

What to buy in the dividend season?

The dividend season is approaching: BIST-listed companies are expected to start distributing their dividends by the end of March and will have mostly completed their payments by the end of May.

High yielding stocks outperform during the dividend season: Our calculations depict that the 10 most generous dividend payers have outperformed the main index by an average 24% in the last ten years (Figure 4).

An average 8.0% dividend yield for the top ten payers: BIST-100 companies have posted an average dividend yield of 2.7% (Figure 2) over the last 10 years. Given that high dividend payers tend to outperform, we are looking for companies that offer the highest dividend yield in 2017. We forecast an average 8.0% dividend yield for the ten highest dividend payers in our research coverage with the yields of this group ranging from 5.9% up to 10.3% (Figure 1).

The potential best payers of 2017: According to our forecasts, the ten companies offering the highest dividend yields in 2017 can be listed as **Petkim (10.3%), Akcansa (9.9%), Cimsa (9.9%), Aygaz (9.2%), Turk Traktor (7.9%), Ereğli (7.4%), Ford Otosan (6.6%), Tupras (6.6%), Emlak REIT (6.1%) and Dogus Otomotiv (5.9%)**. Among these names, we have Outperform ratings for Petkim, Cimsa, Aygaz, Turk Traktor and Emlak REIT.

And some to watch that are not in our coverage: We looked at all listed companies to identify potential high yielding stocks that are not in our active research coverage. Accepting average historical pay-out ratios as implied for 2017 and multiplying these by trailing four quarter earnings, we looked for the potential ten highest dividend payers which are not in our research coverage (Figure 7). In order of dividend yield, these companies are; **Pinar Et ve Un (10.9%), Hektas (10.5%), Unye Cimento (10.4%), Adana Cimento (9.2%), Bolu Cimento (8.5%), Pinar Sut (8.3%), Vestel Beyaz (8.2%), Akmerkez REIT (8.1%), Creditwest Factoring (8.0%) and Nuh Cimento (7.6%)**.

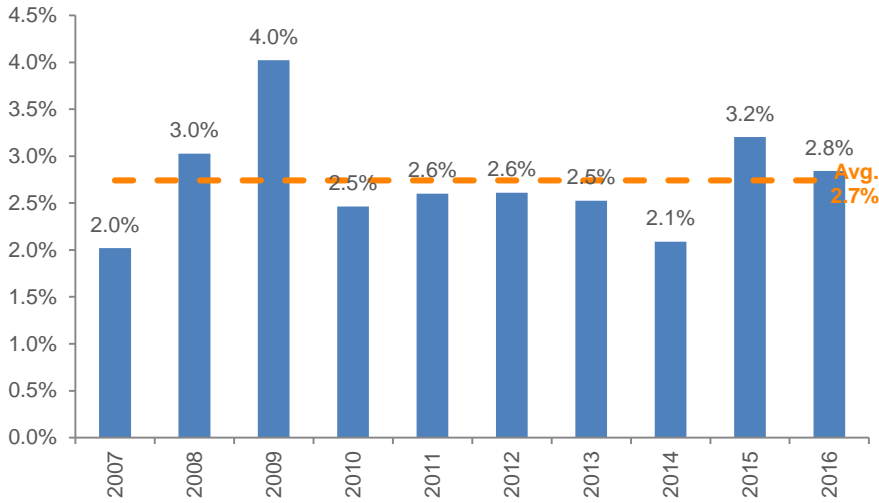
Figure 1 – Potential highest dividend payers of 2017 in Finansinvest coverage

Company	Rating	12-month TP	Upside Potential	2017F Dividend Yield	2017F P/E	Rel. Perf. 1-month	Rel. Perf. 3-months
PETKM	Outperform	4.90	36%	10.3%	10.2	-3%	-18%
AKCNS	Neutral	15.61	14%	9.9%	9.5	5%	8%
CIMSA	Outperform	20.06	25%	9.9%	7.4	8%	7%
AYGAZ	Outperform	17.00	49%	9.2%	7.3	2%	7%
TTRAK	Outperform	97.00	36%	7.9%	10.4	-4%	-12%
EREGL	Underperform	4.20	-12%	7.4%	13.8	-6%	14%
FROTO	Neutral	39.60	35%	6.6%	10.0	-3%	-3%
TUPRS	Neutral	78.00	12%	6.6%	10.3	-1%	18%
EKGYO	Outperform	3.60	22%	6.1%	6.8	-1%	0%
DOAS	Neutral	11.50	33%	5.9%	8.4	1%	-12%

Source: Finansinvest estimates, Rasyonet

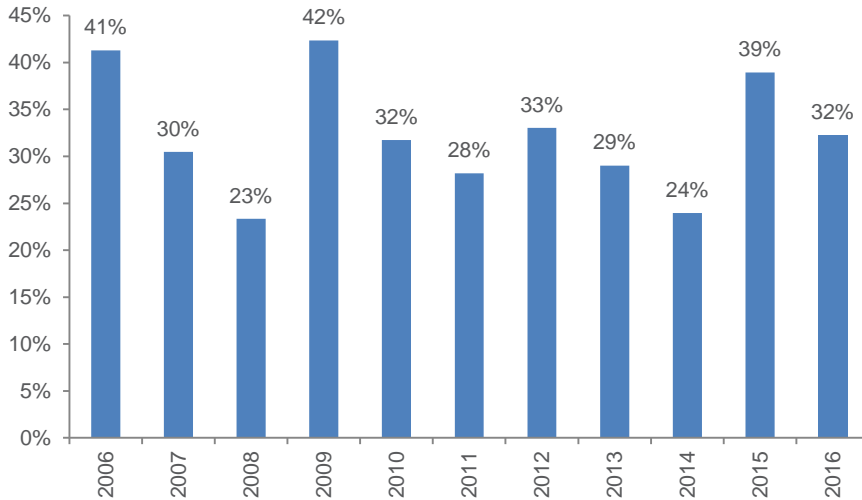
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Figure 2 – BIST100 historical dividend yield (Average 2.7%)



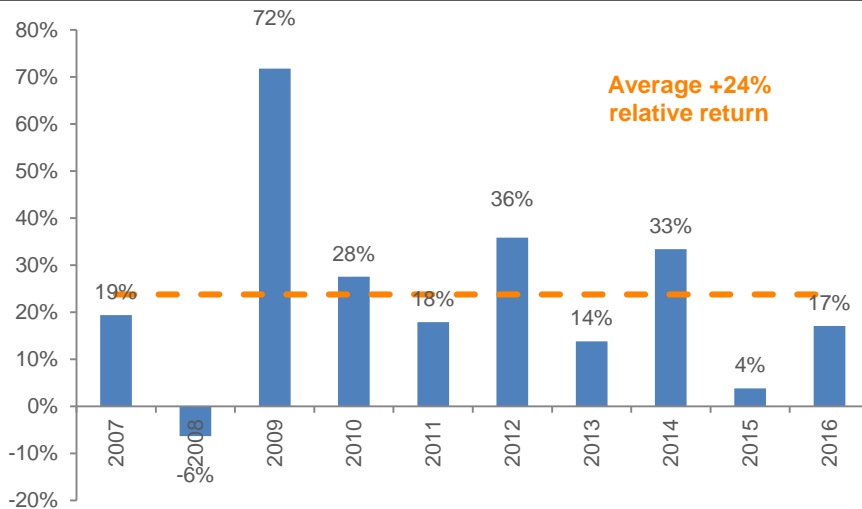
Source: Rasyonet, Finansinvest

Figure 3 – BIST100 aggregate pay-out ratio



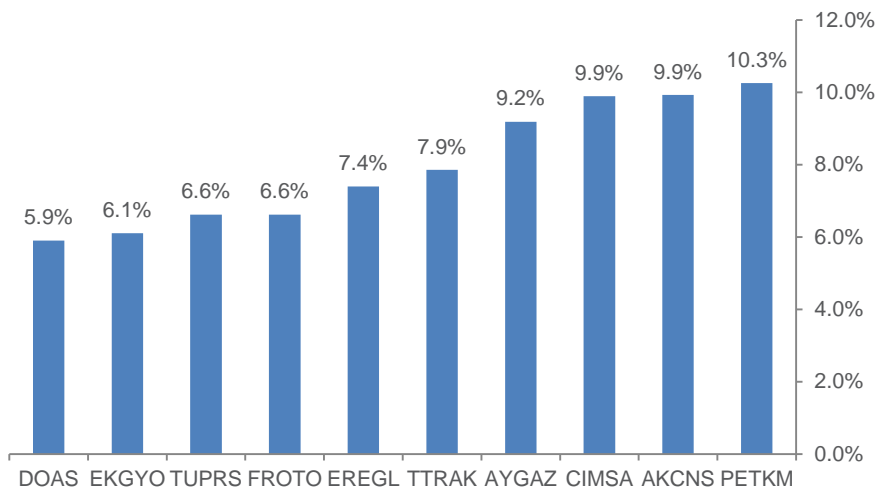
Source: Rasyonet, Finansinvest

Figure 4 – Average relative return (from Jan 1 to ex-date) of 10 best dividend payers



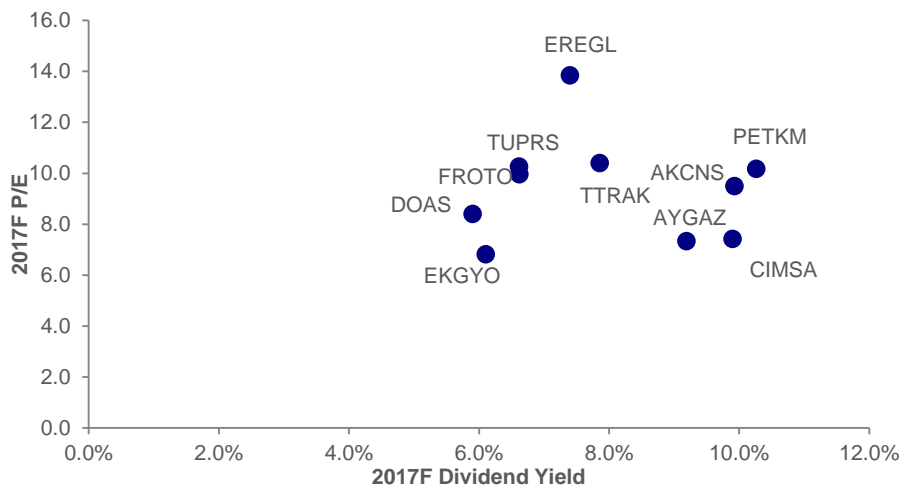
Source: Rasyonet, Finansinvest. The calculation period is from the beginning of the year to ex-date

Figure 5 – Potential best dividend payers of 2017 (acc. to 2017F dividend yield / Finansinvest Coverage)



Source: Finansinvest estimates

Figure 6 – Dividend Yield vs P/E for best payers (2017F)



Source: Finansinvest estimates

Figure 7 – Potential non-coverage high dividend payers of 2017

Company	Market Cap (TRYmn)	10Y Avg. Pay-out	Trailing Earnings (Last 4 quarters, TRYmn)	Implied Dividend Payment (2017F)	Dividend Yield
PETUN	449	68%	71	49	10.9%
HEKTS	244	75%	34	26	10.5%
UNYEC	510	93%	57	53	10.4%
ADANA	587	76%	71	54	9.2%
BOLUC	897	69%	112	77	8.5%
PNSUT	705	74%	80	59	8.3%
VESBE	2263	52%	359	186	8.2%
AKMGY	757	81%	76	62	8.1%
CRDFA	134	41%	26	11	8.0%
NUHCM	1591	59%	205	121	7.6%

Source: Rasyonet, Finansinvest

Figure 8 – Dividend expectations for Finansinvest Coverage

Company	Rating	12-month TP (TRY)	Upside Potential	2017F Total Dividend (TRYmn)	2017F DPS	2017F Dividend Yield	Ex-dividend date 2016
AYGAZ	Outperform	17.00	49%	314	1.05	9.2%	11/04/2016
AKCNS	Neutral	15.61	14%	260	1.36	9.9%	30/03/2016
ANACM	Underperform	1.94	-29%	17	0.04	1.4%	n.a.
ARCLK	Neutral	20.50	2%	400	0.59	3.0%	01/04/2016
ASELS	Outperform	12.40	2%	28	0.03	0.2%	10/06/2016
BIMAS	Neutral	56.00	14%	390	1.28	2.6%	06/06/2016
BRISA	Underperform	6.40	3%	66	0.22	3.5%	29/03/2016
CIMSA	Outperform	20.06	25%	215	1.59	9.9%	30/03/2016
DOAS	Neutral	11.50	33%	112	0.51	5.9%	07/04/2016
EKGYO	Outperform	3.60	22%	685	0.18	6.1%	24/05/2016
EREGL	Underperform	4.20	-12%	1,230	0.35	7.4%	25/05/2016
FROTO	Neutral	39.60	35%	682	1.94	6.6%	04/04/2016
ISGYO	Outperform	2.20	43%	60	0.07	4.5%	28/03/2016
KORDS	Outperform	8.90	34%	64	0.33	4.9%	04/04/2016
KRDMD	Neutral	1.50	34%	0	0.00	0.0%	n.a.
MGROS	Outperform	23.00	31%	0	0.00	0.0%	n.a.
PETKM	Outperform	4.90	36%	553	0.37	10.3%	27/06/2016
SAHOL	Outperform	12.50	40%	300	0.15	1.7%	01/04/2016
SISE	Outperform	4.11	12%	248	0.12	3.3%	31/05/2016
THYAO	Neutral	6.40	33%	0	0.00	0.0%	n.a.
TOASO	Outperform	29.00	25%	517	1.03	4.5%	07/04/2016
TRKCM	Outperform	3.33	18%	114	0.12	4.3%	29/04/2016
KLMSN	Outperform	9.75	29%	4	0.12	1.6%	31/05/2016
TTRAK	Outperform	97.00	36%	300	5.62	7.9%	01/04/2016
TUPRS	Neutral	78.00	12%	1,152	4.60	6.6%	06/04/2016
YATAS	Outperform	4.70	-9%	0	0.00	0.0%	n.a.

Source: Finansinvest estimates, Rasyonet

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: **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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