Indeks Bilgisayar

IT Products Distributor

April 11, 2013

Sales growth will be back on track with Apple contract

Apple contract will boost sales growth in 2013… Indeks was not able to catch the growth trend in the Turkish PC market which grew by 10% in 2012 while the company has seen its revenue shrinking by 6% due to its lack of contracts with tablet computer manufacturers. However, new distribution contract with Apple enables the company to benefit from the growing tablet sales, which increased by 123% in 2012. INDES also remains the market leader in IT market, which is expected to grow faster this year with the recovery in domestic demand.

Proceeds from the real estate development project means more dividends in the next 3 years… Indeks has recently agreed with a contractor on a revenue sharing development project on its land in Ayazağa, Istanbul expecting to receive USD75mn proceeds in 3 years (excluding VAT). According to the agreement, INDES will receive 46.5% of the proceeds and at least 40% of the proceeds will be distributed as cash dividends. Accordingly we expect a cumulative dividend of TRL1.22/share in the following 3 years.

Opex to sales ratio will slightly increase as there will be additional rental expenses… The company will rent a new warehouse in Gebze, Istanbul for logistics purposes. This will increase company's operational expenditures which is usually stable as a ratio of sales at 2.5%-3%. We estimate additional rental expenses of TRL2-3mn; which would increase opex/sales ratio by around 15 bps on our estimates.

Share buyback plan will be supportive for INDES shares… INDES announced a share buyback plan in March 2013. Accordingly, the company has spared a fund of TRL9mn to buy up to 3% of INDES shares from the market.

FATIH project… Ministry of education will organize a tender at the end of April to buy 10.6mn tablets for students. Although INDES will not participate in the tender, the company has a potential to benefit from the project with its logistics company Teklos and through its distribution agreement with components manufacturers such as Intel.

Smartphone contracts may increase growth potential … As part of company's aim to add new contracts in rapidly growing product groups, INDES aims at adding new smartphone distribution contracts during 2013.

We maintain our Outperform rating for INDES with a revised PT of TRL6.50/share… Our DCF-driven new PT implies 41% upside potential. INDES trades at 2013E P/E of 6.4x and EV/EBITDA of 6.4x but excluding one-offs 2013E P/E would be 9.1x.

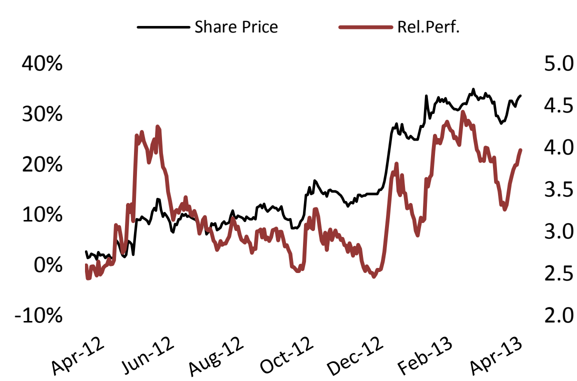
OUTPERFORM

Maintained

Bloomberg/Reuters Code	INDES TI / INDES.IS
Current Price	4.62
Target Price	6.50
Upside Potential	41%
Previous Target Price	4.50
Expected Dividend Yield	3%
Market Cap ($mn)	145
Free Float (%)	41.00%
12M high/low	4.70 / 2.67
DTV (3M avg - $mn)	1.2
Net Debt (TRLmn)	-22
EV (TRLmn)	281

Estimates	2011	2012	2013E	2014E
Net Sales	1,514	1,412	1,681	1,922
% growth	23	-7	19	14
EBITDA	58	39	44	51
% margin	3.8	2.7	2.6	2.6
Net Income	18	17	40	65
% margin	1.2	1.2	2.4	3.4
RoE	14.3	12.0	26.5	37.8
Dividends	7	8	16	26
% payout ratio	40	50	40	40
% dividend yield	2.9	3.2	6.2	10.0
P/E	14.0	15.5	6.4	4.0
EV/EBITDA	4.9	7.2	6.4	5.5
P/B	1.9	1.9	1.6	1.5

Rel. Performance	1M	3M	YTD
	1%	9%	1%



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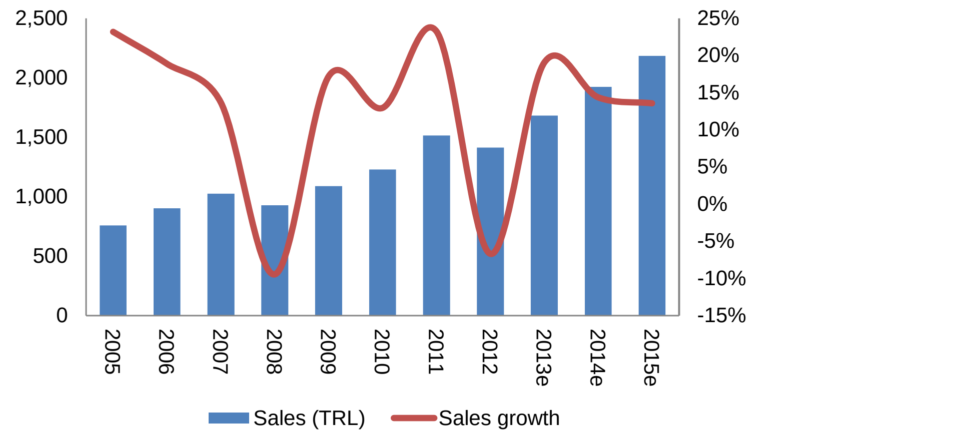
Apple contract will boost sales growth in 2013… INDES had inked a distribution agreement with Apple Europe Ltd to distribute Apple's Ipad, Mac, Ipod products and accessories in Turkey in November 2012. We have started to see this contract's contribution in 4Q12, but the contribution will be much more visible in 2013. Indeks estimates a net revenue contribution of at least TRL250mn/year from the sale of Apple products which corresponds to 18% of INDES' 2012 net sales. We estimate a CAGR of 16% in sales of INDES until 2015.

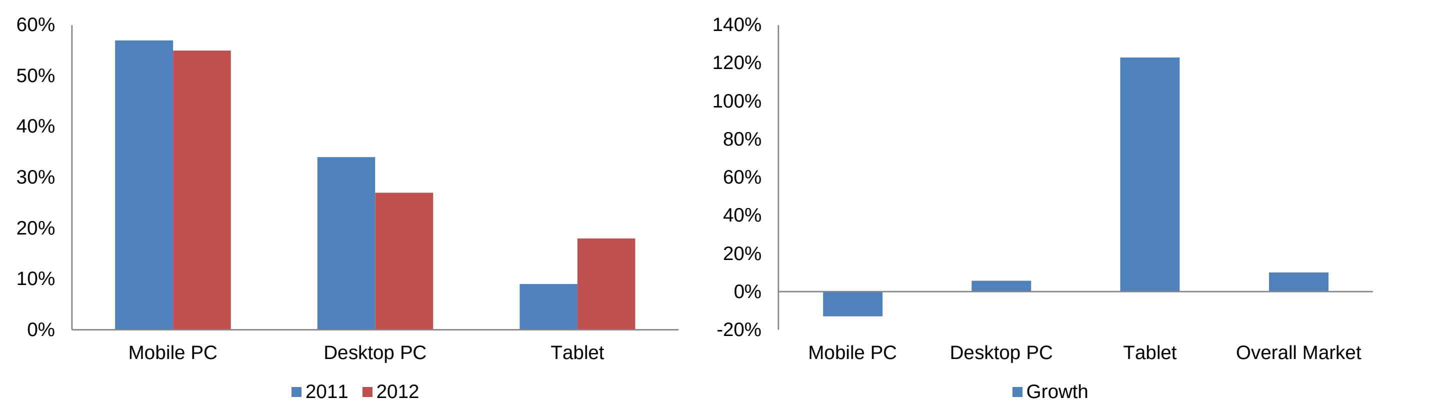
Graph I. Indeks Sales



Source: Company, OYAK Securities

Uptrend in tablet computer sales will be caught with Apple contract… YoY decrease in INDES' sales was 6.7% in 2012, which we believe was mainly due to company's lack of distribution contracts with tablet computer manufacturers. Turkish consumers preferred tablet computers to mobile PC's in 2012. The tablet computers sales grew by 123% at the expense of a decrease in mobile PC market which shrinked by 13%. During the same period PC market overall has grown by 10% in Turkey. We think with the new Apple contract, Indeks will be able to catch the growth story of the Turkish IT market in 2013.

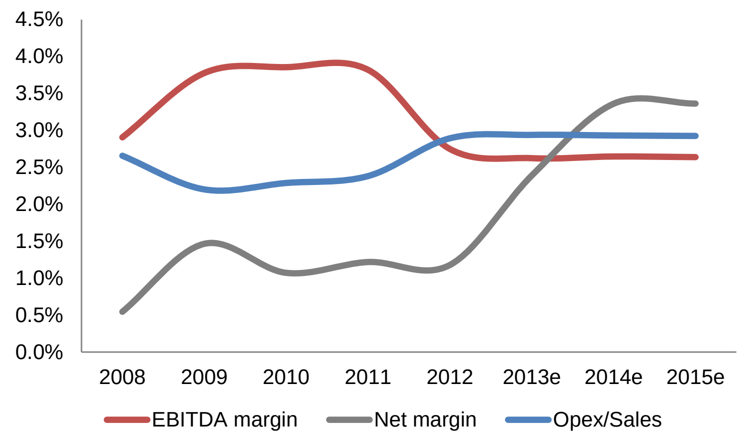
Graph II. Product groups Market Shares and Growth



Source: Company, OYAK Securities

Opex to sales ratio will slightly increase as there will be additional rental expenses… As Indes has recently sold its Ayazağa land, the company will rent a new warehouse in Gebze, Istanbul for logistics purposes. This will increase company's operational expenditures which is usually stable as a ratio of sales at 2.5%-3%. We estimate additional rental expenses of TRL2-3mn; which would increase opex/sales ratio by around 15 bps on our estimates.

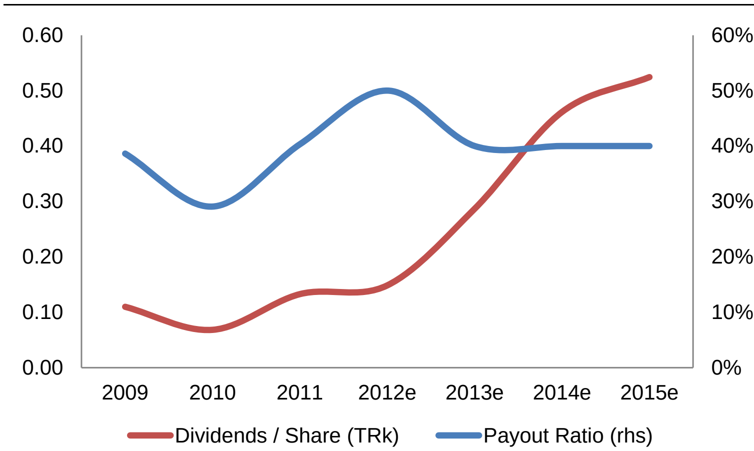
Graph III. Indeks Profit Margins



Source: Company, OYAK Securities

Proceeds from the development project is positive for dividends in the next 3 years… INDES has inked a revenue sharing agreement with Seba Vadi Construction for its 40K sqm land in Ayazaga, Istanbul expecting to receive USD75mn proceeds in 3 years excluding VAT. According to the agreement, INDES' 99.99% subsidiary Teklos will receive 46.5% of the proceeds. INDES expects to receive the construction permit until September 2013, while the construction will be completed in 3 years. The minimum sqm price will be USD3,806 as per the guarantee of the contractor. Proceeds will be used for company's investment plans and dividend distribution in the following 3 years. We believe this will boost INDES' dividend payments in the next 3 years. Company generally has a payout ratio of about 40%, accordingly we expect a cumulative dividend of TRL1.22/share in the following 3 years.

Graph IV. Indeks Dividends



Source: Company, OYAK Securities

Share buyback plan will be supportive for INDES shares… INDES announced a share buyback plan in March 2013. Accordingly, the company has spared a fund of TRL9mn to buy up to 3% of INDES shares from the market.

Indeks will look for international targets after the MCI Management deal… Erol Bilecik, major shareholder of INDES, agreed with MCI Management SA to sell 11.2 million shares (which corresponds to 20% of INDES) at TRL4.35 per share. MCI Management SA is a Poland based PE firm investing in IT related companies in Eastern Europe. After the transaction which is currently pending approval from the Competition Board, Erol Bilecik will keep its controlling position with a 35.93% share in INDES. We believe with this agreement INDES will aim at exploiting new investments in the EMEA region.

Smartphone is another area of growth… Company aims signing additional contracts with smartphone manufacturers which is another area of growth in the sector. We believe this would help Indeks catching the growth trend in this product group.

FATIH tender for 10.6mn tablet computers… Ministry of Education will organise a tender on 29th of April to buy 10.6mn tablet computers. Although Indeks will not participate the tender, the company might take part in specific parts of the project as a “subcontractor”. The company might take part in the logistics part with Teklos (99.99% subsidiary of INDES) or it might act as a components provider with INDES’ and DGATE’s current distributor contracts such as with Intel in case a local producer wins the tender.

4Q12 Earnings

INDES announced 4Q12 net income of TRL2mn, lower than our expectation of TRL7mn. The deviation mainly stemmed from higher than expected financial expenditures of TRL9mn in 4Q12. Decrease in sales eased in 4Q12 on the back of contribution from Apple and Samsung contracts and seasonally strong 4th quarter. Sales of Indeks was down 3.4% y/y in 4Q12 vs. our expectation of a y/y flat topline. 4Q12 results brought the topline decrease to 6.7% in FY12. Company expects a TRL250mn/year contribution from the Apple contract, which is 18% of 2012 sales. We forecast 19% sales growth in 2013E and we expect the company to deliver a CAGR in sales of 16% until 2015.

Gross margin was up 45bps y/y at 5.6% but remained flat q/q in 4Q12, better than our expectation of a 5.2% margin. Looking forward we expect a sustainable gross margin of around 5.5% for INDES. Opex/sales ratio also increased to 3.0% in 4Q12 which was worse than our expectation of 2.6%. Improvement in gross margin balanced out the deterioration in opex/sales ratio for INDES which delivered an EBITDA of TRL12mn with a margin of 2.7%, in line with our expectation. After the sale of Ayazağa land, company will need to rent a new warehouse which means additional opex for the company. Therefore, we expect company's opex/sales ratio to stabilize around 3.2%, looking forward.

INDES - Financial Highlights

TRLmn	4Q12	4Q11	YoY Change	3Q12	QoQ Change	FY12	FY11	YoY Change
Revenues	**434.6**	**449.8**	**-3%**	**326.8**	**33%**	**1412.2**	**1513.5**	**-7%**
Cost of Goods Sold	410.3	426.6	-4%	308.9	33%	1333.8	1420.8	-6%
Gross Profit	**24.3**	**23.2**	**5%**	**17.9**	**36%**	**78.4**	**92.7**	**-15%**
Operating Expense	12.9	11.5	11%	10.0	28%	40.9	36.0	13%
Operating Profit	**11.5**	**11.6**	**-1%**	**7.9**	**45%**	**37.6**	**56.7**	**-34%**
Depreciation	0.35	0.28	22%	0.41	-16%	1.26	1.13	12%
EBITDA	**11.8**	**11.9**	**-1%**	**8.3**	**42%**	**38.8**	**57.8**	**-33%**
Other Income	0.6	0.0	n.m.	0.2	273%	1.2	0.4	203%
Other Expenses	0.3	0.5	-30%	0.1	221%	1.0	1.2	-18%
Financial Income/Expenses	-8.8	-2.6	242%	-3.0	191%	-17.9	-27.5	-35%
PBT	**3.1**	**8.6**	**-65%**	**5.0**	**-39%**	**19.9**	**28.4**	**-30%**
Taxes	0.6	2.6	**-75%**	0.5	23%	2.3	7.3	**-69%**
Net Income	**2.4**	**6.0**	**-60%**	**4.4**	**-46%**	**16.6**	**18.4**	**-10%**
Profitability								
Gross Margin	5.6%	5.2%	45 bps	5.5%	12 bps	5.6%	6.1%	-58 bps
Operating Margin	2.6%	2.6%	6 bps	2.4%	22 bps	2.7%	3.7%	-109 bps
OPEX/Sales	3.0%	2.6%	39 bps	3.1%	-11 bps	2.9%	2.4%	51 bps
EBITDA Margin	2.7%	2.6%	7 bps	2.5%	18 bps	2.7%	3.8%	-107 bps
Net Margin	0.6%	1.3%	-78 bps	1.4%	-80 bps	1.2%	1.2%	-4 bps

Valuation

We maintain our OUTPERFORM rating for INDES shares with a PT of TRL6.50/share implying a 41% upside potential. We use a TRL-based DCF. INDES trades at 2013E P/E of 6.4x and EV/EBITDA of 6.4x.

Our DCF analysis indicates a fair equity value of TRL323mn for INDES. The risk free rate is assumed to be 7.5% while beta is taken as 1.1. WACC is 12.0% in our DCF, assigning 20% weight to debt in capital structure. We also assume a tax rate of 20% and a terminal growth rate of 1%.

Additionally, we include INDES' Ayazağa land in our valuation with a fair value of TRL84mn.

TRL mn	2008	2009	2010	2011	2012	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Revenues	928	1,087	1,228	1,514	1,412	1,681	1,922	2,183	2,449	2,723	3,000	3,274	3,540	3,791
growth		*17%*	*13%*	*23%*	*-7%*	*19%*	*14%*	*14%*	*12%*	*11%*	*10%*	*9%*	*8%*	*7%*
EBITDA	27.0	41.1	47.4	57.8	38.8	44.1	50.9	57.6	62.0	68.8	75.7	82.6	89.2	95.5
%margin	*2.9%*	*3.8%*	*3.9%*	*3.8%*	*2.7%*	*2.6%*	*2.6%*	*2.6%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*	*2.5%*
EBIT	26.3	40.4	46.5	56.7	37.6	42.2	48.5	55.2	59.6	66.3	73.2	79.9	86.4	92.6
%margin	*2.8%*	*3.7%*	*3.8%*	*3.7%*	*2.7%*	*2.5%*	*2.5%*	*2.5%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*	*2.4%*
(taxes)	1.6	4.7	4.3	7.3	7.5	8.4	9.7	11.0	11.9	13.3	14.6	16.0	17.3	18.5
Effective Tax rate	6%	12%	9%	13%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Change in W/C	1.3	22.0	-26.8	35.1	-23.8	27.0	14.3	28.9	33.2	36.1	33.0	34.8	36.1	36.7
(capex)	0.5	0.9	1.3	2.0	2.2	7.5	7.5	2.4	2.7	2.9	3.2	3.5	3.9	4.3
FCF	23.5	13.4	68.5	13.4	52.9	1.2	19.4	15.2	14.2	16.6	24.9	28.3	32.0	36.0
discount factor						0.89	0.80	0.71	0.64	0.57	0.51	0.45	0.41	0.36
PV of FCF						1.0	15.5	10.8	9.0	9.4	12.6	12.8	12.9	13.0

DCF Results	
PV of FCF	97.2
PV of continuing value	119.9
Estimated EV	217.1
Land (discounted cash flow of proceeds)	84.0
Net Debt	-21.9
Fair Value	**323.0**

DCF Assumptions	
Terminal growth rate	1.0%
risk free rate	7.5%
equity risk premium	4.5%
beta	1.10
tax rate	20%
% debt	20%
% equity	80%
cost of debt	12.5%
cost of equity	12.5%
WACC	12.0%

Valuation Approach

Valuation tools employed most frequently are Discounted Cash Flow (DCF) and International Peer Group Comparison, though other metrics such as Dividend Discount, Gordon Growth, and Replacement Value Methods are also used wherever appropriate. Oyak Securities analysts may calculate the target return of each stock considering only one method or assigning different weights to more than one method depending on the analyst's opinion. The "Expected Market Return" **(EMR)** of the ISE-100 is determined through aggregate target returns of each stock under coverage based on their respective free float market capitalization. Our coverage accounts for around 80% of the total market capitalization of the ISE.

Rating Methodology

Oyak Securities assigns recommendations to each stock according to the following criteria:

Price target for a stock represents the value analyst expects the stock to reach during our performance horizon, which is 12 months. For stocks with an OUTPERFORM recommendation, target return must exceed the EMR by at least 10% over the next 12 months. For a stock to be classified as UNDERPERFORM, the stock must be expected to under perform the EMR more that 10% over the next 12 months. Stocks that an analyst expects to perform parallel to the EMR within a band of +/- 10% are rated as MARKETPERFORM.

Oyak Securities analysts review their recommendations under continuous screening. Nevertheless, at times, target return of a stock may be allowed to move outside our rating intervals as a result of share price fluctuations. Under such circumstances, the analyst may choose not to change his/her recommendation.

Rating	Expected Return (%)
Outperform	> EMR + 10
Marketperform	= EMR +/- 10
Underperform	< EMR - 10