Equity Overview 4Q17

March 14, 2018

Be picky

*Note that all data are per **March 12, 2018** closing*

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Macro outlook : Robust GDP growth

A stellar performance so far... What's next?

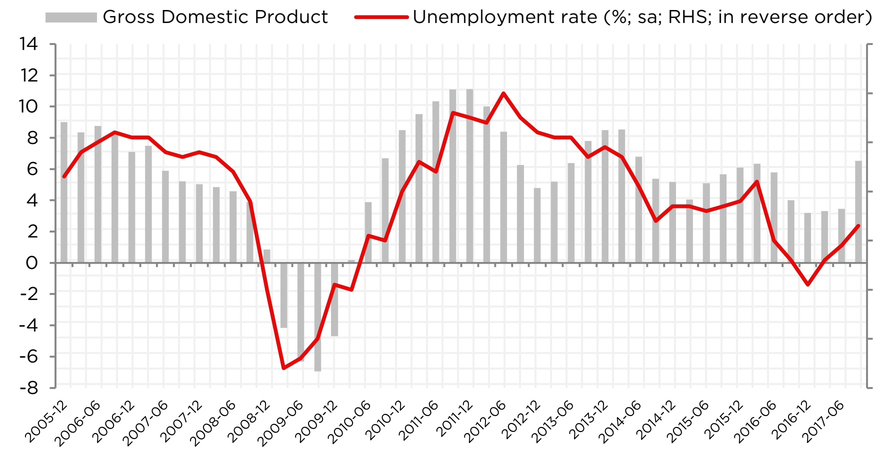
GDP growth continues to remain solid following the last year's stellar performance mainly driven by strong fiscal steroids such as the TRY250bn credit guarantee fund (CGF), wage subsidies, cuts in bank provisions and VAT on durables, flexible due dates for tax and social security payments. While the removal of some of above-mentioned measures hints somewhat weaker policy-driven impulse this year, ending this support will be difficult since the factors weighing on consumption and investment, such as higher inflation and interest rates and declining productivity, are structural rather than cyclical. We therefore expect the fiscal accommodation to remain operational until the end of the 2019 elections.

Our view has been proven with the latest government-sponsored bill designed to create more jobs and encourage investments at an overall cost of TRY17.3bn (0.5% of GDP). Also, an additional TRY8bn will be transferred to Turkish Defence Industry Fund to support the sector investments and R&D. With TRY1.8bn support to minimum wage earners and TRY2bn VAT subsidization to telecommunication, the overall fiscal support should reach TRY30bn by the end of 2018. While the fresh TRY50bn CGF loans and the re-utilisation of revolving TRY90bn due this year should keep credit channel running, the new VAT reform should help ease tax burden on businesses.

All this being said, GDP growth probably won't be that much distant from the 1H17's 5.3% YoY expansion. December industrial production showed that manufacturing industry closed 2017 at a strong pace, rising by 6.5% and 8.7%, YoY, in unadjusted and working-day adjusted terms, respectively. The strength was driven principally by intermediate and capital goods, indicating ongoing recovery in investments.

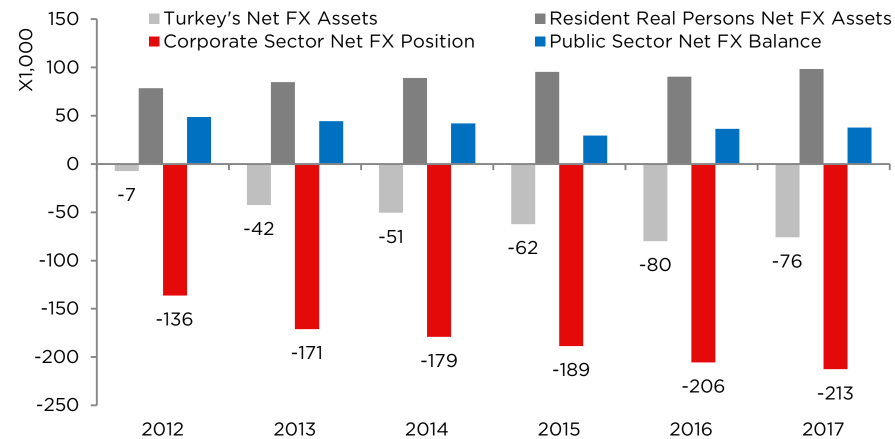
In accordance with rising investment spending, the Jan-Feb 18 average of capacity utilisation and corporate confidence were up by 1.1ppt and 8.1ppts YoY, respectively. Also, consumer confidence was up 9% YoY on average in the same period while remaining quite sensitive to foreign currency moves. On the flipside, though, confidence indicators are somewhat puzzling, particularly of consumer confidence, with their strong correlation with TRY fluctuations. *The longer the currency volatility it takes, the less confidence the consumers will have*. The situation may remain even patchy as Turkey's USD214bn external financing needs and USD80bn currency mismatch as of end of 2017 leaves the TRY heavily exposed to risk sentiment and thereby put confidence indices at odds. Coupled with the FC pass-through effects onto inflation and thereby ongoing price pressures, the CBRT remains stuck with its long-lasting tight policy stance. All told, it seems fair to say the Turkish economy has been walking on the fine line between protecting growth bottom line on one side and avoiding currency volatility on the other side.

Growth vs Unemployment



Source: TurkStat, CBRT, BRSA

Turkey's FC mismatch hits USD76bn



Source : CBRT, TurkStat

GLOBAL SECURITIES

Above trend-growth tempo boosts earnings expectations

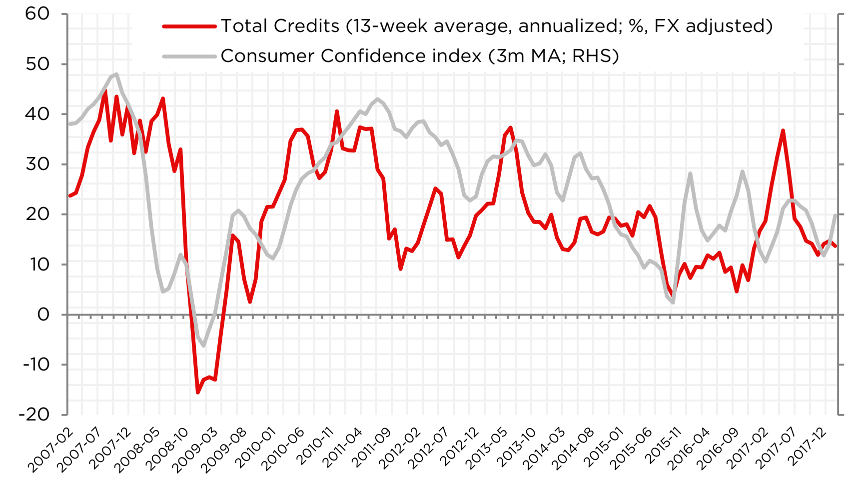
Credit driven GDP growth to be followed by normalisation

Turkey has, de facto, a 'tight monetary policy/loose fiscal policy' mix. Hence, interest rates stay high, significantly reducing the effectiveness of the fiscal stimulus measures. One would normally expect the TRY to strengthen in such a scenario, but that seems highly unlikely to materialize; because, several other factors (e.g., high external financing requirement, dollarization, pro-growth policy stance, geopolitical risks) will continue to weigh on currency market. The nasty combination of elevated interest rates and ongoing currency pressures leaves investors with somewhat a bitter taste on financing conditions. The real constraint is the financial sector's lack of capacity to finance above trend GDP growth. Actually, the financial sector is unable to sustain credit growth at last year's accelerated pace and buy government debt at the same time. Also note that potential credit events and likelihood of subsequent debt rescheduling on the corporate/commercial side should not be ruled-out.

Inflation remains the weak link as a double digit CPI is in our view actually deflationary rather than inflationary on consumption as it eats into real wages, putting pressure on household demand given the modest nominal wage growth. We remain of our core view that inflation will not only rise above the CBRT's revised target centre at 7.9% this year (already a reality now), but will also threaten the 9.3% target ceiling. We expect the headline CPI to spend most of the time in low double digits before ending the year at 9.4% by end of 2018. Nevertheless, it seems fair to say that households are not highly leveraged and they don't need to imminently rebuild their savings given consumer loans-to-GDP already eased to a tad below 17% as of 4Q17 from 18.6% in late 2013. True, ex-post real interest rate on consumer loans currently averages at around 7.8% (ex-ante 8.8%) but this is not say that Turkey will see tougher times for consumption-related sectors. Also note that the output gap which has been remaining wide currently is likely to narrow down by mid this year, helping rebalance the aggregate demand. We therefore think Turkey will continue to operate close to its potential growth trajectory albeit with some loss of momentum this year.

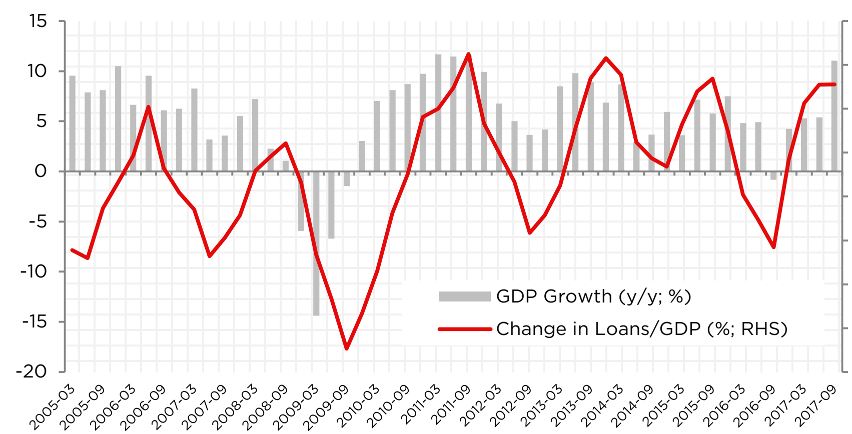
We keep our 2018 GDP growth forecast unchanged at 4.3%. Coupled with the outright fiscal support, risks to our forecast remain skewed to the upside, close to 5%, although the carry-over to H2 seems to weaken considerably. Put differently, it looks like there may still be a bit of a momentum loss, but domestic demand led GDP growth should continue for some time to come in accordance with ongoing fiscal support albeit with some softening. This should reflect employment creation, i.e. the seasonally-adjusted unemployment rate fell to 10.3% in November, the lowest level since late 2015/early 2016. Herein, it seems obvious that easier fiscal policy can be a remedy, but we don't rule out various 'leakages' (e.g., imports, crowding out) that could become strong in the forthcoming period.

Bank loans vs. Consumer Confidence



Source : CBRT, TurkStat

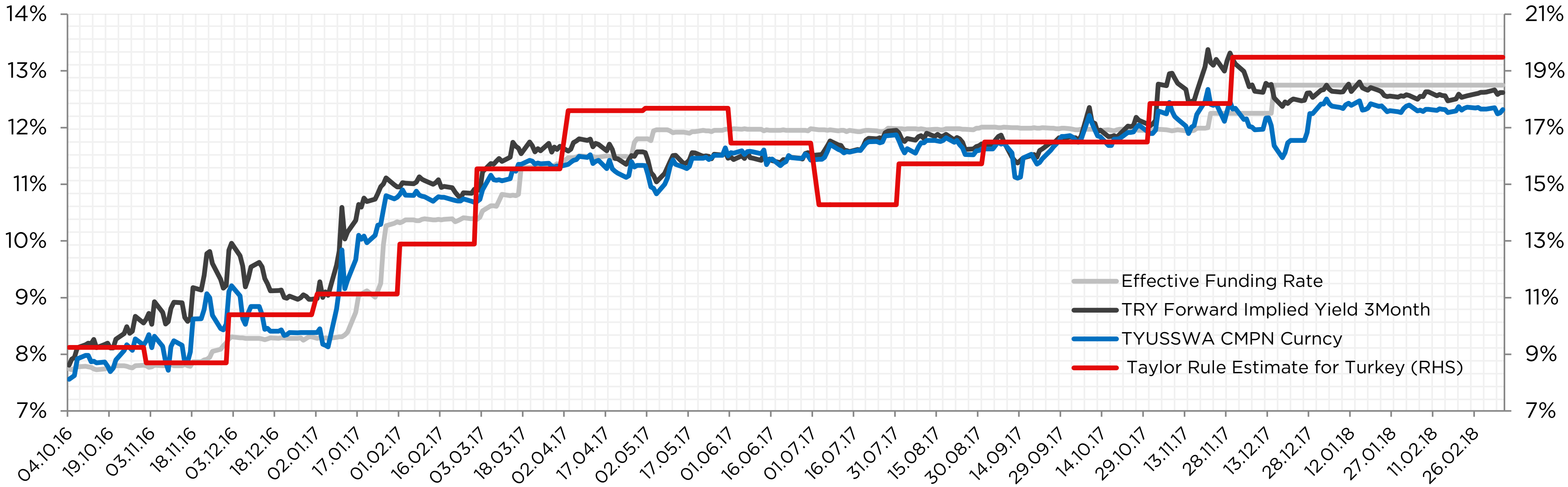
Loan growth drives economic activity



Source : CBRT, TurkStat

Monetary Policy : Kind but tough

Indicative currency and funding rate figures



We think, the CBRT should keep its hawkish communique unchanged and continue to steer markets with the effective funding rate at 12.75% for some time to come, as inflation pressures and elevated external financing needs have remained in the spot light. To remind, these two reasons were the main drivers behind Moody's' latest rating downgrade to Ba2 on Mar 8. We feel monetary and fiscal policies are forced to walk the tightrope, i.e. supporting growth on one hand while containing vulnerabilities on the other hand. This is however a very difficult task to carry out for too long because long-term growth fundamentals have apparently weakened and there is not much policy space left to continue to boost GDP growth cyclically from now on.

As the CBRT categorically resists adopting orthodox policy stance and hiking policy rates, we think the Bank will unleash 'light bullets' from its conventional arsenal if TRY sees further weakens. Hence, the bar has been set rather high for firing 'heavy bullets' in the baseline scenario (i.e. orthodox rate hikes).

It's worth reminding President Erdogan's unorthodox claim that high rates cause high inflation. To recall, President Erdogan who has described himself as the leader of anti-interest rate camp, has repeatedly called for lower rates to fuel bank lending and boost the economy, while claiming that high interest rates are the cause of increasing inflation and not the other way around. Erdogan has repeatedly said Turkey needs to lower i/rates for further job creation and invited the CBRT to play an active role in reducing rates. The question is how long the CBRT can resist to easier rate pressures. .

Constructive outlook for EPS in 2018

Macro & EPS momentum argue for maintaining equity exposure

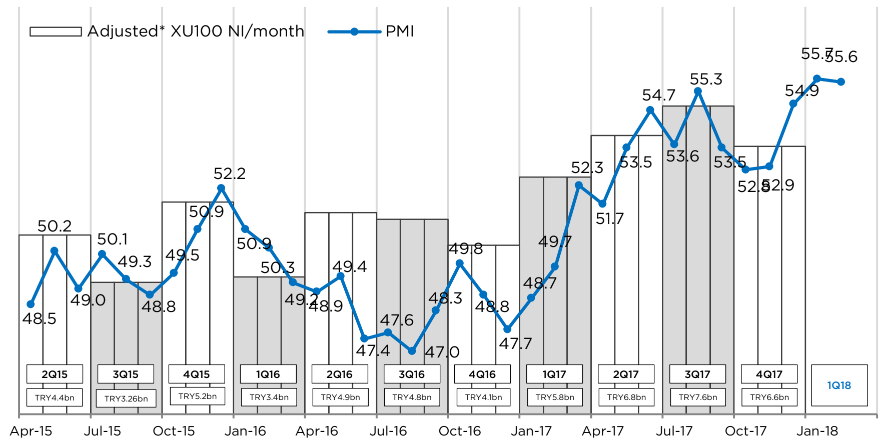
Strong PMI momentum is reflected in EPS forecasts. From a top down perspective, the strong PMI surveys seen in manufacturing, plus strong consumer confidence are making themselves felt in higher EPS forecasts. With strong global activity still in evidence not only in surveys, but also in trade, we, all else being equal, think this upwards in EPS forecasts could continue well into the 2H 2018, aided by a drift higher in output prices. We think this situation offers a pleasant cocktail for profit margins, which should alongside the operational leverage give a decent boost to margins from stronger top-line sales. Hence, profit margins should have a some way to go.

At 14.2%, non-financial corporate profit margins are well above the 10.1% median observed since 2011, explaining the some portion of the faster GDP growth since then. This however contradicts with the lower valuation rating of XU100 versus the MSCI EM, trading at 35% relative discount in terms of 12M fwd P/E going into publication. We think, BIST 100's underperformance does not stem from sales and pricing developments but rather comes from the increased risk premium and financing costs which in fact triggered the latest rating downgrade by Moody's on March 8.

Gross cash dividend pay-outs and total net income (excluding stocks that have net losses) posted CAGRs of 7.3% and 7.9%, respectively during 2010-2016. Hence, the pay-out ratio stabilized at somewhat above 30% over the same period, except for 2013. To remind, in 2013, Gezi Park protests had left business and investor community to reprice the political risk negatively and thereby led company managements to adopt more cautious dividend policy with a softer pay-out ratio of 24.1% despite stable net income growth. We expect the current trend to continue for the upcoming period along with oil & gas, steel, banking and auto sectors moving to full cash dividends over the next two years. While high capacity utilisation and strong free cash flows in blue chip names seem to support dividend pay-outs, we expect limited dividend growth in sectors/companies with high leverage/debt duration and intensive need for capex such as utilities, TTKOM, MGROS in particular.

The risk to dividend performance is that the current equity bull market could falter before end-2018, given potentially rising concerns over tight financing conditions, overshooting inflation trends, softening macroeconomic momentum, and worrying (geo)political conditions. Herein, the interest rate trajectory should get the attention it deserves. While the CBRT categorically resists adopting orthodox policy tightening, ongoing currency and inflation pressures may keep the door open for a rate hike. True, this is less likely outcome and not a close call; but, it remains as main hurdle for the both non-bank stocks that are heavily reliant to short-term TRY debt financing, and banking stocks that have wider duration gap and higher LDR ratio.

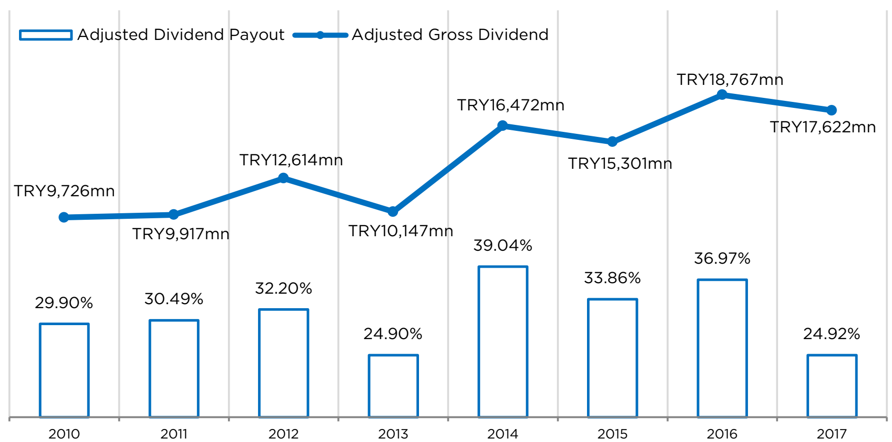
Turkish PMI & Adjusted XU100 NI/month



*Adjustments: New IPOs (MAVI, ENJSA, MPARK) and KOZAL, KOZAA, IPEKE excluded

Source: BRSA Monthly Figures

XU100 Adjusted* gross dividends & pay-out



*Adjustments: (i) Dividends normalized for past years, (ii) XU100 constituents as of 2018, (iii) Negative bottom-line stocks excluded from pay-out calculations

Source: BRSA Monthly Figures

GLOBAL SECURITIES

Banks : It's hard to ignore relative valuations

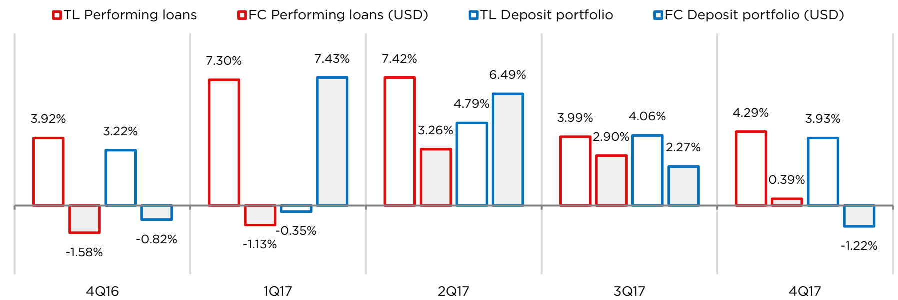
Turkish banks remain cheap relative to MSCI EM peers...

The current 0.78x forward 12M P/Bv for Turkish banks index (XBANK) is far below the its own long-term (5yr) average 0.93x. However, XBANK still trades at a 34% discount to MSCI EM peers (MXEFOBK) on 12M fwd P/BV. This discount has not been fully justified by relatively higher banking sector profitability compared to EM peers; however, comparably higher ROAE readings still remain below market implied cost of equity (COE), indicating moderately tightened valuation potential. While an anticipated TRY140bn (3.9% of GDP) CGF utilisation in 2018 should prove to be chief catalyst for core business, the inflation driven OPEX, hefty trading loss and elevated provisions continue to pose headwinds to NI. Also, funding costs should remain the weak link given the TRY liquidity squeeze continuing, LDR edging up to historic highs, and inflation remaining the black sheep in the macro pack. That said, risks remain skewed to upwards rather than downwards as banks have already priced in most of potential headwinds at P/BV trading 34% discount vs. MSCI EM banks as mentioned.

From a fundamental perspective, with loan re-pricing supporting the books, the TRY loan yields rose by 28bps QoQ to 14.15% in Q4 while FC yields improved by a relatively higher 34bps QoQ to 5.58% which altogether translated into 22bps QoQ rise in blended loan yields to 11.28% in the quarter. More positive news was that blended deposit costs showed a comparably softer rise at 7bps QoQ to 6.53% in Q4 owing to optimization of cost of financing through non-deposit items. All told, blended core spreads widened by 15bps QoQ to 4.75% in Q4. Given the improving core spreads, the reported NIM rose by 35bps QoQ to 4.23% in Q4 which actually found significant support from sizeable CPI linkers contribution. Nevertheless, ongoing swap costs trimmed down NIM (Trade Adj. NIM @ 3.79% in Q4).

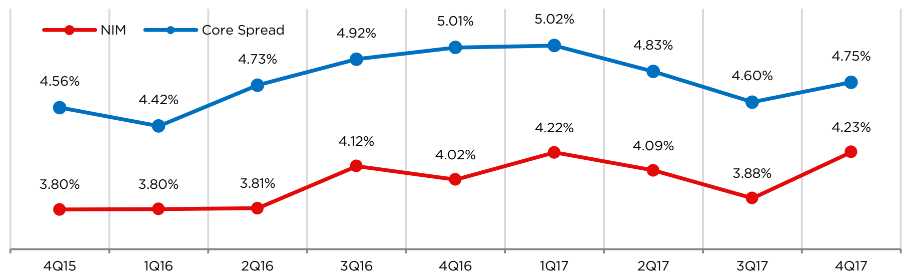
Tier1 banks expect margins to continue to expand throughout 1H2018 on the back of i) progressive asset re-pricing, ii) flattish deposit costs given the expectations of no change in policy rates, and iii) ongoing efforts of optimising the cost of financing through opportunistic utilisation of non-deposit funding sources. Strong NII, sustained fee-income generation, ongoing cost efficiency and solid solvency metrics remain positives for the sector; but, coupled with a sustainable core ROAE of c.17% remaining c.100bps below CoE of c.18% by the end of 4Q17, the current valuation multiples indicate that while some tailwinds emerge there are some headwinds too. Unfavourable financing conditions due to rating downgrades and normalisation of global liquidity, sticky NPL originations and elevated CoR remain as key downside risks; not to mention rising "credit risk" i.e. Yildiz Holding's debt servicing troubles and the subsequent debt rescheduling. Although the transition of IFRS-9 and the reclassification of the USD 4.75bn OTAS loan as Group2 have been well managed owing to prudent provisioning policy and thereby have seen all most no burden on the bottom-line, investors may become discomfortable on potential credit events if GDP growth were to fall below the 4.5-5.0% range.

Banking sector growth figures



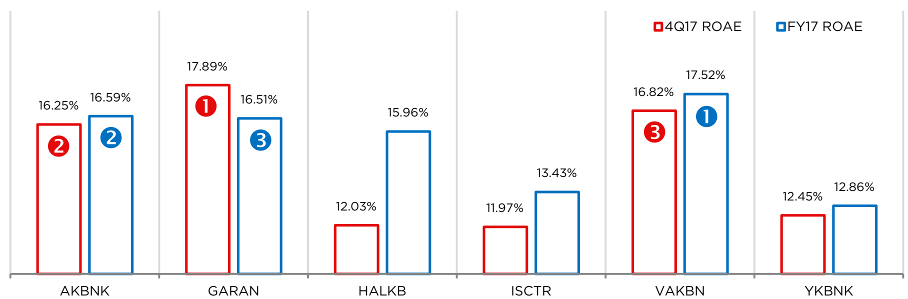
Source: BRSA Monthly Figures

Banking sector quarterly core-spread & NIM



Source: BRSA Monthly Figures

Tier 1 Banks 4Q17 & FY17 ROAE



Source: Bank Financials

Market outlook

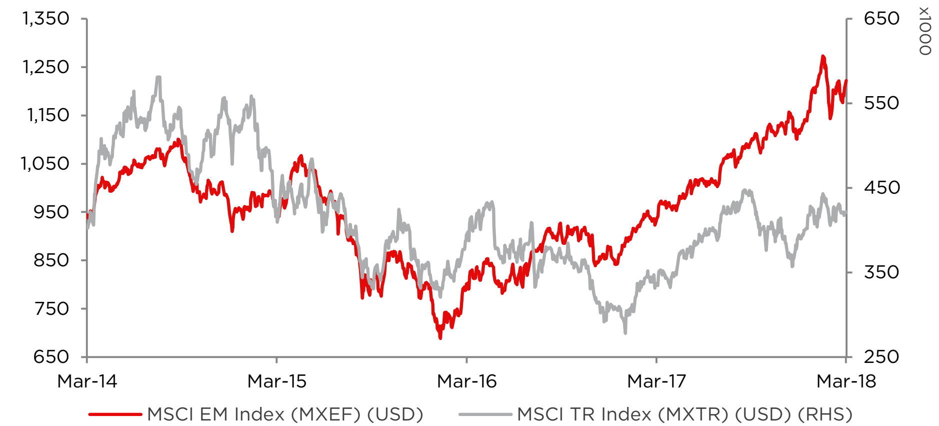
No directional view yet; favouring selective exposures...

We are of the view that 'outright risk aversion' has not yet taken the driver's seat, and it's all about a softening in risk appetite tone just in a consolidation mode. Yet, some investors currently prefer to keep on their guard and stay on the sidelines with a bid for safety bias amid geopolitics and global financial conditions remaining at odds. However, we see some arbitrage accounts still in the game to utilize earnings potential at the current cheap multiples. Also, some accounts still prefer to re-engage at better levels despite increased geopolitical risks as market conditions continue to offer promising return opportunities yet. On the flip side, though, such market sentiment may end up with a wave of ro-ro (risk-on/risk-off) trades as is the case currently. Given the current conditions, we think, it is not easy to adopt a 'naked directional trade' on TRY assets as there is a lot of uncertainty surrounding markets.

Against this backdrop, we remain stuck with our long-lasting core view, which has suggested investors to carry exposures in 'quality improvers' while taking no further risk on 'conventional high risk/return plays'. To remind, we have already defined 'quality improvers' as decent yield deliverers with 'sustained operational growth, well-diversified business strategy and solid investment theme as well as better liquidity, shorter maturity and currency hedge characteristics. As for banks, we prefer to take exposure in those that offer well defended NIM prospects, superior asset quality, healthy solvency metrics and promising NII generation with the virtuous circle of ROE>COE. Herein, we stick to exposures in GARAN and VAKBN as they comfortably meet above mention criteria.

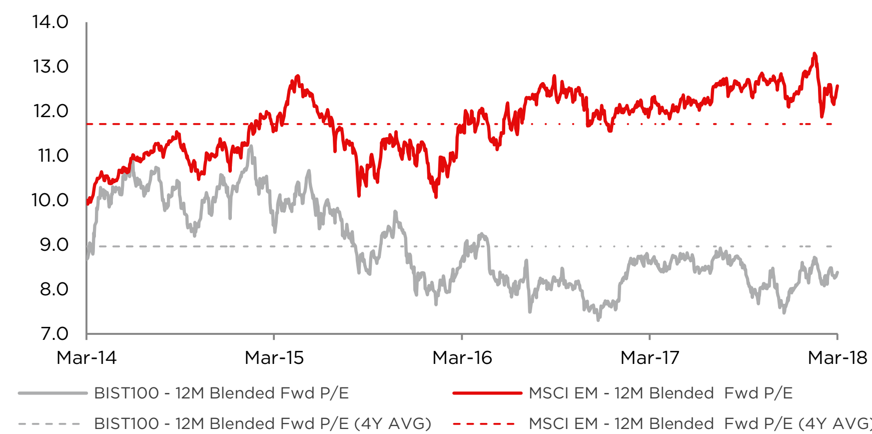
Coming to the stocks, another busy earnings season in Turkey ended on Mar 12. In a nutshell, 51% of listed major companies beat market consensus, while 41% fell short and 8% were in line (counted as companies reporting EPS within +/-3% of the consensus estimates conducted by Research Turkey). Banks, petrochemicals, Glass, Steel, Contracting, Airliners, Furniture, Utilities and Retailers reported solid results on YoY terms in Q4 while the weakest performing sectors were Real Estate and Consumer Durables in the quarter. In accordance with 4Q performances and 2018 guidance, we raised out TP for AKBNK, ALBRK, FROTO, GARAN, ISCTR, PGSUS, SISE, TKFEN, TSKB, TTKOM and ZOREN. Turkish equities trade at 12M trailing forward P/E of 8.4x vs. historic average of 9.1x and 12M EV/EBITDA of 7.1x (which matched exactly the historic average) whereas banks trade at 12M trailing forward P/Bv of 0.78x vs. historic average of 0.93x.

MSCI TR Index vs MSCI EM Index



Source: Bloomberg

12M Blended fwd Looking P/Es 4Y Averages



Source: Bloomberg

Sectoral performances

Still, favouring non-financials over financials…

Financials: Tier1 banks NI beat consensus by an average of 3% (50% beat consensus, 33% in-line with consensus, 17% below consensus). Tailwinds: (i) improved core spreads across the board, (ii) bulky CPI-linker contribution, (iii) continuation of loan repricing, (iv) steady fee income performance, and (v) slightly improved C/I. Headwinds: (i) missing dividend income contribution (ii) increased trading loss, (iii) elevated provisions burden, and (iv) accelerated OPEX. What to look for: easing swap/deposit costs, rising wholesale financing costs, and application of IFRS-9.

Telcos:. Operators managed to deliver ahead of guidance results for 2017. No major operational challenges ahead, except for TTKOM's ownership issue.

Aviation: 4Q results were solid as expected. So far, the signs for 1H have been positive.

Autos: Domestic auto sales ended the year a tad below 2016, and no pick up is expected, while exporters still positive about the export markets.

Oil: During 4Q17, med-refining margins have been on a normalization trend and declined to $4.1/bbl (3Q17: $6.5/bbl), mostly due to finalization of refinery maintenances and the impact of one-off production disruptions realized in Europe with higher oil prices and lower demand for European distilled gasoline from the U.S.

Steel: During 2017, it has been observed that steel companies have been able to pass higher feedstock costs to buyers where the steel producers experienced a robust margin expansion. Moreover, the product/feedstock spreads have soared in 4Q17 as well where hot-rolled/coal spreads have averaged at $413/tons in 4Q17 with a 55% YoY increase and cold-rolled/coal spreads have averaged at $523/tons with a 47% YoY increase.

Food & Beverages: International markets remained supportive. As for AEFES and CCOLA, domestic performance continued to be strong in 4Q. The momentum should continue in 2018.

REITs: It is observed the prices of especially branded/luxury projects have been above market average due to high building plot costs especially in big cities. The lagging demand in the housing market seems to affect future price expectations for the market negatively which results in an obvious delay concerning the demand for new housing.

White Goods: Lack of incentives may weighed on volumes in 4Q, no pick up is expected in 1H.

Retailers: Solid results in 4Q, with the help of high inflation. Bigger players should continue to grow ahead the market, owing to their better positioning, in our view.

Glass: Increasing prices in both domestic and European markets, stable demand conditions, and positive impact of product mix continue to affect the profitability of listed glass companies. Combined with weaker TRY against hard-currencies, we expect the positive outlook to continue for glass companies for 2018 as well.

Energy: We expect energy players, i.e. ZOREN, to be positively affected by ongoing incentive mechanism provided by EMRA, on both the electricity generation arm with US$ linked guarantee of purchases for renewable and local coal power plants and distribution arm with mainly increasing WACC.

Furniture: Despite the expiry of the tax incentive, we expect the branded players coupled with a strong business model like listed players to exhibit a robust performance in 2018.

MOST FAVOURED STOCKS			
AEFES	TRY29.10	BUY	UPSIDE: 5%
DGKLB	TRY4.54	BUY	UPSIDE: 29%
EREGL	TRY11.91	BUY	UPSIDE: 10%
GARAN	TRY13.30	BUY	UPSIDE: 13%
MGROS	TRY35.20	BUY	UPSIDE: 42%
PETKM	TRY9.10	BUY	UPSIDE: 14%
TKFEN	TRY19.54	BUY	UPSIDE: 10%
TRKCM	TRY5.50	BUY	UPSIDE: 15%
VAKBN	TRY8.00	BUY	UPSIDE: 13%
ZOREN	TRY2.33	BUY	UPSIDE: 10%

VALUATION MULTIPLES (2018E)*

	NI growth	P/E	EV/EBITDA	P/BV
Banks	12%	5.50	n.m.	0.82
Non-financials	14%	10.22	6.0	1.67
Coverage	13%	8.20	n.m.	1.25
MSCI EM	14%	14.23	8.26	1.40

**Coverage Universe Only*

Source: Bloomberg, Global Securities estimates

What to buy ?

Sticking to quality improvers

Banking sector bottom-line remained flattish QoQ (+0.70% QoQ, +37.95% YoY) in 4Q17 (FY17: +30.8% YoY) mainly on the back of improved core spreads, generous CPI linkers contribution and strong fee generation. Reported and trade adjusted NIM figures improved across the board QoQ with AKBNK, GARAN and VAKBN leading the expansion. In terms of profitability, VAKBN (4Q17: 16.82%, +341bps QoQ) was the clear winner of Q4 followed by GARAN (4Q17: 17.89%, +74bps QoQ), while YKBNK profitability metrics remained flattish (4Q17: 12.45%, +22bps QoQ). On the other hand, ISCTR (4Q17: 11.97%, -61bps QoQ), HALKB (4Q17: 12.03%, -162bps QoQ), AKBNK (4Q17: 16.27%, -213bps QoQ) and TSKB (4Q17: 17.62%, -345bps QoQ) ROAE figures worsened QoQ in Q4. TSKB, VAKBN, AKBNK and HALKB ROAE figures faced highest volatility, while GARAN, TSKB, VAKBN and AKBNK were the most profitable names of Q4. ALBRK profitability figures significantly expanded by 14.1pps QoQ to 15.8% due to base effect of 3Q17.

Robust ethylene prices and stable naphtha prices continue to favour naphtha based thermoplastic producers such as PETKM. The normalization of coking coal prices in global markets would surely benefit the steel producers such as EREGL in terms of profitability where the company already mitigated the negative effect of the increasing coal prices with robust sales volume and the increase in product prices. The positive developments in international markets regarding the glass sector reflects positively on Turkish float glass producer, TRKCM, where the picking up of construction sector in Balkans and recovery in Russia provides a boost for volumes in addition to price hikes in European glass market. Among the conglomerates, Turkish contractors abroad maintain their operations smoothly where TKFEN stands out with its record high contracting backlog with the new deals the company landed in Iraq and Qatar. These new projects would be the new catalysts which would reflect positively on the company's contracting segment's profitability going forward.

Domestic auto sales ended the year a tad below of 2016, with 3% contraction, despite sharp increase in special consumption tax. Exports were flat this quarter, albeit with strong growth in commercial vehicles, TOASO continued to be weak on that front. Margins were under pressure, as commodity prices weighed on margins during the quarter.

ZOREN posted positive bottom-line in 2017 for the first time over the last 5-year period and also managed to increase its both top-line and EBITDA remarkably on a year on year basis, based on the first time consolidation of distribution arm and increased contribution from new renewables power plants. We believe, the coming year should be also strong thanks to government's incentives.

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*Coverage Universe Only

Source: Bloomberg, Global Securities estimates

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A close watch on cyclicals

For consumer sectors, solid GDP growth and slightly better confidence helped better performances vs. 2016. That said, a possible further increase in funding costs and sluggish TRY, affecting demand conditions, may weigh on performances of all non-financials. FMCG retailers and telcos should be less affected thanks to their defensive nature, whereas real estate may underperform as the companies are highly sensitive to interest rates.

Aviation sector continued to enjoy better than expected passenger traffic, which resulted in ahead of expected results, especially for airliners. We believe the momentum should continue during 1H18, yet the positives are already priced in. For durables sector; on domestic side, following the end of special consumption tax (SCT) cuts in white goods hurt the market. Profitability continued to remain weak with higher raw material prices. ARCLK posted strong revenue growth on the back of weak TRY and the consolidation of recently acquired Pakistani operations; however, the weak profitability resulted in worse than guided margins, which were already revised down twice during 2017. We expect the weakness in the sector to continue in 1Q18. YATAS and DGKLB posted robust growth in the all metrics in 2017, thanks to mainly tax incentives. Furthermore, we believe 2018 to be also strong considering the changing dynamics of the sector in favour of branded companies.

Food & beverages sector's operational results were broadly in line with the consensus. CCOLA and AEFES enjoyed robust revenue growth owing to promising contribution from their international operations, as well as better domestic performance, while ULKER reached record high margins, on the back of the merger with UI MENA, despite headwinds from feedstock prices. We believe that the merger of AB InBev and AEFES operations in Russia and Ukraine as well as the sale of the idle plant in Istanbul should remain main catalysts for AEFES that are not fully priced in. For CCOLA & AEFES, sustainability of the recent solid results in domestic markets remains at odds, while elevated raw material prices and the new sugar tax on soft drinks might continue to weigh on margins.

The retailers continued to enjoy high CPI inflation, which stood above 10% during 4Q17. Both MGROS and BIMAS posted results ahead of their guidance. Moreover, BIZIM continued to show an improvement as the actions taken related to the new customer focus strategy are now showing positive results. MGROS is still our top pick for the sector, while BIMAS' operational performance is also solid. In telecoms sector, from an operational perspective, both companies posted ahead of consensus figures for 2017, while bottom line figures were slightly lower in 4Q17 due to provisions related to legal disputes. We expect the operationally sound performances to continue in 2018 for both TCELL and TTKOM, yet at a slower pace.

MOST FAVOURED STOCKS

AEFES	TRY29.10	BUY	UPSIDE: 5%
DGKLB	TRY4.54	BUY	UPSIDE: 29%
EREGL	TRY11.91	BUY	UPSIDE: 10%
GARAN	TRY13.30	BUY	UPSIDE: 13%
MGROS	TRY35.20	BUY	UPSIDE: 42%
PETKM	TRY9.10	BUY	UPSIDE: 14%
TKFEN	TRY19.54	BUY	UPSIDE: 10%
TRKCM	TRY5.50	BUY	UPSIDE: 15%
VAKBN	TRY8.00	BUY	UPSIDE: 13%
ZOREN	TRY2.33	BUY	UPSIDE: 10%

VALUATION MULTIPLES (2018E)*

	NI growth	P/E	EV/EBITDA	P/BV
Banks	12%	5.50	n.m.	0.82
Non-financials	14%	10.22	6.0	1.67
Coverage	13%	8.20	n.m.	1.25
MSCI EM	14%	14.23	8.26	1.40

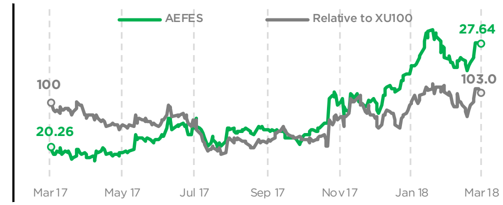
*Coverage Universe Only

Source: Bloomberg, Global Securities estimates

MOST FAVOURED STOCKS PART I

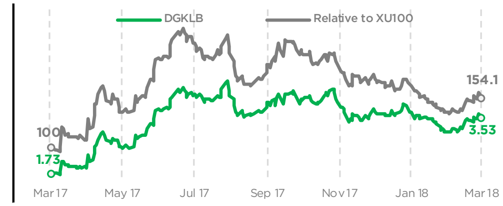
AEFES	Anadolu Efes	RATING: BUY	FV: TRY29.10	CV: TRY27.64	POTENTIAL: +5%

In Turkey, better touristic figures, shift of Ramadan and lower excise tax increase may positively affect the volumes, amid affordability concerns. On the international side, the merger with AB InBev will soon be closed. This merger will make the new company a strong second player in the market and create some synergies on opex front. On soft drinks side, we may see improvement in both domestic and international markets.



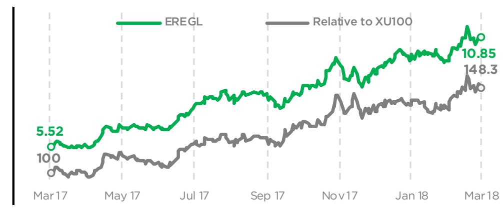
DGKLB	Dogtas Kelebek Mobilya	RATING: BUY	FV: TRY4.54	CV: TRY3.53	POTENTIAL: +29%

We are optimistic for DGKLB in 2018 considering the changing dynamics in favor of branded players. Along with the aggressive expansion plans in store network coupled with robust LfL growth in existing stores and also strengthening balance sheet, we believe the company to perform pretty good in the upcoming period.



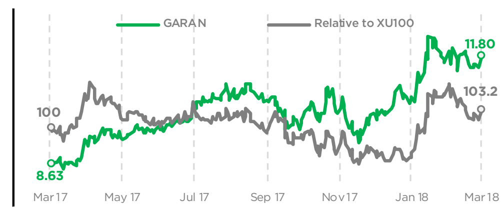
EREGL	Eregli Demir Celik	RATING: BUY	FV: TRY11.91	CV: TRY10.85	POTENTIAL: +10%

The increasing product spreads continue to support operational profitability. Moreover, the recent substantial increase in the hard-currency net cash position of the company also provides support considering the late depreciation of TRY against USD and EUR.



GARAN	Garanti Bank	RATING: BUY	FV: TRY13.30	CV: TRY11.80	POTENTIAL: +13%

Prolonged CPI linker contribution, sector leading core-spread and NIM position enable quality progression in terms of banking revenues. Strong asset quality metrics, high operational efficiency, sector leading solvency with sustained high profitability should continue to offer strong catalyst in the current macro environment.

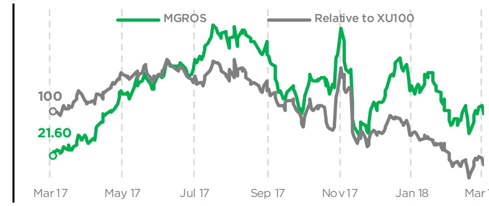


MOST FAVOURED STOCKS PART II

MGROS Migros Ticaret

RATING: **BUY** FV: **TRY35.20** CV: **TRY24.84** POTENTIAL: **+42%**

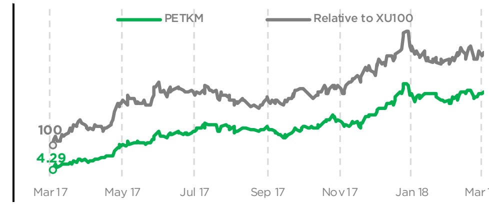
Revenue growth remained eye-catching with high CPI, price investments and Kipa contribution, as the company posted a solid 39% YoY top line expansion in FY17. Higher margins are possible as the company launched the process for the integration of Kipa stores. Despite weak TRY, on the back of solid operational performance and Kipa real estate divesture, the net debt to EBITDA is now at pre-Kipa acquisition levels.



PETKM Petkim

RATING: **BUY** FV: **TRY9.10** CV: **TRY7.96** POTENTIAL: **+14%**

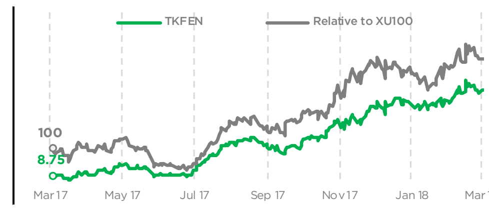
The contribution of favourable overall product spreads for YTD and the weakness of TRY continues to support the operational performance going further. In addition to robust earnings generation capacity for the near term, there is the transformation story for the long term as PETKM would become a fully-integrated petrochemical producer with strong cash flow capability.



TKFEN Tekfen Holding

RATING: **BUY** FV: **TRY19.54** CV: **TRY17.72** POTENTIAL: **+10%**

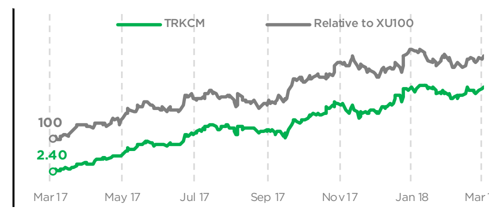
The steady growth in the contracting backlog and new deals, the increase in the operational profitability of agriculture segment, and the well-maintained strong cash position of the company continues to back the late robust operational performance. We expect strong cash generation to continue for the short-to-mid term especially with the collections from Qatar projects.



TRKCM Trakya Cam

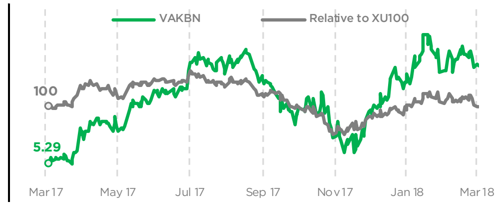
RATING: **BUY** FV: **TRY5.50** CV: **TRY4.80** POTENTIAL: **+15%**

We keep our bullish stance for TRKCM on the backdrop of price increases in both domestic and European markets, steady volumes both in domestic and international markets, and the prospective positive effects of new investment opportunities. We also anticipate that any further weakening in TRY against hard currencies which helps the operational profitability might result in better top-line figures and margins going forward.



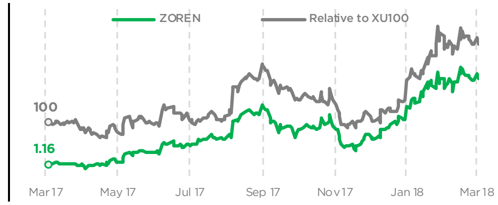
VAKBN Vakifbank	RATING: BUY	FV: TRY8.00	CV: TRY7.05	POTENTIAL: +13%

Sizeable CPI linker revenues, promising fee income evolution, prudent coverage policy and successful operational efficiency led to sector leading profitability in FY17. Also, the planned stake transfer in VAKBN could be a catalyst as this transfer seems to be finalized at some premium price in the absence of tender call, in our opinion.



ZOREN Zorlu Enerji	RATING: BUY	FV: TRY2.33	CV: TRY2.12	POTENTIAL: +10%

Ongoing incentive mechanism provided by EMRA continues to support the sector with US$ linked guarantee of purchases for renewable and local coal power plants and mainly increasing WACC in favor of distribution companies. Thus, fully consolidation of distribution&retail arms and increased contribution from renewable power plants in the upcoming period will support the company going forward.



4Q17 RESULTS AND CONSENSUS

TICKER	NAME	SECTOR	NET INCOME FIGURES & CONSENSUS					EBITDA FIGURES & CONSENSUS					SALES FIGURES & CONSENSUS				
			FY17	YoY	4Q17	YoY	Consensus	FY17	YoY	4Q17	YoY	Consensus	FY17	YoY	4Q17	YoY	Consensus
AKBNK	Akbank	Banking	6,039	25%	1,524	32%	Beaten by 4%										
ALBRK	Albaraka Türk	Banking	237	9%	96	148%	Beaten by 12%										
GARAN	Garanti Bankası	Banking	6,344	25%	1,699	47%	Beaten by 8%										
HALKB	T. Halk Bankası	Banking	3,725	46%	715	97%	Missed by 3%										
ISCTR	İş Bankası (C)	Banking	5,308	13%	1,205	-12%	In line										
TSKB	T.S.K.B.	Banking	596	25%	143	31%	Missed by 8%										
VAKBN	Vakıflar Bankası	Banking	3,723	38%	901	15%	Beaten by 5%										
YKBNK	Yapı ve Kredi Bank.	Banking	3,614	23%	880	54%	Beaten by 3%										
KCHOL	Koç Holding	Conglomerates	4,909	42%	1,077	3%	Missed by 13%	9,046	46%	2,023	-10%	No consensus	98,273	40%	27,354	30%	No consensus
SAHOL	Sabancı Holding	Conglomerates	3,481	31%	1,141	48%	Beaten by 35%	9,162	32%	2,426	30%	No consensus	13,840	12%	3,839	28%	No consensus
AEFES	Anadolu Efes	Beverage	149	n/a	-194	-55%	Beaten by 24%	2,101	28%	353	136%	Beaten by 3%	12,947	24%	2,758	28%	Beaten by 7%
ARCLK	Arçelik	White goods	843	-35%	90	-61%	Missed by 50%	1,920	17%	429	8%	Missed by 9%	20,841	29%	5,706	26%	Beaten by 6%
BAGFS	Bagfaş	Fertilizer	-10	-73%	7	n/a	Missed by 134%	106	50%	29	231%	Beaten by 15%	520	4%	138	91%	Beaten by 3%
BIMAS	Bim Mağazalar	Retail	863	29%	222	15%	Beaten by 3%	1,296	30%	324	25%	In line	24,779	23%	6,597	26%	Beaten by 2%
BIZIM	Bizim Mağazaları	Retail	-30	n/a	0	n/a	Missed by 137%	42	-38%	22	318%	Beaten by 25%	2,896	4%	830	21%	Beaten by 6%
CCOLA	Coca Cola İçecek	Beverage	238	n/a	-149	-59%	Missed by 10%	1,357	29%	165	119%	Beaten by 43%	8,521	21%	1,656	20%	Beaten by 5%
DOAS	Doğuş Otomotiv	Automotive	183	-23%	41	-57%	Missed by 46%	535	31%	175	42%	Beaten by 7%	13,220	11%	4,718	19%	Beaten by 6%
DGKLB	Doğtaş Kelebek Mobilya	Furniture	15	n/a	-5	-83%	No consensus	106	329%	16	n/a	No consensus	600	52%	141	72%	No consensus
EKGYO	Emlak Konut GMYO	REITs	1,756	0%	691	192%	Beaten by 6%	1,861	13%	627	162%	Beaten by 2%	3,901	13%	1,098	179%	Missed by 6%
ENKAI	Enka İnşaat	Contracting	2,568	45%	589	51%	Missed by 8%	2,669	16%	818	21%	Beaten by 17%	10,567	0%	2,647	0%	Missed by 16%
EREGL	Ereğli Demir Celik	Constrcution	3,754	148%	1,192	121%	Beaten by 8%	5,383	100%	1,699	67%	Beaten by 8%	18,644	60%	5,405	47%	Beaten by 4%
FROTO	Ford Otosan	Automotive	1,490	56%	510	61%	Beaten by 11%	2,000	35%	595	42%	Missed by 9%	25,341	39%	8,203	45%	In line
GUBRF	Gübre Fabrik.	Fertilizer	33	n/a	23	n/a	Beaten by 382%	142	9%	71	307%	Beaten by 10%	3,487	23%	939	34%	Beaten by 3%
MGROS	Migros Ticaret	Retail	513	n/a	-206	-13%	Beaten by 17%	798	27%	217	37%	Beaten by 5%	15,344	39%	4,022	39%	In line
PGSUS	Pegasus	Aviation	502	n/a	8	n/a	Missed by 122%	735	722%	-15	-89%	Missed by 56%	5,349	44%	1,186	40%	In line
PETKM	Petkim	Oil	1,402	93%	365	69%	Beaten by 21%	1,749	98%	449	63%	Beaten by 12%	7,364	62%	1,962	53%	Beaten by 3%
SISE	Şişe Cam	Glass	1,225	65%	358	26%	Beaten by 2%	2,446	53%	624	52%	Missed by 7%	11,318	32%	3,375	32%	Beaten by 11%
SODA	Soda Sanayii	Chemicals	661	15%	238	-3%	Beaten by 18%	616	20%	158	11%	In line	2,451	19%	758	24%	Beaten by 25%
TAVHL	TAV Havalimanları	Aviation	718	69%	65	0%	Missed by 54%	1,979	41%	718	36%	Beaten by 49%	4,686	26%	1,463	16%	Beaten by 12%
TKFEN	Tekfen Holding	Conglomerates	771	138%	255	123%	Beaten by 33%	794	68%	226	41%	Missed by 19%	7,487	58%	2,417	83%	Beaten by 7%
TCELL	Turkcell	Telecom	1,979	31%	216	-38%	Missed by 57%	6,187	35%	1,715	26%	Beaten by 10%	17,026	21%	4,483	13%	Missed by 3%
THYAO	Türk Hava Yolları	Aviation	639	n/a	-184	n/a	Missed by 161%	6,626	171%	1,053	48%	Missed by 26%	39,779	35%	10,447	43%	Beaten by 3%
TOASO	Tofaş Oto. Fab.	Automotive	1,283	32%	424	51%	Beaten by 16%	2,001	46%	656	49%	Beaten by 22%	17,468	23%	5,067	7%	Missed by 3%
TRGYO	Torunlar GMYO	REITs	455	-61%	341	-60%	Missed by 9%	454	33%	178	148%	Beaten by 51%	780	17%	350	131%	Beaten by 29%
TRKCM	Trakya Cam	Glass	616	13%	193	104%	Beaten by 14%	891	87%	219	68%	Missed by 18%	4,331	44%	1,289	34%	Beaten by 5%
TTKOM	Türk Telekom	Telecom	1,136	n/a	-113	-92%	Missed by 31%	6,313	17%	1,539	8%	In line	18,140	13%	4,800	13%	In line
TTRAK	Türk Traktör	Agriculture	321	-13%	104	11%	Beaten by 17%	492	-4%	137	-1%	Missed by 2%	4,215	22%	1,153	23%	In line
TUPRS	Tüpraş	Oil	3,812	113%	493	-39%	Missed by 28%	5,637	76%	1,190	-17%	Beaten by 4%	53,948	55%	14,604	36%	Beaten by 8%
ULKER	Ülker Bisküvi	Food & Beverage	383	41%	137	256%	Beaten by 39%	701	22%	233	28%	Beaten by 29%	4,811	15%	1,453	11%	Beaten by 11%
YATAS	Yataş	Furniture	69	297%	18	230%	Beaten by 43%	120	134%	31	84%	Beaten by 17%	796	58%	204	38%	Missed by 3%
ZOREN	Zorlu Enerji	Utilities	52	n/a	23	-81%	No consensus	841	104%	198	111%	No consensus	3,871	216%	1,265	254%	No consensus

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