

# Daily Bulletin

## IN TODAY'S DAILY

- **Aselsan** signs contract worth US\$37.6mn + TRY214.9mn.
- **TAV Airports** announced its passenger traffic performance for July 2018.
- **Teknosa** posted 2Q18 net loss of TRY6mn in line with estimates.
- **Turkcell** repurchased its Eurobonds with a nominal value of USD2mn at an average price of US\$91.5K.
- **Vakifbank** posted TRY1,074mn net profit in 2Q18 in line with estimates.
- **Aviation Sector:** Total number of pax handled by the Turkish airports grew by 6.5% YoY in July 2018, roughly in line with our estimates.
- **Banking Sector:** Dogus Group plans a new repayment plan for EUR2.3bn bank debt.
- **Defense Sector:** Executive Committee for Defense Industries discussed projects worth TRY13.5bn; positive for **Aselsan**.
- **Albaraka Turk, Coca Cola Icecek, Kordsa and Petkim** are expected to announce their 2Q18 financial results today.

## MARKET SUMMARY

BIST-100 managed to recoup its losses in yesterday's trading with 2.1% gain. Today, the index is expected to start the day slightly positive parallel to the constructive global mood. All eyes will be on the headlines to come out from the meetings between US and Turkey delegations in Washington. This morning, the US\$/TRY is hovering above the 5.27 level. We are seeing the supports at the 95.5k and 94.8k levels whereas resistances are at 96.68k and 97.2k for the BIST-100 index.

## EVENTS CALENDAR

| Date   | Period | Data  | Last       |
|--------|--------|---|------------|
| 7-Aug  | Jul    | Cash Budget Balance   | -TRY26.7bn |
| 8-Aug  | 2Q18   | Financial results: CCOLA, PETKM   |            |
| 9-Aug  | 2Q18   | Financial results: KORDS, AEFES, EKGYO, MGROS, ULKER, KOZAL, TUPRS, AYGAZ |            |
| 10-Aug | Jun    | Current Account Balance   | -TRY5.89bn |

## COMPANY and SECTOR NEWS

**Aselsan (ASELS TI)** signed an agreement regarding the Digital Communication Network Project, the settlement of which was disclosed on June 6 with the Undersecretariat for Defense Industries, worth US\$37.6mn and TRY214.9mn (US\$40.8mn at current exchange rate). Deliveries will be made in 2019-2020. With this addition, we calculate Aselsan has signed contracts worth a total of US\$2,725mn year-to-date in 2018. As of end-March, Aselsan had backlog of US\$7.5bn and backlog to trailing 12-month sales ratio of 4.8x. We deem the news positive for Aselsan shares.

| BIST Indices | 7/8/18 Close (TL) | PERFORMANCE (TRY) Daily | YTD     |
|--------------|-------------------|-------------------------|---------|
| BIST-100     | 96,161            | 2.11%                   | -16.62% |
| BIST-30      | 118,690           | 2.38%                   | -16.48% |
| BIST- Banks  | 116,865           | 3.57%                   | -31.81% |

## EQUITY MARKET DATA

|                              |         |
|------------------------------|---------|
| BIST100 MCap (TRYmn)         | 633,182 |
| Banks MCap (TRYmn)           | 162,458 |
| BIST Volume (TRYmn -3m avg)  | 7,828   |
| BIST100 Aggregate Free Float | 0.0%    |

## MONEY MARKET

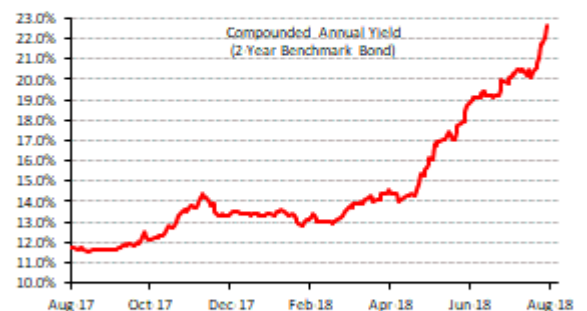
| FX RATES (CBT Bid) | 7/8/18 | Daily | YTD   |
|--------------------|--------|-------|-------|
| US\$/TRY           | 5.2634 | 2.27% | 39.5% |
| €/TRY              | 6.0999 | 2.58% | 35.1% |



## BOND MARKET Comp. Ann. Yld. (TRY) Daily Δ (bps)

| Maturity      | 7/8/18 | Daily Δ (bps) |
|---------------|--------|---------------|
| May 15, 2019* | 22.64% | 63.0          |
| Sep 22, 2021  | 22.07% | 21.0          |
| Feb 11, 2026  | 19.48% | -19.0         |

\* Benchmark bond



## EUROBONDS Comp. Ann. Yld (\$) Daily Δ (bps)

| Maturity          | 7/8/18 | Daily Δ (bps) |
|-------------------|--------|---------------|
| February 5, 2025  | 7.41%  | 5.6           |
| March 17, 2036    | 8.03%  | 5.1           |
| February 17, 2045 | 8.03%  | -0.1          |

**TAV Airports (TAVHL TI)** yesterday announced that the total passenger traffic at the airports it is operating (both domestic and int'l) grew by 48% YoY in July 2018 and by 34% in 7M18. Note that Antalya International Airport operation, which was added to the portfolio as of May 2018 after the acquisition of a 49% stake, inflates the YoY growth calculation. Total pax number in Antalya Airport grew by 34% YoY in May, 29% YoY in June and 19% in July. Without Antalya, we calculate the total pax growth of TAV Airports at 7% for June and 8% for 7M17. TAV Airports management had guided over 30% growth in total pax for 2018, including Antalya operation

**Teknosa (TKNSA TI)** posted 2Q18 net loss of TRY6mn in line with the consensus estimate. This figure compared to net profit of TRY8mn in 2Q17 and net loss of TRY4mn in 1Q17. The 1H18 net loss grew to TRY10mn compared to net profit of TRY9mn in 1H17. Net FX losses and interest expenses were the main drivers of the net loss figure. 2Q18 EBITDA margin was 3.3% which is below the 2Q17 margin of 5.1% and the 1Q18 margin of 3.8%. 1H18 EBITDA margin is 3.5% compared to 1H17 margin of 4.8%. 2Q18 EBITDA of TRY29mn fell by 32% YoY and is in line with the consensus estimate of TRY28mn. 2Q18 revenues grew 6% YoY and are in line with the consensus estimate of TRY907mn. The revenue growth is a decline in real terms as average inflation was 12% during the same period. Teknosa's online revenues (included in the total revenue figure) grew 14% YoY in 1H18 to TRY98mn. Like-for-like sales grew by 12% YoY in 1H18. According to GfK independent research, the Technology Retail market in Turkey grew by 17% YoY in 1H18 to TRY29bn. The fastest growth was in the Telecoms sector up by 29% followed by Small Kitchen Appliances with 19% growth, Consumer Electronics (TVs, photographic equipment, etc.) that grew 15%, IT grew 9% and White Goods (including air conditioners) grew 0.7% YoY. Teknosa continued with a net debt position of TRY207mn at end June compared to TRY188mn at end March. As results are in line with estimates, we believe market reaction will be neutral.

**Turkcell (TCELL TI)** repurchased its Eurobonds with a nominal value of US\$2mn at an average price of US\$91.5K.

**Vakifbank's (VAKBN TI)** 2Q18 net income at TRY1,074mn (up 2% QoQ) was in line with our forecast of TRY1,050mn and market consensus of TRY1,082mn, bringing the cumulative figure for 1H18 to TRY2,125mn (flat YoY), with an RoE of 17.2% vs. 17.4% in the 2017FY. On the revenue side, (i) net interest income was up 12.4% quarterly with ~20bps QoQ increase in NIM at 3.9% for 2Q18 (ii) net fees and commissions up 15% QoQ in 2Q18 and 58.5% YoY in 1H18. Additionally, Vakifbank generated a total of TRY188mn treasury gain on FX volatility in 2Q18 (vs. TRY113mn income in 1Q18). On the provisioning side, the IFRS-9 calibration reduced the bank's both gross stage-III provisions and collections. Net provisions for Stage-III loans went up to TRY 417mn in 2Q18 up from TRY239mn in 1Q18. Thus, its net CoR (Stage-III) in 1H18 was realised as 64bps vs. a management expectation of 95bps for the 2018FY. Meanwhile amount of provisions for Stage-I & Stage-II remained stable QoQ, with no material increase in Stage-II loans. Quarterly operating cost growth at 6.9% for 2Q18 carried the annual growth rate for this item to almost 25%. With upward trending inflation, annual cost growth for 2018FY can be around 20% vs. an initial growth guidance of high teens by the management. **Comment & rating:** With slowdown in loan growth, surging CPI linkers' income and frontloaded FX wholesale funding, Vakifbank looks comfortable for 2H18 especially in regard to its NIM outlook. Despite, a higher provisioning expectation, management maintains its RoE expectation at around 17% for the 2018FY. Following the 2Q18 results, we have increased our net earnings estimate by 3.5% to TRY4.25bn for 2018 and 2% to TRY4.7bn for 2019 for Vakifbank, implying an RoE of 16.5% and 15.5%, respectively. Our 12M price target stands at TRY6.0/shr. with a 'Neutral' rating.

**AVIATION SECTOR:** According to State Airports Authority, total number of pax handled by the Turkish airports grew by 6.5% YoY to 22.7mn in July 2018, roughly in line with our estimates. There is a 0.6% YoY decline in domestic pax (worse than expected), yet this was more than compensated by the 13.8% YoY increase in int'l pax (better than expected). July figure points to a slowdown in growth after the 14% increase recorded in June, yet we note the negative impact of the high base at July 2017 on the YoY comparison (a 25% YoY growth was recorded back then). As a result, the sector's overall pax traffic growth stood at 14.3% YoY for 7M18, following the 16.2% YoY growth recorded in 6M18. At the Istanbul Ataturk Airport (IAA), the main hub of Turkish Airlines and core operation of TAV Airports, total pax was down 0.2% YoY in July (driven by the 7% YoY drop in domestic pax), after the 12.8% growth in 6M18. Total pax growth in IAA in 7M18 is now at 10.4%. IAA's domestic pax read a 6% YoY drop in the last 3M, however this was offset by the 6% YoY growth in int'l pax. At Sabiha Gokcen Airport (SGA), the main base of Pegasus Airlines, total pax was up 8.7% YoY in July (+13.5% YoY in int'l pax) after the 12.3%

growth in June. For 7M18, total pax growth is now at 11.9% YoY (after the 12.6% YoY growth in 6M18). **Comment:** Our take on June pax performance of the sector is neutral for the aviation names. We keep our 10% pax growth estimate for 12M18, with a slight change in breakdown in favor of int'l pax.

**BANKING SECTOR:** At an interview with Hurriyet news daily, Dogus Group chairman Mr. Ferit Sahenk stated that the group offered a 6-year debt repayment plan to banks, that includes payment of interest for first two years and payment of interest and principal for the following four years. Mr. Sahenk stated that the group pledged a total of EUR3.6bn collateral for a total of EUR2.3bn debt. Deal involves loans of five Dogus companies and total amount makes around 42% of total Dogus Group bank loans. Dogus Group expects the deal to be signed soon.

**DEFENSE SECTOR:** The Executive Committee for Defense Industries met yesterday with the chairmanship of President Erdogan. A total of TRY13.5bn (US\$2.6bn at current exchange rate) were discussed. The projects discussed are related to equipping ATAK helicopters with new capabilities, new unmanned drones, jamming equipment, modernization of command control systems and various needs of security forces. **Aselsan (ASELS TI)** is active in most or all of these projects that implies larger backlog for the company going forward which was US\$7.5bn at end March. Backlog to trailing 12-month sales ratio is 4.8x. We deem the news positive for Aselsan shares.

#### 2Q18 FINANCIAL RESULTS ANNOUNCEMENTS DUE TODAY

| <u>Company</u>   | <u>Ticker</u> | <u>2Q18 net profit estimate (TRYmn)</u> |           |
|------------------|---------------|---|-----------|
|                  |               | <u>Consensus</u>                        | <u>Ak</u> |
| Albaraka Turk    | ALBRK         | 76                                      | 85        |
| Coca Cola Icecek | CCOLA         | 36                                      | 5         |
| Kordsa           | KORDS         | 54                                      | 63        |
| Petkim           | PETKM         | 208                                     | 261       |

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A key element of our rating system is the benchmarking of the 12-month expected return against the cost of equity. We apply a required rate of return for each stock, calculated on the basis of our assumed risk-free rate and equity risk premium. A stock is normally assigned an Outperform rating if the implied return over the next 12 months exceeds the required rate of return (cost of equity) by at least 10 percentage points for our larger-cap stock coverage, or by 15 percentage points for the small-cap group. As the average potential upside of the stocks in our coverage may be considerably higher or lower than the average cost of equity, we also filter stocks according to their potential upside with respect to other stocks under coverage, with the practical aim of attaching an Outperform rating to the top group (generally 30-50% of the companies under our coverage), a Neutral rating for the next 40-50% and an Underperform rating to the lowest group (no less than 10%, and typically between 10-20% of the coverage group). The expected returns on some stocks may fall outside the range of the applicable rating category, due to movements in market prices and other short-term volatility or trading patterns, or analyst discretion. While temporary deviations from the specified ranges are permitted, they would subsequently become subject to review. Note too that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

**Outperform.** An outperform rating conveys an expectation that the stock will outperform the BIST-100 Index (XU100) within the next 6 to 12 months.

**Neutral.** A neutral rating would convey an expectation that the stock will perform broadly in line with the BIST-100 (XU100) Total Return Index.

**Underperform.** An underperform rating conveys an expectation that the stock will yield a return below that of the BIST-100 (XU100) Total Return Index within the next 6- to 12-month period.

**Not Rated (N/R).** A not rated rating is assigned when the analyst does not have adequate conviction about the stock's total return relative to the BIST-100 (XU100) Total Return Index or to the average total return of the analyst's industry coverage universe, on a risk-adjusted basis, over the next 6 to 12 months.

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