

## KOC HOLDING

March 14, 2011

## In Line

Raised from L/T HOLD to BUY - MARKETPERFORM (S/T)

Current Price (TRL)	7.08	Target Price (TRL)	8.7
Market Cap (TRL / US\$ mn)	17,099 / 10,832	12M Abs / Rel Return (%)	52 / 25
P/E (2011E)	8.1x	P/B (2011E)	1.1x

(TRLmn)	2010	2009	yoy Δ	4Q10	yoy Δ	qoq Δ
Revenues	53,812	44,841	20.0%	15,338	26.4%	10.5%
EBITDA	5,073	4,401	15.3%	1,100	16.7%	-26.4%
Net Earnings	1,734	1,429	21.4%	310	4.7%	-53.0%
EBITDA Margin (%)	9.4	9.8	-0.4 pp	7.2	-0.6 pp	-3.6 pp

## How were the results?

- Earnings were TRL310mn in 4Q10 (+5% yoy, EFGI: TRL316mn, Cons.: TRL425mn) on EBITDA of TRL1.1bn (+17% yoy, EFGI: TRL0.93bn, Cons.: TRL1.34bn) and sales of TRL15.3bn (+26% yoy, EFGI: TRL14.8bn, Cons.: TRL15.1bn).

## Comment

- The increase in revenues yoy in 4Q10 was driven, similar to that for the full-year, mainly by those in automotive and energy, which expanded by 50% and 30%. The growth in revenues for the finance and appliance segments slowed down in 4Q10 to 11% and 2%, respectively. The growth in revenues in all segments except for energy was driven by volume growth, while that in energy was more due to price increases on higher raw material costs (oil and derivatives) than volumes. The shares of energy and automotives in revenues rose by 2pp and 3pp to 58% and 17%, respectively, in 4Q10, while their shares for all of 2010 grew by 4pp and 1pp, respectively, to 58% (again) and 14%. Finance segment saw its share ease by 3pp for the full-year to 9%, due to a 7% decline in revenues on lower interest rates.
- The breakdown changes significantly when it comes to operating profit. While the automotive segment's operating profit rose substantially by c.90% yoy in 4Q10, its share in total operating profit increased by 8pp to 35%. The finance segment, like in earlier quarters of 2010, outperformed all the segments with operating profit up by 135%, with its share in total increasing by 16pp to 35%. For all of 2010, finance and automotive segments significantly outperformed the other segments, with 39% and 54% yoy rises, respectively, and raising their shares in total to 36% and 31%. 2010 was the first time where finance segment's share in operating profit exceeded that of energy at Koc Holding for the full-year. The management indicated that finance (esp. on lower loan loss provisions) and automotive (higher volumes) segments outperformed the expectations at the start of 2010, while energy and appliance segments underperformed.
- Investment spending remained nearly unchanged at TRL0.5bn in 4Q10, while it eased by 14% for the full-year to TRL1.2bn, mostly due to considerably lower investment spending in energy and "other" segments. Koc Holding's non-financials' consolidated headline net cash position rose to US\$1.0bn at end-4Q10 from US\$0.1bn a quarter ago and a net debt of US\$1.3bn a year ago, while Koc Holding's stand-alone net cash position remained unchanged at around US\$0.8bn. The qoq and yoy change has been mainly due to the net cash/debt position change at the energy (Tupras) segment and, to some extent, at the appliance (Arcelik) and automotive (Tofas) segments and the Tupras SPV.
- Management's guidance for topline and EBIT for 2011 was TRL57bn (6% growth) and TRL4.5bn (9% growth), while we forecast 15% and 2% growth, respectively. Management expect investments to more than double to TRL2.7bn in 2011 due to higher investments at energy (Tupras) and automotives (Ford Otosan). The management also re-confirmed Koc Holding's interest in further expanding exposure to the energy (electric utilities) segment through M&As.

## Net/Net

- 4Q10 results are broadly in line with our estimates, but we raise our 12-month target price to TRL8.7 from TRL8.18 per share, due to the recent changes in our macro and cost of capital forecasts. As the stock has a 23% target upside with our new target price, we raise our L/T rating to BUY from HOLD. While 2011 is likely to be a challenging year for Koc Holding's finance segment on the profits side, we expect higher profits from its export-oriented consumer businesses (automotives and appliances) and FX-linked energy business to offset such a weakness. In addition, privatisations and consolidation that are likely to speed up in electric utilities in Turkey in 2011 are expected to present Koc Holding with sizeable inorganic growth opportunities.

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**Koc Holding - Announced Financials (IFRS Basis; TRLmn)**

<i>Income Statement</i>	<i>YE10</i>	<i>YE09</i>	<i>YoY Δ</i>	<i>4Q10</i>	<i>4Q09</i>	<i>YoY Δ</i>	<i>3Q10</i>	<i>QoQ Δ</i>
<b>Net Sales</b>	<b>53,812</b>	<b>44,841</b>	<b>20.0%</b>	<b>15,338</b>	<b>12,134</b>	<b>26.4%</b>	<b>13,879</b>	<b>10.5%</b>
COGS	-44,621	-35,965	24.1%	-12,842	-9,970	28.8%	-11,385	12.8%
<b>Gross Profit</b>	<b>9,192</b>	<b>8,876</b>	<b>3.6%</b>	<b>2,496</b>	<b>2,164</b>	<b>15.4%</b>	<b>2,494</b>	<b>0.1%</b>
<b>EBITDA</b>	<b>5,073</b>	<b>4,401</b>	<b>15.3%</b>	<b>1,100</b>	<b>942</b>	<b>16.7%</b>	<b>1,495</b>	<b>-26.4%</b>
Operating Exp.	-4,927	-4,525	8.9%	-1,386	-1,152	20.3%	-1,253	10.7%
Net Other Income	-160	-874	-81.7%	-255	-330	-22.6%	7	n.m.
<b>Operating Profit</b>	<b>4,105</b>	<b>3,476</b>	<b>18.1%</b>	<b>855</b>	<b>682</b>	<b>25.3%</b>	<b>1,248</b>	<b>-31.5%</b>
Net Financial Exp	-219	-317	-31.0%	-202	-69	191.4%	179	n.m.
Taxes	-748	-518	44.2%	-140	-56	147.8%	-254	-44.9%
Discont. Operations	0	0	n.m.	0	0	n.m.	0	n.m.
Minority Interest	-1,404	-1,211	15.9%	-203	-261	-22.0%	-515	-60.5%
<b>Net Profit</b>	<b>1,734</b>	<b>1,429</b>	<b>21.4%</b>	<b>310</b>	<b>296</b>	<b>4.7%</b>	<b>659</b>	<b>-53.0%</b>
<b>Margins</b>								
<i>Gross</i>	17.1%	19.8%	-2.7 pp	16.3%	17.8%	-1.6 pp	18.0%	-1.7 pp
<b>EBITDA</b>	<b>9.4%</b>	<b>9.8%</b>	<b>-0.4 pp</b>	<b>7.2%</b>	<b>7.8%</b>	<b>-0.6 pp</b>	<b>10.8%</b>	<b>-3.6 pp</b>
<i>Operating</i>	7.6%	7.8%	-0.1 pp	5.6%	5.6%	0.0 pp	9.0%	-3.4 pp
<i>Eff. Tax Rate</i>	20.1%	22.7%	-2.6 pp	35.1%	19.9%	15.2 pp	17.7%	17.4 pp
<b>Net</b>	<b>3.2%</b>	<b>3.2%</b>	<b>0.0 pp</b>	<b>2.0%</b>	<b>2.4%</b>	<b>-0.4 pp</b>	<b>4.7%</b>	<b>-2.7 pp</b>
<b>Balance Sheet</b>								
Total Assets	81,143	66,386	22.2%	81,143	66,386	22.2%	74,220	9.3%
<b>Equity</b>	<b>12,574</b>	<b>11,170</b>	<b>12.6%</b>	<b>12,574</b>	<b>11,170</b>	<b>12.6%</b>	<b>12,233</b>	<b>2.8%</b>
<b>Financial Ratios</b>								
Debt/Equity	545.3%	494.3%	51.0 pp	545.3%	494.3%	51.0 pp	506.7%	38.6 pp

Source: The Company, EFG Istanbul Research

**Koc Holding Announced Financials by Business Line**

(TRLmn)	Share (2010)	YoY Change	2010	2009	YoY Change	Share (4Q10)	YoY Change	4Q10	4Q09	YoY Change
<b>Net Revenues</b>	<b>100%</b>		<b>53,812</b>	<b>44,841</b>	<b>20%</b>	<b>100%</b>		<b>15,338</b>	<b>12,134</b>	<b>26%</b>
<b>Non-Finance</b>	<b>91%</b>	<b>3 pp</b>	<b>48,822</b>	<b>39,459</b>	<b>24%</b>	<b>91%</b>	<b>1 pp</b>	<b>13,981</b>	<b>10,935</b>	<b>28%</b>
Energy	58%	4 pp	31,412	24,488	28%	58%	2 pp	8,934	6,852	30%
Automotive	14%	1 pp	7,767	5,948	31%	17%	3 pp	2,597	1,737	50%
Appliance	13%	-2 pp	7,052	6,810	4%	12%	-3 pp	1,804	1,763	2%
Other	5%	0 pp	2,592	2,213	17%	4%	-1 pp	646	583	11%
<b>Finance</b>	<b>9%</b>	<b>-3 pp</b>	<b>4,990</b>	<b>5,382</b>	<b>-7%</b>	<b>9%</b>	<b>-1 pp</b>	<b>1,357</b>	<b>1,199</b>	<b>13%</b>
<b>EBIT</b>	<b>100%</b>		<b>4,105</b>	<b>3,476</b>	<b>18%</b>	<b>100%</b>		<b>855</b>	<b>682</b>	<b>25%</b>
<b>Non-Finance</b>	<b>64%</b>	<b>-8 pp</b>	<b>2,640</b>	<b>2,523</b>	<b>5%</b>	<b>65%</b>	<b>-16 pp</b>	<b>558</b>	<b>556</b>	<b>0%</b>
Energy	31%	-7 pp	1,285	1,348	-5%	27%	-19 pp	233	318	-27%
Automotive	14%	2 pp	564	406	39%	24%	8 pp	207	111	87%
Appliance	16%	-2 pp	652	635	3%	14%	-3 pp	124	119	4%
Other	3%	0 pp	140	134	5%	-1%	-2 pp	-5	8	-167%
<b>Finance</b>	<b>36%</b>	<b>8 pp</b>	<b>1,465</b>	<b>954</b>	<b>54%</b>	<b>35%</b>	<b>16 pp</b>	<b>297</b>	<b>127</b>	<b>135%</b>
<b>EBIT Margin</b>			<b>7.6%</b>	<b>7.8%</b>	<b>-0.1 pp</b>			<b>5.6%</b>	<b>5.6%</b>	<b>0.0 pp</b>
<b>Non-Finance</b>			<b>5.4%</b>	<b>6.4%</b>	<b>-1.0 pp</b>			<b>4.0%</b>	<b>5.1%</b>	<b>-1.1 pp</b>
Energy			4.1%	5.5%	-1.4 pp			2.6%	4.6%	-2.0 pp
Automotive			7.3%	6.8%	0.4 pp			8.0%	6.4%	1.6 pp
Appliance			9.2%	9.3%	-0.1 pp			6.9%	6.8%	0.1 pp
Other			5.4%	6.0%	-0.6 pp			-0.8%	1.4%	-2.2 pp
<b>Finance</b>			<b>29.3%</b>	<b>17.7%</b>	<b>11.6 pp</b>			<b>21.9%</b>	<b>10.6%</b>	<b>11.4 pp</b>
<b>EBITDA</b>	<b>100%</b>		<b>5,073</b>	<b>4,401</b>	<b>15%</b>	<b>100%</b>		<b>1,100</b>	<b>942</b>	<b>17%</b>
<b>Non-Finance</b>	<b>69%</b>	<b>-7 pp</b>	<b>3,513</b>	<b>3,355</b>	<b>5%</b>	<b>71%</b>	<b>-14 pp</b>	<b>776</b>	<b>792</b>	<b>-2%</b>
Energy	33%	-6 pp	1,652	1,701	-3%	29%	-15 pp	323	415	-22%
Automotive	16%	2 pp	788	602	31%	24%	6 pp	262	166	58%
Appliance	17%	-2 pp	853	826	3%	16%	-1 pp	176	158	11%
Other	4%	-1 pp	219	226	-3%	1%	-4 pp	15	54	-72%
<b>Finance</b>	<b>31%</b>	<b>7 pp</b>	<b>1,560</b>	<b>1,046</b>	<b>49%</b>	<b>29%</b>	<b>14 pp</b>	<b>324</b>	<b>150</b>	<b>116%</b>
<b>Investments</b>	<b>100%</b>		<b>1,246</b>	<b>1,444</b>	<b>-14%</b>	<b>100%</b>		<b>518</b>	<b>505</b>	<b>3%</b>
<b>Non-Finance</b>	<b>90%</b>	<b>-3 pp</b>	<b>1,125</b>	<b>1,341</b>	<b>-16%</b>	<b>89%</b>	<b>-4 pp</b>	<b>459</b>	<b>468</b>	<b>-2%</b>
Energy	31%	-3 pp	390	497	-22%	32%	10 pp	167	112	49%
Automotive	29%	3 pp	357	375	-5%	25%	1 pp	130	121	7%
Appliance	21%	6 pp	257	212	22%	23%	9 pp	117	69	70%
Other	10%	-8 pp	120	257	-53%	9%	-24 pp	45	166	-73%
<b>Finance</b>	<b>10%</b>	<b>3 pp</b>	<b>121</b>	<b>103</b>	<b>17%</b>	<b>11%</b>	<b>4 pp</b>	<b>59</b>	<b>37</b>	<b>59%</b>

Source: The Company

## KOC HOLDING (KCHOL TI)

11-Mar-11		Current SOTP					Target SOTP					
(US\$ mn)	Direct (Effective) Stake	Valuation Method	Valuation Multiple	Current Market Cap.	KCHOL's Stake	Weight in NAV	Valuation Method	Valuation Multiple	Estimated Target Value	KCHOL's Stake	Weight in NAV	
<b>Automotive</b>					<b>2,756</b>	<b>24%</b>				<b>3,094</b>	<b>23%</b>	
	Ford Otosan	38%	Market Value	1.00	3,057	1,151	10%	DCF	1.00	3,649	1,374	10%
	Tofas	38%	Market Value	1.00	2,553	960	8%	DCF	1.00	2,767	1,040	8%
	Turk Traktor	40%	Market Value	1.00	970	388	3%	Market Value	1.00	970	388	3%
	Otokar	43%	Market Value	1.00	365	157	1%	DCF	1.00	312	134	1%
	Otokoc	96%	EV/EBITDA	5.00	104	100	1%	EV/EBITDA	6.00	163	157	1%
	Other					1	0%				1	0%
<b>Appliance</b>					<b>1,259</b>	<b>11%</b>				<b>1,557</b>	<b>12%</b>	
	Arcelik	41%	Market Value	1.00	3,031	1,257	11%	SOTP	1.00	3,748	1,555	12%
	Other					2	0%				2	0%
<b>Energy</b>					<b>3,187</b>	<b>28%</b>				<b>3,307</b>	<b>25%</b>	
	Tupras	38%	Market Value	1.00	6,599	2,524	22%	DCF	1.00	6,656	2,546	19%
	Aygaz	41%	Market Value	1.00	1,631	663	6%	SOTP	1.00	1,872	762	6%
	Other					0	0%				0	0%
<b>Retail &amp; Food</b>					<b>265</b>	<b>2%</b>				<b>357</b>	<b>3%</b>	
	Tat Konserve	45%	Market Value	1.00	293	132	1%	Market Value	1.00	421	190	1%
	Koctas	28%	EV/EBITDA	8.00	463	129	1%	EV/EBITDA	10.00	587	164	1%
	Other					4	0%				4	0%
<b>Finance</b>					<b>3,911</b>	<b>34%</b>				<b>4,830</b>	<b>36%</b>	
	Yapi Kredi Bankasi	30%	Market Value	1.00	12,474	3,783	33%	Warranted Equity Val.	1.00	15,445	4,683	35%
	Koc Finans	45%	P/BV	1.50	121	54	0%	P/BV	2.00	161	72	1%
	Other					75	1%				75	1%
<b>Other</b>					<b>123</b>	<b>1%</b>				<b>123</b>	<b>1%</b>	
	Marmaris Altinyunus	37%	Market Value	1.00	62	23	0%	Market Value	1.00	62	23	0%
	Cesme Altinyunus	30%	Market Value	1.00	119	36	0%	Market Value	1.00	119	36	0%
	Other					64	1%				64	0%
<b>Total Value From Participations</b>					<b>11,501</b>	<b>99%</b>				<b>13,268</b>	<b>100%</b>	
<b>Listed</b>							11,073	96%			12,730	95%
<b>Unlisted</b>							428	4%			538	4%
<b>Net Cash (Debt)</b>							62	1%			62	0%
<b>Total SOTP</b>					<b>11,564</b>					<b>13,331</b>		
<b>MCAP</b>							10,832				10,832	
<b>Premium / (Discount) to SOTP</b>							-6%				-19%	

Source: EFG Istanbul Research Estimates

### KCHOL - Historical Premium / Discount to Current Sum-Of-The-Parts†

