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Market Outperformer
IT Products Distribution

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Bottom-line lower than estimate; yet operational results in line

Index announced 4Q12 net profit of TL2.1mn, worse than our estimate of TL6.0mn; there is no consensus estimate. 2012 net profit is TL17mn which is down by 10% YoY.

Decline in 4Q12 revenues: 4Q12 revenues fell by 3% YoY to TL435mn, but is higher than our estimate of TL404mn. 2012 consolidated revenues fell 7% YoY to TL1,412mn.

EBITDA is down moderately. 4Q12 EBITDA fell by 2% to TL11.8mn and is in line with our estimate of TL11.6mn. The 4Q12 EBITDA margin is 2.7%; unchanged from the 4Q11 level. 2012 EBITDA fell 32% YoY to TL40mn.

Index recorded net financial and other loss of TL8.4mn in 4Q12 vs. TL3.0mn in 4Q11. We had forecast net financial and other loss of TL3.8mn for 4Q12. 2012 net other and financial loss is TL18mn compared to TL28mn in 2011.

Overall, Index bottom-line came below our expectation. We were expecting weak results due to the general slow-down in the sector caused by slower economic growth and the transition to smart-phones and tablets that is impacting PC and laptop sales. In fact, 4Q top-line is better than our estimate, yet EBITDA is in line. The main deviation stems from below the operating line.

Slight revision to our 12-month target price. Following on the 2012 results, we have made some minor adjustments to our forecasts. This leads to our revised 12-month target price of TL6.56 (previously TL6.85). There is 43% upside at current trading; we maintain our 'Market Outperformer' rating.

Key take-aways from the analysts' meeting:

- Following signing of the deal to distribute Apple products (excluding phones) in November 2012, the Company reports that 1Q13 sales are very robust and confirm their full year sales expectations. **Management also stated the 1Q13 operational performance also confirmed their 2013 combined group revenue target of 18% YoY growth in TL terms; we are forecasting 16% growth for consolidated revenues.**
- **Retail consumers are the most important IT customers.** The share of IT sector sales in Turkey to retail consumers continued to grow in 2012 to 44% from 42% in 2011 and is expected to reach 46% in 2013. This share is expected to rise to 50% - 60% levels in the coming years and then is expected to start to taper off as it has done in the UK and Germany. In 2012, retail consumers were followed by the government with 18%, SMEs with 14%, corporate clients with 13% and the financial sector with 9%.
- **Fastest growing segment in IT is tablets.** Tablet sales saw the fastest growth of 123% YoY in 2012 doubling its share to 18%. Laptop sales saw 6% growth and desktop PC sales fell by 13%.

- **Targeting e-commerce.** With the rapid growth in e-commerce, the Company is targeting to become a major logistics center for e-commerce players. They are targeting to have reached a significant size in this area by September. The Company is also looking to become a major supplier to e-commerce players through expansion of its B2B business.
- **A potential new large project in telecoms.** The Company also mentioned that they were working on a significant project in the telecoms sector that would provide significant sales volume increases, but provided no further details at this time.
- **The target of Index is to be in the top 5 of IT distributors in Europe.** Currently it is among the top 15.

There were more details provided on the strategic stake sale by MCI managing partner Tomasz Czechowicz:

- **MCI evaluated Index since 2009 before making the acquisition.** MCI had first approached Index in 2009 and had been observing the Company since that time. As Index achieved the targets it had set out for itself over the years, MCI decided the time was right to make the acquisition in 1Q13.
- **MCI will focus on helping Index to grow in e-commerce and logistics.** The market share of Index is very high as compared to the market shares of companies in Central and Eastern Europe. It will be a challenge to protect this market share. As part of its efforts to sustain market share, MCI will provide experience and know-how for developing the e-commerce and logistics businesses of Index.
- **MCI sees room for efficiencies in Index.** They are looking to improve the Company's cash conversion cycle. They have experience in this area from their previous investments in Poland. MCI will also aim to boost online sales (B2B). Their group company in Poland, ABC Data has 15 thousand online customers. MCI will look to implement the successful online businesses models it has developed in Poland and elsewhere to Turkey through its partnership with Index.

Index - 4Q12 Financial Results

(TLmn)	4Q12	4Q11	YoY Chg.	Ak Est.	2012	2011	YoY Chg.
Revenues	435	450	-3%	404	1,412	1,514	-7%
EBIT	11	12	-1%	11	38	57	-34%
EBITDA	12	12	-2%	12	40	59	-32%
Net Non-op. Inc./ (Exp.)	(8)	(3)	n.m.	-4	(18)	(28)	n.m.
Effective Tax Rate	21%	31%		10%	11%	26%	
Net Profit	2	5	-54%	6	17	18	-10%
Margins							
EBIT	2.6%	2.6%	+6bps	2.7%	2.7%	3.7%	-109bps
EBITDA	2.7%	2.7%	+4bps	2.9%	2.8%	3.9%	-104bps
Balance Sheet							
Net FX Pos. (on B/S)	-1.3	-31.2	-13.2	16.4	8.2	-5.6	-70.5
Net Debt	-21.9	-23.9	-12.6	1.1	-19.5	40.1	51.7

Source: The Company, Ak Investment

* As reported by the Company

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