

# Koc Holding

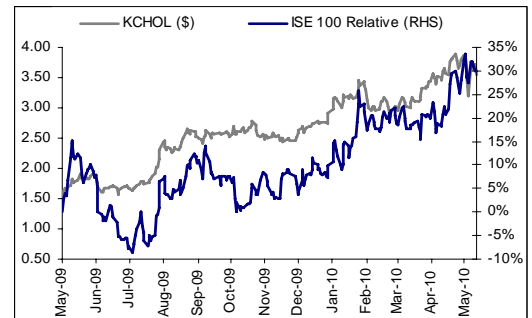
Earnings better due to higher than expected NPL collections of YKB

## Conglomerate

**Operating performance in line. Earnings came in better than expected due to higher than expected NPL collections of Yapi Kredi Bank (YKBNK; OP). The implication of better than expected bottom-line should be neutral as YKB has already announced its results.**

- Summary:** Higher than expected NPL collections of YKB led to stronger than expected earnings in 1Q10. Although earnings figure came in better than expected, we believe it was already priced in as YKB has announced its 1Q10 results on May 12nd. Moreover, Koc Holding's 1Q10 operational performance is exactly in line with the consensus. However, being a high and best quality consumer play and focusing on its core business segments (energy, finance, automotive, and consumer durables), Koc Holding is the best market proxy as it has the full coverage to the recoveries and procurements in a number of major leading sectors. We believe improving economic conditions and consumer confidence, and recovery in macro environment and consumer demand are the key factors that should lead to an enhancement in Koc Holding's business portfolio going forward.
- Revenue:** 1Q10 consolidated revenue contracted by 9% QoQ to TL11,104mn, slightly lower than consensus estimate of TL11,643mn. The QoQ contraction in the consolidated revenue stemmed from a respective 16%, 11%, 85 and 3% QoQ decline in the durable goods, automotive, energy ad finance segments' revenues in 1Q10.
- Distribution of the revenue on segmental terms:** The energy segment comprised 57% of the total 1Q10 revenue followed by automotive and durable goods (14%) ad finance (10%) remaining flat on QoQ terms.
- Operating performance (EBITDA):** 1Q10 EBITDA declined by 15% QoQ to TL1,081mn, entirely in line with the consensus estimate of TL1,073mn. The QoQ contraction in the consolidated EBITDA mainly stemmed from a respective fall of energy and finance segments' EBITDA by 32% and 20% in 1Q10. The automotive business' performance was outstanding as its EBITDA surged by 58% QoQ and 106% YoY and the segment's consolidated EBITDA margin was also remarkable at 10.3% in 1Q10 compared to 5.8% in 4Q09 and 7.9% in 1Q09. Not only the auto business but also durable goods segment's profitability was also noteworthy and came in at 12.4% in 1Q10 up from 10.6% in 4Q09 and 6.2% in 1Q09.

## Outperform



### Stock Data (as of May 14, 2010)

Bloomberg	KCHOL.TI
Close (TL)	5.40
Fair Price (TL)	6.40
Mkt cap (TLmn)	13,042
Free float (%)	21.49%
Key Owners	Koc Family & Participations 69.36%
International Ownership in	
Free Float* (%)	72.05
Shares Outstanding	2,415,141,000
Avg. 6m Daily Vol. (\$m)	23.51
ISE-100 (TL)	55,748

\*Matriks data

Performance	1M	3M	12M
Absolute (%)	-0.4	18.1	99.7
Relative (%)	7.8	11.0	17.1

Key Figures	2008	2009	2010E
Revenue (TLmn)	55,631	44,832	54,312
EBITDA (TLmn)	4,515	5,284	5,801
Net Income (TLmn)	2,024	1,429	1,982
EBITDA margin(%)	8.1	11.8	10.7
Net margin(%)	3.6	3.2	3.6
ROE (%)	23.0	13.7	15.7

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- **Distribution of the EBITDA on segmental terms:** The finance segment constituted 37% of the total 1Q10 EBITDA, followed by energy (28%), durable goods (18%) and automotive segment (15%).
- **Net Income:** 1Q10 net income increased by 21% QoQ to TL359mn, considerably better than consensus estimate of TL300mn due to higher than expected NPL collections of YKB.
- **NAV Discount:** Currently, Koc Holding shares trade at 15% discount to its current NAV and 26% discount to its target NAV, while 3-year historical average discount stands at 21%.
- **Fair Price:** Our fair share price for Koc Holding is TL6.40 corresponding to an upside of 19%.

**Exhibit 1: Koc Holding - Quarterly Financial Data (TRLmn)**

Income Statement	2009	1Q09	4Q09	1Q10	YoY % (1Q10/1Q09)	QoQ% (1Q10/4Q09)
Net Sales	44,832.1	8,731.1	12,184.1	11,103.8	27%	-9%
Gross Profit	8,884.4	1,817.5	2,222.3	1,977.5	9%	-11%
Operating Expenses	-4,525.4	-1,021.9	-1,210.9	-1,130.7	11%	-7%
Operating Profit	4,359.1	795.6	1,011.4	846.8	6%	-16%
EBITDA	5,283.7	1,009.0	1,271.1	1,081.5	7%	-15%
Net Other Income	-888.0	-129.0	-334.1	20.6	n.m.	n.m.
Financial Inc. (exp)	-312.0	-512.9	-64.3	-71.7	-86%	12%
Minority Interest	-1,211.4	-44.3	-260.9	-289.1	553%	11%
EBT	1,947.7	109.5	352.1	795.7	627%	126%
Taxation	-518.5	-106.7	-56.4	-147.8	39%	162%
Net Income	1,429.2	2.8	295.8	358.8	12700%	21%
<b>Operating Ratios</b>						
Gross margin	19.8%	20.8%	18.2%	17.8%		
EBITDA margin	11.8%	11.6%	10.4%	9.7%		
Net margin	3.2%	0.0%	2.4%	3.2%		
<b>Balance Sheet Data</b>						
Cash & Equivalents	12,070.0	10,837.4	12,070.0	14,071.6	30%	17%
S/T Fin. Debt	8,492.0	7,958.3	8,492.0	8,084.8	2%	-5%
L/T Fin. Debt	6,428.2	9,266.7	6,428.2	6,418.7	-31%	0%
Net debt (cash)	2,850.3	6,387.6	2,850.3	431.8	-93%	-85%
Book Value	18,782.0	15,919.0	18,782.0	19,309.3	21%	3%
Total Assets	66,386.4	65,168.1	66,386.4	70,367.2	8%	6%
Net debt (cash) / Equity	15%	40%	15%	2%		

**Exhibit 2: Koc Holding – Segmental Analysis**

	2009	1Q09	4Q09	1Q10	YoY % (1Q10/1Q09)	QoQ% (1Q10/4Q09)
<b>Revenues (TLmn)</b>						
Finance	5,382	1,467	1,199	1,164	-21%	-3%
Automotive	5,943	985	1,732	1,549	57%	-11%
Durable Goods	6,810	1,402	1,822	1,539	10%	-16%
Energy	24,488	4,421	6,852	6,303	43%	-8%
Other	2,209	457	579	549	20%	-5%
<b>TOTAL</b>	<b>44,832</b>	<b>8,731</b>	<b>12,184</b>	<b>11,104</b>	<b>27%</b>	<b>-9%</b>
<b>EBITDA (TLmn)</b>						
Finance	2,018	481	495	396	-18%	-20%
Automotive	525	77	101	160	106%	58%
Durable Goods	882	87	193	190	119%	-2%
Energy	1,667	332	445	303	-9%	-32%
Other	193	32	36	32	2%	-11%
<b>TOTAL</b>	<b>5,284</b>	<b>1,009</b>	<b>1,271</b>	<b>1,081</b>	<b>7%</b>	<b>-15%</b>
<b>EBITDA Margin (%)</b>						
Finance	37.5%	32.8%	41.3%	34.0%		
Automotive	8.8%	7.9%	5.8%	10.3%		
Durable Goods	13.0%	6.2%	10.6%	12.4%		
Energy	6.8%	7.5%	6.5%	4.8%		
Other	8.7%	6.9%	6.2%	5.9%		
<b>TOTAL</b>	<b>11.8%</b>	<b>11.6%</b>	<b>10.4%</b>	<b>9.7%</b>		

<b>TEB Investment Macro Estimates</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>
TRY/US\$ (average; CB Bid rate)	1.2944	1.5469	1.5424	1.6335
TRY/US\$ (end of period;CB Bid rate)	1.5218	1.4873	1.5915	1.6762
O/N borrowing rate (end of period; %)	15.0	6.5	9.3	12.3
CPI (annual-%)	10.1	6.5	7.5	8.0
GDP growth rate (%)	0.7	-4.7	3.9	3.9

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<b>TEB Rating</b>	<b>Definition</b>	<b>Investment Horizon</b>
Outperform	The stock's return including dividends is expected to be higher than the ISE-100 index over the next 12 months.	1 year
Marketperform	The stock's return including dividends is expected to be similar to the ISE-100 index over the next 12 months.	1 year
Underperform	The stock's return including dividends is expected to be less than the ISE-100 index over the next 12 months.	1 year

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