ÜNLÜ & Co

12 May 2020

Turkey Strategy

Virus receding but not the pressure on TL

- **Turkey's fight against the coronavirus is going well:** Both the daily death toll and the number of active cases have been in a declining trend. It appears that Turkey's selective lockdown measures that are imposed timely (stay at home orders only for <20 and >65 ages; full lockdowns only during public holidays) and low mortality rate (thanks to the large healthcare capacity, its special treatment protocol and the young population) have limited the outbreak's impact on the country. With the decline in active cases, the government has recently started to ease the lockdown restrictions.

- **Data from sectors will be very ugly in the coming months, but this may not catalyse a further leg down:** Despite the easing of restrictions, the weak export market, the end of the ban on personnel layoffs by mid-July and the potentially very weak tourism season suggest that the very sharp contraction in economic activity will continue into 3Q20. However, we believe that the weak data print may not catalyse a further leg down in equities, as the market should focus on future quarters and the upcoming recovery in activity. We believe this recession is likely to be very deep, but also short.

- **Globally lower-for-longer interest rates may increase the appeal of equities:** We support the view that globally, super low interest rates may remain long after the pandemic has passed, due to: i) households and firms being likely to save more to rebuild lost wealth and increase precautionary saving, and ii) monetary authorities helping governments cope with the potential sharp rise in debt to GDP ratios after the pandemic passes. The experiences following past recessions and historic pandemics provide evidence to support this view. Under these circumstances, we think the appeal of equities may increase at the expense of bonds.

- **Pressure on the TL appears the main risk:** With very low FX reserves and policy rates, and with the prospect of further rate cuts, the TL may remain volatile. We also see the likelihood of the establishment of a swap line with the Fed/ECB or a deal with the IMF as being low.

- **That said, a muddle-through scenario is possible, we believe**. The heavy external debt repayment schedule for May and June will probably keep the volatility in TL high. However, recent refinances by the banks (with rollovers of 80-90%) and past experiences (in 2001, 2008 and 2018) give confidence for the upcoming weeks. Also, if conditions deteriorate further, a rate hike, or signalling of this option to gain time until global markets stabilise, might be the path followed.

- **Cutting our estimates**: In this report, we have incorporated our most recent macro assumptions into our models and cut our bottom-up index target for the next 12 months from 144,259 to 127,201, which implies ~30% upside potential vs. the current level.

- **Top Picks:** We have removed **ULKER** and **AKBNK** from our Top Picks and added **YKBNK** to the list. Accordingly, **GARAN, YKBNK, KOZAL, MGROS, TOASO, KCHOL, TCELL,** and **TTRAK** are the constituents of our model portfolio (*please see pages 15-17*).

Strategy

Equity Research | CEEMEA/Turkey |

Top Picks

Ticker	Rating	CP (TL)	TP (TL)	Upside
YKBNK	Buy	2.15	3.00	39%
GARAN	Buy	7.76	11.25	45%
KCHOL	Buy	14.90	21.30	43%
KOZAL	Buy	71.10	104.00	46%
MGROS	Buy	31.60	39.80	26%
TOASO	Buy	19.10	28.40	49%
TCELL	Buy	13.22	18.00	36%
TTRAK	Buy	56.80	69.00	21%

Source: Bloomberg, UNLU Securities

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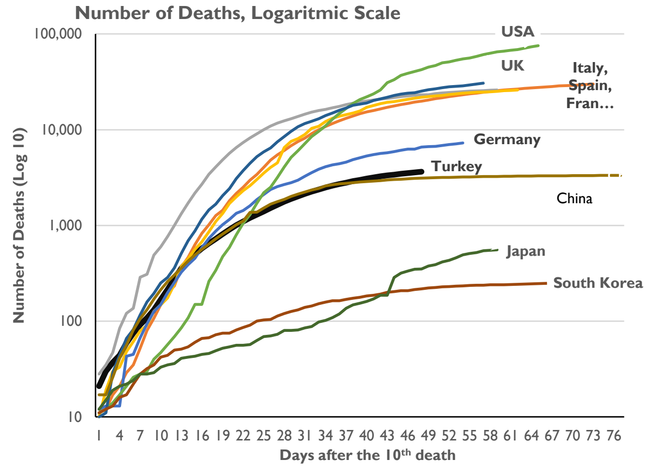
Contents

Executive Summary

Excluding China, Turkey's equity market and currency performances have been broadly in line with EM

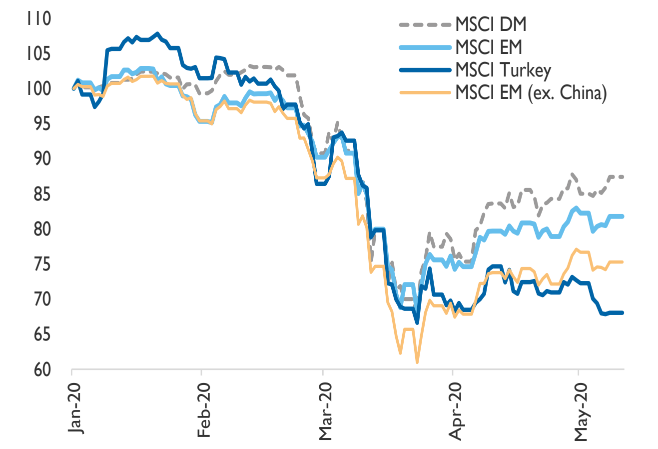
Significant sell-off following a strong start to the year: As was the case in other emerging markets, Turkish equities entered 2020 off a very good run in the fourth quarter of 2019 and Turkish indices peaked on January 21. With the news of the coronavirus spread in China in late January, MSCI Turkey initially continued to outperform the MSCI EM index and Turkey's CDS dropped to about 240 in early February (the lowest level was 235 on January 28). However, the spread of the virus beyond China then became clear and the outbreak in Italy during the third week of February triggered massive sell-offs in all risk assets. Within that environment, Turkish equities also saw a sharp sell-off. The MSCI Turkey index has underperformed the MSCI EM index by17% since the beginning of 2020 and 18% since February 19 (the beginning of the sharp sell-off in global equities). That said, however, it's worth noting that excluding China, which has managed to control the spread of the virus, Turkey's equity market and currency performances have not been far from the other emerging markets.

Figure 1: Turkey Covid-19 deaths vs. other countries



Source: Worldometers, Unlu Securities

Figure 2: MSCI indices – DM vs. EM vs. EM (excl. China) vs. TR



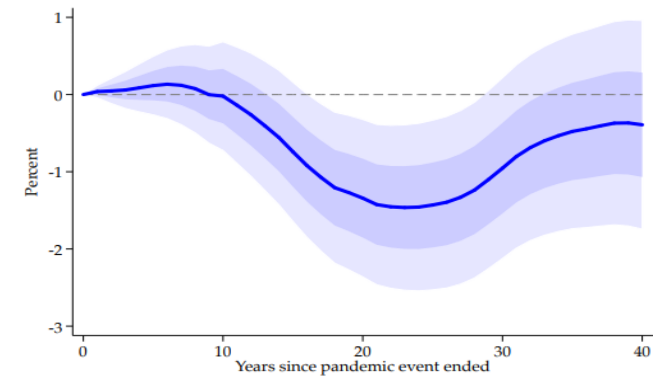
Source: Bloomberg, Unlu Securities

Turkey's fight against the coronavirus appears to be going well, with the number of active cases showing a declining trend. Both the daily death toll and the number of active cases have been in a declining trend. The daily death toll has seen below 50 recently and the number of active cases has been declining. The current trajectory suggests that Turkey will not follow the path of Italy or Spain. It appears that Turkey's selective lockdown measures that are imposed timely (stay at home orders only for those under the age of 20 and over 65; full lock-downs only during public holidays) and low mortality rate (thanks to the large healthcare capacity, its special treatment protocol and the young population) have limited the outbreak's impact on the country. Forecasting models (SIR) aimed at depicting the evolution of the epidemic have also started to indicate that the number of new cases will dwindle to very low levels towards the end of May. Following these developments, President Erdogan recently unveiled a gradual normalization plan that eases lockdown restrictions throughout May.

Data from sectors will be very ugly in the coming months, but this may not catalyse a further leg down: Despite the easing of restrictions, the weak export market, the end of the ban on personnel layoffs by mid-July and the potentially very weak tourism season suggest that the very sharp contraction in economic activity will continue into 3Q20. However, we believe that this weak data print may not catalyse a further leg down in equities, as the market should focus on future quarters and the upcoming recovery in activity. We believe this recession is likely to be very deep, but also short. A potential boom in 2021 or 2022 should attract investors with long investment horizons to equities.

Globally lower-for-longer interest rates may increase the appeal of equities: We support the view that globally, super low interest rates may remain long after the pandemic has passed, due to: i) households and firms being likely to save more to rebuild lost wealth, increase precautionary saving and reduce net leverage, which could offset the public sector dissaving; and ii) monetary authorities helping governments cope with the potential sharp rise in debt-to-GDP ratios after the pandemic passes. The experiences following past recessions and historic pandemics provide evidence to support this view. Indeed, a recent working paper published by the Federal Reserve Bank of San Francisco concluded that pandemics had long-lasting economic effects, lowering the real rate of interest for decades after the end of each pandemic. We note that the authors of the paper had studied the path of real interest rates following 15 major pandemics since the 14th century. In a super low interest rate environment, we think the appeal of equities may increase at the expense of bonds. As global equities grind higher, so will Turkish equities, we believe.

Figure 3: 40-year pattern of European real interest rates following pandemics

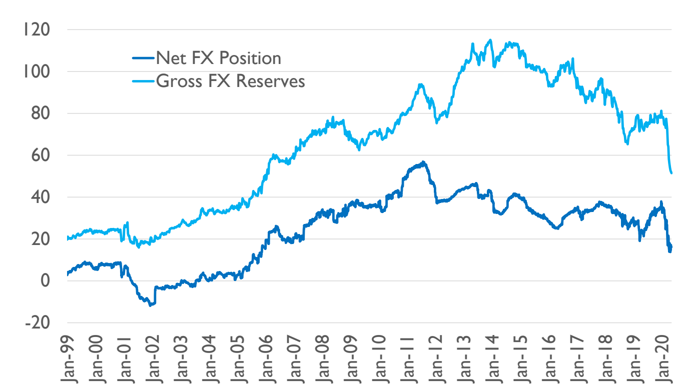


Source: Jordà, Òscar, Sanjay R. Singh, Alan M. Taylor, 2020. "Longer-Run Economic Consequences of Pandemics," Federal Reserve Bank of San Francisco Working Paper 2020-09. * Shaded areas are one and one standard error bands around response estimates

Pressure on the TL appears the main risk: With very low FX reserves ($168bn of external debt to be rolled over in 12m) and policy rates, and with the prospect of further rate cuts, the TL looks vulnerable. We also see the likelihood of the establishment of a swap line with the Fed/ECB or a deal with the IMF as being low.

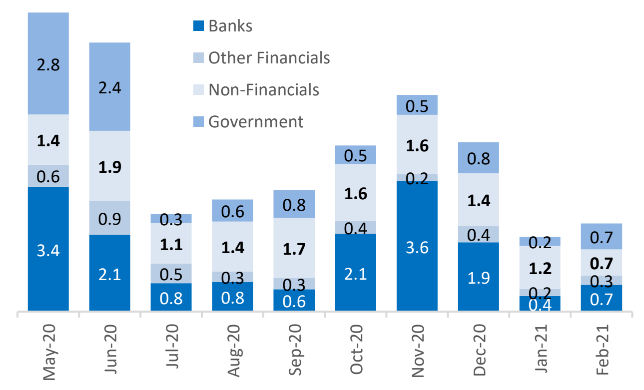
That said, a muddle-through scenario is possible, we believe. The heavy external debt repayment schedule for May and June will probably keep the volatility in TL high. However, recent refinances by the banks (with rollovers of 80-90%) and past experiences (in 2001 and 2008) give confidence for the upcoming weeks. Also, if conditions deteriorate further and become unsustainable, a rate hike, or indeed signalling of this option to gain time until global markets stabilise, might be the path followed.

Figure 4: CBRT'S net foreign assets (USDbn)



Source: CBRT, Unlu Securities

Figure 5: External debt payment schedule (private + govt), USDbn



Source: Treasury, CBRT, Unlu Securities

Cutting our estimates: In this report, we have increased our risk-free rate assumption from 14% to 15% (market risk premium from 5.5% to 6.0%) and incorporated our most recent macro assumptions into our models. Following the plugging in of our new price targets, our bottom-up index target for the next 12 months has declined from 144,259 to 127,201, which implies ~30% upside potential vs. the current level.

With this report, we also downgraded both **Turkish Airlines** and **Pegasus** from Buy to **Hold**, as we expect the challenges created by the outbreak to pressure the companies' earnings until 2022 and the consensus estimates do not reflect those challenges.

Top Picks

In line with our market view, we have identified the stocks that we believe could play out well in the coming months. We chose stocks that could benefit from the existing market conditions, have cheap valuations and strong balance sheets. Accordingly, **Yapi Kredi, Garanti, Tofas, Turkcell, Migros, Koza Gold, Koc Holding** and **Turk Traktor** are the constituents of our model portfolio (*please see pages 15-17*).

Figure 6: Unlu Securities Top Picks

Company	Ticker	Rating	Share price	Target price	Upside	Date of Inclusion	Absolute Perf	Rel. to BIST100	Comment
Yapi Ve Kredi Bankasi	YKBNK	Buy	2.2	3.0	39%	12-May-19	0.0%	0.0%	Trading at a discount to its private peers despite the improvement in the operational performance and the capital ratios. Yapi Kredi has the highest total provision coverage.
Garanti Bankasi	GARAN	Buy	7.8	11.3	45%	04-Jul-19	-21.0%	-19.8%	Highest ROE among large cap banks among with very strong capital ratios. More prudent approach in NPL recognition brings more transparency to its balance sheet.
Koc Holding	KCHOL	Buy	14.9	21.3	43%	14-Feb-20	-24.6%	-7.3%	One-stop shop exposure to high quality mostly hard currency driven assets coupled with our structural positive stance towards its subsidiaries
Koza Gold	KOZAL	Buy	71.1	104.0	46%	04-Mar-20	-4.7%	7.9%	FX based revenue generation, upswing in gold price should and long cash position are the positive aspects of Koza Gold.
Migros	MGROS	Buy	31.6	39.8	26%	24-Mar-20	32.2%	20.7%	Food retail is one of the least impacted sectors by the corona outbreak; strong growth in online business; deleveraging continues with asset sales
Tofas	TOASO	Buy	19.1	28.4	49%	09-Sep-19	14.5%	17.8%	Take-or-pays protect export earnings, domestic market appears relatively resilient and likely to recover in 3Q, cheap valuation.
Turkcell	TCELL	Buy	13.2	18.0	36%	28-Nov-19	-2.7%	6.6%	Sustained double-digit EBITDA growth, strong B/S with reduced leverage and lower sensitivity to FX remain as the key elements, underpinning Turkcell's resilience in current volatile market environment.
Turk Traktor	TTRAK	Buy	56.8	69.0	21%	10-Jan-20	2.0%	23.8%	Turk Traktor should outstand with potential revival in demand post Covid-19, supported by incentivized tractor loans and impressive deleveraging efforts.

Source: Unlu Securities analysis and estimates, Bloomberg

Alternatively, under a more positive scenario, in which Turkish economy along with the global economy recovers faster than expected, then we would recommend a portfolio with a higher beta. The stocks under this portfolio would be the following ones:

Garanti Bank,
Yapi Kredi,
Dogus Otomotiv,
Turk Traktor,
Turk Telekom,
Kardemir,
Sabanci Holding and
Coca Cola Icecek.

Covid-19 outbreak in Turkey

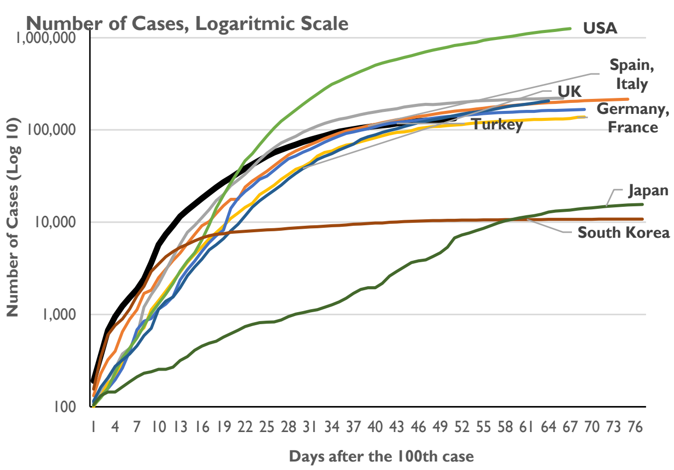
Covid-19 was first confirmed in Turkey on March 10, and as of May 10 there have been 137K confirmed cases in the country, with the number of deaths standing at 3,739 [taken from Worldometer on May 10]. In terms of confirmed cases, Turkey ranks as the nineth most infected country globally, while in terms of number of deaths, its ranking is 13.

Figure 7: Countries with the highest number of Covid-19 cases

Country, Other	Total Cases	New Cases	Total Deaths	New Deaths	Total Recovered	Active Cases	Serious, Critical	Tot Cases/ 1M pop	Deaths/ 1M pop	Total Tests	Tests/ 1M pop
World	4,098,288	+88,997	280,224	+4,248	1,436,206	2,381,858	47,685	526	36.0		
USA	1,347,309	+25,524	80,037	+1,422	238,078	1,029,194	16,816	4,070	242	8,918,263	26,943
Spain	262,783	+2,666	26,478	+179	173,157	63,148	1,741	5,620	566	2,467,761	52,781
Italy	218,268	+1,083	30,395	+194	103,031	84,842	1,034	3,610	503	2,514,234	41,584
UK	215,260	+3,896	31,587	+346	N/A	183,329	1,559	3,171	465	1,728,443	25,461
Russia	198,676	+10,817	1,827	+104	31,916	164,933	2,300	1,361	13	5,221,964	35,783
France	176,658	+579	26,310	+80	56,038	94,310	2,812	2,706	403	1,384,633	21,213
Germany	171,324	+736	7,549	+39	143,300	20,475	1,650	2,045	90	2,755,770	32,891
Brazil	156,061	+10,169	10,656	+664	61,685	83,720	8,318	734	50	339,552	1,597
Turkey	137,115	+1,546	3,739	+50	89,480	43,896	1,168	1,626	44	1,334,411	15,822
Iran	106,220	+1,529	6,589	+48	85,064	14,567	2,696	1,265	78	573,220	6,825
China	82,887	+1	4,633		78,046	208	15	58	3		
Canada	67,702	+1,268	4,693	+124	31,249	31,760	502	1,794	124	1,068,000	28,297

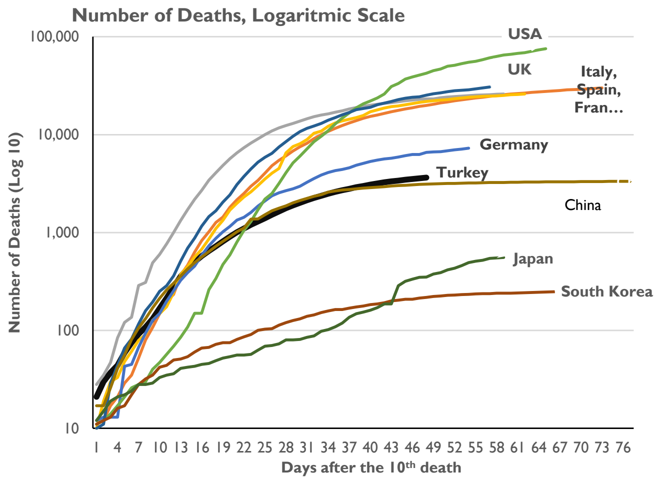
Source: Worldometers, Unlu Securities

Figure 8: Turkey: Number of cases



Source: Worldometers, Unlu Securities

Figure 9: Turkey: Number of deaths



Source: Worldometers, Unlu Securities

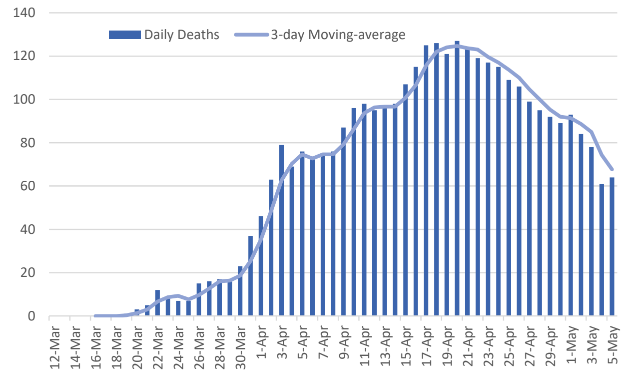
Comparing the confirmed cases and mortality rate across affected countries, Turkey's trajectory appears subdued. Despite the earlier steep trajectory of confirmed cases, the number of deaths in Turkey is on a flatter, or even a declining curve. It appears similar to the evolution of the outbreak in Germany, and far better than highly affected European countries such as Italy and Spain, whose health systems were overwhelmed from the onset. Forecasting models (SIR) aimed at depicting the evolution of the epidemic have started to indicate that the number of new cases in Turkey will dwindle to very low levels towards the end of May. Following these developments, President Erdogan unveiled a gradual normalization plan recently that eases the lockdown restrictions throughout May.

We think that the Turkish government has been relatively successful in its fight against the outbreak, as the death ratio (number of deaths divided by number of confirmed cases), at about 3%, is significantly lower than many other developed countries and the number of cases appears to be under control. This is mainly thanks to the fact **the government took adequate measures on the public health front earlier than many other countries**, such as closing schools earlier, border closings and flight suspensions at an early stage, a curfew for citizens older than 65 years (and later for below 20 years) and the Health Ministry's continued efforts to create awareness among the public.

In addition, the fact it has a young population and a relatively strong healthcare infrastructure appear to have given Turkey an advantage in its fight against the pandemic. Among OECD countries, despite having lower than average numbers of doctors, nurses and beds per capita, Turkey has a decent level of intensive care units in relation to its population. Indeed, according to Health Minister Fahrettin Koca, following the opening of city hospitals with massive capacity in the past couple of years, Turkey has one of the highest numbers of intensive care hospitals among all OECD countries, even surpassing Germany.

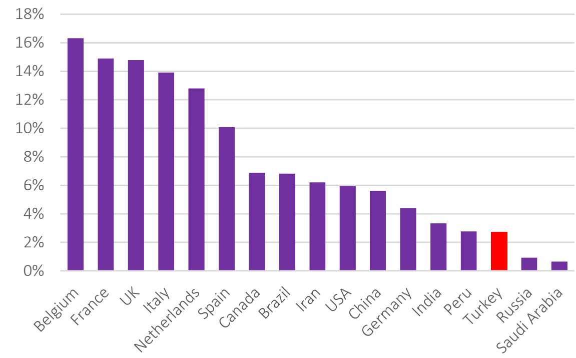
Lastly, Turkey's treatment protocol, which is different from other countries, appears to have yielded more positive results. According to the Health Minister, delaying intubation by using high frequency oxygen for a longer period of time and using the malaria drug hydroxychloroquine and Japanese antiviral Favipiravir much earlier than other countries in the onset of Covid-19 worked well.

Figure 10: Turkey: Deaths per day



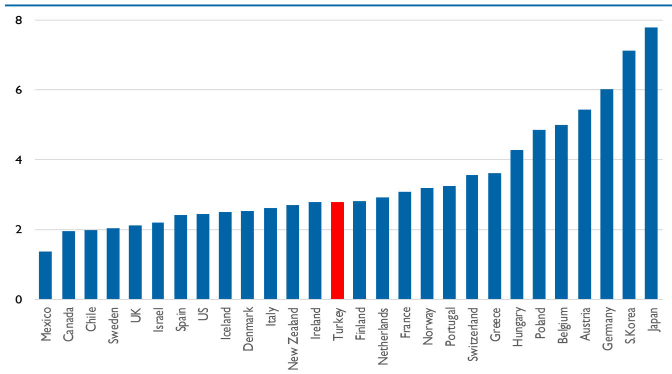
Source: Worldometers, Unlu Securities

Figure 11: Death rates – deaths/confirmed Covid-19 cases



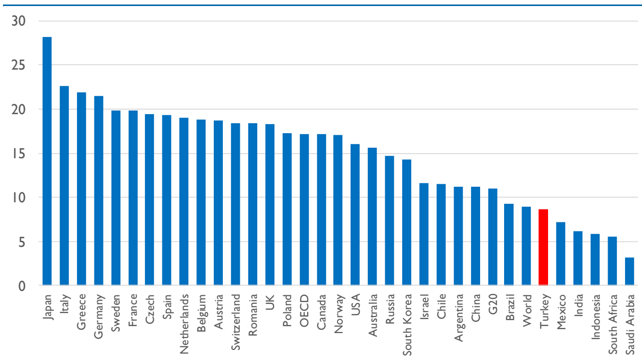
Source: Worldometers, Unlu Securities

Figure 12: Per 1,000 capita intensive care units



Source: OECD, Unlu Securities

Figure 13: Share of elderly population (aged 65+)



Source: Worldbank, Unlu Securities

Economic measures by the government

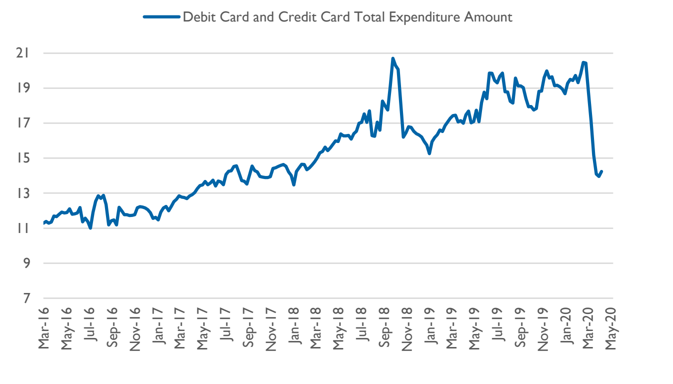
On the economic front, there have been several measures taken by the government since the start of the outbreak, such as the announcement of a USD15bn economic relief package, rate cuts, macro-prudential easing and new liquidity facilities offered to the banks, etc.

- The Central Bank of Turkey cut its policy rate by 100bps on March 17 and by another 100bps on April 22, bringing the policy rate to 8.75%.
- On March 18, Turkey announced a fiscal package (worth TL100bn, 2% of GDP) that entailed measures such as deferring tax and social security premium payments, softening eligibility conditions for short-term working allowances, providing financial support to low-income families, raising minimum pension pay and providing healthcare professionals with upper-limit bonus payouts. We note that the economic package as a share of GDP (~2%) has been small compared with the packages announced in developed countries.
- Personnel layoffs are suspended for a three month period.
- The Credit Guarantee Fund (KGF) loan limit was doubled to TL50bn. Banks initiated lending programmes with CGF guarantees to cover corporates' cash flow needs at favourable rates.
- The central bank introduced a new liquidity facility, which is about 25% of the system's total funding need, targeting corporate loan funding.
- Principal and interest rate payments of bank loans for impacted firms have been delayed for three months.
- The banks have given their clients the option to postpone loan repayments until the end of June.
- BRSA increased stage three and stage two classification periods, potentially leading to less provisions being recognised.
- BRSA introduced a new "asset ratio" to accelerate the injection of financing sources into the real economy.
- The central bank introduced QE measures, which essentially gives the bank new ways of providing TL liquidity by way of expanding the size of its government securities portfolio and the range of securities acceptable as collateral.

Economic activity and the outlook

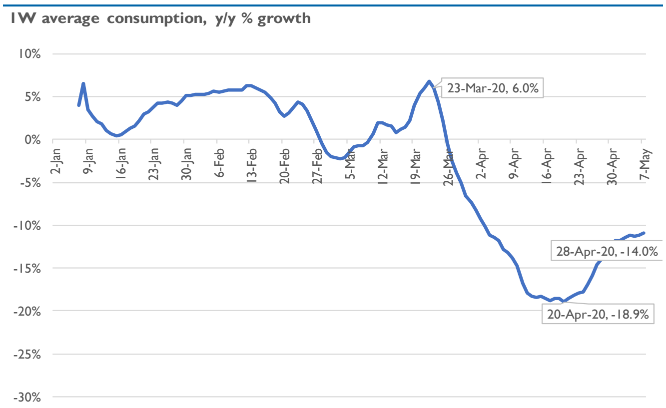
Economic activity in Turkey has deteriorated substantially since the third week of March. In April, exports contracted by 41% y/y, Turkish Manufacturing PMI index slided to 33.4, its lowest level since January 2009; and sectoral confidence indices and Sameks service sector PMI index slumped to the nadir of their series. Moreover, electricity consumption, a leading indicator of industrial production, and credit card expenditures, leading data for retail sales, and in turn a leading indicator of domestic demand, staged pronounced declines in April. Yet, it also transpires that these frequently disclosed leading data have already touched their lowest points and that a semblance of recovery is visible in most recent data prints.

Figure 14: Credit card usage in Turkey (TLbn)



Source: CBRT, Bloomberg, Unlu Securities

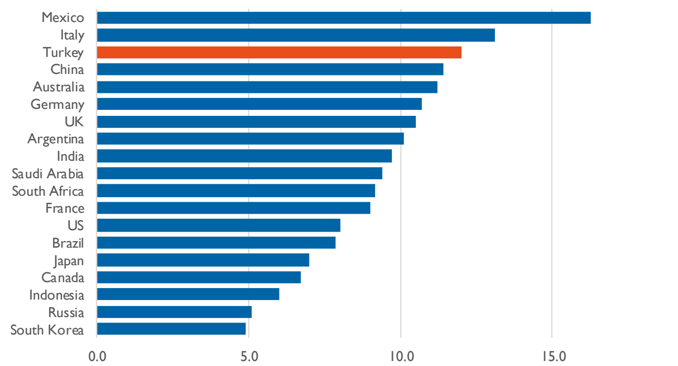
Figure 15: Electricity consumption (1week avg. consumption, y/y)



Source: EPDK, Unlu Securities

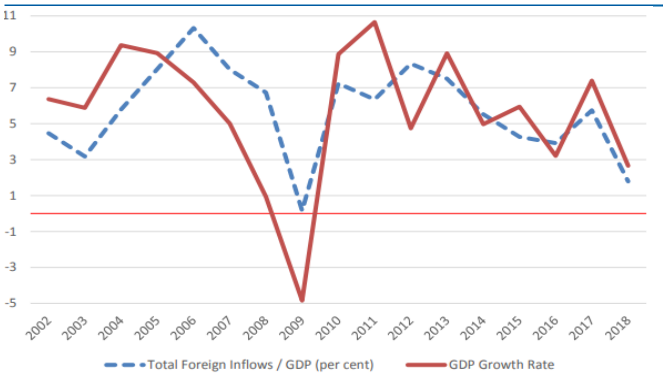
We assume a 2.3% GDP contraction for 2020: The impact of the outbreak on Turkey's 2020 GDP outlook is still uncertain. It's very difficult to gauge the duration and spread of the outbreak and these factors are critical on the trajectory of economic activity. We assume a 2.3% contraction for 2020. The tourism sector (including domestic tourism) comprises a large part of Turkey's GDP; Europe, the main export market of Turkey, is contracting significantly; and capital is outflowing from Turkey at a significant rate. Combining these factors, we think that a significant contraction in economic activity is likely in 2020. That said, a strong 1Q print (likely to be about 5.5%) should limit the annual drop in Turkey's numbers.

Figure 16: Tourism as % of GDP – Turkey is highly exposed to tourism



Source: WTO, Unlu Securities

Figure 17: Turkey GDP growth vs. foreign capital inflows



Source: Akcay, Ümit (2019), The making of Turkey's 2018-2019 economic crisis, WP No. 120/2019

Figure 18: Unlu Securities macro assumptions

Macro forecasts	2016A	2017A	2018A	2019A	2020E	2021E
TRY/USD (avg.)	3.01	3.63	4.77	5.64	6.80	7.39
TRY/USD (e.o.p)	3.52	3.77	5.31	5.94	7.06	7.67
TRY/€ (avg.)	3.32	4.10	5.62	6.32	7.46	8.10
TRY/€ (e.o.p)	3.71	4.52	6.05	6.65	7.74	8.40
CPI Inflation	8.5%	11.9%	20.3%	11.8%	10.0%	8.6%
CBRT 1-week policy rate	8.3%	12.8%	24.0%	12.0%	8.0%	8.0%
GDP growth	3.2%	7.4%	2.6%	0.9%	-2.3%	4.0%

Source: CBRT, TUIK, Unlu Securities estimatess

Inflation to close the year within the 10.0-10.5% range: In April the CPI posted an above-consensus 0.85% increase, and the annual CPI eased to 10.9%. In the short term, while the sharp retreat in oil and commodity prices continues to have a beneficial effect, the fact that the change in currency basket has reached 20% year-to-date, along with the recent rise in FX rates, points to continued strengthening of a factor that has an upward effect on inflation. However, given the marked weakening in domestic demand on account of the pandemic and the fact that the services sector, typically exhibiting rigidity, has ground to a virtual halt, one could infer that total demand conditions might alleviate inflationary pressures. The inflationary effect of the significant monetary expansion, on the other hand, could be expected to become visible in the second half, once normalcy is restored in supply conditions, rather than in the short term. As such, provided that the recent depreciation does not morph into a more prominent currency attack, it seems conceivable for annual inflation to sustain its gradual retreat, given the favorable base effect from the year-ago period (to a limited degree for the next two months), to close the year within the 10.0-10.5% range.

As regards what inflation realizations imply from a monetary policy stance: A further rate cut is likely. With consecutive rate cuts implemented over the last eight meetings, the CBRT had pulled the 1-week repo rate down by 1,525 basis points to 8.75% level. At the last MPC meeting text, the Bank reiterated its message sentence "monetary stance will be determined by considering the indicators of the underlying inflation trend to ensure the continuation of the disinflation process", signalling that it would continue to reflect potential improvements in inflation trend and forward-looking inflation expectations to the policy rate. Accordingly, in the latest Inflation Report, while scaling back year-end inflation forecast to 7.4%, the Bank had stated that for real rates, future inflation and related expectations would be taken into consideration. Consequently, barring a marked drop in CPI expectations - currently 9.7% for the next 12 months and 8.6% for the next 24 months - in the Expectations Survey to be announced prior to the CBRT meeting dated May 21, it seems more probable for the Bank to scale back its rate cut pace.

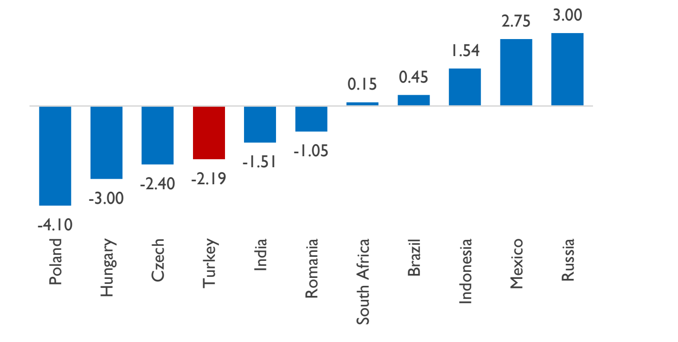
The sharp drop in oil prices is a bright spot for the Turkish economy. According to the Turkish Treasury's sensitivity analysis, a USD10/bbl decline in the Brent oil price reduces energy exports by USD1.2bn, while reducing energy imports by USD6.5bn, leading to a net positive amount of USD5.3bn going into the current account balance. Given that the Brent oil price has declined from an average level of USD64/bbl in 2019 to the current level of USD28/bbl, we believe that the decline in oil prices should mostly offset the negative dynamics in the tourism sector (which generated about USD26bn of net FX revenues in 2019).

Risks for the TL

The pressure on the TL appears to be the main risk for the Turkish economy. With the recent cuts in the policy rate by 200bps since mid-March to 8.75%, the real policy rate in Turkey has declined to negative 2%, which is one of the lowest levels among emerging markets. Meanwhile, the central bank's FX reserves have declined significantly. Since the start of the year, the CBRT's net foreign assets (excluding public sector FX deposits) have declined by USD21bn to USD16bn. We note that in the meantime, the FX swaps that support the reserves have reached about USD29bn.

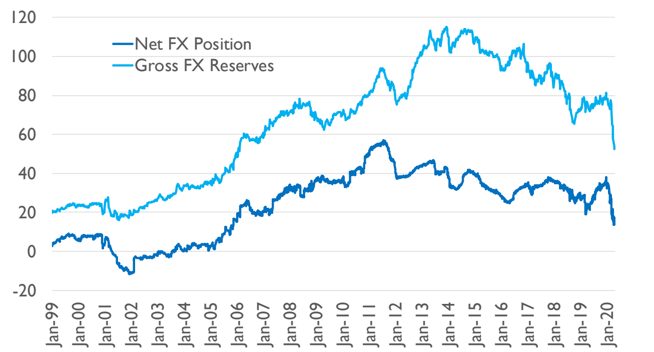
With very low FX reserves and policy rates, if the central bank continues with rate cuts, as it is currently guiding, we may see further pressure on the TL. The pressure could be particularly high in May and June, during when the external debt repayments peak (USD8.2bn in May and USD7.4bn respectively, *see Figure 23*). If the pressure continues, the government might be forced to hike rates to support the TL. Before that happens, however, we may see further TL depreciation, as the central bank may not change its stance on interest rates quickly enough.

Figure 19: Real policy rates (%), ex-post



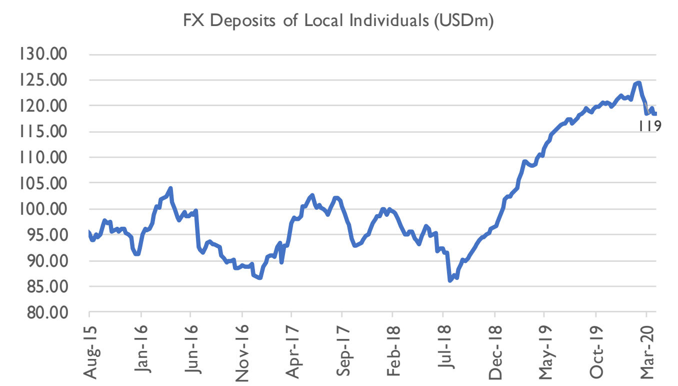
Source: Bloomberg, Unlu Securities

Figure 20: CBRT'S net foreign assets (USDbn)



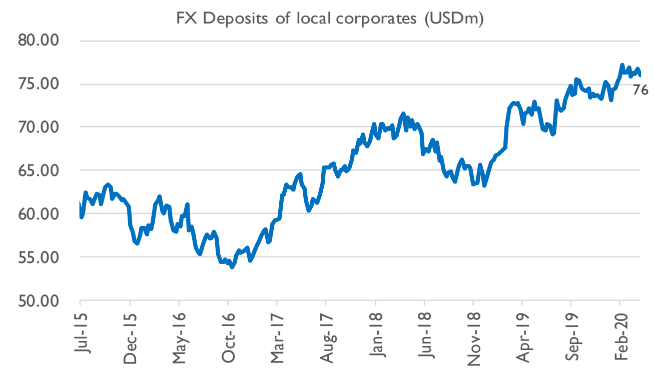
Source: CBRT, Unlu Securities

Figure 21: FX deposits of local individuals (USDbn)



Source: CBRT, Unlu Securities

Figure 22: FX deposits of local corporates (USDbn)



Source: CBRT, Unlu Securities

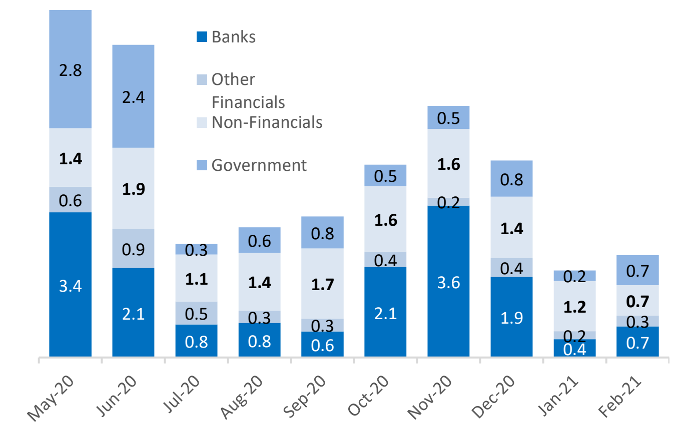
Establishment of a swap line with the FED or other central banks?
Government officials are known to be negotiating with the G-20 countries to secure access to the related countries' swap lines to increase FX reserves and support the TL. This is not our base case scenario. But if it happens, it could positively surprise the markets.

Debt financing outlook: private banks have a heavy schedule

Turkey has USD168bn of external debt to be serviced over the next 12 months, with the heaviest debt payments will be done in May (USD8.2bn) and June (USD7.4bn). The heavy external debt repayment schedule during the next couple of months creates risks for the economy and will probably keep the volatility in TL high.

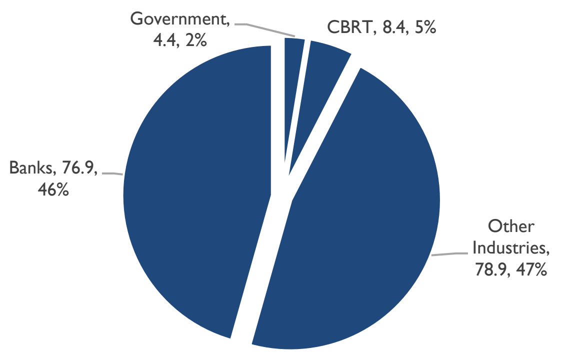
That said, however, it's worth to note that out of USD168bn of debt stock, USD101.4bn is comprised of banking sector's stable funding sources and trade related debt. Secondly, most of the debt servicing will be done by banks (*Figure 23*). As these are mostly syndication loans, banks should find it relatively easy to refinance them, as exemplified by the 2001, 2008 and 2018 crises and the recent refinancing of Akbank, Ziraat and Vakifbank that achieved around 80-90% rollover ratios. We note that during 2001 crisis, Turkish banks' average rollover reached 93% (the lowest rollover was 86%), while in 2008, average rollover was 93% (lowest was 49%).

Figure 23: External debt payment schedule (private + govt), USDbn



Source: CBRT, Unlu Securities

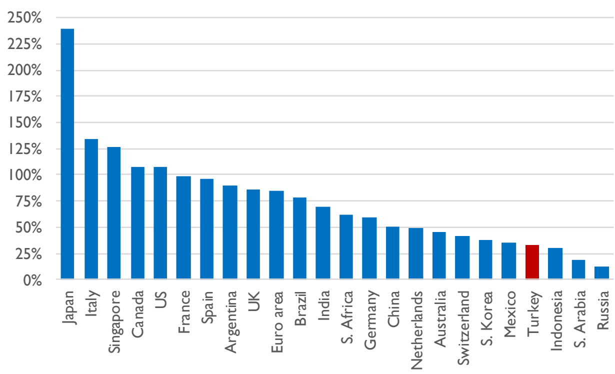
Figure 24: Short term external debt stock (USDbn, % of total)



Source: CBRT, Unlu Securities

In 2020, we will probably see a significant deterioration in the fiscal balances of the government. The expectation for the budget deficit for 2020 was 3% of GDP at the beginning of the year, but with recent developments we estimate that the deficit could increase to as much as 5-6% of GDP. The increase in the budget deficit should trigger a rise in public debt levels. But with the most recent public debt to GDP ratio of 33%, even if we assume a 5ppt rise in debt stock, Turkey's debt dynamics will still appear "not problematic".

Figure 25: Government debt to GDP (%)



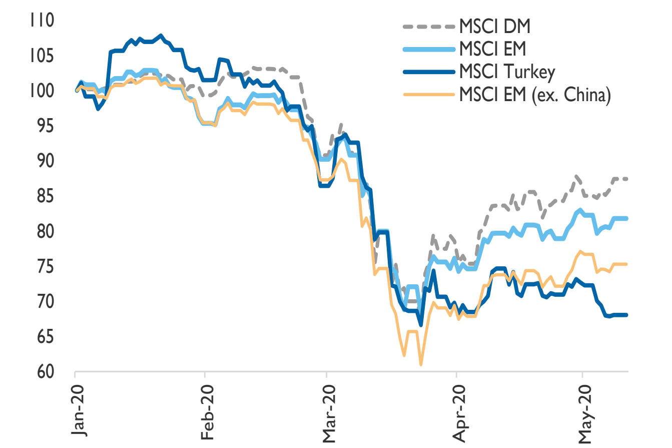
Source: IMF, OECD, Eurostat, US Treasury, Ministry of Treasury and Finance of Turkey, Unlu Securities

Equity market

As was the case in other emerging markets, Turkish equities entered 2020 off a very good run in the fourth quarter of 2019 and Turkish indices peaked on January 21. With news of the spread of coronavirus in China in late January, MSCI Turkey initially continued to outperform the MSCI EM index and Turkey's CDS dropped to about 240 in early February (the lowest level was 235 on January 28). However, the spread of the virus beyond China then became clear and the outbreak in Italy during the third week of February triggered massive sell-offs in every risk asset.

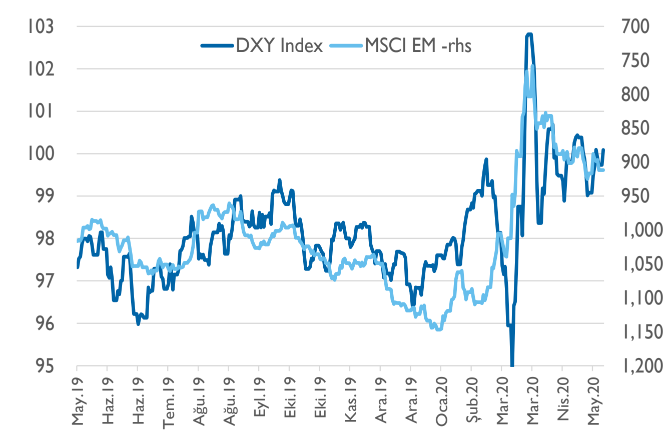
Within that environment, Turkish equities also saw a sharp sell-off. The MSCI Turkey index has underperformed the MSCI EM index by 17% since the beginning of 2020 and by 18% since February 19 (the beginning of the sharp sell-off in global equities). That said, it's worth noting that excluding China, which has managed to control the spread of the virus, Turkey's equity market and currency performances have not been far from the other emerging markets. Indeed, its performance appears much better than certain EM economies largely dependent on commodity exports.

Figure 26: MSCI indices – DM vs. EM vs. EM (excl. China) vs. TR



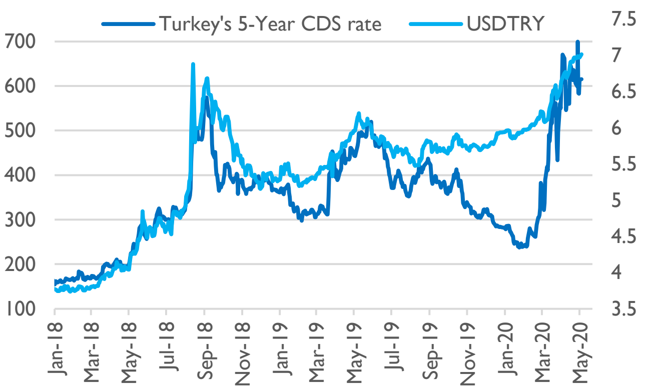
Source: Bloomberg, Unlu Securities

Figure 27: MSCI EM index vs. dollar index



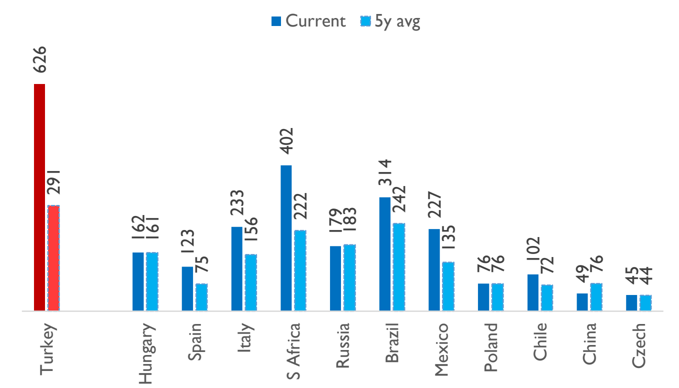
Source: Bloomberg, Unlu Securities

Figure 28: Turkey 5y CDS



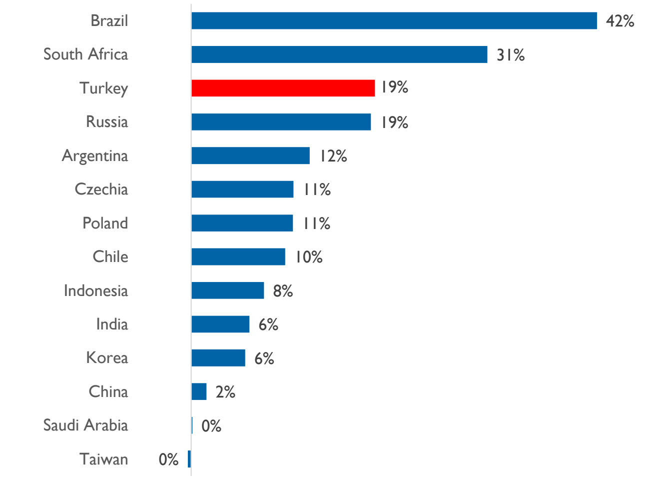
Source: Bloomberg, Unlu Securities

Figure 29: Turkey 5y CDS vs. peers



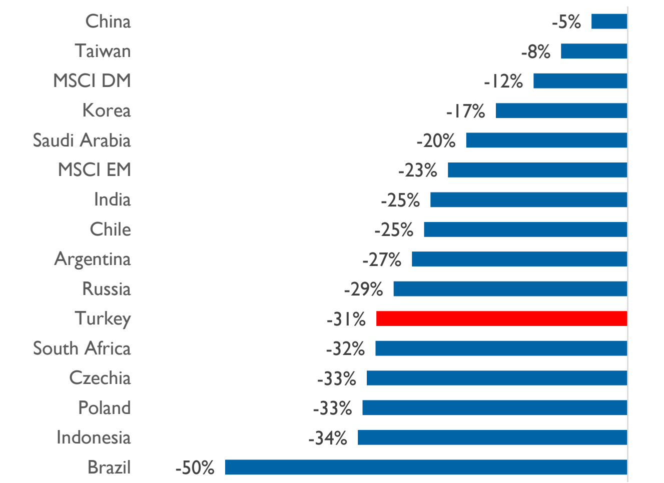
Source: Bloomberg, Unlu Securities

Figure 30: Currencies – Turkey vs. leading EM countries (YTD)



Source: Bloomberg, Unlu Securities

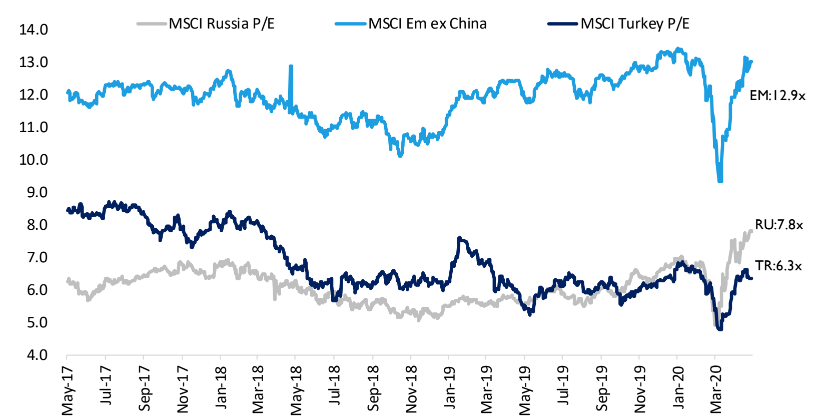
Figure 31: MSCI indices – Turkey vs. leading EM countries (YTD)



Source: Bloomberg, Unlu Securities

Following the sell-off, the Turkish equity market continues to trade at historically low levels**.** That said, however, it is also worth noting that earnings multiples have globally lost their reliability following the sharp contraction in economic activity, as earnings estimates have not been revised properly by sell-side analysts and there are a wide range of earnings estimates out there.

Figure 32: MSCI Turkey vs. MSCI EM (excluding China) P/E



Source: Bloomberg, Unlu Securities

Figure 33: MSCI Turkey vs. MSCI EM and historic averages

	MSCI Turkey			MSCI EM		Turkey vs EM	
	Current	5y avg.	Disc. to 5y avg.	Current	5y avg.	Current	5y avg.
P/E -fwd	6.3x	7.5x	-15.0%	12.9x	11.8x	-50.8%	-37.0%
P/E -trailing	7.7x	9.1x	-15.2%	13.6x	14.4x	-43.1%	-36.7%
P/BV -fwd	0.7x	1.0x	-31.4%	1.2x	1.4x	-42.9%	-26.8%
P/BV -trailing	0.8x	1.2x	-26.9%	1.4x	1.5x	-37.6%	-24.4%
EV/EBITDA -fwd	4.8x	6.4x	-24.5%	9.2x	8.1x	-47.4%	-20.6%
EV/EBITDA -trailing	5.5x	7.4x	-26.3%	8.6x	8.7x	-36.6%	-14.5%

Source: Bloomberg, Unlu Securities

Top Picks

Adding Yapı Kredi Bank, while removing Ulker and Akbank.

We are adding one stock to our Top Picks, while removing two from our list.

Adding: YKBNK

We are adding **Yapi Kredi** to our top picks list. With the sale of 12% stake by UniCredit completed, we believe the overhang on Yapi Kredi shares are now lifted. Yapi Kredi's RoE (20E: 11%) has converged to private peers. The bank's total coverage ratio (7.3%) was the highest of the private banks in our coverage, indicating a more conservative approach and should provide a buffer in case of further deterioration in asset quality. Yapi Kredi's capital ratios, which used to be a concern for investors, are now at relatively strong levels (CAR: 15.8%, Tier-1: 13.0%, excluding BRSA's forbearance). Despite this improvement in ROE and strengthening in capital ratios, the bank's multiples (P/E of 4.0x and a P/B of 0.40x, based on our 2020 estimates) are still at a discount to other private peers.

Removing: ULKER and AKBNK

We remove Ulker from our Toppicks list, owing to its outperformance of 21%, since its inclusion in the portfolio in Jul'19. We believe the recent buying spree in confectionary products and higher TL based international revenue growth on weaker TL should serve in higher revenue generation in 2020. Additionally, Ulker's net long FX position and relatively lower leverage shield the Company from weaker TL. We maintain our BUY rating for Ulker, with TL30 per share TP. The stock trades at around 50% discount to international peers on a 2020E P/E basis.

While we are maintaining our BUY rating on Akbank, we are replacing it with Yapi Kredi in our Top Picks list as we believe Yapi Kredi is offering more value at current levels. While we expect both banks to attain similar ROEs in 2020 (11%), Yapi Kredi is trading at more attractive multiples (20E P/B multiple of 0.40x in YKBNK vs 0.49x in AKBNK, 20E P/E of 4.0x vs 4.6x).

Accordingly, **Yapi Kredi, Garanti, Migros, Koc Holding, Koza Gold, Tofas, Turkcell,** and **Turk Traktor** are the constituents of our model portfolio (please see pages 38-53). Our Top Picks portfolio has outperformed the BIST 100 by 4% since the beginning of the year.

Figure 34: Top Picks

Company	Ticker	Rating	Share price	Target price	Upside	2020e P/E	2020e EV / EBITDA**	Date of Inclusion	Absolute Perf	Rel. to BIST100
Yapi Ve Kredi Bankasi	YKBNK	Buy	2.15	3.00	39%	3.92	0.4	12-May-19	0.0%	0.0%
Garanti Bankasi	GARAN	Buy	7.76	11.25	45%	4.14	0.6	04-Jul-19	-21.0%	-19.8%
Koc Holding	KCHOL	Buy	14.90	21.30	43%	8.30	nm	14-Feb-20	-24.6%	-7.3%
Koza Gold	KOZAL	Buy	71.10	104.00	46%	5.44	1.8	04-Mar-20	-4.7%	7.9%
Migros	MGROS	Buy	31.60	39.80	26%	nm	4.2	24-Mar-20	32.2%	20.7%
Tofas	TOASO	Buy	19.10	28.40	49%	6.12	4.1	09-Sep-19	14.5%	17.8%
Turkcell	TCELL	Buy	13.22	18.00	36%	8.19	3.3	28-Nov-19	-2.7%	6.6%
Turk Traktor	TTRAK	Buy	56.80	69.00	21%	14.17	7.5	10-Jan-20	2.0%	23.8%
YTD Model Portfolio Performance										-11.2%
YTD BIST100 Performance										-14.5%
YTD Relative performance										**3.9%**

Source: Bloomberg, Unlu Securities estimates. ** P/BV for banks

Garanti: Despite having one of the lowest leverage levels among Tier-I banks in our coverage (7.4x in March 2020), Garanti has the highest sustainable RoE thanks to its robust RoA (2020E 1.9% vs coverage average of 1.2%). Our 2020 ROE estimate of 14.2% is the highest among Tier-I banks. Swift repricing of loans and successful management of the funding side help Garanti to attain the highest NIM our coverage (2020E 5.0% in swap adj terms). Garanti has one of the highest CAR and CET-1 ratio in our coverage at 16.6% and 14.0% respectively (excluding BRSA's forbearance measures). Although current multiples (4.1x P/E and 0.56x P/B, based on our FY20 estimates) are at a premium to sector averages (3.9x P/E and 0.41x P/B), we believe Garanti's high RoE and prudent management approach warrant these higher multiples.

Yapi Kredi: With the sale of 12% stake by UniCredit completed, we believe the overhang on Yapi Kredi shares are now lifted. Yapi Kredi's RoE (20E: 11%) has converged to private peers. The bank's total coverage ratio (7.3%) was the highest of the private banks in our coverage, indicating a more conservative approach and should provide a buffer in case of further deterioration in asset quality. Yapi Kredi's capital ratios, which used to be a concern for investors, are now at relatively strong levels (CAR: 15.8%, Tier-1: 13.0%, excluding BRSA's forbearance). Despite this improvement in ROE and strengthening in capital ratios, the bank's multiples (P/E of 4.0x and a P/B of 0.40x, based on our 2020 estimates) are still at a discount to other private peers.

Koc Holding: Our conviction is based on: 1) Koc offering one-stop shop exposure to high quality mostly hard currency driven assets, with Unlu & Co. Buy ratings on YKBNK, TUPRS, TOASO, FROTO and TTRAK; which constitute 69% of Koc's current NAV. 2) Following a 7% underperformance vs the BIST-100 over the past three months, Koc is trading at an 15% discount to its current NAV, compared to the 5Y average discount of 5%, with the shares having traded at a premium as high as 3% in late 2019; and implying 42% upside currently, 3) Value accretion stemming from the acquisition of a higher direct stake in Yapi Kredi (up 9.02pps to 43.64%) following the share transaction with Unicredit, 4) Limited downside potential associated with Tupras (19% of NAV) stemming from S/T hurdles; the underperformance of which had also pressured Koc's share performance, as the sell-side have mostly adjusted their estimates to accommodate the 2020 outlook, in our view.

Koza Gold: We believe the recent uptrend in gold price and ample global liquidity will be supportive for Koza Gold's share performance. We attribute Koza Gold's 31% ytd underperformance vs. MSCI gold miners index to its lower than expected reserve announcement, revocation of the mining license in Sogut and decline in foreign ownership. Additionally, Koza Gold has witnessed slower production ytd, due to lower working hours at the processing plants and lower grade. However, we believe the negatives are priced in and Koza Gold stands out as a defensive player with its USD denominated revenues and long FX position. Thus, we maintain BUY rating with TL104 per share TP. Koza Gold trades at c.65% discount to international peers on 2020E P/E.

Migros: Our positive view on Migros rests on 1) Strong growth in online business and home consumption as a result of the Covid-19 outbreak have led to strong improvement in the Migros' operations. The consumers' switch to the online channels will continue benefit Migros, as it is the undisputed leader in this space; 2) deleveraging has gained momentum in 2020, as Migros most recently sold 3 assets for TL219m, and this will further reduce the net financial debt of the retailer 3) EUR-linked debt (though declined) and share overhang risks are the major headwinds for Migros, but trading at 2020E EV/EBITDA of 6.3x (five-year average of 10x), the stock still appears cheap and reflects those risks.

Tofas: Tofas is one of our top picks, thanks to 1) Turkish auto market should record 8% growth in 2020, despite a significant contraction 2Q, thanks to low interest rates and pent-up demand. 2) Take-or-pay clauses on exports protect Tofas' export earnings stream while the European market is going through a sharp contraction. 3) We expect the FCA and PSA merger to create new opportunities in the long term for Tofas, as both groups aim to reduce costs. 4) Tofas trades at a deep discount to its historic multiple (2020e P/E of 6.0x, vs. its five year average of 10x).

Turkcell: Sustained double-digit EBITDA growth, strong B/S to withstand higher WC and capex requirement, reduced leverage and lower sensitivity to FX remain as the key elements, underpinning Turkcell's resilience in current volatile market environment. We reckon the 25% cap imposed on dividend pay-out, implying a 3% dividend yield for 2020, is already priced in. We think Turkcell will continue to stay defensive, thanks to its superior earnings growth in 2020 and aforementioned factors. Turkcell trades at 8x 2020E P/E, a 25% discount to its 10-year average.

Turk Traktor: We maintain our positive view on Turk Traktor, owing to its strong fundamentals post Covid-19 and stimulus measures taken to support agriculture sector. The incentivized tractor loans rates as well as the six-month extension of the loan/interest payments for the period until the end of June should be supportive on tractor demand. Note that Turk Traktor's domestic sales volumes was down only by 6% y/y in Apr'20, suggesting a robust growth once the Covid-19 effects are alleviated. In our opinion, Turk Traktor still offers a good entry point to buy into potential strength in domestic demand post covid-19 in 2020. We keep our BUY rating with TL69 TP.

Revising estimates

In this report, we have increased our risk-free rate assumption from 14% to 15%, and our market risk premium from 5.5% to 6.0%. while reflecting our most recent macro assumptions into our models. Below we have laid out the changes in our estimates and target prices.

Within our coverage universe, we downgraded both **Turkish Airlines** and **Pegasus** from **Buy** to **Hold**, as we expect the challenges created by the outbreak to pressure the earnings until 2022. Also, we think the consensus earnings estimates for both companies are too optimistic.

Figure 35: Unlu Securities Turkey coverage universe – changes to estimates

Company Name	Ticker	MCAP (USDm)	Free float (%)	Avg. vol. (USDm)	Current price* (TL)	TP old (TL)	TP new (TL)	Upside (%)	Rating	NI (prev.)	NI (current)	P/E 20E	P/E 21E	EV/EBITDA** 20E	EV/EBITDA** 21E
Banks												**4.0**	**3.4**	**0.5**	**0.4**
Akbank	AKBNK	4,105	52%	44.9	5.58	10.64	7.90	42%	Buy	7,846	6,256	4.6	3.6	0.5	0.4
Garanti Bank	GARAN	4,611	48%	123.5	7.76	14.49	11.25	45%	Buy	9,431	7,968	4.1	3.5	0.6	0.5
Halkbank	HALKB	948	49%	37.7	5.36	7.22	6.18	15%	Hold	2,950	2,758	2.4	3.8	0.2	0.2
Isbank	ISCTR	3,101	31%	27.0	4.87	8.15	5.80	19%	Hold	8,060	5,645	3.9	2.7	0.3	0.3
TSKB	TSKB	400	39%	11.7	1.01	1.54	1.49	47%	Buy	880	812	3.5	2.7	0.5	0.4
Vakifbank	VAKBN	1,617	25%	34.0	4.57	7.01	6.00	31%	Buy	4,288	3,641	3.1	4.5	0.3	0.3
Yapi Kredi	YKBNK	2,570	30%	51.8	2.15	3.76	3.00	39%	Buy	6,268	4,526	4.0	3.3	0.4	0.4
TMT												**8.1**	**6.6**	**3.3**	**2.8**
Turk Telekom	TTKOM	3,491	13%	20.6	7.05	9.30	8.50	21%	Buy	2,973	2,975	8.3	6.4	3.3	3.0
Turkcell	TCELL	4,115	49%	26.9	13.22	20.00	18.00	36%	Buy	3,729	3,601	8.1	6.7	3.2	2.8
Contractors												**10.4**	**12.6**	**2.7**	**3.6**
Enka Insaat	ENKAI	4,422	12%	1.9	6.25	7.12	6.70	7%	Hold	2,483	2,539	12.3	12.9	7.1	8.3
Tekfen Holding	TKFEN	683	48%	17.0	13.04	23.10	17.60	35%	Buy	918	668	7.2	12.0	1.7	2.5
Conglomerates												**6.3**	**4.9**	**nm**	**nm**
Koc Holding	KCHOL	5,346	27%	13.7	14.90	25.60	21.30	43%	Buy	7,062	4,573	8.3	6.2	nm	nm
Sabanci Holding	SAHOL	2,341	44%	14.3	8.11	14.10	11.70	44%	Buy	4,842	4,510	3.7	3.1	nm	nm
Precious Metals												**4.9**	**6.0**	**1.7**	**2.4**
Koza Gold	KOZAL	1,534	29%	27.8	71.10	98.00	104.00	46%	Buy	2,101	2,037	5.3	6.3	1.8	2.5
Koza Anadolu	KOZAA	615	44%	31.3	11.20	13.00	15.20	36%	Buy	1,199	1,005	4.3	5.5	1.7	2.4
Steel												**11.1**	**6.8**	**8.4**	**5.3**
Erdemir	EREGL	3,917	48%	30.8	7.91	10.60	9.90	25%	Buy	4,344	1,858	14.9	7.4	7.6	5.0
Kardemir	KRDMD	400	89%	47.7	2.35	2.93	2.61	11%	Hold	247	-322	-8.8	3.1	12.2	6.6
Oil & Gas												**27.2**	**7.1**	**9.2**	**5.8**
Aygaz	AYGAZ	422	24%	1.2	9.95	14.35	10.99	10%	Hold	452	190	15.7	10.2	6.2	4.6
Petkim	PETKM	1,118	44%	56.6	3.74	4.87	4.87	30%	Buy	1,198	1,198	6.6	4.5	8.1	6.8
Tupras	TUPRS	3,005	49%	44.5	84.80	152.60	120.13	42%	Buy	3,393	609	34.8	7.8	9.8	5.5
Autos & White Goods												**11.2**	**7.0**	**6.3**	**4.4**
Arcelik	ARCLK	1,446	25%	12.5	15.12	23.10	18.20	20%	Hold	1,191	707	14.4	7.5	6.5	4.3
Dogus Otomotiv	DOAS	285	15%	3.0	9.14	11.00	9.30	2%	Hold	334	268	7.5	5.2	3.8	2.9
Ford Otosan	FROTO	2,756	18%	5.3	55.50	92.30	75.60	36%	Buy	2,707	1,616	12.1	7.9	7.6	5.1
Tofas	TOASO	1,351	24%	7.3	19.10	34.20	28.40	49%	Buy	1,814	1,602	6.0	4.7	4.0	3.3
Turk Traktor	TTRAK	429	24%	1.6	56.80	73.00	69.00	21%	Buy	336	212	14.3	8.3	7.6	5.6
Defence												**7.5**	**7.4**	**6.9**	**6.7**
Aselsan	ASELS	4,333	26%	161.7	26.86	31.00	30.00	12%	Hold	3,943	4,062	7.5	7.4	6.9	6.7
Retailers												**21.7**	**18.0**	**6.2**	**5.4**
Bim	BIMAS	4,382	60%	22.9	51.00	55.69	59.30	16%	Hold	1,499	1,650	18.8	16.4	6.9	6.0
Bizim Toptan	BIZIM	108	46%	6.5	12.70	12.96	15.20	20%	Buy	35	38	19.9	13.1	1.9	1.5
Sok Marketler	SOKM	919	36%	12.6	10.61	12.24	14.80	39%	Buy	14	100	64.9	23.8	2.9	2.3
Migros	MGROS	810	36%	25.6	31.60	30.42	39.80	26%	Buy	38	-9	nm	27.2	4.4	4.0
Glass and materials												**5.7**	**5.2**	**4.7**	**3.8**
Anadolu Cam	ANACM	421	20%	4.5	3.97	5.00	4.85	22%	Hold	482	470	6.3	5.7	4.7	4.0
Sise Cam	SISE	1,515	34%	22.4	4.76	7.10	6.40	34%	Buy	1,886	1,759	6.1	5.2	5.1	4.1
Soda Sanayii	SODA	784	39%	10.7	5.54	10.50	6.50	17%	Hold	1,205	1,381	4.0	4.9	3.7	3.3
Trakya Cam	TRKCM	557	28%	9.4	3.15	4.40	3.80	21%	Hold	705	556	7.1	5.6	5.6	3.6
Aviation												**122.9**	**5.1**	**19.1**	**6.6**
Pegasus Airlines	PGSUS	738	36%	47.8	51.00	104.40	45.40	-11%	Hold	1,432	-1,124	nm	nm	18.7	6.9
TAV Airports	TAVHL	878	40%	12.4	17.08	35.80	24.30	42%	Buy	97	1	578.9	12.6	10.9	6.6
Turkish Airlines	THYAO	2,074	50%	190.1	10.62	17.10	9.70	-9%	Hold	5,395	-4,067	nm	3.8	22.0	6.5
Food and Beverages												**12.3**	**9.8**	**6.0**	**4.9**
Anadolu Efes	AEFES	1,424	32%	4.2	17.00	29.00	23.30	37%	Buy	912	628	16.0	12.5	6.4	4.8
Coca Cola Icecek	CCOLA	1,274	25%	5.2	35.40	42.00	42.00	19%	Hold	859	848	10.6	8.5	6.2	4.9
Ulker Biskuvi	ULKER	1,075	39%	5.3	22.22	32.00	30.00	35%	Buy	843	802	9.5	7.8	5.5	5.0

Source: Unlu Securities estimates, company data. *As of May 8 closing price, **P/BV for financials ***The TPs for ANACM, SODA and TRKCM are derived from UNLU's TP on SISE multiplied by swap ratios announced on Apr. 27 and discounted to Aug. 31, the date UNLU expects the completion of SISE merger with its subsidiaries. We assign HOLD ratings to ANACM, SODA and TRKCM, while short term price discrepancies might occur between current prices and swap values.

Unlu Securities vs. consensus

Below we show a comparison between our estimates and consensus expectations. The sell-side is still in the process of updating its numbers, therefore there is a significant range of estimates in the market.

Figure 36: Unlu Securities vs. consensus

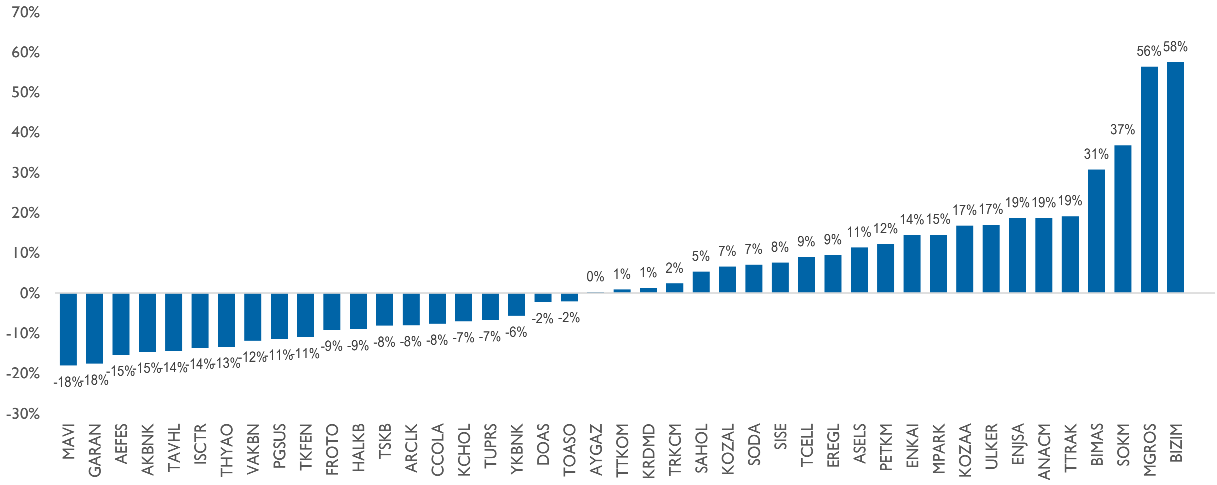
Company Name	Unlu Net Sales 20E	Unlu Net Sales 21E	vs. Cons. Net Sales 20E	vs. Cons. Net Sales 21E	Unlu EBITDA 20E	Unlu EBITDA 21E	vs. Cons. EBITDA 20E	vs. Cons. EBITDA 21E	Unlu Net income 20E	Unlu Net income 21E	vs. Cons. Net income 20E	vs. Cons. Net income 21E
Banks												
Akbank									6,256	8,046	-5%	-5%
Garanti Bank									7,968	9,445	11%	-2%
Halkbank									2,758	1,744	-10%	-56%
Isbank									5,645	8,042	-23%	-8%
TSKB									812	1,041	4%	5%
Vakifbank									3,641	2,552	-9%	-47%
Yapi Kredi									4,526	5,517	7%	1%
TMT												
Turk Telekom	26,560	29,467	0%	0%	12,211	13,195	-1%	-3%	2,975	3,881	-15%	-11%
Turkcell	28,178	32,834	-2%	0%	11,697	13,645	0%	1%	3,601	4,341	-3%	-6%
Contractors												
Enka Insaat	10,932	11,884	0%	-20%	2,241	1,927	-16%	-44%	2,539	2,417	-10%	-25%
Tekfen Holding	13,525	8,521	16%	-30%	960	648	-24%	-54%	668	402	-22%	-65%
Conglomerates												
Koc Holding									4,573	6,095	-6%	-22%
Sabanci Holding									4,510	5,401	-3%	2%
Steel												
Erdemir	25,669	31,351	0%	0%	4,116	6,653	-21%	-17%	1,858	3,719	-34%	-21%
Kardemir	6,875	7,715	-6%	-2%	434	842	-53%	-29%	-322	176	n.m.	-61%
Oil&Gas												
Aygaz	10,566	11,551	6%	10%	274	336	-24%	-18%	190	294	-48%	-63%
Petkim	11,852	13,324	18%	9%	1,862	2,158	40%	3%	1,198	1,762	55%	27%
Tupras	72,016	84,163	10%	-4%	3,623	6,456	-6%	1%	609	2,738	-6%	-17%
Autos & White Goods												
Arcelik	32,442	40,232	-7%	0%	2,770	4,205	-22%	-2%	707	1,357	-28%	-2%
Dogus Otomotiv	12,750	18,618	18%	29%	723	959	26%	24%	268	389	52%	15%
Ford Otosan	35,518	50,291	-1%	3%	2,870	4,315	-5%	4%	1,616	2,455	-14%	-6%
Tofas	17,422	24,753	-10%	1%	2,726	3,367	5%	9%	1,602	2,033	10%	19%
Turk Traktor	4,158	5,578	-7%	-1%	482	657	0%	-5%	212	367	-7%	8%
Defence												
Aselsan	20,292	21,134	11%	-4%	4,210	4,333	11%	-4%	4,062	4,139	3%	-6%
Retailers												
Bim	51,055	61,773	3%	5%	4,033	4,633	7%	4%	1,650	1,888	12%	4%
Bizim Toptan	5,226	6,092	-3%	2%	272	335	-5%	7%	38	58	-4%	25%
Sok Marketler	20,267	25,021	1%	5%	1,933	2,444	4%	16%	100	273	147%	49%
Migros	28,308	33,044	1%	5%	2,319	2,546	-4%	-6%	-9	210	n.m.	7%
Glass and materials												
Anadolu Cam	4,851	5,922	-2%	5%	1,172	1,362	2%	1%	470	524	-2%	3%
Sise Cam	19,859	24,324	-4%	1%	4,077	5,075	-2%	0%	1,759	2,078	-7%	4%
Soda Sanayii	4,769	5,692	2%	8%	1,268	1,431	15%	11%	1,381	1,129	27%	16%
Trakya Cam	6,673	8,739	-12%	-4%	945	1,445	-28%	-12%	556	706	-30%	-30%
Aviation												
Pegasus Airlines	5,297	10,181	-34%	-29%	1,102	2,976	-46%	-29%	-1,124	-45	n.m.	n.m.
TAV Airports	3,495	5,250	-33%	-4%	1,134	2,016	-47%	-16%	10	521	-98%	-30%
Turkish Airlines	39,954	70,314	-45%	-29%	4,286	14,440	-58%	-21%	-4,067	3,846	n.m.	-13%
Food and Beverages												
Anadolu Efes	23,570	27,846	-9%	-6%	3,489	4,620	-16%	-7%	628	805	-29%	-32%
Coca Cola Icecek	12,436	14,911	-8%	-5%	1,978	2,524	-12%	-8%	848	1,063	-3%	-8%
Ulker Biskuvi	9,147	10,178	3%	0%	1,559	1,700	6%	1%	802	973	-9%	-7%

Source: Bloomberg, Unlu Securities estimates

Stock performances (vs. BIST 100)

In the Turkish equity market, aviation, banks and apparel retailing have been the hardest hit by the coronavirus outbreak, while food retail, consumer staples or packed food companies, telecoms and health services have been the relative winners.

Figure 37: Share performances (relative to BIST 100) since February 19 (start of coronavirus-related sell-offs)



Source: Bloomberg, Unlu Securities estimates.

Stock performances (vs. int'l peers)

The share performances of Turkish stocks have mainly followed global moves, although Airliners, Beverages, Koza Group and Aselsan deviated significantly from their peer group's performances.

Figure 38: Share performances (relative to BIST 100) since February 19 (start of coronavirus-related sell-offs)

Name	Absolute Perf. since 19 February	Relative Performance
Msci World Bank Index	**-36%**	
Akbank T.A.S.	-39%	-5%
Turkiye Garanti Bankasi	-40%	-7%
Turkiye Halk Bankasi	-35%	1%
Turkiye Is Bankasi-C	-39%	-5%
Turkiye Sinai Kalkinma Bank	-33%	4%
Turkiye Vakiflar Bankasi	-37%	-3%
Yapi Ve Kredi Bankasi	-33%	4%
Msci Wd Telecom Services	**-14%**	
Turk Telekomunikasyon As	-29%	-17%
Turkcell Iletisim Hizmet As	-23%	-10%
Msci World Construction	**-26%**	
Enka Insaat Ve Sanayi As	-20%	8%
Tekfen Holding As	-37%	-15%
Msci Gold Miners	**18%**	
Koza Altin Isletmeleri As	-23%	-35%
Koza Anadolu Metal Madencili	-14%	-27%
Peers	**-32%**	
Eregli Demir Ve Celik Fabrik	-22%	15%
Kardemir Karabuk Demir	-22%	15%
Peers	**-38%**	
Aygaz As	-28%	16%
Peers	**-26%**	
Petkim Petrokimya Holding As	-23%	4%
Peers	**-30%**	
Tupras-Turkiye Petrol Rafinerileri	-34%	-6%

Name	Absolute Perf. since 19 February	Relative Performance
Peers	**-14%**	
Bim Birlesik Magazalar As	-9%	5%
Bizim Toptan Satis Magazalar	15%	33%
Sok Marketler Ticaret As	1%	17%
Migros Ticaret A.S	5%	21%
Msci World/Construct Materials	**-26%**	
Anadolu Cam Sanayii As	-14%	16%
Turk Sise Ve Cam Fabrikalari	-23%	4%
Soda Sanayii	-23%	4%
Trakya Cam Sanayii As	-26%	0%
Msci World/Airlines	**-55%**	
Pegasus Hava Tasimaciligi As	-37%	40%
Turk Hava Yollari Ao	-39%	36%
Peers	**-33%**	
Tav Havalimanlari Holding As	-38%	-9%
Msci World Bvrg&Tabc Inx	**-14%**	
Anadolu Efes Biracilik	-40%	-30%
Coca-Cola Icecek As	-33%	-22%
Ulker Biskuvi Sanayi	-15%	-2%
Msci World/Household Durables	**-22%**	
Arcelik As	-34%	-16%
Msci World/Automobiles	**-21%**	
Dogus Otomotiv Servis	-29%	-9%
Ford Otomotiv Sanayi As	-36%	-18%
Tofas Turk Otomobil Fabrikası	-30%	-10%
Turk Traktor Ve Ziraat Makineleri	-17%	5%
Msci World/Aero & Defense	**-39%**	
Aselsan Elektronik Sanayi	-23%	27%

Source: Bloomberg, Unlu Securities estimates.

Balance Sheet Impact:

Top beneficiaries:
SODA, SISE, ASELS, EREGL, SAHOL

Top losers:
TUPRS, KCHOL, TTKOM, KRDMD, THYAO

FX sensitivity of non-banks

With the recent rise in the volatility of the TL (TL has weakened by ~10% against the basket of EUR/USD), we have looked into the sensitivities of the non-bank companies under our coverage. The volatility in FX impacts the earnings of companies through two different channels, namely:

i) FX gains/losses (mostly non-cash in nature) stemming from short FX positions on their balance sheets; and

ii) the operational impact stemming from currency mismatches between revenues and costs.

Assessing which of the above channels is more important for stock performances is a topic of debate. Long-term investors put more emphasis on the operational impact. Having said that, it's worth noting that despite being mostly non-cash in nature, recent experience suggests that the balance sheet impact of FX volatility has become more important for short-term stock performances, as balance sheet-related FX gains/losses are recorded market-to-market, while the operational impact is realised over the course of the year.

Below we have ranked the companies based on their sensitivities, under a scenario in which TL depreciates by 10% against hard currencies.

i) Balance sheet impact: FX gains/(losses) recorded if TL depreciates by 10% against other currencies.

Figure 39: B/S impact: FX gains/(losses) recorded if TL depreciates by 10%

Company Name	Ticker	FX gain (loss) if TL depreciates by 10%	FX gain or (loss) / EBITDA (2020)	FX gain (loss) / Mcap
Soda Sanayii	SODA	367	28.9%	7%
Sise Cam	SISE	318	7.8%	3%
Aselsan	ASELS	281	6.7%	1%
Eregli Demir Celik	EREGL	229	5.6%	1%
Sabanci Holding	SAHOL	164	1.8%	1%
Tekfen Holding	TKFEN	121	12.6%	3%
Koza Anadolu Metal	KOZAA	71	3.4%	1%
Koza Altin Isletmeleri	KOZAL	71	3.4%	1%
Ulker	ULKER	46	3.0%	1%
Tofas Otomobil Fab.	TOASO	44	1.6%	0%
Trakya Cam	TRKCM	41	4.3%	1%
Turkcell	TCELL	38	0.3%	0%
Anadolu Cam	ANACM	14	1.2%	0%
Dogus Otomotiv	DOAS	2	0.3%	0%
Bizim Toptan Satis Magaza	BIZIM	0	0.0%	0%
Sok Marketler Ticaret	SOKM	(1)	-0.1%	0%
Bim Birlesik Magazalar	BIMAS	(5)	-0.1%	0%
Ford Otosan	FROTO	(11)	-0.4%	0%
Turk Traktor	TTRAK	(15)	-3.1%	0%
Tav Havalimanlari	TAVHL	(16)	-10.6%	0%
Aygaz	AYGAZ	(16)	-5.9%	-1%
Enka Insaat	ENKAI	(19)	-0.9%	0%
Arcelik	ARCLK	(32)	-1.1%	0%
Pegasus Hava Tasimaciligi	PGSUS	(32)	-2.9%	-1%
Petkim	PETKM	(118)	-6.4%	-2%
Coca Cola Icecek	CCOLA	(132)	-6.7%	-1%
Migros	MGROS	(163)	-7.0%	-3%
Anadolu Efes Biracilik	AEFES	(204)	-5.8%	-2%
Turk Hava Yollari	THYAO	(247)	-5.8%	-2%
Kardemir (D)	KRDMD	(363)	-83.8%	-19%
Turk Telekom	TTKOM	(455)	-3.7%	-2%
Koc Holding	KCHOL	(894)	-8.4%	-2%
Tupras	TUPRS	(963)	-26.6%	-5%

Source: Company data, Unlu Securities

Operational Impact:

Top beneficiaries:
TUPRS, THYAO, SISE, KRDMD, PGSUS

Top losers:
DOAS, TTRAK

ii) Operational impact: rise in EBITDA if TL depreciates by 10%.

From an operational perspective, the Turkish companies under our coverage predominantly benefit from TL weakness. For the operational impact analysis, we have assumed that companies do not have pricing power and do not reflect the cost increases into their domestic prices. Owing to this assumption, DOAS appears to be significantly impacted by TL weakness.

Figure 40: Operational impact – rise in EBITDA if TL depreciates by 10%

Company Name	Ticker	FX Revenues / Total revenues	FX Costs / Total Cash	Additional EBITDA if TL depreciates by	Impact of 10% deval on EBITDA	Additional EBITDA / Mcap
Turk Hava Yollari	THYAO	89%	73%	961	22%	7%
Kardemir (D)	KRDMD	85%	70%	133	31%	7%
Pegasus Hava Tasima	PGSUS	74%	77%	69	6%	1%
Tupras	TUPRS	91%	83%	877	24%	4%
Sise Cam	SISE	71%	62%	431	11%	4%
Soda Sanayii	SODA	93%	53%	258	20%	5%
Tav Havalimanlari	TAVHL	77%	48%	150	14%	2%
Eregli Demir Celik	EREGL	98%	80%	791	19%	3%
Petkim	PETKM	89%	79%	266	14%	3%
Arcelik	ARCLK	68%	65%	268	10%	3%
Tekfen Holding	TKFEN	75%	70%	135	14%	3%
Koza Altin Isletmelei	KOZAL	100%	60%	253	12%	2%
Koza Anadolu Metal	KOZAA	100%	60%	256	12%	3%
Koc Holding	KCHOL	75%	75%	932	8%	2%
Anadolu Cam	ANACM	57%	61%	52	4%	2%
Tofas Otomobil Fab.	TOASO	70%	70%	191	7%	2%
Anadolu Efes Biracilil	AEFES	71%	75%	167	5%	2%
Ford Otosan	FROTO	85%	85%	244	9%	1%
Sabanci Holding	SAHOL	35%	40%	321	3%	2%
Aygaz	AYGAZ	90%	89%	35	13%	1%
Trakya Cam	TRKCM	69%	75%	31	3%	1%
Aselsan	ASELS	78%	35%	421	10%	1%
Enka Insaat	ENKAI	65%	65%	146	6%	0%
Ulker	ULKER	39%	43%	30	2%	0%
Coca Cola Icecek	CCOLA	53%	60%	32	2%	0%
Migros	MGROS	3%	3%	6	0%	0%
Bim Birlesik Magazal:	BIMAS	0%	0%	-	0%	0%
Bizim Toptan Satis M	BIZIM	0%	0%	-	0%	0%
Sok Marketler Ticare	SOKM	0%	0%	-	0%	0%
Turk Telekom	TTKOM	5%	10%	-11	0%	0%
Turkcell	TCELL	5%	10%	-24	0%	0%
Turk Traktor	TTRAK	57%	69%	-17	-3%	-1%
Dogus Otomotiv	DOAS	25%	90%	-764	-106%	-38%

Source: Company data, Unlu Securities

Total Impact: Including Operational and B/S Impacts

Top beneficiaries:
EREGL, SODA, SISE, THYAO, ASELS

Top losers:
DOAS, KRDMD, MGROS, TTKOM, CCOLA

iii) Total impact: including both operational and balance sheet impacts

Figure 41: Total impact – including both operational and balance sheet impacts

TLm	Tickers	Total Impact of 10% deval (TLm)	Additional EBITDA if TL depreciates by 10%	FX gain (loss) if TL depreciates by 10%	Total Impact / Net Income (2019)	Total Impact / Market Cap
Eregli Demir Celik	EREGL	1,020	791	229	31%	4%
Sise Cam	SISE	749	431	318	39%	7%
Turk Hava Yollari	THYAO	714	961	-247	16%	5%
Aselsan	ASELS	702	421	281	21%	2%
Soda Sanayii	SODA	624	258	367	56%	11%
Sabanci Holding	SAHOL	485	321	164	13%	3%
Koza Anadolu Metal	KOZAA	327	256	71	41%	4%
Koza Altin Isletmeleri	KOZAL	324	253	71	18%	3%
Tekfen Holding	TKFEN	256	135	121	18%	5%
Arcelik	ARCLK	236	268	-32	26%	2%
Tofas Otomobil Fab.	TOASO	235	191	44	16%	2%
Ford Otosan	FROTO	233	244	-11	12%	1%
Petkim	PETKM	147	266	-118	18%	2%
Tav Havalimanlari	TAVHL	134	150	-16	6%	2%
Enka Insaat	ENKAI	126	146	-19	3%	0%
Ulker	ULKER	76	30	46	8%	1%
Trakya Cam	TRKCM	71	31	41	10%	2%
Anadolu Cam	ANACM	66	52	14	13%	2%
Koc Holding	KCHOL	38	932	-894	1%	0%
Pegasus Hava Tasimaciligi	PGSUS	37	69	-32	3%	1%
Aygaz	AYGAZ	19	35	-16	7%	1%
Turkcell	TCELL	14	-24	38	0%	0%
Bizim Toptan Satis Magazalari	BIZIM	0	0	0	0%	0%
Sok Marketler Ticaret	SOKM	-1	0	-1	0%	0%
Bim Birlesik Magazalar	BIMAS	-5	0	-5	0%	0%
Turk Traktor	TTRAK	-31	-17	-15	-28%	-1%
Anadolu Efes Biracilik	AEFES	-36	167	-204	-4%	0%
Tupras	TUPRS	-86	877	-963	-16%	0%
Coca Cola Icecek	CCOLA	-100	32	-132	-10%	-1%
Migros	MGROS	-157	6	-163	32%	-3%
Kardemir (D)	KRDMD	-230	133	-363	-416%	-12%
Turk Telekom	TTKOM	-466	-11	-455	-19%	-2%
Dogus Otomotiv	DOAS	-761	-764	2	-1005%	-38%

Source: Company data, Unlu Securities

Debt service outlook for companies under our coverage

The Turkish companies under our coverage appear to have strong balance sheets and should be able to overcome the current challenges. When we analysed the companies based on their end-2019 financials, out of 31 companies under our non-bank coverage, only 5 of them had cash positions lower than their short-term debt obligations for the next 12 months.

Figure 42: Debt service outlook for the companies under our coverage

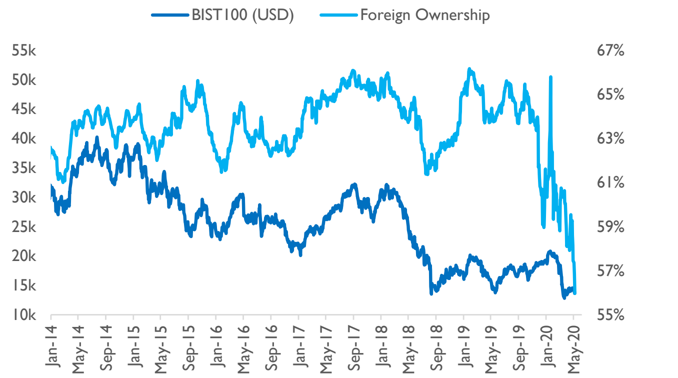
TLm				Debt maturity Schedule								
Company Name	Ticker	Mcap	Cash & equivalents	Next 1y	>1 year	Total	Net cash	EBITDA - last 12m	Cash / Short Term debt	(Cash + EBITDA) / ST Debt	Net Cash/ Mcap	Net Debt / EBITDA
Enka Insaat	ENKAI	31,050	22,000	311	928	1,239	20,761	2,386	70.8x	78.4	0.7x	-8.7x
Koza Anadolu Metal	KOZAA	4,444	4,713	4	1	4	4,709	1,811	1207.9x	1672.0	1.1x	-2.6x
Koza Altin Isletmeleri	KOZAL	11,079	4,455	4	1	4	4,451	1,823	1141.7x	1608.9	0.4x	-2.4x
Bizim Toptan Satis Magazalari	BIZIM	762	406	6	3	9	397	198	67.6x	100.6	0.5x	-2.0x
Tekfen Holding	TKFEN	4,788	4,022	439	302	741	3,281	1,081	9.2x	11.6	0.7x	-3.0x
Bim Birlesik Magazalar	BIMAS	30,967	1,696	47	-	47	1,649	2,124	36.1x	81.3	0.1x	-0.8x
Soda Sanayii	SODA	5,590	2,898	869	1,341	2,210	688	1,127	3.3x	4.6	0.1x	-0.6x
Eregli Demir Celik	EREGL	28,175	13,007	5,896	2,223	8,119	4,888	4,718	2.2x	3.0	0.2x	-1.0x
Aselsan	ASELS	30,210	3,520	2,224	9	2,233	1,287	2,854	1.6x	2.9	0.0x	-0.5x
Sok Marketler Ticaret	SOKM	6,609	550	76	33	109	441	810	7.2x	17.9	0.1x	-0.5x
Tofas Otomobil Fab.	TOASO	9,810	2,797	2,276	3,363	5,639	- 2,842	2,470	1.2x	2.3	-0.3x	1.2x
Ulker	ULKER	7,668	5,040	5,717	712	6,429	- 1,389	1,388	0.9x	1.1	-0.2x	1.0x
Ford Otosan	FROTO	19,247	3,676	4,808	2,900	7,708	- 4,032	3,465	0.8x	1.5	-0.2x	1.2x
Turkcell	TCELL	29,480	9,902	5,535	13,965	19,500	- 9,597	11,321	1.8x	3.8	-0.3x	0.8x
Coca Cola Icecek	CCOLA	9,234	3,045	1,478	4,279	5,757	- 2,712	2,368	2.1x	3.7	-0.3x	1.1x
Anadolu Efes Biracilik	AEFES	10,089	5,791	2,956	8,651	11,607	- 5,816	3,716	2.0x	3.2	-0.6x	1.6x
Aygaz	AYGAZ	3,015	665	483	764	1,248	- 582	476	1.4x	2.4	-0.2x	1.2x
Tav Havalimanlari	TAVHL	6,285	5,984	5,090	4,525	9,615	- 3,631	2,057	1.2x	1.6	-0.6x	1.8x
Turk Telekom	TTKOM	24,080	4,946	6,409	14,374	20,783	- 15,837	11,090	0.8x	2.5	-0.7x	1.4x
Migros	MGROS	5,370	2,549	963	3,440	4,403	- 1,854	1,422	2.6x	4.1	-0.3x	1.3x
Turk Traktor	TTRAK	3,002	1,120	648	867	1,515	- 395	467	1.7x	2.4	-0.1x	0.8x
Pegasus Hava Tasimaciligi	PGSUS	5,243	4,187	2,295	8,461	10,756	- 6,568	3,632	1.8x	3.4	-1.3x	1.8x
Sise Cam	SISE	10,800	9,591	5,216	11,635	16,851	- 7,260	3,989	1.8x	2.6	-0.7x	1.8x
Trakya Cam	TRKCM	3,988	3,952	2,455	4,205	6,661	- 2,709	1,056	1.6x	2.0	-0.7x	2.6x
Tupras	TUPRS	21,273	10,652	5,178	13,898	19,076	- 8,424	3,807	2.1x	2.8	-0.4x	2.2x
Arcelik	ARCLK	10,406	7,827	6,210	9,885	16,095	- 8,268	3,301	1.3x	1.8	-0.8x	2.5x
Anadolu Cam	ANACM	3,038	1,171	853	2,755	3,608	- 2,437	1,159	1.4x	2.7	-0.8x	2.1x
Kardemir (D)	KRDMD	1,896	174	293	1,046	1,339	- 1,165	445	0.6x	2.1	-0.6x	2.6x
Petkim	PETKM	7,730	4,037	4,037	4,487	8,524	- 4,487	1,531	1.0x	1.4	-0.6x	2.9x
Dogus Otomotiv*	DOAS	2,017	648	2,202	236	2,438	- 1,790	595	0.3x	0.6	-0.9x	3.0x
Turk Hava Yollari	THYAO	14,628	14,705	18,450	60,976	79,426	- 64,721	11,993	0.8x	1.4	-4.4x	5.4x

Source: Company data, Unlu Securities

Significant foreign outflows so far in 2020

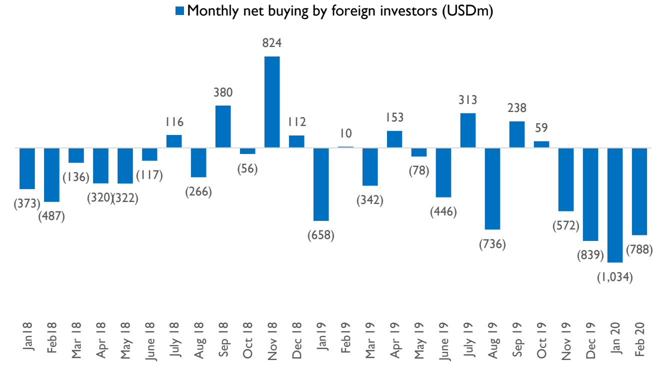
Outflows from Turkish equities have accelerated in 2020. Following a net outflow of USD550m in 2019 (2018: USD1,979m outflow), net outflows reached USD3,232m during the first four months of 2020. In net terms, the top stocks foreigners sold in 4M2020 were TUPRS, GARAN, YKBNK, AKBNK, while they bought ASELS, PETKM, BIZIM. Meanwhile, the share of foreign ownership has now declined to 56%, from about 62% at the beginning of the year.

Figure 43: BIST 100 vs. foreign ownership



Source: Bloomberg, Unlu Securities

Figure 44: Monthly net buying by foreign investors (USDm)



Source: Bloomberg, Unlu Securities

Figure 45: Foreign investors net purchases, (USDm), Ranked based on the net inflows in 4M2020

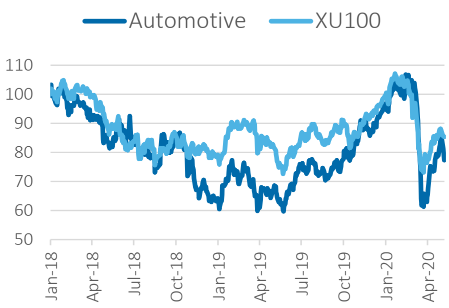
Tickers	May 19	June 19	July 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	2019 Net	4M 2020
ASELS	-16.25	-0.11	16.21	-33.99	34.57	-65.49	-8.01	42.96	-10.81	38.81	10.28	29.73	-31.56	68.02
PETKM	1.23	-16.75	-10.19	-67.90	3.00	7.21	-5.74	4.02	-6.07	-9.13	6.11	24.59	-175.48	15.50
DOAS	-0.48	-0.21	-1.37	-0.04	0.87	-1.01	8.63	-0.84	7.46	-1.78	-2.53	0.63	7.76	3.77
BIZIM	0.13	0.23	-0.13	-0.49	-0.20	-1.54	-1.79	2.18	-0.12	-0.42	-1.54	2.42	-2.85	0.34
TTRAK	1.94	1.64	3.60	1.34	1.44	0.89	1.30	-0.02	1.93	0.87	-2.98	-2.91	-4.72	-3.08
HALKB	-34.80	17.07	-12.71	-7.27	58.61	-76.69	4.53	14.49	31.22	-5.21	-14.86	-19.26	-88.06	-8.10
KOZAA	49.46	6.21	-16.94	35.86	-10.86	-7.53	11.13	-1.84	-8.25	15.82	-19.37	3.57	6.42	-8.22
AYGAZ	-0.25	-0.32	-1.88	-0.75	-1.30	0.10	0.46	-0.78	-5.48	-2.87	-1.72	1.49	-6.51	-8.57
ULKER	-6.15	-2.52	-3.90	-4.92	1.98	-4.21	9.96	-3.94	1.31	1.52	-5.20	-7.71	-7.11	-10.09
ANACM	-2.34	-1.03	0.32	-4.90	2.67	3.82	1.68	0.71	-4.02	4.04	-8.28	-1.87	-0.49	-10.12
CCOLA	-1.01	6.42	1.83	1.84	-0.11	-4.83	2.07	-1.51	3.69	-5.86	0.58	-10.11	13.10	-11.71
SODA	-8.30	-45.25	-22.31	-20.62	-0.87	-1.77	-6.26	-11.97	0.82	-0.68	-6.08	-7.76	-107.11	-13.70
AEFES	0.16	0.54	0.17	2.94	-4.22	-14.64	-4.76	-7.67	3.25	-0.46	0.81	-17.81	-26.56	-14.21
FROTO	-2.57	5.86	0.64	-3.52	-0.45	3.53	-7.00	-3.68	-3.81	1.11	-14.10	1.71	-17.29	-15.09
KRDMD	5.50	-2.22	-11.69	-7.07	10.10	3.65	27.74	9.88	-10.57	1.36	-10.25	1.06	-0.75	-18.40
SAHOL	-5.87	5.58	4.48	-3.99	-6.28	-33.38	-26.64	-3.88	-7.54	-11.86	10.15	-9.31	-36.47	-18.57
ENKAI	-0.63	1.17	2.45	-0.20	-5.50	-5.56	-4.51	-1.73	-5.21	-11.53	-6.10	-2.54	-18.26	-25.37
ARCLK	-1.53	6.85	-18.41	-6.98	14.24	-10.40	3.11	8.83	-7.45	17.86	-21.07	-15.05	41.91	-25.71
MGROS	-3.15	1.39	6.18	11.49	3.32	2.51	-25.73	0.73	-10.91	-5.17	-17.34	5.29	-17.48	-28.14
TSKB	-2.63	-1.47	0.16	7.94	8.66	-0.72	-2.08	-2.71	-0.07	-5.31	-16.80	-7.30	6.82	-29.48
TRKCM	-2.42	-4.37	-10.49	-10.22	1.51	-0.31	-1.10	7.23	0.22	-28.55	-2.96	-2.41	-6.60	-33.70
BIMAS	-26.88	-3.84	25.78	8.64	80.08	2.24	-23.50	3.40	13.63	-5.41	-17.27	-24.82	23.50	-33.88
TOASO	-3.89	3.58	-5.79	-8.96	-3.52	-1.36	5.20	-2.92	-16.80	-18.28	-11.32	-4.00	-7.21	-50.39
SOKM	0.06	0.40	1.34	1.66	0.04	-3.21	0.78	-0.09	-0.53	-9.44	-4.97	-39.45	2.45	-54.39
TTKOM	2.18	-2.16	6.63	-1.86	-8.26	-7.46	30.85	0.30	-4.20	9.15	-36.19	-23.90	121.69	-55.14
KOZAL	30.73	18.40	9.97	31.51	-17.50	18.24	12.08	-29.88	20.62	-20.19	-36.56	-24.50	38.26	-60.63
SISE	-13.03	-10.32	-9.23	-10.08	-3.84	-25.99	-50.77	-29.94	-8.42	-41.79	-1.82	-13.32	-132.26	-65.35
EREGL	-43.69	25.70	-20.74	-65.20	7.25	-38.57	60.36	-0.53	7.23	-24.20	-66.31	12.16	-84.71	-71.12
TKFEN	-1.58	4.68	-5.71	-9.21	-20.58	-27.70	-49.84	-14.79	-27.80	-43.47	8.77	-19.95	-124.08	-82.45
TAVHL	0.72	1.44	-6.34	-2.09	-4.29	6.32	-1.30	-9.60	-22.53	-19.75	-14.91	-39.06	-8.56	-96.24
TCELL	-10.00	6.86	-4.59	-4.13	-13.23	-7.16	7.14	-18.92	-6.12	-20.14	-45.36	-25.65	-42.70	-97.27
VAKBN	-11.31	12.32	22.99	-19.49	10.77	-55.90	28.36	14.44	10.35	-23.41	-45.36	-50.06	37.35	-108.48
KCHOL	-8.51	-0.14	3.45	-8.79	6.68	11.28	15.86	-4.94	-17.63	-35.93	-22.29	-36.62	36.88	-112.48
ISCTR	-21.16	42.80	2.81	-33.29	16.43	-30.38	5.79	-2.18	10.17	-27.66	-47.40	-49.90	48.27	-114.78
THYAO	-91.03	-4.62	-108.41	-76.33	44.70	-12.22	91.75	46.31	-126.26	12.59	-24.49	9.78	-319.42	-128.37
PGSUS	14.31	22.56	-0.07	32.61	-38.26	-1.74	7.26	10.16	-53.97	-14.21	-40.45	-51.38	83.54	-160.01
AKBNK	-15.06	19.30	37.29	-16.52	19.14	-135.66	52.50	8.74	-5.37	-49.90	-49.05	-72.08	41.63	-176.39
YKBNK	-26.94	31.48	27.43	-28.94	6.53	3.59	-13.53	-6.97	8.25	-153.24	-86.68	-28.94	95.70	-260.60
GARAN	-18.76	64.58	0.88	-59.55	39.85	-105.91	42.55	55.10	-25.95	-63.38	-71.38	-116.65	11.43	-277.36
TUPRS	-4.13	-71.43	47.51	-63.92	35.52	-60.58	-64.38	-31.14	-189.20	-70.45	-36.19	-6.09	-152.82	-301.94

Source: Unlu Securities analysis and estimates, BIST

Main sectors and stock preferences

Automotive

Auto sector index and BIST 100



Source: Rasyonet, Unlu Securities

Key recommendations

Companies	Rating	Current Price	Target Price	20e P/E	20e EV/EBITDA
DOAS	Hold	9.14	9.3	7.5	3.8
FROTO	Buy	55.50	75.6	12.1	7.6
TOASO	Buy	19.10	28.4	6.0	4.0
TTRAK	Buy	56.80	69	14.3	7.6

Source: Rasyonet, Unlu Securities

Assuming the domestic market to grow 8% in 2020. The Turkish auto market is likely to dip in 2Q20, but a sequential improvement is likely during the subsequent quarters. Following 41% y/y growth in the market in 1Q20, we assume 32% y/y contraction in 2Q. In 3Q and 4Q, however, we project 10% and 14% growth rates, respectively, supported by low interest rates and pent-up demand. This trajectory should lead us to a market size of 518K units in 2020, which is 8% above a year ago (our initial estimate was +26%). If our projection of a recovery in 2H does not hold, we think the government may announce a tax break or a scrap incentive to support the market, as the sector is one of the key industries of the economy. As for 2021, we project 35% growth in the market. Despite a strong recovery projection for 2021, we note that our market size forecast for 2021 (699k) implies that the market will remain substantially below the 10-year average of 811k.

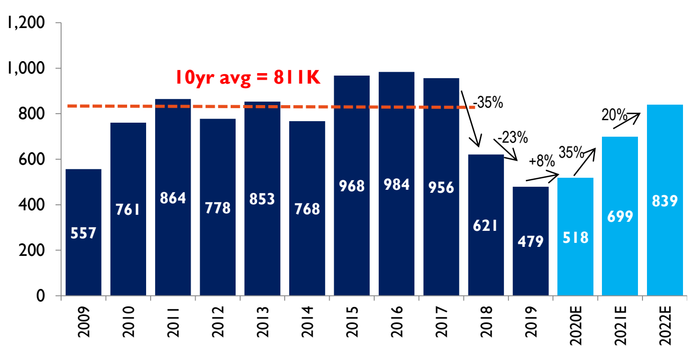
In 1Q20, importers gained significant market share at the expense of domestic manufacturers. However, during the rest of the year, affordability (owing to potential price increases as a result of the TL depreciation) and availability (production halts in Europe) may limit market share losses for domestic players.

A slump in export markets. Exports accounted for 87% and 72% of sales volumes for Ford Otosan and Tofas in 2019, and Europe was the main destination (83% and 96% of exports for Tofas and Ford, respectively). Given the negative impact of the pandemic, the European market is likely to contract substantially in 2020 (~25%). However, Turkish companies could see a sharper decline in exports due to potentially deeper contractions in UK and Italy, which are their main markets. The contraction is likely to have a more adverse impact on Ford Otosan than Tofas as the latter's exports are guaranteed by take-or-pay clauses. The substantial contraction in the European market may even lead to changes in the capex cycles and product pipeline timelines of Tofas and Ford Otosan. That said, given the importance of the sector for European economies, European governments may announce scrap incentives or some other form of incentives to support the recovery of the EU auto market once lockdowns are lifted in the region, and this could lead to a quicker recovery of the market, we believe.

Key recommendations

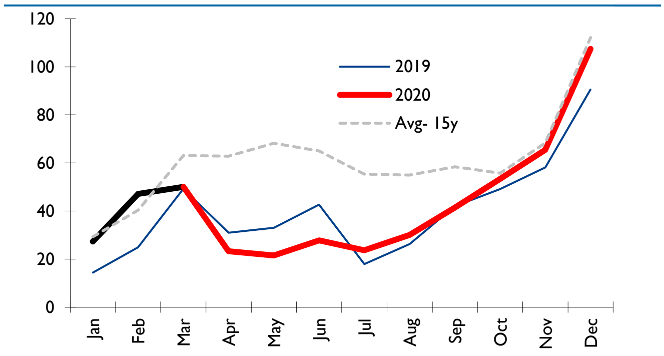
Within the auto sector, **Tofas (Buy)** is our top pick, thanks to its cheap valuation and the take or-pay clauses on its exports, which will protect the company's earnings stream while the EU auto market is going through an unprecedented downturn. We rate **Ford Otosan** as **Buy**, as the VW Ford Motor alliance, which could lead to capacity expansion at the Golcuk plant, improves the growth outlook significantly. We have a **Hold** rating on **Dogus Otomotiv**, as we see its valuation as full. Lastly, we maintain our **Buy** rating on **Turk Traktor**, owing to a potential upturn in demand and its improving cash generation and earnings profile in 2H20.

Figure 46: Domestic auto sales (PC+LCV) (000)



Source: ODD, Unlu Securities estimates

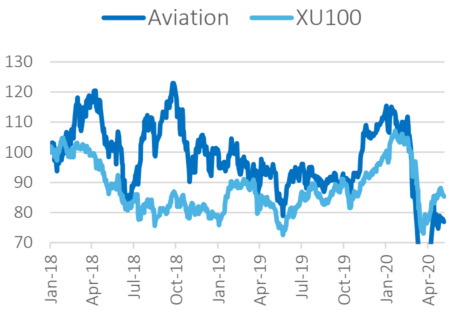
Figure 47: Monthly domestic auto sales (PC+LCV) (000)



Source: ODD, Unlu Securities estimates

Aviation

Aviation sector index and BIST100



Source: Rasyonet, Unlu Securities

We expect passenger traffic to drop by 57% in 2020. Aviation is the sector under our coverage that will be hardest hit by the pandemic. Flight suspensions started with China on January 31, were extended to European countries in mid-March and by the end of March almost all flights were suspended in Turkey. When we started the year, we were expecting an 8% rise in passenger traffic in 2020. However, with the recent developments, we now assume demand will contract by 57% y/y in 2020. More specifically, following a 19% contraction in 1Q, we project traffic will contract by 94%/63%/39%, respectively, in 2Q/3Q/4Q. We think given the scale of the crisis, a V-shaped recovery is unlikely and rather a U-shaped recovery is more probable. The sector could return to 2019 levels only by 2022.

The crisis came at a time when both THY and Pegasus were accelerating their capacity growth. Both THY and Pegasus were expected to accelerate their capacity growth in 2020. We were assuming the ASK growth of THY and Pegasus to be 9% and 12%, respectively. Turkish Airlines was projected to purchase 28 aircraft (14 wide bodies), out of a total fleet of 350 aircraft, at end-2019, while Pegasus was to purchase 16 aircraft (out of a total fleet size of 84) during the year. These deliveries, unless delayed with the consent of suppliers, are likely to further increase the debt burden of the companies and put further pressure on their load factors.

Relatively strong cash positions. Pegasus and Turkish Airlines have grounded almost all of their aircrafts. Under a closed skies scenario, we believe that THY and Pegasus have ample cash positions for ~six months and 12 months, respectively. However, even if they have ample cash for the coming quarters, they will be missing the summer season and therefore will have to wait for the summer of 2021 to strengthen their balance sheets.

Key recommendations

Companies	Rating	Current Price	Target Price	20e P/E	20e EV/EBITDA
PGSUS	Hold	51.00	45.4	nm	18.7
TAVHL	Buy	17.08	24.3	578.9	10.9
THYAO	Hold	10.62	9.7	nm	22.0

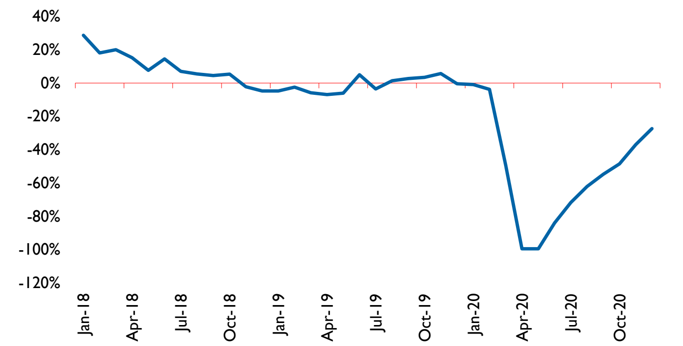
Source: Rasyonet, Unlu Securities

Valuations may remain under pressure. Even under a more positive scenario, where the industry sees a strong recovery in passenger demand and a return to pre-crisis levels by 2021, we believe that the risk of a virus resurgence may put pressure on valuations and that high leverage will create high volatility on stock prices.

Key recommendations

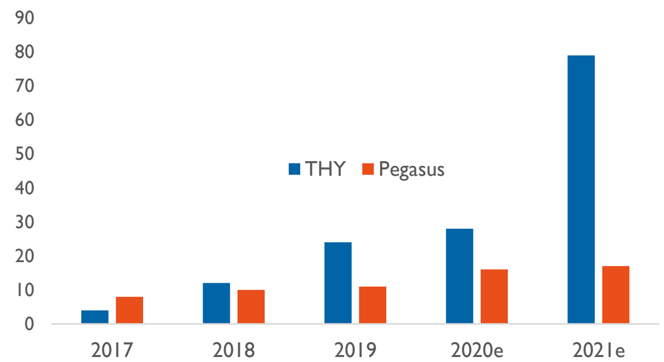
Our Top Pick within the sector is **TAV Airports**, as it is the best positioned for a closed skies scenario, thanks to its strong cash position. Its management was already stockpiling cash for the upcoming tenders (Kazakhstan-Almaty, Antalya and Montenegro), so it entered the crisis in a cash-rich position. In addition, TAV has force majeure clauses on its concession agreements and therefore could delay the rent expenses for its concessions. Lastly, its business model, which is labour-intensive, looks flexible enough to adapt to the new conditions, we believe.

Figure 48: Passenger traffic at Turkish airports (% y/y)



Source: DHMI, Unlu Securities estimates

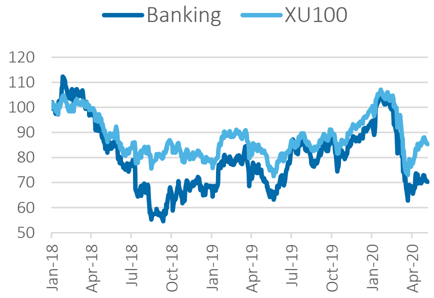
Figure 49: Pre-Covid-19 Fleet deliveries plan-THY vs. Pegasus



Source: Company data, Unlu Securities

Banking

Banks sector index and BIST 100



Source: Rasyonet, Unlu Securities

With the economic slowdown expected following the Covid-19 outbreak, we anticipate a sharp deterioration in the asset quality of the banks in our coverage. We have increased our net CoR estimate for 2020 by 65bps to reflect this. Yet even with our revised 2020 estimates, banks are trading at 0.41x P/B and 3.9x P/E, and at 49% and 47% discounts to the MSCI EM Banking index as the BIST banking index has underperformed the BIST 100 index by 10% since March 10.

We revise our EPS growth estimate for 2020 down to 19%. We foresee a 49bps expansion in swap-adjusted NIM, driven by the decline in funding costs. We have revised our net CoR forecast to 246bps from 181bps previously, indicating a 3bps rise compared with the previous year. With our revised numbers, we expect the average 20E RoE of the banks in our coverage to reach 11%, well below our CoE assumption of 23%. We foresee a further 15% EPS growth in 2021, aided by the normalisation in CoR expected in the second half of the year.

Key recommendations

Companies	Rating	Current Price	Target Price	20e P/E	20e P/B
AKBNK	Buy	5.58	7.9	4.6	0.49
GARAN	Buy	7.76	11.3	4.1	0.56
HALKB	Hold	5.36	6.2	2.4	0.20
ISCTR	Hold	4.87	5.8	3.9	0.35
TSKB	Buy	1.01	1.5	3.5	0.46
VAKBN	Buy	4.57	6.0	3.1	0.32
YKBNK	Buy	2.15	3.0	4.0	0.40

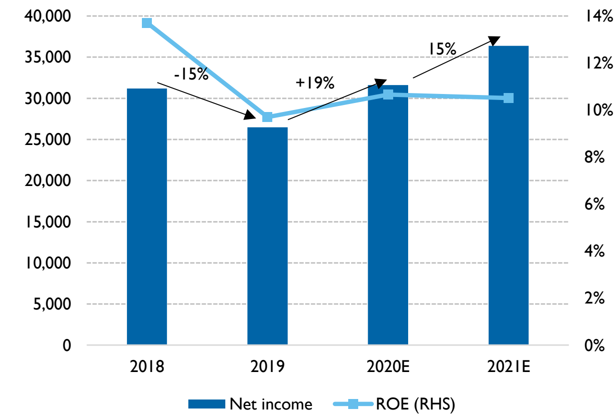
Source: Rasyonet, Unlu Securities

State banks leading the way in loan growth. Banking sector loans have grown by 17.0% ytd (TL: +18.5%, FX: -2.4% in USD terms) as of April 30 according to BRSA's weekly data, with a clear differentiation between state banks (+24.6%) and private local and foreign banks (+10.9%). State banks' loan originations gathered pace following the economic programmes announced to counter the economic impact of Covid-19, with m/m growth reaching 12.0% (as of Apr 30). On the other hand, private and local banks' monthly loan growth was a mere 2.4%.

We are not revising our 2020 loan growth forecast for the sector, though the composition will be more skewed more towards state banks. We forecast 16% total loan growth and 18% TL loan growth for the sector in 2020. We anticipate the average TL loan growth of state banks to reach 29%, while we forecast 12% average TL loan growth for the private banks in our coverage. We expect loan demand from corporates to increase due to cash flow problems, though we believe private banks will be more reluctant to meet this demand due to asset quality concerns. The new 'asset ratio' rule incentivises banks to lend, nevertheless we believe private banks will prefer to grow their security books or decrease their deposits to meet the 100% target, rather than increasing their loans significantly.

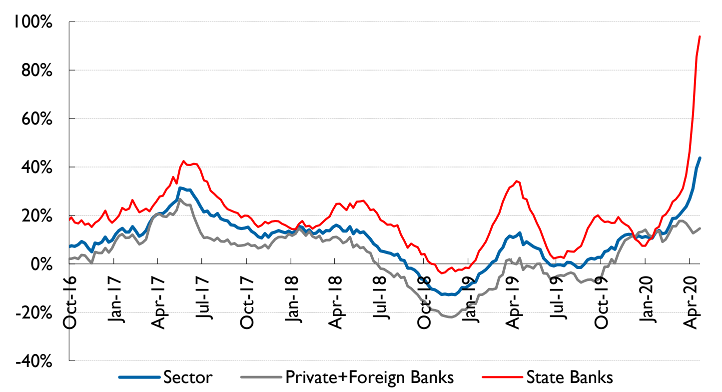
Fee regulation to hit fee income growth. We forecast the aggregate fee income of the banks in our coverage to decline 6% y/y in 2020 following the restrictions introduced with the new regulation. Banks were guiding for high single-digit fee income growth at the beginning of the year, though we anticipate revisions to this guidance due to the new regulation and the economic slowdown.

Figure 50: Total net income of the banks in our coverage



Source: Company data, Unlu Securities estimates

Figure 51: 13-week loan growth (annualised, FX-adjusted)



Source: CBRT, Unlu Securities calculations

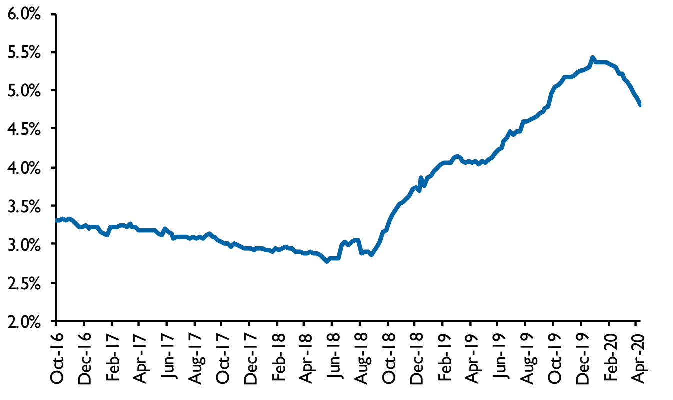
Liquidity provided by the CBRT will keep funding costs under control. We expect a 49bps increase in banks' average swap-adjusted NIM in 2020, with a 130bps expansion in the TL loan/deposit spread. We started the year on a high NIM level, thanks to the decline in deposit costs from 23% in Jun 2019 to 10% in Dec 2019. Deposit rates stabilized after January at ~9.4%, then fell to 8.2% with the introduction of asset ratio rule. We do not expect any further decline despite the CBRT's rate cuts as we believe demand for TL funding will rise with the higher TL loan growth this year. On the other hand, the CBRT has started to provide swap funding at attractive rates in addition to its repo funding as part of the economic plans to counter the impact of Covid-19. We anticipate that this should keep deposit rates under control in 1H20. TL commercial and consumer loan rates also came down, with current average rates at 9.2% and 10.6%, respectively, as of April 30. The average yield of TL loan books should continue to come down as they are repriced with lower rates and we believe the TL core spread had reached its peak in 1Q20 and will start to decline from 2Q. The new fee regulation, which capped the restructuring fees, is likely to accelerate the loan book repricing, weighing on the TL core spread in the coming quarters.

We foresee net CoR will remain high at 246bps in 2020, before falling to 154bps in 2021. The BRSA has extended the overdue period for classification to NPLs to 180 days from 90 days, and the overdue period for classification to stage two to 90 days from 30 days. These extensions will be valid until December 31, 2020. Banks may still reclassify the loans without waiting for the overdue period and we do not yet know what the NPL recognition of banks will be following the implementation of these forbearance rules. We assume the majority of NPL inflows will be delayed to 2021, though banks will increase their coverage ratios to create buffers ahead of a difficult 2021. We forecast net CoR will rise 3bps in 2020 compared with the previous year, increasing to 246bps, as we foresee an 8ppt increase in the NPL coverage ratio. In 2021, we anticipate a decline in stage two loans as they migrate into NPLs, resulting in lower stage two provisions, and despite the increase in the NPL ratio, we foresee a 92bps decline in net CoR. The NPL ratio of the banks in our coverage will rise to 6.8% in 2020 from 6.6% in 2019, before peaking at 8.1% in 1Q21, according to our forecasts.

Key recommendations

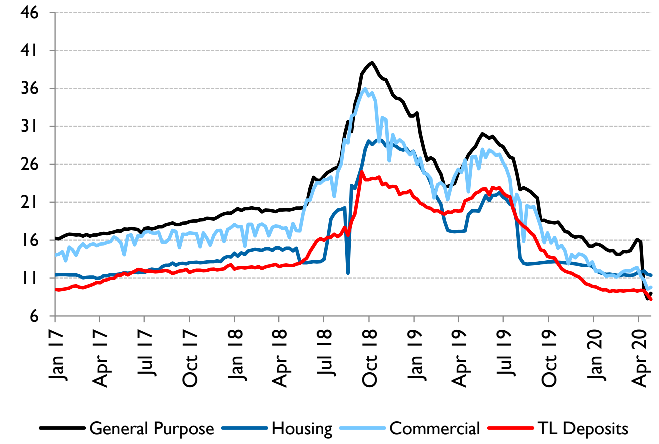
Our Top Picks among the banks are **Garanti** and **Yapi Kredi**. We also have Buy ratings on **Akbank**, **Vakifbank** and **TSKB**.

Figure 52: Banking sector NPL ratio



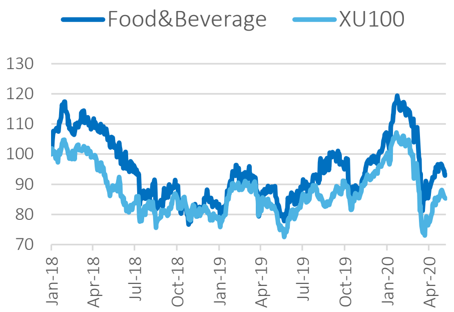
Source: BRSA, Unlu Securities calculations

Figure 53: TL interest rates



Source: CBRT

F&B sector index and BIST 100



Source: Rasyonet, Unlu Securities

Food and beverage

Ulker is a clear beneficiary of the increased demand for packaged food. The consumer rush for packaged foods during Covid-19 has spurred demand for confectionary products in all regions. Food and beverage companies have witnessed a shift from the traditional channel to the modern channel, resulting in a dramatic change in the mix of SKUs. We believe the recent buying spree should result in higher revenue generation for Ulker (UNLU: 16% revenue growth in 2020). Additionally, the higher TL-based international revenue growth on the weaker TL and the relatively defensive character of the confectionary business during downturns should further support revenue growth.

Beverage demand hit by missing on-premise revenues. The rise in off-premise sales (retail) is likely to have failed to offset the sharp decline in on-premise sales (hotels, cafés, etc., which form c.25% of sales volumes for CCI (30% including still and water categories and Anadolu Efes) since the second week of Mar 2020. Although the missing on-premise revenues have had a less significant effect on demand for international operations, the downswing in the oil price, the currency weakness and the deteriorating affordability will be unfavourable for demand, particularly in Russia, Kazakhstan, Pakistan and Azerbaijan in 2020. Note that both CCI and Anadolu Efes have withdrawn 2020 guidance with the 1q20 results. Anadolu Efes's management expects low-double-digit volume contraction in 2020.

No disruption in production is seen. Food and beverage companies have taken the necessary measures to secure enough raw material supplies and avoid any disruption to production. We expect Ulker to maintain the EBITDA margin level in 2020, owing to precautions taken in procurement and price fixing for some raw materials. Furthermore, the change in the revenue mix, with the lesser share of high-margin small-sized packages, will hurt the EBITDA margin of CCI, while a lower CUR in Anadolu Efes will dent profitability. Given favourable packaging and raw material costs, companies increasing procurement, which might create short-term increases in working capital requirements.

Key recommendations

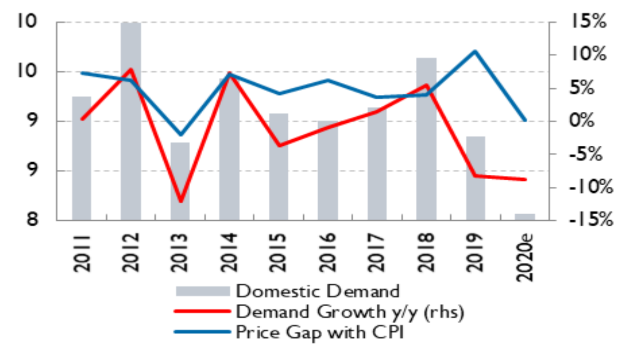
We maintain our positive view on **Ulker** (Buy, TP: TL30), given its sustainable growth trend, net long FX position and comparably lower leverage. We maintain a BUY on **Anadolu Efes** (TP: TL23), owing to its recent sharp underperformance vs. global brewers. However, we have recently downgraded our rating on **CCI** to HOLD due to its recent outperformance and deteriorating growth outlook.

Key recommendations

Companies	Rating	Current Price	Target Price	20e P/E	20e EV/EBITDA
AEFES	Buy	17.00	23.3	16.0	6.4
CCOLA	Hold	35.40	42	10.6	6.2
ULKER	Buy	22.22	30	9.5	5.5

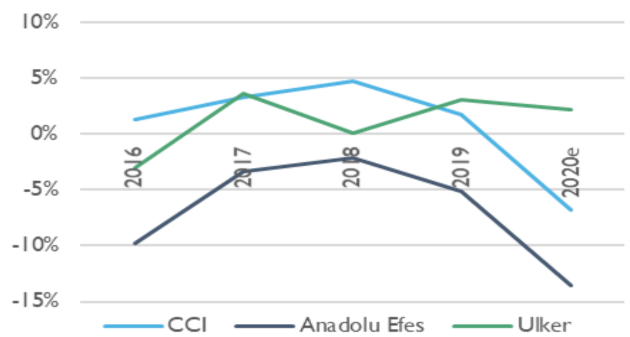
Source: Rasyonet, Unlu Securities

Figure 54: Turkey beer consumption (m hl) vs. pricing[1]



Source: TADB, Unlu Securities estimates. [1]Pricing is based on 50cc returnable bottle of Anadolu Efes

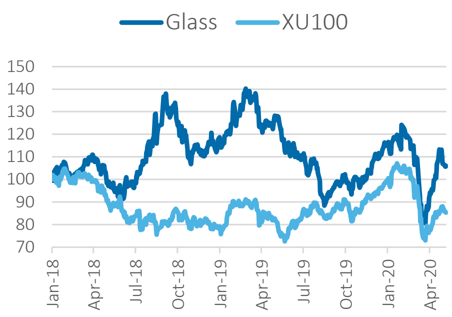
Figure 55: Volume growth (confectionary and beverage)[1]



Source: Company data and Unlu Securities estimates. [1]CCI volume growth assumption does not include the effect of the termination of the distribution of NRTD tea in 2020

Glass

Glass sector index and BIST 100



Source: Rasyonet, Unlu Securities

All eyes are on the prospective merger of Sisecam with its subsidiaries. Sisecam announced the prospective merger with its subsidiaries – Anadolu Cam, Denizli Cam, Pasabahce, Soda Sanayi and Trakya Cam – on January 30. Since then, the calculation of swap ratios and the new regulation on the calculation and use of exit rights (effective from February 25) have become more important than operational aspects for the investor community in the short term. We note that the final communique on the calculation methodology of the exit price and the merger/swap ratios is yet to be released. Sisecam applied to CMB for merger and announced on April 27, the swap ratios and exit rights based on the old CMB communique, however noted also that exit rights might change as per the new communique. The announced swap ratios to convert each share to Sisecam shares are 0.88x for Anadolu Cam, 1.16x for Soda Sanayi and 0.68x for Trakya Cam. Sisecam expects CMB approval to be received in the first half of July, plans to hold the AGM in the second half August and possibly complete the merger by the first half of September.

Gains in the chemicals segment should compensate for weaker operational performance in the flat glass segment in 2020. We expect a volume contraction in all divisions in 2020, with Trakya Cam being the most vulnerable to the downturns in the construction and automotive markets in Turkey and Europe. Anadolu Cam should remain more resilient, owing to its exposure to the food, beverage and pharmaceutical sectors. Soda Sanayi should deliver the highest growth among others, due to its hard currency-denominated revenues and favourable cost base, though we think volumes should contract on softer soda and chromium demand globally. All in all, we expect a moderate EBITDA growth in Sisecam, while our net earnings estimate for 2020 excludes tax income recorded in 2019.

Possible delays in capacity additions and earlier-than-planned cold repairs might be realised. We think the ramp-up in flat glass plants in Italy and Bulgaria will take longer due to weak demand and the temporary oversupply in Europe. We also believe that Sisecam might postpone the inauguration of its flat glass plant in Turkey, which was scheduled for completion by the end of 2020.

Key recommendations

Companies	Rating	Current Price	Target Price	20e P/E	20e EV/EBITDA
ANACM	Hold	3.97	4.85	6.3	4.7
SISE	Buy	4.76	6.4	6.1	5.1
SODA	Hold	5.54	6.5	4.0	3.7
TRKCM	Hold	3.15	3.8	7.1	5.6

Source: Rasyonet, Unlu Securities

Key recommendations

We **opt for Sisecam** in our coverage, given that the subsidiaries will be merged into Sisecam. We maintain our view that the merger should eventually result in an increased free float Mcap of more than USD1bn, as well as an increase in the liquidity and foreign ownership in free float for Sisecam. Sisecam, Anadolu Cam, Soda Sanayi and Trakya Cam will distribute dividends with 3-5% dividend yields on May 29.

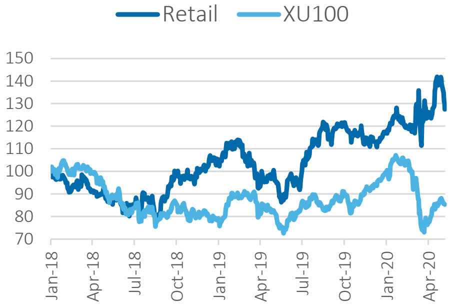
Figure 56: Scenario analysis on exit prices and swap rates associated with the merger of Sisecam Group

Exit Price (TL)	Old Communique[1] 30-day WAP	Draft Communique[1] Max. of 6M, 12M, 5-year WAP	Draft Communique[1] Value - Independent Valuation	Close Price 11.05.2020	Swap Ratios
ANACM	4.5	3.4	7.4	4.0	0.88
DENCM	8.9	6.4	2.7	7.4	0.33
SODA	6.4	6.4	9.3	5.5	1.16
SISE	5.3	5.2	8.0	4.8	n.m.
TRKCM	3.5	3.1	5.4	3.2	0.68

Source: Unlu Securities estimates. [1] WAP: Weighted average price. All figures are subject to the approval of CMB. The new draft communique released on Mar. 16 (law effective on Feb. 25) requires the calculation of exit rights based on the maximum of the 6M, 12M and 5-year weighted average prices before January 30, 2020 for Sisecam merger and per share values derived from the independent valuations. However, the final communique has not been released by the CMB and the calculation of exit rights might change.

Retail

Retail sector index and BIST 100



Source: Rasyonet, Unlu Securities

Among our coverage, food retailers have seen the most positive improvement in their operations since the outbreak of the Covid-19. The panic buying seen in the second half of March has waned, however, at-home consumption has kept sales momentum at retailers strong so far, as eating at schools, offices and restaurants is diverted to homes. Except for Bizim, as HoReCa (~13% of total revenues in 2019) has been hit hard by the outbreak, all other food retailers should see a significant acceleration in growth. The decline in LFL traffic trends due to curfews and the health concerns of customers have been more than compensated for by the dramatic increase in basket sizes. It appears to us that small formats have seen better traffic trends on the back of their proximity advantage, but large format players such as Migros have boosted sales through e-commerce.

Profit margins are on the rise as a result of operating leverage. Since the start of the outbreak, the higher sales of basic necessity products, which are low margin, have had a dilutive impact on margins. However, these are offset by high margin product sales (personal care, hygiene products), leading to stable gross margins for retailers. Despite a stable gross margin, higher LFL revenues are reducing operating expenses as a share of revenues and therefore, EBITDA margins improve.

Key recommendations

Companies	Rating	Current Price	Target Price	20e P/E	20e EV/EBITDA
BIMAS	Hold	51.00	59.3	18.8	6.9
BIZIM	Buy	12.70	15.2	19.9	1.9
SOKM	Buy	10.61	14.8	64.9	2.9
MGROS	Buy	31.60	39.8	nm	4.4

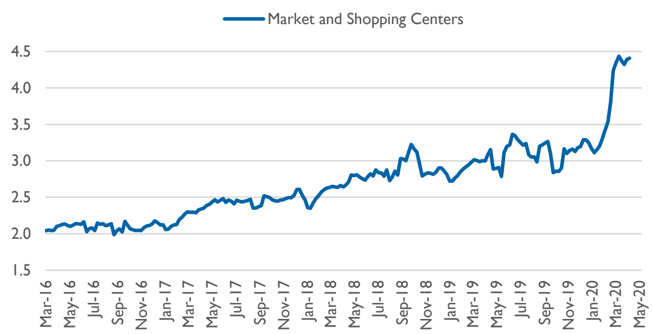
Source: Rasyonet, Unlu Securities

However, if economic conditions do not improve, food retailers are not immune to a protracted downturn in the economy. If the domestic economy does not recover as envisaged (we project a 2% GDP contraction in 2020), we think that food retailers may also see a downturn in their earnings, as consumers trade down to low-margin basic necessity products and become more price sensitive, and the government puts pressure on retailers to cut their prices.

Key recommendations

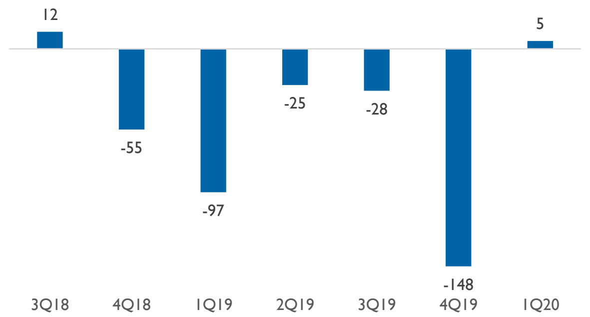
Within the food retail sector, we are more positive on **Migros** and **Sok**. We like **Migros**, because: 1) owing to the outbreak, the online channel will grow substantially and it will pay off for Migros, which is the undisputed leader in this space; 2) in May 2020, Migros sold some assets for TL219m, which will further reduce the net financial debt (TL1.9bn of net financial debt as of end Mar 2020); and 3) EUR-linked debt (though declined(and share overhang risks are the major headwinds for Migros, but trading at 2020E EV/EBITDA of 6.3x (five-year average of 10x), the stock still appears cheap and reflects those risks. As for **Sok**, we think 1) a positive bottom-line in 1Q (despite the fact that 1Q is seasonally the weakest) should lead to EPS upgrades and re-rating of shares, and the stock can recoup some of the lost ground vs. other food retailers. 2) Thanks to its hybrid format and young store network, Sok generates a superior traffic growth and offers a solid margin expansion outlook for the longer term. 3) We also note that Sok's superior traffic performance will be more critical once the Turkish market starts to show signs of saturation, an outcome we will most probably see over the next 3-4 years.

Figure 57: Credit card expenses on markets and shopping malls (% y/y)



Source: TurkStat, Unlu Securities estimates

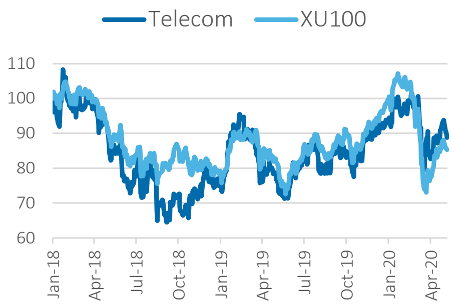
Figure 58: Sok quarterly Net Income* (TLm)



Source: Sok, Unlu Securities * 3Q18 and 4Q18 data does not include impact of IFRS-16 which normally hurts bottom-line

Telecom

Telecom sector index and BIST 100



Source: Rasyonet, Unlu Securities

Notable increase in data traffic since the second of half of March is observed, while network quality is maintained. Telecom operators realised a 30-35% increase in data traffic, particularly due to higher broadband usage since the second half of March. Free data is being provided for digital education platforms and the healthcare sector at the moment. We understand that the current network capacity can easily cope with the higher data usage and the Information and Communication Technologies Authority (ICTA) has given operators the flexibility to manage their networks if their internet capacity reaches its limit. We now expect slightly higher capital expenditures due to possibly higher investments in networks in major cities and TL volatility.

Sustained mobile ARPU growth in Turkcell and potentially higher broadband revenues in Turk Telekom should partially offset the contraction in the roaming and corporate segments. The change in the subscriber mix in favour of the more value-added post-paid segment (62% of total) and the increased use of digital services and fintech solutions are the primary elements of revenue growth for Turkcell. We expect Turk Telekom to benefit more from upselling trends in fixed broadband, given its relatively lower speed in packages vs. Turkcell. However, Turk Telekom's price cut in broadband packages at the end of March and free speed upgrade by Turkcell until May-end should limit upward price adjustments in the sector. As a further note, while the broadband subscriber base is growing, the contraction in the prepaid segment associated with the closure of some stores and the time limits set for working hours at some others should constrain growth in the mobile subscriber base.

Lower cost pressure and cost efficiency measures should help record EBITDA growth y/y, possibly to be seen also in 1Q20. We think the deferral of payments by SMEs (below 10% of revenues of Turkcell) and clients of consumer finance businesses might mean a 50-100bps additional working capital requirement for operators in 2020. We recall that net debt/EBITDA levels in 2019 were 0.9x for Turkcell and 1.4x for Turk Telekom.

Key recommendations

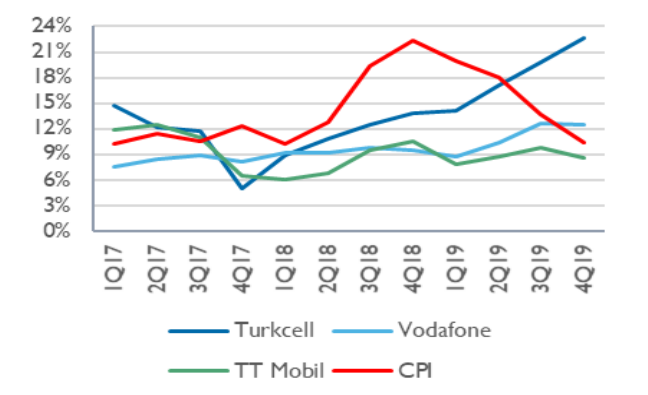
Companies	Rating	Current Price	Target Price	20e P/E	20e EV/EBITDA
TTKOM	Buy	7.05	8.5	8.3	3.3
TCELL	Buy	13.22	18	8.1	3.2

Source: Rasyonet, Unlu Securities

Key recommendations

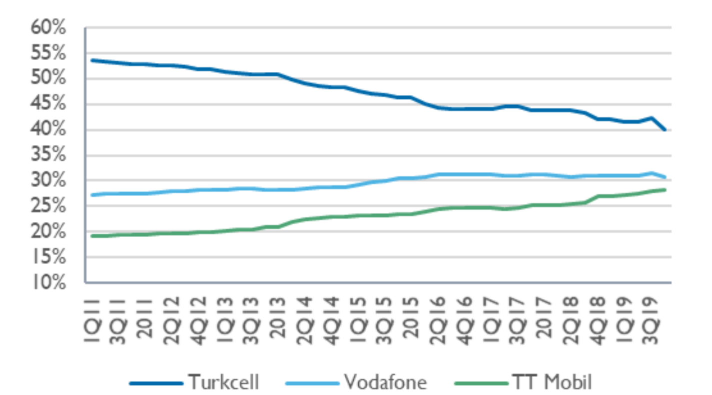
We still believe telco businesses should remain resilient, with double-digit 2020E earnings growth, in the current macro backdrop. **We prefer Turkcell over Turk Telekom, owing to the former's superior revenue growth, based on Unlu estimates, and its lower sensitivity to FX.** As per the draft law requiring a 25% dividend payout for corporates until Oct 2020, we have lowered our DPS estimates for 2020, implying 2-3% dividend yields.

Figure 59: Mobile ARPU growth vs. CPI



Source: ICTA and, Unlu Securities estimates

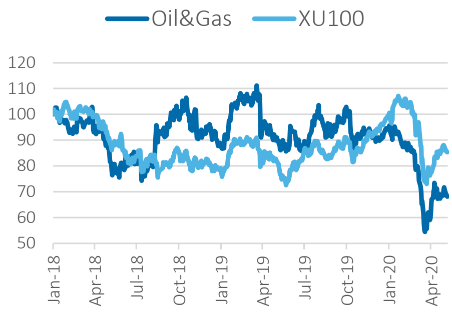
Figure 60: Mobile subscriber market shares



Source: ICTA

Oil & Gas

Oil & gas sector index and BIST 100



Source: Rasyonet, Unlu Securities

Turkey is dependent on external sources of crude oil (from Iraq, Russia, etc.) and natural gas (from Russia, Iran, Azerbaijan, etc.) as its domestic reserves are significantly lower than its consumption. Turkey continues to be a net importer of diesel and LPG and a net exporter of gasoline, which creates a trade imbalance. Turkish oil products are heavily taxed and, as a result, pump prices are among the highest in the world. On the refining front, STAR Refinery (10m tonnes p.a. refining capacity, mainly focusing on supplying naphtha and LPG to Petkim) entered the Turkish refining scene in 2019, alongside long-standing Tupras (28.1m tonnes p.a. refining capacity). Tupras enjoys higher refining margins than the benchmark Med Complex due to the pricing formula tied to the Med Basin and its proximity to significant crude sources. The completion of the RUP as of 2Q15 helped Tupras solidify its margin premium vs. its peers due to its higher complexity, as well as its higher diesel and jet fuel output, despite the significant headwinds in global refining margins that stem mainly from overcapacity and lacklustre demand. Petkim remains the only petrochemical producer in Turkey, with a naphtha-based production layout that is poised to benefit from lower feedstock costs with the completion of the ramp-up process of STAR. Aygaz continues to be the leading LPG distributor.

Subdued demand, elevated global refined product inventories and inventory losses are likely to put pressure on the 2020 refining environment. Tupras has revised down its FY20 guidance due to the adverse impact of Covid-19 on crude and refined product demand, price and margins. The revised guidance assumes the unfavourable operating environment will start improving from June, with economic activity set to normalise from August. The key highlights of the revised FY20 guidance are: 1) Med Complex ref. margin (mid-point) cut by USD0.5/bbl. to USD1.5/bbl. (vs. USD1.7/bbl. in FY19A); 2) Tupras' net refining margin (mid-point) cut by USD1.5/bbl. to USD3.5/bbl. (vs. USD3.7/bbl. in FY19A); 3) production cut by 4.0m bbl. to 24.0m tonnes (vs. 28.2m tonnes in FY19A); 4) sales cut by 4.0m tonnes to 25.0m tonnes (vs. 30.0m tonnes in FY19A); and 5) refining capex cut by USD75m to USD125m (vs. USD140m in FY19A). The downward revision in Tupras' FY20 CURs and margins (similar to regional refiners) adjusts Tupras' previous guidance to the prevailing market conditions, suggesting a gradual recovery in 2H20 following an exceptionally weak 1H20 performance, thus is plausible in our view. Inventory losses stemming from the weakness in crude oil and other products are likely to be partially countered by the widening in crude oil differentials, depending on the price point that crude oil prices stabilise at amid the recent heightened volatility.

Key recommendations

Companies	Rating	Current Price	Target Price	20e P/E	20e EV/EBITDA
AYGAZ	Hold	9.95	10.99	15.7	6.2
PETKM	Buy	3.74	4.87	6.6	8.1
TUPRS	Buy	84.80	120.1	34.8	9.8

Source: Rasyonet, Unlu Securities

Benefits of lower naphtha costs are partially balanced by pressure on petrochemical product prices. The key underlying trends regarding Petkim are: 1) polymers and LDPE demand have been strong in Turkey, driven by strong demand for packaging, coupled with lower pressure from imports due to producers' concerns on logistics. Segmental margins are better than other product groups thanks to better pricing and lower naphtha costs; 2) significant weakness in the aromatics margin is observed, which could lead to a revision in the segment's CUR; 3) both Petkim and STAR are operating close to 100% as of April, with STAR having diverted its jet fuel production to diesel and other products. Petkim's light naphtha needs are close to fully met by STAR; 4) broad consolidated EBITDA guidance of USD150m to USD175m in 2020, which implies a c.40% y/y decline at the mid-range of USD163m. On FY20E USD/TL of TL6.46, the mid-range of the guidance implies TL1.05bn, c.14% lower than recent Bloomberg estimates. Petkim management expects the operating environment to start normalising by the end of May, but a slower-than-expected pace of normalisation could lead its operating profitability to the lower end of its guidance. Net/net, while lower input costs are an important underlying trend, the overcapacity in the region curbs their passthrough to consolidated profitability.

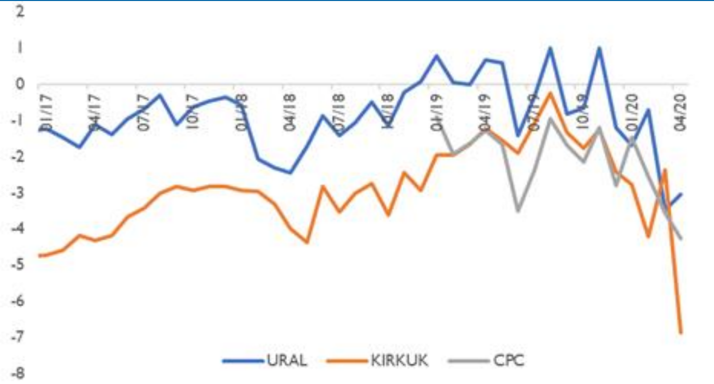
Key recommendations

We have **Buy** recommendations for **Tupras** and **Petkim**, and a **Hold** rating for **Aygaz**. Our long-term conviction regarding **Tupras** remains based on: 1) its superior EBITDA and net income growth, principally driven by the crack recovery, the normalisation in product yields (fuel oil yield down 2.5pps y/y to 6.5% in FY20E); 2) the strength of Tupras' FCF yield, averaging c.11% over FY20E-FY22E; 3) lack of planned significant maintenance activity, at least until 2022, should improve its CUR and yield visibility into 2021. While we maintain our positive stance on **Aygaz**, the limited upside, coupled with the relative normalisation in Entek's strong performance given the normalisation in hydrology, led us to downgrade the company to a Hold in Nov19. Though we recognise there are sizeable near-term headwinds, we retain our positive L/T view on **Petkim** due to its undemanding valuation, the increasing synergies stemming from the STAR refinery and the beneficial input cost conditions.

Figure 61: Quarterly Med margin, cracks and differentials (USD/bbl)

Source: Bloomberg Finance L.P.

Figure 62: Discount of various crudes vs. Brent (USD/bbl)

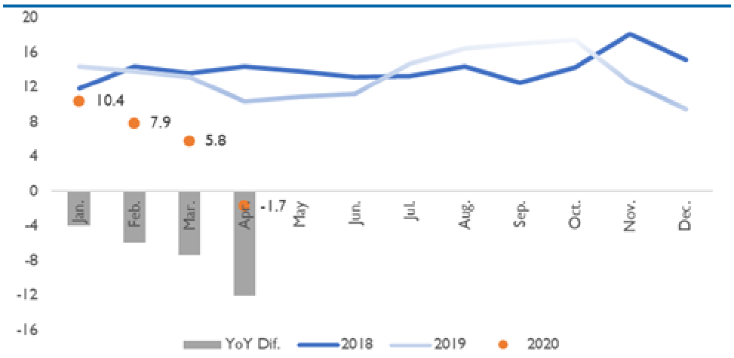


Source: Bloomberg Finance L.P.

Figure 63: Med Complex refining margin (USD/bbl) progression

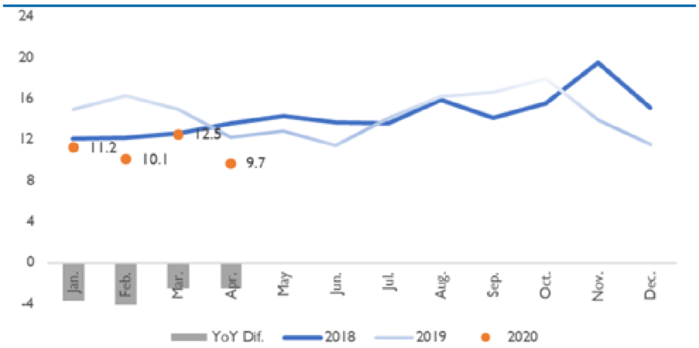
Source: Bloomberg Finance L.P.

Figure 64: Jet fuel crack (USD/bbl) progression



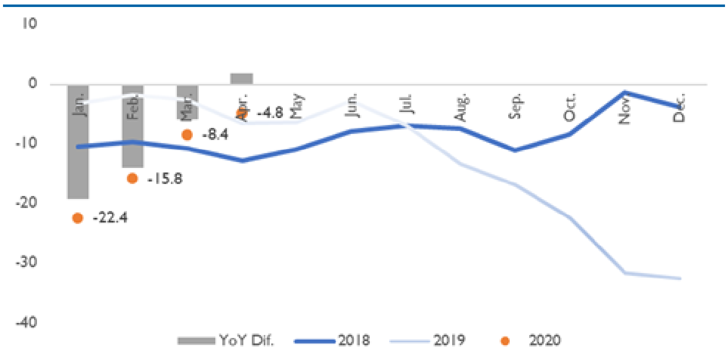
Source: Bloomberg Finance L.P.

Figure 65: Diesel crack (USD/bbl) progression (vs. Brent)



Source: Bloomberg Finance L.P.

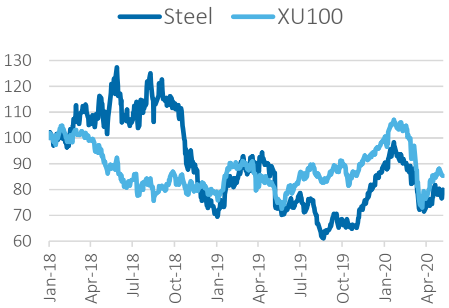
Figure 66: Fuel oil crack (USD/bbl) progression



Source: Bloomberg Finance L.P.

Steel

Steel sector index and BIST 100



Source: Rasyonet, Unlu Securities

Demand shock is likely to linger throughout 2020, with potential recovery to be observed in late 2020. In the aftermath of the Covid-19 outbreak steel consuming sectors, particularly cyclicals, were hit hard, leading to a demand shock that is likely to linger throughout 2020, albeit at a lower pace depending on the pace of normalisation in industrial activity. The industry has primarily responded to the demand shock through temporarily lowering its production and idling various plants, particularly in Europe. The supply cuts had partially curtailed a more dramatic decline in steel product prices, which YTD are down 8% to 16% across various product groups. We expect the pace of demand normalisation to be uneven globally, with Europe to be one of the laggards vs. other regions. Accordingly, the hopes of demand and product price improvements in early 2020 that had begun to take root in late 2019 have been short-lived, implying the potential EBITDA/tonne and volume recovery is likely to start in late 2020, as the impact of loose monetary policies takes hold and steel demand gradually normalises.

EBITDA/tonne to remain subdued until late 2020, with relatively low visibility on the pace of recovery. EBITDA/tonne peaked at USD223/t in 3Q18 and has been on a declining trend since due to a decline in steel prices amid slowing demand, a rise in raw material costs and the relatively milder pace of TL depreciation vs. the USD. The sequential recovery observed in 1Q20, led by a partial easing in input costs, is likely to be short-lived as the pressure on volumes and product pricing related to the demand headwinds stemming from the Covid-19 outbreak are likely to weigh on the 2Q and 3Q. Thus, we expect the profitability metrics of BoF steelmakers to start recovering in late 2020, at a moderate pace.

Key recommendations

Companies	Rating	Current Price	Target Price	20e P/E	20e EV/EBITDA
EREGL	Buy	7.91	10.6	14.9	7.6
KRDMD	Hold	2.35	2.614	-8.8	12.2

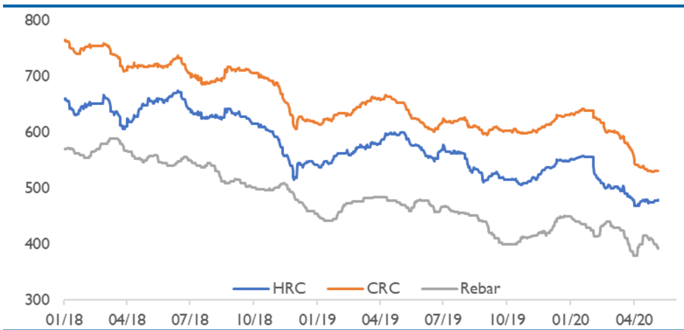
Source: Rasyonet, Unlu Securities

A potential normalisation in iron ore prices could provide partial margin relief in 2H20. Tight supply (partially due to disruptions in Brazil and Australia), strong demand (led by China's stimulus efforts and the demand for higher grade iron ore due to environmental issues) and speculative trading activity contributed to the strength in iron ore prices in 2019. While a dramatic correction has not been observed, given the expected normalisation in iron ore production and supply chains, the broad market expectation is for a decline in iron ore prices in 2020. This would benefit Turkish steelmakers as they import a considerable portion of their ore consumption. That said, the visibility on the product price trajectory on flat and long products, along with the degree of normalisation in underlying costs, remains relatively uncertain due to the volatility and headwinds in demand.

Key recommendations

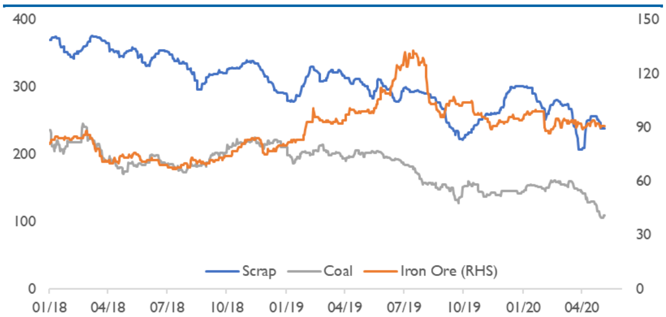
We have a **Buy** rating for **Erdemir** and a **Hold** rating for **Kardemir**. Despite the looming capex cycle (albeit at a lower magnitude vs. original expectations), due to its relatively defensive nature, stronger balance sheet and the benefits of operating in deficit product groups, we prefer Erdemir over Kardemir at this stage. The recent improvement in long steel prices have provided support for Kardemir shares, the sustainability of which is debatable, in our view.

Figure 67: Product price progression (USD/tonne)



Source: Bloomberg Finance L.P.

Figure 68: Raw material price progression (USD/tonne)



Source: Bloomberg Finance L.P.

Top Picks

12 May 2020

Yapi Kredi

Multiples do not reflect converging operational performance

With the sale of 12% stake by UniCredit completed, we believe the overhang on Yapi Kredi shares are now lifted. Yapi Kredi's RoE (20E: 11%) has converged to private peers. The bank's total coverage ratio (7.3%) was the highest of the private banks in our coverage, indicating a more conservative approach and should provide a buffer in case of further deterioration in asset quality. Yapi Kredi's capital ratios, which used to be a concern for investors, are now at relatively strong levels (CAR: 15.8%, Tier-1: 13.0%, excluding BRSA's forbearance). Despite this improvement in ROE and strengthening in capital ratios, the bank's multiples (P/E of 4.0x and a P/B of 0.40x, based on our 2020 estimates) are still at a discount to other private peers.

- **We foresee 26% EPS growth in 2020:** We anticipate a 9 bps improvement in swap adjusted NIM. We expect net CoR to decline from 344bps in 2019 to 279bps in 2020. We forecast 7% decline in fee income due to new fee limitations and the economic slowdown. Consequently, we foresee 10.5% RoE in 2020.
- **Highest total coverage ratio in our coverage:** Total provisions/loans stood at 7.3% in 1Q20, while peers were in the 3.2-5.2% range. The bank's stage three coverage ratio (66%) and stage two coverage ratio (14.5%) were both the highest of the private banks in our coverage, indicating a more conservative approach. We forecast 279bps and 165bps net CoR in 2020 and 2021, respectively. We expect the NPL ratio to peak at 8.9% in 1Q21.
- **Initial stage of Unicredit's stake sales is completed:** In February, Unicredit's sale of 9% stake of Yapi Kredi to Koc Holding was completed. In the same time, Unicredit sold further 12% stake in the market via an ABB. Currently, Unicredit has 20% stake remaining in YKBNK, though we do not expect these shares to come to the market in the short term.
- **Capital ratios are relatively strong:** Yapi Kredi's consolidated CAR and Tier I ratios were 15.8% and 13.0% (excluding BRSA's forbearance measures), respectively, at the end of 1Q20, indicating 3.8ppt and 3.5ppt buffers over regulatory minimums.
- **Maintain Buy with a TP of TL3.0/sh:** Key downside risks are: i) an unexpectedly deep economic slowdown, which would cause a worse-than-expected asset quality deterioration; ii) a sharp depreciation of the TL; and iii) sanctions on Turkey or the Turkish financial sector by the US.

Key forecasts	2017A	2018A	2019A	2020E	2021E	2022E
Net income (TLm)	3,614	4,667	3,600	4,526	5,517	10,438
EPS (TL)	0.83	0.73	0.43	0.54	0.65	1.24
NI growth (%)	23.2	29.1	-22.9	25.7	21.9	89.2
PE (x)	5.1	3.7	5.3	4.0	3.3	1.7
PB (x)	0.61	0.44	0.46	0.40	0.36	0.30
RoAE (%)	12.9	13.5	9.0	10.5	11.5	18.9
DPS (TL)	0.000	0.000	0.000	0.054	0.065	0.124
Dividend yield (%)	0.0	0.0	0.0	2.5	3.0	5.7

Source: Company financials, UNLU Securities

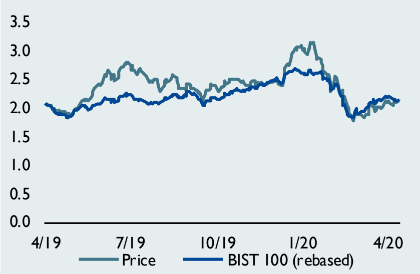
Recommendation:	**BUY**
Target Price:	TL 3.0

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: UNLU & Co

Share data

RIC	YKBNK.IS
Sector	Banks
Price (11 May 2020)	TL 2.15
Market cap. (TLm)	18,161
Enterprise value (TLm)	n.a.
Market cap. (USDm)	2,570
Enterprise value (USDm)	n.a.
Avg. daily trade value (USDm)	51.78
Free float (%)	30

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	4.4	-28.6	9.1
Relative (%)	3.0	-12.5	-1.2

Source: BIST 100, UNLU & Co Research

The price relative chart measures performance against the Turkey BIST 100 which closed at 97,792 on 11 May 2020

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Equity Research | CEEMEA/Turkey | Banks

Main assumptions	2017A	2018A	2019A	2020E	2021E	2022E
TL loan growth	16%	-3%	10%	11%	19%	19%
FX loan growth (USD)	-2%	-5%	-13%	0%	12%	12%
TL deposit growth	-10%	22%	11%	30%	24%	24%
FX deposit growth (USD)	25%	-16%	-3%	-9%	10%	10%
Swap-adjusted NIM	3.28%	3.97%	3.42%	3.52%	2.94%	2.94%
Fee growth	11%	28%	32%	-7%	8%	0%
Opex growth	9%	15%	15%	15%	11%	0%
Net CoR	1.21%	2.90%	3.44%	2.79%	1.65%	1.65%
NPL coverage ratio	77%	72%	62%	71%	69%	69%

Balance sheet (TLm)	2017A	2018A	2019A	2020E	2021E	2022E
Cash & Banks	44,694	57,126	63,767	74,235	89,525	89,525
Securities	37,396	48,577	55,564	66,850	76,803	76,803
Loans	194,960	211,205	223,104	250,654	303,104	303,104
Performing Loans	192,883	212,556	222,189	253,110	303,310	303,310
Non-performing loans	9,024	12,380	18,275	20,304	23,601	23,601
Provisions for expected losses (-)	6,947	13,731	17,360	22,760	23,807	23,807
Other Assets	20,760	31,136	45,061	52,917	61,366	61,366
Total Assets	**297,810**	**348,044**	**387,496**	**444,656**	**530,798**	**530,798**
Deposits	169,347	202,549	222,790	263,896	321,168	321,168
Other liabilities	98,365	106,491	123,518	135,422	159,228	159,228
Total liabilities	267,712	309,040	346,308	399,318	480,397	480,397
Book Value	30,098	39,003	41,188	45,338	50,401	50,401
Total Liabilities and Equity	**297,810**	**348,044**	**387,496**	**444,656**	**530,798**	**530,798**

Income statement (TLm)	2017A	2018A	2019A	2020E	2021E	2022E
Interest Income	21,385	33,211	35,703	31,664	37,003	37,003
Interest Expense	12,174	19,269	20,927	16,150	22,256	22,256
Net Interest Income	**9,211**	**13,942**	**14,776**	**15,513**	**14,747**	**14,747**
Net Fee Income	3,136	4,016	5,287	4,917	5,321	5,321
Trading Income	-813	-648	-1,885	-476	-692	-692
Total Banking Revenues	**11,535**	**17,311**	**18,178**	**19,954**	**19,376**	**19,376**
OPEX	5,520	6,327	7,244	8,327	9,210	9,210
HR Expense	2,428	2,836	3,149	3,528	3,913	3,913
Provisions	3,254	7,122	8,813	8,548	6,311	6,311
Loan Loss Provisions	2,753	4,473	7,566	5,681	7,050	7,050
General Provisions	290	2,511	1,206	2,604	-781	-781
Other Provisions	211	138	41	264	43	43
Other Income	1,136	1,211	1,428	1,666	1,861	1,861
Income from Associates	577	782	790	821	945	945
Profit Before Tax	4,473	5,856	4,339	5,566	6,660	6,660
Tax expense	859	1,188	739	1,040	1,143	1,143
Net Income	**3,614**	**4,667**	**3,600**	**4,526**	**5,517**	**5,517**
RoE	**12.9%**	**13.5%**	**9.0%**	**10.5%**	**11.5%**	**11.5%**

Source: Company financials, Unlu Securities estimates

12 May 2020

Garanti Bank

Ahead of other banks by its strong profitability and capitalization

Despite having one of the lowest leverage levels among Tier-I banks in our coverage (7.4x in March 2020), Garanti has the highest sustainable RoE thanks to its robust RoA (2020E 1.9% vs coverage average of 1.2%). Our 2020 ROE estimate of 14.2% is the highest among Tier-I banks. Swift repricing of loans and successful management of the funding side help Garanti to attain the highest NIM our coverage (2020E 5.0% in swap adj terms). Garanti has one of the highest CAR and CET-1 ratio in our coverage at 16.6% and 14.0% respectively (excluding BRSA's forbearance measures). Although current multiples (4.1x P/E and 0.56x P/B, based on our FY20 estimates) are at a premium to sector averages (3.9x P/E and 0.41x P/B), we believe Garanti's high RoE and prudent management approach warrant these higher multiples..

- **We foresee 29% EPS growth in 2020:** We anticipate a 27bps improvement in NIM thanks to lower funding costs, while net CoR is expected to decline from 304bps in 2019 to 274bps in 2020. We forecast fee income to decline by 7%. Due to the impact of new fee regulation. Our 2020 RoE estimate of 14.2% is the highest among the Tier I banks.

- **Prudent increase in coverage ratios boosts buffers:** Garanti increased NPL coverage ratio by 3.4ppt and stage 2 coverage ratio by 3.6ppt in 1Q20, as the bank revised its macro assumptions used in IFRS9 model. While all banks increased their coverage ratios, many did not revise their macro assumptions yet citing uncertainty. As a result, Garanti's total coverage rose by 0.5ppt, the highest in our coverage.

- **Robust NIM differentiates Garanti from its peers:** Prudent pricing in loans and successful management on the funding side helped Garanti attain the highest NIM in our coverage. We forecast a swap-adjusted NIM of 5.0% in 2020, compared with an average of 3.8% in the sector. We calculate every 10bps difference in NIM has an impact of 50bps on RoE.

- **Capital buffers sufficient to address potential shocks:** Garanti's consolidated CAR and Tier I ratios were 16.6% and 14.0%, respectively, at the end of 1Q20, among the highest of the large cap Turkish banks. While banks will not pay any dividends this year, we anticipate Garanti will start paying dividends next year.

- **Maintain Buy with a TP of TL11.25/sh:** Key downside risks are: i) an unexpectedly deep economic slowdown, which would cause a worse-than-expected asset quality deterioration; ii) a sharp depreciation of the TL; and iii) sanctions on Turkey or the Turkish financial sector by the US.

Key forecasts	2017A	2018A	2019A	2020E	2021E	2022E
Net income (TLm)	6,344	6,638	6,159	7,968	9,445	14,722
EPS (TL)	1.51	1.58	1.47	1.90	2.25	3.51
NI growth (%)	25.1	4.6	-7.2	29.4	18.5	55.9
PE (x)	6.4	5.6	6.2	4.1	3.5	2.2
PB (x)	0.98	0.79	0.71	0.56	0.46	0.38
RoAE (%)	16.5	15.1	12.3	14.2	14.6	18.8
DPS (TL)	0.417	0.000	0.000	0.379	0.787	1.577
Dividend yield (%)	4.3	0.0	0.0	4.9	10.1	20.3

Source: Company financials, UNLU Securities

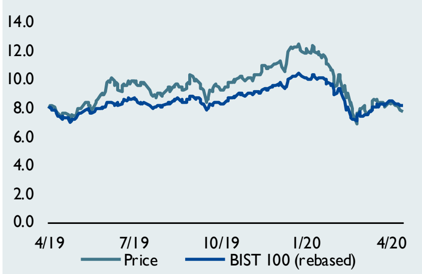
Recommendation: **BUY**

Target Price: TL 11.25

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: UNLU & Co

Share data	
RIC	GARAN.IS
Sector	Banks
Price (11 May 2020)	TL 7.76
Market cap. (TLm)	32,592
Enterprise value (TLm)	n.a.
Market cap. (USDm)	4,611
Enterprise value (USDm)	n.a.
Avg. daily trade value (USDm)	123.55
Free float (%)	48

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	-10.1	-34.9	2.6
Relative (%)	-11.3	-20.3	-7.1

Source: BIST 100, UNLU & Co Research

The price relative chart measures performance against the Turkey BIST 100 which closed at 97,792 on 11 May 2020

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Main assumptions	2017A	2018A	2019A	2020E	2021E	2022E
TL loan growth	32%	3%	8%	12%	19%	19%
FX loan growth (USD)	14%	-17%	-7%	2%	12%	12%
TL deposit growth	17%	17%	9%	9%	21%	21%
FX deposit growth (USD)	1%	-12%	6%	-4%	5%	5%
Swap-adjusted NIM	4.45%	4.99%	4.71%	4.98%	4.27%	4.27%
Fee growth	17%	32%	25%	-7%	5%	0%
Opex growth	7%	15%	16%	13%	11%	0%
Net CoR	0.68%	3.02%	3.04%	2.74%	1.47%	1.47%
NPL coverage ratio	81%	59%	62%	68%	68%	68%

Balance sheet (TLm)	2017A	2018A	2019A	2020E	2021E	2022E
Cash & Banks	47,731	57,553	53,397	66,576	77,744	77,744
Securities	48,466	49,253	53,792	57,878	65,304	65,304
Loans	209,680	223,243	239,751	274,901	331,170	331,170
Performing Loans	208,631	223,297	238,266	275,237	329,322	329,322
Non-performing loans	5,408	11,407	17,299	20,324	27,052	27,052
Provisions for expected losses (-)	4,359	11,461	15,814	20,659	25,204	25,204
Other Assets	19,356	29,429	44,213	39,634	45,976	45,976
Total Assets	**325,232**	**359,477**	**391,152**	**438,988**	**520,194**	**520,194**
Deposits	181,116	217,279	248,751	279,197	327,542	327,542
Other liabilities	102,785	95,510	88,636	101,461	121,422	121,422
Total liabilities	283,901	312,789	337,387	380,658	448,964	448,964
Book Value	41,331	46,688	53,766	58,330	71,230	71,230
Total Liabilities and Equity	**325,232**	**359,477**	**391,152**	**438,988**	**520,194**	**520,194**

Income statement (TLm)	2017A	2018A	2019A	2020E	2021E	2022E
Interest Income	26,608	38,714	39,684	35,508	40,447	40,447
Interest Expense	12,139	19,604	20,657	13,454	17,893	17,893
Net Interest Income	**14,468**	**19,110**	**19,027**	**22,055**	**22,554**	**22,554**
Net Fee Income	3,680	4,870	6,089	5,635	5,928	5,928
Trading Income	-1,916	-1,153	-1,940	-934	-2,825	-2,825
Total Banking Revenues	**16,233**	**22,827**	**23,176**	**26,756**	**25,657**	**25,657**
OPEX	6,518	7,475	8,706	9,853	10,893	10,893
HR Expense	2,716	3,016	3,524	3,837	4,365	4,365
Provisions	3,160	9,883	11,522	11,962	8,084	8,084
Loan Loss Provisions	1,606	4,436	6,518	6,208	6,851	6,851
General Provisions	423	3,926	4,183	4,666	1,033	1,033
Other Provisions	1,132	1,520	821	1,088	200	200
Other Income	982	2,219	3,965	3,988	3,696	3,696
Income from Associates	615	757	903	1,039	1,143	1,143
Profit Before Tax	8,151	8,445	7,816	9,969	11,520	11,520
Tax expense	1,807	1,807	1,657	2,000	2,075	2,075
Net Income	**6,344**	**6,638**	**6,159**	**7,968**	**9,445**	**9,445**
RoE	**16.5%**	**15.1%**	**12.3%**	**14.2%**	**14.6%**	**14.6%**

Source: Company financials, Unlu Securities estimates

12 May 2020

Koc Holding

One stop shop exposure to high quality assets at an attractive discount

We maintain our positive view on Koc Holding with our conviction being founded on: 1) Koc offering one-stop shop exposure to high quality mostly hard currency driven assets, with Unlu & Co. Buy ratings on YKBNK, TUPRS, TOASO, FROTO and TTRAK; which constitute 69% of Koc's current NAV, 2) Following a 7% underperformance vs the BIST-100 over the past three months, Koc is trading at an 15% discount to its current NAV, compared to the 5Y average discount of 5%, with the shares having traded at a premium as high as 3% in late 2019; and implying 42% upside currently, 3) Value accretion stemming from the acquisition of a higher direct stake in Yapi Kredi (up 9.02pps to 43.64%) following the share transaction with Unicredit, and 4) Limited downside potential associated with Tupras (19% of NAV) stemming from S/T hurdles; the underperformance of which had also pressured Koc's share performance, as the sell-side have mostly adjusted their estimates to accommodate the 2020 outlook, in our view.

- **Discount to NAV has widened to 15%:** Following a 7% underperformance vs. the BIST-100 over the past three months, Koc Holding is trading at a15% discount to its current NAV following the UCG transaction that has led to a higher direct stake in Yapi Kredi, compared to the historical discount of 5%, with the shares having traded at a premium as high as 5% in late 2019. We believe that, following the completion of a sizable portfolio adjustment with the UCG deal; investor attention is likely to refocus on further potential investments/transactions that had limited its holding discount historically, owing to Koc's strong investment track record and potential optionality on investments that could be undertaken.
- **Positive stance sustained on Yapi Kredi, overhang lifted:** With the sale of 12% stake by UniCredit completed, we believe the overhang on Yapi Kredi shares are now lifted. Yapi Kredi's RoE (20E: 11%) has converged to private peers. The bank's total coverage ratio (7.3%) was the highest of the private banks in our coverage, indicating a more conservative approach and should provide a buffer in case of further deterioration in asset quality. Yapi Kredi's capital ratios, which used to be a concern for investors, are now at relatively strong levels (CAR: 15.8%, Tier-1: 13.0%, excluding BRSA's forbearance). Despite this improvement in ROE and strengthening in capital ratios, the bank's multiples (P/E of 4.0x and a P/B of 0.40x, based on our 2020 estimates) are still at a discount to other private peers.
- **We value Koc Holding through a SOTP model:** We value Koc through a SOTP model. The key upside risks to our positioning are **1)** announcement of viable new investments either at the Holding or subsidiary level, **2)** Improvement in domestic demand conditions that would benefit its subsidiaries, and **3)** increased risk appetite for Turkish equities, with the key downside risks being **1)** limited improvement in the global refining environment, **2)** lower than expected improvement in the domestic demand.

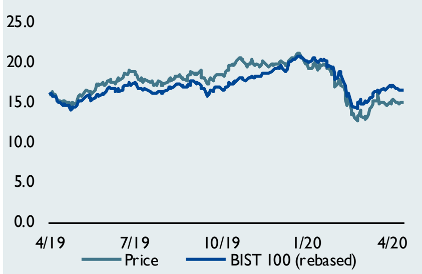
Recommendation: **BUY**

Target Price: TL 21.30

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: UNLU & Co

Share data	
RIC	KCHOL.IS
Sector	Diversified Industrials
Price (11 May 2020)	TL 14.90
Market cap. (TLm)	37,785
Enterprise value (TLm)	60,265
Market cap. (USDm)	5,346
Enterprise value (USDm)	8,527
Avg. daily trade value (USDm)	13.72
Free float (%)	22

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	-2.0	-24.2	-1.1
Relative (%)	-3.3	-7.2	-10.5

Source: BIST 100, UNLU & Co Research

The price relative chart measures performance against the Turkey BIST 100 which closed at 97,792 on 11 May 2020

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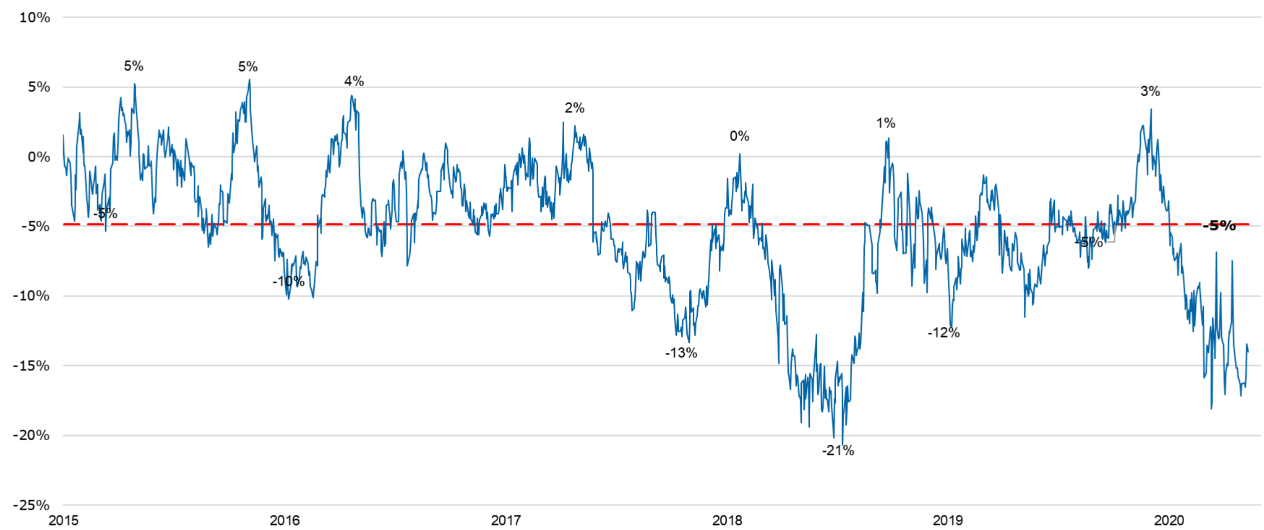
Koc Holding's NAV (TLm)			
Ticker	KCHOL	Discount to:	
Price (TL)	14.90	Current NAV	-15%
Number of shares (m)	2,536	Listed assets	5%
Date	5/11/2020	Target NAV	-33%

In TL m unless stated

	Ticker	Current Price (TL/s)	Direct Stake (%)	Current Mcap	Current NAV	% of NAV	Valuation method	Target Mcap	Target NAV	% of NAV	Sector upside (%)
Financial services					**8,097**	**18%**			**10,861**	**19%**	**34%**
Koc Financial Services	YKBNK	2.15	34.63%	18,161	6,290	14%	Target price	24,420	8,457		
Yapi Kredi Bank	YKBNK	2.15	9.02%	18,161	1,638	4%	Target price	24,420	2,203		
Koc Finansman			44.5%	380	169	0%	1.0x 2020E Book value	453	202		
Automotive				**38,334**	**16,738**	**38%**		**51,049**	**21,647**	**38%**	**29%**
Ford Otosan	FROTO	55.50	38.46%	19,476	7,490	17%	Target price	26,529	10,203		
Tofas Fabrika	TOASO	19.10	37.59%	9,550	3,590	8%	Target price	14,200	5,338		
Turk Traktor	TTRAK	56.80	37.50%	3,031	1,137	3%	Target price	3,426	1,285		
Otokar	OTKAR	123.00	44.68%	2,952	1,319	3%	Market cap	3,522	1,574		
Otokoc Otomotiv			96.32%	3,325	3,203	7%	2.5x 2020E Book value	3,372	3,248		
Energy				**25,304**	**10,091**	**23%**		**34,478**	**13,700**	**24%**	**36%**
Enerji Yatirimlari	TUPRS	84.80	39.3%	21,236	8,339	19%	Target price	30,083	11,814		
Aygaz	AYGAZ	9.95	40.7%	2,985	1,214	3%	Target price	3,297	1,341		
Entek			49.62%	1,083	537	1%	1.0x 2020E Book value	1,098	545		
Consumer Durables				**10,714**	**4,164**	**9%**		**12,802**	**5,007**	**9%**	**20%**
Arcelik	ARCLK	15.12	40.5%	10,217	4,139	9%	Target price	12,298	4,982		
Arcelik LG Klima			5.0%	497	25	0%	1.5x 2020E Book value	503	25		
Food & Retail				**1,375**	**574**	**1%**		**1,572**	**660**	**1%**	**15%**
Tat Gida	TATGD	7.31	43.7%	994	434	1%	Market cap	1,186	518		
Koctas			37.1%	357	133	0%	3.0x 2020E Book value	362	134		
Duzey			31.2%	24	7	0%	1.0x 2020E Book value	24	8		
Tourism				**1,659**	**486**	**1%**		**1,864**	**552**	**1%**	**14%**
Altinyunus Cesme	AYCES	25.10	30.0%	628	188	0%	Market cap	749	225		
Marmaris Altinyunus	MAALT	70.15	36.8%	387	142	0%	Market cap	462	170		
Setur			24.1%	645	156	0%	3.0x 2020E Book value	654	158		
Others			n.a.	**2,014**	**921**	**2%**	Misc.	**2,403**	**1,099**	**2%**	**19%**
Bilkom			69.9%	309	216			369	258		
KocSistem			41.1%	123	51			147	60		
Marina / Ayvalık			7.7%	16	1			19	1		
Marina / Tek-Art Kalamış			37.3%	417	156			497	186		
Ram Dıs Ticaret			39.7%	26	10			31	12		
RMK Marine			40.5%	71	29			85	34		
Zer			39.0%	740	289			883	344		
Token Finansal Teknolojiler A.Ş.			54.4%	312	170		Transaction Value	373	203		
Real estate portfolio			n.a.		**287**				**342**	**1%**	
Listed assets					35,921	**81%**			48,108	**85%**	
+ Non-listed assets					5,438	**12%**			5,761	**10%**	
+ Latest net cash at holding (post UCG transaction)					2,869	**6%**			2,869	**5%**	
Koc Holding's NAV (TL m)					**44,227**				**56,738**		**28%**
Market cap					37,785				37,785		
Discount to NAV					**-14.6%**				**-33.4%**		
Target NAV discount									***-5.0%***		
Target Price (TL)									***21.30***		
Potential/Upside (Downside)									***43%***		

Source: KCHOL financials, Unlu & Co estimates. Target market calculated by multiplying current valuation by the respective cost of equity



12 May 2020

Tofas

Resilient domestic demand and Take-or-Pays to keep earnings momentum positive

Tofas is one of our top picks, thanks to 1) Turkish auto market should record 8% growth in 2020, despite a significant contraction 2Q, thanks to low interest rates and pent-up demand. 2) Take-or-pay clauses on exports protect Tofas' export earnings stream while the European market is going through a sharp contraction. 3) We expect the FCA and PSA merger to create new opportunities in the long term for Tofas, as both groups aim to reduce costs. 4) Tofas trades at a deep discount to its historic multiple (2020e P/E of 6.0x, vs. its five year average of 10x).

- **The Turkish auto market is likely to dip in 2Q20, but a sequential improvement is likely during the subsequent quarters.** Following 41% y/y growth in the market in 1Q20, we assume 32% y/y contraction in 2Q. In 3Q and 4Q, however, we project 10% and 14% growth rates, respectively, supported by low interest rates and pent-up demand. This trajectory should lead us to a market size of 518K units in 2020, which is 8% above a year ago. If our projection of a recovery in 2H does not hold, we think the government may announce a tax break or a scrap incentive to support the market, as the sector is one of the key industries of the economy. Tofas is likely to be one of the main beneficiaries of this resilient market, thanks to the strong value proposition of Egea and Tofas' leading position in the LCV segment.

- **Take-or-pays will protect export earnings while the European market is going through a sharp contraction:** Covid-19 outbreak has led to a substantial contraction in the European auto market, which accounts for 83% of Tofas' exports as of 2019. Thus, we project 35% decline in Tofas' exports volumes in 2020. However, take-or-pay clauses on Tofas' export contracts, which remain in place until the end of 2021, should protect Tofas' export earnings from the potential decline in volumes.

- **Despite the substantial headwinds in 2020, Tofas to record 8% EPS growth in 2020:** We believe resilient domestic auto demand and Take-or-Pay clauses on exports should keep Tofas' earnings momentum positive in 2020.

- **A potential scrap incentive in Europe:** Given the importance of the auto sector for European economies, European governments may announce scrap incentives or some other form of incentives to support the recovery of the EU auto market once lockdowns are lifted in the region, and this could lead to a quicker recovery of the market, we believe.

- **The FCA and PSA merger will create new opportunities in the long term:** As both groups aim to reduce costs, Tofas is likely to stand out given its efficiency (recently ranked as the top plant within the FCA universe) and PSA's lack of any production facilities in Turkey.

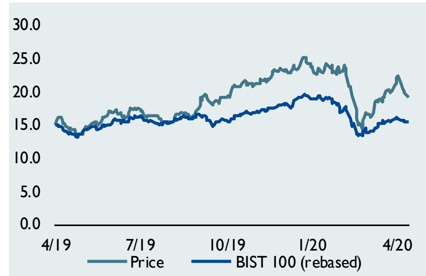
- **Trading at a 2020E P/E of 6.0x (vs. its five-year avg of 10x):** Tofas trades at a deep discount to its historic multiple (2020e P/E of 6.0x, vs. its five-year average of 10x). We value Tofas using a EUR-based DCF analysis. The contraction in automotive demand, both in Turkey and Europe, the lack of agreement on the Doblo contract, tax hikes in Turkey and market share losses are downside risks to our valuation.

Recommendation:	**BUY**
Target Price:	TL 28.50

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: UNLU & Co

Share data	
RIC	TOASO.IS
Sector	Autos & Parts
Price (11 May 2020)	TL 19.10
Market cap. (TLm)	9,550
Enterprise value (TLm)	12,392
Market cap. (USDm)	1,351
Enterprise value (USDm)	1,753
Avg. daily trade value (USDm)	7.31
Free float (%)	24

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	1.6	-17.9	29.4
Relative (%)	0.2	0.6	17.1

Source: BIST 100, UNLU & Co Research

The price relative chart measures performance against the Turkey BIST 100 which closed at 97,792 on 11 May 2020

Research Analysts
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Valuation metrics	2016A	2017A	2018A	2019A	2020E	2021E
P/E (x)	11.4	11.5	9.1	6.7	6.0	4.7
EV/EBITDA (x)	10.0	8.6	6.1	4.5	4.0	4.6
EV/Sales (x)	0.9	1.0	0.8	0.6	0.6	0.6
Dividend yield (%)	3.2	5.4	7.3	12.0	10.1	12.8

Ratio analysis	2016A	2017A	2018A	2019A	2020E	2021E
ROE (headline basis) (%)	35.0	39.2	36.5	36.9	35.4	38.6
ROIC (EBIT basis) (%)	13.4	17.8	21.1	21.8	24.6	19.2
Gross margin (%)	9.9	11.3	13.2	12.9	14.3	12.8
EBITDA margin (%)	9.4	11.2	13.3	12.8	15.6	13.6
EBIT margin (%)	5.8	7.3	9.2	8.9	10.3	8.8
Net margin (%)	6.6	7.2	7.0	7.7	9.2	8.2
Net debt/EBITDA (x)	1.9	1.3	1.4	0.5	0.6	1.8
Interest coverage (to EBITDA) (x)	0.0	0.1	0.0	-0.1	0.0	0.0

Profit and Loss (TLm)	2016A	2017A	2018A	2019A	2020E	2021E
Revenue	14,605	17,869	19,099	19,363	17,422	24,753
Growth (y/y)	43.6%	22.3%	6.9%	1.4%	-10.0%	42.1%
Gross profit	1,448	2,026	2,516	2,499	2,500	3,166
EBITDA	1,367	2,001	2,533	2,480	2,726	3,367
Growth (y/y)	*27.9%*	*46.5%*	*26.5%*	*-2.1%*	*9.9%*	*23.5%*
EBIT	844	1,305	1,758	1,720	1,799	2,170
Growth (y/y)	*19.0%*	*54.6%*	*34.7%*	*-2.2%*	*4.6%*	*20.6%*
Other income/expense	-43	-245	-577	-59	-62	-75
Financial income/expense	-3	170	111	-204	-50	45
Profit before tax	798	1,229	1,291	1,457	1,687	2,140
Tax	172	53	40	25	-84	-107
Effective tax rate	*-21.6%*	*-4.3%*	*-3.1%*	*-1.7%*	*5.0%*	*5.0%*
Minorities	0	0	0	0	0	0
Net income	970	1,283	1,330	1,482	1,602	2,033
Growth (y/y)	*16.8%*	*32.2%*	*3.7%*	*11.4%*	*8.1%*	*26.9%*
Weighted diluted number of shares (m)	500	500	500	500	500	500
Earnings per share (EPS) (TL)	1.940	2.566	2.661	2.963	3.205	4.065
Dividend per share (DPS) (TL)	0.70	1.60	1.76	2.40	1.92	2.44
Dividend pay-out ratio	*36.1%*	*62.4%*	*66.1%*	*81.0%*	*60.0%*	*60.0%*

Cash flow (TLm)	2017A	2018A	2019A	2020E
EBIT	1,305	1,758	1,720	1,799
Depreciation & Amortisation	697	775	760	928
Change in working capital	-38	-925	872	-556
Taxes paid	-261	-387	-378	-396
Capex (operational)	-644	-534	-676	-1,492
Capex/Revenues	*-3.6%*	*-2.8%*	*-3.5%*	*-8.6%*
Free cash flow	**1,058**	**687**	**2,297**	**282**
Free cash flow margin	*5.9%*	*3.6%*	*11.9%*	*1.6%*
Dividends paid	-350	-800	-880	-1,200
Net increase (decrease) in cash	**410**	**-645**	**844**	**459**

Source: Company financials, Unlu Securities estimates

Balance sheet (TLm)	2017A	2018A	2019A	2020E
Cash	2,626	1,981	2,825	3,284
Total current assets	7,726	7,088	6,970	7,187
Property, plant equipment	2,350	2,248	2,112	2,635
Intangible fixed assets	1,704	1,579	1,659	1,576
Total non-current assets	6,149	5,914	5,840	6,181
Total assets	**13,875**	**13,002**	**12,809**	**13,368**
Current liabilities	6,845	6,098	6,126	5,091
Total non-current liabilities	3,447	3,198	2,354	3,545
Total ordinary shareholders equity	3,583	3,707	4,329	4,731
Total equity and liability	**13,875**	**13,002**	**12,809**	**13,368**
Net working capital	-1,045	-120	-992	-436
Net cash (debt)	-2,571	-3,451	-1,125	-1,514

12 May 2020

Turkcell

Remains resilient

Recommendation: **BUY**

Target Price: TL 18

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: UNLU & Co

Sustained double-digit EBITDA growth, strong B/S to withstand higher WC and capex requirement, reduced leverage and lower sensitivity to FX remain as the key elements, underpinning Turkcell's resilience in current volatile market environment. We reckon the 25% cap imposed on dividend pay-out, implying a 3% dividend yield for 2020, is already priced in. We think Turkcell will continue to stay defensive, thanks to its superior earnings growth in 2020 and aforementioned factors. Turkcell trades at 8x 2020E P/E, a 25% discount to its 10-year average.

- **Double-digit revenue growth should be sustainable, driven by higher mobile ARPU growth and international revenues:** The change in mix in favour of postpaid segment, higher growth in Superbox subscribers with 50bp effect on ARPU growth, upselling trends and higher usage of digital services, should all serve in above CPI mobile ARPU growth in 2020. Additionally, higher TL based revenue growth in international operations and subscriber acquisition in broadband segment should further support growth. We incorporate the potential decline in roaming and consumer finance revenues, thus we cut our revenue growth estimate to 12% from 15%, still above our non-bank coverage for 2020.
- **Profitability remains resilient, has strong B/S to withstand higher WC and capex needs** – Our 4% downward revision in our net earnings estimate reflect higher hedging costs and slightly lower revenues. This notwithstanding, we foresee 28% earnings growth (adjusted for one-offs), on the back of lower financials expenses, double-digit revenue growth and lower cost pressure. Our assumption of higher WC requirement associated with the deferral of payments by SMEs (below 10% of revenues) and 150bp higher capex/sales at 19% reveal a 7.4% FCF margin for 2020. We foresee 0.8x net debt/EBITDA for 2020.
- **Expectation of higher dividend pay-out for 2021 –** Dividend payouts were capped to 25% until Oct'20 by the new regulation, implying TL0.37 DPS and 3% dividend yield for 2021. However, as the management has pointed out on the webcast on April 10, there could be the possibility of higher dividend pay-out in 2021 (UNLU: TL1.65 DPS and 13% yield). We also estimate TL163m (12m shares) remaining funds allocated for share buybacks.
- **IPO and M&A activities could unleash hidden value in the L/T:** Prospective strategic partnership in Paycell and IPO of Superonline might serve as catalysts in the long term. We believe the new regulation enabling digital contracts and increased demand for mobile payments should also add value to Paycell and support its penetration in open-banking sector.

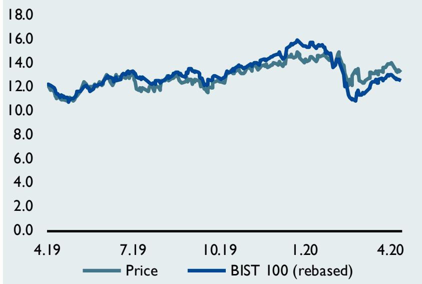
Key forecasts	2017A	2018A	2019A	2020E	2021E	2022E
Revenue (TLm)	17,632	21,292	25,137	28,178	32,834	37,718
EBITDA (TLm)	6,228	8,788	10,426	11,697	13,645	15,744
Net Income (TLm)	1,979	2,021	3,246	3,601	4,341	5,097
EPS (TL)	0.90	0.92	1.48	1.64	1.97	2.32
DPS (TL)	0.86	0.46	0.37	1.65	0.99	1.17
Dividend Yield (%)	6.9	3.6	2.8	12.5	7.5	8.8
PE (x)	13.9	14.1	8.8	8.1	6.7	5.7
EV/EBITDA (x)	5.7	4.7	3.7	3.2	2.8	2.4

Source: Company financials, UNLU & Co estimates

Share data

RIC	TCELL.IS
Sector	TMT
Price (11 May 2020)	TL 13.22
Market cap. (TLm)	29,084
Enterprise value (TLm)	38,681
Market cap. (USDm)	4,115
Enterprise value (USDm)	5,473
Avg. daily trade value (USDm)	26.85
Free float (%)	49

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	1.2	-7.6	17.2
Relative (%)	-0.1	13.3	6.1

Source: BIST 100, UNLU & Co Research

The price relative chart measures performance against the Turkey BIST 100 which closed at 97,792 on 11 May 2020

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Valuation metrics	2017A	2018A	2019A	2020E	2021E	2022E
P/E (x)	13.9	14.1	8.8	8.1	6.7	5.7
EV/EBITDA (x)	5.7	4.7	3.7	3.2	2.8	2.4
EV/Sales (x)	2.0	1.9	1.5	1.4	1.2	1.0
Dividend yield (%)	6.9	3.6	2.8	12.5	7.5	8.8

Ratio analysis	2017A	2018A	2019A	2020E	2021E	2022E
ROE (headline basis) (%)	13%	13%	16%	19%	21%	23%
ROIC (EBIT basis) (%)	13%	14%	15%	16%	18%	20%
Gross margin (%)	35.6	33.6	32.0	31.8	31.7	31.5
EBITDA margin (%)	35.3	41.3	41.5	41.5	41.6	41.7
EBIT margin (%)	20.6	21.1	21.4	21.0	21.1	21.0
Net margin (%)	11.2	9.5	10.8	12.8	13.2	13.5
Net debt/EBITDA (x)	1.3	1.4	0.9	0.8	0.8	0.6
Interest coverage (to EBITDA) (x)	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1

Profit and Loss (TLm)	2017A	2018A	2019A	2020E	2021E	2022E
Revenue	17,632	21,292	25,137	28,178	32,834	37,718
Growth (y/y)	*23%*	*21%*	*18%*	*12%*	*17%*	*15%*
Gross profit	6,282	7,146	8,054	8,963	10,398	11,875
EBITDA	6,228	8,788	10,426	11,697	13,645	15,744
Growth (y/y)	35%	41%	19%	12%	17%	15%
EBIT	3,631	4,500	5,380	5,913	6,914	7,937
Growth (y/y)	50%	24%	20%	10%	17%	15%
Other income/expense	-699	-140	-156	-192	-164	-189
Financial income/expense	-323	-1,687	-1,687	-1,130	-1,330	-1,383
Profit before tax	2,609	2,673	3,537	4,592	5,419	6,365
Tax	-572	-495	-786	-993	-1,084	-1,273
Effective tax rate	*21.9%*	*18.5%*	*22.2%*	*21.6%*	*20.0%*	*20.0%*
Minorities	59	156	30	-5	-6	-5
Net income	1,979	2,021	3,246	3,601	4,341	5,097
Growth (y/y)	33%	2%	35%	28%	21%	17%
Weighted diluted number of shares (m)	2,184	2,184	2,184	2,184	2,184	2,184
Earnings per share (EPS) (TL)	0.906	0.925	1.486	1.649	1.988	2.334
Dividend per share (DPS) (TL)	0.87	0.46	0.37	1.65	0.99	1.17
Dividend pay-out ratio	96%	50%	25%	100%	50%	50%

Cash flow (TLm)	2018A	2019A	2020E	2021E
EBIT	4,500	5,380	5,913	6,914
Depreciation & Amortisation	4,288	5,047	5,776	6,731
Change in working capital	-1,115	309	-1,055	-269
Taxes paid	-768	-1,086	-1,176	-1,272
Capex (operational)	-3,943	-4,525	-5,356	-5,910
Capex/Revenues	*-18.5%*	*-18.0%*	*-19.0%*	*-18.0%*
	-3,701	-2,700	-2,016	-2,339
Free cash flow	**-739**	**2,425**	**2,087**	**3,854**
Free cash flow margin	*-3.5%*	*9.6%*	*7.4%*	*11.7%*
Dividends paid	-1,900	-1,010	-802	-3,601
Net increase (decrease) in cash	**-4,872**	**2,968**	**-151**	**-571**

Balance sheet (TLm)	2018A	2019A	2020E	2021E
Cash	7,419	10,239	13,819	15,281
Total current assets	18,337	19,332	23,638	26,011
Property, plant equipment	12,766	14,242	15,199	16,110
Intangible fixed assets	10,050	11,308	11,946	12,554
Total non-current assets	24,428	26,383	28,079	29,752
Total assets	**42,765**	**45,715**	**51,718**	**55,763**
Current liabilities	11,740	12,656	14,467	16,118
Total non-current liabilities	14,972	14,977	16,874	18,527
Total ordinary shareholders equity	1,852	2,299	2,577	3,003
Total equity and liability	**42,765**	**45,715**	**51,718**	**55,763**
Net working capital	4,738	4,428	5,483	5,752
Net cash (debt)	-12,684	-9,716	-9,867	-10,439

Source: Company financials, Unlu Securities estimates

12 May 2020

Migros

Both growth and deleveraging momentum have accelerated

Our positive view on Migros rests on 1) Strong growth in online business and home consumption as a result of the Covid-19 outbreak have led to strong improvement in the Migros' operations. The consumers' switch to the online channels will continue benefit Migros, as it is the undisputed leader in this space; 2) deleveraging has gained momentum in 2020, as Migros most recently sold 3 assets for TL219m, and this will further reduce the net financial debt of the retailer 3) EUR-linked debt (though declined) and share overhang risks are the major headwinds for Migros, but trading at 2020E EV/EBITDA of 6.3x (five-year average of 10x), the stock still appears cheap and reflects those risks.

- **Strong growth (x3) in online business, home consumption and consumers stocking up as a result of the Covid-19 outbreak led to strong improvement in the company's operations:** In 1Q20, Migros' revenue growth accelerated and grew by 31% y/y (vs. +24% in 2019), while the EBITDA margin (adjusted for imputed interest rate) rose 0.4pp y/y. Strong growth (x3) in online business, home consumption and consumers stocking up as a result of the outbreak were the main drivers of strong improvement in the company's operations. The positive momentum should continue to a large extent throughout 2020, supported by at home consumption and Migros' strong presence in online channels. The consumers' switch to the online channels will benefit Migros, as it is the undisputed leader in this space.

- **With the management's focus on deleveraging and asset sales in recent years, Migros has achieved a substantial decline in its leverage ratio:** The company's' net financial debt (excluding IFRS16) declined to TL1.9bn in 1Q20, vs. TL2.1bn in 4Q19 and TL2.8bn in 4Q18. Furthermore, on May 5th, it sold 3 real estates for TL219m, bringing the net debt further down. By the end of 2020, we expect the net debt to decline to TL1.1bn (0.8x Net Debt/EBITDA, excluding IFRS16), which would be a reasonable leverage level.

- **Migros' short FX position has declined substantially in recent quarters, limiting the stock's vulnerability to the TL weakness**: Migros is known for its large EUR denominated short FX position. However, with the deleveraging in recent quarters, the short FX position has substantially declined to EUR226m as of end Mar20, from EUR561m at end 2018, and EUR328m at end 2019. This limits the stock's vulnerability to TL weakness. A 10% depreciation in TL against EUR leads to TL163m of FX losses.

- **Share overhang risk:**. In Nov19, BC Partners sold 20m Migros shares (11% of total outstanding shares) at TL22.5/shares. BC Partners still owns 12% stake at Migros and it may further sell down its share in Migros.

- **That said, valuation reflects overhang risks and still too cheap to ignore:** Trading at 2020E EV/EBITDA of 6.3x (adjusted for IFRS-16 and interest income for term sales/purchases) vs. five year average of 10x, Migros shares still appear cheap to ignore and reflects the overhang and the FX risks.

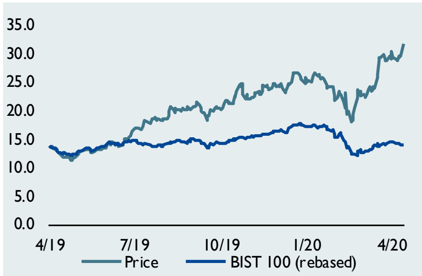
- Our valuation is DCF-based, with a WACC assumption of 21%. Risks: TL weakness, irrational competition, share overhang risks, etc.

Recommendation:	BUY
Target Price:	TL 39.80

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: UNLU & Co

Share data	
RIC	MGROS.IS
Sector	Retailers
Price (11 May 2020)	TL 31.60
Market cap. (TLm)	5,721
Enterprise value (TLm)	10,690
Market cap. (USDm)	810
Enterprise value (USDm)	1,513
Avg. daily trade value (USDm)	25.57
Free float (%)	36

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	31.6	20.2	153.4
Relative (%)	29.8	47.2	129.4

Source: BIST 100, UNLU & Co Research

The price relative chart measures performance against the Turkey BIST 100 which closed at 97,792 on 11 May 2020

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Valuation metrics	2016A	2017A	2018A	2019A	2020E	2021E
P/E (x)	-10.5	8.7	-4.2	-6.3	-665.4	27.2
EV/EBITDA (x)	7.1	8.4	5.5	3.9	4.4	3.8
EV/Sales (x)	0.4	0.4	0.3	0.4	0.4	0.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	1.8

Ratio analysis	2016A	2017A	2018A	2019A	2020E	2021E
ROE (headline basis) (%)	-77.5	59.9	-79.5	-103.2	-2.7	50.3
ROIC (EBIT basis) (%)	16.2	14.4	18.7	34.5	22.0	26.5
Gross margin (%)	26.8	26.6	28.0	26.8	25.8	25.3
EBITDA margin (%)	5.8	5.2	6.1	9.2	8.2	7.7
EBIT margin (%)	3.9	3.4	4.5	5.7	5.0	4.6
Net margin (%)	-2.6	3.3	-4.5	-2.1	0.0	0.6
Net cash (debt) / EBITDA (x)	2.8	2.9	2.4	1.0	0.5	0.2
Interest coverage (to EBITDA) (x)	-0.9	0.4	-1.3	-0.2	-0.1	0.0

Profit and loss (TLm)	2016A	2017A	2018A	2019A	2020E	2021E
Revenue	11,059	15,344	18,717	23,197	28,308	33,044
Growth (y/y)	17.8%	38.7%	22.0%	23.9%	22.0%	16.7%
Gross profit	2,962	4,082	5,249	6,205	7,296	8,355
EBITDA	636	798	1,144	2,127	2,319	2,546
Growth (y/y)	*14.1%*	*25.5%*	*43.4%*	*86.0%*	*9.0%*	*9.8%*
EBIT	437	528	849	1,321	1,402	1,523
Growth (y/y)	*17.5%*	*20.9%*	*60.8%*	*55.6%*	*6.1%*	*8.6%*
Other income/expense	-96	-225	-408	-516	-362	-377
Financial income/expense	-567	300	-1,488	-476	-239	-84
Profit before tax	-227	603	-1,047	-468	-11	263
Tax	-66	-94	212	-24	2	-53
Effective tax rate	*-29.0%*	*15.5%*	*20.2%*	*-5.2%*	*20.0%*	*20.0%*
Minorities	0	4	0	0	0	0
Net income	-293	513	-836	-492	-9	210
Growth (y/y)	*NM*	*NM*	*NM*	*NM*	*NM*	*NM*
Weighted diluted number of shares (m)	181	181	181	181	181	181
Earnings per share (EPS) (TL/s)	-1.618	2.832	-4.615	-2.718	-0.047	1.162
Dividend per share (DPS) (TL/s)	0.00	0.00	0.00	0.00	0.00	0.58
Dividend payout ratio	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*50.0%*

Cash flow (TLm)	2018	2019A	2020E	2021E
EBIT	288	384	32	163
Depreciation & amortisation	270	295	806	917
Change in working capital	635	596	463	727
Taxes paid	-58	-77	-111	-163
Capex	-399	-488	-341	-437
Capex/revenues	*-2.6%*	*-2.6%*	*-1.5%*	*-1.5%*
Free cash flow	**736**	**711**	**850**	**1,207**
Free cash flow margin	*4.8%*	*3.8%*	*3.7%*	*4.3%*
Free cash flow yield				
Dividends paid	0	0	0	0
Net increase (decrease) in cash	**471**	**141**	**579**	**-33**

Balance sheet (TLm)	2018A	2019A	2020E	2021E
Cash	1,628	1,769	2,348	2,315
Total current assets	3,776	4,474	5,277	5,925
Property, plant equipment	3,740	3,863	3,736	3,360
Intangible fixed assets	161	226	193	222
Total non-current assets	6,526	6,411	9,184	9,137
Total assets	**10,303**	**10,885**	**14,461**	**15,062**
Current liabilities	5,516	6,675	7,544	8,368
Total non-current liabilities	3,259	3,575	6,594	6,379
Ordinary shareholders' equity	1,470	633	321	313
Total equity and liability	**10,303**	**10,885**	**14,461**	**15,062**
Net working capital	-2,080	-2,676	-3,140	-3,867
Net cash (debt)	-2,284	-2,801	-5,173	-4,382

Source: Company financials, Unlu Securities estimate

12 May 2020

Koza Gold

Best positioned to enjoy the gold rally

- **We believe the recent uptrend in gold price and ample global liquidity will be supportive for Koza Gold's share performance. We attribute Koza Gold's 31% ytd underperformance vs. MSCI gold miners index to its lower than expected reserve announcement, revocation of the mining license in Sogut and decline in foreign ownership. Additionally, Koza Gold has witnessed slower production ytd, due to lower working hours at the processing plants and lower grade. However, we believe the negatives are priced in and Koza Gold stands out as a defensive player with its USD denominated revenues and long FX position. Thus, we maintain BUY rating with TL104 per share TP. Koza Gold trades at c.65% discount to international peers on 2020E P/E.**

- **Hard currency denominated gold revenues shield Koza Gold from downturns:** Our base case scenario assumes 21% volume contraction to 280K oz in 2020, due to lower output in 1h20, with the adjustment in working hours and the high base effect in 4q20. However, our gold price forecast of USD1,650/oz suggests 18% growth y/y, while the risk is on the upside with current gold price level being 4% above our estimate. Furthermore, we factored in 20% TL depreciation against USD on average in 2020, whereas S/T TL volatility could bring higher revenue and earnings generation. Our 1q20 estimates imply c.50% y/y earnings growth. Note that Koza Gold has USD812m net cash and receivables from the Koza-Ipek Holding entities.

- **A silent period regarding legal issues:** Recall that the court decided in Jan'20 on the confiscation of 49.55% of Ipek family members' shares in Koza-Ipek Holding, while a separate trial will be held for the fugitives, including Akin Ipek. The critical issues going forward will be convening general assembly in the listed entities, where the government (after the court decision) and minorities form the majority, and dividend distribution. Furthermore, we expect any potential sale of reserve data and idle assets associated with the Sogut mine to Gubre Fabrikalari to have a neutral valuation effect. Finally, any news flow regarding the resolution of the ownership in UK based Koza Ltd and repatriation of GBP60m should serve as catalysts.

- **Reinvestment in mining operations is key for a rerating:** Apart from the legal issues, the main pushback on Koza Gold was related to its relatively shorter reserve life. Increased focus on explorations activities, inclusion of new zones and improving reserve base in Diyadin project could bring additional value going forward.

Key forecasts	**2017A**	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Revenue (TLm)	**968**	**1,611**	**2,849**	**3,170**	**2,334**	**2,087**
EBITDA (TLm)	516	900	1,823	2,103	1,501	1,245
Net Income (TLm)	532	1,174	1,767	2,037	1,711	1,672
EPS (TL)	3.5	7.7	11.6	13.4	11.2	11.0
DPS (TL)	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
PE (x)	7.2	5.9	4.9	5.3	6.3	7.5
EV/EBITDA (x)	4.0	5.1	2.4	1.8	2.5	2.3

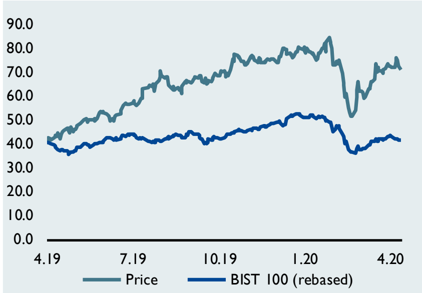
Source: Company financials, UNLU & Co estimates

Recommendation:	**BUY**
Target Price:	TL 104

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: UNLU & Co

Share data	
RIC	KOZAL.IS
Sector	Precious Metals
Price (11 May 2020)	TL 71.10
Market cap. (TLm)	10,843
Enterprise value (TLm)	6,392
Market cap. (USDm)	1,534
Enterprise value (USDm)	785
Avg. daily trade value (USDm)	27.79
Free float (%)	29

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	7.7	-6.4	60.3
Relative (%)	6.3	14.6	45.1

Source: BIST 100, UNLU & Co Research

The price relative chart measures performance against the Turkey BIST 100 which closed at 97,792 on 11 May 2020

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Valuation metrics	2017A	2018A	2019A	2020E	2021E	2022E
P/E (x)	7.2	5.9	4.9	5.3	6.3	7.5
EV/EBITDA (x)	4.0	5.1	2.4	1.8	2.5	2.3
EV/Sales (x)	0.6	0.6	0.3	0.2	0.2	0.2
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Ratio analysis	2017A	2018A	2019A	2020E	2021E	2022E
ROE (headline basis) (%)	20.6	34.5	36.3	30.1	19.8	16.2
ROIC (EBIT basis) (%)	13.1	19.2	26.2	21.8	11.1	7.0
Gross margin (%)	55.6	60.7	66.5	66.5	61.3	53.3
EBITDA margin (%)	53.4	55.9	64.0	66.3	64.3	59.6
EBIT margin (%)	43.9	50.7	56.1	58.4	51.7	43.6
Net margin (%)	55.0	72.9	62.0	64.3	73.3	80.1
Net debt/EBITDA (x)	-3.5	-2.8	-2.4	-3.0	-5.5	-8.1
Interest coverage (to EBITDA) (x)	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.

Profit and Loss (TLm)	2017A	2018A	2019A	2020E	2021E	2022E
Revenue	968	1,611	2,849	3,170	2,334	2,087
Growth (y/y)	*-7%*	*66%*	*77%*	*11%*	*-26%*	*-11%*
Gross profit	538	978	1,894	2,109	1,431	1,111
EBITDA	516	900	1,823	2,103	1,501	1,245
Growth (y/y)	-23%	74%	102%	15%	-29%	-17%
EBIT	424	816	1,598	1,850	1,206	910
Growth (y/y)	-29%	92%	96%	16%	-35%	-25%
Other income/expense	13	-17	14	0	0	0
Financial income/expense	219	626	647	751	933	1,180
Profit before tax	656	1,426	2,258	2,601	2,138	2,090
Tax	-124	-252	-491	-564	-428	-418
Effective tax rate	*18.9%*	*17.7%*	*21.7%*	*21.7%*	*20.0%*	*20.0%*
Minorities	0	0	0	0	0	0
Net income	532	1,174	1,767	2,037	1,711	1,672
Growth (y/y)	35%	121%	51%	15%	-16%	-2%
Weighted diluted number of shares (m)	153	153	153	153	153	153
Earnings per share (EPS) (TL)	3.5	7.7	11.6	13.4	11.2	11.0
Dividend per share (DPS) (TL)	0.0	0.0	0.0	0.0	0.0	0.0
Dividend pay-out ratio	0%	0%	0%	0%	0%	0%

Cash flow (USDm)	2018A	2019A	2020E	2021E
EBIT	169	282	272	163
Depreciation & Amortisation	17	40	37	40
Change in working capital	0	0	0	0
Taxes paid	-30	-61	-60	-34
Capex (operational)	-46	-25	-38	-33
Capex/Revenues	*-13.7%*	*-4.9%*	*-8.2%*	*-10.5%*
Free cash flow	**111**	**235**	**211**	**136**
Free cash flow margin	*33.2%*	*46.9%*	*45.3%*	*43.2%*
Dividends paid	0.00	0.00	0.00	0.00
Net increase (decrease) in cash (TLm)	**746**	**1,892**	**1,891**	**1,890**

Balance sheet (TLm)	2018A	2019A	2020E	2021E
Cash	2,559	4,455	6,341	8,231
Total current assets	3,204	5,284	7,378	8,994
Property, plant equipment	673	571	587	545
Intangible fixed assets	14	14	14	14
Total non-current assets	1,133	1,065	1,098	1,012
Total assets	**4,336**	**6,349**	**8,476**	**10,007**
Current liabilities	215	406	475	350
Total non-current liabilities	134	184	204	150
Total ordinary shareholders equity	3,988	5,758	7,796	9,507
Total equity and liability	**4,336**	**6,349**	**8,476**	**10,007**
Net working capital	256	314	435	320
Net cash (debt)	2,559	4,451	6,341	8,231

Source: Company financials, Unlu Securities estimates

12 May 2020

Turk Traktor

Still offers value

We maintain our positive view on Turk Traktor, owing to its strong fundamentals post Covid-19 and stimulus measures taken to support the agriculture sector. The incentivized tractor loans rates as well as the six-month extension of the loan/interest payments for the period until the end of June should be supportive on tractor demand. Note that Turk Traktor's domestic sales volumes was down only by 6% y/y in Apr'20, suggesting a robust growth once the Covid-19 effects are alleviated. In our opinion, Turk Traktor still offers a good entry point to buy into potential strength in domestic demand post Covid-19 in 2020. We keep our BUY rating with TL69 TP.

- **Incentivized tractor loans support demand:** Recall that Ziraat Bank had reduced interest rates on tractor loans to 4.5% (with 50% discount applied on tractor purchases domestically produced for credit limit of TL500K) at the beginning of the year. Additionally, on April 30, the payments including due interest for agricultural loans provided by Ziraat Bank for the period between May 1 and June 30 have been extended by six months. We think that the tractor demand was less impacted by Covid-19 (Turk Traktor wholesale volumes down by only 6% y/y in Apr'20), due to subsidies provided to the sector, low base effect and expectation of upward price adjustment due to TL volatility. As such, we expect growth momentum in tractor demand to continue once the negative effects of Covid-19 are alleviated. Note also that Turk Traktor gained market share of 150bp ytd to 51% in 1Q20.

- **Higher domestic volumes should compensate for weaker exports:** Turk Traktor has lowered guidance for exports to 10-12.5K units (down 18-34% y/y), owing to weakening demand in Europe and US. Nonetheless, domestic volume guidance remained unchanged at 12.5-15.5K units (14-42% growth) in 2020. We expect 23% volume growth in domestic sales to compensate for lower exports. Additionally, we think the change in revenue mix in favour of more value-added domestic sales should lead to higher margins in 2020.

- **Impressive FCF improvement was realized in 1q20:** We predict an increase in WC/sales to normalized levels (12%) in the following quarters, along with improving sales. Additionally, lower capex, slight WC improvement and higher profitability should translate into a fall in net debt/EBITDA to 1.2x in 2020 from 1.7x in 2019. We also expect an improvement in dividend yield to 5% by 2021 on the back of the historically high payout ratio at c.70% and earnings recovery.

Key forecasts	2017A	2018A	2019A	2020E	2021E	2022E
Revenue (TLm)	4,215	3,909	3,806	4,158	5,578	6,672
EBITDA (TLm)	492	498	373	482	657	786
Net Income (TLm)	321	240	112	213	371	456
EPS (TL)	6.0	4.5	2.1	4.0	7.0	8.5
DPS (TL)	5.6	0.0	1.9	2.8	4.9	4.9
Dividend Yield (%)	7.1	0.0	5.1	4.9	8.6	8.6
PE (x)	13.2	12.3	17.4	14.3	8.3	6.6
EV/EBITDA (x)	10.0	8.7	7.0	7.6	5.6	4.7

Source: Company financials, UNLU & Co estimates

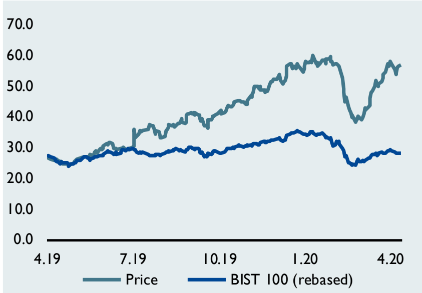
Recommendation: **BUY**

Target Price: TL 69

*Stock ratings are relative to the relevant country benchmark.'Target price is for 12 months
Produced by: UNLU & Co

Share data	
RIC	TTRAK.IS
Sector	Autos & Parts
Price (11 May 2020)	TL 56.80
Market cap. (TLm)	3,031
Enterprise value (TLm)	3,426
Market cap. (USDm)	429
Enterprise value (USDm)	485
Avg. daily trade value (USDm)	1.60
Free float (%)	24

Price relative to BIST 100



Historical performance relative to BIST 100 (%)			
Performance over	1M	3M	12M
Absolute (%)	18.3	-1.0	121.6
Relative (%)	16.7	21.2	100.6

Source: BIST 100, UNLU & Co Research

The price relative chart measures performance against the Turkey BIST 100 which closed at 97,792 on 11 May 2020

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Equity Research | CEEMEA/Turkey | Autos & Parts

Valuation metrics	2017A	2018A	2019A	2020E	2021E	2022E
P/E (x)	13.2	12.3	17.4	14.3	8.3	6.6
EV/EBITDA (x)	10.0	8.7	7.0	7.6	5.6	4.7
EV/Sales (x)	1.2	1.1	0.7	0.9	0.7	0.6
Dividend yield (%)	7.1	0.0	5.1	4.9	8.6	8.6

Ratio analysis	2017A	2018A	2019A	2020E	2021E	2022E
ROE (headline basis) (%)	44.0	34.1	15.8	25.9	37.6	38.1
ROIC (EBIT basis) (%)	27.0	22.3	14.8	22.3	26.0	27.0
Gross margin (%)	17.3	18.3	14.4	16.3	16.6	16.6
EBITDA margin (%)	11.7	12.7	9.8	11.6	11.8	11.8
EBIT margin (%)	10.0	10.5	6.5	8.3	9.1	9.2
Net margin (%)	7.6	6.1	2.9	5.1	6.7	6.8
Net debt/EBITDA (x)	1.4	2.7	1.7	1.2	1.0	0.9
Interest coverage (to EBITDA) (x)	0.3	0.4	0.5	0.2	0.1	0.1

Profit and Loss (TLm)	2017A	2018A	2019A	2020E	2021E	2022E
Revenue	4,215	3,909	3,806	4,158	5,578	6,672
Growth (y/y)	*22.4%*	*-7.3%*	*-2.6%*	*9.2%*	*34.2%*	*19.6%*
Gross profit	731	717	549	676	925	1,104
EBITDA	492	498	373	482	657	786
Growth (y/y)	-4.0%	1.2%	-25.1%	29.4%	36.1%	19.6%
EBIT	423	411	248	346	507	617
Growth (y/y)	-6.9%	-3.0%	-39.7%	39.5%	46.6%	21.8%
Other income/expense	56	32	43	-7	22	27
Financial income/expense	-128	-186	-181	-110	-77	-81
Profit before tax	351	256	109	229	452	563
Tax	-30	-16	3	-16	-80	-107
Effective tax rate	*8.6%*	*6.3%*	*-2.4%*	*7.0%*	*17.8%*	*19.0%*
Minorities	0	0	0	0	0	0
Net income	321	240	112	213	371	456
Growth (y/y)	-13.3%	-25.1%	-53.4%	90.1%	74.5%	22.8%
Weighted diluted number of shares (m)	53	53	53	53	53	53
Earnings per share (EPS) (TL)	6.0	4.5	2.1	4.0	7.0	8.5
Dividend per share (DPS) (TL)	5.6	0.0	1.9	2.8	4.9	4.9
Dividend pay-out ratio	*93.5%*	*0.0%*	*89.4%*	*70.0%*	*70.0%*	*57.0%*

Cash flow (TLm)	2018A	2019A	2020E	2021E
EBIT	411	248	346	507
Depreciation & Amortisation	87	125	137	150
Change in working capital	-425	646	-23	-169
Taxes paid	-90	-50	-24	-90
Capex (operational)	-156	-143	-166	-235
Capex/Revenues	*-4.0%*	*-3.8%*	*-4.0%*	*-4.2%*
Free cash flow	**-173**	**827**	**269**	**162**
Free cash flow margin	*-4.4%*	*21.7%*	*6.5%*	*2.9%*
Dividends paid	0	-100	-149	-260
Net increase (decrease) in cash	**-675**	**710**	**56**	**-48**

Balance sheet (TLm)	2018A	2019A	2020E	2021E
Cash	413	747	1,002	1,028
Total current assets	2,163	1,936	2,303	2,771
Property, plant equipment	590	585	614	699
Intangible fixed assets	269	296	296	296
Total non-current assets	931	980	1,019	1,141
Total assets	**3,093**	**2,916**	**3,322**	**3,912**
Current liabilities	1,082	1,095	1,220	1,466
Total non-current liabilities	1,359	1,057	1,225	1,346
Total ordinary shareholders equity	652	764	877	1,099
Total equity and liability	**3,093**	**2,916**	**3,322**	**3,912**
Net working capital	1,137	491	514	683
Net cash (debt)	-1,360	-650	-594	-641

Source: Company financials, Unlu Securities estimates

Companies Mentioned (Price as of 08 May 2020)
Akbank (AKBNK.IS, BUY, TP TL7.90)
Garanti Bank (GARAN.IS, BUY, TP TL11.25)
Halkbank (HALKB.IS, HOLD, TP TL6.18)
Isbank (ISCTR.IS, HOLD, TP TL5.80)
TSKB (TSKB.IS, BUY, TP TL1.49)
Vakifbank (VAKBN.IS, BUY, TP TL6.00)
Yapi Kredi (YKBNK.IS, BUY, TP TL3.00)
Turk Telekom (TTKOM.IS, BUY, TP TL8.50)
Turkcell (TCELL.IS, BUY, TP TL18.00)
Enka Insaat (ENKAI.IS, HOLD, TP TL6.70)
Tekfen Holding (TKFEN.IS, BUY, TP TL17.60)
Koc Holding (KCHOL.IS, BUY, TP TL21.30)
Sabanci Holding (SAHOL.IS, BUY, TP TL11.70)
Koza Gold (KOZAL, BUY, TP TL104.00)
Koza Anadolu (KOZAA, BUY, TP TL15.20)
Erdemir (EREGL.IS, BUY, TP TL10.60)
Kardemir (KRDMD.IS, HOLD, TP TL2.61)
Aygaz (AYGAZ.IS, HOLD, TP TL10.99)
Petkim (PETKM.IS, BUY, TP TL4.87)
Tupras (TUPRS.IS, BUY, TP TL120.13)
Arcelik (ARCLK.IS, HOLD, TP TL18.20)
Dogus Otomotiv (DOAS.IS, HOLD, TP TL9.30)
Ford Otosan (FROTO.IS, BUY, TP TL75.60)
Tofas (TOASO.IS, BUY, TP TL28.40)
Turk Traktor (TTRAK.IS, BUY, TP TL69.00)
Aselsan (ASELS.IS, HOLD, TP TL30.00)
Bim (BIMAS.IS, HOLD, TP TL59.30)
Bizim Toptan (BIZIM.IS, BUY, TP TL15.20)
Sok Marketler (SOKM.IS, BUY, TP TL14.80)
Migros (MGROS.IS, BUY, TP TL39.80)
Anadolu Cam (ANACM.IS, HOLD, TP TL4.85)
Sise Cam (SISE.IS, BUY, TP TL6.40)
Soda Sanayii (SODA.IS, HOLD, TP TL6.50)
Trakya Cam (TRKCM.IS, HOLD, TP TL3.80)
Pegasus Airlines (PGSUS.IS, HOLD, TP TL45.40)
TAV Airports (TAVHL.IS, BUY, TP TL24.30)
Turkish Airlines (THYAO.IS, HOLD, TP TL9.70)
Anadolu Efes (AEFES.IS, BUY, TP TL23.30)
Coca Cola Icecek (CCOLA.IS, HOLD, TP TL42.00)
Ulker Biskuvi (ULKER.IS, BUY, TP TL30.00)

Disclosure Appendix

Important Global Disclosures

The information and opinions in this research report was prepared by UNLU Menkul Degerler A.S ("Unlu Securities").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please contact UNLU & Co Research and / or Compliance - +90 212 367 3636.

For valuation methodology and risks associated with any price targets referenced in this research report, please email: UnluResearch@unluco.com with a request for valuation methodology and risks on a particular stock.

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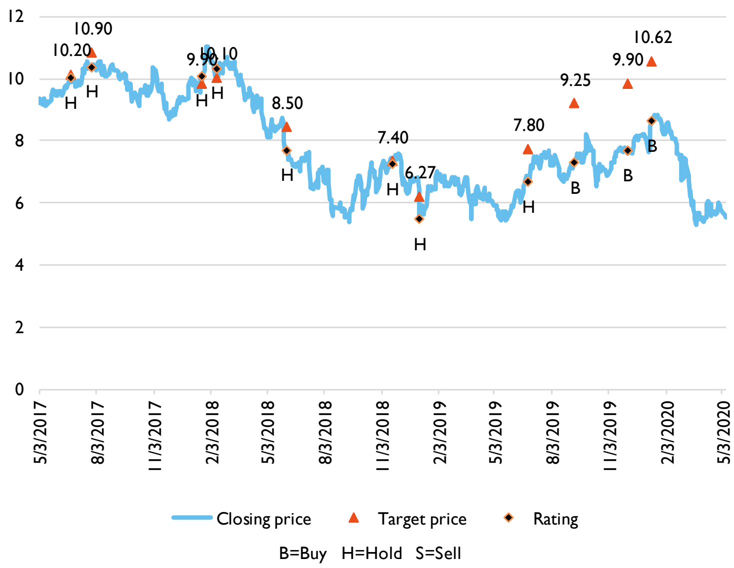
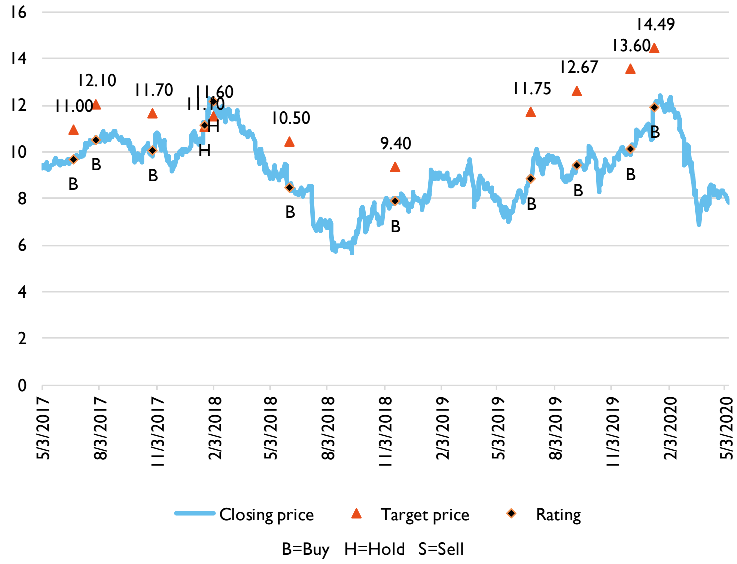
3-Year Price, Target Price and Rating Change History Chart for AKBNK.IS

AKBNK.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/22/2017	10.06	**10.20**	**HOLD**	
7/26/2017	10.43	**10.90**	**HOLD**	
1/18/2018	10.15	**9.90**	**HOLD**	
2/12/2018	10.39	**10.10**	**HOLD**	
6/4/2018	7.75	**8.50**	**HOLD**	
11/20/2018	7.29	**7.40**	**HOLD**	
1/3/2019	5.52	**6.27**	**HOLD**	
6/26/2019	6.72	**7.80**	**HOLD**	
9/9/2019	7.33	**9.25**	**BUY**	
12/2/2019	7.74	**9.90**	**BUY**	
1/10/2020	8.69	**10.62**	**BUY**	



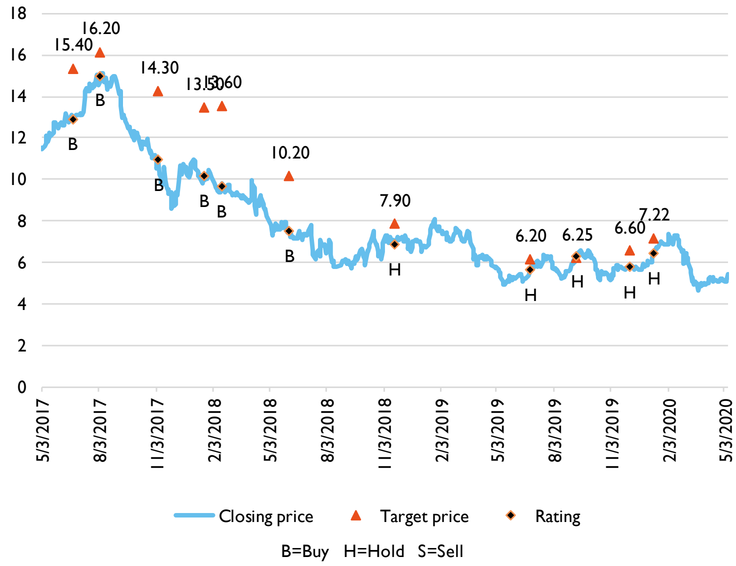
3-Year Price, Target Price and Rating Change History Chart for GARAN.IS

GARAN.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/21/2017	9.75	**11.00**	**BUY**	
7/28/2017	10.58	**12.10**	**BUY**	
10/27/2017	10.10	**11.70**	**BUY**	
1/18/2018	11.17	**11.10**	**HOLD**	
2/1/2018	12.22	**11.60**	**HOLD**	
6/4/2018	8.54	**10.50**	**BUY**	
11/20/2018	7.93	**9.40**	**BUY**	
6/26/2019	8.89	**11.75**	**BUY**	
9/9/2019	9.46	**12.67**	**BUY**	
12/2/2019	10.14	**13.60**	**BUY**	
1/10/2020	11.97	**14.49**	**BUY**	



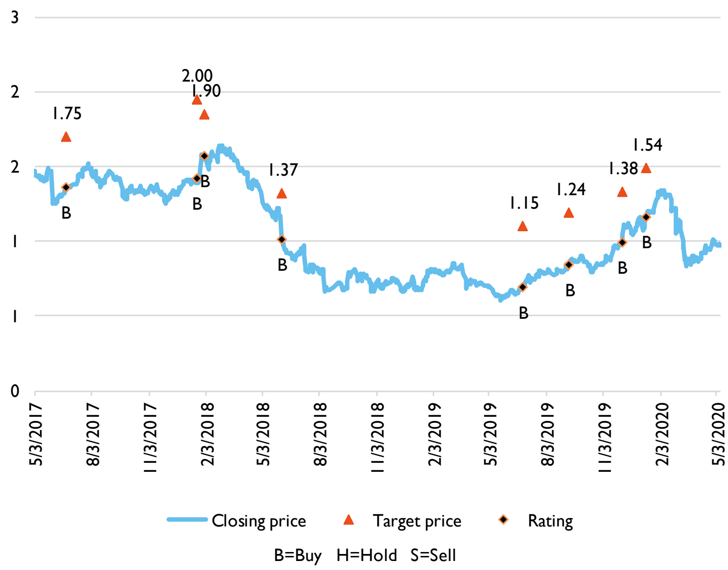
3-Year Price, Target Price and Rating Change History Chart for HALKB.IS

HALKB.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/21/2017	12.94	**15.40**	**BUY**	
8/4/2017	15.06	**16.20**	**BUY**	
11/6/2017	10.98	**14.30**	**BUY**	
1/18/2018	10.21	**13.50**	**BUY**	
2/15/2018	9.70	**13.60**	**BUY**	
6/4/2018	7.56	**10.20**	**BUY**	
11/20/2018	6.91	**7.90**	**HOLD**	
6/26/2019	5.68	**6.20**	**HOLD**	
9/9/2019	6.33	**6.25**	**HOLD**	
12/2/2019	5.80	**6.60**	**HOLD**	
1/10/2020	6.47	**7.22**	**HOLD**	



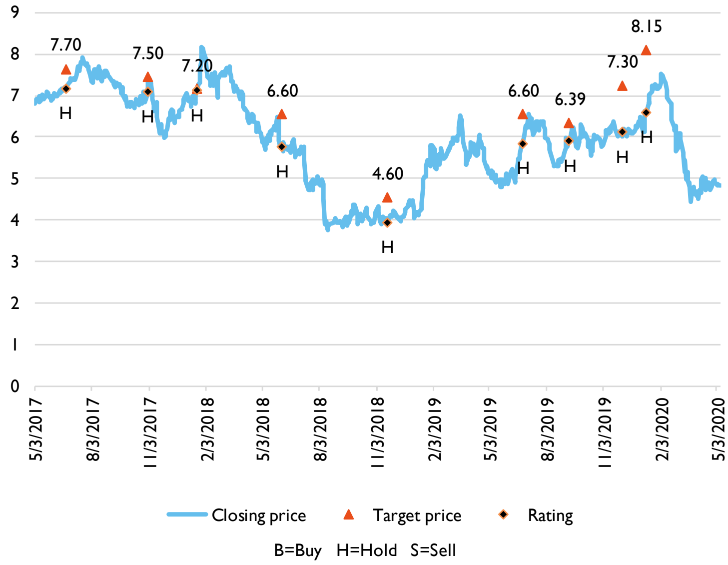
3-Year Price, Target Price and Rating Change History Chart for TSKB.IS

TSKB.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/22/2017	1.41	**1.75**	**BUY**	
1/18/2018	1.47	**2.00**	**BUY**	
1/31/2018	1.62	**1.90**	**BUY**	
6/4/2018	1.06	**1.37**	**BUY**	
6/26/2019	0.74	**1.15**	**BUY**	
9/9/2019	0.89	**1.24**	**BUY**	
12/2/2019	1.04	**1.38**	**BUY**	
1/10/2020	1.21	**1.54**	**BUY**	



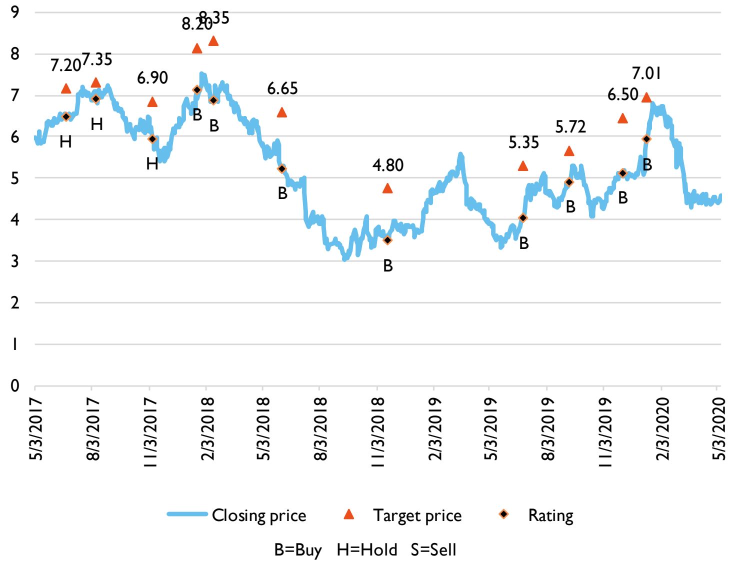
3-Year Price, Target Price and Rating Change History Chart for ISCTR.IS

ISCTR.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/21/2017	7.22	**7.70**	**HOLD**	
10/31/2017	7.14	**7.50**	**HOLD**	
1/18/2018	7.17	**7.20**	**HOLD**	
6/4/2018	5.82	**6.60**	**HOLD**	
11/20/2018	4.00	**4.60**	**HOLD**	
6/26/2019	5.90	**6.60**	**HOLD**	
9/9/2019	5.95	**6.39**	**HOLD**	
12/2/2019	6.16	**7.30**	**HOLD**	
1/10/2020	6.65	**8.15**	**HOLD**	



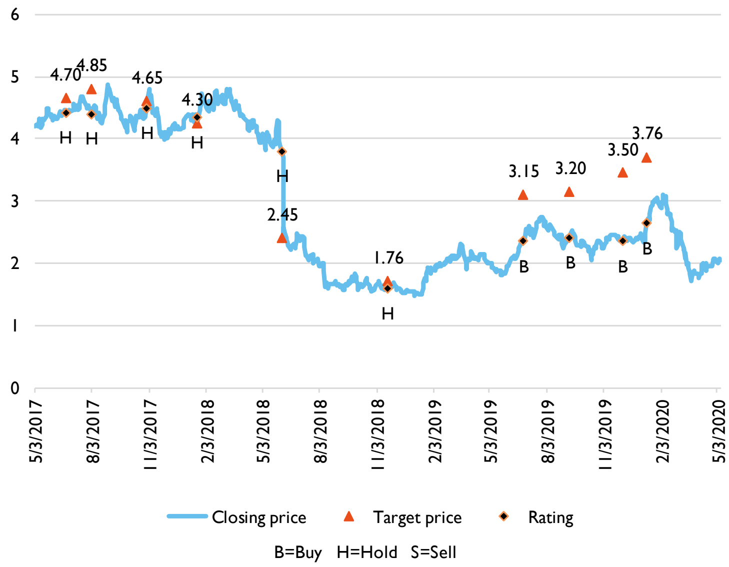
3-Year Price, Target Price and Rating Change History Chart for VAKBN.IS

VAKBN.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/21/2017	6.53	**7.20**	**HOLD**	
8/10/2017	6.95	**7.35**	**HOLD**	
11/7/2017	6.00	**6.90**	**HOLD**	
1/18/2018	7.18	**8.20**	**BUY**	
2/14/2018	6.92	**8.35**	**BUY**	
6/4/2018	5.29	**6.65**	**BUY**	
11/20/2018	3.55	**4.80**	**BUY**	
6/26/2019	4.09	**5.35**	**BUY**	
9/9/2019	4.96	**5.72**	**BUY**	
12/2/2019	5.18	**6.50**	**BUY**	
1/10/2020	5.98	**7.01**	**BUY**	



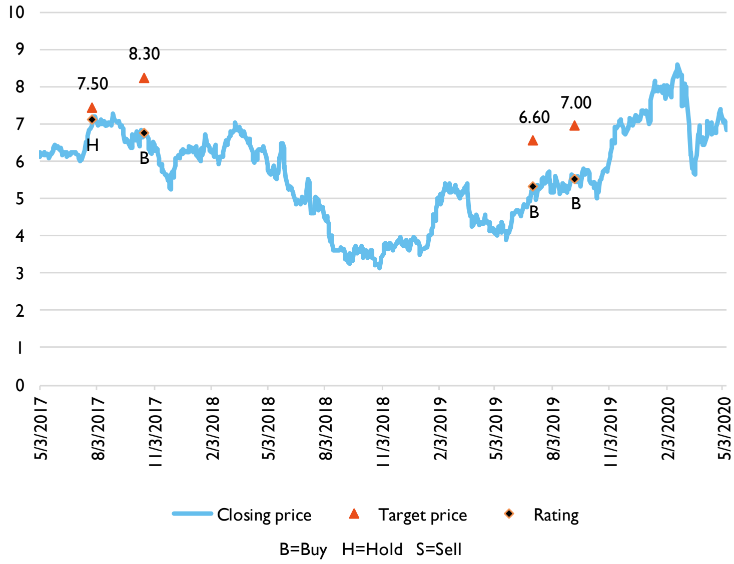
3-Year Price, Target Price and Rating Change History Chart for YKBNK.IS

YKBNK.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/21/2017	4.47	**4.70**	**HOLD**	
8/2/2017	4.45	**4.85**	**HOLD**	
10/30/2017	4.54	**4.65**	**HOLD**	
1/18/2018	4.39	**4.30**	**HOLD**	
6/4/2018	3.85	**2.45**	**HOLD**	
11/20/2018	1.64	**1.76**	**HOLD**	
6/26/2019	2.40	**3.15**	**BUY**	
9/9/2019	2.46	**3.20**	**BUY**	
12/2/2019	2.40	**3.50**	**BUY**	
1/10/2020	2.69	**3.76**	**BUY**	



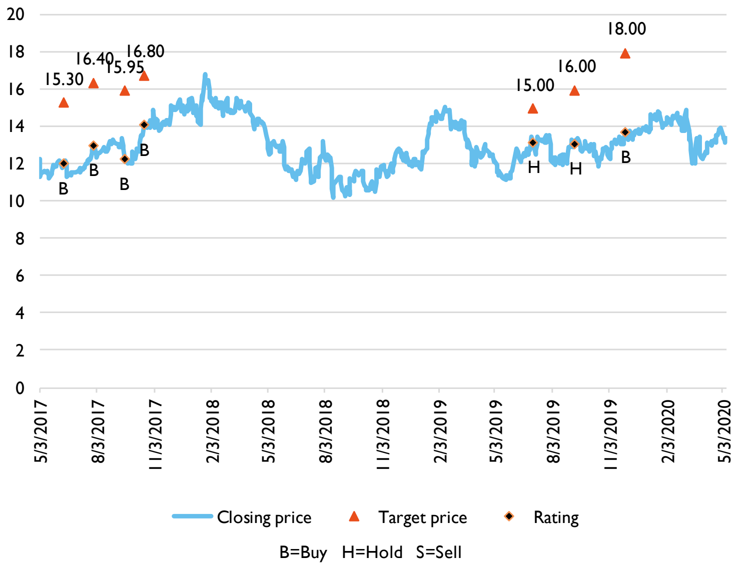
3-Year Price, Target Price and Rating Change History Chart for TTKOM.IS

TTKOM.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/26/2017	7.16	**7.50**	**HOLD**	
10/17/2017	6.81	**8.30**	**BUY**	
7/4/2019	5.36	**6.60**	**BUY**	
9/9/2019	5.59	**7.00**	**BUY**	



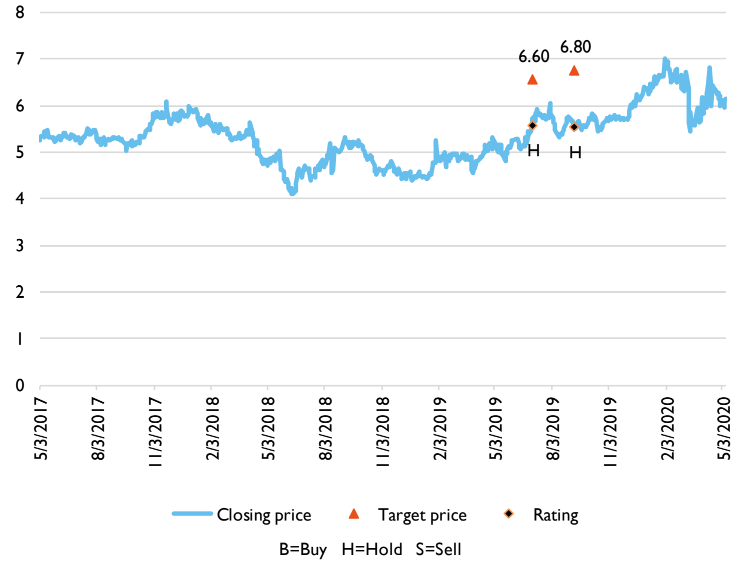
3-Year Price, Target Price and Rating Change History Chart for TCELL.IS

TCELL.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/9/2017	12.04	**15.30**	**BUY**	
7/28/2017	13.05	**16.40**	**BUY**	
9/15/2017	12.29	**15.95**	**BUY**	
10/17/2017	14.11	**16.80**	**BUY**	
7/4/2019	13.21	**15.00**	**HOLD**	
9/9/2019	13.13	**16.00**	**HOLD**	
11/28/2019	13.73	**18.00**	**BUY**	



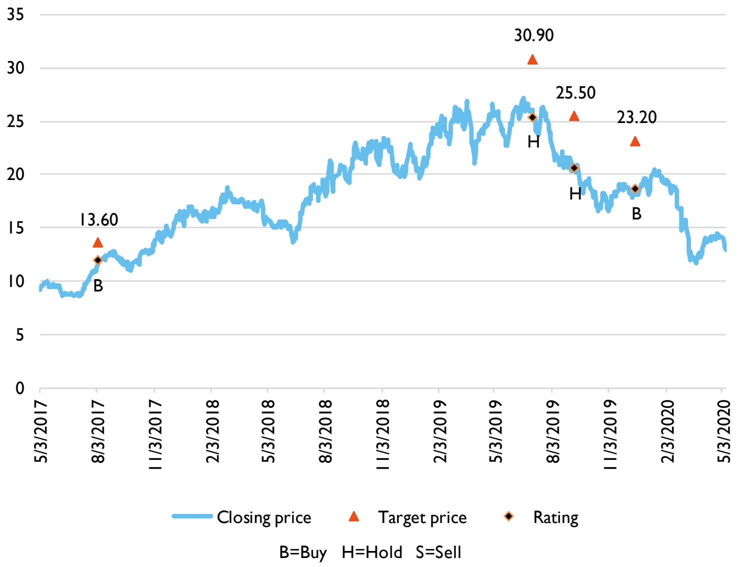
3-Year Price, Target Price and Rating Change History Chart for ENKAI.IS

ENKAI.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	5.62	**6.60**	**HOLD**	
9/9/2019	5.58	**6.80**	**HOLD**	



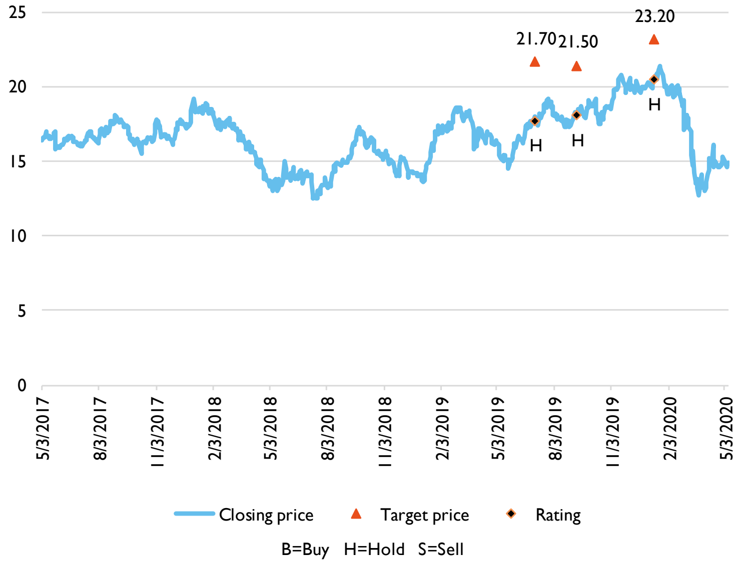
3-Year Price, Target Price and Rating Change History Chart for TKFEN.IS

TKFEN.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
8/4/2017	11.97	**13.60**	**BUY**	
7/4/2019	25.46	**30.90**	**HOLD**	
9/9/2019	20.60	**25.50**	**HOLD**	
12/16/2019	18.69	**23.20**	**BUY**	



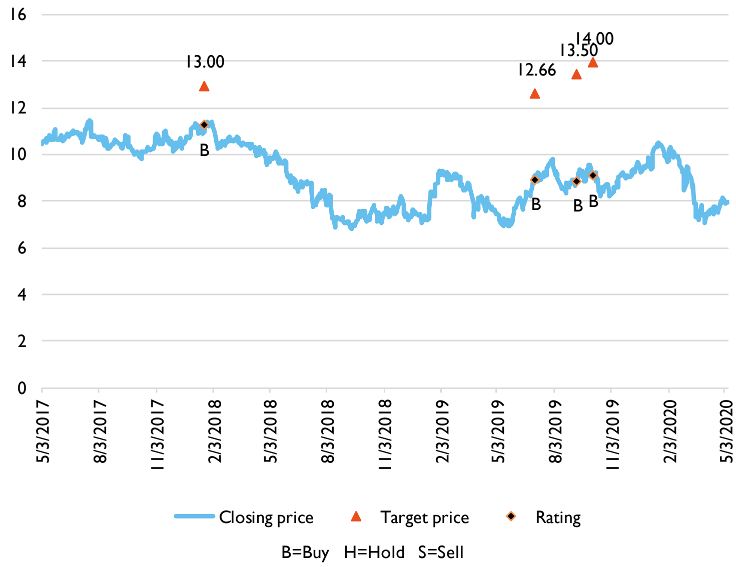
3-Year Price, Target Price and Rating Change History Chart for KCHOL.IS

KCHOL.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	17.79	**21.70**	**HOLD**	
9/9/2019	18.12	**21.50**	**HOLD**	
1/10/2020	20.54	**23.20**	**HOLD**	



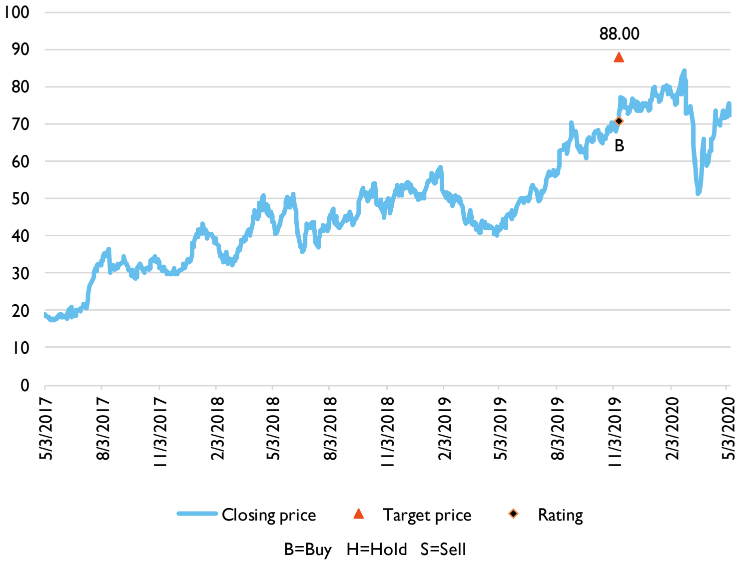
3-Year Price, Target Price and Rating Change History Chart for SAHOL.IS

SAHOL.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
1/18/2018	11.29	**13.00**	**BUY**	
7/4/2019	8.98	**12.66**	**BUY**	
9/9/2019	8.92	**13.50**	**BUY**	
10/4/2019	9.12	**14.00**	**BUY**	



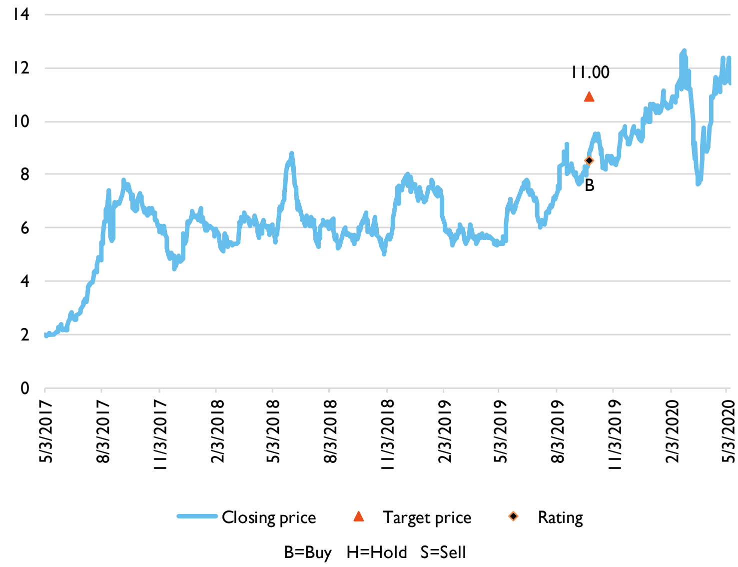
3-Year Price, Target Price and Rating Change History Chart for KOZAL.IS

KOZAL.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
24/09/19		**85.00**	**BUY**	
11/11/2019	71.00	**88.00**	**BUY**	



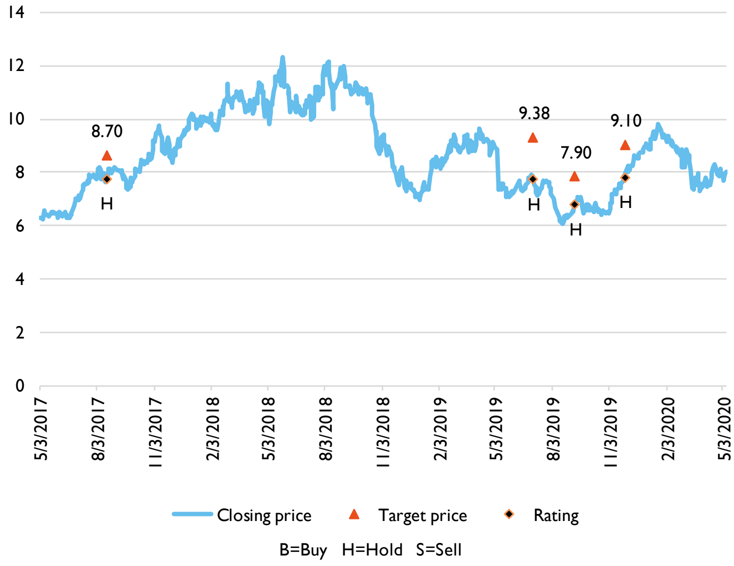
3-Year Price, Target Price and Rating Change History Chart for KOZAA.IS

KOZAA.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
9/24/2019	8.58	**11.00**	**BUY**	



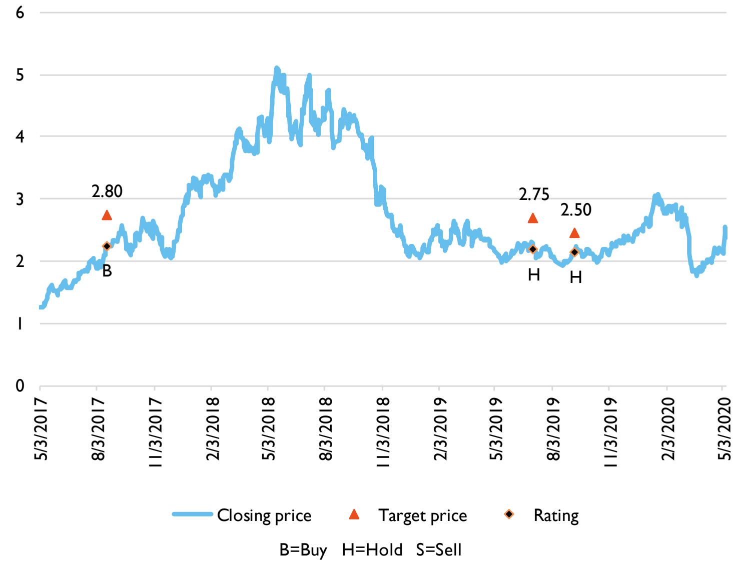
3-Year Price, Target Price and Rating Change History Chart for EREGL.IS

EREGL.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
8/18/2017	7.81	**8.70**	**HOLD**	
7/4/2019	7.78	**9.38**	**HOLD**	
9/9/2019	6.84	**7.90**	**HOLD**	
11/28/2019	7.87	**9.10**	**HOLD**	



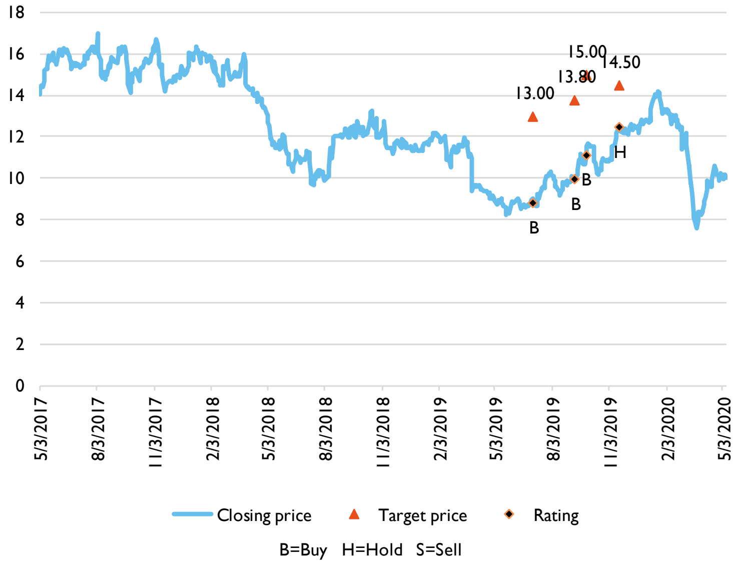
3-Year Price, Target Price and Rating Change History Chart for KRDMD.IS

KRDMD.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
8/18/2017	2.30	**2.80**	**BUY**	
7/4/2019	2.24	**2.75**	**HOLD**	
9/9/2019	2.20	**2.50**	**HOLD**	



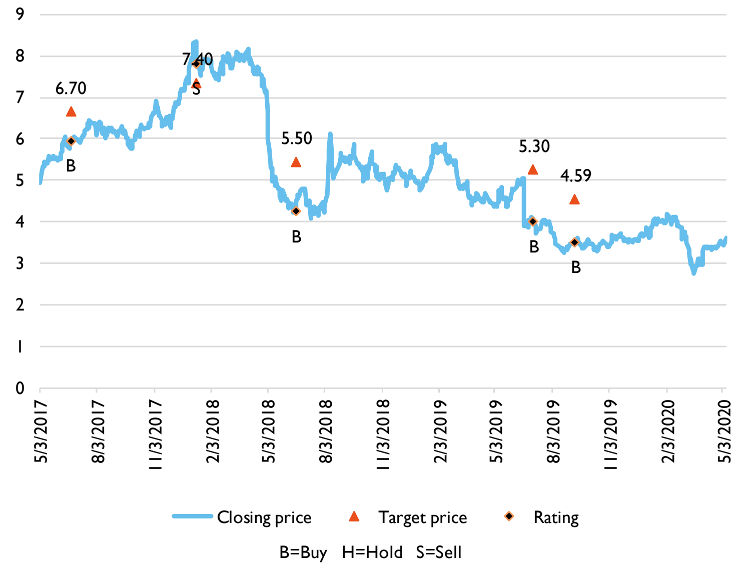
3-Year Price, Target Price and Rating Change History Chart for AYGAZ.IS

AYGAZ.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	8.88	**13.00**	**BUY**	
9/9/2019	10.00	**13.80**	**BUY**	
9/26/2019	11.18	**15.00**	**BUY**	
11/19/2019	12.50	**14.50**	**HOLD**	



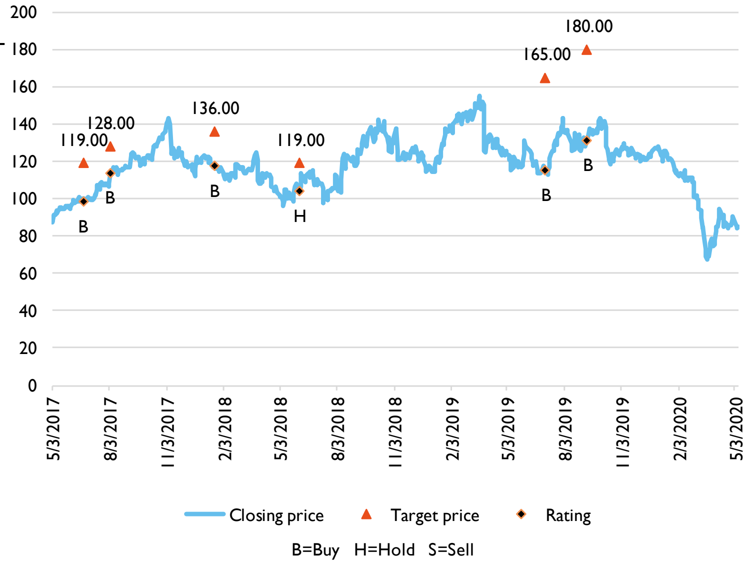
3-Year Price, Target Price and Rating Change History Chart for PETKM.IS

PETKM.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/21/2017	6.01	**6.70**	**BUY**	
1/10/2018	7.86	**7.40**	**SELL**	
6/18/2018	4.30	**5.50**	**BUY**	
7/4/2019	4.06	**5.30**	**BUY**	
9/9/2019	3.56	**4.59**	**BUY**	



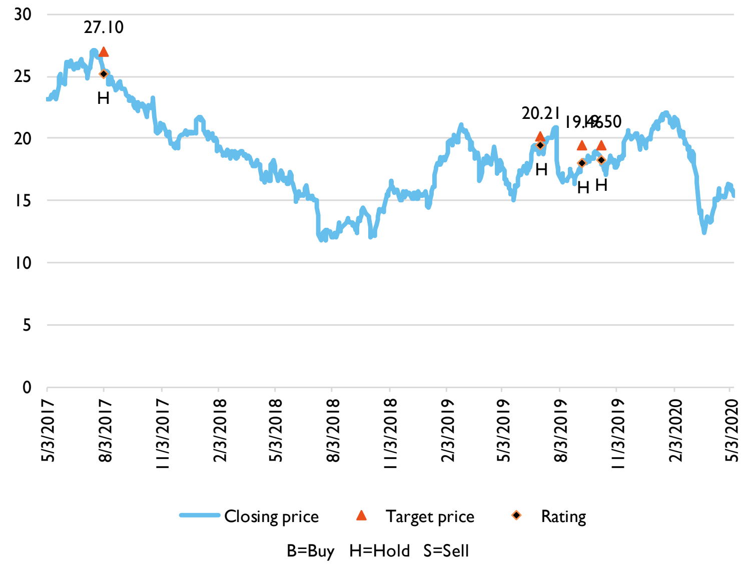
3-Year Price, Target Price and Rating Change History Chart for TUPRS.IS

TUPRS.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/21/2017	98.60	**119.00**	**BUY**	
8/3/2017	114.00	**128.00**	**BUY**	
1/18/2018	117.50	**136.00**	**BUY**	
6/4/2018	104.10	**119.00**	**HOLD**	
7/4/2019	115.50	**165.00**	**BUY**	
9/9/2019	131.50	**180.00**	**BUY**	



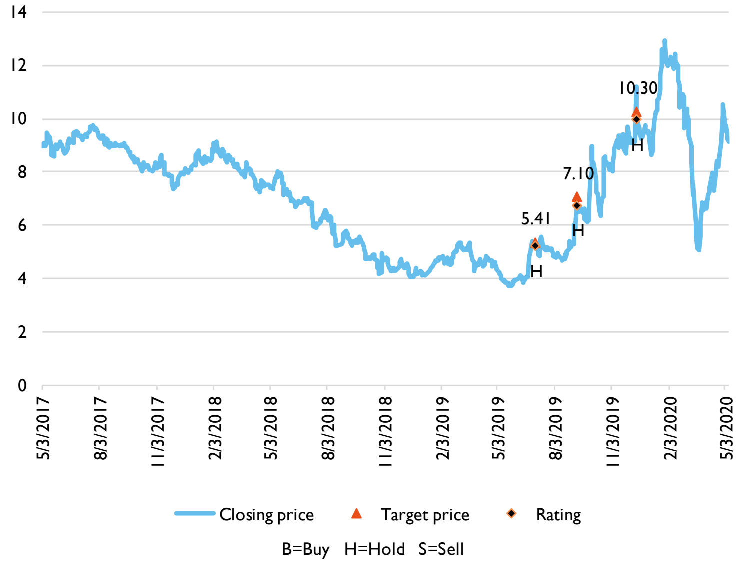
3-Year Price, Target Price and Rating Change History Chart for ARCLK.IS

ARCLK.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
8/1/2017	25.28	**27.10**	**HOLD**	
7/4/2019	19.55	**20.21**	**HOLD**	
9/9/2019	18.10	**19.46**	**HOLD**	
10/8/2019	18.31	**19.50**	**HOLD**	



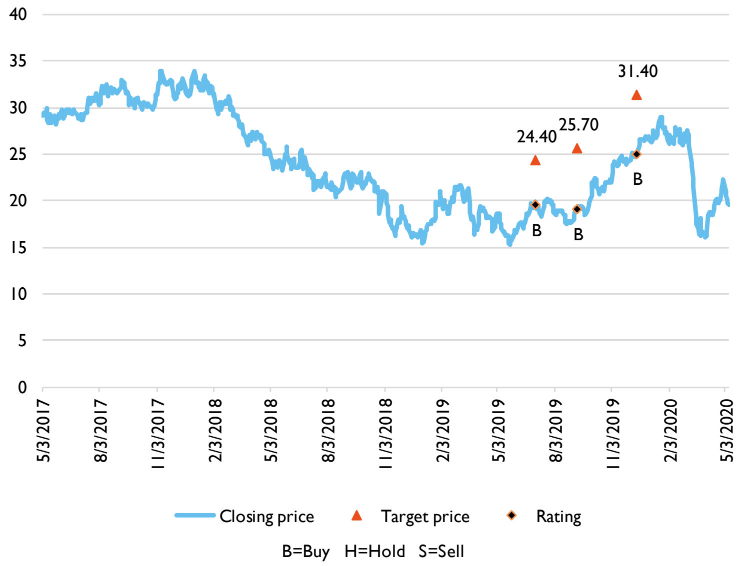
3-Year Price, Target Price and Rating Change History Chart for DOAS.IS

DOAS.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	5.25	**5.41**	**HOLD**	
9/9/2019	6.79	**7.10**	**HOLD**	
12/13/2019	10.00	**10.30**	**HOLD**	



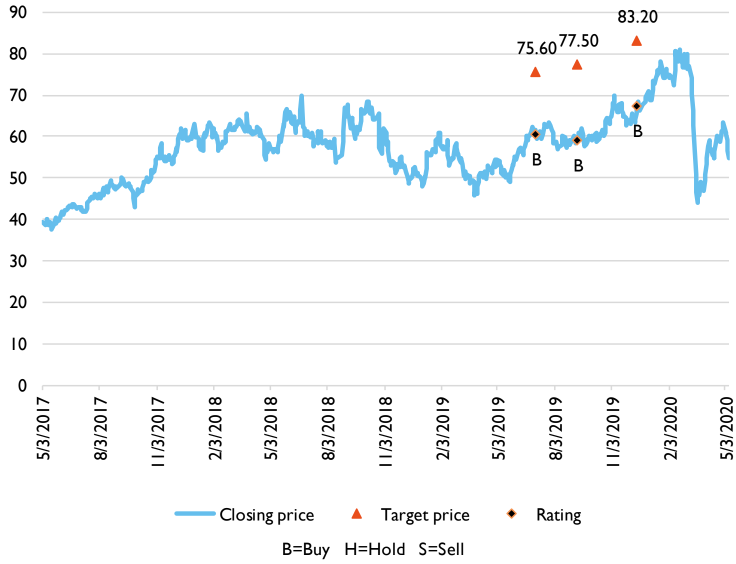
3-Year Price, Target Price and Rating Change History Chart for TOASO.IS

TOASO.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
27.94.2016		**25.10**	**HOLD**	
12/16/2016		**27.80**	**BUY**	
1/25/2017		**28.50**	**BUY**	
3/17/2017		**31.00**	**BUY**	
7/4/2019	19.55	**24.40**	**BUY**	
9/9/2019	19.12	**25.70**	**BUY**	
12/13/2019	25.04	**31.40**	**BUY**	



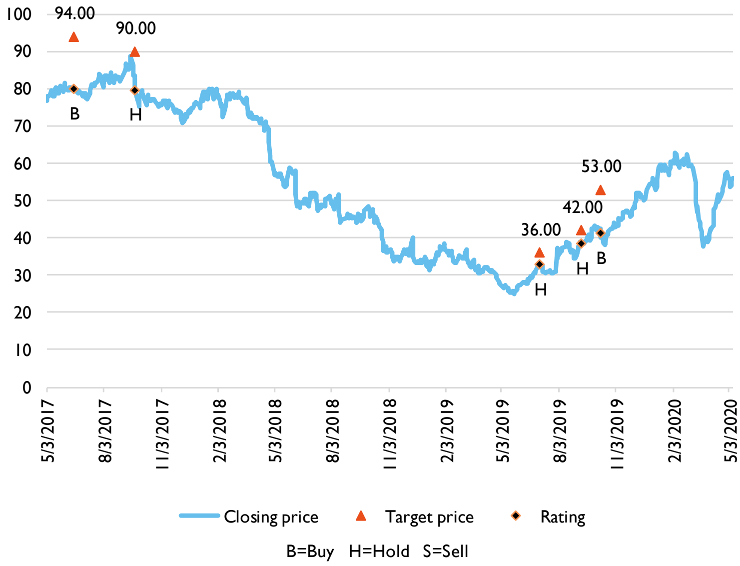
3-Year Price, Target Price and Rating Change History Chart for FROTO.IS

FROTO.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	60.50	**75.60**	**BUY**	
9/9/2019	59.05	**77.50**	**BUY**	
12/13/2019	67.40	**83.20**	**BUY**	



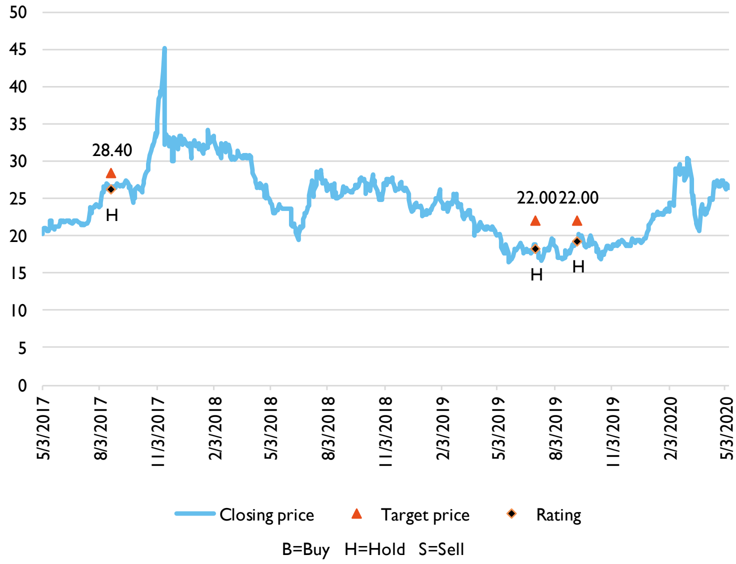
3-Year Price, Target Price and Rating Change History Chart for TTRAK.IS

TTRAK.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/16/2017	80.05	**94.00**	**BUY**	
9/22/2017	79.85	**90.00**	**HOLD**	
7/4/2019	33.00	**36.00**	**HOLD**	
9/9/2019	38.50	**42.00**	**HOLD**	
10/9/2019	41.32	**53.00**	**BUY**	



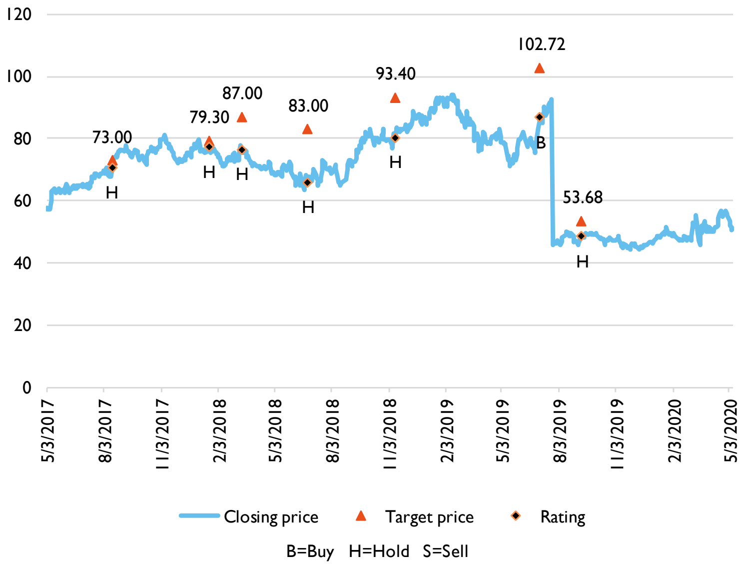
3-Year Price, Target Price and Rating Change History Chart for ASELS.IS

ASELS.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
8/22/2017	26.20	**28.40**	**HOLD**	
7/4/2019	18.25	**22.00**	**HOLD**	
9/9/2019	19.32	**22.00**	**HOLD**	



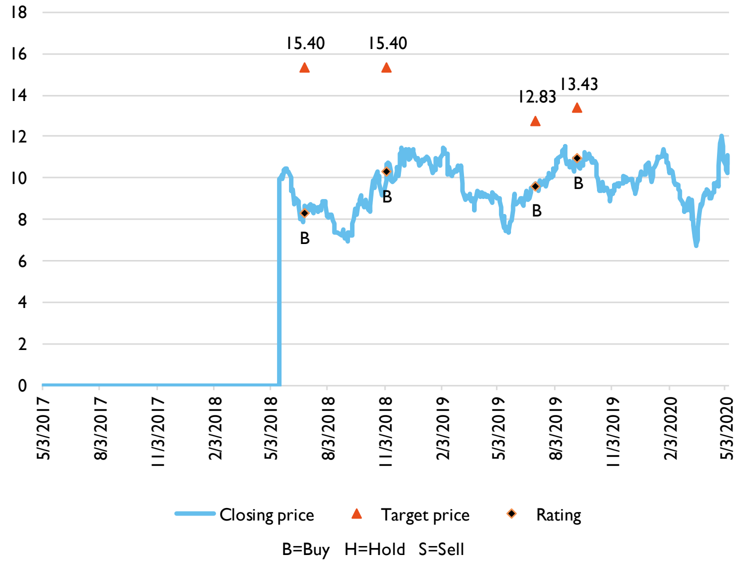
3-Year Price, Target Price and Rating Change History Chart for BIMAS.IS

BIMAS.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
8/15/2017	70.70	**73.00**	**HOLD**	
1/18/2018	77.30	**79.30**	**HOLD**	
3/12/2018	76.60	**87.00**	**HOLD**	
6/26/2018	66.10	**83.00**	**HOLD**	
11/13/2018	80.45	**93.40**	**HOLD**	
7/4/2019	86.80	**102.72**	**BUY**	
9/9/2019	48.54	**53.68**	**HOLD**	



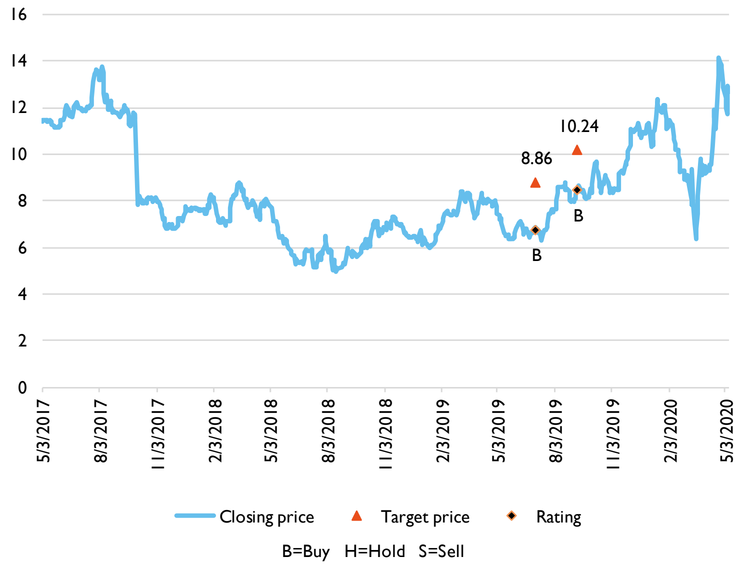
3-Year Price, Target Price and Rating Change History Chart for SOKM.IS

SOKM.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/27/2018	8.36	**15.40**	**BUY**	
11/6/2018	10.35	**15.40**	**BUY**	
7/4/2019	9.67	**12.83**	**BUY**	
9/9/2019	11.00	**13.43**	**BUY**	



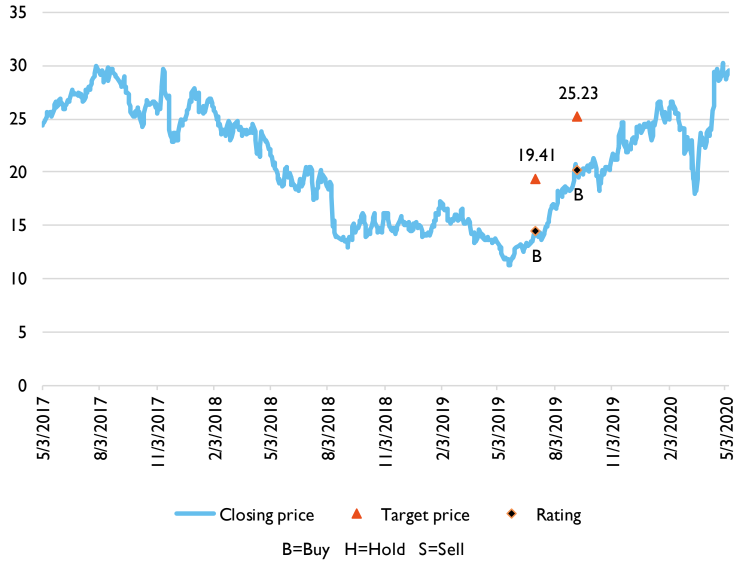
3-Year Price, Target Price and Rating Change History Chart for BIZIM.IS

BIZIM.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	6.80	**8.86**	**BUY**	
9/9/2019	8.49	**10.24**	**BUY**	



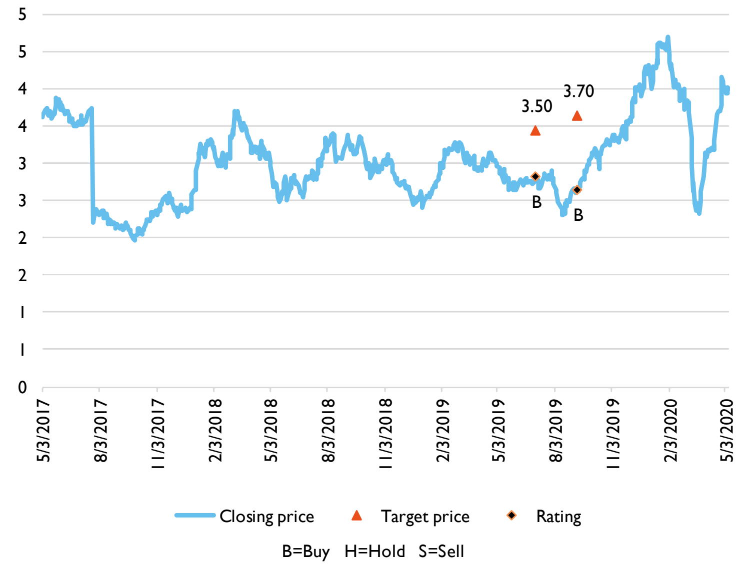
3-Year Price, Target Price and Rating Change History Chart for MGROS.IS

MGROS.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	14.53	**19.41**	**BUY**	
9/9/2019	20.26	**25.23**	**BUY**	



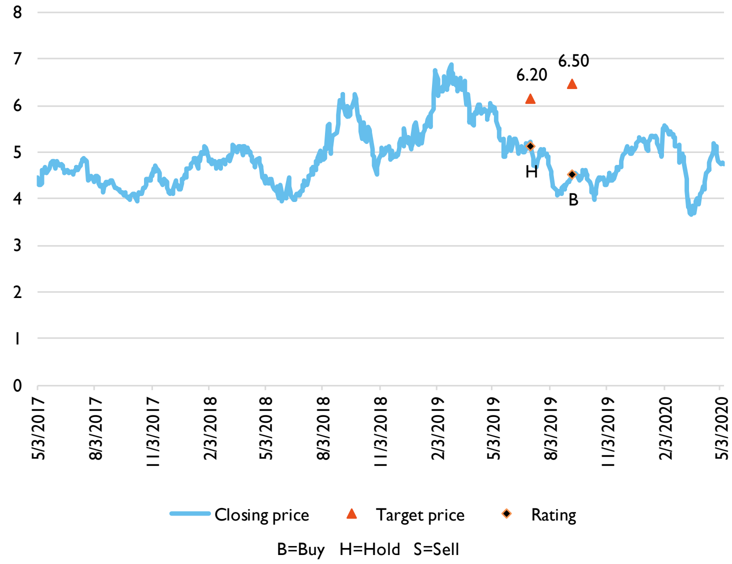
3-Year Price, Target Price and Rating Change History Chart for ANACM.IS

ANACM.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	2.87	**3.50**	**BUY**	
9/9/2019	2.69	**3.70**	**BUY**	



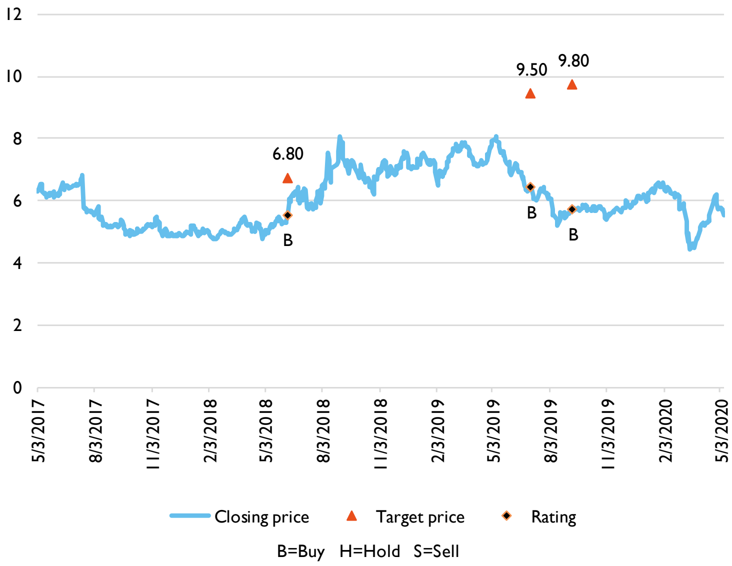
3-Year Price, Target Price and Rating Change History Chart for SISE.IS

SISE.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	5.17	**6.20**	**HOLD**	
9/9/2019	4.56	**6.50**	**BUY**	



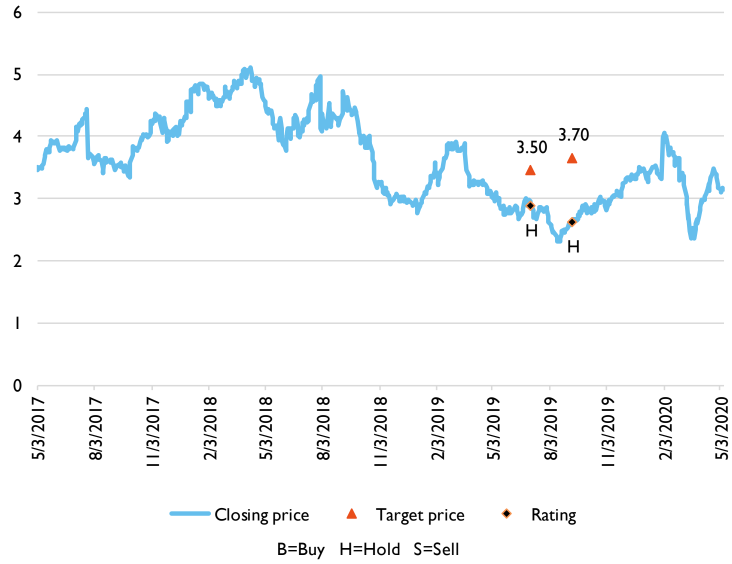
3-Year Price, Target Price and Rating Change History Chart for SODA.IS

SODA.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/8/2018	5.59	**6.80**	**BUY**	
7/4/2019	6.47	**9.50**	**BUY**	
9/9/2019	5.76	**9.80**	**BUY**	



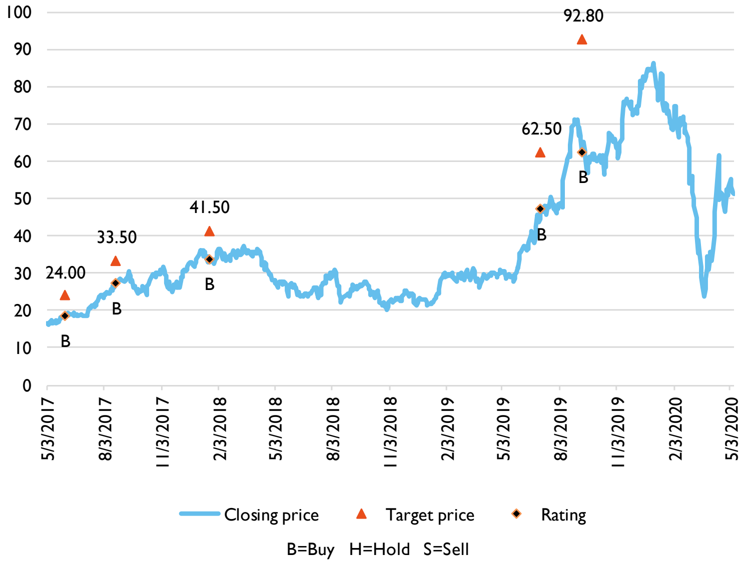
3-Year Price, Target Price and Rating Change History Chart for TRKCM.IS

TRKCM.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	2.94	**3.50**	**HOLD**	
9/9/2019	2.68	**3.70**	**HOLD**	



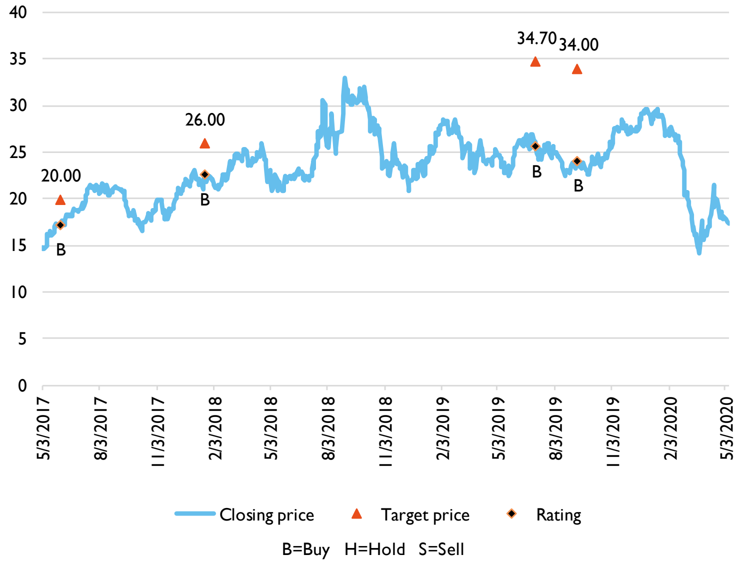
3-Year Price, Target Price and Rating Change History Chart for PGSUS.IS

PGSUS.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/1/2017	18.65	**24.00**	**BUY**	
8/22/2017	27.28	**33.50**	**BUY**	
1/18/2018	33.82	**41.50**	**BUY**	
7/4/2019	47.16	**62.50**	**BUY**	
9/9/2019	62.50	**92.80**	**BUY**	



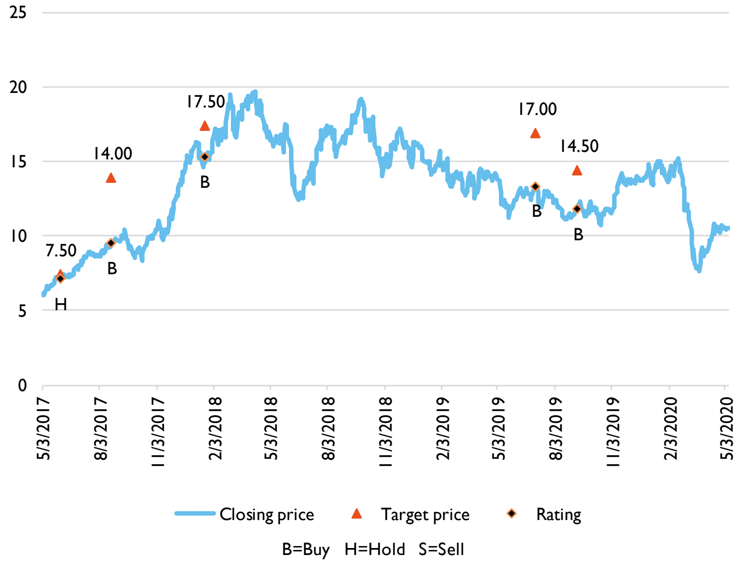
3-Year Price, Target Price and Rating Change History Chart for TAVHL.IS

TAVHL.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/1/2017	17.28	**20.00**	**BUY**	
1/18/2018	22.62	**26.00**	**BUY**	
7/4/2019	25.60	**34.70**	**BUY**	
9/9/2019	24.12	**34.00**	**BUY**	



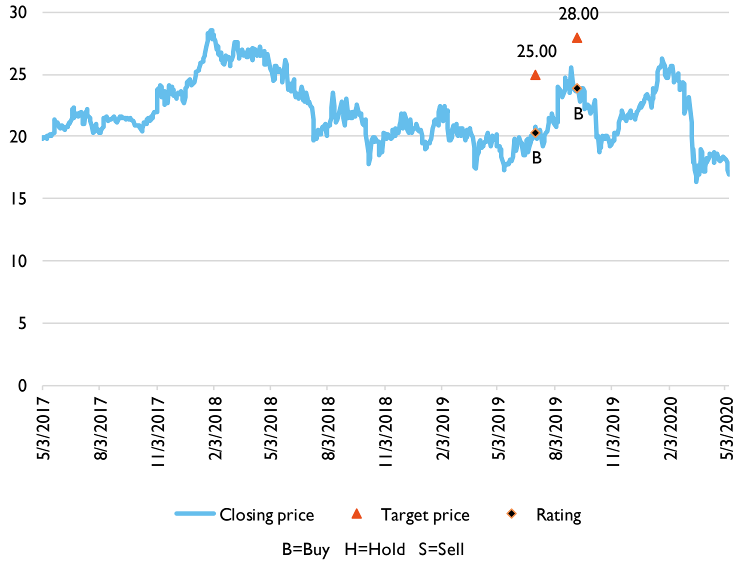
3-Year Price, Target Price and Rating Change History Chart for THYAO.IS

THYAO.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
6/1/2017	7.15	**7.50**	**HOLD**	
8/22/2017	9.56	**14.00**	**BUY**	
1/18/2018	15.36	**17.50**	**BUY**	
7/4/2019	13.41	**17.00**	**BUY**	
9/9/2019	11.84	**14.50**	**BUY**	



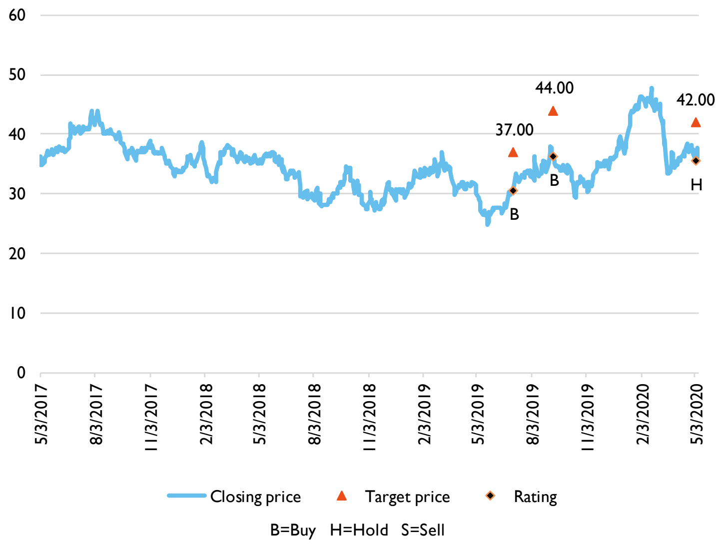
3-Year Price, Target Price and Rating Change History Chart for AEFES.IS

AEFES.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	20.36	**25.00**	**BUY**	
9/9/2019	23.90	**28.00**	**BUY**	



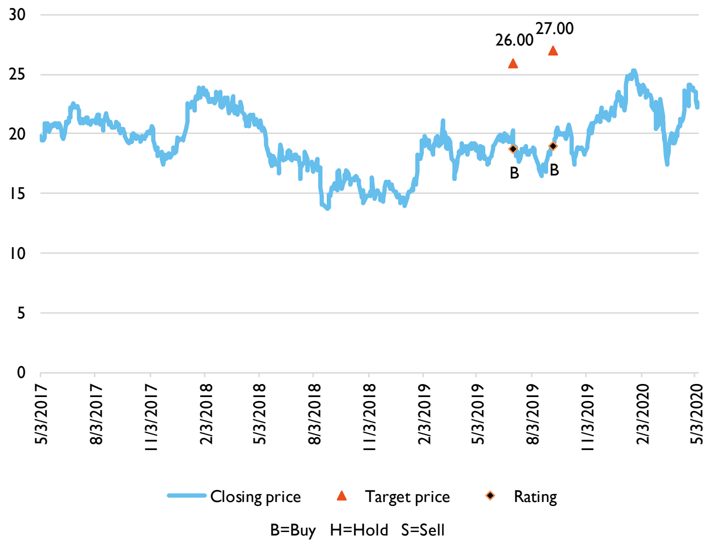
3-Year Price, Target Price and Rating Change History Chart for CCOLA.IS

CCOLA.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	30.64	**37.00**	**BUY**	
9/9/2019	36.36	**44.00**	**BUY**	
5/4/2020	35.60	**42.00**	**HOLD**	



3-Year Price, Target Price and Rating Change History Chart for ULKER.IS

ULKER.IS Date	Closing Price	Target Price	Rating	Initiation/ Assumption
7/4/2019	18.80	**26.00**	**BUY**	
9/9/2019	19.03	**27.00**	**BUY**	



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