

Agenda

24 Monday

- CBRT to announce capacity utilization rate for September.
- CBRT to announce real sector confidence index for September.
- Treasury to hold 10-year fixed coupon auctions.

25 Tuesday

- Ministry of Culture and Tourism to announce tourism statistics for August.
- CBRT to announce MPC's meeting minutes.
- Treasury to re-issue 12-month zero-coupon bond, and issue a two-year fixed-coupon bond.
- U.S., September Conference Board consumer confidence index.

26 Wednesday

- Treasury to pay down TRY 6.4bn (USD 3.5bn) in debt.
- U.S., August new home sales figures.

27 Thursday

- Eurozone, September business climate indicator.
- U.S., jobless claims.
- U.S., August durable goods orders figures.
- U.S., 2Q12 GDP figures.
- U.S., August pending home sales figures.

28 Friday

- TurkStat to announce foreign trade figures for August.
- Treasury to announce domestic borrowing strategy for October-December.
- Eurozone, September CPI figures.
- U.S., August personal income and spendings figures.
- U.S., September second Michigan sentiment index figures.

Outlook:

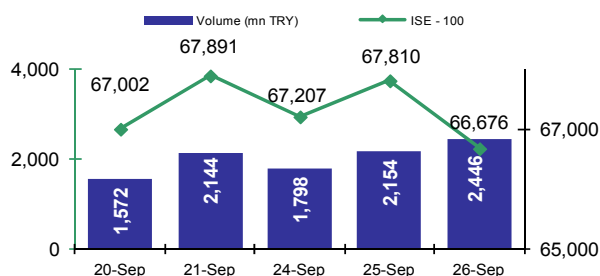
Good morning, Peer Pressure: The ISE failed to distance itself from pessimistic traders in the Euro-zone and caved in to the pressure, dropping to 66,676 (-1.67%) on a volume of TRY 2.4bn. With the heavy sell-off, benchmark bonds jumped to 7.60%, although the USD remained flat against the TRY at 1.7919, currently trading slightly lower at 1.7984. Today, we expect a positive opening at the ISE on the back of yesterday's sell-offs, and since there are no domestic news flows today, investors' eyes and ears will be on the announcement of Spain's economic reform package. We had been getting many inquiries as to how and why the Turkish market was managing to outperform its European peers. As our strategist puts it, "The reason is non-fundamental. It's just a case of investment habits (i.e. follow the white habit). Traders and fund managers simply unleashing their global market exposures cannot find good bets to put their excess cash into. Either you hold it as cash (and flatten out your earnings yield), or else tie it up in the lowest yields of global fixed income products. Since most of the easing story has already been reflected, there are limited possibilities in that segment as well. So why not simply park your money in Turkish equities where problems seem to be relatively less complex. I'll tell you one thing: this is a dangerous play. Losing momentum in growth, deteriorating budget figures, increasing political risks (both in parliament (e.g. a revision) and the eastern Turkey terror/Syria issue), fairly valued banking stocks facing bottlenecks from SPO overhangs and regulatory issues, industrial earnings under pressure in 4Q12, etc. Only trying to hold onto Turkey's more or less stable prices (inflation, interest rates and the currency), which was already in the prices, and hoping for the rating agencies to be more bounteous and generous to take to Turkey to IG (though I am expecting an outlook upgrade in Nov.), is surely a bold move at 68,000". As was evident yesterday, the ISE failed to maintain its shining spectacle and closed the day with heavy losses.

Money Market:

The lira was relatively flat yesterday as the local currency gained 0.03% to close at 1.7919. Additionally, it appreciated by 0.16% against the basket composed of \$0.50 and €0.50. Furthermore, the local fixed income market was positive. The two-year benchmark bond traded within a range of 7.47% - 7.60%, ending at 7.60%, thus 8bps higher its previous finish.

Domestic Headlines:

Government set to increase natural gas prices Prime Minister Erdogan has said that natural gas prices would be increased going into the winter as the rise in global energy prices necessitated it. We expect the hike to be announced over the weekend. We foresee around a 10% increase, as the Prime Minister added that the hike would not be a serious one. We also expect an electricity price hike of nearly 10% effective October 1st as the 45% of electricity generation was based on natural gas in 2011. According to our assumption on the magnitude of natural gas and electricity price hikes, these would increase annual CPI inflation by 0.44 percentage points. Recall that in April the government had increased natural gas prices by 18.7%, and electricity prices by 9.3% for households and 8.7% for industrial use. As for the companies themselves, a potential increase in natural gas prices would have a negative impact on energy stocks >>>



Indices (TRY)	Previous	Last	Chg.	YTD
ISE-100	67,810	66,676	-1.67%	30.06%
ISE-30	83,266	81,890	-1.65%	32.73%
ISE-Financial	96,768	95,049	-1.78%	33.98%
ISE-Industrial	58,188	57,307	-1.51%	18.79%
ISE-Services	44,886	44,407	-1.07%	29.47%

Advances		Declines		Most Active	
Stocks	(%)	Stocks	(%)	Stocks	Vol (TR)
BALAT	21.16	EKIZ	-16.67	GARAN	471,831,955
DOGUB	13.97	MERIT	-14.74	ISCTR	293,820,604
KUYAS	12.83	ACSEL	-13.06	VAKBN	226,850,721
SANFM	11.00	FLAP	-11.18	YKBNK	182,426,871
ORGE	6.76	NTTUR	-5.71	AKBNK	177,098,875

Money Market	Previous	Last	Pr. Mn	YE11
O/N Repo (%)	5.03	5.02	6.11	10.55
Euro Bond (30 year, \$)	185.75	186.38	160.50	164.00
Bond (Benchmark, %)	7.52	7.60	7.81	11.14

Currency	Previous	Last	Chg.	YTD
US\$	1.7865	1.7915	0.28%	-5.24%
Euro	2.3155	2.3035	-0.52%	-5.88%
Euro/Dolar	1.2904	1.28564	-0.37%	-0.65%

Commodity	Previous	Last	Chg.	YTD
Oil (Brent spot, \$)	109.9	109.2	-0.65%	1.86%
Oil (NYMEX future, \$)	91.4	90.0	-1.52%	-9.71%
Gold (Ounce, \$)	1,760.8	1,748.9	-0.68%	11.72%
Silver (XAG, \$)	33.8	33.7	-0.22%	19.96%

Şeker Funds	Previous	Last*	Chg.	YTD
Şekerbank A T. Shares	0.263155	0.262878	-0.11%	18.00%
Şekerbank B T. Bond&Bill	0.019753	0.019752	-0.01%	1.55%
Şekerbank B T. Liquid	0.815738	0.815830	0.01%	6.05%
Şeker Yat. A T. Mix	0.015064	0.015050	-0.09%	-4.90%
Şeker Yat. B T. Gold	0.018057	0.018032	-0.14%	1.69%
Şekerbank B T. Short T. Bond&Bill	0.010071	0.010073	0.02%	-

*Prices as of 27-Sep-12

>>> (especially Zorlu Energy (ZOREN.TI; Market Perform) and Aksa Energy (AKSEN.TI; Outperform), and on glass and cement sector margins.

Company News:

Akbank (AKBNK.TI; Market Perform) has applied to the BRSB to increase its bond issue limit to TRY 6.1bn based on 1H12 non-consolidated financials. Currently, the bank has a TRY 3bn bond issue limit. Furthermore, the bank has applied to the CMB to increase its initial public offering limit from TRY 650mn to TRY750 mn, and its private placement limit from TRY1.6bn to TRY1.4bn.

Emlak Konut GYO (EKGYO.TI; Out Perform) has received a building permit for its Batisehir project with 407 residences and 204 commercial units.

Ford Otosan (FROTO.TI; Market Perform) is to propose the payment of a 65% cash dividend to the General Assembly on October,10 2012.

Lefkosa Ercan Airport tender to be held today (September 27, 2012) in Lefkosa, Turkish Republic of Northern Cyprus (TRNC) The international tender for operation of the Ercan Airport will be held today. According to the media, eight companies, including **TAV Airports Holding (TAVHL.TI; Outperform)**, Limak, Ictas and **Net Holding (NTHOL.TI; N/C)** are expected to bid at the tender. The tender will be of the BOT variety, with an expected investment value of EUR 350 million. The winning party will pay EUR 100 million in cash to the government of the TRNC. It will then have four years in which to complete the investment, and will operate the airport for a 25-year period. The underlying objective is to raise the airport's capacity to at least 5 million passengers a year. Note that the total passenger number at Ercan Airport in 2011 was 2.4 million. Lastly, Net Holding has signed a preliminary accord with IC Ictas and Limak Insaat to participate at a tender to operate Ercan Airport in the TRNC. Recall that scheduled airport transportation takes place solely between Turkey and the TRNC. We do not expect TAV to be particularly aggressive at the Ercan Airport tender, when considering its greater interest in the tender for the 3rd Airport in Istanbul.

Tupras (TUPRS.TI; Outperform) has applied to the Capital Market Board and the Energy Market Regulatory Authority for the issuance of a bond or other borrowing instruments of up to USD 1bn in total or equivalent in any other foreign currency of different maturities beyond Turkey.

World Indices					
	Previous	Last	Chg.	YTD	
America					
Dow Jones (US)	13,458	13,414	-0.33%	9.79%	
Nasdaq (US)	3,118	3,094	-0.77%	18.75%	
S&P 500 (US)	1,442	1,433	-0.57%	13.97%	
Bovespa (Brasil)	60,501	60,478	-0.04%	6.56%	
Merval (Argentina)	2,533	2,461	-2.86%	-0.07%	
Mexico Bolsa (Mexico)	40,561	40,215	-0.85%	8.46%	
Europe					
Dax (Germany)	7,425	7,277	-2.00%	23.37%	
FTSE 100 (UK)	5,860	5,768	-1.56%	3.51%	
CAC 40 (France)	3,514	3,415	-2.82%	8.07%	
WSE WIG (Poland)	43,822	43,462	-0.82%	15.60%	
Prague (Czech Republic)	964	944	-2.05%	3.63%	
Budapest (Hungary)	18,672	18,419	-1.35%	8.51%	
RTSI (Rusya)	1,503	1,460	-2.89%	5.74%	
Asia/Africa					
Nikkei (Japan)	9,092	8,907	-2.03%	5.34%	
Hang Seng (Hong Kong)	20,699	20,528	-0.83%	11.17%	
Shanghai Comp. (China)	2,033	2,029	-0.19%	-7.44%	
KOSPI (South Korea)	2,003	1,991	-0.60%	9.07%	
JSE Africa All Shr.(S.Africa)	36,041	35,415	-1.74%	10.72%	
Turkdex (Set. Price)					
INX100 (OCTOBER 12)	67.525	67.550	0.04%	29.72%	
INX30 (OCTOBER 12)	83.850	82.350	-1.79%	32.08%	
USD (OCTOBER 12)	1.800	1.803	0.17%	-5.92%	
EURO (OCTOBER 12)	2.330	2.315	-0.67%	-6.71%	
COTTON (OCTOBER 12)	3.495	3.495	0.00%	-9.10%	
WHEAT (SEPTEMBER12)	0.666	0.666	0.00%	7.25%	
GOLD (OCTOBER 12)	102.505	101.305	-1.17%	4.18%	
Portfolio					
Recommend.	Inclusio Date	Inclusio Price	Last Close	Chg. (%)	ISE Relative
Tofas	08.09.11	5.84	8.90	52.4%	26.3%
TAV Airports Holding	08.01.10	4.75	8.96	88.6%	55.5%
Garanti Bank	04.05.12	6.40	7.48	16.9%	3.9%
Turkish Airlines	01.06.12	2.52	4.06	61.1%	33.1%
Turkcell	04.05.12	8.83	11.10	25.7%	11.8%
Aksa Akriklik	10.01.12	3.90	4.76	22.1%	-8.8%
TSKB	21.09.12	1.93	1.97	2.1%	2.6%
Aygaz	24.08.12	8.44	7.84	-7.1%	-7.9%
Portfolio Yield					99.6%

*Starting date of portfolio 30/11/2004

The Privatization Administration (PA) has announced that four firms have applied for pre-qualification in the tender to privatize Hamitabat Elektrik Uretim ve Tic. AS, a subsidiary of Elektrik Uretim AS, via the block sale of 100% of its shares:

- 1-International Company for Water&Power Projects
- 2-Karkey Karadeniz Elektrik Uretim A.S.
- 3-Enerjisa Enerji Uretim A.S. (Subsidiary of **Sabancı Holding (SAHOL.TI; Outperform)**)
- 4-Limak Dogalgaz Elektrik Uretim A.S.

In this tender, the bid submission deadline is October 19th, 2012. The Hamitabat NG Power Plant (Kirklareli) has an installed capacity of 1,120MW. Recall that The PA had cancelled the tender for this power plant having received only a single bid in October 2011.

Zorlu Energy (ZOREN.TI; Market Perform) has announced that its 42.15% subsidiary Ashdod Energy Ltd and Ramat Negev Energy have commenced the construction of 55 MW and 120 MW power plants in Israel.

Zorlu Energy's (ZOREN.TI; Market Perform) CEO Ak has announced plans to invest USD 1 billion towards reaching a 2.000 MW capacity within two years. Ak said that they would borrow USD 850 million, and could potentially increase the free float in pursuit of this capacity increase. He added that there were also plans for a 400-600 MW natural gas or thermal power plant. Separately Ak indicated interest in the privatization of Gediz DisCo.

Zorlu Energy currently has an installed generation capacity of 804 MW via its five domestic natural gas power plants (493 MW), one natural gas power plant in Russia (170 MW) and domestic wind turbine power plants, as well as 6 MW at a Pakistani Wind Power plant. >>>

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>>> 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 seeks additional financing sources for its projects. Recall that Zorlu Energy is constructing two natural gas power plants in Russia with Rosmiks, its 75.5% owned subsidiary: the Tereshkovo and Kojukhovo plants, each with 340 MW of installed capacity totaling 680 MW. The company also commenced the initial phase of the 170 MW Tereshkovo power plant in March 2012. The second phase of the Tereshkovo Natural Gas Power Station is expected to go into production in the next term. The company also aims to commence initial production (170 MW) at the Kojukhovo power station once Tereshkovo goes into operation. Recall that these investments have long been in a state of uncertainty due to legal conflict in Russia between Zorlu Energy and another shareholder. Yet we argue that these openings will contribute positively to the company's financials in the next term in spite of these difficulties and uncertainties. What's more, as of June 30, 2012, Zorlu has a TRY 2 billion net debt position due to increasing financial loans. Thus, the company remains vulnerable to foreign exchange movements. Furthermore, we think that additional long term debt may increase the company's downside risks. Zorlu Energy is also more sensitive to natural gas costs since NGPPs comprise 82% of its generation portfolio. Thus, Zorlu is the company to be affected the most by natural gas price increases. We expect a negative reflection to its financials should natural gas prices increase. We believe that upward movements in stock price represent a sell opportunity, since there are ongoing investments which are not as yet reflected to financials. At this point, we maintain our **"Market Perform"** rating for Zorlu Energy, with a target price of TRY 1.20 per share. Taking into consideration Zorlu's current price per share of TRY 1.07, our target value represents 12% upside potential.

According to daily Safak, **Turkish Airlines's (THYAO.TI; Outperform)** 30% block sale is on the agenda for 2013.

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