

Weekly Equity News

iS INVESTMENT



KCHOL Koc Holding

MARKETPERFORM

Close TRY: 3.80 TL Target Price TL / Upside % : 5.00 TL 31.51%

Market Cap.mn(TL): 9,178

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Koc Holding disclosed TL466 mn net income in its 3Q09 consolidated financials, 43% lower on annual basis, and 30% below the previous quarter bottom-line though just in line with the consensus estimate. Consolidated revenues slumped by a 20% YoY in 3Q09 due especially to the weak refinery products and banking revenues while 13% higher on a quarterly basis. Recall that, Tupras' top-line weakened in 3Q09 as a result of the pathetic demand and narrowing spreads between sour and sweet crude oils. In the conference call held following the announcement of the results, the Company's management stated that they are expecting the demand to pick up in the second quarter of 2010. On the banking front, YKB's total revenues turned out to be down 20% on QoQ, mainly caused by the trading and fx line turning in negative during the quarter.

EBITDA margin bolstered with favourable finance and durable goods margins Despite a marking slowdown at the top-line level, there seems a mere improvement at the consolidated EBITDA owing to margin gains especially in the finance and durable goods divisions on yearly basis. Hence, 3Q09 EBITDA is up by a 5% with a 2.6pp YoY stronger margin at 11.5%. However, weaker operating performance of the energy and finance divisions put a cap on the consolidated margin when compared on a quarterly basis. Besides, the announced figure is slightly below the market consensus estimate of 12.0% EBITDA margin estimate.

Trading and fx gains continued to support the bottom-line Non-operating figures are not directly comparable as the conglomerate booked TL502 mn proceeds from the sale of its insurance assets (Koc Allianz Sigorta and Koc Allianz Emeklilik) back in 3Q09. Koc Holding reported TL37.5 mn net financial income in 3Q09 compared to TL85.6 mn net financial expense recorded in the same period last year due mainly to strong trading and fx gains. Recall that, the conglomerate reported a strong TL228mn net financial income in 2Q09 thanks to foreign exchange reversals and lower interest expenses due to lower rates. Koc Holding's consolidated net fx position was US\$2.5bn at the end of 3Q09, slightly higher compared to the previous quarter. Down to the bottom-line, higher effective tax rate has slightly trimmed the gains at the operating level.

Koc Holding's consolidated net fx position was US\$2.5bn at the end of 3Q09, slightly higher than the US\$2.3bn net debt at position at the end of 1H09. When adjusted for the fx linked pricing of Tupras, Opet & Aygaz inventory and take or pay agreements of Tofas, the consolidated net fx position was US\$1.4bn at the end of 3Q09.

MARKETPERFORM maintained The results should not have any material impact on Koc Holding shares as the major subsidiaries have already announced their 3Q09 financials. Koc Holding shares trade at a discount of 22% to its current NAV and 34% discount to its target NAV in US\$ terms. The conglomerates' current NAV discount is not attractive compared to its historical average at 19% in the last three years. We have a MARKETPERFORM call for the conglomerate shares.