

Equity Strategy 2012

A fruit with two halves...

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We see that 1H12 may be challenging. There are several uncertainties remaining from the ashes of 2011. We are more optimistic for the second half of the year as we believe there is potential to see some capital inflows. Please refer to following pages for the details of the exogenous/endogenous uncertainties and positive catalysts. Our bottom-up models produced 20% upside potential: 61,500. We expect the economy to barely expand in 2012 (0.8%) due to the high base of last year, external funding constraints and higher credit costs due to CBRT's steps to keep credit growth and the lira under control.

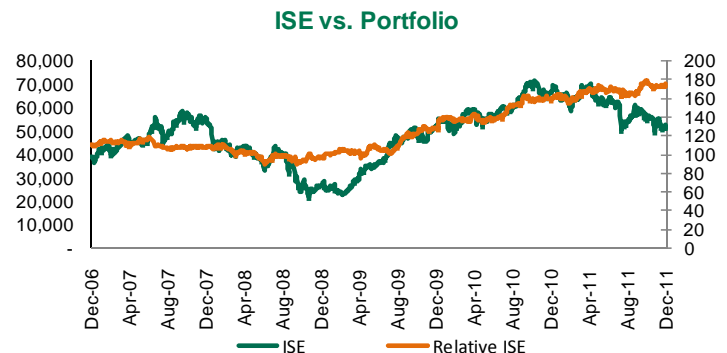
The index has been moving below its 22 month average level of 55,000 for the last five months which indicates that this downside trend is likely to continue towards the lower end of the Bollinger band, i.e. -46,000, for the medium-term.

We believe that the foreign interest in Turkish equities is significantly important. Foreign interest in Turkish markets was low given that global markets were severely under attack on various battle fields. As risk appetites fell, foreign funds (hedge, mutual and money management etc.) retreated from EM markets and Turkey was no exception. However, Turkish equities underperformed their EM peers as Turkey-specific negative catalysts were at work: (i) unorthodox policies by the CBRT, (ii) increasing regulation on banks, (iii) depreciating currency, (iv) high CAD and re-financing needs, (v) increasing inflation expectations and (vi) rising political tensions in the region. We expect foreign interest to re-emerge as soon as the global risk appetite recovers, which we expect to happen in 2H12.

(HOLD)

Facts & Figures	Close	YoY
ISE - 100, TRY	50,183	-27.60
ISE - 100, USD	26,841	-40.35
Total Volume, TRY mn	560,058	13.94
MSCI EM Turkey	382,243	-39.9%
MSCI EM	927	-19.7%
Benchmark Bond	11.43%	+448bps
USD/TL	1.8696	21.39%
EUR/TL	2.3916	18.39%
P/E Current		
ISE - 100	10.3	
Banking	7.7	
Industrial	12.2	
Steel	8.0	
REIT	13.8	
Telecom	13.7	
Food&Beverage	20.3	
2011E P/E	9.1	
2012E P/E	8.0	
TR Libor Rate, 3M %	11.38%	

Top Picks	Close	Target	Pot.
AKSA.TI	4.22	5.70	35.1%
AKSEN.TI	2.73	3.92	43.6%
ARCLK.TI	6.64	7.80	17.5%
HALKB.TI	9.48	12.04	27.0%
BIMAS.TI	52.75	60.30	14.3%
TAVHL.TI	7.96	10.80	35.7%
TOASO.TI	6.06	8.80	45.2%
TSKB.TI	1.78	2.35	32.0%



Executive Summary

Happy New Year! Regrettably, 2011 was not a good year especially for long only equity investors that were heavily invested in EM markets. As a matter of fact, EM equities were not the only asset class that depressed investors. Many commodities and EM currencies caused upset as they tumbled during the year (especially in 2H11). Even gold which earned hefty profits for its investors in 2009 and 2010 (approx. 28% for each year), had to settle for a mediocre 11% gain in 2011. We all know the reasons: MENA unrest, the earthquake in Japan, EU and US debt issues which were extensively discussed last year. Now we face a very important question: Are we turning over a new leaf? Are the problems of last year a distant memory or does the new year represent just a superficial border between two calendars?

We believe that the Eurozone debt crisis which was viewed as a local event that concerned only Greece has now become a global issue that will extend well into 2012. We watched the markets urge Eurozone economies to adopt austerity measures while the leaders of Italy and Greece were replaced by technocrats. In 2012 we will be witnessing the increasing power of the central authority of the bloc, represented by Germany. Whether or not the central authority can implement its new powers remains highly controversial. We will also observe markets pressuring the ECB to become a Fed-like central bank that doesn't abstain from undertaking quantitative easing policies to prevent a severe recession in the bloc. Going forward, we do not consider it a low probability that both the Fed and ECB take QE measures. On the other hand, the US presidential election in 2012 will be a key event. If Obama is re-elected the world would be curious about whether he launches any new controversial policies. Moreover, as unemployment figures are quite significant for the direction of votes, the Fed may call for assisting the recently flourishing economy back to its pre-recession levels. That said, the two global central banks may have to print cheap money to rescue their economies which will in turn elevate the risk appetite and cash flows to emerging markets. This is in line with our 2012 equity strategy motto for Turkey: **SELL 1H12 / BUY 2H12**.

We see that **1H12 may be challenging**. There are several uncertainties remaining from the ashes of 2011. We are **more optimistic for the second half** of the year as we believe there is potential to see some capital inflows. Please refer to following pages for the details of the exogenous/endogenous uncertainties and positive catalysts. **Our bottom-up models produced 20% upside potential: 61,500.**

A final word on our motto "**SELL 1H12 / BUY 2H12**": Our strategy should not be considered as a real-time event but rather a conceptual framework. That said, our strategy reflects our view that Turkish equities are not cheap enough to justify all the possible risks that we see in 2012. We expect approx. 10% contraction in equities to a point where we may feel comfortable to pencil a "**BUY**" opportunity. Looking at historical trends we observe that Turkish equities outperformed either when *(i)* they are relatively cheap or *(ii)* with the existence of strong macro-fundamental drivers. We wish you a prosperous 2012!

THE RESEARCH TEAM

2011 – Global Markets & Important Events

2011 was not a very good year for the global markets in many aspects. The year was driven by ample global events such as the MENA uprising, natural disasters in Japan and Thailand and debt issues in the US and the EU. The combined effect of this news cluster was a strong sell-off especially in EM indices including Turkey.

Geopolitical Tensions – From the MENA uprising to the Arab Spring – Starting from late January 2011, the world watched a chain of events that led to the collapse of regimes in Tunisia, Egypt and Libya while other nations in the MENA feared of a possible contagion of the newborn unrest. Even the countries on the other far end of the Arab lands – Morocco, Bahrain, Jordan, Syria and Yemen – were also affected by waves of protests that led heads of state to engage in political bargaining to avoid mass protests and potential further unrest within their borders. However, we have observed that the core essence of the protests diverged in terms of patterns and demographics. Naturally, even though oil was already trending higher in the last quarter of 2010, the uprisings in oil rich MENA nations caused a bullish rally on Brent and WTI in 1Q11 as prices touched \$126/bbl and \$115/bbl, respectively. The stress on oil markets caused by the geopolitical tensions which led to higher oil prices turned into pressures on recovering economies. However, many analysts at that time, including us, argued that the acceleration in oil prices was temporary and most of the bubble came from speculative trading movements.

BOX 1 – Oil price assumptions and Turkey's macro fundamentals

For 2012, our economist assumed an average oil price (Brent) of \$105 (*EIA consensus WTI average of \$98, source: <http://www.eia.gov/forecasts/steo/>*). However, possible eventualities such as Iran imposing a block on crude supplies through the Strait of Hormuz and other possible tensions in the region put an upside risk to our assumptions. Increasing oil prices would be counterproductive to Turkey's economic growth, inflation and CAD dynamics as Turkey's output is heavily dependent on imported energy. We observe an inverse correlation between oil prices and the level of stock market capitalization – as the former increases, the latter tends to tumble lower. A high oil price would put further downside risks to our base case projections.

Japan earthquake – Natural disasters as non-black swan events – Immediately after the MENA uprising, another event shocked markets on March 11, 2011. *Please note that we don't like calling these phenomena black swan events; perhaps the most recent truly black swan event was the 9/11 attacks.* Japan was devastated by the largest earthquake in its recorded history with a magnitude of 9.0, followed by a destructive tsunami which led to another shocking incident: the Fukushima nuclear plant explosion and meltdown, the worst nuclear disaster since Chernobyl, which caused radiation leakages on land, sea, air and in the groundwater. Accordingly, combined with the waves of MENA unrest, the global markets also reacted in shock as we observed significant sell-offs especially in equities. The reasoning behind the drop in risk appetite was the expectation of a further weakening of the global economy which was already hurting from rising oil prices and the EU debt crisis.

EU debt problem – An expressway to fiscal union? As we entered 2011, the markets were well acquainted with the financial problems in the Eurozone, but the worst was yet to happen. The events of April and May (i.e. Spain's sovereign debt coming under question, rating agency downgrades of the peripherals) brought the EU debt crisis back onto center stage. Greek spreads sky rocketed while those of Spain, Portugal and Italy signaled to the market that the debt crisis could only worsen and that the abyss may be much deeper than expected. Higher interest rates led to higher probabilities of default on debt which lead to higher risk premiums and back again to higher rates. This vicious cycle rang alarm bells and evoked a series of rescue efforts in order to restructure the financial and fiscal conditions in the countries under fire. The markets were again in discomfort as the worries mounted arguing that a string of austerity measures, policy actions addressing fiscal tightening along with high market interest rates may bring back the old double-dip recession scenarios. All the noise and fear that triggered significant sell-off pressures in European markets called EU leaders to take monetary actions and assembled a EUR 750 billion rescue package (on top of an earlier Greek support package of EUR 110 billion) in early May targeting stabilization in the Eurozone countries. "Contagion risk" was one of the most frequent expressions used by investors during 2011. Even though those actions calmed markets for a while it was the events of August – the downgrade of US (*please see next section*) that created fire-sales in financial markets all across the board.

BOX 2 – EU uncertainties weigh on Turkish markets in 2012

We put the EU debt crisis as one of the main themes in our 2012 Turkish Equity Strategy. That said we pay particular attention to the developments in the Eurozone. Forecasts show that at the lowest estimate, the peripherals would enter into a recessionary gap that may endure at least 3-4 quarters. Even core EU countries may significantly slow down or even enter into a short-term recession. According to IMF expectations, Eurozone GDP will grow by 1.6% this year and 1% in 2012 (<http://www.imf.org/external/index.htm>). We believe that given the effects of austerity measures, next year's growth forecast has more downside risks than upside. The ongoing crisis in the Eurozone puts pressure on Turkey in multiple ways:

- First of all, even though Turkey managed a well diversified portfolio of export destinations, the EU is the main trading partner (~50% of all exports go to the EU). Slow growth, lower spending patterns are all working against Turkish external imbalances as they reduce export capabilities (despite the vastly depreciated currency) of the country,
- A financial meltdown would directly affect Turkish banks (through syndications and ST FX deposits) and firms (ST/LT FX funding) which fund themselves from EU banks – a similar conclusion applies in the case of extensive deleveraging of EU banks to boost capital ratios. Liquidity conditions in 2012 look as though they will be tight and problematic,
- Uncertainty causes risk appetites to fall and volatility to increase which makes it harder for Turkey to attract portfolio investments (especially equities).

We believe that the EU summit held on December 9th and the ECB's credit line policy are important in many aspects. First of all, the EU leaders agreed to command the national central banks to route EUR 150 billion to the IMF with the intention of intensifying the firing power of the EFSF (ESM) for future bailouts. According to the agreement, EU member states not part of the monetary union would also contribute some EUR 50 billion. However, more importantly, EU leaders agreed on a "fiscal union" where 17 EU nations pledged to tighten their budgets to avoid building up excessive debt. Despite Germany's rejection of the granting of a banking license to the European Stability Mechanism that could have multiplied the ESM's capacity by borrowing from the ECB, leaders agreed that the initiation of the permanent EUR 500 billion bailout fund should be brought forward to July 2012. Unfortunately, the main criticism of the summit was that even though it went a long way towards designing a monetary union as well as a fiscal union that might prevent future crises, it was unlikely that the summit would cure the ongoing crisis. It was also quite interesting to watch the UK's disassociation from the EU as UK Prime Minister David Cameron refused to forgo its national interests to save the euro.

In line with our December monthly equity theme "[Time for Decision Making](http://www.sekeryatirim.com/Raporlar/strategy_reports/Monthly%20Equity%20Strategy.pdf)" (http://www.sekeryatirim.com/Raporlar/strategy_reports/Monthly%20Equity%20Strategy.pdf) another important decision was taken by the ECB to provide cheap long-term funding to EU banks in order to hinder a rapid banking deleverage shock. The decision to lend EUR 490 billion (~USD 640 billion) to over 500 European banks corresponds to c. 70–80% of all EU bank bonds maturing in 2012. Moreover, the ECB announced another round of an extended credit line operation in February 2012 that would restructure maturities of EU banks further into 2014. We should note that we do not regard the credit line operations by the ECB as being a QE operation where the latter requires for active acquisition of assets from the financial markets rather than restructuring the balance sheets of financial institutions.

US downgrade – What will the Fed do? As the global markets were already on fire due to events explained above, the S&P spread the flames in August when it downgraded the US' consecrated AAA rating for the first time in history. The rating agency criticized the US political process as lawmakers failed to cut spending and raise revenues enough to reduce the country's ever growing pork barrel spending. More importantly, the agency announced that it would keep the outlook on "negative" implying that the rating may fall further to AA within two years if spending and government debt increase beyond "tolerable" levels. The downgrade caused another round of fire-sales by approx. 10-15% in August – for some markets it was to their lowest points of the year. Due to the flight to quality, US Treasuries were among the best-performing asset classes as yields came to all time lows.

BOX 3 – QE and Turkey as an emerging market

In our view, US growth is significantly critical for our SELL 1H11 / BUY 2H11 strategy to stick. We believe that a recovery in US output would provide a catalyst for the EU growth as well. At this point we argue that given the domestic demand conditions do not improve in the US in 2012, a significant appreciation of the greenback (e.g. EUR/USD below 1.20 level) may oblige the FED to go for another round of QE i.e. QE3 which would boost cheap dollar funding in the globe. Turkey is poised to benefit from another QE round.

2012 - Annual Macro View

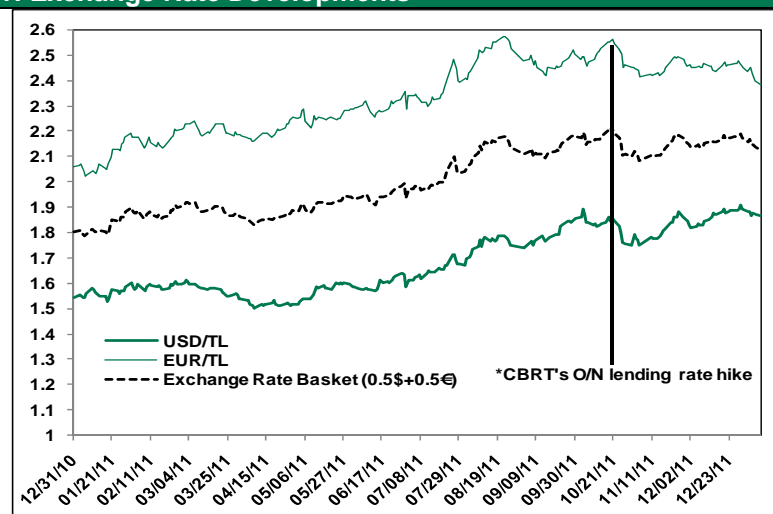
No Repose in the First Half

Eurozone problems and CBRT's unorthodox strategies to direct economy's destiny this year

The European debt crisis and the CBRT's strategy shift to another unorthodox policy at the end of October was the most influential factors on Turkish financial markets since we published our last quarterly report "*When the side effects come in*" on October 25, 2011. The debt crisis made no significant impact on Turkey's economic activity, which is still strong as of last quarter, but there were indirect effects as the increased risk perception decelerated inflows to EMs including Turkey.

The side effects of the CBRT's unorthodox policy mix, which began in late 2010 became more visible in the last quarter of 2011 as inflation surged from 6.15% as of September to 10.45% by year-end, significantly above the 5.5% target. The central bank's former unorthodox policy and Eurozone concerns caused the lira to slide some 22% against the dollar and 21% against the currency basket composed of \$0.50 and €0.50 last year, which created 3.5-4.0 pp of the year-end inflation. (Graph 1)

Graph 1: Exchange Rate Developments

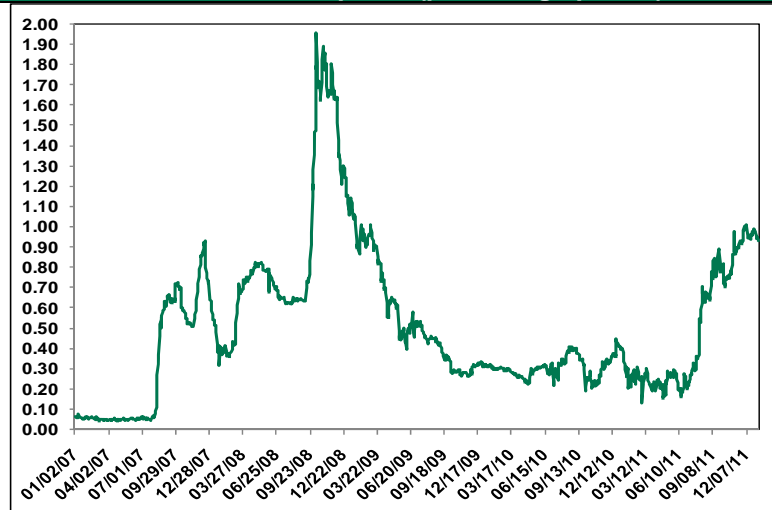


Source: CBRT

On the other hand, the compound yield on the benchmark bond surged above 11% as the CBRT increased the O/N lending rate 350 bps and squeezed lira liquidity in the market from October 20, 2011. While growth remained strong and the rebalancing in the economy continued, the pace of rebalancing remained slower than necessary for sustainable growth as of the third quarter. The CBRT's additional monetary tightening started on December 29th and frequent shifts in monetary policy strategies will be among main determinants for the economy this year as they will create a slowdown in the economy. The CBRT is likely to continue with its unorthodox monetary policy in 2012 should conditions permit. If not, the bank may be forced to return to orthodox monetary policy by hiking the one-week repo rate and fund the market at this new higher level.

The discussions on Europe's debt problems continued in the last quarter and uncertainty still lingers. (Graph 2) After the ECB's 3-year loan of EUR 490 billion to Eurozone banks in December, we are now more optimistic over the continuation of the financial inflows to Turkey compared to our previous report. However, sizable sovereign redemptions of Eurozone countries in 2012 and Eurozone banks' capital needs will likely prevent a strong inflows scenario in our view. Turkey will not see significant benefit unless the ECB provides high amounts in February's auction and beyond as it did in December. All in all, the strong inflows from European banks is not our base case scenario for 2012 as the long-term solution will still necessitate balance sheet downsizing for the Eurozone banks.

Graph 2: 3-month Euribor & OIS spread (percentage points)



Source: Bloomberg

We revised our average oil price forecast for 2012 up to the previous \$105 per barrel of Brent from \$93 as political tension between Western countries and Iran threatens supply routes and EU banned the use of Iranian oil in principle. We expect oil prices to remain slightly above \$100 on average this year as the global economic slowdown and political tensions will likely offset their effects on prices.

As for EURUSD parity, which has an important effect on the lira, we expect the USD to strengthen against the EUR before losing some value in the third quarter after the stress in the Eurozone is further priced-in. However, we assume a weaker euro by year-end compared to the level at the time of this writing (1.28)

In domestic politics, we still assign a high probability for a referendum on constitutional changes as political parties are far from a compromise and the ruling AK Party does not have enough seats in parliament to change the constitution on its own. However, the referendum itself may be delayed to 2013 as the constitutional commission's work is progressing slowly and compromise is difficult to reach.

Our 2012 projections are depicted in the table below:

Table 1: Macro framework: 2007-2012

	2007	2008	2009	2010	Seker Securities	
					2011f	2012f
Growth (GDP; %)	4.7	0.7	-4.8	9.0	8.2	0.8
GDP (TL; bn.)	843	951	953	1104	1271	1397
GDP (\$; bn.)	647	730	614	735	757	742
CPI Inflation (%) 1/						
Avg.	8.8	10.4	6.3	8.6	6.5	9.1
EoP	8.4	10.1	6.5	6.4	10.4	6.7
Central Government Budget Balance (TL bn)	-13.7	-17.4	-52.8	-39.6	-14.7	-29.8
as % of GDP	-1.6	-1.8	-5.5	-3.6	-1.2	-2.1
o/w: Primary Balance (as % of GDP)	4.2	3.5	0.0	0.8	2.2	1.5
Central Government Debt (as % of GDP)	39.6	40.0	46.3	42.9	40.7	39.1
Domestic	30.3	28.9	34.6	32.0
External	9.3	11.1	11.7	10.9
Public Debt (as % of GDP)	42.2	42.9	48.9	45.0	42.8	41.2
Current Account Balance (\$ bn)	-38.4	-42.0	-14.0	-47.1	-78.0	-65.9
as % of GDP	-5.9	-5.7	-2.3	-6.4	-10.3	-8.9
Trade Balance (TURKSTAT definition; \$ bn)	-62.8	-69.9	-38.8	-71.7	-107.0	-99.7
Oil price (Brent) 1/	72.7	98.4	61.5	79.5	111.2	104.9
Exchange Rate (TL/\$) 1/						
Avg.	1.303	1.302	1.550	1.502	1.679	1.883
EoP	1.175	1.540	1.503	1.518	1.894	1.870
%	-17.7	31.1	-2.4	1.0	24.7	-1.2
Real Effective Exchange Rate (2003=100)						
EoP	132	115	117	126	109	118
% (up means appreciation)	17.5	-12.7	1.6	7.6	-13.2	8.3
Interest Rate on Benchmark Bond (comp.; %) 1/						
EoP (December)	16.6	17.9	9.2	7.4	10.4	9.6
Real Interest Rate (compounded eop; %) 1/2/	7.6	7.1	2.5	1.0	0.0	2.7
Central Bank Policy Rate (EoP; simple; %) 1/3/	15.75	15.00	6.50	6.50	5.75	5.75

Source: CBRT, MoF, Treasury, TURKSTAT, Turkey Data Monitor, Seker Securities. f= forecast.

1/ Actual figures for 2011.

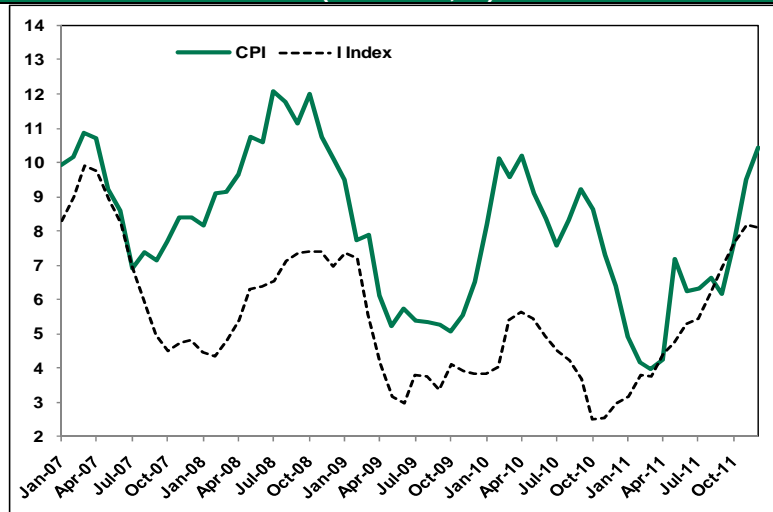
2/ Ex-post annual: $(1 + \text{nominal interest}) / (1 + \text{eop inflation})$.

3/ One week repo rate for 2010-2012. O/N borrowing rate for the previous years

Inflation to remain elevated until Q4

Due to currency pass-through, administrative price changes in October and the surge in unprocessed food prices in the fourth quarter of 2011, CPI inflation ended the year at 10.45%, almost twice the inflation target of 5.5% for 2010. The increase has been accompanied by core inflation with a more moderate pace as annual I index inflation ended the year at 8.1% from 7.0% at the end of September. (Graph 3)

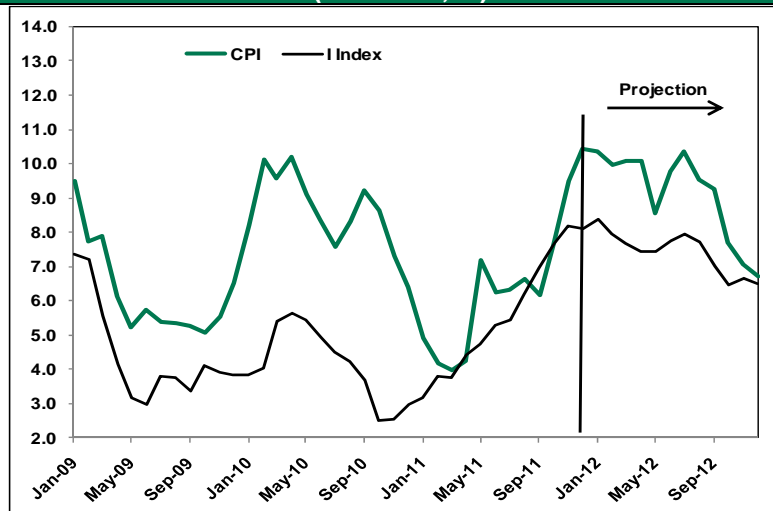
Graph 3 : CPI and Core Inflation (12-month, %)



Source: TurkStat

According to the CBRT, "...second round effects of the temporary price movements to remain contained and inflation to fall gradually throughout 2012, converging to 5 percent target during the final months of the year" and "...inflation is likely to stay at high levels during the first few months of 2012 due to exchange rate pass-through, administered price hikes and adverse developments in unprocessed food prices." To be more specific, the bank expects a sharp decline in annual inflation starting in May. Our inflation path diverges notably from the CBRT's, however. We see inflation to remain between the 9-11% range until the last quarter before sharply declining to 6.7% by year-end thanks to the high base in the last quarter of 2011. (Graph 4) We admit that May might be an exception where inflation declines slightly below 9% temporarily according to our projections. There are a lot of factors, which might prevent inflation declining significantly in the first three quarters of the year.

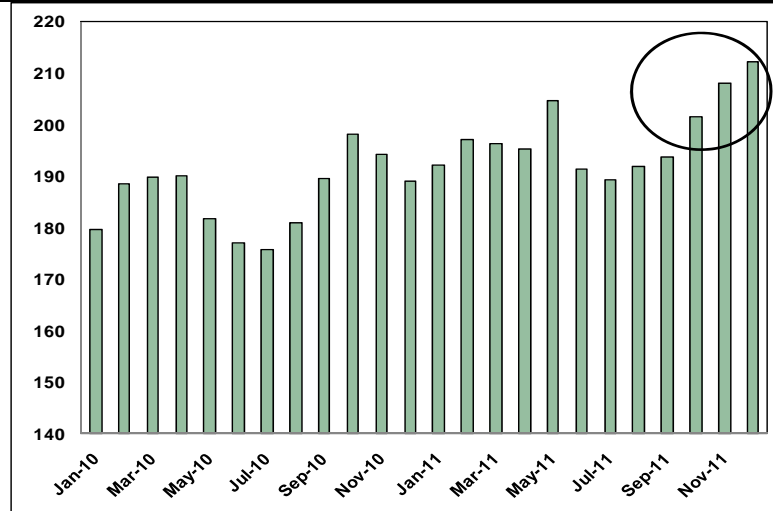
Graph 4: CPI and Core Inflation (12-month, %)



Source: TurkStat, Seker Securities

The first of these factors is the base effect. Recall that annual inflation remained within 4.0%-7.2% during January-September last year, thanks to favorable unprocessed food price inflation. Food price inflation parallel to seasonal averages would cause inflation to remain within the 9-11% range until the last quarter even if we assume a moderate correction in food prices following the sharp increase in the last quarter. On the other hand, the high base in food prices as well as administrated prices in the past quarter will be positive for Q4 2012 inflation, which will likely contribute to the decline. (Graph 5)

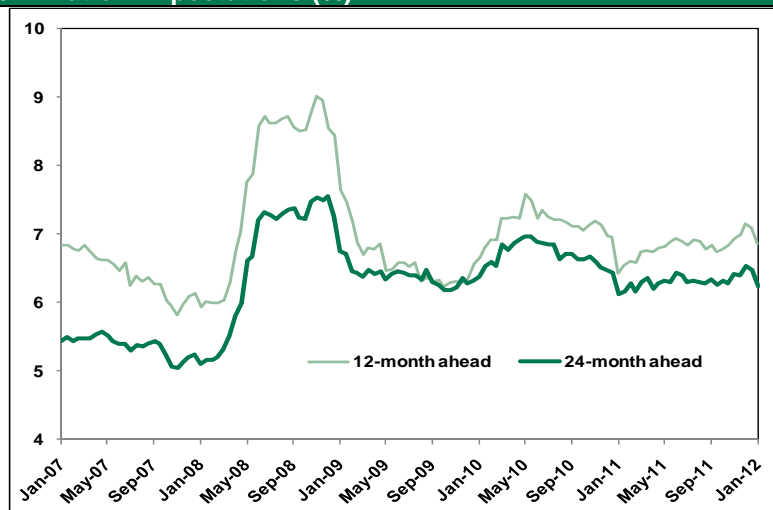
Graph 5: Food and Beverages Index under CPI (2003=100)



Source: TurkStat

Secondly, medium-term inflation expectations are still very high to achieve 5% inflation target. (Graph 6) Meanwhile, missing the inflation target by a wide margin in 2011 may lead price setters to use past inflation as an anchor rather than inflation expectations, which may deteriorate pricing behavior and prevent the CBRT to reach its 5% year-end target.

Graph 6: Inflation Expectations (%)

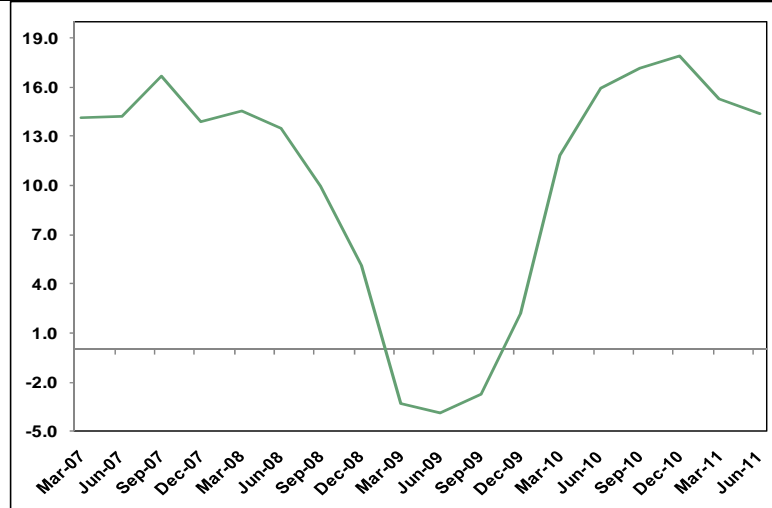


Source: CBRT

Another interesting factor is wage pressures in our view. (Graph 7) Notwithstanding the weakening domestic demand, wage pressures will likely prevent a downside in CPI inflation for the above-mentioned period as it will affect

producers after 10.45% consumer inflation may cause further upside for wages, which is a significant cost item for producers.

Graph 7: Gross Wage and Salary Index (YoY; %)



Source: TurkStat

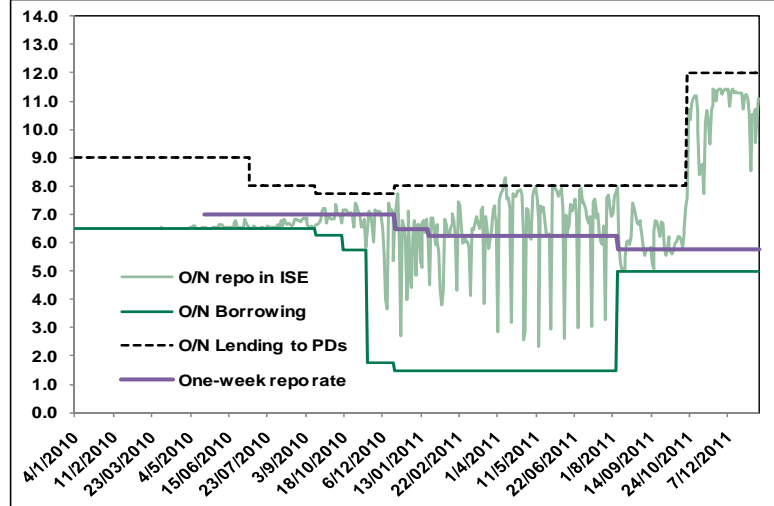
We expect no significant depreciation in the Lira and no surge in energy prices this year. However, our base case for the lira in the first half of 2012 is that it will stay around its record weakness; this may cause the exchange rate pass-through to be stronger than the CBRT's forecast of 15-20%. The CBRT had previously stated that currency pass-through remained at 15%, while later they used a figure of 20%. Such a situation may be another factor preventing annual inflation declining below 9% in the first three quarters.

All in all, we forecast annual inflation to remain between 9-11% until the fourth quarter before ending the year at 6.7%, higher than the 5% inflation target. However, there is a downside risks to our band should there be a sharper downward correction than we assume in unprocessed food prices. Please note that our year-end food inflation forecast for 2012 stands at 9%, which is lower than the 10.5% observed in the last five years on average.

CBRT determined to defend the lira in its fight with inflation but at a cost

The central bank changed its unorthodox monetary strategy of high reserve requirement ratios (against high credit growth) combined with a wide interest rate corridor (against FX inflows) with a new elevated interest rate corridor with two moves in O/N borrowing and lending rates in August and October respectively. (Graph 8) Since October, the central bank has used an interest rate corridor of 750 bps with a higher lending rate accompanied with the lower funding at the previous policy rate (5.75%) through one-week repo auctions. The reasoning behind the move was controlling depreciation of the lira through squeezing the local currency's liquidity in the market in an effort to combat inflation.

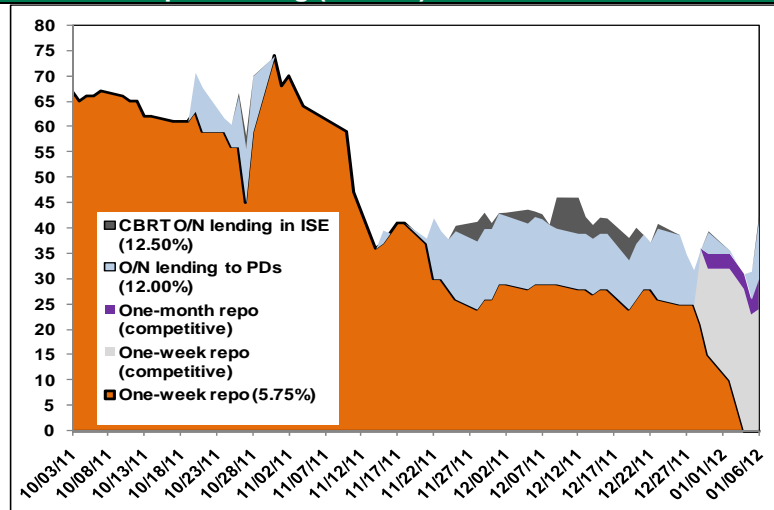
Graph 8: Interest Rates (simple; %)



Source: CBRT, ISE

Since then the CBRT has recently started an additional tightening effort in the last days of 2011. The CBRT separated FX selling and lira liquidity strategy by distinguishing “normal days” and “exceptional days”, though Governor Basci did not comment on the definition of “exceptional”. Under this strategy, it cut one-week repo funding at 5.75% to zero and shifted funding to the competitive one-week and one-month repo auctions, in which interest rates was above 11%. (Graph 9) The shift caused funding costs to move to a new higher plateau. The one-week repo amount provided at 5.75% may decline even below the lower limit announced for a two week period in “extraordinary days” as it declined to zero last week. Meanwhile, the CBRT uses unsterilized FX interventions and FX selling auctions concurrently in “extraordinary days” in order to defend the lira. Both corporate and speculative FX demand caused the currency to depreciate to the levels the CBRT intervened in the FX market directly on January 30th (~TRY 2.2 against the currency basket composed of \$0.50 and €0.50). The CBRT’s attitude to sell a minimum amount of FX combined with the problems in international markets facilitated the rise before the intervention.

Graph 9: CBRT's Repo Funding (TRY bn)

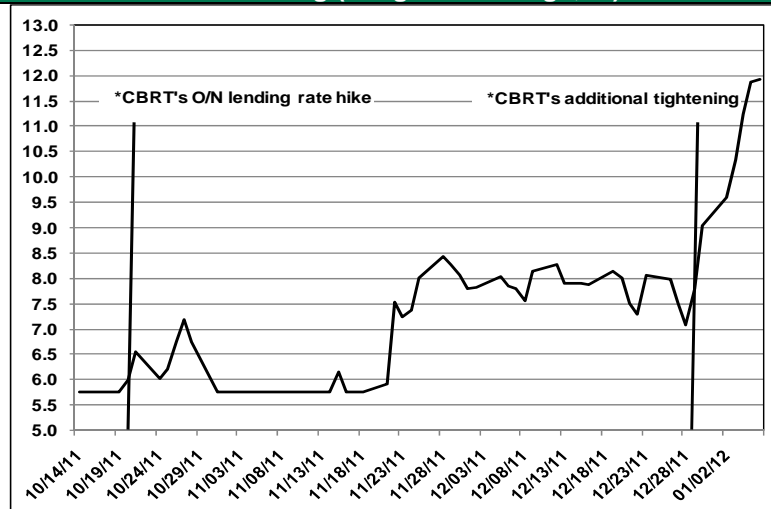


Source: CBRT

The CBRT tries to preserve its FX reserves by channeling banks to higher rates with competitive one-week and one-month repo auctions instead of one-week repo at 5.75%. Although costs will remain high, this change may not mean providing more stable funding to banks as markets do not know which days are extraordinary or normal. Funding costs will stay high on average in the first quarter, maintaining a barrier to bond rates below 11%, as the lira will remain under pressure, which will likely render providing cheap and abundant lira to the market difficult.

The one-week repo rate lost its policy rate character since October. Cost of CBRT funding is at a new record since the bank started to effectively use the interest rate corridor in October. It rose to 11.93% on Friday (January 6th) from the 7.88% in the last week of 2011 on average, as outstanding one-week repo funding at 5.75% was completely replaced by competitive one week repo auctions as of January 4th. As of Friday, the CBRT provided the market a total of TRY 42.7 billion (TRY 24bn through competitive one-week repo auctions and TRY 6bn through one-month repo auctions, TRY 11.6bn through O/N lending facility to PDs at 12.00%). The total cost of CBRT funding approached a step further to the 12–12.5% upper band of the interest rate corridor. (Graph 10) The CBRT's recent moves were bond negative both due to higher funding costs and uncertainty over lira liquidity.

Graph 10: Cost of CBRT Funding (Weighted average, %)



Source: CBRT, Seker Securities

In our view, the CBRT will likely continue tightening monetary conditions until the lira appreciates and depreciation will not be a risk for the inflation outlook. However, we keep our view unchanged that the bank will return to funding at lower costs as long as the lira remains under control. As the lira is likely to remain under pressure in the first quarter at least, we expect the number of extraordinary days to remain higher than that of the normal days. In a speech on Friday (January 6th), the CBRT's Governor Basci said that this week they may return to the normal day concept barring any major developments. The bank reiterates at every occasion that it may provide funding at lower costs if economic activity slows down to undesirable levels. However, pressure on the lira should ease to enable the bank to use its flexibility. Otherwise, such a move may create further pressure on the lira as the financing outlook will be harder in 2012, which we will analyze below.

The next step in monetary policy may be a further widening in the interest rate corridor by hiking the O/N lending rate further, should the lira squeeze in the market and FX interventions be insufficient to stem further lira depreciation as the CBRT reached its upper limit in repo funding costs as of Friday (January 6th). However, shifting to an orthodox monetary policy in which the Bank returns to a higher single policy rate will likely be the following move.

The cost of the current monetary policy is that economic activity may decelerate to undesirable levels due to a higher interest rate environment, and higher borrowing costs for the Treasury. Knowing this risk, the CBRT aims to retain flexibility. However, returning to the funding market at lower interest rates may not be possible for an extended time if the lira remains under pressure.

Bond rates: The journey ahead doesn't point south

Elevated inflation expectations combined with tight liquidity conditions, which caused the CBRT's repo funding costs to jump, created upwards pressure on benchmark bond yield, causing it to exceed 11%. (Graph 11)

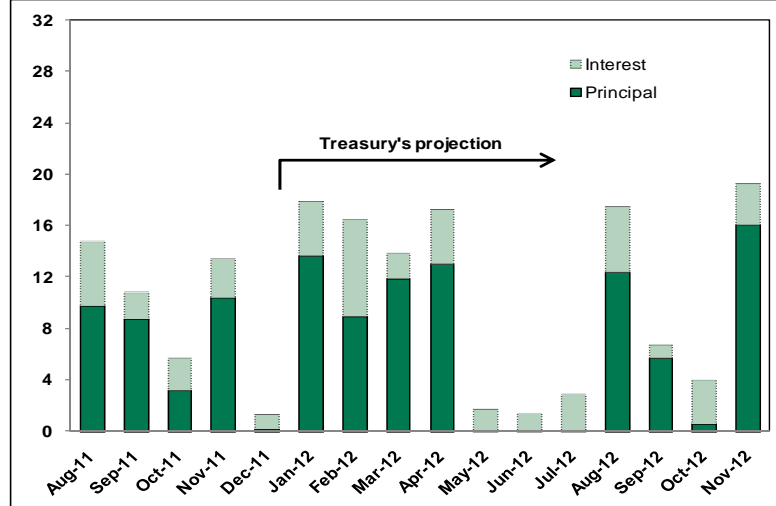
Graph 11: Secondary Market Benchmark Rate (compounded; %)



Source: ISE

In addition, the heavy domestic debt redemption profile of about TRY 65 billion in the first four months of the year is another factor to prevent a secular decline in bond yields in the first quarter of the year. (Graph 12) The Treasury will repay TRY 17.8 billion domestic debt of which TRY 14.9 billion is to the market in January according to the January-March domestic borrowing strategy. Meanwhile, it will repay TRY 16.4 billion and TRY 13.8 billion in February and March respectively. The Treasury aims for market rollover ratios at 77% for January, 82% for February and 87% for March, which we find high and will likely create upwards pressure on bond yields as uncertainty on funding costs limits the appetite for government bonds.

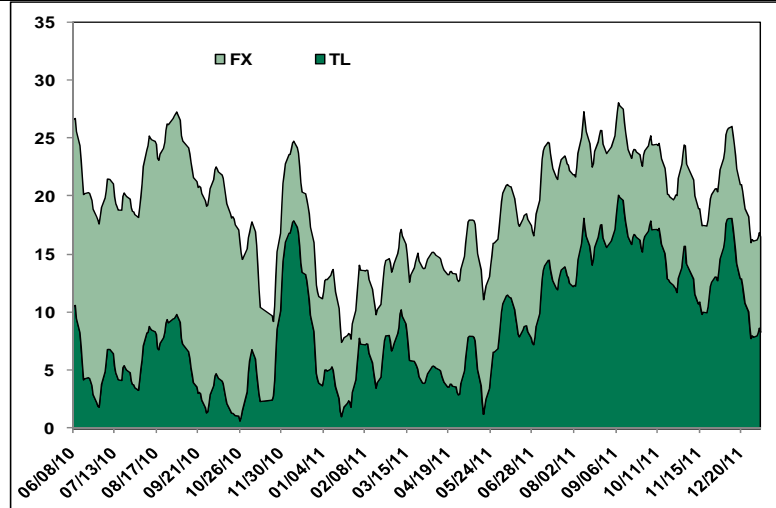
Graph 12: Domestic Debt Redemptions, 2011-2012 (TRY bn)



Source: Treasury

Meanwhile, the central government’s accounts at the CBRT do not seem so strong and the Treasury may try to achieve these high rollover ratios with increased costs unless the CBRT provides the market more permanent funding and guarantees that it will remain, which will not be in the first quarter in our view. (Graph 13) However, in the second half of 2012 the CBRT will likely provide permanent funding at lower costs as the economy will slow down and pressure on the lira will ease to some extent parallel to the improvement in the current account deficit. Under such a scenario, we expect benchmark bond yield to end the year slightly below 10%.

Graph 13 : Public Deposits (billion TL, 5-day moving average)

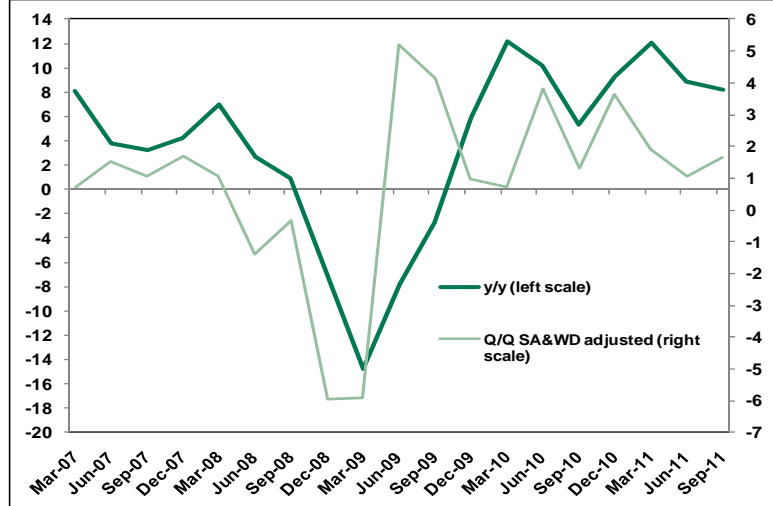


Source: CBRT

Growth strong in Q4 2011 but risks loom

Economic activity accelerated in the third quarter contrary to expectations. Real output grew by 8.2% YoY in the third quarter, corresponding 9.6% YoY growth for Q1-Q3. Adjusted for seasonal and calendar effects, economic activity accelerated and output rose by 1.7% QoQ following the 1.1% growth in the second quarter. (Graph 14)

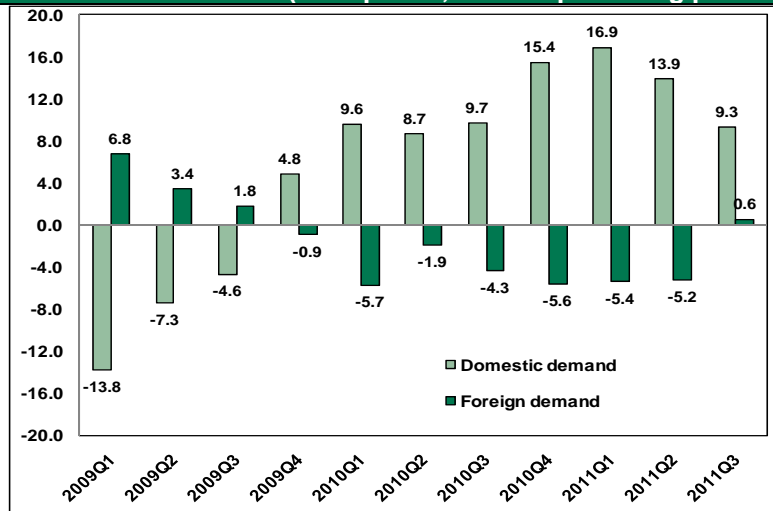
Graph 14: GDP Growth (%)



Source: TurkStat

Q3 data provided strong evidence that rebalancing in the economy has started. While private consumption remained strong, the contribution of net external demand turned positive in Q3 as we expected. (Graph 15) Private consumption was once again behind the aggressive growth, rising 7.0% YoY in Q3 on top of 8.8% in Q2. On the other hand, private sector investment growth seems to have cut its pace to 17.2% YoY following the 34.1% rise observed in the second quarter.

Graph 15: Sources of Growth (1998 prices, as % of preceding period's GDP)

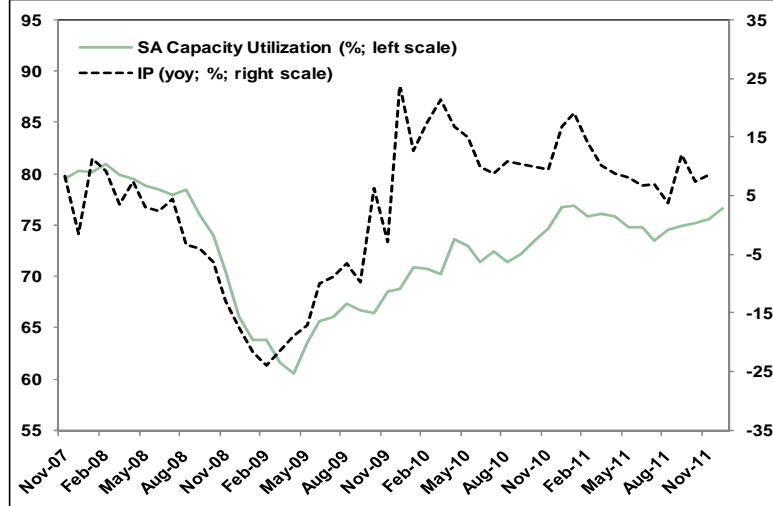


Source: TurkStat, Seker Securities

Net external demand made its first positive contribution to growth (0.6 pp) since Q3 2009 as the exports under GDP rose 10.8%, higher than the 7.3% in imports. Meanwhile, domestic demand made a 9.3% contribution to the Q3 growth figure, while stock changes erased 1.6 pp off the headline figure.

Economic activity remained strong in the final quarter of the year according to various indicators. Growth indicators like PMI indices, capacity utilization and industrial production imply a YoY growth rate of about 5% for the last quarter of the year, which would bring the 2011 growth rate to 8.2% according to our forecasts. (Graph 16)

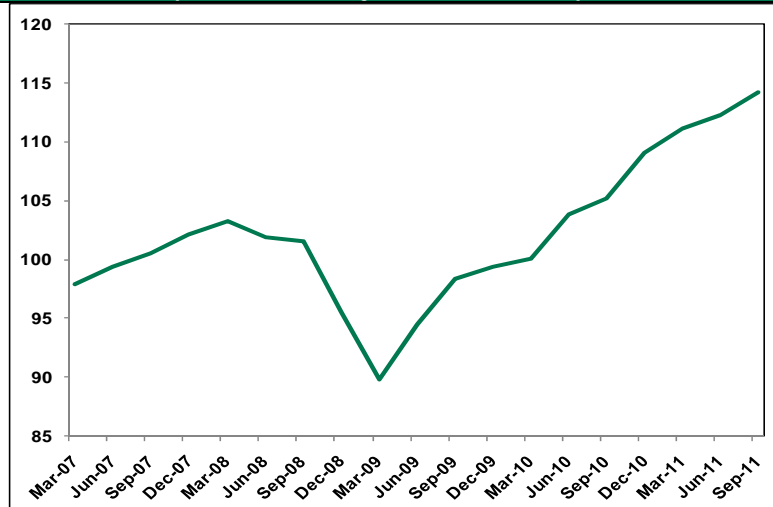
Graph 16: Capacity Utilization and Industrial Production



Source: TurkStat, CBRT

However, the sustainability of this high growth pattern is questionable as the economy created a strong base, which is difficult to sustain with weak external sources as the GDP level (SA and WD adjusted) was 14.2% above the pre-crisis levels as of third quarter. (Graph 17)

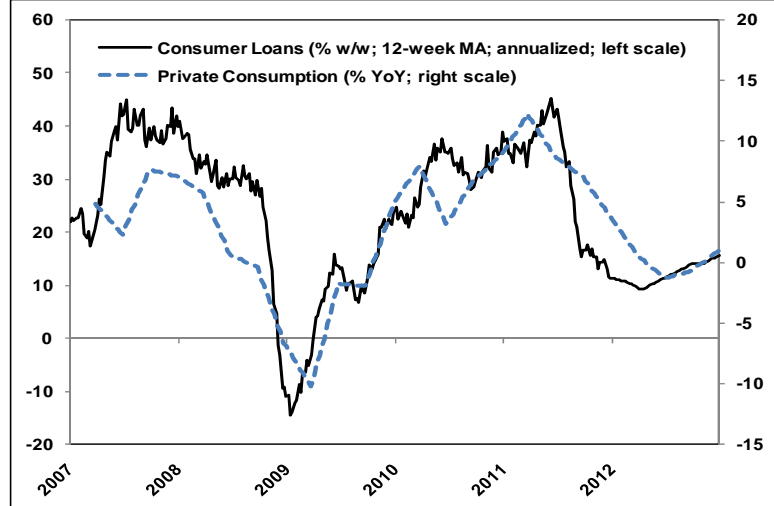
Graph 17: Real GDP (SA and WD adjusted; 2007=100)



Source: TurkStat, Turkey Data Monitor, Seker Securities

Secondly, the CBRT’s “reasonable” 10% trend growth for consumer credits implies weak private consumption in 2012. The CBRT’s definition of reasonable levels of consumer credit growth not detrimental to financial stability, points to a significant slowdown in private consumption, which will likely take its toll on growth according to our projections. Our private consumption growth path can be found in the graph below. In the same graph, trend growth of consumer credits corresponds to around 10% for the first three quarters, before steadily rising to 13–14% by year-end as we expect the bank to ease monetary conditions in the second half of the year to support growth. We forecast private consumption to remain broadly stable this year.

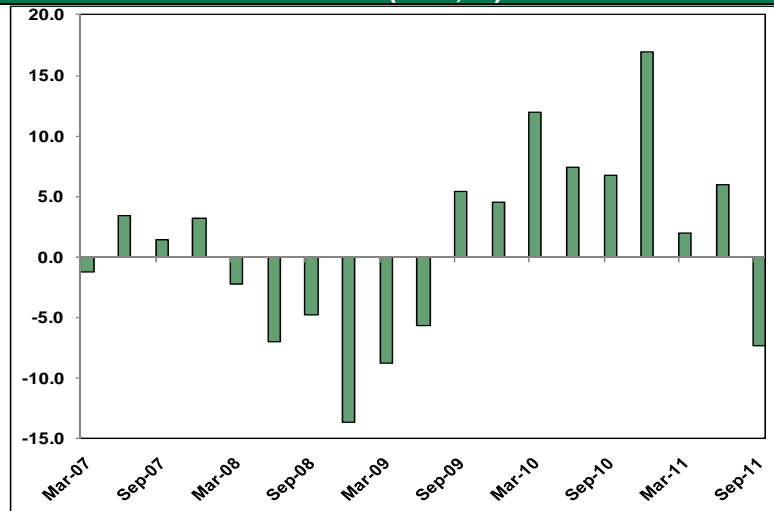
Graph 18: Consumer Loans and Private Consumption



Source: BRSA, TurkStat, Seker Securities

Meanwhile, private investments will likely lose steam. According to our calculations, adjusted for working day and calendar effects, private investments declined 7.4% in Q3 over a quarter ago. (Graph 19) Accompanied by signals from soft data like the real sector confidence index for December, and slowing private consumption, we forecast private investments to show a moderate contraction this year.

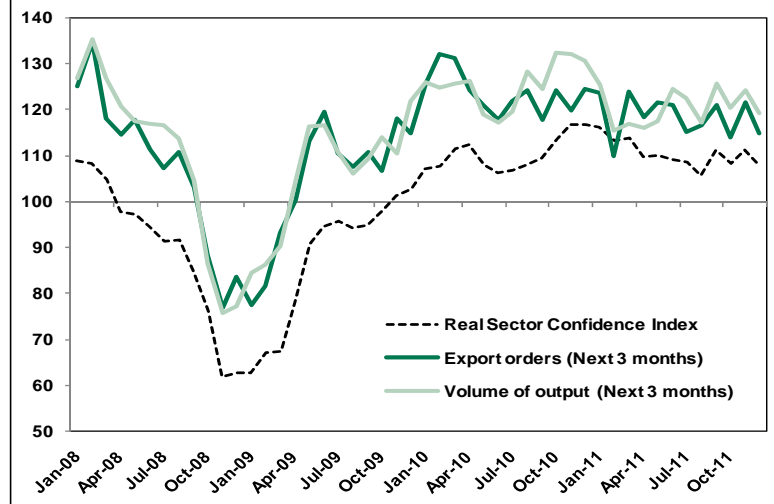
Graph 19: Private Investment Growth (QoQ; %)



Source: TurkStat, Seker Securities

The real sector confidence index compiled by the CBRT declined 4.9% MoM to 97.2 in December, below the 100 mark separating expansion and contraction in manufacturing activity. Meanwhile, the seasonally adjusted index fell 3.2% MoM. The decline in the sub-indices were broad based as the SA sub-index for output volume for the next three months declined 3.9% MoM, while the sub-index pertaining to new export orders (for next three months) fell 5.6% MoM. While there seems to be a contradiction between the real data and expectations, the deterioration in expectations will likely reflect on economic activity in the first half of the year. (Graph 20)

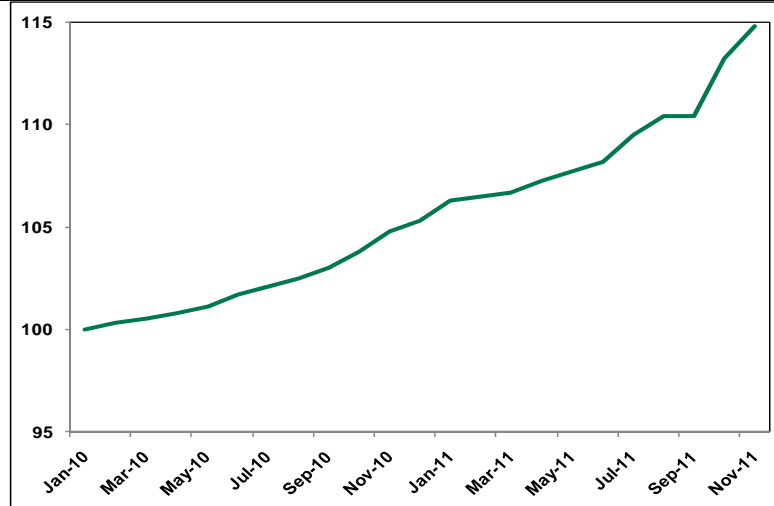
Graph 20: Real Sector Confidence Index (SA index)



Source: CBRT

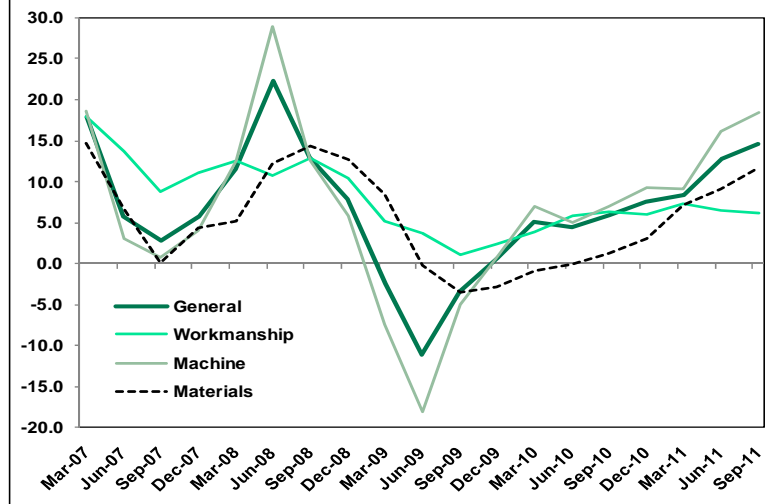
Another factor directing us to a lower than consensus growth rate for 2012 is the vulnerability of the construction sector, which made a significant contribution to employment growth last year. New home prices are still increasing as of November, while cost pressures on the construction sector also rising. (Graph 21-22) Maintaining the momentum in the construction sector is difficult given the CBRT's monetary tightening, which caused housing loan rates to increase although they are still low compared to historical standards. (Graph 23) Combining these facts, the economy may lack the support of a significant sector in terms of its broad effects on the economy in 2012, despite its share in nominal GDP (including directly related sectors like real estate) was only 9% in the first three quarters of last year.

Graph 21: New Home Prices for Sale (Jan-10=100)



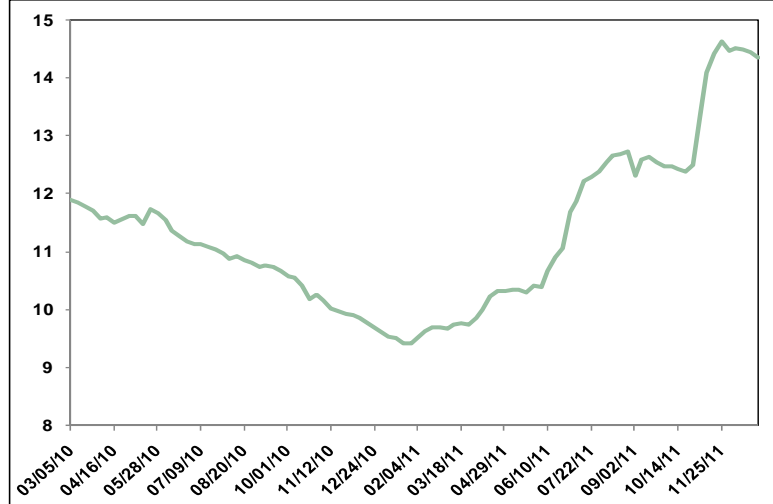
Source: REIDIN.com

Graph 22: Building Construction Cost Index (% YoY)



Source: TurkStat

Graph 23: Housing Loans Lending Rate (Weighted average; %)



Source: CBRT

As for external demand, the positive contribution to growth will continue through 2012 with an overall 1.1 pp contribution. (Table 2) Meanwhile, we expect a slight contribution from stock build up as manufacturers will face a significant slowdown in demand. All in all, we continue to expect the economy to barely expand in 2012 (0.8%) due to the high base of last year, external funding constraints and higher credit costs due to CBRT's steps to keep credit growth and the lira under control. However, we admit that there are upside risks to our growth forecast as the momentum in the economy may prevent a deceleration in economic activity to the levels we expect.

Table 2: Growth components, 2007-12 (% annual)

	2007	2008	2009	2010	2011		2012 (f)	
					Q1-Q3	Q4 (f)	FY (f)	
Domestic Demand 1/	5.2	-1.6	-5.3	10.9	13.1	3.9	10.7	-0.6
Consumption	5.6	-0.1	-1.0	6.1	9.3	3.0	7.6	0.3
Private	5.5	-0.3	-2.3	6.7	9.2	3.7	7.8	-0.1
Public	6.5	1.7	7.8	2.0	10.2	-0.5	6.7	3.1
Gross Fixed Capital Formation	3.1	-6.2	-19.0	29.9	25.4	5.3	19.3	-3.1
Private	2.6	-9.0	-22.5	33.5	29.4	4.0	21.9	-3.6
Public	6.3	12.7	-0.6	15.1	5.0	11.0	7.0	-0.6
Change in Stocks 1/	0.6	0.3	-2.3	2.4	-0.4	0.4	-0.2	0.3
Foreign Demand 1/	-1.2	1.9	2.7	-4.4	-3.1	0.1	-2.3	1.1
Exports	7.3	2.7	-5.0	3.4	6.7	2.7	5.6	3.8
Imports	10.7	-4.1	-14.3	20.7	17.3	1.9	12.9	-0.6
GDP	4.7	0.7	-4.8	9.0	9.6	4.4	8.2	0.8

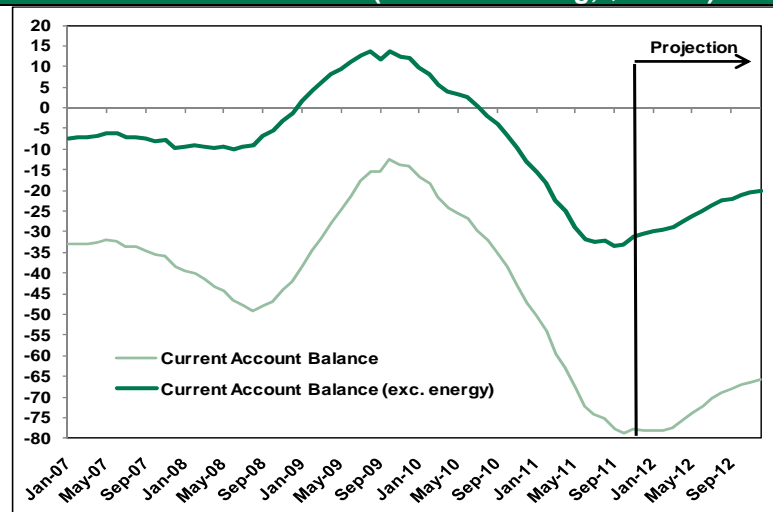
Source: TURKSTAT, Seker Securities.

1/ Contributions to GDP growth.

Current account at new record before moderate improvement in 2012

Deterioration in terms of trade and a surge in import volumes due to high domestic demand and an import dependent manufacturing sector were the main factors behind Turkey's record current account deficit after the global crisis. As we have long argued, sustaining the high growth and high current account deficit duo is impossible for Turkey, especially considering that the financing prospects to deteriorate in 2012.

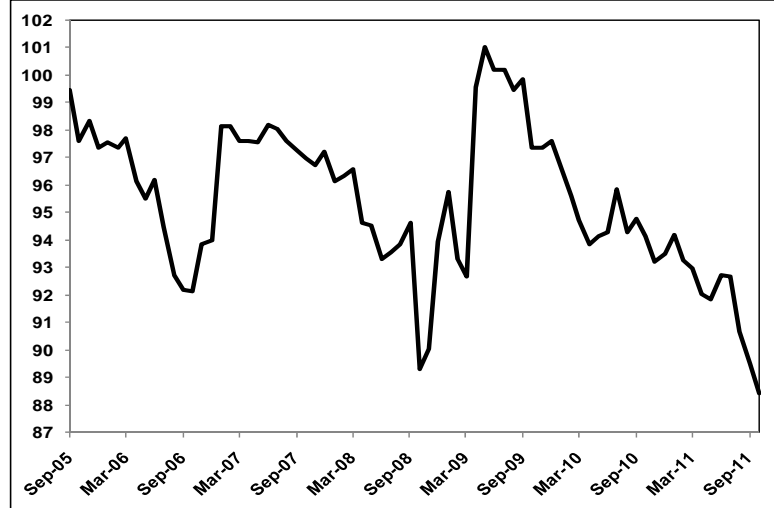
The Turkish economy created a cumulative record current account deficit of USD 78.6 billion as of October, up from USD 78.0 billion in September. Meanwhile, the adjustment in the cumulative non-energy current account deficit is beginning. In 12-month rolling terms, it declined by USD 0.4 billion to USD 33.1 billion in October. The monthly non-energy current account balance turned positive in October for the first time since February last year, posting a surplus of USD 0.2 billion. Although this development is very recent, we expect the narrowing in the non-energy CAD to continue in the upcoming period mainly due to the slowdown in non-energy imports. (Graph 24)

Graph 24: Current Account Balance (12-month rolling; \$ billion)

Source: CBRT, Seker Securities

The increase in oil prices after prices collapsed in the post-Lehman period was the main cause for the deterioration in terms of trade. (Graph 25) We expect oil prices (Brent) to remain above \$100/bbl on average this year as tension between Iran and the Western countries is an important factor that prevent oil prices sliding below the \$100 mark, in addition to abundant liquidity in the market. We revised our oil forecast back to \$105 from \$93, which caused an expansion of some USD 5 billion in our CAD forecast for 2012.

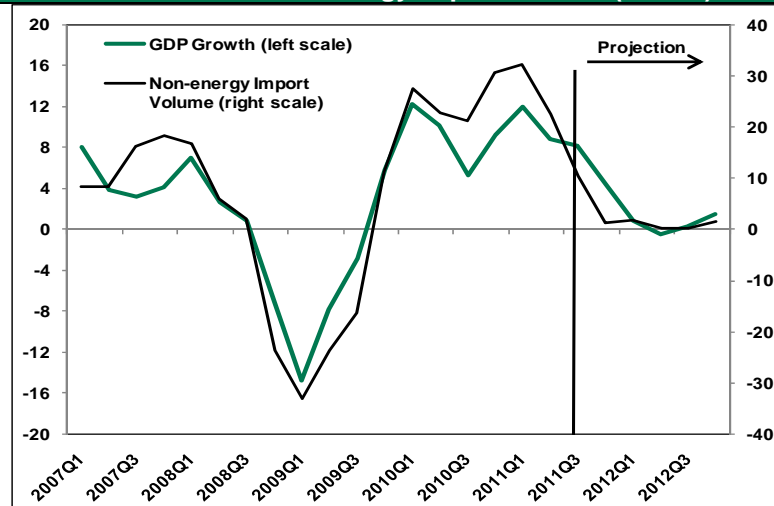
Graph 25: Terms of Trade (%)



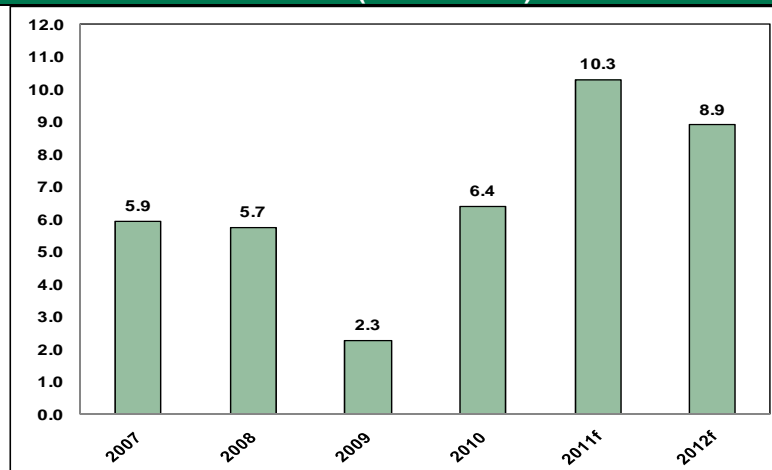
Source: TurkStat, Seker Securities

The expected slowdown in 2012 and the decline in oil prices on average will likely cause a narrowing in the current account deficit this year as there is a strong relationship between non-energy import volumes and GDP growth rate. (Graph 26) We forecast a CAD of USD 78 billion (10.3% of GDP) for 2011 before the deficit narrows marginally to USD 66 billion (8.9% of GDP) despite growth slowing down from 8.2% to 1% this year. (Graph 27) The marginal decline in CAD compared to the significant slowdown may be surprising at first sight. However, the slowdown we expect will not be enough for a meaningful narrowing in the current account deficit in 2012 as the high base in the level of economic activity will still necessitate high levels of imports.

Graph 26: GDP Growth and Non-energy Import Volume (YoY %)



Source: TurkStat, Seker Securities

Graph 27 : Current Account Deficit (as % of GDP)

Source: CBRT, TurkStat, Seker Securities

We expect an accelerated positive contribution to the current account balance from the service sector this year as it was in 2011 due to the effect of a weaker lira on the tourism revenues and Turkey's increased importance as a tourist destination. We expect tourism revenues to improve to 3% of GDP in 2012 up from 2.5% of GDP in 2011 (forecast). (Table 3)

Table 3 : Current Account Balance, 2007-12 (USD bn)

	2007	2008	2009	2010	2011 (f)	2012 (f)
Current Account	-38.4	-42.0	-14.0	-47.1	-78.0	-65.9
as % of GDP	-5.9	-5.7	-2.3	-6.4	-10.3	-8.9
Merchandise trade (BOP def.)	-46.9	-53.0	-24.9	-56.4	-90.4	-82.1
as % of GDP	-7.2	-7.3	-4.0	-7.7	-11.9	-11.1
Exports (f.o.b.; inc. Shuttle and gold)	115.4	140.8	109.6	120.9	142.9	150.9
Exports (f.o.b.; TURKSTAT def.)	107.3	132.0	102.1	113.9	134.6	144.4
o/w: Energy	5.1	7.5	3.9	4.5	6.7	6.5
Price (%)	12.7	15.5	-16.1	4.9	11.7	2.2
Volume (%)	11.3	6.5	-7.5	6.3	5.6	5.0
Imports (f.o.b.)	-162.2	-193.8	-134.5	-177.3	-233.2	-233.0
Imports (c.i.f.; TURKSTAT def.)	-170.1	-202.0	-140.9	-185.5	-241.7	-244.1
o/w: Energy	-33.9	-48.3	-29.9	-38.5	-54.3	-52.3
Price (%)	9.7	20.0	-19.5	8.6	14.9	0.2
o/w: Energy	7.7	42.6	-36.9	21.7	31.4	-5.5
Non-energy	11.4	4.2	-5.3	2.4	5.4	1.5
Volume (%)	12.7	-1.4	-12.9	21.2	13.4	1.0
o/w: Energy	10.1	0.6	4.8	3.9	4.9	1.3
Non-energy	12.9	-0.6	-17.0	25.5	15.4	0.9
Services	13.3	17.3	16.7	15.0	18.9	23.0
as % of GDP	2.1	2.4	2.7	2.0	2.5	3.1
o/w: Travel (net)	15.2	18.4	17.1	16.0	18.9	22.1
Income	-7.1	-8.4	-8.2	-7.1	-8.1	-8.5
as % of GDP	-1.1	-1.1	-1.3	-1.0	-1.1	-1.1
o/w: Interest (net)	-7.5	-8.7	-7.3	-5.4	-5.1	-5.4
as % of GDP	-1.2	-1.2	-1.2	-0.7	-0.7	-0.7
Current transfers	2.2	2.1	2.3	1.4	1.6	1.7
as % of GDP	0.3	0.3	0.4	0.2	0.2	0.2
Memorandum items:						
Non-energy current account deficit	9.7	1.2	-12.0	13.1	30.4	20.1
as % of GDP	1.5	0.2	-2.0	1.8	4.0	2.7
Merchandise trade deficit (TURKSTAT def.)	62.8	69.9	38.8	71.7	107.0	99.7
Non-Energy	34.1	29.2	12.8	37.6	59.5	53.9
Energy	28.7	40.7	26.0	34.0	47.6	45.9
Oil price (Brent)	72.7	98.4	61.5	79.5	111.2	104.9
%	11.5	35.4	-37.5	29.3	39.9	-5.6

Source: CBRT, TURKSTAT, Turkey Data Monitor, Seker Securities

External financing

External financing will be a key issue for investment decisions to Turkey this year as the problems in Europe continue. We calculate that the Turkish economy will need some USD 135 billion in 2012 to finance its current account deficit (USD 65.9bn), MLT debt service (USD 44.5bn) and short-term debt service of some USD 25bn (excluding short-term trade credits). Our projection should not be misleading if you compare it to around USD 200 billion, which are the figures circulating in the market, as we do not include short-term trade credits. In fact, including financing to rollover short-term trade credits (around USD 75 billion for 2012), our financing need forecast would reach some USD 210 billion. Our reasoning for not including short-term trade credits in external financing need is that trade credits are very easy to rollover as it is a low risk trade for banks.

Table 4: External Financing, 2008-12 (USD bn)

	2008	2009	2010	2011 (f)			2012(f)
				Jan-Oct	Nov-Dec (f)	FY (f)	
Outflows	84.9	62.4	93.7	98.4	21.1	119.5	110.4
Current Account Deficit	42.0	14.0	47.1	65.1	12.9	78.0	65.9
Debt service (MLT)	42.9	48.4	46.6	33.3	8.1	41.5	44.5
Public	10.6	6.7	8.5	7.8	1.4	9.2	8.0
o/w: IMF	1.9	0.7	2.2	2.1	0.7	2.8	2.0
External debt securities	3.4	1.9	2.6	1.8	0.0	1.8	2.4
Private	32.3	41.7	38.1	25.5	6.8	32.3	36.5
Banks	7.2	7.6	6.7	5.9	0.7	6.6	8.3
Other sectors	25.1	34.0	31.4	19.6	6.1	25.7	28.3
Inflows	84.9	62.4	93.7	98.4	21.1	119.5	110.4
Capital account	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
FDI (net)	17.0	6.9	7.6	9.8	2.0	11.8	11.5
Portfolio (private; net)	-0.5	0.1	1.3	4.0	-0.3	3.7	1.5
Borrowing (MLT)	65.2	35.4	54.5	49.5	14.4	63.8	61.5
Public	7.8	6.9	24.1	17.2	6.2	23.4	21.5
o/w: IMF	3.6	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities 1/	-1.1	2.0	17.4	13.2	5.4	18.6	16.5
o/w: TL-securities (net)	-5.1	-1.7	10.7	9.0	5.4	14.4	10.0
Private	57.4	28.6	30.3	32.3	8.2	40.5	40.0
Banks	7.7	5.7	7.2	9.5	1.2	10.7	10.3
Other sectors	49.7	22.9	23.1	22.8	7.0	29.8	29.7
Short-term (net)	4.3	-4.5	15.5	12.9	2.0	14.9	-3.6
Currency and deposits (net) 2/	-6.8	19.6	23.6	10.8	2.2	13.0	21.0
Errors & omissions 3/	4.7	5.1	4.1	13.1	-2.6	10.5	0.0
Reserve use ('-' = reserve build-up)	1.1	-0.1	-12.8	-1.7	3.4	1.7	18.5
Unidentified Flows / Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:							
MLT debt rollover ratios (%)							
o/w: Banks	107	75	107	161	170	162	125
Other sectors	198	67	74	116	115	116	105

Source: CBT, Treasury, IMF, our calculations.

1/ Includes (net) issues of domestic debt to non-residents, in addition to eurobonds.

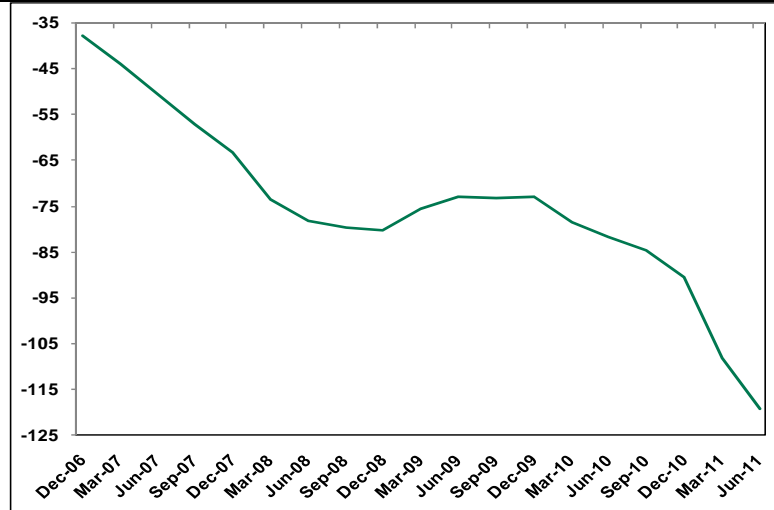
2/ Inc. other assets and liabilities; (-) indicates asset build up abroad and liability draw down inside.

3/ We follow the convention of assuming zero E&O for projections, but keep history unchanged.

Given the fact that 80% of non-bank MLT borrowing comes from Europe, it is certain that MLT debt rollover ratios will decline, which is negative for the lira, barring a new round of quantitative easing from the Fed or ECB fills the market with Euros. In addition, at USD 119 billion, the net FX position of the corporate sector is significantly higher than pre-crisis levels as of second quarter and the

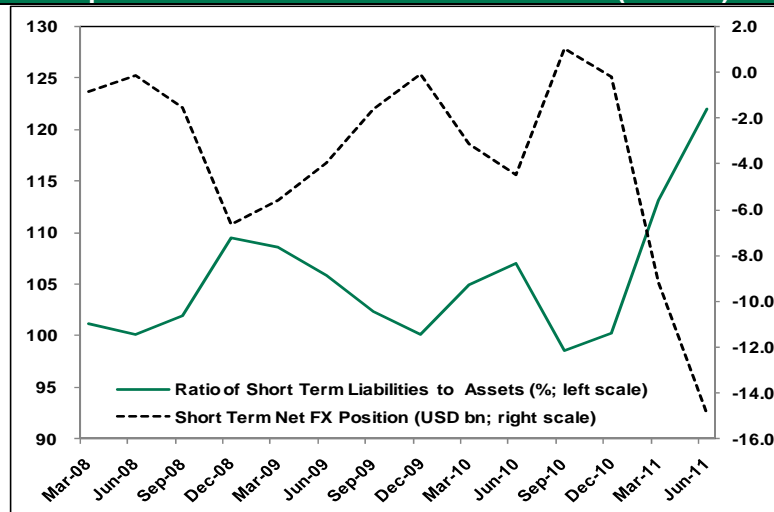
ratio of short-term liabilities to assets is also higher, with the net short-term FX position rising. (Graph 28-29) Although, these will likely be negative for the lira in 2012, we assume a significant asset drawdown from abroad in 2012 as was the case in 2009, which will offset some pressure on the lira from the corporate side this year.

Graph 28: Corporate Sector Net FX Position (USD bn)



Source: CBRT

Graph 29: Corporate Sector Short-term Net FX Position (USD bn)



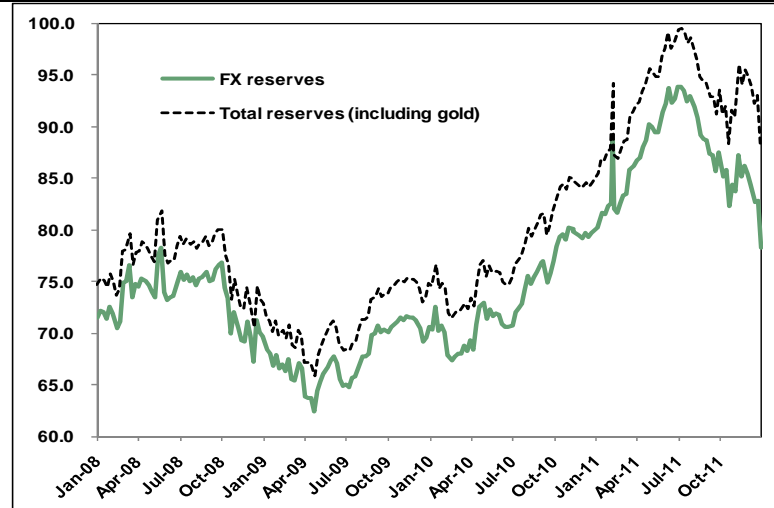
Source: CBRT

In 12-month rolling terms, the share of MLT debt and FDI in external financing is increasing though a slow pace. After the ECB’s 3-year loan of EUR 490 billion to Eurozone banks in December, we are now more optimistic about MLT debt rollover ratios. Meanwhile, we forecast an FDI of USD 11.5 billion this year, almost stable compared to last year due to the expected financing problems by European banks and domestic economic risks.

In our view, the CBRT’s use of reserves as well as inflows to bond market in the second half will partially prevent further depreciation of the lira in addition to asset drawdown by the corporate and banking sector in 2012 as in the previous episode of 2008-2009. Combining the above-mentioned facts led us to the conclusion that the pressure on the lira will remain during the first half, which will

necessitate significant erosion in the CBRT's reserves this year. According to CBRT data, the central bank's FX reserves (including gold) stands at USD 88.2 billion as of December 30. (Graph 30) However, after the FX interventions and FX selling auctions last week, it might have declined to USD 85-86 billion as of Friday, January 6th.

Graph 30: International reserves (USD bn)



Source: CBRT

All in all, although financing conditions will likely be tighter in 2012, we expect the pressure on the lira to ease slightly in the second half of the year with the help of the options alternative to MLT borrowing, also used in 2008-2009, inflows to bond market and reserve use as well as improvement in the CAD.

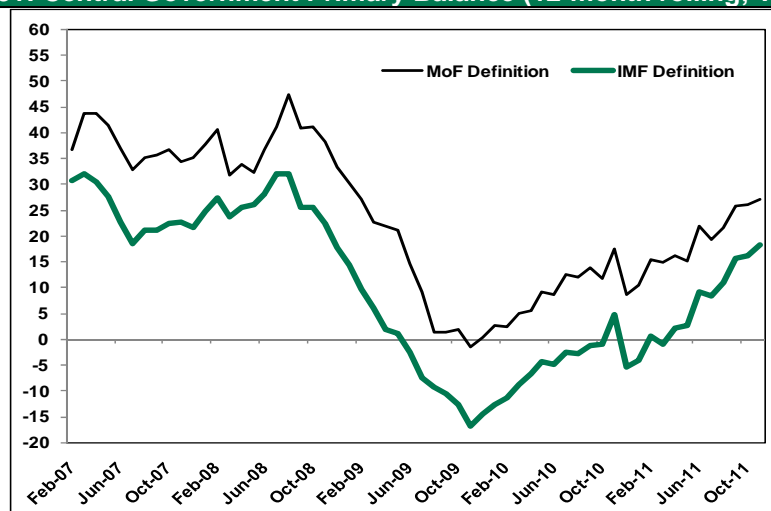
Structuring, high growth and lower interest payments supported the budget in 2011 but what about 2012?

The central government budget registered a budget and primary surplus of TRY 0.4 billion and TRY 41.4 billion respectively in January-November. (Table 5) They improved by TRY 23.9 billion and TRY 18.5 billion respectively compared to the same period in 2010, which was impressive. In November, the 12-month rolling program defined primary surplus, which excludes one-off revenues and expenditures but not revenues from restructuring, increased to TRY 18.2 billion (1.4% of GDP) from TRY 16.2 billion (1.3% of GDP) in October. (Graph 31)

Table 5: Central Government Budget, 2010-2011 (TRY bn)

	Jan-Nov		Real growth (%)
	2011	2010	
Central Government Revenues	<u>272.8</u>	<u>232.3</u>	7.3
o/w: General Budget Revenues	<u>264.3</u>	<u>225.0</u>	7.3
Tax Revenues	<u>234.1</u>	<u>192.6</u>	11.0
o/w: Corporation Tax	71.2	57.6	12.9
Tax on Income	26.5	20.7	16.9
Tax on Goods and Services	95.2	83.8	3.9
o/w: VAT	28.3	24.5	5.5
SCT	58.4	51.8	3.1
Tax on Foreign Trade	48.2	34.8	26.4
Non-Tax Revenues	38.7	39.7	-11.1
Central Government Expenditures	<u>272.3</u>	<u>255.8</u>	-2.8
Non-Interest Expenditures	231.3	209.3	1.0
o/w: Personnel	79.7	68.1	6.9
Government Prem. to Social Security Agen.	11.6	9.9	6.6
Good and Services Procurements	26.1	21.6	10.3
Capital Expenditures	20.8	17.6	8.0
Current and Capital Transfers	100.6	96.8	-5.1
o/w: Social Security	50.3	52.7	-12.9
Transfers to Households	1.9	1.4	23.8
Agricultural Subsidy	5.7	5.4	-3.1
Treasury Aid to Provincial Offices	2.5	1.6	43.6
Interest Expenditures	41.0	46.5	-19.4
Overall Balance	<u>0.4</u>	<u>-23.5</u>	...
Primary Balance	<u>41.4</u>	<u>23.0</u>	...

Source: Ministry of Finance

Graph 31: Central Government Primary Balance (12-month rolling; TRY bn)

Source: Treasury

TRY 13.1 billion in previously unpaid debt collection under restructuring and less social security transfers due to the increased unpaid premium collection by Social Security Institution which we forecast at around a net of TRY 5 billion made a significant contribution to the central government budget. Without them, the 12-

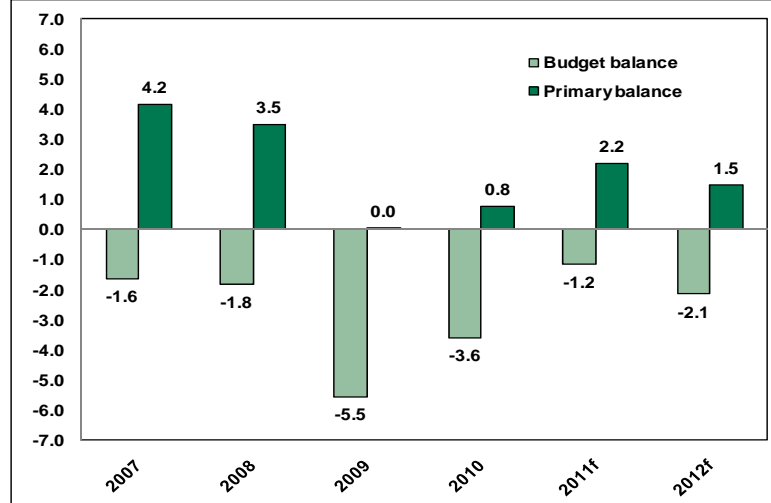
month rolling IMF defined cumulative primary surplus would be near zero as of November. These items will continue to contribute to the budget figures in 2012 at a slowing pace as the installments will continue this year.

The central government's primary expenditures may have jumped in December due to heightened capital expenditures if all of the additional appropriations of TRY 9.1 billion in capital expenditures were used. According to our forecasts, the budget may have posted a deficit of some TRY 15 billion and a primary deficit of TRY 13.5 billion, similar to December 2010. Therefore, the budget balance and primary surplus for 2011 might be announced at -TRY 14.7 billion (-1.2% of GDP) and TRY 27.9 billion (2.2% of GDP) respectively according to our forecasts. These figures are favorable compared to the government's revised budget targets for 2011 (budget balance: -1.7% of GDP and primary surplus: 1.6% of GDP).

Strong economic activity and revenues from restructuring were the main factors behind the forecasted improvement of 1.4% of GDP in primary surplus in 2011, though the effect of these two will fade away this year. Low growth this year will likely press budget balances both through its effects on tax collection and potential government measures to support economic activity. While the former will likely show itself through consumption taxes and VAT on imports, the potential primary expenditure increase and tax cuts may be examples for the latter. We calculated the effect of growth differential between our and government's forecast (1% vs. 4%) and incorporated in our budget projections. In addition, due to inflation missing the target, the government will make a 2.7% additional increase in civil servant salaries, that will cost an additional TRY 2.5 billion according to the Minister of Finance.

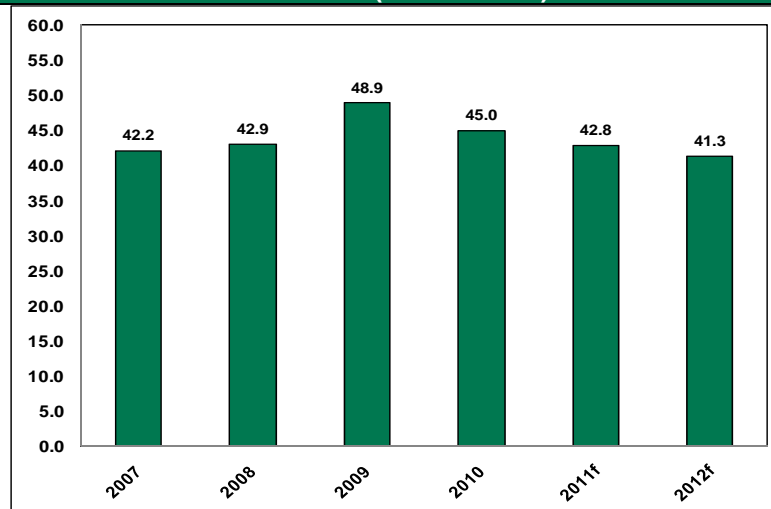
However, there will be one-off factors supporting the revenue side in 2012. Revenue from paid military service and the sales of state-owned land (known as 2-B), may behave as restructuring did in 2011. About 20% of the eligible 420,000 people will likely apply for the paid-in military service as in the previous application in 1999, which may add around TRY 2.4 billion to the 2012 budget revenues. The law for the state land (2-B) may come to parliament in late February at the earliest according to news. The land is expected to be sold for 70% of its market value, which corresponds to TRY 19 billion in revenue for the government. However, as 20% will be paid in cash, others may be paid in installments and a 15% discount will be made if all payment are made in cash, we forecast around TRY 5.5 billion in additional revenue collection for 2012.

Taking all of these facts into account for 2012, we forecast the budget balance and primary surplus at -2.1% of GDP and 1.5% of GDP respectively, unfavorable compared to the targets of a -1.5% budget balance and 2.0% primary surplus. (Graph 32)

Graph 32: Central government budget balances (as % of GDP)

Source: Ministry of Finance, TurkStat, Seker Securities

Public debt as a percentage of GDP maintained its decline in 2011 according to our forecasts. While the year-end figures were not published, we forecast that CG debt stock declined to 40.7% of GDP in 2011 from 42.9% in 2010. On the other hand, it will decline further to 39.1% in 2012 according to our projections, which corresponds to a 1.6 pp decline in public debt to GDP ratio to 41.2% in 2012. (Graph 33)

Graph 33 : Public Sector Debt Stock (as % of GDP)

Source: Treasury, TurkStat, Seker Securities

Hopes for investment grade in 2012 vanish

The chance of a rating upgrade to investment grade by one of three major ratings agencies in 2012 is close to zero in our view as the uncertainty over external financing remains. Large external financing requirement due to record current account deficit, which makes Turkey vulnerable to external shocks, is the primary concern for ratings agencies nowadays. This concern caused Fitch to revise Turkey's foreign and local currency rating outlook to stable from positive, affirming both ratings at BB+, in late November.

"The revision ... reflects an increase in near-term risks to macroeconomic stability as Turkey faces the challenge of reducing its large current account deficit and above-target inflation rate against the background of deterioration in the global economic and financing environment", Fitch said. While the ratings agency argued that success of the CBRT's unorthodox policy mix is debatable, "evidence that Turkey can attain a 'soft landing', with GDP growth returning towards trend, coupled with greater confidence that inflation is on a path towards its target rate and the CAD is narrowing to a more sustainable rate could lead to an upgrade " according to Fitch. "However, severe macroeconomic or financial instability such as a 'balance-of-payments crisis' and recession or a failure to secure disinflation, for example triggered by external shocks or domestic policy mistakes could lead to negative rating action", the agency added.

Another warning on ratings came from Moody's in late November. *"Turkey's most significant challenge is the current account deficit and its financing, which renders it vulnerable to balance-of-payment shocks and offsets some, though not all, of the progress that the government has made in improving its own financial strength" said Moody's. Moody's added that "an upgrade of the rating would be possible if Turkey were to pursue fiscal and monetary policies that reverse the recent growth in internal and, more importantly, external imbalances."*

Fitch's current rating on Turkey's foreign currency debt is one notch below investment grade compared to two notches by S&P (BB) and Moody's (Ba2) with positive outlooks. Risks to external financing in 2012 and the difficulty in achieving a high growth rate will be the reasons for not achieving a ratings upgrade to investment grade this year in our view. The agencies will wait for signals of normalization in the current account to sustainable levels by a process that doesn't harm the growth outlook, which would be very difficult to attain this year. All in all, for 2012, we see almost no chance of a ratings upgrade to investment grade as the financing picture will likely deteriorate and the current account deficit will only moderately narrow.

2012 – Turkish Equity Markets

- Our main equity theme for 2012 is **SELL1H12 / BUY2H12**
- A modest upside potential for Turkish equities in 2012 – **20% upside**
- Some of the risks seems to be priced-in but **uncertainty continues**
- A bearish rally towards **40-45,000(1H)** levels & a rebound to **61,500(2H)**
- Slow global growth – Turkish GDP to grow **8.2% in 2011** and **0.8% in 2012**
- We expect **volatility to stay poised with significant headwinds** ahead
- Current account deficit and **re-financing** as significant risks
- **Currency may be under pressure in 1H** due to possible re-financing risk
- Inflation and interest rate **uncertainty** puts pressure on markets
- CBRT **flexibility/uncertainty trade-off** blurs the market outlook
- **Easing monetary policy** to stimulate growth would be a **hard task**
- We see “too many moving parts”
- Bank earnings will be muted (+1.7% YoY) – **industrials to outperform**

Turkey View – SELL 1H12 / BUY 2H12

GDP growth in 2012 – A growth recession We expect the economy to barely expand in 2012 (0.8%) due to the high base of last year, external funding constraints and higher credit costs due to CBRT's steps to keep credit growth and the lira under control. However, we admit that there are upside risks to our growth forecast as the momentum in the economy may prevent a deceleration in economic activity to the levels we expect. The CBRT's definition of “reasonable levels of consumer credit growth not detrimental to financial stability” points to a significant slowdown in private consumption, which will likely take its toll on growth according to our projections. We expect the growth trend of consumer credits to hover around 10% for the first three quarters, before steadily rising to 13-14% by year-end as we expect the bank to ease monetary conditions in the second half of the year to support growth. We forecast private consumption to remain broadly stable this year. *(For more detailed analysis please refer to page 14 of this report)*

BOX 4 – Hard/Soft Landing Revisited

The business cycle in Turkey was primarily driven by debt-financed spending which generates a magnification of income while debt accumulates. As a pure importer of capital, raw materials, equipment and energy, Turkish output is a function of capital available from abroad that turns into financed spending via loanable funds from banks. If capital inflows dry up, Turkish output slows down accordingly. This can in part be owed to the low savings rate of Turks (~14%). Lending driven expansion creates another cycle where over-optimism feeds into additional lending as underwriting standards ease and future forecasts shows increased earnings. The bulk of the uncertainty was the questioning of the sustainability of Turkey's output growth which was mainly driven by private consumption for the past two years. From the CBRT's point of view, consumption driven expansion is not desired given the fact that a consumption growth that outpaces the potential output growth drives the economy into a hard landing combined with unwanted inflationary side effects. We believe the slowdown in 2012 (we expect the economy to grow by ~1% in 2012) is not a hard landing but rather a growth recession which is a sharp version of the soft-landing paradigm. According to Palley (1999), in a growth recession the rate of output growth slows below the potential output growth but still remains positive. However, for a growth recession to take place some assumptions must be made as Palley suggests:

...consumption growth (i.e. loan supply/demand) should slow down...

We assume that if consumption spending trails behind potential growth in 2012, the CBRT would at least feel relieved from raising interest rate due to overheating concerns – the Bank would rather focus on external imbalances and inflationary pass-through from the undervalued currency. Moreover, in line with CBRT Governor Erdem Basci's argument, slowing consumption growth would contribute to improved external imbalances as high import demand would cease and CAD decline (excluding energy).

...productivity and employment should remain stable...

Viable productivity of Turkish firms is important for defensible profitability which, as Palley argues, is important for the continuation of investments (a higher ROIC) and sustainable stock market values. This would prevent a financial crash.

...having a disciplined fiscal policy helps - the primary balance...

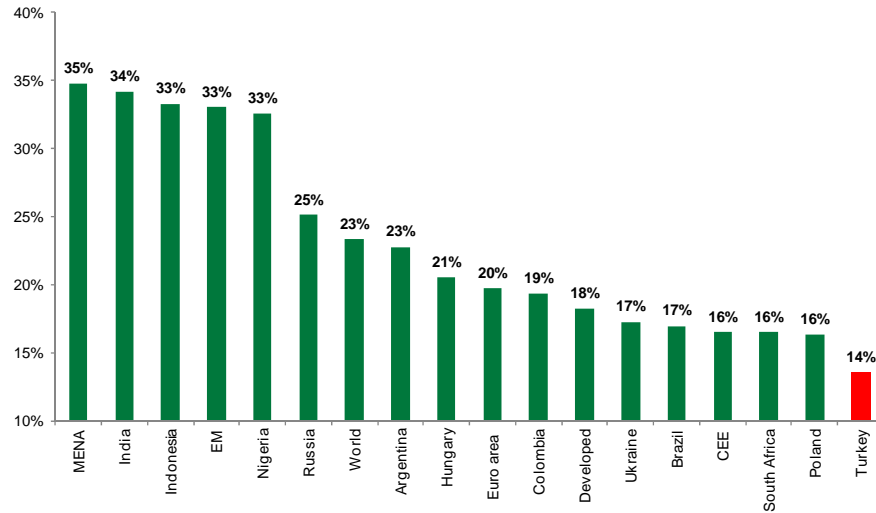
We believe that the current primary surplus at least provides some cushion for sudden turbulences in economic activity and is quite necessary for the elimination of the crowding-out effects on the private sector.

...under these conditions we may expect the stock markets to stabilize quickly...

If the abovementioned conditions are achieved, we may observe a reduction in the trade deficit, heightened financial market stability, and declining inflationary pressures. As this normalizing process would be painful, combined with global uncertainties we see a correction in the markets followed by stabilization, in line with our **SELL1H12 / BUY2H12** hypotheses.

External imbalances and the currency Deterioration in terms of trade and a surge in import volumes parallel to high domestic demand is the main factor behind Turkey's record current account deficit after the global crisis. We have long argued that sustaining the high growth and high current account deficit duo is impossible for Turkey, especially considering that we expect financing prospects to deteriorate in 2012. The expected slowdown in 2012 and the decline in oil prices on average will likely prevent a widening in the current account deficit in 2012 as there is a strong relationship between non-energy import volumes and GDP growth rates.

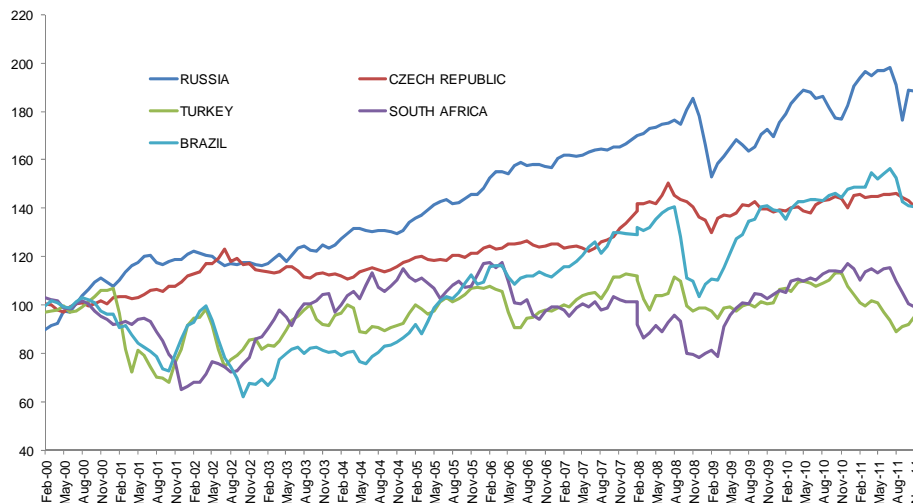
Exhibit 1: Savings Rate to GDP Ratio – Turkey ranks the last with the lowest ratio



Source: IMF, Seker Securities

We forecast a CAD of USD 78 billion (10.3% of GDP) in 2011 before the deficit narrows marginally to USD 66 billion (8.9% of GDP) despite growth slowing down to 1% from 8.2% this year. The marginal decline compared to the significant slowdown may be surprising at first sight; however, the slowdown we expect will not be enough for a meaningful narrowing in the current account deficit in 2012 as the high base in the level of economic activity will still necessitate high levels of imports.

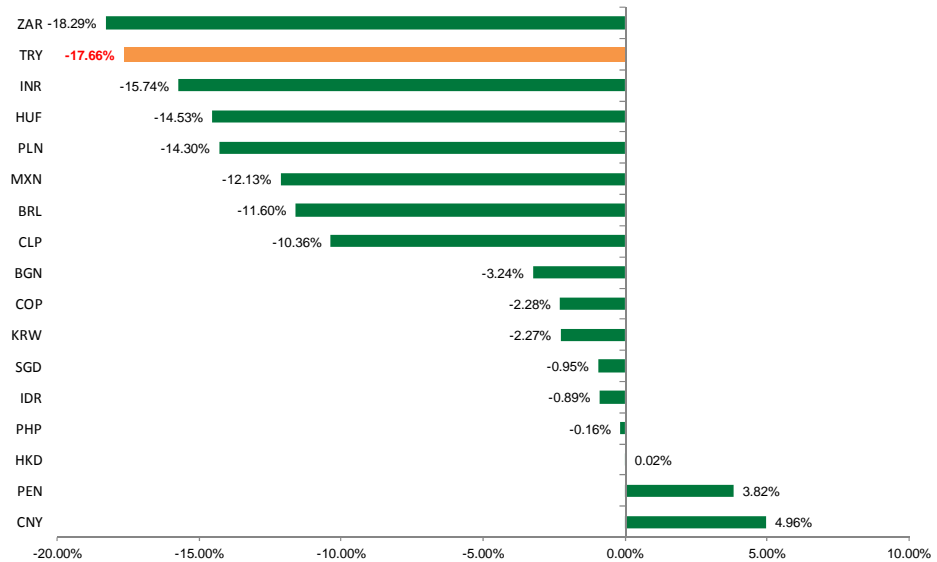
Exhibit 2: Real exchange rates – TL underperformed EM currencies except ZAR



Source: IIF, Seker Securities

On the other hand, external financing will be a key issue for investment decisions to Turkey this year as the problems in Europe continue. We calculate that the Turkish economy will need USD 110 billion to finance its current account deficit and MLT debt service for 2012. All in all, although financing conditions will remain tight in 2012, we expect the pressure on the lira to ease slightly in the second half of the year with the help of the options used in 2008-2009. *(For more detailed analysis please refer to page 20 of this report)*

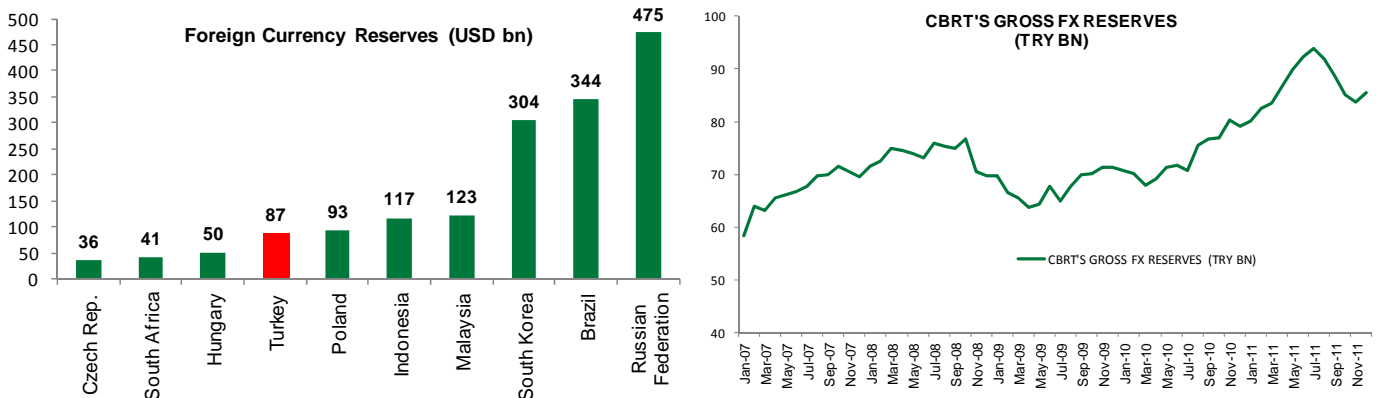
Exhibit 3: TL depreciated approx. 18% against the Greenback in 2011



Source: Bloomberg, Seker Securities

Inflation & Monetary policy - The CBRT's unconventional policy mix We forecast annual inflation to remain between 9-11% until the fourth quarter before ending the year at 6.7%, higher than the 5% inflation target. However, there is a downside risk to our band should there be a sharper downward correction than we assume in unprocessed food prices.

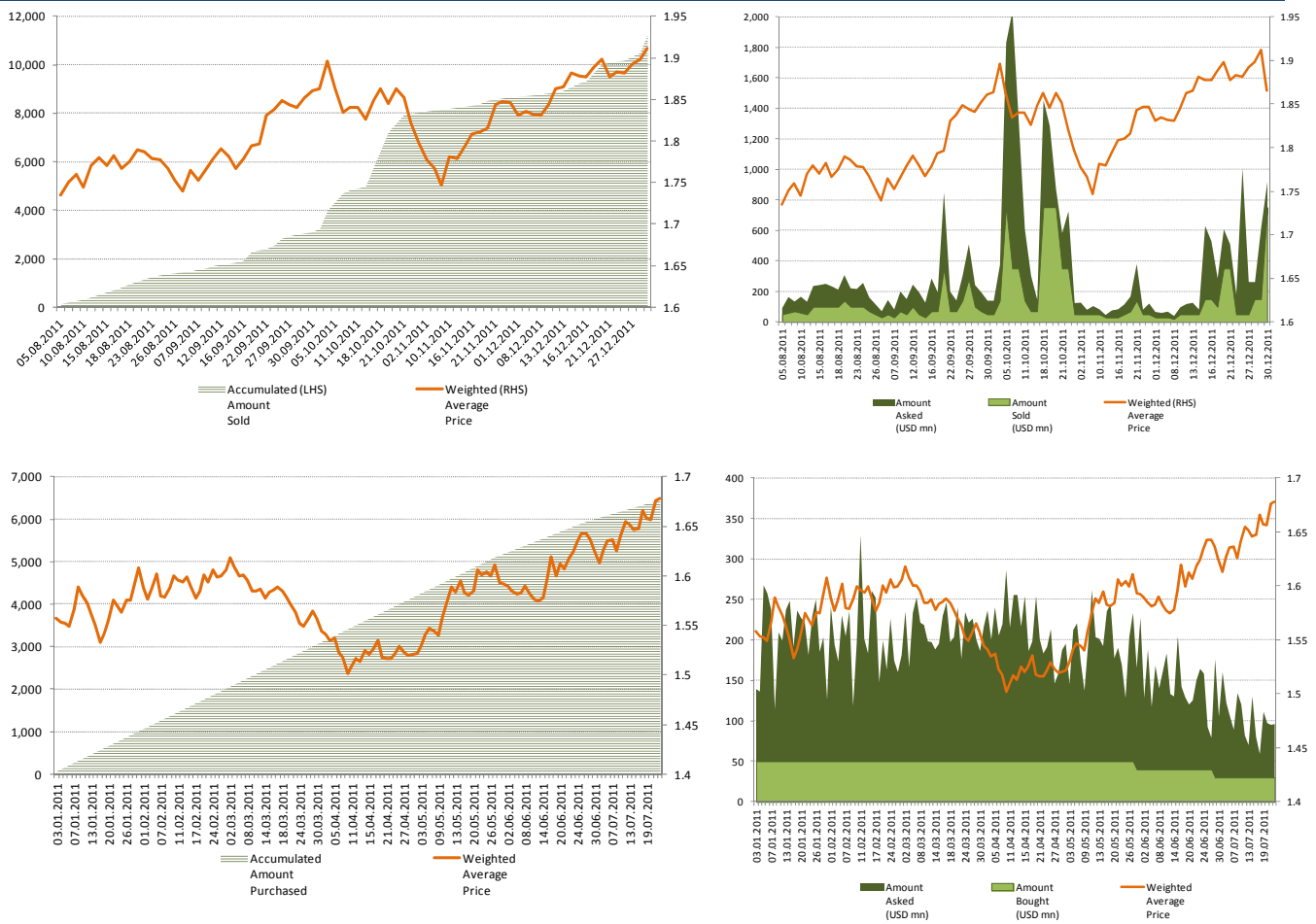
Exhibit 4: CBRT sold approx ~USD 10bn to the market to collar the EUR/USD basket against TL below 2.20



Source: IMF, CBRT, Seker Securities

On the monetary policy front, the central bank changed its unorthodox monetary strategy of high reserve requirement ratios (against high credit growth) combined with a wide interest rate corridor (against FX inflows) with a new elevated one with two moves in O/N borrowing and lending rates in August and October respectively. The reasoning behind the move was controlling depreciation of the lira by squeezing lira liquidity in the market in an effort to combat inflation. Since then, the CBRT has recently started an additional tightening effort in the last days of 2011, in which it cut one-week repo funding at 5.75% to zero and shifted funding to the competitive one-week and one-month repo auctions, in which interest rates were above 11%. Meanwhile, the CBRT uses unsterilized FX interventions and FX selling auctions concurrently in “extraordinary days” in order to defend the lira. *(For more detailed analysis please refer to page 7 of this report)*

Exhibit 5: TL depreciated against the greenback despite the aggressive USD sale auctions of the CBRT



Source: CBRT, Seker Securities

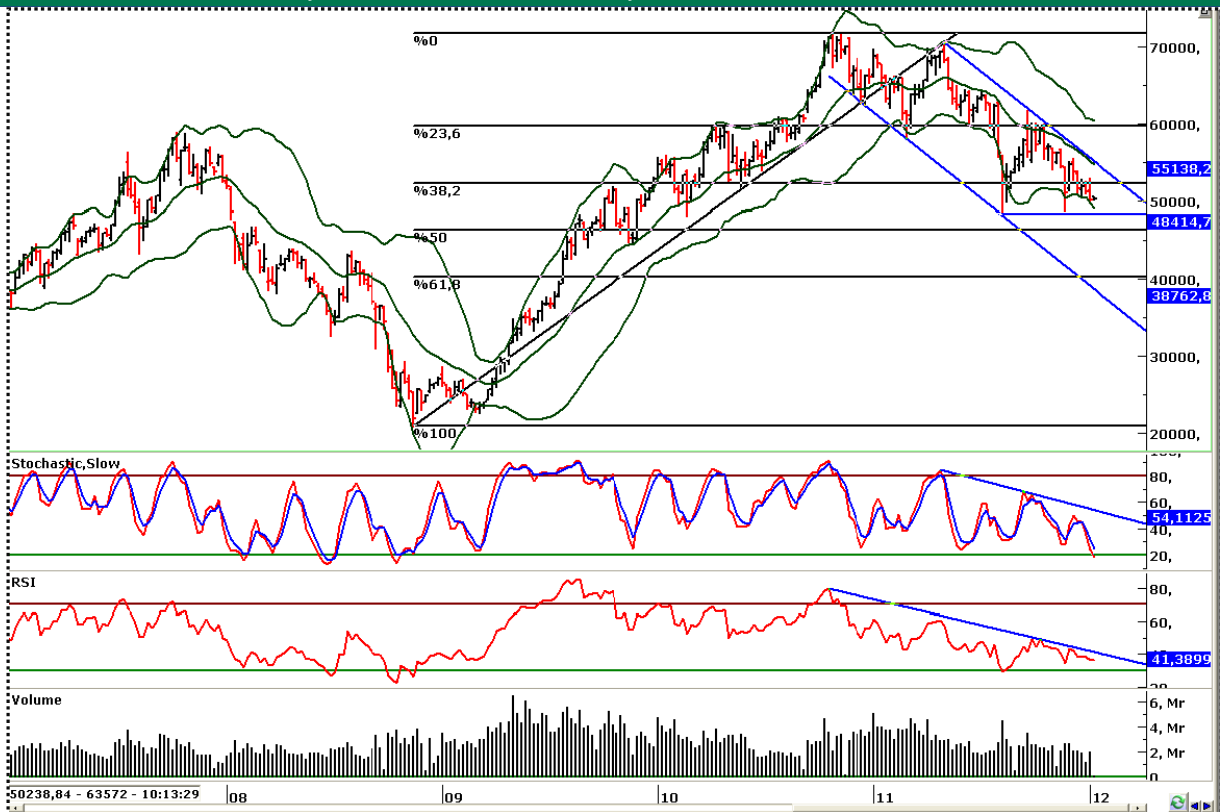
Fiscal Policy – Some deterioration is expected but should provide a cushion against the worst case scenario Low growth this year will likely press budget balances both through its effects on tax collections and potential government measures to support economic activity. While the former will show itself through consumption taxes and VAT on imports, the potential primary expenditure increase and tax cuts may be examples for the latter. We forecast the budget balance and primary balance at -2.1% of GDP and 1.5% of GDP respectively, unfavorable compared to the targets of a -1.5% budget deficit and 2.0% primary surplus. *(For more detailed analysis please refer to page 25 of this report)*

Hopes for investment grade in 2012 vanish The chance of a ratings upgrade to investment grade by one of three major ratings agencies in 2012 is close to zero in our view as the uncertainty over external financing remains. Large external financing requirement due to record current account deficit, which makes Turkey vulnerable to external shocks, is the primary concern for ratings agencies nowadays, which caused Fitch to revise Turkey's foreign and local currency rating outlook to stable from positive, affirming both ratings at BB+, in late November. (*For more detailed analysis please refer to page 28 of this report*)

Technical Analysis of ISE-100 Index (as of Jan. 6th)

The cyclical bull market on the ISE which started in March 2009 lost its momentum at 71,000 levels in November 2010 and since then the index has seen a downwards correction with high volatility stemming from numerous shocks on the macro side both abroad (mainly in Europe) and domestically. The index has been moving below its 22 month average level of 55,000 for the last five months which indicates that this downside trend is likely to continue towards the lower end of the Bollinger band, i.e. ~46,000, for the medium-term. This level also coincides with the Fibonacci retracement level of 50% measured from the trough in March 2009 to the peak in November 2010. 48,500 lows of August and November 2011 provide an intermediate support for the index. Some tactical buybacks might be seen around this level, but a breach of 48,500 on a downturn would increase the selling pressure and quicken the downside trend towards 46,000. If the index cannot consolidate itself between 46,000-48,500, bears should dominate the market and the index would search for another support, which seems to be around 40,000 index level (Fibonacci retracement levels of 50% and 61.8%) considering the long-term trend coming from 2009. In short, we expect the medium-term down side trend to keep its momentum as long as the index stays below its long-term moving averages despite some tactical bounce backs being observed from the abovementioned support levels. In this context, we advise medium to long term investors to sell around 52,500-55,00 levels and wait to buy until the index reaches 40,000-46,000 consolidating range level as the Fibonacci retracement levels of 50% and 61.8% indicate, which is likely to be tested in 1H12.

Exhibit 6: Technical analysis shows that the ISE may bottom-out at 46,000 levels

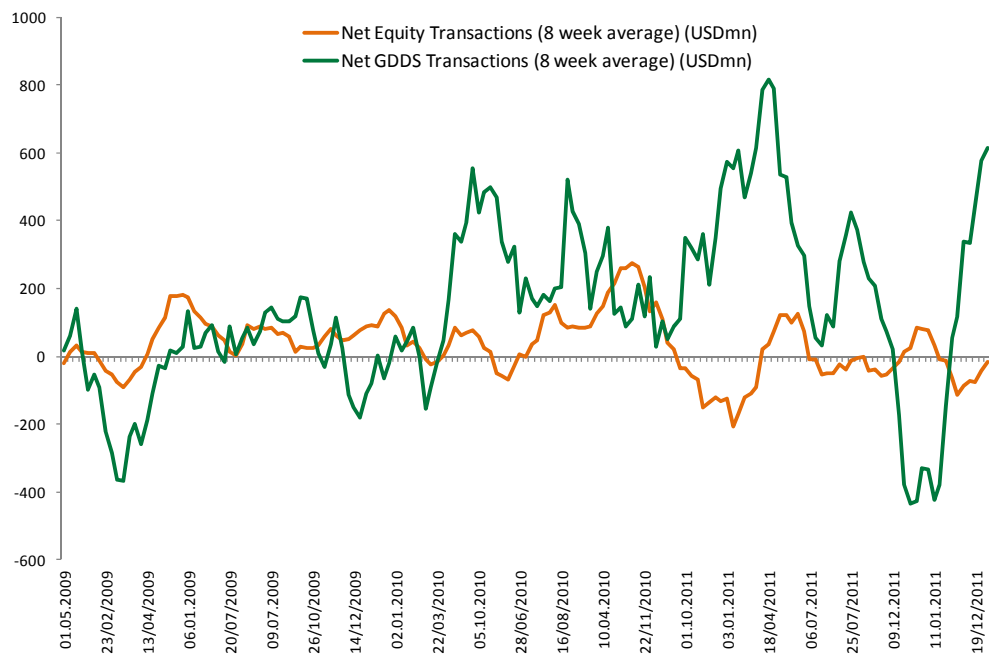


Source: Matriks, Seker Securities

2012 Equity Market Strategy

SELL 1H12 We see that 1H12 may be challenging. There are several uncertainties remaining from the ashes of 2011, **first the exogenous ambiguities:** (i) a global slowdown (or even recession fears) especially in the EU-zone and China – pressure on trade credit and global exports; (ii) a possible deleveraging effect on banks and firm borrowing roll-overs especially in EM economies; (iii) tight global liquidity conditions; (iv) adverse possible spillover effects from unconventional policy moves by central banks worldwide; and (v) oil price seems to be elevated – not weak enough to justify a slowdown expectation; **then the endogenous:** (i) the CBRT's unconventional policy flexibility/uncertainty trade-off leading to uncertainties and noise in markets – high inflation and policy uncertainty will translate into higher premiums on market rates (ii) CAD and re-financing risk that will translate into possible further depreciation of the currency (or stay elevated at high & intolerable levels); (iii) falling foreign interest in Turkish equities – foreign participation down to ~60% compared to ~68% in 2010; (iv) possible EPS downgrades and (v) historically and relatively expensive multiples against EM peers.

Exhibit 7: Foreigners were cautious against the equities and net buyers on GBs

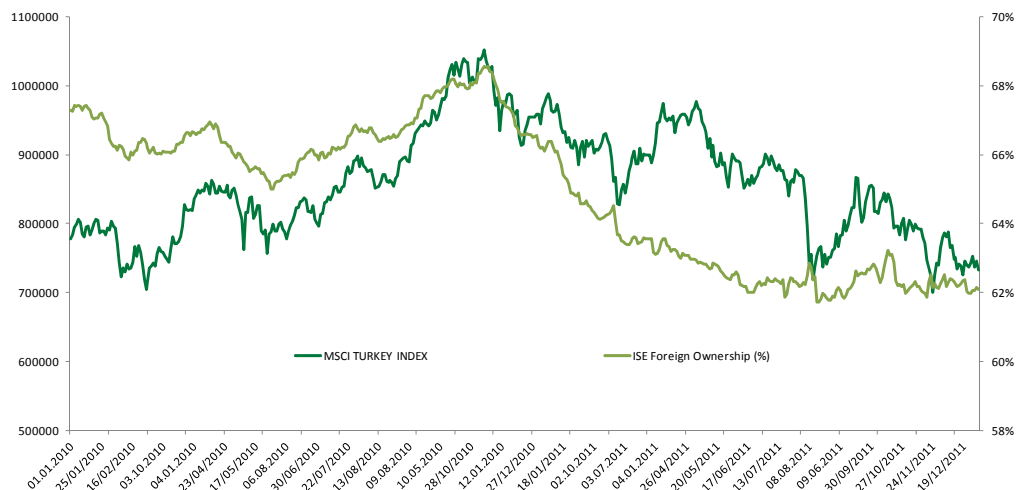


Source: CBRT, Seker Securities

BUY 2H12 We are more optimistic for the second half of the year as we believe 2H12 has potential to see some capital inflows and a rebound given that – **exogenous:** (i) the problems of the Eurozone de-escalate on the back of measures taken in December 2011 and probable additional measures in 1Q12, (ii) a probability that the ECB and Fed undertake another round of QE to jump-start economies, providing more liquidity to the capital markets, (iii) continuing recovery in US would translate into a recovery in the EU and China which would lead to an expansion of global economic activity, (iv) rehabilitating trading psychology that would lead to a

bullish mode; and **endogenous**: (i) undervalued currency and high interest rates may call for capital inflows given that liquidity conditions would be more loose, (ii) we may observe a moderate decline in CAD and improvement in trade/external balances, which would reduce external uncertainties, (iii) expectations of declining inflation leading to a reduction in risk premiums over market rates, (iv) the CBRT feeling relief over falling inflation and more visible global outlook – narrowing interest rate corridor or a move to more orthodox policies, (v) possible easing on RRRs given that the CBRT will be more focused on financial stability rather than price targeting, (vi) strong fundamentals in a non-toxic high capital based banking system and sound fiscal outlook providing positive catalysts, (vii) more healthy foreign borrowing environment (syndication loans, ST/LT FX borrowing) on the back of a relatively better liquidity conditions (viii) possible EPS upgrades on the back of relatively increasing consumption patterns and favorable interest rate environment (a move from a humped yield curve to traditional yield curve as short-term interest rates declines below longer-term rates) and finally (ix) given that our SELL1H12 assumption holds Turkish equities should be de-rated enough to justify meaningful buy signals in terms of both relative and historical multiples.

Exhibit 8: There is a strong correlation between foreign ownership and ISE



Source: Matriks, CRA, Seker Securities

As you can see from Exhibit 8 a strong correlation exists between foreign ownership levels and the direction of the local equity market. Foreign ownership in local equities have been trending down since the last quarter of 2010 as the CBRT changed its rhetoric and started implementing unconventional policies. The only divergence was bullish rally in April–May when we believe the domestic investors were behind most of the purchases. However, the rally was not long-lasting. We believe that the foreign interest in Turkish equities is significantly important. Foreign interest in Turkish markets was low given that global markets were severely under attack on various battle fields. As risk appetites fell, foreign funds (hedge, mutual and money management etc.) retreated from EM markets and Turkey was no exception. However, Turkish equities underperformed their EM peers as Turkey-specific negative catalysts were at work: (i) unorthodox policies by the CBRT, (ii) increasing regulation on banks, (iii) depreciating currency, (iv) high CAD and re-financing needs, (v) increasing inflation expectations and (vi) rising political tensions in the region. We expect foreign interest to re-emerge as soon as the global risk appetite recovers, which we expect to happen in 2H12.

Game changers for 2012

5 UPSIDE RISKS - POSITIVE SURPRISES (highest to lowest probability)

1. **Stronger than expected 1Q11 financial results** of banks leading to a higher base for the year end 2012 – early EPS forecast upgrades;
2. **Moderation in growth dynamics** leading to balanced and higher than expected economic growth;
3. **Lower commodity/oil prices** – Lower CAD, higher growth, lower headline inflation;
4. **Increasing liquidity in the ISE** and a heating IPO market;
5. **A possible rating upgrade** on the back of improving external balances, more orthodox central bank policies and prospering world/local macroeconomic activity;

5 DOWNSIDE RISKS - NEGATIVE SURPRISES

1. **Failure to attract foreign investors** despite undervalued currency and high interest rates - causing more depreciation and more risk premiums than expected;
2. **Higher interest rates and more unconventional policies** by the CBRT leading to valuation downgrades – higher COE than base case scenario;
3. **Crisis in the MENA region** especially in Iran/Syria/Israel – higher oil prices;
4. **A possible haircut on another peripheral** – a sudden decision to break up the euro or a break up of a financial institution – financial meltdown;
5. **A ratings downgrade** by the rating agencies;

Valuation and earnings forecasts, sectors and top-picks

Our current coverage list of 45 Turkish listed companies corresponds roughly to 81% of the ISE-100 Mcap and on a weighted-index base 83% of the free float. We see a modest upside potential of 20% for Turkish equities. Our bottom-up forecasts suggest a 12m ISE-100 target of 61,500. This shows us that Turkish equities are fairly valued and trading slightly above their COE assumption of 15% we use in our DCF and GGM valuations. Turkish equities are trading at 2012E 1.1x PBV with 15% premium and a 2012E PE of 8.0x showing a 3% premium to its EM peers. That said, Turkish equities do not appear attractive with respect to current valuations when multiples are ROE adjusted, embedding the dampening effect of our assumption of slow economic activity. We advise our investors to be stock-selective and pick stocks with sound fundamentals and dividend payment abilities.

Exhibit 9: Turkey seems to be expensive with respect to peers – Turkish banks are relatively discounted

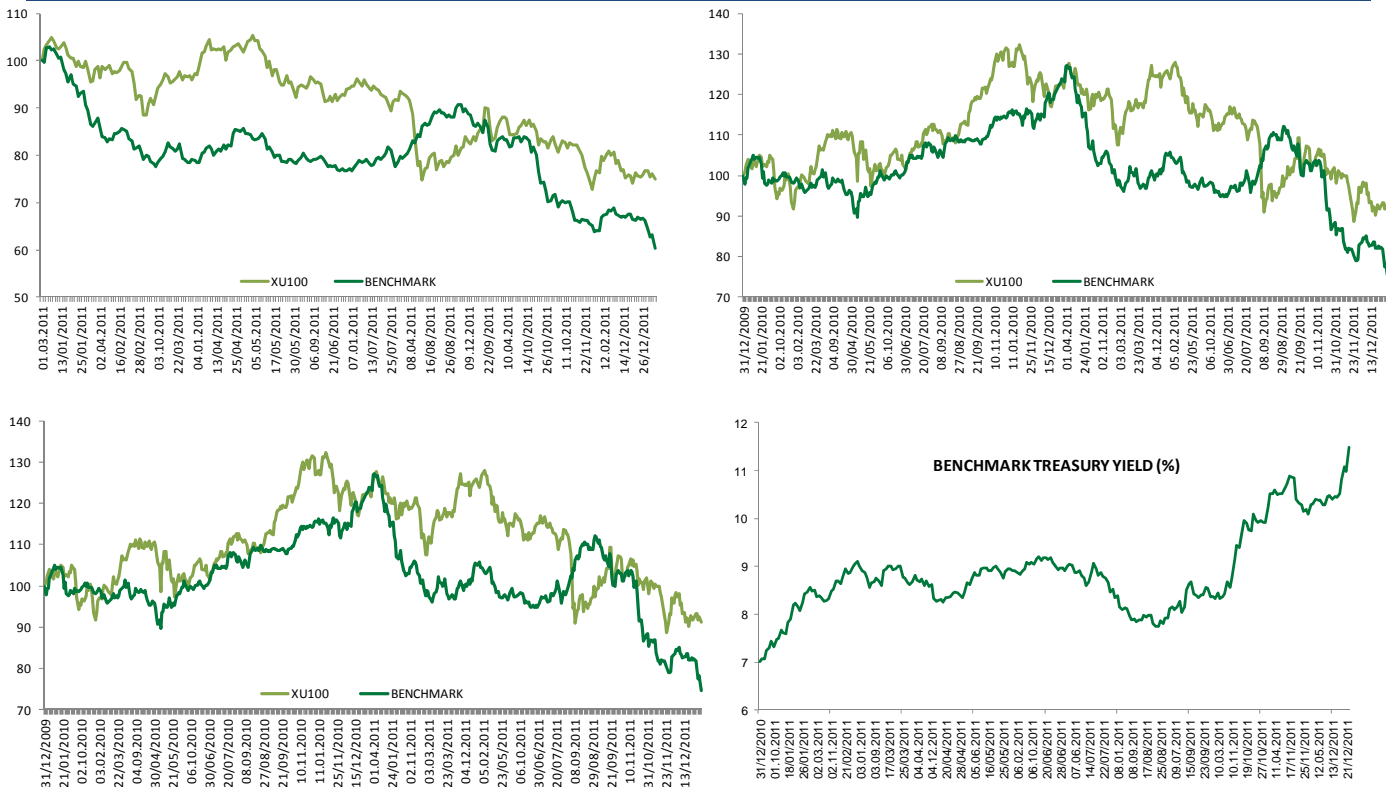
PE					PBV				
	Actual	F12 Est	Y+1 Est	Y+2 Est		Actual	F12 Est	Y+1 Est	Y+2 Est
Poland	8.3	8.8	9.0	8.0	Poland	1.0	1.1	1.0	0.9
Russia	5.2	5.4	5.3	4.8	Russia	0.9	0.7	0.7	0.6
Czech Republic	36.6	8.7	7.9	6.8	Czech Republic	1.0	1.0	0.9	0.8
Hungary	7.6	7.3	6.3	5.3	Hungary	0.9	0.8	0.8	0.7
Brazil	9.5	9.3	8.2	7.3	Brazil	1.3	1.1	1.0	1.0
Argentina	n/a	6.1	5.1	4.9	Argentina		1.2	1.0	1.0
South Africa	11.6	9.6	8.8	8.4	South Africa	2.1	1.3	1.2	1.1
Romania	6.8	6.5	5.7	5.3	Romania	0.8	0.8	0.7	0.7
Peer Average	12.2	7.7	7.0	6.4	Peer Average	1.1	1.0	0.9	0.9
Turkey	11.0	8.0	7.0	6.9	Turkey	1.3	1.1	1.0	1.0
Prem./Disc.	-10%	3%	-1%	9%	Prem./Disc.	17%	15%	13%	18%

EV/EBITDA					Net Debt/EBITDA				
	Actual	F12 Est	Y+1 Est	Y+2 Est		Actual	F12 Est	Y+1 Est	Y+2 Est
Poland	4.9	5.7	5.4	5.0	Poland	0.89	1.02	0.97	0.89
Russia	4.0	3.8	3.7	3.6	Russia	0.62	0.58	0.57	0.56
Czech Republic	13.3	11.6	10.7	10.5	Czech Republic	7.13	6.24	5.74	5.63
Hungary	5.5	5.5	4.7	4.4	Hungary	1.47	1.45	1.24	1.18
Brazil	7.7	6.1	5.2	4.7	Brazil	1.25	0.98	0.84	0.75
Argentina	3.6	4.1	3.8	3.2	Argentina	n/a	n/a	n/a	n/a
South Africa	7.9	5.2	4.8	4.6	South Africa	0.86	0.56	0.52	0.5
Romania	n/a	n/a	n/a	n/a	Romania	n/a	n/a	n/a	n/a
Peer Average	6.7	6.0	5.5	5.1	Peer Average	2.0	1.8	1.6	1.6
Turkey	8.1	6.9	6.2	5.7	Turkey	2.5	2.13	1.9	1.76
Prem./Disc.	20%	15%	13%	10%	Prem./Disc.	23%	18%	15%	11%

Source: Bloomberg, Seker Securities

Compared to their EM peers, Turkish stocks do not seem cheap enough to justify a good entry point. In line with our theme for this year (SELL 1H12 / BUY 2H12) we advise our investors to be cautious and remain on HOLD for the upcoming periods as Turkish stocks have the potential to de-rate further from these levels. We believe that approx. 10-15% discount to their peers would be enough to justify a good entry point as we strongly believe in Turkey's long-term fundamentals driven by (i) strong and solid banking system offering hefty growth potential with sound capitalization base, (ii) favorable demographics and a good consumption story, (iii) disciplined fiscal policies outperforming many developed nations and (iv) Turkey's geopolitical importance with respect to gateways to energy.

Exhibit 10: As interest rates head north (i.e. yields) sovereign debt was on a bearish trend along with equities



Source: Bloomberg, Seker Securities

Exhibit 11: Foreign investors were net sellers in the banking sector and buyers in mining stocks (KOZAL.TI)

Top 5 Sectors Foreigners Bought in 2011		Top 5 Sectors Foreigners Sold in 2011	
Sector	Net Buying (mn \$)	Sector	Net Selling (mn \$)
Mining and Precious Metals	318.9	Banking	927.7
Iron and Steel	114.1	Transportation	450.9
Main Metal Industry	112.0	Conglomerates	351.7
Glass	46.6	Retail	213.3
Beverage	31.6	REIT	190.2

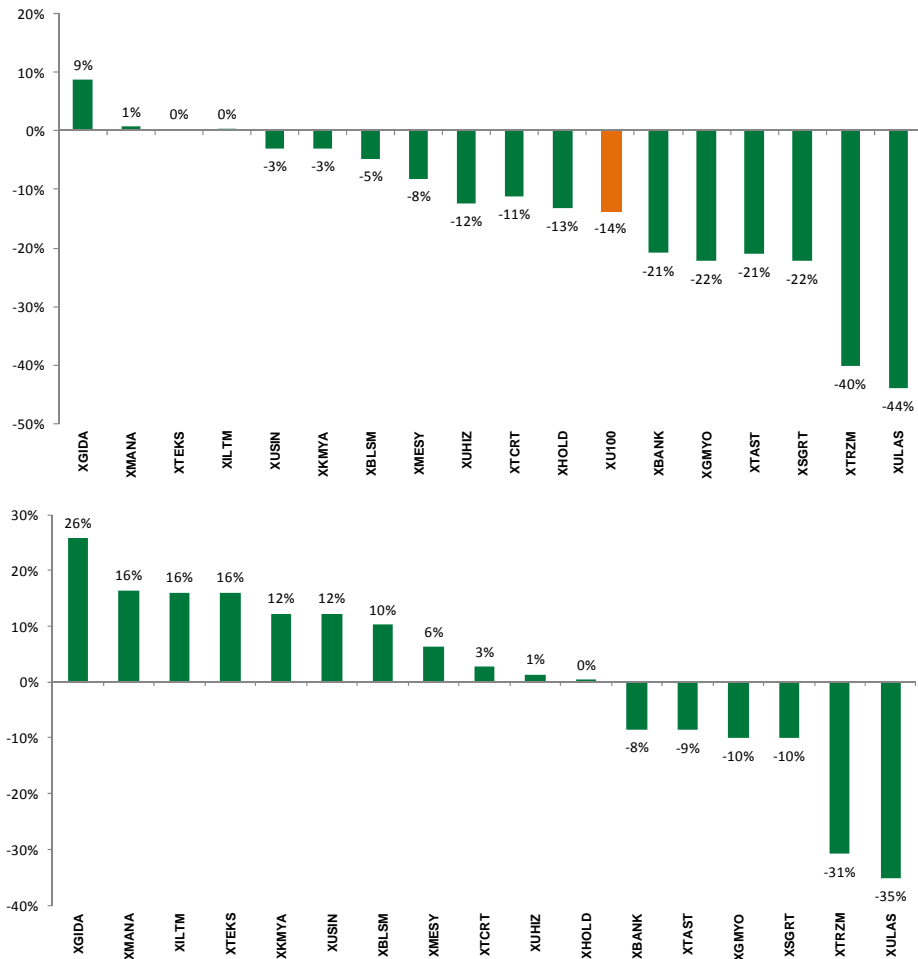
Top 10 Stocks Foreigners Bought in 2011		Top 10 Stocks Foreigners Sold in 2011	
Stock	Net Buying (mn \$)	Stock	Net Selling (mn \$)
KOZAL.TI	274.9	THYAO.TI	462.8
BIMAS.TI	229.9	ISCTR.TI	401.3
EREGL.TI	65.7	MGROS.TI	379.4
SISE.TI	62.1	SAHOL.TI	231.2
KRDMD.TI	48.5	YKBNK.TI	187.7
PETKM.TI	47.6	AFYON.TI	90.2
KOZAA.TI	43.9	VAKBN.TI	86.6
AYGAZ.TI	29.2	HALKB.TI	86.1
IPEKE.TI	28.9	SNGYO.TI	82.1
ENKAI.TI	26.3	EKGYO.TI	74.2

Source: Finnet, Seker Securities

As seen on Exhibit 11 foreign investors were net sellers in the banking sector as regulation took its toll on banks' bottom-lines. Foreigners favored mining and iron & steel stocks. THYAO.TI and ISCTR.TI was sold-off the most by foreigners as currency

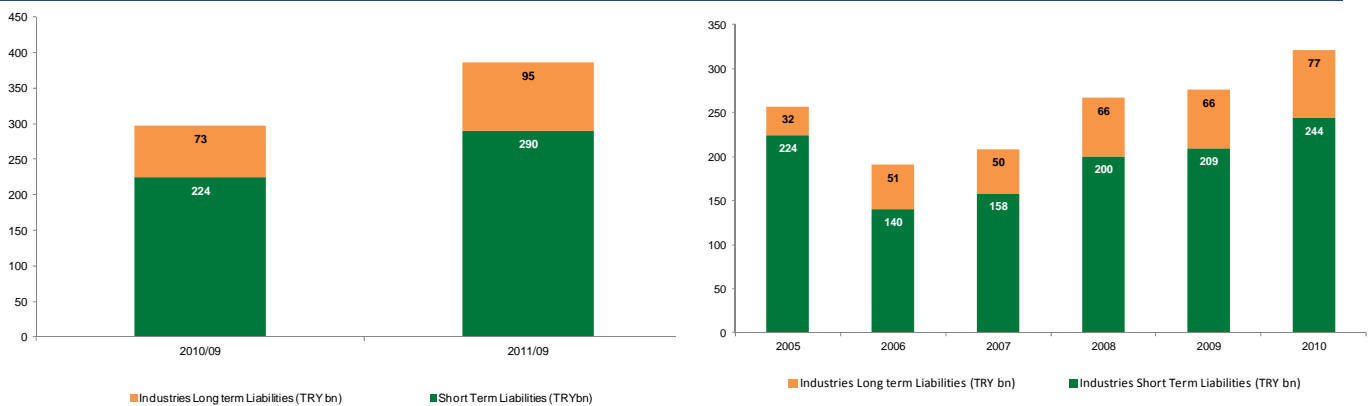
depreciation hurt the flagship carrier's bottom-line whereas Is-bank dealt with low profitability and inefficiency issues in the last two quarters of the year.

Exhibit 12: Transports, Tourism, Insurance, Banking & REITs underperformed ISE



Source: Finnet, Seker Securities

Exhibit 13: Turkish companies had been increasing leverage since 2006; higher portion of STs is a downside



Source: Finnet, Seker Securities

Turkish companies had been increasing their leverage since 2006 (as foreign borrowing costs were trending lower). We believe that the heavy ST portion of the

foreign borrowing remains a danger signal should the TRY depreciate further from these levels.

We have an OUTPERFORM rating on Aviation In 2012, we expect the aviation sector to follow the course of oil prices, which we believe will end 2011 at around \$110/bbl and stay at an average of \$105/bbl in 2012. Thus, cost increases in 2012 will be more limited compared to 2011. Please note that after further unrest connected to the MENA crisis the upwards movement in oil prices will bring more risk for the sector players. A third airport on the European side of Istanbul is on the government's agenda; however, the location of such an airport has not been announced yet. Once a location is chosen, wind tests will be conducted for five years and the construction of the airport will take three years. We think that it would be difficult for the airport to become operational before 2020. Recall that Pegasus Airlines applied to the CMB and ISE in 2011 to offer 31% of its shares, but postponed its decision public after airline companies declared high losses following rapid increases in oil prices. In parallel with our view that the sector will enjoy a better year in 2012, we think that the public offering may come back the agenda. *(For more detailed analysis please refer to page 107 of this report)*

We have a 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%. Though there are some catalysts which could have negative impacts (i.e. Euro debt crisis/recession), we will continue to track white goods sales and observe the home sales during the first quarter of the year in order to understand 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 keep our modestly optimistic view for the sector but with a slightly cautious stance. *(For more detailed analysis please refer to page 126 of this report)*

We have an OUTPERFORM rating on Energy It is estimated that by 2011 year-end, Turkey's installed capacity of 51,547 MW will increase to around 60,000 MW in the next five years by the force of new power plant openings. According to projections by the Turkish Electricity Distribution Co. (TEDAS) demand will reach 357,000 GWh in the next five years which will cause supply problems as early as 2016. As such, privatization plans for power plants administered by the government-run Electricity Generation Co. (EUAS), which have often been postponed, will accelerate in the coming period. We consider that the electricity sector in 2012 will mainly follow *i)* the course of DUY prices, *ii)* FX movements, *iii)* new investments and capacity increases and *iv)* privatization tenders of EUAS' plants. We consider that the sector will continue following foreign exchange movements in 2012 and estimate that the Turkish Lira will appreciate be against foreign currencies in 2012. Consequently, key financing expenses which depreciated in 2011 will be converted into the financing incomes in 2012. Parallel to this expectation, we think that the damage from companies' financing expenses which were written off in 2011 despite their operational profitability will be converted into net profits in 2012. *(For more detailed analysis please refer to page 135 of this report)*

We have an OUTPERFORM rating on Retails The Turkish retail sector provides opportunities due to the favorable demographics and economic outlook. Turkey has a young and growing population which promises growth potential for the retail sector. 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. For 2012, we expect some slowdown in economic growth and we have a moderate GDP growth expectation of 1%. However, the retail sector is one of sectors that is resilient to slowdowns. Also, demand for food and beverage consumption has low elasticity. Given the unresolved problems in the Eurozone, emerging markets including Turkey will be facing a challenging year and given the defensive character of food retailing, we think that the retail sector will be one most immune from sell-off pressures. *(For more detailed analysis please refer to page 188 of this report)*

We have a MARKET PERFORM rating on Autos This year will be a test year for Turkey as it faces a tricky macro environment. The automotive sector will also face challenges head on. With our moderate 1% GDP growth assumption and considering the high base effect of 2011, we expect domestic automotive sales to slow down by 13% in 2012. In addition, we expect to see the affect of higher EUR/TRY parity on prices since automotive companies have not fully reflected this due to their year-end automotive campaigns. 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. While exports to Chrysler will not start until 2013, Opel/Vauxhall exports started in 4Q11. *(For more detailed analysis please refer to page 93 of this report)*

We have MARKET PERFORM rating on Banks Our bottom-up valuation models indicate a 24% upside potential for our coverage banks in 2012. Such upside potential shows us that Turkish banks are offering mediocre returns for the year forward. An interesting statement though would be to argue that the two largest banks in our coverage Akbank (AKBNK.TI) and Garanti (GARAN.TI) seems to be fairly priced *(a warm welcome for those who believe in efficient markets)* meaning that the banks' valuation reflects the uncertain market environment we experienced in 2011. One of the main reasons behind the fair pricing on these two stocks is that they are among the most frequently traded stocks with high trading volumes. For example, for some specific trading days during 2011, Garanti accounted almost to 1/3 of the daily trading volume in the ISE. We cut our coverage banks' earnings estimates by 9% for 2011FY and 14% for 2012FY. We feel that the Turkish banks bottom-line would be under pressure due to *(i)* cost side-effects on the back of relatively high market rates and elevated uncertainty; *(ii)* lacking favorable growth prospects to contain a strong and sustainable ROE; *(iii)* lacking strong non-core revenues such as high fee growth and contained OPEX that helped in 2011. However, on the valuation side, we feel that most of the risks mentioned above seem to be priced in. We feel that stocks have been de-rated although we would feel more comfortable once 2012E PE reaches 6x levels. The "too many moving parts" expression that we used in market strategy is one of the main reasons (it also includes the complex and flexible monetary policy environment) we abstain from accumulating banking stocks from these levels. We feel that given another 10% correction in Turkish equities we would be strong BUYERS of Turkish banking stocks given their strong long-term fundamentals and growth opportunities. *(For more detailed analysis please refer to page 53 of this report)*

We have a MARKET PERFORM rating on Cements We believe that domestic consumption growth will be finish 2011 at 10.8% and reach 53 million tons. At the same time, we assume .export volume to decrease to 13.4 million tons and decline by 24.5%. In addition, cement per capita is expected to exceed 700 kg/year in 2011. We believe that urban transformation, infrastructure investments, housing demand, new regulations (both Earthquake and 2B), and ongoing projects will continue in 2012. On the other hand, following the strong growth in 2005 and 2011, we assume a 4% increase in domestic cement consumption reaching 55 million tons in 2012 due to the higher interest rate, slowdown in GDP growth (our 2012 GDP forecast at 1.0%) and the negative effect of the European debt crisis. The expected slowdown in domestic demand and excess capacity will cause sector players to continue to compensate with exports. The MENA region seems to be the primary destination for Turkey. On the other side, the negative effects of the Arab Awakening 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 petrocokes prices will be more negative for the companies' margins compared to 2011. We maintain our "Market Perform" rating for the sector in 2012. *(For more detailed analysis please refer to page 117 of this report)*

We have a MARKET PERFORM rating on Glass After strong domestic demand from 2010, 2011 was also another strong year. However, due to the fact that we are more cautious about the continuation of strong demand, mainly due to slowing global growth in the remainder of the year, we are a little bit doubtful as to whether production and sales will continue to increase with the same momentum in 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, production volumes as well as operational performance of glass companies would suffer and glass companies might have 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 materials prices would put pressure on 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. But the outperformance came mainly from the first half of the year. The second half of 2011 was more challenging for the sector. We revise our Outperform recommendation down to "Market Perform" for the glass sector stemming from the fact that a slowdown in the global economy, especially in Europe poses downward risks. *(For more detailed analysis please refer to page 146 of this report)*

We have a MARKET PERFORM rating on Iron & Steel When we look at the speedy pace of new investment projects in 2011, we see that the following catalysts were at work: *i)* increase in demand, *ii)* rapid ascent in commodities prices such as oil, gold, copper and silver, *iii)* increasing prices of scrap and log which are crucial raw materials. In addition to the increase in global demand, the continuing recovery in the Turkish economy positively influenced consumption dynamics. For these reasons, we believe that decreasing product prices and increasing raw materials prices in the last period of 2011 will put some pressure on the margins of sector players in 4Q11. We also expect this to continue into the first quarter of 2012. Concerns over growth in 2012 and uncertainties from the debt crisis in Europe and worried about contagion creates ambiguity about the future of the sector. Therefore, in parallel with the slowdown in the global economy, the regression in demand will have adverse effects

on the performance of sector. Hence, considering the decreasing product prices, we do not expect 2012 to be as solid as 2011. We foresee iron-steel prices to show an average decrease of 10% in 2012. In line with these expectations, we predict that net profitability and margins for 2012 will also be lower than 2011. *(For more detailed analysis please refer to page 153 of this report)*

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. However, we believe that consumption of domestic petroleum products in Turkey will maintain its growth in the long-term and that Tupras will be the main beneficiary since it has a leading position in the refining sector. *(For more detailed analysis please refer to page 161 of this report)*

We have a MARKET PERFORM rating on Pharmaceuticals Following the medium-term economic program; the government passed new regulations on pharmaceutical pricing and changed the sales prices of some medicines. Following the new regulations on December 4, 2009, drug prices decreased by 20-25% in 2010. Thus, the margins and profitability of sector players were negatively affected due to falling drug prices and uncertainty in the pharmaceutical market. Most recently, the government again passed new regulations on the pricing of pharmaceutical products, which went into effect November 11, 2011. Accordingly, the wholesale price of generic products will be registered as 60% of the reference price to the originator product (previously 66%). In addition, for generic products priced higher than TRY 6.79 and produced over 20 years ago, the new price will be set at a maximum of 80% of the reference price to the originator product (previously 100%). Changes in the price list will be implemented in the market after 5 business days after the date of publication (previously 45 days). As a response to this new regulation, any losses suffered by independent pharmacies due to the price changes are required to be recouped by pharmaceutical companies reimbursing wholesalers and wholesalers reimbursing pharmacies. Following the new regulation, drug prices decreased by 7% overall, which will surely put pressure on profitability also in 2012. *(For more detailed analysis please refer to page 172 of this report)*

We have a Market Perform 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. The latest of the CBRT's decisions paved the way for banks to reflect this increase in retail lending loan rates. All banks have already announced hikes in their loan rates including home loans. The continuation of this upward trend in interest rates with a slowing economy is likely to put pressure on housing demand and a possible slowdown in housing demand poses negative potential for the real estate sector for 2012. So, despite our positive view for the sector in the long run, we are cautious for the short-term regarding the recent increase in mortgage rates and deteriorating macro conditions. In this context, the ISE REIT index might lag the ISE-100 index in the short-term *(For more detailed analysis please refer to page 179 of this report)*.

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 smartphones. The market's focus on contracted smartphone sales continued in 2011, where additional monthly fees for smartphone acquisitions were again reduced, resulting in an upward trend in smartphone 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, 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 to margins and profitability. Therefore, we maintain our "Market Perform" rating for the sector. *(For more detailed analysis please refer to page 193 of this report)*

Top Picks & Portfolio

Aksa Energy <AKSEN.TI; TP: TRY 3.92; 44% Upside Potential> We are keeping Aksa Energy in our 2012 portfolio. Considering the current investments made by the company, we anticipate that its increasing capacity will also continue to reflect positively on its financial statements in 2012. We estimate Aksa Energy to achieve an EBITDA of TRY 260 million for 2011. With the addition of new capacity, we expect Aksa this figure to climb to TRY 364 million in 2012 and TRY 443 million in 2013. Aksa Energy's major shareholder Kazanci Holding stated that the sale of 26.47% of Aksa Energy's shares is expected to be completed by 2012. Thus, we believe that Kazanci Holding's possible M&A deal with Aksa Energy, strong operational results and new capacities will have positive effects on the stock in 2012. (Note: we believe that the management may choose use the sales proceeds to cover for the company's long-term debt reduction) We initiate coverage at "Outperform" with a target price TRY 3.92 considering the company's long-term projects. Aksa Energy's current price stands at TRY 2.73 while our target value represents a 44% upside potential. *(For more detailed analysis please refer to page 140 of this report)*

Aksa Akrilik <AKSA.TI; TP: TRY 5.70; 35% Upside Potential> We are including Aksa Akrilik in our 2012 portfolio while removing Trakya Cam due cyclicity of the sector as we expect a slowdown in auto industry, and instruction sector. We consider that despite the coming contraction in acrylic fiber demand in the coming years, the company's carbon fiber sales will continue to have an influence on its financials. Together with the completion of energy investments, we expect that the cost advantage will also be positively reflected on the company's profitability. We estimate that consolidated sales revenues will increase to TRY 1,637 million (USD 978mn) in 2011 and TRY 1,744 million (USD 950mn) in 2012. We derive a TRY 1,054 million target Mcap for Aksa Akrilik using a blended DCF model. Our target price for Aksa Akrilik stands at TRY 5.70 per share. Taking into consideration the Aksa Akrilik's current market capitalization which is around TRY 781 million (TRY 4.22 per share), our target value represents a 35% upside potential. Therefore, we initiate an "Outperform" rating for Aksa Akrilik. *(For more detailed analysis please refer to page 201 of this report)*

Arcelik <ARCLK.TI; TP: TRY 7.80; 25% Upside Potential> We are keeping Arcelik in our 2012 portfolio. The company's promising results in 2011 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. However, due to the downside revision in our macro-economic estimates for 2012, we pull our target price slightly down to TRY 7.80 from TRY 8.65, which still indicates a 25% upside potential. On the other hand, Arcelik is actively seeking inorganic growth opportunities in order to become a leading regional player. As a part of the company’s growth strategy in emerging markets, Arcelik acquired 100% of the shares of South African Defy Appliances in 2011. *(For more detailed analysis please refer to page 131 of this report)*

BIM <BIMAS.TI; TP: TRY 60.30; 14% Upside Potential> We are keeping BIM in our 2012 portfolio. We think the market is unsaturated with high growth potential. BIM, as the first mover in the market, has an advantage with its recognized store name and well-built store network along with its business strategy. BIM aims to attract customers with its low price strategy and build customer loyalty by increasing the portion of private labeled products that are more profitable in its product mix. BIM currently has a TRY 8 billion Mcap. Our target value stands at TRY 9.2 billion and represents a 14% upside potential. Due to its attractive upside potential, we maintain our “Outperform” rating for BIM. *(For more detailed analysis please refer to page 191 of this report)*

Halkbank <HALKBN.TI; TP: TRY 12.04; 21% Upside Potential> We are keeping Halkbank in our 2012 portfolio. The strongest catalyst for the bank is its superior ROAE. We expect Halkbank’s ROAE to decline by almost 660bps and 310bps to 24% and 21% in 2011FY and 2012FY, respectively. Recall that the bank’s ROAE was hovering above 30% threshold. Halkbank is the highest ROAE producing bank in our coverage universe with an average ROAE of 14.1%. We calculated 16.5% COE for the bank. Halkbank’s high leverage (2011E @ 11.1x & 2012E @ 10.1x) justifies its high ROE base. We are maintaining our “Outperform” rating for the stock with a TP of TRY 12.04 offering 27% upside potential with respect to current prices. The bank trades at a fair value of 6.0x 2012E PE and 1.1x 2012E PBV (coverage universe avg. 2012E PE 6.5x and 2012E PBV 0.8x). *(For more detailed analysis please refer to page 72 of this report)*

TAV Airports <TAVHL.TI; TP: TRY 10.80; 36% Upside Potential> We are keeping TAV in our 2012 portfolio. In terms of net profit, we expect the company to announce a EUR 60 million net profit for 2011 and EUR 80 million in 2012. On the other hand, Akfen Holding (AKFEN.TI) and Tepe Insaat announced authorizing Credit Suisse Securities, Ltd. to evaluate strategic options for TAV’s subsidiaries in 2011. Thus, we believe that TAV shares will attract investor attention and the direction of the stock will be heavily dependent on the news flow in the next term. We derive a TRY 3,924 million target market capitalization for TAV Airports Holding using the DCF and Peer Comparison valuation models. Also, we revised our target share price up by 8% to TRY 10.80 from TRY 10.00, including the recent acquisitions – Izmir Adnan Menderes Airports (domestic terminals) and Medina international Airport. Taking into consideration TAV’s current market capitalization of TRY 2,892 million (TRY 7.96), our target value represents a 36% upside potential. Therefore, we maintain an “Outperform” rating for TAV Airports Holding. Also, please note that TAV Airports Holding plans to distribute dividends for the first time from its 2011 earnings in 2012. *(For more detailed analysis please refer to page 114 of this report)*

TOFAS <TOASO.TI; TP: TRY 8.80; 46% Upside Potential> We are keeping Tofas in our 2012 portfolio. Our target market capitalization for Tofas stands at TRY 4,375 million and TRY 8.75 per share. This represents 46% upside potential compared to the current market capitalization of TRY 3,030 million. Therefore, we maintain "Outperform" rating for Tofas's shares. In line with our 13% contraction assumption in domestic automotive market sales, we estimate Tofas's domestic sales volume to be 130k in 2012. However, decline in domestic sales could be compensated through the additional export volume coming from Opel deal. On the top line, we expect net sales growth to be 4% and sales revenues to reach TRY 7,671 million in 2012. In addition, we estimate Tofas' EBITDA to be TRY 790 million, bringing EBITDA margin to 10.3% at the end of 2012. *(For more detailed analysis please refer to page 97 of this report)*

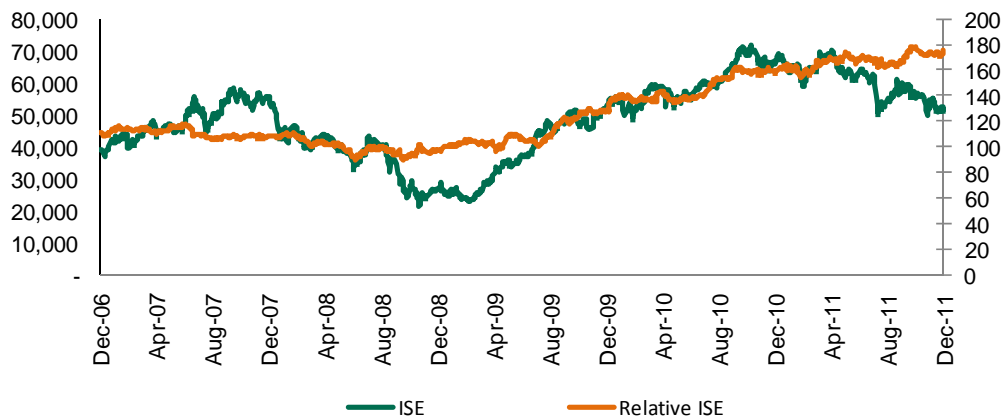
TSKB <TSKB.TI; TP: TRY 2.35; 32% Upside Potential> We are including TSKB in our 2012 portfolio while removing Garanti as the bank lacks relative upside potential. We maintain our OUTPERFORM rating on the stock on the back of the bank's endurance to uncertain path of the local market rates, favorable maturity mismatch and stable loan-deposit spreads. The only biggest downside risk to our assumptions is the probability of higher costs of foreign funding (due to liquidity tensions especially in Eurozone money markets) and a sharp reduction in local loan demand towards project finance and infrastructure loans given our expectation of 0.8% growth in output. We expect a 30% loan growth in 2011FY followed by a 9.4 % growth in 2012FY. TSKB is among the top ROE producing banks in our coverage. We foresee no change in the bank's ROE in 2011 and expect 120bps contraction in 2012FY to 17.2% approx. 280bps higher than our coverage universe average of 14.1%. We believe that the stock has still got the potential to provide value to its investors. We penciled a TP of TRY 2.35 to bank with an upside potential of 32%. The stock trades with relatively cheap multiples of 2012E PE 5.7x and 2012E PBV 0.9 (coverage universe avg. 2012E PE 6.5x and 2012E PBV 0.8x). *(For more detailed analysis please refer to page 74 of this report)*

Virtual Portfolio Returns

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%
Jan-11	-4.1%	-0.6%	3.6%
Feb-11	-3.2%	-7.4%	-4.4%
Mar.-11	5.1%	13.4%	7.8%
Apr.-11	7.5%	8.1%	0.6%
May-11	-9.0%	-6.5%	2.7%
Jun-11	0.4%	-3.0%	-3.4%
Jul-11	-1.5%	-1.0%	0.6%
Aug-11	-13.4%	-16.0%	-3.0%
Sep-11	10.7%	15.7%	4.6%
Oct-11	-6.1%	-0.9%	5.5%
Nov-11	-2.8%	-7.9%	-5.3%
Dec-11	-6.0%	-5.7%	0.3%

Portfolio Recommend.	Inclusion Date	Inclusion Price	Last Close	Chg. (%)	ISE Relative
Tofas	08.09.11	6.16	6.06	-1.6%	9.0%
TAV Airports	08.01.10	4.88	7.82	60.2%	76.8%
Garantibank	01.11.11	6.24	5.54	-11.2%	-0.1%
Aksa Energy	08.09.11	2.73	2.74	0.4%	11.2%
BIM	01.11.11	54.00	53.25	-1.4%	10.9%
Trakya Cam	01.03.11	2.83	2.33	-17.7%	1.2%
Halkbank	08.09.11	11.05	9.26	-16.2%	-7.1%
Arçelik	08.09.11	6.32	6.74	6.6%	18.2%
Portfolio Historical Yield					77.8%

ISE vs. Portfolio

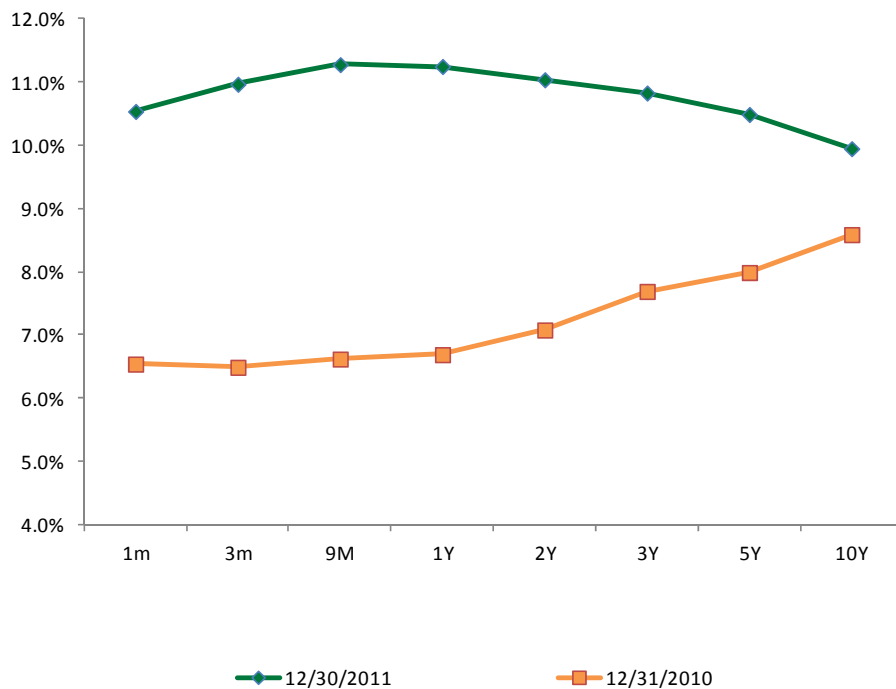


Fixed Income and Interest Rates

Interest rates are affected by the following: funding costs, the level of inflation and the country's sovereign risk premium. In Turkey, the central bank's policies are the main catalyst. The central bank changed its unorthodox monetary strategy of high reserve requirement ratios (against high credit growth) combined with a wide interest rate corridor (against FX inflows) with a new elevated interest rate corridor with two moves in O/N borrowing and lending rates in August and October respectively. Since October, the central bank has used an interest rate corridor of 750 bps with a higher lending rate accompanied with lower funding at the previous policy rate (5.75%) through one-week repo auctions. The reasoning behind the move was to control depreciation of the lira by squeezing the local currency's liquidity in the market in an effort to combat inflation.

In 2010 short-term rates were lower than long-term rates and short-term rates were flat. However, short-term rates jumped from 6-7% to 10-11% due to the European debt crisis, the central bank's policies and higher inflation. Despite the sharp increase in short-term rates, long-term rates did not change as did the short-terms.

Exhibit: Humped yield curve due to CBRT's unorthodox policies



Source: ISE, Seker Securities

Sector Outlook

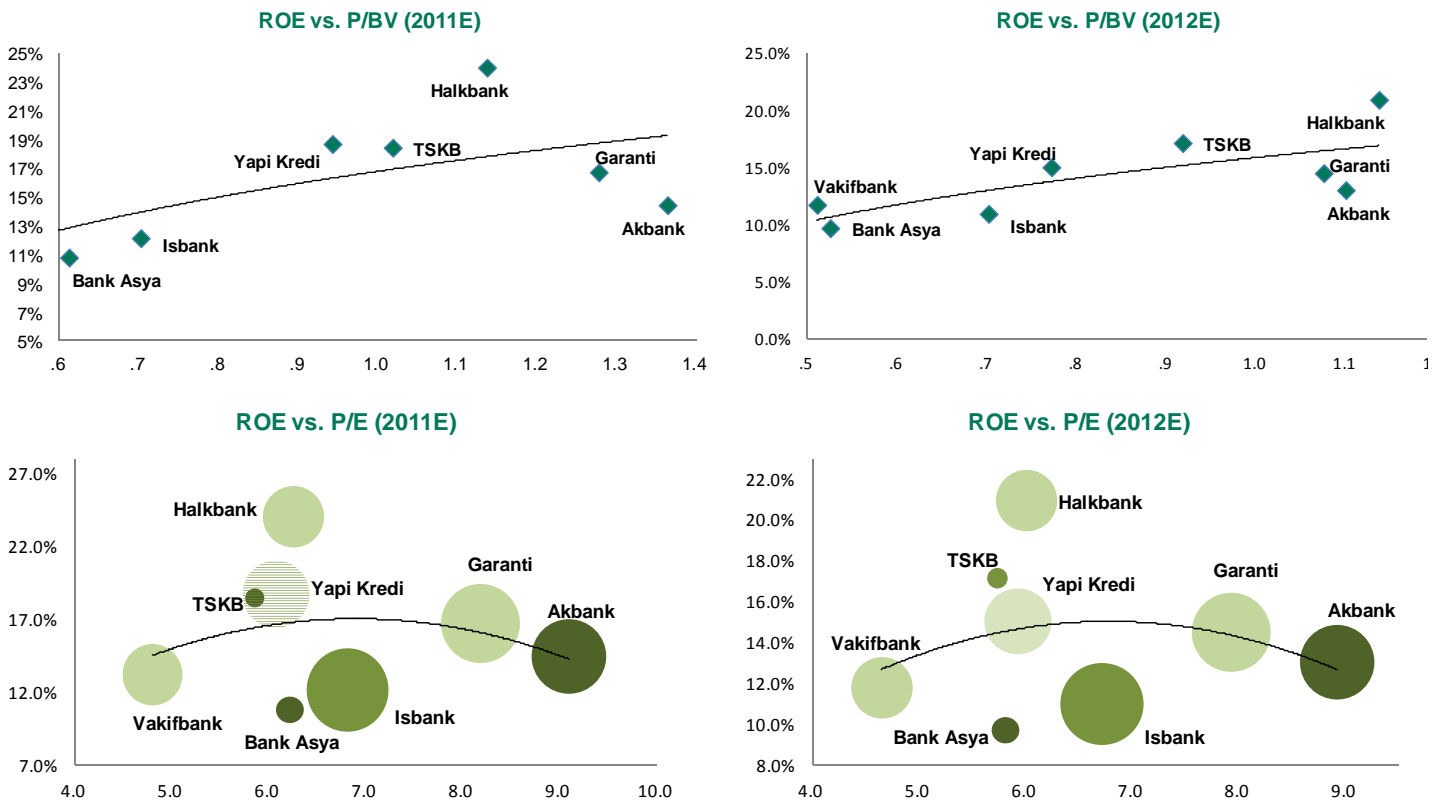
Banking sector – Market Perform

Major Assumptions and Expectations for 2012

- Unconventional policy mix to continue to put cost side pressures;
- Eurozone debt problem – uncertainty regarding FX borrowing – we assumed 90% roll-over rate for 2012FY and higher FX borrowing costs;
- Basel II implementation in July 2012 to erase ~50–150bps from CARs;
- System CAR @ 15.8% in 2011FY vs. CAR @ 14.2% in 2012FY;
- We cut 2011E EPS by 9% and 2012E EPS by 14% for our coverage
- Expect 12% decline in earnings in 2011FY followed by a slight increase in 2012FY: +1.7% - EPS CAGR (11-13) @ 2% v. EPS CAGR (12-13) @ 10%;
- NIM to remain almost flat – 2012FY NIM @ 3.3% (-11bps);
- ROE to decline further to ~12.5% in 2012FY down from 18% in 2010;
- 2012 FY loan growth @ 13.5%; deposit growth @ 13.4%;
- We see limited upside risk on NPLs. Asset quality deterioration would not be significant: 2012FY NPL @ 3.2% (+60bps) and CoR above 100bps;
- New fee income accounting measures to slow fee growth 2012FY @ 8%;
- Trading gains should be lower – uncertain market rate environment
- Turkish banks relatively cheap – 2012E PE @ 6.5x & 2012E PBV @ 0.8x – discount 36% and 47%, respectively

Our bottom-up valuation models indicate a **24% upside potential** for our coverage banks in 2012. Such upside potential shows us that Turkish banks are offering mediocre returns for the year forward. An interesting statement though would be to argue that the two largest banks in our coverage Akbank (AKBNK.TI) and Garanti Bank (GARAN.TI) seem to be fairly priced (*a warm welcome for those who believe in efficient markets*) meaning that the banks' valuation reflects the uncertain market environment we experienced in 2011. One of the main reasons behind the fair pricing on these two stocks is that they are among the most frequently traded stocks and have high trading volumes. For example, on some days in 2011, Garanti accounted for almost *a third* of the trading volume on the ISE. As seen on Exhibit 14 decoupling between growth stocks (GARAN, AKBNK) and value stocks (HALKB, ISCTR, VAKBN, and ASYAB) seems more evident now. We believe that the latter group seems relatively undervalued with respect to current prices.

Exhibit 14: Our top-picks HALKB, VAKBN and TSKB – GARAN and AKBNK are growth stocks



Source: Finnet, Companies, Seker Securities

We advise our investors to accumulate all the stocks above the line (see Exhibit 14). Our top-picks for 2012 are Halkbank (HALKB.TI), TSKB (TSKB.TI) and Vakifbank (VAKBN.TI). We also like Yapi Kredi Bank (YKBNK.TI) which shows an upside potential of 21% in line with our portfolio return expectation. We also see some upside potential on Bank Asya (ASYAB.TI) though we would like to see some quarters with better-than-expected earnings to justify our upside potential.

Exhibit 15: Our bottom-up valuations produced 24% upside potential, ROAE @ 14.1% 2012E PBV @ 0.8x

Bank	Ticker	ROAE		P/E		P/BV		Price (TRY)		Return	Rating
		2011E	2012E	2011E	2012E	2011E	2012E	Current	Target		
Akbank	AKBNK	14.4%	13.0%	9.1	8.9	1.4	1.1	5.76	6.26	9%	UNDERPERFORM
Bank Asya	ASYAB	10.8%	9.7%	6.2	5.8	0.6	0.5	1.56	2.00	28%	OUTPERFORM
Garanti	GARAN	16.7%	14.5%	8.2	7.9	1.3	1.1	5.62	6.45	15%	MARKET PERFORM
Halkbank	HALKB	24.0%	20.9%	6.3	6.0	1.1	1.1	9.48	12.04	27%	OUTPERFORM
Isbank	ISCTR	12.1%	11.0%	6.8	6.7	0.8	0.7	3.30	3.92	19%	MARKET PERFORM
TSKB	TSKB	18.4%	17.2%	5.9	5.7	1.0	0.9	1.78	2.35	32%	OUTPERFORM
Vakifbank	VAKBN	13.2%	11.7%	4.8	4.7	0.6	0.5	2.31	3.10	34%	OUTPERFORM
Yapi Kredi	YKBNK	18.7%	15.0%	6.1	5.9	0.9	0.8	2.61	3.26	25%	MARKET PERFORM
Average	Universe	16.1%	14.1%	6.7	6.5	1.0	0.8			24%	MARKET PERFORM

Source: Finnet, Companies, Seker Securities

As a result of our bottom-up forecasts we downgraded Akbank to UNDERPERFORM, upgraded Bank Asya and Vakifbank to OUTPERFORM, maintained Halkbank and TSKB at OUTPERFORM and finally maintained Garanti, Isbank and Yapi Kredi at MARKET PERFORM. Our coverage universe trades at 2012E PE of 6.5x and 2012E PBV of 0.8x, showing 36% and 47% discount to peers, respectively. The 24% upside potential refers to MARKET PERFORM in our rating scale. We have increased our COE assumption by 100 bps to 15% (assuming 1x beta) on the back of higher market

rates. Currently we use 10% for the risk-free rate (including the terminal date), 5% market risk premium, and respective betas for each banks under our coverage (we use 2Y weekly beta).

Exhibit 16: On YoY basis ASYAB, ISCTR and YKBK underperformed; HALKB and TSKB outperformed

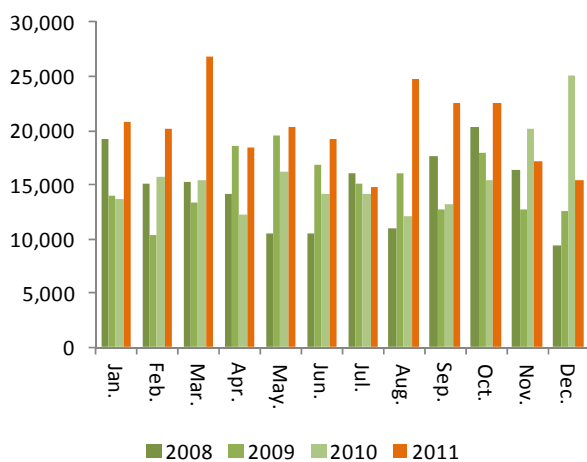
	Price		WoW		Price		MoM	
	(1/6/2012)	(1/2/2012)	Absolute Ch.	Relative Ch.	(1/6/2012)	(12/10/2011)	Absolute Ch.	Relative Ch.
AKBNK	5.76	6.04	-4.6%	-2.4%	5.76	6.38	-9.7%	-27.3%
ASYAB	1.56	1.58	-1.3%	1.0%	2.89	1.76	64.2%	32.3%
GARAN	5.62	5.96	-5.7%	-3.5%	7.84	6.24	25.7%	1.3%
HALKB	9.48	9.92	-4.4%	-2.2%	12.75	10.60	20.3%	-3.1%
ISCTR	3.30	3.35	-1.5%	0.8%	5.35	3.55	50.7%	21.4%
YKBK	2.61	2.70	-3.3%	-1.1%	4.91	2.91	68.7%	35.9%
VAKBN	2.31	2.45	-5.7%	-3.5%	3.92	2.68	46.1%	17.7%
TSKB	1.78	1.81	-1.7%	0.6%	2.30	1.91	20.5%	-2.9%
XU100	50,182.53	51,340.96	-2.3%	0.0%	66,822.14	53,834.91	24.1%	0.0%
XBANK	95,007.72	99,365.46	-4.4%	-2.2%	146,073.92	105,214.30	38.8%	11.9%

	Price		QoQ	
	(1/6/2012)	(10/11/2011)	Absolute Ch.	Relative Ch.
AKBNK	5.76	7.04	-18.2%	-37.2%
ASYAB	2.89	1.59	81.8%	39.4%
GARAN	7.84	5.90	32.9%	2.0%
HALKB	12.75	9.90	28.8%	-1.2%
ISCTR	5.35	3.31	61.6%	24.0%
YKBK	4.91	2.69	82.5%	40.0%
VAKBN	3.92	2.45	59.8%	22.6%
TSKB	2.30	1.83	25.8%	-3.5%
XU100	66,822.14	51,266.62	30.3%	0.0%
XBANK	146,073.92	98,752.86	47.9%	13.5%

	Price		YoY	
	(12/30/2011)	(12/31/2010)	Absolute Ch.	Relative Ch.
AKBNK	6.02	8.66	-30.5%	-9.4%
ASYAB	1.59	2.89	-45.0%	-28.3%
GARAN	5.90	7.84	-24.8%	-2.0%
HALKB	9.90	12.75	-22.4%	1.2%
ISCTR	3.31	5.35	-38.1%	-19.3%
YKBK	2.69	4.91	-45.2%	-28.6%
VAKBN	2.45	3.92	-37.4%	-18.4%
TSKB	1.83	2.30	-20.5%	3.6%
XU100	51,266.62	66,822.14	-23.3%	0.0%
XBANK	98,752.86	146,073.92	-32.4%	-11.9%

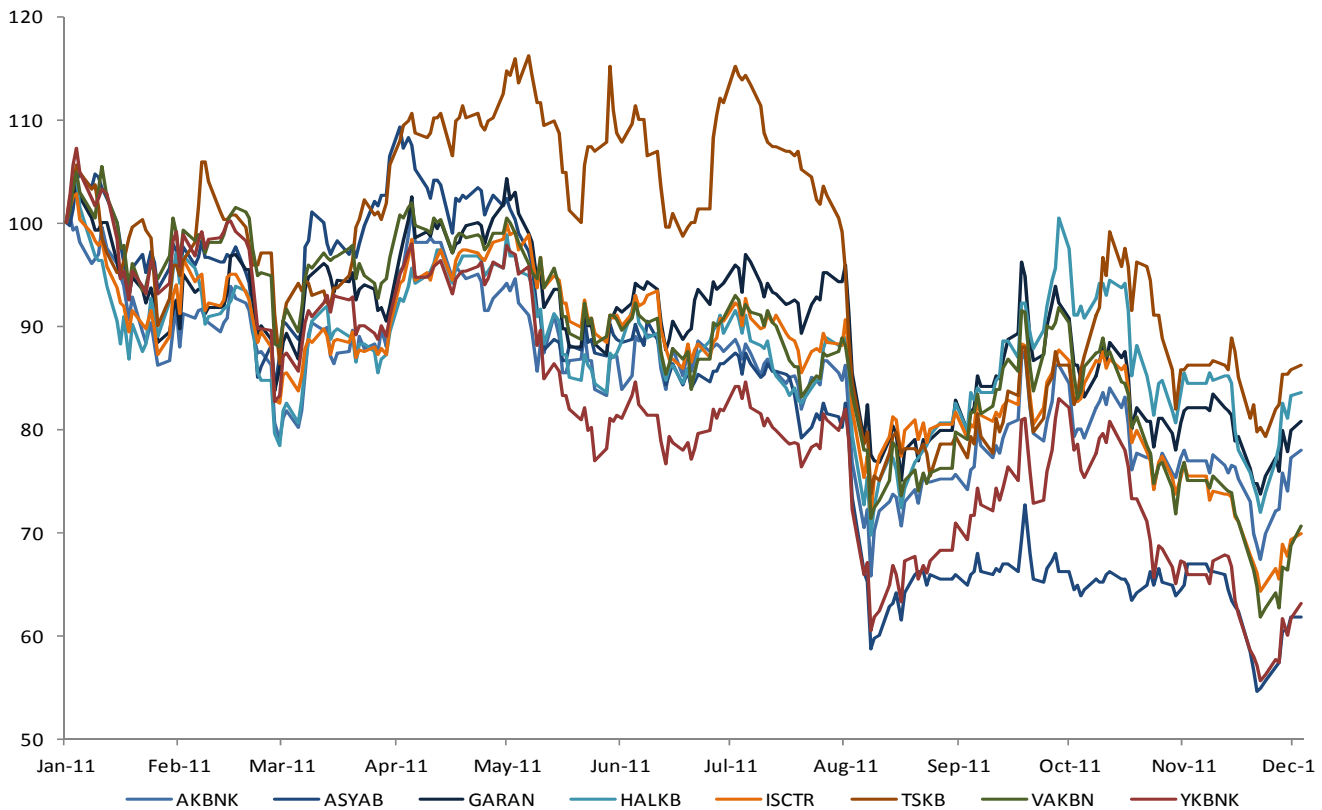
Source: Finnet, Seker Securities

Exhibit 17: a. Trading volumes trended lower in the 4Q11 b. Banking index underperformed the ISE in



Source: Finnet, Seker Securities

Exhibit 18: Relative performances of the coverage banks – Our top-picks HALKB and TSKB outperformed



Source: Finnet, Seker Securities

Exhibit 19: Downgraded AKBNK; Upgraded ASYAB, VAKBN and YKBNK

Summary Valuation	Current Price, TRY	Target Price, TRY	Poten. Upside	Current Mcap	Target Mcap	% Change	Prev. Rec.	Current Rec.	Status
Akbank	5.76	6.26	9%	23,040	25,033	9%	M/P	M/P	Downgraded
Bank Asya	1.56	2.00	28%	1,404	1,796	28%	M/P	O/P	Upgraded
Garanti	5.62	6.45	15%	23,604	27,097	15%	M/P	M/P	Maintained
Halkbank	9.48	12.04	27%	11,850	15,045	27%	O/P	O/P	Maintained
Isbank	3.30	3.92	19%	14,850	17,635	19%	M/P	M/P	Maintained
TSKB	1.78	2.35	32%	1,424	1,881	32%	O/P	O/P	Maintained
Vakifbank	2.31	3.10	34%	5,775	7,754	34%	M/P	O/P	Upgraded
Yapi kredi	2.61	3.26	25%	11,346	14,163	25%	M/P	M/P	Upgraded
Avg. Upside Potential			24%				M/P	M/P	Maintained

Source: Finnet, Seker Securities

We cut our earnings estimates on banks in our coverage by 9% for FY2011 and 14% for FY2012. We feel that the banks' bottom-lines would be under pressure due to (i) cost side-effects on the back of relatively high market rates and elevated uncertainty, (ii) lacking favorable growth prospects to contain a strong and sustainable ROE, (iii) lacking strong non-core revenues such as high fee growth and contained OPEX that helped in 2011. However, on the valuation side, we feel that most of the risks mentioned above seem to be priced in. We feel that stocks have been de-rated although we would feel more comfortable once 2012E PE reaches 6x levels.

Exhibit 20: Our coverage banks with respect to peers – Turkish banks are relatively cheaper against peers

	DIV YLD					NET INCOME				
	2009 Y	2010 Y	2011 Y	2012 Y	2013 Y	2009 Y	2010 Y	2011 Y	2012 Y	2013 Y
AKBANK T.A.S.	2.8%	3.4%	2.7%	3.1%	4.1%	2,579	2,971	2,573	2,650	3,060
SEKERBANK	0.0%	1.3%	1.1%	1.8%	3.8%	154	146	117	156	186
TURKIYE GARANTI BANKASI	1.6%	2.4%	2.4%	2.5%	3.3%	2,756	3,251	3,023	3,106	3,583
TURKIYE VAKIFLAR BANKASI T-D	2.0%	2.9%	1.2%	1.6%	2.5%	1,189	1,106	1,240	1,258	1,432
TURKIYE HALK BANKASI	4.4%	3.5%	3.4%	3.8%	4.4%	1,551	2,015	1,980	2,050	2,259
TURKIYE IS BANKASI-C	2.8%	4.4%	3.9%	3.8%	4.5%	2,290	2,911	2,369	2,440	2,786
ASYA KATILIM BANKASI AS	0.6%	2.1%	0.8%	0.8%	0.8%	300	262	229	253	313
YAPI VE KREDI BANKASI	0.0%	0.6%	0.3%	0.8%	1.7%	1,492	2,184	1,965	2,037	2,349
TURKIYE SINAI KALKINMA BANK	-	3.1%	2.8%	2.5%	3.5%	165	210	242	267	286
TURKISH BANKS AVERAGE	1.8%	2.6%	2.1%	2.3%	3.2%	1,386	1,673	1,526	1,580	1,806
BANCO DO BRASIL S.A.	5.3%	6.3%	7.1%	7.1%	7.5%	7,439	9,834	11,209	11,889	13,653
BANCO BRADESCO SA-PREF	2.3%	2.9%	3.1%	3.5%	4.0%	7,398	9,568	11,311	12,571	13,822
ITAU UNIBANCO HOLDING SA	1.8%	2.7%	2.5%	3.3%	3.8%	9,690	12,815	14,471	16,591	18,942
KOMERCNI BANKA AS	5.0%	6.3%	6.7%	7.6%	8.5%	10,856	12,911	11,485	13,061	14,037
PKO BANK POLSKI SA	3.5%	3.6%	4.8%	4.8%	5.8%	2,324	3,315	3,862	4,072	4,611
BANK ZACHODNI WBK SA	0.7%	2.0%	4.1%	4.5%	5.4%	803	919	1,194	1,295	1,460
BANK PEKAO SA	4.6%	4.7%	5.5%	6.3%	7.2%	2,424	2,557	2,863	3,016	3,352
SBERBANK	-	-	-	-	-	19,503	159,750	315,896	298,561	335,209
VTB BANK OJSC	-	1.7%	1.7%	1.7%	1.7%	-57,568	50,220	99,142	105,839	121,955
PEER AVERAGE	3.3%	3.8%	4.4%	4.8%	5.5%	319	29,099	52,381	51,877	58,560
	PE					PBV				
	2009 Y	2010 Y	2011 Y	2012 Y	2013 Y	2009 Y	2010 Y	2011 Y	2012 Y	2013 Y
AKBANK T.A.S.	8.81	7.71	8.88	8.65	7.39	1.69	1.34	1.24	1.14	1.02
SEKERBANK	5.51	5.96	7.50	6.17	4.18	0.67	0.62	0.57	0.51	0.43
TURKIYE GARANTI BANKASI	8.55	7.25	7.72	7.47	6.56	1.89	1.48	1.32	1.15	1.02
TURKIYE VAKIFLAR BANKASI T-D	4.74	5.26	4.68	4.56	4.00	0.89	0.69	0.60	0.54	0.48
TURKIYE HALK BANKASI	7.57	5.99	5.95	5.86	5.22	2.16	1.63	1.35	1.15	0.99
TURKIYE IS BANKASI-C	6.42	5.03	6.63	6.52	5.27	1.21	0.90	0.81	0.74	0.66
ASYA KATILIM BANKASI AS	4.92	5.32	6.14	5.49	4.54	0.82	0.72	0.67	0.58	0.51
YAPI VE KREDI BANKASI	7.50	5.14	5.83	5.63	4.76	1.36	1.10	0.92	0.80	0.70
TURKIYE SINAI KALKINMA BANK	8.77	6.59	5.88	5.33	4.92	1.59	1.16	0.99	0.89	0.76
TURKISH BANKS AVERAGE	6.98	6.03	6.58	6.19	5.20	1.36	1.07	0.94	0.83	0.73
BANCO DO BRASIL S.A.	8.31	6.81	5.91	5.63	4.91	1.69	1.39	1.16	1.02	0.90
BANCO BRADESCO SA-PREF	15.55	12.25	10.69	9.73	8.61	2.96	2.46	2.11	1.85	1.63
ITAU UNIBANCO HOLDING SA	15.78	12.21	10.95	9.51	8.32	3.11	2.70	2.16	1.87	1.61
KOMERCNI BANKA AS	11.33	9.57	10.76	9.36	8.73	1.92	1.64	1.57	1.50	1.43
PKO BANK POLSKI SA	14.83	12.61	10.42	9.89	8.84	1.96	1.87	1.77	1.62	1.48
BANK ZACHODNI WBK SA	20.32	17.69	13.64	12.67	11.44	2.86	2.50	2.31	2.13	1.94
BANK PEKAO SA	15.08	14.30	12.78	12.27	11.14	2.01	1.84	1.73	1.66	1.59
SBERBANK	-	-	-	-	-	-	-	-	-	-
VTB BANK OJSC	-	12.07	6.71	6.04	5.49	1.28	1.14	0.97	0.86	0.76
PEER AVERAGE	14.46	12.19	10.23	9.39	8.43	2.22	1.94	1.72	1.56	1.42
DISCOUNT/PREMIUM	-52%	-51%	-36%	-34%	-38%	-39%	-45%	-45%	-47%	-48%
	ROAA					ROAE				
	2009 Y	2010 Y	2011 Y	2012 Y	2013 Y	2009 Y	2010 Y	2011 Y	2012 Y	2013 Y
AKBANK T.A.S.	2.9%	2.8%	2.1%	2.0%	2.1%	20.8%	19.1%	14.1%	13.5%	14.6%
SEKERBANK	1.9%	1.4%	0.9%	1.0%	1.1%	13.0%	10.8%	7.5%	8.7%	11.1%
TURKIYE GARANTI BANKASI	2.8%	2.9%	2.2%	2.0%	2.0%	24.3%	22.3%	17.9%	16.3%	16.6%
TURKIYE VAKIFLAR BANKASI T-D	2.0%	1.6%	1.5%	1.4%	1.3%	18.7%	14.3%	13.5%	12.2%	12.5%
TURKIYE HALK BANKASI	2.9%	3.1%	2.4%	2.1%	2.0%	30.6%	30.3%	24.8%	21.4%	20.2%
TURKIYE IS BANKASI-C	2.2%	2.4%	1.7%	1.5%	1.5%	20.7%	21.0%	13.7%	12.8%	13.8%
ASYA KATILIM BANKASI AS	3.1%	2.1%	1.5%	1.3%	1.3%	19.3%	14.7%	11.3%	10.8%	12.4%
YAPI VE KREDI BANKASI	2.2%	3.1%	2.0%	1.8%	1.8%	19.7%	23.7%	17.8%	15.6%	15.7%
TURKIYE SINAI KALKINMA BANK	2.7%	3.0%	2.8%	2.8%	2.6%	17.9%	19.0%	18.1%	17.7%	16.6%
TURKISH BANKS AVERAGE	2.5%	2.5%	1.9%	1.8%	1.7%	20.6%	19.5%	15.4%	14.4%	14.8%
BANCO DO BRASIL S.A.	1.1%	1.3%	1.3%	1.2%	1.2%	22.3%	22.8%	20.6%	19.8%	19.9%
BANCO BRADESCO SA-PREF	1.4%	1.7%	1.6%	1.6%	1.6%	20.3%	21.4%	21.4%	20.8%	20.4%
ITAU UNIBANCO HOLDING SA	1.6%	1.9%	1.8%	1.8%	1.8%	20.7%	23.2%	22.2%	22.2%	22.0%
KOMERCNI BANKA AS	1.6%	1.9%	1.6%	1.8%	1.9%	17.4%	18.1%	15.5%	16.8%	17.2%
PKO BANK POLSKI SA	1.6%	1.9%	2.2%	2.1%	2.2%	13.4%	15.1%	17.6%	17.3%	17.8%
BANK ZACHODNI WBK SA	1.4%	1.7%	2.3%	2.1%	2.2%	14.9%	14.7%	17.7%	16.7%	17.9%
BANK PEKAO SA	1.9%	2.0%	2.1%	2.0%	2.0%	14.2%	13.4%	13.8%	14.0%	14.7%
SBERBANK	0.5%	2.0%	3.3%	2.7%	2.7%	2.6%	17.6%	27.2%	21.5%	20.6%
VTB BANK OJSC	-2.1%	-	1.9%	1.9%	1.9%	-17.4%	10.2%	15.6%	15.5%	17.2%
PEER AVERAGE	1.0%	1.8%	2.0%	1.9%	1.9%	12.1%	17.4%	19.1%	18.3%	18.6%

Source: Bloomberg, Seker Securities

The “too many moving parts” expression that we used in our market strategy is one of the main reasons (it also includes the complex and flexible monetary policy environment) we abstain from accumulating banking stocks from these levels. We feel that given another 10% correction in Turkish equities we would be strong “BUY”ers of Turkish banking stocks given their strong long-term fundamentals and growth opportunities.

Exhibit 21: Net earnings estimates for 2011-12E – We cut our EPS estimates by 9% and 14% for 2011-12

Bank	2010A			2011E			2010-11	2012E			2011-12
	Actual	Forecast	% Change	Old	New	% Change	YoY,%	Old	New	% Change	YoY,%
Akbank	2,857	3,016	-5.3%	2,739	2,532	-8%	-11.3%	2,977	2,582	-13%	2.0%
Bank Asya	260	290	-10.4%	247	226	-9%	-13.2%	272	242	-11%	7.1%
Garanti	3,145	3,190	-1.4%	3,058	2,880	-6%	-8.4%	3,365	2,978	-11%	3.4%
Halkbank	2,010	1,993	0.9%	1,968	1,893	-4%	-5.9%	2,152	1,971	-8%	4.1%
Isbank	2,982	3,064	-2.7%	2,854	2,177	-24%	-27.0%	3,113	2,211	-29%	1.5%
TSKB	212	226	-6.4%	237	243	3%	14.8%	271	248	-9%	2.1%
Vakifbank	1,157	1,127	2.7%	1,178	1,202	2%	3.9%	1,300	1,241	-5%	3.2%
Yapikredi	2,060	2,213	-6.9%	1,998	1,865	-7%	-9.5%	2,167	1,914	-12%	2.6%
Coverage Total	14,683	15,119	3.0%	14,278	13,018	-9%	-11.3%	15,617	13,387	-14%	2.8%
SECTOR	21,930	22,400	2.1%	21,250	19,275	-9%	-12.1%	24,251	19,607	-19%	1.7%
Coverage %	67.0%	67.5%		67.2%	67.5%			64.4%	68.3%		

Source: Finnet, Companies, Seker Securities

However, we have calculated that NIMs will remain almost flat in 2012 with a strong push from higher lending rates despite the costly deposits that may start to kick-in. We have incorporated a 100 bps increase in deposit costs and no increase/decrease in lending rates as our base case assumption. We believe that even though market rates may ease (benchmark yields and interbank repo rates) due to a possible switch to orthodox policies Turkish banks will be reluctant to reduce their lending rates at least until 4Q12. However, to have an exact assumption on the path of loan rates we should observe the trends in loan demand and supply conditions. If loan demand remains strong (with limited asset quality deterioration all across the board) banks may consider sowing the benefits of high lending rates and favorable spreads (as high loan rates starts to kick-in on yields with 9-10 month lags) at least until the last quarter of the year. On the flipside, if loan supply remains higher than demand, meaning that our growth assumptions (approx. 13-15%) face a downtrend, that means that banks may have to decrease lending rates further as asset quality may worsen (at least more than our base case scenario forecasts) in the second half of the year.

Exhibit 22: We do not expect a major change in margins – though risks are on the downside

NIM - 12m	AKBNK	ASYAB	GARAN	HALKB	ISCTR	TSKB	VAKBN	YKBNK	AVG.	SECTOR
2008A	4.6%	7.2%	4.3%	4.8%	4.4%	4.8%	4.3%	4.6%	4.9%	4.7%
2009A	5.4%	6.4%	5.4%	5.8%	5.0%	4.1%	5.5%	5.9%	5.4%	5.6%
2010A	4.2%	4.9%	4.4%	5.0%	4.1%	4.3%	4.0%	4.8%	4.5%	4.5%
2011E	3.4%	4.1%	3.4%	4.0%	3.0%	4.0%	3.5%	3.6%	3.6%	3.4%
2012E	3.2%	4.2%	3.2%	3.8%	2.9%	3.9%	3.5%	3.4%	3.5%	3.3%
2010-11, % bps	-87	-79	-107	-96	-104	-30	-57	-111	-84	-101
2011-12, % bps	-17	11	-19	-20	-8	-11	4	-27	-11	-11

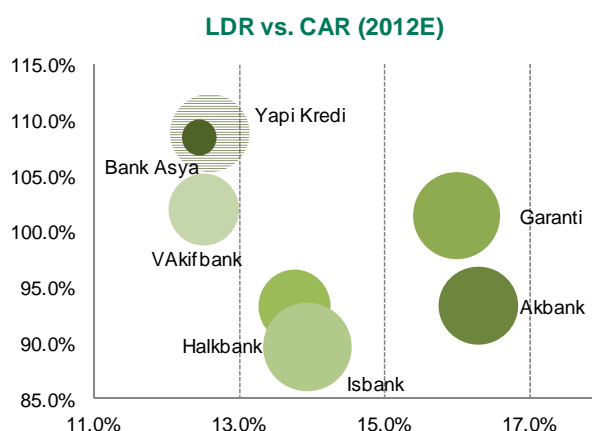
Source: Finnet, Companies, Seker Securities

We would be observing normalization in NIMs as we don't see any major change with respect to last year. Margins were under considerable pressure due to the heavy regulatory environment. Recall that our NIM contraction expectation for 2011 was approx. 50-60 bps. The actual contraction in margins may reach 100 bps meaning

that we have undershot the downward trend in margins. 2011 was a tough year for Turkish banks. We observed a contraction in Turkish banks' operating income and bottom-line due to regulatory pressures and the Eurozone crisis.

Exhibit 23: We expect the Basel II CAR of our coverage to decline by 140bps to 13.9% in 2012FY

2012E	CAR	LDR	Loans
Akbank	16.3%	93.3%	79,621.6
Bank Asya	12.5%	108.4%	15,325.2
Garanti	16.0%	101.5%	95,568.0
Halkbank	13.8%	93.2%	67,111.7
Isbank	13.9%	89.7%	99,706.1
Vakifbank	12.5%	102.0%	64,793.3
Yapi Kredi	12.6%	108.8%	78,436.4
Average	13.9%	99.6%	71,508.9



Source: Finnet, Seker Securities

Since the beginning of 2011, regulators were aiming to cap the sector loan growth at 25% in order to protect the economy to external shocks caused by the European debt crisis (i.e. uncertainty) and contain the exploding domestic demand which widens the current account deficit. To achieve this target the CBRT experimented with various unconventional policies. On the other hand, the CBRT injected liquidity to banks until 3Q11 via 1-week and O/N repo transactions to avoid any possible liquidity squeeze. According to academic research, the effect of monetary policy on lending should be more pronounced for some banks than others. Especially less liquid banks and smaller banks, which are more likely to have limited access to external funding sources.

Exhibit 24: We foresee only a 1% CAGR in 2011–2013 (7% in 2012–2013) in banks' net earnings

Income Statement, TRY mn	CAGR 11-13	CAGR 12-13	Balance Sheet, TRY mn	CAGR 11-13	CAGR 12-13
Interest Income	17%	19%	Cash & Central Bank	29%	2%
Interest Income on Loans	23%	22%	Placement at Banks, MM & Other IEA*	10%	-5%
Interest Income on Liquid Assets & Others	13%	7%	Security Portfolio	9%	12%
Interest Income on Security Portfolio	6%	12%	Trading	31%	13%
Trading	23%	14%	Available for Sale	9%	15%
Available for Sale	10%	15%	Held to Maturity	8%	7%
Held to Maturity	-2%	6%	Loans, Net	21%	17%
Interest Expense	24%	20%	Non-Performing Loans	15%	29%
Interest Expense on Deposits	20%	24%	Provisioning for Non-Performing Loans	16%	29%
Interest Expense on Bank Liabilities	51%	7%	Other IEA	5%	8%
Interest Expense on Borrowing	18%	3%	Participations	10%	7%
Other Interest Expense	94%	43%	Fixed Assets	7%	8%
NET INTEREST INCOME (NII)	10%	17%	Other Non-IEA	17%	8%
Dividend Income	7%	4%	TOTAL ASSETS	17%	12%
Net Fees Income from Cash Loans	11%	8%	Deposits	15%	15%
Net Trading Gain/Loss	1%	34%	Liabilities to Banks (inc. REPOs)	43%	9%
Banking Service Fees and Other Income	1%	1%	Borrowing	9%	-3%
Total Operating Income	7%	12%	Other Liabilities	26%	19%
- Ordinary Banking Income	11%	18%	Shareholder's Equity	14%	15%
Provision Cost for LLR	1%	8%	TOTAL LIABILITIES AND EQUITY	17%	12%
Operating Expenses	13%	13%			
Before Tax Profit (EBT)	2%	10%			
Provision For Taxes	4%	10%			
NET PROFIT	2%	10%			

(*) including banks, financial institutions, factoring and leasing receivables

Source: BRSA, Companies, Seker Securities

We observe that the growth potential in Turkish banks both in terms of bottom-line and assets seems to be muted. We foresee only a 1% CAGR in 2011–2013 (7% in 2012–2013) in banks' net earnings. We expect a slowdown in loan growth (down from 21% to 17%) and repo financing (down from 43% to 9%) and assumed a negative growth in foreign borrowing (down from 9% to -3%) in 2012–2013.

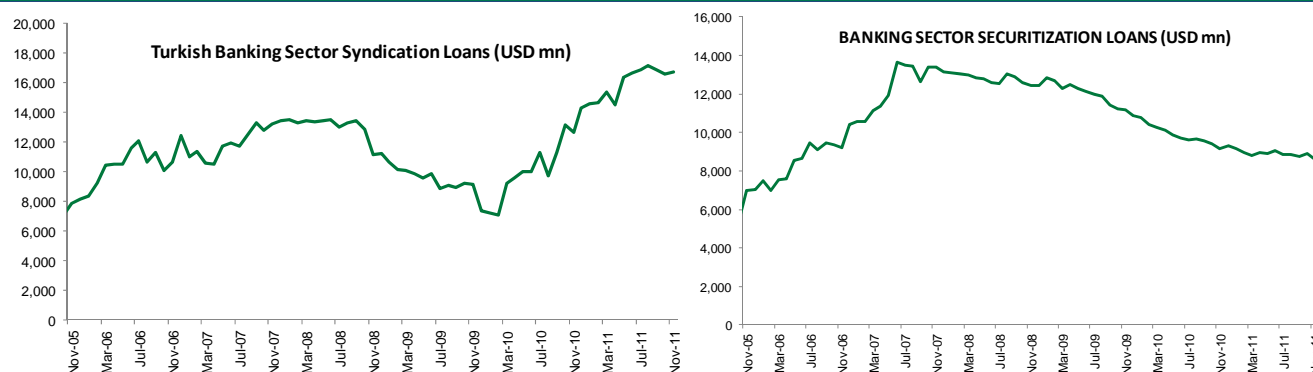
Exhibit 25: We expect the bottom-line to contract by 12% in 2011 followed by a mere 1.7% increase in 2012

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Interest Income	70,552.7	85,768.0	85,290.7	77,397.0	88,903.9	112,634.7	125,108.6
Interest Income on Loans	39,362.8	52,109.6	52,478.2	47,820.2	59,598.1	77,636.0	88,906.1
Interest Income on Liquid Assets & Others	6,678.5	6,380.5	4,555.8	3,364.1	4,299.5	5,849.9	4,897.1
Interest Income on Security Portfolio	24,511.4	27,278.0	28,256.8	26,212.7	25,006.3	29,148.8	31,305.4
Trading	1,424.3	995.1	558.1	561.5	793.3	1,026.2	1,033.2
Available for Sale	16,047.0	16,154.5	12,422.9	15,181.6	15,443.4	18,310.5	20,366.0
Held to Maturity	7,040.1	10,128.5	15,275.8	10,469.6	8,769.6	9,812.1	9,906.1
Interest Expense	44,502.2	54,785.6	43,487.8	38,725.4	51,179.1	69,338.6	73,493.8
Interest Expense on Deposits	35,443.6	43,966.8	35,370.1	31,681.0	35,104.4	47,332.1	54,151.4
Interest Expense on Bank Liabilities	3,594.7	4,672.6	3,537.0	3,067.3	9,100.1	11,431.2	10,503.0
Interest Expense on Borrowing	5,263.0	5,632.5	4,162.1	3,575.9	5,541.5	8,472.4	5,925.0
Other Interest Expense	200.9	513.7	418.6	401.2	1,433.1	2,102.9	2,914.5
NET INTEREST INCOME (NII)	26,050.5	30,982.4	41,802.9	38,671.6	37,724.8	43,296.0	51,614.7
Dividend Income	802.1	894.8	772.0	842.0	959.7	1,021.6	1,043.0
Net Fees Income from Cash Loans	1,021.9	298.6	1,166.2	1,277.9	1,481.7	1,594.2	1,743.5
Net Trading Gain/Loss	1,312.0	272.4	1,910.4	311.9	178.5	173.7	319.1
Banking Service Fees and Other Income	13,174.3	14,010.0	15,143.1	19,589.1	19,858.0	18,865.1	20,374.4
Total Operating Income	42,360.7	46,458.3	60,794.7	60,692.6	60,202.7	64,950.7	75,094.7
- Ordinary Banking Income	25,424.7	26,107.5	34,994.8	34,970.9	34,736.5	39,857.7	48,210.7
Provision Cost for LLR	2,959.7	5,445.9	9,884.8	5,290.6	4,648.5	5,206.3	5,466.6
Operating Expenses	20,313.8	24,372.5	25,756.8	28,295.5	31,460.0	35,235.2	40,520.5
Before Tax Profit (EBT)	19,087.2	16,639.9	25,153.1	27,106.5	24,094.3	24,509.2	29,107.7
Provision For Taxes	3,351.0	3,219.0	4,970.1	5,177.0	4,818.9	4,901.8	5,821.5
NET PROFIT	15,736.2	13,420.9	20,183.0	21,929.5	19,275.4	19,607.3	23,286.1
- y-o-y change		-14.7%	50.4%	8.7%	-12.1%	1.7%	18.8%

Source: BRSA, Companies, Seker Securities

Despite increasing risk aversion in global markets, Turkish banks achieved relatively cheap syndication loans e.g. one-year syndication loan with LIBOR + 100-150 bps. This was an indication that Turkish banks have access to external funding sources with relatively lower risk premiums. In the graph below we observe that Turkish banks augmented their syndication loan portfolios since February 2010. However we did not see any progress in securitization loans after a peak in 2008.

Exhibit 26: In 2011 Turkish banks managed to roll-over their syndication loans – 2012 may be a tough year



Source: BRSA, Companies, Seker Securities

Thanks to effective and strict regulation of the banking watchdog – the BRSA – over banks, Turkish banks were strong in terms of their capital adequacy ratios. Since June 2007, the BRSA has required stressed liquidity reporting from all Turkish banks. Since August 2011, the BRSA has been asking banks to calculate stress on a monthly basis and most banks are able to comply with the limit, according to the watchdog.

In February 2011 the BRSA decided to upgrade risk measures to BASEL II incorporated with European Union's Capital Requirements Directive Article III (CRD). The process of the transition to Basel II takes one year and the deadline will be July 2012. During the transition period the BRSA requires banks parallel calculation which reduces CAR by 50-150 basis points.

Exhibit 27: Turkish banking sector balance sheet – 2008A-2013E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E	2013E
Cash & Central Bank	41,992.0	56,399.0	50,917.0	65,117.2	135,952.0	122,620.7	141,337.5
Placement at Banks, MM & Other IEA*	35,551.0	53,115.0	61,235.0	53,321.8	79,374.6	85,803.6	71,202.7
Security Portfolio	164,727.0	193,991.0	262,874.0	287,854.7	297,939.4	330,779.4	373,423.1
Trading	11,180.0	3,736.0	5,518.0	6,884.1	12,076.8	13,274.8	15,302.7
Available for Sale	112,683.0	75,113.0	142,068.0	186,468.6	181,831.0	207,473.3	239,312.7
Held to Maturity	40,864.0	115,142.0	115,288.0	94,501.9	104,031.5	110,031.3	118,807.8
Loans, Net	286,986.0	370,283.0	396,208.0	529,091.3	694,418.7	788,277.9	944,303.2
Non-Performing Loans	10,346.0	14,053.0	21,853.0	19,993.0	18,409.7	25,679.9	30,410.1
Provisioning for Non-Performing Loans	8,976.0	11,215.0	18,266.0	16,752.9	15,662.5	21,842.8	25,867.1
Other IEA	21,312.0	27,176.0	26,071.0	29,465.4	29,522.4	31,940.7	34,573.6
Participations	11,861.0	11,353.0	14,029.0	17,141.4	19,949.3	21,335.2	22,821.0
Fixed Assets	7,902.0	9,601.0	9,947.0	9,787.9	10,266.5	11,106.0	12,020.1
Other Non-IEA	11,277.0	10,618.0	12,733.0	14,898.2	20,215.9	21,871.8	23,674.7
TOTAL ASSETS	581,608.0	732,536.0	834,014.0	1,006,677.8	1,287,638.7	1,413,735.3	1,623,356.1
Deposits	356,865.0	454,599.0	514,620.0	617,036.9	720,070.3	816,780.6	944,902.9
Liabilities to Banks (inc. REPOs)	27,998.0	41,176.0	61,614.0	58,338.0	142,859.3	151,200.8	169,873.5
Borrowing	71,385.0	92,749.0	86,095.0	122,380.5	166,795.8	146,888.7	158,243.2
Other Liabilities	49,508.0	57,586.0	60,797.0	74,370.4	105,437.8	125,381.6	149,388.0
Shareholder's Equity	75,852.0	86,426.0	110,888.0	134,552.0	152,475.5	173,483.6	200,948.5
TOTAL LIABILITIES AND EQUITY	581,608.0	732,536.0	834,014.0	1,006,677.8	1,287,638.7	1,413,735.3	1,623,356.1

(*) including banks, financial institutions, factoring and leasing receivables

Source: BRSA, Companies, Seker Securities

Reserve Requirement Rates (RRR)

The CBRT believes that the role of reserve requirements as a monetary policy tool in the backdrop of the requirements emerged as a result of the new economic environment following the global financial crisis. The importance of reserve requirements, unlike the policy rate, stems from its ability to affect only certain interest rates, hence allowing the central bank to pursue counter cyclical monetary policy without attracting capital inflows.

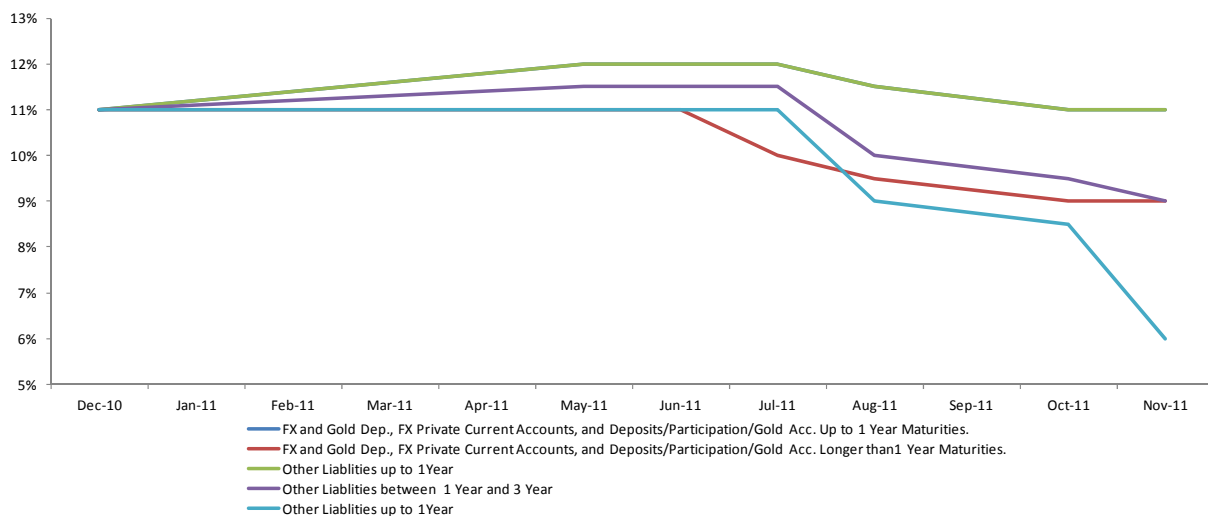
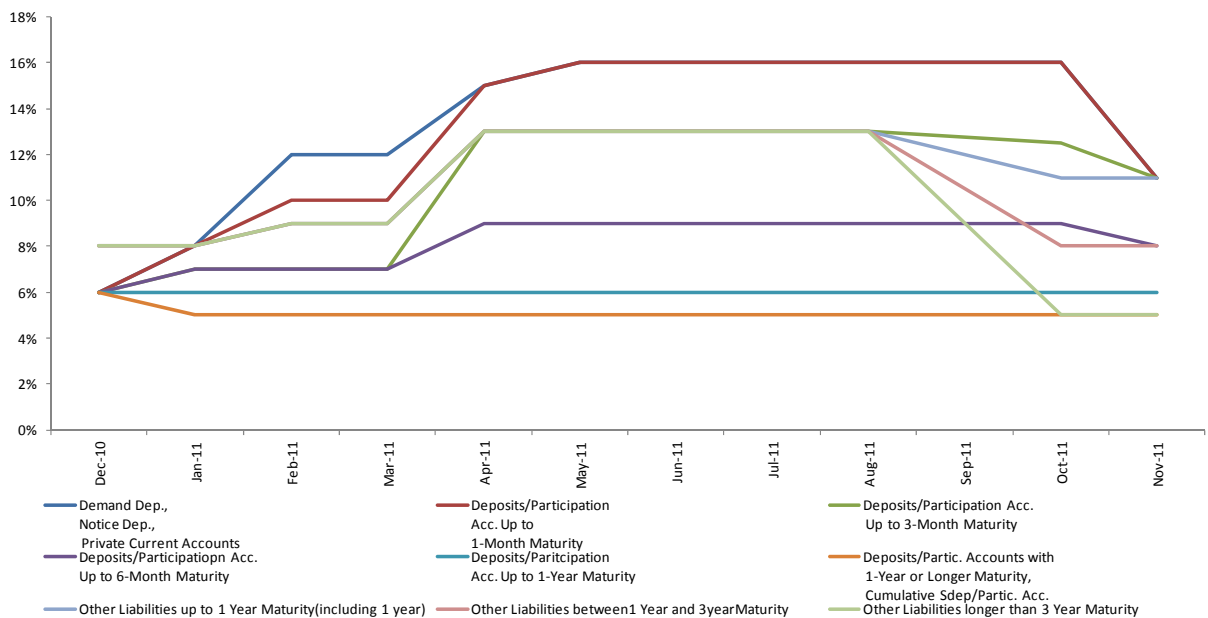
We have incorporated an 11% APR average cost of funding and an 18% APR nominal interest income on excess funds in our calculations. Even though this is positive for the banking sector, given that the CBRT may continue its short-term tightening bias (we also believe that the CBRT is dovish for the long-term) reducing the liquidity in the market via OMO, the high cost of funding still hurts banks in terms of financing

Exhibit 28: Following the latest RRR cut the average RRR @ 10.5% for the sector

Deposits According To Maturity Period:2011/11	Total Deposit (TRY mn)	Weight	Old RRR	New RRR	Old Weighted Average	New Weighted Average
Sector-Demand Deposit	119,487	17%	16%	11%	2.78%	1.91%
Sector-Up To 1 Month	101,089	15%	16%	11%	2.35%	1.62%
Sector-Between 1-3 Months	365,886	53%	13%	11%	6.92%	5.85%
Sector-Between 3-6 Months	51,836	8%	9%	8%	0.68%	0.60%
Sector-Between 6-12 Months	17,530	3%	6%	6%	0.15%	0.15%
Sector-1 Year and More	31,630	5%	8%	8%	0.37%	0.37%
Sector-Total	687,458				13.25%	10.51%

Source: CBRT, Seker Securities

Exhibit 29: CBRT start cutting RRR to support slowing-down economy in a move in contrast to March-11



Source: CBRT, Seker Securities

Exhibit 30: Key financial ratios for Turkish banks 2008A-2013E

Key Ratios, %	2008A	2009A	2010A	2011E	2012E	2013E
Profitability Ratios						
NIM Cumulative 12-m	5.0%	5.6%	4.5%	3.4%	3.3%	3.6%
ROAA 12-m	2.0%	2.6%	2.4%	1.7%	1.5%	1.5%
ROAE 12-m	16.8%	20.5%	18.0%	13.7%	12.4%	12.9%
Tangible ROAE 12-m	18.3%	22.6%	19.7%	15.0%	13.6%	14.1%
RORWA	2.9%	3.8%	3.4%	2.3%	1.9%	2.0%
Growth Ratios (Annualized, y-o-y)						
Asset Growth	26.0%	13.9%	20.7%	27.9%	9.8%	14.8%
Loan Growth	29.0%	7.0%	33.5%	31.2%	13.5%	19.8%
Deposit Growth	27.4%	13.2%	19.9%	16.7%	13.4%	15.7%
Securities Growth	17.8%	35.5%	9.5%	3.5%	11.0%	12.9%
Equity Growth	13.9%	28.3%	21.3%	13.3%	13.8%	15.8%
Efficiency & Financial Strength Ratios						
Interest Income on Loans / Total Interest Income	60.8%	61.5%	61.8%	67.0%	68.9%	69.9%
Interest Income on Securities / Total Interest Income	31.8%	33.1%	33.9%	28.1%	25.9%	25.0%
Net Banking Income / Total Operating Income	67.3%	70.7%	65.8%	65.1%	70.6%	71.1%
Cost / Average Assets	3.9%	3.6%	3.4%	3.0%	2.8%	2.9%
OPEX / Assets	3.7%	3.3%	3.1%	2.8%	2.6%	2.7%
Cost / Income, 12-m	52.5%	42.4%	46.6%	52.3%	54.2%	54.0%
CAR	18.0%	20.6%	19.0%	16.0%	14.2%	13.9%
Liquidity Ratio	25.7%	31.1%	31.0%	31.8%	30.4%	28.8%
Leverage Ratio	7.7	8.5	7.5	7.5	8.4	8.1
Free Funds	21.6%	23.0%	23.6%	21.6%	20.6%	20.7%
Free Capital to Assets	7.1%	8.5%	8.9%	7.7%	8.2%	8.5%
Free Capital to Equity	60.2%	63.7%	66.5%	65.1%	66.5%	68.6%
External Borrowing / Total Assets	12.7%	10.3%	12.2%	13.0%	10.4%	9.7%
Asset Composition & Breakdown						
Interest Earning Assets / Assets	88.0%	89.5%	89.4%	85.5%	87.5%	87.7%
Loans / Assets	50.5%	47.5%	52.6%	53.9%	55.8%	58.2%
Deposits / Assets	62.1%	61.7%	61.3%	55.9%	57.8%	58.2%
Securities / Assets	26.5%	31.5%	28.6%	23.1%	23.4%	23.0%
Equity / Assets	11.8%	13.3%	13.4%	11.8%	12.3%	12.4%
Loans / Deposits	81.5%	77.0%	85.7%	96.4%	96.5%	99.9%
Asset Quality						
NPL	3.7%	5.3%	3.7%	2.6%	3.2%	3.1%
NPL Coverage Ratio	80%	84%	84%	85%	85%	85%

Source: BRSA, Companies, Seker Securities

Exhibit 31: We expect total assets of the system to reach 115% in 2015 with a CAGR of 20% in 2011-15

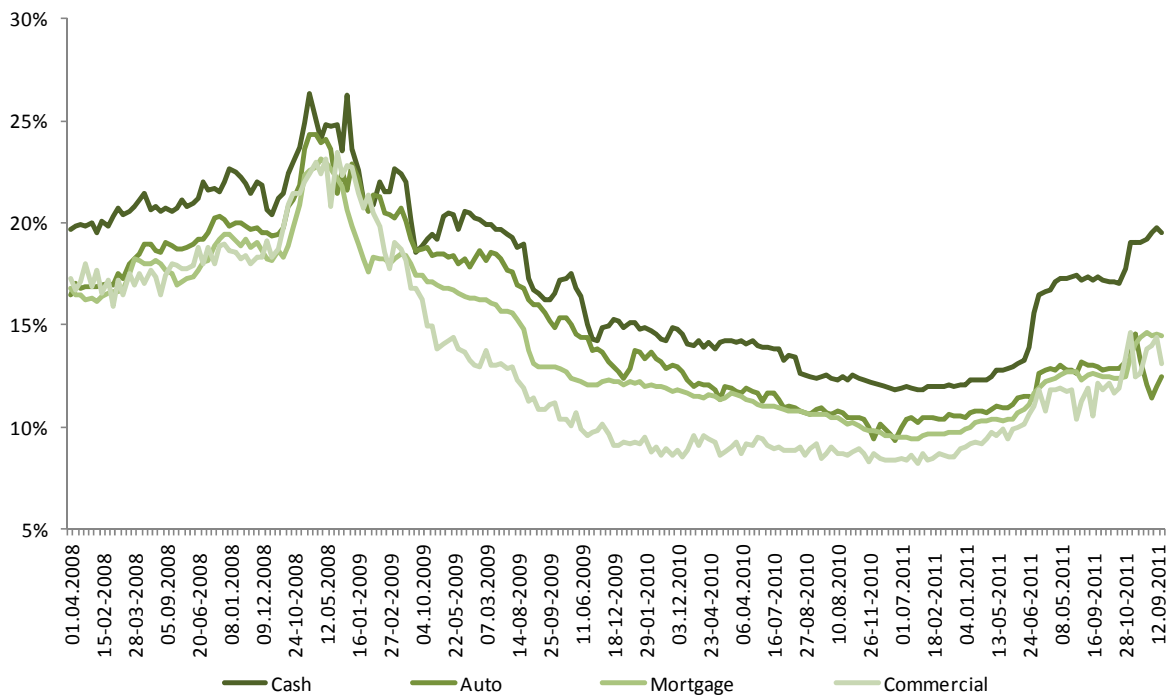
	2005A	2006A	2007A	2008A	2009A	2010A	2011F	2012F	2013F	2014F	2015F
Macro Indicators											
Real GDP	649.0	758.4	843.2	950.5	952.6	1,103.7	1,271.2	1,400.6	1,558.2	1,726.1	1,912.0
Real GDP (USD bn)	484.3	526.4	646.9	730.2	614.4	734.7	759.3	763.0	831.5	873.1	916.8
Real GDP (%)	8.4%	6.9%	4.7%	0.7%	-4.8%	9.0%	8.2%	1.0%	5.0%	5.0%	5.0%
GDP per Capita (USD)	7,056	7,583	9,208	10,274	8,546	10,107	10,331	10,272	11,078	11,513	11,969
Population	68.9	69.4	70.3	71.1	71.9	72.7	73.5	74.3	75.1	75.8	76.6
Monetary Indicators											
CPI (average %)	8.2%	9.9%	8.8%	10.4%	6.3%	8.6%	6.4%	9.1%	5.9%	5.5%	5.5%
CPI (year-end %)	7.7%	9.7%	8.4%	10.1%	6.5%	6.4%	9.9%	6.4%	5.5%	5.5%	5.5%
CB O/N Policy Rate (year-end)	13.5%	17.5%	15.8%	15.8%	6.5%	6.5%	5.8%	5.8%	6.3%	6.3%	6.3%
USD/TRY (average)	1.34	1.43	1.30	1.30	1.55	1.50	1.67	1.84	1.87	1.98	2.09
USD/TRY (year-end)	1.34	1.41	1.16	1.53	1.49	1.54	1.84	1.82	1.92	2.03	2.14
EUR/TRY (average)	1.67	1.81	1.78	1.90	2.16	1.99	2.33	2.35	2.36	2.43	2.53
EUR/USD	1.25	1.26	1.37	1.47	1.39	2.06	2.40	2.34	2.42	2.52	2.65
Balance of Payments											
C/A Balance (% GDP)	-4.6%	-6.1%	-5.9%	-5.7%	-2.3%	-6.4%	-10.3%	-8.6%	n.a.	n.a.	n.a.
Domestic Debt Rollover Ratio	89%	80%	76%	82%	74%	100%	88%	85%	80%	80%	80%
Banking Sector											
Deposits	251.5	307.6	356.9	454.6	514.6	617.0	720.1	816.8	944.9	1,086.6	1,249.6
- Growth yoy (%)		22.3%	16.0%	27.4%	13.2%	19.9%	16.7%	13.4%	15.7%	15.0%	15.0%
Deposits/GDP	38.8%	40.6%	42.3%	47.8%	54.0%	55.9%	56.6%	58.3%	60.6%	63.0%	65.4%
Loans	157.2	219.9	287.0	370.3	396.2	529.1	694.4	788.3	944.3	1,133.2	1,359.8
- Growth yoy (%)		39.9%	30.5%	29.0%	7.0%	33.5%	31.2%	13.5%	19.8%	20.0%	20.0%
Loans/GDP	24.2%	29.0%	34.0%	39.0%	41.6%	47.9%	54.6%	56.3%	60.6%	65.7%	71.1%
Loans to Deposits	62.5%	71.5%	80.4%	81.5%	77.0%	85.7%	96.4%	96.5%	99.9%	104.3%	108.8%
Loans to Assets	38.6%	44.0%	49.3%	50.5%	47.5%	52.6%	53.9%	55.8%	56.6%	59.1%	61.1%
Deposits to Assets	61.8%	61.6%	61.4%	62.1%	61.7%	61.3%	55.9%	57.8%	56.6%	56.6%	56.2%
Consumer Loans	29.4	47.5	67.9	83.2	93.3	133.5	180.2	225.2	259.0	323.8	420.9
- Growth yoy (%)		61.6%	42.8%	22.5%	12.2%	43.0%	35.0%	25.0%	15.0%	25.0%	30.0%
Credit Card Loans	17.6	22.0	27.8	34.9	37.9	49.3	61.6	77.0	88.6	106.3	127.6
- Growth yoy (%)		25.2%	26.2%	25.4%	8.8%	30.0%	25.0%	25.0%	15.0%	20.0%	20.0%
Housing Loans	13.0	23.4	32.4	38.9	44.8	62.8	81.6	97.9	117.5	146.9	191.0
- Growth yoy (%)		79.3%	38.6%	20.0%	15.3%	40.0%	30.0%	20.0%	20.0%	25.0%	30.0%
Auto Loans	14.0	15.7	16.1	14.4	11.0	15.3	19.2	24.0	28.8	36.0	46.7
- Growth yoy (%)		12.3%	2.5%	-10.6%	-23.7%	40.0%	25.0%	25.0%	20.0%	25.0%	30.0%
SME Loans	N/A	59.6	76.5	84.6	83.9	111.6	139.4	181.3	217.5	271.9	353.5
- Growth yoy (%)		-	28.4%	10.6%	-0.9%	33.0%	25.0%	30.0%	20.0%	25.0%	30.0%
Consumer Loans/GDP	4.5%	6.3%	8.0%	8.7%	9.8%	12.1%	14.2%	16.1%	16.6%	18.8%	22.0%
Credit Card Loans/GDP	2.7%	2.9%	3.3%	3.7%	4.0%	4.5%	4.8%	5.5%	5.7%	6.2%	6.7%
Housing Loans/GDP	2.0%	3.1%	3.8%	4.1%	4.7%	5.7%	6.4%	7.0%	7.5%	8.5%	10.0%
Auto Loans/GDP	2.2%	2.1%	1.9%	1.5%	1.2%	1.4%	1.5%	1.7%	1.8%	2.1%	2.4%
Total Assets	406.9	499.7	581.6	732.5	834.0	1,006.7	1,287.6	1,413.7	1,668.2	1,918.4	2,225.4
- Growth yoy (%)		22.8%	16.4%	26.0%	13.9%	20.7%	27.9%	9.8%	18.0%	15.0%	16.0%
Total Assets/GDP	62.7%	65.9%	69.0%	77.1%	87.6%	91.2%	101.3%	100.9%	107.1%	111.1%	116.4%

Source: Turkey DataMonitor, BRSA, Seker Securities

Lending Market

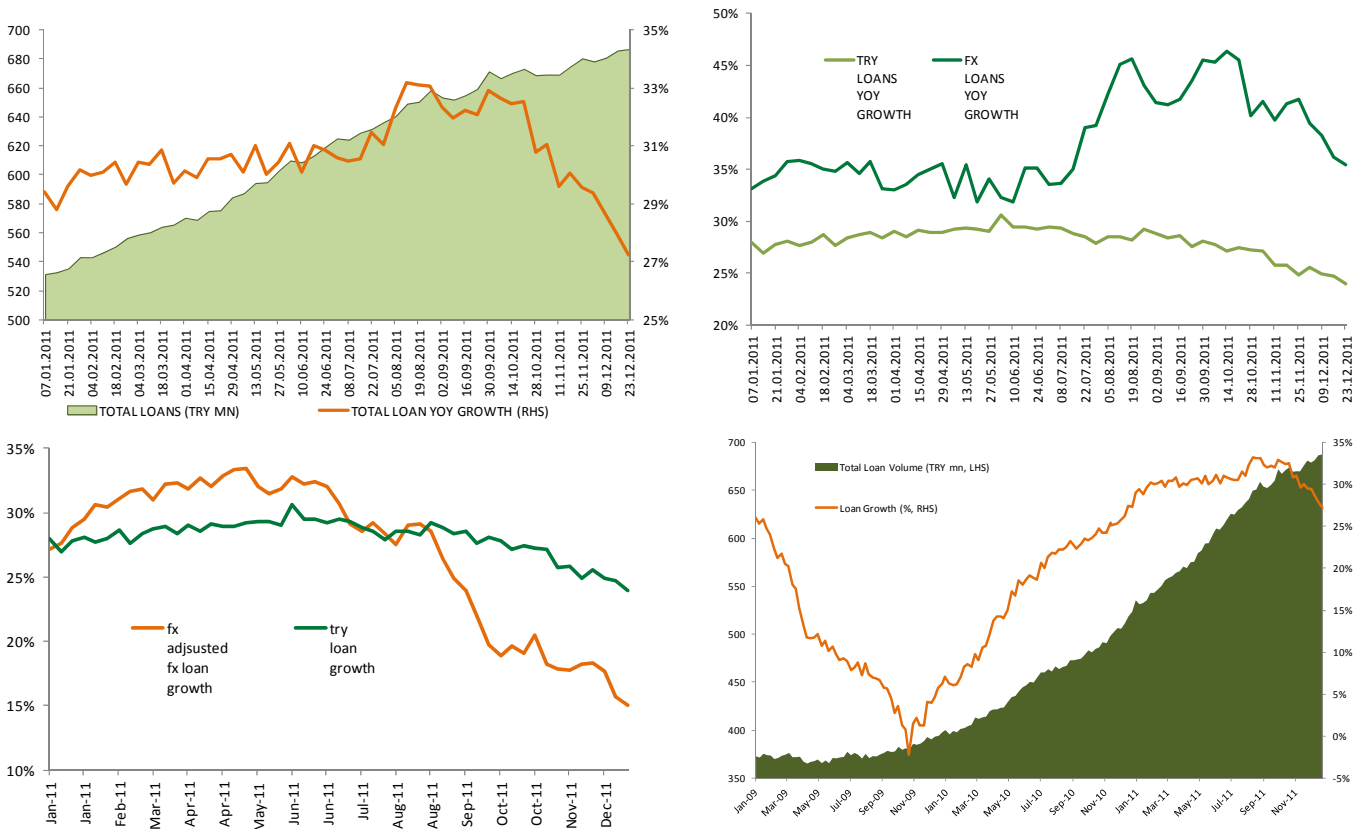
2011 in a nutshell As of the week ending December 23rd total loans increased to TRY 687.1 billion (TRY 484.1bn in TRY loans and TRY 202.9bn in FX loans). Total loan growth was 28.3% YtD and 31.3% YoY. LDR reached 94.4% with an increase of 1.0% WoW; total FX loans were the main factor of the growth in total loans. With respect to their ownership base, private banks are the main driver in loan growth with 34.4% YtD. Loan growth in foreign owned banks was 12.8% YtD and continued to stay behind the sector (28.3% YtD). When we look at the breakdown of loans we see significant YtD growth in corporate loans (37.1% YtD). However, YtD growth in long-term loans such as mortgage loans showed weaker performance than other segments. Consumer loans increased 29.7% YtD which is more than the YtD growth of total loans. In the detailed data, private and public banks are the main drivers of consumer loan growth with 33.2% and 33.6% YtD growth.

Exhibit 32: Following the unconventional moves of CBRT, banks started increasing lending rates



Source: CBRT, Seker Securities

Exhibit 33: CBRT was successful in slowing-down the credit growth in the system



Source: CBRT, Seker Securities

Exhibit 34: Growth expectations for universe: loan @ 14.1%; deposit @ 14.3% & securities @ 10.8% in 2012

Bank	Loan Growth				Deposit Growth				Securities Growth			
	2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E	2009A	2010A	2011E	2012E
Akbank	-10.5%	33.2%	32.1%	14.0%	7.0%	20.3%	14.8%	13.2%	67.5%	10.1%	-6.0%	11.7%
Asya Bank	33.3%	33.6%	20.9%	15.7%	56.4%	22.2%	14.0%	14.1%	434.6%	195.3%	31.0%	15.0%
Garanti	-0.4%	30.4%	28.3%	14.9%	19.1%	15.7%	15.6%	14.4%	41.9%	7.9%	-1.9%	11.1%
Halkbank	25.6%	36.5%	30.9%	15.7%	9.1%	24.6%	18.0%	14.7%	16.6%	-5.5%	11.2%	9.1%
Isbank	1.5%	32.9%	35.6%	14.5%	13.6%	22.3%	14.2%	14.0%	56.6%	16.0%	-3.1%	11.7%
TSKB	4.1%	25.0%	30.4%	9.4%	n.m.	n.m.	n.m.	n.m.	38.6%	1.5%	2.4%	8.8%
Vakifbank	13.3%	29.8%	25.6%	15.0%	20.3%	6.8%	20.7%	15.0%	60.9%	-2.2%	6.4%	10.4%
Yapi Kredi	-2.1%	39.0%	30.9%	13.9%	-2.1%	29.1%	22.9%	14.5%	7.1%	30.0%	13.1%	8.3%
Universe	8.1%	32.5%	29.3%	14.1%	17.6%	20.1%	17.2%	14.3%	90.5%	31.6%	6.6%	10.8%
Sector	7.0%	33.5%	31.2%	13.5%	13.2%	19.9%	16.7%	13.4%	35.5%	9.5%	3.5%	11.0%

As seen in graph below, annualized loan growth was strong up to June, however, loan growth declined sharply below the 2008–2010 average. Loan growth slumped in June–July due to the policy actions taken by the CBRT and other macro-prudential supervisors (e.g. BRSA) to curb annualized loan growth to below the 25% threshold. However, loan growth also accelerated in Q3 (seasonality takes its toll) once again attracting the attention of policy makers. According to our loan growth index in Exhibit 33 growth in spot loans has been outperforming total loan growth, FX indexed loans and auto loans are weak relative to total loan growth and the momentum in corporate growth has stopped since September. The decrease in corporate loan growth confirms the slowdown in economic activity. Despite this slowdown, corporate loans are the fastest growing segment (37.1% YtD and 42.3% YoY) and private deposit banks were the front-runners in loan growth. With respect to their ownership base, private banks are the main driver in loan growth with 34.4% YtD. Loan growth in foreign owned banks was 12.8% YtD and continued to stay behind the sector (28.3% YtD).

Funding Market

2011 in a nutshell Deposit growth in the first half remained flat within the range of 10–11% YoY growth due to alternative funding channels. However, in the second half of the year the banks' alternative channels in funding such as repo financing were cut by regulators and deposit growth accelerated in the third quarter of the year. In terms of YtD growth, it broke through the 11–12% range and hit 13% YtD in December. Banks had been exploiting cheap repo financing provided by the CBRT in the first half of the year. YoY and YtD repo financing growth of strong banks are avoiding funding themselves with repo financing after the actions taken by the CBRT. YoY and YtD repo financing growth also remained strong thanks to injections through O/Ns from the CBRT. However The CBRT stopped injecting funding through O/Ns in October by increasing its overnight repo lending rate to 12% from 8% on October 20th as it sought to deter banks from borrowing in liras. Banks with higher TRY funding needs and more dependent on repo financing may be hurt the most due to the tightening bias of the CBRT allowing banks to borrow from the upper band of market rates. We may observe higher deposit costs along with continuing increases in lending rates in various maturities.

Exhibit 35: DuPont analysis shows above 15% potential ROE at 9x leverage

Dupont Breakdown, AKBNK	ASYAB	GARAN	HALKB	ISCTR	TSKB	VAKBN	YKBNK	Avg.	
ROAE	13.0%	9.7%	14.5%	20.9%	11.0%	17.2%	11.7%	15.0%	14.1%
NI/Assets	3.0%	3.8%	4.7%	3.5%	2.6%	3.5%	3.2%	4.8%	3.6%
NI/Assets	1.7%	1.2%	1.8%	1.9%	1.2%	2.4%	1.2%	1.6%	1.6%
Equity/Assets	14.1%	13.5%	13.1%	9.9%	11.6%	14.9%	11.1%	12.2%	12.5%
OPEX/Assets	2.0%	3.7%	2.2%	1.9%	2.2%	0.7%	2.3%	2.7%	2.2%
ROAA	1.8%	1.3%	1.9%	2.0%	1.3%	2.5%	1.3%	1.7%	1.7%
Leverage	7.1	7.4	7.6	10.1	8.7	6.7	9.0	8.2	8.1
Sector Leverage	8.4								
Benchmark Leverage	9.0								
ROE @ Bank	12.9%	9.6%	14.1%	20.1%	11.0%	16.9%	11.6%	13.7%	13.7%
ROE @ Sector	15.3%	11.0%	15.6%	16.8%	10.7%	21.3%	10.9%	14.0%	14.4%
ROE @ Benchmark	16.3%	11.7%	16.7%	17.9%	11.4%	22.7%	11.6%	15.0%	15.4%

Source: Finet, Companies, Seker Securities

Exhibit 36: Coverage universe valuation matrix

Valuation Table	AKBNK	ASYAB	GARAN	HALKB	ISCTR	TSKB	VAKBN	YKBNK
<i>Recommendation</i>								
Target Price	6.26	2.00	6.45	12.04	3.92	2.35	3.10	3.26
Upside Potential, %	9%	28%	15%	27%	19%	32%	34%	25%
Rating	U/P	O/P	M/P	O/P	M/P	O/P	O/P	M/P
<i>Valuation & Market Data</i>								
Current Price, TRY	5.76	1.56	5.62	9.48	3.30	1.78	2.31	2.61
Number of Shares	4,000	900	4,200	1,250	4,500	800	2,500	4,347
Current Mcap, TRY mn	23,040	1,404	23,604	11,850	14,850	1,424	5,775	11,346
Current Mcap, USD mn	12,264	747	12,565	6,308	7,905	758	3,074	6,039
12-m Target Mcap, TRY mn	25,033	1,796	27,097	15,045	17,635	1,881	7,754	14,163
12-m Target Mcap, USD mn	13,325	956	14,424	8,009	9,387	1,001	4,128	7,539
Net Income, 2012E	2,582	242	2,978	1,971	2,211	248	1,241	1,914
Core Banking Equity, 2012E	19,844	2,399	19,721	9,441	12,455	1,227	10,237	12,563
CAR 2012E, %	16.3%	12.5%	16.0%	13.8%	13.9%	16.0%	12.5%	12.6%
COE in 2011E	15.8%	16.0%	16.4%	16.5%	16.3%	15.5%	16.7%	17.3%
<i>Multiples</i>								
Tangible ROAE 2009A	23.2%	21.8%	26.2%	34.8%	27.8%	22.9%	20.8%	20.8%
Tangible ROAE 2010A	19.2%	16.3%	21.0%	31.7%	27.6%	21.3%	15.8%	25.4%
Tangible ROAE 2011E	15.0%	12.2%	16.7%	26.1%	15.1%	21.1%	14.1%	18.7%
Tangible ROAE 2012E	13.6%	10.8%	14.5%	22.5%	14.9%	19.6%	12.6%	15.0%
EPS 2009A, TRY	0.68	0.33	0.71	1.30	0.53	0.22	0.50	0.31
EPS 2010A, TRY	0.71	0.29	0.75	1.61	0.66	0.26	0.46	0.47
EPS 2011E, TRY	0.63	0.25	0.69	1.51	0.48	0.30	0.48	0.43
EPS 2012E, TRY	0.65	0.27	0.71	1.58	0.49	0.31	0.50	0.44
P/E 2009A	8.5	4.7	8.0	7.3	6.3	8.1	4.6	8.4
P/E 2010A	8.1	5.4	7.5	5.9	5.0	6.7	5.0	5.5
P/E 2011E	9.1	6.2	8.2	6.3	6.8	5.9	4.8	6.1
P/E 2012E	8.9	5.8	7.9	6.0	6.7	5.7	4.7	5.9
P/BV 2009A	1.6	1.1	2.0	2.6	1.3	1.8	1.1	1.7
P/BV 2010E	1.3	0.7	1.4	1.6	0.9	1.1	0.7	1.1
P/BV 2011E	1.4	0.6	1.3	1.1	0.8	1.0	0.6	0.9
P/BV 2012E	1.1	0.5	1.1	1.1	0.7	0.9	0.5	0.8
EPS % Δ 11-12	AKBNK	ASYAB	GARAN	HALKB	ISCTR	TSKB	VAKBN	YKBNK
2011E	-11%	-13%	-8%	-6%	-27%	15%	4%	-9%
2012E	2%	7%	3%	4%	2%	2%	3%	3%

Source: Finet, Companies, Seker Securities

Akbank - AKBNK

Strong capitalization vs. low profitability...

In line with our sector expectations we have downgraded our earnings estimates for Akbank by 8% and 13% in 2011 and 2012, respectively. The earnings downward revisions for the sector during the same period stand at 9% and 19%. The downward revisions led us to cut our T-Price by c15% from TRY 7.35 to TRY 6.26. Our renewed T-Price indicates an upside potential of 9% with respect to current market prices. Even though we believe that the bank has competitive advantage in terms of its sound capitalization level, solid asset quality, high free capital and proactive management, its relatively lower profitability and its valuation premium (38% premium with respect to coverage 2012E PE of 6.5x). We believe that Akbank is a pure growth stock for growth investors rather than a valuation play. We expect the bank's ROAE to fall to 14.4% in 2011 and 13.0% in 2012, one of the lowest reading in our coverage (avg. 2012FY @ 14.1%). We expect the bank's EPS to contract by 11.3% in 2011FY and than increase by 2.0% in 2012FY. We believe that the management will continue to remain conservative as we head into a slow growth era.

Despite the fact that the bank lacks upside potential we like Akbank's high capitalization, high free equity, high liquid asset base (ability to create liquidity through security sales) and solid asset quality. We should also note that a high capitalization rate provides a strong positive catalyst in 2012 as one of the main themes this year would be the drop in CAR due to Basel II implementation. On the back of the conservative stance of the bank's management, Akbank already risk-weighted more than 90% of its loan book. That said we have calculated only 30bps reduction in the bank's Basel II CAR down from 16.6% to 16.3% in 2012.

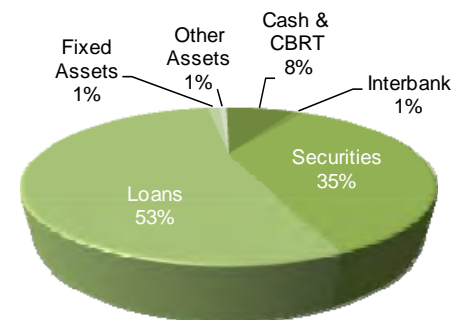
Akbank's relatively higher exposure to CPI-linkers (approx. 40% of total securities) will provide a cushion against sudden backdrops in the bottom-line and margins of the bank. We expect stronger-than-expected earnings releases in 4Q11 and 1Q12 thanks to higher CPI readings in 2H11. CPI-linkers are one of the positive catalysts for the bank on the back of increasing CPI levels. However we should note that inflation will be heading south towards the year-end. We may expect the bank to liquidate some portion of the portfolio in 2H12. On the other hand, high portion of fixed rate notes held as AfS creates downside risk for the bank due to uncertainty on market rates. Spikes in sovereign yields may cause MtM losses that will continue to eat up from the bank's equity base. This was quite evident in the bank's 3Q11 disclosures.

On the asset quality front, 2011 was quite a successful year as the bank reduced its NPL ratio to as low as 1.7% outperforming the sector. We do not expect a significant jump in the bank's NPL ratio as we pencil 60bps increase to 2.3% (c. 2010 levels) in line with the sector. We also expect normalization in the bank's CoR. Basic assumptions/estimates for the bank in 2012 are as follows: (i) loan growth @ 14% (ii) deposit growth @ 13.2% (iii) securities growth @ 11.7% (iv) 90% roll-over ratio in foreign borrowing (v) 17bps contraction in NIM to 3.2% (vi) 7.1x leverage (the lowest in our coverage).

We have an "Underperform" rating for the stock with a TP of TRY 6.26 offering only 9% upside potential with respect to current prices. The bank offers value as it looks considerably cheap and trades with at 9.1x 2012E PE 8.9x and 1.1x 2012E PBV.

WE LIKE	WE DISLIKE
- High capitalization;	- Relatively lower profitability;
- High free equity;	- Exposure to fixed rate (AFS) GB's;
- Exposure to CPI-linkers;	- Low ROAE;
- Relatively lower leverage;	- Upper management turnover;
- Relatively lower LDR	- Expensive valuation;

Underperform
T-Price: TRY 6.31
T-Mcap: TRY 25,033mn



Asset Breakdown, 2012E

STOCK DATA

Reuters	AKBNK.IS
Bloomberg	AKBNK.TI
Avg. Daily Volume (1Y) (mn)	69.7
Free Float (%)	29%
Target Mcap (TRY mn)	25,033
Current Mcap (TRY mn)	23,040
Current Mcap (USD mn)	12,264
Float Mcap (TRY mn)	6,596
Exchange Rate	1.88
Current Price	5.76
12M Target Price	6.26
No. of Shares in Issue 'mn	4,000
52-Week Range	5.60 - 8.64
Weight in ISE-100	8%
Beta (2 year, weekly return)	1.15

SHAREHOLDER STRUCTURE

	%
Sabancı Holding	44%
Citibank O.I.C.	20%
Sabancı Family	7%

SNAPSHOTS	2010A	2011E	2012F
Net Earnings	2,856	2,532	2,582
Total Assets	113,183	135,193	148,890
ROAE	19.2%	14.4%	13.0%
ROAA	2.8%	2.1%	1.8%
NPL	2.4%	1.7%	2.3%
P/BV	1.3	1.4	1.1
P/E	8.1	9.1	8.9
EPS 12-m	0.71	0.63	0.65

Bank Asya - ASYAB

Will retail orientation pay off?

In light of our projections we cut our earnings estimate by 9% and 14% in 2011 and 2012, respectively. The earnings downward revisions for the sector during the same period stand at 9% and 19%. The downward revisions led us to cut our T-Price by c33% from TRY 3.00 to TRY 2.00. Our renewed T-Price indicates an upside potential of 28% with respect to current market prices. The bank considerably underperformed its peers in 2011 by c.19% and the ISE-100 by c.27%. With respect to current prices the bank shows 12% discount to its local peers justifying a de-rated stock story due to its deteriorating asset quality, low profitability and relatively weaker capitalization ratios. However, our bottom-up valuation suggests us that the negative news may have been priced in already and the market may start re-rating the stock especially in 2H12. To that extent, our investors must focus on the bank's quarter earnings releases and the corporate governance news flow. Recall that there were frequent news flows from the bank regarding corporate governance - changes in upper management which may signal us a further deterioration of the bank's future profitability. That said even though we have an **OUTPERFORM** rating on the stock we advise our investors to accumulate the stock in downward price movements.

The management considers tapping more frequently into the high collateralized mortgage and SME market (which would also be helpful in maintaining a better Basel II CAR (CAR @ 12.5% for 2012 down by 50bps) with a controlled draw back from non-cash loans. We believe that the bank would be more active in cash-loan market going forward which would translate in to higher leverage (2012E @ 7.4x), a higher ROE and profitability however the transition may turn out to be a painful process.

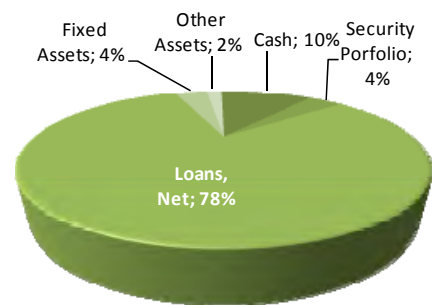
Our bottom-up analysis indicates us that the bottom-line will shrink by 13.2% in 2011FY followed by 7.1% increase in 2012FY. This translates into a further 100bps drop in the bank's ROAE to 9.7% in 2012FY (tangible ROAE @ 10.8%) to the lowest reading in our coverage universe (@14.1%). We expect a 7% increase in fee & commission income in 2012FY followed by 13% in 2011FY. We expect a 70bps increase in the NPL ratio as the 3Q11 NPL formation indicated that the asset quality conditions have been worsening noticeably. We do not assume any major change in the bank's coverage ratio as the bank has one of the lowest ratio among our coverage universe. That said the already low coverage ratio does not provide any profit cushions going forward.

Basic assumptions/estimates for the bank in 2012 are as follows: (i) loan growth @ 15.7% (ii) deposit growth @ 14.1% (iii) securities growth @ 15% (iv) 100bps drop in ROAE to 9.7% (v) 10bps improvement in NIM to 4.2% and (vi) 7.4x leverage.

We have an "Outperform" rating for the stock with a TP of TRY 2.00 offering only 28% upside potential with respect to current prices. The bank offers value as it looks considerably cheap and trades with 5.8x 2012E PE and 0.5x 2012E PBV. To repeat ourselves; even though we have an **OUTPERFORM** rating on the stock we advise our investors to accumulate the stock in downward price movements and not go long at current levels.

WE LIKE	WE DISLIKE
- Retail and SME orientation;	- Relatively high LDR;
- Cheap multiples - stock de-rated	- Low profitability and ROAE;
- High earnings quality;	- High CIR - low efficiency;
- Low leverage;	- Weak corporate governance;
- Favorable duration gap;	- Relatively low capitalization;
- Solid LT growth potential	- High NPL ratio & low coverage

Outperform
T-Price: TRY 2.05
T-Mcap: TRY 1,841mn



Asset Breakdown, 2012E

STOCK DATA

Reuters	ASYAB.IS
Bloomberg	ASYAB.TI
Avg. Daily Volume (1Y) (mn)	34.0
Free Float (%)	51%
Target Mcap (TRY mn)	1,796
Current Mcap (TRY mn)	1,404
Current Mcap (USD mn)	747
Float Mcap (TRY mn)	716
Exchange Rate	1.88
Current Price	1.56
12M Target Price	2.00
No. of Shares in Issue 'mn	900
52-Week Range	2.32 - 3.20
Weight in ISE-100	1%
Beta (2 year, weekly return)	1.13

SHAREHOLDER STRUCTURE

Various Partners	49%
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SNAPSHOTS	2010A	2011E	2012F
Net Earnings	260	226	242
Total Assets	14,513	17,421	19,762
ROAE	14.4%	10.8%	9.7%
ROAA	2.0%	1.4%	1.3%
NPL	4.0%	3.4%	4.1%
P/BV	0.7	0.6	0.5
P/E	5.4	6.2	5.8
EPS 12-m	0.29	0.25	0.27

Garanti Bank - GARAN

A pure growth stock - sets the market tone...

In line with our sector expectations we have downgraded our earnings estimates for Garanti by 6% and 11% in 2011 and 2012, respectively. The earnings downward revisions for the sector during the same period stand at 9% and 19%. The downward revisions led us to cut our T-Price by c18% from TRY 7.86 to TRY 6.45. Our renewed T-Price indicates an upside potential of 15% with respect to current market prices. We believe Garanti stick outs as one of the best growth stock stories in Turkish equity market. We expect the bank's ROAE to fall to 16.7% in 2011 and 14.5% in 2012, in line with the sector's average (avg. 2012FY @ 14.1%). We expect the bank's EPS to contract by 8.4% in 2011FY and then increase by 3.4% in 2012FY.

Similar to its large peers Garanti's relatively higher exposure to CPI-linkers (accounting CPI-linkers on realized/actual inflation) will provide a cushion against sudden backdrops in the bottom-line and margins of the bank. We expect stronger-than-expected earnings releases in 4Q11 and 1Q12 thanks to higher CPI readings in 2H11. CPI-linkers are one of the positive catalysts for the bank on the back of increasing CPI levels. However we should note that inflation will be heading south towards the year-end. We may expect the bank to liquidate some portion of the portfolio in 2H12.

Garanti will also be affected from high funding cost pressures but large retail network capacity and advanced x-selling capabilities would provide the bank with favorable deposit costs and help to detain its NIM at 3.2% down by c.20bps, in line with the sector's average of 3.3% (11bps contraction in 2012FY). Garanti was among the first movers to hike lending rates. That said we will see a positive margin contribution from elevated loan rates however the increasing funding costs will be pressurizing the bank's top-line generation. We expect the bank to be quite active in the deposit market and will not hesitate in entering into any pricing war, unlike 2011. Nevertheless, we expect 10% increase in NII in 2012. Moreover, Garanti managed an effective cost management in 2011 and a repeat of such performance seems less likely in current inflationary environment. Our forecast for the bank's CAR in light of the Basel II transition shows us a drop of 70bps to 16%, still one of the highest readings in capital ratios alongside of TSKB and Akbank.

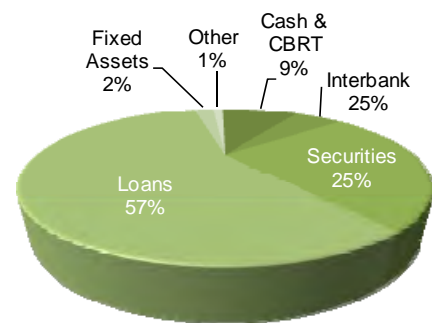
We do not foresee any major asset quality deterioration of the bank as we expect 40bps to 2.5% below the sector's average of 3.1%. We believe that the bank has a competitive advantage in terms of asset quality due to utilization of a well diversified loan portfolio in terms of segregated customer accounts, segments, sectors and sub-sectors. We do not expect a major change in the NPL coverage strategy of the bank at c. 80% levels.

Basic assumptions/estimates for the bank in 2012 are as follows: (i) loan growth @ 14.9% (ii) deposit growth @ 14.4% (iii) securities growth @ 11% (iv) 220bps drop in ROAE to 14.5% (v) 19bps contraction in NIM to 3.22% and (vi) 7.6x leverage

We have "Market Perform" rating for the stock with a TP of TRY 6.45 indicating an upside potential of 15% with respect to current prices. The bank trades at slightly expensive multiples of 7.9x 2012E PE and 1.1 2012E PBV (coverage universe avg. 2012E PE 6.5x and 2012E PBV 0.8x).

<u>WE LIKE</u>	<u>WE DISLIKE</u>
- Strong capitalization & profitability;	- Relatively high LDR;
- Flexible balance sheet	- Falling ROAE well below 20% level;
- Good corporate governance	- Relatively pricey multiples
- Solid asset quality & high liquidity	- High beta company
- Exposure to CPI-linkers	

Market Perform
T-Price: TRY 6.45
T-Mcap: TRY 27,097mn



Asset Breakdown, 2012E

STOCK DATA

Reuters	GARAN.IS
Bloomberg	GARAN.TI
Avg. Daily Volume (1Y) (mn)	395.2
Free Float (%)	49%
Target Mcap (TRY mn)	27,097
Current Mcap (TRY mn)	23,604
Current Mcap (USD mn)	12,565
Float Mcap (TRY mn)	11,483
Exchange Rate	1.88
Current Price	5.62
12M Target Price	6.45
No. of Shares in Issue 'mn	4,200
52-Week Range	5.78 - 8.18
Weight in ISE-100	14%
Beta (2 year, weekly return)	1.36

SHAREHOLDER STRUCTURE

	%
Dogus Holding	24%
BBVA	25%
Other	2%

SNAPSHOTS	2010A	2011E	2012F
Net Earnings	3,145	2,880	2,978
Total Assets	123,963	152,837	167,831
ROAE	21.0%	16.7%	14.5%
ROAA	2.8%	2.1%	1.9%
NPL	2.9%	2.1%	2.5%
P/BV	1.4	1.3	1.1
P/E	7.5	8.2	7.9
EPS 12-m	0.71	0.77	0.79

Halkbank - HALKB

Normalizing ROE...

In light of our projections we cut our earnings estimate by 4% and 8% in 2011 and 2012, respectively. The earnings downward revisions for the sector during the same period stand at 9% and 19%. The downward revisions led us to cut our T-Price by c12% from TRY 13.13 to TRY 12.04. Our renewed T-Price indicates an upside potential of 27% with respect to current market prices. Halkbank is in our top-pick list.

The strongest catalyst for the bank is its superior ROAE. We expect Halkbank's ROAE to decline by almost 660bps and 310bps to 24% and 21% in 2011FY and 2012FY, respectively. Recall that the bank's ROAE was hovering above 30% threshold. Halkbank is the highest ROAE producing bank in our coverage universe with an average ROAE of 14.1%. We calculated 16.5% COE for the bank. Halkbank's high leverage (2011E @ 11.1x & 2012E @ 10.1x) justifies its high ROE base.

We forecast 15.7% loan growth for the bank in 2012FY followed by a strong 31% in 2011FY. Our growth assumption for the bank is approx. 200bps higher than our coverage average. We believe that the loan growth will primarily be driven by SME and retail loans. We like the bank's relatively low LDR at 92% (2012E @ 93.2%) providing excess liquidity for additional loans without tapping too frequently to the costly deposit and REPO market.

In addition to a strong top-line generation (NII up by 13% in 2012FY) our models show us that Halkbank's non-core revenues will also be supportive. We like the bank's retail expansion and fee income generation capabilities. However due to new accounting measures on fee & commission income we expect 9% growth in 2012 vs. 18% in 2011. Similar to its private peers, high presence in CPI-linker securities would benefit the bank in the next quarters. Our models indicate that the NIM of the bank should contract by 17bps in 2012 to 3.8% down from 4.0% in 2011. We dislike the banks high TL funding exposure as it has the potential to cause volatility in the bank's P&L due to high and uncertain path of TL market rates. We forecast 4.1% increase in the bottom-line of the bank in 2012 followed by a contraction of 6% in 2011. Finally, we expect a high OPEX base in 2012 driven by new branch openings and higher operational costs due to elevated headline inflation figures.

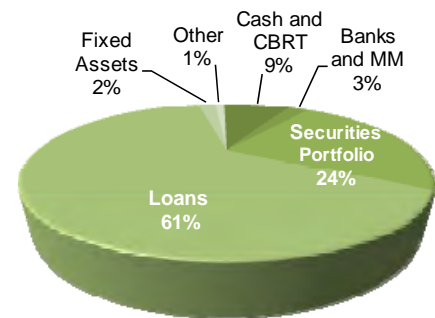
Despite being an active SME bank, Halkbank managed to improve its asset quality significantly in 2011, though it was still a higher reading than the average of our coverage universe and the sector. We believe that the asset quality should remain resilient throughout 2012, though we foresee a 530bps increase in the NPL to 3.5% (coverage universe +500bps to 3.0%). Basic assumptions/estimates for the bank in 2012 are as follows: (i) loan growth @ 15.7% (ii) deposit growth @ 14.7% (iii) securities growth @ 9.1% (iv) 300bps drop in ROAE to 21% (v) 20bps contraction in NIM to 3.8% and (vi) 10.1x leverage

We are maintaining our "Outperform" rating for the stock with a TP of TRY 12.04 offering 27% upside potential with respect to current prices. The bank trades at a fair value of 6.0x 2012E PE and 1.1x 2012E PBV (coverage universe avg. 2012E PE 6.5x and 2012E PBV 0.8x).

WE LIKE	WE DISLIKE
- Sustained core earnings;	- Sharply normalizing ROE;
- Relatively low LDR;	- TL based funding base;
- Retail & SME lending orientation;	- High leverage
- Strong ROE and profitability;	- SPO overhang
- Relatively cheap multiples;	- Recent news flow regarding Iran

TOP PICK

Outperform
T-Price: TRY 12.04
T-Mcap: TRY 15,045mn



Asset Breakdown, 2012E

STOCK DATA

Reuters	HALKB.IS
Bloomberg	HALKB.TI
Avg. Daily Volume (1Y) (mn)	85.4
Free Float (%)	25%
Target Mcap (TRY mn)	15,045
Current Mcap (TRY mn)	11,850
Current Mcap (USD mn)	6,308
Float Mcap (TRY mn)	2,963
Exchange Rate	1.88
Current Price	9.48
12M Target Price	12.04
No. of Shares in Issue 'mn	1,250
52-Week Range	9.30 - 13.92
Weight in ISE-100	4%
Beta (2 year, weekly return)	1.32

SHAREHOLDER STRUCTURE %

Privatization Administration	75%
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SNAPSHOTS	2010A	2011E	2012F
Net Earnings	2,010	1,893	1,971
Total Assets	72,943	93,764	105,601
ROAE	30.5%	24.0%	20.9%
ROAA	3.0%	2.3%	2.0%
NPL	3.8%	3.0%	3.5%
P/BV	1.6	1.4	1.1
P/E	5.9	6.3	6.0
EPS 12-m	1.61	1.51	1.58

İsbank - İSCTR

Defendable margins...

In line with our sector expectations we have downgraded our earnings estimates for İsbank by 24% and 29% in 2011 and 2012, respectively. The earnings downward revisions for the sector during the same period stand at 9% and 19%. The downward revisions led us to cut our T-Price by c18% from TRY 4.86 to TRY 4.92. Our renewed T-Price indicates an upside potential of 19% with respect to current market prices. We have a **MARKETPERFORM** rating on the stock as we argue that most of the risks for the bank have already been priced in and the stock is de-rated. The bank underperformed the ISE-index by 20% and its peers by 10% in 2011. We believe that İsbank was quite negatively affected by the regulatory environment in 2011. As a market leader and being quite aggressive in market share gains (especially in the lending market), regulation took its toll on the bank translating into lower profitability, tight margins, higher inefficiency and low earnings quality. We expect the bank's ROAE to decline by 780bps to 12.1% in 2011 (tangible ROE 15.1%) and another 110bps to 11.0% in 2012 (tangible ROE 14.9%).

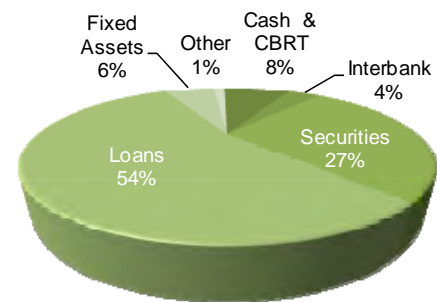
We like İsbank's eminent market power on the back of market share gains (which should translate into higher margins going forward), improved asset quality despite aggressive loan growth strategies, relatively lower LDR (2012E @ 89.7 - the lowest reading in our coverage universe) which should provide excess liquidity for further loan growth and active balance sheet restructuring capabilities. We expect a normalization of the bank's loan growth down from 35% in 2011FY to 14.5% in 2012FY. We believe that the bank will be less aggressive in terms of growth and rather focus on profitability and margin maintenance in 2012. We forecast 27% contraction in the bottom-line in 2011 followed by an increase of 2.1% in 2012. Our models indicate a slight contraction in the NIM by 8bps to 2.9% as the margins of the bank has already trended low to 3% levels. The bank's higher exposure to the CPI-linkers would provide a cushion against further backdrops in the P&L despite the fact that non-core revenues would be weak in 2012. We expect the fee & commission income to increase by 10% in 2012 (14% in 2011). We believe that trading gains would not be supportive enough. Dividend income received from subsidiaries should remain strong with an increase of 11% YoY. We expect 8% drop in other operating income (from reversals of LLP), 20% increase in LLR and 12% increase in OPEX. We feel that the bank's management may take urgent steps to contain a resilient OPEX to maintain a better profitability this year. On the asset quality front we do not expect a major drawback as our models indicate an increase of 60bps to 3.2% in 2012. Coverage ratio stands at 100%.

We expect the bank's CAR to decline by 40bps to 13.9% in 2012 from 14.3%. Basic assumptions/estimates for the bank in 2012 are as follows: (i) loan growth @ 14.5% (ii) deposit growth @ 14.0% (iii) securities growth @ 11.7% (iv) 110bps drop in ROAE to 11% (v) 8bps contraction in NIM to 2.9% and (vi) 8.7x leverage

We upgrade our "Underperform" rating for the stock to "Market Perform" with a TP of TRY 3.92 offering 16% upside potential with respect to current prices. We believe that the stock is currently de-rated significantly. The bank trades at cheap multiples of 2011E PE 6.7x and 2011E PBV 0.7x (coverage universe avg. 2012E PE 6.5x and 2012E PBV 0.8 x).

WE LIKE	WE DISLIKE
- Strong market share gains;	- Low profitability & efficiency;
- Exposure to CPI-linkers;	- Relatively low ROAE;
- Relatively high tangible ROE;	- Relatively lower margins;
- Stock significantly de-rated;	- Change in upper management;
- Low LDR - growth potential;	

Market Perform
T-Price: TRY 3.92
T-Mcap: TRY 17,635mn



Asset Breakdown, 2012E

STOCK DATA

Reuters	İSCTR.IS
Bloomberg	İSCTR.TI
Avg. Daily Volume (1Y) (mn)	207.2
Free Float (%)	33%
Target Mcap (TRY mn)	17,635
Current Mcap (TRY mn)	14,850
Current Mcap (USD mn)	7,905
Float Mcap (TRY mn)	4,844
Exchange Rate	1.88
Current Price	3.30
12M Target Price	3.92
No. of Shares in Issue 'mn	4,500
52-Week Range	3.92 - 5.65
Weight in ISE-100	7%
Beta (2 year, weekly return)	1.09

SHAREHOLDER STRUCTURE

	%
İsbank Pension Fund	39%
Republican People's Party	28%

SNAPSHOTS	2010A	2011E	2012F
Net Earnings	2,982	2,177	2,211
Total Assets	131,797	165,310	183,061
ROAE	19.9%	12.1%	11.0%
ROAA	2.4%	1.5%	1.3%
NPL	3.6%	2.6%	3.2%
P/BV	0.9	0.8	0.7
P/E	5.0	6.8	6.7
EPS 12-m	0.66	0.48	0.49

TSKB - TSKB

Still going strong...

In light of our projections we increased our bottom-line estimation for the bank by 3% in 2011 while we cut our estimate by 9% in 2012. The earnings downward revisions for the sector during the same period stand at 9% and 19%. The downward revisions led us to cut our T-Price by c17% from TRY 2.90 to TRY 2.35. Our renewed T-Price indicates an upside potential of 32% with respect to current market prices. TSKB is in our top-pick list. The bank outperformed the ISE-index by 6% and its peers by 19% in 2011. We maintain our **OUTPERFORM** rating on the stock on the back of the bank's endurance to uncertain path of the local market rates, favorable maturity mismatch and stable loan-deposit spreads. The only biggest downside risk to our assumptions is the probability of higher costs of foreign funding (due to liquidity tensions especially in Eurozone money markets) and a sharp reduction in local loan demand towards project finance and infrastructure loans given our expectation of 0.8% growth in output. We expect a 30% loan growth in 2011FY followed by a 9.4% growth in 2012FY. TSKB is among the top ROE producing banks in our coverage. We foresee no change in the bank's ROE in 2011 and expect 120bps contraction in 2012FY to 17.2% approx. 280bps higher than our coverage universe average of 14.1%.

We forecast 15% increase in the bottom-line in 2011 followed by an increase of 2.1% in 2012. Our models indicate a slight contraction in the NIM by 11bps to 3.9%. We believe that the bank's potential NIM production should be around 4% levels. We expect 11% increase in NII in 2012. On the fee income front, we modeled 10% increase in fee & commission income base (following 11% in 2011). The fee & commission income generated via the banks corporate finance business will be weak in 2012 as we do not expect a major expansion the IPO market activity and cash loan segments. We like the bank's earnings quality as approx 66% of earnings are through interest received on loans and the cost efficiency of the bank with CIR of 18% the lowest reading in our coverage universe.

We do not foresee any major change in the bank's asset quality as we assumed 10bps increase in the NPL rate to 0.5% with a coverage ratio of 100%. However, we should remind our investors that given the bank's relatively large ticket size loans, deterioration in the asset quality would considerably hit the bank in terms of profitability.

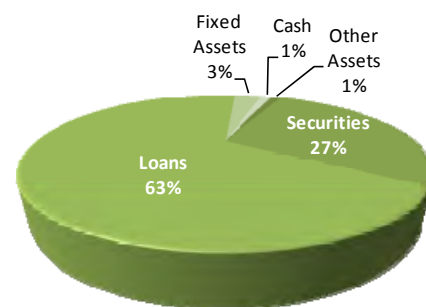
We expect the bank's CAR to decline by 150bps to 16% in 2012 from 17.5% due to changes in the risk-weightings through the implementation of Basel II criteria. Basic assumptions/estimates for the bank in 2012 are as follows: (i) loan growth @ 9.4% (ii) foreign borrowing growth @ 8.2% (iii) securities growth @ 8.8% (iv) 120bps drop in ROAE to 17.2% (v) 11bps contraction in NIM to 3.9% and (vi) 6.7x leverage (the lowest leverage ratio in our coverage)

We are maintaining our "Outperform" rating on the stock despite the outperformance enjoyed in 2011. We believe that the stock has still got the potential to provide value to its investors. We penciled a TP of TRY 2.35 to bank with an upside potential of 32%. The stock trades with relatively cheap multiples of 2012E PE 5.7x and 2012E PBV 0.9 (coverage universe avg. 2012E PE 6.5x and 2012E PBV 0.8x).

WE LIKE	WE DISLIKE
- Stable margins;	- Limited growth potential in 2012
- High capitalization;	- Dependency on foreign fund;
- Relatively stronger returns;	- Falling fee & commission base;
- Low CIR and high efficiency;	- Limited capital market activity;
- Low leverage	
- Solid asset quality;	

TOP PICK

Outperform
T-Price: TRY 2.35
T-Mcap: TRY 1,881mn



Asset Breakdown, 2012E

STOCK DATA

Reuters	TSKB.IS
Bloomberg	TSKB.TI
Avg. Daily Volume (1Y) (mn)	4.4
Free Float (%)	42%
Target Mcap (TRY mn)	1,881
Current Mcap (TRY mn)	1,424
Current Mcap (USD mn)	758
Float Mcap (TRY mn)	592
Exchange Rate	1.88
Current Price	1.78
12M Target Price	2.35
No. of Shares in Issue 'mn	800
52-Week Range	1.69 - 2.70
Weight in ISE-100	1%
Beta (2 year, weekly return)	1.03

SHAREHOLDER STRUCTURE

Shareholder	%
Isbank	50.0%
Vakifbank	8.4%

SNAPSHOTS	2009A	2010E	2011F
Net Earnings	212	243	248
Total Assets	7,912	9,521	10,409
ROAE	18.4%	18.4%	17.2%
ROAA	2.9%	2.8%	2.5%
NPL	0.5%	0.4%	0.5%
P/BV	1.1	1.0	0.9
P/E	6.7	5.9	5.7
EPS 12-m	0.26	0.30	0.31

Vakifbank - VAKBN

Redressing...

In light of our projections we increased our bottom-line estimation for the bank by 4% in 2011 while we cut our estimate by 5% in 2012. The earnings downward revisions for the sector during the same period stand at 9% and 19%. The downward revisions led us to cut our T-Price by c35% from TRY 4.86 to TRY 3.10. Our renewed T-Price indicates an upside potential of 34% with respect to current market prices. Even though Vakifbank was among the few banks that was able to post positive y-o-y growth in quarter earnings releases, the bank underperformed the ISE-index by 19% and its peers by 9% in 2011. Strong reversals due to backyard restructuring (in line with our 2011 projections), increasing fee income generation capabilities on the back of higher presence in the retail markets are still positive catalysts going forward. We expect 140bps contraction in the 2011FY ROAE to 13.2% followed by another 150bps contraction in 2012FY to 11.7%. Our coverage universe average ROAE stands at 14.1%. Vakifbank is in our top-picks list for 2012.

We forecast 4% increase in the bottom-line in 2011 followed by an increase of 3.2% in 2012. Our models indicate that in contrast to 11% contraction in margins next year the bank would enjoy a slight expansion in the NIM by 4bps to 3.5%. Even though the de-leveraging process in the costly REPO funding was quite evident in the last two quarters of 2011 we still dislike the bank's dependency on TL liabilities due to high and uncertain TL funding cost trends.

We expect the bank's Basel II CAR to decline by 90bps to 12.5% in 2012FY down from 13.4% in 2011FY. The drop in CAR may cause the management to halt loan expansion at 15% in 2012 and continue de-leveraging process in the REPO financing. The bank managed to have a superior growth in fee & commissions income on the back of higher market share in retail loans however given the slow growth environment and the changing accounting policies we expect a high single digit growth of 9% in 2012. On the other hand, OPEX will continue to be a major drag on the bottom-line due to elevated inflationary pressures on overheads and personnel expenses. The transfer of the HQ to Istanbul will also continue to contribute to OPEX figure.

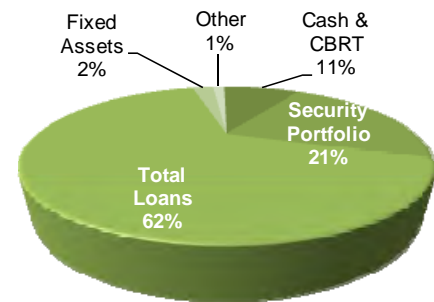
We do not expect a major change in the bank's NPL ratio as our models suggest an increase of 40bps (coverage and sector average at 60bps) to 4.1% still well below post-Lehman ratio of 5.8%. We expect the bank to hold approx. 100% coverage for the bad loans. Basic assumptions/estimates for the bank in 2012 are as follows: (i) loan growth @ 15% (ii) deposit growth @ 15% (iii) securities growth @ 10.4% (iv) 150bps drop in ROAE to 11.7% (v) 4bps expansion in NIM to 3.5% and (vi) 9.0x leverage.

We upgraded our "Market Perform" rating on the stock to "Outperform" on the back of repaired asset quality outlook and relatively stronger earnings performance in 2011/12. We penciled a TP of TRY 3.10 to bank with an upside potential of 32%. The stock trades with the cheapest multiples in our coverage at 2012E PE 4.7x and 2012E PBV 0.5x (coverage universe avg. 2012E PE 6.5x and 2012E PBV 0.8x).

WE LIKE	WE DISLIKE
- Improved asset quality;	- Relatively low capitalization;
- High earnings quality;	- Relatively low ROAE;
- Exposure to retail & SME market;	- High leverage;
- Significantly cheap multiples;	- Relatively higher CIR
- Maintained profitability	- Relatively higher LDR

TOP PICK

Outperform
T-Price: TRY 3.10
T-Mcap: TRY 7,754mn



Asset Breakdown, 2011E

STOCK DATA

Reuters	VAKBN.IS
Bloomberg	VAKBN.TI
Avg. Daily Volume (1Y) (mn)	71.0
Free Float (%)	25%
Target Mcap (TRY mn)	7,754
Current Mcap (TRY mn)	5,775
Current Mcap (USD mn)	3,074
Float Mcap (TRY mn)	1,454
Exchange Rate	1.88
Current Price	2.31
12M Target Price	3.10
No. of Shares in Issue 'mn	2,500
52-Week Range	2.90 - 4.28
Weight in ISE-100	2%
Beta (2 year, weekly return)	1.25

SHAREHOLDER STRUCTURE

State Foundations & Funds	75%
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SNAPSHOTS	2010A	2011E	2012F
Net Earnings	1,157	1,202	1,241
Total Assets	73,962	91,141	101,301
ROAE	14.6%	13.2%	11.7%
ROAA	1.6%	1.4%	1.3%
NPL	4.8%	3.7%	4.1%
P/BV	0.7	0.6	0.5
P/E	5.0	4.8	4.7
EPS 12-m	0.46	0.48	0.50

Yapi Kredi Bank - YKBNK

At peace with interest rates...

In line with our sector expectations we have downgraded our earnings estimates for YKB by 9% and 12% in 2011 and 2012, respectively. The earnings downward revisions for the sector during the same period stand at 9% and 19%. The downward revisions led us to cut our T-Price by c19% from TRY 4.86 to TRY 3.26. Our renewed T-Price indicates an upside potential of 25% with respect to current market prices. The bank underperformed the ISE-index by 29% and its peers by 20% in 2011. We expect a sharp contraction in the 2011FY ROAE by 530bps to 16.7% followed by another 270bps contraction in 2012FY to 14%. Our coverage universe average ROAE stands at 14.1%. Even though YKB is not in our top-picks for 2012 we have an **OUTPERFORM** rating on the stock.

We dislike the bank's relatively high LDR (2011E @ 108.9% vs. 2012E @ 108.8%) and a possible overhang caused by the shareholder - UniCredit's (and hence Italy's) financial position. However, we see the possibility that the overhang may have already been priced-in as the bank trades with quite cheap multiples showing a discount of 8% 2012E.

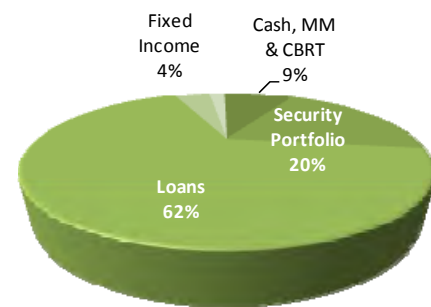
We expect the bank to tap into the deposit markets quite often (i.e. more frequent than its competitors) in order to obtain the necessary funding to support at least 14% YoY growth in loans in line with our expectations. That said the bank may face strong headwinds and negative effects of the tight funding market conditions (low liquidity and high cost cycle) on its P&L. We forecast approx. 10% contraction in the bottom-line in 2011 followed by an increase of 2.6% in 2012. Our models indicate a contraction in the NIM by 27bps to 3.4% slightly higher than the sector and coverage universe average of -11bps. Even though we like the bank's competitive advantage in creating strong non-core revenues e.g. fees & commission income, we expect the bank to grow its fee base by just only 7% in 2012 on the back of changing accounting measures and low growth environment following an increase of 13% in 2011. Please note that as the bank has strong fee generation capabilities our mediocre fee income growth expectation has upside potential.

We expect the bank's Basel II CAR to decline by 50bps to 12.6% in 2012FY down from 13.1% in 2011FY. The drop in CAR just above 12% threshold produces downside risk for our asset growth assumptions for the bank as it may chose to refrain from competition and rather focus on margin maintenance. Basic assumptions/estimates for the bank in 2012 are as follows: (i) loan growth @ 13.9% (ii) deposit growth @ 14.5% (iii) securities growth @ 8.3% (iv) 270bps drop in ROAE to 14% (v) 27bps contraction in NIM to 3.4% and (vi) 8.2x leverage.

We upgraded our "Market Perform" rating on the stock to "Outperform". We penciled a TP of TRY 3.26 bank with an upside potential of 25%. The stock trades with (de-rated) relatively cheap multiples in our coverage at 2012E PE 5.9x and 2012E PBV 0.8x (coverage universe avg. 2012E PE 6.5x and 2012E PBV 0.8x).

<u>WE LIKE</u>	<u>WE DISLIKE</u>
- Retail banking exposure;	- Relatively lower capitalization;
- High efficiency;	- Relatively lower liquidity;
- Moderate ROAE levels;	- High LDR
- Solid earnings quality;	- Overhang due to UniCredit;
- LT growth potential;	- Relatively higher NPL ratio;
- Relatively cheap multiples;	

Outperform
T-Price: TRY 3.26
T-Mcap: TRY 14,163mn



Asset Breakdown, 2012E

STOCK DATA

Reuters	YKBNK.IS
Bloomberg	YKBNK.TI
Avg. Daily Volume (1Y) (mn)	76.1
Free Float (%)	18%
Target Mcap (TRY mn)	14,163
Current Mcap (TRY mn)	11,346
Current Mcap (USD mn)	6,039
Float Mcap (TRY mn)	2,065
Exchange Rate	1.88
Current Price	2.61
12M Target Price	3.26
No. of Shares in Issue 'mn	4,347
52-Week Range	3.01 - 5.34
Weight in ISE-100	3%
Beta (2 year, weekly return)	1.42

SHAREHOLDER STRUCTURE

	%
Koc Financial Services	82%

<u>SNAPSHOTS</u>	<u>2010A</u>	<u>2011E</u>	<u>2012F</u>
Net Earnings	2,060	1,865	1,914
Total Assets	84,752	108,633	120,800
ROAE	22.0%	16.7%	14.0%
ROAA	2.8%	1.9%	1.7%
NPL	3.4%	3.2%	3.8%
P/BV	1.1	0.9	0.8
P/E	5.5	6.1	5.9
EPS 12-m	0.47	0.43	0.44

Table 1: Akbank Income Statement, 2007-2012E

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Interest Income	8,481.6	9,700.4	9,155.2	8,635.7	9,495.5	11,574.3
Interest Income on Loans	5,205.9	6,033.3	4,859.4	4,093.1	5,448.9	7,221.9
Interest Income on Liquid Assets & Others	287.4	315.7	142.9	90.2	32.6	40.0
Interest Income on Security Portfolio	2,988.3	3,351.4	4,152.9	4,452.4	4,014.0	4,312.5
Trading	391.0	136.4	23.3	31.2	186.2	225.8
Available for Sale	2,597.3	2,528.7	1,735.9	3,557.3	3,219.6	3,558.9
Held to Maturity	0.0	686.3	2,393.7	863.8	608.2	527.8
Interest Expense	5,239.9	6,212.5	4,561.8	4,358.9	5,467.0	7,122.6
Interest Expense on Deposits	3,938.9	4,829.9	3,538.6	3,529.3	3,772.6	4,931.5
Interest Expense on Bank Liabilities	767.1	869.2	745.1	590.8	1,195.6	1,501.1
Interest Expense on Borrowing	520.4	504.3	269.5	191.7	274.4	443.3
Other Interest Expense	13.5	9.0	8.6	47.1	224.5	246.7
NET INTEREST INCOME (NII)	3,241.7	3,487.8	4,593.4	4,276.8	4,028.5	4,451.7
Dividend Income	32.1	29.9	43.1	27.3	49.9	55.5
Net Fees and Commissions Income	946.4	1,091.9	1,279.8	1,309.1	1,531.7	1,639.7
Net Trading Gain/Loss	149.3	44.7	155.1	32.9	-47.6	26.3
Other Operating Income	507.5	741.0	525.2	863.5	734.0	623.9
Total Operating Income	4,877.0	5,395.3	6,596.6	6,509.6	6,296.4	6,797.1
- Ordinary Banking Income	3,617.8	3,476.3	4,911.4	5,100.1	4,945.9	5,462.5
Total Provision Expenses	719.6	1,148.1	1,116.9	518.8	566.7	655.2
Operating Expenses	1,696.3	2,187.3	2,184.0	2,416.8	2,564.3	2,914.3
Before Tax Profit (EBT)	2,461.1	2,060.0	3,295.6	3,574.0	3,165.4	3,227.7
Provision For Taxes	466.8	355.4	569.7	717.5	633.1	645.5
NET PROFIT	1,994.3	1,704.6	2,726.0	2,856.5	2,532.4	2,582.1
- y-o-y change		-14.5%	59.9%	4.8%	-11.3%	2.0%

Table 2: Akbank Balance Sheet, 2007-2012E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Cash & Central Bank	2,762.4	7,683.8	4,740.1	6,096.0	12,849.2	11,996.7
Placement at Banks, MM & Other IEA*	1,333.4	4,103.6	2,959.9	1,783.9	2,556.8	1,634.7
Security Portfolio	25,074.4	27,066.1	45,322.5	49,879.3	46,865.3	52,358.8
Trading	4,843.0	219.9	313.8	1,031.7	2,642.5	2,912.2
Available for Sale	20,231.5	6,285.6	29,169.1	42,221.3	37,616.4	43,077.2
Held to Maturity	0.0	20,560.6	15,839.6	6,626.2	6,606.4	6,369.4
Loans, Net	37,015.8	44,374.1	39,718.2	52,895.5	69,856.1	79,621.6
Non-Performing Loans	1,007.5	1,138.7	1,784.5	1,279.5	1,190.6	1,877.1
Provisioning for Non-Performing Loans	1,007.5	1,138.7	1,784.5	1,279.5	1,190.6	1,877.1
Participations	769.1	923.5	921.7	896.0	1,027.1	1,104.6
Fixed Assets	750.1	839.9	860.0	984.1	874.0	932.1
Other IEA and Non-IEA	499.4	663.9	787.2	647.8	1,164.3	1,241.8
TOTAL ASSETS	68,204.8	85,655.0	95,309.5	113,182.6	135,192.8	148,890.2
Deposits	41,044.3	52,181.9	55,851.4	67,166.9	77,135.7	87,317.8
Liabilities to Banks (incl. REPO)	4,414.6	8,105.0	13,431.1	11,210.7	16,998.8	18,400.1
Borrowing	8,854.5	11,298.8	8,152.3	10,375.3	13,786.9	12,471.2
Other Liabilities	3,290.6	2,860.9	3,683.8	6,864.5	8,911.7	9,752.7
Shareholder's Equity	10,600.8	11,208.4	14,190.8	17,565.1	18,359.7	20,948.5
TOTAL LIABILITIES AND EQUITY	68,204.8	85,655.0	95,309.5	113,182.6	135,192.8	148,890.2

(*) including banks, financial institutions, factoring and leasing receivables

Table 3: Akbank Key Ratios, 2007-2012E

Key Ratios, %	2007A	2008A	2009A	2010A	2011E	2012E
Profitability Ratios						
NIM Cumulative 12-m	5.3%	4.6%	5.4%	4.2%	3.4%	3.2%
ROAA 12-m	3.1%	2.2%	3.1%	2.8%	2.1%	1.8%
ROAE 12-m	21.6%	15.8%	21.8%	18.3%	14.4%	13.0%
Tangible ROAE 12-m	23.4%	16.8%	23.2%	19.2%	15.0%	13.6%
RORWA	4.4%	2.9%	4.3%	3.9%	2.6%	2.2%
Growth Ratios (Annualized, y-o-y)						
Asset Growth	19.1%	25.6%	11.3%	18.8%	19.4%	10.1%
Loan Growth	30.6%	19.9%	-10.5%	33.2%	32.1%	14.0%
Deposit Growth	20.0%	27.1%	7.0%	20.3%	14.8%	13.2%
Securities Growth	23.1%	7.9%	67.5%	10.1%	-6.0%	11.7%
Equity Growth	50.0%	5.7%	26.6%	23.8%	4.5%	14.1%
Efficiency & Financial Strength Ratios						
Interest Income on Loans / Total Interest Income	61.4%	62.2%	53.1%	47.4%	57.4%	62.4%
Interest Income on Securities / Total Interest Income	35.2%	34.5%	45.4%	51.6%	42.3%	37.3%
Net Banking Income / Total Operating Income	85.9%	84.9%	89.0%	85.8%	88.3%	93.3%
Cost / Average Assets	3.9%	3.9%	3.6%	3.4%	3.0%	3.1%
Net Fee Income / Total Income, 12-m	19.4%	20.2%	19.4%	20.1%	24.3%	24.1%
Net Fee Income / OPEX, 12-m	55.8%	49.9%	58.6%	54.2%	59.7%	56.3%
OPEX / Assets	2.7%	2.8%	2.5%	2.3%	2.1%	2.0%
Cost / Income, 12-m	34.8%	40.5%	33.1%	37.1%	40.7%	42.9%
CAR	18.9%	18.2%	22.5%	20.6%	16.6%	16.3%
Liquidity Ratio	42.8%	21.4%	39.0%	45.2%	41.2%	40.0%
Leverage Ratio	6.4	7.6	6.7	6.4	7.4	7.1
Free Funds	24.3%	22.3%	23.1%	23.3%	22.3%	23.1%
Free Capital to Assets	12.6%	10.3%	12.2%	13.3%	11.3%	11.9%
Free Capital to Equity	81.0%	78.3%	81.9%	85.6%	83.3%	84.3%
External Borrowing / Total Assets	13.0%	13.2%	8.6%	9.2%	10.2%	8.4%
Asset Composition & Breakdown						
Interest Earning Assets / Assets	93.0%	88.2%	92.3%	92.4%	88.2%	89.7%
Loans / Assets	54.3%	51.8%	41.7%	46.7%	51.7%	53.5%
Deposits / Assets	60.2%	60.9%	58.6%	59.3%	57.1%	58.6%
Securities / Assets	36.8%	31.6%	47.6%	44.1%	34.7%	35.2%
Equity / Assets	15.5%	13.1%	14.9%	15.5%	13.6%	14.1%
Loans / Deposits	92.6%	87.2%	74.3%	80.7%	92.1%	93.3%
Asset Quality						
NPL	2.6%	2.5%	4.3%	2.4%	1.7%	2.3%
NPL Coverage Ratio	100%	100%	100%	100%	100%	100%

Table 4: Akbank Valuation Key Metrics, 2012-2016

Valuation Key Metrics (TRY mn, %)	2012	2013	2014	2015	2016
Cost of Equity	15.8%	15.8%	15.8%	15.8%	15.8%
Earnings	2,582.1	2,685.4	2,792.8	2,904.5	3,020.7
Total Equity	20,948.5	21,786.4	22,657.8	23,564.2	24,506.7
(-) Participations	-1,104.6	-1,115.6	-1,126.8	-1,138.1	-1,149.4
Core Equity	19,843.9	20,670.8	21,531.1	22,426.1	23,357.3
Tangible RoAE	13.6%	13.3%	13.5%	13.8%	13.7%
Target P/BV	1.1	1.1			
Target P/E	8.9	8.6			
12-m Target Mcap (GGM)	24,845.2				
12-m Target Mcap (RIM)	25,220.0				
12-m Target Mcap (Blended)	25,032.6				
12-m Target Mcap USD mn (Blended)	13,325.1				
Number of Shares	4,000				
12-m Target Price TRY (Blended)	6.26				
Current Price, TRY	5.76				
Current Mcap	23,040				
Upside Potential	9%				

Table 5: Bank Asya Income Statement, 2007-2012E

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Profit Share Income	805.3	1,068.2	1,305.7	1,206.9	1,264.1	1,578.5
Profit Share Income on Loans	689.2	963.5	1,203.4	1,126.9	1,204.9	1,513.1
Profit Share Income on Liquid Assets & Others	116.1	104.7	88.3	49.1	10.6	10.3
Profit Share Income on Security Portfolio	0.0	0.0	14.0	30.9	48.6	55.1
Trading	0.0	0.0	0.0	0.0	0.0	0.0
Available for Sale	0.0	0.0	7.0	21.1	41.0	47.9
Held to Maturity	0.0	0.0	7.0	9.8	7.7	7.2
Profit Share Expense	389.8	566.8	705.8	613.4	652.0	835.1
Profit Share Expense on Deposits	365.8	543.8	686.1	596.7	614.5	779.5
Profit Share Expense on Bank Liabilities	0.0	0.0	0.0	0.0	1.4	2.4
Profit Share Expense on Borrowing	19.6	21.6	18.3	16.5	35.5	52.3
Other Profit Share Expense	4.3	1.4	1.4	0.2	0.6	0.9
Net Profit Share Income	415.5	501.4	599.8	593.5	612.1	743.5
Dividend Income	0.0	3.9	0.0	0.0	0.0	0.0
Net Fees and Commissions Income	144.7	226.2	258.4	249.4	282.6	303.6
Net Trading Gain/Loss	14.7	59.4	93.8	45.0	49.5	51.9
Other Operating Income	85.4	67.7	102.6	134.2	114.1	102.7
Total Operating Income	660.3	858.7	1,054.6	1,022.1	1,058.2	1,201.6
- Ordinary Banking Income	451.8	630.4	734.8	720.4	761.9	891.1
Total Provision Expenses	123.1	156.6	217.2	167.5	182.2	207.8
Operating Expenses	266.0	390.2	459.1	530.3	594.0	691.9
Before Tax Profit (EBT)	271.2	311.9	378.4	324.3	282.0	301.9
Provision For Taxes	51.6	65.4	77.1	64.3	56.4	60.4
NET PROFIT	219.7	246.5	301.3	260.0	225.6	241.5
- y-o-y change		12.2%	22.2%	-13.7%	-13.2%	7.1%

Table 6: Bank Asya Balance Sheet, 2007-2012E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Cash & Central Bank	999.5	1,129.6	2,345.0	2,085.0	2,047.4	2,061.7
Placement at Banks, MM & Other IEA*	383.2	117.9	147.0	186.6	530.0	611.8
Security Portfolio	4.8	30.0	160.6	474.2	621.2	714.3
Trading	4.8	30.0	3.9	2.6	2.7	2.9
Available for Sale	0.0	0.0	80.2	394.6	549.8	632.4
Held to Maturity	0.0	0.0	76.5	77.0	68.7	79.0
Cash Loans, Net	4,318.1	6,147.6	8,196.7	10,954.8	13,247.7	15,325.2
Non-Performing Loans	235.7	324.7	456.2	447.2	463.5	646.9
Provisioning for Non-Performing Loans	144.8	196.6	322.3	303.6	301.4	420.6
Participations	130.8	162.1	184.9	231.6	243.8	270.1
Fixed Assets	116.8	257.1	329.3	370.4	414.5	442.2
Other IEA and Non-IEA	306.8	264.5	245.5	210.9	316.1	337.2
TOTAL ASSETS	6,260.0	8,108.8	11,609.0	14,513.4	17,420.9	19,762.4
Participation Accounts	4,697.8	5,842.8	9,136.6	11,166.6	12,730.7	14,523.6
Liabilities to Banks (incl. REPO)	0.0	0.0	0.0	0.0	289.9	301.7
Borrowing	312.9	457.6	191.5	622.2	1,091.9	1,181.9
Other Liabilities	395.5	404.8	573.0	782.9	1,014.8	1,085.6
Shareholder's Equity	853.9	1,403.7	1,707.9	1,941.7	2,293.5	2,669.6
TOTAL LIABILITIES AND EQUITY	6,260.0	8,108.8	11,609.0	14,513.4	17,420.9	19,762.4

(*) including banks, financial institutions, factoring and leasing receivables

Table 7: Bank Asya Key Ratios, 2007-2012E

Key Ratios, %	2007A	2008A	2009A	2010A	2011E	2012E
Profitability Ratios						
NPSM Cumulative 12-m	8.4%	7.2%	6.4%	4.9%	4.1%	4.2%
ROAA 12-m	4.2%	3.3%	3.0%	2.0%	1.4%	1.3%
ROAE 12-m	30.1%	21.5%	19.5%	14.4%	10.8%	9.7%
Tangible ROAE 12-m	35.1%	24.2%	21.8%	16.3%	12.2%	10.8%
RORWA	7.8%	3.0%	2.7%	2.0%	1.4%	1.3%
Trailing EPS, TRY	0.24	0.27	0.33	0.29	0.25	0.27
DPS, TRY	0.30	0.16	0.09	0.06	0.04	0.04
BVPS, TRY	2.85	2.97	1.56	1.90	2.15	2.55
Growth Ratios (Annualized, y-o-y)						
Asset Growth	49.8%	29.5%	43.2%	25.0%	20.0%	13.4%
Loan Growth	56.1%	42.4%	33.3%	33.6%	20.9%	15.7%
Deposit Growth	46.8%	24.4%	56.4%	22.2%	14.0%	14.1%
Securities Growth	n.m.	521.5%	434.6%	195.3%	31.0%	15.0%
Equity Growth	35.0%	64.4%	21.7%	13.7%	18.1%	16.4%
Efficiency & Financial Strength Ratios						
Profit Share Income on Loans / Total PS Income	85.6%	90.2%	92.2%	93.4%	95.3%	95.9%
PS Income on Securities / Total PS Income	0.0%	0.0%	1.1%	2.6%	3.8%	3.5%
Net Banking Income / Total Operating Income	84.8%	84.7%	81.4%	82.5%	84.5%	85.6%
Cost / Average Assets	8.5%	7.9%	6.9%	5.9%	5.5%	5.5%
Net Fee Income / Total Income, 12-m	21.9%	26.3%	24.5%	24.4%	26.7%	25.3%
Net Fee Income / OPEX, 12-m	54.4%	58.0%	56.3%	47.0%	47.6%	43.9%
OPEX / Assets	5.1%	5.3%	4.6%	4.1%	3.8%	3.7%
Cost / Income, 12-m	40.3%	45.4%	43.5%	51.9%	56.1%	57.6%
CAR	14.9%	13.4%	14.5%	13.3%	13.0%	12.5%
Liquidity Ratio	22.2%	15.8%	22.2%	18.4%	18.0%	16.7%
Leverage Ratio	7.3	5.8	6.8	7.5	7.6	7.4
Free Funds	25.0%	29.3%	27.3%	25.7%	24.3%	24.7%
Free Capital to Assets	8.0%	10.2%	8.4%	7.5%	7.4%	7.8%
Free Capital to Equity	58.6%	58.8%	57.0%	56.2%	56.5%	57.8%
External Borrowing / Total Assets	5.0%	5.6%	1.6%	4.3%	6.3%	6.0%
Asset Composition & Breakdown						
Profit Earning Assets / Assets	79.8%	80.5%	74.6%	80.8%	83.5%	85.0%
Loans / Assets	69.0%	75.8%	70.6%	75.5%	76.0%	77.5%
Participation Accounts / Assets	75.0%	72.1%	78.7%	76.9%	73.1%	73.5%
Securities / Assets	0.1%	0.4%	1.4%	3.3%	3.6%	3.6%
Equity / Assets	13.6%	17.3%	14.7%	13.4%	13.2%	13.5%
Loans / Participation Accounts	95.0%	108.6%	93.2%	100.8%	106.4%	108.4%
Asset Quality						
NPL	5.3%	5.1%	5.4%	4.0%	3.4%	4.1%
NPL Coverage Ratio	100%	61%	71%	68%	65%	65%

Table 8: Bank Asya Valuation Key Metrics, 2012-2016

Valuation Key Metrics (TRY mn, %)	2012	2013	2014	2015	2016
Cost of Equity	16.0%	16.0%	16.0%	16.0%	16.0%
Earnings	241.5	243.9	246.4	248.8	251.3
Total Equity	2,669.6	2,696.3	2,723.3	2,750.5	2,778.0
(-) Participations	-270.1	-272.8	-275.6	-278.3	-281.1
Core Equity	2,399.5	2,423.5	2,447.7	2,472.2	2,496.9
Tangible RoAE	10.8%	10.1%	10.1%	10.1%	10.1%
Target P/BV	0.5	0.5			
Target P/E	5.8	5.8			
12-m Target Mcap (GGM)	1,812.8				
12-m Target Mcap (RIM)	1,780.1				
12-m Target Mcap (Blended)	1,796.5				
12-m Target Mcap USD mn (Blended)	956.3				
Number of Shares	900				
12-m Target Price TRY (Blended)	2.00				
Current Price, TRY	1.56				
Current Mcap	1,404				
Upside Potential	28%				

Table 9: Garanti Income Statement, 2007-2012E

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Interest Income	7,216.6	9,378.4	10,441.4	9,499.9	10,374.3	12,767.0
Interest Income on Loans	4,254.5	5,757.3	6,003.8	5,308.9	6,789.3	8,562.4
Interest Income on Liquid Assets & Others	747.6	665.6	519.6	448.9	356.0	408.6
Interest Income on Security Portfolio	2,214.6	2,955.5	3,917.9	3,742.1	3,229.0	3,796.0
Trading	17.2	24.9	18.2	49.8	33.9	71.7
Available for Sale	1,565.6	2,111.9	2,897.2	2,856.8	2,696.6	3,127.9
Held to Maturity	631.8	818.7	1,002.6	835.5	498.6	596.4
Interest Expense	4,412.5	6,200.4	5,361.4	4,745.1	5,912.0	7,855.9
Interest Expense on Deposits	3,073.6	4,318.4	3,936.4	3,598.8	3,789.1	5,064.2
Interest Expense on Bank Liabilities	712.5	1,159.1	752.7	411.2	1,098.7	1,366.4
Interest Expense on Borrowing	618.7	713.6	668.5	729.4	908.1	1,219.7
Other Interest Expense	7.7	9.4	3.9	5.8	116.1	205.6
NET INTEREST INCOME (NII)	2,804.1	3,178.0	5,080.0	4,754.7	4,462.3	4,911.1
Dividend Income	49.4	102.5	78.9	5.3	3.8	4.2
Net Fees and Commissions Income	1,197.7	1,441.1	1,642.5	1,815.5	2,113.7	2,338.3
Net Trading Gain/Loss	-135.9	251.3	880.7	363.9	275.1	260.3
Other Operating Income	1,017.9	298.0	279.3	638.0	574.2	516.8
Total Operating Income	4,933.2	5,270.8	7,961.4	7,577.5	7,429.0	8,030.7
- Ordinary Banking Income	3,528.3	4,303.9	5,990.4	6,349.9	6,217.8	6,791.9
Total Provision Expenses	337.6	566.4	1,612.8	584.3	633.3	717.9
Operating Expenses	1,823.4	2,542.4	2,570.0	3,040.8	3,195.6	3,590.6
Before Tax Profit (EBT)	2,772.1	2,162.0	3,778.5	3,952.4	3,600.1	3,722.2
Provision For Taxes	456.5	411.5	816.3	807.1	720.0	744.4
NET PROFIT	2,315.6	1,750.5	2,962.2	3,145.2	2,880.1	2,977.8
- y-o-y change		-24.4%	69.2%	6.2%	-8.4%	3.4%

Table 10: Garanti Balance Sheet, 2007-2012E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Cash & Central Bank	7,227.9	5,531.6	6,866.0	7,510.0	16,322.9	14,879.5
Placement at Banks, MM & Other IEA*	3,133.0	4,841.6	9,334.5	8,321.2	9,635.1	9,063.6
Security Portfolio	17,191.9	25,629.2	36,356.0	39,210.1	38,477.1	42,735.0
Trading	145.6	666.1	914.8	979.9	1,302.4	1,919.2
Available for Sale	13,102.5	17,345.8	28,095.0	32,336.2	31,443.1	34,820.5
Held to Maturity	3,943.8	7,617.3	7,346.2	5,893.9	5,731.5	5,995.2
Loans, Net	37,217.9	49,907.4	49,732.7	64,827.3	83,181.7	95,568.0
Non-Performing Loans	846.5	1,239.7	2,237.1	1,939.1	1,772.1	2,448.3
Provisioning for Non-Performing Loans	539.5	789.6	1,812.5	1,587.5	1,453.2	2,007.6
Participations	588.7	839.8	1,033.0	1,684.6	2,076.8	2,231.9
Fixed Assets	1,149.7	1,181.8	1,244.4	1,329.9	1,352.6	1,442.7
Other IEA and Non-IEA	1,069.5	1,009.5	895.5	1,080.3	1,791.0	1,910.3
TOTAL ASSETS	67,578.5	88,940.9	105,462.1	123,963.4	152,837.1	167,831.0
Deposits	39,098.1	52,715.3	62,808.0	72,658.4	84,019.0	96,157.2
Liabilities to Banks (incl. REPO)	8,176.9	10,702.9	10,534.7	11,254.1	14,848.2	15,560.6
Borrowing	9,155.0	11,625.1	13,881.8	17,518.0	23,940.4	21,516.6
Other Liabilities	4,265.3	4,428.5	4,921.8	6,058.3	11,547.1	12,643.5
Shareholder's Equity	6,883.1	9,469.1	13,315.7	16,474.5	18,482.5	21,953.2
TOTAL LIABILITIES AND EQUITY	67,578.5	88,940.9	105,462.1	123,963.4	152,837.1	167,831.0

(*) including banks, financial institutions, factoring and leasing receivables

Table 11: Garanti Key Ratios, 2007-2012E

Key Ratios, %	2007A	2008A	2009A	2010A	2011E	2012E
<i>Profitability Ratios</i>						
NIM Cumulative 12-m	5.1%	4.3%	5.4%	4.4%	3.4%	3.2%
ROAA 12-m	4.0%	2.3%	3.1%	2.8%	2.1%	1.9%
ROAE 12-m	39.9%	21.8%	26.2%	21.0%	16.7%	14.5%
Tangible ROAE 12-m	43.5%	22.5%	27.7%	23.0%	18.8%	16.2%
RORWA	5.9%	3.2%	4.7%	4.2%	2.9%	2.4%
Trailing EPS, TRY	0.55	0.42	0.71	0.75	0.69	0.71
DPS, TRY	0.00	0.13	0.12	0.14	0.07	0.07
BVPS, TRY	3.28	3.34	2.25	3.17	3.92	4.29
<i>Growth Ratios (Annualized, y-o-y)</i>						
Asset Growth	34.4%	31.6%	18.6%	17.5%	23.3%	9.8%
Loan Growth	36.1%	34.1%	-0.4%	30.4%	28.3%	14.9%
Deposit Growth	29.7%	34.8%	19.1%	15.7%	15.6%	14.4%
Securities Growth	19.4%	49.1%	41.9%	7.9%	-1.9%	11.1%
Equity Growth	47.4%	37.6%	40.6%	23.7%	12.2%	18.8%
<i>Efficiency & Financial Strength Ratios</i>						
Interest Income on Loans / Total Interest Income	59.0%	61.4%	57.5%	55.9%	65.4%	67.1%
Interest Income on Securities / Total Interest Income	30.7%	31.5%	37.5%	39.4%	31.1%	29.7%
Net Banking Income / Total Operating Income	81.1%	87.6%	84.4%	86.7%	88.5%	93.9%
Cost / Average Assets	5.0%	4.9%	4.1%	4.0%	3.7%	3.7%
Net Fee Income / Total Income, 12-m	24.3%	27.3%	20.6%	24.0%	28.5%	29.1%
Net Fee Income / OPEX, 12-m	65.7%	56.7%	63.9%	59.7%	66.1%	65.1%
OPEX / Assets	3.2%	3.3%	2.7%	2.7%	2.3%	2.2%
Cost / Income, 12-m	37.0%	48.2%	32.3%	40.1%	43.0%	44.7%
CAR	15.3%	16.1%	21.2%	19.6%	16.7%	16.0%
Liquidity Ratio	34.9%	31.9%	42.9%	39.6%	38.4%	36.2%
Leverage Ratio	9.8	9.4	7.9	7.5	8.3	7.6
Free Funds	22.2%	22.6%	24.1%	24.8%	23.5%	23.8%
Free Capital to Assets	5.6%	6.7%	9.2%	9.7%	8.5%	9.5%
Free Capital to Equity	54.7%	63.2%	73.0%	73.0%	70.0%	72.6%
External Borrowing / Total Assets	13.5%	13.1%	13.2%	14.1%	15.7%	12.8%
<i>Asset Composition & Breakdown</i>						
Interest Earning Assets / Assets	85.1%	90.4%	90.5%	90.6%	85.9%	87.8%
Loans / Assets	55.1%	56.1%	47.2%	52.3%	54.4%	56.9%
Deposits / Assets	57.9%	59.3%	59.6%	58.6%	55.0%	57.3%
Securities / Assets	25.4%	28.8%	34.5%	31.6%	25.2%	25.5%
Equity / Assets	10.2%	10.6%	12.6%	13.3%	12.1%	13.1%
Loans / Deposits	96.6%	96.2%	82.1%	91.4%	100.7%	101.5%
<i>Asset Quality</i>						
NPL	2.2%	2.4%	4.3%	2.9%	2.1%	2.5%
NPL Coverage Ratio	100%	64%	81%	82%	82%	82%

Table 12: Garanti Valuation Key Metrics, 2012-2016

Valuation Key Metrics (TRY mn, %)	2012	2013	2014	2015	2016
Cost of Equity	16.4%	16.4%	16.4%	16.4%	16.4%
Earnings	2,977.8	3,096.9	3,220.8	3,349.6	3,483.6
Total Equity	21,953.2	22,831.3	23,744.6	24,694.3	25,682.1
(-) Participations	-2,231.9	-2,254.2	-2,276.8	-2,299.5	-2,322.5
Core Equity	19,721.3	20,577.1	21,467.8	22,394.8	23,359.6
Tangible RoAE	16.2%	15.4%	15.3%	15.3%	15.2%
Target P/BV	1.1	1.0			
Target P/E	7.9	7.6			
12-m Target Mcap (GGM)	27,569.4				
12-m Target Mcap (RIM)	26,624.2				
12-m Target Mcap (Blended)	27,096.8				
12-m Target Mcap USD mn (Blended)	14,423.9				
Number of Shares	4,200				
12-m Target Price TRY (Blended)	6.45				
Current Price, TRY	5.62				
Current Mcap	23,604				
Upside Potential	15%				

Table 13: Halkbank Income Statement, 2007-2012E

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Interest Income	5,708.2	6,792.9	6,816.7	6,350.6	7,190.0	8,948.8
Interest Income on Loans	2,650.2	3,773.5	4,226.0	4,256.3	5,276.9	6,727.8
Interest Income on Liquid Assets & Others	246.0	243.6	148.4	79.9	45.7	80.4
Interest Income on Security Portfolio	2,812.0	2,775.8	2,442.2	2,014.4	1,867.4	2,140.6
Trading	79.9	51.0	4.1	3.4	6.0	6.5
Available for Sale	1,140.2	1,201.1	538.1	614.1	717.9	975.9
Held to Maturity	1,591.9	1,523.7	1,900.0	1,396.9	1,143.5	1,158.2
Interest Expense	3,955.9	4,666.7	3,708.0	3,159.6	3,951.0	5,303.6
Interest Expense on Deposits	3,696.5	4,333.8	3,212.3	2,772.1	3,027.1	3,944.6
Interest Expense on Bank Liabilities	160.5	224.2	331.4	271.8	731.1	998.0
Interest Expense on Borrowing	72.9	73.2	74.4	66.2	129.9	243.8
Other Interest Expense	26.1	35.4	90.0	49.5	62.8	117.3
NET INTEREST INCOME (NII)	1,752.3	2,126.2	3,108.7	3,191.0	3,238.9	3,645.2
Dividend Income	19.1	38.8	10.8	55.9	48.4	53.9
Net Fees and Commissions Income	296.2	370.3	460.6	525.9	622.5	681.4
Net Trading Gain/Loss	-41.9	-193.6	15.9	114.8	129.7	110.7
Other Operating Income	451.6	363.2	261.1	575.4	460.3	414.3
Total Operating Income	2,477.2	2,704.9	3,857.0	4,463.0	4,499.9	4,905.4
- Ordinary Banking Income	1,783.6	1,866.6	2,939.0	3,373.2	3,505.3	3,886.3
Total Provision Expenses	222.9	436.3	646.1	458.4	485.9	551.0
Operating Expenses	847.7	1,002.2	1,193.7	1,495.3	1,648.2	1,890.9
Before Tax Profit (EBT)	1,406.6	1,266.4	2,017.2	2,509.3	2,365.8	2,463.5
Provision For Taxes	275.5	248.1	386.1	498.9	473.2	492.7
NET PROFIT	1,131.0	1,018.3	1,631.1	2,010.4	1,892.7	1,970.8
- y-o-y change		-10.0%	60.2%	23.3%	-5.9%	4.1%

Table 14: Halkbank Balance Sheet, 2007-2012E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Cash & Central Bank	3,471.2	3,009.3	3,415.7	4,649.6	8,159.8	8,188.7
Placement at Banks, MM & Other IEA*	1,211.6	2,119.3	1,136.0	1,109.4	2,045.2	2,549.1
Security Portfolio	15,944.6	18,333.5	21,372.7	20,206.6	22,466.3	24,509.5
Trading	480.2	114.8	55.9	89.4	117.0	131.3
Available for Sale	8,427.0	2,359.9	4,760.1	7,398.1	9,039.5	11,282.7
Held to Maturity	7,037.4	15,858.9	16,556.8	12,719.2	13,309.8	13,095.6
Loans, Net	18,121.1	25,836.3	32,458.1	44,296.5	57,993.3	67,111.7
Non-Performing Loans	1,032.7	1,251.4	1,667.9	1,757.8	1,781.6	2,434.7
Provisioning for Non-Performing Loans	1,018.9	1,037.8	1,358.4	1,464.5	1,514.3	2,069.5
Participations	346.8	324.7	320.9	739.6	891.7	983.1
Fixed Assets	748.7	1,060.6	1,234.0	1,061.2	1,063.0	1,133.8
Other IEA and Non-IEA	390.4	412.1	712.6	879.6	1,054.8	1,125.0
TOTAL ASSETS	40,234.5	51,095.9	60,650.1	72,942.4	93,674.2	105,601.0
Deposits	30,840.9	40,271.1	43,949.7	54,782.0	64,659.4	74,194.7
Liabilities to Banks (incl. REPO)	1,702.8	2,390.4	5,761.7	3,155.1	10,828.5	11,386.7
Borrowing	937.0	1,521.8	2,031.5	3,824.4	5,368.9	4,798.7
Other Liabilities	2,370.6	2,623.7	3,147.6	3,736.2	4,372.0	4,796.8
Shareholder's Equity	4,383.1	4,288.8	5,759.5	7,444.7	8,445.4	10,424.1
TOTAL LIABILITIES AND EQUITY	40,234.5	51,095.9	60,650.1	72,942.4	93,674.2	105,601.0

(*) including banks, financial institutions, factoring and leasing receivables

Table 15: Halkbank Key Ratios, 2007-2012E

Key Ratios, %	2007A	2008A	2009A	2010A	2011E	2012E
Profitability Ratios						
NIM Cumulative 12-m	4.9%	4.8%	5.8%	5.0%	4.0%	3.8%
ROAA 12-m	3.1%	2.2%	2.9%	3.0%	2.3%	2.0%
ROAE 12-m	28.9%	23.8%	32.7%	30.5%	24.0%	20.9%
Tangible ROAE 12-m	29.8%	24.9%	34.8%	31.7%	26.1%	22.5%
RORWA	10.6%	4.0%	5.0%	4.9%	3.4%	2.9%
Growth Ratios (Annualized, y-o-y)						
Asset Growth	16.9%	27.0%	18.7%	20.3%	28.4%	12.7%
Loan Growth	55.6%	42.6%	25.6%	36.5%	30.9%	15.7%
Deposit Growth	13.4%	30.6%	9.1%	24.6%	18.0%	14.7%
Securities Growth	-12.1%	15.0%	16.6%	-5.5%	11.2%	9.1%
Equity Growth	16.0%	-2.2%	34.3%	29.3%	13.4%	23.4%
Efficiency & Financial Strength Ratios						
Interest Income on Loans / Total Interest Income	46.4%	55.5%	62.0%	67.0%	73.4%	75.2%
Interest Income on Securities / Total Interest Income	49.3%	40.9%	35.8%	31.7%	26.0%	23.9%
Net Banking Income / Total Operating Income	82.7%	92.3%	92.5%	83.3%	85.8%	87.2%
Cost / Average Assets	3.0%	2.9%	2.8%	2.9%	2.5%	2.5%
Net Fee Income / Total Income, 12-m	12.0%	13.7%	11.9%	11.8%	13.8%	13.9%
Net Fee Income / OPEX, 12-m	34.9%	36.9%	38.6%	35.2%	37.8%	36.0%
OPEX / Assets	2.3%	2.2%	2.2%	2.2%	2.0%	1.9%
Cost / Income, 12-m	34.2%	37.1%	30.9%	33.5%	36.6%	38.5%
CAR	20.0%	14.5%	16.0%	15.9%	13.9%	13.8%
Liquidity Ratio	33.8%	14.9%	15.4%	18.2%	20.7%	21.0%
Leverage Ratio	9.2	11.9	10.5	9.8	11.1	10.1
Free Funds	21.6%	20.7%	20.1%	21.2%	20.2%	20.0%
Free Capital to Assets	7.2%	4.5%	5.2%	6.1%	5.5%	6.5%
Free Capital to Equity	65.8%	53.1%	55.3%	60.1%	61.2%	65.4%
External Borrowing / Total Assets	2.3%	3.0%	3.3%	5.2%	5.7%	4.5%
Asset Composition & Breakdown						
Interest Earning Assets / Assets	87.7%	90.6%	90.6%	90.0%	88.1%	89.2%
Loans / Assets	45.0%	50.6%	53.5%	60.7%	61.9%	63.6%
Deposits / Assets	76.7%	78.8%	72.5%	75.1%	69.0%	70.3%
Securities / Assets	39.6%	35.9%	35.2%	27.7%	24.0%	23.2%
Equity / Assets	10.9%	8.4%	9.5%	10.2%	9.0%	9.9%
Loans / Deposits	62.1%	66.7%	76.9%	83.5%	92.0%	93.2%
Asset Quality						
NPL	5.4%	4.7%	4.9%	3.8%	3.0%	3.5%
NPL Coverage Ratio	100%	83%	81%	83%	85%	85%

Table 16: Halkbank Valuation Key Metrics, 2012-2016

Valuation Key Metrics (TRY mn, %)	2012	2013	2014	2015	2016
Cost of Equity	16.5%	16.5%	16.5%	16.5%	16.5%
Earnings	1,970.8	2,030.0	2,090.9	2,153.6	2,218.2
Total Equity	10,424.1	10,736.8	11,059.0	11,390.7	11,732.4
(-) Participations	-983.1	-992.9	-1,002.8	-1,012.9	-1,023.0
Core Equity	9,441.0	9,743.9	10,056.1	10,377.9	10,709.4
Tangible RoAE	22.5%	21.2%	21.1%	21.1%	21.0%
Target P/BV	1.1	1.1			
Target P/E	6.0	5.8			
12-m Target Mcap (GGM)	14,261.7				
12-m Target Mcap (RIM)	15,828.7				
12-m Target Mcap (Blended)	15,045.2				
12-m Target Mcap USD mn (Blended)	8,008.7				
Number of Shares	1,250				
12-m Target Price TRY (Blended)	12.04				
Current Price, TRY	9.48				
Current Mcap	11,850				
Upside Potential	27%				

Table 17: Isbank Income Statement, 2007-2012E

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Interest Income	9,134.1	10,596.1	10,200.4	9,797.8	10,941.9	13,872.0
Interest Income on Loans	5,266.8	6,785.3	6,764.7	5,947.8	7,261.2	9,385.0
Interest Income on Liquid Assets & Others	645.7	635.4	418.3	183.0	110.2	214.7
Interest Income on Security Portfolio	3,221.6	3,175.4	3,017.4	3,667.0	3,570.5	4,272.3
Trading	54.8	55.8	69.6	40.7	36.3	44.4
Available for Sale	3,077.9	2,614.8	1,955.9	1,994.1	2,159.9	2,880.2
Held to Maturity	88.9	504.8	992.0	1,632.2	1,374.4	1,347.7
Interest Expense	6,197.7	6,977.9	5,332.9	5,216.0	6,821.5	9,133.3
Interest Expense on Deposits	4,668.5	5,501.6	4,567.6	4,258.7	5,044.5	6,370.8
Interest Expense on Bank Liabilities	588.5	669.2	166.2	434.7	1,387.3	2,031.9
Interest Expense on Borrowing	887.3	768.7	586.2	511.2	246.3	468.2
Other Interest Expense	53.4	38.3	13.0	11.4	143.4	262.3
NET INTEREST INCOME (NII)	2,936.4	3,618.3	4,867.5	4,581.9	4,120.3	4,738.7
Dividend Income	503.1	284.8	325.0	369.2	555.6	618.4
Net Fees and Commissions Income	1,074.5	1,204.2	1,252.6	1,236.4	1,404.4	1,544.7
Net Trading Gain/Loss	426.2	472.7	408.4	134.6	51.2	60.7
Other Operating Income	911.0	651.5	1,073.3	1,569.3	1,333.9	1,227.2
Total Operating Income	5,851.1	6,231.5	7,926.8	7,891.4	7,465.5	8,189.7
- Ordinary Banking Income	2,819.2	3,681.2	4,242.0	4,817.5	4,236.5	4,743.4
Total Provision Expenses	1,617.8	1,614.0	2,286.5	1,135.4	1,339.5	1,600.7
Operating Expenses	2,154.0	2,819.5	2,694.7	3,203.1	3,404.5	3,825.3
Before Tax Profit (EBT)	2,079.2	1,798.0	2,945.6	3,552.9	2,721.5	2,763.7
Provision For Taxes	401.3	288.6	573.2	570.6	544.3	552.7
NET PROFIT	1,678.0	1,509.4	2,372.4	2,982.2	2,177.2	2,210.9
- y-o-y change		-10.0%	57.2%	25.7%	-27.0%	1.5%

Table 18: Isbank Balance Sheet, 2007-2012E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Cash & Central Bank	7,090.8	11,836.8	8,760.0	8,522.6	14,915.1	14,182.9
Placement at Banks, MM & Other IEA*	6,954.3	6,788.1	8,432.6	3,185.1	6,923.4	6,495.0
Security Portfolio	24,722.1	25,164.2	39,409.1	45,697.3	44,302.4	49,473.8
Trading	991.9	451.9	499.0	732.9	1,047.3	1,146.4
Available for Sale	21,774.8	21,250.5	25,980.6	31,360.4	29,675.6	33,971.6
Held to Maturity	1,955.4	3,461.9	12,929.5	13,604.0	13,579.5	14,355.8
Loans, Net	33,979.8	47,610.3	48,334.8	64,231.7	87,086.8	99,706.1
Non-Performing Loans	1,494.0	2,195.5	2,768.2	2,407.5	2,288.5	3,309.4
Provisioning for Non-Performing Loans	1,494.0	2,195.5	2,768.2	2,407.5	2,288.5	3,309.4
Participations	4,816.8	3,095.5	5,031.1	6,264.0	7,853.8	8,694.2
Fixed Assets	1,977.7	1,952.8	1,922.0	1,918.5	2,022.2	2,156.7
Other IEA and Non-IEA	639.4	1,104.1	1,333.8	1,977.3	2,205.9	2,352.8
TOTAL ASSETS	80,180.9	97,551.9	113,223.3	131,796.5	165,309.7	183,061.5
Deposits	48,533.1	63,539.2	72,177.1	88,260.2	100,799.5	114,867.5
Liabilities to Banks (incl. REPO)	5,802.6	7,006.6	10,983.9	10,158.9	20,889.9	22,000.1
Borrowing	9,962.9	11,033.2	9,743.9	8,042.4	10,710.2	9,694.7
Other Liabilities	5,278.5	6,523.9	6,825.0	8,321.2	14,019.2	15,349.9
Shareholder's Equity	10,603.9	9,449.0	13,493.5	17,013.8	18,890.9	21,149.4
TOTAL LIABILITIES AND EQUITY	80,180.9	97,551.9	113,223.3	131,796.5	165,309.7	183,061.5

(*) including banks, financial institutions, factoring and leasing receivables

Table 19: Isbank Key Ratios, 2007-2012E

Key Ratios, %	2007A	2008A	2009A	2010A	2011E	2012E
<i>Profitability Ratios</i>						
NIM Cumulative 12-m	4.2%	4.4%	5.0%	4.1%	3.0%	2.9%
ROAA 12-m	2.2%	1.7%	2.3%	2.4%	1.5%	1.3%
ROAE 12-m	16.5%	15.6%	21.0%	19.9%	12.1%	11.0%
Tangible ROAE 12-m	22.6%	20.7%	27.8%	27.6%	15.1%	14.9%
RORWA	6.4%	2.5%	3.2%	3.4%	1.9%	1.6%
Trailing EPS, TRY	0.37	0.34	0.53	0.66	0.48	0.49
DPS, TRY	0.21	0.18	0.20	0.20	0.06	0.05
BVPS, TRY	3.85	3.34	3.43	4.38	3.78	4.19
<i>Growth Ratios (Annualized, y-o-y)</i>						
Asset Growth	6.6%	21.7%	16.1%	16.4%	25.4%	10.7%
Loan Growth	14.0%	40.1%	1.5%	32.9%	35.6%	14.5%
Deposit Growth	4.6%	30.9%	13.6%	22.3%	14.2%	14.0%
Securities Growth	-6.2%	1.8%	56.6%	16.0%	-3.1%	11.7%
Equity Growth	12.7%	-10.9%	42.8%	26.1%	11.0%	12.0%
<i>Efficiency & Financial Strength Ratios</i>						
Interest Income on Loans / Total Interest Income	57.7%	64.0%	66.3%	60.7%	66.4%	67.7%
Interest Income on Securities / Total Interest Income	35.3%	30.0%	29.6%	37.4%	32.6%	30.8%
Net Banking Income / Total Operating Income	68.5%	77.4%	77.2%	73.7%	74.0%	82.4%
Cost / Average Assets	4.3%	4.5%	3.7%	3.6%	3.3%	3.2%
Net Fee Income / Total Income, 12-m	18.4%	19.3%	15.8%	15.7%	18.8%	18.9%
Net Fee Income / OPEX, 12-m	49.9%	42.7%	46.5%	38.6%	41.3%	40.4%
OPEX / Assets	2.8%	3.2%	2.6%	2.6%	2.3%	2.2%
Cost / Income, 12-m	36.8%	45.2%	34.0%	40.6%	45.6%	46.7%
CAR	20.5%	15.2%	18.3%	17.5%	14.3%	13.9%
Liquidity Ratio	45.9%	41.3%	38.6%	33.2%	31.8%	30.5%
Leverage Ratio	7.6	10.3	8.4	7.7	8.8	8.7
Free Funds	25.0%	23.8%	24.2%	25.6%	23.1%	24.2%
Free Capital to Assets	4.0%	3.4%	4.6%	5.2%	4.1%	4.3%
Free Capital to Equity	29.9%	34.9%	38.6%	40.3%	36.0%	37.6%
External Borrowing / Total Assets	12.4%	11.3%	8.6%	6.1%	6.5%	5.3%
<i>Asset Composition & Breakdown</i>						
Interest Earning Assets / Assets	81.9%	81.6%	84.9%	85.8%	83.7%	85.0%
Loans / Assets	42.4%	48.8%	42.7%	48.7%	52.7%	54.5%
Deposits / Assets	60.5%	65.1%	63.7%	67.0%	61.0%	62.7%
Securities / Assets	30.8%	25.8%	34.8%	34.7%	26.8%	27.0%
Equity / Assets	13.2%	9.7%	11.9%	12.9%	11.4%	11.6%
Loans / Deposits	73.1%	78.4%	70.8%	75.5%	88.7%	89.7%
<i>Asset Quality</i>						
NPL	4.2%	4.4%	5.4%	3.6%	2.6%	3.2%
NPL Coverage Ratio	100%	100%	100%	100%	100%	100%

Table 20: Isbank Valuation Key Metrics, 2012-2016

Valuation Key Metrics (TRY mn, %)	2012	2013	2014	2015	2016
Cost of Equity	16.3%	16.3%	16.3%	16.3%	16.3%
Earnings	2,210.9	2,255.2	2,300.3	2,346.3	2,393.2
Total Equity	21,149.4	21,572.4	22,003.8	22,443.9	22,892.8
(-) Participations	-8,694.2	-8,781.2	-8,869.0	-8,957.7	-9,047.2
Core Equity	12,455.2	12,791.2	13,134.8	13,486.2	13,845.5
Tangible RoAE	11.0%	10.6%	10.6%	10.6%	10.6%
Target P/BV	0.7	0.7			
Target P/E	6.7	6.6			
12-m Target Mcap (GGM)	17,463.6				
12-m Target Mcap (RIM)	17,807.1				
12-m Target Mcap (Blended)	17,635.4				
12-m Target Mcap USD mn (Blended)	9,387.5				
Number of Shares	4,500				
12-m Target Price TRY (Blended)	3.92				
Current Price, TRY	3.30				
Current Mcap	14,850				
Upside Potential	19%				

Table 21: TSKB Income Statement, 2007-2012E

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Interest Income	403.7	442.0	499.2	432.9	492.1	537.1
Interest Income on Loans	168.1	177.4	226.3	194.6	291.6	352.8
Interest Income on Liquid Assets & Others	31.6	23.3	13.5	11.7	14.0	17.9
Interest Income on Security Portfolio	204.1	241.3	259.4	226.6	186.4	166.3
Trading	0.0	0.7	2.6	4.4	3.9	3.9
Available for Sale	204.1	240.6	244.7	186.8	153.7	145.9
Held to Maturity	0.0	0.0	12.2	35.4	28.8	16.5
Interest Expense	269.7	198.4	243.9	135.2	159.8	168.4
Interest Expense on Deposits	0.0	0.0	0.0	0.0	0.0	0.0
Interest Expense on Bank Liabilities	119.3	103.8	96.0	79.7	81.6	78.4
Interest Expense on Borrowing	150.2	94.5	147.6	49.8	72.3	84.1
Other Interest Expense	0.1	0.1	0.4	5.7	6.0	6.0
NET INTEREST INCOME (NII)	134.0	243.6	255.2	297.7	332.2	368.7
Dividend Income	20.0	23.9	19.0	22.7	25.0	27.8
Net Fees and Commissions Income	4.8	3.8	7.0	13.5	15.0	16.4
Net Trading Gain/Loss	4.1	-27.6	2.2	-3.8	-3.4	-26.0
Other Operating Income	62.3	10.2	25.2	25.7	26.0	23.4
Total Operating Income	225.1	253.9	308.6	355.8	394.8	410.3
- Ordinary Banking Income	128.5	165.9	221.5	282.7	318.7	332.7
Total Provision Expenses	14.4	53.9	42.9	24.7	25.1	26.5
Operating Expenses	43.1	51.9	55.2	62.7	66.0	73.8
Before Tax Profit (EBT)	167.6	148.0	210.6	268.5	303.8	310.1
Provision For Taxes	23.1	29.1	35.7	56.8	60.8	62.0
NET PROFIT	144.5	119.0	174.9	211.6	243.0	248.0
- y-o-y change		-17.7%	47.0%	21.0%	14.8%	2.1%

Table 22: TSKB Balance Sheet, 2007-2012E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Cash & Central Bank	3.4	2.9	3.1	64.4	120.9	112.4
Placement at Banks, MM & Other IEA*	28.4	154.7	155.0	161.8	193.2	236.0
Security Portfolio	1,749.6	1,782.1	2,470.6	2,508.8	2,568.5	2,795.7
Trading	81.6	27.1	42.8	67.4	86.4	95.4
Available for Sale	1,668.0	1,754.9	2,147.2	2,136.6	2,318.7	2,563.4
Held to Maturity	0.0	0.0	280.5	304.8	163.4	136.9
Loans, Net	2,554.3	3,668.4	3,819.6	4,772.9	6,225.5	6,812.3
Non-Performing Loans	19.4	25.4	21.7	25.5	22.6	31.8
Provisioning for Non-Performing Loans	19.4	25.4	21.7	25.5	22.6	31.8
Participations	210.3	188.5	244.2	280.9	292.6	324.2
Fixed Assets	28.3	26.4	22.7	16.4	10.0	10.7
Other IEA and Non-IEA	309.2	385.9	189.4	107.0	110.5	117.9
TOTAL ASSETS	4,883.5	6,208.9	6,904.6	7,912.1	9,521.2	10,409.1
Deposits	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities to Banks (incl. REPO)	834.1	806.4	1,284.7	1,186.1	984.7	1,131.8
Borrowing	3,174.8	4,506.6	4,403.6	5,075.8	6,832.1	7,391.1
Other Liabilities	136.2	145.8	175.6	386.0	306.2	335.4
Shareholder's Equity	738.4	750.1	1,040.8	1,264.2	1,398.2	1,550.9
TOTAL LIABILITIES AND EQUITY	4,883.5	6,208.9	6,904.6	7,912.1	9,521.2	10,409.1

(*) including banks, financial institutions, factoring and leasing receivables

Table 23: TSKB Key Ratios, 2007-2012E

Key Ratios, %	2007A	2008A	2009A	2010A	2011E	2012E
Profitability Ratios						
NIM Cumulative 12-m	3.1%	4.8%	4.1%	4.3%	4.0%	3.9%
ROAA 12-m	3.2%	2.2%	2.7%	2.9%	2.8%	2.5%
ROAE 12-m	21.9%	16.6%	19.5%	18.4%	18.4%	17.2%
Tangible ROAE 12-m	25.5%	17.7%	22.9%	21.3%	21.1%	19.6%
RORWA	9.9%	3.4%	4.1%	4.1%	3.6%	3.0%
Trailing EPS, TRY	0.18	0.15	0.22	0.26	0.30	0.31
DPS, TRY	0.16	0.06	0.08	0.08	0.04	0.03
BVPS, TRY	1.85	1.72	1.50	1.73	1.72	1.71
Growth Ratios (Annualized, y-o-y)						
Asset Growth	20.2%	27.1%	11.2%	14.6%	20.3%	9.3%
Loan Growth	16.6%	43.6%	4.1%	25.0%	30.4%	9.4%
Deposit Growth	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Securities Growth	43.0%	1.9%	38.6%	1.5%	2.4%	8.8%
Equity Growth	25.5%	1.6%	38.8%	21.5%	10.6%	10.9%
Efficiency & Financial Strength Ratios						
Interest Income on Loans / Total Interest Income	41.6%	40.1%	45.3%	45.0%	59.3%	65.7%
Interest Income on Securities / Total Interest Income	50.5%	54.6%	52.0%	52.3%	37.9%	31.0%
Net Banking Income / Total Operating Income	61.7%	97.5%	85.0%	87.5%	87.9%	85.4%
Cost / Average Assets	1.4%	1.1%	1.0%	1.0%	0.9%	0.9%
Net Fee Income / Total Income, 12-m	2.1%	1.5%	2.3%	3.8%	3.8%	4.0%
Net Fee Income / OPEX, 12-m	11.1%	7.4%	12.6%	21.6%	22.7%	22.2%
OPEX / Assets	0.9%	1.0%	0.8%	0.9%	0.8%	0.7%
Cost / Income, 12-m	19.1%	20.4%	17.9%	17.6%	16.7%	18.0%
CAR	27.4%	21.1%	24.9%	22.7%	17.5%	16.0%
Liquidity Ratio	36.5%	31.2%	34.0%	30.7%	28.6%	28.9%
Leverage Ratio	6.6	8.3	6.6	6.3	6.8	6.7
Free Funds	15.6%	14.3%	16.2%	16.6%	14.4%	13.1%
Free Capital to Assets	8.6%	5.9%	10.4%	11.8%	10.9%	11.1%
Free Capital to Equity	57.1%	48.6%	69.1%	73.6%	74.1%	74.4%
External Borrowing / Total Assets	65.0%	72.6%	63.8%	64.2%	71.8%	71.0%
Asset Composition & Breakdown						
Interest Earning Assets / Assets	93.4%	93.7%	95.3%	95.0%	94.9%	95.1%
Loans / Assets	52.3%	59.1%	55.3%	60.3%	65.4%	65.4%
Deposits / Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Securities / Assets	35.8%	28.7%	35.8%	31.7%	27.0%	26.9%
Equity / Assets	15.1%	12.1%	15.1%	16.0%	14.7%	14.9%
Loans / Deposits	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Asset Quality						
NPL	0.8%	0.7%	0.6%	0.5%	0.4%	0.5%
NPL Coverage Ratio	100%	100%	100%	100%	100%	100%

Table 24: TSKB Valuation Key Metrics, 2012-2016

Valuation Key Metrics (TRY mn, %)	2012	2013	2014	2015	2016
Cost of Equity	15.5%	15.5%	15.5%	15.5%	15.5%
Earnings	248.0	250.5	253.0	255.6	258.1
Total Equity	1,550.9	1,566.4	1,582.1	1,597.9	1,613.9
(-) Participations	-324.2	-327.4	-330.7	-334.0	-337.4
Core Equity	1,226.7	1,239.0	1,251.4	1,263.9	1,276.5
Tangible RoAE	19.6%	20.3%	20.3%	20.3%	20.3%
Target P/BV	0.9	0.9			
Target P/E	5.7	5.7			
12-m Target Mcap (GGM)	1,913.2				
12-m Target Mcap (RIM)	1,848.6				
12-m Target Mcap (Blended)	1,880.9				
12-m Target Mcap USD mn (Blended)	1,001.2				
Number of Shares	800				
12-m Target Price TRY (Blended)	2.35				
Current Price, TRY	1.78				
Current Mcap	1,424				
Upside Potential	32%				

Table 25: Vakifbank Income Statement, 2007-2012E

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Interest Income	5,352.5	6,413.7	6,403.1	5,882.9	6,640.0	8,395.9
Interest Income on Loans	3,255.9	4,345.6	4,478.4	4,133.9	5,025.4	6,408.5
Interest Income on Liquid Assets & Others	531.0	372.2	233.8	168.2	69.8	88.2
Interest Income on Security Portfolio	1,565.6	1,695.8	1,690.9	1,580.8	1,544.9	1,899.2
Trading	37.3	22.6	3.2	0.9	0.1	0.1
Available for Sale	1,418.2	1,316.3	1,255.4	1,218.7	1,156.4	1,522.8
Held to Maturity	110.1	356.9	432.3	361.2	388.4	376.3
Interest Expense	3,676.6	4,439.0	3,325.6	3,152.9	3,860.2	5,142.2
Interest Expense on Deposits	3,241.0	3,906.9	2,890.8	2,628.0	2,722.7	3,632.1
Interest Expense on Bank Liabilities	162.9	227.6	261.8	385.3	926.0	1,104.0
Interest Expense on Borrowing	255.3	232.1	146.7	88.2	162.4	347.1
Other Interest Expense	17.4	72.4	26.3	51.3	49.1	59.0
NET INTEREST INCOME (NII)	1,675.8	1,974.7	3,077.4	2,730.0	2,779.9	3,253.7
Dividend Income	34.7	25.5	24.3	35.2	44.5	49.5
Net Fees and Commissions Income	360.5	466.2	465.5	443.3	546.3	594.5
Net Trading Gain/Loss	193.3	89.7	177.8	316.3	38.0	42.1
Other Operating Income	356.7	312.7	311.2	601.0	841.4	774.1
Total Operating Income	2,621.1	2,868.8	4,056.2	4,125.8	4,250.0	4,713.8
- Ordinary Banking Income	1,861.2	1,906.3	2,739.4	2,516.4	2,511.1	2,902.0
Total Provision Expenses	368.4	624.3	981.3	973.2	853.0	988.3
Operating Expenses	994.6	1,319.2	1,532.7	1,689.8	1,894.2	2,174.3
Before Tax Profit (EBT)	1,258.1	925.3	1,542.2	1,462.8	1,502.8	1,551.3
Provision For Taxes	227.4	172.1	291.0	305.6	300.6	310.3
NET PROFIT	1,030.7	753.2	1,251.2	1,157.1	1,202.3	1,241.0
- y-o-y change		-26.9%	66.1%	-7.5%	3.9%	3.2%

Table 26: Vakifbank Balance Sheet, 2007-2012E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Cash & Central Bank	2,490.2	2,104.8	3,049.6	4,646.9	9,719.3	8,788.2
Placement at Banks, MM & Other IEA*	3,461.6	5,758.6	6,139.2	3,373.3	2,403.7	2,802.2
Security Portfolio	10,986.7	11,500.0	18,503.2	18,095.6	19,262.7	21,262.7
Trading	350.0	47.0	38.8	24.0	27.0	28.3
Available for Sale	9,160.3	7,981.6	14,965.9	13,764.8	14,848.4	16,352.1
Held to Maturity	1,476.4	3,471.3	3,498.5	4,306.7	4,387.3	4,882.3
Loans, Net	23,470.0	30,502.3	34,572.7	44,861.0	56,360.2	64,793.3
Non-Performing Loans	1,142.9	1,455.8	2,119.0	2,265.7	2,142.8	2,766.7
Provisioning for Non-Performing Loans	1,142.9	1,370.7	1,985.0	2,241.1	2,142.8	2,766.7
Participations	520.8	539.4	688.3	895.2	960.8	1,058.2
Fixed Assets	1,429.4	1,015.4	1,126.7	1,166.7	1,218.2	1,299.2
Other IEA and Non-IEA	49.7	772.9	718.1	923.1	1,216.3	1,297.3
TOTAL ASSETS	42,408.5	52,193.5	64,797.6	73,961.7	91,141.2	101,301.1
Deposits	28,862.5	37,120.3	44,651.7	47,701.3	57,589.3	66,245.8
Liabilities to Banks (incl. REPO)	2,076.1	1,687.1	6,143.4	8,128.3	10,792.6	11,332.8
Borrowing	4,692.9	5,770.4	4,366.1	6,327.4	9,072.5	8,206.2
Other Liabilities	1,550.7	1,944.7	2,255.5	3,246.2	3,915.5	4,221.5
Shareholder's Equity	5,226.3	5,671.0	7,380.9	8,558.5	9,771.3	11,294.9
TOTAL LIABILITIES AND EQUITY	42,408.5	52,193.5	64,797.6	73,961.7	91,141.2	101,301.1

(*) including banks, financial institutions, factoring and leasing receivables

Table 27: Vakifbank Key Ratios, 2007-2012E

Key Ratios, %	2007A	2008A	2009A	2010A	2011E	2012E
Profitability Ratios						
NIM Cumulative 12-m	4.5%	4.3%	5.5%	4.0%	3.5%	3.5%
ROAA 12-m	2.6%	1.6%	2.1%	1.6%	1.4%	1.3%
ROAE 12-m	21.9%	14.1%	19.2%	14.6%	13.2%	11.7%
Tangible ROAE 12-m	23.5%	15.1%	20.8%	15.8%	14.1%	12.6%
RORWA	6.6%	2.2%	3.1%	2.3%	1.9%	1.6%
Trailing EPS, TRY	0.41	0.30	0.50	0.46	0.48	0.50
DPS, TRY	0.06	0.00	0.05	0.01	0.05	0.05
BVPS, TRY	2.09	2.02	2.27	2.95	3.42	3.83
Growth Ratios (Annualized, y-o-y)						
Asset Growth	14.5%	23.1%	24.1%	14.1%	23.2%	11.1%
Loan Growth	30.1%	30.0%	13.3%	29.8%	25.6%	15.0%
Deposit Growth	16.2%	28.6%	20.3%	6.8%	20.7%	15.0%
Securities Growth	5.3%	4.7%	60.9%	-2.2%	6.4%	10.4%
Equity Growth	16.5%	8.5%	30.2%	16.0%	14.2%	15.6%
Efficiency & Financial Strength Ratios						
Interest Income on Loans / Total Interest Income	60.8%	67.8%	69.9%	70.3%	75.7%	76.3%
Interest Income on Securities / Total Interest Income	29.2%	26.4%	26.4%	26.9%	23.3%	22.6%
Net Banking Income / Total Operating Income	77.7%	85.1%	87.3%	76.9%	78.3%	80.6%
Cost / Average Assets	3.3%	3.6%	3.3%	3.0%	2.8%	2.9%
Net Fee Income / Total Income, 12-m	13.8%	16.3%	11.5%	10.7%	12.9%	12.6%
Net Fee Income / OPEX, 12-m	36.2%	35.3%	30.4%	26.2%	28.8%	27.3%
OPEX / Assets	2.5%	2.8%	2.6%	2.4%	2.3%	2.3%
Cost / Income, 12-m	37.9%	46.0%	37.8%	41.0%	44.6%	46.1%
CAR	15.3%	14.3%	15.4%	14.4%	13.4%	12.5%
Liquidity Ratio	36.5%	30.4%	37.3%	29.5%	29.6%	27.6%
Leverage Ratio	8.1	9.2	8.8	8.6	9.3	9.0
Free Funds	23.3%	22.9%	22.3%	21.9%	21.0%	21.1%
Free Capital to Assets	7.6%	6.2%	7.3%	7.5%	7.0%	7.5%
Free Capital to Equity	61.7%	57.5%	63.9%	64.8%	65.3%	67.6%
External Borrowing / Total Assets	11.1%	11.1%	6.7%	8.6%	10.0%	8.1%
Asset Composition & Breakdown						
Interest Earning Assets / Assets	89.4%	91.5%	91.4%	89.7%	85.6%	87.7%
Loans / Assets	55.3%	58.4%	53.4%	60.7%	61.8%	64.0%
Deposits / Assets	68.1%	71.1%	68.9%	64.5%	63.2%	65.4%
Securities / Assets	25.9%	22.0%	28.6%	24.5%	21.1%	21.0%
Equity / Assets	12.3%	10.9%	11.4%	11.6%	10.7%	11.1%
Loans / Deposits	85.3%	85.9%	81.9%	98.7%	101.6%	102.0%
Asset Quality						
NPL	4.6%	4.6%	5.8%	4.8%	3.7%	4.1%
NPL Coverage Ratio	100%	94%	94%	99%	100%	100%

Table 28: Vakifbank Valuation Key Metrics, 2012-2016

Valuation Key Metrics (TRY mn, %)	2012	2013	2014	2015	2016
Cost of Equity	16.7%	16.7%	16.7%	16.7%	16.7%
Earnings	1,241.0	1,253.4	1,266.0	1,278.6	1,291.4
Total Equity	11,294.9	11,407.9	11,521.9	11,637.2	11,753.5
(-) Participations	-1,058.2	-1,068.7	-1,079.4	-1,090.2	-1,101.1
Core Equity	10,236.8	10,339.1	10,442.5	10,546.9	10,652.4
Tangible RoAE	12.6%	12.2%	12.2%	12.2%	12.2%
Target P/BV	0.5	0.5			
Target P/E	4.7	4.6			
12-m Target Mcap (GGM)	8,477.7				
12-m Target Mcap (RIM)	7,030.2				
12-m Target Mcap (Blended)	7,754.0				
12-m Target Mcap USD mn (Blended)	4,127.5				
Number of Shares	2,500				
12-m Target Price TRY (Blended)	3.10				
Current Price, TRY	2.31				
Current Mcap	5,775				
Upside Potential	34%				

Table 29: Yapi Kredi Income Statement, 2007-2012E

Income Statement, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Interest Income	6,059.2	7,023.8	6,715.4	5,821.8	7,453.7	9,432.3
Interest Income on Loans	4,070.7	5,206.6	5,178.2	4,547.2	5,853.5	7,692.7
Interest Income on Liquid Assets & Others	356.5	341.9	228.0	131.3	62.6	73.8
Interest Income on Security Portfolio	1,632.0	1,475.3	1,309.3	1,143.3	1,537.6	1,665.8
Trading	20.2	17.3	23.9	12.7	13.5	14.2
Available for Sale	28.6	48.4	100.8	214.0	526.6	594.9
Held to Maturity	1,583.2	1,409.5	1,184.6	916.6	997.6	1,056.6
Interest Expense	3,936.5	4,608.7	3,237.1	2,622.2	4,131.0	5,768.1
Interest Expense on Deposits	3,303.9	4,039.5	2,796.5	2,276.5	2,979.5	4,316.5
Interest Expense on Bank Liabilities	236.4	94.3	57.2	43.0	656.7	737.2
Interest Expense on Borrowing	390.0	472.6	382.2	291.3	463.4	639.7
Other Interest Expense	6.1	2.2	1.2	11.4	31.3	74.7
NET INTEREST INCOME (NII)	2,122.7	2,415.1	3,478.3	3,199.6	3,322.8	3,664.2
Dividend Income	38.6	206.0	142.7	155.2	128.2	142.7
Net Fees and Commissions Income	973.8	1,262.7	1,436.4	1,596.2	1,806.4	1,940.7
Net Trading Gain/Loss	73.1	-5.2	340.1	-66.6	-135.7	28.5
Other Operating Income	802.7	367.2	195.0	1,206.9	1,086.2	1,031.9
Total Operating Income	4,010.9	4,245.8	5,592.5	6,091.2	6,207.9	6,807.9
- Ordinary Banking Income	2,743.9	3,120.1	3,689.7	3,646.2	3,841.1	4,344.7
Total Provision Expenses	425.7	552.6	1,565.1	1,083.0	1,152.4	1,288.6
Operating Expenses	2,732.4	2,358.6	2,313.5	2,488.5	2,724.2	3,126.4
Before Tax Profit (EBT)	852.9	1,334.7	1,713.9	2,519.8	2,331.3	2,392.8
Provision For Taxes	143.7	292.1	359.1	459.5	466.3	478.6
NET PROFIT	709.2	1,042.6	1,354.8	2,060.3	1,865.0	1,914.3
- y-o-y change		47.0%	29.9%	52.1%	-9.5%	2.6%

Table 30: Yapi Kredi Balance Sheet, 2007-2012E

Balance Sheet, TRY mn	2007A	2008A	2009A	2010A	2011E	2012E
Cash & Central Bank	3,688.7	4,518.6	3,975.1	5,903.5	9,861.8	9,608.4
Placement at Banks, MM & Other IEA*	731.0	2,204.8	3,179.9	2,014.0	2,722.3	3,378.2
Security Portfolio	12,551.8	13,183.2	14,113.0	18,346.0	20,756.1	22,472.7
Trading	228.9	666.8	833.9	882.1	646.7	741.5
Available for Sale	279.9	987.3	1,264.3	4,933.2	5,914.0	6,948.8
Held to Maturity	12,043.0	11,529.0	12,014.8	12,530.7	14,195.5	14,782.3
Loans, Net	28,508.9	38,673.0	37,857.8	52,615.2	68,875.9	78,436.4
Non-Performing Loans	1,739.3	1,713.0	2,581.0	1,860.7	2,238.1	3,035.5
Provisioning for Non-Performing Loans	1,392.3	1,068.9	2,178.3	1,434.4	1,681.4	2,281.0
Participations	1,467.9	1,858.9	1,853.9	1,837.2	1,941.0	2,131.3
Fixed Assets	2,363.6	2,382.1	2,359.4	2,413.8	2,481.0	2,646.2
Other IEA and Non-IEA	1,041.1	902.6	1,221.4	1,622.0	1,994.7	2,127.6
TOTAL ASSETS	50,352.9	63,723.1	64,560.4	84,751.6	108,632.7	120,800.7
Deposits	32,166.9	41,705.3	40,833.3	52,724.5	64,793.8	74,177.7
Liabilities to Banks (incl. REPO)	1,776.6	386.9	926.4	2,960.0	7,557.1	8,009.4
Borrowing	6,008.9	8,384.4	7,532.6	10,483.2	13,745.0	12,415.2
Other Liabilities	5,496.7	6,393.4	7,000.8	8,290.7	10,503.2	11,503.8
Shareholder's Equity	4,903.7	6,853.0	8,267.4	10,317.7	12,033.7	14,694.6
TOTAL LIABILITIES AND EQUITY	50,352.9	63,723.1	64,560.4	84,776.1	108,632.7	120,800.7

(*) including banks, financial institutions, factoring and leasing receivables

Table 31: Yapi Kredi Key Ratios, 2007-2012E

Key Ratios, %	2007A	2008A	2009A	2010A	2011E	2012E
Profitability Ratios						
NIM Cumulative 12-m	4.8%	4.6%	5.9%	4.8%	3.6%	3.4%
ROAA 12-m	1.5%	1.8%	2.1%	2.8%	1.9%	1.7%
ROAE 12-m	18.0%	18.2%	17.7%	22.0%	16.7%	14.0%
Tangible ROAE 12-m	22.2%	21.1%	20.8%	25.4%	18.7%	15.0%
RORWA	3.3%	2.2%	2.5%	3.2%	2.2%	1.8%
Growth Ratios (Annualized, y-o-y)						
Asset Growth	3.0%	26.6%	1.3%	31.3%	28.2%	11.2%
Loan Growth	26.7%	35.7%	-2.1%	39.0%	30.9%	13.9%
Deposit Growth	3.3%	29.7%	-2.1%	29.1%	22.9%	14.5%
Securities Growth	-23.8%	5.0%	7.1%	30.0%	13.1%	8.3%
Equity Growth	46.6%	39.8%	20.6%	24.8%	16.6%	22.1%
Efficiency & Financial Strength Ratios						
Interest Income on Loans / Total Interest Income	67.2%	74.1%	77.1%	78.1%	78.5%	81.6%
Interest Income on Securities / Total Interest Income	26.9%	21.0%	19.5%	19.6%	20.6%	17.7%
Net Banking Income / Total Operating Income	77.2%	86.6%	87.9%	78.7%	82.6%	80.5%
Cost / Average Assets	7.8%	6.3%	5.7%	5.4%	4.3%	4.7%
Net Fee Income / Total Income, 12-m	24.3%	29.7%	25.7%	26.2%	29.1%	28.5%
Net Fee Income / OPEX, 12-m	35.6%	53.5%	62.1%	64.1%	66.3%	62.1%
OPEX / Assets	5.7%	4.1%	3.6%	3.4%	2.8%	2.7%
Cost / Income, 12-m	68.1%	55.6%	41.4%	40.9%	43.9%	45.9%
CAR	13.7%	15.7%	17.8%	16.1%	13.1%	12.6%
Liquidity Ratio	9.8%	13.1%	14.3%	16.2%	17.6%	17.1%
Leverage Ratio	10.3	9.3	7.8	8.2	9.0	8.2
Free Funds	23.6%	25.9%	28.6%	26.5%	24.2%	24.4%
Free Capital to Assets	-0.6%	1.7%	3.8%	4.7%	4.7%	5.8%
Free Capital to Equity	-6.4%	15.5%	29.4%	38.9%	42.1%	47.9%
External Borrowing / Total Assets	11.9%	13.2%	11.7%	12.4%	12.7%	10.3%
Asset Composition & Breakdown						
Interest Earning Assets / Assets	83.0%	84.8%	85.4%	86.1%	85.0%	86.3%
Loans / Assets	56.6%	60.7%	58.6%	62.1%	63.4%	64.9%
Deposits / Assets	63.9%	65.4%	63.2%	62.2%	59.6%	61.4%
Securities / Assets	24.9%	20.7%	21.9%	21.6%	19.1%	18.6%
Equity / Assets	9.7%	10.8%	12.8%	12.2%	11.1%	12.2%
Loans / Deposits	93.0%	95.3%	98.0%	102.5%	108.9%	108.8%
Asset Quality						
NPL	5.8%	4.3%	6.4%	3.4%	3.2%	3.8%
NPL Coverage Ratio (Specific Provisioning)	100%	62%	84%	77%	75%	75%

Table 32: Yapi Kredi Valuation Key Metrics, 2012-2016

Valuation Key Metrics (TRY mn, %)	2012	2013	2014	2015	2016
Cost of Equity	17.3%	17.3%	17.3%	17.3%	17.3%
Earnings	1,914.3	1,952.5	1,991.6	2,031.4	2,072.0
Total Equity	14,694.6	14,988.5	15,288.3	15,594.1	15,905.9
(-) Participations	-2,131.3	-2,152.6	-2,174.2	-2,195.9	-2,217.9
Core Equity	12,563.3	12,835.9	13,114.1	13,398.1	13,688.1
Tangible RoAE	15.0%	15.4%	15.3%	15.3%	15.3%
Target P/BV	0.8	0.8			
Target P/E	5.9	5.8			
12-m Target Mcap (GGM)	14,849.0				
12-m Target Mcap (RIM)	13,476.6				
12-m Target Mcap (Blended)	14,162.8				
12-m Target Mcap USD mn (Blended)	7,539.0				
Number of Shares	4,347				
12-m Target Price TRY (Blended)	3.26				
Current Price, TRY	2.61				
Current Mcap	11,346				
Upside Potential	25%				

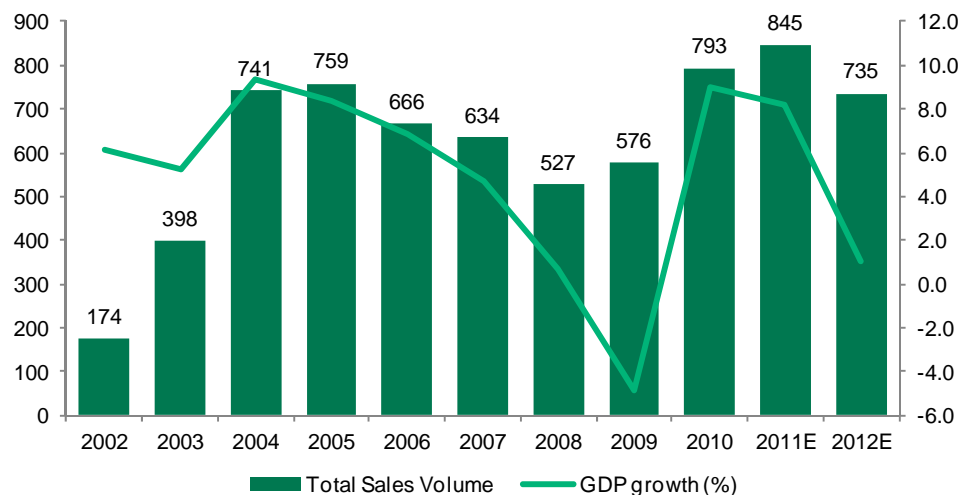
Automotive sector

2012: Time to slow down

The automotive sector was one of the shining sectors of 2011 with the support of robust domestic demand. After the economic crises hit the sector in 2008 (contraction of 17%), sector recovered rapidly with the support of tax incentives, lower loan rates and the revival of domestic demand. In addition, the strengthening of the lira against the US dollar and the euro supported automotive sales. In the first half of 2011, automotive sales showed outstanding performance stemming from vigorous domestic demand, but the growth lost momentum in the second half of the year with the depreciation pressure on the currency and the increase in loan rates on the back of measures taken by Central Bank to restrict domestic demand.

In the first half 2011, domestic light vehicle sales (passenger car + light commercial vehicles) posted 54% YoY growth. Some of the demand was front loaded since consumers are rushed to purchase before auto companies reflect the depreciation of currency on their prices. Also, the expectation of the government increasing the special consumption tax after the elections caused front loaded demand. In the second half of 2011, we started to observe the effects of steps taken by the Central Bank to curb domestic demand and restrict loan growth. Nevertheless, the slowdown was not as sharp as expected considering the depreciation in the lira and the Central Bank's determination to restrict loan growth.

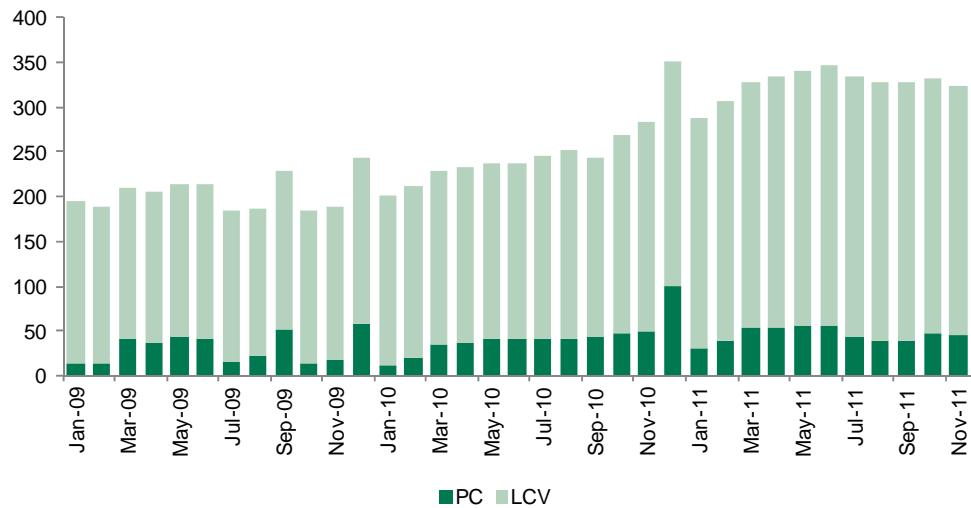
Figure 1: Domestic sales (units, 000s) & GDP growth



Source: Automotive Manufacturer's Association (AMA), Turkstat, Seker Securities

According to the latest data, the domestic passenger car (PC) market reached 504,000 units in Jan–Nov 2011, posting 22.9% growth and the light commercial vehicle (LCV) market reached 231,000 units with 14.1% growth. We expect domestic sales to shrink by 13% to 752k in 2012, in line with our 1% GDP growth assumption.

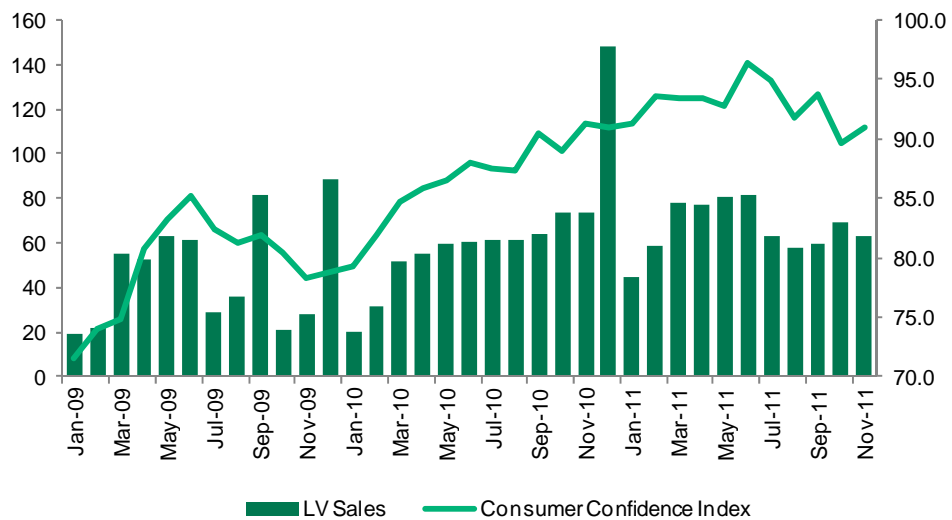
Figure 2: Monthly domestic LV sales (units, 000s)



Source: ADA

In 2011, consumer confidence and loan rates were supportive for the market. Although in the second half of the year, we observed an increase in loan rates with a tighter monetary policy starting from the end of November, we again observed that auto loan rates eased due to year-end campaigns. We expect this to have a positive impact on December sales. However, with a tighter monetary policy and high inflation figures, we do expect auto loan rates to jump back after the year-end campaigns finish.

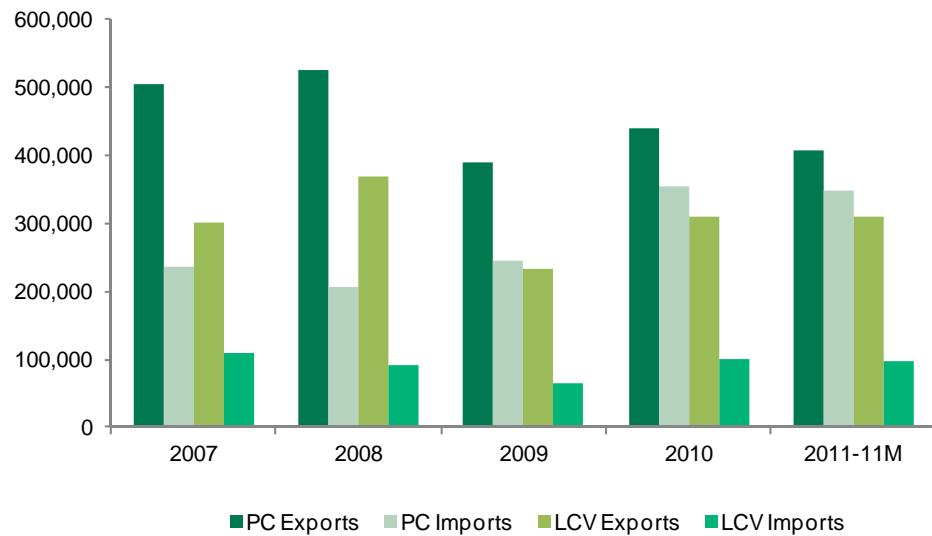
Figure 3: Consumer confidence & LV sales (units, 000s)



Source: AMA, CBRT

Total production of the sector in 2011 (Jan–Nov 2011) rose by 10% YoY to 1.1 million units with the help of robust domestic demand and slowly recovering export market demand. Accordingly, the capacity utilization rate rose to 75%. Note that 67% of the country’s automotive production is exported. In terms of production, the government is taking steps to support R&D, such as providing 100% reduction of R&D expenditures from a company’s tax base if the number of researchers exceeds 500.

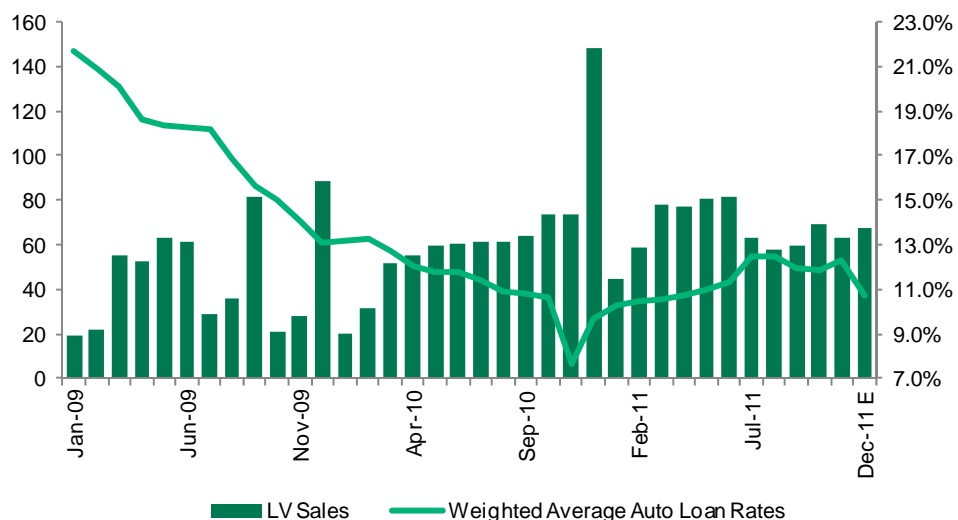
Figure 4: Exports - Imports



Source: AMA, Şeker Securities

PC+LCV exports rose by 2% and 11% YoY in 11M2011 respectively. On the other hand, PC and LCV imports increased more rapidly. While PC imports rose by 23% in 11M11 compared to 11M10, LCV imports increased 20% YoY during the same period. In 2012, the economic outlook in export markets is still unclear. Since 70% of total production is directed to export markets, 2012 looks to be a tough year. The vast majority of automotive exports are towards Western Europe: France, Italy, Germany, UK and Spain are the top five auto export markets. Since problems in EU economies have not yet been resolved, the export outlook remains bleak for 2012. A partial solution to this would be to diversify the export base. Companies could set themselves apart from this downturn by expanding into new markets and securing agreements for certain amounts of exports (such as take or pay agreements).

Figure 5: Loan rates & LV sales

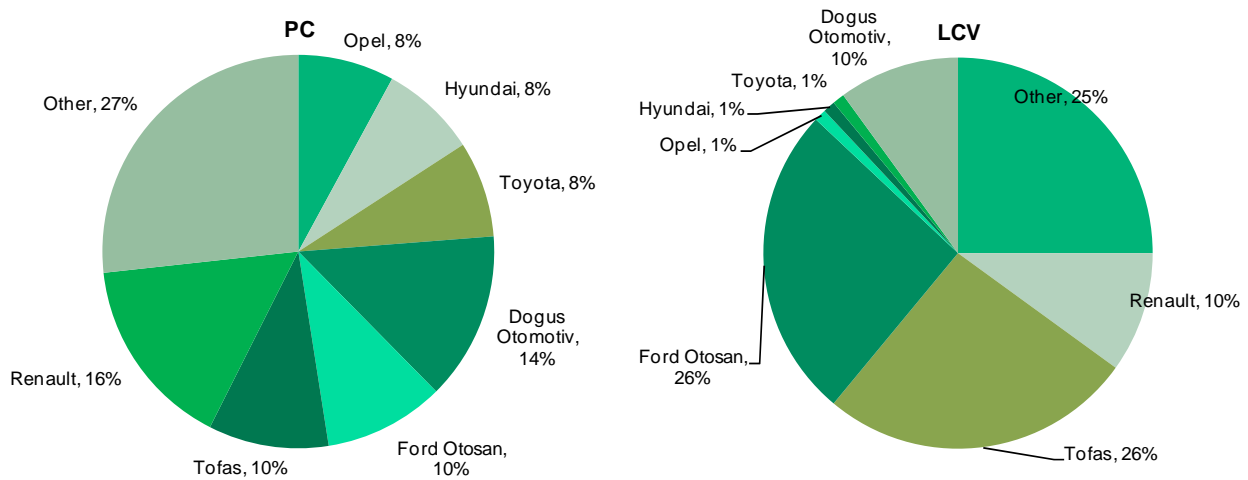


Source: AMA, CBRT

The government increased tax rates in the automotive sector before it announced its Medium Term Program in September 2011. While the special consumption tax (SCT) on passenger cars with an engine size of 1.6L has not changed, SCT for passenger cars with engine size between 1.6 to 2.0L and above 2.0L was raised to 12.5% and 25%, respectively. This tax hike will affect Dogus Otomotiv most severely given that it is the sole importer of PCs and is exposed in the high engine size segment.

When we look at cumulative market shares in the first 11 months of the year, Renault is the leader in the PC market. In the LCV market, Ford Otosan and Tofas have the highest shares (26%).

Figure 6: Market shares, Jan-Nov 2011 period



Source: Company Reports

We anticipate domestic sales to slow down

This year will be a test year for Turkey as it faces a tricky macro environment. The automotive sector will also face challenges head on. With our moderate 1% GDP growth assumption and considering the high base effect of 2011, we expect domestic automotive sales to slow down by 13% in 2012. In addition, we expect to see the affect of higher EUR/TRY parity on prices since automotive companies have not fully reflected this due to their year-end automotive campaigns.

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. While exports to Chrysler will not start until 2013, Opel/Vauxhall exports started in 4Q11. In addition, since we are expecting the first half of 2012 to be tough, we think that taking up a defensive characteristic and dividend payer stock could be a meaningful choice. In this respect, Tofas and Ford Otosan provide value. Ford Otosan had the strongest dividend yield in ISE100. Overall, our rating for the automotive sector is "Market Perform".

Tofas

Our top pick

Ezgi Gulbas
Analyst
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Our recommendation for Tofas is "Outperform". Our target market capitalization for Tofas stands at TRY 4,375 million and TRY 8.75 per share. This represents 46% upside potential compared to the current market capitalization of TRY 3,030 million. Therefore, we maintain "Outperform" rating for Tofas's shares.

Tofas is a safe haven with take-or-pay agreements despite fragile economic outlook in European markets. Growing concerns regarding the slowdown in global economic growth and European debt problems 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 makes us to remain cautious about these markets. However, Tofas's take-or-pay agreements with its parent company Fiat protects 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 US market, which is expected to start in the first half of 2013. Agreement covers 190,000 units.

We anticipate Tofas's domestic sales to slow down parallel to the market. In line with our 13% contraction assumption in domestic automotive market sales, we estimate Tofas's domestic sales volume to be 130k in 2012. However, decline in domestic sales could be compensated through the additional export volume coming from Opel deal. On the top line, we expect net sales growth to be 4% and sales revenues to reach TRY 7,671 million in 2012. In addition, we estimate Tofas' EBITDA to be TRY 790 million, bringing EBITDA margin to 10.3% at the end of 2012.

OUTPERFORM
TP: TRY 8.80

	TRY	US\$
Close	6.06	3.24
ISE-100	50,183	26,841
US\$/TRY(CB Bid Rate):	1.88	
52 Week High:	8.82	5.85
52 Week Low:	5.40	3.04
Bloomberg/Reuters Ticker:	TOASO.TI / TOASO.IS	
Number of Shares (Mn):	500	
	(TRY Mn)	(US\$ Mn)
Current Mcap :	3,030	1,613
Free Float Mcap:	727	389

	1 M	YOY	YTD
TRY Return (%):	-5.6	-28.4	2.4
US\$ Return (%):	-8.2	-41.1	4.2
ISE-100 Relative (%):	2.9	-1.0	4.6
Avg. Daily Vol. (TL Mn):	8.5		
Avg. Daily Vol. (US\$ Mn):	5.1		

Beta	1.03
Volatility (Stock)	0.40
Volatility (ISE-100)	0.27

Shareholder Structure	%
Koç Holding	37.9
Fiat Auto S.p.A	37.9

Free Float	24.2
Total	100.0

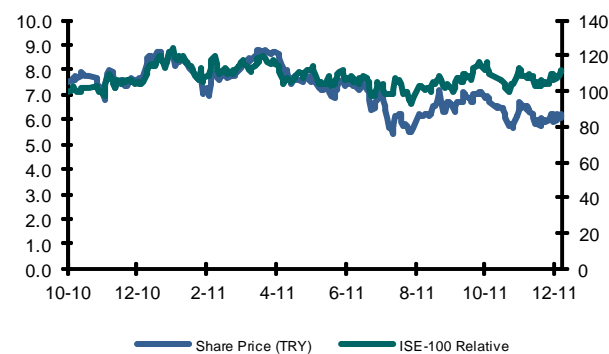


Figure 1: Tofas' key financials					
Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	5,099	6,410	7,266	7,671	8,294
EBIT	243	392	504	516	630
EBITDA	476	658	802	790	896
Net income	360	384	446	455	498
Key Balance Sheet (TRY mn)					
Tangible fixed assets	1,263	1,241	1,312	1,387	1,481
Cash & equivalents	675	1,185	1,867	1,620	1,830
Total assets	4,367	5,284	6,707	6,612	7,051
Short-term debt	481	517	884	698	623
Total debt	1,467	1,841	2,481	2,209	2,539
Total equity	1,422	1,706	1,949	2,046	2,090
Key Ratios					
Net debt/EBITDA (x)	1.66	1.00	0.77	0.74	0.79
Gross Margin	9.8	11.0	11.7	11.4	12.3
EBIT Margin	4.8	6.1	6.9	6.7	7.6
EBITDA Margin	9.3	10.3	11.0	10.3	10.8
Net Margin	7.1	6.0	6.1	5.9	6.0
ROAE	28.4	24.6	24.4	22.8	24.1
ROAA	5.9	5.1	7.4	6.8	7.3
Valuation Metrics*					
P/E (x)	8.4	7.9	6.8	6.7	6.1
P/BV (x)	2.1	1.8	1.6	1.5	1.4
EV/Sales (x)	0.8	0.6	0.6	0.5	0.5
EV/EBITDA (x)	9.5	6.3	5.2	5.3	4.6
EPS (TRY)	0.72	0.77	0.89	0.91	1.00
Dividend yield (%)	4.3%	8.3%	5.9%	7.4%	8.1%

*based on current Mcap

Dogus Otomotiv

Risks are more prevalent

Ezgi Gulbas
Analyst
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We downgrade our "Outperform" rating to "Market Perform". The company's current Mcap stands at TRY 645 million and our target value which we calculated through sum of the parts method stands at TRY 1.2billion representing a 86% upside potential. Although stock offers a huge upside potential, risks are prevalent. As a sole importer, Dogus Otomotiv is more prone to EUR/TRY depreciation and it is the affected from the special consumption tax hikes most due to its highest share in higher engine size and luxury segment.

We expect contraction in domestic sales and Dogus Otomotiv to face difficulty in maintaining its market share. Dogus Otomotiv will be affected most from the exchange rate volatility and therefore could face difficulty in maintaining its market share. We expect sales revenues to be TRY 4.4bn and TRY 3.9bn, respectively in 2011 and 2012.

Tax hikes affect Dogus Otomotiv most. Dogus Otomotiv is a purely domestic player and also has a large share in the 1600-2000cc and >2000cc engine segments. Note that the 1600- 2200cc segment makes up 13% and >2000cc makes up 5% of DOAS' total passenger car sales. In addition, Dogus will be affected from the 5% increase in LCV tax since LCV (Caddy, Combo, Caravel and Transporter) sales make 26% of DOAS' total sales, with a market share of 7.9%.

Bottom-line will deteriorate compared to 2011.

We assume that company's net profit to be TRY 113.6 million in this year before declining to TRY 88.5 million. While the company's EBITDA was TRY 246 million in 2010, we expect it to be to TRY 243 million in 2011 and TRY 193 million in 2012.

MARKETPERFORM
TP: TRY 5.45

	TRY	US\$
Close	2.86	1.53
ISE-100	50,183	26,841
US\$/TRY(CB Bid Rate):	1.88	
52 Week High:	6.92	4.46
52 Week Low:	2.86	1.53
Bloomberg/Reuters Ticker	DOAS.TI / DOAS.IS	
Number of Shares (Mn):	220	
	(TRY Mn)	(US\$ Mn)
Current Mcap :	629	335
Free Float Mcap:	164	88

	1 M	YOY	YTD
TRY Return (%):	-14.1	-57.4	-3.1
US\$ Return (%):	-16.5	-65.0	-1.3
ISE-100 Relative (%):	-6.4	-41.2	-1.0
Avg. Daily Vol. (TRY Mn):	3.9		
Avg. Daily Vol. (US\$ Mn):	2.4		

Beta	0.97
Volatility (Stock)	0.37
Volatility (ISE-100)	0.27

Shareholder Structure	%
Dogus Holding	35.2
Dogus Araç gel.	30.3
Free Float	34.5
Total	100.0

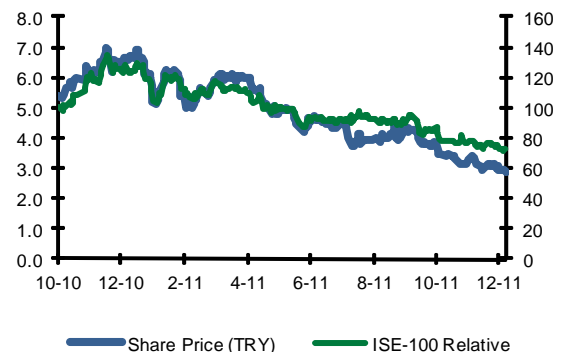


Figure 1: Dogus Otomotiv' key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	2,129	3,428	4,406	3,958	4,083
EBIT	71	206	221	163	165
EBITDA	90	226	243	193	200
Net income	31	149	114	87	91
Key Balance Sheet (TRY mn)					
Tangible fixed assets	244	257	402	464	514
Cash & equivalents	30	28	21	50	126
Total assets	1,219	1,499	1,739	1,786	1,968
Short-term debt	295	263	318	345	349
Total debt	431	349	469	510	517
Total equity	533	737	785	765	774
Key Ratios					
Net debt/EBITDA (x)	4.47	1.42	1.84	2.39	1.96
Gross Margin	14.2	14.1	11.9	12.7	12.7
EBITDA Margin	4.2	6.6	5.5	4.9	4.9
Net Margin	1.4	4.4	2.6	2.2	2.2
ROAE	5.7	20.3	15.0	11.3	11.9
ROAA	2.5	10.0	7.0	4.9	4.9
Valuation Metrics*					
P/E (x)	20.6	4.2	5.5	7.2	6.9
P/BV (x)	1.2	0.9	0.8	0.8	0.8
EV/Sales (x)	0.6	0.3	0.3	0.3	0.3
EV/EBITDA (x)	13.2	5.2	0.3	0.3	0.3
EPS (TRY)	0.28	0.68	0.52	0.40	0.41
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00

*based on current Mcap

Ford Otosan

Strong dividend payer

Ezgi Gulbas
Analyst
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We maintain "Market Perform" rating for Ford Otosan's Mcap currently trades at TRY 5.1 billion and our target value (TRY 5.4 billion) represents a 6% upside potential. Due to the limited upside potential, we maintain our "Market Perform" rating for Ford.

Ford is an attractive dividend payer. Ford had the highest dividend yield last year and signals that it will maintain its high dividend payout ratio. Since we expect the first half of this year to be difficult, choosing a dividend paying stock would be an attractive option.

We assume Ford's net sales and EBITDA to decline to TRY 9.6 billion and TRY 491 million in 2012. We expect local sales revenues to contract by 12% in 2012 parallel to our market slow down expectation and we expect company to face difficulty in maintain its market with its aged product mix. On the export side, economic environment in Ford Otosan's trading partners expected to be severe. Ford's approximately 70% of exports is directed to Europe. However, Ford Otosan is trying to diversify its export base by growing in other regions. In 2009, company has balanced the weakness by exporting Transit Connect to the US. This year, Ford Otosan will start to export DKD transit to Russia.

Despite heavy investment plan, we think that company will maintain its high dividend payout ratio. Company plans to start its investment plan to increase its capacity from 330k to 415k vehicles in 2012 and estimate to spend US\$1bn. Nevertheless, we expect the company's payout ratio to be 92% in 2011, representing a 10% dividend yield. Given the concerns related to growth in 2012, we think that as a consistent dividend payer Ford Otosan offers an opportunity for investors looking for solid cash flows in difficult times.

MARKET PERFORM
TP: TRY 15.60

	TRY	US\$
Close	14.65	7.84
ISE-100	50,183	26,841
US\$/TRY(CB Bid Rate):	1.88	
52 Week High:	15.35	9.95
52 Week Low:	9.93	5.71
Bloomberg/Reuters Ticker:	FROTO.TI / FROTO.IS	

	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):	351	
Current Mcap :	5,141	2,737
Free Float Mcap:	925	495

	1 M	YOY	YTD
TRY Return (%):	2.8	10.0	-4.2
US\$ Return (%):	-0.1	-9.6	-2.6
ISE-100 Relative (%):	12.0	52.0	-2.2
Avg. Daily Vol. (YTL Mn):	6.8		
Avg. Daily Vol. (US\$ Mn):	4.1		

Beta	0.83
Volatility (Stock)	0.34
Volatility (ISE-100)	0.27

Shareholder Structure	%
Koç Holding	41.0
Ford Motor Company	41.0
Free Float	17.9
Total	100.0

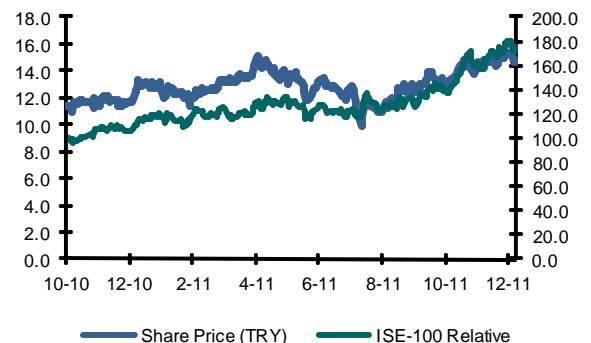


Figure 1: Ford Otosan' key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	5,574	7,649	9,957	9,659	9,852
EBIT	346	576	684	575	640
EBITDA	518	751	856	782	847
Net income	333	505	576	491	544
Key Balance Sheet (TRY mn)					
Tangible fixed assets	1,145	1,058	1,431	1,763	1,770
Cash & equivalents	372	521	912	529	647
Total assets	2,814	3,335	4,159	4,060	4,218
Short-term debt	186	231	294	216	214
Total debt	388	528	660	582	580
Total equity	1,650	1,755	2,146	2,145	2,271
Key Ratios					
Net debt/EBITDA (x)	0.03	0.01	-0.29	0.07	-0.08
Gross Margin	12.0	12.9	12.3	11.4	11.9
EBITDA Margin	9.3	9.8	8.6	8.1	8.6
Net Margin	6.0	6.6	5.8	5.1	5.5
ROAE	20.2	28.8	29.5	22.9	24.6
ROAA	11.8	15.1	15.4	11.9	13.1
Valuation Metrics*					
P/E (x)	15.4	10.2	8.9	10.5	9.5
P/BV (x)	3.1	2.9	2.4	2.3	2.3
EV/Sales (x)	0.9	0.7	0.5	0.5	0.5
EV/EBITDA (x)	9.7	6.7	5.9	6.5	6.0
EPS (TRY)	1.0	1.4	1.6	1.4	1.5
Dividend yield (%)	8%	10%	10%	9%	10%

*based on current Mcap

Turk Traktor

Market Perform

Ezgi Gulbas
Analyst
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We upgrade our rating to "Market Perform" for Turk Traktor. Turk Traktor's Mcap is currently TRY 1,729 million. Our target value stands at TRY 1,921 million, representing 11% upside potential. We are upgrading our recommendation for TTRAK to "Market Perform" from Underperform due to the upside potential and our high dividend yield assumption.

This year was a record year for tractor market, we expect to see slow down this year. We estimate tractor sales to reach 50k in 2011. Demand for tractors was better than our expectation for the second half of the year despite increasing loan rates and down payment ratios. Robust demand was driven by partly good harvest and partly by front loaded demand. In 2012, we expect tractor sales to be 42k and Turk Traktor to maintain its market share.

Total revenues to reach TRY 1.9 billion in 2011 looking at the growth momentum maintained so far. We now forecast a 15% contraction in domestic tractor demand in 2012 and accordingly we estimate TRY 1.8 billion revenues for 2012. In parallel with our revenue estimate, we calculate that the company's net income and EBITDA figures will be TRY 296 million and TRY 382 million, respectively.

Company recently bought a land in Sakarya. In the long term, the company expects tractor market to grow and in order to maintain its market share in the growing market, Turk Traktor has plan to extend its production facility. Although this is a long term view, company bought a land to extend its facilities.

14% estimated dividend yield for Turk Traktor We expect the company's payout ratio to be 69% in 2011, representing a 14% dividend yield.

MARKET PERFORM
TP: TRY 36.00

	TRY	US\$
Close	32.40	17.33
ISE-100	50,183	26,841
US\$/TRY(CB Bid Rate):	1.88	
52 Week High:	39.10	24.88
52 Week Low:	22.25	13.90
Bloomberg/Reuters Ticker:	TTRAK.TI / TTRAK.IS	

	(TRY Mn)	US\$ Mn)
Number of Shares (Mn):	53	
Current Mcap :	1,729	920
Free Float Mcap:	415	222

	1 M	YOY	YTD
TRY Return (%):	5.9	41.5	-4.1
US\$ Return (%):	2.9	16.3	-2.5
ISE-100 Relative (%):	15.4	95.5	-2.1
Avg. Daily Vol. (TL Mn):	8.7		
Avg. Daily Vol. (US\$ Mn):	5.2		

Beta	0.94
Volatility (Stock)	0.46
Volatility (ISE-100)	0.27

Shareholder Structure	%
Koç Holding	37.7
CNH	37.5
Free Float & Others	24.8
Total	100.0

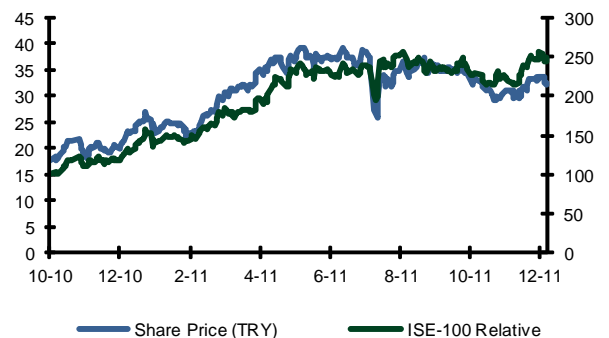


Figure 1: Turk Traktor' key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	668	1,193	1,917	1,812	1,830
EBIT	54	240	391	371	357
EBITDA	61	249	402	380	366
Net income	31	180	339	295	284
Key Balance Sheet (TRY mn)					
Tangible fixed assets	38	56	54	56	59
Cash & equivalents	81	249	266	115	115
Total assets	713	886	1,116	1,053	1,063
Short-term debt	224	128	110	109	115
Total debt	322	169	134	133	140
Total equity	301	468	678	645	644
Key Ratios					
Net debt/EBITDA (x)	3.95	-0.32	-0.33	0.05	0.07
Gross Margin	15.6	26.7	26.3	26.5	27.5
EBITDA Margin	9.2	20.8	21.0	21.0	20.0
Net Margin	4.6	15.1	17.7	16.3	15.5
ROAE	10.3	38.4	59.1	44.6	44.0
ROAA	4.3	20.3	33.8	27.2	26.8
Valuation Metrics*					
P/E (x)	55.9	9.6	5.1	5.9	6.1
P/BV (x)	5.8	3.7	2.6	2.7	2.7
EV/Sales (x)	2.6	1.4	0.9	0.9	0.9
EV/EBITDA (x)	28.1	6.9	4.3	4.5	4.7
EPS (TRY)	0.6	3.4	6.3	5.5	5.3
Dividend yield (%)	1%	9%	14%	12%	11%

*based on current Mcap

Otokar

Market Perform

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We downgrade Otokar's rating to "Market Perform" Otokar's Mcap currently trades at TRY 577 million. Our target value stands at TRY 721 million (TRY 30.00 per share), representing 25% upside potential. Therefore, We downgrade our "Underperform" rating for the company to "Market perform".

Revenue growth persisted in 2011. Otokar's revenues improved 84.3% YoY reaching TRY 579 million in 9M11. Improvement in sales was stemming from robust domestic sales, which makes up 85% of sales revenues and almost doubled compared to the prior year. Improvement was mainly due to the rise in commercial vehicle sales, which swelled 134% to TRY 149 million. On the other hand, defense segment sales increased by 47% to TRY 110 million in 9M11.

Defense segment revenues are the key in the profitability. Despite the rise in sales revenue, Otokar suffered from margin contraction in 3Q11. Gross margin deteriorated significantly to 15.6% in 3Q11, down from 21.8% in 3Q10 due to the declining share of the most profitable defense product segment. We expect 4Q11 results to be better since Otokar received defense vehicle orders of TRY126 million to be delivered in 2H11. We think that company will record revenues from this transaction in the 4Q11 since it only recorded TRY 16 million defense segment revenues in 3Q11. Overall, we expect gross margin to be 19.2% in 2011.

Total revenues to reach TRY 775 million in 2012. We expect Otokar to record revenues of TRY 704 million in 2011 with a growth rate of 36%. In 2012, we expect revenue growth to slow down and company to have TRY 775 million revenues. Our net income expectation for 2012 is TRY 47 million. In parallel with our revenue estimate for 2012, we believe the company's EBITDA to be TRY 78 million. Accordingly, we estimate EBITDA margin to be 10% in 2012.

MARKET PERFORM
TP: TRY 30.00

	TRY	US\$
Close	24.05	12.86
ISE-100	50,183	26,841
US\$/TRY(CB Bid Rate):	1.87	
52 Week High:	43.60	26.06
52 Week Low:	20.33	11.85
Bloomberg/Reuters Ticker:	OTKAR.TI / OTKAR.IS	

	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):	24	
Current Mcap :	577	309
Free Float Mcap:	156	83

	1 M	YOY	YTD
TRY Return (%):	-8.9	10.1	-2.2
US\$ Return (%):	-11.4	-9.5	-0.5
ISE-100 Relative (%):	-0.7	52.1	-0.1
Avg. Daily Vol. (TL Mn):	2.9		
Avg. Daily Vol. (US\$ Mn):	1.8		

Beta	0.54
Volatility (Stock)	0.34
Volatility (ISE-100)	0.27

Shareholder Structure	%
Koç Holding	44.7
Ünver Holding	24.8
Free Float & Other	30.5
Total	100.0

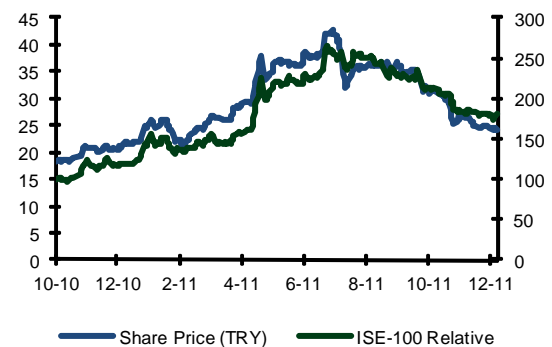


Figure 1: Otokar' key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012F	2013F
Revenues	503	517	705	775	830
EBIT	58	22	46	55	69
EBITDA	69	37	67	78	91
Net income	34	21	34	47	61
Key Balance Sheet (TRY mn)					
Tangible fixed assets	103	99	106	111	117
Cash & equivalents	32	112	74	93	126
Total assets	601	636	846	883	948
Short-term debt	69	38	156	160	169
Total debt	141	129	248	243	246
Total equity	173	174	196	217	244
Key Ratios					
Net debt/EBITDA (x)	1.58	0.46	2.60	1.93	1.32
Gross Margin	26.1	17.6	19.2	21.1	22.3
EBIT Margin	11.6	4.2	6.5	7.1	8.3
EBITDA Margin	13.8	7.2	9.5	10.0	11.0
Net Margin	6.7	4.0	4.8	6.1	7.3
ROAE	23.6	19.6	18.4	22.7	26.4
ROAA	6.9	5.6	4.6	5.2	6.8
Valuation Metrics*					
P/E (x)	17.0	27.8	17.0	12.3	9.5
P/BV (x)	3.9	3.3	2.9	2.7	2.4
EV/Sales (x)	1.5	1.5	1.1	1.0	0.9
EV/EBITDA (x)	11.1	20.6	36.6	34.7	34.6
EPS (TRY)	1.4	0.9	1.4	2.0	2.5
Dividend yield (%)	3.5%	2.6%	3.6%	5.0%	6.4%

*based on current Mcap

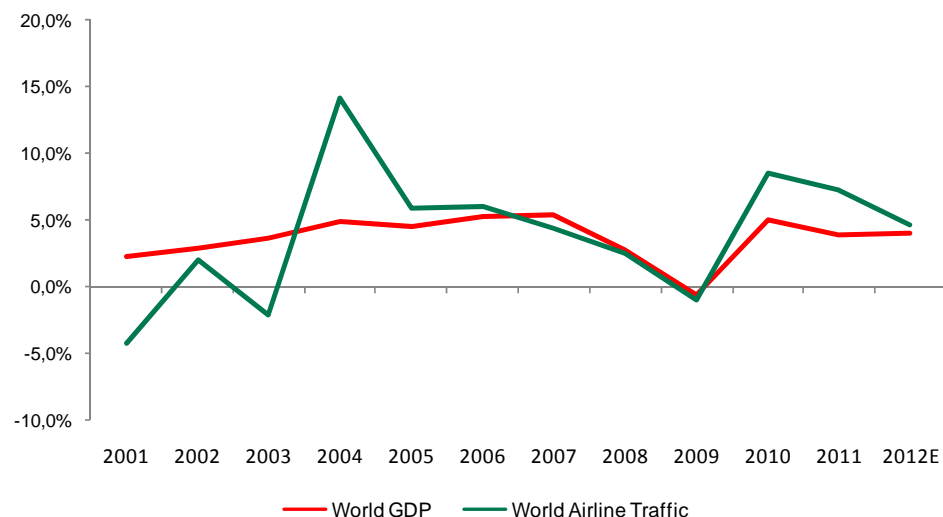
Aviation sector

The aviation sector has maintained its growth along with economic growth, liberalization, globalization, development of international trade, decreasing prices and expansion of service networks, despite the fact that it experienced occasional regressions due to political and financial crises.

The most crucial points for the sector were the terrorist attacks in the U.S. on September 11th, 2001. The sector suffered great damage afterwards which led to prominent airline companies going bankrupt. The sector dressed its wounds in 2002, and again saw losses due to the Second Gulf War in Iraq in 2003 and the adverse effects of the SARS crisis in the Far East. Though SARS was brought under control quickly the War in Iraq lasted longer than expected. The sector entered into a growth trend as of 2004 which was maintained until the global economic crisis in the final quarter of 2008. In 2009, global airline traffic shrank 1.1%.

As for 2011, the tension from the MENA crisis caused passenger traffic to abate. In addition, rising oil prices (to \$120/bbl) after those events increased costs to airline companies, causing great losses. According to IATA data the global airline traffic is forecast to grow by 4.6% in 2012, while it grew by 7.2 % in 2011 after growing 8.5% in 2010. While the global economy is predicted to grow by 3.3% by the end of 2030, the average growth in airline traffic is expected to be 5.1%.

Figure 1: World airline traffic development



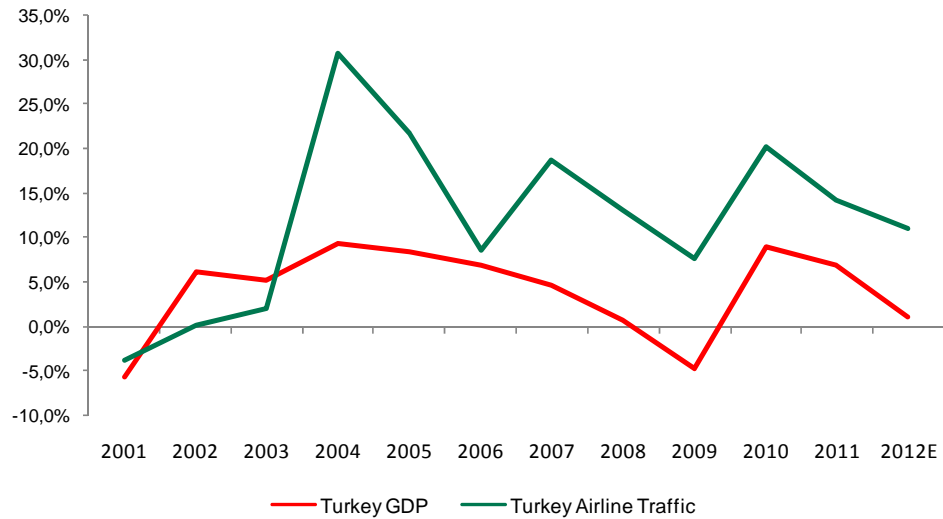
Source: IMF, IATA

Contrary to the trends in the global airline sector, the Turkish aviation sector follows a solid trend of growth. The strategic position of Turkey, being the bridge between continents and civilizations, its geopolitical structure, socio-economic conditions of its neighbors, as well as its favorable climate provide great advantage compared to other countries.

In Q4 2003, the aviation sector entered a new period of expansion and competition with the removal of restrictions on domestic flights by private firms. Private carriers began to increase the number of their domestic flights through market liberalization

which increased the number of domestic passengers noticeably. On the other hand, the continuance of favorable economic performance in recent years, the increase in tourist numbers and the decrease in ticket prices made air travel a non-luxury means of travel. THY's enlistment with the Star Alliance also brought about increases in passenger numbers.

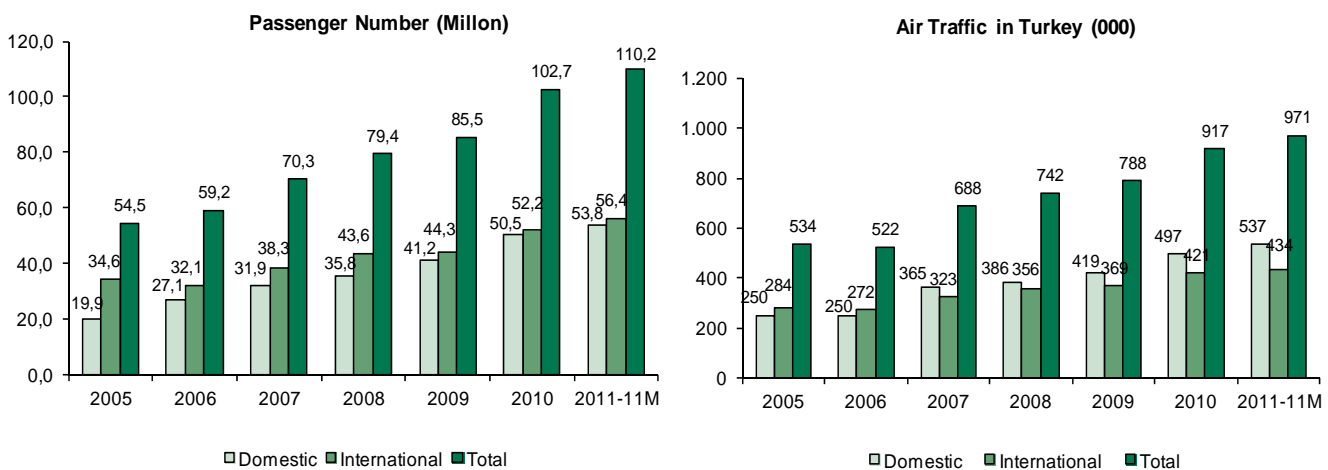
Figure 2: Turkish airline traffic development & GDP growth



Source: TUIK, State Airports Authority

Turkey has become one of the fastest growing countries in the world in the last eight years especially. When we look at data from the General Directorate of Civil Aviation between 2003 - 2011, we see an increase of 138% in the domestic and international flight network, 202% increase in terms of the number of aircraft, and a 250% average increase in seat capacity. With this trend, the number of passengers has increased greatly, with the total average number of passengers in 2003-2011 increasing at a CAGR of 16%.

Figure 3: Turkish aviation sector traffic figures



Source: State Airports Authority

The number of domestic passengers increased from 19.9 million in 2005 to 53.8 million for 2011 up to November, while the increase in the number of international

passengers reached 56.4 million at the same time, flight traffic grew from 250,000 domestic routes flown and 284,000 international routes to 537,000 and 434,000 in the first 11 months of , respectively. In addition, the number of passengers increased to 110.2 million for the first 11 months of 2011 months from 54.5 million in 2005.

Figure 4: Passengers numbers

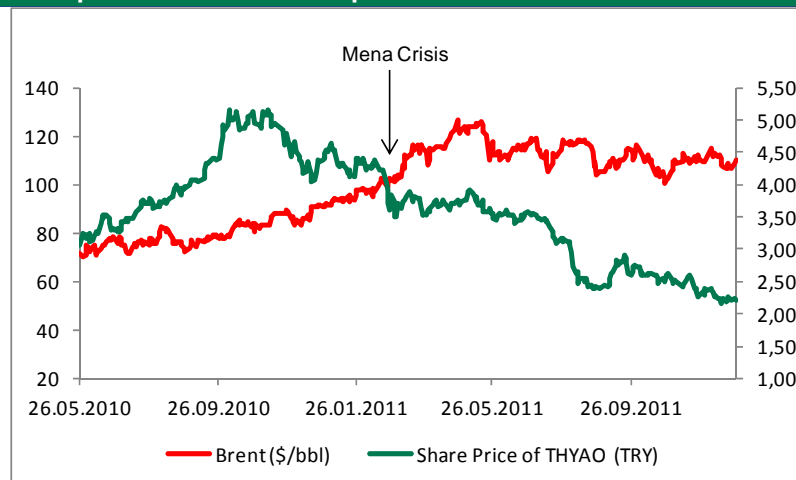
Number of Pax (Mn)	2009			2010			2011- 11 Months		
	Int.	Dom.	Total	Int.	Dom.	Total	Int.	Dom.	Total
Istanbul Ataturk Airport	18,4	11,4	29,8	20,3	11,8	32,1	22,0	12,5	34,5
Antalya	15,2	3,1	18,3	18,3	3,7	22,0	20,3	4,2	24,5
Istanbul Sabiha Gokce	2,0	4,5	6,5	3,7	7,5	11,2	4,0	8,0	11,9
Ankara Esenboga Airport	1,1	5,0	6,1	1,3	6,4	7,8	1,3	6,5	7,8
Izmir Adnan Menderes Airport	1,7	4,5	6,2	2,1	5,4	7,5	2,4	5,6	8,0
Bodrum-Milas	1,8	1,0	2,8	1,9	1,2	3,1	2,0	1,4	3,3
Adana	0,4	2,1	2,5	0,4	2,4	2,8	0,5	2,5	3,0
Other	3,7	9,6	13,3	4,1	12,2	16,3	4,0	12,2	16,2
TURKEY	44,3	41,2	85,5	52,2	50,6	102,8	56,4	53,8	110,2

Source: State Airports Authority

The sector is forecast to grow 14.2% in 2011 and 11% in 2012. While the government expects the number of passengers to reach 135 million in 2013, this is estimated to rise to ~350 million by 2023. Considering Turkey's geographical location, improvements in inter-regional trade and tourism and increasing aircraft numbers we expect Turkey's aviation sector to continue improving.

Oil Prices - The factor which most negatively affected the sector last year was the MENA crisis which broke out at the beginning of the year. The Middle East oil crisis began in Tunisia and spread to Egypt, Oman and Libya causing prices to climb from \$90/bbl to \$120/bbl for fear that the revolutionary sentiments in the region might spread to other countries and cause disturbances in the export of oil. This increased costs to airline companies, which resulted in many declaring high losses and shares also taking a hit. On the other hand, the companies which had high borrowing positions dependent on FX rates were also affected by the precipitous loss in value of the lira.

Figure 5: Oil prices & THY's share price



Source: Seker Securities

In 2012, we expect the aviation sector to follow the course of oil prices, which we believe will end 2011 at around \$110/bbl and stay at an average of \$105/bbl in 2012. Thus, cost increases in 2012 will be more limited compared to 2011. Please note that after further unrest connected to the MENA crisis the upwards movement in oil prices will bring more risk for the sector players.

Izmir Adnan Menderes and Cukurova Airport Tenders - In 2011, the aviation sector was quite busy. Recall that TAV Airports Holding won the tender held by the General Directorate of State Airports Authority with a bid of EUR 610 million for the leasing of the operating rights of the existing international terminal, domestic terminal and CIP at Izmir Adnan Menderes Airport on November 17, 2011. TAV Airports Holding, Limak Holding and IC Ictas Insaat (Cecen Holding) also entered the tender. In addition to TAV, the Saudi Oger Group and Al-Rajhi Group signed with the General Directorate of Civil Aviation in Saudi Arabia for the tender of Medina International Airport. Recall that TAV had submitted a bid with Saudi Oger Ltd. and Al-Rajhi Holding Group for the tender of Medina International Airport in Medina on August 8, 2011. On the other hand, Sky Line Havacilik and Zonguldak Ozel Sivil Havacilik's joint venture have placed the sole EUR 357 million bid for the Cukurova Airport tender on December 15, 2011. The company will manage the Cukurova Airport for nine years, 10 months and 10 days according to the terms of the agreement and the airport will service passengers in Mersin and Adana provinces, the center of the Cukurova area. Construction is expected to take 36 months and the airport will have both a domestic and international terminal.

Third airport in Istanbul - A third airport on the European side of Istanbul is on the government's agenda, however, the location of such an airport has not been announced yet. Once a location is chosen, wind tests will be conducted for five years and the construction of the airport will take three years. We think that it would be difficult for the airport to become operational before 2020. Recall that TAV Airports Holding Istanbul is entitled to operate Ataturk Airport until 2021. Therefore, we believe that the tender for the construction of the third airport will be brought into agenda with the tender of Istanbul Ataturk airport, making it difficult to hold a new airport tender before the operating right for TAV expires. On the other hand, we believe that the airport in neighboring Corlu province will be more active at this stage, as it would be in more of a position to contribute to the passenger carrying capacity of Istanbul Ataturk Airport when it opens to cargo aircrafts in the year ahead. Please note that 11% of aircrafts landing in Istanbul are cargo aircrafts.

Istanbul Ataturk Airport to expand - For now, Istanbul Airport has a long runway called "06/24" and parallel runways called "18/36". The "06/24" runway was elongated during March-July 2010 which extended its take-off/landing capacity from 40 take-off/landings per hour to 50 per hour. After the completion of further system and modernization upgrades, this number is expected to reach 60 in 2012.

Another expansion is the transfer of 800 acres of adjacent land which currently belongs to the military. After the transfer, the construction of a new landing field is on the agenda, though this is a long-term project. This expansion will provide some positives for the sector (especially TAV) such as new hangar space and larger terminal capacity. It will be possible to increase the passenger capacity of Istanbul Airport from 50 million to 70-75 million with the realization of these investments.

New air traffic regulations - The accepted distance between aircrafts is planned to be reduced to 3 miles from 5-7.5 miles. With this decrease, the number of delays will likely fall, thus increasing total passenger numbers by speeding up air traffic.

TAV's sales - Recall that Akfen Holding (AKFEN.TI) and Tepe Insaat announced authorizing Credit Suisse Securities, Ltd. to evaluate strategic options about their subsidiary TAV Airports Holding. In TAV's current shareholder structure, an equal 26% is owned by Tepe Insaat and Akfen Holding. Should this sale be realized, it would require a tender call since control of the company would change. Thus, we believe that TAV shares will attract investor attention and the direction of the stock will be heavily dependent on this news flow in the next term.

Pegasus IPO - Recall that Pegasus Airlines applied to the CMB and ISE in 2011 to offer 31% of its shares, but postponed its decision public after airline companies declared high losses following rapid increases in oil prices. In parallel with our view that the sector will enjoy a better year in 2012, we think that the public offering may come back the agenda. If Pegasus were to go public, it would be the second most actively traded airline stock on the ISE, after THY. We think that a Pegasus IPO, with its 18 domestic destinations and 25 international destinations, 33 aircraft and 6,076 seats, would draw foreign interest especially considering the growth in domestic flights in recent years.

Fourth offering of Turkish Airlines The government announced plans to hold another public offering of the Privatization Administration's 49.12% share of Turkish Airlines (THY). However, the PA postponed the offering after airline companies declared high losses following rapid increases in oil prices in 2011. At this stage, no further announcement has been made regarding the strategy and timing of the offering and the PA will retain its 49.12% share with the rest being traded publicly. Considering the discount applied at the third public offering in 2006, we think that the developments surrounding the next offering may create pressure on THY shares.

Turkish Airlines

2012 better than 2011

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Analyst
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Fleet expansions to lift growth The total number of THY's aircraft grew from 152 in YE10 to 176 in YE11. The company also grew its seat capacity by 19% to 32,554 in 2011 while the number of destinations soared to 190 from 167 in 2010. Thus, THY increased its passenger numbers to above 30 million in 2011 while it was 29 million in 2010 due to rising capacity and the introduction of new destinations. THY plans to increase its aircraft number to 189 by the end of 2012 and 202 in 2013. The company aims to carry 38.2 million passengers in 2012 while we predict the same figure to be about 36.2 million 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 We expect THY to finish 2011 with net sales revenues of TRY 11.5 billion. We expect the company to announce FY2012 net revenues of TRY 13.5 billion while the company targets revenues of TRY 14.6 billion due to increasing number of passengers. On the other hand, the company's PLF rate decreased to 72.6% in 2011 from 74.1% in 2010 mainly due to fleet expansion in 2011. We expect THY to increase this rate to 73.3% in 2012.

2012 will be better than 2011 Recall that increased net financial expenses due to leasing FX loss combined with soaring oil prices affected negatively the company's bottom-line in 2011. The company recorded a total loss of TRY 467 million for 9M11. However, we believe that 2012 will be better than 2011 for the company's bottom-line due to increasing net sales revenues and improved margins. We anticipate THY to close 2011 with a TRY 408 million net loss. We estimate THY to achieve a net income of TRY 475 million at the end of 2012.

OUTPERFORM
TP: TRY 3.18

	TRY	US\$
Close	2,06	1,10
ISE-100	50.183	26.841
US\$/TRY(CB Bid Rate):	1,88	
52 Week High:	4,52	2,90
52 Week Low:	2,06	1,10
Bloomberg/Reuters Ticker:	THYAO.TI / THYAO.IS	

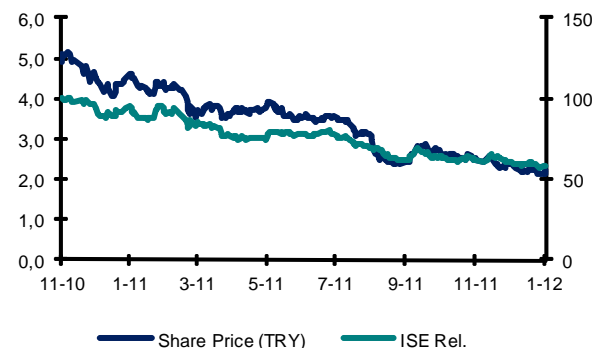
	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):	1.200	
Current Mcap :	2.472	1.322
Free Float Mcap :	1.236	661

	1 M	YOY	YTD
TRY Return (%):	-12,7	-54,6	-2,8
US\$ Return (%):	-15,1	-62,6	-1,1
ISE-100 Relative (%):	-4,9	-37,2	-0,7
Avg. Daily Vol. (TRY Mn):	63,2		
Avg. Daily Vol. (US\$ Mn):	39,1		

Beta	0,98
Volatility (Stock)	0,33
Volatility (ISE-100)	0,27

Shareholder Structure	%
Privatization Administration	49,12
Free Float	50,88

Total 100,0



In terms of EBITDA, we estimate THY to book TRY 1,001 million and an EBITDAR of TRY 1,543 million at the end of 2011. We believe THY's EBITDA and EBITDAR to climb to TRY 1,133 million and TRY 1,784 million in 2012. THY's EBITDA margin will come to around 8.7% levels in 2011 and 8.4% in 2012. While we expect EBITDAR margin to reach 13.4% in 2011, we expect this figure to increase to around 13.2% in 2012. Please note that approximately 80% of THY's revenues are FX-based (mostly euro), therefore, the company's revenues are exposed to fluctuations in FX rates.

"Outperform" Based on our DCF and peer analysis, our target market capitalization for THY stands at TRY 3,814 million with a target price of TRY 3.18. Considering THY's current market capitalization which is around TRY 2,472 million, our target value represents a 53% upside potential. Thus, we maintain a **"Outperform"** recommendation for THY. Please note that Turkish Airlines shares have already decreased 51% and underperformed the ISE-100 index by 37% since the beginning of 2011 due high oil prices and decreasing profitability.

Figure 1: THY's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	7.036	8.423	11.507	13.489	14.088
EBITDA	1.229	919	1.001	1.133	1.197
EBITDAR	1.775	1.526	1.543	1.784	1.978
Net income	559	286	-408	475	484
Key Balance Sheet (TRY mn)					
Tangible fixed assets	4.811	6.443	9.966	10.603	11.187
Cash & equivalents	1.313	898	2.289	1.969	1.728
Total assets	8.570	10.649	15.653	16.136	16.489
Short-term debt	412	493	944	912	962
Total debt	2.988	4.178	8.500	8.207	8.273
Total equity	3.445	3.747	3.364	3.743	3.946
Key Ratios					
Net debt/EBITDA (x)	1,36	3,57	6,20	5,51	5,47
Gross Margin	26,1	21,5	17,3	17,6	17,6
EBITDA Margin	17,5	10,9	8,7	8,4	8,5
EBITDAR Margin	25,2	18,1	13,4	13,2	14,0
Net Margin	7,9	3,4	-3,5	3,5	3,4
ROAE	17,4	8,0	-11,5	13,4	12,6
ROAA	6,8	3,0	-3,1	3,0	3,0
Valuation Metrics*					
P/E (x)	8,0	15,5	N.M.	9,4	9,2
P/BV (x)	1,3	1,2	0,7	0,7	0,6
EV/Sales (x)	1,2	1,0	0,8	0,6	0,6
EV/EBITDA (x)	7,1	9,4	8,7	7,7	7,3
EV/EBITDAR (x)	4,9	5,7	5,6	4,9	4,4
EPS (TRY)	0,56	0,29	-0,34	0,40	0,40
Dividend yield (%)	0,0%	0%	0%	4%	4%

*based on current Mcap

Figure 2: THY's traffic estimates

	2009	2010	2011E	2012E	2013E
Fleet	132	157	176	189	202
Number of Passengers (Mn)	25,1	29,1	32,6	36,2	37,3
<i>Domestic</i>	11,7	13,6	15,8	17,5	17,6
<i>International</i>	13,4	15,5	16,8	18,7	19,7
Available Seat km (bn)	56,6	65,1	80,2	94,5	108,9
Revenue Passenger km (bn)	40,1	47,9	58,1	69,3	80,2
Passenger LF (%)	70,9%	73,7%	72,4%	73,3%	73,6%

TAV Airports Holding

Robust net sales growth

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Inorganic and organic growth continues As part of its growth strategy, TAV Airports Holding continues its organic and inorganic growth. TAV recently won the tender for Medina Airport in Saudi Arabia in 2011. In addition, TAV won the tender held by the General Directorate of State Airports Authority with a bid of EUR 610 million for the leasing of the operating rights of the existing international terminal, domestic terminal and CIP at Izmir Adnan Menderes Airport on November 17, 2011. TAV's current contract for the international terminal will expire in 2015 and the company will maintain its operating rights until the end of 2032. Thus, TAV Airports Holding is the leading airport operator in Turkey with a market share of 41%, operating a total of 11 airports (4 in Turkey and 7 abroad). TAV serves over 400,000 flights for approximately 300 carriers and above 50 million passengers annually.

Revenues to grow by about 15% annually in 2012 TAV's domestic and international passenger traffic rose by 10% YoY to 48.79 million in the first eleven months of 2011 (we assume TAV's pax numbers reached to 52.2 million at the end of 2011). (our estimate: 52.2 million). 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 the number of passengers 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 EUR 785 million in 2010 and we expect them to reach EUR 878 million in 2011 and EUR 1,010 million in 2012.

While the company's EBITDA and EBITDAR were EUR 212 million and EUR 342 million in 2010, we expect TAV Airports Holding to increase to EUR 258 million and EUR 390 million for 2011 and EUR 385 million in 2012, respectively. Also, we believe that TAV's EBITDA and EBITDAR will increase to EUR 310 million and EUR 450 million in 2012, respectively.

OUTPERFORM
TP: TRY 10.80

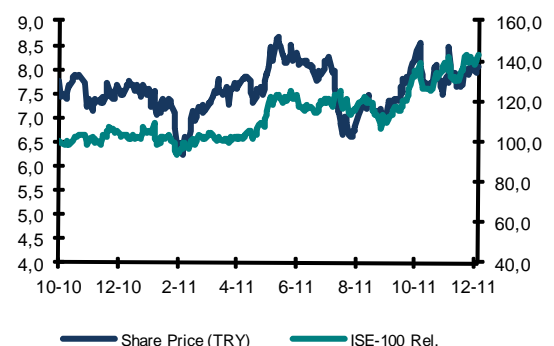
	TRY	US\$
Close	7,96	4,26
ISE-100	50.183	26.841
US\$/TRY(CB Bid Rate):	1,88	
52 Week High:	8,66	5,49
52 Week Low:	6,24	3,72
Bloomberg/Reuters Ticker: TAVHL.TI/ TAVHL.IS		

Number of Shares (Mn):	363	
Current Mcap (Mn):	2.892	1.547
Free Float Mcap (Mn):	1.157	619

	1 M	YOY	YTD
TRY Return (%):	0,3	2,6	-1,2
US\$ Return (%):	-2,5	-15,7	0,5
ISE-100 Relative (%):	9,2	41,7	0,9
Avg. Daily Vol. (TRY Mn):	8,34		
Avg. Daily Vol. (US\$ Mn):	5,10		

Beta	0,73
Volatility (Stock)	0,32
Volatility (ISE-100)	0,26

Shareholder Structure	%
Tepe	26,1
Akfen	26,1
Sera Yapi Endustrisi	4,5
Other	3,5
Free Float	39,8
Total	100



In terms of net profit, we expect the company to announce a EUR 60 million net profit for 2011 and EUR 80 million in 2012. On the other hand, Akfen Holding (AKFEN.TI) and Tepe Insaat announced authorizing Credit Suisse Securities, Ltd. to evaluate strategic options for TAV's subsidiaries in 2011. Thus, we believe that TAV shares will attract investor attention and the direction of the stock will be heavily dependent on the news flow in the next term.

Still "Outperform" We derive a TRY 3,924 million target market capitalization for TAV Airports Holding using the DCF and Peer Comparison valuation models. Also, we revised our target share price up by 8% to TRY 10.80 from TRY 10.00, including the recent acquisitions – Izmir Adnan Menderes Airports (domestic terminals) and Medina international Airport. Taking into consideration TAV's current market capitalization of TRY 2,892 million (TRY 7.96), our target value represents a 36% upside potential. Therefore, we maintain an "Outperform" rating for TAV Airports Holding.

Also, please note that TAV Airports Holding plans to distribute dividends for the first time from its 2011 earnings in 2012.

Figure 1: TAV's traffic estimates

Passengers (Million)	2010	2011E	2012E	2013E
Ataturk Airport	32,1	37,2	39,1	41,2
<i>International</i>	20,3	23,7	24,9	26,2
<i>Domestic</i>	11,8	13,5	14,2	15,0
Esenboga Airport	7,8	8,4	9,0	9,5
<i>International</i>	1,3	1,5	1,6	1,7
<i>Domestic</i>	6,4	6,9	7,4	7,8
Izmir Airport	2,1	2,3	9,2	10,0
<i>International</i>	2,1	2,3	2,5	2,7
<i>Domestic</i>	-	-	6,7	7,3
Medina	-	-	3,6	3,8
Tunusia(Monastir&Enfidha)	3,9	2,4	3,2	3,8
Tbilisi Airport	0,8	0,9	1,0	1,1
Batumi Airport	0,1	0,1	0,1	0,2
Macedonia (Skopje & Ohrid)	0,7	0,8	0,9	1,0
TAV TOTAL	47,6	52,2	66,1	70,5

Figure 2: TAV's key financials

Key Income Statement (Euro mn)	2009A	2010A	2011E	2012E	2013E
Revenues	640	785	878	1.010	1.090
EBITDA	167	212	258	310	306
EBITDAR	311	342	390	450	482
Net income	52	52	60	80	110
Key Balance Sheet (TRY mn)					
Tangible fixed assets	118	170	174	179	190
Cash & equivalents	34	32	35	36	38
Total assets	1.923	2.039	2.081	2.143	2.272
Short-term debt	197	225	205	211	223
Total debt	1.286	1.233	1.233	1.270	1.347
Total equity	413	540	545	561	595
Key Ratios					
Net debt/EBITDA (x)	5,62	3,87	3,33	2,55	2,32
EBITDA Margin	26,2	27,0	29,4	30,7	28,1
EBITDAR Margin	48,6	43,5	44,4	44,6	44,2
Net Margin	8,1	6,6	6,8	7,9	10,1
ROAE	12,5	9,6	11,3	14,5	18,7
ROAA	2,7	2,5	3,0	3,8	4,9
Valuation Metrics*					
P/E (x)	23,9	24,3	20,2	15,1	11,0
P/BV (x)	3,2	2,8	2,7	2,6	2,6
EV/Sales (x)	3,7	3,0	2,7	2,4	2,2
EV/EBITDA (x)	14,2	11,2	9,2	7,7	7,8
EV/EBITDAR (x)	7,6	6,9	6,1	5,3	4,9
EPS (Euro)	0,14	0,14	0,17	0,22	0,30
Dividend yield (%)	0%	0%	1%	1%	2%

*based on current Mcap

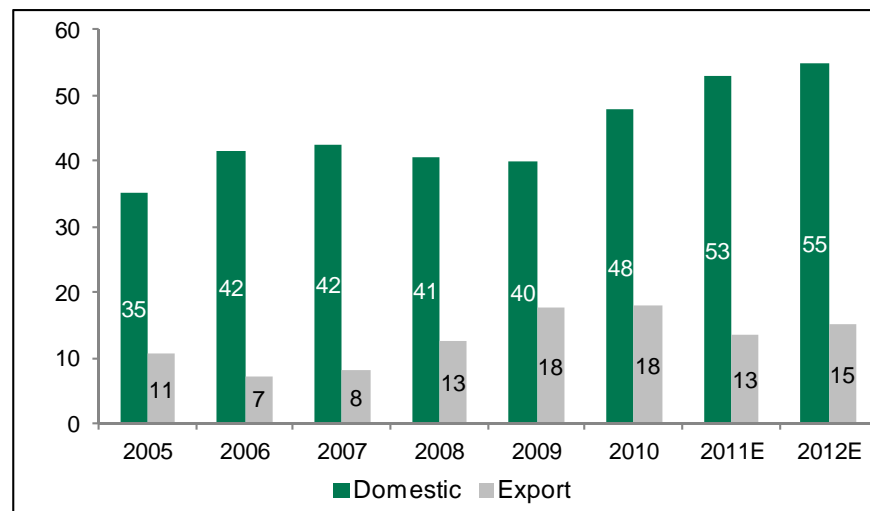
Cement sector

We assume moderate growth for the domestic market in 2012

The Turkish cement sector posted a 6.3% CAGR between 2005 and 2010. Following the strong growth, cement per capita reached 700 kg/year in 2010. Currently, 48 integrated plants and 17 grinding stations operate in the Turkish cement industry.

According to the Turkish Cement Manufacturers' Association (TCMA), domestic sales volume increased by 12.4% YoY to 39 million tons for 9M11, in parallel with the 12.7% growth in the construction sector for 9M11. On the other hand, exports declined by 24% YoY to 8.8 million tons in 9M11, due to the focus on the domestic market and the negative effect of the Arab Awakening.

Figure 1: Sales volume (tons, mn)



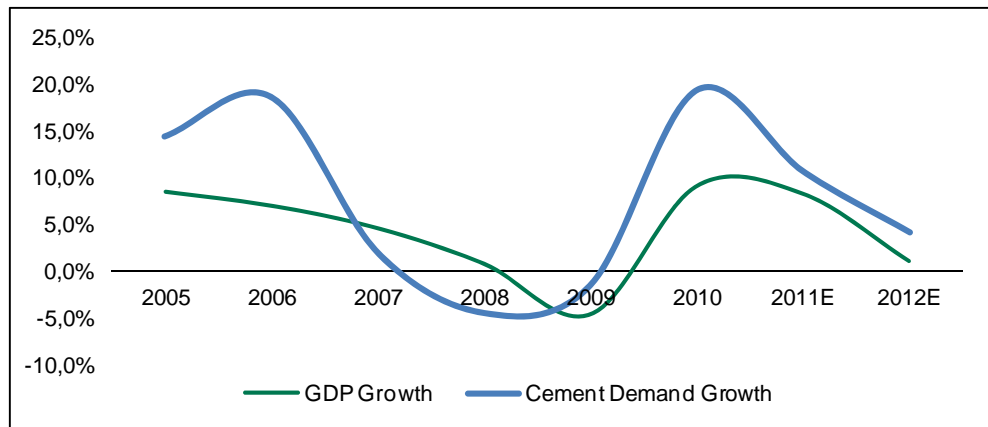
Source: TCMA, Seker Securities

We believe that domestic consumption growth will be finished in 2011 at 10.8% and reach 53 million tons. At the same time, we assume export volume to decrease to 13.4 million tons and decline by 24.5%. In addition, cement per capita is expected to exceed 700 kg/year in 2011.

We believe that urban transformation, infrastructure investments, housing demand, new regulations (both Earthquake and 2B), and ongoing projects will continue in 2012. On the other hand, following the strong growth in 2005 and 2011, we assume a 4% increase in domestic cement consumption reaching 55 million tons in 2012 due to the higher interest rate, slowdown in GDP growth (our 2012 GDP forecast at 1.0%) and the negative effect of the European debt crisis.

The expected slowdown in domestic demand and excess capacity will cause sector players to continue to compensate with exports. The MENA region seems to be the primary destination for Turkey. On the other side, the negative effects of the Arab Awakening will be a potential risk for cement exports.

Figure 3: GDP and cement sector growth (%)



Source: TurkStat, Seker Securities

While there is excess capacity in the cement sector (currently, over 100mn tons), domestic cement prices have maintained their upward trend in 2011, due to the strong demand conditions.

As of 3Q11, domestic grey cement price increased by 12% YoY to \$60/ton. In addition, export prices increased by 4% YoY in Q3 to \$51/ton. We project that domestic cement prices will remain flat at around \$60/ton in 2012 due to weak demand and ongoing overcapacity pressure. On the other hand, export prices will increase 4% YoY and reach \$53/ton in 2012.

Figure 2: Cement prices (USD/ton)



Source: Companies, Seker Securities

In addition, we believe that the upcoming the XXII Olympic Winter Games and XI Paralympic Winter Games in 2014 in Sochi, Russia may create some cement export demand from 2012 onwards. Note that Russia was the biggest cement importer from Turkey in 2008 and its growth rate is expected to be at 4% for 2012 and 2013. All in all, we assume export volumes to increase by 11% YoY to 15 million tons in 2012.

In light of the demand and price expectations for 2012, we believe the increase in electricity and petrocake prices will be more negative for the companies' margins compared to 2011. We maintain our "Market Perform" rating for the sector in 2012.

Our top pick - Cimsa

Based on our DCF valuations, Cimsa offers a higher upside potential, dividend yield and EBITDA margin compared to Akcansa and Adana Cimento. Our target price of TRY 10.20 for Cimsa indicates a 36% upside potential. We maintain our “Market Perform” rating for Akcansa and Adana Cimento.

Cimsa

Our top pick...

Selahattin Aydin
Analyst
saydin@sekeryatirim.com

Our target Mcap for Cimsa is TRY 1.38 billion
The company's current Mcap stands at TRY 1.02 billion and our target value represents a 36% upside potential. Thus, we maintain our "Outperform" rating for Cimsa.

The Mediterranean region maintained above average growth in demand
Cimsa's main market is the Mediterranean region which grew faster than the domestic market in 2010 and 9M11. Cimsa's domestic cement sales revenues and EBITDA increased by 19% and 20% YoY in 9M11. On the other hand, the Mediterranean region had the highest excess capacity among other regions, which put pressure on cement prices in 2012. Nevertheless, Cimsa's product mix (grey cement, white cement, calcium aluminate cement etc.) and export capabilities are its main drivers. We estimate 4% YoY sales revenue and EBITDA growth for Cimsa in 2012.

Cimsa bid for the purchase of 51% shares of Afyon Cement (AFYON.TI; N/C) which belongs to Ciments Francais
The company began searching for new merger and acquisition opportunities in the past. While Cimsa has a 5 million ton clinker capacity, Afyon Cement has 0.5 million ton clinker capacity and operates in the Aegean region. There are no details yet, but we believe that cement consumption will continue growing in the domestic market in the next years and that purchasing will be positive for Cimsa thanks to capacity expansion.

We estimate a dividend yields of 11.7% for Cimsa
The company reached an 81% average payout ratio in the last three years. We expect Cimsa to pay TRY 0.88 per share, representing a 11.7% dividend yield for 2012.

OUTPERFORM
TP: TRY 10.20

	TRY	US\$
Close	7,54	3,96
ISE-100	51.267	27.141
US\$/TRY(CB Bid Rate):	1,90	
52 Week High:	10,45	6,86
52 Week Low:	7,04	3,77
Bloomberg/Reuters Ticker:	CIMSА.TI / CIMSА.IS	

	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):	135	
Current Mcap:	1.019	537
Free Float Mcap:	306	162

	1 M	YOY	YTD
TRY Return (%):	-3,3	-19,6	-19,2
US\$ Return (%):	-6,5	-34,3	-34,5
ISE-100 Relative (%):	2,8	4,8	4,0
Avg. Daily Vol. (TRY Mn):	2,2		
Avg. Daily Vol. (US\$ Mn):	1,4		

Beta	0,69
Volatility (Stock)	0,25
Volatility (ISE-100)	0,26

Shareholder Structure	%
Sabancı Holding	49,5
Adana Cimento	9,5
Akansa	9,5
Free Float and others	32,0
Total	100,0

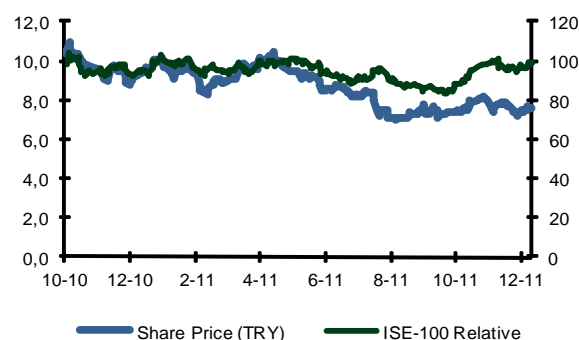


Figure 1: Cimsa's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	615	708	830	864	920
EBIT	145	146	189	195	207
EBITDA	176	181	227	236	252
Net income	108	104	145	149	158
Key Balance Sheet (TRY mn)					
Tangible fixed assets	436	482	568	568	572
Cash & equivalents	51	11	43	68	16
Total assets	1.200	1.134	1.427	1.423	1.472
Short-term debt	106	87	220	201	212
Total debt	113	114	321	292	308
Total equity	932	880	939	957	982
Key Ratios					
Net debt/EBITDA (x)	0,35	0,57	1,22	0,95	1,16
Gross Margin	29,5	26,6	27,5	27,3	27,2
EBIT Margin	0,24	0,21	0,23	0,23	0,23
EBITDA Margin	0,29	0,26	0,27	0,27	0,27
Net Margin	0,18	0,15	0,17	0,17	0,17
ROAE	12,8	11,4	16,0	15,8	16,4
ROAA	9,5	8,8	11,3	10,4	10,9
Valuation Metrics*					
P/E (x)	9,4	9,9	7,0	6,8	6,4
P/BV (x)	1,1	1,2	1,1	1,1	1,0
EV/Sales (x)	2,0	1,8	1,5	1,4	1,4
EV/EBITDA (x)	7,1	6,9	5,5	5,3	5,0
EPS (TRY)	0,80	0,76	1,07	1,10	1,17
Dividend yield (%)	8%	9%	11%	12%	12%

*based on current Mcap

Akcansa

Maintain MP...

Selahattin Aydin
Analyst
saydin@sekeryatirim.com

We maintain our "Market Perform" rating for Akcansa. The company's current Mcap stands at TRY 1.31 billion and our target value is TRY 1.40 billion (TRY 7.33 share price), indicating a 7% upside potential.

Akcansa operates in the Marmara, Aegean and Black Sea regions. Cement demand in the Marmara, Aegean and Black Sea regions increased by 8%, 15% and 19% YoY in 9M11, respectively, and are expected to close 2011 at 9%, 7% and 10%. We assume these regions to see slower consumption growth in 2012 and that the company's sales will also be slower due to the slowdown in economic activity and the high base year effect. Thus, the slower growth in domestic volume and excess capacity in the region will put pressure on cement prices in 2012.

We assume that Akcansa's revenues and EBITDA will increase by 8% and 11% YoY in 2012. We assume that the company's revenues and EBITDA will soar by 22% and 39% YoY in 2011, respectively, due to the increase in domestic demand and prices. Due to the limited growth in demand and flat domestic prices, our assumptions point to 8% and 11% YoY revenue and EBITDA growth, respectively in 2012.

We estimate a dividend yield of 5.4%. Akcansa's average payout ratio for the last three years has been about 73%. We estimate that the company will pay TRY 0.37 dividend per share, representing a 5.4% dividend yield.

In 2011, Akcansa's shares shed 6.4% in absolute terms, outperforming the ISE100 index by 20.5%. We believe its Q4 figures will positively affect its share performance in the short-term. Nevertheless, we believe that Akcansa will not continue to be an outperformer in 2012.

MARKET PERFORM TP: TRY 7.33

	TRY	US\$
Close	6,86	3,63
ISE-100	51.267	27.141
US\$/TRY(CB Bid Rate):	1,90	
52 Week High:	8,11	5,23
52 Week Low:	6,20	3,52
Bloomberg/Reuters Ticker:	AKCNS.TI / AKCNS.IS	

	191	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):			
Current Mcap	1.313	692	
Free Float Mcap	250	132	

	1 M	YOY	YTD
TRY Return (%):	-6,3	-6,7	-6,4
US\$ Return (%):	-9,4	-23,8	-24,1
ISE-100 Relative (%):	-0,3	21,7	20,5
Avg. Daily Vol. (TRY Mn):	1,2		
Avg. Daily Vol. (US\$ Mn):	0,7		

Beta	0,58
Volatility (Stock)	0,24
Volatility (ISE-100)	0,26

Shareholder Structure	%
Sabancı Holding	39,7
HeidelbergCement	39,7

Free Float and others	20,6
Total	100,0

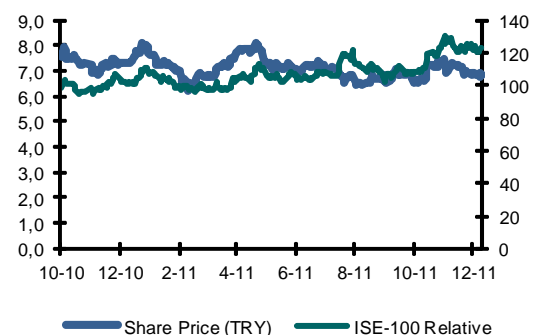


Figure 1: Akcansa's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	710	817	995	1.079	1.106
EBIT	112	78	129	150	166
EBITDA	169	133	184	205	221
Net income	75	59	94	109	122
Key Balance Sheet (TRY mn)					
Tangible fixed assets	601	600	573	545	518
Cash & equivalents	40	40	60	72	98
Total assets	1.162	1.232	1.299	1.323	1.339
Short-term debt	97	49	184	164	154
Total debt	188	201	229	219	212
Total equity	819	841	861	882	900
Key Ratios					
Net debt/EBITDA (x)	0,88	1,21	0,92	0,71	0,51
Gross Margin	19,6	13,7	17,0	17,9	19,0
EBIT Margin	15,7	9,5	13,0	13,9	15,0
EBITDA Margin	23,9	16,2	18,5	19,0	20,0
Net Margin	10,6	7,3	9,5	10,1	11,0
ROAE	9,4	7,2	11,2	12,7	13,9
ROAA	6,5	5,0	7,4	8,3	9,2
Valuation Metrics*					
P/E (x)	17,6	22,1	12,0	10,7	9,8
P/BV (x)	1,6	1,6	1,5	1,5	1,5
EV/Sales (x)	2,2	1,9	1,4	1,4	1,4
EV/EBITDA (x)	9,2	11,6	7,5	7,0	6,5
EPS (TRY)	0,39	0,31	0,57	0,64	0,70
Dividend yield (%)	5%	3%	5%	5%	6%

*based on current Mcap

Adana Cimento

New investment on agenda

Selahattin Aydin
Analyst
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We maintain our "Market Perform" rating for Adana Cimento The company's current Mcap stands at TRY 297 million and our target value is at TRY 330 million (TRY 3.75 share price) and represents a 11% upside potential.

USD 80 million investment planned for a new clinker plant in Iskenderun Adana Cimento's annual clinker capacity will increase to 3.3 million tons from 2.3 million tons along with the investment and the additional capacity will be available after two years.

We assume Adana's sales revenue and EBITDA to increase by 8% and 4% YoY in 2012 Adana Cimento's total sales revenue increased by 1.4% YoY in 9M11 due to the deterioration in export revenues. We believe the company's total sales revenue will be negatively affected due to the deterioration in export revenues in 2012. In addition, we believe there will be a slowdown in economic growth and flat prices in 2012, both of which are more negative factors for Adana Cimento. Thus, we estimate 8% revenues and 4% EBITDA growth for the company in 2012.

We estimate a dividend yield of 7.3% Adana Cimento's average payout ratio for the last three years has been about 70%. We estimate that the company will pay TRY 0.27 dividend per share, representing a 7.3% dividend yield.

In 2011, Adana Cimento's shares lost 35% in absolute terms Adana underperformed the ISE100 in 2011 and we believe that all the negative factors are currently priced in. Nevertheless, we believe that Adana Cimento will continue to perform with the market in 2012.

MARKET PERFORM
TP: TRY 3.75

	TRY	US\$
Close	3,37	1,78
ISE-100	51.267	27.141
US\$/TRY(CB Bid Rate):	1,90	
52 Week High:	5,47	3,57
52 Week Low:	3,36	1,77
Bloomberg/Reuters Ticker:	ADANA.TI / ADANA.IS	
Number of Shares (Mn):	88	
	(TRY Mn)	(US\$ Mn)
Current Mcap :	297	157
Free Float Mcap:	172	91

	1 M	YOY	YTD
TRY Return (%):	-6,4	-34,9	-35,3
US\$ Return (%):	-9,5	-46,8	-47,6
ISE-100 Relative (%):	-0,5	-15,1	-16,8
Avg. Daily Vol. (TRY Mn):	0,5		
Avg. Daily Vol. (US\$ Mn):	0,3		

Beta	0,63
Volatility (Stock)	0,52
Volatility (ISE-100)	0,42

Shareholder Structure	%
OYAK	57,0

Free Float	43,0
Total	100,0

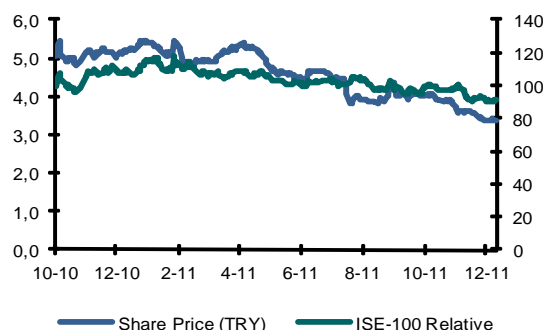


Figure 1: Adana Cimento's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	293	305	317	342	384
EBIT	60	45	62	64	73
EBITDA	78	67	82	85	96
Net income	79	102	67	73	83
Key Balance Sheet (TRY mn)					
Tangible fixed assets	262	258	255	242	231
Cash & equivalents	57	26	84	59	57
Total assets	638	730	765	756	777
Short-term debt	0	60	110	91	96
Total debt	0	60	110	91	96
Total equity	597	631	612	619	631
Key Ratios					
Net debt/EBITDA (x)	-0,73	0,52	0,32	0,38	0,40
Gross Margin	34,6	29,0	31,4	31,6	32,1
EBIT Margin	20,6	14,8	19,4	18,6	19,1
EBITDA Margin	26,7	21,9	26,0	25,0	25,0
Net Margin	26,9	33,5	21,2	21,3	21,6
ROAE	7,6	9,0	10,8	11,8	13,3
ROAA	7,1	8,1	9,0	9,6	10,9
Valuation Metrics*					
P/E (x)	3,8	2,9	4,4	4,1	3,6
P/BV (x)	0,5	0,5	0,5	0,5	0,5
EV/Sales (x)	1,1	1,0	1,0	0,9	0,8
EV/EBITDA (x)	4,0	4,7	3,8	3,7	3,3
EPS (TRY)	0,48	0,63	0,41	0,45	0,51
Dividend yield (%)	11%	11%	7%	8%	9%

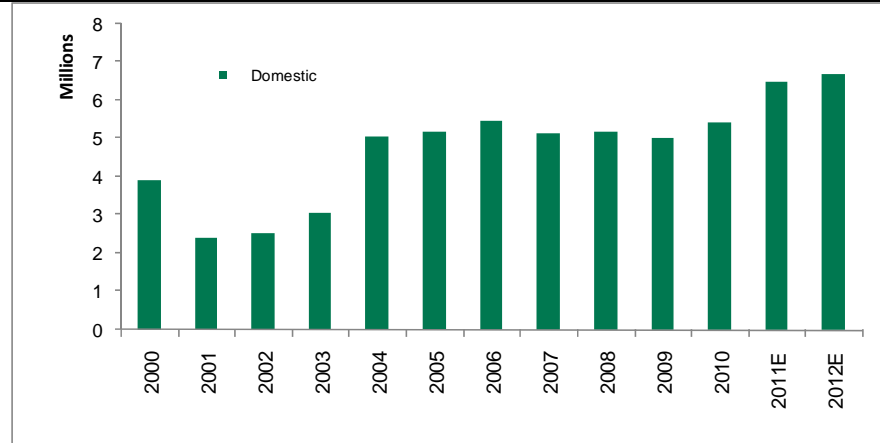
*based on current Mcap

Durable goods sector

Domestic white goods market maintains strong sales performance

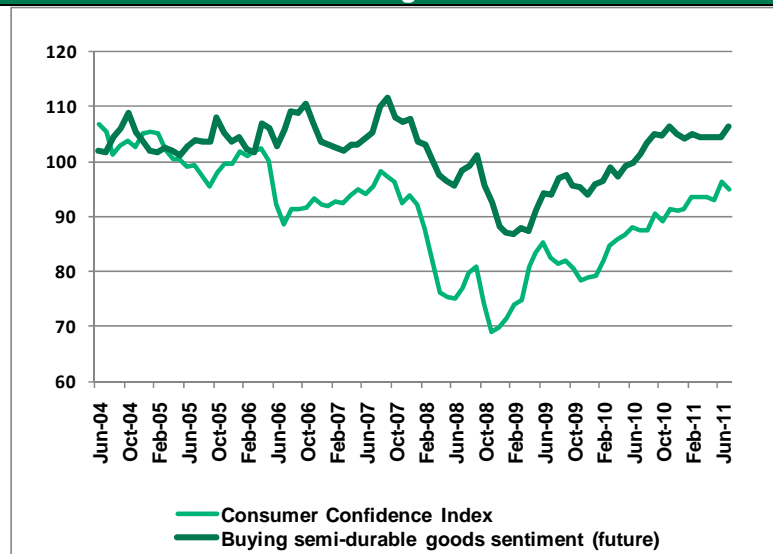
White goods sales directly correlate with economic growth and the deterioration in demand following the economic meltdown took its toll on consumer durable producers as seen in the sharp declines in sales after the 2001 crisis. However, the white goods market has been relatively strong in the last few years. Despite a 5% contraction in GDP in 2009, white goods sales fell only 3% after which white goods sales managed to increase 8.2% to 5.4 million units in 2010 and gained more momentum in 2011. In the first eleven months of 2011, Turkey's white goods sales volumes reached 6.03 million units surging to 19.9% YoY. We expect domestic white goods sales to reach 6.5 million units at year's end, which would be an all time high, but lose some momentum in 2012. We estimate 3% growth in domestic white good sales in 2012.

Figure 1: Domestic white goods sales



Source: TURK BESD

Figure 2: Confidence and semi-durable goods sentiment



Source: TURKSTAT

Turkey has the second largest population in Europe with almost 50% of the population under 30. This youthfulness translates into enormous potential for the durable goods sector. Apart from demographics, the recent strong demand stems from high consumer confidence and the growing housing sector thanks to the low interest rate environment and continuing political stability.

Despite the fact that we are becoming more cautious about demand in 2012 amid increasing uncertainties, mainly due to the ongoing Eurozone debt crisis, the latest Turkish White Goods Manufacturers' Association's (TURK BESD) November figures lead us stick to our relatively positive view for the sector - that production, exports and sales should continue to increase, albeit with less momentum. Recall that total domestic sales of white goods (six main products: refrigerators, deep freezers, washing machines, dishwashers, dryers and ovens) increased by 17.3% YoY in November, and reached a record 6,033,282 units year-to-date, implying a 19.9% annual surge. We consider the November figures to be encouraging despite the MoM decrease which mainly stemmed from seasonality. But, we might continue to see a loss of momentum in domestic sales for the upcoming months connected with the increasing uncertainties about growth. A slowdown in exports also seems inevitable amid ongoing financial concerns in Europe.

Figure 3: Six major white goods products

Turkey's WG Market (units)	Nov-10	Nov-11	Change (YoY)	Oct-11	Nov-11	Change (MoM)	Jan 10 - Nov 10	Jan 11 - Nov 11	Change (YoY)
REFRIGERATOR									
Production	458.249	518.958	13,2%	545.270	518.958	-4,8%	5.900.255	6.350.592	7,6%
Exports	335.346	372.155	11,0%	396.876	372.155	-6,2%	4.238.620	4.516.235	6,5%
Domestic Sales	133.874	146.707	9,6%	160.628	146.707	-8,7%	1.567.807	1.792.019	14,3%
DEEP FREEZER									
Production	55.202	80.710	46,2%	71.220	80.710	13,3%	677.012	788.234	16,4%
Exports	59.293	70.878	19,5%	61.920	70.878	14,5%	650.185	722.667	11,1%
Domestic Sales	24.386	27.043	10,9%	47.464	27.043	-43,0%	249.815	279.731	12,0%
WASHING MACHINE									
Production	439.946	470.941	7,0%	522.524	470.941	-9,9%	4.705.964	4.911.047	4,4%
Exports	387.712	375.400	-3,2%	362.980	375.400	3,4%	3.586.457	3.515.270	-2,0%
Domestic	125.796	158.075	25,7%	173.317	158.075	-8,8%	1.391.735	1.709.863	22,9%
DISH MACHINE									
Production	205.552	245.905	19,6%	269.394	245.905	-8,7%	2.341.603	2.667.935	13,9%
Exports	137.729	132.369	-3,9%	140.097	132.369	-5,5%	1.268.285	1.370.533	8,1%
Domestic	103.689	123.355	19,0%	130.066	123.355	-5,2%	1.177.209	1.441.768	22,5%
OVEN									
Production	250.640	268.917	7,3%	335.449	268.917	-19,8%	2.811.412	3.250.320	15,6%
Exports	225.085	240.011	6,6%	274.330	240.011	-12,5%	2.259.066	2.545.216	12,7%
Domestic	47.754	57.003	19,4%	75.755	57.003	-24,8%	580.262	722.807	24,6%
DRYER									
Production	76.267	83.805	9,9%	88.881	83.805	-5,7%	518.572	613.323	18,3%
Exports	73.530	89.038	21,1%	80.328	89.038	10,8%	479.668	556.713	16,1%
Domestic	13.222	14.129	6,9%	6.590	14.129	114,4%	63.055	87.094	38,1%
Total WG Market									
Production	1.485.856	1.669.236	12,3%	1.832.738	1.669.236	-8,9%	16.954.818	18.581.451	9,6%
Exports	1.218.695	1.279.851	5,0%	1.316.531	1.279.851	-2,8%	12.482.281	13.226.634	6,0%
Domestic	448.721	526.312	17,3%	593.820	526.312	-11,4%	5.029.883	6.033.282	19,9%

Source: TURK BESD, Seker Securities

All in all, 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%. Though there are some catalysts which could have negative impacts (i.e. Euro debt crisis/recession), we will continue to track white goods sales and observe the home sales during the first quarter of the year in order to understand 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 keep our modestly optimistic view for the sector but with a slightly cautious stance. We maintain our recommendations for **Arcelik (ARCLK.TI; Outperform)** and **Vestel Elektronik (VESTL.TI; Market Perform)** for now. That said, the risks are currently on the downside for the next year, especially consider that the looming in Eurozone debt may pave the way for a global recession.

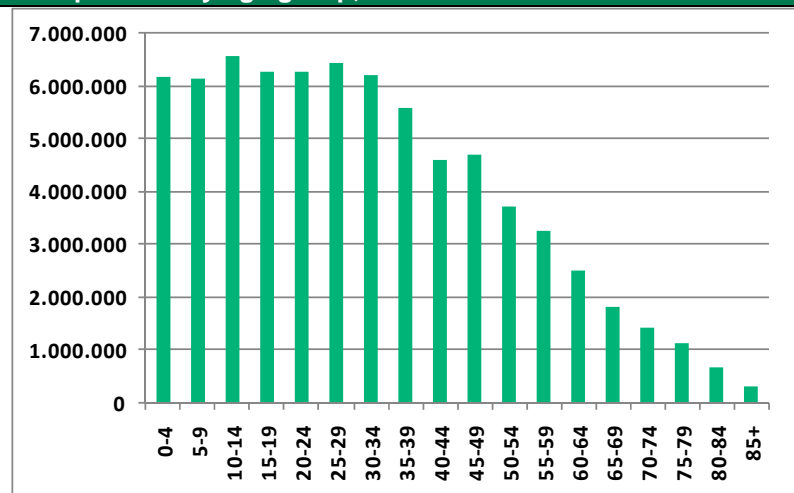
Mid to long term growth drivers

In addition to the recent robust demand for white goods, mainly thanks to improving economic conditions, the sources of long-term sustainable growth in the sector also remain supportive. Besides Turkey's favorable demographics, replacement cycle about to be renewed and encouraging growth in the housing sector are all likely to support demand and growth for the Turkish white goods sector in the long term.

Favourable demographics secure long-term growth

Turkey has the second largest population (74mn in 2010) in Europe with an average annual growth rate of 1.5% and almost 50% of the population under the age of 30. The youthfulness of the population paves the way for more marriages, which translates to huge potential in terms of demand for the durable goods sector.

Figure 4 : Population by age group, as of 2010



Source: TURKSTAT

Furthermore, the figure for average members per household is four in Turkey versus 2.5 for most developed countries. Being a *developing* country, the household size is expected to converge to lower levels, which means an increase in the total number of households in the long-term, implying another source for white goods demand.

Another important point in terms of demographics is urbanization. The ratio of the urban population increased to 76% in 2010 from 65% in 2000. Despite the slowdown in the pace of migration in recent years, urbanization will undoubtedly continue, supporting white goods demand.

Rising residential construction

Turkey has an increasing demand for residential units mainly thanks to its favorable demographics. Additionally, declining inflation leads to a low interest rate environment and increasing consumer confidence thanks to political stability. Following a two-year contraction due to the global financial crisis, 2010 was a promising year with a more than a 27% surge in construction permits reaching 279,000.

Domestically, we think that the low interest rate environment is likely to keep supporting the number of houses sold in the foreseeable future. Since there is a strong correlation between construction permits and white goods sales the increase in the number houses sold should be reflected in increased consumption of durable goods. Therefore, we think that the housing sector will continue to be one of the main long term drivers for white goods demand.

Figure 5 : Domestic white goods sales vs. construction permits



Source: TURKSTAT, TUK BESD

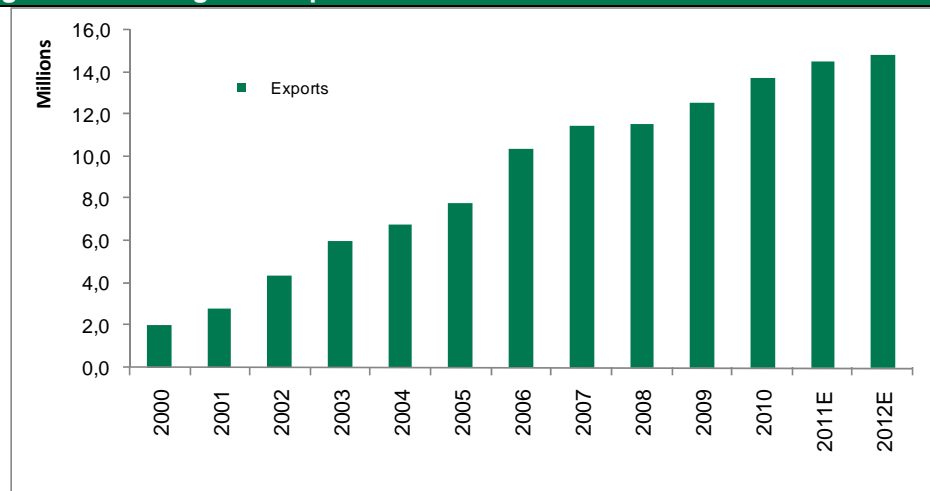
Replacement cycle to kick-in

In addition to favorable demographics and the improving housing sector, another mid to long term driver for the white goods sector would be the replacement cycle. We think that the average replacement cycle of white goods in Turkey is around 7 years. Following the economic crisis in 2001, demand for white goods peaked in 2004. For that reason, 2011 should be the beginning of a new cycle which should increase domestic white goods sales.

Sector exports on the rise

In addition to strong domestic sales, surging export performance in the last 10 years increased the importance of the white goods industry also in terms of current account. The sector's export volume to domestic volume ratio has soared to 2.5x in 2010 from 0.5x in 2000 mainly stemming from the leading European white goods producers shifting their production to lower cost nations making Turkey one of the main production hubs for the European market. Following this trend, Bosch-Siemens and Indesit have increased their investment in Turkey, becoming key players in the sector with local companies Arcelik and Vestel, carrying export volumes of up to 13.7 million units in 2010 from 2.0 million in 2000. This trend continued in 2011.

Figure 6 : White goods exports



Source: TURK BESD

In terms of exports, Western Europe is the main market for domestic white goods producers. However, after the recent global financial crisis, the emerging Eastern European, Middle East and North African markets have also begun to become more important as an export destination with their resilient and faster growing economies, lower white goods penetration and favorable demographics.

The percentage of international sales on the top-line for Arcelik was around 50%. The company managed to increase its international revenues by 12.3% YoY in 1H11 despite uncertainties and concerns in Europe.

Arcelik

Deserves to be a top pick...

Volkan Dukkancik
Analyst
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We maintain our "Outperform" rating The company's promising results in 2011 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. However, due to the downside revision in our macro-economic estimates for 2012, we pull our target price slightly down to TRY 7.80 from TRY 8.65, which still indicates a **18% upside potential**, despite the recent outperformance of the stock.

Dominates the domestic market with more than 50% market 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 a part of the company's growth strategy in emerging markets, Arcelik acquired 100% of the shares of South African Defy Appliances in 2011.

The domestic white goods market maintains strong sales. Despite the fact that we are becoming more cautious about the continuation of strong demand and slowing global growth, the latest Turkish White Goods Manufacturers' Association's figures lead us stick to our relatively positive view for the sector, especially for domestic sales which reached 6 million units in the first eleven months of 2011, implying an all time high figure.

OUTPERFORM
TP: TRY 7.80

	TRY	US\$
Close	6,70	3,58
ISE-100	49.694	26.580
US\$/TRY(CB Bid Rate):	1,87	
52 Week High:	8,64	5,71
52 Week Low:	5,52	2,98
Bloomberg/Reuters Ticker:	ARCLK.TI / ARCLK.IS	

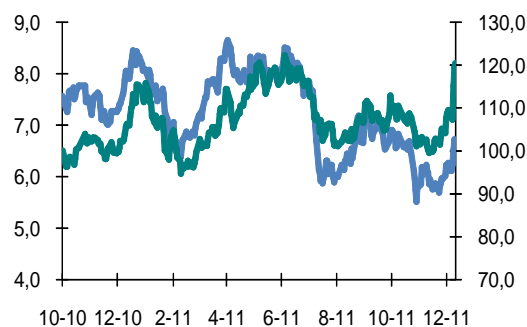
Number of Shares (Mn): 676

	(TRY Mn)	(US\$ Mn)
Current Mcap :	4.527	2.422
Free Float Mcap :	1.132	605

	1 M	YoY	YtD
TRY Return (%):	12,8	-16,5	9,5
US\$ Return (%):	9,9	-31,2	11,6
ISE-100 Relative (%):	22,2	15,5	12,9
Avg. Daily Vol. (TRY Mn):	10,72		
Avg. Daily Vol. (US\$ Mn):	6,51		

Beta	1,10
Volatility (Stock)	0,33
Volatility (ISE-100)	0,27

Shareholder Structure	%
Koç Holding	57,2
Burla Groub	17,6
Other	-
Free Float	25,2
Total	100,0



We assume sales revenues and EBITDA to increase by 9% and 13.6% YoY in 2012, respectively, supported by the Defy consolidation. We expect the company to reach a revenue figure of TRY 8,910 million and EBITDA figure of TRY 1,060 million. Meanwhile, our bottom-line estimate for 2012 stands at TRY 650 million, implying an annual 20% increase.

Figure 1: Arcelik's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	6.592	6.936	8.173	8.910	9.801
EBIT	694	566	715	862	946
EBITDA	876	758	933	1.060	1.176
Net income	485	517	546	650	712
Key Balance Sheet (TRY mn)					
Tangible fixed assets	1.244	1.252	1.237	1.239	1.201
Cash & equivalents	909	1.318	1.158	1.274	1.402
Total assets	6.427	7.322	8.654	9.323	10.092
Short-term debt	1.924	839	1.591	1.553	1.610
Total debt	2.112	2.057	2.887	2.822	2.930
Total equity	2.744	3.408	4.031	4.628	5.273
Key Ratios					
Net debt/EBITDA (x)	1,37	0,97	1,85	1,46	1,30
Gross Margin	33,0	29,8	31,0	31,7	31,7
EBIT Margin	10,5	8,2	8,8	9,7	9,7
EBITDA Margin	13,3	10,9	11,4	11,9	12,0
Net Margin	7,4	7,5	6,7	7,3	7,3
ROAE	20,5	16,8	15,0	15,3	14,6
ROAA	4,9	4,9	6,8	7,2	7,3
Valuation Metrics*					
P/E (x)	9,3	8,8	8,3	7,0	6,4
P/BV (x)	1,7	1,4	1,1	1,0	0,9
EV/Sales (x)	0,9	0,9	0,7	0,7	0,6
EV/EBITDA (x)	6,5	7,7	6,4	5,6	5,1
EPS (TRY)	0,72	0,77	0,81	0,96	1,05
Dividend yield (%)	2,2%	5,5%	4,7%	5,6%	6,1%

*based on current Mcap

Source: The Company

Vestel Elektronik

Still Market Performer...

Volkan Dukkancik
Analyst
vdukkancik@sekeryatirim.com

We maintain our "Market Perform" rating Our target Mcap for Vestel Elektronik is TRY 771 million and the company's current Mcap stands at TRY 627 million, our target value represents a target price of TRY 2.30, implying an upside potential of 22%. Thus we maintain our "Market Perform" rating for the company. However, the risks are currently on the downside for the rest of the year and for 2012 considering slowing global growth which will pave the way for a loss of momentum in domestic sales and a slowdown in exports amid ongoing financial concerns in Europe.

The contribution of international revenues to the top-line was 75% in 9M10 The company generates considerable revenues from its international operations, with European revenues constituting 63% of overall revenues. Vestel Elektronik's international sales, which contributes 75% to overall revenues, increased by 26.2% YoY in 9M11. In addition, domestic revenues increased by 25.3% YoY in the same period.

Major contributor to top line: television and electronics; white goods on the rise Television and electronic device revenues rose by 19.9% YoY in 9M11 and the white good segment displayed a stronger performance with 40% YoY growth in the same period. Thus, the contribution to the top-line of revenues from television and electronic devices fell slightly to 59% while the contribution of the white goods segment increased to 39.5%.

We assume sales revenues to increase by 5.0% while EBITDA will stay flat YoY in 2012 We expect the company to finish 2012 with revenues of TRY 6,763 million and an EBITDA of TRY 642 million. Meanwhile, our bottom-line estimate for 2011 stands at TRY 105 million.

MARKET PERFORM TP: TRY 2.30

	TRY	US\$	
Close	1,85	0,99	
ISE-100	49.694	26.580	
US\$/TRY(CB Bid Rate):	1,87		
52 Week High:	2,85	1,82	
52 Week Low:	1,71	0,91	
Bloomberg/Reuters Ticker:	VESTL.TI / VESTL.IS		
<hr/>			
Number of Shares (Mn):	335		
<hr/>			
	(TRY Mn)	(US\$ Mn)	
Current Mcap (TRY Mn):	621	332	
Free Float Mcap (TRY Mn):	137	73	
<hr/>			
	1 M	YOY	YTD
TRY Return (%):	1,6	-29,7	2,2
US\$ Return (%):	-0,9	-42,1	4,2
ISE-100 Relative (%):	10,1	-2,7	5,4
Avg. Daily Vol. (TRY Mn):	2,21		
Avg. Daily Vol. (US\$ Mn):	1,35		
<hr/>			
Beta	0,98		
Volatility (Stock)	0,33		
Volatility (ISE-100)	0,27		
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Shareholder Structure	%		
Collar Holding B.V.	74,7		
Free Float	25,3		
Total	100,0		

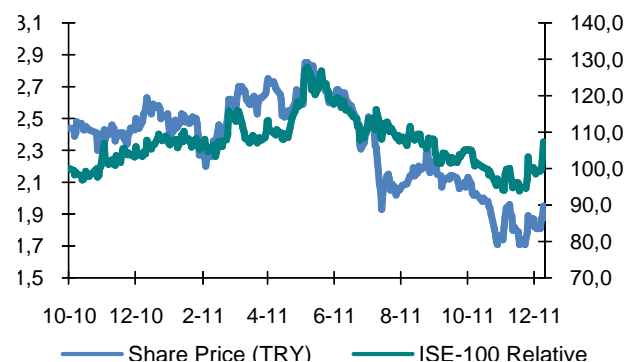


Figure 1: Vestel's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	4.645	5.290	6.441	6.763	7.101
EBIT	341	130	452	466	469
EBITDA	556	336	647	642	638
Net income	74	38	56	105	143
Key Balance Sheet (TRY mn)					
Tangible fixed assets	872	787	775	800	842
Cash & equivalents	325	213	249	273	301
Total assets	3.796	3.998	4.671	4.899	5.323
Short-term debt	344	343	750	745	786
Total debt	717	709	990	983	1037
Total equity	1.123	1.142	1.433	1.602	1.703
Key Ratios					
Net debt/EBITDA (x)	0,70	1,48	1,15	1,11	1,15
Gross Margin	19,1	14,1	19,0	18,9	18,6
EBIT Margin	7,3	2,5	7,0	6,9	6,6
EBITDA Margin	12,0	6,3	10,0	9,5	9,0
Net Margin	1,6	0,7	0,9	1,5	2,0
ROAE	3,4	2,5	4,9	7,7	9,6
ROAA	0,7	0,5	1,3	2,2	2,8
Valuation Metrics*					
P/E (x)	16,2	22,0	11,0	5,1	3,8
P/BV (x)	0,5	0,6	0,5	0,4	0,4
EV/Sales (x)	0,2	0,2	0,2	0,2	0,2
EV/EBITDA (x)	3,6	3,5	1,9	1,9	1,9
EPS (TRY)	0,11	0,04	0,17	0,31	0,43
Dividend yield (%)	0%	0%	0%	0%	0%

*based on current Mcap

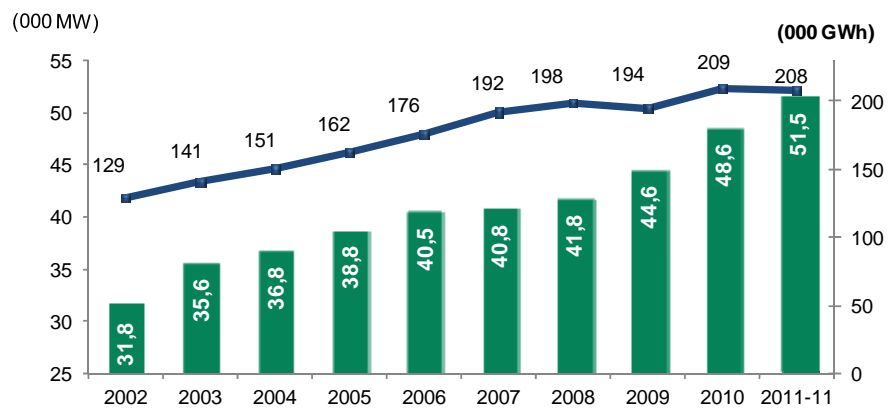
Source: The Company

Electricity sector

Increasing demand for electricity persists

Following the 2.3% reduction in electricity consumption in 2009, demand entered a period of recuperation in 2010, where electricity consumption increased 7.9% to 209,494 GWh. The increase in demand persisted in 2011 and demand for electricity in the first 11 months was 208,410 GWh, up 9.0% compared to the same period in 2010.

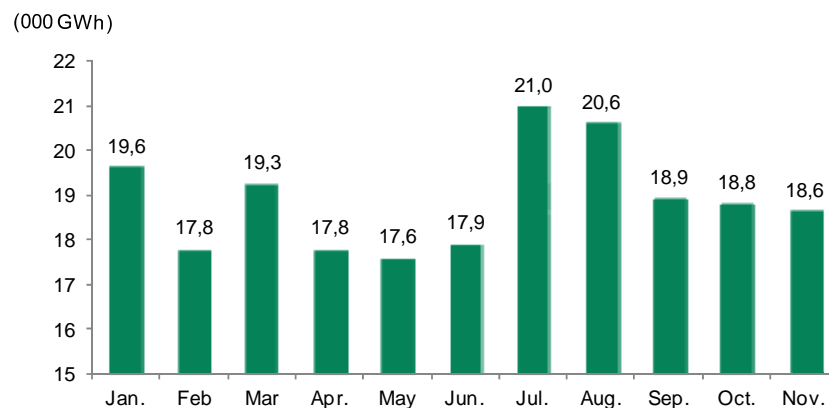
Figure 1: Installed capacity consumption & Turkey electricity sector



Source: TEDAS

In the last decade, demand for electricity increased rapidly by approximately 4.8% in parallel with economic growth, industrialization and urbanization. When analyzed on a monthly basis, we see the typical consumption trend increasing in summer months and decreasing in the winter.

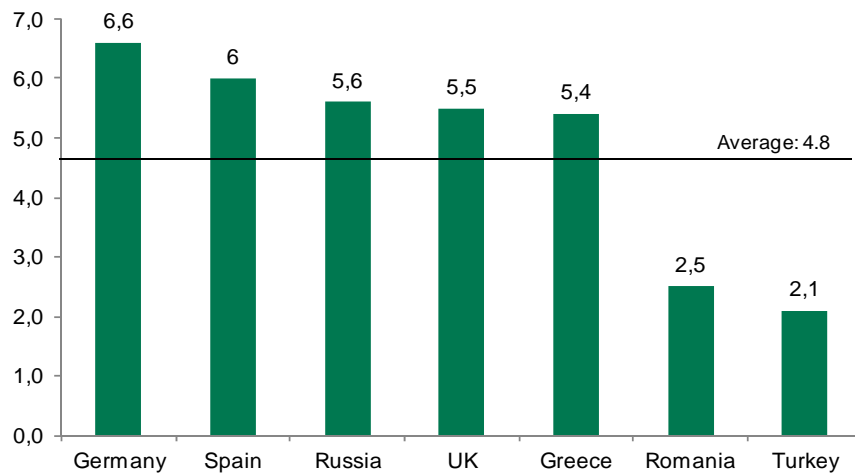
Figure 2: Electricity consumption by month



Source: TEDAS

It is estimated that by 2011 year-end, Turkey’s installed capacity of 51,547 MW will increase to around 60,000 MW in the next five years by the force of new power plant openings. According to projections by the Turkish Electricity Distribution Co. (TEDAS) demand will reach 357,000 GWh in the next five years which will cause supply problems as early as 2016. As such, privatization plans for power plants administered by the government-run Electricity Generation Co. (EUAS), which have often been postponed, will accelerate in the coming period.

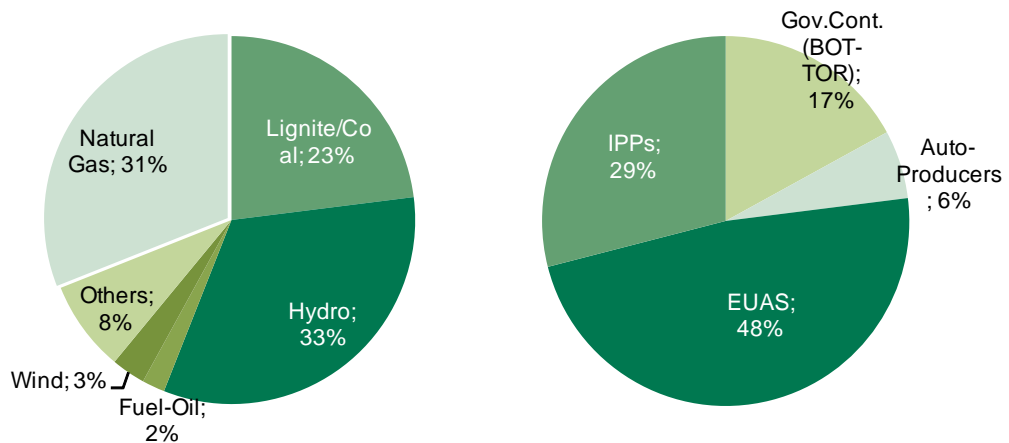
Figure 3: Per capita electricity consumption (kWh)



Source: TEDAS

Per capita electricity consumption has reached 2.1 kWh per annum in 2011 from 1.5 kWh in 2002. Despite this rapid increase, per capita electricity consumption in Turkey is still ranked among the lowest compared to EU countries where consumption is an average of 4.8 kWh. In the next decade, demand for electricity is expected to reach 5.0 kWh in Turkey along with industrialization and urbanization.

Figure 4: Breakdown of installed capacity by fuel type and ownership



Source: EUAS

While the 33% of Turkey’s installed capacity is generated by hydroelectric plants, 31% comes from natural gas power plants. 48% of all installed capacity is generated by plants belonging to state-run EUAS.

The sector in 2012

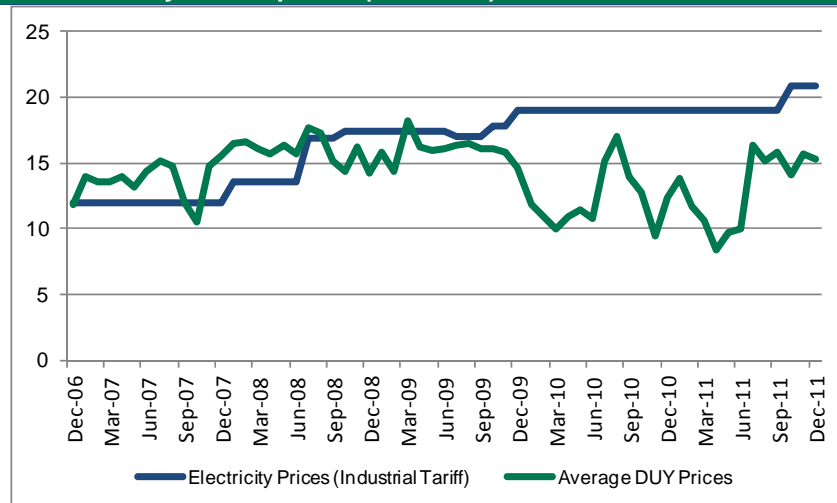
We consider that the electricity sector in 2012 will mainly follow *i)* the course of DUY prices, *ii)* FX movements, *iii)* new investments and capacity increases and *iv)* privatization tenders of EUAS' plants.

I) DUY prices

After the government postponed electricity and natural gas price hikes in the run-up to the parliamentary elections in June 2011, this increased the hike that went into effect on October 1st. This translated to electricity price increases of 9.6% for housing and 9.3% for industry. Price increases for natural gas were 12.3–14.4% for housing and 13.7–14.3% for industry.

DUY prices started 2010 with a sharp fall, but began to increase thanks to seasonality from the second half of the year and maintained its course into the last months of the year. Following the construction of the natural gas pipeline by the Petroleum Pipeline Corporation (BOTAS) in order to meet the demand for natural gas during the cold weather of November 2010, spot prices tipped up to TRY 0.17/kWh from TRY 0.15/kWh in the previous months. Taking into consideration the fact that spot prices were 25% higher in the last quarter of 2011 compared to the year before, we believe that increasing prices will reflect positively on profitability in the sector.

Figure 5: Electricity & DUY prices (TRY/Kwh)



Source: TEIAS

On the other hand, the sector entered a new period on December 1, 2011 when the "Day Ahead Planning" pricing system was replaced by the "Day Ahead Market" and the "Stabilization Power Market" with the aim of achieving real-time stabilization in supply and demand. We believe the new system to balance out price fluctuations followed by an uptrend in the coming periods, which will benefit the sector players.

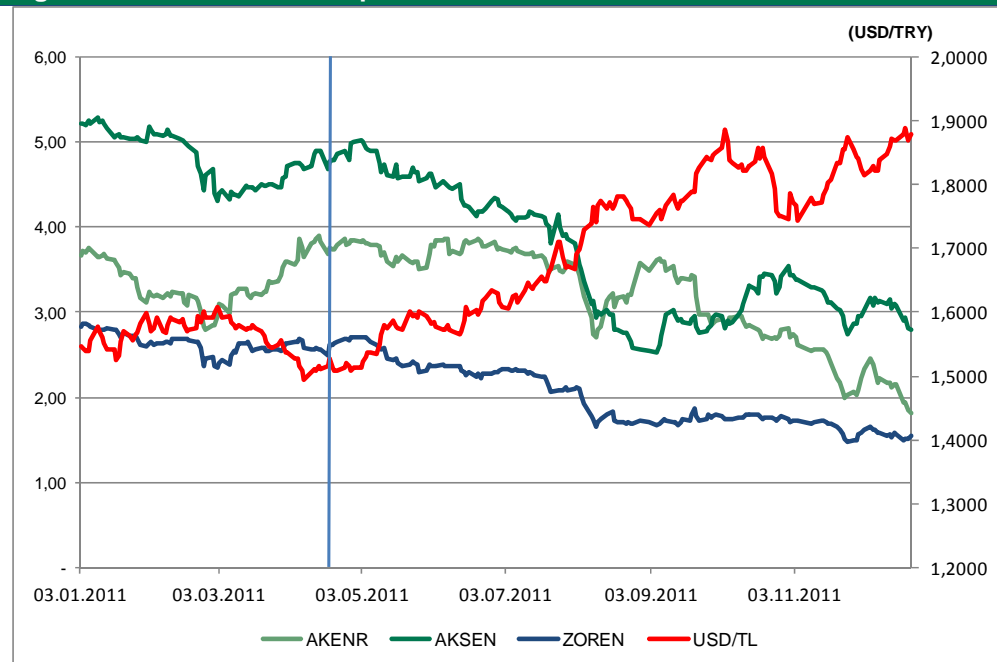
II) FX movements

Due to the poor performance of the lira against the dollar in 2011, the sector's FX losses increased, reflecting negatively on the company's bottom-line. Recall that sector players have a high debt position as a result of increasing financial loans

related to the ongoing capacity expansion investments. The FX movements in 2011 also affected energy shares on the ISE negatively, led by the assumption that a rising dollar will severely damage the profitability of energy companies.

We consider that the sector will continue following foreign exchange movements in 2012 and estimate that the Turkish Lira will appreciate be against foreign currencies in 2012. Consequently, key financing expenses which depreciated in 2011 will be converted into the financing incomes in 2012. Parallel to this expectation, we think that the damage from companies' financing expenses which were written off in 2011 despite their operational profitability will be converted into net profits in 2012.

Figure 6: USD/TRY & share prices



Source: Fınet, Seker Securities

III) New investments

In 2011, energy companies sustained their pace of new investments and capacity increases. Aksa Energy carried its installed capacity from 1,511 MW to 2,036 MW in 2011. Similarly, Ak Energy began realizing the positive contributions of its new 286 MW power plant in 2010. Zorlu Energy Group continued its expansion into Russia by putting into operation the first phase (170 MW) of its Tereshkovo Natural Gas Power Station in November 2011 which will have a total capacity of 340 MW.

In 2012, we expect to see the positive effects of the power plants which were put into operation in 2011 and are planned for 2012. Therefore, we estimate the continued growth of the sector's net sales and margins in 2012.

IV) Electricity Generation Privatization

Since 2009, the process of privatizing EUAS-run power plants has been ongoing and the privatization of 50 small hydroelectric power stations and take-over of 21 power stations were completed in 2010. In addition, the privatization of EUAS power stations with a total capacity of approximately 16,000 MW was initiated. The privatization of four thermal power generation plants is planned in the first phase

(Hamitabat, Soma A-B, Can and Seyitomer) with a total capacity of 3,074 MW, after which a portfolio of nine plants with a total capacity of 13,087 MW is to be completed within 2-3 years.

The Hamitabat power station tender was meant to be held on September 23th, 2011 but was postponed after only receiving a single offer. Planning for further tenders is on the respective agendas of concerned parties, but with the crisis mentality in Europe and erratic outcomes of recent tenders, we forecast that interest in these privatizations will continue to be inefficient.

Ak Energy

Assets sales dropped

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Ak Energy plans to increase its capacity to 1,646 MW by 2014 - Recall that the company launched commercial generation of five HPPs in 2010 with an installed capacity of 286 MW, bringing its total installed capacity to 658.6 MW. Ak Energy currently has 658.6 MW electricity and 417 tons/hour steam production capacity in total with three natural gas fired, five HPP and one wind power plants. The company plans to add 87 MW with three more HPPs in 2012. Also, Ak Energy aims to start its investment in Egemer's 900 MW NGPP in 2014. The company plans to complete the construction of Egemer NGPP with a planned investment of USD 1.0 billion by 2014. Thus, Ak Energy's total production capacity will increase to 1,646 MW in 2014.

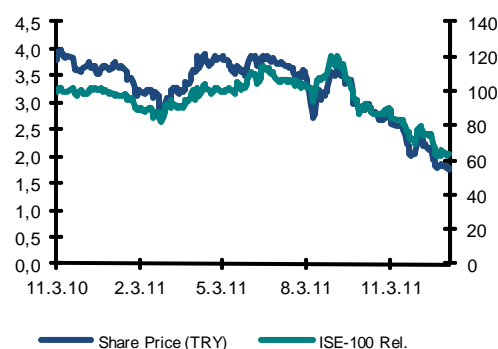
Akkok & CEZ halted the sale process of Ak Energy - The company recently announced that Akkok Group and Czech utility CEZ, both partners in Turkish power producer Ak Energy, had dropped a plan to sell a stake as the bids were too low. The company's biggest expectation was its assets sales and a probable call. Thus, the company stopped selling stakes and this affected the share price negatively. We guess that the company's partnerships CEZ and Akkok Group's decisions will continue into 2012.

Increased financial expenses hit the bottom-line negative in 2011 - Recall that Ak Energy reported a net loss of TRY 171.1 million in 9M11. Ak Energy recorded TRY 226.4 million in net financial losses in 9M11 due to the appreciation of the dollar against the Turkish lira in 2011. Ak Energy has a net financial debt position of TRY 1,149 million (mostly USD denominated) as of 9M11 as a result of increasing financial loans related to ongoing capacity expansion investments.

We estimate the appreciation of the dollar against the lira in 4Q11 to increase the company's financial losses and put pressure on its net profit. Thus, we expect Ak Energy to declare a net loss of TRY 192 million for FY2011. Also, the company's high debt position will be quite risky because of FX volatility.

OUTPERFORM
TP: TRY 2.70

	TRY	US\$	
Close	1,75	0,97	
ISE-100	50.183	26.841	
US\$/TRY(CB Bid Rate):	1,87		
52 Week High:	3,89	2,57	
52 Week Low:	1,75	0,94	
Bloomberg/Reuters Ticker:	AKENR.TI / AKENR.IS		
Number of Shares (Mn):	375,8		
	(TRY Mn)	(US\$ Mn)	
Current Mcap:	658	352	
Free Float Mcap:	164	88	
	1 M	YOY	YTD
TRY Return (%):	-26,8	-53,3	-4,9
US\$ Return (%):	-28,8	-61,6	-3,2
ISE-100 Relative (%):	-20,2	-35,5	-2,8
Avg. Daily Vol. (TRY Mn):	14,98		
Avg. Daily Vol. (US\$ Mn):	9,33		
Beta	1,16		
Volatility (Stock)	0,41		
Volatility (ISE-100)	0,27		
Shareholder Structure	%		
Akkok San.Yatirim ve Gel. A.Ş.	20,4		
CEZ A.S.	37,4		
Akarsu Enerji Yatirimlari San.A.S.	16,9		
Other	25,3		
Total	100,0		



Recall that in October 2011, Ak Energy signed a project finance agreement for USD 651 million with a 12-year maturity for its 900 MW Egemer NGPP. However, we presume that the appreciation of the lira against the dollar in 2012 will decrease the company's financial losses and have a positive effect on its net profit in 2012. We estimate Ak Energy's FY2012 net income to be TRY 35 million.

On the other hand, we believe that Ak Energy's new investments will shape the company's financials positively in the coming future. We expect the company's net sales revenues to be realized at TRY 584 million for 2011 and climb to TRY 632 million in 2012. We estimate that Ak Energy will achieve an EBITDA of TRY 135 million at the end of 2011. With the addition of new capacity and increasing electric prices, we expect Ak Energy's EBITDA to climb to TRY 152 million in 2012. We also evaluate the company's EBITDA margin at 23.2% for 2011 and 24.0% for 2012.

"Outperform" Our target market capitalization for Ak Energy stands at TRY 1,018 million and TRY 2.70 per share. Taking into consideration Ak Energy's current market capitalization which is around TRY 658 million, our target value represents 55% upside potential. In this respect, we initiate an **"Outperform"** rating for Ak Energy shares. Please note that Ak Energy shares have already decreased 46% and underperformed the ISE-100 index by 30% since the beginning of 2011 due to decreasing profitability.

Figure 1: Ak Energy's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	457	428	584	632	697
EBIT	32	0	78	67	20
EBITDA	60	28	135	152	172
Net income	24	-26	-192	35	42
Key Balance Sheet (TRY mn)					
Tangible fixed assets	784	1.226	1.458	1.551	1.636
Cash & equivalents	188	40	168	170	234
Total assets	1.506	1.913	2.271	2.435	2.639
Short-term debt	345	351	416	492	577
Total debt	708	926	1.492	1.404	1.539
Total equity	715	765	582	799	810
Key Ratios					
Net debt/EBITDA (x)	8,71	31,26	9,78	8,13	7,58
Gross Margin	14,3	10,1	21,6	18,5	10,3
EBIT Margin	6,9	0,0	13,3	10,5	2,8
EBITDA Margin	13,1	6,6	23,2	24,0	24,7
Net Margin	5,3	-6,0	-32,8	5,5	6,0
ROAE	4,2	-3,5	-28,4	5,0	5,2
ROAA	2,1	-1,5	-9,2	1,5	1,7
Valuation Metrics*					
P/E (x)	28,1	N.M.	N.M.	19,0	15,7
P/BV (x)	0,9	0,9	1,1	0,8	0,8
EV/Sales (x)	4,0	4,2	3,1	2,9	2,6
EV/EBITDA (x)	30,2	63,7	13,3	11,9	10,5
EPS (TRY)	0,37	-0,07	-0,51	0,09	0,11
Dividend yield (%)	0%	0%	0%	0%	0%

*based on current Mcap

Aksa Energy

Higher margins through increased capacity

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Current electricity production capacity of 2,036 MW – Aksa Energy launched 525 MW of installed capacity in 2011, increasing its total capacity to 2,036 MW at 2011 year-end from 1,511 MW in 2010 (1H11: 1,544 MW). In addition to its ongoing natural gas, hydroelectric and wind power plants, the company aims to increase its installed capacity to 2,636 MW by the end of 2012. Furthermore, it aims to increase the total installed power capacity to 4,200 MW upon converting its obtained licenses into investments in 2014. The company also has the largest installed power plant, a natural gas plant of 1,150 MW in Antalya.

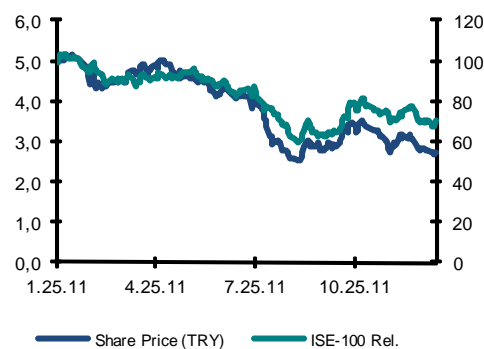
Growing capacity a positive contribution to 2012 margins – Considering the current investments made by the company, we anticipate that its increasing capacity will also continue to reflect positively on its financial statements in 2012. We estimate Aksa Energy to achieve an EBITDA of TRY 260 million for 2011. With the addition of new capacity, we expect Aksa this figure to climb to TRY 364 million in 2012 and TRY 443 million in 2013. We also evaluate the company's EBITDA margin at 22.0% for 2011 and 23% for 2012. We estimate that its net sales revenue which was TRY 911 million in 2010 will reach TRY 1,181 million in 2011 and TRY 1,585 million in 2012.

Negative bottom-line in 2011 despite positive operational performance – Despite Aksa Energy's new capacity increases in 2011, the company announced a net loss led by financial losses. The company had announced a loss of TRY 162 million in 9M11 due to the appreciation of the dollar against the Turkish lira in 2011. Currently, Aksa Energy has net financial debt of TRY 1.48 billion as of 9M11 as a result of increasing financial loans related to ongoing capacity expansion investments.

OUTPERFORM
TP: TRY 3.92

	TRY	US\$	
Close	2,73	1,46	
ISE-100	50.183	26.841	
US\$/TRY(CB Bid Rate):	1,88		
52 Week High:	5,28	3,37	
52 Week Low:	2,52	1,43	
Bloomberg/Reuters Ticker:	AKSEN.TI / AKSEN.IS		
Number of Shares (Mn):	577,5		
	(TRY Mn)	(US\$ Mn)	
Current Mcap:	1.577	843	
Free Float Mcap:	79	42	
	1 M	YOY	YTD
TRY Return (%):	-11,4	-48,1	-2,5
US\$ Return (%):	-13,8	-57,3	-0,8
ISE-100 Relative (%):	-3,4	-28,3	-0,4
Avg. Daily Vol. (TRY Mn):	3,10		
Avg. Daily Vol. (US\$ Mn):	1,86		
Beta	0,61		
Volatility (Stock)	0,39		
Volatility (ISE-100)	0,27		
Shareholder Structure	%		
Kazancı Holding	94,5		
Free Float	5,5		

Total 100,0



We expect Aksa Energy to declare a net loss of TRY 142 million for 2011. We also expect the appreciation of the dollar against the lira in 4Q11 to increase the company's financial losses and put pressure on its net profit in 4Q11. However, we forecast the appreciation of the lira against the dollar in 2012 to decrease the company's financial losses and positively affect its 2012 net profit. Thus, we estimate Aksa Energy to achieve a net income of TRY 97 million by the end of 2012.

2012 to be better than 2011 – Aksa Energy's major shareholder Kazanci Holding stated that the sale of 26.47% of Aksa Energy's shares is expected to be completed by 2012. Thus, we believe that Kazanci Holding's possible M&A deal with Aksa Energy, strong operational results and new capacities will have positive effects on the stock in 2012. (Note: we believe that the management may choose use the sales proceeds to cover for the company's long-term debt reduction)

"Outperform" We initiate coverage at "Outperform" with a target price TRY 3.92 considering the company's long-term projects. Aksa Energy's current price stands at TRY 2.73 while our target value represents a 44% upside potential.

Figure 1: Aksa Energy's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	878	911	1.181	1.585	1.896
EBIT	160	118	184	254	309
EBITDA	227	190	260	364	443
Net income	83	60	-142	97	142
Key Balance Sheet (TRY mn)					
Tangible fixed assets	997	1.330	1.663	1.746	1.833
Cash & equivalents	16	78	87	166	191
Total assets	1.902	2.385	2.803	3.036	3.232
Short-term debt	320	447	661	584	577
Total debt	1002	1276	1643	1514	1539
Total equity	472	824	725	956	1.073
Key Ratios					
Net debt/EBITDA (x)	4,35	6,31	5,99	3,70	3,05
Gross Margin	21,3	15,2	17,4	17,7	18,0
EBIT Margin	18,3	13,0	15,6	16,0	16,3
EBITDA Margin	25,8	20,8	22,0	23,0	23,4
Net Margin	9,5	6,5	-12,1	6,1	7,5
ROAE	19,6	9,1	-18,4	11,5	14,0
ROAA	5,1	2,8	-5,5	3,3	4,5
Valuation Metrics*					
P/E (x)	7,9	11,1	-4,6	6,8	4,6
P/BV (x)	1,4	0,8	2,2	1,6	1,5
EV/Sales (x)	3,5	3,4	2,6	1,9	1,6
EV/EBITDA (x)	13,5	16,1	11,8	8,4	6,9
EPS (TRY)	0,14	0,10	-0,25	0,17	0,25
Dividend yield (%)	0%	0%	0%	0%	0%

*based on current Mcap

Zorlu Energy

Russian investments finally launching

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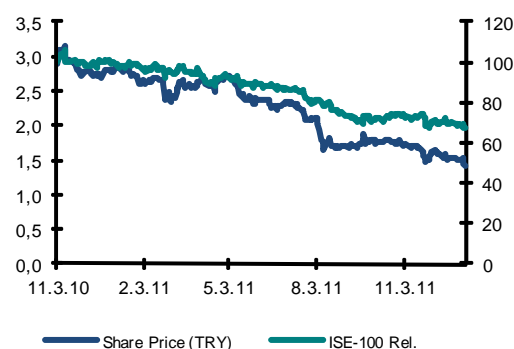
Current electricity production capacity at 772 MW – Zorlu Energy currently has an installed generation capacity of 772 MW via its five domestic natural gas power plants (467 MW), one abroad natural gas power plants (170 MW) and wind turbine power plants (135 MW adjusted for its 83.7% direct stake). Zorlu Energy launched 170 MW of the first phase of Tereshkovo Power Plant in November 2011. Also, the company completed construction of a 7 MW addition to its Luleburgaz NGG increasing it to 122 MW in 2011. Thus, the company's total installed capacity increased to 772 MW in 2011 from 595 MW in 2010.

Investments – Zorlu Energy's investments in Russia (640 MW NGPP), Pakistan (300 MW wind farm), Israel (1,050 MW NGPP) and Turkey (wind farms) continue as the company searches for additional sources of financing for its projects. The company aims to increase its total installed capacity to 3,000 MW, following the fulfillment of its investments in the next term.

Russia investments – Recall that Zorlu Energy is constructing two natural gas power plants in Russia with Rosmiks, a 75.5% owned subsidiary of Zorlu: the Tereshkovo and Kojukhovo, each with 340 MW of installed capacity totaling 680 MW. On the other hand, within the scope of ongoing investments in Russia, Zorlu Energy put the first phase (of two) of the Tereshkovo Natural Gas Power Station (170 MW) into operation in November 2011. The company aims to collect revenues of USD 100 million from the Tereshkovo power station which it put into use with an investment of approximately USD 500 million. While the second phase of the Tereshkovo Natural Gas Power Station is expected to go into production in 2012, studies on the implementation of the first phase (170 MW) of the Kojukhovo power station in Moscow are expected to accelerate after Tereshkovo is goes into operation.

MARKET PERFORM TP: TRY 1.78

	TRY	US\$		
Close	1,43	0,76		
ISE-100	50.183	26.841		
US\$/TRY(CB Bid Rate):	1,88			
52 Week High:	2,83	1,83		
52 Week Low:	1,43	0,76		
Bloomberg/Reuters Ticker:	ZOREN.TI/ ZOREN.IS			
Number of Shares (Mn):	281,7			
	(TRY Mn)	(US\$ Mn)		
Current Mcap:	403	215		
Free Float Mcap:	60	32		
	1 M	YOY	YTD	
TRY Return (%):	-11,7	-49,8	-4,0	
US\$ Return (%):	-14,2	-58,8	-2,3	
ISE-100 Relative (%):	-3,8	-30,7	-2,0	
Avg. Daily Vol. (TRY Mn):	1,97			
Avg. Daily Vol. (US\$ Mn):	1,23			
Beta	0,89			
Volatility (Stock)	0,30			
Volatility (ISE-100)	0,27			
Shareholder Structure	%			
Zorlu Holding A.Ş.	41,2			
Korteks Mensucat A.Ş.	17,5			
Free Float	32,0			
Other	9,3			
Total	100,0			



We consider that the rolling out of these investments, which have been in a state of uncertainty for so long due to legal conflicts in Russia between Zorlu Energy Group and other shareholders, will contribute positively to the company's financials in the next term.

High debt position – The company has a TRY 1.82 billion net debt position as of 9M11 as a result of increasing financial loans related to ongoing capacity expansion investments. Due to the appreciation of the US dollar against the Turkish lira in 2011 the company's FX losses also increased, reflecting negatively on the company's bottom-line. The company's total loss increased to TRY 306.6 million in 9M11. Recent FX volatility makes the company's high debt position quite risky. However, we suppose that the appreciation of the lira against the dollar in 2012 will decrease the company's financial losses and prop up its net profit 2012.

2012 – We expect revenues to reach TRY 443 million in 2011, but with the addition of new capacity in Russia, we expect Zorlu Energy's net sales revenues climb to TRY 593 million and EBITDA to TRY 72 million. We foresee a TRY 366 million net loss in 2011 due to increased financial losses and estimate a lower net loss of TRY 72 million in 2012 due to increasing capacity.

"Market Perform" Our Sum of the Parts analysis yields a fair value of TRY 501 million for Zorlu Energy, implying a TRY 1.78/share 12-month target price. By taking the company's current TRY 403 million market capitalization into consideration our target value represents a **24% upside potential** and we maintain our "Market Perform" recommendation for the company.

Figure 1: Zorlu Energy's key financials

Key Income Statement (TRY mn)	2009A	2010E	2011E	2012E	2013E
Revenues	547	434	443	593	682
EBIT	91	-35	-27	20	19
EBITDA	146	51	44	72	105
Net income	140	-67	-366	-72	-27
Key Balance Sheet (TRY mn)					
Tangible fixed assets	1.984	2.189	2.186	2.296	2.411
Cash & equivalents	43	131	85	105	167
Total assets	2.414	2.611	2.684	2.930	3.180
Short-term debt	532	663	567	465	521
Total debt	1.381	1.496	1.521	1.365	1.580
Total equity	229	157	223	244	285
Key Ratios					
Net debt/EBITDA (x)	9,14	26,62	32,62	17,50	13,45
Gross Margin	23,5	2,3	4,6	11,2	10,8
EBIT Margin	16,5	-8,1	-6,1	3,4	2,8
EBITDA Margin	26,8	11,8	9,9	12,1	15,4
Net Margin	25,6	-15,4	-82,7	-12,1	-4,0
ROAE	-39,2	0,0	-194,8	-60,7	-10,6
ROAA	-3,0	0,0	-13,8	-5,0	-0,9
Valuation Metrics*					
P/E (x)	N.M.	N.M.	N.M.	N.M.	N.M.
P/BV (x)	N.M.	2,7	1,7	1,7	1,6
EV/Sales (x)	4,6	5,2	5,1	3,8	3,3
EV/EBITDA (x)	17,8	43,8	33,0	18,0	16,4
EPS (TRY)	0,37	-0,27	-1,30	-0,50	-0,29
Dividend yield (%)	0%	0%	0%	0%	0%

*based on current Mcap

Glass sector

The Turkish glass industry is among the largest players in the world in terms of production and exports glassware and glass containers. The Turkish glass industry has an 8% share within the total glass production worldwide. It is the top fourth country in glassware production worldwide, and top third country in Europe. It is top tenth country in fiberglass production worldwide. Turkey has 5% share in global glassware exports. Main markets for Turkish exports are Italy, Germany, Russia, Israel, Britain, Egypt and France.

Expansion in the construction industry and increased housing boosted demand for flat glass and glass household goods in the last few years. The encouragement of export-oriented growth policies also made the glass industry one of the industries with the fastest growing exports. With the expansion of export markets in recent years, the industry increased both its domestic production capacity and investments abroad.

Sisecam Group dominates the domestic market

About 90% of annual production in Turkey comes from Sisecam, a group of companies including Trakya Cam and Anadolu Cam, which have 26 manufacturing sites and 10 marketing and financial companies. There are also about 20 medium and small scale firms dealing with production in the glass industry and numerous small companies as well. New glass and glass chemical factories have continued to be built in Russia, Bulgaria, Georgia, and Italy. The number of Turkish companies established abroad now exceed ten.

We are more cautious about the continuation of strong demand

The main clients of glass companies (construction and automotive sectors) have benefited from the improving economic and demand conditions, which translated into higher capacity utilization rates, increased production and better margins since 2010. As the sector is strongly correlated with growth, the sales performance of the industry also displayed a strong performance in the same period. After strong domestic demand from 2010, 2011 was also another strong year.

However, due to the fact that we are more cautious about the continuation of strong demand, mainly due to slowing global growth in the remainder of the year, we are a little bit doubtful as to whether production and sales will continue to increase with the same momentum in 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, production volumes as well as operational performance of glass companies would suffer and glass companies might have 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 materials prices would put pressure on the companies' profitability.

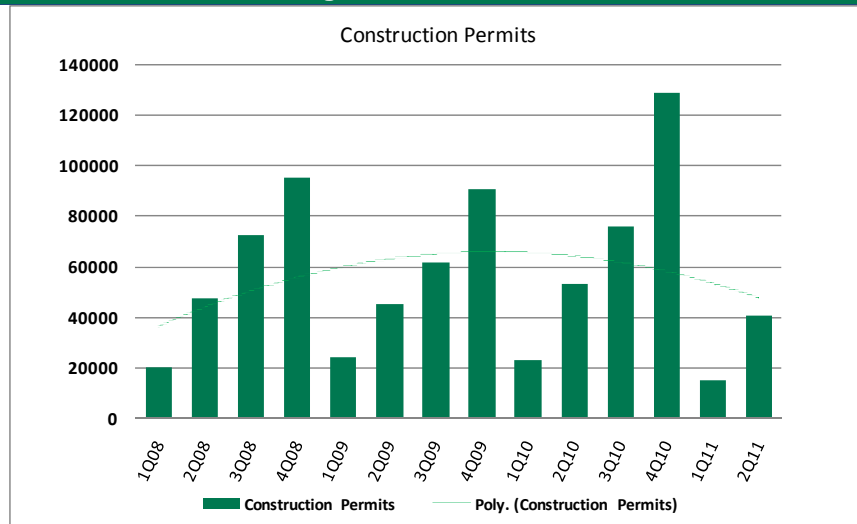
We revise down our recommendation to “Market Perform” for the sector

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. But the outperformance came mainly from the first half of the year. The second half of 2011 was more challenging for the sector. We revise our Outperform recommendation down to “Market Perform” for the glass sector stemming from the fact that a slowdown in the global economy, especially in Europe poses downward risks.

Flat & auto glass

Trakya Cam mainly serves the construction and the automotive sectors. After four quarters of continuous contraction, the construction sector rebounded in 2010 and the first half of 2011, growing by 14.7% and 13.2% YoY, respectively. However, there was a 24.0% YoY decrease in construction permits indicating a slowdown for the construction sector in 2H11 and 2012.

Figure 1: Construction sector growth



Source: Turkish Statistical Institute

In addition, auto sales in Turkey reached its peak in 2011 due to the growth in the credit market, relatively low interest rate environment, attractive campaigns from auto producers and continued economic recovery.

Figure 2: Automotive market

	December			January-December		
	2010	2011	(%)	2010	2011	(%)
Total Market	77.404	66.714	-13,8	638.437	774.413	21,3

Source: AMA

Accordingly, the domestic automotive market increased by 21.3% YoY in 2011. But considering the slowdown in domestic sales in recent months and the deteriorating macro outlook points to a much more weaker automotive market for 2012.

Glass packaging Anadolu Cam's main clients are the food, water, mineral water, milk, beer, wine and beverages including the alcohol, pharmaceutical and cosmetics sectors. Due to the nature of the business, demand in these sectors is more resilient to economic downturns.

Capacity expansion plans Sisecam and its subsidiaries, Trakya Cam and Anadolu Cam, will continue their aggressive growth and capacity expansion strategies. For glass packager, Anadolu Cam, plans to increase its existing international capacities (especially in Russia, Georgia, Ukraine and Macedonia) will come about in the coming years. For the flat glass producer, Trakya Cam, an agreement with Saint Gobain to build a flat glass production plant in the Republic of Tatarstan in Russia and to participate in the company's Egyptian operations will expand its revenue base. In addition, the company decided to double production in Bulgaria.

Risks 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, production volumes as well as operational performance of glass companies would suffer and glass companies may have to postpone investments on their agenda. In addition, glass companies utilize natural gas and soda ash in their production processes as a raw material and any increase in raw materials prices would put pressure on the companies' profitability.

Trakya Cam

A break for a while...

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Revising down to Market Perform We decrease our target price for Trakya Cam to TRY 2.80 and downgrade to "Market Perform" amid increasing concerns on growth putting pressure on margins, despite this, we still believe in the company's long-term potential thanks to ongoing capacity expansions.

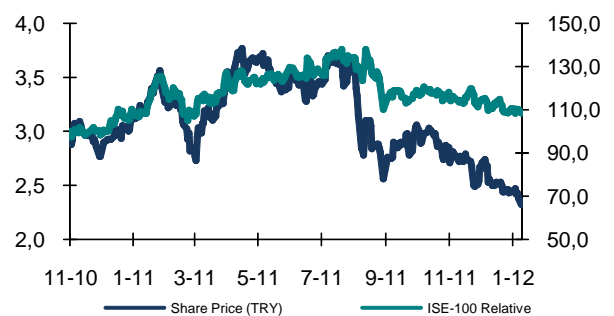
Dominant domestic flat glass producer Trakya Cam is SiseCam's flat glass producer, established in 1978. The company currently produces basic glass (flat glass, patterned glass, mirror, laminated glass, coated glass, and glass for architectural applications), automotive glass and glass for other motor vehicles, energy glass and glass for home appliances. Trakya Cam operates three plants in Turkey with six furnaces (1.4mn ton capacity) dominating the domestic market with a 70% market share. The company has also one plant with a furnace in Bulgaria (230,000 ton capacity). The domestic production capacity of the company corresponds to 86% of overall capacity, and 14% for Bulgaria.

Slowdown on the way for target markets In terms of flat & auto glass, Trakya Cam mainly serves the construction and the automotive sectors. After four quarters of continuous contraction, the construction sector rebounded in 2010 and 1H11 growing by 14.7% and 13.2% YoY, respectively. However, there was a 24.0% decrease YoY in construction permits indicating a slowdown for the construction sector, which comprises the company's sales of about 70%, in 2H11 and 2012. After a record year in 2011, a slowdown is also inevitable for the auto industry in a slowing economy and increasing interest rates.

We expect sales revenues to increase by 4% and net income to contract by 4.8% YoY in 2012 We expect the company to generate revenues of TRY 1,232 million and net income of TRY 213 million in 2012. The reason for the decrease in net income despite increasing revenues mainly stems from decreased margin expectations.

MARKET PERFORM
TP: TRY 2.80

	TRY	US\$	
Close	2,32	1,25	
ISE-100	49.694	26.677	
US\$/TRY(CB Bid Rate):	1,86		
52 Week High:	3,77	2,49	
52 Week Low:	2,32	1,25	
Bloomberg/Reuters Ticker:	TRKCM.TI / TRKCM.IS		
<hr/>			
Number of Shares (Mn):	603		
<hr/>			
	(TRY Mn)	(US\$ Mn)	
Current Mcap :	1.399	751	
Free Float Mcap :	751	210	
<hr/>			
	1 M	YOY	YtD
TRY Return (%):	-9,4	-28,4	-4,9
US\$ Return (%):	-11,7	-41,0	-3,0
ISE-100 Relative (%):	-1,8	-0,9	-1,9
Avg. Daily Vol. (TRY Mn):	3,50		
Avg. Daily Vol. (US\$ Mn):	2,13		
<hr/>			
Beta	0,85		
Volatility (Stock)	0,38		
Volatility (ISE-100)	0,27		
<hr/>			
Shareholder Structure	%		
Sise Cam	70,0		
Sise Group companies	0,7		
Others	0,1		
Free Float	29,3		
Total	100,0		



Capacity expansions on the way Trakya Cam focused on investment in Russia and Egypt in recent years with its strategic partner Saint Gobain, forming a joint venture in order to make a regional diversification. The venture will build a flat glass facility in Tatarstan, Russia with a total investment of USD 250 million. The flat glass plant and the mirror line will be commissioned in 2012 and the coated glass plant will start operating in 2013. In addition, Trakya Cam will participate in the Egyptian operations of Saint Gobain as a minority stakeholder. The completion of the planned investments will make a 29% increase in the company's flat glass production capacity abroad. We believe that these agreements with Saint Gobain are a major step for Trakya Cam in enhancing its standing as a major player in the flat glass sector. The company also recently announced a capacity expansion plan of 580,000 ton in Turkey for the next three years. These capacity expansions for the coming years make us stick to our long-term positive view for the company. But, 2012 is likely to be a break for the company after two strong years with increasing risks of prolonged economic downturn and deterioration in demand conditions both in Turkey and abroad.

Figure 1: Trakya Cam's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	892	1047	1.185	1.220	1.269
EBIT	56	176	235	186	190
EBITDA	172	301	342	311	330
Net income	62	211	223	183	185
Key Balance Sheet (TRY mn)					
Tangible fixed assets	1.017	957	942	927	900
Cash & equivalents	295	454	526	594	726
Total assets	1.942	2.047	2.217	2.305	2.472
Short-term debt	34	9	3	3	3
Total debt	326	270	332	311	309
Total equity	1.367	1.550	1.943	1.908	2.081
Key Ratios					
Net debt/EBITDA (x)	0,18	-0,61	-0,57	-0,91	-1,26
Gross Margin	31,2	37,7	37,1	30,7	30,0
EBIT Margin	6,3	16,8	19,9	15,2	15,0
EBITDA Margin	19,3	28,7	28,9	25,5	26,0
Net Margin	7,0	20,2	18,8	15,0	14,6
ROAE	14,5	13,1	13,2	9,8	9,6
ROAA	7,0	6,6	10,5	8,1	7,7
Valuation Metrics*					
P/E (x)	22,5	6,6	6,3	7,7	7,6
P/BV (x)	1,0	0,9	0,7	0,8	0,7
EV/Sales (x)	1,4	1,2	1,0	1,0	1,0
EV/EBITDA (x)	7,1	4,0	3,6	3,9	3,7
EPS (TRY)	0,12	0,35	0,37	0,30	0,31
Dividend yield (%)	0%	3,2%	3,3%	2,7%	2,8%

*based on current Mcap

Anadolu Cam

More resilient to economic slowdown...

Volkan Dukkancik
Analyst
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We maintain our Outperform recommendation

We maintain our "Outperform" recommendation for Anadolu Cam thanks to its promising operational performance and its relatively defensive target sectors such as food, beverage and health products. However, we cut the target price to 3.40 from 3.95 regarding the downside risks stemming the slowing growth both in Turkey and abroad.

Glass packaging arm of Sise Cam with 90% market share on domestic market

Anadolu Cam is the glass packaging subsidiary of the Sise Cam Group, established in 1969. The company produces glass packages in a range of volumes and colors for various industries such as the food, water, mineral water, milk, beer, wine, beverages, as well as the pharmaceutical and cosmetics industries, which makes the company more resilient to economic activity.

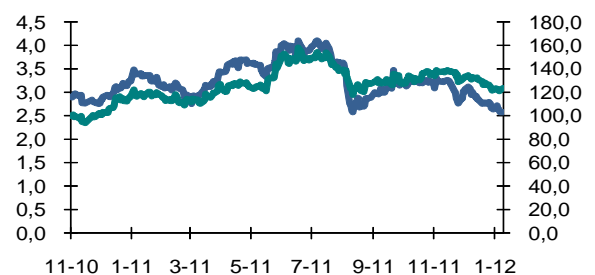
The company currently operates 10 plants in Turkey, Russia, Georgia and Ukraine with a total capacity of 2 million tons. While Anadolu Cam dominates the domestic glass packaging industry with a market share of 90%, the company is also an important player both in Europe and in the world with about a 7% and 3% market shares, respectively. Being the dominant market leader on domestic front gives Anadolu Cam a price-maker advantage which in turn provides the company having control on margins.

We expect sales revenues to increase by 3% while net income to remain flat YoY in 2012

We expect the company to generate a revenue figure of TRY 1,289 million and net income of TRY 164 million in 2012. However, there are some downside risks to our expectations including a more severe than expected economic slowdown, and increase in energy prices due to the political tension in MENA which may put extra pressure on margins and bring some delay to investment plans.

OUTPERFORM
TP: TRY 3.40

	TRY	US\$		
Close	2,58	1,39		
ISE-100	49.694	26.677		
US\$/TRY(CB Bid Rate):	1,86			
52 Week High:	4,10	2,57		
52 Week Low:	2,58	1,38		
Bloomberg/Reuters Ticker:	ANACM.TI / ANACM.IS			
Number of Shares (Mn):	346			
	(TRY Mn)	(US\$ Mn)		
Current Mcap :	893	480		
Free Float Mcap :	179	96		
	1 M	YoY	YtD	
TRY Return (%):	-14,3	-23,9	-2,3	
US\$ Return (%):	-16,4	-37,3	-0,3	
ISE-100 Relative (%):	-7,1	5,2	0,8	
Avg. Daily Vol. (TRY Mn):	0,79			
Avg. Daily Vol. (US\$ Mn):	0,48			
Beta	0,87			
Volatility (Stock)	0,36			
Volatility (ISE-100)	0,27			
Shareholder Structure			%	
T.Sise ve Cam Fabrikaları A.S.	79,0			
Camis Madencilik	0,8			
Free Float	20,2			
Total	100,0			



— Share Price (TRY) — ISE-100 Relative

New investments to increase capacity to 2.5 million tons in three years Anadolu Cam is well positioned in the domestic market. The company has no major competitor, thus it is likely to maintain its leadership position in Turkey in the short-term. Anadolu Cam also has around 40% of the Georgian and 20% of the Russian glass packaging market. The company plans to increase its existing capacities (2mn tons) both in Turkey and abroad to 2.5mn tons within three years which will strengthen its position in Georgia and Russia, as well as domestically. The company is also planning to diversify its product offering in Russia to decrease its exposure to the Russian beer sector after new regulations from the Russian government were imposed in order to decrease beer consumption.

Figure 1: Anadolu Cam's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	915	1117	1.252	1.289	1.392
EBIT	35	128	191	188	195
EBITDA	186	263	347	316	341
Net income	16	102	164	164	170
Key Balance Sheet (TRY mn)					
Tangible fixed assets	941	894	1107	1117	1111
Cash & equivalents	171	253	264	290	319
Total assets	1.585	1.744	2.184	2.205	2.295
Short-term debt	250	253	468	438	433
Total debt	674	658	1149	1069	1051
Total equity	737	899	1.180	1.234	1.383
Key Ratios					
Net debt/EBITDA (x)	2,71	1,54	2,55	2,47	2,14
Gross Margin	20,9	25,1	29,9	29,6	29,0
EBIT Margin		11,4	15,3	14,6	14,0
EBITDA Margin	20,3	23,6	27,7	24,5	24,5
Net Margin	1,7	9,1	13,1	12,8	12,2
ROAE	12,5	8,0	17,9	15,5	14,7
ROAA	4,0	2,7	8,3	7,5	7,6
Valuation Metrics*					
P/E (x)	8,7	12,7	5,5	5,4	5,3
P/BV (x)	1,0	1,1	0,9	0,8	0,7
EV/Sales (x)	1,4	1,5	1,3	1,3	1,2
EV/EBITDA (x)	6,0	6,5	4,7	5,1	4,7
EPS (TRY)	0,29	0,23	0,47	0,48	0,49
Dividend yield (%)	0,0%	2,9%	3,5%	3,4%	3,5%

*based on current Mcap

Iron – Steel sector

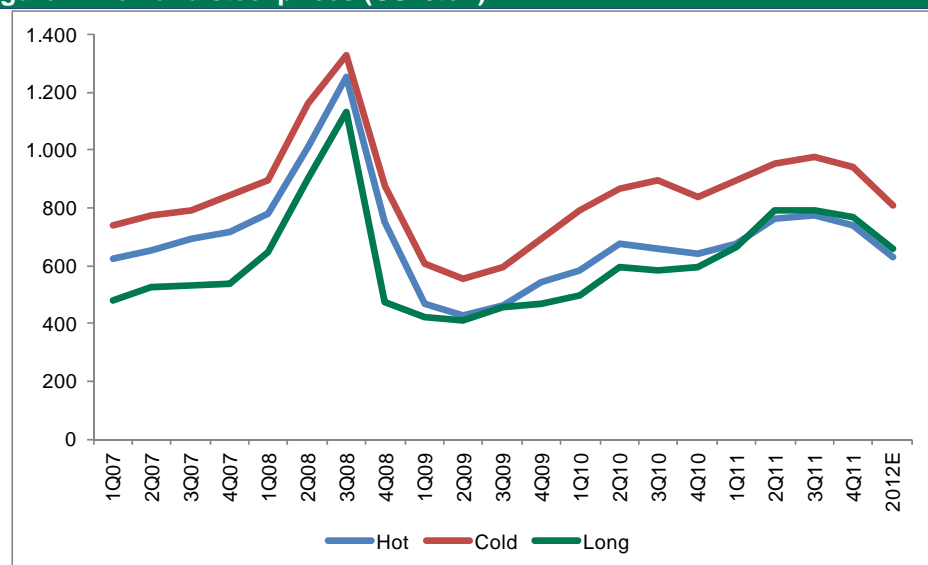
Concerns over growth in 2012 create uncertainty

The iron and steel sector had a successful year overall thanks to the effects of higher product prices in 2011. After the global crisis began in the last quarter of 2008, demand for steel and thus iron-steel products shrank causing harsh declines in prices to last into the first half of 2009. Companies that entered the crisis with high inventories suffered the greatest losses, however, with demand climbing as of the second half of 2009, product prices recovered and maintained an upwards trend during 2011. This had a positive impact on companies in the sector, though prices did see some occasional fluctuations.

When we look at the speedy pace of new investment projects in 2011, we see that the following catalysts were at work: *i)* increase in demand, *ii)* rapid ascent in commodities prices such as oil, gold, copper and silver, *iii)* increasing prices of scrap and log which are crucial raw materials. In addition to the increase in global demand, the continuing recovery in the Turkish economy positively influenced consumption dynamics.

Prices of hot and cold products were \$640/ton at the beginning of 2011 and increased to \$772/ton and \$974/ton, 21% and 15% respectively. Long-term product prices were \$562/ton at the beginning of 2011 and rose to \$792/ton (up 40%). These increases favorably influenced the financials of sector players in 2011. The effect of increasing raw material prices on costs was not reflected on companies' financial statements. However, with escalating concerns over the global economy in the final quarter of 2011, the recovery which starting in 2010 took a downturn which put pressure on product prices. Accordingly, product prices fell by 10% in 4Q11 compared to the previous quarter and long product prices decreased by 5%.

Figure 1: Iron and steel prices (USD/ton)



Source: Company data

For these reasons, we believe that decreasing product prices and increasing raw materials prices in the last period of 2011 will put some pressure on the margins of sector players in 4Q11. We also expect this to continue into the first quarter of 2012. Concerns over growth in 2012 and uncertainties from the debt crisis in Europe and worried about contagion creates ambiguity about the future of the sector. Therefore, in parallel with the slowdown in the global economy, the regression in demand will have adverse effects on the performance of sector. Hence, considering the decreasing product prices, we do not expect 2012 to be as solid as 2011. We foresee iron-steel prices to show an average decrease of 10% in 2012. In line with these expectations, we predict that net profitability and margins for 2012 will also be lower than 2011.

Total raw steel production in Turkey rose to over 30 million tons in 2011

The total raw steel production in Turkey increased to 30.9 million tons (up 17.6%) with the help of new capacity in the first eleven months of 2011. While Turkey ranks ninth among global raw steel producers, it ranks second in Europe after Germany.

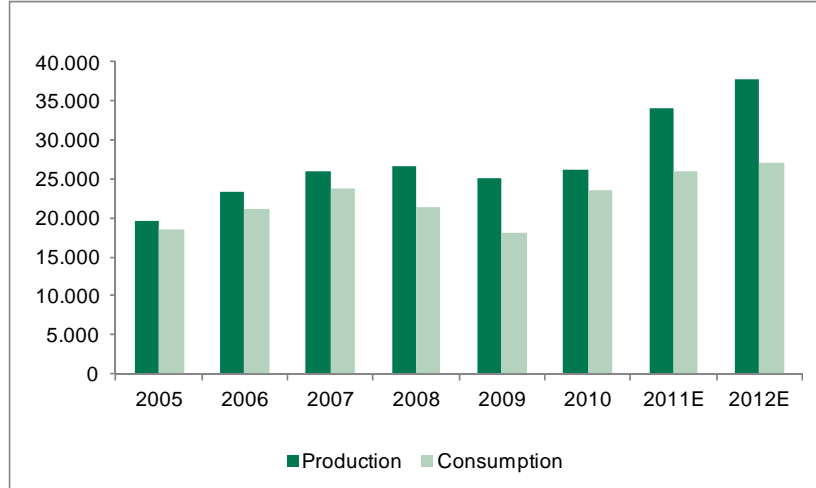
Figure 2: World crude steel production

	(000 Tons)	2010/11	2011/11	% Chg.
1	China	574.477	630.984	9,8%
2	Japan	100.426	99.196	-1,2%
3	US	73.846	79.058	7,1%
4	India	62.578	66.056	5,6%
5	Rusai	61.230	62.870	2,7%
6	S.Korea	53.049	62.521	17,9%
7	Germany	40.653	41.266	1,5%
8	Ukrain	30.472	32.505	6,7%
9	Brasil	30.499	32.473	6,5%
10	Turkey	26.351	30.991	17,6%
11	Italy	23.849	26.674	11,8%
	TOTAL	1.278.817	1.373.016	7,4%

Source: Turkish Iron & Steel Producers Association

Turkey's flat production in 2011 rose to 8.93 million tons (up 36.3%) compared to the previous year, and the increase in the production of long products reached 22.06 million tons (up 11.4%). It is expected that by the end of 2011, total steel production will rise to 34 million tons, 10 million of which is estimated to be flat production.

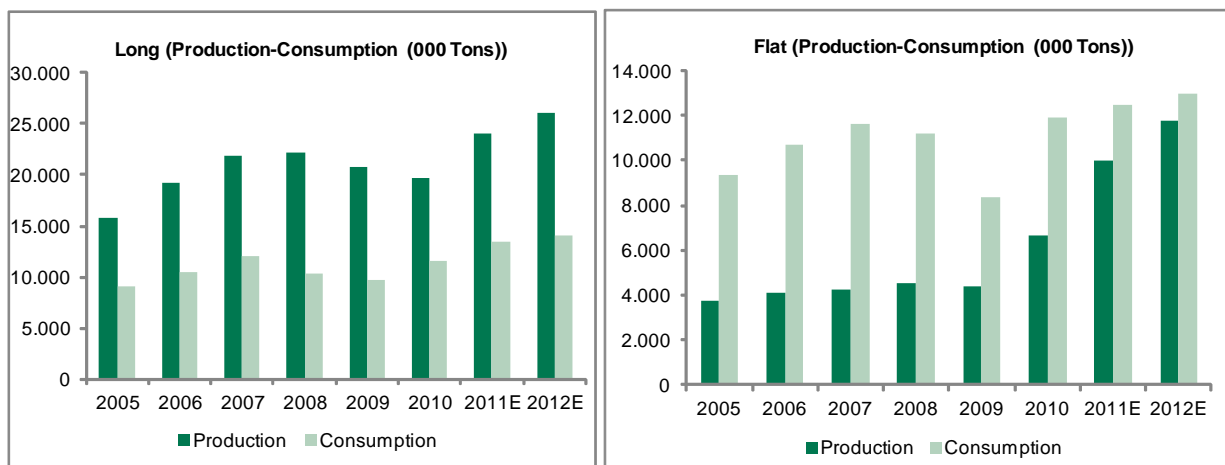
Figure 3: Turkish steel production & consumption (tons, 000s)



Source: Turkish Iron & Steel Producers Association

As for iron-steel consumption, 2011 saw a 10% increase over 2010. The fact the white goods sector had 10% growth and the automotive sector had 13% ensured flat iron-steel consumption to rise by 2% in 2011. On the other hand, the dynamism in the construction sector after speedy investments postponed before the elections enabled the consumption of long product to show a more rapid increase compared to flat products, which had an increase of 19% in 2011 compared to 2010.

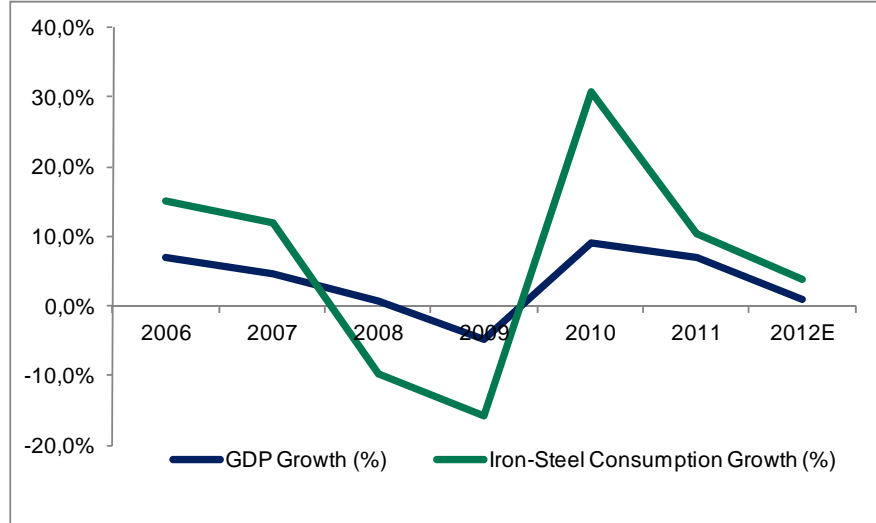
Figure 4: Turkish Steel Production-Consumption (tons, 000s)



Source: Turkish Iron & Steel Producers Association

Due to the expectation that domestic demand will slow down in 2012 and the debt crisis will continue in Europe, we foresee that the automotive sector will shrink by 14%. On the other hand, we estimate that there will be an increase of 3% in white goods production. In this context, parallel with our expectation of a 1% slowdown in the Turkish economy in 2012, we believe that the rate of increase in iron-steel production will be 4% in 2012, lower than 2011.

Figure 5: Turkish steel consumption growth & GDP growth



Source: TurkStat, Seker Securities

Erdemir

Revised to "Market Perform"

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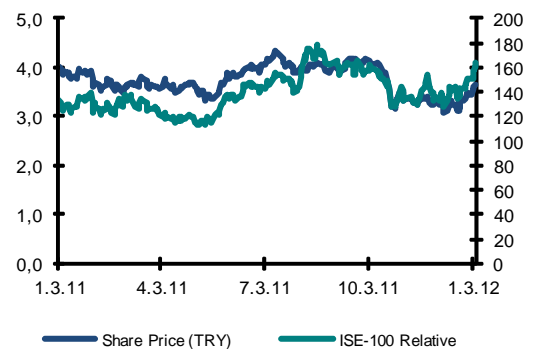
We think that the company's margins will shrink in the 2012 – Erdemir increased its average flat product prices about 18% while long prices soared by 40% as of 9M11, in line with the increased raw materials prices. This rise in prices was reflected favorably on its 2011 financials. Also, increasing raw materials costs did not reflect on the company's financials. On the other hand, Erdemir's sales tonnage (hot+cold+long), increased 10% YoY in 9M11. In particular, the increase in demand in the automotive and white goods sectors reflected positively on Erdemir's sales volume and revenues in 2011. However, Erdemir's average product price declined by 10% in 4Q11 compared to 3Q11. Thus, we believe that its Q4 results will be worse than Q3 due to lower steel prices and higher costs. Also, we expect earnings and margins to come down significantly in 2012 due to lower steel prices and higher costs.

We anticipate that the decreased product prices and increased costs, will result in the EBITDA margin of the company coming down from 26.0% in 9M11 to 21.4% at the end of 2011. We predict that Erdemir's EBITDA margin will decrease to 18.3% in 2012 because of high raw materials costs and lower prices. On the other hand, our sales volume anticipation for Erdemir in 2012 is about 7.2 million tons. We estimate that Erdemir to finish 2011 with TRY 8.9 billion in net sales revenue and a TRY 917 million net profit. We also estimate that Erdemir will announce net sales revenues of TRY 9.1 billion and a net profit of TRY 740 million at the end of 2012.

Please note that Erdemir has a net debt of TRY 3.8 billion as of 9M11. Thus we suggest that the company's high debt position will be quite risky because of FX volatility. On the other hand, the company announced that it ended TRY credit sales and added that they would implement all credit sales in USD terms as from January 1, 2012 due to the recent movements in the USD/TRY.

MARKET PERFORM TP: TRY 4.10

	TRY	US\$	
Close	3,33	1,78	
ISE-100	50.183	26.841	
US\$/TRY(CB Bid Rate):	1,88		
52 Week High:	4,33	2,86	
52 Week Low:	3,00	1,62	
Bloomberg/Reuters Ticker:	EREGL.TI/ EREGL.IS		
Number of Shares (Mn):	2.150		
	(TRY Mn)	(US\$ Mn)	
Current Mcap:	7.160	3.829	
Free Float Mcap:	1.575	842	
	1 M	YOY	YTD
TRY Return (%):	-0,6	-12,2	1,5
US\$ Return (%):	-3,4	-27,8	3,3
ISE-100 Relative (%):	8,3	-10,3	40,2
Avg. Daily Vol. (TRY Mn):	27,33		
Avg. Daily Vol. (US\$ Mn):	16,77		
Beta	0,76		
Volatility (Stock)	0,30		
Volatility (ISE-100)	0,27		
Shareholder Structure	%		
Ataer Holding A.Ş	49,3		
Free Float	47,6		
Erdemir's Own Shares	3,1		
Total	100,0		



“Market Perform” We revise our target price for the company by 21% to TRY 4.10 from TRY 5.20. Thus, we decided to downgrade our recommendation for Erdemir shares to **“Market Perform”** from Outperform. Erdemir’s current price stands at TRY 3.33, with our target value representing a **23% upside potential**.

Figure 1: Erdemir’s key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	5.236	6.633	8.926	9.079	10.252
EBIT	66	1.130	1.638	1.364	1.504
EBITDA	347	1.428	1.910	1.661	1.825
Net income	-169	766	917	740	901
Key Balance Sheet (TRY mn)					
Tangible fixed assets	6.795	6.780	6.848	6.916	7.055
Cash & equivalents	1.066	2.883	1.368	1.469	1.500
Total assets	11.150	13.541	13.850	13.911	14.245
Short-term debt	837	3.054	1.511	1.732	1.828
Total debt	4.166	5.851	5.289	5.380	5.291
Total equity	5.919	6.691	7.344	7.273	7.689
Key Ratios					
Net debt/EBITDA (x)	8,93	2,08	2,05	2,35	2,08
Gross Margin	4,7	19,9	21,8	18,7	18,4
EBIT Margin	1,3	17,0	18,4	15,0	14,7
EBITDA Margin	6,6	21,5	21,4	18,3	17,8
Net Margin	-3,2	11,5	10,3	8,2	8,8
ROAE	-2,8	12,6	13,4	10,4	12,4
ROAA	-1,5	6,5	6,7	5,3	6,4
Valuation Metrics*					
P/E (x)	9,6	7,4	7,5	9,3	7,7
P/BV (x)	1,1	1,0	1,0	1,0	0,9
EV/Sales (x)	1,7	1,3	1,2	1,2	1,1
EV/EBITDA (x)	7,4	5,3	5,7	6,6	6,0
EPS (TRY)	0,29	0,39	0,44	0,36	0,43
Dividend yield (%)	0,0%	6,3%	6,6%	5,4%	6,5%

*based on current Mcap

Kardemir

“Outperform” maintained

Burak Demirbilek
Analyst
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Kardemir recorded strong results in 2011 – The increased product prices had a positive effect on the company’s financial statements in 2011. Kardemir increased its average products prices by 22% YoY as of 9M11 due to increased in global iron-steel prices. On the other hand, Kardemir’s product sales volume increased by 20% YoY to above 1 million tons in 9M11. Kardemir’s capacity utilization rate at its rolling mill and steel mill increased to 90.5% and 112.6% in 9M11 from 77.5% and 98.8% in 9M10, respectively. These increases had a positive impact for the company. Kardemir announce a total profit of TRY 180.4 million in 9M11.

Product prices went down by 6% in 4Q11 compared to 3Q11 – We expect Kardemir’s net sales revenues to decrease in Q4 compared to Q3 due to decreasing product prices and predict the figure to close 2011 at TRY 1,553 million. However, in spite of decreasing prices, the company’s net sales revenues will rise to TRY 1,683 million in 2012 due to the contribution of high value added product sales. Although we expect the increase in raw materials to press on margins, we think that these increases, together with increasing demands, could reflect on product prices and the company may be able to continue its favorable performance in 2012 as well. We foresee that the EBITDA margin of the company will be about 19.5% in 2012. We anticipate Kardemir to complete 2011 with a net profit of TRY 213 million, and see a lower TRY 187 million net profit in 2012 due to increased COGS.

Kardemir is still the unique railway and large-scale manufacturer in Turkey – Having an steel plant with an annual capacity of 1.1 million tons, a rolling plant with a 900,000 ton capacity, a liquid raw iron production capacity of 1 million tons and a sinter plant with a 1.3 million ton capacity, Kardemir is still the unique railway and large-scale manufacturer of Turkey.

OUTPERFORM
TP: TRY 1.00

	TRY	US\$	
Close	0,73	0,39	
ISE-100	50.183	26.841	
US\$/TRY(CB Bid Rate):	1,88		
52 Week High:	1,01	0,64	
52 Week Low:	0,73	0,39	
Bloomberg/Reuters Ticker:	KRDMD.TI / KRDMD.IS		
Number of Shares (Mn):	878,8		
	(TRY Mn)	(US\$ Mn)	
Current Mcap:	439	235	
Free Float Mcap:	391	209	
	1 M	YOY	YTD
TRY Return (%):	-7,6	-8,8	-3,9
US\$ Return (%):	-10,2	-25,0	-2,3
ISE-100 Relative (%):	0,7	26,0	-1,9
Avg. Daily Vol. (TRY Mn):	22,85		
Avg. Daily Vol. (US\$ Mn):	14,11		
Beta	0,78		
Volatility (Stock)	0,33		
Volatility (ISE-100)	0,27		
Shareholder Structure	%		
Kardemir A Group	21,1		
Kardemir B Group	10,5		
Kardemir D Group	68,4		
Total	100,0		



The company continues to invest for increased capacity. While Kardemir is planning to increase its rail capacity to 1 million tons from 400,000 tons, it aims to increase its sinter production capacity to 1.8 million tons from 1.3 million tons within the next two years.

On the other hand, we consider that the company's increasing exports connections in Syria and Iran in the recent years will provide positive contributions to net sales revenues in the coming period. However, we consider that the possible political risks in Syria and Iran may turn out to be a negative.

"Outperform" – At this point, we maintain our **"Outperform"** recommendation for the stock. While our target price for Kardemir stands at TRY 1.00, the company's currently trades at TRY 0.73 and our target value represents a **36% upside potential**.

Figure 1: Kardemir's key financials

Key Income Statement (TRY mn)	2009A	2010E	2011E	2012E	2013E
Revenues	794	1.009	1.553	1.684	1.861
EBIT	-69	12	253	260	258
EBITDA	-14	75	312	328	335
Net income	-72	21	213	187	190
Key Balance Sheet (TRY mn)					
Tangible fixed assets	775	868	951	980	1.009
Cash & equivalents	3	10	54	69	64
Total assets	1.219	1.404	1.653	1.750	1.809
Short-term debt	79	161	76	91	96
Total debt	174	285	283	365	385
Total equity	789	810	1.022	1.018	1.031
Key Ratios					
Net debt/EBITDA (x)	-12,20	3,64	0,73	0,90	0,96
Gross Margin	-4,7	6,0	18,7	17,9	16,4
EBIT Margin	-8,7	1,2	16,3	15,4	13,9
EBITDA Margin	-1,8	7,5	20,1	19,5	18,0
Net Margin	-9,1	2,1	13,7	11,1	10,2
ROAE	-6,0	1,8	23,2	18,3	18,5
ROAA	-4,0	1,1	13,9	11,0	10,7
Valuation Metrics*					
P/E (x)	-6,1	20,8	2,1	2,4	2,3
P/BV (x)	0,6	0,5	0,6	0,6	0,6
EV/Sales (x)	0,8	0,6	0,4	0,4	0,3
EV/EBITDA (x)	-43,0	8,0	1,9	1,8	1,8
EPS (TRY)	-0,08	0,02	0,24	0,21	0,22
Dividend yield (%)	0,0%	0,0%	6,6%	5,8%	5,9%

*based on current Mcap

Oil, Gas and Petrochemical Sector

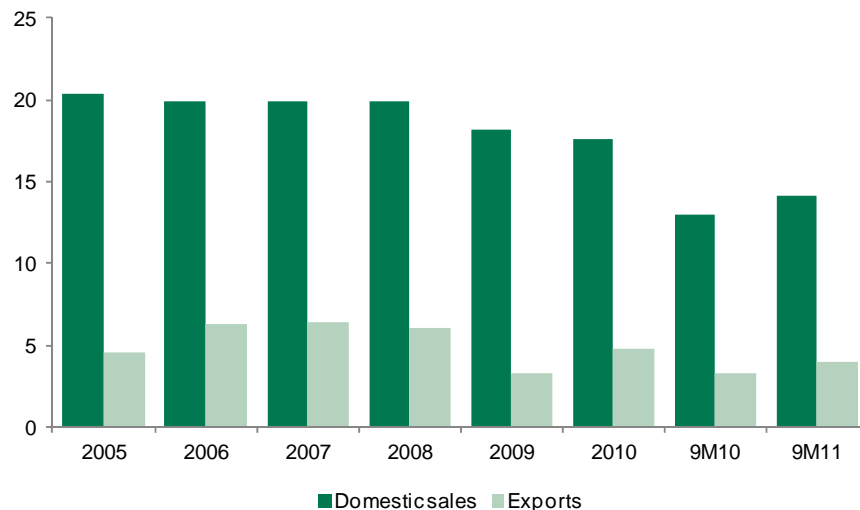
Oil Refining

Ambiguous global outlook

Tupras is the leading and sole company in the oil refining sector in Turkey with a total annual crude oil processing capacity of 28.1 million tons and four oil refineries. With this capacity, Tupras is ranked as the 8th largest refining company in Europe. Although there is currently no other refinery in Turkey, Dapras (Calik Energy) and Socar & Turcas hold licenses to build refineries. Dapras' refinery is scheduled to begin production in 2014 and is planned to process up to 212,000 barrels of crude oil per day from Russia, Iraq and the Caspian region. Socar & Turcas will build its refinery at Petkim's petrochemical site and will have an annual crude processing capacity of 10 million tons and is expected to start operating at the end of 2015.

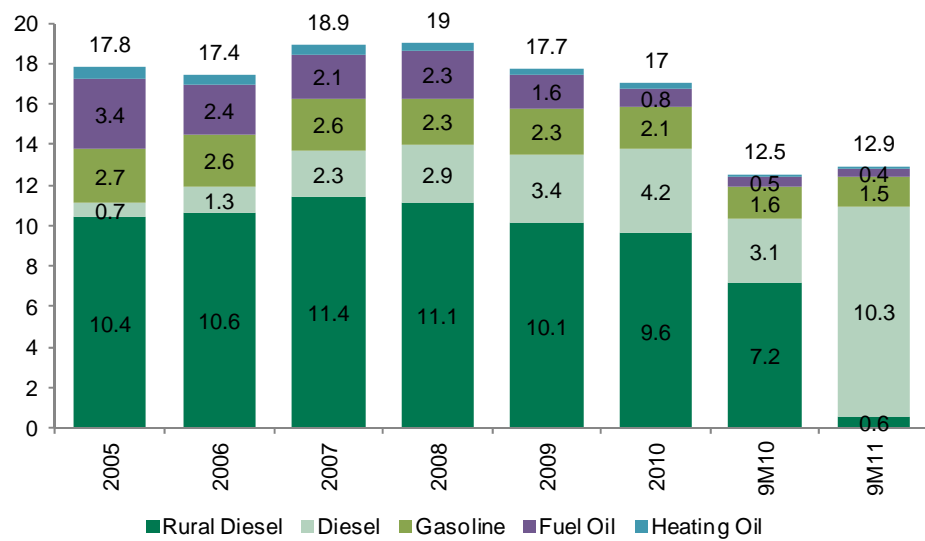
Until that time, Tupras will benefit from being the only local player in the market. In 3Q11, Tupras' total sales volume improved year-on-year by 8.5% to 6.7 million tons with the support of robust domestic demand. While domestic sales volume reached 5.7 million tons in 3Q11, up by 9.5% YoY thanks to increases in ULSD and partly to gasoil and asphalt sales, Tupras' export volume rose by 3.4% YoY to 1.1 million tons with the support of gasoline and naphtha sales.

Figure 1: Tupras' domestic sales & exports (tons, mn)



Source: Tupras

Looking at the demand for petroleum products in Turkey, in the first nine months of 2011, Turkey's total automobile fuel consumption including gasoline, diesel and LPG autogas increased by 4.7% to 18.3 million m³. Gasoline consumption contracted by 4.1% YoY to 1.95 million m³ stemming from the increased usage of diesel cars and the price advantage of auto gas during the first nine months of 2011. On the other hand, total diesel consumption surged by 5.9% YoY reaching 12.9 million m³ in 9M11.

Figure 2: Turkey's total automobile fuel consumption (tons, mn)

Source: PETDER

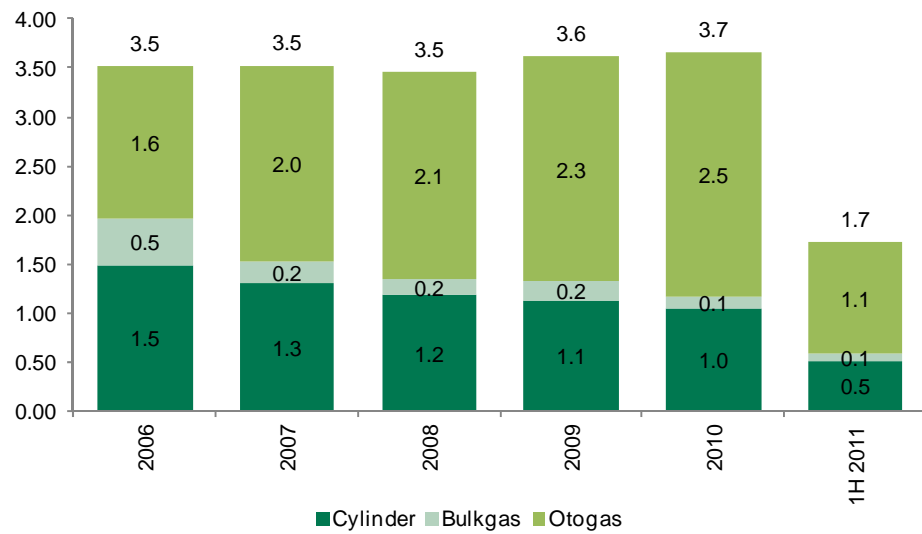
Since 2007, automotive fuel consumption headed upwards though at a slowing rate due to the usage of substitute products and illegal petroleum products. However, we think that growing vehicle parc in Turkey provides potential for growth.

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. However, we believe that consumption of domestic petroleum products in Turkey will maintain its growth in the long-term and that Tupras will be the main beneficiary since it has a leading position in the refining sector.

LPG distribution

Aygaz: market leader in all segments of domestic LPG market

LPG has been used in Turkey since the 1960's. Before the recession in 2001, total consumption was 4.5 million tons in 2000 due to the low taxation on LPG vehicle fuel. After 2001 and the following years, total LPG consumption balanced out at around 3.6 million tons/year. Approximately 80% of Turkey's LPG demand is met by imports. Tupras is the only domestic LPG producer.

Figure 3: Turkey's total LPG consumption (tons, mn)


Source: EMRA, Seker Securities

As LPG consumption continues to stabilize, we anticipate the cylinder and bulk gas segments to see contractions, but the autogas segment to compensate for this.

The LPG sector is one of the most competitive and fragmented sectors in Turkey with 64 LPG distributors, 83 LPG storage companies and 8,590 LPG autogas vendors as of the end of October 2011. Below is the sales volume and market share of the top 10 distributors as of the end of 2Q11.

Figure 4: Top LPG distributors

Distributors	Sales (tons)	Market share
Aygaz	494,606	28.03%
Petrol ofisi	182,102	10.32%
Milangaz	158,520	8.98%
İpragaz	143,617	8.14%
Shell	143,174	8.11%
BP Gaz	98,512	5.58%
Total	78,090	4.43%
Akpet	51,116	2.90%
Bizimgaz	37,464	2.12%
Total	1,387,201	78.61%

Source: EMRA, Seker Securities

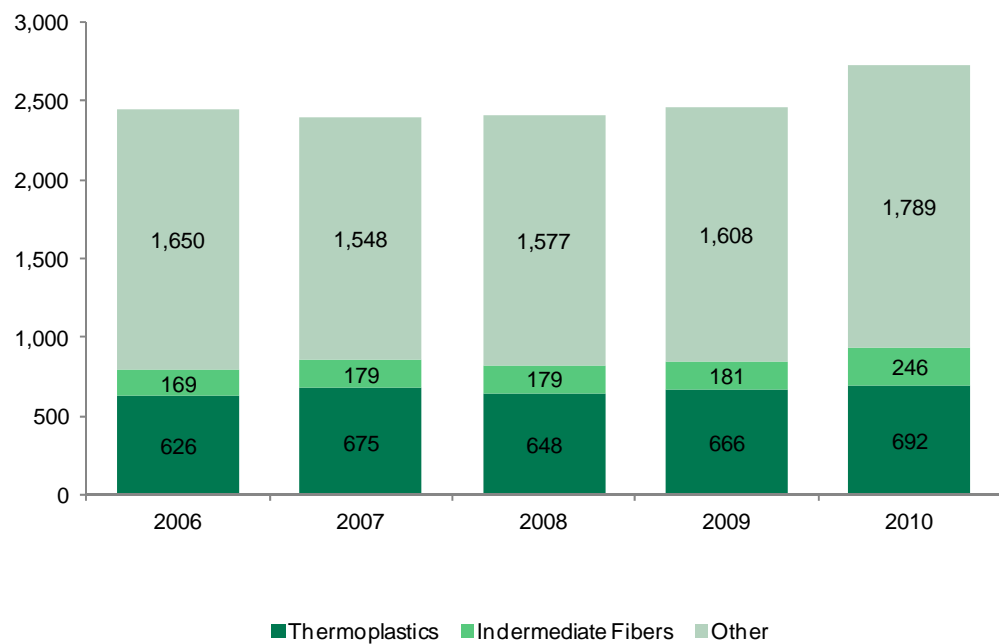
The domestic market reached 1,764 million tons in 1H11 and Aygaz is the market leader with a 22.38% market share in 1H11. Domestic cylinder (bottled LPG) and bulk gas consumption decreased by 5.8% and 9.7% in 1H11 respectively. On the other hand, autogas sales increased by 6.8% in the same period.

Petrochemicals

Petkim is the sole petrochemical producer in Turkey

Petkim's Aliaga complex has a 1.9 million ton production capacity. Domestic demand of petrochemical products is reported at approximately USD 6-7 billion. Petkim's production covers approximately 25% of the demand in Turkey. Therefore, Turkey imports the rest of the demand and is the second largest importer after China. The market recovered fast after the crisis and strong demand for petrochemicals increased imports. The market is expected to grow 10-11% between 2010 and 2015. Therefore, domestic market size is expected to exceed USD 8 billion. Petkim targets a 40% market share (through expansion) in Turkey by 2018.

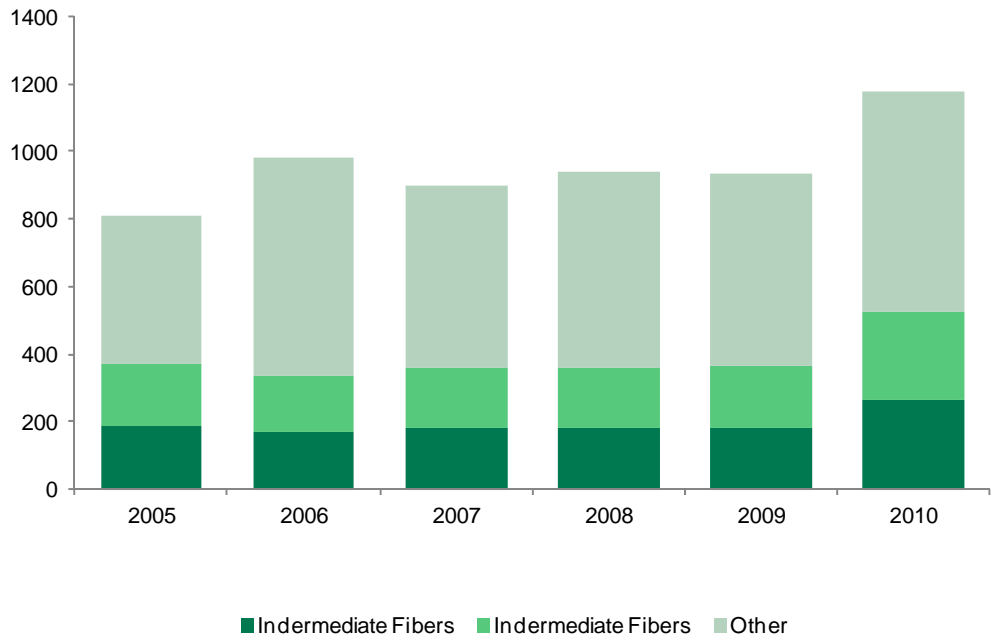
Figure 5: Gross production by product group ('000 tons)



Source: Petkim

Turkey's thermoplastic demand grew at a CAGR of 8.1% in 1999-2009. Petrochemical demand in Turkey is expected to reach 5.87 million tons in 2015 and 7.97 million tons in 2020.

Figure 6: Sellable production by product group ('000 tons)



Source: Petkim

Aygaz

Maintains Market Perform rating

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We maintain "Market Perform" Aygaz currently has a TRY 2,634 million Mcap. Our target value is TRY 2,880 million representing a 12% upside potential. Therefore, we maintain our "Market Perform" rating for Aygaz.

Price increases support the top-line growth in 3Q11, Aygaz generated TRY 1.5 billion sales revenues in 3Q11 up by 22.4% YoY from TRY 1.2 billion in 3Q10 due to the increase in the product prices. Note that average selling price for cylinder gas and auto gas increased 20% and 18%, respectively.

We assume the company's total revenues to reach TRY 5.28 billion in 2012. We expect company to record TRY 5.13bn in 2011, 10% higher compared to the prior year. For 2012, we do not expect AYGAZ to grow in the LPG segment but maintain its market share at around 30%. However, due to the increases in the auto gas segment revenues, we expect the company's revenue to reach to TRY 5.28 billion. In addition, we anticipate company's EBITDA and net income figures to reach TRY 345 million and TRY 264 million, respectively.

Aygaz sold 49.62% of Entek to AES Mont Blanc Holdings. However, since Aygaz's stake in the company fell to 25% in 2011, we expect a concurrent decrease in reported revenues coming from Entek. Entek currently has three plants with a total capacity of 305 MW. It plans to bid in upcoming generation privatizations and targets a long-term capacity of 3,000 MW.

MARKET PERFORM
TP: TRY 9.60

	TRY	US\$	
Close	8.60	4.60	
ISE-100	50,183	26,841	
US\$/TRY(CB Bid Rate):	1.87		
52 Week High:	12.25	6.55	
52 Week Low:	7.54	4.03	
Bloomberg/Reuters Ticker:	AYGAZ.TI / AYGAZ.IS		
Number of Shares (Mn):	300		
	(TRY Mn)	US\$ Mn)	
Current Mcap :	2,580	1,380	
Free Float Mcap:	619	331	
	1 M	YOY	YTD
TRY Return (%):	-4.2	-3.5	-2.7
US\$ Return (%):	-6.9	-20.7	-1.0
ISE-100 Relative (%):	4.3	33.2	-0.6
Avg. Daily Vol. (TRY Mn):	2.9		
Avg. Daily Vol. (US\$ Mn):	1.8		
Beta	0.79		
Volatility (Stock)	0.33		
Volatility (ISE-100)	0.27		
Shareholder Structure	%		
Koç Holding	40.7		
Liquid Petroleum Dev.Co.	24.5		
Other & Free Float	34.8		
Total	100.0		

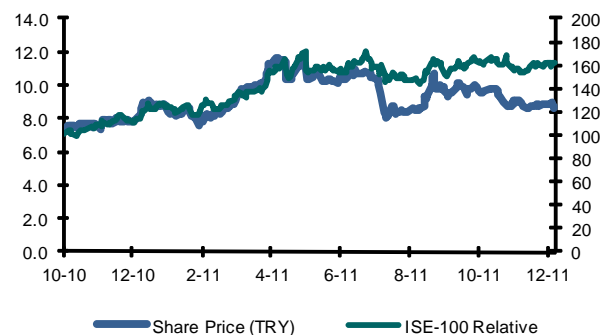


Figure 1: Aygaz's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	3,787	4,658	5,125	5,279	5,437
EBIT	293	217	174	241	295
EBITDA	390	306	257	327	381
Net income	315	239	381	261	308
Key Balance Sheet (TRY mn)					
Tangible fixed assets	711	475	485	489	500
Cash & equivalents	408	262	382	309	375
Total assets	2,608	2,804	2,878	2,868	3,005
Short-term debt	259	3	6	9	10
Total debt	435	111	18	27	29
Total equity	1,757	2,014	2,178	2,130	2,237
Key Ratios					
Net debt/EBITDA (x)	0.07	-0.49	-1.42	-0.86	-0.91
Gross Margin	14.6	10.8	8.9	10.4	11.4
EBITDA Margin	10.3	6.6	5.0	6.2	7.0
Net Margin	8.3	5.1	7.4	4.9	5.7
ROAE	18.6	11.9	18.5	12.3	14.4
ROAA	12.5	8.6	13.4	9.1	10.5
Valuation Metrics*					
P/E (x)	9.5	12.9	8.1	11.9	10.1
P/BV (x)	1.8	1.5	1.5	1.5	1.4
EV/Sales (x)	0.8	0.6	0.6	0.5	0.5
EV/EBITDA (x)	7.3	9.4	11.2	8.7	7.5
EPS (TRY)	1.1	0.8	1.3	0.9	1.0
Dividend yield (%)	4%	5%	8%	5%	6%

*based on current Mcap

Petkim

Long term value

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Analyst
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We maintain our "Outperform" rating for Petkim

The company's current Mcap stands at TRY 1.86 billion and we revise our target value to TRY 2.5 billion (TRY 2.50 share price), representing a 35% upside potential.

Growth in domestic petrochemical demand to sustain Petkim's growth in long-term

Petrochemical demand grew parallel to the recovery in economic activity in 2010 and 2011. Although we assume GDP growth to slow down to 1% in 2012, we believe that growth in the sector will surpass GDP growth and that Petkim will benefit from this with its 25% market share. Accordingly, we think that Petkim's revenues will improve to TRY 4.1 billion in 2012 from TRY 3.8 billion in 2011. We expect PETKIM's EBITDA to continue to improve. Our EBITDA estimations are TRY 202 million and TRY 267 million for 2011 and 2012, respectively.

The Socar & Turcas refinery will be integrated with Petkim

Socar & Turcas plans to build a refinery on Petkim's facilities. The refinery's construction will begin in 2012 and will be operational in 2015, with an annual capacity of around 10 million tons of crude oil. Due to the integration of the refinery, we estimate that Petkim's freight costs will decrease to about USD 40-50 million annually.

The new projects and capacity increases should improve efficiency in the long-run

Petkim renovates its existing industrial site through upgrades, de-bottlenecking and new facilities and plans to increase its existing capacity by 382k tons until 2014. For example, the expansion of its ethylene plant capacity by 2013 is among one of the plans. The company targets USD 300 million of Capex over the following three years.

OUTPERFORM
TP: TRY 2.50

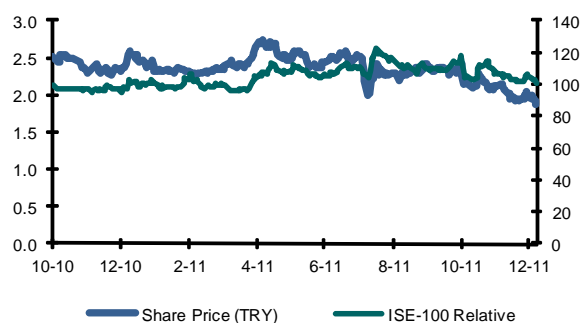
	TRY	US\$
Close	1.86	0.99
ISE-100	50,183	26,841
US\$/TRY(CB Bid Rate):	1.88	
52 Week High:	2.75	1.79
52 Week Low:	1.86	0.99
Bloomberg/Reuters Ticker:	PETKM.TI / PETKM.IS	

	1,000	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):			
Current Mcap :		1,860	990
Free Float Mcap:		632	338

	1 M	YOY	YTD
TRY Return (%):	-13.1	-27.1	-5.6
US\$ Return (%):	-15.5	-40.0	-3.9
ISE-100 Relative (%):	-5.3	0.7	-3.5
Avg. Daily Vol. (TRY Mn):	26.4		
Avg. Daily Vol. (US\$ Mn):	16.3		

Beta	0.80
Volatility (Stock)	0.31
Volatility (ISE-100)	0.27

Shareholder Structure	%
Socar&Turcas Petrokimya	51.0
OIB	10.3
Free Float	38.7
Total	100.0



Dividend payment is a possibility for 2012. Petkim generated cash through the sale of its land in Yarimaca. Although the company has not paid dividends in the past, the management's pronouncements and the company's net cash position point to a dividend from 2011 earnings. We assume a dividend payout ratio of 60% and dividend yield of 7.1%.

Figure 1: Petkim's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	2,057	2,909	3,833	4,078	4,697
EBIT	46	135	205	231	270
EBITDA	145	194	267	298	343
Net income	168	130	228	217	253
Key Balance Sheet (TRY mn)					
Tangible fixed assets	1,195	1,208	1,293	1,318	1,341
Cash & equivalents	175	202	383	484	586
Total assets	2,113	2,376	2,830	3,052	3,384
Short-term debt	88	89	165	164	173
Total debt	88	97	211	210	221
Total equity	1,470	1,600	1,828	2,000	2,210
Key Ratios					
Net debt/EBITDA (x)	-	-	-	-	-
Gross Margin	5.5	7.9	8.4	9.4	9.5
EBIT Margin	2.2	4.6	5.4	5.7	5.8
EBITDA Margin	7.0	6.7	7.0	7.3	7.3
Net Margin	8.2	4.5	5.9	5.3	5.4
ROAE	8.1	8.5	13.3	11.4	12.0
ROAA	3.8	3.8	8.7	7.4	7.9
Valuation Metrics*					
P/E (x)	16.3	14.3	8.2	8.6	7.3
P/BV (x)	1.3	1.2	1.0	0.9	0.8
EV/Sales (x)	0.9	0.6	0.5	0.4	0.4
EV/EBITDA (x)	12.4	9.2	6.7	6.0	5.2
EPS (TRY)	0.6	0.1	0.2	0.2	0.3
Dividend yield (%)	0.0%	0.0%	7.3%	7.0%	8.2%

*based on current Mcap

Tupras

Dividend payer

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We maintain our "Outperform" rating for Tupras

The company's current Mcap stands at TRY 9,566 million, our target value for Tupras is TRY 10,768 million (TRY 43.0 share price) representing a 11% upside potential. Therefore, we maintain our "Outperform" recommendation for the company.

Tupras' refining margins was very strong in 3Q11 despite the weakness in Med-complex margins

Tupras benefited from the Iranian heavy crude differential, which was at record levels. In 3Q11, Tupras' net refining margin almost doubled compared to the previous quarter reaching \$8.20/bbl and increasing compared to \$5.02/bbl in 3Q10. Tupras continued to maintain stronger refining margins than its competitors as well. Note that med-complex margin fell from \$1.74/bbl in 3Q10 to \$1.20/bbl in 3Q11. This difference in margins arose from Tupras' direct access to cheap Iranian, Russian, Saudi and Iraqi crude. Although there is some ambiguity in receiving oil from Iran due to U.S. sanctions, Tupras renewed its import agreement with Iran and we think that the company will continue to enjoy better margins than European peers in 2012.

Tupras has a dominant position in Turkey as the sole refiner which offers safety for profitability in the difficult economic environment

Tupras is expected to be the only refinery until the end of 2015 when the Socar & Turcas refinery is scheduled to begin operations. Therefore, the company is not facing threats from competition and the outlook for Turkish oil demand growth will be the key for the company's top-line growth.

As we expect GDP growth to slow down to 1.0% in 2012, we estimate Tupras' sales revenue to increase by 4.9% to TRY 41 billion in 2012. In addition, we expect company to record an EBITDA of TRY 2.3 billion in 2012 and maintain an EBITDA margin of 5.5%.

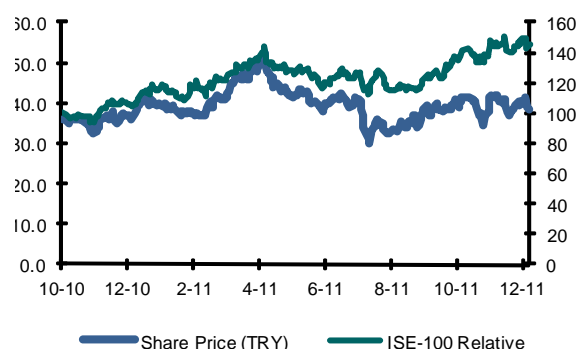
OUTPERFORM
TP: TRY 43.00

	TRY	US\$
Close	38.20	20.43
ISE-100	50,183	26,841
US\$/TRY(CB Bid Rate):	1.88	
52 Week High:	52.50	34.30
52 Week Low:	30.10	17.29
Bloomberg/Reuters Ticker:	TUPRS.TI / TUPRS.IS	
Number of Shares (Mn):	250	
	(TRY Mn)	(US\$ Mn)
Current Mcap :	9,566	5,092
Free Float Mcap :	4,687	2,507

	1 M	YOY	YTD
TRY Return (%):	-9.3	-3.2	-4.5
US\$ Return (%):	-11.8	-20.4	-2.8
ISE-100 Relative (%):	-1.1	33.7	-2.4
Avg. Daily Vol. (TRY Mn):	32.8		
Avg. Daily Vol. (US\$ Mn):	19.5		

Beta	1.10
Volatility (Stock)	0.38
Volatility (ISE-100)	0.27

Shareholder Structure	%
Enerji Yatirimlari	51.0
Free Float	49.0
Total	100.0



Despite heavy investment plans, we think Tupras will continue its dividend policy – Tupras' key growth project is its residuum upgrade project (RUP) at its Izmit refinery, which will take 36 months to build and requires a USD 2.4 billion investment. Tupras has signed a lump sum turnkey contract for the construction with Tecnicas. In addition, USD 2.1 billion financing of the residuum upgrade project has been completed. We do not expect investment plans to affect the company's dividend policy. We expect Tupras' dividend payout ratio to be 71% for 2012, which corresponds to a 9% dividend yield. In the medium-term, we expect the company's dividend payout ratio to be 90% and our dividend yield expectation for 2012 is 14%.

Figure 1: Tupras' key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	18,816	26,219	39,095	41,009	44,620
EBIT	812	1,151	1,918	1,933	2,060
EBITDA	975	1,372	2,164	2,256	2,454
Net income	673	737	1,192	1,515	1,620
Key Balance Sheet (TRY mn)					
Tangible fixed assets	3,584	3,641	4,494	5,083	5,651
Cash & equivalents	4,706	5,958	1,452	3,214	3,348
Total assets	12,593	13,918	13,565	14,646	15,828
Short-term debt	2,234	2,275	785	912	962
Total debt	2,738	2,801	1,334	1,445	1,479
Total equity	3,829	3,901	4,346	4,914	5,402
Key Ratios					
Net debt/EBITDA (x)	-2.02	-2.30	-0.05	-0.78	-0.76
Gross Margin	7.0	7.0	6.8	7.2	7.1
EBITDA Margin	5.2	5.2	5.5	5.5	5.5
Net Margin	3.6	2.8	3.0	3.7	3.6
ROAE	21.6	19.0	29.1	33.0	31.7
ROAA	8.0	5.3	8.7	10.7	10.6
Valuation Metrics*					
P/E (x)	11.8	13.0	8.0	6.3	5.9
P/BV (x)	2.5	2.5	2.2	2.0	1.8
EV/Sales (x)	0.4	0.3	0.2	0.2	0.2
EV/EBITDA (x)	7.8	6.6	4.2	4.0	3.7
EPS (TRY)	3.3	3.0	4.8	6.1	6.5
Dividend yield (%)	7%	8%	9%	14%	15%

*based on current Mcap

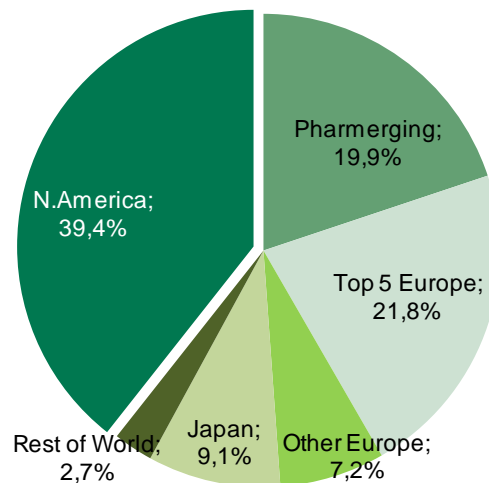
Pharmaceutical sector

Global pharmaceutical market to reach USD 880 billion

In 2010, the global pharmaceutical market saw growth of 4.2% in real terms, reaching USD 856 billion; in 2011, the market grew 3% to USD 880 billion. North America has a market share of 39.4% of the global pharmaceutical market, at approximately USD 320-330 billion. The USA has a 36.1% market share. The five largest European countries reached a level of USD 180-190 billion with a 21.8% share.

The pharmaceutical market in the emerging world is known as the “pharmerging market” (as coined by IMS), and reached USD 170-180 billion with a market share of 19.9%. The “pharmerging market” consists of China, Brazil, Russia, India, Venezuela, Poland, Argentina, Turkey, Mexico, Vietnam, South Africa, Thailand, Indonesia, Romania, Egypt, Pakistan and Ukraine. By 2015, the world pharmaceutical market is forecast to reach USD 1.1 trillion with a compound annual growth rate of 5-8%.

Figure 1: Global market share by region (%)



Source: IMS

Despite low per capita pharmaceutical consumption, the Turkish market has continued growing in recent years

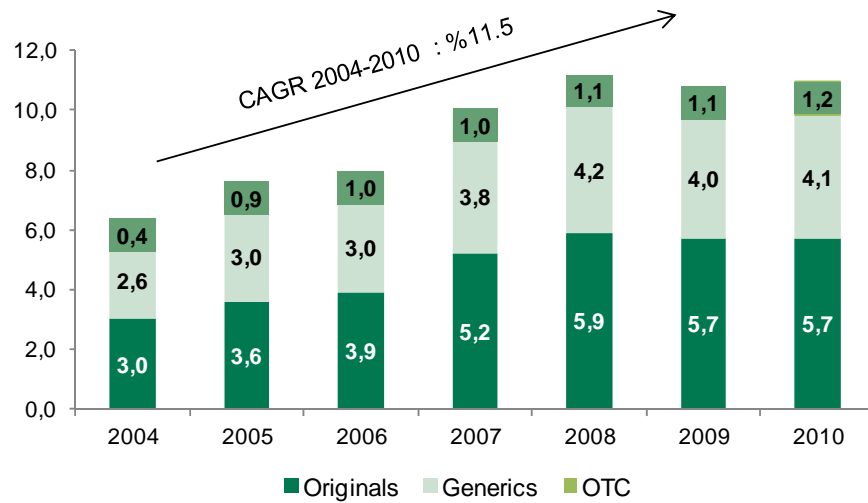
The structure of the Turkish pharmaceutical market can be broken down as such: *i)* independent pharmacy market, *ii)* Social Security Institution (SGK) market and *iii)* hospital market. The independent pharmacy market consists of approximately 24,000 independently-owned pharmacies selling directly to consumers, whereas the SGK and hospital market make up the public market.

The size of the Turkish pharmaceutical market reached USD 11 billion at the end of 2010 from USD 6.2 billion in 2004 with an annual growth of approximately 11.5%

(prescription and non-prescription). Independent pharmacies made up USD 8 billion of the market, while public markets (SGK and hospitals) made up the remainder. Since 2005, the sector entered a new era with the takeover of SGK hospitals by the Ministry of Health. With this move, SGK patients began making their drug purchases from independent pharmacies which channeled a large portion of the public market into the independent market. Where independent pharmacies made up only USD 4.3 billion of the market in 2004, they made up USD 8 billion in 2010.

The pharmaceutical sector has been negatively affected from uncertainty in the market in recent periods. Despite this, it is expected that the market will increase to over USD 20 billion within the next five years.

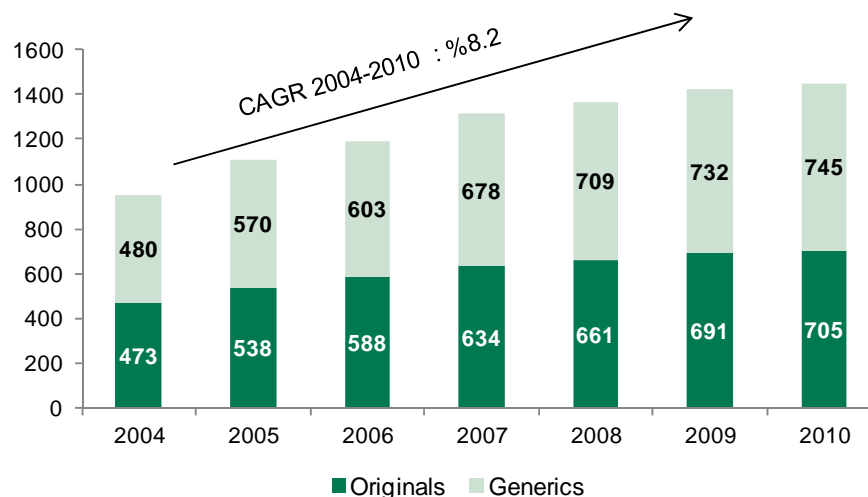
Figure 2: Pharmaceutical sector in Turkey (USD, bn)



Source: Pharmaceutical Manufacturers Association of Turkey

The total value of both original and generic brands reached USD 9.8 billion in 2010, which consist 90.5% of the total pharmaceutical sector since 2010. On the other hand, the prescriptions on a box basis amounted to 1.1 billion in 2005 reached 1.45 billion in 2010. It is forecast that the prescription pharmaceutical market will increase to USD 15 billion within the next five years.

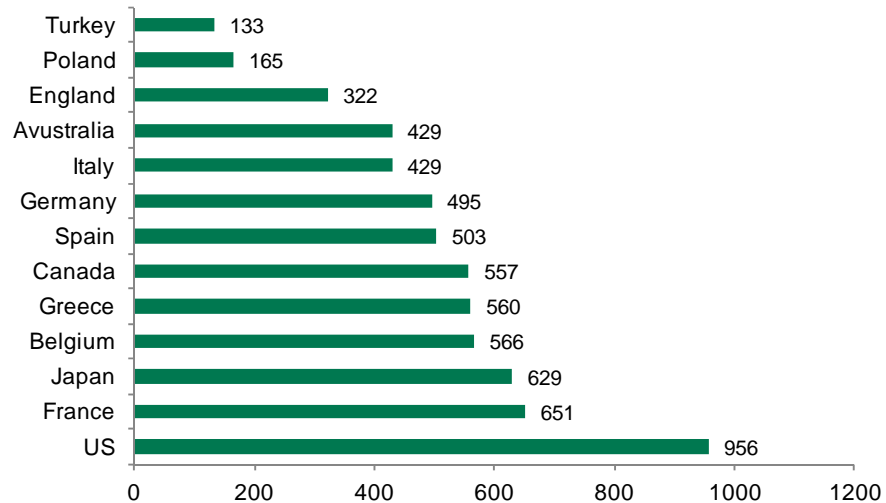
Figure 3: Prescription drug market by volume in Turkey (mn)



Source: Pharmaceutical Manufacturers Association of Turkey

In Turkey, the non-prescription/OTC (over-the-counter) pharmaceutical market consists of a considerable part of the pharmaceutical market. By the end of 2010, the size of the non-prescription pharmaceutical market constituted 9.5% of the total market, reaching USD 1.2 billion. With the aid of increases in net incomes and general awareness about health, the non-prescription market is forecast to make up 10.5% of the market, reaching USD 2 billion in five years.

Figure 4: Per-capita drug consumption (USD)



Source: Pharmaceutical Manufacturers Association of Turkey

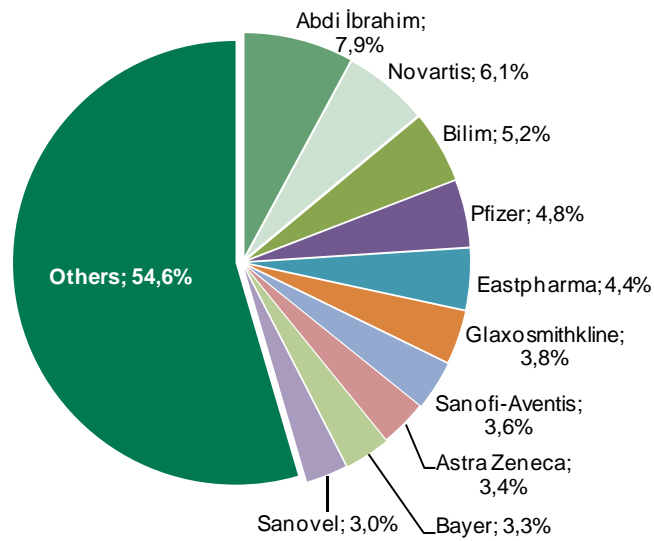
Turkey's fast growth has also reflected on the pharmaceutical sector. In spite of the rapid increase in domestic demand, pharmaceutical consumption per capita has been \$133.00 as of 2010, which is quite below compared to the other developing countries. This low figure is due to price differences and low sales, especially in expensive pharmaceuticals. We believe that increasing per capita income, economic growth and a soaring retiree population will support increased per capita consumption and grow the market.

Turkish pharmaceutical market is fairly competitive

Suppliers - There are 332 firms with 64 producers in the pharmaceutical sector in Turkey. While the 295 firms are domestic, the remaining 37 are foreign. As seen in the chart on the next page, the market has a fairly dispersed and competitive structure. The firm with the highest market share is Abdi Ibrahim with only a 7.9% share, with the ten biggest players having a 45% share.

Abdi Ibrahim, Bilim Pharmaceuticals, Eczacibasi Group (Zentiva), Ibrahim Ethem Ulagay (Menarini), Mustafa Nevzat, Fako (Actavis) and Deva (EastPharma) are ranked among the most important domestic players, while Baxter, Bayer, GlaxoSmithKline, Novartis, Pfizer and Sanofi-Aventis are the key international players, also having production plants in Turkey.

Figure 5: Market shares of pharmaceutical suppliers in Turkey (%)



Source: Selcuk Ecza Deposu

Distributors - There are 300 distributors in Turkey. Fifteen of them have economic magnitude, while others have a low level of economic magnitude. As of today, three pharmaceutical distributors (Hedef-Alliance Group, Selcuk Ecza Deposu and MN Pharmaceuticals) hold the leading position of the sector with an 85% share in the Turkish market. Hedef-Alliance Group and Selcuk Ecza Deposu have a total market share of approximately 70% while MN Pharmaceuticals has a 15% share; the rest is maintained by cooperatives and local distributors which are decreasing in number due to the increased competition. In total, there are currently more than 24,000 drugstores in the sector.

Government sets profit margins for the sector

The government sets coordinates both drug prices and the profit margins of pharmaceutical companies. Drug prices are determined according to the two lowest default prices in France, Spain, Italy, Portugal and Greece and the current default prices now retail sale prices with an additional margin from the distributor and pharmacist as well as value added tax. A differential pricing method is utilized using inverse proportionality while distributor and pharmacist profit margins are set at a maximum of 9%. However, companies are able to increase this level with premium agreements, surplus goods and discounts.

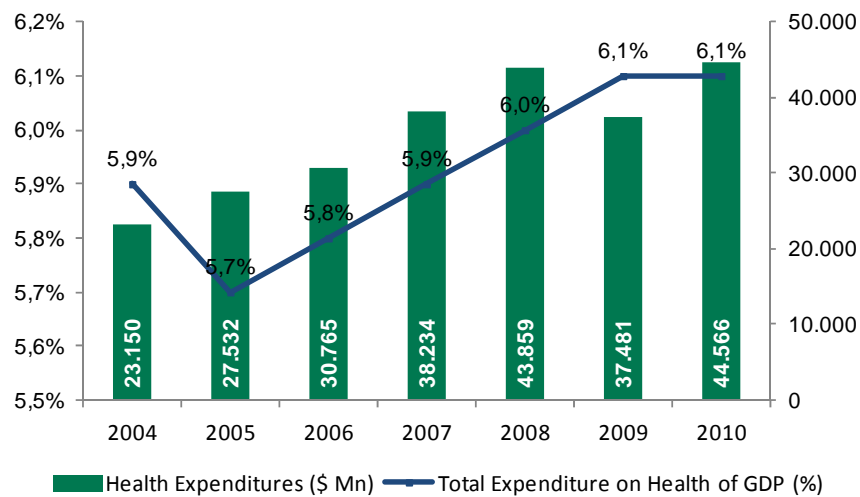
Figure 6: Reference pricing scheme in Turkey

Producer Price	Distributor Mark-up	Distributor Price	Pharmacy Mark-up	Pharmacy Price (excl.d.VAT)	Retail Price (incl.d.VAT)
A=0-10	9%	$Aa = A \times 1.09$	25%	$Aaa= Aa \times 1.25$	$Aaaa = Aaa \times 1.08$
B= 10-50	8%	$Bb = B \times 1.08$	25%	$Bbb= Bb \times 1.25$	$Bbbb = Bbb \times 1.08$
C= 50-100	7%	$Cc = C \times 1.07$	25%	$Ccc= Cc \times 1.25$	$Cccc = Ccc \times 1.08$
D= 100-200	4%	$Dd = D \times 1.04$	16%	$Ddd= Dd \times 1.16$	$Dddd = Ddd \times 1.08$
E= 200- above	2%	$Ee = E \times 1.02$	12%	$Eee= Ee \times 1.12$	$Eeee = Eee \times 1.08$

Source: Selcuk Ecza Deposu

Total health expenditures in Turkey (both public and private) amounted to USD 23.1 billion in 2005 and increased to USD 44 billion in 2010, at 6.1% of GDP. The government has taken precautions in recent years in order to reduce health expenditures, however, public health expenditures have exceeded the budget targets. In 2000, the state's share of health expenditures was 61%, which increased to 72% in 2010.

Figure 7: Health expenditures in Turkey & Health expenditures per GDP



Source: TurkStat

The share of the pharmaceutical expenditures of total health expenditures was observed at 27%. The government has taken precautions to prevent the increase in pharmaceutical expenditures in the recent years.

New regulations on pharmaceutical pricing

Following the medium-term economic program, the government passed new regulations on pharmaceutical pricing and changed the sales prices of some medicines. After the new regulation came into effect on December 4, 2009, drug prices decreased by 20-25% in 2010. Thus, the margins and profitability of sector players were negatively affected due to falling drug prices and uncertainty in the pharmaceutical market.

Most recently, the government again passed new regulations on the pricing of pharmaceutical products, which went into effect November 11, 2011. Accordingly, the wholesale price of generic products will be registered as 60% of the reference price to the originator product (previously 66%). In addition, for generic products priced higher than TRY 6.79 and produced over 20 years ago, the new price will be set at a maximum of 80% of the reference price to the originator product (previously 100%). Changes in the price list will be implemented in the market after 5 business days after the date of publication (previously 45 days). As a response to this new regulation, any losses suffered by independent pharmacies due to the price changes are required to be recouped by pharmaceutical companies reimbursing wholesalers and wholesalers reimbursing pharmacies. Following the new regulation, drug prices decreased by 7% overall, which will surely put pressure on profitability also in 2012.

Selcuk Ecza Deposu

Falling drug prices will add to the pressure

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35.9% market share in distribution - Selcuk Ecza Deposu, one of the leading companies in the pharmaceutical sector in Turkey has 27 main stores and 89 branches, which adds up to 116 stores in total, out of 24,000 total in Turkey. The market share of the company as of 2011 is 35.83% in TRY, and is 36.52% in terms of boxes sold.

We expect the company's profit margins to come under pressured in 2012 due to decreasing drug prices - Recall that the government reduced the discount rates in November 2011 in an attempt to prevent increases in pharmaceutical expenditures which caused a decline of 7% in drug prices. Depending on the decrease in drug prices, we believe that the net sales revenues of the company will have a negative impact in 2012. We foresee that Selcuk Ecza Deposu's net sales revenues will be TRY 5.05 billion for 2011 and shrink 2.5% to TRY 4.93 billion in 2012. The increase in fuel expenses and promotions in 2011 caused the company's margins to shrink. For 2012, we believe that the slight regression in sales revenues, fuel expenditures and promotions will continue to put pressure on the margins of company. We expect the company to finish 2011 with 7.2% and 2.9% gross and EBITA margins and for 2012, the gross and EBITDA margin will be 7.0% and 2.6%, respectively

The company's new roll-out: Toiletry products
The company started to distribute bath products (toiletry, personal care, cosmetics) as of the middle of 2009. These products have a 5% share of total sales revenues and approximately TRY 260 million in revenues were recorded for 2011.

While the gross profit margin for pharmaceuticals overall is 7-8%, the gross profit margins of toiletry products are 12-13%. Currently, such products have a market size of about USD 10 billion in Turkey, and their share of the market in toiletry products is about USD 750-800 million.

MARKETPERFORM
TP: TRY 1.90

	TRY	US\$
Close	1,37	0,73
ISE-100	50.183	26.841
US\$/TRY(CB Bid Rate):	1,88	
52 Week High:	2,80	1,80
52 Week Low:	1,28	0,69
Bloomberg/Reuters Ticker:	SELEC.TI/ SELEC.IS	

Number of Shares (Mn): 621,0

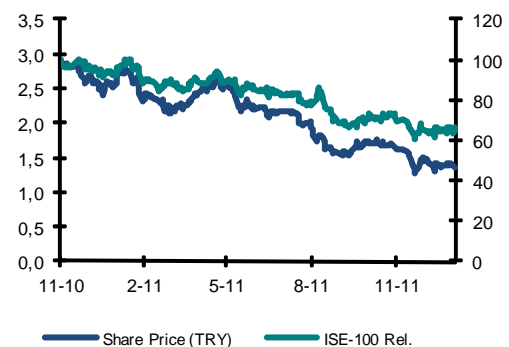
	(TRY Mn)	(US\$ Mn)
Current Mcap:	851	455
Free Float Mcap:	128	68

	1 M	YOY	YTD
TRY Return (%):	-6,2	-49,9	-2,1
US\$ Return (%):	-8,8	-58,8	-0,4
ISE-100 Relative (%):	2,2	-30,8	0,0
Avg. Daily Vol. (TRY Mn):	1,23		
Avg. Daily Vol. (US\$ Mn):	0,74		

Beta	0,81
Volatility (Stock)	0,34
Volatility (ISE-100)	0,27

Shareholder Structure	%
Selçuk Ecza Holding A.Ş.	77,3
Nazmiye Gürgen	1,8
Other	0,9
Free Float	20,0

Total 100,0



Selcuk Ecza Deposu plans to record net sale revenues of approximately TRY 300 million from the sale of toiletry products in 2012, and aims to raise this to TRY 500 million in the medium term. Since the profit margins are higher, we expect the sale of these products to make a slightly positive contribution to the company's profit margins in the periods ahead.

“Market Perform” We derive a TRY 1.18 billion target market capitalization (TRY 1.90 share price) for Selcuk Ecza Deposu using a DCF and Peer Comparison. Taking into consideration the company's current market capitalization which is around TRY 851 million (TRY 1.37), our target value represents 39% upside potential. In this respect, we maintain our “Market Perform” recommendation for the company.

Figure 1: Selcuk Ecza Deposu's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	5.029	4.902	5.059	4.933	5.179
EBIT	258	173	138	118	143
EBITDA	266	181	147	128	155
Net income	232	184	144	131	150
Key Balance Sheet (TRY mn)					
Tangible fixed assets	79	124	147	152	148
Cash & equivalents	544	1.839	293	262	368
Total assets	2.667	4.172	2.686	2.619	2.828
Short-term debt	375	1.641	28	27	29
Total debt	375	1.641	0	27	29
Total equity	1.001	1.112	1.222	1.222	1.245
Key Ratios					
Net debt/EBITDA (x)	-0,64	-1,10	-2,00	-1,83	-2,18
Gross Margin	9,1	7,8	7,2	7,0	7,3
EBIT Margin	5,1	3,5	2,7	2,4	2,8
EBITDA Margin	5,3	3,7	2,9	2,6	3,0
Net Margin	4,6	3,8	2,8	2,7	2,9
ROAE	9,7	5,4	12,3	10,7	12,2
ROAA	9,1	7,8	4,2	4,9	5,5
Valuation Metrics*					
P/E (x)	3,7	4,6	5,9	6,5	5,7
P/BV (x)	0,9	0,8	0,7	0,7	0,7
EV/Sales (x)	0,1	0,1	0,1	0,1	0,1
EV/EBITDA (x)	2,5	3,7	4,6	5,3	4,3
EPS (TRY)	0,45	0,30	0,23	0,21	0,24
Dividend yield (%)	8,5%	4,4%	5,1%	4,6%	5,3%

*based on current Mcap

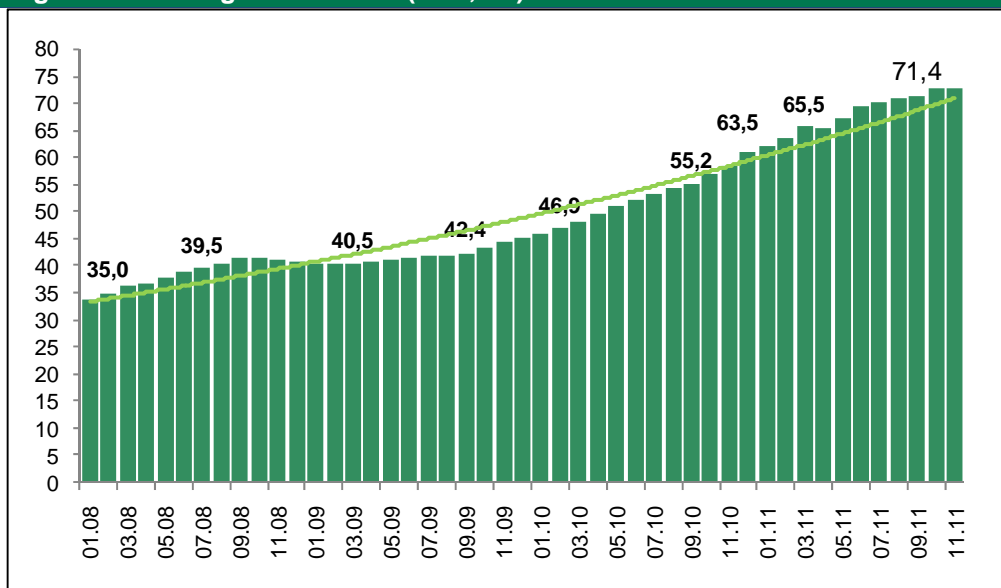
REIT sector

The real estate sector is one of the most fragile sectors and was effecting from the downturn in the economy and uncertainties going forward. Economic and political stability, GDP growth, individual purchasing power and low interest rate environment are the main catalysts for the sector. In addition, structural characteristics of the country, such as population, urbanization, the number of homeowners also support the sector.

Time for a break but there is still a long way to go – 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. The latest of the CBRT's decisions paved the way for banks to reflect this increase in retail lending loan rates. All banks have already announced hikes in their loan rates including home loans. The continuation of this upward trend in interest rates with a slowing economy is likely to put pressure on housing demand and a possible slowdown in housing demand poses negative potential for the real estate sector for 2012. So, despite our positive view for the sector in the long run, we are cautious for the short-term regarding the recent increase in mortgage rates and deteriorating macro conditions. In this context, the ISE REIT index might lag the ISE-100 index in the short-term

Pace of growth in mortgage loans decreasing – Following the Central Bank's recent actions, monthly interest rates on home loans increased significantly by 0.39 points on average in the last quarter of 2011 compared to the end of 2010. Due to this increase in rates, the pace of growth in mortgage loans has been decreasing for the last few months. However, home loans are less problematic and consumers are more loyal to home loans compared to other types of loans. NPL (non-performing loan) rate for home loans are hovering around 1%.

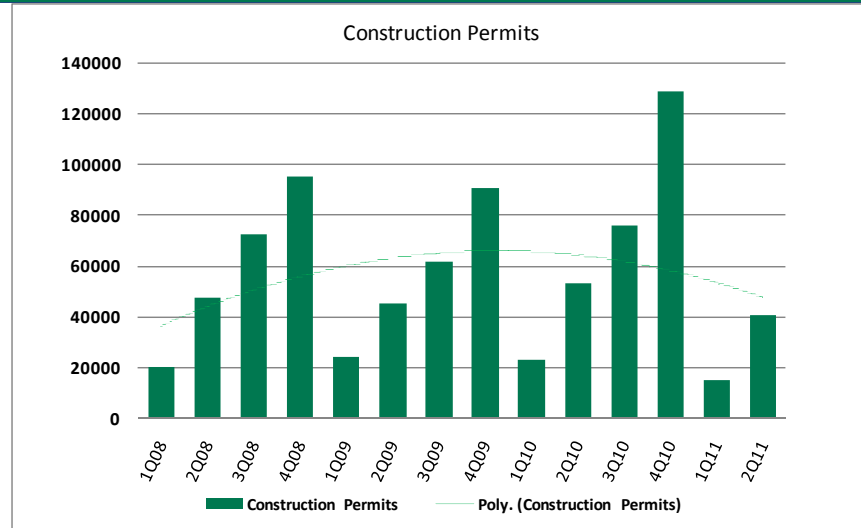
Figure 1: Housing loan volume (TRY, bn)



Source: Turkish Statistical Institute

Construction growth losing momentum – The construction sector rebounded in 2010 and 1H11 growing by 14.7% and 13.2% YoY, respectively. However, there was a 24.0% decrease YoY in construction permits indicating a slowdown for the construction sector in 2H11 and 2012 combined with the slowing economy and increased rates.

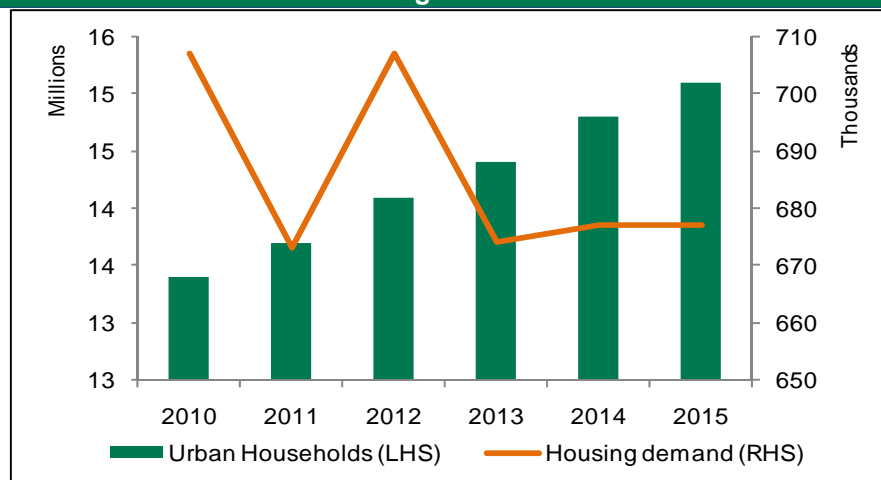
Figure 2: Construction permits



Source: Turkish Statistical Institute

However, mid to long term growth drivers for the sector remain supportive – Given Turkey’s remarkable macroeconomic progress in recent years and with high population growth and urbanization rates, the Turkish real estate sector offers significant growth potential in the long-term. In addition to the recent robust growth of the sector, the sources of long-term sustainable growth also remain supportive. Besides its favourable demographics, a housing shortage as a result of rapid urbanization and migration from rural areas to cities is all likely to support demand and growth for the Turkish real estate sector in the long-term. According to the Association of Real Estate Investment Companies (GYODER), Turkey’s estimated housing shortage will be about 3.5 million for the next four years.

Figure 3: Urban household & housing demand



Source: Company, GYODER

CMB's new regulations should increase the number of REITs – In order to encourage the establishment of new publicly traded REITs and to speed up the IPO process of currently non-listed REITs, the Capital Markets Board of Turkey changed some principles relating to the share structure of real estate investment companies. Previously, REITs were required to offer at least 49% of their issued capital to the public. This requirement has now been brought down to 25%. In addition, previous regulations required real estate companies to initiate public offerings within one to five years depending on the amount of their paid-in capital. The new regulations reduced this period to three months. There are still 13 non-listed REITs preparing for an IPO, in accordance with the new regulations. We expect the sector to garner further momentum and attention with these new offerings, in particular, those REITs with strong portfolio values and ongoing projects after the recent deterioration in macro outlook eases.

Outperform maintained for the sector despite increased downside risks – We maintain our “Outperform” rating for the sector since we believe that the mid to long term growth drivers are still on track and most of the downside risks have already been priced in. However, the uncertain macro outlook with slowing growth puts some more pressure on the sector in the short-term. We think that, once the recent deterioration in the macro outlook eases, the REIT sector will again be one of the prominent sectors on the ISE.

Figure 4: Sector in a nutshell

Company	Ticker	Share Price (TRY)	Current Mcap (TRY mn)	Current NAV (TRY mn)	(Discount) / Premium to NAV	Av.Daily Trading Volume (TRY mn)	Net Cash Position * (TRY mn)
Atakule REIT	AGYO	0,93	78	212	-63%	0,2	81,8
Akfen REIT	AKFGY	1,39	256	739	-65%	1,1	-183,6
Akmerkez REIT	AKMGY	16,25	606	806	-25%	0,1	0,1
Alarko REIT	ALGYO	15,65	167	273	-39%	0,9	110,6
Avrasya REIT	AVGYO	0,79	57	80	-29%	6,3	1,5
Dogus-Ge REIT	DGGYO	1,52	143	181	-21%	0,4	19,5
Emlak Konut REIT	EKGYO	1,88	4.700	5.674	-17,2%	59,4	300,4
EGS REIT	EGYO	0,21	11	20	-47%	0,02	-210,3
Idealist REIT	IDGYO	2,94	29	12	147%	2,0	0,5
İs REIT	ISGYO	1,01	606	1.405	-57%	2,0	30,1
Kiler REIT	KLGYO	2,54	222	934	-76%	1,7	-124,8
Marti REIT	MRGYO	0,58	64	222	-71%	0,5	-21,3
Nurol REIT	NUGYO	6,20	62	57	9%	0,4	-36,9
Ozderici REIT	OZGYO	0,85	85	101	-16%	0,2	17,6
Pera REIT	PEGYO	0,56	50	165	-70%	0,4	-37,2
Reysas REIT	RYGYO	0,75	128	334	-62%	0,9	-28,2
Saglam REIT	SAGYO	0	0	76	-100%	0,0	0,0
Sinpas REIT	SNGYO	0,95	570	1.355	-58%	8,7	-99,1
Torunlar REIT	TRGYO	3,97	889	2.527	-65%	1,7	-275,8
TSKB REIT	TSGYO	0,6	90	210	-57%	0,4	-96,9
Vakif REIT	VKGYO	2,31	231	135	71%	7,7	14,6
Yapi Kredi Koray REIT	YKGYO	1,21	48	87	-45%	1,7	-31,1
Yesil REIT	YGYO	0,99	233	184	27%	2,1	-17,7
Sector Total			9.323	15.788	-41%	99,0	

Source: ISE, Seker Securities

Sinpas REIT

Still offering long-term value

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Analyst
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Outperform maintained with reduced target price Despite the fact that we are cautious in the short-term due to the recent increase in mortgage rates and deteriorating macro conditions, we believe that the negatives may already be priced in given the recent underperformance of the stock and we keep our positive view for Sinpas in the long-run. We retain our "Outperform" recommendation for Sinpas REIT with a reduced target price of TRY 1.54 per share which still offers a 60% upside potential.

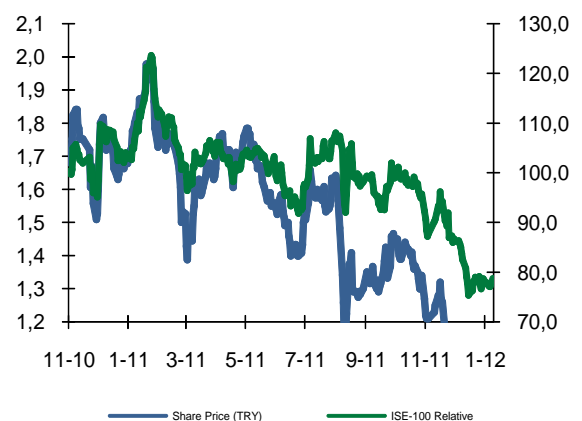
Pure project developer Sinpas is a pure project developer REIT and develops high-end residential projects and is also involved in their sale and marketing. Acquiring cheap land, unique project developments for the upper, middle and high income segment, pre-sales & phase strategy are the company's major activities. Sinpas currently has six ongoing projects and plans to start 10 new projects between 2012-2015.

Pre-sales figures Sinpas reached a total pre-sales agreement of 1,259 units for six ongoing projects as of December 12, 2011 (with the inclusion of the latest pre-sales figures, the total number of units sold has reached 5,556 units since 2008 (Bosphorus 2,588, Lagun 457, Bursa Modern 569, Aqua City 1012). The company expects to reach 1,500 pre-sales in 2012. But, delays in upcoming projects due to the increasing uncertainty in macro conditions and increasing construction costs pose downside risks to company's expectations.

Considerable amount of residential units expected to be delivered in 2012 Due to accounting standards for REITs in Turkey, the company has not been able to reflect pre-sales revenues on its P&L. Cash collected from pre-sales are kept on the balance sheet as a liability under "advances received" and the cost of land and construction is also reflected under "inventory". When construction is completed and units are delivered, both sales revenues and the cost of sales are reflected on the income statement of that period, and profits from the project are recognized. Sinpas has 2,748 remaining units presold but not yet delivered. The company expects to deliver around 1,900 units in 2012 which is likely to support company's cash flow and bottom-line. Higher than expected cancellations is the main risk for this estimate.

OUTPERFORM
TP: TRY 1.54

	TRY	US\$	
Close	0,96	0,51	
ISE-100	49.694	26.580	
US\$/TRY(CB Bid Rate):	1,87		
52 Week High:	1,98	1,29	
52 Week Low:	0,95	0,51	
Bloomberg/Reuters Ticker:	SNGYO.TI / SNGYO.IS		
Number of Shares (Mn):	600		
	(TRY Mn)	(US\$ Mn)	
Current Mcap :	576	308	
Free Float Mcap :	213	114	
	1 M	YOY	YTD
TRY Return (%):	-11,9	-46,7	-3,0
US\$ Return (%):	-14,2	-56,1	-1,1
ISE-100 Relative (%):	-4,6	-26,2	0,0
Avg. Daily Vol. (YTL Mn):	13,5		
Avg. Daily Vol. (US\$ Mn):	8,3		
Beta	1,31		
Volatility (Stock)	0,41		
Volatility (ISE-100)	0,27		
Shareholder Structure	%		
Sinpas Yapı	42,3		
Avni Çelik	16,9		
Free Float	40,8		
Total	100,0		



Other investment positives – The government is working on a draft law that would enable the sale of housing units to non-nationals. The current law does not allow housing units to be sold directly to foreign persons. With the prospective law, non-nationals will be able to directly purchase housing units. The news is positive for Sinpas REIT as the prospective law will increase demand for new units. The company's respectable brand name, its plan to penetrate the mid-income housing segment and deep discount to NAV make the company attractive for the long-term.

Figure 1: Sinpas REIT's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	171	353	661	549	583
EBIT	-31	52	157	113	132
EBITDA	-28	56	160	115	134
Net income	-18	61	173	117	136
Key Balance Sheet (TRY mn)					
Tangible fixed assets	10	13	14	15	16
Cash & equivalents	61	65	113	119	125
Total assets	1.348	1.653	1.506	1.074	1.120
Short-term debt	3	14	18	17	18
Total debt	3	40	49	49	51
Total equity	863	937	1.137	1.096	1.115
Key Ratios					
Net debt/EBITDA (x)	2,06	-0,44	-0,40	-0,61	-0,55
Gross Margin	7,3	27,1	32,3	29,6	31,6
EBIT Margin	-18,3	14,6	23,8	20,6	22,6
EBITDA Margin	-16,5	15,8	24,2	21,0	23,0
Net Margin	-10,6	17,3	26,2	21,3	23,4
ROAE	2,2	2,2	15,8	17,8	14,8
ROAA	0,6	0,6	6,7	8,1	7,2
Valuation Metrics*					
P/E (x)	9,4	141,0	3,3	4,9	4,2
P/BV (x)	0,6	0,6	0,5	0,5	0,5
EV/Sales (x)	2,0	3,3	1,1	1,3	1,2
EV/EBITDA (x)	12,6	84,4	4,4	6,1	5,3
EPS (TRY)	0,12	0,07	0,29	0,19	0,23
Dividend yield (%)	0,0%	5,2%	15,1%	10,1%	11,8%

Is REIT

Resilient to slowdown

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“Outperform” recommendation maintained with a target price of TRY 1.50 We believe that the company is well positioned in slowing economic growth thanks to its steady rental income, quality tenant base and strong cash position. Meanwhile, the news flow regarding the initiation of new projects, and potential fresh acquisitions of real estate would support stock performance. The stock offers a further 41% upside potential, thus we maintain our **“Outperform”** recommendation for the stock despite.

Member of Is Group which was founded in 1999 Is Bank is the major shareholder of the company with a 42% share; another 42% is traded on the ISE. The company focuses mainly on rent bearing projects such as prime office and retail projects. The company also enjoys a high quality tenant portfolio and a 245,000 GLA mainly located in Istanbul’s central business/financial district, which generates around USD 60 million in rental income per year.

Well diversified portfolio and sustainable rental income A well diversified portfolio with quality tenants are the main strengths of the company. In addition, Is REIT purchased the 4-star Lykia Lodge Kapadokya Hotel in the Nevsehir Cappadocia region for EUR 6 million and also the Club Magic Life Kemer Imperial Hotel and properties for EUR 18.6 million. These two acquisitions increased the company’s annual rental income.

New projects on the way for 2012 The company pre-sold 65% of the housing units (306 out of 476) in the Cinarli Bahce Tuzla Housing Project in two months which it launched in the last week of October 2011. The company is expected to launch pre-sales of the Izmir mixed-use project in 2012. The company also plans to develop an airport hotel in Russia which will increase the diversification of the portfolio.

Trading at a discount to NAV Is REIT is the third largest REIT on the ISE in terms of NAV. The company trades at a 57% discount to its NAV. The key downside risks for the company are any delay in new projects and weakening in retail rents stemming from slowing demand.

OUTPERFORM
TP: TRY 1.42

	TRY	US\$
Close	1,01	0,54
ISE-100	49.694	26.677
US\$/TRY(CB Bid Rate):	1,86	
52 Week High:	1,48	0,96
52 Week Low:	1,00	0,52
Bloomberg/Reuters Ticker:	ISGYO.TI / ISGYO.IS	

	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):	600	
Current Mcap :	606	325
Free Float Mcap :	291	156

	1 M	YOY	YTD
TRY Return (%):	-4,7	-24,7	1,0
US\$ Return (%):	-7,1	-38,0	3,0
ISE-100 Relative (%):	3,2	4,2	4,2
Avg. Daily Vol. (TRY Mn):	3,5		
Avg. Daily Vol. (US\$ Mn):	2,2		

Beta	0,99
Volatility (Stock)	0,31
Volatility (ISE-100)	0,27

Shareholder Structure	%
Is Bank	42,2
Others	15,8
Free Float	42,0
Total	100,0

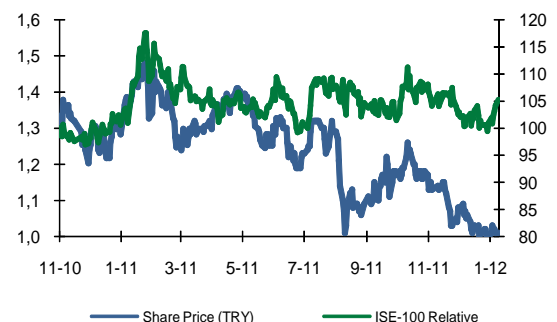


Figure 1: Is REIT's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	89	96	111	118	127
EBIT	50	57	47	47	56
EBITDA	74	80	71	75	85
Net income	60	61	49	49	59
Key Balance Sheet (TRY mn)					
Tangible fixed assets	1	1	2	2	2
Cash & equivalents	132	86	123	133	148
Total assets	1.012	1.096	1.137	1.148	1.164
Short-term debt	0	5	11	11	11
Total debt	0	50	73	73	73
Total equity	952	990	1.020	1.025	1.039
Key Ratios					
Net debt/EBITDA (x)	-1,79	-0,45	-0,71	-0,80	-0,88
Gross Margin	62,8	67,0	50,3	48,1	52,8
EBIT Margin	56,4	59,6	42,0	39,6	44,3
EBITDA Margin	82,7	84,3	63,9	63,5	66,5
Net Margin	67,8	63,8	44,3	41,8	46,3
ROAE	2,2	2,2	15,8	17,8	14,8
ROAA	0,6	0,6	6,7	8,1	7,2
Valuation Metrics*					
P/E (x)	9,9	10,9	12,3	12,3	10,3
P/BV (x)	0,6	0,6	0,6	0,6	0,6
EV/Sales (x)	5,9	5,9	5,0	4,8	4,4
EV/EBITDA (x)	7,0	7,6	7,9	7,5	6,6
EPS (TRY)	0,14	0,08	0,08	0,08	0,10
Dividend yield (%)	3,7%	3,7%	3,3%	3,3%	3,3%

*based on current Mcap

Emlak Konut REIT

Still attractive...

Volkan Dukkancik
Analyst
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Still attractive thanks to strong and resilient business structure Since it started trading on the ISE on December 2, 2010, the company outperformed the ISE-100 by 35.5% despite the recent sharp sell-off. We expect a significant increase in sales revenues for the coming years, once the concerns about economic slowdown eases, thanks to the completion of projects that started in 2010. So, despite the slight downwards revision of the target price, keeping in mind the potential for the next years, we maintain our "Outperform" recommendation for Emlak Konut REIT. We believe that tender announcements related to upcoming projects, new land acquisitions from TOKI or from third parties and most importantly, the company's strong and resilient business structure make it attractive for the long-term.

Largest REIT in terms of NAV and Mcap Emlak Konut REIT is the largest Real Estate Investment Company on the ISE in terms of both NAV and market capitalization. With a NAV of TRY 5.7 billion, the company constitutes 36% of the overall sector NAV, and with a market capitalization of TRY 4.7 billion, it accounts for 50% of the total market cap of the 23 listed REITs at the ISE.

Solid business model Emlak Konut REIT develops its real estate projects with two main business models: the revenue sharing model (RSM) and public procurement model (PPM). With RSM (accounts for 80% of overall projects), the contractor is responsible for the whole process including project financing, design, construction, pricing, marketing and selling activities, with Emlak Konut having merely a supervisory role, which poses a much lower risk for the company.

Impact of TOKI The Housing Development Administration of Turkey (TOKI) is the major shareholder of Emlak Konut REIT, which allows the company to acquire land directly from TOKI without participating in tenders or other bureaucratic procedures. There is a "best efforts" protocol between TOKI and Emlak at the time of acquiring land.

Risks We believe the major risks are prolonged downturns in macro economic conditions either in Turkey or abroad. In this case, both sector players and consumers could adopt a more cautious stance toward all REITs.

OUTPERFORM
TP: TRY 2.67

	TRY	US\$		
Close	1,88	1,01		
ISE-100	49.694	26.677		
US\$/TRY(CB Bid Rate):	1,86			
52 Week High:	3,05	2,01		
52 Week Low:	1,88	1,01		
Bloomberg/Reuters Ticker:	EKGYO.TI / EKGYO.IS			
Number of Shares (Mn):	2.500			
	(TRY Mn)	(US\$ Mn)		
Current Mcap :	4.700	2.523		
Free Float Mcap :	1.175	631		
	1 M	YOY	YTD	
TRY Return (%):	-9,6	-16,1	-3,6	
US\$ Return (%):	-11,9	-30,9	-1,7	
ISE-100 Relative (%):	-2,1	16,1	-0,5	
Avg. Daily Vol. (YTL Mn):	110,7			
Avg. Daily Vol. (US\$ Mn):	68,1			
Beta	1,20			
Volatility (Stock)	0,41			
Volatility (ISE-100)	0,26			
Shareholder Structure	%			
TOKI	75,0%			
Others	0,0%			
Free Float	25,0%			
Total	100%			

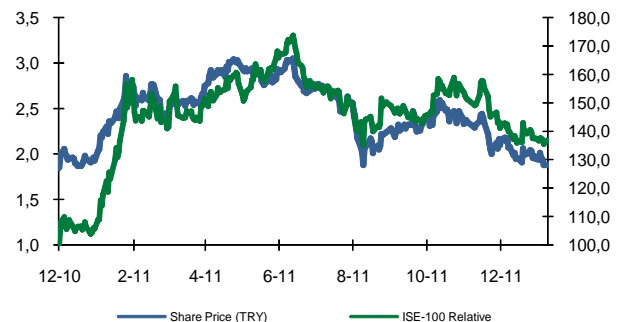


Figure 1: Emlak Konut REIT's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	865	1.498	712	1.247	1.539
EBIT	468	652	158	205	329
EBITDA	468	653	158	205	331
Net income	446	469	172	220	345
Key Balance Sheet (TRY mn)					
Tangible fixed assets	5	6	10	15	20
Cash & equivalents	515	1.813	1.178	1.322	1.648
Total assets	4.671	7.115	7.361	7.743	8.284
Short-term debt	95	182	208	207	218
Total debt	1.329	1.256	1.316	1.307	1.379
Total equity	2.094	3.615	3.686	3.872	4.173
Key Ratios					
Net debt/EBITDA (x)	1,74	-0,85	0,87	-0,07	-0,81
Gross Margin	58,0	49,4	30,7	24,9	29,9
EBIT Margin	54,1	43,6	22,2	16,4	21,4
EBITDA Margin	54,2	43,6	22,2	16,5	21,5
Net Margin	51,6	31,3	24,2	17,7	22,4
ROAE	2,2	2,2	15,8	17,8	14,8
ROAA	0,6	0,6	6,7	8,1	7,2
Valuation Metrics*					
P/E (x)	10,5	10,0	27,3	21,3	13,6
P/BV (x)	2,2	1,3	1,2	1,1	1,1
EV/Sales (x)	5,4	3,1	6,6	3,8	3,1
EV/EBITDA (x)	10,1	7,2	29,7	22,9	14,3
EPS (TRY)	0,18	0,19	0,07	0,09	0,14
Dividend yield (%)	0,0%	3,7%	1,5%	1,9%	2,9%

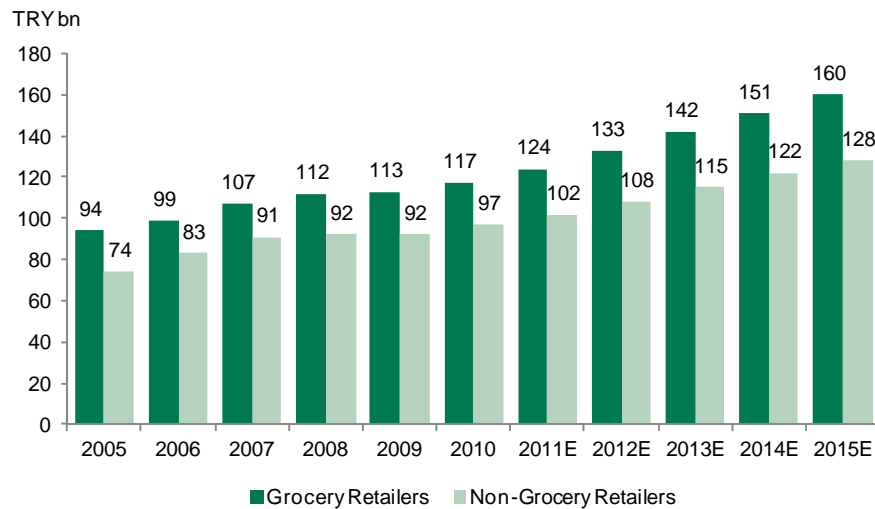
*based on current Mcap

Retail Sector

Under-penetrated sector with long-term value

The Turkish retail market reached a size of TRY 214 billion as of the end of 2010, showing a CAGR of 5% over the past five years. According to Euromonitor, the retail market is expected to be TRY 288 billion by 2015. The grocery retail segment makes up 55% (TRY 117bn) of the market and is estimated to have a size of TRY 160 billion by 2015. Grocery retailing has underperformed the growth of the overall industry on average since 2005. While the Turkish retail sector grew at a CAGR of 5% between 2005 and 2010, the grocery segment recorded 4.5% CAGR in the same period.

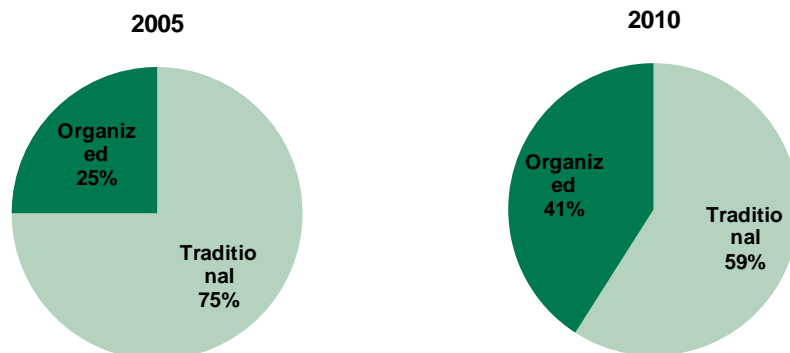
Figure 1: Turkish retail sector



Source: Euromonitor

Turkey’s organized grocery segment has been growing faster than the overall grocery retail sector and unorganized small shops has been losing 1-2% market share per year to the organized grocery retailers. As of 2010 year-end, the share of organized grocery retailers of the total food retail sector increased to 41% from 25% in 2005.

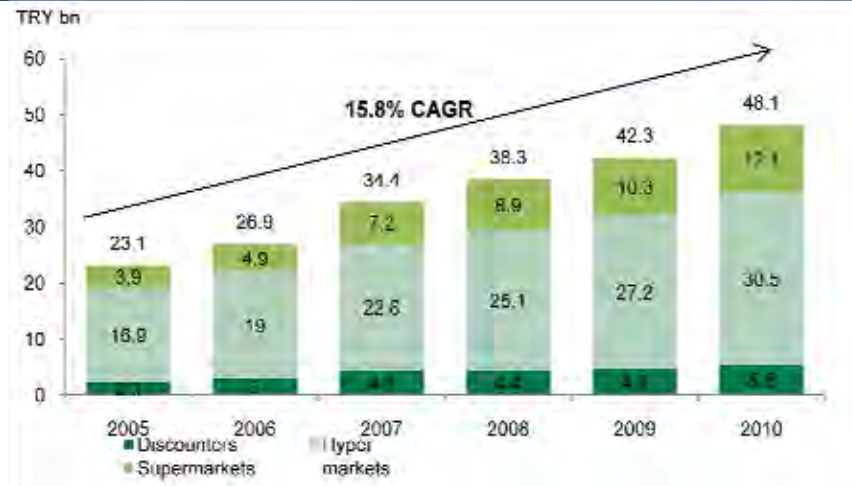
Figure 2: Breakdown of grocery retail sector



Source: Euromonitor

The rapid penetration of organized retailers could be attributed to their competitive prices, wider product range and more attractive store formats. The transformation to organized retailing has mainly occurred in large cities, where shopping habits are changing fast and the population justifies large scale investment. The organized retail industry is concentrated in developed regions and big cities such as Istanbul, Ankara and Izmir. Ongoing urbanization will support development, however, the sector still remains underpenetrated and fragmented, with unorganized retailers dominating nearly 59% of the market.

Figure 3: Organized grocery retailing



Source: Company reports

Among the various segments in organized grocery retail, the discount segment grew faster than the overall organized sector since 2005 (19% CAGR) and discount stores made up 11.4% of the organized market as of 2010 year-end. Discount stores could be considered as substitutes for traditional retail and promise to offer quality goods at a low price. While their competitive price strategy and proximity of stores to the main streets attract customers, low capital expenditure requirements allow them to enjoy faster growth rates compared to other types of organized retailers.

Figure 4: Players in organized grocery retailing

	Number of cities	Discount Stores	Super markets	Hyper markets	Wholesale
Bim	78	3244	-	-	-
Migros-Tansas	66	-	689	15	-
Carrefour-DiaSA	49	1040	213	27	-
Bizim-Sok	71	1256	-	-	121
Metro-Real	11	-	-	12	20
Kipa	22	-	74	50	-
Kiler	32	0	192	-	-
Makro Market	13	-	152	-	-
A101	52	1125	-	-	-

Source: Company reports

Discount stores gain popularity particularly during economic downturns (as in 2008-2009) when consumers preferences shift towards lower-prices. Income disparities also support the discount business. Competition in discount retailers has been rising with new local and international entrants into the market. This intensifying

competition could further squeeze the margins of discounters. Currently, the most successful player in this segment is BIM followed by Sok, DiaSa and A101.

Several mergers and acquisitions have taken place in Turkish retail market since 2003 but the organized grocery market is still fragmented. Major acquisitions in the grocery retail sector are summarized in the table below. The most recent one is the acquisition of Sok Stores by Ulker Group from Migros for USD 385 million.

Figure 5: Consolidation in organized grocery retailers

Company	Buyer	Share	Deal Value	Date
Kipa	Tesco	84%	US\$124mn	2003
Gima	CarrefourSA	60%	US\$119mn	2005
Tansas	Migros	78%	US\$449mn	2005
Migros	BC Partners	51%	US\$1160mn	2008
Sok	Ulker Group	100%	US\$385mn	2011

Source: Company reports

Although consolidation in the organized sector has been ongoing, the unorganized sector is still a majority of the industry and market structures indicate room for penetration and consolidation in the future. The combined market share of the top four retailers is 14% of the organized grocery retail market and the next ten retail chains have share just below 25% of the market. Compared with Europe, the share of organized grocery retail is well below average. The ratio of organized retailers is between 80% and 90% in European countries. We expect organized retail penetration to be in line with the global trend. Transformation in Turkish retail has begun and we think that Turkey will converge towards its European peers in the long term.

Regulation in the retail market is still an ongoing process and the government has not developed a finalized retail law, which has been discussed since 2000. A law that would bring restrictions on store openings has been debated for a long time. The aim of such a law would be to protect small players and give them a chance to survive in an environment dominated by retail chains. According to the draft law, existing stores would remain at their current locations. However, store openings in metropolitan areas of a size greater than 2500 sqm would require the approval of the Minister of Industry & Commerce and for the stores smaller than 2500 sqm, approval from the governor's office would be required. The draft sets additional operational requirements, for example, all supermarkets are required to have parking lots and shopping centers must be closed Sundays. The law has come under heavy criticism by foreign and organized retailers and is expected to stay shelved.

The Turkish retail sector provides opportunities due to the favorable demographics and economic outlook. Turkey has a young and growing population which promises growth potential for the retail sector. 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. For 2012, we expect some slowdown in economic growth and we have a moderate GDP growth expectation of 1%. However, the retail sector is one of sectors that is resilient to slowdowns. Also, demand for food and beverage consumption has low elasticity. Given the unresolved problems in the Eurozone, emerging markets including Turkey will be facing a challenging year and given the defensive character of food retailing, we think that the retail sector will be one most immune from sell-off pressures.

BIM

Dedicated discounter

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BIM is the largest discount store in a growing organized retail sector – The company adapted a business model copied from Aldi's hard discount retail model, which aims to serve the lowest price and highest quality goods to customers. The company is following a capital efficient strategy by operating small sized stores which are not located on main streets and therefore have low rent expenses.

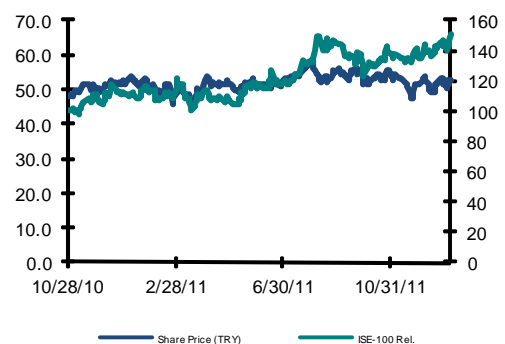
BIM is expanding fast with its decentralized structure – BIM is operating with 3,227 stores and 31 warehouses in Turkey as of the end of 3Q11. Its warehouses have authority to open new stores with their autonomous structure. We expect BIM to reach 3,300 stores in Turkey and management to continue its aggressive store opening program. We expect BIM to open 300 new stores in 2012.

Strong revenue growth continues – New store openings and rising LFL basket sizes push revenue growth. We expect BIM to post 28% revenue growth in 2011, which is driven by the increase in the number of stores and growth in like for like traffic and basket size. As of 3Q11, while the company's like-for-like sales increased by 13.8% compared to the previous year, like-for-like customer traffic volume (per store) rose by 3.7% to 738 people per day. In 2012, we expect 12% YoY revenue growth, bringing the top-line to TRY 9.4 billion.

Management targets volume growth despite rising processed food inflation – BIM is disciplined to keep its prices at low levels to boost its volumes and maintain its competitive position in the market. Like-for-like basket size went up to TRY 10.46 in 3Q11 (2Q11: TRY 9.53) from TRY 9.54 in 3Q10. Note that inflation for annual processed food prices in September was 9.10%.

OUTPERFORM
TP: TRY 60.30

	TRY	US\$	
Close	52.75	28.21	
ISE-100	50,183	26,841	
US\$/TRY(CB Bid Rate):	1.88		
52 Week High:	58.00	35.29	
52 Week Low:	44.84	25.45	
Bloomberg/Reuters Tickl	BIMAS.TI / BIMAS.IS		
<hr/>			
Number of Shares (Mn)	151.8		
<hr/>			
	(TRY Mn)	(US\$ Mn)	
Current Mcap:	8,007	4,283	
Free Float Mcap:	4,804	2,570	
<hr/>			
	1 M	YOY	YTD
TRY Return (%):	0.0	-1.4	0.5
US\$ Return (%):	-2.8	-18.9	2.2
ISE-100 Relative (%):	9.0	36.2	2.6
Avg. Daily Vol. (TRY Mn)	15.06		
Avg. Daily Vol. (US\$ Mn):	9.09		
<hr/>			
Beta	0.45		
Volatility (Stock)	0.29		
Volatility (ISE-100)	0.27		
<hr/>			
Shareholder Structure	%		
M.Latif Topbaş	17.4		
Abdulrahman A. El Kherejji	12.6		
Other	14.2		
Free Float	55.8		
Total	100.0		



Competition still one of the risks in the hard discount sector – However, we think the market is unsaturated with high growth potential. BIM, as the first mover in the market, has an advantage with its recognized store name and well-built store network along with its business strategy. BIM aims to attract customers with its low price strategy and build customer loyalty by increasing the portion of private labeled products that are more profitable in its product mix. As of 3Q11, while the share of private label products rose from 59.1% to 63.1%; conversely, the share of the company's branded products diminished from 31.9% to 23.7%.

BIM manages to maintain margins despite rising costs and new store openings – The company's gross margin was almost stable at 15.9% in 3Q11 and we estimate a 16.0% gross margin for 2012. BIM has an target EBITDA of 5.0–5.5%. We expect the company's EBITDA margin to come down to 5.0% in 2012.

Investment in Morocco is progressing slowly but provides long-term opportunity – As of 3Q11, BIM runs 64 stores in Morocco and aims to reach the break-even level of 350 stores by the end of 2014. Current sales figures are a negligible portion of total revenues. However, Morocco has remained relatively quiet compared to other North African countries in 2011 and has an underpenetrated food retail market by organized retailers, which has strong volume growth potential for BIM.

"Outperform" – BIM currently has a TRY 8 billion Mcap. Our target value stands at TRY 9.2 billion and represents a 14% upside potential. Due to its attractive upside potential, we maintain our "Outperform" rating for BIM.

Figure 5: BIM's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012F	2013F
Revenues	5,323	6,574	8,413	9,386	10,424
EBIT	259	292	372	377	486
EBITDA	314	356	446	469	594
Net income	213	246	338	337	424
Key Balance Sheet (TRY mn)					
Tangible fixed assets	479	549	549	584	617
Cash & equivalents	167	258	321	457	589
Total assets	1,100	1,372	1,642	1,794	2,000
Short-term debt	0	8	0	0	0
Total debt	0	8	0	0	0
Total equity	388	500	631	669	768
Key Ratios					
Net debt/EBITDA (x)	-	-	-	-	-
Gross Margin	17.7	16.8	16.3	16.0	16.5
EBIT Margin	4.9	4.4	4.4	4.0	4.7
EBITDA Margin	5.9	5.4	5.3	5.0	5.7
Net Margin	4.0	3.7	4.0	3.6	4.1
ROAE	65.1	55.3	59.7	51.8	59.1
ROAA	14.0	12.8	22.4	19.6	22.4
Valuation Metrics*					
P/E (x)	37.6	32.6	23.7	23.8	18.9
P/BV (x)	20.6	16.0	12.7	12.0	10.4
EV/Sales (x)	1.5	1.2	0.9	0.8	0.7
EV/EBITDA (x)	24.7	21.8	17.4	16.5	13.1
EPS (TRY)	2.8	1.6	2.2	2.2	2.8
Dividend yield (%)	1.7%	2.3%	3.0%	2.9%	3.7%

*based on current Mcap

Telecom sector

The Turkish mobile sector is a very competitive and challenging one, especially since the entrance of Vodafone, with its aggressive growth model. The nature of competition has put pressure on margins, resulting in declining ARPUs as well as market shares. Therefore, mobile operators have been looking for new sources of revenue to compete for market share such as introducing new technologies or increasing post-paid subscribers.

The local mobile market as a whole has been growing despite this price discounting and healthy marketing spending by all three mobile operators. The revenue market for mobile operators has been increasing for the last four years, but EBITDA has been declining due to the aggressive competition.

2012 may see some limited softening in competition

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 smartphones. The market's focus on contracted smartphone sales continued in 2011, where additional monthly fees for smartphone acquisitions were again reduced, resulting in an upward trend in smartphone 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 cashflows 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.

Figure 1: Mobile subscribers and market shares

Subscriber (mn)	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11
Avea	12,60	12,40	12,06	11,83	11,65	11,47	11,43	11,62	11,82	12,23	12,53
Vodafone	15,40	14,87	15,60	15,57	15,72	16,13	16,54	16,68	16,84	17,51	17,84
Turkcell	36,40	36,34	36,00	35,37	34,26	33,93	33,92	33,47	33,05	34,06	34,43
Total	64,40	63,61	63,66	62,77	61,63	61,53	61,89	61,77	61,71	63,80	64,80
Market shares											
Avea	19,6%	19,5%	18,9%	18,8%	18,9%	18,6%	18,5%	18,8%	19,2%	19,2%	19,3%
Vodafone	23,9%	23,4%	24,5%	24,8%	25,5%	26,2%	26,7%	27,0%	27,3%	27,4%	27,5%
Turkcell	56,5%	57,1%	56,6%	56,3%	55,6%	55,1%	54,8%	54,2%	53,6%	53,4%	53,1%

Source: ICTA

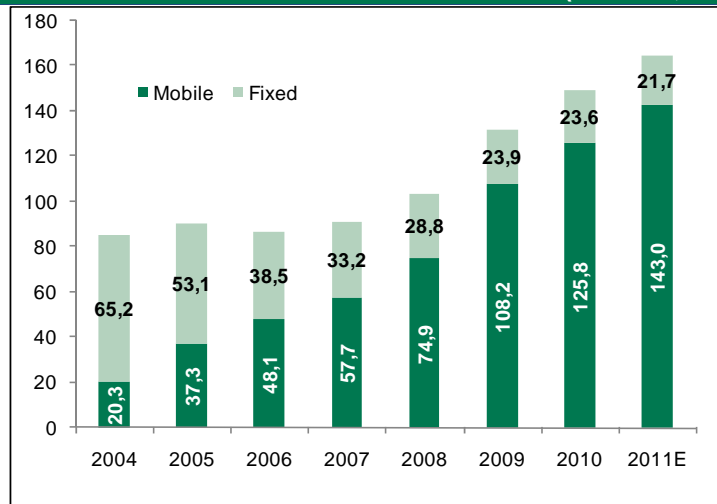
Market Perform maintained

Considering the youthful population of Turkey, 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 to margins and profitability. Therefore, we maintain our "Market Perform" rating for the sector.

Annual mobile call volumes on the rise

Since the liberalization of the telecommunications industry in 2004, mobile call volumes have continued to increase while fixed-line calls are still on the decline. According to the ICTA, total annual traffic volume reached 149.4 billion minutes in 2010. 2011 followed this upwards trend and we expect the year to end with a 164.6 billion minutes annual traffic volume. Mobile call volume, which constitutes 87% of overall traffic, is expected to increase by 13.6% YoY to 143 billion minutes. Meanwhile, fixed-line volume, which represents 13% of overall traffic is likely to continue to decline to 21.7 billion minutes.

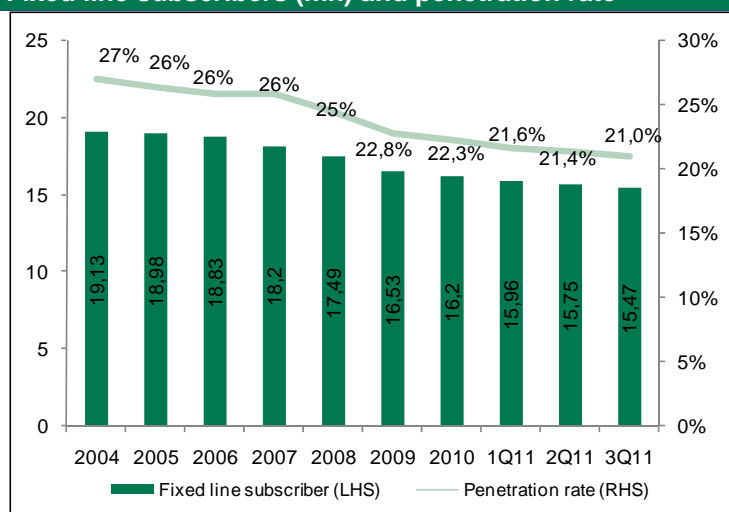
Figure 2: Traffic volumes of fixed and the mobile lines (minutes, bn)



Source: ICTA, Seker Securities

The fixed-line penetration rate and the number of subscribers have been on the decline since 2004. According to data released by the ICTA, fixed-line penetration dropped from 27% in 2004 to 21% in 3Q11. Meanwhile, the number of subscribers declined from 19.13 million in 2004 to 15.47 million. Despite new efforts and reductions in tariffs for the fixed-line segment, we assume subscriber numbers to continue declining in 2012 as well.

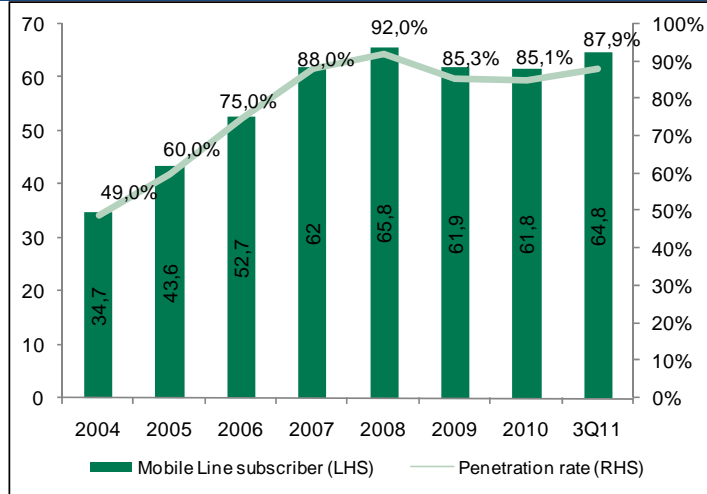
Figure 3: Fixed line subscribers (mn) and penetration rate



Source: ICTA

Meanwhile, the mobile line penetration rate in Turkey was approximately 88% as of 3Q11. The rate has been on the rise since 2004 but was flat in 2009 and 2010, mainly stemming from number portability which was introduced at the end of 2008. However, at the beginning of 2011, the number of mobile line subscribers gained momentum again and the penetration rate started to increase thanks to the widespread use of 3G.

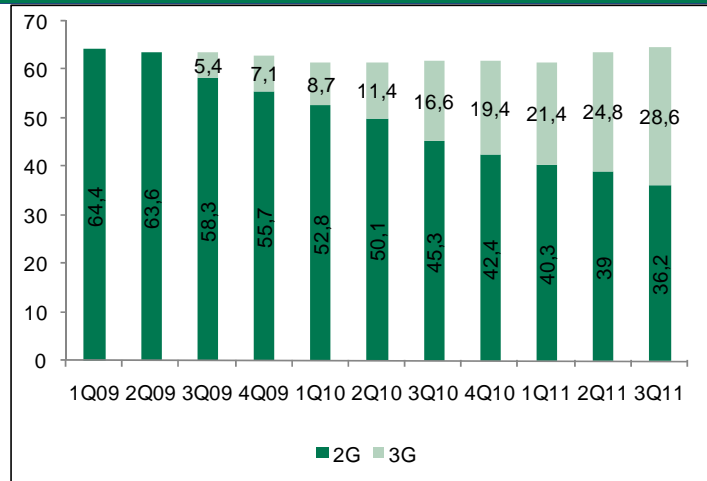
Figure 4: Mobile Line subscribers (mn) and penetration rate



Source: ICTA

3G was introduced in Turkey in July 2009 and since then, the number of 3G users increased steadily reaching 28.6 million by the end of 3Q11 which corresponds to 44.1% of total mobile subscribers. We think that this number should continue to increase in the coming periods on the back of promotions and campaigns.

Figure 5: The number of 3G users (mn)



Source: ICTA

Number portability, which came into effect in 2008, caused a considerable shift in mobile subscriptions. A total of 35.3 million subscribers have changed their mobile operator since then and we think that as long as mobile operators continue to offer attractive campaigns and promotions, number portability should continue at a higher rate in the coming periods.

Turkcell

Hidden Value...

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Our recommendation for Turkcell is "Market Perform" Thanks to encouraging operational and financial results, we increased our recommendation from Underperform to Market Perform for the company following the 3Q11 results. We maintain our "Market Perform" recommendation for the stock with a target price of TRY 10.05 and an upside potential of 14%. But we will continue to closely monitor the ongoing disputes between Turkcell's shareholders and the EGM for any change in controlling management of the company and 2010 dividend payouts.

Turkcell remains the market leader Turkcell is the market leader in mobile segment both in terms of the number of subscribers and revenues, having 53.1% and 52.16% respectively in domestic market, despite losing some share for the last three years. The total number of Turkcell subscribers increased by 1.5% YoY to 34.4 million in 3Q11. Notable increase in post-paid subscribers comprising 32% of total subscribers on both an annual and quarterly basis which supports margins since post-paid subscribers add more value due to higher ARPU (average revenues per customer). In terms of ARPU, the blended average monthly revenue per user (ARPU) improved both quarter-on-quarter and an annual basis reaching TRY 21.10 in 3Q11.

Highest ever quarterly revenue in 3Q11 By the way, we should note that, Turkcell recorded its highest ever quarterly revenue of TRY 2,527 million in Q3 implying 10.9% QoQ and 8.6% YoY growth, which was mainly achieved through the 39.8% growth in total revenues of its consolidated subsidiaries and the 24.1% rise in mobile internet and service revenues in Turkey.

Sales revenue and EBITDA to increase by 4.9% and 1.7% YoY in 2012 We expect the company to reach revenues of TRY 9,882 million and an EBITDA of TRY 3,063 million in 2012. Meanwhile, our bottom-line estimate for 2012 stands at TRY 1,407 million, implying a 23.6% increase.

MARKET PERFORM
TP: TRY 10.05

	TRY	US\$		
Close	8,94	4,80		
ISE-100	49.694	26.677		
US\$/TRY(CB Bid Rate):	1,86			
52 Week High:	10,90	7,03		
52 Week Low:	7,36	4,15		
Bloomberg/Reuters Ticker:	TCELL.TI / TCELL.IS			
<hr/>				
Number of Shares (Mn):	2.200			
<hr/>				
	(TRY Mn)	(US\$ Mn)		
Current Mcap :	19.668	10.558		
Free Float Mcap :	4.917	2.640		
<hr/>				
	1 M	YOY	YTD	
TRY Return (%):	1,4	-17,6	0,7	
US\$ Return (%):	-1,2	-32,1	2,7	
ISE-100 Relative (%):	9,8	14,0	3,9	
Avg. Daily Vol. (TRY Mn):	24,0			
Avg. Daily Vol. (US\$ Mn):	14,6			
<hr/>				
Beta	0,64			
Volatility (Stock)	0,34			
Volatility (ISE-100)	0,27			
<hr/>				
Shareholder Structure	%			
Turkcell Holding	51,0			
Sonera Holding B.V.	13,1			
Other	1,2			
Free Float	34,7			
Total	100,0			

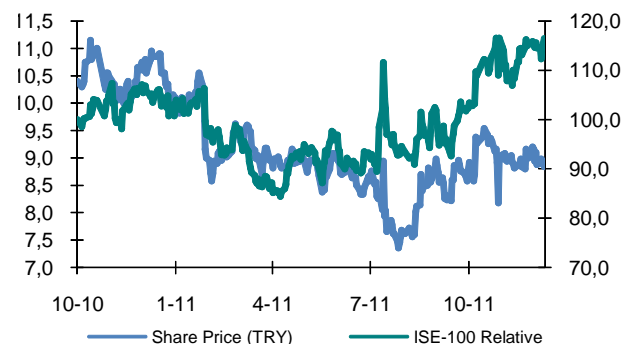
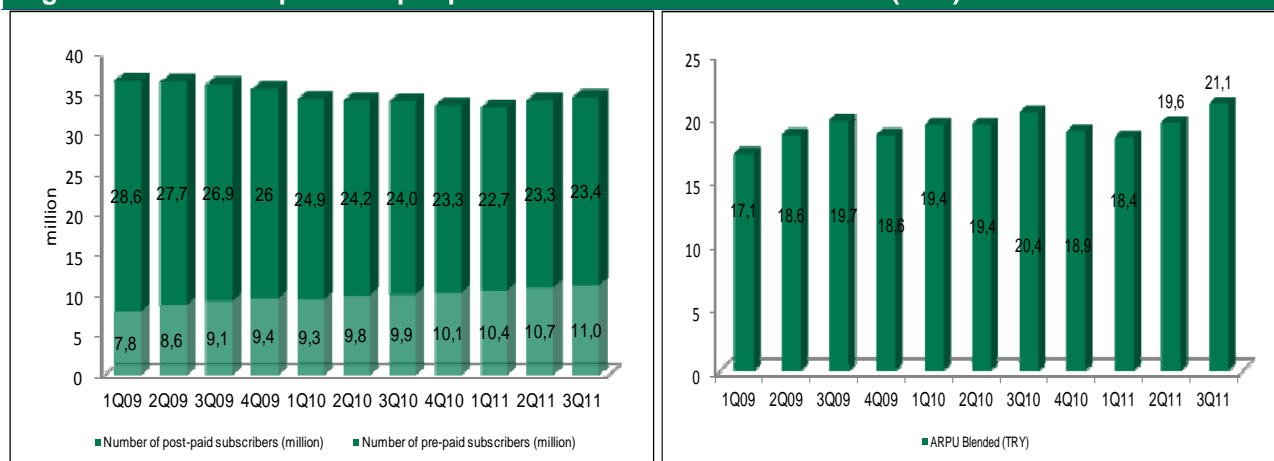


Figure 1: Number of post and pre-paid subscribers & Blended ARPU (TRY)



Source: Turkcell, Şeker Securities

Figure 2: Turkcell's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	8.936	9.004	9.373	9.832	10.254
EBIT	2086	1818	1703	2062	2198
EBITDA	2.920	2.852	2.996	3.048	3.179
Net income	1.717	1.772	1.139	1.407	1.478
Key Balance Sheet (TRY mn)					
Tangible fixed assets	3.976	4.729	5.137	5.609	5.975
Total assets	13.979	15.096	11.024	11.844	12.474
Short-term debt	1.048	674	1.468	1.459	1.530
Total debt	2.284	2.850	4.222	4.194	4.367
Total equity	8.832	9.599	12.441	12.875	14.365
Key Ratios					
Net debt/EBITDA (x)	-0,85	-0,80	1,41	1,38	1,37
Gross Margin	46,8	44,1	40,2	44,0	44,4
EBIT Margin	23,3	20,2	18,2	21,0	21,4
EBITDA Margin	32,7	31,7	32,0	31,0	31,0
Net Margin	19,2	19,7	12,1	14,3	14,4
ROAE	20,2	19,2	10,3	11,0	10,8
ROAA	8,6	8,0	8,7	12,3	12,2
Valuation Metrics*					
P/E (x)	11,5	11,1	17,3	14,0	13,3
P/BV (x)	2,2	2,0	1,6	1,5	1,4
EV/Sales (x)	1,9	1,9	1,8	1,7	1,7
EV/EBITDA (x)	5,8	5,9	5,7	5,6	5,3
EPS (TRY)	0,78	0,81	0,52	0,64	0,67
Dividend yield (%)	4,4%	0,0%	3,9%	4,8%	5,0%

*based on current Mcap

Turk Telekom

A flat 2012 on the way...

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We maintain our “Market Perform” recommendation. We are positive for Turk Telekom in long-term as the company has a diversified business structure. However, we do not expect rational competition in the short-term and assume that declines in the PSTN segment will continue in the coming periods. Therefore, we maintain a “Market Perform” recommendation for the stock. We have a target price of TRY 8.10 for the stock, which offers a 16% upside potential.

Integrated telecom company Turk Telekom is the leading telecom operator which provides an integrated service of PSTN (Public Switched Telephone Network), GSM and ADSL broadband internet. As of September 30, 2011, Turk Telekom group companies have 15.5 million Fixed Access Lines, 6.8 million ADSL Connections and 12.5 million mobile subscribers. Turk Telekom has 16.1 million fixed access lines, 11.4 million mobile subscribers and 6.5 million ADSL connections as of September 2010.

ADSL segment supports fixed-line revenues The company’s PSTN segment is still on a down trend with decreasing subscribers, but is partially compensated by price increases in the fixed-line segment. ADSL revenues continued strong in 2011, increasing 19% YoY in 3Q11 mainly due to customers switching to unlimited packages and inflationary price adjustments. The total number of ADSL subscribers also increased and reached 6.8 million as of September 30, 2011. We believe that the ADSL segment will continue to be strong in 2012, however despite promotions and campaigns the number of PSTN subscribers and revenues may continue to suffer.

Avea improving but still a long way to go The company’s mobile arm, Avea, showed an outstanding operational performance and reached record quarterly revenues of TRY 816 million in 3Q11 in spite of strong competition, but is still losing on the EBIT line. Also, we do not expect dramatic improvement due to harsh competition in the sector.

In 2012, We expect sales revenues to increase by 3.0%; EBITDA to rise slightly by 2.0% We expect the company to generate a revenue figure of TRY 12,216 million and EBITDA figure of TRY 4,886 million in 2012. Meanwhile, we estimate a flat bottom-line for 2012 standing at TRY 2,091 million.

MARKET PERFORM
TP: TRY 8.10

	TRY	US\$
Close	6,92	3,71
ISE-100	49.694	26.677
US\$/TRY(CB Bid Rate):	1,86	
52 Week High:	9,38	5,84
52 Week Low:	6,05	3,44
Bloomberg/Reuters Ticker:	TTKOM.TI / TTKOM.IS	

	(TRY Mn)	(US\$ Mn)
Current Mcap :	24.220	13.002
Free Float Mcap :	3.149	1.690

	1 M	YOY	YTD
TRY Return (%):	-6,0	10,0	-1,4
US\$ Return (%):	-8,4	-9,4	0,5
ISE-100 Relative (%):	1,9	52,3	1,7
Avg. Daily Vol. (TRY Mn):	15,8		
Avg. Daily Vol. (US\$ Mn):	9,5		

Beta	0,42
Volatility (Stock)	0,34
Volatility (ISE-100)	0,27

Shareholder Structure	%
Oger Group	55,0
Treasury	30,0
Other	-
Free Float	15,0
Total	100,0

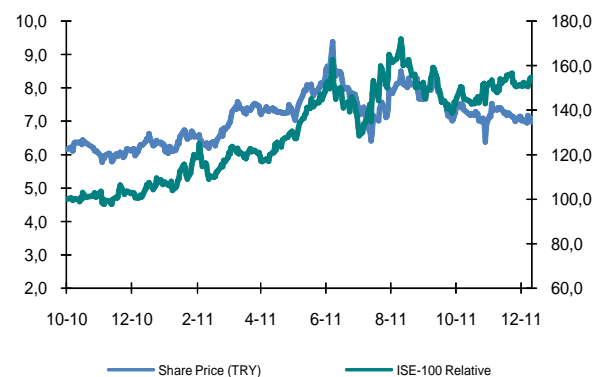


Figure 1: Number of PSTN subscribers & Number of ADSL subscribers

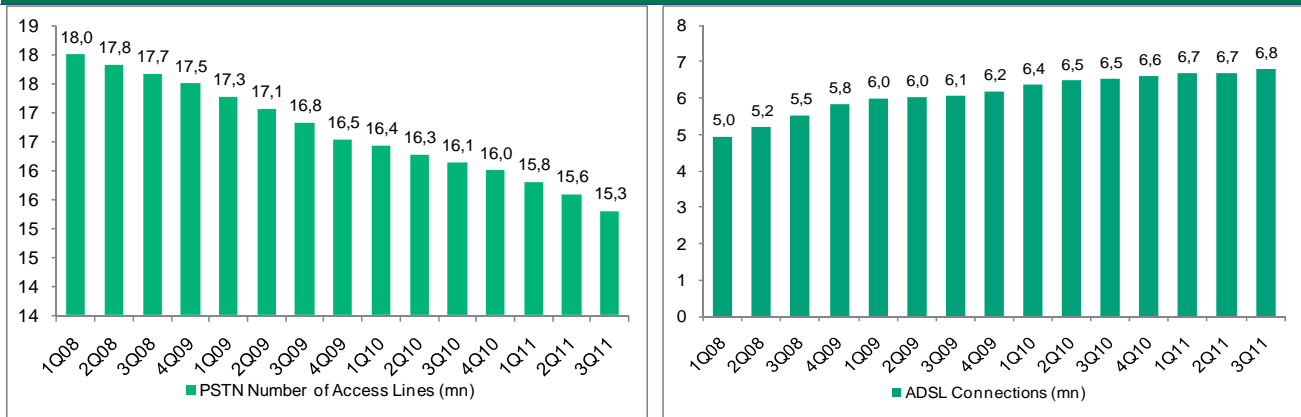


Figure 2: Number of mobile subscribers & Blended ARPU (TRY)

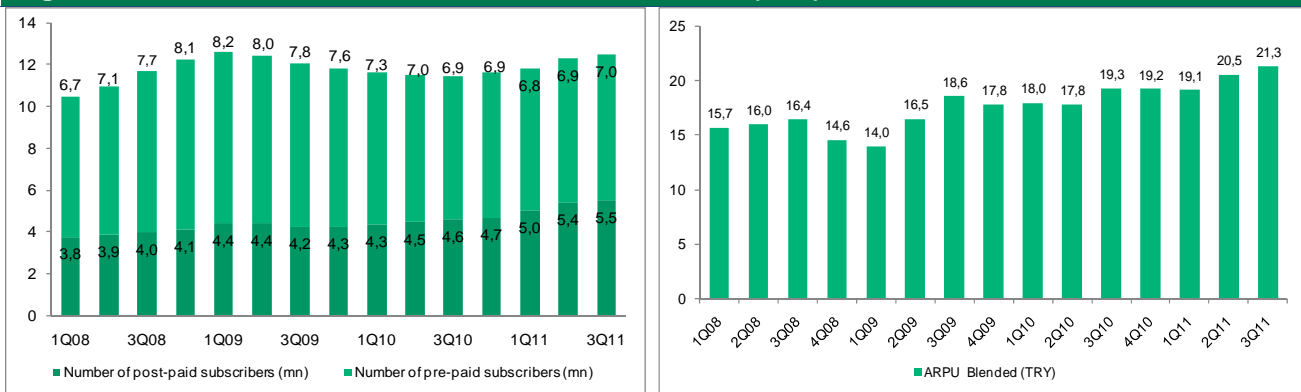


Figure 3: Turk Telekom's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	10.568	10.852	11.860	12.216	12.705
EBIT	2.460	2.847	3.231	3.443	3.466
EBITDA	4.017	4.370	4.793	5.009	5.272
Net income	1.860	2.451	2.077	1.870	2.084
Key Balance Sheet (TRY mn)					
Tangible fixed assets	6.629	7.161	7.894	8.608	9.206
Cash & equivalents	754	1.219	929	1.222	1.113
Total assets	13.401	15.100	16.682	17.264	17.952
Short-term debt	2.160	1.869	2.436	2.421	2.406
Total debt	3.974	4.199	5.745	5.705	5.665
Total equity	5.422	6.175	5.799	6.273	6.784
Key Ratios					
Net debt/EBITDA (x)	0,80	0,68	1,00	0,90	0,86
Gross Margin	51,9	54,7	56,9	57,2	55,8
EBIT Margin	23,3	26,2	27,2	28,2	27,3
EBITDA Margin	38,0	40,3	40,4	41,0	41,5
Net Margin	17,6	22,6	17,5	15,3	16,4
ROAE	31,0	37,7	34,7	31,0	31,9
ROAA	12,5	15,4	13,1	11,0	11,8
Valuation Metrics*					
P/E (x)	14,4	10,4	11,7	13,0	11,6
P/BV (x)	4,5	3,9	4,2	3,9	3,6
EV/Sales (x)	2,7	2,7	2,4	2,4	2,3
EV/EBITDA (x)	7,2	6,6	6,1	5,8	5,5
EPS (TRY)	0,53	0,70	0,59	0,53	0,60
Dividend yield (%)	6,6%	9,3%	7,7%	6,9%	7,7%

*based on current Mcap

Other Companies

Aksa Akrilik

Carbon fiber leads the positive results...

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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. The company also produces carbon fiber with a capacity of 1,500 tons/year. Aksa's global market share of acrylic fiber and carbon fiber production is 13.2% and 3.8%, respectively. Furthermore, the company's total electricity production capacity will reach 170 MW when it starts up its 100 MW thermal power plant within this year along with its existing 70 MW capacity natural gas plant.

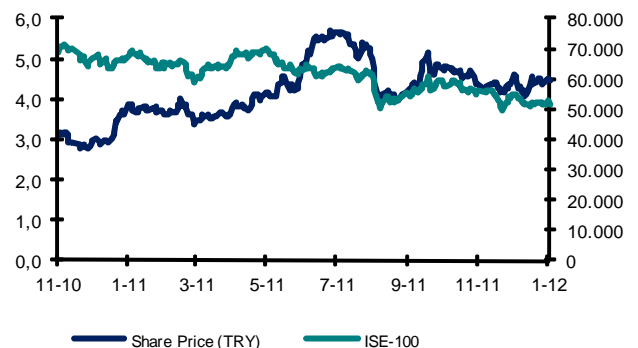
Carbon fiber capacity planned to be increased to 3,500 tons the end of 2012 – Aksa has a current carbon fiber production capacity of 1,500 tons and plans to increase it to 3,500 tons by the end of 2012. The company also aims to increase its market share to 5% within five years and to 10% within ten. 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.

We think the company's partnership with Dow will reflect positively – 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 after its planned investments are realized in the coming years. Also, we 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. The installed power of the company will reach 170 MW when this power plant is put into operation in 2011.

OUTPERFORM
TP: TRY 5.70

	TRY	US\$	
Close	4,22	2,26	
ISE-100	50.183	26.841	
US\$/TRY(CB Bid Rate):	1,88		
52 Week High:	5,68	3,52	
52 Week Low:	3,35	2,08	
Bloomberg/Reuters Ticker:	AKSA.TI/ AKSA.IS		
Number of Shares (Mn):	185		
	(TRY Mn)	(US\$ Mn)	
Current Mcap :	781	418	
Free Float Mcap :	289	155	
	1 M	YOY	YTD
TRY Return (%):	-7,0	9,3	-4,5
US\$ Return (%):	-9,6	-10,2	-2,8
ISE-100 Relative (%):	1,3	50,9	-2,5
Avg. Daily Vol. (TRY Mn):	9,4		
Avg. Daily Vol. (US\$ Mn):	5,7		
Beta	0,94		
Volatility (Stock)	0,38		
Volatility (ISE-100)	0,27		
Shareholder Structure	%		
Akkok Industrial and Dev.Inc.	39,6		
Emniyet Tic. A.S.	18,7		
Others	4,1		
Free Float	37,6		
Total	100,0		



While the increased capacity is expected to gradually reduce the company's costs by 40%, this condition will provide a positive contribution for the company's margins and profitability.

Strong results in 2011 – The increase in raw materials prices in parallel with rising oil prices were also reflected onto acrylic prices. While ACN prices reached \$2,025/ton in 2011 from \$1,793/ton at the beginning of 2010, product prices reached \$3,338/ton from \$2,480/ton during the same period due to increased demand for acrylic fiber. Thus, following the rise in acrylic prices over ACN prices, the margin between acrylic and ACN prices rose to \$1,313/ton from \$688/ton as well. Consequently, this state reflected positively on net sales revenues and the profitability of acrylic producers including Aksa Akrilik. The company's total profit increased to TRY 88.2 million in 9M11, up by 215% YoY.

We consider that despite the coming contraction in acrylic fiber demand in the coming years, the company's carbon fiber sales will continue to have an influence on its financials. Together with the completion of energy investments, we expect that the cost advantage will also be positively reflected on the company's profitability. We estimate that consolidated sales revenues will increase to TRY 1,637 million (USD 978mn) in 2011 and TRY 1,744 million (USD 950mn) in 2012. We consider that the company's acrylic fiber sales revenues will decline on a dollar basis after 2012 but that increased carbon fiber sales revenues will compensate for the decline. While the company's EBITDA was TRY 139 million in 2010, we expect it to increase to TRY 203 million in 2011 and TRY 235 million in 2012. We also believe that the company will announce a net profit of TRY 112 million and TRY 130 million in 2011 and 2012, respectively.

“Outperform” We derive a TRY 1,054 million target Mcap for Aksa Akrilik using a blended DCF model. Our target price for Aksa Akrilik stands at TRY 5.70 per share. Taking into consideration the Aksa Akrilik's current market capitalization which is around TRY 781 million (TRY 4.22 per share), our target value represents a 35% upside potential. Therefore, we initiate an “Outperform” rating for Aksa Akrilik.

Figure 1: Akxa Akrilik's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	905	1304	1.634	1.744	1.805
EBIT	86	81	155	169	172
EBITDA	139	139	203	235	256
Net income	40	57	112	130	138
Key Balance Sheet (TRY mn)					
Tangible fixed assets	548	659	775	824	870
Cash & equivalents	102	64	104	222	254
Total assets	1.250	1.359	1.520	1.730	1.832
Short-term debt	142	171	151	146	192
Total debt	279	311	283	328	385
Total equity	734	776	884	1.017	1.049
Key Ratios					
Net debt/EBITDA (x)	1,28	1,77	0,88	0,45	0,51
Gross Margin	16,8	12,4	14,6	14,7	14,3
EBIT Margin	9,5	6,2	9,5	9,7	9,5
EBITDA Margin	15,3	10,7	12,4	13,5	14,2
Net Margin	4,4	4,3	6,8	7,5	7,7
ROAE	5,9	8,2	13,7	13,8	13,5
ROAA	3,6	4,7	7,8	8,0	7,8
Valuation Metrics*					
P/E (x)	14,7	12,6	7,0	6,0	5,6
P/BV (x)	1,1	1,0	0,9	0,8	0,8
EV/Sales (x)	1,1	0,8	0,6	0,6	0,6
EV/EBITDA (x)	7,7	7,5	5,1	4,4	4,1
EPS (TRY)	0,29	0,33	0,60	0,70	0,75
Dividend yield (%)	2%	2%	3%	3%	4%

*based on current Mcap

Aselsan

With new projects come growth in sales...

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Aselsan has USD 4.5 billion in the backlog, to be delivered by 2018 – With regards to publicly disclosed projects, the total value of Aselsan's projects since 2001 has reached USD 6.92 billion, with Aselsan having realized the delivery of ~USD 2.4 billion worth, and a backlog of USD 4.5 billion to be delivered by 2018. The company undertook USD 1.1 billion in new projects in 2011 and the Low and Medium Altitude Air Defence Missile Systems Project was the largest at USD 795 million, signed with the Ministry of Defense in June 2011. Aselsan has realized 60–65% of its sales revenue in Turkish Armed Forces, about 20% of the total sales revenue in Government and private sector and 15–20% of the company's total sales revenue was sold abroad. The company currently exports its products to approximately 40 countries.

The Turkish Armed Forces is Aselsan's largest customer – Supplying 70% of all the equipment used in developing new applications as well as modernization of existing equipment from domestic market, the Turkish Armed Forces is the greatest and the most guaranteed customer of the company. Aselsan has no competitors, especially in communications and electro-optics due to the fact that the Turkish Armed Forces purchase only from domestic companies.

We estimate Aselsan's YE12 revenues to be USD 920 million – Recall that Aselsan works on a project basis. Since the delivery of military projects usually takes place in the fourth quarter (~40–45% of deliveries), Aselsan records high net sales in the last quarter of the year. According to this, we foresee Aselsan to have completed the year with net sales revenues of USD 850 million (TRY 1.42bn) after deliveries are completed in 2011, using ongoing projects as a basis.

OUTPERFORM
TP: TRY 10.70

	TRY	US\$
Close	8,18	4,38
ISE-100	50.183	26.841
US\$/TRY(CB Bid Rate):	1,88	
52 Week High:	9,20	5,97
52 Week Low:	6,99	3,82
Bloomberg/Reuters Ticker:	ASELS.TI / ASELS.IS	

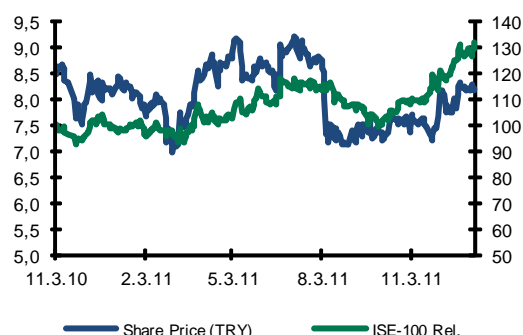
Number of Shares (Mn):	235,2	
	(TRY Mn)	(US\$ Mn)
Current Mcap:	1.929	1.032
Free Float Mcap:	270	144

	1 M	YOY	YTD
TRY Return (%):	2,8	-2,9	-0,2
US\$ Return (%):	-0,1	-20,2	1,5
ISE-100 Relative (%):	12,0	34,2	1,9
Avg. Daily Vol. (TRY Mn):	8,25		
Avg. Daily Vol. (US\$ Mn):	5,07		

Beta	0,79
Volatility (Stock)	0,31
Volatility (ISE-100)	0,27

Shareholder Structure	%
Turkish Armed Forces Foundation	84,6
Other	0,1
Free Float	15,3

Total 100,0



We anticipate Aselsan's net sales revenues to increase to USD 920 million (TRY 1.63bn) in 2012 due to increasing projects. We estimate an EBITDA of TRY 340 million for 2011 and TRY 422 million in 2012. On the other hand, we expect Aselsan to declare a net profit of TRY 205 million for FY2011. Also, we project the company's net profits to soar to TRY 293 million in 2012.

"Outperform" We initiate coverage at **"Outperform"** with a target price of TRY 10.70 considering the company's high number of projects. Aselsan's current price stands at TRY 8.18 while our target value represents a 31% upside potential.

Figure 1: Aselsan's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	1038	1190	1.421	1.634	1.830
EBIT	189	243	299	366	421
EBITDA	232	286	340	422	494
Net income	184	241	205	293	350
Key Balance Sheet (TRY mn)					
Tangible fixed assets	231	272	314	314	250
Cash & equivalents	648	607	522	559	620
Total assets	2.359	2.602	2.924	3.194	3.443
Short-term debt	370	104	19	22	29
Total debt	410	144	151	150	164
Total equity	660	844	1.024	1.139	1.229
Key Ratios					
Net debt/EBITDA (x)	-1,03	-1,62	-1,09	-0,97	-0,92
Gross Margin	29,6	31,5	33,1	33,6	33,8
EBIT Margin	18,2	20,4	21,1	22,4	23,0
EBITDA Margin	22,4	24,1	23,9	25,8	27,0
Net Margin	17,7	20,3	14,4	18,0	19,1
ROAE	8,8	9,2	21,9	27,1	29,5
ROAA	29,6	31,5	7,4	9,6	10,5
Valuation Metrics*					
P/E (x)	10,4	8,0	9,4	6,6	5,5
P/BV (x)	2,9	2,3	1,9	1,7	1,6
EV/Sales (x)	1,8	1,6	1,3	1,1	1,0
EV/EBITDA (x)	7,9	6,5	5,4	4,4	3,7
EPS (TRY)	1,56	1,02	0,87	1,25	1,49
Dividend yield (%)	3%	2%	3%	4%	5%

*based on current Mcap

Coca-Cola İçecek

Not cheap to its peers...

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Coca-Cola İçecek has an annual production capacity of 880 million unit cases Coca-Cola İçecek's (CCI) core business is to produce, sell and distribute sparkling and still beverages of The Coca-Cola Company (TCCC). CCI, which has 20 plants (8 in Turkey, 12 int'lly) in 10 different countries (Pakistan, Kazakhstan, Azerbaijan, Kyrgyzstan, Turkmenistan, Jordan, Iraq, Syria and Tajikistan), offers a wide range of beverages, including sparkling beverages, as well as an expanding portfolio of still beverages, a category that includes juices, waters, sports drinks, energy drinks, non-ready to drink tea and iced teas to a consumer market of more than 360 million. CCI has an annual production capacity of 880 million unit cases and of more than 1.1 billion PET bottles. CCI obtains 74% of its consolidated revenue domestically. When EBITDA distribution of the company is analyzed, we see that 79% of total EBITDA is created by the domestic market.

CCI's top-line Improved but its bottom-line fell in 2011 – CCI's consolidated sales volume grew by 16% YoY to 621 million unit cases as of 9M11 (450 million in domestic and 171 million int'lly) on the back of strong growth in all categories. CCI's consolidated sales revenues soared in 2011 due to higher sales volume. However, despite the increase in sales revenue, the company's margins decreased as a result of increased OPEX and raw materials costs (higher resin, can and sweetener costs) both in Turkey and abroad. On the other hand, in spite of its improved top-line, the bottom-line was negative due to the increase in financial expenses in 2011 in parallel the appreciation of the US dollar against the Turkish lira. The company announced a net profit of TRY 146 million for 9M11.

We assume CCI's volume growth to be 13% in 2012 – We expect CCI's Turkey's sales volume will reach 574 million unit cases in 2011 and climb to 642 million unit cases in 2012. Also, we expect international sales volume to increase to 206 million unit cases in 2011 and 238 million unit cases in 2012.

MARKET PERFORM
TP: TRY 21.50

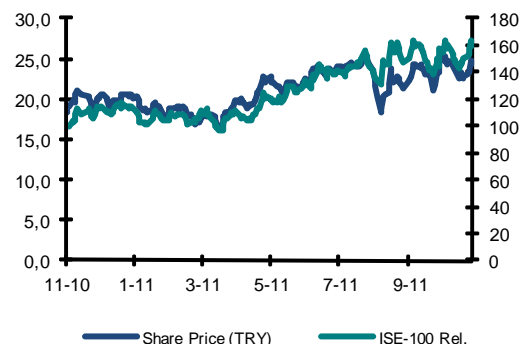
	TRY	US\$
Close	22,05	11,79
ISE-100	50.183	26.841
US\$/TRY(CB Bid Rate):	1,88	
52 Week High:	25,70	15,55
52 Week Low:	16,69	10,55
Bloomberg/Reuters Ticker:	CCOLA.TI / CCOLA.IS	

	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):	254	
Current Mcap :	5.609	3.000
Free Float Mcap :	1.402	750

	1 M	YOY	YTD
TRY Return (%):	-6,2	10,8	-2,4
US\$ Return (%):	-8,8	-8,9	-0,7
ISE-100 Relative (%):	2,2	53,1	-0,3
Avg. Daily Vol. (TRY Mn):	2,1		
Avg. Daily Vol. (US\$ Mn):	1,3		

Beta	0,65
Volatility (Stock)	0,39
Volatility (ISE-100)	0,27

Shareholder Structure	%
Anadolu Efes Biracılık	40,1
The Coca Cola Company	20,1
Other	15,2
Free Float	24,6
Total	100,0



We expect CCI's consolidated sales volume to increase to 780 million unit cases in 2011 and 880 million unit cases in 2012. We also assume TRY 3,432 million in revenues for 2011 while we estimate TRY 4,224 million in revenues for 2012.

Despite CCI's soaring consolidated revenues, we expect the pressure on operational margins to continue in 2012 due to the increase in raw materials prices and sales discounts and campaigns during the economic slowdown. Thus, we anticipate the company's consolidated EBITDA margins to decrease to 14.5% in 2012 from 15.0% in 2011.

The company has a TRY 1.21 billion net debt position as of 9M11 as a result of increasing financial loans. Thus, this affected the company's financials negatively. We guess that the appreciation of the US dollar against the lira in 4Q11 will increase the company's financial loss and put pressure on its net profit in 4Q11. Thus, we assume CCI to announce a net profit of TRY 138 million for FY2011. However, we guess that the appreciation of the lira against the dollar in 2012 will decrease the company's financial losses and have a positive effect on its net profit in 2012 compared to 2011. We predict the company's net profit to increase to TRY 210 million in 2012.

"Market Perform" We derive a TRY 5,479 million (TRY 21.50 share price) target market capitalization for Coca-Cola Icecek using DCF and Peer Comparison. Taking into consideration Coca-Cola Icecek's current market capitalization which is around TRY 5,609 million (TRY 22.05), our target value represents **3% downside potential**. In this respect, we maintain our **"Market Perform"** recommendation for the company. Please note that Coca-Cola Icecek trades at a 30% premium with **11.5x 2012E EV/EBITDA** compared to its global peers 2012E EV/EBITDA average of 8.2x.

Figure 1: Coca-Cola Icecek's key financials

Key Income Statement (TRY mn)	2009A	2010A	2011E	2012E	2013E
Revenues	2408	2753	3.432	4.224	5.019
EBIT	208	281	344	391	490
EBITDA	340	429	515	613	753
Net income	170	198	138	210	300
Key Balance Sheet (TRY mn)					
Tangible fixed assets	1.190	1.203	1.597	1.649	1.674
Cash & equivalents	585	599	224	256	288
Total assets	2.864	3.014	3.736	3.960	4.247
Short-term debt	904	628	189	182	192
Total debt	1.289	1.246	1.511	1.459	1.539
Total equity	1.270	1.435	1.695	1.876	2.021
Key Ratios					
Net debt/EBITDA (x)	2,07	1,51	2,50	1,96	1,66
Gross Margin	36,1	37,5	36,5	35,8	35,8
EBIT Margin	8,6	10,2	10,0	9,3	9,8
EBITDA Margin	14,1	15,6	15,0	14,5	15,0
Net Margin	7,0	7,2	4,0	5,0	6,0
ROAE	7,0	7,2	8,9	11,9	15,5
ROAA	14,1	15,6	4,1	5,5	7,3
Valuation Metrics*					
P/E (x)	33,1	28,3	40,6	26,7	18,7
P/BV (x)	4,4	3,9	3,3	3,0	2,8
EV/Sales (x)	2,8	2,5	2,0	1,6	1,4
EV/EBITDA (x)	2,8	2,5	2,0	1,6	1,4
EPS (TRY)	0,67	0,78	0,54	0,83	1,18
Dividend yield (%)	2%	1%	1%	1%	2%

*based on current Mcap

Appendix-Tables, Graphs, Rec List & Dividend Player

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

Country	P/E		P/BV	
	2011E	2012E	2011E	2012E
Argentina	6.5	5.1	1.2	1.0
Brazil	9.2	8.1	1.1	1.0
Mexico	14.1	12.9	2.2	2.4
Poland	9.0	9.2	1.1	1.0
Russia	5.4	5.2	0.7	0.7
Hungary	7.5	6.2	0.8	0.8
India	13.8	12.0	2.2	1.9
Malaysia	14.1	12.8	2.1	1.9
China	9.1	7.6	1.5	1.3
Egypt	5.0	4.1	0.5	0.8
South Africa	9.8	8.8	1.3	1.2
Average	9.4	8.4	1.3	1.3
Turkey	9.1	8.0	1.1	1.0
Discount	-3%	-4%	-16%	-21%

Figure 2: 5-yr CDS (LHS) vs. 11E P/E (RHS)

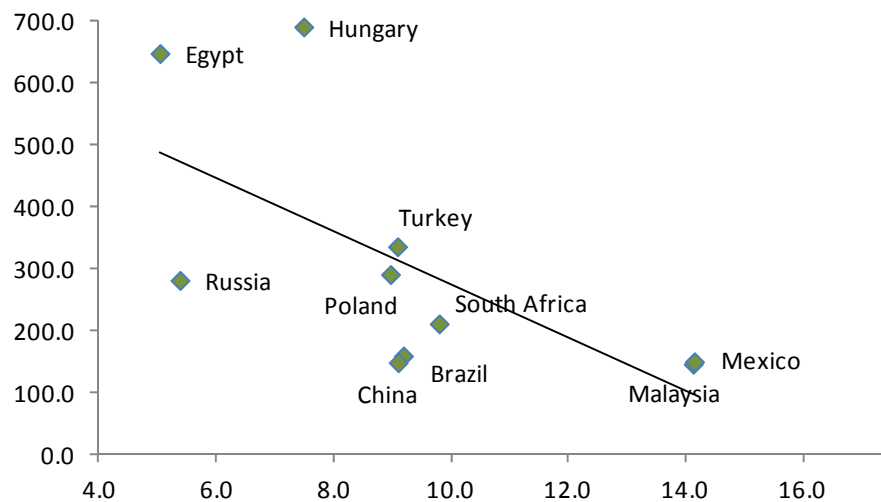


Figure 3: Absolute vs. Relative Change in MSCI

Absolute Change	1m	3m	12m	YtD
MSCI Turkey	-10%	-13%	-40%	-2%
MSCI EM	-3%	7%	-20%	1%
MSCI EMEA	-4%	6%	-21%	1%
MSCI Eastern Europe	-4%	8%	-22%	2%
MSCI World	0%	6%	-7%	1%

Relative to MSCI Turkey	1m	3m	12m	YtD
MSCI EM	8%	24%	34%	3%
MSCI EMEA	7%	22%	32%	3%
MSCI Eastern Europe	6%	25%	31%	4%
MSCI World	11%	22%	55%	3%

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

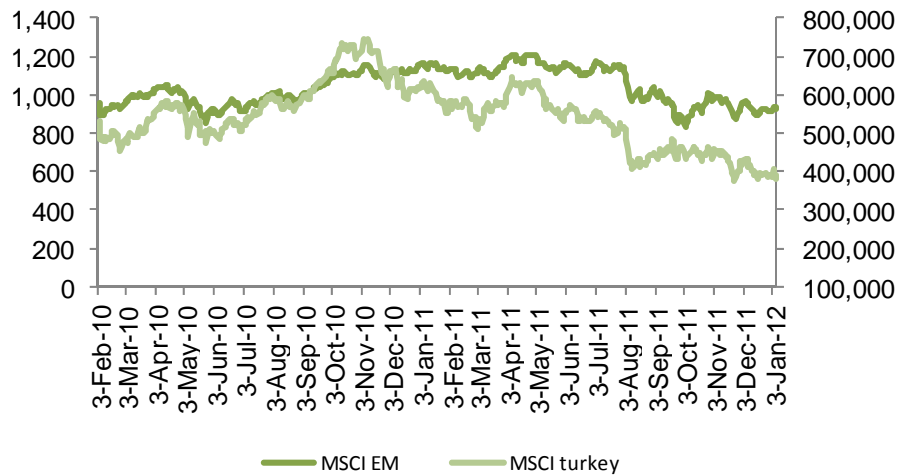


Figure 5: MSCI EMEA (LHS) vs. MSCI Turkey (RHS)

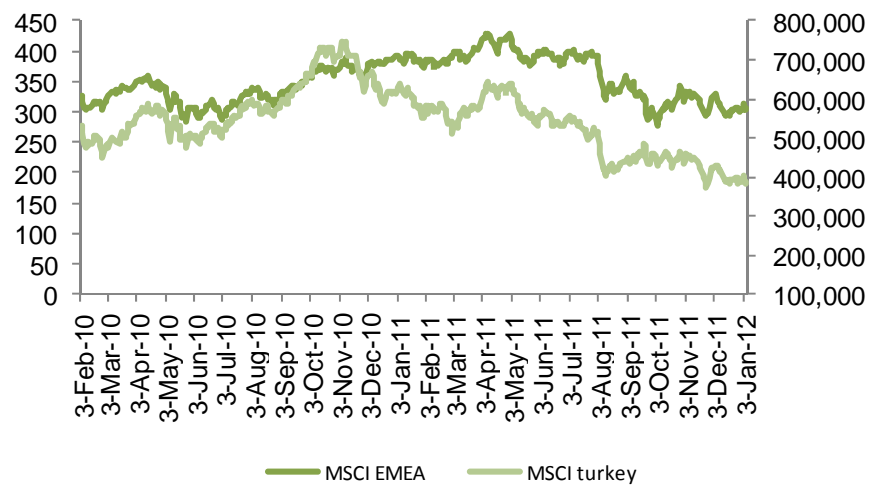


Figure 6: MSCI EM Relative to MSCI Turkey

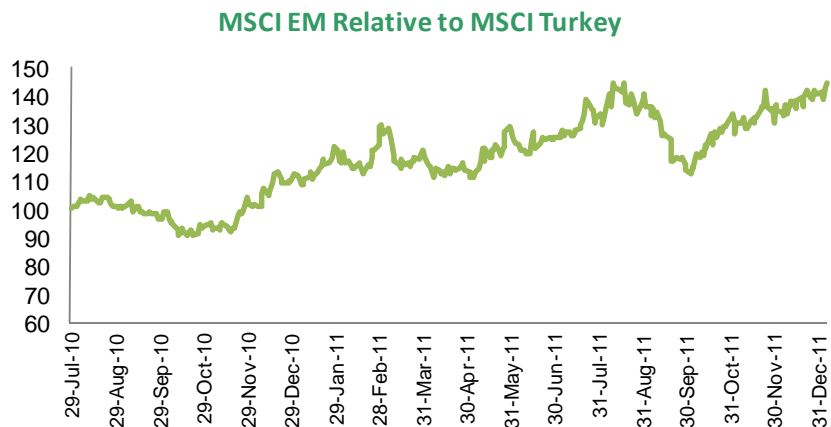


Figure 7: MSCI EMEA Relative to MSCI Turkey

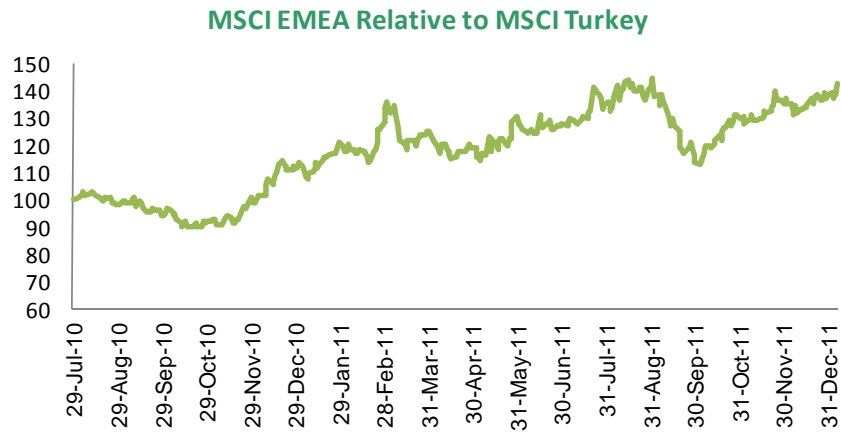


Figure 8: International Inflows/Outflows to the ISE 2011

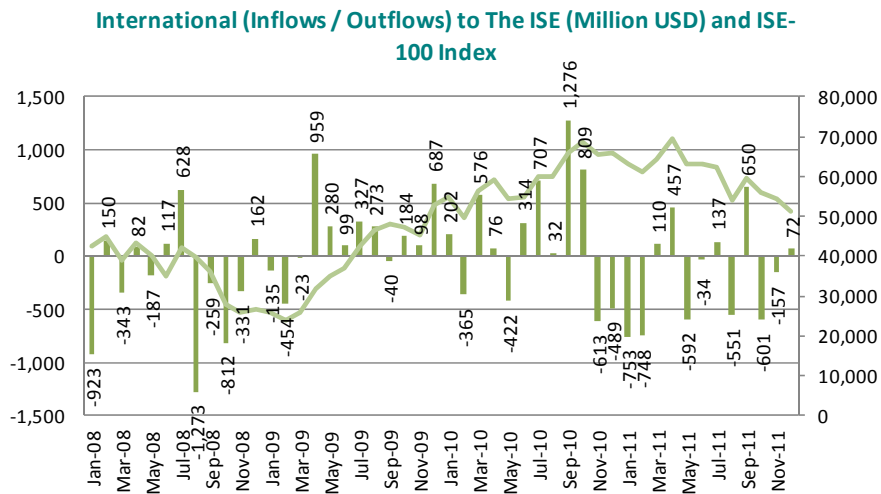


Figure 9: Foreign Equity Holding Ratio 2011(%)

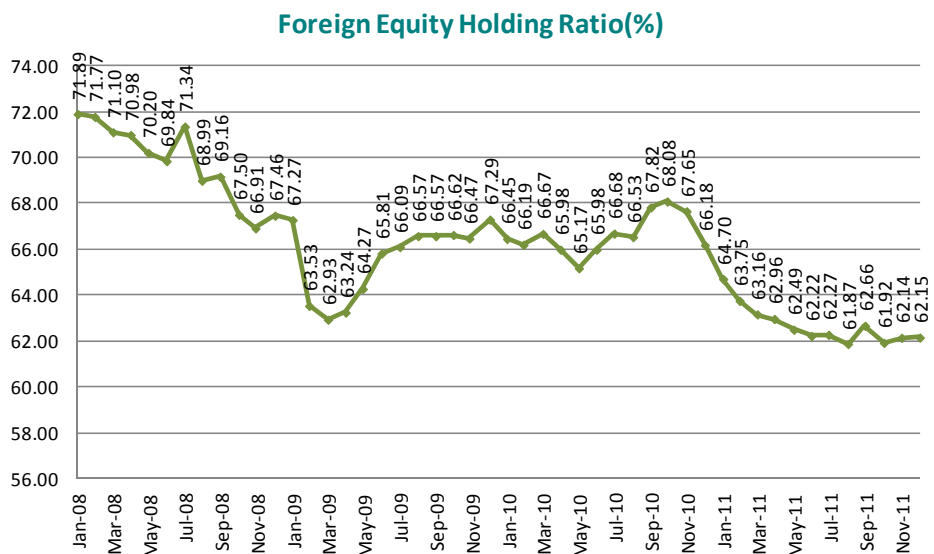


Figure 10: Coverage Net Profit Projections 2008-2012E

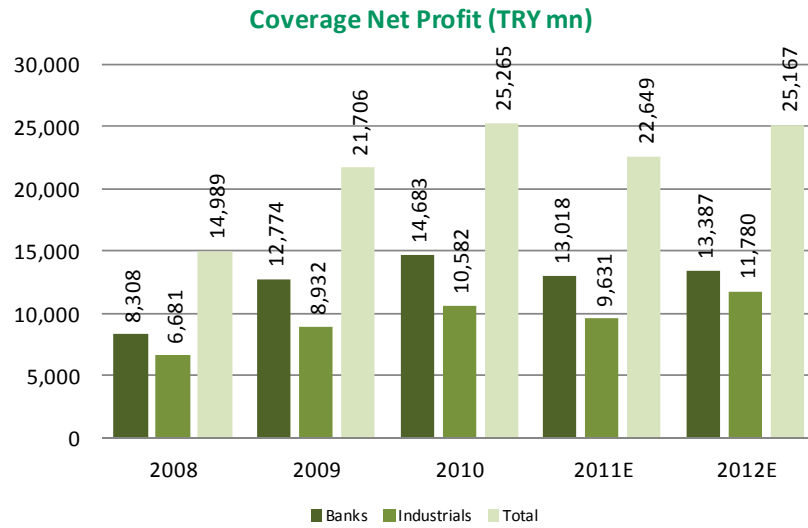


Figure 11: Coverage Net Profit, % YoY Change 2010-12E

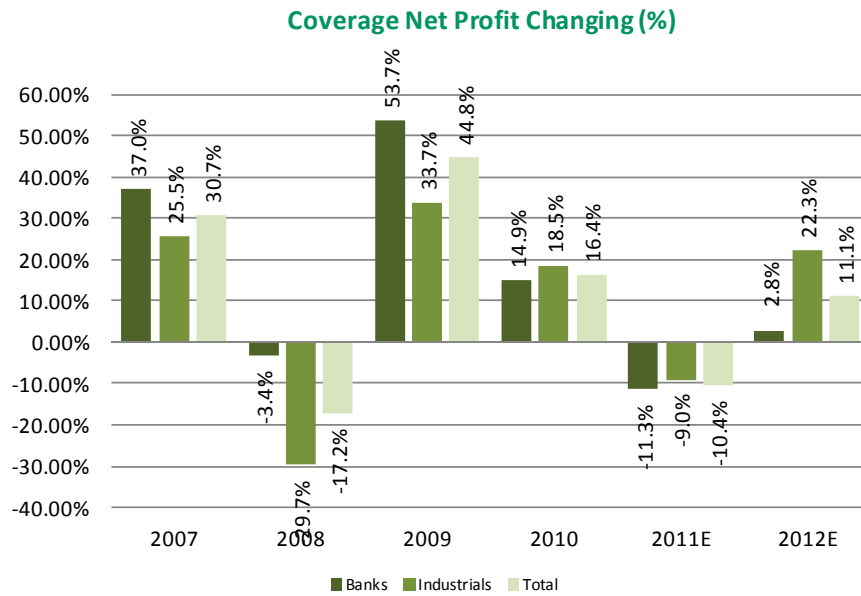


Figure 12: Actual gross dividend & payout ratios for selected companies

In this report we analyze the total gross dividend payments, net profits and gross dividend payout ratios for the last five years for selected companies on the ISE-100 which had high average payout ratios. We have also added AKCNS, ANACM, CIMSA, OTKAR and SELEC as they have high dividend yields though they are not in the ISE-100.

ISE Ticker	Net Profit (TRY mn)					Gross Dividend Payments (TRY mn)					Gross Pay Out					Average Payout
	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
AEFES	269	374	310	423	504	96	114	116	144	216	36%	30%	37%	34%	43%	36%
AKBNK	1,600	1,994	1,705	2,726	2,857	660	720	360	540	570	41%	36%	21%	20%	20%	28%
AKCNS	146	186	104	75	59	128	125	70	65	39	88%	67%	67%	87%	66%	75%
AKSA	61	5	73	51	57	17	0	0	16	16	27%	0%	0%	31%	29%	17%
ANACM	37	71	11	16	102	21	0	0	0	26	57%	0%	0%	0%	25%	17%
ARCLK	324	158	40	485	517	200	100	0	100	250	62%	63%	0%	21%	48%	39%
ASELS	77	100	12	185	241	24	28	6	58	33	31%	28%	48%	31%	14%	30%
AYGAZ	357	440	26	315	239	227	0	30	100	125	64%	0%	116%	32%	52%	53%
BAGFS	9	31	83	-5	47	4	12	30	0	20	44%	40%	37%	0%	42%	32%
BIMAS	72	108	114	213	246	56	48	95	133	182	77%	44%	83%	62%	74%	68%
CIMSA	136	290	76	108	104	106	150	58	82	95	78%	52%	76%	76%	91%	75%
DOAS	22	64	-110	31	149	7	23	0	0	0	31%	35%	0%	0%	0%	13%
ENKAI	588	747	771	816	819	45	54	108	144	160	8%	7%	14%	18%	20%	13%
EREGL	685	679	211	-169	766	72	298	0	0	450	10%	44%	0%	0%	59%	23%
FROTO	501	484	436	333	505	402	439	397	400	519	80%	91%	91%	120%	103%	97%
GARAN	1,064	2,316	1,750	2,962	3,145	105	0	275	350	570	10%	0%	16%	12%	18%	11%
HALKB	863	1,131	1,018	1,631	2,010	751	848	255	294	395	87%	75%	25%	18%	20%	45%
ISCTR	1,109	1,702	1,509	2,372	2,982	400	589	165	551	691	36%	35%	11%	23%	23%	26%
ISGYO	49	55	53	60	61	0	23	23	23	23	0%	41%	42%	37%	37%	32%
KCHOL	561	2,295	2,024	1,429	1,734	0	0	0	310	550	0%	0%	0%	22%	32%	11%
OTKAR	41	38	35	34	21	30	30	7	20	15	72%	80%	21%	60%	72%	61%
SAHOL	494	969	1,189	1,258	1,663	180	180	135	204	306	36%	19%	11%	16%	18%	20%
SELEC	97	162	161	232	184	0	62	36	72	37	0%	38%	23%	31%	20%	23%
SISE	199	278	159	112	412	64	0	0	0	46	32%	0%	0%	0%	11%	9%
SNGYO	0	19	20	-18	61	0	0	19	0	30	0%	0%	98%	0%	49%	37%
TCELL	1,270	1,759	2,313	1,717	1,772	567	649	1,098	859	0	45%	37%	47%	50%	0%	36%
TKFEN	81	279	91	69	179	25	19	0	18	53	30%	7%	0%	26%	30%	19%
TOASO	82	176	176	360	384	60	90	36	130	250	73%	51%	20%	36%	65%	49%
TRKCM	145	174	121	62	211	67	0	0	0	45	47%	0%	0%	0%	21%	14%
TSKB	106	147	119	175	212	0	0	0	30	42	0%	0%	0%	17%	20%	7%
TTKOM	2,208	2,508	1,752	1,832	2,451	0	2,744	1,490	1,590	2,244	0%	109%	85%	87%	92%	75%
TTRAK	114	91	67	31	180	107	94	17	12	150	94%	103%	26%	40%	83%	69%
TUPRS	822	1,298	432	811	737	660	1,048	579	626	746	80%	81%	134%	77%	101%	95%
ULKER	89	116	16	103	185	24	24	3	11	14	27%	21%	19%	11%	8%	17%
VAKBN	770	1,031	753	1,251	1,157	385	142	0	121	34	50%	14%	0%	10%	3%	15%

Source: Seker Securities

Please note that some companies have higher payout ratios in 2010 compared to their 5 year averages; however, for the sake of conservatism we use the 5 year averages for our calculations.

For gross dividend and dividend yield assumptions for 2012, we use our year-end profit forecasts for companies under our coverage. For companies not under our coverage, we use market consensus estimations.

With this report, we believe that traditionally high dividend payers will be outperformers following their earnings announcements. However, we would like to caution our investors that actual payout ratios, dividend yields, year-end earnings as well as the decision to distribute dividends may differ from our assumptions.

Figure 13: Estimated gross dividends, payout ratios & dividend yields

ISE Ticker	Mcap (TRYmn)	2011E Net Profit (TRY mn)	2011 Estimated Pay Out Ratio	2011 Estimated Gross Pay Out (TRY mn)	Dividend Yield
TTRAK1	1,649	339	69.2%	234	13.5%
FROTO1	5,106	576	96.9%	558	10.9%
CIMSA1	1,089	145	74.5%	108	10.7%
SNGYO1	762	161	36.7%	59	10.4%
TUPRS1	9,942	1,197	71.0%	850	8.9%
ULKER	1,445	620	17.1%	106	7.9%
AYGAZ1	2,820	383	52.8%	202	7.8%
TOASO1	3,110	446	49.2%	220	7.2%
HALKB1	13,313	1,892	44.9%	850	7.2%
TTKOM1	25,270	2,119	74.6%	1,580	6.5%
ARCLK1	4,406	688	38.8%	267	6.0%
BAGFS	524	79	32.4%	26	5.7%
AKCNS1	1,413	94	75.0%	71	5.4%
SELEC1	944	142	22.5%	32	3.8%
ISCTR1	17,640	2,177	25.6%	557	3.8%
OTKAR1	718	34	61.1%	21	3.6%
ASELS1	1,759	205	30.3%	62	3.2%
VAKBN1	7,300	1,202	15.3%	184	3.2%
SAHOL1	11,753	1,666	20.2%	336	3.1%
AKBNK1	26,000	2,532	27.6%	700	3.0%
ANACM1	1,105	164	16.5%	27	3.0%
ISGYO1	678	58	31.5%	18	3.0%
EREGL1	7,289	917	22.6%	207	2.9%
BIMAS1	7,856	337	68.3%	230	2.9%
TCELL1	20,592	1,415	35.8%	507	2.6%
AKSA1	820	112	17.3%	19	2.5%
TKFEN	2,227	232	18.6%	43	2.3%
DOAS1	733	101	13.2%	13	2.1%
TRKCM1	1,653	213	13.6%	29	2.0%
AEFES	9,833	505	36.1%	182	1.7%
KCHOL1	15,070	1,960	10.7%	209	1.5%
TSKB1	1,624	243	7.4%	18	1.3%
SISE1	4,069	529	8.6%	45	1.3%
ENKAI	11,350	807	13.2%	107	1.0%
GARAN1	25,956	1,892	11.1%	210	0.9%

¹ Companies covered by Seker Securities

Source: Seker Securities

Figure 14: Recommendation List

BANKING	Rating	Close (TRY)	Target Price (TRY)	Mcap TRY mn	Target Mcap TRY mn	Upside Potential	P/E	P/BV
AKBNK	Underperform	5.76	6.26	23,040.0	25,033.0	8.7%	9.09	1.33
ASYAB	Outperform	1.56	2.00	1,404.0	1,796.0	27.9%	5.97	0.67
GARAN	Market Perform	5.62	6.45	23,604.0	27,097.0	14.8%	7.93	1.37
HALKB	Outperform	9.48	12.04	11,850.0	15,045.0	27.0%	5.81	1.43
ISCTR	Market Perform	3.30	3.92	14,849.9	17,635.0	18.8%	6.17	0.83
TSKB	Outperform	1.78	2.35	1,424.0	1,881.0	32.1%	6.30	1.09
VAKBN	Outperform	2.31	3.10	5,775.0	7,754.0	34.3%	4.25	0.63
YKBNK	Market Perform	2.61	3.26	11,345.8	14,163.0	24.8%	6.82	1.01
HOLDING	Rating	Close (TRY)	Target Price (TRY)	Mcap TRY mn	Target Mcap TRY mn	Upside Potential	P/E	P/BV
KCHOL	Outperform	5.70	7.70	13,766.3	18,696.0	35.8%	7.01	1.02
SAHOL	Outperform	5.36	8.25	10,936.6	16,826.4	53.9%	5.43	0.80
SISE	Outperform	2.78	3.38	3,614.0	4,393.6	21.6%	5.68	0.89
TAVHL	Outperform	7.96	10.80	2,891.7	3,925.0	35.7%	25.72	2.54
INDUSTRIAL	Rating	Close (TRY)	Target Price (TRY)	Mcap TRY mn	Target Mcap TRY mn	Upside Potential	P/E	P/BV
ADANA	Market Perform	3.28	3.75	289.2	331.0	14.4%	4.83	1.83
AKCNS	Market Perform	6.86	7.33	1,313.3	1,404.0	6.9%	16.21	1.57
AKENR	Outperform	1.75	2.70	657.7	1,016.0	54.5%	-	1.11
AKSA	Outperform	4.22	5.70	780.7	1,054.0	35.0%	6.67	0.94
AKSEN	Outperform	2.73	3.92	1,576.6	2,265.0	43.7%	-	2.38
ANACM	Outperform	2.58	3.40	893.3	1,178.0	31.9%	6.29	1.00
ARCLK	Outperform	6.64	7.80	4,486.8	5,270.0	17.5%	8.75	1.27
ASELS	Outperform	8.18	10.70	1,924.1	2,518.0	30.9%	9.16	2.01
AYGAZ	Market Perform	8.60	9.60	2,580.0	2,881.0	11.7%	7.21	1.20
BIMAS	Outperform	52.75	60.30	8,007.5	9,153.0	14.3%	27.64	14.91
CCOLA	Market Perform	22.05	21.50	5,608.9	5,468.0	-2.5%	53.59	3.42
CIMSA	Outperform	7.46	10.20	1,007.7	1,378.0	36.7%	8.17	1.16
DOAS	Market Perform	2.86	5.45	629.2	1,200.0	90.7%	4.84	0.78
EKGYO	Outperform	1.88	2.67	4,700.0	6,686.0	42.3%	13.05	1.33
EREGL	Market Perform	3.33	4.10	7,159.5	8,810.0	23.1%	7.38	1.04
FROTO	Market Perform	14.65	15.50	5,140.8	5,440.0	5.8%	7.32	2.62
ISGYO	Outperform	1.01	1.42	606.0	853.0	40.8%	11.04	0.61
KRDMD	Outperform	0.73	1.00	439.0	600.0	36.7%	3.88	0.65
OTKAR	Market Perform	24.05	30.00	577.2	720.0	24.7%	12.76	3.03
PETKM	Outperform	1.86	2.50	1,860.0	2,504.0	34.6%	-	1.07
SELEC	Market Perform	1.37	1.90	850.8	1,180.0	38.7%	5.53	0.72
SNGYO	Outperform	0.95	1.54	570.0	922.0	61.8%	3.25	0.54
TCELL	Market Perform	8.84	10.05	19,448.0	22,116.0	13.7%	15.95	1.84
THYAO	Outperform	2.06	3.18	2,472.0	3,820.0	54.5%	-	0.76
TOASO	Outperform	6.06	8.80	3,030.0	4,400.0	45.2%	6.55	1.87
TRKCM	Market Perform	2.38	2.80	1,435.6	1,691.0	17.8%	6.15	0.85
TTRAK	Market Perform	32.40	36.00	1,729.2	1,921.5	11.1%	5.79	3.13
TTKOM	Market Perform	6.98	8.10	24,430.0	28,348	16.0%	12.02	4.64
TUPRS	Outperform	38.20	43.00	9,566.0	10,768.5	12.6%	9.72	2.36
VESTL	Market Perform	1.88	2.30	630.7	771.0	22.3%	19.01	0.61
ZOREN	Market Perform	1.43	1.78	402.8	501.0	24.4%	-	-



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