

Indeks Bilgisayar

IT Distributor

TURKEY- EQUITY RESEARCH

May 16, 2011

Strong growth in Q1

Indeks Bilgisayar posted TRL3.3mn net income in Q1 vs. TRL4.7mn in same quarter last year. Net income is in line with our estimate of TRL3.7mn.

Revenue growth was promising

Despite strong base, revenues reached TRL358mn in Q1, implying 19% YoY growth. Revenue growth is higher than our full year estimate of 9%. Despite 7% appreciation of USD against TRL consumer demand remained strong. As opex generally does not show major fluctuations, managing the gross margin is very crucial in the business. In Q1, both competition in the sector and fluctuations in USD/TRL affected operating margins negatively. Gross margin of 5.1% was the lowest in the last two years. Thus, EBITDA margin contracted to 3% from 4.3% same quarter last year.

Lower FX loss due to square FX position

The company almost closed its short position on USD and recorded lower FX related losses (TRL3.6mn) unlike previous quarters. The company's short FX position declined to TRL3mn from TRL52mn as of 2010-end.

Dividend distribution is due on May 17th (2% yield)

The company had announced TRL0.0684 div/ share, which implies 2% yield at current prices. Distribution will take place on May 17th. Adjusting for the dividend distribution of TRL3.8mn, the company's net cash position of TRL6.8mn as of FY10-end turned into net debt of TRL14mn at the end of Q1.

'OUTPERFORM' maintained

Initiation of new businesses, such as high margin spare part sales, targeting margin expansion would be positive going forward as competition started to take a toll on margins. Considering that demand for IT products depends heavily on exchange rates, appreciation of USD/TRL parity might cause delays in demand and stands as a major risk for expectations. We keep our OUTPERFORM rating, inching up our target price to TRL4 from TRL3.9, which implies 12% upside potential.

Forecasts and Financial Ratios

(TRLmn)	2008	2009	2010	2011E	2012E
Net Sales	928	1,087	1,228	1,344	1,457
Sales growth	-9%	17%	13%	9%	8%
EBITDA	27	41	48	48	52
% margin	2.9%	3.8%	3.9%	3.6%	3.6%
Net Earnings	5	16	13	23	24
% margin	0.5%	1.5%	1.1%	1.7%	1.7%
EPS	0.09	0.28	0.24	0.42	0.43
EPS growth	-60%	214%	-17%	77%	4%
P/E	39.6	12.6	15.2	8.6	8.6
EV / EBITDA	8.0	5.2	4.5	4.5	4.1
DPS	0.00	0.04	0.07	0.12	0.13
Dividend Yield	0.0%	1.2%	2.0%	3.5%	3.6%

OUTPERFORM

(maintained)

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Valuation

Share Price (TRL)	3.58
Target Price (TRL)	4.00
Upside Potential	12%
Market Cap (USDmn)	127
Net Debt (USDmn)	9
EV (USDmn)	136
Net FX Pos. (USDmn)	-2

Trading

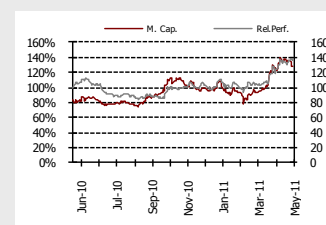
12m High / Low	3.76 / 2.03
Avg. Daily Vol. (USDmn)	0.5
Num. of shares (mn)	56.0
Free Float	21%
Foreign Ownership	19.4%

Ownership Structure

Nevres Erol Bilecik	41.1%
Pouliadis and Associates S.A.	35.6%
Free Float & Others	23.4%

Performance Chart

Return	TRL	Rel.
1M	3%	9%
3M	33%	33%
12M	60%	43%



Financial Highlights, INDES

TRL mn	1Q11	1Q10	YoY Δ	4Q10	QoQ Δ	2010	2009	YoY Δ
Net Sales	358.3	301.9	19%	387.1	-7%	1,228.2	1,087.4	13%
COGS	-339.9	-282.8	20%	-363.6	-7%	-1,153.3	-1,023.1	13%
Gross Profit	18.4	19.1	-4%	23.4	-21%	74.9	64.3	16%
Operating Expenses	-8.1	-6.5	24%	-8.1	0%	-28.4	-23.9	19%
Marketing, Selling and Distribution Expenses	-4.0	-3.7	9%	-4.2	-4%	-13.5	-11.2	21%
General Administrative Expenses	-4.1	-2.8	44%	-3.9	5%	-14.9	-12.8	17%
Operating Profit	10.3	12.6	-18%	15.4	-33%	46.5	40.4	15%
Depreciation	0.3	0.2	39%	0.2	9%	0.8	0.7	20%
Severance Payments	0.3	0.1	151%	0.3	4%	0.5	0.1	255%
EBITDA	10.9	12.9	-16%	15.9	-32%	47.9	41.2	16%
Net Other Income	0.2	0.0	2408%	0.0	1011%	0.1	0.4	-83%
Net Other Expenses	-0.3	-0.2	44%	-0.2	57%	-0.4	-0.9	-60%
Finance Income	6.4	12.7	-49%	10.5	-39%	40.0	28.3	42%
Finance Expenses	-11.6	-18.6	-38%	-22.8	-49%	-67.7	-45.7	48%
Profit (Loss) Before Tax	5.0	6.4	-22%	2.8	76%	18.5	22.4	-17%
Taxes	-1.3	-1.3	6%	-1.0	32%	-4.3	-4.7	-8%
Minority Interest	-0.3	-0.4	-30%	0.0	2804%	-1.0	-1.7	-40%
Net Income	3.3	4.7	-29%	1.8	84%	13.2	15.9	-17%
Net Debt	10.2	10.3		-6.8		-6.8	30.1	
Net FX Position	-3.1	-52.5		-50.9		-50.9	-63.5	
Gross Margin	5.1%	6.3%	-119 bps	6.1%	-92 bps	6.1%	5.9%	19 bps
Operating Margin	2.9%	4.2%	-129 bps	4.0%	-109 bps	3.8%	3.7%	8 bps
EBITDA Margin	3.0%	4.3%	-123 bps	4.1%	-107 bps	3.9%	3.8%	11 bps
Net Margin	0.9%	1.6%	-63 bps	0.47%	46 bps	1.1%	1.5%	-39 bps

Source: Indeks Bilgisayar

Summary Balance Sheet, INDES

TRL mn	1Q11	4Q10	QoQ Δ	1Q10	YoY Δ
CURRENT ASSETS	485.2	506.3	-4%	397.7	22%
Liquid Assets	11.6	26.5	-56%	10.7	9%
Short-Term Trade Receivables	286.0	315.2	-9%	226.4	26%
Inventories	143.7	127.3	13%	125.5	14%
Other Current Assets	43.9	37.2	18%	35.1	25%
LONG TERM ASSETS	32.7	31.9	3%	31.3	4%
Trade Receivables	0.0	0.0	n.m.	0.0	n.m.
Financial Investments	0.1	0.1	0%	0.1	0%
Tangible Fixed Assets	28.6	28.4	1%	28.0	2%
Intangible Fixed Assets	0.1	0.1	75%	0.1	65%
Other Long-Term Assets	3.8	3.2	19%	3.1	21%
TOTAL ASSETS	517.9	538.1	-4%	429.0	21%
SHORT TERM LIABILITIES	385.1	408.4	-6%	300.3	28%
Short-Term Financial Loans	11.9	11.4	4%	11.0	8%
Short-Term Trade Payables	342.4	366.0	-6%	271.7	26%
Other Short-Term Financial Liabilities	30.8	31.0	-1%	17.6	75%
LONG TERM LIABILITIES	9.2	9.3	-1%	10.8	-15%
Long-Term Financial Loans	7.8	8.3	-5%	10.0	-21%
Long-Term Trade Payables	0.0	0.0	n.m.	0.0	n.m.
Other Long-Term Liabilities	1.3	1.0	30%	0.8	70%
MINORITY INTEREST	11.3	9.8	16%	9.2	23%
SHAREHOLDERS EQUITY	123.6	120.4	3%	117.9	5%
TOTAL LIABILITIES AND S.HOLDERS EQUITY	517.9	538.1	-4%	429.0	21%
Financial Ratios	1Q11	4Q10		1Q10	
Debt/Equity	3.19	3.47		2.64	
Current Ratio (x)	1.26	1.24		1.32	
Trade receivables day	69	67		57	
Stock Turn.	48	40		41	
Trade payables day	90	86		83	
Cash Cycle	27	21		16	

Source: Indeks Bilgisayar

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 than 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.

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

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.

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