

Indeks Bilgisayar

IT Distributor

TURKEY- EQUITY RESEARCH

May 17, 2010

Satisfactory results as margins recover QoQ...

Net income is in line...

Indeks Bilgisayar reported TRL4.7mn net income in 1Q10 versus TRL3.3mn NI in 1Q09, broadly in line with our expectation of TRL5mn NI. Higher than expected net financial expenses offset the positive effect of higher than expected net sales and EBITDA margin, hence bottom-line of TRL4.7mn is realized, as expected.

Significant top-line growth in 1Q...

Indeks Bilgisayar increased its net sales by 40% YoY to TRL302mn in 1Q10, exceeding our expectation of TRL279mn. Significant top-line growth in 1Q might be attributable to (1) very low base period and (2) increase in average product prices as total sales volume inched down by 3% YoY. On the other hand, gross margin of 6.3% in 1Q10 came slightly higher than our expectation of 6.0%. Note that our 2010FY gross margin estimate stands at 6.5%.

EBITDA margin contracts YoY, yet recovers over the previous quarter...

Although op-ex / net sales ratio fell to 2.2% in 1Q10 from 2.5% over a year ago, Indeks' EBITDA margin decreased by 70bps YoY to 4.3% in 1Q. The contraction in EBITDA margin might be the result of 9% YoY depreciation in USD/TRL in 1Q as the Company sells its products mostly in USD terms. On the other hand, 1Q EBITDA margin of 4.3% is up by 96bps QoQ and higher than our expectation of 3.9%. On the back of QoQ recovery in EBITDA margin, we inched up our 2010FY EBITDA margin estimate by 10bps to 4.3%.

Higher than expected net financial expenses in 1Q...

Indeks' net financial expenses decreased by TRL0.4mn YoY in 1Q10 to TRL6mn and resulted higher than our expectation of TRL4mn net financial expense. The deviation stems from higher than expected net FX-losses of TRL4mn in 1Q10.

Indeks' net debt fell by TRL20mn QoQ to TRL10mn in 1Q10 on the back of lower working capital needs. Short FX position of the company also decreased to TRL52mn in 1Q10 from TRL64mn over the previous quarter.

Maintaining 'OUTPERFORM' rating, TP is revised up by 7% to TRL2.90; 32% upside... On the back of higher than expected growth in the top-line, we inched up our 2010 & 2011 net sales estimates each by 2%. INDES currently trades at 2.7x 2010E EV/EBITDA, referring a 44% discount compared to its peers (4.8x) All in all, we maintain our OUTPERFORM recommendation for INDES, with a TP of TRL2.90, implying an upside potential of 32%.

Forecasts and Financial Ratios

(TRLmn)	2008	2009	2010E	2011E
Net Sales	928	1,087	1,215	1,386
Sales growth	-9%	17%	12%	14%
EBITDA	27	41	52	58
% margin	2.9%	3.8%	4.3%	4.2%
Net Earnings	5	16	23	33
% margin	0.5%	1.5%	1.9%	2.4%
EPS	0.09	0.28	0.42	0.59
EPS growth	-60%	214%	47%	42%
P/E	24.2	7.7	5.3	3.7
EV / EBITDA	5.3	3.4	2.7	2.4
DPS	0.00	0.12	0.13	0.18
Dividend Yield	0.0%	5.4%	5.7%	8.1%

OUTPERFORM
(maintained)

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Valuation

Share Price (TRL)	2.19
Target Price (TRL)	2.90
Upside Potential	32%
Market Cap (USDmn)	81
Net Debt (USDmn)	7
EV (USDmn)	93
Net FX Pos. (USDmn)	-34

Trading

12m High / Low	2.50 / 1.01
Avg. Daily Vol. (USDmn)	0.6
Num. of shares (mn)	56.0
Free Float	21%
Foreign Ownership	13.0%

Ownership Structure

Nevres Erol Bilecik	41.1%
Pouliadis and Associates S.A.	35.6%
Free Float	21.0%
Others	2.4%

Performance Chart

Return	TRL	Rel.
1M	0%	7%
3M	40%	28%
12M	121%	31%

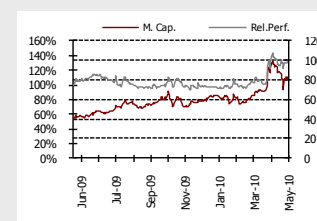


Figure 1 - Earnings Revisions, INDES

TRL mn	2008	2009	2010E		2011E	
	Realized	Realized	Old	New	Old	New
Net Sales	928	1,087	1,193	1,215	1,361	1,386
Gross Profit	51	64	78	79	88	90
EBITDA	27	41	50	52	56	58
Net Income	5	16	22	23	31	33
Gross Margin	5.5%	5.9%	6.5%	6.5%	6.5%	6.5%
EBITDA Margin	2.9%	3.8%	4.2%	4.3%	4.1%	4.2%
Net Margin	0.5%	1.5%	1.8%	1.9%	2.3%	2.4%
			Old	New	Revision	
Target Share Price (TRL)			2.70	2.90	7%	
Upside Potential			23%	32%		
Current Multiples - Current Share Price : TRL2.19						
P/E	24.2	7.7	5.6	5.3	3.9	3.7
EV/EBITDA	5.3	3.4	2.9	2.7	2.5	2.4
Implied Multiples - Target Share Price : TRL 2.90						
P/E	32.0	10.2	7.5	7.0	5.2	4.9
EV/EBITDA	6.7	4.4	3.7	3.5	3.2	3.1

Source: The Company, Oyak Securities Estimates

Figure 2 – Financial Highlights, INDES

TRL mn	1Q10	1Q09	YoY Δ	4Q09	QoQ Δ	2009	2008	YoY Δ
Net Sales	301.9	215.5	40%	329.4	-8%	1,087.4	927.9	17%
COGS	-282.8	-199.6	42%	-311.7	-9%	-1,023.1	-876.9	17%
Gross Profit	19.1	15.9	21%	17.7	8%	64.3	51.0	26%
Operating Expenses	-6.5	-5.4	21%	-6.9	-6%	-23.9	-24.7	-3%
Marketing, Selling and Distribution Expenses	-3.7	-3.3	10%	-1.8	102%	-11.2	-13.1	-15%
General Administrative Expenses	-2.8	-2.1	37%	-5.1	-45%	-12.8	-11.6	10%
Operating Profit	12.6	10.4	20%	10.7	17%	40.4	26.3	53%
Depreciation	0.2	0.2	-14%	0.2	6%	0.7	0.6	11%
Severance Payments	0.1	0.1	107%	0.0	657%	0.1	0.0	1991%
EBITDA	12.9	10.7	20%	10.9	18%	41.2	27.0	53%
Net Other Income	0.0	0.1	-94%	0.1	-89%	0.4	0.4	-11%
Net Other Expenses	-0.2	-0.1	364%	-0.7	-66%	-0.9	-0.5	89%
Share of Profit of Equity Accounted Investee	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Finance Income	12.7	14.8	-14%	2.3	462%	28.3	25.0	13%
Finance Expenses	-18.6	-20.3	-8%	-5.8	223%	-45.7	-44.4	3%
Profit (Loss) Before Tax	6.4	5.0	28%	6.6	-3%	22.4	6.8	231%
Taxes	-1.3	-1.4	-9%	-1.5	-15%	-4.7	-1.6	199%
Minority Interest	-0.4	-0.3	41%	-0.2	88%	-1.7	-0.1	1495%
Net Income	4.7	3.3	42%	4.9	-3%	15.9	5.1	214%
Net Debt	10.3	13.1	-22%	30.1	-66%	30.1	31.8	-5%
Net FX Position	-52.5	-8.5	515%	-63.5	-17%	-63.5	-37.6	69%
Gross Margin	6.3%	7.4%	-103 bps	5.4%	96 bps	5.9%	5.5%	42 bps
Operating Margin	4.2%	4.8%	-68 bps	3.3%	91 bps	3.7%	2.8%	87 bps
EBITDA Margin	4.3%	5.0%	-70 bps	3.3%	96 bps	3.8%	2.9%	88 bps
Net Margin	1.6%	1.5%	2 bps	1.5%	9 bps	1.5%	0.5%	92 bps

Source: Indeks Bilgisayar

Figure 3 - Summary Balance Sheet, INDES

TRL mn	1Q10	2009	QoQ Δ	1Q09	YoY Δ
CURRENT ASSETS	397.7	405.7	-2%	284.7	40%
Liquid Assets	10.7	2.3	359%	26.4	-60%
Short-Term Trade Receivables	226.4	229.5	-1%	155.9	45%
Inventories	125.5	138.9	-10%	76.1	65%
Other Current Assets	35.1	35.0	1%	26.3	33%
LONG TERM ASSETS	31.3	31.1	1%	31.0	1%
Trade Receivables	0.0	0.0	n.m.	0.0	n.m.
Financial Investments	0.1	0.1	0%	0.2	-66%
Tangible Fixed Assets	28.0	28.0	0%	27.8	1%
Intangible Fixed Assets	0.1	0.1	-9%	0.1	-21%
Other Long-Term Assets	3.1	2.9	7%	3.0	6%
TOTAL ASSETS	429.0	436.7	-2%	315.7	36%
SHORT TERM LIABILITIES	300.3	313.0	-4%	203.8	47%
Short-Term Financial Loans	11.0	22.2	-51%	26.9	-59%
Short-Term Trade Payables	271.7	265.1	3%	160.4	69%
Other Short-Term Financial Liabilities	17.6	25.8	-32%	16.4	7%
LONG TERM LIABILITIES	10.8	11.0	-2%	13.2	-18%
Long-Term Financial Loans	10.0	10.3	-3%	12.6	-21%
Long-Term Trade Payables	0.0	0.0	n.m.	0.0	n.m.
Other Long-Term Liabilities	0.8	0.6	20%	0.6	38%
MINORITY INTEREST	9.2	8.8	5%	7.3	25%
SHAREHOLDERS EQUITY	117.9	112.8	5%	98.8	19%
TOTAL LIABILITIES AND S.HOLDERS EQUITY	429.0	436.7	-2%	315.7	36%
Financial Ratios	1Q10	2009		1Q09	
Debt/Equity	2.64	2.87		2.20	
Current Ratio (x)	1.32	1.30		1.40	
Trade receivables day	67	76		65	
Stock Turn.	40	49		34	
Trade payables day	86	93		72	
Cash Cycle	21	32		27	

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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