

Pair trade idea

We recommend a pair trade on February 26 with “long” Anadolu Efes (AEFES) financed by “short-selling” Ford Otomotiv Sanayi (FROTO) following the recent share price movements. The rationale for the trade is that we believe AEFES offers some room for upside on the backdrop of relatively lower excise tax increase for 1H18, Efes – AB InBev merger, and signs of improvement in domestic market for both beer and soft drinks while the FROTO’s outperformance looks fairly overdone given the current fundamentals and there is no recent catalyst to reload full-blown bull positions for the stake. Note that AEFES’s underperformance vs. FROTO has reached c.5% over the last six months. Hence, we think, the current relative underperformance of AEFES vs. FROTO should offer a decent positive return opportunity as a market-neutral strategy.

LONG

AEFES↑

For 2018, higher number of visitors with a better mix, shift of Ramadan out of the high season and a relatively lower excise tax increase for 1H may positively affect the domestic volumes. Nevertheless, affordability is still a concern. On the international side, the company is expected to complete the merger with AB InBev in Russia and Ukraine in 1H18, prior to the World Cup. This merger will not only make the new company a strong second player in the market, but also create some synergies on opex front, in our opinion. Furthermore, AB InBev is the sponsor of the FIFA World Cup, which will be held in Russia in June and July 2018. According to the company’s expectations, the beer consumption in the country, which has been contracting for many years as a result of regulatory actions, is expected to expand by 0.5% to 1% in 2018. Since AB InBev is the sponsor of the event, we believe its branded beers, which will be sold by AEFES’ fully consolidated JV by then, will grab the lion’s share from this expansion.

SHORT

FROTO↓

Even though top-line results were in line with the expectations, operational profitability fell short of the consensus estimates with a 7.2% EBITDA margin where the market consensus had stood at 8.1%. In addition to increasing raw material costs and TRY depreciation against hard-currencies, higher domestic PC mix also continues to put pressure on margins. The bottom-line was ahead of the consensus, but only because of the tax benefits during the quarter. The stock is trading at 36% premium in terms of 2018E average EV/EBITDA multiple compared to int’l peers. Despite sound operational results and strong dividend expectations, we believe current share price and premium to peers does not offer much upside for the stock due to the pressure on margins and lower than expected export volume guidance.

Methodology

The recommendations of this pair trade report derive from a statistical meta-analysis wielding XU050 Index constituents. The meta-analysis is conducted using conclusive data set including over two thousand stock pairs; ultimately aiming to highlight statistically significant connections among analysed pair sets. The analysis adopts statistical methods such as; standard deviation analysis, regression analysis, co-integration analysis and other various technical and fundamental tools. The conclusion of the statistical study yields securities suitable for pair trade opportunities; thereafter most promising pair candidates are picked based on fundamental aspects and technical dynamics. Such an approach yields a market neutral investment product, which incorporates statistical and fundamental strategy, enabling additional risk buffer in a volatile market environment. This product is set to be issued on a non-periodic, permanent basis. Historical recommendations are consolidated according to issue date and aggregate performance is calculated using an equally weighted trailing portfolio approach.

LONG↑

AEFES



SHORT↓

FROTO

Stock information

Anadolu Efes Beverage	Company	Ford Auto
TRY26.44	Sector	Automotive
	Last price*	TRY61.30

*Closing session (23.02.2018)

Statistical information

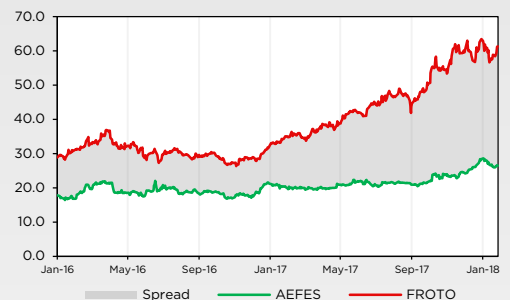
2.42	2Yσ	10.47
20.66	2Yμ	38.96
0.71	2Yβ	0.81

Portfolio information

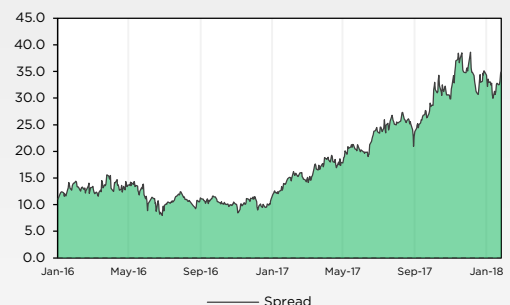
Active Pairs	1	Performance†	+7.41%
Closed Pairs†	2	Ytd Performance	-

†Since inception (15.11.2017)

Stock Price Overview



Stock Spread Overview



All share price data as at close on 23-Feb-2018.

Source: Global Securities, FINNET

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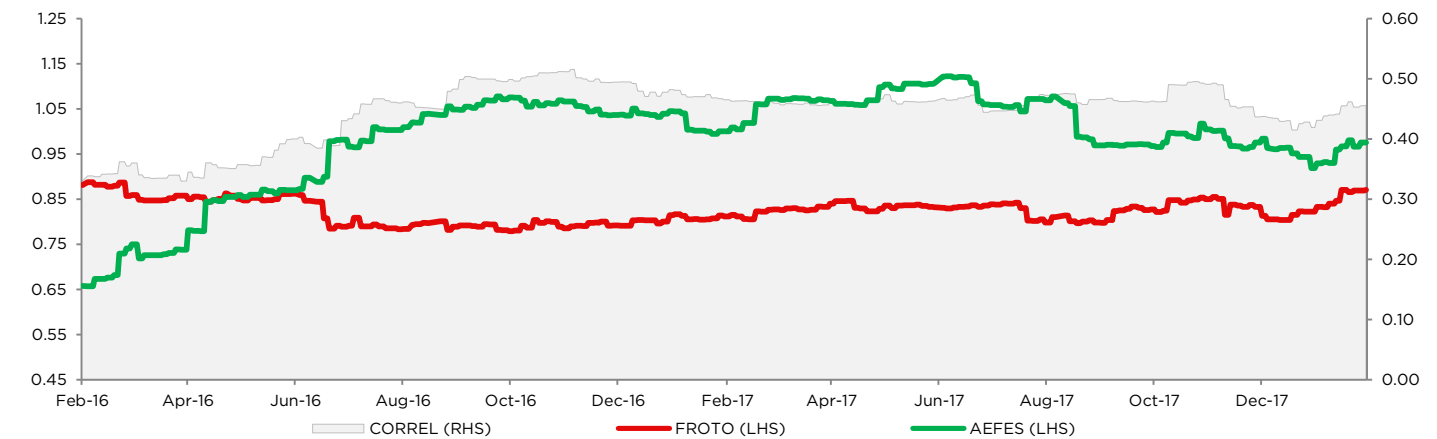
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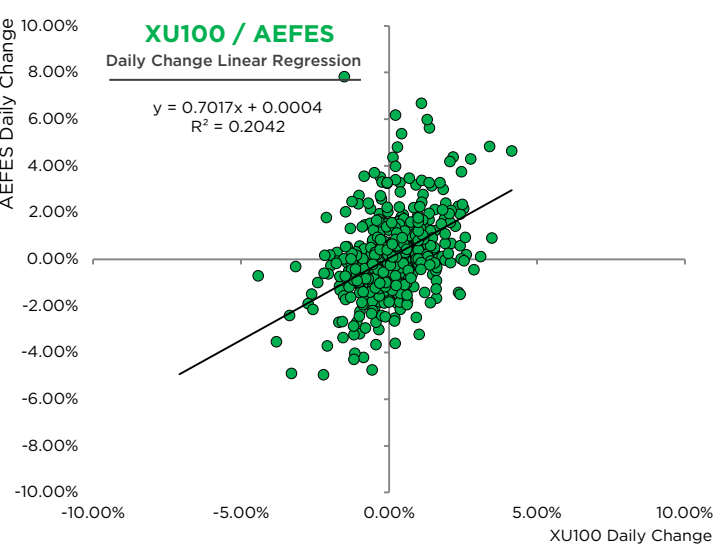


Chart 1: Pair stocks 2Y beta and correlation



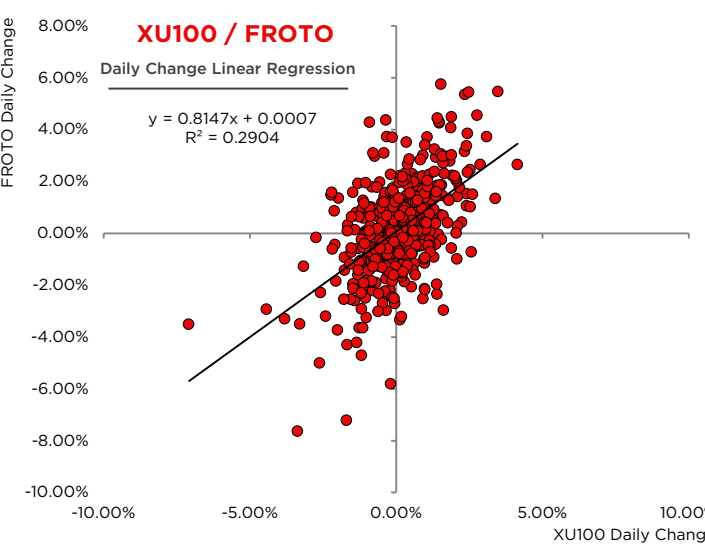
Source: Global Securities

Chart 2: XU100 and AKSEN daily return scatter



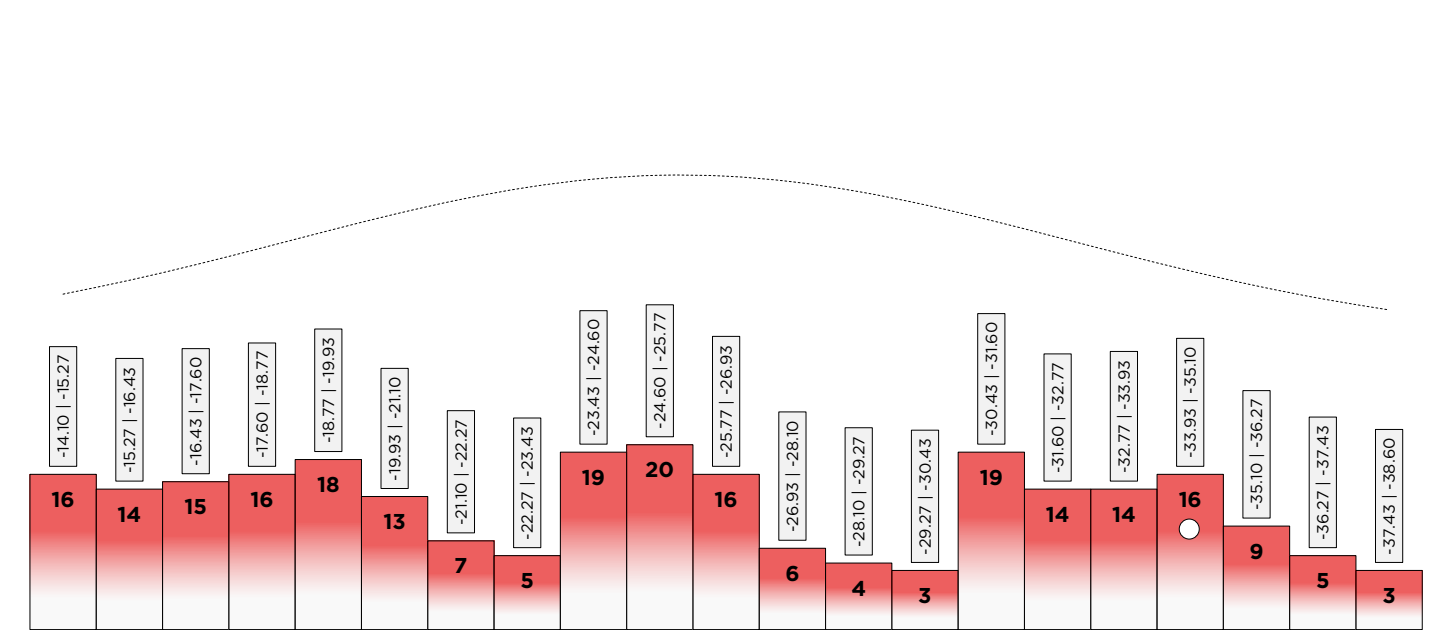
Source: Global Securities

Chart 3: XU100 and AEFES daily return scatter



Source: Global Securities

Chart 4: Spread distribution and normal distribution



Source: Global Securities

Active portfolio

As part of our methodology, multiple pair trade ideas can be issued simultaneously. Pair trades ideas that coincide in terms of trading period are evaluated using an equally weighted trailing portfolio approach. Pair trades that are active in a given day are monitored individually and returns generated by these ideas are equally consolidated on a daily basis yielding the net daily return of the active pair trade portfolio. The list of active pair trades are presented in Exhibit 1. More detailed information regarding the current pair trade ideas can be obtained from related reports published for the subject pairs.

Exhibit 1: Active pair trades

Long Position		Short Position		Pair Trade	
Stock	Performance	Stock	Performance	Duration	Performance
AEFES	-	FROTO	-	0 Days	-

Source: Global Securities

Completed pair trades

As part of our methodology, this product is set to be issued on a non-periodic, permanent basis. The completed pair trade details are logged and the last completed ten pair trades are presented in Exhibit 2. More detailed information regarding the previous pair trade ideas can be obtained from related reports published for the subject pairs.

Exhibit 2: Closed pair trades*

Long Position		Short Position		Pair Trade	
Stock	Performance	Stock	Performance	Duration	Performance
AKSEN	+6.96%	AEFES	+1.67%	4.5 Days	+4.17%
TRKCM	-4.42%	VESTL	-10.06%	3.0 Days	+3.12%

*Last ten completed pair trades

Source: Global Securities

Procedural pair trade finalization triggers

The primary objective of this product is to exit pair trade positions following the actualization of statistically predicted price movements. However, active pair trade positions can also be finalized through various procedural triggers such as;

- Consumption of statistical potential through predicted price movement,
- Exhaustion of statistical potential through unpredicted price movement,
- Fundamental developments that would negatively affect pair authenticity,
- Technical price movements which could offer favourable exit opportunities,
- Analyst call through incorporation of any of the above.

Portfolio performance

As intra-day price movements have the possibility to consume the statistical potential of issued pair trades, active trades can be finalized during a session following an e-mail notice. However, pair trade and portfolio performances will be calculated and logged using subject day's closing prices, under this context, actual figures will be provided via the "Wake-up call" report, the following day. The relevant performances of completed pair trade positions will be incorporated with performances of active pair trade positions to constitute the all-inclusive pair trade portfolio performance. Various details regarding the pair trade portfolio performance can be found in Exhibit 3.

Exhibit 3: Portfolio highlights

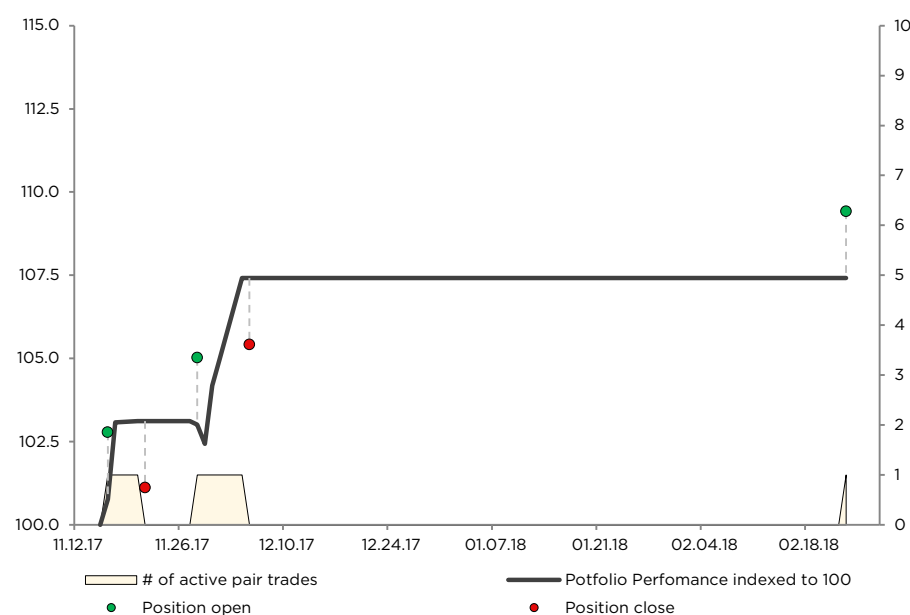
Absolute performance*	+7.41%
Absolute performance YtD	-
# of Active pair trades	1
# of Closed pair trades*	2
Average return per pair trade*	+3.64%
Average duration† per pair trade*	4 Days

Source: Global Securities

*Since inception (15.11.2017) †Trading days only

Detailed information regarding historical performance series of the portfolio, timing and quantity of pair trade initiation/finalization, and number of active pairs at a given time can be found in Graph 5.

Graph 5: Portfolio activity and performance



Source: Global Securities

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