

Change in recommendation

Turkey

Koc Holding

Reduce overweight

Diversified industrials

Price (13/05/09)

TL3.44

The NAV discount has narrowed to a low 6%. We believe the stock should be a market performer at these levels. Therefore, we would reduce exposure or wait for better entry levels before considering buying again. Downgrade to HOLD.

Downgrade following the strong rally (up 54% since 1 April). The shares have staged a strong rally, outperforming ISE National by 19pp and ISE Banks by 14pp since 1 April. The stock has also outperformed two of the major listed subsidiaries over the same period: Yapi Kredi Bank by 11pp and Tupras by 18pp. Koc Holding is now trading at a narrower 6% discount to NAV, versus 15.4% on 1 April. We recommend investors wait for better entry levels if they do not hold the stock, or reduce exposure if they do. On the operations, there is some improvement in the cyclical divisions as expected, notably Tofas and Ford Otomotiv, but this is induced by temporary tax cuts and hence is unlikely to sustain the rest of the year. Earnings visibility remains low, and we do not change our revenue model. Our target price increases from TL2.91 to TL3.21 to incorporate NAV revisions: we use a sum-of-the-parts methodology to estimate future NAV, to which we then apply a discount to derive our target price.

Risks. Negative catalysts for the stock include weak 1Q financials, weaker currency and an end to tax cuts currently helping the consumer division.

Forecasts and ratios (TLm)

Year to Dec	2007	2008A	2009F	2010F	2011F	2012F
Sales	41,420	49,798	41,811	43,987	47,770	51,744
Operating Income	3,514	3,700	2,081	2,180	3,412	4,714
Pretax income	4,067	3,081	796	958	2,167	3,382
Net income	2,295	2,024	520	615	1,387	2,164
BVPS (TL)	7.48	8.02	8.27	8.58	9.27	10.34
EPS (TL)	1.14	1.01	0.26	0.31	0.69	1.08
Adj EPS (TL)	0.94	0.22	0.24	0.28	0.66	1.05
PER (x)	3.1	3.5	13.7	11.6	5.1	3.3
Adj PER (x)	3.7	16.1	14.8	12.5	5.3	3.4
PBR (x)	0.47	0.44	0.43	0.41	0.38	0.34
ROE (%)	15.2	13.0	3.2	3.6	7.7	11.0

Source: Company data, ING estimates

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Previously: Buy

Hold

13 May 2009

Target price (12 mth): Previously TL2.91

TL3.21

Bloomberg

KCHOL TI

12-month forecast returns (%)

Share price	-7.7
Dividend	0.0
12m f'cst total return	-7.7

NAV summary

	TL/share	%
Yapi Kredi	1.36	35.8
Ford Oto	0.48	12.7
Holding company cash	0.77	20.4
Others	1.18	31.1
Total	3.80	100.0

Key ratios (%)

	2008	2009F
Gross margin	14.4	13.1
Operating margin	6.7	4.4
Net margin	3.6	1.1
ROE	13.0	3.1

Share data

No. of shares (m)	2,013
Daily t/o (US\$m)	30.0
Free float (%)	30.0
Mkt cap (US\$m)	4,474
Mkt cap (TLm)	6,964

Share price performance



Source: Bloomberg

Net asset value

Fig 1 Koc Holding net asset value estimate

Company	Ticker	Shares out Holding (m)	Holding (%)	Price Shares held (TL)	Value (m)	Value Assets (TLm)(US\$m)	Value Assets (%)	Value per share (TL)	Valuation	
Listed companies										
Automotives										
Ford Otosan	FROTO TI	350.9	37.7	6.85	132.2	905	577	12.2	0.45	Market value
Otokar	OTKAR TI	24.0	44.7	10.80	10.7	116	74	1.6	0.06	Market value
Tofas	TOASO TI	500.0	37.6	2.46	188.0	462	295	6.2	0.23	Market value
Turk Traktor	TTRAK TI	53.4	37.5	4.84	20.0	97	62	1.3	0.05	Market value
Consumer										
Arcelik	ARCLK TI	659.4	39.1	2.25	258.1	581	370	7.8	0.29	Market value
Tat	TATKS TI	136.0	37.1	1.73	50.5	87	56	1.2	0.04	Market value
Finance										
KFS (Yapi Kredi)	YKBNK TI	4347.1	26.6	2.27	1154.7	2,621	1,670	35.4	1.30	Market value
Energy										
Aygaz	AYGAZ TI	300.0	40.7	2.28	122.0	278	177	3.8	0.14	Market value
EYAS	TUPRS TI	250.4	75.0	16.50	187.8	460	293	6.2	0.23	Tupras MV adj for EYAS net debt
Tourism										
Marmaris Altinyunus	MAALT TI	5.5	38.4	7.40	2.1	15.7	9.99	0.2	0.01	Market value
Altinyunus Cesme	AYCES TI	16.8	30.0	3.32	5.0	16.7	10.64	0.2	0.01	Market value
Total listed assets					5,640	3,594	76.1	2.80	Market value	
Unlisted companies					204	130	2.8	0.10	Consensus	
Net cash					1,569	1,000	21.2	0.78	Management	
NAV					7,413	4,724	100.0	3.68	ING estimate	

Pricing date: 13 May 2009

Source: Company data, ING estimates

Fig 2 Koc Holding NAV relative to share price with 3m and 12m moving averages



Source: Bloomberg and ING

Target net asset value

Fig 3 Koc Holding target net asset value estimate

Company	Ticker	Shares out Holding (m)	Target (%)	Target (TL)	Shares held (m)	Value (TLm)	Value Assets (US\$m)	Value per share (%)	Value per share (TL)	Valuation method
Listed companies										
Automotives										
Ford Otosan	FROTO TI	350.9	37.7	7.20	132.2	951	606	11.5	0.47	Consensus target price
Otokar	OTKAR TI	24.0	44.7	12.99	10.7	139	89	1.7	0.07	Consensus target price
Tofas	TOASO TI	500.0	37.6	2.84	188.0	534	340	6.5	0.27	Consensus target price
Turk Traktor	TTRAK TI	53.4	37.5	5.46	20.0	109	70	1.3	0.05	Consensus target price
Consumer										
Arcelik	ARCLK TI	659.4	39.1	3.11	258.1	803	512	9.7	0.40	Consensus target price
Tat	TATKS TI	136.0	37.1	3.01	50.5	152	97	1.8	0.08	Consensus target price
Finance										
KFS (Yapi Kredi)	YKBNK TI	4347.1	26.6	2.09	1154.7	2,413	1,538	29.3	1.20	ING (Analyst: Haluk Akdogan)
Energy										
Aygaz	AYGAZ TI	300.0	40.7	3.27	122.0	399	254	4.8	0.20	Market Value
EYAS (Tupras SVC)	TUPRS TI	250.4	75.0	20.20	187.8	932	594	11.3	0.46	Tupras TP (ING analyst Tamas Pletser) adj for EYAS net debt
Tourism										
Marmaris Altinyunus	MAALT TI	5.5	38.4	7.40	2.1	15.7	9.99	0.2	0.01	Market Value
Altinyunus Cesme	AYCES TI	16.8	30.0	3.32	5.0	16.7	10.64	0.2	0.01	Market Value
Total listed assets						6,465	4,120	78.5	3.21	Market Value
Unlisted companies						204	130	2.8	0.10	Consensus
Net cash						1,569	1,000	21.2	0.78	Management
NAV						8,239	5,250	100.0	4.09	ING estimate

Source: Company data, ING estimates

Disclosures Appendix

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Buy	38%	25%
Hold	45%	27%
Sell	17%	27%
	100%	

* Percentage of companies in each rating category that are Investment Banking clients of ING Financial Markets LLC or an affiliate.

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Buy: Forecast 12-mth absolute total return greater than +15%

Hold: Forecast 12-mth absolute total return of +15% to -5%

Sell: Forecast 12-mth absolute total return less than -5%

Total return: forecast share price appreciation to target price plus forecast annual dividend. Price volatility and our preference for not changing recommendations too frequently means forecast returns may fall outside of the above ranges at times.

PRICE & RATINGS HISTORY TO 05/05/09: KOC HOLDING (KCHOL.IS)



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Source: ING

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