

Koc Holding

Conglomerates

TURKEY- EQUITY RESEARCH

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Robust performance from finance and durables segments...

Koc Holding posted TRL359mn net income in 1Q10 vs. TRL2.8mn net income in 1Q09... The figure is higher than market consensus of TRL300mn and broadly in line with our expectation of TRL380mn. Higher than expected net income mainly resulted from robust performance of Yapi Kredi. In the meantime, EBITDA of the company came in at TRL1,102mn, broadly in line with market consensus of TRL1,073mn.

Revenues of the company surged by 27% YoY in 1Q10... Energy segment revenues jumped by 43% YoY in 1Q10, driving the consolidated figure higher. Higher energy prices are the main reason behind jump in the energy segment revenues. As might be recalled; oil prices had bottomed out in 1Q09 and started to increase since then. Automotive segment revenues soared by 57% YoY in 1Q10. Aggressive promotion campaigns in domestic market coupled with strong exports on the back of continuing incentives in Europe supported the sales volume growth for the segment.

EBITDA reached TRL1,102mn in 1Q10 with a YoY increase of 25%... Energy segment EBITDA was almost constant as YoY decline in EBITDA of Aygaz was compensated by increase in Tupras. Tupras' EBITDA was supported by inventory gains in 1Q10 (vs inventory losses in 1Q09) and strong performance of Opet. Durables segment reported a strong EBITDA in 1Q10 on the back of increase in the margins. In the meantime finance segment was performance was upbeat in 1Q10 as collections and lower coverage for NPLs compensated for the margin contraction. Yapi Kredi recorded a NIM of 6.42% while ROAE reached 29.8% in 1Q10

Net income reached TRL359mn in 1Q10... The company posted a net other income of TRL21mn vs. net other expense of TRL129mn in 1Q09. In the meantime, the Holding booked a net financial expense of only TRL72 mn vs. huge 1Q09 net financial expense of TRL513mn due to FX losses. Accordingly, net income of the company recorded as TRL359mn vs. 1Q09 level of TRL3mn.

Maintaining MARKETPERFORM rating... Koc Holding has a well diversified portfolio that also show defensive characteristic with its strong holding-only net cash level of USD810mn. The Holding is currently trading at 11% discount to its current NAV, slightly lower than its two-year average of 15%. We maintain our MARKETPERFORM rating for Koc Holding.

Forecasts and Ratios

(TRLmn)	2008	2009	2010E	2011E
Net Sales	55,548	44,832	51,926	57,826
Sales growth	19%	-19%	16%	11%
EBITDA	4,616	5,360	5,313	5,376
% margin	8.3%	12.0%	10.2%	9.3%
Net Earnings	2,024	1,429	1,579	1,710
% margin	3.6%	3.2%	3.0%	3.0%
EPS	1.01	0.59	0.65	0.71
EPS growth	-24%	-41%	10%	8%
P/E	5.3	9.2	8.3	7.6
DPS	-	0.13	0.14	0.16
Dividend Yield	-	2.4%	2.7%	2.9%

MARKETPERFORM

Maintained

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KCHOL TI / KCHOL.IS

Valuation

Share Price (TRL)	5.40
Target Price (TRL)	6.00
Upside Potential	11%
Market Cap (USDmn)	8,564
Net Debt (USDmn)*	-840
Net FX Pos. (USDmn)	-2,244
* Holding only	

Trading

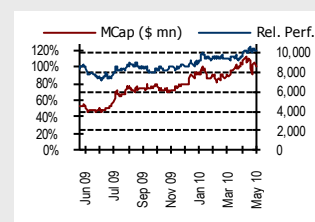
12m High / Low	5.75 / 2.46
Avg. Daily Vol. (USDmn)	21.7
Num. of shares (mn)	2,415
Free Float	22%
Foreign Ownership	74.3%

Ownership Structure

Temel Tic.	42.4%
Vehbi Koc Vakfi	7.2%
Semahat Arsel	6.4%
Suna Kirac	5.3%
Rahmi Koc	5.2%
Free Float & Others	33.6%

Performance Chart

Return	TRL	Rel.
1M	1%	8%
3M	21%	10%
12M	96%	16%



Segmental Breakdown

Revenues	1Q10		1Q09		YoY
	TRL mn	Share	TRL mn	Share	Chg.
Energy	6,303	57%	4,421	51%	43%
Automotive	1,549	14%	985	11%	57%
Durables	1,539	14%	1,402	16%	10%
Finance	1,164	10%	1,467	17%	-21%
Others	549	5%	457	5%	20%
Total	11,104	100%	8,731	100%	27%

EBITDA	1Q10		1Q09		YoY
	TRL mn	Share	TRL mn	Share	Chg.
Energy	316	29%	322	32%	-2%
Automotive	149	14%	116	11%	28%
Durables	199	18%	88	9%	126%
Finance	387	36%	312	31%	24%
Others	51	5%	42	4%	21%
Total	1,102	102%	880	87%	25%

EBITDA Margin	1Q10	1Q09	YoY
Energy	5.0%	7.3%	-227 bps
Automotive	9.6%	11.8%	-216 bps
Durables	12.9%	6.3%	665 bps
Finance	33.2%	21.3%	1197 bps
Others	9.3%	9.2%	9 bps
Total	9.9%	10.1%	-15 bps

KCHOL - Summary P&L Statement

TRLmn	1Q10	1Q09	YoY Δ	4Q09	QoQ Δ	12M09	12M08	YoY Δ
Revenues	11,104	8,731	27%	12,184	-9%	44,832	55,548	-19%
Cost of Goods Sold	-8,640	-6,187	40%	-9,513	-9%	-33,554	-43,664	-23%
Gross Profit	1,978	1,793	10%	2,222	-11%	8,884	8,302	7%
Operating Expenses	-1,131	-997	13%	-1,211	-7%	-4,525	-4,594	-2%
Operating Profit	847	796	6%	1,011	-16%	4,359	3,708	18%
Depreciation	235	213	10%	260	-10%	925	855	8%
Severance Provision	3	0	<i>n.m.</i>	61	-95%	76	53	42%
EBITDA	1,084	1,009	7%	1,332	-19%	5,360	4,616	16%
Net Other Income	72	49	46%	25	187%	284	1,963	-86%
Net Other Expenses	-51	-178	-71%	-359	-86%	-1,172	-632	85%
Financial Expenses, net	-72	-513	-86%	-64	12%	-312	-1,957	-84%
Profit (Loss) from Subsidiaries	0	0	<i>n.m.</i>	0	<i>n.m.</i>	0	0	<i>n.m.</i>
PBT	796	154	417%	613	30%	3,159	3,081	3%
Taxes	-148	-107	39%	-56	162%	-518	-586	-12%
Profit from Discontinued Operations	0	0	<i>n.m.</i>	0	<i>n.m.</i>	0	83	<i>n.m.</i>
Minority interest	-289	-44	553%	-261	11%	-1,211	-554	118%
Net Income	359	3	12700%	296	21%	1,429	2,024	-29%
Net Debt	432	6,388	-93%	2,850	-85%	2,850	8,516	-67%
Net FX Position	-3,414	-3,808	-10%	-2,632	30%	-2,632	-3,272	-20%
Gross Margin	17.8%	20.5%	-272 bps	18.2%	-43 bps	19.8%	14.9%	487 bps
EBIT Margin	7.6%	9.1%	-149 bps	8.3%	-67 bps	9.7%	6.7%	305 bps
EBITDA Margin	9.8%	11.6%	-179 bps	10.9%	-116 bps	12.0%	8.3%	364 bps
Net Margin	3.2%	0.0%	320 bps	2.4%	80 bps	3.2%	3.6%	-45 bps

KCHOL - BALANCE SHEET (TRLmn)

	1Q10	1Q09	YoY Δ	4Q09	QoQ Δ
CURRENT ASSETS	37,397.9	33,782.7	11%	33,615.8	11%
Liquid Assets	14,071.6	10,837.4	30%	12,070.0	17%
Short-Term Trade Receivables	17,023.1	17,818.6	-4%	16,570.8	3%
Inventories	4,201.4	3,300.0	27%	3,361.0	25%
Other Current Assets	2,101.8	1,826.7	15%	1,614.0	30%
LONG TERM ASSETS	32,969.3	31,385.4	5%	32,770.6	1%
Trade Receivables	82.2	116.9	-30%	85.6	-4%
Financial Investments	5,567.0	5,789.6	-4%	6,034.9	-8%
Tangible Fixed Assets	10,578.4	10,507.6	1%	10,629.5	0%
Intangible Fixed Assets	1,306.1	1,221.8	7%	1,319.9	-1%
Other Long-Term Assets	15,435.7	13,749.6	12%	14,700.6	5%
TOTAL ASSETS	70,367.2	65,168.1	8%	66,386.4	6%
SHORT TERM LIABILITIES	41,599.1	37,698.8	10%	38,157.6	9%
Short-Term Financial Loans	30,427.9	29,691.8	2%	29,315.2	4%
Short-Term Trade Payables	6,112.9	3,189.5	92%	4,083.4	50%
Other Short-Term Financial Liabilities	5,058.3	4,817.6	5%	4,759.0	6%
LONG TERM LIABILITIES	9,458.9	11,550.3	-18%	9,446.7	0%
Long-Term Financial Loans	7,115.4	9,691.7	-27%	7,144.5	0%
Long-Term Trade Payables	0.0	0.0	<i>n.m.</i>	0.0	<i>n.m.</i>
Other Long-Term Liabilities	2,343.5	1,858.6	26%	2,302.3	2%
Minority Interests	7,773.8	6,144.6	27%	7,612.1	2%
SHAREHOLDERS EQUITY	19,309.3	15,919.0	21%	18,782.0	3%
TOTAL LIABILITIES AND S.HOLDERS EQUITY	70,367.2	65,168.1	8%	66,386.4	6%
Financial Ratios					
Debt/Equity	2.6	3.1		2.5	
Current Ratio (x)	0.9	0.9		0.9	
Trade receivables day	138.0	184		122	
Stock Turn.	43.8	48		32	
Trade payables day	63.7	46.4		38.6	
Cash Cycle	118.1	185.3		115.6	

Valuation Approach

Valuation tools employed most frequently are Discounted Cash Flow (DCF) and International Peer Group Comparison, though other metrics such as Dividend Discount, Gordon Growth, and Replacement Value Methods are also used wherever appropriate. Oyak Securities analysts may calculate the target return of each stock considering only one method or assigning different weights to more than one method depending on the analyst's opinion. The "Expected Market Return" (**EMR**) of the ISE-100 is determined through aggregate target returns of each stock under coverage based on their respective free float market capitalization. Our coverage accounts for around 80% of the total market capitalization of the ISE.

Rating Methodology

Oyak Securities assigns recommendations to each stock according to the following criteria:

Price target for a stock represents the value analyst expects the stock to reach during our performance horizon, which is 12 months. For stocks with an OUTPERFORM recommendation, target return must exceed the EMR by at least 10% over the next 12 months. For a stock to be classified as UNDERPERFORM, the stock must be expected to under perform the EMR more than 10% over the next 12 months. Stocks that an analyst expects to perform parallel to the EMR within a band of +/- 10% are rated as MARKETPERFORM.

<u>Rating</u>	<u>Expected Return (%)</u>
Outperform	> EMR + 10
Marketperform	= EMR +/- 10
Underperform	< EMR - 10

Oyak Securities analysts review their recommendations under continuous screening. Nevertheless, at times, target return of a stock may be allowed to move outside our rating intervals as a result of share price fluctuations. Under such circumstances, the analyst may choose not to change his/her recommendation.

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