

Monthly Equity Strategy

Profit takings accelerated in second half of April...

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After the strong performance of the first quarter of 2012 thanks to the continuation of abundant global liquidity conditions supported by developed countries' central banks, markets faced profit taking and turned to negative aspect in April. At the start of the month, selling pressure kicked-off on the lack of a hint of further easing from the Fed, plus news flows indicating swifter than expected slowdown in China, and continued on increasing concern over the euro zone, in particular Spain's sovereign debt rates. In the last week of April, selling pressure increased in the market, while political risk rose in the Euro zone due to the resignation of the Dutch government (on lack of strong support for austerity measures) combined with Socialist Francois Hollande beating Nicolas Sarkozy in the first round of presidential elections in France. The ISE continued to trace the global market and faced selling pressure as did the global market during April. However, stock-specific movements continued in the market due to the year-end financial results. The ISE 100 Index reached 63,500 levels at the start of April, marking the highest level since August 2011. Having tested the peak 63,500 level, the ISE index then retreated to 59,000 levels due to both rising risk aversion in global markets and S&P's downgrade of Turkey's outlook from positive to stable. In May possible upward movement of the ISE Index may occur, depending on Q1 earnings and international risk appetite. We envisage possible upward movement in those stocks that surpass the estimates. Retail did well again in April (up by 6.3% MoM), steel (up by 1.5% MoM) following it. Oil&gas (down by 10.4% MoM), Tourism (down by 7.5% MoM) and banking sectors (down by 7.3% MoM) led the %3.9 decline in ISE-100 in April.

What do we expect? In May, the markets will focus on the (i) FED's signals on further easing, (ii) macro data from US and Europe and (iii) Q1 financial statements. In Europe, in addition to the debt crisis, rising political risk due to elections in France and Greece will also be watched closely. On the domestic front, balance of payment data would provide the most important macro headline to watch in May. Additionally, actions taken by the CBRT will be closely observed by the markets. In addition to macro news flow, Q1 2012 earnings will be released in May which is likely to create stock specific movements. We are still stick to our **HOLD** recommendation with a 12m index target of **67,500** offering 12.4% upside potential. Turkish equities are trading at a slightly expensive **2012E 10.7x P/E** (4% premium to EM peers) and a relatively cheap **2012E 1.3x P/BV** (9% discount to EM peers).

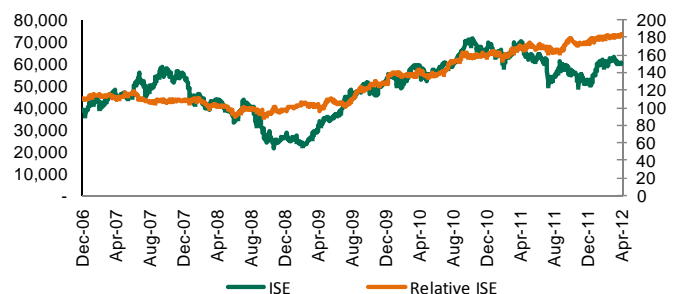
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Facts & Figures	Close	MoM
ISE - 100, TRY	60,010	-3.86
ISE - 100, USD	34,313	-2.55
Total Volume, TRY mn	48,590	-48.49
MSCI EM Turkey	474,980	-3.5%
MSCI EM	1,026	-4.9%
Benchmark Bond	9.32%	+19 bps
USD/TL	1.7489	-1.35%
EUR/TL	2.3132	-2.25%

P/E Current	
ISE - 100	12.0
Banking	9.0
Industrial	14.8
Steel	8.7
REIT	12.1
Telecom	13.6
Food&Beverage	29.9
2012E P/E	10.7
2013E P/E	9.8
TR Libor Rate, 3M %	10.29%

Top Picks	Close	Target	Pot.
AKSA.TI	4.31	6.00	39.2%
AKSEN.TI	3.86	4.60	19.2%
ARCLK.TI	7.70	8.60	11.7%
TAVHL.TI	9.24	10.80	16.9%
TOASO.TI	7.78	9.80	26.0%
HALKB.TI	12.30	14.70	19.5%
GARAN.TI	6.46	7.59	17.5%
TCELL.TI	8.78	11.20	27.6%

ISE vs. Portfolio



April highlights & insights

S&P changes outlook on Turkey's long-term foreign and local currency rating from positive to stable, keeping ratings unchanged - Heavy reliance on external savings and the risks to the rebalancing process are the main factors behind the outlook change. The ratings agency stated generally effective policymaking and institutions, Turkey's moderate and declining public debt burden, and its monetary policy flexibility as the factors supporting its ratings on Turkey. On the other hand, S&P added that weaker than expected external demand, a further rise in oil import price and increase in external financing costs are risks, were pressuring the ratings. According to the agency release, the outlook change reflects their view that the ratings on Turkey are likely to stay at the current level during the next 12 months, as the key risks to the Turkish economy would likely remain in balance over the next 12 months.

S&P currently rates the government's long-term foreign currency debt at BB, which is two notches below investment grade, like Moody's Ba2 rating with a positive outlook. Meanwhile, Fitch's Turkey rating is at BB+ with a stable outlook. As we stated in our latest quarterly view published on April 16th, *"Despite stronger inflows following the European banking system returned from the brink of a collapse, the Turkish economy still faces low growth, a high current account deficit and high inflation environment this year. The lira must be kept stable, but competitive for lower inflation and lower CAD given high oil prices, and credit growth must be kept alive for economic activity. It is explicit that achieving all of them at the same time is a very difficult task. The CBRT and economic administration seems comfortable over economic developments as long as financing comes to Turkey. However, given that the CAD will remain near 9% of GDP this year, and lira weaknesses will likely prevent credit growth from reviving due to the need for additional tightening for inflation to approach the target. Therefore, in our opinion, we will see a notable slowdown in economic activity, an elevated current account deficit and high inflation (at least until the last quarter for the inflation) this year. As a result, the Turkish economy should be treated with caution as its health is dependent on the continuation of inflows, which will prevent an upgrade to investment grade by one of the three major rating agencies this year, in our view."*

CBRT needs more support from lira on inflation front - Consumer prices rose 1.52% in April over March, thus above the market consensus of 1.31% and our in-house forecast of 1.39%. Hence, annual inflation rose to 11.14% from 10.43% in March, marking the highest level since October 2008.

Clothing group prices rose 13.2% MoM, with more than a 10.8% average increase over the past six Aprils, and were the main contributor to monthly inflation with 85 bps. Meanwhile, food group prices remained almost flat (-0.1% MoM), erasing 3 bps from the overall monthly figure. In contrast to clothing prices, monthly food inflation was favorable in April compared to seasonal averages. Elsewhere, housing group prices rose 3.15% MoM, mainly due to natural gas and electricity price hikes, contributing 49 bps to monthly inflation.

Price pressures also observable in other sub-groups in addition to clothing prices, which may signal deterioration in pricing behavior. Under services, annual restaurant inflation, which has a 5.1 pp weight in the basket, rose to 9.4% from 8.7%, while annual rent inflation slightly rose to 4.6% from 4.5%. Goods and services inflation also provided negative indications for inflation developments. Annual goods inflation rose to 12.8% from 12.0% in March, while annual service inflation increased to 6.7% from 6.2%, breaking the stability seen since December.

Annual core inflation indicators once again turned north in April after the break of the past few months. Annual I index inflation rose to 8.2% from 7.9% in March, mainly on the back of the above seasonal climb in clothing prices. Note that the I index excludes food, non-alcoholic beverages, energy, alcoholic beverages, tobacco and gold from the CPI basket, and is favorite tool of the CBRT with which to gauge core inflation developments.

The CBRT seems committed to bringing inflation down to its forecast of 6.5% by year-end, compared to our 7.3% annual inflation forecast. Recall that it argues that inflation would decline to the medium-term 5% inflation target in mid-2013, accepting the difficulty of bringing it to the target by the end of this year.

We find April inflation figures positive for the TRY as they point to the need for more support from the lira on the inflation front. However, this does not mean that we expect a notable impact on the CBRT's monetary policy stance, which already has the tendency to use the interest rate corridor to support the lira when needed by changing average funding cost. Additionally, the Bank expects a sharp decline in annual inflation in May thanks to base effects.

Inflation report hawkish, like the latest MPC decision - The CBRT has kept its year-end inflation forecast unchanged in the second inflation report of the year. In addition, there is no change in the monetary policy stance either, as the bank reiterated the hawkish tone of the MPC's release on April 18th, as we had expected. The Bank kept its inflation forecast for 2012 unchanged at 6.5% (within the 5.3-7.7% range with 70% probability), only making marginal changes to the boundaries. Meanwhile, the Bank forecasts 5.2% annual inflation for end-2013, up from 5.1% in January's report, and expects stabilization at around 5% thereafter.

The Bank increased its oil price assumption for Brent crude to \$120 per barrel for 2012 (from \$ 110), and to \$115 for 2013 (from \$105). Annual food price inflation has been maintained at 7.5% through the forecast horizon. Meanwhile, the CBRT maintains its view that aggregate demand conditions will provide support for disinflation. Under the base case scenario, the CBRT assumes that "additional monetary tightening will be implemented more frequently." Therefore, despite the increase in the energy price assumption, the CBRT has maintained its year-end forecast, as we had expected. The CBRT stated that upward revision in the oil price would increase year-end inflation by 0.4 pp, partially offset by 0.2 pp favorable effect of favorable non-energy import prices. Thus, the combined effect of import prices on the inflation forecast would have been 0.2pp, yet a tighter monetary policy stance would curb this effect, according to the report.

According to the CBRT, it would be appropriate to maintain flexible monetary policy due to uncertainty over the global economy and financial system on both sides, which implies their satisfaction with the interest rate corridor. During the Q&A session, the Governor also implied that changing the policy rate (one-week repo rate), and replacing the interest rate corridor as the main policy tool are not on the Bank's agenda. Yet, the CBRT Governor stated that a cut in RRRs also is not on their agenda. He argues that the current monetary and financial conditions are tight, as the downward slope of the yield curve and relatively high interest rates on loans confirm, which indicates the success of the interest rate corridor according to him. In our view, the bank is likely to continue using the interest rate corridor to stabilize the lira when needed, instead of using an outright policy rate hike, namely the one-week repo rate (5.75%), to control inflation, which reached 11.14% as of April.

The CBRT dropped the emphasis on supporting economic activity in this report, as we had expected. The latest report assumes an annualized loan growth rate of 14%, thus below the 15% (FX-adjusted) of the previous report, on the back of more frequent use of additional tightening. In a box in the report, the CBRT states that the new incentive plan was expected to support economic growth through an expansionary fiscal policy over tax reductions and other state supports. However, as we stated in our latest quarterly view published on April 16th, with credit growth at around such levels the economy may expand by some 1.5% at most. In fact, the CBRT seems focused on inflation, rather than growth, leaving the latter to the incentive plan and other factors, parallel to the Governor's comments made during a conference in early April. However, as the CBRT argues that credit growth will be milder and the output gap wider compared to the previous report, we believe that the Bank may cut RRRs in the second half of the year to decrease the overall costs of the banking system, while not negatively affecting the lira at the same time.

IP stronger than the market consensus in February - Industrial production was up 4.4% over a year ago in February, higher than the market consensus of 2.7% and our in-house forecast of 2.6%. While some of the year-on-year increase stemmed from the additional working day in February 2012 compared to February last year, the IP rise of 0.7% MoM (adjusted for seasonal and calendar effects) implied that the improvement was independent of the increase in the number of working days in February this year. Recall that IP declined 3.0% MoM in January.

Capacity utilization and real sector confidence for April are weak to suggest a notable recovery in economic activity - Capacity utilization in the manufacturing industry reached to 74.7% in April from 73.1% in March. However, the increase was seasonal as the seasonally adjusted capacity utilization rate eased 0.4 points over March to 75.6%.

Real sector confidence index (RSCI) also improved in April. Nevertheless, the improvement here was also on the back of seasonal factors. While the RSCI increased to 116.0 up from 112.9 in March, seasonally adjusted index declined to 109.9 from 110.5 in March. The deterioration in export orders for the next three months and fixed investment expenditures were especially visible according to the CBRT data. Seasonally adjusted export

orders sub-index declined to 120.5 down from 124.7, while the sub-index pertaining to fixed-investment expenditures fell 3.6 points to 115.2 in April. On the contrary, the sub-index regarding total employment for the next three months rose 3.1 points to 114.9 in April. In addition, the data point to some stock building in finished products in April, which implies that manufacturers may not have cut production.

We expect the economy to display a slight contraction in QoQ terms in the first quarter, followed by a flat QoQ reading in the second. The CBRT's additional tightening to support the lira will likely prevent a secular decline in loan rates and constrain credit expansion. We forecast a 1.6% growth this year, notably below the consensus of 3.7% according to the CBRT's Expectations Survey.

CAD adjustment accelerated in February thanks to economic slowdown -

At USD 4.2bn, the CAD for February came in below the general market consensus of USD 4.6bn and our in-house forecast of USD 4.5bn. The deficit in February 2011 was USD 6.0bn. Hence, the 12-month rolling deficit declined to USD 75.3bn down from USD 77.1bn registered in January. The non-energy part displayed stronger declines thanks to slowdown in the economic activity in February. It posted a deficit of USD 0.3bn, favorable compared to USD 2.7bn the same month last year, taking 12-month rolling figure to USD 26.3bn from USD 28.7bn in January.

We forecast a notable improvement in current account deficit in March following trade figures. Our preliminary forecasts point to USD 3.4bn improvement in the current account deficit over a year ago, on top of USD 1.8bn in February. We expect a USD 6.1bn monthly current account deficit partially thanks to lower income transfers compared to March 2011, in which GE transferred an income above USD 1bn after the sale of Garanti shares to BBVA. This would take the 12-month rolling CAD to USD 71.9bn down from USD 75.3bn.

We expect the gradual decline in cumulative trade deficit to continue until the last quarter of the year before stabilization. With a Brent oil price assumption of USD 120 and 1.6% GDP growth, we expect the improvement in the trade deficit to come to a halt in the last quarter. Therefore, the current account deficit would marginally narrow to USD 70bn (8.7% of GDP) from USD 77.2bn (10.0% of GDP) from last year, which means that the lira still remains vulnerable to the deceleration in the capital inflows.

Trade Statistics: MoM deterioration shadows YoY improvement in March -

March trade deficit in line with the market consensus. In March, the trade deficit came in at USD 7.3bn, broadly in line with the market consensus (USD 7.4bn), and slightly lower than our forecast (USD 7.6bn). Exports rose 12.2% YoY to USD 13.3bn, more than our forecast at USD 12.9bn due to higher than expected non-monetary gold exports (USD 0.6bn). On the other hand, imports declined 4.8% YoY to USD 20.6bn in March.

Year on year improvement was stronger compared to February. Trade deficit continued to decline in 12-month rolling terms as the monthly deficit improved USD 2.5bn over a year ago, more than USD 1.5bn registered in February. Hence, 12-month rolling trade deficit declined to USD 101.6bn

from 104.1bn February. On the other hand, non-energy part displayed a stronger decline as the cumulative non-energy deficit dropped to USD 51.7bn in March, down from USD 55.1bn in February. Expansion in energy deficit over a year ago could just curb USD 0.9bn of the improvement in non-energy deficit, and the overall deficit continued to decline.

However, the data adjusted for seasonal and calendar effects point to deterioration in the trade balance in March compared to February. In working and seasonally adjusted terms, exports remained broadly stable over the previous month following a 6.6% MoM surge in February, while imports increased 4.3% MoM in March following a marginal 0.3% MoM rise in February.

Portfolio

Changes to our portfolio We are replacing Anadolu Cam (ANACM.TI; Outperform), TSKB (TSKB.TI; Outperform), and Garanti Bank (GARAN.TI; Outperform) with Turkcell (TCELL.TI; Outperform), Vakifbank (VAKBN.TI, Outperform) and Halkbank (HALKB.TI; Outperform) to our model portfolio and holding the other stocks as in the previous month's portfolio.

We are keeping **Aksa Energy (AKSEN.TI; Outperform)** in our 2012 portfolio. Aksa Energy launched 525 MW of installed capacity in 2011, increasing its total capacity to 2,036 MW as of the end of 2011 from 1,511 MW in 2010 year-end. The company aims to increase its installed capacity to 2,118 MW in 2012. Considering the current investments made by the company, we anticipate that its increasing capacity will also continue to reflect positively on its financial statements in 2012. With the addition of new capacity, we expect Aksa Energy's net sales revenues and EBITDA climb to TRY 1.675 million and TRY 360 million in 2012 from TRY 1.307 million and TRY 292 million in 2011, respectively. On the other hand, Aksa Energy's major shareholder Kazanci Holding stated that the sale of 13.30% of Aksa Energy's shares is expected to be completed by 2012. Thus, we believe that Kazanci Holding's possible M&A deal with Aksa Energy, strong operational results and new capacities will have positive effects on the stock in 2012. (Note: we believe that the management may choose use the sales proceeds to cover for the company's long-term debt reduction) We initiate coverage at "Outperform" with a target price TRY 4.60 considering the company's long-term projects. Aksa Energy's current price stands at TRY 3.86 while our target value represents a 19% upside potential.

We are keeping **Aksa Akrilik (AKSA.TI; Outperform)** as the company is largest producer of acrylic fiber in the world. Global market share of Aksa in acrylic fiber production is currently at 14.0% and domestic market share is 72%. (2010:%13.2 and 67%). On the other hand, Aksa's global market share of carbon fiber production is 3.5%. Recall that the company produces carbon fiber with a capacity of 1,800 tons/year. Aksa plans to increase this to 3,500 tons in next term. The company targets to increase its market share to 5% within five years and to 10% within ten years. We consider this increased capacity to be positive for the net sales revenues in the coming years. On the other hand, recall that the company announced that its carbon fiber activities would be transferred to Aksa Carbon Fiber. Furthermore, the

company decided to sign a subscription and shareholders' agreement with Dow Europe Holding BV for the formation of a carbon fiber manufacturing unit called Aksa Carbon Fiber. Accordingly, Dow Europe Holding will have a 50% stake in the new company. We believe that Aksa will attain an important position in global carbon fiber production after its planned investments are realized in the coming years. Also, we believe that the partnership with Dow will be positive for the company. Also, Aksa intends to start up its 100 MW thermal (coal) power plant within this year. The installed power of the company will reach to 170 MW. While the increased capacity is expected to gradually reduce the company's costs by 40%, this condition will provide a positive contribution for the company's margins and profitability. We derive a TRY 1,110 million target Mcap for Aksa Akrilik using a blended DCF model. Our target price for Aksa Akrilik stands at TRY 6.00 per share. Taking into consideration the Aksa Akrilik's current market capitalization which is around TRY 797 million (TRY 4.31 per share), our target value represents a 39% upside potential. Therefore, we initiate an "Outperform" rating for Aksa Akrilik.

We are keeping **Arcelik (ARCLK.TI; Outperform)** in our 2012 portfolio. The company's promising results in 2011 albeit with some loss of momentum, ongoing strong domestic demand and its growth story in its region pave the way for our "Outperform" rating for Arcelik. On the other hand, Arcelik is actively seeking inorganic growth opportunities in order to become a leading regional player. We also increased our target price from TRY 7.80 to TRY 8.60, mainly stemming from the revision in our macro estimates by pulling down the risk-free rate from 10% to 9%.

We are keeping **TAV Airport Holdings (TAVHL.TI; Outperform)** in our 2012 portfolio. Recall that in March, French airport operator, Aéroports de Paris (ADP), signed a purchase agreement with Akfen Holding, Tepe Insaat and Sera Yapi Endustri, for TAV Airports Holding Accordingly, ADP purchased a 38% stake of TAV Airports Holding for USD 874 million. TAV's total sales price is USD 2.3 billion (TRY 11.30/share) and its current Mcap is USD 1.91 billion (TRY 9.24/share). TAV shares carry a 22% upside according to the announced sales price. Also, The purchase is below the level that would trigger a mandatory tender offer for minority shareholders. We expect TAV's partnership with ADP to contribute to the company's development. On the other hand, We believe that the number of passengers using airports operated by TAV will increase to 66 million in 2012 (the company plans to 69 million) due to new airport openings. Thus, we think that the increase in the number of passengers and the positive contribution of new airports (Medina and Izmir Adnan Menderes) will have a positive effect on net sales revenues. Consolidated sales revenues were EUR 881 million in 2011 and we expect this to reach EUR 1,010 million in 2012. Also, we believe that TAV's EBITDA and EBITDAR will increase to EUR 310 million and EUR 450 million in 2012, respectively. In terms of net profits, we expect the company to announce a EUR 80 million net profit for 2012. We derive a TRY 3,924 million target market capitalization (TRY 10.80) for TAV Airports Holding using the DCF and Peer Comparison valuation models. Taking into consideration TAV's current market capitalization of TRY 3,357 million (TRY 9.24), our target value represents a 17% upside potential. Therefore, we maintain an "Outperform" rating for TAV Airports Holding.

We are keeping **Tofas (TOASO.TI; Outperform)** in our 2012 portfolio. We revised our target market capitalization for Tofas to TRY 4,900 million and TRY 9.80 per share. This represents 31% upside potential compared to the current market capitalization of TRY 3.730 million. Therefore, we maintain “Outperform” rating for Tofas’s shares. Company expects domestic automotive market sales to decline 750k in 2012, which is in line with our predictions. The company expects domestic sales volumes to be moderated to 125,000 units and exports to be 190,000 units at the end of 2012. The additional export volume coming from Opel deal is expected to compensate the contraction in domestic sales. On the top line, we expect net sales growth to be 4% and sales revenues to reach TRY 7.6 billion in 2012. In addition, we estimate Tofas’ EBITDA to be TRY 800 million, bringing EBITDA margin to 10.5% at the end of 2012.

We are replacing **TSKB (TSKB TI; Outperform)** with **GARAN (GARAN TI; Outperform)** due to GARAN’s solid asset quality and its price setter position in the industry. As we consider banks in terms of their asset qualities, with robust capital structure GARAN will not be affected under BASEL II as much as other banks. Recall that Basel II will be in operation as of July 2012, and with its implementation we expect the banking sector Capital Adequacy Ratio to decline by between 100-150bp from 16.5% in Dec-11. The banks that have more SME and mortgage exposure should feel the Basel II effect to a lesser extent than the rest, as the risk weighting of these segments was reduced. By our assumptions, the shares are trading at 1.40x 2012F P/BV and 8.6x 2012F P/E.

We are adding **Halkbank (HALKB TI; Outperform)** in our top-picks list for 2012. We like Halkbank’s solid management and ability to generate the highest ROE in the Turkish Banking Industry. Higher retail focus should enable the bank to improve NIM above the sector this year, along with the advantages afforded by being the leading SME bank in Turkey. The sources of upside risk include the continuation of NPL recoveries and non-core asset sale. On the other hand, higher than expected NPL generation and lower than expected volume growth presents downside risk to our valuation. Based on our assumptions, it is trading at 1.5x 2012F P/BV and 6.8x 2012F P/E.

We are adding **Turkcell (TCELL.TI; Outperform)** to our model portfolio. Both the company and accordingly the share price have long been under pressure from harsh competition in the Turkish mobile sector and a shareholder dispute. Yet while it is early to claim that the worst is over, we believe that we are poised to bottom out on both fronts. Additionally, assuming that the mid to long term growth drivers of the sector remain supportive, Turkcell’s competitive advantages against its rivals, along with its conceivable valuation lead us to believe that it offers an attractive risk-reward opportunity for 2H12 and beyond. In this regard, we raise our recommendation for the company from Market Perform to “Outperform” with a target price of TRY 11.20. We believe that CMB’s latest communiqué has increased hopes of a solution to the ongoing shareholder dispute. We will continue to closely monitor the ongoing dispute between Turkcell’s shareholders. We believe that as long as the outstanding disputes remain up in the air, investors will maintain their cautious stance. And yet a satisfactory resolution of the ownership dispute (which we believe is not too far away) and any agreement on the dividend distribution may pave the way for a rally in the stock. Furthermore, a

relatively softening legal environment, the trend for migration to postpaid supporting ARPU growth, the widespread use of 3G as an important source of mobile operators' revenue growth through increased use of mobile data and increasing contribution of subsidiaries on the company's top-line, all justify our positive view on Turkcell. On the other hand Turkcell disclosed a net profit of TRY 515 million in its Q1 financials, surging by 56% YoY and also up by 55.2% QoQ. 1Q12 bottom-line significantly beat both our in-house estimate of TRY 373 million and market consensus of TRY 404 million. A Better-than-expected net income figure mainly emanated from higher net finance income of TRY 161.8 million due to the increased interest income on deposits together with a translation gain of TRY 37 million as opposed to translation loss of TRY 24 million in 1Q11 besides strong operational performance. At the top-line, Turkcell also registered higher-than-expected revenues of TRY 2,382 million in the first quarter of 2012, up by 12.4% YoY thanks to an 8% increase in Turkcell Turkey's revenues and 43% improvement in the contribution of group companies. 8% growth in Turkcell Turkey's revenues emanated from 25% growth in mobile broadband & services revenues, mainly on the 52% growth in broadband revenues, together with the 3% rise in voice revenues. The contribution of group companies improved to 17% from 13%. Turkcell Superonline revenues rose 59.2% to TRY 145.0 million, versus TRY 91.1 million a year ago, while Astelit's revenues increased by 16.9% to \$91.4 million. Compared to the previous quarter, revenues fell 2.6%, mainly due to the lower voice revenues of Turkcell Turkey and flat contribution of group companies, mostly on seasonality. We think that Turkcell 1Q12 financials are enough encouraging supporting our long-term positive view.

Sector Expectations

We have an MARKET PERFORM rating on Banking. The ISE Banking Index decreased 7.3% in absolute terms and underperformed the ISE-100 index by 2.0% in April. Year to date, the banking index increased 14.5% and underperformed the ISE-100 Index by 2%. Amongst the banks, TSKB (TSKB TI) was the best performer with 1.8% MoM. On the other hand, YKBANK (YKBANK TI) underperformed the banking index with 9.7% MoM.

	Price (4/30/2012)	Price (3/30/2012)	MoM Absolute Ch.	MoM Relative Ch.
AKBNK	6.52	6.9	-5.50%	-1.70%
ASYAB	1.79	1.96	-8.70%	-5.00%
GARAN	6.46	7.06	-8.50%	-4.80%
HALKB	12.3	12.75	-3.50%	0.30%
ISCTR	4.02	4.27	-5.80%	-2.10%
YKBANK	3.25	3.6	-9.70%	-6.10%
VAKBN	3.15	3.38	-6.80%	-3.10%
TSKB	2.28	2.24	1.80%	5.90%
XU100	60,010	62,423	-3.90%	0.00%
XBANK	113,059	122,027	-7.30%	-3.60%

In terms of growth, BRSA weekly data shows that YTD and monthly loan growth were stable. However, in terms of YoY growth figure at 23.7%, this growth rate was well above the sectors' and BRSA's 15-20% YoY growth

expectation in 2012. In addition, The CBT last week reduced their loan growth rate to 14% from 15% previously. However, we are more bullish compared to the consensus and foresee 17% loan growth for the sector (driven by SMEs and consumer segment), vs. the banks management expectation which ranges between 15-20%. We foresee that last year's loan growth laggards, such as Halkbank and Vakifbank, should be on the catch up move and grow their lending book by more than the sector this year. We forecast 18.9% loan growth for Halkbank and 118.7% for Vakifbank in 2012.

When we look at loan growth by segments, consumer loans grew by 2.7% YtD as of week-ending April 20th. The CBRT would be more focused on consumer credit growth than before in order to achieve a permanent improvement in the current account. With Ytd 8.4% loan growth in the sector, participation banks were the most aggressive banks.

We have an OUTPERFORM rating on Aviation TAV's the total number of passengers rose by 35% YoY to 13.71 million from 10.18 million in 1Q12. On the other hand, THY announced that the number of passengers carried during January-March 2012 increased by 18.9% to 8 million from 6.7 million compared to the same period last year. We think that the positive mood in the traffic data is due to the upcoming high traffic months of the Summer season. Also, Turkish Airlines increased ticket prices as of April 1, 2012. Accordingly, THY hiked its domestic ticket prices between TRY 5.00-10.00 and international ticket prices between €7.00-10.00 due to higher oil prices. We believe that the increase in ticket prices is in line with rising passenger numbers as the incoming tourist season will contribute positively to the company's net sales revenues. However, we are predicting the oil prices to be at \$120/bbl on average in 2012 (2011: \$110/bbl) Thus, we expect that increases in oil prices will put pressure on the sector player's margins in 2012. We believe that the raising traffic data in summer season will prevent its profit margins from contracting. Please note that after further unrest connected to the MENA crisis the upwards movement in oil prices will bring more risk for the sector players.

We have a OUTPERFORM rating on Durables After a promising performance in 2011 on the back of relatively strong economic conditions and increasing purchasing power domestically, we think that the record number of construction permits for the last two years (reflected with a ~1.5 year lag) and replacement cycle, which is expected to be more pronounced in 2012, will continue to support domestic white goods sales despite slowing growth. Regarding the 20% growth of 2011 (strong base effect) and indications of cooling demand, our estimate for growth in the 2012 domestic market is about 3%. Though there are some catalysts which could have negative impacts (i.e. Euro debt crisis/recession), we will continue to track white goods sales and observe the home sales during the first quarter of the year in order to understand the factors at play in 2012. We believe that the major risk for the sector would be a downward trend or prolonged global recession. All in all, we keep our modestly optimistic view for the sector but with a slightly cautious stance.

We have an OUTPERFORM rating on Energy We consider that the electricity sector in 2012 will mainly follow *i)* the course of DUY prices, *ii)* FX movements, *iii)* new investments and capacity increases. We consider that

the sector will continue following foreign exchange movements in 2012 and estimate that the Turkish Lira will appreciate against foreign currencies in 2012. Consequently, key financing expenses which depreciated in 2011 will be converted into the financing incomes in 2012. Parallel to this expectation, we think that the damage from companies' financing expenses which were written off in 2011 despite their operational profitability will be converted into net profits in 2012. On the other hand, Electricity spot prices increased in Q1 of 2012 due to increasing demand and Turkey's natural gas supply problems in conjunction with the recent cold weather. We believe that the increasing prices will reflect positively on the sector. However, natural gas prices increased by 18.72% while average electricity prices increased by 8.1%, effective as of April 1, 2012. Thus, As the price hike in natural gas is higher compared to the hike in electricity prices, we consider that this will reflect negatively onto the Q2 results of sector players.

We have an OUTPERFORM rating on Retails We believe that the Retail sector has important growth potential as penetration rates are well below the EU average, and Turkey's young and rising population embodies huge scope for future development. Note that 43% of the population of Turkey is below 25 and the population reached 74 million as of 2010 with an average growth rate of 1.6%. We expect Turkey to see 5% average long-term GDP growth, which gives retail sector potential to expand. In addition, given the defensive character of food retailing, we think that the retail sector will be one most immune in case of downturns. We extend our coverage of the Turkish Retail Sector by including BIZIM and MIGROS (both with outperform rating) in addition to already covered BIMAS.

We have an OUTPERFORM rating on REITs After two strong years of growth with low interest rates in 2010 and 2011, 2012 looks to be a year of respite for the sector, but we are still positive for the long term. Mortgage rates have been on downside trend since 2002 and decreased from 5.1% to as much as 0.79% at the end of 2010 on monthly basis. Following the Central Bank's actions in 2011, monthly interest rates on home loans increased significantly by 0.40 points on average to 1.20% in 2011 compared to the end of 2010. But we have been observing some decline for a couple of weeks again, mainly stemming from the decrease in benchmark rate due to the increasing global risk appetite all around, which in turn will continue to support the sector.

We have a MARKET PERFORM rating on Autos In line with our expectations, auto sales started to moderate this year due to the slowdown in Turkish economic growth and high base effect. During the first quarter of this year, total domestic auto sales declined 26% compared to the prior year. While domestic PC sales declined by 21%, LCV sales went down by 35% with the latent effect of price hikes stemming from higher taxes and depreciation of TRY. Overall in year 2012, we expect domestic automotive sales to slow down by 13%. Among all the companies, Tofas is our top pick since exports are guaranteed by take or pay agreements. In addition, the company is expanding its export base through its agreements with Opel/Vauxhall and Chrysler. While exports to Chrysler will not start until 2013, Opel/Vauxhall exports started in 4Q11.

We have a MARKET PERFORM rating on Cements According to the Turkish Cement Manufacturers' Association, domestic cement sales volume increased

by 9.5% YoY to 52.3mn tons in 2011 due to the strong domestic demand and export volume declined by 24% YoY to 13.5mn tons, due to sales being directed towards the domestic market and the negative effect of the Arab Awakening. We believe both domestic and export volumes will increase by 5% YoY and 11% YoY in 2012, respectively. We believe that urban transformation, infrastructure investments, housing demand, new regulations (both Earthquake and 2B), and ongoing projects will continue in 2012. The expected slowdown in domestic demand and excess capacity will cause sector players to continue to compensate with exports. The MENA region seems to be the primary destination for Turkey. On the other side, the negative effects of the Arab Awakening will be a potential risk for cement exports. In light of the demand and price expectations for 2012, we believe the increase in electricity and petrocake prices will be more negative for the companies' margins compared to 2011. We maintain our "Market Perform" rating for the sector in 2012.

We have a MARKET PERFORM rating on Glass After strong domestic demand from 2010, 2011 was also another strong year. However, due to the fact that we are more cautious about the continuation of strong demand, mainly due to slowing global growth in the remainder of the year, we are a little bit doubtful as to whether production and sales will continue to increase with the same momentum in the coming months. We think the major risk for the glass companies would be a prolonged economic downturn or deterioration in demand conditions both in Turkey and abroad. In this case, the capacity utilization rate, production volumes as well as operational performance of glass companies would suffer and glass companies might have to postpone investments on their agenda. In addition, glass companies utilize natural gas and soda ash in their production processes and any increase in raw materials prices would put pressure on the companies' profitability. The ISE fell 17% in 2011 and glass companies under our coverage: Trakya Cam and Anadolu Cam pulled back 21% and 18% in absolute terms, outperforming the ISE-100 by 1% and 5%, respectively. But the outperformance came mainly from the first half of the year. The second half of 2011 was more challenging for the sector. We had revised our Outperform recommendation down to "Market Perform" for the glass sector stemming from the fact that a slowdown in the global economy, especially in Europe poses downward risks at the beginning of the year and we are still stick to our Market perform recommendation.

We have a MARKET PERFORM rating on Iron & Steel In 2011, the iron and steel sector had a successful year overall thanks to the effects of higher product prices in 2011. Hot and cold product prices increased by 21% and 15% respectively. Long-term product prices rose by 40%. Thus, this influenced the financials of sector players in 2011. However, product prices fell by 10% in 4Q11 compared to the previous quarter and long product prices decreased by 5% due to the recession over the global economy. The product prices have been flat since the beginning of 2012. We believe that decreasing product prices and increasing raw materials prices will put some pressure on the margins of sector players into the first half of 2012. We believe that in parallel with the slowdown in the global economy, the regression in demand will have adverse effects on the performance of sector. We expect the 2011 profitability not to be sustained due to the low prices and higher cost in 2012 for sector.

We have a MARKET PERFORM rating on Oil & Gas Since demand for petroleum products is linked to GDP growth and given our 1% GDP growth assumption, we expect a slowdown in the pace of growth of demand for petroleum products in 2012. In addition, supply side pressures arising from rising crude oil and natural gas prices will have a negative impact on the profitability of the sector. However, we believe that consumption of domestic petroleum products in Turkey will maintain its growth in the long-term and that Tupras will be the main beneficiary since it has a leading position in the refining sector.

We have a MARKET PERFORM rating on Pharmaceuticals In April, the pharmaceuticals sector was quite busy. US company Amgen, the world's largest biotechnology company, announced that it will acquire 95.6 percent of shares in Mustafa Nevzat Pharmaceuticals, a privately held Turkish pharmaceutical company, for an amount that values at \$700 million. On the other hand, recall that the government passed new regulation on the pricing of pharmaceutical products which went into effect in November 2011. Following the new regulation, drug prices decreased by 7%. Following the new regulation, drug prices decreased by 7% overall, which will surely put pressure on profitability also in 2012. We believe that we will see the full effect of the decrease in drug prices in the first quarter of 2012. Looking at the companies under our coverage, we maintain our recommendations for Selcuk Eczza Deposu (SELEC.TI; Market Perform) for now.

We have a MARKET PERFORM rating on Telcos The Turkish mobile market remained competitive in 2011. In the post-paid segment, competitors continued to increase incentives and in the pre-paid segment, despite observing some rational moves, competition continues with aggressive port-in offers, maintaining its focus on the young segment with low price bundled offers. On the terminal front, competition intensified with a wider portfolio of devices and segmented offers available for contracted smartphones. The market's focus on contracted smartphone sales continued in 2011, where additional monthly fees for smartphone acquisitions were again reduced, resulting in an upward trend in smartphone sales. On the other hand, though we may see some softening in competition in 2012, it will be limited as operators may concentrate on maximizing cash flows from existing customers rather than expanding market share due to the weakening economy in 2012. However, we do not expect a dramatic change in competition for the short-term. Considering the youthful population of Turkey, lower penetration rate relative to Europe and increasing disposable income we are positive for the mobile sector in the long-term. However, we do not expect rational competition in the short-term which should continue to spell distress to margins and profitability. Therefore, we maintain our "Market Perform" rating for the sector.

Expectations for May 2012 & beyond

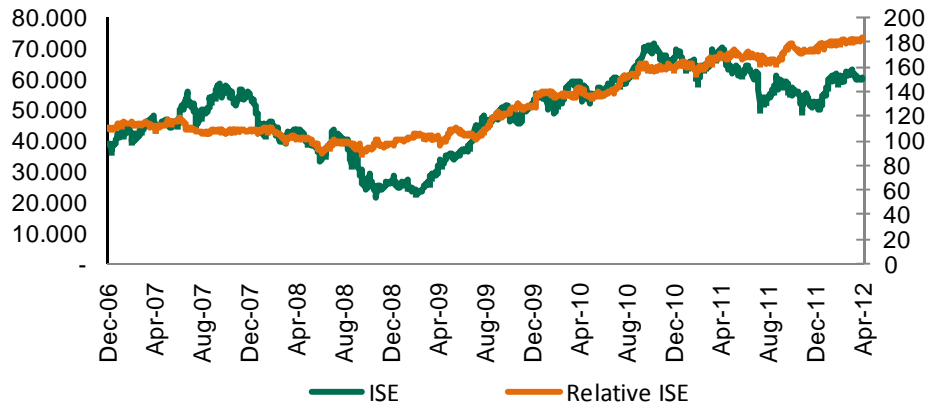
- We are still stick to our **HOLD** recommendation with a 12m index target of **67,500** offering 12.4% upside potential. Turkish equities are trading at a slightly expensive **2012E 10.7x P/E** (4% premium to EM peers) and a relatively cheap **2012E 1.3x P/BV** (9% discount to EM peers).
- The market will focus on global and local developments:
 - **FED's signals on further easing**
 - **Macro data from US and Europe**
 - **Political risk due to elections in France and Greece**
 - **Balance of payment data to provide the most important macro headline for Turkey**
 - **CBRT's unorthodox (tightening) policy** - uncertainty in S/T rates regarding the **cost of funding** for Turkish banks
 - **Expectations of 1Q12 financial results for ISE companies**
- After the retreating in April we might see some improvement in risk appetite again in May
 - **Benchmark bond yields will continue to move between 9.0% ~10%**
 - **Forward P/E multiple is not looking attractive compared to EM peers**
 - **2012E P/E: 10.7x - 4% premium to peers**
- **Markets might remain under pressure due to:**
 - **Volatility may return to the market due to continuing global risks**
 - **Stronger than expected slowdown in economic activity that may lead to a worse-than-expected output (i.e. recession)**
 - **Uncertainty of market rates making valuations less reliable**

Virtual Portfolio

Return, %	ISE	Portfolio	Relative
2005	59,3%	47,9%	-7,2%
2006	-1,7%	16,6%	18,6%
2007	42,0%	38,9%	-2,2%
2008	-51,6%	-56,3%	-9,7%
2009	96,6%	158,0%	31,2%
2010	24,9%	55,0%	24,1%
2011	-22,3%	-12,0%	13,4%
2012	17,1%	23,0%	5,1%
Jan-12	11,5%	13,9%	2,1%
Feb-12	6,2%	6,5%	0,3%
Mar.12	2,8%	3,6%	0,7%
Apr-12	-3,9%	-0,9%	3,1%

Portfolio Recommend.	Inclusion Date	Inclusion Price	Last Close	Chg. (%)	ISE Relative
Tofas	08.09.11	6,16	7,68	24,7%	16,8%
TAV Airports	08.01.10	4,88	9,40	92,6%	79,6%
TSKB	10.01.12	1,77	2,28	28,8%	8,9%
Aksa Energy	08.09.11	2,73	3,80	39,2%	30,4%
Anadolu Cam	27.03.12	3,10	2,85	-8,1%	-2,4%
Aksa Akriilik	10.01.12	4,14	4,30	3,9%	-12,2%
Vakifbank	26.01.11	2,62	3,05	16,4%	8,5%
Arçelik	08.09.11	6,32	7,72	22,2%	14,5%
Portfolio Historical Yield					86,5%

ISE vs. Portfolio



Aksa Energy

Positive results through growing capacity

Current electricity production capacity of 2,036 MW – Aksa Energy launched 525 MW of installed capacity in 2011, increasing its total capacity to 2,036 MW at 2011 year-end from 1,511 MW in 2010 (1H11: 1,544 MW). In addition to its ongoing natural gas, hydroelectric and wind power plants, the company aims to increase its installed capacity to 2,118 MW by the end of 2012. Furthermore, it aims to increase the total installed power capacity to 4,200 MW upon converting its obtained licenses into investments in 2014.

Negative bottom-line in 2011 despite positive operational performance – Despite Aksa Energy's new capacity increases in 2011, the company announced a net loss led by financial losses. The company had announced a loss of TRY 124 million in FY2011 due to the appreciation of the dollar against the Turkish lira in 2011. Currently, Aksa Energy has net financial debt of TRY 1.5 billion as of YE11 as a result of increasing financial loans related to ongoing capacity expansion investments. However, we forecast the appreciation of the lira against the dollar in 2012 to decrease the company's financial losses and positively affect its 2012 net profit. Thus, we estimate Aksa Energy to achieve a net income of TRY 130 million by the end of 2012.

Growing capacity a positive contribution to 2012 margins – Considering the current investments made by the company, we anticipate that its increasing capacity will also continue to reflect positively on its financial statements in 2012. With the addition of new capacity, we expect Aksa Energy's net sales revenues and EBITDA climb to TRY 1.675 million and TRY 360 million in 2012 from TRY 1.307 million and TRY 292 million in 2011, respectively.

2012 to be better than 2011 – Aksa Energy's major shareholder Kazanci Holding stated that the sale of 13.30% of Aksa Energy's shares is expected to be completed by 2012. Thus, we believe that Kazanci Holding's possible M&A deal with Aksa Energy, strong operational results and new capacities will have positive effects on the stock in 2012. (Note: we believe that the management may choose to use the sales proceeds to cover for the company's long-term debt reduction).

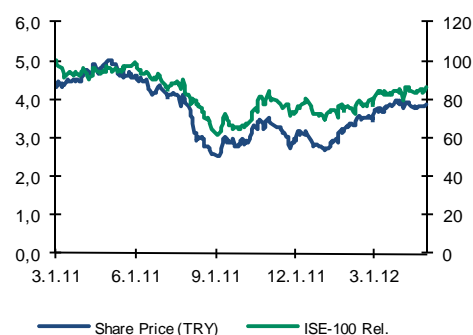
"Outperform" We initiate coverage at **"Outperform"** with a target price **TRY 4.60** considering the company's long-term projects. Aksa Energy's current price stands at TRY 3.86, with our target value representing a 19% upside potential. Thus, we maintain our **"Outperform"** rating for Aksa Energy.

Quick Facts	2010A	2011A	2012E
Total Revenue	911	1.307	1.675
% Change, YoY		43,5%	28,1%
Total Profit	59	-126	130
% Change, YoY		-313,1%	-203,6%
EBITDA	190	292	360
% Change, YoY		54,0%	23,3%

Multiples	2010A	2011A	2012E
P/E	37,7	N.M.	17,1
P/BV	2,7	3,2	2,2
EV/EBITDA	19,7	12,8	10,4
EV/Sales	4,1	2,9	2,2

Valuation	
Current Price, TRY	3,86
Target Price, TRY	4,60
Upside Potential	19%
Rating	OP
Target Mcap, TRYbn	2.655

Performance	TRY	USD	
Close	3,86	2,21	
High, 52w	5,00	3,28	
Low, 52w	2,52	1,43	
Ticker	AKSEN.TI/AKSEN.IS		
# of Shares, mn	577,5		
Return	1 M	YOY	YTD
TRY Return (%)	-3,1	-24,3	35,7
US\$ Return (%)	-1,7	-34,5	47,9
ISE-100 Relative (%)	3,6	-10,7	18,0
Avg. Daily Vol. (TRY Mn)	2,98		
Avg. Daily Vol. (US\$ Mn)	1,69		



Arcelik

Deserves to be a top pick ...

We maintain our “Outperform” rating The company’s promising results in first quarter of 2012 albeit with some loss of momentum, ongoing strong domestic demand and its growth story in its region pave the way for our “Outperform” rating for Arcelik. We keep our target price at TRY 8.60.

Dominates the domestic market with more than 50% market share Arcelik is owned by Turkey’s foremost banking, automotive, energy and consumer conglomerate Koc Holding and is Turkey’s leading white goods manufacturer commanding more than a 50% domestic market share with its unique dealer network of 3,500 exclusive retail shops and 600 after-sales service points. Vestel and Bosch are Arcelik’s main domestic competitors. Arcelik is also a prominent exporter. Its major export markets are the EU, Eastern Europe, Russia, Middle East and North Africa.

Actively seeks inorganic growth opportunities On the other hand, Arcelik is actively seeking inorganic growth opportunities in order to become a leading regional player. As a part of the company’s growth strategy in emerging markets, Arcelik acquired 100% of the shares of South African Defy Appliances in 2011.

The domestic white goods market maintains strong sales. Despite the fact that we are becoming more cautious about the continuation of strong demand and slowing global growth, the latest Turkish White Goods Manufacturers’ Association’s figures lead us stick to our relatively positive view for the sector, especially for domestic sales. Following an all time high domestic sales figure on a yearly basis for 2011 reaching 6.47 million units, implying a 19.3% annual increase, the first quarter figures for 2012 also point to a relatively strong performance on a yearly basis.

We assume sales revenues and EBITDA to increase by 23.1% and 24.5% YoY in 2012, respectively, supported by the Defy consolidation We expect the company to reach a revenue figure of TRY 10,390 million and EBITDA figure of TRY 1,091 million.

Quick Facts	2010A	2011A	2012E
Total Revenue	6.936	8.437	8.910
% Change, YoY		21,6%	5,6%
Total Profit	549	541	650
% Change, YoY		-1,5%	20,1%
EBITDA	758	876	1.060
% Change, YoY		15,6%	21,0%

Multiples	2010A	2011A	2012E
P/E	9,5	9,6	8,0
P/BV	1,6	1,5	1,1
EV/EBITDA	9,6	8,3	6,8
EV/Sales	1,0	0,9	0,8

Valuation	
Current Price, TRY	7,70
Target Price, TRY	8,60
Upside Potential	12%
Rating	OP
Target Mcap, TRYbn	5.808

Performance	TRY	USD	
Close	7,70	4,40	
High, 52w	8,04	5,19	
Low, 52w	5,22	2,81	
Ticker	ARCLK.TI/ARCLK.IS		
# of Shares, mn	675,7		
Return	1 M	YOY	YTD
TRY Return (%)	1,6	-3,9	33,4
US\$ Return (%)	3,0	-16,8	45,5
ISE-100 Relative (%)	8,5	13,3	16,1
Avg. Daily Vol. (TRY Mn)	8,07		
Avg. Daily Vol. (US\$ Mn)	4,63		



Halkbank

Delivering the highest ROE repeatedly

We like Halkbank's solid management and ability to generate the highest ROE in the Turkish Banking universe. Higher retail focus should enable the bank to improve NIM above the sector this year, along with the advantages afforded by being the leading SME bank in Turkey.

The sources of upside risk include the continuation of NPL recoveries and non-core asset sale. On the other hand, higher than expected NPL generation and lower than expected volume growth presents downside risk to our valuation.

Halkbank to own credit card brand... Retail loans were the main driver of loan growth during 2011. Being an SME bank, and now with additional focus on high margin retail lending (especially GPL, mortgages and credit cards) we expect Halkbank to improve NIM above the sector in 2012. Although it would initially come at a cost, Halkbank's plan to create its own credit card would increase volumes and support revenue line in the long term.

Other income to get a boost from non-core asset sale and continuation of bad loan collections... Halkbank's REIC subsidiary is expected to be listed in 2H of 2012, and the asset transfer between REIC and bank, in our view, should support the other income line. The bank is also getting ready to enter the factoring sector. Now with a wider subsidiary network, we expect Halkbank to increase dividend income in the medium term.

Low total fees in banking revues indicate growth potential... Halkbank increased its fees by 39% last year in an attempt to catch up with peers on fees charged for services rendered. However, fees make up 17% of total revenues as of Dec-11, vs. the 23% average of large cap peers, indicating room for expansion. Despite management guidance for flat growth, we believe that the introduction of additional fees (such as internet banking) should help fee growth this year. And while gaining presence in the credit card segment marks a longer term positive, it should also support fees and commissions going forward.

Risk... NPL recoveries (+), non-core asset sale (+), and higher than expected NPL generation (-).

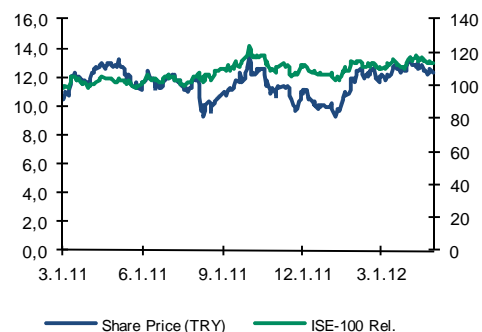
We rate the stock "Outperform", with a target price of TR14.70. Based on our assumptions, it is trading at 1.5x 2012F P/BV and 6.8x 2012F P/E.

Quick Facts	2010A	2011A	2012E
Net Income	2.010	2.045	2.298
% Change, YoY		1,7%	12,4%
Total Book Value	7.445	8.640	10.588
% Change, YoY		16,1%	22,5%

Multiples	2010A	2011A	2012E
P/E	7,6	7,4	6,6
P/BV	2,0	1,8	1,4

Valuation	
Current Price, TRY	12,30
Target Price, TRY	14,70
Upside Potential	20%
Rating	OP
Target Mcap, TRYbn	18.375

Performance	TRY	USD	
Close	12,30	7,03	
High, 52w	13,40	8,66	
Low, 52w	9,26	4,97	
Ticker	HALKB.TI / HALKB.IS		
# of Shares, mn	1.250,0		
Return	1 M	YOY	YTD
TRY Return (%)	-7,6	-4,7	22,7
US\$ Return (%)	-6,3	-17,5	33,8
ISE-100 Relative (%)	-1,3	12,4	6,7
Avg. Daily Vol. (TRY Mn)	80,53		
Avg. Daily Vol. (US\$ Mn)	46,17		



Garanti Bank

“Guaranteed” choice for profitability & stability

Income Statement highlights... Garanti published its 1Q12 yesterday. Accordingly, March quarterly net income came in at TRY861.7m, up 9% QoQ and c.1% YoY. The bottom line exceeds both our and the consensus estimate (Seker 1Q12 TRY830m and consensus TRY827m). The QoQ increase in net income was driven by a 20% rise in trading & currency gains that Garanti booked during the March quarter (1Q12 trading gains TRY89m, vs. TRY74m in 4Q11) and lower provisioning. Fees were also strong, as net fee and commission income climbed 6% QoQ, but was down c.4% YoY due to the change in accounting and cap on mutual fund fees. Opex increased 17% YoY, although management maintains their CPI+2-3% cost growth guidance for the full year.

Balance sheet highlights... On the lending side Garanti's loan growth lagged the sector this quarter when looked at on an FX unadjusted basis. The loan book declined by 1%, vs. the sector's 2.3% growth (YoY loan growth came in at 18%). Deceleration in lending book growth was driven by corporate loans, which shed 2% QoQ. Consumer loans, on the other hand, grew 2% thanks to 4% growth in GPL loans and 2% growth in mortgages. On an FX adjusted basis TL loans grew by 2.1% and FX loans grew by 2%. Despite some pick up in the blended cost of deposits, the bank managed to keep the loan - deposit spread stable during the March quarter. On the funding side deposits on a QoQ basis declined 2%, vs. the sector's 0.5% increase in 1Q as Garanti relinquished costly big ticket corporate deposit holders to keep the cost of deposits under control. The share of loans within total assets decreased to 56%, vs. 57% in FY2011, whereas that of securities rose to 25% from a quarter ago.

Asset quality trends... Despite a slight deterioration in asset quality, all seems to be in place for now. The NPL ratio stood at 1.88% in 1Q12, vs. 1.80 in 4Q11, due to slower collections and new NPL inflow. Note that during their conference call management emphasized possible asset quality problems in the SME segment going forward.

CAR and ROE... Visible RWA optimization from Garanti and CAR ratio seems stable, at 16.92%, vs. 16.89% in 4Q11. ROE on a 12M rolling basis came in at 17.5%, vs. 18.5% in 1Q11.

Risk... further increase in NPLs (-), higher than expected provisioning (-), higher than expected fee growth (+)

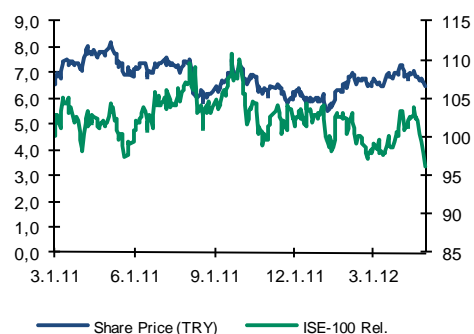
We rate the stock “Outperform”, with a target price of TRY7.59. By our assumptions, the shares are trading at 1.40x 2012F P/BV and 8.6x 2012F P/E.

Quick Facts	2010A	2011A	2012E
Net Income	3.145	3.071	3.260
% Change, YoY		-2,4%	6,2%
Total Book Value	16.475	17.577	20.034
% Change, YoY		6,7%	14,0%

Multiples	2010A	2011A	2012E
P/E	8,4	8,6	8,1
P/BV	1,6	1,5	1,3

Valuation	
Current Price, TRY	6,46
Target Price, TRY	7,59
Upside Potential	17%
Rating	OP
Target Mcap, TRYbn	31.878

Performance	TRY	USD	
Close	6,46	3,69	
High, 52w	8,18	5,37	
Low, 52w	5,54	2,97	
Ticker	GARAN.TI / GARAN.IS		
# of Shares, mn	4.200,0		
Return	1 M	YOY	YTD
TRY Return (%)	-13,2	-20,8	7,1
US\$ Return (%)	-12,0	-31,4	16,8
ISE-100 Relative (%)	-7,3	-6,6	-6,8
Avg. Daily Vol. (TRY Mn)	419,28		
Avg. Daily Vol. (US\$ Mn)	239,68		



TAV Airports

Maintain Outperform...

New strategic partner - French airport operator, Aéroports de Paris (ADP), signed a purchase agreement with Akfen Holding, Tepe Insaat and Sera Yapi Endustri, for TAV Airports Holding Accordingly, ADP purchased a 38% stake of TAV Airports Holding (18% from Akfen Holdin, 18% from Tepe Insaat and 2% from Sera Yapi Endustri) for USD 874 million. TAV's total sales price is USD 2.3 billion (TRY 11.30/share) and its current Mcap is USD 1.91 billion (TRY 9.24/share). TAV shares carry a 22% upside according to the announced sales price. The purchase is below the level that would trigger a mandatory tender offer for minority shareholders. We expect TAV's partnership with ADP to contribute to the company's development. We believe that such a grouping would result in the creation of an outstanding alliance with excellent growth potential - both organically and through further acquisitions.

Positive results in 2011 - The number of passengers using TAV operated airports increased by 11% to 52.8 million in 2011. TAV's revenues soared by 12% YoY to €881.1 million in 2011 from €785 million in 2010 on the back of strong growth. TAV's EBITDA came in at €257.1 million in 2011, up by 21% YoY. Increased duty-free operations and strong performance from ground handling operations also supported EBITDA growth. The company's net profit went up by 6% to €52.8 million in FY2011 from €49.8 million in 2010. Also, TAV Airports Holding announced the distribution of a 25% cash dividend per share for the first time.

Revenues to grow by about 15% annually in 2012- We believe that the number of passengers using airports operated by TAV will increase to 66 million in 2012 due to new airport openings. Thus, we think that the increase in the number of passengers and the positive contribution of new airports (Medina and Izmir Adnan Menderes) will have a positive effect on net sales revenues. We expect sales revenues to reach EUR 1,010 million in 2012. Also, we believe that TAV's EBITDA and EBITDAR will increase to EUR 310 million and EUR 450 million in 2012, respectively. In terms of net profit, we expect the company to announce a EUR 80 million net profit for 2012.

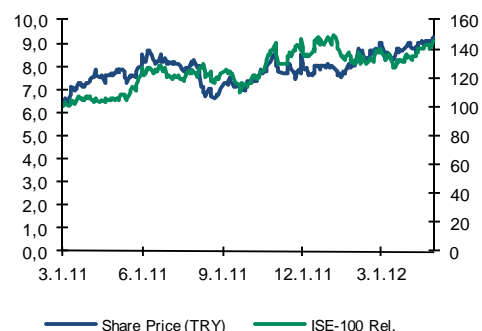
Still "Outperform" we maintain our "Outperform" recommendation for the stock. While our target price stands at TRY 10.80, TAV Airports Holding currently trades at TRY 9.24 and our target value represents a 17% upside potential.

Quick Facts, EUR	2010A	2011A	2012E
Total Revenue	785	881	1.010
% Change, YoY		12,2%	14,6%
Total Profit	50	53	80
% Change, YoY		6,0%	51,5%
EBITDAR	342	387	450
% Change, YoY		13,1%	16,4%

Multiples, EUR	2010A	2011A	2012E
P/E	28,9	27,2	18,0
P/BV	3,3	3,0	3,1
EV/EBITDAR	7,6	6,7	5,7
EV/Sales	3,3	2,9	2,6

Valuation	
Current Price, TRY	9,24
Target Price, TRY	10,80
Upside Potential	17%
Rating	OP
Target Mcap, TRYbn	3.925

Performance	TRY	USD	
Close	9,24	5,28	
High, 52w	9,40	5,49	
Low, 52w	6,62	3,72	
Ticker	TAVHL.TI/TAVHL.IS		
# of Shares, mn	363,3		
Return	1 M	YOY	YTD
TRY Return (%)	4,4	20,2	16,6
US\$ Return (%)	5,9	4,1	27,1
ISE-100 Relative (%)	11,6	41,8	1,4
Avg. Daily Vol. (TRY Mn)	8,08		
Avg. Daily Vol. (US\$ Mn)	4,74		



Tofas

Our top pick...

Our recommendation for Tofas is “Outperform”. Our target market capitalization for Tofas stands at TRY 4,900 million and TRY 9.80 per share. This represents 26% upside potential compared to the current market capitalization of TRY 3,730 million. Therefore, we maintain “Outperform” rating for Tofas’s shares.

Tofas is a safe haven with take-or-pay agreements despite fragile economic outlook in European markets. Growing concerns regarding the slowdown in global economic growth and European debt problems is a key risk factor on automotive exports. Tofas’s largest export markets are France and Italy. Stalling economic growth and debt problems in these countries makes us to remain cautious about these markets. However, Tofas’s take-or-pay agreements with its parent company Fiat protects it from sharp slowdowns in exports. Note that currently 61% of Tofas capacity is guaranteed under take-or-pay export agreements.

Opel/Vauxhall and Chrysler deals enhance exports. Tofas started production in its Doblo platform in 4Q11. According to the agreement, Tofas will produce 250,000 units until 2018. In addition, Tofas signed an agreement with Chrysler to produce the Doblo for US market, which is expected to start in the first half of 2013. Agreement covers 190,000 units.

Tofas’s 4Q11 results beat estimates. While Tofas reported a net profit of TRY 131 million, company generated TRY 1.8 billion in revenues, 8% below the previous year due to a 3.5% decline in total sales volume. In 4Q11, Tofas’s EBITDA went down by 6.2% YoY to of TRY 179 million and the company’s EBITDA margin rose from 9.9% in Q4 of 2010 to 10.1% in Q4 2011.

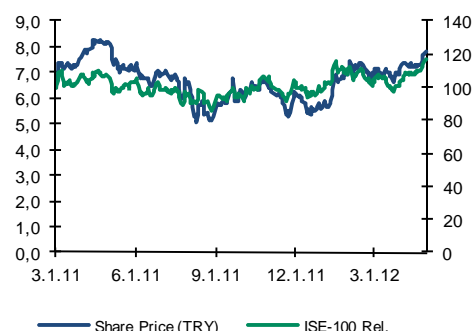
We anticipate Tofas’s domestic sales to slow down parallel to the market. In line with our 13% contraction assumption in domestic automotive market sales, we estimate Tofas’s domestic sales volume to be 130k in 2012. However, decline in domestic sales could be compensated through the additional export volume coming from Opel deal. On the top line, we expect net sales growth to be 4% and sales revenues to reach TRY 7.6 billion in 2012. In addition, we estimate Tofas’ EBITDA to be TRY 800 million, bringing EBITDA margin to 10.5% at the end of 2012.

Quick Facts	2010A	2011A	2012E
Total Revenue	6.410	7.337	7.658
% Change, YoY		14,5%	4,4%
Total Profit	384	474	454
% Change, YoY		23,4%	-4,3%
EBITDA	658	789	800
% Change, YoY		19,9%	1,4%

Multiples	2010A	2011A	2012E
P/E	10,1	8,2	8,6
P/BV	2,3	2,2	1,9
EV/EBITDA	7,6	6,4	6,3
EV/Sales	0,8	0,7	0,7

Valuation	
Current Price, TRY	7,78
Target Price, TRY	9,80
Upside Potential	26%
Rating	OP
Target Mcap, TRYbn	4.900

Performance	TRY	USD	
Close	7,78	4,45	
High, 52w	7,94	5,21	
Low, 52w	5,06	2,85	
Ticker	TOASO.TI/TOASO.IS		
# of Shares, mn	500,0		
Return	1 M	YOY	YTD
TRY Return (%):	5,7	-5,3	38,6
US\$ Return (%):	7,2	-18,0	51,0
ISE-100 Relative (%):	12,9	11,7	20,5
Avg. Daily Vol. (TRY Mn):	7,79		
Avg. Daily Vol. (US\$ Mn):	4,53		



Turkcell

More resilient to economic slowdown ...

Sources of underperformance likely to bottom out Both the company and accordingly the share price have long been under pressure from harsh competition in the Turkish mobile sector and a shareholder dispute. Yet while it is early to claim that the worst is over, we believe that we are poised to bottom out on both fronts. Additionally, assuming that the mid to long term growth drivers of the sector remain supportive, Turkcell's competitive advantages against its rivals, along with its conceivable valuation lead us to believe that it offers an attractive risk-reward opportunity for 2H12 and beyond. In this regard, we raise our recommendation for the company from Market Perform to "Outperform" with a target price of TRY 11.20, implying an upside potential of 27.3%.

CMB's latest communiqué has increased hopes of a solution to the ongoing shareholder dispute We will continue to closely monitor the ongoing dispute between Turkcell's shareholders. We believe that as long as the outstanding disputes remain up in the air, investors will maintain their cautious stance. And yet a satisfactory resolution of the ownership dispute (which we believe is not too far away) and any agreement on the dividend distribution may pave the way for a rally in the stock.

Furthermore, a relatively softening legal environment, the trend for migration to postpaid supporting ARPU growth, the widespread use of 3G as an important source of mobile operators' revenue growth through increased use of mobile data and increasing contribution of subsidiaries on the company's top-line, all justify our positive view on Turkcell.

Risks to our rating include further deterioration of the competitive environment putting more pressure on company margins, and a prolonged shareholder dispute.

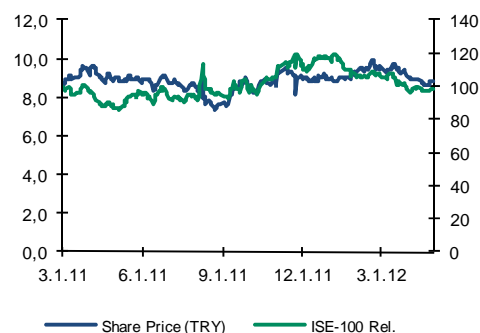
On the other hand, Turkcell disclosed a net profit of TRY 515 million in its Q1 financials, surging by 56% YoY and also up by 55.2% QoQ. 1Q12 bottom-line significantly beat both our in-house estimate of TRY 373 million and market consensus of TRY 404 million. A Better-than-expected net income figure mainly emanated from higher net finance income of TRY 161.8 million due to the increased interest income on deposits together with a translation gain of TRY 37 million as opposed to translation loss of TRY 24 million in 1Q11 besides strong operational performance.

Quick Facts	2010A	2011A	2012E
Total Revenue	9.004	9.370	10.025
% Change, YoY		4,1%	7,0%
Total Profit	1.707	1.140	1.828
% Change, YoY		-33,2%	60,3%
EBITDA	2.948	2.913	3.148
% Change, YoY		-1,2%	8,1%

Multiples	2010A	2011A	2012E
P/E	11,3	16,9	10,6
P/BV	2,0	1,8	1,5
EV/EBITDA	5,6	5,7	5,3
EV/Sales	1,8	1,8	1,7

Valuation	
Current Price, TRY	8,78
Target Price, TRY	11,20
Upside Potential	28%
Rating	OP
Target Mcap, TRYbn	24.638

Performance	TRY	USD	
Close	8,78	5,02	
High, 52w	9,96	5,92	
Low, 52w	7,36	4,15	
Ticker	TCELL.TI/TCELL.IS		
# of Shares, mn	2.200,0		
Return	1 M	YOY	YTD
TRY Return (%):	-4,4	-4,0	-2,7
US\$ Return (%):	-3,1	-16,9	6,1
ISE-100 Relative (%):	2,1	13,2	-15,4
Avg. Daily Vol. (TRY Mn):	20,11		
Avg. Daily Vol. (US\$ Mn):	11,54		



Aksa Akrilik

Carbon fiber rising higher...

Largest producer of acrylic fiber in the world – Aksa Akrilik is the largest acrylic fiber producer worldwide under a single roof with its annual production capacity of 308k tons/year. Global market share of Aksa in acrylic fiber production is currently at 14.0% and domestic market share is 72%. (2010:%13.2 and 67%). On the other hand, Aksa's global market share of carbon fiber production is 3.5%.

Carbon fiber capacity planned to be increased to 3,500 tons in next term – Aksa has a current carbon fiber production capacity of 1,800 tons and plans to increase it to 3,500 tons by the end of 2012. The company also aims to increase its market share to 5% within five years and to 10% within ten. We consider this increased capacity to be positive for the net sales revenues in the coming years. On the other hand, recall that the company announced that its carbon fiber activities would be transferred to Aksa Carbon Fiber. Furthermore, the company decided to sign a subscription and shareholders' agreement with Dow Europe Holding BV for the formation of a carbon fiber manufacturing unit called Aksa Carbon Fiber. Accordingly, Dow Europe Holding will have a 50% stake in the new company. We believe that Aksa will attain an important position in global carbon fiber production after its planned investments are realized in the coming years. Also, we believe that the partnership with Dow will be positive for the company.

Aksa's total electricity production capacity will reach 170 MW in 2012 – Aksa intends to start up its 100 MW thermal (coal) power plant within this year. The installed power of the company will reach 170 MW. While the increased capacity is expected to gradually reduce the company's costs by 40%, this condition will provide a positive contribution for the company's margins and profitability. We estimate that consolidated sales revenues will realize to USD 970 million in 2012. While the company's EBITDA was TRY 193 million in 2011, we expect it to increase to TRY 235 million in 2012.

“Outperform” We derive a TRY 1,110 million target Mcap for Aksa Akrilik using a blended DCF model. Our target price for Aksa Akrilik stands at TRY 6.00 per share. Taking into consideration the Aksa Akrilik's current market capitalization which is around TRY 797million (TRY 4.31 per share), our target value represents a 39% upside potential. Therefore, we initiate an “Outperform” rating for Aksa Akrilik.

Quick Facts	2010A	2011A	2012E
Total Revenue	1.304	1.675	1.769
% Change, YoY		28,5%	5,6%
Total Profit	62	99	115
% Change, YoY		60,7%	15,7%
EBITDA	136	193	235
% Change, YoY		42,2%	22,1%

Multiples	2010A	2011A	2012E
P/E	12,9	8,0	6,9
P/BV	1,1	0,9	0,8
EV/EBITDA	8,9	6,3	5,1
EV/Sales	0,9	0,7	0,7

Valuation	
Current Price, TRY	4,31
Target Price, TRY	6,00
Upside Potential	39%
Rating	OP
Target Mcap, TRYbn	1.110

Performance	TRY	USD	
Close	4,31	2,46	
High, 52w	5,68	3,52	
Low, 52w	3,88	2,18	
Ticker	AKSA.TI/AKSA.IS		
# of Shares, mn	185,0		
Return	1 M	YOY	YTD
TRY Return (%)	-9,7	4,2	-2,7
US\$ Return (%)	-8,4	-9,8	6,1
ISE-100 Relative (%)	-3,5	22,9	-15,4
Avg. Daily Vol. (TRY Mn)	9,55		
Avg. Daily Vol. (US\$ Mn)	5,67		



Tables & Graphs

Figure 1: Country Comparison: P/E, P/BV – 2011-2012

Country	P/E		P/BV	
	2012E	2013E	2012E	2013E
Argentina	5.6	5.0	1.1	0.9
Brazil	10.4	9.1	1.3	1.2
Mexico	14.9	15.8	1.4	1.0
Poland	9.8	9.8	1.1	1.1
Russia	5.4	5.1	0.8	0.7
Hungary	9.2	7.6	0.9	0.9
India	13.4	11.9	2.3	2.1
Malaysia	14.6	13.2	2.2	2.0
China	11.3	9.5	1.8	1.5
Egypt	8.2	7.3	1.2	1.1
South Africa	10.6	9.1	1.9	1.7
Average	10.3	9.4	1.4	1.3
Turkey	10.7	9.8	1.3	1.2
Discount	4%	4%	-9%	-8%

Figure 2: 5-yr CDS (LHS) vs. 12E P/E (RHS)

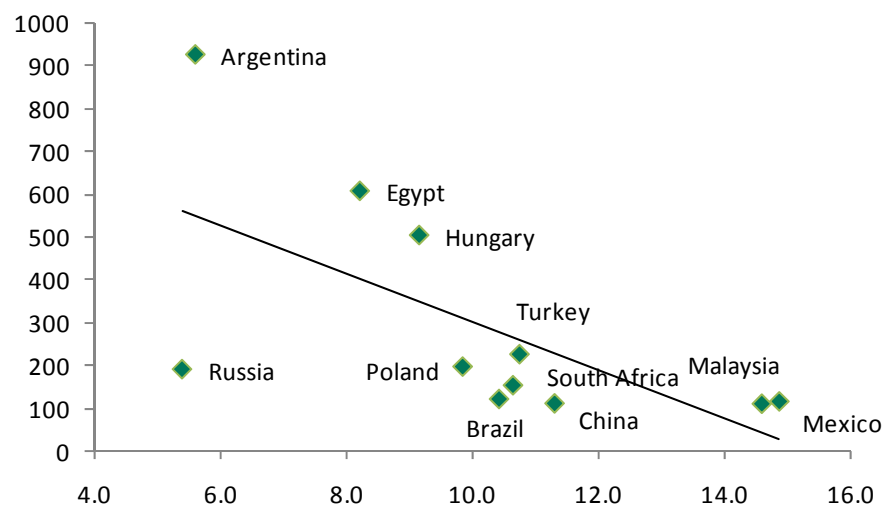


Figure 3: Absolute vs. Relative Change in MSCI

Absolute Change	1m	3m	12m	YtD
MSCI Turkey	-4%	3%	-25%	22%
MSCI EM	-1%	1%	-15%	12%
MSCI EMEA	-2%	1%	-19%	13%
MSCI Eastern Europe	-3%	0%	-26%	14%
MSCI World	-1%	4%	-7%	9%

Relative to MSCI Turkey	1m	3m	12m	YtD
MSCI EM	2%	-3%	14%	-8%
MSCI EMEA	2%	-2%	8%	-7%
MSCI Eastern Europe	1%	-4%	-1%	-6%
MSCI World	2%	1%	24%	-10%

Figure 4: MSCI EM (LHS) vs. MSCI Turkey (RHS)

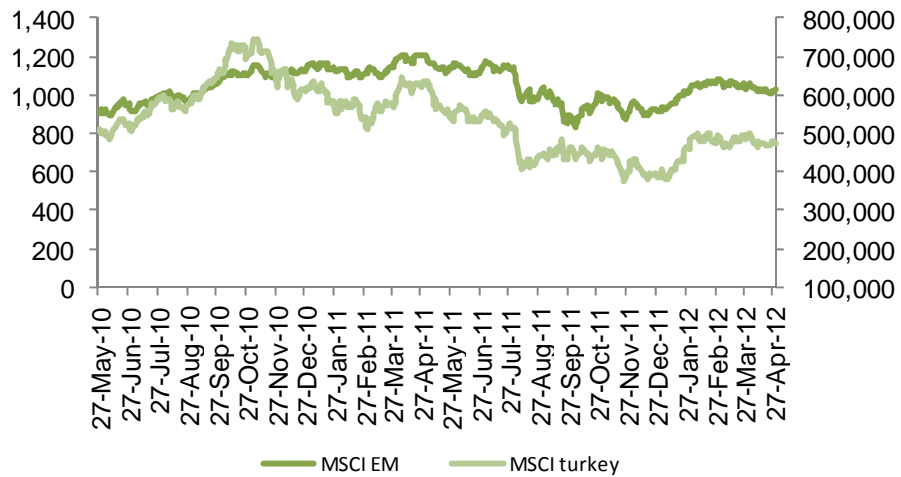


Figure 5: MSCI EMEA (LHS) vs. MSCI Turkey (RHS)

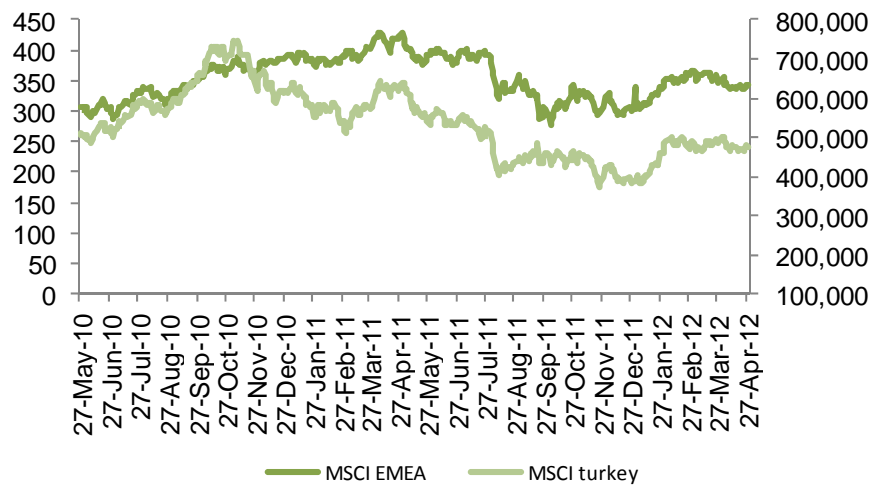


Figure 6: MSCI EM Relative to MSCI Turkey

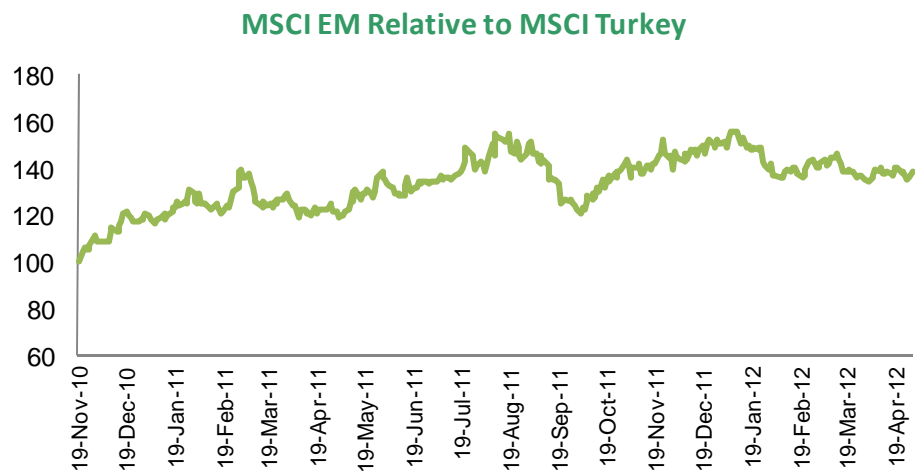


Figure 7: MSCI EMEA Relative to MSCI Turkey

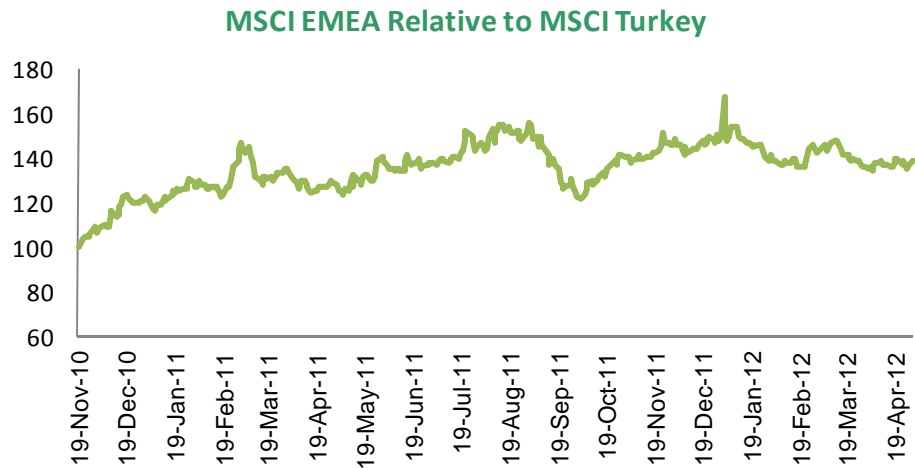


Figure 8: ISE Sector Returns – MoM

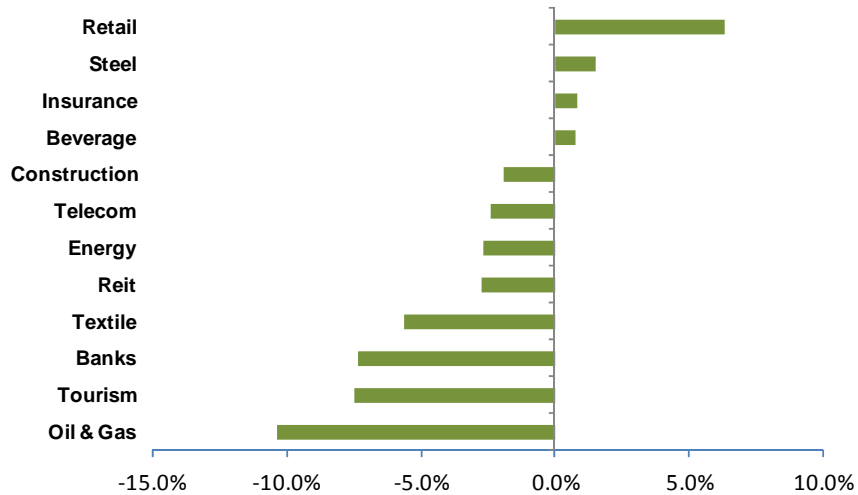


Figure 9: ISE Sector Returns, YtD

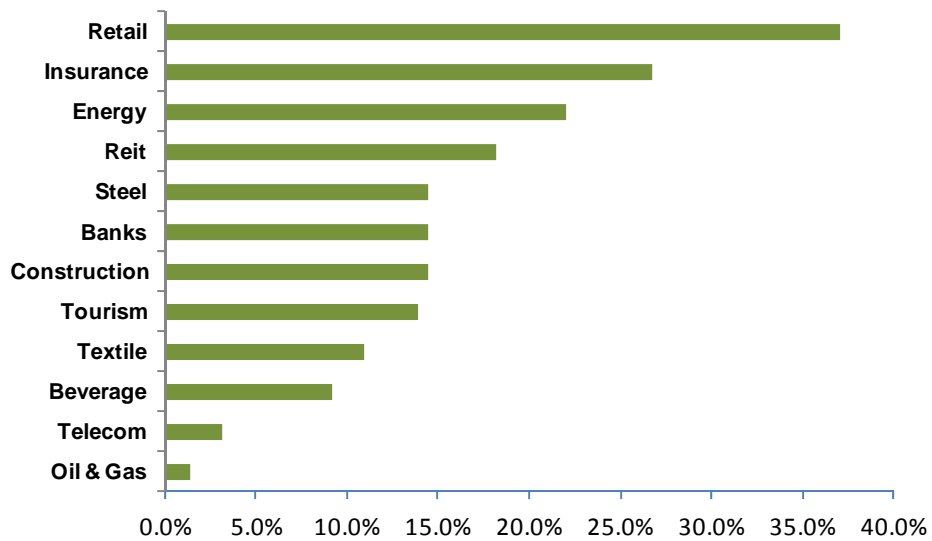


Figure 10: ISE Sector Returns, YoY

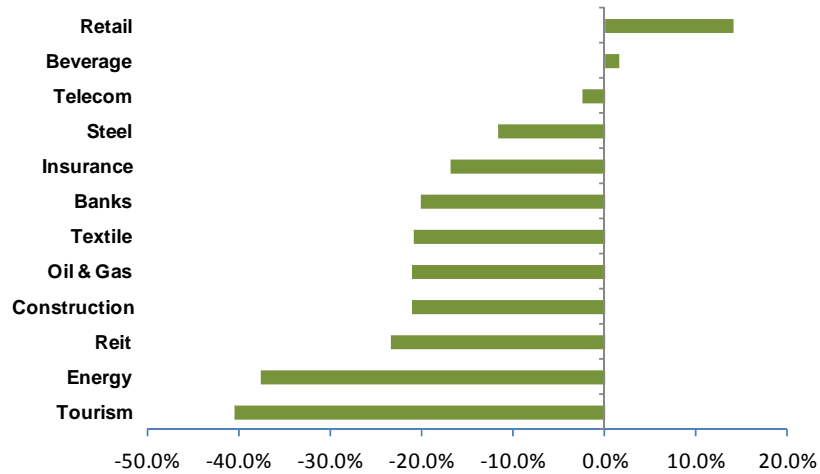
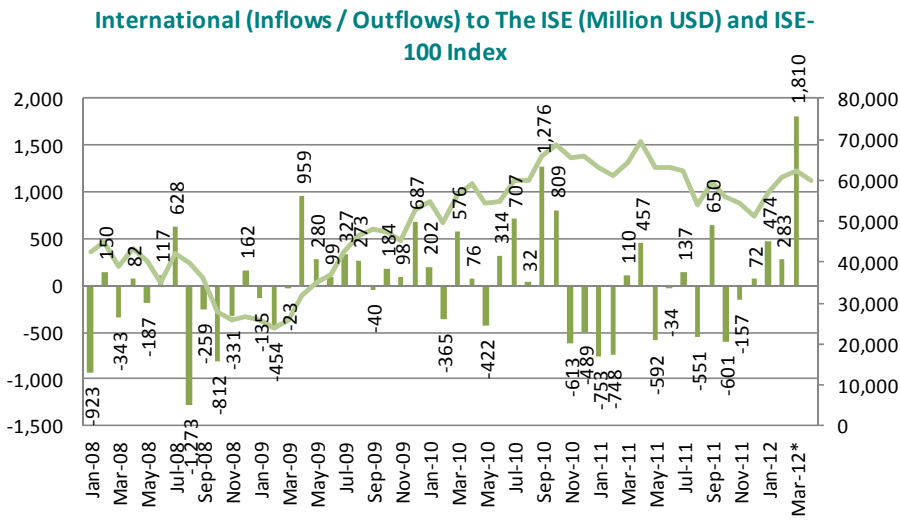


Figure 11: International Inflows/Outflows to the ISE



(*) Included Anadolu Efes' capital increase through private placement with amount of USD 1,837 mn

Figure 12: Foreign Equity Holding Ratio (%)

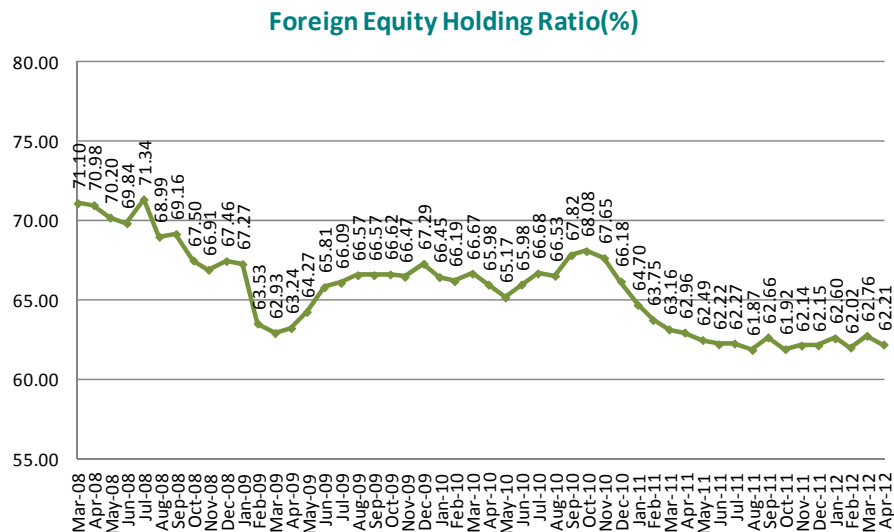


Figure 13: Coverage Net Profit Projections 2008-2012E

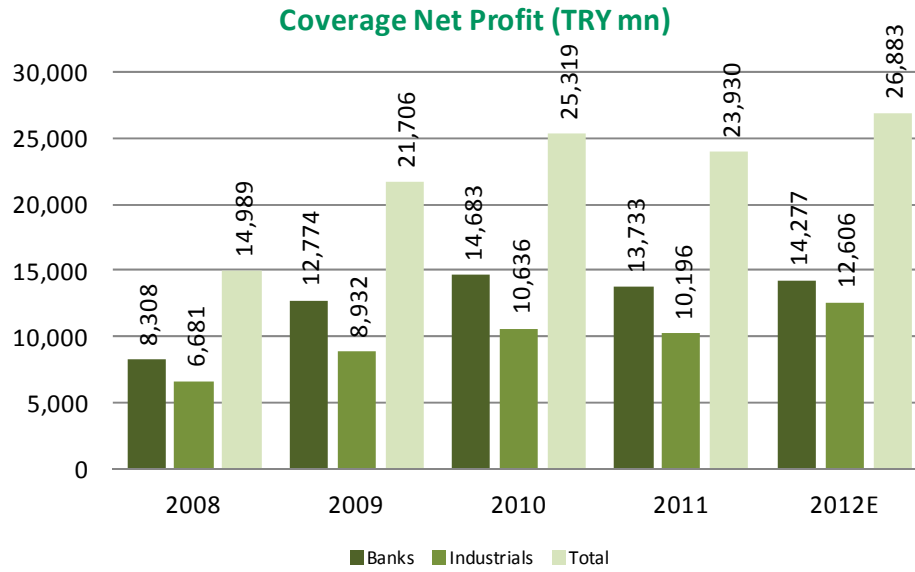
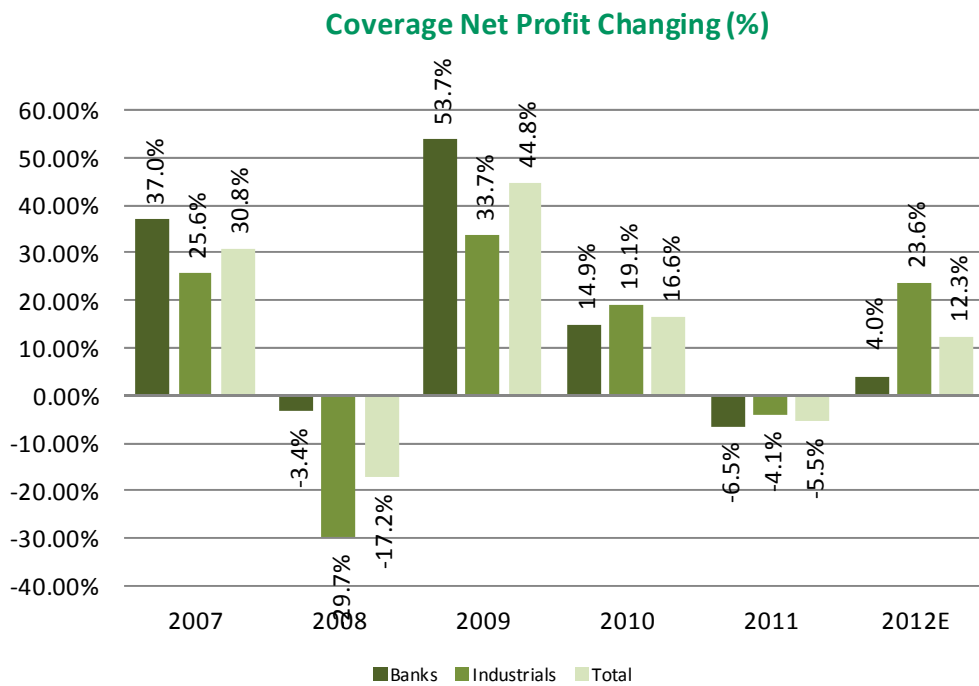


Figure 14: Coverage Net Profit, % YoY Change 2011-12E



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