

2 December 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	8.5	N/A
12/08	12.9	52.9	37.4	10.8	7.3	4.0
12/09e	95.8	119.2	58.8	12.4	4.6	4.6
12/10e	113.8	137.5	81.6	13.6	3.3	5.0

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

### Investment summary: Turkish delight

Is Yatirim (ISY) has continued to generate strong profitability and returns to shareholders, benefiting from the continued recovery in financial markets and ISY's strong position within them. The steady growth in funds under management and the derivative market has led to a rapid increase in commission income. Net profits are up 50% y-o-y, with ROE reaching 21.5% at the end of the quarter. Despite the recent strong performance, the stock trades at a discount to the sector at 4.6x 2009 P/E, 1.0x 2009 P/BV and a forecast ROE of 21.2%.

### Q3 results: Going from strength to strength

ISY reported robust Q3 results, with a 108% increase in total operating income generating a 51% increase (y-o-y) in total assets and a 21% increase in shareholders' equity.

### Asset management and derivatives are key drivers

The key components of commission revenues (up 36% y-o-y) came from the asset management business and derivatives and equities. Assets under management increased 41.4% y-o-y to TRY9.9bn in Q309. Within this the more profitable (and more stable) pension fund assets increased 54.5% y-o-y. Derivative trading commissions were also strong as clients increasingly use these more sophisticated products to participate in equity market strength. As new derivative products are introduced, we expect this strength to continue.

### Valuation: More to go for

ISY has continued to beat our forecasts, particularly through the growth in derivatives and asset management. As a result we have upgraded our numbers for FY09 and FY10. The stock currently trades on 1.0x 2009 BV, 4.6x 2009 P/E and a forecast ROE of 21.2%. This is a significant discount to the European investment banks' average on 2010 multiples (a more normalised figure) of 10.5x P/E, P/BV of 1.7x and an ROE of 14%. Using the Gordon's growth model, with an over the cycle ROE of 16%, a long-term growth rate of 5% and a reduced cost of equity of 13% (to reflect the fall in interest rates), gives a target P/BV multiple of 1.4x.

Price TRY2.72  
Market Cap TRY325m

#### Share price graph



#### Share details

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

#### Price

52 week High Low  
TRY2.88 TRY0.72

#### Balance Sheet as at 30 September 2009

Debt/Equity (%) N/A  
BV per share (TRY) 2.73  
Net cash (TRYm) 1,130

#### 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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## Investment summary: Turkish delight

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### The Turkish capital markets and ISY's position within them

Capital market volumes and revenues have gone from strength to strength in Istanbul. Indeed the industry (European) revenue pool is running at record levels, supported by a backdrop of rising markets and tightening credit spreads. Contrary to our assumptions at the start of the year, the trading volume on the Turkish equity market is up 31% y-o-y. Within the context of the increase in volumes, ISY has also increased its market share. Its current market share within the equity market is 8.21%, up from 6.7% a year ago. This is largely driven by an increase in the level of client transactions as equity markets have recovered from recent lows.

The derivative market, though in an embryonic stage, is growing rapidly. Traded volumes have increased 47% y-o-y. However, as a comparator, it is worth noting that in western markets the cash equities market is about 20% of the size of the derivative market, which indicates the growth potential over time. In the derivative market, ISY has increased its trading volume 39.6% y-o-y, decreasing its market share marginally to 13.48%. This is in line with the company's expectations. As a founder member of TurkDEX, it has an explicit aim to increase the number of market participants, hence increase competition and the development of the market. It also aims to remain a product innovator. In line with this strategy ISY plans to launch a new instrument in Q409. It has applied to the CMB to launch ISE 30 put and call warrants and should start generating significant revenues by Q110.

### Asset Management – a key growth driver

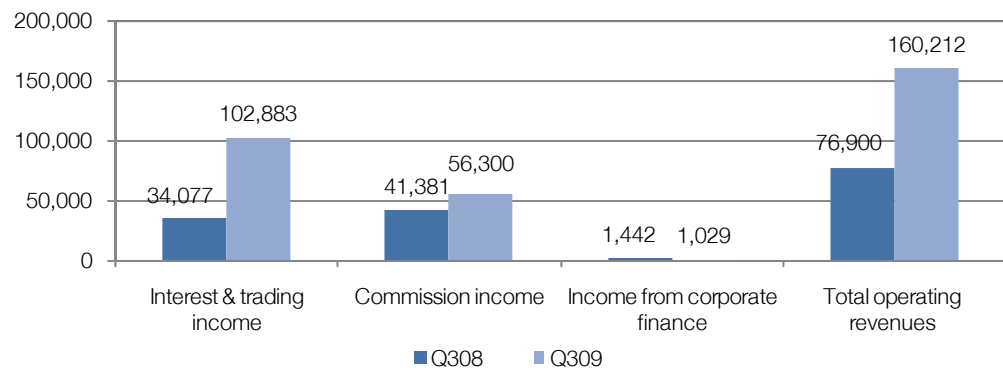
Total assets under management at ISY reached TRY9.9bn in Q309. This represents an increase of 41.4% y-o-y, in stark contrast to most Western European counterparts, which have seen a decline in this number due to outflows and diminished equity returns. ISY has benefitted from the strong retail franchise of its parent bank, and indeed from the structural growth in pension funds in Turkey. Although mutual fund volumes in Turkey have grown significantly, the key driver of profitability and a cornerstone for economic development has been the pension fund market. Pension fund assets under management have grown from TRY5.8bn in Q308, to TRY8.5bn in Q309, a 47% y-o-y increase. Once again, ISY has outperformed the market, increasing AUM by 54.5% y-o-y. As a result asset management commissions have increased to TRY16.3m (up 60% y-o-y).

### Q3 results – powering ahead

ISY has continued to exceed market expectations with Q3 net profit of TRY21.35m. Shareholders' equity was TRY321m, up 21% y-o-y. Strong equity markets clearly increased interest and trading income (up 202%) and accounted for 64% of total operating revenues. However, trading on the firm's prop book (ie with the firm's capital) only accounts for 15% of the equity trading volume. Commissions from equity trading by clients increased to TRY25.6m in the year to 30 September 2009, up 32.9% y-o-y. The key driver of profitability was commission revenues, up 36% y-o-y. This income stream has shown steady growth over the year. Asset management accounts for 28% of the total commission income and is forecast to continue to grow at similar rates.

**Exhibit 1: Operating profit breakdown**

Note: TRY '000s.



Source: ISY Q3 results

**The Turkish economy**

At 5.1% y-o-y, October's inflation figure was considerably higher than the consensus (4.6%). The Turkish central bank has continued its dovish stance, stressing the data at hand indicated no change to the inflation outlook or prospects for domestic demand. In line with this, interest rates were cut a further 25bps in November, with the benchmark rate now at 6.50%; a cumulative cut of 1,025bps since November 2008. We expect only modest further easing from here depending on exchange rate developments and the outcome of ongoing IMF negotiations. We expect the inflection point in the rates environment to be accompanied by increased client activity, particularly in the bond and foreign exchange operations.

**Valuation and financials**

The healthy performance in 2009 has given us increased confidence on the sustainability of recent revenue strength. Consequently we once again increase our forecasts. In particular the allocation of risk capital out of propriety trading and bills and bonds to the return-enhancing fund management and derivatives areas has increased profitability. This has increased commission income by 35% for 2009 and has a base effect into 2010. Our forecasts do not assume any uptick in corporate finance activity. The strong performance on the Istanbul Stock exchange year to date, has helped equity commission income and generated strong returns on the Investment Trust company (which lowers the effective tax rate). Our forecasts do not assume the Istanbul stock exchange sees similar returns in 2010. Our new EPS estimate is 58.8Kr (compared to 49.3Kr in September 2009). The BV per share has also increased to 2.73Kr (from 2.48Kr). The stock currently trades on 1.0x 2009 BV, 4.6x 2009 P/E and a forecast ROE of 21.2%. This is a significant discount to the European investment banks' average on 2010 multiples (a more normalised figure) of 10.5.x P/E, P/BV of 1.7x and an ROE of 14%. Using the Gordon's growth model, with an over the cycle ROE of 16%, a long-term growth rate of 5% and a reduced cost of equity of 13% (to reflect the fall in interest rates), gives a target P/BV multiple of 1.4x.

## Exhibit 2: Financials

	TRYm	2007	2008	2009e	2010e
Year end 31 December		TAS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
<b>Trading Income</b>		<b>29,696,679</b>	<b>33,334,236</b>	<b>20,000,541</b>	<b>22,000,596</b>
Trading Costs		(29,689,167)	(33,346,230)	(19,995,000)	(21,994,500)
<b>Trading Profit</b>		<b>7,512</b>	<b>(11,995)</b>	<b>5,541</b>	<b>6,096</b>
Income from service (net)		67,803	56,903	77,478	92,974
Other operating income		50,609	58,448	98,511	113,288
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>95,796</b>	<b>113,762</b>
Other income		1,341	13,879	2,300	3,000
Other expenses		(6,425)	(5,935)	(4,500)	(6,000)
Net financials		21,408	32,020	25,633	26,764
<b>Operating Profit</b>		<b>77,473</b>	<b>52,860</b>	<b>119,229</b>	<b>137,527</b>
Other		0	0	0	0
<b>Profit Before Tax (norm)</b>		<b>77,473</b>	<b>52,860</b>	<b>119,229</b>	<b>137,527</b>
Tax		(8,305)	(10,965)	(19,077)	(26,130)
<b>Profit After Tax (norm)</b>		<b>69,168</b>	<b>41,896</b>	<b>100,152</b>	<b>111,396</b>
<b>Minority interest</b>		<b>30,784</b>	<b>(2,810)</b>	<b>30,000</b>	<b>14,000</b>
<b>Net income (norm)</b>		<b>38,384</b>	<b>44,706</b>	<b>70,152</b>	<b>97,396</b>
Average Number of Shares Outstanding (m)		119.4	119.4	119.4	119.4
<b>EPS - normalised (Kı)</b>		<b>32.2</b>	<b>37.4</b>	<b>58.8</b>	<b>81.6</b>
Dividend per share (Kı)		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>63,110</b>	<b>71,140</b>
Intangible Assets		982	1,301	1,480	1,500
Tangible Assets		5,540	17,173	21,830	23,840
Investments		21,675	35,803	39,800	45,800
<b>Current Assets</b>		<b>1,212,511</b>	<b>1,428,563</b>	<b>2,201,746</b>	<b>2,527,896</b>
Financial assets		302,883	244,015	423,890	501,500
Debtors		226,628	239,700	564,796	754,796
Cash		680,918	933,050	1,198,060	1,254,600
Other		2,083	11,798	15,000	17,000
<b>Current Liabilities</b>		<b>(833,389)</b>	<b>(1,071,644)</b>	<b>(1,753,234)</b>	<b>(1,992,679)</b>
Creditors		(182,539)	(166,592)	(550,590)	(699,780)
Financial liabilities		(638,041)	(892,189)	(1,189,860)	(1,276,000)
Tax and social security		(4,219)	(4,364)	(10,800)	(11,915)
Other short term liabilities		(8,589)	(8,498)	(1,984)	(4,984)
<b>Long Term Liabilities</b>		<b>(1,014)</b>	<b>(1,266)</b>	<b>(2,500)</b>	<b>(3,000)</b>
Long term borrowings		0	0	0	0
Other long term liabilities		(1,014)	(1,266)	(2,500)	(3,000)
<b>Net Assets</b>		<b>406,306</b>	<b>409,930</b>	<b>509,122</b>	<b>603,357</b>
Minority interest		162,711	137,241	178,193	205,141
<b>Shareholders equity</b>		<b>243,596</b>	<b>272,689</b>	<b>330,929</b>	<b>398,216</b>
<b>Net Cash</b>		<b>672,328</b>	<b>924,552</b>	<b>1,196,076</b>	<b>1,249,616</b>

Source: Company accounts/Edison Investment Research

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