

INDEX BILGISAYAR

Potential positive surprise in dividend

Market Outperformer

COMPANY VISIT NOTE

Key take-aways from our Index Bilgisayar company visit:

We maintain our forecasts and valuation with 'MO' rating. Our 12-month TP is TL6.85 (adjusted slightly from our initial TP of TL6.91) that points to 59% upside at current trading. The real estate project signed with Seba Insaat on March 20 is expected to generate cash inflow to Index of at least US\$75mn over the next three years. This, along with strong positive free cash flow from operations is expected to make Index a high dividend payer in the coming years with potential 7% yield this year. The deal to sell a 20% stake in Index was announced on March 22 to Polish private equity firm, MCI. This deal is to be a vehicle for MCI's Polish broad-line distributor, ABC Data and Index to expand jointly in the region, namely, Eastern Europe, former CIS, Middle East and North Africa. We view both developments – the real estate deal and the strategic stake sale, positively.

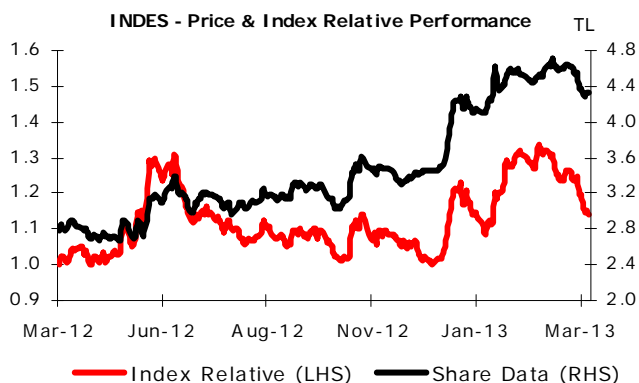
We may see a high dividend pay-out this year. With its strong operational performance and ability to generate positive free cash flow, Index has been able to pay dividends. Over the past 3 years, the Company has realized an average pay-out ratio of 36%. We had assumed Index would maintain this pay-out ratio going forward. Accordingly, we had estimated a dividend yield of 3.1% for the dividend to be paid in 2013. However, the management expects dividend pay-out this year could be significantly higher than our estimate. Furthermore, with continued cash inflow expected from the real estate project, through pre-sales of units, dividend payments are likely to remain at these high levels in 2014 and 2015. In 2015, cash inflow from the real estate project is expected to peak – i.e. about 70% - 80% of units are expected to be sold. The management suggests dividend pay-out in 2016 could be significantly higher.

MULTIPLES	2010A	2011A	2012F	2013F
EV/Sales	0.2	0.1	0.2	0.1
EV/EBITDA	4.7	3.8	5.6	4.9
P/E	18.4	13.1	11.8	10.0

Price (TL / US\$)	4.32 / 2.38
12M Target Price (TL / US\$)	6.85 / 3.78
1-Year Price Range (Adj., TL)	4.80 / 2.40
Number of Shares ('000)	56,000
Market Cap. (TLmn)	242
Net Cash (2012/09, TLmn)	24
Free Float	41%
Daily Vol. (3 Month, TLmn)	2.1
Ticker (Reuters, Bloomberg)	INDEX.IS, INDEX TI
ISE-100 Index (TL/US\$)	85,254 / 47,006

Pricing as of March 28, 2013

PERFORMANCE	1 Week	1 Month	3 Month	1 Year
TL	-1.4%	-6.9%	2.1%	53.6%
Index Relative	-4.7%	-13.4%	-5.9%	11.4%



More detail on the deal with MCI. The management provided some more detail on the recently signed 20% stake sale to Polish private equity firm MCI. A major shareholding of MCI is ABC Data, in which it has a 60% stake. ABC Data is a Polish broad-line distributor which is the largest in Eastern Europe, mainly, Poland, Czech Republic, Hungary and Lithuania. The rationale for MCI's acquisition of a stake in Index is to expand jointly with ABC Data, in the region. Following completion of the deal which is expected to be finalized following the Competition Board approval that should be given by the end of April, potential expansion will be explored in the region jointly. As both ABC Data and Index are market leaders in their respective geographies, there is limited room for further market expansion. Each player has large shares in sales of major vendors – typically 30% - 35%. These vendors do not want to increase their sales to a single distributor beyond these levels. In order for these distributors to grow going forward, a strategy of expanding together was forged. ABC Data's experience in Eastern Europe will help with potential expansion into the Balkans and other East European countries. Index's leadership position in Turkey will help with expansion in the Middle East, former CIS countries and North Africa. Expansion into these regions will be on a joint-venture basis between Index and ABC Data. Following completion of the MCI stake acquisition in Index, 1 or 2 Index board seats will be given to MCI. Index Management is targeting to have a JV investment completed with ABC Data by 1Q14. There are further synergies to the deal as well. ABC Data has more experience in e-commerce that would be beneficial for Index. ABC Data is interested in Turkey which is still in a high growth stage with low penetration rates as compared to Eastern Europe.

SUMMARY FINANCIALS		IFRS, TLmn			
INDEX					
Balance Sheet	2010	2011	2012E	2013F	
Current Assets	506	599	529	591	
<i>Cash and Cash Equivalents</i>	26	65	52	36	
<i>S/T Trade Receivables</i>	315	403	321	380	
<i>Inventories</i>	127	104	130	148	
L/T Assets	32	33	36	37	
<i>Net Fixed Assets</i>	28	29	29	30	
TOTAL ASSETS	538	632	565	628	
S/T Liabilities	408	481	362	396	
<i>S/T Financial Debt</i>	11	35	11	7	
<i>Trade Payables</i>	366	396	321	359	
L/T Liabilities	9	13	8	6	
<i>L/T Financial Debt</i>	8	12	6	4	
<i>Other L/T Liabilities</i>	1	1	2	2	
Shareholders' Equity	111	125	140	169	
TOTAL LIABILITIES AND SH. EQUITY	538	632	565	628	
Income Statement					
Net Sales	1,228	1,514	1,382	1,603	
Cost of Goods Sold	-1,154	-1,421	-1,306	-1,515	
Gross Profit	75	93	76	88	
Operating Expenses	-28	-36	-39	-45	
EBIT	47	57	37	43	
EBITDA	48	59	40	46	
Net Other Income (Expenses)	0	-1	0	0	
Financial Expenses	-28	-28	-13	-11	
Profit before Tax	18	26	23	30	
Taxes	-4	-7	-2	-6	
Net Profit	13	18	21	24	
Growth (YoY)					
Net Sales	13%	23%	-9%	16%	
EBIT	15%	22%	-35%	16%	
EBITDA	16%	22%	-32%	16%	
Net Profit	-17%	40%	11%	18%	
Margins and Key Metrics					
Gross Profit	6.1%	6.1%	5.5%	5.5%	
EBIT	3.8%	3.7%	2.7%	2.7%	
EBITDA	3.9%	3.9%	2.9%	2.9%	
Effective Tax Rate	-25%	-28%	-10%	-20%	
Net Profit	1.1%	1.2%	1.5%	1.5%	
Net Debt (Cash) / EBITDA	-0.1	-0.3	-0.9	-0.5	
ROE	11.9%	14.8%	14.6%	14.4%	
Liquidity					
Current Ratio	1.2	1.2	1.5	1.5	
Quick Ratio	0.9	1.0	1.1	1.1	

Source: The Company, Ak Yatirim

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