

# Koc Holding

Conglomerates

TURKEY- EQUITY RESEARCH

March 14, 2011

## Lower finance and energy segments affected bottom-line negatively in 4Q10...

**KCHOL announced 4Q10 net income of TRL310mn with a YoY increase of 5%.** The figure is lower than both market consensus of TRL425mn and our expectation of TRL468mn due to lower than expected figures in finance and energy segments.

**Revenues of the company reached TRL15.3bn in 4Q10 with a YoY increase of 26% thanks to robust automotive segment and higher oil prices.** Crude prices were around 16% higher in 4Q10 on YoY basis. Thus, as a result of slightly higher sales volume in Tupras and increasing oil prices, Energy segment revenues soared 30% YoY in 4Q10. Strong consumer demand supported the domestic sales volume of both FROTO and TOASO in 4Q10 resulting in a revenue growth of 50% YoY in automotive segment. Accordingly, share of automotive segment in revenues increased to 17% in 4Q10 from 14% in 4Q09 while Energy segment continued to dominate the revenues with its 58% share.

**Consolidated EBITDA increased by 17% on YoY basis to TRL1,098mn in 4Q10 thanks to finance segment.** Despite the fact that the profitability in the finance segment was lower than the estimates in 4Q10, the figure is 116% higher than the low 4Q09 figure. NIM of the bank was recorded as 4.4% in 4Q10 while ROAE stood at 11.1%. Profitability in the Energy segment was affected negatively with the provisions set aside for the tax fine. Accordingly, energy segment EBITDA declined by 22% to TRL322mn in 4Q10. Share of finance segment increased to 30% in 4Q10 while energy segment slid to 29%. In the meantime, automotive segment's share reached 24% in 4Q10 as a result of strong consumer demand in domestic market. On full year results, energy and finance segments dominate the figure with a share of 33% and 31%, respectively. Durables segment's share in consolidated EBITDA slightly declined as raw material costs affected the margins of the company negatively.

**Net income reached TRL310mn in 4Q10, slightly above 4Q09 level of TRL296mn...** The holding booked a net financial expense of TRL202mn depressing the bottom-line in 4Q10. Thus, net income of Koc Holding reached TRL1,734bn in FY10 with a YoY increase of 21%.

During the teleconference held after the announcement of the financials, regarding power generation investments the company management stated that shareholder structure for each investment could differ depending on the size and merits of the investment. Accordingly, in addition to Aygaz that has 39% share in Entek (JV with AES), other Koc Group companies and Koc Holding could participate in those investments indicating that **Aygaz will not be the only Koc Group Company that will undertake the electricity investments.**

**Maintaining MARKETPERFORM rating...** Koc Holding has a well diversified portfolio that also shows defensive characteristic with its strong holding-only net cash level of USD798mn. The Holding is currently trading at 9% discount to its current NAV, slightly lower than its two-year average of 12%. We maintain our MARKETPERFORM rating for Koc Holding.

### Forecasts and Ratios

(TRLmn)	2009	2010	2011E	2012E
Net Sales	44,841	53,813	62,097	69,946
Sales growth	-19%	20%	15%	13%
EBITDA	4,401	5,072	5,440	5,918
% margin	9.8%	9.4%	8.8%	8.5%
Net Earnings	1,429	1,734	1,888	2,151
% margin	3.2%	3.2%	3.0%	3.1%
EPS	0.6	0.7	0.8	0.9
EPS growth	-41%	21%	9%	14%
P/E	12.0	9.9	9.1	7.9
ROAE	19%	17%	16%	16%
DPS	0.13	0.16	0.17	0.20
Dividend Yield	1.8%	2.2%	2.4%	2.8%

## MARKETPERFORM

Maintained

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### KCHOL TI / KCHOL.IS

#### Valuation

Share Price (TRL)	7.08
Target Price (TRL)	7.98
Upside Potential	13%
Market Cap (USDmn)	10,832
Net Debt (USDmn)*	-798
Net FX Pos. (USDmn)	-1,700
* Holding only	

#### Trading

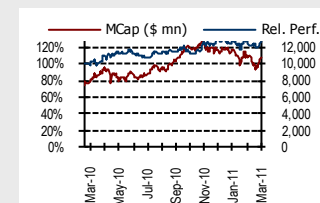
12m High / Low	7.78 / 4.56
Avg. Daily Vol. (USDmn)	19.1
Num. of shares (mn)	2,415
Free Float	22%
Foreign Ownership	78%

#### Ownership Structure

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

#### Performance Chart

Return	TRL	Rel.
1M	-6%	-3%
3M	1%	2%
12M	52%	25%



**Segmental Breakdown**

Revenues	4Q10		4Q09		YoY	FY10		FY09		YoY
	TRL mn	Share	TRL mn	Share	Chg.	TRL mn	Share	TRL mn	Share	Chg.
Energy	8,934	58%	6,852	56%	30%	31,412	58%	24,488	55%	28%
Automotive	2,597	17%	1,737	14%	50%	7,767	14%	5,948	13%	31%
Durables	1,804	12%	1,764	15%	2%	7,052	13%	6,810	15%	4%
Finance	1,357	9%	1,199	10%	13%	4,990	9%	5,382	12%	-7%
Others	646	4%	583	5%	11%	2,592	5%	2,213	5%	17%
<b>Total</b>	<b>15,338</b>	<b>100%</b>	<b>12,134</b>	<b>100%</b>	<b>26%</b>	<b>53,813</b>	<b>100%</b>	<b>44,841</b>	<b>100%</b>	<b>20%</b>

EBITDA	4Q10		4Q09		YoY	FY10		FY09		YoY
	TRL mn	Share	TRL mn	Share	Chg.	TRL mn	Share	TRL mn	Share	Chg.
Energy	322	29%	414	44%	-22%	1,652	33%	1,701	39%	-3%
Automotive	262	24%	165	18%	59%	788	16%	602	14%	31%
Durables	175	16%	158	17%	11%	853	17%	826	19%	3%
Finance	324	30%	150	16%	116%	1,560	31%	1,046	24%	49%
Others	15	1%	55	6%	-73%	219	4%	226	5%	-3%
<b>Total</b>	<b>1,098</b>	<b>100%</b>	<b>942</b>	<b>100%</b>	<b>17%</b>	<b>5,072</b>	<b>100%</b>	<b>4,401</b>	<b>100%</b>	<b>15%</b>

EBITDA Margin	4Q10		4Q09		YoY	FY10		FY09		YoY
Energy	3.6%		6.0%		-244 bps	5.3%		6.9%		-169 bps
Automotive	10.1%		9.5%		59 bps	10.1%		10.1%		2 bps
Durables	9.7%		9.0%		74 bps	12.1%		12.1%		-3 bps
Finance	23.9%		12.5%		1137 bps	31.3%		19.4%		1183 bps
Others	2.3%		9.4%		-712 bps	8.4%		10.2%		-176 bps
<b>Total</b>	<b>7.2%</b>		<b>7.8%</b>		<b>-60 bps</b>	<b>9.4%</b>		<b>9.8%</b>		<b>-39 bps</b>

**KCHOL - Summary P&L Statement**

TRLmn	4Q10	4Q09	YoY Δ	3Q10	QoQ Δ	FY10	FY09	YoY Δ
<b>Revenues</b>	<b>15,338</b>	<b>12,184</b>	26%	<b>13,879</b>	11%	<b>53,812</b>	<b>44,841</b>	20%
Cost of Goods Sold	-12,842	-9,962	29%	-11,385	13%	-44,621	-35,965	26%
<b>Gross Profit</b>	<b>2,496</b>	<b>2,222</b>	12%	<b>2,494</b>	0%	<b>9,192</b>	<b>8,876</b>	4%
Operating Expenses	-1,386	-1,211	14%	-1,253	11%	-4,927	-4,525	9%
<b>Operating Profit</b>	<b>1,110</b>	<b>1,011</b>	10%	<b>1,241</b>	-11%	<b>4,265</b>	<b>4,350</b>	-2%
Depreciation	245	260	-6%	246	-1%	968	925	5%
Severance Provision	38	61	-37%	3	1164%	57	76	-25%
<b>EBITDA</b>	<b>1,393</b>	<b>1,332</b>	5%	<b>1,490</b>	-7%	<b>5,290</b>	<b>5,351</b>	-1%
Net Other Income	175	25	600%	83	112%	467	301	55%
Net Other Expenses	-430	-359	20%	-76	470%	-627	-1,175	-47%
Financial Expenses, net	-202	-64	215%	179	<i>n.m.</i>	-219	-317	-31%
Profit (Loss) from Subsidiaries	0	0	<i>n.m.</i>	0	<i>n.m.</i>	0	0	<i>n.m.</i>
<b>PBT</b>	<b>653</b>	<b>613</b>	6%	<b>1,428</b>	-54%	<b>3,886</b>	<b>3,159</b>	23%
Taxes	-140	-56	148%	-254	-45%	-748	-518	44%
Profit from Discontinued Operations	0	0	<i>n.m.</i>	0	<i>n.m.</i>	0	0	<i>n.m.</i>
Minority interest	203	261	-22%	515	-60%	1,404	1,211	16%
<b>Net Income</b>	<b>310</b>	<b>296</b>	5%	<b>659</b>	-53%	<b>1,734</b>	<b>1,429</b>	21%
Net Debt	2,317	2,961	-22%	1,023	127%	2,317	2,961	-22%
Net FX Position	-4,485	-2,632	70%	-3,280	37%	-4,485	-2,632	70%
Gross Margin	<b>16.3%</b>	<b>18.2%</b>	-196 bps	<b>18.0%</b>	-169 bps	<b>17.1%</b>	<b>19.8%</b>	-271 bps
EBIT Margin	<b>7.2%</b>	<b>8.3%</b>	-106 bps	<b>8.9%</b>	-170 bps	<b>7.9%</b>	<b>9.7%</b>	-178 bps
EBITDA Margin	<b>9.1%</b>	<b>10.9%</b>	-185 bps	<b>10.7%</b>	-166 bps	<b>9.8%</b>	<b>11.9%</b>	-210 bps
Net Margin	<b>2.0%</b>	<b>2.4%</b>	-41 bps	<b>4.7%</b>	-273 bps	<b>3.2%</b>	<b>3.2%</b>	4 bps

**KCHOL - Balance Sheet (TRL mn)**

	<b>FY10</b>	<b>FY09</b>	<b>YoY Δ</b>	<b>9M10</b>	<b>QoQ Δ</b>	<b>FY09</b>	<b>Ytd Δ</b>
<b>CURRENT ASSETS</b>	<b>41,655</b>	<b>33,616</b>	<b>24%</b>	<b>38,870</b>	<b>7%</b>	<b>33,616</b>	<b>24%</b>
Liquid Assets	14,561	11,960	22%	13,387	9%	11,960	22%
Short-Term Trade Receivables	5,098	4,747	7%	5,301	-4%	4,747	7%
Inventories	4,193	3,361	25%	4,130	2%	3,361	25%
Other Current Assets	17,803	13,548	31%	16,052	11%	13,548	31%
<b>LONG TERM ASSETS</b>	<b>39,487</b>	<b>32,771</b>	<b>20%</b>	<b>35,350</b>	<b>12%</b>	<b>32,771</b>	<b>20%</b>
Trade Receivables	14,471	9,829	47%	12,595	15%	9,829	47%
Financial Investments	8,370	6,035	39%	6,020	39%	6,035	39%
Tangible Fixed Assets	10,446	10,630	-2%	10,463	0%	10,630	-2%
Intangible Fixed Assets	1,384	1,320	5%	1,338	3%	1,320	5%
Other Long-Term Assets	4,816	4,957	-3%	4,934	-2%	4,957	-3%
<b>TOTAL ASSETS</b>	<b>81,143</b>	<b>66,386</b>	<b>22%</b>	<b>74,220</b>	<b>9%</b>	<b>66,386</b>	<b>22%</b>
							<i>n.m.</i>
<b>SHORT TERM LIABILITIES</b>	<b>49,280</b>	<b>38,158</b>	<b>29%</b>	<b>43,639</b>	<b>13%</b>	<b>38,158</b>	<b>29%</b>
Short-Term Financial Loans	35,740	29,346	22%	31,855	12%	29,346	22%
Short-Term Trade Payables	7,549	4,083	85%	5,803	30%	4,083	85%
Other Short-Term Financial Liabilities	5,990	4,728	27%	5,981	0%	4,728	27%
<b>LONG TERM LIABILITIES</b>	<b>10,885</b>	<b>9,447</b>	<b>15%</b>	<b>10,082</b>	<b>8%</b>	<b>9,447</b>	<b>15%</b>
Long-Term Financial Loans	8,567	7,144	20%	7,529	14%	7,144	20%
Long-Term Trade Payables	0	0	<i>n.m.</i>	0	<i>n.m.</i>	0	<i>n.m.</i>
Other Long-Term Liabilities	2,317	2,302	1%	2,553	-9%	2,302	1%
<b>Minority Interests</b>	<b>8,404</b>	<b>7,612</b>	<b>10%</b>	<b>8,267</b>	<b>2%</b>	<b>7,612</b>	<b>10%</b>
<b>SHAREHOLDERS EQUITY</b>	<b>20,978</b>	<b>18,782</b>	<b>12%</b>	<b>20,500</b>	<b>2%</b>	<b>18,782</b>	<b>12%</b>
<b>TOTAL LIABILITIES AND S.HOLDERS EQUITY</b>	<b>81,143</b>	<b>66,386</b>	<b>22%</b>	<b>74,220</b>	<b>9%</b>	<b>66,386</b>	<b>22%</b>
<b>Financial Ratios</b>							
Debt/Equity	2.9	2.5		2.6		2.5	
Current Ratio (x)	0.8	0.9		0.9		0.9	
Trade receivables day	29.9	35		34		38	
Stock Turn.	30.8	32		34		36	
Trade payables day	55.5	38.6		48.1		43.8	
<b>Cash Cycle</b>	<b>5.3</b>	<b>28.2</b>		<b>20.5</b>		<b>30.4</b>	

### Valuation Approach

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

### Rating Methodology

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

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

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

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

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