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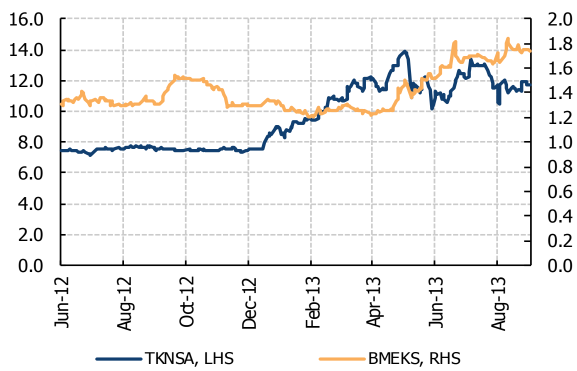
September 30, 2013

BURGAN SECURITIES

SECTOR INITIATION

Ratings & Targets	Teknosa	Bimeks
Long Term	BUY (Initiated)	BUY (Initiated)
Short Term	MARKETPERFORM (Initiated)	OUTPERFORM (Initiated)
Target Price	**TRL14.0**	**TRL2.5**
Upside	19%	44%
Share Data		
Ticker	**TKNSA.TI / TKNSA.IS**	**BMEKS.TI / BMEKS.IS**
Close Price	TRL11.70	TRL1.74
MCap. (TRL/US$ mn)	1,287 / 633	209 / 103
# of Shares (mn)	110	120
Free Float	11%	32%
3m Avg. Daily Vol. (TRL/US$ mn)	2.27 / 1.16	3.93 / 1.99
Share Performance		
Absolute		
1-month	10%	5%
3-month	4%	14%
1-year	56%	33%
Ytd	55%	35%
Relative		
1-month	-3%	-8%
3-month	5%	16%
1-year	37%	16%
Ytd	59%	39%



as of September 27, 2013
Relatives are against the BIST-100 Total Return Index
**Our target price for Bimeks, exclusive of Electroworld, is TRL2.1/share.*

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Electronics Retail
Log In!

We initiate coverage of the Turkish electronics retail sector, including key players Teknosa (BUY/MARKETPERFORM; TP: TRL14/share; 19% upside) and Bimeks (BUY/OUTPERFORM; TP: TRL2.5/share; 44% upside). With a leading presence in the technical superstores segment, Teknosa stands out as an eye-catching consumer retail story, while Bimeks promises to be one of the most appealing small cap ideas of 2014 with its Electroworld acquisition, to be finalised by YE13. For Teknosa, we project 21% and 26% CAGR in topline and bottom line, respectively, until 2016, given an aggressive store opening drive, coupled with above-inflation growth in revenue/sqm. As for Bimeks, Electroworld acquisition will serve to double its revenues in 2014, while the Company is also foreseen to enjoy wider margins on efficiency gains. Furthermore, we believe Darty's prospective exit of the Turkish market -- potentially in 2014 -- should lend impetus to growth, whilst serving to mitigate price competition. Teknosa trades at 5.2x 2014E EV/EBITDA and Bimeks at 4.4x, with respective discounts to international peers of 32% and 42%.

- **Teknosa: Initiating with BUY (L/T)** -- Teknosa is the leading technical superstore in Turkey with 38% market share, 291 stores and 154Ksqm selling space. Based on management's aggressive store opening plans, we project 21% and 26% CAGR in revenue and net earnings, respectively, until 2016.

- **Bimeks: Initiating with BUY (L/T) --** Owing to inorganic growth through Electroworld acquisition, Bimeks will rank 4th in technical superstores in Turkey, with market share, store count and selling space to reach 17%, 123 and 102Ksqm by 2013E. Also incorporating organic growth, we estimate 35% and 105% CAGR in revenue and net earnings, respectively, by 2016.

	Teknosa (TRL mn)				Bimeks (TRL mn)			
	2013E	Δ	2014E	Δ	2013E	Δ	2014E	Δ
Sales Area (Ksqm)	164	16%	181	10%	48	29%	106	120%
Rev/Sqm	16,600	7%	18,020	9%	12,880	0%	11,716	-9%
Revenue	2,951	27%	3,609	22%	632	27%	1,304	106%
EBITDA	121	22%	153	26%	35	17%	65	86%
Net Income	64	27%	80	24%	6	n.m.	17	n.m.
P/E	20.1		16.1		34.3		12.3	
EV/EBITDA	7.4		5.2		6.7		4.4	
EV/SALES	0.3		0.2		0.4		0.2	
Div. Yield	0.0%		1.0%		0.0%		0.0%	
FCF Yield	-0.8%		4.7%		-0.8%		3.7%	

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Investment Thesis

We initiate coverage of the Turkish electronics retail sector, including key players Teknosa (BUY/MARKETPERFORM; TP: TRL14/share; 19% upside) and Bimeks (BUY/OUTPERFORM; TP: TRL2.5/share; 44% upside). With a leading presence in technical superstores segment, Teknosa stands out as an interesting consumer retail story, while Bimeks promises to be one of the most appealing small cap ideas of 2014 with its Electroworld acquisition, to be finalised by YE13. For Teknosa, we project 21% and 26% CAGR in topline and bottom line until 2016, thanks to management's aggressive store opening drive, coupled with above-inflation growth in revenue/sqm. For Bimeks, inclusion of Electroworld operations is set to double revenues in 2014, while the Company is foreseen to enjoy wider margins through efficiency gains. Furthermore, we believe Darty's prospective exit of the Turkish market -- potentially in 2014 -- should lend impetus to growth, whilst mitigating price competition. Teknosa trades at 5.2x 2014E EV/EBITDA and Bimeks at 4.4x, with respective discounts to international peers of 32% and 42%.

Exhibit 1: Companies Compared on Key Metrics

Comparison	Teknosa	Bimeks[2]
Ranking in Sales Area[1]	1st	4th
Market Share	38%	17%
Number of Stores	291	123
Sales Area (Ksqm)	154	102
Number of Provinces	77	49
Average Store Size (sqm)	528	578
Revenue/Sqm (2012, TRL)	15,564	12,363
Online Revenues (TRLmn)	51	33
Store Based Partnership	--	37 SBP Stores
EBITDA Margin (2012)	4.3%	5.7%
Mcap (TRLmn)	1,287	209

Source: Company data, Burgan Research

[1]Teknosa as of 1H13, Bimeks as of YE13; [2]Including Electroworld operations

Bright prospects sustained in electronics market -- Turkish electronics retail sector has evolved since the 2000s, along with the transition to organised retail via shopping malls, and innovations in mobile and consumer electronics sectors on a global scale. Turkish electronics market is estimated to have reached an aggregate scale of EUR11bn, making it the 6th largest in Europe after Germany, France, the UK, Italy and Spain. Electronics spending has reached EUR120 per capita as of 2010, still one of the lowest across Europe, despite the fact that prices are comparatively higher in Turkey. Electronics market's composition has changed in favour of consumer electronics, telecoms and IT globally; however, in Turkey the share of CE/IT products remains at 31%, below the 60-70% averages across Europe. Given low penetration levels in terms of key metrics concerning the Turkish electronics market, i.e. LED TVs (28%); internet (47%); PCs (48%); smartphones (10%), the sector has registered 21% CAGR within 2009-2012. We expect **growth to moderate towards 15-20% within 2013-2015, suggesting 3-4x GDP growth, thanks to still low penetration levels and new store openings by the players in the market.**

Among electronics retail channels, technical superstores (TSS), with only 582 points of sale, account for 23% of the electronics retail market as of 2012. In technical superstores, **Teknosa** is the market leader with 38% market share as of Jun'13, supported by its wide store network with 291 stores across 77 provinces and 154K sqm selling space. Teknosa is followed by Vatan Computer, Mediamarkt, Electroworld and Bimeks in terms of selling space. **Bimeks** operates with 82 stores occupying 43K sqm and representing 8% of the technical superstore market as of Aug'13, and is set to increase its store count and selling space to 123 and 102K sqm, respectively, after the acquisition of Electroworld by YE13.

Exhibit 2: Bimeks's Electroworld Acquisition

Comparison	Bimeks (2012)	Electroworld (2012)	Combined as of Sep'13	YE13
Number of Stores*	82	32	114	123
Sales Area (Ksqm)*	45	53	98	102
Market Share	8%	9%	17%	17%
Revenues (TRLmn)	495	483	978	1,115
EBITDA (TRLmn)	28	-10	18	
EBITDA Margin	5.7%	-2.1%	1.8%	

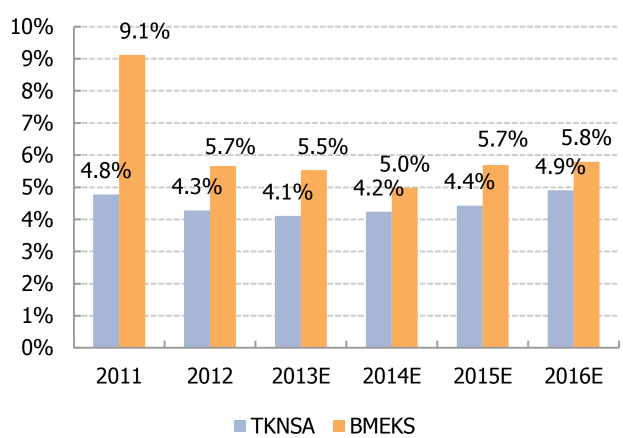
*Source: Company data, Burgan Research; *as of Aug'13*

Double-digit revenue growth projected until 2016 -- For Teknosa, we project 10% and 21% CAGR in selling space and revenues, respectively, within 2013-2016, with store count and selling space reaching 356 and 207K sqm. On a store category basis, we expect the highest revenue growth in Ex(x)tra store formats (Extra Store: 750-1,200 sqm; Exxtra Store: above 1,200 sqm), each of whose shares in retail revenues will increase by 2-3pp to 24-25% in 2016, whereas the share of Standard stores (below 750 sqm) will retreat by 4pp to 42%.

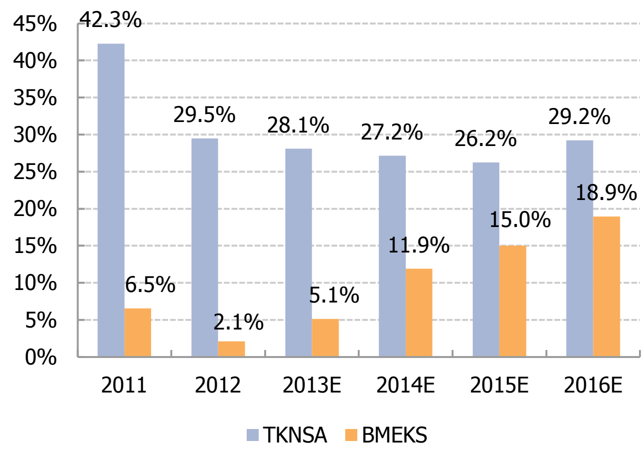
For Bimeks, inclusive of Electroworld, we foresee 30% and 35% CAGR in selling space and revenues, respectively, within 2013-2016, with store number and selling space reaching 153 and 114K sqm. We expect the Company to widen the store based partnership network (SBP; franchise) with 10 annual store openings until 2016, with comparatively lower capex spending and operating expenses. Therefore, taking all of the above into account, we expect growth mainly in mega store formats (above 1,000 sqm), with contribution to retail revenues increasing from 25% in 2013 to 44% in 2016, while the share of the normal store format (250-1,000 sqm) is set to contract from 61% in YE13 to 50% in 2016.

Margins set to improve with operational efficiencies -- We project slight margin recovery within 2013-2016 for both Teknosa and Bimeks, in view of operational efficiencies, along with lower opex/sales. We expect the gross margins of both companies to hover at around 17-18% due to the existence of 6 large players (5 when Darty is excluded) and continuing promotional discounts in the market. For Teknosa, the higher contribution from larger sized stores to revenues should result in lower revenue/sqm, thus a minor erosion in the gross margin until 2016. Accordingly, we expect the gross margin to slide to 18.4% in 2013 (from 19.2% in 2012) and remain at 18% in the long term. The Company plans to counterbalance a lower gross margin through efficiencies in operating expenses, potentially resulting in 25% CAGR in EBITDA and 4.9% EBITDA margin until 2016.

Exhibit 3: EBITDA Margin Comparison



ROE Comparison



Source: Bimeks, Teknosa, Burgan Research

For Bimeks, along with the addition of the lower margin Electroworld stores, we foresee a slight easing in the gross margin for 1Q14, which should improve somewhat within the year, owing to potentially better terms to be secured from suppliers, given larger scale purchases. We project a 16.7% gross margin (down 30bp yoy) for 2014 and 13.2% opex/sales ratio (also down 30bp yoy). Therefore, the EBITDA margin should contract only 50bp to 5% in YE13. Based on likely higher bargaining power with suppliers, as well as the larger share of MDA/SDA products in total revenues, we foresee an 80bp improvement in the gross margin to 17.5%, and lower opex/sales at 12.7% (down 50bp) within 2014-2016. Therefore, we expect the EBITDA margin to recover to 5.8% levels (36% EBITDA CAGR) by 2016, higher than that of Teknosa, thanks mainly to lower opex generating SBPs.

Consolidation inevitable in the market -- Based on the figures we have compiled from the websites of sector players and media sources, by 2015, total number of technical superstores is projected to surpass 700, corresponding to c.700K sqm. Given the aggressive growth plans of all players in the market, we believe competition will intensify in terms of both selling space and pricing, thereby making consolidation in the market inevitable.

Bimeks announced on September 5 that it had agreed to acquire Electroworld for a total consideration of TRL6mn (TRL16mn enterprise value), to be paid in two instalments in 2 years. The transaction is expected to be completed until YE13, following the approval of the Competition Board. Via this acquisition, Bimeks will have increased its store count and sales area to 123 and 102K sqm by YE13. Consequently, the Company's ranking in technical superstores market will have risen to 4th position, after Teknosa, Vatan Computer and Mediamarkt.

Darty is another target that plans to exit Turkey in the near term, as expected, and is likely to be acquired by one of the major players in the market. To date, Teknosa, Bimeks and Enplus -- a small retailer -- have been pronounced as potential acquirers. If Darty is acquired by Teknosa or Bimeks, it would add 25-30 new stores and 30K sqm selling space to the buyer, assuming that stores in overlapping locations are closed down. Potential acquisitions would bolster existing players' market power and sway with suppliers.

Sensitivity analysis -- Teknosa's and Bimeks's valuations are highly sensitive to fluctuations in EBITDA margin through the entirety of our DCF valuation, given the mid-single-digit margin levels. A 50bp improvement in EBITDA margin would translate into around 17% and 25% increases in our target Mcaps for Teknosa and Bimeks, respectively.

Exhibit 4: Sensitivity Analysis

Teknosa		Δ in revenues				
		-10%	**-5%**	**0%**	**5%**	**10%**
Δ in EBITDA Margin	**-100bp**	-36%	-35%	-33%	-32%	-31%
	-50bp	-21%	-19%	-17%	-14%	-12%
	0	-6%	-3%	**0%**	3%	6%
	50bp	9%	13%	17%	20%	24%
	100bp	24%	29%	33%	38%	43%

Bimeks		Δ in revenues				
		-10%	**-5%**	**0%**	**5%**	**10%**
Δ in EBITDA Margin	**-100bp**	-57%	-54%	-51%	-48%	-45%
	-50bp	-34%	-30%	-26%	-21%	-17%
	0	-11%	-6%	**0%**	6%	11%
	50bp	12%	18%	25%	32%	39%
	100bp	34%	42%	51%	59%	67%

Source: Company data, Burgan Research

Although higher revenues through new store openings with larger spaces and promotions tend to entice companies, we think profitability will be more in focus in the near term. Therefore, we expect to see consolidation in the market, which would probably benefit existing players in the long term.

Risks

Deterioration in purchasing power -- Softer demand in tandem with an economic slowdown and higher FX rates, hence weaker consumer confidence, would prompt reduced electronics spending in Turkey. Electronics products are essentially discretionary items, thus more susceptible to macroeconomic downturns and erosion in personal incomes. On the other hand, introduction of new technologies and models, especially in smartphones and other items such as i-Watch, might bolster demand in the near term, in our view.

Fierce competition will exacerbate margin squeeze, if consolidation fails to materialise -- In 2012, the gross margins of both Teknosa and Bimeks contracted in the face of mounting competitive pressure, especially from the local branches of international retailers. Retailers operating stores with larger selling space ramped up promotional activity, which tempered overall profitability in the market. However, we think the current low margin levels are not feasible or sustainable; hence, international retailers such as Electroworld have begun to exit Turkey, while Darty's management has announced plans to this effect. On the other hand, Mediamarkt, also operating on large selling space, has decided to scale down its store space in one of the shopping malls, suggesting a keener focus on profitability by its management. Considering also the precedent recently set by the Russian market following an expansion period, in a 2-year time frame we think consolidation appears inevitable in the Turkish market as well, which would bode well for the profitability of existing players.

Online retail: opportunity or threat? -- Online retail, a phenomenon of the last 6 years in Turkey, has a limited low-single-digit weight within the aggregate retail sector, compared to 27% in the UK, 12% in France and 7% in Italy. According to a survey by TURKSTAT as of 2011, only 7% of Internet users made purchases from the Internet, which underscores the potential for growth in online retail. In view of this trend, brick & mortar electronics retailers have accorded greater importance to e-commerce via establishing websites. Online revenues represented 2.2% and 7% of Teknosa's and Bimeks's total revenues, respectively, as of 2012. Both companies will aim to increase their share of online revenues to 8-15% of total revenues over the next couple of years. On the other hand, higher online revenues on lower priced products compared to brick & mortar stores would result in cannibalisation from the latter, and prompt lower aggregate profits for retailers.

FX exposure -- Apart from consumer purchases being sensitive to changes in electronic product prices driven by a weaker TRL, Teknosa is not exposed to FX risk, owing to its long FX position and purchases from suppliers in TRL terms. Bimeks, on the other hand, is slightly exposed to FX rates, given its TRL16mn short FX position as of 1H13. We might observe a minor increase in Bimeks's FX position following its acquisition of Electroworld by YE13.

Possibility of lower trading volume -- Despite Teknosa's mere 10% free float and Bimeks's small market cap, both stocks currently command US$1-2mn trading volume. However, in a bearish market, stock performances would be more sensitive to outflows from the equity market. Both stocks have outperformed the market ytd: i) Teknosa: thanks to analyst reports with BUY ratings; company road shows; ii) Bimeks: supported by the Chairman's share purchases and rumours of Bimeks's potential acquisition of a player in the market. There have been no indications of an SPO in the case of Teknosa, while further share purchases by the majority shareholder might be possible for Bimeks.

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September 30, 2013

COMPANY UPDATE

BIMEKS

Get ELECTROfied!

We initiate coverage of Bimeks with BUY (L/T) and OUTPERFORM (S/T) ratings and a target price of TRL2.5/share, implying 44% upside potential. We consider the stock as one of the most appealing small cap ideas in the BIST for the year 2014. Bimeks recently announced its acquisition of Electroworld from Dixons. This acquisition, worth TRL6mn -- to be paid in 2 years -- is set to double Bimeks's topline, while lifting it to 4th position in technical superstores in Turkey as of YE13. Furthermore, the Company will capitalise on synergies through larger product purchases and efficiencies in terms of operating expenses. Note that even excluding Electroworld, our target price (TRL2.1/share) would still represent 20% upside potential. The stock is trading at 2014E 4.4x EV/EBITDA, at a 42% discount to international peers.

- **Operations to double in scale with Electroworld acquisition** -- We expect Bimeks's net sales area to grow from 48Ksqm to 102K sqm, and market share to expand from 8% to 17% by YE13. Therefore, we project 106% revenue growth in 2014, 90% of which will be through inorganic growth. Furthermore, we expect 10 store based partnership openings annually until 2016, which should result in 35% CAGR in revenues by then.
- **Substantial improvement at the bottom line --** After a temporary easing in EBITDA margin in 2014, we foresee a 80bp margin recovery to 5.8% in 2016, driven by i) greater bargaining power with suppliers due to larger purchases; and ii) efficiency gains especially in G&A and marketing expenses. Consequently, supported by a higher sales figure, margin improvement and a low base in earnings, we estimate 105% CAGR at the bottom line within 2013-2016.

Consolidated Financials and Multiples (TRL)

	2012A	Δ	2013E	Δ	2014E	Δ	2015E	Δ
Revenue	495	25%	632	28%	1,304	106%	1,469	13%
EBITDA	28	-23%	35	25%	65	86%	84	29%
Net Income	2	-44%	6	175%	17	178%	26	56%
P/E	94.4		34.3		12.3		7.9	
EV/EBITDA	7.9		6.7		4.4		3.0	
EV/SALES	0.4		0.4		0.2		0.2	
Div. Yield	0.0%		0.0%		0.0%		0.0%	
FCF Yield	10.6%		-0.8%		3.7%		16.6%	

Ratings & Actions

L/T Rating	BUY (Initiated)
S/T Rating	OUTPERFORM (Initiated)

Target

Target Price	TRL2.5
Upside (Downside)	44%

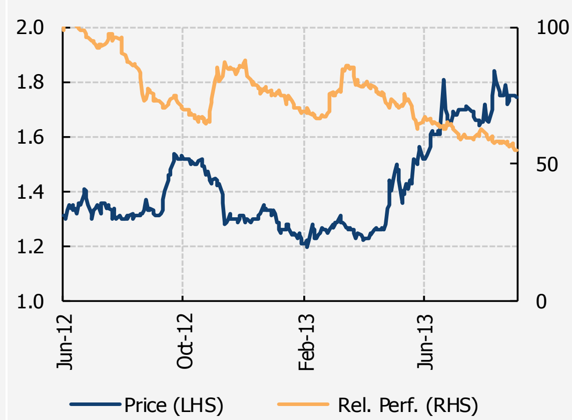
Share Data

Ticker	BMEKS.TI / BMEKS.IS
Close Price	TRL1.74
Current MCap. (TRL/US$ mn)	209 / 103
Number of Shares (mn)	120
Free Float	32%
3m Avg. Daily Turnover (TRL/US$ mn)	3.93 / 1.99

Trading Range (High / Low)

1-month	1.84 / 1.65
1-year	1.84 / 1.20
Ytd	1.84 / 1.20

Performance	Absolute	Relative
1-month	5%	-8%
3-month	14%	16%
1-year	33%	16%
Ytd	35%	39%



as of September 27, 2013
Relatives are against the BIST-100 Total Return Index

**Our target price for Bimeks, exclusive of Electroworld, is TRL2.1/share.*

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Income Statement (TRL mn)	2011	2012	2013E	2014E	2015E
Revenues	**396**	**495**	**632**	**1,304**	**1,469**
COGS	-309	-406	-524	-1,086	-1,217
Gross Profit	**87**	**89**	**108**	**218**	**253**
Operational expenses	-62	-73	-85	-172	-191
EBIT	**25**	**16**	**22**	**46**	**62**
EBITDA	**36**	**28**	**35**	**65**	**84**
Other income, net	1	2	0	0	0
Financial income, net	-22	-15	-13	-25	-29
Profit before tax	4	3	10	21	33
Tax	-0	-1	-4	-4	-7
Reported net earnings	**4**	**2**	**6**	**17**	**26**
Reported EPS	0.07	0.02	0.06	0.16	0.24
DPS	0.00	0.00	0.00	0.00	0.00

Balance Sheet (TRL mn)	2011	2012	2013E	2014E	2015E
Cash & Equivalents	16	68	74	54	101
Receivables	28	22	31	61	68
Inventories	118	160	172	357	400
Fixed Assets	30	31	42	68	79
Goodwill & Intangibles	55	50	50	63	60
Other Assets	6	8	8	10	10
Total Assets	**253**	**339**	**378**	**613**	**718**
Total Debt	48	80	103	132	140
Payables	103	134	144	298	367
Other Liabilities	8	8	10	20	22
Shareholders' Equity	**93**	**115**	**121**	**163**	**189**
Net Debt	**32**	**11**	**29**	**79**	**40**

Cash Flow Summary (TRL mn)	2011	2012	2013E	2014E	2015E
Net earnings	4	2	6	17	26
Depreciation	11	12	13	19	22
Δ in WCR	-47	-5	-12	-14	5
CAPEX	0	0	-15	-17	-18
Dividend paid	0	0	0	0	0
Rights issue	39	60	0	0	0
Δ in borrowing	-13	32	23	30	8
Other cash in/out	15	-48	-9	-55	4
Cash generated during the year	9	53	6	-20	47
Cash at the end of the year	**16**	**68**	**74**	**54**	**101**

Growth	2011	2012	2013E	2014E	2015E
Sales	31%	25%	28%	106%	13%
EBITDA	97%	-23%	25%	86%	29%
Net earnings	n.m.	-44%	175%	178%	56%

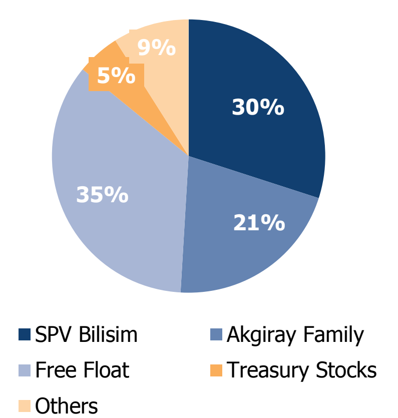
Key financial ratios	2011	2012	2013E	2014E	2015E
ROE	6.5%	2.1%	5.1%	11.9%	15.0%
ROIC	20.0%	8.2%	9.0%	15.4%	21.7%
EBITDA Margin	9.1%	5.7%	5.5%	5.0%	5.7%
Free cash flow margin	-2.9%	3.4%	-0.1%	1.9%	4.0%
Net Margin	1.0%	0.4%	1.0%	1.3%	1.8%
Net debt/Equity	0.3	0.1	0.2	0.5	0.2
Net debt/EBITDA	0.9	0.4	0.8	1.2	0.5
ST borrowings/T. borrowings	12.1	0.5	0.9	0.6	0.6
Equity/Total Assets	37.0%	34.0%	32.1%	26.5%	26.3%
Interest coverage	5.7	3.1	4.2	5.1	6.4
Current Ratio	1.09	1.56	1.45	1.35	1.35
Pay-out Ratio	0%	0%	0%	0%	0%

**B/S and CF statements will be subject to change once Electroworld's figures are consolidated into 2013 financials.*

Descriptive Summary

Established in 1990, Bimeks has been one of the fastest growing electronics retail stores since the 2000s, with its store count having soared from 4 in the 2000s to 83, and selling space to 45K sqm as of Sep'13. Number of visitors at the stores has reached 13mn as of 2012, implying a 17% conversion rate. The Company recently announced its acquisition of Electroworld stores, through which it will increase its store number and sale area to 123 and 102Ksqm by YE13. Accordingly, its market share will rise from 8% to 17% in the technical superstore market. Consequently, Bimeks will rank 4th in terms of selling space. Bimeks's majority shareholders are Akgiray family and SPV Bilisim, the latter also owned by the former, while 35% is the free float.

Ownership Structure



VALUATION

We incorporated Electroworld operations into our valuation, assuming that the Company will finalise the acquisition once the Competition Board approval is announced until YE13. We based our valuation only on DCF analysis, considering that 2014E multiples will not be fully reflective of the operations' growth prospects. Note that our assumptions are subject to minor changes, contingent on the Company decision in 2014 as to the mode of restructuring of the franchise stores. Our model also takes into account 10 annual store based partnership (SBP) openings until 2016.

We project 35% topline CAGR until 2016, thanks to inorganic growth through Electroworld and double-digit organic growth through new store openings. Given potential synergies to be achieved with the acquisition, i.e. larger scale purchases translating into 50-100bp gross margin improvement and lower effect of fixed costs especially for the G&A item, we project 17.5% gross margin and 5.8% EBITDA margin for 2016. Our L/T EBITDA margin estimate of 6% is above that of Teknosa, given that lower opex-generating store based partnerships are projected at 30% of the sales area in the long haul.

In our FCF computation, we subtracted credit card expenses associated with early collection of receivables from the EBITDA. For terminal growth rate and L/T WACC rate, our assumptions are 5% and 14.6%, respectively. All in all, our target price of TRL2.5/share implies 44% upside potential.

Though not included in our valuation, we conducted a comparison of multiples for peers, featuring 20 electronic retailers in North America, Europe and Asia and the Middle East. The Russian market, while bearing the most similarities with the Turkish market, unfortunately lacks listed players. Darty, Dixons and Best Buy are key comparables, with operations similar to Bimeks. However, estimated EBITDA growth for Bimeks is much higher than these peers, which also supports our view that higher multiples are possible.

Exhibit 5: Bimeks Target Valuation

TRLmn **Valuation Method (TRLmn)**	**Weighted Price**
Target Mcap (TRLmn)	**275**
Number of Shares (mn)[1]	109
Target Price (TRL)	**2.50**
Current Price	1.74
Upside Potential	**44%**

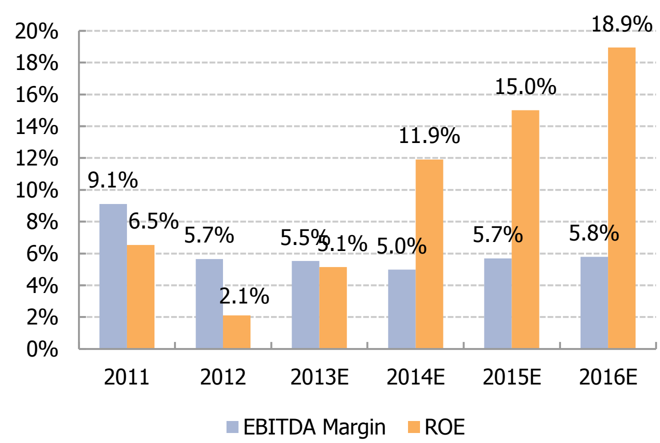
Source: Burgan Research

[1] *Number of shares adjusted for treasury stock*

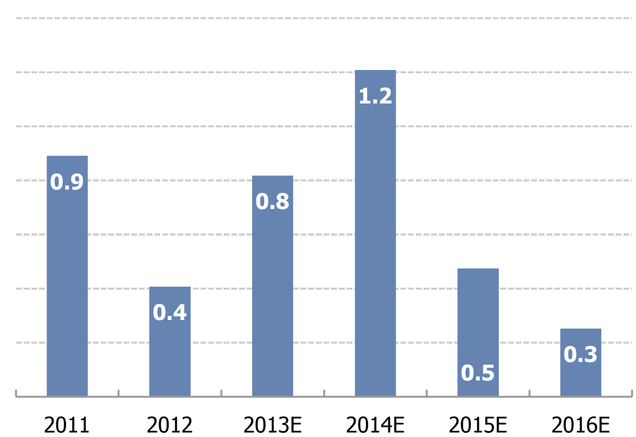
As discussed earlier, our valuation model incorporates all 32 stores operated by Electroworld, including 18 franchise stores, which are assumed to be transformed into SPBs in a year. Thus, we project 106% revenue growth, with 90% of the growth estimated for 2014 being inorganic. Along with the addition of large-scale Electroworld stores, we expect the highest revenue contribution to come from Mega stores (46%); followed by normal stores (43%); and small stores (7%) in 2014. As larger scale stores with lower revenue/sqm represent a higher portion of total revenues, we assume a 9% yoy decline in revenue/sqm to c.11,700 in 2014. Also considering 10 new annual store openings in SBP format, we foresee 30% and 35% CAGR in selling space and revenue, respectively, with store number and selling space reaching 153 and 114K sqm until 2016. Finally, we expect online revenues to represent 7% of aggregate revenues.

Bimeks's profitability changes in tandem with shifts in its revenue composition -- both in terms of store category and product mix -- as well as the level of sales discounts/promotions granted. Along with the addition of lower margin Electroworld stores, we foresee a slight easing in gross margin for 1Q14, which should improve slightly within the year on better terms provided by suppliers given larger scale purchases. We forecast a 16.7% gross margin (down 30bp yoy) in 2014 and 13.2% opex/sales ratio (also down 30bp yoy). Therefore, EBITDA margin should contract by a mere 50bp to 5% in YE13.

Exhibit 6: EBITDA Margin versus ROE



Net Debt/EBITDA



Source: Bimeks, Burgan Research

Based on our expectations of greater bargaining power with suppliers, as well as the larger share of MDA/SDA products in total revenues, we foresee an 80bp improvement in the gross margin to 17.5%, and lower opex/sales at 12.7% (down 50bp) within 2014-2016. Therefore, we expect the EBITDA margin to recover to 5.8% by 2016, above that of Teknosa, thanks mainly to lower opex generating SBPs. Note that only SBP revenues and CoGS are recorded in Bimeks's income statement, while operating expenses, comprising mostly rental and personnel expenses, are undertaken by the SBP.

Exhibit 7: Summary of Revenue Model

TRLmn	2013E	2014E	2015E	2016E	2017E
Small Stores < 250sqm					
Sales Area (Ksqm)	3,253	3,253	3,253	3,253	3,253
No of stores	18	18	18	18	18
Sqm/store	180	180	180	180	180
Small Revenue	83	88	93	98	103
YoY	-3%	6%	6%	5%	5%
Normal Stores = 250-1000sqm					
Sales Area (Ksqm)	26,861	43,351	47,351	51,351	52,151
No of stores	63	91	101	111	113
Sqm/store	426	400	400	400	400
Normal Revenue	355	555	657	755	831
YoY	49%	56%	18%	15%	10%
Mega Stores > 1,000sqm					
Sales Area (Ksqm)	17,963	58,963	58,963	58,963	58,963
No of stores	10	24	24	24	24
Sqm/store	2,000	2,457	1,900	1,900	1,900
Mega Revenue	146	594	630	664	697
YoY	16%	306%	6%	5%	5%
Total					
Sales Area (Ksqm)	48,077	105,567	109,567	113,567	114,367
No of stores	91	133	143	153	155
Sqm/store	528	794	766	742	738
Breakdown of Sales Area					
Small Stores < 250sqm	7%	3%	3%	3%	3%
Normal Stores = 250-1000sqm	56%	41%	43%	45%	46%
Mega Stores > 1,000sqm	37%	56%	54%	52%	52%
Revenue/Sqm	**12,880**	**11,716**	**12,831**	**13,599**	**14,317**
Aggregate Revenues	**632**	**1,304**	**1,469**	**1,636**	**1,769**
YoY	28%	106%	13%	11%	8%
Retail	584	1,237	1,380	1,517	1,632
Online	40	62	84	114	136
Other	7	5	5	5	1
Breakdown of Revenues					
Small Stores < 250sqm	13%	7%	6%	6%	6%
Normal Stores = 250-1000sqm	56%	43%	45%	46%	47%
Mega Stores > 1,000sqm	23%	46%	43%	41%	39%
Online	6%	5%	6%	7%	8%

Source: Burgan Research

Therefore, Bimeks only pays an average 6.5% of monthly sales to its partners on a monthly basis, thus records a lower opex/sales ratio.

Driven by a higher sales figure, margin accretion and a low base for earnings, we estimate 105% CAGR at the bottom line for 2013-2016. Therefore, we foresee a significant pick up in ROE to 19%, above the discount rate, in 2016. A higher earnings growth, supported by the synergies between Bimeks and Electroworld, is an upside risk to our forecasts.

We do not assume any major financing needs for Bimeks following its acquisition of Electroworld, given only TRL6mn to be paid to Dixons in two instalments within 2 years. However, based on higher working capital needs, capex and Electroworld's net debt position, we project a rise in the net debt position in 2014. Thus, we forecast 1.2x net debt/EBITDA and 0.5x debt/equity for 2014. We do not expect the Company to distribute any dividends until the restructuring is complete and retained losses in the balance sheet decline.

It is also worth mentioning that our B/S assumptions are subject to change once the Electroworld operations are consolidated in year-end financials, as we do not have detailed information regarding all B/S items and retained losses. The tax expense projection might also change depending on management decision to keep Electroworld as a subsidiary or merge it with Bimeks. Furthermore, Bimeks has a TRL16mn short FX position associated with a EUR10mn loan and US$19mn trade payables; hence, a weaker TRL poses a risk to the Company. Bimeks hedges part of its FX liabilities with currently US$15mn worth of derivatives, which eases the negative impact of a weaker TRL. Most of Bimeks's borrowings are in TRL, due to its TRL50mn bond that will expire in Sep'14. We would expect the Company to re-issue a bond after the prior one expires.

Bimeks books financial expenses related to early collection of credit card receivables, whose ratio to sales was 1.4% as of 2012. This ratio has declined to 0.8% by 1H13, along with the downtrend in interest rates. However, we expect the ratio to increase once again to 1.3% in 2014.

In addition to the risks we discuss in the related section of this report, Bimeks has company specific risks associated with its acquisition of Electroworld. As discussed earlier, we assumed that all franchise stores owned by Electroworld would be transformed into SBPs. Even if some of the franchise stores are closed, the Company will maintain its target of 140-160 store count by 2015, supported by its organic expansion. Furthermore, we opted for more conservative assumptions compared to management's indications, especially in terms of gross margin and operating expenses. Potentially better-than-expected figures post acquisition would be an upside risk to our forecasts.

Exhibit 8: Bimeks Discounted Cash Flow Analysis

TRLmn	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues	**632**	**1,304**	**1,469**	**1,636**	**1,769**	**1,891**	**2,008**	**2,132**	**2,265**	**2,405**
Retail	584	1,237	1,380	1,517	1,632	1,727	1,827	1,933	2,046	2,164
E-Commerce	40	62	84	114	136	163	180	198	218	239
Other	7	5	5	5	1	1	1	1	1	1
EBITDA	**35**	**65**	**84**	**95**	**103**	**111**	**117**	**126**	**135**	**144**
EBITDA Margin	5.5%	5.0%	5.7%	5.8%	5.8%	5.9%	5.8%	5.9%	6.0%	6.0%
Taxes on EBIT	-4	-9	-12	-16	-17	-18	-19	-21	-22	-24
Δ in Working Capital	-12	-14	5	-11	-9	-8	-8	-9	-9	-10
Credit Card Commissions	-5	-17	-24	-26	-28	-30	-32	-34	-36	-38
Capital Expenditures	-15	-17	-18	-14	-15	-15	-16	-17	-17	-18
Free Cash Flows	**-2**	**8**	**35**	**27**	**33**	**39**	**42**	**46**	**50**	**53**
discount factor	1.00	1.07	1.23	1.41	1.61	1.85	2.12	2.43	2.78	3.19
Discounted FCF		7	28	19	20	21	20	19	18	17
PV of Free Cash Flow	170									
PV of Terminal Value @ 5%	182									
Estimated EV	352									
- Net Debt (2014)	79									
Real Estate	1									
Fair Value	**275**									

Source: Burgan Research

Exhibit 9: WACC

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Risk Free Rate	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
Turkish Equity Risk Premium	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Unlevered Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Levered Beta	1.68	1.65	1.60	1.53	1.48	1.44	1.53	1.53	1.53	1.53
Cost of Equity	19.0%	18.8%	18.5%	18.2%	17.9%	17.7%	18.2%	18.2%	18.2%	18.2%
Weight of Debt	46%	45%	43%	40%	38%	35%	40%	40%	40%	40%
Weight of Equity	54%	55%	57%	60%	62%	65%	60%	60%	60%	60%
Tax	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Cost of Debt	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
WACC (TRL)	**14.5%**	**14.5%**	**14.5%**	**14.6%**	**14.6%**	**14.7%**	**14.6%**	**14.6%**	**14.6%**	**14.6%**

Source: Burgan Research

Exhibit 10: International Peer Comparison

Company	Country	Mcap (US$mn)	EV (US$mn)	P/E		EV/EBITDA		ROE		Change in EBITDA	
				13E	14E	13E	14E	13E	14E	13E	14E
North America											
Best Buy	USA	13,158	12,929	15.3	16.0	6.1	5.7	19%	21%	-26%	-3%
Gamestop Corp	USA	5,895	5,696	16.2	15.6	6.4	6.5	14%	16%	-4%	-3%
Arrow Electronics	USA	4,851	6,607	10.3	9.0	7.2	6.3	12%	12%	3%	10%
Ingram Micro	USA	3,500	3,657	10.1	9.2	5.3	4.3	9%	8%	31%	8%
Conn's Inc	USA	1,885	2,216	31.8	20.2	n.m.	n.m.	14%	18%	75%	52%
Hhgregg	USA	579	556	25.3	20.2	6.1	5.6	7%	8%	-17%	12%
Radioshack	USA	386	667	n.m.	n.m.	-60.9	31.7	-24%	-23%	-144%	-287%
Europe											
Esprinet	Italy	284	325	9.4	8.0	n.m.	n.m.	9%	9%	-4%	8%
Nfi Empik Media	Poland	692	903	n.m.	26.4	10.6	9.2	n.m.	n.m.	13%	12%
AB	Poland	140	199	10.3	9.4	9.1	7.9	11%	10%	-3%	11%
Action	Poland	296	311	17.4	16.9	11.6	10.0	20%	19%	13%	15%
Mobilezone	Switzerland	384	400	14.3	14.1	9.2	8.9	38%	53%	11%	4%
Darty	UK	581	765	33.9	17.7	4.3	5.0	-9%	-10%	-17%	-8%
Dixons	UK	2,757	2,690	39.3	19.6	6.6	5.0	7%	35%	5%	23%
Asia & Middle East											
JB Hi-Fi	Australia	1,990	2,043	18.5	17.0	11.1	9.9	55%	48%	-8%	11%
Suning	China	14,086	14,454	93.4	44.2	28.8	23.1	3%	3%	-60%	24%
K's Holdings	Japan	1,667	2,681	10.9	10.1	7.6	7.2	10%	9%	-48%	11%
Gome Electrical	Hong Kong	2,198	3,045	22.8	15.3	10.8	6.3	4%	6%	-405%	55%
United Electronics	Saudi Arabia	960	934	19.2	16.8	14.8	12.6	35%	31%	26%	14%
Lotte Himart	South Korea	1,783	2,489	14.3	12.0	10.1	8.5	9%	10%	19%	13%
Median				**16.8**	**16.0**	**8.4**	**7.6**	**10%**	**10%**	**-3%**	**11%**
Bimeks (TRL)	Turkey	103	144	34.3	12.3	6.7	4.4	5%	10%	25%	86%
Premium / Discount to Peers				104%	-23%	-19%	-42%	-49%	5%		

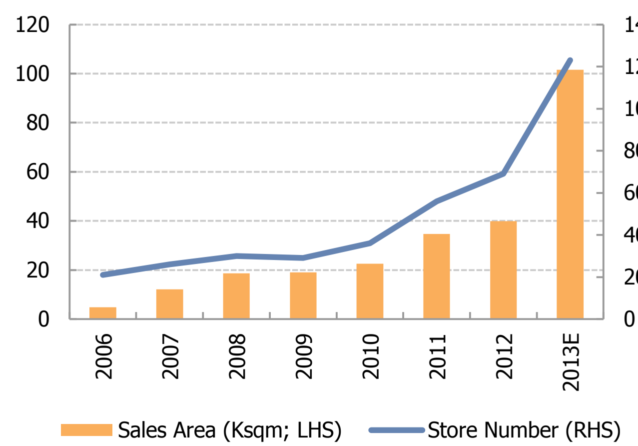
Source: Bloomberg, Burgan Research

COMPANY OVERVIEW

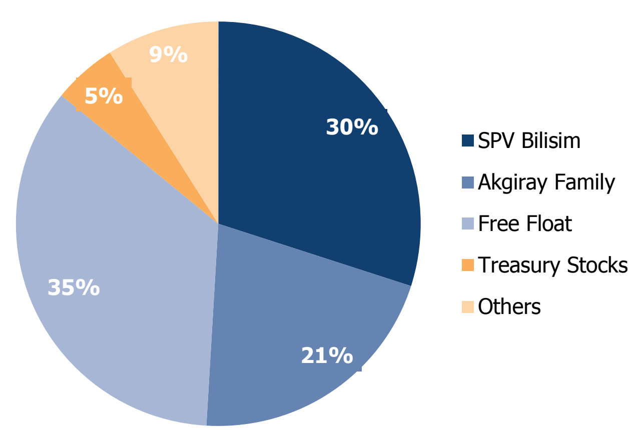
Established in 1990, Bimeks has been one of the fastest growing electronics retail stores since the 2000s, with its store count having soared from 4 in the 2000s to 83, and selling space to 45K sqm as of Sep'13. The Company, which opened its first store in Istanbul in 1996, expanded across a number of provinces via different store formats. Alongside a sprawling network of stores across 45 provinces, the management has worked diligently towards developing before/after sales customer support. Number of visitors at the stores has reached 13mn as of 2012, implying a 17% conversion rate. The Company commanded an 8% market share in the technical superstore market in 2012, which will increase to 17% after the acquisition of Dixon's Turkish operations dubbed "Electroworld" until YE13. Finally, the Company has launched its express delivery service dubbed "bidakka", which delivers products purchased from bimeks.com.tr within 3 hours in 15 provinces. The service in question represented 7% of Bimeks's total sales as of 1H13.

Bimeks announced on September 5 its acquisition of Electroworld for a total consideration of TRL6mn (corresponding to TRL16mn EV), to be paid in two instalments in 2 years. The transaction is expected to be completed until YE13, following the approval of the Competition Board. Via this acquisition, Bimeks will have increased its store number and sales area to 123 and 102K sqm by YE13. Consequently, the Company's ranking in technical superstores market will have risen to the 4th slot after Teknosa, Vatan Computer and Mediamarkt. Through further small scale store openings via store based partnership, the Company aims to rank 2nd in the market in a couple of years. We still think Darty, with 29 stores covering an area of 35K sqm, could also represent a viable acquisition opportunity for Bimeks.

Exhibit 11: Store Number & Selling Space



Ownership Structure



Source: Bimeks

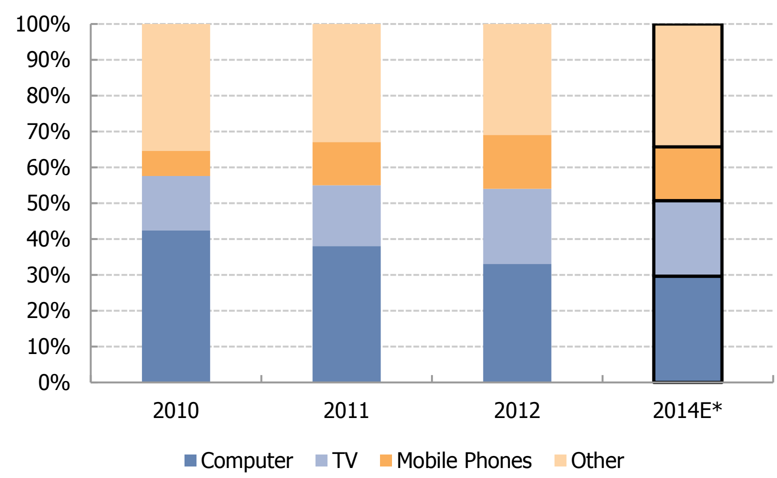
Bimeks's majority shareholders are Akgiray family and SPV Bilisim, the latter also owned by the former, while 35% is the free float. Other than the voting privileges accorded to A-type shares, no other privileges are granted to any share class. Bimeks shares have been assigned a BB rating for L/T foreign currency with a Stable Outlook by JCR-Eurasia Rating.

TV & Mobile Phone: Lion's Share in Total Revenues

Bimeks generates revenues mainly from electronics retail, which comprise revenues through stores; e-commerce revenues; and "other revenues" via store-based partnerships. Revenue generation is led by IT and consumer electronics segments, which account for 54% of total revenues as of 2012. Over the last couple of years, the share of computer revenues has been on a downtrend, as consumers switch to smart phones. Accordingly, the share of the mobile phone segment in total revenues has risen from 7% to 15% within 2010-2012. TV revenues' share has also grown from 15% to 21% within the same period. "Other" segment, comprising mainly other consumer electronics, IT and MDA/SDA products, constituted 31% of aggregate revenues in 2012, versus 35% as of 2010.

Along with the acquisition of Electroworld, we foresee a change in Bimeks's product mix, with a lower share of IT products, which represent 25% of Electroworld's revenues, versus 33% for Bimeks. Meanwhile, the share of telecom and consumer electronics segments in total revenues will be similar after the acquisition. On the other hand, MDA segment, representing 7% of Electroworld's revenues versus 1% for Bimeks, will capture a larger share in total revenues, which should also have a supportive effect on gross margins.

Exhibit 12: Segment Revenue Breakdown



*Source: Bimeks; *Including Electroworld operations in 2014E*

Bimeks also plans to spice up its product portfolio via introducing sports equipment; health care products; lightening equipment; and hobby products, whose margins are comparably higher than of electronic products. Bimeks's

Chairman further stated at an interview that 4-5 countries in Africa featured on their radar screen for potential growth opportunities. The management would be inclined to initially open 20-30 stores and gradually expand the store network.

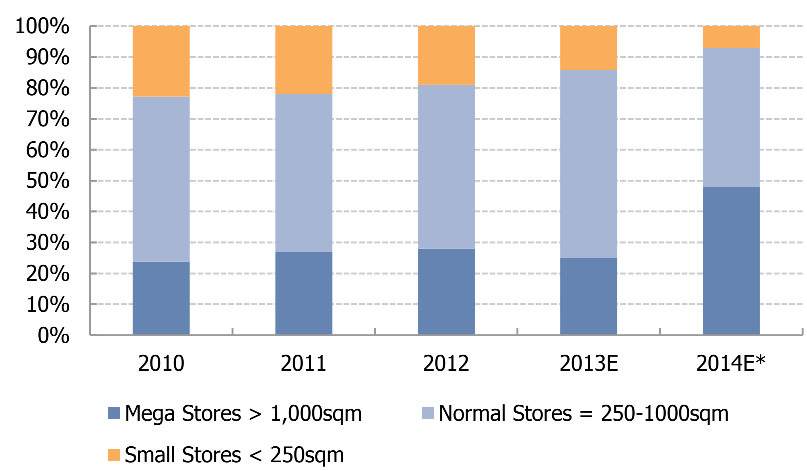
Dramatic Change in Store Formats with Electroworld

Bimeks's sales breakdown in store formats has changed in favour of normal stores (250-1,000 sqm), along with store-based (300 sqm/store on average) partnerships. Therefore, the tally of store-based partnerships has reached 37 out of a total of 83 as of Sep'13, and their share in selling space has increased to 25% within 2010-2013. Normal stores (250-1,000 sqm) have accounted for 46% of total selling space in 2012, versus 42% in 2010, while Mega stores (above 1,000 sqm, also called "Teknoport") have constituted only 45% of the total selling space in 2012.

Small stores generate the highest revenue/sqm, almost double that of normal stores, while Mega stores typically register the lowest revenue/sqm, almost one fourth that of small stores. Note that like-for-like growth in stores has been at single-digit level in both 2011 and 2012: 8% in 2011 and 7% in 2012.

The addition of Electroworld stores will create a noticeable change in the composition of store formats in 2014. 14 out of the 32 stores operated by Electroworld are larger scale stores with 3,000 sqm on average above the average size of 2,000 sqm for Bimeks's Mega store format. Electroworld's stores generate 20% higher revenue/sqm compared to Bimeks's Mega stores, which will result in higher revenue/sqm for large scale stores in 2014.

Exhibit 13: Store Based Revenue Breakdown



*Source: Bimeks; *Including Electroworld operations in 2014E*

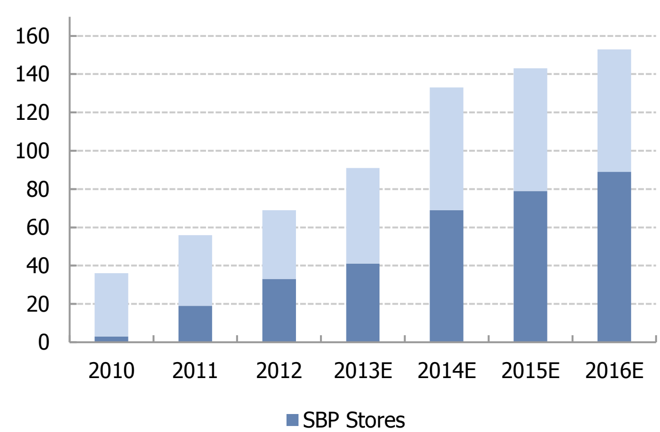
18 Electroworld stores are operated by franchisees to which Electroworld sells products at a lower margin, while franchisees bear the inventory risk. Thus, given the lower mark-up in Electroworld's franchises than Bimeks's SBPs,

revenue/sqm is nearly half of Bimeks's standard stores. Note that Electroworld's franchises roughly occupy 700 sqm average selling space, versus 420 sqm average selling space for Bimeks's normal stores. Therefore, upon consolidation of Electroworld stores, Bimeks plans to adapt its store based partnership model to the franchise stores in a 1-year time frame.

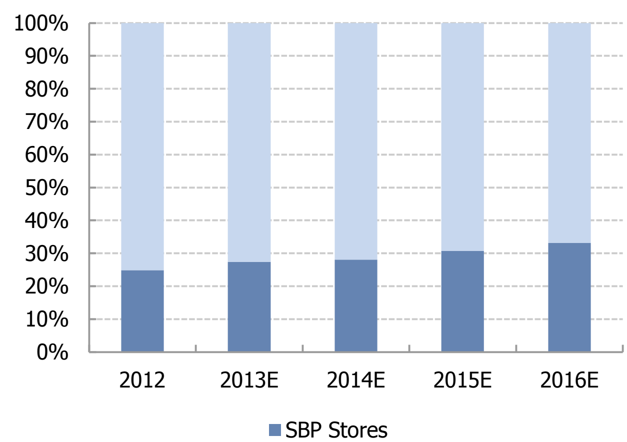
SBP model is somewhat similar to the franchise model, with an upfront franchise fee of around TRL100K paid to Bimeks and construction investments undertaken by the partner (franchisee). Bimeks invoices the construction spending with a negligible mark-up to the partner. The revenue is recognised in Bimeks's financials, while the Company pays an average 6.5% of monthly sales to the partners on a monthly basis. Inventory and logistics management is undertaken by Bimeks, whereas the partner provides a guarantee (deposit) for the inventory at the store. Any excess cash flow remaining from the business by the year-end, once the operating expenses related to headquarters are deducted, is shared by Bimeks and the partner.

In a bid to avoid cannibalisation, the Company opens SBP stores with at least 10km distance from one another and does not opt for stores with selling space below 150 sqm. Prior to store openings, store personnel are trained at Bimeks's headquarters. Total investment spending incurred by the partner for 250 sqm is generally estimated at TRL500-700K, including the franchise fee, construction cost and the inventory deposit.

Exhibit 14: Number of Stores*



Breakdown of Selling Space in Store Formats*



*Source: Bimeks, Burgan Research; *Assuming all Electroworld franchise stores are transformed into SBPs in 2014*

Thanks to expansion via the SBP model, as well as Bimeks's store openings in Mega format, number of stores and selling space advanced from 36 stores and 23K sqm as of 2010, to 69 stores and 40K sqm as of 2012. The management seeks to further expand its SBP model, especially for Electroworld's franchise stores, within a year. With a 1-year notice, Bimeks will talk with franchisees individually for the transition from the franchise model to the SBP model, and terminate contracts for some stores in close proximity to Bimeks stores. For the time being, we are assuming that all franchise stores of Electroworld will be transformed into SBP stores.

Apart from the Electroworld stores, Bimeks will continue new store openings, possibly at a slower pace for SBP stores. We projected 10 SBP store openings annually in "normal" store format until 2016, in line with the management's strategy of expanding its presence from 49 provinces. We foresee a slower store expansion pace versus management's plan of 20 stores annually, while assuming all of Electroworld's franchise stores will remain. Therefore, we expect store count and sales area to reach 153 and 114K by 2016. Alongside growth via stores, the Company aims to capitalise on the buoyant prospects of the e-commerce sector discussed in more detail in the section "Online Retail Promises Strong Growth Prospects". Through its express delivery service dubbed "bidakka", the Company recorded TRL33mn in net sales, implying 10% CAGR since 2010 and constituting 7% of total revenues. The Company aims to differentiate itself from other online electronics retailers via fast delivery (3 hours) from store to customer.

The "bidakka" service currently covers 15 provinces, while the management aims to increase coverage to nearly all provinces where Bimeks stores are located. In view of this strategy, we project 36% CAGR in online revenues until YE16. Consequently, we expect online revenues to account for 7% of total revenues by 2016, still a conservative figure compared to the management's 8% target.

Focus on Customer Relations

Bimeks has sought to enhance its customer relations via strengthening after-sale services, as well as launching new campaigns. Notable examples are "PC check-up" campaigns, which are applicable to all PCs owned by the client, and "trade in" campaigns, which allow the changing of existing PCs with new ones with a price difference.

The Company spent TRL13mn within 2009-2012 for the establishment of Customer Relations Management (CRM), and ERP systems for logistics operations. The technologically advanced operations allow for the fast delivery of products from the nearest store to the customer. SBP stores also benefit from the logistics system. The Company developed two further systems: one monitoring revenue/sqm and the other revenue/personnel, periodically. Bimeks will spend US$3mn more for IT services during the transition from Electroworld to Bimeks stores within 1H14.

Bimeks owns a 5,500 sqm warehouse in Gebze, which serves mainly its stores located in Istanbul. For those located on the Asian part of Turkey, distributor companies based in Turkey directly transport products to Bimeks stores. Therefore, Bimeks does not rent or own any other warehouse in Turkey. The

Company converted the storage space in its mega stores to selling space; hence, the entire inventory is displayed at the store. For some stores located at shopping malls, the Company rents the storage rooms of the malls.

Of Bimeks's purchases, 40% are in FX (80% as of 2010), comprising mainly IT products, of which 80% are US$-denominated. In order to hedge its risk, the Company holds US$15mn worth of derivatives, corresponding to 20% of quarterly revenues. Bimeks uses weighted-average cost accounting method for inventory calculation, and receives rebates from suppliers for those products sold at a lower price than the book value. As for unsold inventory, the Company displays the products at its discount store located in Pendik, Istanbul. Consignment purchases represent less than 10% of Bimeks's total purchases from suppliers, which result in a higher inventory burden for the Company.

The Company also collects credit card instalments earlier (the day after the sale) at a discount. Bimeks subtracts commission expense on credit cards from gross sales and books the early payment expense under financial expense. Therefore, Bimeks's days receivable declines to 15-20 days, and its cash cycle is 35-40 days. Working capital/sales ratio is around 10%.

Exhibit 15: Bimeks's Working Capital

Working Capital	2010	2011	2012	2013E	2014E
Days Receivables	14	18	18	18	17
Days Inventory	102	118	125	120	120
Days Payables	133	119	107	100	100
Cash Cycle	-17	17	37	38	37
WC/Sales	-1%	11%	10%	9%	9%

Source: Bimeks

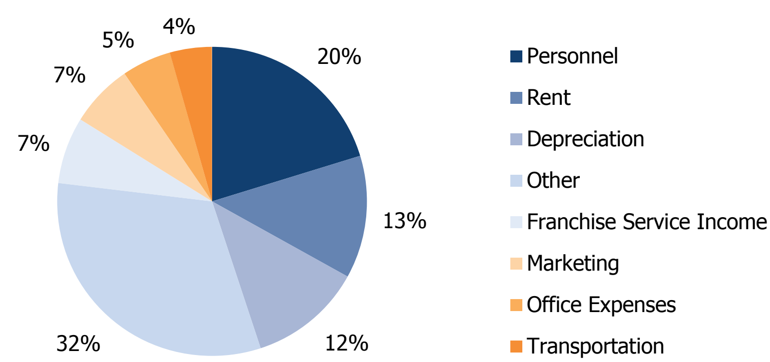
Cost Items and Margins

Rental and personnel expenses are the largest cost items, though represent only 33% of operating expenses in total (For Teknosa, the amount is around 60%), thanks to the SBP model. Accordingly, operating expenses of SBPs are held by the partners, while Bimeks only pays franchise service income as a percentage of revenues, which represents 7% of operating expenses. The ratio of franchise service fee to revenues is 7% below TRL400K of monthly revenues for SBPs; 5% between TRL400-500K; and 3% above 500K.

Of the rental agreements, revenue based leases constitute 15% of total rental expenses, while the rest is fixed. Of the contracts, 67% are FX-based (42% in EUR; 24% in US$) and 33% TRL-based. However, the composition of rent expenses will change along with the acquisition of Electroworld: 90% of Electroworld's rent expenses are FX-denominated.

Number of personnel stood at 563 (200 additional people in franchise stores) as of 2Q13, which is likely to exceed 1,000 once Electroworld operations are included. Personnel expenses/sales ratio, currently at 4%, should decline, however, given efficiencies gained at the headquarters. However, the Company covers part of the marketing expenses incurred by SBPs, which have quadrupled yoy to TRL7mn in 2012.

Exhibit 16: Breakdown of Operating Expenses in 2012



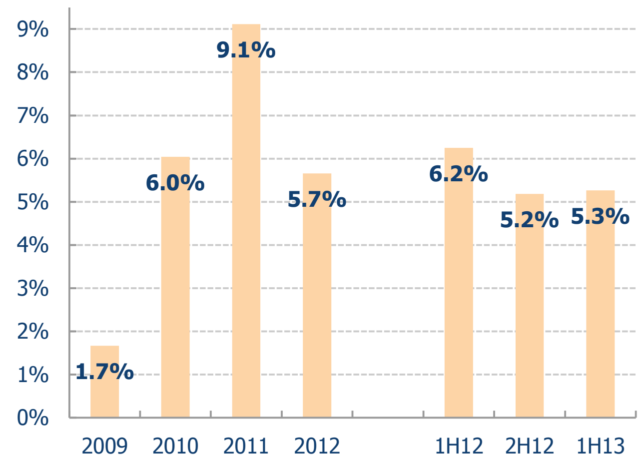
Source: Bimeks

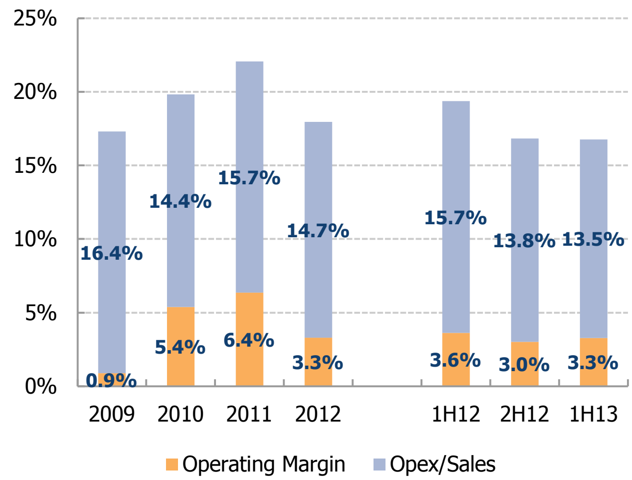
Bimeks's EBITDA margin has been quite volatile through 2009-2012, given the noticeable change in revenue composition both in terms of product category and store formats, coupled with stiffer competition in the market in the last 2 years. The EBITDA margin has improved from 6% to 9% as of 2011, and subsequently narrowed to 5.7% in 2012. Meanwhile, revenue/sqm has contracted by single-digits in both 2011 and 2012, given a higher share of mega and normal stores in total revenues.

Bimeks's gross margin has also been erratic, in tandem with changes in product categories, featuring a higher share of lower margin telecom revenues, and increased promotional activities by electronic retailers. Along with the addition of lower margin Electroworld stores, we foresee a slight easing in the gross margin in 1Q14, which, however, should improve somewhat within the year, owing to better terms from suppliers on larger scale purchases. Therefore, we project 80bp gross margin expansion within 2014-2016.

Opex/sales ratio declined from 15.7% in 2011 to 14.7% in 2012, driven by operating leverage. We expect a further easing in opex/sales from 13.5% in YE13 to 12.7% in 2016, in tandem with operational synergies to be created especially in G&A and marketing expenses with the inclusion of Electroworld operations, and a higher share of online revenues.

Exhibit 17: EBITDA Margin **Operating Margin and Opex/Sales Ratio**





Source: Bimeks

Need for Capital Minor, thanks to SBP Format Stores

The Company's investment spending is comparatively lower than those of other retailers, owing to the SBP model, where partners are responsible for capital expenditures. Judging from the management's strategy, we expect all new normal format stores to be in SBP format, while we do not project any further mega or small format store openings. On the other hand, we project US$3mn and US$2mn worth of investments in 2014 and 2015 for the renovation of Electroworld stores, with a concept similar to Bimeks stores.

Note that capex/sqm is US$700/sqm for normal and small stores, and US$600/sqm for mega stores, while maintenance capex is generally US$70/sqm. Therefore, we project US$9mn (US$5mn for maintenance and US$3mn for Electroworld stores) in investment for 2014, corresponding to 1.3% of sales. For intangible assets, we project US$3mn in expenditure for 2014.

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September 30, 2013

COMPANY UPDATE

TEKNOSA

TechnoLogical

We initiate coverage of Teknosa with BUY (L/T) and MARKETPERFORM (S/T) ratings. Our target price of TRL14.0/share implies 19% upside potential. Teknosa, the leading technical superstore in Turkey, is considered among primary beneficiaries of the double-digit growth projected for Turkish electronics retail, on strong like-for-like growth and sustained store expansion in an underpenetrated market. The prospective exit of two foreign retailers until 2014 should also ease competition in the Turkish market. The stock is trading at 2014E 5.2x EV/EBITDA and 16.1x P/E, at 32% discount and at par with international peers, respectively.

- **Strong consumer growth story --** Teknosa looks set to sustain its dominant presence in Turkish technical superstore market with 38% market share, 291 store count, and 154K selling space, with 21% CAGR in revenues until 2016. 20 annual store openings, as well as above-inflation increase in revenue/sqm will underpin topline growth. A potential acquisition of Darty's domestic operations – set to exit the Turkish market in 2014 -- with 36K sqm selling space, might serve as a catalyst for Teknosa.

- **Margins set to recover --** We foresee a sequential margin improvement in 2H13, enabled by seasonal strength and potentially higher revenue/sqm, supported by improvement in consumer sentiment after the recent US$ weakness. Therefore, we project a 4% EBITDA margin as of YE13, which is set to recover to 4.9% by 2016, through operating leverage. Accordingly, we foresee 25% and 26% respective CAGR in EBITDA and net earnings by 2016.

- **Strong cash flow and high ROE --** Teknosa has an estimated TRL393mn net cash position, 28% ROE and a long FX position, a rarity in the sector.

Consolidated Financials and Multiples (TRL)

	2012A	Δ	2013E	Δ	2014E	Δ	2015E	Δ
Revenue	2,330	40%	2,951	27%	3,609	22%	4,303	19%
EBITDA	100	25%	121	22%	153	26%	191	25%
Net Income	50	-1%	64	27%	80	24%	95	19%
P/E	25.5		20.1		16.1		13.5	
EV/EBITDA	9.3		7.4		5.2		3.6	
EV/SALES	0.4		0.3		0.2		0.2	
Div. Yield	0.0%		0.0%		1.0%		1.9%	
FCF Yield	11.5%		-0.8%		4.7%		5.0%	

Ratings & Actions

L/T Rating	**BUY** (Initiated)
S/T Rating	**MARKETPERFORM** (Initiated)

Target

Target Price	**TRL14.0**
Upside (Downside)	**19%**

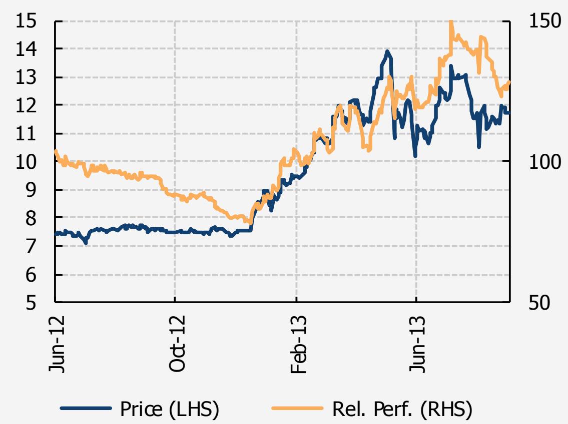
Share Data

Ticker	**TKNSA.TI / TKNSA.IS**
Close Price	TRL11.70
Current MCap. (TRL/US$ mn)	1,287 / 633
Number of Shares (mn)	110
Free Float	11%
3m Avg. Daily Turnover (TRL/US$ mn)	2.27 / 1.16

Trading Range (High / Low)

1-month	12.00 / 10.50
1-year	13.90 / 7.36
Ytd	13.90 / 7.54

Performance	Absolute	Relative
1-month	10%	-3%
3-month	4%	5%
1-year	56%	37%
Ytd	55%	59%



as of September 27, 2013
Relatives are against the BIST-100 Total Return Index

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Income Statement (TRL mn)	2011	2012	2013E	2014E	2015E
Revenues	**1,670**	**2,330**	**2,951**	**3,609**	**4,303**
COGS	-1,304	-1,881	-2,409	-2,954	-3,530
Gross Profit	**365**	**448**	**542**	**655**	**772**
Operational expenses	-305	-372	-443	-528	-612
EBIT	**60**	**77**	**98**	**127**	**161**
EBITDA	**80**	**100**	**121**	**153**	**191**
Other income, net	26	22	6	6	6
Financial income, net	-25	-34	-25	-34	-48
Profit before tax	60	65	79	100	119
Tax	-9	-14	-15	-20	-24
Reported net earnings	**51**	**50**	**64**	**80**	**95**
Reported EPS	0.46	0.46	0.58	0.73	0.87
DPS	0.00	0.00	0.00	0.12	0.22

Balance Sheet (TRL mn)	2011	2012	2013E	2014E	2015E
Cash & Equivalents	187	358	393	497	606
Receivables	29	44	46	56	67
Inventories	261	467	462	562	671
Fixed Assets	79	94	131	157	182
Goodwill & Intangibles	6	9	11	12	13
Other Assets	43	37	55	58	61
Total Assets	**604**	**1,010**	**1,097**	**1,342**	**1,600**
Total Debt	0	0	0	0	0
Payables	429	758	759	931	1,112
Other Liabilities	30	56	78	84	89
Shareholders' Equity	**146**	**196**	**260**	**327**	**399**
Net Debt	**-187**	**-358**	**-393**	**-497**	**-606**

Cash Flow Summary (TRL mn)	2011	2012	2013E	2014E	2015E
Net earnings	51	50	64	80	95
Depreciation	20	23	23	26	30
Δ in WCR	88	107	4	62	61
CAPEX	-30	-42	-65	-56	-61
Dividend paid	0	0	0	-13	-24
Δ in borrowing	0	0	0	0	0
Other cash in/out	-10	29	8	7	7
Cash generated during the year	119	169	34	105	108
Cash at the end of the year	**187**	**355**	**390**	**494**	**603**

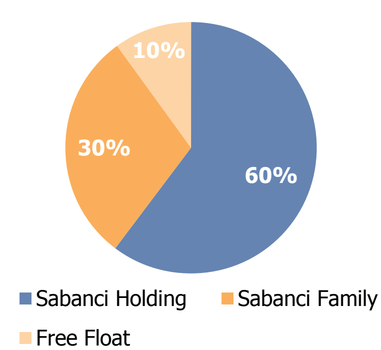
Growth	2011	2012	2013E	2014E	2015E
Sales	29%	40%	27%	22%	19%
EBITDA	145%	25%	22%	26%	25%
Net earnings	n.m.	-1%	27%	24%	19%

Key financial ratios	2011	2012	2013E	2014E	2015E
ROE	42.3%	29.5%	28.1%	27.2%	26.2%
EBITDA Margin	4.8%	4.3%	4.1%	4.2%	4.4%
Free cash flow margin	7.7%	6.4%	1.4%	3.7%	3.7%
Net Margin	3.1%	2.2%	2.2%	2.2%	2.2%
Net debt/Equity	-1.3	-1.8	-1.5	-1.5	-1.5
Net debt/EBITDA	-2.3	-3.6	-3.2	-3.3	-3.2
Equity/Total Assets	24.1%	19.4%	23.7%	24.4%	24.9%
Current Ratio	1.1	1.1	1.1	1.1	1.1
Pay-out Ratio	0%	0%	0%	20%	30%

Descriptive Summary

Owned by Sabanci Holding, Teknosa is Turkey's largest electronics retailer, with respective market shares of 38% and 14% in technical superstores and electronics retail as of 1H13. Established in 2000, Teknosa has expanded at a brisk pace within Turkey: it currently commands the largest store network in the country with 291 stores across 77 provinces, occupying 154K sqm of total selling space as of 1H13. Number of visitors has exceeded 100mn, with 8mn being customers, suggesting an 8% conversion rate as of 2012. The Company most recently introduced its online retailing website, Kliksa.com, which offers a variety of products not limited to electronics. Sabanci Holding and Sabanci family own 60% and 30% respective stakes in the entity, while the free float is 10%.

Ownership Structure



VALUATION

We base our valuation solely on DCF analysis. In the first four years of our 10-year DCF model, our model envisages store expansion mainly through Exxtra stores, projecting 21% CAGR in net sales until 2016 and 40% market share by then. Post-2016, we expect the electronics market to reach maturity stage and project net sales growth at a slower pace of 9% within 2016-2022. We set our long-term EBITDA margin estimate at 5.2%. Note that our estimates would be subject to change, should Teknosa decide to acquire another electronics retailer in the market.

In our FCF assumptions, we subtracted credit card expenses associated with the early collection of receivables from the EBITDA. For terminal growth rate and long-term WACC rate, our assumptions are 5% and 14.8%, respectively.

In peer multiples comparison, we included the value derived from 2014E EV/EBITDA and P/E multiples. The Russian market bears the most similarities with Turkey, yet unfortunately lacks listed players. Therefore, we compared Teknosa with peers located in North America, Europe, Asia and the Middle East. Darty, Dixons and Best Buy are key comparables, with operations similar to Teknosa. However, estimated EBITDA growth for Teknosa is much higher than these peers, which also supports our view that a higher multiple is possible. All in all, our target price of TRL14.0/share implies 19% upside.

Exhibit 18: Teknosa Target Valuation

TRLmn **Valuation Method**	**Weighted Price**
Target Mcap (TRLmn)	**1,515**
Number of Shares (mn)	110
Target Price (TRL)	**14.0**
Current Price	11.7
Upside Potential	**19%**

Source: Burgan Research

We forecast 27% revenue growth for YE13, supported by selling space expansion, as well as like-for-like growth. On a store category basis, we expect the highest revenue generation to come from standard stores, representing 44% of the aggregate topline, followed by Extra (25%) and Exxtra (25%) stores in 2013. In view of the management policy envisioning growth in online retail, we expect the share of Standard stores in total revenues to decline to 35%; that of other store formats to remain nearly unchanged; yet that of online revenues to increase from 3% to 12% by 2016.

Exhibit 19: Summary of Revenue Model

TRLmn	2013E	2014E	2015E	2016E	2017E
Standard (<750sqm)					
Sales Area (Ksqm)	52,736	55,136	57,536	59,456	60,896
No of stores	220	230	240	248	254
Sqm/store	240	240	240	240	240
Standard Revenue	1,297	1,456	1,612	1,766	1,908
YoY	N/A	12%	11%	10%	8%
Extra (750-1.200sqm)					
Sales Area (Ksqm)	47,225	52,895	58,565	64,235	68,015
No of stores	50	56	62	68	72
Sqm/store	945	945	945	945	945
Extra Revenue	741	892	1,053	1,224	1,384
YoY	N/A	20%	18%	16%	13%
Exxtra (>1.200sqm)					
Sales Area (Ksqm)	63,672	72,472	79,072	83,472	87,872
No of stores	31	35	38	40	42
Sqm/store	2,054	2,200	2,200	2,200	2,200
Exxtra Revenue	728	904	1,067	1,207	1,336
YoY	N/A	24%	18%	13%	11%
Total					
Sales Area (Ksqm)	163,633	180,503	195,173	207,163	216,783
No of stores	301	321	340	356	368
Sqm/store	16,600	18,020	19,121	20,260	21,348
Breakdown of Sales Area					
Standard (<750sqm)	32%	31%	29%	29%	28%
Extra (750-1.200sqm)	29%	29%	30%	31%	31%
Exxtra (>1.200sqm)	39%	40%	41%	40%	41%
Revenue/Sqm	**16,600**	**18,020**	**19,121**	**20,260**	**21,348**
Aggregate Revenues	**2,951**	**3,609**	**4,303**	**4,976**	**5,625**
YoY	27%	22%	19%	16%	13%
Retail	2,716	3,253	3,732	4,197	4,628
Online	103	205	410	600	800
Dealer	132	152	161	178	197
Breakdown of Revenues					
Standard (<750sqm)	44%	40%	37%	35%	34%
Extra (750-1.200sqm)	25%	25%	24%	25%	25%
Exxtra (>1.200sqm)	25%	25%	25%	24%	24%
Online	3%	6%	10%	12%	14%

Source: Burgan Research

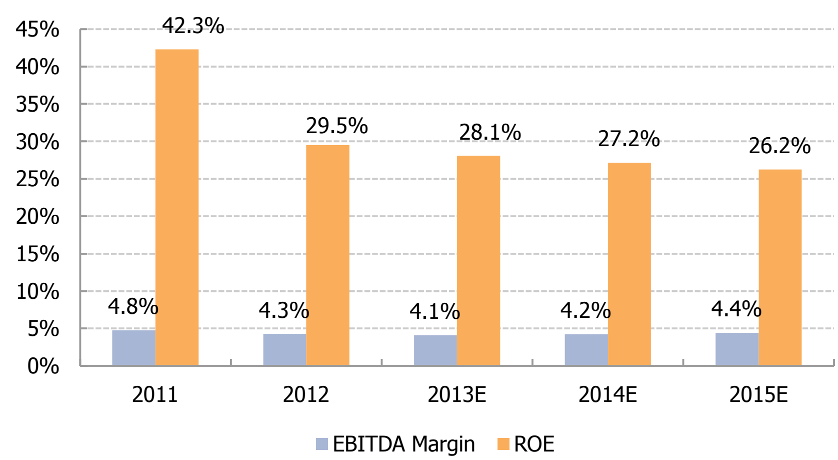
Within 2013-2016, we project 10% and 21% CAGR in selling space and revenues, respectively, with store count and selling space reaching 356 and 207K sqm. After 2016, we forecast single-digit growth in selling space, reflecting our belief that the market will have reached maturity stage by then.

Note that our growth estimates would be subject to change in the event that Teknosa management decided to acquire a competitor. We project 7% CAGR in revenue/sqm until 2016, in line with our inflation forecast.

Teknosa's revenue composition has changed as of 1H13, in favour of telecom segment, which now commands a higher share of total revenues at 28% (20% as of 2012), whereas the share of consumer electronics segment has contracted to 37% (40% in 2012), attributable to higher smartphone and tablet sales. Although 1H figures are not indicative for the full year, higher growth in lower margin telecom sales should prompt softer gross margins.

Teknosa's profitability has been affected by the changes in its revenue composition; breakdown of store formats; and introduction of "Orange Days" as of 1Q12. Given a raft of promotional activities by all players in the market, Teknosa had to offer more Orange Days within a month in YE13, which resulted in a higher turnover, yet lower margins. The change in the breakdown of store formats, featuring a higher share of Ex(x)tra stores, has also paved the way for margin squeeze. Accordingly, the Company recorded a weaker gross margin of 17.6%, down 3pp yoy, as of 1H13. In addition to the above mentioned reasons, profitability was also dented by seasonal weakness in 1Q13. By the same token, gross margin looks set to improve to around 19% in 2H13. Note that revenue composition will also be a determinant of gross margin improvement. Consequently, our full-year gross margin forecast is 18.4%.

Exhibit 20: EBITDA Margin and ROE Projection



Source: Teknosa, Burgan Research

As for the years ahead, we project a gradual erosion in gross margin, given a higher share of Mega stores in total revenues. Any consolidation in the market should have a beneficial impact on gross margins in the long term. We expect the Company to offset margin erosion through operating leverage, potentially setting the stage for a decline in opex/sales ratio from 16% as of 2012 to 13.8% by 2016. All in all, we project 4% EBITDA margin for YE13 and a recovery to the 4.2-4.9% range until 2016, along with lower opex/sales. As for the 2016-2022 period, we project a 5.0-5.2% EBITDA margin.

In tandem with margin contraction since 2011, the Company's ROE has slipped from 42% in 2011 to 28% as of 1H13. Our ROE forecast for FY13 is 28%. Note that our ROE projection is substantially higher than the 14.8% discount rate we apply to our valuation.

Teknosa has a strong balance sheet with a TRL171mn net cash position and no particular debt as of 1H13, while the Company operates on a negative cash cycle, given early collection of credit card receivables. Thus, the Company could easily finance any acquisition (of competitors) or new store openings. Yet, we think dividend payments might be ruled out in the event of an acquisition. Our model currently incorporates the assumption of a 20% dividend pay-out for 2014. The Company has no short FX position, hence could be perceived as a defensive stock in the prevailing depreciating TRL environment.

Teknosa books financial expenses associated with early collection of credit card receivables, whose ratio to sales was 2.2% as of 2012. This ratio has eased to 1.4% as of 1H13, along with the downtrend in interest rates and a lower amount of collections. However, we expect the ratio to net sales to increase to 2.2% in 2014.

Exhibit 21: Teknosa Discounted Cash Flow Analysis

TRLmn	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Revenues	**2,951**	**3,609**	**4,303**	**4,976**	**5,625**	**6,280**	**6,796**	**7,255**	**7,726**	**8,229**
Retail	2,716	3,253	3,732	4,197	4,628	5,062	5,456	5,781	6,103	6,444
Dealer	132	152	161	178	197	217	240	264	291	321
E-Commerce	103	205	410	600	800	1,000	1,100	1,210	1,331	1,464
EBITDA	**121**	**153**	**191**	**244**	**287**	**324**	**353**	**381**	**405**	**427**
EBITDA Margin	4.1%	4.2%	4.4%	4.9%	5.1%	5.2%	5.2%	5.3%	5.2%	5.2%
Taxes on EBIT	-20	-25	-32	-42	-50	-56	-61	-65	-69	-74
Δ in Working Capital	4	62	61	58	56	57	45	41	41	43
Credit Card Commissions	-51	-72	-95	-109	-124	-138	-150	-160	-170	-181
Capital Expenditures	-65	-56	-61	-51	-53	-57	-60	-63	-66	-72
Free Cash Flows	**-10**	**61**	**64**	**100**	**117**	**129**	**127**	**134**	**140**	**143**
discount factor	1.00	1.07	1.23	1.41	1.62	1.86	2.14	2.45	2.81	3.23
Discounted FCF		57	52	71	72	70	60	55	50	44
PV of Free Cash Flow	530									
PV of Terminal Value @ 5%	476									
Estimated EV	1,006									
+ Net Cash (2014)	-497									
Real Estate	11									
Fair Value	**1,515**									

Source: Burgan Research

Exhibit 22: Teknosa Target Valuation

	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Risk Free Rate	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
Turkish Equity Risk Premium	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Unlevered Beta	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Cost of Equity	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%
Weight of Debt	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Weight of Equity	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Tax	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Cost of Debt	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
WACC (TRL)	**14.8%**	**14.8%**	**14.8%**	**14.8%**	**14.8%**	**14.8%**	**14.8%**	**14.8%**	**14.8%**	**14.8%**

Source: Burgan Research

Exhibit 23: International Peer Comparison

Company	Country	Mcap (US$mn)	EV (US$mn)	P/E		EV/EBITDA		ROE		Change in EBITDA	
				13E	14E	13E	14E	13E	14E	13E	14E
North America											
Best Buy	USA	13,158	12,929	15.3	16.0	6.1	5.7	19%	21%	-26%	-3%
Gamestop Corp	USA	5,895	5,696	16.2	15.6	6.4	6.5	14%	16%	-4%	-3%
Arrow Electronics	USA	4,851	6,607	10.3	9.0	7.2	6.3	12%	12%	3%	10%
Ingram Micro	USA	3,500	3,657	10.1	9.2	5.3	4.3	9%	8%	31%	8%
Conn's Inc	USA	1,885	2,216	31.8	20.2	n.m.	n.m.	14%	18%	75%	52%
Hhgregg	USA	579	556	25.3	20.2	6.1	5.6	7%	8%	-17%	12%
Radioshack	USA	386	667	n.m.	n.m.	-60.9	31.7	-24%	-23%	-144%	-287%
Europe											
Esprinet	Italy	284	325	9.4	8.0	n.m.	n.m.	9%	9%	-4%	8%
Nfi Empik Media	Poland	692	903	n.m.	26.4	10.6	9.2	n.m.	n.m.	13%	12%
AB	Poland	140	199	10.3	9.4	9.1	7.9	11%	10%	-3%	11%
Action	Poland	296	311	17.4	16.9	11.6	10.0	20%	19%	13%	15%
Mobilezone	Switzerland	384	400	14.3	14.1	9.2	8.9	38%	53%	11%	4%
Darty	UK	581	765	33.9	17.7	4.3	5.0	-9%	-10%	-17%	-8%
Dixons	UK	2,757	2,690	39.3	19.6	6.6	5.0	7%	35%	5%	23%
Asia & Middle East											
JB Hi-Fi	Australia	1,990	2,043	18.5	17.0	11.1	9.9	55%	48%	-8%	11%
Suning	China	14,086	14,454	93.4	44.2	28.8	23.1	3%	3%	-60%	24%
K's Holdings	Japan	1,667	2,681	10.9	10.1	7.6	7.2	10%	9%	-48%	11%
Gome Electrical	Hong Kong	2,198	3,045	22.8	15.3	10.8	6.3	4%	6%	-405%	55%
United Electronics	Saudi Arabia	960	934	19.2	16.8	14.8	12.6	35%	31%	26%	14%
Lotte Himart	South Korea	1,783	2,489	14.3	12.0	10.1	8.5	9%	10%	19%	13%
Median				**16.8**	**16.0**	**8.4**	**7.6**	**10%**	**10%**	**-3%**	**11%**
Teknosa (TRL)	Turkey	633		20.1	16.1	7.4	5.2	28%	27%	22%	26%
Premium / Discount to Peers				19%	0%	-12%	-32%				

Source: Bloomberg, Burgan Research

Comparison with Consensus

Our revenue forecasts are similar to consensus, whereas our EBITDA margin forecasts are higher, especially for 2015. We estimate a higher operational improvement until 2015, in view of possible consolidation in the market in 2014, which would result in less pressure on gross margins. Though we lowered our gross margin estimate yoy for 2015, our EBITDA margin estimate remains above consensus, on account of operating leverage. The impact of higher net sales and EBITDA margin is larger at the bottom line.

Exhibit 24: Comparison with Consensus

Comparison with Consensus	2013E	2014E	2015E
Consensus			
Net Sales	2,932	3,506	4,164
EBITDA	127	150	174
Net Income	58	69	78
EBITDA Margin	4.3%	4.3%	4.2%
Burgan			
Net Sales	2,951	3,609	4,303
EBITDA	121	153	191
Net Income	64	80	95
EBITDA Margin	4.1%	4.2%	4.4%
Difference			
Net Sales	1%	3%	3%
EBITDA	-5%	2%	10%
Net Income	11%	15%	22%

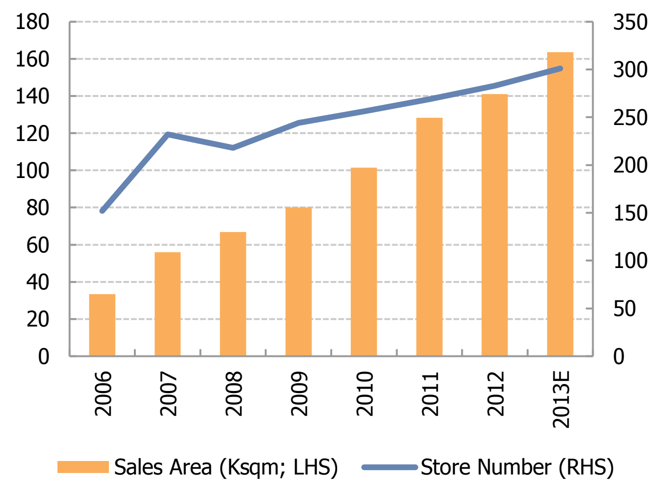
Source: Company data, Burgan Research

COMPANY OVERVIEW

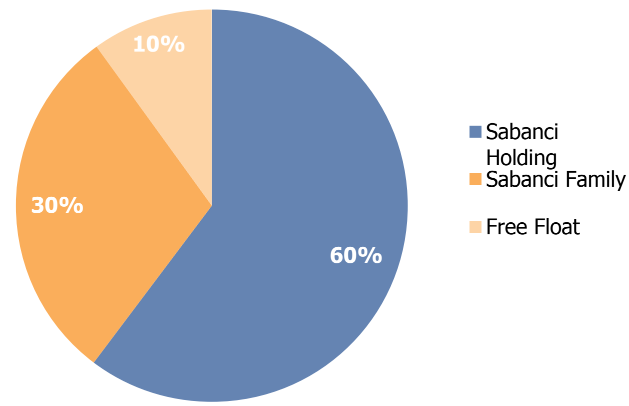
Established in 2000 with only 5 stores, Teknosa gradually evolved into Turkey's leading brick and mortar electronics retail store. In a matter of few years, it raised its store count to 152, while establishing Teknosa.com (online retail) and Teknosa Akademi (Academy for training salespeople). Teknosa, whose number of stores reached 232 by 2007, rented a 30K sqm warehouse dubbed "Gebze Logistics Centre". In 2008, the Company introduced its loyalty card programme "Orange Card", which reached 3mn in number by 2012. On top of organic expansion, Teknosa fortified its market leadership with inorganic expansion, having acquired 2 Uzelli Music Market stores and 5 stores from German Electronic Partner in 2007, as well as Best Buy operations in Turkey in 2011.

In 1H13, Teknosa commanded 38% and 14% of the TSS and whole electronics retail market, respectively. The Company, which has the largest store network of 291 stores across 77 provinces, occupies 154K sqm total selling space as of 1H13. Number of visitors has exceeded 100mn, with 8mn being customers, suggesting an 8% conversion rate for 1H13. The Company most recently introduced its online retailing website, Kliksa.com, which offers a variety of products not limited to electronics.

Exhibit 25: Store Number & Selling space



Ownership Structure



Source: Teknosa

Teknosa's ownership by Sabanci Holding and Sabanci Family also played a crucial role in the establishment of its wide store network, given the financial strength and powerful brand awareness afforded by the Holding Company. In tandem with Sabanci Holding's efforts to unlock hidden value in unlisted assets, a 10% was sold via an IPO in May'12. At TRL7.75/share, the IPO size was TRL98mn. Following the IPO, Sabanci Holding remains to be a 60% shareholder of Teknosa, while Sabanci Family owns 30% of the Company. No privileges are granted to any of the share classes, while 6 BoD members are appointed, of which 2 are independent.

Despite its sizeable market cap, Teknosa did not appear much on the radar screens of investors until Dec'12, due to its mere 10% free float, as of when analyst initiation reports were published and the investor relations department became more active in road shows.

Change in Management Team

The years 2004 to 2007 saw a major management overhaul at Teknosa, which proved central to the Company's evolution into Turkey's leading brick and mortar TSS. Within 2006-2012, store number and selling space recorded 11% and 27% CAGR, respectively, along with the management's strong expansion plans in Turkey and the introduction of Exxtra stores (above 1,200 sqm) in 2009. From 2010 onwards, the Company pursued a "Sustainable, Profitable Growth" strategy after its rapid expansion phase.

As of Jun'13, multiple changes in top management have been announced; i) the former CEO of Teknosa, Mehmet Nane, was appointed as the CEO of CarrefourSA; ii) the former sales director, Mehmet Necil Oyman as the CEO of Teknosa; iii) the former CFO of Teknosa, Nevgul Bilsel Safkan as the CEO of Kliksa.com; and iv) Korhan Bilek, as the CFO of Teknosa, who is also a member of the BoD at CarrefourSA.

We do not foresee any major changes in Teknosa's strategy due to management overhaul, as the new CEO has been with Teknosa since 2007, and the CFO has a background in the retail sector.

Higher Revenue Generation in CE Segment and Exxtra Store Category

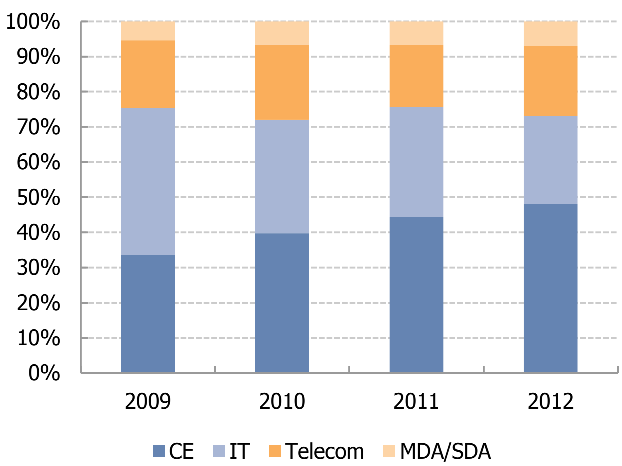
Teknosa generates its revenues primarily (91%) from the retail segment, and the remainder from e-commerce operations (5%), as well as dealership revenues (4%) registered via its subsidiary Iklimsa. This entity mainly sells Mitsibushi, Sharp, and Sigma branded air conditioners (representing c.92% of dealership revenues); Sharp branded refrigerators; and cash registers.

Retail sector revenues include both brick & mortar store revenues and online revenues. Unlike the segment breakdown in the electronics retail sector with the higher shares of MDA/SDA and telecom segments, Teknosa's retail revenues are generated mainly from consumer electronics and IT segments. The contribution of consumer electronics to Teknosa's revenues has risen significantly to 48%, from 34% in 2009, thanks to Teknosa's wide store network in Turkey; lower penetration ratios for flat TVs; as well as milder competition from exclusive dealers. We expect consumer electronics to maintain its leading role in terms of revenue generation for Teknosa, also considering the sector's lucrative growth prospects. *(Please refer to the Sector Overview section for further details.)*

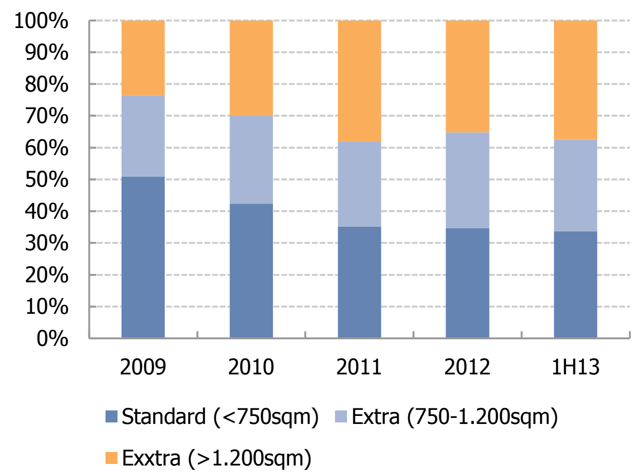
IT segment, again one of highest revenue generating segments for Teknosa, slipped from a 42% share in revenues as of 2009 to 25% in 2012, in favour of consumer electronics and telecom segments. Given the rise in popularity of tablets and smartphones, telecom segment has begun to generate more revenues than IT segment, thanks to higher big ticket items. However, it is also worth noting that the Company faces fierce competition from 15,000 telecom dealers. Therefore, also in view of the high mobile phone penetration ratio of 93% in 2012, we do not project a fast increase in the share of telecom segment in total revenues. We expect MDA/SDA segment to continue to represent a small portion of total revenues.

Teknosa's sales breakdown in store formats has changed substantially since 2009, given the rising share of Exxtra format stores, which are above 1,200 sqm, around 2,050 on average. Higher revenue generation in this format, as well as Teknosa's presence in shopping malls offering larger space to brick & mortar stores have been the primary reasons for its expansion in Exxtra store format. As of 1H13, Exxtra stores represented 34% of the selling space, followed by Standard stores with 37% (below 750 sqm; average 240 sqm) and Extra stores with 29% (between 750-1,200 sqm; average 944 sqm).

Exhibit 26: Segment Breakdown



Selling Space Breakdown in Store Formats



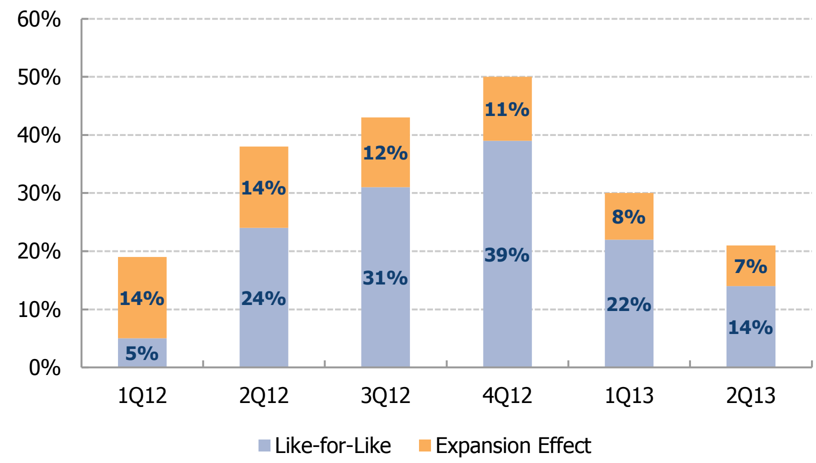
Source: Teknosa

Of Teknosa's total store network, we expect Exxtra stores to constitute 40%; Extra stores 31%; and Standard stores 29% by 2016, consistent with the management's efforts to grow mainly in Exxtra store category. However, the breakdown is subject to change, with Teknosa's potential acquisition of a smaller player in the market *(Please refer to the section entitled "Consolidation Inevitable in the Market" for further details.)* The Company does not franchise its stores, and finances all store openings itself.

Standard stores generate the highest revenue/sqm, almost 50% higher than that of Ex(x)tra stores, thus register wider margins. A smaller average selling space of 240 sqm, coupled with convenient store location, where number of visitors is higher/sqm, should be the reasons underlying such a high revenue/sqm. Larger space stores, while incurring higher fixed costs, conversely contribute more to net sales.

Like-for-like growth was substantial in Teknosa's revenues in 2012 and 1H13, supported by higher revenue generation on a unit basis, along with the addition of big ticket items such as smartphones and tablets. Also worth mentioning is the Turuncu Discount Days (Orange Days) concept introduced by the Company in 1Q12. Orange Days, implemented 3-4 times a month, serves to expand volumes and turnover, yet at a lower margin. Note that since 1Q13, Orange Days have been under way almost every weekend. Therefore, revenue generation per store open for more than a year has improved, translating into higher like-for-like growth.

Exhibit 27: YoY Growth in Retail Segment Revenues



Source: Teknosa

Online retailing is one of the key areas where Teknosa envisions growth, in view of the buoyant growth promised by the sector (discussed in more detail in section "Online Retail Promises Strong Growth Prospects"), along with growing penetration in online retail, and increased online credit card usage.

The Company launched in 2003 e-commerce via its company website, Teknosa.com, which it considers to be its 4th store format. Teknosa's annual online visitors, which numbered 30mn as of 2012, have by far trailed the 100mn visiting its stores annually, attesting to the growth potential of the former. The website is ranked as the 3rd largest e-commerce website by the top European Internet retailers survey as of 2012.

To further bolster its leading presence in online electronics retail, Teknosa established a brand new e-commerce site entitled Kliksa.com in Mar'12, which also offers various consumer products in book, stationery, mother/baby and home categories. While consumer electronics account for the lion's share in revenues, the Company aims to develop sales in other product categories as well. Visitors of Kliksa.com have recently reached 1.5mn/month in number. Kliksa.com sells its electronics products at lower prices than brick & mortar stores (around 10% lower).

Online revenues generated by Teknosa.com and Kliksa.com combined have soared from TRL13mn in 2011 to TRL51mn in 2012, constituting 2.2% of total sales. As of 1H13, the share of e-commerce in total revenues has reached 5% of total sales. The management's medium term goal is to expand the share of e-commerce revenues in total revenues to 10%, which we consider well within reach by YE15.

Greater Efficiency Targeted in Supply Chain Network

Teknosa procures its products from above 200 different suppliers, which are the domestic distributors of international electronics brands, and delivers the products directly to the stores or to the warehouse in Gebze. The Company operates a 60K sqm (30K sqm close space) warehouse in Gebze (near Istanbul) and 4 cross docking points, located in Ankara, Adana, Izmir and Antalya. The Company also has 20K sqm storage space within its stores. For logistics operations from warehouse to stores and stores to customers, Teknosa outsources from 4 logistics companies, one being a cargo carrier. The Company has leased 10K sqm further space as of Apr'13 to support its store network expansion. The Company uses Enterprise Resource Planning Software for execution of deliveries.

Exhibit 28: Warehouses

Location	**Closed Area**	**# of Provinces Served**
Gebze Logistics Center	30,000	All Provinces
Gebze Iklimsa Logistics Center	9,841	All Provinces
Cross Docking Points		
Ankara	1,000	35
Adana	880	19
Izmir	770	6
Antalya	400	3
Sub-total	**42,891**	
In-Store Warehouse	20,374	
Total	**63,265**	

Source: Teknosa

The Company does not bear any FX risk associated with its product purchases from domestic distributors, as its purchases are in TRL terms. However, inventory management is a key issue for operational efficiency. Teknosa uses weighted average cost accounting method for its inventory calculation, and receives stock protection and rebates from suppliers. For older versions of the products, in order to increase the turnover, the Company applies a sales discount and receives stock protection in return from suppliers.

Consignment purchases represent only c.30% of Teknosa's total purchases from suppliers, which results in a higher inventory burden for the Company. Teknosa also charges "insert and stand income" booked under other operating income to suppliers, which may be considered as rental income to use store space for stands or other marketing material.

Although average days receivables usually total around 6-7 months, the Company collects credit card instalments earlier (the day after the sale) at a discount. Note that purchases made through credit cards represent c.80% of total sales. Teknosa books early collection expense and commission expense under financial expense. All in all, Teknosa operates with a negative cash cycle, due to earlier collection of its receivables. Working capital/sales ratio has reached negative 11% as of 2012.

Exhibit 29: Teknosa Working Capital

Working Capital	2010	2011	2012	2013E	2014E
Days Receivables	5	6	6	6	6
Days Inventory	65	62	71	70	70
Days Payables	83	96	115	115	115
Cash Cycle	-12	-28	-39	-39	-39
WC/Sales	-4%	-8%	-11%	-9%	-9%

Source: Teknosa

With larger purchases from suppliers, Teknosa should wield higher bargaining power with suppliers and receive deeper discounts, in our view. In a bid to receive better prices thanks to its high scale, Teknosa signed an agreement with the largest European electronics supplier, Euronics, as of Sep'12. Thanks to this agreement, Teknosa aims to receive more favourable prices and rebates in the long term. We, however, do not attach any value to the potential benefits of this agreement at this stage.

Cost Items and Margins

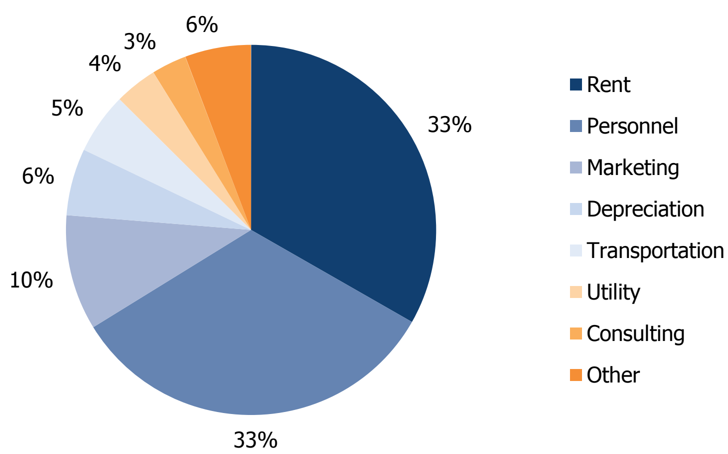
Rental and personnel expenses are the largest cost items, each accounting for 33% of operating expenses. Teknosa has 1-10 year operating lease agreements with fixed rent or a portion of revenues (about equally distributed). 65% of the rental expenses are FX-denominated and paid as a percentage of the revenues. Rental expense/sales ratio contracted from 5.5% in 2011 to 4.8% in 2012. We estimate the ratio at 4.7% for YE13, and slightly higher at 5% for YE14, in view of possible competition among retailers for rental space. Note the Company keeps part of its liquid assets in FX terms, which creates a natural hedge against FX-denominated expenses.

Number of personnel reached 3,929 by 1H13, implying a 15% rise, almost in line with the 12% growth in net selling space. 90% of the employees work at the stores; 8% at the headquarters; and 2% at the dealers. The Company established Teknosa Akademi to train its store personnel in electronics goods. We expect number of personnel to grow in tandem with the expansion in selling space.

Marketing expenses represent 10% of operating expenses, and their ratio to sales remains at around 1.5%. We expect this level to be maintained in the years ahead. Transportation expenses to sales ratio stands at 0.8%.

The Company managed to improve its EBITDA margin through economies of scale and efficiency gains in its operations. A higher number of visitors -- thus a larger number of customers -- have also paved the way for higher revenue/sqm. Therefore, despite the rise in the share of lower margin Ex(x)tra stores in total revenues within 2009-2012, Teknosa's EBITDA margin has expanded from 2.5% in 2010 to 4.3% in 2012.

Exhibit 30: Breakdown of Operating Expenses



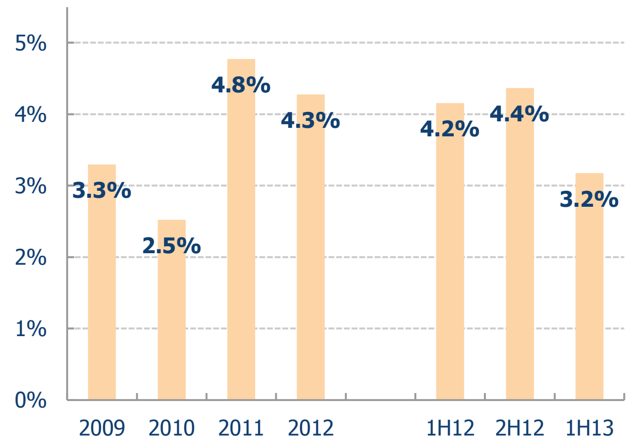
Source: Teknosa

Teknosa's gross margin remained almost unchanged within 2009-2011, despite the higher share of more value-added consumer electronics category in total revenues, possibly attributable to stiffer competition from other TSS players. Accordingly, as of 2012, gross margin narrowed 2.6pp yoy to 19.2%. It is also worth mentioning that increased promotional activities via Orange Days have resulted in a higher turnover, yet a lower gross margin. Additionally, higher discounts by other players in response have generally reduced gross margins across the market.

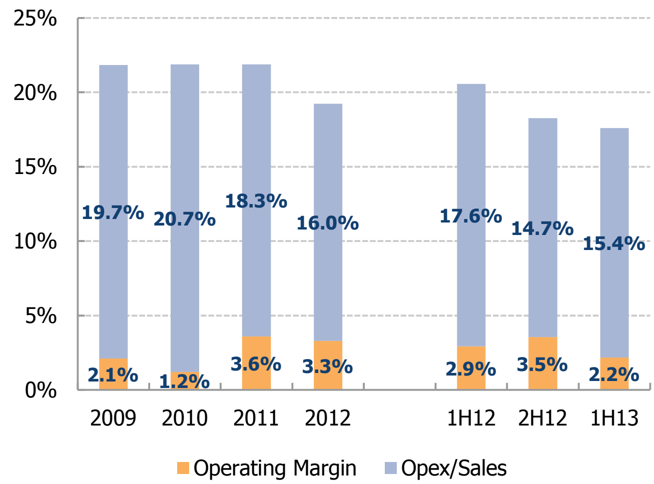
The Company, on the other hand, has offset the gross margin erosion via greater efficiency in operating expenses, which it has managed to reduce from 20.7% in 2010 to 16% in 2012. Rental and personnel expenses were key items to serve this purpose, as their ratio to sales declined 1pp in total yoy in 2012. Moreover, opex/sales eased from 17.6% in 1H12 to 15.4% as of 1H13.

A yoy lower EBITDA margin level of 3.2% as of 1H13 reflects the impact of Orange Days in 1Q, which is seasonally the weakest quarter and most impacted by competition. Also worth underlining is the fact that revenue composition has changed in favour of the lower margin telecom segment, which represents 28% of the topline as of 1H13, up from 18% as of 1H12. Following a weaker-than-forecast 3.5% EBITDA margin as of 2Q13, the Company tweaked its full-year EBITDA margin guidance from above 5% to the 4.5-5% range.

Exhibit 31: EBITDA Margin



Operating Margin and Opex/Sales Ratio



Source: Teknosa

Higher Capital Needs for 2013

Capex/sqm is around US$500 for the stores, while maintenance capex is set to change along with the introduction of the new format in part of the stores (20 stores). With the introduction of the new concept, the Company changed the display of products, employing more user friendly versions within the store. Thus, on the back of changes to store formats, the Company revised its capex guidance for YE13 from TRL40-45mn to TRL55-60mn.

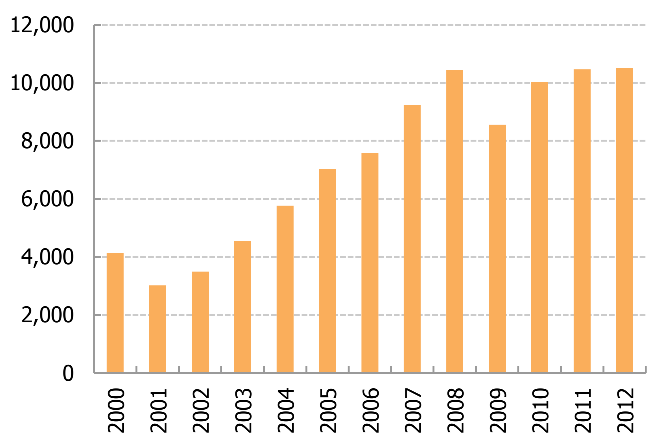
Based on our recent market checks, the new format has set the stage for a higher number of visitors in some stores, which might translate into higher revenue/sqm. Consequently, the move might be instrumental in helping the Company differentiate itself from other big box stores and attract more visitors.

Ramp up period is generally 6 months for standard stores and 1 year for Exxtra or Extra stores. The management evaluates store performance on a monthly basis, and once a store fails to reach breakeven during a pre-set ramp up period, the Company relocates or closes it. In 1H13, 17 stores were relocated, mainly due to availability of larger space or better location. However, the management said this figure was not quite typical, and generally store closures for relocation purposes were much lower in number.

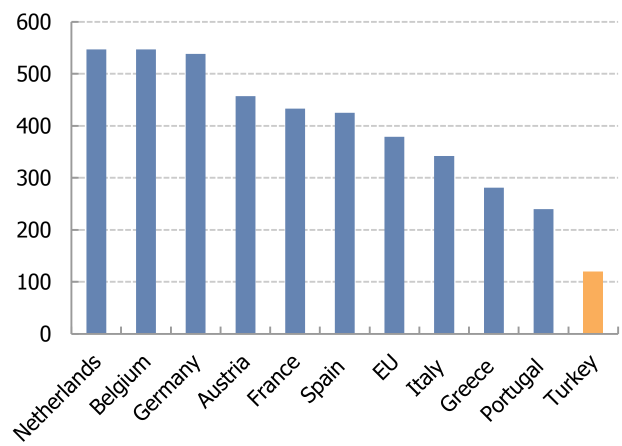
SECTOR OVERVIEW

Electronics retail has evolved since the 2000s, along with changes in the shopping behaviour of the Turkish people, and innovations in mobile and consumer electronics sectors on a global scale. Urbanisation, coupled with an 8% CAGR in per capita income to US$10,504 since the year 2000, has also been pivotal in the evolution of the electronics retail sector. Meanwhile, electronics spending has reached EUR120 per capita as of 2010, still one of the lowest across Europe. Total electronics market in Turkey is estimated at a scale of EUR11bn, making it the 6th largest market in Europe after Germany, France, the UK, Italy and Spain.

Exhibit 32: Per Capita Income (US$)



Per Capita Electronics Spending in 2010 (EUR)



Source: TURKSTAT, Teknosa, GfK, Mintel

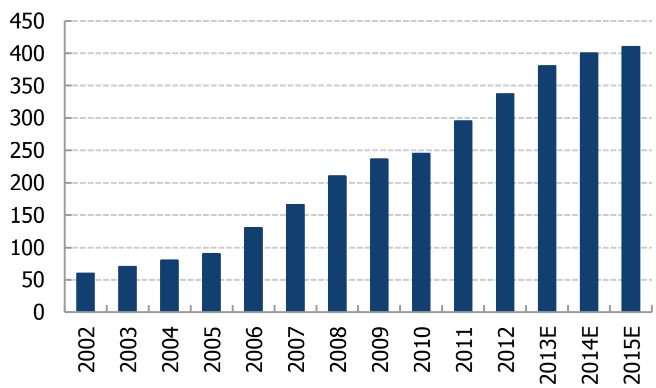
Growth in Selling Space Will Continue

Consumer shopping behaviour has changed dramatically over the past decade in Turkey, in tandem with the transition to organised retail, which represents 40% of the retail sector as of 2011. The share of non-food retail within the retail sector, on the other hand, is 48% as of 2011. The development of the shopping mall concept in Turkey has been the chief reason underlying growth in non-food retail. Accordingly, the years 2000 to 2012 have seen a massive proliferation of shopping malls, from 47 to 337 by YE12. Electronics retail shops, being anchor stores in shopping malls, have become a key beneficiary of this trend.

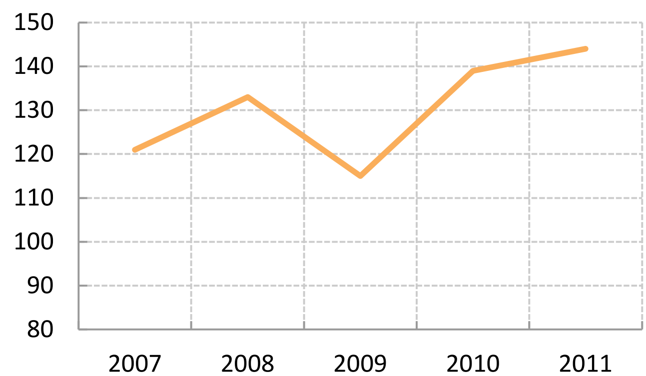
The 73 shopping malls (32 in Istanbul) currently being constructed in Turkey are slated for completion by YE15, which will have increased the total number of shopping malls in the country to 410 by then. Alongside expansion through shopping malls, electronics retailers target main streets for store openings on a smaller scale (around 200-500 sqm selling space) and lower SKUs. We expect the sector to continue to enjoy double-digit growth in selling space over the next couple of years, until the market reaches maturity.

One risk to store expansion prospects would be stiffening competition among electronics/non-food retailers to rent stores, which should result in higher rental expense for companies. Conclusions of the feasibility studies conducted by companies to determine the best location/highest revenue generating stores, and competition among electronics retailers within close proximity will be crucial determinants of growth in the medium term.

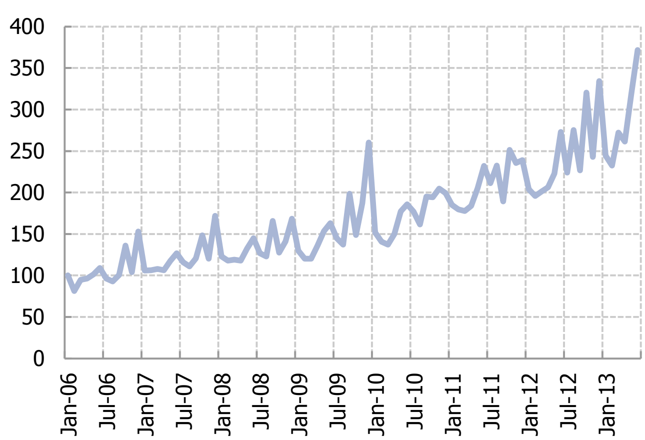
Exhibit 33: Number of Shopping Malls



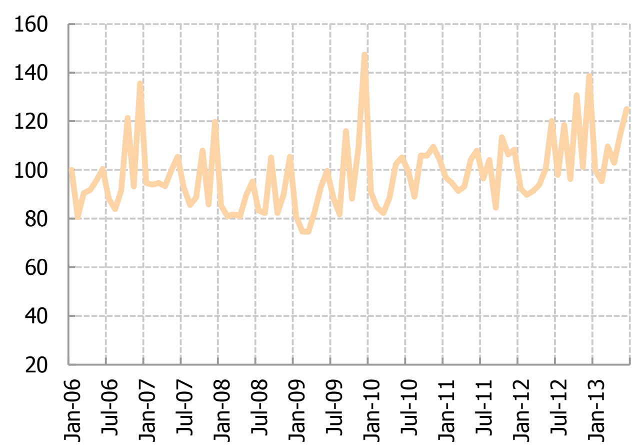
Non-Food Retail Market (US$bn)



Non-Food Retail Real Index



Non-Food Retail Revenue/Sqm Index



Source: Jones Lang LaSalle, Turkish Council of Shopping Centres & Retailers (AMPD), Deloitte

Despite consistent high-single-digit growth in construction of shopping malls, non-food retail market delivered 4.4% CAGR in US$ terms within 2007 to 2011. This reflects the cyclicality of the business, which contracted 14% in 2009, compared to a much milder 5% GDP contraction. Conversely, in 2010, non-food retail sector grew 21%, and thereafter carried on with single-digit growth.

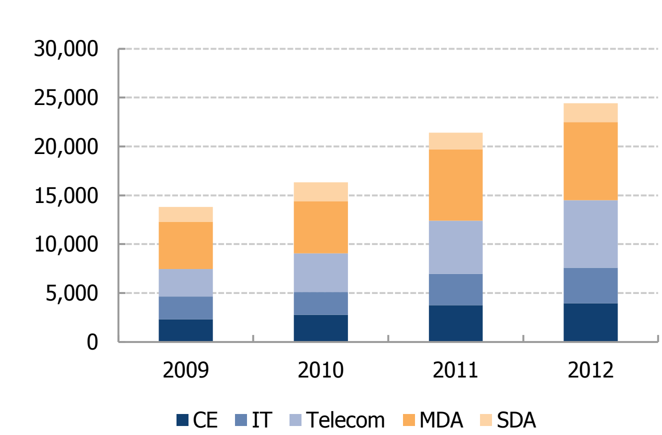
The retail index published by the Turkish Council of Shopping Centres & Retailers, however, indicates a higher growth rate for the non-food retail sector, where growth in the real index was 21% in 2011 and 16% in 2012. As of 6M13, real revenue index recorded 30% yoy growth, while real revenue/sqm registered 10% growth yoy.

Main growth drivers for electronics retail sector are income levels, economic growth, housing turnover, technological innovation and replacement cycle for durables. On the other hand, convergence of different technologies within product categories, such as TVs and mobile phones, are downside risks to growth.

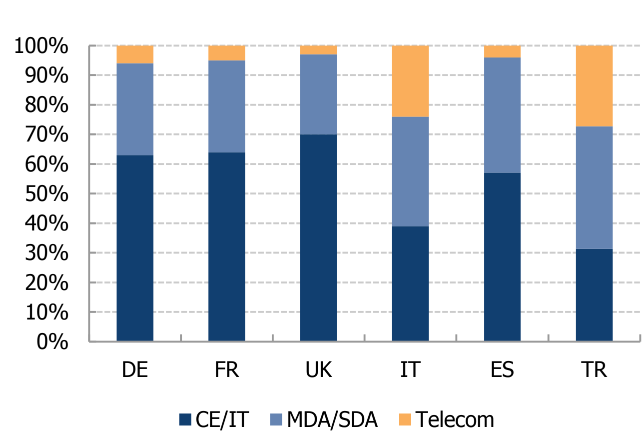
Shift in Favour of Consumer Electronics

Electronics market's composition has changed in favour of consumer electronics, telecom and IT globally, thanks to introduction of new technologies via LED TVs, smartphones and tablets. Innovation has also resulted in slower growth for PC and conventional TV (CRT) markets over the last couple of years. Consequently, the share of consumer electronics and IT (CE/IT) has reached 60-70% of the total electronics retail market in Europe. As for the Turkish electronics market, the share of CE/IT products represents only 31% of the total electronics market, suggesting a higher growth rate than for other product categories, along with increased penetration ratios.

Exhibit 34: Electronics Market Segment Growth



Segment Comparison with Europe



Source: Teknosa, Bimeks, Mintel, GfK, EUROSTAT, UK National Statistics

[1] Abbreviations: CE for Consumer Electronics; IT for Information Technology; MDA for Major Domestic Appliances; SDA for Small Domestic Appliances

In Turkish electronics retail market, telecom segment recorded the highest growth among segments, with 35% CAGR since 2009, followed by consumer electronics with 19% CAGR. Demand for white goods sector has generated 18% CAGR since 2009, supported by higher penetration, replacement cycle and improvement in per capita income. IT segment has posted 16% CAGR within the same period, possibly attributable to the switch from PCs to tablets, which are included in the telecom segment.

Consumer electronics market is dominated by TVs with a 90% share, while the rest comprises DVDs, home cinemas, cameras, and mp3 players. **Of annual TV sales, CRT represented solely 10%, while LCD TVs accounted for 79%; Plasma TVs 6%; and LED TVs 5% as of 2010.** By 2012, we think the share of LCD TVs has grown further, replacing CRTs, while 3D TVs have constituted a smaller portion of the total TV market.

TV penetration (including CRTs) in Turkish households, estimated at 20mn, has reached 95% as of 2012. However, penetration for LED TVs and plasma TVs has remained only at 28% and 13%, respectively, versus European averages of 75-80% for LED TVs and 21% for 3D TVs as of 2012. According to Display Search, given low penetration ratios in emerging markets including Turkey, consumer electronics market will deliver 17% growth over the next 3 years. Once the market exceeds 60% penetration level, the pace of growth in TV sales should diminish.

Consequently, we believe a higher penetration level for LED and 3D TVs; increases in income levels; along with a shorter replacement cycle are key drivers of a recovery in the TV market. Global replacement cycle has historically been around 10-15 years. However, along with the emergence of new technology TVs offering better picture quality, along with sales discounts provided during world championships, the replacement cycle has declined to 7 years worldwide. For Turkey, we think the replacement cycle for new technology TVs might be around 10 years. Also worth mentioning is that in developed regions such as North America and some countries in Europe, there are multiple TVs in a household: TVs are located in the kitchen, bedroom and/or living room, which promises a higher penetration ratio for Turkey as well.

Due to global competition in TV category among Samsung, LG, Panasonic and Sharp, prices of TVs decline within a year post introduction, by which time the launch of a new model ensues. Accordingly, average prices of 3D and LED models introduced earlier fell 25% yoy as of 2012. Thus, scaling down of prices of TVs introduced earlier tends to have a positive effect on consumers' purchase decisions, even if they do not immediately need a TV.

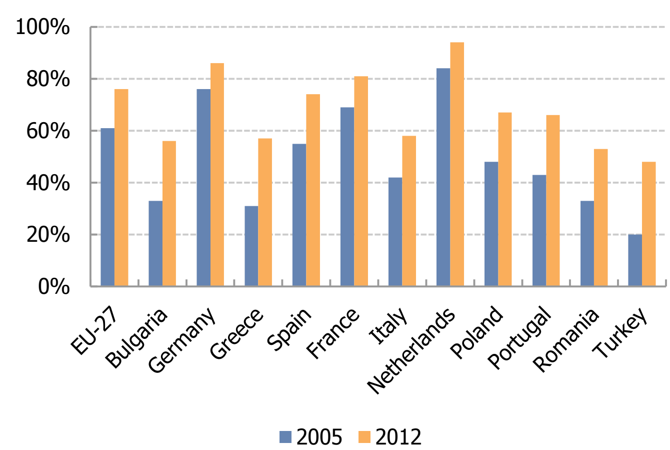
Annual TV sales in Turkey have reached 3mn units, implying 39% CAGR since 2010, thanks to a rise in penetration levels of panel TVs (including LED, 3D TVs) from c.17% to 41% as of 2012. Within TV sales, the share of 3D and Smart TVs has reached 40% of total TV sales.

Technical Superstore (TSS) channel is the primary beneficiary of the growth in panel TV sales, thanks to its larger selling space than dealers -- making it possible to host a variety of brands -- and facing milder competition from dealers. Of the TV brands, Samsung, LG and Panasonic are the most popular ones sold at TSSs, while Vestel (the Turkish electronics company) sells TVs through its dealers.

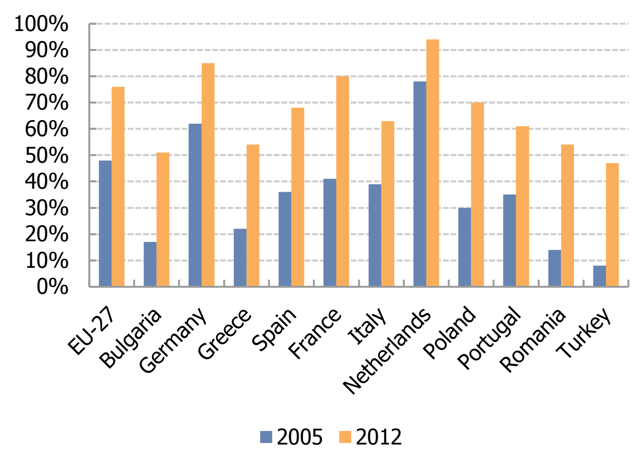
Penetration of IT and Telecom Markets Trailing Europe

Over the past couple of years, household Internet penetration in Turkey rose from 8% to 47%, though the figure still lags behind European rates in general. Penetration of individual computer usage, which we consider to be a better gauge for Teknosa and Bimeks, expanded from 20% to 48%. The figures reveal further scope for growth in Turkish IT market, given above 76% penetration levels in Europe, along with 1.4% CAGR for the Turkish population since 2007.

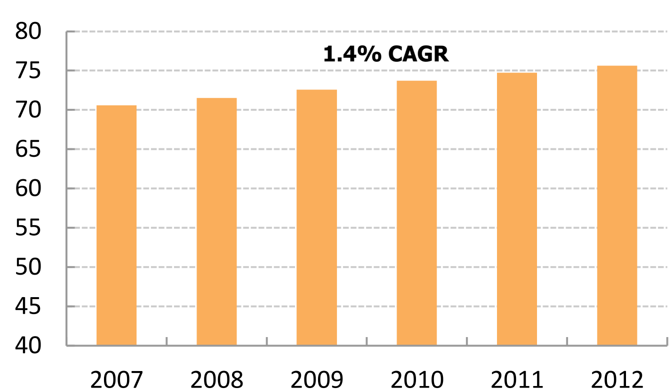
Exhibit 35: Individual Computer Use



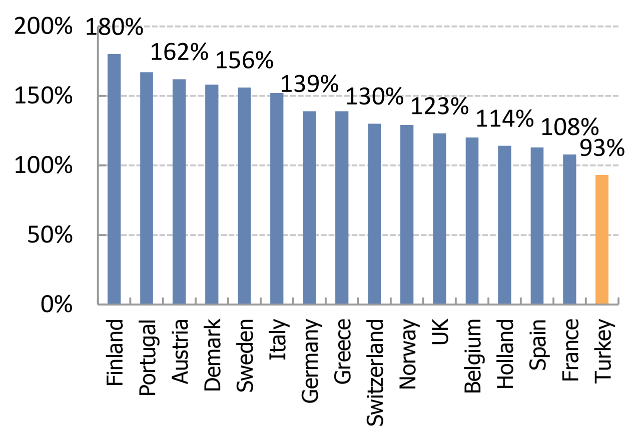
Level of Internet Access -Households



Turkish Population (mn)



Mobile Phone Penetration in 2011[1]



Source: BTK, EUROSTAT, TURKSTAT, [1] Turkey in 2012

As for mobile market, mobile phone penetration has remained within the 85-95% range since 2008, lower than Europe. Dual SIM card usage has mitigated penetration in Turkey; therefore, we do not expect a major change in penetration figures in the near term.

A key highlight of the mobile market has been the launch of smart phones since 2007, which has set the stage for higher revenue/unit. As of 2012, sales of smart phones represent 46% of total mobile phone sales, estimated at 12mn units. While the sale of standard phones has been on a downtrend, Android based model smartphones have been more popular. Nevertheless, smartphone penetration in Turkey remains below 10%, versus c.40% levels in the US, which signifies further growth opportunities in this segment, with the introduction of new android and IOS models. Replacement cycle for mobile phones is estimated at 8-9 months in Turkey.

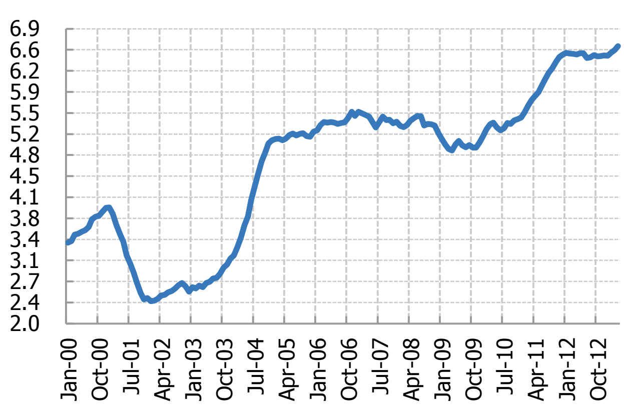
TSS segment has again captured market share from the traditional dealer market over the last couple of years. Consequently, as of 2012, the segment accounts for 28% of the IT market and 23% of the telecom market.

White Goods Sector Dominated by Dealers

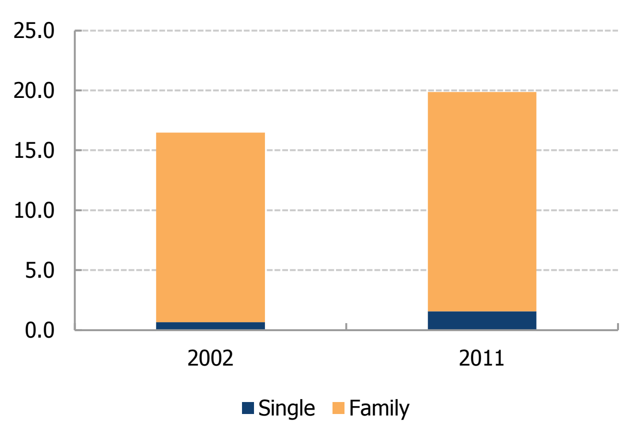
Although major and small domestic appliances (MDA and SDA) dominate the electronics retail market with a combined 40% share, sales through TSSs account for only c.10% of the MDA and SDA market. A strong network of dealers by major producers in Turkey (Arcelik, Bosch-Siemens, Vestel) represents c.85-90% of the market.

Larger size store openings by TSSs have contributed to the revenue growth of this segment. However, it is difficult to grab market share from wide dealer networks, also considering the 7-year average replacement cycle of white goods. Higher market share generation by importers such as Samsung, which aims to raise its market share in Turkey to 10%, might be a catalyst for TSSs in the long term. We think pricing, scale of instalments, quality, and after-sales services are key factors consumers consider during purchases.

Exhibit 36: Turkish White Goods Market in Units (mn)



Number of Households (mn)



Source: TURKBESD, GYODER

The white goods market enjoyed the beginning of the replacement cycle in 2011 with 19% yoy growth, which was the chief reason for its flat performance in 2012. As of 8M13, however, the domestic market posted 6.5% yoy growth, given the low base effect, as well as recovery in the domestic market. Thus, we expect the white goods market to grow by 6% in YE13. White goods, being a cyclical sector, has recorded a growth rate corresponding to roughly 1.5x of the GDP since the 2000s. We expect this trend to continue along with population growth; improving per capita income; as well as change in household structure.

Within 2002-2011, single-person households grew in number from 0.7mn to 1.6mn, implying 10% CAGR. Meanwhile, households with families registered only 2% CAGR. Therefore, we think higher demand for single/studio-type houses will continue, as more people opt to live alone. It is also worth mentioning that new housing projects are delivered including a dishwasher and oven within the unit. Therefore, additional demand is created through new housing constructions.

Technical Superstores Gain Share from Other Channels

Electronics retail market is composed of 5 different main channels: mass merchants such as CarrefourSA, Migros, Metro, Bauhaus and Boyner; consumer electronics stores (CES or dealerships) such as exclusive dealers of Arcelik, Bosch and Vestel; Computer Shops and System houses such as Apple, Casper and Escort; Telecom Specialists such as the mobile phone dealerships of Turkcell, Vodafone and Avea; and technical superstores such as Teknosa, Bimeks, Gold, Vatan, Mediamarkt, Electroworld and Darty.

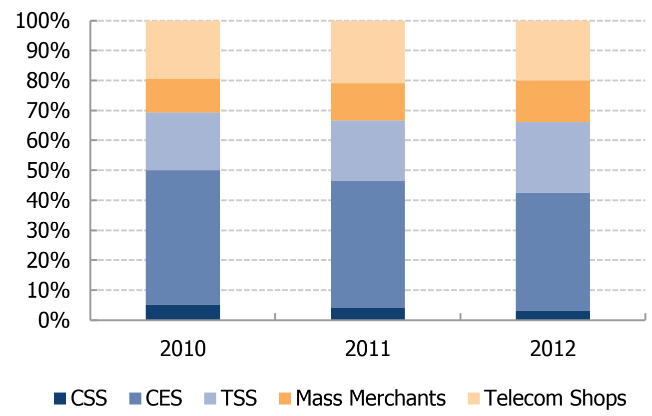
Exhibit 37: Technical Consumer Goods Market

Sales Channels of Technical Consumer Goods Market (48,425 Total Points of Sale)				
Hypermarkets / Supermarkets & Department Stores (Mass Merchants)	**Consumer Electronics Stores (CES)**	**Computer Shops & System Houses (CSS)**	**Telecom Specialists (TCR)**	**Technical Super Stores (TSS)**
Points of Sale: 6,898	**Points of Sale: 17,628**	**Points of Sale: 6,041**	**Points of Sale: 17,261**	**Points of Sale: 582**
Hypermarkets / Supermarkets Carrefour, Migros, Real, Kipa, Tesco	**Exclusive and Non-Exclusive Dealerships** Arcelik, Beko, Bosch, LG, Siemens, Samsung, Vestel	**Exclusive Dealerships** Escort, Casper, Apple	**Mobile Phone Dealerships** Turkcell, Vodafone, Avea	**Teknosa, Vatan, Media Markt, Bimeks, Electroworld, Darty, Gold**
Cash & Carry Metro			**Non Exclusive Dealerships**	
Do It Yourself (DIY) Retailers Bauhaus, Praktiker, Koctas				
Department Stores Boyner, YKM, EVKUR				
Pure Online Players Hepsi Burada				

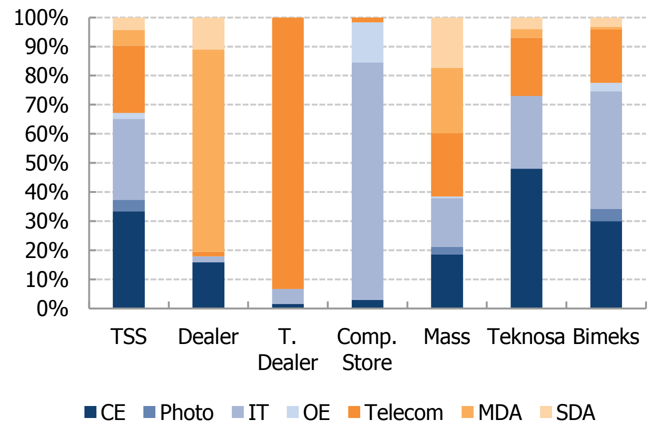
Source: GfK, Teknosa

Among the channels, consumer electronics stores, with 6,898 points of sale, represent 39% of the electronics retail market. Technical superstores comprise the 2nd largest category with 24% market share, with 582 points of sale. Telecom shops, on the other hand, constitute 20% of the market with 18K points of sale, while mass merchants represent 14% of the market.

Exhibit 38: Electronics Retail Market Channel



Market Channels by Products (2012)



Source: GfK Panel Market, Bimeks

In technical superstores, **Teknosa** is the market leader with 38% market share as of Jun'13, supported by its wide store network with 291 stores across 77 provinces and 154K sqm selling space. *(Please refer to Teknosa Company Overview section for further details).* Teknosa is followed by Vatan Computer, Mediamarkt, Electroworld and Bimeks in terms of selling space.

Vatan Computer, established in 1983, gained a strong foothold in the TSS market with 138K sqm selling space and 75 stores as of Jun'13. The Company is specialised mainly in IT, telecom and consumer electronics categories sold via its hyper stores with large selling space, while its Vatan Notebook small sized stores, which total 18 in number, sell solely notebooks. Average selling space/store is around 1,500-2,000 sqm, versus Teknosa's 505 sqm. The Company maintains its aggressive store opening strategy with its store count targeted to reach 100 in the medium term.

Mediamarkt, a subsidiary of Media-Saturn Holding and the largest superstore in Europe, opened its first store in Istanbul in 2007. Total number of stores reached 29, while 2 more are due to open by YE13. Mediamarkt's aggregate store selling space of 2,500-6,000 sqm is around 120K, according to media sources. Given a higher average selling space/store, revenue/sqm is lower with respect to Teknosa and Bimeks. **Saturn,** also a subsidiary of Media-Saturn Holding, opened its 1st store in 2009 in Istanbul. The Company operates with 5 stores in Turkey.

Electroworld, a subsidiary of Dixons, operates with 32 stores and 53K sqm selling space in Turkey, of which 18 are franchise stores. Bimeks announced on September 5 that it agreed to acquire Electroworld for a total consideration of TRL6mn, to be paid in two instalments in 2 years.

Bimeks is one of the two listed technical superstore companies, the other one being Teknosa. Established in 1990, Bimeks opened its first store in Istanbul in 1996; as of Sep'13, it reached 83 stores and 45K sqm. The Company accounts for 8% of the technical superstore market, ranking 5th in terms of selling space. Along with the acquisition of Electroworld, number of stores and sales area will reach 123 and 102K sqm by YE13. *(Please refer to Bimeks Company Overview section for further details).*

Darty, which launched operations in Turkey as of 2006, currently operates with 29 stores spanning 36K sqm, of which 14 are located in Istanbul. The Company aimed to increase its store count to 60 over the next 4 years. However, most recently its management disclosed plans to exit Turkey. Accordingly, it was speculated that Teknosa, Bimeks or Enplus would buy Darty's Turkish operations, though this was neither confirmed nor repudiated by the parties.

Gold Computer, being a smaller sized local player, was established in 1991 in Istanbul. Along with the evolution of the technical superstore concept in Turkey, the Company opened its 1st superstore in 2005. Its number of stores has reached 61 and selling space 18K sqm.

Consolidation Inevitable in the Market

Transition to organised retail through technical superstores has sustained powerful momentum since 2007, along with store openings by existing local players and global players entering the Turkish market. Gold, Bimeks and Vatan, previously importing IT products or operating small sized IT retail stores, as well as Teknosa, have been the foremost beneficiaries of this trend in Turkey.

Owing to robust growth in electronics retail since 2007 and comparatively lower penetration ratios in Turkey, UK- and Germany-based global players have targeted the Turkish market, launching their first stores within 2007-2009. In contrast to the smaller scale local stores, global players have opened big box stores of at least 1,500-2,000 sqm in size. Consequently, by 1H13, number of stores of 8 major players in the market has reached around 600, corresponding to c.600-650K sqm in total, inclusive of estimated selling spaces of Saturn stores.

Based on the figures we compiled from the websites of sector players and media sources, by 2015, total number of technical superstores is expected to surpass 700, corresponding to c.700K sqm. Given aggressive growth plans of all players in the market, we believe competition will intensify in terms of both selling space and pricing, thereby making consolidation in the market inevitable.

Exhibit 39: Competitors in Detail

Competitors	Origin	Start Date	No of Stores Units	Sales Area (Ksqm)	Area/Store (sqm)	No of Stores in 2015	Sales Area (Ksqm)
Teknosa	Turkey	2000	291	154	529	350	210
Vatan	Turkey	1983	75	138	1,833	100	175
Media Markt	Germany	2007	29	120	4,138	29	120
Bimeks	Turkey	1990	83	45	542	138	110
Electro World[1]	UK	2007	32	53	1,656		
Darty[2]	UK	2006	29	36	1,241	60	74
Gold	Turkey	1991	61	18	295	61	18
Saturn	Germany	2009	5				
Total			**605**	**564**		**738**	**707**

Source: Teknosa, Bimeks, Media Source, Burgan Research; [1]Bimeks will acquire Electroworld's operations until YE13; [2]Darty plans to exit Turkey

To gain a clearer perspective of the market's evolution, we compared the Russian electronics retail market with the Turkish market. Accordingly, Russian technical superstore market comprises 4 major players: M-Video (312 stores; 556K sqm selling space); Eldorado (404 stores; 636K sqm selling space); Technosila (100+ stores); and Mediamarkt (45 stores). The market also includes mostly smaller scale regional players. Despite the limited number of players, a combination of wide store networks and large selling space has resulted in severe competition in the market, especially post 2008.

Consolidation in the Russian technical superstore market has picked up momentum over the last couple of years. Consequently, M-Video has agreed to buy 100% of the 2nd largest retailer Eldorado as of Apr'13, and the Federal Antimonopoly Service (FAS) has approved the deal by Jul'13. With this acquisition, M-Video will have increased its stake to 21% in electronics retail. It will have to scale down its market share to below 35% in all regions, according to Russian competition regulations.

Considering Russia's 143mn population and higher per capita income (US$18K) than Turkey, 1,300 sqm selling space should be considered as the maturity level for the sector, also taking into account the consolidation in the market. Therefore, we believe the aggressive store opening plans unveiled by Turkish retailers are unlikely to be completed in their entirety by 2015.

Teknosa & Bimeks: The Quest for Domestic Growth

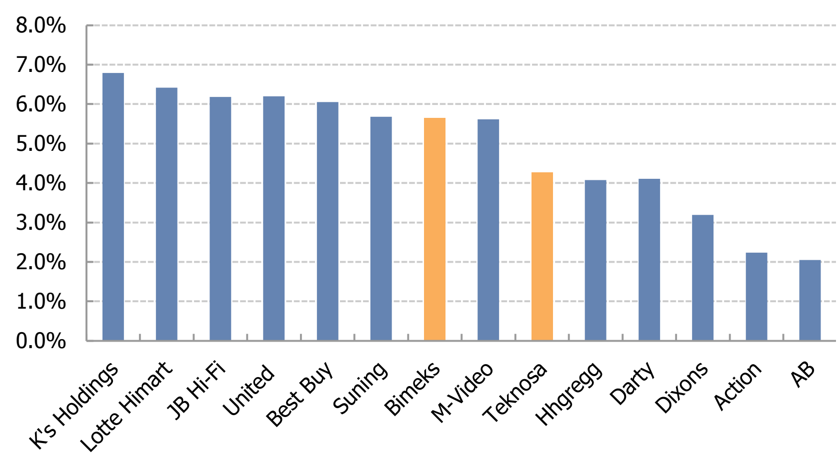
Both Teknosa and Bimeks mandated investment banks in 2012 to explore acquisition opportunities in the Turkish market. Teknosa engaged a global investment bank as of Aug'12, to pursue opportunities within the domestic branches of international players only, while Bimeks's mandate was not limited to international names.

Bimeks announced on September 5 that it had agreed to acquire Electroworld for a total amount of TRL6mn to be paid in two instalments in 2 years. The transaction is expected to be completed until YE13, following the approval of the Competition Board. Via this acquisition, Bimeks will increase its store number and sales area to 123 and 102K sqm by YE13. Consequently, the Company's ranking in technical superstores market will increase to 4th position after Teknosa, Mediamarkt and Vatan Computer.

Darty is another target that plans to exit Turkey in the near term, as expected, and is likely to be acquired by one of the major players in the market. To date, Teknosa, Bimeks and Enplus -- a small retailer -- have been pronounced as potential acquirers. If Darty is acquired by Teknosa or Bimeks, it would add 25-30 new stores and 30K sqm selling space, assuming that stores in overlapping locations are closed down. Potential acquisitions would bolster existing players' market power and sway with suppliers.

Profitability in Turkish Technical Superstores

Exhibit 40: Comparison of 2012 EBITDA Margins with Peers



Source: Bloomberg

Asian listed electronics retailers tend to lead in terms of EBTDA margins on a global scale, with their margins varying between 5.75-6.8%, along with the

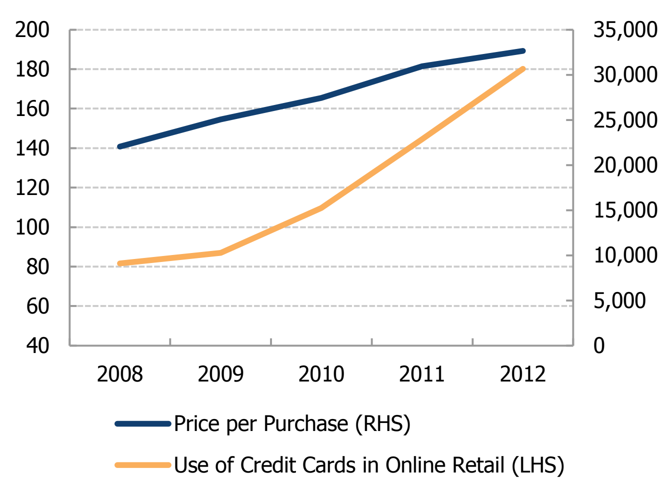
Saudi Arabian United Electronics. Among western electronics retail companies, Best Buy beats UK-based Darty and Dixons with much wider margins. Bimeks outpaced Teknosa in margin growth as of 2012, as its EBITDA margin was close to its peer M-Video's 5.6%. Store based partnership model used by Bimeks, which prompts a lower opex/sales ratio, is the primary reason for its wider EBITDA margin compared to Teknosa.

At the other end of the continuum, Poland-based Action and AB, as IT wholesalers, ranged at the lower end of the EBITDA margin range with 2.1%-2.2% in 2012, possibly attributable to stiff competition from online retailers. Given global peers' profitability levels, we consider 5-6% as sustainable for Turkish listed electronics retailers' EBITDA margins, once market consolidation gets under way.

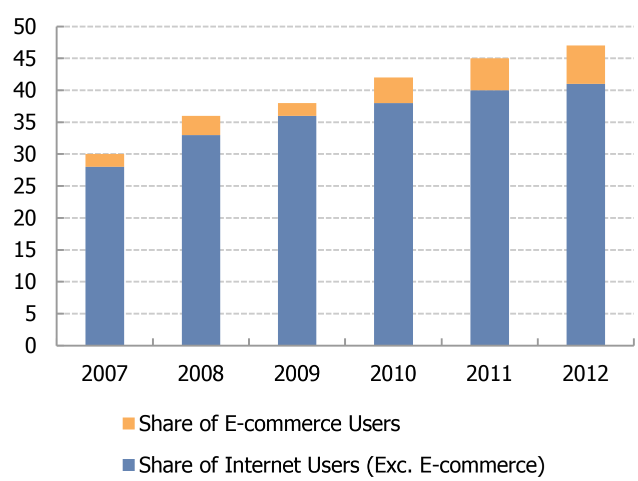
Online Retail Promises Strong Growth Prospects

Online retail, a phenomenon of the last 6 years in Turkey, has a limited low-single-digit weight within the aggregate retail sector, compared to 27% in the UK; 12% in France; and 7% in Italy. According to a survey by TURKSTAT as of 2011, only 7% of Internet users made purchases from the Internet, while the share of e-commerce users within the population rose from 2% in 2007 to 6% in 2012, according to a retail report by Deloitte. We expect online retail to represent around 20% of the retail sector and online revenues to account for 12% and 7% of the revenues of Teknosa and Bimeks, respectively, by 2016.

Exhibit 41: Purchases through Credit Cards in Online Retail (TRL)



Shares of Internet and E-commerce Users



Source: TURKSTAT, BKM, Deloitte, Teknosa

Meanwhile, purchases with credit cards in online retail reached 162mn units and TRL31bn as of 2012, implying 26% and 36% CAGR, respectively. Attractive offers by online retailers, high credit card penetration of 72%, as well as the development of 3D secure credit card application, have paved the way for the brisk growth in e-commerce. Further growth opportunities exist in the market, we think, especially for well-known e-commerce retailers.

Among the retailers, Hepsiburada.com owned by Dogan Holding is the largest of business-to-consumer type of e-commerce retailers in Turkey with around TRL400mn annual revenues in 2012, up 32% yoy. Established in 1998 and currently featuring on the radar screens of global electronics retailers such as Amazon.com, the Company has been the foremost beneficiary of the development of e-commerce in Turkey. PCs, mobile phones, and consumer electronics are the main product categories consumers buy from websites, followed by clothing, travel and books.

Markafoni was the 2nd largest e-commerce website operating in private shopping category in 2012 with around TRL200mn revenues. Teknosa was the 3rd largest, specialized solely in electronics retail, according to top European Internet Retailers Survey. Despite the substantial recovery in e-commerce in Turkey, only 4 Turkish online retailers were able to feature at the top 400, due to intensifying competition with the emergence of new online retailer websites. Gittigidiyor.com, another e-commerce website, owned by Ebay, is a marketplace enabling everyone to buy/sell every product.

Burgan Securities - Equity Rating System

12-month Rating:

Our 12-month rating system comprises the following designations: BUY (B), HOLD (H), SELL (S). The absolute upside to target value implied by the current market capitalisation is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation, price to book, return on equity, replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. Comparing the upside in a specific stock with the market's upside (determined through the aggregate upside of our coverage based on free float Mcaps), in addition to taking other yardsticks into consideration, analysts recommend BUY (B), HOLD (H), SELL (S) based on their 12-month total return views.

Sector Rating

Our investment horizon for industry ratings is again 12 months. This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are **Overweight (OW), Neutral (N), Underweight (UW).**

Overweight (OW): Due to improving sector related fundamentals and/or attractive valuations, the sector index is expected to perform better than the BIST-100 in the next 12-months

Neutral (N): The sector index is expected to perform in line with the BIST-100 in the next 12-months

Underweight (UW): Due to worsening sector related fundamentals and/or expensive valuations, the sector index is expected to perform worse than the BIST-100 in the next 12-months

Short-term Rating:

Our short-term rating system comprises the following designations: OUTPERFORM (OP), MARKETPERFORM (MP), UNDERPERFORM (UP). Considering possible triggers, catalysts, and/or company, sector & market views, we rate the stocks as:

S/T Stock Rating Summary	Relative Return
Outperform (OP)	>=10%
Marketperform (MP)	<+10% & >-10%
Underperform (UP)	<=-10%

Outperform (OP): If 3-month total return is expected to exceed the BIST-100 (sector index if specified) by more than 10%

Marketperform (MP): If 3-month total return is expected to be in line (+/- 10%) with the BIST-100 (Peerperform if sector index is specified)

Underperform (UP): If 3-month total return is expected to be below the BIST-100 (sector index if specified) by more than 10%

To have a more balanced distribution of ratings, Burgan Securities has requested that analysts maintain ***at least 20% of their ratings as Underperform*** *and* ***no more than 25% as Outperform****, subject to change depending on market conditions.*

Other Qualifiers Utilised:

NR: Not Rated

NC: Not Covered

UR: Under Review

Market Call

Our equity **market call** has an investment horizon of 3-12 months. **Our market calls are** BUY, NEUTRAL, SELL.

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