

2 June 2009

## Is Yatirim Menkul Degerler

Year End	Pre fin. Op. profit (TRYbn)	PBT* (TRYbn)	EPS* (Kr)	DPS (Kr)	P/E (x)	Yield (%)
12/07	61.2	77.5	32.2	0.0	3.9	N/A
12/08	12.9	52.9	37.4	10.8	3.7	8.6
12/09e	39.9	69.7	41.7	12.4	3.0	9.8
12/10e	47.4	77.9	45.1	13.6	2.8	10.8

Note: \* PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

### Investment summary: Weathering the storm

After a solid 2008, which generated a TRY44.7m net profit (up 16.5% y-o-y despite the global financial turmoil), Is Yatirim produced a strong set of Q1 numbers, with net profits at TRY10.03m. IsY has maintained its leading market share in equities and derivatives trading, In addition it remains at the forefront of the development of the pension fund industry in Turkey. This together with the derivative markets is expected to drive growth in 2009. Its strong capital base enabled it to pay a dividend for 2008, in contrast to peers. IsY is trading on a P/E of 3.0x 2009e with a dividend yield of 8.7%.

### Q109: Well ahead of expectations

Is Investment announced TRY10.03m consolidated net earnings in Q109 with total assets increasing 13.6% and shareholders equity up 17.6% y-o-y. The key driver for the strong performance was interest and trading income of TRY30m, which was up 45.4% q-o-q, close to pre-crisis highs. As expected derivative income continued to increase (to TRY13.8m) as did fund management fees, despite market turbulence. Commission income also held up well despite some price pressure as IsY moved to increase market share in equities in the wake of sector consolidation.

### Strong capital base

Unlike most of its international peers, which have had to cut dividends and raise fresh equity to shore up balance sheets, IsY is in a strong capital position. IsY easily exceeds regulatory capital and it continues to generate profits. Hence the board has approved a payout of 30% (which equates to a yield of 10.7% on the announcement date) of the 2008 attributable profit as a dividend.

### Valuation: Undervalued relative to global peers

Having increased our 2009 forecasts, the stock is currently trading on 0.5x 2009e BV or 2009e P/E of 3.0x, with a forecast ROE of 11.2%. This compares to the global investment banks' average (at a low point in the earnings cycle) of a 2009 P/E of 19.7 and P/BV of 1x. However, on 2010 multiples (a more normalised figure) the Global IB peer group is trading at 8.8.x P/E, P/BV of 1.3x and an ROE of 11.9%.

Price 126Kr  
Market Cap TRY150m

#### Share price graph



#### Share details

Code ISMEN. TI  
Listing ISE  
Sector Financials  
Shares in issue 119.4m

#### Price

52 week High 173Kr Low 71Kr

#### Balance Sheet as at 31 December 2008

Debt/Equity (%) N/A  
BV per share (TRY) 2.28  
Net cash (TRYm) 924

#### Business

Is Yatirim Menkul Degerler offers brokerage, corporate finance, investment advisory services and portfolio management services. The company also advises on IPOs.

#### Valuation

	2008	2009e	2010e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

#### Revenues on geography

	Europe	US	Other
UK	100%	0%	0%

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## Resilient performance despite financial turmoil

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Despite falling volumes on the Istanbul Stock Exchange and the global credit crunch, IsY delivered robust FY08 numbers which have continued into 2009. Derivative and Asset Management income have driven profitability and the company continues to take market share from weaker participants.

### Q109 – Weathering the banking storm

Is Investment announced TRY10.03mn consolidated net earnings in Q109 with 27% growth q-o-q while operating revenues increased 23%. Interest and trading income increased 45.4% to TRY30.05m, close to the quarterly high reached in Q308. Total commissions excluding corporate finance fees decreased slightly on a yearly or quarterly basis, but nonetheless exceeded expectations. As expected, corporate finance revenues remained low, however, they are expected to pick up in Q3 when IsY expects strong corporate bond issuance as companies take advantage of the fall in interest rates. Derivatives and asset management remain the growth drivers, showing strong growth on an annual basis. Operating expenses declined from Q408 levels, as the transaction volumes in international capital markets declined. Is Investment Trust (30% owned by IsY), which produced a loss in 2008, once again turned profitable due to the stabilisation the prices on the Istanbul Stock Exchange.

### The global investment banking environment

Several global investment banks have had a strong start to the year. In Q109, Credit Suisse was up 38.2% and Deutsche Bank up 28%. Indeed, Credit Suisse's Q1 results (for example) reached close to the pre-crisis level. Globally we saw improved capital market conditions, particularly in rates, foreign exchange, commodities and flow credit and corporate bond issuance. Cash equity volumes, equity issuance and M&A volumes continue to be weak. However, the risk remains that the respite in Q1 was due to writebacks and a temporary improvement in liquidity and quantitative easing. Capital constraints are driving the reshaping of portfolios away from balance sheet intensive products to core flow products. IsY's competitive advantage in our opinion is that, unlike poorer capitalised peers, it does not need deleverage or shrink its balance sheet. Rather it can use its capital strength to gain market share organically or via acquisitions.

### Trends in Turkish capital markets

In Turkey, we have seen a lagged impact of the global crisis in 2008, with volumes continuing to fall in Q109. In the equity markets, volumes traded fell 27.7% in Q109 (compared to Q108) as both domestic and international investors remained on the sidelines. Against this background, IsY strongly outperformed, increasing its market share in equity trading to 7.6%. This reflects a shakeout in the market. The poor trading conditions in the last year have forced the closure of seven brokers. The resultant 'flight to quality' from nervous investors has seen IsY picking up market share and leaves it ahead of its 2009 target market share of 7%. Although equity commission rates have declined in the short term as IsY focuses on gaining share, we expect the rates to normalise by the year end. After a weak Q408, the total volumes traded in the 'bills and bonds' market were up sharply in Q109 (even exceeding Q108) as it benefited from the aggressive interest rate cuts in recent months. IsY's market share stands at 10%.

The derivatives market remained relatively robust with volumes only down 4%. However, IsY's market share fell to 12.4%, ahead of company expectations, as the market develops in breadth of products and participants.

The mutual fund and pension fund market has shown robust growth in the last year, growing 7.8% and 43.9%, respectively (compared to Q108). This is despite the ISE falling 33.7% (between 3 April 2008 and 3 April 2009) indicating strong structural growth expected in a developing market. Within these markets, IsY has maintained its market share. Total assets under management (for IS Investment and IS Asset Management) at TRY8,300m, compared to TRY6,950m one year ago. This compares favourably with most European fund managers, which have seen AUM levels fall up to 22% in the corresponding period due to a fall in markets and fund outflows. Pension fund management typically has some of the highest ROEs amongst other product lines so this bodes well for the future.

## Macroeconomic framework

The real macroeconomic effects of the global credit crunch have begun to pay out in Turkey. The Turkish economy has been very weak with Q4 GDP down an estimated 6.2%. Although 2008 overall has still seen positive GDP growth, the country is expected to show negative GDP growth in 2009, with Q1 being down significantly more than Q408. This is largely driven by weak industrial output (down 21.3% in January 2009), weak exports and poor consumer demand. In response, the Central Bank of Turkey has cut interest rates aggressively. In May interest rates were cut a further 0.5%, taking the cumulative interest rate cut from November 2008 to 750 basis points. The annual CPI inflation rate declined to 6.1% in April, better than consensus expectations. The budget deficit recently announced by the Ministry of Finance (to end April) was TRY20.1bn. If GDP in 2009 does fall 3.0-3.5%, we can also expect a budget deficit of 5-6% based on a shortfall of tax revenues.

Post the municipal elections we also expect further news on the IMF package, other measures on the fiscal front, and other steps to support the real economy. A successful conclusion to the new IMF loan programme will be crucial to restore confidence in the economy.

## Changes to forecasts and valuation

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FY08 results were above our forecasts, due to a better trading environment than expected. Levels of trading and associated commissions did not fall as much as expected (or as witnessed in Europe and the US). Asset management revenues remained robust and the derivative market continued to grow. As a result we have increased our 2009 forecasts and introduced 2010 estimates. Prudently we have assumed trading levels remain below 2008 levels, but the resilience shown in the last two quarters has led us to increase numbers into 2009 and 2010. We have increased our commission levels to account for the strong performance in asset management despite poor market sentiment. In particular we have increased the assets under management in Pension Funds, which carry a high ROE. We have assumed a modest pickup in corporate finance revenues in H2 on the back of corporate bond issuance. We have maintained operating costs as a percentage of income and assumed a continued 30% dividend payout ratio.

## Exhibit 1: Financials

Year end 31 December	TRYm	2007 TAS	2008 IFRS	2009e IFRS	2010e IFRS
<b>PROFIT &amp; LOSS</b>					
<b>Trading Income</b>		<b>29,696,679</b>	<b>33,334,236</b>	<b>25,993,680</b>	<b>29,892,732</b>
Trading Costs		(29,689,167)	(33,346,230)	(25,987,000)	(29,885,050)
<b>Trading Profit</b>		<b>7,512</b>	<b>(11,995)</b>	<b>6,680</b>	<b>7,682</b>
Income from service (net)		67,803	56,903	41,265	47,455
Other operating income		50,609	58,448	77,641	90,840
Operating expenses		(64,774)	(90,461)	(85,735)	(98,595)
<b>Pre financials operating profit</b>		<b>61,149</b>	<b>12,896</b>	<b>39,852</b>	<b>47,382</b>
Other income		1,341	13,879	2,800	3,500
Other expenses		(6,425)	(5,935)	(4,000)	(6,000)
Net financials		21,408	32,020	31,033	33,064
<b>Operating Profit</b>		<b>77,473</b>	<b>52,860</b>	<b>69,684</b>	<b>77,946</b>
Other		0	0	0	0
<b>Profit Before Tax (norm)</b>		<b>77,473</b>	<b>52,860</b>	<b>69,684</b>	<b>77,946</b>
Tax		(8,305)	(10,965)	(13,937)	(15,589)
<b>Profit After Tax (norm)</b>		<b>69,168</b>	<b>41,895</b>	<b>55,747</b>	<b>62,357</b>
<b>Minority interest</b>		<b>30,784</b>	<b>(2,810)</b>	<b>6,000</b>	<b>8,500</b>
<b>Net income (norm)</b>		<b>38,384</b>	<b>44,706</b>	<b>49,747</b>	<b>53,857</b>
Average Number of Shares Outstanding (m)		119.4	119.4	119.4	119.4
<b>EPS - norm (Kr)</b>		<b>32.2</b>	<b>37.4</b>	<b>41.7</b>	<b>45.1</b>
Dividend per share (Kr)		0.0	10.8	12.4	13.6
<b>BALANCE SHEET</b>					
<b>Fixed Assets</b>		<b>28,198</b>	<b>54,276</b>	<b>58,780</b>	<b>66,140</b>
Intangible Assets		982	1,301	1,480	1,500
Tangible Assets		5,540	17,173	19,500	21,840
Investments		21,675	35,803	37,800	42,800
<b>Current Assets</b>		<b>1,212,511</b>	<b>1,428,563</b>	<b>1,713,746</b>	<b>1,824,896</b>
Financial assets		302,883	244,015	343,890	378,500
Debtors		226,628	239,700	354,796	394,796
Cash		680,918	933,050	998,060	1,034,600
Other		2,083	11,798	17,000	17,000
<b>Current Liabilities</b>		<b>(833,389)</b>	<b>(1,071,644)</b>	<b>(1,316,234)</b>	<b>(1,419,679)</b>
Creditors		(182,539)	(166,592)	(300,590)	(306,780)
Financial liabilities		(638,041)	(892,189)	(999,860)	(1,096,000)
Tax and social security		(4,219)	(4,364)	(7,800)	(8,915)
Other short term liabilities		(8,589)	(8,498)	(7,984)	(7,984)
<b>Long Term Liabilities</b>		<b>(1,014)</b>	<b>(1,266)</b>	<b>(3,500)</b>	<b>(3,500)</b>
Long term borrowings		0	0	0	0
Other long term liabilities		(1,014)	(1,266)	(3,500)	(3,500)
<b>Net Assets</b>		<b>406,306</b>	<b>409,930</b>	<b>452,792</b>	<b>467,857</b>
Minority interest		162,711	137,241	153,949	159,071
<b>Shareholders equity</b>		<b>243,596</b>	<b>272,689</b>	<b>298,843</b>	<b>308,786</b>
<b>Net Cash</b>		<b>672,328</b>	<b>924,552</b>	<b>990,076</b>	<b>1,026,616</b>

Source: Company accounts/Edison Investment Research

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