

DAILY BULLETIN
MARKET OUTLOOK

TURKEY – Can't Fight the Tape... A Sell is a Sell, Y'All. No need to find excuses or try to fight the tape. Experienced traders believe that fighting the tape is a cardinal sin. Although it may lead to profitable trades since volatile markets can make very quick directional changes, traders can also lose their shirts if the market continues to move against them. This is not a sell call for the Turkish market, as we definitely remain a committed believer of the Turkish story. Yet, it is best to keep a low profile until the dark clouds clear. Then we rock again... Index resistance +1.4% at 80,100; support -0.9% at 78,300.

The Turkish Lira is trading flat versus the basket this morning, as the FED meeting has provided no surprises and focus reverts to CBT policies and ongoing depreciation trend of the currency. Support and resistance levels for the US\$/TRL stand at 1.7650 and 1.7760, respectively. The yield on the benchmark bond 07-Jan-15 has opened unchanged at 5.83% comp. The expected range for today is 5.80% - 5.95% comp. The modest decline in US-10 year yields may bring a limited relief to the long-end of the yield curve in the local bond market.

HIGHLIGHTS

- **Money Market Outlook** -- Tax outflows to soak up excess liquidity today
- **Foreign trade deficit** to be announced today at 10:00 a.m. local time
- **Adana Cimento** to postpone its clinker capacity addition in Iskenderun (Southern Turkey) by a year, in the face of unfavourable demand conditions
- **Akbank** reportedly completes book building for its TRL1bn bonds (5-year maturity) to be sold abroad; final yield: 7.5%; **this marks the first TRL-denominated bond issuance in int'l markets** by a Turkish bank
- **Turkcell** -- Resolution draws closer; S/T rating upgraded to OUTPERFORM (*Please see our Company Update issued yesterday*)

AGENDA

- **Today** - Dec'12 Foreign Trade Balance @ 10:00 am; *B.Sec: -US\$8bn; Cons: -US\$9bn*
- **Today** - Treasury's Borrowing Programme for Feb-Mar-Apr @ 5:00 pm
- **Today** - GARAN 4Q12 NI; *B.Sec: TRL822mn; Cons: TRL843mn*
- **Feb 1** - Jan'13 preliminary exports by TIM
- **Feb 1** - Jan'13 Turkish PMI at @ 10:00 am
- **Feb 1** - Jan'13 Istanbul inflation @ noon

Equity Market

ISE-100 (TRL)	78,983
ISE-100 (US\$)	44,907
Daily Change	-3.9%
Daily Volume	US\$2,756 mn

Money & FX Markets

CBT Policy Rate	5.50%	
CBT Funding Rate	5.61%	
ISE O/N Repo Rate	4.75%	
		▲
US\$/TRL @5:30pm	1.7700	0.0%
Basket/TRL @5:30pm	2.0850	0.4%

Local Bond Market (compound, avg.)

	Yesterday	Prev. Day
7/Jan/15	5.85%	5.84%
24/Sep/14	5.85%	5.87%
12/Jan/22	6.71%	6.63%

CDS & Eurobond Market

	Mid Trd	▲
TR5yr	133	8
	Yield	Bench.Spd
TR30 11.875%	4.25%	222
TR40 6.75%	4.74%	154

Country Data

	2011	2012E	2013E
GDP Growth	8.5%	2.9%	4.5%
CPI (eop)	10.4%	6.2%	6.5%
CA Bal./GDP	-9.9%	-6.5%	-7.0%
CG Budget Bal./GDP	-1.3%	-2.0%	-2.2%

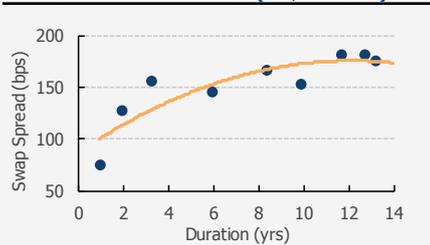
Sovereign Rating & Outlook

Fitch	BBB- / Stable
Moody's	Ba1 / Positive
S&P	BB / Stable

Local Bond Market (TRL-denom.)



Turkish Eurobond Market (US\$-denom.)



Equity Market

Total Market Cap	US\$315.1 bn
Free Float	28.4%
Avg. Daily Vol. (3m)	\$1,937 mn

Valuation Data (TRL)

P/E (2013E)	10.6
P/E (2014E)	9.5
EV/EBITDA (2013E)	7.4
EV/EBITDA (2014E)	6.5

Returns (US\$)

1w / 1m	-8.3% / 1.9%
3m / 12m	12.3% / 38.4%

Top Activity

	Vol (US\$m)	Δ
Garanti Bankasi	340	-7.0%
Turkcell	247	273.7%
Halk Bankasi	154	2.0%
Turk Hava Yollari	153	-16.4%
Is Bankasi (C)	135	-22.8%

Best Performers

	Close (TRL)	Δ
Kartonsan	308.00	10.0%
Bizim Toptan Satis Magazalar	28.70	1.8%
Tav Havalimanlari	10.55	1.2%
Albaraka Turk Katilim Bankasi	1.87	1.1%
Cimsa	10.25	0.5%

Worst Performers

	Close (TRL)	Δ
Turkcell	11.05	-6.8%
Sise Cam	3.10	-5.8%
Akbank	8.88	-5.7%
Trakya Cam	2.70	-5.6%
Asya Katilim Bankasi	2.22	-5.5%

MARKET SYNOPSIS

Equity Market

Stocks ended the day with a thud. The Index closed near the lows of the day, keeping sentiment under further pressure. Banks were caught in a downdraft in the second session, despite a lack of major news flow, and ended 4-6% lower across the board. AKBNK's (-5.7%) marked weakness throughout the day was noteworthy. Industrials echoed the broader market, as ARCLK (-4.5%), TOASO (-3.7%), SISE (-5.8%) and TRKCM (-5.6%) lost substantial ground. TCELL shed 6.8%, after the Court decided Cukurova may reclaim its shares held by Alfa, on the condition that it met obligations to be unveiled in due course. The Index ended the day 3,195 points lower (-3.9%) at 78,983 (US\$44,907). Trading volume was US\$2,756mn, as 38 stocks advanced, 307 declined, and 32 were unchanged. The most active stocks of the day were GARAN (-5.2%, US\$340mn), TCELL (-6.8%, US\$247mn) and HALKB (-4.3%, US\$154mn).

Fixed Income Market

The Turkish Lira continued to depreciate versus the basket, as the US\$/TRL failed to respond to the rally in EUR/US\$ due to the ongoing demand for FX. The Basket/TRL was up 0.35% at 2.0845, while the US\$/TRL remained flat at 1.7695. The yield on the benchmark bond 07-Jan-15 ended the day 1bp higher at 5.83% comp. 10-year yields were up 3bp at 6.82% comp, tracking the rise in global yields.

NEWS

Economic & Political

Money Market Recap & Outlook -- Tax outflows to soak up excess liquidity today

- **Outstanding repo funding by the CBT rose further to TRL15.2bn from TRL14.9bn the previous day**, of which TRL11.5bn was provided via 1-month repo and TRL3.7bn via 1-week repo at the policy rate.
- The CBT held a 1-week repo auction for TRL0.5bn at 5.50% against the banks' TRL0.2bn repayment. Hence, **the weighted cost of CBT funding fell to 5.61%**. The total amount provided was more than adequate for the RRs. Therefore, the **average O/N repo rate at the ISE (4.75%) was same as the CBT's new borrowing rate**. Moreover, the CBT withdrew excess liquidity via repo (TRL3.1bn) and interbank (TRL2.7bn) transactions.
- As for today's money market operations, banks should repay TRL0.2bn due from 1-week repo to the CBT. Moreover, month-end tax outflows (TRL9.0bn) will take place today. However, TRL5.8bn from O/N placements will be returned to the banks. The **preliminary reserve figure**, which incorporates all pre-determined cash flows, indicates a **net outflow of TRL2.9bn for today**. We reckon the CBT may hold a 1-week repo auction for TRL3.0-3.5bn today. This should imply a **blended cost of funding of 5.60%, along with around 4.75% levels for O/N repo rates**.

Foreign trade deficit to be announced today at 10:00 a.m. local time

-- Our and consensus foreign trade deficit estimates are US\$8bn and US\$9bn, respectively.

Comment: Foreign trade deficit was US\$8.1bn in Dec'11; hence, a reading in line with market consensus would signify a reversal of the downward trend in the 12-month rolling deficit as of Dec'12. In case of a result in line with consensus/our forecast, foreign trade deficit will have ended the year at US\$85.8bn/US\$84.8bn. However, the latest MPC meeting minutes released on January 29 imply that rebalancing has continued in December, suggesting that foreign trade deficit may remain below consensus -- and closer to our forecast.

Corporate

Adana Cimento (*ADANA* -- L/T: BUY, S/T: MP, Close: TRL3.93/US\$2.23, Mcap: US\$197mn, TPrice: TRL5.25) will postpone its clinker capacity addition in Iskenderun (Southern Turkey) by a year, in the face of unfavourable demand conditions. The deferred 1mn-tonne capacity addition would increase the Company's clinker capacity by 43%.

Comment: We consider the news slightly negative for the stock. We reckon the postponement is attributable mainly to weak demand conditions in export markets, most notably in Syria and Libya. Reduced growth in 2014E exports would imply 5-7% lower earnings than our initial estimate.

Akbank (L/T: HOLD, S/T: MP, Close: TRL8.88/US\$5.05, Mcap: US\$20,196mn, TPrice: TRL9.01) reportedly completed the book building for its TRL1bn bonds with a 5-year maturity to be sold abroad. The final yield is said to be 7.5%.

Comment: This marks the first TRL bond issuance in international markets by a Turkish bank. Such issuances would be positive for the sector, as they would lengthen the duration of liabilities at a favourable cost, whilst providing an alternative source of funding.

Halkbank (L/T: BUY, S/T: OP, Close: TRL17.70/US\$10.06, Mcap: US\$12,580mn, TPrice: TRL22.00) announced it completed the previously announced Eurobond issuance. The US\$750mn 7-year fixed rate bond is issued at a coupon rate of 3.875%, offering a yield of 4.06% at a spread of 255bp over the midswap rate.

Turcas (Close: TRL3.68/US\$2.09, Mcap: US\$471mn) -- In an interview, Turcas's CEO Batu Aksoy stated that they might be interested in building a natural gas pipeline in Turkey to import gas from Iraq or the Eastern Mediterranean, with local or international partners. He added that natural gas supply, transport and distribution in the Turkish market would be on their radar screen.

Comment: The CEO appears to have expressed a long term plan on their part, with no tangible developments at this time. The crisis in Iraq between the Kurdish Regional Government and the Central Government regarding the sharing of oil and gas revenues persists, which puts international projects at risk.

Turkcell (L/T: HOLD, S/T: OP, Close: TRL11.05/US\$6.28, Mcap: US\$13,822mn, TPrice: TRL11.50) -- The Judicial Committee of the Privy Council decided yesterday that Cukurova may reclaim its shares held by Alfa, on the condition that it meets the obligations to be unveiled in due course by the Committee, once the latter receives additional information from the related parties. Highlights from our Company Update issued yesterday are as follows:

- **Privy Council's decision favours Cukurova Group** -- The decision enables Cukurova to reclaim the 51% stake in Cukurova Telecom Holdings, which was held as collateral by Alfa Telecom in exchange for a loan granted back in 2005. Privy Council ruled that despite there being an event of default, this should not preclude Cukurova from reclaiming the shares on appropriate conditions.
- **Precise terms for relief of forfeiture to Cukurova to be decided later** -- The Privy Council will request further detailed information from both parties to make a final decision on the exact terms for Cukurova to retrieve its shares, namely the total amount to be paid including interest and penalties, which could reach up to an additional US\$950mn, on top of the original US\$1.4bn.
- **Market may think this decision increases the uncertainty; we think not** -- We reckon the initial selling in Turkcell shares was unwarranted, as this decision by the Privy Council eliminates much of the uncertainty.
- **Upgrading S/T Rating to Outperform; chances of a dividend payout seen higher** -- We expect a resolution to the shareholder conflict before end-1H13, and the keenly-awaited dividend payout to take place in 2Q13 or in 3Q13. The payout, which could be in the vicinity of TRL2.3bn, would correspond to a dividend yield of 9%. Given this major headway towards a resolution of the protracted shareholder conflict, we upgrade our S/T rating for Turkcell to Outperform.

Burgan Securities - Equity Rating System

12-month Rating:

Our 12-month rating system comprises the following designations: BUY (B), HOLD (H), SELL (S). The absolute upside to target value implied by the current market capitalisation is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation, price to book, return on equity, replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. Comparing the upside in a specific stock with the market's upside (determined through the aggregate upside of our coverage based on free float Mcaps), in addition to taking other yardsticks into consideration, analysts recommend BUY (B), HOLD (H), SELL (S) based on their 12-month total return views.

Sector Rating

Our investment horizon for industry ratings is again 12 months. This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are **Overweight (OW), Neutral (N), Underweight (UW).**

Overweight (OW): Due to improving sector related fundamentals and/or attractive valuations, the sector index is expected to perform better than the ISE-100 in the next 12-months

Neutral (N): The sector index is expected to perform in line with the ISE-100 in the next 12-months

Underweight (UW): Due to worsening sector related fundamentals and/or expensive valuations, the sector index is expected to perform worse than the ISE-100 in the next 12-months

Short-term Rating:

Our short-term rating system comprises the following designations: OUTPERFORM (OP), MARKETPERFORM (MP), UNDERPERFORM (UP). Considering possible triggers, catalysts, and/or company, sector & market views, we rate the stocks as:

Outperform (OP): If 3-month total return is expected to exceed the ISE-100 (sector index if specified) by more than 10%

Marketperform (MP): If 3-month total return is expected to be in line (+/- 10%) with the ISE-100 (Peerperform if sector index is specified)

Underperform (UP): If 3-month total return is expected to be below the ISE-100 (sector index if specified) by more than 10%

S/T Stock Rating Summary	Relative Return
Outperform (OP)	$\geq 10\%$
Marketperform (MP)	$< +10\% \ \& \ > -10\%$
Underperform (UP)	$\leq -10\%$

*To have a more balanced distribution of ratings, Burgan Securities has requested that analysts maintain **at least 20% of their ratings as Underperform and no more than 25% as Outperform**, subject to change depending on market conditions.*

Other Qualifiers Utilised:

NR: Not Rated

NC: Not Covered

UR: Under Review

Market Call

Our equity **market call** has an investment horizon of 3-12 months. **Our market calls are BUY, NEUTRAL, SELL.**

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