Turkish Retail & Wholesale Sector

We believe in the Turkish food retail sector's solid growth prospects. We do not reduce the entire retail story to lower prices, nor do we prefer one format to another. We are not devoted to the small store format. We like players that are successful at store execution, that are early adopters of new changes in the market and that boast strong cash flow generation.

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Short- and long-term catalysts. We argue that, in times of a gloomy macro outlook and prevailing uncertainties (such as now), the retail sector represents a relatively safe choice, thanks to its defensive nature. The sector's immature and fragmented structure, plus Turkey's intact growth prospects, signals a high growth environment for modern retailers.

Organic and inorganic growth. We anticipate the total market size to grow by 11% CAGR over the next five years, presenting a favorable environment for organic growth. However, due mainly to the government's greater focus on poorly monitored and unregulated sectors *(i.e. a competitive edge for many retail chains)*, and with many lacking the financial strength to pursue higher growth levels, we expect to see many M&As in the market.

Local knowledge is priceless. We do not agree with general proposals such as favoring one format and/or business model. The retail business is a purely domestic one and success stems from a better understanding of local dynamics and positioning accordingly. Thus, the one size fits all approach may not work in this sector. Moreover, company-specific successes should not translate into sector-wise conclusions, in our view.

Migros – top pick *(Buy, target price: TRY 22.0, upside: 29%)***:** Migros is set to record better operating margins in 2012, thanks to the sale of its discount arm. The current share price *(implying 2012e EV/EBITDA of 10.6x)* presents good entry levels ahead of a possible tender offer opportunity after the likely exit of the current main shareholder.

BIM – fairly valued *(Reduce, target price: TRY 61.0, downside: -10%)***:** An exceptional success and growth story, and still the only true hard discounter in the market, for which we have the most bullish growth outlook. However, operational positives are already in the price.

Bizim Toptan – ahead of challenges *(Hold, target price: TRY 27.0, upside: 9%)***:** Although we have concerns over the growth story of the wholesale market in general, we believe Bizim Toptan could still deviate from the general trend, thanks mainly to the fragmented structure of the market and limited stake of organized players in total. We welcome management's greater focus on the HoReCa segment. A change in the company's business model in the next decade would not surprise us.

Kiler – inorganic growth expert *(Sell, target price: TRY 2.80, downside: 12%)***:** We do not favor Kiler's strategy of investing in inventory, working with a positive cash cycle and targeting higher operational margins, as it is a particularly risky approach, in our view. However, the company could surprise the market with its inorganic growth proficiency and/or by becoming an acquisition target itself.

Executive summary

Short- and long-term catalysts

Sector's <u>main</u> positives: (i) low beta, (ii) better predictability in revenues and earnings, and (iii) higher cash flow generation ability

The Turkish food retail sector can be characterized by its defensive nature and growth prospects, especially for modern retailers.

Total food & beverage and tobacco consumption in Turkey registered a 4.6% CAGR between 2003 and 2011 in real terms, remaining slightly lower than Turkish GDP growth of 5.2% in the same period, but never experiencing negative growth. The sector's low beta, better predictability in revenues and earnings, and higher cash flow generation ability makes it less vulnerable to economic downturns, and this may attract investor attention in times of gloomy macro outlook, such as now.

Trend in market is in favor of organized retailers

On the other hand, there are enough reasons to be positive about the sector for the long run as well. Besides Turkey's favorable demographics and the high Turkish propensity for consumption, the current market structure also favors modern retailers. That is, the total FMCG market in Turkey is still dominated by unorganized players due to the late entrance of modern retailers to the market starting from the 1990s. Despite ongoing transition, the retail market still has a conventional structure, where only 43% of the FMCG market is carried out by organized players, vs. 30% in 2004. Considering that the trend in the market is in favor of organized retailers, we expect these to be the main beneficiaries of our 11% market size growth assumption by end-2015.

Credible inorganic growth opportunities

We anticipate many M&As in sector

The Turkish retail sector has a very fragmented structure. The top four players' share of the total organized market hovers at around ~30%. Other than national retail chains *(e.g. BIM, Migros)* operating throughout the country, there are many small- to mid-sized chains assessed as organized retailers operating regionally.

Reportedly, regional chains recorded 16% revenue growth in 2010 and 22% in 9M11, vs. 11% for national retailers and 10% growth for the corresponding periods. The outperformance of regional chains is unsurprising to us as we believe these have a competitive advantage against many (not all) national chains in terms of local knowledge and close ties with locals. Moreover, many suppliers that want to diversify their risk and dependence on the limited number of national retailers are supporting local chains.

Environment is getting tougher for those not benefiting from economies of scale and operating in single region with fewer than 20 stores

Despite their high growth over the past two years, we still expect the survival of individual markets or local retail chains to be very difficult, as many of them are still far from benefiting from economies of scale since they generally operate in a single region and with fewer than 20 stores. Additionally, the government's greater focus on weakly monitored and unregulated sectors will eliminate many regional's competitive edge against national retailers.

Consequently, we anticipate the number of players in the market gradually diminishing through M&A activities, and there are credible inorganic growth opportunities in the market. However, we should remind readers that we are not arguing that only a few big players will acquire the small regional chains.

Indeed, certain regional chains will also capitalize on the fragmented market structure in their plans to graduate to national retail chain status.

Format selection is result, not cause, and local knowledge is key

Company-specific successes should not translate into sector-wise conclusions *(e.g. BIM's exceptional success does not necessarily mean hard discount is best format)*

We do not prefer one format over another in the retail universe and nor do we agree with general proposals such as favoring one format and/or business model. The food retail business is a domestic one, and success stems from a better understanding of local dynamics and positioning accordingly. We believe the best format is that which best fits the needs of its consumers. Thus, the one size fits all approach may not work in this sector. Moreover, company-specific successes should not translate into sector-wise conclusions, in our view.

For example, it is more reasonable to operate in the discount format where consumers are highly price sensitive, whereas the supermarket format is a better way to attract consumers who are more geared towards fresh fruits, vegetables and meat, and who seek product diversification.

The same approach is also valid for wholesalers. That is, a focus on small sized stores (~2,000sqm) may yield good results in places where the main customers are bakkals (i.e. small mom-and-pop stores), and traders, while those small sized stores may fall short of fully supplying the needs of "HoReCa" type customers.

Consequently, in our understanding, as long as a retailer (i) has a convenient location *(i.e. proximity – not a term specific to discounters, by the way),* (ii) understands the market dynamics and has intensive local knowledge and (iii) is able to generate enough cash flow to auto-finance its growth plans, it is of secondary importance in which format it operates, because these criteria will shape the best-performing format in any given location. We thus refrain from describing certain formats and/or business models as winners.

Profitability should be supported by negative cash cycle

Operating with negative cash conversion cycle is key to long-term success in sector

In the past, when Turkey was experiencing a high interest rate environment, it was very meaningful to invest cash generated through operations into interest-bearing assets. Indeed, many people, conglomerates too, entered the retail business simply to take advantage of the sector's cash generation ability. Although in today's lower interest rate environment, where the attractiveness of interest income is not what it used to be and the importance of core business profitability is increasing, we still prefer companies working with a negative cash cycle, and stress the importance of high cash generation in support of further growth.

As an additional note, we believe that most of the small- and mid-sized chains which will eventually be forced to exit the market, or else become an acquisition target. This is not because they are making a loss, but because they are unable to generate sufficient cash to support new store openings, as the currently competitive market environment does not allow a retailer to maintain its market share by operating existing stores alone.

We do not reduce whole retail story to lower prices

We are well aware of the importance of pricing in the retail business, but are also of the opinion that the reduction of the whole retail story to price indexes is not particularly accurate, as there are other features in shopping (e.g. service quality, product quality, product availability, brand awareness) and as not all consumers are price sensitive.

Pricing is not sole determinant in shopping decisions and 'so-called' pricing indexes can be misleading

In our view, the availability and quality of fresh fruit, vegetables, meat and baked products in a company's stores should also be considered together with price indexes before arriving at broad conclusions in stock comparisons, as these products are crucial in shaping Turkish consumers' choices.

Lastly, we also question the accuracy of price indexes, as they may very well vary according to the products taken into consideration while calculating the indexes. Unfortunately, we do not have any official report prepared by a third-party indicating the price differences between market players other than the announcements made by the companies themselves.

New commercial code is very important issue for sector

Legislation changes should be closely followed as they have significant implications on retailers.

Turkey's new commercial code, which has been approved by the General Assembly of the Parliament and will be in force by July 2012, introduces new concepts and regulations which might have implications for the retail sector.

Maximum 60 days limit for payables was previously mentioned in draft retail law and defined in new commercial code

The code aims to establish standards for the timely payment of invoices or similar demands of suppliers of the companies. For example, article 1,530 of the new code defines a maximum 60 days limit for payables in order to protect mid- and small-sized companies against big chains. We have already come across such a limitation in draft retail law discussed in the market for more than a decade. In article 9 of the draft retail law, the payment terms between organized retailers and their suppliers are discussed, whereby organized retailers are obliged to pay trade payables to their suppliers within 60 days.

Although there are currently some uncertainties over how to exercise new regulations in the absence of necessary secondary legislation, we perceive the implications of the new commercial code as crucial for listed players.

On the other hand, we consider the passage of a retail law as a necessary step for the future of the sector, especially in terms of creating a more favorable environment for competition. On the other hand, we view the passage of a law as less likely after the enforcement of the new commercial code. That is, full implementation of the new commercial code's relevant article regarding payment terms may delay discussion of a new retail law. We should also note here that even the Competition Authority has indicated in its preliminary retail sector report that the new legislation in commercial code about 60 days limitation was a remedy for one of the sector's biggest complaints.

We view the passage of a retail law as less likely after the enforcement of the new commercial code

This said, we remind readers that the possible implementation of other articles of the draft retail law may also present downside risks for listed companies. For example, according to article 10 of the draft retail law, the lawmaker limits the share of private label sales in total sales and stipulates that the revenue contribution of private label sales not exceed 20% of total revenues. Such an eventuality may hit those companies relying more on private label sales (e.g. BIM).

In summary…

Our key ideas and recommendations for Turkish food retail sector analysis, based on our own observations, are listed below. Due to the unavailability of data, some of our conclusions lack supporting descriptive data. However, we believe it to still be a more convenient method than transmitting companies' guidance about sector developments, which are also usually unsupported by formal data:

Need for construction of 400k homes each year in Turkey eases difficulty of finding viable locations for retailers, and is one of most important long-term growth drivers

- Proximity to consumers, strong financial position and deep local knowledge are crucial concepts for long-term success. Please note that proximity is not a term specific to discounters.

- Competition is a natural consequence of the nature of the retail business, which is not a capital intensive business, and there are almost no barriers to entry. Thus 'intensifying competition' is an all-time valid proposal without a time constraint.

- In Turkey, the increase in housing demand stemming from the current population growth rate of 1.3% per year is estimated to require the construction of at least 400k homes each year. Increasing the rate of urban migration necessitates new areas and living centers, resulting in residential area expansion. Such a trend will ease the difficulty of finding a viable location, which is one of the main bottlenecks faced by growth-oriented companies.

Main KPI is level of turnover in typical M&A in Turkish retail market

Improvements in society expected to trigger better quality and higher priced products

- A typical Turkish household allocates the bulk of its budget to food, beverages and tobacco (~30%), and this structure is set to remain valid in the foreseeable future – a long-term supporting factor for growth. Additionally, we expect improvements in society are expected to trigger better quality and higher priced products, a positive development for branded products.

- There is a limit for price reductions and/or investing in prices for branded products, as suppliers themselves do not want significant fluctuations in their prices at the retail front.

Early adoption of new changes in market is vital in long run. Migros' focus on-line retailing is positive for the long-run

- There are a credible number of retail chains in the market that are, and will be, subject to acquisition. The foremost important KPI among most market players is the level of turnover (i.e. not profitability). And the general market practice is that the buyer acquires the assets and leasehold agreements of an acquisition target (i.e. not their equity) in exchange for its ~3-4 monthly revenues.

- Early adoption of new changes in the market is crucial, in our view. BIM's launch of BIMcell and Migros' initiation of online retailing are good examples of this perspective. In particular, we emphasize on-line retailing, as we perceive this as a sales channel with negligible contribution to consolidate figures improving in the future in line with changing life-styles. Thus, we consider Migros' early adoption of on-line retailing as an investment positive for the company.

Wholesalers will change their business models to some extent sooner or later

- We do not think private label availability is as important for wholesalers as it is for retailers.

- We anticipate that all Turkish wholesalers will take a higher position on the retail front at some point in time. This could be through allowing individuals to shop at their stores or executing franchise business models, as in Poland, or by some other method.

Valuation

With this report, we expand our Turkish food retail sector coverage and add Bizim Toptan, Kiler and Migros on top of the already covered BIM.

We solely rely on DCF analysis in arriving at our target values, due mainly to (i) a better capture of the growth outlook of the domestic sector and (ii) the nature of the retail sector, which is driven by domestic dynamics, making international peer comparisons less meaningful.

Our risk-free rate (i.e. 10%) and equity premium (i.e. 7.55%) assumptions result in a TRY cost of equity of 17.6% for a stock with beta=1. We try to rely on each stock's observed beta as much as possible while calculating our WACCs. However, in certain cases, we rely on our own judgment when confronting the problem of the relatively limited time period that stocks have been traded, which threatens the validity of beta calculations.

Below, please find brief information on our investment view on Turkish food retail stocks in alphabetical order. Our detailed valuation assumptions and forecasts, together with DCF tables, may be found in each company's own section

BIMAS - Reduce

BIMAS TI		
Current Share Price	67.8	
Target Share Price	61.0	
Upside	*-10%*	
Key Multiples (x)	**2012e**	**2013e**
EV/EBITDA	18.9	15.5
P/E	28.2	23.5

We reflect highly bullish expectations in our assumptions with clear positive bias; however, we still find current levels of stock very demanding

We assign a **Reduce** rating to BIM with a 12M target share price of TRY 61.

BIM, Turkey's largest retailer adopting a hard discount strategy with a store portfolio of 3,380, has an impressive growth story. The company's 30% revenue CAGR over the past five years, with solid margin performance, is unprecedented. Going forward, we expect BIM to preserve its leader position in the market as we do not see any serious runner-up candidate with the necessary funding to pursue the opening of 300-400 stores per annum, establishing a strong network to support private label assortment, dedicated to the basic requirements of the hard discount model and free of shareholder structure problems. We reflect the highly bullish expectations in our assumptions with a clear positive bias. When compared with the Bloomberg consensus, we remain at the high end (i.e. revenues, EBITDA, net profit). However, we refrain from further optimism just to find an upside. We believe the stock's current trading value, implying 18.9x 2012 EV/EBITDA and 28.2 P/E, already incorporates future positives, and they are well above the historical 4Q forward looking multiples of the company (i.e. 13x EV/EBITDA and 20x P/E respectively). Consequently, although we like the company, we find its valuation demanding.

Bizim Toptan - Hold

BIZIM TI		
Current Share Price	24.8	
Target Share Price	27.0	
Upside	*9%*	
Key Multiples (x)	**2012e**	**2013e**
EV/EBITDA	13.0	10.5
P/E	27.9	21.9

We assign a **Hold** rating to Bizim Toptan with a 12M target share price of TRY 27.0.

Bizim Toptan operates in the cash & carry segment of the Turkish FMCG wholesale market, 95% of which is dominated by traditional players. Bizim Toptan has several competitive advantages against those unorganized players, while we identify two of those advantages as crucial: (i) Bizim operates in 124 stores, the largest sales network for a wholesaler in Turkey enabling the company to benefit from economy of scale advantages, and from the first mover advantage in many cities, and also to get additional discounts from suppliers due to its size and organized structure. This is a

Higher focus on HoReCa and introduction of new products necessitate additional costs and cash outflow for Bizim Toptan

desired factor for suppliers, making it more price competitive; (ii) credit card usage and sales on installments in Bizim stores – especially advantageous in times of higher interest rate environment where the cost of funding becomes a more challenging issue. Bizim Toptan is aiming to improve both its margins and top-line through better product and customer mix. Higher contribution from high margin products (i.e. processed foods) and high margin customers (i.e. HoReCa) are key challenges for long-term sustainable growth. We welcome the management's targets although these may present a short-term burden on margins and cash flow, as it is hard to hit the aforementioned targets with the current store layouts and/or current SKUs, in our view.

Kiler Alisveris - Sell

KILER TI		
Current Share Price	3.18	
Target Share Price	2.80	
Upside	*-12%*	
Key Multiples (x)	**2012e**	**2013e**
EV/EBITDA	10.7	10.3
P/E	27.5	21.1

We assign a **Sell** rating to Kiler with a 12M target share price of TRY 2.80.

In our view, 8% EBITDA margin for retailer of Kiler's size is quite demanding

Kiler Alisveris is Turkey's second largest supermarket chain, operating in 193 stores. The company's focus is solely on the supermarket format, with a special emphasis on fresh products. Its larger scale and five logistics centers are the biggest advantages in a market where the bulk of its competitors are small-sized local chains and/or independent markets. In our view, an 8% EBITDA margin for a retailer of Kiler's size is quite demanding. Although the main driver of that high margin is a result of the management's preference to invest in inventories (i.e. working with positive cash cycle), we argue that this strategy will ultimately put a cap on the company's physical expansion through its own funding. We thus anticipate lower margin recordings from the company, or else limited store expansion. Based on our forecasts, Kiler is trading at ~11x 2012e EV/EBITDA, a fair level when compared to both domestic and international players. However, strong 1Q12 results, coupled with rumors on the market claiming than Kiler is up for sale, could be short-term catalysts.

Migros - Buy

MGROS TI		
Current Share Price	17.1	
Target Share Price	22.0	
Upside	*29%*	
Key Multiples (x)	**2012e**	**2013e**
EV/EBITDA	10.6	9.3
P/E	23.7	18.8

We assign a **Buy** rating to Migros with a 12M target share price of TRY 22.0.

Migros, Turkey's first truly organized food retailer, is our top pick in Turkish food retail universe

Migros, Turkey's first truly organized food retailer is our top pick in the Turkish food retail universe. We consider Migros' wide sales network and vast experience as crucial factors for sustainable growth. Migros had been operating in the multi format (i.e. supermarket, discount and hypermarket), while, after the sale of its discount arm, SOK, in 2011, the company's main focus returned to supermarkets, which would improve its profitability. Based on our forecasts, the stock is trading at 2012e EV/EBITDA of 10.6x and 2013e EV/EBITDA of 9.3x, not demanding levels for a retailer like Migros. We believe that the company's main shareholders' block sale of their 17% stake in the company in 2011 was the initial step of their exit strategy from the remaining 81% stake, which in our view, would likely result in an attractive tender offer.

RETAIL COMPANIES UNDER OUR COVERAGE [1]

	BIMAS	BIZIM	KILER	MGROS
Mcap	10,284	990	428	3,044
Net Debt (Cash)	-365	-20	253	1,577
EV	9,920	970	681	4,622
Free Float (%)	60	40	15	19
12M Target Share Price	61.00	27.00	2.80	22.00
Current Share Price	67.75	24.75	3.18	17.10
Upside	-10%	9%	-12%	29%
Rating	Reduce	Hold	Sell	Buy

Operations												
Main Field of Operations	Hard-Discount			Cash & Carry			Supermarket			Supermarket		
Operational Figures	**2011**			**2011**			**2011**			**2011**		
Number of Stores [2]	3,289			124			196			718		
Sales Area (m^2) (year-end) [3]	822			113			177			746		
Sales Area (m^2) (average)	780			105			167			832		
EBIT per sqm	542			588			235			346		
EBITDA per sqm	669			700			361			503		
Cash Cycle	-18			0			69			-53		
Net Working Capital (TRY mn) [4]	-344			4			136			-641		
Working Capital / Sales	-4%			0%			17%			-11%		
FINANCIAL PERFORMANCE (TRY mn)	**2011**	**2012e**	**2013e**	**2011**	**2012e**	**2013e**	**2011**	**2012e**	**2013e**	**2011**	**2012e**	**2013e**
Revenues	8,189	10,041	12,069	1,733	2,039	2,374	781	866	951	5,753	6,529	7,345
COGS	-6,880	-8,465	-10,186	-1,585	-1,864	-2,163	-543	-617	-691	-4,259	-4,848	-5,457
Gross Profit	1,309	1,576	1,883	148	175	211	238	249	260	1,494	1,681	1,888
OPEX	-962	-1,154	-1,373	-94	-114	-135	-199	-210	-220	-1,242	-1,394	-1,575
EBIT	347	423	510	53	62	76	39	39	40	253	288	313
EBITDA	424	522	631	63	74	90	58	60	60	376	418	459
Net Profit	299	364	438	30	36	44	-13	16	20	-369	128	162
Total Assets	1,733	2,108	2,542	298	404	407	736	745	838	5,481	5,931	5,957
Total Equity	616	756	921	99	135	161	207	223	243	1,195	1,324	1,486
Net Debt (Cash)	-365	-407	-474	-20	-31	-38	253	217	191	1,577	1,395	1,224
Gross Margin	16.0%	15.7%	15.6%	8.5%	8.6%	8.9%	30.4%	28.8%	27.3%	26.0%	25.8%	25.7%
OPEX / Sales	-11.7%	-11.5%	-11.4%	-5.4%	-5.6%	-5.7%	-25.5%	-24.3%	-23.1%	-21.6%	-21.3%	-21.4%
EBIT Margin	4.2%	4.2%	4.2%	3.1%	3.0%	3.2%	4.9%	4.5%	4.2%	4.4%	4.4%	4.3%
EBITDA Margin	5.2%	5.2%	5.2%	3.6%	3.6%	3.8%	7.4%	6.9%	6.3%	6.5%	6.4%	6.3%
Net Margin	3.7%	3.6%	3.6%	1.7%	1.7%	1.9%	-1.7%	1.8%	2.1%	-6.4%	2.0%	2.2%
MULTIPLES & RATIOS [1]	**2011**	**2012e**	**2013e**	**2011**	**2012e**	**2013e**	**2011**	**2012e**	**2013e**	**2011**	**2012e**	**2013e**
EV/EBITDA	23.4	19.0	15.7	15.5	13.2	10.7	11.8	11.3	11.4	12.3	11.1	10.1
P/E	34.4	28.2	23.5	33.2	27.9	22.4	-32.9	n.m.	21.1	-8.2	n.m.	18.8
ROE		53%	52%		30%	30%		7%	9%		10%	12%
Net Debt / Equity	-0.6	-0.5	-0.5	-0.2	-0.2	-0.2	1.2	1.0	0.8	1.3	1.1	0.8
Net Debt / EBITDA	-0.9	-0.8	-0.8	-0.3	-0.4	-0.4	4.4	3.6	3.2	4.2	3.3	2.7
SHARE PERFORMANCE	**1 Week**	**1 Month**	**YtD**	**1 Week**	**1 Month**	**YtD**	**1 Week**	**1 Month**	**YtD**	**1 Week**	**1 Month**	**YtD**
TL	3%	3%	29%	1%	9%	32%	-11%	-2%	12%	-3%	5%	35%
Index Relative	4%	7%	9%	2%	12%	12%	-11%	1%	-5%	-2%	8%	15%

Source: Erste Group Research (1) Only Mcap and Net Debt are considered in EV calculation. Thus, findings might differ from corresponding values in the rest of the report
(2) only domestic stores for Migros and BIM (3) All BIM stores were considered as 250sqm (4) Receivables + Inventories - Payables

International Peer Comparison

Company Name	Country	Market Cap (€mn)	EV/Sales 2012e	EV/Sales 2013e	EV/EBITDA 2012e	EV/EBITDA 2013e	P/E 2012e	P/E 2013e
Dairy Farm International Holdings Ltd	HONG KONG	14,042	1.2	1.1	15.3	13.5	22.5	19.3
Lawson Inc	JAPAN	6,285	1.0	0.9	4.6	4.4	14.4	13.7
Wumart Stores Inc	CHINA	2,673	0.8	0.6	9.5	7.6	22.9	19.3
Asia Pacific Weighted Average			**1.1**	**1.0**	**11.7**	**10.3**	**20.3**	**17.7**
Cencosud SA	CHILE	14,199	0.9	0.9	10.1	9.4	15.2	13.8
Controladora Comercial Mexicana SAB de CV	MEXICO	2,147	0.9	0.9	11.2	10.3	14.3	13.6
Wal-Mart de Mexico SAB de CV	MEXICO	59,328	1.5	1.3	14.6	12.6	24.4	20.8
Caribbean and LatAm Weighted Average			**1.4**	**1.2**	**13.6**	**11.9**	**22.4**	**19.3**
Abdullah Al Othaim Markets	SAUDI ARABIA	547	0.4	0.4	6.9	6.1	8.9	7.8
Pick n Pay Stores Ltd	SOUTH AFRICA	2,598	0.4	0.3	8.3	7.0	17.9	14.3
Shoprite Holdings Ltd	SOUTH AFRICA	9,794	0.8	0.7	11.6	10.1	20.1	17.3
Middle East and Africa Weighted Average			**0.7**	**0.6**	**10.7**	**9.3**	**19.2**	**16.3**
Kroger Co/The	UNITED STATES	13,234	0.2	0.2	5.0	4.8	10.1	9.7
Loblaw Cos Ltd	CANADA	9,392	0.4	0.4	6.2	5.7	10.7	9.5
Safeway Inc	UNITED STATES	5,540	0.2	0.2	4.7	4.7	10.7	11.0
North America Weighted Average			**0.3**	**0.3**	**5.3**	**5.1**	**10.4**	**9.9**
Axfood AB	SWEDEN	1,802	0.3	0.3	6.4	6.3	13.0	12.7
Carrefour SA	FRANCE	14,479	0.2	0.2	4.7	4.5	9.6	9.0
Casino Guichard Perrachon SA	FRANCE	10,454	0.3	0.3	4.3	3.8	10.8	9.3
Colruyt SA	BELGIUM	6,666	0.6	0.6	7.1	6.7	14.4	13.6
Delhaize Group SA	BELGIUM	4,976	0.3	0.3	3.9	3.7	6.6	6.0
J Sainsbury PLC	BRITAIN	9,087	0.3	0.3	5.7	5.4	10.3	9.4
Jeronimo Martins SGPS SA	PORTUGAL	12,762	0.8	0.7	10.7	9.1	19.4	15.4
Koninklijke Ahold NV	NETHERLANDS	14,913	0.4	0.4	5.2	5.0	9.8	9.1
Metro AG	GERMANY	11,122	0.2	0.2	3.2	3.1	7.5	7.1
TESCO PLC	BRITAIN	41,779	0.5	0.5	6.4	6.0	9.3	8.5
WM Morrison Supermarkets PLC	BRITAIN	11,613	0.5	0.4	5.9	5.5	9.8	9.1
Western Europe Weighted Average			**0.4**	**0.4**	**5.9**	**5.5**	**10.6**	**9.5**
DIXY Group OJSC	RUSSIA	1,609	0.4	0.4	7.1	5.3	0.7	0.4
Eko Holding SA	POLAND	60	0.1	0.1	5.1	3.9	10.8	6.8
Emperia Holding SA	POLAND	512	0.3	0.3	6.4	6.1	46.7	36.1
Eurocash SA	POLAND	1,649	0.4	0.4	11.7	11.0	16.5	14.6
Kesko OYJ	FINLAND	3,085	0.3	0.2	5.9	5.3	12.4	11.6
Magnit OJSC	RUSSIA	12,388	0.7	0.6	9.4	7.6	20.2	15.4
Seventh Continent	RUSSIA	268	0.4	0.4	5.4	4.9	5.2	3.9
X5 Retail Group NV	RUSSIA	6,083	0.5	0.4	7.7	6.4	19.5	13.9
Eastern Europe Weighted Average			**0.6**	**0.5**	**8.5**	**7.0**	**18.0**	**13.9**
BIM Birlesik Magazalar AS	TURKEY	4,383	1.0	0.8	18.9	15.5	28.2	23.5
Bizim Toptan Satis Magazalari AS	TURKEY	422	0.5	0.4	13.0	10.5	27.9	21.9
Kiler Alisveris Hizmetleri Gida Sanayi ve Ticaret AS	TURKEY	182	0.8	0.7	10.7	10.3	27.5	21.1
Migros Ticaret AS	TURKEY	1,297	0.7	0.6	10.6	9.3	23.7	18.8
Turkey Average (*)			**0.7**	**0.6**	**13.3**	**11.4**	**26.8**	**21.3**
International Peers' Weighted Average			**0.7**	**0.7**	**9.3**	**8.2**	**16.8**	**14.4**
Eastern Europe Peers' Weighted Average			**0.6**	**0.5**	**8.5**	**7.0**	**18.0**	**13.9**
Domestic Peers' Weighted Average			**0.7**	**0.6**	**13.3**	**11.4**	**26.8**	**21.3**

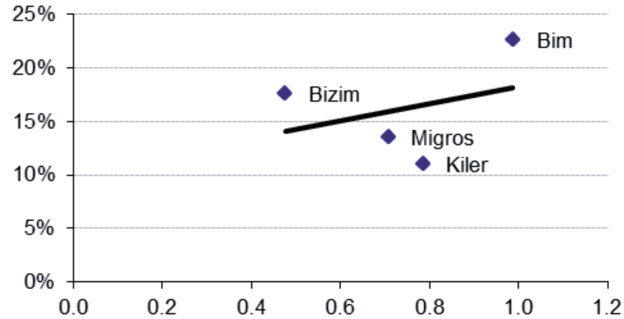
Source: Bloomberg, Erste Group Research (*) In-house estimates

Multiple Analysis

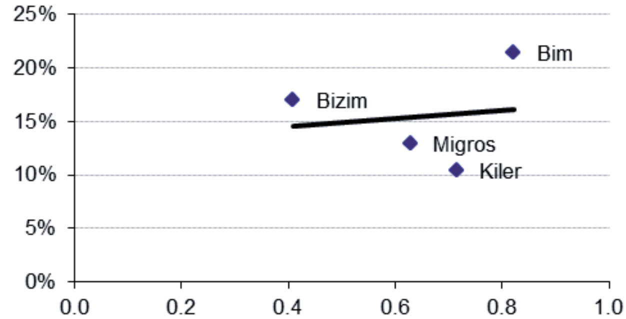
(i) Sales Growth vs. EV/Sales

EV/Sales (x)

2011-12 Sales Growth vs. 2012e EV/Sales



2011-13 Sales Growth vs. 2013e EV/Sales

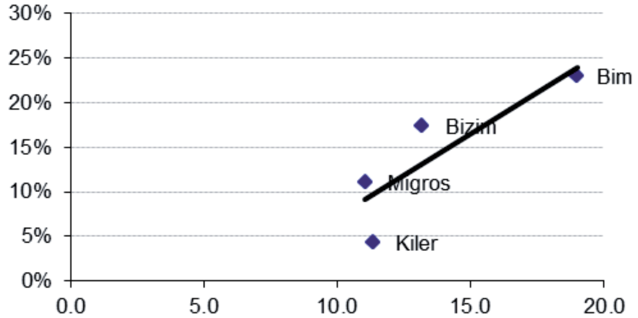


Source: Erste Group Research

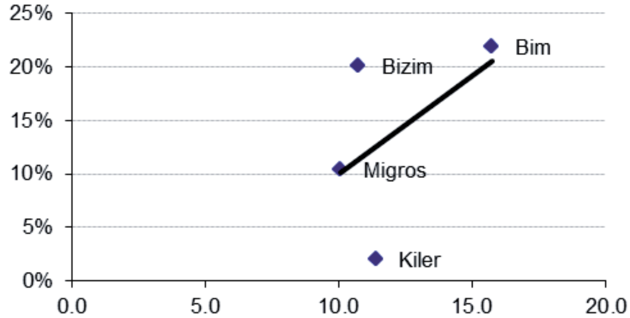
(ii) EBITDA Growth vs. EV/EBITDA

EV/EBITDA (x)

2011-12 EBITDA Growth vs. 2012e EV/EBITDA



2011-13 EBITDA Growth vs. 2013e EV/EBITDA

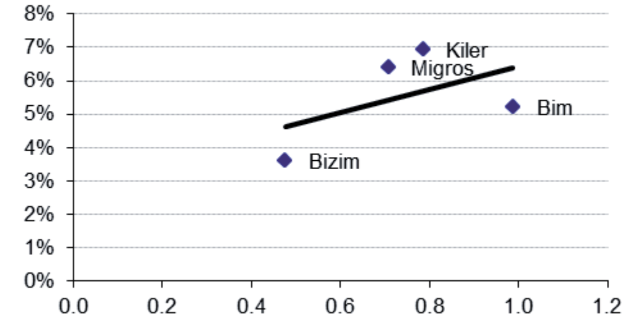


Source: Erste Group Research

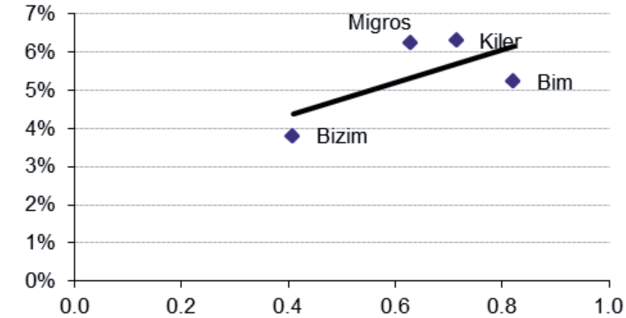
(iii) EV/Sales vs. EBITDA Margin (%)

EV/EBITDA (x)

2012 EBITDA Margin vs. 2012e EV/Sales



2013 EBITDA Margin vs. 2013e EV/Sales



Source: Erste Group Research

Market overview

Beware of quite different statistics on Turkish food retail sector from different sources

One of the biggest bottlenecks ahead of us in analyzing the Turkish food retail sector is the lack of reliable sector data. We have come across quite different figures regarding the size of the market and operational and financial performances of unlisted companies among the sources we closely follow on the developments in the sector. In our analysis, we rely mainly on (i) figures disclosed by the Competition Authority in its report published in the beginning of 2011 (ii) IPO circulars of listed retailers (iii) Turkstat data regarding household consumption expenditures and (iv) official announcements from listed companies' representatives.

Moreover, the terminology may vary from one source to another. While some sources consider open-air bazaars as an element of the traditional channel, some focus solely on store-based retailers.

Consequently, although we are comfortable with the accuracy of the general trends in the market and rankings, we should note that some of the statistics in this report might vary from the actual ones.

Market Size

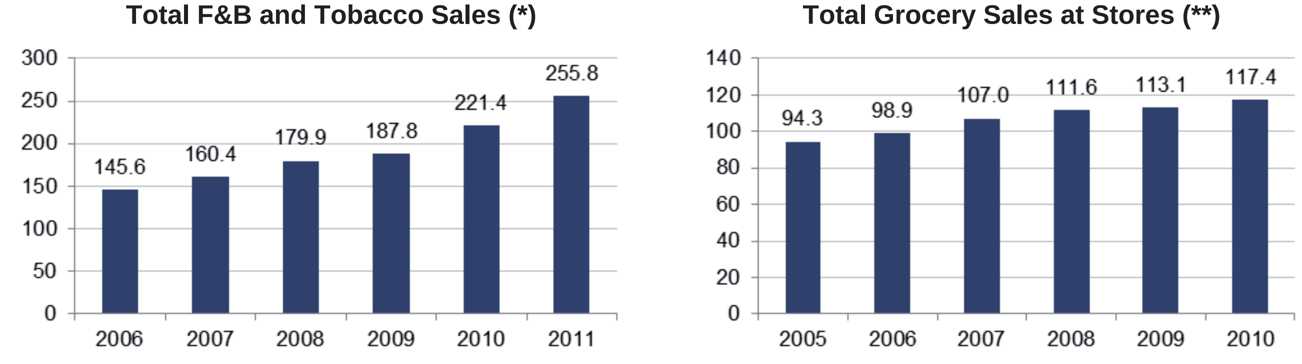
Households in Turkey spent ~USD152bn on food & beverages and tobacco in 2011

According to the breakdown of final consumption expenditure of resident and non-resident households in Turkey based on Turkstat data, total food & beverage and tobacco spending was at TRY 256bn (~USD 152bn) in 2011.

On the other hand, the total FMCG market (i.e. total grocery sales in store-based retailing) in Turkey, which used to have a size of TRY 72bn as of end-2004 had reached TRY 117bn (~USD 120bn) as of end-2010.

In our view, the deviation between the two sources stemmed from informal sales, mainly carried out in open air bazaars.

Food Retail Market Size (TRY bn)



Source: (*) Turkstat,(**) Adese IPO circulation based on Euromonitor data, Erste Group Research

Market Structure

Top four players' consolidated market share is 14% of total market and 32% of organized market

The Turkish retail sector has a highly-fragmented structure, as indicated by the top four players' consolidated market share of 14% of the total market and 32% of the organized market. When the top eight players' figures are taken into consideration, their total market share corresponds to 18% of the total market and 41% of the organized market.

Market Concentration (Total Market Shares)

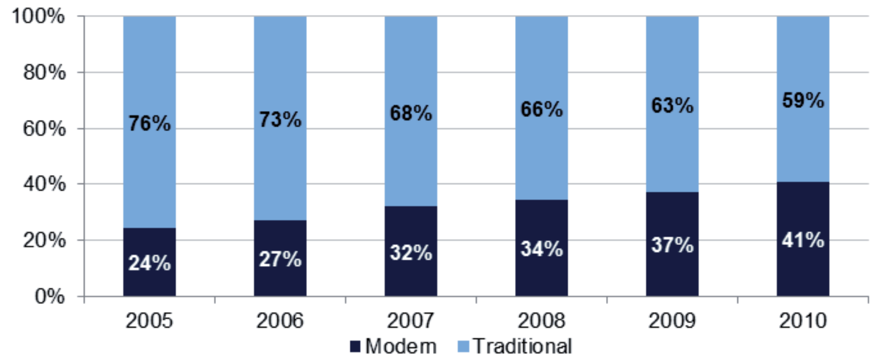
	Total FMCG Market				Organized FMCG Market			
(%)	2006	2007	2008	2009	2006	2007	2008	2009
Top 3 players	9	9	11	12	26	24	26	28
Top 4 players	10	11	13	14	31	29	31	32
Top 5 players	11	12	14	16	34	32	34	35
Top 8 players	13	15	17	18	38	38	40	41

Source: Competition Authority

The breakdown of the total FMCG market revealed that traditional channels still dominate it with a 59% stake in total store based grocery sales, despite the ongoing transition in favor of modern retailers.

Modern retailers are grabbing market share from traditional channels

Market Shares in Store Based Grocery Retailing



Source: Adese IPO circulation based on Euromonitor data, Erste Group Research

The underlying reasons behind the improvement in modern retailers' stake in total are (i) modern retailers' competitive advantage at the procurement level (i.e. bulk buying power) and (ii) changing consumer preferences and lifestyles requiring access to a wider range of products and higher quality goods.

Work of organizations like Teda Global and/or Fayda AS, which are aiming to create closer cooperation between relatively smaller market players to enhance common purchase groups, should be watched closely

We admit that the share of organized retailers remains far from the European average of over 80%. Although we expect to see the same trend in Turkey, we do not foresee the sector experiencing those levels in the foreseeable future, due mainly to the high discrepancy between income distribution within Turkey and the fact that many single stores are run by families who will accept working with limited margins as it is their sole income source. Additionally, closer cooperation between small-sized players in order to strengthen their purchasing power will likely decelerate their market share losses. We believe the work of organizations like Teda Global and/or Fayda AS, which are aiming to create closer cooperation between relatively smaller market players to enhance common purchase groups, should be closely watched, and their success may reduce the competitive advantages of bigger retail chains.

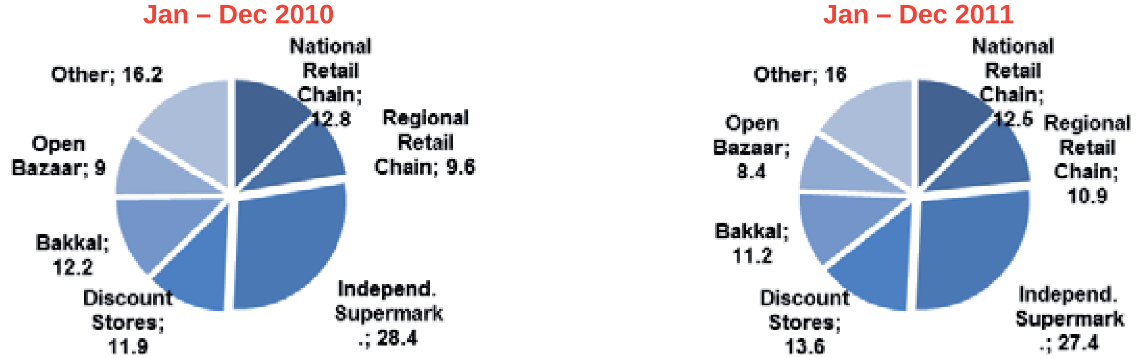
Market Players

Market share emphasis is not very meaningful in absence of reliable data and existence of black market

The Turkish food retail market is dominated by thousands of small- to mid-sized chains or individual stores. According to Yasar Serdengecti, chairman of Bizim Toptan, the total market in Turkey is divided between three parties: (i) national retail chains (like BIM, Migros, Carrefour) with ~25% share; (ii) regional retail chains with ~25% share (like Pehlivanoglu, Cagdas, Uyum) and (iii) the rest belonging to bakkals and retailers operating in single stores whose total number is around 200K.

On the other hand, according to Ipsos KMG, individual supermarkets operating in single stores clearly dominate the sector, with a 27% stake of the total, followed by national retail chains. According to Ipsos KMG, open air bazaars have an 8% stake in total. As mentioned earlier, this is an example of how market data varies according to various sources.

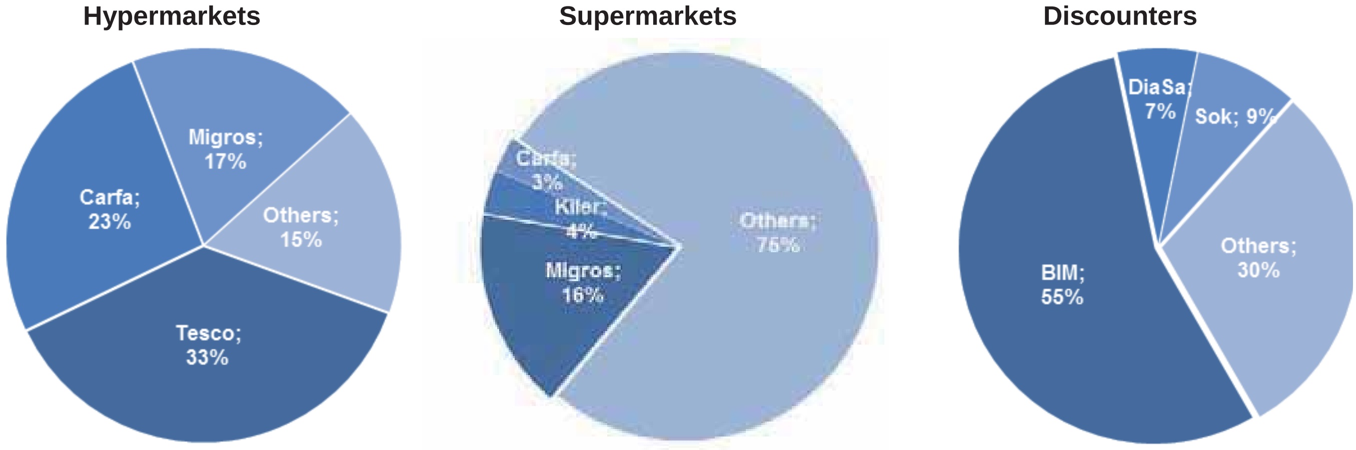
Share of Trade Channels



Source: Ipsos KMG

In such a fragmented market and with limited reliable data to hand, we believe it is not very meaningful to make comments on the market share of each company on a consolidated basis. However, we still wish to give some color to the listed players' presence in the market on a segmental basis.

Market Shares in Turkish Grocery Market by Operating Segments



Source: Erste Group Research and various sources

We have huge reservations about "discounter" status of many players in market

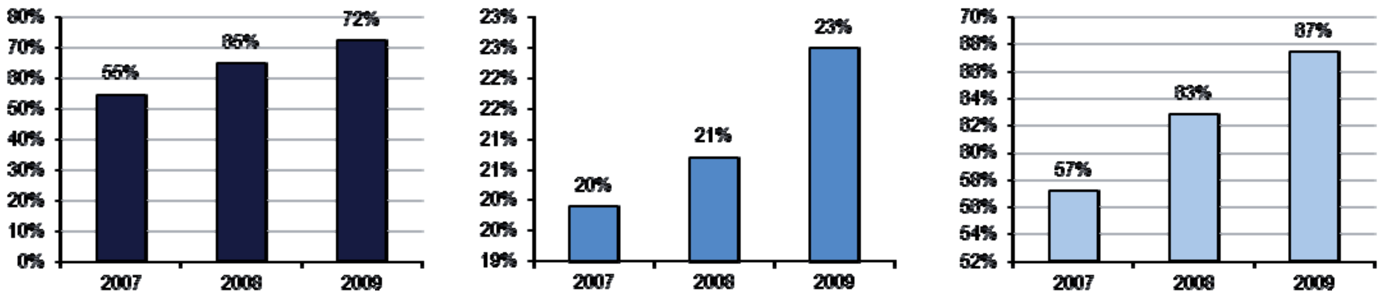
We should note that although we have huge reservations about the "discounter" status of the many players in the market, we still rely on the market's general classification in our calculation. Our reservations stemmed from the fact that what we observe in the market and our impressions from many store visits to those claimed to be a "discounter", is that they are broadly small-sized supermarkets operating in small stores but far from obeying the very basic rules of the discount format. We believe that other than BIM and partially A-101, there are a very limited number of retailers that could be classified as a "discounter", according to our understanding of the term.

As mentioned earlier, the actual market shares might differ from our calculation, but what is certain is that the supermarket segment is the most fragmented one.

The underlying reason behind that structure is that the transition to modern retail stores in Turkey started at the beginning of the 90s when the bulk of ex-traditional retailers preferred to operate in the supermarket segment, thanks to fresh fruits, vegetables and meat availability in the supermarket format. These are by far the most important elements in a typical Turkish household's basket, and also relatively limited CAPEX requirement of supermarkets compared to hypermarkets.

Market Concentration by Operating Segments (*)

Hypermarkets **Supermarkets** **Discounters**



Source: Erste Group Research and various sources

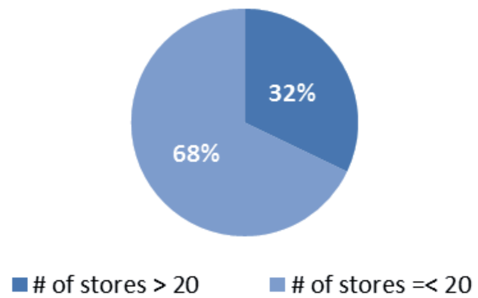
Survival of individual supermarkets or local supermarket chains will be more challenging, and unless they create common purchase groups and/or decide to merge, many will exit market

We believe that the survival of many individual supermarkets or local supermarket chains will be more challenging due to their limited scales (i.e. lower economies of scale, less bargaining power, lack of sources to pursue higher level of growth through greater focus on logistics, such as opening their own warehouse), and many will be exiting the market unless they create common purchase groups and decided to merge their powers.

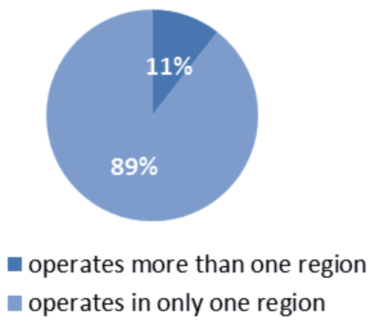
Please note that many retail chains in Turkey operate in individual stores or as a regional chain with fewer than 20 stores. Accordingly, we argue that only those retailers (not necessarily national ones) that manage to exceed a certain store number and with a strong logistics infrastructure stand to be more competitive, and would gradually either acquire small players, or else leave them negligible market share.

Breakdown of Food Retail Chains Operating in More Than 5 Stores

w.r.t number of stores



w.r.t number of operating regions



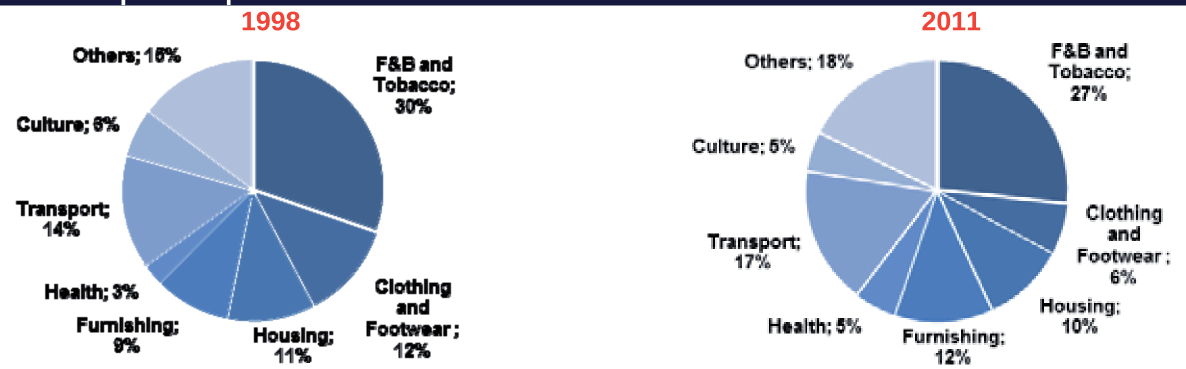
Source: Adese, Erste Group Research

Sector growth drivers

The main growth drivers of the Turkish organized FMCG market are (i) the rising disposable income of Turkish citizens,(ii) Higher proportion of Turkish household expenditure allocated to food, beverages and tobacco, compared with Western standards; (iii) Turkey's inherent advantages in the retail business rendering the country an attractive and major market for retailers *(i.e. favorable demographics with changing lifestyle in favor of modern retailing and improving urbanization)* (iv) potential of female labor force participation (v) the fragmented market structure, spelling further inorganic growth opportunities and (vi) expected support from governments for modern retailers with the goal of higher tax collection and a useful means of combating unemployment.

Turks allocate a higher portion of their budget to F&B and Tobacco
A breakdown of final consumption expenditures of resident and non-resident households in Turkey indicates that food & beverage and tobacco claims the lion's share in total expenditures, with a 27% stake. Although in line with improving income levels, the portion of income allocated to this segment is expected to gradually decline, it will definitely preserve its 'most important expenditure' item status going forward.

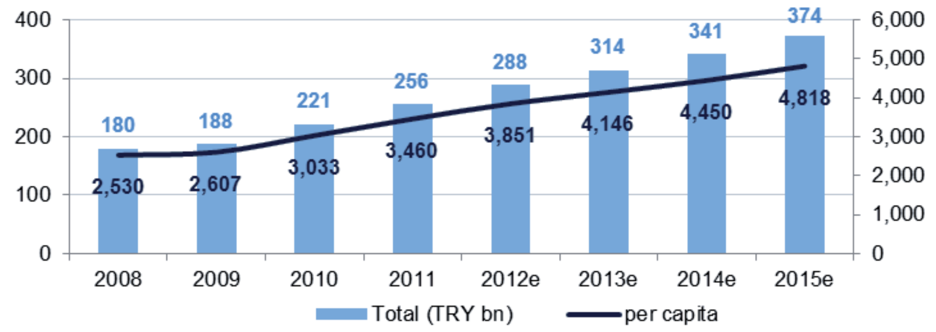
Final Consumption Expenditure of Resident and Non-Resident Households



Source: Turkstat

We foresee total F&B and tobacco expenditures, currently at TRY 256bn (~USD 152bn), reaching TRY 375bn by 2015 with a CAGR of 10%. Our expectation relies on the assumption that final consumption expenditure of resident and non-resident households will comprise 75% of total GDP, where F&B and tobacco expenditures will have a 26% stake of that total.

F&B and Tobacco Expenditures



Source: Turkstat, Erste Group Research

(i) Favorable demographics; (ii) ongoing migration from rural areas; (iii) growing housing demand; and (iv) higher number of females participating in workforce are major supporting factors behind our positive view on sector's future prospects

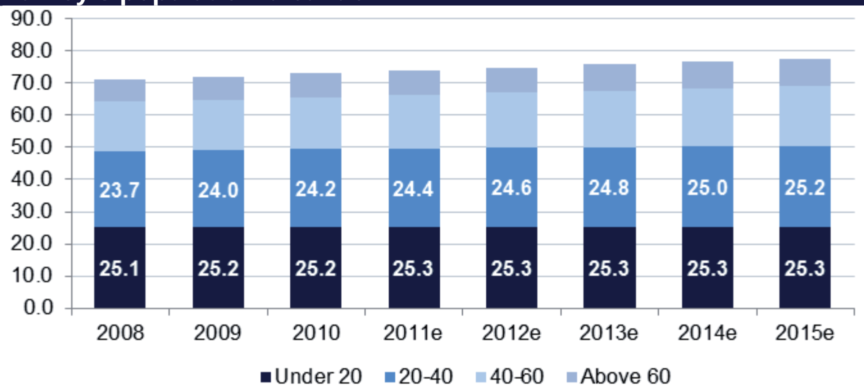
Turkey's inherent advantages for modern retailers

Turkey's favorable demographics (i.e. a population of 74 million where 60% of the population is under the age of 35), ongoing migration from rural areas to urban areas (i.e. 68% of the population lives in urban areas), growing housing demand (i.e. at least 400K new homes each year), higher number of female participating workforce (i.e. female labor participation rate: 29%) are all the major supporting factors for the future performance of modern retailers in Turkey.

Firstly, Turkey's population is forecast to reach 78mn by 2015, the second largest reading in Europe. More importantly, 60% of the country's population is under the age of 35, generally accepted by retailers as the highest-consuming segment.

60% of country's population is under 35, generally accepted by retailers as highest-consuming segment

Turkey's population breakdown



Source: Turkstat, Erste Group Research

Current population growth rate requires construction of at least 400k homes each year - cure for retailers' bottleneck of finding viable locations

Secondly, the increase in housing demand stemming from the current population growth rate of 1.3% per year is estimated to require the construction of at least 400k homes each year. The increasing rate of urban migration necessitates new areas and living centers, resulting in residential area expansion. Such a trend will ease the difficulty of finding a viable location, which is one of the main bottlenecks confronted by growth-oriented companies. In particular, considering that markets are generally located on the ground floor of buildings, each new building construction will present new store location availability.

Housing Need Stems from Population Increase

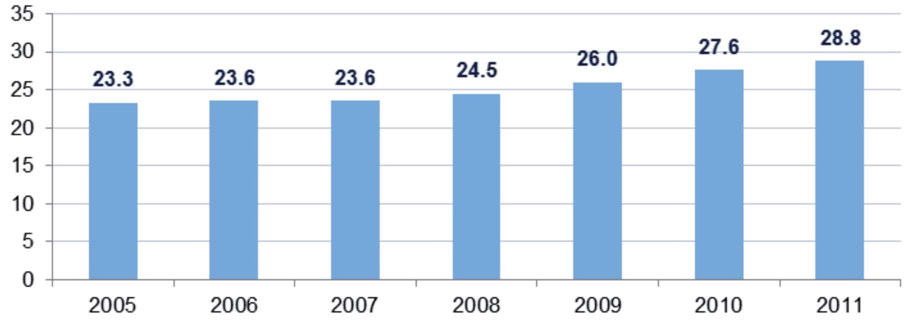
Years	Total Population ('000)	Annual Increase of Urban Population (mn person)	Family Size	Housing Need stems from Population Increase
2000	64,560	1.00	4.39	276,042
2001	65,440	1.05	4.37	278,965
2002	66,320	1.11	4.34	281,919
2003	67,190	1.10	4.32	282,606
2004	68,050	1.11	4.30	283,304
2005	68,900	1.14	4.28	284,014
2006	69,750	1.18	4.25	302,532
2007	70,590	1.20	4.22	307,997
2008	71,520	1.23	4.19	335,616
2009	72,560	1.25	4.16	370,822
2010	73,720	1.27	4.13	409,472
2011e	73,950	1.29	4.06	393,346
2012e	74,885	1.32	4.02	391,365
2013e	75,811	1.34	3.99	395,981
Total		**16.59**		**4,593,982**

Source: Turkstat, Erste Group Research

Lastly, we welcome the improvement in female participation in the labor force. This development will have two important consequences for modern retailers: (i) increase in basket sizes as a result of higher disposable income (ii) higher demand for modern retailers in line with lower demand for open-air bazaars due to less time for daily purchases.

More females working means more disposable income and greater tendency to shop at modern retailers

Female Labor Force Participation (%)



Source: Turkstat, Erste Group Research

Market share gains from traditional channels
As mentioned earlier, thanks to modern retailers' power to grab market share from traditional players, and consumers' preference shift towards modern stores, mainly as a result of changing life styles, we expect modern retailers' revenue growth to remain higher than that of traditional players.

Based on two sources, food & beverage and tobacco sales data from Turkstat and grocery retail sales at stores from Euromonitor, we tried to examine the reflection of our growth assumption for the whole market in each retail channel. That is, as mentioned earlier, we expect total F&B and tobacco sales to record 11% CAGR between 2010 and 2015. Assuming that (i) store based retailing will remain at its current level of 53% going forward and (ii) modern retailers (i.e. supermarkets, hypermarkets and discounters) will grab 1% market share from traditional retailers at each year, we calculate 14% CAGR revenue for modern retailers' and 9% for traditional retailers.

Market Development Expectations (TRY bn)

		2010	2011e	2012e	2013e	2014e	2015e	CAGR
F&B and Tobacco Expenditures [(1)]	(a)	221	256	288	314	341	374	**11%**
Grocery Sales at Retail Stores [(2)]	(b)	117	136	153	167	181	198	**11%**
Grocery Sales at Retail Stores / F&B and Tobacco Sales	(c)=(b)/(a)	53%	53%	53%	53%	53%	53%	
Grocery Sales at Modern Retailers	(d)	48	57	66	73	81	91	**14%**
Modern Retailers' Sales / Grocery Sales at Retail Stores	(e)=(d)/(b)	41%	42%	43%	44%	45%	46%	
Grocery Sales at Traditional Retailers	(f)	69	79	87	93	100	107	**9%**
Traditional Retailers' Sales / Grocery Sales at Retail Stores	(g)=(f)/(b)	59%	58%	57%	56%	55%	54%	

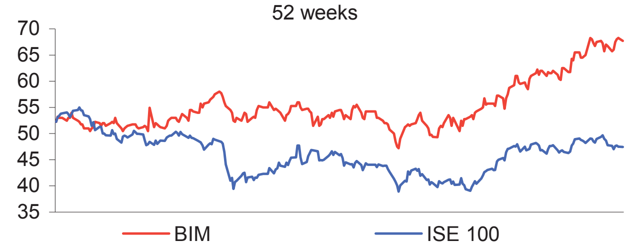
Source: (1) Turkstat, (2) Euromonitor data extracted from Adese IPO circulation; 2011e-20153 figures are in-house forecasts

Erste Group Research – Company Report
BIM | Retail | Turkey
18 April 2012

BIM

Reduce

TRY mn	2011	2012e	2013e	2014e
Net sales	8,189.1	10,041.0	12,068.7	14,241.0
EBITDA	424.4	522.1	631.2	751.9
EBIT	347.5	422.7	510.2	611.2
Net result after min.	298.9	364.1	438.4	525.4
EPS (TRY)	1.97	2.40	2.89	3.46
CEPS (TRY)	2.48	3.05	3.69	4.39
BVPS (TRY)	4.06	4.98	6.07	7.37
Div./share (TRY)	1.48	1.80	2.17	2.60
EV/EBITDA (x)	17.9	18.9	15.5	12.9
P/E (x)	26.7	28.2	23.5	19.6
P/CE (x)	21.2	22.2	18.4	15.4
Dividend Yield	2.8%	2.7%	3.2%	3.8%



Performance	12M	6M	3M	1M
in TRY	28.4%	24.9%	23.7%	3.4%

Share price (TRY) close as of 16/04/2012	67.8
Number of shares (mn)	151.8
Market capitalization (TRY mn / EUR mn)	10,284 / 4,376
Enterprise value (TRY mn / EUR mn)	9,877 / 4,203

Reuters	BIMAS.IS	Free float	60.0%
Bloomberg	BIMAS TI	Shareholders	Topbas Family (26.5%)
Div. Ex-date			
Target price	**61.0**	Homepage:	www.bim.com.tr

Analyst:
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Retailer beloved by investors

- **We re-initiate our coverage of BIM with a Reduce recommendation.** Our 12-month target price of TRY 61/share represents 10% downside.
- **A unique name.** BIM, Turkey's largest retailer adopting a hard discount strategy (with a store portfolio of 3,380), is an impressive growth story. The 30% revenue CAGR over the past five years with a solid margin performance is unprecedented, and has triggered other retailers to increase their exposure to the discount segment, although efforts to imitate BIM brought nothing but failure for others, with BIM preserving its unique position.
- **Growth continues.** We foresee ~10% annual store growth rate over the next five years, signaling the continuation of physical expansion. The company's usual double-digit l-f-l revenue growth practice is set to prevail in the foreseeable future, in line with the maturation of 1,555 stores opened in the last five years.
- **Active management.** Regular update of its 600 SKUs, the introduction of new products *(e.g. BIMcell),* efforts to improve fresh product group revenues and increasing the average size of newly-opened stores are all examples of how BIM is aware of the importance of understanding consumer preferences in the retail business, and adapts itself accordingly, an approach we welcome.
- **Fairly valued.** We reflect the bullish expectations in our assumptions with a clear positive bias. However, we refrain from further optimism in order to find an upside. The stock's current trading value already reflects future positives. Any material deviation from the main pillars of its hard discount model presents the main risk. We currently ignore international expansion steps, given their negligible contribution to consolidated results in the foreseeable future.

Erste Group Research – Company Report
BIM | Retail | Turkey
18 April 2012

Investment Positives

A unique name in Turkey
BIM, Turkey's largest retailer adopting a hard discount strategy (with a store portfolio of 3,380), is an impressive growth story. The company's 30% revenue CAGR over the past five years with a solid margin performance is unprecedented.

BIM is likely to preserve its unique market position over coming years, as we see no serious runner-up candidate

The company has been very successfully implementing the hard discount business model that focuses on top line growth and aims to offer its products at the lowest possible prices without sacrificing from a minimum EBITDA margin of 5%. BIM's journey, which started in 1995, triggered other retailers to increase their exposure to the discount segment. However, efforts at imitating BIM have brought nothing but failure for the others, and BIM preserves its unique position in the market.

Going forward, we expect BIM to preserve its leader position in the market as we do not foresee any serious runner-up candidate with the necessary funding to pursue the opening of 300-400 stores per annum, establish a strong network to support private label assortment, dedicated to the basic requirements of the hard discount model and free of shareholder structure problems. What we observe in the market is that those retailers who are trying to operate as discounters are virtually mini-supermarkets which are content to work with tiny profit margins, and hence with such an approach, the replication of BIM is impossible.

All in all, thanks to its unique position, while BIM is not immune to the increasing competition in the retail market, the company is relatively more comfortable, at least in its own hard discount segment, in the absence of a direct and strong one-to-one competitor of promising outlook.

Impressive growth continues

We foresee 19% CAGR in company's revenues in next five years on top of 30% CAGR in last five

BIM currently run its operations in 3,380 stores, 1,650 of which were opened in the last five years. The company's new store openings between end-2006 and end-2011 corresponds to 18% CAGR. Thanks to significant physical expansion coupled with strong l-f-l sales growth, revenues recorded a 30% CAGR in the same period reaching TRY 8.2bn by the end of 2011.

We foresee an annual store growth rate of above 10% over the next several years signaling continuation of physical expansion. Moreover, the company's usual double digit l-f-l revenue growth practice is set to prevail in the foreseeable future in line with the maturation of 1,650 stores opened in the last five years.

Going forward, we expect the main driver for revenue growth to be the improvement in basket size, which currently stands at TRY10.1, whereas the improvement in customer traffic can be limited to existing stores, as current customer traffic, at 745 (per store / per day) is approaching 1,000 customer visits, which is a steady figure for a ~300K m^2 store without creating congestion, in our view. Yet we should note that this 1,000 customer visits is not a limit.

Accordingly, our assumptions translate into 19% CAGR in revenues by 2016, thus below the growth recorded over the past five years, but still notably higher than our overall market growth assumption of 11%.

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BIM's management well understands local preferences and adapts itself to market changes – competitive advantage over many other national chains

Closely monitors customer preferences and adapts itself accordingly

One of the biggest advantages of BIM with respect to other national chains, and especially against foreign players is that management well understands local preferences and adapts itself to changes in the market. Some of the examples that lead us to this conclusion are (i) credible success in private label products (ii) regular update of SKUs in a store (iii) introduction of new products that attract customer traffic (iv) ongoing efforts to improve fresh product revenues and (v) sizes of new stores that are generally bigger than the current average.

Many of the company's private label products are so successful that they are almost considered to be in the category of branded products. Worth mentioning is the company's DOST branded products in the field of dairy products, which has huge importance for daily customer traffic as they are generally consumed on a daily basis.

The SKUs in stores which are limited to 600 are regularly updated (i.e. 10% each year) and the replacement does not necessarily take place in the same categories.

BIM's success with 'Dost' branded dairy products is textbook example of private label strategy execution

Introduction of new products like BIMcell are also solid means of attracting customer attention.

One of BIM's weak points is the limited assortment of fresh group products, which are only served in packaged form at BIM stores. We welcome the management's announced desire to improve the limited contribution of fresh products to total revenues, as we believe the fresh group to be crucial for average Turkish citizens' daily purchases. Although this is an area where many retailers lose money due mainly to shrinkages and employment of additional staff solely responsible for this section, we expect BIM to be successful in its efforts thanks to high customer traffic which limits the magnitude of shrinkages.

International expansion is long-term challenge

BIM's first overseas operations were initiated in Morocco in 2009, and the company currently operates at more than 80 stores in this North African market.

Contribution of stores abroad likely to be immaterial in consolidated figures in near future, but may still grab investor attention

The company and Saudi Arabia's Savola Group signed a memorandum of understanding to establish a 50-50% JV in Saudi Arabia in January 2011, although in July 2011, they announced that an agreement had not been reached.

Lastly, the company's board has authorized the executive committee to consider all investment alternatives, including the establishment of a subsidiary in Egypt.

We welcome the company's active seeking of investment in proximate geography and the adopting of its business model in countries where modern retail has a limited stake. On the other hand, we consider these alternatives very long-term challenges and do not expect any material contribution from international operations in the near future, as their size in the total will struggle to reach a meaningful level given the number of stores in Turkey, approaching 4,000. However, such news flow may still grab some investor attention and be considered a catalyst that might yet positively contribute to share performance.

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A portion of the stock's premium with respect to its peers could be attributed to investors' positive bias

Investor friendly and successful at attaining its targets
BIM has been a listed company since 2005. The company has clearly been an outlier in terms of satisfying the investor community's interests since then. For example, it has been the sole retailer to disclose details of its like-for-like sales together with basket size and customer traffic, making the work of those parties keen to make a solid evaluation of the company much easier. The management arranges a conference call at the end of each quarter, shedding further light on the announced results. The management's track record in sharing their targets and fulfilling their guidance has also been quite successful.

Emphasizing the aforementioned practices, which in fact should be considered regular business practice from all listed companies, may sound curious to those unfamiliar with Turkey's listed companies' IR practices. Yet we still stress the management's IR practices as a competitive advantage in the Turkish stock market. We believe that the company understands the market's dynamics, and approaches business in line with investor interests, which results in positive bias for the company in the eyes of investors. Indeed, a portion of the stock's premium with respect to its peers could be attributed to this positive bias.

A new product: BIMcell
BIM has agreed with Avea on the sale of mobile phone cards, called BIMcell, to its customers. What we understand is that BIM will not be a mobile virtual network operator, but rather will buy minutes from AVEA and sell them further to retail (i.e. it will be acting as a reseller for AVEA.

For a customer keen on talking less than one minute, BIMcell could be cheaper than Avea/Vod/Turkcell

In line with the company's discount strategy in its core business, the mobile cards will also be at the lowest prices available. CFO Haluk Dortluoglu has said that they expect their new product to attract their customers, and that BIMcell will enable a high-quality GSM service at a low price.

Reportedly, BIM's tariff is 10 Kr/min, vs. Avea/Vodafone's 7Kr/min and Turkcell's 9Kr/min. Accordingly, BIM's offer is at a premium. However, by our understanding, BIM charges 1 Kr per 6 seconds, whereas other operators charge per minute. Accordingly, for a customer keen on talking less than one minute, BIMcell could be cheaper than Avea/Vod/Turkcell.

We welcome the launch of this new product even we refrain from making further detailed comments (including the possible financial impact of the move), given the limited available data. Yet, given the Turkish people's high tendency for mobile phone usage; especially the young generation, the launch of the new product seems set to result in higher customer traffic and improvement in basket sizes.

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Investment Negatives / Risks

Fairly valued

Stock's trading multiples are very demanding

We reflect the highly bullish expectations in our assumptions with a clear positive bias. When compared with the Bloomberg consensus, we remain at the high end (i.e. revenues, EBITDA, net profit). However, we refrain from further optimism just to find an upside.

We believe the stock's current trading value, implying 19.0x 2012 EV/EBITDA and 28.2 P/E, already incorporates future positives, and is well above the historical 4Q forward looking multiples of the company.

No material deviation from business model

Company's adherence to its business model is crucial for its performance

BIM currently limits its product portfolio to at most 600 SKUs. The management has long argued that this limited number of SKUs satisfies 80% of the weekly needs of a typical customer. Yet, we consider the lack of meat, vegetables and fresh foods in unpackaged form as one of the company's biggest obstacles on the road to improving basket size.

In that sense, we welcome the company's increasing focus on fresh products and increasing its store sizes accordingly. However, we still note that the company's adherence to its business model and growth plans, which had been implemented successfully so far, is crucial for its performance. Thus a greater than anticipated change in business model may have negative consequences, like additional working capital requirement and/or deterioration in their strict OPEX control.

Having said that, we remind readers that we have observed no signs of material deviation from the original business model so far.

Not immune from competition

Lack of competitor in hard discount segment does not mean company is immune from competition

As mentioned earlier, we are of the opinion that BIM does not have a 1-to-1 direct competitor in its main hard discount business area. However, this does not mean that it is immune to market competition. Consequently, while we believe that BIM is well equipped with the necessary tools to differentiate itself from the rest of the market, the aggressive growth plans and pricing strategy of the remaining players still pose a threat to revenue growth and margin improvement.

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Valuation / Recommendation

Our 12M target price, derived from our TRY-based DCF, represents 8% downside, and we assign a Reduce rating for the company.

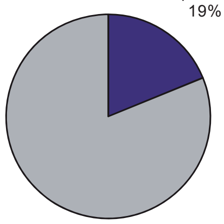
WACC calculation

	2012e	2013e	2014e	2015e	2016e	Term. value Normalized
Risk free rate	10.0%	10.0%	10.0%	10.0%	10.0%	9.0%
Equity risk premium	7.6%	7.6%	7.6%	7.6%	7.6%	7.0%
Beta	0.6	0.6	0.6	0.6	0.6	0.6
Cost of equity	**14.2%**	**14.2%**	**14.2%**	**14.2%**	**14.2%**	**12.9%**
Cost of debt	11.5%	11.5%	11.5%	11.5%	11.5%	10.5%
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax cost of debt	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**8.4%**
Equity w eight	100%	100%	100%	100%	100%	100%
WACC	**14.2%**	**14.2%**	**14.2%**	**14.2%**	**14.2%**	**12.9%**

DCF valuation

(TRY mn)	2012e	2013e	2014e	2015e	2016e	Normalized
Sales growth	*22.6%*	*20.2%*	*18.0%*	*16.7%*	*15.7%*	*14.0%*
EBIT	422.7	510.2	611.2	727.2	846.0	876.8
EBIT margin	*4.2%*	*4.2%*	*4.3%*	*4.4%*	*4.4%*	*4.0%*
Tax rate	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Taxes on EBIT	-84.5	-102.0	-122.2	-145.4	-169.2	-175.4
NOPLAT	**338.1**	**408.1**	**489.0**	**581.7**	**676.8**	**701.5**
+ Depreciation	99.5	121.0	140.7	158.7	175.0	189.8
Capital expenditures / Depreciation	*300.7%*	*251.9%*	*219.3%*	*196.6%*	*179.6%*	*100.0%*
+/- Change in w orking capital	107.7	86.2	102.6	101.3	124.0	107.7
Chg. working capital / chg. Sales	*5.8%*	*4.2%*	*4.7%*	*4.3%*	*4.8%*	*4.0%*
- Capital expenditures	-299.1	-304.8	-308.6	-312.0	-314.4	-189.8
Free cash flow to the firm	**246.2**	**310.5**	**423.7**	**529.7**	**661.4**	**809.2**
Terminal value growth						*5.0%*
Terminal value						11,632.2
Discounted free cash flow - Dec 31 2011	215.7	238.3	284.9	312.0	341.2	6,001.2
Enterprise value - Dec 31 2011	**7,393.2**					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	-364.6					
Other adjustments	0.0					
Equity value - Dec 31 2011	**7,757.8**					
Number of shares outstanding (mn)	151.8					
Cost of equity	14.2%					
12M target price per share (TRY)	**61.0**					
Current share price (TRY)	67.8					
Up/Downside	*-10.0%*					

Enterprise value breakdown



Sensitivity (per share)

Terminal value EBIT margin

WACC	3.0%	3.5%	4.0%	4.5%	5.0%
11.9%	55.8	61.6	67.4	73.2	79.0
12.4%	53.1	58.5	64.0	69.4	74.8
12.9%	50.7	55.9	**61.0**	66.1	71.2
13.4%	48.7	53.5	58.3	63.2	68.0
13.9%	46.9	51.4	56.0	60.6	65.2

Terminal value growth

WACC	4.0%	4.5%	5.0%	5.5%	6.0%
11.9%	60.6	63.7	67.4	71.6	76.5
12.4%	57.9	60.8	64.0	67.6	71.9
12.9%	55.6	58.1	**61.0**	64.2	67.9
13.4%	53.6	55.8	58.3	61.2	64.4
13.9%	51.7	53.8	56.0	58.5	61.4

Source: Erste Group Research

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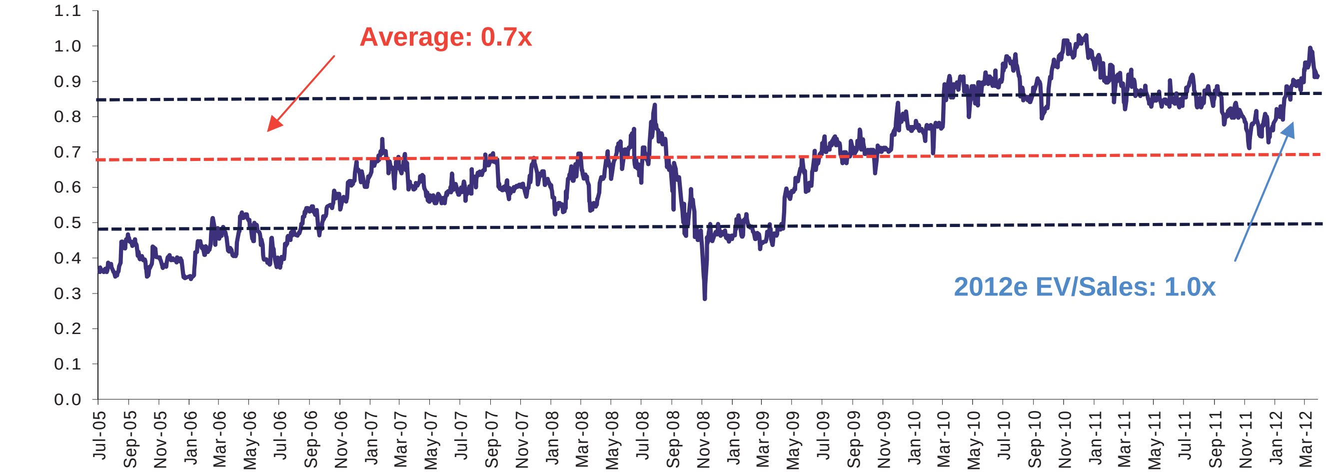
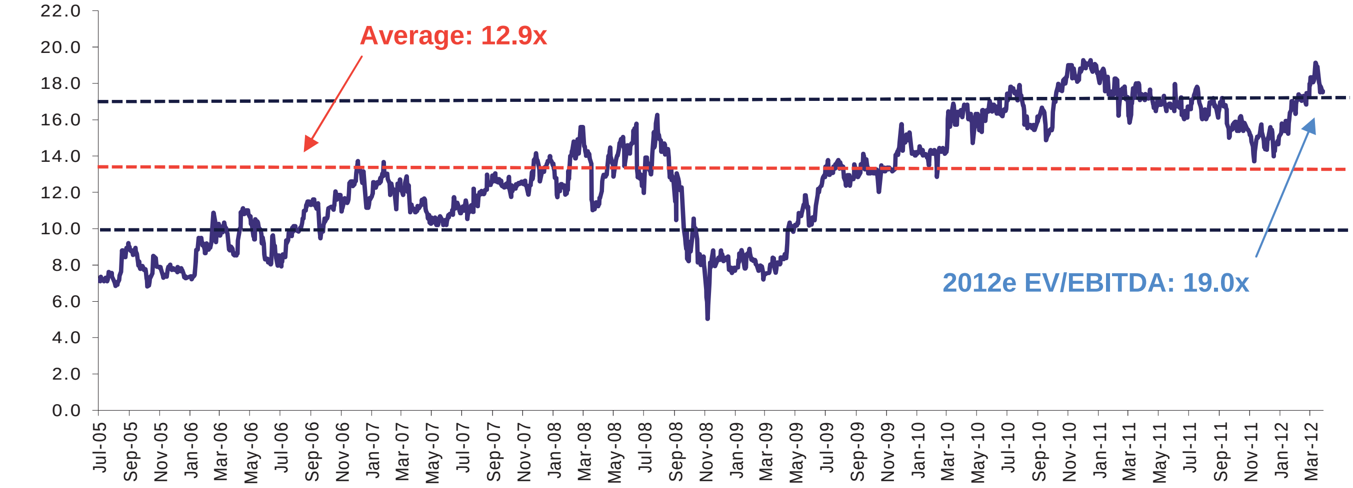
4Q Forward Looking Multiple Analyses

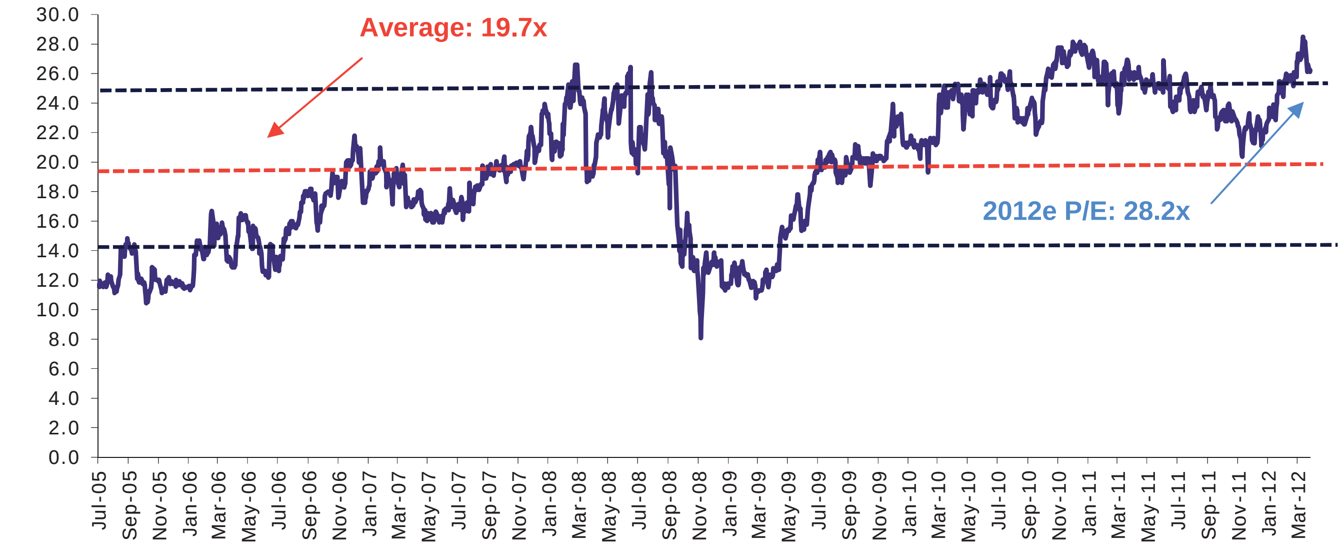
4Q Forward EV/Sales



4Q Forward EV/EBITDA



4Q Forward P/E



Source: Erste Group Research

The Company

(i) History

BIM commenced its operations in 1995 with 21 stores as the Turkey's first market chain implementing a hard discount model which is broadly copied from Germany's Aldi. Indeed some of the company's high rank officers, like ex-CEO Jos Simons, formerly worked for Aldi.

Store opening performance in post-IPO era corresponds to 20% CAGR

In its second year of operation, 1997, the company introduced its private label product, Dost Sut, reaching a 100 store count in the same year.

BIM became a listed company in 2005 through a shareholder stake sale where Merrill Lynch Global Emerging Markets Partner LP and Bank America International Investment Corporation, which had previously taken exposure in the company in 1999, sold their shares. At the end of 2005, the company was operating in 1,194 stores, vs. the current 3,380 (i.e. ~20% CAGR post-IPO).

In 2009, the company initiated its Morocco operations. CEO Jos Simons retired the same year, and the company has been run by an executive committee since then.

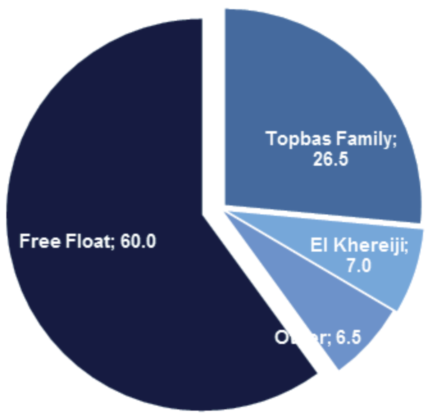
As of today, BIM maintains its leader position as the largest retailer in Turkey with the highest number of stores and revenues.

(ii) Ownership

Further possibility of stake sale by El Khereiji may be considered share overhang

The company's current main shareholder is the Topbas family, where Mustafa Latif Topbas holds a 17.5% stake and Ahmet Afif Topbas has an 8.9% stake. Abdulrahman El Khereiji formerly had a 20.6% stake prior to the IPO and did not participate at the IPO, decreasing his stake to 7% through gradual stake sales in the post-IPO period. In fact, a further stake sale possibility by El Khereiji may be considered as a share overhang issue.

BIMAS Shareholder Structure (%)



Source: BIM, Erste Group Research

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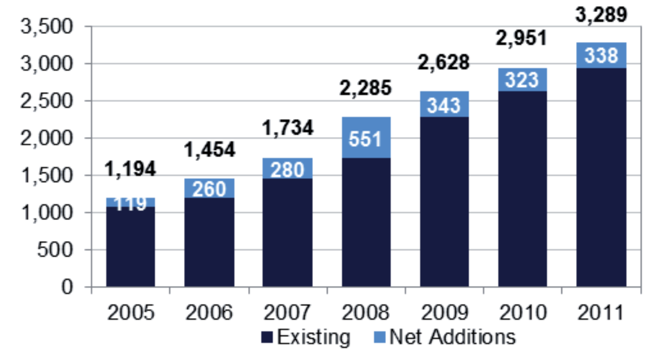
(iii) Operations Overview & Forecasts

a. Stores

BIM operates in small-sized stores (typically 200-600sqm) that are generally located on secondary streets. BIM stores are decorated as simply as possible by using the minimum amount of shelving, and employ a limited number of personnel *(i.e. ~5 person/store)*. Most of the products are displayed directly on pallets on the floor in their original boxes.

BIM owns the most extensive store network in Turkey and operates 3,380 stores in 78 cities of Turkey out of a total of 81. The company has recorded 30% CAGR in store number over the last five years. It has 33 warehouses, 6 of which are rented, while the rest are owned.

BIM Sales Network (geographic coverage and number of stores)

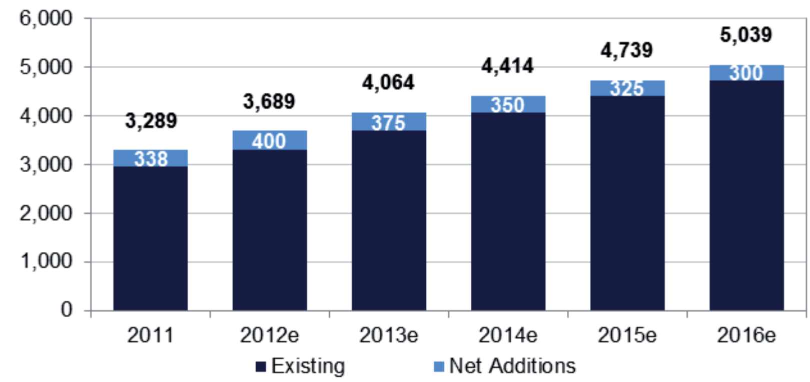


Source: BIM, Erste Group Research

Management is planning to open 400 new stores in Turkey in 2012. We base our scenario on management's guidance and foresee 400 net store additions in 2012. We expect the company to exceed 5,000 stores by the end of 2016, indicating a CAGR of 8% for the period of 2012-16.

We expect company to exceed 5,000 stores by end of 2016; 8% CAGR

BIM Store Number Forecasts



Source: BIM, Erste Group Research

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b. Revenues

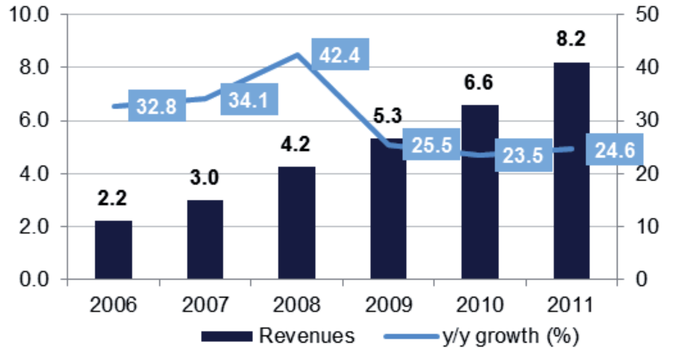
BIM's main priority is to re-invest all savings in prices

BIM's key priority is top line growth. In fact, the company's hard discount business model, aiming to offer a limited number of products at the lowest possible prices, necessitates as much revenue growth as possible for better operational leverage, as the company reinvests all retained savings to prices, and in so doing, can offer the best competitive prices to the consumer.

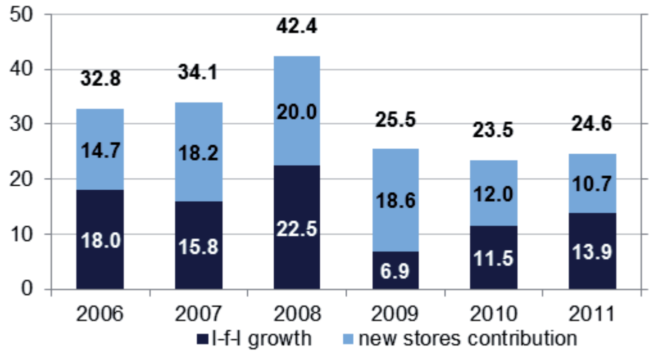
We calculate 30% revenue CAGR for BIM between 2005 and 2011, driven by both physical expansion and l-f-l improvement.

BIM Revenue Performance (1)

Revenue Growth (TRY bn)



Breakdown of Annual Growth (%)

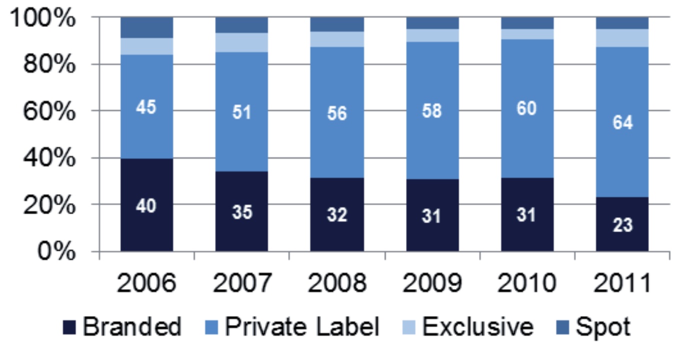


Source: BIM, Erste Group Research

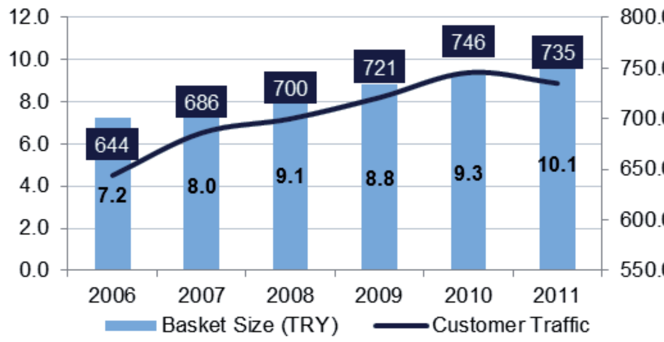
The breakdown of the l-f-l sales indicates that a higher number of consumers prefer BIM each year with improvement in their basket sizes. Indeed, improvement in the stake of private label sales is a clear indication of BIM's success in implementing the hard discount model.

BIM Revenue Performance (2)

Breakdown of Product Group



l-f-l basket size and customer traffic



Source: BIM, Erste Group Research

Private label product sales' contribution to BIM's consolidated revenues may surge to higher levels that its German peers currently experience (i.e. above 80% of total revenues) unless an adverse legislation takes place. Please note that according to article 10 of the draft retail law, the lawmaker limits the share of private label sales in total sales and stipulates that the revenue contribution of private label sales not exceed 20% of total revenues. Yet we see the passage of this article unlikely.

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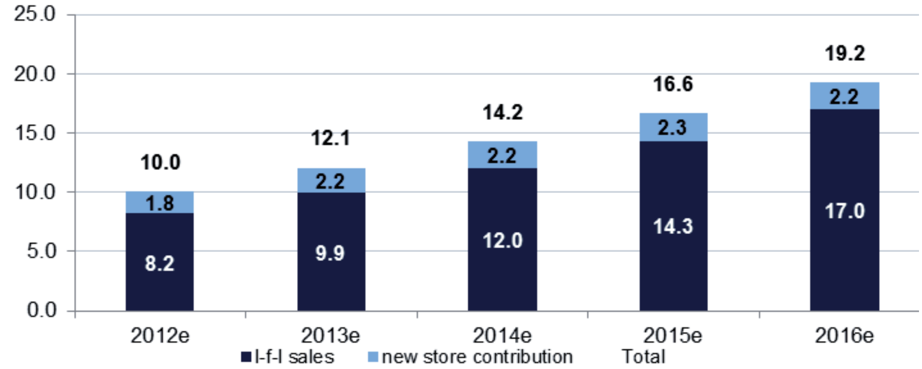
We believe that there are sufficient reasons to anticipate BIM's above detailed top-line performance prevailing over the coming years: (i) l-f-l sales: going forward, we expect the main driver for l-f-l sales growth to be improvement in basket size, whereas there is still room for improvement in customer traffic up to 1,000 customer visits per ~300K m2 store. (ii) new store openings: we believe our 9% CAGR in new store openings will continue to add positively to the company's top-line performance, while the balance of the growth will work in favor of l-f-l sales growth (iii) improvement in product mix such as a greater focus on fresh products and growing loyalty to private label products. We expect BIM to experience a CAGR of 19% in net sales between 2011 and 2016, and its top line to reach TRY 19bn by 2016.

Our end-2016 revenue forecast of TRY 19bn translates into 18% CAGR

BIM Revenue Forecasts



Source: BIM, Erste Group Research

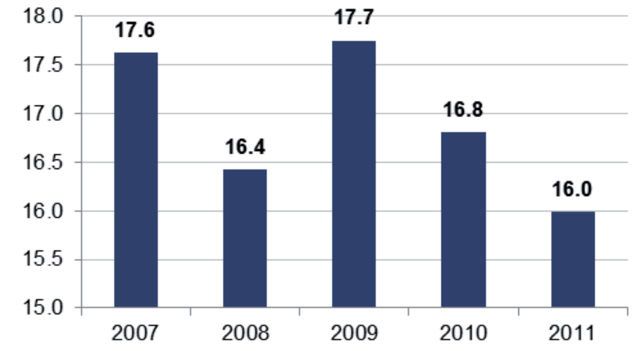
c. Margins

BIM has witnessed a gradual decline in its gross margin for the past three years. There are mainly two reasons behind the contraction in gross margins: (i) as a very natural consequence of BIM's hard discount business model, the company's priority is not margin expansion, and it seeks to pass any cost advantage onto customers in the form of reduced prices, and aims to secure top line growth (ii) its competitors' aggressive pricing policy to grab market share has left limited room for BIM to improve its gross margin.

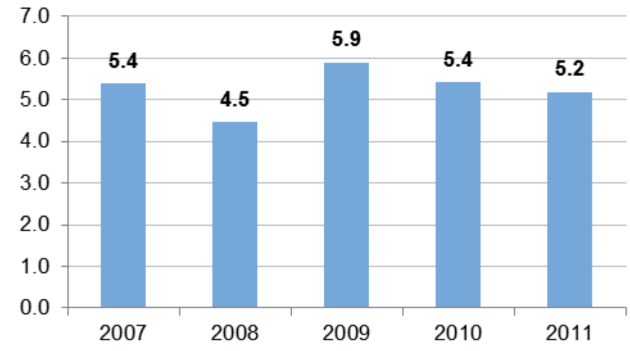
Despite a gradual retreat in its gross margin, BIM still manages to float at around its long-term sustainable EBITDA margin guidance of ~5% in the same period owing to its strict cost control on operating expenses and operational leverage availability.

BIM Margin Performance

Gross Margin

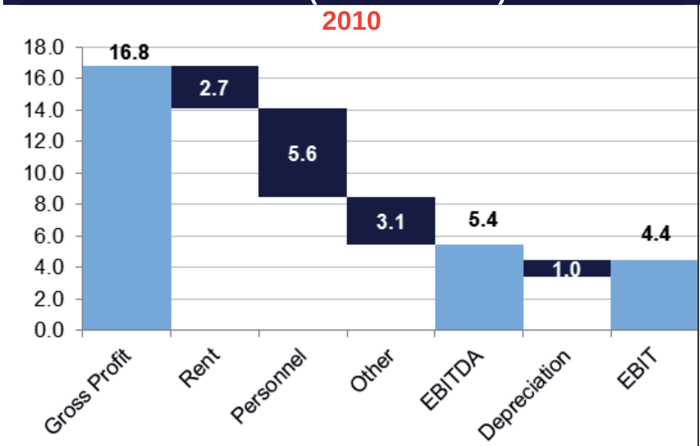


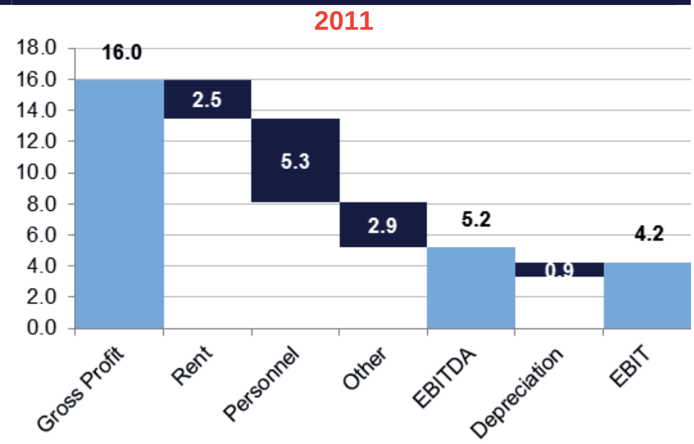
EBITDA Margin



Source: BIM, Erste Group Research

BIM OPEX Breakdown (% of revenues)





Source: BIM, Erste Group Research

We expect to observe a similar scenario over the coming years. That is, a gradual retreat in gross margin, but a broadly flat EBITDA margin thanks to benefiting from economies of scale and the attempt to decrease the OPEX/sales ratio through strict cost control. Accordingly, although we expect the end-2011 gross margin of 16.0% to have declined to 15.5% by 2016, our EBITDA margin forecasts remain flat at 5.3% levels thanks to our declining OPEX/sales ratio assumption.

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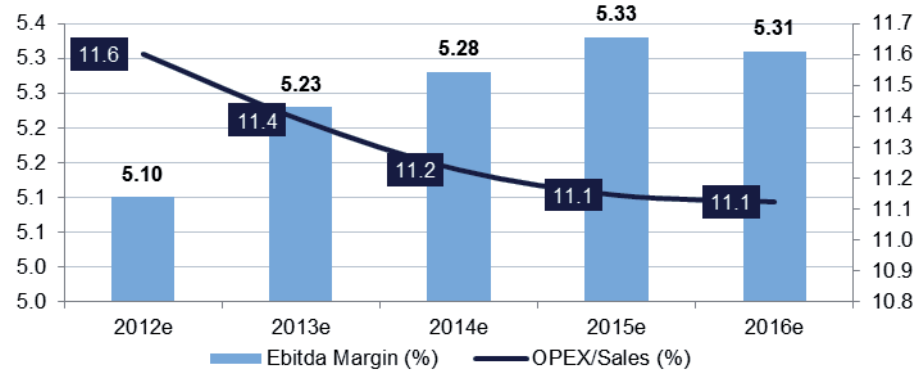
Although we expect BIM's gross margin to follow declining trend, our EBITDA margin forecasts broadly remain flat, thanks to our declining OPEX/Sales ratio assumption

BIM Margin Forecasts



Source: BIM, Erste Group Research

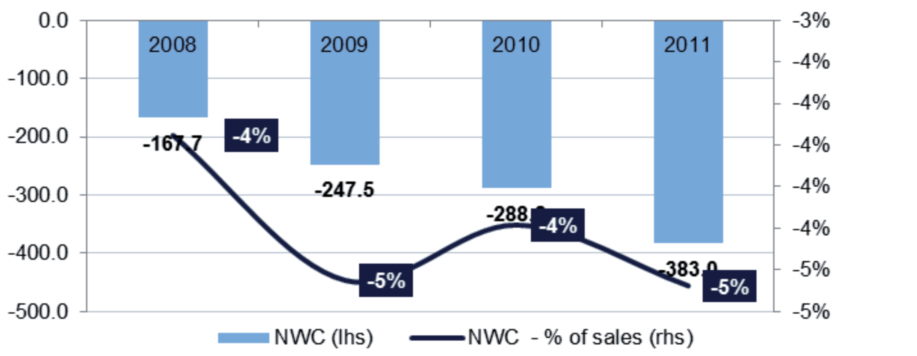
d. Balance Sheet Items

One of the main strengths of BIM is its debt-free balance sheet and high cash generation ability. Thanks to continuous improvement in its negative working capital, BIM is able to secure the bulk of its own funding. Indeed, other than temporary and very short-term bank loans that are used to cover short-term liquidity requirements, the company does not utilize any external financing.

The ~20 days negative cash conversion cycle is key to the company's healthy operating cash flows, and the main support of store expansion without incurring any debt position.

As of end-2011, BIM had negative working capital of TRY 383mn corresponding to 4.7% of revenues, and has a negative cash conversion cycle of 18 days stemming mainly from (i) high bargaining power enabling favorable trade payable terms and (ii) strong turnover reducing the days in inventory.

BIM Net Working Capital



Source: BIM, Erste Group Research

On the CAPEX front, the opening of new stores does not require substantial investment, as the average cost of opening a new one amounts to TRY 0.2mn. On the other hand, opening a warehouse necessitates around TRY 15-20mn, with a typical warehouse serving around 100 stores.

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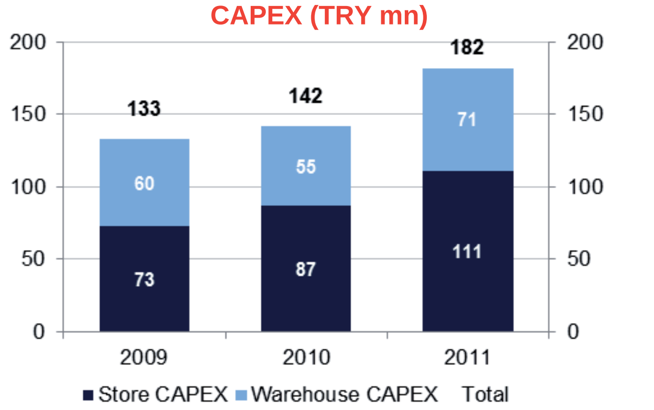
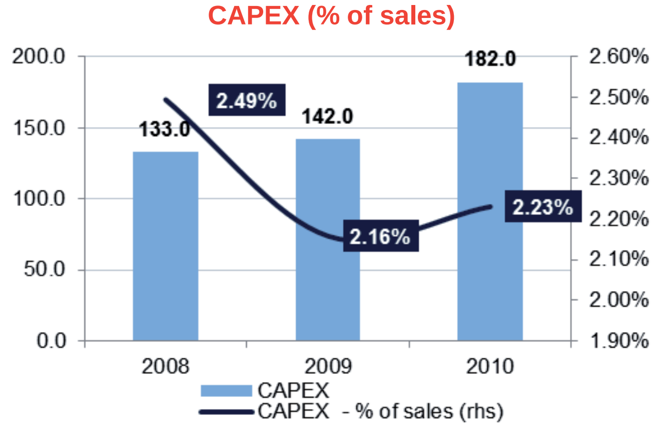
BIM CAPEX





Source: BIM, Erste Group Research

Going forward, we do not assume any substantial change in the balance sheet items of BIM over the coming years. That is, we expect no material change in the company's negative cash conversion cycle, and it will continue to utilize its own funds to support its physical expansion.

Although we expect the company's investment process to continue in the coming years, we forecast a gradual decline in the CAPEX/sales ratio, parallel to our forecast of slowdown in the number of new store openings, and we assume the CAPEX/sales ratio easing to 1.7% by 2016.

Accordingly, we anticipate BIM continuing to accumulate enough cash from operations to allow it to fund both its domestic and international expansion without ceasing its dividend payments.

BIM Consolidated Cash Flow (TRYmn)

	2009	2010	2011	2012e	2013e	2014e	2015e	2016e
Operating cash flow	348.9	340.8	460.5	662.3	755.1	900.1	1,043.8	1,215.9
Investing cash flow	-123.7	-124.4	-163.8	-299.1	-304.8	-308.6	-312.0	-314.4
-Capital Expenditures	*-131.3*	*-136.6*	*-173.6*	*-299.1*	*-304.8*	*-308.6*	*-312.0*	*-314.4*
-Others (1)	*7.6*	*12.2*	*9.8*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Financing cash flow	-115.1	-125.4	-189.7	-320.5	-383.2	-460.9	-551.6	-654.5
Net Cash Flow	**110.1**	**91.0**	**107.0**	**42.7**	**67.2**	**130.7**	**180.1**	**246.9**
Operating Cash Flow	348.92	340.81	460.51	662.30	755.14	900.11	1,043.76	1,215.90
CAPEX (2)	-131.3	-136.6	-173.6	-299.1	-304.8	-308.6	-312.0	-314.4
Free Cash Flow	**217.60**	**204.17**	**286.90**	**363.21**	**450.35**	**591.55**	**731.74**	**901.49**

Source: Bim, Erste Group Research

Erste Group Research – Company Report

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Income Statement	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS, TRY mn, 31/12)	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014
Net sales	**5,323.39**	**6,573.95**	**8,189.14**	**10,040.97**	**12,068.69**	**14,241.05**
Cost of goods sold	-4,378.50	-5,469.27	-6,879.81	-8,464.54	-10,185.97	-12,033.68
Gross profit	**944.89**	**1,104.68**	**1,309.33**	**1,576.43**	**1,882.71**	**2,207.36**
SG&A	-686.18	-813.16	-961.88	-1,153.75	-1,372.53	-1,596.14
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	**314.18**	**356.35**	**424.43**	**522.13**	**631.19**	**751.93**
Depreciation/amortization	-55.48	-64.84	-76.98	-99.45	-121.01	-140.70
EBIT	**258.71**	**291.52**	**347.45**	**422.68**	**510.18**	**611.22**
Financial result	9.86	14.49	30.29	32.47	37.79	45.56
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**268.57**	**306.00**	**377.74**	**455.15**	**547.97**	**656.79**
Income taxes	-55.63	-60.36	-78.83	-91.03	-109.59	-131.36
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	**212.94**	**245.64**	**298.91**	**364.12**	**438.38**	**525.43**

Balance Sheet	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS, TRY mn, 31/12)						
Intangible assets	3.53	2.76	2.80	3.08	3.29	3.48
Tangible assets	479.09	549.34	648.08	847.71	1,031.48	1,199.33
Financial assets	4.93	5.19	7.34	8.03	9.65	11.39
Total fixed assets	**487.55**	**557.28**	**658.22**	**858.82**	**1,044.42**	**1,214.20**
Inventories	257.85	336.00	404.64	522.98	593.29	725.47
Receivables and other current assets	187.72	221.22	305.29	319.37	430.37	455.20
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	166.54	257.57	364.57	407.23	474.38	605.08
Total current assets	**612.11**	**814.79**	**1,074.50**	**1,249.58**	**1,498.04**	**1,785.75**
TOTAL ASSETS	**1,099.66**	**1,372.07**	**1,732.71**	**2,108.39**	**2,542.46**	**2,999.95**
Shareholders'equity	**388.06**	**500.43**	**616.15**	**756.09**	**921.38**	**1,118.02**
Minorities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	0.00	0.00	0.00	0.00	0.00	0.00
Other LT liabilities	18.53	18.57	23.68	19.31	20.62	21.84
Total long-term liabilities	**18.53**	**18.57**	**23.68**	**19.31**	**20.62**	**21.84**
Interest-bearing ST debts	0.00	7.66	0.00	0.00	0.00	0.00
Other ST liabilities	693.08	845.41	1,092.88	1,333.00	1,600.46	1,860.09
Total short-term liabilities	**693.08**	**853.07**	**1,092.88**	**1,333.00**	**1,600.46**	**1,860.09**
TOTAL LIAB. , EQUITY	**1,099.66**	**1,372.07**	**1,732.71**	**2,108.39**	**2,542.46**	**2,999.95**

Cash Flow Statement	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS,TRY mn, 31/12)						
Cash flow from operating activities	348.92	340.81	460.51	662.30	755.14	900.11
Cash flow from investing activities	-123.67	-124.42	-163.81	-299.09	-304.78	-308.56
Cash flow from financing activities	-115.15	-125.36	-189.70	-320.55	-383.20	-460.85
CHANGE IN CASH , CASH EQU.	**110.10**	**91.03**	**106.99**	**42.66**	**67.15**	**130.70**

Margins & Ratios	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Sales growth	25.5%	23.5%	24.6%	22.6%	20.2%	18.0%
EBITDA margin	5.9%	5.4%	5.2%	5.2%	5.2%	5.3%
EBIT margin	4.9%	4.4%	4.2%	4.2%	4.2%	4.3%
Net profit margin	4.0%	3.7%	3.7%	3.6%	3.6%	3.7%
ROE	65.1%	55.3%	53.5%	53.1%	52.3%	51.5%
ROCE	87.2%	96.5%	109.8%	113.2%	104.9%	104.8%
Equity ratio	35.3%	36.5%	35.6%	35.9%	36.2%	37.3%
Net debt	-166.5	-249.9	-364.6	-407.2	-474.4	-605.1
Working capital	-81.0	-38.3	-18.4	-83.4	-102.4	-74.3
Capital employed	240.0	269.1	275.3	368.2	467.6	534.8
Inventory turnover	17.9	18.4	18.6	18.3	18.3	18.3

Source: Company data, Erste Group estimates

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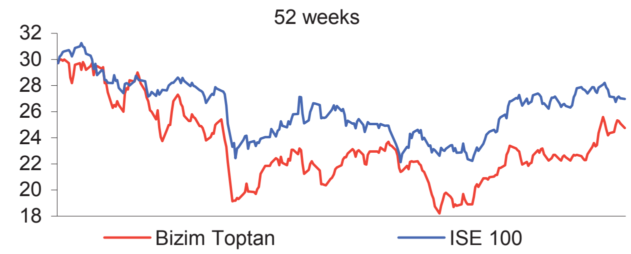
ERSTE GROUP

Bizim Toptan

Initiated with Hold

TRY mn	2011	2012e	2013e	2014e
Net sales	1,733.0	2,039.0	2,374.3	2,724.2
EBITDA	62.6	73.5	90.5	109.6
EBIT	53.4	61.7	76.4	93.1
Net result after min.	29.9	35.5	45.2	56.4
EPS (TRY)	0.75	0.89	1.13	1.41
CEPS (TRY)	0.98	1.18	1.48	1.82
BVPS (TRY)	2.48	3.37	4.03	4.84
Div./share (TRY)	0.44	0.55	0.68	0.83
EV/EBITDA (x)	11.7	13.0	10.5	8.6
P/E (x)	25.2	27.9	21.9	17.6
P/CE (x)	19.2	20.9	16.7	13.6
Dividend Yield	2.4%	2.2%	2.7%	3.4%



Performance	12M	6M	3M	1M
in TRY	-16.4%	13.8%	18.4%	9.0%

Share price (TRY) close as of 16/04/2012	24.8
Number of shares (mn)	40.0
Market capitalization (TRY mn / EUR mn)	990 / 421
Enterprise value (TRY mn / EUR mn)	959 / 408

Reuters	BIZIM.IS	Free float	40.0%
Bloomberg	BIZIM TI	Shareholders	Yildiz Holding (49.9%)
Div. Ex-date			Standard Bank Plc (5%)
Target price	**27.0**	Homepage:	www.bizimtoptan.com

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Chasing growth with new products and customers

- **We initiate our coverage of Bizim Toptan (Bizim) with a Hold recommendation.** Our 12-month target price, at TRY 27.0/share, represents 9% upside.
- **A different type of wholesaler.** Bizim Toptan operates in the cash & carry segment of the highly-fragmented Turkish FMCG wholesale market. The company's competitive advantages against traditional players, which dominate 95% of the total market, will likely bring additional market share going forward.
- **Current retail market structure favors Bizim.** National retail chains that are directly communicating with suppliers *(i.e. not utilizing wholesalers)* command only 13% of the total retail market in Turkey, while the rest of the market comprises potential Bizim Toptan customers, and we expect this structure not to reverse materially for the foreseeable future.
- **Pursuit of long-term growth through correct strategies.** Bizim Toptan aims to improve both its margins and top line through a better product and customer mix. A greater contribution from high margin processed foods and high margin customers *(i.e. HORECA)* are key challenges for long-term sustainable growth.
- **Change in strategy necessitates additional costs.** We welcome management's target of doubling the number of HORECA customers and the introduction of new product categories *(e.g. fresh products, frozen food),* although these may place a short-term burden on margins and cash flow, as it is hard to hit the aforementioned targets with the current store layouts and/or current SKUs, in our view. However, we argue that the long-term benefits of those steps will clearly outweigh the short-term burdens.

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Investment Positives

Competitive advantages against its competitors
Bizim Toptan operates in the cash & carry segment of the Turkish FMCG wholesale market, 95% of which is dominated by traditional players which are generally specialized in single and/or a limited number of product groups. Please note that typical customers of wholesalers include traders/distributor wholesalers, "bakkals" (i.e. small mom & pop shops), markets, supermarkets, HORECA (hotels, restaurants and cafes) customers, but not end-consumers.

Bizim Toptan has competitive advantages over traditional wholesalers that dominate the market

Bizim Toptan has several competitive advantages against more unorganized players, while we believe two of those advantages are crucial: (i) Bizim operates 124 stores, the largest sales network for a wholesaler in Turkey - ensuing the company benefits from economies of scale advantages, benefits from first mover advantage in many cities and also gets additional discounts from suppliers due to its size and organized structure, a desired factor for suppliers, making it more price competitive (ii) credit card usage and sales on installments availability in Bizim stores. In times of higher interest rate environment where cost of funding is more challenging, that installment availability is an especially attractive marketing tool for Bizim customers, given their relatively limited financial strength and access to banking loans.

Consequently, on the back of aforementioned competitive advantages, we anticipate Bizim Toptan will grab higher market share from unorganized players and record top line growth even in times of contracting market environment.

Pursuit of long-term growth through right strategies
Bizim Toptan is aiming to improve both its margins and top line through better product and customer mix by focusing more on high margin products (i.e. processed foods) and high margin customers (i.e. HORECA).

In terms of product mix, we observe two important developments: (i) introduction of new product categories and (ii) declining stake of tobacco sales in total.

Better product mix: (i) higher contribution from processed foods, (ii) lower contribution from tobacco sales

The management clearly indicates their intention to improve and enhance their main category items with the introduction of new product categories. The aforementioned new products are processed ones such as frozen food and meat, which are typically high margin products. On the other hand, low margin tobacco sales' contribution to the consolidated figures are following a declining trend as tobacco sales, which used to comprise 43% of the total as of end-2008, had retreated to 27% as of end-2011. We welcome the lower contribution of tobacco sales as, all else being constant, we calculate that a 1% change in the company's product mix *(i.e. 26% tobacco sales & 74% main category sales, vs. current 27% tobacco sales & 73% main category sales)* in 2011 would have improved the company's consolidated gross margin by ~10bp.

With regards to customer mix, the management is targeting to double the number of HORECA customers from 6% in 2011 to 12% in 2012. In revenue terms, revenue generated through HORECA customers is projected to reach TRY250mn in 2012e from TRY170mn in 2011 *(i.e. from 10% of revenues to 12% levels based on our 2012e top-line forecast).* The

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Better customer mix: greater focus on HORECA customers

underlying reasons behind the higher focus on HORECA type customers are (I) these customers are more loyal as their sole criteria is not price, and they are ready to pay a premium to receive a sustainable and high quality service (ii) they are not dependent on one product type, which enables higher product diversification of the same quality on a continuous basis, and (iii) their basket sizes are generally higher; a very important determinant in the wholesale business, where it is basket size growth, not traffic growth that mainly drives revenue generation.

All in all, we assign much importance to the diversification of the company's product portfolio (i.e. higher SKUs) and higher focus on HORECA customers; they are crucial developments for long-term success, as we see the future of the wholesale market resting mainly on these two pillars.

We anticipate all wholesalers, including Bizim, to take position on retail front sooner or later

Although Bizim Toptan does not sell its products directly to end-consumers, so as not to cause a conflict of interest with its main customers (i.e. preventing customer overlapping), and management has not announced any change in this strategy, we believe that, at some point in the future, Bizim's doors will be opened to the public (as Metro currently is) and that the higher amount of fresh products, frozen food and meat available at the stores will pay off more at that time.

Additionally, we anticipate all wholesalers, including Bizim, taking a position on the retail front sooner or later. This could be done by allowing individuals to shop at their stores, or by executing a franchise model like Eurocash does in Poland, or else by some other method.

Current retail market structure favors Bizim Toptan

Without meaningful level of consolidation on retail front, Bizim Toptan will continue to benefit from its fragmented structure

According to Ipsos KMG, national FMCG retail chains (e.g. BIM, Migros) which directly deal with suppliers (i.e. not utilizing wholesalers in their purchases) claimed only a 13% stake in total trade in 2011. Individual supermarkets and bakkals (small corner shops), which comprise ~35% of Bizim Toptan's customer base, on the other hand, had a ~40% market share in the same period.

We argue that, unless there is a meaningful level of consolidation on the retail front, Bizim Toptan will continue to benefit from its fragmented structure and the presence of thousands of small-sized players on that front. Frost & Sullivan's forecast of 13% CAGR for C&C players, vs. 10% for FMCG retailers and FMCG wholesalers confirms our positive expectations for Bizim Toptan, in our view.

A valuable financial asset - SOK

SOK's decision to exit discount segment is wise move

Bizim Toptan, together with a consortium (Gozde Finansal Hizmetler – 39% and Turkish Retail Investments BV – 50%), acquired SOK stores, Migros' ex-soft discount arm, for TRY 584mn in 2011. Bizim's share in SOK's equity is 10%, and the company treats this purchase as a financial investment in its balance sheet (i.e. no financial consolidation).

Under its new management, SOK announced a fresh strategy with aggressive targets. Accordingly, SOK will no longer position itself as a discounter, and its main focus will be offering branded products at reasonable prices in more convenient stores. SOK management targets TRY 5bn revenue by 2015 implying 33% CAGR. We expect that, at the time the consortium decided to exit from the SOK investment, Bizim will likely record a sales gain, as we believe SOK's new positioning will pay off better than its previous positioning as a soft discounter.

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Investment Negatives / Risks

Higher focus on HORECA and introduction of new products necessitates additional costs and cash outflow

Margins can temporarily be negatively affected by new strategy and additional investments in existing stores and newly-opened stores may put pressure on

Bizim operates in three stores which have an average sales area of 1,600sqm with average SKUs of 2,900. The company's relatively smaller store sizes against its main C&C competitors of Metro and Tespo is one of the main reasons behind Bizim's higher store number. Although smaller stores enable (i) higher national footprint (ii) reaching more customers and (iii) making it easier to open a store, the main drawback of relatively small-sized stores is that they offer a limited number of SKUs.

It is our understanding that Bizim should adjust its business model in its aim to reach a higher number of HORECA customers. That is, we expect the company to operate (i) in bigger-sized stores with a higher number of personnel and (ii) higher number of SKUs. We believe that its current stores may fall short of meeting the demands of HORECA customers. In fact, the underlying reason behind the bigger size of the recently-opened Bodrum and Alanya stores is the need for larger stores to satisfy the demand of HORECA customers, in our view. We arrive at this view by comparing Bizim's HORECA revenues with that of Metro. That is, Bizim generates 10% of its revenues from this type of customer, whereas Metro, which operates a smaller store number with quite a larger number of SKUs in bigger sizes, generates 40% of its total revenues from HORECA customers based on media sources.

Accordingly, we anticipate the company's margins being temporarily negatively affected by the new strategy, while additional investments in existing stores and on newly-opened ones may put pressure on the cash flow. To give an example, the introduction of frozen foods necessitates new refrigerator purchases, and the selling of meat requires additional personnel at a store responsible for that activity. Sustaining operational leverage from new stores may take time, and in the meantime, margins can be negatively impacted.

Lastly, although it does not rely on solid market analysis, based on our educated guess, we believe that the absence of alcohol in the company's product portfolio may negatively impact HORECA customer traffic.

Despite declining trend, tobacco still comprises 27% of top line

Tobacco is a low margin product (i.e. gross margin ~2%). However, it is crucial and one of the highest traffic generating products in the product portfolio of many of Bizim customers. Although we expect tobacco sales' dilutive impact on the company's consolidated margins to decline going forward in line with the declining stake of tobacco sales in total (i.e. increasing trend of main category items), its negative impact will likely continue in the foreseeable future.

Operating in a highly competitive market

Challenges ahead of margin improvement

We believe Bizim Toptan is equipped with the necessary tools to maintain and even further improve its gross margin. However, this is clearly a very demanding task, given the nature of the wholesale business. We stress three main challenges ahead of Bizim on its way to improving its profitability: (i) Bizim Toptan is a middle man in the value chain from suppliers to end-consumers, and competition on the retail front pressures the margin of each player in that value chain; (ii) there are virtually no barriers to entry to this market, where players broadly sell homogeneous products; (iii) other than HORECA type customers, the remaining classes in the company's customer base are highly price-sensitive.

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Valuation / Recommendation

Our DCF-based valuation for Bizim Toptan implies a 12M target share price of TRY 27.0, representing 9% upside. According to our absolute rating scale system, we assign a Hold rating to the stock.

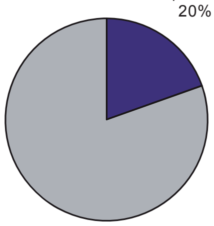
WACC calculation

	2012e	2013e	2014e	2015e	2016e	Term. value Normalized
Risk free rate	10.0%	10.0%	10.0%	10.0%	10.0%	9.0%
Equity risk premium	7.6%	7.6%	7.6%	7.6%	7.6%	7.0%
Beta	0.8	0.8	0.8	0.8	0.8	0.7
Cost of equity	**15.7%**	**15.7%**	**15.7%**	**15.7%**	**15.7%**	**13.9%**
Cost of debt	11.5%	11.5%	11.5%	11.5%	11.5%	10.5%
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax cost of debt	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**8.4%**
Equity w eight	100%	100%	100%	100%	100%	100%
WACC	**15.7%**	**15.7%**	**15.7%**	**15.7%**	**15.7%**	**13.9%**

DCF valuation

(TRY mn)	2012e	2013e	2014e	2015e	2016e	Normalized
Sales growth	*17.7%*	*16.4%*	*14.7%*	*14.3%*	*13.8%*	*12.0%*
EBIT	61.7	76.4	93.1	112.6	135.1	142.8
EBIT margin	*3.0%*	*3.2%*	*3.4%*	*3.6%*	*3.8%*	*3.6%*
Tax rate	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Taxes on EBIT	-12.3	-15.3	-18.6	-22.5	-27.0	-28.6
NOPLAT	**49.4**	**61.1**	**74.5**	**90.1**	**108.1**	**114.2**
+ Depreciation	11.8	14.1	16.4	18.9	21.3	23.7
Capital expenditures / Depreciation	*227.8%*	*205.6%*	*196.2%*	*189.8%*	*182.7%*	*100.0%*
+/- Change in w orking capital	-9.8	-4.7	-5.5	-6.6	-4.3	-4.2
Chg. working capital / chg. Sales	*-3.2%*	*-1.4%*	*-1.6%*	*-1.7%*	*-1.0%*	*-1.0%*
- Capital expenditures	-26.9	-29.0	-32.2	-35.8	-38.9	-23.7
Free cash flow to the firm	**24.5**	**41.5**	**53.2**	**66.6**	**86.2**	**110.0**
Terminal value growth						*5.0%*
Terminal value						1,407.3
Discounted free cash flow - Dec 31 2011	21.2	31.0	34.4	37.2	41.7	679.9
Enterprise value - Dec 31 2011	**845.3**					
Minorities	0.0					
Non-operating assets	24.4					
Net debt	-20.1					
Other adjustments	0.0					
Equity value - Dec 31 2011	**889.8**					
Number of shares outstanding (mn)	40.0					
Cost of equity	15.7%					
12M target price per share (TRY)	**27.0**					
Current share price (TRY)	24.8					
Up/Downside	*9.1%*					

Enterprise value breakdown



Sensitivity (per share)

WACC	Terminal value EBIT margin 2.6%	3.1%	3.6%	4.1%	4.6%
12.9%	22.8	26.1	29.4	32.7	36.1
13.4%	21.9	25.0	28.1	31.3	34.4
13.9%	21.1	24.0	**27.0**	30.0	33.0
14.4%	20.3	23.2	26.0	28.8	31.7
14.9%	19.7	22.4	25.1	27.8	30.5

WACC	Terminal value growth 4.0%	4.5%	5.0%	5.5%	6.0%
12.9%	26.8	28.0	29.4	31.0	32.8
13.4%	25.8	26.9	28.1	29.5	31.1
13.9%	24.9	25.9	**27.0**	28.2	29.6
14.4%	24.1	25.0	26.0	27.1	28.3
14.9%	23.4	24.2	25.1	26.1	27.2

Source: Erste Group Research

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The Company

(iv) History

Bizim Toptan commenced operations in 2002 to wholesale fast moving consumer goods to tax payers and legal entities. The company operates in the cash & carry segment of the wholesale retail market.

No franchise system since 2006

Bizim Toptan had adopted a partial franchising policy up until 2006 *(i.e. operating some stores alone, while franchising the rest)*. Following management's decision to cease the franchising business model, all stores began to be operated by the company itself.

Yildiz Holding sold 20% of its stake to Strategic Investment Fund in 2007 and an additional 20% stake to Golden Horn Investments in 2008.

IPO price implies TRY 1bn equity value

Bizim Toptan has been a listed company on the Istanbul Stock Exchange since February 3, 2011. In its initial public offering, Bizim Toptan's shareholders sold 16 million of their existing shares (i.e. 40% of total paid-in equity with no capital injection to the company), 2mn of which were allocated within the context of an over-allotment option thanks to over-subscription from investors. The IPO price per share was TRY 25, implying a TRY 1bn equity value for the company.

Participated in acquisition of SOK stores

In the beginning of June 2011, Bizim Toptan, together with a consortium, acquired SOK stores, Migros' ex-discount arm, for a total consideration of TRY 584mn. Bizim Toptan's share in SOK's equity is 10% and the company views this purchase as a financial investment in its balance sheet (i.e. no financial consolidation). The remaining members of the consortium - Gozde Finansal Hizmetler and Turkish Retail Investments BV - hold a 39% and 50% stake in SOK, respectively. The acquisition came in the form of a leveraged buyout and the debt used to acquire SOK is followed in SOK's financials, while the total cash outflow from Bizim Toptan due to this investment decision was only TRY 20mn.

As of end-December 2011, the company has 124 stores in 60 cities with a total sales area of 103K sqm.

(v) Ownership

Major shareholder is one of Turkey's largest conglomerates

Yildiz Holding, one of the Turkey's largest food and beverages groups, is the parent company of Bizim Toptan, with its 49.9% stake in the company. 40% of the company's shares are publicly held.

Strategic Investment Fund, which did not participate in the IPO in February 2011, sold 83% of its shares (i.e. corresponding to 16.6% of paid-in capital) to Yildiz Holding on December 23, 2011, at a per share price of TRY 19.25.

As a result of a financial transaction, Golden Horn, one of the main shareholders of Bizim Toptan prior to its IPO, but which sold the bulk of its shares in the IPO, had given 2mn Bizim Toptan shares (i.e. 5% of paid-in capital) to Standard PLC as collateral for a certain time period (i.e. until August 24, 2012). In the meantime, the voting rights of the said shares will continue to be executed by Golden Horn, and Standard Bank promises to not to make those shares subject to sale.

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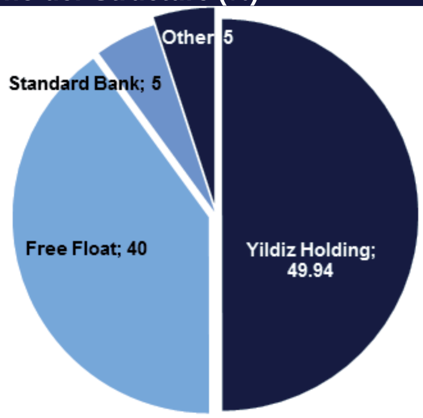
Bizim Toptan Shareholder Structure (%)



Source: Bizim Toptan, Erste Group Research

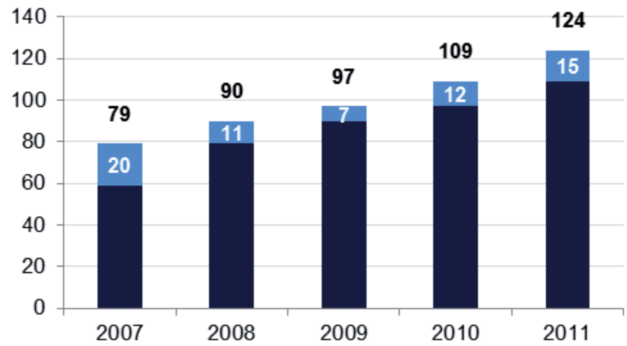
(vi) Operations Overview & Forecasts

a. Stores

Metro, market leader in terms of revenues, posted EUR 1.7bn top line in 2011 (i.e. 2.3x of Bizim revenues)

Bizim Toptan operates 124 stores located in 60 cities out of a total of 81. The company is the largest cash & carry chain in Turkey in terms of store number, and Metro, the second largest player in the C&C market based on number of stores, currently has 24 units. One of the underlying reasons behind Bizim's wider sales network is the company's preference to operate in stores that are relatively smaller in size. That is, Bizim Toptan operates in three standardized store types which on average have a sales area of 1,600m2, vs. Metro's ~10,000m^2.

Bizim Toptan Stores



Source: Bizim Toptan, Erste Group Research

Bizim Toptan classifies its stores under three formats, namely type A, type B and type C stores according mainly to store size and number of SKUs in a store. According to management, all store types generate positive 4-wall EBITDA (i.e. including only store-specific expenses) within 6 months on average.

All stores are typically rented for a period of 10-15 years and 90% of rental agreements are denominated in TRY, which is annually adjusted by the average of realized CPI and PPI.

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Bizim Toptan Store Types

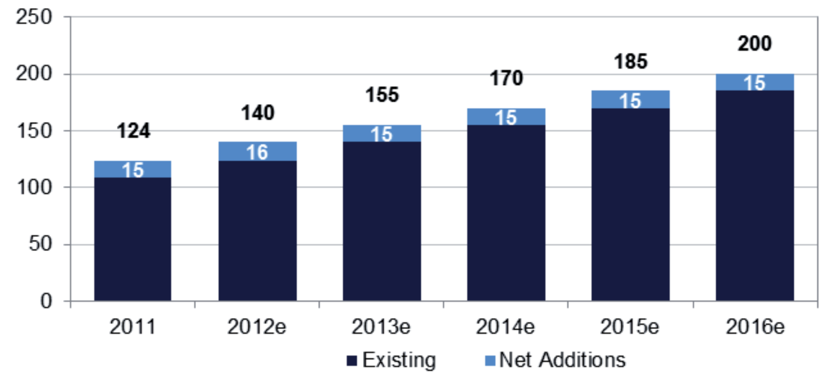
	Number of Stores	Size (m^2)	Number of SKUs	Sales per m^2 ('000)
Type A	38	~2,000	3,500	19.1
Type B	44	~1,500	3,000	13.2
Type C	42	~1,000	2,500	11.3
Total	**124**	**1,600**	**2,900**	

Source: Bizim Toptan, Erste Group Research

Management's guidance for 2012 in terms of store openings is 16 net additions on top of the existing 124. We stick to management's guidance for 2012, while we foresee 15 new store additions per annum throughout our forecast horizon. We believe that 15 stores is a reasonable figure to pursue without losing focus on existing ones. Accordingly, we expect the company to reach a 200 store count by 2016.

We expect company to reach 200 stores by end of 2016; 10% CAGR

Bizim Store Number Forecasts



Source: Bizim Toptan, Erste Group Research

b. Customers

Bizim currently does not accept individuals in its stores, but we expect softening of this policy going forward

Bizim Toptan wholesales fast-moving consumer goods to tax payers and legal entities. The company has ~228K active customers as of end-2011 (vs. 194K as of end-2011), which includes wholesalers, traders/distributor wholesalers, bakkals, canteens, catering companies, supermarkets, specialized retailers, corporate institutions, HORECA (hotels, restaurants and cafes) customers.

Bizim Toptan Customer Breakdown (%) (*)

Source: Bizim Toptan, Erste Group Research (*) based on number of customers, not revenues

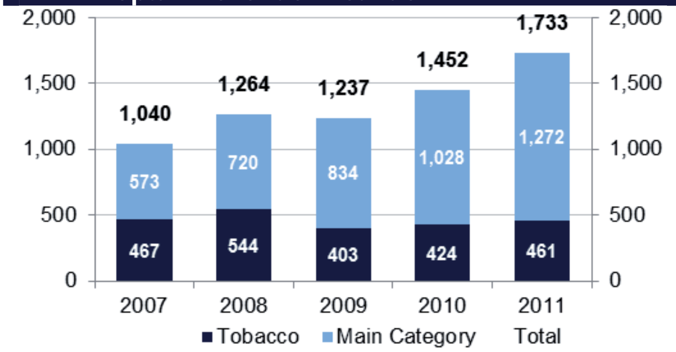
c. Revenues

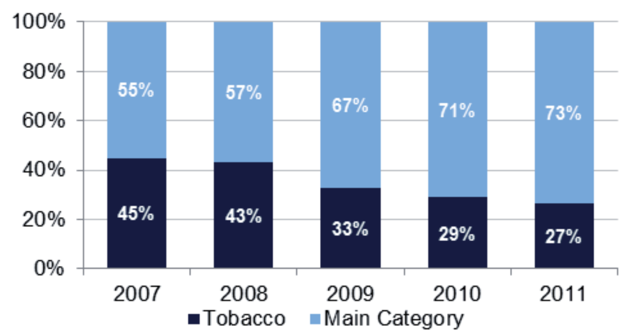
Tobacco is important product item for large portion of Bizim Toptan's customers

Bizim announces its revenue sources under two headings: (i) Main category revenues that comprise ~73% of total revenues and (ii) Tobacco revenues, which had an ~27% share in the total in 2011.

The last five years' data indicates that tobacco sales' contribution to the total is following a declining trend, thanks to a strong sales growth performance in main category items. Going forward, we expect this trend to continue until tobacco sales stabilize at 20-22%. We anticipate no further decline, due to tobacco's important role in Bizim Toptan's customers' sales portfolio, especially in bakkals and corner shops.

Bizim Toptan Revenue Breakdown



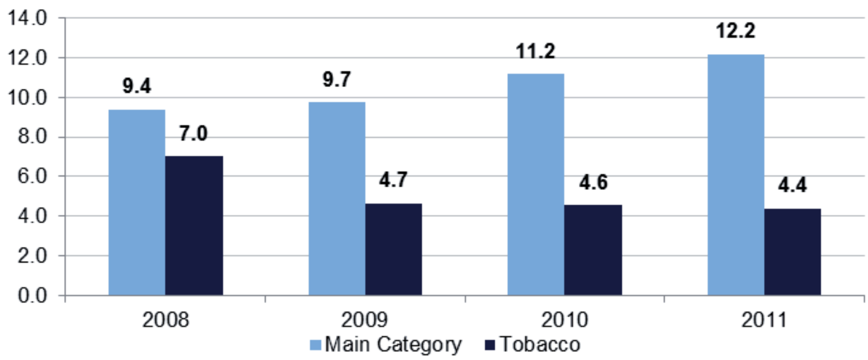


Source: Bizim Toptan, Erste Group Research

It is also better to analyze the company's sales area efficiency growth, calculated by annual sales per average sqm, in two segments. Some exogenous factors (like price and tax hikes) on tobacco may have a negative impact on a y/y comparison of the company's sales performance. We calculate continuous improvement in the company's sales area efficiency in main category items, but a declining trend in tobacco sales.

Continuous improvement in sales area efficiency of main category items

Bizim Toptan Revenues ('000 TRY / average sales area)



Source: Bizim Toptan, Erste Group Research

The company's last two years' l-f-l sales figures indicate strong performance on existing stores for main category items and limited growth for tobacco sales. Although we do lack an exact breakdown of l-f-l sales in terms of basket size and customer traffic, we believe the improvement is likely to be driven by increased basket size, due to the nature of the business.

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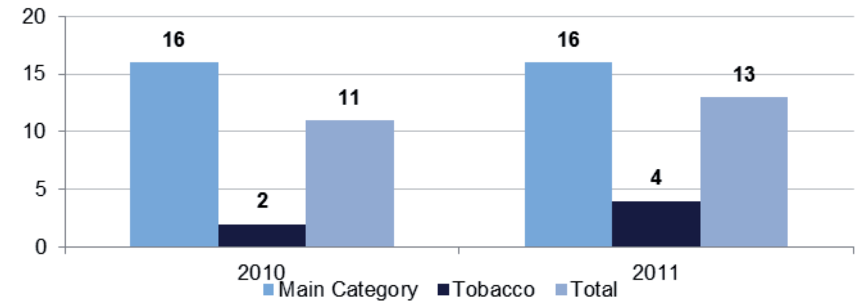
Bizim Toptan Like-for-Like Revenues (annual change, %)

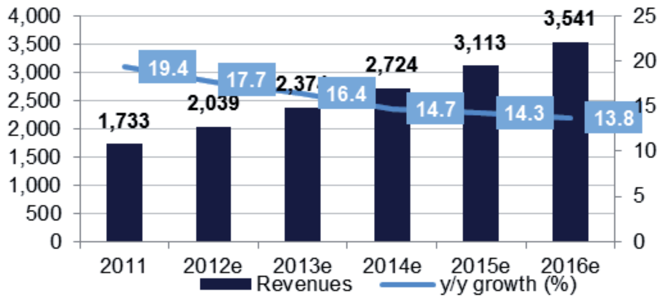


Source: Bizim Toptan, Erste Group Research

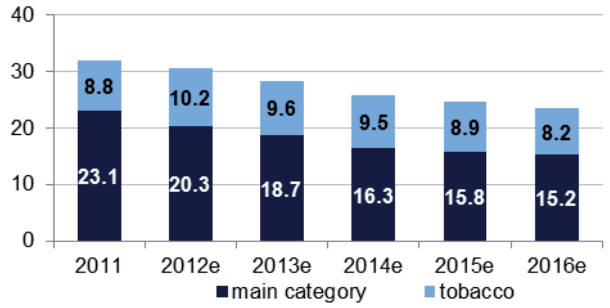
Our sales area efficiency assumptions together with our physical expansion forecasts translates into 18% y/y growth in the company's revenues for 2012. Beyond 2012, we expect the company to record 15% revenue CAGR till 2016, driven by improvement in main category items.

Bizim Toptan Revenue Forecasts

Total Revenues and Annual Growth (%)



y/y Growth of Sub-Categories

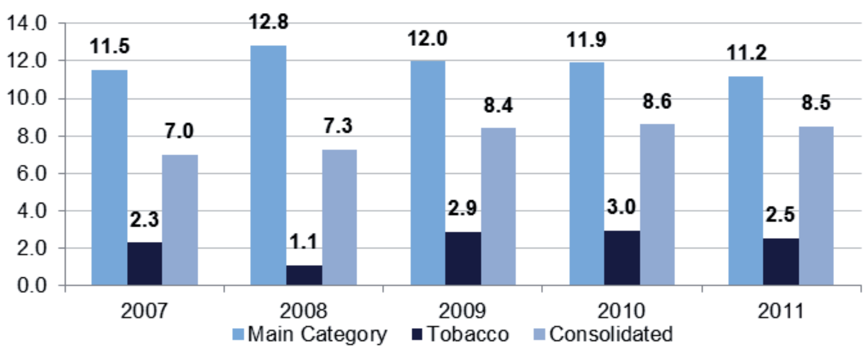


Source: Bizim Toptan, Erste Group Research

d. Margins

The wholesale business is not a high margin one. The company's gross margin for main category items hovers at around 11-12%. On a consolidated basis, with the dilutive impact of tobacco sales, which has a gross margin of ~2%, the company's gross margin declines to 8-8.5% levels.

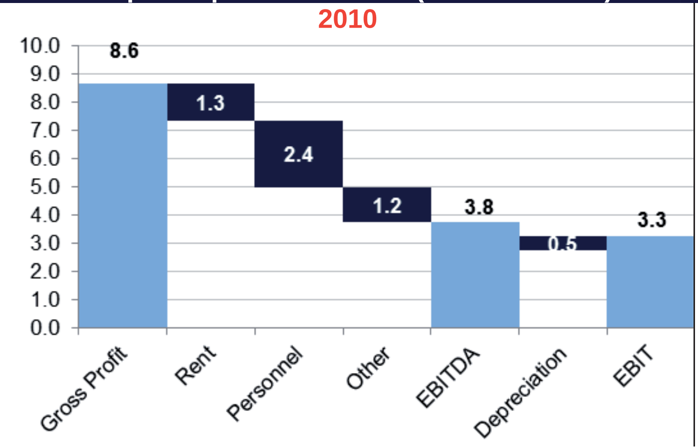
Bizim Toptan Gross Margin (%)

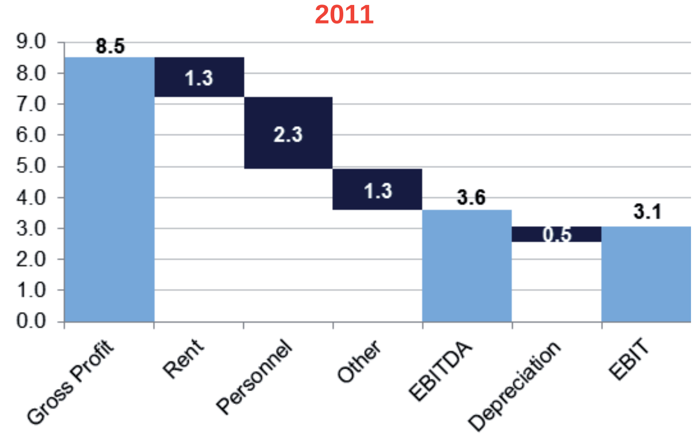


Source: Bizim Toptan, Erste Group Research

Given the low levels of gross margins due to the nature of the wholesale business, strict cost control on operating expenses is of utmost importance for EBITDA generation. Bizim has managed to maintain its operating expenses at 5.4% of its revenues in the last three years.

Bizim Toptan Opex Breakdown (% of revenues)





Source: Bizim Toptan, Erste Group Research

As detailed above, the two most important OPEX items for Bizim Toptan are personnel and rental expenses.

In big cities (e.g. Istanbul), rent expenses comprise 2.5-3% of revenues, while it is at 0.6-0.8% in smaller cities in Anatolia

Although it varies according to the store type, the company generally employs on average 10-11 personnel per store. We are informed that salary increases are adjusted on an annual basis with the expected CPI.

The company's rental agreements, which have a typical duration of 10-15 years and are protected against any potential sale, are mostly denominated in TRY (i.e. 90%) and are adjusted by the average of CPI and PPI for a given year.

Going forward, we assume limited and gradual improvement of 20bp in the gross margin of main category items from 11.3% to 11.5% until end-2013, and have kept our gross margin unchanged thereafter. For tobacco products, on the other hand, we assume a flat gross margin of 2% in our forecast horizon. Although we believe Bizim may improve its gross margin further than we expect, we still opt for the conservative approach in order to factor in our concerns over the competitive environment, both in the wholesale and retail businesses.

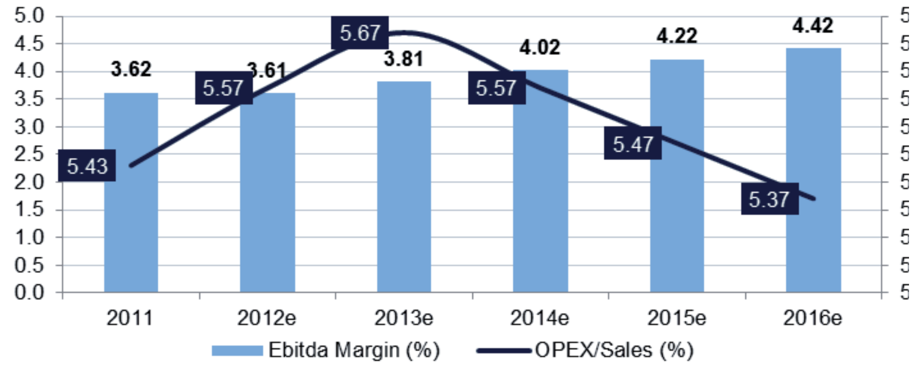
Possible implications of doubling of HORECA type customers and introduction of new products should not be missed

On the EBITDA front, our assumptions result in a flat EBITDA margin for 2012, despite our minor improvement expectation for the gross margin, as we believe it may take time for the new stores to positively contribute to the operational leverage of the company. Our less bullish stance for the OPEX front stemmed from our expectation that the company may experience the initial negative implications of its strategy of doubling HORECA customers and introducing new products. For example, we anticipate higher rental expenses as a percentage of revenues, as the bulk of new stores and relocated ones (to more effectively serve HORECA customers) will be in big cities (e.g. Istanbul), and rental expenses are higher in these locations when compared to less developed ones. Additionally, the expected increase in store size may require the employment of additional personnel. What we argue is that there will without doubt be a return on these investments, and that the important thing is to maintain the OPEX/sales ratio. However, in the short run, it may not be that easy to sustain the expected operational leverage.

Accordingly, we forecast the company posting TRY 73mn EBITDA in 2012 and expect EBITDA to grow by a CAGR of 19%, thus reaching the TRY 150mn level by the end of 2016.

We anticipate a higher OPEX/sales ratio in the next two years followed by a decline with the benefits of operational leverage

Bizim Toptan Margin Forecasts

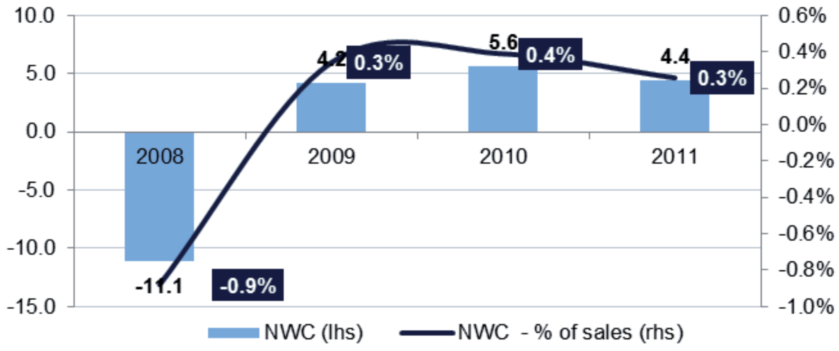


Source: Bizim, Erste Group Research

e. Balance Sheet Items

The company's days receivables (14 days), days payables (42 days), and days inventory (28 days) realizations resulted in a cash-cycle of 0 days for the full year of 2011. Bizim Toptan also recorded a 0 day cash-cycle in 2010. The company's net working capital requirement of TRY 4.1mn in 2011 corresponds to 0.3% of sales.

Bizim Toptan Net Working Capital

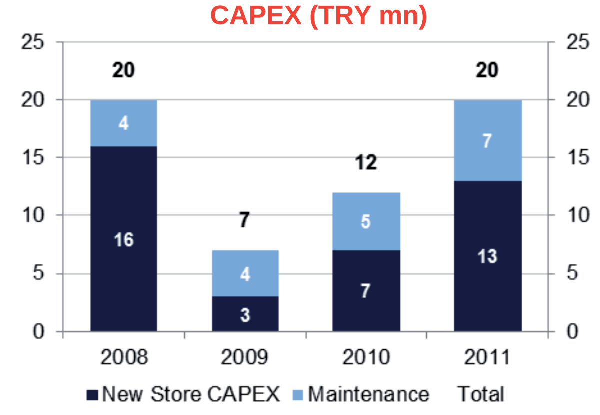


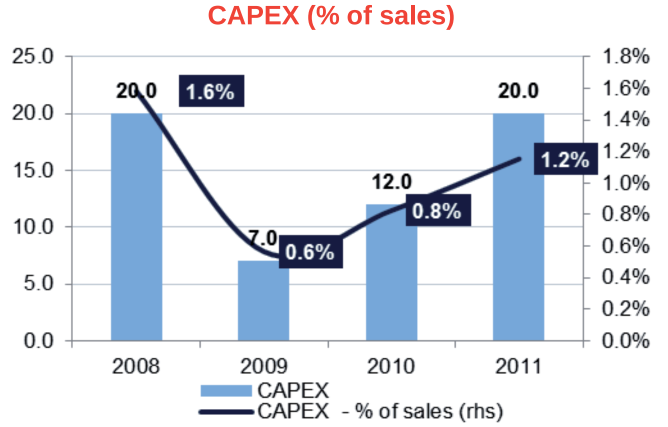
Source: Bizim Toptan, Erste Group Research

The company launched a Bizim Professional card in order to attract HORECA customers, and plans to reach 10K customers in 2012. The card will perform like an ordinary credit card for the cardholder, but will be valid only in Bizim Toptan stores.

On the CAPEX front, according to management, a typical Bizim Toptan store requires an initial investment of TRY 1mn, while this might vary from year-to-year depending on store type.

Bizim Toptan CAPEX





Source: Bizim Toptan, Erste Group Research

We calculate the company's net cash as TRY 20mn as of end-2011. Bizim Toptan is currently a self financed company (i.e. not utilizing any external financing), thanks to its own cash generation ability, as a result of its business model.

Going forward, we assume a gradual increase in the cost of additional sales area and maintenance in order to factor in inflation and also our larger store expectation, whose initial investment is typically per sqm. Our CAPEX forecasts translate into 1.3% of sales for 2012, which gradually declines to 1.1% by 2016.

On the NWC requirement, we do not expect a major change but a slight increase in days in receivables as a result of the newly-launched Bizim Professional card, which provides longer installment alternatives to customers. Its impact on the consolidated figures will be very limited, as the number of customers that those cards will be distributed to will amount to fewer than 5% of expected registered customers for 2012. However, as we expect the number of cardholders to improve going forward in line with more HORECA customers, a slight increase of +1 days for 2012 and an additional +1 days for 2013 is reasonable, in our view. We should also note that a higher share of sales through credit cards, which currently comprises 60% of total sales, may result in higher days in receivables.

We do not expect any utilization of external financing from Bizim Toptan in our forecast horizon, as we expect the company's cash flow from operations to be sufficient to finance its network expansion.

In our dividend forecasts, we assume ~50% pay-out ratio from 2011 earnings to be distributed in 2012, and which have yet to be announced. Our 50% payout assumption from 2011 earnings corresponds to a ~2% dividend yield. We assume a flat dividend payout ratio of 70% till 2016, beyond 2011.

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Consolidated Cash Flow (TRYmn)	2009	2010	2011	2012e	2013e	2014e	2015e
Operating cash flow	30.4	36.0	46.3	37.5	53.5	65.3	78.8
Investing cash flow	-5.4	-10.0	-42.2	-26.9	-29.0	-32.2	-35.8
-Capital Expenditures	*-6.6*	*-11.6*	*-19.2*	*-26.9*	*-29.0*	*-32.2*	*-35.8*
-Others	*1.2*	*1.6*	*-23.0*	*0.0*	*0.0*	*0.0*	*0.0*
Financing cash flow	-25.8	-3.1	-17.5	0.4	-24.9	-30.9	-38.1
Net Cash Flow	**-0.8**	**23.0**	**-13.4**	**11.0**	**-0.3**	**2.1**	**4.9**
Operating Cash Flow	30.40	36.04	46.33	37.49	53.54	65.29	78.78
CAPEX	-6.6	-11.6	-19.2	-26.9	-29.0	-32.2	-35.8
Free Cash Flow	**23.81**	**24.44**	**27.11**	**10.60**	**24.57**	**33.05**	**42.99**

Source: Bizim Toptan, Erste Group Research

Erste Group Research – Company Report

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Income Statement	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS, TRY mn, 31/12)	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014
Net sales	**1,237.08**	**1,451.84**	**1,732.97**	**2,038.95**	**2,374.33**	**2,724.24**
Cost of goods sold	-1,133.09	-1,326.48	-1,585.46	-1,863.65	-2,163.30	-2,479.35
Gross profit	**103.98**	**125.36**	**147.51**	**175.31**	**211.03**	**244.88**
SG&A	-67.23	-77.94	-94.11	-113.58	-134.63	-151.75
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	**44.45**	**54.60**	**62.65**	**73.53**	**90.49**	**109.57**
Depreciation/amortization	-7.70	-7.18	-9.24	-11.80	-14.09	-16.44
EBIT	**36.76**	**47.42**	**53.41**	**61.73**	**76.40**	**93.13**
Financial result	-13.07	-11.82	-16.02	-17.33	-20.18	-23.16
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**23.68**	**35.60**	**37.39**	**44.40**	**56.22**	**69.98**
Income taxes	-4.75	-7.26	-7.53	-8.88	-11.04	-13.60
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	0.00	0.00	0.00	0.00	0.00	0.00
Net result after minorities	**18.93**	**28.34**	**29.86**	**35.52**	**45.17**	**56.38**

Balance Sheet	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS, TRY mn, 31/12)						
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00
Tangible assets	38.71	43.12	53.13	68.21	83.09	98.90
Financial assets	1.82	4.50	30.81	30.81	30.81	30.81
Total fixed assets	**40.53**	**47.62**	**83.93**	**99.02**	**113.89**	**129.70**
Inventories	88.68	128.08	118.09	157.63	162.42	204.39
Receivables and other current assets	75.22	70.44	75.41	116.24	93.05	136.71
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	10.54	33.50	20.11	31.12	37.93	48.90
Total current assets	**174.44**	**232.03**	**213.61**	**304.99**	**293.40**	**390.00**
TOTAL ASSETS	**214.97**	**279.65**	**297.54**	**404.01**	**407.30**	**519.70**
Shareholders'equity	**53.81**	**82.16**	**99.28**	**134.80**	**161.21**	**193.51**
Minorities	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	0.21	0.00	0.00	0.00	0.00	0.00
Other LT liabilities	1.84	2.46	2.79	2.79	2.79	2.79
Total long-term liabilities	**2.05**	**2.46**	**2.79**	**2.79**	**2.79**	**2.79**
Interest-bearing ST debts	1.09	0.22	0.00	0.00	0.00	0.00
Other ST liabilities	158.02	194.81	195.48	266.42	243.30	323.41
Total short-term liabilities	**159.10**	**195.03**	**195.48**	**266.42**	**243.30**	**323.41**
TOTAL LIAB. , EQUITY	**214.97**	**279.65**	**297.54**	**404.01**	**407.30**	**519.70**

Cash Flow Statement	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS,TRY mn, 31/12)						
Cash flow from operating activities	30.40	36.04	46.33	37.49	53.54	65.29
Cash flow from investing activities	-5.40	-9.98	-42.21	-26.89	-28.97	-32.25
Cash flow from financing activities	-25.77	-3.09	-17.50	0.40	-17.76	-22.09
CHANGE IN CASH , CASH EQU.	**-0.78**	**22.97**	**-13.39**	**11.01**	**6.81**	**10.96**

Margins & Ratios	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Sales growth	-2.2%	17.4%	19.4%	17.7%	16.4%	14.7%
EBITDA margin	3.6%	3.8%	3.6%	3.6%	3.8%	4.0%
EBIT margin	3.0%	3.3%	3.1%	3.0%	3.2%	3.4%
Net profit margin	1.5%	2.0%	1.7%	1.7%	1.9%	2.1%
ROE	42.7%	41.7%	32.9%	30.3%	30.5%	31.8%
ROCE	39.5%	58.0%	44.8%	37.7%	38.9%	41.2%
Equity ratio	25.0%	29.4%	33.4%	33.4%	39.6%	37.2%
Net debt	-9.2	-33.3	-20.1	-31.1	-37.9	-48.9
Working capital	15.3	37.0	18.1	38.6	50.1	66.6
Capital employed	46.4	51.3	82.0	106.5	126.1	147.4
Inventory turnover	13.0	12.2	12.9	13.5	13.5	13.5

Source: Company data, Erste Group estimates

Erste Group Research – Company Report
KilerAlisveris | Retail | Turkey
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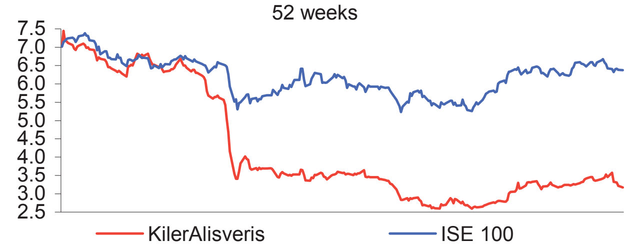
KilerAlisveris

Initiated with Sell

TRY mn	2011	2012e	2013e	2014e
Net sales	780.5	866.3	951.0	1,044.2
EBITDA	57.5	60.1	59.9	66.0
EBIT	38.6	39.1	40.1	45.5
Net result after min.	-13.0	15.6	20.3	23.4
EPS (TRY)	-0.10	0.12	0.15	0.17
CEPS (TRY)	0.04	0.27	0.30	0.33
BVPS (TRY)	1.54	1.66	1.81	1.98
Div./share (TRY)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	11.0	10.7	10.3	9.3
P/E (x)	nm	27.5	21.1	18.3
P/CE (x)	64.1	11.7	10.7	9.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in TRY	-56.6%	-11.7%	20.0%	-2.2%

Share price (TRY) close as of 16/04/2012	3.18
Number of shares (mn)	134.6
Market capitalization (TRY mn / EUR mn)	428 / 182
Enterprise value (TRY mn / EUR mn)	645 / 275

Reuters	KILER.IS	Free float	15.0%
Bloomberg	KILER TI	Shareholders	Kiler Holding (38.6%)
Div. Ex-date			Kiler Family (44%)
Target price	**2.80**	Homepage:	www.kiler.com.tr

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Depletion of high inventories is a challenge

- **We initiate our coverage of Kiler Alisveris with a Sell recommendation.** Our 12-month target price at TRY2.80/share represents 12% downside.
- **A pure supermarket operator.** Kiler Alisveris is Turkey's second largest supermarket chain, operating 193 stores. The company's focus is solely on the supermarket format, with a special emphasis on fresh products. Its larger scale and the availability of five logistics centers is one of the biggest advantages in a market where the bulk portion of competitors are small-sized local chains, and/or independent markets.
- **An acquisition expert.** More than half of the company's total stores were included in the portfolio through the acquisition of small- to mid-sized chains and individual markets. The company's competency in acquisitions may be more visible in the coming years, when the fragmented environment becomes more challenging for small players and more acquisition targets become available.
- **We find Kiler's current margins high.** In our view, an 8% EBITDA margin for a retailer of Kiler's size is quite demanding. Although the main driver of those high margins stems from management's preference in investing in inventories *(i.e. working with a positive cash cycle)*, we argue that this strategy will ultimately put a cap on the company's physical expansion. Thus, we anticipate either lower margin recordings from the company, or limited store expansion.
- **Not an attractive play.** Based on our forecasts, Kiler is trading at 10.7x 2012e EV/EBITDA, a fair level when compared to both domestic and international players. Ongoing rumors in the market claiming that Kiler is for sale is the main risk ahead of our "sell" call.

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Investment Positives

Company's relatively larger scale and logistics centers are competitive advantages against local chains and independent medium markets

Competitive advantages against many rivals

Kiler Alisveris is currently Turkey's fifth largest food retailer and second largest supermarket chain based on revenue terms according to the company's management. Thanks to the company's nationwide presence and large size, it obtains key account status in most of its suppliers, which enables the obtaining of better purchasing terms and receiving higher incentives from suppliers. On the other hand, the company has five logistics centers operating as both distribution & storage centers and also has integrated production and packaging facilities.

The company's larger scale and five logistics centers are important advantages for Kiler in a market where the bulk portion of competitors are small-sized local chains, and/or independent markets, lacking scale advantages and with less operational leverage ability.

The management is clearly proud of their expertise in fresh products

Proud of its fresh product assortment

Fresh fruit, vegetables, meat and bakery are crucial products for a typical Turkish consumer, and are the main drivers of daily customer traffic. That is also one of the main reasons why traditional trade channels still have the lion's share of the total market, as people prefer to make their kind of shopping, feeling comfortable about the quality level. The breakdown of Kiler's sales by category reveals that 44% of the company's revenues stem from the aforementioned categories. Management is clearly proud of their expertise in these products with the claim that unlike many of their competitors that are making a loss in the fresh group, their above-sector average high margins mainly stem from their proficiency in this area.

We are also of the idea that strength in the fresh group, meat and bakery are one of the areas where a retailer could differentiate itself from the rest of the market, while especially for a supermarket operator – one of the few areas where this is possible, considering that the bulk of the products offered are branded and there is little room for price and quality differences. Consequently, we argue that if Kiler management's proposition of making quite high profits on these categories were true, we stress this as an important driver for long-term company growth and a significant competitive advantage against rivals.

Ready to utilize acquisition opportunities in market

Agility and competence in inorganic growth

More than half of the company's total stores were added to the portfolio through the acquisition of small- to mid-sized chains and individual markets. The acquisition of local chains like Canerler, Guler Alisveris, and Yimpas are milestones in the company's history.

We believe that the company's competency in acquisitions may be more visible in the coming years when the fragmented environment becomes more challenging for small players and more acquisition targets become available.

Please note that the most important issue for an acquisition target is the earliest possible closure of the sale process, as the company subject to acquisition is afraid of elevating rumors in the market which would harm relations with their suppliers. In that sense, we welcome Kiler's lean bureaucracy when compared to other nationwide peers, especially against foreign ones, as Kiler can swiftly conclude acquisitions.

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Closure of sale process is of utmost importance in food retail M&A deals

As a reminder, in Turkey, acquisition prices are set according to the revenue generation ability of the acquisition target. That is, profitability is of secondary importance, as the acquirer believes it can fix the profitability problem with its own methods. Moreover, the general practice in the Turkish retail market is for the buyer to acquire the assets and leasehold agreements of an acquisition target (i.e. not their equity) in exchange for their 3-4 monthly revenues.

Ongoing rumors in the market

Expectation of Kiler family's exit may support share performance

According to several rumors in the media and based on undisclosed sources, Kiler Alisveris is said to be considering becoming an acquisition target. Reportedly, an investment bank is working on the issue and the company may be on the market in 2012. The chairman of the company immediately denied the rumors in the market claiming that Kiler is for sale, but he admitted that foreign investment funds' interest in the company exists and that they are regularly talking with them.

We argue that Kiler, with its current business model (i.e. working with a positive cash conversion cycle), is unlikely to record the necessary physical expansion to pursue a higher level of growth. Thus, an exit strategy by the Kiler family could be considered the right move, in our view.

We believe that such news flow will also increase the interest of investment community about the company and may be a supporting factor for the share performance.

Investment Negatives / Risks

Working with positive cash conversion cycle

Positive cash conversion cycle is likely to put a cap on the company's network expansion

Kiler's way of doing business is different from many other retailers on the market and management prefers to make bulk purchases from suppliers in order to enjoy sizable discounts, which in turn translates into better margins for them. Although investing in inventories through large-sized purchases to enjoy higher discounts seems a good strategy for margin improvement, it can only be successful as long as the customer traffic and sales turnover remain at high levels, as most of those inventories involves the risk of deformation, especially for those of a limited use product life span.

As a result of the abovementioned strategy, the company works with a positive working capital. The cash conversion cycle of the company, which stands at 68 days as of end-2011 is materially different from that of Migros, another listed supermarket operator, with a negative cash cycle of 57 days.

We consider that Kiler's current strategy will ultimately put a cap on the company's physical expansion with its own funding. Thus, we anticipate either lower margin recordings from the company, or else limited store expansion.

Unpromising performance in post-IPO era

IPO price was set very generously

Kiler's shares commenced trading on the ISE on January 27, 2011 with an Mcap of TRY 821mn (i.e. base IPO price was TRY 6.10) at the time. Due mainly to a generously set IPO price and poor financial performance in 1H11, the shares fell significantly. Despite the recovery YTD in 2012, the stock has been down 45% in absolute terms and underperformed the index by 38% since the IPO.

The fluctuations in the company's margin performance also annoy many investors, in our view, where some portion of that fluctuation is in fact attributable to seasonality in the company's revenues due to other income sources (e.g. sales premiums, participation income derived from suppliers).

Consequently, the company should post relatively stronger financials with relatively stable margins in order to dissipate any clouds lingering over the stock due to its poor post-IPO performance.

Low presence in socio-economically developed regions

No exposure in relatively more developed cities like İzmir, Antalya, Denizli

Kiler's operations are mostly carried out in the Marmara and Central Anatolia, and its presence in the Aegean and Mediterranean regions is very low. Out of a total 193 stores, only 20 are located in these regions. Considering that these two regions, especially the Aegean region, are two of the most socio‑economically developed regions after the Marmara, its late penetration of these regions without selling alcoholic products could prove troublesome.

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Valuation / Recommendation

We rely fully on our TRY-based DCF model in arriving at our 12M target share price of TRY 2.80. We have a Sell rating for the stock and our 12M target price represents 12% downside.

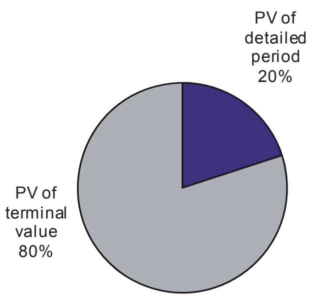
WACC calculation

	2012e	2013e	2014e	2015e	2016e	Term. value Normalized
Risk free rate	10.0%	10.0%	10.0%	10.0%	10.0%	9.0%
Equity risk premium	7.6%	7.6%	7.6%	7.6%	7.6%	7.0%
Beta	0.9	0.9	0.9	0.9	0.9	0.8
Cost of equity	**16.8%**	**16.8%**	**16.8%**	**16.8%**	**16.8%**	**14.5%**
Cost of debt	11.5%	11.5%	11.5%	11.5%	11.5%	10.5%
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax cost of debt	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**8.4%**
Equity w eight	45%	45%	45%	45%	45%	50%
WACC	**12.6%**	**12.6%**	**12.6%**	**12.6%**	**12.6%**	**11.4%**

DCF valuation

(TRY mn)	2012e	2013e	2014e	2015e	2016e	Normalized
Sales growth	*11.0%*	*9.8%*	*9.8%*	*9.5%*	*9.3%*	*9.2%*
EBIT	39.1	40.1	45.5	51.0	57.0	60.0
EBIT margin	*4.5%*	*4.2%*	*4.4%*	*4.5%*	*4.6%*	*4.4%*
Tax rate	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Taxes on EBIT	-7.8	-8.0	-9.1	-10.2	-11.4	-12.0
NOPLAT	**31.3**	**32.0**	**36.4**	**40.8**	**45.6**	**48.0**
+ Depreciation	21.0	19.8	20.5	21.5	21.4	22.4
Capital expenditures / Depreciation	*149.7%*	*148.9%*	*146.3%*	*141.4%*	*145.1%*	*100.0%*
+/- Change in w orking capital	31.1	9.6	-9.6	-9.6	-10.8	5.7
Chg. working capital / chg. Sales	*36.3%*	*11.3%*	*-10.3%*	*-9.7%*	*-10.2%*	*5.0%*
- Capital expenditures	-31.4	-29.5	-30.0	-30.4	-31.1	-22.4
Free cash flow to the firm	**52.0**	**31.9**	**17.4**	**22.3**	**25.1**	**53.7**
Terminal value growth						*4.0%*
Terminal value						805.4
Discounted free cash flow - Dec 31 2011	46.1	25.2	12.2	13.8	13.8	444.6
Enterprise value - Dec 31 2011	**555.8**					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	252.8					
Other adjustments	0.0					
Equity value - Dec 31 2011	**303.0**					
Number of shares outstanding (mn)	134.6					
Cost of equity	16.8%					
12M target price per share (TRY)	**2.80**					
Current share price (TRY)	3.18					
Up/Downside	*-11.8%*					

Enterprise value breakdown



Sensitivity (per share)

Terminal value EBIT margin

WACC	3.4%	3.9%	4.4%	4.9%	5.4%
10.4%	2.45	2.92	3.40	3.88	4.36
10.9%	2.19	2.64	3.08	3.53	3.97
11.4%	1.97	2.39	**2.80**	3.22	3.64
11.9%	1.78	2.17	2.56	2.96	3.35
12.4%	1.61	1.98	2.35	2.72	3.09

Terminal value growth

WACC	3.0%	3.5%	4.0%	4.5%	5.0%
10.4%	2.77	3.06	3.40	3.80	4.27
10.9%	2.53	2.79	3.08	3.42	3.82
11.4%	2.32	2.55	**2.80**	3.10	3.44
11.9%	2.13	2.33	2.56	2.82	3.12
12.4%	1.96	2.14	2.35	2.58	2.84

Source: Erste Group Research

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The company

(i) History

The growth of the company accelerated after 2004

Kiler Alisveris commenced its operations in 1994, with its first store opening in Istanbul. The beginning of the 1990s was the period when Turkey started to experience modern retail formats, and the Kiler Family, which used to operate in mom-and-pop stores, decided to follow the main trend in the market. After analyzing the dynamics of modern retailing, mainly in the UK, they opened their first modern store and had reached a 33 store count by the end of 2004, through several acquisitions in Istanbul.

In 2005, the company acquired 47% of Canerler Gida, which had 48 stores at the time of acquisition, operating in Ankara (Central Anatolia). This acquisition is a milestone in the company's history. Later in 2010, the company took over the remaining shares in Canerler.

Acqusitions helped sales area expansion

The Canerler acquisition was followed by several others, and the company extended its sales network to Thrace, the Black Sea and Mediterranean regions between 2006 and 2008. After the implementation of a re-structuring program aimed at simplifying the organizational structure, management decided to undertake an IPO and the company became a listed one in 2011.

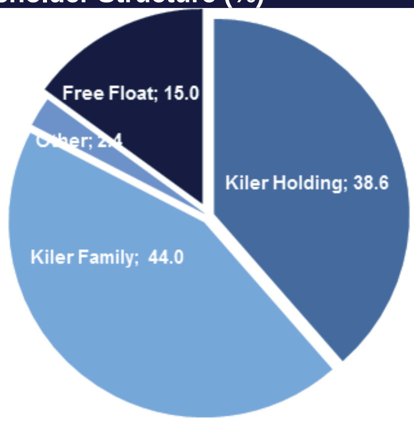
As of today, Kiler Alisveris ranks as the second largest supermarket chain in Turkey, operating 193 stores located in 32 cities supported by its 5 logistics centers.

(ii) Ownership

The company's current main shareholders are Kiler family members and Kiler Holding, whose shares also belong to the Kiler family.

Three brothers, namely Nahit Kiler, Vahit Kiler and Umit Kiler each has a 14.7% direct stake in the company

Kiler Alisveris Shareholder Structure (%)



Source: Kiler, Erste Group Research

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(iii) Operations Overview & Forecasts

a. Stores

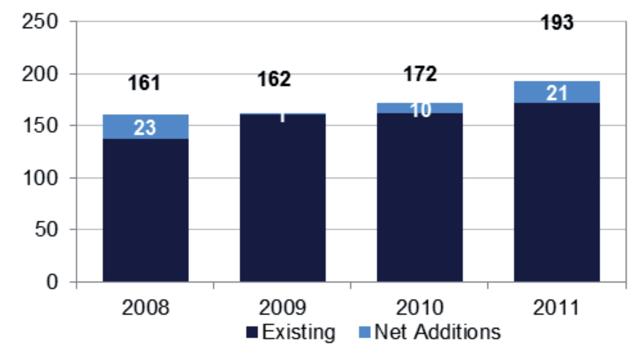
Kiler is a typical supermarket player operating in stores that have an average sales area of 900sqm with average SKUs of 10,000

Kiler Alisveris currently runs its operations in 193 stores in 32 cities. The company has also five logistics centers located in five different cities (i.e. Istanbul, Ankara, Adana, Kayseri and Tokat), where they have integrated production and packaging facilities for meat, baked goods, and dry food products.

Kiler Alisveris classifies its stores under four formats, namely K1, K2, K3 and K4 stores according mainly to store size and number of SKUs at a store, where K1 stores have the smallest sales area and SKU (i.e. up to 600 sqm sales area with around 9,000 SKUs), while K4 stores are the largest, and more than 16,000 SKUs are offered to customers in stores bigger than 2,500sqm.

Only two stores are owned by the company, while the rest are rented, giving management the flexibility to immediately shut underperforming units. Store layouts are broadly standard across all Kiler stores, although the pricing and number of SKUs may vary from one store to another according to regional dynamics and customer profile.

Kiler Store Network (geographic coverage and number of stores)

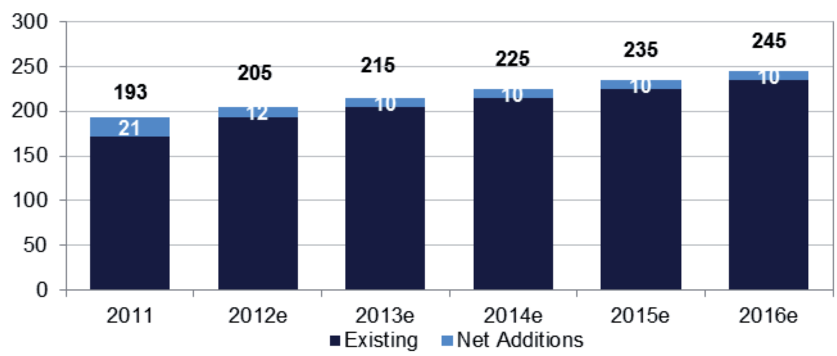


Source: Kiler, Erste Group Research

We expect Kiler Alisveris to have increased its retail sales area to 205K m^2 by the end of 2016 from the current 165K m^2, implying 4% CAGR. Our sales area growth assumption corresponds to 52 new store openings in the same period (i.e. ~10 new stores per annum on average). Please note that our assumption does not incorporate a potential acquisition.

We assume ~10 new store openings per annum on average by end-2016

Kiler Store Number Forecasts



Source: Kiler, Erste Group Research

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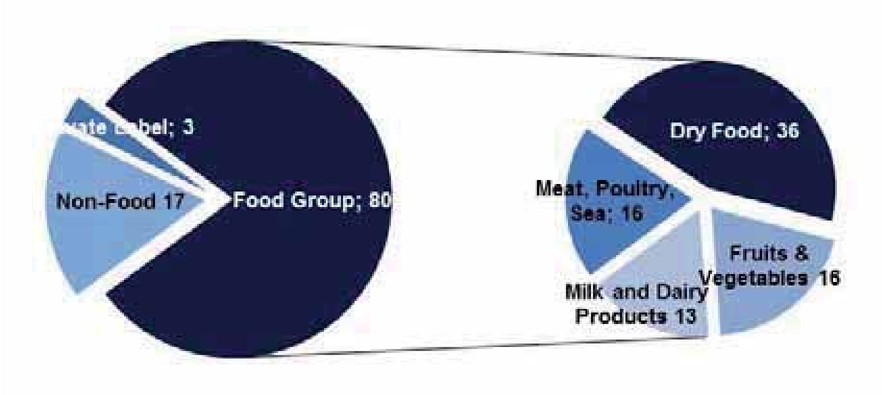
b. Revenues

Kiler Alisveris operates in the supermarket segment of the organized food retail market, and as a natural consequence it concentrates mostly on branded goods and fresh products.

80% of the company's revenues are generated from food products

In a typical year, 80% of the company's revenues are generated from the food segment while the stake of private label products in the total portfolio was limited to 2%. An important component of Kiler's top line is "other sales", comprising ~15% of the top line, which mostly includes income generated through suppliers under different names (e.g. sales premiums, participation income, and new product premium), one of the advantages of selling branded products in bulk. Such revenue is very unlikely to be raised by small retailers and local chains.

Kiler – Product Breakdown (%)



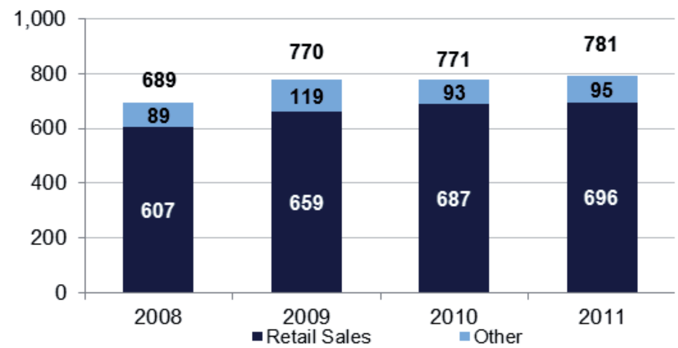
Source: Kiler, Erste Group Research

Kiler managed to record 5% CAGR in its sales area between 2007 and 2010. The top line growth for the same period remained higher at 6%.

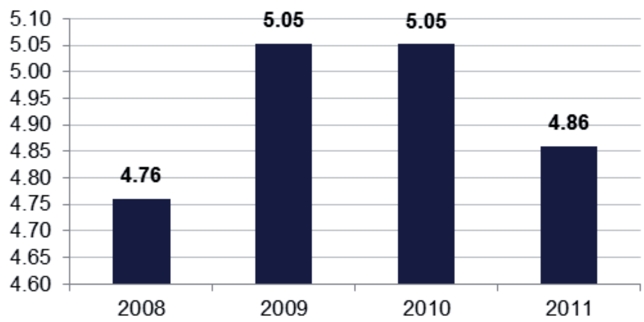
The company's sales area efficiency, calculated by retail sales (including other items) and divided by average sales area, stood at TRY 4.86 in 2011, vs. TRY 5.05 in 2010, implying a 4% contraction.

Kiler Revenue Development

Breakdown of Revenues



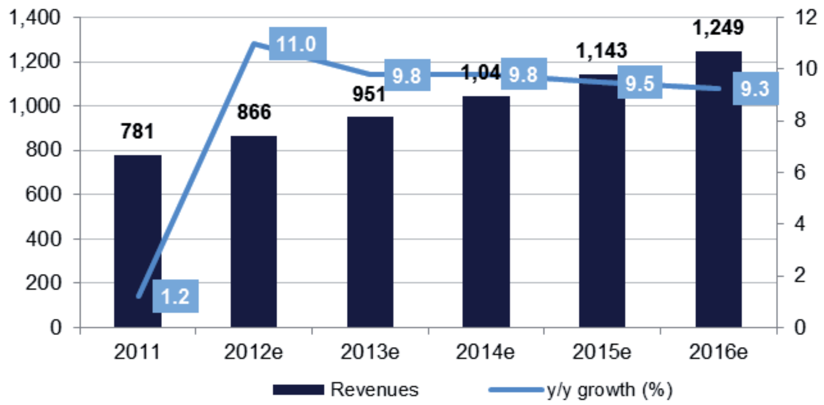
Annual Sales Area Efficiency (TRY mn / sqm) (*)



Source: Kiler, Erste Group Research (*) in sales area efficiency calculation, only retail sales are taken into consideration (i.e. excluding other items)

Going forward, we expect the company to increase its sales area by 4% CAGR between 2011 and 2016, and for its sales area efficiency to move broadly in line with CPI, translating into 10% top line growth. We believe that, considering the improving macro environment and sizeable room for inorganic growth opportunities in the market, Kiler could easily meet our expectations.

Kiler Revenue Forecasts (TRYmn)

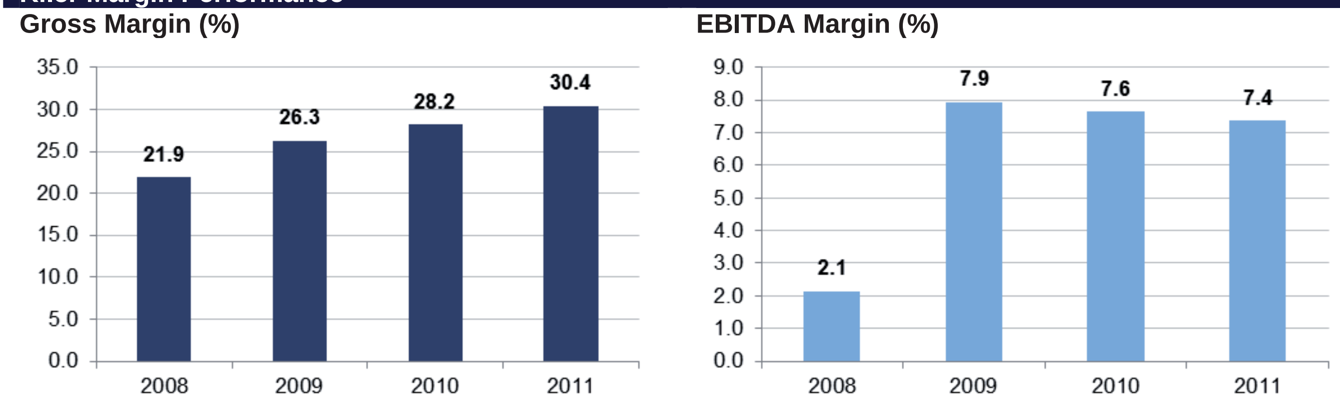


Source: Kiler, Erste Group Research

c. Margins

Kiler Alisveris' gross and EBITDA margins are very lucrative when compared with those of its listed peers. The bulk portion of those high margins is a result of management's deliberate choice to invest in inventories and work with a positive cash cycle, as it prefers to make bulk purchases from suppliers in order to enjoy sizable discounts from suppliers, which in turn translate into better margins for them.

Kiler Margin Performance



Source: Kiler, Erste Group Research

According to the company's management, the restructuring steps between 2007 and 2009 were the underlying reason behind the eye-catching improvement in margins in 2009. We were informed that, due mainly to internalizing the profitable business lines, the company started to enjoy higher profits formerly left to subsidiaries.

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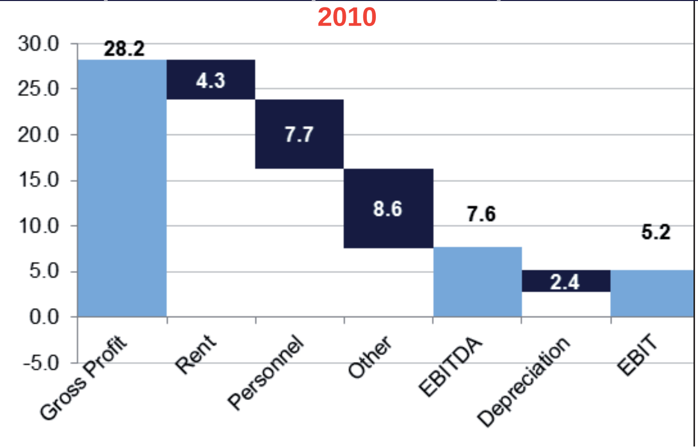
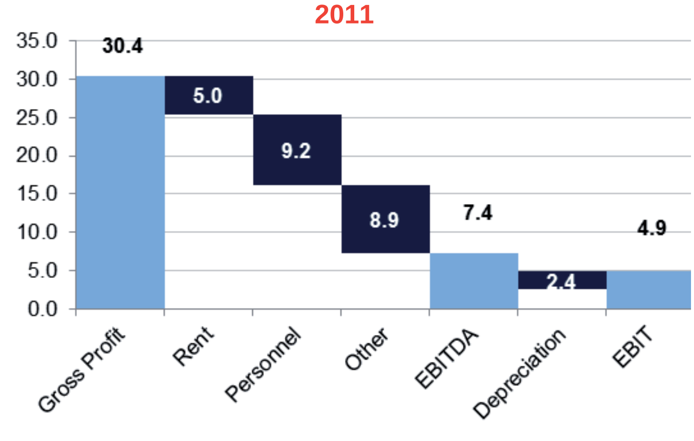
Kiler Opex Breakdown (% of revenues)



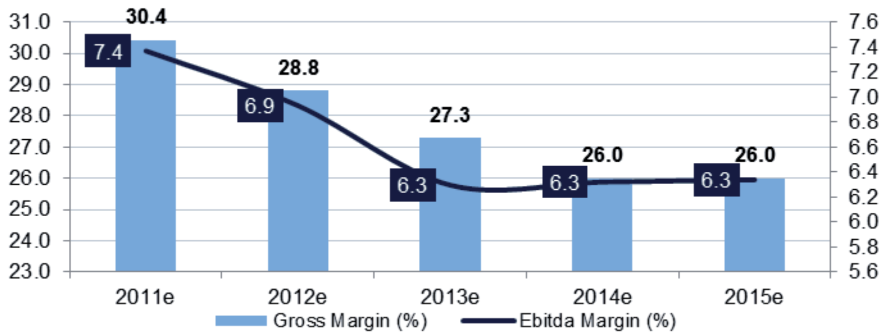


Source: Kiler, Erste Group Research

We have concerns over the sustainability of high margins going forward. We believe it to be very demanding to keep gross margins unchanged in a market where competition is on the rise. Additionally, fluctuations in Kiler's margins have elevated our concerns. Accordingly, we expect a total ~450bp contraction in the gross margin of the company by 2016, with a gradual decline. In line with our gross margin contraction assumption, we also anticipate the EBITDA margin retreating to 6.3% levels, which is still not very reasonable for a typical supermarket operator in Turkey operating in Kiler's size format, but it is commensurate with our balance sheet assumptions, where we foresee no change in the company's preference for running its operations with high level of inventory.

We believe that an EBITDA margin above 7% is quite demanding for a retailer of Kiler's size, and thus anticipate gradual contraction in company margins

Kiler Margin Forecasts



Source: Kiler, Erste Group Research

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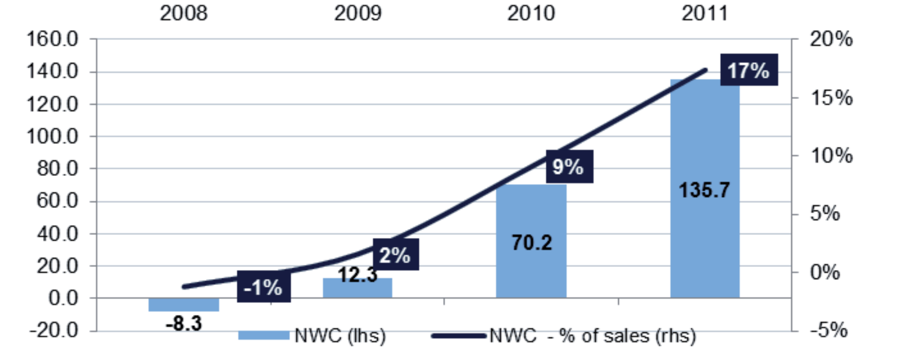
d. Balance Sheet Items

On the balance sheet front, Kiler's difference from the rest of the market becomes more visible, as unlike many of its competitors, Kiler does not concentrate much on creating negative working capital; rather the company prefers to invest in inventories. We calculate the company's net working capital requirement at TRY 136mn as of end-2011 and with a 68 day positive cash conversion cycle.

Kiler's positive cash conversion cycle of 68 days is by far the highest figure among listed players

Kiler Net Working Capital (TRYmn) (*)



Source: Kiler, Erste Group Research (*) NWC=Receivables + Inventories - Payables

The main consequence of the company's net working capital requirement is external financing. The continued increase in net working capital requirement brought the company's net debt to TRY 253mn as of end-2011, from TRY 64mn as of end-2008. The company's end-2011 net debt corresponds to 1.2x net debt/equity and 4.4x net debt/4Q trailing EBITDA.

The company's preference for investing in inventories prevents it from enjoying one of the biggest advantages, and a natural opportunity of the retail sector, namely the retailers' ability to create negative working capital and enjoy high cash generation.

On the CAPEX front, although varying greatly from location to location, on average, a typical 1,000sqm Kiler store requires an ~ TRY 750mn investment. However, since the company is growing by opening new stores in existing cities, while it prefers to rely on acquisitions in entering a new city, its CAPEX requirement may differ significantly based on the macro environment and revenue generation ability of the acquisition target, as the general practice in the Turkish retail market is for the buyer to acquire the assets and leasehold agreements of an acquisition target in exchange for their 3-4 monthly revenues.

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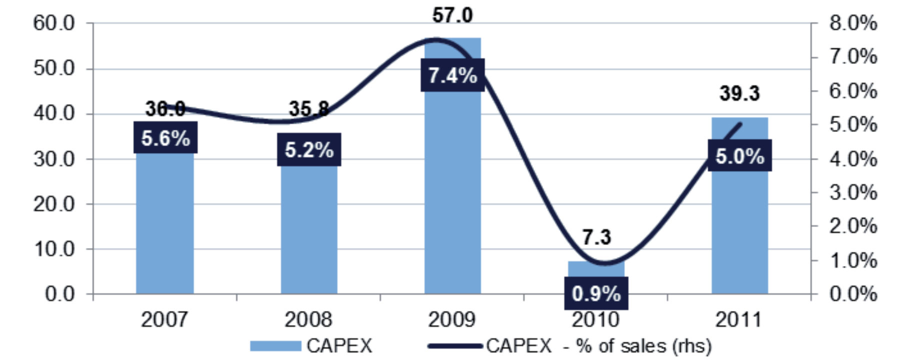
Kiler CAPEX (*) (TRYmn)



Source: Kiler, Erste Group Research (*) gross fixed asset purchases (i.e. excluding disposals)

Going forward, we expect that the company will ultimately be in a position to lower its positive cash conversion cycle and we foresee the current level of 68 days will ease to 46 days, still a high level but indicating an improvement.

Consolidated Cash Flow (TRYmn)	2009	2010	2011	2012e	2013e	2014e	2015e
Operating cash flow	43.1	7.1	18.7	34.4	41.9	36.9	41.4
Investing cash flow	-78.6	-30.3	-68.2	-31.4	-29.5	-30.0	-30.4
-Capital Expenditures	*-57.0*	*-6.4*	*-38.3*	*-31.4*	*-29.5*	*-30.0*	*-30.4*
-Others	*-21.6*	*-23.8*	*-29.9*	*0.0*	*0.0*	*0.0*	*0.0*
Financing cash flow	41.9	26.1	54.9	32.7	13.3	-2.6	-3.0
Net Cash Flow	**6.5**	**2.9**	**5.5**	**35.7**	**25.7**	**4.3**	**8.1**
Operating Cash Flow	43.1	7.1	18.7	34.4	41.9	36.9	41.4
CAPEX	-57.0	-6.4	-38.3	-31.4	-29.5	-30.0	-30.4
Free Cash Flow	**-13.9**	**0.7**	**-19.5**	**3.0**	**12.4**	**6.9**	**11.1**

Source: Kiler, Erste Group Research

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Income Statement	2009	2010	2011	2012e	2013e	2014e
(IFRS, TRY mn, 31/12)	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014
Net sales	**770.08**	**771.22**	**780.53**	**866.27**	**950.99**	**1,044.24**
Cost of goods sold	-567.82	-554.05	-543.02	-616.78	-691.37	-772.74
Gross profit	**202.26**	**217.17**	**237.51**	**249.49**	**259.62**	**271.50**
SG&A	-154.72	-176.90	-198.94	-210.40	-219.57	-225.96
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	**61.11**	**58.99**	**57.54**	**60.06**	**59.88**	**66.01**
Depreciation/amortization	-13.57	-18.71	-18.97	-20.97	-19.83	-20.47
EBIT	**47.54**	**40.28**	**38.57**	**39.08**	**40.05**	**45.55**
Financial result	-30.38	-26.55	-53.13	-21.76	-17.55	-19.56
Extraordinary result	0.00	0.00	0.00	0.00	0.00	0.00
EBT	**17.16**	**13.73**	**-14.56**	**17.33**	**22.51**	**25.99**
Income taxes	-7.65	-3.74	1.17	-1.73	-2.25	-2.60
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-1.55	-0.11	0.40	0.00	0.00	0.00
Net result after minorities	**7.96**	**9.88**	**-13.00**	**15.59**	**20.26**	**23.39**

Balance Sheet	2009	2010	2011	2012e	2013e	2014e
(IFRS, TRY mn, 31/12)						
Intangible assets	44.09	44.15	74.31	74.31	74.31	74.31
Tangible assets	145.68	133.24	152.59	163.01	172.71	182.19
Financial assets	44.36	70.07	72.90	72.90	67.34	67.34
Total fixed assets	**234.13**	**247.46**	**299.81**	**310.22**	**314.36**	**323.84**
Inventories	161.07	204.16	278.13	228.82	301.55	248.89
Receivables and other current assets	80.09	114.48	116.54	128.03	118.39	130.07
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	33.66	36.54	42.01	77.71	103.44	107.76
Total current assets	**274.83**	**355.18**	**436.68**	**434.56**	**523.38**	**486.72**
TOTAL ASSETS	**508.95**	**602.64**	**736.48**	**744.78**	**837.74**	**810.57**
Shareholders'equity	**125.59**	**140.28**	**207.42**	**223.01**	**243.27**	**266.66**
Minorities	**12.79**	**12.89**	**0.58**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	46.79	109.03	71.97	71.97	71.97	71.97
Other LT liabilities	18.23	24.36	50.54	50.54	50.54	50.54
Total long-term liabilities	**65.02**	**133.38**	**122.51**	**122.51**	**122.51**	**122.51**
Interest-bearing ST debts	92.83	130.74	222.79	222.79	222.79	222.79
Other ST liabilities	212.72	185.34	183.18	176.47	249.17	198.61
Total short-term liabilities	**305.56**	**316.08**	**405.97**	**399.26**	**471.96**	**421.40**
TOTAL LIAB. , EQUITY	**508.95**	**602.64**	**736.48**	**744.78**	**837.74**	**810.57**

Cash Flow Statement	2009	2010	2011	2012e	2013e	2014e
(IFRS,TRY mn, 31/12)						
Cash flow from operating activities	43.08	7.08	18.75	34.41	41.94	36.87
Cash flow from investing activities	-78.56	-30.27	-68.21	-31.39	-29.53	-29.96
Cash flow from financing activities	41.94	26.06	54.93	32.69	13.31	-2.60
CHANGE IN CASH , CASH EQU.	**6.47**	**2.88**	**5.47**	**35.70**	**25.72**	**4.32**

Margins & Ratios	2009	2010	2011	2012e	2013e	2014e
Sales growth	11.8%	0.1%	1.2%	11.0%	9.8%	9.8%
EBITDA margin	7.9%	7.6%	7.4%	6.9%	6.3%	6.3%
EBIT margin	6.2%	5.2%	4.9%	4.5%	4.2%	4.4%
Net profit margin	1.2%	1.3%	-1.7%	1.8%	2.1%	2.2%
ROE	7.6%	7.4%	-7.5%	7.2%	8.7%	9.2%
ROCE	4.2%	3.1%	-3.0%	3.1%	4.2%	4.7%
Equity ratio	27.2%	25.4%	28.2%	29.9%	29.0%	32.9%
Net debt	106.0	203.2	252.8	217.0	191.3	187.0
Working capital	-30.7	39.1	30.7	35.3	51.4	65.3
Capital employed	262.6	380.8	511.3	490.6	485.1	504.2
Inventory turnover	3.9	3.0	2.3	2.4	2.6	2.8

Source: Company data, Erste Group estimates

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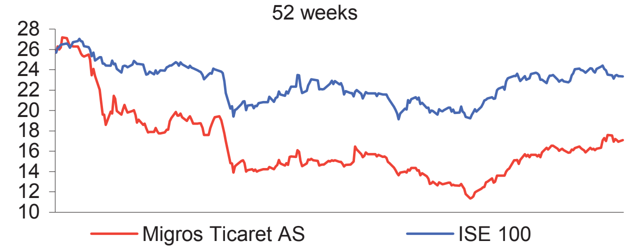
Migros Ticaret AS

Initiated with Buy

TRY mn	2011	2012e	2013e	2014e
Net sales	5,753.1	6,529.5	7,345.0	8,209.5
EBITDA	376.4	418.2	459.4	517.6
EBIT	252.7	287.6	312.5	353.4
Net result after min.	-171.3	128.3	162.3	227.8
EPS (TRY)	-0.96	0.72	0.91	1.28
CEPS (TRY)	-0.27	1.45	1.74	2.20
BVPS (TRY)	6.71	7.43	8.35	9.63
Div./share (TRY)	0.00	0.00	0.00	0.00
EV/EBITDA (x)	10.2	10.6	9.3	7.6
P/E (x)	nm	23.7	18.8	13.4
P/CE (x)	-47.4	11.8	9.8	7.8
Dividend Yield	0.0%	0.0%	0.0%	0.0%



Performance	12M	6M	3M	1M
in TRY	-35.7%	13.2%	39.0%	4.9%

Share price (TRY) close as of 16/04/2012	17.1
Number of shares (mn)	178.0
Market capitalization (TRY mn / EUR mn)	3,044 / 1,295
Enterprise value (TRY mn / EUR mn)	4,439 / 1,889

Reuters	MGROS.IS	Free float	19.5%
Bloomberg	MGROS TI	Shareholders	IH Perakendecilik (80.5%)
Div. Ex-date			
Target price	**22.0**	Homepage:	www.migros.com.tr

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Stronger than yesterday

- **We initiate our coverage of Migros with a Buy recommendation.** Our 12-month target price at TRY 22.0/share represents 29% upside.
- **Long established and deep seated.** Migros has been on the market since 1954. We consider its wide sales network and vast experience to be crucial factors for sustainable growth, as they translate into higher brand awareness, better logistics capabilities, and strong procurement power. Moreover, its vast store of data enables the pinpointing of localized consumer preferences and better understanding of market trends nationwide.
- **We foresee a resilient top line with better margins.** We expect the company to record 13% top line and 11% EBITDA CAGRs in the next three years. On the margin front, in the absence of Sok's dilutive impact, the company will enjoy stronger margins.
- **A tender offer opportunity is in the offing.** The current main shareholder's exercising of its exit strategy is becoming more likely, and we see this as a supporting factor for the share performance, with the anticipation of a tender offer.
- ***(i)* Smaller format strategy, *(ii)* EUR/TRY trend, *(iii)* new commercial code, are key challenges.** We do not agree with the rhetoric of *"reduce store size, grow fast"* and harbor some reservations over Migros' focus on smaller format stores. Given the company's vulnerability to EUR/TRY fluctuations, due to its EUR 885mn short position, our bottom line expectation may suffer from higher than expected EUR/TRY. Lastly, the new commercial code that will put a limit on days in payables to suppliers would hit Migros the most among the retailers under our coverage.

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Investment Positives

Data available to Migros from more than half a century of existence is vital in pinpointing localized consumer preferences

Size and experience are crucial in retail

Migros has been a pivotal figure in the Turkish retail market since it was established in 1954. The company's current 740 stores in 68 cities out of a total of 81 make it the second largest food retailer in Turkey, and the largest supermarket operator in the market.

We consider Migros' wide sales network and vast experience as crucial factors for sustainable growth. The company's long-term strong presence throughout Turkey translates into higher brand awareness, better logistics capabilities, strong procurement power, and better understanding of market trends. The data available to Migros is vital in pinpointing localized consumer preferences, a problem from which many other national retailer chains suffer.

Well-equipped with necessary tools to pursue higher level of growth and post strong financials

Resilient top line with better margins supported by high negative cash conversion cycle

We expect the company to record 13% top line and 11% EBITDA CAGRs over the next three years with the support of net new store additions and sales improvements at existing stores. Please note that, although we did not incorporate that possibility into our model, it is very likely that management will utilize inorganic growth opportunities in the highly-fragmented Turkish retail market, where there are a credible number of regional chains whose survival is becoming a more challenging issue in the current market environment.

On the margin front, in the absence of Sok's dilutive impact, the company will enjoy stronger margins. We believe that 6%-7% EBITDA margins for a supermarket operator of Migros' size are sustainable figures, and that Migros could easily manage it. Migros' strong brand name and wide sales network put it in an advantageous position against suppliers, which in turn makes the company benefit from better purchasing terms and record higher margins.

Based on our calculation, the company is working with a negative cash conversion cycle of ~60 days, which is the best figure among listed companies. We consider the company's enjoyment of high negative working capital to be one of its greatest competitive advantages.

Consequently, we believe Migros is equipped with the necessary tools to maintain its current position and pursue a higher level of growth.

A tender offer opportunity is in the offing

Moonlight, a subsidiary of BC Partners and the current main shareholder of Migros, acquired 51% of the company in 2008 from Koc Holding, and upon buying shares on the market and the finalization of a mandatory tender call, its stake surged to 98%. In 2011, Moonlight sold a 17% stake in the company to institutional clients, whereby its total stake receded to the current level of 81%.

We believe the block sale of 17% in April 2011, followed by the sale of discount arm, SOK, in June 2011 signal that Moonlight has initiated its exit strategy. Although there is no announced official timetable for the issue, we believe the stake sale will be finalized in 2012 or 2013 at the latest, if the macro environment allows it.

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We assign higher probability to full exit rather than partial exit

Contrary to recent rumors in the media claiming that the divestiture of Tansas stores (i.e. Tansas is a supermarket sub-brand of Migros operational in Aegean side of Turkey) is not a likely option for BC Partners, we believe that BC Partners may consider exiting from Tansas stores prior to its full exit from Migros. However, we assign a higher probability to a full, rather than a partial exit.

Migros seems ideal choice for those who want to take exposure (or increase existing exposure) in Turkish retail market

We view Migros as one of the few ideal choices for investors willing to enter or increase exposure to the growing Turkish retail business thanks to its strong brand name and wide sales network. Thus, current shareholders will not experience any difficulty in finding an acquirer candidate for their shares. We have already witnessed comments in the media regarding parties interested in Migros, and we believe that these comments, many of which are not groundless, will keep interest in the stock alive, and be a supporting factor for the share performance in the anticipation of a tender offer.

YTD outperformance was a correction; still room for further upside
Migros shares outperformed the ISE-100 index by 15% YTD. However, we evaluate this as a correction of the severe decline in 2011, where the share price was down 36% and underperformed the index by 27% in the last twelve months.

Migros's financial and/or operational performance did not justify ~50% contraction in share price in 2011

Although the company's vulnerability to TRY weakness against the EUR due to its EUR short position could be a factor in the aforementioned underperformance, the company's financial and/or operational performance still did not justify such a large contraction. Accordingly, we attribute the bulk of that underperformance to certain corporate actions *(i.e. (i) 17% stake sale (ii) divestiture of SOK stores)*.

Based on our forecasts, the stock is trading at 2012e EV/EBITDA of 10.6x and 2013e EV/EBITDA of 9.3x, and current market valuation represents good entry levels to take exposure in the stock, in our view. Our 12M target price at TRY22/share implies 29% upside.

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Investment Negatives / Risks

Any material compromise in terms of product availability and service quality due to size reduction might negatively impact company's operational and financial performance

Possible failure in smaller format strategy
We do not agree with the rhetoric of "reduce store size, grow fast" and we harbor certain reservations regarding Migros' focus on smaller format stores. The underlying reason behind our stance is our belief that Migros' main competitive edges are its brand name accompanied by varied assortment availability, strengthened by high quality fresh and delicatessen departments. Thus, any material compromise in terms of product availability and service quality due to size reduction might negatively impact the company's operational and financial performance.

Having said that, we should also note that what we perceive from our talks with the company's IR team is that the company will not reduce the total number of SKUs in its smaller stores to less than 3,000 SKUs, with no plans afoot to sacrifice their main strengths due to the reduction in store sizes.

End-2011 net debt corresponds to 1.3x net debt/equity and 4.2x net debt/4Q trailing EBITDA

High net debt and short FX position
Migros' indebtedness, which is a result of the leveraged buyout that took place in 2008 is one of the company's main vulnerabilities. Considering that the bulk of the debt is EUR denominated, the company's bottom line is highly fragile to any weakness in TRY.

Although we are confident of the company's cash flow generation ability, and the redemption schedule does not look problematic, the company's end-2011 net debt corresponds to 1.3x net debt/equity and 4.2x net debt/4Q trailing EBITDA, and this might reduce investor appetite.

Any limitation on days in payables
One of the hottest topics in the Turkish retail market has always been the big national chains' procurement power against small and mid-sized producers. A high number of media reports claim that government authorities were working on legislative changes aimed at protecting small and mid-sized producers and preventing big chains from extending the days in payables. It was also argued that a retail law is necessary.

Cap on payment days to suppliers might adversely affect Migros

The long-awaited legislative changes which could be remedy for those problems came with the new commercial code. According to article 1,530 of the new commercial code, a 60-day cap was set on payment days to suppliers. Reportedly, this article of the new commercial code was prepared solely to avert big chains' extension of their obligations beyond pre-determined periods.

In the latest tele-conference about the 4Q11 results, Migros' management clearly emphasized that the current days in payables figure on the balance sheet, *(i.e. which we calculate as 122 days but the management argues the actual days in payables is around 90 days)*, mostly arises from non-food products, and their payment terms for core products (e.g. food) is below the limit set by the new code. Additionally, management indicated that they are ready to position themselves according to the new legislation and do whatever necessary to mitigate the possible negative implications of the said regulation *(e.g. more frequent deliveries from suppliers in small quantities and/or asking for better purchasing terms).*

In order to factor in the probable negative implication of the aforementioned change, we forecast a total of almost 10 days gradual retreat in the company's negative cash conversion cycle, from the current 57 days to 48 days. Further than anticipated deterioration might threaten our valuation.

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Valuation / Recommendation

We set our 12M target share price for Migros at TRY22.0 /share by relying fully on our DCF model. Migros is the sole retailer in our retail coverage that we assign a "Buy" rating. Our key assumptions with our forecasts can be found at "Operations and Forecasts" section of this report.

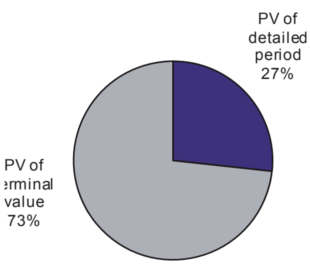
WACC calculation

	2012e	2013e	2014e	2015e	2016e	Term. value Normalized
Risk free rate	10.0%	10.0%	10.0%	10.0%	10.0%	9.0%
Equity risk premium	7.6%	7.6%	7.6%	7.6%	7.6%	7.0%
Beta	0.7	0.7	0.7	0.7	0.7	0.7
Cost of equity	**15.3%**	**15.3%**	**15.3%**	**15.3%**	**15.3%**	**13.9%**
Cost of debt	11.5%	11.5%	11.5%	11.5%	11.5%	10.5%
Effective tax rate	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
After-tax cost of debt	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**9.2%**	**8.4%**
Equity w eight	50%	50%	50%	50%	50%	70%
WACC	**12.2%**	**12.2%**	**12.2%**	**12.2%**	**12.2%**	**12.3%**

DCF valuation

(TRY mn)	2012e	2013e	2014e	2015e	2016e	Normalized
Sales growth	*13.5%*	*12.5%*	*11.8%*	*11.3%*	*10.3%*	*10.0%*
EBIT	287.6	312.5	353.4	402.6	454.0	443.5
EBIT margin	*4.4%*	*4.3%*	*4.3%*	*4.4%*	*4.5%*	*4.0%*
Tax rate	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*	*20.0%*
Taxes on EBIT	-57.5	-62.5	-70.7	-80.5	-90.8	-88.7
NOPLAT	**230.1**	**250.0**	**282.7**	**322.1**	**363.2**	**354.8**
+ Depreciation	130.6	146.9	164.2	182.8	201.6	219.4
Capital expenditures / Depreciation	*118.4%*	*104.8%*	*95.8%*	*87.9%*	*74.8%*	*100.0%*
+/- Change in w orking capital	77.4	16.3	86.4	93.1	93.9	50.4
Chg. working capital / chg. Sales	*10.0%*	*2.0%*	*10.0%*	*10.0%*	*10.0%*	*5.0%*
- Capital expenditures	-154.7	-154.0	-157.3	-160.6	-150.7	-219.4
Free cash flow to the firm	**283.4**	**259.2**	**376.1**	**437.3**	**507.9**	**405.2**
Terminal value growth						*5.0%*
Terminal value						6,273.1
Discounted free cash flow - Dec 31 2011	252.5	205.7	265.9	275.5	285.1	3,521.2
Enterprise value - Dec 31 2011	**4,806.0**					
Minorities	0.0					
Non-operating assets	0.0					
Net debt	1,577.3					
Other adjustments	0.0					
Equity value - Dec 31 2011	**3,228.7**					
Number of shares outstanding (mn)	178.0					
Cost of equity	15.3%					
12M target price per share (TRY)	**22.0**					
Current share price (TRY)	17.1					
Up/Downside	*28.5%*					

Enterprise value breakdown



Sensitivity (per share)

WACC	Terminal value EBIT margin 3.0%	3.5%	4.0%	4.5%	5.0%
11.3%	19.5	22.5	25.6	28.6	31.6
11.8%	18.0	20.8	23.6	26.4	29.2
12.3%	16.7	19.4	**22.0**	24.6	27.2
12.8%	15.6	18.1	20.5	23.0	25.5
13.3%	14.6	16.9	19.3	21.6	23.9

WACC	Terminal value growth 4.0%	4.5%	5.0%	5.5%	6.0%
11.3%	21.8	23.5	25.6	28.0	30.8
11.8%	20.3	21.9	23.6	25.7	28.1
12.3%	19.1	20.4	**22.0**	23.8	25.8
12.8%	18.0	19.2	20.5	22.1	23.9
13.3%	17.0	18.0	19.3	20.6	22.2

Source: Erste Group Research

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The Company

(i) History

Migros was established in 1954 as a joint venture between Migros Cooperatives Union of Switzerland and the Istanbul Municipality. Koc Holding became the major shareholder in 1975 and since then the company has gradually widened its foothold throughout Turkey. The company had solely operated in Istanbul until 1988, when it opened four stores in Izmir, the largest city in the Aegean Region.

The company's IPO at the ISE took place in 1991. Following its IPO, its growth accelerated, whereby it expanded its operations to the Mediterranean, Central Anatolia, South-East Anatolia, East Anatolian and the Black Sea Region, respectively.

Koc Holding sold its 50.83% stake in Migros to a consortium led by BC Partners for TRY 1.9bn in 2008

Migros initiated its international expansion strategy by opening a store in Baku (Azerbaijan) under the Ramstore brand, followed by entry to Moscow (Russia) in 1997, to Almaty (Kazakhstan) in 1999, to Sofia (Bulgaria) in 2001 and to Skopje (Macedonia) in 2005.

In 2005, the company acquired Tansas, a reputable retail chain in the Aegean region.

The initial step of Koc Holding's exit strategy from Migros was the sell-off agreement with Enka regarding their stake in Ramenka, a 50%-50% JV with Enka operating in the Russian market in 2007. The next was a full exit, whereby Koc Holding sold a 50.83% stake in Migros to Moonlight Capital, owned by a consortium led by BC Partners and comprising both DeA Capital and Turkven Private Equity. Moonlight undertook a mandatory tender call to minorities and its stake surged to 98% leaving a 2% stake in the free float.

In April 2011, 17% of the company's shares were sold to institutional investors at TRY25/share vs. the current TRY17/share

In 2011, 17% of the company's shares were sold to institutional investors at a total equity value of TRY 4,451mn, implying TRY 25/share, and the company's free float increased to 19%. Soon after the aforementioned block sale, the company sold its soft-discount arm, Sok, in exchange for TRY581mn.

As of today, the company operates in 740 stores in 68 cities out of total of 81, is the second largest food retailer chain in Turkey, and the largest supermarket operator in the market. Additionally, the company has 28 stores abroad.

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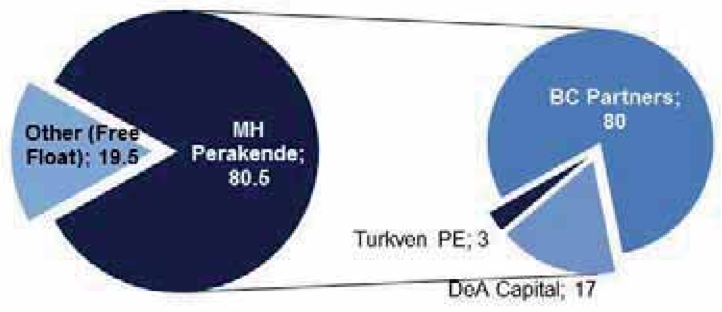
(ii) Ownership

The company's main shareholder is MH Perakendecilik, with its 80.5% stake, while 19.5% of the company's shares are publicly held.

Migros Shareholder Structure (%)



Source: Migros, Erste Group Research

Moonlight Perakendecilik was established by a consortium led by BC Partners (80%), a private equity firm, and comprising both DeA Capital (17%) and Turkven Private Equity (3%) in 2008, expressly to purchase Migros from Koc Holding.

We calculate that Moonlight paid USD 2.87bn to take exposure in Migros, and has so far received USD 2.30bn back through dividends and stake sales.

The consortium initially paid TRY1.92bn to Koc Holding in exchange for a 50.83% stake in Migros in 2008. Following the accumulation of publicly held shares at the ISE and the making of a mandatory tender call to minorities, the consortium increased its stake to 97.92%, and in that period spent an additional TRY1.79bn. Accordingly, the consortium spent a total ***TRY 3.71bn (1.96bn, or USD 2.87bn)*** cash to take a position in Migros.

The consortium received a TRY 2.44bn dividend from Migros on August 4, 2009 *(i.e. EUR 1.16bn, or USD 1.67bn)*. Later, on May 28, 2010, the consortium received an additional dividend of TRY0.19bn *(i.e. EUR 0.08bn, or USD 0.12bn)*. Accordingly, the total dividend the consortium cashed in from Migros adds up to TRY 2.63bn *(i.e. EUR 1.24bn, or USD 1.79bn)*.

With the addition of TRY 0.78bn *(i.e. EUR 0.35bn, or USD 0.51bn)* proceeds from the sale of its 17% stake in the company in April 2011, the consortium's total cash collection from their Migros investment has reached ***TRY 3.41 (i.e. EUR 1.59bn, or USD 2.30bn)*** as of today. The trading value of the consortium's existing shares in the company, on the other hand, corresponds to a value of TRY2.52bn *(i.e. EUR 1.07bn or USD 1.41bn).*

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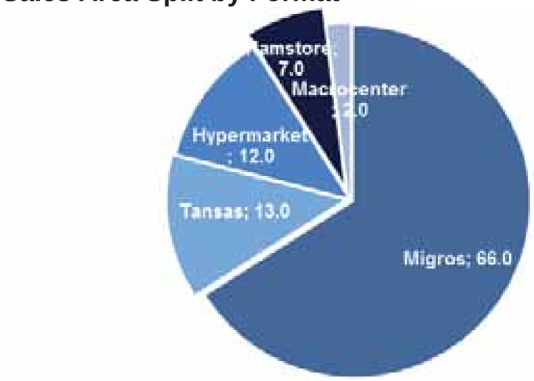
(iii) Operations Overview & Forecasts

a. Stores

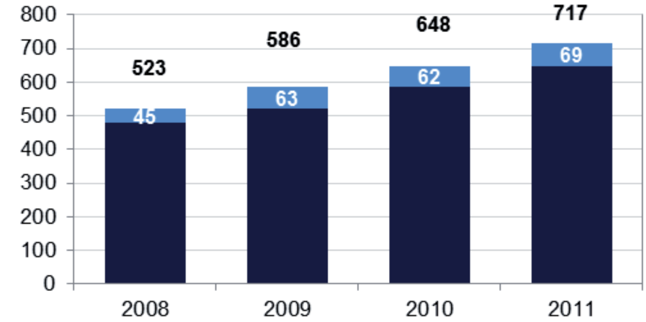
Migros' operations can be followed under three segments (I) supermarket operations under Migros, Tansas and Macrocenter brands (ii) hypermarket operations under the Migros brand and (iii) foreign operations under the Ramstore brand, while the main segment for the company is supermarket operations, which represent 81% of total sales area.

Migros Store Breakdown

Sales Area Split by Format



Number of Domestic Stores (end-period) (*)



Source: Migros, Erste Group Research (*) SOK stores are excluded retrospectively

The company utilizes the Tansas brand exclusively in the Aegean and Mediterranean regions, mainly under two formats: (I) midi-Tansas and (II) Tansas, while the high premium Macrocenter brand exists solely in the most prestigious locations. Migros' foreign operations, whose contribution to the consolidated top line remained at ~5%-6% are carried out under the "Ramstore" brand. There are currently 23 stores in Kazakhstan and 5 in Macedonia.

Migros Sales Network

Migros' Banners (*)

MIGROS	520 Stores 904K sqm	Main supermarket brand. Based on size of the store and available SKUs, M, MM, MMM and Mjet banners are utilized.
Tansas	189 Stores 203K sqm	Migros' sub-brand operating in supermarket format located in Aegean region. There are three type of Tansas stores: Mini; Midi and Maxi
macrocenter	14 Stores 22K sqm	Migros' premium brand which is operational mainly in Istanbul. An exclusive store category where wide range of 'gourmet' products are available
5M MIGROS	17 Stores 140K sqm	Migros' sub-brand operating in hypermarket format. The stores have a kitchen and a café area serving some of the products on sale coupled with non-fodd products including electronics and white goods
Ramstore	28 Stores 97 sqm	Ramstore is the brand Migros utilizes in its foreign operations (i.e. Kazakhstan and Macedonia)

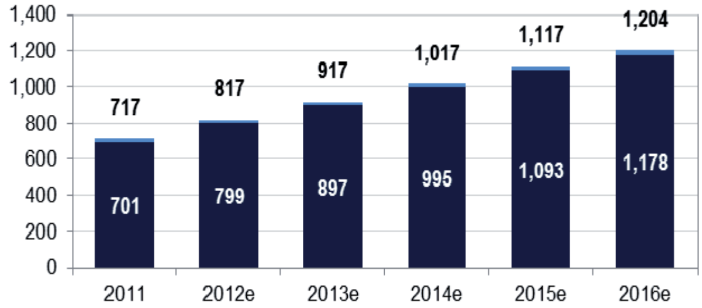
Network Map

Source: Migros, Erste Group Research (*) Enclosed areas

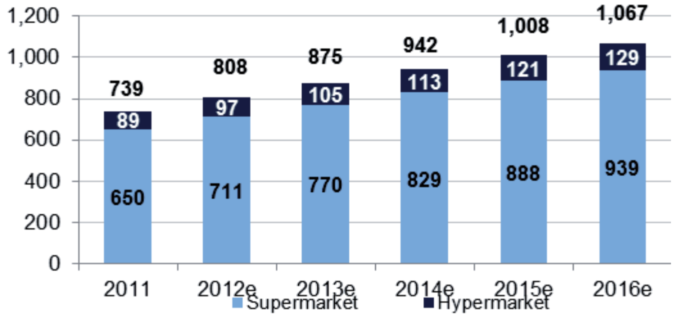
On the back of the company's medium-term expansion target of 100 new stores per year, we also assume 100 net new store additions over the next three years. Out of 100 total stores, we pencil in only 3 hypermarket additions, with the rest being supermarket openings. Since the management is planning to open half of their 100 new store guidance in smaller formats, we assume that the net new sales area contribution of the supermarket segment will decline to 925 sqm on average from its current level of 956 sqm. Accordingly, we expect the company's total sales area to have reached 1.25mn sqm by the end-of 2016.

Migros Store Opening Forecasts

Number of Stores



Sales Area ('000 sqm)



Source: Migros, Erste Group Research (*) SOK stores are excluded retrospectively

b. Revenues

Migros' domestic operations are in the supermarket and hypermarket segments.

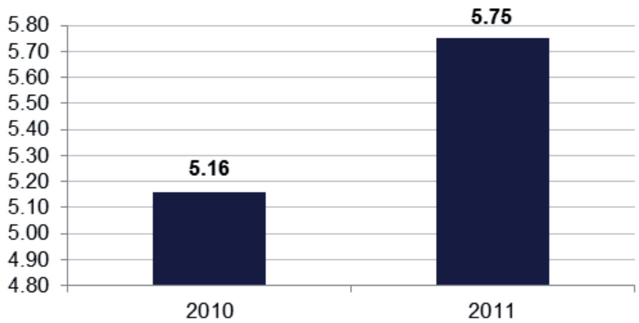
In the absence of relevant data, retrospective analysis of Migros's top line is not very meaningful

There are mainly three bottlenecks before us in analyzing Migros' historical revenues: (i) we do not have the breakdown of consolidated sales into formats (ii) other than 2010 and 2011, we do not know the contribution of Sok stores to the total and (ii) the management does not provide like-for-like sales figures. In the absence of this information, we focus purely on 2010 and 2011 figures with a general approach of relying on consolidated sales area efficiency.

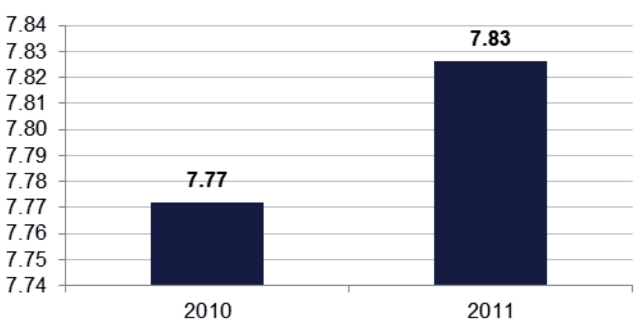
The company's sales area efficiency, calculated by retail sales divided by average sales area, stood at TRY7.8mn in 2011, vs. TRY7.7mn in 2010, implying a 1% increase.

Migros Revenue Development

Total Revenues (TRY bn)



Sales Area Efficiency (TRY mn / sqm) (*)



Source: Migros, Erste Group Research (*) in sales area efficiency calculation only domestic operations are taken into consideration

We forecast Migros recording 12% revenue CAGR till 2016, 8% of which is attributable to physical expansion, while the rest stems from improvement in sales area efficiency. We should also note that we do not have a separate forecast for the company's international operations, but rather assume their 5% contribution to consolidated results prevailing in the next periods.

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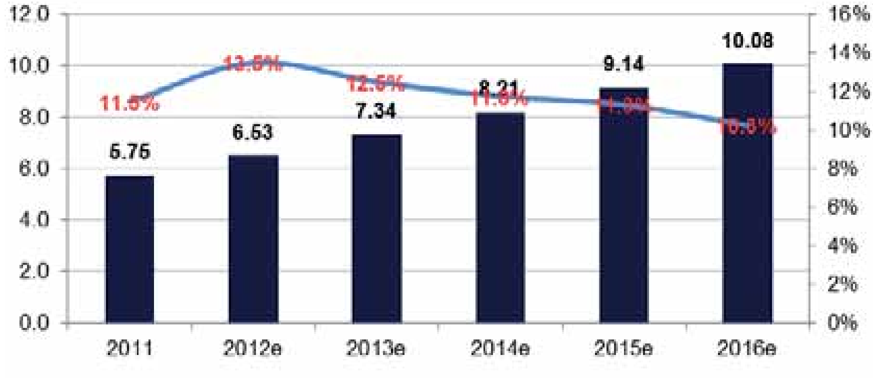
Our revenue forecasts translates into 12% CAGR till end-2016

Migros Revenue Forecasts (TRYbn)

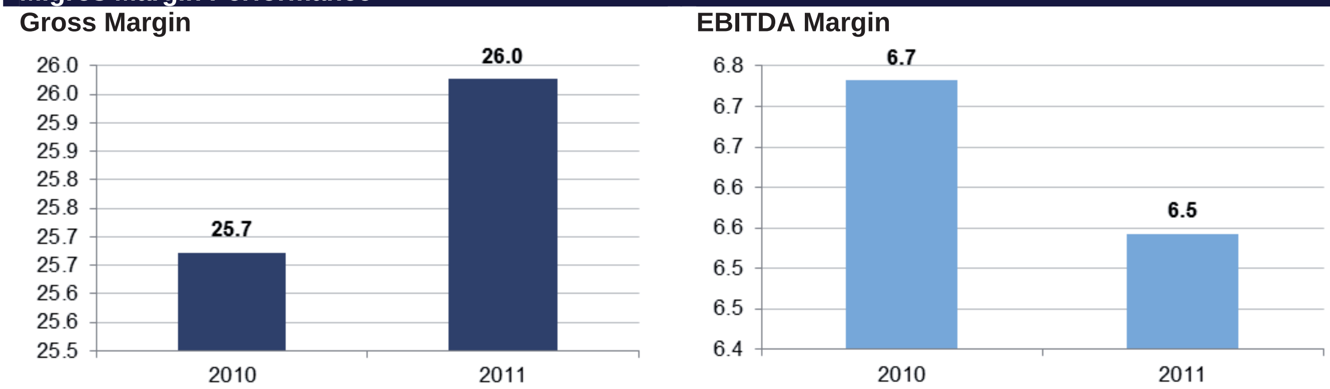


Source: Migros, Erste Group Research

c. Margins

Migros' gross margin improved to 26% in 2011 in the absence of its ex-discount arm, SOK stores, which had had a dilutive impact on the company's consolidated results. EBITDA, on the other hand, was 6.5% in 2011.

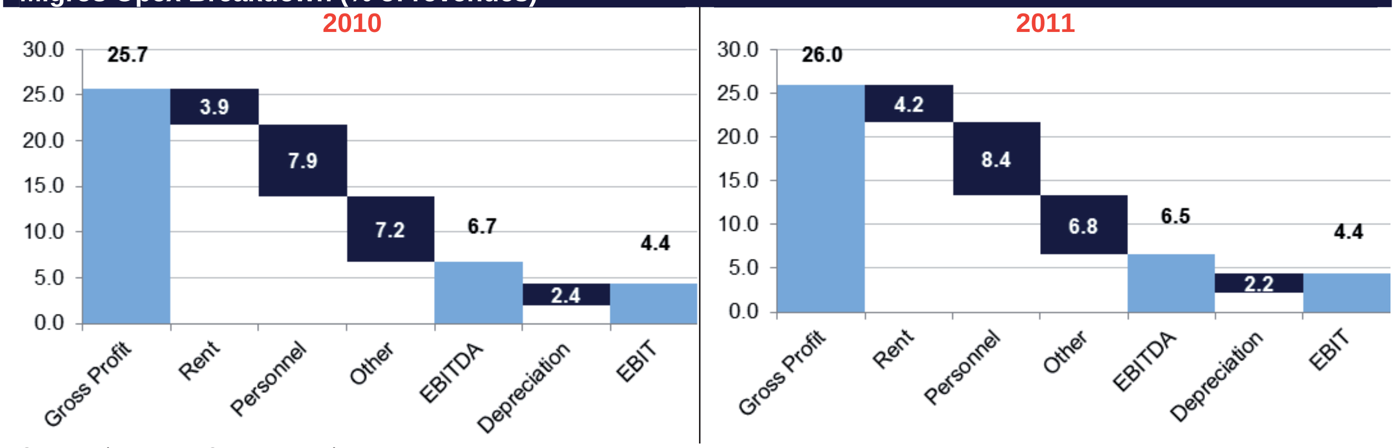
Migros Margin Performance



Source: Migros, Erste Group Research

The past two years' data shows that the company's cost items on the OPEX front follow a flat trend as a percentage of sales.

Migros Opex Breakdown (% of revenues)



Source: Migros, Erste Group Research

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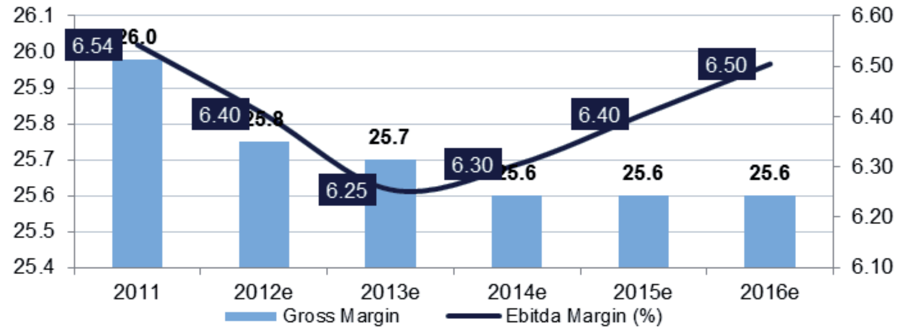
We believe higher profit margins are achievable by Migros, yet expect the company to invest in price to be more competitive in the newly-opened stores.

We believe that, unless the company focuses on smaller formats further than we expected, current margin levels are quite sustainable for Migros. In fact, when considering the company's competitive advantages mentioned earlier (i.e. brand awareness, logistics infrastructure, procurement power, invaluable data on customer preferences) a higher level of profitability is achievable for Migros. However, we do not assume or expect an uptick in margins, as we believe management will likely invest in price to be more competitive, especially in the smaller stores to be opened.

Migros Margin Forecasts (%)



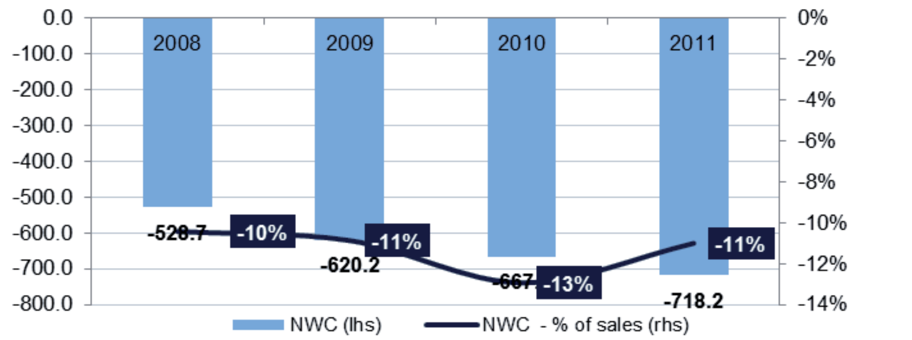
Source: Migros, Erste Group Research

d. Balance Sheet Items

Migros runs its operations with a negative cash conversion cycle of 57 days, by far the best figure among listed companies and hard to attain for any other player in the market. We calculate the company's net working capital requirement at TRY 718mn as of end-2011 corresponding to 11% of its sales.

57 days of negative cash conversion cycle of Migros indicates that the company's main source of funding is its suppliers.

Migros Net Working Capital (TRYmn)



Source: Migros, Erste Group Research

The main consequence of the company's running of its operations with net negative working capital is that Migros utilizes its suppliers as a means of funding its operations and expansion. The company's operating cash flow (OCF) generation ability is worth mentioning, as the last two years' total OCF corresponds to 4.2% of the net sales for the same period.

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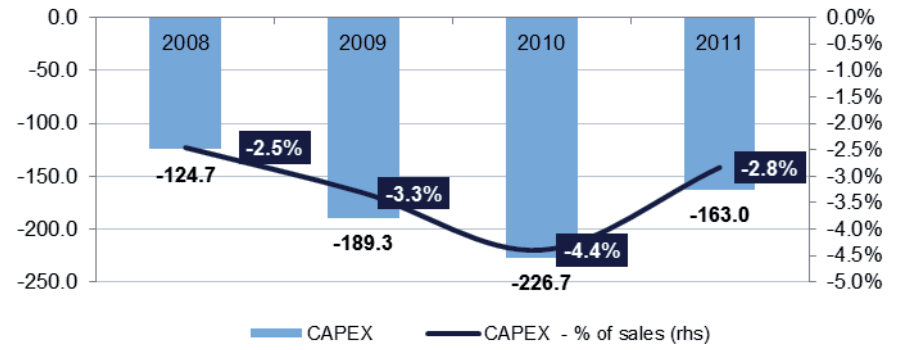
Migros CAPEX (TRYmn) (*) (**)



Source: Migros, Erste Group Research (*) gross fixed asset purchases (i.e. excluding disposals) (**) 2008, 2009 and 2010 figures are including SOK CAPEX. The adjusted 2010 CAPEX, that is CAPEX excluding SOK portion, stands at TRY 203mn.

Company's end-2011 net debt corresponds to 1.3x net debt/equity and 4.2x net debt/4Q trailing EBITDA

The company's end-2011 net debt corresponds to 1.3x net debt/equity and 4.2x net debt/4Q trailing EBITDA. Although the company is self-financed as detailed above, the reason for its indebtedness is the leveraged buy-out of 2008.

Debt redemption schedule does not seem problematic

The redemption schedule of the company's remaining EUR1.05bn loan as of end-2011 does not seem too heavy as the bulk portion of the loan will be repaid after October 2014. Please note that the company made an early down payment of EUR 100mn from the proceeds it gathered from the SOK sale.

On the other hand, considering that the bulk of its debt is EUR-denominated, the company's bottom line is highly susceptible to any weakness in the TRY. According to end-2011 financials, the company has a EUR short position of EUR 885mn.

All in all, we foresee the company's strong operational cash flow generation prevailing in the coming periods.

We could downward revise our forecasts were there to be further adverse impact than we anticipated regarding legislative changes to limit payment terms to suppliers

However, we should remind readers that our current cash conversion cycle assumptions are subject to the risk of legislative change. That is, the new commercial code brought a legislative change introduced to protect small and mid-sized suppliers and put a cap on payment days. In order to factor in the legislation's adverse effect on Migros, we assume a total of almost 10 days gradual retreat in the company's negative cash conversion cycle from the current 57 days to 48 days. And although the negative cash conversion cycle Migros enjoys stands to continue, the magnitude of the negative NMC will be lower, in our view.

Consolidated Cash Flow (TRYmn)

	2009	2010	2011	2012e	2013e	2014e	2015e
Operating cash flow	456.9	295.5	173.5	213.6	333.5	345.7	438.3
Investing cash flow	-97.0	-181.9	479.1	-154.7	-154.0	-157.3	-160.6
-Capital Expenditures	*-189.3*	*-226.7*	*-163.0*	*-154.7*	*-154.0*	*-157.3*	*-160.6*
-Others	*92.3*	*44.8*	*642.1*	*0.0*	*0.0*	*0.0*	*0.0*
Financing cash flow	-173.0	-510.7	-526.5	123.2	-133.6	-216.8	-276.7
Net Cash Flow	**186.8**	**-397.1**	**126.1**	**182.2**	**46.0**	**-28.4**	**0.9**
Operating Cash Flow	456.9	295.5	173.5	213.6	333.5	345.7	438.3
CAPEX	-189.3	-226.7	-163.0	-154.7	-154.0	-157.3	-160.6
Free Cash Flow	**267.6**	**68.8**	**10.4**	**59.0**	**179.5**	**188.4**	**277.6**

Source: Migros, Erste Group Research

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Income Statement	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS, TRY mn, 31/12)	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014
Net sales	**5,711.27**	**5,159.71**	**5,753.11**	**6,529.46**	**7,344.98**	**8,209.45**
Cost of goods sold	-4,277.81	-3,835.11	-4,258.62	-4,848.12	-5,457.32	-6,107.83
Gross profit	**1,433.46**	**1,324.60**	**1,494.49**	**1,681.34**	**1,887.66**	**2,101.62**
SG&A	-1,167.52	-1,098.66	-1,241.82	-1,393.73	-1,575.15	-1,748.22
Other operating revenues	0.00	0.00	0.00	0.00	0.00	0.00
Other operating expenses	0.00	0.00	0.00	0.00	0.00	0.00
EBITDA	**394.02**	**347.37**	**376.41**	**418.20**	**459.41**	**517.59**
Depreciation/amortization	-128.08	-121.43	-123.74	-130.59	-146.90	-164.19
EBIT	**265.94**	**225.94**	**252.67**	**287.61**	**312.51**	**353.40**
Financial result	-131.40	-134.93	-568.53	-127.21	-109.65	-85.42
Extraordinary result	0.00	0.00	198.00	0.00	0.00	0.00
EBT	**134.55**	**91.02**	**-117.86**	**160.40**	**202.87**	**267.98**
Income taxes	-24.93	-34.28	-53.36	-32.08	-40.57	-40.20
Result from discontinued operations	0.00	0.00	0.00	0.00	0.00	0.00
Minorities and cost of hybrid capital	-1.67	-0.09	-0.08	0.00	0.00	0.00
Net result after minorities	**107.94**	**56.65**	**-171.29**	**128.32**	**162.29**	**227.78**

Balance Sheet	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS, TRY mn, 31/12)						
Intangible assets	2,550.95	2,556.21	2,501.70	2,501.70	2,501.70	2,501.70
Tangible assets	1,079.69	1,193.89	1,118.88	1,142.96	1,150.02	1,143.13
Financial assets	76.53	71.90	62.82	62.82	62.82	62.82
Total fixed assets	**3,707.17**	**3,822.00**	**3,683.39**	**3,707.47**	**3,714.53**	**3,707.64**
Inventories	582.29	746.59	679.00	914.90	879.28	1,128.77
Receivables and other current assets	77.29	114.57	108.32	116.04	125.15	134.99
Other assets	0.00	0.00	0.00	0.00	0.00	0.00
Cash and cash equivalents	1,281.29	884.18	1,010.26	1,192.44	1,238.41	1,210.00
Total current assets	**1,940.87**	**1,745.34**	**1,797.57**	**2,223.38**	**2,242.84**	**2,473.76**
TOTAL ASSETS	**5,648.04**	**5,567.35**	**5,480.96**	**5,930.85**	**5,957.37**	**6,181.40**
Shareholders'equity	**1,499.87**	**1,346.65**	**1,195.23**	**1,323.55**	**1,485.84**	**1,713.62**
Minorities	**0.46**	**0.51**	**0.48**	**0.00**	**0.00**	**0.00**
Hybrid capital and other reserves	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Pension and other LT personnel accruals	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
LT provisions	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest-bearing LT debts	2,504.39	2,327.26	2,573.75	2,573.75	2,448.24	2,098.72
Other LT liabilities	200.09	174.95	132.81	132.81	132.81	132.81
Total long-term liabilities	**2,704.47**	**2,502.21**	**2,706.56**	**2,706.56**	**2,581.05**	**2,231.53**
Interest-bearing ST debts	74.50	61.12	13.80	13.80	13.80	13.80
Other ST liabilities	1,368.74	1,656.86	1,564.90	1,886.94	1,876.68	2,222.46
Total short-term liabilities	**1,443.24**	**1,717.98**	**1,578.69**	**1,900.73**	**1,890.48**	**2,236.25**
TOTAL LIAB. , EQUITY	**5,648.04**	**5,567.35**	**5,480.96**	**5,930.85**	**5,957.37**	**6,181.40**

Cash Flow Statement	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
(IFRS,TRY mn, 31/12)						
Cash flow from operating activities	456.90	295.48	173.46	213.62	333.51	345.72
Cash flow from investing activities	-97.05	-181.88	479.07	-154.66	-153.96	-157.30
Cash flow from financing activities	-173.01	-510.70	-526.45	123.23	-133.58	-216.82
CHANGE IN CASH , CASH EQU.	**186.84**	**-397.11**	**126.08**	**182.18**	**45.97**	**-28.41**

Margins & Ratios	**2009**	**2010**	**2011**	**2012e**	**2013e**	**2014e**
Sales growth	12.6%	-9.7%	11.5%	13.5%	12.5%	11.8%
EBITDA margin	6.9%	6.7%	6.5%	6.4%	6.3%	6.3%
EBIT margin	4.7%	4.4%	4.4%	4.4%	4.3%	4.3%
Net profit margin	1.9%	1.1%	-3.0%	2.0%	2.2%	2.8%
ROE	4.0%	4.0%	-13.5%	10.2%	11.6%	14.2%
ROCE	3.6%	1.9%	-5.8%	4.5%	5.7%	8.1%
Equity ratio	26.6%	24.2%	21.8%	22.3%	24.9%	27.7%
Net debt	1,297.6	1,504.2	1,577.3	1,395.1	1,223.6	902.5
Working capital	497.6	27.4	218.9	322.6	352.4	237.5
Capital employed	2,998.0	3,026.3	2,905.8	2,851.5	2,842.3	2,748.9
Inventory turnover	8.0	5.8	6.0	6.1	6.1	6.1

Source: Company data, Erste Group estimates

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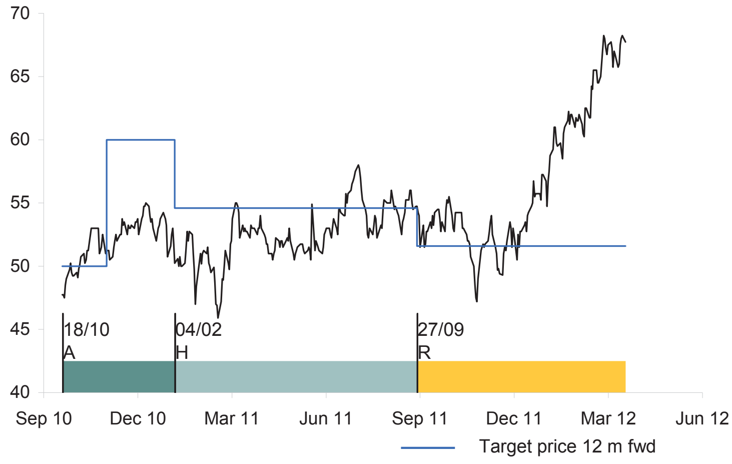
BIM



Rating history

Date	Rating	Price	Target Price
27. Sep 11	Reduce	54.75	51.60
04. Feb 11	Hold	50.25	54.60
22. Apr 10	Accumulate	43.00	50.02

Company description

Operator of hard discount stores in high quality food and basic consumer goods at the lowest possible price, and at extremely low cost. Limited assortment of approximately 600 SKUs, preferably private labels. The business plan is to carry a high number of private labels. BIM has a high volume in each item. The main strategy is to pass on all possible price reductions obtained by suppliers to customers to drive traffic. Hence, profitability comes from volume growth, rather than margin expansion.

Company

BIM

Specific disclosure(s) if applicable

Bizim Toptan

Rating history

Date	Rating	Price	Target Price
16. Mar 12	Not rated	22.70	

Company description

Bizim Toptan, established in 2001, is Turkey's largest cash & carry FMCG wholesaler by store number, and ranks 2nd based on revenues. The company operates in 124 stores with an average size of ~1,600 m2 in 60 cities out of a total of 81, the largest catchment area for a wholesaler in Turkey. Bizim Toptan sells mainly branded food products, non-alcoholic beverages, tobacco, household chemicals to wholesalers, independent markets, mom-and-pop stores, specialised retailers, corporates and HoReCa. Bizimhas ~228K active customers and offers an average of ~2,900SKUs in a typical store.

Company

Bizim Toptan

Specific disclosure(s) if applicable

Kiler Alisveris

Rating history

Date	Rating	Price	Target Price
16. Mar 12	Not rated	3.25	

Company description

Kiler Alisveris, founded in 1994, is the second largest supermarket chain in Turkey in revenue terms. The company operates in 192 stores with an average sales area of 900m2 in 32 cities out of a total of 81 as of end-September. The company's expertise in fresh products (e.g. meat, vegetables, and fruits) and strong logistics capabilities and integrated facilities are its competitive advantages in the highly fragmented and promising Turkish retail market where there is are credible number of acquisition targets.

Company

KilerAlisveris

Specific disclosure(s) if applicable

Migros Ticaret AS

Rating history

Date	Rating	Price	Target Price

Company description

Company

Migros Ticaret AS

Specific disclosure(s) if applicable

All prices are those current at the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors.

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Erste Group rating definitions

Buy	> +20% to target price
Accumulate	+10% < target price < +20%
Hold	0% < target price < +10%
Reduce	-10% < target price < 0%
Sell	< -10% to target price

Our target prices are established by determining the fair value of stocks, taking into account additional fundamental factors and news of relevance for the stock price (such as M&A activities, major forthcoming share deals, positive/negative share/sector sentiment, news) and refer to 12 months from now. All recommendations are to be understood relative to our current fundamental valuation of the stock. The recommendation does not indicate any relative performance of the stock vs. a regional or sector benchmark.

Distribution of ratings

	Coverage universe		Inv. banking-relationship	
Recommendation	**No.**	**in %**	**No.**	**in %**
Buy	63	33.3	11	39.3
Accumulate	42	22.2	7	25.0
Hold	43	22.8	5	17.9
Reduce	12	6.3	3	10.7
Sell	5	2.6	0	0.0
N.R./UND.REV./RESTR.	24	12.7	2	7.1
Total	**189**	**100.0**	**28**	**100.0**

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