

KOC HOLDING (KCHOL TI)		January 30, 2009				
Price (TL/share)	2.3					
Mcap (TL mn)	4,649					
Target Mcap (TL mn)	5,440					
Upside/(Downside)	17%					
Free Float	22.0%					
Foreign Share of Float	54.0%					
Avg. Trading Vol (3M)(US\$)	15					
YoY \$ return	-58%					
YoY ISE relative return	-4%					
KOC HOLDING						
US\$mn						
					Total	Value of
	Stake				Value	KCHOL Stake
Finance			1,368			
Yapı Kredi	27.9%	mcap	4,714			
Koc Tuketici Finans	44.5%	p/b of 1x	118			
Automotive			656			
Ford Otosan	38.5%	mcap	897			
Tofas	37.6%	mcap	364			
Turk Traktor	37.7%	mcap	132			
Otokar	44.7%	mcap	119			
Birmot & Otokoc	96.3%	30% disc to P/S of Doas	74			
Energy			79			
Tupras via EI	38.3%	mcap	2,382			
Enerji Inv (SPV)	75.0%	net debt (Sept 08)	-1,300			
Aygaz	40.7%	mcap	351			
Consumer Durables			167			
Arcelik	39.1%	mcap	426			
Retail & Food			117			
Tat Konserve	43.7%	mcap	83			
Koctas	37.1%	0.5x P/S	218			
Other			13			
Marmaris Altinyunus	36.8%	mcap	19			
Cesme Altinyunus	30.0%	mcap	22			
SoP			2,400			
Net Cash (Debt)			1,000			
NAV			3,400			
MCap			2,817			
Premium (Discount) to NAV			-17%			

Koc (Market Perform): Priciest of its diversified conglomerate peers (ie Sabanci & Dogan)...

Investment Case... Koc Holding remains the best diversified proxy to the Turkish economy with a well balanced portfolio of sector leaders. Portfolio composed of finance (41%), energy (excluding SPV debt is 31%), autos (19%), and consumer durables (5%) is closer in resembling the ISE than its two peers of Sabanci and Dogan Holding.

This proxy status is a leading reason for the shares to be relatively more expensive at 17% discount to current NAV compared to 41% of Sabanci and 51% of Dogan. The difficulty of picking out among the embattled industrial stocks (Tupras, Ford, Tofas, Arcelik) and the liquidity problem in investing even in these underlying blue chip stocks also contribute to explaining the newfound strength of the NAV discount that has averaged at c22% in the last three years.

Valuation... We rate Koc Holding as Market Perform considering the likelihood of sustained flight to quality and liquidity in the near future, even though shares look relatively overvalued.

Guidance for 2009... Koc Holding decided not to give any conglomerate-level guidance for 2009 but views itself best positioned to ride out the storm.

Recent sectoral data and sectoral outlook... There is no sign of relief among the key industries in which Koc Holding is operating.

In banking, worries over asset quality and liquidity are clogging the system and even after the CBT's 375bps cuts in the borrowing rate to 13% since October, there is no revival in loans with total loans in the banking system remaining 5% below intra-4Q08 highs at TL374mn by end-January, according to daily data of the BRSA. Moreover, NPLs have risen to 3.8% by end-January, up from intra-2008 lows of 3%. After recording 30% loan growth in 2008, estimates for 2009 continue to be revised down with the latest consensus pointing to y/y growth remaining barely above inflation estimates.

Autos remain the most problematic part of the sectoral newsflow with December domestic and export sales volumes plunging by respective rates of 58% and 53% y/y. January export revenue data, reported within the general trade data, show no signs of a relief with auto exports falling by 53% y/y. 2009 estimates are for a contraction of 15-25% in the domestic market.

In consumer durables, bad news lagged autos by two months, and hit by December as domestic sales collapsed by 31% y/y (after a gentle y/y contraction of only 5% in November) and exports fell by 14% y/y (following a decline of only 2% y/y in November). 2009 estimate is for a 10% contraction.

The weakness in the energy business is the least worrisome actually, as even though Med complex refining margin is down to US\$2.9/bbl in January 2009, down from US\$7.8/bbl of December, it is still above the US\$1.7/bbl level of January 2008. Med margins are expected to slip to US\$4-4.5/bbl in 2009, from US\$5.6/bbl of 2008.

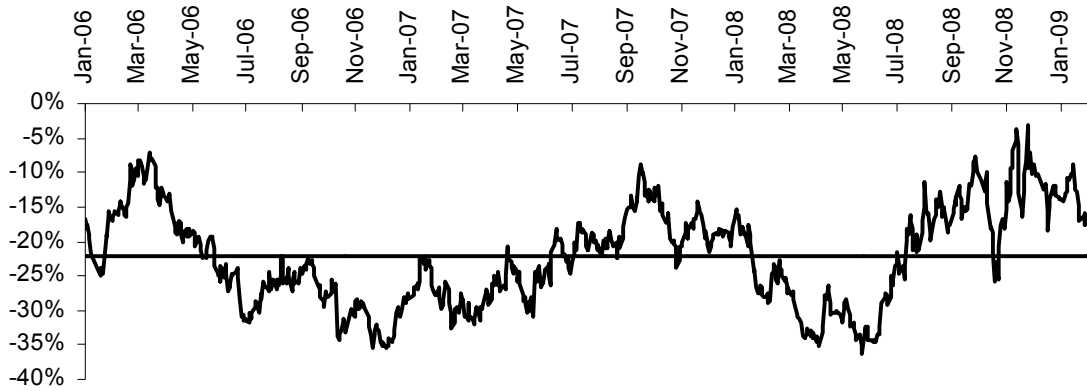
Potential Catalysts... **Tupras:** The periodical rumours about a merger of Tupras with the SPV set up to finance the acquisition back in 2005 or a cut in the historical payout ratio of 80% to make room for an outright loan from Tupras to Koc Holding has created uncertainty around Tupras. Finalization of the dividend distribution decision (expected by the 3rd week of February) could erase these concerns that are vehemently denied both by Tupras and Koc Holding managements. We expect the payout to remain at 80% levels but following the cTL600mn quarterly inventory and fx related losses in 4Q08, Tupras dividend yield is to remain at c10-11% levels vs previous estimates of above 20%.

Arcelik: The company is weighing over two methods to alleviate the US\$580mn net debt of its problematic subsidiary Grundig (Beko) and could either fully merge to realize TL60mn of annual tax savings or sell its 7.7% stake in KFS back to the conglomerate (current value of TL490mn).

Potential Risks... The repayment of the US\$1.3bn debt on the SPV and Grundig related net debt on Arcelik remains the biggest causes of worry amid the ongoing liquidity crises.

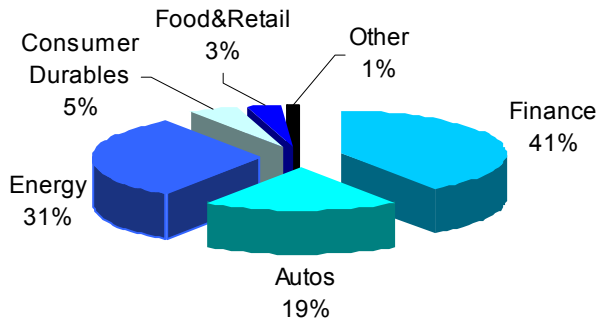
Recent developments about the company... Koc rolled over its 3-year US\$1bn loan at a rate of 77% last month, even though the cost was expectedly higher by 275bps to libor+2.5% & euribor+4.5%.

Koc Holding Historical NAV Discount/Premium



Source: Eczacıbaşı Securities

Segmental Breakdown of Koc Holding NAV



Source: Eczacıbaşı Securities