AKInvestment

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Most Preferred Stocks

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Most-Preferred Stocks (MPS): We are **adding Aygaz and Logo Yazilim** to our MPS list while **removing Aksa Akrilik, Soda Sanayi and Tupras.** We favor **Aygaz** as on top of an increasing contribution from EYAS, the LPG business is in a good position to generate consistently strong cash flow going forward with the improving net debt position and margins mostly protected from FX volatility. With its strong top-line growth **Logo Yazilim** achieved economies of scale and it continues to grow organically and through acquisitions. We find a considerable upside potential for the stock price.

We are removing **Aksa Akrilik, Soda Sanayi** and **Tupras** from our MPS in a profit-taking move, after the 21%, 11% and 6% relative gains recorded by the three names respectively since their inclusion to the portfolio. The mentioned names are generally considered as defensive picks particularly against the volatility in local currency, and we believe this is a good level to realize profits considering the current rebound in the value of Turkish Lira.

Most-Preferred Stocks

Company	Ticker	Current price	12M Target	Upside Potential
Aygaz	AYGAZ	14.00	16.80	20%
Garanti Bank	GARAN	8.80	9.30	6%
Logo Yazilim	LOGO	54.20	69.00	27%
Migros	MGROS	20.20	23.00	14%
Sise Cam	SISE	3.93	4.50	15%
Tofas Oto	TOASO	26.36	28.65	9%
Yapi Kredi Bank	YKBNK	3.91	4.20	7%

Source: Ak Investment *Upsides are as of February 14, 2017*

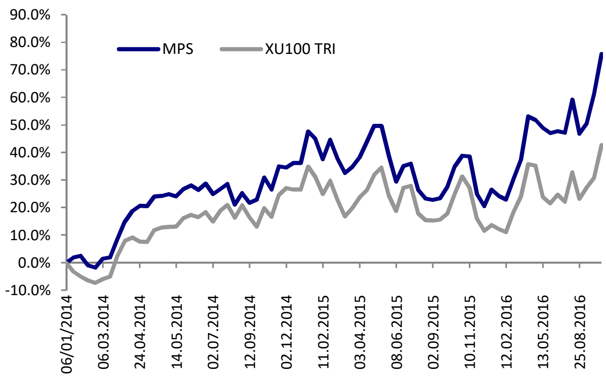
Performance of the Most-Preferred Stocks Portfolio

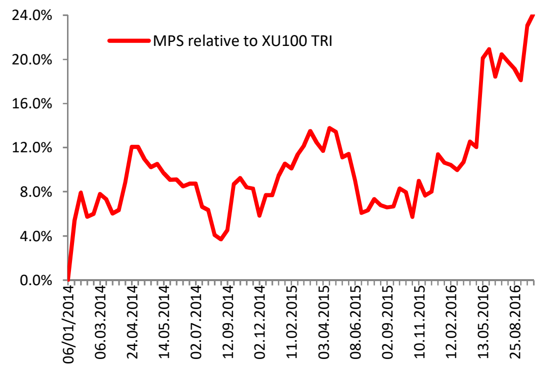
Since its inception at the beginning of 2014, our MPS portfolio has notched up a total nominal return of 76% and a relative return of 24%. The relative return is measured against the XU100 Total Return Index as a benchmark, which is adjusted for dividend payments.

		Performance since latest update in portfolio				Performance since inclusion		
		Share Price *		Return		Date of		
MPS	Ticker	13.01.17	14.02.17	Nominal	Relative **	inclusion	Nominal	Relative**
Aksa Akrilik	AKSA	10.05	11.48	14.2%	5.7%	25.08.2016	39.2%	21.2%
Garanti Bank	GARAN	7.85	8.78	11.9%	3.6%	08.06.2015	14.4%	-1.5%
Migros	MGROS	17.83	20.15	13.0%	4.6%	11.01.2017	16.8%	3.0%
Sise Cam	SISE	3.99	3.92	-1.7%	-9.0%	26.10.2016	18.5%	6.8%
Soda Sanayi	SODA	5.61	5.55	-1.1%	-8.5%	13.05.2016	27.2%	11.4%
Tofas	TOASO	24.37	26.40	8.3%	0.2%	11.01.2017	12.0%	-1.3%
Tupras	TUPRS	75.02	85.55	14.0%	5.5%	11.01.2017	20.4%	6.1%
Yapi Kredi Bank	YKBNK	3.43	3.90	13.7%	5.2%	26.10.2016	4.0%	-6.3%
		Portfolio Return		9.0%	0.9%			
BIST-100 Total Return Index		124,783	134,821	8.0%				

Source: Ak Investment
** Performance of the stocks that are included/excluded from the list are calculated with the weighted average price of the following trading day*
*** Relative to BIST-100 Total Return Index (BIST-100 TRI)*

Most-preferred-stocks performance: Nominal and Relative to BIST-100 Total Return Index





Source: Ak Investment *Source: Ak Investment*

Most-Preferred Stocks

AYGAZ			AYGAZ TI		
Current Price (TL)		12M Target (TL)		Upside	
14.00		16.80		20%	
	2016E	2017F		2016E	2017F
EV/EBITDA	4.0	3.6	PE	9.9	8.4

- We think that the LPG business of Aygaz is in a good position to generate consistently strong cash flow going forward with the improving net debt position (16YE: TRY63mn vs. 15YE: TRY263mn) and margins mostly protected from FX volatility. In addition, the Company is set to benefit from its indirect stake at Tupras.

-In 2017, we expect auto-LPG sales volume to increase slightly by 1.5% YoY to 804,000 tonnes while canister LPG sales to contract by 0.7% YoY to 339,000 tonnes. Our forecast for total sales volume stands at 2.1mn tonnes (+0.9% YoY). In light of strong EBITDA expectation and contribution from EYAS, our net profit forecast for 2017 stands at TRY489mn (+23% YoY).

- We expect Aygaz to distribute a TRY291mn dividend from the 2016 operations in 2017 (TRY0.97 per share), implying a yield of 7.1%.

GARANTI BANK			GARAN TI		
Current Price (TL)		12M Target (TL)		Upside	
8.80		9.30		6%	
	2016E	2017F		2016E	2017F
PB	1.1	1.0	PE	7.3	6.9

- Garanti Bank remains as one of our banking picks primarily thanks to its strong solvency ratios, enhanced free capital base and efficient inflation hedge with CPI linkers. With a 2017F RoE of 14.3%, compared to 13.4% for the peer group, we think Garanti deserves its current premiums on its P/B and P/E multiples relative to the peers.

- After the classification of old shipping loans into NPL category, front loaded provisioning for these bulky sized loans may help the bank to see an easing in its provision burden in 2017.

- With a core Tier-1 ratio of 13.6% and CAR of 14.7%, Garanti is one of the most comfortable banks with solid solvency ratios. Additionally, Garanti Bank has the highest amount of CPI linkers as a proportion of its IEA, to benefit from a possible rise in inflation.

LOGO YAZILIM			LOGO TI		
Current Price (TL)		12M Target (TL)		Upside	
54.20		69.00		27%	
	2016E	2017F		2016E	2017F
EV/EBITDA	15.7	11.9	PE	29.9	17.2

- With strong top-line growth Logo achieved economies of scale and continues to grow orgnically and through acquisitions. There is still considerable upside.

- Logo Yazilim is a leading provider of Enterprise Application Software for SMEs and mid-sized companies. Logo ranks second in terms of sales. Logo has the largest network with c.900 business solution partners (distributors) throughout Turkey. No business partner has a share of more than 1% in Logo's overall sales.

- Well-positioned to benefit from the growth in the market as a local leader. In contrast with the large multi-national players in the market (SAP, Oracle, Microsoft) Logo is focused on the SME segment (organizations with less than 500 employees). By focusing on SMEs Logo has differentiated itself from its larger competitors. The company estimates that only 8% of its revenues are at risk of being lost to larger competitors.

MIGROS			MGROS TI		
Current Price (TL)		12M Target (TL)		Upside	
20.20		23.00		14%	
	2016E	2017F		2016E	2017F
EV/EBITDA	9.3	6.9	PE	n.m.	43.9

- We favor Migros in the retail space with its ongoing operational strength (material sales growth of 16% YoY with accelerated store openings, stable EBITDA margin of c.6% and a strong FCF yield of 13% - the highest among the sector – through negative ~35 days net cash cycle), and we find it hard to justify the low 2017F EV/EBITDA multiple of 6.2x.

- Robust operational performance in 3Q16; despite weak demand conditions, Migros' top-line grew by 16.5% YoY in 3Q16. Domestic sales growth was better at 18.5% YoY in 3Q16.

- Tesco-Kipa acquisition recevied approval from CB. The acquisition process of Tesco-Kipa was approved by the Competition Board on Feb. 10, 2017. We think that Tesco-Kipa acquisition will further strengthen the Migros investment theme and a successful integration of Tesco-Kipa will support the growth prospects of Migros in the long run.

SISE CAM			SISE TI		
Current Price (TL)		12M Target (TL)		Upside	
3.93		4.50		15%	
	2016E	2017F		2016E	2017F
EV/EBITDA	8.4	6.6	P/E	12.2	9.8

- We had upgraded our recommendation for Sise Cam on November 23, 2016. By that time, following an 8% drop in share price in three months (and 17% avg underperformance vs. the listed participations), Sise Cam's premium over the value of the stakes owned in listed participations had slid to 41%, which stood as the lowest level seen in 2016 and compared with the 2016 peak level of 89% seen in May as well as the 5 year historical average of 59%. Since then, the stock put on 21% and outperformed the benchmark by 5%.

- Regardless of the recent share price gains, we do not think the investment story is over. We note that during its strong run against the benchmark in the past 1.5 months, Sise Cam only slightly outperformed its listed participations.As a result, Sise Cam's premium over the value of the stakes owned in listed participations did not post a significant change compared to November 23, thus the company shares stand still attractive from a valuation perspective.

TOFAS OTO			TOASO TI		
Current Price (TL)		12M Target (TL)		Upside	
26.36		28.65		9%	
	2016E	2017F		2016E	2017F
EV/EBITDA	10.8	9.0	PE	13.6	13.2

- Tofas Oto was among the top performers in our coverage universe in the last 2 years. Tofas Oto outperformed the market by 24% in 2016. The commercial success of the Egea PC family (translating into a significant earnings momentum) as well as the stock's defensive characteristics (protected P&L structure, balanced revenue generation between local sales and exports, sound balance sheet, dividend payments) were the reasons behind the strong investor interest.

- We believe the stock's story remains intact for 2017. With the full-year contribution of Egea's HB and SW versions, and extra volumes to come from the ongoing capacity increase, we foresee another round of sound expansion in revenues and EBITDA (by c.20% at both lines).

- We calculate that Tofas is trading on a 2017F EV/EBITDA of 9.0x, at slighlty above its 4Y historic multiple. The figure also compares with the EM peer average of 8.5x. We think the company's defensive qualities and strong P&L outlook deserve a more significant premium.

Most-Preferred Stocks

YAPI KREDI BANK			YKBNK TI		
Current Price (TL)		12M Target (TL)		Upside	
3.91		4.20		7%	
	2016E	2017F		2016F	2017F
PB	0.7	0.7	PE	5.8	5.4

- Yapi Kredi remains as another banking pick, since we believe the bank had been oversold due to its CAR's sensitivity towards currency volatility and Italian banking risks via joint owner, Unicredit.
- Its shares were the worst performing among peers in the last six months and have underperformed the BIST-banking index by 20% during this period. Beside its high sensitivity towards the volatility in currency and interest rates (with a stretched core Tier-1 ratio relative to peers), the ongoing uncertainty in Italian banking system also affected its share price negatively.
- Yapi Kredi has relatively more tightened solvency ratios (CAR: 13.2% & core Tier-1: 9.5% on a consolidated basis at end-2016) than most of its peers and expects approx. 100bps reduction due to Fitch's rating downgrade. Yet management was confident to solve the possible pressure on its capital strength and/or asset growth through several measures without a capital injection.

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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.

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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.

Under Review (U/R). An under review rating is temporarily assigned when the analyst starts an appraisal process of the rating for a potential revision, or the issuer has a significant material event with further information pending or to be announced. This does not revise the previously published rating, but indicates that the analyst is actively reviewing the investment rating or waiting for sufficient information to re-evaluate the analyst's expectation of total return on equity.

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