



Company Update
Aksa Energy

18 April 2016

Looking abroad after Bolu Lignite Plant and Ghana Plant

We are updating our coverage of Aksa Energy with an Outperform rating and a 12-month target price of TRY3.74 per share, indicating 30% upside potential. With the Bolu Goynuk Lignite Power Plant to lower the cost base further and increasing OTC activity, rising share of contracted sales enhancing profitability, and the Ghana investment set to generate dollar-based revenue from 2017 acting as a natural hedge against FX volatility; the company is well positioned in a tough environment with low prices. It will be supported by new operations abroad, a more efficient domestic portfolio and a rising share of contracted sales which will help the company recover from the hardships imposed by the low pricing environment.

Better Positioned in a Tough Environment... Consumption growth has lagged behind the surge in capacity in the electricity sector in the past couple of years, with a glut of new capacity coming on stream on higher expectations of consumption growth. In 2015, electricity consumption in Turkey grew by only 2.6% whereas installed capacity increased by 5.2%. The unwelcome combination of excess capacity and slow consumption growth is expected to keep prices depressed in the near term. However, Aksa Energy has succeeded in maintaining its average sales price above the market average thanks to its secured sales through domestic bilateral contracts, dollar-based guaranteed sales agreement through the operations in the Northern Cyprus Facility and increased trading activity in the OTC market. Furthermore, the company's focus on boosting contracted sales will prop up sagging margins in the low price environment. Thus, we believe Aksa Energy is one of the players in the market best able to withstand the gloomy sector outlook.

Full impact of Bolu Goynuk to be seen this year, but Ghana operations expected to fully kick-in next year... Aksa Energy's first lignite-fired power plant started generating electricity in 3Q 2015, but the full effect of the project (270 MW) will be apparent in 2016. Electricity generation from lignite is of tremendous importance for the company by helping to lower the cost base in the low price environment. Now the plant is in full operation, we expect the Bolu Goynuk plant to generate TRY90mn of EBITDA in 2016. However, when it comes to the Ghana investment, some delays in the bureaucratic process postponed the start of the project until 4Q16 and the company expects the full capacity of the investment to kick in in 2017. According to the PPA signed with the Republic of Ghana, Aksa Enerji will sell all of the electricity generated in the Ghana Facility to the Ghanaian government with a purchase guarantee and at the total price stated in the agreement in US Dollars. The project will boost the company's operating profitability, as well as act as a natural hedge against the exchange rate volatility and losses that the company suffered from in 2015. Once fully up and running, we would expect the plant to contribute USD 119mn in annual EBITDA, even though the contribution from Ghana will be limited in 2016; we expect a contribution of just USD 11mn to EBITDA in 2016.

Deterioration in margins Inevitable in 2016, but some compensation from higher volumes... We expect an EBITDA margin of 13.9% in 2016 on higher OTC activity, which are burdened by high costs and declining margins in sourcing and BSM, but we expect the addition of Bolu Goynuk in 2016 and the Ghana Facility in 2017 to help margins recover. With rising volumes and revenues, we expect TRY493mn of EBITDA generation in 2016 which still marks a 13% increase compared to 2015.

Exploring additional African Markets... The company stated it was planning to focus on more international investments going forward and is in talks with other African countries for additional investments, which could spur increased profitability if realised.

Prospect of further incentives for lignite-fired plants by the government could serve as a catalyst... There is increased expectation in the sector that the government is in preparation for an incentive to support lignite-fired electricity production with purchase guarantee. Such moves would bolster Aksa's EBITDA.

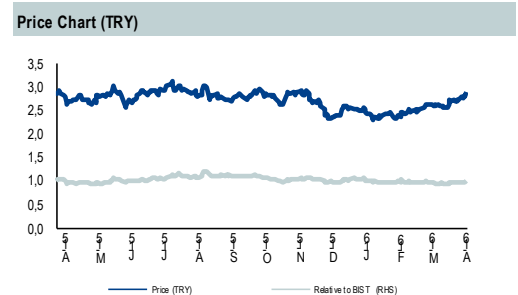
Risks... Any further delays or termination of the Ghana project, more than expected generation or new capacity additions in the sector and/or lower consumption growth and lower prices are the main risks facing the company.

Trading Data	15.04.2016
Sector	Utilities
Bloomberg	AKSEN TI
Reuters	AKSEN.IS
EV (TRYmn)	4.502
Mkt cap (TRYmn)	1.760
Free float (%)	21%
No. of shares (mn)	613
1-M Avg. Daily Vol. (TRYmn)	7,1
BIST-100	85.573

Ownership	Stake (%)
Kazancı Holding A.Ş.	61,98%
Goldman Sachs International	16,62%
Publicly Owned	21,39%
Other	0,01%

Share Price	Current	Target
USD	1,01	1,31
TRY	2,87	3,74
Upside Potential		30%

Price Data (TRY)	1M	3M	12M
BIST-100	79.031	71.062	81.358
Share Price	2,61	2,43	2,65
Absolute	10%	18%	8%
Relative	2%	-2%	3%



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Income Statement (TRYm)	2013	2014	2015	2016E	2017E	2018E
Revenues	1.786	1.957	2.320	3.554	4.599	5.237
Gross Profit	220	247	318	389	696	905
Operating Expense	-20	-24	-27	-48	-62	-71
EBIT	200	222	291	341	634	834
Net Other Operating Income	-4	-15	-3	-5	-6	-7
Profit/Loss from Subsidiaries	0	0	0	0	0	0
Net Financial Income/Expense	-346	-182	-551	-274	-282	-377
Profit Before Taxes	-151	27	-235	62	345	449
Taxes	17	13	6	-12	-69	-90
Minority Interest	-2	0	-2	-2	-2	-2
Net Income	-132	40	-227	51	278	361
Depreciation	112	121	145	152	153	164
EBITDA	312	344	436	493	786	998

Full capacity of the Bolu Goynuk Lignite Plant as well as rising volume due to increasing OTC/trading activity

Full capacity of the Ghana Investment, continuing OTC activity

Balance Sheet (TRYm)	2013	2014	2015	2016E	2017E	2018E
Current Assets	520	533	846	1.346	1.669	2.405
Non-Current Assets	2.356	2.927	3.215	3.824	4.194	4.461
Total Assets	2.876	3.460	4.061	5.170	5.863	6.866
Current Liabilities	630	916	1.370	1.645	1.827	1.939
Non-Current Liabilities	1.262	1.522	1.901	2.684	2.918	3.448
Minority Interest	-1	-1	-3	-3	-3	-3
Shareholders' Equity	984	1.022	792	843	1.121	1.482
Total Liabilities and Equity	2.876	3.460	4.061	5.170	5.863	6.866
Total Capital Employed	2.289	2.802	3.327	4.154	4.595	5.133
Net Debt	1.306	1.781	2.538	3.313	3.476	3.653
<i>Net Debt/EBITDA</i>	4,2	5,2	5,8	6,7	4,4	3,7
<i>Net Debt/Equity</i>	1,3	1,7	3,2	3,9	3,1	2,5
Working Capital	214	92	167	225	289	320
<i>WC/Sales</i>	12,0%	4,7%	7,2%	6,3%	6,3%	6,1%
Trade Receivables	142	89	183	251	321	356
Inventories	250	269	400	624	770	855
Trade Payables	178	265	415	650	802	890

Key Metrics	2013	2014	2015	2016E	2017E	2018E
Growth						
Revenue Growth	-3,0%	9,6%	18,5%	53,2%	29,4%	13,9%
EBITDA Growth	-3,4%	10,3%	26,9%	12,9%	59,6%	26,9%
Net Income Growth	-157,1%	-130,1%	-672,0%	-122,7%	440,3%	30,0%
Margins						
Gross Margin	12,3%	12,6%	13,7%	11,0%	15,1%	17,3%
<i>Opex/Sales</i>	1,1%	1,2%	1,2%	1,4%	1,4%	1,4%
EBIT Margin	11,2%	11,4%	12,5%	9,6%	13,8%	15,9%
EBITDA Margin	17,5%	17,6%	18,8%	13,9%	17,1%	19,0%
Net Margin	-7,4%	2,0%	-9,8%	1,4%	6,0%	6,9%
Profitability						
Return on Total Capital Employed	-5,7%	1,4%	-6,8%	1,2%	6,0%	7,0%
Return on Equity (RoE)	-13,4%	3,9%	-28,6%	6,1%	24,8%	24,4%
Return on Assets (RoA)	-4,6%	1,1%	-5,6%	1,0%	4,7%	5,3%

Company Description

Established as a subsidiary of Kazanci Holding in 1997, Aksa Energy is the largest independent power producer in Turkey amongst public companies with 17 power plants and 2,211 MW of installed capacity. Aksa Energy trades on the Borsa Istanbul, its shares being sold on in an IPO in 2010.

A Diverse Portfolio with International Investments

With a diverse portfolio, Aksa Energy has operations both in the country and in Northern Cyprus, and is working on expanding its portfolio by entering new markets in Africa, as well as investing in local and renewable sources.

Aksa Energy has four operating fuel oil-fired power plants (one in Northern Cyprus), three natural gas-fired turbines, seven wind farms, two hydroelectric-fired power plants and one coal-fired power plant.

The Bolu Goynuk lignite-fired power plant entered operation in July 2015 and reached full capacity in January 2016.

The Company's 81 MW hydroelectric plant in Kozbükü – still under construction – is planned to be commissioned in 2016 (Kozbükü).

Additionally, Aksa's 370 MW fuel-oil plant in Ghana that will be selling all of the electricity it generates to the Ghanaian government with a purchase guarantee and at a dollar-based price is planned to start generating electricity in 4Q16 and reach its full capacity in 2017.

Investment Summary

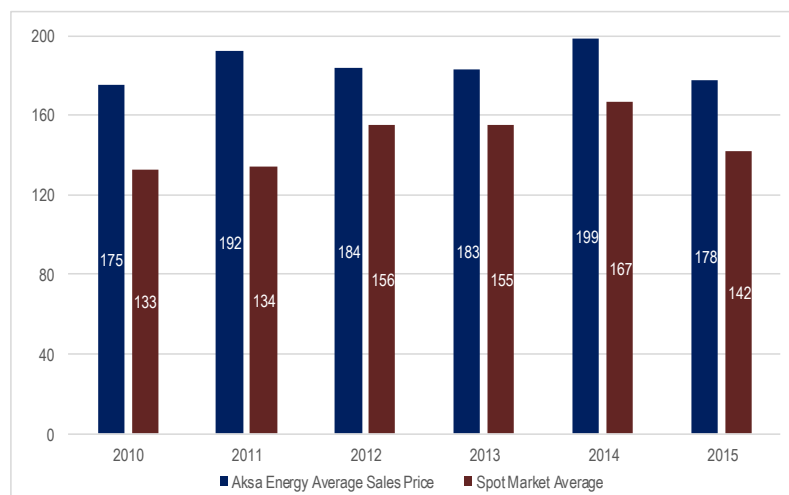
Strongly Positioned in a Tough Environment...

In contrast with the Turkish Energy Watchdog's (EMRA) earlier consumption growth projections of 6.5-7.5% for between 2012 – 2021; consumption growth lagged behind capacity growth in the electricity sector in the past couple years as a glut of new capacity was added on expectations of stronger consumption growth. Installed capacity has increased at a CAGR of 8.1% since 2010 and total capacity increased by 5.2% during 2015 from 69,520 MW at the beginning of 2015 to 73,147 MW by the end. Thus, with electricity consumption figures failing to meet previous demand projections, pricing performance in the sector remained weak. In addition, higher water levels after a year of draught in 2014 kept prices down in 2015 as hydro capacity utilization rates increased. On the other hand, in line with the sub-potential GDP growth for the past 4 years, Turkey's electricity consumption grew by just 2.6% in 2015 to 264,000 GWh.

Spot electricity prices fell by 15% during the year to average TL142/MW in 2015, compared to the TL166/MW in 2014 and the environment of low prices is expected to continue. However, Aksa Energy managed to keep its average sales price above the market average thanks to its secured sales through domestic commercial and industrial bilateral contracts, dollar-based guaranteed sales agreement through operations in the Northern Cyprus Facility, as well as increased trading activity in the OTC market.

Aksa's average sales price decreased by 12% compared to 2014 (from TL199/MW to TL177.60/MW) – a milder decrease than the market average – reflecting Akxa's effective management despite the harsh conditions in the sector. Akxa Energy's sales price averaged TL177.60/MW in 2015 – compared to TL142/MW in the spot market. We believe Akxa Energy's dedicated team will continue to position Akxa Energy as one of the strong players in the sector with high endurance against the gloomy sectoral background.

Figure 1: Akxa Average Sales Price – Spot Price



Source: Company, EPIAŞ

Strategic Changes in Sales Channels and Operations – Utilizing All Channels of Cost Reduction and Guaranteed Sales in the Low Price Environment...

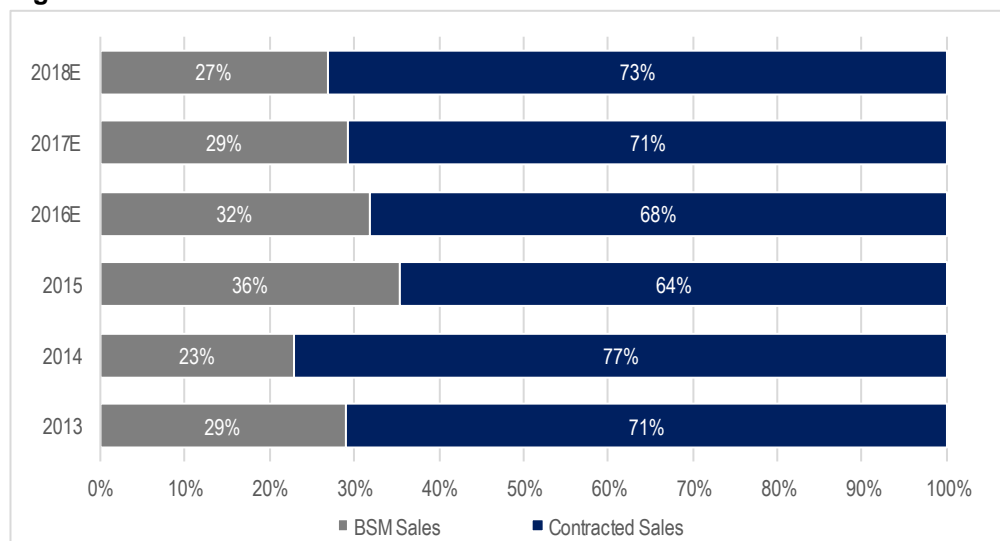
Aksa Energy places itself in the low price environment with many advantages compared to similar market players by focusing on bilateral contracts providing guaranteed sales of energy produced, shifting to renewable resources thereby both lowering the cost base and increasing the share of dollar-based revenues while aligning itself with the global trends of the energy market, and also by initiating additional operations abroad, ensuring a dollar-based revenue stream and increasing trading activity in the domestic scene as the low price environment makes production more costly than generating revenue in the OTC market from time to time.

The company increased the percentage of its contracted sales from 14% in 2010 to 64% in 2015, with 126,000 bilateral customers at the end of 2015 (a 50% increase compared to 2014). Commercial and household clients made up of 99% of the contracted sales in 2015. We believe further lowering of the eligibility limit would support the company in targeting this segment. Aksa Enerji's bilateral customers are contracted by affiliates of the Kazancı Group, and the affiliated distribution regions (Çoruh and Fırat) of Kazancı Holding further support the contracted sales base.

Aksa Energy's focus on bilateral contracts has been supporting its profitability given that the company's sales price in the BSM segment averaged TL172/MW, compared to the TL213/MW in contracted sales in 2015.

We expect the company to further increase the share of its contracted sales in 2016 and 2017 as the number of bilateral customers increase through affiliated distribution companies in the domestic market, and cost-plus guaranteed sales continue through the Northern Cyprus facility, whose dollar-based revenue serves as a hedge against exchange rate volatility as well as fluctuations in global energy prices. The company will further increase contracted sales and dollar-based revenues from the end of 2016, as the 370 MW Ghana facility comes onstream and sells the generated electricity to the Ghanaian Republic in a dollar-based cost-plus guaranteed sales agreement. The Bolu Goynuk Lignite Plant, the full effect of which will be seen in 2016, will immediately support the company's cost base and profitability. Any government incentives to support lignite-fired electricity production would also bolster the Company's EBITDA.

Figure 2: Trend in Contracted Sales



Source: Company, YF Securities Estimates

Full Effect of Bolu Goynuk to be apparent this year... Aksa Energy invested in a 270 MW lignite fired power plant, the construction of which got underway in 2012. The Company's first lignite-fired power plant started generating electricity in 3Q 2015, but utilizing only a 135 MW portion of the plant. The Bolu Goynuk plant has been constructed in two phases, with the full effect of the second portion to be apparent in 2016. Therefore the full contribution of the Bolu Goynuk plant, both in terms of cost-reduction and EBITDA generation, will offer added value for Aksa Energy in 2016. The Company expects to generate 1.75 TWh of sellable electricity from the Bolu Goynuk Lignite Plant in 2016.

For the Company, generating electricity from lignite is of tremendous importance in terms of its positive contribution to the cost base in the low price environment. As Aksa's average cost of generation was TL135 /MW in 2015, the cost of generation in the specific of Bolu Goynuk plant was TL98 /MW in the same period – which includes the additional one-off operational expense of TL12 /MW due to the testing process of the new plant during the last quarter of 2015.

We expect the Bolu Goynuk power plant to generate about TRY90 mn of EBITDA in 2016 as it fully enters operation with the completion of the second 135 MW phase.

A gradual start for the Ghana Facilities in 2016... Aksa Energy announced last summer that it had signed a 5 year power purchase agreement (PPA) with the Republic of Ghana for installation of a 370MW power plant, electricity generation and the guaranteed sale of this energy, also announcing that the Republic had granted a Wholesale Electricity Supply Licence. In line with the agreement; Aksa Enerji will sell all of the electricity generated to the Ghanaian Republic with a purchase guarantee and at the total price stated in the agreement in US Dollars through the long term power purchase agreement (PPA) – which has a duration of 5 years with the possibility of a further extension with both parties' consent before the 5 year term is completed.

The Ghana project is expected to significantly boost the company's operational profitability as well as serving as a natural hedge against the sort of exchange rate volatility and losses that buffeted the company in 2015. With the take-or-pay agreement, Aksa increases its guaranteed sales base, and due to the cost-plus nature of the agreement, the production process becomes immune to any possible fluctuations in the global energy prices.

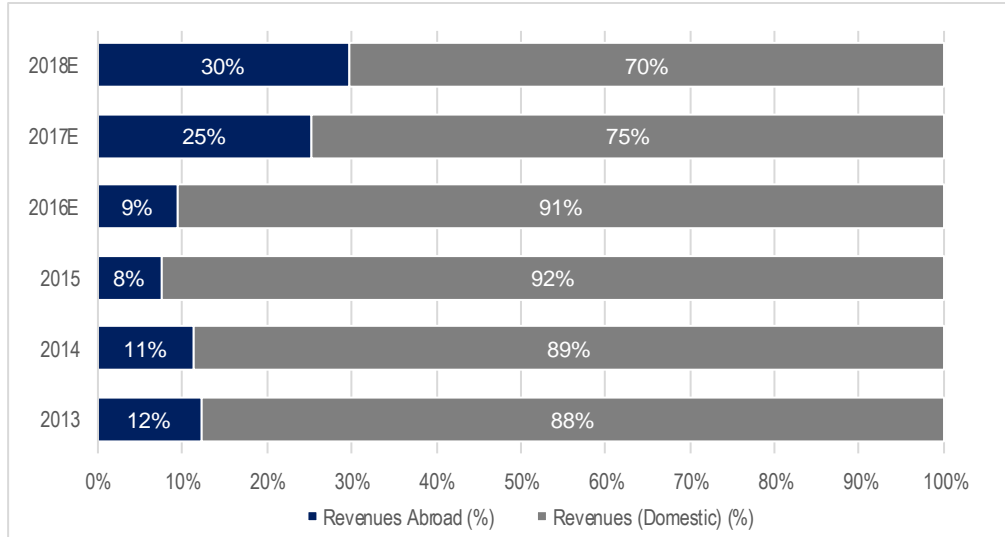
Originally, the power plant was expected to be operational by mid-2016, however delays in the bureaucratic process with the Ghanaian Government resulted in delaying the start-up date of the project towards the end of 2016. Some of the engines to be used in the plant have already been transferred to the site. All necessary paperwork with the Ghanaian government has now been completed and Aksa is now awaiting approval from the credit committee for financing.

The process will commence in due course as Aksa's power plants and the remaining engines to be used in the plant will be shipped to Ghana. The company expects to start generating electricity in the country in the fourth quarter of 2016. Once up and running, the plant will pave the way for rapid dollar-based revenue generation and significantly boost Aksa's profitability.

The full contribution from the Ghana project will be apparent starting from 2017. We expect the Ghana project to generate only USD11mn EBITDA in 2016, but when the facility's total capacity in operation, the annual EBITDA contribution from the plant is expected to reach USD 119mn.

We calculate that with the addition of the Ghana operations, the share of the Company's international revenues will jump from 8% in 2015 to 30% in 2018.

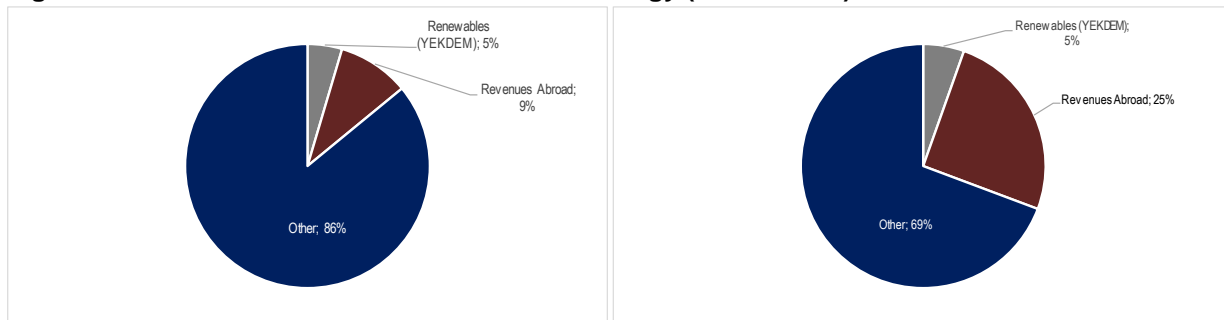
Figure 3: Share of Revenues Generated in International Operations



Source: Company, YF Securities Estimates

All generation from renewable energy to be sold to YEKDEM from 2016... The company stated that all generation from the renewable plants would be sold to the YEKDEM initiative from 2016. There is also a possibility that the electricity generated from the new hydro plant (Kozbuku) - which is to enter operation in 2016 – will be sold to the YEKDEM platform from 2017 on. Sales to YEKDEM are profitable as prices are dollar-based as the feed-in tariffs and purchase by the state is guaranteed. Sales to YEKDEM in 2015 were only 2% of total sales volume. As the Company will be selling all renewables generation to YEKDEM this year, we project 4% of total sales volume in 2016 and 5% of total sales volume in 2017 will be sold to YEKDEM, amounting to 5% total revenues, up from 3% in 2015. As the cost of production in renewable plants is much lower than it is for natural gas and fuel-oil plants, as well as the sourcing cost on the OTC platform, EBITDA generation from renewable plants is higher thanks to the dollar-based feed-in tariffs on the YEKDEM platform.

Figure 4: Share of Revenues from Renewable Energy (2016 – 2017)



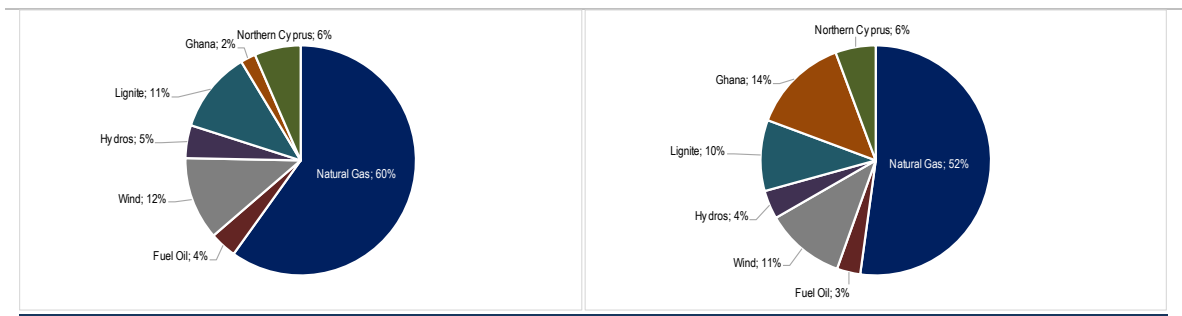
Source: YF Securities Estimates

Aksa’s 81 MW Kozbuku Hydro Plant to Increase Capacity of Renewable Energy... Aksa’s 81 MW hydro plant in Kozbuku is planned to be commissioned in 2016, increasing the share of renewable energy in the company’s portfolio. Dollar-based revenue generation through the

YEKDEM incentive and the expected high river levels will further enrich Aksa's outlook, considering that this additional hydro capacity may also become a part of the YEKDEM platform in 2017.

Diversifying the portfolio with a lower share of Natural Gas... With the expected addition of the Kozbuku hydroelectric power plant in 2016, the company's renewable capacity will reach 17% of the total installed capacity, with the share of natural gas declining from 64% to 60% in 2016 and to 52% in 2017, and the share of international capacity reaching 9% with the partial contribution of the Ghana project, and 19% when the plant in Ghana is fully operational.

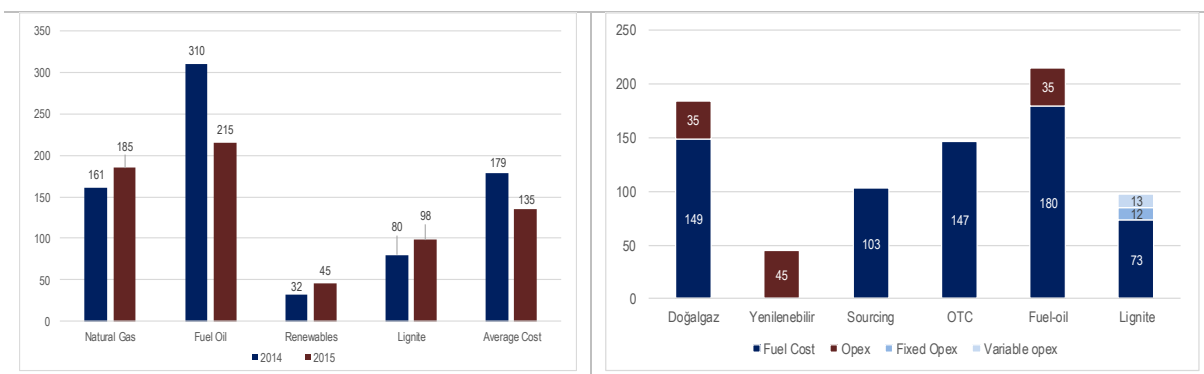
Figure 5: Akxa Energy's Portfolio:



Source: YF Securities Estimates, Company Presentations

On course to bring down its cost base with the Bolu Goynuk plant and a higher share of renewables... The addition of renewable energy plants into the Company's portfolio and transfer of some fuel-oil plants to be used for international operations will further increase the efficiency and cost-effectiveness of Akxa's domestic portfolio. With the entry of the Bolu Goynuk Lignite Power Plant into the portfolio, the company's cost base has improved significantly. With the entry of the second phase of the Bolu Goynuk Plant into operation in January 2016, 12% of the Company's total installed capacity will be lignite-fired. The share of renewable plants in total installed capacity will reach 16% in 2016 with the addition of the Kozbuku hydroelectric plant.

Figure 6: Cost Breakdown of the Company (TL/MW):

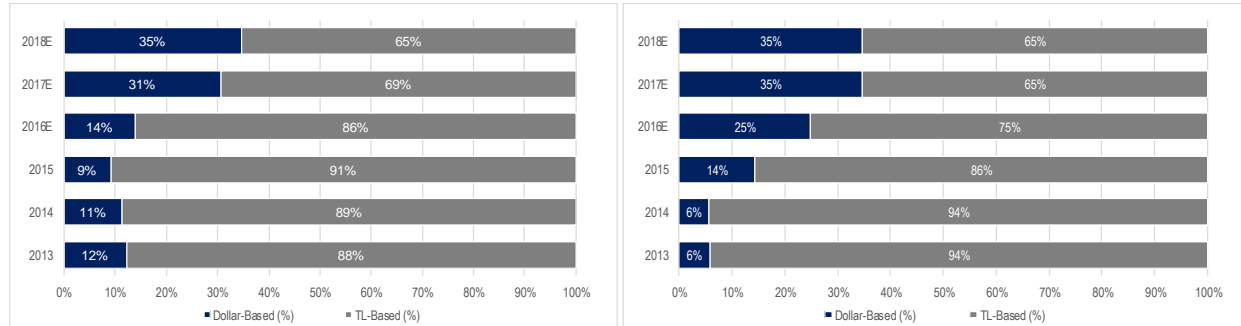


Source: YF Securities Estimates, Company Presentations

An increasing share of Dollar-based revenues with the plants in Ghana and Northern Cyprus - and Renewables... Akxa will secure dollar-based revenue with its Fuel-Oil plant Northern Cyprus, and it already sells the electricity it generates from renewable plants to

YEKDEM. Approximately 14% of the total installed capacity and 9% of the total revenue was dollar-based in 2015 according to our calculations. With the incomplete contribution of the Ghana project and domestic renewable investments/capacity additions, we expect 25% of total capacity and 14% of total revenue to be dollar-based in 2016 and 35% of total installed capacity and 31% of total revenue to be dollar-based in 2017.

Figure 7: Share of Dollar-Based Revenues and Installed Capacity

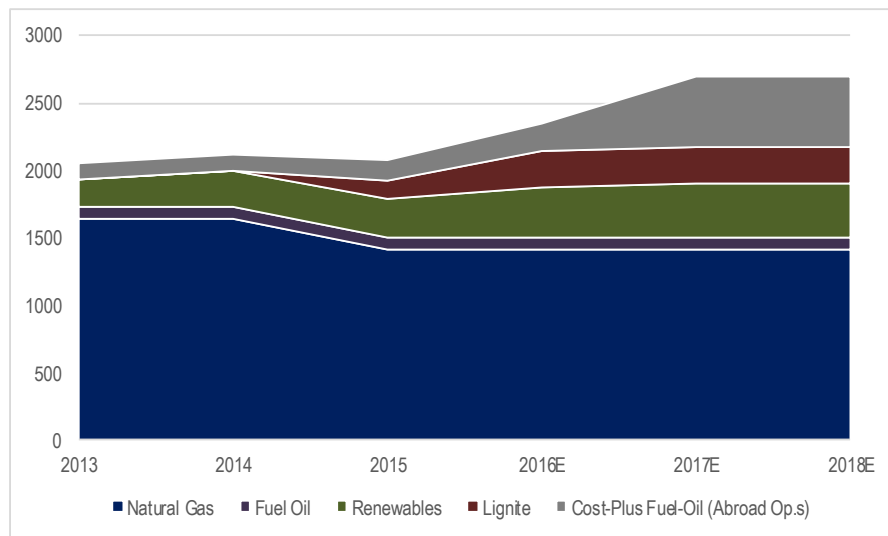


Source: YF Securities Estimates, Company Presentations

Exploring Additional African Markets... Aksa stated it has plans for more international investments and would consider all potential investments abroad. The company also stated it was in talks with a number of African countries as well as Ghana for additional investments in the near future. This could bring upside to the company’s profitability in the future.

Domestic Portfolio Becoming More Profitable... Aksa’s Samsun Fuel-Oil power plant was transferred to Ghana, ceasing production in Turkey. This move enables the domestic portfolio to become more profitable with dollar-based revenue generating renewables, a cost-effective lignite base load in its plant in its plant in Antalya and a frequency control point in its Urfa natural gas plant.

Figure 8: Aksa Energy Portfolio



Source: YF Securities Estimates, Company Presentations

Possibility of Further Incentives for Lignite & Coal Fired Plants by Government could bring upside... Following the Paris Climate Summit that resulted in an agreement to cease the building of new thermal plants after 2020, there was speculation that the government could introduce new incentives to help Turkey utilize its rich lignite resources in the next 4 years. Any governmental efforts to support lignite-fired electricity production would bolster the Company's EBITDA. An incentive from the government to support electricity generation in lignite-fired power plants would benefit the company's revenue base.

Leverage to Increase Temporarily to fund the Ghana Investment... We estimate that the company's net debt to EBITDA ratio will increase to 6.7x as the Ghana project is financed through loans, before coming down back to 4.4x in 2017. The Ghana project will be financed through loans and we assume that its net debt will peak at TRY3.3bn in 2016. We assume that the Ghana plant will be fully operational in 2017 and the EBITDA contribution will bring the net debt to EBITDA ratio down gradually, to 4.4x in 2017.

Other Risks... Since our valuation includes the expected contribution from the Ghana investment, any further delays or termination of the entire project would pose a very serious risk for the company. Excluding the Ghana project would shave 35% off our valuation, as our valuation includes the partial contribution of the Ghana project in 2016 and a full contribution in later years. Other risks could be new capacity additions in the sector which exceed expectations and/or lower consumption growth, as well as above expected capacity additions.

Valuation

We find a fair value of USD802mn for Aksa Energy. Our valuation is based on a blend of DCF and multiple peer comparison methods, applying different weightings. We ascribe a 60% weighting to the value from DCF and 40% weighting to peer comparison.

We incorporate peer group EV/EBITDA and P/E multiples for 2016 and 2017 prospective earnings into our multiples valuation to best reflect the near term operational performance – with a 40% weighting on the result obtained from the EV/EBITDA multiple and a 60% weighting from the P/E multiple.

Table 1: Valuation Summary

AKSEN Valuation Summary			
USDmn	12-Month Target Value	Weight	W. Value
DCF	890	60%	534
Peer Comparison	671	40%	268
Fair value estimate			802
Target Mcap			802
# of shares (mn)			613
12-month Target price (USD/share)			1,31
12-month Target price (TL/share)			3,74
Current Price (TL/Share)			2,87
Upside potential (%)			30%

Source: YF Securities Estimates

DCF Valuation

We find a DCF based fair value of USD890mn for Aksa Energy, exceeding the figure we found from peer valuation.

DCF Valuation Summary	
Recommendation	Outperform
Target Mcap	890
# of shares (mn)	613
12-month Target price (USD/share)	1,45
12-month Target price (TL/share)	4,14
Current Price (TL/Share)	2,87
Upside potential (%)	44%

Source: YF Securities Estimates

- ✓ Assuming a 10% risk free rate and 5.5% equity risk premium for the calculation of WACC. We assume a terminal growth rate of 2.2% for Aksa Energy.
- ✓ Aksa will have 2,211 MW of installed capacity with the completion of the second phase of the Bolu Goynuk lignite power plant in 1Q16. We expect the company to reach an installed capacity of 2,358 MW in 2016 with the addition of the Kozbükü Hydroelectric Plant and partial addition of the Ghana plant. We expect the company to reach 2,707 MW of total installed capacity in 2017 as the Ghana facility reaches full capacity and other capacity extension projects in the domestic portfolio.

- ✓ We expect the Company to reach a sales volume of 20.0 TWh in 2016, 22.5 TWh in 2017 and 23.4 TWh in 2018 with the gradually increased contributions of the Ghana project as well as increasing OTC activity and a shift towards a more bilateral focused sales strategy.
- ✓ We expect the Ghana project to generate USD 91mn of EBITDA in 2017 and USD 119mn of EBITDA in 2018.

Table 2: DCF Valuation and Key Assumptions:

Key Assumptions	2016	2017	2018	2019	2020
Total Sales (Vol.) - MWh	20,000	22,551	23,483	23,483	23,483
Average Sales Price (TL)	178	204	223	238	255
Spot/Market Average Price (TL)	142	151	160	170	180
Installed Capacity (MW)	2,358	2,707	2,707	2,707	2,707
Revenues (TLmn)	3,554	4,599	5,237	5,595	5,979
Total COGS (TLmn)	3,164	3,903	4,332	4,569	4,820
Gross Profit Margin	11%	15%	17%	18%	19%
EBITDA (TLmn)	493	786	998	1,123	1,249
EBITDA Margin	14%	17%	19%	20%	21%
CAPEX (TLmn)	457	401	358	155	167
EV/EBITDA	9,1	5,7	4,5	4,0	3,6
P/E	34,24	6,34	4,87	2,88	2,22
Net Debt/EBITDA	6,72	4,42	3,66	2,84	2,44

Source: YF Securities Estimates

Peer Valuation

In our peer group valuation, we applied EV/EBITDA and P/E multiples of international peers in the Eastern Europe, the Middle East and North Africa as well as emerging markets in the Asia & Pacific region for 2016 and 2017. Peer companies in Western Europe were excluded in the comparison.

We applied an EV/EBITDA of 4.94x (2016F) and 5.14x (2017F) and a P/E of 10.62x (2016F) and 8.25x (2017F) for the peer group with a 40% weighting to the result obtained from the EV/EBITDA multiple and a 60% weighting to the P/E multiple, with equal weightings for 2016 and 2017 multiples. We accordingly found a 12-month target Mcap of USD671mn from our multiples based valuation.

Table 3: Peer Valuation Summary

AKSEN International Peer Comparison	USDmn	Multiple Avg.	Fair Value (USDmn)	Weight	Weighted Value (USDmn)
2016E EBITDA	164	4.94	812	50%	406
2017E EBITDA	239	5.14	1227	50%	614
EV/EBITDA Weighting					40%
Fair Value (USDmn)					408
2016E Earnings	17	10.62	182	50%	91
2017E Earnings	84	8.25	696	50%	348
P/E Weighting					60%
Fair Value (USDmn)					263
Fair Value (USDmn)					671

Source: YF Securities Estimates

Table 4: Aksa Energy Peer Valuation

AKSEN International Peer Comparison		EV/EBITDA		P/E	
Company	Country	EV/EBITDA		P/E	
		2016	2017	2016	2017
Cia Paranaense de Energi	Brazil	5,15	4,40	6,27	4,97
CEZ AS	Czech Repub	6,14	6,39	11,24	13,28
Alupar Investimento SA	Brazil	5,43	5,36	10,10	10,10
Light SA	Brazil	5,70	4,97	10,63	5,77
Huadian Power International Corp	China	6,41	6,35	21,59	6,52
SDIC Power Holdings	China	6,54	6,22	7,82	8,32
Cgn New Energy Holdings	Hong Kong	20,87	19,39	7,28	6,76
China Suntian Green Energy Corp.	Hong Kong	7,28	7,94	11,51	
Concord New Energy Group Ltd.	Hong Kong	3,89	6,00	47,90	41,18
JSW Energy Ltd.	India	4,78	5,86	10,60	8,04
Torrent Power Ltd.	India	5,53	5,51	5,41	4,43
Energa Sa	Poland	4,56	4,74	9,27	8,43
Enea Sa	Poland	4,34	4,89	10,90	10,17
Tauron Polska Energia SA	Poland	4,05	4,86	2,09	1,63
Transelectrica SA	Romania	3,32	3,29	8,23	7,94
Societatea Nationala Nuclear	Romania	2,71	2,30	7,52	7,60
Enel Russia PJSC	Russia	3,40	3,26	5,99	6,49
OGK-2 Pao	Russia	3,00	3,24	7,60	7,89
TGK-1 Russia	Russia	2,35	2,11	9,35	6,90
Saudi Electricity Co.	Saudi Arabia	11,72	11,97	5,24	4,93
Total Average		5,86	5,95	10,83	9,02
Average Exc. Max&Min.		4,94	5,14	10,62	8,25
AKSA ENERJI URET IM	Turkey	7,87	5,89	51,77	8,98

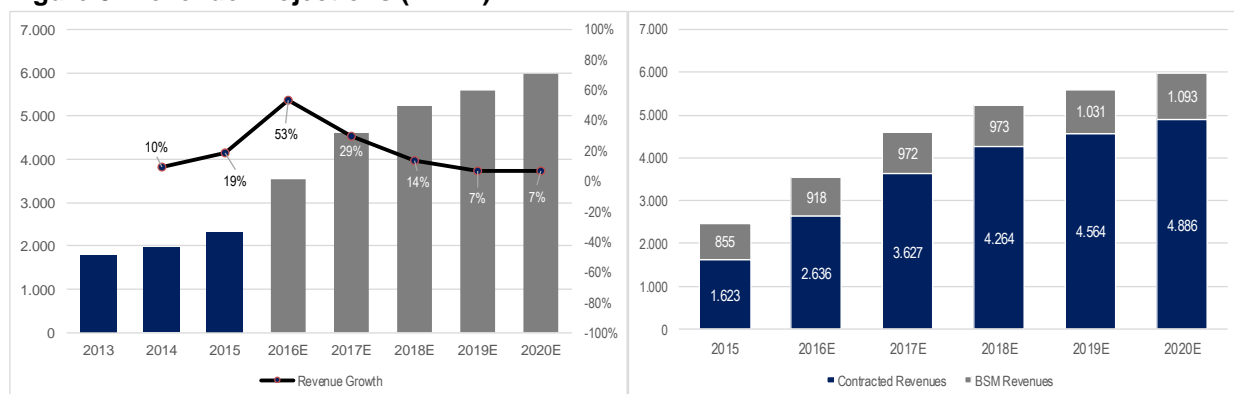
Source: Bloomberg

Financial Analysis

We expect Aksa Energy to record a CAGR 21% in revenues between 2015 – 2020 with the contribution of the Ghana facilities, a focus on the bilateral sales strategy as well as increasing OTC/trading activity and sales to YEKDEM from the domestic renewable production channels.

Due to the company's increasing focus on bilateral contracts and guaranteed sales, we expect contracted revenues to record a CAGR of 25% between 2015-2020 and BSM revenues to record 5% CAGR during the same period.

Figure 8: Revenue Projections (TLmn)



Source: Company Financials, YF Securities Estimates

We expect 53% revenue growth in 2016 both due to the full contribution of the Bolu Goynuk Lignite Plant and the partial contribution from the Ghana fuel oil plant, as well as the increasing OTC/trading activity and increasing dollar-based revenue base with sales to Northern Cyprus and sales to YEKDEM. We expect 29% revenue growth in 2017 with the full utilization of the Ghana project and continuing OTC/trading activity and sales to YEKDEM.

We expect 62% growth in contracted revenues and 7% growth in BSM revenues in 2016, and 38% growth in contracted revenues and 6% growth in BSM revenues in 2017.

We expect the company's total sales volume to reach 20 TWh in 2016 with 1.77 TWh of production at the Bolu Goynuk lignite power plant and 0.26 TWh with the partial contribution of the Ghana fuel oil plant (assuming a 60% capacity utilization rate for 2016 in 4Q with only 50 MW in operation). We expect the rest of the increase in sales volume to be driven by OTC/trading activity.

We expect the company's total sales volume to reach 22.5 TWh in 2017 with 2.0 TWh production from the Bolu Goynuk lignite power plant and 2.3 TWh with the full contribution of the Ghana fuel oil plant.

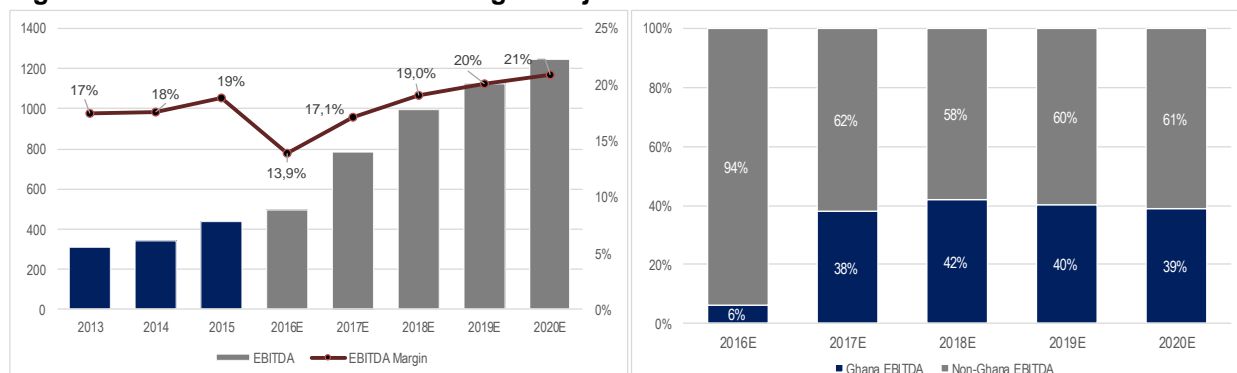
Table 5: Key Figures

	2015	2016E	2017E	2018E
Total Sales (Vol.) - MWh	14.018	20.000	22.551	23.483
Sales from Production - MWh	9.384	8.528	5.686	7.108
Sales from Sourcing	0	1.286	1.664	2.200
Sales from OTC/Trading - MWh	0	0	6.668	10.692
Average Sales Price (TL)	177	178	204	223
Spot Market Average Price (TL)	142	142	151	160
Installed Capacity (MW)	2.075	2.358	2.707	2.707
Revenues (TLmn)	2.320	3.554	4.599	5.237
Growth	19%	53%	29%	14%
Total COGS (TLmn)	-2.002	-3.164	-3.903	-4.332
Growth	17%	58%	23%	11%
Gross Profit Margin	14%	11%	15%	17%
EBITDA (TLmn)	436	493	786	998
EBITDA Margin	18,8%	13,9%	17,1%	19,0%

Source: Company Financials, YF Securities Estimates

With the increasing share of dollar-based revenues, as a result of international operations and sales to YEKDEM, we expect EBITDA generation to record a CAGR of 23% between 2015 – 2020 and an EBITDA margin of 13.9% in 2016, with the EBITDA margin reaching 17.1% in 2017 and 19.0% in 2018.

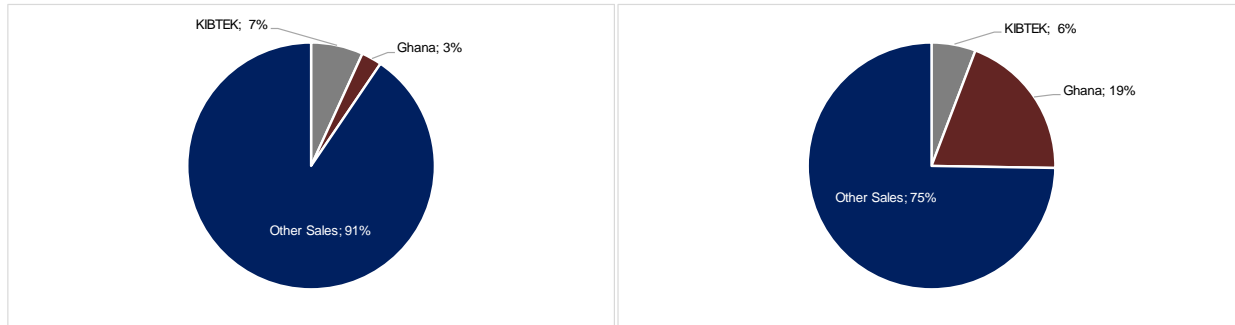
Ghana investment's contribution will be partial in 2016 with the facility expected to enter operation in 4Q. We expect a mere USD11mn EBITDA contribution in 2016, but rising to USD 91mn in 2017 and USD119mn in 2018 when it will be fully in operation.

Figure 9: AKSEN EBITDA/EBITDA Margin Projections

Source: Company Financials, YF Securities Estimates

As the Company is focusing on contracted sales, we expect the share of BSM revenues to fall and contracted sales to reach 73% by 2018, supporting the company's margins as contracted sales are either cost-plus guaranteed sales agreements, bilateral agreements with a set price or sales to the dollar-based feed-in YEKDEM tariff, protecting the Company from fluctuations in energy prices and changes in demand for electricity, as well as generating dollar-based revenue.

Figure 10: Share of Ghana and KIBTEK in Total Revenues (2016 – 2017)



Source: YF Securities Estimates

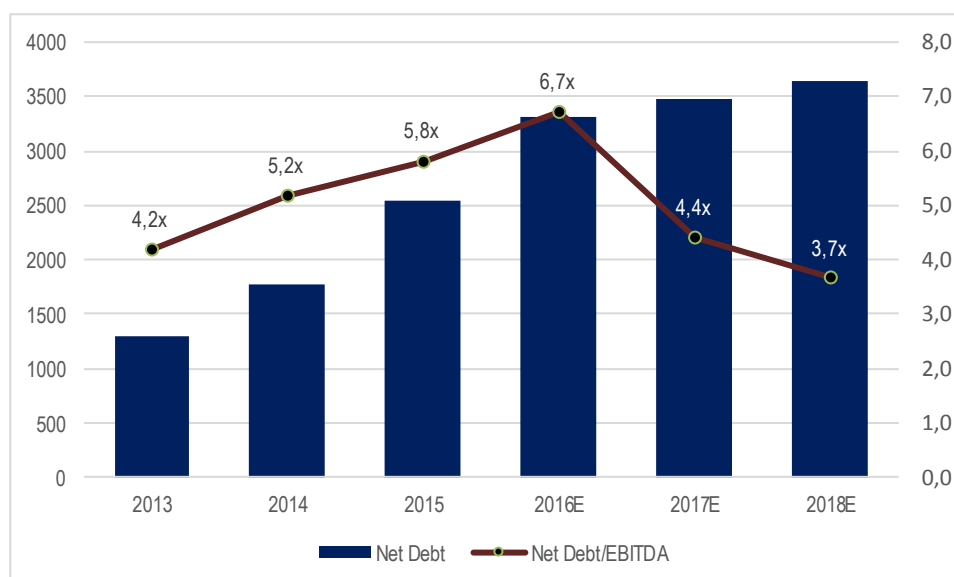
Figure 11: Sold Energy Breakdown (2016 – 2017)



Source: YF Securities Estimates

The company's leverage will increase due to the loan-financing for the Ghana investment and is expected to rise as high as 6.7x in 2016, but with rapid dollar-based revenue generation from the cost-plus Ghana investment to kick-in from 2017 and create EBITDA generation quickly, the net debt to EBITDA ratio will come down to 4.4x in 2017.

Figure 12: Net Debt to EBITDA Projections



Source: Company Financials, YF Securities Estimates.

The Turkish Utilities Market

Electricity Consumption Lagged Behind GDP Growth in 2015

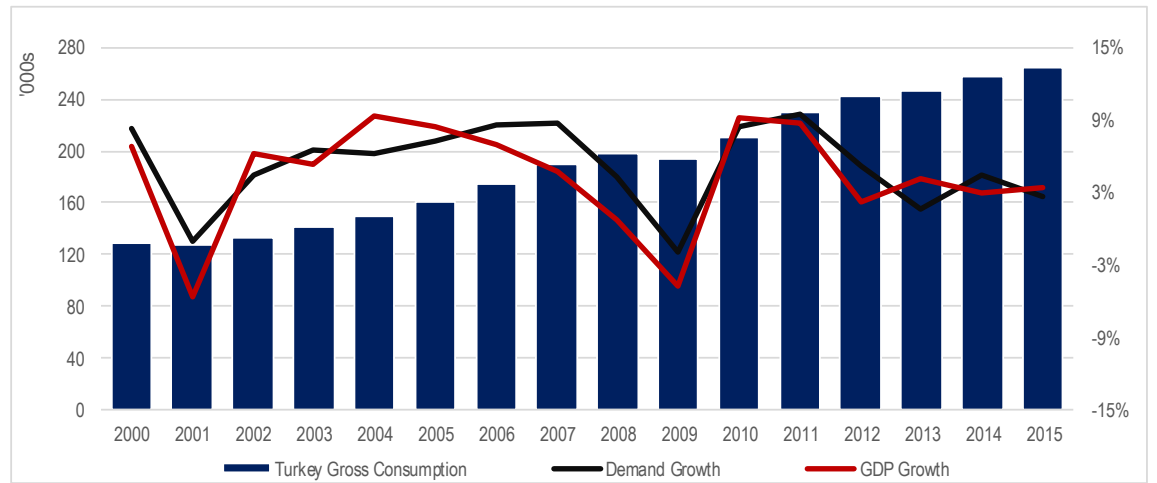
Rising generation figures due to increasing installed capacity and higher hydro generation due to the heavy rainfall in 1H15 put downward pressure on electricity prices, bringing down the spot market average price to TL142 /MW in 2015 (from TL166 /MW at the end of 2014). Consumption growth was moderate in 2015, in line with the GDP growth. However, installed capacity increased from 69,520 MW at the beginning of 2015 to 73,147 MW by the end of the year.

In an environment of excess capacity and thus low prices due to the rise in hydro generation and lower natural gas prices, the electricity reserve margin reached around 30% in 2015, hinting that the growth in consumption fell woefully short of absorbing the additional capacity.

Weak GDP growth forecasts underpin the gloomy outlook for demand growth in the next couple years. The high costs associated with gas-fired generation and the prospect of low prices due to the reliance of the pricing mechanism on commodity prices point to a difficult period ahead for Independent Power Producers (IPPs) in 2016.

Electricity consumption edged up by 2.6% y/y in 2015 to reach 264,000 MWh. We expect electricity consumption to surpass GDP growth in 2016 and expect 4% consumption growth vs. our GDP growth forecast of 3.4%. With the expectation of a softer TRY devaluation for 2016, we expect a stronger bottom-line for power generating companies with less pressure from financial expenses.

Figure 13: Growth Trend (Electricity Consumption/GDP)

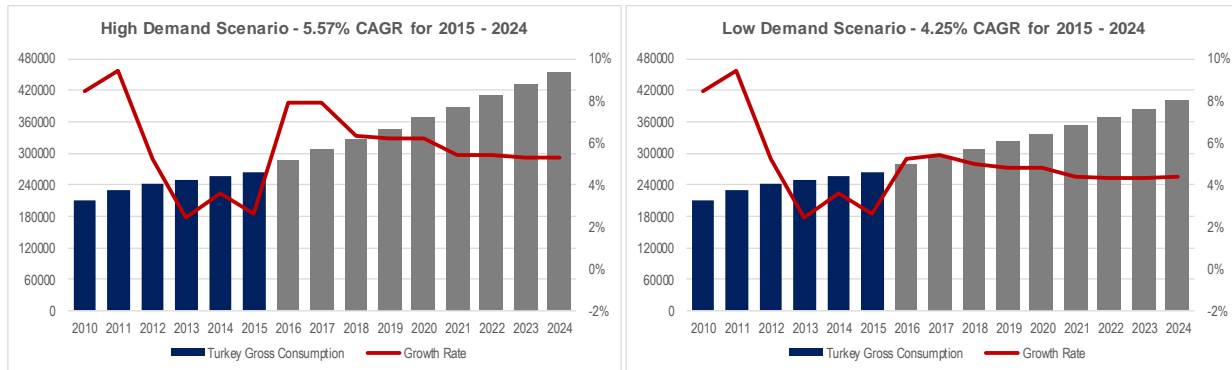


Source: TUIK, TEİAŞ, YF Securities Estimates

Demand – Capacity Projections for Turkish Electricity Market

In its latest capacity/generation projections, the Energy Market Regulatory Authority (EMRA) sets out its expectation that demand for electricity in Turkey will increase at a CAGR of 5.57% between 2015 – 2024 in the high demand scenario and a CAGR of 4.25% between 2015 – 2024 in the low demand scenario. This is revised down from earlier projections set out in 2012 which envisaged a CAGR of 6.00% between 2015 – 2021 in the high demand scenario and 4.54% in the low demand scenario. Moreover, the 2015 figures and 2016 expectations point to an even lower growth rate.

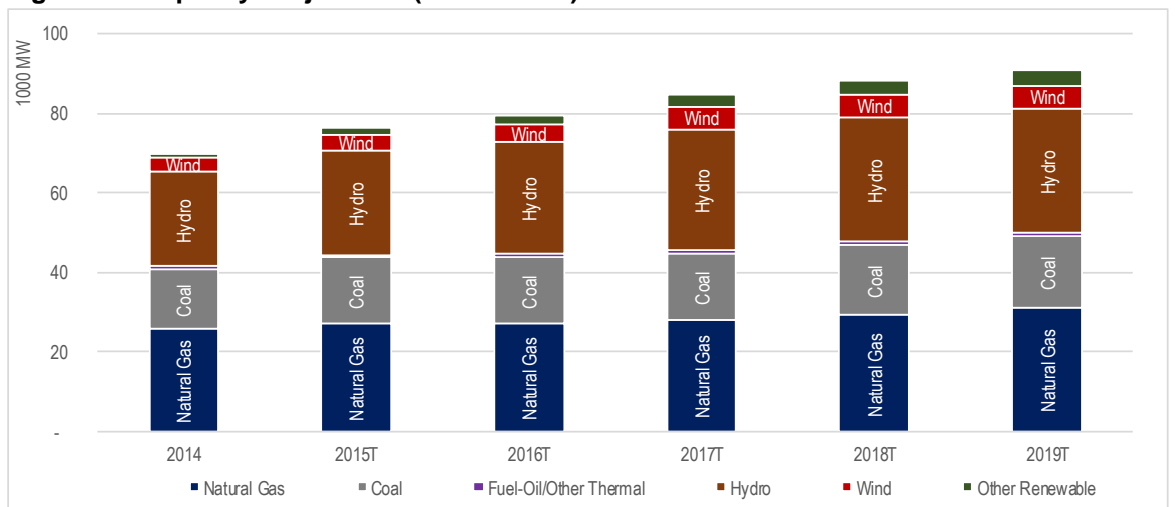
Figure 14: EMRA Projections for Gross Demand (2015 – 2024)



Source: EMRA, TEİAŞ

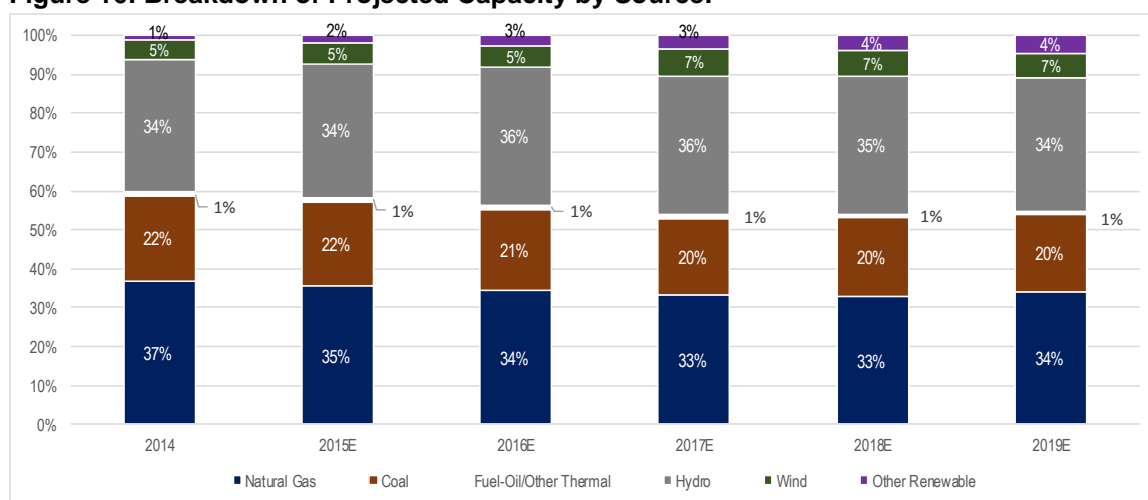
EMRA’s projections for installed capacity envisage a CAGR of 4.6% between 2015 – 2019 with a 3.1% CAGR in thermal capacity and 6.6% CAGR in renewable capacity – marked with a CAGR of 4.7% for hydro-electric capacity, 8.6% for wind, 106% for solar and 9.8% for geothermal capacity. Coal capacity is forecast to increase at a CAGR of 2.7% and natural gas capacity at a CAGR of 3.3% during the projection period.

Figure 15: Capacity Projections (2015 – 2019)



Source: TEİAŞ, EMRA

Figure 16: Breakdown of Projected Capacity by Source:



Source: TEİAŞ, EMRA

Regulatory Efforts Continue with the Target for Full Competition

A Fully Competitive Market to be Achieved with the Zero Eligibility Limit...

Liberalization efforts in the Turkish electricity market continue with the aim of becoming a fully competitive market with full market openness yet the practicality of this is a moot point due to regulations, which have two key outcomes; the first being that consumers should be able to choose their suppliers, which supported by efforts to lower the eligible consumer limit to zero; and the second being the procedure where combined wholesale and retail sale activities' licences will be combined into one single supply licence allowing retail sale companies that already have an acquired consumer portfolio in the regions they operate to maintain their customer base.

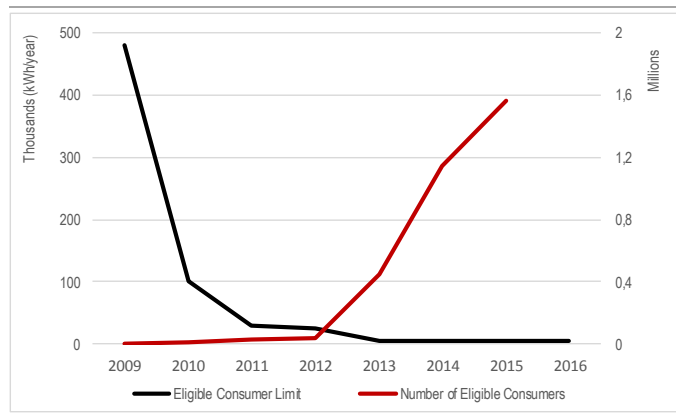
Electricity distribution activities has been divided into 21 separate regions as a result of liberalisation efforts in the electricity market. Each region is controlled by private distribution companies licenced by the Energy Market Regulatory Authority (EMRA). Electricity supply, on the other hand, is undertaken by numerous private sector companies, as well as the state-owned Turkish Electricity Trading and Contracting Company (TETAŞ).

Since January 1st, 2013, distribution companies have had to separate their distribution and retail sale activities. The EML (Electricity Market Law 4664 – enacted March 30th, 2013) combined the two separate licences for wholesale sale and retail sale activities' licences into one single supply licence, which enabled the holders of this licence to operate and sell electricity without being subject to zone restrictions to eligible consumers in any region. A side effect of this regulation is that retail sale companies that already acquired the supply licence, and which have an established consumer portfolio in their respective regions can still keep most of their regional customers.

A Zero Threshold to Boost Bilateral Contracts

The EMRA's ultimate aim is to reduce the threshold to zero, making way for full competition in the market due to consumers' right – and presumed ability – to choose their suppliers. However, the goal to lower the eligible consumer threshold to zero by the end of 2015 appears to have failed. The Energy Watchdog (EMRA) only lowered the threshold to 3,600 kWh effective from January 1st, 2016 (from 4000 kWh in 2015). When customers exceed this threshold, the customer is eligible to select an electricity supplier without being subject to zone restrictions. The number of eligible consumers had reached 1.56 million by the end of 2015, from just 405 in 2010. However, the majority of potential eligible consumers are those who consume less than 3,600 kWh per year, and who are excluded from the retail sale companies' consumer segment due to the threshold. Although hard to achieve, we expect the number of bilateral contracts to improve significantly when the zero threshold is achieved. This will provide energy producers with guaranteed business and instill more confidence in the market in terms of supply security.

Figure 15: Eligible Consumer Limit and Number of Eligible Consumers



Source: TEİAŞ

Increasing Pressure on Profitability, but the hike in electricity tariffs may compensate

Since the privatization process, an increasing debt burden being borne by utilities companies has squeezed profitability, especially in the face of a falling TL. In fact, a couple of electricity generation companies ceased operations completely, citing high production costs, the volatility of the TL and the negative outlook facing the sector.

As a natural outcome of the liberalization process, production activities has been shifting from state to independent producers, as the share of installed capacity belonging to EUAS and its affiliates fell from 58% in 2008 to 31% in 2014, and their share in total generation dropped from 49% in 2009 to 28% in 2014, paving the way for the rise of Independent Power Producers as the main players in the market, which accounted for 55% of production in 2014. However, the fall of the TRY and a deteriorating economic backdrop hurt electricity generation and distribution companies, whose privatizations had been largely funded in USD.

Pressure has further increased on electricity retail companies as the Energy Market Regulatory Authority revised the gross profit margin cap that the retail energy sales price is based on. Listed utilities are generation companies which may be indirectly impacted by the profitability of distribution companies. The gross profit margin cap for distributors, that has been set at 3.49%

since January 2013, was lowered to 2.38% from January 1st 2016. The Authority approved the new cap that will be in effect between 2016-2020. However, their OPEX and CAPEX allowances were increased, compensating for the loss related to the margin cap revision.

However, recently approved electricity tariff hikes brought some relief to electricity producers to some extent, as a similar hike was not implemented for natural gas. In fact, after the International Court of Arbitration's ruling against Iran - awarding Turkey 10-15% discounts retroactively applied to 2011 – there may even be a discount to the gas price.

The Energy Watchdog (EMRA) announced a 6.68% hike in retail electricity tariffs for industry and 3.8% for households, effective from January 1st, 2016. The last time that tariffs were raised was in 4Q14, with an increase 9.27% for businesses, 9% for the households and 8.83% for industrial users.

With effect from April 1st, EMRA also applied some modifications to the electricity tariff which may have a positive effect on the financial statements of generation companies, while potentially having a negative impact on distribution companies. The new tariffs, which are effective from April 1st, 2016, raised the electricity selling price for generation companies for commercial and residential customers by 2.90% and 2.83% respectively. The price for the industrial customers was kept unchanged in the new tariff. On the other hand, the tariff for electricity distribution companies was cut by 5.11% for commercial and residential customers. The price for the industrial customers was also kept unchanged in the new tariff.

Although the general electricity price hike that was passed onto the end user was lower than the previous hike back in 4Q14, an increase in the electricity tariff without a corresponding change in natural gas tariffs is undoubtedly positive for generation companies. The further modification of the tariff in favour of the generation companies starting from the fourth quarter is an additional positive.

Furthermore, a possible cut in the price of natural gas from Iran would be an additional positive in case the price was only reflected to energy producers and not to the end-user.

The era of renewables and aligning with the global trend

A Shift Towards Renewables in an environment of Low Prices and High Debt Burdens

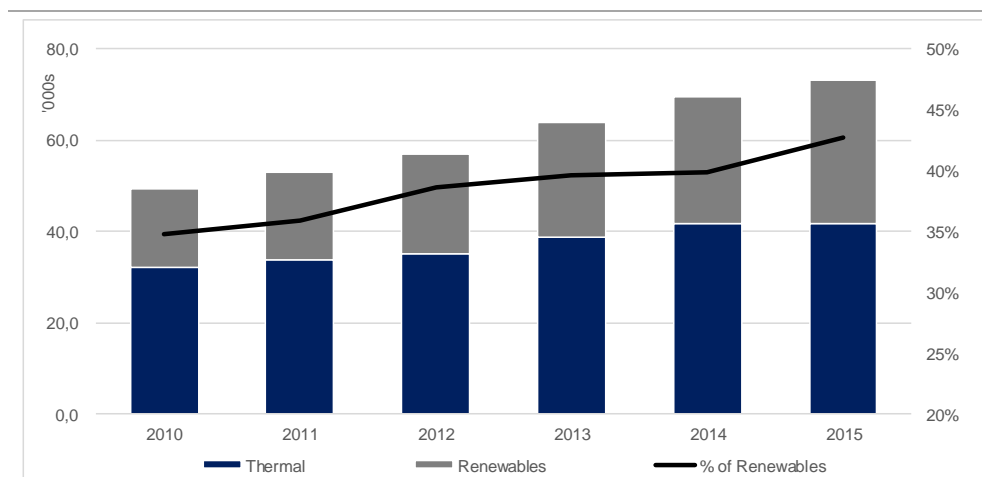
In a low price environment, reducing costs is of utmost importance for Independent Power Producers. The increasing investment in renewable energy and coal capacity point to the continuation of the trend - a shift from gas-fired generation to renewables & coal. The high costs associated with production from natural gas have paved the way for an increase in generation from hydro and wind sources as well.

Installed capacity increased by 5.2% y/y in 2015 to 73,147 MW. Renewable energy and coal-fired plants accounted for most of the new capacity. The share of electricity generated from natural gas plants decreased from 48% to 37% in 2015, while the share of electricity generated from hydro plants rose from 17% to 25.8%. Generation from coal stood at 27% of total electricity generation in 2015.

This shift towards renewable energy resources was an outcome of the urgent need of market players to compensate for losses related to the low price environment by lowering their cost bases, but it is not only a trend seen in the Turkish market but also part of a large global trend

that has been taking place during the last decade. Global concerns such as climate change and global warming have been shaping energy politics in the international arena, and the switch to renewable energy is a global reality. Turkey is aligning itself with the global sectoral trend as renewable initiatives are incentivized and regulations made accordingly.

Figure 16: Annual Installed Capacity and Share of Renewable energy



Source: TEİAŞ

Government Efforts to Utilize Domestic Resources: YEKDEM and More to Come?

The utilization of domestic resources is an important goal for the government as part of attempts to reduce the country's energy dependence on external resources and to promote sustainable economic development. As part of the governmental efforts to utilize renewable energy resources, the Renewable Energy Resources Support Mechanism (YEKDEM) was initiated in 2013.

The support mechanism consists of feed-in tariffs (valid until 2020) for electricity manufacturing license holders producing electricity from renewables and other opportunities for renewable energy. Within the framework of the support mechanism, feed-in tariffs vary depending on the source of energy; for instance, the tariff for solar energy is set as 13.3 USD Cent/kWh while the tariff is set at 7.3 USD Cent/kWh for hydroelectric energy and electricity generated in wind farms. Additional tariffs are added, for example local equipment support, if only local equipment is used in the power plant. These prices are added to the feed-in tariffs and paid to the electricity manufacturer. The amount of local equipment support again depends on the source of the energy. Companies generating electricity from renewable energy resources and who seek to be a part of the system are required to submit their applications by the end of October of each year prior to joining, and the company must remain in the system for a period of at least 12 months. YEKDEM payments are made monthly at the USD/TRY rate.

YEKDEM is a boon for generator companies in times of low spot prices – as the positive difference between YEKDEM feed-in-tariffs and the spot price is a price advantage for utilities companies. However, YEKDEM tariffs are forecasted to remain below the spot market prices and regulations reflects the positive difference between YEKDEM and spot prices to the market players, and to the end-user. As the number of producers selling to YEKDEM is increasing and

the US Dollar is now appreciating against the Lira, the financial burden borne by market players is higher.

Despite this, as the spot price is lower than the YEKDEM feed-in-tariffs and given the TL weakness against the USD, it is more profitable for companies to sell to YEKDEM. Given the weak outlook for the TL in 2016 and expectation that spot prices will remain low, as well as the high rates of river flow (and therefore hydro-electric power generation), more companies are expected to sell to YEKDEM. A total of 560 power plants applied to be a part of YEKDEM in 2016, three times more than in 2015 (with a total capacity of 15,500 MW). About 10,300MW of this came from the hydroelectric plants, 4,400 MW from wind farms and 600 MW from geothermal sources. The rest was derived from biomass and other sources.

Government Incentives for Coal?

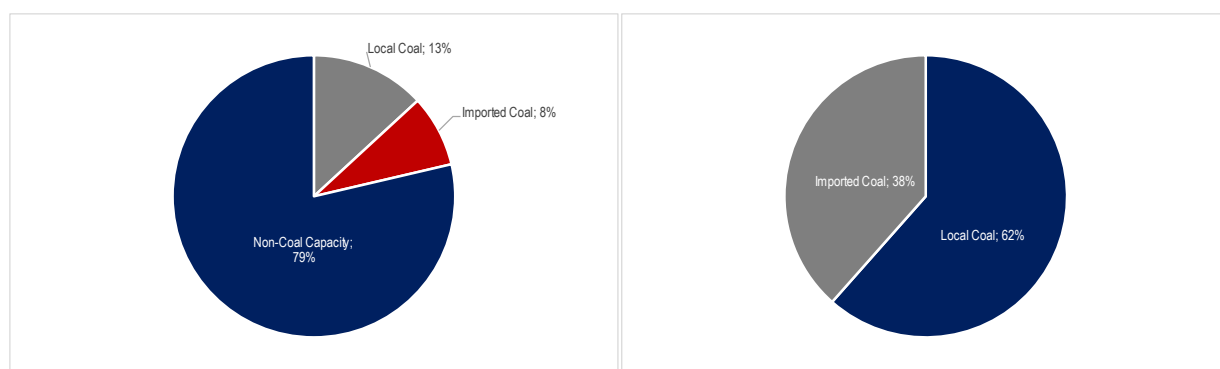
Another global development related to energy policies was the long-awaited agreement that was reached at the Paris Summit achieved. As the Paris Summit resulted in a deal relating to climate change for the first time which aimed to limit global warming to a rate less than 2 degrees per century. The use of coal as a source of energy will be prohibited after 2020, according to the Summit, given that the use of coal for energy generation emits such high levels of pollution and greenhouse gasses.

According to the decision taken in the Paris Summit, Turkey will also need to utilize its rich coal capacity within the next 5 years. Generating electricity from coal is highly cost-effective compared to generation from natural gas and fuel-oil. There has been some media speculation over whether the government may provide an incentive for electricity generation from coal.

Production from local coal capacity was on the agenda in Turkey even before the Summit, given the abundance of coal reserves in Turkey, and was ranked sixth in the world in terms of lignite production according to 2013 figures. Recent plans to provide incentives for lignite-fired electricity production may include BO and BOT models where either a purchase guarantee is provided according to Para Magazine's news.

According to TEİAŞ data, the total local installed coal capacity stood at 9,698 MW as of February 2016, with total imported coal capacity of 6,064 MW. Local coal accounted for 62% of total installed coal capacity in Turkey and total coal capacity accounted for 21% of total installed capacity. EÜAŞ is still the most important player in the Turkish electricity sector, having the largest local coal capacity with its 2,800 MW capacity Afşin-Elbistan plant.

Graph: Coal/Local Coal Capacity in Turkey (February 2016)



Source: TEİAŞ

FINANCIAL STATEMENTS

AKSEN FINANCIALS					
Income Statement (TRYmn)	2013	2014	2015	2016E	2017E
Net Sales	1786	1957	2320	3554	4599
CoGS	1566	1711	2002	3164	3903
Gross Profit	220	247	318	389	696
Operating Expenses	20	24	27	48	62
Marketing Selling Exp	2	2	1	4	5
General Admin. Exp	18	22	27	44	57
R&D Exp.	0	0	0	0	0
EBIT	200	222	291	341	634
Net Other Income	-4	-15	-3	-5	-6
Income	5	4	3	5	7
Expenses	9	19	7	10	13
Operating Profits	196	208	288	336	627
Profit (Loss) from Subsidiaries	0	0	0	0	0
Net Financial Income	-346	-182	-551	-274	-282
Financial Inc.	143	200	219	42	43
Financial Exps.	489	382	770	316	325
Profit Before Tax	-151	27	-235	62	345
Tax	-17	-13	-6	12	69
Net Profit After Taxes		39	-228	50	276
Minority Interests	-2	0	-2	-2	-2
Net Earnings	-132	40	-227	51	278

B/S - TLmn	2013A	2014A	2015A	2016E	2017E
ASSETS					
Current Assets	520	533	846	1346	1669
Cash and Marketable Securities	22	34	48	179	222
Short-Term Trade Receivables	142	89	183	251	321
Live Assets	0	0	0	0	0
Inventories	250	269	415	650	802
Other Current Assets	105	141	200	265	324
Long Term Assets	2356	2927	3215	3824	4194
Trade Receivables	1	0	0	0	0
Long-Term Financial Assets	0	0	0	0	0
Long-Term Live Assets	0	0	0	0	0
Goodwill	7	7	7	7	7
Real Estate Investments	0	0	0	0	0
Tangible Fixed Assets	2064	2685	3032	3391	3637
Intangible Fixed Assets	3	3	3	4	4
Deferred Tax Assets	97	93	70	170	220
Other Long-Term Assets	184	139	102	252	326
Total Assets	2876	3460	4061	5170	5863
Liabilities					
Short Term Liabilities	630	916	1370	1645	1827
Short-Term Financial Loans	409	621	938	966	986
Short-Term Trade Payables	178	265	400	624	770
Short-Term Provisions	1	1	1	2	2
Taxation on Income	7	10	7	17	22
Other Short-Term Liabilities	35	19	24	35	45
Long Term Liabilities	1262	1522	1901	2684	2918
Long-Term Financial Loans	1154	1434	1852	2525	2712
Long-Term Trade Payables	0	0	0	0	0
Provisions	3	5	4	9	12
Deferred Tax Liabilities	104	82	45	150	194
Other Long-Term Liabilities	1	0	0	0	0
Total Liabilities	1892	2438	3271	4329	4744
Shareholders Equity	985	1024	792	843	1121
Share Capital	613	613	613	613	613
Retained Earnings /(Acc. Losses)	224	91	120	-106	-55
Current Year Income /(Losses)	-132	40	-227	51	278
Minority Interests	-1	-1	-3	-3	-3
Total Liabilities and Shareholders Equity	2876	3460	4061	5170	5863

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OutPerform: Rated for stocks which YF Securities expects to outperform the BIST-100 index over a 12-month horizon.

MarketPerform: Rated for stocks which YF Securities expects to perform in line with the expected BIST-100 return over a 12-month horizon.

UnderPerform: Rated for stocks which YF Securities expects to underperform the BIST-100 index over a 12-month horizon.

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