

## AT - A GLANCE

February 9, 2011

### Market Comment

**Tight Ranged Universe...** Equities are likely to continue trading in a range-bound pattern of ~1,100 ISE points. 64,750 and 65,850 are still the major borders of that trading range, while 65,275 is a minor resistance. A flat-to-slightly-positive opening seems possible.

### Macro News

- Strong Industrial Production in 2010...
- Central Bank's Expectation Survey...
- Treasury cash balance produces primary surplus in January...

### Sector News

### Company News

- Turk Telekom <TTKOM TL> 4Q10 Results: In line with expectations at the bottom line & 9.5% gross dividend yield...

### Agenda

- 10.02 • Non-Residents' Holdings of Securities for the Week of 4 February
- 11.02 • Foreign Trade Indices for December
- Balance of Payments for December

### Market Data

| Indices     |   | Daily | Weekly | YTD   | Last    | Vol. * | Mcap ** |
|-------------|---|-------|--------|-------|---------|--------|---------|
| ISE 100     | ▲ | 0.5%  | 0.7%   | 23.5% | 65,254  | 2,325  | 351     |
| ISE 30      | ▲ | 0.5%  | 0.7%   | 19.6% | 80,153  | 1,525  | 274     |
| Financials  | ▲ | 1.0%  | 1.8%   | 22.9% | 98,059  | 583    | 228     |
| Industrials | ▲ | 0.7%  | 0.0%   | 40.5% | 53,250  | 303    | 100     |
| Banking     | ▲ | 0.5%  | 1.3%   | 15.8% | 138,434 | 889    | 171     |

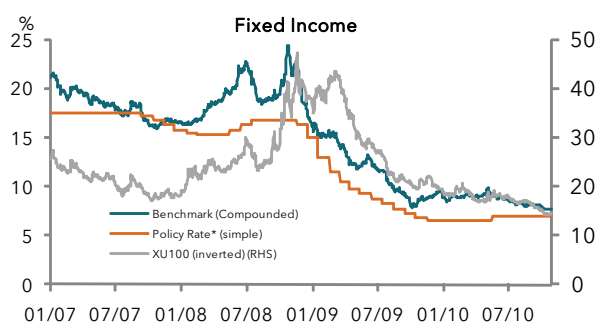
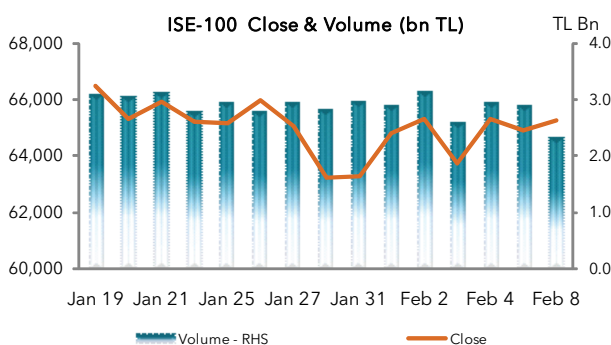
| Most Active | Perf.   | Vol. * | Best        | Worst       |
|-------------|---------|--------|-------------|-------------|
| GARAN       | ▲ 0.3%  | 274    | KONYA 10.6% | NETAS -4.2% |
| ISCTR       | ▲ 0.4%  | 249    | KARTN 9.2%  | AKGRT -3.4% |
| KONYA       | ▲ 10.6% | 107    | DOAS 4.8%   | FROTO -1.8% |
| VAKBN       | ▲ 0.5%  | 97     | ALBRK 4.3%  | DOHOL -1.6% |
| FENER       | ▲ 3.0%  | 95     | BAGFS 4.0%  | SAHOL -1.5% |

\* in TLmn,, \*\* in TLbn

### Key Valuation Parametrics

| Multiples ** | 2009 | 2010E | 2011E | Growth       | 2010E |
|--------------|------|-------|-------|--------------|-------|
| P/E          | 12.3 | 11.0  | 9.7   | Net Earnings | 13%   |
| EV/EBITDA    | 8.9  | 6.1   | 5.5   | EBITDA       | 13%   |
| EV/Sales     | 1.2  | 0.9   | 0.8   | Sales        | 14%   |
| P/BV(Banks)  | 2.5  | 1.9   | 1.6   | BV           | 13%   |

\*\* in TL, based on AtaInvest Coverage (c.82% of ISE MCap)



\*Borrowing rate until 20 May 2010, then one-week repo rate.

## What the Day Heralds

**Strong Industrial Production in 2010...** In December, industrial production (IP) rose significantly by 16.9% y/y, thus exceeding the 11.0% market consensus. Meanwhile, by TURKSTAT calculations, working day and seasonally-adjusted IP edged up 5.7% for the month over November. Furthermore, the average increase in IP was realized at 13.3% in 2010, much better than the 2009 average of -9.2%.

Looking into the details, we observe that capital goods production rose by a significant 34.2 y/y in December, reflecting continued private sector investment appetite, while intermediate goods production climbed 24.4% y/y.

And from a sector-specific perspective, the manufacturing of other transport equipment and computer and electronic products has upped production significantly, supported by the weak base of December 2009. On the other hand, tobacco production declined by 24.5%.

**Comment:** The pace of growth in December's industrial production came to 16.9%. The indicator is quite strong, and confirms the robust 2010 GDP expectation of around 8% - among the top-three runners globally. Meanwhile, given the recent positive reading on the inflation front, which is at historic low levels, the Central Bank seems to be at ease for now. However, the risk of upward inflationary pressures may kick-in after this month. On the other hand, the effects of recent decisions are closely being monitored by the Central Bank, and

necessary steps will be taken at the next MPC meeting if required. (See our *Macro Note: Industrial Production-December 2010, of Feb. 8*).

**Central Bank's Expectation Survey...** The Central Bank's first expectation survey for February indicates that the 12-month forward looking CPI forecast has risen to 6.60% from 6.55%, in addition to the 24-month forward-looking estimate, which edged up to 6.28% from 6.17%. Note that in the survey, the Central Bank is foreseen increasing the policy rate by 25 bps to 6.50% over the next 12-months.

**Treasury cash balance produces primary surplus in January...** The January 2011 treasury cash balance produced a TL 3.7 bn primary surplus. The Treasury's cash revenues totaled TL 21.9 bn, while cash expenditures amounted to TL 22.6 bn. The cash balance registers at TL 393 mn when privatizations and funds income of TL 1.1 bn is added to cash revenues. In addition, non-interest expenditures registered at TL 18.2 bn.

## Company News

| Turk Telekom | OUTPERFORM      | Share Price: TL 6.76     |
|--------------|-----------------|--------------------------|
| TTKOM TI     | P/E: 9x         | Target Share Price: TL 8 |
| Telecom      | EV/EBITDA: 5.4x | Upside Potential: 18%    |

**Turk Telekom <TTKOM TI> 4Q10 Results: In line with expectations at the bottom line & 9.5% gross dividend yield...**

Perfectly in line with our bottom line estimate of TL 557 mn, and slightly higher than the CNBC-e TV consensus of TL 519 mn, Turk Telekom reported TL 559 mn net earnings for the final quarter of the year. This carried the full-year bottom line to TL 2,451 mn, favorable against TL 1,860 mn in 2009 where improvement is attributable to higher operational performance and lower financial expenses.

**PSTN: Higher-than-expected ARPU...** In line with expectations, the decline in fixed voice subscriber number has continued, having slipped by a 0.1 mn in the underlying quarter to close the year at 16.0 mn. Surpassing our TL 21.6 ARPU estimate for the final quarter, the new tariffs and offers helped PSTN ARPU in 4Q10, which improved by 5% on a y/y basis to TL 22.3 in 4Q10 and carried the full-year figure to TL 21.8, vs. TL 22.4 in 2009.

**FBB: Higher-than-expected subscriber additions...** ADSL access lines added in the underlying quarter stood at 0.2 mn and reached 6.7 mn (Ata est.: 6.6 mn), while ADSL ARPU met our estimate of TL 32.6 and marking a 4% rise on a y/y basis.

Consequently, operational revenues on the fixed side were up by 6% y/y to TL 2.2 bn (TL 2,305 mn Incl. IFRIC 12) in the underlying quarter. Thanks to strong PSTN ARPU, revenues from this segment rose 1% on y/y comparison in 4Q10. Additionally, the consolidation of Invitel, increase in int'l revenues and 12% y/y growth in ADSL revenues were the catalysts of growth at the top line. On a cumulative basis, the top line was TL 8.5 bn, indicating a 1% y/y increase.

**One-off item helped fixed line EBITDA in 4Q10...** Surpassing our estimate, and helped by a one-off amounting to around TL 80 mn (we do not yet know the details), Turk Telekom recorded TL 1.15 bn fixed line EBITDA (TL 1,231 mn incl. the one off) for the final quarter with a margin of 50% (53% Incl. the one-off), vs. 47.5% in 4Q09. This brought full-year EBITDA to TL 4.5 bn, up by 5% y/y, which implies margin expansion to 53% from 51% in 2009.

**Net subscriber addition at Avea, after six quarters...** Following six quarters of continuous loss at the subscriber base, and exceeding our expectation, Avea increased its subscriber base to 11.6 from 11.4 at the end of the prior quarter. The number of pre-paid subscribers remained almost unchanged, while the company added around 0.1 mn post-paid subscribers.

**Improvement in RPM....**Exceeding our TL 18.6 blended ARPU expectations, Avea reported TL 19.2 in 4Q10, up by 8% over 4Q09, primarily attributable to higher pre-paid ARPU and a greater share of post-paid subscribers. Post paid ARPU declined by 3% y/y to TL 30.9, while pre-paid ARPU for the quarter was TL 10.9, marking a 10% y/y increase. Following a 9% y/y improvement in RPM in 3Q10, we view the 3% y/y growth in Avea's RPM positively, as a signal of a more rational market environment.

**No surprise in mobile margin...** All in all, mobile revenues grew by 4% y/y to TL 679 mn in 4Q10, while EBITDA margin was realized in line with our expectation at 14%, suggesting recovery on a y/y basis (4Q09: -2%), but lower on an incremental basis due to the absence of a one-off (3Q10: +19%). Improvement on a y/y basis is attributable to a significant decline in MTR since the start of 2Q09.

**Non operating items...**Turk Telekom booked TL 202 mn net financial expenses in 4Q10, the bulk of which is due to FX loss stemming from its short FX position plus hedging costs. On a full-year scale, lower net financial expense (2010: TL 184 mn, vs. 2009: TL 438 mn) was supportive of bottom line growth.

**9.5% Dividend Yield...** Turk Telekom is to propose a TL 2,244 mn cash distribution to its General Assembly scheduled for April 25. This implies a gross **TL 0.6411316 per share** (net TL 0.54496 per share) cash dividend, **suggesting a 9.5% gross dividend yield** (8.1% net) based on the latest stock closing. The distribution will start on May 30.

*Turk Telekom management has not given quantitative guidance, but stated that domestic demand in 2011 would be strong. Overall, Turk Telekom's 4Q10 results were broadly in line with our expectations, and we may have some minor revisions depending on the guidance we receive from the management conference call today at 5.30 pm Istanbul time.*

| TL mn           | 4Q10  | 4Q09  | y/y | 3Q10  | q/q  | 2010   | 2009   | y/y |
|-----------------|-------|-------|-----|-------|------|--------|--------|-----|
| Sales           | 2,896 | 2,751 | 5%  | 2,707 | 7%   | 10,852 | 10,568 | 3%  |
| Reported EBITDA | 1,324 | 1,099 | 21% | 1,257 | 5%   | 4,835  | 4,356  | 11% |
| Net Earnings    | 559   | 491   | 14% | 744   | -25% | 2,451  | 1,860  | 32% |
| <b>Margins</b>  |       |       |     |       |      |        |        |     |
| EBITDA Margin   | 45.7% | 39.9% |     | 46.4% |      | 44.5%  | 41.2%  |     |
| Net Margin      | 19.3% | 17.8% |     | 27.5% |      | 22.6%  | 17.6%  |     |

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