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Turkish Stock Picks

Despite IMF, focus on Defensives & Depressed but Viable Stocks

Reason for Report: Recommended Stocks

Industry

Highlights:

- With the prospective IMF package on the horizon, market sentiment has understandably turned more upbeat.
- We do expect further IMF funds, yet we remain cautious about the prospects for more than a shorter term trading rally.
- Yes, a new bailout (possibly in the coming weeks and very likely by the end of November), is likely to boost sentiment. But unless the funds significantly exceed expectations, the threat of Turkey's debt burden will remain.
- For fundamental investors, we do not consider this a time for holding companies and banks. We continue to recommend a mix of pure defensives and depressed but viable higher beta stocks.
- Our more defensive picks are Anadolu Efes, Migros, Tupras, Tofas and Trakya Cam. Our more aggressive picks are Eregli Demir, Vestel, Akcansa and Hurriyet.

What Has Changed?

With the prospective IMF package on the horizon, market sentiment has understandably turned more upbeat. While we do expect further IMF funds, we remain cautious about the prospects for more than a shorter term trading rally. Yes up until the details of a new package become clearer (possibly in the coming weeks and very likely by the end of November), sentiment could easily remain positive although the longer it takes, the greater the prospect of negative surprises between now and then.

Three Scenarios

- **Bull Case:** Hopefully the IMF will surprise on the upside with a package big enough and long enough to reassure the market that if the primary surplus is met, Turkey's funding gap will be met in 02 and best case 03 as well. So a package well in excess of \$12bn which also includes some debt relief would perhaps clear the way to sustainably lower rates and a more positive view on the market.
- **Hybrid Case:** Unfortunately, the most likely scenario is that the IMF will provide a one year package with enough to meet the prospective \$9-12bn funding gap (\$3bn of Eurobond issuance being the variable) based upon somewhat aggressive budget expectations. The worry is that this drip feed effort to just meet the funding gap on an annual basis will not do enough to convince the market that Turkey can escape from its debt trap. This scenario buys time, but so did the May 01 and December 00 IMF packages. Yes it could work, but it's dependent upon a lot of variables moving in the right direction. This formula is vulnerable to domestic or international shocks. Translation, a package of this size, while positive initially, is unlikely to prove enough to put Turkey on a sustainable path to fiscal and economic recovery.
- **Bear Case** - we'd rather not think about the worst case, but just let it be known that, at a minimum, it means continued high real rates and pressure on the currency in an increasingly marginal stock market. In the worst case a combination of private sector debt restructuring & hyperinflation.

What to Own:

Naturally if the market rallies, the large liquid high beta plays such as banks and holding companies are likely to outperform. While we stress that fundamentally we do not consider the environment right for holding companies or banks, our relative favourites are Sabanci and Akbank. Yet from a short term view an IMF driven rally would likely lead to outperformance for higher beta stocks such as Yapi Kredi and Garanti bank. Again we stress, due to our caution on the prospects for the IMF to sustainably turn the tide, we recommend a less aggressive portfolio mix of pure defensives and lowly valued but viable non-defensives.

■ A Mix of Defensives & Viable Higher Beta

Our blended portfolio would include Anadolu Efes (brewer), Tofas (auto), Migros (retail), Trakya Cam (flat glass) and Tupras (refining) among the defensives. Our higher beta exposure to undervalued and viable businesses would include Eregli Demir (flat steel), Vestel (TVs), Akcansa (Cement) and despite the risks associated with the Dogan group, Hurriyet (newspaper).

Table 1: Stocks Mentioned

Stock Name	Symbol	Price	Opinion	QRQ	Ft
Garanti Bank	TKGBF	1400.00	Neutral	D-3-3-9	q
Akbank	AKBNF	2900.00	Neutral	D-3-2-7	q
Yapi Kredi Bank	YVKBF	2400.00	Neutral	D-3-3-9	q
Anadolu Efes	AEBMF	31500.00	Accumulate	D-2-1-9	q
Hurriyet Gazetecilik	HURRF	2175.00	Buy	D-1-1-9	q
Eregli Demir Celik	EREGF	14000.00	Buy	D-1-1-9	q
Trakya Cam Sanayii A.S.	TKYCF	4300.00	Accumulate	D-2-2-7	q
Migros Turk A.S.	MGRTF	91000.00	Accumulate	D-2-1-7	q
Sabanci Holding	HOSZF	4700.00	Accumulate	D-2-2-7	q
Tupras Petrol Rafinerileri A.S.	TUPRF	0.01	Accumulate	D-2-2-9	q@
Akcansa Cimento Sanayi Ve Ticaret AS	AKCMF	6200.00	Buy	D-1-1-9	q
Tofas Turk Otomobil Fabrikasi A.S.	TKOFF	8900.00	Accumulate	D-2-2-9	q
Vestel	VEKSF	2400	Accumulate	D-2-2-9	qp

Source: ML

(Continued)



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