Equity Overview 3Q17

November 14, 2017

New alpha solutions going into year end

*Note that all data are per **November 10, 2017** closing*

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Macro and (geo)political outlook

Remaining on a collision course with hefty financing needs

There is little attention left to consider anything else other than Turkey's (geo)political wrestling with the Western countries. In fact, the tension with the Western block has been on the rise since the July 2016 failed coup attempt in Turkey, and has just escalated to unprecedented levels with the arrest of German citizens and U.S. Consulate staff member in Istanbul over terror charges and alleged ties to the Fethullahist Terrorist Organization (FETO). Currently, Turkey - U.S-led Western Block relations are witnessing further pressure as i) the ongoing case in the United States against Iranian-Turkish gold-trader Reza Zarrab and the upcoming a state-run Halkbank former executive, Hakan Attila, trial to commence on 27th of November on charges of violating the U.S. sanctions on Iran could put Turkey on a collision course with its international relations. Thus, above-mentioned headwinds have been followed by some type of sanctions on foreign policy and financial relations such as delaying talks on EU-accession bid, refraining from upgrading EU's customs union with Turkey, and exploring cuts in EU pre-accession financial aid to Turkey (EUR4.4bn for the period 2014-2020). Recently, the visa crisis with the United States has blurred the line between politics and economics albeit with some mutual easing of late.

The strained relations with the U.S., Germany and EU-block may be slowly boiling over to the Turkish economy if the current political pressure on global lenders were to reduce funds flow to Turkey. Herein, the visa spat with the U.S. and the German government's call for cutting funding to Turkey from the country's state-owned KfW bank, EIB and EBRD has put external fund-addicted Turkish economy at odds given its USD200bn plus financing problem, corporate sector FX mismatch of USD213bn and weak FX reserve adequacy (for instance, External Liabilities falling due over next 12M to Gross CB FX Reserves stands at 155% currently, comparing with Moody's Ba1 median of 66%). While the EBRD and most of European banks have remained committed to their on-going financing deals in Turkey, investors have taken some discomfort from the latest discussions on Turkey's stellar banking relations with their global counterparts. Given the increased reliance on external financing, potential cut in international banks' exposure could result in a 'chilling effect' on balance of payments; not to mention the impact of normalisation of global liquidity.

While politics continues to remain pivot factor, those who were well positioned in Turkish stocks have had a good year so far, with a return of 39.4% YoY, outperforming the MSCI EM Banks index by 6.5% YtD albeit some weakness of late. The YtD performance has been mainly attributable to i) the Credit Guarantee Fund (CGF) driven acceleration in TRY loan growth (credit effect), ii) generous incentive packages by the government (fiscal effect), iii) loosening of regulations (regulatory effect), and iv) risk/reward global conditions.

Turkey's Net FX Balance

	(USD mn)	2012	2013	2014	2015	2016
1	**Turkey's Net FX Assets***	**-7,365**	**-42,464**	**-50,521**	**-62,389**	**-79,737**
2	Including Non Resident Real Persons	41,279	1,809	-8,308	-32,985	-43,188
3	Resident Real Persons Net FX Assets**	78,650	84,734	89,217	95,551	90,583
4	Resident Real Persons FX Assest***	79,198	85,057	89,413	95,671	90,658
5	FX Deposits	68,138	73,928	81,458	91,025	84,917
6	Precious Stones Deposit Accounts****	9,655	9,574	6,580	3,463	4,506
7	Eurobonds	1,405	1,555	1,375	1,184	1,235
8	FX Indexed Government Securities	0	0	0	0	0
9	Resident Real Persons FX Liabilities	548	323	196	120	75
10	Consumer Loans Indexed to FX	510	278	160	92	47
11	Credit Cards FX	38	44	36	28	28
12	Corporate Sector Net FX Position	-136,249	-171,108	-179,081	-188,679	-205,619
13	Banking Sector Net FX Position	1,590	-363	-2,869	1,335	-1,250
14	Central Bank Net Foreign Assets	43,743	39,255	39,361	28,252	34,100
15	Public Sector FX Deposits	5,077	5,250	3,043	1,291	2,797
16	Public Sector External Debt due over next 12M	176	232	191	139	348

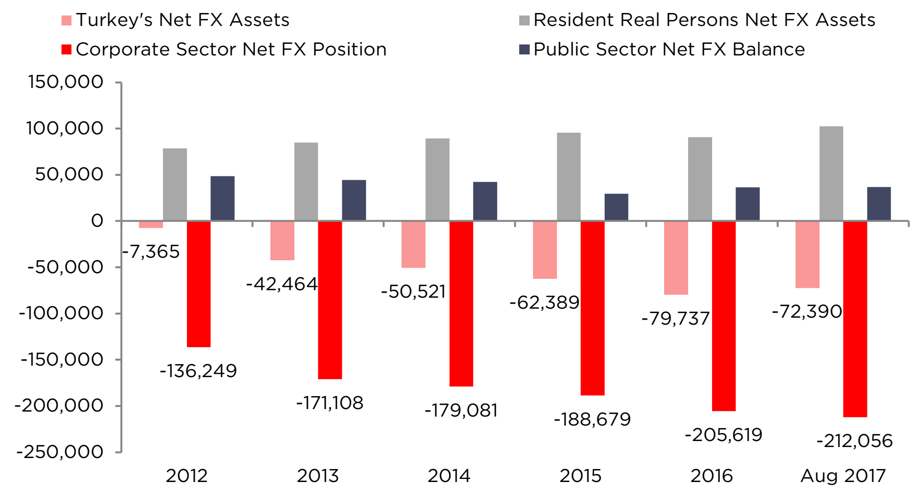
Source : CBRT, BRSA, TurkStat, Global Sec. Estimations

** Excl Non Resident Real Persons and Medium-Long Term Public Debt*

*** incl Participation Banks and Gold Accounts*

**** incl Participation Banks*

… @ USD72bn deficit



Source: CBRT, Global Securities

Above trend-growth tempo boosts earnings expectations

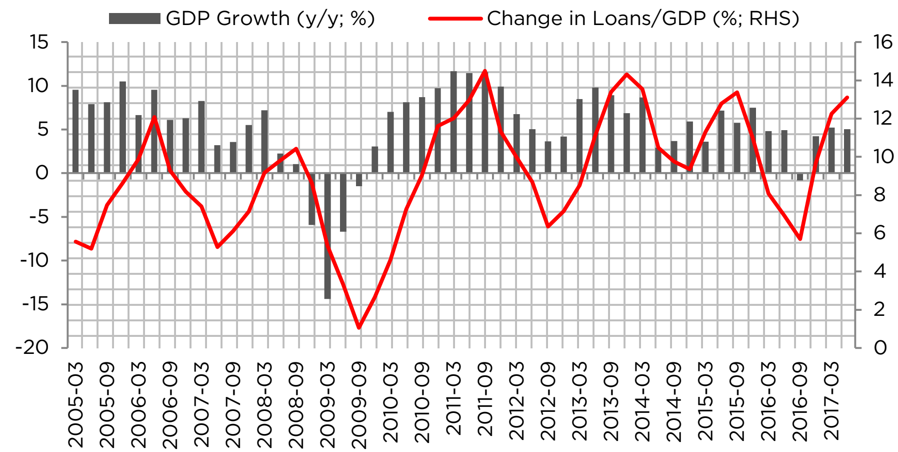
Credit driven GDP growth to be followed by normalisation

Despite so many crosswinds blowing currently, Turkish stocks are struggling to hold onto the current year high levels although BIST has underperformed MSCI EM by c.3% in terms of 12M fwd P/E since the beginning of the year and it still trades at c.37% relative discount as of Nov. 10 closing. Turkish banks have traded at a 31% discount to EM banks on 12M trailing P/BV of 0.74x. Coupled with expected ROAE of 15.5% remaining 3.1ppts below CoE of 18.6%, the YtD performance indicates that while some headwinds emerge, there are some tailwinds too. Particularly, market conditions still offer attractive hedging opportunities amid supportive macro performance both globally and domestically, eased regulatory environment, ample global liquidity, and compressed EM credit spreads.

The main pillars of robust earnings growth appear to stay with us for sometime to come. First and foremost, the CGF-driven loan growth has pumped domestic demand, which together with strong fiscal stimulus has boosted GDP growth above the long-term tempo. Given the long-lasting correlation between growth and loan demand, which has remained relatively steady about 5x, Turkey could grow as much as 6% plus this year. 2018 is unlikely to repeat this year's strong momentum as Turkish lenders now guide mid-teens loan growth next year. The major reason is the ultimate constraint here. It is the funding base of the financial sector, which acts as a constraint not only for credit growth, but also for fiscal expansion or domestic borrowing. TRY loan-to-deposit ratio at c.148% and TRY deposit rates at c.13% are already telling us that the funding pool has to expand somehow. However, this seems unlikely unless Turkey sees influx of foreign capital flows and residents start converting their FC deposits into TRY deposits; but neither of which seems likely due to challenging financing conditions. Needless to say, the saturation of household demand for durables and real estate, and high base effects may result in possible landing on soft-patch territory after sugar rush rates of growth. All this being said, a normalisation towards trend-growth path proves to be in cards in the absence of new CGF line.

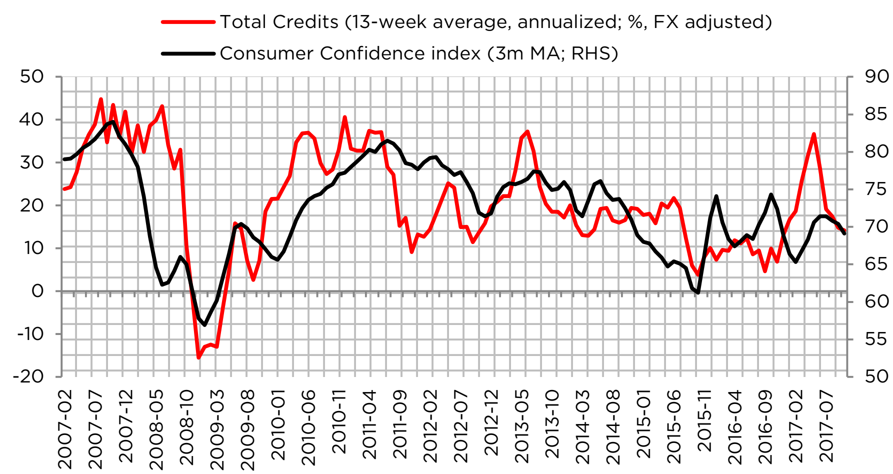
The government's decision to make the CGF facility permanent should sustain recovery. The permanency of the CGF scheme means that Treasury will allow the banking sector to re-lend the amounts to be redeemed by corporates in the forthcoming period without setting aside new limits. Also, Turkish banks should have a great chance to transfer some of overdue SME loans in Group 2 (loans under watch) category to the CGF scheme, which should keep asset quality intact and allow Turkish lenders to sustain their exposures in potentially distress periods. As for the government side, ending the current stimulus will be difficult since the factors weighing on consumption and investment, such as higher inflation, elevated interest rates and compressed productivity, are structural rather than cyclical. We therefore expect the increase in government spending to continue into 2018.

GDP Growth vs Bank Loans



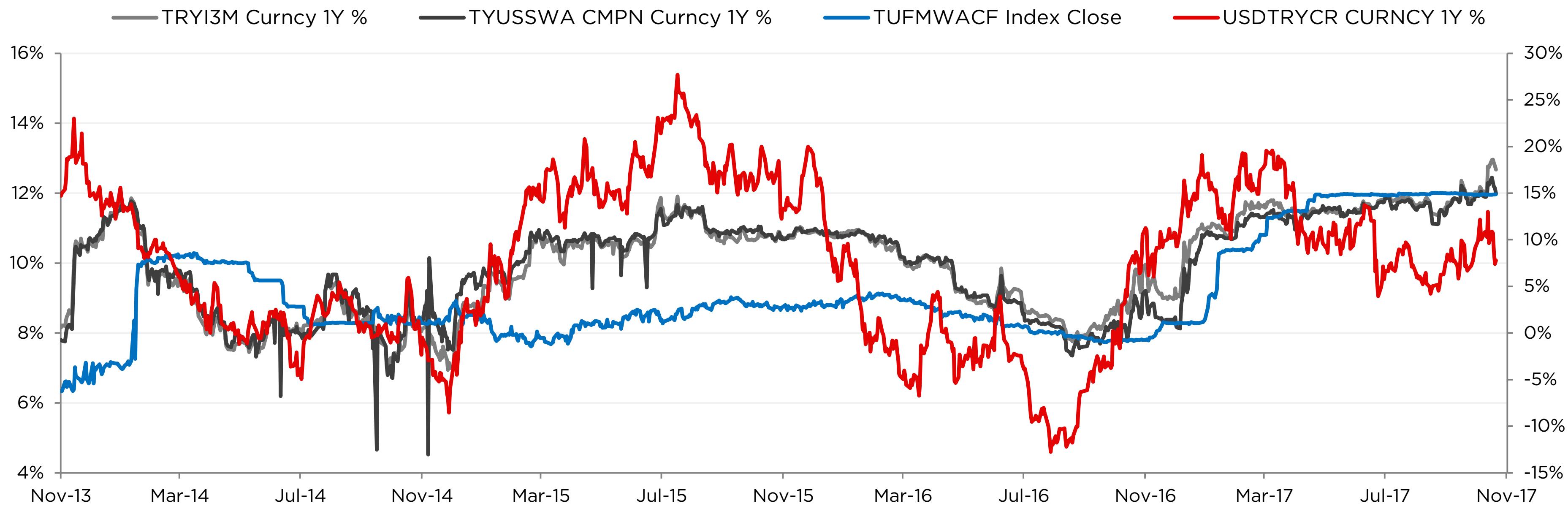
Source: CBRT, TurkStat, Global Securities

Loan Growth vs Consumer Confidence



Source: CBRT, TurkStat, Global Securities

Monetary Policy : Just playing for time and postponing the inevitable



CBRT: Will it really bite the bullet?

We expect no imminent accommodation from the CBRT due to ongoing currency and inflation pressures. We think, the CBRT should keep its hawkish communique unchanged and continue to steer markets with the effective funding rate at c.12% for some time to come, as markets should remain in the period of questioning the 2018 CPI target of 7%.

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.

There remains risk that the CBRT may be forced at some point to make a hard decision between unorthodox and orthodox policy sets, if currency pressures were to extend and hit the pricing behaviour. Simply put, the CBRT may ‘bite the bullet’, if ‘expectations-driven inflation spiral’ were to become undeniable.

An extreme measures such as FX intervention to the tune of billions of dollars or sharply hiking rates (i.e. 200-300bps) are not totally out of the table, as things which are impossible under normal circumstances may become possible in distress times.

Domestic politics has always the last word

Risk of early elections is not high; but not unlikely either…

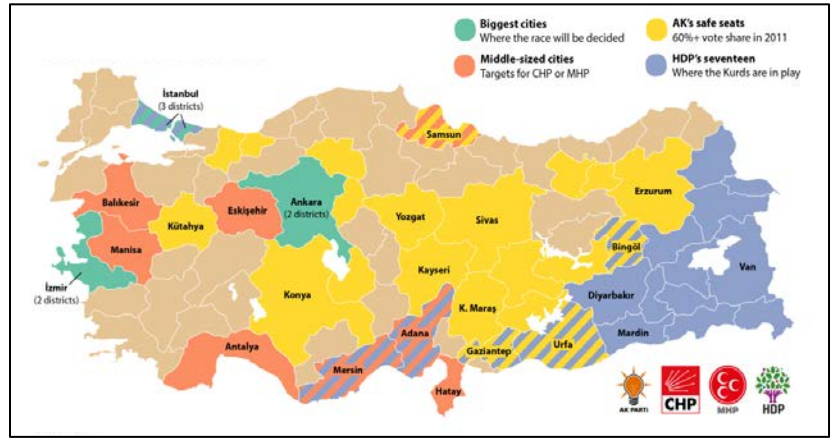
With regards to relations with the Western Block, things are not limited to the visa case, court filings, and terrorism. There are a lot of platforms where the two sides are cooperating such as trade, energy transport and security, infrastructure, defense industry, East-Central Asia, Russia-China line, Middle-east, Mediterranean security, culture, etc. Herein, PM Yildirim-the U.S. VP Pence meeting on Nov 9 has built-up fresh hopes for new chapter in the U.S.-Turkey relations. This was indeed good step in a way to cool-off the heightened tension between the two NATO allies. True, some progress has been provided with the Yildirim-Pence meeting; but, neither a concrete step to repair the broken ties and nor an initiative to overcome the long-lasting issues has been taken yet. In fact, both the U.S. and Turkey highlighted their sensitivities and demands from each other.

The situation won't be bed of roses going forward; but, rather relations will likely evolve on changing geopolitical conditions along-side long and hard discussions with the US. In that sense, it is not realistic to expect relations to either go back to normal overnight or to end a long-running alliance. Relations seem to continue on a bumpy road for a while. Hence, more time and effort are needed to bridge the gap; but, chances of taking constructive steps are not low since this could be in the interests of both sides in the future.

Investors are always sensitive to the risk of early elections in Turkey. We continue to think that the bar remains significantly high for the ruling AK Party to call for a snap or early ballot given the underlying re-shuffling process within the Party. Particularly, President Erdogan wants to renew all provincial organizations ahead of the 2019 elections in order to avert the risk of falling into 'metal fatigue'. Needless to say, the parliament has entered an intense period starting as of October to harmonize the existing legislation with the new constitution. However, early elections are not unlikely in 2018 if the Good Party (new party on nationalist centre) achieves strong popularity. Based on latest opinion polls, the newcomer Good Party scores around the election threshold of 10% currently, and is believed to tap up to 20% according to some of pollsters. If true, President Erdogan may invite PM Yildirim to call for 'snap elections' in order to prevent the Good Party from gaining more popularity in the political arena. Nevertheless, we still believe President Erdogan is unlikely to deviate from his desire for holding elections on time in Nov 2019.

As for Turkey's EU-accession process, bridges were not burned despite the Block's intention to cut pre-accession financial aid. Turkey-EU relations were not further strained either. Rather, EU's top executives did not choose to break off political relations with Turkey; nor did leading EU countries - France, and the UK - leave the table despite on-going criticisms on human rights, media freedom, and institutional independence.

Political standing in Turkey



Source: (Web)jamesinturkey.com

Russia-Turkey relations: Now 'beyond normalization'

Russia-Turkey relations are now 'beyond normalization' entering 'a new phase', a full strategic partnership. Putin has used Turkey's broken ties with the West (United States in particular) as platform to further capitalise on his regional targets. He has actually been successful in reaching his ultimate goal, as Ankara is still disappointed with the West for what it considers a weak response to the 15 July failed coup attempt. Hence, Turkey's reconciliation with Russia can be described as an 'alliance of misfits' as two countries have been feeling 'rejected and mistreated' by the West.

This may leave the Western block with a bitter taste of future relations on both the EU and NATO fronts. The Western, particularly NATO, countries have put a very close eye on Russia – Turkey relations. Conventional wisdom is that the warmer the relations between Ankara and Moscow are, the colder they become between Turkey and the Western Block. In this regard, we all know what happened when Western politics was reshaped against anti-Western leaders and regimes in the past, such as creating further polarization and tension inside, isolating from the international community, complicating trade and financing channels. We hope this belief does not hold this time around.

Market Outlook

Stay with quality improvers

To the extent that global volatility and interest rates remain low, we may see some accounts re-engaging at better levels after few legs of market sell-off. We however continue to make our stock recommendations on the basis of macro and financial fundamentals as the tug-of war between tailwinds (i.e. strong growth, ample liquidity, ease credit conditions and regulatory environment) and headwinds (i.e. weak FX reserve accumulation, higher crude oil prices, increased inflation pressures, unpriced geopolitics, heightened standoff with the US-led EU Block) continues to evolve.

The chief risk is potential rate hike. While the ruling AK Party categorically resists adopting orthodox policy making and thereby the CBRT refuses to accept the necessity for further tightening, ongoing currency and inflation pressures now keep the door open for a rate hike in the forthcoming MPCs. In fact, this 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, higher LDR ratio and hefty financing from money markets.

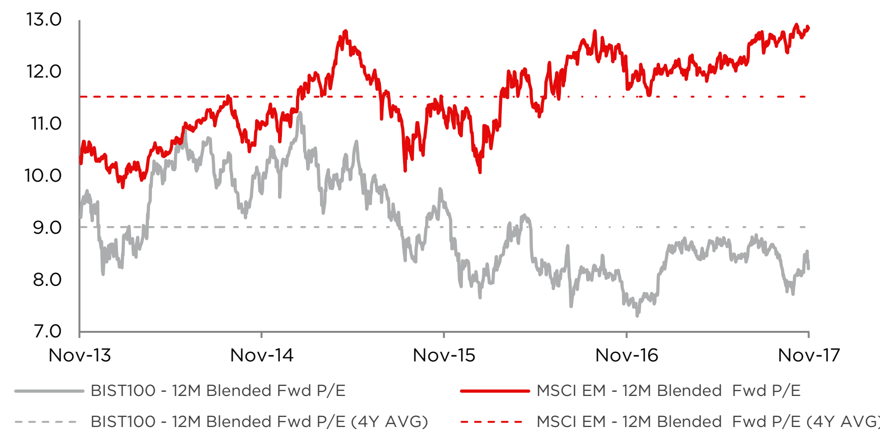
We remain stuck with our core view in 2H17 Strategy Report (June 14, 2017), which suggested investors to rotate into 'quality improvers' from 'all other conventional plays', particularly the 'high risk/return' names. We define 'quality improvers' as decent yield deliverers with 'sustained operational growth, well-diversified business strategy and solid investment theme as well as better liquidity, shorter maturity and currency hedge characteristics. As for banks, we expect ROAEs to stay below CoE in the forthcoming period and see modest return potential over the next 12 months for our coverage universe.

Coming to the stocks, another busy earnings season in Turkey ended on Nov 9. In a nutshell, 55% of listed major companies beat market consensus, while 26% fell short and 19% were in line (counted as companies reporting EPS within +/-3% of the consensus estimates conducted by Research Turkey). Petrochemicals, Oil & Gas, Glass, Steel, Contracting Autos, Airliners and Retailers reported solid results on YoY terms while the weakest performing sectors were Real Estate, Fertilizer and Consumer Durables. Telcos and Food and Beverages provided satisfactory guidance on the sidelines of 3Q results. In accordance with upward revisions to guidance, we raised out TP in ENKAI, EREGL, ISCTR, PETKM, SAHOL, SISE, TAVHL, TCELL, TKFEN, TRGYO, TRKCM, TUPRS and YKBNK. Turkish equities trade at 12M trailing forward P/E of 8.1x vs historical average of 9.3x and 12M EV/EBITDA of 7.5x vs historical 6.4x whereas banks trade at 12M trailing forward P/B of 0.74x vs historical average of 1.13x.

MSCI TR Index vs MSCI EM Index

Source: Bloomberg

12M Blended fwd Looking P/Es 4Y Averages



Source: Bloomberg

Sectoral performances

Favouring non-financials over financials given rate hike risk

Financials: Tier1 banks NI beat consensus by an average of 4% (62% of the banks beat cons while 12% in-line). Tailwinds: (i) strong asset quality; (ii) steady fee income growth; (iii) ongoing utilization of CGF albeit with a slower pace; (iv) start of loan repricing, (v) controlled opex in private banks. Headwinds: (i) missing CPI linkers, (ii) spread contraction, (iii) weak ROAE. What to look for: easing swap/deposit costs, higher CPI linker contribution.

Telcos: Impressive top line growth (TCELL +26%, TTKOM +10%) dominated by data. No major operational challenges ahead, except for TTKOM's ownership issue.

Aviation: Strong results driven by significant traffic recovery and further cost control. 4Q will likely to be solid.

Autos: Cycling the low base in 3Q16, domestic volumes were strong; yet, FROTO and DOAS focused on profitability in Turkey, while TOASO's export markets remain sluggish.

Oil: In 3Q17, refining margins were positively affected by the supply outages in many European refineries. Additionally, strong demand also led to a rise in average diesel crack margins in July and August. Med Complex margin increased to US$6.5/bbl in 3Q17 (+11% QoQ, +69% YoY) while it had averaged US$5.8/bbl in 2Q17 and US$3.81/bbl in 3Q16.

Steel: Both cold-rolled and hot-rolled prices showed improvement in 3Q17 when compared with 3Q16. The product/feedstock spreads have soared in the first 9 months of 2017 where hot-rolled/coal spreads have averaged at $437/tons with a 6% YoY increase and cold-rolled/coal spreads have averaged at $450/tons with a 19% YoY increase.

Food & Beverages: International markets continued to make positive contributions. As for AEFES and CCOLA, while domestic performance was strong in 3Q17, the sustainability remains at odds.

REITs: Overall weak. Vacancies increased due to supply-demand imbalances (as a result of increasing supply and weaker demand), putting some downward pressure on prices.

White Goods: The domestic demand was strong in the last quarter of SCT cuts, while export markets were relatively better. Lack of incentives may weigh on volumes in 4Q.

Retailers: Solid results in 3Q, with the help of high inflation. The companies will most probably finish the year at the high end of their guidance.

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 throughout the year.

MOST FAVOURED STOCKS			
HCONV IDEA★ YATAS	*NOT RATED*	***NOT RATED***	*NOT RATED*
EREGL	TRY9.26	BUY	DOWNSIDE: 4%
GARAN	TRY11.20	BUY	UPSIDE: 11%
KCHOL	TRY19.28	BUY	UPSIDE: 15%
MGROS	TRY30.90	BUY	UPSIDE: 10%
PETKM	TRY7.41	BUY	UPSIDE: 11%
THYAO	TRY10.17	BUY	UPSIDE: 2%
TKFEN	TRY14.48	BUY	DOWNSIDE: 2%
TRKCM	TRY4.83	BUY	UPSIDE: 10%
TUPRS	TRY144.95	BUY	UPSIDE: 17%

VALUATION MULTIPLES (2017E)*

	NI growth	P/E	EV/EBITDA	P/BV
Banks	24%	5.60	n.m.	0.80
Non-financials	60%	11.10	9.70	1.73
Coverage	42%	8.60	n.m.	1.30
MSCI EM	31%	12.80	9.3	1.73

*Coverage Universe Only

Source: Bloomberg, Global Securities estimates

Great rotation confirmed

Sticking to quality improvers vs risk/reward names

Banking sector bottom-line contracted by 2.5% QoQ (+28.6% YoY) in 3Q17 mainly on the back of hike in deposit costs and less contribution from CPI linkers. GARAN was the only banking name managing to expand NIM figures in 3Q17, while the rest of the banks in our coverage universe encountered contraction in margins. In terms of profitability, state-run banks' (HALKB and VAKBN) ROAE figures faced highest volatility; however, still managed to remain above their privately owned peers ISCTR and YKBNK. On the other hand AKBNK and GARAN were the clear winners of Q3 in terms of profitability. Furhermore, TSKB managed further improve ROAE performance remaning the leading profitability indicator in our coverage universe, while ALBRK's ROAE encountered significant contraction in Q3.

Along with the partial improvement in European diesel demand, retracting Asian diesel demand and increasing jet fuel demand have supported the rise in middle distillate margins which reflected positively on refining margins. Hence, TUPRS continues to benefit from positive climate regarding refinery business albeit with disappointing Q3 results. 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, KCHOL continued to stay on top with its auto operations and refinery business. 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.

Cycling the low base of 3Q16, total domestic auto market posted a solid 14% growth in 3Q17, which led to an upward revision to a flat market for 2017 vs. a single digit contraction. Contrary to the previous quarters, exports were relatively weaker, especially for TOASO, due to sluggish export markets. Margins were stronger vs. previous quarters, as DOAS and FROTO focused on profitability in domestic markets. Meanwhile, tractor market continued to be weak, hurting margins.

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Source: Bloomberg, Global Securities estimates

Great rotation cont'd

A close watch on cyclicals

For consumer sectors, the weak base in 2016 following the failed coup attempt in July 15, led to strong results across all sectors and the positive momentum should continue in the last quarter of the year owing to robust GDP growth. That said, a possible rate hike, affecting demand conditions, may weigh on performances of all non-financials. FMCG retailers and telcos should be less affected due 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 like all aviation stocks and therefore put THYAO in our most favoured stocks list. Strong momentum in passenger data continues in 4Q. For durables sector; on domestic side, special consumption tax (SCT) cuts in white goods continued to support volumes, yet at a slower pace, while export markets were a tad better compared to previous quarters. Profitability continued to remain weak with higher raw material prices. ARCLK posted strong revenue growth on the back of domestic growth, weak TRY and the consolidation of recently acquired Pakistani operations; however, the weak profitability led to a downward revision in guidance for the second time. We expect the weakness in the sector to continue in 4Q17.

Food & beverages sector's operational results were broadly in line with the consensus. CCOLA and AEFES enjoyed strong revenue growth owing to strong contribution from their international operations, as well as better domestic performance, while ULKER maintained its margins 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 are the catalyst 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 might continue to weigh on margins.

The retailers continued to enjoy high CPI inflation, which stood above 10% in 3Q17. MGROS raised its expectation for 2017 one more time following their 2Q results, whereas looking at the run rate, BIMAS may finish the year at the high end of its 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 bottom line results ahead of consensus with strong operational performance. We expect the operationally sound performances to continue in 4Q17 for both TCELL and TTKOM, while preferring the former.

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GLOBAL SECURITIES

MOST FAVOURED STOCKS PART I

BUY NOT RATED HIGH CONVICTION IDEA

MOST

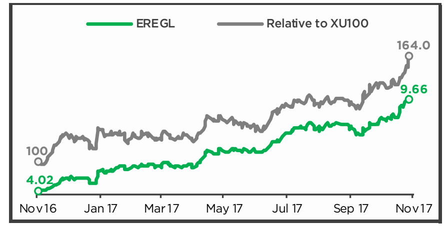
EREGL

(Eregli)

RATING: **BUY** DOWNSIDE: **4.1%**

FV: **TRY9.26** CV: **TRY9.66**

Increasing trend in product prices is still supporting strong USD denominated revenue generation. The company already mitigated the negative effect of the increasing coal prices which would normalize going forward in our opinion. This would affect the margins positively for the remaining half of the year.



MOST

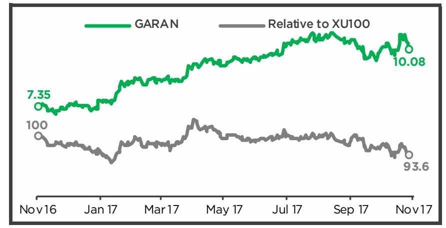
GARAN

(Garanti Bank)

RATING: **BUY** UPSIDE: **11.1%**

FV: **TRY11.20** CV: **TRY10.08**

Prolonged CPI linker contribution, solid asset quality metrics, sustainable operational efficiency, sector leading NIM and CAR position with sustained high profitability should continue to offer strong catalyst in the current macro environment. Also note that the bank hints upside potential for YE17 NIM.



MOST

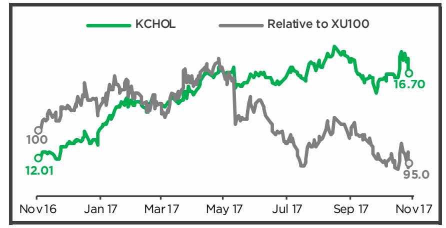
KCHOL

(Koc Holding)

RATING: **BUY** UPSIDE: **15.4%**

FV: **TRY19.28** CV: **TRY16.70**

Most of the subsidiaries have already beaten market consensus. Auto segment and TUPRS continued to be among the top contributors with their solid operating performances. There is also an attracting discount to NAV (11.3% discount against 3yr avg. of 2% discount). The dividend income is likely to be doubled in 2018 by upstreaming its whole refinery dividend to the holding level.



MOST

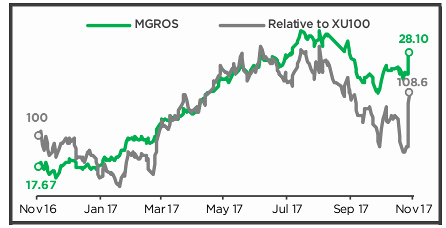
MGROS

(Migros Ticaret)

RATING: **BUY** UPSIDE: **10.0%**

FV: **TRY30.90** CV: **TRY28.10**

The integration of KIPA started to show strong results earlier than anticipated and MGROS posted eye-catching results for 3Q17. Higher margins are possible as the company launched the process for the integration of Kipa stores. Despite weak TRY, with the help of solid operational performance, the company continued to delever, even without divesting any of the real estate of Kipa, which is currently valued at c. TRY1.6bn.



MOST

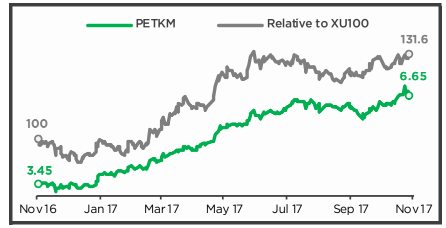
PETKM

(Petkim)

RATING: **BUY** UPSIDE: **11.4%**

FV: **TRY7.41** CV: **TRY6.65**

The rising trend in sustainable EBITDA performance did not falter even a little bit with the increasing product spreads continuing to support operational profitability. If crude oil prices were not to pass $60-65 in 2017, naphtha-based producers like PETKM would continue to enjoy favourable spreads compared to ethane-based producers.



GLOBAL SECURITIES

MOST FAVOURED STOCKS PART II

BUY   NOT RATED   HIGH CONVICTION IDEA

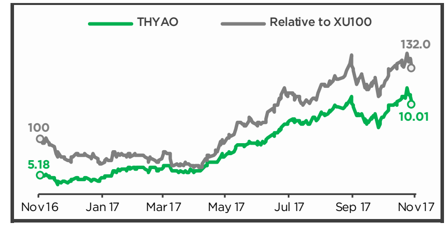
MOST

THYAO
(Turkish Airlines)

RATING: **BUY**   UPSIDE: **1.6%**

FV: **TRY10.17**   CV: **TRY10.01**

The flag carrier posted strong 3Q17 results on back of relatively better passenger figures, improving load factor, as well as continued strict cost control measures. The initial passenger traffic figures for 4Q also suggest the strong momentum should continue in the second half of the year.



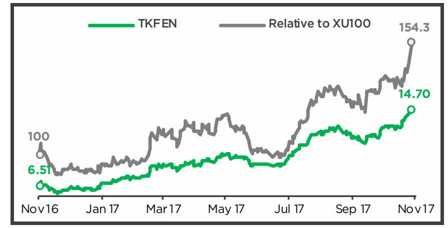
MOST

TKFEN
(Tekfen Holding)

RATING: **BUY**   DOWNSIDE: **1.5%**

FV: **TRY14.48**   CV: **TRY14.70**

New deals the company landed in Iraq and Qatar would be new catalysts which would reflect positively on contracting segment's profitability going forward. The company also increased its 2017YE expected contracting EBITDA margin realization from 6.6% to 9.7% with the new business additions and positive expectations concerning the cash generation.



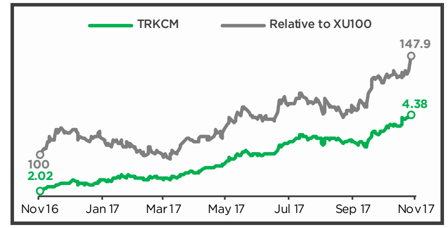
MOST

TRKCM
(Trakya Cam)

RATING: **BUY**   UPSIDE: **10.3%**

FV: **TRY4.83**   CV: **TRY4.38**

Price increases in both domestic and European markets, expectations for a decline in soda ash prices, and steady volumes both in domestic and international markets are the key catalysts for future profitability. We expect that weakening in TRY against hard currencies might result in better top-line figures and margins going forward which drives the operational profitability.



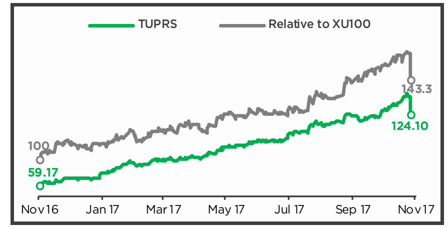
MOST

TUPRS
(Tupras)

RATING: **BUY**   UPSIDE: **16.8%**

FV: **TRY144.95**   CV: **TRY124.10**

Along with the partial improvement in European diesel demand, retracting Asian diesel demand and increasing jet fuel demand have supported the rise in middle distillate margins reflecting positively on refining margins. We expect the recent stable trend in Med refining margins to continue where rising product prices and stable volume with high CUR should support the operational profitability.



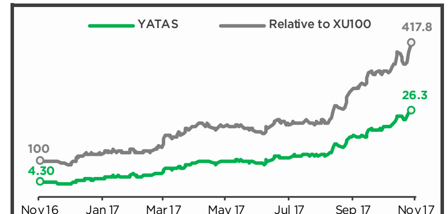
MOST   HCONV

YATAS
(Yatas)

RATING: *NOT RATED*   UPSIDE: *NOT RATED*

FV: *NOT RATED*   CV: **TRY26.30**

Higher operational leverage in the quarter with solid 86% growth YoY in revenues to TRY245mn led to a margin expansion of 690bps YoY to 19.4% for the quarter, while most of its competitors remained as laggards. Efficiency improvements through investments and financial deleveraging, coupled with the expectation of Turquality accreditation should help YATAS' growth story continue both in domestic and in international markets.



GLOBAL SECURITIES

3Q17 RESULTS AND CONSENSUS

Sector/Company	Ticker	Net income	Change, YoY	Consensus	Revenue	Change YoY	Consensus	EBITDA	Change, YoY	Consunsus
Banking										
Akbank	AKBNK	1,499	26%	1,384						
Albaraka Turk	ALBRK	10	*-80%*	23						
Garanti Bank	GARAN	1,565	18%	1,516						
Halkbank	HALKB	782	24%	781						
Isbank	ISCTR	1,216	16%	1,163						
TSKB	TSKB	161	37%	155						
Vakifbank	VAKBN	701	-14%	736						
Yapi Kredi Bank	YKBNK	841	0%	758						
Holdings										
Koc Holding	KCHOL	1,290	32%	1,328						
Sabanci Holding	SAHOL	881	64%	725						
Autos										
Dogus Otomotiv	DOAS	73	*147%*	29	3,287	26%	2,879	164	95%	106
Ford Otosan	FROTO	346	99%	273	5,486	43%	5,286	496	57%	414
Tofas	TOASO	284	35%	256	3,804	22%	3,853	443	47%	413
Turk Traktor	TTRAK	79	27%	77	1,009	48%	996	123	11%	128
Aviation										
Pegasus Airlines	PGSUS	537	*121%*	507	2,053	50%	2,011	768	92%	712
TAV Havalimanlari	TAVHL	417	63%	424	1,323	39%	1,453	631	56%	787
Turkish Airlines	THYAO	2,438	*345%*	1,939	12,658	46%	12,138	4,009	*159%*	3,667
Consumer durables										
Arcelik	ARCLK	256	-3%	259	5,440	33%	5,289	542	22%	544
Contracting										
Enka Insaat	ENKAI	626	84%	636	2,971	16%	2,605	688	27%	597
Tekfen Holding	TKFEN	131	*-1236%*	136	1,726	77%	1,694	185	*350%*	188
Food and beverages										
Anadolu Efes	AEFES	254	92%	222	4,006	24%	3,983	799	25%	783
Coca Cola Icecek	CCOLA	241	56%	214	2,750	22%	2,730	517	24%	510
Ulker	ULKER	64	17%	59	1,013	20%	993	137	25%	128
Fertilizer										
Bagfas	BAGFS	-9	-3%	-8	111	15%	106	24	*276%*	12
Gubre Fabrikalari	GUBRF	-15	*-54%*	-1	482	-11%	738	21	-29%	15
Glass										
Sise Cam	SISE	277	71%	256	2,600	30%	2,607	608	46%	598
Soda Sanayi	SODA	139	5%	127	571	16%	555	151	11%	139
Trakya Cam	TRKCM	161	*145%*	134	1,011	44%	1,038	239	90%	231
Oil & Gas										
Petkim	PETKM	374	*174%*	312	1,775	83%	1,813	422	*140%*	431
Tupras	TUPRS	992	71%	1,359	14,344	52%	12,761	1,456	79%	1,738
Retail	ADEL									
BIM	BIMAS	227	32%	208	6,263	24%	6,177	343	30%	315
Bizim Toptan	BIZIM	-1	*-133%*	-3	741	-2%	742	17	-26%	14
Migros	MGROS	-70	*4953%*	-95	4,285	39%	4,287	303	41%	226
Real Estate Investment Trusts										
Emlak Konut REIT	EKGYO	440	*-51%*	521	1,435	-20%	1,171	536	-42%	554
Torunlar REIT	TRGYO	17	*159%*	16	166	-23%	158	104	-1%	105
Steel										
Eregli Demir Celik	EREGL	792	60%	799	4,363	62%	4,272	1,170	43%	1,173
Telecoms										
Turk Telekom	TTKOM	293	*3280%*	336	4,532	10%	4,537	1,645	15%	1,642
Turkcell	TCELL	601	*230%*	623	4,432	23%	4,505	1,626	36%	1,553

GLOBAL SECURITIES

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