EFG Istanbul Securities

TURKEY – EQUITY RESEARCH

Initiating Coverage

INDES TI

INDEKS COMPUTER

June 25, 2010

INFORMATION TECHNOLOGY

LOW RESOLUTION

We are initiating coverage of Indeks Computer ("INDES") with HOLD (L/T)/MARKETPERFORM (S/T) ratings, and a 12-month price target of TRL2.84/share, offering 21% upside potential. Our price target is derived from the blended average of DCF analysis and peer comparison.

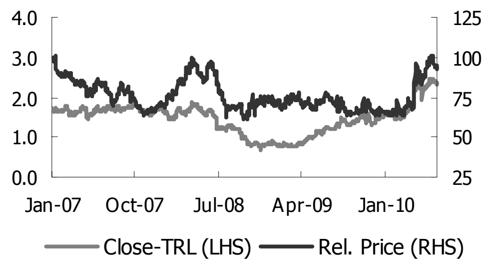
- **High exposure to IT sector growth; but limited near-term visibility --** As a market leader in IT distribution sector with c.18% market share in total IT market, Indeks is set to benefit from the expected IT sector CAGR of c.12% (US$) within 2009-2012, compared to EFGI's GDP CAGR forecast of 10% (US$) for the same period. We expect the Company to register sales/EBITDA CAGR of 6%/5% (US$) within 2009-2012, mainly owing to sustained computer penetration, which is expected to reach c.27% in 2012. Domestic IT sector posted 12% CAGR from 2006 through 2009, on the back of increased computer penetration (c.19% vs. c.11% in 2006). However, following the strong 19% growth in 2009, we expect computer sales to lose momentum -- likely to contract -- over the next two quarters, given last year's boost from the tax incentives and the launch of 3G.
- **Increasing profitability impact of IT logistics operations --** We expect the contribution of the Company's high-margin IT logistics operations to operating profitability to increase by around 10% in 2011, from c.2% in 2009, on the back of the recently signed distribution contracts and the agreement with Turk Telekom. This segment will also help alleviate the margin pressure in the core business from the rise of techno markets, through offering value-added services such as just-in-time inventory management (JIT) to retailers.
- **Potential value drivers: sale of real estate and entry into distribution of small electrical household goods --** Management indicated that they would be relocating the Company headquarters spanning 40K sqm land, should Istanbul Municipality's plan to convert the district into a residential area be brought to fruition in 2011. This prospect, whose contribution we estimate at about c.TRL0.60/share, is not included in our valuation, due to uncertainties surrounding timing and permit specifics (i.e. scale of the development). Moreover, Indeks is planning to start distributing small electrical household goods through leveraging its existing distribution channels, likely in 4Q10. We opt not to incorporate this prospect (c.TRL0.80/share) into our valuation, given timing and execution risks in a very competitive and fragmented market.
- **Key risk factors --** Lower-than-expected IT hardware demand, and further margin pressure from increasing penetration of techno markets are the key risk factors.

TRLmn Year	Net Sales	yoy	EBITDA*	yoy	Net Earnings	yoy	P/E	EV/ EBITDA
2011E	1,307	10%	44	7%	25	22%	5.2	3.4
2010E	1,187	9%	41	13%	21	30%	6.4	3.7
2009	1,087	17%	37	58%	16	214%	8.3	4.1
2008	928	7%	23	92%	5	-60%	n.m	6.5

**adj. for minority stake*

HOLD (L/T) MARKETPERFORM (S/T)

Market Data	
Close Price	TRL2.35
Current MCap. (TRL/US$ mn)	132 / 84
Target Value	
Target Price	TRL2.84
Upside (Downside)	21%
Capitalisation	
Enterprise Val.	TRL147 mn
Adj. Net Debt	TRL15 mn
Number of Shares	56.0 mn
Free Float	23%
Performance	
Avg. Daily Vol.	US$1.24 mn
1y H/L (TRL)	2.50 / 1.20
3y H/L (TRL)	2.50 / 0.69



(TRL)	Absolute	Relative
1m	1%	-1%
3m	33%	32%
1y	93%	23%

* as of June 24, 2010

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Investment Thesis

We are initiating coverage of Indeks Computer with (L/T) HOLD/ (S/T) MARKETPERFORM ratings, and a 12-month price target of TRL2.84 per share, offering 21% upside. Our price target is based on the equally-weighted average of our DCF valuation and peer comparison. The stock has outperformed the market by 41% and 21%, ytd and over the past one-year period, respectively.

Indeks Computer is well-positioned to benefit from the expected IT sector CAGR of c.12% within 2009-2012, as a market leader in broadline IT distribution with 18% market share of the total IT market. We expect the Company to post sales and EBITDA CAGR (US$) of 6% and 5%, respectively, during this period, driven by rising computer penetration, estimated to reach 27% in 2012, up from 19% last year. However, we believe the Company's near-term demand visibility is low, given the boost from the SCT incentives and the launch of 3G within April - September 2009.

We commend the Company's prospective foray into distribution of small electrical household goods in 4Q10 (c.TRL0.80/share), as well as its planned launch of a technical after-sales service business in 1H11 through acquiring an existing player. These ventures would likely alleviate the potential margin pressure from the growing influence of retailers, which threaten the value-added nature of Indeks's services. However, we prefer not to include them into our valuation at this point, due to timing uncertainties, along with execution risks in a highly competitive/fragmented market. The Company has margin expansion potential on the back of the growing contribution of the high-margin IT logistics operations and the planned launch of the service business through an acquisition in 2011. Lastly, the Company could unlock value through the sale of its real estate spanning 40K sqm land -- on the back of Istanbul Municipality's plan to convert the area into a residential district -- which could fetch US$45mn-60mn.

Investment Positives

Poised to benefit from IT sector growth, being the market leader -- Indeks is the market leader in IT distribution sector, commanding 18.3% market share (23.2% in hardware) in total IT market, up from 18% in 2008, thanks to the elimination of marginal players amid the economic crisis last year. IT hardware sector in Turkey posted 12.5% CAGR over the past three-year period, mainly driven by increased computer penetration to c.19% (EFGI estimate), from c.11% in 2006. Indeks's consolidated sales growth was lower at c.4% during the same period, as International Data Corporation (IDC) numbers incorporate inter-company sales as well. IDC expects the IT sector to register 15% sales CAGR within 2009-2012; however, this figure will likely be revised down to a still healthy c.12% level, due to lower-than-expected ytd computer shipment growth on the back of tax incentives in 2009. We expect the Company to register c.7% CAGR in computer unit shipments between 2009 and 2012, owing to PC penetration increasing to c.27% -- compared to the EU average of c.35% -- as opposed to c.180bp erosion in its computer market share at 23.2%.

Increasing focus on profitability and positive impact of IT logistics – The Company's margins will be supported by 1) growing contribution of higher-margin logistics operations; 2) realignment of sales force compensation towards profitability; 3) higher contribution from direct mobile channels.

The Company's 99% subsidiary Teklos provides IT logistics services to Indeks Group subsidiaries, as well as to other IT providers in the sector. Teklos's impact on consolidated profitability is expected to increase with an EBITDA contribution of c.10% in 2011, up from 2% in 2009, on the back of its recent distribution contract with Canon and its agreement with Turk Telekom for logistics/configuration of IT equipment for TT's branch network. In addition, the compensation structure of the sales force was revised in 4Q09 to make it more aligned with profitability. Specifically, bonuses that comprise 40% of the sales team's total compensation will be driven more by profitability than revenues, essentially incentivising them to sell more profitable products. Lastly, the Company's mobile sales channel has been increasing its penetration in Anatolia, with 10% of sales expected to be generated through this channel, compared to around c.5% in 2009. Utilisation of this channel is more profitable (c.200bp higher on gross margin) as it eliminates the intermediary agent's margins. The Company has a 20% of sales contribution target from this channel over the next 2-3 years.

Potential to unlock value from real estate -- Indeks management indicated that they would be willing to relocate the Company headquarters, located on 40sqm land, should Istanbul Municipality's plan to convert the district into a residential area be brought to fruition in 2011. While there are currently no binding or non-binding offers for the land, management reckons it could fetch around US$45mn-60mn, compared to the book value of US$15mn. While this potential value is not incorporated in our model due to the uncertainty associated with the timing and the specifics of permits (i.e. potential scale of property development), it is worth noting that a sale could add US$20mn (TRL0.56/share) to our valuation, after deducting the potential lease liability of US$18mn (US$6/sqm rental rates for logistics/storage space, according to The Association of Real Estate Investment Companies (GYODER)), based on EFGI's office rental yield assumption of 7%.

Opportunities

Likely entry into small electrical household goods -- Indeks is planning a foray into small electrical household goods distribution segment, likely in 4Q10, by leveraging its existing relationships with distribution channels. While this is a highly competitive and fragmented market with low-barriers to entry, if successful, this would help alleviate the margin pressure in the Company's core business and could potentially generate an NPV of around US$25-US$30mn. Note that we do not include the value from this venture into our valuation due to timing and execution risks. The market size for the domestic small electrical household goods is estimated to be close to c.US$2bn annually. It has been growing at high-single digits, on the back of shortening product cycles of 3-4 years and favourable demographics, featuring annual average household formation with 600K marriages and 100K divorces. If successful, we estimate that the Company could reach an annual turnover of around US$35mn in 2011. The profitability impact will likely be higher with gross margins of around 20%.

Margin expansion potential through entry into service business -- Indeks is planning to establish an after-sales service organisation to provide technical services to end-users, likely through acquiring an existing service provider in 2011. The vertical integration would be positive for the Company, as IT hardware market -- getting saturated with increased computer penetration -- will essentially become a replacement market and service revenues will be an important driver for growth with higher margins (c.20% gross margin). Some of the existing players in the technical service sector are struggling, as they could not sustain the working capital needs, due to their relatively small size and lack of access to distribution channels. Thus, scale and access to distribution channels are key strengths that Indeks could leverage, in our view.

Investment Negatives

Computer shipment volumes likely to contract in the next two quarters, due to tax incentives and 3G launch in 2009 -- Computer shipments in Turkey grew by 19% in 2009, owing to tax incentives -- featuring a reduction in value-added tax (VAT) imposed on IT products between April and September to 8% from 18% -- and netbook sales thanks to attractive campaigns/offers by mobile operators with the launch of 3G in July'09. Netbook sales are estimated to have comprised c.20% of the market (650K units) in 2009; however, strong penetration was due to predictions of significant 3G adoption, which has been tracking below expectations. A case in point is Turkcell's recent reduction of its 2010E target of 1mn 3G modem/netbooks to 750K. We estimate that there are currently c.550K 3G modems/netbooks, based on Turkcell's 65% market share, of which less than half is comprised of netbooks. After taking into account the incremental demand from other customers (i.e. promotions by banks), this still suggests a partial inventory build-up in the channel.

IT sector is estimated to have grown by c.20% in 1Q10, and the Company has registered 42% volume growth in computer shipments (c.50% of sales) in 1Q10, mainly due to the low base effect. IDC expects the hardware segment to register 19.4% growth in 2010, which comprises 76% of sales in the IT sector. However, this is likely to be revised down to low-teens, based on the above-mentioned factors and our channel checks. Thus, Indeks's 2010 guidance of 11% revenue growth in US$ terms could prove challenging to attain, considering that computer unit volume growth will likely be driven by lower priced netbooks (about half the price of laptops).

Potential margin pressure from the rise of techno markets -- Retail shops, i.e. techno markets, have consistently captured market share in IT distribution with the increasing share of consumers in IT spending; attractive campaigns; product variety; and expansion of their retail networks. Over the past couple of years, IT spending growth was mainly driven by individual users, comprising 38% of the IT market in 2009, compared to 18% as of 2005. This is expected to increase further, enabling techno markets to increase their market share to c.42% this year, from 36% in 2009, and gaining greater bargaining power with distributors -- essentially eroding the value-added attributes of distributors and marginalising them to logistics providers. Retail shops, which represent 40% of Indeks's revenues, are likely to enjoy greater market influence with the growth trend, supported by their aggressive expansion plans.

Note that Turkey is the only country that the two major electronics retailers, Best Buy and Media Markt, have both ventured into. Electro World opened its first store in Turkey in 2007, following the entry of Darty and Media Markt. Each of these durable goods retailers is expected to double its outlets by 2011. Moreover, the major player Teknosa, which has 250 stores currently, plans to expand in Anatolia, where Indeks enjoys better pricing power. Additionally, Vatan Computer poses notable threat to Indeks's dealer network.

Slim margins, high turnover model highly sensitive to domestic demand -- IT distribution is a low-margin business, driven mainly by revenue turnover.

Thus, working capital management is crucial for value generation in the sector. Indeks's net margin ranged between 0.5% and 1.5% over the past four years, with risk management playing a significant role for sustained profitability (collection of receivables). The Company has historically barely covered its cost of equity. The main driver for historical average ROE of c.15% is high asset turnover and financial leverage, like many other distributors, which creates a major vulnerability to a downturn in domestic demand.

Dupont Analysis	**2006**	**2007**	**2008**	**2009**
Net Profit Margin	1.37%	1.23%	0.55%	1.47%
Asset Turnover	2.98	3.15	2.71	2.82
Financial Leverage	3.79	3.77	3.64	3.72
Return on Equity	**15.5%**	**14.6%**	**5.4%**	**15.3%**
Return on Total Capital	12.65%	12.21%	4.75%	12.95%
Return on Sales	1.37%	1.23%	0.55%	1.47%
Return on Assets	4.09%	3.63%	1.51%	3.65%

Vulnerable to deterioration in global risk appetite being a small-cap stock; risk of share overhang driven by shareholding structure – As a small-cap stock, INDES is vulnerable to a downdraft in global risk appetite. Hence, the impact of a potential sell-off in the Turkish market would be more accentuated in the case of INDES. Moreover, 35% of the Company is owned by Pauliadis and Associates, which became insolvent a few years ago, resulting in five Greek banks assuming ownership of the shares due to a collateral agreement. While the cost of their share acquisition is significantly above the current share price, this still represents an overhang risk, given the dire economic conditions in Greece.

Valuation

Our 12-month price target of TRL2.84, based on the blended average of DCF and peer comparison analysis, offers 21% upside potential.

Valuation Summary

INDES Valuation Summary ($mn)	**Value**	**Value/share (TRL)**	**Weight**	**Weighted**
DCF	101	2.96	50%	50
Peer Comparison	93	2.71	50%	47
Target Equity Value				**97**
Target 12-M TRL/USD				1.63
Implied 12-M Target Price (TRL)				**2.84**
Current Price (TRL)				2.35
Upside Potential (%)				**21%**

DCF Valuation

Our DCF valuation analysis yields a fair value of TRL2.96 per share, based on our assumptions of 0% terminal growth rate; 12.6% WACC; and EBITDA margin easing to 3.2% by 2019, from 3.8% in 2009. The value of real estate is not incorporated into our valuation, which could add US$20mn to our valuation, should a sale materialise in 2011. In addition, we prefer not to include the value contribution from a potential entry into distribution of electrical household goods business, considering timing and execution risks. However, we should note that it could add about US$30mn to Indeks's intrinsic value.

INDES DCF Valuation

USD mn	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Revenues	**753**	**789**	**812**	**786**	**758**	**780**	**790**	**818**	**861**	**831**
yoy growth	*7.1%*	*4.8%*	*2.9%*	*-3.2%*	*-3.6%*	*2.9%*	*1.3%*	*3.5%*	*5.2%*	*-3.4%*
Gross Profit	**47**	**48**	**49**	**47**	**45**	**45**	**46**	**47**	**49**	**47**
Gross Margin	6.2%	6.1%	6.0%	5.9%	5.9%	5.8%	5.8%	5.7%	5.7%	5.6%
Operating Expenses	**(18)**	**(19)**	**(20)**	**(19)**	**(18)**	**(19)**	**(20)**	**(20)**	**(21)**	**(21)**
Op. Exp / Revenues	*-2.4%*	*-2.4%*	*-2.4%*	*-2.4%*	*-2.4%*	*-2.4%*	*-2.5%*	*-2.5%*	*-2.5%*	*-2.5%*
Operating Profit	**29**	**29**	**29**	**28**	**26**	**27**	**26**	**27**	**27**	**26**
Operating Margin	*3.8%*	*3.7%*	*3.6%*	*3.5%*	*3.5%*	*3.4%*	*3.3%*	*3.3%*	*3.2%*	*3.1%*
EBITDA	**29**	**30**	**30**	**28**	**27**	**27**	**27**	**27**	**28**	**27**
EBITDA margin	*3.9%*	*3.8%*	*3.7%*	*3.6%*	*3.6%*	*3.5%*	*3.4%*	*3.4%*	*3.3%*	*3.2%*
Minority adj. EBITDA	**26**	**27**	**27**	**25**	**24**	**24**	**23**	**23**	**24**	**23**
Minority adj. EBITDA margin	*3.5%*	*3.4%*	*3.3%*	*3.2%*	*3.1%*	*3.0%*	*2.9%*	*2.9%*	*2.8%*	*2.7%*
(-/+) Increase / decrease in NWC	(8)	(9)	(5)	(0)	(1)	(4)	(5)	(7)	(6)	(2)
(-) Taxes (on EBIT)	(6)	(6)	(6)	(6)	(5)	(5)	(5)	(5)	(6)	(5)
Effective Tax Rate	*-20%*	*-20%*	*-20%*	*-20%*	*-20%*	*-20%*	*-20%*	*-20%*	*-20%*	*-20%*
(-) Capex	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
% of revenues	*-0.2%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.2%*	*-0.2%*
FCF	**11**	**11**	**14**	**18**	**16**	**13**	**11**	**10**	**11**	**15**
Terminal value	-	-	-	-	-	-	-	-	-	**111**
Discount rate	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%	12.6%
Discount factor	1.06	1.19	1.34	1.51	1.70	1.92	2.16	2.43	2.74	3.08
Discounted FCFs	**11**	**9**	**11**	**12**	**9**	**7**	**5**	**4**	**4**	**5**
Discounted terminal value										**36**

PV of FCFs (2010E-2019E)	76
PV of Terminal Value	36
Terminal growth rate	0%
Terminal value as % of total value	32%
Core Business Value	**112**
(-) Net Debt	11
Current Target Mcap (US$mn)	**101**
# of shares outstanding	56
Target 12-M Share Price (US$)	1.81
Target 12-M TRL/USD	1.63
Implied 12-M Target Price (TRL)	**2.95**
Current Share Price (TRL/share)	2.35
Upside / Downside	25.6%

INDES WACC (2010E-2019E avg)	
Turkish Risk Free Rate	6.5%
Unlevered Equity Risk Premium	5.0%
Unlevered beta	1.4
Debt / Equity	20%
Tax rate	20%
Cost of Equity	13.8%
Cost of Debt	8.0%
WACC	12.6%

Real Estate Valuation

We estimate US$20mn incremental value from the Company's real estate spanning 40K sqm land, if a sale materialises in 2011. However, we prefer not to incorporate this into our valuation, due to timing- and permit-related uncertainties facing the plan to convert the area into a residential district. Our valuation for this asset is discounted back two years, based on the low-end of management estimate of US$45mn-60mn. We estimate the potential lease liability of US$18mn, using an office rental yield of 7%, and GYODER's estimate for logistics space rental rate in the Asian part of Istanbul -- likely prospective location according to the management -- at US$6/sqm for 20K-sqm area.

Relative Valuation

Our peer comparison analysis yields a fair value per share of TRL2.71. INDES is trading at 3.7x 2010E EV/(minority adj. EBITDA) and 6.6x 2010E P/E, representing 22% and 24% discounts to its peers respectively, compared to the historical discount range of 10% to 20% and its average five-year historical forward trading average of 4.3x EV/EBITDA multiple. Note that the stock price of its domestic peer Arena is reflecting an acquisition premium, as the company recently announced its plans to sell a stake to an international player.

Company	MCAP (USDmn)	EV (USDmn)	EV/EBITDA			P/E		
			2009	2010E	2011E	2009	2010E	2011E
TECH DATA CORP	1,948	1,455	5.5	4.8	4.1	18.4	11.8	9.5
INGRAM MICRO INC-CL A	2,655	2,114	5.4	3.9	3.5	12.8	8.6	7.6
ESPRINET SPA	427	445	5.3	5.9	5.4	9.4	10.3	8.9
ALSO HOLDING-REG	255	418	n.m	6.6	6.4	n.m	8.4	7.7
ARENA BILGISAYAR	63	74	5.1	4.3	4.5	7.5	6.4	6.9
INDEKS BILGISAYAR	**87**	**100**	**4.2**	**3.7**	**3.6**	**8.2**	**6.6**	**5.7**
premium (discount) to peers			*-21%*	*-22%*	*-20%*	*-26%*	*-24%*	*-26%*
Median			**5.3**	**4.8**	**4.5**	**11.1**	**8.6**	**7.7**

Source: EFGI, Bloomberg

Potential value from distribution of small electrical household goods

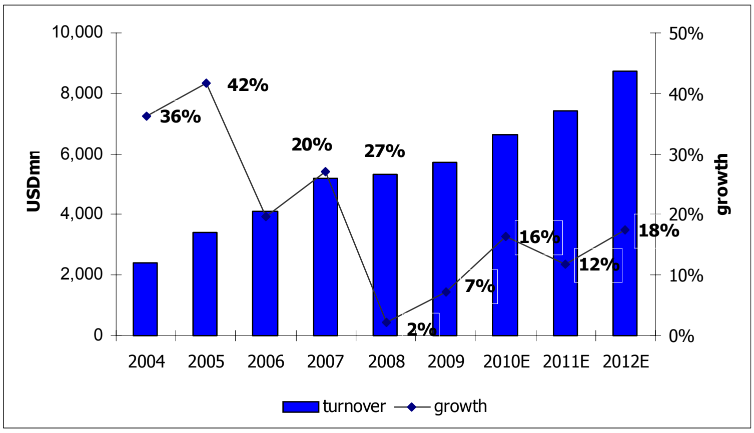
Our back-of-the-envelope DCF valuation analysis for electrical household goods business yields a fair value of around US$30mn, assuming the Company will reach c.$30mn in sales in 2011, gross margin of 20%, with a WACC of 12.6% and no terminal growth. The annual domestic electrical household goods market is estimated at US$2bn and has been growing at high-single digits over the past couple of years. Our model conservatively assumes 5% market share by the end of 2019. Management expects gross margins to be at a minimum of 20%, which we deem reasonable, based on the profitability levels of comparable companies.

IT Sector Outlook - Turkey

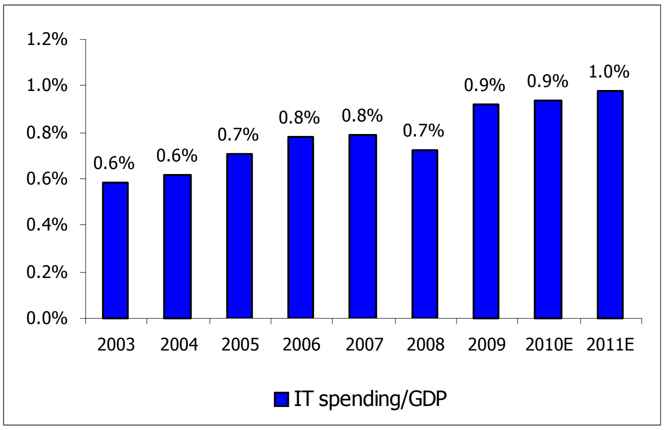
Turkish IT sector recorded 18.8% CAGR in US$ terms within 2004 and 2009, reaching US$5.7bn, according to IDC. Despite the economic crisis in 2009, the sector grew by 7.2%, led by the hardware segment, thanks to the value-added tax (VAT) reduction from 18% to 8% in IT products between March-September period and investments by mobile operators (i.e. netbook sales) on the back of the launch of 3G last summer. IDC expects the sector to register 15.2% turnover CAGR within the next three years. However, we expect growth in IT sector to be around 9-10% in 2010, considering ytd growth, as well as demand satisfied during last year's tax incentives and expect the sector to register 12% CAGR over the next three-year period.

IT spending as a percentage of GDP increased from 0.6% in 2003 to 0.9% in 2009. IDC expects this trend to continue over the next few years, reaching above 1% level in 2012. IT spending/GDP declined to 0.7% in 2008, mainly due to lower hardware sales (0.4% yoy decline), stemming from the decline in manufacturing (18% of IT spending) and finance sectors (15% of IT spending) amid the economic crisis.

IT Sector Turnover – Turkey (2004-2012E)*



IT Turnover/GDP



Source: IDC. EFGI

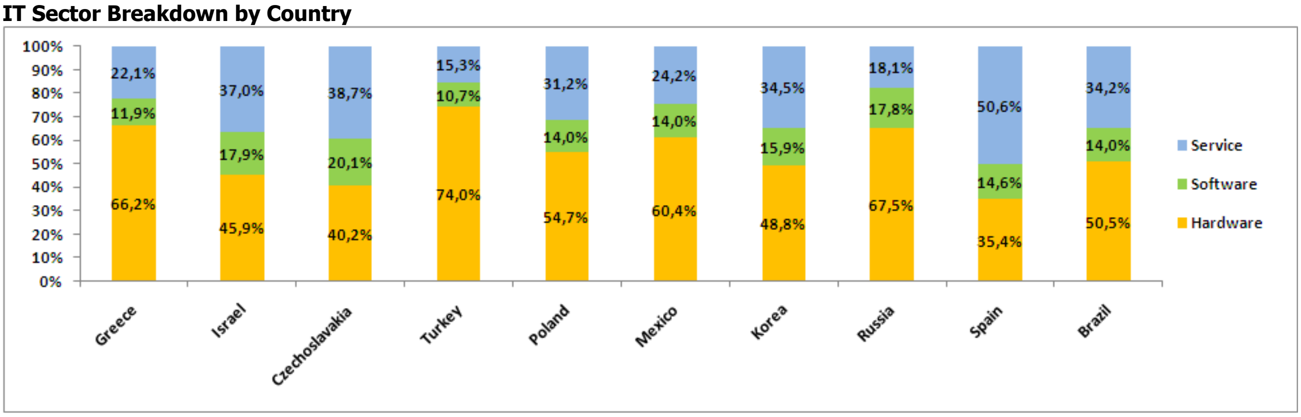
Hardware segment, which includes mainly desktop, laptop and server PCs, accounts for the bulk of total sector sales, representing 74% of the turnover in 2009. It grew slightly faster than the sector, registering 12.5% CAGR within 2006-2009 and gaining 1.6pp share from the sector sales. This was mainly driven by the increase in computer penetration during the same period. Computer penetration in Turkey is estimated to have reached 24% as of 2009, up from 15% in 2005. Household broadband penetration, which is a good proxy for computer sales, increased close to c.40% from c.17% within the same period.

TURKISH IT SECTOR *mnUSD*	**2006**	**2007**	**2008**	**2009**	**2010E**	**2011E**	**2012E**
Hardware	2,962	3,857	3,842	4,219	5,039	5,391	6,413
y/y growth		*30.2%*	*-0.4%*	*9.8%*	*19.4%*	*7.0%*	*19.0%*
% of sales	*72.4%*	*74.2%*	*72.3%*	*74.0%*	*75.9%*	*72.7%*	*73.6%*
Software	514	581	614	609	668	892	1,028
y/y growth		*13.0%*	*5.7%*	*-0.8%*	*9.7%*	*33.5%*	*15.2%*
% of sales	*12.6%*	*11.2%*	*11.6%*	*10.7%*	*10.1%*	*12.0%*	*11.8%*
Service	614	759	858	872	933	1,134	1,277
y/y growth		*23.6%*	*13.1%*	*1.6%*	*7.0%*	*21.5%*	*12.6%*
% of sales	*15.0%*	*14.6%*	*16.1%*	*15.3%*	*14.0%*	*15.3%*	*14.6%*
TOTAL	**4,091**	**5,197**	**5,315**	**5,700**	**6,641**	**7,418**	**8,719**
y/y growth	**19.7%**	**27.1%**	**2.3%**	**7.2%**	**16.5%**	**11.7%**	**17.5%**

Source: IDC

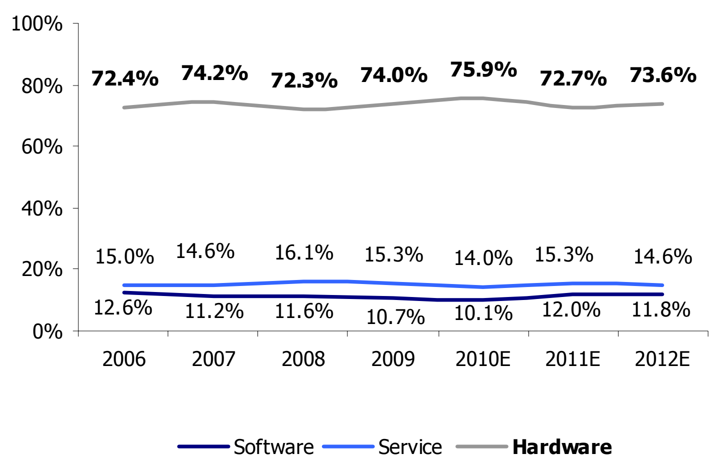
Software sales grew at a slower rate than hardware at c.6% within 2006-2009, reaching US$609mn as of 2009, representing c.11% of the IT market. Turkey's software sales as a percentage of the IT market lag behind other countries, as depicted on the chart below. This is mainly due to wide usage of pirated software, especially MS Office applications. While usage of pirated software has declined notably since the adoption of copyright protection laws in 1995, it still remains way above the EU and US averages. It is estimated that 70% of the software in Turkey is unlicensed, compared to the respective c.35% level in the US.

IT Sector Breakdown by Country



Source: IDC

IT Sector Revenue Breakdown by Product Segment (2006-2012E)



Source: IDC

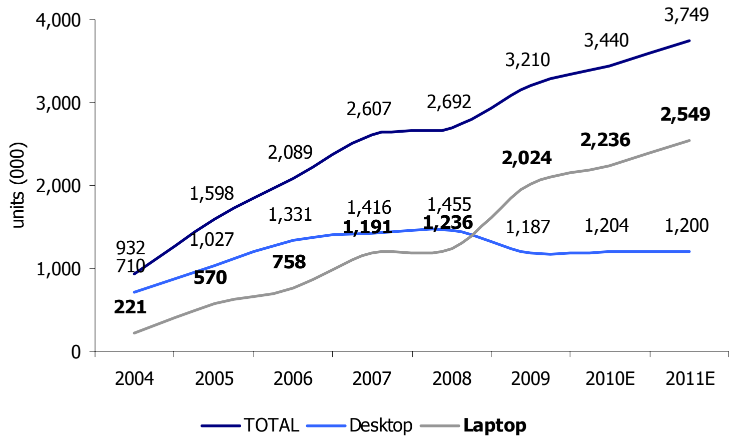
Computer unit sales in Turkey increased at a five-year CAGR of c.28% between 2004-2009, reaching 3.2mn units in 2009, mainly driven by the increase in laptop penetration. Laptop shipment volumes registered c.56% CAGR, having reached c.2mn units, representing 63% of the total computer market in 2009, compared to 24% in 2004. Desktop shipments posted a CAGR of 11% during the same period, while their market share dropped to 37% in 2009 from 76% in 2004. IDC expects laptop shipments to grow faster going forward and account for 64% and 68% of the market in 2010 and 2011, respectively. Laptop sales, which represented 68% of the market in US$ terms in 2009, are expected to increase to 72% in 2011.

Domestic Computer Shipments vs. Indeks (2007-2012E)

	2007	2008	2009	2010E	2011E	2012E
Population	70.6	71.5	72.4	73.3	74.2	75.2
PC penetration	12.8%	16.2%	19.6%	22.3%	24.0%	26.5%
PC Sales						
Desktop	**1,416**	**1,455**	**1,187**	**1,204**	**1,200**	**1,224**
yoy growth	6%	3%	-18%	1%	0%	2%
% of unit shipments	54%	54%	37%	35%	32%	29%
Laptop	**1,191**	**1,236**	**2,024**	**2,236**	**2,549**	**2,996**
yoy growth	57%	4%	64%	11%	14%	18%
% of unit shipments	46%	46%	63%	65%	68%	71%
TOTAL	**2,607**	**2,692**	**3,210**	**3,440**	**3,749**	**4,220**
yoy growth	25%	3%	19%	7%	9%	13%
Indeks market share	27.0%	28.4%	25.0%	24.5%	24.0%	23.2%
Indeks computer shipments	704	766	804	843	900	979
y/y growth		8.7%	5.0%	4.8%	6.7%	8.8%

Source: IDC, EFGI

Turkey - Computer Unit Sales Mix (2004-2011E)



Source: IDC, EFGI

The significant growth was also enabled through ASP (average selling price) declines in computers. Desktop prices eased to around US$500 from US$2,500 in 2000, while notebook ASPs came down to US$600 from US$3,000 levels at the beginning of this decade. From the end-user side, consumer demand was the main growth driver, having increased from less than 50% of sales in 2004 to 73% of the shipments, while the percentage of demand commanded by commercial users slipped to 28%. The other triggers for robust growth were the expansion of organised retailers, i.e. techno markets; the availability of financing options; and the increase in the purchasing power of Turkish consumers.

In 2009, netbook shipments were the major driver of the 19% computer shipment growth, thanks to attractive campaigns by mobile operators with the launch of 3G services in July 2009. Netbook shipments are estimated to have represented about 20% of total computer sales in 2009 at c.650K units. As a result, the 64% unit shipment growth for laptops in 2009 was mainly driven by netbooks. Excluding netbook sales, total PC shipments declined by c.5% in 2009. Netbook shipments, which are expected to sustain their growth momentum in 2010, are estimated to reach c.25% of computer shipments at 700K units in 2010. The major driver is the continued demand by mobile operators (c.450K), while Turk Telekom and other players contribute the remainder. For a perspective, Turkcell currently has 350-400K users of netbooks/modems (more than 50% in modems), with an estimated market share of c.65%. The Company expects to reach 750K subscribers (netbooks/modems) by the end of this year, implying an incremental demand of c.200K from this operator alone.

Desktop market is rather fragmented, controlled by several domestic companies, while foreign share is limited at around 20% of the total desktop market. Notebook market, on the other hand, is dominated by global players (HP, Acer, Toshiba etc) with 56% market share in 2009. However, domestic producers have started to make inroads, having raised their market share from 10% in 2003 to close to 20% with the commoditisation of these products.

Company Profile

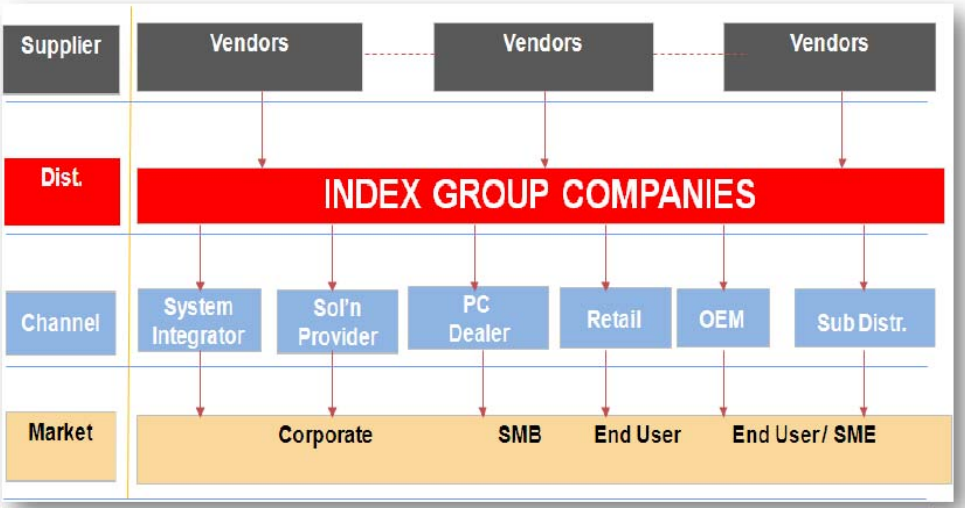
Founded in 1989, Indeks is the market leader in IT product distribution with an estimated distribution market share of 40%. The Company has close to 7,500 business partners for the distribution of a diversified product spectrum encompassing over 200 IT products and has 336 employees.

Indeks is organised as a holding company with six subsidiaries. The Group companies listed below are consolidated under Indeks's financials. The Company typically generates close to 1/3 of its revenues in the fourth quarter.

IT distribution is a low-margin business, driven mainly by revenues. Working capital management is the key driver for value creation; thus inventory management, logistics and distribution network are the key focus/priority areas for the management.

Indeks Group does not sell its products directly to end users, rather to its wide network including system integrators, value-added suppliers, OEM stores and retail channels, as shown in the chart below.

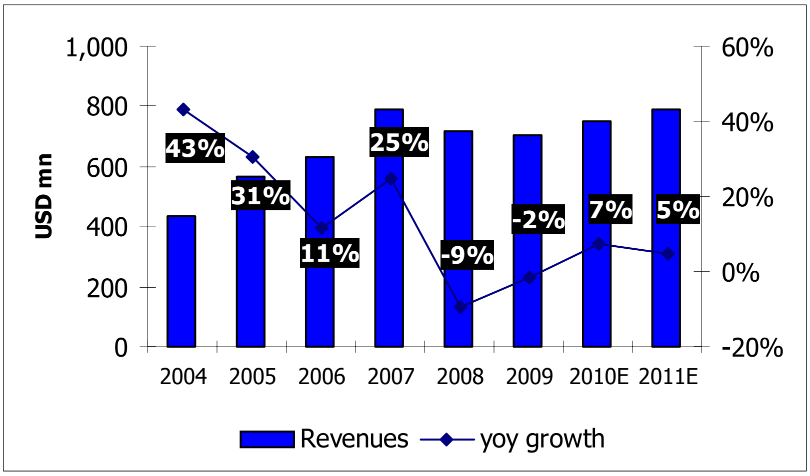
Indeks Business Model



Source: The Company

Indeks Group registered five-year historical consolidated sales CAGR of c.10%, reaching US$703mn in 2009. Revenues contracted by 1.6% in 2009, driven by a 15% decline in total unit shipment volumes. The decline mainly stemmed from OEM component shipments, which represent c.19% of the sales and c.45% of the volumes, having dropped by c.15% last year. However, this was mostly offset by the volume increase in higher-ticket items like computers growing by c.5%, which represented c.45% of the sales, up from c.38% in 2008.

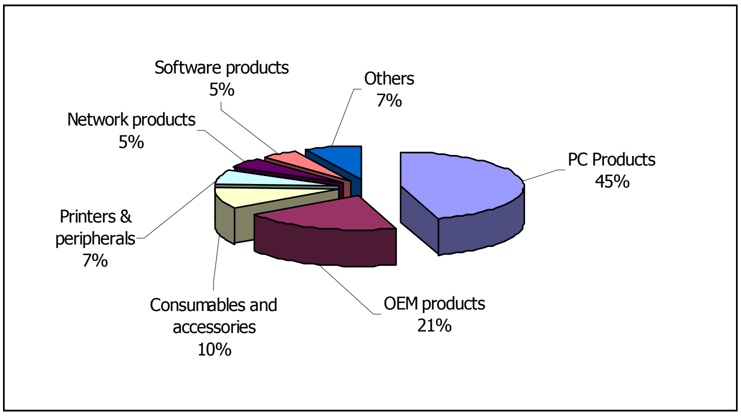
Indeks Revenues (USD) (2004-2011E)



Source: The Company

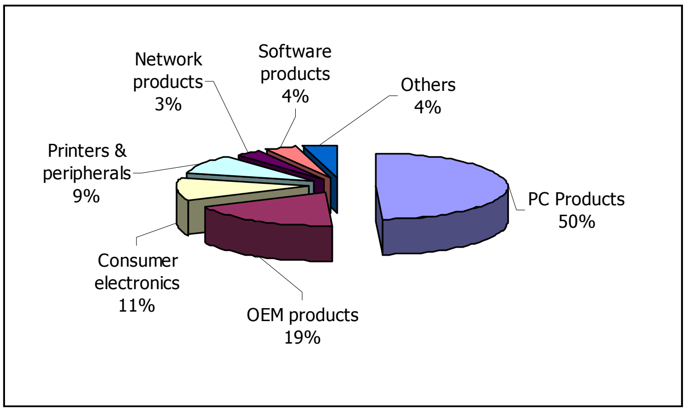
PC products generated about 45% of the Company's revenues in 2009. However, the share of PC products in revenues has increased to 50% in 1Q10, at the expense of lower-margin OEM products. The share of OEM products in total revenues has been on the decline, having accounted for 19% of the sales as of 1Q10.

Sales Breakdown - 2009



Source: The Company

Sales Breakdown – 1Q10



Source: The Company

Datagate -- Being a publicly traded company, Datagate is a 59.3% subsidiary of Indeks. Datagate deals with the distribution, sales, marketing and logistics of microprocessors, hard disks, memory units, optical products, monitors and software. The company had solo revenues and EBITDA of TRL295mn and TRL6.8mn as of 2009.

Neteks -- Neteks was founded in 1996 to distribute end-to-end network and communications equipments including products from Cisco, Nortel, 3Com and HP. Indeks has a 50% stake in the company, which had a sales turnover of TRL50mn and EBITDA of TRL1.1mn as of 2009.

Neotech -- The Company operates in wholesale trading of consumer electronics and communication equipment. Indeks has an 80% stake in the company, which registered revenues and EBTDA of TRL105mn and c.TRL1mn, respectively, in 2009.

Teklos -- Teklos provides logistics services to IT companies, as well as to Indeks subsidiaries. Founded in 2006, it is located on a 39K sqm land at a 20K sqm building. While rentals currently comprise close to 60% of its revenues of TRL4.6mn, revenues by IT logistics operations are projected to reach around US$20mn in the medium term, on the back of recently signed contracts.

PRODUCT CATEGORIES BY COMPANY

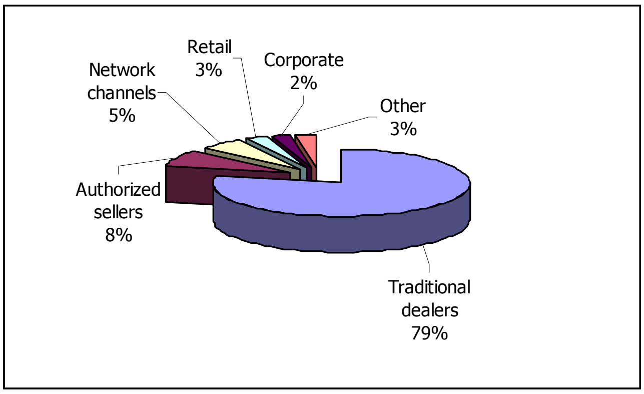
INDEKS	DATAGATE	NETEKS	NEOTECH	TEKLOS
PC	Microprocessor	Corporate network systems	Consumer electronics	Logistics and transportation
Laptop	Hard disc	Network systems	Communication devices	
Printers	Motherboard	Remote serves	Alternative electronic products	
Servers	Videocard	Cabling		
PC Peripherals	Memory products	ADSL Solution packages		
Software	PC			
	Laptops			
	Network products			
	Security products			
	Laser printers			

Indeks Subsidiaries	Distribution model	Ownership
Indeks	Broadliner	100%
Datagate	OEM Components	59%
Neteks	Network Products	50%
Neotech	Cons. & home electronics	80%
Teklos	IT logistics & services	100%

Source: The Company

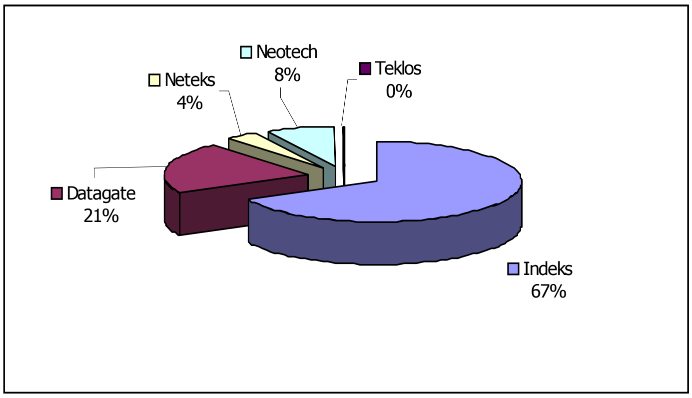
Indeks generated 79% of its revenues from traditional dealers, while the remainder was split between authorised sellers, retail and network channels.

Indeks Distribution Channels - 2009



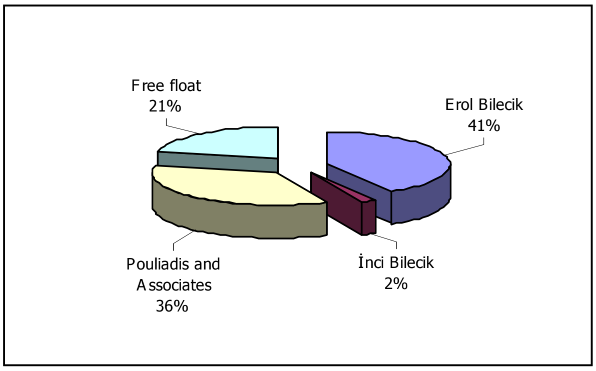
Source: The Company

Revenue Breakdown by Subsidiaries - 2009



Source: The Company

Shareholder Structure



Source: The Company

1Q10 Results Review

Indeks posted strong 1Q10 results, featuring US$201mn sales, up 54% yoy in US$ terms; US$8mn EBITDA, up 32% yoy; and US$3mn net income, up 56% yoy. Despite the yoy total unit volume contraction of 3%, strong growth was achieved through higher average selling prices, due to a favourable shift in the product mix. Computer shipments increased by 43% yoy in 1Q10, representing 12% of total shipments and c.50% of total sales, compared to 8% and 44% as of 1Q09, respectively, mainly due to a marked 22% yoy contraction in computer shipments in 1Q09.

While the gross margin declined by 110bp yoy to 6.3% in 1Q10, it should be noted that the 1Q09 figure had been artificially boosted by lower average inventory costs, as a result of the sharp depreciation of the TRL (11% qoq), as the Company's inventories are mainly denominated in the US$. The yoy EBITDA margin contraction was lower at 80bp, thanks to good cost control, with opex/sales at 2.2% vs. 2.5% in 1Q09.

The Company's net debt fell by TRL20mn to TRL10mn in 1Q10, on the back of lower working capital needs, with net working capital turnover having increased to 17.0x from 13.5x in 4Q09.

Indeks - Announced Financials (IFRS Basis; US$mn)

Income Statement	***1Q10***	***1Q09***	***YoY Δ***	***4Q09***	***QoQ Δ***
Net Sales	**201**	**130**	**54.1%**	**222**	**-9.6%**
Domestic	*202*	*130*	*54.9%*	*222*	*-8.8%*
International	*1*	*1*	*13.1%*	*1*	*22.0%*
Others, Net	*(3)*	*(1)*	*100.2%*	*(0)*	*n.m.*
COGS	(188)	(121)	55.8%	(210)	-10.5%
Gross Profit	13	10	**32.6%**	12	**6.6%**
EBITDA	**8**	**6**	**31.8%**	**7**	**15.6%**
Operating Exp.	(4)	(3)	32.7%	(5)	-7.4%
Operating Profit	**8**	**6**	**32.5%**	**7**	**15.7%**
Net Other Income	(0)	0	n.m.	(0)	-63.6%
Net Financial Exp	(4)	(3)	18.6%	(2)	66.7%
Taxes	(1)	(1)	0.5%	(1)	-16.2%
Discont. Operations	0	0	n.m.	0	n.m.
Minority Interest	(0)	(0)	54.6%	(0)	85.1%
Net Profit	**3**	**2**	**55.8%**	**3**	**-4.2%**
Margins					
Gross	6.3%	7.4%	-1.0 pp	5.4%	1.0 pp
EBITDA	**4.2%**	**4.9%**	**-0.7 pp**	**3.3%**	**0.9 pp**
Operating	4.2%	4.8%	-0.7 pp	3.3%	0.9 pp
Eff. Tax Rate	19.7%	27.5%	-7.8 pp	22.6%	-2.9 pp
Net	**1.6%**	**1.5%**	**0.0 pp**	**1.5%**	**0.1 pp**
Balance Sheet	***1Q10***	***1Q09***	***YoY Δ***	***4Q09***	***QoQ Δ***
Cash & Mkt. Sec.	7	16	-55.5%	2	n.m.
Fin. Debt	14	24	-41.6%	22	-36.7%
Net Debt	**7**	**8**	**-13.7%**	**20**	**-66.5%**
Accounts Rec.	149	93	59.9%	154	-3.2%
Inventories	83	46	81.5%	93	-11.3%
Accounts Payable	179	96	86.4%	178	0.6%
LT Assets	21	19	11.2%	21	-1.2%
LT Liabilities	7	8	-9.9%	7	-3.6%
Total Assets	**283**	**189**	**49.6%**	**294**	**-3.6%**
Equity	**72**	**55**	**30.9%**	**70**	**2.6%**
Financial Ratios	***1Q10***	***1Q09***	***YoY Δ***	***4Q09***	***QoQ Δ***
Debt/Equity	294.5%	245.3%	49.2 pp	319.9%	-25.3 pp
Receivable Days	67	64	2	64	3
Inventory Days	40	34	6	41	-1
Payable Days	86	72	14	78	8
Net Work. Cap. Days	21	27	-6	27	-6

Source: The Company, EFG Istanbul Research

Indeks - Announced Financials (IFRS Basis; TRLmn)

Income Statement	***1Q10***	***1Q09***	***YoY Δ***	***4Q09***	***QoQ Δ***
Net Sales	**302**	**215**	**40.1%**	**329**	**-8.4%**
Domestic	*304*	*216*	*40.9%*	*328*	*-7.5%*
International	*2*	*2*	*2.8%*	*2*	*23.7%*
Others, Net	*(4)*	*(2)*	*82.0%*	*(1)*	*n.m.*
COGS	(283)	(200)	41.7%	(312)	-9.3%
Gross Profit	19	16	**20.5%**	18	**8.1%**
EBITDA	**13**	**11**	**19.8%**	**11**	**17.2%**
Operating Exp.	(7)	(5)	20.6%	(7)	-6.1%
Operating Profit	**13**	**10**	**20.5%**	**11**	**17.3%**
Net Other Income	(0)	0	n.m.	(1)	-63.1%
Net Financial Exp	(6)	(6)	7.8%	(4)	69.1%
Taxes	(1)	(1)	-8.6%	(1)	-15.1%
Discont. Operations	0	0	n.m.	0	n.m.
Minority Interest	(0)	(0)	40.6%	(0)	87.7%
Net Profit	**5**	**3**	**41.7%**	**5**	**-2.9%**
Margins					
Gross	6.3%	7.4%	-1.0 pp	5.4%	1.0 pp
EBITDA	**4.2%**	**4.9%**	**-0.7 pp**	**3.3%**	**0.9 pp**
Operating	4.2%	4.8%	-0.7 pp	3.3%	0.9 pp
Eff. Tax Rate	19.7%	27.5%	-7.8 pp	22.6%	-2.9 pp
Net	**1.6%**	**1.5%**	**0.0 pp**	**1.5%**	**0.1 pp**
Balance Sheet	***1Q10***	***1Q09***	***YoY Δ***	***4Q09***	***QoQ Δ***
Cash & Mkt. Sec.	11	26	-59.6%	2	n.m.
Fin. Debt	21	40	-47.0%	32	-35.5%
Net Debt	**10**	**13**	**-21.6%**	**30**	**-65.8%**
Accounts Rec.	226	156	45.3%	229	-1.3%
Inventories	126	76	64.9%	139	-9.6%
Accounts Payable	272	160	69.4%	265	2.5%
LT Assets	31	31	1.0%	31	0.7%
LT Liabilities	11	13	-18.1%	11	-1.8%
Total Assets	**429**	**316**	**35.9%**	**437**	**-1.8%**
Equity	**109**	**91**	**19.0%**	**104**	**4.5%**

INDES - Consolidated Income Statement					
	2007	2008	2009	2010E	2011E
TRLmn					
Revenues (TRL)	**1,025**	**928**	**1,087**	**1,187**	**1,307**
y-o-y growth	13.6%	-9.5%	17.2%	9.2%	10.1%
Total Costs and Expenses	**(998)**	**(902)**	**(1,047)**	**(1,142)**	**(1,258)**
y-o-y growth	14.0%	-9.6%	16.1%	9.1%	10.2%
Direct Costs	**(970)**	**(877)**	**(1,023)**	**(1,114)**	**(1,227)**
Gross margin	5.4%	5.5%	5.9%	6.2%	6.1%
Selling expenses	(16)	(13)	(11)	(14)	(16)
% of sales	-1.6%	-1.4%	-1.0%	-1.2%	-1.2%
General and administrative expenses	(12)	(12)	(13)	(14)	(16)
% of sales	-1.1%	-1.2%	-1.2%	-1.2%	-1.2%
Operating Income	**27**	**26**	**40**	**45**	**48**
Operating margin	2.6%	2.8%	3.7%	3.8%	3.7%
y-o-y growth	1.2%	-2.7%	53.3%	11.5%	7.3%
EBITDA	**27**	**27**	**41**	**46**	**49**
EBITDA margin	2.6%	2.9%	3.8%	3.8%	3.8%
Minority adj. EBITDA	**24**	**23**	**37**	**41**	**44**
Non-Operating Expenses	**(12)**	**(20)**	**(18)**	**(16)**	**(13)**
Pre-tax Income	**15**	**7**	**22**	**29**	**35**
Income taxes	(2)	(2)	(5)	(6)	(7)
Effective tax rate %	-11%	-23%	-21%	-20%	-20%
Net Income Continuing Operations	**13**	**5**	**18**	**23**	**28**
y-o-y growth	1.4%	-61.6%	241.0%	29.6%	23.4%
Minority interest	1	0	2	2	3
Net income	**13**	**5**	**16**	**21**	**25**
y-o-y growth	2.1%	-59.9%	214.5%	29.7%	22.0%

Source: EFGI, the Company

INDES - Consolidated Balance Sheet					
TRLmn	**2007**	**2008**	**2009**	**2010E**	**2011E**
Assets					
Cash and cash Equivalents	7	9	2	12	19
Accounts Receivable	182	185	231	242	266
Inventories	101	80	139	139	152
Total Current Assets	**317**	**305**	**406**	**428**	**477**
Property, plant and equipment	28	28	28	29	29
Total Assets	**349**	**336**	**437**	**460**	**509**
Avg. Assets	326	342	386	448	485
Liabilities					
Short-term debt	29	29	22	23	24
Accounts Payable	216	199	291	290	311
Current Liabilities	**245**	**228**	**313**	**313**	**335**
Long-Term Debt	10	12	10	10	10
Total Liabilities	**256**	**241**	**324**	**324**	**346**
Total Shareholder Equity	**93**	**95**	**113**	**133**	**159**
Avg. Equity	86	94	104	123	146

Source: EFGI, the Company

EFG Istanbul 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 **Attractive (A), Neutral (N), Cautious (C).**

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

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

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

Short-term Rating:

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

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

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

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

S/T Stock Rating Summary	Relative Return
Outperform (O)	>=10%
Marketperform (M)	<+10% & >-10%
Underperform (U)	<=-10%

*To have a more balanced distribution of ratings, EFGI 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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EFG Istanbul Securities is a boutique investment firm engaged in brokerage, corporate finance advisory and new product development activities in Turkey. The Firm provides brokerage services to international and domestic institutional clients and our Research Department provides essential tools and reports as part of our brokerage activities. The Corporate Finance Department focuses on mergers and acquisitions and private and public equity and debt transactions. Our new product development activities focus on derivative products.

EFG Istanbul Securities' goal is to become Turkey's premier investment firm.

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