Turkish Equity Strategy
2016 Outlook

Yet another challenging year

8 January 2016

Under the shadow of geopolitical risks and inhibited by low appetite for EMs

Turkish equities have significantly underperformed their emerging peers in 2015 (a 34% loss for Turkey vs the 16% fall for the EM area) on the back of both local political skids and the freezing of the Kurdish peace process. Even the good news - a sharp fall in the oil price – could not come to the rescue as the slump in oil prices has squeezed budgets in the Middle East countries, weakening Turkish exports to the region as well as reducing risk appetite for EM markets. The shooting down of a Russian jet and the rapidly changing political dynamics in Syria has brought further dark clouds to this already adverse backdrop. The 2016 macro/political outlook offers little in the way of a respite. The geo-political risks and lack of visibility in CBT's monetary policy that have dogged the markets in 2015 look set to continue, while there will be added distraction of debates on a new constitution and presidential system. We currently see the low base effect of the BIST-100 and relative trade opportunities (especially with Russian market) as the only strong catalyst for 2016, with the Index now trading at what would normally be an enticing PER of 8x for 2016 – very close to its historical lows – and a 26% discount to its peers. After their underperformance in 2015, Turkish assets now appear attractive in valuation terms compared to their emerging peers.

Another year of sub-potential growth - but more stable than its emerging peers

2015 turned out to be a year of stronger than expected GDP growth for Turkey on the back of personal consumption expenditures, fuelled by housing and motor vehicles sales. Conditions are set to evolve further next year, again favouring domestic demand, which is the prerequisite we observe for acceleration in economic growth. We forecast 3.5% GDP growth in 2016 on top of 3.2% performance in 2015, incorporating further changes in the composition of demand: the contribution of net exports turning positive, but it will be rising personal consumption expenditures that are the engine of economic growth on the back of the increase in the national minimum wage and ongoing positive demand from refugees in the country. On the other hand, we expect a drying up of private investment, offset by geared up public sector spending through both consumption and investment (especially mega-construction projects). It will be another year of sub-potential growth for Turkey, but with a more stable performance when compared to most countries in the EM universe. There are grounds for optimism on the CAD as the plunge in energy prices provides important relief in bringing Turkey's gaping CAD under control. Fiscal discipline is still a firm anchor for the Turkish economy, yet the 30% increase in the national minimum wage may put a downer on the recent story with an alarming runaway inflation.

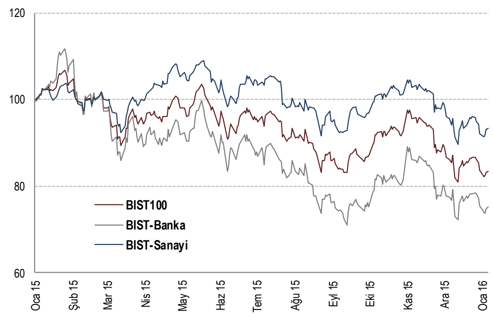
We foresee a 15% recovery in earnings after their 4% contraction in 2015

The strong USD and higher US rates stand as the main challenges facing the EM universe in 2016, and Turkey is no exception. The key issue for the functioning of the Turkish economy, markets and companies will be again the strength of the dollar in 2016. On the assumption of a milder TL devaluation for 2016, we expect 15% earnings growth for our coverage, with the same rate of earnings growth for both banks and non-banks after the 4% contraction realized in 2015.

We set a 12-month BIST-100 target of 84K

Taking into account of our revised macroeconomic forecasts and a higher CoE, we have revised our 12-month target for the BIST-100 Index from 86,000 to 84,000, offering 17% upside potential. After having been punished so severely in 2015, the BIST-100 Index will most likely to be higher at year-end. But we believe it will be a very bumpy ride which offers more appealing entry point.

Performance of BIST



Source: BIST

YF Top Picks Portfolio

Ticker	Mcap (TRYmn)	Target Pr. (TRY/share)	Upside	P/E 2015E
AKCNS	2,452	16.25	23%	9.1
GARAN	29,946	8.80	23%	8.8
HALKB	12,800	13.20	29%	5.8
MGROS	2,959	21.00	20%	n.m.
TCELL	21,868	13.00	31%	11.7
THYAO	10,102	9.00	22%	4.2
TOASO	9,835	24.00	27%	11.9
TUPRS	18,944	93.10	34%	8.8

Macroeconomic Framework

	2014	2015F	2016F
GDP (TRY bn)	1747,36	1919,92	2140,35
GDP (USD bn)	797,87	700,01	653,13
GDP Real Growth	2,91%	3,26%	3,47%
CPI (annual; eop)	8,17%	8,81%	7,96%
CPI (annual; avg.)	8,85%	7,67%	7,75%
Interest Rate (Benchmark, eop)	7,97%	10,78%	11,50%
Interest Rate (Policy rate, eop)	8,25%	7,50%	9,50%
USD/TRY (eop)	2,3230	2,9128	3,3600
USD/TRY (avg)	2,1915	2,7227	3,1662
C/A Balance (USD bn)	-46,52	-36,50	-31,00

Source: CBT, TurkStat, Treasury, MoF, State Planning Organization and YF

Yatırım Finansman Securities Research Team
(+90 - 212) 334 9835

TABLE OF CONTENTS

1. Leaving behind a dismal year for Turkish Equities

Turkish equities have heavily underperformed their emerging peers in 2015 (34% loss for Turkey vs 16% fall for the EM area) on the back of both local political volatility and the suspension of the Kurdish peace process. Even the good news - a sharp fall in the oil price - has proven not to be as supportive as might have been expected for the Turkish economy as lower oil prices have forced many Middle Eastern countries to cut their budgets, limiting Turkish exports to the region, as well as diminishing the risk appetite towards EM markets. Elevated geo-political issues with Syria and Russia have also exacerbated the underperformance, taking the BIST-100 Index to its lowest levels for 5 years in dollar terms, while rounding off a 16% loss in TL terms.

After such a substantial underperformance, Turkish assets now do appear more attractive when compared to emerging peers. Based on Bloomberg estimates, the MSCI Turkey trades at around 26% discount to the MSCI EM on a forward looking P/E - well above the 3-year average of 9.8%. On the other hand, geopolitical risks which keep mounting at the start of 2016 and the CBT's tighter liquidity management still pose risks for the market this year, leaving cheap valuations as the only trigger which could support market moves.

Figure 1: MSCI Turkey vs EM Perf. (1.1.2014=100)

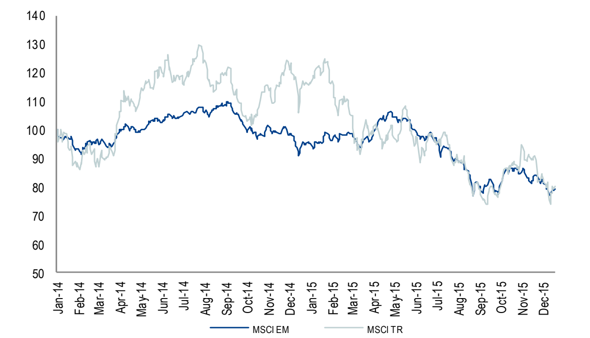


Figure 2: Markets Summary

Markets Summary	Close	MtD	3M	YtD	2015 FY
BIST-100	71.496	-0,32%	-9,15%	-0,32%	-16,33%
BIST-Industrials	73.528	1,31%	-7,31%	1,31%	-7,81%
BIST-Financial	93.237	-1,10%	-8,06%	-1,10%	-18,18%
MSCI EM	567	-8,26%	-14,33%	-8,26%	-16,46%
MSCI EMEA	197	-6,39%	-18,67%	-6,39%	-22,37%
MSCI EM EUROPE	234	-4,47%	-14,50%	-4,47%	-17,59%
MSCI TURKEY	345	-2,43%	-13,33%	-2,43%	-33,61%

**As of 07.01.2016 closing prices*
***MSCI as of 07.01.2016 closing*

Source: MSCI Barra, BIST

The foreign ownership ratio in the BIST-100 decreased from 64% at the beginning of the year to 62% after reaching 65.4% in October ahead of the November 1st elections. Sentiment towards Turkish equities had improved prior to the November election on the back of expectations that domestic political risks would diminish after the election. However, although the general election produced a convincing majority win for the AKP, sentiment towards Turkish equities has deteriorated since the November election, as the market turned its attention to the country's long-term policy dynamics, instead of the benefits of a reduced political risk premium. We observed a net outflow of USD 1 bn from equities in November and USD 0.6bn in December, bringing net sales for the year to date to 2.48bn.

Figure 3: Foreign Ownership of BIST

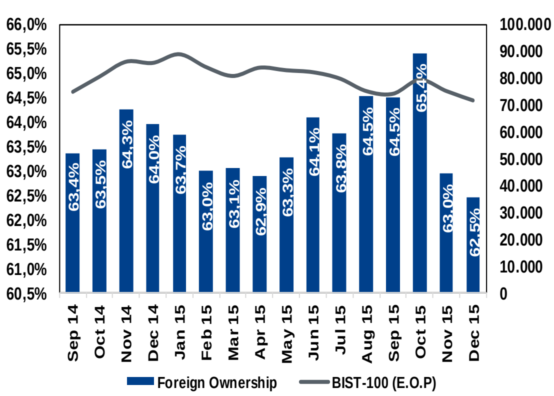
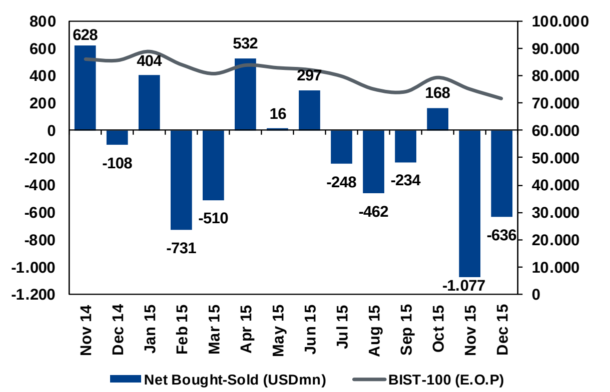


Figure 4: Net Foreign Outflow to BIST



Source: BIST

2. 2016: Value versus Risks

Sub-potential GDP growth to continue in 2016…

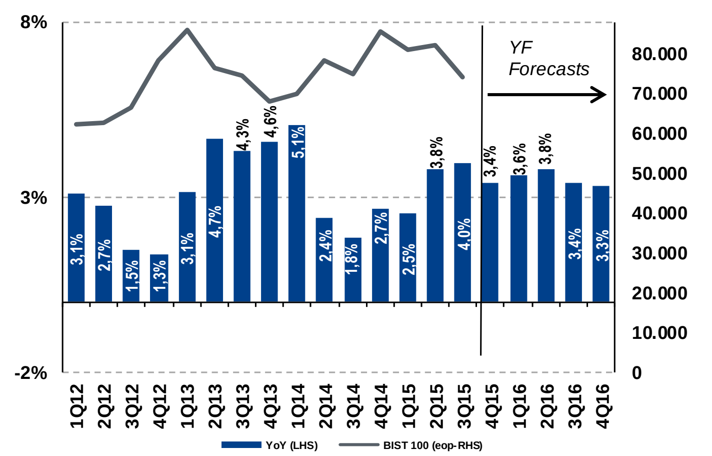
Turkey experienced two general elections last year, while domestic security concerns deepened and the fallout of the Syrian civil war spilled over into Turkish territory. With an agenda heavily dominated by politics, the much-needed reforms have long been put onto the back burner. While inflation targeting was clearly set aside, the speculation on the effects of an upcoming Fed lift-off pushed risk premia higher and the asset valuations were dulled. Growth momentum could only be kept up with domestic demand on the back of consumption of some big ticket items (transportation and furnishing) in household budgets, with some residual help from the Syrian refugees. In the event Turkey's economic growth, while still below its potential rate, turned out to be surprisingly strong in 2015 which we estimate as 3.2% rate of growth.

Conditions are set to again favour domestic demand next year, which we would deem the prerequisite for acceleration in growth. Households have been increasing their spending for the last 11 consecutive quarters on a QoQ basis, with the exception of the first quarter of 2014 when the CBT announced its emergency hike in the main funding rate, which had led to a severe contraction in credit markets. We have been emphasizing the positive demand shock created from the 2.2 million migrants, particularly apparent in the housing, furniture, white-goods, and automobile markets. With the national minimum wage being boosted by 30%, we believe the marginal consumption behaviour may expand, **sustaining an annualized growth of 3.5% in 2016.**

With global growth dynamics on course for some warming up, we still foresee a limited contribution of net exports to Turkey's GDP, yet better than in 2015. Turkey's main export markets are expected to remain fragile, but we expect some compensation from the green shoots of recovery in the European Union backed by the ECB's moves. We expect Turkish exporters to retain their focus on the residuals of EU intra-trade (especially the white goods and auto sectors) as efforts to boost trade in alternative markets could prove fruitless with the ongoing sanctions in Russia and the revenue losses in MENA amid slumping oil prices.

We anticipate that private investments will dry up, while there will be a gearing up public sector expenditures through both consumption and investment (especially mega-consumption projects). There are grounds for optimism on the CAD as plunging energy prices do help tame Turkey's deficit below 5%. Fiscal discipline remains a firm anchor for the Turkish economy, yet the 30% increase in the national minimum wage may put further pressure on alarming runaway inflation. **It looks like 2016 will be another year of sub-potential growth for Turkey, but more stable when compared to most countries in the EM universe.**

Figure 5: GDP Growth vs BIST Performance



Source: BIST, TurkStat, YF Estimates

External vulnerabilities to remain…

According to IMF's most recent forecasts, the world's GDP growth will pick up from around 3.1% in 2015 to 3.6% in 2016. Although the projection of global growth is basically based on the anticipation that both advanced and developing economies will grow more rapidly in 2016, the outlook is not as strong as it was 10 years ago. Commodity prices, especially oil prices, are expected to remain relatively low in 2016 with the assumption that Iranian crude will be on the market again, and with China's lower level of growth. It seems very favourable at a glance that Turkey is a commodity importer. Yet the mounting problem is that with its improving terms of trade, Turkish exportable goods are getting relatively expensive at each round of oil slumps as the MENA budgets get tighter and tighter; hence Turkey loses its competitive edge in its export market of 26% weight (excluding gold trade).

Strong USD and higher US rates stand as the main challenge facing the EM universe in 2016 and Turkey is not immune to negative implications of this era. The key issue for the functioning of the Turkish economy and the companies will be again the strength of dollar in 2016. With FED starting its tightening cycle, investors started to worry about the refinancing risk of EM debt, particularly in non-financial private companies. Although we expect more challenging financing conditions as the FED abandoned its zero interest rate policy, we are not anticipating that these tight conditions will have a devastating impact on the Turkish economy. The Turkish private sector has a high external debt roll-over ratio, but faces no difficulty rolling over its debt, even in the midst of financial crises. Considering that exporters account for a proportion of this external debt, thus creating a natural hedge, we believe the majority of companies will not face any difficulty in paying off or rolling over their FX debt given our forecast that the pace of TL devaluation eases into 2016. Learning from previous experience, more Turkish companies now employ hedging mechanisms in their financing while many of them changed their functional currency from TL to hard currencies in their financial statements. The short term external debt of Turkey stands at US$171bn as of October 2015 data.

Figure 6: Short term external debt stock on a remaining maturity basis

(Million USD)	2012	2013	2014	Mar.15	Jun. 2015	Oct. 2015
Central Banks	**3.777**	**2.639**	**1.376**	**1.113**	**1.000**	**563**
General Government	**4.589**	**4.877**	**4.929**	**3.378**	**3.332**	**4.558**
Banks	**75.298**	**99.522**	**107.454**	**108.667**	**110.106**	**108.959**
Credits	36.161	51.578	59.805	57.885	56.262	52.971
FX Deposits	8.901	11.503	13.126	12.772	13.794	15.394
Banks Accounts	18.588	25.386	21.118	25.334	26.384	25.310
TRY Deposits	11.648	11.055	13.405	12.676	13.666	15.284
Other Sectors	**60.528**	**60.656**	**53.042**	**50.714**	**53.814**	**57.233**
Trade Credits	26.616	32.540	32.001	29.528	31.121	32.076
Due to Imports	22.312	28.043	27.890	25.692	27.412	28.361
Pre-export Financing	4.304	4.497	4.111	3.836	3.709	3.715
Other Credits	33.912	28.116	21.041	21.186	22.693	25.157
Public	175	232	191	181	159	140
Private	33.737	27.884	20.850	21.005	22.534	25.017
Gross Total	**144.192**	**167.694**	**166.801**	**163.872**	**168.252**	**171.313**

Source: CBRT

On the other hand, current global conditions may squeeze external funding channels for banks which we expect to be more visible in the second half of 2016 due to the rise in foreign borrowing costs on the back of FED's rate hike impacts.

In need of sustainable political stability and structural reforms…

Turkey has concluded an 18-month marathon session of elections, which eventually ended up in a decisive victory for the incumbent government. However, the new single party government will have its work cut out with problems, some domestic in nature and other problems from the region. The shooting down of a Russian jet and fast-changing dynamics in the civil war in Syria adds dynamite to an already unstable outlook while President Erdogan's open will to change the parliamentary system into an executive presidency will need reconciliation with the opposition.

One certain item on the new government's agenda will be a referendum to change the constitution - but this may likely involve the heated issue of the executive presidency, thereby raising the tensions yet again. Whether the desired constitutional change will embrace and address the ongoing domestic security concerns at hand is of utmost importance.

The AKP government had declared it's first "Structural Transition Plan" early November 2014, which put forward an ambitious step ahead of diagnosing the symptoms of an ailing economy. The plan itself had a detailed focus on treatments, such as reducing import dependency, increasing utilization of domestic resources or products in fundamentally important areas such as energy, irrigation and healthcare, accompanying the main frame with a very precise "to-do-list". However, long and painful election cycle dominated the to-do-list rather than carrying these structural reforms into effect.

Since the November election period ended with a single party government of AKP, the main focus now needs to be revival of the economic dynamics. The government has already announced an action plan with strict deadlines at the end of last year. The reforms include income tax, labour market, public tenders, restructuring and liberalisation of railways, private pension funds as well as some populist presents like national minimum wage increase, additional payments on retirees, increase in state's scholarships and a hike of approx. 53k district administrators' salary. Although the government has established a Committee for Reform Coordination and stated that the items of action plan will be widened going forward, investment community needs to hear more structural reforms to be added in the action plan which could have enhanced country's growth potential and minimise the primary structural hurdles of the economy (C/A deficit, high level of external debt, high inflation, low saving rate etc.). A better than expected performance in structural reforms is obviously the most important upside risk of the financial markets.

We estimate a 15% EPS growth in 2016 following 4% contraction in 2015…

Banks have been impacted by declining profitability dynamics in 2015 on the back of tight funding costs and regulatory changes as well as capital constraints. FED's rate hike cycle is likely to hold up loan rates at a higher level in 2016. Despite the loan repricing acceleration in 4Q15 -- that we believe to continue in 1Q16 - the CBT's tightening moves will be the key issue for the faith of margin outlook of **banks**. The CBT was actively using its liquidity management in order not to bring a substantial tightening in 2015. Marginal cost of funding that the Banks refer to -- which stands around 8.8% levels at the moment – is higher than the current policy rate. Our economist expects the average cost of funding rate to increase gradually in 2016. **The CBT's own rate hikes will still be on the agenda; though the policy rate will approach to 9.5% by the end of 2016 according to our house call.**

Tighter capital adequacy ratios may inhibit banks' ability to expand in lending while funding cost pressure will be the hot topic of discussion in 2016. We expect NIM levels to remain flat due to the effect of rising funding costs in both TL and foreign borrowing in 2016. We believe the impact of FED's rate hike on external funding of banks will be more visible rather in the second half of the year. On the other hand, any additional easing measures - especially on risk weights taken by the BRSA - might serve as a game-changer for the sector in 2016. **Following a 4% decline in**

earnings for 2015, we forecast 14% earnings growth for our banking universe in 2016, driven by lower opex as the fee rebate impact diminishes to some extent, lower general provisions and better fee income growth as the negative effects of regulation may be alleviated.

Figure 7: YF Research Estimates for Non-Financials

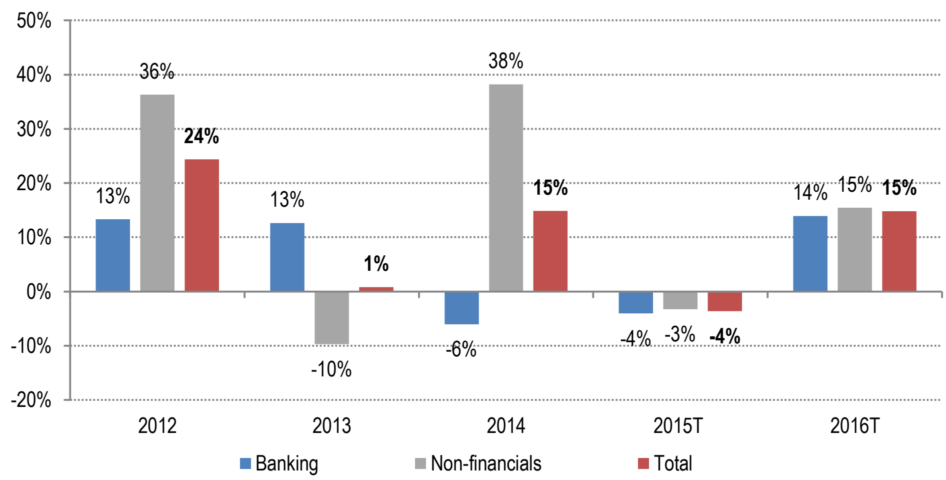
	2013	2014	2015T	2015T*	2016T
Sales Revenues (TRYmn)	**192,390**	**211,865**	**234,397**	**197,526**	**272,742**
Growth (%)	*9%*	*10%*	*11%*	*15%*	*16%*
EBITDA (TRYmn)	**24,645**	**27,148**	**33,420**	**30,074**	**38,046**
Growth (%)	*15%*	*10%*	*23%*	*14%*	*14%*
EBITDA Margin (%)	*12.8%*	*12.8%*	*14.3%*	*15.2%*	*13.9%*
Net Income (TRY mn)	**12,307**	**17,011**	**16,457**	**14,294**	**18,998**
Growth (%)	*-10%*	*38%*	*-3%*	*-8%*	*15%*

**Tupras excluded*

Following two general elections and sharp depreciation of TL throughout the year, **we expect non-financial sector's earnings into our coverage to decrease by 3% in 2015.** Although favourable energy inputs worked in favour of company's operational margins, sharp currency fluctuations result a heavy financial burden for corporates in 2015. Apart from currency change, company specific one-offs and completion of some company's large size investments also had a positive impact on net earnings of non-financials in 2015. The earnings performances of the non-financial sectors are highly dependent on movements in the TL against hard currencies, given the large FX-denominated debt stock of the private sector. We expect that the speed of TL devaluation eases into 2016 (i.e.TL depreciated by 25% against dollar in 2015 vs 15% expectation in 2016), pave the way of non-financial companies' bottom-line to a relief to some extent. Therefore we estimated that **non-financials in our coverage should post a 15% earnings growth for 2016** on the back of limited FX losses and low base of the past year.

On the other hand, we expect EBITDA growth of 14% to underperform 16% growth in revenues for non-financials in 2016, resulting in a slight downward movement in margins mainly due to higher fuel cost (we already observed a 6.7% electricity price hike in January 2016) and the negative impact of increase in national minimum wage hike on personnel costs. Our coverage universe indicates a 15% net earnings growth for 2016 following a 4% contraction in 2015.

Figure 8: Earnings Growth of our Coverage Universe



Source: BIST, YF Securities

Valuations is a support at present, but it pays to be selective

Considering the BIST's current levels, valuations may not appear stretched on the surface on an aggregate basis when compared to the index's own historical averages, and also with the EM historical discount. The Turkish stock market is currently trading on a 12-month forward looking PE ratio of 8x, marking a 26% discount to its emerging market peers and also offer deeper discount than its 3-year averages. On the other hand, the BIST-100 Index is also trading with 18% discount with its 3-year historical average forward looking P/E. Yet, the geo-political risks, possible debates on presidential system and lack of visibility in CBT's monetary policy may be the risks against the discount to narrow. On the positive side, declining trend in CAD and relatively but more stable GDP growth than its emerging peers would be trigger for relative trading unless local politics cause any negative divergence in 2016. In addition, ongoing revenue losses in Russia amid slumping oil prices may trigger relative trading in favour of Turkish equities.

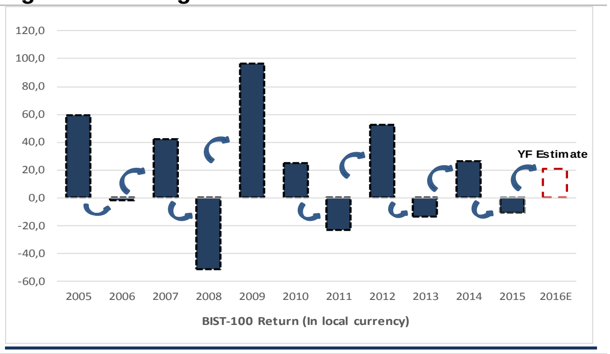
It has been observed that Turkish equities do not record two consecutive gains or losses in the past 10 years - except for 2009's gains followed by 2010's - and the BIST-100 Index usually outperforms its emerging peers following a poor performance. After having been punished so severely in 2015, the BIST-100 Index will most likely to be higher at year-end.

Figure 9: BIST - 12m Fwd-looking PE Comparison

	Banking Index	MSCI World Banks	MSCI EM Banks	Discount/ Premium to EM
06.01.2016	6,0	10,3	7,1	-15,40%
1-year-avg.	7,2	11,2	7,8	-7,67%
3-year-avg.	7,9	11,2	7,9	0,76%

	BIST 100	MSCI World	MSCI EM	Discount/ Premium to EM
06.01.2016	8,0	15,3	10,8	-26,27%
1-year-avg.	9,5	16,1	11,5	-17,15%
3-year-avg.	9,8	14,9	10,9	-9,70%

Figure 10: Swings of the BIST-100



Source: Bloomberg, YF Securities

Taking into account of our revised macroeconomic forecasts and higher CoE, we have revised our 12-month target for the BIST-100 Index from 86,000 to 84,000. Our new target currently offers 17% upside potential. After having been punished so severely in 2015, the BIST-100 Index will most likely to be higher at year-end. But we believe it will be a very bumpy ride which offers more appealing entry point.

Figure 11: 12M Forward Looking P/E of BIST-100

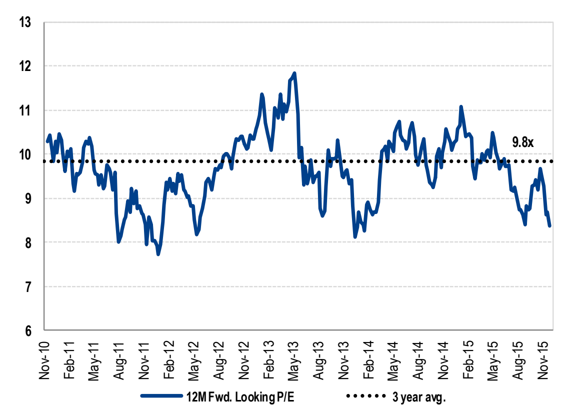
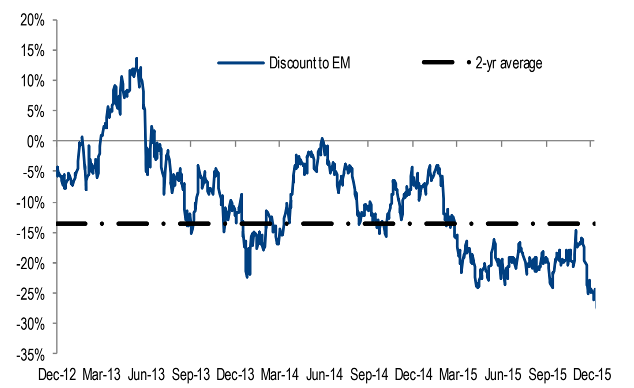


Figure 12: MSCI TR Historical Discount to MSCI EM



Source: Bloomberg

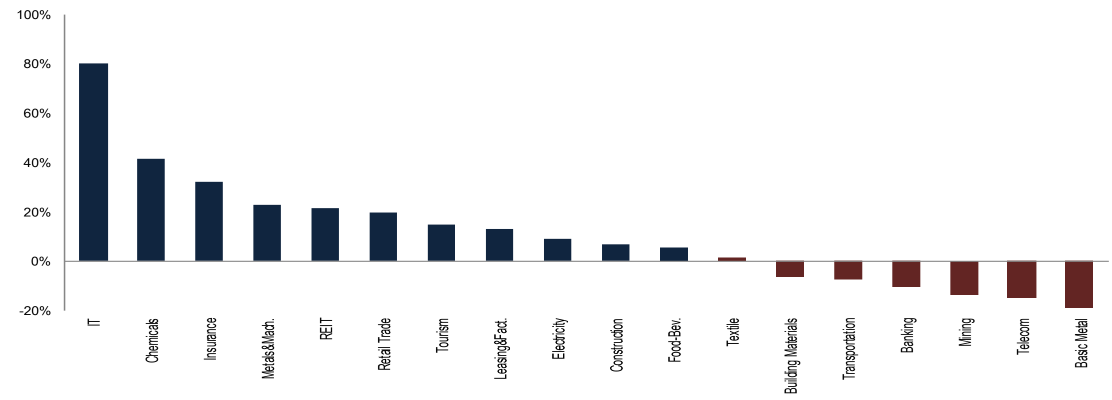
We have a positive stance for auto, retail, aviation, refinery and telecom sectors and negative for utilities and steel while our stance is neutral on banking, REITs and cement sectors. We prefer defensive and export oriented companies at the moment, due to a challenging environment for Turkey in 2016. In our view, **autos** will outperform the market again in 2016 due to increasing production capacity of the sector and solid export revenues. **Retail** and **telecom** sectors stand as the defensive sectors, given stable business outlook and high visibility on earnings. **Refinery** is also immune to uncertainties in the domestic macroeconomic environment.

We have a negative stance for **steel** sector due to negative outlook of product prices. Low spot price environment and relatively less but still important FX pressure are the main drivers for our conservative view on **utilities** sector.

Despite compelling valuations, we are neutral on **banks** due to flat NIM expectations and capital adequacy constraint. For the **cement** sector, increasing cost pressure and sluggish EBITDA growth prevent a bullish view, for now. Although the discount to NAV is quite appealing for REITs in general, we have a neutral view for the sector due to increasing interest rates.

In parallel with our argument, our top picks are **HALKB, GARAN, AKCNS, MGROS, TCELL, THYAO, TOASO and TUPRS**.

Figure 13: 2015 Sector Performances



Source: BIST, YF Securities Research

Risks to our base case scenario are the following; ii) faster than expected FED tightening, ii) worsening situation in Russia/Syria/Iraq, and iii) tensions in local political environment, iv) spill-over effect of the slowdown in the Chinese growth outlook and further devaluation of Yuan.

3. Possible impact of Russia conflict on companies in the region

After the downing of the Russian jet by the Turkish forces on November 24th, Russia has imposed sanctions on imports from Turkey -- mostly fruits and vegetables --, signing of new construction projects with Turkish firms; sale of holiday packages by Russian tourism companies; as well as some of the companies' operations that have presence in Russia. Suspension of the work on the TurkStream pipeline was also actions taken by the country immediately after the disputes over the downed jet.

Latest developments point out to an easing on the sanctions, with the most recent exemptions granted to some of the companies operating in Russia. On December 29th, Russia has excluded a total of 10 Turkish brands, Colin's, Defacto, Koton, Adl, LC Waikiki and Mexx, as well as three global brands that are distributed in Russia by Turkey's Fiba Holding, namely, Marks & Spencer, Banana Republic and Gap, from the sanctioned companies list. Turkey's leading brewery brand, Anadolu Efes, was also included in the exemption list. Companies in the exclusion list are able to continue their normal operations in Russia. In addition; 53 Turkish companies involved in the construction, automobiles, construction materials, polymeric tubes and fittings, plumbing equipment and flooring sector may employ Turkish citizens, and the rest of the companies are not allowed to.

However; pressure over tourism, construction and airlines companies continue. With the updates that went into effect on January 1st, 2016; Turkish companies won't be able to construct buildings, work in architecture and design in Russia. Banning also applies to Turks working in the travel and hotel business. The sanctions do not apply to contracts in place before the date of them sanctions coming into effect, or for the duration of those contracts.

On the tourism side, revenues fell by USD 2.3bn in the first 10Ms of 2015 and expenditures increased by USD 0.2bn. Recall that in 2014 Turkey collected USD 29.5bn as tourism revenues and for 2015, it will fall short of USD 27.0bn. For next year, due to the imposed Russian sanctions we estimate that the revenues will likely stay under USD 24bn. After the sanctions, the loss in tourism revenues should be expected to get hit some more. However, Russians do have real estate and properties -- real estate sales to Russian citizens account for about 10% of total sales to foreigners. That is, deprivation from tour packages does not mean the tourist inflow will face a sudden stop.

On the construction side, Russia's share in Turkey's across-the-border construction projects was approx. USD 3.9bn (or 14%) in 2014. August data suggests that a max revenue loss may add up to USD 3.0bn. Admitting the newly imposed hardship on the functioning of Turkish firms, the economic loss in this area might be manageable.

On the imports, Russia provides 10.1% of total imports or USD 15.8bn in the first three quarters. More importantly, 54.7% of Turkey's natural gas demand, about USD 12bn, was met directly by Russians in 2014. Adding Russian petroleum on the import bill, it reached out to USD 16.5bn last year and Turkey collects 20% of Russia's marketable gas. Beside natural gas, Turkey is the largest buyer of Russian wheat.

Overall, we calculate the total loss combined may approach USD 7.0bn till the end of 2016, which is no more than 1.0% of GDP.

Companies under our coverage that have exposure in Russia and that the current situation poses risks to are listed below:

Enka Insaat: Real estate business in Russia makes ~35% of consolidated EBITDA
Anadolu Efes: On consolidated basis, international beer business (mostly consists of Russia and Ukraine) corresponds to 18% of EBITDA

Anadolu Cam: The company's ~55% of total production capacity is located in Russia and generates ~35% of revenues from the region (including Ukraine and Georgia)

Trakya Cam: The Company has a production premises with 230k capacity in Russia. However revenues from Russia currently constitutes around 5% has we would expect limited impact.

Arcelik: We estimate that sales in Russia forms less than 5% of Arcelik's total sales. The Company produces refrigerators and washing machines in Russia. We expect no impact on company unless a call for an extended boycott for Turkish products.

Aviation: Russian Foreign Minister advised not to visit Turkey to Russians after the downing of the jet and sale of holiday packages was included in the sanctions. However, there is no decision to cut air link between two countries yet. Russians form ca.12% of total number of foreign visitors in Turkey. Their share peaks in summer, however declines to 3% in the winter. Note that, tour operators mostly use charter flights and Turkish airline companies have very limited charter flights from/to Russia. Russian operations account for ca.3% of annual revenues of Turkish airline companies. Therefore, we expect a limited impact on the aviation sector.

In addition; possibility of a price hike on natural gas whose majority is imported from Russia if tensions spike further, some pressure over the profitability of energy-intensive sectors like cement, glass and utilities may be expected.

4. Dividend revenues

The companies noted for their generosity in returning cash to their shareholders would emerge one step ahead in terms of performance in the coming dividend period although the spread between dividend yield and bond yield is not expected as generous in 2016 as in 2015.

Cement companies will pioneer in terms of attractive dividend payments. Adana Cement, Cimsa, Akcansa and Mardin Cement are expected to have 11.4%, 10.7%, 9.9% and 8.9% respective yields for their dividends to be paid from 2015 net profits. Erdemir, being an Oyak Group Company also comes to the forefront with strong dividend yield of 9.2%, on our estimates. Based on our FY2015 net profit and our pay-out forecasts, we list the dividend payers in our coverage in the table below;

Figure 14: Dividend Payers of Our Coverage Universe

	NET INCOME (TRYmn)				DIVIDEND (TRYmn)				PAYOUT RATIO (%)				MARKET CAP	DIVIDEND YIELD (%)
TICKER	2012	2013	2014	2015E	2012	2013	2014	2015E	2012	2013	2014	2015E	(TRYmn)	2015E
FINANCIALS														
ALBRK	192	241	253	277	0	32	34	36	0%	13%	14%	13%	1,170	3.10%
HALKB	2,595	2,751	2,206	2,225	461	275	221	334	18%	10%	10%	15%	12,800	2.60%
YKBNK	1,913	3,203	1,845	1,731	300	388	400	346	16%	12%	22%	20%	14,345	2.40%
AKBNK	2,950	2,942	3,160	2,916	570	467	570	592	19%	16%	18%	20%	26,720	2.20%
GARAN	3,077	3,006	3,684	3,403	597	425	567	521	19%	14%	15%	15%	29,946	1.70%
VAKBN	1,460	1,586	1,753	1,824	100	100	100	109	7%	6%	6%	6%	9,400	1.20%
NON-FINANCIALS														
ADANA	48	37	77	75	26	34	58	60	55%	93%	76%	80%	523	11.40%
CIMSA	115	302	193	246	98	156	175	209	85%	52%	90%	85%	1,956	10.70%
AKCNS	120	158	249	270	110	144	226	243	92%	91%	91%	90%	2,452	9.90%
EREGL	452	920	1,601	1,300	525	820	1,400	1,000	116%	89%	87%	77%	10,815	9.20%
MRDIN	37	52	60	42	34	50	56	35	90%	96%	93%	85%	398	8.90%
BOLUC	25	45	99	100	21	0	24	50	87%	0%	24%	50%	739	6.80%
DOAS	258	224	252	320	220	220	150	160	85%	98%	60%	50%	2,400	6.70%
TAVHL	297	336	634	765	143	199	306	417	48%	59%	48%	55%	6,317	6.60%
TUPRS	1,464	1,197	1,459	2,163	964	396	0	1,152	66%	33%	0%	53%	18,944	6.10%
ISGYO	65	116	87	216	30	32	48	78	46%	27%	55%	36%	1,320	5.90%
TTRAK	268	280	261	235	200	300	300	211	75%	107%	115%	90%	3,645	5.80%
FROTO	685	641	595	837	300	175	400	586	44%	27%	67%	70%	10,682	5.50%
TOASO	442	434	574	826	480	325	485	496	109%	75%	84%	60%	9,835	5.00%
EKGYO	523	1,061	954	1,062	200	468	367	425	38%	44%	38%	40%	9,614	4.40%
TCELL	2,083	2,330	1,867	1,873	0	0	3,925	936	0%	0%	210%	50%	21,868	4.30%
TTKOM	2,637	1,303	2,007	848	2,413	912	1,841	777	92%	70%	92%	92%	18,410	4.20%
TKFEN	299	-64	56	208	132	0	40	61	44%	0%	72%	29%	1,436	4.20%
ARCLK	520	598	617	1,008	355	300	350	403	68%	50%	57%	40%	9,866	4.10%
ENKAI	1,130	1,248	1,441	1,485	224	544	580	508	20%	44%	40%	34%	16,520	3.10%
BIMAS	332	413	395	559	220	208	273	391	66%	50%	69%	70%	15,393	2.50%
HLGYO	12	32	61	55	0	3	6	8	0%	10%	10%	15%	758	1.10%
BIZIM	26	40	11	8	12	13	2	2	48%	32%	19%	30%	512	0.40%

Source: YF Securities estimates, BIST

5. Valuation Updates

Taking into account of our revised macroeconomic forecasts, rolling effect and lower CoE (100 bps up to 16.50% for the TRY for the USD valuations), we have upgraded our 12-month target for the BIST-100 Index from 86,000 to 84,000 points. Our company basis valuation changes are given below the table:

FINANCIALS	Recom.	Free Float (%)	MCAP (TRYmn)	Avg. Volume (3M, mn)	Share Price (TRY)	New TP (TRY/share)	Old TP (TRY/share)	Upside (%)	P/E 2015E	P/B 2015E	Stock Performance (Relative to BIST-100) 1M	3M	12M
Banking													
AKBNK	Outperform	52%	26,720	197.1	6.68	8.28	8.40	24%	9.2	1.0	0%	0%	-6%
ALBRK	Market Perform	21%	1,170	2.0	1.30	1.54	1.60	19%	4.2	0.6	-3%	5%	-12%
GARAN	Outperform	48%	29,946	880.0	7.13	8.79	9.02	23%	8.8	1.0	1%	2%	-9%
YKBNK	Underperform	18%	14,345	57.5	3.30	3.67	3.87	11%	8.3	0.7	1%	0%	-18%
VAKBN	Market Perform	25%	9,400	181.5	3.76	4.41	4.80	17%	5.2	0.6	-1%	1%	-11%
HALKB	Outperform	49%	12,800	281.1	10.24	13.19	14.00	29%	5.8	0.7	-2%	2%	-11%

NON FINANCIALS	Recom.	Free Float (%)	MCAP (TRYmn)	Avg. Volume (3M, mn)	Share Price (TRY)	New TP (TRY/share)	Old TP (TRY/share)	Upside (%)	P/E 2015E	EV/EBITDA 2015E	Stock Performance (Relative to BIST-100) 1M	3M	12M
Aviation													
PGSUS	Outperform	35%	1,746	43.2	17.07	21.00	26.00	23%	7.5	4.8	1%	2%	-39%
TAVHL	Market Perform	40%	6,317	24.3	17.39	19.50	21.50	12%	8.3	7.0	-13%	-18%	16%
THYAO	Outperform	50%	10,102	418.8	7.32	9.00	11.00	23%	4.2	6.7	-1%	-5%	-12%
Automotive													
DOAS	Market Perform	26%	2,400	22.2	10.91	12.00	17.00	10%	7.5	8.1	3%	15%	10%
FROTO	Outperform	18%	10,682	10.1	30.44	38.00	36.50	25%	12.8	9.3	-6%	4%	20%
TOASO	Outperform	24%	9,835	22.6	19.67	24.00	18.85	22%	11.9	10.7	4%	23%	59%
TTRAK	Market Perform	24%	3,645	4.1	68.30	77.00	70.00	13%	15.5	9.9	-1%	2%	10%
TMSN	U/R	23%	1,042	91.6	9.06	U/R	U/R	-	24.0	16.3	10%	41%	107%
Cement													
ADANA	Outperform	58%	523	0.4	5.93	6.70	7.60	13%	7.0	6.2	-3%	13%	42%
AKCNS	Outperform	19%	2,452	2.9	12.81	16.25	18.80	27%	9.1	6.5	-2%	-3%	4%
BOLUC	Outperform	26%	739	1.1	5.16	6.95	7.40	35%	7.4	6.1	0%	8%	11%
CIMSA	Outperform	40%	1,956	2.7	14.48	18.10	18.50	25%	8.0	6.4	-4%	5%	17%
MRDIN	Underperform	45%	398	0.4	3.63	3.20	4.20	-12%	9.5	8.2	-7%	8%	-1%
Telecom													
TCELL	Outperform	35%	21,868	57.9	9.94	13.00	14.00	31%	11.7	5.3	-5%	-2%	-3%
TTKOM	Outperform	13%	18,410	17.5	5.26	6.50	7.80	24%	21.7	5.3	-3%	-9%	-4%
Conglomerates													
KCHOL	Market Perform	22%	28,199	65.0	11.12	12.50	12.00	12%	n.a.	-	-3%	-2%	11%
SAHOL	Outperform	44%	16,303	96.4	7.99	10.00	11.80	25%	n.a.	-	4%	-5%	-4%
Contracting													
ENKAI	Outperform	12%	16,520	11.9	4.13	5.70	6.20	38%	11.1	5.6	-7%	-12%	10%
TKFEN	Outperform	41%	1,436	14.9	3.88	5.10	5.40	31%	6.9	4.9	-2%	-3%	-19%
Defense													
ASELS	U/R	14%	8,750	13.6	17.50	U/R	15.00	-	29.8	15.8	11%	28%	75%
Durable Goods													
ARCLK	Market Perform	25%	9,866	26.9	14.60	15.50	15.10	6%	9.8	9.5	-1%	5%	21%
VESTL	Market Perform	22%	1,694	89.6	5.05	5.50	5.25	9%	-7.8	6.1	-3%	32%	-5%
Energy													
AKSEN	U/R	21%	1,545	7.4	2.52	U/R	U/R	-	n.a.	-	3%	-5%	4%
Petroleum													
TUPRS	Outperform	49%	18,944	87.7	75.65	93.10	-	23%	8.8	8.2	12%	8%	63%
Real Estate													
EKGYO	Outperform	51%	9,614	98.1	2.53	3.60	3.50	42%	9.0	7.7	-3%	4%	7%
HLGYO	Outperform	23%	758	3.0	1.02	1.65	1.70	62%	13.8	13.6	4%	10%	9%
ISGYO	Outperform	48%	1,320	5.8	1.77	2.05	1.90	16%	6.1	14.4	18%	33%	56%
TRGYO	Outperform	21%	1,625	1.4	3.25	4.30	4.40	32%	-10.3	10.4	-5%	7%	13%
Retail													
BIMAS	Market Perform	60%	15,393	40.4	50.70	51.00	60.00	1%	27.5	18.2	-1%	-2%	23%
BIZIM	Market Perform	46%	512	4.7	12.80	13.00	14.50	2%	67.1	8.0	6%	8%	-18%
MGROS	Outperform	19%	2,959	10.1	16.62	21.00	25.00	26%	-13.2	8.3	-3%	1%	-11%
UYUM	Outperform	25%	191	0.2	3.18	4.00	4.80	26%	50.3	8.9	-7%	-8%	89%
BMEKS	Outperform	39%	224	1.7	1.87	2.40	2.50	28%	22.6	6.6	-2%	-1%	10%
TKNSA	Outperform	11%	678	2.4	6.16	8.00	9.00	30%	-56.2	5.8	-5%	3%	-17%
Steel & Iron													
EREGL	Market Perform	48%	10,815	60.2	3.09	3.50	4.44	13%	8.3	5.2	-7%	-15%	-8%
KRDMD	Market Perform	89%	819	38.3	1.05	1.20	1.56	14%	-7.3	10.8	-6%	-8%	-33%

Figure 15: YF Recommendation Changes

Recommendation Changes				
Ticker	**Upside Potential**	**Old**	**New**	**Comment**
MRDIN	-12%	Market Perform	Underperform	Negative outlook on export markets and excess capacity problem in the region
PGSUS	23%	Market Perform	Outperform	Worst is over; ready for recovery in 2016
TKFEN	31%	Market Perform	Outperform	Attractive valuation
TOASO	22%	Market Perform	Outperform	New models to contribute soon and high dividend yield expectations
VESTL	9%	Outperform	Market Perform	Limited upside potential

Source: BIST, YF Securities Research

6. YF 2016 Model Portfolio

In 2015, YF Model Portfolio has lost 16.5% in absolute terms, on the back of severe sell off in Turkish equities, registering a parallel performance with BIST-100 Index. In the past 5 years, our cumulative return indicates an 18% CAGR in absolute terms and 11% CAGR in relative terms.

Currently, our Model Portfolio is consist of Akcansa (high dividend, resilient cement demand in Marmara Region), Garanti Bank (efficient asset utilization, relatively strong asset quality performance), Halkbank (attractive multiples, relatively better profitability expectations), Migros (improving growth outlook), Turkcell (increasing contribution of data revenues after 4G, attractive valuation), Turkish Airlines (resilient pax growth, cost advantage with declining oil prices), Tofas (contribution of new models, appealing dividend yield) and Tupras (new capacity, defensive nature).

Figure 16: YF Top picks Portfolio*

Stocks		Price			M.Cap.	
Company	**Ticker**	**Current**	**Target**	**Upside**	**TRYmn**	**USDmn**
Akcansa	AKCNS	TL 12.8	TL 16.3	27%	TL 2,452	$813
Garanti Bankasi	GARAN	TL 7.1	TL 8.8	23%	TL 29,946	$9,927
Halk Bankasi	HALKB	TL 10.2	TL 13.2	29%	TL 12,800	$4,243
Migros	MGROS	TL 16.6	TL 21.0	26%	TL 2,959	$981
Turkcell	TCELL	TL 9.9	TL 13.0	31%	TL 21,868	$7,249
Turk Hava Yolları	THYAO	TL 7.3	TL 9.0	23%	TL 10,102	$3,349
Tofas Otomobil Fab.	TOASO	TL 19.7	TL 24.0	22%	TL 9,835	$3,260
Tupras	TUPRS	TL 75.7	TL 93.1	23%	TL 18,944	$6,280

Source: BIST, YF Securities Research

**Inclusion and exclusion prices will be recalculated using vwap prices.*

7. Sectors Outlook

Banking: Risks are still there

The banking index underperformed the BIST100 by 10% and the MSCI EM Banks index by 20% in 2015, with the banking index forward P/E now implying a 18% discount to the MSCI EM Banking index. We believe that 2016 will prove another challenging year for the banking sector, even though the political uncertainty has abated since early November and any further fall in the TL is expected to be milder compared to 2015. Our base scenario assumes that the FED will raise the interest rates at a moderate pace and the CBT will follow the FED's rate hike cycle. We expect the banking index to remain under pressure given the CBT's tighter liquidity management. Tighter levels in capital adequacy ratios may inhibit banks' ability to expand in lending and funding cost pressure will be a hotter topic of discussion in 2016. Interest rates on newly extended loans increased by an average of 150bps in 4Q15 when compared to their 3Q15 levels, while deposit rates increased by an average of 30-40bps QoQ, according to the data released by the CBT. We may therefore see some expansion in core spreads in the first half of 2016. However, the squeeze in the banks' funding base in the second half of 2016 will be tighter due to the rise in foreign borrowing costs on the back of FED's rate hike impacts. The banking index may maintain its discount to EM Banks in 2016 unless we see any game-changing measures, such as regulatory easing in banking costs.

Figure 17: 2016 ROE vs. P/BV (EM Banks)

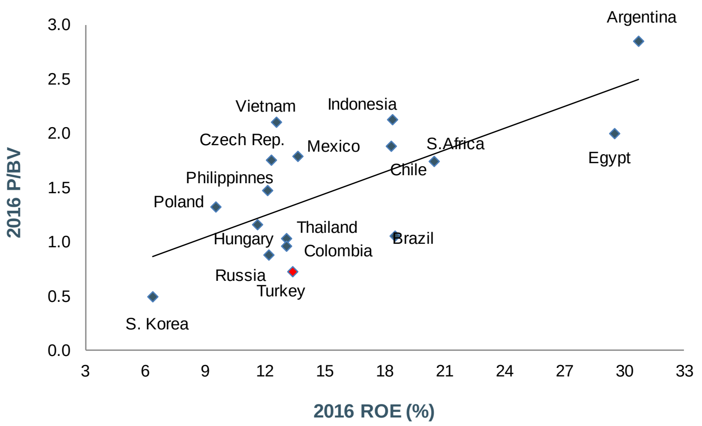
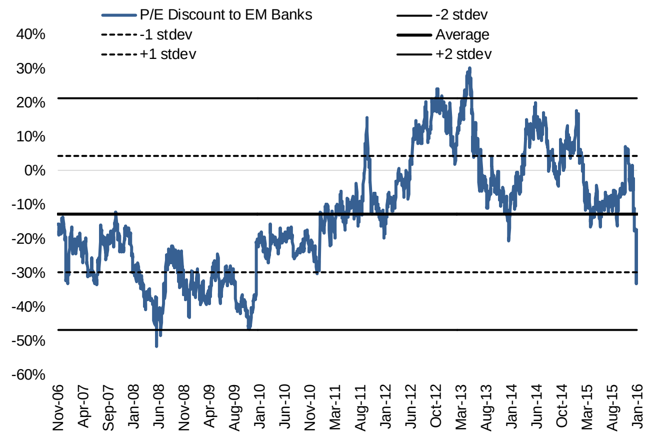


Figure 18: Banking 1Y Forward P/E vs. MSCI EM P/E



Source: Bloomberg, YF Securities Equity Research

Some of the issues that could impact the banking sector in 2016 are set out below:

Loan growth is likely to slow down. Loan growth has already started to slow down, with only 6% loan growth realised since 1H15. We believe this trend to continue in 2016. Rising interest rates (resulting in reduced demand) and erosion in capital ratios will be the main obstacles to substantial loan growth for the next year. We expect TL loans to grow by 15% and FX loans (US$) to grow by 2% in 2016. We foresee a decline in FX adjusted loan growth to 11% in 2016 vs. 13% in 2015.

Deposit competition may become fiercer. As FX wholesale funding will be more costly in 2016, demand for deposits may increase. However, banks with high loan-to-deposit ratios may face more cost pressure. We expect deposits to grow 14% in 2016 vs 20% in 2015.

Figure 19: Loan Growth vs. GDP Growth

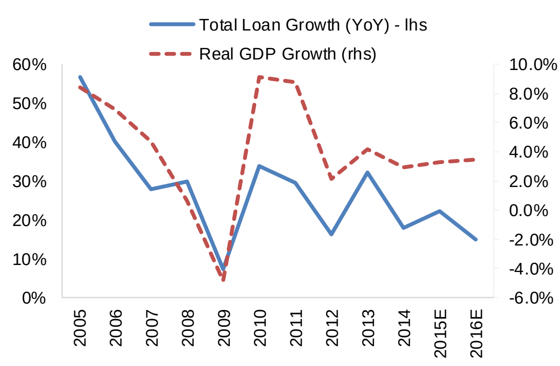
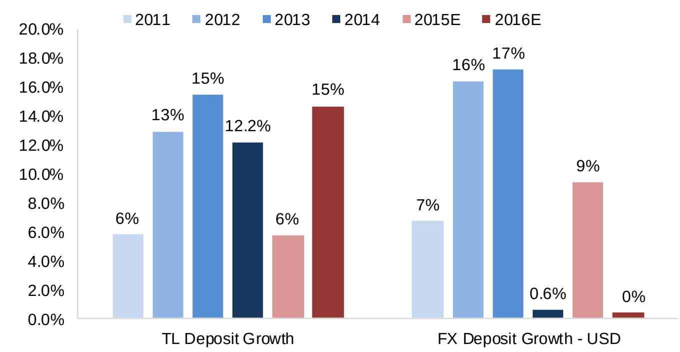


Figure 20: TL and FX Deposit Growth



Source: BRSA, YF Securities Equity Research

Very little change in NIM levels. We believe banks may have more ability to increase their spreads in a high interest rate environment. We expect to see upward asset re-pricing in the figures half of 2016; however, banks may be hard pressed to expand margins in 2016 given a gradual increase in funding costs, both from the CBT and the FED, as well as domestic competition in deposits. Our base scenario assumes virtually no change in the NIM. We anticipate more pressure from FX funding in 2H16 on the back of a clearer impact the FED's interest rate hikes.

Low base from 2015 to drive earnings growth. We estimate a 4% decline in earnings in 2015 but forecast 14% growth in 2016. Although we anticipate a reasonable pace of upward asset re-pricing, mostly in 1H16, we expect the net interest margin to hold fairly constant in 2016, hindered by rising funding cost pressure, especially in 2H16. Vakifbank and Yapı Kredi would be the most vulnerable banks to a funding cost squeeze, in our view. Besides the base effect, we think the removal of non-recurring items in 2016 (a decreasing fee rebate impact, a lower contribution from the weaker TL on opex and lower general provisions) along with better fee income growth, (especially for Garanti and Akbank) will support earnings growth.

Not a promising outlook for asset quality. The outlook for asset quality in 2016 is not a bright one in our view, as although GDP growth is likely to be broadly similar to that seen in 2015, the new government's expected reforms, national minimum wage increase, and more stable TL are several factors to be somewhat optimistic for 2016. Cost of risk has reverse correlation with GDP growth and cost of risk may ease more in 2016 if growth gains momentum in the overall economy. We expect NPL ratio to increase by 30bps in 2016 as lower loan growth (denominator effect) also might impact the ratio. As GDP growth remains below potential, NPL collection performance also deteriorates based on banks' historical performances. We expect to see that Garanti and Halkbank performed better in terms of collections during the low growth environment.

Capital constraints to limit banks' growth appetite. Capital adequacy ratios have declined by around 430bps in the last 5 years, with 165bps of this erosion seen in 2015 given the plunge in the TL and the rise in bond yields. We expect the CAR to decrease by another 50 bps to 12.9% in 2016. In a bid to stem the CAR erosion, several banks revalued their fixed assets and subsidiaries while others issued tier-2 capital. We think the trend of optimising internal assets will continue, raising the prospect of Tier-2 capital or rights issues for some banks in the coming period.

BRSA signals easing measures in CAR calculation. To comply with the new Basel standards, the BRSA is working on new regulations regarding risk weightings. We calculate that the new measures would place an additional burden of around 80-100bps on CARs due to the recent changes of the risk weightings of FX reserves and the exclusion of free provisions in the CAR calculation method that are to be effective in 2Q16. On the other hand, the sector players are expecting a supportive move from the BRSA regarding an easing of risk weights of consumer loans. The BRSA had already announced an easing in the risk weightings of residential mortgage loans (from 50% to 35%), leaving the door open to reduce risk weightings for other consumer segments. We expect around 120bps relief from potential ease on retail loan risk weights. In addition to changes in risk weights, potential easing moves, aiming to reverse macro-prudential measures taken in 2013, i.e. general provisioning rates, might be game-changer events in 2016.

We select Garanti and Halkbank as our top pick stocks. We like Garanti's relatively higher profitability, strong asset quality performance and better balance sheet positioning in an environment of rising interest rates. We think Garanti's heavy FRN securities portfolio and relatively higher free funding ability when compared to its peers are significant positives. We also calculate that Garanti will reap one of the biggest boosts to its CAR in the sector of any move by the BRSA to lower the consumer loans risk weightings to comply with the new Basel criteria. We also prefer Halkbank as a top-pick stock on its cheap valuation, with its 0.6x P/BV with projected ROE of 13%. The stock trades at a P/E of 5.1x on 2016 forecasts, indicating a 16% discount to its 3 year historical discount average. Although Halkbank's TL funding weight may leave a deeper dent in its margins compared to its peers when the CBT hikes the rates, we believe the bank will benefit from its relatively low exposure to FX wholesale funding, lower loan-to-deposit ratios, its position of having the highest duration of non-deposit liabilities and a traditionally strong NPL collection performance. Furthermore, the potential sale of insurance units in 2016 would be a catalyst for the share price performance while also supporting the profitability and capital ratios.

Automotive: Record high sales in 2015

Light Vehicle (LV) sales in Turkey soared by 31% y/y in 11M15. Despite weak consumer sentiment, political uncertainty and depreciating TRY in the first 10 months of 2015; auto demand is expected to reach a record high level in 2015. Strong demand was partially attributable to a weak base as auto demand had contracted by 10% in 2014. Prior to general elections on 1 November, front loaded demand was another factor that has boosted auto demand in Turkey.

In the passenger car segment, sales jumped by 28% y/y in 11M14. In the meantime, the share of imported vehicles rose by 1pp y/y to 74.8%. The change in sales mix (in terms of the origin of the vehicles) hints that demand was brought forward prior to expected price hikes in automotive sector due to depreciating TRY in 9M15.

In the LCV segment, sales soared by 40% y/y in 11M14, after three consecutive years of declines (with a total fall of 38%). Low base effect explains the jump in LCV demand mostly in 2015. Note that, the recovery in LCV demand had started in the second half of 2014, due to the government's easing of the procedures on necessary documentation for the use of commercial vehicles.

2016 will be a more profitable year for the auto sector. We estimate a 5% contraction in light vehicle sales in 2016, made up by a 5% decline in passenger car sales and a 6% contraction in LCV sales. We believe that fleet sales peaked in 2015 due to front loaded demand. Therefore, we look for a change in demand mix towards individuals vs. fleet sales in PC segment in 2016. We estimate a 5% contraction in PC demand due to expectation for an increase in interest rates, depreciating TRY and a high base. Yet, the contraction in demand is expected to be limited due to increasing disposable income in Turkey and declining indebtedness of consumers.

Tofas is our top-pick among autos. Tofas is set to reap benefits of its recent investments in 2016. The Company has recently launched its Egea sedan model whereas station wagon and hatchback models are to be launched throughout 2016. We look for a 29% y/y jump in revenues in 2016, with an 18% increase in sales volume. In our view, Tofas dived into a new growth pattern as the Company is about to finalize its capex cycle in the very short term. We estimate a CAGR of 22% for EBITDA in the next 3 years.

We still like **Ford Otosan**, which is expected to be a high-dividend play in the near term. The Company had finalized its major capacity and model investments in 2014. Hence, 2015 was a recovery year for the Company whose top-line is expected to soar by 42% y/y in 2015. We expect normalization in top-line growth figure in the near term as we estimate 13% CAGR for revenues in the next 3 years. On the other hand, we forecast 20% increase in EBITDA in 2016, with a 65bp improvement in EBITDA margin. Ford Otosan is expected to benefit from increasing CUR and decreasing portion of fleet sales in total sales. Our estimates indicate above 5.5% dividend yield for Ford Otosan in 2016.

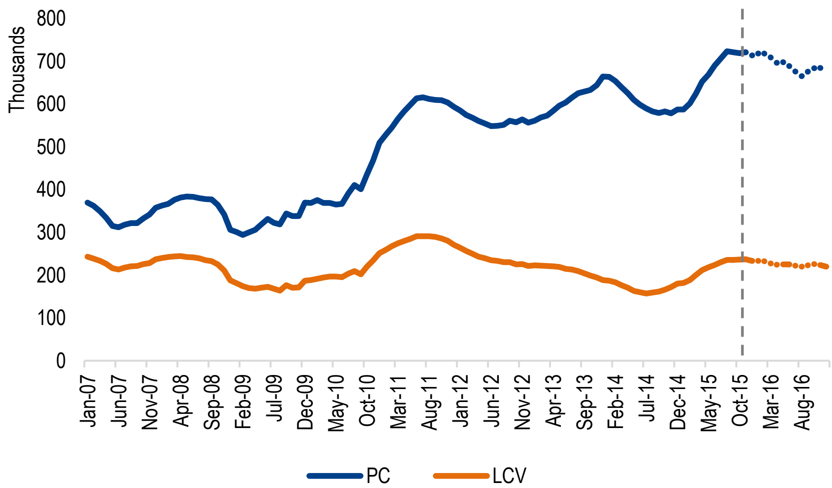
We have a conservative view for **Dogus Otomotiv** due to uncertainty regarding VW's emission scandal and implementations of this scandal in the medium to long term. We estimate a flattish market share for Dogus Otomotiv in 2016. We look for a meagre 2% y/y increase in revenues vs. 6% y/y contraction in sales volume in 2016. We forecast a 2% y/y contraction in EBITDA in 2016, with a 20bp y/y deterioration in EBITDA margin. Although we have conservative estimates for 2016 operating performance of the Company, our 2016 dividend yield estimate (to be paid from 2015 earnings) is above 7%. We estimate TRY0.73 DPS in 2016.

Figure 21: Our Expectation for Auto Demand in Turkey

	2012	2013	2014	2015E	2016E	2017E
Passenger Car	556,380	664,655	587,331	713,749	679,250	713,213
Change (y-o-y)	-6%	19%	-12%	22%	-5%	5%
LCV	221,481	188,723	180,350	233,736	220,000	231,000
Change (y-o-y)	-18%	-15%	-4%	30%	-6%	5%
Truck	34,365	31,668	35,408	36,749	38,000	39,140
Change (y-o-y)	-16%	-8%	12%	4%	3%	3%
Bus	2,410	3,953	1,378	1,447	1,519	1,595
Change (y-o-y)	-5%	64%	-65%	5%	5%	5%
Coach	3,084	3,959	3,019	2,868	2,438	2,535
Change (y-o-y)	-1%	28%	-24%	-5%	-15%	4%
Total	**817,720**	**892,958**	**807,486**	**988,549**	**941,207**	**987,483**
Change (y-o-y)	**-10%**	**9%**	**-10%**	**22%**	**-5%**	**5%**
LV	**777,861**	**853,378**	**767,681**	**947,485**	**899,250**	**944,213**
Change (y-o-y)	**-10%**	**10%**	**-10%**	**23%**	**-5%**	**5%**
HCV	39,859	39,580	39,805	41,064	41,957	43,271
Change (y-o-y)	-14%	-1%	1%	3%	2%	3%

Source: Auto Manufacturers' Association, YF Securities Research

Figure 22: Auto sales trend in Turkey (TMT)



Source: Auto Manufacturers' Association, YF Securities Research

Agricultural Machinery: Farm tractor demand is in full swing

Farm tractor sales soared by 14% y/y to 52K units in 10M15. We estimate that total demand reached 66.6K tractors in 2015, indicating a 12% increase. In the past 5 years, farm tractor demand escalated with a CAGR of 34%, thanks to government subsidies provided to the agriculture sector, on-going consolidation in agricultural area, solid replacement demand, relatively low interest rate environment and increasing agricultural output. As a result of strong growth of farm tractor demand in the recent years, capacity utilization rate of the sector reached 80% in 11M15, while some exporters utilize their full capacity at the moment.

We estimate that sound farm tractor demand will continue in 2016, since there is no change in the outlook for the sector. Besides, good weather conditions and improvement in agricultural processes (such as seed improvement, irrigation investments etc.) underpin agricultural output in Turkey. In 2015, grain production escalated by 18% y/y. Cheerful agricultural yield in 2015 blinks for another strong year for farm tractor sales in 2016. We estimate a 2% increase in sales in 2016, despite the high base of 2015.

Turk Traktor has been utilizing almost its full capacity since 2Q14. Exports of the Company contracted by 10% y/y in 11M15, since the Company allocated more capacity to domestic demand which soared 15% y/y in 11M15. Turk Traktor’s production capacity will be increased by 8% to 54K tractors in the near term with new investments on efficiency improvements in the new plant. Thanks to the additional capacity and strong demand, we estimate that Turk Traktor’s revenues will increase by 10% y/y in 2016, with 3% increase in sales volume. Although we look for higher share of exports (31% of total in 2016 vs. 28% in 2015), we estimate a 30bp y/y improvement in EBITDA margin as we expect that the Company will enjoy low commodity prices in 2016. We estimate 5.8% dividend yield in 2016, with an assumption of 90% pay-out ratio. In our view, strong outlook of the Company is already priced in. Hence, we maintain our Market Perform rating for Turk Traktor at the moment.

Figure 23: Tractor Sales ‘000 units

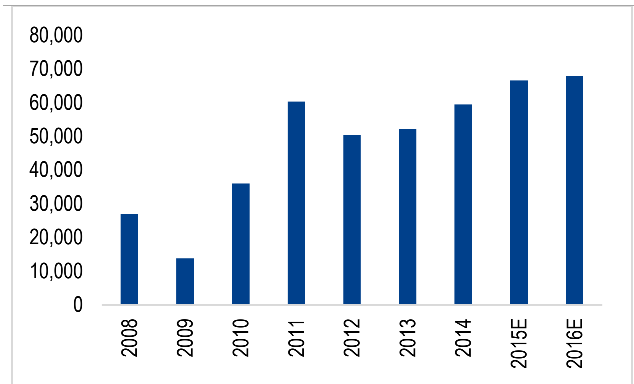
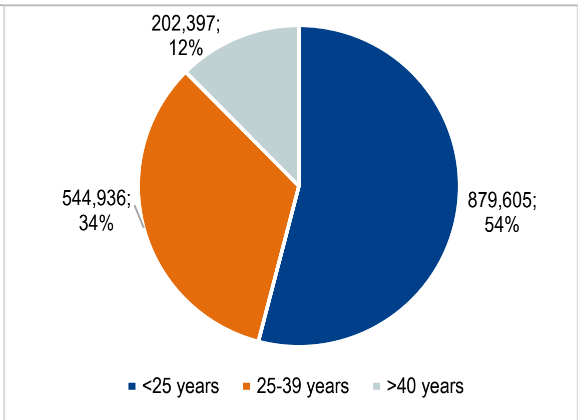


Figure 24: Tractors Park in Turkey



Source: Turkstat, YF Securities estimates

Aviation: Infrastructure investments to accelerate in the near term

Turkish aviation sector suffered from weak tourist arrivals from Russia (due to economic slowdown and depreciating Ruble) and the instability in the Middle East in 2015. Despite a challenging environment, passenger traffic escalated by 9% y/y in 11M15 vs. 14% CAGR in the past 5 years. Terrorist attacks in Europe and political tension between Turkey and Russia were the other factors affecting the sector in 4Q15. In addition, increasing congestion in Istanbul Ataturk Airport led stiffer competition in Sabiha Gokcen Airport. As a result of increasing competition and low oil prices, average yield was repressed by 16% y/y in 9M15 in USD terms.

On the other hand, low oil prices fuelled operational profitability of the sector in 2015. Average brent oil price contracted by 46% y/y in 2015. Thanks to the easing in costs, average EBITDA margin of the sector improved by 270bp y/y in 9M15. Further decline in oil prices in 4Q15 and negative outlook of oil price in the medium term indicate that profitability of the airline sector will be continuously supported by low cost environment in the near term.

Although the Russian government advices Russian tourism agencies not to sell tours to Turkey in 2016, we believe that these sanctions will have a limited impact on the Turkish airline sector. Most of the tourism agencies use charter flights for transportation and Turkish airline companies have very limited charter flights from/to Russia. Note that Russian operations account for a meagre 3% of total operations of Turkish airline companies. Having told that, the share of Russian operations increase in the summer season. Therefore, we look for stronger results in 1H16 and 4Q16 while 3Q16 results might be repressed by Russian sanctions.

Turkish Airlines plans to add 32 new aircrafts to its fleet in 2016 while its seat capacity will increase by 12% y/y. We estimate 13% y/y increase in RPK with 13.4% growth in ASK and 30bp y/y deterioration in load factor. Capacity increase in Istanbul Ataturk Airport, which is the main hub of Turkish Airlines, will unlock the growth potential and ease the pressure on passenger yields, in our view. Yet, declining oil prices should continue to repress yields in 2016. We estimate 7% y/y increase in revenues (in USD terms) with a 5% y/y squeeze in yields. Similarly, we forecast 8% y/y increase in EBITDA (in USD terms) in 2016. Our estimates indicate a 28% y/y jump in EBITDA in TRY terms.

Pegasus plans to add 7 new aircrafts into its fleet and its seat capacity will increase by 10% y/y in 2016. We estimate an 11% y/y increase in RPK. We look for an ease in the competition in Sabiha Gokcen Airport due to the capacity increase in Ataturk Airport. Nevertheless, we estimate a 5% y/y contraction in passenger yield in USD terms (+3% y/y in EUR terms) due to declining oil prices. We estimate 13% y/y increase in revenues in EUR terms (+23% y/y in TRY terms) in 2016. Note that Pegasus's hedging contracts were renewed at a better price very recently. Hence, we expect that Pegasus will start to enjoy low oil prices in 2016. Following a flattish trend in EBITDA between 2013 and 2015, we expect a recovery in EBITDA in 2016 with a 34% y/y increase in TRY terms. In 2015, PGSUS shares slumped by 47% y/y while underperforming BIST100 by 37%. Following repressed share price performance in 2015, we upgrade PGSUS to Outperform as we believe that 2016 will be a recovery year for the Company.

TAV Airports will enjoy capacity increase of its main asset, Istanbul Ataturk Airport in 2016. After the new investment, the pax capacity of the airport will increase by ca.15%. We estimate 21% top-line growth in 2016, on the back of 7% traffic growth and further depreciation in TRY. We forecast a similar growth at EBITDA in 2016. Despite an appealing outlook in the very short term, we have a cautious approach to TAVHL due to positive developments regarding the new airport in Istanbul, which will replace Ataturk Airport in the medium term. Taking the political and economic environment in the World into account, we believe that a large-scale new airport tender is not likely in the near term. Hence, we see no major trigger for its share price for now.

Figure 25: Turkish PAX figures - mn

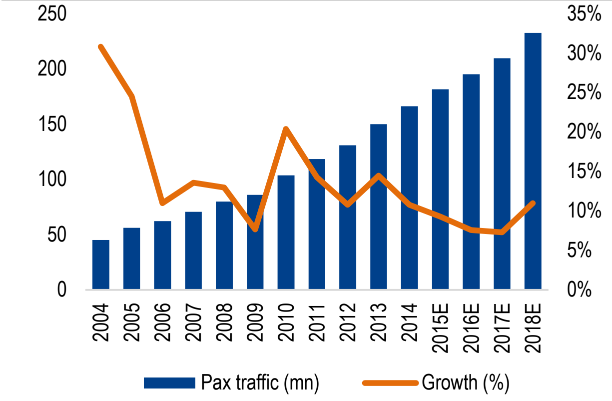
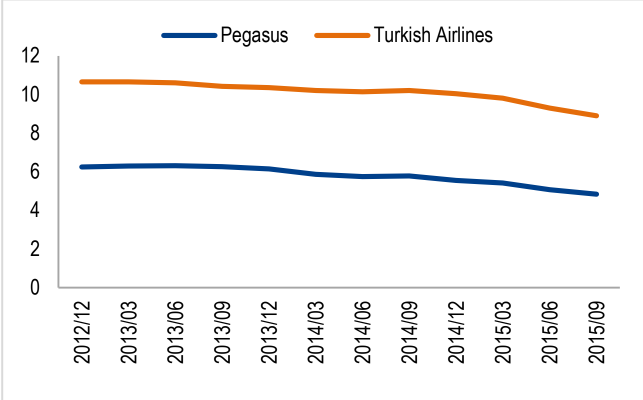


Figure 26: Yield trend (TMT, USD)



Source: General Directorate of Airports Authority, YF Securities estimates

Cement: Region-specific opportunities are under spotlight…

Even though domestic demand for cement in Turkey was not strong in 2015, cement producers benefited from higher plateau of cement prices while there was limited pressure on the raw material side. The latest figures suggest 5% y/y contraction for domestic cement sales in the first 9 month of the year due mainly to the harsh weather conditions back in the first quarter of the year – the demand for cement sharply fell by ~25% y/y in 1Q15. On the other hand cement sector players in our coverage (ADANA, AKCNS, BOLUC, CIMSA, MRDIN) have managed to enhance their EBITDA by 4% y/y in average in 9M15 thanks to favourable pricing environment and lower phase of petro coke prices. As for 2015YE we foresee a 2% contraction in the domestic cement and clinker sales amid some recovery in demand for cement following the November election and favourable weather conditions in 4Q15.

The sector is likely to grow at a moderate pace in 2016 as well considering the higher plateau of interest rates that would cast clouds on the housing sector. However the continuing infrastructure projects will be sufficient to keep sector growth at moderate levels especially in the western regions, in our view. Accordingly, we foresee domestic cement consumption to grow by 2% in 2016 versus a projected fall of 2% in 2015. As for the pricing environment we do not project an upward revision in cement prices due to surge in production capacities especially in the southern regions (5mn tonne of clinker capacity in Mediterranean region and 1mn tonne of clinker capacity in Central Anatolia). On the costs side even though we do not project a reversal in the eased petro coke prices in 2016, (i) further depreciation in TRY would result in higher petro coke costs - which constitutes ~40% of total production costs along with (ii) while the government has recently increased electricity tariffs by 6.68%. Accordingly we project EBITDA margin of the cement producers under our coverage to contract by ~200 bps in average in 2016 while **Bolu** comes to the forefront with strong EBITDA improvement thanks to its recent capacity addition in Ankara.

Looking ahead to the forthcoming years, infrastructure investments will continue to support domestic demand while we think those regions offering a stronger demand and pricing outlook with more defensive characteristics owing to their heavy infrastructural pipeline will continue to be under the spotlight in 2016. **Akcansa** will continue to benefit from the big-ticket projects (i.e. Canal Istanbul, two new cities, the Eurasia tunnel, the 3rd Airport in Istanbul, the North Marmara Motorway and the Izmit Bridge) and the urban transformation program, where the main focus is the Marmara region. While **Bolu** is strengthening its market share both in Marmara and Central Anatolia following the completion of its 1mn tonne clinker capacity in Ankara. **Adana** and **Mardin** on the other hand are likely to continue to suffer from overcapacity problem and on-going political turmoil in their export markets.

Figure 27: Domestic Cement Sales Volumes

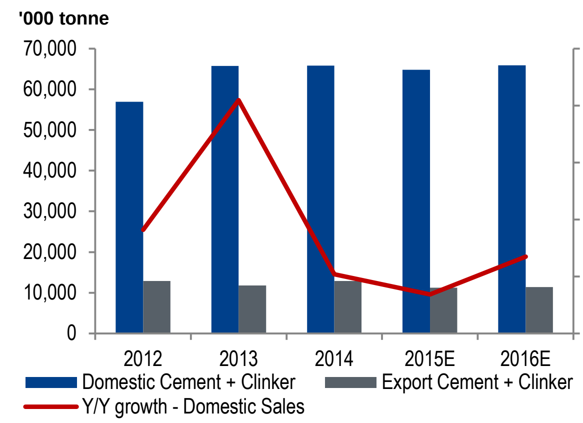
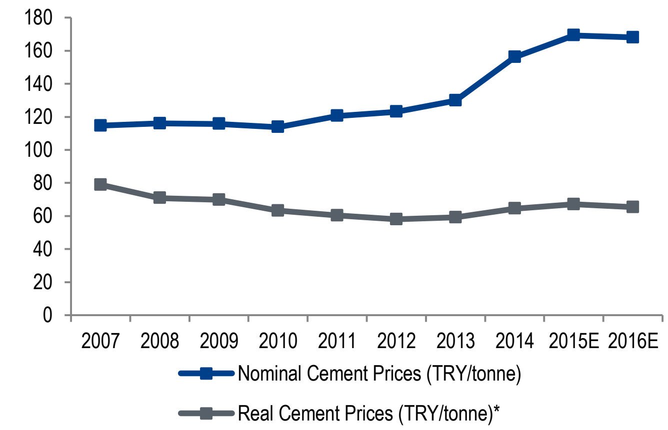


Figure 28: Cement Prices



Source: Turkish Cement Manufacturers Association, TurkStat, YF Securities Research

Consumer Electronics Retail: Better confidence in 2016

2015 was a tough year for the consumer electronics retail sector as consumer sentiment has seen its historic low levels and TRY depreciated dramatically. Although procurements of technology retailers are mostly in TRY terms and the currency risk is assumed by suppliers; increasing prices with a weakening TRY hurts household demand. Along with an expected improvement in consumer sentiment in 2016, we look for a recovery in the electronics retail demand in the near term.

Technology retailers have been suffering from credit card regulations since the beginning of 2014. Recall that, credit card instalments on telecom products have been banned in Turkey on 01 February 2014, in alliance with the macro prudential policy of the country aiming to curb current account deficit. On the other hand, telecom companies have a competitive edge over consumer electronics retailers since they are able to provide telecom products with up to 24 month instalments through bundled offers to their customers. Currently, the government is evaluating possible revisions in credit card regulations but our base case scenario assumes no change on regulatory side. In case of an easing in such regulations, we estimate that 2016 market size may increase by an additional TRY970mn (+9%) with additional sales in mobile phones, tablet and PCs. In Turkey, total number of mobile phone users stand at 72.2mn as of June 2015. Around 30% of existing phones are compatible with the 4G technology. Judging from Turkey's experience in 3G penetration, we may assume that 4G users will reach 50% of the total in 3 years. In that case, we estimate that at least 20% of existing phones will be renewed in the next 3 years. Our assumptions indicate ca. TRY15bn worth of sales potential regarding renewal of existing phones for the new technology. Before the credit card instalment regulation took effect, technology retailers' market share in telecom products was ca.30% in 2013. On the other hand, technology retailers' share contracted to 24% after the regulation. Accordingly, if there is no revision in credit card regulation in the near term, we estimate that technology retailers will enjoy TRY3.6bn sales (TRY1.2bn per annum) from renewal of smartphones for the new technology, in the next 3 years. On the other hand, if there is an ease in regulation, their sales may increase by up to an additional TRY0.45bn over the next 3 years (ca.TRY150mn per annum).

Teknosa's top-line growth has been repressed by weak consumer sentiment and the limits imposed on credit card instalments. We expect a recovery in sales growth in 2016 on the back of the anticipated improvement in consumer sentiment. Separately, the Company is set to launch mobile device campaigns through Teknosa Mobil by the beginning of 2016, which will enable Teknosa to provide sales terms of up to 24 months on smartphone sales. In our view, Teknosa will gain market share in the telecom products market, which accounts for nearly a third of Teknosa's total sales.

Bimeks took a number of measures in the last 3 years to enhance its competitive edge in the sector. After acquiring two of its competitors, thereby enhancing economies of scale and market share, the company now plans to improve its operational efficiency and profitability. In parallel with its optimization project, we forecast a 27% increase in EBITDA in 2016, with a 40bp improvement in EBITDA margin. As with Teknosa, we believe a potential recovery in consumer sentiment would serve as the major trigger for Bimeks's share price performance.

Food Retail: Minimum wage does matter for the sector profitability

At the beginning of 2015, food retailers’ profitability was repressed by high food inflation. In general, higher food inflation underpins profitability of the sector as food inflation supports the top-line growth whereas main operating expenses (personnel and rent) are mostly linked to CPI. In contradiction to general trend, high food inflation repressed the operating margins of Turkish food retailers in 1Q15, as Turkish food retailers could not reflect higher costs to prices immediately, because of the stiff competition environment and weak demand conditions. Nevertheless, we observed normalization in the profitability of the sector throughout the year.

Aggressive store openings and stiff competition another factors that affected profitability of the sector. In the past 12 months, organized retailers accelerated store openings by opening up 2,864 new stores vs. past 5 year average of 2,099 stores. Converging stores fuels price based competition, which represses profitability of the sector. Separately, considering the fact that fixed costs make up 60% of operating expenses, ramp up periods of new stores is another concern as operating leverage is an important aspect for profitability in the sector.

Personnel and rent expenses are the major ones among the operating expense items. In general, these two cost items are linked to inflation in Turkey, however some other factors may alter these costs from time to time. For instance, depreciation in TRY increased rent expenses of supermarket chains due to rent contracts in hard currencies in shopping malls. In addition, 30% hike in the national minimum wage will affect the profitability of the sector in 2016. 40% of the additional cost coming from minimum wage hike will be assumed by the state. Accordingly, the effective wage hike for minimum waged personnel is expected to be ca.18% for companies. With an assumption of 30% share of minimum waged personnel in the sector, we estimate that personnel costs of food retailers will increase by 11% y/y in 2016.

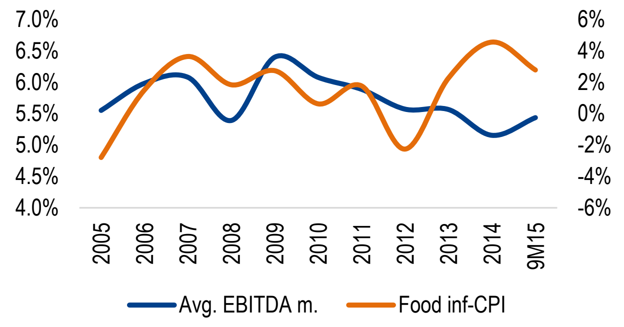
Migros is Turkey’s biggest supermarket chain with an increasing market share in both the Turkish retail market and organized retail channel. In order to increase its market share, the company has invested in private label and fresh products in the past 3 years and Migros is set to reap the benefits of this strategy in 2016. In our view, PL and fresh foods enable the company to compete with both discounters and unorganized channels. Hence, we expect Migros’ sales growth to surpass the sector average in 2016. We forecast 16% growth in revenues and 15% growth in EBITDA in 2016.

Bim is a defensive play with its simple business model, clean balance sheet and high earnings visibility. We forecast 18% y/y increase in revenues in 2016, with an assumption of 600 new store opening (+11% y/y) vs. 616 stores in 2015. We estimate that its EBITDA soared by 33% y/y in 2015, thanks to normalization in its operational profitability after dismal margins in 2014. On the other hand, we expect a break for on-going recovery in EBITDA margin in 2016, due to the impact of minimum wage hike. Accordingly, we estimate 18% y/y increase in EBITDA in 2016 vs. 33% increase in 2015.

Uyum has been in a transition period since it was acquired by Makro in late 2012. In 2015, Uyum’s net cash position turned into positive, thanks to improvement in operational efficiency and asset optimization. Thanks to its slimmer balance sheet, we expect Uyum to accelerate its store opening in 2016. We estimate 17% y/y increase in the top-line. On the other hand, the Company will suffer from minimum wage hike in 2016, as the average wage in Uyum is the lowest in the sector. Although the efficiency improvements continue, we estimate 14bp deterioration in EBITDA margin in 2016, due to the national minimum wage hike. Nevertheless, our estimates indicate a 14% increase in EBITDA in 2016. Separately, we will eye for developments regarding the possible merger of Uyum and Makro in 2016.

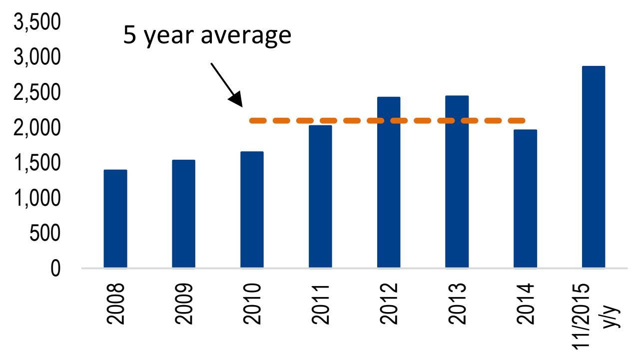
Bizim Toptan's main category sales have been under pressure since 2013 due to a slowdown in store openings, a restructuring process in the customer and product mix, credit card regulations and stiff competition. We estimate that Bizim Toptan will register a double digit top-line growth rate in 2016 as the restructuring of the Company is already completed. Franchising operation which was commenced in 3Q14 had a dilution impact on EBITDA margin in 2015. Along with the ramp up period of franchising operations, operating leverage aspect with improving top-line growth should underpin EBITDA margin of the Company in 2016. We estimate 26% jump in EBITDA in 2016, with 28bp y/y improvement in EBITDA margin. Yet, we maintain our Market Perform rating for the stock due to not-so-compelling valuation.

Figure 29: EBITDA margins vs. food inflation



Source: Turkstat, YF Securities Research

Figure 30: New store openings of organized retailers



Source: Ortakalan, YF Securities Research

Petroleum

In 2015, refining margins were exceptionally strong in general due to the sharp fall in crude oil prices bringing global demand for refined crude oil products up accordingly. Even though the peak period of refining margins has passed as the lagging nature of product prices has offered a strong environment for refiners in 2015 we think 2016 would also be favourable in terms of refining margins when compared to the deep lows seen in the previous years.

Low oil prices are expected to remain as a support for global consumption of crude oil products while growth in the supply side is foreseen to fall behind. In 2015 global liquid fuel consumption grew by around 1.4m/bbl based on the EIA estimates while supply is growing 2.2mn/bbl. As for 2016 even though demand growth is expected to be less at around 1.4mn/bbl, supply-side is expected to be flattish as US oil production is likely to bear the brunt of the low phase of oil prices and maintenance activities in Europe - that were considerably low in 2015 given the upsurge in crack spreads are foreseen to be higher. We assume a 1$ fall in Med-Complex refinery margin in 2016 to the levels of $3.8/bbl. Surge in the global diesel inventories on the other hand is the main downside risk for the refining margin environment in 2016.

Demand for refined oil products in Turkey has registered a CAGR of 3% over the last five years, against declining demand in OECD Europe thanks to a sharper expansion in the vehicle park and the aggressive growth strategy pursued by Turkish Airlines in recent years. Consumption of diesel has registered a CAGR of 4.9% with a CAGR of 13.3% in jet fuel consumption in the same period. Apart from the impact of cut in illegal imports lower phase of product prices supported domestic demand in 2015. Diesel consumption in the domestic market increased by 15% y/y in 9M15 while growth in gasoline consumption was also strong at 9%. 10% y/y raise in jet fuel consumption represents underlying growth in THY's km flow in the same period.

On the **Tupras**' side, even though we forecast around $1/bbl contraction in Med-margin in 2016 we believe the Company is capable of posting an intact gross refining margin in 2016 on the back of rising production in favour of white distillates along with the full year contribution of residuum upgrade project (RUP). Separately steady EBITDA performance that the completion of RUP brings about creates strong FCF generation for Tupras in the post RUP era, releasing strong cash for dividends. Note that we project the Company to distribute ~TRY1.1bn gross cash dividend, denoting a 6% dividend yield.

Figure 31: Med-Margin versus Brent

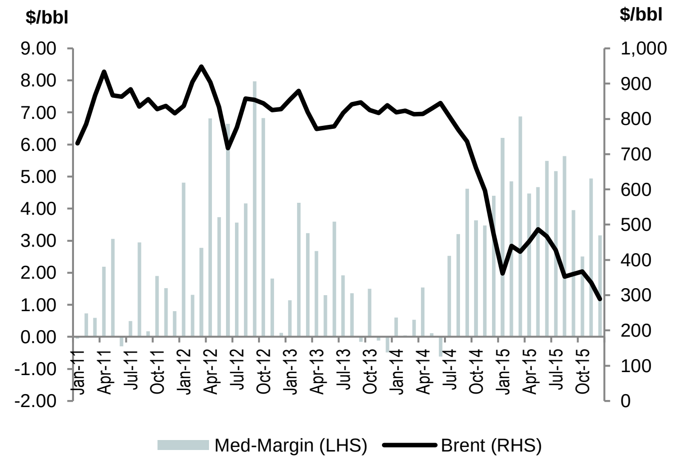
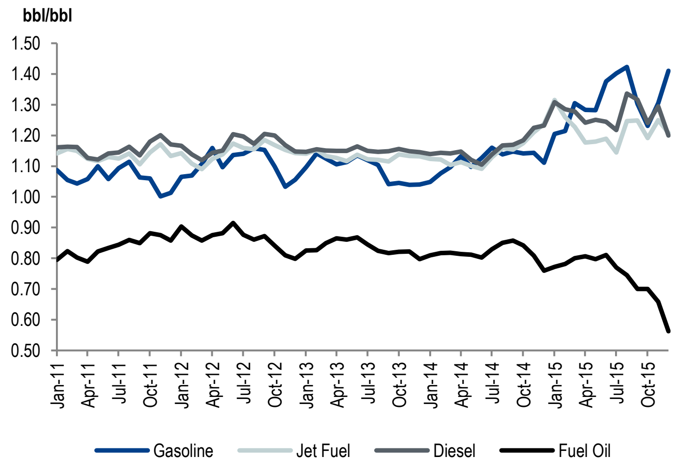


Figure 32: Product Differentials



Source: Tupras, Bloomberg

Real Estate: It pays to be selective...

Housing sales in Turkey has reached 1,147k units as of Nov'15, up by 12% y/y on cumulative basis with some loss in the momentum in the last 3 months. Recall that first half of 2014 was comparatively weak in terms of housing sales given the higher plateau of interest rates while sales picked up in 2H14 with the easing in rates. Accordingly, we were in expectation to see some slowdown in the growth momentum in 4Q15. Share of sales through mortgage was at 27% in Nov'15 versus y-t-d average of 34% and 2014's average of 33%. Housing prices were up by 18.7% y/y as of Oct'15 while Istanbul is the leading with 26% on the back of strong demand both by the residents and foreigners and the on-going urban transformation program.

We believe the long-term growth prospects for housing demand in Turkey are strong on favourable demographics and the sector will continue to be one of the locomotive sectors in Turkey in the upcoming years. However we prefer to stay on the conservative side in terms of the momentum of housing sales in 2016 considering the expectations for higher plateau of interest rates that would curb the demand while a potentially new taxation regime would also overshadow the attractiveness of real-estate investments, depending on the implementation. Note that Deputy PM Simsek previously stated that a new taxation regime is in the Government's agenda in order to lift tax exemptions in the sector. Even though the details are not clear yet we attach higher probability for a new regulation aiming to optimize tax benefits on capital gains while a removal of the REIT's exemption from paying 20% corporate income tax would curb valuations.

Despite our conservative approach for the housing sector in 2016 we are bullish on **Emlak Konut REIT** which differentiates from the other residential developers with its sound business model limiting the development and financing risks. Further, the REIT tendered 12 projects ytd with a total CSTR of 7bn TL, indicating around 4bn TL net contribution to NAV and trading at 46% discount to its NAV, adjusted accordingly versus the historical average of ~23%. New project launches in 2016 would trigger a re-pricing in stock, in our view. Indeed the Management targets 1.5mn sqm pre-sales (vs. 1.3mn sqm by Nov'15) for 2016 with a total sales value of TRY7.6bn. We also like **Torunlar REIT** on its sizeable improvement in cash flow following the completion of heavy investment period. Separately, expected kick-off of Pasabahce project - would imply an additional NPV of ~TRY270mn to the valuation and boost in revenues in 4Q15 with the start of deliveries from Torun Center project would serve as a significant trigger for the stock performance in the upcoming period. We find **Halk REIT** a good long-term pick with its rental revenues on course to reach TRY280mn in 4 years (vs. TRY30 mn in 2014) once the IFC project is fully completed. **Is REIT** comes to the forefront as a defensive REIT stock thanks to its stable rental income generated from a diversified leasable portfolio mostly rented by loyal tenants while projected surge in rental income in 2016 with the completion of Tuzla projects has partly priced-in, in our view.

Figure 33: REITs' Discount to NAVs

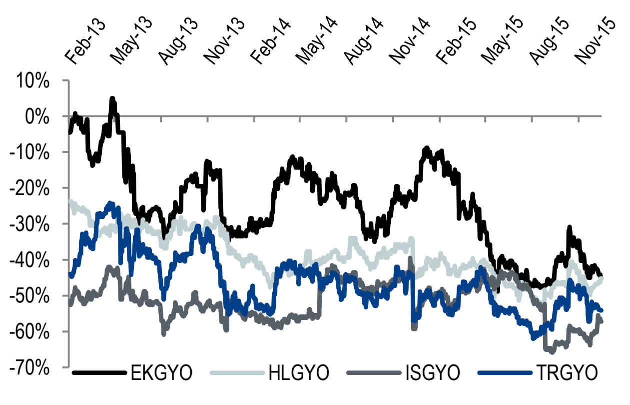
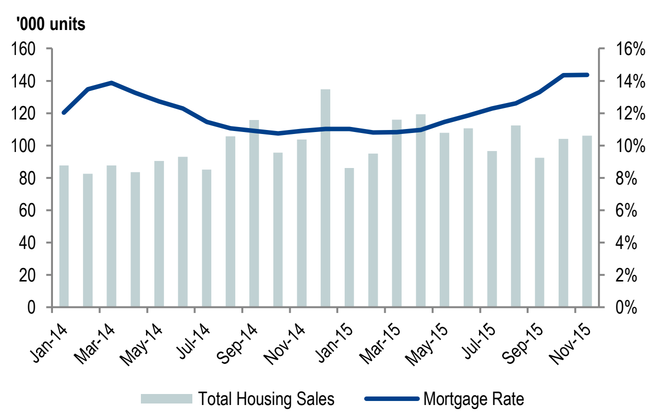


Figure 34: Monthly Housing Sales and Mortgage Rates



Source: TURKSTAT, BIST, Central Bank of Republic of Turkey (CBRT), YF Securities

Steel: Decline in product prices will further pressure operating margins in the upcoming period

Weakening demand conditions marked by the end of the Chinese-led demand surge is currently the greatest challenge facing the global steel industry. Global capacity utilisation ratio which have remained below 80% since 2008, deteriorated further to 67% in November, 2015 from 71% in November, 2014. Considering the severe overcapacity problem coupled with restrained growth expectations in global apparent steel use, a recovery in product prices is unlikely in the near-term, in our view. As of December 2015, Turkish HRC prices had plunged to $320/tonne from $510/tonne in December 2014, while rebar prices also declined to $340/tonne from $520/tonne in the same period. Steel producers have benefited from downward trend iron-ore prices in 2015. However upcoming quarters will be more challenging for steel producers since the spread between raw material and product prices has significantly narrowed.

We believe the domestic steel sector offers strong growth prospects given Turkey's demographic characteristics along with the massive infrastructure projects on the Government's agenda and re-construction plans. However, pressure on product prices, with imports becoming more attractive, is likely to depress operational performances in 2016. Indeed even though the steel consumption has been strong y-t-d (up by 9% y/y in 9M15) production up by only 3% y/y while imports surged by 43% y/y). (i) Availability of cut-price products from China, (ii) heated competition due to the imports from the CIS region and (iii) product inflows through inward processing regime – that allows manufacturers to import flat steel free from import duties as long as they export their end-products – have disrupt domestic market conditions. On the other hand potential extension of protectionist measures by the Government in parallel with the intensifying anti-dumping measures around the world, would take some of the heat away from the competition from imports in the domestic market.

Erdemir has benefited from a sharp depreciation of TRY and its price-setter position in the domestic market in 2015 while the current valuation offers only limited upside potential for the Company, considering the gloomy pricing outlook on the global front. As for 2016 we project Company's EBITDA per tonne figure to deteriorate to $70/tonne levels from ~$100/tonne in 2015. On **Kardemir**'s front even though we like the Company's long-term growth story there are some setbacks in the medium-term: (i) capacity mismatch between steel mill and rolling mill, (ii) landlocked facility that yield higher transportation costs and (iii) a potential refinancing need due to the depressed EBITDA performance amid slump in product prices.

Figure 35: Steel Prices

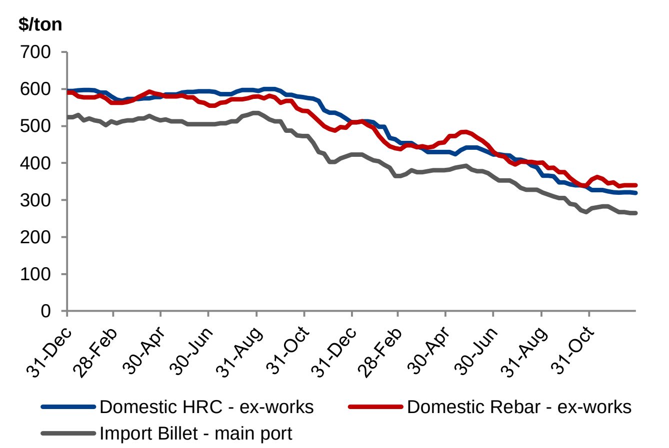
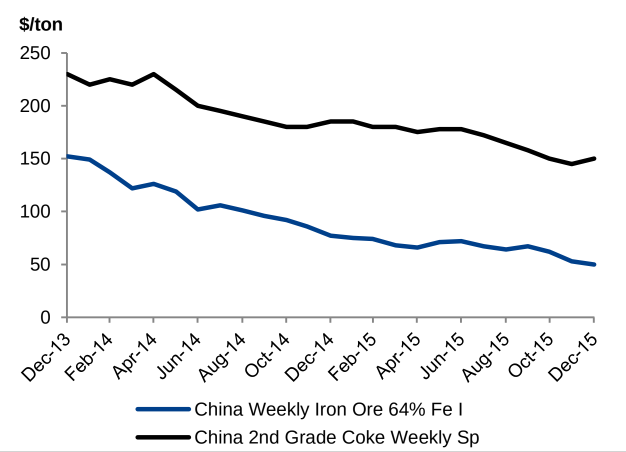


Figure 36: Raw Material Prices



Source: Bloomberg, YF Securities

Telecommunications: 4G will boost data usage in 2016

On 26 August 2015, Turkey executed 4.5G tender and telecom companies bid a total of EUR4bn for new frequencies and the licence fee. The name of the 4.5G comes from the fact that the technology will be LTE advanced. In addition, there will be no additional tender for 5G licence fee in Turkey. Frequencies will be used for the next 13 years by the operators. In Turkey, smartphone penetration is close to 50% and the new technology will be available by April 2016. Therefore, we expect that data revenues of telecom companies will accelerate by the second half of the year.

In our view, 4.5G was a game changer development for the sector. The outcome of the tender indicates that there will be an ease in the competition in the sector in the near term. In addition, infrastructure capability and spectrum capacities will shape the competition in the long term. In 2016, the main issue will be utilization of fiber network. Turk Telekom has the widest fiber infrastructure in Turkey with 206K km network. Turkcell has also 35K km fiber network in Turkey. These two operators will enjoy their existing network in the near term. On the other hand, there is still a possibility that the government may let joint utilization of existing fiber network between 3 operators. In either way, Turk Telekom and Turkcell will start to benefit from their fiber network in 2016.

We believe that the government's FATIH project, which aims to increase internet and PC usage in schools, will contribute to the internet penetration in households in the medium term. In 2016, we expect that tablet PC distribution will continue and the Project will underpin internet penetration in Turkey. Separately, increasing speed in mobile internet should have some implementations on fixed broadband such as acceleration in upselling trend. In addition, increasing IPTV penetration should underpin upselling as well.

In an environment where we expect further acceleration in mobile data usage, **we prefer Turkcell vs. Turk Telekom** at the moment. Turkcell guides for an accelerated top-line growth for the next 3 years with 10-14% CAGR in revenues between 2015 and 2018 vs. 6% expected increase in revenues in 2015. The major growth driver will be data in the medium term as the Company estimates 25% CAGR for data revenues for the next 3 years.

Figure 37: Total mobile traffic in Turkey

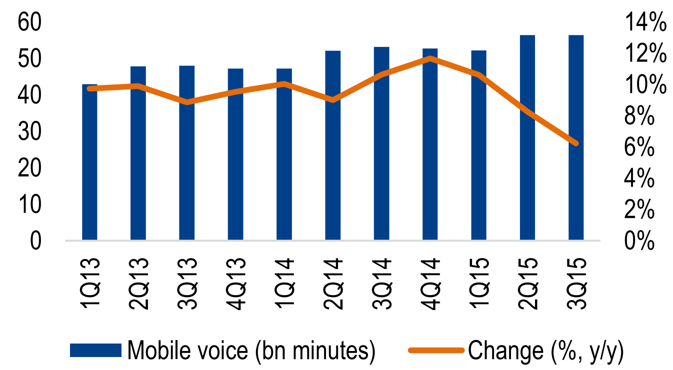
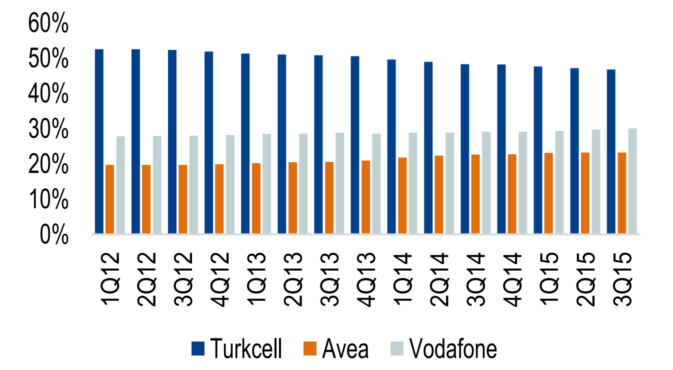


Figure 38: Market share trends by number of subscriber



Source: Telecoms Authority, YF Securities Research

Utilities: A Shift Towards Renewables in the Low Price Environment and High Debt Burden

Rising generation figures due to increasing installed capacity and higher hydro generation due to the heavy rainfall in 1H15 repressed electricity prices, bringing down the spot market average price to 144 TL/kWh in 2015 (from 166 TL/kWh at end 2014). Consumption growth is moderate in 2015, in line with the GDP growth. Consumption growth lagged behind production growth in 2015. Consumption rose by 2.4% y/y to 239,9bn MWh as of September, whereas generation reached 236.2 MWh with a 2.7% increase y/y. Weak GDP growth forecasts underpin the gloomy outlook for demand growth in the next couple years. High costs associated with gas-fired generation and low price outlook due to the reliance of the pricing mechanism on commodity prices point to tough times for the Independent Power Producers (IPPs) in 2016.

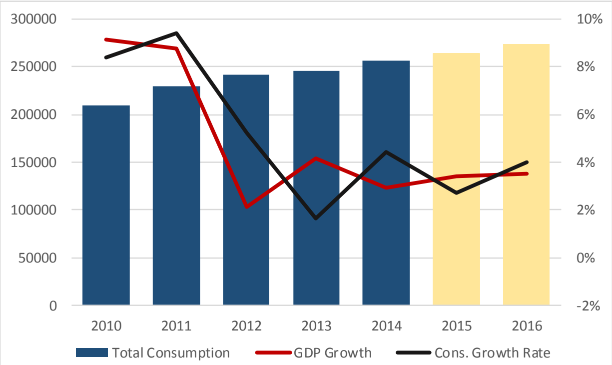
We expect electricity consumption to surpass GDP growth in 2016 and expect 4% consumption growth vs. our GDP growth estimate of 3.5%. With milder TRY devaluation estimations for 2016, we expect stronger bottom-line for electricity generators with lower financial expense pressure.

Liberalization efforts continue in the sector with the aim to become a fully competitive market. The eligible consumer limit was set at 4000 kWh/year as of the beginning of 2015. Production activities shifted from state to independent producers, as EUAS and its affiliates' share of installed capacity fell from 58% to 31% from 2008 to 2014, and its share of the total generation from 49% in 2009 to 28% in 2014, IPPs are the main players in the market (%55 of production in 2014). However, TRY depreciation and deteriorating economic outlook brought harsh times for the electricity generation and distribution companies whose privatization has been largely funded in USD.

IPPs shift towards lower cost production sources. Increasing share of investments in renewable sources and coal capacity point to the continuation of the trend -- *a shift from gas-fired generation to renewables & coal.* High costs associated with production from natural gas paved the way for the increase in generation from hydro sources. New capacity in 2015 mostly came from renewable sources and coal-fired plants and installed capacity rose to 72,156 MW (4% increase y/y). The share of production from natural gas went down from 48% to 37% in 9M15 y/y, whereas the share of generation from hydro plants rose from 17% to 28%.

Aksa Enerji is our toppick among our energy coverage universe. Aksa's diversified pipeline, sales mix and cost-effective methods sets it apart in the low price environment and ongoing investments ensures future earnings growth. Aksa relies mostly on contracted sales by which the effects of the low price environment is mostly offset, and a lower cost base is achieved by increasing lower-cost renewables/lignite production in the capacity mix. Sourcing from the spot market at off-peak times and utilizing the OTC market also provides the Company with additional cost advantages. Total generation capacity to increase by 27% to 2,791 MW by end of 2016 from current 2,192 MW. Ghana investment for a 370 MW HFO-Fired plant -- that is expected to become operational gradually in 2016 -- is expected to increase operational profitability significantly with TRY100mn EBITDA contribution per annum and guaranteed sales to the Republic of Ghana in USD terms is to relieve the balance sheet acting as a natural hedge against TRY depreciation and high rate of debt in hard currencies.

Figure 39: Electricity Consumption/Generation



Source: TEİAŞ

White Goods: Strong demand should continue with improving consumer sentiment

White good sales escalated by 6% y/y in 11M15. Despite the uncertainty in the political outlook of the country, weakening macro dynamics and depressed consumer sentiment, we attribute strong white goods demand to deferred demand and refugee impact in 2015. In 2015, over 2mn Syrian refugees entered into Turkey and some of them settled in Turkey while most of them tried to immigrate to other countries. There is no official data regarding the contribution of Syrian refugees to the number of households in Turkey. We estimate that 2.55mn refrigerators were sold in Turkey in 2015. The additional demand in 2015 vs. 2014 was 110K units. With an assumption that 25% of Syrian refugees settled in Turkey and the average size of the families were 5 people, we estimate that Syrians may increase the number of households in Turkey by 100K in 2015. Accordingly, refugee contribution might be the main reason for strong white goods demand in 2015.

Housing sales was one of the reasons for white good demand to be strong in the past 3 years. In general, white goods demand for new housing accounts for ca.30% of total white goods demand. The remaining 70% of sales is due to replacement demand in Turkey and replacement cycle of white goods is ca. 9 years. In 2016, we expect a recovery in consumer sentiment which should underpin replacement demand. Yet, we look for a moderate growth of 3% in 2016, due to a high base effect of refugees in 2015.

In 2016, there will be several sport organizations including UEFA Euro 2016 Football Championship. In general, TV demand increases before such organizations. Therefore, we expect that both **Arcelik** and **Vestel** will benefit from increasing TV exports to Europe in 2016. Nevertheless we have a conservative stance against both stocks at the moment due to not-so-compelling valuations.

Figure 40: Domestic white goods sales

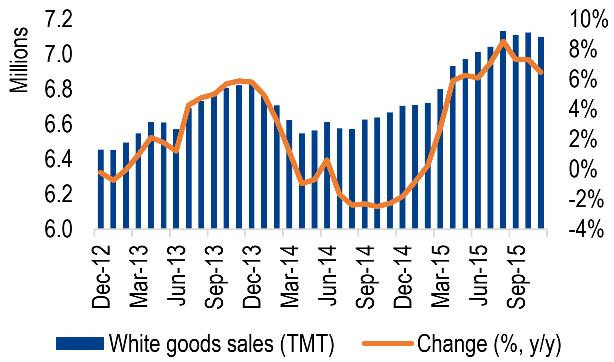


Figure 41: Our estimates for domestic demand

'000 units	2014	2015E	2016E	2017E
Refrigerator	2,443	2,553	2,615	2,649
Growth (%)	-6%	5%	2%	1%
Washing mach	1,961	2,119	2,173	2,228
Growth (%)	-2%	8%	3%	3%
Dishwasher	1,435	1,482	1,571	1,646
Growth (%)	-1%	3%	6%	5%
Oven	868	950	975	1,000
Growth (%)	9%	9%	3%	3%
Total	**6,707**	**7,104**	**7,334**	**7,522**
Growth (%)	**-2%**	**6%**	**3%**	**3%**

Source: White Goods Manufacturers' Association, YF Securities Research

10. YF Model Portfolio

- Garanti
- Halkbank
- Akcansa
- Migros
- Tofas
- Tupras
- Turkcell
- Turkish Airlines

Garanti

Leaning back on quality

Outperform

(Maintained)

12-month TP: TRY8.80

We like Garanti's efficient asset utilization and relatively strong asset quality performance. We believe Garanti will benefit from a higher interest rate environment given the relatively high proportion of FRN securities in its total IEA. We maintain our outperform rating for Garanti with a price target of TL8.8/share. The stock trades at a P/E of 7.6x on 2016 estimates, marking a c.9% discount to its 3 year historical average.

Garanti has **the highest ROA among its peers** at 1.4%. We think its spread management, well positioned B/S and effective low cost funding are the key issues to sustain profitability. The weight of TL FRN securities in total securities increased to 75% of the securities. The bank has a heavy CPI-linker portfolio, accounting for 33% of its total securities - the highest among its peers – which continues to act as a hedge against the upward trend. FRN securities account for 12% of the bank's total interest earning assets, comparing with 9% for its peers.

We forecast that **Garanti will deliver 16% bottom-line growth for 2016** supported by **i)** normalizing fee income growth following no growth in fee income in 2015 due to the imposition of new regulations, **ii)** lower OPEX growth as we expect a relatively mild depreciation of the TL in 2016 and a lower weight of fee rebates in total and **iii)** reduced net FX losses. We forecast no change in the NIM for 2016 on the expectation of funding pressure in 2H16.

Garanti will likely continue delivering a strong asset quality performance, as it has in the past. The bank's specific cost of risk has averaged 100bps since the 2008 crisis - lower than the 125bps average of its peers. Furthermore, Garanti's NPL collections / originations ratio has averaged 55% this year vs. the 42% average for its peer group. Second Group loans increased by 30% QoQ, raising concerns for the coming quarters. However, the management expects this problematic loan to be paid back in due course, with no loss expected.

Potential regulatory easing may stimulate loan growth further. Based on our calculations, Garanti would benefit the most with its CAR ratio by 140bps if risk weights of consumer loans decreased to the levels stipulated by the new Basel standards. However, the exclusion of free provision and increasing risk weight in FX reserves might have a negative impact of 80 bps, which may offset positive impacts to some extent. On the other hand, Garanti may revalue its fixed assets and support its CAR for the coming year.

Key Financials & Ratios	2012	2013	2014	2015E	2016E
Net Income (TLmn)	3,077	3,006	3,684	3,403	3,955
Net Income Growth	0%	-2%	23%	-8%	16%
Net Interest Margin	4.2%	4.2%	4.2%	4.5%	4.5%
P/E (x)	*9.7x*	*10.0x*	*8.1x*	*8.8x*	*7.6x*
P/BV (x)	*1.4x*	*1.3x*	*1.1x*	*1.0x*	*0.9x*
Return on Equity	16%	14%	15%	12%	13%
Dividend Yield	2.0%	1.4%	1.9%	1.7%	2.0%

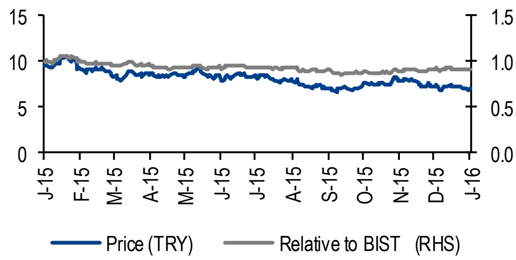
Source: Company, YF Securities Research Estimates

Trading Data	07.01.2016
Sector	Banking
Bloomberg	GARAN TI
Reuters	GARAN.IS
Mkt cap (TRYmn)	29,946
Free float (%)	48%
No. of shares (mn)	4,200
1-Mnth Avg. Daily Vol. (TRYmn)	809.5
BIST-100	71,496

Share Price	Current	Target
USD	2.36	2.92
TRY	7.13	8.80
Upside Potential		23%
Recommendation		Outperform

Price Data (TRY)	1M	3M	12M
BIST-100	73,909	78,698	86,777
Share Price	7.33	7.69	9.49
Absolute (%)	*-2.7%*	*-7.3%*	*-24.9%*
Relative (%)	*0.6%*	*2.1%*	*-8.8%*

Price Chart (TRY)



Source: BIST-100, YF Research

Halkbank

Outperform

(Maintained)

Attractive valuation

12-month TP: TRY13.20

We maintain our Outperform rating for Halkbank with a price target of TL13.2/share. We favour Halkbank given **i)** its attractive valuation, **ii)** lower loan-to-deposit ratio, **iii)** relatively better profitability outlook and **iv)** potential catalysts, especially on the sale of its insurance unit in 2016. Halkbank trades at 5.1x P/E on 2016 prospective numbers, pointing to a 16% discount to the historical average. As political stability has re-established itself after the two elections and now that the uncertainty over the FED's rate hike has ended, we believe the historical valuation discount may close in the coming period.

Halkbank has **one of the lowest loan-to-deposit ratios among its peers at 103%, presenting a competitive advantage** for Halkbank since we believe that Halkbank has room to grow in loans by steering clear of potential deposit competition and potential swap exposure. Although Halkbank is one of the sector's most dependent banks on TL funding, a lower LDR gives the bank the opportunity to manage TL funding costs comfortably.

Considering the composition of its borrowing, the share of **FX wholesale funding in Halkbank's total IBL, at 17%, is the lowest among its peers** (23% average). Moreover, the duration of Halkbank's non-deposit liabilities' is 11 months, compared to around 8 months for its peers. We believe the higher liabilities duration and lower FX wholesale funding will provide an advantage for Halkbank in managing its margins in 2016.

Halkbank has historically enjoyed **a strong performance in NPL management,** with the exception of one big-ticket NPL in 2014 and 2015. The bank managed to sustain its strong collection performance, even in a low growth economy. Even as GDP growth has lost momentum since 2013, Halkbank's NPL collection performance remained intact at 63% of new formations on average, while its peers have collected a lower proportion of their NPL's (42% on average).

Halkbank recognized a TL110mn free provision reversal in 3Q15. The management plans to reverse the remaining free provision of TL162mn in 4Q or in 2016 due to the removal of free provisions in the CAR calculation with the new regulation. Another upside challenge to our earnings forecast would be the re-initiation of the sale of its insurance unit. Depending on market conditions, we think the Bank could resume work on the sale process in 2016. We do not include any figure to our 2016 earnings forecast. However, a substantial profit from the sale and significant contribution to CAR should be considered as a potential plus in Halkbank's medium-term outlook. Last but by no means least, Halkbank's high CPI-linker exposure may protect margins in 2016 given the risk of upside to CPI due to the increase in the national minimum wage.

Key Financials & Ratios	2012	2013	2014	2015E	2016E
Net Income (TLmn)	2,595	2,751	2,206	2,225	2,519
Net Income Growth	27%	6%	-20%	1%	13%
Net Interest Margin	5.2%	4.7%	4.2%	3.9%	3.9%
P/E (x)	*4.9x*	*4.7x*	*5.8x*	*5.8x*	*5.1x*
P/BV (x)	*1.0x*	*0.9x*	*0.8x*	*0.7x*	*0.6x*
Return on Equity	25%	21%	14%	13%	13%
Dividend Yield	3.6%	2.1%	1.7%	2.6%	3.0%

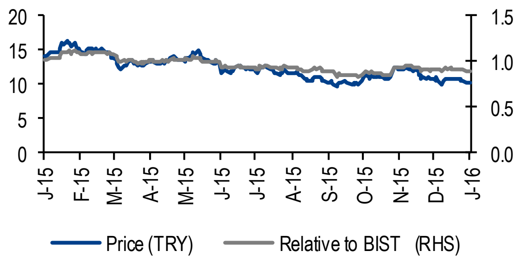
Source: Company, YF Securities Research Estimates

Trading Data	07.01.2016
Sector	Banking
Bloomberg	HALKB TI
Reuters	HALKB.IS
Mkt cap (TRYmn)	12,800
Free float (%)	49%
No. of shares (mn)	1,250
1-Mnth Avg. Daily Vol. (TRYmn)	202.5
BIST-100	71,496

Share Price	Current	Target
USD	3.39	4.38
TRY	10.24	13.20
Upside Potential		29%
Recommendation		Outperform

Price Data (TRY)	1M	3M	12M
BIST-100	73,909	78,698	86,777
Share Price	10.75	11.05	14.01
Absolute (%)	*-4.7%*	*-7.3%*	*-26.9%*
Relative (%)	*-1.5%*	*2.0%*	*-11.3%*

Price Chart (TRY)



Source: BIST-100, YF Research

Akcansa

Outperform
(Maintained)

Steady EBITDA performance and high dividend yield…

12-month TP: TRY16.25

Benefiting from region specific opportunities... We like Akcansa given (i) its position as the prime beneficiary of the Government's big-ticket infrastructure projects on the agenda, and on-going urban transformation program, operating mainly in the Marmara region, (ii) it's easy access to a wide range of export markets, limiting the negative impact of potential downsides arising from the domestic market and (iii) its lean production thanks to a concentration on efficiency improvements and cost-cutting investments.

Growth in the Marmara region expected to be resilient in coming years... Aside from the projects for two new cities in Istanbul, the urban transformation program, which is mainly focused on the Marmara region given that it has the highest earthquake risk, as well as on-going big-ticket infrastructure projects (3rd Bosphorus Bridge and North Marmara Highway, Izmir Bridge and Gebze-Istanbul Motorway, Canakkale Bridge, Canal Istanbul, the Eurasia Tunnel and the 3rd Airport). We expect cement demand in the Marmara region to remain resilient in 2016 (2.5% y/y growth versus our expectation of 1.7% y/y in the domestic market as a whole) and the pricing environment to be strong when compare to Southern regions that suffers from an excess capacity problem.

Steady EBITDA performance in 2016… Despite the rising pressure from the cost side (ie. possibly higher petro-coke costs in TRY terms and increase in electricity tariffs we expect Akcansa is capable to post steady EBITDA performance in 2016 as the Company being located in the Marmara region is expected to be affected the least from heated competition in Southern regions.

High dividend yield… The dividend pay-out we project for the Company points to a~10% yield that is one of the highest in our coverage universe. Akcansa have been a generous dividend payer throughout the years with an average pay-out ratio of c.90% in the last 3 years.

Key Financials & Ratios	2012	2013	2014	2015E	2016E
Net Sales (TRYmn)	1,056	1,202	1,411	1,411	1,463
EBITDA (TRYmn)	215	269	390	409	403
Net Income (TRYmn)	120	158	249	270	263
EBITDA Margin (%)	*20.4%*	*22.4%*	*27.6%*	*29.0%*	*27.5%*
Dividend Yield (%)	*4.5%*	*5.9%*	*9.2%*	*9.9%*	*9.5%*
P/E (x)	20.4	15.5	9.9	9.1	9.3
EV/EBITDA (x)	12.3	9.8	6.8	6.5	6.6
EV/Sales (x)	2.5	2.2	1.9	1.9	1.8

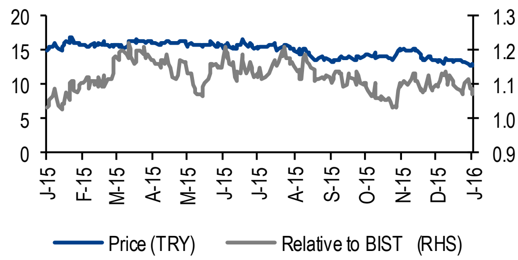
Source: Company, YF Securities Research Estimates

Trading Data	07.01.2016
Sector	Cement
Bloomberg	AKCNS TI
Reuters	AKCNS.IS
EV (TRYmn)	2,631
Mkt cap (TRYmn)	2,452
Free float (%)	19%
No. of shares (mn)	191
1-Mnth Avg. Daily Vol. (TRYmn)	6.1
BIST-100	71,496

Share Price	Current	Target
USD	4.25	5.39
TRY	12.81	16.25
Upside Potential		27%
Recommendation		Outperform

Price Data (TRY)	1M	3M	12M
BIST-100	73,909	78,698	86,777
Share Price	13.57	14.55	14.96
Absolute (%)	*-5.6%*	*-12.0%*	*-14.4%*
Relative (%)	*-2.4%*	*-3.1%*	*3.9%*

Price Chart (TRY)



Source: BIST-100, YF Research

Migros

Outperform
(Maintained)

Improving growth outlook not yet priced in

12-month TP: TRY21.00

We maintain our Outperform rating, with a PT of TRY21/share. In our view, the company's sound growth prospects and strong operating performance has been overlooked, while the stock has been oversold due to its short FX position. We view the current price as a buying opportunity as our detailed analysis on the potential impact of a weak TRY on Migros indicates a mispricing.

Gauging the real impact of the TRY depreciation on MGROS. Migros holds a high short EUR position due to a EUR730mn back-loaded loan with an 8 year maturity. Although a 10% depreciation of the TRY would shave TRY200mn off the bottom-line due to non-cash FX losses, our analysis shows that it has TRY206mn (5.6% of fair value) impact on Migros's valuation, if the weakness in the TRY continues in the long term. Accordingly we believe that MGROS is oversold as the shares have slumped by 23% in 2015, at a time that the TRY depreciated by 25% against EUR.

Market share improvement to continue in the medium term. Migros is Turkey's biggest supermarket chain with an increasing market share in both the Turkish retail market and organized retail channel. In order to increase its market share, the company has invested in private label and fresh products in the past 3 years and Migros is set to reap the benefits of this strategy in the medium term. In our view, PL and fresh foods enable the company to compete with both discounters and unorganized channels. Hence, we expect Migros' sales growth to surpass the sector average in the medium term.

Solid operating performance overlooked. Migros has accelerated its store opening program in 2015, opening 220 new stores in the past 4 quarters compared to the average of 117 openings per year over the last 5 years. Thanks to store expansion program and the inflation impact, we forecast a CAGR of 16% in revenues over the next 3 years. We expect flattish EBITDA margin trend to continue in the medium term, indicating sound EBITDA growth in the medium term vs. the CAGR of 9% in the past 3 years.

Attractive valuation. Despite a recent acceleration in EBITDA growth to 16% compared to its historic average of 9%, MGROS trades at its historic low on the basis of its forward looking EV/EBITDA multiple. Our DCF driven target price finds a compelling 26% return potential. Migros trades at a 28% discount to its peers in Turkey on the basis of its 2016E EV/EBITDA of 7.1x.

Key Financials & Ratios	2012	2013	2014	2015E	2016E
Net Sales (TRYmn)	6,482	7,127	8,123	9,415	10,921
EBITDA (TRYmn)	401	435	490	562	658
Net Income (TRYmn)	88	-463	99	-224	-27
EBITDA Margin (%)	*6.2%*	*6.1%*	*6.0%*	*6.0%*	*6.0%*
Dividend Yield (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
P/E (x)	33.6	-6.4	30.0	n.m	n.m
EV/EBITDA (x)	11.7	10.7	9.5	8.3	7.1
EV/Sales (x)	0.7	0.7	0.6	0.5	0.4

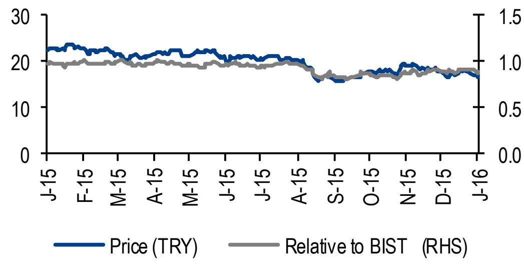
Source: Company, YF Securities Research Estimates

Trading Data	07.01.2016
Sector	Retail
Bloomberg	MGROS TI
Reuters	MGROS.IS
EV (TRYmn)	4,672
Mkt cap (TRYmn)	2,959
Free float (%)	19%
No. of shares (mn)	178
1-Mnth Avg. Daily Vol. (TRYmn)	4.2
BIST-100	71,496

Share Price	Current	Target
USD	5.51	6.96
TRY	16.62	21.00
Upside Potential		26%
Recommendation		Outperform

Price Data (TRY)	1M	3M	12M
BIST-100	73,909	78,698	86,777
Share Price	17.72	18.05	22.55
Absolute (%)	*-6.2%*	*-7.9%*	*-26.3%*
Relative (%)	*-3.0%*	*1.4%*	*-10.5%*

Price Chart (TRY)



Source: BIST-100, YF Reaearch

Tofas

Unique business model secures the growth

Outperform
(Upgraded from Market Perform)

12-month TP: TRY24.00

TP raised to TRY24.0/share from TRY18.85/share, upgraded to Outperform. We upgrade Tofas to Outperform vs. Market Perform on its compelling growth outlook and defensive business model. The Company will finalize its major investment cycle in 2016, thus entering into a new growth pattern in the medium term. Following a successful launch of Egea model in 4Q15, two more new models to come in 2016. In our view, expected improvement in its market share in Turkey, strong financial results, developments regarding the new models and high dividend distribution are potential triggers for the share price in 2016.

A defensive growth play. Tofas has a unique business model with take-or-pay contracts for its exports. T-o-p contracts protect Company against volatility in demand in the exports markets while cost-plus pricing mechanism protect the company against volatility in costs. Thus, the Company promise both a high growth potential as a consumer play and a defensive business structure through t-o-p contracts.

New models to boost EBITDA growth in the near term. Tofas plans to launch hatchback and station wagon versions of its recently launched Egea model in 2016. We look for a 29% y/y jump in revenues in 2016, with an 18% increase in sales volume. In our view, Tofas dived into a new growth pattern as the Company is about to finalize its capex cycle in the very short term. We estimate a CAGR of 22% for EBITDA in the next 3 years.

Lucrative dividends ahead in the medium term. Tofas financed its investments externally and there is no mismatch between debt repayment and t-o-p contracts. Therefore, we expect no deterioration in dividend distribution even during the transition period of new models. We estimate TRY0.99 DPS in 2016, which indicates a dividend yield of 5.0%. Going forward, dividend yield is to improve as the Company has finalized its major investment cycle.

Deserves better multiples. Although the Company is set to enter into a new growth period in 2016, TOASO is trading close to its historic average valuation multiples at the moment. According to Bloomberg consensus, TOASO trades at 2015E P/E of 12.8x, in-line with its historic average**.** Meanwhile, the stock trades at 2015E EV/EBITDA of 9.4x vs. its historic average of 8.8x.

Key Financials & Ratios	2012	2013	2014	2015E	2016E
Net Sales (TRYmn)	6,705	7,038	7,440	9,742	12,534
EBITDA (TRYmn)	827	811	832	1,084	1,396
Net Income (TRYmn)	442	434	574	826	864
EBITDA Margin (%)	*12.3%*	*11.5%*	*11.2%*	*11.1%*	*11.1%*
Dividend Yield (%)	*4.9%*	*3.3%*	*4.9%*	*5.0%*	*6.2%*
P/E (x)	22.2	22.6	17.1	11.9	11.4
EV/EBITDA (x)	14.0	14.3	13.9	10.7	8.3
EV/Sales (x)	1.7	1.6	1.6	1.2	0.9

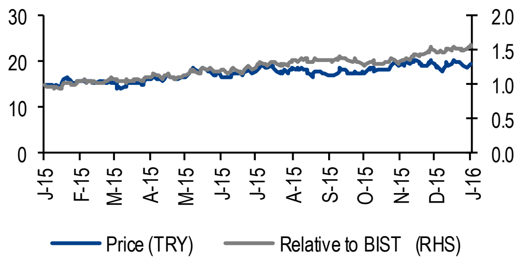
Source: Company, YF Securities Research Estimates

Trading Data	07.01.2016
Sector	Automotive
Bloomberg	TOASO TI
Reuters	TOASO.IS
EV (TRYmn)	11,595
Mkt cap (TRYmn)	9,835
Free float (%)	24%
No. of shares (mn)	500
1-Mnth Avg. Daily Vol. (TRYmn)	18.7
BIST-100	71,496

Share Price	Current	Target
USD	6.52	7.96
TRY	19.67	24.00
Upside Potential		22%
Recommendation		Outperform

Price Data (TRY)	1M	3M	12M
BIST-100	73,909	78,698	86,777
Share Price	19.50	17.55	15.02
Absolute (%)	*0.9%*	*12.1%*	*31.0%*
Relative (%)	*4.3%*	*23.4%*	*59.0%*

Price Chart (TRY)



Source: BIST-100, YF Research

Tupras

Immune to possible crack spread adjustments with RUP

Outperform
(Maintained)

12-month TP: TRY93.10

We favour Tupras as we believe (i) the residuum upgrade project (RUP) will eliminate the impact of normalisation in crack spreads on the Company's refining margin in 2016 and (ii) the projected upsurge in the FCF is expected to bring out strong dividend payments in the upcoming period. We deem Tupras as a defensive pick as its operating performance is largely immune to uncertainties in the local market.

Strengthening earnings outlook with the introduction of RUP… The RUP will ensure Tupras to (i) lift its product mix via value added white products, (ii) eliminate the extensive seasonal fluctuations in the CUR and (iii) optimize the operations of its refineries with a focus on profitability. We calculate that the RUP would add around $1.7/bbl to Tupras's net refining margin, yielding around $550mn net EBITDA contribution per annum.

RUP to eliminate the impact of anticipated normalisation in crack spreads in 2016… Even though we think the peak period of refining margins has passed, we expect Med-Complex refinery margin to stabilize at $3.8/bbl in 2016 - stronger compared to the earlier lows as low oil prices are expected to remain as a support for global consumption of crude oil products. We foresee $1.3bn EBITDA for Tupras in 2016 with net refining margin standing above $6/bbl.

Upsurge in FCF generation… Steady EBITDA performance that the completion of the residuum upgrade project brings about and the completion of the heavy investment period will lead strong FCF generation for Tupras in the post RUP era. We project Tupras to attain a FCF yield of 12-13% and dividend yield of 9-10% between 2016 and 2018. As for dividend payments with respect to 2015YE financial results, we project the Company to distribute ~TRY1.1bn gross cash dividend, denoting a 6% dividend yield.

Key risks… (i) Divergence in the global demand outlook coupled with a stronger USD and deeper than expected downturn in Chinese economy are the key risks for the refinery environment. Separately, (ii) fierce competition from refineries focussed on diesel production in Europe, India and, in particular, Saudi Arabia and (iii) recent surge in global diesel inventories are the main downside risk for 2016 that would depress crack spreads.

Key Financials & Ratios	2012	2013	2014	2015E	2016E
Net Sales (TRYmn)	42,437	41,078	39,723	36,871	46,217
EBITDA (TRYmn)	1,247	1,014	789	3,346	4,176
Net Income (TRYmn)	1,464	1,197	1,459	2,163	2,535
EBITDA Margin (%)	*2.9%*	*2.5%*	*2.0%*	*9.1%*	*9.0%*
Dividend Yield (%)	*5.1%*	*2.1%*	*0.0%*	*6.1%*	*8.9%*
P/E (x)	12.9	15.8	13.0	8.8	7.5
EV/EBITDA (x)	21.9	27.0	34.7	8.2	6.6
EV/Sales (x)	0.6	0.7	0.7	0.7	0.6

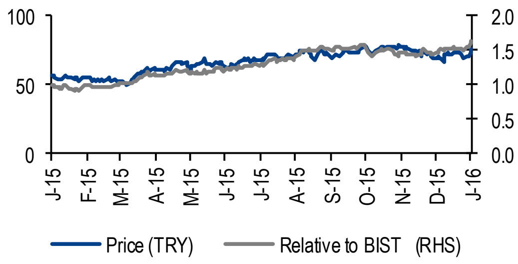
Source: Company, YF Securities Research Estimates

Trading Data	07.01.2016
Sector	Oil & Gas
Bloomberg	TUPRS TI
Reuters	TUPRS.IS
EV (TRYmn)	27,306
Mkt cap (TRYmn)	18,944
Free float (%)	49%
No. of shares (mn)	250
1-Mnth Avg. Daily Vol. (TRYmn)	69.9
BIST-100	71,496

Share Price	Current	Target
USD	25.08	30.86
TRY	75.65	93.10
Upside Potential		23%
Recommendation		Outperform

Price Data (TRY)	1M	3M	12M
BIST-100	73,909	78,698	86,777
Share Price	69.80	77.30	56.40
Absolute (%)	*8.4%*	*-2.1%*	*34.1%*
Relative (%)	*12.0%*	*7.7%*	*62.8%*

Price Chart (TRY)



Source: BIST-100, YF Reaearch

Turkcell

Outperform
(Maintained)

Battered for wrong reason

12-month TP: TRY13.00

Current price is a buy opportunity, in our view… Turkcell has underperformed BIST100 by 10% in the past 4 months due to i) Confusion stemming from Alfa Telecom's unexpected application to the Competition Authority on 7 September 2015, in order to acquire Cukurova's shares in Turkcell. ii) EUR1.6bn license fee for 4G is seen as a threat for dividend distribution in the near term. On the other hand, we see current valuation as a buy opportunity as we believe that leverage capability of the Company is overlooked by investors. In addition, we expect no change at the shareholding structure in the near term, given ongoing tension between Russia and Turkey. Keep in mind that Russian Alfa needs consent of Turkish authorities in order to take the control of Turkcell, which seems unlikely in the current environment.

Improving operational performance with a better competitive environment… Turkcell guides for an accelerated top-line growth for the next 3 years with 10-14% CAGR in revenues between 2015 and 2018 vs. 6% expected increase in revenues in 2015. The major growth driver will be data in the medium term as the Company estimates 25% CAGR for data revenues for the next 3 years, with the contribution of 4G technology in Turkey. Telecom companies blink for an ease in price competition after 4G and Turkcell would be the major beneficiary of changing environment as a market leader.

Room for further leverage… Turkcell is to pay EUR1.6bn (plus 18% VAT) for the 4G license fee in 2 years. On the other hand Turkcell is an unleveraged company with a net cash position of TRY436mn as of September 2015. Furthermore, The Company will establish a consumer finance company in 2016. The new subsidiary will improve the balance sheet of Turkcell as we estimate that receivables due to smartphone sales reached TRY4bn (EUR1.2bn) as of 3Q15. We estimate a DPS of TRY0.43 in 2016, which indicates a dividend yield of 4.3%.

Attractively valued… Turkcell is trading near its trough multiples. According to Bloomberg consensus, TCELL trades at 2015E P/E of 9.7x vs. historic average of 11.7x and 2015E EV/EBITDA of 4.7x vs. historic average of 6.2x.

Key Financials & Ratios	2012	2013	2014	2015E	2016E
Net Sales (TRYmn)	10,507	11,408	12,044	12,916	14,188
EBITDA (TRYmn)	3,247	3,549	3,761	4,066	4,461
Net Income (TRYmn)	2,083	2,330	1,867	1,873	1,892
EBITDA Margin (%)	*30.9%*	*31.1%*	*31.2%*	*31.5%*	*31.4%*
Dividend Yield (%)	*0.0%*	*0.0%*	*17.9%*	*4.3%*	*4.3%*
P/E (x)	10.5	9.4	11.7	11.7	11.6
EV/EBITDA (x)	6.6	6.1	5.7	5.3	4.8
EV/Sales (x)	2.0	1.9	1.8	1.7	1.5

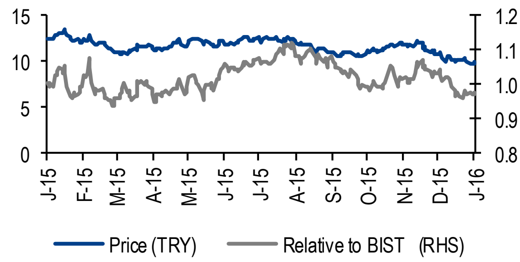
Source: Company, YF Securities Research Estimates

Trading Data	07.01.2016
Sector	Communication
Bloomberg	TCELL TI
Reuters	TCELL.IS
EV (TRYmn)	21,432
Mkt cap (TRYmn)	21,868
Free float (%)	35%
No. of shares (mn)	2,200
1-Mnth Avg. Daily Vol. (TRYmn)	46.8
BIST-100	71,496

Share Price	Current	Target
USD	3.29	4.31
TRY	9.94	13.00
Upside Potential		31%
Recommendation		Outperform

Price Data (TRY)	1M	3M	12M
BIST-100	73,909	78,698	86,777
Share Price	10.87	11.15	12.41
Absolute (%)	*-8.6%*	*-10.9%*	*-19.9%*
Relative (%)	*-5.5%*	*-1.9%*	*-2.8%*

Price Chart (TRY)



Source: BIST-100, YF Reaearch

Turkish Airlines

Outperform
(Maintained)

Strong results ahead amid depressed oil prices

12-month TP: TRY9.0

We maintain our Outperform rating… We maintain our Outperform rating for Turkish Airlines, which offers a promising growth outlook with strong air traffic growth and an aggressive fleet expansion plan. The airline's growth is expected to gain pace with the completion of Istanbul's new 3rd Airport, which will unlock pax capacity on the ground. In our view, the airline's strong growth potential is not yet priced in, as the stock trades at a 16% discount to its peers on the basis of its 2016E FX adjusted P/E.

Aggressive fleet plan… Turkish Airlines plans to add 32 new aircrafts to its fleet in 2016 while its seat capacity will increase by 12% y/y. We estimate 13% y/y increase in RPK with 13.4% growth in ASK and 30bp y/y deterioration in load factor. Capacity increase in Istanbul Ataturk Airport, which is the main hub of Turkish Airlines, will unlock the growth potential and ease the pressure on passenger yields, in our view. Yet, declining oil prices should continue to repress yields in 2016. We estimate 7% y/y increase in revenues (in USD terms) with a 5% y/y squeeze in yields. Similarly, we forecast 8% y/y increase in EBITDA (in USD terms) in 2016. Our estimates indicate a 28% y/y jump in EBITDA in TRY terms.

Infrastructure investments to support fleet expansion… Capacity expansion at Ataturk and Sabiha Gokcen Airports will increase pax capacity of Istanbul by 42% to 135mn in the next 2 years. These investments will bring short term relief for Turkish Airlines, until the 3rd Airport enters operation. The 1st phase of the 3rd Airport, with a 90mn pax capacity, is expected to be finalized in 2018. Completion of the other phases will support Turkish Airlines' growth in the long term.

Attractive valuation… Turkish Airlines trades close to its trough multiples at the moment. THYAO trades at 2015E P/E of 5.7x vs. historic average of 8.0x and trades at 2015E EV/EBITDA of 5.9x vs. historic average of 6.7x. Our DCF and peer comparison derived price target of TRY9.0 indicates 23% return potential.

Key Financials & Ratios	2012	2013	2014	2015E	2016E
Net Sales (TRYmn)	14,762	18,777	24,158	29,154	36,920
EBITDA (TRYmn)	2,115	2,330	2,910	4,381	5,600
Net Income (TRYmn)	1,156	683	1,819	2,390	2,040
EBITDA Margin (%)	*14.3%*	*12.4%*	*12.0%*	*15.0%*	*15.2%*
Dividend Yield (%)	*1.7%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
P/E (x)	8.7	14.8	5.6	4.2	5.0
EV/EBITDA (x)	14.0	12.7	10.1	6.7	5.3
EV/Sales (x)	2.0	1.6	1.2	1.0	0.8

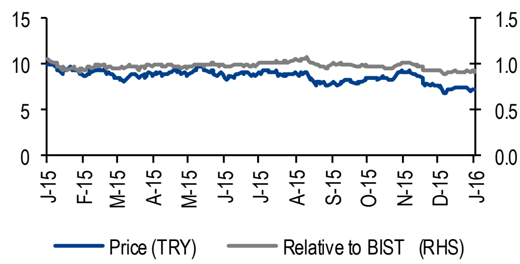
Source: Company, YF Securities Research Estimates

Trading Data	07.01.2016
Sector	Airlines And Ground Handling
Bloomberg	THYAO TI
Reuters	THYAO.IS
EV (TRYmn)	29,523
Mkt cap (TRYmn)	10,102
Free float (%)	50%
No. of shares (mn)	1,380
1-Mnth Avg. Daily Vol. (TRYmn)	533.1
BIST-100	71,496

Share Price	Current	Target
USD	2.43	2.98
TRY	7.32	9.00
Upside Potential		23%
Recommendation		Outperform

Price Data (TRY)	1M	3M	12M
BIST-100	73,909	78,698	86,777
Share Price	7.63	8.48	10.05
Absolute (%)	*-4.1%*	*-13.7%*	*-27.2%*
Relative (%)	*-0.8%*	*-5.0%*	*-11.6%*

Price Chart (TRY)



Source: BIST-100, YF Reaearch

Yatırım Finansman Securities

Nispetiye Caddesi
Akmerkez
E-3 Blok Kat:4
Etiler / İstanbul 34337
TURKEY

Tel: +90 (212) 317 69 00
Fax: +90 (212) 317 69 32
Bloomberg: YATF
www.yf.com.tr

Levent Durusoy	Coordinator	levent.durusoy@yf.com.tr	+90 (212) 334 98 33
Institutional Sales			
Cenk Erdal	Director of Sales & Trading	cenk.erdal@yf.com.tr	+90 (212) 334 98 45-46
Müjde Erdoğan Birdal	Director of Sales	mujde.erdogan@yf.com.tr	+90 (212) 334 98 42-43
Gülçin Sepken Aygün	Director of Trading	gulcin.sepken@yf.com.tr	+90 (212) 334 98 51-52
Mehmet Ali Sukuşu	Settlement	mehmetali.sukusu@yf.com.tr	+90 (212) 317 68 42
Equity Research			
Zümrüt Can Ambarcı	Head of Equity Research, Banks	zumrut.ambarci@yf.com.tr	+90 (212) 334 98 35
Mehmet Akif Daşıran	Telecom, Retail, Aviation, Auto	akif.dasiran@yf.com.tr	+90 (212) 334 98 39
Gülçe Deniz	Steel, REIT, Cement, Contractors, Oil & Gas	gulce.deniz@yf.com.tr	+90 (212) 334 98 36
Gökay Böbek	Banks	gokay.bobek@yf.com.tr	+90 (212) 334 98 58
Özden Öntürk	Associate	ozden.onturk@yf.com.tr	+90 (212) 334 98 38
Macroeconomic Research			
Can Uz	Chief Economist	can.uz@yf.com.tr	+90 (212) 334 98 37
Sinem Vural	Associate	ecem.ozdemir@yf.com.tr	+90 (212) 334 98 89

Yatirim Finansman Menkul Değerler (YF Securities) research refrains from rating parent companies (TSKB and Isbank) to avoid any potential conflicts of interest between YF Securities and rated companies, in connection with, but not limited to, loan agreements or business deals.

YF Securities, its clients and employees may hold a position in the rated securities and may perform investment banking or other services for the covered companies. Strict limitations on trading apply for analysts; it is prohibited for analysts to trade equities on a daily basis, and any trading of equities by analysts, may only be conducted through the brokerage services provided by YF Securities.

Companies under the coverage of YF Securities are rated on the basis of their expected performance relative to the BIST index. The following ratings are used to accurately reflect analysts' research and opinions regarding their coverage:

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.

The information on this document is provided by Yatirim Finansman (YF) Securities Inc. and it is not to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The investments discussed or recommended in this report may involve significant risk, may be illiquid and may not be suitable for all investors. Therefore, making decisions with respect to the information in this report may cause inappropriate results. All prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. Any form of reproduction, dissemination, copying, disclosure, modification, distribution and/or publication of information, opinions and comments provided on this document is strictly prohibited. The information presented in this report has been obtained from sources believed to be reliable. (YF) Securities Inc. cannot be held responsible for any errors or omissions or for results obtained from the use of such information.