Ata Invest

Research

Turkey

Koc Holding

3Q09 Financial Results

"Higher-than-expected earnings..."

MARKETPERFORM

Better than our TL 412 mn estimate, Koc Holding reported TL 466 mn net earnings for 3Q09, implying 43% y/y and 30% q/q contraction. The q/q decline is largely owing to the lower net financial income (particularly FX gains), while the results are not directly comparable on y/y basis as there were one-off gains in 3Q08 out of participation disposals. When adjusted for it, 3Q09 earnings growth would be 38% y/y thanks to higher net financial income, lower effective tax rate and improvement in operating margins.

The bottom line figure reached TL 1,133 mn as of 9M09 (Ata estimate: TL 1,079 mn). Although this compares unfavorably against TL 2,526 mn in 9M08, we should note that previous year's earnings were largely driven by one off gains from asset disposals including Migros, Koc Allianz, Koc Allianz Life totaling at TL 1,654 mn.

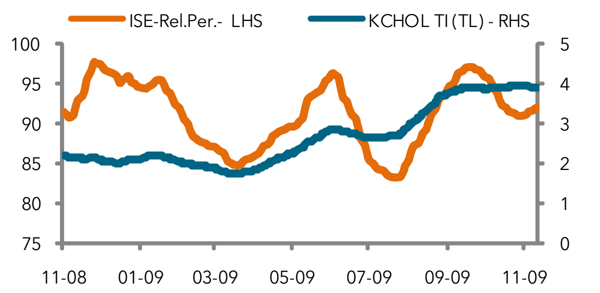
Operational results...

On the operating front, revenues declined by 20% y/y to TL 12.7 bn in 3Q09 and by 26% y/y to TL 32.6 bn in 9M09, slightly lower than our estimate. Despite top line contraction, Koc Holding achieved higher operating margins on consolidated basis, resulting in a 4% y/y growth at the EBITDA level in 3Q09 (excluding net other income). On a 9-months scale, EBITDA slightly decreased by 3% y/y to TL 4 bn, better than our TL 3.9 bn estimate.

Energy: Largely reflecting Tupras' results, energy revenues declined by 30% y/y in 3Q09 and 36% y/y in 9M09 owing to lower oil prices and decline in capacity utilization. In the underlying quarter, Tupras' production volume was down by 33% y/y on the back of 68% CUR compared to 97% in 3Q08. The decline in sales volume was more restrained at 14% y/y thanks to the increasing trading activities. Tupras continued to import significant amount of intermediaries for gasoline, jet fuel and diesel production, supporting the more profitable white product

Stock Data, TL	November 13th, 2009
Sector	Conglomerates
Bloomberg/Reuters Ticker	KCHOL TI / KCHOL.IS
Stock Price	3.80
Price Range, 12 Months	1.68 - 4.14
Target Share Price	5.15
Upside Potential	36%
Current Market Cap, mn	9,178
Fair Value, mn	12,448
Number of Outstanding Shares, mn	2,415
Average Daily Volume, 3 Months, mn	56.2
Free Float	20%

Absolute & Relative Performances



	3Q09	3Q08	2Q09	9M09	9M08
Int'l Sales / T. Sales	0.0%	0.0%	0.0%	0.0%	0.0%
Gross Margin	19.2%	14.7%	21.6%	20.4%	15.5%
EBITDA Margin	11.5%	8.8%	13.8%	12.3%	9.4%
Net Margin	3.7%	5.2%	5.9%	3.5%	5.7%
Fin Debt/T.Assets	21.6%	27.1%	23.0%	21.6%	27.1%
SHE/T. Assets	27.3%	24.9%	26.3%	27.3%	24.9%

TL mn	3Q09	3Q08	*y/y*	2Q09	*q/q*	9M09	9M08	*y/y*
Sales	12,706	15,784	*-20%*	11,211	13%	32,648	43,997	*-26%*
Gross Profit	2,444	2,323	*5%*	2,425	1%	6,662	6,827	*-2%*
EBITDA	1,457	1,394	*4%*	1,547	-6%	4,013	4,147	*-3%*
Net other inc/(exp)	-154	220	*n.m.*	-6	2588%	-802	753	*n.m.*
Net Earnings	466	814	*-43%*	664	-30%	1,133	2,526	*-55%*
Net Cash/(Debt)	-3,109	-8,516	*-63%*	-4,469	-30%	-3,109	-8,516	*-63%*
Net FX position	-5,089	-3,230	*58%*	-3,890	31%	-5,089	-3,230	*58%*

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yield in overall product mix. Despite unfavorable market conditions in the market throughput the year, EBITDA margins were more or less flat in energy segment, reflecting the contraction at the top line.

Automotive: Having plunged by 33% y/y in 1H09, automotive revenues increased by 5% y/y in the third quarter of the year, bringing the top line contraction to 20% y/y on a 9-months scale. The y/y growth in the 3Q09 was obviously driven by the SCT cut incentives which was in effect until the end of September 2009. On the other hand, segment's EBITDA increased by 20% y/y in 3Q09, implying margin expansion from 8.2% in 3Q08 to 9.4%. On cumulative basis, margins were almost flat at ~10% level in 9M09.

Durables: The segment repeated its strong performance in 3Q09 thanks to Arcelik's successful results. The operational revenues of the segment remained flat on y/y basis in 3Q09 and fell at a mere 3% y/y in 9M09 despite unfavorable market conditions. More importantly, significant margin improvement continued in the underlying quarter, jumping from 9% in 3Q08, 12% in 2Q09 to 17.6% in 3Q09. This translated into TL 319 mn EBITDA in the underlying quarter, up by 99% y/y and 44% q/q which was achieved through a series of factors including i) efficiency improvements ii) strict control over costs iii) favorable FX rates iv) a higher CUR and v) retreat in average inventory costs

Finance: Despite 9% y/y lower revenues in 3Q09, the segment continued to improve its margins substantially in y/y comparison, making positive contribution at the consolidated level thanks to the improvement in core earnings. YKB's net interest margin improved amid declining cost of funding thanks to CBT's rate cuts and growth in the mortgage business.

Non-operating items…There were several factors affecting the bottom line positively either positively or negatively. Major
items are;

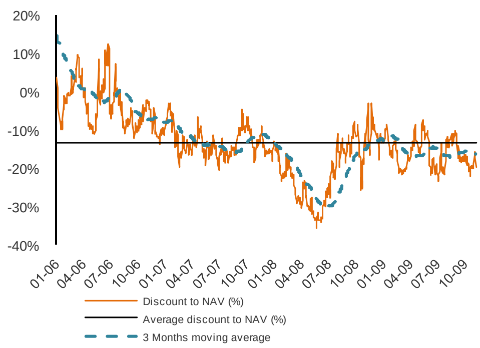
- Lack of one-off gains out of asset sales in the underlying period compared to sizeable TL 502 mn gains a year ago on the back of Koc Allianz and Koc Allianz Life. The amount increases to TL 1,654 mn in 9M08 with the inclusion of Migros and Demrad deals (-)

- Thanks to the appreciation of local currency against US$, TL 88 mn net FX gains in 3Q09 in comparison to TL 60 mn FX losses a year ago (+)

As a result, FX gains amounted to TL 24 mn on a 9-months scale. On a consolidated
basis, Koc Holding has US$2.5 bn short FX position as of 9M09-end. Adjusting for the FX linked pricing of Tupras, Opet & Aygaz inventory and take-or-pay agreements of Tofas, the short FX position would be US$ 1.4 bn. On the other hand, Koc Holding is US$ 285 mn long in FX at the parent level. In the meantime, consolidated net debt (excluding finance) further reduced to US$ 1.6 bn from US$ 2 bn a quarter ago, thanks to decrease in Arcelik's net debt.

Conclusion…
We deem the results positively with higher-than-expected bottom line and margin expansion at the EBITDA level.

Historical NAV Chart



Source: Ata Estimates

Koc Holding- Current NAV (TL, mn)

Company	Holding's Stake	Current Value	Valuation Method	CNAV
		6,292		2,507
Ford Otosan	38.5%	3,334	Current Mcap	1,282
Tofas Fabrika	37.6%	1,970	Current Mcap	741
Turk Traktor	37.5%	446	Current Mcap	167
Otokar	44.7%	353	Current Mcap	158
Otoyol	54.0%	55	2009E EV/Sales & P/BV	30
Otokoc	96.3%	135	2009E EV/Sales, EV/EBITDA & P/BV	130
CONSUMER DURABLES		3,414		1,313
Arcelik	40.5%	3,216	Current Mcap	1,303
Arcelik LG Klima	5.0%	197	2009E EV/Sales, EV/EBITDA & P/BV	10
FINANCIAL SERVICES		11,054		4,133
Koc Financial Services	37.3%	10,881	Target NAV	4,056
Koc Consumer Financing	44.5%	173	2008 P/BV	77
ENERGY		3,361		1,959
Enerji Yatirimlari	75.0%	1,726	Current NAV	1,294
Aygaz	40.7%	1,635	Current Mcap	665
RETAIL & FOOD		740		298
Tat Konserve	43.7%	422	Current Mcap	184
Koctas	37.1%	255	2009E EV/Sales & EV/EBITDA	95
Duzey Pazarlama	31.2%	63	2009E EV/Sales & P/BV	20
OTHERS		439		173
Altinyunus Cesme	30.0%	96	Current Mcap	29
Beko Ticaret	39.0%	146	2009E EV/Sales & P/BV	57
Marmaris Altinyunus	36.8%	47	Current Mcap	17
Setur	24.1%	92	2009E EV/Sales	22
Koc Sistem	41.1%	44	2009E EV/Sales & P/BV	18
Koc Net	76.3%	15	Book Value	11
Others			Book Value	19
Listed Total (TL mn)				9,896
Unlisted Total (TL mn)				488
Net cash				1,095
TOTAL NAV				11,478
10% conglomerate haircut				1,148
Fair Value				10,330
Current Mcap				9,178
Actual Discount to NAV				-20.0%
Discount to Fair Value				-11.2%
Upside Potential				12.6%

Source: Ata Estimates

Koc Holding- Target NAV (TL, mn)

Company	Holding's Stake	Target Value	Valuation Method	TNAV
AUTOMOTIVE		7,710		3,047
Ford Otosan	38.5%	4,118	DCF	1,584
Tofas Fabrika	37.6%	2,604	DCF	979
Turk Traktor	37.5%	446	Current Mcap	167
Otokar	44.7%	353	Current Mcap	158
Otoyol	54.0%	55	2009E EV/Sales & P/BV	30
Otokoc	96.3%	135	2009E EV/Sales, EV/EBITDA & P/BV	130
CONSUMER DURABLES		4,051		1,571
Arcelik	40.5%	3,854	DCF	1,561
Arcelik LG Klima	5.0%	197	2009E EV/Sales, EV/EBITDA & P/BV	10
FINANCIAL SERVICES		13,341		4,986
Koc Financial Services	37.3%	13,167	Target NAV	4,909
Koc Consumer Financing	44.5%	173	2008 P/BV	77
ENERGY		4,288		2,615
Enerji Yatirimlari	75.0%	2,536	Target NAV	1,902
Aygaz	40.7%	1,752	DCF	713
RETAIL & FOOD		847		345
Tat Konserve	43.7%	529	DCF	231
Koctas	37.1%	255	2009E EV/Sales & EV/EBITDA	95
Duzey Pazarlama	31.2%	63	2009E EV/Sales & P/BV	20
OTHERS		439		173
Altinyunus Cesme	30.0%	96	Current Mcap	29
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Setur	24.1%	92	2009E EV/Sales	22
Koc Sistem	41.1%	44	2009E EV/Sales & P/BV	18
Koc Net	76.3%	15	Book Value	11
Others			Book Value	19
Listed Total (TL mn)				12,248
Unlisted Total (TL mn)				488
Net cash				1,095
TOTAL NAV				13,831
10% conglomerate haircut				1,383
Fair Value				12,448
Current Mcap				9,178
Actual Discount to NAV				-33.6%
Discount to Fair Value				-26.3%
Upside Potential				35.6%

Source: Ata Estimates

Segmental Breakdown

	3Q09	3Q08	*y/y*	2Q09	*q/q*	*9M09*	*9M08*	*y/y*
Revenues (TL mn)								
Energy	7,468	10,673	-30%	5,867	27%	17,799	27,810	-36%
Automotive	1,741	1,658	5%	1,514	15%	4,343	5,409	-20%
Cons. Durables	1,817	1,791	1%	1,797	1%	5,082	5,257	-3%
Finance	1,247	1,368	-9%	1,496	-17%	4,223	4,390	-4%
Others	433	294	47%	536	-19%	1,200	1,131	6%
Total	12,706	15,784	-20%	11,211	13%	32,648	43,997	-26%
Revenues Contribution (%)								
Energy	59%	68%		52%		55%	63%	
Automotive	14%	11%		14%		13%	12%	
Cons. Durables	14%	11%		16%		16%	12%	
Finance	10%	9%		13%		13%	10%	
Others	3%	2%		5%		4%	3%	
EBITDA (TL mn)								
Energy	454	643	-29%	467	-3%	1,266	1,906	-34%
Automotive	164	137	20%	124	32%	438	531	-18%
Consumer Durables	319	161	99%	221	44%	666	515	29%
Finance	434	419	4%	565	-23%	1,446	1,013	43%
Other	85	32	162%	168	-50%	197	181	9%
Total	1,457	1,392	5%	1,547	-6%	4,013	4,147	-3%
EBITDA Contribution (%)								
Energy	31%	46%		30%		32%	46%	
Automotive	11%	10%		8%		11%	13%	
Consumer Durables	22%	12%		14%		17%	12%	
Finance	30%	30%		37%		36%	24%	
Other	6%	2%		11%		5%	4%	
EBITDA Margin (%)								
Energy	6.1%	6.0%		8.0%		7.1%	6.9%	
Automotive	9.4%	8.2%		8.2%		10.1%	9.8%	
Consumer Durables	17.6%	9.0%		12.3%		13.1%	9.8%	
Finance	34.8%	30.6%		37.8%		34.2%	23.1%	
Other	19.6%	11.0%		31.4%		16.4%	16.0%	
Total	11.5%	8.8%		13.8%		12.3%	9.4%	

Source: Ata Estimates

Balance Sheet, TL mn	3Q09	2Q09	q/q	2008	y/y
Total current assets	34,577	33,550	3.1%	32,683	5.8%
Cash & cash equivalents	11,267	10,534	7.0%	9,062	24.3%
Short term trade receivables	5,344	4,799	11.4%	5,056	5.7%
Inventories	4,004	4,038	-0.8%	3,646	9.8%
Other current assets	13,963	14,180	-1.5%	14,919	-6.4%
Total Long Term Assets	31,868	31,779	0.3%	32,207	-1.1%
Long Term Financial Assets	5,908	6,038	-2.2%	6,860	-13.9%
Goodwill	3,534	3,534	0.0%	3,534	0.0%
Fixed Assets	11,827	11,688	1.2%	11,570	2.2%
Other Long Terms Assets	10,599	10,519	0.8%	10,244	3.5%
Total Assets	66,445	65,329	1.7%	64,890	2.4%
Total short term liabilities	38,928	37,892	2.7%	38,107	2.2%
Short term financial loans	7,900	7,124	10.9%	9,387	-15.8%
Short term trade payables	5,247	5,073	3.4%	3,427	53.1%
Short-Term Provisions	0	0	n.m.	0	n.m.
Other short term liabilities	25,781	25,695	0.3%	25,293	1.9%
Total long term liabilities	9,391	10,232	-8.2%	10,651	-11.8%
Long term debt	6,475	7,879	-17.8%	8,191	-20.9%
Long term trade payables	0	0	n.m.	0	n.m.
Long-Term Provisions	0	0	n.m.	0	n.m.
Provisions for Retirment Pay	717	704	1.7%	680	5.3%
Deferred tax liabilities	810	777	4.2%	762	6.3%
Other long term liabilities	1,388	872	59.3%	1,018	36.4%
Total Shareholders' Equity	18,126	17,204	5.4%	16,132	12.4%
Parent Shareholders Capital	10,862	10,417	4.3%	9,749	11.4%
Minority Interests	7,265	6,788	7.0%	6,382	13.8%
Total Liabilities + Equity	66,445	65,329	1.7%	64,890	2.4%

Income Statement, TL mn	3Q09	3Q08	y/y	2Q09	q/q	9M09	9M08	y/y
Revenues from Operations	12,706	15,784	-20%	11,211	13%	32,648	43,997	-26%
Cost of sales	-9,728	-12,798	-24%	-8,125	20%	-24,041	-34,738	-31%
Gross Profit/(Loss)	2,444	2,323	5%	2,425	1%	6,662	6,827	-2%
Operating Expenses	-1,216	-1,133	7%	-1,102	10%	-3,315	-3,326	0%
EBIT	1,228	1,190	3%	1,324	-7%	3,348	3,502	-4%
Depreciation	229	205	12%	223	2%	665	646	3%
EBITDA	1,457	1,394	4%	1,547	-6%	4,013	4,147	-3%
Profit (Loss) from Subsidiaries	0	0	n.m.	0	n.m.	0	0	n.m.
Net Income / (Loss) from other Op.	-192	306	n.m.	-233	-18%	-554	1,427	n.m.
Income from other operations	*68*	*657*	*-90%*	*141*	*-52%*	*259*	*2,026*	*-87%*
Expenses from other operations	*-259*	*-351*	*-26%*	*-375*	*-31%*	*-813*	*-600*	*35%*
Net Financial Income / (Loss)	37	-86	n.m.	228	-84%	-248	-674	-63%
Financial income	*427*	*469*	*-9%*	*491*	*-13%*	*1,638*	*1,938*	*-15%*
Financial expenses	*-389*	*-555*	*-30%*	*-263*	*48%*	*-1,886*	*-2,612*	*-28%*
Pre-tax Income from Continuing Op.	1,074	1,410	-24%	1,318	-18%	2,546	4,254	-40%
Taxation on Continuing Operations	-222	-238	-7%	-133	67%	-462	-720	-36%
Profit from Continuing Operations	852	1,172	-27%	1,185	-28%	2,084	3,535	-41%
Profit After Taxes from Discontinued Op.	0	0	n.m.	0	n.m.	0	83	n.m.
Net Profit after Taxes	852	1,172	-27%	1,185	-28%	2,084	3,618	-42%
Minority Interests	386	358	8%	520	-26%	950	1,092	-13%
Parent Shares	466	814	-43%	664	-30%	1,133	2,526	-55%

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