

Current Mcap: TL 9,178 mn Fair Value: TL 12,497 mn

Upside Potential: 36%

Analyst: Onder Zorba

Nov 10th, 2009

Stock Data, TL	
Sector	Conglomerate
Bloomberg/Reuters Ticker	KCHOL TI/KCHOL.IS
Stock Price	3.80
Price Range, 12 Months	1.7 - 4.1
Target Share Price, YTL	5.17
Upside Potential	36%
Current Market Cap, mn	9,178
Fair Value, mn	12,497
Number of Outstanding Shares	2415.1
Average Daily Volume, 3 Months, mn	56.06
Free Float	20%

Listed participations offer healthy upside... As far as the valuations are concerned, Koc Holding's listed assets offer lucrative upside (Ford Otosan 34%, Tofas 25%, Arcelik 26%, Tupras 22% and YKB 19%) also leading to a further upside for Koc Holding based on target NAV analysis which implies 36% upside to target (after 10% haircut on the NAV).

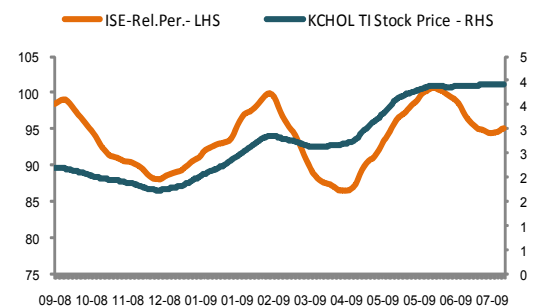
Discount to current NAV is over historical average... Koc Holding trades at 20% discount to NAV, deeper than its 13% historical average since the beginning of 2006. The listed participations has so far performed well in 2009 (particularly Tofas, Arcelik and Aygaz) which resulted in a higher discount to NAV compared to the beginning of the year.

A Turkish proxy through a single stock... Enjoying significant market shares in GDP-correlated automotive and consumer durables, operating the sole refinery and one of Turkey's largest private banks; we believe Koc provides one of the best opportunities for Turkish exposure.

A balanced portfolio through reshaping... A stronger presence in energy and finance sectors have led to a healthier NAV breakdown, steering clear of high dependence on cyclical and interest rate sensitive sectors like durables & automotive which were traditionally the mainstay of the portfolio. Moreover, ~US\$ 750 mn net cash at the parent level not only contributes to the balance of the portfolio but also provides opportunities for future investments which is dependent on the market conditions.

Disposals were indeed timely... The sale process of Yapi Kredi Sigorta was cancelled due to unfavorable market conditions which could be re-initiated when the markets stabilize. However, prior to that, Koc Holding completed some big ticket disposals such as Ramenka, Koc Allianz, Koc Allianz Life and particularly Migros before the global crisis deepened. Looking from now to then, the timing of the divestitures looks perfect in Koc Holding's point of view which resulted in a sizeable net cash position at the parent level, bringing resilience to the portfolio through reducing the risk profile.

Absolute & Relative Performances



Key Valuation Metrics	2008A	2009E	2010E	2011E
P/E	2.5	6.9	6.3	5.5
EV/Sales	0.3	0.4	0.3	0.2
EV/EBITDA	3.0	3.2	3.0	2.5
Dividend Yield (Net)	-	-	-	-

Consolidated Forecasts, TL mn	2008A	Chg	2009E	Chg	2010E	Chg	2011E	Chg
Sales	49,798	20%	42,125	-15%	51,754	23%	60,232	16%
EBITDA	4,555	4%	5,021	10%	5,242	4%	6,003	15%
Net Earnings	2,024	-12%	1,335	-34%	1,463	10%	1,675	14%
Net Debt	8,516	7%	7,091	-17%	6,682	-6%	5,691	-15%
Shareholders' Equity	16,132	7%	11,085	-31%	12,548	13%	14,222	13%

New investments?... Following the disposal of Migros in 1H08, Koc's growth plans now centered on 4 core business lines (energy, finance, consumer durables and automotive). In energy, the main project would be the residium upgrade investment to be undertaken by Tupras. With the project, Tupras plans to shift from 4.2 mn tons of black products to 3.5 mn tons of white products by at the end of 2013 to bring its product mix more in line with the market demand.

On the other hand, the group is also interested in power generation investments (either greenfield investments or acquisitions via privatization) for the sake of being a diversified player in energy. Consumer durables is another core business line where we may witness new investments as Arcelik has long mentioned its intention to become one of the leading suppliers

Koc Holding, NAV Table (TL mn)

Company	Holding's Stake	Current Value	Target Value	Valuation Method	CNAV	TNAV
AUTOMOTIVE		6,253	7,846		2,491	3,099
Ford Otosan	38%	3,228	4,313	DCF	1,242	1,659
Tofas Fabrika	38%	2,030	2,538	DCF	763	954
Turk Traktor	38%	456	456	Current Mcap	171	171
Otokar	45%	348	348	Current Mcap	155	155
Otoyol	54%	55	55	2009E EV/Sales & P/BV	30	30
Otokoc	96%	135	135	2009E EV/Sales, EV/EBITDA & P/BV	130	130
CONSUMER DURABLES		1,659	4,187		1,307	1,626
Arcelik	41%	3,068	3,854	DCF	1,243	1,561
Beko Ticaret	39%	141	141	2009E EV/Sales & P/BV	55	55
Arcelik LG Klima	5%	192	192	2009E EV/Sales, EV/EBITDA & P/BV	10	10
FINANCIAL SERVICES		9,197	13,341		4,213	4,986
Koc Financial Services	37%	11,094	13,167	Target NAV	4,136	4,909
Koc Consumer Fin.	45%	173	173	2008 P/BV	77	77
ENERGY		2,182	4,296		2,002	2,621
Enerji Yatirimlari	75%	1,766	2,544	Target NAV	1,324	1,908
Aygaz	41%	1,665	1,752	DCF	677	713
RETAIL & FOOD		480	847		305	345
Tat Konserve	44%	438	529	DCF	191	231
Koctas	37%	255	255	2009E EV/Sales & EV/EBITDA	95	95
Duzey Pazarlama	31%	63	63	2009E EV/Sales & P/BV	20	20
OTHERS		188	295		116	116
Listed Total					9,949	12,307
Unlisted Total					486	486
Net Cash					1,092	1,092
TOTAL NAV					11,527	13,885
10% conglomerate haircut					1,153	1,389
Fair Value					10,375	12,497
Current Mcap					9,178	9,178
Actual Discount to NAV					-20.4%	-33.9%
Discount to Fair Value					-11.5%	-26.6%
Upside Potential					13.0%	36.2%

Source: Ata Estimates

KOC HOLDING <KCHOL TI>

Income Statement (TL mn)	2007	2008	2009E	2010E	2011E
Operational revenues	46,802	55,631	42,125	51,754	60,232
EBITDA	4,362	4,555	5,021	5,242	6,003
Depreciation	847	855	927	1,139	1,325
EBIT	3,514	3,700	4,094	4,104	4,678
Other income, net	80	1,336	-725	-668	-814
Financial income, net	473	-1,955	-342	-469	-500
Profit before tax	4,067	3,081	3,028	2,967	3,364
Profit from continuing operations	3,355	2,495	2,534	2,483	2,815
Minority interest	1,593	554	1,199	1,020	1,141
Reported net earnings	2,295	1,940	1,335	1,463	1,675
Adjusted net earnings	2,067	432	1,335	1,463	1,675
Reported EPS		1.03	0.60	0.61	0.69

Balance Sheet (TL mn)	2007	2008	2009E	2010E	2011E
Cash & cash equivalents	4,988	9,062	9,508	8,811	8,929
Trade receivables	6,087	5,056	4,175	4,987	5,639
Inventories	4,295	3,674	3,003	3,633	4,083
Fixed assets	10,781	11,640	11,994	12,130	12,229
Goodwill	3,524	3,534	3,534	3,534	3,534
Other Assets	30,032	31,924	34,099	39,254	45,925
Total Assets	59,707	64,890	66,313	72,350	80,338
Financial borrowing	15,072	17,578	16,599	15,493	14,620
Trade payables	4,670	3,400	2,594	3,120	3,638
Other liabilities	24,908	27,780	28,652	33,404	39,521
Minority Interest	7,206	6,382	7,382	7,785	8,338
Shareholders' Equity	7,852	9,749	11,085	12,548	14,222
Net Debt	10,083	8,516	7,091	6,682	5,691

Cash Flow Summary (TL mn)	2007	2008	2009E	2010E	2011E
Net earnings before tax & MI	4,067	3,081	3,028	2,967	3,364
Depreciation	847	855	927	1,139	1,325
Δ in WCR		382	746	-916	-585
Taxes	-712	-586	-494	-484	-548
Capex		-1,687	-1,283	-1,276	-1,424
Dividend paid		0	0	0	0
Rights issue	417	0	0	0	0
Δ in borrowing		2,507	-979	-1,106	-873
Other cash in/out		-477	-1,499	-1,020	-1,141
Cash generated during the year		4,074	446	-697	118
Cash at the end of the year	4,988	9,062	9,508	8,811	8,929

Growth	2007	2008	2009E	2010E	2011E
Sales		18.9%	-24.3%	22.9%	16.4%
EBITDA		4.4%	10.2%	4.4%	14.5%
Net earnings		-15.5%	-31.2%	9.6%	14.5%
Adjusted net earnings		-79.1%	208.9%	9.6%	14.5%

Key financial ratios	2007	2008	2009E	2010E	2011E
ROE		22.0%	12.8%	12.4%	12.5%
EBITDA margin	9.3%	8.2%	11.9%	10.1%	10.0%
Net Margin	4.9%	3.5%	3.2%	2.8%	2.8%
Net debt/Equity	1.28	0.87	0.64	0.53	0.40
Net debt/EBITDA	2.31	1.87	1.41	1.27	0.95
ST borrowings/T. borrowings	48.4%	53.4%	60.2%	60.4%	57.9%
Equity/Total Assets	25.2%	24.9%	27.8%	28.1%	28.1%
Financial Debt/Total Assets	25%	27%	25%	21%	18%
Interest coverage	3.9	3.9	5.3	5.2	5.7
Current Ratio	0.9	0.9	0.8	0.8	0.8
Cash dividend pay-out		0.0%	0.0%	0.0%	0.0%

Koc Holding

Sector: Holdings
Bloomberg Ticker: KCHOL TI
Ata Rating: MARKET PERFORM

Descriptive Summary

Having commenced its operations in 1926, Koc Group has been one of the largest business groups in Turkey. Enjoying significant market shares in GDP-correlated automotive and durables, operating the sole refinery and one of Turkey's largest private banks, Koc appears to be one of the best Turkish proxies in the market.

Ownership Structure

