TURKISH EQUITIES / COMPANY INITIATION

Klimasan

A cool deal

We initiate our coverage of Klimasan with an Outperform rating and a TP of TRY9.25 per share. Our 12 month TP indicates an impressive 40% upside. Klimasan is a 69% subsidiary of the world's 3rd largest commercial refrigerator producer, Metalfrio and one of Turkey's two largest firms in its field. The company manufactures vertical and horizontal commercial coolers for household food and beverage companies including Coca-Cola, Anadolu Efes, Tuborg, Carlsberg, SAB Miller and Danone. Around 70% of its production is exported and the Company therefore benefits from a weak Lira. Klimasan offers bright growth prospects, strong profitability and a healthy balance sheet combined with an enticingly cheap valuation.

- **High profitability with a strong balance sheet:** Klimasan managed to increase its EBITDA margin from 8.7% in 2010 to 12.9% in 2015 thanks to **i)** an increasing share of value added products in the sales mix, **ii)** increasing efficiency at the factory, **iii)** rising sales volumes and hence economies of scale and **iv)** benign commodity costs. We expect the EBITDA margin to average 12.4% between 2016 and 2018, as we do not forecast any major change in these trends. Thanks to its low-indebtedness (1.3x Net debt/EBITDA and 3.2x EBIT interest coverage at the end of June) and active Eurobond trading strategies, the strong operating performance is translated into a high RoE. We expect the RoE to average 20.8% in the next three years.
- **Rapid growth thanks to market share gains:** We forecast a CAGR of 19% in revenues between 2015 and 2018 mainly on the back of market share gains, growing organized retailing and Company's investments in value-added products and a larger product portfolio. The owners/ executives of Ugur (Klimasan's main competitor) are currently facing criminal charges which may bring negative repercussions in its operations. The sector serves players which are very careful in their supply chain who would want to avoid any uncertainty in their orders, raising the prospect that customers may boost orders from Klimasan during this uncertain period.
- **Cheap valuation:** Our DCF analysis indicates a 12 month TP of TRY9.25/ share, implying 40% upside and the stock trades at cheap 6.6x EV/EBITDA and 9.4x P/E on 2016F earnings and a bargain basement 5.3x EV/EBITDA and 8.5x P/E on 2017F earnings.
- **Risks and upsides:** Our base case scenario incorporates a conservative assumption for market share gains, which would lead to 20% volume growth for 2017 and a mere 4% annual growth for 2018 and in the post-2018 period, we have forecasted a gradual contraction in volumes assuming the main competitor recaptures all of its lost market share over time. We have also forecasted normalization in the EBITDA margin from 12.9% in 2015 to a sustainable level of 11% throughout our model, which leaves the door open to upside in our model. On the other hand, the high indebtedness of the main shareholder (8.2x Net Debt/EBITDA as of the end of June 2016) and the squeeze in its equity due to FX losses stand out as the main risks (even though Metalfrio injected USD37mn of cash through a rights issue in 3Q16, its debt/equity should have improved to 2.9x.). Other risks would include deterioration in the world's economic outlook, rising commodity prices, low trading liquidity and restricted corporate access.

20 October 2016

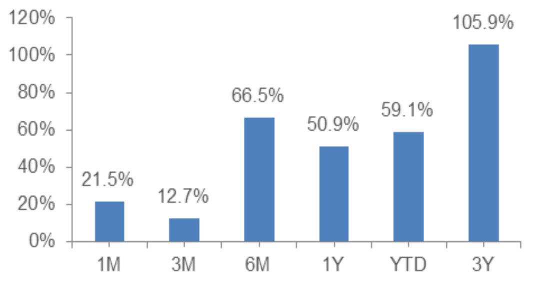
Outperform
(initiated)

Close Price: TRY6.62
12m Target Price: TRY9.25
Upside Potential: 40%

Stock data

Bloomberg / Reuters	KLMSN.TI/KLMSN.IS
Mcap (USDmn)	71
EV (USDmn)	89
Avg. trd vol. (USDmn)	2.7
Free float (%)	39

Relative Performance to BIST100



Key Data (TRYmn)	2014	2015	2016F	2017F
Revenues	228	267	327	408
Growth	*-9%*	*17%*	*22%*	*25%*
EBITDA	26	35	41	51
Growth	*1%*	*33%*	*18%*	*25%*
Net profit	11	22	23	26
Growth	*-17%*	*106%*	*6%*	*10%*
P/E (x)	8.1	5.1	9.4	8.5
EV/ EBITDA (x)	4.5	4.2	6.6	5.3
P/BV (x)	1.2	1.2	1.9	1.6
FCF yield* (%)	52%	34.2%	n.m.	4.5%
Dividend yield (%)	0.0%	0.0%	1.5%	1.2%

**Marketable securities transactions excluded*

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Figure 1 – Summary financials & Key metrics (TRYmn)

Income statement	2012	2013	2014	2015	2016F	2017F	2018F
Revenues	**158**	**251**	**228**	**267**	**327**	**408**	**450**
Gross profit	**27**	**47**	**45**	**57**	**68**	**86**	**93**
EBITDA	**11**	**26**	**26**	**35**	**41**	**51**	**55**
Depreciation	6	7	7	8	9	11	12
EBIT	**5**	**19**	**19**	**27**	**32**	**40**	**43**
Net other income	2	6	0	10	-4	-4	-4
Income from investing activities	3	19	0	22	13	15	17
Net financial income	-4	-29	-7	-34	-12	-20	-20
Profit from associates	0	0	0	0	0	0	0
PBT	**7**	**16**	**12**	**24**	**29**	**32**	**36**
Taxes	-1	-3	-2	-2	-5	-6	-7
Minority interest	0	0	0	0	0	0	0
Net income	**5**	**13**	**11**	**22**	**23**	**26**	**29**

Balance sheet	2012	2013	2014	2015	2016F	2017F	2018F
Current assets	**164**	**251**	**293**	**342**	**385**	**425**	**464**
Cash equivalents	100	162	191	204	218	232	252
Trade receivables	40	49	47	61	76	89	99
Inventories	18	26	39	49	60	71	78
Other current assets	5	13	17	29	31	33	35
Non-current assets	**50**	**49**	**51**	**58**	**69**	**77**	**80**
Tangibles	41	39	38	39	47	51	52
Intangibles	7	8	10	12	30	37	41
Other non-current assets	2	2	3	7	7	8	8
Total assets	**214**	**300**	**344**	**400**	**454**	**502**	**544**
Current liabilities	**100**	**131**	**127**	**131**	**163**	**190**	**210**
Short-term loans	73	89	76	67	95	116	128
Trade payables	22	33	40	53	57	62	68
Other current liabilities	5	10	10	11	11	12	13
Non-current liabilities	**64**	**108**	**146**	**176**	**177**	**175**	**171**
Long-term loans	62	105	143	172	173	170	166
Other non-current liabilities	2	3	3	4	4	5	5
Minority Interest	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Shareholders' equity	**49**	**61**	**72**	**93**	**114**	**137**	**163**
Total liabilities and equity	**214**	**300**	**344**	**400**	**454**	**502**	**544**

Key metrics	2012	2013	2014	2015	2016F	2017F	2018F
Growth							
Revenue growth	-20%	58%	-9%	17%	22%	25%	10%
EBITDA growth	-42%	144%	1%	33%	18%	25%	8%
Net income growth	16%	142%	-17%	106%	6%	10%	13%
Profitability							
Gross Margn	16.9%	19%	20%	21%	21%	21%	21%
EBITDA margin	6.7%	10.3%	11.4%	12.9%	12.5%	12.5%	12.3%
Net margin	3.3%	5.1%	4.7%	8.2%	7.1%	6.3%	6.5%
Return on assets (ROA)	2.8%	5.0%	3.3%	5.9%	5.5%	5.4%	5.6%
Return on equity (ROE)	11.3%	23.2%	15.9%	26.6%	22.5%	20.5%	19.4%
Return on cap. emp. (ROCE)	6.3%	13.7%	10.6%	17.1%	14.2%	13.4%	14.2%
Leverage							
Net Debt	35	32	28	36	50	54	42
Net debt / Equity	0.7	0.5	0.4	0.4	0.4	0.4	0.3
Net debt / EBITDA	3.3	1.2	1.1	1.0	1.2	1.1	0.8
EBIT Interest coverage	1.8	3.3	2.5	3.3	3.0	3.3	3.4
Efficiency							
Total asset turnover	0.7	0.8	0.7	0.7	0.7	0.8	0.8
Equity turnover	3.2	4.1	3.2	2.9	2.9	3.0	2.8
WC/Sales	23%	17%	20%	21%	24%	24%	24%
Opex/Sales	14%	11%	11%	11%	11%	11%	11%

Cash flow	2012	2013	2014	2015	2016F	2017F	2018F
EBITDA	11	26	26	35	41	51	55
Change in working capital	-4	-7	-2	-12	-23	-18	-10
Taxes (EBIT x 20%)	-1	-4	-4	-5	-6	-8	-9
Capital expenditure	-7	-6	-8	-11	-17	-15	-13
Adjustment	12	36	-3	31	0	0	0
FCFF*	11	45	8	38	-6	10	24

Finansinvest vs Consensus	2016F			2017F		
	Estimate	Cons	Deviation	Estimate	Cons	Deviation
Revenues	327	n.a.	n.a.	408	n.a.	n.a.
EBITDA	41	n.a.	n.a.	51	n.a.	n.a.
Net Income	23	n.a.	n.a.	26	n.a.	n.a.

**Marketable securities transactions excluded*

INVESTMENT THEME

Part of a global group

Klimasan is a 69% subsidiary of Metalfrio, the world's 3rd largest manufacturer of commercial refrigerator and freezers. The company accounts for a third of the group's total established production capacity, and is one of the largest producers in the domestic commercial refrigerator and freezer market. The company's main clients include some household names in the beverage and frozen food sector such as Coca-Cola, Anadolu Efes, Tuborg, Carlsberg, SAB Miller and Danone.

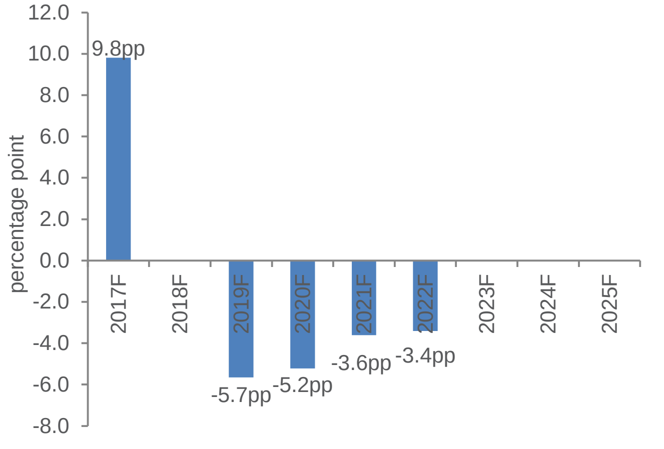
Changing competition dynamics in favor of Klimasan

The Turkish commercial refrigerator market is dominated by two players, Klimasan and Ugur Sogutma Makinalari (Ugur). Ugur's main focus is deep-freezers, where it is the market leader in this segment. However, Klimasan has a competitive edge over its main rival in the more value-added vertical commercial cooler segment, which commands higher profit margins. These two companies dominate the domestic market, while there are a couple of small-sized local players. The owners/executives of Ugur are currently facing criminal charges which may bring negative repercussions in its operations. The sector serves players which are very careful in their supply chain who would want to avoid any uncertainty in their orders, raising the prospect that customers may boost orders from Klimasan during this uncertain period.

Klimasan poised for market share gains

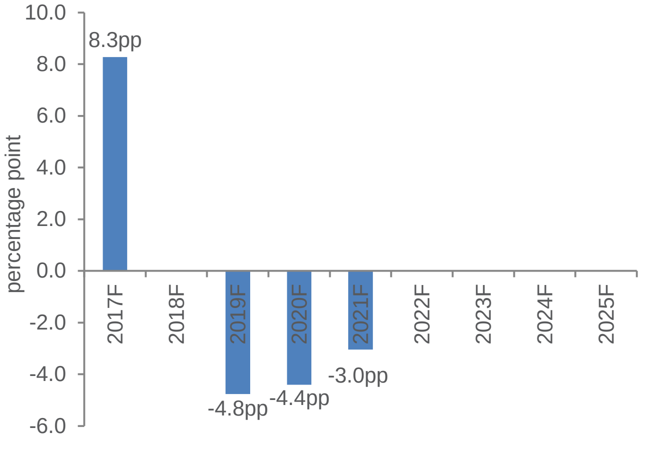
The sector serves highly reputable, large global players which run a tight ship in their supply chain management and we think these large customers would want to steer clear of uncertainty when delivering orders. Accordingly, we think that Klimasan may capture additional market share both in Turkey and international markets. We think the benefits should start being reflected to the financials from 1Q17, given that pre-orders or purchasing orders are mostly determined every last quarter. We expect Klimasan to capture market share in 2017 and hold onto these gains in 2018; however, we assume a gradual decline in market share after 2018.

Figure 2 – **Domestic market share gain/loss for Klimasan**



Source: Finansinvest estimates

Figure 3 – **Market share gain/loss in exports for Klimasan**

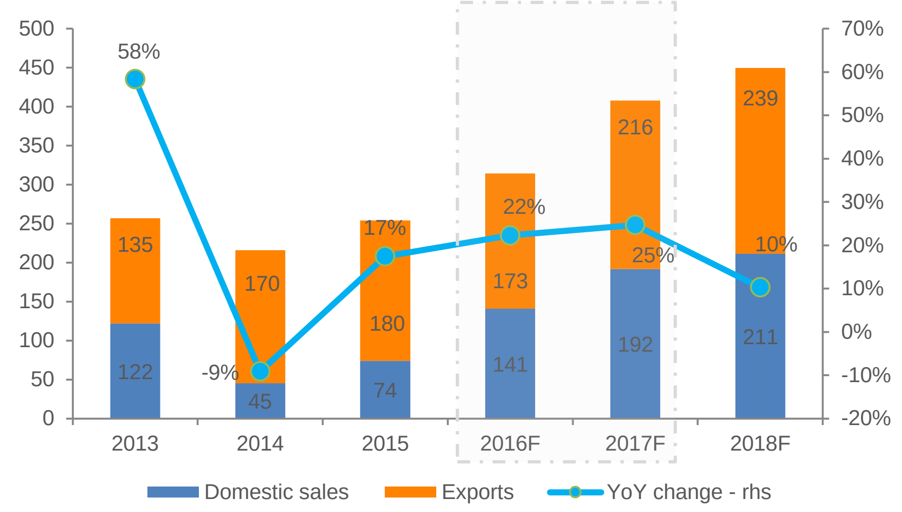


Source: Finansinvest estimates

Rapid top-line growth in 2016 to extend into 2017

Klimasan posted TRY210mn of revenue in 1H16, implying 33% YoY growth. The growth in the first half was driven by increasing domestic sales (124% YoY growth) which would have mainly resulted from market share gains. We conservatively expect Klimasan to post TRY327mn top-line in 2016, marking 22% growth over 2015. We forecast a record high TRY408mn of net sales in 2017 on 25% YoY growth, in parallel with our expectation of market share gains and solid growth potential in the sector in line with the rising number of hypermarkets, specialty food stores and supermarkets; especially in developing markets. Investments in value-added products and a larger product range should be other drivers of rapid growth in the following years. We forecast 66% YoY growth in the company's domestic volumes for this year, but a 9% contraction in exports largely due to the weak demand in the European market. For 2017, we forecast 20% volume growth in both domestic and exports market, primarily on the back of market share gains.

Figure 4 –An average 23% growth in the top-line in 2016 and 2017

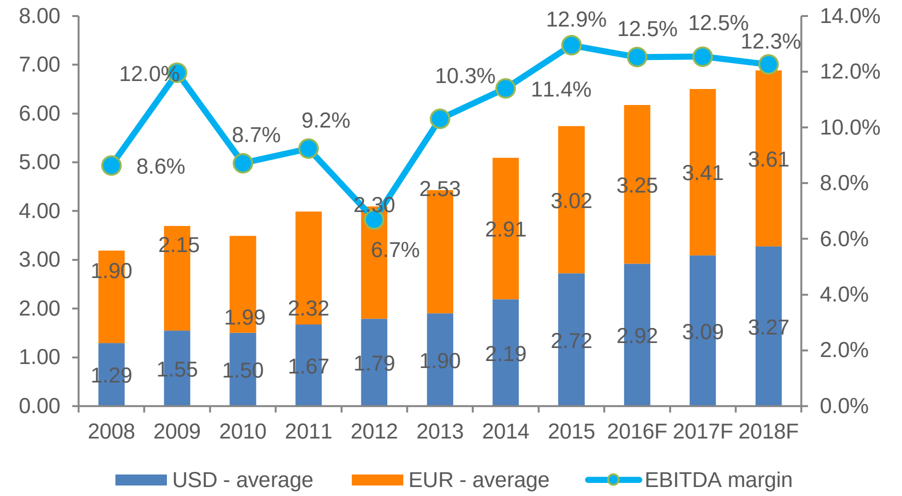


Source: The Company financials, Finansinvest estimates

FX-denominated sales represent an important advantage during falls in the TRY

Sales are mainly denominated in FX since exports constitute 70% of total revenues, while the company's sales in the local market are also EUR-linked. Thus, Klimasan's operations benefit from a weak Lira, all else being equal. The company had a USD22mn long position and EUR33mn short position (net FX short is TRY48mn) at the end of June 2016.

Figure 5 – Benefits from a weak TRY

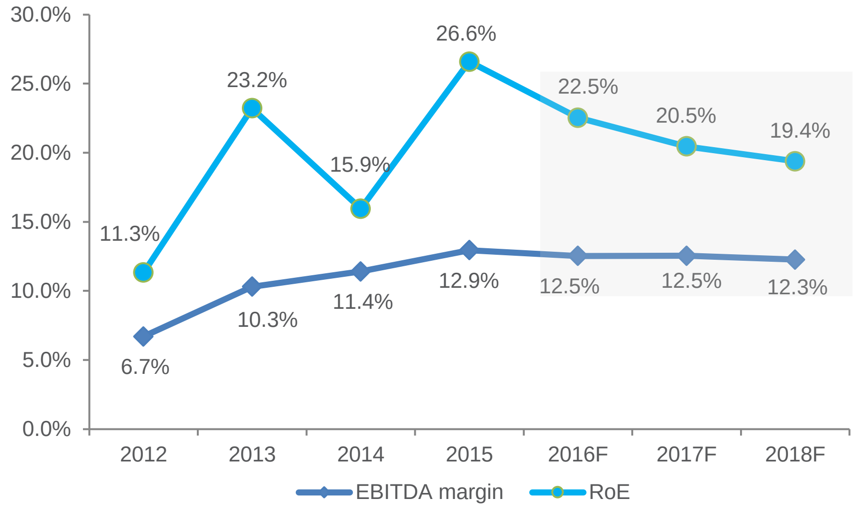


Source: The Company financials, Finansinvest estimates, Rasyonet

Primarily targeting high profitability

Profitability is the core target set out in the company's business model. The company is constantly seeking to improve its margins through cost-cutting and efficiency projects and keeping its focus on steadily increasing its production of more-value added products. The management states that in a rising-cost environment, sales prices are timely adjusted. The company generated an average EBITDA margin of 11.6% in the last 3 years – prior to this period; the EBITDA margin had averaged 9.1%. The expansion in margins can mainly be put down to i) an increasing share of value added products in the sales mix, ii) increasing efficiency in the factory, iii) rising sales volumes and hence economies of scale and iv) benign commodity costs. We expect the company to generate a 12.5% EBITDA margin in 2016 and 2017, exceeding the ten year average of 10% on the back of the aforementioned factors. For the sake of adopting a conservative approach, we expect the EBITDA margin to gradually settle at 11% in the long term. Accordingly, the company is expected to maintain its already high level of profitability (27% RoE in 2015) with an average RoE of 21% between 2016 and 2018.

Figure 6 –**High profitability to be maintained in the coming years**

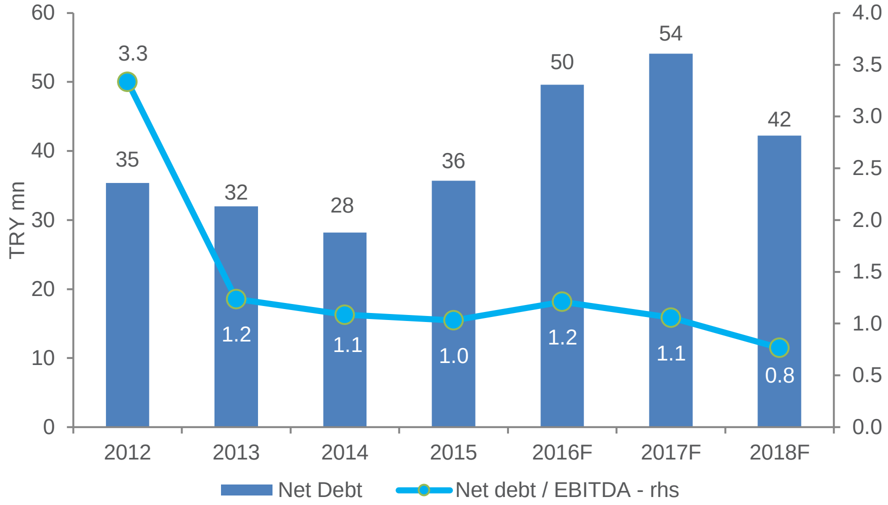


Source: The Company financials, Finansinvest estimates

A strong and well hedged balance sheet

With TRY53mn of net debt at the end of June 2016, the company has a conservative 0.5x net debt/equity ratio and a net debt/EBITDA ratio of 1.3x, whereas the interest coverage for the period is 3.3x (it is worth noting that the net debt peaks in the second quarter due to the high level of seasonality in the sector). Metalfrio Group requires its subsidiaries to maintain a strong cash position as contingency against any deterioration in market conditions which could lead to an inability to carry out sales or collect receivables, and Klimasan held TRY168mn in cash and cash equivalents at the end of June 2016. In a bid to compensate for an elevating interest burden, the Company invests a significant chunk of its cash position in high-yielding Eurobonds and corporate bonds, keeping the remaining cash in deposit accounts. By June 2016, the company had the equivalent of TRY115mn in Eurobonds and the equivalent of TRY53mn time deposits. With this strategy, the company also aims to hedge its exchange rate risk. Thanks to its promising cash generation, we expect the company to command a net cash position by 2020. Until then, its already benign degree of indebtedness should gradually diminish further.

Figure 7 –**Already low indebtedness should further decrease over time**



Source: The Company financials, Finansinvest estimates

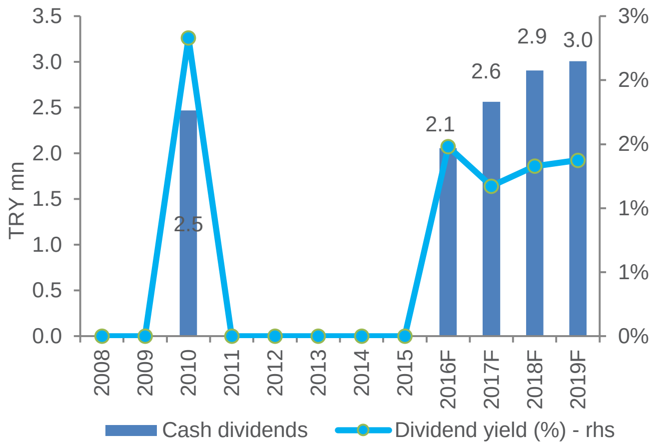
Cash accumulation to continue but slim pickings for dividends on a conservative policy

A TRY2.1mn dividend was distributed in 2016, six years after the last dividend that was distributed in 2010. The pay-out ratio stands at around 10%, a level which we expect to continue until 2020, when the company will switch to a net cash position according to our model. After 2019, our model assumes a 30% dividend payout ratio. Our expectation of no major change in the pay-out in the near future is based on the premise that the group's policy requires high liquidity and an expectation that the group could consider using its cash to lower its financial debt.

FCF generation to further accelerate

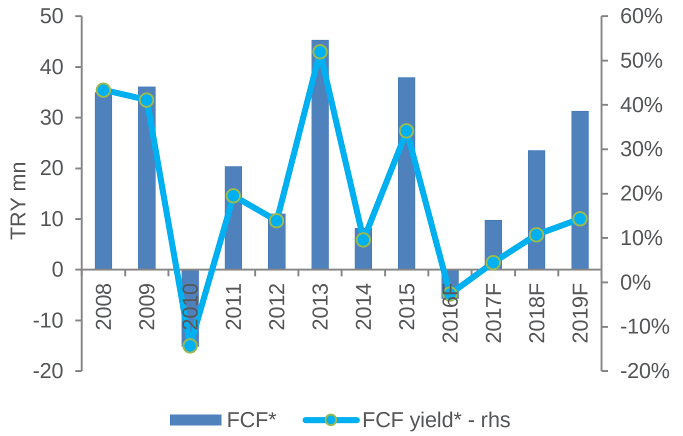
Klimasan has generated an annual average FCF of TRY22mn (Marketable securities transactions excluded) in the last 8 years; we expect this to shift up to an annual average of TRY27mn between 2016 and 2025. We believe the high growth years of 2016 and 2017 will be followed by a stable sales performance indicating a balancing WC requirement. This should precipitate a boost in the FCF from 2019, as we forecast a 14.3% FCF yield in 2019.

Figure 8 – **Dividend and Dividend Yield**



Source: The Company financials, Finansinvest estimates

Figure 9 –**FCF* and FCF yield***

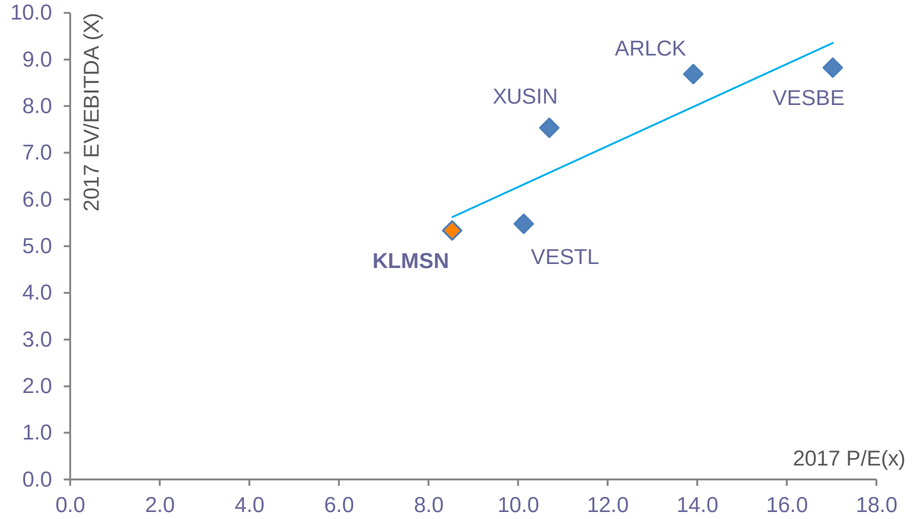


*Source: The Company financials, Finansinvest estimates, * Marketable securities transactions excluded*

Cheap multiples likely to see a re-rating going forward

Klimasan trades at bargain basement multiples with an EV/EBITDA of 6.6x and P/E of 9.4x based on 2016 prospective earnings, and an even cheaper 5.3x EV/EBITDA and 8.5x P/E on 2017F earnings, which we find unwarranted. We believe the company's strong financials; high profitability and growth prospects amid possible weakness in the competition as well as increasing investor awareness should set the stage for a re-rating in the company's multiples in the coming periods.

Figure 10 –**Klimasan is cheap compared to its domestic peers and BIST Industrial Index on 2017 Multiples**



Source: The Company financials, Finansinvest estimates, Bloomberg

A levered shareholder

The main shareholder, Metalfrio (FRIO3 TI) has a levered position with a Net Debt/EBITDA ratio of 8.2x, but aims to decrease its indebtedness to bring the Net Debt/EBITDA ratio to below 3x. The current economic situation in Brazil and massive depreciation of the Brazilian real has sparked FX loses for the company in the last couple of quarters. This, combined with its heavy financial burden, plunged the company's equity to critically low levels. On the other hand, the company strengthened its equity via rights issue of R$120mn (USD37mn), and accordingly its net debt/equity should have declined to around 2.9x. This should alleviate the pressure to some extent. Moreover, as quoted in IMF's latest World Economic Outlook Report in October 2016 : "Brazil and Russia continue to face challenging macroeconomic conditions, but their outlook has strengthened somewhat relative to last April" and "…Brazil and Russia are closer to exiting from recession". To be more precise, IMF revised up its GDP forecast for Brazil by increasing 0.5pp to -3.3% for 2016 and 0.5% for 2017. Furthermore, Brazilian real has started to stabilize recently, by appreciating against USD by 18%, after 45% depreciation in the last year.

Other risks

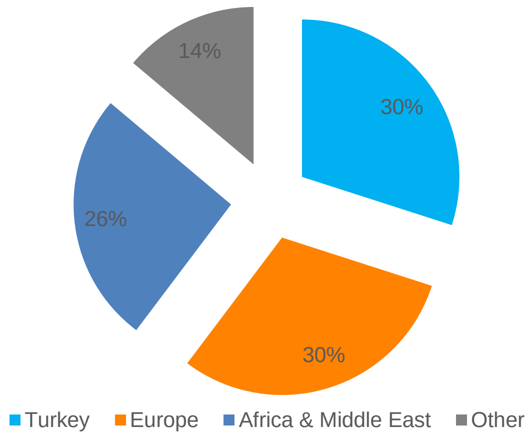
The main risks stand as capital loss on investments in the event of a sharp hike in interests globally, deterioration in world's economic outlook (which would cut capital goods purchases), any increase in commodity prices, the volatile nature of the business, low trading liquidity and restricted corporate access.

THE COMPANY IN BRIEF

A variety of cooler products for commercial use

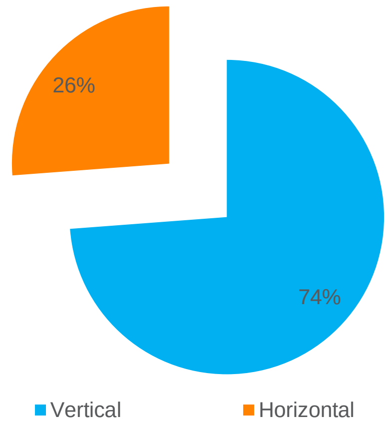
Klimasan's main products are beverage and beer coolers, ice cream and frozen food conservators, deep freezers and wine coolers. Beverage coolers can be further classified according to the number of doors they have (one, two, and three) and their position (vertical or horizontal). Ice cream and frozen food conservators are also divided into aluminum and plastic frame types. As products assume larger dimensions and more doors, they become both more expensive for the client and more profitable for Klimasan. The more profitable vertical products account for 74% of total revenues while the remaining sales are of the horizontal type.

Figure 11 – **70% of total revenues come from exports**



Source: The Company financials

Figure 12 – **Vertical segment's share in reveneus is 74%**



Source: The Company financials

Prominent clients with solid businesses

Klimasan's main clients include very prominent beverage and frozen food companies such as Coca-Cola, Anadolu Efes, Tuborg, Carlsberg, SAB Miller and Danone.

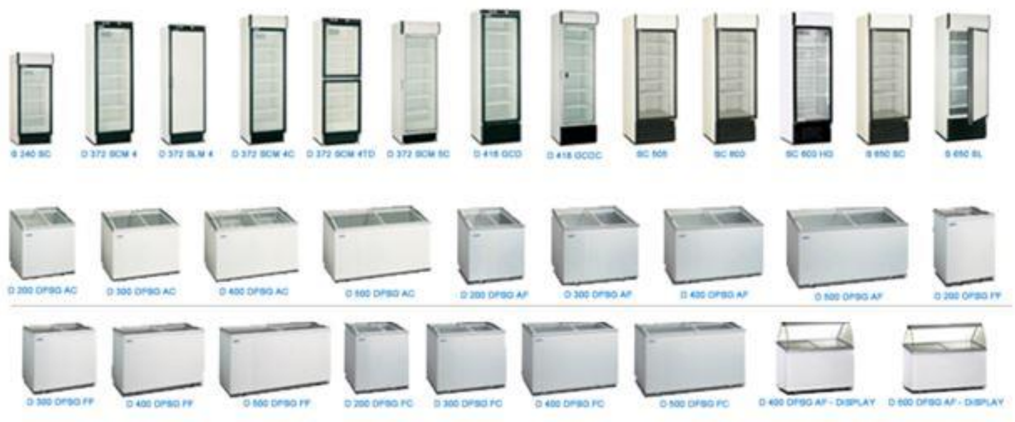
Figure 13 –**Some of Klimasan's big-ticket clients**

Source: The Company

A strong brand image in both the domestic and international market

Founded in 1915, the Senocak brand has a long established history and enjoys wide recognition in its segment in the local market. Klimasan uses Senocak brand in most of its accounts, while also uses Klimasan and Metalfrio brands. On the other hand, It carries Klimasan and Metalfrio brands in export markets with its quality products.

Figure 14 –**Some of Klimasan's vertical and chest commercial refrigerators**



Source: The Company's website

Accounting for a third of the global Metalfrio Group's production

Klimasan accounts for one third of the Metalfrio Group's total established production capacity with an annual production capacity of 450,000 units located in the Manisa Organized Industrial Zone. The production facility comprises 54,000 sqm of enclosed space and a total area of 92,000 sqm. According to our enquiries, prices in region hover at around TRY500/sqm. The company has no intention of selling any of its land or relocating to another location.

A main shareholder who is a global leader

Metalfrio, Klimasan's main shareholder with a 69% stake in the company, is the world's 3rd largest producer of commercial refrigerators and freezers, while 39% (8% held by Metalfrio) of the shares float freely on the stock exchange. Metalfrio Group undertook a strategic investment in Klimasan by purchasing 71% of the shares in Senocak (then held 61% of Klimasan shares) in March 2008. Metalfrio acquired the remaining 29% shares of Senocak and became the stand-alone corporate shareholder of Klimasan. This investment helped Metalfrio expand into new regions and Klimasan is currently home to the Group's 2nd largest production facility, after its Brazil facility. Accordingly, we do not expect any change in the main shareholder in the short-term.

Figure 15 –**39% of the shares are on free float**

Shareholder Structure	
Metalfrio	61.00%
Metalfrio's holding in Free Float	7.75%
Other Free Float	31.25%
Total	**100.00%**

Source: Public Disclosure Platform

Domestic sales are on an accelerating trend

Domestic revenues increased at a CAGR of 7% between 2008 and 2015, and are expected to surge forth at a 42% CAGR in the next 3 years. Domestic sales accounted for 33% of total revenues in 2015, while we believe this proportion would be averaging at 45% between 2016 and 2025 mainly on the back of market share gains from its primary rival and solid growth potential in the sector in line with the rising number of hypermarkets, specialty food stores and supermarkets. Klimasan is currently one of the largest producers in the Turkish commercial refrigerator sector, retaining almost half of the market share.

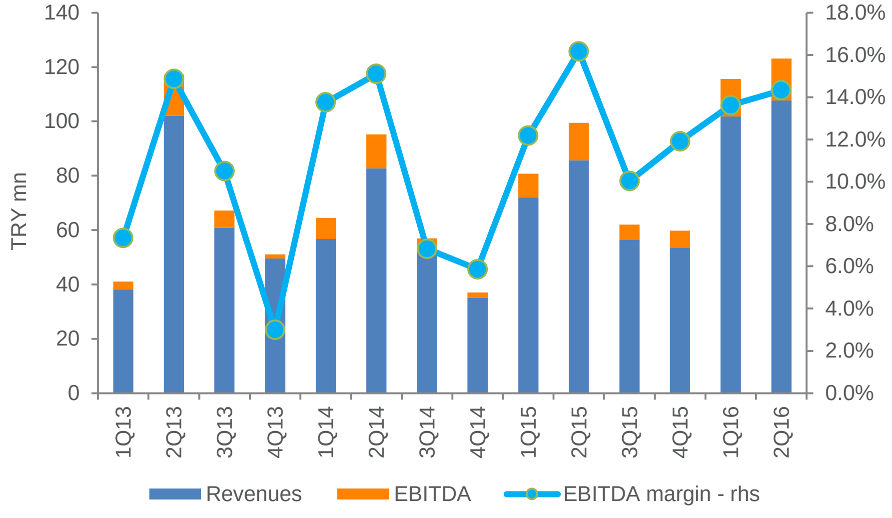
Exports set to improve in 2017 after a weak base in 2016

The company posted a CAGR of 18% in export revenues (in TRY terms) in the last seven years, and we expect this growth to continue with a CAGR of 10% over the next 3 years. We forecast an average annual volume growth of 4% during this period as a combination of the facts that European market almost reached its saturation, while emerging markets have a substantial potential thanks to increasing consumption of ready to eat products, growth in disposable income leading higher food and beverage expenditure and rapid expansion of supermarkets and food and restaurant chains. The main export regions are Europe (43% share in total exports) followed by Africa and the Middle East (37%). The company is working to increase its presence in the African market where it identifies the highest growth opportunities. The global demand outlook is also encouraging, where sector volumes are expected to realize a CAGR of 9% over the next six years.

Seasonality matters

Sales are highly seasonal with the first two quarters accounting for an average 55-60% of revenues and 65-70% of annual EBITDA. An additional 600-700 seasonal blue collar workers are recruited to meet the strong demand in the first half of the year when a second shift is added. This compares with 450-460 blue collar employees on the permanent payroll.

Figure 16 – **A seasonal business, with the 1st and 2nd quarters being the strongest for operations**



Source: The Company financials, Finansinvest estimates

VALUATION

We find a 12-month target price of TRY9.25 /share for Klimasan based on our DCF analysis, implying a massive 40% upside potential. Our DCF model assumes:

- 66% growth in domestic sales volume in 2016 and 20% in 2017, with export volumes contracting by 9% in 2016 but followed by 20% growth in 2017 on the back of market share gains from Ugur.
- We conservatively price increases of just 4% for 2016 and 6% for 2017, mostly linked to per unit cost increases for the following years.
- Raw materials are assumed to comprise 78% of the total COGS. We incorporate price forecasts for ten items which represent the company's raw materials in production. We mostly rely on our in-house and Bloomberg estimates for the detailed cost items. Accordingly, we forecast that unit cost will increase by 5% in 2016 and 6% in 2017.
- We expect TRY18mn of CAPEX spend in 2016, following the TRY8mn CAPEX spend in the first half and the company's continuing efficiency investments. We forecast TRY14mn of annual capex throughout our model horizon.
- We assume an average WACC of 11.6% with a risk free rate of 9.5%. We included a 200bps company specific risk premium in our adjusted risk premium figure. Our sensitivity analysis indicates that each 100bps change in company specific risk premium would alter our TP by about TRY0.40. (Figure 18)

Figure 17 – **DCF Summary for Klimasan**

TRYmn	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues	327	408	450	458	464	481	516	568	625	689
Revenue Growth	*22%*	*25%*	*10%*	*2%*	*1%*	*4%*	*7%*	*10%*	*10%*	*10%*
EBIT	32	40	43	41	39	38	39	43	47	52
EBITDA	41	51	55	54	53	54	58	63	69	76
EBITDA Margin	*12.5%*	*12.5%*	*12.3%*	*11.9%*	*11.5%*	*11.3%*	*11.2%*	*11.1%*	*11.0%*	*11.0%*
Taxes	-6.3	-8.1	-8.6	-8.2	-7.7	-7.7	-7.9	-8.5	-9.4	-10.5
Inc./dec. in W/C	-22.9	-18.4	-10.1	-2.0	-1.6	-4.1	-8.3	-12.5	-14.0	-15.4
Capex	-17.5	-14.9	-12.8	-12.9	-12.9	-13.1	-13.6	-14.5	-15.4	-16.4
FCF	**-5.7**	**9.8**	**23.6**	**31.3**	**31.0**	**29.4**	**28.2**	**27.2**	**30.1**	**33.6**
WACC	11.1%	11.2%	11.3%	11.5%	11.7%	11.8%	11.8%	11.9%	12.0%	12.0%
Discount Factor	0.97	1.08	1.20	1.34	1.49	1.67	1.87	2.09	2.34	2.62
Discounted CFs	-5.9	9.1	19.7	23.4	20.8	17.6	15.1	13.0	12.9	12.8
PV of FCFs	**138**									
Terminal Growth Rate	4%									
Terminal Value	435									
PV of TV	**166**									
Value of Firm	304									
Net Debt	38									
Equity Value	**267**									
12m Target Value	**305**									
12m TP (TRY)	**9.25**									

Source: Finansinvest estimates

Figure 18 – **Sensitivity Analysis for Company Specific Risk Premium**

Company specific risk premium (bps)	DCF driven TP (TRY)
0	10.11
100	9.66
200	**9.25**
300	8.87
400	8.53

Source: Finansinvest estimates

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 categorise 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.

Analyst Certification

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: **Mehmet Alp Ertekin and Özgür Uçur.**

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

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