

Koc Holding

"Higher-than-expected earnings..."

Exceeding our estimate and CNBC-e TV channel consensus, Koc Holding reported TL 359 mn net earnings for 1Q10, up from TL 3 mn a year ago (Ata estimate was TL 254 mn vs TL 300 mn market consensus).

Since most of the listed group companies announced higher-than-expected results, this was also reflected in Koc Holding's consolidated figures.

The y/y growth is attributable to better results at the operating level and lower FX losses & interest expenses. As a reminder, in 1Q09 Koc Holding's bottom line profitability was pretty much deteriorated by sizeable FX losses at a period of depreciating local currency. Reportedly, Koc Holding booked TL 62 mn FX losses in 1Q10 vs TL 376 mn in 1Q09. On the other hand, net interest expenses were also reduced to TL 10 mn in the underlying quarter compared to TL 192 mn a year ago thanks to lower net debt position at the consolidated level.

The results are also better on q/q terms compared to TL 296 mn in 4Q09 (up by 21% q/q) thanks to higher operating profitability particularly in finance business in 1Q10.

Operational revenues increased by 27% y/y in 1Q10 to TL 11.1 bn, largely on the back of growth in energy and automotive segment revenues. For energy, it is basically price driven rather than volume growth considering the increasing average oil prices compared to a year ago. In automotive, the group benefited from the low base effect, recording 57% y/y top line growth.

At the EBITDA level, Koc Holding generated TL 1,102 mn consolidated EBITDA (up by 25% y/y) implying 9.9% margin. Consumer durables segment was at the driving seat, recording impressive 126% y/y EBITDA growth in the underlying quarter through more than doubling margins from 6.3% in 1Q09 to 12.9% in 1Q10.

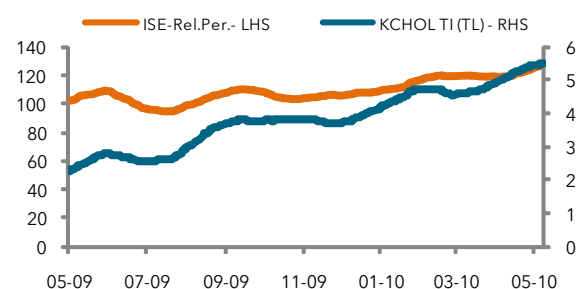
TL mn	1Q10	1Q09	y/y	4Q09	q/q
Sales	11,104	8,731	27%	12,184	-9%
Gross Profit	1,978	1,818	9%	2,222	-11%
EBITDA	1,102	880	25%	937	18%
Net other inc/(exp)	-51	-642	-92%	-398	-87%
Net Earnings	359	3	n.m.	296	21%
Net Cash/(Debt)	-1,090	-1,294	-16%	-1,100	-1%
Net FX position	-1,191	-3,488	-66%	-3,600	-67%

1Q10 Financial Results

MARKETPERFORM

Stock Data, TL	May 14, 2010
Sector	Conglomerates
Bloomberg/Reuters Ticker	KCHOL TI / KCHOL.IS
Stock Price	5.40
Price Range, 12 Months	2.52 - 5.85
Target Share Price	6.00
Upside Potential	11%
Current Market Cap, mn	13,042
Fair Value, mn	14,539
Number of Outstanding Shares, mn	2,415
Average Daily Volume, 3 Months, mn	32.7
Free Float	20%

Absolute & Relative Performances



	1Q10	1Q09	4Q09
Gross Margin	17.8%	20.8%	18.2%
EBITDA Margin	9.9%	10.1%	7.7%
Net Margin	3.2%	0.0%	2.4%
Fin Debt/T.Assets	20.6%	26.4%	22.5%
SHE/T. Assets	27.4%	24.4%	28.3%

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Margin expansion in finance was also eye-catching thanks to reduced provision expenses and higher-than-sector-average loan growth. On the other hand, energy EBITDA was down by 2% y/y. Tupras recorded almost 40% y/y EBITDA growth (helped by lack of inventory losses) however Aygaz faced EBITDA contraction in 1Q10 due to the normalization of LPG mark-ups which were at their peak levels in 1Q09.

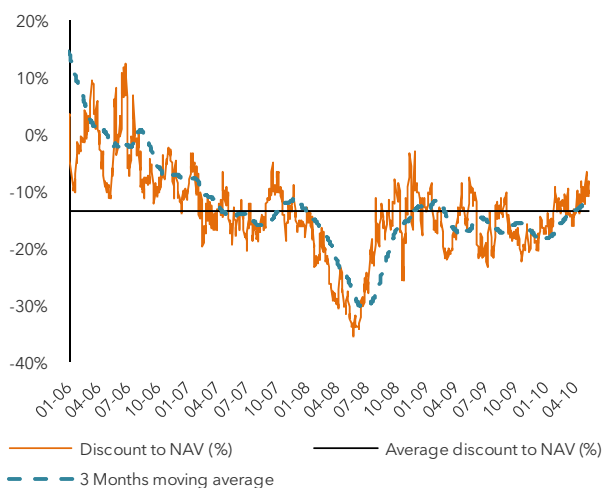
Conclusion...

Overall, the results are stronger than expected both at the EBITDA and bottom line level. However, this is not much surprising as it was already indicated by the earlier earnings announcements of listed participations.

Valuation...

Koc Holding currently trades at 13% to discount to its CNAV, compared to its average discount of 14% since the beginning of 2006.

Historical NAV Chart



Source: Ata Estimates

Segmental Breakdown

	1Q10	1Q09	y/y	4Q09	q/q
Revenues (TL mn)					
Finance	1,164	1,467	-21%	1,199	-3%
Non-Finance	9,940	7,265	37%	10,985	-10%
Energy	6,303	4,421	43%	6,852	-8%
Automotive	1,549	985	57%	1,732	-11%
Consumer Durables	1,539	1,402	10%	1,822	-16%
Other	549	457	20%	579	-5%
Total	11,104	8,731	27%	12,184	-9%
Revenues Contribution (%)					
Finance	10%	17%		10%	
Non-Finance	90%	83%		90%	
Energy	57%	51%		56%	
Automotive	14%	11%		14%	
Consumer Durables	14%	16%		15%	
Other	5%	5%		5%	
Reported EBITDA (TL mn)					
Finance	387	312	24%	147	163%
Non-Finance	715	568	26%	790	-9%
Energy	316	322	-2%	412	-23%
Automotive	149	116	28%	160	-7%
Consumer Durables	199	88	126%	165	20%
Other	51	42	23%	52	-1%
Total	1,102	880	25%	937	18%
EBITDA Contribution (%)					
Finance	35%	35%		16%	
Non-Finance	65%	65%		84%	
Energy	29%	37%		44%	
Automotive	14%	13%		17%	
Consumer Durables	18%	10%		18%	
EBITDA Margin (%)					
Finance	33%	21%		12%	
Non-Finance	7%	8%		7%	
Energy	5%	7%		6%	
Automotive	10%	12%		9%	
Consumer Durables	13%	6%		9%	
Total	9.9%	10.1%		7.7%	

Source: Ata Estimates

Koc Holding- Current NAV (TL, mn)

Company	Holding's Stake	Current Value	Valuation Method	CNAV
		7,998		3,232
Ford Otosan	38%	3,790	Current Mcap	1,457
Tofas Fabrika	38%	2,850	Current Mcap	1,071
Turk Traktor	38%	635	Current Mcap	240
Otokar	45%	406	Current Mcap	181
Otoyol	54%	55	2010E EV/Sales & P/BV	30
Otokoc	96%	263	2010E EV/Sales, EV/EBITDA & P/BV	253
CONSUMER DURABLES		1,659		1,885
Arcelik	41%	4,460	Current Mcap	1,807
Beko Ticaret	39%	179	2010E EV/Sales & P/BV	70
Arcelik LG Klima	5%	171	2010E EV/Sales, EV/EBITDA & P/BV	9
FINANCIAL SERVICES		9,197		5,558
Koc Financial Services	38%	14,650	Current NAV	5,501
Koc Consumer Financing	45%	127	Book Value	57
ENERGY		2,182		2,585
Enerji Yatirimlari	75%	2,470	Current NAV	1,852
Aygaz	41%	1,800	DCF	732
RETAIL & FOOD		480		323
Tat Konserve	44%	432	Current Mcap	189
Koctas	37%	269	2010E EV/Sales & EV/EBITDA	100
Duzey Pazarlama	31%	111	2010E EV/Sales & P/BV	35
OTHERS		188		208
Altinyunus Cesme	30%	248	Current Mcap	74
Marmaris Altinyunus	37%	81	Current Mcap	30
Setur	24%	152	2010E EV/Sales	36
Koc Sistem	41%	73	2010E EV/Sales & P/BV	30
Koc Net	100%	7	Book Value	7
Others			Book Value	30
Listed Total (TL mn)				13,135
Unlisted Total (TL mn)				656
Estimated Net cash				1,157
TOTAL NAV				14,948
15% conglomerate haircut				2,242
Fair Value				12,706
Current Mcap				13,042
Actual Discount to NAV				-12.8%
Discount to Fair Value				2.6%
Upside Potential				-2.6%

Source: Ata Estimates

Koc Holding- Target NAV (TL, mn)

Company	Holding's Stake	Target Value	Valuation Method	TNAV
		8,568		3,448
Ford Otosan	38%	3,984	DCF	1,532
Tofas Fabrika	38%	3,226	DCF	1,213
Turk Traktor	38%	635	Current Mcap	240
Otokar	45%	406	Current Mcap	181
Otoyol	54%	55	2010E EV/Sales & P/BV	30
Otokoc	96%	263	2010E EV/Sales, EV/EBITDA & P/BV	253
CONSUMER DURABLES		5,725		2,256
Arcelik	41%	5,375	DCF	2,177
Beko Ticaret	39%	179	2010E EV/Sales & P/BV	70
Arcelik LG Klima	5%	171	2010E EV/Sales, EV/EBITDA & P/BV	9
FINANCIAL SERVICES		16,453		6,187
Koc Financial Services	38%	16,326	Target NAV	6,130
Koc Consumer Financing	45%	127	Book Value	57
ENERGY		5,702		3,463
Enerji Yatirimlari	75%	3,333	Target NAV	2,500
Aygaz	41%	2,369	DCF	964
RETAIL & FOOD		955		386
Tat Konserve	44%	576	DCF	251
Koctas	37%	269	2010E EV/Sales & EV/EBITDA	100
Duzey Pazarlama	31%	111	2010E EV/Sales & P/BV	35
OTHERS		561		208
Altinyunus Cesme	30%	248	Current Mcap	74
Marmaris Altinyunus	37%	81	Current Mcap	30
Setur	24%	152	2010E EV/Sales	36
Koc Sistem	41%	73	2010E EV/Sales & P/BV	30
Koc Net	100%	7	Book Value	7
Others			Book Value	30
Listed Total (TL mn)				15,292
Unlisted Total (TL mn)				656
Estimated Net cash				1,157
TOTAL NAV				17,105
15% conglomerate haircut				2,566
Fair Value				14,539
Current Mcap				13,042
Actual Discount to NAV				-23.8%
Discount to Fair Value				-10.3%
Upside Potential				11.5%

Source: Ata Estimates

Balance Sheet, TL mn	1Q10	4Q09	q/q	1Q09	y/y
Total current assets	37,398	33,616	11.3%	33,783	10.7%
Cash & cash equivalents	14,072	12,070	16.6%	10,837	29.8%
Short term trade receivables	4,569	4,715	-3.1%	4,887	-6.5%
Inventories	4,201	3,361	25.0%	3,300	27.3%
Other current assets	14,556	13,470	8.1%	14,759	-1.4%
Total Long Term Assets	32,969	32,771	0.6%	31,385	5.0%
Long Term Financial Assets	5,567	6,035	-7.8%	5,790	-3.8%
Goodwill	3,518	3,518	0.0%	3,534	-0.5%
Fixed Assets	11,884	11,949	-0.5%	11,729	1.3%
Other Long Terms Assets	12,000	11,268	6.5%	10,332	16.1%
Total Assets	70,367	66,386	6.0%	65,168	8.0%
Total short term liabilities	41,599	38,158	9.0%	37,699	10.3%
Short term financial loans	8,085	8,492	-4.8%	7,958	1.6%
Short term trade payables	6,113	4,083	49.7%	3,189	91.7%
Short-Term Provisions	0	0	n.m.	0	n.m.
Other short term liabilities	27,401	25,582	7.1%	26,551	3.2%
Total long term liabilities	9,459	9,447	0.1%	11,550	-18.1%
Long term debt	6,419	6,428	-0.1%	9,267	-30.7%
Long term trade payables	0	0	n.m.	0	n.m.
Long-Term Provisions	0	0	n.m.	0	n.m.
Provisions for Retirement Pay	767	764	0.4%	684	12.1%
Deferred tax liabilities	806	829	-2.7%	791	1.9%
Other long term liabilities	1,467	1,426	2.9%	809	81.5%
Total Shareholders' Equity	19,309	18,782	2.8%	15,919	21.3%
Parent Shareholders Capital	11,535	11,170	3.3%	9,774	18.0%
Minority Interests	7,774	7,612	2.1%	6,145	26.5%
Total Liabilities + Equity	70,367	66,386	6.0%	65,168	8.0%

Income Statement, TL mn	1Q10	1Q09	y/y	4Q09	q/q
Revenues from Operations	11,104	8,731	27%	12,184	-9%
Cost of sales	-8,640	-6,169	40%	-9,513	-9%
Gross Profit/(Loss)	1,978	1,818	9%	2,222	-11%
Operating Expenses	-1,131	-1,022	11%	-1,211	-7%
EBIT	847	796	6%	1,011	-16%
Depreciation	235	213	10%	260	-10%
EBITDA	1,102	880	25%	937	18%
Profit(Loss) from Subsidiaries	0	0	n.m.	0	n.m.
Net Income / (Loss) from other Op.	21	-129	n.m.	-334	n.m.
<i>Income from other operations</i>	72	49	46%	25	187%
<i>Expenses from other operations</i>	-51	-178	-71%	-359	-86%
Net Financial Income / (Loss)	-72	-513	-86%	-64	12%
<i>Financial income</i>	394	720	-45%	163	142%
<i>Financial expenses</i>	-466	-1,233	-62%	-227	105%
Pre-tax Income from Continuing Op.	796	154	417%	613	30%
Taxation on Continuing Operations	-148	-107	39%	-56	162%
Profit from Continuing Operations	648	47	1276%	557	16%
Profit After Taxes from Discontinued Op.	0	0	n.m.	0	n.m.
Net Profit after Taxes	648	47	1276%	557	16%
Minority Interests	289	44	553%	261	11%
Parent Shares	359	3	n.m.	296	21%



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