1.9	1.6	1.4
EV/EBITDA	5.2	5.2	4.8
EV/Sales	1.7	1.6	1.5

Valuation	
Current Price, TRY	8.14
Target Price, TRY	11.20
Upside Potential	38%
Rating	OP
Target Mcap, TRYbn	24,638

Performance	TRY	USD
Close	8.14	4.42
High, 52w	9.96	5.74
Low, 52w	7.36	4.15
Ticker	TCELL.TI /TCELL.IS	
# of Shares, mn	2,200.0	

Return	1 M	YOY	YTD
TRY Return (%):	-5.9	-7.6	-7.0
US$ Return (%):	-10.4	-20.4	-3.6
ISE-100 Relative (%):	3.1	6.6	-12.9
Avg. Daily Vol. (TRY Mn):	20.33		
Avg. Daily Vol. (US$ Mn):	11.49		



Aksa Akrilik

Carbon fiber on the rise…

Largest producer of acrylic fiber in the world – Aksa Akrilik is the largest acrylic fiber producer worldwide under a single roof with its annual production capacity of 308k tons/year. Its global market share in acrylic fiber production is currently at 14.0%, and its domestic market share is 72%. (2010: 13.2% and 67%). On the other hand, Aksa's global market share of carbon fiber production is at 3.5%.

Carbon fiber capacity planned to be increased to 3,500 tons in next term – Aksa has a current carbon fiber production capacity of 1,800 tons and plans to increase it to 3,500 tons by the end of 2012. The company also aims to increase its market share to 5% within five years and to 10% within ten. We consider this increased capacity to be positive for the net sales revenues in the coming years. On the other hand, recall that the company announced that its carbon fiber activities would be transferred to Aksa Carbon Fiber. Furthermore, the company has decided to sign a subscription and shareholders' agreement with Dow Europe Holding BV for the formation of a carbon fiber manufacturing unit called Aksa Carbon Fiber. Accordingly, Dow Europe Holding will have a 50% stake in the new company. We believe that Aksa will attain an important position in global carbon fiber production once its planned investments are realized in the coming years. We also believe that the partnership with Dow will be positive for the company.

Aksa's total electricity production capacity will reach 170 MW in 2012 – Aksa intends to start up its 100 MW thermal (coal) power plant within this year, whereupon its capacity will reach 170 MW. And as the increased capacity is expected to gradually reduce costs by 40% it will have a positive contribution to both margins and profitability. We estimate consolidated sales revenues at TRY 1.769 million in 2012. And while EBITDA was at TRY 193 million in 2011, we expect it to increase to TRY 210 million in 2012.

"Outperform" We derive a TRY 1,110 million target Mcap for Aksa Akrilik using a blended DCF model. Our target price stands at TRY 6.00 per share. Taking into consideration the company's current market capitalization of around TRY 712 million (TRY 3.85 per share), our target value represents 56% upside potential. Therefore, we initiate an **"Outperform"** rating for Aksa Akrilik.

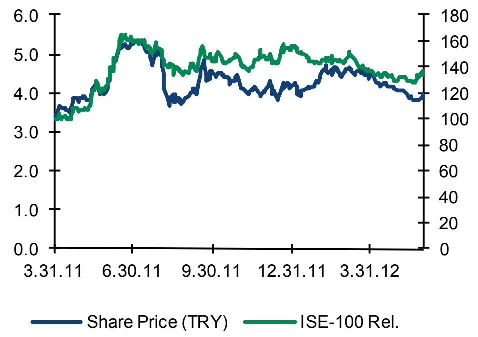
Quick Facts	2010A	2011A	2012E
Total Revenue	1,304	1,675	1,769
% Change, YoY		*28.5%*	*5.6%*
Total Profit	62	99	115
% Change, YoY		*60.7%*	*15.7%*
EBITDA	136	193	210
% Change, YoY		*42.2%*	*8.7%*

Multiples	2010A	2011A	2012E
P/E	11.5	7.2	6.2
P/BV	0.9	0.8	0.7
EV/EBITDA	7.2	5.1	4.7
EV/Sales	0.7	0.6	0.6

Valuation	
Current Price, TRY	3.85
Target Price, TRY	6.00
Upside Potential	56%
Rating	OP
Target Mcap, TRYbn	1,110

Performance	TRY	USD
Close	3.85	2.09
High, 52w	5.35	3.32
Low, 52w	3.65	2.05
Ticker	AKSA.TI /AKSA.IS	
# of Shares, mn	185.0	

Return	1 M	YOY	YTD
TRY Return (%):	-3.6	-9.1	-6.0
US$ Return (%):	-8.2	-21.7	-2.6
ISE-100 Relative (%):	5.6	4.9	-12.0
Avg. Daily Vol. (TRY Mn):	7.66		
Avg. Daily Vol. (US$ Mn):	4.46		



Tables & Graphs

Figure 1: Country Comparison: P/E, P/BV – 2011-2012

	P/E		P/BV	
Country	**2012E**	**2013E**	**2012E**	**2013E**
Argentina	6.4	4.6	1.0	0.8
Brazil	9.3	7.9	1.1	1.0
Mexico	14.9	14.2	1.6	1.3
Poland	9.1	9.3	1.1	1.0
Russia	4.7	4.6	0.7	0.6
Hungary	8.4	6.8	0.8	0.8
India	12.5	10.9	2.1	1.8
Malaysia	14.7	13.2	2.1	2.0
China	11.1	9.4	1.7	1.5
Egypt	7.9	6.7	1.2	1.1
South Africa	10.8	9.1	1.8	1.6
Average	**10.0**	**8.8**	**1.4**	**1.2**
Turkey	10.3	9.2	1.2	1.1
Discount	**3%**	**4%**	**-10%**	**-10%**

Figure 2: 5-yr CDS (LHS) vs. 12E P/E (RHS)

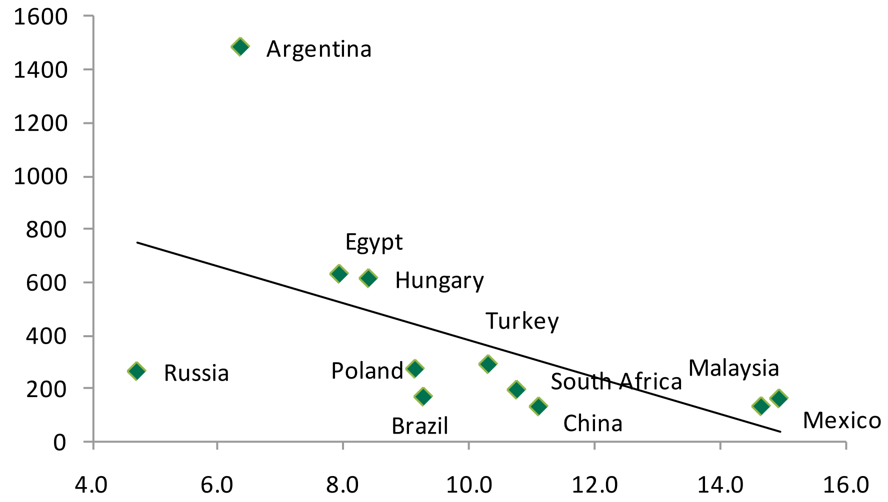


Figure 3: Absolute vs. Relative Change in MSCI

Absolute Change	1m	3m	12m	YtD
MSCI Turkey	-13%	-16%	-25%	6%
MSCI EM	-12%	-16%	-22%	-1%
MSCI EMEA	-15%	-21%	-27%	-4%
MSCI Eastern Europe	-20%	-27%	-36%	-9%
MSCI World	-9%	-9%	-13%	0%

Relative to MSCI Turkey	1m	3m	12m	YtD
MSCI EM	2%	0%	3%	-7%
MSCI EMEA	-3%	-5%	-3%	-10%
MSCI Eastern Europe	-9%	-13%	-15%	-14%
MSCI World	5%	8%	16%	-6%

Figure 4: MSCI EM (LHS) vs. MSCI Turkey (RHS)

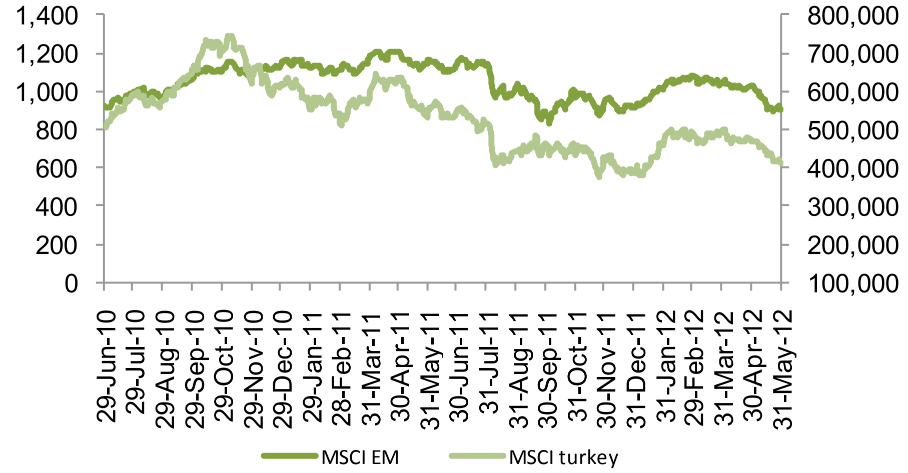


Figure 5: MSCI EMEA (LHS) vs. MSCI Turkey (RHS)

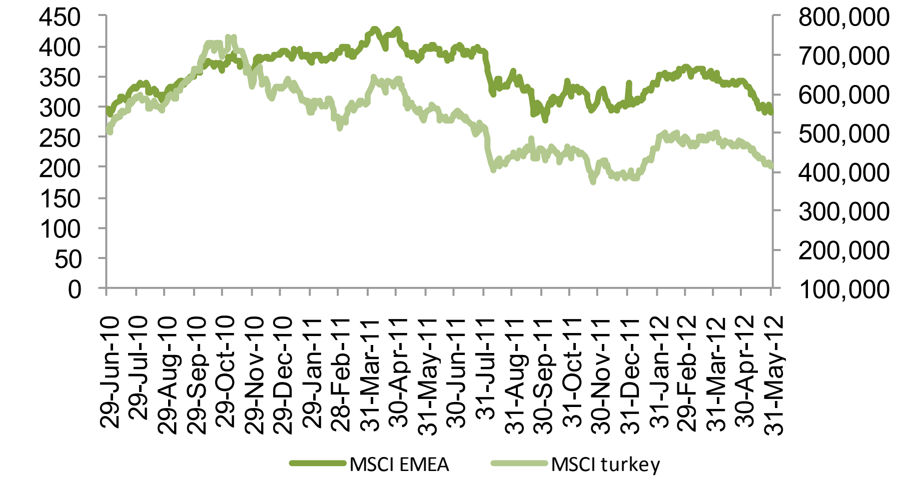


Figure 6: MSCI EM Relative to MSCI Turkey

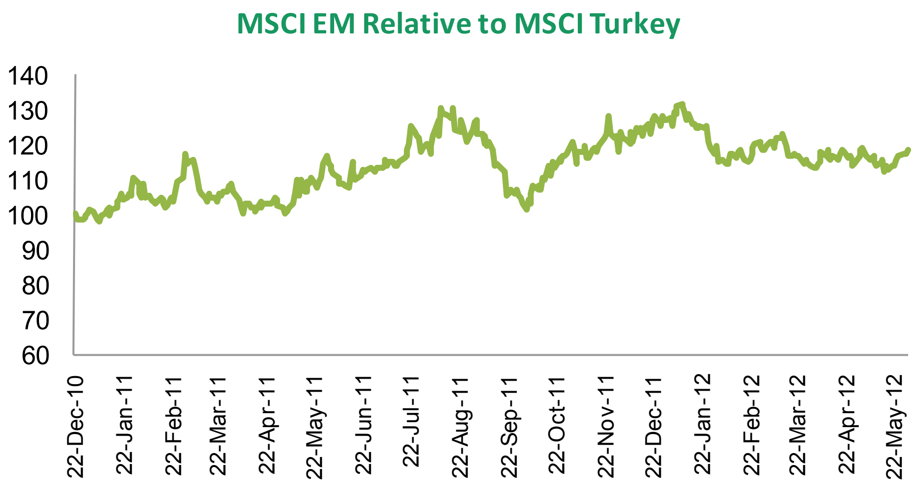


Figure 7: MSCI EMEA Relative to MSCI Turkey

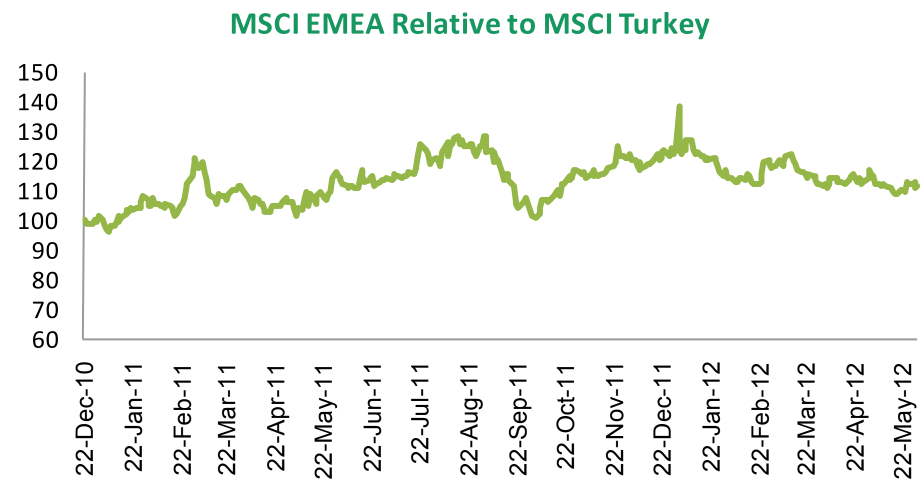


Figure 8: ISE Sector Returns – MoM

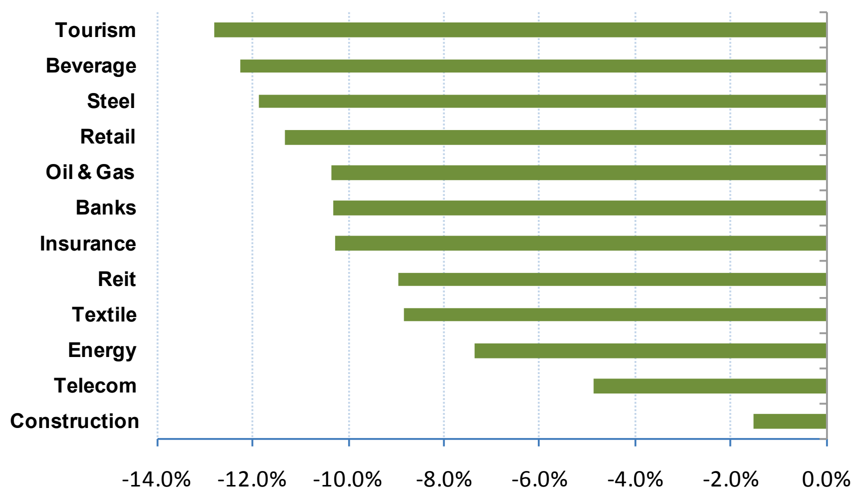


Figure 9: ISE Sector Returns, YtD

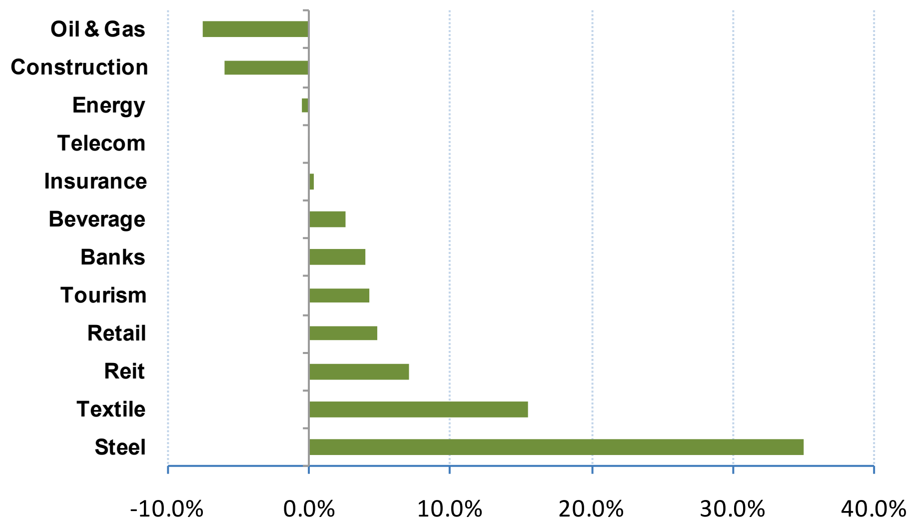


Figure 10: ISE Sector Returns, YoY

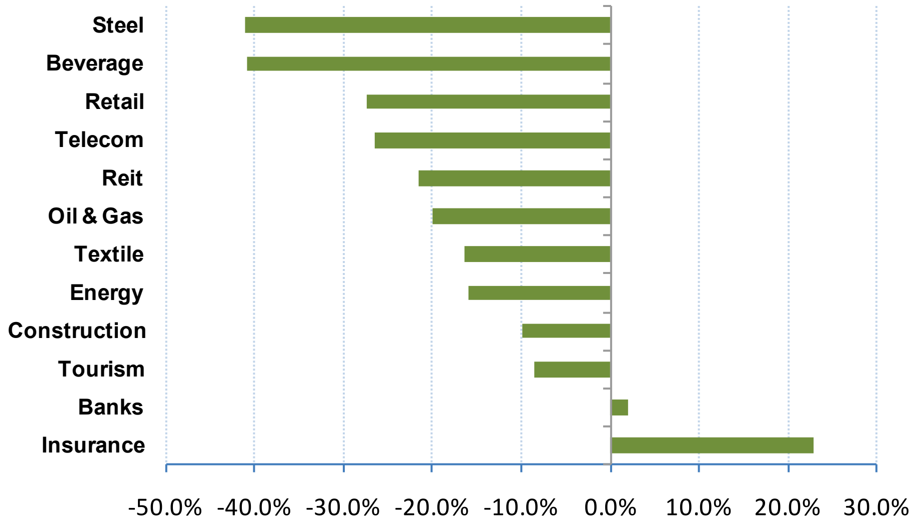
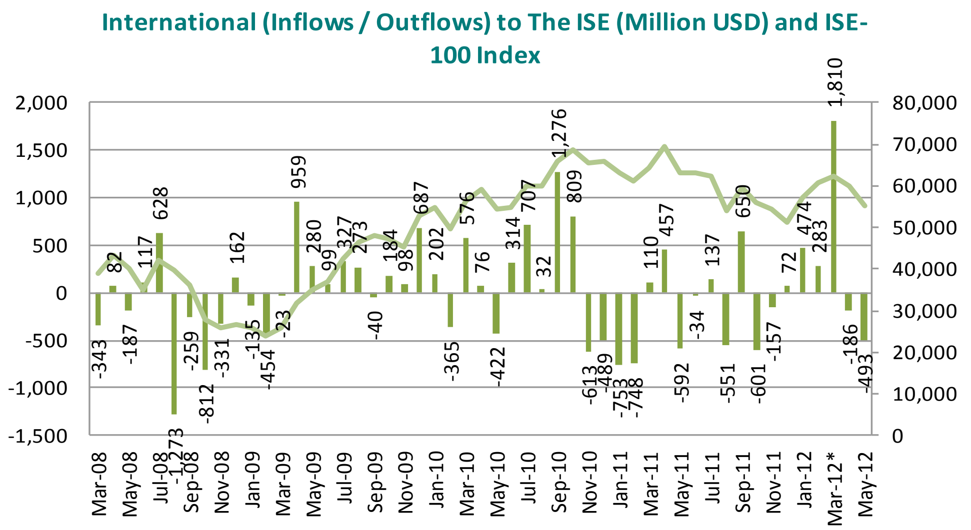


Figure 11: International Inflows/Outflows to the ISE



(*) Included Anadolu Efes' capital increase through private placement with amount of USD 1,837 mn

Figure 12: Foreign Equity Holding Ratio (%)

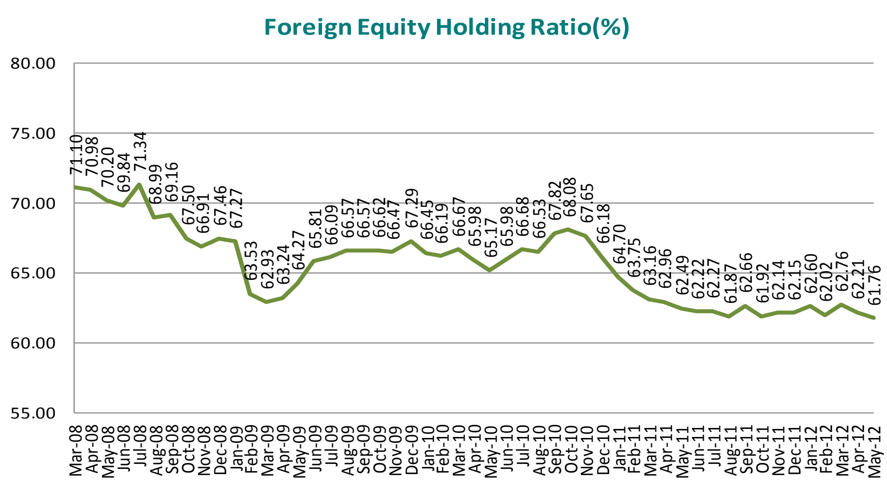


Figure 13: Coverage Net Profit Projections 2008-2012E

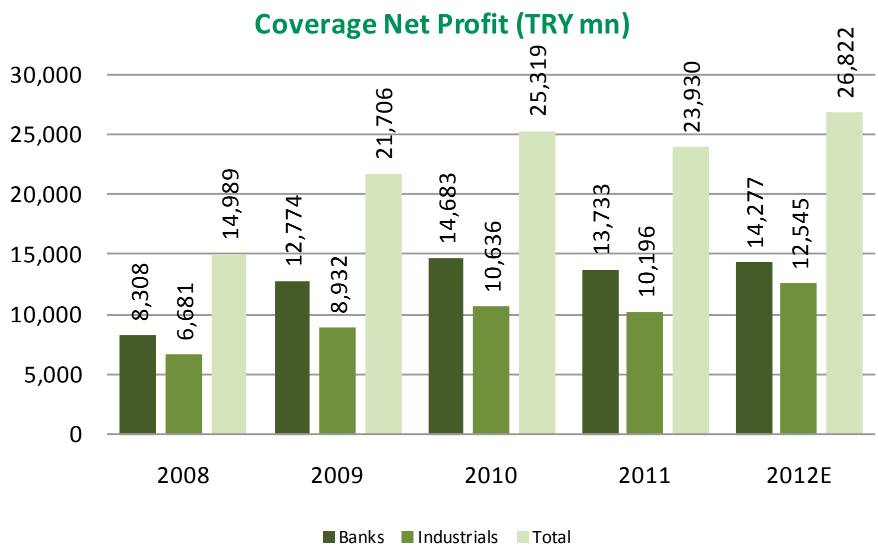
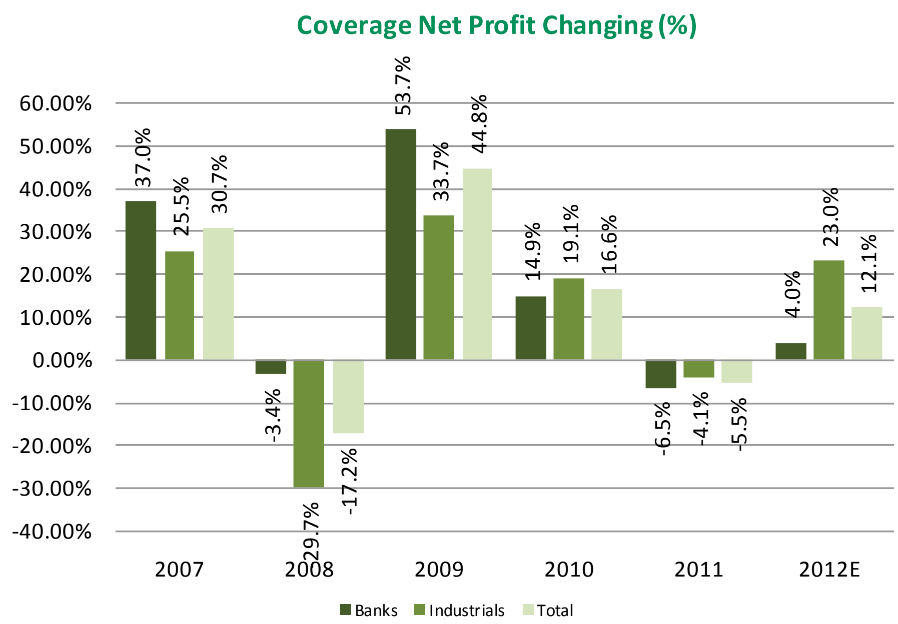


Figure 14: Coverage Net Profit, % YoY Change 2011-12E



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