

INDEX COMPUTER

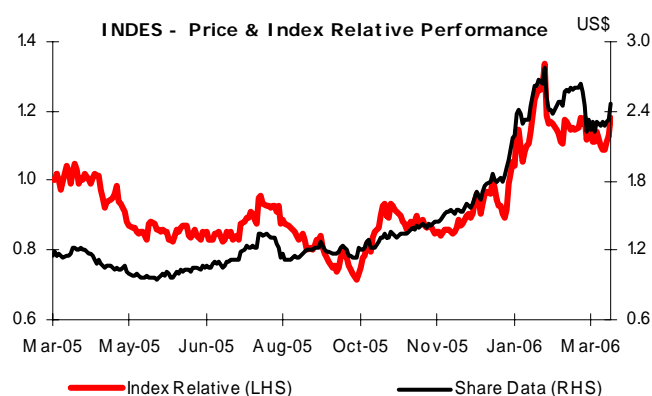
Technology Equipment Distributor

Market Outperformer

High Growth, Low Multiples

- Index Computer Systems (hereafter also referred to as 'the Company', or 'Index') is the largest information technology equipment and consumer electronics distributor in Turkey. Index is structured as a holding company harboring a total of five companies active in different technology products segments.
- Index' consolidated net sales of US\$105mn for 1999, grew by a CAGR of 32%, rising more than five-fold to US\$566mn in 2005. Meanwhile, the Turkish IT market (excluding services) reached US\$2.4bn last year, from a low of US\$930mn in 2001 following the crisis, and rose by 50% on top of the US\$1.6bn of 1999 according to IDC (International Data Corporation) Data.
- We do not anticipate a major squeeze in the Company's margins in the next few years until penetration and the market reach a more mature phase. A gradual reduction in gross margin from the current 6.1% to 4.7% in 2010 is projected in our forecasting and valuation model. Yet, 4.7% gross margin in 2010 may prove conservative, especially if Index establishes itself in higher-margin businesses.
- The establishment of a logistics company catering tailor-made business solutions (including software installment according to specifications as well as shipment and bringing the system into full scale operations) to some of the business partners is amongst Index's 2006 plans. Yet service, production, and software development are other potential future businesses the Company is also closely eyeing.
- We initiate our coverage for Index with a 'Market Outperformer' rating. Our target valuation for Index (DCF based on Index consolidated financials less the value of minority stake in Datagate, Neteks, and Neotech) stands at US\$178mn, indicating 61% upside from current levels. The Company currently trades at 4.4x 2006F EV/EBITDA (2007F: 3.5x) and 9.2x 2006F P/E (2007F: 7.3x). We argue that the Company has ample growth room for both top-line and bottom-line given the early stage it is in and the favorable sector outlook.

Price (YTL / US\$)	3.28 / 2.46
Price Range (1 Yr., YTL / US\$)	1.32 / 0.94 - 3.32 / 2.78
Number of Shares ('000)	45,000
Market Cap. (US\$m)	111
Net Debt (2005-end, US\$m)	5
Free Float	20%
Daily Vol. (3 Month, US\$m)	0.8
Ticker (Reuters, Bloomberg)	INDES.IS, INDES TI
ISE-100 Index (YTL / US\$)	44,531 / 33,424



PERFORMANCE	1 Week	1 Month	3 Month	1 Year
US\$	8.1%	0.3%	50.3%	115.2%
Index Relative	7.4%	6.8%	30.3%	15.9%

SUMMARY FORECASTS (IFRS, US\$m) & VALUATION

	2004A	2005A	2006F	2007F
Net Sales	459	566	724	896
EBITDA	13.0	19.3	26.3	33.2
Net Profit	6.0	8.7	12.1	15.1
EV/Sales	0.25	0.20	0.16	0.13
EV/EBITDA	8.9	6.0	4.4	3.5
P/E	18.4	12.8	9.2	7.3

SHAREHOLDING STRUCTURE

Erol Bilecik	39.96%
Pouliadis & Associates S.A.	35.56%
Float	19.89%
Other	4.59%
TOTAL	100%

INVESTMENT THEME

The Company – Index Computer Systems (hereafter also referred to as ‘the Company’, or ‘Index’) is the largest information technology equipment and consumer electronics distributor in Turkey. Index is structured as a holding company harboring a total of five companies active in different technology products segments.

Index Computer and Group Companies

COMPANY	BUSINESS LINE	INDEX STAKE	STATUS
Index	Desktops, Notebooks, Servers, Software	100.00%	Listed
Datagate	PC Components	59.24%	Listed
Neteks	Network Hardware	90.40%	Not Listed
Neotech	Consumer Electronics	80.00%	Not Listed

Source: Index, Ak Securities

Index consolidates Datagate, Neteks and Neotech in its financials, while the other two companies (Infin and Inko) are unconsolidated due to their immaterial impact on financials. Index, as the parent company, closely works with all worldwide IT brands, including, but not limited to IBM, HP, Intel, Microsoft, Cisco (or the so-called ‘technology partners’), and distributes their products nationwide through approximately 6,000 resellers (or the so-called ‘business partners’), system integrators, and retail chains. The Company has over 200 technology partners, distribution contracts with which are renewed annually. Index, with its broad product range and brand diversity, nationwide reach, and powerful logistic structure offers its business partners the convenience of one-stop shopping.

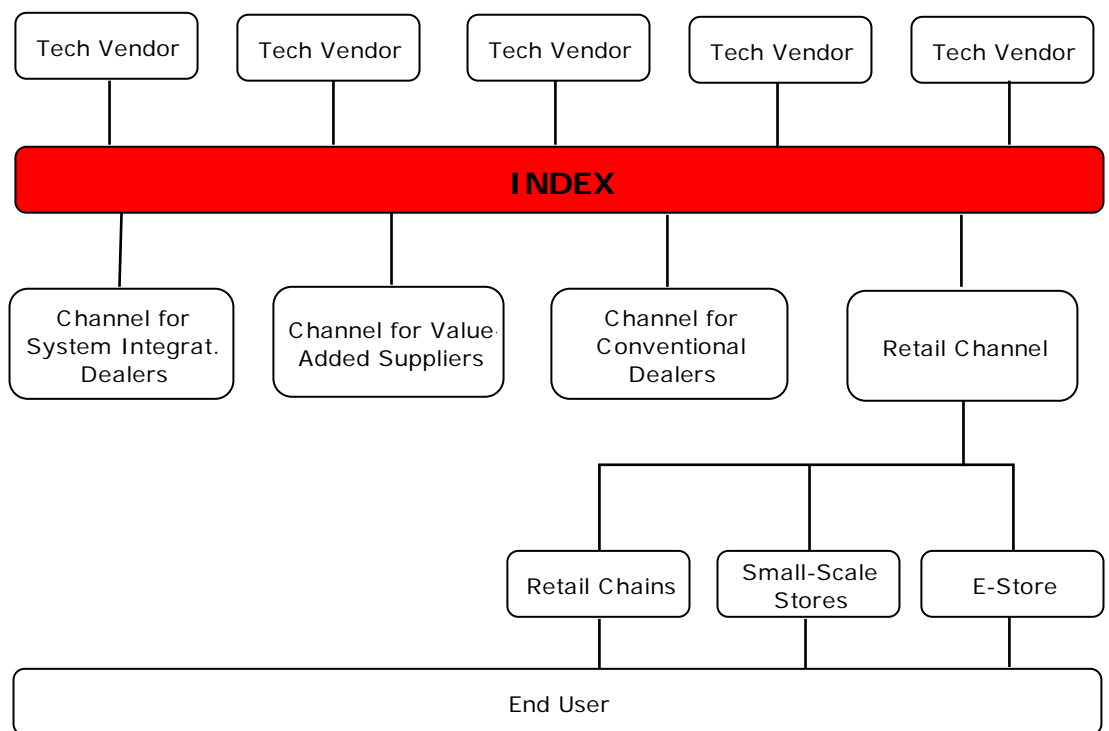
Index Computer at a Glance – Key Financials* (US\$m)

Financials	2003	2004	2005
Net Sales	304	459	566
EBITDA	6.8	13.0	19.3
Net Profit	2.9	6.0	8.7
Net Debt	4.7	5.1	5.0
Sh. Equity	19.2	38.0	45.8

*Source: Index, Ak Securities, * Consolidated IFRS Financials*

Established in 1989, Index is controlled by Erol Bilecik, an electronics engineer of more than 20 years experience in the sector. The Company's Board consists of 5 people, more than half of which is determined by 100 A-type privileged shares.

Business Model – Index is a broadline distributor positioned immediately after the technology vendors in the supply chain between the product and the consumer. The Company is the leader in its segment in Turkey in terms of top-line, number of invoices and number of contracts with technology vendors.



By its very nature, the business is a high volume one with razor-thin margins (gross margin between 4-6%, EBITDA margin at around 2-3.5%). The Company's success and value creation is centered on its strong relationship with technology vendors, logistic management, and widespread and effective channel management without creating conflict with its business partners, as well as risk management.

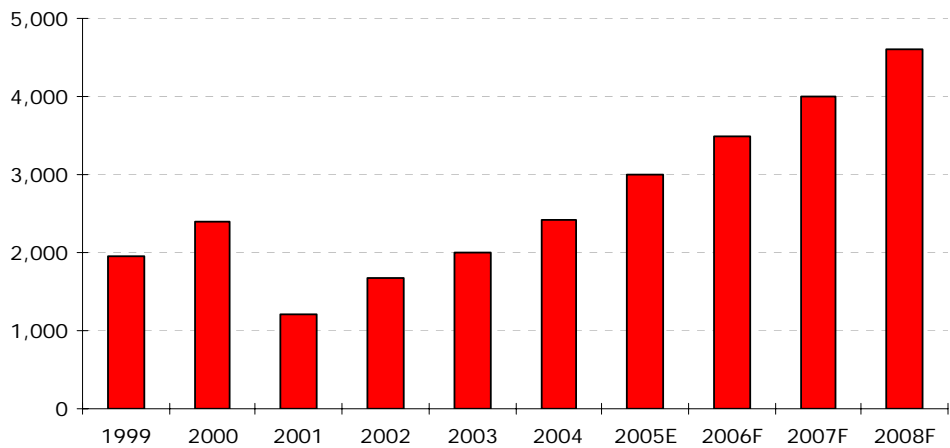
The Company has a broad and well-balanced brand portfolio with no brand constituting more than 20% of consolidated sales. Days receivable and days payable are roughly matched at around 40 days, with days receivable being slightly lower. Days inventory is kept at around three weeks with a view to lower working capital, and due to the fast-evolving nature of products.

Doubtful receivables as of 2005-end stood at YTL1.4mn (~US\$1.05mn), which is fully provisioned. Meanwhile, the rise in doubtful receivables in 2005 was a net YTL100,896 (~US\$75K) versus consolidated net sales of US\$566mn! The Company has a short net FX position of ~US\$8.7mn as of 2005-end. More than 87% of the balance sheet as of 2005-end is comprised of cash, receivables and inventory, or an equivalent 84% comprises equity and payables, while net tangible fixed assets and overall long-term assets comprise 1.6%, and less than 5% of the total asset size, respectively.

Both Index and group companies are the leaders in their respective segments in terms of top-line. As technology vendors typically work with several distributors, the major competitors of Index and its group companies in each segment are limited to 1 or 2.

Phenomenal Growth Not Likely to Cut Pace Anytime Soon – Index’ consolidated net sales of US\$105mn for 1999, grew by a CAGR of 32%, rising more than five-fold to US\$566mn in 2005. Meanwhile, the Turkish IT market (excluding services) reached US\$2.4bn last year, from a low of US\$930mn in 2001 following the crisis, and rose by 50% on top of the US\$1.6bn of 1999 according to IDC (International Data Corporation) Data.

Turkish IT Market (US\$mn)

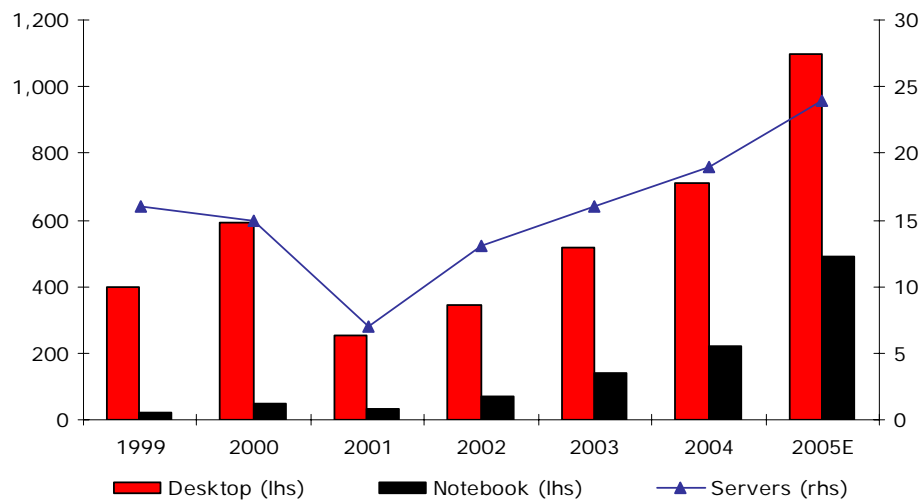


Source: IDC, Ak Securities

The Turkish PC market reached 1.6mn units in 2005, almost quadrupling from 1999. Increasing affordability through declining prices, and sales campaigns with installment terms exceeding 12 months have both sparked a phenomenal rise in PC demand and ownership in Turkey, which is currently estimated at around 10-11%. ADSL port investments, the government’s drive

to extend computerization in schools all over Turkey, and the spread of consumer electronic chains facilitating availability and offering attractive sales terms to customers, together with increased Internet awareness even in small cities are other significant factors fueling demand. The general expectation for 2006 is that PC volume will exceed 2.5mn for the year. We expect a rapid rise in PC ownership to 20-25% levels (within 3-4 years), and foresee some leveling-off thereafter. Notebook sales may outstrip desktop sales as the price discrepancy shrinks.

Turkish PC & Server Market ('000 Units)



Source: IDC, Ak Securities

We also do not anticipate a major squeeze in the Company's margins in the next few years until penetration and the market reach a more mature phase. A gradual reduction in gross margin from the current 6.1% to 4.7% in 2010 is projected in our forecasting and valuation model. Yet, 4.7% gross margin in 2010 may prove conservative, especially if Index establishes itself in higher-margin businesses.

As the Turkish market continues to grow aggressively, Index is likely to face increasing margin pressure both from technology vendors and fast-expanding retail chains with rising procurement power. The Company, in an effort to combat prospective margin pressures, tends to position itself as a more service-oriented concern for its business partners by offering increased logistic services.

Purchase of the New Land Tract Will Facilitate Diversification to Logistical Services – Index purchased 99.9% of Karadeniz Orme Sanayi (no liability except for some operational debt according to Index's announcement) for US\$15mn in March 2006. The significance of the acquired company for Index lies in its 39.761m² land tract, approximately half of which is closed building space. The land is conveniently located in European Istanbul near one of the Bosphorus bridges where most IT firms are located. Index plans to convert the land into a logistical hub for its business partners by establishing a logistic service company in the second half of 2006, as well as to use it for potential production or software development plans in the future.

New Business Ventures – Index established Neotech, its concern for distribution of consumer electronic equipment, in February 2005, and its 2005 sales reached US\$14mn. Index management regards consumer electronics as an attractive segment offering handsome growth prospects given retail chains' plans to expand aggressively nationwide. Neotech's top-line is expected to rise to three digit figures in the next couple of years, possibly becoming second only to Index amongst the group companies in the future. According to Sabanci Holding's forecasts for its electronics retail chain Teknosa, the electronic retail market estimated at US\$3.7bn in 2005 is poised to rise to US\$4.6bn in 2008 and to US\$7.3bn in 2015.

The establishment of a logistics company catering tailor-made business solutions (including software installment according to specifications as well as shipment and bringing the system into full scale operations) to some of the business partners is amongst Index's 2006 plans. Yet service, production, and software development are other potential future businesses the Company is also closely eyeing.

Tax Advantage of Imports to a Free Trade Zone – Index enjoys zero corporate tax rate regime for its shipments direct from the free trade zone. Roughly 25% of Index (stand-alone company) sales are shipments from the free trade zone, while the same figure for Neteks, Datagate and Neotech stands at 0%, 90-95% and 0% respectively. Index's effective tax rate in its consolidated financials stood at 19% in 2005, and may be expected to decline to low teens in 2006, parallel to the corporate tax rate cut to 20% starting this year.

Initiation of Coverage with a 'Market Outperformer' Rating – We initiate our coverage for Index with a 'Market Outperformer' rating. Our target valuation for Index (DCF based on Index consolidated financials less the value of minority stake in Datagate, Neteks, and Neotech) stands at US\$178mn, indicating 61% upside from current levels. The Company currently trades at 4.4x 2006F EV/EBITDA (2007F: 3.5x) and 9.2x 2006F P/E (2007F: 7.3x).

As such, it represents one of the ISE's unrivaled growth stories, major threats to which going forward may stem from economic downturn (a high beta sector in this respect), a development that could challenge the business model (tech vendors directly targeting customers – unlikely for most vendors for the foreseeable future in our opinion), or margin squeeze. We attach the highest probability to a gradual margin squeeze, which we have already factored into our forecasts and valuation. We argue that the Company has ample growth room for both top-line and bottom-line given the early stage it is in and the favorable sector outlook.

VALUATION

We set our target equity value for Index at US\$178mn by using DCF analysis for our consolidated forecasts and making the necessary adjustments for the minorities. In order to extract the share of minorities from Index's valuation, we separately employed DCF for the valuation of Datagate, and used Index's multiples to assign a value for the minority stake in Neteks and Neotech. In other words,

$$\text{Target for Index} = \text{DCF}(\text{Index Consolidated}) - \text{Value of Minority Stake in Dgate, Neteks, Neotech}$$

Remembering the shareholding structure on page 1:

$$\text{Target for Index} = \text{DCF}(\text{Index Cons.}) - 41\% \times \text{DCF}(\text{Dgate}) - 9.6\% \times \text{Value}(\text{Neteks}) - 20\% \times \text{Value}(\text{Neotech})$$

We roughly calculate a total US\$4.2mn value for the minority stake in Neteks and Neotech by using Index's multiples.

$$\text{Target Equity Value for Index} = \text{US\$178mn} = 196 - 41\% \times 32 - 4.2$$

DCF - Index

INDEX - Discounted Cash Flow (Consolidated IFRS financials)

US\$m	2004A	2005A	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
EBIT (IFRS)	12	19	26	33	37	42	40	38	39	39	40	40
(+) Redundancy provisions	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
(-) Taxes on EBIT	4	6	5	7	7	8	8	8	8	8	8	8
Adjusted NOPLAT	8	13	21	26	30	34	33	31	31	32	32	32
(+) Depreciation	1	1	1	1	1	1	1	1	1	1	1	1
Gross cash flow	9	14	21	27	31	34	33	31	32	32	33	33
(-) Increase in NWC	18	8	18	12	22	20	13	9	7	7	8	8
(-) Capital Expenditures	0.5	0	15	1	1	1	1	1	1	1	1	1
FCF to firm	-10	5	-12	14	8	14	19	21	23	24	24	24
WACC			10.9%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
Discount Factor			1.03	1.14	1.26	1.40	1.55	1.72	1.90	2.11	2.33	2.58
Terminal Growth rate												3%
Terminal Value (beyond 2015) @ 2015												299
PV of FCFs		85										
PV of Terminal Value		116										
EV		201										
Net Debt*		5										
DCF Equity Value		196										

Source : Ak Securities, * 2005-end figure as subsequent years' cashflows are in DCF

Multiples Based on Current MCap and 2006-2007 Forecasts

	2005A	2006F	2007F
EV / EBITDA	6.0	4.4	3.5
P / E	12.8	9.2	7.3

Source: Ak Securities

Sensitivity of DCF Equity Value to Terminal Growth Rate

	0%	1%	2%	3%	4%
Equity Value	164	172	183	196	212

Source: Ak Securities

Forecasts for Index and Group Companies

Sales Model and Margin Outlook

US\$m	2005A*	2006F	2007F	2008F	2010F
Index (Stand-Alone)					
Net Sales	414	505	596	694	878
Gross Margin	6.29%	6.20%	6.00%	5.50%	5.00%
Datagate					
Net Sales	147	195	254	317	437
Gross Margin	4.14%	4.00%	4.00%	4.00%	3.00%
Neteks					
Net Sales	51	59	70	81	103
Gross Margin	4.74%	4.70%	4.50%	4.50%	3.50%
Neotech					
Net Sales	14	40	70	100	144
Gross Margin	6.09%	6.09%	6.00%	5.50%	5.00%

Source: Ak Securities * Using Ak Securities average YTL/\$ rate

DCF - Datagate

DATAGATE - Discounted Cash Flow (IFRS financials)

US\$m	2004A	2005A	2006F	2007F	2008F	2009F	2010F	2011F	2012F	2013F	2014F	2015F
EBIT (IFRS)	0.9	3.6	4.9	6.3	7.9	7.6	7.9	8.7	9.1	9.5	10.0	10.5
(+) Redundancy provisions	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
(-) Taxes on EBIT	0.3	1.1	1	1	2	2	2	2	2	2	2	2
Adjusted NOPLAT	1	3	4	5	6	6	6	7	7	8	8	9
(+) Depreciation	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gross cash flow	1	3	4	5	7	6	6	7	7	8	8	9
(-) Increase in NWC	6	4	4	4	7	6	5	4	2	2	2	2
(-) Capital Expenditures	0	0	0	0	0	0	0	0	0	0	0	0
FCF to firm	-5	-1.5	0.2	1.6	0.0	0.8	1.6	3.3	5.3	5.6	5.9	6.1
WACC			10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Discount Factor			1.03	1.13	1.25	1.38	1.52	1.68	1.85	2.04	2.25	2.48
Terminal Growth rate												3%
Terminal Value (beyond 2015) @ 2015												65
PV of FCFs		16										
PV of Terminal Value		26										
EV		42										
Net Debt*		10										
DCF Equity Value		32										

Source : Ak Securities, * 2005-end figure as subsequent years' cashflows are in DCF

SUMMARY FINANCIALS		IFRS, US\$m			
Balance Sheet	2004A	2005A	2006F	2007F	
Current Assets	126	164	205	239	
<i>Cash and Cash Equivalents</i>	7	13	5	8	
<i>S/T Trade Receivables</i>	80	91	131	152	
<i>Inventories</i>	30	47	49	57	
L/T Assets	8	8	24	21	
<i>Net Fixed Assets</i>	3	3	19	16	
TOTAL ASSETS	135	172	229	260	
S/T Liabilities	96	126	170	194	
<i>S/T Financial Debt</i>	12	18	33	37	
<i>Trade Payables</i>	79	99	126	145	
L/T Liabilities	0	0	0	0	
<i>L/T Financial Debt</i>	0	0	0	0	
Shareholders' Equity	38	46	56	63	
TOTAL LIABILITIES AND SH. EQUITY	135	172	229	260	
Income Statement					
Net Sales	459	566	724	896	
Cost of Goods Sold	-432	-531	-681	-844	
Gross Profit	26.7	34.4	43.0	51.6	
Operating Expenses	-14.4	-15.7	-17.3	-19.0	
EBIT	12.3	18.7	25.7	32.6	
EBITDA	13.0	19.3	26.3	33.2	
Net Other Income / (Expense)	1.4	-1.0	-2.1	-3.5	
Net Financial Expenses	-6	-6.7	-8.5	-10	
Minority Share	-0.1	-0.3	-1.2	-1.7	
Taxes	-0.7	-2.1	-1.8	-2.3	
Monetary Gain/(Loss)	-0.9	0.0	0.0	0.0	
Net Profit	6.0	8.7	12.1	15.1	
Growth (YoY)					
Net Sales	51%	23%	28%	24%	
EBIT	101%	52%	38%	27%	
EBITDA	91%	49%	37%	26%	
Net Financial Income	-26%	-67%	-39%	-27%	
Net Profit	105%	44%	39%	25%	
Margins					
Gross Profit	5.81%	6.07%	5.94%	5.77%	
EBIT	2.68%	3.30%	3.55%	3.64%	
EBITDA	2.82%	3.41%	3.64%	3.71%	
Net Profit	1.31%	1.53%	1.67%	1.69%	
Liquidity					
Current Ratio	1.32	1.31	1.20	1.23	
Quick Ratio	1.00	0.93	0.91	0.94	

Source: Index, Ak Securities

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