Equity / Large Cap. / Conglomerate

Company Update

12 November 2010

MARKETPERFORM

Koc Holding

Upside Potential* -2%

Bloomberg: kchol TI **Reuters: kchol IS**

Much better earnings but beware one-off F/X gains

- **Koc Holding disclosed TL659mn of net profit corresponding to a YoY increase of 41.3% and QoQ increase of 62.0% which decisively defeats both market consensus and our estimate of TL547mn and TL501mn, respectively.** The main reason behind the deviation of the actual figure from our estimates stems from Yapi Kredi's surprising bottom-line results, which beat the market expectations considerably. However, it is important to note that the shining net profit figure does not have an operational ground while the drastic increase in the net financial income due to the appreciation of TL against US$ helps the company to enjoy higher bottom-line in this quarter.

- **The company's consolidated revenues of TL13.9bn in 3Q10 points a 9% increase compared to last year and is also 3% up compared to last quarter.** Accordingly, total net sales figure reached to TL38.5bn as of 9M10 signaling a 17.6% increase compared to 9M09 figure of TL32.7bn. The most significant contribution to the increase of total revenues comes again from the energy segment like last quarter posting a YoY growth of 12.6% and QoQ growth of 6.7% in total sales.

- **The EBITDA level remained stable compared to last year but still better than the last quarter.** Total consolidated EBITDA level remained unchanged with TL1.5bn in 3Q10 compared to last year's same period, while it is still 14% higher than the last quarter's value of TL1.3bn. In spite of the flourishing impact coming from the energy (TL540mn) and automotive segments (TL187mn) with respective YoY increases of 18.4% and 14.1%, Arcelik's low base effect constrained further improvement in EBITDA figure on YoY basis. However, it is also seen that all segments except the automotive has better EBITDA levels and margins in 3Q10 compared to last quarter.

- **F/X gains had a significant positive contribution to the bottom-line.** The company reported TL179mn net financial income in 3Q10, compared to TL37mn a year ago, while the same figure was TL124mn of net loss in 2Q10. The main culprit behind the positive picture in this side is the appreciation of TL against US$ in 3Q10, while it was depreciating during 2Q10. Please note that the company has a consolidated short f/x position of TL3.4bn which is mainly comprised by US$ short position of TL3.0bn excluding the natural hedge mechanism based on fx linked pricing of Tupras, Opet & Aygaz' inventory and take or pay agreements of Tofas in 3Q10.

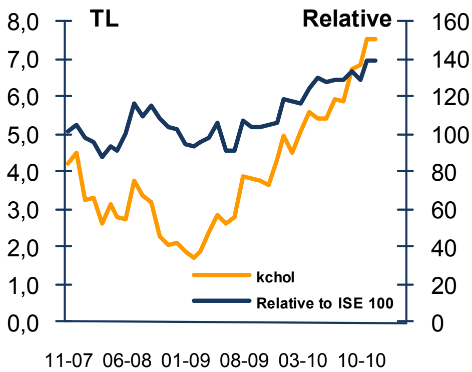
- **Marketperform recommendation unchanged.** To sum up, the results are better than the expectations mainly on the finance segment. We updated solo net cash position of the conglomerate in our valuation; nonetheless, it did not have any major impact on our target price. We currently maintain our Marketperform recommendation for Koc Holding shares.

Stock Data	TRY	US$
Price at 11 11 2010	7.52	5.30
12-Month Target Price	7.40	4.93
Mcap (mn)	18,162	12,781
Float Mcap (mn)	3,996	2,812
No. of Shares Outstanding		2415 mn
Free Float (%)		22.00
Avg.Daily Volume (3M, mn)	23.1	15.9

Market Data	TRY
ISE 100	70,085
US$ Spot Rate	1.421
US$ 12-Month Forward	1.6054

Price Performance (%)	1 Mn	3 Mn	12 Mn
TRY	7	31	98
US$	7	39	105
Relative to ISE-100	6	10	38

Price / Relative Price



52 Week Range (Close TRY)	3.62	7.52

*Excludes dividend yield

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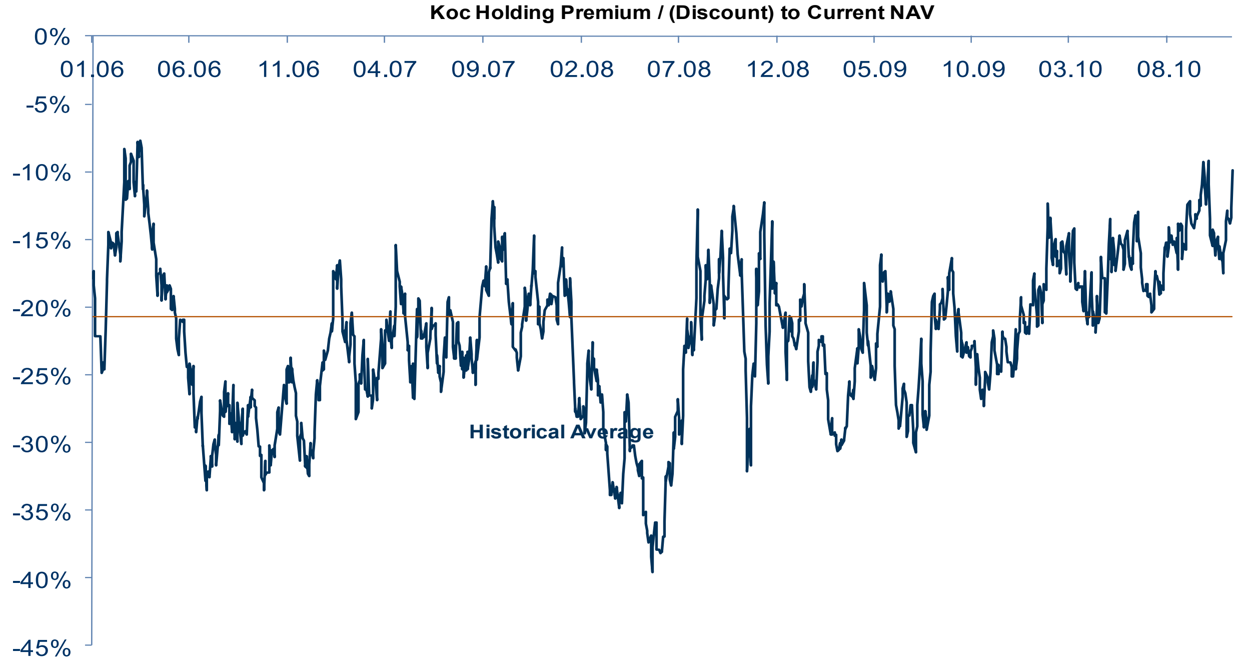
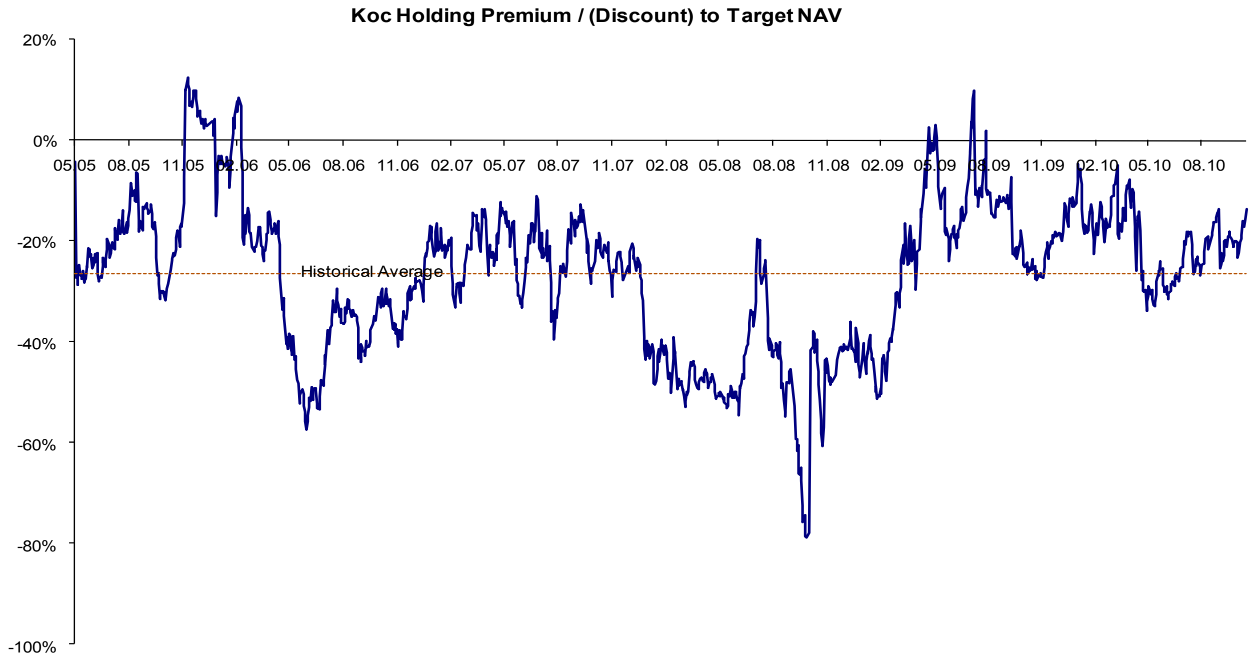
KCHOL (TLmn)	3Q10	3Q09	YoY	2Q10	QoQ	9M10	9M09	YoY
Revenues	13,879	12,729	9.0%	13,492	2.9%	38,475	32,707	17.6%
Gross Margin	18.0%	19.4%		16.5%		17.4%	20.5%	
Operating Profit	1,241	1,228	1.0%	1,067	16.3%	3,155	3,338	-5.5%
Operating Margin	8.9%	9.7%		7.9%		8.2%	10.2%	
EBITDA	1,487	1,457	2.1%	1,309	13.6%	3,878	4,003	-3.1%
EBITDA Margin	10.7%	11.4%		9.7%		10.1%	12.2%	
Financial Expenses (net)	179	37	578.4%	-124	n.m.	-17	-248	-93.3%
Net Profit	659	466	41.3%	407	62.0%	1,425	1,133	25.7%
Net Margin	4.7%	3.7%		3.0%		3.7%	3.5%	

Koc Holding (TLmn)	3Q10	3Q09	YoY	2Q10	QoQ
Revenues					
Energy	8,406	7,468	**12.6%**	7,876	**6.7%**
Automotive	1,804	1,741	**3.6%**	1,863	**-3.2%**
Durable Goods	1,840	1,841	**0.0%**	1,961	**-6.2%**
Finance	1,273	1,247	**2.1%**	1,220	**4.4%**
Others	760	684	**11.2%**	738	**3.0%**
Consolidated	13,879	12,729	**9.0%**	13,492	**2.9%**
Revenue Contribution					
Energy	60%	58%	**2.2pp**	58%	**2.0pp**
Automotive	13%	13%	**-0.6pp**	14%	**-0.8pp**
Durable Goods	13%	14%	**-1.1pp**	14%	**-1.3pp**
Finance	9%	10%	**-0.6pp**	9%	**0.1pp**
Others	5%	5%	**0.1pp**	5%	**0.0pp**
EBITDA					
Energy	540	456	**18.4%**	464	**16.3%**
Automotive	187	164	**14.1%**	188	**-0.3%**
Durable Goods	237	322	**-26.5%**	199	**18.9%**
Finance	448	435	**3.0%**	396	**13.1%**
Others	69	75	**-7.7%**	60	**15.5%**
Consolidated	1,487	1,457	**2.1%**	1,309	**13.6%**
EBITDA Margin					
Energy	6%	6%	**0.3pp**	6%	**0.5pp**
Automotive	10%	9%	**1.0pp**	10%	**0.3pp**
Durable Goods	13%	17%	**-4.6pp**	10%	**2.7pp**
Finance	35%	35%	**0.3pp**	32%	**2.7pp**
Others	9%	11%	**-1.9pp**	8%	**1.0pp**
Consolidated	11%	11%	**-0.7pp**	10%	**1.0pp**
EBITDA Contribution					
Energy	36%	31%	**5.0pp**	30%	**6.9pp**
Automotive	13%	11%	**1.3pp**	11%	**1.8pp**
Durable Goods	16%	22%	**-6.2pp**	18%	**-1.6pp**
Finance	30%	30%	**0.3pp**	38%	**-7.7pp**
Others	5%	5%	**-0.5pp**	4%	**0.6pp**


Koc Holding Premium / (Discount) to Current NAV
0%
-5%
-10%
-15%
-20%
-25%
-30%
-35%
-40%
-45%
01.06
06.06
11.06
04.07
09.07
02.08
07.08
12.08
05.09
10.09
03.10
08.10
Historical Average


Koc Holding Premium / (Discount) to Target NAV
20%
0%
-20%
-40%
-60%
-80%
-100%
05.05
08.05
11.05
02.06
05.06
08.06
11.06
02.07
05.07
08.07
11.07
02.08
05.08
08.08
11.08
02.09
05.09
08.09
11.09
02.10
05.10
08.10
Historical Average

Business Segment / Company	Koc Holding's Stake (%)	Current Value	Current NAV	% of Current NAV	Valuation Method	Target Mcap	Target NAV	% of Target NAV
Automotive & Parts		**7,407**	**2,908**	**20.5**		**7,712**	**3,023**	**21.7**
Ford Otosan	38.5	3,235	1,244	8.8	Target Mcap	3,501	1,346	9.7
Tofas Fabrika	37.6	2,899	1,090	7.7	Target Mcap	2,962	1,113	8.0
Otokar	44.7	314	140	1.0	Target Mcap	290	130	0.9
Turk Traktor	37.7	836	315	2.2	Current Mcap	836	315	2.3
Otokoc Otomotiv	96.3	123	119	0.8	1.6x 2009A P/BV	123	119	0.9
Consumer Durables		**4,409**	**1,735**	**12.2**		**4,402**	**1,732**	**12.4**
Arcelik	41.5	3,785	1,570	11.1	Target Mcap	3,778	1,567	11.3
Beko Ticaret	39.0	394	154	1.1	2.7x 2009A P/BV	394	154	1.1
Arcelik LG Klima	5.0	230	12	0.1	2.7x 2009A P/BV	230	12	0.1
Finance		**14,533**	**5,849**	**41.2**		**13,476**	**5,424**	**39.0**
Koc Financial Services	40.2	14,417	5,797	40.9	Target Mcap	13,360	5,372	38.6
Yapi Kredi Bank	32.9	*17,315*	*5,694*			*16,023*	*5,269*	
Koc Tuketici Finans	44.5	116	52	0.4	1.4x 2009A P/BV	116	52	0.4
Energy		**4,126**	**2,512**	**17.7**		**4,108**	**2,544**	**18.3**
Aygaz	40.7	1,697	691	4.9	Target Mcap	1,564	636	4.6
Enerji Yatirimlari	75.0	2,428	1,821	12.8	Target NAV	2,544	1,908	13.7
Others		**1,332**	**407**	**2.9**		**1,361**	**419**	**3.0**
Net Cash (debt)			**775**					
Current NAV			**14,185**		**Target NAV**		**13,917**	
Current Mcap			**12,842**		**Target Mcap ***		**11,907**	
% Prem / (Disc) to Current NAV			**(9.5)**		**% Prem / (Disc) to Target NAV**		**(7.7)**	

all figures are in US$mn terms

** after applying 10% conglomerate discount*