

October 22, 2009

## TURKISH CEMENT SECTOR

Neither rosy, nor gloomy...

# HOLD

### KEY HIGHLIGHTS

**We predict a 10% contraction in domestic cement consumption in 2009 and a 4% growth in 2010** The contraction in the cement sector has continued to 18.2 million tons by 11% yoy in 1H09 due to 20% slow down in the construction sector. Despite some expectations of recovery from the last quarter, we believe that the sector will reach to the end of 2009 with a 10% annual narrowing. However, we anticipate the sector to turn to growth in 2010 by 4%.

**Excess capacity weighs on capacity utilization ratio and prices** Due to the excess capacity, the sector's estimated CUR dropped to 80% in 2009 (from 93% in 2007) and domestic cement prices plunged by 22% yoy in August 2009. The total clinker capacity increased by 38.5% to 56.8 million tons/year representing a 94.3 million tons/year cement capacity in 2008 from 41 million tons/year representing a 70.6 million tons/year cement capacity in 2006. Excess capacity will place pressure on cement prices considering the 40.5 million tons/year of domestic cement demand.

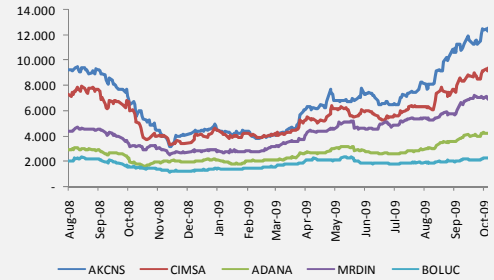
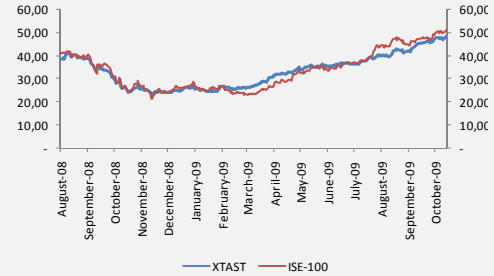
**The fall in domestic demand will continue to be compensated by growth in exports** Poor domestic demand and excess capacity forced producers to boost exports this year. While the MENA region seems to be the primary destination, Iraq and Syria will continue to be attractive export markets next year. Furthermore, we believe the upcoming 2014 Winter Olympics in Russia may create some demand for cement export from 2011 onwards.

**Recovery & growth expectations in cement sector by** 1) higher public infrastructure budget for investments such as highway, bridges, underground/sea passages, etc, 2) revival in the housing demand to be likely supported by less than 1% mortgage interest rates 3) strong exports 4) private sector's hydropower investments.

**We maintain Neutral rating for the sector** We believe this is a transition period for Turkish cement sector followed by a strong growth. However, we still keep a "HOLD" rating for cement sector due to low prices & profit margins in 2010 with concerns on growth, weak demand combined with vacant residential units awaiting buyers.

**Our top picks are Mardin ve Akansa** Based on our DCF valuations, Mardin and Akansa offer higher upside potentials than others. While high profit margin and dividend performance brings Mardin Cimento to the front, high export and recovery expectations make Akansa attractive as well.

Summary Valuation	Target Price TRY	Mcap (TRY mn)	Target Mcap (TRY mn)	Target Mcap (US\$ mn)	Upside Potential
Akansa	8,15	1.302	1.558	1.069	20%
Cimsa	6,65	932	898	617	-4%
Adana	6,50	443	440	302	-1%
Bolu	1,65	230	212	146	-8%
Mardin	9,85	711	891	612	25%



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## INVESTMENT THESIS

### **We continue to maintain our HOLD rating for the sector.**

We expect the cement to contract by 10% in 2009 following 2008's contraction. Meanwhile, we believe the slowdown will end in 2010 but the recovery will not be strong. Thus, we predict that the recovery in cement prices will be weak and the down trend in profit margins will continue between 2009 and first half 2010. In the light of these expectations, we maintain our "HOLD" rating for the sector. The company that operates in the region which preserves its consumption power combined with its strong export potential and pricing advantage will be overweighted in the sector. The main risk to our valuation is domestic pricing. In other words, the export demand might shrink at a much faster pace than we assume and accordingly have more negative impacts on the domestic pricing with the addition of lower capacity utilization ratios.

### **Our top picks are Akcansa and Mardin Cimento.**

Our top picks are Akcansa and Mardin due to their high upside potentials. Our target price of TRY8.15 for Akcansa and TRY9.85 for Mardin Cimento indicating a 20% and 25% upside potential, respectively.

### **We maintain HOLD for Cimsa ve Adana Cimento (A).**

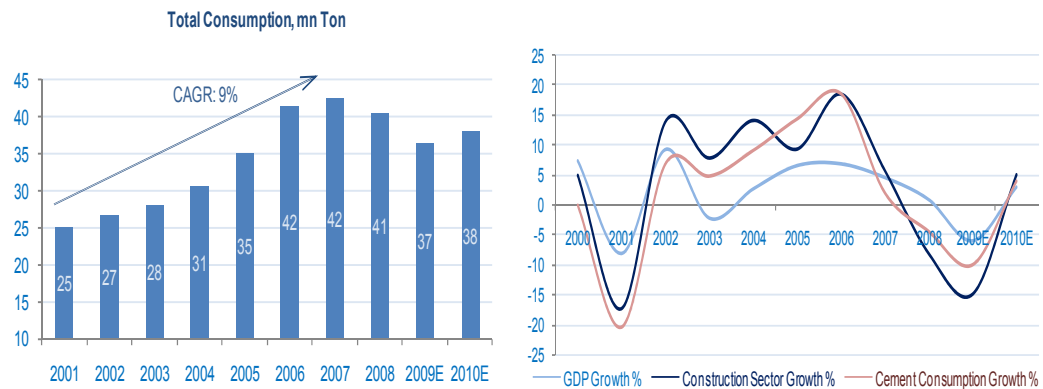
We maintain HOLD for Cimsa and Adana Cimento (A) due to 4% and 1% downside potentials, respectively.

### **We maintain SELL for Bolu Cimento.**

We maintain SELL for Bolu Cimento. Our target price is at TRY1.65 indicating a potential return of -8%.

## A Road to Recovery?

**We predict a 10% contraction in domestic cement consumption in 2009 and a 4% growth in 2010.** The Turkish cement sector posted a remarkable 9% CAGR between 2001 and 2007, on the back of a strong deferred demand, price recovery after the 2001 crisis and the 1999 earthquake. Following the strong growth period, Turkey enlarged as the third biggest cement market in Europe and per capita consumption increased to 500 kg/year. However, demand for cement was on decline due to the global down turn since the second half of 2008 as the sector contracted by 4.4% in the whole year. The narrowing in the cement sector continued in the first half of 2009 in line with the slow down of the construction sector by 20%. Thus, the cement consumption decreased by 11% yoy to 18.2 million tons in the first half of 2009. Despite some recovery expectations in the last quarter, we believe that the sector will close 2009 with a 10% annual contraction. However, we expect the sector to turn to growth in 2010 by 4%.



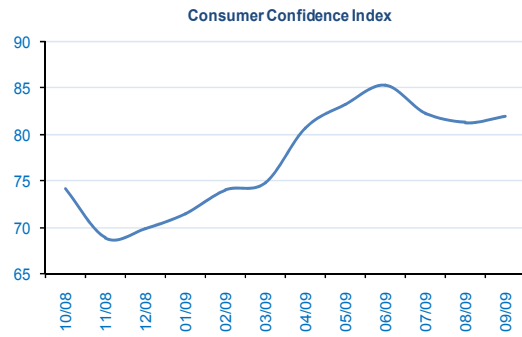
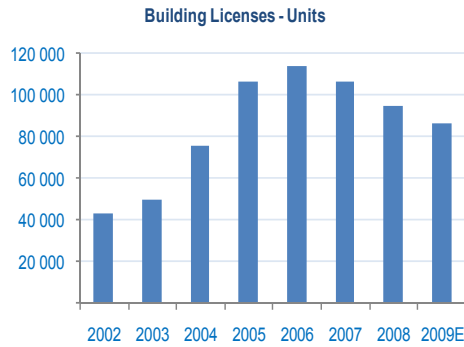
Source: TCMA, TURKSTAT, SEKER

### Recovery & growth prospects in cement sector go ahead with;

- The expectancy of increase in the recession ending scenarios,
- The expectancy of decline in interest rates of mortgage below 1%,
- The expectancy of the GDP shrink in 2009 by 6.2% less than 1H09 by 11%,

The residential sector is important as it absorbs almost 70% of cement produced in Turkey while the remaining is used for infrastructure investments. In that sense, the following points raise concerns on recovery in domestic cement demand;

- The number of building licenses has continued to decrease until the first half of 2009 since 2006,
- Consumer confidence data after the first half of the year pointed to a deterioration,
- There is no improvement on expectations to buy or building new houses for the next 12 months,



Source: CBRT, TURKSTAT, SEKER

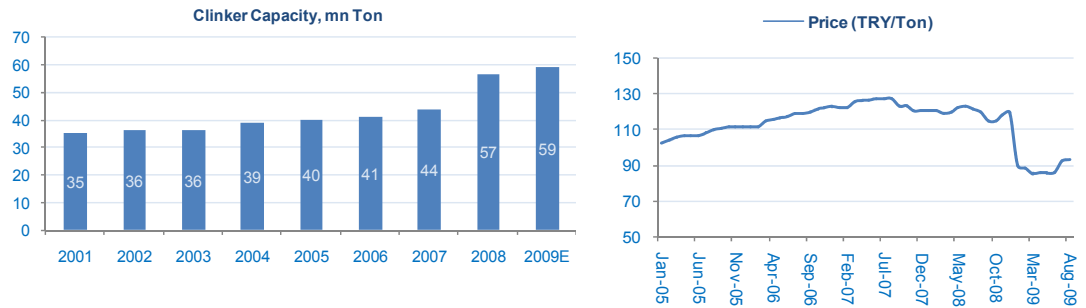
Taking into account the negative concerns above, we foresee a 10% contraction in the cement sector in 2009. However, we expect the cement sector to grow by 4% in 2010 considering growth expectations and the general elections to take place in 2011.

**Excess capacities continue to place pressure on cement prices** Currently, 41 cement factories and 19 grinding plants operate in Turkish Cement Industry. While Turkish cement market is a multi player market, Sabancı Group and OYAK Group are the two biggest entities in the sector with 20.2% and 12.8% market shares, respectively.

Capacity, mn Ton	Clinker	Cement
OYAK	7,3	14,1
Adana Cimento	2,3	5,5
Bolu Cimento	1,5	3,0
Unye Cimento	1,5	2,6
Mardin Cimento	2,0	3,0
Sabancı Group	11,5	15,4
Akanssa	6,5	9,0
Cimsa	5,0	6,4
Nuh Cimento	4,4	6,0
Vicat	3,5	4,2
Sanko	3,4	5,2
Cimentas	3,1	5,1
SET Italcemeti	2,9	5,0
Limak	2,6	3,8
Baticim	2,3	3,3
Other	15,8	32,2
<b>Total</b>	<b>56,8</b>	<b>94,3</b>

Source: Companies

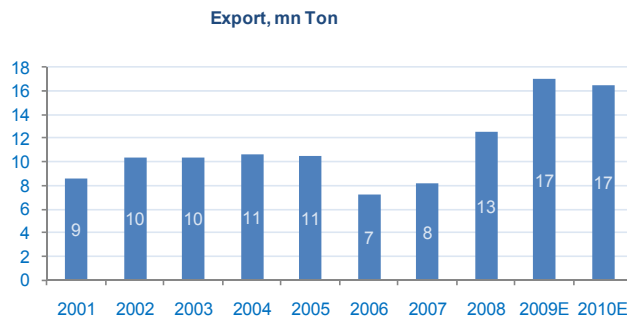
The sector players accelerated the capacity increase investments following the growth period, the total clinker capacity increased by 38.5% to 56.8 million tons/year representing a 94.3 million tons/year cement capacity in 2008 from 41 million tons/year representing a 70.6 million tons/year cement capacity in 2006. Excess capacities will place pressure on cement prices considering the insufficient 40.5 million tons/year of domestic demand for cement.



Source: TCMA, TURKSTAT, SEKER

As of August 2009, the average cement price of TRY/tons 93 indicates an increase by 3.6% compared to year end 2008 and a decrease by 22% compared to August 2008. We project TRY/tons 91 of domestic average price and TRY/tons 97 of year end price in 2009 given weak demand and ongoing overcapacity pressure. We expect cement prices to boost within the band of TRY/tons 100-110 in 2010. Furthermore, we believe that prices will increase to their highest levels at TRY/tons 120 after 2011.

**The fall in domestic demand will continue to be compensated by export growth** Poor domestic demand and excess capacity forced producers to boost exports this year. While the MENA region seems to be the primary destination, Iraq and Syria will continue to be attractive export markets next year. Besides, we believe the upcoming 2014 Winter Olympics in Russia may create some cement export demand from 2011 onwards, assuming the economy recovers in that region. Russia was the biggest cement importer from Turkey in 2008.



Source: TCMA, TURKSTAT, SEKER

In addition, Middle East and Africa regions are still the main markets for Turkish cement producers due to low domestic demand. Thus, we expect export volumes to increase by 36% to 17 million tons in 2009 from 12.5 million tons in 2008. Following 2009, we believe 15-20 million tons/year export is sustainable due to excess capacity.

## VALUATION AND INVESTMENT CONCLUSION

We value Turkish Cement Companies using Discounted Cash Flow (“DCF”) method. We prefer to construct our valuation models with a 10 year projection period. Note that our forecast and valuation figures are TRY denominated.

Valuation Table 2009E	MRDIN	AKCNS	CIMSA	ADANA	BOLUC
<i>Recommendation</i>					
12-m Trailing TP	9,85	8,15	6,65	6,50	1,65
Upside	25%	20%	-4%	-1%	-8%
Rating	BUY	BUY	HOLD	HOLD	SELL
<i>Valuation &amp; Market Data</i>					
Current Price	7,85	6,80	6,90	6,55	1,79
Mcap (USD million)	488	894	640	304	158
<b>Target Mcap (USD million)</b>	<b>612</b>	<b>1.069</b>	<b>617</b>	<b>302</b>	<b>146</b>

### Main Assumptions for Valuation Methodology

- Our forecasts for our valuation models are for the period 2009 through 2018.
- We incorporated 8% of a risk free rate for the first year, 9% for the two consecutive years and 10% onwards. Furthermore, we anticipated a 5% risk premium and took the companies’ relevant betas.

Margins	EBITDA			Net Earnings		
	2008A	2009E	2010E	2008A	2009E	2010E
Akcansa	29%	26%	28%	13%	12%	14%
Cimsa	28%	29%	28%	12%	13%	15%
Adana	28%	29%	30%	36%	31%	32%
Bolu	30%	15%	17%	23%	16%	17%
Mardin	40%	43%	44%	33%	35%	34%

Valuation Comparison	EV/EBITDA			EV/SALES		
	2008A	2009E	2010E	2008A	2009E	2010E
Akcansa	6,5	8,8	7,1	1,9	2,3	2,0
Cimsa	6,4	6,3	6,0	1,8	1,8	1,7
Adana	5,2	4,7	3,9	1,4	1,4	1,2
Bolu	4,5	11,4	9,2	1,3	1,8	1,6
Mardin	8,2	6,0	4,9	3,3	2,6	2,1

## AKCANSAS

### Recovery Expectations...

- Sales hinterland of the company shrunk more than average in the first half of 2009** While Marmara Region consumes 30% of the total cement production, this region is Akcansa's main sales hinterland. However, the 25% decline of demand in this region affected company's financials negatively. In addition, Akcansa's other main markets are Aegean Region and Blacksea Region. These markets also contracted and represent 10% and 11% of total consumption in the domestic market. The Company tried to reduce the negative impact of the fall in domestic demand on its financials by exports. The main partner Heidelberg Cement's strong distribution network particularly supports export performance of the company throughout African market that has a steady demand of infrastructure and construction investments.
- Financial performance showed a negative trend in the first half** While the company's revenues narrowed by 17% yoy in 1H09, EBITDA and net profit figures went down by 30% and 42%, respectively. Demand for cement in the Marmara region fell more than other regions based on low housing demand. We do not expect a significant recovery in the company's financial data in 2009. In line with this, we estimate that improvement can be seen at the earliest in 2010. In short, we expect the company's revenues to contract by 18% YE09. On the other hand, we estimate Akcansa's revenues to go up by 17% yoy on expectations of a recovery in housing demand and exports in 2010.
- We projected TRY 171 million of EBITDA and TRY 77 million of net profit at the end of the year for the company** The figures both represent a 26% shrink yoy in EBITDA and net profit. Following improvements in demand and prices in 2010, we estimate EBITDA and net profit to soar to TRY214 million and TRY111 million, respectively.
- We estimate 3,9% dividend yields for Akcansa** We believe Akcansa will pay TRY0.26 dividend per share on its TRY77 million of net profit representing a 3,9% dividend yield.
- We have BUY recommendation for Akcansa** Despite the negative financial performance in 2009, we maintain "BUY" recommendation for Akcansa due to its high upside potential and recovery expectations from which we believe the company will benefit most.

## BUY – TRY 8.15

TARGET MCAP: TRY 1,558 mn

	TRY	US\$
Close	6,80	4,67
ISE-100	51,295	35,208
US\$/TRY(CB Bid Rate):	1,46	
52 Week High:	6,80	4,67
52 Week Low:	1,49	0,88
ISE Ticker:	AKCNS	

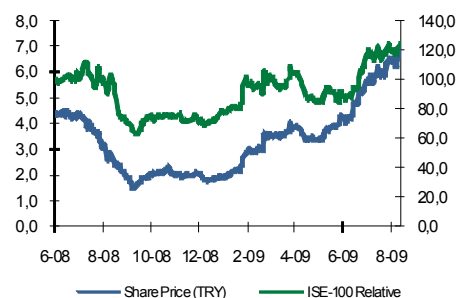
	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):	191	
Current Mcap :	1,302	889
Free Float Mcap (TRY Mn):	260	179

	1 M	YOY	YTD
TRY Return (%):	16,2	140,3	215,0
US\$ Return (%):	17,6	148,1	229,6
ISE-100 Relative (%):	16,2	140,3	215,0
Avg. Daily Vol. (TRY Mn):	1,2		
Avg. Daily Vol. (US\$ Mn):	0,8		

Beta	0,71
Volatility (Stock)	0,42
Volatility (ISE-100)	0,41

Shareholder Structure	%
Sabancı Holding	39,7
HeidelbergCement	39,7

Free Float and others	20,6
Total	100,0



BALANCE SHEET (TRY Mn)	2006	2007	2008	1H08	1H09	%Chg
PP&E	439	647	647	653	622	(4,8)
Intangibles	15	164	164	163	164	0,7
Other Non-Current Assets	167	136	67	85	79	(6,9)
Trade Receivables	103	104	119	153	143	(6,7)
Cash&Equivalents	148	22	29	42	20	(51,4)
Other Current Assets	55	97	108	108	82	(23,5)
<b>Total Assets</b>	<b>928</b>	<b>1.170</b>	<b>1.134</b>	<b>1.110</b>	<b>1.110</b>	-
Long Term Debt	4	127	124	102	94	(7,9)
Other Non current liabilities	32	46	52	51	53	4,2
Short Term Debt	35	87	139	244	155	(36,6)
Trade Payables	56	56	54	59	63	6,8
Total Liabilities	127	316	369	456	365	(20,0)
Total Equity	802	854	765	747	745	(0,3)
<b>Total Equity&amp;Liabilities</b>	<b>928</b>	<b>1.170</b>	<b>1.134</b>	<b>1.203</b>	<b>1.110</b>	<b>(7,7)</b>

INCOME STATEMENT (TRY Mn)	2006	2007	2008	1H08	1H09	%Chg
Net Sales	577	696	804	402	336	(16,3)
COGS	378	472	598	295	266	(9,9)
Other Operating Rev./(Exp.)	5	-	-	3	-	N.M.
Gross Profit (Loss)	204	225	206	110	70	(36,1)
Operating Expenses	25	27	29	15	13	(13,5)
Operating Profit/(Loss)	180	197	177	95	58	(39,5)
Net Other Ope. Rev./(Exp.)	(6)	28	(47)	(8)	(9)	N.M.
Financial Expenses	0	-	-	-	-	N.M.
Profit(Loss) From Invst. Val. under E	(1)	-	-	-	-	N.M.
<b>Profit Before Tax (Loss)</b>	<b>173</b>	<b>226</b>	<b>130</b>	<b>88</b>	<b>48</b>	<b>(44,9)</b>
Tax	26	39	26	18	8	(56,3)
<b>Net Profit (Loss)</b>	<b>146</b>	<b>187</b>	<b>105</b>	<b>70</b>	<b>41</b>	<b>(42,0)</b>
Minority Interest	-	1	0	0	(0)	(183,0)
Parent Company	0	186	104	70	41	(41,6)

DCF (TRY Mn)	2009T	2010T	2011T	2012T	2013T	2014T	2015T	2016T	2017T	2018T
EBITDA	171	214	270	307	332	355	366	389	401	415
Tax	20	28	39	47	52	56	58	63	65	68
Capex	56	40	42	44	46	48	50	52	55	57
Change in Working Capital	(35)	19	20	12	14	13	6	13	6	5
Free Cash Flow to Firm	131	127	169	205	220	238	252	261	275	285

PV of Cash Flows (2009-2018)	1.077
Perpetual Growth	1,0%
Terminal Value	2.250
PV of Terminal FCF	647
Net Financial Debt	207
Tax Shield	41
Participations	-
<b>Target Mcap</b>	<b>1.558</b>
<b>Mcap</b>	<b>1.302</b>
<b>Upside Potential</b>	<b>20%</b>

## CIMSA

### Close to Target...

- While domestic sales volume contracted by 9%, exports and ready-mixed concrete volume boosted by 41% and 42%, respectively in 1H09** Although, demand for cement contracted by 16% in Central Anatolia Region as of 1Q09, the contraction decelerated to 8% in 2Q09 due to some recovery in its main sales hinterland. Another main region of Cimsa is the Mediterranean Region in which demand levels of 2008 have been preserved in 1H09. Depending on the course of the weak domestic demand, the company's domestic sales volume narrowed by 9% while ready-mixed concrete volume boosted by 42% in the 1H09. The company's exports sales volume increased by 41% as well during this period. Africa & the Middle East for gray cement and Europe & the Middle East for white cement are among the company's export markets.
- While prices dropped in gray cement and ready-mixed concrete, prices raised in white cement** Cimsa's domestic gray cement prices of TRY/tons 77 dropped 13% yoy. During this period, export and ready-mixed concrete prices plunged by 39% and 5%, respectively. On the other hand, the company's white cement exports prices increased by 5% within the same period.
- We expect sales revenues in 2009 higher than in 2008** While domestic revenues lessened by 10% yoy due to low sales volume and prices, export revenues expanded by 22% in 1H09. In this regard, total sales revenues of the company came out just above its 1H08 number. We estimate an increase in Cimsa's sales prices in line with our expectation of an increase in average cement prices to TRY/tons 91. Depending on the recovery trend in Cimsa's sales hinterland, we reckon the company to announce TRY 614 million of YE09 sales revenues indicating to an increase of 1% yoy.
- We estimate 5.6% of dividend yield for Cimsa** While we expect no change in YE09 EBITDA as TRY175 million, we suppose a 3% rise in net profit to TRY79 million during the same period. We believe that Cimsa will pay TRY 0.385 dividend per share from its TRY 52 million of net profit representing a 5.6% dividend yield.
- We have HOLD recommendation rating for Cimsa Cimento** Despite our upbeat expectations in demand and price, we have "HOLD" rating for Cimsa since the stock trades at our target value.

## HOLD – TRY 6.65

TARGET MCAP: TRY 898 mn

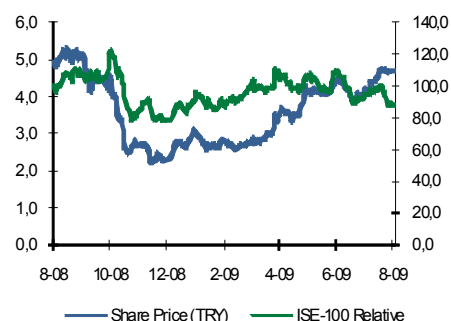
	TRY	US\$
Close	6,90	4,74
ISE-100	51.295	36.208
US\$/TRY(CB Bid Rate):	1,46	
52 Week High:	6,95	4,83
52 Week Low:	2,23	1,31
ISE Ticker:	CIMSA	

Number of Shares (Mn):	135	
	(TRY Mn)	(US\$ Mn)
Current Mcap :	932	637
Free Float Mcap (TRY Mn):	270	186

	1 M	YOY	YTD
TRY Return (%):	11,3	111,7	149,1
US\$ Return (%):	12,6	118,6	160,6
ISE-100 Relative (%):	2,3	10,3	30,5
Avg. Daily Vol. (TRY Mn):	0,9		
Avg. Daily Vol. (US\$ Mn):	0,6		

Beta	0,81
Volatility (Stock)	0,46
Volatility (ISE-100)	0,36

Shareholder Structure	%
Sabancı Holding	49,4
Adana Cimento	14,1
Akcansa	9,0
Free Float and others	27,5
Total	100,0



BALANCE SHEET (TRY Mn)	2006	2007	2008	1H08	1H09	%Chg
PP&E	350	416	437	409	427	4,6
Intangibles	154	153	156	152	156	2,6
Other Non-Current Assets	263	294	204	199	257	29,1
Trade Receivables	64	88	118	136	134	(1,3)
Cash&Equivalents	54	56	10	9	26	184,5
Other Current Assets	90	124	161	161	131	(18,4)
<b>Total Assets</b>	<b>975</b>	<b>1.132</b>	<b>1.085</b>	<b>1.066</b>	<b>1.133</b>	<b>6,2</b>
Long Term Debt	110	31	24	93	14	(85,4)
Other Non current liabilities	24	24	24	25	26	0,7
Short Term Debt	119	103	236	160	247	53,8
Trade Payables	21	47	41	40	47	17,9
Total Liabilities	273	205	326	319	333	4,3
Total Equity	703	927	759	747	800	7,0
<b>Total Equity&amp;Liabilities</b>	<b>975</b>	<b>1.132</b>	<b>1.085</b>	<b>1.066</b>	<b>1.133</b>	<b>6,2</b>

INCOME STATEMENT (TRY Mn)	2006	2007	2008	1H08	1H09	%Chg
Net Sales	507	575	610	303	304	0,4
COGS	283	365	451	206	227	10,4
Gross Profit (Loss)	224	210	160	97	77	(20,6)
Operating Expenses	32	36	34	19	17	(8,7)
Operating Profit/(Loss)	191	175	126	78	60	(23,5)
Net Other Ope. Rev./ (Exp.)	(3)	(4)	(4)	(0)	(3)	N.M.
Financial Expenses	25	41	(38)	4	(11)	(360,8)
Profit(Loss) From Invst. Val. under Equity Met.	-	95	8	3	3	(5,3)
<b>Profit Before Tax (Loss)</b>	<b>163</b>	<b>306</b>	<b>92</b>	<b>85</b>	<b>49</b>	<b>(42,1)</b>
Tax	27	41	16	16	9	(46,4)
<b>Net Profit (Loss)</b>	<b>136</b>	<b>290</b>	<b>76</b>	<b>69</b>	<b>40</b>	<b>(41,1)</b>

DCF (TRY Mn)	2009T	2010T	2011T	2012T	2013T	2014T	2015T	2016T	2017T	2018T
EBITDA	175	184	218	226	242	239	260	248	249	251
Tax	20	25	32	35	39	38	42	40	40	41
Capex	75	71	50	53	55	57	60	63	66	69
Change in Working Capital	(14)	9	18	7	4	(7)	20	(16)	(1)	(2)
Free Cash Flow to Firm	94	79	118	132	144	150	137	161	145	144

PV of Cash Flows (2009-2018)	681
Perpetual Growth	1,0%
Terminal Value	1.177
PV of Terminal FCF	350
Net Financial Debt	166
Tax Shield	33
Participations	-
<b>Target Mcap</b>	<b>898</b>
<b>Mcap</b>	<b>932</b>
<b>Upside Potential</b>	<b>-4%</b>

## ADANA CIMENTO (A)

### Dividend Expectation...

- The new capacities started production** Adana Cimento's slag cement grinding capacity increased to 2 million tons/year following the new investment that started production in İskenderun Iron & Steel's field with a capacity of 1 million tons of slag. Thus, the company's total cement grinding capacity reached to 5.5 million tons/year. In addition, the company extended its white clinker production capacity rose to 300.000 tons from 90.000 tons as well.
- While consumption in Mediterranean Region stayed flat in 1H09, it increased by 9% in Southeastern Anatolia Region** Compared to 2008, though Adana Cimento's gray cement markets preserve its consumption strength in 2009, the company's domestic and export sales volume shrunked by 6% and 3%, respectively. In this regard, total sales revenues of the company contracted by 5.5%. On the other hand, the company's ready-mixed concrete sales volume increased by 55% during the same period. In our opinion, the downturn in domestic and export sales is mainly attributable to the increase in its ready-mixed concrete sales volume. We estimate the company's total sales volume to reach 3 million tons in 2009 as Mediterranean and Southeast Anatolia regions maintain robustness of demand.
- Sales revenue narrowed by 3.7% in 1H09** While the company's domestic sales revenue plunged by 11.6% during this period, export revenues increased by 5% and ready-mix concrete revenues were boosted by 58%. In the light of the 1H09 results, we estimate YE09 TRY312.5 million of sales revenues for Adana Cimento pointing to a 4% increase yoy.
- Our YE09 EBITDA margin expectation is 29.5%** while the company's EBITDA declined by 20.8% yoy to TRY41.4 million in 1H09, its EBITDA margin plunged by 560 bps to 26.9% from 32.5%. We predict a recovery in EBITDA margin by 260 bps to 29.5% and TRY92.2 million of EBITDA for YE09 on the facts that both Mediterranean and Southeast Anatolia regions will maintain their strength combined with higher than the country average prices.
- We estimate TRY 97 million of net profit in YE09** we expect Adana Cimento to distribute 75% of TRY97 million of its net profit. We believe that Adana Cimento will pay TRY0.58 dividend per share (ADANA) representing a 9% dividend yield.
- We initiate HOLD recommendation for Adana Cimento (A)** We have a positive expectation for Adana Cimento due to supportive market conditions in its hinterland, 9% dividend yield with reasonable margins. However, according to our TRY 6.50 target price that offers 1% downside, we initiate HOLD recommendation for Adana Cimento (A).

## HOLD – TRY 6.50

TARGET MCAP: TRY 440 mn

	TRY	US\$
Close	6,55	4,50
ISE-100	51,295	35,208
US\$/TRY(CB Bid Rate):	1,46	
52 Week High:	6,55	4,50
52 Week Low:	2,11	1,25
ISE Ticker:	ADANA	

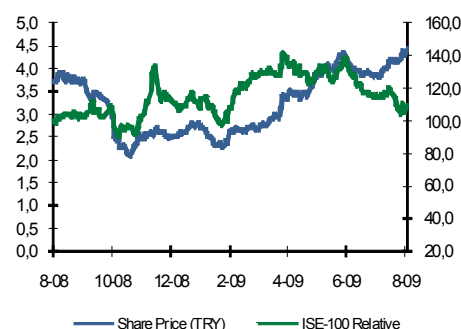
Number of Shares (Mn):	68	
	(TRY Mn)	(US\$ Mn)
Current Mcap :	443	303
Free Float Mcap (TRY Mn):	381	262

	1 M	YOY	YTD
TRY Return (%):	10,1	185,0	136,9
US\$ Return (%):	11,4	194,2	147,8
ISE-100 Relative (%):	1,2	48,5	24,1
Avg. Daily Vol. (TRY Mn):	0,6		
Avg. Daily Vol. (US\$ Mn):	0,4		

Beta	0,95
Volatility (Stock)	0,52
Volatility (ISE-100)	0,42

Shareholder Structure	%
OYAK	57,0

Free Float	43,0
Total	100,0



BALANCE SHEET (TRY Mn)	2006	2007	2008	1Y08	1Y09	%Chg
PP&E	79	169	237	180	261	44,8
Intangibles	1	8	8	8	8	2,7
Other Non-Current Assets	240	215	121	148	144	(2,6)
Trade Receivables	17	55	51	57	58	1,4
Cash&Equivalents	206	182	86	109	24	(77,6)
Other Current Assets	48	40	57	51	55	7,6
<b>Total Assets</b>	<b>590</b>	<b>670</b>	<b>560</b>	<b>553</b>	<b>550</b>	<b>(0,5)</b>
Long Term Debt	-	-	-	-	-	N.M.
Other Non current liabilities	12	13	7	10	9	(3,5)
Short Term Debt	15	13	8	14	10	(32,2)
Trade Payables	7	13	27	18	26	44,1
Total Liabilities	34	38	43	43	46	7,3
Total Equity	556	631	518	510	504	(1,2)
<b>Total Equity&amp;Liabilities</b>	<b>590</b>	<b>670</b>	<b>560</b>	<b>553</b>	<b>550</b>	<b>(0,5)</b>

INCOME STATEMENT (TRY Mn)	2006	2007	2008	1Y08	1Y09	%Chg
Net Sales	251	307	301	160	154	(3,7)
COGS	112	155	195	95	102	7,1
Other Operating Rev./(Exp.)	1	-	-	-	-	N.M.
Gross Profit (Loss)	139	152	106	66	53	(20,8)
Operating Expenses	44	35	42	22	22	(0,1)
Operating Profit/(Loss)	95	117	64	45	31	(30,8)
Net Other Ope. Rev./(Exp.)	63	40	4	2	2	31,8
Financial Expenses	-	57	58	41	22	(45,2)
Minority Interest Profit/Income	-	2	(0)	(1)	-	N.M.
<b>Profit Before Tax (Loss)</b>	<b>158</b>	<b>215</b>	<b>126</b>	<b>87</b>	<b>55</b>	<b>(36,0)</b>
Tax	25	31	19	12	7	(39,5)
<b>Net Profit (Loss)</b>	<b>133</b>	<b>184</b>	<b>107</b>	<b>75</b>	<b>48</b>	<b>(35,4)</b>

DCF (TRY Mn)	2009T	2010T	2011T	2012T	2013T	2014T	2015T	2016T	2017T	2018T
EBITDA	92	111	127	144	146	161	171	182	188	197
Tax	20	24	27	31	31	33	35	38	38	41
Capex	30	16	17	18	18	19	20	21	22	23
Change in Working Capital	10	15	5	6	2	2	3	7	4	6
Free Cash Flow to Firm	33	56	78	90	95	107	113	117	124	127
PV of Cash Flows (2009-2018)	474									
Perpetual Growth	1%									
Terminal Value	1.083									
PV of Terminal FCF	334									
Net Financial Debt	(6)									
Tax Shield	-									
Participations	-									
Target Mcap - Adana Cimento	815									
<b>Target Mcap - Adana Cimento (A)</b>	<b>440</b>									
<b>Mcap - Adana Cimento (A)</b>	<b>443</b>									
<b>Upside Potential</b>	<b>-1%</b>									

## MARDIN CİMENTO

# BUY – TRY 9.85

TARGET MCAP: TRY 891 mn

### Our Top Pick...

- Higher export prices than domestic prices support profit margin** Mardin Cimento's export prices decreased to USD/tons 90 in 2Q09 from USD/tons 100 in 1Q09. However, we do not expect further price changes until the end of the year. While Mardin Cimento competes with Iran cement producers in Iraqy market, thanks to the brand awareness, the company's sellings prices are USD/tons 5-10 higher than those of the other companies. In addition, we believe that Mardin Cimento maintains its strong position in the Syrian market until Lafarge's new investment that is to start production in 2011.
- We predict Mardin Cimento to reach 2 million tons sales volume in 2009** Mardin Cimento recorded 1.038 thousand tons of total sales volume in 1H09, with 556 thousand tons of exports and 482 thousand tons of domestic. In accordance with the first half trend, we project 2 million sales volume for Mardin Cimento in YE09 whereas 1.1 million tons of exports and 900 thousand tons domestic sales, representing a flat course in domestic sales versus 14% increase in exports.
- Mardin Cimento's sales revenue boosted 28% in 1H09** While the company's domestic sales revenues plunged by 5% in 1H09, export revenues boosted by 63.8%. In the light of 1H09 results, we estimate YE09 TRY 262.8 million of sales revenues for Mardin Cimento, showing 26% increase yoy.
- Our YE09 EBITDA margin expectation is 43%** while the company's EBITDA increased by 23% yoy in 1H09 to TRY 55 million, its EBITDA margin plunged by 210 bps to 42.3% from 44.4%. We predict a recovery in EBITDA margin by 70 bps to 43% and TRY112.9 million YE09 EBITDA due to high export prices combined with higher domestic charges than the country average.
- We estimate TRY 92.4 million of net profit in YE09 and TRY 0.82 dividends per share** We estimate TRY 92.4 million of net profit in YE09 for Mardin Cimento that indicates an increase of 35% yoy. We expect Mardin Cimento to pay TRY 0.82 dividend per share, standing for a 10% dividend yield.
- We have "BUY" recommendation rating for Mardin Cimento** We forecast TRY9.85 target price and 25% upside potential for Mardin Cimento. We initiate a "BUY" recommendation for Mardin Cimento due to the company's higher profit margin than sector average.

	TRY	US\$
Close	7,85	5,39
ISE-100	51,295	35,208
US\$/TRY (CB Bid Rate):	1,46	
52 Week High:	8,00	5,42
52 Week Low:	2,43	1,44
ISE Ticker:	MARDIN	

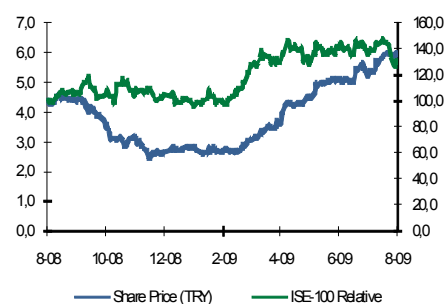
Number of Shares (Mn):	91	
	(TRY/Mn)	(US\$/Mn)
Current Mcap :	711	485
Free Float Mcap (TRY/Mn):	369	254

	1 M	YOY	YTD
TRY Return(%):	5,4	149,6	177,8
US\$ Return(%):	6,6	157,6	190,6
ISE-100 Relative(%):	-3,1	30,0	45,5
Avg. Daily Vol. (TRY/Mn):	0,4		
Avg. Daily Vol. (US\$/Mn):	0,3		

Beta	0,61
Volatility (Stock)	0,35
Volatility (ISE-100)	0,36

Shareholder Structure	%
OYAK	56,0

Free Float and others	44,0
Total	100,0



<b>BALANCE SHEET (TRY Mn)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>1H08</b>	<b>1H09</b>	<b>%Chg</b>
PP&E	96	117	125	122	122	(0,2)
Intangibles	0	0	0	0	0	153,8
Other Non-Current Assets	47	17	21	22	23	4,0
Trade Receivables	13	20	26	29	33	15,8
Cash&Equivalents	73	67	31	15	27	79,2
Other Current Assets	16	35	44	38	38	1,0
<b>Total Assets</b>	<b>244</b>	<b>256</b>	<b>247</b>	<b>226</b>	<b>243</b>	<b>7,7</b>
Long Term Debt	-	-	-	-	-	N.M.
Other Non current liabilities	6	6	4	6	4	(20,2)
Short Term Debt	13	15	13	21	17	(18,1)
Trade Payables	6	5	9	9	7	(15,5)
Total Liabilities	25	27	26	35	29	(17,8)
Total Equity	219	229	221	191	214	12,5
<b>Total Equity&amp;Liabilities</b>	<b>244</b>	<b>256</b>	<b>247</b>	<b>226</b>	<b>243</b>	<b>7,7</b>

<b>INCOME STATEMENT (TRY Mn)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>1H08</b>	<b>1H09</b>	<b>%Chg</b>
Net Sales	144	173	208	103	130	26,4
COGS	60	78	110	49	65	32,1
Gross Profit (Loss)	87	103	98	54	65	21,1
Operating Expenses	13	18	23	12	15	21,1
Operating Profit/(Loss)	74	85	75	42	51	21,2
Net Other Ope. Rev./ (Exp.)	21	17	(0)	0	(0)	N.M.
Financial Expenses	1	-	10	6	12	108,2
Profit(Loss) From Invst. Val. under Equity Met.	-	-	-	-	-	N.M.
<b>Profit Before Tax (Loss)</b>	<b>94</b>	<b>102</b>	<b>85</b>	<b>47</b>	<b>62</b>	<b>30,3</b>
Tax	5	7	16	9	11	26,1
<b>Net Profit (Loss)</b>	<b>89</b>	<b>94</b>	<b>68</b>	<b>38</b>	<b>50</b>	<b>31,3</b>

<b>DCF (TRY Mn)</b>	<b>2009T</b>	<b>2010T</b>	<b>2011T</b>	<b>2012T</b>	<b>2013T</b>	<b>2014T</b>	<b>2015T</b>	<b>2016T</b>	<b>2017T</b>	<b>2018T</b>
EBITDA	113	139	136	139	138	156	156	158	159	161
Tax	23	27	26	27	26	30	30	30	30	31
Capex	8	8	8	9	9	10	10	10	11	11
Change in Working Capital	6	13	(1)	0	(0)	7	(0)	1	1	1
Free Cash Flow to Firm	76	91	102	103	103	110	116	116	117	118

PV of Cash Flows (2009-2018)	567
Perpetual Growth	1,0%
Terminal Value	993
PV of Terminal FCF	304
Net Financial Debt	(20)
Tax Shield	-
Participations	-
<b>Target Mcap</b>	<b>891</b>
<b>Mcap</b>	<b>711</b>
<b>Upside Potential</b>	<b>25%</b>

## BOLU CIMENTO

# SELL – TRY 1.65

TARGET MCAP: TRY 212 mn

### Less export, less growth...

- The company's main sales area is Marmara region that has contracted by 23% in 7M09** Bolu Cimento does not benefit enough from the increase in demand in export markets due to its location. In addition, the sharp plunge in domestic demand had more negative influence on company's sales revenues than its peers. The company's sales volume went down by 17% to 1 million tons in 9M09. However, we believe the company's sales volume will surge in 2H09 compared to 1H09 due to expectations of recovery in demand. Thus, we expect the company's sales volume to contract by 15% in YE09.
- The prices are below Turkey average in the company's sales hinterland** While the average domestic price was TRY/tons 89 in 9M09, it was TRY/tons 75-80 in Marmara region. Thus, the company's sales revenues tumbled by 31% yoy in 9M09. Despite recovery expectations, we estimate the company's sales revenues to go down by 24% yoy to TRY 127 million in YE09.
- Our YE09 EBITDA margin expectation is 15.5%** While the company's EBITDA declined by 64% yoy in 9M09 to TRY 14 million, its EBITDA margin declined to 15% from 29%. We predict a recovery in EBITDA margin by 50 bps to 15.5% and TRY 19.7 million of EBITDA for YE09 in line with higher eagerness of resurgence.
- We estimate TRY 20.8 million of net profit in YE09 and TRY 0.135 dividends per share** We estimate TRY 20.8 million of net profit in YE09 for Bolu Cimento, connoting a decrease of 47% yoy. We estimate Bolu Cimento to pay TRY 0.135 dividend per share that is equal to 7.5% dividend yield.
- We have "SELL" rating for Bolu Cimento** We initiate the coverage of Bolu Cimento with a "SELL" rating and a target price of TRY1.65. The stock offers 8% downside potential to our target price on lower profit margin.

	TRY	US\$
Close	1,80	1,23
ISE-100	51.721	35.365
US\$/TRY(CB Bid Rate):	1,47	
52 Week High:	1,80	1,23
52 Week Low:	0,76	0,45
ISE Ticker:	BOLUC	

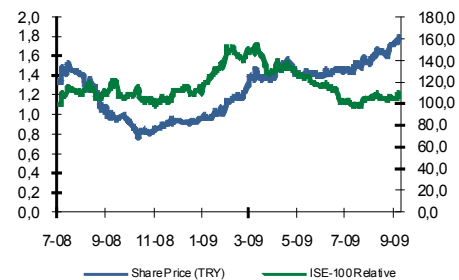
	(TRY Mn)	(US\$ Mn)
Number of Shares (Mn):	129	
Current Mcap :	231	157
Free Float Mcap (TRY Mn):	118	81

	1 M	YOY	YTD
TRY Return (%):	8,4	84,5	96,6
US\$ Return (%):	8,9	106,2	103,3
ISE-100 Relative (%):	8,4	84,5	96,6
Avg. Daily Vol. (TRY Mn):	0,3		
Avg. Daily Vol. (US\$ Mn):	0,2		

Beta	0,52
Volatility (Stock)	0,46
Volatility (ISE-100)	0,41

Shareholder Structure	%
OYAK	52,0

Free Float and others	48,0
Total	100



BALANCE SHEET (TRY Mn)	2006	2007	2008	9M08	9M09	%Chg
PP&E	78	87	97	87	109	24,8
Intangibles	0	0	0	0	0	(10,9)
Other Non-Current Assets	8	10	20	18	17	(5,0)
Trade Receivables	25	21	43	53	41	(23,0)
Cash&Equivalents	27	9	27	10	5	(54,2)
Other Current Assets	94	94	37	50	34	(32,2)
<b>Total Assets</b>	<b>233</b>	<b>221</b>	<b>224</b>	<b>218</b>	<b>205</b>	<b>(6,0)</b>
Long Term Debt	-	-	-	-	-	N.M.
Other Non current liabilities	2	3	3	3	4	40,6
Short Term Debt	9	7	4	6	4	(38,4)
Trade Payables	5	4	11	9	9	0,6
Total Liabilities	16	14	18	18	16	(6,8)
Total Equity	217	207	206	200	188	(5,9)
<b>Total Equity&amp;Liabilities</b>	<b>233</b>	<b>221</b>	<b>224</b>	<b>218</b>	<b>205</b>	<b>(6,0)</b>

INCOME STATEMENT (TRY Mn)	2006	2007	2008	9M08	9M09	%Chg
Net Sales	158	152	168	133	91	(31,3)
COGS	84	83	108	84	70	(16,8)
Other Operating Rev./(Exp.)	-	2	-	-	-	N.M.
Gross Profit (Loss)	74	71	60	49	21	(56,2)
Operating Expenses	21	27	19	15	13	(14,7)
Operating Profit/(Loss)	53	44	41	34	9	(74,4)
Net Other Ope. Rev./(Exp.)	36	16	7	7	10	40,0
Financial Expenses	-	-	-	-	-	N.M.
Profit(Loss) From Invest. Val. under E	-	-	-	-	-	N.M.
<b>Profit Before Tax (Loss)</b>	<b>89</b>	<b>60</b>	<b>48</b>	<b>41</b>	<b>18</b>	<b>(54,9)</b>
Tax	18	12	9	8	4	(53,6)
<b>Net Profit (Loss)</b>	<b>71</b>	<b>48</b>	<b>39</b>	<b>33</b>	<b>15</b>	<b>(55,2)</b>

DCF (TRY Mn)	2009T	2010T	2011T	2012T	2013T	2014T	2015T	2016T	2017T	2018T
EBITDA	20	24	31	40	46	56	59	61	62	62
Tax	5	6	8	9	11	13	13	14	14	14
Capex	12	8	8	9	9	8	8	8	9	9
Change in Working Capital	(3)	4	12	5	5	6	2	3	3	3
Free Cash Flow to Firm	6	6	3	17	22	30	35	36	36	35

PV of Cash Flows (2009-2018)	106
Perpetual Growth	1,0%
Terminal Value	315
PV of Terminal FCF	102
Net Financial Debt	(4)
Tax Shield	-
Participations	-
<b>Target Mcap</b>	<b>212</b>
<b>Mcap</b>	<b>231</b>
<b>Upside Potential</b>	<b>-8%</b>



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#### BASIS FOR 12m RECOMMENDATIONS

BUY: Requires 15% or more estimated upside.

SELL: Requires 10% or more downside.

HOLD: When estimated relative return is limited between -10% and 15% in either direction.

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