

Turkish Equity Strategy

A Cautious stance is warranted

Top Picks: Adding TKFEN, while removing ARCLK

8 June 2018

A cautious stance is warranted: We believe that increased political risks, investors' recent negative sentiment towards EMs with large external financing needs, and potential slowdown in economic activity during remainder of the year warrants a cautious stance on the Turkish equities. Turkey's decision to hold early elections on June 24, and the opposition parties' forming of an election alliance to circumvent 10% electoral threshold have reduced the visibility on the political front dramatically. Indeed, even if the election on June 24th results in a stable government, uncertainties on the politics front may not dissipate easily, as the local election of March 2019 will loom on the horizon and relations within the ruling political alliance will be critical to sustain the political stability. Furthermore, latest leading indicators (May PMI dropped to 46.4) suggest potential slowdown in economic activity during the remainder of the year. That said, Turkey's deep discount to EMs has further increased (46% discount currently vs. its 10Y average discount of 20%) and this limits the downside risks.

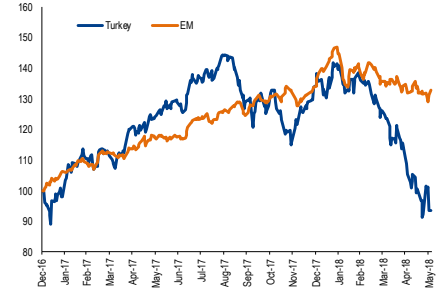
Debt Service Outlook for the Non-financials: With the soaring interest rates, weakening TL, slowing economic growth and recent news flow on debt restructuring of some leading corporates, investor focus has turned to companies' debt financing outlook. Energy companies and REITs appear as the most levered companies under our coverage, therefore they could be hurt the most from the current adverse financial conditions.

Top Picks: Adding TKFEN, while removing ARCLK: We are including TKFEN into our model portfolio, while removing ARCLK. On TKFEN, our positive view rests on strong earnings outlook ahead and attractive valuation. On the other hand, we remove ARCLK from the list. Despite being an export oriented company and we continue to like the company, the adverse macro backdrop in Turkey has further worsened recently, and this may hurt the company's domestic volumes and profitability more than we were initially assuming.

Our Model Portfolio currently consists of Akbank, Garanti, Erdemir, Tekfen, Anadolu Hayat and Anadolu Efes.

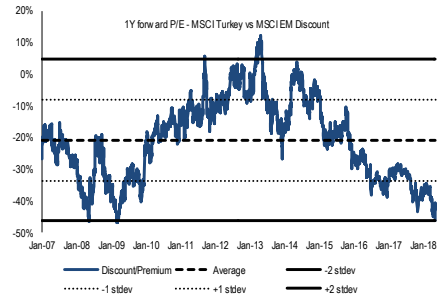
Our model portfolio outperformed BIST-100 by 12% ytd (2% since the last re-balance on May 2nd).

MSCI Turkey vs. MSCI EM



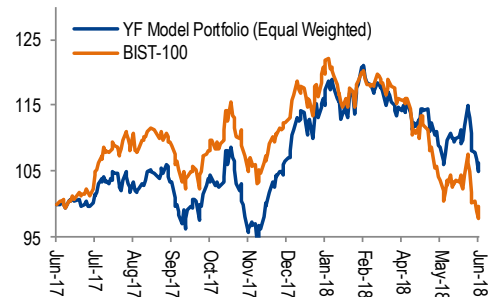
Source: Bloomberg

P/E: MSCI Turkey vs. MSCI EM discount



Source: Bloomberg

YF Model Portfolio vs. BIST-100



Equity Research Model Portfolio									
Stocks			Price			Market Cap.		Return in Portfolio	
	Company	Ticker	Current	Target	Upside	TLmn	US\$mn	Relative	Absolute
Maintained	Akbank	AKBNK	7.6	9.7	27%	30,560	6,718	-5%	-17%
Maintained	Anadolu Hayat Emek.	ANHYT	7.8	9.8	25%	3,358	738	18%	2%
Maintained	Ereğli Demir Çelik	EREGL	11.1	14.5	31%	38,885	8,548	41%	22%
Added	Tekfen Holding	TKFEN	15.1	18.9	25%	5,587	1,228		
Maintained	Anadolu Efes Biracılık	AEFES	23.8	30	26%	14,092	3,098	5%	-10%
Removed	Arçelik	ARCLK	15.4	20.4	32%	10,413	2,289	1%	-14%
Maintained	Garanti Bankası	GARAN	8.7	10.45	20%	36,582	8,042	1%	-5%

Equity Market Outlook

A cautious stance is warranted: Increased political risks, investors' negative sentiment towards EMs with large external financing needs, and potential slowdown in economic activity during remainder of the year warrants a cautious stance on the Turkish equities.

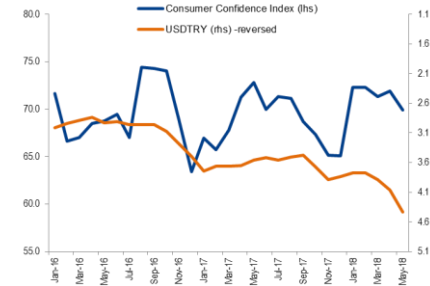
- **Political risks increased dramatically, and could remain elevated in the medium term:** Turkey's decision to hold early elections on June 24, and the opposition parties' forming of an election alliance to circumvent 10% electoral threshold have reduced the visibility on the political front dramatically, as the likelihood of a hung parliament following the election has increased. Indeed, even if the election on June 24th results in a stable government, uncertainties on the politics front may not dissipate easily, as the local election of March 2019 will loom on the horizon and relations within the ruling political alliance will be critical to sustain political stability.
- **EMs with large external financing needs hurt by sentiment shift:** MSCI EM index fell 10% from its peak on January 29th, on the back of rising global yields, stronger USD, and the risk-off sentiment. Investors have become increasingly selective and less friendly to EM markets with large external financing needs. Within this context, Turkey and Argentina appear to be the leading markets that have been hurt by the investors' shifting sentiments.
- **Potential slowdown in economic activity:** Political uncertainties, jump in interest rates, weak TL and the ensuing financial volatility are likely to take its toll on the country's economic activity. Indeed, latest PMI from Markit Economics shows a substantial decline recently, with May PMI dropped to 46.4, which is the lowest level since April 2009.

That said, deep discount to EMs has further increased recently and limits the downside risks: All relative metrics suggest that Turkish equities continue to trade at a deep discount to its EM peers. Most recently, MSCI Turkey's P/E (1y forward looking) discount over EM rose to the current level of 46%, which is one of the highest level of discount over the past 10 years (vs. its 10Y average discount of 20%). The deep discount of the Turkish market limits downside risks and improves the risk reward balance.

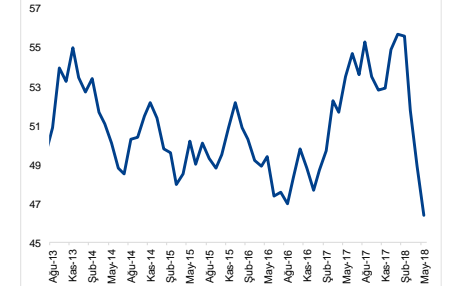
Interest rates (10Y Benchmark Bond Yield)



Consumer Confidence Index –USD/TRY

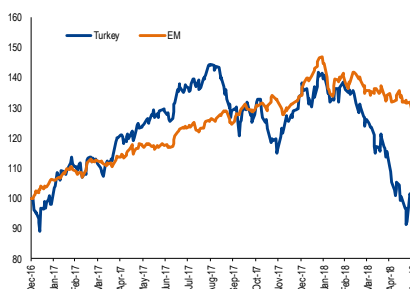


Turkey –PMI Index

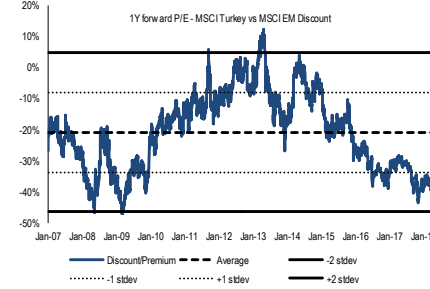


Source: Bloomberg, YF Securities Equity Research

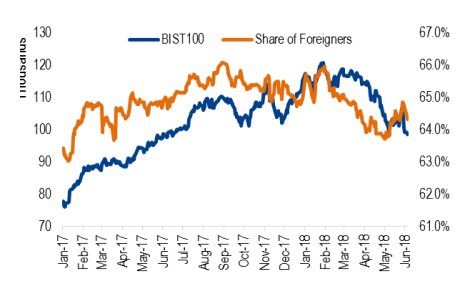
MSCI Turkey vs. MSCI EM



P/E: MSCI Turkey vs. MSCI EM discount



BIST-100 vs. share of foreigners



Source: Bloomberg, CSD of Turkey, YF Securities Equity Research

Debt Service Outlook for the Non-financials

With soaring interest rates, weakening TL, slowing economic growth and recent news flow on debt restructuring of some leading corporates, investor focus has turned to companies' debt financing outlook.

Below we have listed non-financial companies under our coverage based on their leverage ratios (Net Debt/EBITDA). **Energy companies and REITs** appear as the most levered companies under our coverage, therefore they could be hurt the most from the current adverse financial conditions. That said, including the EBITDA to be generated over one year and financial assets, companies' debt refinancing outlook appear benign.

Companies with the highest leverage (ranked by Net Debt/EBITDA)

Company Name	Ticker	Cash +			Debt maturity Schedule			(Cash +		
		Cash	Fin. Assets	Financial Assets	Next 1y	>1y	Total Debt	Net Debt / EBITDA	Cash/ ST debt	FinAssets+ EBITDA) / ST Debt
Zorlu Enerji	ZOREN	926	287	1,214	2,783	6,021	8,804	6.4x	0.3x	0.9x
Brisa	BRISA	161	-	161	410	1,667	2,077	4.6x	0.4x	1.4x
Odas	ODAS	79	0	80	370	792	1,162	4.1x	0.2x	0.9x
Is Gyo	ISGYO	124	3	127	268	1,074	1,342	4.1x	0.5x	1.6x
Torunlar Gyo	TRGYO	342	318	660	1,099	2,366	3,466	3.7x	0.3x	1.4x
Dogus Oto	DOAS	92	959	1,051	2,388	12	2,400	3.3x	0.0x	0.7x
Otkar	OTKAR	40	0	41	341	280	621	3.1x	0.1x	0.7x
Turk Havayollari	THYAO	7,698	1,756	9,454	7,545	29,032	36,577	3.1x	1.0x	2.5x
Cimsa	CIMSA	30	255	285	762	636	1,397	2.9x	0.0x	1.0x
Vestel	VESTL	2,136	56	2,192	4,232	812	5,044	2.9x	0.5x	0.8x
Gubre Fabrikasi	GUBRF	379	137	516	796	108	905	2.8x	0.5x	0.9x
Migros	MGROS	1,197	17	1,214	811	3,125	3,935	2.7x	1.5x	2.7x
Aksa Enerji	AKSEN	37	0	37	1,288	1,375	2,663	2.7x	0.0x	0.8x
Turk Traktor	TTRAK	92	-	92	182	1,063	1,244	2.4x	0.5x	3.2x
Arcelik	ARCLK	2,612	294	2,906	3,900	4,351	8,251	2.2x	0.7x	1.4x
Pegasus	PGSUS	2,054	31	2,085	1,099	3,111	4,210	2.2x	1.9x	2.8x
Kordsa	KORDS	66	1	66	670	106	775	2.1x	0.1x	0.6x
Hektas	HEKTS	32	-	32	163	8	172	1.9x	0.2x	0.6x
Turk Telekom	TTKOM	3,979	12	3,991	2,738	14,758	17,496	1.8x	1.5x	4.3x
Halk Gyo	HLGYO	54	-	54	234	22	257	1.8x	0.2x	0.7x
Petkim	PETKM	3,300	9	3,309	1,858	3,375	5,233	1.7x	1.8x	2.4x
Tav Havalimani	TAVHL	1,781	1,122	2,903	2,872	2,595	5,467	1.6x	0.6x	1.8x
Tupras	TUPRS	6,717	1,075	7,792	6,377	9,544	15,922	1.6x	1.1x	2.2x
Ulker	ULKER	3,484	978	4,462	800	3,907	4,707	1.5x	4.4x	6.6x
Anadolu Efes	AEFES	5,532	46	5,578	3,920	5,674	9,593	1.5x	1.4x	2.1x
CCI	CCOLA	4,028	8	4,037	3,017	3,291	6,308	1.4x	1.3x	1.9x
Turkcell	TCELL	4,603	15	4,618	5,716	9,414	15,130	1.3x	0.8x	2.2x
Tofas	TOASO	2,611	1	2,611	2,012	3,386	5,398	1.2x	1.3x	2.5x
Teknosa	TKNSA	21	-	21	209	-	209	1.1x	0.1x	0.9x
Akcansa	AKCNS	46	224	270	330	100	430	1.0x	0.1x	1.9x
Adana Cimento	ADANA	20	101	121	55	11	66	1.0x	0.4x	3.1x
Index Bilgisayar	INDES	255	8	263	355	11	366	0.8x	0.7x	1.1x
Ford Otosan	FROTO	2,042	16	2,058	2,202	1,866	4,068	0.7x	0.9x	2.2x
Bolu Cimento	BOLUC	72	19	92	181	25	206	0.7x	0.4x	1.6x
Emlak Gyo	EKGYO	1,730	169	1,899	696	1,930	2,626	0.5x	2.5x	5.5x
Kardemir	KRDMD	801	16	817	315	932	1,247	0.3x	2.5x	7.0x
Aselsan	ASELS	480	654	1,135	458	48	506	0.0x	1.0x	5.7x
Mardin Cimento	MRDIN	27	96	124	3	-	3	-0.4x	10.5x	71.7x
Ege Gubre	EGGUB	42	-	42	20	-	20	-0.4x	2.1x	4.8x
Bizim	BIZIM	61	-	61	6	17	22	-0.6x	10.9x	22.8x
Eregli	EREGL	8,781	106	8,887	2,973	1,486	4,459	-0.7x	3.0x	5.2x
Bim	BIMAS	1,034	310	1,344	-	-	-	-0.7x	nm	nm
Enka	ENKA I	6,100	10,318	16,418	331	940	1,271	-1.4x	18.4x	59.9x
Tekfen	TKFEN	3,849	499	4,348	727	432	1,158	-3.1x	5.3x	7.2x
Alarko Gyo	ALGYO	419	331	750	-	-	-	-27.6x	nm	nm

Source: Borsa Istanbul, Public Disclosure Platform, YF Securities Equity Research estimates

Impact Analysis on Banking Sector

We prefer Akbank and Garanti in as top-pick banks. Beside their strong capital ratios and well-balanced balance sheets, we prefer those banks due to their relatively well protected position on loan restructuring and rising TL deposit costs. Since our [banking sector report published on April 18](#), news flow from debt restructuring of corporates continued. Although bank managements claim the restructurings are the nature of banking business, we see that strong depreciation of Turkish lira combined with higher loan rates would make heavily indebted companies suffer from this environment.

Impact analysis on restructured loans: Under the scenario that 10% of performing business loans (excluding restructured loans) would be restructured, additional provision need for the related loans may sweep out 3% of the banks' equity on average, assuming that restructuring a loan would need 10% provisioning cost on average. Under this scenario, equity impact would be relatively lower for Akbank and Garanti at 2%.

Scenario Analysis: What if 10% of performing business loans to be restructured

TLmn	AKBNK	ALBRK	GARAN	HALKB	VAKBN	YKBNK
Group 1 Loans (Performing Business Loans)	125,258	19,039	116,999	160,043	137,804	128,632
Scenario: 10% of loans to be restructured	12,526	1,904	11,700	16,004	13,780	12,863
additional provision charges for restructured loans*	1,253	190	1,170	1,600	1,378	1,286
Book Value (1Q18)	41,142	3,160	42,385	26,398	24,999	31,596
Net Income (2018E)	6,776	294	7,104	3,668	3,986	4,070
Free Provision	700	0	1,160	70	500	250
Equity Impact	-2.4%	-4.7%	-2.2%	-4.7%	-4.3%	-3.2%
Earnings Impact (post-tax)	-14%	-50%	-13%	-34%	-27%	-25%
Equity Impact - post free provisions	-1%	-5%	0%	-4%	-2%	-2%
Earnings Impact (post-tax) - post free provisions	-4%	-50%	0%	-32%	-14%	-19%

Source: YF Securities Equity Research, Bloomberg

* Business loans are derived from Group 1 loans, excluded by Group 1 consumer loans, credit cards and loans to financial institutions. We assumed additional provision charges for stage 2 loans, to be 10% of the restructured loan.

Impact analysis on CPI-linkers and rising TL cost of deposits: According to our impact analysis, 50bps increase in inflation would have the highest negative impact on Halkbank and Vakifbank's bottom-line with 11% and 8%, respectively. We assumed that CPI-linker yields and cost of TL time deposits would increase at the same magnitude simultaneously, assuming equal duration impact. Garanti would have the lowest negative earnings impact at 2.8%.

Impact Analysis for 50bps increase in inflation

TLmn	AKBNK	GARAN	HALKB	YKBNK	VAKBN
TL time deposits	82,785	70,888	113,226	77,636	93,506
share of IEA	28%	23%	36%	27%	35%
CPI-linker	15,430	19,481	12,200	13,000	14,000
share of IEA	5%	6%	4%	5%	5%
IEA (Interest Earning Assets)	300,719	308,766	310,314	284,616	267,907
NI ('18E)	6,776	7,104	3,668	4,070	3,986

Post-tax Earnings Impact of 50bps rise in inflation

CPI-linker Impact	60	76	48	51	55
% of Net Income	0.9%	1.1%	1.3%	1.2%	1.4%
TL Deposit Impact	-323	-276	-442	-303	-365
% of Net Income	-5%	-4%	-12%	-7%	-9%
Net P&L Impact	-4%	-3%	-11%	-6%	-8%

Source: YF Securities Equity Research, Company financials

Note: We assumed 50 bps increase in inflation will have direct impact on TL time deposits and CPI-linked securities. In this analysis, we assumed duration is equal for both CPI-linkers and TL time deposits

Valuation Updates

We have revised our estimates and target prices on the back of our new macroeconomic forecasts and new risk free rate assumptions (TL denominated risk-free rate is raised from 14% to 12%; FX from 6.0% to 7.0%). Our bottom-up 12-month target for the BIST-100 index target declines from 132K to 122K.

	Share price (TL)	Old TP (TL/s)	New TP (TL/s)	Upside (%)	Recommendation	2018e Net Income			2019e Net Income			P/E 2018e	EV/EBITDA 2018e
						Old	New	% Chg	Old	New	% Chg		
ADANA	6.20	6.70	7.00	13%	Market Perform	68	59	-14%	78	66	-15%	9.3x	12.5x
AKBNK	7.64	11.20	9.70	27%	Outperform	6,906	6,776	-2%	7,774	7,859	1%	4.5x	
AKCNS	9.21	12.73	11.30	23%	Outperform	178	195	10%	306	236	-23%	9.1x	5.9x
ALBRK	1.33	1.85	1.65	24%	Market Perform	295	294	0%	368	336	-9%	4.1x	
ALGYO	41.20	56.50	51.40	25%	Market Perform	122	122	0%	119	119	0%	3.6x	1.3x
ANHYT	7.81	9.60	9.80	25%	Outperform	268	277	3%	325	355	9%	12.1x	
ARCLK	15.41	23.80	20.40	32%	Outperform	1,179	1,113	-6%	1,562	1,503	-4%	9.4x	6.3x
ASELS	21.60	30.20	25.79	19%	Market Perform	1,235	1,753	42%	1,505	2,443	62%	12.3x	14.5x
AVISA	16.30	21.80	20.90	28%	Outperform	137	134	-2%	166	177	7%	14.4x	
BIMAS	67.85	81.40	71.90	6%	Market Perform	988	993	0%	1,210	1,225	1%	20.7x	13.0x
BIZIM	5.78	8.30	8.30	44%	Market Perform	-5	-5	0%	16	16	0%	-76.5x	4.6x
BOLUC	6.40	7.00	7.80	22%	Outperform	121	131	8%	122	175	43%	7.0x	5.3x
BRISA	6.04	7.45	6.75	12%	Underperform	124	99	-20%	126	82	-35%	18.5x	9.1x
CIMSA	11.06	16.90	14.00	27%	Outperform	223	236	6%	303	286	-6%	6.3x	6.4x
DOAS	7.07	9.50	7.90	12%	Market Perform	223	236	6%	360	268	-26%	6.6x	5.5x
EKGYO	1.97	2.90	2.50	27%	Market Perform	1,855	1,855	0%	897	897	0%	4.0x	4.3x
ENKAI	4.28	6.28	6.00	40%	Market Perform	2,892	3,080	7%	2,503	2,917	17%	6.9x	4.9x
EREGL	11.11	14.60	14.50	31%	Outperform	4,522	4,495	-1%	4,642	5,027	8%	8.7x	5.3x
FROTO	63.55	55.52	56.50	-11%	Market Perform	1,528	1,815	19%	1,692	2,038	20%	12.3x	9.0x
GARAN	8.71	11.70	10.45	20%	Outperform	7,276	7,104	-2%	8,687	8,206	-6%	5.1x	
HALKB	7.50	11.10	9.40	25%	Market Perform	3,747	3,668	-2%	4,065	4,258	5%	2.6x	
HLGYO	0.77	1.17	1.07	39%	Outperform	411	411	0%	318	318	0%	1.5x	7.3x
INDES	7.85	17.30	11.30	44%	Outperform	154	154	0%	113	113	0%	2.8x	4.2x
ISGYO	0.96	1.50	1.27	32%	Market Perform	596	596	0%	512	512	0%	1.5x	7.2x
KORDS	6.71	7.97	7.80	16%	Outperform	173	113	-35%	193	200	3%	11.5x	7.2x
KRDMD	4.57	4.80	5.00	9%	Outperform	751	688	-8%	929	1,121	21%	5.2x	2.9x
MGROS	19.51	32.00	26.80	37%	Outperform	160	-282	-276%	279	123	-56%	-12.3x	6.2x
MRDIN	4.06	4.80	4.70	16%	Market Perform	44	59	33%	55	69	25%	7.6x	6.7x
OTKAR	74.30	116.00	78.14	5%	Underperform	106	146	38%	168	242	44%	12.2x	12.7x
PETKM	4.53	8.30	5.80	28%	Market Perform	1,073	690	-36%	1,406	1,002	-29%	9.8x	7.5x
PGSUS	26.08	42.00	42.00	61%	Outperform	474	474	0%	688	688	0%	5.6x	4.8x
TAVHL	22.52	22.38	24.90	11%	Market Perform	1,112	1,150	3%	1,275	1,280	0%	7.1x	5.0x
TCELL	11.79	17.50	14.56	24%	Outperform	2,869	2,495	-13%	3,358	3,771	12%	10.4x	4.5x
THYAO	15.15	19.40	19.40	28%	Outperform	3,358	3,358	0%	4,029	4,029	0%	6.2x	5.3x
TKFEN	15.10	18.87	18.90	25%	Outperform	681	922	35%	546	679	24%	6.1x	3.4x
TOASO	24.44	40.00	35.30	44%	Outperform	1,331	1,407	6%	1,390	1,480	6%	8.7x	6.2x
TRGYO	2.71	3.65	3.25	20%	Market Perform	1,419	1,419	0%	1,456	1,456	0%	1.9x	6.9x
TTKOM	5.31	7.30	5.94	12%	Market Perform	1,826	1,947	7%	2,211	1,507	-32%	9.5x	4.2x
TTRAK	51.60	89.40	61.40	19%	Outperform	325	263	-19%	390	305	-22%	10.5x	8.0x
TUPRS	113.50	129.00	129.00	14%	Outperform	4,923	3,395	-31%	4,200	4,199	0%	8.4x	6.4x
VAKBN	5.35	7.65	6.75	26%	Outperform	4,096	3,986	-3%	4,513	4,612	2%	3.4x	
YKBNK	2.63	5.00	3.10	18%	Outperform	4,259	4,070	-4%	4,792	5,009	5%	5.5x	

Source: Borsa Istanbul, YF Securities Equity Research estimates

TOP PICKS

We are including TKFEN into our top picks portfolio while removing ARCLK from the list. We remove ARCLK from the list. Despite being an export oriented company, the adverse macro backdrop in Turkey has further worsened recently, and this may hurt the company's domestic volumes and profitability more than we were initially assuming. On the other hand, Tekfen Holding offers strong earnings outlook for 2018, attractive valuation while the stock comes to the forefront during the volatility in domestic market on its diversified business model.

Additions to the list: Tekfen Holding

Removals from the list: Arcelik

Our 2018 Model Portfolio is consist of Akbank, Anadolu Hayat, Anadolu Efes, Erdemir, Garanti and Tekfen Holding.

Akbank: Liquid B/S structure, strong capitalization and high level of loan provisioning.

Anadolu Hayat: Benefiting from high interest rates, strong profitability, and sustainable dividend payouts.

Anadolu Efes: Stabilization of both Turkish and Russian beer volumes, coupled with operational synergies to be generated with the EBI's merger should uplift the profitability.

Erdemir: Strong earnings outlook, attractive valuation and beneficiary depreciation of TL.

Garanti: Well-positioned against rising inflation and funding costs, strong capitalization

Tekfen: Strong earnings outlook, attractive valuation and diversified business model that offers immunity to volatility in domestic market.

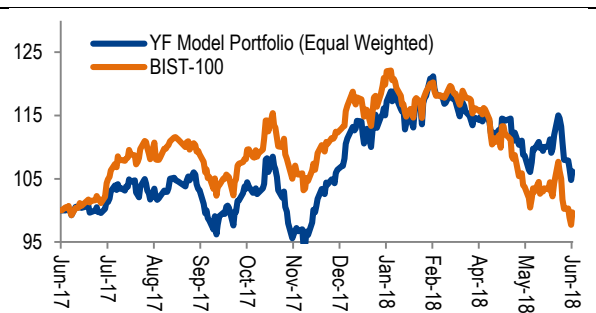
YF Model Portfolio performance

Model Portfolio Performance - Equally Weighted	
Model Portfolio return since the last rebalance*	-3.8%
BIST100 return since last rebalance*	-5.4%
Model Portfolio Relative return since the last rebalance*	1.7%
Model Portfolio Return Year-to-date	-4.7%
BIST100 Return Year-to-Date	-14.5%
Model Portfolio Relative Performance Year-to-date	11.5%

*Since the last re-balance on May 2nd 2018

Source: Borsa Istanbul, YF Securities Equity Research

YF Model Portfolio vs. BIST-100



Model Portfolio

Stocks		Price (TL)			Market Cap. (million)		Return since Inclusion	
Company	Ticker	Last	Target	Upside	TL	US\$	Relative	Absolute
Akbank	AKBNK	7.6	9.7	27%	30,560	6,718	-5%	-17%
Anadolu Hayat Emek.	ANHYT	7.8	9.8	25%	3,358	738	18%	2%
Ereğli Demir Çelik	EREGL	11.1	14.5	31%	38,885	8,548	41%	22%
Anadolu Efes Biracılık	AEFES	23.8	30.0	26%	14,092	3,098	5%	-10%
Arçelik	ARCLK	15.4	20.4	32%	10,413	2,289	1%	-14%
Garanti Bankası	GARAN	8.7	10.5	20%	36,582	8,042	1%	-5%

Source: Borsa Istanbul, YF Securities Equity Research estimates

Most Preferred Companies

ANADOLU EFES

Bottoming out of operations coupled with the merger

We rate Anadolu Efes with an Outperform rating and a target price of TL30. Stabilisation of both Turkish and Russian beer volumes following years of significant contraction suggest that Efes' financials could see an improvement from these levels. In 2018, relatively limited tax increase and recovery in tourism in Turkey; coupled with Fifa Cup, and lack of excise tax rise in Russia should support beer volumes of Efes and improve the profitability. Additionally, operational synergies to be generated with the EBI's merger should uplift the profitability. Trading at 2018e EV/EBITDA of 8.2x (vs. 12x for peers), Efes' valuation appears attractive. As such, we rate it with an Outperform rating.

Relatively limited tax rise in Jan18 and recovery in tourism suggest a bottoming out in Turkey beer during 2018: We project Turkey beer volumes to remain flat in 2018, following years of contraction, on the back of excise tax increase that is in line with inflation in Jan18, recovery in tourism, and stabilisation of its market share against Tuborg. Despite the ongoing cost push, stabilisation of volumes coupled with lack of significant tax hike should help Efes to improve its profitability.

Fifa World Cup in Russia, lack of excise tax hike in 2018 and merger with AB Inbev should improve volumes and uplift profitability of EBI: We assume EBI's volume to rise by 2% and EBITDA margin by 3pp in 2018, on the back of: 1) Fifa World Cup to be held in Russia, 2) excise tax on beer in Russia will remain stable in 2018-19, 3) merger with AB Inbev should result in significant cost synergies.

The merger with AB Inbev should deliver substantial cost synergies throughout 2018-2020: The deal will create significant cost synergies (USD80-100mn per year for the combined entity) that will improve the valuation of EBI.

Coca-Cola Icecek (CCI)'s valuation may be up for a correction, despite some headwinds in 2018. CCI is currently trading at 18E EV/EBITDA of ~7.2x, vs. its peer group's average multiple of 9x, despite the fact that CCI was trading at a premium over its peers historically (~15% past 5y).

Trading at 2018E EV/EBITDA of 8.2x (vs. peers at 12x); we rate AEFES at Outperform with PT of TL30: Our valuation is SOTP based. Key downside risks: further restrictions on beer; a weak Ruble; rising costs.

Rating

Outperform

Target Price	TL30.0
Last Price	TL23.8
Return Potential	26%

Market Cap. (TLmn)	14,092
Free Float	32%
# of Shares (mn)	592
Avg. Trading Vol. (3m, TLmn)	10.0

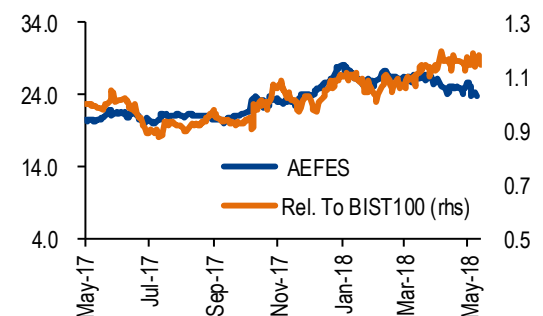
Price Performance	1M	3M	12M
Nominal (TL)	-4%	-12%	17%
Nominal (USD)	-10%	-27%	-9%
Relative to BIST100	-2%	4%	16%

Estimates (TLmn)	2017	2018E	2019E
Revenues	12,947	15,463	17,701
% growth	24%	19%	14%
EBITDA	2,101	2,782	3,328
EBITDA margin	16.2%	18.0%	18.8%
Net Income	149	412	708

Multiples	2017	2018E	2019E
P/E	84.3x	34.2x	19.9x
EV/EBITDA	10.2x	8.2x	6.9x
Dividend Yield (%)	2.0%	2.0%	2.0%
Net Debt/EBITDA	1.4x	1.1x	0.9x

Source: Company data, YF Equity Research

Price Chart



EREGLİ DEMİR ÇELİK

Another year of strong earnings outlook

A defensive pick during volatile time: Erdemir is one of the most resilient companies in BIST during volatile times for TL as the Company benefits from weakness in TL. Almost 100% of Erdemir's revenue is in USD while c.25% of cash costs are consists of TL. Separately, USD based functional currency eliminates any deterioration in the bottom-line performance during the period of sharp depreciation of TL and offers strong earnings visibility. In the meantime the Company is largely immune to uncertainty rising in the domestic market on its capability to capture market share from imported products in flat steel deficit domestic market.

Strong growth in earnings despite our conservative estimates for 2H18:

Winter production cuts in China, which will support steel mill spreads throughout 1H18, while we have already incorporated \$70/ton fall in steel prices in 2H18 compared to 1H18 in our projections. We keep our positive stance for steel producers considering strong momentum of global steel demand growth that should limit any sharp downward correction in steel prices in the short term while higher level of scrap prices that have reinforced the competitive advantage of integrated producers. We foresee Erdemir to record 23% y/y growth in EBITDA with EBITDA margin remaining flattish y/y at 28%.

Another strong quarter is ahead in 2Q18: Despite the recent fall in domestic steel prices, we believe Erdemir will maintain its strong EBITDA per ton performance in 2Q18 on the back of favourable spread between steel prices and the feedstock costs. Reference domestic HRC price was at \$615/ton in May18 (Feb18-Apr18: \$648/ton) while reference CRC price decreased to to \$698/ton (Feb18-Apr18: \$736/ton), recently. Note on the other hand we calculate \$20/ton q/q improvement in flat steel mill spread in 2Q18 given two month lagging impact of prices on P&L. We foresee Erdemir's EBITDA to remain high at the range of \$200-210 per ton in 2Q18 (\$205/ton in 1Q18 and \$143/ton in 2Q18) amid limited pressure from the raw materials.

A potential capacity expansion should revitalize the growth story:

Operating at full capacity utilization, Erdemir's growth prospects have largely relied on the outlook of pricing environment in the sector. However, a capacity expansion project, which would revive the growth story for the company, is on the management's agenda. Even though there are still uncertainties regarding the scope and the timing, the investment package would possibly incorporate a capacity increase with the addition of a new blast furnace and a new rolling mill. Considering ~6mn tonnes of supply shortage in the domestic market for flat products, we think that the market should welcome any capacity expansion decision by Erdemir.

Rating

Outperform

Target Price	TL14.5
Last Price	TL11.1
Return Potential	31%

Market Cap. (TLmn)	38,885
Free Float	48%
# of Shares (mn)	3,500
Avg. Trading Vol. (3m, TLmn)	135.5

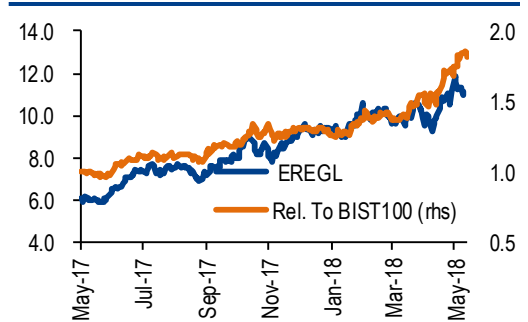
Price Performance	1M	3M	12M
Nominal (TL)	21%	12%	86%
Nominal (USD)	13%	-6%	45%
Relative to BIST100	23%	33%	85%

Estimates (TLmn)	2017	2018E	2019E
Revenues	18,644	23,796	26,499
% growth	60%	28%	11%
EBITDA	5,383	6,630	7,413
EBITDA margin	28.9%	27.9%	28.0%
Net Income	3,754	4,495	5,027

Multiples	2017	2018E	2019E
P/E	6.7x	8.7x	7.7x
EV/EBITDA	4.3x	5.6x	5.0x
Dividend Yield (%)	11.7%	5.5%	5.5%
Net Debt/EBITDA	-0.5x	-0.4x	-0.3x

Source: Company data, YF Equity Research

Price Chart



AKBANK

Liquid, well-capitalized and appealing valuation

We prefer Akbank as one of the top-pick banks, mainly on its strong capitalization, liquid balance sheet structure and having higher total coverage compared to its peers.

Appealing valuation: Akbank trades at 4.5x P/E based on '18 estimates, 15% below its 1-year historical average. Our estimates imply 0.7x P/BV for 2018, 30% below 1-year historical average.

Profit oriented loan growth: Akbank decreased its retail loan exposure substantially since 2013. Retail loans' share in total decreased from c.40% to 23%, mainly driven by credit card and mortgage segments, which were not profitable enough to compensate risks, in our view. Consumer cash loans have 9.8% share in total loans as of 4Q17 vs. peer average of 10.8%. We believe that Akbank's potential focus on consumer cash loans may raise its profitability in the coming period.

Liquid B/S structure: Akbank's loan-to-deposit ratio stands at 103% as of 1Q18 vs. 115% for its peer average. Including TL bonds, total LDR comes down 100%, which eliminates potential cost pressure on deposits.

From now on, looking for upside potential for defaulted OTAS loan: As of 4Q17, Akbank put non-performing OTAS loan to loans under follow-up category and the Bank set aside around 30% provision for the loan, amounting above US\$400mn. From now on, potential resolution of TTKOM's ownership and potential repayment of the loan would be followed. So, we believe the downside risks turned into upside risk for the valuation.

Strong provision coverage: As of 1Q18, Akbank's total coverage ratio stands at 162% vs. peer average of 120%. Even after the IFRS 9 transition, we expect the Bank will remain more provisioned than its peers.

Robust capital ratios: The Bank improved its CAR by 112bps y/y, to 16.8% in 1Q18. Akbank's Tier-1 capital ratio stands at 14.7%, one of the highest level among its peers.

Risks: CBRT's interest rate hike may impact margins negatively. Rising bond yields may impact capital ratios negatively.

Rating

Outperform

Target Price	TL9.7
Last Price	TL7.6
Return Potential	27%

Market Cap. (TLmn)	30,560
Free Float	52%
# of Shares (mn)	4,000
Avg. Trading Vol. (3m, TLmn)	216.4

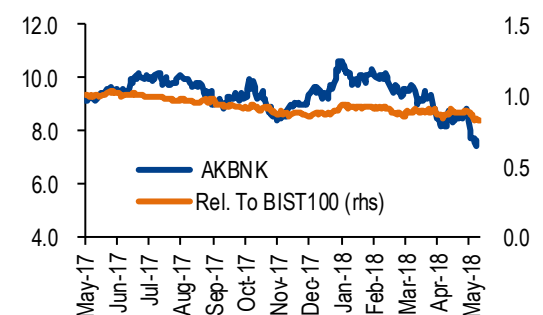
Price Performance	1M	3M	12M
Nominal (TL)	-7%	-24%	-16%
Nominal (USD)	-13%	-36%	-35%
Relative to BIST100	-5%	-10%	-17%

Estimates (TLmn)	2017	2018E	2019E
Net Income	6,039	6,776	7,859
% growth	25%	12%	16%
Book Value	40,425	46,209	52,374
% growth	25%	14%	13%
ROE	16.6%	15.6%	15.9%

Multiples	2017	2018E	2019E
P/E	6.2x	4.5x	3.9x
P/BV	0.9x	0.7x	0.6x
Dividend Yield (%)	4.3%	5.5%	5.5%

Source: Company data, YF Equity Research

Price Chart



ANADOLU HAYAT

Secure business model and robust profitability

Anadolu Hayat continues to be in our model portfolio. Our target price for the stock is TL9.8/sh, presenting 25% upside potential. Our conviction relies on; 1) strong profitability to continue in 2018, driven by pension segment, 2) benefit from high interest rates for its free-equity, 3) appealing valuation multiples and sustainable dividend payout.

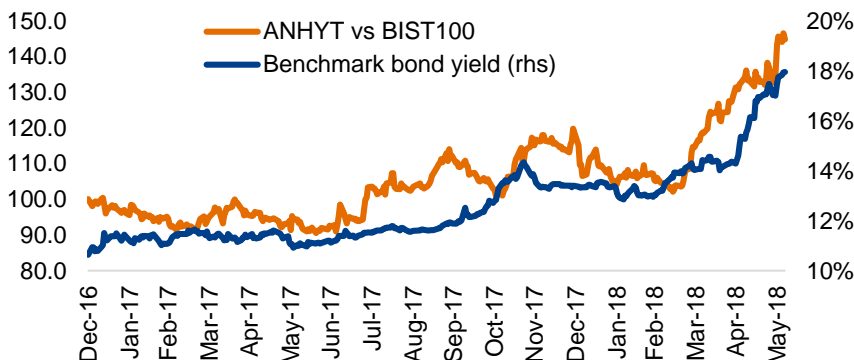
Expecting 28% ROE in 2018: We forecast 23% earnings growth in 2018, led by technical profit growth in private pension segment. Besides 22% top-line growth in pension segment, we expect cost reduction will support profitability. We believe increasing competition between asset management companies would provide a value for pension companies. Based on our estimates, 4pp decline of fund management expenses may provide around 7% value creation.

Benefiting from high interest rates: Anadolu Hayat's relative share performance has strong correlation with benchmark bond yield trend. The company's excess equity is invested in financial instruments such as fixed income, equity and time deposits. The company's net available for sale financial assets stood at TL608mn as of 1Q18. Furthermore, the company has TL234mn time deposits, having much shorter maturity and benefiting from high interest rates. Based on a scenario analysis, 400bps higher deposit rates would contribute to Anadolu Hayat's annual pre-tax profit by around 3%. In addition, we may see higher interest income contributed from its own fixed income portfolio.

Sustainable dividend payout: Anadolu Hayat distributes around 70% of its profit as dividend for the last three years. Based on our 23% earnings growth, dividend yield stands at 6% for 2018 which make the

Valuation: According to our 2018 estimates, ANHYT implies 12.1x P/E, 10% discount to its 3-year historical P/E average. We expect a CAGR of 22% earnings growth for the next three-year period, offering 30% ROE on average.

Risks: Deceleration in loan growth may impact life insurance premium growth negatively. Any regulation change in insurance segments may change the company's profitability or growth prospects. Low stock liquidity may cause volatility in the stock performance.



Rating

Outperform

Target Price	TL9.8
Last Price	TL7.8
Return Potential	25%

Market Cap. (TLmn)	3,358
Free Float	17%
# of Shares (mn)	430
Avg. Trading Vol. (3m, TLmn)	0.9

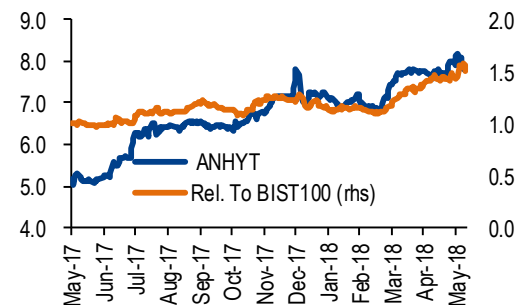
Price Performance	1M	3M	12M
Nominal (TL)	2%	13%	52%
Nominal (USD)	-5%	-5%	18%
Relative to BIST100	4%	34%	51%

Estimates (TLmn)	2017	2018E	2019E
Net Income	225	277	355
% growth	18%	23%	28%
Book Value	927	1,046	1,211
% growth	8%	13%	16%
ROE	25.1%	28.1%	31.5%

Multiples	2017	2018E	2019E
P/E	11.6x	12.1x	9.5x
P/BV	2.8x	3.2x	2.8x
Dividend Yield (%)	6.5%	6.3%	6.3%

Source: Company data, YF Equity Research

Price Chart



TKFEN

Strong earnings outlook with improved operations in core businesses

Tekfen Holding, offering strong earnings outlook for 2018 is relatively immune to volatility in domestic macro-economic conditions thanks to its diversified business model. Domestic market exposure of its backlog in contracting business which constituting 59% of the EBITDA on our 2018YE estimates is limited at 15% while operations in agri segment is on track amid favourable spread between feedstock cost and product prices. Our valuation, based on the NAV approach, points to 25% upside potential for the stock: strong fundamentals and improvement in the earnings outlook are not priced in the stock yet, based on our view.

Strong earnings outlook for 2018: 2018 promises another year of strong operational performance with improved operations in core businesses. We expect Tekfen to post TL1,146mn of consolidated EBITDA for 2016 (up 12% y/y), and TL922mn of net income EBITDA (up 19% y/y). Management guidance is TL1,085mn EBITDA and TL780mn net profit for 2018.

Strong revenue recognition in contracting business: We expect contracting EBITDA to peak to TL646mn (up 20% y/y) in 2018 on the back of expected revenue recognition from \$2.1bn worth Al Khor Motorway project in Qatar. Meanwhile risks are on the upside as depreciation of TL is also expected to be supportive. Besides Tekfen would be the leading beneficiary of higher crude oil prices, considering potential acceleration of projects oil rich countries that Tekfen mostly operates.

Solid earnings outlook in agri segment: Operations in agri segment is on track amid favorable spread between feedstock cost and product prices and higher utilization levels. We expect agri EBITDA remain flattish y/y at TL460mn in 2018 in parallel with the Management guidance.

Risks: Unexpected losses from on-going projects would lead to deviations from our forecasts, while downward pressure on oil prices would reduce demand for contracting projects. Weakness in fertilizer prices would squeeze margins in the agri-business. Note that we have already incorporated 30% fall in contracting EBITDA for 2019E into our projections, considering accelerated revenue recognition in Qatar Motorway project and potential contraction in the backlog by YE.

Rating

Outperform

Target Price	TL18.9
Last Price	TL15.1
Return Potential	25%

Market Cap. (TLmn)	5,587
Free Float	48%
# of Shares (mn)	370
Avg. Trading Vol. (3m, TLmn)	25.9

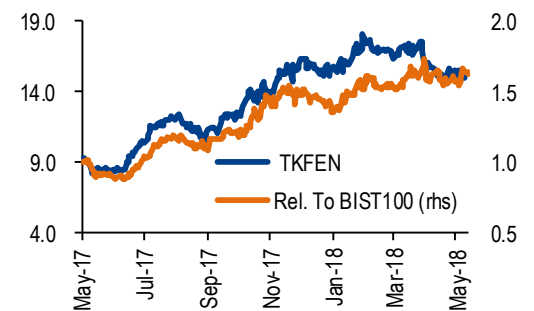
Price Performance	1M	3M	12M
Nominal (TL)	-4%	-12%	83%
Nominal (USD)	-10%	-26%	42%
Relative to BIST100	-2%	5%	82%

Estimates (TLmn)	2017	2018E	2019E
Revenues	7,487	9,991	7,606
% growth	58%	33%	-24%
EBITDA	446	865	922
EBITDA margin	6.0%	8.7%	12.1%
Net Income	771	922	679

Multiples	2017	2018E	2019E
P/E	5.1x	6.1x	8.2x
EV/EBITDA	3.3x	3.6x	3.4x
Dividend Yield (%)	5.9%	3.8%	3.8%
Net Debt/EBITDA	-4.8x	-2.5x	-2.3x

Source: Company data, YF Equity Research

Price Chart



GARANTI

Well-positioned against headwinds

Our positive view on Garanti relies on strong profitability to continue in 2018. Garanti trades at 5.1x P/E on our '18 estimates, 23% below its 1-year historical average.

Garanti delivered 16.5% ROE in 2017, higher than its peer average of 15%. When we adjust ROE by free provisions, ROE improved 18.7% in 2017 from 15.5% in 2016. We expect strong profitability to continue as timely priced loan book, strong sight deposit base, and heavy CPI-linker portfolio to give upside risks on NIM.

Heavy CPI-linker book seems to raise profitability again for 2018:

Garanti's c.TL20bn amount of CPI-linker book, constituting 6.4% of Interest Earnings Assets (as of 1Q18), is the highest among its peers. Existing inflation trend implies an upside risk compared to initial expectations for CPI outlook. According to our impact analysis, 50bps increase in inflation would have the lowest negative impact on Garanti's bottom-line with 3%. We assumed that CPI-linker yields and cost of TL time deposits would increase at the same magnitude simultaneously, assuming equal duration impact.

Free funds to provide a better margin outlook: Garanti delivered the highest net interest margin of 4.3% in 2017 even adjusted with swap funding costs. 22.6% of assets are funded for free at Garanti vs. 18% for peer banks average. Garanti's demand (interest-free) deposit share in total deposit is one of the highest at 25% vs. 20% peer average. So, we believe that the Bank will continue enjoying free funds in 2018.

Capital ratios to maintain sustainable 30% dividend payouts: Garanti's Tier-1 ratio and CAR realized at 15.8% and 18% in 1Q18, respectively. Internal capital generation and RWA optimization are key supporters of capital ratio improvement. Strong capital ratios are positive for the Bank's future growth potential and for absorbing a possible TL depreciation. On top of that, strong capital ratios would give the Bank a sustainable strong dividend payouts. 30% dividend payout ratio of 2018 net income implies c.6% dividend yield.

Risks: Garanti's group 2 loan share in total loans is one of the highest at 17% among its peers vs the average of 6%. In terms of provisioning policy, a more conservative provisioning policy vs. its peers, would cause higher provision costs for Garanti. Rising swap rates may increase Garanti's funding costs.

Rating

Outperform

Target Price	TL10.5
Last Price	TL8.7
Return Potential	20%

Market Cap. (TLmn)	36,582
Free Float	48%
# of Shares (mn)	4,200
Avg. Trading Vol. (3m, TLmn)	739.1

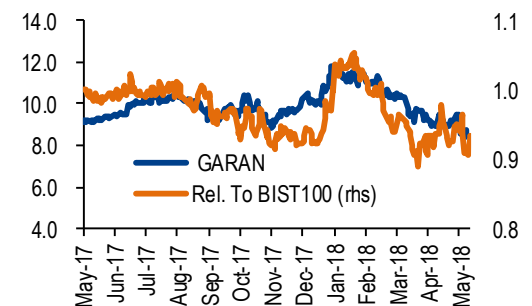
Price Performance	1M	3M	12M
Nominal (TL)	-3%	-21%	-5%
Nominal (USD)	-9%	-34%	-26%
Relative to BIST100	0%	-7%	-5%

Estimates (TLmn)	2017	2018E	2019E
Net Income	6,344	7,104	8,206
% growth	25%	12%	16%
Book Value	41,331	47,095	53,922
% growth	16%	14%	14%
ROE	16.5%	16.1%	16.2%

Multiples	2017	2018E	2019E
P/E	6.4x	5.1x	4.5x
P/BV	1.0x	0.8x	0.7x
Dividend Yield (%)	4.3%	4.9%	4.9%

Source: Company data, YF Equity Research

Price Chart



Yatırım Finansman Securities

Meclis-i Mebusan
Caddesi No: 81 Fındıklı
Beyoğlu / İstanbul
34427
TURKEY

Tel: +90 (212) 317 69 00
Fax: +90 (212) 282 15 50 - 51
Bloomberg: YATF
www.yf.com.tr

Levent Durusoy	Executive Vice President	levent.durusoy@yf.com.tr	+90 (212) 334 98 33
Institutional Sales			
Emre Balkeser	Head of Sales & Trading	emre.balkeser@yf.com.tr	+90 (212) 334 98 45
Burak Demircioglu	Sales & Trading Director	burak.demircioglu@yf.com.tr	+90 (212) 334 98 42
Gülçin Sepken Aygün	Director of Trading	gulcin.sepken@yf.com.tr	+90 (212) 334 98 51
Mehmet Ali Sukuşu	Senior Settlements Officer	mehmetali.sukusu@yf.com.tr	+90 (212) 317 68 42
Equity Research			
Erol Daniş, Ph.D, CFA	Head of Research, Auto, White Good, Retail	erol.danis@yf.com.tr	+90 (212) 334 98 39
Gökay Böbek	Banks, Insurance, Real Estate	gokay.bobek@yf.com.tr	+90 (212) 334 98 58
Gülçe Deniz	Steel & Mining, Cement, Contractors, Oil & Gas	gulce.deniz@yf.com.tr	+90 (212) 334 98 36
Alp Nasır	Analyst	alp.nasir@yf.com.tr	+90 (212) 334 98 64
Lina Barokas	Associate	lina.barokas@yf.com.tr	+90 (212) 334 98 89
Macroeconomic Research			
Hilmi Yavaş	Economist	hilmi.yavas@yf.com.tr	+90 (212) 334 98 37

© 2018 YF Securities. All rights reserved.

Yatırım Finansman Menkul Değerler (YF Securities) research refrains from rating parent companies (TSKB and İsbank) 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 Yatırım 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.