04 March 2016

Monthly cherry picks

Equity Research

- **Investment theme – outperformance is likely to continue:** We have been relatively bullish on Turkish equities since the beginning of the year, mainly on the back of attractive valuations and an expected improvement in the macro outlook. So far, our view has played out quite well and Turkish equities have outperformed their emerging market peers by 10% year-to-date (3% in February). Since our last issue, the BIST-index has risen by 6.0% (up 7.1% in USD terms). We expect the outperformance of Turkish equities to continue in March.

- **Directional longs – reshuffling banking picks; adding laggard Migros:** We remain bullish on Turkish banks on the back of expected improvement in RoEs in 2016. We keep **Isbank** in our portfolio, as we expect the bank to close the discount gap with its peers. We replace Sabanci Holding with its flagship subsidiary **Akbank** following the former's outperformance. Although it trades at a premium to its peers, we think Akbank will deliver higher earnings growth and RoE in 2016. We also take profits from TSKB, which outperformed the BIST-100 by 4.9% in February. Among non-financials, we keep **Tupras** and **Petkim,** as both names offer solid free cash flow generation and dividend yields. **Tat Gida** also remains in our portfolio, as it should benefit from a favourable cost environment and improved domestic demand. We add **Migros** to our portfolio, as we find the stock overly panelised due to FX fluctuations and the minimum wage hike.

- **Market-neutral strategies:** We take profits from the Akbank/Garanti pair and close Akcansa/Cimsa pair despite any alpha generation. Within financials, we pair two state banks (**Halkbank** vs **Vakifbank**), as we find Halkbank's recent underperformance unwarranted. In the commodities space, we keep the **Aygaz** vs **Kardemir** pair, as the LPG distributor stands out as a deep value play, while the steel producer has been facing headwinds. In the aviation space, we prefer **TAV Airports** over **Pegasus**, as the former appears to be a bargain at current levels, while the outlook for the low-cost carrier is still gloomy. Within consumer cyclicals, we initiate **Ford Otosan** vs **Arcelik** pair, as we find the auto maker attractively valued, while Arcelik's multiples climbed to uncharted territories. Lastly, we keep the **Ulker** vs **Anadolu Efes** pair in the consumer staples space, as we believe Ulker is well positioned for growth while the brewer is struggling with weak demand and local currency devaluations in the majority of its operating countries.

	Company	Ticker	Rating	Share price	Target price	Upside	2016E P/E	2016E EV/EBITDA*	LTM rel. perf.**
PAIR TRADES									
LONG	Halkbank	HALKB	Buy	10.36	16.00	54%	5.0	0.6	-23%
LONG	Aygaz	AYGAZ	Buy	10.75	13.00	21%	9.0	4.4	25%
LONG	TAV Airports	TAVHL	Buy	17.21	23.30	35%	6.6	4.6	-5%
LONG	Ford Otosan	FROTO	Buy	35.02	37.30	7%	13.7	9.2	16%
LONG	Ulker	ULKER	Buy	19.43	24.00	24%	19.3	13.6	12%
SHORT	Vakif Bank	VAKBN	Buy	4.27	5.05	18%	5.2	0.6	-9%
SHORT	Kardemir	KRDMD	Buy	1.15	2.00	74%	19.0	7.2	-26%
SHORT	Pegasus	PGSUS	Buy	17.85	30.60	71%	9.1	6.3	-30%
SHORT	Arcelik	ARCLK	Hold	18.39	16.40	-11%	14.4	9.4	35%
SHORT	Anadolu Efes	AEFES	Hold	18.45	22.90	24%	18.1	9.0	-1%
MOST/LEAST PREFERREDS (DIRECTIONAL TRADES)									
BUY	Akbank	AKBNK	Buy	7.50	9.05	21%	7.8	1.0	2%
BUY	Isbank	ISCTR	Buy	4.66	6.00	29%	5.4	0.6	-16%
BUY	Tupras	TUPRS	Buy	75.15	92.10	23%	8.2	6.5	51%
BUY	Migros	MGROS	Buy	15.92	23.40	47%	nm	7.5	-21%
BUY	Petkim	PETKM	Buy	3.48	4.00	15%	11.9	11.0	51%
BUY	Tat Gida	TATGD	Buy	4.92	8.30	69%	7.7	7.0	46%

*Source: Rasyonet, UNLU & Co estimates. *P/B for banks ** Relative to BIST 100*

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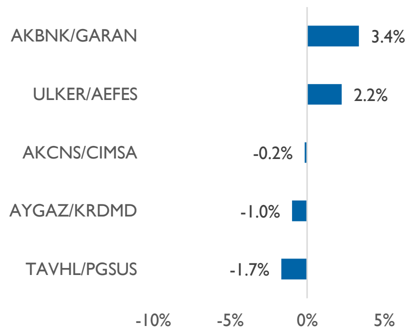
March pairs	
vs	
HALKB	VAKBN
AYGAZ	KRDMD
TAVHL	PGSUS
FROTO	ARCLK
ULKER	AEFES

Source: Rasyonet



Most preferreds

Akbank: BUY; 12M target price, TL9.05/share

Akbank stands out based on its superior operational metrics

Investment case and valuation: We include Akbank among our directional long ideas (previously on the long side in a pair with Garanti Bank) as the bank stands out with its superior operational metrics, including: (i) below-sector LDR, (ii) better cost control vs peers, (iii) strong capitalisation, and (iv) above-sector NPL coverage ratio.

Akbank refrained from growing aggressively in 2015 and focused more on efficiency improvement. The bank delivered strong results in 4Q15 based on this strategy. In 2016, the bank aims to grow faster than the sector average, as it finds current loan/deposit spreads attractive. We expect Akbank to continue to be one of the highest RoE-generating Tier-I banks within our coverage in 2016 and onwards. We expect Akbank to achieve 29% y/y earnings growth in 2016, which translates to a 220bps ROE (2016E: 14.1%) improvement in 2016.

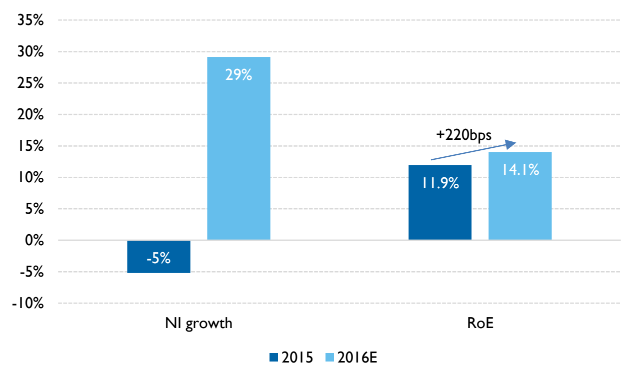
Akbank's above-sector-average ROE justifies the premium compared to peers

Akbank still trades at a premium compared to peers; however, this is justified given its above-sector-average profitability, in our view. On the other hand, we do not think the bank's discount to its historical multiples is justified and believe that it deserves to trade at higher multiples. Akbank currently trades at a one-year-forward P/E of 7.2x (vs. the three-year average of 8.5x), and a one-year-forward P/B of 0.97x (vs. the three-year average of 1.11x). Also, we believe that Akbank`s above-sector capital ratios (bank-only CAR: 14.6%; Tier-I: 13.5% as of 2015YE) deserve a premium, and it would enable the bank to grow faster than peers if/when market conditions allow.

Catalysts: (i) reversal of macro-prudential measures, and (ii) strong earnings growth in 2016.

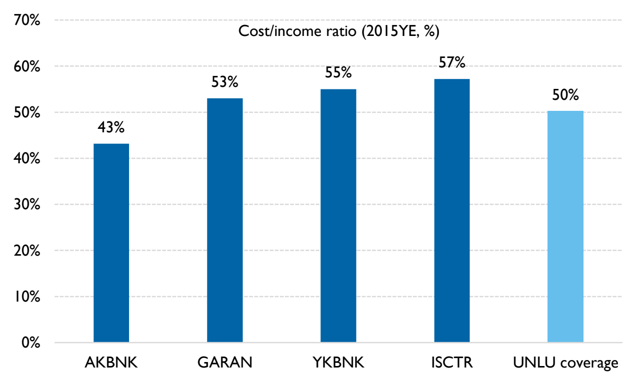
Risks: (i) volatility in interest rates, (ii) slowdown in economic activity, leading to lower-than-expected loan growth, and (iii) asset-quality deterioration.

Figure 1: Akbank's ROE set to improve in 2016E



Source: Company financials, UNLU & Co estimates

Figure 2: Akbank leads the sector in terms of efficiency metrics



Source: Company financials, UNLU & Co analysis

Isbank: BUY; 12M target price, TL6.00/share

Isbank's underperformance is unwarranted, in our view

Investment case and valuation: We keep Isbank among our directional long ideas, as the bank remains undervalued compared to its peers, in our view. We also believe that the recently announced dividend (TL0.1713/share) for 2016 will help the bank to outperform in the short term. Recall that the proposed dividend corresponds to a 25% payout ratio and a 3.7% dividend yield, which are both the highest (so far) within our banking coverage.

Isbank's above-sector capital ratios a key advantage

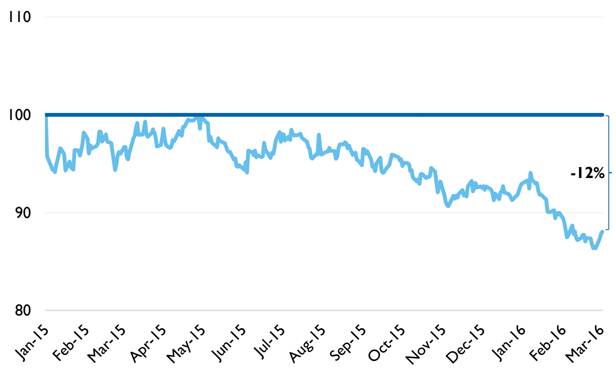
Isbank ended 2015 with a 9% earnings contraction, mainly due to the one-off losses (such as the administrative fine and a loss due to the Avea sale, among other issues). However, we forecast 25% earnings growth in 2016, given the absence of the one-off losses in 2015 and the continuation of strong fee generation. The earnings growth expectation should translate into a 130bps ROE (2016E: 11.4%) improvement in 2016. Also, Isbank's high capital ratios (CAR: 15.7%, Tier-I: 13.4% at the end of 2015) is a key advantage in an environment in which internal capital generation is getting harder.

Isbank continues to trade at a substantial discount compared to both its peers and its own historical multiples. Isbank currently trades at a one-year-forward P/E of 5.5x (vs. the three-year average of 6.8x), and a one-year-forward P/B of 0.6x (vs. the three-year average of 0.83x), based on Bloomberg consensus numbers. We expect a re-rating of the stock in 2016, mainly based on our strong earnings growth expectations.

Catalysts: (i) reversal of macro-prudential measures, and (ii) strong earnings growth in 2016.

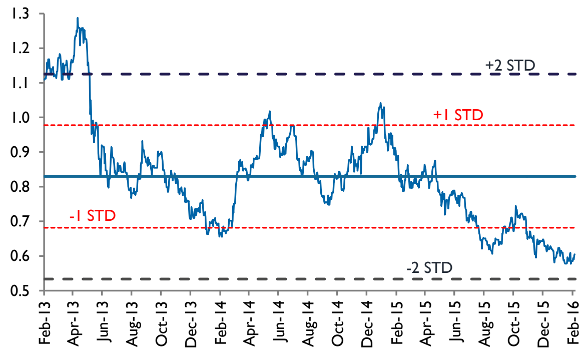
Risks: (i) volatility in interest rates, (ii) slowdown in economic activity, leading to lower-than-expected loan growth, and (iii) asset-quality deterioration.

Figure 3: Isbank continues to be an underperformer, compared to Xbank



Source: Rasyonet

Figure 4: Isbank's one-year-forward P/B multiple is still at historical lows



Source: Bloomberg

Tupras: BUY; 12M target price, TL92.10/share

Tupras' three-year FCF CAGR is in excess of 40% while dividend yield is >25%

Investment case and valuation: Tupras completed its USD3.0bn RUP project in 1H15. As a result, the company is now able to produce more diesel, which accounts for half of total petroleum product demand in Turkey and is growing at a faster rate than overall petroleum consumption. The investment coincided with historically high crack spreads and resulted in superior FCF generation in 2015, which we expect to continue in 2016. In fact, we are looking for an aggregate >40% FCF yield in the next three years, along with a cumulative >25% dividend yield.

Regional refining margins recovered strongly in 2015. To put this into perspective, Med Complex refining margins have averaged USD2.8/bbl since the 2008/09 financial crisis, whereas they were USD4.8/bbl in 2015. The main drivers of this recovery were: i) the sharp decline in crude prices, ii) a shift in geopolitical risk perception, iii) higher heavy crude spreads, and iv) surging product ratios on strong demand. In our model, we have pencilled in a gradual normalisation in regional refining margins (from USD4.8/bbl in 2015 to USD1.8/bbl in 2020), with the current margin environment implying significant upside risks to our valuation.

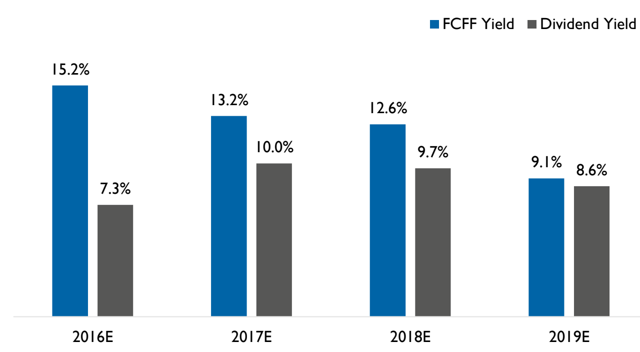
Tupras is the prime beneficiary of higher crude oil imports from Iran

Tupras had to lower its crude oil purchases from Iran in the past three years due to sanctions imposed on the country. This resulted in a lower premium over regional margins. As the sanctions on Iran have now been lifted, Tupras is likely to increase its imports, which we think could represent potential major investment upside, as Iranian crude is cheaper than its substitutes and fits perfectly with Tupras' complexity.

Catalysts: (i) upcoming dividend announcement, (ii) continuation of strong margin environment and iii) end to sanctions imposed on Iran.

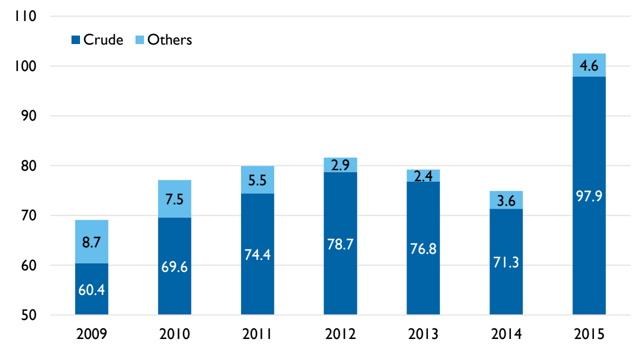
Risks: (i) crude oil price fluctuations, (ii) weaker refining margins and (iii) regulatory risks.

Figure 5: Tupras FCF and dividend yield (%)



Source: UNLU & Co expectations

Figure 6: Tupras CUR development



Source: UNLU & Co expectations

Migros: BUY; 12M target price, TL23.40/share

Migros has been transforming since 2011 and results are encouraging

Investment case and valuation: As may be recalled, Migros divested its loss-making discount format stores in 2011 and started to focus solely on its core supermarket business. Simultaneously, the company adopted a faster growth strategy with relatively small format proximity stores. Based on Turkey's consumer habits, we believe that growing via proximity stores is the best way to increase penetration, given that Turkish consumers tend to do more frequent shopping with relatively smaller basket sizes. In order to attract more traffic to its new stores, the company also has worked on changing the perception of the consumers with respect to its pricing. Obviously, lowering average prices was negative for the company's average basket inflation, and until 2014, the company's sales density growth remained below CPI. Yet, additional traffic driven by the improved consumer perception resulted in higher-than-CPI sales density growth after 2014. We think this is a clear sign of how Migros succeeded in attracting new traffic thanks to its pricing strategy.

We argue that the market perception of Migros being highly elastic to the TL/EUR rate is wrong. Especially after the restructuring of its debt with an extended maturity until 2023, the net impact of near-term FX shocks should be quite limited to the long-term value for shareholders. Our sensitivity analysis show that every 5% sustainable deviation from our estimate for the 2016 TL/EUR rate results in a TL0.64/share change in our TP (2.7%). Based on this analysis, we argue that Migros' short FX position is not sufficient to explain the company's significant discount to our fair value estimate.

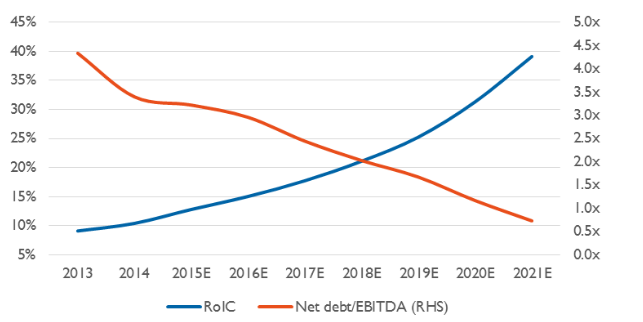
Market is miscalculating the real impact of currency volatility on shareholder value, in our view

Similar to other food retailers under our coverage, we derive our TP for Migros solely based on a DCF analysis. The reason behind our sceptical approach to a peer comparison using near-term multiples is the significant de-leveraging potential of the company, along with a sharp increase potential in its RoIC in the long term. As can be seen in Figure 7, we expect Migros' net debt/EBITDA to fall from 3.2x as of YE2015 to below 2.0x by 2019, and below 1.0x by 2021. At the same time, we believe that the turnaround at Migros will continue to pay off and the company's RoIC to increase to around 40% by 2021 (it was less than 10% in 2013 and around 12% in 2015).

Catalysts: (i) higher-than-expected revenue growth, (ii) stabilisation in the currency and (iii) positive surprises in the opex/sales ratio in the first two quarters of the year following the minimum wage hike.

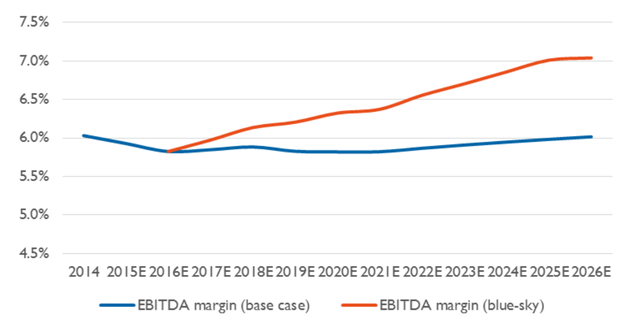
Risks: (i) sharp TL devaluation against the EUR, (ii) slowdown in economic activity, leading to lower-than-expected growth, and (iii) inability to adjust shelf prices to compensate for the additional opex.

Figure 7: Migros' RoIC increases as its balance sheet de-levers



Source: Company data, UNLU&Co estimates

Figure 8: Migros' long-term EBITDA margin outlook (base vs. blue-sky scenario)



Source: Bloomberg

Petkim: BUY; 12M target price, TL4.00/share

Petkim's dividend yield to be 8.5%

Investment case and valuation: Petkim had one of the best years in its history in 2015, owing to i) escalated ethylene spreads, ii) strong product yields, and iii) TL depreciation. As a result, Petkim generated 15% EBITDA margin in 2015, the highest level for decades. On the back of this extremely strong performance and an under-levered balance sheet, we are looking for a TL0.30/share dividend distribution in 2016, implying an 8.5% dividend yield at current levels. Petkim is currently one of the few blue-chip stocks in Turkey that offers an above 8% dividend yield.

We are looking for a 30% FCF CAGR (USD terms) until 2020

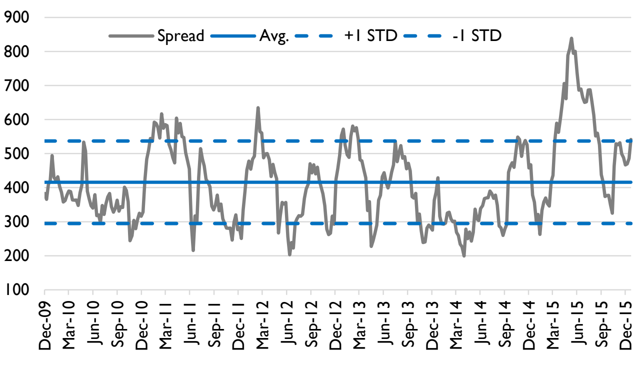
We expect EBITDA from Petkim's core operations to contract from USD245m in 2015 to USD185m in 2016, due to the normalisation in petchem spreads. However, owing to the first-time contribution from the port and the wind farm, we expect the stated EBITDA to remain at USD195m in 2016. We believe Petkim's total EBITDA could reach at least USD280-290m, once SOCAR finalises its refinery project and 295MW coal-fired power plant investment in 2018, while the ramp-up period in the port reaches a certain level. As Petkim does not employ any capital in these projects, but significantly benefits through revenue sharing and purchase agreements, the FCF profile of the company should improve substantially. In fact, we are looking for an exceptionally strong 30% FCF CAGR until 2020 (in USD terms).

Petkim has also announced that it plans to acquire 8% of SOCAR's refinery project (STAR). We believe the stake purchase will be value-creative and could lead to a 3-7% revision to our target price. In June 2015, Petkim's zoning plan amendment application for its 1.2m sqm land was approved. We believe the NPV of the real estate project could be in the range of USD120-200m, representing another 6-10% potential upside to our valuation.

Catalysts: (i) High dividend pay-out post strong 4Q15 results, (ii) share purchase from SOCAR's refinery project, (iii) positive news on the real estate project, and iv) announcement of the PETKOJEN project.

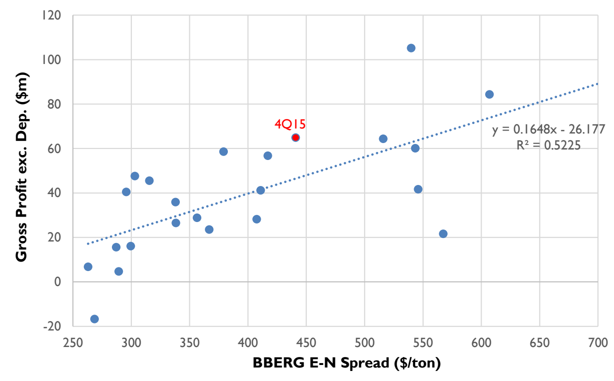
Risks: (i) lower-than-expected margin environment, (ii) TL appreciation, and (iii) execution risks for parent SOCAR regarding its key projects in Turkey.

Figure 9: Ethylene-Naphtha spread continues to remain at elevated levels indicating strong operational profitability



Source: UNLU & Co expectations

Figure 10: Although the spreads normalised in 4Q15, we expect strong operating profitability to continue



Source: UNLU & Co expectations

Tat Gida: BUY; 12M target price, TL8.30/share

Tat Gida is likely to benefit from favourable raw material prices in 2016

Investment case and valuation: Tat Gida is likely to benefit from favourable raw material prices in 2016. The tomato harvest was favourable in 2015, which should provide a cost advantage to Tat Gida. Note that during the harvest, which takes place by the end of 3Q, Tat Gida buys its tomato needs for the full year. On the other hand, the National Dairy Council decided not to change raw milk prices this year on the back of declining commodity prices, despite the weakness in the TL. We expect the demand outlook to improve, with better consumer confidence and the minimum wage hike, which could support domestic consumption.

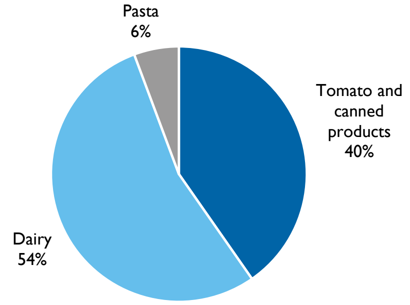
We expect Tat Gida to start distributing cash dividends in 2016

On our 2016 forecasts, Tat Gida trades at 7.8x EV/EBITDA, which we find attractive for a good-quality Turkish consumer company. The company has not been distributing any dividends for the past decade and was an outlier within Koc Group companies. We expect Tat Gida to start distributing cash dividends in 2016. We conservatively look for TL30m in dividends, implying a 4.2% dividend yield.

Catalysts: (i) favourable tomato prices, (ii) stable raw milk prices, which should support costs in the dairy segment, and (iii) dividend distribution.

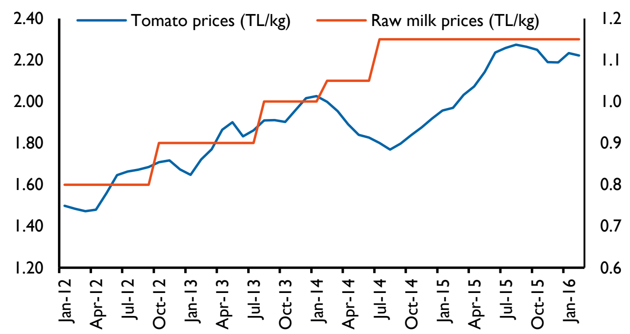
Risks: (i) declining consumer confidence, and ii) a significant hike in sales and marketing expenses to drive cheese sales, as the cheese segment is relatively new for the company.

Figure 11: Tat Gida generates the majority of its revenues from tomato and milk segments



Source: Company data

Figure 12: Main raw material prices are stable or declining, providing cost advantage to Tat Gida



Source: Turkstat

Market-neutral strategies

Pair trade: Long Halkbank / Short Vakifbank

Halkbank underperformed Vakifbank by 8% in the last month, which we believe is unwarranted

Investment case and valuation: We pair Halkbank and Vakifbank in this issue, as the stock performance of the two state banks has diverged significantly in the past month. Halkbank has underperformed Vakifbank by 8% in the past month, which we believe is unwarranted. Although we have Buy ratings on both banks, the upside potential for Halkbank is significantly higher than that of Vakifbank.

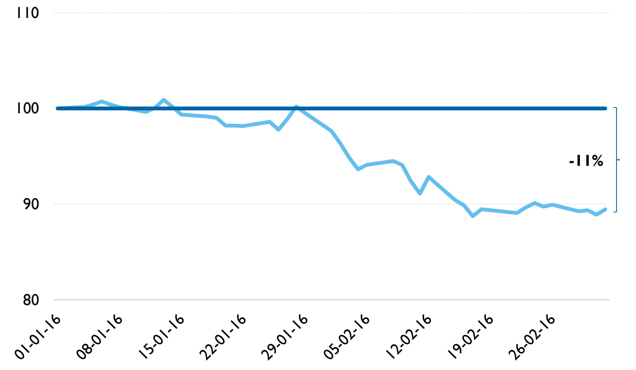
Halkbank has de-rated substantially following the big NPL file, which affected its profitability negatively in the last two years. Nonetheless, the bank still delivered an above-sector ROE (12.9%) in 2015. We expect both Halkbank and Vakifbank to record lower EPS growth in 2016 (12% and 7%, respectively), compared to peers, due to the high base of 2015 (one-off impacts), but Halkbank should still be ahead of its peer. We also expect Halkbank to continue to be a higher ROE-generating bank, compared to Vakifbank in the medium term.

Halkbank's ROE is likely to remain above that of Vakifbank's in the medium term

Following the recent outperformance of Vakifbank, both state banks trade at similar one-year-forward P/B (0.6x) multiples, based on Bloomberg consensus estimates. Nonetheless, Halkbank deserves to trade at a premium, given its higher ROE generation, in our view. Also, Halkbank's one-year-forward P/E (4.7x) is substantially lower than that of Vakifbank (5.5x), which is again unwarranted, in our view.

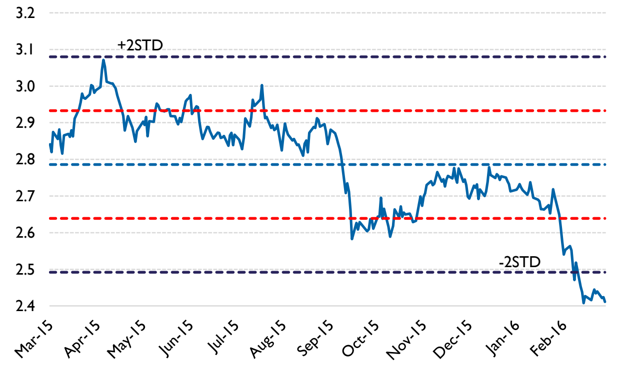
Catalysts: (i) Halkbank posting stronger earnings/ROE compared to Vakifbank in 1Q16 (and forward), and (ii) Halkbank's insurance sale process to restart.

Figure 13: Halkbank has been a major underperformer, compared to Vakifbank ytd



Source: Rasyonet

Figure 14: Halkbank's price ratio relative to Vakifbank is at historical low levels



Source: Bloomberg

Pair trade: Long Aygaz / Short Kardemir

Aygaz stands out as a deep value play

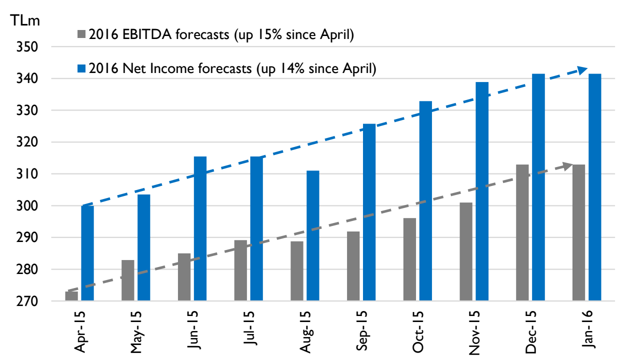
Investment case and valuation: Aygaz stands out as a deep value play among Turkish equities, as its cash-generative LPG distribution business trades at very attractive multiples. In addition, Aygaz has a rich participation portfolio. The company directly and indirectly owns 10% of Tupras, 2% of Yapi Kredi, 50% of Opet-Aygaz real estate investments and 50% of Entek Elektrik (Koc Holding's electricity generation arm, which has 365MW of installed capacity). When we adjust Aygaz's multiples for the underlying assets, the core business trades at a 2016E EV/EBITDA of 4x. Aygaz achieved 68% y/y EBITDA expansion in 2015, thanks to increasing LPG volumes and an improvement in operating margins. This has led to earnings upgrades over the past five months. Consensus 2016 EBITDA and net income estimates have increased by 15% since April 2015. We believe the upgrade cycle is likely to be sustained through the remainder of the year on solid 4Q15 financial results.

Kardemir faces multiple headwinds

On the other hand, Kardemir has been facing headwinds. Steel prices have declined sharply since September 2014. However, raw material prices (primarily iron ore) seem to have bottomed out. As such, Kardemir's cash margin is likely to be remain under pressure. The company also suffers from the escalated debt position due to the ongoing hefty investment period. These factors have also been reflected in consensus 2016 earnings estimates. In fact, 2016 EBITDA and net income projections have been cut by 40% and 60%, respectively, since April 2015. We expect more cuts to come, given the downtrend in steel prices, coupled with TL depreciation.

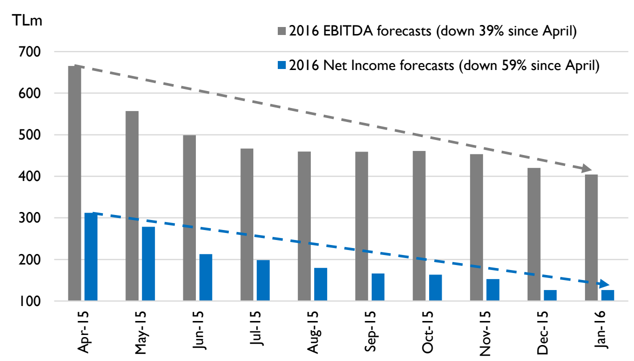
Catalysts: i) 4Q15 operational and financial performances of both companies, ii) attractive valuation of Aygaz vs. demanding multiples for Kardemir, and iii) ongoing earnings revisions.

Figure 15: Aygaz's 2015 EBITDA and NI forecasts (TLm)



Source: Bloomberg

Figure 16: Kardemir's 2016 EBITDA and NI forecasts (TLm)



Source: Rasyonet, Bloomberg, Company data

Pair trade: Long TAV Airports / Short Pegasus Airlines

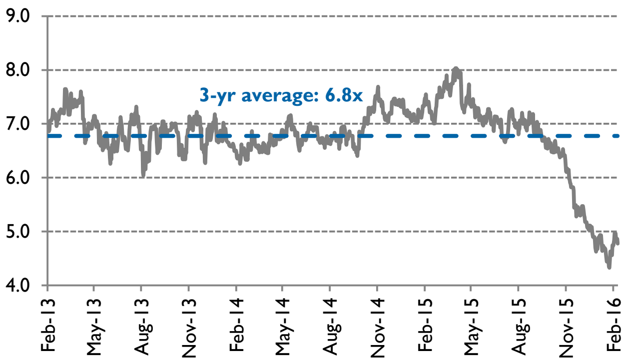
We see TAV as a bargain at current levels, while the outlook for Pegasus is still gloomy

Investment case and valuation: TAV Airports has a euro-denominated visible revenue stream that makes it a unique investment opportunity, in our view. Although the company's concession for its flagship asset (Istanbul Ataturk Airport, IAA) will cease by the end of 2020, we forecast a significant increase in the dividend stream from this asset in the coming years, which should support TAV Airports' ability to participate in new concession tenders and distribute higher dividends to shareholders at the same time. Despite ongoing capacity expansion in IAA and the associated capex budget, we are looking for a more than 15% FCF yield in 2016 onwards. We believe that TAV Airports is also the aviation stock least affected by the relative weakness in the passenger traffic figures in Turkey. Our bullish view on the company is also supported by its valuation, trading at 9x one-year-forward P/E and 5x EV/EBITDA multiples.

Pegasus Airlines, on the other hand, continues to struggle with intensified competition in its main hub of Istanbul Sabiha Gokcen Airport, led by Turkish Airlines. The relative weakness in passenger traffic in Turkey (both inbound and outbound), coupled with the deterioration in the competitive landscape, weighs on the margin and profitability outlook of the company. We also see no underlying reason for a structural change in the near term.

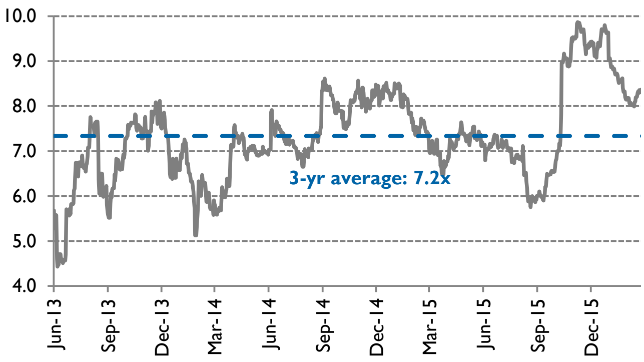
Catalysts: i) 4Q15 operational and financial performances of both companies, ii) attractive valuation of TAV vs demanding multiples for Pegasus, and iii) ongoing earnings revisions.

Figure 17: TAV Airports EV/EBITDA history



Source: UNLU & Co expectations

Figure 18: Pegasus EV/EBITDA history



Source: UNLU & Co expectations

Pair trade: Long Ford Otosan / Short Arcelik

We think Ford Otosan is attractively valued as increasing exports would be enough to offset the decline in the domestic sales

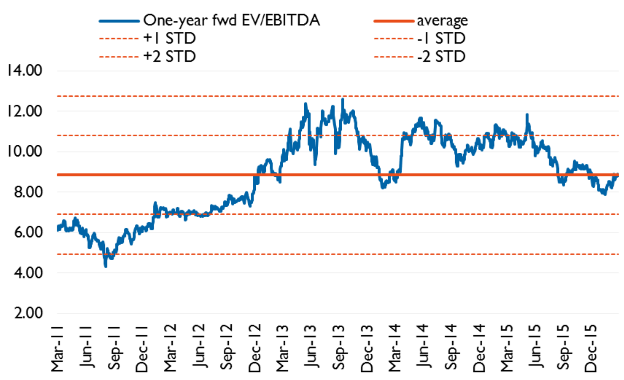
Investment case and valuation: Following a record year for the Turkish auto market, we expect a slight normalisation in 2016 with the market contracting by 7% y/y. However, we think Ford Otosan is still attractive at the current level, as increasing exports would be enough to offset the decline in the domestic sales. Moreover, the EBITDA CAGR looks strong in the next three years (+15% y/y) driven by: i) higher volumes (4% average volume), ii) price hikes (8.5% annually in TL terms), and iii) improvement in EBITDA margin on benign raw material price outlook, increasing CUR and efficiency improvement. Based on our estimates, Ford Otosan trades at 8.8x 2016E EV/EBITDA, which is in line with the past-five-year average (9x), yet below the three-year average (10.2x). Given the limited capex in the next four years, the deleveraging in the balance sheet should also support multiples.

We argue that the market has overreacted to Arcelik's 4Q15 results and M&A talks, hence, we think the stock might underperform Ford Otosan in the near term

Arcelik had re-rated sharply following stronger-than-expected 4Q15 results. Simultaneously, various media sources claimed that Arcelik might be among the interested parties for Toshiba's white goods division. Amid M&A opportunities, Arcelik's stock price climbed to unchartered territories. Arcelik currently trades at 9.3x forward-looking EV/EBITDA, which is an historical high level. Furthermore, the company traded above 9.0x for only three times in its history: in July 2007 (9.3x), May 2013 (9.2x) and January 2015 (9.0x). We argue that market has overreacted to Arcelik's 4Q15 results and M&A talks, hence, we think the stock might underperform Ford Otosan in the near term.

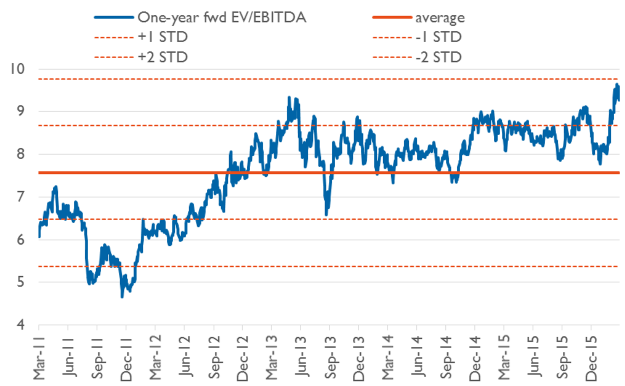
Catalysts: Monthly auto sales volume data and further recovery in profitability are the key catalysts for our long call on Ford Otosan. As per Arcelik, we think any news flow hinting that the company would not acquire any assets in the near term could accelerate the potential de-rating.

Figure 19: Ford Otosan's one-year-forward EV/EBITDA multiple for the past five years



Source: Bloomberg

Figure 20: Arcelik's one-year-forward EV/EBITDA multiple for the past five years



Source: Bloomberg

Pair trade: Long Ulker / Short Anadolu Efes

Ulker is well-positioned for margin expansion, while Anadolu Efes is struggling with both weak demand and currency devaluations

Investment case and valuation: Within the consumer space, we maintain our relative call on Ulker versus Anadolu Efes, as we believe Ulker is well-positioned for growth both organically and inorganically, while Anadolu Efes is struggling with both weak demand and local currency devaluations in the majority of its operating countries.

Ulker's sales volume growth should resume in 2016, as SKU optimisation in Biskot is now finalised. Also, the minimum wage hike is likely to mean higher household spending, with small ticket items benefiting the most, in our view. On top of better volumes, price increases should support revenue growth in 2016 (c.12-13%). Additionally, the company completed the acquisition of Yildiz Holding's confectionary asset in Egypt, which is likely to add c.4% to Ulker's top line. The acquisition of Istanbul Gida, which is involved in imports and exports should add revenue growth to Ulker Biskuvi.

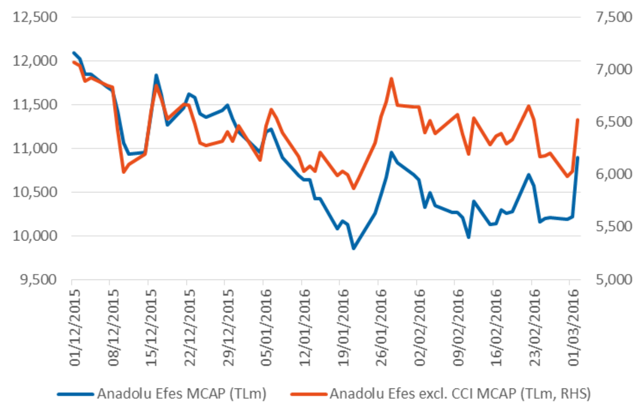
In addition to organic growth, Ulker is looking at several acquisition opportunities

In addition to organic growth, Ulker is eyeing several acquisition opportunities, including Yildiz Holding's confectionery asset in Saudi Arabia, the parent's gum and candy business, and the emerging market assets of United Biscuits. Although there is no clarity at this stage, we believe the company is on the right track to turn from a pure local player into an emerging markets confectionery company.

Anadolu Efes, on the other hand, faces major struggles in both its beer and soft drink businesses. While volumes are under pressure due to weak demand and regulatory obstacles, the macro environment is not helpful in both volume and profitability terms. As such, we believe that Anadolu Efes might remain as an underperformer unless the operating environment improves. Based on Bloomberg consensus, Anadolu Efes trades at c.10x 2016E beer segment only EV/EBITDA, in line with global brewers' median of 10x. Considering the poor outlook for Anadolu Efes in 2016, we believe that the company should trade at a discount.

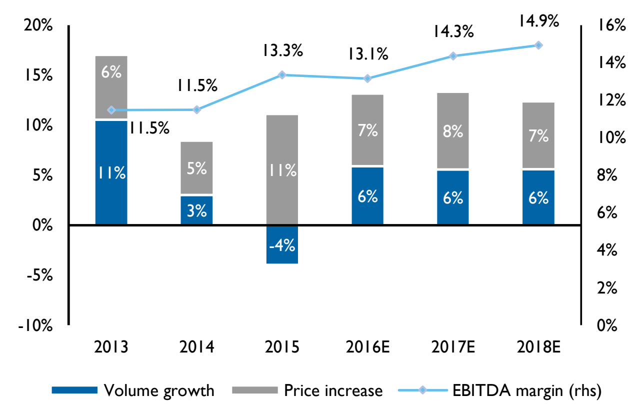
Catalysts: (i) Ulker's new strategy under Pladis umbrella, which could support Ulker's organic and inorganic growth, and (ii) improving domestic demand following the minimum wage hike.

Figure 21: Anadolu Efes's market value has contracted by 10% since December 2015, but mostly due to CCI's poor performance



Source: Bloomberg

Figure 22: Ulker's revenue growth composition and EBITDA margin



Source: Company, UNLU & Co estimates and analysis

Figure 23: Turkish Equity Coverage

Company Name	Ticker	Current price (TL)	TP (TL)	Upside (%)	Rating	MCAP (USDm)	Free Float (%)	Avg. Vol. (USDm)	P/E 15E	P/E 16E	EV/EBITDA* 15E	EV/EBITDA* 16E
Banks									7.2	5.9	0.8	0.7
Akbank	AKBNK.IS	7.53	9.05	20%	Buy	10,255	52%	67.4	10.1	7.8	1.1	1.0
Albaraka	ALBRK.IS	1.56	1.95	25%	Buy	478	21%	1.0	4.8	4.6	0.7	0.6
Garanti Bank	GARAN.IS	7.48	9.25	24%	Buy	10,696	48%	287.5	9.2	7.2	1.0	0.9
Halkbank	HALKB.IS	10.20	16.00	57%	Buy	4,341	49%	89.9	5.6	5.0	0.7	0.6
Isbank	ISCTR.IS	4.64	6.00	29%	Buy	7,109	31%	68.7	6.8	5.4	0.7	0.6
TSKB	TSKB.IS	1.64	2.05	25%	Buy	977	39%	3.2	7.1	5.5	1.2	1.0
Vakifbank	VAKBN.IS	4.23	5.05	19%	Buy	3,600	25%	52.8	5.5	5.1	0.6	0.6
Yapi Kredi	YKBNK.IS	3.78	4.40	16%	Hold	5,594	18%	28.2	8.8	6.5	0.7	0.6
Insurance									15.7	15.9	2.7	2.5
Aksigorta	AKGRT.IS	1.70	1.86	9%	Hold	177	28%	0.2	nm	14.7	1.3	1.2
Anadolu Hayat	ANHYT.IS	5.70	6.75	18%	Buy	796	17%	0.2	16.0	16.2	3.0	2.8
Anadolu Sigorta	ANSGR.IS	1.65	1.62	-2%	Hold	281	42%	0.1	10.3	8.0	0.8	0.7
AvivaSA	AVISA.IS	20.60	24.00	17%	Buy	828	20%	0.2	20.7	24.5	5.9	5.4
Telecoms									17.6	12.1	5.5	5.7
Turk Telekom	TTKOM.IS	5.84	7.40	27%	Buy	6,959	13%	6.9	23.0	11.9	5.7	5.8
Turkcell	TCELL.IS	11.09	12.00	8%	Hold	8,307	35%	15.3	12.2	12.3	5.3	5.5
Conglomerates									12.0	11.1	nm	nm
Akfen Holding	AKFEN.IS	13.30	10.08	-24%	Buy	1,119	11%	2.2	nm	23.5	nm	nm
Dogan Holding	DOHOL.IS	0.54	0.76	41%	Buy	481	35%	2.5	nm	8.3	nm	nm
Enka Insaat	ENKAI.IS	4.67	5.52	18%	Hold	6,360	12%	4.0	12.1	11.7	4.9	4.4
Gozde Girisim	GOZDE.IS	2.09	3.18	52%	Buy	274	26%	0.9	nm	nm	nm	nm
Koc Holding	KCHOL.IS	12.99	14.25	10%	Buy	11,215	22%	16.9	9.2	9.5	nm	nm
Sabanci Holding	SAHOL.IS	8.87	11.20	26%	Buy	6,162	44%	37.7	8.3	6.3	nm	nm
Tekfen Holding	TKFEN.IS	4.38	6.50	48%	Buy	552	41%	5.8	7.7	5.2	4.5	3.2
Yazicilar Holding	YAZIC.IS	12.52	20.00	60%	Hold	682	24%	0.6	22.8	13.0	nm	nm
Commodities									9.9	11.1	7.1	6.4
Aygaz	AYGAZ.IS	10.73	13.00	21%	Buy	1,096	24%	1.1	10.8	9.0	5.4	4.4
Gubre Fabrikalari	GUBRF.IS	6.13	7.20	17%	Hold	697	22%	14.0	13.0	10.2	5.0	4.0
Erdemir	EREGL.IS	3.48	4.15	19%	Hold	4,147	48%	19.0	9.2	8.1	6.2	5.4
Kardemir	KRDMD.IS	1.13	2.00	77%	Buy	473	89%	11.7	nm	18.8	10.4	7.1
Petkim	PETKM.IS	3.55	4.00	13%	Buy	1,813	39%	15.6	9.3	12.1	9.3	11.2
Tupras	TUPRS.IS	75.60	92.10	22%	Buy	6,445	49%	40.5	7.4	8.2	6.6	6.6
Autos & Parts and White Goods									13.5	11.9	9.6	8.9
Arcelik	ARCLK.IS	18.39	16.40	-11%	Hold	4,231	25%	10.8	13.9	14.4	10.4	9.5
Brisa	BRISA.IS	7.62	8.70	14%	Hold	792	10%	0.8	14.0	11.0	9.7	10.2
Dogus Otomotiv	DOAS.IS	11.32	14.30	26%	Sell	848	26%	4.9	7.8	8.3	5.9	6.0
Ford Otosan	FROTO.IS	35.06	37.30	6%	Buy	4,189	18%	4.4	17.1	13.7	11.0	9.3
KordSA	KORDS.IS	4.81	5.70	19%	Buy	319	28%	3.0	11.3	8.9	6.7	5.5
Tofas	TOASO.IS	20.86	19.10	-8%	Hold	3,551	24%	6.9	13.0	12.6	11.5	11.3
Turk Traktor	TTRAK.IS	77.70	88.00	13%	Buy	1,412	24%	1.5	17.6	14.3	11.8	10.5
Defence									24.0	15.3	14.4	12.5
Aselsan	ASELS.IS	18.26	14.80	-19%	Hold	3,108	14%	3.1	24.0	15.3	14.4	12.5
Real Estate									9.6	5.7	11.8	5.3
Emlak GYO	EKGYO.IS	2.58	3.79	47%	Buy	3,338	51%	41.6	9.6	8.8	9.6	8.1
IS GYO	ISGYO.IS	1.76	1.80	2%	Hold	447	48%	1.8	16.5	8.0	6.4	4.2
Sinpas GYO	SNGYO.IS	0.58	0.98	69%	Hold	118	37%	0.3	nm	4.4	23.5	4.9
Torunlar GYO	TRGYO.IS	3.59	4.22	18%	Sell	611	21%	0.6	2.7	1.5	7.7	3.9
Retailers									39.3	38.5	10.8	9.9
Bim	BIMAS.IS	55.00	62.50	14%	Buy	5,685	60%	16.7	29.0	25.7	18.8	16.0
Bizim Toptan	BIZIM.IS	14.55	15.70	8%	Hold	198	46%	1.2	49.6	51.3	8.4	7.8
Migros	MGROS.IS	15.78	23.40	48%	Buy	956	19%	3.3	nm	nm	8.3	7.4
Teknosa	TKNSA.IS	6.20	6.90	11%	Hold	232	11%	0.6	nm	nm	7.9	8.4
Cements									9.5	9.9	6.2	7.0
Akcansa	AKCNS.IS	14.48	16.00	10%	Buy	944	19%	0.9	10.0	9.7	6.3	6.3
Cimsa	CIMSA.IS	15.84	18.00	14%	Buy	728	40%	0.8	9.0	10.0	6.2	7.6
Glass and materials									8.6	8.2	5.1	4.2
Anadolu Cam	ANACM.IS	1.75	2.00	14%	Hold	265	20%	1.6	6.8	7.8	3.5	2.7
Sise Cam	SISE.IS	3.50	3.46	-1%	Hold	2,264	34%	6.8	8.8	8.1	5.3	4.7
Soda Sanayii	SODA.IS	5.17	5.80	12%	Buy	1,162	16%	1.3	8.5	8.5	6.2	5.1
Trakya Cam	TRKCM.IS	1.85	2.90	57%	Buy	564	28%	3.8	10.4	8.4	5.4	4.3
Aviation									14.5	11.9	7.7	7.1
Celebi GH	CLEBI.IS	35.22	48.00	36%	Buy	291	22%	0.5	15.4	12.4	7.6	7.0
DO & CO	DOCO.IS	317.10	306.00	-4%	Buy	1,052	20%	1.0	35.8	25.1	15.3	11.7
Pegasus Airlines	PGSUS.IS	17.45	30.60	75%	Buy	608	35%	5.5	7.9	8.9	4.4	6.1
TAV Airports	TAVHL.IS	17.51	23.30	33%	Buy	2,166	40%	9.3	9.1	6.7	6.2	4.7
Turkish Airlines	THYAO.IS	7.47	10.10	35%	Buy	3,510	50%	170.9	4.4	6.3	5.1	5.9
Food and Beverages									20.3	14.5	10.3	8.7
Anadolu Efes	AEFES.IS	18.40	22.90	24%	Hold	3,709	32%	1.5	30.9	18.0	10.6	9.0
Coca Cola Icecek	CCOLA.IS	34.38	52.00	51%	Hold	2,977	25%	6.4	27.1	16.7	10.0	8.4
Pinar Sut	PNSUT.IS	15.90	24.20	52%	Hold	243	38%	0.2	13.6	11.8	7.3	6.2
Tat Gida	TATGD.IS	4.82	8.30	72%	Buy	223	41%	2.1	8.2	7.6	7.8	6.9
Ulker Biskuvi	ULKER.IS	18.52	24.00	30%	Buy	2,156	39%	5.9	21.7	18.4	15.6	12.9
Utilities									nm	nm	11.3	11.6
Ak Enerji	AKENR.IS	0.88	1.07	22%	Sell	218	25%	1.0	nm	nm	14.3	12.2
Aksa Enerji	AKSEN.IS	2.48	3.29	33%	Buy	518	21%	1.9	nm	29.3	9.7	8.7
Odas Elektrik	ODAS.IS	5.82	8.40	44%	Hold	94	37%	1.2	nm	nm	9.9	13.8

Source: Unlu & Co estimates, Rasyonet, * P/BV for financials, **last trading day's closing price

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