



Strategy
**Turkish Equities
Strategy**

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Strategy Update

Top recommendations

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Risk appetite roiled by global headwinds and domestic political disruption
Deteriorating risk perception due to a less conducive global backdrop for the EM universe has roiled the positive sentiment of early 2016. Risk aversion was stimulated further by the reawakening of domestic political risks (especially following the unexpected ouster of the PM), triggering a correction to the TR asset risk premium (the USD/TRY exceeded 2.95, 10Y bond yields rose above 10% and the BIST100 retreated 13% since end-April). TR equities currently trade at 1Y forward P/E and EV/EBITDA of 9.4x and 8.3x, respectively, and valuations vs. peers further widened after an 8% underperformance against the MSCI EM index (TR equities' P/E discount relative to MSCI EM climbed to 27% vs. the 3Y average discount of 14%). Based on a RF of 10%, our BIST100 target stands at c.89,000, implying 13% upside in 12-month perspective.

In our view, risk premium is likely to remain elevated in the coming period on **1)** changes in the cabinet, if any, pertaining particularly to economic management; **2)** the likelihood that the new leadership of AKP may pave the way for other political developments in the form of by-elections or snap elections; **3)** narrower manoeuvring space for CBT as pressure on TRY worsens, endangering further rate cuts; and **4)** recent collapse of attempts to achieve visa-free travel in the EU, as a failure in fulfilling the five remaining clauses could jeopardize the EU-Turkey refugee deal.

Top picks: Emlak REIT, Garanti, TAV Airports, Tupras and Turkish Airlines

We are adding **TAV Airports** to the list, as it offers significant upside potential to its intrinsic value, and the increased volatility in the financial markets and the TRY should trigger a re-rating. We are removing **Migros** from the list, as we believe the shares could take a hit as investors opt for safer havens considering the company's TRY2.2bn short FX position. We are also removing **Sabancı** from the list. The risk-off sentiment and political uncertainties may curb any outperformance, as the stock has one of the highest betas under our coverage.

Despite weaker risk environment, **Emlak** is in the list, as 1) it is now trading at c.40% discount to 1Q16E NAV (historical average of c.25%), while we expect NAV growth of c.17% p.a. over 2016-17E on new tenders. 2) High-value land parcels tendered last year and subsequent launch of these parcels this year should be supportive of pre-sales despite a slow start. **Garanti** is a top pick, on its strong earnings outlook and balanced funding mix with limited riskier segment vulnerability, and on the improvement in the asset quality outlook in 1Q16, which should dispel concerns. **Tupras** is in the list on its superior FCF and dividend yield profile. **Turkish Airlines** is a top pick, as it may see years of strong margin expansion as the aggressive capacity growth ends by end-2016.

Least preferreds: Akenerji, Erdemir and Sise Cam

We are removing **Anadolu Sigorta** from the list, as we think the recent poor fundamental performance has already been reflected in its share price. We are including **Erdemir** in our least preferreds list. We anticipate a possible peak in June on normalisation in Chinese demand, and Erdemir's risk/reward profile is no longer compelling given its stretched valuation. We maintain our negative stance on **Akenerji** mainly due to its mostly hard FX-denominated net debt position, which pressures its bottom line through interest expenses. **Sise Cam** remains a least preferred stock. After outperforming BIST100 by 23% over the past year, the stock is fairly valued, in our view, trading at a stretched premium of 5% vs. its NAV, compared to the 3Y historical average of a 12% discount.

Top Picks

Company	RIC	Current Price (TRY)	Target Price (TRY)	Return
Emlak REIT	EKGVO.IS	2.78	3.70	33%
Garanti	GARAN.IS	7.55	9.10	21%
TAV Airports	TAVHL.IS	15.69	20.00	27%
Tupras	TUPRS.IS	67.65	80.90	20%
Turkish Airlines	THYAO.IS	6.65	8.80	32%

Source: Deutsche Bank

Least preferred

Company	RIC	Current Price (TRY)	Target Price (TRY)	Return
Akenerji	AKENR.IS	0.91	1.00	10%
Erdemir	EREGL.IS	4.47	3.84	-14%
Sisecam	SISE.IS	3.41	3.01	-12%

Source: Deutsche Bank



Table of contents

Equity market outlook	3
Top picks and least preferred	4
Companies section	9
Emlak REIT	10
Garanti	11
TAV Airports.....	12
Tupras	13
Turkish Airlines	14
Appendices.....	15
Appendix A – Valuations across GEM	16
Valuation summary	18
Appendix B – Top picks performance	19
Appendix C – Macroeconomic projections	20
Appendix D – Valuation and risks	21



Risk appetite roiled by global and domestic negative news flow

Month in Turkish equities

- **Reversal in EM sentiment, fuelled by domestic political disruption, erodes risk environment:** Deteriorating risk perception on a less-conducive global backdrop for EMs has roiled the positive sentiment of early 2016. Risk aversion was stimulated further by the reawakening of domestic political risks (especially following the unexpected ousting of the PM), triggering a correction to TR asset risk premium (the TRY fell back below 2.95 against the USD, 10Y bond yields rose above 10% and the BIST100 retreated 13% in USD terms since end-April).
- **BIST100 underperformed MSCI EM by 8% since end-April:** The recent sell-off hit TR equities harder than their EM peers, leading to an 8% underperformance against the MSCI EM index. Despite the 11% retreat since the end of April, the headline index is still 20% higher in USD terms since 21 January, when it bounced off from its lowest level since June 2009.

Equity market outlook

- **Risk premium is likely to remain elevated in the coming period** due to concerns about: **1)** changes in the cabinet, if any, pertaining particularly to economic management; **2)** the likelihood that the new leadership of the ruling AKP may pave the way for other political developments in the form of by-elections or snap elections; **3)** narrower room for manoeuvre by the CBT as pressure on the TRY worsens, endangering further rate cuts; and **4)** the collapse of attempts to achieve visa-free travel in the EU due to a failure in fulfilling the five remaining clauses, which could also jeopardise the EU-Turkey refugee deal.
- **TR equities trade well below their EM peers:** TR equities currently trade at 1Y fwd P/E and EV/EBITDA of 9.4x and 8.3x, respectively. The valuation discount vs. peers further widened after an 8% underperformance against the MSCI EM index (TR equities' P/E discount vs. MSCI EM stands at 27% vs. the 3Y average discount of 14%).
- **The return potential of BIST100 stands at 13%:** Based on an RF rate of 10%, our benchmark index target stands at c.89,000 (consensus:

c.92,750), implying 13% upside potential in 12-month perspective.

Views on key areas

- **Consensus sees 18%/14% increase in earnings of banks/industrials in 2016:** Consensus expects earnings of banks to strengthen by 18% (our estimate: +22%). On the non-banks front, consensus forecasts that bottom lines will increase by 14% (our estimate: +9%) on average.
- **Another 50bps cut in the ON lending (to 9.5%) on 24 May is now at risk:** CPI decelerated for the third consecutive month in April and reached 6.6% (the lowest since 13 May). Given the recent weakness in TRY and the likelihood that TRY volatility may be sustained in the near term, we believe another 50bps cut in late May is at risk.
- **Annual CAD falls below USD\$30bn in March – for the first time since 2010:** Lower energy bills and export penetration into the EU strengthened external balances. We see escalation in terror and its impact on tourism as a key challenge.
- **We see real GDP growing at 3.5% in 2016,** with upside risks post the 5.7% yoy 4Q15 reading.

Key risks to our view

- **The Fed adopting a hawkish tone:** Should the global headwinds persist, especially toward an increased likelihood of the Fed adopting a hawkish tone, the risk premium of TR equities could potentially remain elevated due to: **1)** a stronger dollar outlook limiting the respite for EM currencies, **2)** renewed fears of increased pressure on commodities and **3)** higher global volatility, and hence, increased risk aversion.
- **CBT's political externality to remain under scrutiny:** Anchoring of the MPC's moves in the form of public comments by politicians, ministers and other quasi-bureaucrats points to the ongoing political externality of the central bank, which is unlikely to go away under the management of the new governor.
- **Domestic political risks may impair Turkey's credit rating:** Moody's next review on 5 August is likely to be under close watch, considering the agency's recent warning that any renewed political uncertainty could be credit negative.



Top picks and least preferred

We include **TAV Airports** in our top picks portfolio and remove **Migros** and **Sabancı Holding** from the list

Top picks: Emlak, Garanti, TAV Airports, Tupras and Turkish Airlines



Addition to top picks portfolio: TAV Airports



Removals from the list: Migros, Sabancı Holding

TAV Airports (target price: TRY20.00, upside potential: 27%): We are adding TAV Airports to our top recommendations. TAV shares have already been offering significant upside potential to their intrinsic value for quite some time. However, the stock was lacking catalysts for a re-rating, with a serious risk of becoming a value trap for investors. However, we believe that the recent developments in Turkish politics, which have increased the volatility in financial markets and the TRY, should trigger a re-rating of the stock. We note that TAV offers a relative safe haven in a heightened risk environment, given it benefits from TRY weakness (74% of TAV Airports' revenues were FX denominated while 40% of costs were FX denominated) and has relatively high earnings visibility, due to the regulatory framework.

Migros (target price: TRY22.80, upside potential: 30%): We are removing Migros from our most preferred list. We continue to rate Migros as Buy, as a result of the retailer's decent operating performance in recent quarters. Indeed, in 1Q16, its revenue growth in the domestic market peaked at 19% yoy, with ~7% selling space growth, which is the best same-store performance within the listed Turkish retailers. However, Migros' decent operational performance could be ignored by the market, as investors opt for safer havens. We note that Migros has TRY2.2bn (as of March 2016) of short FX position owing to the controlling SPV's EUR-linked debt, and this could put pressure on the retailer's bottom line.

Sabancı Holding (target price: TRY11.20, upside potential: 22%): We are also removing Sabancı Holding from our top recommendations. We believe that the recent rise in political uncertainties and risk-off sentiment in the Turkish market may curb any potential outperformance of Sabancı Holding shares, as the stock has one of the highest betas under our coverage due to the high share of finance/banking in its NAV and higher liquidity/tradability that attracts hedge funds. Also, the stock's current discount to NAV, which hovered above 40% in early 2016, has narrowed to 36.9% currently. We still think that the conglomerate offers a re-rating story and rate the stock as Buy; however, we expect the stock's short-term performance not to be strong.



Figure 1: Deutsche Bank's top recommendations

Company	Current Price (TRY)	Target Price (TRY)	Total Return	Investment Thesis
Emlak REIT	2.78	3.70	33%	We maintain our positive view on: 1) Emlak is now trading at c.40% discount to 1Q16E NAV (historical average of c.25%), while we expect NAV growth of c.17% p.a. over 2016-17E on new tenders. 2) Mortgage rates are testing one of its peaks since 2012, and next move on the rates will likely be to the downside. 3) High-value land parcels tendered last year (in City Centre of Istanbul) and subsequent launch of these parcels this year should be supportive of pre-sales despite a slow start.
Garanti	7.55	9.10	21%	We see the bank posting the fastest EPS growth among peers in the next three years on a stronger top line backed by its solid Tier 1 capital, better cost efficiency and slower CoR normalization versus its peers. The bank is currently trading at 13% discount vs. Akbank on forward P/BV multiple basis (3Y average: -1%), which we think is largely attributable to the bank's conservative budget guidance. The new conservative risk management approach led to some concerns about the asset quality outlook, which is likely to disperse with the improvement in the asset quality outlook in 1Q16.
Tav Airports	15.69	20.00	27%	TAV offers a relative safe haven in a heightened risk environment, given it benefits from TRY weakness (74% of TAV Airport's revenues were FX denominated while 40% of costs were FX-denominated) and has relatively high earnings visibility, due to the regulatory framework.
Tupras	67.65	80.90	20%	We base our rationale on 1) superior FCF yield (c.13% for FY16E-FY20E); 2) strong dividend yield (9% yield, on average, in FY16E-FY20E); 3) ongoing investments to improve efficiency; and 4) shares trading at lower multiples (EV/EBITDA of FY17E 6.0x) vs. historical levels. Tupras ranks in the top percentile within the TR industrials under our coverage based on its FCF and dividend yield metrics.
Turkish Airlines	6.65	8.80	32%	A potential recovery in Turkish Airlines' passenger traffic trend is likely in the peak season through not only late bookings, but also Expo 2016, which will be held in Antalya. Also, we sense that following a weak 2016, THY may see years of strong margin expansion, as THY's years of aggressive capacity growth comes to an end by end-2016. Coupled with the deleveraging process, this could lead to a significant rise in THY's valuation in the coming years.

Source: Deutsche Bank

Top picks portfolio

Emlak REIT (target price: TRY3.70; upside potential: +33%): Emlak REIT is one of our top recommendations. Despite the risk-off sentiment that could hurt the sentiment on the stock, we maintain our positive view on Emlak REIT, owing to: 1) inexpensive valuation: Emlak is now trading at a discount of c.40% to 1Q16E NAV (above historically high levels and vs. historical average of c.25%), while we expect NAV growth of c.17% p.a. over 2016-17E on new tenders. Strong earnings growth (+45% Deutsche Bank estimate/+55% company guidance) and high dividend yield (4.8% vs. EM developers: 3.4%) should also be supportive. 2) High-value land parcels tendered last year (in City Centre of Istanbul) and subsequent launch of these parcels this year should be supportive of pre-sales despite a slow start (page 10).

Garanti (target price: TRY9.10; upside potential: +21%): Garanti is our top pick among Turkish banks, while we like the fundamental outlooks of Akbank and Isbank as well. Garanti has underperformed its private peers (Akbank, Isbank, Yapi Kredi) by c.5% since 21 January (-8% vs. Akbank). As such, Garanti is trading at a 13% discount relative to Akbank on a forward P/BV multiple basis (3Y average: -1%), which we believe is largely attributable to the conservative budget guidance. The new conservative risk management approach has led to some concerns about the asset quality outlook, which is likely to disperse with the improvement in the asset quality outlook in 1Q16, in our view. We see the bank posting the fastest EPS growth among its peers in the next three years (+22% p.a.) as a result of a stronger top line (disciplined loan re-pricing, fee generation in the mid-teens), supported by its solid core Tier 1 capital (13%), better cost efficiency (greater focus on digitalisation) and a slower normalisation process in its CoR vs. its peers (Garanti is one of the least exposed to the SME and unsecured consumer segments) (page 11).



TAV Airports (target price: TRY20.00, upside potential: +27%): TAV shares have significantly underperformed the BIST100 over the past six months (by 25%), due to news about the third airport, suggesting that it could be completed by early 2018, and the decline in tourist numbers as a result of the escalation in security concerns. We believe, however, that the recent developments in Turkish politics, which have increased the volatility in financial markets and the TRY, should trigger a re-rating of TAV shares. This is because TAV offers a relative safe haven in a heightened risk environment, given it benefits from TRY weakness (74% of TAV Airports' revenues were FX denominated while 40% of costs were FX denominated) and has relatively high earnings visibility due to the regulatory framework. Additionally, TAV is looking for various opportunities in Turkey and elsewhere, and these new projects offer optionality on top of TAV's valuation. Management's track record in recent tenders suggests that it would not invest in value-destructive projects, and no new project is priced into TAV's valuation. Thus, we believe that any project win by TAV would positively affect TAV shares (page 12).

Tupras (target price: TRY80.90; upside potential: +20%): We base our rationale on: 1) a more positive house view on the European refining market's margin-supportive environment, given the oversupply of crude oil, albeit not to the extent observed in 2015; 2) superior FCF yield (c.13% for FY16E-FY20E); 3) strong dividend yield (9% yield, on average, in FY16E-FY20E); 4) ongoing investments aimed at improving the efficiency of operations; and 5) shares trading at lower multiples (EV/EBITDA of FY17E 7.0x) vs. the RUP-adjusted historical EV/EBITDA of 6.6x. Tupras ranks in the top percentile within the TR industrials under our coverage based on its FCF and dividend yield metrics (page 13).

Turkish Airlines (target price: TRY9.10; upside potential: +32%): In 1H16, faced with ever-weakening demand as a result of increased security concerns and an acceleration in capacity growth, THY appears to have become more aggressive in pricing than initially expected, and potential gains from the low oil price have been washed away. However, we think that, if the security concerns do not rise further, a potential recovery in passenger traffic is likely in the peak season through not only late bookings but also Expo 2016, which will be held in Antalya. Also, we believe that THY may see years of strong margin expansion, as THY's years of aggressive capacity growth come to an end by end-2016. Coupled with the deleveraging process, this could lead to a significant rise in THY's valuation in the coming years (page 14).



We remove **Anadolu Sigorta** from the least preferred list and add **Erdemir** to the list

Least preferred: Akenerji, Erdemir and Sise Cam



Addition to least preferred list: Erdemir



Removal from the list: Anadolu Sigorta

Anadolu Sigorta (target price: TRY1.58; upside potential: -9%): We are removing Anadolu Sigorta from our least preferred list: Anadolu Sigorta underperformed the BIST100 by 14% on a YTD basis. Equally important, the non-life insurer underperformed its peer Aksigorta by 16% in the last three months due to the ongoing negative regulatory impact on unrealised claims as well as the pressure on earnings driven by the 30% increase in the minimum wage. Anadolu Sigorta's net profit declined as much as 91% yoy on a hike in unrealised claims and a sharp contraction in margins. We believe that the weak 1Q16 results of the company have been reflected in its share price performance. As a result, we remove Anadolu Sigorta from our least preferred list.

Erdemir (target price: TRY3.84; upside potential: -14%): We are adding Erdemir to our least preferred list. Erdemir's YTD performance was strong due to the expansion observed in the steel products' EBITDA/ton led by the surge in commodity prices in China. However, the outperformance has led to a stretched set of multiples: FY16E P/E of 13.7x and EV/EBITDA of 8.1x, at a premium vs. peers and its historical multiples. Given our expectation of normalisation in Chinese steel prices in 2H16, as the impact of the social spending expansion starts to wane, we anticipate a correction in Erdemir's share price within 2016 and view the market's pricing as over-optimistic.



Least preferred list

Akenerji (target price: TRY1.00; upside potential: +10%): We have a bearish view on Akenerji. Our reasoning is based on: 1) an over-leveraged balance sheet, with a mostly hard FX-denominated net debt position of TRY2.6bn as of 4Q15 (net debt to FY16E EBITDA of 10x), which pressures its bottom line through interest expenses and increases EPS volatility through FX gains/losses; 2) oversupply in the sector and accompanying lacklustre prices curbing the spark spreads of its flagship asset, the 904MWe Egemer NGPP; and 3) the possibility of hydrology normalisation, which may pressure the profitability of its HPP assets into the peak season.

Erdemir (target price: TRY3.84; upside potential: -14%): Erdemir's shares have returned 52% in USD terms, outperforming the BIST100 by 34% since our upgrade in January, leading to FY16E P/E of 13.7x and EV/EBITDA of 8.1x, at a premium vs. peers and its historical multiples. The surge has been led by the recovery in steel prices, up c.50% YTD, and better positioning against EAFs. We anticipate a possible peak in June on normalisation in Chinese demand and as production restarts kick in to benefit from the favourable prices. Thus, we argue that Erdemir's risk/reward profile is no longer compelling given its stretched valuation and subdued L/T growth despite the S/T sequential improvement prospects, leading us to add the shares to our least preferred list.

Sise Cam (target price: TRY3.01; upside potential: -12%): We believe that Sise Cam's strong share performance (23% outperformance vs. the BIST100 over the past year) reflects the fair valuation of its underlying asset, leading us to take a bearish view on the shares. Our view is based on: 1) Sise Cam trading at a stretched premium of 2% vs. its NAV, compared to the three-year historical average of a 12% discount; 2) volatile equity market conditions that have led to a limited SPO at Soda Sanayii and pushed Pasabahce's IPO to 2017, which could hinder efforts to simplify the corporate structure; and 3) expectations that a potential decline in natural gas prices, a key cost item for its subsidiaries, may not be realised for industrial users, thus capping a potential upside risk to estimates. The key upside risks to our position are value-accretive M&A activity or a better-than-expected demand/pricing environment, particularly in the domestic operations.



Companies section



Emlak REIT

Market underestimating growth; strong earnings and dividend prospects

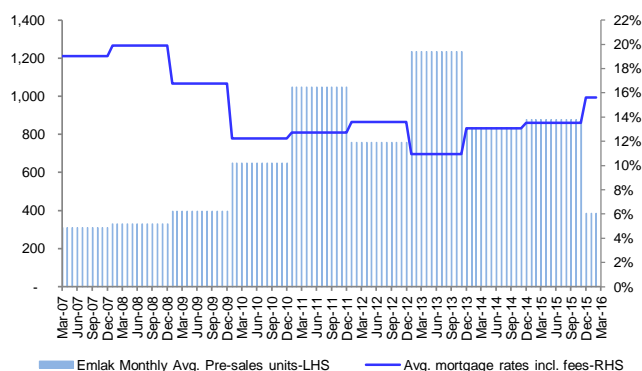
- Despite the potential risk-off sentiment that could hurt the sentiment on the stock, we maintain our positive view on Emlak REIT**, owing to:
 - 1) inexpensive valuation: Emlak is now trading at a discount of c.40% to 1Q16E NAV (above historically high levels and vs. historical average of c.25%).
 - 2) Mortgage rates in Turkey are already testing one of its peaks since 2012, and next move on the rates is likely to be to the downside.
 - 3) High-value land parcels tendered last year (in City Centre of Istanbul) and subsequent launch of these parcels this year should be supportive of pre-sales despite a slow start.
- Valuation near historical lows (40% discount to NAV); growth outlook positive:** Emlak is now trading at discount of c.40% to 1Q16E NAV (above historical high levels and vs. historical average of c.25%), while we expect NAV growth of c.17% p.a. over 2016-17E on new tenders and NP growth of +45% yoy in 2016. On our target price (TRY3.7/sh.), Emlak should trade in line with its historical discount to NAV.
- Pre-sales weakness explained by the lack of launches; rebound expected starting 2Q16:** Our discussion with management reveals that no projects were launched in 1Q16 (some are still awaiting construction permits). We believe that new launches should hit by end-2Q16/2H16, leading to higher pre-sales. High-value land parcels tendered last year (in City Centre of Istanbul) and subsequent launch of these parcels this year should be supportive of pre-sales despite the slow start. Our 2016 pre-sales estimates are c.10% below company guidance.

Emlak REIT			
GEM/Turkey/Real Estate			
Reuters: EKGYO.IS	Bloomberg: EKGYO TI		
Buy			
Price (10 May 16):	TRY 2.78		
Target price:	TRY 3.70		
52-week Range:	TRY 2.35 – 3.28		
Market Cap:	TRY 10,564m (US\$m)		
Free float:	51%		
Avg. trading vol. (3m):	USD 41.23m		
Stock Performance	1M	3M	1Y
Nominal (TRY)	-3%	12%	-6%
Nominal (USD)	-6%	12%	-14%
vs. BIST100	1%	2%	0%
Key Metrics (TRYm)	2015	2016E	2017E
Revenues	1,787	2,796	2,871
YoY Change, %	-1.0%	56.5%	2.7%
EBITDA	765	1,240	1,199
YoY Change, %	16.0%	62.1%	-3.3%
EBITDA M., %	42.8%	44.3%	41.8%
Net Income	953	1,386	1,364
EPS (TRY/share)	0.25	0.36	0.36
DPS (TRY/share)	0.10	0.14	0.14
Multiples	2015	2016E	2017E
P/E (x)	10.3	7.6	7.7
EV/EBITDA (x)	10.6	5.7	5.2
Div. Yield, %	3.4	5.1	5.2
Net debt / EBITDA (x)	-3.3	-2.7	-3.5

Source: Deutsche Bank estimates, Company data

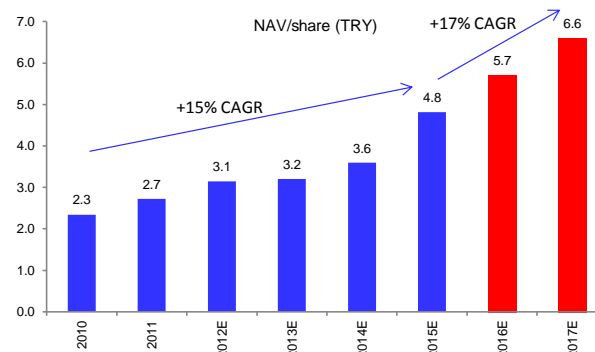
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Figure 2: Emlak pre-sales vs. interest rates



Source: Company data, CBT

Figure 3: Strong growth in NAV could continue on new tenders



Source: Company data, Deutsche Bank estimates



Garanti

Improvement in the margin outlook and asset quality to support the share price performance

- Underperformed on concerns related to the new conservative risk management approach, which are likely to disperse following stronger 1Q16 results:** Garanti has underperformed its private peers (Akbank, Isbank, Yapi Kredi) by c.5% since 21 January (-8% vs. Akbank). As such, the bank is currently trading at a 13% discount relative to Akbank on a forward P/BV multiple basis (3Y average: -1%), which we believe is largely attributable to the conservative budget guidance. The new conservative risk management approach led to some concerns about the asset quality outlook. Garanti's specific CoR (net) improved 41bps qoq in 1Q16, which is likely to ease the asset quality concerns.
- Garanti's earnings to increase 22% p.a. in the next three years:** We foresee Garanti posting the fastest EPS growth among peers in the next three years (+22% p.a.) as a result of a stronger top line (disciplined loan re-pricing, fee generation in the mid-teens) supported by its solid core Tier 1 capital (12.9%), better cost efficiency (greater focus on digitalisation) and a slower normalisation process in its CoR vs. peers (Garanti is one of the least exposed to the SME and unsecured consumer segments).
- Ready for the upcoming headwinds:** Garanti owns one of the highest Tier 1 capital levels (13%). The bank also has one of the strongest fee-generation records, the effectiveness of which has improved considerably over the past few years. Garanti is among the least exposed to the potentially tighter monetary policy era as a result of its more balanced funding mix, active LT cross-currency hedging, FRN-heavy securities portfolio (74% of TRY securities book) and high level of free funds to IEAs.

GARANTI

GEM/Turkey/BANKING/FINANCE

Reuters: GARAN.IS Bloomberg: GARAN TI

Hold

Price (10 May 16): TRY7.55
 Target price: TRY9.1
 52-week Range: TRY9.28 - 6.7
 Market Cap: TRY31,710 (USD10,793)
 Free float: 48%
 Avg. trading vol. (3m): US\$ 293.3m

Stock Performance	1M	3M	1Y
Nominal (TRY)	-6%	8%	-11%
Nominal (USD)	-9%	8%	-18%
vs. BIST100	-2%	-2%	-5%

Key Metrics (TRYm)	2015	2016E	2017E
NII	9,241	10,538	11,742
YoY Change, %	24%	14%	11%
NIM	4.1%	4.2%	4.3%
YoY Change, bps	37	15	9
Net Income (TRYm)	3,407	4,475	5,271
YoY Change, %	-8%	31%	18%
EPS (TRY/share)	0.81	1.07	1.25
DPS (TRY/share)	0.14	0.14	0.21

Multiples	2015	2016E	2017E
P/E (x)	9.3	7.1	6.0
P/BV (x)	1.0	0.9	0.8
Tangible P/BV (x)	1.0	0.9	0.8
Tangible ROE (%)	14%	15%	16%

Source: Deutsche Bank estimates, Company data

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Figure 4: Turkish banks universe valuation summary

	Rating	Current Price	Target Price	Target Upside	P/E			Tangible P/BV *			ROTE**			EPS growth		
					2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E	2015E	2016E	2017E
Akbank	Hold	7.66	7.80	2%	10.2	8.8	8.2	1.2	1.1	1.0	12%	13%	13%	-5%	17%	7%
Garanti	Buy	7.55	9.10	21%	9.3	7.1	6.0	1.0	0.9	0.8	14%	15%	16%	-8%	31%	18%
Halkbank	Hold	9.49	13.10	38%	5.1	4.2	3.7	0.7	0.5	0.5	14%	15%	14%	5%	21%	13%
Isbank	Buy	4.39	6.00	37%	6.4	5.4	4.6	0.5	0.5	0.4	12%	13%	14%	-9%	19%	18%
Vakifbank	Hold	4.51	4.70	4%	5.8	5.2	4.8	0.7	0.6	0.5	13%	13%	13%	10%	13%	8%
Yapi Kredi	Hold	3.95	3.80	-4%	9.2	7.4	8.0	0.9	0.7	0.6	12%	13%	11%	-10%	25%	-8%
Tier I banks				16%	8.3	6.8	6.3	0.9	0.8	0.7	13%	14%	14%	-4%	22%	11%
Albaraka Turk	Hold	1.48	1.52	3%	4.4	4.5	4.2	0.6	0.6	0.5	16%	13%	12%	20%	-3%	7%
TSKB	Buy	1.58	1.85	17%	6.8	5.4	4.6	1.2	1.0	0.8	18%	20%	20%	10%	27%	17%
CEEMEA Average					11.6	11.1	8.7	1.4	1.3	1.2	13%	14%	14%	2%	14%	14%
LATAM average					10.3	10.3	10.3	1.4	1.7	1.5	19%	19%	19%	12%	0%	12%

* Tangible BV refers to Book Value net of participations and goodwill,
 ** ROTE refers to Return on Tangible Equity (Equity net of participations and goodwill)
 *** Target prices exclude dividend per share
 Source: Company data, Bloomberg Finance LP, Deutsche Bank estimates



TAV Airports

Cheap valuation and potential risk-off sentiment to drive a re-rating

- TAV shares underperformed the BIST100 by 31% over the past six months:** We believe that news about the third airport, suggesting that it could be completed by early 2018, and the decline in tourist numbers as a result of the escalation in security concerns have led to this weak share performance.
- Replacing Istanbul airport is very difficult, but new projects offer optionality:** TAV is looking for various opportunities to replace Istanbul Ataturk airport (IAA, ~60% of NAV), the operation of which will cease once the third airport is built. Despite the abundance of new projects, airport tenders in recent years show increased competition, so value creation from new concessions is likely to be limited. That said, management's track record in recent tenders suggests that it would not invest in value-destructive projects, and no new project is priced into TAV's valuation. Thus, we believe that any project win by TAV would positively affect TAV shares.
- A potential risk-off sentiment should lead to re-rating of the stock:** TAV shares have already been offering significant upside potential to their intrinsic value for quite some time. However, the stock was lacking catalysts for a re-rating, with a serious risk of becoming a value trap for investors. However, we believe that the recent developments in Turkish politics, which have increased the volatility in financial markets and the TRY, should trigger a re-rating of the stock. We note that TAV offers a safe haven in a heightened risk environment, given it benefits from TRY weakness (74% of TAV Airports' revenues were FX denominated while 40% of costs were FX denominated) and has relatively high earnings visibility due to the regulatory framework.

TAV Airports GEM/Turkey/Business Services

Reuters: TAVHL.IS Bloomberg: TAVHL TI
Buy

Price (10 May 16): TRY 15.69
 Target price: TRY 20.00
 52-week Range: TRY 14.70 – 24.15
 Market Cap: TRY 5,700m (US\$ m)
 Free float: 40%
 Avg. trading vol. (3m): USD 11.51m

Stock Performance	1M	3M	1Y
Nominal (TRY)	-12%	5%	-23%
Nominal (USD)	-14%	5%	-29%
vs. BIST100	-7%	-4%	-17%

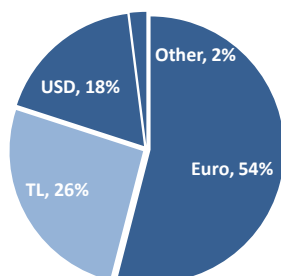
Key Metrics (TRYm)	2015	2016E	2017E
Revenues	3,248	3,749	4,029
YoY Change, %	13.9%	15.4%	7.5%
EBITDA	1,407	1,484	1,609
YoY Change, %	21.3%	5.5%	8.5%
EBITDA M., %	43.3%	39.6%	39.9%
Net Income	631	748	845
EPS (TRY/share)	1.74	2.06	2.33
DPS (TRY/share)	0.87	1.03	1.16

Multiples	2015	2016E	2017E
P/E (x)	8.8	7.6	6.7
EV/EBITDA (x)	6.5	5.4	4.5
Div. Yield, %	4.0	6.6	7.4
Net debt / EBITDA (x)	1.9	1.6	1.0

Source: Deutsche Bank estimates, Company data

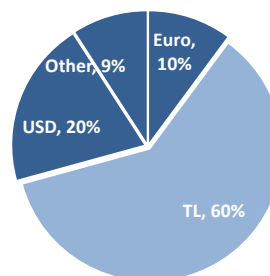
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Figure 5: TAV Airports' 2015 revenues by currency



Source: Deutsche Bank

Figure 6: TAV Airports' 2015 costs by currency



Source: Deutsche Bank



Tupras

Superior FCF and div. yield outlook at an attractive valuation

- Attractive positioning on post-RUP boost in FCF and div. yields:** Tupras offers among the highest FCF and dividend yield within our coverage universe, at an attractive valuation. We base our positive stance on: 1) a more positive house view on the European refining market; 2) a decline in its EV/EBITDA premium vs. peers; 3) its superior FCF yield (c.13% for FY16E-FY20E) and dividend yield (9% yield on average in FY16E-FY20E); and 4) its more appealing valuation, with the shares trading at FY17E P/E of 7.4x and EV/EBITDA of 6.6x.
- Following a robust 2015, we are more constructive on the 2016 refining outlook:** Surging demand, not least for gasoline, unexpected downtime and delayed start-ups all played a role in ensuring that 2015 will likely be the best year for Europe's refiners since the end of the so-called 'Golden Age'. Looking into 2016, our strong suspicion is that, with the surge in 2015 demand growth abating, stock levels rising and capacity building (not least in the US), the environment will worsen. Intuitively, margins akin to those seen in 2015 are not sustainable. However, there are caveats, not least of which are the impact of potentially raised maintenance activity on average capacity and the unpredictable risk that an Atlantic Basin refining system that has been operating at near-effective capacity will see unexpected downtime. Overall, as we look into 2016, our expectation is that margins will prove to be more subdued.
- 13% FCF, 9% dividend yield outlook superior to most BIST-Industrials and peers:** With Tupras having reached peak capex over the USD3bn RUP investment cycle, we expect it to attain a robust FCF profile (c.13% average yield FY16E-FY20E), visibly higher than the BIST-Industrials average of 4% and its regional peers' 7%. In addition, resumption of sizable dividends (a c.9% dividend yield, on average, between FY16E and FY20E) is one of the stock's key attractions. We reiterate our Buy rating.

Tupras

GEM/Turkey/Oil & Gas

Reuters: TUPRS.IS Bloomberg: TUPRS TI

Buy

Price (10 May 16): TRY 67.65
 Target price: TRY 80.90
 52-week Range: TRY 62.25 – 81.25
 Market Cap: TRY 16,941m (US\$ m)
 Free float: 49%
 Avg. trading vol. (3m): USD 47.57m

Stock Performance	1M	3M	1Y
Nominal (TRY)	-7%	6%	15%
Nominal (USD)	-10%	6%	5%
vs. BIST100	-3%	-3%	23%

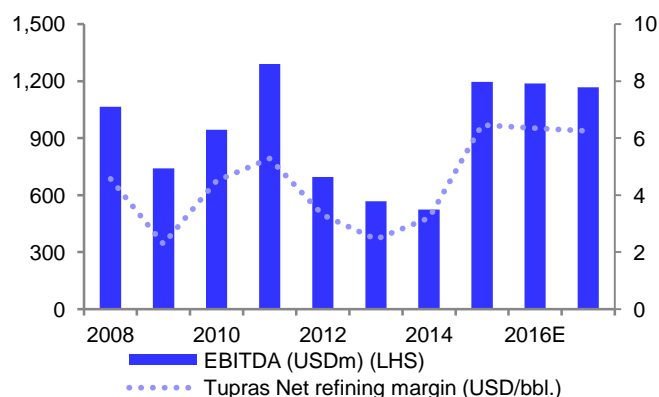
Key Metrics (TRYm)	2015	2016E	2017E
Revenues	36,893	36,198	46,587
YoY Change, %	-7.1%	-1.9%	28.7%
EBITDA	3,784	3,646	3,791
YoY Change, %	379.5%	-3.7%	4.0%
EBITDA M., %	10.3%	10.1%	8.1%
Net Income	2,550	2,430	2,522
EPS (TRY/share)	10.18	9.70	10.07
DPS (TRY/share)	6.50	7.76	8.06

Multiples	2015	2016E	2017E
P/E (x)	7.4	7.0	6.7
EV/EBITDA (x)	6.2	6.4	6.1
Div. Yield, %	9.8	11.5	11.9
Net debt / EBITDA (x)	1.8	1.8	1.6

Source: Deutsche Bank estimates, Company data

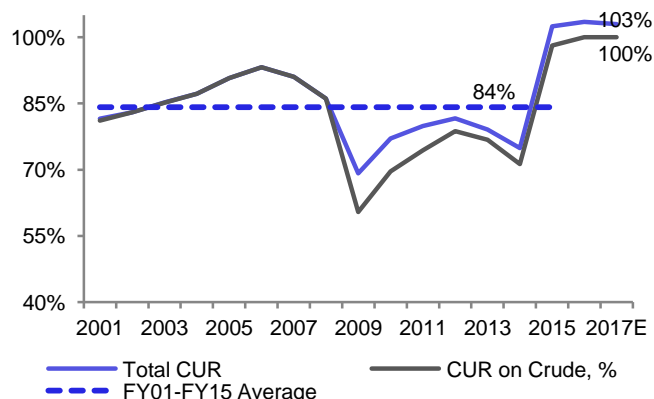
Koray Pamir
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Figure 7: Tupras's gross ref. margin and EBITDA forecasts



Sources: Company data, Deutsche Bank estimates

Figure 8: Tupras's CUR progression, %



Sources: Company data, Deutsche Bank estimates



Turkish Airlines

Security concerns put pressure on share performance, but benefits of low oil prices should offset those risks

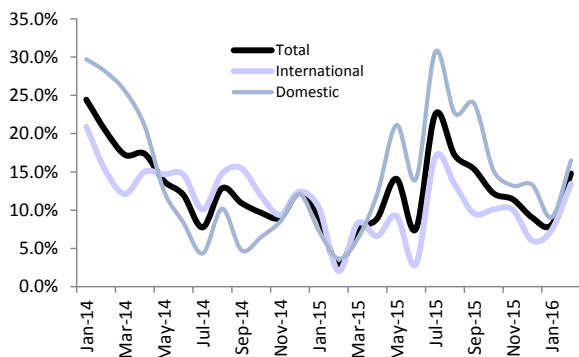
- Rising pressure on passenger yields and load factors results in significant stock price underperformance:** In 1H16, faced with ever-weakening demand as a result of increased security concerns and an acceleration in capacity growth owing to the fleet purchase plan, THY has become more aggressive in pricing than initially expected, and potential gains from the low oil price have been washed away. We sense that this negative backdrop is likely to continue throughout 2Q, while a pick-up in oil prices poses an additional headwind. What's more, year to date strength in the EUR and JPY has led to significant non-cash FX losses for THY.
- However, late bookings and Expo2016 could improve traffic in the peak season:** We sense that, if the security concerns do not rise further, a potential recovery in passenger traffic is likely in the peak season not only through late bookings (thanks to Turkey's proximity advantage) but also Expo 2016, which will be held in Antalya. We note that Expo 2016, which is being hosted by Turkey for the first time, is expected to host 5m foreign visitors (estimate by Tourism Ministry) during April-October 2016.
- Following a weak 1H16, THY may see years of strong margin expansion, as THY's years of aggressive capacity growth come to an end by end-2016:** THY's seat capacity has posted a CAGR of 15% over the past five years and is likely to grow by an additional 16% in 2016. In 2017, however, seat capacity will grow by a mere 1%, to be followed by 5% in 2018. We sense that, given the tough operating environment and bottleneck in airport capacities, THY may not revise the expansion programme materially, and this may lead to substantial rises in load factors and profitability in the years to come. Coupled with the deleveraging process, this could lead to a significant rise in THY's valuation.
- Share buyback programme to limit further downside risks:** THY's share buyback programme, approved on 4 April – the first in its history (to buy up to TRY500m at a maximum of TRY20/sh) – could limit downside risks.

Turkish Airlines			
GEM/Turkey/Transport			
Reuters: THYAO.IS	Bloomberg: THYAO TI		
Buy			
Price (10 May 16):	TRY 6.65		
Target price:	TRY 9.10		
52-week Range:	TRY 6.56 – 9.80		
Market Cap:	TRY 9,177m (US\$ m)		
Free float:	50%		
Avg. trading vol. (3m):	USD 182.65m		
Stock Performance	1M	3M	1Y
Nominal (TRY)	-12%	-3%	-26%
Nominal (USD)	-14%	-4%	-32%
vs. BIST100	-8%	-12%	-21%
Key Metrics (TRYm)	2015	2016E	2017E
Revenues	28,752	32,182	39,034
YoY Change, %	19.0%	11.9%	21.3%
EBITDA	4,458	4,733	6,197
YoY Change, %	53.2%	6.2%	30.9%
EBITDA M., %	15.5%	14.7%	15.9%
Net Income	2,993	940	2,404
EPS (TRY/share)	2.17	0.68	1.74
DPS (TRY/share)	0.00	0.00	0.00
Multiples	2015	2016E	2017E
P/E (x)	3.5	9.8	3.8
EV/EBITDA (x)	8.8	7.2	5.3
Div. Yield, %	0.0	0.0	0.0
Net debt / EBITDA (x)	4.4	5.5	3.9

Source: Deutsche Bank estimates, Company data

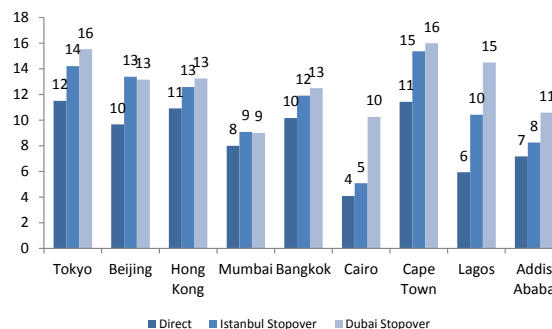
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Figure 9: Passenger growth, % yoy



Sources: Company data, Deutsche Bank

Figure 10: Trip times (hours) from Europe (Frankfurt) to selected cities; Istanbul vs. Dubai



Sources: Company data, Deutsche Bank



Appendices



Appendix A – Valuations across GEM

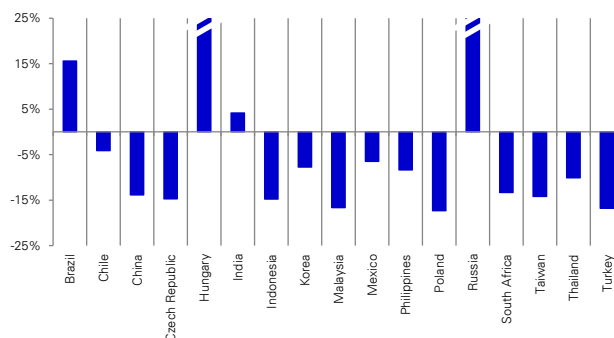
Country performance versus EM

Figure 11: Key multiples and discounts for BIST-100 and MSCI EM indices

	Current	Historical avg.*	Premium/discount to historical avg.	BIST vs. MSCI EM (current)	BIST vs. MSCI EM (26 Jan 2015)	BIST vs. MSCI EM (13 Dec 2013)	BIST vs. MSCI EM (historical*)
One-year forward looking P/E (x)	8.4	9.5	-12%	-26%	-5%	-11%	-13%
One-year trailing P/E (x)	10.2	10.7	-4%	98%	-13%	-12%	-16%
One-year forward looking P/BV (x)	0.9	1.3	-27%	-26%	6%	-1%	-6%
One-year trailing P/BV (x)	1.2	1.4	-14%	-12%	6%	1%	-2%
One-year fwd looking EV/EBITDA (x)	6.5	7.1	-8%	-16%	-4%	5%	-6%
One-yr trailing EV/EBITDA (x)	7.7	9.0	-15%	-2%	19%	-7%	19%

Source: Deutsche Bank, Bloomberg Finance LP
 Note (*): Refers to three-year average

Figure 12: Current P/BV of each EM country – deviation from historical 3Y average



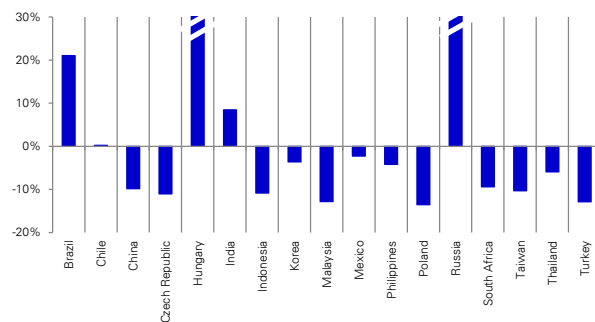
Source: Deutsche Bank, Bloomberg Finance LP

Figure 13: Trailing P/BV by country (1) vs. own country's historical average and (2) relative to GEM P/BV vs. historical average relative valuation

Country	P/BV at 10 May 2016 (x)	Current P/BV versus country's 3Y historical average P/BV	Current P/BV relative to EM, versus 3Y historical average	Current P/BV relative to EM, versus 10Y historical average
Emerging Markets	1.39	-4.4%	-	-
Brazil	1.57	15.6%	21.1%	11.8%
Chile	1.62	-4.1%	0.2%	-3.4%
China	1.22	-13.9%	-9.8%	-22.3%
Czech Republic	1.18	-14.7%	-11.0%	-22.7%
Hungary	1.53	50.3%	56.0%	45.6%
India	2.91	4.2%	8.5%	17.3%
Indonesia	2.74	-14.8%	-10.9%	-4.8%
Korea	0.90	-7.8%	-3.6%	-6.2%
Malaysia	1.65	-16.7%	-12.8%	0.2%
Mexico	2.57	-6.5%	-2.3%	14.1%
Philippines	2.73	-8.4%	-4.2%	25.1%
Poland	1.08	-17.3%	-13.6%	-11.7%
Russia	0.88	35.1%	41.4%	4.3%
South Africa	2.21	-13.3%	-9.4%	8.4%
Taiwan	1.51	-14.2%	-10.3%	5.0%
Thailand	1.89	-10.1%	-5.9%	15.4%
Turkey	1.23	-16.8%	-12.9%	-3.6%

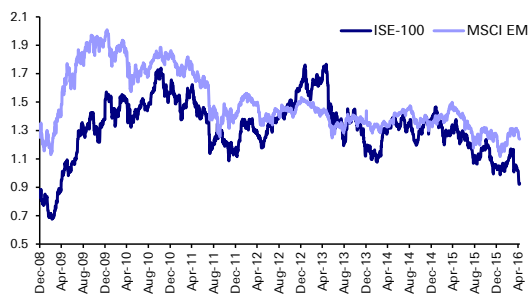
Source: Deutsche Bank, Bloomberg Finance LP

Figure 14: Current P/BV of each EM country relative to P/BV of MSCI EM – deviation from historical 3Y average (%)



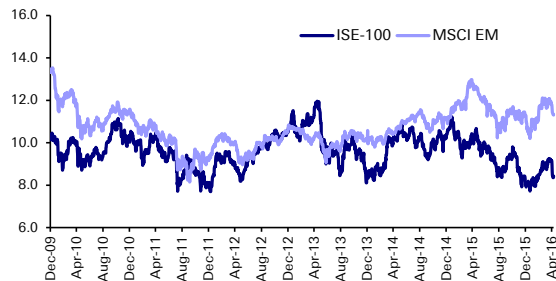
Source: Deutsche Bank, Bloomberg Finance LP

Figure 15: One-year forward looking P/BV (x)



Source: Deutsche Bank, Bloomberg Finance LP

Figure 16: One-year forward looking P/E (x)

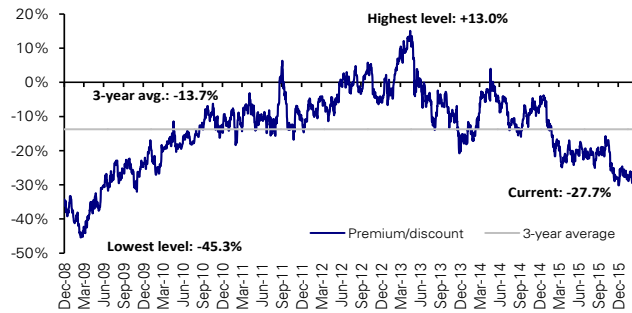


Source: Deutsche Bank, Bloomberg Finance LP



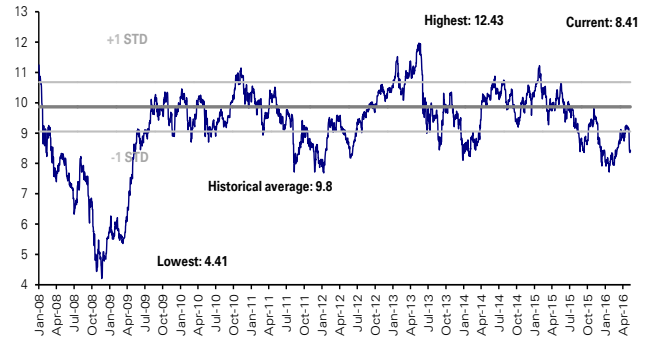
Relative performance of the BIST-100

Figure 17: BIST-100 vs. MSCI EM Index premium/discount on P/E basis



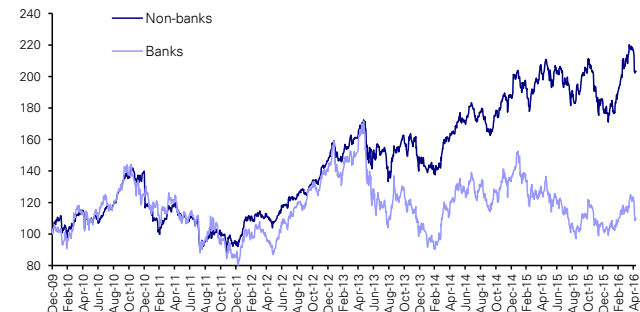
Source: Deutsche Bank, Bloomberg Finance LP

Figure 18: BIST-100 fwd looking P/E (x)



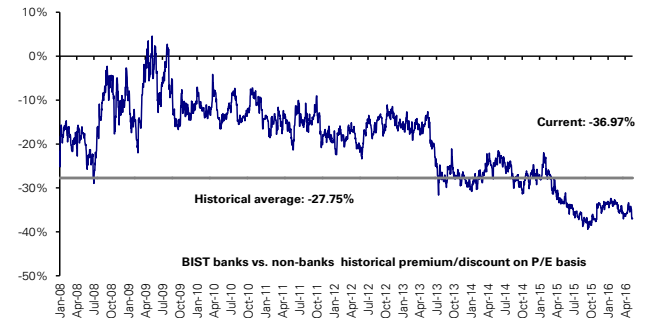
Source: Deutsche Bank, Bloomberg Finance LP

Figure 19: Banks and non-banks' indices' performance (31/12/2009=100)



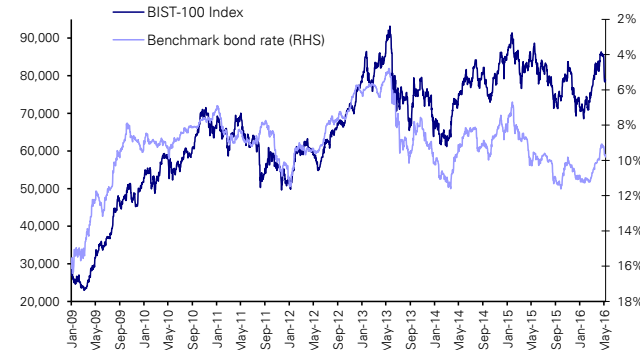
Source: Deutsche Bank, Bloomberg Finance LP

Figure 20: BIST banks vs. non-banks' historical premium/discount on P/E basis



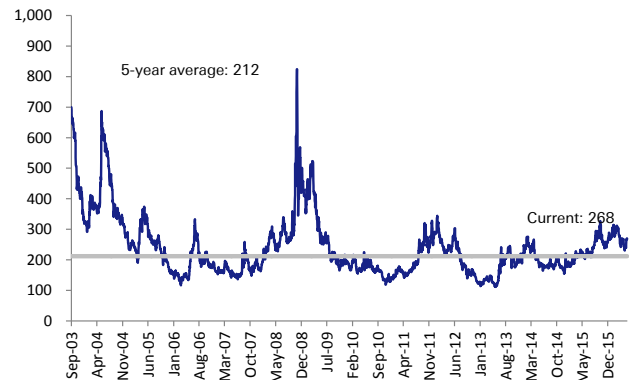
Source: Deutsche Bank, Bloomberg Finance LP

Figure 21: BIST-100 vs. benchmark bond rate (RHS; in reverse order)



Source: Deutsche Bank, Bloomberg Finance LP

Figure 22: Turkey's five-year CDS spread vs. historical average (bps)



Source: Deutsche Bank



Valuation summary

Figure 23: Deutsche Bank Turkey coverage universe – valuation summary (10 May 2016)

Company	Price (TRY)	Target Price (TRY)	Upside / Downside	Rating	MCAP (\$m)	Free Float	Avg. Daily Vol. (\$m)	P/E			EV/S (P/BV for Banks)			EV/EBITDA (Adj. P/BV for Banks)**				
								15	16E	17E	15	16E	17E	15	16E	17E		
DB Coverage								10.6	9.4	8.3								
Banks*								8.3	6.8	6.3	0.88	0.81	0.72	0.89	0.79	0.70		
Akbank	AKBNK.IS	7.66	7.80	2%	Hold	10,429	52%	68.4	10.4	8.9	8.3	1.16	1.09	0.98	1.17	1.09	0.98	
Garanti	GARAN.IS	7.55	9.10	21%	Buy	10,793	48%	293.3	9.3	7.1	6.0	1.02	0.95	0.83	1.01	0.95	0.83	
Halkbank	HALKB.IS	9.49	13.10	38%	Hold	4,038	49%	115.2	5.1	4.2	3.8	0.61	0.54	0.48	0.69	0.54	0.46	
Isbank	ISCTR.IS	4.39	6.00	37%	Buy	6,724	31%	72.9	6.4	5.4	4.6	0.62	0.57	0.51	0.52	0.46	0.40	
Vakifbank	VAKBN.IS	4.51	4.70	4%	Hold	3,838	25%	54.4	5.7	5.1	4.7	0.66	0.60	0.54	0.67	0.60	0.54	
Yapi Kredi	YKBNK.IS	3.95	3.80	-4%	Hold	5,844	18%	36.2	9.2	7.4	8.0	0.74	0.67	0.62	0.90	0.66	0.61	
Albaraka	ALBRK.IS	1.48	1.61	9%	Hold	453	21%	0.8	4.5	4.7	4.4	0.65	0.58	0.51	0.65	0.58	0.51	
TSKB	TSKB.IS	1.58	1.85	17%	Buy	941	39%	3.4	6.9	5.4	4.7	1.13	0.97	0.83	1.20	1.01	0.86	
Insurance											1.9	2.0	1.8					
Aksigorta	AKGRT.IS	2.01	2.36	17%	Hold	209	28%	0.2	NM	12.5	9.3	1.2	1.8	1.5	NA	NA	NA	
Anadolu Hayat	ANHYT.IS	5.47	5.38	-2%	Hold	763	17%	0.2	15.5	15.4	13.2	2.9	2.9	2.6	NA	NA	NA	
Anadolu Sigorta	ANSGR.IS	1.74	1.58	-9%	Hold	296	42%	0.1	13.6	10.2	9.2	1.2	1.1	1.0	NA	NA	NA	
Industrials								13.9	12.6	10.6	1.2	1.2	1.0	8.4	8.3	7.4		
Automotive																		
Dogus Otomotiv	DOAS.IS	11.26	12.90	15%	Hold	843	26%	7.2	8.2	9.3	8.7	0.3	0.4	0.4	7.4	9.2	8.1	
Ford Otosan	FROTO.IS	35.08	40.00	14%	Buy	4,190	18%	6.4	14.6	14.1	12.3	0.8	0.7	0.7	10.0	8.8	7.6	
Tofas	TOASO.IS	22.14	20.70	-7%	Hold	3,768	24%	10.1	13.3	13.7	13.8	1.3	1.0	0.9	12.2	11.6	10.0	
Aviation																		
TAV Airports	TAVHL.IS	15.69	20.00	27%	Buy	1,940	40%	11.5	8.1	7.6	6.8	2.3	2.5	2.4	5.4	6.2	6.0	
Turkish Airlines	THYAO.IS	6.65	9.10	37%	Buy	3,124	50%	182.6	3.1	9.8	3.8	1.3	1.5	1.2	8.6	10.2	7.6	
Food & Beverage																		
Anadolu Efes	AEFES.IS	19.00	19.20	1%	Hold	3,829	32%	1.9	NM	24.1	14.7	1.9	1.8	1.9	11.3	10.2	10.3	
Ulker	ULKER.IS	21.88	22.20	1%	Buy	2,547	32%	7.8	28.7	23.7	19.5	2.6	2.0	1.8	19.1	15.2	12.6	
Coca-Cola Icecek	CCOLA.IS	35.00	44.70	28%	Buy	3,030	25%	6.0	76.0	19.3	15.7	1.7	1.5	1.3	11.0	9.8	8.2	
Construction / Holdings																		
Enka Insaat	ENKAI.IS	4.63	5.30	14%	Hold	6,304	12%	5.0	11.9	12.6	12.5	1.2	1.2	1.2	7.7	7.6	7.4	
Tekfen Holding	TKFEN.IS	6.56	6.40	-2%	Hold	826	41%	12.2	13.1	8.0	10.2	0.6	0.4	0.4	13.5	4.7	5.8	
Glass																		
Anadolu Cam	ANACM.IS	2.06	1.80	-13%	Hold	311	20%	2.0	17.7	10.3	NM	1.1	0.9	0.8	6.2	6.1	6.0	
Sise Cam	SISE.IS	3.58	3.01	-16%	Hold	2,315	34%	6.5	9.4	9.6	9.0	1.1	0.8	0.7	5.9	4.7	4.1	
Soda Sanayii	SODA.IS	4.49	4.85	8%	Hold	1,009	16%	4.9	6.8	8.8	7.1	1.4	1.2	1.0	5.9	5.9	4.9	
Trakya Cam	TRKCM.IS	2.01	2.02	0%	Hold	612	28%	4.7	11.3	18.8	9.4	1.2	0.9	0.8	9.2	6.4	5.3	
Conglomerates																		
Koc Holding	KCHOL.IS	13.17	13.80	5%	Hold	11,368	22%	20.5	9.4	11.0	10.1	0.7	0.6	0.6	7.2	6.6	6.1	
Sabanci Holding	SAHOL.IS	9.20	11.20	22%	Buy	6,389	44%	24.4	8.4	7.3	6.8	1.6	1.4	1.3	7.9	7.6	6.9	
Metals & Mining																		
Erdemir	EREGL.IS	4.47	3.84	-14%	Sell	5,325	48%	26.4	13.9	13.7	12.7	1.3	1.3	1.2	7.3	8.1	7.2	
Oil&Gas / Chemicals																		
Aygaz	AYGAZ.IS	10.93	11.20	2%	Buy	1,116	24%	1.8	7.8	8.1	7.7	0.6	0.5	0.5	10.7	11.5	11.2	
Petkim	PETKM.IS	4.09	3.34	-18%	Hold	2,088	34%	21.1	9.8	16.1	18.8	1.3	1.4	1.2	9.1	12.3	11.6	
Tupras	TUPRS.IS	67.65	80.90	20%	Buy	5,766	49%	47.6	6.6	7.0	6.7	0.6	0.6	0.5	6.3	6.4	6.1	
Retail																		
Bim	BIMAS.IS	60.00	58.70	-2%	Hold	6,200	60%	20.0	31.2	26.4	21.7	1.0	0.9	0.7	20.8	17.2	14.0	
Bizim Toptan	BIZIM.IS	16.13	18.40	14%	Hold	220	46%	2.2	44.9	29.7	24.6	0.2	0.2	0.2	8.5	6.9	5.8	
Migros	MGROS.IS	17.50	22.80	30%	Buy	1,060	19%	3.4	NM	20.4	13.8	0.5	0.4	0.4	8.7	7.5	6.0	
Telecom																		
Turkcell	TCELL.IS	11.20	11.35	1%	Hold	8,387	35%	16.7	11.9	10.8	9.8	2.0	2.0	1.9	6.3	6.1	5.8	
Turk Telekom	TTKOM.IS	6.33	6.00	-5%	Hold	7,541	13%	9.1	24.4	13.2	12.1	2.1	2.2	2.1	5.8	6.0	5.9	
Utilities																		
Akenerji	AKENR.IS	1.11	1.00	-10%	Hold	275	25%	3.1	NM	NM	NM	1.9	2.6	2.5	13.5	12.6	11.4	
Aksa Enerji	AKSEN.IS	2.74	3.46	26%	Buy	572	21%	2.3	NM	10.0	6.2	1.8	1.4	1.4	9.7	7.3	6.8	
Real Estate																		
Emlak REIT	EKGYO.IS	2.78	3.70	33%	Buy	3,596	51%	41.2	11.1	7.6	7.7	4.4	2.5	2.2	10.3	5.7	5.2	
Sinpas REIT	SNGYO.IS	0.61	0.86	41%	Buy	125	37%	0.6	NM	59.6	5.2	2.7	1.7	1.0	NM	11.2	4.9	
White Goods																		
Arçelik	ARCLK.IS	19.20	20.70	8%	Hold	4,416	25%	14.1	14.6	13.0	11.7	1.1	0.9	0.9	10.7	8.5	7.9	

* The figures for banks refers to Tier 1 average
**Book value net of non-bank participations and goodwill
Source: Deutsche Bank estimates



Appendix B – Top picks performance

Figure 24: Top picks performance

Equally Weighted Top Picks Portfolio vs. BIST 100		FFMCAP Weighted Top Picks Portfolio vs. BIST 100			
Portfolio return since the inception*	248.7%	Portfolio return since the inception*	105.1%		
BIST 100 return since the inception*	72.8%	BIST 100 return since the inception*	72.8%		
Relative portfolio return since the inception*	102%	Relative portfolio return since the inception*	18.7%		
Portfolio return (y-t-d)	7.8%	Portfolio return (y-t-d)	2.1%		
BIST 100 return (y-t-d)	10%	BIST 100 return (y-t-d)	10%		
Relative portfolio return (y-t-d)	-2.2%	Relative portfolio return (y-t-d)	-7%		
Portfolio return since the last rebalance**	-3.0%	Portfolio return since the last rebalance**	-6.2%		
BIST 100 return since the last rebalance**	-2.8%	BIST 100 return since the last rebalance**	-2.8%		
Relative portfolio return**	-0.2%	Relative portfolio return**	-3.4%		
*Since the initiation of the first report on 03 September 2009		*Since the initiation of the first report on 03 September 2009			
**Since the last rebalance on 18 March 2016		**Since the last rebalance on 18 March 2016			
Approximate stock weights in equally weighted top picks portfolio		Approximate stock weights in FFMCAP weighted top picks portfolio			
EKGYO	16.7%	EKGYO	12.8%		
GARAN	16.7%	GARAN	35.9%		
MGROS	16.7%	MGROS	1.4%		
SAHOL	16.7%	SAHOL	19.5%		
TUPRS	16.7%	TUPRS	19.5%		
THYAO	16.7%	THYAO	10.9%		
Individual Stock Performances*			Individual Stock Performances*		
	Nominal	BIST 100 Relative		Nominal	BIST 100 Relative
EKGYO - 18 March 2016	-1.4%	1.5%	EKGYO - 18 March 2016	-1.4%	1.5%
GARAN - 27 November 2015	6.1%	0.7%	GARAN - 27 November 2015	6.1%	0.7%
MGROS - 2 December 2015	-4.9%	-7.6%	MGROS - 2 December 2015	-4.9%	-7.6%
SAHOL - 18 March 2016	-0.7%	2.2%	SAHOL - 18 March 2016	-0.7%	2.2%
TUPRS - 18 March 2016	-7.0%	-4.3%	TUPRS - 18 March 2016	-7.0%	-4.3%
THYAO - 09 October 2014	5.8%	-2.4%	THYAO - 09 October 2014	5.8%	-2.4%
*Since the inclusion to the portfolio (with respective inclusion dates)			*Since the inclusion to the portfolio (with respective inclusion dates)		

Source: Deutsche Bank, Company data



Appendix C – Macroeconomic projections

Figure 25: Macro estimates (2011-2017E)

	2011	2012	2013	2014	2015	2016E	2017E
Currency Projections							
TRY/USD (avg.)	1.68	1.78	1.91	2.19	2.72	2.96	3.21
TRY/USD (eop.)	1.89	1.78	2.13	2.32	2.91	3.06	3.27
TRY/basket (avg.)	2.00	2.04	2.22	2.55	2.87	3.06	3.05
TRY/basket (end.)	2.17	2.06	2.53	2.56	3.04	3.06	3.03
EUR/\$ (avg.)	1.39	1.29	1.33	1.33	1.11	1.06	0.91
EUR/\$ (eop.)	1.29	1.32	1.38	1.21	1.09	1.00	0.85
Inflation Projections							
CPI Inflation (avg.)	6.5%	8.9%	7.5%	8.9%	7.7%	7.7%	7.7%
CPI Inflation (eop.)	10.4%	6.2%	7.4%	8.2%	8.8%	7.7%	7.1%
Interest Rate Projections							
Nominal Interest rate (c.a., eop.)	11.2%	6.2%	9.9%	8.0%	10.8%	9.6%	9.5%
Policy rate (s.a., eop.)	5.8%	5.5%	4.5%	8.3%	7.5%	7.5%	7.5%
Growth Projections							
GDP Growth	8.8%	2.1%	4.1%	3.0%	4.0%	3.5%	3.7%
GDP per capita (\$)	10,476	10,531	10,839	10,370	9,196	9,284	9,437
Absolute GDP (US\$bn)	775	789	822	799	718	735	757

Source: State Treasury, CBT, TurkStat, Deutsche Bank estimates



Appendix D – Valuation and risks

Valuation and risks

Top picks

Emlak REIT

Valuation: Our valuation includes no value creation on current land bank (i.e. valued at cost). This means that our valuation does not include any potential new tenders beyond 2014. For finished residential projects and turnkey (PPM) projects, we use DCF (WACC: 14.5%; RFR: 9%; beta: 1.0; CoE: 15.0%; CoD: 10%). For ongoing RSM projects, we assume a profit multiple of 1.41x (in line with historical levels) on tender value of projects and discount the value over the next three years.

Risks: Higher interest rates, inability to tender land, lower-than-expected value creation on projects, lower housing demand, delay in obtaining construction permits and a lack of agreements or conflict of interest with government entity TOKI, as TOKI is the main shareholder.

Garanti

Valuation: We value banks using a two-stage Gordon Growth Model ($P/B = ROE-g/COE-g$) that bases our target prices on a discounted terminal value and adds back the value of discounted interim dividends to account for all anticipated cash flows to the investor. If a bank has holdings, we use the aforementioned methodology to value the banking equity and sum-of-the-parts to value the overall entity. A key assumption in our valuation model is that the premium to be paid over a bank's book value increases in tandem with profitability. To calculate the terminal value, we multiply the expected year-three book value (currently 2018E BV) with a terminal multiple. We use a 6% terminal growth rate, assuming banks will continue to grow above our projected long-term sustainable 5% GDP growth rate. We estimate the cost of equity at 16%.

Risks: One key downside risk (as is true for the banking system in general) is weaker-than-anticipated economic growth leading to asset quality deteriorating beyond our expectations. A deterioration in global macro conditions and an accompanying worsening of liquidity conditions could make borrowing from capital markets unattractive; lending strategies could also be adversely affected. Garanti is a retail-oriented bank with a strong fee generation capacity. Further regulatory changes in fee revenue accounting policies and/or a potential cap on fees charged to consumers could weigh negatively on the bank's fee revenues.

TAV Airports

Valuation: We use a sum-of-the-parts valuation based on separate DCF analyses for each of TAV's businesses. We use a 5.0% EUR-denominated risk-free rate and a 5.0% equity risk premium in our WACC calculations. We take TAV's average cost of debt at 7.0%. We do not use a terminal growth rate in our calculations, as we project cash flow up to the expiration of each contract without assuming any renewals.

Risks: Downside risks include: 1) a slowdown in passenger traffic growth and/or unexpected margin contraction; 2) the company's relatively high debt level; 3) cost overruns; 4) political tension in the region of operations; 5) a lack of diversification as a result of IAA's large contribution to the company's operations; and 6) a lack of visibility on the revenue performance of new investments.



Tupras

Valuation: We value Tupras solely through a USD-based DCF analysis. In our DCF analysis, we use a 6.0% risk-free rate, 5.0% equity-risk premium, 6.5% cost of debt, 10.9% cost of equity and a 0% terminal growth rate. We use a 0% terminal growth rate for Tupras due to the company's capacity constraints, although we estimate demand for refined oil products to increase around 2% over the long term.

Risks: The key downside risks are: 1) a faster-than-expected decline in the Med Basin refining margins; 2) a supply shock-related rise in crude oil prices, 3) a potentially toughening competitive landscape if more than one refinery is built in Turkey and/or refinery upgrades in Russia are completed ahead of expectations; and 4) regulatory risks.

Turkish Airlines

Valuation: We base our valuation methodology on a target 2016E EV/EBITDAR multiple, in line with Deutsche Bank's airline universe, as DCF methodology disregards near-term risks due to the high number of long-term variables that are hard to estimate. In our valuation, we use adjusted EV (net debt adjusted with capitalised 2016E operational lease expenses of 7x operational leasing expenses, short term pre-delivery payments) and adjusted EBITDAR (EBITDA plus operational leasing expenses). We use a 6.0x target EV/EBITDAR for THY, in line with the company's historical average EV/EBITDAR multiple.

Risks: Key downside risks are i) slower-than-expected passenger traffic growth; ii) inability to control capacity expansion in a weaker passenger-growth environment; iii) deterioration in passenger revenue yields; iv) lower-than-expected operational profitability; v) increasing crude oil and jet fuel prices; vi) failure to maintain flexibility in pricing as a result of increasing competition, especially in long-haul routes; and vii) geopolitical tension in the region, viii) delay in construction of Istanbul's new airport on time that leads to bottlenecks at Ataturk Airport.

Least preferred

Akenerji

Valuation: We value Akenerji solely through a USD-driven DCF analysis. In our DCF analysis, we use a 6.0% risk-free rate, a 5.0% equity risk premium, 7.0% cost of debt and a 0% terminal growth rate. We use a 0% terminal growth rate for Akenerji due to the capacity constraints facing the company.

Risks: The key upside risks include: 1) stronger-than-expected electricity demand; 2) a higher-than-expected increase in regulated electricity prices; 3) a decline in regulated natural gas prices; and 4) a stronger-than-expected TRY. The key downside risks include: 1) a delay in the liberalisation process of the Turkish energy market; 2) further hikes in natural gas prices; 3) a significant depreciation of the TRY against hard currencies; and 4) a deterioration in the political and economic outlook.

Erdemir

Valuation: We value Erdemir with a USD-based DCF analysis (6.0% RFR, 5.0% equity risk premium, 6.5% cost of debt and 1% terminal growth rate). We use a 1% terminal growth rate for Erdemir due to the company's capacity constraints, although we estimate the demand for steel to increase by around 2% over the long term.

Risks: Key upside risks are: 1) lower-than-expected iron ore and coal prices; 2) better-than-expected growth in Turkey and Europe; and 3) a weaker-than-expected TRY vs. hard currencies. The short-term overhang related to Arcelor Mittal selling its remaining 12.1% stake in Erdemir could put pressure on the shares.



Sise Cam

Valuation: We value Sise Cam through sum-of-the-parts, as the dynamics of each of its underlying assets are different and should be valued separately, in our view. We use USD-denominated DCF target market caps for Trakya Cam, Anadolu Cam and Soda Sanayii. We value Pasabahce Cam, Sise Cam's 84%-owned unlisted glassware subsidiary, using a 7.0x 2016E EV/EBITDA multiple. We apply a 5% conglomerate discount to our target NAV to reach our target price for Sise Cam.

Risks: Key downside risks are: 1) a downturn in the macroeconomic and political outlook; 2) value-dilutive M&A activity or investments; 3) glass prices declining faster than the underlying cost curve due to lower demand; 4) higher-than-expected natural gas price hikes; and 5) the potential overhang on the stock if Isbank decides to increase the company's free float. Key upside risk are: 1) higher-than-expected domestic demand leading to better margins at subsidiaries; 2) lower energy prices; and 3) further measures taken to improve corporate transparency.



Appendix 1

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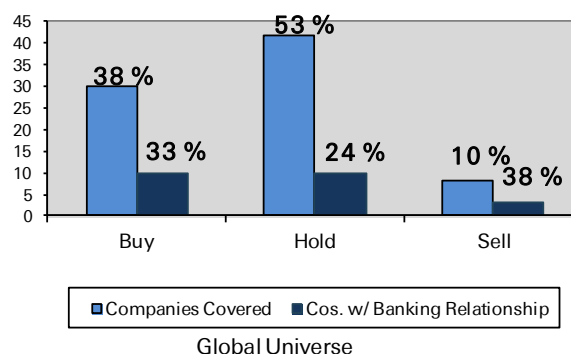
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