TURKISH EQUITY STRATEGY

2018 Outlook

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Investment theme summary

The main message:

We expect the positive momentum in the Turkish market to continue into 2018, although the strong performance of the past year and several risks ahead suggest that the return should not be as strong as the past year. Our cautiously positive view on the market stems from 1) potential continuation of EM rally, 2) pro-growth macroeconomic policies of the Turkish government ahead of the ever-important elections in 2019, 3) Potential recovery in the EU and neighboring countries, 4) attractive valuation of the Turkish stock market that limits downside risks, 5) upside risks on consensus EPS.

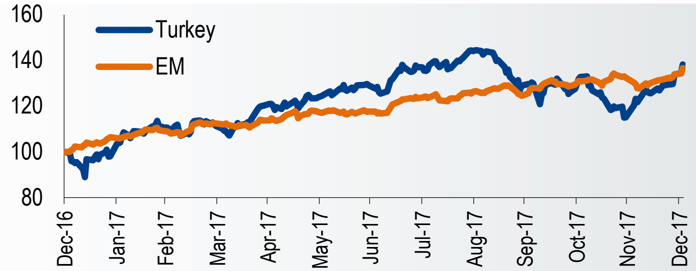
Banks may again fail to outperform non-banks in 2018, as their EPS growth in 2018 is still inferior to that of non-banks (11% for banks vs. 27% for non-financials) and they currently carry almost all the main risks for the Turkish market (downturn in real estate market, spillovers of the ongoing case in the US, FX liability of corporates, monetary policy errors etc.).

We have revised our estimates and target prices on the back of our new macroeconomic forecasts and new risk free rate assumptions (TL denominated rf raised from 10.5% to 12%; FX from 5.5% to 6.0%) and rolling over of DCFs into 2018. Our bottom-up 12-month target for the BIST-100 index target increases from 116K to 132K.

With this report, we have downgraded ALGYO from OP to MP; HALKB from OP to MP; while upgrading AKBNK from MP to OP; ANHYT from MP to OP; PGSUS from MP to OP; THYAO from MP to OP; TKFEN from MP to OP; ASELS from UP to MP.

Top-picks: PGSUS, AKBNK, VAKBN, PETKM, EREGL, TOASO, ZOREN
With this report, we removed Turkcell, Aksa Enerji, Yapi Kredi Bank, Kardemir and Garanti from out top picks list and replaced them with Akbank, Erdemir, Pegasus, Petkim, and Vakifbank. Our current top pick list consists of **Akbank** (strong capitalization, liquid balance sheet structure and comfortable IFRS 9 transition); **Erdemir** (record high EBITDA profitability ahead in 4Q17, attractive dividend yield); **Pegasus** (still Juicy; Risks on consensus expectations are still to the upside); **Petkim** (enhancing cash generation capability through virtue of integration, strong dividend yield, weak TL is supportive); **Tofas** (potential recovery in exports during 2018 to underpin stock performance); **Vakıfbank** (attractive valuation compared to our 16% level ROE estimate, underpenetrated fee base vs. its peers. Low cost funding capability from deposit.); **Zorlu Enerji** (focus on high margin renewables to pay off).

BIST vs. EM



Rating Changes

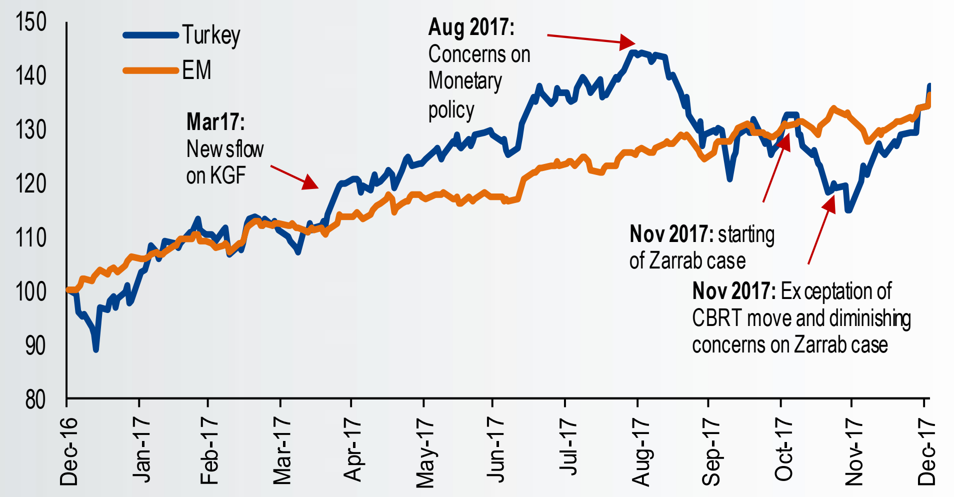
	Previous rating	Current Rating
ALGYO	Outperform	Market Perform
HALKB	Outperform	Market Perform
AKBNK	Market Perform	Outperform
ANHYT	Market Perform	Outperform
PGSUS	Market Perform	Outperform
THYAO	Market Perform	Outperform
TKFEN	Market Perform	Outperform
ASELS	Underperform	Market Perform

Top Picks

Stocks		Price			M.Cap.	
Company	Ticker	Current	Target	Upside	TRYmn	USDmn
Akbank	AKBNK	TL 9.81	TL 12.30	25%	TL 39,240	$10,449
Eregli	EREGL	TL 9.91	TL 11.70	18%	TL 34,685	$9,236
Pegasus	PGSUS	TL 35.48	TL 42.00	18%	TL 3,629	$966
Petkim	PETKM	TL 8.31	TL 9.40	13%	TL 12,465	$3,319
Tofas	TOASO	TL 32.26	TL 38.90	21%	TL 16,130	$4,295
VakifBank	VAKBN	TL 6.61	TL 8.50	29%	TL 16,525	$4,400
Zorlu Enerji	ZOREN	TL 1.64	TL 2.30	40%	TL 3,280	$873

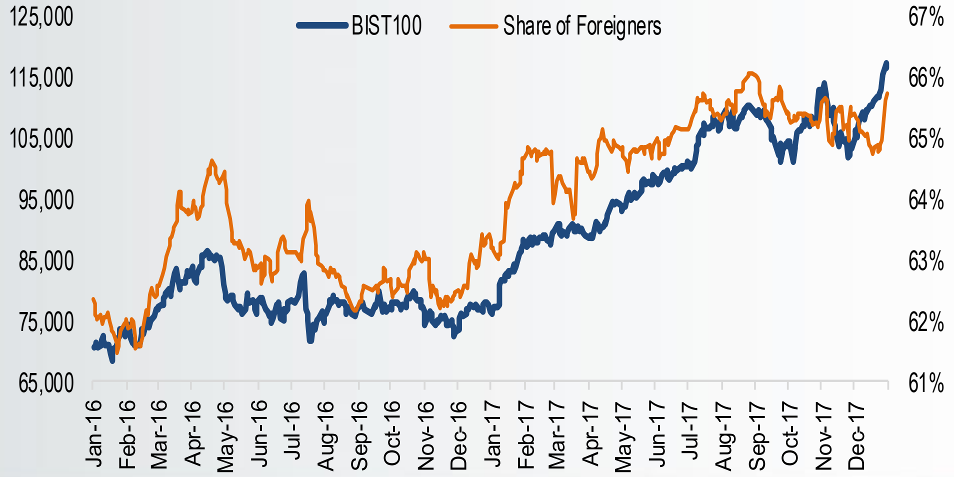
Turkish Equity Market

MSCI Turkey vs. Emerging Markets



Source: Bloomberg, YF Securities

Share of Foreigners and BIST100



Source: Bloomberg, Matriks, YF Securities

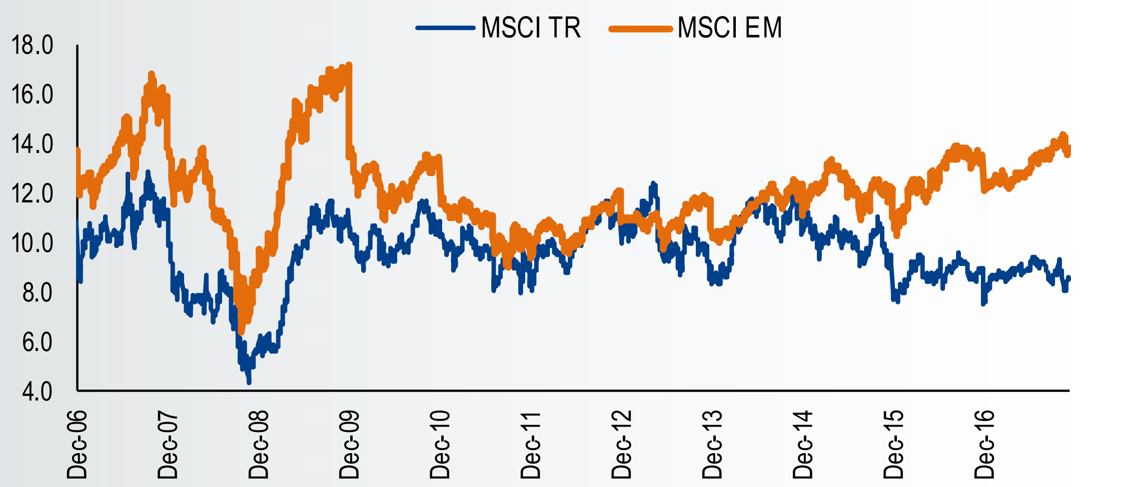
In 2017, Emerging Markets (EM) rally and the Credit Guarantee Fund (CGF) have been the main drivers of the strong performance of the Turkish equity market. Although concerns on Central Bank's monetary policies and worsening relations with the US owing to the US' support of Syrian Kurds and the Zarrab case have led to some occasional sell-offs in the market, performance of the Turkey's equity index has eventually managed to match the performance of the EM indices, owing mainly to stronger economic growth in the country propelled by the Credit Guarantee Fund (CGF). MSCI Turkey index rose by 34% in 2017, which is the similar to MSCI EM index' growth rate. Increasing share of foreigners in the free float and its high correlation with the BIST-100 suggests that foreign equity flows have continued to dictate the trend in the Turkish equity market.

We expect the positive momentum in the Turkish market to continue into 2018, although the strong performance of the past year and several risks ahead suggest that the return should not be as strong as the past year. Our cautiously positive view on the market stems from,

1) **EM rally may well continue into 2018, which could carry the high beta Turkish market:** Strong global economic growth, or more importantly, widening growth gap between the DM and EM economies, still abundant global liquidity and recovery in commodity prices should drive funds into EM and thus sustain the EM rally in 2018.
2) **Pro-growth policies of the government:** Pro-growth macroeconomic policies of the Turkish government ahead of the ever-important elections in 2019 could positively affect the company earnings.
3) **Recovery in the EU and neighbouring countries:** Economic recovery in Europe and potentially in the neighbouring countries post the defeat of ISIS could support an export led growth in 2018.
4) **Attractive valuation of the Turkish stock market that limits downside risks improves the risk reward balance**: BIST-100 is trading at 34% discount to EM (vs. its 5Y average discount of 19%) and it is also trading at 8% to its own 5 year historic average.
5) **Upside risks on Consensus EPS:** Consensus EPS expectations suggest that earnings revisions may continue throughout 2018. Our 2018 EPS growth expectation for our coverage universe is 20%, while the consensus EPS growth expectations stands at 12%.

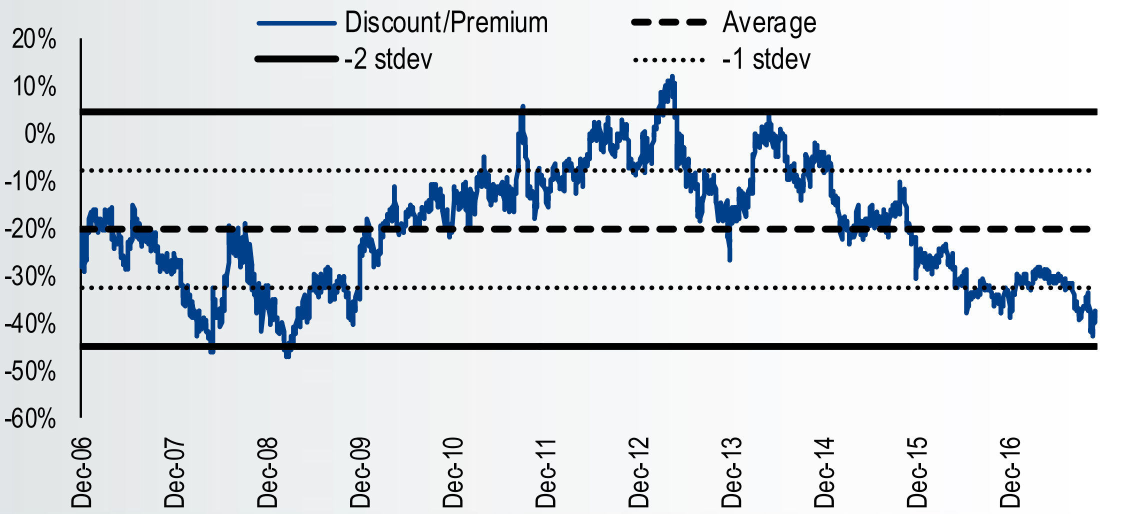
Equity Valuations (Turkey vs. EM)

1Y forward P/E –MSCI Turkey vs. MSCI EM



Source: Bloomberg, YF Securities

1Y forward P/E - MSCI Turkey vs MSCI EM Discount



Source: Bloomberg, YF Securities

Turkish equities have decoupled from the EM in terms of valuation and been significantly de-rated. In terms of stock performance, the Turkish market has mainly followed the EM markets in 2017. In terms of valuation, however, Turkish market has de-coupled from the EM, and the market's valuation has been de-rated significantly. During 2017, Turkish companies under our coverge have delivered a very strong EPS growth (54% in TL terms), owing also to much better than expected economic growth in the country, and therefore MSCI Turkey's P/E (1y forward looking) discount over EM rose to the current level of 38%, which is one of the highest level of discount over the past 10 years (Pls see the next chart).

All relative metrics suggest that Turkish equities are trading at a deep discount and risk reward balance is attractive: Similar to the 1 year forward looking P/E, all other major metrics, P/BV (forward and trailing), EV/EBITDA (forward and trailing), suggest that Turkish equities (BIST100) are currently trading at signficant discounts to EMs. As for compared to Turkey's own historical average, stocks trade at a slight discount to their respective historic averages, as seen in the below table.

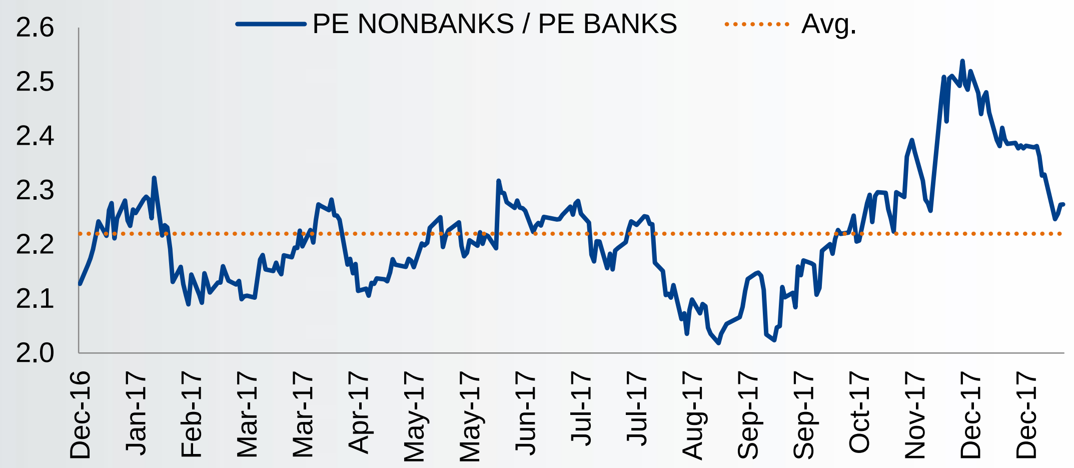
We believe that the high discount over EM limits the downside risks of the Turkish market and improves the risk-reward balance.

	BIST100					MSCI EM				BIST vs MSCI EM	
	Current	Historical avg.	5YR low	5YR high	Prem./Dis. to Hist. avg.	Current	Historical avg.	5YR low	5YR high	Current	Historical avg.
1yr FWD P/E	8.5x	9.2x	7.3x	12.0x	-7.7%	12.8x	11.4x	9.2x	12.9x	-33.8%	-18.9%
1yr trailing P/E	10.0x	10.7x	8.3x	13.7x	-6.5%	16.4x	13.7x	9.8x	17.1x	-39.0%	-21.7%
1yr FWD P/BV	1.3x	1.2x	0.9x	1.8x	1.7%	1.6x	1.4x	1.1x	1.6x	-23.9%	-10.2%
1yr trailing P/BV	1.4x	1.4x	1.1x	2.0x	3.8%	1.9x	1.5x	1.2x	1.9x	-22.2%	-7.6%
1yr FWD EV/EBITDA	7.5x	7.1x	5.8x	8.1x	6.7%	8.5x	7.7x	5.8x	8.7x	-11.5%	-7.6%
1yr trailing EV/EBITDA	8.44x	8.56x	7.03x	10.10x	-1.4%	10.1x	8.3x	7.1x	17.1x	-16.4%	3.2%

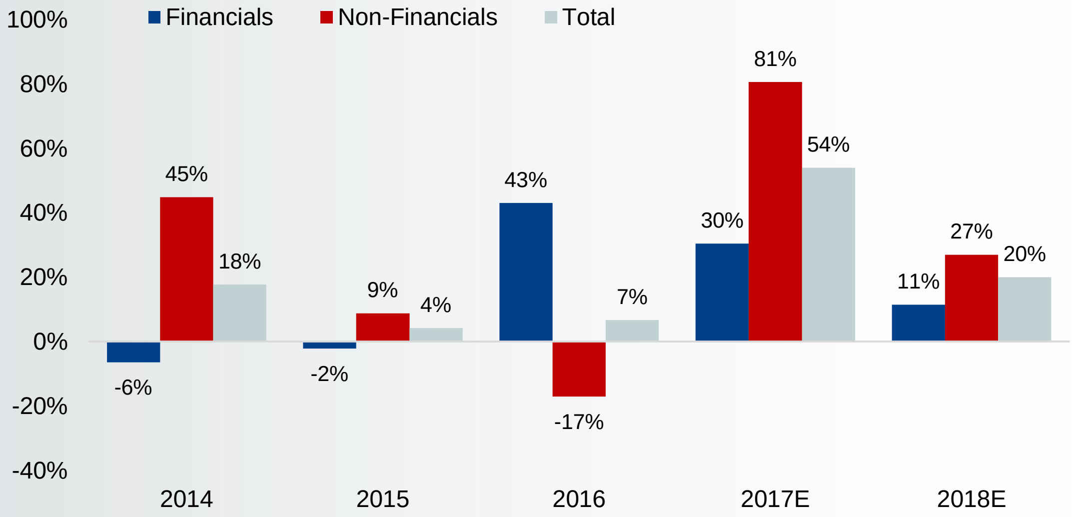
Source: Bloomberg, YF Securities

Earnings Outlook in 2018 (Banks vs. Non-banks; YFe vs. Cons)

Non-bank multiples still imply upside potential



EPS growth for Financials vs. Non-Financials



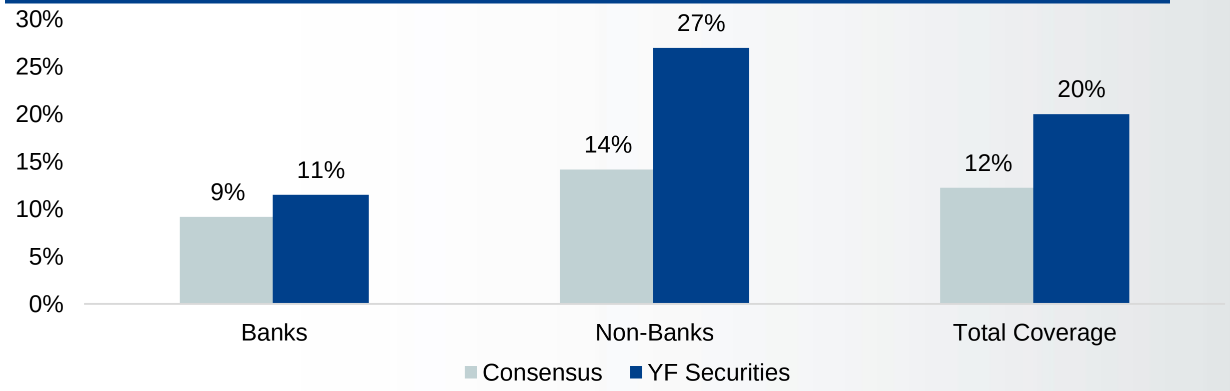
Source: Bloomberg, YF Securities

Banks underperformed BIST-100 by 10% in 2017: Banks have continued to underperform BIST-100 in 2017 with 10% vs. 1% in 2016 and 10% in 2015. Among others, the underperformance in 2017 is also due to stronger earnings growth performance of non-financials. On our estimates, EPS of banks increased by 30% in 2017, while non-financials' EPS grew by 81% during the year.

Despite years of underperformance, banks may again fail to outperform non-banks in 2018, as our EPS growth assumption for banks in 2018 is still inferior to that of non-banks (11% for banks vs. 27% for non-financials). Also note that Turkish banks currently carry almost all the main risks for the Turkish market (downturn in real estate market, spillovers of the ongoing case in the US, FX liability of corporates, monetary policy errors etc.) and therefore their discount vs. non-financials may be sustained throughout 2018.

On a seperate note, Consensus EPS expectations suggest that earnings revisions may continue throughout 2018. Our 2018 EPS growth expectation for our coverage universe is 20%, vs. Consensus' EPS growth expectation of 12%. The main driver of our deviation from consensus estimates is the non-banks' EPS growth (YFe:+27 vs. Cons:+14%).

EPS growth for Market Consensus vs. YF Securities



Key Risks for 2018...

We see the below as the main risks for 2018:

- **Earlier-than-expected monetary policy tightening in the Developed Markets:** For now, goldilocks conditions in the global economy persists. However, higher real rates and inflation will be the tail risks going forward. On that note, over heating of US and EZ economies may lead to rising inflation expectations and real rates.
- **Risk of an early elections**: Turkey's presidential, parliamentary and local elections are all due in 2019; local elections in March 2019 and parliamentary and presidential elections in November 2019. The presidential election in 2019 is ever-important for the government, as the current parliamentary system will be replaced by an executive presidential system with sweeping new powers. Given the importance of the elections, the government might decide to go for an early election, if it sees its approval rates are on the rise during 2018. However, we think that the elections should be held on time, as AKP would prefer to see the economic recovery to trickle down to masses and also it's worth to note that AKP has always held the general elections on time.
- **Zarrab case:** The ongoing case in the US could heighten tensions between US and Turkey even further.
- **Real Estate Sector:** Growth in house prices has decelerated since 2H16 and inflation-adjusted price growth has even turned negative for Istanbul by 2017, souring the sentiment on housing investments. More importantly, perhaps, Turkstat data points out that building permits keep rising, suggesting new housing supplies will remain high for the next couple of years. Coupled with double-digit inflation and a weak TL, households' affordability and appetite for housing could remain weak in the foreseeable future. Potential weakness in housing market, may lead to financial problems for contractors and may impact the overall economy.
- **Flood of IPOs in 2018:** Turkish equity market is likely to be flooded with a record amount of IPOs in 2018. The amount of cash to be raised may lead to some sell-offs in stocks with the highest share of foreigners in their free floats, as investors may replace those stocks with the newly IPOed stocks.
- **Oil prices:** Brent crude oil has topped $68/bbl for the first time since 2015. For the rest of the year, we expect range bound trade with an average of $60/bbl, as a higher level of prices could increase US shale and other non-OPEC supplies. That said, any significant rise in oil prices could potentially put pressure on Turkey's CA balances.
- **Relations with Western countries and Syria:** Relations with the Western countries have deteriorated in recent years, and Turkey has increasingly concerned about the PKK's activities in Syria. Although we attached a low possibility, a unilateral incursion by Turkey into PKK held territories in Syria could worsen Turkey's relations with the West.
- **Risk of a rise in domestic political tension:** Although we expect the domestic political tensions to dimish in 2018, as the government's focus would be on pro-growth economic policies ahead of the elections in 2019, the Turkish political landscape is still far from certain, and could change tack quickly.

Global Outlook – Main picture

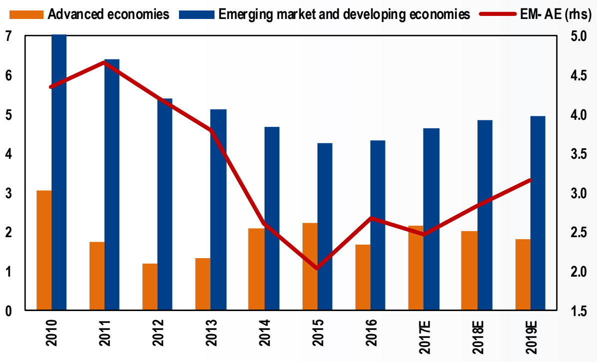
Synchronous and assuring global growth theme is still the main theme as rebound in manufacturing confidence aligns with better global trade activity and buoyant consumer confidence. IMF's World Economic Outlook therefore put global growth projection at 3.7% above 2017's 3.6% and 2016's 3.2%, which was the lowest since the Global Financial Crisis. Advanced economies, were the main engine of growth in 2017, whereas in 2018, emerging market and developing economies are expected to play a larger role.

While the global trend in monetary policy is for tightening/normalization, there remains a considerable stimulus in the system, which is clearly benefiting most economies. China is still the main growth engine despite its moderating economic activity. It is still posting good numbers while it tries to cut excess capacity, rationalize its economy and de-lever its economy, while waning off its dependence on investments and real estate. Eurozone and Emerging Europe growth has gained further momentum in 2H17. After a deep and long entrenchment, large commodity exporter EM economies such as Russia, Brazil and GCC are also seeing stronger readings of consumer demand such as retail sales, car sales, real wages.

Federal Reserve seems puzzled with the lack of inflationary pressure despite tightness of the labour market and high employment growth. Markets and the FED alike convinced of the lower structural neutral rates, albeit the latter having a more pessimistic Outlook, neither FED's roll-off of its Treasuries holdings or very slow pace of rate hikes (our expectation is 3 in 2018) unlikely to rail off markets. New FED Chairperson Gerome Powell is unlikely to act without forging first a strong consensus in the FOMC, which is still befuddled and concerned about consistently low inflation despite fast disappearing slack, he would unlikely to risk round of appreciating USD which would dampen both inflation and manufacturing sector Outlook.

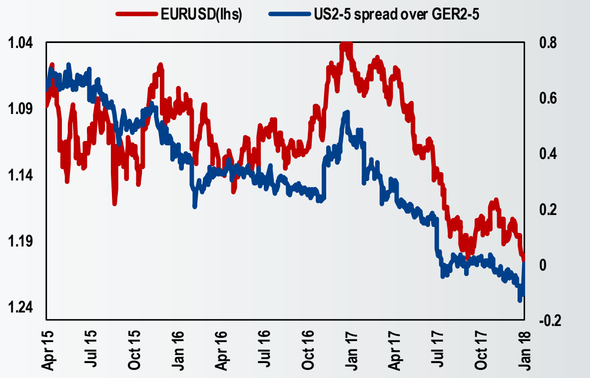
It is hard to gauge the possible effects of U.S. Tax reform. In addition, entitlement reforms become the administration's focus into the new year (i.e., Medicaid, Medicare, Social Security) **Indeed, possible effects of entitlement reforms may eradicate the small tax savings of lower- to middle-income earners** and thereby further amplify the regressively of the tax policy changes.

GDP Growth



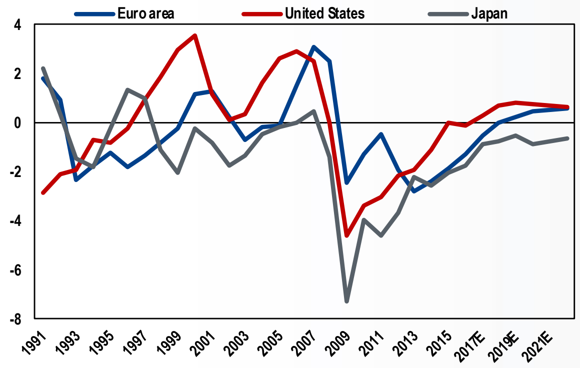
Source: IMF, YF

Steepness of Yield Curve vs. EURUSD



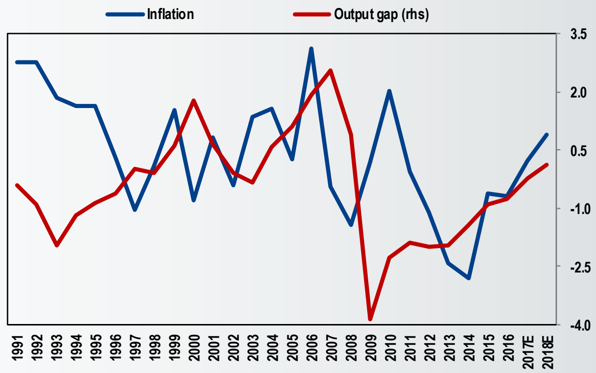
Source: Bloomberg, YF

Output Gaps (% of potential GDP)



Source: Bloomberg, YF

AE Inflation (% YoY) vs. Output Gap



Source: IMF, YF

Global Outlook - Risks

We expect only a gradual increase in the global (USD) real rates going forward. Our proxy for real rates are the 5y/5y forward real rate and it currently sits at 0.60%. In the meantime, FED's estimate of long-run real neutral rates also sits around 1.00-1.25%. Hence, the scope of higher US real rates effecting Turkey negatively looks less likely.

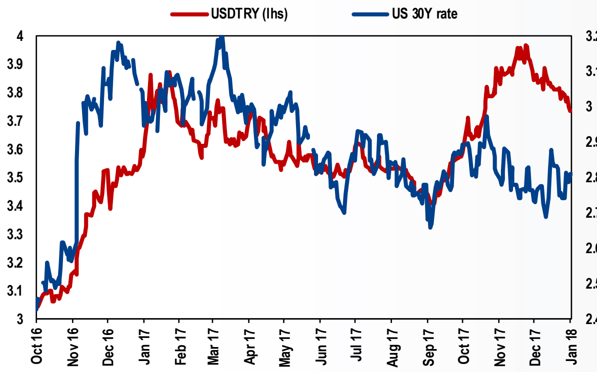
We believe the rise of 2-year rates from below 1.0% to near 2.0% in the last 15-months. CBRT's decision not to counter that had already taken its toll on TL and further depreciation pressure on TL will be limited unless a policy mistake of some sort coupled with unexpected overshoot of global real rates follow suit.

Brent crude oil has topped $68 a barrel for the first time since 2015 mostly thanks to deliberate OPEC-Russia policy of tightening supply and depleting global oil inventories. However, for the rest of the year we expect range bound trade with an average of USD60/bbl.

- However, US shale and other non-OPEC supplies will grow. EIA is already forecasting US shale output to increase by 780,000 b/d in 2018, more than double the 380,000 b/d it expanded by last year. Large-scale conventional projects are also expected to come on stream boosting total supply from outside OPEC by about 1.6m b/d in 2018, according to the IEA.
- Despite supply glut risks, strongest period of global expansion since the financial crisis. consumption expanding by almost 5m b/d between the start of 2015 and the end of 2017, will support crude oil prices.

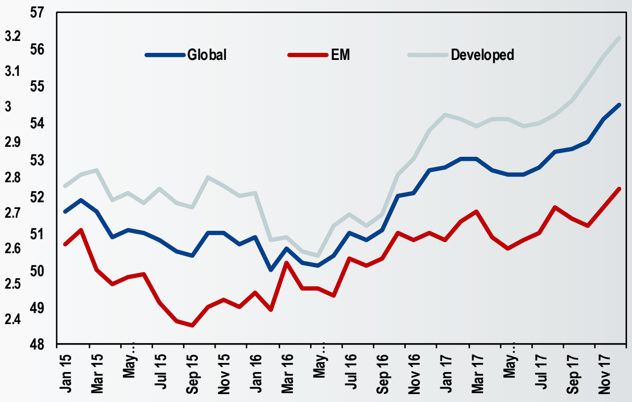
For now, Goldilocks conditions — not too hot or too cold —still persist. But how long will it be before economic strength pushes bond yields and interest rates to levels? Global upside risk to higher real rates and inflation will be the tail risk going forward. On that note, over-heating of US and EZ economies may lead to rising inflation expectations and real rates (a penalty for being staying behind the curve). However given still high overall indebtedness of the global economy, it is unlikely that the economies can overcome higher real rates comfortably, which could turn into a yield curve inversion – an unwarranted tightening of financial conditions. Hence, we assign such a scenario a low probably.

TL vs US long-term rates



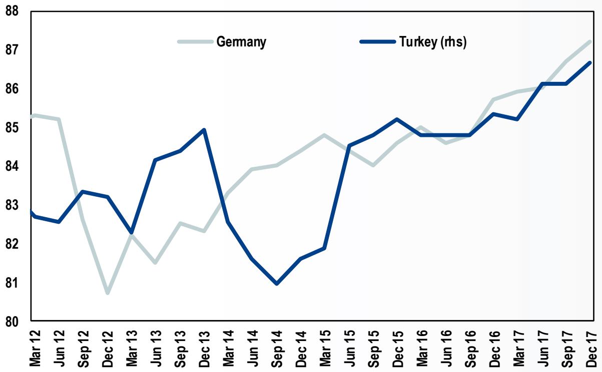
Source: IMF, YF

Manufacturing PMIs



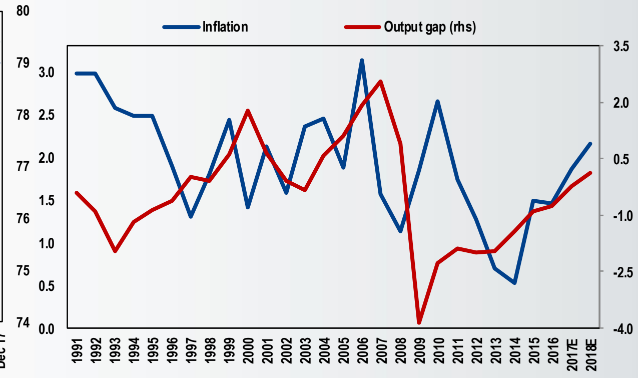
Source: Bloomberg, YF

Capacity Utilization



Source: Bloomberg, YF

Employment (2005=100)



Source: IMF, YF

2018 Turkey Growth Outlook

We expect growth to moderate to 4.2% in 2018 over estimated 6.2% in 2017. Despite moderation in growth, domestic demand growth will not differ that greatly (4.0% vs. 5.0% in 2017) as we estimate net foreign demand contributed near 1.0ppt to GDP growth in 2017, whereas we expect a neutral effect of net exports on growth in 2018. Investments and consumption will almost equally contribute to growth in 2018.

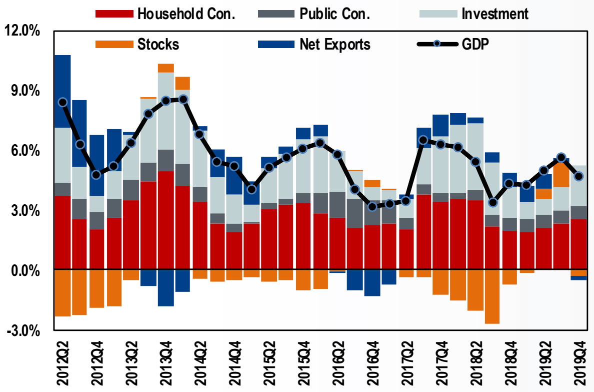
Domestic Demand:

- **Private Consumption: 3.25%YoY –** 2.0ppts contribution to GDP
- **Public Consumption:** 4.5% YoY–0.75ppts contribution
- **Investments:** 5.5% YoY–1.5ppts contribution

Foreign Demand: - no net exports contribution

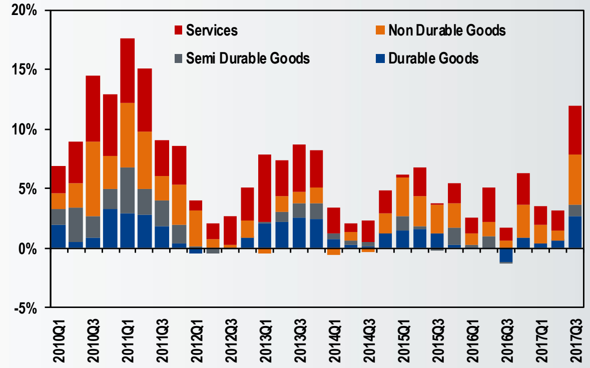
- **Export volume of goods&services grow at 8.0%. In nominal terms 11.0%.**
  - **Export of services (mainly tourism) grow at 20% in volume terms** and 5% in USD prices amounting to 25% YoY nominal increase in 2018.
  - **Total export of goods grow at % 5.0 volume and 9.0% nominal.**
    1. **Turkey had been steadily increasing its share of exports into the EU between 2011 and 2016, but starting 2017, we have see some decline towards 3.5%.** We assume Turkey will maintain its market share at 3.5% and a similar pace of growth in the EU. This would translate into a 4.0% volume growth in exports to region, assuming 4.5% appreciation in USD unit prices.
    2. **Export volume to the rest of world, we assume to continue grow at around 6.0%.** We would expect a %3.0 appreciation in the USD unit prices.
- **Import volume of goods and services grow at 6.0% and 9.5% in nominal terms**. Expect 3.0% appreciation in unit import prices.

GDP (4Q Rolling)



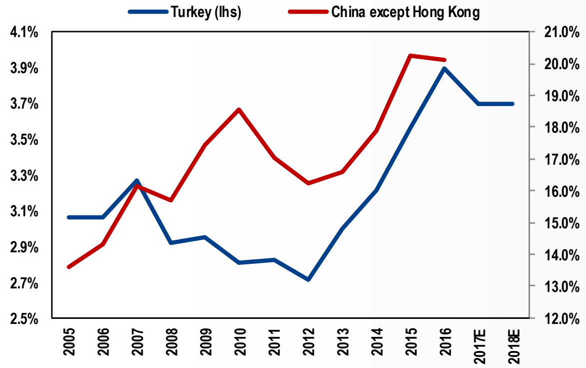
Source: TUIK, YF

Annual Private Consumption



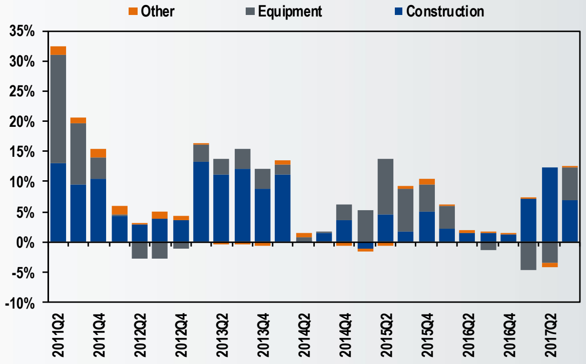
Source: TUIK, YF

Share of Extra-EU Imports



Source: Eurostat, YF

Annual Investment Growth



Source: TUIK, YF

Inflation Developments

Inflation ended 2017 with a 11.92% YoY annual inflation and an average annual inflation of 11.14%. Our 2018-end headline inflation expectation stands at 9.35% with an average annual inflation of 10.35%.

Core inflation ended 2017 at 12.30% YoY. Going forward, we expect only a gradual decline in the core inflation in 1Q18 slightly below 11.0% YoY, but it is set to decline towards single digits by 4Q18, and at best see low 9.0%'s by December 2018

In 2017, we have seen food inflation to rising from 5.7% in December 2016 to 15.8% by November 2017, ending the year at 13.2% and averaging 12.6% in 2017. We expect food inflation in 2018 to be %10.2 and average 10.0%.

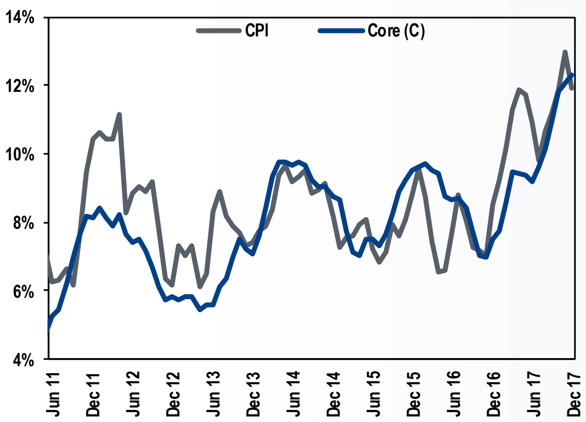
In December, 24-m ahead inflation expectation rose to 8.5% YoY from 8.0% in October - a near 1.5-point rise over the last year - rising from 6.0% in 2012. The recent up-tick is in fact points to a dangerous de-anchoring of inflation expectations, where the official target is still 5.0%. In addition, the sensitivity of the mid-term of inflation expectations to high inflation readings has heightened significantly.

The cost of not keeping inflation closer to inflation target on a permanent basis leads to de-anchoring of inflation expectations away from 5% towards almost twice of it at 10%. Engulfing the credibility gap for the CBRT may now require a very hawkish turn - long bout of very high real rates.

We believe the reason for the deterioration in inflation outlook was led by cost push factors, primarily fx pass thru effect on in inflation led by constant TL depreciation, which was instigated by loose monetary policy.

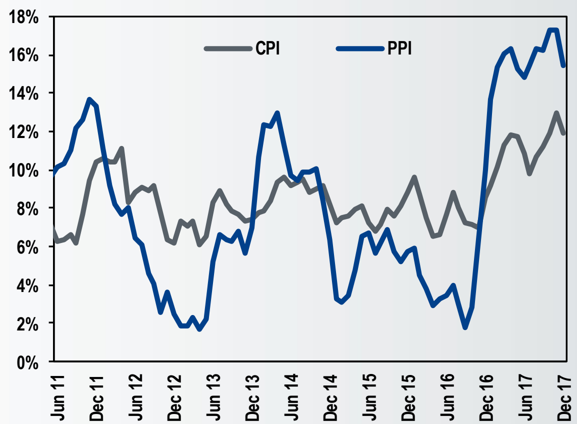
Yet, we believe cost push effects were the dominant factor in de-anchoring of inflation expectations especially since 2014. However, cost push effects were also result of a monetary policy preference in essence.

Annual CPI and Core Inflation



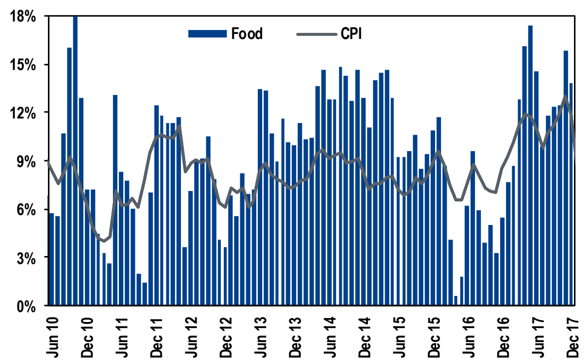
Source: Turkstat, YF

Annual CPI and PPI



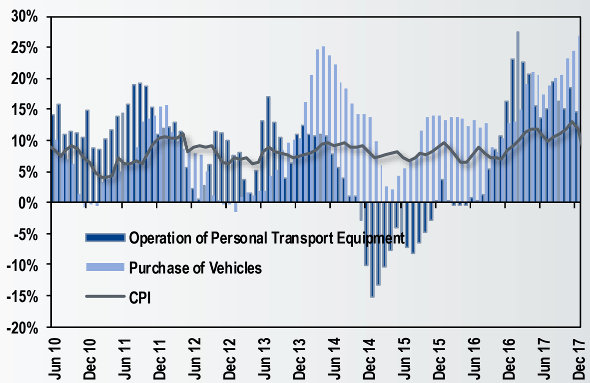
Source: Turkstat, YF

Annual Food and CPI Inflation



Source: Turkstat, YF

CPI and Transportation Group



Source: Turkstat, YF

Inflation – Effects of TL depreciation

Cost push effects were dominant factors in de-anchoring of inflation expectations especially since 2014.

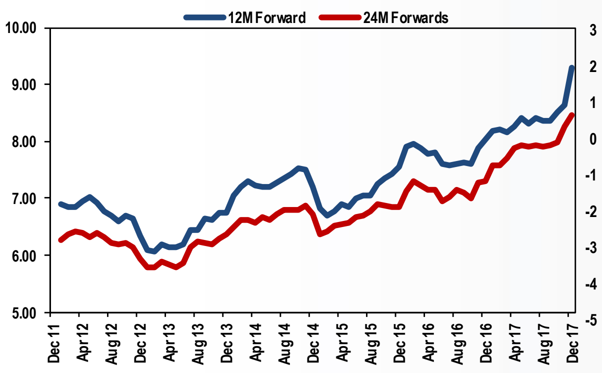
TL has lost on average 16.7% per annum between 2014 and 2017. In the period inflation averaged around 8.9% with expectations rising from 6.5% to 8.5%. FX movements raised inflation by about 2.0-2.5 points depending on the way you measure it.

- Exchange rate fx pass thru was the main story on core inflation developments on core goods either through imports of intermediate goods or final products.
- Other cost push effects such energy prices (fuel&electricity) have an important indicator of services inflation such as transportation services.
- Grain, meat and dairy, vegetable oil prices: Although majority of the production is local, demand clearly outstrips supply in a secular and ever widening manner. The inputs and output are increasing becoming import dependent.
- Price stickiness enforced by cost-push factors. Backward-looking pricing and inflation expectations have an impact especially on labour costs.

Weak TL was essentially a monetary phenomenon (a.ka. unorthodoxy)

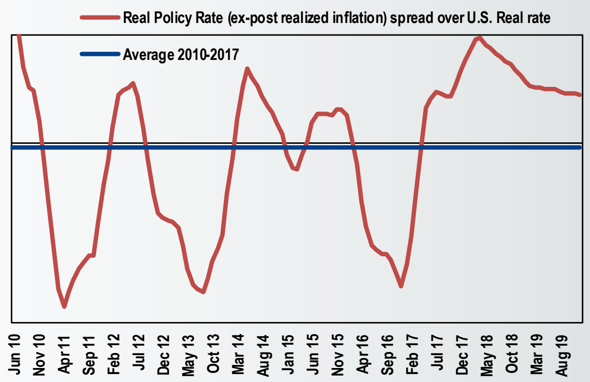
TL depreciation especially since 2011 had a causal relationship with low realized premiums (-0.6% ex-post) over the US real rates between 2011-2017. As a point of comparison, Turkey CDS ranged between 150-300bps during the period. This was an extremely accommodative local currency funding, which in turn led to a massive depreciation in TL over time.

Inflation Expectations



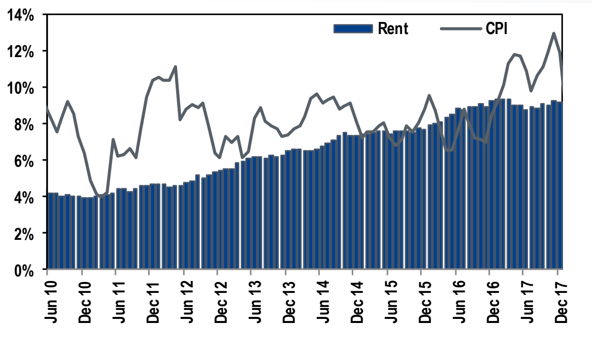
Source: Turkstat, YF

Real Rate Premium



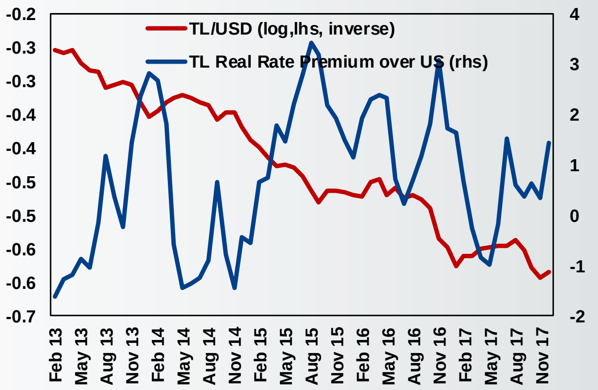
Source: Turkstat, YF

Rent and CPI



Source: Turkstat, YF

TL real rate (ex-post) Premium vs. TL



Source: Turkstat, YF

Monetary Policy

We believe, CBRT will avoid adopting a dovish position this time around. Given little output gap left in economy and limited scope for consumption boost, economic policy would likely to focus on supply side developments. Such a preference would eventually lead to a maintenance of macro stability and policy predictability.

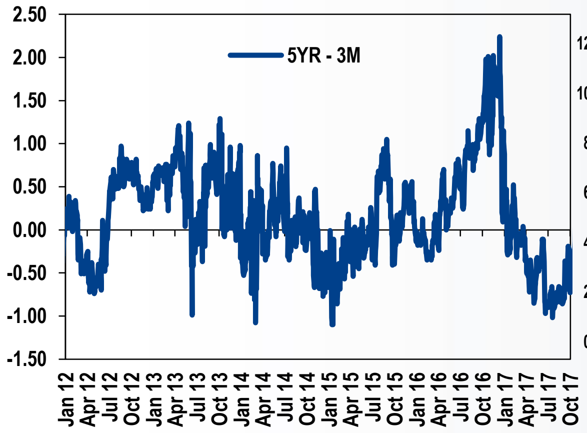
We believe policy makers will exploit other supply side sweeteners such as loan and credit subsidies, proliferation of preferential trade agreements and other regulatory easing instead of resorting to push CBRT for lower policy rates. CBRT would also not to instigate further negative side effects a dovish monetary policy. Continuous depreciation of TL has led to multi year financial losses at capital intensive industries such energy generation, real estate, infrastructure. Given, there is no demand shortage in the global economy unlike in between 2009-2017 (closing output gaps across the world), CBRT would be wise to adopt further unnecessarily accommodative stance.

Labour cost adjusted real effective exchange looks as cheap as in 2003, which is an anathema to significantly higher productivity growth .

- ULC adjusted real effective exchange rate (developed countries) only increased about 15% in the same period. GDP per hour worked per employee having increased by 45% between 2001 and 2017 in relative terms to developed world (OECD).
- That means with limited increase in the marginal cost of labour, Turkish labour was almost ½ more productive. Theory therefore suggests either exchange rates or labour costs were artificially depressed. Since multiple evidence suggests to the contrary for labour costs, it must be true of the exchange rate.

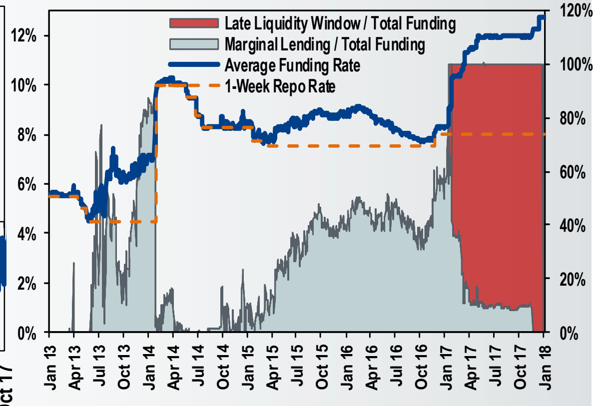
Although we expect CBRT to act more cautiously this time around, past policy mistakes may always haunt back, especially with regard to repressed negative real rate premiums, which leads to massive deprecation pressure on the TL. We would consider a premature or an unwarranted easing by the Bank as a policy mistake, which could lead to another depreciation cycle. Although we do not envision a case in which global real rates rise too fast, in case in does, we assume the Bank will act accordingly and timely to the matter unlike seen in previous years.

Treasury Yield Curve



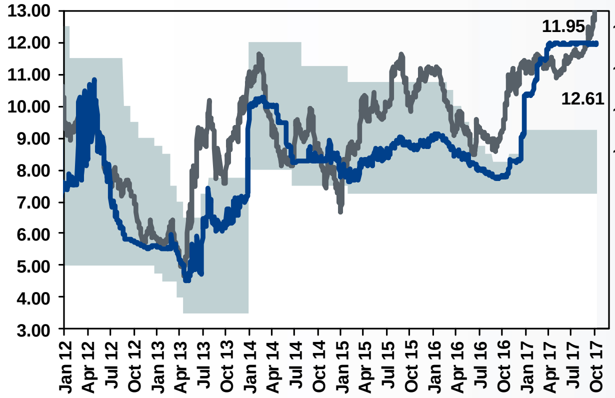
Source: Turkstat, YF

CBRT Funding Composition



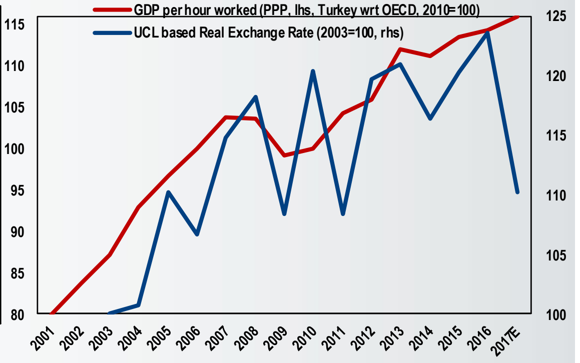
Source: Turkstat, YF

Policy vs. Benchmark Government



Source: Turkstat, YF

Productivity vs. Real Effective TL



Source: Turkstat, YF

Fiscal Policy

Fiscal policy had been the least exciting aspect of Turkish economic policy mix for years. Budget deficit was around 1% of GDP until 2016 although contingent liabilities were on the rise.

Contrary to IMF recommendations, cyclical nature of the fiscal policy became more prominent as some countercyclical measures such as more disciplined spending on inelastic expenditures such as current transfers and wages increased while tax revenues tended to be weaker

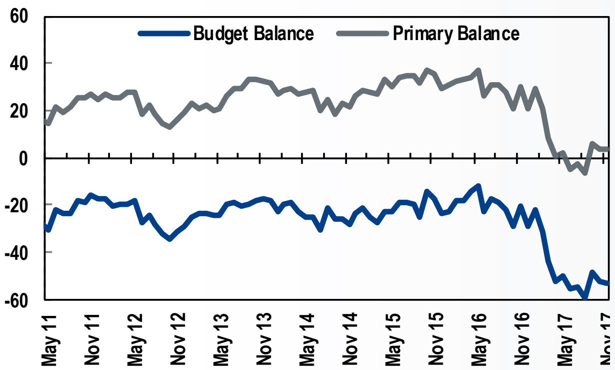
Since mid-2016 Government adopted a more expansionary fiscal policy to overcome growth problems which yielded record budget deficits despite lack of deep recessionary headwinds).This lead to government borrowing rollover in the local debt markets to exceeded 140% this summer which was below 100% for a very long time. This meant extra pressure on interest rates as government took a greater share of the national savings crowding out private demand for credit.

What our notice however is that the Government had the foresight to stop the ever increasing budget deficit and pulled on the breaks by 3Q17. Since then we have seen government non-interest expenditure growth to come way down below that of tax revenue growth. As a result, Government can in fact hit its budget deficit target of 2.1% below 2.0% in FY2017.

For 2018, we would believe Government may try to undershoot its target (ours as well) of a fiscal deficit of 1.9% of GDP, more towards 1.5% towards the end of the year, as to keep dry powder ready for 2019 in case growth sputters. This would mean decline in the rollover rates and help interest rates slide faster. We believe it is positive development that the Government will lower domestic debt roll-over towards 128.5% in 2017 and 110% in 2018. This would translate into decline in the supply-side pressure on the local rates.

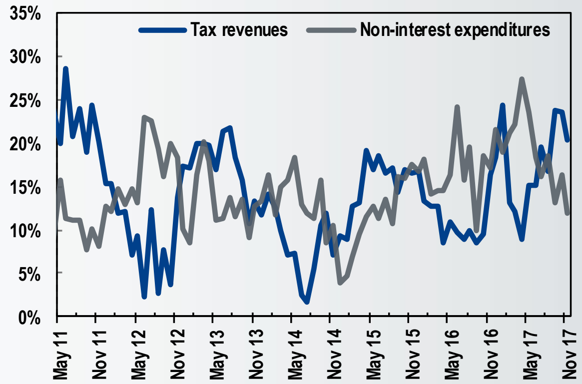
For external debt servicing, a total borrowing of TRY33.8bn and TRY23.9bn are envisaged for debt service of TRY40.6bn and TRY41.5, respectively in 2017 and 2018. This suggest relatively low level of roll-over for foreign debt. The Treasury continues to aim to lower fx-linked debt composition of the stock to safeguard itself from potential TL depreciation.

Budget Balance (12-m rolling, bn TL)



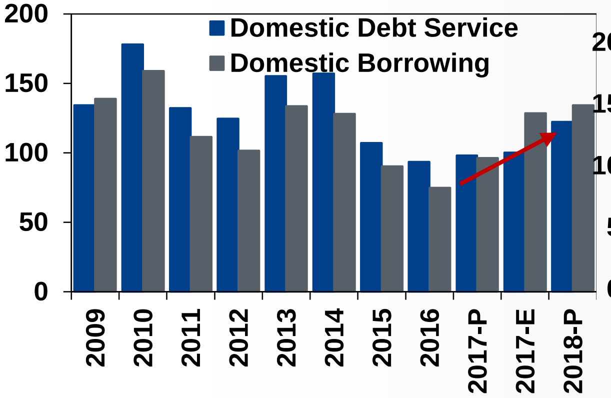
Source: Turkstat, YF

Budget Balance (3M MA, YoY)



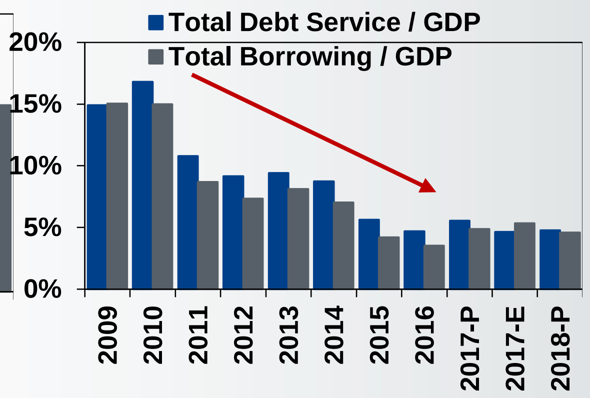
Source: Turkstat, YF

Debt Rollover



Source: Turkstat, YF

Debt Rollover % of GDP



Source: Turkstat, YF

External Balances

In 2018 we only expect a slight improvement in the CA deficit. We expect it to contract towards USD44.0bn at 5.1% of GDP from USD47.2bn (5.6%) in 2017. The main reason for the improvement will be the increasing tourism revenues and balanced foreign trade of goods growth.

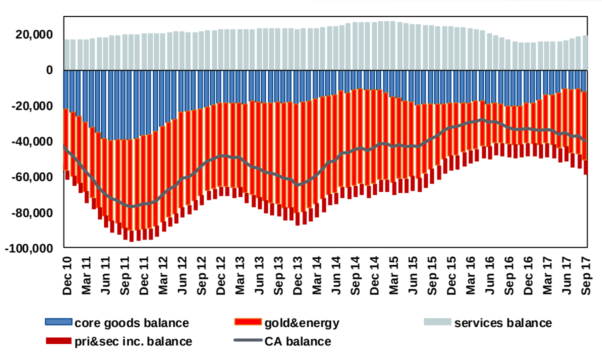
Latest Developments:

- Manufactured goods & unprocessed industrial materials deficit increased to USD13.6bn in October 2017 from a cyclical low of USD10.5bn in August 2017. However, one must note the extraordinary improvement since 2011 (cyclical high of USD40bn).
- An eye-catching situation was that energy & commodities deficit rose to USD40bn from its cyclical low of USD 21.5bn in September 2016. Here, this was mostly due to price effects. The increased volume of imports had a secondary role here, although we must note on year-to-date basis there had been a 20% YoY increase in the total volume of natural gas imports.
- Services balance recorded a surplus of USD19.8bn, marking a steep rise from cyclical lows of USD15bn in early 2017, thanks to a 30% rise in the gross tourism revenues to USD2.0bn in the month.

On the financing side, private sector finally started to build some leverage following a long deleveraging process in the last year and half.

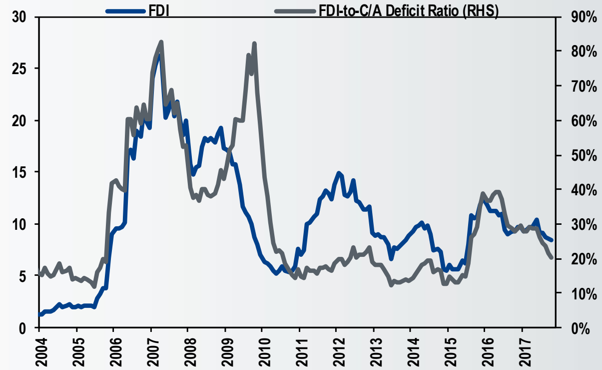
- Banking system's appetite for balance sheet growth is beginning to come back to earth. In 12-m Rolling terms, a net Eurobond issue of USD6.9bn coupled with net credit payback of USD0.75bn as of October 2017 was an improvement from a Eurobond issue of USD5.9bn and net loan payback of USD6.3bn as of July 2017.
- In rolling annual basis, non-bank corporates also issued USD1.5bn in Eurobonds and borrowed net USD3.2bn in external loans, pointing to rising borrowing appetite. All these suggest, private sector has slightly more inclination towards investments in 2018.

Components of CA Deficit



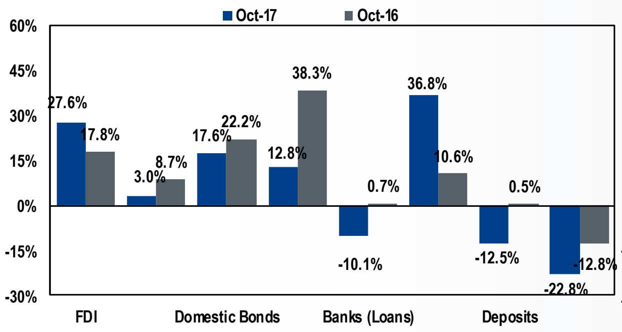
Source: CBRT, Turkstat, YF

FDI and C/A Deficit 12-m rolling



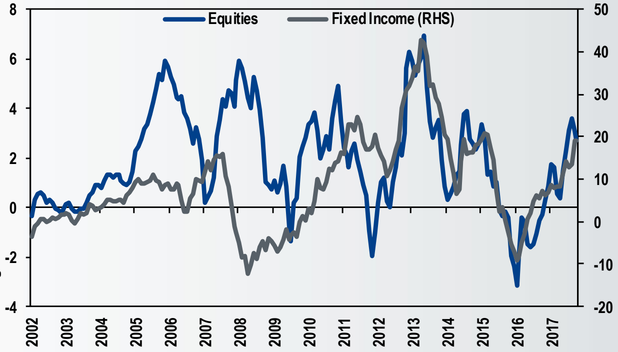
Source: CBRT, YF

Finance - 12M Rolling, % of CA deficit



Source: CBRT, YF

Portfolio Flows 12M Rolling, USDbn



Source: CBRT, YF

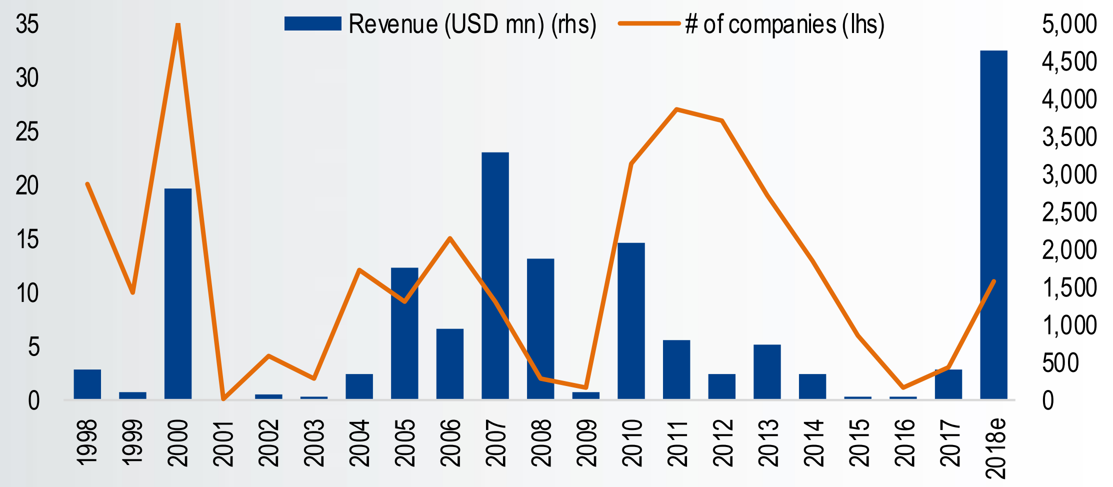
YF Macro Framework

YATIRIM FİNANSMAN SECURITIES

	2011	2012	2013	2014	2015	2016	2017F	2018F	2019F
GDP (TRY bn)	1394.5	1569.7	1809.7	2044.5	2338.6	2608.5	3056.1	3392.8	3873.1
GDP (USD bn)	833.8	876.0	950.7	932.9	859.0	862.7	848.0	855.9	908.9
GDP Real Growth	10.7%	4.7%	8.9%	5.0%	6.1%	3.2%	6.2%	4.2%	4.7%
CPI (annual; eop)	10.5%	6.3%	7.4%	8.2%	8.8%	8.5%	11.98%	9.35%	9.20%
CPI (annual; average)	6.5%	8.9%	7.5%	8.9%	7.7%	7.8%	11.14%	10.35%	9.04%
Interest Rate (Benchmark, eop)	11.0%	6.2%	10.0%	8.0%	10.8%	10.6%	13.40%	12.00%	12.00%
Interest Rate (Benchmark, average)	8.8%	8.4%	7.4%	9.3%	9.7%	9.7%	11.63%	12.63%	12.00%
Policy rate, eop)	5.75%	5.50%	4.50%	8.25%	7.50%	7.50%	8.00%	8.00%	8.00%
Policy rate, average)	6.14%	5.73%	4.88%	8.65%	7.57%	7.50%	8.00%	8.00%	8.00%
CBRT Cost of Funding (eop)	9.04%	5.55%	7.10%	8.51%	8.81%	8.31%	12.75%	11.50%	11.50%
CBRT Cost of Funding (average)	6.51%	7.42%	5.96%	9.10%	8.44%	8.36%	11.73%	12.26%	11.50%
USD/TL (eop)	1.92	1.78	2.13	2.32	2.91	3.53	3.77	4.10	4.40
USD/TL (average)	1.68	1.79	1.90	2.19	2.72	3.03	3.62	3.96	4.26
EURO/TL (eop)	2.47	2.35	2.93	2.83	3.18	3.71	4.55	4.96	5.41
EURO/TL (average)	2.33	2.30	2.53	2.91	3.02	3.34	4.12	4.78	5.24
Primary Surplus (as % of GDP)	1.0%	0.3%	0.9%	0.3%	0.8%	-0.9%	-1.2%	-0.5%	-0.5%
Budget Balance (as % of GDP)	-1.5%	-2.0%	-1.2%	-1.6%	-1.3%	-1.7%	-1.9%	-1.9%	-1.5%
Exports (USD bn)	135.0	152.5	151.8	157.6	143.8	143.5	157.1	171.2	184.9
Imports (USD bn)	240.8	236.5	251.7	242.2	207.2	198.6	234.2	256.0	280.0
Trade Balance (USD bn)	-105.9	-84.1	-99.9	-84.6	-63.4	-55.1	-77.1	-84.8	-95.0
C/A Balance (USD bn)	-75.0	-48.5	-64.7	-43.6	-32.1	-33.0	-47.2	-44.0	-46.5
C/A Balance / GDP (%)	-9.0%	-5.5%	-6.8%	-4.7%	-3.7%	-3.8%	-5.6%	-5.1%	-5.1%

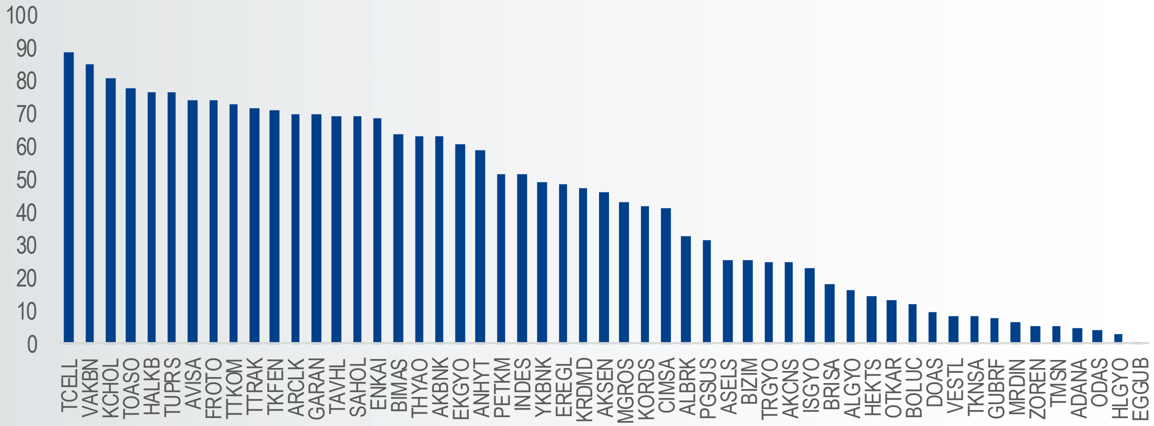
Flood of high quality IPOs in 2018

Amount of IPOs in Turkey (USDmn)



Source: CMB, Various dailies, YF Securities

Stocks with the highest share of Foreigners (% of Free Float)



Source: Matriks, YF Securities

Turkish equity market is likely to be flooded with a record amount of IPOs in 2018. Including the potential SPO of Aselsan, total amount of cash to be raised could peak to USD4.7bn, which will be by far the highest amount of cash raised in a year.

The amount of cash to be raised may lead to some sell-offs in stocks with the high share of foreigners in their free floats. Turkcell, Vakifbank, Koc Holding, and Tofas have the highest shares of foreigners in their free floats, therefore they may potentially be negatively impacted by the IPOs, as investors may replace these stocks with the newly IPOed stocks.

However, it's also worth to note that in terms of quality of companies that will be IPO'ed, 2018 is likely to be one of the best years of Turkish equity markets and they may attract new investors into the Turkish market. The leading companies that are likely to tap the market in 2018 are as follows:

- Medical Park Hospital: Operates 29 hospitals with 5330 bed capacity.
- Memorial Healthcare**:** Operates 10 hospitals with 1451 bed capacity
- Sok Markets: Soft discounter with ~5000 stores.
- DeFacto Retail: Apparel retailers with 327 domestic and 113 overseas shops.
- Beymen Retaling: Upscale apparel brand with 60 shops under operation.
- Penta Technology: Turkey's 3rd largest IT company.
- Aksa Natural Gas Distribution: Operates in 31 cities with 2.5mn customers
- Enerjisa Energy: Provides electric distribution services to ~20mn customers.
- Borsa Istanbul: The only exchange entity of Turkey
- Trabzon Ports:Port operator company with concession rights of Trabzon port until 2033
- Aselsan: Largest defense electronics company of Turkey.

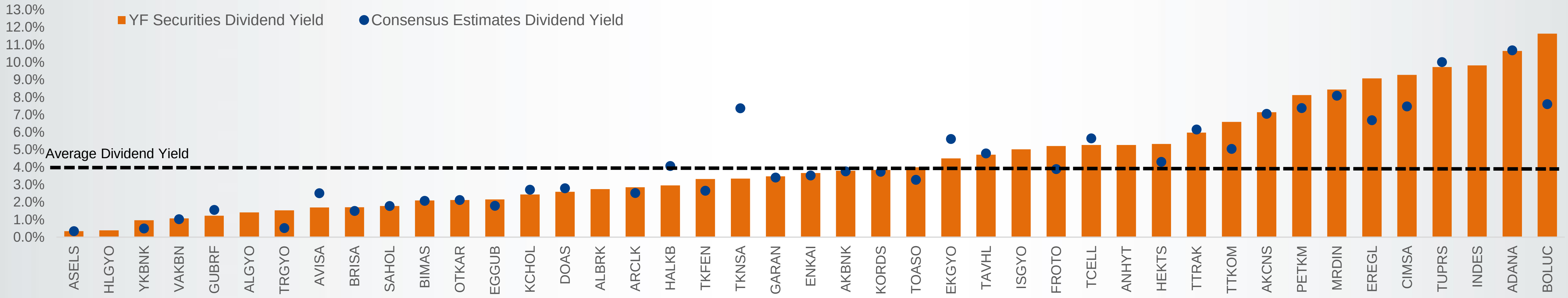
Dividend Outlook

We foresee dividend yield of YF coverage averaging 4%: With the 4Q earnings season due to kick off by the beginning of February, investor focus could well turn to high dividend plays in the coming months. In our coverage universe, Cement Companies, INDES, TUPRS, EREGL, PETKM, and TTKOM stand out with high dividend yields based on our estimates.

- **TUPRS:** We anticipate Tupras to distribute a DPS of TL11.94/s (yield of 9.7%) with respect to 2017YE financial results.
- **EREGL:** We expect Erdemir to distribute a cash DPS of TL0.92/s in 2Q18, implying a dividend yield of 9.1%.
- **PETKM:** We believe the improved cash flow profile and stronger EPS performance will set the stage for attractive DPS of TL0.68 (yield of 8.1%)
- **Cement Companies:** Despite the weak operational profitability in 2017, cement companies are expected to continue to be the leading stocks in terms of dividend yield: BOLUC: 11.6%; ADANA: 10.6%; CIMSA: 9.3%; MRDIN: 8.4%; AKCNS: 7.1%.
- **INDES:** The company should distribute a strong dividend (dividend yield of 10%) thanks to completion of its real estate project.

Our total dividend payment expectation for our coverage universe is broadly in-line with Bloomberg Finance LP consensus. **However, on EKGYO, TKNSA and HALKB, our estimates are significantly lower than consensus estimates, while on EREGL, TTKOM and FROTO, we are ahead of consensus expectations.**

Dividend yield expectations for YF coverage vs. consensus expectations



Source: Bloomberg, YF Securities

Recalling FX Sensitivity of Companies

The volatility in TL appears to continue into 2018, and this should have a significant impact on the companies' earnings. That said, however, stating the winners and losers of TL weakness is not straightforward. A depreciation that has limited impact on domestic demand generally benefits Turkish non-financial companies operationally, while hurts them throguh non-cash FX losses reported under financial expense item, as they have sizeable short FX position. Turkish non-financial companies carry significant short FX position as borrowing costs and maturity of FX-denominated cost are more favourable compared to local currency.

Operational benefit from the TL depreciation is reflected into financials with a time-lag, while balance sheet impact is immediately reflected as IFRS requires mark-to-market of the balance sheet items. Owing to the immediate reflection of the Balance sheet items, while operational benefit feeds into the financials with a time lag, market generally focuses on the companies' balance sheet sensitivities. The next chart ranks the companies based on their Balance Sheet risks. However, taking into consideration the operational sensitivities as well, winners and losers of TL weakness should be as follows:

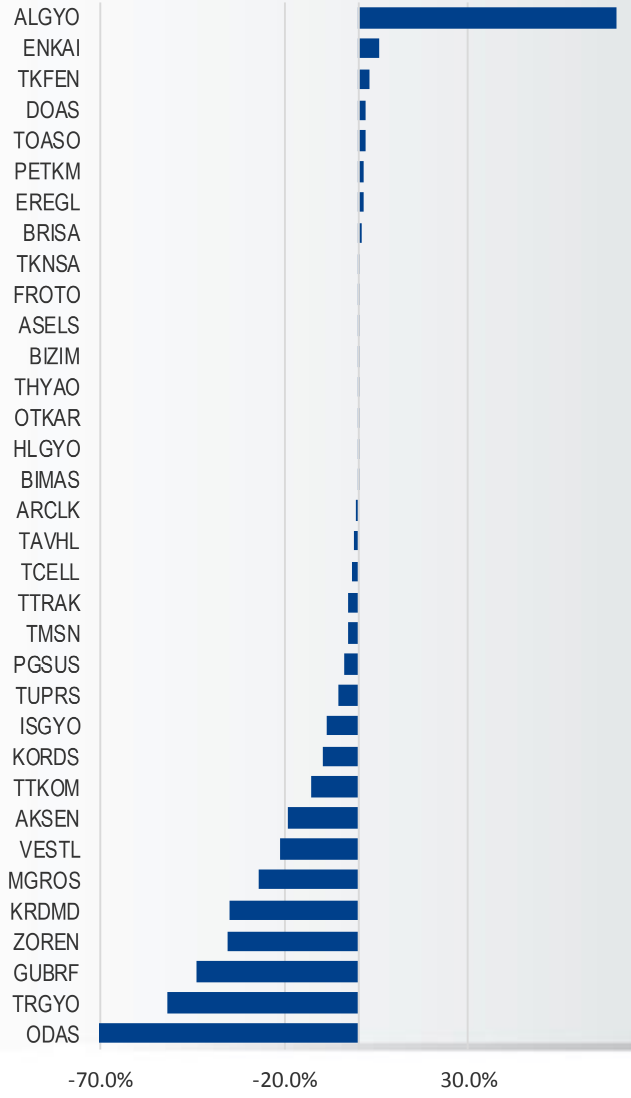
<u>Winners:</u>

TAVHL: With FX revenues and costs account for ~70% and ~40% of total, it benefits operationally from weak TL.
THYAO: With FX revenues and costs account for ~80% and ~70% of total, it benefits operationally from weak TL.
EREGL: Sales revenue is all FX based while 20% of cost are in TL based; thus it benefits operationally from weak TL.
ENKAI: Benefits from fall in TL thanks to its exposure to FX based revenues and its $3.1bn net cash in hard currency.
ALGYO: Benefits from TL depreciation, thanks to its $102mn long FX position (~45% of the latest NAV).

<u>Losers:</u>

TTKOM: $3.6bn short FX position suppresses the bottom-line performance during periods of TL depreciation.
DOAS: Profitability is hit hard when TL depreciates as FX revenues and FX costs accounts for 20% and 90% of total.
MGROS: Bottom-line performance is negatively affected when TL depreciates due to $628mn short FX position.
TRGYO: $878mn short FX position hits bottom-line performance during the period of TL depreciation.
ZOREN: Bottom-line performance is negatively affected when TL depreciates due to $1.7bn of short FX position.

Balance Sheet FX Sensitivity: FX Gains (Loss) / Trailing EBITDA in case of 10% TL depreciation



Source: Companies, YF Securities Research

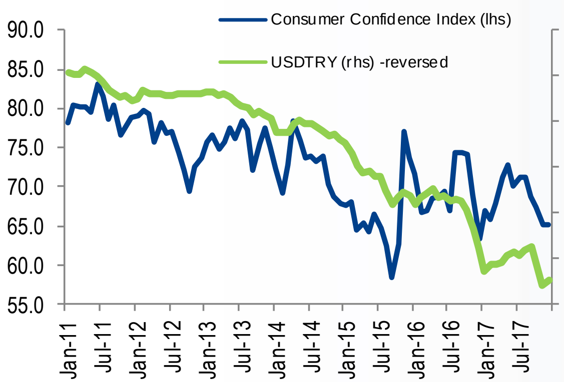
FX Volatility and Turkish Households

Consumer confidence index dropped significantly in recent months, also due to a weak TL: Following the rise in interest rates, weak TRY and increased noise on the political front, consumer sentiment in Turkey has deteriorated significantly in recent months. The level of consumer confidence index compiled by Turkstat, declined to 65.1 in December 2017, which is one of the lowest levels in recent years.

Despite having a negative impact on consumer sentiment, a weak TL is actually boost the financial net assets of Turkish households and therefore has a positive impact on the consumers' medium and long term consumption patterns. This is because Turkish households have a significant FX linked assets, such as FX saving deposits (29% of total financial assets), while on the liability side, they do not have any FX linked liabilities, as Turkish regulator does not allow banks to lend FX linked loans to the households. Thanks to this limitations on FX borrowings, Turkish households are long in FX and have significantly benefited from the TL weakness in recent years. Note that Net Financial assets of the Turkish households jumped from TL322bn at the end of 2013 to around TL700 by the end of June 2017.

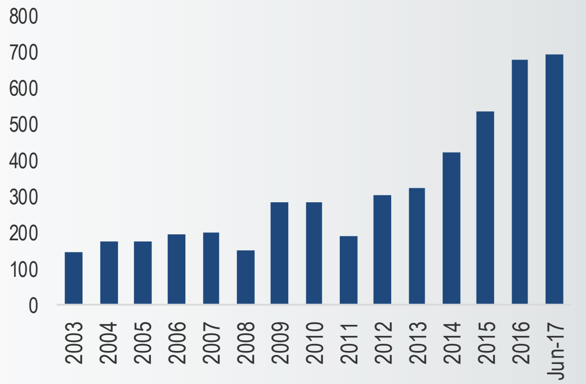
Note that in addition to the financial assets, Turkish households have sizeable gold stockpiles, which are kept "under the pillow", with estimates on their value ranging from USD100bn to USD200mn. These assets are also FX linked, therefore, the households' benefit from the TL depreciation is even larger than the financial asset figures suggest.

Consumer Confidence vs. TL/USD



Source: Turkstat, YF Securities

Households' Net Fin. Assets TLbn



Source: CBTR, YF Securities

Households' Financial Assets vs. Liabilities (1Q 2014 vs. 3Q 2017)

	TLbn			Share in total		
	Mar-14	Sep-17	Chg (%)	Mar-14	Sep-17	Chg (pp)
TL Savings Deposits	351	535	52%	48%	47%	-1.6%
FX Savings Deposits	181	338	86%	25%	29%	4.5%
Precious Metal Deposits	15	19	28%	2%	2%	-0.4%
Bonds and Bills	19	21	8%	3%	2%	-0.8%
Mutual Funds	53	113	114%	7%	10%	2.6%
Equity Securities	37	57	54%	5%	5%	-0.1%
Repo	3	1	-61%	0%	0%	-0.3%
Currency in Circulation	71	67	-6%	10%	6%	-3.9%
Total financial assets	**730**	**1,151**	**58%**	**100%**	**100%**	**0.0%**
Housing	124	204	65%	33%	38%	4.4%
Vehicle	15	17	15%	4%	3%	-0.9%
General Purpose	137	206	51%	37%	38%	1.2%
Individual Credit Cards	84	96	14%	23%	18%	-5.0%
Liabilities to asset management firms	12	19	58%	3%	3%	0.3%
Total financial liabilities	**371**	**542**	**46%**	**100%**	**100%**	**0.0%**

Source: CBTR, YF Securities

Valuation Updates 1

YATIRIM FİNANSMAN SECURITIES

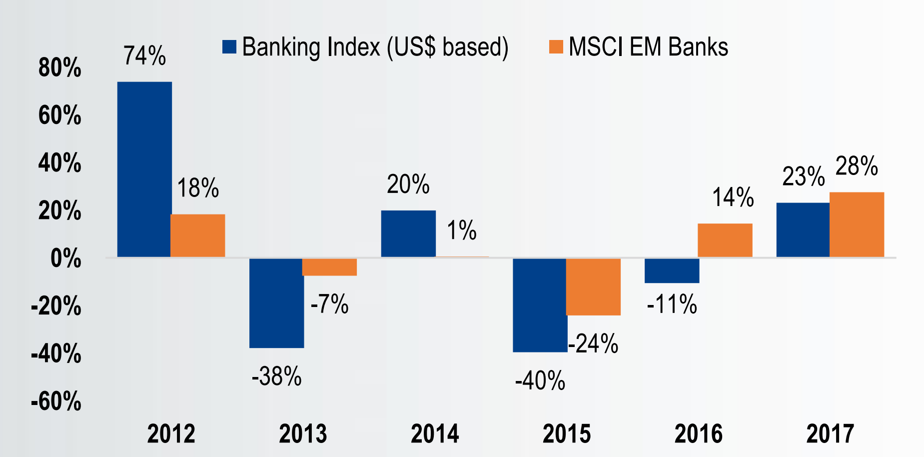
	Share price (TL)	Old TP (TL/s)	New TP (TL/s)	Upside (%)	Recommendation Old	Recommendation New	2017e Net Income Old	2017e Net Income New	2017e Net Income % Chg	2018e Net Income Old	2018e Net Income New	2018e Net Income % Chg	Reasons for revisions	P/E 2018e	EV/EBITDA 2018e
Banking															
AKBNK	9.81	11.50	12.30	25%	Market Perform	**Outperform**	5,540	6,096	10%	6,100	6,808	12%	Upgraded due to attractive valuation and strong B/S	5.76	
ALBRK	1.55	1.70	1.70	10%	Market Perform	Market Perform	292	264	-10%	325	313	-4%	Fine-tuning estimates, led by macro estimate changes	4.46	
GARAN	10.48	13.20	12.75	22%	Outperform	Outperform	6,231	6,232	0%	6,984	7,055	1%	Fine-tuning estimates, led by macro estimate changes	6.24	
HALKB	10.20	18.60	12.00	18%	Outperform	**Market Perform**	3,995	3,915	-2%	4,027	4,259	6%	Downgraded due to higher discount rates	2.99	
VAKBN	6.61	8.85	8.50	29%	Outperform	Outperform	3,689	3,655	-1%	4,108	4,024	-2%	Fine-tuning estimates, led by macro estimate changes	4.11	
YKBNK	4.38	5.90	5.30	21%	Outperform	Outperform	3,532	3,731	6%	4,081	4,124	1%	Fine-tuning estimates, led by macro estimate changes	4.62	
Insurance															
ANHYT	7.48	7.50	9.85	32%	Market Perform	**Outperform**	218	228	5%	235	263	12%	Upgraded due to potential benefit from new regulation	12.24	
AVISA	18.35	24.30	21.80	19%	Outperform	Outperform	95	105	10%	129	137	6%	Fine-tuning estimates, led by regulatory changes	15.85	
Airlines / Ground Handling															
PGSUS	35.48	29.00	42.00	18%	Market Perform	**Outperform**	253	464	83%	299	474	59%	Upgraded on stronger pax and profitability assumptions	7.65	4.80
TAVHL	22.12	20.50	23.50	6%	Market Perform	Market Perform	823	860	4%	1,144	1,112	-3%	Fine-tuning estimates, led by macro estimate changes	7.23	5.02
THYAO	16.1	10.50	19.40	20%	Market Perform	**Outperform**	-1,048	1,274	n.m.	1,829	3,358	84%	Upgraded on stronger pax and profitability assumptions	6.62	4.99
Automotive & Machinery															
DOAS	8.83	10.75	10.70	21%	Outperform	Outperform	188	199	5%	311	222	-29%	Fine-tuning estimates, led by macro estimate changes	8.76	7.34
FROTO	58.45	54.00	55.00	-6%	Market Perform	Market Perform	1,208	1,330	10%	1,692	1,412	-17%	Fine-tuning estimates, led by macro estimate changes	14.53	9.71
TOASO	32.26	37.00	38.90	21%	Outperform	Outperform	1,443	1,196	-17%	1,220	1,283	5%	Fine-tuning estimates, led by macro estimate changes	12.57	8.61
TTRAK	78.00	103.00	95.00	22%	Outperform	Outperform	319	280	-12%	404	325	-19%	Estimate changes led by new macro&operational estimates	12.81	8.46
Cement															
ADANA	6.19	6.70	6.70	8%	Market Perform	Market Perform	66	66	0%	68	68	0%	-	8.04	7.28
AKCNS	10.95	16.80	13.40	22%	Outperform	Outperform	241	170	-29%	256	178	-31%	Murky outlook of domestic cement demand	11.80	7.57
BOLUC	5.52	8.00	7.00	27%	Outperform	Outperform	113	113	0%	116	117	1%	Fine-tuning estimates, led by macro estimate changes	6.75	5.22
CIMSA	14.16	20.40	17.40	23%	Outperform	Outperform	220	210	-5%	241	223	-8%	Murky outlook of domestic cement demand	8.59	8.73
MRDIN	4.31	4.80	4.80	11%	Market Perform	Market Perform	43	43	0%	44	44	0%	-	10.69	8.44
Telecommunication															
TCELL	14.82	15.00	17.50	18%	Outperform	Outperform	2,002	2,270	13%	3,395	2,869	-15%	Estimate changes led by new macro&operational estimates	11.36	5.76
TTKOM	6.32	7.30	7.30	16%	Market Perform	Market Perform	1,012	1,129	12%	1,656	1,826	10%	Estimate changes led by new macro&operational estimates	12.11	5.07
Construction & Contracting															
ENKAI	5.93	5.80	6.40	8%	Market Perform	Market Perform	2,275	2,599	14%	2,551	2,892	13%	Fine-tuning estimates, led by macro estimate changes	9.43	8.24
TKFEN	16.57	13.10	19.50	18%	Market Perform	**Outperform**	471	662	41%	519	681	31%	Upgraded due to attractive valuation strong earnings outlook	9.00	4.26
Defense															
ASELS	32.00	22.90	30.20	-6%	Underperform	**Market Perform**	1,023	1,145	12%	1,392	1,235	-11%	Upgraded due to recent stock underperformance	25.91	24.40
OTKAR	119.80	114.00	116.00	-3%	Underperform	Underperform	127	84	-34%	162	106	-35%	Estimate changes led by new macro&operational estimates	27.19	16.16

Valuation Updates 2

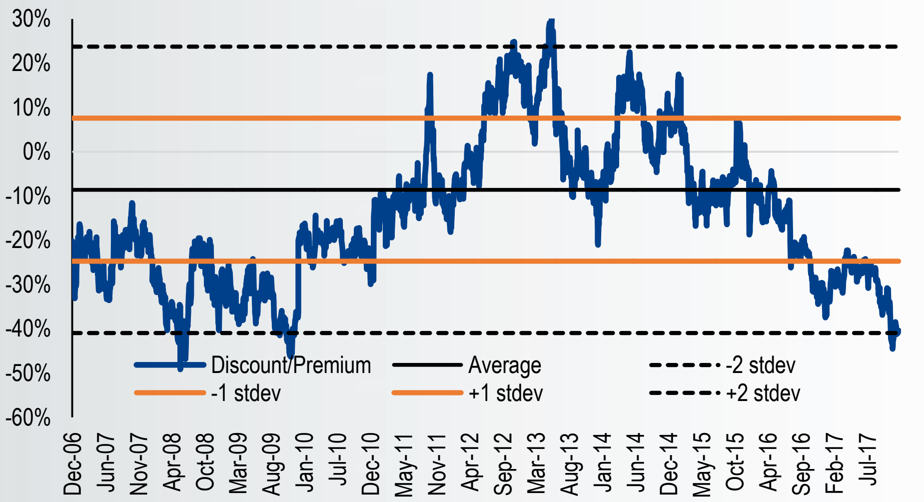
	Share price (TL)	Old TP (TL/s)	New TP (TL/s)	Upside (%)	Recommendation Old	Recommendation New	2017e Net Income Old	2017e Net Income New	2017e Net Income % Chg	2018e Net Income Old	2018e Net Income New	2018e Net Income % Chg	Reasons for revisions	P/E 2018e	EV/EBITDA 2018e
Durable Goods															
ARCLK	21.28	27.00	26.00	22%	Outperform	Outperform	1,257	1,257	0%	1,879	1,879	0%	-	7.65	7.19
VESTL	9.23	9.10	8.90	-4%	Market Perform	Market Perform	280	192	-31%	370	280	-24%	Estimate changes led by new macro&operational estimates	11.06	5.82
Energy															
AKSEN	4.42	4.60	5.10	15%	Outperform	Outperform	-24	62	-358%	444	275	-38%	Estimate changes led by new macro&operational estimates	9.86	5.64
ODAS	6.72	6.35	6.30	-6%	Market Perform	Market Perform	-7	-38	438%	34	51	49%	Estimate changes led by new macro&operational estimates	17.89	6.56
ZOREN	1.64	2.10	2.30	40%	Outperform	Outperform	22	88	306%	67	130	93%	Estimate changes led by new macro&operational estimates	25.23	7.49
Fertilizer															
EGGUB	29.00	41.50	37.00	28%	Outperform	Outperform	26	26	0%	30	30	0%	-	9.52	5.74
GUBRF	4.33	5.30	4.70	9%	Market Perform	Market Perform	47	28	-40%	121	76	-37%	Estimate changes led by new macro&operational estimates	19.08	10.97
HEKTS	7.26	6.80	7.60	5%	Market Perform	Market Perform	42	44	7%	47	54	16%	Fine-tuning estimates, led by macro estimate changes	10.13	8.54
Oil, Gas & Petrochemicals															
TUPRS	120.00	147.00	143.00	19%	Outperform	Outperform	4,171	3,936	-6%	3,292	4,923	50%	Med margin and macro estimate changes	6.10	5.49
PETKM	8.31	7.80	9.40	13%	Outperform	Outperform	1,172	1,289	10%	904	1,265	40%	Ethylene-naphtha spread and macro estimate changes	9.85	7.83
Real Estate															
ALGYO	52.55	53.60	55.50	6%	Outperform	**Market Perform**	100	100	0%	85	85	0%	Downgraded due to limited upside potential	6.58	12.40
EKGYO	2.72	2.75	2.90	7%	Market Perform	Market Perform	1,545	1,545	0%	1,774	1,774	0%	-	5.83	5.27
HLGYO	0.93	1.25	1.25	34%	Outperform	Outperform	303	303	0%	414	414	0%	-	1.84	6.85
ISGYO	1.40	1.45	1.50	7%	Market Perform	Market Perform	428	427	0%	607	605	0%	-	2.12	7.55
TRGYO	3.27	7.30	3.65	12%	Market Perform	Market Perform	580	570	-2%	1,322	1,299	-2%	-	2.52	6.85
Retail															
BIMAS	76.20	83.00	82.00	8%	Market Perform	Market Perform	861	861	0%	1,017	1,017	0%	-	22.76	15.37
BIZIM	7.63	8.30	8.30	9%	Market Perform	Market Perform	-21	-21	0%	-5	-5	0%	-	-101.00	6.83
MGROS	26.80	26.50	27.00	1%	Underperform	Underperform	591	591	0%	-59	-59	0%	-	-80.79	7.84
TKNSA	5.61	5.80	5.90	5%	Market Perform	Market Perform	6	28	378%	41	41	-1%	Estimate changes led by new macro&operational estimates	15.05	3.58
INDES	12.27	14.50	14.60	19%	Outperform	Outperform	215	215	0%	133	133	0%	-	5.19	4.63
Steel & Iron															
EREGL	9.91	11.70	11.70	18%	Outperform	Outperform	3,592	3,592	0%	4,161	4,161	0%	-	8.34	5.86
KRDMD	3.25	3.50	3.50	8%	Outperform	Outperform	155	155	0%	439	439	0%	-	5.77	4.19
Tire															
BRISA	7.60	7.00	7.45	-2%	Underperform	Underperform	78	108	39%	168	124	-26%	Estimate changes led by new macro&operational estimates	18.66	9.62
KORDS	7.94	9.90	9.90	25%	Outperform	Outperform	154	157	2%	169	173	3%	Fine-tuning estimates, led by macro estimate changes	8.93	6.16

Sector Outlook: Banks - I

Discount of Turkish Banks vs. EM Banks



TR Banks P/E vs. MSCI EM Banks P/E Discount



Source: Bloomberg, YF Securities Equity Research

Similar to 2016, strong earnings growth in 2017 again has not been enough to drive the share performance... Banking Index underperformed BIST100 by 10% in 2017, on top of 1% underperformance in 2016. Banks outperformed the market by 2% in 1H17, while underperformed in 2H17 due to ongoing trial on Zarrab case and weakening TL, although banks delivered a strong earnings growth of close to 30% y/y.

We expect at 15% loan growth in 2018 based on our 4.2% GDP forecast. We expect 12% currency adjusted total loans in 2018. The Banking sector loans increased by 21% in 2017, as a result of support from CGF. That said, we expect 6.2% GDP growth in 2017. We expect, consumer cash loans and TL commercial loans will be segments that Banks may focus although, rising loan rates might constrain banks' growth targets especially in consumer segment. We expect CGF related loans to support loan growth in 2018 with a lesser impact on total growth. On the other hand, deposits, major source of funding, increased by 18% in 2017, staying behind loan growth. Another strong loan growth would come with a higher cost compared to last year, if Banks would prefer, in our view.

Rising loan rates to provide upside potential on NIM outlook in 2018.... We expect Banks to maintain NIMs flat in 2018. However, loan rates gradually increased during 2017, which will impact profitability in 2018. Based on our macro house forecast, deceleration in inflation in 4Q18 may provide upside potential on NIMs despite negative impact of CPI-linkers by 4Q18.

Asset quality again will not be a problem in 2018... Slowing down of economy compared to 2017 is one of the risks in terms of asset quality. However, we think that government support on commercial loans through guarantees may prevent potential delinquencies in our view. Asset quality of CGF related loans will be closely followed in 2018.

IFRS 9 to be effective in 2018, which will change the calculation method of provision costs. Overprovisioned banks seem to benefit more from the new IFRS 9 transition. According to BRSA's impact analysis, total provisions would decrease by c.4% (TL2.56bn) for the top 20 banks. As a result of analysis, CET1 and total CAR would improve by 33bps and 21bps, respectively. Initial impact on financials is expected to be seen in 1Q18, yet IFRS 9 transition do not seem to be a major risk on banks.

Sector Outlook: Banks - II

Banks Target Prices

	Ratings	Status	Target Prices (TL) Old TP	New TP	Upside
AKBNK	Outperform	Upgraded	11.5	12.3	24%
ALBRK	Market Perform	Maintained	1.7	1.7	13%
GARAN	Outperform	Maintained	13.2	12.8	21%
HALKB	Market Perform	Downgraded	18.6	12.0	15%
VAKBN	Outperform	Maintained	8.9	8.5	26%
YKBNK	Outperform	Maintained	5.9	5.3	20%

TR Banks P/E vs. MSCI EM Banks P/E Discount

	P/E		P/BV		ROE	
	17E	18E	17E	18E	17E	18E
AKBNK	6.5x	5.8x	1.0x	0.9x	17.1%	15.8%
ALBRK	5.2x	4.4x	0.5x	0.5x	11.0%	11.7%
GARAN	7.1x	6.3x	1.1x	1.0x	16.3%	16.1%
HALKB	3.3x	3.1x	0.5x	0.4x	16.8%	15.6%
VAKBN	4.6x	4.2x	0.7x	0.6x	17.3%	16.0%
YKBNK	5.2x	4.7x	0.6x	0.6x	13.3%	12.9%
Total	5.6x	5.1x	0.8x	0.7x	16.1%	15.3%

Source: Bloomberg, YF Securities

Banking sector cost-to-income ratio (12M trailing) decreased by above 200bps y/y to 38.8%. Focus on digitalization and controlled OPEX growth at 10% level provided improving efficiencies. Moreover, branches were reduced by 3% y/y for the banks we cover, while personnel number has not changed. We expect OPEX growth may increase slightly y/y above 10%, due to high inflation. On the other hand, we expect the banks to focus more on revenues from fees and its subsidiaries, to increase efficiency.

We forecast around 11% earnings growth for 2018, delivering around 80bps ROE deterioration. 200bps higher tax rate is included in our estimations. We believe there is an upside risk to our forecast, mainly driven from higher NIM outlook if inflation trend turns south in 2H18.

Our estimates offer 5.1x P/E for 2018, trading 40% discount to EM Banks. Banking valuation is quite attractive. Higher risk appetite of global funds and lower volatility in Turkish lira would be key catalysts for banking stocks, in our view.

We downgraded Halkbank to Market Perform with attaching higher discount rate due to its idiosyncratic risks. We upgraded Akbank to Outperform, on its liquid balance sheet, strong capital ratios and relatively higher dividend payout potential. Our top-pick banks are Akbank and Vakifbank.

Rationale for Outperform rated banking stocks:

Akbank: ✓ liquid balance sheet, having 106% total loan-to-deposit ratio, ✓ relatively higher dividend payout potential, ✓ strong capital ratios, ✓ comfortable IFRS 9 transition due to high NPL coverage

Garanti: ✓ successful margin management, benefiting highly from free funds, ✓ strong capital ratios and higher dividend payout potential, ✓ sizeable discretionary provisions against potential risks

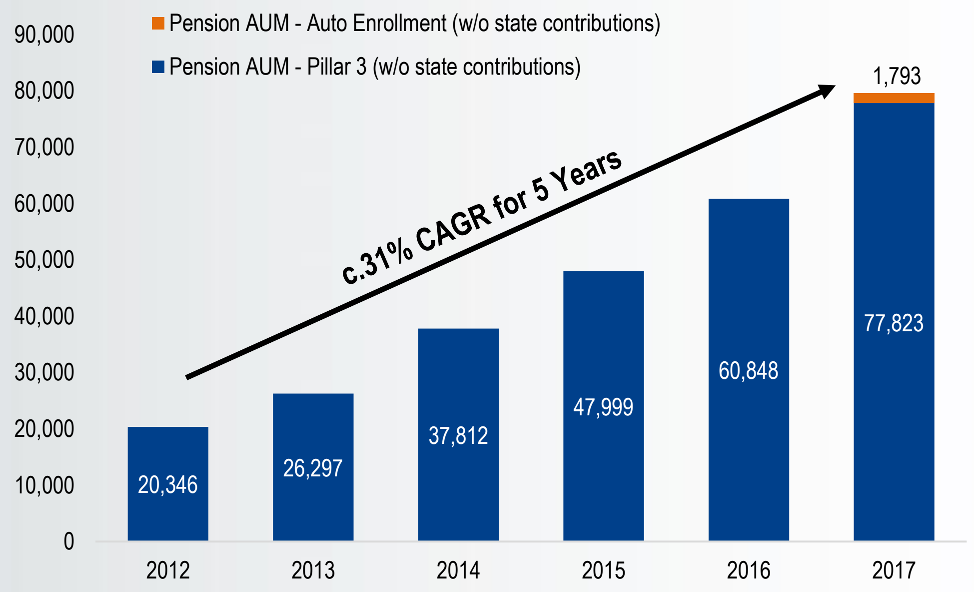
Vakifbank: ✓ attractive multiples based on ROE expectation, ✓ low cost deposit funding, ✓ further ROE improvement potential on its underpenetrated fee & subsidiaries income

Yapi Kredi: ✓ improving asset quality policies, ✓ potential to improve efficiency through operating costs and margins

Sector Outlook: Private Pension and Life Insurance

YATIRIM FİNANSMAN SECURITIES

Pension AUM



Participation to increase further with «Autoenrollment»

Date	Private Sector	Public Sector	# of Employees	%
2017 January	1,000+	-	2.2 million	15.4%
2017 April	250 - 999	Public Administrations	4.0 million	28.3%
2017 July	100 - 249	-	1.5 million	10.7%
2018 January	50 - 99	Public & Local Administrations	1.3 million	9.1%
2018 July	10 - 49	-	2.7 million	19.1%
2019 January	5 - 9	-	2.5 million	17.4%
		Total	**14.2 million**	**100.0%**

Auto-enrollment system started in 2017 and around 7.7mn participants were added to the system automatically. Yet, churn rate is realized at quite a high level of more than 50%. As of December, participants in Autoenrollment system reached close to 3.5 million and AUM size realized at TL1.7 billion. Contrary to pillar 3 system, there is no management or entrance fees charged from autoenrollment system. Fund management fee is the only revenue source, which is capped at a maximum of 0.85%.

Pension AUM in Pillar 3 system reached TL67.7bn (exc. state contributions) in December, growing by 26.7% YTD. Number of participants increased only by 4.5% in 2017 vs. 9.7% in 2016, as initiation of autoenrollment system is the reason for the weak participation growth in Pillar 3 system. However, we expect pillar 3 AUMs will continue to grow above 20% in the next 5-years despite lower participation growth compared to previous years.

Both pension companies, ANHYT and AVISA, delivered strong earnings growth in 9M17 by 30% and 42% y/y, respectively. Growing pension AUM continued to provide a positive technical balance in 2017. Moreover, higher investment returns from their financial assets and increasing focus on life insurance term-life premiums supported the bottom-line.

Increasing competition between asset management companies would provide a value for pension companies. As of 2018, pension companies should allocate their pension AUMs at least 3 different asset management companies, in order to maintain competition and increase returns in pension funds. So, we expect fees paid to asset management companies to decline in 2018 with a higher competitive environment. We calculate around 5% additional value for ANHYT and 8% for AVISA.

We upgraded Anadolu Hayat to Outperform, on its secure earnings growth and higher dividend yield potential. We raised our target price from TL7.5 to TL9.85. We expect 15% earnings growth in 2018 and c.5% dividend yield from 2017 profit. We maintain Outperform rating for Avivasa, based on 19% upside potential.

Source: Pension Administration Center, Anadolu Hayat Company Presentation, YF Securities Equity Research

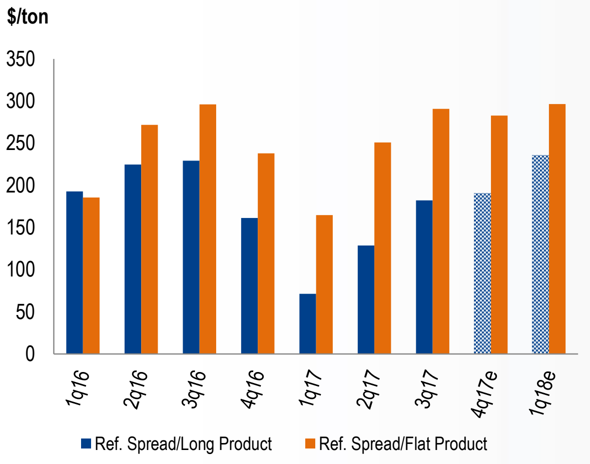
Sector Outlook: Iron & Steel

Steel prices have been recovering following a correction in late October: Domestic long steel prices have been on the rise since the beginning of November, following a correction in late October with the effect of rising prices in China amid steel production cuts in winter. Meanwhile rising scrap costs have further pushed up the long steel prices in Turkey. Reference rebar price is at $565/ton per ton ex-works by the end of Dec17 in the domestic market versus $435/ton in Jun17 and $520/ton in mid-Oct17. Domestic flat steel prices appear to have stabilized following a correction in late October. Reference HRC price is currently at $605 per ton ex-works (vs. $500/ton in Jun’17 and $575/ton in mid-Oct17).

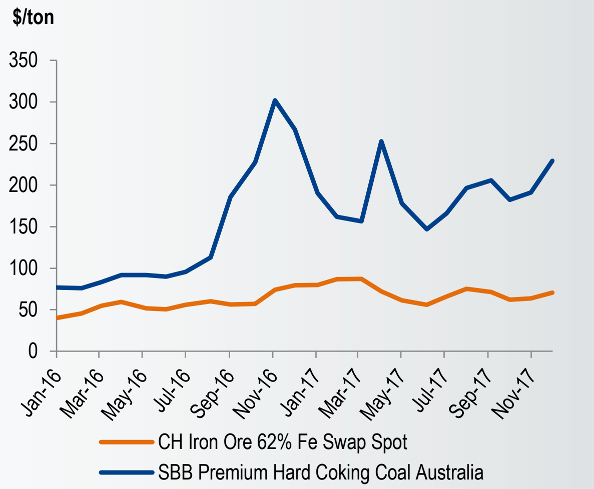
Steel mill spreads are likely to remain solid in 2018: Winter production cuts in China, which will support steel mill spreads throughout 1H18, and the ongoing strong momentum of global steel demand growth bode well for the steel pricing environment throughout 2018. That said, following a cumulative ~$100/ton rise in product prices over the last 5 quarters, we assume some stabilization in 2018. Meanwhile pressure from the raw material front is expected to be limited amid increasing global iron ore supplies, paving a way for healthy level of steel mill spreads that are likely to remain intact in 2018. We assume Erdemir’s EBITDA/ton to remain flattish y/y at ~$160/ton in 2018, while Kardemir’s EBITDA/ton is expected to improve by ~$40 y/y to ~$125 thanks to strong trend in long steel prices compared the low base of 1H17 and negative impact of high inventory costs that had pressured the company’s margins throughout 2017.

Strong operational results are ahead for 4Q17 and 1Q18: Steel producers are expected to announce their highest quarterly level of EBITDA per ton in 4Q17 when compared to previous quarters of 2017. We foresee Erdemir’s EBITDA/ton to climb to $185/ton in 4Q from $156/ton y-t-d average, while Kardemir’s EBITDA/ton is expected to reach $140/ton in 4Q17 vs. $69/ton in 9M17. Besides, on-going strength in product prices following the winter production cuts in China paves the way for further strength in profitability in 1Q18: We foresee Erdemir’s EBITDA per ton to remain solid at $185-190/ton levels while Kardemir’s EBITDA to improve further to ~$155/ton in 1Q18.

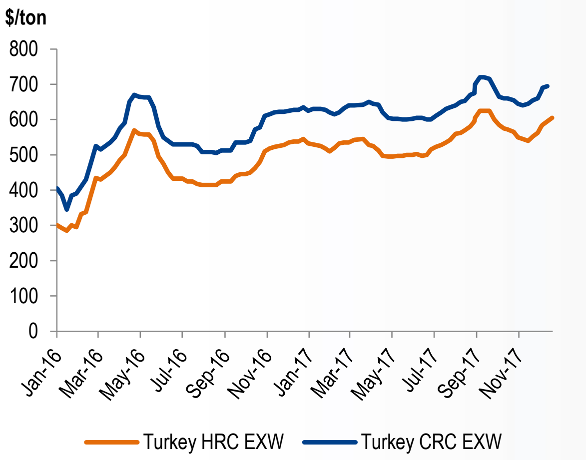
Reference Steel Mill Spreads



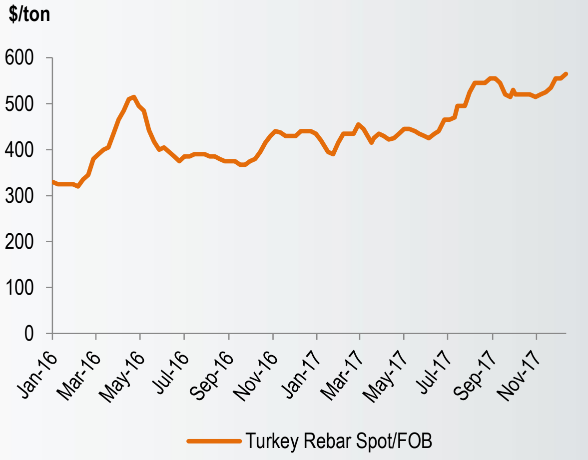
Feedstock Costs



Domestic Flat Steel Prices



Domestic Rebar Prices



Source: Bloomberg, YF Securities

Sector Outlook: Oil & Petrochemicals

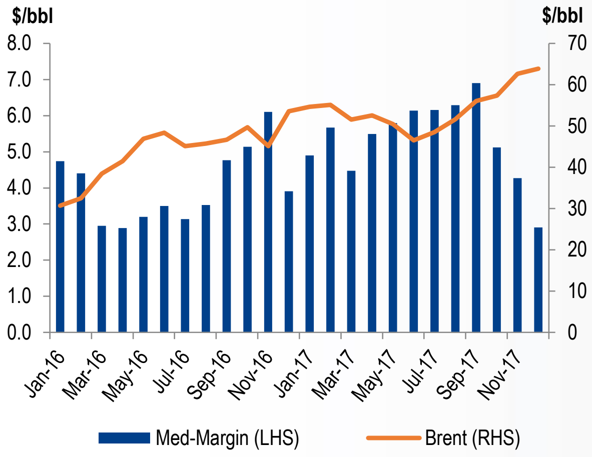
Medium-term outlook appears to be favourable for refiners: Despite the recent weakness in margins, we deem supply-demand balance will be favorable for refiners in the medium-term as (i) new capacity additions are foreseen to be mere at 1mn bbl/d per annum versus demand growth for refined products is expected to be around 1.7mn bbl/d in 2018, according to EIA. Meanwhile (ii) IMO’s decision for low sulfur fuel oil that requires shippers to meet 0.5% sulfur fuel oil requirement by 2020 is expected to be supportive for the diesel prices – which is for the benefit of Tupras, being a complex refinery.

Strong pricing in middle distillates continues: In 2017, product crack margins have positively affected by a combination of supply cuts and favourable growth figures in leading economies. Mediterrenean complex refinery margin to improve by $1.3/bbl to $5.34/bbl in 2017 ($4.10/bbl in 4Q17 vs. $5.05/bbl in 4Q16) thanks to noteworhty improvement in middle distillate cracks. As for 2018 we conservatively attach ~$1/bbl contraction in Med margin while we expect Tupras’ margin will continue to beat its Mediterrenean peers thanks to high complexity brought by the RUP.

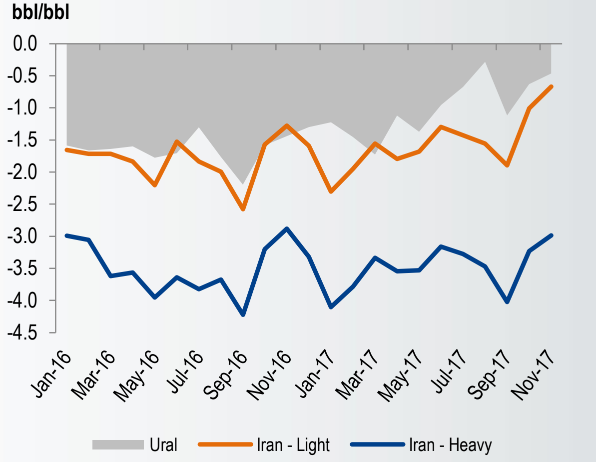
Ethylene/naphtha spread narrowed in 4q17 on seasonal factors but significantly higher on a y/y basis: Ethylene-naphtha spread, the key profitability indicator of Petkim, decreased to $602/ton in 4Q17 vs. $681 in 3Q17 on the back of increasing naphtha price and seasonal weakness in ethylene demand. Despite the seasonal squeeze in margins, spread is still significantly high when compared to its level in 4Q16 ($447/ton), signalling a strong 4Q for Petkim.

Volatility in crude oil prices in 2018 is the key risk for naphtha based petrochemical producers: Ethylene/naphtha spread, averaged at $640/bbl in 2017 vs. $446 in 2014 on low naphtha prices. As for 2018, unexpected volatility in crude oil prices that would result in a sharp squeeze in ethylene/naphtha spread is the key risk to our valuation for Petkim. We conservervatively attach $40/ton contraction in spread in 2018. Note that $10/ton change in spread results in ~$30mn change in our long-term EBITDA estimate for Petkim and ~5% change in our target price.

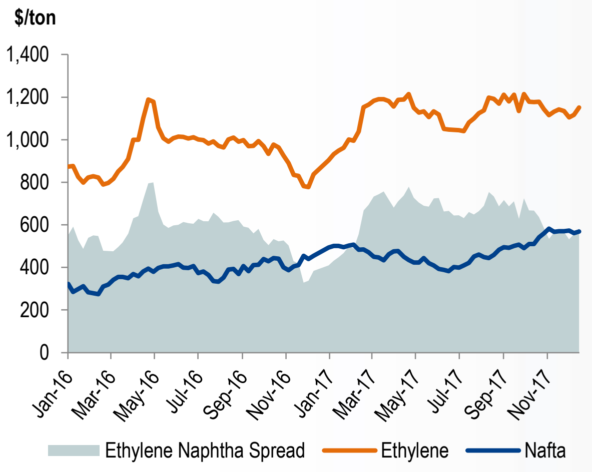
Med. Complex Refinery Margin



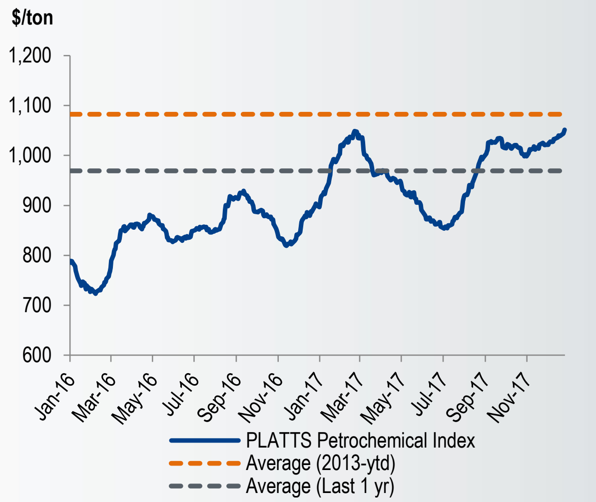
Crude Price Differentials



Ethylene/ Naphtha Spread



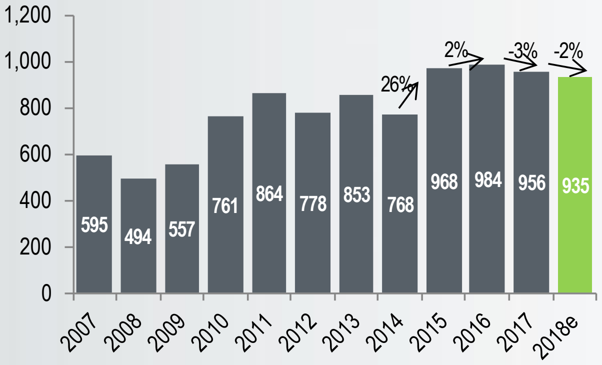
Platts Petrochemical Index



Source: Bloomberg, YF Securities

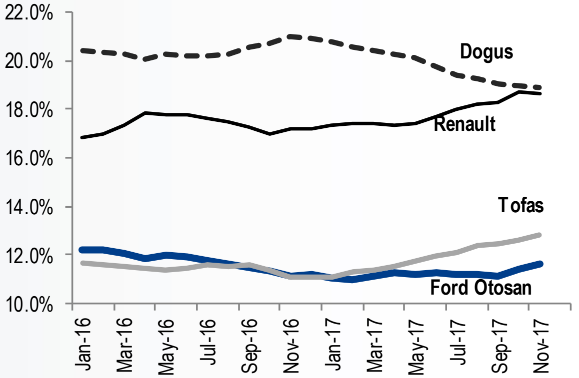
YATIRIM FİNANSMAN SECURITIES

Domestic auto sales (K units)



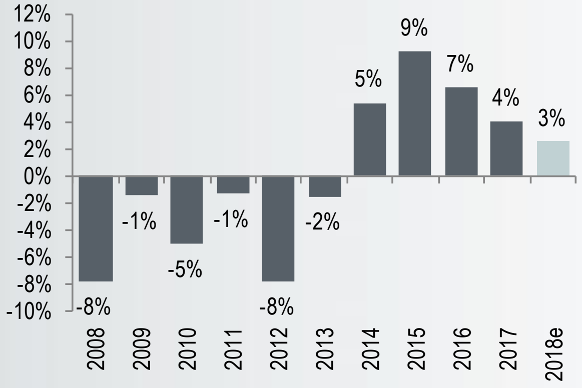
Source: ODD, YF Securities

Turkey: Market Shares, 12m trailing



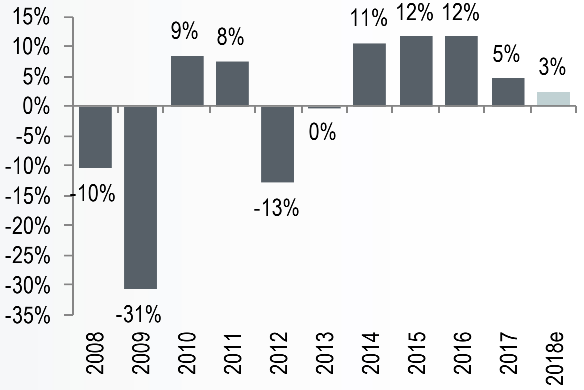
Source: ODD, YF Securities

European PC Market (% growth)



Source: ODD, YF Securities

European LCV Market (% growth)



Source: ODD, YF Securities

3% yoy contraction in auto market during 2017

Turkish market contracted by mere 3% in 2017, following 2% and 26% growth rates in 2015 and 2016 respectively. Increase in special consumption taxes as of November 2016, a weak TL that has increased car prices and weak consumer sentiment were all suggesting a significant contraction in auto demand during 2017, with initial expectations were ranging from 5 to 15% contraction. However, similar to the general economic activity in the country, the auto market has performed better than the initial expectations. Looking at the breakdown, PC sales was the main driver of the contraction with 5% y/y decline, whereas the LCV sales rose by 3%. Share of LCV increased to 24% in 2017 (vs. 23% in 2016). Increasing share of LCV is a positive development for the auto companies under our coverage, as it's a higher margin segment. During the year, Dogus' market share declined (18.9% in 2017 vs. 21.0% in 2016), while Tofas (up 1.8ppt yoy to 12.8%) and Ford Otosan (up 0.5ppt yoy to 11.6%) gained market shares.

We assume 2.3% contraction in auto demand in 2018

As for 2018, we expect the auto market to contract mildly to 935K units (2.3% contraction), with PC to contract by 3%, while LCV demand to remain stable y/y. The market should be slightly impacted by the new motor vehicle tax scheme that foresees 15% to 50% rise in motor vehicle taxes on PCs. During the year, Dogus Otomotiv may continue to lose some market share, as its management is focusing more on profitability rather than volumes

Recovery in the European market to continue, albeit at a slower pace

Europe, the key export destination for auto companies in our coverage, is likely to post a positive growth rate in 2018. According to LMC Automotive, the European market is expected to grow around 3% in 2018 vs. 4% in 2017. Ford Otosan and Tofas, however, should see stronger export performance in 2018, thanks to Ford Europe's ongoing market share gains in the CV segment and potential inventory re-build-up at Fiat Europe.

Sector Outlook: Aviation

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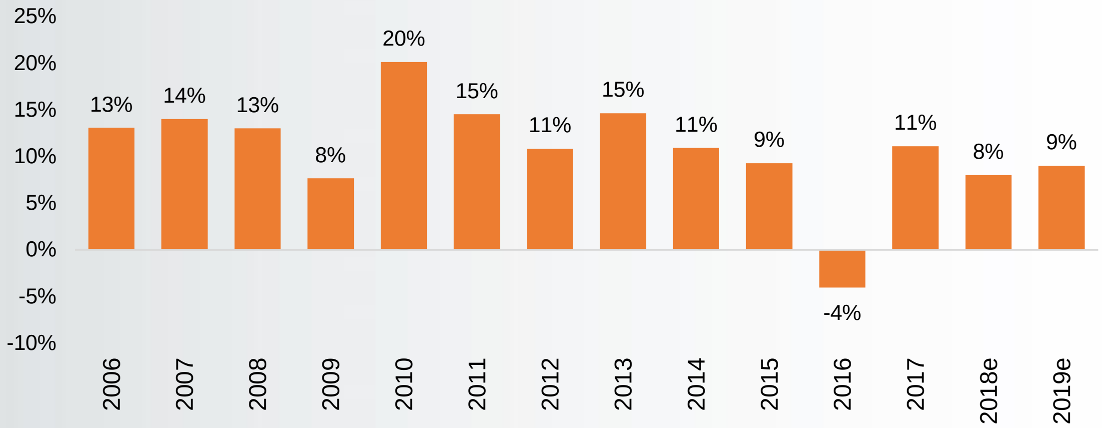
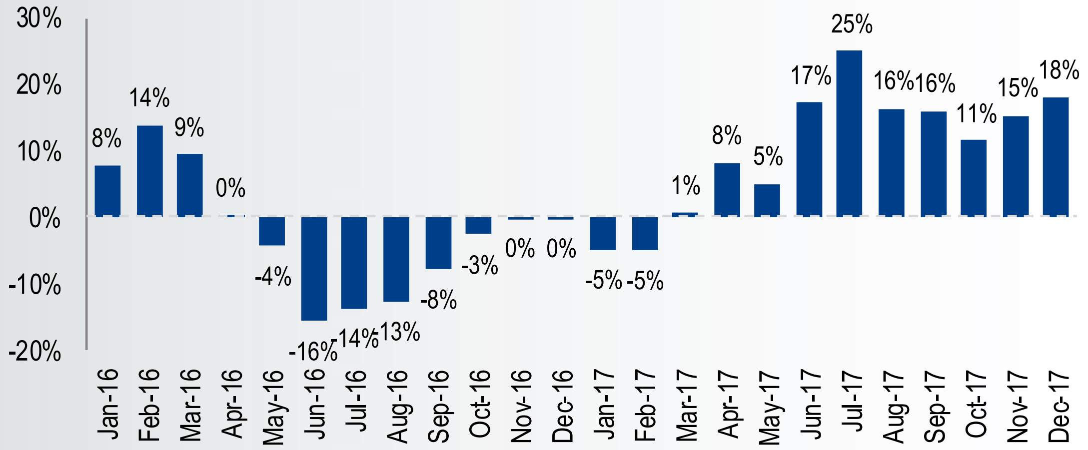
Passenger traffic at Turkish airports (% y/y)- 2006-2019e



Source: DHMI, YF Securities

Passenger traffic at Turkish airports (% y/y), Monthly



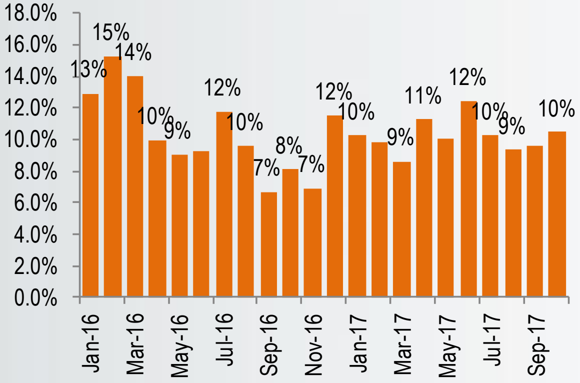
Source: DHMI, YF Securities

Similar to the global trend, the Turkish aviation industry's growth has historically outpaced GDP growth. Passenger posted a CAGR of 9% between 1988 and 2004, compared to a weak 3% GDP growth during the same period. The growth rate of the sector has further improved since the deregulation of the market in 2003, which enabled private airliners to carry passengers on domestic and international routes. Following the deregulation, the Turkish passenger market registered 13% per annum growth between 2003 and 2017 vs. ~6% per annum GDP growth. This growth was mainly fuelled by domestic traffic, which registered a 19% CAGR between 2003 and 2017 as newly established local private airlines initially focused on operating and expanding in the domestic market. In addition to the positive impact of 2003 deregulation, Turkish Airlines' focus on transit flights through exploiting Istanbul's geographic advantage and Star Alliance membership in April 2008 have also played important roles, especially in terms of transit passenger traffic growth. We believe Turkey's geographic position, which enables strong transit passenger traffic growth, and the government's positive approach to the aviation industry will support the sustainability of this robust growth.

Following 11% growth in 2017, Turkish passenger traffic growth is likely to grow by 8% in 2018. Turkish aviation sector has recovered strongly in 2017, following a tough 2016, owing to 1) security concerns that were elevated by terrorist attacks and the failed coup attempt during the peak season of 2016 and 2) the diplomatic rift with Russia triggered by the downing of the Russian jet that shied away passengers from Turkey. In 2018, ongoing recovery in the Eurozone economies, a buoayant tourism, potential de-escalation of violence in the middle East following the defeat of ISIS, and the continued route expansion strategies of the flag carrier Turkish Airlines (THY) and Pegasus should keep the overall growth momentum at a high pace in 2018. Compared to 2017, however, the growth rate should slightly decelerate in 2018, owing to the strong base of 2017. In addition to the positive traffic figures, investors' attention will likely also be on Istanbul's third airport project and related developments throughout 2018. Note that the planned completion date of third airport is 29 October 2017.

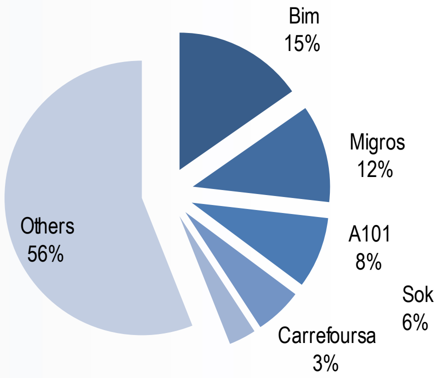
Sector Outlook: Retail

Sales Index for Food, Beverage and Tobacco (% yoy), current prices



Source: Turkstat, YF Securities

Market Shares of Top Food Retailers (%)



Source: Euromonitor, YF Securities

Number of discount stores in Turkey

	2009	2010	2011	2012	2013	2014	2015	2016	Nov-17
BIM	2,628	2,951	3,289	3,655	4,000	4,502	4,973	5,601	6,033
SOK	980	1,254	1,135	1,233	2,041	2,301	2,981	4,000	5,000
Dia	675	890	1,115	1,120	-	-	-		
A101	450	760	1,280	1,770	2,920	4,400	5,700	6,400	7,034
Total	**4,733**	**5,855**	**6,819**	**7,778**	**8,961**	**11,203**	**13,654**	**16,001**	**18,067**
Change	**883**	**1,122**	**964**	**959**	**1,183**	**2,242**	**2,451**	**2,347**	**2,066**
Change (%)	**23%**	**24%**	**16%**	**14%**	**15%**	**25%**	**22%**	**17%**	**13%**

Source: Ortakalan, YF Securities

Turkey's grocery retail market is highly fragmented, with the traditional segment still constituting nearly 60% of the total market. With the low level of modern trade penetration, the Turkish market is one of the most under-penetrated across the CEE universe. As a result of favorable demographics and growth potential (and as other emerging stories suggest), we expect the modern retail penetration in Turkey to climb from the current level of ~40%. That said, the food retailing market in Turkey is quite tough, given the intensity of competition among national and regional chains. Small formats that offer convenience and proximity have been much more successful than large formats in Turkey. Going forward, this trend is likely to continue as the fundamental dynamics of Turkish socio-economic variables (congested cities, scarcity of land for large retail formats, low female participation in the workforce, high gasoline prices) should not change significantly in the foreseeable future.

Profit margins of the leading players have risen in 2017

Turkish organized food retail market has maintained its growth momentum at a similar pace to previous years in 2017, thanks mainly to the strong store opening plans of discounters. That said, profit margins and revenues of the leading players have seen a positive trend in 2017, owing not only to the development that many regional and sub-scale national retailers have come under financial distress and softened their intensity of competition, but also high food inflation.

Going forward, we believe that food retailing will continue to be tough in Turkey, given the intensity of the competition. However, similar to 2017, ongoing high food inflation is likely to continue boosting the growth rates of main players throughout 2018.

Top-picks

In 2017, YF Model Portfolio has gained 51% in absolute terms, underperforming BIST-100 by 1.8%.

Our 2018 Model Portfolio is consist of Akbank, Erdemir, Petkim, Pegasus, Tofas, Vakifbank and Zorlu Enerji.

We have removed Turkcell, Aksa Enerji, Yapi Kredi Bank, Kardemir and Garanti bank and replaced them with Akbank, Erdemir, Pegasus, Petkim, and Vakifbank.

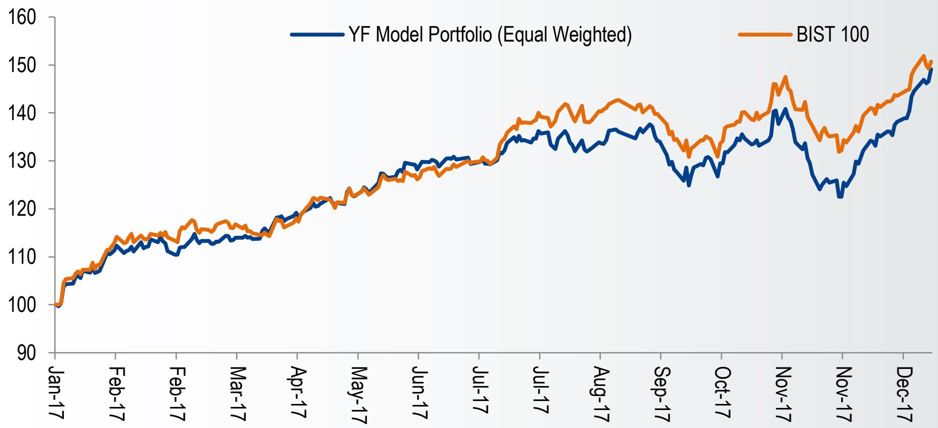
Investment themes in a nutshell:

- **Akbank:** Strong capitalization, liquid balance sheet structure and comfortable IFRS 9 transition.
- **Erdemir:** Record high EBITDA profitability ahead in 4Q17, attractive dividend yield
- **Pegasus:** Still Juicy; Risks on consensus expectations are still to the upside
- **Petkim:** Enhancing cash generation capability through virtue of integration, strong dividend yield, weak TL is supportive
- **Tofas:** Potential recovery in exports during 2018 to underpin stock performance
- **Vakıfbank:** Attractive valuation compared to our 16% level ROE estimate, underpenetrated fee base vs. its peers. Low cost funding capability from deposit.
- **Zorlu Enerji:** Focus on high margin renewables to pay off.

2018 Model Portfolio

Stocks		Price			M.Cap.	
Company	Ticker	Current	Target	Upside	TRYmn	USDmn
Akbank	AKBNK	TL 9.81	TL 12.30	25%	TL 39,240	$10,449
Eregli	EREGL	TL 9.91	TL 11.70	18%	TL 34,685	$9,236
Pegasus	PGSUS	TL 35.48	TL 42.00	18%	TL 3,629	$966
Petkim	PETKM	TL 8.31	TL 9.40	13%	TL 12,465	$3,319
Tofas	TOASO	TL 32.26	TL 38.90	21%	TL 16,130	$4,295
VakifBank	VAKBN	TL 6.61	TL 8.50	29%	TL 16,525	$4,400
Zorlu Enerji	ZOREN	TL 1.64	TL 2.30	40%	TL 3,280	$873

Model Portfolio Graph 2017



Akbank

Upgraded to Outperform... Strong balance sheet and attractive valuation

We upgraded Akbank to Outperform, setting its target price at TL12.3/sh. We prefer Akbank as one of the top-pick banks, mainly on its strong capitalization, liquid balance sheet structure and having higher NPL coverage compared to its peers. Separately, we see the recent underperformance as an opportunity for building new positions.

Liquid B/S structure: Akbank's loan-to-deposit ratio stands at 103% as of 3Q17 vs. 115% for its peer average. Including TL bonds, total LDR comes down to 101%, which eliminates potential cost pressure on deposits. On the other hand, Akbank's securities book has 21% of its assets, higher than its peer average of 14%. So, the Bank has a higher long-term loan growth potential compared to its peers.

Comfortable IFRS 9 transition: Akbank has 96% NPL coverage ratio, much higher than its peer average of 81% and sector average of 79%. Total coverage ratio stands at 169% vs. peer average of 125%. We expect the Bank will be more secure during the IFRS 9 transition, relying on its extra provision buffer.

Robust capital ratios: The Bank improved its CAR and tier-1 ratios by 256bps and 185bps, respectively between 9M16 and 9M17.

Higher dividend payout potential: Akbank paid out 20% of its 2016 net income. We expect at least 25% dividend payout ratio from its 2017 net income, implying 4% dividend yield.

Valuation: Akbank trades at 5.8x P/E based on '18 estimates, 5% below its 1-year historical average. Our estimates imply 0.85x P/BV for 2018, 18% below 1-year historical average.

Risks: CBRT's interest rate hike may impact margins negatively. Akbank's loan exposure to OTAS loan, with US$1.5bn, may weigh on share performance although we believe the negative expectations are already priced in.

Akbank	AKBNK TI
Rating	**Outperform**
Target Price	TL12.3
Last Price	TL9.8
Return Potential	25%
Market Cap. (TLmn)	39,240
Free Float	52%
# of Shares (mn)	4,000
Avg. Trading Vol. (3m, TLmn)	192.0

Price Performance	1M	3M	12M
Nominal (TL)	7%	4%	35%
Nominal (USD)	10%	2%	35%
Relative to BIST100	1%	-7%	-9%

Estimates (TLmn)	2016	2017E	2018E
Net Income	4,820	6,096	6,808
% growth	*61%*	*26%*	*12%*
Book Value	32,376	40,196	47,396
% growth	*21%*	*24%*	*18%*
ROE	*16.3%*	*16.8%*	*15.5%*

Multiples	2016	2017E	2018E
P/E	6.5x	6.4x	5.8x
P/BV	1.0x	1.0x	0.8x
Dividend Yield (%)	2.9%	3.9%	4.4%

Source: Company data, YF Equity Research

**as of 9 January 2018.*

YATIRIM FİNANSMAN SECURITIES

Strong earnings outlook ahead

Record high EBITDA profitability ahead in 4Q17: We foresee Erdemir's EBITDA per ton to climb to $185/ton in 4Q17 from the average of $156/ton y-t-d and $130/ton in 4Q16, thanks to stronger flat steel prices during Aug-Oct17 period. Note that our reference HRC price stands at around $555/ton for 4Q17, which is ~$40/ton and ~$100/ton higher compared to 3Q17 and 4Q16, respectively. Accordingly, we foresee TL5,262mn of EBITDA and TL3,592mn of net income in 2017. Our 2017YE EBITDA margin estimate is 28.3% versus 23.1% in 2016 and 27.8% in 9M17.

Expect a strong start to 2018: Domestic HRC prices currently stand at $585/ton while CRC prices are close to $680/ton (vs. ~$500/ton and ~$600/ton, respectively in Jun17). Our reference spread for flat steel mills signals further strength in 1Q18, accordingly. We foresee Erdemir's EBITDA to remain high at the range of $185-190 per ton in 1Q18 amid limited pressure from the raw materials and the lagging impact of prices on P&L. We foresee EBITDA per ton to remain flattish at around $160 in 2018 with EBITDA margin slightly deteriorating by ~200 bps on our conservative estimates for 2H18.

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.

An attractive dividend yield of ~9%: We project Erdemir to attain a FCF yield of 9-11% and dividend yield of 9% in 2018 (out of 2017 earnings). As for dividend payment with respect to 2017YE financial results, we project the company to distribute TL0.92/s gross cash dividend, denoting an attractive dividend yield of 9%.

Our projections are ahead of market consensus for 2018: Our forecasts for 2018 appear to be bullish when compared to the market consensus (EBITDA and net income estimates are 18% and 6% higher for 2018). We believe there will be another set of upward revisions in the near term which could lead to a further leg of share outperformance.

Ereğli Demir Çelik	EREGL TI
Rating	**Outperform**
Target Price	TL11.7
Last Price	TL9.9
Return Potential	18%
Market Cap. (TLmn)	34,685
Free Float	48%
# of Shares (mn)	3,500
Avg. Trading Vol. (3m, TLmn)	119.3

Price Performance	1M	3M	12M
Nominal (TL)	11%	21%	114%
Nominal (USD)	14%	19%	114%
Relative to BIST100	4%	9%	44%

Estimates (TLmn)	2016	2017E	2018E
Revenues	11,637	18,452	21,526
% growth	*-2%*	*59%*	*17%*
EBITDA	2,687	5,262	5,756
EBITDA margin	*23.1%*	*28.5%*	*26.7%*
Net Income	1,516	3,592	4,161

Multiples	2016	2017E	2018E
P/E	9.7x	9.7x	8.3x
EV/EBITDA	5.4x	6.4x	5.9x
Dividend Yield (%)	9.8%	9.3%	6.2%
Net Debt/EBITDA	-0.2x	-0.3x	-0.3x

Source: Company data, YF Equity Research

**as of 9 January 2018.*

Pegasus

Still Juicy; Risks on consensus expectations are still to the upside

Pegasus' successfully implemented low cost business model makes the carrier as one of the main beneficiary of the stronger demand trends in Turkey. Also, the asset sales in 2017 should alleviate any cash flow related concerns. Capacity constraints at Sabiha Gokcen (which could continue until 2019), and limited FX linked revenue stream in the current volatile macro backdrop remains as main challenges. However, these challenges are more than offset by the ongoing recovery in its traffic and potential improvement in its financials. Our target price of TL42 suggests a significant upside potential, therefore we have upgraded the stock to Outperform.

Rise in load factors coupled with cost cutting measures to improve profitability: Following 4% rise in pax traffic in 2M17, growth rate accelerated to 15% y/y in March and since then has continued to grow at double digit. As such, passenger number grew by 15% y/y during 11M2017 figures, while load factor jumped by +6.1pp. Rise in the load factors, thanks to recovery in passenger growth and slowdown in capacity growth, coupled with the management's ambitious cost cutting measures are likely to boost profitability in 2017. We assume the EBITDAR margin to rise to 24.4% in 2017 vs. 15% in 2016 and the management's guidance of 23 -24%. Our EBITDA estimate for 2017 is 33% higher than the consensus estimate of TL549mn.

Capacity optimization (sale of aircrafts) eases any concerns on cash flows: Pegasus sold 13 aircrafts during March -May 2017 period for USD365mn. The optimization of the capacity will generate significant cash (~US$150mn), ease any concerns on its cashflows, and improve the fuel efficiency of the fleet (as older/inefficient ones are being sold).

Valuation: Despite strong share performance over the past one year (outperformed the BIST100 by 81%), we still see significant upside. Our earnings estimates are significantly above consensus, with 2017e EBITDA is still 33% higher than the consensus estimate of TL549mn. Our target price of TL42/s suggests significant upside potential. We base our target price on EV/EBITDAR (at 8.0x target).

Pegasus			PGSUS TI
Rating			**Outperform**
Target Price			TL42.0
Last Price			TL35.5
Return Potential			18%
Market Cap. (TLmn)			3,629
Free Float			35%
# of Shares (mn)			102
Avg. Trading Vol. (3m, TLmn)			66.1
Price Performance	**1M**	**3M**	**12M**
Nominal (TL)	14%	41%	170%
Nominal (USD)	17%	38%	170%
Relative to BIST100	7%	26%	81%
Estimates (TLmn)	**2016**	**2017E**	**2018E**
Revenues	3,707	5,016	6,303
% growth	*6%*	*35%*	*26%*
EBITDA	89	728	1,003
EBITDA margin	*2.4%*	*14.5%*	*15.9%*
Net Income	-134	464	474
Multiples	**2016**	**2017E**	**2018E**
P/E	-11.0x	7.8x	7.7x
EV/EBITDA	38.3x	6.6x	4.8x
Dividend Yield (%)	0.0%	0.0%	0.0%
Net Debt/EBITDA	22.2x	1.7x	1.2x

Source: Company data, YF Equity Research

**as of 9 January 2018.*

Petkim

YATIRIM FİNANSMAN SECURITIES

Set to benefit from virtue of integration

Enhancing cash generation capability through virtue of integration: Investments initiated by SOCAR and Petkim will be bringing significant cost advantages for the Company in the near future. We forecast an overall EBITDA contribution of $150mn by 2019 (38% of total) from 1.5mn TEU container terminal, 51MW wind farm, and the 10mtpa refining capacity, yielding Petkim to sustain its solid operating profitability.

Ethylene/naphtha was strong in 4Q17 on a y/y basis: Ethylene-naphtha spread, the key profitability indicator of Petkim, decreased to $602/ton in 4Q17 vs. $681 in 3Q17 on the back of increasing naphtha price and seasonal weakness in ethylene demand. On the other hand despite the seasonal squeeze in margins, spread is still significantly high when compared to its level in 4Q16 ($447/ton), signalling a strong 4Q for Petkim. Meanwhile weakness in TL should also be supportive.

We are ahead of consensus estimates: We foresee Petkim's EBITDA to double y/y to TL1,677mn in 2017 with EBITDA margin climbing by ~400bps to 23.2% in the same period and further improving to TL1,743mn in 2018 with EBITDA margin standing at 21.6%. Our 2017 and 2018 EBITDA estimates are 8% and 25% higher, compared to consensus. Hence we see further room for earnings revisions which could act as a trigger for the stock performance in the near-term.

Strong dividend payer: We believe the improved cash flow profile along with the stronger EPS performance will set the stage for attractive dividend payments for the Company with dividend yield, reaching 9% in 2017. We project Petkim to attain a FCF yield of 9-10% and dividend yield of 8-10% between 2017 and 2021.

Risks: Unexpected volatility in crude oil prices and squeeze in ethylene-naphtha spread is the key risk to our projections. Note that $10/ton change in ethylene-naphtha spread results in ~$30mn change in our long-term EBITDA estimate and ~5% change in our target price based on our sensitivity analysis.

Petkim	PETKM TI
Rating	**Outperform**
Target Price	TL9.4
Last Price	TL8.3
Return Potential	13%
Market Cap. (TLmn)	12,465
Free Float	44%
# of Shares (mn)	1,500
Avg. Trading Vol. (3m, TLmn)	155.3

Price Performance	1M	3M	12M
Nominal (TL)	20%	33%	136%
Nominal (USD)	24%	31%	136%
Relative to BIST100	13%	20%	59%

Estimates (TLmn)	2016	2017E	2018E
Revenues	4,533	7,218	8,067
% growth	*0%*	*59%*	*12%*
EBITDA	881	1,677	1,743
EBITDA margin	*19.4%*	*23.2%*	*21.6%*
Net Income	726	1,289	1,265

Multiples	2016	2017E	2018E
P/E	8.1x	9.7x	9.9x
EV/EBITDA	8.1x	8.1x	7.8x
Dividend Yield (%)	10.1%	8.2%	8.2%
Net Debt/EBITDA	1.3x	0.7x	0.6x

Source: Company data, YF Equity Research

**as of 9 January 2018.*

Tofas

Potential recovery in exports during 2018 to underpin stock performance

Take-or-pay guarantees and strong cash generation capabilities improve the earnings stream: Tofas is a well-managed automaker with a superior business model. Take-or pay contracts (which cover 70% of Tofas' production capacity) and strong cash generation capabilities (thanks to a negative working capital requirement) differentiate the automaker from its peer group.

Tofas financed its investments externally and there is no mismatch between debt repayment and take-or-pay contracts. Therefore, we expect no deterioration in dividend distribution in the medium term. Going forward, dividend yield is to improve as the Company finalized its major investment cycle in 2016.

Beneficiary of recovery in Europe, as exports, predominantly to Europe, account for 72% of total sales volume as of 9M2017: Tofas is a beneficiary of the ongoing recovery in the European auto market, as exports to Europe account for 89% of the company's total exports volume. More importantly, perhaps, its major export markets recorded a stronger performance in 9M17 with Italy, Spain and France posted 8%, 9% and 6% market growth rates respectively.

Inventory drawdown of FCA dealers in Europe led to weaker than initiatally targeted export performance in 2017: Tofas management had guided export volumes to reach 330-340K in 2017 at the begining of the year. However, due to the inflated inventories of the FCA dealers in Europe, export target has been squentially cut to around 280-300K recently, and this has led to weak performance of the stock price. **With the end of inventory adjustments at the dealers, we expect stronger export performance in 2018, and this should lead to a correction in share price.**

Tofas is currently trading at 2018e EV/EBITDA of 8.6x: The stock continues to trade at premium to global auto peers, which we believe justified thanks to the company's superior business model.

Tofaş Otomobil Fab.	TOASO TI
Rating	**Outperform**
Target Price	TL38.9
Last Price	TL32.3
Return Potential	21%
Market Cap. (TLmn)	16,130
Free Float	24%
# of Shares (mn)	500
Avg. Trading Vol. (3m, TLmn)	20.0

Price Performance	1M	3M	12M
Nominal (TL)	-1%	7%	40%
Nominal (USD)	2%	5%	40%
Relative to BIST100	-7%	-4%	-6%

Estimates (TLmn)	2016	2017E	2018E
Revenues	14,236	17,908	21,255
% growth	*43%*	*26%*	*19%*
EBITDA	1,367	1,882	2,182
EBITDA margin	9.6%	10.5%	10.3%
Net Income	970	1,196	1,283

Multiples	2016	2017E	2018E
P/E	11.4x	13.5x	12.6x
EV/EBITDA	10.0x	10.0x	8.6x
Dividend Yield (%)	3.2%	4.1%	6.4%
Net Debt/EBITDA	1.9x	1.4x	1.2x

Source: Company data, YF Equity Research

**as of 9 January 2018.*

Vakıfbank

YATIRIM FİNANSMAN SECURITIES

Attractive valuation based its strong profitability outlook

We keep Vakifbank at Outperform, with a target price at TL8.5/sh. We prefer Vakifbank as one of the top-pick banks, mainly on its attractive valuation compared to our 16% level ROE estimate. Regarding the fee income base, Vakifbank is underpenetrated compared to its peers. Also, low cost funding capability from deposits and further potential in revenue generation are key fundamental positives for a better profitability outlook.

Attractive valuation: Based on our '18 estimates, Vakıfbank's P/BV implies 0.6x vs. our ROE expectation is 16%. Vakifbank's P/BV stands at a high discount compared to its large-cap peer average 0.9x P/BV.

Room for improving effiency: Vakifbank's cost-to-income improved from 43% to 37% in 9M17 in 12M trailing terms. We believe fee income will grow higher than its peers due to having relatively lower penetration. Vakifbank's fee income has 11% share in total revenues while this figure is 21% on average for its peer banks. Another efficiency metric shows that Vakifbank's fee / Opex ratio stands at 30% in trailing terms, much lower than its peer average of 52%.

Low cost of funding: The Bank has a competitive advantage as regulation capped deposit costs for state institutions. Vakifbank's state deposits constitute 17% of its total deposits based on 9M17 financials while peer average stood at 2%.

Risks: TL heavy deposit book may generate higher costs vs. its peers during rising interest rates. TL deposits have 49% share in total interest bearing liabilities, much higher than its peer average of 38%. Total loan-to-deposit ratio stands at 120%, the highest among peers. The Bank can be exposed to competition in deposit pricing. CBRT's interest rate hike may impact margins negatively.

Vakıfbank	VAKBN TI
Rating	**Outperform**
Target Price	TL8.5
Last Price	TL6.6
Return Potential	29%
Market Cap. (TLmn)	16,525
Free Float	25%
# of Shares (mn)	2,500
Avg. Trading Vol. (3m, TLmn)	80.8

Price Performance	1M	3M	12M
Nominal (TL)	9%	7%	56%
Nominal (USD)	12%	5%	57%
Relative to BIST100	3%	-4%	5%

Estimates (TLmn)	2016	2017E	2018E
Net Income	2,703	3,655	4,024
% growth	*40%*	*35%*	*10%*
Book Value	19,239	22,872	27,108
% growth	*15%*	*19%*	*19%*
ROE	*15.0%*	*17.4%*	*16.1%*

Multiples	2016	2017E	2018E
P/E	4.0x	4.5x	4.1x
P/BV	0.6x	0.7x	0.6x
Dividend Yield (%)	1.1%	1.1%	1.2%

Source: Company data, YF Equity Research

**as of 9 January 2018.*

Zorlu Enerji

Focus on high margin renewables to pay off

Expanding geothermal energy capacity and inclusion of Osmangazi Electricity Distribution and Retail sales companies may boost the company's operational performance in the medium term. On the back of the supportive YEKDEM feed-in tariff for geothermal and wind power plants and increasing number of Osmangazi Electricity Distribution and Retail Sales Company's electricity sales activities to eligible consumers, we foresee EBITDA to grow with a CAGR of 41% between 2017 and 2019. The stock currently trades at 7x 2018E EV/EBITDA, which indicates ~50% discount to its three years average EV/EBITDA.

Kizildere III GEPP investments will boost the electricity sales: Following the commissioning of the first phase of Kizildere III Geothermal Power Plant (99.5MW installed capacity), the total capacity has reached 1,090MW in late 2017. Second phase of Kizildere III (65.5 MW) is planned to come onstream in 1H18 and thus, we foresee geothermal energy sales to increase by 40% y-o-y in 2018. The company plans to expand the geothermal capacity further until 2020, which may continue to support the sales volume in the long run.

Higher margin geothermal sales will boost EBITDA growth: The company's new geothermal capacities may pick up the average electricity sales prices and EBITDA margin of the company. Hence, we expect company to improve its profitability in the next two years as the major portion of its EBITDA will be linked to USD with improving sales to YEKDEM. As a consequence, we anticipate that EBITDA may advance with a vigorous CAGR of 41% between 2017 and 2019.

Entered into electricity distribution and retail sales businesses in February 2017: Osmangazi power grid serves to 1.6mn subscribers in the Inner Anatolia region, where loss and theft ratio stood at 7.8% as of 2016 that is lower than the Turkey's average.

Fairly valued: Zorlu Enerji's 2018E EV/EBITDA of 7x indicates 50% discount to its three years average.

Risks: Any delay in the completion of Kizildere III GEPP and slowdown in electricity demand growth in Turkey are downside risks. Possible acquisitions in foreign countries may be evaluated as upside risk.

Zorlu Enerji	ZOREN TI
Rating	**Outperform**
Target Price	TL2.3
Last Price	TL1.6
Return Potential	40%
Market Cap. (TLmn)	3,280
Free Float	15%
# of Shares (mn)	2,000
Avg. Trading Vol. (3m, TLmn)	54.4

Price Performance	1M	3M	12M
Nominal (TL)	19%	8%	44%
Nominal (USD)	23%	4%	39%
Relative to BIST100	9%	-3%	-5%

Estimates (TLmn)	2016	2017E	2018E
Revenues	1,195	3,099	3,859
% growth	*68%*	*159%*	*25%*
EBITDA	413	814	1,223
EBITDA margin	34.6%	26.3%	31.7%
Net Income	-4	88	130

Multiples	2016	2017E	2018E
P/E	n.m.	37.3x	25.2x
EV/EBITDA	15.2x	11.0x	7.3x
Dividend Yield (%)	0.0%	0.0%	0.0%
Net Debt/EBITDA	12.7x	7.2x	4.8x

Source: Company data, YF Equity Research

**as of 9 January 2018.*

YF Coverage Universe - I

	RECOM.	TARGET PRICE (TL)	LAST PRICE (TL)	UPSIDE POTENTIAL (%)	MCAP (mn TL)	RELATIVE TO BIST-100				P/E		EV/EBITDA		NET SALES GROWTH		EBITDA GROWTH		NET INCOME GROWTH	
						1M	3M	12M	YTD	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E
FINANCIALS																			
Banking																			
AKBNK	Outperform	12.30	9.81	25%	39,240	1%	-6%	-12%	-13%	6.2	5.8							26%	12%
ALBRK	Market Perform	1.70	1.55	10%	1,395	24%	1%	-9%	-8%	4.4	4.5							21%	19%
GARAN	Outperform	12.75	10.48	22%	44,016	-2%	-4%	-3%	-4%	6.5	6.2							23%	13%
HALKB	Market Perform	12.00	10.20	18%	12,750	-4%	-22%	-24%	-25%	3.8	3.0							53%	9%
VAKBN	Outperform	8.50	6.61	29%	16,525	3%	-3%	5%	4%	4.1	4.1							35%	10%
YKBNK	Outperform	5.30	4.38	21%	19,040	-3%	-7%	-13%	-13%	4.9	4.6							27%	11%
Insurance																			
ANHYT	Outperform	9.85	7.48	32%	3,216	-6%	-2%	9%	9%	11.4	12.2							20%	15%
AVISA	Outperform	21.80	18.35	19%	2,165	3%	-11%	-36%	-35%	21.7	15.9							66%	30%
NON-FINANCIALS																			
Airlines / Ground Handling																			
PGSUS	Outperform	42.00	35.48	18%	3,629	7%	28%	82%	70%	4.7	7.7	4.6	4.8	35%	26%	714%	38%	n.m	2%
TAVHL	Market Perform	23.50	22.12	6%	8,036	-2%	18%	9%	12%	7.5	7.2	4.4	5.0	30%	6%	34%	8%	103%	29%
THYAO	Outperform	19.40	16.10	20%	22,218	11%	68%	122%	118%	8.9	6.6	5.1	5.0	31%	25%	173%	40%	n.m	164%
Automotive & Machinery																			
DOAS	Outperform	10.70	8.83	21%	1,943	5%	-3%	-32%	-32%	9.7	8.8	7.0	7.3	9%	14%	24%	19%	-16%	12%
FROTO	Market Perform	55.00	58.45	-6%	20,511	-9%	12%	38%	37%	11.6	14.5	8.7	9.7	36%	10%	35%	16%	39%	6%
TOASO	Outperform	38.90	32.26	21%	16,130	-7%	-5%	-7%	-9%	12.3	12.6	9.2	8.6	26%	19%	38%	16%	23%	7%
TTRAK	Outperform	95.00	78.00	22%	4,163	2%	-9%	-24%	-25%	15.1	12.8	10.0	8.5	17%	12%	-3%	17%	-24%	16%
Cement																			
ADANA	Market Perform	6.70	6.19	8%	546	0%	-3%	-28%	-27%	8.8	8.0	8.2	7.3	17%	11%	7%	23%	-7%	3%
AKCNS	Outperform	13.40	10.95	22%	2,096	-2%	-14%	-41%	-40%	13.7	11.8	8.0	7.6	-1%	4%	-22%	4%	-41%	4%
BOLUC	Outperform	7.00	5.52	27%	791	-2%	-6%	-33%	-32%	7.4	6.7	5.6	5.2	11%	9%	-3%	4%	6%	4%
CIMSA	Outperform	17.40	14.16	23%	1,913	-2%	-11%	-35%	-33%	9.8	8.6	8.8	8.7	20%	4%	5%	4%	-15%	6%
MRDIN	Market Perform	4.80	4.31	11%	472	-6%	-2%	-30%	-30%	11.5	10.7	9.1	8.4	21%	21%	10%	22%	12%	4%
Conglomerates																			
KCHOL	Market Perform	21.00	18.37	14%	46,584	-2%	4%	-5%	-8%	-	-	-	-	-	-	-	-	-	-
SAHOL	Market Perform	12.40	11.17	11%	22,791	-1%	0%	-15%	-15%	-	-	-	-	-	-	-	-	-	-

YF Coverage Universe - II

YATIRIM FİNANSMAN SECURITIES

	RECOM.	TARGET PRICE (TL)	LAST PRICE (TL)	UPSIDE POTENTIAL (%)	MCAP (mn TL)	RELATIVE TO BIST-100				P/E		EV/EBITDA		NET SALES GROWTH		EBITDA GROWTH		NET INCOME GROWTH	
						1M	3M	12M	YTD	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E
Construction & Contracting																			
ENKAI	Market Perform	6.40	5.93	8%	27,278	-5%	0%	-17%	-15%	9.6	9.4	5.6	8.2	3%	14%	10%	13%	46%	11%
TKFEN	Outperform	19.50	16.57	18%	6,131	-4%	27%	79%	81%	5.9	9.0	2.1	4.3	53%	32%	108%	12%	104%	3%
Defense																			
ASELS	Market Perform	30.20	32.00	-6%	32,000	-10%	9%	66%	72%	20.2	25.9	22.0	24.4	39%	29%	44%	28%	44%	8%
OTKAR	Underperform	116.00	119.80	-3%	2,875	-7%	7%	-38%	-38%	35.0	27.2	19.8	16.2	17%	14%	14%	21%	20%	26%
Durable Goods																			
ARCLK	Outperform	26.00	21.28	22%	14,379	-3%	-14%	-26%	-30%	12.3	7.7	9.7	7.2	29%	22%	27%	30%	-3%	50%
VESTL	Market Perform	8.90	9.23	-4%	3,096	18%	13%	0%	-1%	12.5	11.1	6.3	5.8	18%	14%	-8%	24%	14%	46%
Energy																			
AKSEN	Outperform	5.10	4.42	15%	2,710	8%	21%	-1%	1%	34.2	9.9	9.4	5.6	-3%	31%	21%	87%	-117%	344%
ODAS	Market Perform	6.30	6.72	-6%	912	17%	8%	57%	54%	n.m	17.9	23.1	6.6	10%	73%	2%	318%	303%	-234%
ZOREN	Outperform	2.30	1.64	40%	3,280	5%	0%	-5%	-4%	29.7	25.2	10.2	7.5	159%	25%	97%	50%	n.m	48%
Fertilizer																			
EGGUB	Outperform	37.00	29.00	28%	290	9%	1%	-6%	-3%	9.6	9.5	5.0	5.7	2%	4%	10%	1%	19%	18%
GUBRF	Market Perform	4.70	4.33	9%	1,446	5%	-16%	-34%	-33%	56.6	19.1	19.9	11.0	21%	11%	-16%	74%	-141%	171%
HEKTS	Market Perform	7.60	7.26	5%	551	-7%	-14%	55%	63%	9.2	10.1	8.1	8.5	33%	19%	45%	24%	51%	22%
Oil, Gas & Petrochemicals																			
TUPRS	Outperform	143.00	120.00	19%	30,050	-5%	-13%	21%	24%	6.6	6.1	5.1	5.5	55%	18%	80%	9%	119%	25%
PETKM	Outperform	9.40	8.31	13%	12,465	13%	20%	64%	66%	6.6	9.9	5.8	7.8	59%	12%	90%	4%	78%	-2%
Real Estate																			
ALGYO	Market Perform	55.50	52.55	6%	560	13%	12%	-10%	-3%	4.6	6.6	3.6	12.4	85%	-49%	72%	-39%	-25%	-15%
EKGYO	Market Perform	2.90	2.72	7%	10,336	-2%	-5%	-38%	-38%	7.1	5.8	7.8	5.3	-5%	44%	-13%	39%	-12%	15%
HLGYO	Outperform	1.25	0.93	34%	763	-5%	-16%	-28%	-28%	2.6	1.8	14.8	6.8	5%	331%	17%	106%	182%	36%
ISGYO	Market Perform	1.50	1.40	7%	1,279	2%	-6%	-30%	-31%	3.0	2.1	15.6	7.5	3%	183%	-7%	106%	1%	42%
TRGYO	Market Perform	3.65	3.27	12%	3,270	-11%	-10%	13%	9%	4.7	2.5	9.5	6.9	54%	103%	59%	61%	-51%	128%
Retail																			
BIMAS	Market Perform	82.00	76.20	8%	23,134	-3%	-6%	8%	8%	23.0	22.8	14.7	15.4	23%	16%	27%	14%	28%	18%
BIZIM	Market Perform	8.30	7.63	9%	458	-2%	-15%	-31%	-28%	n.m	n.m	12.8	6.8	10%	13%	-46%	82%	n.m	-78%
MGROS	Underperform	27.00	26.80	1%	4,771	3%	-3%	3%	4%	7.4	n.m	9.2	7.8	34%	20%	14%	25%	-302%	-110%
TKNSA	Market Perform	5.90	5.61	5%	617	7%	-1%	14%	13%	18.9	15.1	3.7	3.6	4%	6%	333%	21%	-117%	46%
INDES	Outperform	14.60	12.27	19%	687	0%	0%	0%	0%	2.7	5.2	4.1	4.6	18%	12%	19%	12%	313%	-38%
Steel & Iron																			
EREGL	Outperform	11.70	9.91	18%	34,685	4%	8%	49%	41%	7.0	8.3	4.6	5.9	59%	17%	96%	9%	137%	16%
KRDMD	Outperform	3.50	3.25	8%	2,536	28%	20%	94%	92%	9.2	5.8	4.3	4.2	70%	31%	132%	57%	-283%	184%
Telecommunication																			
TCELL	Outperform	17.50	14.82	18%	32,604	-5%	6%	9%	15%	12.1	11.4	5.7	5.8	26%	13%	32%	14%	50%	26%
TTKOM	Market Perform	7.30	6.32	16%	22,120	-3%	-14%	-19%	-19%	19.3	12.1	5.4	5.1	11%	9%	18%	7%	-256%	62%
Tire																			
BRISA	Underperform	7.45	7.60	-2%	2,319	1%	-2%	-24%	-16%	19.6	18.7	11.6	9.6	28%	18%	38%	27%	35%	15%
KORDS	Outperform	9.90	7.94	25%	1,545	7%	-2%	-19%	-13%	9.5	8.9	6.7	6.2	26%	15%	25%	11%	10%	10%

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