

Sardis Securities

Brokerage-Investment Banking

TURKEY

July 26, 2010

ISMEN-Buy (TL2.09)

ISMEN is the largest brokerage firm offering all kinds of investment banking services. We published a buy note for the company because **a) Its very cheap b) There is no research coverage by a brokerage firm (probably its hard to say good things about a competitor!).**

Why do we like Is Investment?

1) Turkish financial sector is booming in all segments and ISMEN is well established to bear the fruits. Out of 72m population, only 1m has stock market accounts (Mcap around US\$260bn, over 320 companies listed, around 33% average free float, 67% owned by foreign institutional investors). Local institutional investors are almost non-existing (mutual funds+pension funds around 4% of GDP and 95% invested in liquids). Derivatives market established only 5 years ago, interest rates plunged to around 8.5% from mid-double digits less than a decade ago. Equity market trading volume jumped by around 50% over the past 4 years, fixed income by 5-fold, derivatives by 18-fold.

Being under the umbrella of Turkey's largest private bank Isbank (in terms of assets size and branch network) provides ISMEN an excellent growth platform currently in Turkey but in the near future regionally. The company is ranked number one in equity, derivative, securities borrowing & lending, and in fixed income (excluding banks) volumes and manages around TL10.4bn assets, roughly 1/4 of Turkey's total assets under management. This year ISMEN was book runner for two large equity IPOs (Koza and Akfen, size US\$436m) and corporate bonds of Akfen, Creditwest and Merinos (TL200m nominal value). The IPO pipeline is fully loaded for the rest of the year. "Our view is as long as Turkish financial markets are free from long-lasting crisis, ISMEN will deliver solid results."

2) Its cheap!

ISMEN is very cheap (although more profitable than a number of Turkish banks). The company is trading at a 2010e P/E of 5.4x (we think it can beat our EPS estimate) and P/BV of 1.06x despite an avg ROE of around 25% in 1Q ISMEN's commitment to distribute at least 30% of distributable income (although not necessarily cash) is also a bonus for investors. In our view even if shares rallied by 50% to TL3.13, ISMEN would still look cheap compared to rest of the market and foreign peers.

Ticker Code	ISMEN TI
Target Price (12m)	3.13
Upside (Downside) Potential	50%

Mcap (US\$m)	275
Number of Shares (m)	200

Performance	1m	4%
	3m	8%
	12m	120%

Isbank Group	72%
Free Float	28%
Average Daily Volume	\$235k

Haydar Acun

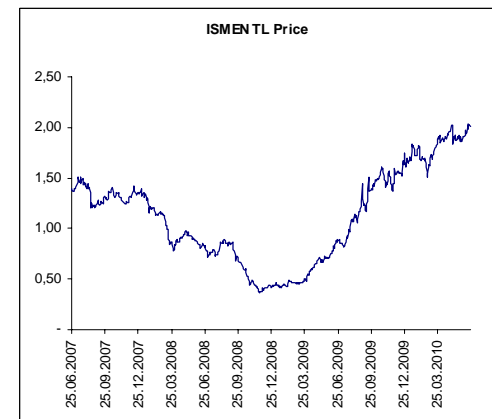
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Recent Company Notes

Buy Simpas (TL1,67)	July 21
Buy Tekstilbank (TL 1,14)	April 29
Buy Net Holding (TL 0,80)	April 14
Buy Is Reit (TL 1,68)	April 8
Buy GSD Holding (TL 0,85)	March 15
Buy Turkcell (TL 9,20)	March 1
Buy Turk Traktor (TL 7,90)	February 8
Sell Eczacibasi Ilac (TL 2,82)	January 29
Hold Koc Holding (TL 5,20)	January 27
Buy Sabanci Holding (TL 5,70)	January 19

Financials*

	Net Sales (TL000)	EBIT (TL000)	EBIT Margin	Income (TL000)	EPS (TL)	DPS (TL)	BVPS (TL)	P/E (x)	P/BV (x)	P/FCF (x)	EV/sales--ebitda (x)	ROE (%)	D.Yield (%)
2007	29.815.091	57.020	45%	38.384	0,19	0,05	1,22	10,9	1,7	n.m.	n.m.	16%	2%
2008	33.449.587	25.204	24%	44.706	0,22	0,06	1,36	9,4	1,5	n.m.	29,2	16%	3%
2009	24.613.565	110.598	55%	68.498	0,34	0,10	1,67	6,1	1,3	n.m.	3,4	20%	5%
2010e	27.321.058	132.155	59%	76.969	0,38	0,11	1,97	5,4	1,1	n.m.	2,8	20%	5%
2011e	28.687.110	134.672	57%	80.726	0,40	0,13	2,20	5,2	0,9	n.m.	2,5	18%	6%
2012e	30.121.466	136.946	55%	84.203	0,42	0,14	2,43	5,0	0,9	n.m.	2,2	17%	6%

*Our EPS, DPS, BVPS figures are calculated on current number of shares

Few words from our own experience of running a brokerage firm & RISKS:

1) Brokerage business is very volatile (we know it!). One can make a good forecast of costs but not revenues. We therefore are not very comfortable in making forecasts for ISMEN beyond 2010 (but we still did).

2) ISMEN's ROE (by nature can be very high in brokerage-investment banking business) could be even higher if it was not overcapitalized. Peer group ROE was around 22% in 2009 (Average of Ak, Garanti, Yapi Kredi and Finansbank). In our view, it would make sense to make a large dividend payment but not sure if ISMEN would take such a bold decision (it seems a low probability because capital is used for deposit arbitrage, prop desk positions, underwritings etc).

3) Competition environment (and market conditions) for ISMEN was very favorable, lets hope this continues (Yapi Kredi Securities, diluted with Unicredit, Garanti Invest merged most of its operations under bank, Finansbank was also competing with its parent NBG).

4) The biggest risk for the company is a sharp increase in interest rates (and or a drop in the market). This may hit prop desk's equity and fixed income positions, mutual fund profits as well as deposit arbitrage operations (TL424m maturity mismatch up to 1 month).

5) ISMEN is making nice profits playing on spread between borrowing overnight from stock market's money market (at 5.90-7.05%) and keeping in short-term bank deposit (at 7.78-9.85%). The company is sucking up most of available funds in the o/n money market everyday and rolling it over in short-term bank deposits. Last year arbitrage revenues were around TL43.2m, and in 1Q 2010 it was around TL17,4m (34% of operating profits).

This revenue source is dependent on 2 things:

a) The spread should not disappear for any reason,

b) Another big bank-owned competitor should not try to repeat same thing with such a big size.

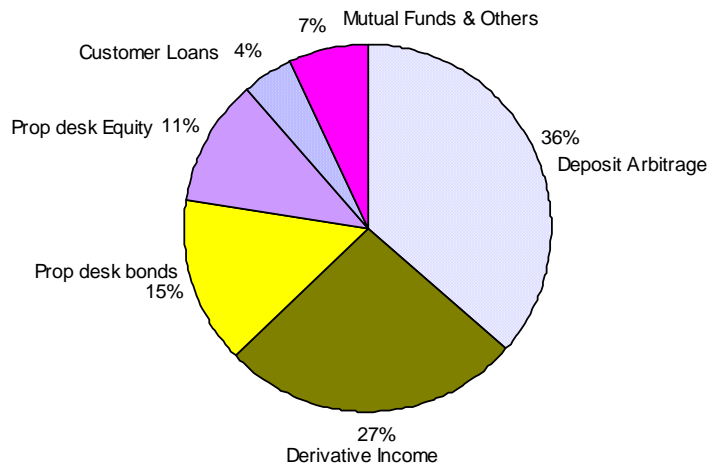
6) Free float is 28% and shares are illiquid with an average (past 3 months) daily trading volume of around US\$250k.

ISMEN (TL000)	2007	2008	2009	Share	1Q 2009	1Q 2010	Share	Change
Interest and Trading Income	58.121	46.453	119.189	59%	21.548	23.003	45%	7%
Commission Revenues	67.803	56.903	82.753	41%	12.940	28.057	55%	117%
Brokerage	40.342	38.993	57.706	29%	8.366	18.604	36%	122%
Asset Management	9.611	15.348	23.206	11%	4.175	5.168	10%	24%
Corporate Finance	17.086	2.125	1.402	1%	293	4.088	8%	1295%
Other	764	437	439	0%	106	197	0%	86%
Total Operating Revenues	125.924	103.356	201.942	100%	34.488	51.060	100%	48%
Total Operating Expenses	-69.859	-82.516	-93.728		-21.610	-25.290		
Net Operating profit	56.065	20.840	108.214		12.878	25.770		
Net Profit (after minority)	38.383	44.705	68.498		10.027	18.564		

Source: Annual reports

Equity Volume (1H 2010)	(TL)	Share
Ismen	44.412.996.123	6,76%
Garanti	38.630.212.279	5,88%
Yapi Kredi	37.873.561.822	5,77%
Finans	32.608.211.793	4,97%
Ak Invest	25.317.528.321	3,85%
Deniz	24.808.230.656	3,78%
Gedik	24.522.415.260	3,73%
TEB	23.136.629.161	3,52%
Meksa	22.150.009.429	3,37%
Tacirler	22.116.887.613	3,37%
Total ISE	656.760.846.182	100%

Breakdown of Interest & Trading Income-2009



Is Yatırım Menkul Balance Sheet	2007	2008	2009	2010e	2011e	2012e
Land, buildings, equip.	5.422.178	5.578.973	8.150.043	8.720.546	9.156.573	9.614.402
Financial	21.675.372	45.422.399	55.423.025	59.302.637	62.267.769	65.381.157
Other	1.100.196	3.275.051	2.646.564	2.831.823	2.973.415	3.122.085
Total fixed assets	28.197.746	54.276.423	66.219.632	70.855.006	74.397.757	78.117.644
Stocks	0	0	0	0	0	0
Trade receivables	527.150.349	481.574.680	592.068.881	633.513.703	665.189.388	698.448.857
Other	4.443.912	13.938.403	424.405.842	454.114.251	476.819.963	500.660.962
Cash/liquid assets	680.917.808	933.049.887	1.371.825.099	1.499.168.902	1.601.977.347	1.706.076.214
Total current assets	1.212.512.069	1.428.562.970	2.388.299.822	2.586.796.856	2.743.986.698	2.905.186.033
Total Assets	1.240.709.815	1.482.839.393	2.454.519.454	2.657.651.862	2.818.384.455	2.983.303.677
Short term debt	639.193.130	892.189.468	1.325.351.937	1.418.126.573	1.489.032.901	1.563.484.546
Trade payables	182.538.902	166.592.286	597.624.644	639.458.369	671.431.288	705.002.852
Provisions	672.335	1.030.577	529.306	566.357	594.675	624.409
Other	10.985.558	11.831.507	13.715.587	14.675.678	15.409.462	16.179.935
Total current liabilities	833.389.925	1.071.643.838	1.937.221.474	2.072.826.977	2.176.468.326	2.285.291.742
Pension provisions	0	0	0	0	0	0
Long term debt	0	0	0	0	0	0
Other long term liabilities	1.013.732	1.265.522	1.690.178	1.808.490	1.898.915	1.993.861
Total long-term liabilities	1.013.732	1.265.522	1.690.178	1.808.490	1.898.915	1.993.861
Minority Interest	162.710.607	137.241.358	181.427.515	190.000.000	200.000.000	210.000.000
Paid-in capital	119.387.000	119.387.000	119.387.000	200.000.000	200.000.000	200.000.000
Reserves	47.858.535	45.547.904	54.104.328	58.000.000	65.000.000	76.000.000
Retained profits	76.350.016	107.753.771	160.688.959	135.016.394	175.017.214	210.018.074
Provisions	0	0	0	0	0	0
Shareholders' Equity	243.595.551	272.688.675	334.180.287	393.016.394	440.017.214	486.018.074
Total Liabilities & Equity	1.240.709.815	1.482.839.393	2.454.519.454	2.657.651.862	2.818.384.455	2.983.303.677
P&L	2007	2008	2009	2010e	2011e	2012e
Turnover	29.815.091.049	33.449.586.660	24.613.565.417	27.321.057.613	28.687.110.494	30.121.466.018
Cost of goods sold	-29.689.158.546	-33.346.220.947	-24.411.618.335	-27.096.896.352	-28.451.741.169	-29.874.328.228
Gross profit	125.932.503	103.365.713	201.947.082	224.161.261	235.369.324	247.137.790
Operating expense	-64.774.421	-90.460.501	-91.324.413	-102.283.343	-111.488.843	-121.522.839
Depreciation	-8.688	-9.491	-4.812	-6.737	-7.074	-7.074
Operating profit	61.149.394	12.895.721	110.617.857	121.871.182	123.873.407	125.607.877
Other oper. income/exp.	-5.084.466	7.944.354	-2.403.435	-2.715.882	-2.851.676	-2.994.259
Interest income/expenses	20.453.719	27.656.523	16.550.861	2.000.000	2.100.000	2.205.000
Net Monetary Gain/Loss	954.780	4.363.903	2.384.040	13.000.000	13.650.000	14.332.500
Profit before tax	77.473.427	52.860.501	127.149.323	134.155.300	136.771.731	139.151.118
Tax	-8.305.114	-10.964.871	-13.220.354	-17.186.460	-18.045.783	-18.948.072
Minority Interest	-30.784.461	2.809.971	-45.430.509	-40.000.000	-38.000.000	-36.000.000
Net profit	38.383.852	44.705.601	68.498.460	76.968.840	80.725.948	84.203.045

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