

## 2Q16 earnings preview

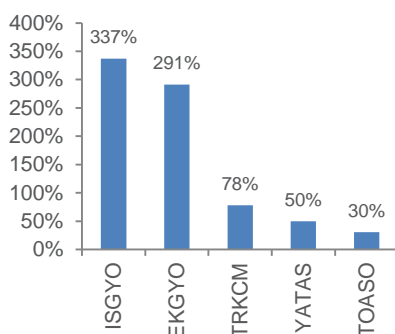
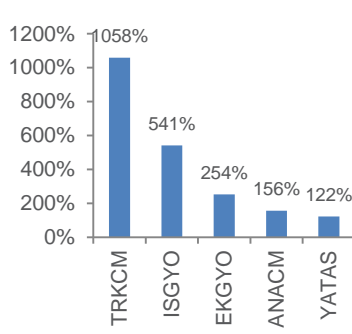
**Companies will have completed their 2Q16 earnings releases by August 19:** The 2<sup>nd</sup> quarter earnings season kicks off on July 26 with the announcement of Turk Telekom's results. **Unconsolidated non-financial companies are required to report their results by August 9<sup>th</sup>, while consolidated non-financial companies are required to announce their financial statements by August 19<sup>th</sup>.** The dates that each company is expected to release their results are given in the companies section (from Page 2).

**Expect the best performances from REITs, automotive, glass and consumer durables;**

- **REITs:** Strong project deliveries in 2Q16 for both Emlak and Is REIT.
- **Automotive:** Rise in export shipments and positive currency impact.
- **Glass:** Higher sales volumes and better margins in domestic & international operations in the flat glass segment.
- **Consumer durables:** Strong growth in export sales and improving margins thanks to benign raw material prices and a better sales mix.

**Our scorecard analysis singles out Is REIT, Trakya Cam, Aygaz, Yatas and Sabanci Holding ahead of the Q2 announcements:** We conducted a scorecard study of the non-financial companies under our coverage with key performance measures being their estimated YoY and QoQ EBITDA and earnings growth performances in 2Q16, share price performance since the end of Q1 and the potential upside offered by our target prices. **Is REIT, Trakya Cam, Aygaz, Yatas and Sabanci Holding** collected the highest scores in our study; we have Outperform ratings for all of these companies.

### Fastest YoY growers in 2Q16

**EBITDA**

**Net income**


### 2Q16F Summary of Our Coverage

Our Coverage	2Q16F	Chg. YoY	Chg. QoQ
<b>Net Income*</b>			
<b>Non-financials</b>	<b>3,334</b>	<b>15%</b>	<b>45%</b>
Automotive	646	25%	13%
Auto-parts	64	8%	-12%
Cement	149	-10%	28%
Consumer Durables	201	40%	29%
Glass	365	23%	-18%
Oil&Gas	772	-22%	165%
REITs	607	281%	167%
Retail	168	447%	25%
Steel	238	-45%	45%
<b>EBITDA</b>			
<b>Non-financials</b>	<b>5,075</b>	<b>6%</b>	<b>37%</b>
Automotive	992	20%	15%
Auto-parts	131	-4%	-5%
Cement	248	-3%	51%
Consumer Durables	413	23%	10%
Glass	644	19%	17%
Oil&Gas	1,074	-21%	61%
REITs	532	299%	374%
Retail	396	16%	9%
Steel	492	-32%	53%
<b>Sales</b>			
<b>Non-financials</b>	<b>44,823</b>	<b>5%</b>	<b>18%</b>
Automotive	12,039	19%	20%
Auto-parts	919	3%	3%
Cement	748	1%	28%
Consumer Durables	3,980	19%	13%
Glass	3,440	20%	21%
Oil&Gas	10,368	-22%	17%
REITs	1,398	379%	674%
Retail	7,846	18%	9%
Steel	3,265	-14%	6%

\*One-off adjusted figures

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## Our 2Q16F Preview in a nutshell

(All figures are in TRY mn)

### Akcansa AKCNS NEUTRAL (TP: 16.41, Upside:26%)

Exp Release Date	10-Aug				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	329	411	415	1%	26%
EBITDA	82	131	128	-2%	56%
Net Income	69	79	79	0%	15%
EBITDA Margin	25.0%	31.8%	30.9%	-93bps	587bps
Net Margin	21.0%	19.2%	19.1%	-17bps	-188bps

We estimate little YoY change in the top-line due to lower sales volumes but slightly higher domestic prices. Profitability remains high with the support of lower energy costs in the quarter, despite cement companies' incapability to increase prices further as in previous years. We estimate a 30.9% EBITDA margin in 2Q16 vs. 31.8% in 2Q15, given that the share of lower-margin export sales has been increasing this year.

### Anadolu Cam ANACM UNDERPERFORM (TP: 1.80, Upside:-9%)

Exp Release Date	12-19 Aug				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	345	446	482	8%	40%
EBITDA	60	92	97	6%	63%
Net Income	253	40	101	156%	-60%
EBITDA Margin	17.3%	20.5%	20.2%	-37bps	288bps
Net Margin	73.4%	8.9%	21.1%	1217bps	-5231bps

We estimate 8% YoY revenue growth in 2Q16 thanks to increasing exports and a 19% increase in prices in Russia so far this year. We expect an EBITDA margin of 20.2% in the quarter – almost similar on a YoY basis. The bottom-line will have been boosted by TRY85mn from the Soda stake sale.

### Arcelik ARCLK NEUTRAL (TP: 20.00, Upside:1%)

Exp Release Date	28-29 July				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	3,527	3,355	3,980	19%	13%
EBITDA	375	336	413	23%	10%
Net Income	156	326	594	82%	282%
EBITDA Margin	10.6%	10.0%	10.4%	37bps	-25bps
Net Margin	4.4%	9.7%	14.9%	520bps	1052bps

Revenue growth will have been driven by exports, higher sales prices and strong TV and air conditioner sales. Margins should be compromised by increasing raw material costs and we forecast the 2Q16 EBITDA margin at 10.4%, down from 10.6% in 1Q16 (but still 40bps higher YoY). Bottom-line will be boosted by TRY414mn income from sale of Koc Financial Services stake sale.

### Aselsan ASELS NEUTRAL (TP: 9.50, Upside:4%)

Exp Release Date	17-Aug				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	634	562	701	25%	11%
EBITDA	145	142	137	-4%	-5%
Net Income	112	91	118	29%	6%
EBITDA Margin	22.8%	25.3%	19.5%	-584bps	-331bps
Net Margin	17.7%	16.2%	16.9%	63bps	-79bps

We expect another quarter of weak revenue recognition in 2Q16 with the company's increasing focus on cash and inventory management and, accordingly, slowing project deliveries; however, this would still indicate 25% growth over last year. We estimate a 2Q16 EBITDA margin of 19.5% thanks to a favourable revenue mix.

### Aygaz AYGAZ OUTPERFORM (TP: 16.20, Upside:46%)

Exp Release Date	12-19 Aug				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	1,525	1,523	1,600	5%	5%
EBITDA	86	76	92	21%	7%
Net Income	65	107	120	12%	83%
EBITDA Margin	5.7%	5.0%	5.8%	75bps	9bps
Net Margin	4.3%	7.0%	7.5%	49bps	321bps

Strong growth in auto-LPG sales is expected to have paved the way for 3% growth in total sales (excluding transit sales) despite our expectation of a slight increase in the LPG canister sales in YoY terms. We also expect a 90bps YoY improvement in the EBITDA margin on the back of the normalization in the operating performance seen in 1Q16. The slight improvement in sales prices will also have supported the operating performance. Last but not least, the bottom line will have received a boost thanks to a stronger contribution from Tupras in OoQ terms. The contribution from subsidiaries is expected to have risen from TRY17mn in 1Q16 to TRY39mn in the quarter.

Bim Birlesik Magazalar						BIMAS	NEUTRAL (TP: 64.00, Upside:21%)
Exp Release Date	19-Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		
Sales	4,811	4,351	5,195	19%	8%		
EBITDA	243	218	255	17%	5%		
Net Income	162	150	164	10%	2%		
EBITDA Margin	5.0%	5.0%	4.9%	-11bps	-14bps		
Net Margin	3.4%	3.4%	3.2%	-27bps	-20bps		

Bim had reached a network of 5,895 stores by the end of June, a 13% increase over the previous year. We estimate that there was a 19% rise in revenues. We forecast that there was strong profitability at the gross level, which would have largely mitigated the negative impact of the hike in the national minimum wage.

Brisa						BRISA	UNDERPERFORM (TP: 6.50, Upside:-7%)
Exp Release Date	10-12 Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		
Sales	402	434	444	2%	10%		
EBITDA	61	74	67	-10%	9%		
Net Income	23	34	28	-18%	25%		
EBITDA Margin	15.3%	17.1%	15.1%	-206bps	-17bps		
Net Margin	5.6%	7.9%	6.4%	-157bps	75bps		

We think the company maintained its volume growth in the quarter, pointing to growth in sales revenue despite our impression that product prices were relatively stagnant during the quarter. On the other hand, the sharp rise in rubber prices coupled with a correction in oil prices is estimated to have led to a 210bps deterioration in the company's EBITDA margin on YoY basis.

Cimsa						CIMSA	OUTPERFORM (TP: 20.27, Upside:33%)
Exp Release Date	8-Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		
Sales	254	329	333	1%	31%		
EBITDA	82	125	120	-4%	47%		
Net Income	47	87	70	-20%	47%		
EBITDA Margin	32.1%	37.9%	36.0%	-192bps	389bps		
Net Margin	18.7%	26.4%	20.9%	-549bps	221bps		

We estimate that Cimsa's revenues posted little YoY change due to the subdued domestic demand. The company has successfully managed to increase its white cement prices by 8-10% ytd; however, average grey cement prices declined, especially in the Mediterranean region as 5mn tonnes of clinker capacity comes up and running in the region. We forecast a slight decrease in the EBITDA margin from 37.9% in 2Q15 to 36.0% in 2Q16 due to high base effect from last year.

Dogus Otomotiv						DOAS	NEUTRAL (TP: 13.00, Upside:11%)
Exp Release Date	15-19 Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		
Sales	2,252	2,794	3,069	10%	36%		
EBITDA	92	112	124	10%	35%		
Net Income	47	82	77	-7%	63%		
EBITDA Margin	4.1%	4.0%	4.0%	2bps	-3bps		
Net Margin	2.1%	3.0%	2.5%	-45bps	41bps		

The 10% revenue growth which we estimate for the quarter will have been driven by price increases, as there was no volume growth in the company's sales. We expect the 2Q16 EBITDA margin to have remained unchanged in YoY terms at 4.0%. The company's bottom-line will have been supported by income from subsidiaries and dividend from Dogus Holding.

**Emlak G.M.Y.O.** **EKGYO** **OUTPERFORM (TP: 3.60, Upside:31%)**

Exp Release Date	8-9 Aug				
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ
Sales	129	253	1,196	372%	830%
EBITDA	72	112	438	291%	508%
Net Income	177	144	508	254%	187%
EBITDA Margin	56.1%	44.2%	36.7%	-755bps	-1944bps
Net Margin	137.5%	56.7%	42.5%	-1419bps	-9501bps

Thanks to deliveries of two of the RSM projects and three of the turn-key projects in the quarter, we expect a strong set of results. We calculated that the company achieved TRY623mn of revenues from RSM projects and TRY553mn from Turn-Key projects in 2Q16. Additionally, the sale of the previous head office building is likely to have contributed TRY20mn to the top-line.

**Eregli Demir Celik** **EREGL** **UNDERPERFORM (TP: 4.00, Upside:-14%)**

Exp Release Date	12-19 Aug				
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ
Sales	2,577	3,170	2,645	-17%	3%
EBITDA	304	652	399	-39%	31%
Net Income	164	442	204	-54%	24%
EBITDA Margin	11.8%	20.6%	15.1%	-548bps	328bps
Net Margin	6.4%	13.9%	7.7%	-622bps	135bps

As benchmark HRC prices declined 15% YoY, we expect a 17% contraction in revenues in the quarter. The 60% YoY decline in the HRC-iron ore spread is expected to have precipitated a sharp contraction in the EBITDA margin from 21% in 2Q15 to 15% in 2Q16. The 3.3pp QoQ margin improvement should stem from the partial positive impact of rise in the prices in 2Q16.

**Ford Otosan** **FROTO** **OUTPERFORM (TP: 40.50, Upside:27%)**

Exp Release Date	2-3 Aug				
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ
Sales	4,185	3,962	4,425	12%	6%
EBITDA	362	324	374	16%	3%
Net Income	203	174	229	31%	13%
EBITDA Margin	8.7%	8.2%	8.5%	29bps	-20bps
Net Margin	4.9%	4.4%	5.2%	78bps	33bps

We estimate 12% YoY revenue growth in 2Q16 with 3% growth in total sales volume, and 11% volume growth in export shipments on strong European demand - but a 10% fall in local sales volume on weaker overall domestic demand and some loss of market share in the quarter. We estimate a slight YoY improvement in operating margins in 2Q16.

**Is G.M.Y.O.** **ISGYO** **OUTPERFORM (TP: 2.20, Upside:33%)**

Exp Release Date	Last week of July				
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ
Sales	52	38	202	429%	289%
EBITDA	40	21	94	337%	134%
Net Income	50	15	99	541%	96%
EBITDA Margin	77%	56%	46%	-971bps	-3072bps
Net Margin	97%	40%	49%	854bps	-4821bps

With around 90% of the homes in the Izmir Perla project delivered, we expect a strong set of results in the quarter. We calculated TRY151mn of unit sales revenues and TRY51mn of rental revenues in 2Q16.

**Kordsa Global Endustriyel** **KORDS** **OUTPERFORM (TP: 6.40, Upside:8%)**

Exp Release Date	10-12 Aug				
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ
Sales	488	458	475	4%	-3%
EBITDA	76	62	64	2%	-16%
Net Income	51	25	36	45%	-29%
EBITDA Margin	15.6%	13.6%	13.4%	-16bps	-217bps
Net Margin	10.4%	5.4%	7.6%	213bps	-280bps

We expect the company to have continued its strong volume growth in the quarter again on the back of favourable market environment. However, following an average 26% YoY decline in global product prices; we expect some normalization after the record high profitability performance that was seen in the last three quarters. Accordingly, we expect the company's EBITDA margin of 15.6% in 1Q16 to have declined to 13.3% in 2Q16.

Kardemir (D)						KRDMD	NEUTRAL (TP: 1.55, Upside:19%)
Exp Release Date	12-19 Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		Despite an average 4% YoY decline in the billet-iron ore spread, we expect an improvement in margins thanks to lower feedstock costs stemming from pre-purchased inventories in 2015. An average 8% rise in sales prices and better market dynamics are likely to have led to a QoQ improvement in the operating performance.
Sales	503	635	620	-2%	23%		
EBITDA	18	75	93	24%	419%		
Net Income	0	-6	34	n.m.	#DIV/0!		
EBITDA Margin	3.6%	11.9%	15.1%	321bps	1148bps		
Net Margin	0.0%	n.m.	5.5%	n.m.	n.m.		

Migros						MGROS	OUTPERFORM (TP: 24.00, Upside:49%)
Exp Release Date	19-Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		We estimate 15% revenue growth in 2Q16 with 90 new store openings and strong L-F-L growth. The impact of the hike in the national minimum wage should have continued in the quarter – yet we estimate a slight QoQ improvement in the EBITDA margin to 5.7% in 2Q16. The interest burden will have continued to compromise the company's operating income, leaving a paltry TRY4mn net income at the bottom-line.
Sales	2,411	2,295	2,651	15%	10%		
EBITDA	122	124	141	14%	16%		
Net Income	-28	-119	4	n.m.	n.m.		
EBITDA Margin	5.0%	5.4%	5.3%	-9bps	27bps		
Net Margin	n.m.	n.m.	0.1%	n.m.	n.m.		

Petkim						PETKM	OUTPERFORM (TP: 4.90, Upside:22%)
Exp Release Date	11 Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		We expect the company to have maintained its strong sales volume and margins on the back of the continuing up-cycle in the sector. Despite an 11% YoY narrowing in the naphtha-ethylene spread in the quarter, strong market dynamics should have kept the operating performance almost stable when compared to 2Q15. In other words, we expect the company to have maintained its strong EBITDA margin of 17% vs. the historical 5Y average of 6.5%. An absence of deferred tax income, which was seen in 2Q15, is expected to have led to a YoY decline in net income in 2Q16.
Sales	1,109	1,146	1,164	2%	5%		
EBITDA	183	203	195	-4%	6%		
Net Income	146	179	153	-14%	4%		
EBITDA Margin	16.5%	17.7%	16.7%	-103bps	16bps		
Net Margin	13.2%	15.6%	13.1%	-245bps	-8bps		

Sabanci Holding						SAHOL	OUTPERFORM (TP: 12.50, Upside:39%)
Exp Release Date	11-12 Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		We estimate a 27% YoY increase in Sabanci Holding's earnings in 2Q16 due mostly to a near doubling in Akbank's net earnings and a turnaround from a loss to a TRY100mn profit at Enerjisa. On the other hand, the retail segment will continue to have undermined the Holding's consolidated earnings with losses in both Carrefoursa and Teknosa.
Net Income	641	570	721	27%	13%		

**Sise Cam** **SISE** **NEUTRAL (TP: 3.78, Upside:10%)**

Exp Release Date	12-19 Aug				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	1,874	1,903	2,245	18%	20%
EBITDA	388	378	418	11%	8%
Net Income	128	229	269	18%	111%
EBITDA Margin	20.7%	19.9%	18.6%	-123bps	-210bps
Net Margin	6.8%	12.0%	12.0%	-5bps	516bps

We estimate 18% YoY revenue growth with the contribution of the flat glass (36% YoY). We expect the EBITDA margin to have decreased from 19.9% in 2Q15 to 18.6% in 2Q16 due to lower profitability in the glassware segment.

**Tofas Otomobil Fab.** **TOASO** **NEUTRAL (TP: 28.00, Upside:18%)**

Exp Release Date	28-Jul				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	2,716	2,550	3,645	43%	34%
EBITDA	284	279	364	30%	28%
Net Income	240	193	256	32%	6%
EBITDA Margin	10.5%	10.9%	10.0%	-96bps	-47bps
Net Margin	8.9%	7.6%	7.0%	-57bps	-184bps

We estimate a 43% YoY rise in 2Q16 revenues driven by the 72% rise in export shipments with the introduction of new models. We expect the EBITDA margin to have fallen from 10.9% 2Q15 to 10.0% in 2Q16 due to the plunge in take/pay revenues. We incorporate TRY30mn of tax income in our 2Q16 estimates.

**Trakya Cam** **TRKCM** **OUTPERFORM (TP: 3.05, Upside:32%)**

Exp Release Date	12-19 Aug				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	627	525	714	36%	14%
EBITDA	104	73	129	78%	24%
Net Income	65	28	327	1058%	404%
EBITDA Margin	16.7%	13.8%	18.1%	425bps	141bps
Net Margin	10.3%	5.4%	45.8%	4042bps	3545bps

We estimate an impressive 36% YoY top-line growth in 2Q16 with the recovery in domestic demand and the consolidation of Bulgarian operations (we estimate that the company recorded TRY96mn of revenues from its Bulgarian subsidiary in the quarter). Profitability will have been boosted further with the EBITDA margin set to have materialized at 18.1% in 2Q16 compared to a mere 13.8% in 2Q15 thanks to a 4% increase in prices in the domestic market in December 2015 and a 23% cut in the ngas tariff in Bulgaria on 1 April. As well as the better operating results, the bottom-line should also have been supported by the TRY302mn in proceeds from the Soda stake sale.

**Turk Traktor** **TTRAK** **OUTPERFORM (TP: 97.00, Upside:16%)**

Exp Release Date	Second week of August				
<b>Summary Financials</b>	<b>1Q16</b>	<b>2Q15</b>	<b>2Q16F</b>	<b>Chg YoY</b>	<b>Chg QoQ</b>
Sales	886	798	899	13%	2%
EBITDA	126	113	130	15%	4%
Net Income	80	68	85	24%	5%
EBITDA Margin	14.2%	14.1%	14.4%	30bps	28bps
Net Margin	9.1%	8.6%	9.4%	83bps	34bps

We estimate a 13% YoY rise in revenues on the back of a 4% increase in sales volumes and higher prices. We think the combination of a favourable sales mix and increasing factory efficiency will have contributed to a gradual improvement in margins despite the negative impact of rising commodity prices; we estimate an EBITDA margin of 14.4% in 2Q16.

Tupras						TUPRS	OUTPERFORM (TP: 82.00, Upside:29%)
Exp Release Date	12-19 Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		Despite a USD0.6/brl decline in the benchmark Med-region refining margin on a QoQ basis, we expect the company to have doubled its EBITDA generation on the back of 1) a higher contribution from the RUP and 2) the positive impact of the inventory gains in the quarter. The YoY decline in the operating performance is expected to have resulted from lower crack spreads relative to the unusually high profitable season in 2Q15.
Sales	6,191	10,601	7,604	-28%	23%		
EBITDA	398	1075	787	-27%	98%		
Net Income	79	710	499	-30%	532%		
EBITDA Margin	6.4%	10.1%	10.4%	21bps	392bps		
Net Margin	1.3%	6.7%	6.6%	-14bps	529bps		

Yatas						YATAS	OUTPERFORM (TP: 4.30, Upside:30%)
Exp Release Date	19-Aug						
Summary Financials	1Q16	2Q15	2Q16F	Chg YoY	Chg QoQ		We estimate a massive 38% YoY top-line growth in 2Q16 on the back of the continued strong domestic demand and market share gains from the main competitor. We expect Yatas to have generated TRY16.7mn of EBITDA in 2Q16, implying a YoY improvement in the EBITDA margin to 13.9% compared to the 12.8% in 2Q15. The company has benefited from increasing sales-to-visit ratios and price increases of 7-8% ytd.
Sales	94.8	86.7	120.0	38%	27%		
EBITDA	7.8	11.1	16.7	50%	113%		
Net Income	2.7	2.8	6.3	122%	138%		
EBITDA Margin	8.3%	12.8%	13.9%	107bps	564bps		
Net Margin	2.8%	3.3%	5.3%	199bps	247bps		

## FinansInvest Rating System

We employ a relative scale in our rating system (i.e. Market **Outperform**, **Neutral**, **Underperform**) in order to better present relative value propositions and more actively pursue long vs. short ideas at the BIST. The relevant benchmark is the broader Turkish stock market, using the BIST-100 index as a basis. The ratings also incorporate a certain degree of relativity within the analyst's own stock coverage universe due to asymmetric return expectations among the industries under our BIST coverage. The rating system combines analysts' views on a stock relative to the sectors under coverage, and the sector call relative to the market, together providing a view on the stock relative to the market.

Individual ratings reflect the expected performance of the stock relative to the broader market over the next 6 to 12 months. The assessment of expected performance includes a function of near-term company fundamentals, industry outlook, confidence in earnings estimates and valuation, and other factors.

An essential element of our rating methodology involves benchmarking a 12-month expected return against the cost of equity. We set a required rate of return for each stock, calculated from our risk-free rate and equity risk premium assumptions. The price target for a stock represents the value that the stock is expected to reach or sustain over the performance horizon of 12 months, according to the view of the analyst.

We have separated the stocks under our coverage into two groups, mainly with respect to their liquidity (market cap, free float market cap and historical average daily trading volume) as small-cap stocks exhibit different risk/return characteristics to more-liquid large-caps. For the purposes of the relative stock rating, however, stocks within each group will be considered on an unweighted basis with regard to their market capitalization.

For a stock to be assigned an **Outperform** rating, the implied return *must* exceed the required rate of return by at least 5 percentage points over the next 12 months for our larger-cap stock coverage, or by 10 percentage points for the small-cap group. For a stock to be assigned an **Underperform** rating, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months. Stocks between these bands will be classified as **Neutral**.

When the potential upside of an *average* stock in our coverage exceeds its required rate of return (i.e. the market upside exceeding the implied average cost of capital), a greater number of stocks would fall into the aforementioned Outperform (Buy) category, illustrating the significance of the "relative return" concept (vis-à-vis absolute return) in picking better investment ideas with a positive alpha. The same holds true when the potential upside of an *average* stock in our coverage falls short of its required rate of return.

In this regard, as a supplemental methodology, we rank the stocks in our coverage according to their notional target price with respect to their current market price, and then categorize the top group (approximately 40-50% of the companies under coverage) as Outperform, the next 40-50% as Neutral and the lowest 10-20% (and no less than 10%) as Underperform.

It should be noted that the expected returns on some stocks may at times fall outside the relevant ranges of the applicable respective rating category because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges are permitted but becomes subject to review. Also note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

**Outperform.** We expect the stock to outperform the BIST-100 over the next 6 to 12 months.

**Neutral (Market Perform).** We expect the stock to broadly perform in line with the BIST-100 index over the next 6 to 12 months. (Although we would normally have a neutral assessment of stocks in this category, if a stock has gone through a period of market underperformance, it would be an indication that the stock may be expected to improve its performance relative to market averages in the coming period, and vice versa).

**Underperform.** We expect the stock to underperform the BIST-100 over the next 6 to 12 months.

**N/R.** Not Rated.

**U/R.** Under Review.

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The following analysts hereby certify that the views expressed in this research report accurately reflect their own personal views regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report: **Özgür Uçur, Can Alagöz, Mehmet Alp Ertekin.**

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

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