

CONGLOMERATES
EM Conglomerates

Change of Price Target

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Analyst Certification

We, Pinar Sahin Fersoy and Selim Yazici, hereby certify (1) that the views expressed in this Industry Report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Industry Report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Industry Report.

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Nomura International plc

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Turkish Conglomerates

Koc Holding: Investing in Turkey's recovery

We maintain our Buy recommendation on Koc Holding because we believe it fits well into our investment theme, which favours cyclicality, especially our preference for late-cycle consumer stocks e.g. in the capital goods and auto sectors. Previously trading on a par with the MSCI Turkey index, Koc Holding shares now trade at a 45% discount. We believe the market has yet to re-rate Koc Holding relative to the market, therefore we see 35% upside potential.

- **Single-digit interest rates, new territory:** With another 50bp rate cut in August, the total reduction has reached 900bp since November 2008 and overnight borrowing rates have reached 7.75%, the lowest level ever seen in Turkey.
- **Positive outlook for consumer cyclicals:** The maturity mismatch in favour of banks is now also likely to start to affect consumers. Not only are savings set to decrease with declining deposit rates, but lending rates are also set to start to decline, in turn triggering consumer spending.
- **Koc Holding, more diversified than in the past:** Koc Holding has come a long way in the past four years, and changed the composition of its portfolio. Koc Holding is still mainly a consumer oriented conglomerate, with over 70% of its portfolio comprising consumer cyclicals, but also has meaningful exposure to the finance and energy segment. We believe the latter paints a more balanced picture and is a better 'proxy' for the Turkish equity market.
- **Discrepancy in valuation:** Looking at the historical trend between the MSCI Turkey index and Koc Holding, we see that until the end of 2008, the two traded on a par. However, Koc Holding now trades at a 45% discount to MSCI Turkey, which we believe is unjustified.
- **Conviction BUY stocks:** Tied in with our investment case, we maintain our Buy recommendations on both Tofas and Yapi Kredi bank, and upgrade Arcelik to Buy from Neutral.
- **Contrarian pair trade:** We downgrade Ford Otosan to Reduce, and reiterate our view, with stronger conviction, on our long Tofas/short Ford Otosan pair trade.

ANY AUTHORS NAMED ON THIS REPORT ARE RESEARCH ANALYSTS UNLESS OTHERWISE INDICATED.

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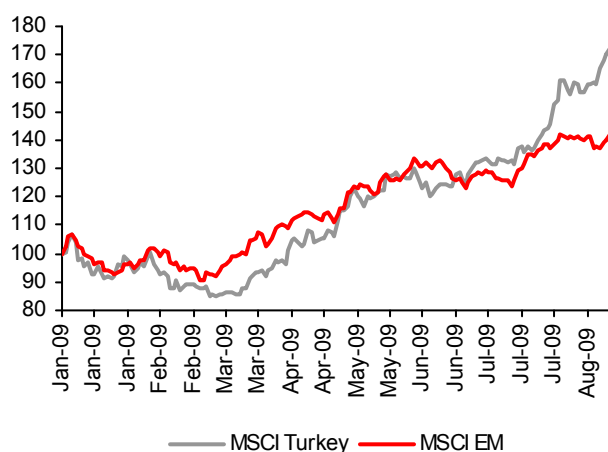
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Executive summary

Turkey an outperformer YTD

Once one of the worst-performing emerging markets, Turkey has recently experienced a strong rebound and appreciated by 80% YTD, versus a 42% increase in the MSCI Emerging Markets index. Although Turkey has in many respects been playing catch-up, in the past month we have started to see a relative outperformance. In our view, consensus has re-rated Turkey because of its strong growth prospects in 2010 (~40% EPS growth expected in 2010).

Figure 1: MSCI Turkey vs. MSCI EM (YTD)



Source: DataStream, Nomura research

Figure 2: MSCI Turkey vs. MSCI EM (2yrs)



Source: DataStream, Nomura research

Time to be selective

In our view, the macro environment for Turkey is undergoing a period of normalisation, which is likely to continue for some time. During this period, competition should increase, thereby squeezing profit margins. We thus hone in on those companies that we believe will enjoy a relative advantage through their superior management and competitive attributes. We seek companies that: (1) have been de-rated by the market and have yet to be re-rated and (2) possess promising growth prospects in the current macro environment.

Economic outlook

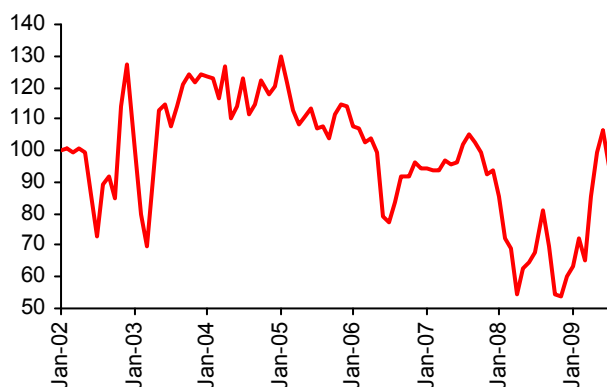
Growth

Turkey's real GDP contracted by 13.8% y-o-y in the first quarter of this year, deepening from -6.2% in the past three months of 2008. According to our in-house economists, we should start to see a gradual improvement in the "second derivative" of growth in the coming months and expect real GDP growth of around -5.8% this year. This should be followed by a slight 3% growth in 2010 and a more robust 5.8% growth in 2011.

Policy

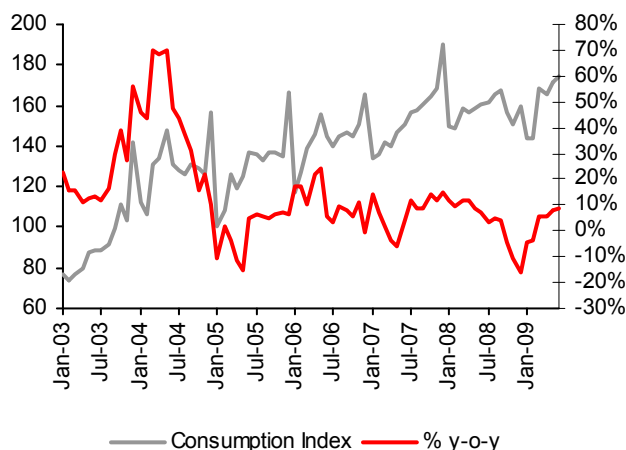
With another 50bp rate cut in August, the total reduction has reached 900bp since November 2008 and overnight borrowing rates currently stand at 7.75%. Thanks to the Central Bank of Turkey's aggressive monetary easing campaign, policy rates have reached their lowest levels historically in Turkey. We expect a further 25bp cut to 7.5% by the end of 2009. As a result, we have already started to see a pick-up in consumption and the consumer confidence index. We build our investment case (which favours cyclicality, especially our preference for late-cycle consumer stocks – e.g. in the capital goods and auto sectors) around our view that current trends will continue in the coming months.

Figure 3: Consumer confidence index



Source: Nomura Global Economics

Figure 4: Consumption index



Source: CNBC-e, Nomura research

Koc Holding, discrepancy in valuation

We maintain our **Buy** recommendation on **Koc Holding**, as it trades at a 45% discount to the Turkish market, one the highest levels over the past two years; consensus has yet to re-rate the company.

- **Benefits from single-digit interest rate environment:** Given the declining interest rate environment and improving consumer confidence, we believe Koc Holding fits well into our investment theme favouring cyclicality.
- **Better market proxy:** In the past four years, Koc Holding's management has structured its portfolio to better mimic the overall market. In addition, the company has US\$800m net cash to be utilised to create further value.
- **Trading at an unjustifiable 45% discount to the MSCI Turkey index:** Looking at the historical trend between the MSCI Turkey index and Koc Holding, we see that until the end of 2008, the two traded at par. However, Koc Holding now trades at a 45% discount to MSCI Turkey, which we believe is unjustified.

Conviction Buy subsidiaries

We also maintain our **Buy** rating on **Tofas**, as we believe the company offers an attractive investment opportunity given relatively resilient profitability in 2009 and further growth prospects in 2010. In our view, the stock's outperformance is likely to continue, owing to: a strong presence in both domestic and export markets with an updated product line and increased FCF once hefty investments come to an end in 2010.

We upgrade **Arcelik** to a **Buy** from previously Neutral. With mortgage lending at 4.5% of GDP and given a single-digit interest rate environment in which we expect policy rates to decline to 7.5% by the end of this year, we are bullish on the housing market. With housing the primary driver of white goods demand, the company should be the main beneficiary in a declining interest rate environment.

We maintain our **Buy** rating for **Yapi Kredi Bank**. We favour Yapi Kredi in the Turkish banking space, not only because of the 18% upside potential we see, but also for what we consider to be its positioning for the expected loan growth in high-yield consumer segments. We also believe that the bank has a relative advantage against margin contraction in TRYTurkish lira, with a sizable forex balance sheet.

Ford Otosan – downgraded to Reduce

In this report, we downgrade our recommendation for **Ford Otosan** to **Reduce** from Neutral. In our view, the company has been the most affected by weak demand both domestically and in export markets, which is likely to continue owing to (1) 'unshielded' exposure to export markets; (2) disadvantageous product mix leading to weakening position in domestic market; and (3) an aged product line. Given the lack of meaningful catalysts, we now have even more conviction about our long Tofas/short Ford Otosan pair trade.

Tupras – upgraded to Neutral

We upgrade our recommendation for **Tupras** to **Neutral** from Reduce. Although we continue to believe that sector-specific risks are likely to hinder the performance of Tupras for the next 12 months, we think most of this negative outlook is priced in, and that consensus downgrades have come close to their bottom. However, we are not yet sufficiently convinced to take the risk of investing into a pure refiner because of (1) weaker product crack spreads; (2) narrowing sweet-sour oil differentials; and (3) weak domestic demand expected to persist until end-2009.

Figure 5: Valuation summary

Key data (TRY)	Koc Holding		Tofas		Arcelik		Yapi Kredi Bank		Tupras		Ford Otosan	
Bloomberg	KCHOL TI		TOASO TI		ARCLK TI		YKBNK TI		TUPRS TI		FROTO TI	
Current price	3.92		3.2		4.4		3.3		22.9		9.2	
Market cap (TRYm)	9,467		1,620		3,000		14,345		5,725		3,228	
Shares outstanding	2,415		500		676		4,347		250		351	
Free-float (%)	20%		24%		21%		18%		49%		18%	
52-week high	3.9		4.1		4.4		3.3		29.5		9.2	
52-week low	1.7		1.0		1.0		1.4		11.2		3.5	
Valuation (TRY)	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD	NEW	OLD
Rating	BUY	BUY	BUY	BUY	BUY	NEUTRAL	BUY	n.a.	NEUTRAL	REDUCE	REDUCE	NEUTRAL
Target Price	5.3	3.4	4.8	3.1	6.0	2.8	3.9	n.a.	24.5	17.5	8.7	8.1
2009E												
EPS (TRY)	0.47	0.51	0.40	0.24	0.42	0.20	0.35	n.a.	2.20	2.04	0.72	0.49
Adj. EPS (TRY)	0.47	0.51	0.40	0.24	0.20	0.20	0.35	n.a.	2.20	2.04	0.72	0.49
Adj. P/E	8.3	7.7	8.1	13.5	21.9	22.2	9.4	n.a.	10.4	11.2	12.7	18.8
EV/EBITDA *	4.9	n.a.	6.2	n.a.	4.9	n.a.	n.a.	n.a.	8.7	n.a.	6.5	n.a.
2010E												
EPS (TRY)	0.66	0.60	0.48	0.42	0.37	0.48	0.38	n.a.	3.01	4.80	0.89	0.79
Adj. EPS (TRY)	0.66	0.60	0.48	0.42	0.37	0.48	0.38	n.a.	3.01	4.80	0.89	0.79
Adj. P/E	5.9	6.5	6.7	7.7	11.9	9.3	8.7	n.a.	7.6	4.8	10.3	11.6
EV/EBITDA *	4.5	n.a.	4.3	n.a.	4.2	n.a.	n.a.	n.a.	9.0	n.a.	5.4	n.a.
Relative performance (%)												
1M	13.8		-6.6		51.9		-0.7		1.5		10.8	
3M	1.4		-10.0		49.3		2.1		-6.2		-0.8	
12M	-7.2		-28.5		5.5		5.4		-33.5		-13.5	

*EV/EBIDA multiple for Tupras

Source: Company data, Datastream, Nomura estimates

Koc Holding

EM Conglomerates

Koc Holding

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Ticker:KCHOL.IS / KCHOL TI

Target Price: TRY 5.3

BUY

Current Price: TRY 3.9

August 24, 2009

Description

Koc Holding is a well diversified Holding company with a strong presence in the finance, oil and gas, automotive and consumer durables sectors. It owns: 1) Turkey's sole and CEE's largest refinery; 2) Turkey's fourth-largest bank; 3) Turkey's largest and Europe's third-largest white goods manufacturer; 4) Turkey's top two automotive companies; and 5) Turkey's third-largest petroleum distributor.

Investment Summary

Strong fundamentals: Koc Holding Turkey's largest group, generating ~9% of Turkey's GDP, and we think one of the most 'professionally' managed family-owned conglomerates. With over 70% its portfolio comprising consumer-oriented companies, we believe Koc Holding is one of the best positioned companies to benefit from the recovery in Turkey.

Pro-active management: In the past four years, Koc Holding's management has been pro-active in restructuring the composition of its portfolio. Through successful divestures (e.g. Migros and insurance assets) and acquisitions (e.g. Tupras and YKB) the company now has an updated and more diverse framework, which we believe offers investors a better proxy for the Turkish equity market.

Inexpensive valuation: Trading at 5.9x P/E on our 2010 estimates, compared with 10.0x P/E for the Turkish market, we believe Koc Holding offers an inexpensive alternative as a one-stop-shop for Turkey. Looking at the historical trend between the MSCI Turkey index and Koc Holding, we see that such a discount is unwarranted.

Market Data

Price(TRL)	3.92
Mkt Cap.(TRYm)	9,467
No.Shares (m)	2,415
Free Float (%)	20%

Share Performance

	1M	3M	12M	YTD
Absolute	38.0%	38.4%	8.4%	79.5%
Relative: Mkt	13.8%	1.4%	-7.2%	1.0%

Key Valuation Multiples

	2008A	2009E	2010E	2011E
Net Income	2,024	1,145	1,593	1,707
EPS (TRY)	1.01	0.47	0.66	0.71
Consensus EPS (TRY)	1.01	0.43	0.54	0.85
P/E	3.9	8.3	5.9	5.5
ROE (%)	23.0%	10.9%	13.2%	12.4%
P/BV	0.8	0.8	0.7	0.6
EV/EBITDA (excluding finance)	3.3	4.9	4.5	3.9

Key Balance Sheet (TRY m)

	2008A	2009E	2010E	2011E
Net Debt	9,249	7,208	7,277	6,860
Shareholders' Equity	9,749	11,297	12,890	14,597
Total Assets	64,890	69,834	72,525	80,183
WCR	2,467	3,167	3,980	4,564

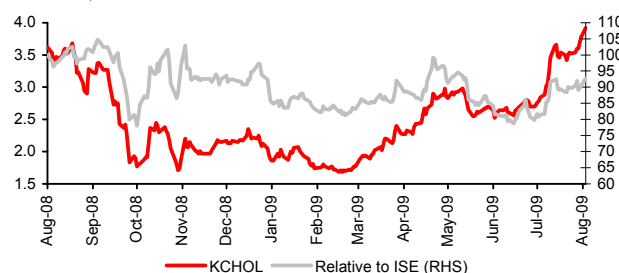
Key P&L (TRYm)

	2008A	2009E	2010E	2011E
Net sales	55,631	43,894	46,629	53,400
EBIT	3,700	3,281	3,441	3,984
EBITDA (excluding finance)	4,470	2,557	2,811	3,144
Net Income	2,024	1,145	1,593	1,707

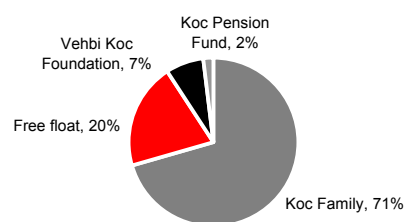
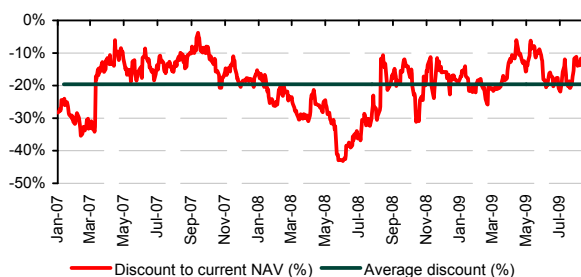
Performance ratios

	2008A	2009E	2010E	2011E
EBITDA margin	8.0%	5.8%	6.0%	5.9%
Operating margin	6.7%	7.5%	7.4%	7.5%
Net margin	3.6%	2.6%	3.4%	3.2%
ROE	23.0%	10.9%	13.2%	12.4%
Debt to equity	1.80	1.78	1.34	1.14
Debt to EBITDA	3.93	7.86	6.14	5.30

Share price chart



NAV chart



Source: Company data, DataStream, Nomura estimates

Key investment highlights

We maintain our Buy recommendation on Koc Holding with a target price of TRY5.3/share (OLD: TRY 3.35/share), offering 35% upside potential.

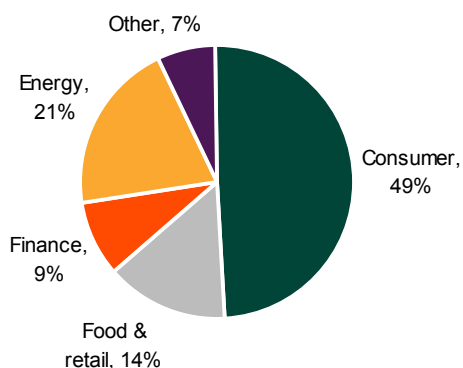
- **Benefits from single-digit interest rate environment:** Given the declining interest rate environment, coupled with improving consumer confidence, we believe Koc Holding fits well into our investment theme favouring cyclicity, especially preferring late-cycle consumer stocks e.g. the capital goods and auto sectors.
- **Better market proxy:** In the past four years, Koc Holding’s management has structured its portfolio to better mimic the overall market. Koc Holding is still a more consumer oriented conglomerate (consumer cyclicals account for over 30% of the portfolio), but it also has meaningful exposure to the finance and energy segments. In addition, the company has US\$800m net cash to be utilised to create further value.
- **Trading at an unjustifiable 45% discount to the MSCI Turkey index:** Looking at the historical trend between the MSCI Turkey index and Koc Holding, we see that until the end of 2008, the two traded at par. However, Koc Holding now trades at a 45% discount to MSCI Turkey, which we believe is unjustified.

What does Koc Holding have to offer?

Diversified exposure

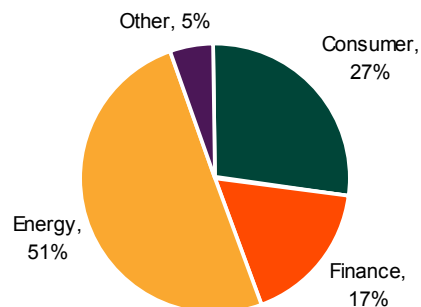
Koc Holding has come a long way in the past four years and changed the composition of its portfolio. The company is still mainly a consumer-oriented conglomerate, but also has a meaningful exposure to the finance and energy segments. We believe the latter paints a more balanced picture and is a better ‘proxy’ for the Turkish equity market.

Figure 6: Revenue breakdown (2003)



Source: Company data, Nomura research

Figure 7: Revenue breakdown (2009)



Source: Company data, Nomura research

Ample net cash and the brains to manage it

Although a majority family-owned company, we believe Koc Holding is one of the most 'professionally' managed conglomerates in the Turkish market, and it has also proved successful, with timely divestitures and acquisitions. After the sale of its retail arm Migros and insurance assets in 2008, the company generated significant cash and now has a net cash position of US\$800m. Koc Holding's successful record of acquisitions and divestitures makes us more confident that this cash will not be left idle for too long, and that it will soon be utilised to create further value for the company.

Investment in consumer durables seems most likely

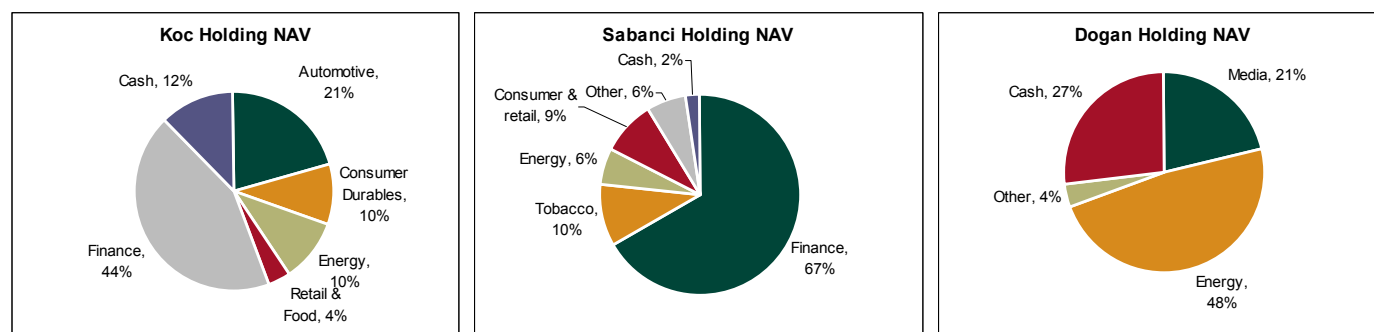
We believe the most likely investment could be in the consumer durables segment. Although Arcelik is a strong global operator in the consumer durables segment, it has been overlooked by the market for the past two years. Arcelik recently went through a restructuring phase and initiated a number of corporate actions: consolidating its electronics business, undertaking a rights issue and selling off a stake in KFS, with the support of its parent Koc Holding. In our view, the next step could come in the form of a brand acquisition or partnership because this has been the missing piece in the portfolio. Given the right time and the right price, we think such a move would be a positive development for both Arcelik and Koc Holding, and would further increase our confidence in the management of the company.

How meaningful is discount to NAV?

Not so important

In our view, the discount to NAV has become an irrelevant tool with which to judge the value locked in a conglomerate. We believe valuations relative to the overall market provide a better tool, especially for companies such as Koc Holding with more balanced portfolios mimicking the market.

Figure 8: Portfolio comparison, (1Q09)



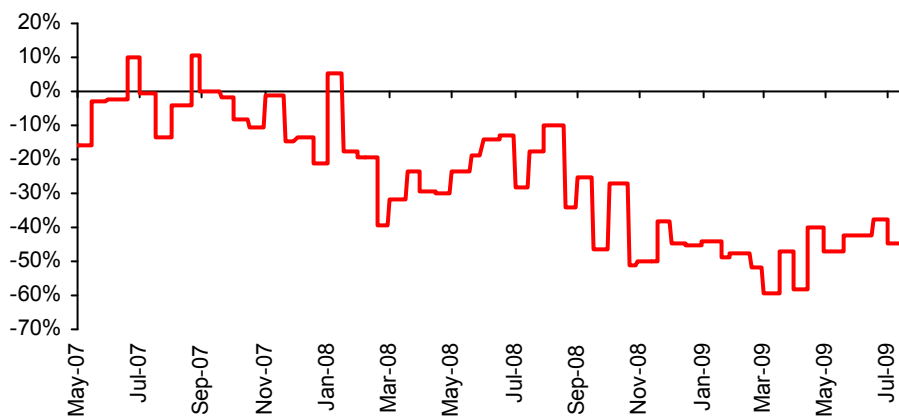
Source: Company data, Nomura research

To put things into perspective, Koc Holding's discount to NAV stands at 12% versus its three-year average discount of 20% (2009 discount YTD stands at 16%). Sabanci Holding trades at a 23% discount to NAV versus its three-year average of 28%, yet the NAV breakdown is much more limited compared with Koc, with its finance arm accounting for 66% of total its portfolio and has a mere US\$200m net cash on hand. Dogan Holding, however, has ample cash, US\$800m as of 1Q09, yet owing to conflicts with the current government, the company is facing difficulties in its businesses. Dogan Holding also has limited diversification, with exposure to only energy and media.

Time to focus on Koc Holding's valuation relative to the market

Contrary to a relatively rich valuation on NAV discount, Koc Holding looks unjustifiably cheap compared with the market, trading at 45% discount. Looking at the historical trend between the MSCI Turkey index and Koc Holding, we see that until the end of 2008, the discount between the two was limited. Starting at the end of 2008, this trend ceased, and we now see a wider band between 12-month forward P/Es. We believe this wider band is unjustified given that we think Koc Holding is an even better proxy for the Turkish equity market than before, and we expect similar underlying earnings growth in 2010 (of c40%) for both Koc Holding & the overall market. We expect the market to re-rate Koc Holding, and think the shares should revert to trading at par with the market.

Figure 9: Premium/(discount) Koc Holding vs. MSCI Turkey (12M forward P/E)



Source: Datastream (IBES estimates), Nomura research

Valuation

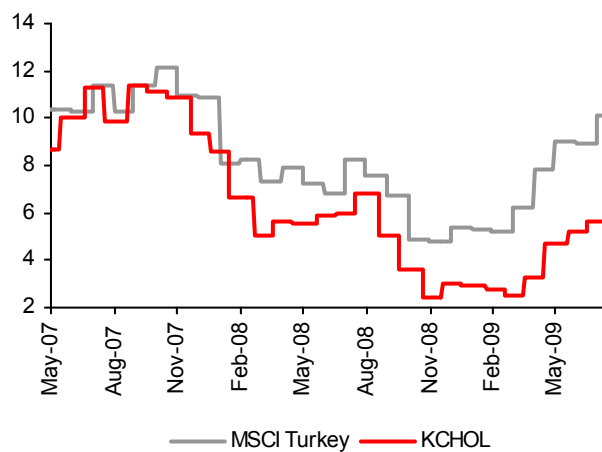
We derive our target price of TRY 5.3/share based on a blended valuation of sum-of-the-parts and multiple-based valuations, then apply a 10% holding discount. On multiples we apply 10x P/E multiple on our 2010 EPS estimate. Koc Holding trades at 5.9x P/E based on our 2010 EPS estimate, a 40% discount to the Turkish market, which trades at 10.0x P/E.

Figure 10: Koc Holding NAV

TRYm	Current NAV		Target NAV	
	KCHOL's Stake	Weight in NAV	KCHOL's Stake	Weight in NAV
Automotive	2,258	21%	2,484	20%
Consumer Durables	1,189	11%	1,601	13%
Energy	1,234	11%	1,387	11%
Retail & Food	376	3%	376	3%
Finance	4,504	42%	5,305	43%
Other	39	0%	39	0%
Total Value From Participations	9,600	89%	11,193	90%
Listed	9,157	85%	10,750	87%
Unlisted	443	4%	443	4%
Net cash (debt) as of 1Q09	1,200	11%	1,200	10%
NAV/share	4.47	100%	5.13	100%
Current price	3.92		3.92	
Premium / (Discount) to NAV	-12%		-24%	

Source: Datastream, Company data, Nomura estimates

Figure 11: Koc Holding & MSCI Turkey 12M forward P/E



Source: Datastream (IBES estimates), Nomura research

Financials

Figure 12: Summary balance sheet and income statement

Balance sheet (TRY m)	2007	2008	2009E	2010E	2011E
Current Assets	30,506	32,714	39,539	40,104	45,270
Cash and cash equivalents	4,913	8,329	12,904	9,973	9,815
Investments	1,574	733	2,261	2,261	2,315
Reserve deposits with the Central Banks	0	0	0	0	0
Loans and advances to customers	9,477	13,109	13,901	17,106	20,808
Trade receivables	6,063	5,056	5,311	5,465	6,265
Inventories	4,527	3,674	3,846	3,904	4,475
Other current assets	3,952	1,813	1,317	1,396	1,593
Non-Current Assets	29,201	32,176	30,295	32,421	34,913
Loans and advances to customers	7,347	8,973	6,847	8,425	10,249
Financial Assets	6,642	6,860	7,034	7,145	7,254
Property, plant and equipment	9,898	10,454	10,683	10,918	11,161
Intangible assets	4,405	4,720	4,792	4,982	5,202
Other non-current assets	909	1,170	939	951	1,048
TOTAL ASSETS	59,707	64,890	69,834	72,525	80,183
Current Liabilities	34,486	38,211	38,759	41,207	46,118
Customer deposits	16,792	20,616	21,242	24,527	28,770
Financial liabilities	6,658	9,387	10,080	9,750	9,425
Trade payables	4,670	3,400	3,663	3,826	4,386
Other current liabilities	6,366	4,807	3,775	3,104	3,537
Non-current Liabilities	10,163	10,548	12,383	9,990	9,912
Customer deposits	139	276	323	374	438
Financial liabilities	7,781	8,191	10,032	7,500	7,250
Other non-current liabilities	2,242	2,081	2,027	2,117	2,224
Minority interest	7,206	6,382	7,395	8,438	9,555
Shareholders Equity	7,852	9,749	11,297	12,890	14,597
TOTAL LIABILITIES AND EQUITY	59,707	64,890	69,834	72,525	80,183
Income statement (TRY m)	2007	2008	2009E	2010E	2011E
Net revenues	46,802	55,631	43,894	46,629	53,400
<i>other than finance</i>	41,420	49,798	36,629	39,036	44,752
<i>finance</i>	5,382	5,834	7,265	7,593	8,649
Cost of goods sold	39,356	47,597	36,196	38,563	44,539
Gross Profit	7,446	8,034	7,698	8,066	8,861
Operating expenses	3,932	4,334	4,417	4,625	4,877
Operating income	3,514	3,700	3,281	3,441	3,984
<i>other than finance</i>	2,843	2,849	1,734	1,902	2,182
<i>finance</i>	671	851	1,547	1,538	1,802
EBITDA for non-finance	3,603	4,470	2,557	2,811	3,144
Losses from participations	0	0	0	0	0
Financial income	473	-1,955	-531	127	100
Other income	614	1,419	-204	-200	-199
Profit before taxes	4,601	3,164	2,546	3,368	3,885
Taxes	-712	-586	-509	-674	-777
Minority interest	-1,593	-554	-891	-1,101	-1,401
Net profit	2,295	2,024	1,145	1,593	1,707

Source: Company data, Nomura estimates

Tofas Fabrika**EUROPEAN AUTOS****Tofas Fabrika**

Pinar Sahin Fersoy [+44 20 7102 6441]

e-mail: pinar.sahin@nomura.com

Ticker: TOASO.IS / TOASO TI

Target Price: TRY 4.8

BUY

Current Price: TRY 3.2

August 24, 2009

Description

Tofas Fabrika is a JV between Fiat and Koc Group, each holding 37.86% stake. Given its increasing market share in the domestic market and unique guaranteed exports under take-or-pay contracts with Fiat and PSA Group, we believe Tofas is the best positioned auto producer in Turkey. It is an export-oriented company, generating ~70% of its revenues from exports.

Investment Summary

Growth story intact: Tofas' advantageous product mix has led it to gain strength in the domestic market, reaching a 15% share in 1H09 from 13% in 1H08. We expect this upward trend to continue given its updated product line with Minicargo and the eagerly expected New Doblo. We expect 5% revenue growth in 2009 followed by another 10% in 2010, versus a 10-15% decline for its European peers.

Take-or-pay agreements 'monetising': 4Q08 was the first time we saw the 'pay' portion of the take-or-pay contracts monetise and the positive effect on margins. In 2009, we expect ~20% of the agreed units to revert to 'pay' and another ~10% in 2010, with EBITDA margins reaching 9.0% in 2009 and 10.9% in 2010.

Trading at a discount to both European & GEM peers: In 2009, we are looking for 14% EPS growth and a 17% ROE, while European peers are likely to barely generate positive bottom line and ROE numbers. Given this outlook, we think 4.3x EV/EBITDA in 2010E, a 6% discount to European peers, a 20% discount to Ford Otosan and a 30% discount to GEM peers is unjustified.

Market Data

Price (TRL)	3.24
Mkt Cap.(TRYm)	1,620
No.Shares (m)	500
Free Float (%)	24%

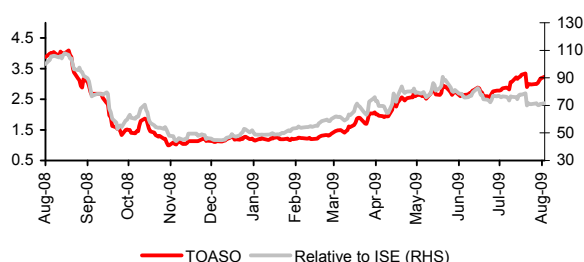
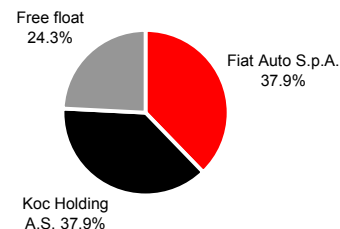
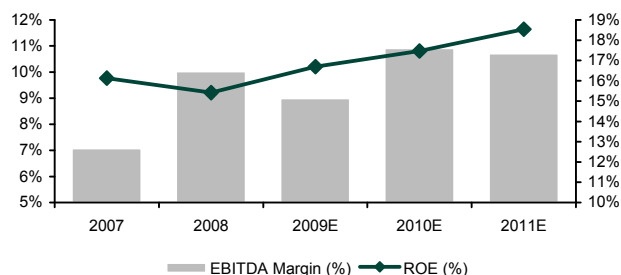
Share Performance	1M	3M	12M	YTD
Absolute	13%	23%	-16%	182%
Relative: Mkt	-7%	-10%	-29%	58%

Key Valuation Multiples	2008A	2009E	2010E	2011E
Net Income	176	201	242	291
EPS (TRY)	0.35	0.40	0.48	0.58
Consensus EPS (TRY)	0.35	0.35	0.47	0.57
P/E	9.2	8.1	6.7	5.6
ROE (%)	15%	17%	17%	19%
P/BV	1.4	1.3	1.1	1.0
EV/EBITDA	5.2	6.2	4.3	3.4
EV/Sales	0.5	0.6	0.5	0.4
Dividend yield (%)	6%	2%	2%	7%

Key Balance Sheet (TRYm)	2008A	2009E	2010E	2011E
Adj. Net Debt	871	1,179	989	652
Shareholders' Equity	1,119	1,284	1,486	1,656
Total Assets	3,571	4,641	4,597	4,590
WCR	191	264	357	405

Key P&L (TRYm)	2008A	2009E	2010E	2011E
Net sales	4,798	5,024	5,503	6,180
EBIT	271	255	270	317
EBITDA	481	452	601	662
Net Income	176	201	242	291

Performance ratios	2008A	2009E	2010E	2011E
EBITDA margin	10.0%	9.0%	10.9%	10.7%
Operating margin	5.6%	5.1%	4.9%	5.1%
Net margin	3.7%	4.0%	4.4%	4.7%
ROE	15.4%	16.7%	17.5%	18.5%
Debt to equity	0.85	1.09	1.14	1.13
Debt to EBITDA	2.48	3.37	2.26	1.62

Share price chart**Performance**

Source: Company data, Nomura estimates

Key investment highlights

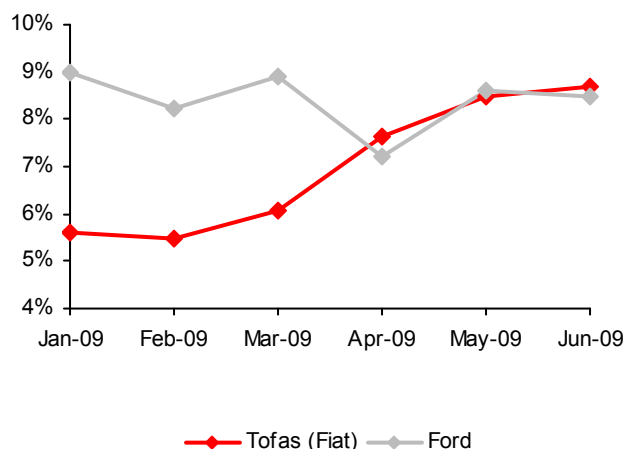
We maintain our Buy recommendation on Tofas Fabrika with a new target price of TRY 4.8/share (OLD: TRY 3.1/share), offering 48% upside potential. Our target price revision is mainly driven by a lower risk-free-rate assumption of 11.3%, in line with our macroeconomic forecasts, and improved domestic market outlook and margin assumptions. We have also eliminated the discount applied to our target price based on a score card, taking into account balance sheet, currency and growth risks, which we believe are no longer as relevant. Tofas' share price has outperformed ISE-100 by 58% YTD, yet with expectations of a relatively resilient profitability in 2009 and further growth prospects in 2010, we believe Tofas Fabrika continues to offer an attractive investment opportunity. In our view, outperformance is likely to continue owing to (1) market share gains in the domestic market supported by continuing tax cuts; (2) positive margin impact stemming from take-or-pay agreements; (3) increased FCF once hefty investments come to an end; and (4) updated product line compared with competitors

Why buy Tofas (still)?

1. Market share gains look to be here to stay

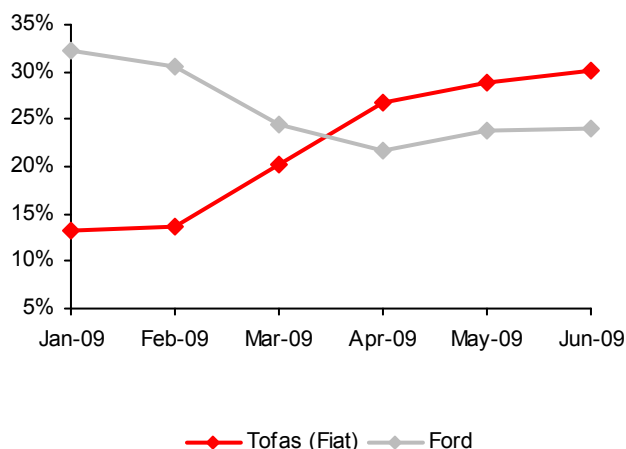
The government-enacted special consumption tax cuts ranging between 3 percentage points and 19 percentage points from 16 March to 15 June, and in the four-month period from March to June, domestic light vehicle sales increased by 13% y-o-y, while in the same period Tofas' domestic sales increased by 34%. As a result, in 1H09 Tofas gained significant market share, especially in the light commercial vehicle (LCV) segment in which the company reached a 30% market share. In our view, these gains are not temporary, but are here to stay because we think: (1) Tofas was and will continue to be the main beneficiary of the tax cuts; (2) Minicargo LCV is an appropriate model for the current environment because it is smaller than its closest competitors and about 20% cheaper; and (3) once the New Doblo comes onto the market, it should continue to attract market share. Tofas should benefit from both a recovering market and from market share gains.

Figure 13: Tofas market share development (PC)



Source: Automotive Distributors Association, Nomura research

Figure 14: Tofas market share development (LCV)



Source: Automotive Distributors Association, Nomura research

2. The defensive nature of take-or-pay agreements has materialised

Take-or-pay purchase agreements have been most advantageous to Tofas, but have also been questioned by investors. 2008 was the first year in which we saw the 'pay' materialise as the company recorded TRY 72m in revenue accruals. Although the practical application of the pay option had been questioned in the past, the agreements are expected to result in a temporary boost in margins both in 2009 and 2010. Management would rather keep producing rather than exercising the 'pay' option because it can create volatility in margins (such as in 2Q09). However, we believe these purchase agreements put the company a step ahead of its competitors during rough times.

3. New Doblo investment set to finalise in 2010

Tofas has been going through a hefty investment phase since 2005 and has invested close to EUR 1bn. The company has developed the Linea (C-segment passenger car), Minicargo (a light commercial vehicle the IP rights of which belong to Tofas and is sold under the Fiat Fiorina, Citroen Nemo and Peugeot Bipper badges) and is in the process of developing the New Doblo model. The New Doblo investment is in its final phase, expected to roll off the production line in 2009 and become available to the mass market in 2010. Once the investments come to an end we expect (i) a FCF yield of 13% in 2010; and (ii) that the New Doblo, of which 80k units is also guaranteed under take-or-pay agreements, will be three times as profitable as the old Doblo.

4. An updated product mix

We expect Tofas to have an updated product mix, with Linea & Minicargo introduced in 2007 and the New Doblo in 2010. In 2010, the average age of vehicles produced will stand at three years for Tofas and eight years at Ford Otosan. As a result, we think Tofas should be able to maintain its strength both in the domestic and export markets. We expect Tofas to reach an EBITDA of TRY601m and TRY0.48 EPS in 2010, 20% growth in earnings, versus the 16% decline we expect for its peers.

Valuation summary

We are raising our 12-month price target for Tofas to TRY 4.8/share. This is partly attributable to revisions in volume and margin assumptions. Furthermore, in line with our updated macroeconomic forecasts, we have cut our long-term risk free rate to 11.3%. We have also eliminated the discount applied to our target price based on a score card, taking into account balance sheet, currency and growth risks, which we believe are no longer as relevant.

- Given the boost from tax cuts and market share gains, we have increased Tofas' domestic sales volume by 26% now expecting 65k units in 2009.
- We have cut our export volume assumptions, by 26% owing to the weakness in the Russian market (affecting CKD+SKD sales) and we now expect a 10% y-o-y decline in 2009 (this excludes the 40k units, which we think should revert to pay), followed by a 10% increase in 2010 (excluding the 25k units which should revert to pay). The EBITDA margin should reach 9.0% in 2009 and 10.9% in 2010.

- As a result, EPS should grow by 14% y-o-y in 2009, exceptional growth compared with the ~50% decline at Ford Otosan and most of its European peers slipping into the red. Tofas shares trade at an undemanding valuation of 4.3x EV/EBITDA on 2010 estimates, a 6% and 20% discount compared with Ford Otosan & European peers.

Figure 15: Changes in estimates

	2009E			2010E		
	NEW	OLD	(%)	NEW	OLD	(%)
Sales Volume (Units)						
Domestic sales volume	64,750	51,531	26%	66,000	59,088	12%
Exports (excl 'pay')	171,505	231,451	-26%	192,556	271,180	-29%
Key Figures (TRY m)						
Revenues	5,024	5,018	0%	5,503	6,295	-13%
EBITDA	452	381	17%	601	603	5%
Net Income	201	118	70%	242	211	15%

Source: Nomura estimates

Key risks

Recovery in export markets crucial for extension of take-or-pay agreements

In our view, the Turkish vehicle market is underpenetrated, with only 90 cars per 1,000 people, and has good long-term growth potential with our expectation that GDP will recover by 3% in 2010, 5.6% in 2011 and return to a normalised growth trend of 4-5% thereafter. Europe, in contrast, has a saturated market, with average ownership of 500 cars per 1,000 people in Western Europe and 190 in emerging Europe, and is likely to take longer to recover. This does not pose a threat to Tofas in the medium term because the take-or-pay agreements have a life-time of eight years. However, in the longer term, we believe recovery in export markets will be a crucial benchmark when determining the extension of take-or-pay agreements. Based on our assumptions, the Linea contract will expire in 2014, Minicargo in 2015 and New Doblo in 2018. We have factored into our model that the contracts will be extended after their life-time, but with 30% lower volumes.

Financials

Figure 16: Summary balance sheet and income statement

Balance Sheet (TRYm)	2007	2008	2009E	2010E	2011E
Current assets	1,554	1,457	2,079	2,095	2,266
Cash and cash equivalents	438	245	570	514	487
Trade receivables	684	588	851	932	1,047
Consumer finance receivables	111	180	162	172	197
Inventory	283	326	371	340	381
Other current assets	38	119	124	136	153
Non-current assets	1,623	2,113	2,562	2,502	2,325
Consumer finance receivables	124	143	183	194	222
Long-term financial assets	24	33	34	36	38
Fixed assets	981	1,148	1,430	1,372	1,217
Intangible assets	453	693	814	789	722
Other non-current assets	40	97	102	111	125
TOTAL ASSETS	3,176	3,571	4,641	4,597	4,590
Short-term liabilities	1,205	1,325	1,561	1,534	1,666
Short-term bank borrowings	175	484	478	482	490
Trade payables	908	754	991	953	1,068
Other long-term liabilities	122	87	92	99	108
Long-term liabilities	810	1,126	1,796	1,577	1,268
Long-term bank borrowings	665	955	1,616	1,388	1,069
Other long-term liabilities	145	171	180	189	200
Shareholder's equity	1,161	1,119	1,284	1,486	1,656
TOTAL LIABILITIES & EQUITY	3,176	3,571	4,641	4,597	4,590
Income Statement (TRYm)	2007	2008	2009E	2010E	2011E
Sales	3,659	4,798	5,024	5,503	6,180
COGS	(3,239)	(4,228)	(4,458)	(4,901)	(5,492)
Gross Profit	420	570	566	602	687
Operating expenses	(283)	(299)	(311)	(331)	(371)
Operating Profit	137	271	255	270	317
EBITDA	259	481	452	601	662
Other income, net	30	(24)	21	20	21
Financial income, net	47	(27)	(25)	12	26
Tax	(38)	(44)	(50)	(61)	(73)
Net income	176	176	201	242	291
Profitability (%)	2007	2008	2009E	2010E	2011E
Gross Margin	11.5%	11.9%	11.3%	10.9%	11.1%
Opex/sales	-7.7%	-6.2%	-6.2%	-6.0%	-6.0%
EBIT margin	3.7%	5.6%	5.1%	4.9%	5.1%
EBITDA margin	7.1%	10.0%	9.0%	10.9%	10.7%
Net margin	4.8%	3.7%	4.0%	4.4%	4.7%
ROE	16.1%	15.4%	16.7%	17.5%	18.5%
ROCE	7.9%	12.8%	9.6%	8.8%	10.6%
ROIC	6.6%	8.6%	6.7%	7.1%	8.7%
ROA	6.3%	5.2%	4.9%	5.2%	6.3%
Gearing ratio	16%	78%	92%	67%	39%

Source: Company data, Nomura estimates

Arcelik**EM Consumers****Arcelik**

Pinar Sahin Fersoy [+44 20 7102 6441]

Ticker:ARCLK.IS / ARCLK TI

e-mail: pinar.sahin@nomura.com

Target Price: TRY 6.0

BUY

Current Price: TRY 4.4

August 24, 2009

Description

Arcelik is the third-largest white goods producer in Europe, with over a 10% market share, and it dominates the vibrant and lucrative domestic white goods market with a 54% market share. The company generates 50% of its revenues from the Turkish market and 33% from Europe, and the remaining 17% is from Russia and the Middle East.

Investment Summary

Good times ahead: We believe Arcelik should be a clear winner from the current conditions of a declining interest rate environment, increasing consumer confidence and declining unemployment rates. Furthermore, with mortgage lending only 4.5% of GDP, we have a bullish view on the housing market once lending rates start to come down, which in turn should also trigger growth in the white goods market.

Inorganic growth still on the agenda: The company has undertaken several corporate actions to raise cash and achieve a better balance sheet structure (debt/EBITDA of 3.6x 2009E), which gives the company room to manoeuvre if any inorganic growth opportunities come the company's way (i.e. premium brand acquisition).

Fundamentally strong company at undemanding valuations: Arcelik has underperformed the ISE100 by 34% and its European peers by 20% on a 2-year basis. Furthermore, the stock trades at undemanding 2010E valuations of 11.9x P/E and 4.2x EV/EBITDA, a 28% discount to its international peers.

Market Data

Price (TRL)	4.44
Mkt Cap.(TRYm)	3,000
No.Shares (m)	676
Free Float (%)	21%

Share Performance

	1M	3M	12M	YTD
Absolute	84.2%	103.7%	23.3%	188.4%
Relative: Mkt	51.9%	49.3%	5.5%	62.2%

Key Valuation Multiples

	2008A	2009E	2010E	2011E
Net Income	40	284	252	309
EPS (TRY)	0.10	0.42	0.37	0.46
Adj. EPS (TRY)	0.10	0.20	0.37	0.46
Adj. P/E	44.6	21.9	11.9	9.7
Adj. ROE (%)	2%	6%	10%	11%
P/BV	0.9	1.2	1.1	1.1
EV/EBITDA (adj.)	4.6	4.9	4.2	3.9
EV/Sales	0.5	0.5	0.5	0.5
Dividend yield (%)	6%	0%	0%	6%

Balance Sheet (TRY m)

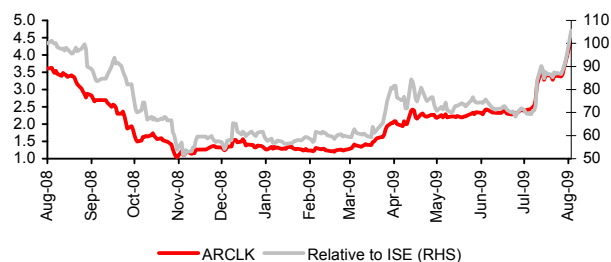
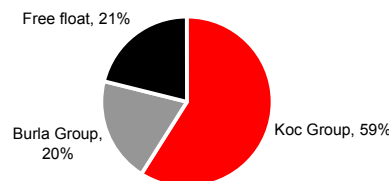
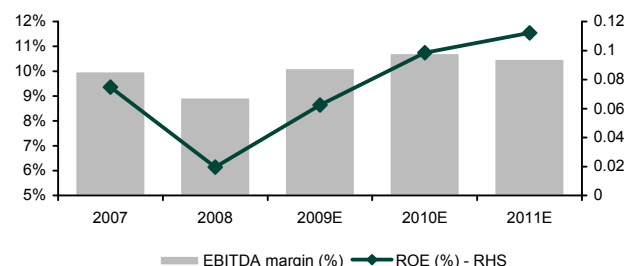
	2008A	2009E	2010E	2011E
Net Debt (adj for CF rec.)	1,549	543	557	370
Shareholders' Equity	1,938	2,446	2,665	2,843
Total Assets	6,929	6,241	6,532	6,513
WCR	148	-354	165	-37

Key P&L (TRYm)

	2008A	2009E	2010E	2011E
Net sales	6,776	6,608	7,038	7,114
EBIT	440	511	593	590
EBITDA	606	669	755	747
Net Income	40	284	252	309

Performance ratios

	2008A	2009E	2010E	2011E
EBITDA margin	8.9%	10.1%	10.7%	10.5%
Operating margin	6.5%	7.7%	8.4%	8.3%
Net margin	0.6%	4.3%	3.6%	4.3%
ROE	2.0%	6.2%	9.9%	11.2%
Debt to equity	1.80	0.98	0.91	0.78
Debt to EBITDA	5.76	3.59	3.22	2.96

Share price chart**Performance**

Source: Company data, Nomura estimates

Key investment highlights

With this report we are upgrading our recommendation for Arcelik to Buy from Neutral, with a revised target price of TRY 6.0/share (OLD: TRY 2.6/share), offering 35% upside potential. Our upward revision is driven by a less conservative approach, whereby we include only net debt utilised for core operations and a lower risk-free rate of 11.3% in line with our macroeconomic forecasts. We have also eliminated the discount applied to our target price based on a score card taking into account balance sheet, currency and growth risks, which we believe are no longer as relevant. After its recently announced robust 2Q09 earnings, the company has outperformed ISE by 45%. Although it might seem like we have missed part of the recent rally, given that Arcelik shares have underperformed the ISE100 by 34% on a two-year basis and our bullish outlook on the housing market, we do not think it is too late on a 12-month horizon.

Strong fundamentals at undemanding valuation

In our view, Arcelik is well positioned in the global consumer durables market given its (1) higher exposure to emerging market economies with better long-term growth dynamics; (2) high margins given its exclusive dealership network and manufacturing advantage with high low-cost country sourcing; and (3) unique operating structure, which includes 'dealer finance' operations. Furthermore, we believe Arcelik's story ties in with our investment theme favouring late-cycle cyclical names, and the stronger white goods data and improving consumer confidence that we expect in 2H09 should act as a catalyst. The stock trades at undemanding valuation, at 4.2x EV/EBITDA on our 2010 estimates, a 28% discount to its international peers.

Improving domestic market

The Turkish consumer durable market has been stagnant for the past three years, and in 2009 YTD the contraction has reached 5% y-o-y. However, we believe that white goods demand has bottomed out, and that we should start to see a meaningful recovery in the latter part of 2009 and in 2010. In our view, there is also significant pent-up demand in the white goods sector because we are yet to see the effects of the housing market boom in 2006-07. Although between 2000 and 2006 domestic white goods demand grew by a multiple of GDP growth (3x), in 2007 white goods demand contracted, despite GDP growth of 4.5%. With single-digit interest rates, we expect white goods demand growth to resume its old growth path. We have already seen positive readings in May and June sales owing to the tax cuts implemented to boost demand. Even though the cuts had a more lagged and minor effect when compared with the auto sector, they enabled distributors to destock, and producers such as Arcelik to increase capacity utilisation.

Underpenetrated housing market, a key catalyst

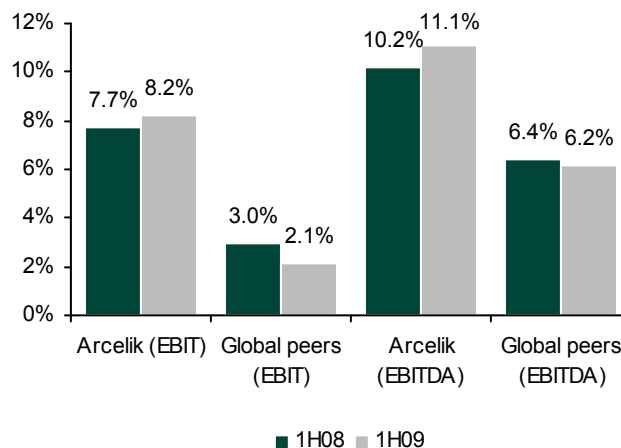
Mortgages have only recently started becoming widely available in the Turkish market after the mortgage law passed in January 2008. Since then, despite the economic turmoil, mortgage lending has been growing uninterrupted, but with mortgage lending at 4.5% of GDP, it remains an underpenetrated market. Given a single-digit interest rate environment in which we expect policy rates to decline to 7.5% by the end of this year, we are bullish on the housing market. Coupled with the already pent-up demand, this should trigger white goods sales in Turkey.

Figure 17: Domestic white goods demand



Source: Company data, Nomura research

Figure 18: 1H09 margins Arcelik vs. peers



Source: Company data, Nomura research

Strong margins compared with international peers

Arcelik has a ~54% market share in the domestic market, and operates an exclusive dealership network in Turkey. Coupled with its manufacturing advantage with considerable low-cost-country (LCC) sourcing, the company operates with high margins compared with its international peers. Management guides to a sustainable EBITDA margin of 9.5-10.5%. In order to be conservative and take into account that eventually Arcelik’s margins will converge to those of its international peers, we assume a sustainable EBITDA margin of 9.7% in the long term.

Unique operating structure, an added bonus

Arcelik has a unique ‘dealer financing’ business structure whereby it finances its dealers and in turn dealers finance customer installment sales. This structure is working capital intensive because it increases accounts receivable (technically interest earning assets) and also inflates debt levels. The company makes a profit on the spread, which we estimate accounts for 20-25% of Arcelik’s bottom line. In our view, this is a successful structure – with an NPL ratio of under 1% versus 3.5% in the consumer loan market, not only does Arcelik make a sizeable profit, but also supports its customers by providing financing. We include this business in our valuation: (1) we adjust net debt to incorporate interest earning accounts receivables, which reduces our net debt estimate by ~TRY1.5bn; and (2) we include the profit generated in our cash flow.

Valuation

We used both DCF and multiples based valuations to derive our target price for Arcelik. For our DCF valuation we use a lower risk-free-rate of 11.3%, in line with our macroeconomic forecasts. Our 12-month target price of TRY 6.0/share is based on the following assumptions:

- Arcelik's domestic white goods sales contract by 6% y-o-y in 2009 and Arcelik maintains a market share of 54%. In our model we assume that Arcelik will lose market share and reach a sustainable share of 52% in the long term. International sales, however, should decline by 5% y-o-y in 2009.
- A 6.0x EV/EBITDA for 2010. In our valuations we use EBITDA adjusted for consumer lending income because we believe this is a crucial part of Arcelik's core business.
- In our EV calculation we have also factored in net debt adjusted for consumer finance receivables (~TRY 1.5bn).

Figure 19: Changes in estimates

Key Figures (TRY m)	2009E			2010E		
	Revenues	6,608	6,653	-1%	7,038	6,730
EBITDA	669	584	15%	755	677	12%
Net Income	284	80	256%	252	167	51%

Source: Nomura estimates

Recent corporate actions

Koc Financial Services (KFS) stake sale – Arcelik previously had a 7.66% stake in KFS, which owns 82% of Yapi Kredi Bank. Owing to its need for cash, Arcelik sold 48% of its 7.66% stake to Koc Holding in March 2009 for TRY 250m. The remaining 52% is sitting on Arcelik's books at TRY 330m (as of 2Q09). We believe that in line with Koc Holding's strategy to simplify the holding structure, it will purchase the remaining stake at a future date. **Rights issue** – Thanks to the 62.5% rights issue, the company generated additional TRY 250m cash. **Grundig merger** – Grundig (previously Beko) is the consumer electronics arm of Arcelik, in which Arcelik had an 83% stake. The legal merger does not have any implications in terms of financials because it was previously fully consolidated, yet will provide tax benefits owing to its accumulated losses.

What could be a positive surprise?

A premium brand acquisition

The TRY 500m cash injection from both the rights issue and the KFS sale will be utilised to reduce Arcelik's debt position. We expect debt/EBITDA to decline to 3.6x in 2009 and further to 3.2x in 2010. This would give the company room to manoeuvre and consider possible premium brand acquisitions, which has been on the company's agenda for some time.

Price momentum should continue

Trading at 4.2x EV/EBITDA on our 2010 estimates, a 28% discount to its international peers, we believe the current valuation is unjustified.

Figure 20: Arcelik vs. peers valuation

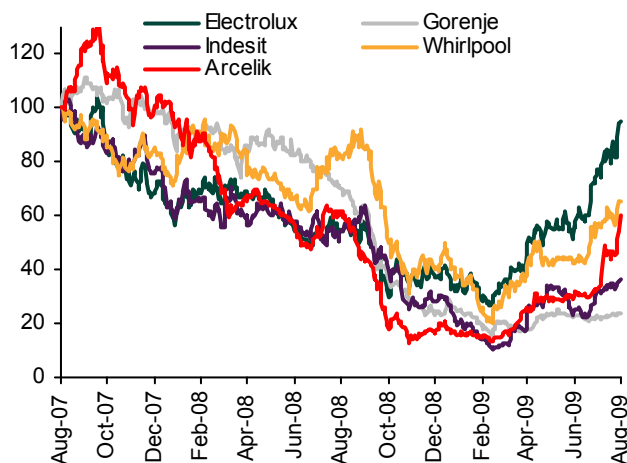
	EV/EBITDA*		P/E **	
	2009E	2010E	2009E	2010E
Electrolux	8.2	6.4	29.1	17.0
Gorenje	8.9	7.5	n.m.	24.9
Indesit	5.3	4.5	67.5	16.6
Whirlpool	4.4	4.1	16.4	15.4
Fisher & Paykel	7.6	6.6	13.7	8.7
Peer Average	6.9	5.8	31.7	16.5
Arcelik	7.5	6.7	10.6	11.9
Arcelik (adj.)	4.9	4.2	21.9	11.9
Premium/(discount)	10%	15%	-67%	-28%
Premium/(discount) (adj.)	-29%	-28%	-31%	-28%

* EV/EBITDA adjusted for consumer finance business (gains & debt).

** Arcelik 2009 P/E adjusted for TRY116m gain on KFS stake sale and tax benefits on Grundig sale.

Source: Datastream, Nomura estimates

Figure 21: Arcelik & peers price performance

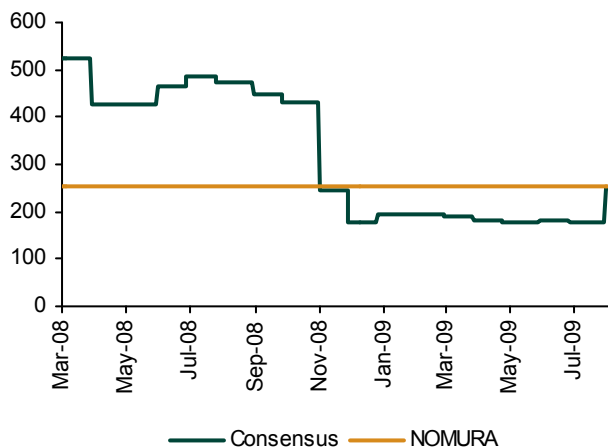


Source: Datastream, Nomura research

Expect further upgrades

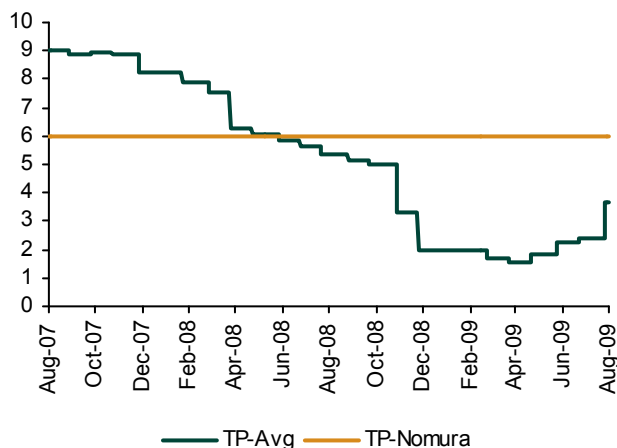
Following robust 2Q09 results announced at the end of July, we started to see the market upgrade both EPS forecasts and price targets. With housing being the primary driver of white goods demand and banks reducing mortgage lending rates, we expect to see further upgrades in the market.

Figure 22: Nomura vs. consensus 2010 earnings



Source: Datastream, Nomura estimates

Figure 23: Nomura vs. consensus TP



Source: Datastream, Nomura research

Financials

Figure 24: Summary balance sheet and income statement

Balance Sheet (TRY m)	2007	2008	2009E	2010E	2011E
Current asset	4,240	4,468	3,982	4,230	4,177
Cash and cash equivalents	401	416	357	371	338
Trade receivables	2,443	2,645	2,354	2,507	2,534
Inventory	1,297	1,304	1,166	1,240	1,191
Other current assets	99	103	106	113	114
Non-current assets	2,287	2,436	2,259	2,301	2,336
Investment securities	715	543	330	330	330
Fixed Assets	1,206	1,272	1,318	1,357	1,384
Other non-current assets	366	620	611	614	622
TOTAL ASSETS	6,527	6,903	6,241	6,532	6,513
Short-term liabilities:	3,157	3,061	2,374	2,338	2,288
Short-term bank borrowings	2,076	1,915	1,300	1,194	1,129
Trade payables	661	705	648	689	701
Other current liabilities	420	441	426	454	459
Long-term liabilities	1,224	1,867	1,391	1,498	1,349
Long-term bank borrowings	996	1,577	1,100	1,233	1,079
Other non-current liabilities	228	290	291	265	270
Minority Interest	28	63	30	32	33
Shareholder's equity	2,117	1,938	2,446	2,665	2,843
TOTAL LIABILITIES & EQUITY	6,527	6,929	6,241	6,532	6,513
Income statement (TRY m)	2007	2008	2009E	2010E	2011E
Sales	6,623	6,776	6,608	7,038	7,114
COGS	-4,851	-4,905	-4,729	-5,030	-5,115
Gross Profit	1,772	1,870	1,879	2,008	1,999
Operating expenses	-1,254	-1,431	-1,368	-1,415	-1,409
Operating Profit	517	440	511	593	590
EBITDA	662	606	669	755	747
Financial income, net	-335	-423	-316	-277	-203
Other income, net	16	12	115	-8	-8
Profit before tax and minorities	199	29	310	308	380
Tax	-61	-23	-31	-62	-76
Minority interest	21	33	5	5	5
Net income	158	40	284	252	309
Profitability (%)	2007	2008	2009E	2010E	2011E
Gross margin	26.7%	27.6%	28.4%	28.5%	28.1%
opex/sales	-18.9%	-21.1%	-20.7%	-20.1%	-19.8%
EBIT margin	7.8%	6.5%	7.7%	8.4%	8.3%
EBITDA margin	10.0%	8.9%	10.1%	10.7%	10.5%
Net margin	2.4%	0.6%	4.3%	3.6%	4.3%
ROE	7.5%	2.0%	6.2%	9.9%	11.2%
ROCE	15.2%	12.1%	13.2%	14.7%	14.0%
ROIC	8.6%	7.1%	9.1%	10.0%	10.0%
ROA	2.4%	0.6%	4.3%	3.9%	4.7%
Gearing Ratio	74.3%	102.7%	36.8%	34.8%	24.9%

Source: Company data, Nomura estimates

Yapi Kredi Bank

Yapi Kredi Bank

Ticker: YKBNK.IS / YKBNK TI

Target Price: TRY 3.90

Current Price: TRY 3.30

EM Banks

Selim Yazici [+44 (0)20 7201 1419]

e-mail: selim.yazici@nomura.com

Buy

August 24, 2009

Description

As of 1Q09, Yapi Kredi Bank was the fifth-largest commercial bank in Turkey, with total assets of US\$39bn and a network of 856 branches. Some 82% of its shares are held by Koc Financial Services, which is owned equally by Koc Group, the largest conglomerate, and Unicredit.

Investment Summary

Buy YKB: We reiterate our BUY rating on Yapi Kredi Bank, on the back of promising trends in 1H09 results. We have recently upgraded our ROE estimate for the bank to 20% from 15% and revised our target price to TLR 3.90, suggesting 20% upside potential.

A revenue increase story with a downward trend in cost/income: The bank has been running a major branch expansion plan since the end of 2007. We see YKB not as a cost-cutting, but a revenue-generation, story which we think will be most apparent when lending business recovers in Turkey.

Among the best asset-side power among peers: We believe the bank is more likely to have strong support for its NIM after the start of asset re-pricing in the second half the year, thanks to its large exposure to high-yield lending and good contributions from FX spreads. The bank stands out as one of the major consumer banks in Turkey, with a history of being the first mover in many consumer segments. This not only supports its margins, but also increases its earnings sustainability with a strong contribution from fee income.

Market Data

Price(TRL)	3.30
Mkt Cap.(US\$ m)	9,628
No.Shares (m)	4,347
Free Float (%)	18.2

Share Performance (%)

	1M	3M	12M	YTD
Absolute	31.98	33.61	26.36	55.24
Relative: Mkt	8.44	0.85	8.03	10.42

Key Valuation Multiples

	2008A	2009E	2010E	2011E
EPS (stated)	0.24	0.35	0.38	0.48
EPS (adj.)	0.23	0.35	0.38	0.48
PE	12.3	8.5	7.7	6.1
PE (adj.)	12.5	8.5	7.7	6.1
ROE (stated %)	17.7	19.8	18.1	18.9
ROE (adj. %)	17.4	19.8	18.1	18.9
Book Value/Share(TRL)	1.6	1.9	2.3	2.8
Price/NAV	1.9	1.5	1.3	1.1
Price/NAV (adj.)	1.9	1.5	1.3	1.1

Key Balance Sheet (TRYm)

	2008A	2009E	2010E	2011E
Assets	63,723	69,192	78,705	90,594
Loans	38,029	41,494	51,061	62,112
Securities	13,183	13,701	13,702	14,027
Core deposits	41,226	43,131	49,802	58,417
Sh. Equity	6,853	8,384	10,052	12,146

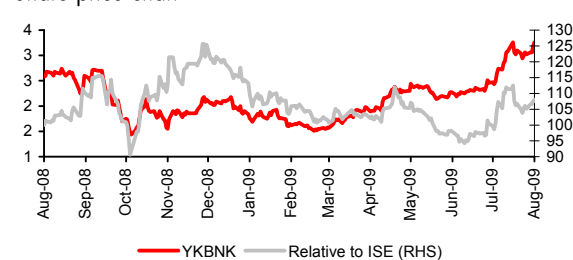
Key P&L (TRYm)

	2008A	2009E	2010E	2011E
Adj. Net interest income	2,375	3,683	3,565	4,139
Net fees & commissions	1,263	1,389	1,616	1,937
Operating expenses	2,359	2,416	2,660	3,021
Net Income	1,043	1,506	1,669	2,096

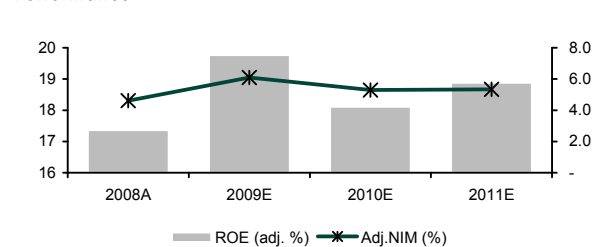
Performance ratios (%)

	2008A	2009E	2010E	2011E
Adj. NIM	4.6	6.1	5.3	5.3
Adj. Cost / Income	56.9	43.5	46.3	45.5
Adj. ROA	1.8	2.3	2.3	2.5
Net fees / Opex.	53.5	57.5	60.8	64.1
NPL ratio	4.3	6.2	5.7	5.2
Leverage (x)	9.3	8.3	7.8	7.5

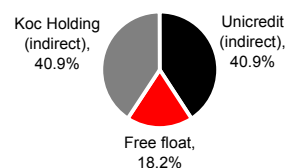
Share price chart



Performance



Ownership Structure



Source: Company data, Nomura estimates

Key investment highlights

We have a Buy rating on Yapi Kredi Bank (YKB) with a 12-month price target of TRY3.9/share. We favour Yapi Kredi in the Turkish banking space, not only because of the 18% upside potential we see, but also for what we consider to be its positioning for the expected loan growth in high-yield consumer segments. We also believe that the bank has a relative advantage against margin contraction in TRYTurkish lira, with a sizable forex balance sheet.

Revisions and outlook

Margins and ROE

Our 2009 ROE estimate for Yapi Kredi stands at 20%. In 1H09 YKB's margin expansion was via both sustainable and unsustainable sources. Therefore we are looking for a lower ROE for 2009 compared with 25% in 1H09. We expect the adjusted NIM to contract by 60bp in 2H09 and 80bp in 2010. We observe a smaller forex derivative position in 2Q09 compared with the previous quarter, indicating a smaller contribution from forex/derivative lines.

Asset quality

We observe that the bank has adopted a more conservative provisioning policy, especially for the new NPLs, leveraging on strong windfall gains. However, we also expect the strong collection performance to continue. We forecast a 40bp increase in the NPL ratio to 6.2% at the end of the year. We believe the cost of risk peaked in 2Q09 and the full year figure is likely to be close to 3%, 40bp lower than that of 1H09.

Returning to network expansion

The bank has achieved a handsome decline in its cost/income ratio since the postponement of the branch expansion programme. Furthermore, the bank's personnel costs have been stable in the past seven quarters, despite its network growth. Management revealed plans to resume branch expansion in the fourth quarter of this year, indicating increasing confidence in the Turkish economy and success of new branches. Although costs are likely to remain subdued for the rest of the year, we estimate the cost/income ratio to normalise to 42% in YE09 from 37% in 1H09, and remain around 45% in the following years. The bank's eagerness to expand its networks puts short-term pressure on earnings, but also makes it geared to future revenue generation.

Focus on consumer lending

We view the rising share of consumer lending as supportive of our investment case for the bank. We also believe that it provides a boost to fee income. The bank was selective in lending growth, and achieved 4.2% growth in total lending to consumers and cardholders in 2Q09, reversing the negative trend in 1Q09. Mortgage lending was particularly strong, with a 6% q-o-q increase; therefore our forecast of 7% growth in TRY lending in 2H09 seems to be easily attainable.

Tier-1 capital up to a comfortable level

We expect the bank to fully benefit from our expected consumer lending boom in 2010, with good capitalisation levels. CAR went up to 17.1% from 16.1% and Tier-1 ratio (excluding goodwill) increased to 11.9% from 10.9%, despite a rising loans/deposits ratio.

Good ownership combination and strong management quality

We believe YKB is one of two banks in the sector that has a good management record of delivery of expectations (via timely balance sheet restructurings, capital increases, asset sales etc). YKB also has the most involvement in management by its foreign partner, which makes it an interesting combination (possibly more focused on risk and sustainable growth) among peers. The bank's ownership structure is also advantageous. Koc, as the biggest consumer group, creates substantial synergies and Unicredit brings experience in other markets.

Valuation

The stock trades at a 2010E P/BV of 1.3x and P/E of 7.7x on our revised forecasts, which we view as rather undemanding compared with emerging Europe and MENA averages. We maintain our Buy rating for Yapi Kredi Bank, not only because of the 33% upside potential we see, but also because of its positioning for the expected loan growth in high-yield consumer segments. We also believe that the bank has a relative advantage, with its sizable FX balance sheet cushioning against margin contraction in TRY. We estimate that the bank can sustain a ROE of 21% in the long term, which indicates a much higher banking return on tangible equity.

Figure 25: Residual income valuation

TRYm	2007A	2008A	2009F	2010F	2011F	2012F	2013F	2014F
Net profit	709	1043	1506	1669	2096	2798	3251	3850
Adjusted EPS (TRY)	0.18	0.23	0.35	0.38	0.48	0.64	0.75	0.89
Adjusted ROE (%)	18.5	17.3	19.8	18.1	18.9	21.1	20.9	21.2
Dividends paid within year	0	0	0	0	0	629	839	975
CAR (%)	13.7	15.7	16.6	15.7	15.1	13.9	12.9	12.0
Equity (Beginning of Period)			4015	5437	7133	9256	11414	13813
Cost of equity (%)			17.4	17.4	17.4	17.4	17.4	17.4
Cost of T.Equity			697	943	1238	1606	1980	2397
Residual banking income			666	571	683	984	1029	1170
Discount factor (x)			1.0000	0.8522	0.7262	0.6188	0.5273	0.4493
Present Value			666	487	496	609	543	526
PV of residual income								2660
Terminal Value (discounted)								5437
Total Value								8096
Equity invested (2009)								5437
Fair value of equity								13533
Fair value per share (TRY)								3.11
Participation value per share								0.43
Fair price of the company								3.55
12 month target price (TRY)								3.90

Source: Company data, Nomura estimates

Financials

Figure 26: Financial summary (BRSA unconsolidated)

B/S Summary (TRYm)	2007A	% Y-o-y	2008A	% Y-o-y	2009E	% Y-o-y	2010E	% Y-o-y	2011E	% Y-o-y
Total Assets	50,353	2.7	63,723	26.6	69,192	8.6	78,705	13.7	90,594	15.1
Securities	12,552	-23.6	13,183	5.0	13,701	3.9	13,702	0.0	14,027	2.4
Performing Loans	28,162	26.9	38,029	35.0	41,494	9.1	51,061	23.1	62,112	21.6
TRY	19,229	27.9	24,666	28.3	25,220	2.2	34,425	36.5	45,186	31.3
FX (in USD)	7,706	51.4	8,781	14.0	10,172	15.8	11,091	9.0	12,091	9.0
Non Performing Loans (Gross)	1,739	1.5	1,713	-1.5	2,743	60.1	3,086	12.5	3,407	10.4
Provisions for NPLs	1,392	-0.7	1,069	-23.2	1,920	79.6	2,160	12.5	2,385	10.4
Participations	1,470	75.3	1,859	26.5	1,968	5.9	1,940	-1.4	1,911	-1.5
Core Deposits	31,638	2.8	41,226	30.3	43,131	4.6	49,802	15.5	58,417	17.3
TRY	18,780	18.2	24,480	30.4	24,568	0.4	31,072	26.5	39,614	27.5
FX (in USD)	11,091	4.7	11,004	-0.8	11,602	5.4	12,486	7.6	13,431	7.6
Bank Deposits, Interbank & Repos	2,306	-37.8	866	-62.4	1,592	83.8	1,863	17.0	2,066	10.9
Borrowings	4,260	-7.8	6,172	44.9	6,000	-2.8	6,225	3.8	6,381	2.5
Total Provisions	2,107	20.5	2,120	0.6	2,567	21.1	2,916	13.6	3,353	15.0
Sub-loans	1,773	13.7	2,221	25.3	2,352	5.9	2,205	-6.3	2,058	-6.7
Shareholders Equity	4,904	43.2	6,853	39.8	8,384	22.3	10,052	19.9	12,146	20.8
Risk Weighted Assets	38,688	19.1	47,773	23.5	53,372	11.7	65,986	23.6	80,482	22.0
I/S Summary (TRYm)	2007A	% Y-o-y	2008A	% Y-o-y	2009E	% Y-o-y	2010E	% Y-o-y	2011E	% Y-o-y
Net Interest Income	2,123	17.2	2,415	13.8	3,388	40.3	3,604	6.4	4,189	16.2
Net FX (loss)/gain	74	179.8	-40	-154.1	295	-833.9	-39	-113.2	-50	28.0
Net trading income	-1	-102.2	35	-2,852.8	182	418.1	137	-24.5	104	-24.1
Net Fees and Commissions	974	21.8	1,263	29.7	1,389	10.0	1,616	16.4	1,937	19.8
Income From Participations	39	-7.5	206	433.4	143	-30.4	155	8.2	176	13.4
Other Non Interest Income	293	-5.3	367	25.3	299	-18.5	422	40.9	454	7.6
Provisions for NPLs	238	11.1	379	59.0	1,193	215.1	1,018	-14.6	1,019	0.0
Other Provisions	188	51.2	174	-7.2	242	38.8	168	-30.3	194	15.0
Net Operating Expense	2,223	11.2	2,359	6.1	2,416	2.4	2,660	10.1	3,021	13.6
Taxation charge / (credit)	144	-27.2	292	103.3	341	16.6	379	11.2	480	26.8
Net Income	709	38.0	1,043	47.0	1,506	44.4	1,669	10.9	2,096	25.6
Ratios (%)	2007A		2008A		2009E		2010E		2011E	
NPL ratio	5.8		4.3		6.2		5.7		5.2	
NPL Coverage ratio	80.0		62.4		70.0		70.0		70.0	
NPL provisions / Av. Loans	0.9		1.1		3.0		2.2		1.8	
Capital Adequacy Ratio	13.7		15.7		16.6		15.7		15.1	
Leverage Rate (times)	10.3		9.3		8.3		7.8		7.5	
Free capital / Total Equity	41.2		46.8		52.3		58.8		64.8	
NIM	4.7		4.7		5.6		5.4		5.4	
Adjusted NIM (For FX loss)	4.9		4.6		6.1		5.3		5.3	
Overall Spread	3.7		3.4		4.6		4.4		4.2	
ROAA (adj.)	1.6		1.8		2.3		2.3		2.5	
ROAE (adj.)	19.8		17.4		19.8		18.1		18.9	
Effective Tax Rate	16.8		21.9		20.0		20.0		20.0	
Cost / Av. Assets	4.5		4.1		3.6		3.6		3.6	
Cost / Income	62.3		56.9		43.5		46.3		45.5	
Net fees&comm. / Opex	43.8		53.5		57.5		60.8		64.1	
Core Deposits per branch (TRYm)	46.8		47.9		50.4		52.1		56.7	
Cash loans per branch (TRYm)	41.7		44.2		48.5		53.5		60.3	
Opex per branch (TRYm)	0.16		0.16		0.16		0.17		0.18	

Source: Company data, Nomura estimates

Tupras

EM Oil and Gas

Tupras

Pinar Sahin Fersoy [+44 20 7102 6441]

Ticker:TUPRS.IS / TUPRS TI

e-mail: pinar.sahin@nomura.com

Target Price: TRY 24.5

NEUTRAL

Current Price: TRY 22.9

August 24, 2009

Description

Tupras is the sole refinery in Turkey and the largest one in CEE, with 28.1m tonnes of crude processing capacity. The company operates in three segments of the downstream oil business: refinery, distribution and transportation. Tupras supplies 67% of Turkey's oil product demand and is the third-largest distributor with a 16.5% market share in white products.

Investment Summary

Pure refiners have lost their appeal: Being a pure refiner has become the key operating risk for Tupras in 2009. Coupled with weak crack spreads, Tupras has lost its cost advantage owing to the significantly narrowed sour-sweet price differential.

But most of this is now priced in: Tupras has underperformed the benchmark index by 21% YTD, and in the same period consensus earnings estimates have halved. We believe downgrades have reached the bottom and that the negative outlook is priced in to valuations for Tupras.

Current valuation not appealing: The stock trades at 9.0x EV/EBIDA our 2010 estimates, a 45% premium to European peers trading at 6.2x EV/EBIDA. Given that the operating advantages of Tupras over its peers have disappeared in the current environment, we believe the stock is fairly valued.

Market Data

Price (TRL)	22.9
Mkt Cap.(TRYm)	5,725
No.Shares (m)	250
Free Float (%)	49%

Share Performance

	1M	3M	12M	YTD
Absolute	23.1%	27.9%	-22.4%	41.4%
Relative: Mkt	1.5%	-6.2%	-33.5%	-20.5%

Key Valuation Multiples

	2008A	2009E	2010E	2011E
Net Income	432	551	753	855
EPS (TRY)	1.73	2.20	3.01	3.41
Consensus EPS (TRY)	1.73	2.28	3.04	3.43
P/E	13.3	10.4	7.6	6.7
ROE (%)	11%	16%	20%	21%
P/BV	1.6	1.6	1.5	1.3
EV/EBIDA	4.7	8.7	9.0	7.6
EV/DACF	5.3	8.7	8.5	7.1
Dividend yield (%)	16%	10%	6%	9%

Key Balance Sheet (TRY m)

	2008A	2009E	2010E	2011E
Net Debt	316	832	719	437
Shareholders' Equity	3,518	3,490	3,892	4,266
Total Assets	8,637	7,680	7,918	9,486
WCR	127	439	443	544

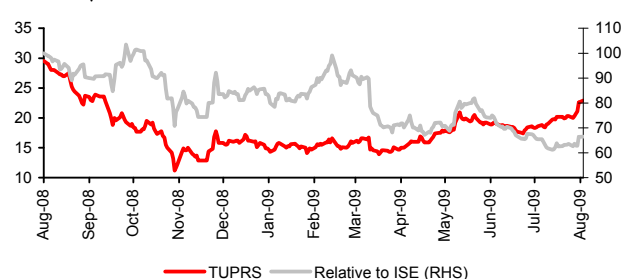
Key P&L (TRYm)

	2008A	2009E	2010E	2011E
Net sales	30,456	18,041	19,509	24,071
EBIT	1,230	707	701	779
EBITDA	1,394	893	903	1,028
Net Income	432	551	753	855

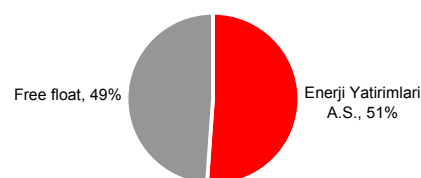
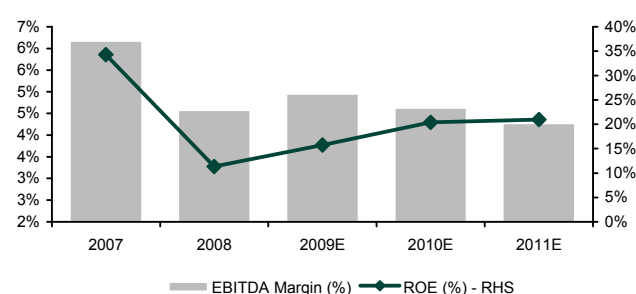
Performance ratios

	2008A	2009E	2010E	2011E
EBITDA margin	4.6%	5.0%	4.6%	4.3%
Operating margin	4.0%	3.9%	3.6%	3.2%
Net margin	1.4%	3.1%	3.9%	3.6%
ROE	11.3%	15.7%	20.4%	21.0%
Debt to equity	0.51	0.58	0.35	0.48
Debt to EBITDA	1.28	2.28	1.50	1.97

Share price chart



Performance



Source: Company data, Nomura estimates

Key investment highlights

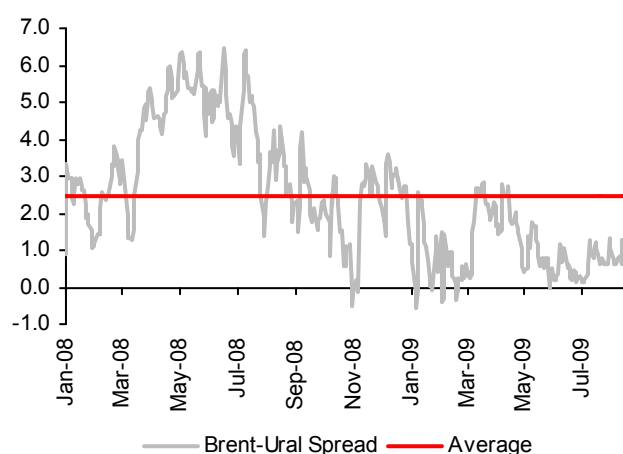
We upgrade our recommendation for Tupras to Neutral from Reduce, with a revised target price of TRY 24.5/share (OLD: TRY 17.5/share). Although we continue to believe that sector-specific risks should hinder the performance of Tupras for the next 12 months, we think most of this negative outlook is priced in, and that consensus downgrades have come close to their bottom. However, we are not yet sufficiently convinced to take the risk of investing into a pure refiner because of (1) weaker product crack spreads; (2) narrowing sweet-sour oil differentials; and (3) weak domestic demand expected to last in 2009. Our target price is based on an oil price assumption of US\$58/bl for 2009 and a year-end rate of US\$1/TRY 1.60.

Sector-specific risks are hard to overcome

Losing its cost advantage owing to narrowing heavy-light oil differential

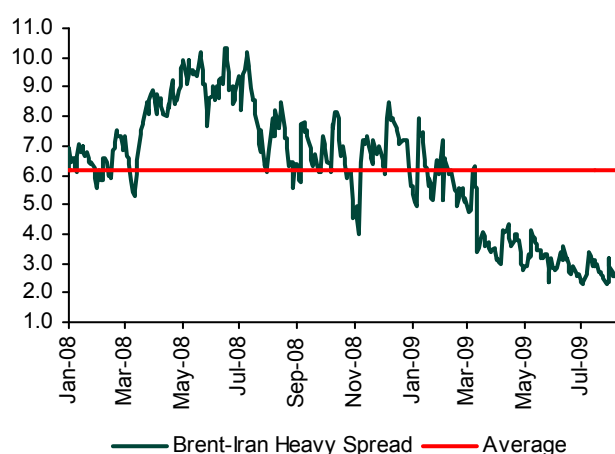
One of the key advantages of Tupras has been its ability to process heavy crude oil. In 2008, 70% of total procurement comprised oil supplied from the Urals and Iran, and the differential between heavy crude and Brent was at its peak. In turn, this acted in Tupras' favour, and was the key reason behind the company's strong margins versus its Brent-processing peers. As OPEC output cuts have led to more reductions in the supply of heavy crude, we are seeing heavy crude prices rise comparatively faster than light crude, and a much narrower band on heavy-light crude where both Urals and Iran heavy are trading very close to Brent prices. For Urals the difference has reached US\$1/bl versus a two-year average of US\$2.5/bl, and US\$3/bl for Iran heavy, half its US\$6/bl, average. This diminishes Tupras' cost advantage. We expect this trend to continue in 2009, with the Brent-Ural differential averaging ~US\$1.1/bl and Brent-Iran heavy at ~US\$4/bl. We should see a meaningful reversion to a wider band in 2010, with Brent-Urals reaching US\$2/bl and Brent-Iran heavy at US\$6/bl on our estimates.

Figure 27: Brent-Ural differential



Source: Datastream, Nomura research

Figure 28: Brent-Iran heavy differential



Source: Datastream, Nomura research

Gasoil crack spreads far from attractive levels

Gasoil accounts for some 30% of Tupras' product yield, and we expect this yield to increase to over ~40%, especially once the coker comes into effect in 2014. However, in 2009, diesel crack spreads are far from attractive levels, suppressing the profitability of Tupras. We expect gasoil crack spreads to recover, albeit at a slower pace, reaching an average of US\$10.5/bl in 2009, US\$12/bl in 2010, and US\$15/bl in the long term, yet think they will remain below their two-year average of ~US\$20/bl.

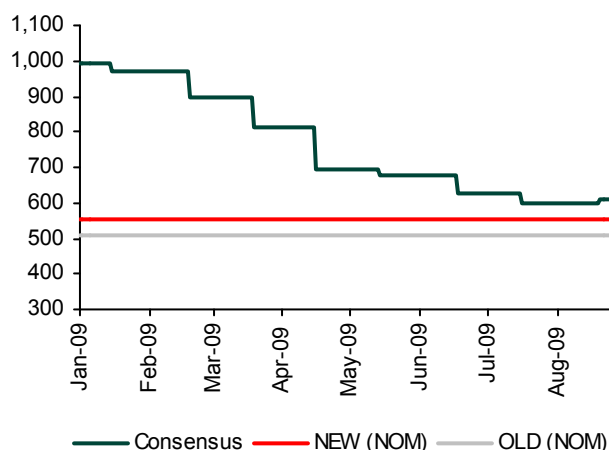
Weak demand expected to last in 2009

In the past five years, as the number of diesel vehicles has increased from 20% in 2003 to ~50% in 2008, diesel demand has grown by an average of 6%, while gasoline demand remained flat. However, in 1H09, demand for transport products declined by 4.7% y-o-y, mainly led by a 5% decline in diesel demand, which is most linked to overall GDP growth. With a 5.8% decline in GDP in 2009, coupled with market share loss to imports we expect Tupras' diesel sales to decline by 14% y-o-y in 2009. As a result of weak demand in 1H09 and having supplied ~70% of Turkey's oil product demand, Tupras operated with a capacity utilisation rate of 51% in 1Q09, a record low, which only increased to 65% in 2Q09. In light of the weaker domestic demand we expect, CUR should reach 67% in 2009.

Consensus estimates are close to the bottom

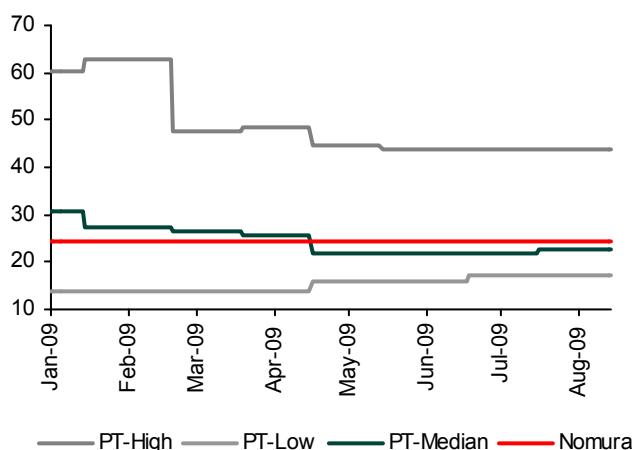
We have seen significant downgrades in the market YTD, with earnings estimates halving, and we think they are now close to reaching their bottom. It appears that most of the negative outlook is already priced in. Current valuations also support our view, with Tupras trading at 9.0x EV/EBIDA on our 2010 estimates, a 45% premium to its peers, we believe it appears to be fairly priced.

Figure 29: Nomura vs. consensus 2009E earnings



Source: Datastream, Nomura estimates

Figure 30: Nomura vs. consensus price target



Source: Datastream, Nomura estimates

Valuation

We value Tupras based on DCF. In line with our macroeconomic estimates for Turkey, we have reduced our risk-free-rate to 11.3%. Furthermore, we have eliminated the discount applied to our target price based on a score card, taking into account balance sheet, currency and growth risks, which we believe are no longer as relevant. Our 12-month target price of TRY 24.5/share is also based on the assumptions shown in Figure 27.

Figure 31: Macro estimates & key figures

	2009E		2010E		2011E	
	New	Old	New	Old	New	Old
TRYUSD (YE)	1.60	1.65	1.50	1.55	1.40	1.45
EURUSD	1.50	1.15	1.40	1.40	1.35	1.35
Oil prices (US\$/bl)						
European Brent	58	60	60	65	75	75
Urals	57	59	58	63	73	73
Iran heavy	53	57	54	61	69	71
Key figures (TRYm)						
Net sales	18,041	25,171	19,509	24,944	24,071	26,369
EBITDA	893	1,209	903	1,119	1,028	802
Net Income	551	510	753	1,201	855	843
Profitability (%)						
Gross margin	7.1%	7.0%	6.4%	6.7%	6.0%	5.3%
EBITDA margin	5.0%	4.8%	4.6%	4.5%	4.3%	3.0%
Net margin	3.1%	2.0%	3.9%	4.8%	3.6%	3.2%

Source: Nomura estimates

Key catalysts

Risks of a potential competitor are low

We believe that in the long run Turkey offers an attractive market with its above-average growth in oil products and its significant supply shortage in high value-added products (i.e. gas oil). Although there have been some reports about new refinery projects, especially in the Ceyhan region, it is now becoming even more difficult for refineries to initiate investments, and most of them have even postponed their capex schedules and shut down some capacity. Recently, Indian Oil Corporation announced that it has put all its overseas investment projects on hold, including its project in Ceyhan, which it was planning with Calik Holding (the only company able to obtain a refinery licence). We believe that even when things improve in the industry, any new refinery trying to gain exposure to the Turkish market is unlikely to pose a serious threat to Tupras because of Tupras' advantageous location at the centre of demand and the competitive feedstock that it enjoys.

No change, even improvement, in planned investments

Owing to the increased cost of leverage and lack of credit facilities, the market had started to question a potential halt of investment upgrades at Tupras. However, Tupras recently confirmed that investments will continue at (1) ~30% higher capacity; (2) similar costs; and (3) will become operational a year later in 2014. We maintain our capex estimate at ~US\$1.6bn, of which we expect ~US\$1bn to be financed through debt. We perceive this decision as positive because this investment upgrade, with a 30% higher capacity, should enable Tupras to convert 4.2m tonnes of black products into 3.5 tonnes of high-margin white products by 2014, bringing white product yield to ~80% from ~70% now. However, based on current market conditions as the diesel-fuel oil band tightens, the additional impact on the refining margins could be less than Tupras estimates. Based on \$270/bl HFO-diesel spread, Tupras estimates a margin increase of over \$5/bl, yet given the current spread of \$200/bl, the margin impact could be closer to \$4/bl.

Financials

Figure 32: Summary balance sheet and income statement

Balance Sheet (TRYm)	2007	2008	2009E	2010E	2011E
Current assets	5,387	4,420	3,268	3,210	4,773
Cash and cash equivalents	963	1,467	1,208	631	1,593
Trade receivables	1,792	1,074	1,020	1,035	1,274
Inventory	2,287	1,264	711	1,211	1,496
Other current assets	346	616	329	333	410
Non-current assets	3,694	4,217	4,412	4,709	4,713
Long-term financial assets	53	70	77	72	76
Fixed assets	2,986	3,433	3,790	4,081	4,025
Intangible assets	323	324	331	339	348
Other non-current assets	332	391	213	216	264
TOTAL ASSETS	9,082	8,637	7,680	7,918	9,486
Short-term liabilities	4,091	4,114	3,061	2,886	3,336
Short-term bank borrowings	258	1,288	1,440	750	700
Trade payables	2,525	1,565	948	1,453	1,795
Other long-term liabilities	1,308	1,261	674	683	841
Long-term liabilities	845	967	1,091	1,098	1,837
Long-term bank borrowings	438	495	600	600	1,330
Other long-term liabilities	408	472	491	498	507
Minority Interest	33	38	38	42	46
Shareholder's equity	4,112	3,518	3,490	3,892	4,266
TOTAL LIABILITIES & EQUITY	9,082	8,637	7,679	7,918	9,486
Income Statement (TRYm)	2007	2008	2009E	2010E	2011E
Sales	22,528	30,456	18,041	19,509	24,071
COGS	(20,721)	(28,557)	(16,753)	(18,266)	(22,625)
Gross Profit	1,807	1,899	1,288	1,243	1,446
Operating expenses	(537)	(669)	(581)	(542)	(667)
Operating Profit	1,270	1,230	707	701	779
EBITDA	1,391	1,394	893	903	1,028
Other income, net	15	53	26	35	36
Financial income, net	328	(734)	(34)	219	269
Tax	(308)	(110)	(138)	(188)	(214)
Minority interest	(6)	(7)	(10)	(14)	(16)
Net income	1,298	432	551	753	855
Profitability (%)	2007	2008	2009E	2010E	2011E
Gross Margin	8.0%	6.2%	7.1%	6.4%	6.0%
Operating exp/sales	-2.4%	-2.2%	-3.2%	-2.8%	-2.8%
EBIT margin	5.6%	4.0%	3.9%	3.6%	3.2%
EBITDA margin	6.2%	4.6%	5.0%	4.6%	4.3%
Net margin	5.8%	1.4%	3.1%	3.9%	3.6%
ROE	34.3%	11.3%	15.7%	20.4%	21.0%
ROCE	27.5%	25.9%	15.5%	14.5%	13.9%
ROA	16.1%	4.9%	6.8%	9.7%	9.8%
Gearing ratio	-6%	9%	24%	18%	10%

Source: Company data, Nomura estimates

Ford Otosan

EUROPEAN AUTOS

Ford Otosan

Pinar Sahin Fersoy [+44 20 7102 6441]

e-mail: pinar.sahin@nomura.com

Ticker:FROTO.IS / FROTO TI

Target Price: TRY 8.7

REDUCE

Current Price: TRY 9.2

August 24, 2009

Description

Ford Otosan is a JV between Ford Motor Co. and Koc Group, each holding 41% stake. As of 2008, Ford Otosan was the second-largest auto producer in Turkey, with 269k units, 23% of total production, and with 218k units the third-largest exporter (24% of total exports). The exports are sold on a cost-plus basis and comprise ~70% of sales volume and ~60% of revenues.

Investment Summary

Not a compelling enough story: Ford Otosan has been the largest auto exporter in Turkey for the past 3 years and the company's 'cost-plus' exports acted as a cushion to withstand domestic demand volatilities. Now we believe the story is different because both domestic and export volumes have experienced significant declines, and export volumes, which previously provided support, are likely to recover at a much slower pace.

Entering into a hefty investment phase: Ford Otosan's two main models are coming to the end of their life cycles and are set to be replaced by new versions, which require increased investments and should lead to declining FCF yields from 16% in 2009 to 2% in 2011.

Should continue to be a laggard in 2009: In 2009, Ford Otosan has underperformed Tofas by 25%, yet on a 2-year basis it has been an outperformer by 31%. Given that on our estimates Ford Otosan has less of a compelling story and is trading at 5.4x EV/EBITDA, a 25% premium to Tofas and 18% premium to European peers, we maintain our view that Ford Otosan will continue to underperform Tofas.

Market Data

Price (TRY)	9.20
Mkt Cap.(TRYm)	3,228
No.Shares (m)	351
Free Float (%)	18%

Share Performance	1M	3M	12M	YTD
Absolute	34.3%	35.3%	1.1%	111.0%
Relative: Mkt	10.8%	-0.8%	-13.5%	18.7%

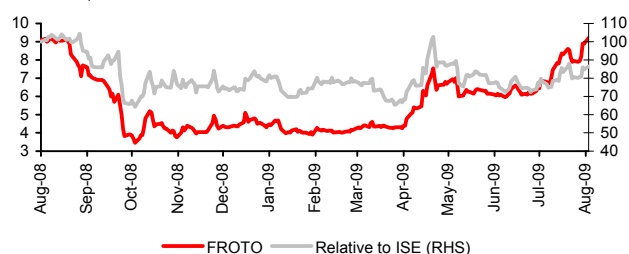
Key Valuation Multiples	2008A	2009E	2010E	2011E
Net Income	436	254	313	321
EPS (TRY)	1.2	0.7	0.9	0.9
Consensus EPS (TRY)	1.2	0.8	1.1	1.3
P/E	7.4	12.7	10.3	10.1
ROE (%)	25%	15%	17%	16%
P/BV	1.9	1.8	1.6	1.6
EV/EBITDA	4.4	6.5	5.4	5.2
EV/Sales	0.5	0.6	0.5	0.5
Dividend yield (%)	14%	6%	4%	8%

Key Balance Sheet (TRYm)	2008A	2009E	2010E	2011E
Net Debt	118	-209	-383	-208
Working Capital Requirement	654	451	358	328
Shareholders' Equity	1,711	1,774	1,960	2,031
Total Assets	2,707	2,821	3,068	3,218

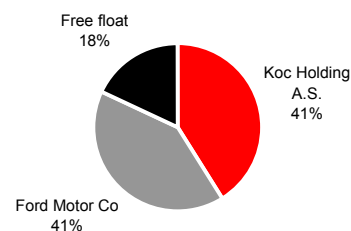
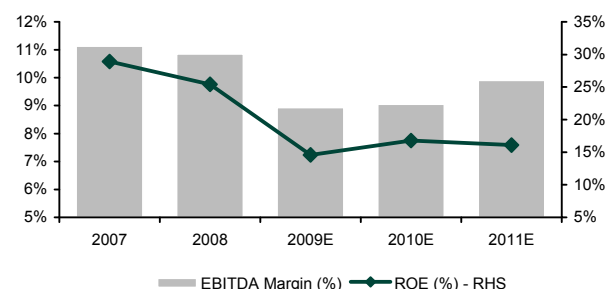
Key P&L (TRYm)	2008A	2009E	2010E	2011E
Net sales	7,007	5,231	5,770	5,876
EBIT	598	303	351	380
EBITDA	760	468	523	582
Net Income	436	254	313	321

Performance ratios	2008A	2009E	2010E	2011E
EBITDA margin	10.9%	8.9%	9.1%	9.9%
Operating margin	8.5%	5.8%	6.1%	6.5%
Net margin	6.2%	4.9%	5.4%	5.5%
ROE	25.4%	14.6%	16.8%	16.1%
Debt to equity	0.22	0.21	0.22	0.23
Debt to EBITDA	0.50	0.81	0.81	0.79

Share price chart



Performance



Source: Company data, Nomura estimates

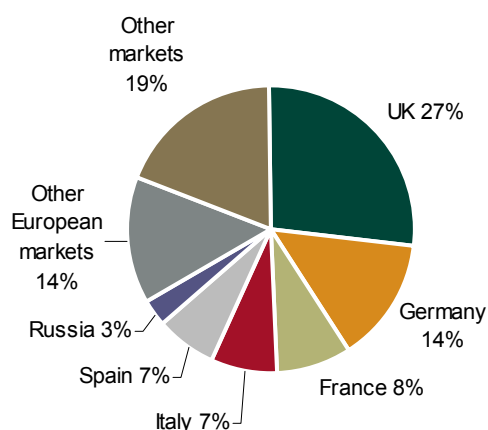
Key investment highlights

With this report we downgrade our recommendation for Ford Otosan to Reduce from Neutral, with a target price of TRY 8.7/share. In our view, the company has been the most affected by weak demand both domestically and in export markets, and in our view should continue to be so owing to (1) 'unshielded' exposure to export markets; (2) disadvantageous product mix leading to weakening position in domestic market; and (3) an aged product line. Despite Ford Otosan's strong fundamentals, trading at a 5.4x EV/EBITDA a 25% premium to Tofas, we believe that given the lack of meaningful catalysts the stock should continue to underperform its peer Tofas.

Export markets expected to recover at much slower pace

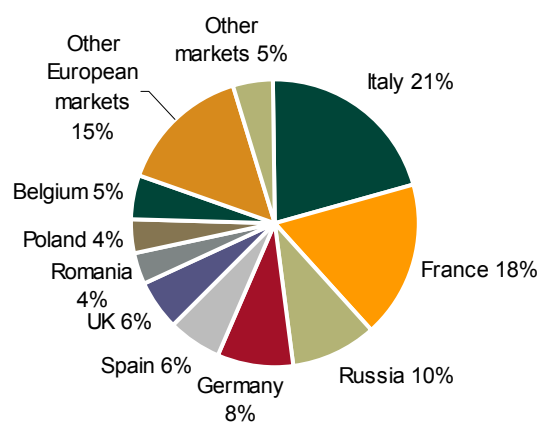
Similar to its local peer Tofas, Ford Otosan is an export-oriented company, with exports accounting for more than 70% of sales volume and are exported based on a cost-plus nominal euro margin. However, in contrast with Tofas, owing to Ford Otosan's exposure to weaker markets, the company has not been able to benefit from incentives abroad, and in 1H09 exports declined by 67% y-o-y. Moreover, Ford Otosan has an 'unshielded' exposure to export markets as sales are based purely on demand: there are not any purchase agreements in place. We believe, given the higher vehicle penetration in European markets, demand is likely to take longer to recover, which in turn puts the company in a more vulnerable state.

Figure 33: Ford Otosan export market breakdown



Source: Company data, Nomura research

Figure 34: Tofas export market breakdown



Source: Company data, Nomura research

Weakening position in domestic market

Ford Otosan's product mix has also hindered the company from benefiting from any incentives in the domestic market because tax cuts were mainly targeted towards the passenger car segment, mainly small engine passenger cars. Ford Otosan produces only light commercial vehicles and trucks in-house and is an importer of passenger cars. The company's passenger car sales increased 18% y-o-y in 1H09, which benefits neither production nor profitability, given razor-thin import margins. Furthermore, during the tax cuts, Ford Otosan reduced inventory levels for its Connect model to close to zero because it was planning to introduce the New Transit Connect (which underwent only a facelift). The

company experienced supply issues during this period, and Tofas was able to take full advantage and maintain its strength in the domestic market. As a result, Ford Otosan's share in the light vehicle market declined to 13% in 1H09 from 15% in 1H08, mainly led by a loss in the LCV segment, reaching 24% market share in 1H09 from 26% in 1H08.

Transit & Connect are at end of their life-cycles

Ford Otosan started producing the Transit Van in 2001 and the Transit Connect in 2002. Coming close to the end of their life-cycles, the company is planning to develop new versions of each model, yet in the current market outlook the management does not plan to start investments any earlier than 2010 and 2011. Although Tofas is coming out of a hefty investment phase with FCF yields rising and new models giving a boost to sales volumes, Ford Otosan is entering a phase where older models have become outdated and are now falling out of style. Until new versions are introduced into the market, Transit & Connect demand is likely to wane in favour of newer models. Furthermore, we expect the company to spend ~US\$1bn in the next four years on the development of both models.

Valuation

Our 12-month target price of TRY 8.7/share is based on the assumptions shown in Figure 31.

Figure 35: Changes in estimates

	2009E			2010E		
	NEW	OLD		NEW	OLD	
Sales Volume (Units)						
Domestic sales volume	70,000	61,234	14%	72,267	71,025	2%
Export volume	130,730	185,380	-29%	145,752	206,935	-30%
Key Figures (TRYm)						
Revenues	5,231	6,164	-15%	5,770	7,097	-19%
EBITDA	468	408	15%	523	547	-4%
Net Income	254	170	49%	313	279	12%

Source: Nomura estimates

- Given the slight push from tax cuts, we have increased Ford Otosan domestic sales volume by 14%, and are now expecting 70k units in 2009. We have cut our export volume assumptions by 30% owing to the weakness in Ford Otosan's main export market UK & Russia (impacting Cargo truck sales) and expect a 40% y-o-y decline in 2009.
- Increased margins: The company has already achieved an EBITDA margin of 10% in 1H09 owing to favourable product mix, with increased domestic sales, and guides that it should achieve a double-digit EBITDA margin. We are slightly more conservative, and expect the EBITDA margin to reach 8.9% in 2009.
- Increased capex: We estimate ~US\$1bn investment between 2010 and 2013 because the company has confirmed that it will soon start the process of developing new versions of Transit & Connect, which have come to the end of their life-cycle.
- EPS should halve in 2009, compared with the 14% increase we expect at Tofas. Ford Otosan shares trade at 10.3x P/E and 5.4x EV/EBITDA on our 2010 estimates, a 54% and 25% premium compared with Tofas.

Key catalysts

Transit Connect exports to the US

Ford Otosan is the sole producer of Transit Connect vehicles in the world. The company has decided to export 30k units Connect to the US in 2009. The pilot programme is to last for three years, and we expect Ford Otosan to export a total of 60k units during this period, thereafter depending on demand volumes could be higher.

New models could be exported under more profitable terms

As mentioned above, the Transit & Connect models have come to the end of their life-cycles. The company is in the process of developing new versions of these models, which should be finalised around 2013–14. Given the expertise that Tofas has in developing new models and exporting a pre-determined number of units under take-or-pay purchase contracts, Koc Holding could transfer this know-how to Ford Otosan. Once the new models are developed, Ford Otosan could export these models under more favourable terms.

Key risks

Ford plant in Romania still poses a risk, albeit at a lesser extent

In 2007, Ford Motor purchased a former Daewoo assembly plant in Craiova, Romania. Based on initial plans production was supposed to start in 2009, yet given weak market conditions it has been delayed and most likely will start in the latter part of 2010. Initially Ford plans to start the production of passenger cars in Romania, and previously had planned to transfer a portion of Connect production to Romania. At the time, Ford Otosan Kocaeli plant was operating with CUR above 100%, now taking into account that Ford Otosan plant operates at 55% CUR (as of 2Q09), we believe that such a scenario is unlikely in the near future, and think it could materialise only once the new versions of the models are introduced.

Financials

Figure 36: Summary balance sheet and income statement

Balance Sheet (TRYm)	2007	2008	2009E	2010E	2011E
Current assets	1,633	1,401	1,571	1,710	1,583
Cash and cash equivalents	360	263	590	807	665
Trade receivables	409	236	291	240	245
Due from related parties	330	215	203	224	228
Inventory	373	584	409	352	357
Other current assets	162	103	79	86	88
Non-current assets	1,404	1,306	1,250	1,357	1,634
Long-term financial assets	3	1	1	1	1
Fixed assets	1,308	1,236	1,192	1,277	1,499
Intangible assets	94	68	57	79	134
Other non-current assets	0	0	0	0	0
TOTAL ASSETS	3,038	2,707	2,821	3,067	3,218
Short-term liabilities	959	637	699	725	759
Short-term bank borrowings	117	152	169	180	168
Trade payables	648	293	350	353	390
Other long-term liabilities	194	191	180	193	201
Long-term liabilities	363	358	347	382	428
Long-term bank borrowings	299	228	212	244	289
Other long-term liabilities	64	130	136	137	139
Shareholder's equity	1,716	1,711	1,774	1,960	2,031
TOTAL LIABILITIES & EQUITY	3,038	2,707	2,821	3,067	3,218
Income Statement (TRYm)	2007	2008	2009E	2010E	2011E
Sales	7,231	7,007	5,231	5,770	5,876
COGS	-6,196	-5,991	-4,600	-5,071	-5,144
Gross Profit	1,035	1,016	631	699	732
Operating expenses	-387	-418	-328	-348	-351
Operating Profit	648	598	303	351	380
EBITDA	806	760	468	523	582
Financial income, net	42	14	4	33	34
Other income, net	-33	4	11	8	-14
Tax	-173	-180	-64	-78	-80
Net income	484	436	254	313	321
Profitability (%)	2007	2008	2009E	2010E	2011E
Gross Margin	14.3%	14.5%	12.1%	12.1%	12.5%
Operating exp/sales	-5.4%	-6.0%	-6.3%	-6.0%	-6.0%
EBIT margin	9.0%	8.5%	5.8%	6.1%	6.5%
EBITDA margin	11.1%	10.9%	8.9%	9.1%	9.9%
Net margin	6.7%	6.2%	4.9%	5.4%	5.5%
ROE	28.9%	25.4%	14.6%	16.8%	16.1%
ROCE	33.9%	28.8%	14.5%	15.7%	15.8%
ROIC	26.0%	21.6%	14.2%	16.4%	15.5%
ROA	16.5%	15.2%	9.2%	10.6%	10.2%
Gearing ratio	3%	7%	-12%	-20%	-10%

Source: Company data, Nomura estimates

Important Disclosures:

Mentioned Company	Ticker	Price	Price Date	Stock / Sector Rating
Arcelik	ARCLK.IS	TRL 4.44	24 Aug 2009	Buy / Not Rated
Ford Otosan	FROTO.IS	TRL 9.20	24 Aug 2009	Reduce / Not Rated
Koc Holding	KCHOL.IS	TRL 3.92	24 Aug 2009	Buy / Not Rated
Tofas Fabrika	TOASO.IS	TRL 3.24	24 Aug 2009	Buy / Not Rated
Tupras	TUPRS.IS	TRL 22.90	24 Aug 2009	Neutral / Not Rated
Yapi Kredi Bank	YKBNK.IS	TRL 3.30	24 Aug 2009	Buy / Not Rated

All share prices mentioned are closing prices unless otherwise stated.

Rating and target price changes

	Rating Old	New	Target Price Old	New
ARCLK.IS	Neutral	Buy	TRL 2.60	TRL 6.00
FROTO.IS	Neutral	Reduce	TRL 8.12	TRL 8.70
KCHOL.IS	No change	No change	TRL 3.35	TRL 5.30
TOASO.IS	No change	No change	TRL 3.13	TRL 4.80
TUPRS.IS	Reduce	Neutral	TRL 17.50	TRL 24.50

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As at 30 June 2009.

*The Nomura Group as defined in the Disclaimer section at the end of this report.

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The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to price target defined as $(\text{fair value} - \text{current price}) / \text{current price}$, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

Stocks:

- A rating of "1", or "**Buy**", indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.
- A rating of "2", or "**Neutral**", indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.
- A rating of "3", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.
- A rating of "**RS-Rating Suspended**" indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

Benchmarks are as follows: **United States:** S&P 500, MSCI World Technology Hardware & Equipment; **Europe:** Please see valuation methodologies for explanations of relevant benchmarks for stocks (accessible through the left hand side of the Nomura Disclosure web page: <http://www.nomura.com/research>); **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia.

Sectors:

- A "**Bullish**" stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months.
 A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months.
 A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.

Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX® 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009:

Stocks:

Stock recommendations are based on absolute valuation upside (downside), which is defined as $(\text{Price Target} - \text{Current Price}) / \text{Current Price}$, subject to limited management discretion. In most cases, the Price Target will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.

- A rating of "1", or "**Buy**" recommendation indicates that potential upside is 15% or more.
- A rating of "2", or "**Neutral**" recommendation indicates that potential upside is less than 15% or downside is less than 5%.
- A rating of "3", or "**Reduce**" recommendation indicates that potential downside is 5% or more.
- A rating of "**RS**" or "**Rating Suspended**" indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.
- Stocks labeled as "**Not rated**" or shown as "**No rating**" are not in Nomura's regular research coverage.

Sectors:

- A "**Bullish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.
 A "**Neutral**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.
 A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008):

Stocks:

- A rating of "1", or "**Strong buy**", indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.
- A rating of "2", or "**Buy**", indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "3", or "**Neutral**", indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.
- A rating of "4", or "**Reduce**", indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.
- A rating of "5", or "**Sell**", indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.
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Sectors:

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 A "**Neutral**" stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.
 A "**Bearish**" stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan:** TOPIX; **United States:** S&P 500, MSCI World Technology Hardware & Equipment; **Europe,** by sector — *Hardware/Semiconductors:* FTSE W Europe IT Hardware; *Telecoms:* FTSE W Europe Business Services; *Business Services:* FTSE W Europe; *Auto & Components:* FTSE W Europe Auto & Parts; *Communications equipment:* FTSE W Europe IT Hardware; **Ecology Focus:** Bloomberg World Energy Alternate Sources; **Global Emerging Markets:** MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008:**Stocks:**

Stock recommendations are based on absolute valuation upside (downside), which is defined as $(\text{Fair Value} - \text{Current Price}) / \text{Current Price}$, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

- A rating of "1", or "**Strong buy**" recommendation indicates that upside is more than 20%.
- A rating of "2", or "**Buy**" recommendation indicates that upside is between 10% and 20%.
- A rating of "3", or "**Neutral**" recommendation indicates that upside or downside is less than 10%.
- A rating of "4", or "**Reduce**" recommendation indicates that downside is between 10% and 20%.
- A rating of "5", or "**Sell**" recommendation indicates that downside is more than 20%.

Sectors:

A "**Bullish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A "**Neutral**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A "**Bearish**" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

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