Koc Holding

4Q10 Financial Results

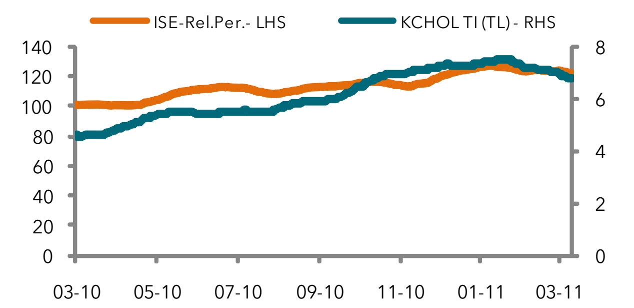
SAVE THE DATE
Ata Invest's Investor Conference in Istanbul
May 15-17th at Four Seasons Bosphorus
One-on-Ones and Major Business Owners discussing Growth Strategies

Marketperform

March 14, 2011

Stock Data, TL	
Sector	Conglomerates
Bloomberg/Reuters Ticker	KCHOL TI / KCHOL.IS
Stock Price	7.08
Price Range, 12 Months	4.66 - 7.78
Target Share Price	8.10
Upside Potential	14%
Current Market Cap, mn	17,099
Fair Value, mn	19,563
Number of Outstanding Shares, mn	2,415
Average Daily Volume, 3 Months, mn	29.8
Free Float	20%

Absolute & Relative Performances



	4Q10	4Q09	3Q10	2010	2009
Gross Margin	16.3%	17.8%	18.0%	17.1%	19.8%
EBITDA Margin	7.2%	7.8%	10.8%	9.4%	9.8%
Net Margin	2.0%	2.4%	4.7%	3.2%	3.2%
Fin Debt/T.Assets	20.8%	22.5%	19.4%	20.8%	22.5%
SHE/T. Assets	25.9%	28.3%	27.6%	25.9%	28.3%

"In line with expectations..."

Slightly below our TL 346 mn call, Koc Holding reported TL 310 mn net earnings for 4Q10, favorable compared to TL 296 mn a year ago. A higher bottom line is achieved through stronger operational profitability, despite the negative impact of Tupras' provisioning and FX losses booked in 4Q10. The bottom line figure reached TL 1,734 mn on a full-year scale, implying a 21% increase over TL 1,429 mn in 2009.

On the operating front, revenues increased by 26% y/y in 4Q10 to TL 15.3 bn and the full-year top line materialized at TL 53.8 bn, representing 20% growth over the 2009 figure of TL 44.8 bn. On the back of a 7.2% EBITDA margin, Koc Holding generated TL 1,100 mn EBITDA in 4Q10, vs. TL 942 mn a year ago, bringing the full-year EBITDA to TL 5,073 mn, in comparison to TL 4,401 mn EBITDA in 2009.

Operating revenues: Energy and automotive segments fuel consolidated top line growth...

In the underlying quarter, Koc Holding achieved a 26% y/y top line increase, driven by non-financial segments-energy and automotive in particular. Accounting for 60% of consolidated top line, proceeds from the energy segment rose 30% y/y, reflecting higher average product prices and higher sales volume in Tupras' case. Thanks to a robust domestic market, revenues from automotive segment increased by 50% y/y, reflecting strong top line growth of all three of the group's subsidiaries-Tofas, Ford Otosan and Turk Traktor.

TL mn	4Q10	4Q09	*y/y*	3Q10	*q/q*	2010	2009	*y/y*
Sales	15,338	12,134	*26%*	13,879	11%	53,812	44,841	*20%*
Gross Profit	2,496	2,164	*15%*	2,494	0%	9,192	8,876	*4%*
Reported EBITDA	1,100	942	*17%*	1,495	-26%	5,073	4,401	*15%*
Net other inc/(exp)	-457	-399	*15%*	187	n.m.	-379	-1,191	*-68%*
Net Earnings	310	296	*5%*	659	-53%	1,734	1,429	*21%*
Net Cash/(Debt)	-2,317	-2,961	*-22%*	-1,023	127%	-2,317	-2,961	*-22%*
Net FX position	-4,485	-3,600	*25%*	-3,371	33%	-4,485	-3,600	*25%*

Multiples	2011E	2012E	2013E
EV/EBITDA	3.2 x	3.1 x	2.7 x
EV/Sales	0.3 x	0.3 x	0.2 x
P/E	9.4 x	10.6 x	9.0 x

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Operating Profit: Energy profitability hurt due to provisioning while finance and automotive margins improved y/y…

Koc Holding generated TL 1.1 bn EBITDA with a margin of 7.2% in the last quarter, suggesting 16% y/y growth over TL 942 mn (7.8% margin) in 4Q09. This brought the full-year EBITDA to TL 5,073 mn, vs. TL 4,401 mn in 2009, implying margin deterioration from 9.8% in FY09 to 9.4% in FY10.

Except for the energy segment, all business lines have achieved margin expansion compared to a year ago.

Although Tupras' operational performance was intact during the last quarter, the energy segment faced a decline due to Tupras' TL 181 mn provisioning -on the back of an ongoing tax dispute, while full-year energy segment EBITDA was 3% below the 2009 figure.

Despite the weaker-than-expected P&L performance of YKB in 4Q10, finance segment profitability was better y/y on the back of reversals, stemming from NPL sale and collections. Accordingly, its EBITDA for the period was TL 324 mn, vs. TL 150 mn in 4Q09. On full-year scale, the segment improved its margin from 19% in 2009 to 31% in 2010.

Growth in automotive profitability was eye-catching, at 58% y/y in 4Q10, thanks to a strong domestic environment. This translates into a 10.1% EBITDA margin, improving from 9.5% in 4Q10.

Non-operating items: FX losses curb bottom line performance…

FX losses amounted to TL 239 mn in last quarter vs TL 88 mn net FX losses in 410. On a consolidated basis, Koc Holding has a US$ 2.9 bn short FX position as of YE10, compared to US$ 2.4 bn a quarter ago. 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, net interest expenses were reduced to TL 3 mn in the underlying quarter, vs. TL 58 mn a year ago, thanks to better cash position. Consolidated net cash (excluding finance) further improved to US$ 1.0 bn from US$ 9 mn in the previous quarter, thanks to Tupras' and Arcelik's lower net working capital requirement on the back of increased payables. And on a stand alone basis, the conglomerate holds a US$ 798 mn net cash position as of 4Q10.

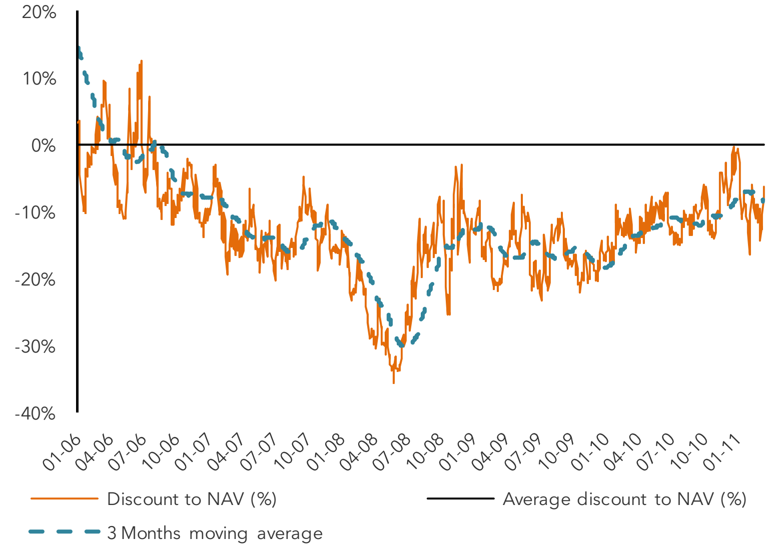
During the web-cast held on Friday, Koc Holding management also shared its guidance for 2011. Key takeaways are as follows;

- Top line growth is expected at 9% in 2011.
- Consolidated EBITDA is projected to grow by 9% y/y in 2011, where higher capacity utilization rate in automotive sector is the expected to be the key driver.
- Exports are expected to reach US$ 8.6 bn, representing 12% y/y growth over 2010.
- Combined investment budget is TL 2.7 bn, the bulk of which is Tupras' residium upgrade project and Ford Otosan's new transit investment.

Conclusion & Valuation…

The results were broadly in line with our expectations, and we will revise our forecasts in light of the FY10 results and management guidance on 2011. In the meantime, we maintain our Marketperform recommendation for the stock, which trades at a 6% discount to current NAV, thus below its historical average of 12% over the last 5 years.

Historical NAV Chart



Source: Ata Invest estimates

Segmental Breakdown

	4Q10	4Q09	*y/y*	3Q10	*q/q*	*2010*	*2009*	*y/y*
Revenues (TL mn)								
Finance	1,357	1,199	*13%*	1,252	*8%*	4,990	5,382	*-7%*
Non-Finance	13,981	10,935	*28%*	12,627	*11%*	48,822	39,459	*24%*
Energy	8,934	6,852	*30%*	8,341	*7%*	31,412	24,488	*28%*
Automotive	2,597	1,737	*50%*	1,780	*46%*	7,767	5,948	*31%*
Consumer Durables	1,804	1,763	*2%*	1,796	*0%*	7,052	6,810	*4%*
Other	646	583	*11%*	711	*-9%*	2,592	2,213	*17%*
Total	15,338	12,134	*26%*	13,879	*11%*	53,812	44,841	*20%*
Revenues Contribution (%)								
Finance	9%	10%		9%		9%	12%	
Non-Finance	91%	90%		91%		91%	88%	
Energy	58%	56%		60%		58%	55%	
Automotive	17%	14%		13%		14%	13%	
Consumer Durables	12%	15%		13%		13%	15%	
Other	4%	5%		5%		5%	5%	
Reported EBITDA (TL mn)								
Finance	324	150	*116%*	450	*-28%*	1,560	1,046	*49%*
Non-Finance	776	792	*-2%*	1,045	*-26%*	3,513	3,355	*5%*
Energy	323	415	*-22%*	535	*-40%*	1,652	1,701	*-3%*
Automotive	262	166	*58%*	189	*39%*	788	602	*31%*
Consumer Durables	176	158	*11%*	232	*-24%*	853	826	*3%*
Other	15	54	*-72%*	90	*-83%*	219	226	*-3%*
Total	1,100	942	17%	1,495	-26%	5,073	4,401	15%
EBITDA Contribution (%)								
Finance	29%	16%		30%		31%	24%	
Non-Finance	71%	84%		70%		69%	76%	
Energy	29%	44%		36%		33%	39%	
Automotive	24%	18%		13%		16%	14%	
Consumer Durables	16%	17%		16%		17%	19%	
EBITDA Margin (%)								
Finance	24%	12%		36%		31%	19%	
Non-Finance	6%	7%		8%		7%	9%	
Energy	4%	6%		6%		5%	7%	
Automotive	10%	10%		11%		10%	10%	
Consumer Durables	10%	9%		13%		12%	12%	
Total	7.2%	7.8%		10.8%		9.4%	9.8%	

Koc Holding NAV, TL mn

Company	Holding's Stake	Current Value	Target Value	Valuation Method	CNAV	TNAV
AUTOMOTIVE		11,280	13,737		4,511	5,444
Ford Otosan	38%	4,825	5,965	DCF	1,856	2,294
Tofas Fabrika	38%	4,030	5,251	DCF	1,515	1,974
Turk Traktor	38%	1,532	1,628	DCF	578	614
Otokar	45%	576	576	Current Mcap	257	257
Otokoc	96%	317	317	2010E EV/Sales, EV/EBITDA & P/BV	305	305
CONSUMER DURABLES		4,932	6,112		1,945	2,423
Arcelik	41%	4,784	5,964	Current Mcap	1,938	2,416
Arcelik LG Klima	5%	148	148	2010E EV/Sales, EV/EBITDA & P/BV	7	7
FINANCIAL SERVICES		16,235	19,709		6,105	7,410
Koc Financial Services	38%	16,108	19,582	NAV	6,049	7,353
Koc Consumer Fin.	45%	127	127	1H10 Book Value	57	57
ENERGY		6,229	7,379		3,789	4,453
Enerji Yatirimlari	75%	3,655	4,230	NAV	2,742	3,172
Aygaz	41%	2,574	3,149	DCF	1,047	1,281
RETAIL & FOOD		860	1,046		342	423
Tat Konserve	44%	462	648	DCF	202	283
Koctas	37%	269	269	2010E EV/Sales & EV/EBITDA	100	100
Duzey Pazarlama	31%	128	128	2010E EV/Sales & P/BV	40	40
OTHERS		832	832		323	323
Altinyunus Cesme	30%	189	189	Current Mcap	57	57
Marmaris Altinyunus	37%	98	98	Current Mcap	36	36
Beko Ticaret	39%	321	321	2010E EV/Sales & P/BV	125	125
Setur	24%	135	135	2010E EV/Sales	32	32
Koc Sistem	41%	83	83	2010E EV/Sales & P/BV	34	34
Koc Net	100%	7	7	Book Value	7	7
Others				Book Value	32	32
Listed Total					16,275	19,737
Unlisted Total					739	739
Net Cash					1,260	1,260
TOTAL NAV					18,274	21,736
10% conglomerate haircut					1,827	2,174
Fair Value					16,447	19,563
Current Mcap					17,099	17,099
Actual Discount to NAV					-6.4%	-21.3%
Discount to Fair Value					4.0%	-12.6%
Upside Potential					-3.8%	14.4%

Source: Ata Estimates

Balance Sheet, TL mn	4Q10	3Q10	q/q	4Q09	y/y
Total current assets	**41,655**	**38,870**	*7.2%*	**33,616**	*23.9%*
Cash & cash equivalents	14,561	13,387	*8.8%*	11,960	*21.8%*
Short term trade receivables	5,098	5,301	*-3.8%*	4,747	*7.4%*
Inventories	4,193	4,130	*1.5%*	3,361	*24.8%*
Other current assets	17,803	16,052	*10.9%*	13,548	*31.4%*
Total Long Term Assets	**39,487**	**35,350**	*11.7%*	**32,771**	*20.5%*
Long Term Financial Assets	8,370	6,020	*39.0%*	6,035	*38.7%*
Goodwill	3,526	3,518	*0.3%*	3,518	*0.2%*
Fixed Assets	11,830	11,801	*0.2%*	11,949	*-1.0%*
Other Long Terms Assets	15,761	14,011	*12.5%*	11,268	*39.9%*
Total Assets	**81,143**	**74,220**	*9.3%*	**66,386**	*22.2%*
Total short term liabilities	**49,280**	**43,639**	*12.9%*	**38,158**	*29.1%*
Short term financial loans	8,846	7,551	*17.1%*	8,492	*4.2%*
Short term trade payables	7,549	5,803	*30.1%*	4,083	*84.9%*
Short-Term Provisions	0	0	*n.m.*	0	*n.m.*
Other short term liabilities	32,885	30,284	*8.6%*	25,582	*28.5%*
Total long term liabilities	**10,885**	**10,082**	*8.0%*	**9,447**	*15.2%*
Long term debt	8,032	6,858	*17.1%*	6,428	*25.0%*
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	789	782	*0.8%*	764	*3.3%*
Deferred tax liabilities	665	883	*-24.7%*	829	*-19.7%*
Other long term liabilities	1,398	1,557	*-10.2%*	1,426	*-2.0%*
Total Shareholders' Equity	**20,978**	**20,500**	*2.3%*	**18,782**	*11.7%*
Parent Shareholders Capital	**12,574**	**12,233**	*2.8%*	**11,170**	*12.6%*
Minority Interests	**8,404**	**8,267**	*1.7%*	**7,612**	*10.4%*
Total Liabilities + Equity	**81,143**	**74,220**	*9.3%*	**66,386**	*22.2%*

Income Statement, TL mn	4Q10	4Q09	y/y	3Q10	q/q	2010	2009	y/y
Revenues from Operations	**15,338**	**12,134**	*26%*	**13,879**	*11%*	**53,812**	**44,841**	*20%*
Cost of sales	-12,251	-9,524	*29%*	-10,851	*13%*	-42,468	-33,575	*26%*
Gross Profit/(Loss)	2,496	2,164	*15%*	2,494	*0%*	9,192	8,876	*4%*
Operating Expenses	-1,386	-1,152	*20%*	-1,253	*11%*	-4,927	-4,525	*9%*
EBIT	1,110	1,012	*10%*	1,241	*-11%*	4,265	4,350	*-2%*
Depreciation	245	260	*-6%*	246	*-1%*	968	925	*5%*
Reported EBITDA	**1,100**	**942**	***17%***	**1,495**	***-26%***	**5,073**	**4,401**	***15%***
Profit (Loss) from Subsidiaries	0	0	*n.m.*	0	*n.m.*	0	0	*n.m.*
Net Income / (Loss) from other Op.	-255	-330	*-23%*	7	*n.m.*	-160	-874	*-82%*
Income from other operations	*175*	*42*	*317%*	*83*	*112%*	*467*	*301*	*55%*
Expenses from other operations	*-430*	*-372*	*16%*	*-76*	*470%*	*-627*	*-1,175*	*-47%*
Net Financial Income / (Loss)	-202	-69	*191%*	179	*n.m.*	-219	-317	*-31%*
Financial income	*492*	*163*	*203%*	*408*	*21%*	*1,920*	*1,801*	*7%*
Financial expenses	*-694*	*-232*	*199%*	*-229*	*203%*	*-2,139*	*-2,118*	*1%*
Pre-tax Income from Continuing Op.	653	613	*6%*	1,428	*-54%*	3,886	3,159	*23%*
Taxation on Continuing Operations	-140	-56	*148%*	-254	*-45%*	-748	-518	*44%*
Profit from Continuing Operations	513	557	*-8%*	1,174	*-56%*	3,138	2,641	*19%*
Profit After Taxes from Discontinued Op.	0	0	*n.m.*	0	*n.m.*	0	0	*n.m.*
Net Profit after Taxes	513	557	*-8%*	1,174	*-56%*	3,138	2,641	*19%*
Minority Interests	203	261	*-22%*	515	*-60%*	1,404	1,211	*16%*
Parent Shares	310	296	*5%*	659	*-53%*	1,734	1,429	*21%*

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