

17 May 2010

**MARKETPERFORM (M)**

**Koc Holding**

**Upside Potential 14%**

\*Excludes dividend yield

**Bloomberg: KCHOL TI**

**Reuters: KCHOL IS**

*Strong results thanks to finance and durable goods segments*

Stock Data	TRY	US\$
Price at 14 05 2010	5.40	3.53
12-Month Target Price	6.14	3.96
Mcap (mn)	13,042	8,523
Float Mcap (mn)	2,869	1,875
No. of Shares Outstanding		2415 mn
Free Float (%)		22.00
Avg.Daily Volume (3M, mn)	33.6	21.9

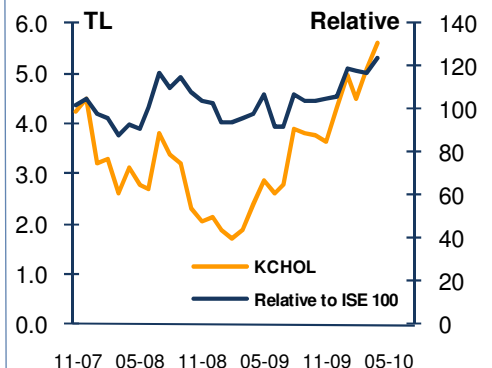
■ **Net income above the consensus thanks to the decline in financial expenses.** Koc Holding disclosed TL359 mn net profit in its 1Q10 consolidated financials up from only TL3 mn of net income recorded in the same period last year. The figure is slightly above the consensus estimate of TL300 mn owing to lower than expected net financial expenses.

Market Data	TRY		
ISE 100	55,748		
US\$ Spot Rate	1.5302		
Price Performance (%)	1 Mn	3 Mn	12 Mn
TRY	5	16	96
US\$	3	14	103
Relative to ISE-100	10	10	17

■ **EBITDA growth came from finance, consumer durables and automotive businesses.** The consolidated EBITDA rose by 7% YoY in 1Q10 owing to the strong performances of the finance, consumer durables and automotive businesses. The consolidated EBITDA margin went down to 10.9% in 1Q10 from 13.9% in 1Q09 due to the weakening profitability of energy and automotive segments. The decline in net financial expenses to TL72 mn in 1Q10 from TL513 mn in 1Q99 has also helped the growth in the bottomline significantly.

■ **2010 guidance maintained.** Following the 1Q10 results, the Holding maintains its targets to carry its consolidated sales figure to TL52.7 bn in 2010, which corresponds to a 18% YoY growth mainly driven by the 28% expected increase in combined international revenues. Likewise, 2010 EBITDA figure should reach TL5.7 bn in 2010, up by 29% YoY. The conglomerate's investment budget for 2010 is given as TL2.2 bn, representing a 31% YoY increase.

**Price / Relative Price**



■ **Holding level strong cash position.** Koc Holding kept its \$0.8bn stand-alone net cash position as of 1Q10. The Company had \$2.2bn of consolidated short fx position at the end of 1Q10 (\$2.3bn as of 1Q09). This excludes the natural hedge mechanisms, totaling US\$1.6bn, due to fx linked pricing of Tupras, Opet & Aygaz' inventory and take or pay agreements of Tofas. When adjusted for the weighted effective ownership of the conglomerate, the short fx position falls down to \$1.7bn, which is higher than the US\$1.1 bn reported in 4Q99.

52 Week Range (Close TRY) 3.62 5.75

■ **Target price revised upwards, recommendation unchanged.** The results should not have any material impact on Koc Holding shares as the major subsidiaries have already announced their 1Q10 financials and the holding maintains its FY10 guidance. However, we did go over our NAV valuation for Koc Holding shares following the 1Q10 results based on the revised valuations of underlying assets, which necessitates a 14% upward adjustment in target price to TL6.4/share from TL5.36/share. Koc Holding shares trade at a 14.8% discount to its current NAV, below the historical average of 19%. Hence, "MARKETPERFORM" recommendation maintained.

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## Koc Holding: Snapshot on 1Q10 Income Statement

KCHOL	(TL mn)	1Q10	1Q10	YoY	4Q09	QoQ
Revenues		9,940	7,265	36.8%	10,985	-9.5%
Gross Margin		19.9%	25.0%	-5.1pp	20.2%	-0.3pp
Operating Profit		847	796	6.4%	1,011	-16.3%
Operating Margin		8.5%	11.0%	-2.4pp	9.2%	-0.7pp
EBITDA		1,081	1,009	7.2%	1,271	-14.9%
EBITDA Margin		10.9%	13.9%	-3.0pp	11.6%	-0.7pp
PBT		507	110	362.6%	352	43.9%
Net Profit		359	3	n.m.	296	21.3%
Net Margin		3.6%	0.0%	3.6pp	2.7%	0.9pp

Source: Company & IS Investment Estimates

## Koc Holding: Segmental Breakdown of Revenues &amp; EBITDA

Koc Holding (TLmn)	1Q10	1Q09	YoY	4Q09	QoQ
<b>Revenues</b>					
Energy	6,334	4,434	42.9%	6,690	-5.3%
Automotive	1,568	1,061	47.8%	1,600	-2.0%
Durable Goods	1,576	1,427	10.4%	1,727	-8.8%
Finance	1,186	1,480	-19.8%	1,158	2.4%
Others	589	481	22.4%	460	28.0%
Consolidated	11,104	8,731	27.2%	12,184	-8.9%
<b>Revenue Contribution</b>					
Energy	56%	50%	6.4pp	57%	-1.2pp
Automotive	14%	12%	2.0pp	14%	0.2pp
Durable Goods	14%	16%	-2.1pp	15%	-0.8pp
Finance	11%	17%	-6.1pp	10%	0.6pp
Others	5%	5%	-0.2pp	4%	1.3pp
<b>EBITDA</b>					
Energy	304	314	-3.1%	384	-20.8%
Automotive	148	122	20.9%	141	5.1%
Durable Goods	196	82	140.0%	228	-14.0%
Finance	688	446	54.4%	493	39.5%
Others	41	25	64.4%	54	-22.7%
Consolidated	1,081	1,009	7.2%	1,271	-14.9%
<b>EBITDA Margin</b>					
Energy	4.8%	7.1%	-2.3pp	5.7%	-0.9pp
Automotive	9.4%	11.5%	-2.1pp	8.8%	0.6pp
Durable Goods	12.5%	5.7%	6.7pp	13.2%	-0.8pp
Finance	58.0%	30.1%	27.9pp	42.6%	15.4pp
Others	7.0%	5.2%	1.8pp	11.7%	-4.6pp
Consolidated	9.7%	11.6%	-1.8pp	10.4%	-0.7pp
<b>EBITDA Contribution</b>					
Energy	22%	32%	-9.7pp	30%	-7.5pp
Automotive	11%	12%	-1.6pp	11%	-0.1pp
Durable Goods	14%	8%	6.0pp	18%	-3.3pp
Finance	50%	45%	4.9pp	38%	12.0pp
Others	3%	3%	0.5pp	4%	-1.1pp

Source: Company & IS Investment Estimates

### Koç Holding: Current vs Target NAV

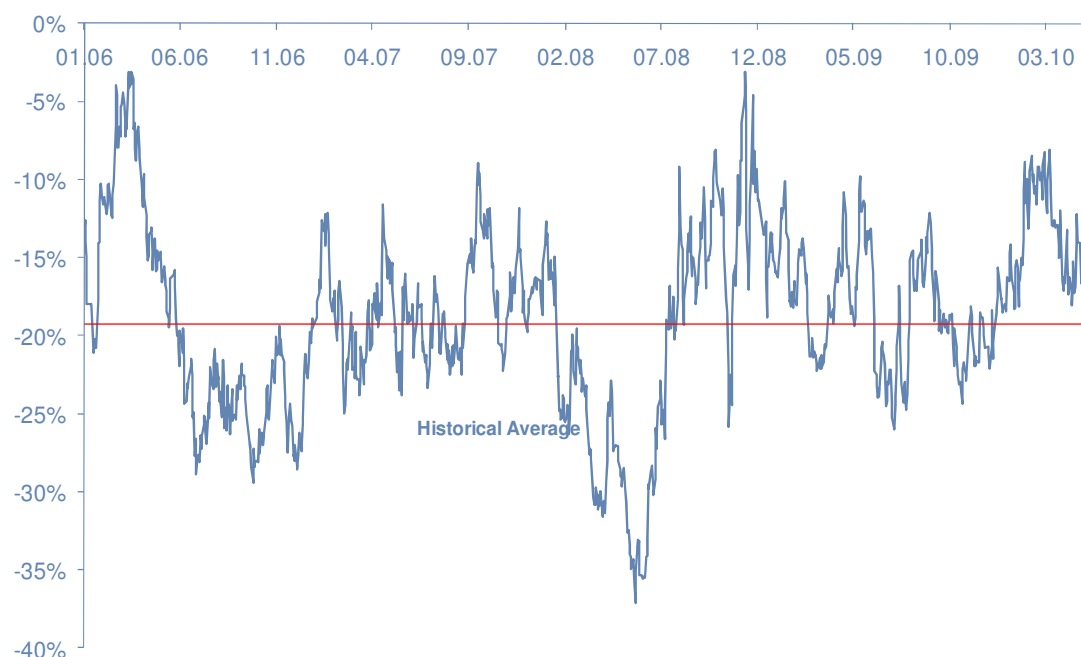
Business Segment / Company	Koç Holding's Stake (%)	Current Value	Current NAV	% of Current NAV	Valuation Method	Target Mcap	Target NAV	% of Target NAV
<b>Automotive &amp; Parts</b>		<b>5,063</b>	<b>1,995</b>	<b>19.8</b>		<b>5,659</b>	<b>2,222</b>	<b>18.6</b>
Ford Otosan	38.5	2,431	935	9.3	Target Mcap	2,663	1,024	8.6
Tofas Fabrika	37.6	1,879	706	7.0	Target Mcap	2,226	837	7.0
Otokar	44.7	265	118	1.2	Target Mcap	282	126	1.1
Türk Traktor	37.7	401	151	1.5	Current Mcap	401	151	1.3
Otokoc Otomotiv	96.3	87	84	0.8	1.1x 2009A P/BV	87	84	0.7
<b>Consumer Durables</b>		<b>3,482</b>	<b>1,356</b>	<b>13.5</b>		<b>3,402</b>	<b>1,322</b>	<b>11.1</b>
Arcelik	41.5	2,892	1,200	11.9	Target Mcap	2,812	1,166	9.8
Beko Ticaret	39.0	372	145	1.4	2.6x 2009A P/BV	372	145	1.2
Arcelik LG Klima	5.0	218	11	0.1	2.6x 2009A P/BV	218	11	0.1
<b>Finance</b>		<b>9,875</b>	<b>3,976</b>	<b>39.5</b>		<b>12,719</b>	<b>5,119</b>	<b>42.8</b>
Koç Financial Services	40.2	9,759	3,924	39.0	Target Mcap	12,603	5,068	42.4
<i>Yapı Kredi Bank</i>	32.9	11,647	3,831			15,124	4,974	
Koç Tüketici Finans	44.5	116	52	0.5	1.4x 2009A P/BV	116	52	0.4
<b>Energy</b>		<b>2,565</b>	<b>1,527</b>	<b>15.2</b>		<b>3,434</b>	<b>2,029</b>	<b>17.0</b>
Aygaz	40.7	1,157	471	4.7	Target Mcap	1,593	648	5.4
Enerji Yatırımları	75.0	1,408	1,056	10.5	Target NAV	1,841	1,381	11.6
<i>Tupras</i>	38.3	5,114	1,956			5,963	2,281	
<b>Others</b>		<b>1,218</b>	<b>364</b>	<b>3.6</b>		<b>1,344</b>	<b>418</b>	<b>3.5</b>
<b>Net Cash (debt)</b>			<b>840</b>					
<b>Current NAV</b>			<b>10,057</b>		<b>Target NAV</b>		<b>11,951</b>	
<b>Current Mcap</b>			<b>8,564</b>		<b>Target Mcap *</b>		<b>9,561</b>	
<b>% Prem / (Disc) to Current NAV</b>			<b>(14.8)</b>		<b>% Prem / (Disc) to Target NAV</b>		<b>(28.3)</b>	

*all figures are in US\$mn terms*

*\* after applying 20% conglomerate discount*

*Source: IS Investment Estimates*

### Koç Holding: Current NAV Chart



*Source: ISE & IS Investment Estimates*

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