



Non-financials 1Q16 Earnings Preview

19 April 2016

Non-financials: Strong results in a challenging environment

We expect aggregate earnings of the non-financials in our coverage – excluding Turkish Airlines – to double in 1Q16 compared to same period of last year. Weak consumer sentiment and minimum wage hike weighed on operational performances of non-financial companies in 1Q16. On the other hand, FX losses in 1Q15 offers a low base for Turkish companies. Turkish Airlines, whose effective currency is USD, is the only company registers huge FX losses in 1Q16.

EBITDA is expected to have grown by a 5% y/y while we estimate an 11% y/y increase in revenues. Tupras has a material impact on y/y comparison as the Company thanks to contribution of RUP and stronger CUR. Excluding Tupras, we estimate 1% y/y decline in EBITDA in 1Q16.

We look for sound EBITDA growth in food retailers, farm tractors, petroleum, white goods and cement sectors. Particularly, **ARCLK, BIMAS BOLUC, BIZIM, TTRAK and TUPRS** are expected to post eye-catching performances in terms of both EBITDA and net profit growth in 1Q16.

Table 1: YF Coverage Universe 1Q16 Expected Results

TRYmn	1Q16E	1Q15	Y/Y Δ	4Q15	Q/Q Δ
EBITDA	6,118	5,821	5%	8,642	-29%
Cement	220	193	14%	270	-18%
White Good	548	454	21%	661	-17%
Food Retailers	390	323	21%	396	-2%
Tech. Retailers	32	30	9%	21	58%
Auto	722	715	1%	743	-3%
Tractors	138	89	55%	121	14%
REITs	218	165	32%	1,671	-87%
Iron&Steel	327	637	-49%	397	-18%
Aviation	373	482	-23%	870	-57%
Telecoms	2,282	2,247	2%	2,215	3%
Utilities	91	86	6%	88	4%
Petroleum	778	400	94%	1,189	-35%
Net Profit	1,958	1,959	0%	6,920	-72%
Cement	182	167	9%	181	1%
White Good	217	67	222%	352	-38%
Food Retailers	152	129	18%	234	-35%
Tech. Retailers	-6	-8	-18%	-68	-91%
Auto	455	570	-20%	549	-17%
Tractors	92	53	75%	86	7%
REITs	320	0	n.m.	2,246	-86%
Iron&Steel	173	250	-31%	227	-24%
Aviation	-1,267	384	n.m.	669	n.m.
Telecoms	1,070	168	536%	1,624	-34%
Utilities	49	-96	n.m.	6	672%
Petroleum	522	275	90%	815	-36%

Source: BIST, Yatirim Finansman Securities

Turkish light vehicle demand deteriorated by a meagre 3% y/y in 1Q16. Unexpectedly, the share of imported vehicles increased to 67.3% in 1Q16 vs. 64.9% in 1Q15, despite a major y/y depreciation in TL. Although the demand was flattish y/y in 1Q16, we see the unfavourable sales mix towards imported vehicles as a threat for the profitability of local producers such as **Tofas** and **Ford Otosan**. Nevertheless, strong exports should compensate weak factory sales to domestic market in 1Q16. In the meantime, **Dogus Otomotiv's** market share continues to decline after VW's emission issue.

1Q16 was supposed to be a challenging quarter for retailers. Deterioration in consumer sentiment and a jump in national minimum wage were the main concerns for retailers' financial performance. On the other hand, we maintain our optimistic view on retailers as most of the retailers were able to reflect increasing costs to prices. We estimate double digit top-line growth for food retailers (**Bim**, **Bizim Tiptan** and **Migros**) except for **Uyum**. Despite the negative impact of minimum wage hike, we see an average 50bps improvement in EBITDA margins for food retailers. Non-food retailers **Teknosa** and **Bimeks** faced to a stiff competition in 1Q16 as all players tried to capture Gold's market share which exited the market recently. Yet, we expect operational improvement from Teknosa in 1Q16 due to a low base and on-going recovery in sales.

Airline companies increased their seat capacities prior to capacity improvements on the ground. On the other hand, load factors slumped in 1Q16 due to weak traffic figures. In addition to lower Russian tourists, disappointing contribution of European tourists weigh on Turkish aviation sector in 1Q16. North America and Africa routes partially offset weak Europe for **Turkish Airlines**. On the other hand, **Pegasus** is more sensitive to the weakness in Europe. Similarly, **TAV Airports** is expected to announce not-so-compelling results in 1Q16 due to weak traffic figures and unfavourable revenue mix. We expect weak results from aviation companies in 1Q16.

The spread between the product prices and feedstock cost has narrowed sharply in Nov-Dec, 2015 period. Accordingly we foresee another weak quarter for **Turkish steel producers** given ~2 month lag between changes in prices and their impact on P&L. Margins on the other hand should start to recover from 2Q16 following the recent upturn in product prices. Reversal of FX losses amid stronger TRY in 1Q16 is expected to be supportive for **Kardemir's** bottom-line performance.

We project region specific opportunities come to the forefront for **cement producers** in 1Q16. Producers operated in the western regions are foreseen to benefit from resilient demand and pricing environment while **Adana** and **Mardin** should suffer from heated competition in southern regions. **Bolu** is expected to be leading in terms of EBITDA growth thanks to contribution of new capacity.

As for the **Real Estate Investment Trusts (REITs)**, **Torunlar REIT's** and **Is REIT's** bottom line is expected to be strong compared to 1Q15 on the back of higher rental income and reversal of FX losses. **Emlak Konut REIT's** 1Q16 net profit is foreseen to weak q/q on limited revenue recognition from deliveries.

Despite the halt of production for a month in hydrocracker unit following the fire and the absence of hedging gain, **Tupras** EBITDA is expected to double compare to same period of last year thanks to contribution of RUP, strong CUR and reversal of some of the inventory losses.

Table 3: YF Coverage Universe 1Q16 Earnings Preview (Non-Financials - TRYmn) part 1/5

TRYmn		Net Profit					Comment	Recommendation
Ticker	Company	1Q16E	4Q15	Q/Q Δ	1Q15	Y/Y Δ		
ADCIM	Adana Cement	31	29	7%	33	-9%	Considering the heated competition in the Southern regions following the addition of ~5mn tones clinker capacity in 2015 we deem the Company's operating profitability remained under pressure in 1Q16 amid depressed pricing environment in the region. EBITDA is expected to contract by 21% y/y in 1Q16 while strong dividend income is foreseen to limit downward pressure on the bottom-line.	Outperform
AKCNS	Akcansa	76	64	17%	67	12%	We project Company's sales revenue to improve by 10% y/y with EBITDA rising by 15% in the same period. Resilient pricing environment in the Marmara region, higher export volume coupled with low energy costs are expected to support operating profitability. We project 12% y/y bottom-line growth for Akcansa in 1Q16.	Outperform
AKSEN	Aksa Enerji	49	6	672%	-96	n.m.	We estimate 76% y/y growth in net sales with increasing sales volume and 6% improvement in EBITDA y/y. FX gains due to the appreciation of the lira is expected to generate both y-o-y and q-o-q earnings growth despite the low price environment that repressed profitability. However, utilization of the full capacity of the Bolu Lignite Power Plant as well as rising sales volume driven by the Company's trading activity supports the bottom-line.	Outperform
ARCLK	Arcelik	153	211	-27%	142	8%	We look for a robust top-line in 1Q16 on the back of strong demand in Turkey and contribution of weak TRY on exports. We also estimate a 121bp y/y improvement in EBITDA margin due to low commodity prices.	Market Perform
BIMAS	Bim Birlesik Magazalar	162	141	15%	123	31%	We estimate 19% y/y increase in sales thanks to new store openings. Low base in EBITDA margin in 1Q15 boosts EBITDA growth in y/y comparison, despite a marginal negative impact of minimum wage hike.	Market Perform

Table 4: YF Coverage Universe 1Q16 Earnings Preview (Non-Financials - TRYmn) part 2/5

TRY		Net Profit					Comment	Recommendation
Ticker	Company	1Q16E	4Q15	Q/Q Δ	1Q15	Y/Y Δ		
BIZIM	Bizim Toptan Satis Magazalari	3	5	-37%	0	904%	We expect that the recovery in topline growth continued in 1Q16. We estimate a 44bp y/y improvement in EBITDA margin, despite the negative impact of minimum wage hike. Operating expenses are expected to remain under control with 7.5% opex/sales ratio in 1Q16 vs. 8.5% in 1Q15.	Market Perform
BOLUC	Bolu Cimento	19	29	-34%	19	3%	A new 1mn capacity addition in Ankara (increasing Company's clinker capacity from 1.5mn tone to 2.5mn tone) should yield visible sales volume increase for the Company in 1Q16 amid favorable market conditions for cement producers in the Western regions of Turkey. We forecast Company's top-line performance to surge by 38% y/y with EBITDA rising by 49% y/y in the same period. Bottom-line is expected to increase by 3% y/y in the absence of deferred tax income.	Outperform
BMEKS	Bimeks Bilgi Islem	2	5	-46%	3	-4%	Despite a very recent exit of a competitor, competition gets stiffer due to weak TRY and deterioration in consumer sentiment. We see a meager 11bp y/y erosion in EBITDA margin due to min wage hike and harsh competition.	Outperform
CIMSA	Cimsa	48	46	5%	43	13%	We estimate 11% y/y increase in the top-line performance with 15% y/y improvement in EBITDA amid resilient demand environment and limited pressure on the raw material side. Bottom-line performance is foreseen to be 13% higher compared to the same period of last year.	Outperform
DOAS	Dogus Otomotiv	40	6	548%	132	-70%	Dogus Otomotiv's sales volume contracted by 9% y/y with a 143bp erosion in its market share (20.9% in 1Q16). We estimate 254bp y/y contraction in EBITDA margin due to a high base in 1Q15 and weak TRY.	Market Perform
EKGYO	Emlak G.M.Y.O.	133	536	-75%	138	-3%	Revenue recognition from the project deliveries was limited in 1Q16 compared to 4Q15 while sales of various small size land plots were another contributor of the bottom-line performance. We project to see TRY91mn EBITDA up by 21% y/y and TRY133mn net income for 1Q16, down by 3% y/y in 1Q16.	Outperform
EREGL	Eregli Demir Celik	132	38	250%	337	-61%	Even though the steel prices improved significantly recently, we deem 1Q16 will be another weak quarter in terms of profitability due to the two month lag between product prices and their impact on P&L while uptick in margins is expected to start from 2Q16. We estimate that Company's EBITDA to will go down by 23% q/q and 60% y/y in USD terms (22% q/q and 53% y/y in TRY terms), assuming 9% q/q and 37% y/y contraction in effective sales price. EBITDA per tone performance is expected down by ~12% q/q to \$46 - yielding 61% y/y contraction in the bottom-line in TRY terms.	Market Perform

Table 5: YF Coverage Universe 1Q16 Earnings Preview (Non-Financials - TRYmn) part 3/5

TRYmn		Net Profit					Comment	Recommendation
Ticker	Company	1Q16E	4Q15	Q/Q Δ	1Q15	Y/Y Δ		
FROTO	Ford Otosan	190	285	-33%	232	-18%	Ford Otosan LV sales in Turkey contracted by 6% y/y in 1Q16. However, the contraction was 17% for the locally produced vehicles. Meanwhile, exports soared by 21% y/y. We estimate 23% y/y increase in topline thanks to exports. However, we see 93bp y/y contraction in EBITDA margin due to unfavorable sales mix.	Outperform
HLGYO	Halk G.M.Y.O.	14	22	-38%	10	31%	We foresee Company's EBITDA to surge by 24% y/y to TRY14mn in 1Q16 on the back of doubled rental income with the contribution of Dedeman Park Levent and Kocaeli Sekerpinar Operation Center project. Bottom-line is foreseen to improve by 31% y/y to TRY14mn in 1Q16 thanks to rising rental income but contract by 38% q/q given the limited number of residents delivered in the quarter.	Outperform
ISGYO	Is G.M.Y.O.	41	359	-89%	6	610%	Positive impact of Tuzla Operation Center is expected to be main contributor of top-line growth in 1Q16. We expect EBITDA to increase by 58% y/y in 1Q16 while absence of FX losses on stronger TRY compared to 2015YE should further support bottom-line performance. On q/q basis on the other hand absence of revaluation gains yield a sharp fall in the bottom-line.	Outperform
KARDM	Kardemir	41	189	-78%	-88	n.m.	Even though the steel prices improved significantly ytd we deem 1Q16 will also be weak in terms of profitability due to lag between product prices and their impact on P&L. Low base of 1Q15 (from additional costs regarding the introduction of 5th blast furnace and high-cost iron-ore inventory in hand) should yield on the other hand a y/y improvement in EBITDA. Despite the weakened sales prices we estimate that Company's EBITDA per ton level to increase slightly by 4% y/y to \$27/ton in 1Q16 with EBITDA rising by 37% in TRY terms. Absence of FX losses on q/q stronger TRY should further support the bottom-line performance.	Market Perform
MGROS	Migros	-13	85	n.m.	8	n.m.	We expect that double digit top-line growth continued in 1Q16 thanks to new stores. 1Q16 results are crucial to understand the real impact of minimum wage hike on Company financials. We estimate no major impact on EBITDA margin in 1Q16.	Outperform
MRDIN	Mardin Cimento	8	12	-35%	4	81%	We project Company's top-line growth to be limited at 4% compared to the same period of last year amid climbed competition in the Southern regions of Turkey while bottom-line is expected to boost on the back of limited pressure on the raw material side and the low base in the same period of last year.	Under Perform

Table 6: YF Coverage Universe 1Q16 Earnings Preview (Non-Financials - TRYmn) part 4/5

TRYmn Ticker	Company	Net Profit					Comment	Recommendation
		1Q16E	4Q15	Q/Q Δ	1Q15	Y/Y Δ		
PGSUS	Pegasus Hava Tasimaciligi	-152	-82	n.m.	-74	n.m.	Dismal traffic figures imply very weak financial results in 1Q16. Load factor slumped by 166bp y/y to 76.1% in 1Q16. We look for a 10% y/y increase in revenues in EUR terms, with a 19% y/y increase in RPK. On the other hand, we estimate a negative EBITDA in 1Q16 due to seasonality, low load factor, unfavorable sales mix towards domestic flights.	Market Perform
TAVHL	Tav Havalimanlari	85	134	-37%	85	0%	Although weak TL contributes to y/y comparison in topline, weak traffic figures curb the growth. In addition, low international pax and increasing int'l to int'l pax may weigh on profitability.	Outperform
TCELL	Turkcell	556	585	-5%	142	293%	We estimate 8% y/y increase in revenues with a 9% y/y increase in Turkcell Turkey vs. 5% y/y contraction in Turkcell International revenues. We expect that 4.5G marketing expenses had no major impact on Turkcell's operational profitability. We look for a flattish (y/y) EBITDA margin in 1Q16.	Outperform
THYAO	Turk Hava Yollari	-1,200	617	n.m.	373	n.m.	We estimate that revenues escalated by 4% y/y in 1Q16 in USD terms with a 15% y/y increase in RPK and 9% y/y contraction in passenger yield. Lower load factor with accelerated capacity should weigh on profitability in 1Q16. In addition, we estimate USD260mn net FX loss in 1Q16 due to weak USD.	Outperform
TKNSA	Teknosa	-9	-73	n.m.	-10	n.m.	Following 9 consecutive quarters, we estimate that EBITDA growth turned into positive for the first time in 1Q16. We estimate a double digit top-line growth thanks to improvement in market share with exit of a player in the market. Despite a challenging environment, min wage hike and a change in accounting for inventory aging; we estimate flattish EBITDA margin (y/y) in 1Q16.	Outperform
TMSN	Tumosan Motor Ve Traktor	8	6	22%	9	-10%	We estimate a recovery in sales thanks to relatively better demand conditions in the domestic market. On the other hand, we look for a 42bp y/y contraction in EBITDA margin due to stiff competition in Turkish farm tractor market.	U/R
TOASO	Tofas Otomobil Fab.	225	258	-13%	205	9%	Domestic sales volume contracted by 11% y/y while exports soared by 35% y/y in 1Q16. We expect that new models will contribute to the top-line growth gradually throughout the year. We see 223bp y/y decline in EBITDA margin due to the lack of T-o-p compensation with robust export in 1Q16.	Outperform

Table 7: YF Coverage Universe 1Q16 Earnings Preview (Non-Financials - TRYmn) part 5/5

TRYmn		Net Profit					Comment	Recommendation
Ticker	Company	1Q16E	4Q15	Q/Q Δ	1Q15	Y/Y Δ		
TUPRS	Tupras	522	815	-36%	275	90%	Considering the halt of production for a month in RUP's hydrocracker unit following the fire and the absence of hedging gain; we expect the Company's EBITDA to ease by 35% q/q. On y/y basis on the other hand EBITDA should double thanks to contribution of RUP, strong CUR and some reversal of the inventory losses. Despite the absence of deferred tax income bottom-line is expected to climb by 90% on the back of improved profitability.	Outperform
TRGYO	Torunlar G.M.Y.O.	131	1,330	-90%	-154	n.m.	Deliveries from Torun Center project was limited in 1Q16 compared to 4Q15, contributing to the top-line by around TRY25mn while y/y growth in the rental income is expected to be strong at 25%. Reversal of FX losses given the stronger TRY in the quarter should further support the bottom-line. Contraction in the bottom-line on q/q basis is due to absence of revaluation gains and limited revenue recognition from deliveries.	Outperform
TTKOM	Turk Telekom	513	1,039	-51%	27	1821%	We expect an acceleration in top-line growth thanks to mobile and fixed broadband revenues. On the other hand, increased marketing expenses due to brand consolidation sweep out the positive impact of top-line growth. We estimate 2% y/y contraction in adjusted EBITDA in 1Q16.	Outperform
TTRAK	Turk Traktor	84	80	6%	44	91%	Turk Traktor's sales volume escalated by 9% y/y in 1Q16 with a 15% y/y increase in domestic market vs. 3% y/y decline in exports. We estimate 355bp y/y improvement in EBITDA margin thanks to better sales mix.	Market Perform
UYUM	Uyum Gida	0	2	n.m.	-2	n.m.	We expect a weak top-line growth due to store closures in 1Q16. On the other hand, low base of 1Q15 offers strong y/y EBITDA growth.	Outperform
VESTL	Vestel	64	141	-55%	-74	n.m.	We estimate a strong top-line growth in 1Q16, thanks to improving market share in Turkey and robust TV demand in Europe prior to EuroCup. Weak TRY also contributes to y/y growth in exports. On the other hand, we expect some deterioration in EBITDA margin due to the lack of hedging gains on EUR/USD contracts.	Market Perform

Table 8: YF Coverage Universe (Non-Financials) 1Q16 Key Financials

TRY mn Ticker	Company Name	Net Sales					EBITDA					Net Profit				
		1Q16E	1Q15	Y/Y Δ	4Q15	Q/Q Δ	1Q16E	1Q15	Y/Y Δ	4Q15	Q/Q Δ	1Q16E	1Q15	Y/Y Δ	4Q15	Q/Q Δ
ADCI	Adana Cimento	90	96	-5%	109	-17%	25	31	-21%	30	-18%	31	33	-9%	29	7%
AKCNS	Akcansa	328	299	10%	398	-17%	91	79	15%	107	-15%	76	67	12%	64	17%
AKSEN	Aksa Enerji	623	353	76%	712	-13%	91	86	6%	88	4%	49	-96	n.m.	6	672%
ARCLK	Arcelik	3,342	2,867	17%	4,067	-18%	339	256	32%	453	-25%	153	142	8%	211	-27%
BIMAS	Bim Birlesik Magazalar	4,872	4,094	19%	4,536	7%	234	187	25%	229	2%	162	123	31%	141	15%
BIZIM	Bizim Toptan Satıs Magazalari	623	545	14%	689	-10%	18	13	36%	22	-18%	3	0	904%	5	-37%
BOLUC	Bolu Cimento	89	65	38%	116	-23%	29	20	49%	41	-28%	19	19	3%	29	-34%
BMEKS	Bimeks Bilgi Islem	439	399	10%	399	10%	20	18	7%	26	-24%	2	3	-4%	5	-46%
CIMSA	Cimsa	260	235	11%	306	-15%	67	59	15%	77	-13%	48	43	13%	46	5%
DOAS	Dogus Otomotiv	2,197	2,175	1%	2,931	-25%	92	147	-37%	91	2%	40	132	-70%	6	548%
EKGYO	Emlak G.M.Y.O.	173	191	-10%	1,118	-85%	91	75	21%	475	-81%	133	138	-3%	536	-75%
EREGL	Eregli Demir Celik	2,384	2,896	-18%	2,999	-21%	289	609	-53%	372	-22%	132	337	-61%	38	250%
FROTO	Ford Otosan	4,401	3,563	23%	5,016	-12%	339	307	10%	400	-15%	190	232	-18%	285	-33%
HLGYO	Halk G.M.Y.O.	20	16	24%	46	-57%	14	11	24%	24	-42%	14	10	31%	22	-38%
ISGYO	Is G.M.Y.O.	50	35	43%	42	18%	32	20	58%	22	46%	41	6	610%	359	-89%
KARDM	Kardemir	450	476	-6%	591	-24%	38	28	37%	25	51%	41	-88	n.m.	189	-78%
MGROS	Migros	2,323	2,074	12%	2,378	-2%	135	121	11%	141	-4%	-13	8	n.m.	85	n.m.
MRDIN	Mardin Cimento	28	27	4%	40	-30%	8	4	75%	14	-46%	8	4	81%	12	-35%
PGSUS	Pegasus Hava Tasimaciligi	753	583	29%	751	0%	-125	-53	n.m.	-51	n.m.	-152	-74	n.m.	-82	n.m.
TAVHL	Tav Havalimanlari	761	629	21%	820	-7%	250	217	15%	299	-16%	85	85	0%	134	-37%
TCELL	Turkcell	3,205	2,978	8%	3,334	-4%	993	925	7%	1,050	-5%	556	142	293%	585	-5%
THYAO	Turk Hava Yollari	6,806	5,456	25%	7,159	-5%	248	317	-22%	622	-60%	-1,200	373	n.m.	617	n.m.
TKNSA	Teknosa	739	666	11%	965	-23%	13	11	13%	-6	n.m.	-9	-10	n.m.	-73	n.m.
TMSN	Tumosan Motor Ve Traktor	111	96	15%	127	-12%	14	12	11%	16	-11%	8	9	-10%	6	22%
TOASO	Tofas Otomobil Fab.	2,906	2,131	36%	2,968	-2%	291	261	12%	252	15%	225	205	9%	258	-13%
TUPRS	Tupras	5,774	6,948	-17%	8,899	-35%	778	400	94%	1,189	-35%	522	275	90%	815	-36%
TRGYO	Torunlar G.M.Y.O.	128	101	27%	300	-57%	80	58	39%	1,150	-93%	131	-154	n.m.	1,330	-90%
TTKOM	Turk Telekom	3,696	3,434	8%	3,867	-4%	1,289	1,322	-2%	1,165	11%	513	27	1821%	1,039	-51%
TTRAK	Turk Traktor	852	693	23%	760	12%	124	77	62%	106	18%	84	44	91%	80	6%
UYUM	Uyum Gida	115	109	6%	88	31%	3.5	2	93%	5	-25%	-0.4	-2	n.m.	2	n.m.
VESTL	Vestel	2,386	1,808	32%	3,004	-21%	210	198	6%	208	1%	64	-74	n.m.	141	-55%
Non-Financials Total		50,923	46,040	11%	59,534	-14%	6,118	5,821	5%	8,642	-29%	1,958	1,959	0%	6,920	-72%

* Figures represent for all types of Adana Cimento shares

** Figures represent for all types of Kardemir shares

*** Adjusted figures for TAVHL

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