

December 21, 2017

## Alluring Dividend Yield

### The leader in brokerage sector

Is Yatirim has 7.9% and 14.8% market share in BIST equities and derivatives markets in 9M17, placing it in 2<sup>nd</sup> and 1<sup>st</sup> places respectively. It is the largest brokerage house according to assets and shareholders' equity in Turkey as its assets and equity constitute 29% and 13% of the sector totals as of Sep'17.

### High dividend payment to be a major catalyst

Is Yatirim's average payout ratio was 82% in the last three years. Assuming a payout ratio of 82% in the coming years, we estimate a dividend payment of TL0.34/share, indicating a yield of 13.8% for 2017.

### Diversified revenue streams offer protection and flexibility

The restrictions introduced in leveraged FX trading in 1Q17 had negative impacts on many companies in the brokerage sector. However, Is Yatirim was barely affected with the help of its diversified revenue sources. According to our classification, the company has eight major revenue lines, none of which constitute more than 25% of total revenues.

### Strong improvement in profitability in 9M17

Is Yatirim's net income grew 179% y/y in 9M17 supported by robust growth in major revenue lines like trading income (+97% y/y), interest income (+49% y/y) and equity trading commissions (+44%). The company's annualized ROAE reached 25% in the period. While we foresee 20% EPS decline in 2018 with the normalization in trading revenues and interest income, we believe the company may maintain an average of ROE of 22% in 2018-2027 period with the help of growth in core revenues as financial markets deepen in Turkey as well as restrained opex growth.

### Initiated with Outperform with a TP of TL3.00

Is Yatirim shares are up 113% ytd, outperforming BIST100 index by 51%. The shares are currently trading at 1.3x 18E P/B and 7.4x 18E P/E. We still believe the stock is attractive considering the company's strong profitability, high dividend yield and growth potential. Our TP of TL3.00 implies 22% upside potential and we initiate coverage on ISMEN at Outperform.

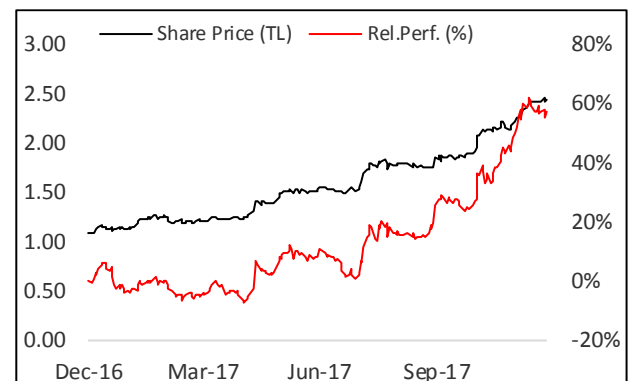
Bloomberg/Reuters Code	ISMEN TI / ISMEN.IS
Current Price TL	2.45
Target Price TL	3.00
Previous TP TL	-
Upside Potential	22%
Expected Dividend Yield	11.2%

Market Cap (USD mn)	227
Free Float (%)	28%
12M high/low (TL)	2.56 / 1.07
ADV (3M avg - USD mn)	0.3

Estimates, TLmn	2016	2017E	2018E	2019E
Net Revenues	439	589	609	668
% growth	16%	34%	3%	10%
Operating Profit	72	241	226	253
% growth	32%	235%	-6%	12%
Net Income	54	146	119	130
% growth	33%	171%	-19%	9%
Equity	573	674	673	705
Assets	6,518	7,767	7,818	8,155
RoE	9.7%	24.0%	17.6%	18.8%
Dividends	45	120	97	106
% payout ratio	84%	82%	82%	82%
% dividend yield	5.2%	13.8%	11.2%	12.2%

Multiples				
P/E	16.1	6.0	7.3	6.7
P/B	1.5	1.3	1.3	1.2

	1M	3M	YTD
Rel. Performance	9%	25%	51%
Absolute	14%	32%	113%



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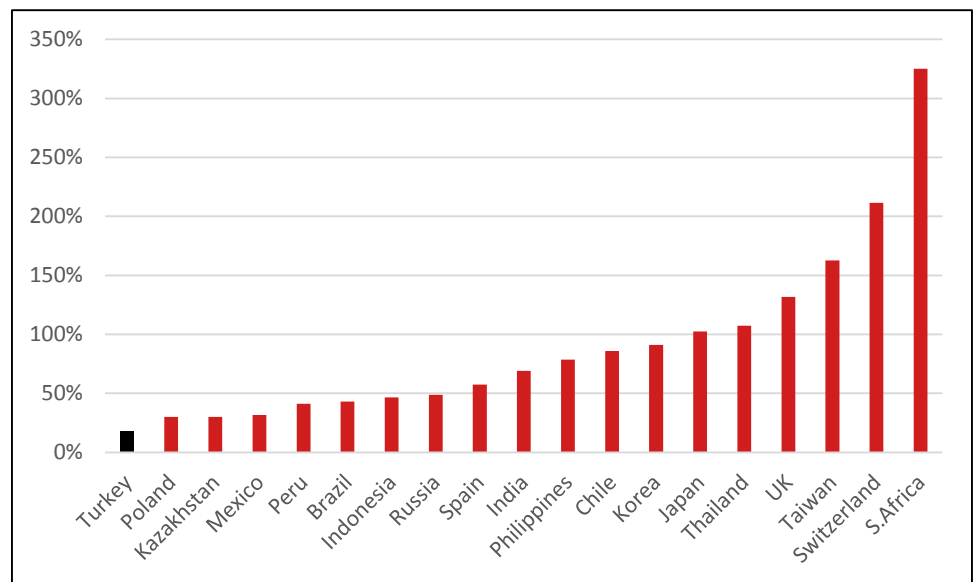
**INVESTMENT THEME**

**Turkish financial markets remains underpenetrated**

Despite the development in the recent decades, Turkish financial markets still has much room for growth. As a percentage of GDP, total market cap of companies listed on BIST is way below the levels seen in countries in similar development stage as Turkey. Similarly, Turkey is behind many of its peers in derivatives volumes and number of listed debt instruments.

As Turkish financial markets develop, we believe Is Yatirim will be one of the main beneficiaries with the help of its strong position in the market and diversified business lines.

**Exhibit 1: Total Mcap of leading exchange / Nominal GDP, 2016 figures**



Source: WFE, IMF, Oyak Securities calculations

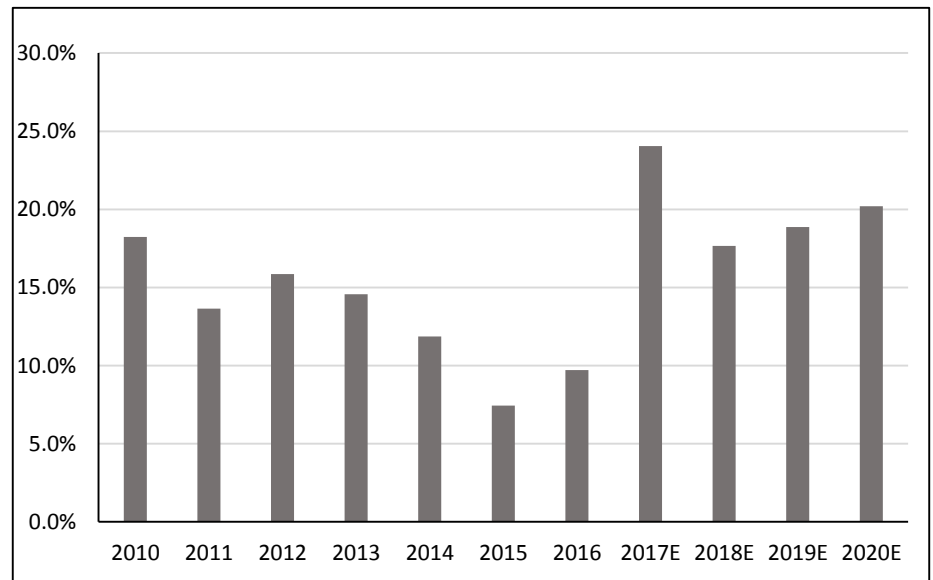
The government had announced its intention to make Istanbul a regional finance center, though we have not seen a solid development on this respect yet. A government support for the finance sector may give help to the sector’s growth.

Recent news flow suggests the government is working on a scheme to force or encourage firms carrying short FX position to hedge their position. While most of the companies may work with banks to hedge, brokerages may also offer hedging products, providing a growth opportunity for the sector.

### Strong improvement in profitability

Is Yatirim's ROE plunged after 2013 as revenues were hit by uncertainties and market volatility. We had seen a recovery starting in 2016 and ROE in 9M17 reached 25% with 179% y/y growth in net income, supported by robust growth in major revenue lines like trading income (+97% y/y), interest income (+49% y/y) and equity trading commissions (+44% y/y). While we foresee 20% EPS decline in 2018 with the normalization in trading revenues and interest income, we believe the company may maintain an average of ROE of 21% in 2018-2027 period with the help of growth in core revenues as financial markets deepen in Turkey as well as restrained opex growth.

### Exhibit 2: Is Yatirim's ROE



Source: The company, Oyak Securities calculations

We believe improvement in participation's performance to be another factor that will support earnings growth in the coming years. Is Yatirim has participations operating in portfolio management, NPL management, private equity businesses as well as an investment trust and a brokerage in UK. Efes Asset Management (NPL management), Is Private Equity and Maxis (UK based brokerage) had negative contributions to consolidated financials in 9M17, and Is Yatirim's consolidated net income of TL113mn remained below TL126mn net income on solo basis in the period.

We expect to see an improvement in profitability of Efes Asset Management and the companies in retail sector that Is Private Equity had invested in with the help of improving macro background. After remaining mostly silent in 2015-2016 period, Efes AM acquired three new NPL portfolios this year which should also support the company's revenues.

**Exhibit 3: Contribution of subsidiaries**

	2015	2016	2017/09
<b>Is Investment Only</b>	<b>48.3</b>	<b>87.8</b>	<b>125.7</b>
Foreign based subsidiaries	-5.7	-2.7	-3.3
Is Investment Trust	1.7	5.6	5.8
Is Private Equity (*)	-7.3	-9.1	-5.2
Is Asset Management	9.1	11.6	12
Efes NPL Asset Management	12.9	-17.7	-5.9
Elimination Adjustments (**)	-18.5	-21.6	-16.4
<b>Consolidated Net Profit</b>	<b>40.5</b>	<b>53.9</b>	<b>112.7</b>

Source: The company

(\*) Profit attributable to equity holders of the company reallocated at above table.

(\*\*) Dividend and revenue elimination with subsidiaries.

Cost control was another factor in the improvement in profitability. Opex remained flat y/y in 9M17 in consolidated basis, thanks to the strict cost management policy.

**Alluring Dividend Yield**

Is Yatirim's average payout ratio was 82% in the last three years. Assuming a payout ratio of 82% in the coming years, we estimate a dividend payment of TL0.34/share, indicating a yield of 13.8%.

**Low trading volume poses a risk**

Average daily volume in the last three months was mere USD291k despite a significant improvement compared to previous year (4Q16 ADTV was USD48k). Low liquidity may make it harder to buy or sell the stock for the institutional investors.

### Valuation

We value Is Yatirim using Gordon Growth model. We assume a risk free rate of 12% and equity risk premium of 5% to reach a CoE of 17%. We assume a long term growth rate of 7%. Hence, we calculate a target price of TL3.00/share, implying 22% upside. We initiate coverage of ISMEN with a 'OUTPERFORM' rating.

We assume a CAGR of 7% in revenues in 2017-2027 period in our model, driven by 10% average annual growth in commissions and other revenue, while we expect 6% growth in trading revenues. On the other hand we forecast opex will expand 8% CAGR in the same period.

#### Exhibit 4: GGM Valuation

Summary (TLmn)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Equity	674	673	705	745	772	808	842	877	916	955	990
Net Income	146	119	130	146	152	165	175	186	198	210	215
RfR	12.0%										
Equity Risk Premium	5.0%										
Beta	1										
CoE	17.0%										
P/E	5.97	7.32	6.71	5.98	5.74	5.28	4.97	4.67	4.38	4.14	4.04
P/BV	1.30	1.29	1.23	1.17	1.13	1.08	1.03	0.99	0.95	0.91	0.88
ROE	23.4%	17.6%	18.8%	20.1%	20.0%	20.8%	21.2%	21.7%	22.1%	22.5%	22.1%

#### Gordon's Growth Model

Average Core ROE (Avg. 18 - 27)	20.7%
Cost of Equity	17.0%
Long-term Growth Rate	7.0%
Implied Target P/B	1.37
Core Equity (1y forward looking) (TLmn)	673
Target Core Equity Valuation (TLmn)	922
(+) Participations (TLmn)	22
18E Dividends (TLmn)	120
<b>Target Value</b>	<b>1,064</b>
Current Market Value (TLmn)	870
Number of Shares (mn)	355
<b>Target Price / Share (TL)</b>	<b>3.00</b>
Current Price / Share (TL)	2.45
<b>Upside Potential</b>	<b>22%</b>

## Company Overview

Is Yatirim was established in 1996 as a subsidiary of Isbank, which currently has 67% stake in the company. It is the largest brokerage house according to assets and shareholders' equity in Turkey as its assets and equity constitute 29% and 13% of the sector totals as of Sep'17 according to Turkish Capital Markets Association data. The company, along with its subsidiaries, is active in all major investment banking business lines. Major subsidiaries of Is Yatirim are listed below.

### Exhibit 5: Is Yatirim Subsidiaries

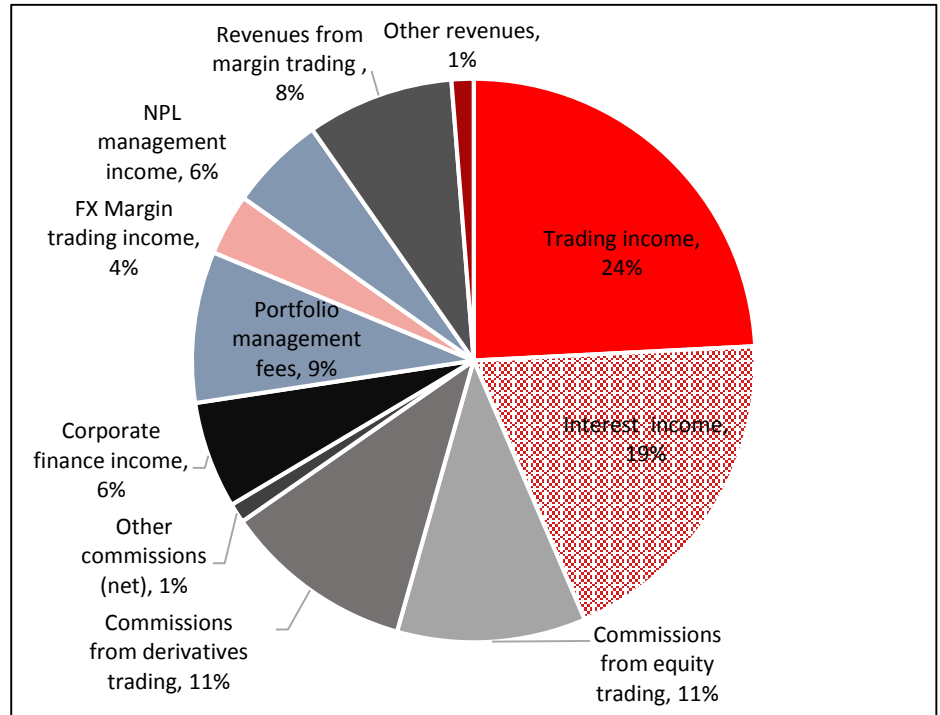
Company Name	Business Line	ISMEN's stake
Is Asset Management	Asset management	70%
Efes Asset Management	NPL management	74%
Is Private Equity	Private Equity	29%
Is Investment Trust	Closed-end investment trust	29%
Maxis Investments	UK based brokerage	100%

Source: The company

Is Yatirim has a diversified revenue basis with no single revenue source exceeding a quarter of revenues in 9M17. As such we believe the company is well protected against a possible volatility in one operating line as the impact in one line may be compensated by other lines. Main revenue lines are as follows:

1. Trading income
2. Interest and derivatives income
3. Brokerage commissions (Equities, derivatives, fixed income)
4. Corporate finance revenues
5. Asset management fees (through its subsidiary, Is AM)
6. Margin trading income
7. NPL management income (through its subsidiary, Efes AM)
8. Income from private equity investments (through its subsidiary, Is Private Equity)

**Exhibit 6: Share of major revenue lines in total revenues (9M17)**



Source: The company

Revenue growth was strong in 9M17 at 33% in 9M17, supported by robust growth in in major revenue lines like net trading gains (+97% y/y), interest income (+49% y/y) and equity trading commissions (+44%). Trading income growth was driven by increase in warrant trades and positive contribution of bond share trading, while equity trading commissions rose with the help of higher trading volume in the market.

We anticipate a slowdown in revenue growth in 2018, mainly due to moderation in net trading gains and interest income. Equity trading commissions, margin trading revenues and corporate finance revenues are expected to continue to grow strongly next year. On the longer term, we believe main growth area will be commissions and similar revenues attained from services as financial services remain underpenetrated in Turkey and there is significant room for growth.

**Exhibit 7: Breakdown of revenues**

TL mn	2015	2016	2017E	2018E	2019E	2020E
Trading income	66	64	140	140	154	167
Interest income (excl. FX margin trading)	46	81	118	115	114	117
FX Margin trading income	31	35	19	13	14	16
Commissions from equity trading	40	46	67	77	89	100
Commissions from derivatives trading	39	79	62	62	69	78
Other commissions (net)	1	4	7	8	9	10
Corporate finance income	18	25	33	40	45	49
Portfolio management fees	38	38	52	52	60	69
NPL management income	51	19	33	36	40	43
Revenues from margin trading	48	46	51	61	69	76
Other revenues	1	3	6	5	5	5
<b>Total Revenues</b>	<b>378</b>	<b>439</b>	<b>589</b>	<b>609</b>	<b>668</b>	<b>728</b>
<b>% of Revenues</b>						
Trading income	17%	15%	24%	23%	23%	23%
Interest income (excl. FX margin trading)	12%	18%	20%	19%	17%	16%
FX Margin trading income	8%	8%	3%	2%	2%	2%
Commissions from equity trading	11%	10%	11%	13%	13%	14%
Commissions from derivatives trading	10%	18%	11%	10%	10%	11%
Other commissions (net)	0%	1%	1%	1%	1%	1%
Corporate finance income	5%	6%	6%	7%	7%	7%
Portfolio management fees	10%	9%	9%	9%	9%	9%
NPL management income	13%	4%	6%	6%	6%	6%
Revenues from margin trading	13%	10%	9%	10%	10%	10%
Other revenues	0%	1%	1%	1%	1%	1%
<b>y/y growth</b>						
Trading income		-4%	121%	0%	10%	8%
Interest income		76%	46%	-3%	0%	2%
FX Margin trading income		14%	-46%	-31%	10%	10%
Commissions from equity trading		100%	15%	48%	15%	15%
Commissions from derivatives trading		100%	-21%	0%	12%	12%
Other commissions (net)		184%	97%	9%	9%	12%
Corporate finance income		41%	33%	20%	12%	10%
Portfolio management fees		2%	36%	0%	15%	15%
NPL management income		-62%	69%	10%	10%	8%
Revenues from margin trading		-4%	11%	20%	12%	10%
Other revenues		228%	142%	-26%	0%	0%
<b>Total Revenues</b>		<b>16%</b>	<b>34%</b>	<b>3%</b>	<b>10%</b>	<b>9%</b>

Source: The company, Oyak Securities estimates



**Trading income**

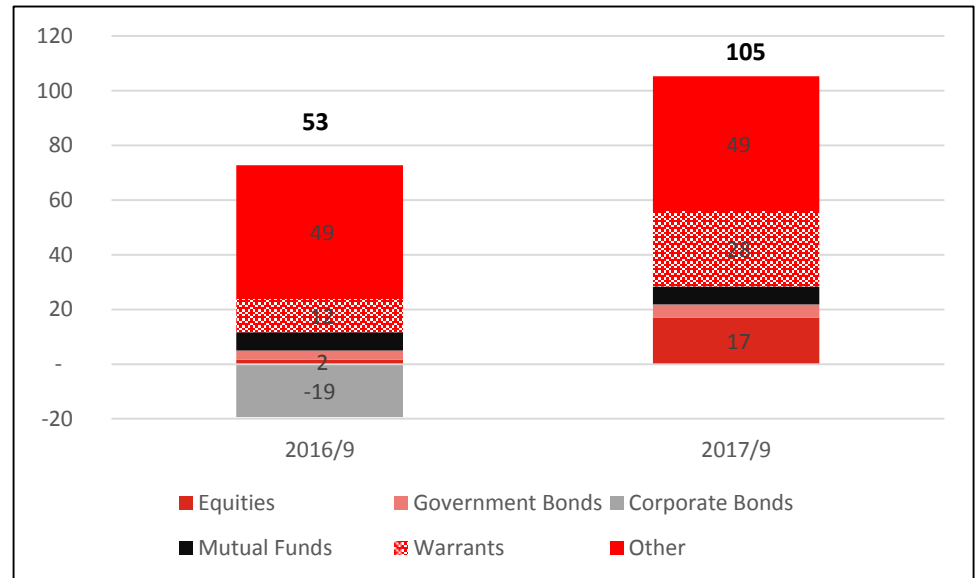
Is Yatirim is booking income from trading of equity shares and bonds. The company does not carry positions overnight and trades are completed intraday. Besides Is Yatirim’s own transactions, Is Investment Trust’s trades are also included consolidated revenues.

Trading income line additionally includes income from trading of warrants. Unlike the trades of shares or bonds whose prices are set in the market, warrant trades are done as a counterparty to the company’s clients. As such this income may be seen as a service income (similar to commissions) rather than trading income. Income from warrant trades amounted to TL28mn in 9M17, or 26% of trading revenues.

Another contributor to trading income is gross profit of companies that Is Private Equity invested in. We believe contribution of these companies to trading income was TL60mn in 9M17 (57% of total)

Excluding non-financial trading income and income from trading of warrants, net income from trading of financial instruments like shares, bonds and funds was mere TL17mn in 9M17 (16% of total).

**Exhibit 8: Breakdown of net trading gains (TL mn)**



Source: The company

**Interest and derivatives income**

Is Yatirim had TL4.8bn of financial assets and TL4.4bn of financial liabilities as of Sep-end. The company is using its capital strength, and leveraging up to exploit spreads between different markets. Most of the assets are invested in deposits, while main funding sources are money market borrowings and issued bonds.

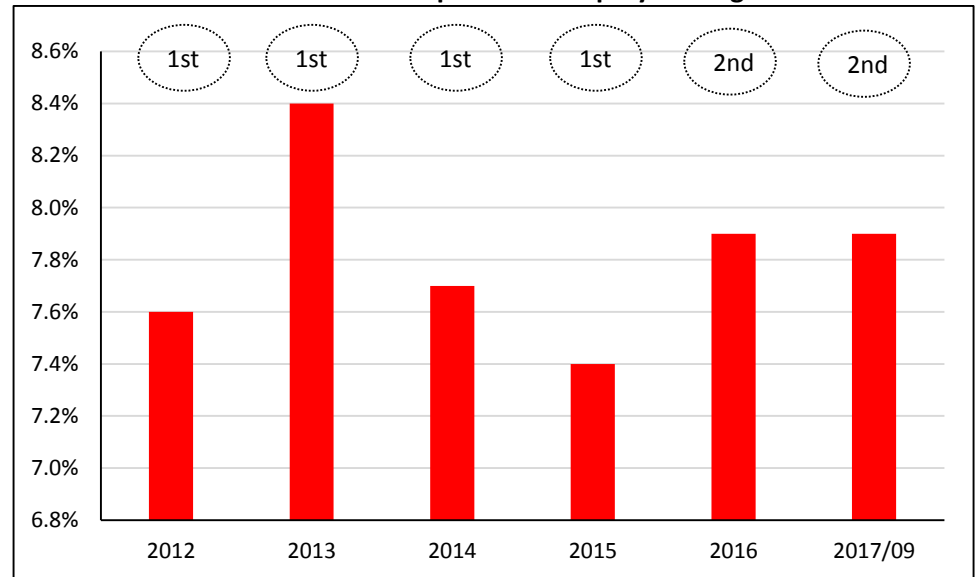
Interest income also includes income from FX margin trading income. FX margin trading was one of the major revenue sources of the brokerage industry until Capital Markets Board (CMB) introduced some restrictions in 1Q17. CMB increased the minimum initial collateral amount and lowered the maximum leverage to 10x from 100x in Feb’17. Consequently trading volume in leveraged FX trading collapsed. Is Yatirim’s income from leveraged FX trading came down from TL30mn in 9M16 to TL15mn in 9M17, with TL7mn of this being booked in 1Q17.

**Brokerage Commission Income**

Equity trading and derivatives trading are the main sources of commission income, constituting 46% of brokerage commissions each.

**Equity Trading:** In 9M17, the company has 7.9% market share in BIST’s trading volume and ranks second in the market. While the company lost its market leadership in 2016 to an aggressive competitor, it remains one of the major players in the market.

**Exhibit 9: ISMEN market share and position in equity trading**



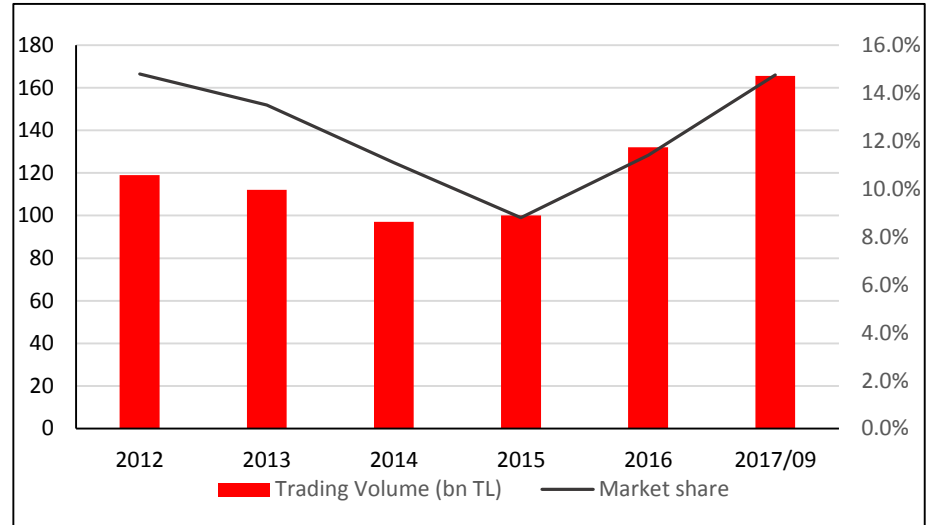
Source: The company, TSPB

We assume Is Yatirim’s market share will remain stable in the coming years with 15% annual growth in total trading volume and 0.7bps declined in average commissions until 2027. Consequently we forecast equity commission to grow at a CAGR of 12% in 2017-2027 period.

**Derivatives Trading:** Commission income from derivative transactions includes income from BIST Derivatives Market (VIOP) as well as commissions earned from derivative transactions in international markets. While commissions earned from BIST derivatives market rose from TL13mn in 9M16 to TL20mn in 9M17, income from trading in international markets

declined from TL39mn to TL30mn as limitations on leverage introduced in Feb'17 also had a negative effect on international derivatives trading.

**Exhibit 10: ISMEN gaining market share in BIST derivative markets**



Source: The company, BIST, Derivatives Market Data

### Corporate Finance

Is Yatirim advises companies in M&A, debt instrument offerings as well as equity IPOs. Corporate finance revenues constituted 6% of revenues in 9M17. We expect 20% growth in corporate finance revenues in 2018 with the help of acceleration in IPOs. There are many large size IPOs in the pipeline (Medical Park, Enerjisa, BIST, Defacto, Memorial, Sok Markets, Trabzon Port, Baskent Dogalgaz) and Is Yatirim has a couple of mandates among these IPOs, according to press news.

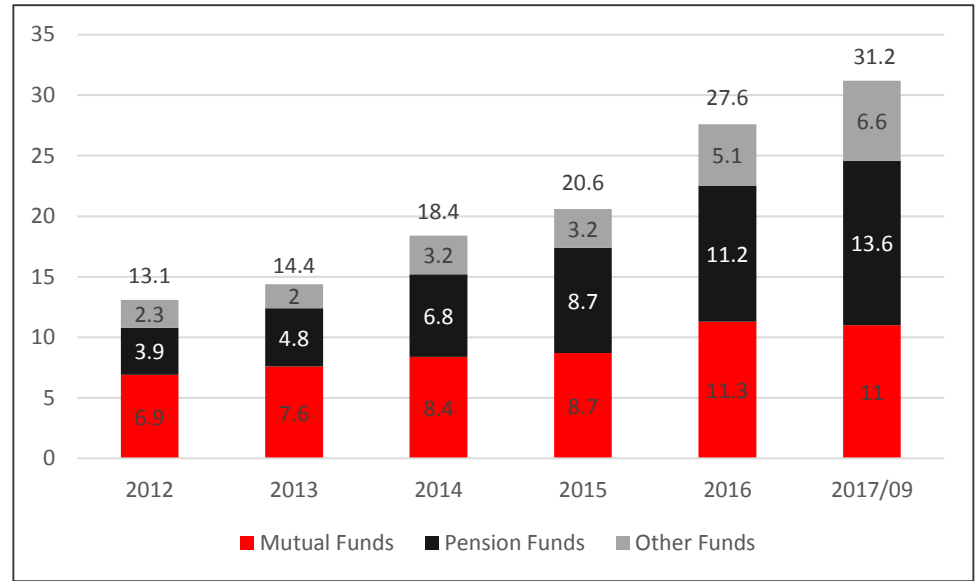
### Asset Management

Is Asset Management, in which Is Yatirim has 70% stake, was managing TL31.2bn as of Sep'17. Mutual funds constitute 35% of AUM (TL11.0bn, up 14% y/y), while pension funds constitute 44% of AUM (TL13.6bn, up 27% y/y). Most of pension AUMs are Anadolu Hayat's funds, though the company also manages funds of Axa and Aegon. The rest of AUMs are mainly portfolios of private asset management and alternative investment products.

Asset management fees were 9% of total revenues in 9M17. While we anticipate robust growth in the sector's AUM to continue in 2018, we expect asset management fee income to remain stable in 2018 due to decline in fee rates in pension funds. A new regulation will take effect in the beginning of 2018 that will limit pension companies to allocate at most 40% of pension AUM to a single portfolio manager, forcing them to work with at

least three portfolio companies. This is expected to increase competition and bring down fees for the sector.

**Exhibit 11: Pensions constitute the largest share of ISMEN’s AUM (TL bn)**

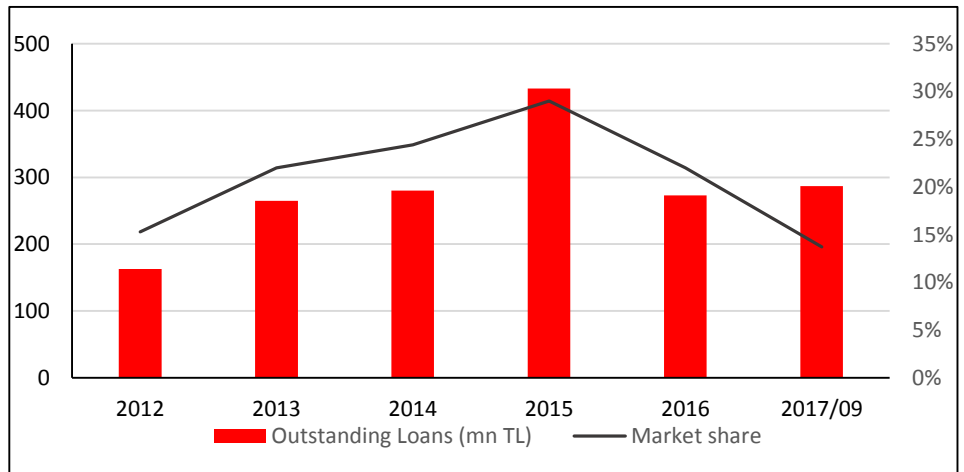


Source: The company. Other funds includes portfolios of private asset managers, alternative investment products management, Turkishfind and portfolios of Is Investment Trust

**Margin Trading**

Is Yatirim has around TL287mn of loans outstanding as of 3Q17, funded by the company’s free capital. The company determines interest it charges on these loans as a multiple of prevailing O/N rate at repo markets. Consequently, higher O/N rates increase the company’s interest income. We calculate average yield in 3Q17 to be around 18.9%, 1.5-1.6x average O/N rate in the period.

**Exhibit 12: ISMEN lost some market share in the recent years**



Source: The company, TSP, Oyak Securities calculations

### NPL management revenues

Is Yatirim has 74% stake in Efes Asset Management, a NPL management company. Asset management companies acquire NPL portfolios of banks at a discount to nominal value, aiming to maximize collections to make profits. Consequently, collection rate is the critical factor for the companies. As collections remained below expectations, Efes AM had TL23.9mn and TL7.1mn losses in 2016 and 9M17, respectively. We expect the company to reach breakeven level in 2018 thanks to better macro outlook and actions taken by the management. Efes AM acquired three new NPL portfolios this year which should support the company's revenues in the coming period. Average acquisition price for these acquisitions were 5.2 cents to a dollar compared to 6.1 cents average we had seen for the sector.

### Is Private Equity

Despite Is Yatirim's mere 29% share in Is Private Equity, the latter company is consolidated into Is Yatirim's financials as it is controlled by Is Yatirim & its group companies. The company is listed in BIST with 31% free float and TL123mn mcap.

The company had investments in many companies in technology, health care and consumer sectors, some of which are also consolidated to Is Yatirim's financials. Weak consumer sentiment and higher FX rates led to losses in some of these companies in 9M17 and contribution to consolidated net income was -TL5.2mn. A successful exit from one of the investments may be a catalyst for ISMEN shares.

#### ***Exhibit 13: IS PE's current investments***

	Sector	IS PE's share	Fair Value (TL mn) (*)
Toksoz Spor	Consumer	88%	59
Ortopro	Health Care	91%	36
Num Num	Consumer	84%	36
Nevotek	IT	90%	21
Radore (**)	Services	26%	18
Tatil Budur (Mika Tur) (**)	Tourism	20%	14

Source: The company (\*) as shown on IS PE Balance Sheet as Sep'17  
(\*\*) not consolidated

Summary Income Statement (TL mn)	2015	2016	2017E	2018E	2019E	2020E
Net Trading Income	66	64	140	140	154	167
Interest & Derivatives Income	127	135	170	164	168	176
Commission Income (net)	136	192	222	239	272	305
Other Revenues	48	48	57	66	73	80
<b>Gross Profit</b>	<b>378</b>	<b>439</b>	<b>589</b>	<b>609</b>	<b>668</b>	<b>728</b>
Opex	-314	-356	-352	-387	-418	-451
Other Operational Income/Expenses	-8	-11	3	3	3	3
<b>Operational Profit</b>	<b>55</b>	<b>72</b>	<b>241</b>	<b>226</b>	<b>253</b>	<b>280</b>
Income from Participations	-1	-4	-1	0	0	0
Financial Income/Expenses	-20	-13	-39	-40	-40	-43
<b>Pre-Tax Profit</b>	<b>34</b>	<b>54</b>	<b>200</b>	<b>185</b>	<b>213</b>	<b>237</b>
Taxes	-11	-21	-42	-39	-45	-50
Minority Interest	-18	-20	12	27	39	42
<b>Net Income</b>	<b>40</b>	<b>54</b>	<b>146</b>	<b>119</b>	<b>130</b>	<b>146</b>

Summary Balance Sheet (TL mn)	2015	2016	2017E	2018E	2019E	2020E
<b>Current Assets</b>	<b>5,586</b>	<b>6,328</b>	<b>7,602</b>	<b>7,639</b>	<b>7,962</b>	<b>8,346</b>
Cash & Financial Investments	3,502	4,339	4,975	4,964	5,149	5,370
Trade Receivables	1,815	1,738	2,357	2,373	2,475	2,596
Other Assets	269	251	270	302	338	379
<b>Long Term Assets</b>	<b>195</b>	<b>190</b>	<b>166</b>	<b>179</b>	<b>193</b>	<b>209</b>
Financial Investments	45	35	36	39	42	45
Participations	25	22	21	22	24	26
Tangible Fixed Assets	33	34	37	40	43	47
Intangible Assets	61	57	57	62	67	72
Other L/T Assets	31	42	14	16	17	18
<b>Total Assets</b>	<b>5,781</b>	<b>6,518</b>	<b>7,767</b>	<b>7,818</b>	<b>8,155</b>	<b>8,554</b>

<b>Current Liabilities</b>	<b>4,698</b>	<b>5,428</b>	<b>6,658</b>	<b>6,688</b>	<b>6,965</b>	<b>7,295</b>
Financial Liabilities	3,277	3,855	4,469	4,471	4,644	4,850
Derivatives						
Other Current Liabilities	84	151	112	125	140	157
<b>Long Term Liabilities</b>	<b>175</b>	<b>210</b>	<b>126</b>	<b>141</b>	<b>158</b>	<b>177</b>
Financial Liabilities	141	171	112	125	140	157
Other L/T Liabilities	35	39	14	16	17	20
<b>Minority Interest</b>	<b>350</b>	<b>308</b>	<b>309</b>	<b>316</b>	<b>327</b>	<b>338</b>
<b>Equity</b>	<b>558</b>	<b>573</b>	<b>674</b>	<b>673</b>	<b>705</b>	<b>745</b>
<b>Total Liabilities &amp; Equity</b>	<b>5,781</b>	<b>6,518</b>	<b>7,767</b>	<b>7,818</b>	<b>8,155</b>	<b>8,554</b>

Source: The company, Oyak Securities Management



### Disclaimer

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