

Indeks Bilgisayar

IT Distributor

TURKEY- EQUITY RESEARCH

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Lower than expected results...

Net income is lower than our estimate...

Indeks Bilgisayar reported TRL2.8mn net income in 2Q10 vs TRL3.7mn NI in 2Q09. 2Q10 net income missed our estimate of TRL5.6mn, mainly attributable to lower than expected net sales and EBITDA margin on higher than anticipated opex/sales ratio. As net sales of TRL248mn in 2Q10 missed our estimate of TRL293mn, 2Q EBITDA margin of 3.7% came lower than our expectation of 4.3%.

Top-line performance was weak on strong base year...

Net sales of Indeks reached TRL248mn in 2Q10, implying a contraction of 9% on YoY and 18% on QoQ basis. Weak performance at the top-line might be attributable to high base year effect as demand for IT products had been revived in 2Q09 via tax incentive given last year. As might be recalled, VAT for IT products was reduced to 8% from 15%, starting by 2Q09 for 6 months. On the other hand, as total sales volume fell by 9% YoY in 2Q10, average product prices remained almost stable during the same period. Meanwhile, gross margin of 6.2% (+37bps YoY) in 2Q10 also fell short of our estimate of 6.4%.

EBITDA margin came in at 3.7%...

Indeks' EBITDA margin fell by 61bps YoY to 3.7% in 2Q10, due to higher op-ex/sales ratio. The ratio of op-ex to revenues rose to 2.7% in 2Q10 from 1.7% level on 9%YoY fall in net sales. Meanwhile staff expenses (57% of total op-ex) have increased starting by 1Q10 and surged by 36% YoY in 1H10 in TRL terms.

Net debt position almost unchanged...

2Q10 net debt of TRL12mn implies insignificant rise compared to 1Q10 net debt level of TRL 10mn. On the other hand, net short FX position of the Company increased by TRL20mn QoQ to TRL72mn in 2Q10.

'OUTPERFORM' maintained; TP revised down by 8% to TRL2.70; 32% upside potential... On the back of weak top-line performance, we revised down our 2010FY revenue estimate by 2% to TRL1,206mn. Moreover, we inched down our 2010FY gross margin & EBITDA estimates to 6.3% (previous: 6.5%) and 4.0% (previously: 4.3%), respectively. Accordingly, we revised down our TP by 8% to TRL2.70, referring an upside potential of 32%. All in all, we maintain our OUTPERFORM rating for INDES as we believe that the Company will perform better for the remainder of the year. INDES currently trades at 2.8x 2010E EV/EBITDA, referring a 38% discount compared to its peers' average of 4.5x.

Forecasts and Financial Ratios

(TRLmn)	2008	2009	2010E	2011E
Net Sales	928	1,087	1,206	1,418
Sales growth	-9%	17%	11%	18%
EBITDA	27	41	48	56
% margin	2.9%	3.8%	4.0%	3.9%
Net Earnings	5	16	20	30
% margin	0.5%	1.5%	1.7%	2.1%
EPS	0.09	0.28	0.36	0.53
EPS growth	-60%	214%	26%	49%
P/E	22.7	7.2	5.7	3.8
EV / EBITDA	5.0	3.3	2.8	2.4
DPS	0.00	0.12	0.11	0.16
Dividend Yield	0.0%	5.8%	5.2%	7.8%

OUTPERFORM
(maintained)

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Valuation

Share Price (TRL)	2.05
Target Price (TRL)	2.70
Upside Potential	32%
Market Cap (USDmn)	76
Net Debt (USDmn)	7
EV (USDmn)	89
Net FX Pos. (USDmn)	-46

Trading

12m High / Low	2.50 / 1.30
Avg. Daily Vol. (USDmn)	0.6
Num. of shares (mn)	56.0
Free Float	23%
Foreign Ownership	13.9%

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	-6%	-3%
3M	-14%	-19%
12M	42%	14%

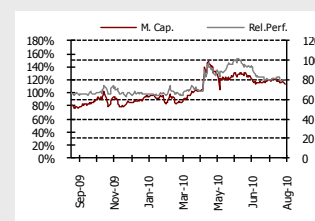


Figure 1 - Earnings Revisions, INDES

	2008	2009	2010E		2011E	
TRL mn	Realized	Realized	Old	New	Old	New
Net Sales	928	1,087	1,229	1,206	1,444	1,418
Gross Profit	51	64	80	76	94	89
EBITDA	27	41	52	48	61	56
Net Income	5	16	23	20	34	30
opex/sales	2.7%	2.2%	2.3%	2.4%	2.4%	2.5%
Gross Margin	5.5%	5.9%	6.5%	6.3%	6.5%	6.3%
EBITDA Margin	2.9%	3.8%	4.3%	4.0%	4.2%	3.9%
Net Margin	0.5%	1.5%	1.9%	1.7%	2.4%	2.1%
			Old	New	Revision	
Target Share Price (TRL)			2.95	2.70	-8%	
Upside Potential			44%	32%		
Current Multiples - Current Share Price : TRL2.05						
P/E	22.7	7.2	4.9	5.7	3.3	3.8
EV/EBITDA	5.0	3.3	2.6	2.8	2.2	2.4
Implied Multiples - Target Share Price : TRL2.70						
P/E	29.9	9.5	6.5	7.5	4.4	5.1
EV/EBITDA	6.4	4.2	3.3	3.6	2.8	3.1

Source: The Company, Oyak Securities Estimates

Figure 2 – Financial Highlights, INDES

TRL mn	2Q10	2Q09	YoY Δ	1Q10	QoQ Δ	1H10	1H09	YoY Δ
Net Sales	248.2	272.0	-9%	301.9	-18%	550.1	487.5	13%
COGS	-232.8	-256.1	-9%	-282.8	-18%	-515.5	-455.7	13%
Gross Profit	15.5	16.0	-3%	19.1	-19%	34.6	31.8	9%
Operating Expenses	-6.6	-4.5	47%	-6.5	1%	-13.1	-9.9	32%
Marketing, Selling and Distribution Expenses	-2.7	-1.8	48%	-3.7	-26%	-6.4	-5.2	24%
General Administrative Expenses	-3.9	-2.6	46%	-2.8	36%	-6.7	-4.7	42%
Operating Profit	8.9	11.5	-22%	12.6	-29%	21.5	21.9	-2%
Depreciation	0.2	0.2	30%	0.2	13%	0.4	0.4	5%
Severance Payments	0.0	0.0	67%	0.1	-81%	0.2	0.1	99%
EBITDA	9.1	11.7	-22%	12.9	-29%	22.0	22.4	-2%
Net Other Income	0.0	0.0	170%	0.0	42%	0.0	0.1	-85%
Net Other Expenses	0.1	0.0	n.m.	-0.2	n.m.	-0.1	-0.1	26%
Finance Income	10.1	7.3	39%	12.7	-20%	22.9	22.1	3%
Finance Expenses	-15.1	-14.0	8%	-18.6	-19%	-33.8	-34.3	-2%
Profit (Loss) Before Tax	4.1	4.8	-15%	6.4	-36%	10.5	9.8	7%
Taxes	-0.9	-0.7	43%	-1.3	-26%	-2.2	-2.0	8%
Minority Interest	-0.3	-0.4	-22%	-0.4	-21%	-0.8	-0.7	4%
Net Income	2.8	3.7	-24%	4.7	-41%	7.5	7.0	7%
Net Debt	11.6	-15.3	n.m.	10.3	12%	11.6	-15.3	n.m.
Net FX Position	-72.0	-35.0	106%	-52.5	37%	-72.0	-35.0	106%
Gross Margin	6.2%	5.9%	37 bps	6.3%	-9 bps	6.3%	6.5%	-24 bps
Operating Margin	3.6%	4.2%	-63 bps	4.2%	-58 bps	3.9%	4.5%	-59 bps
EBITDA Margin	3.7%	4.3%	-61 bps	4.3%	-59 bps	4.0%	4.6%	-59 bps
Net Margin	1.1%	1.4%	-23 bps	1.57%	-44 bps	1.4%	1.4%	-8 bps

Source: Indeks Bilgisayar

Figure 3 - Summary Balance Sheet, INDES

TRL mn	2Q10	1Q10	QoQ Δ	2Q09	YoY Δ
CURRENT ASSETS	363.3	397.7	-9%	357.0	2%
Liquid Assets	11.7	10.7	10%	39.7	-70%
Short-Term Trade Receivables	191.6	226.4	-15%	172.6	11%
Inventories	123.8	125.5	-1%	117.7	5%
Other Current Assets	36.2	35.1	3%	27.0	34%
LONG TERM ASSETS	31.7	31.3	1%	30.7	3%
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	28.4	28.0	1%	27.6	3%
Intangible Fixed Assets	0.1	0.1	-10%	0.1	-23%
Other Long-Term Assets	3.1	3.1	0%	2.8	10%
TOTAL ASSETS	395.0	429.0	-8%	387.8	2%
SHORT TERM LIABILITIES	269.6	300.3	-10%	273.2	-1%
Short-Term Financial Loans	13.2	11.0	20%	13.3	-1%
Short-Term Trade Payables	233.4	271.7	-14%	235.8	-1%
Other Short-Term Financial Liabilities	23.0	17.6	30%	24.1	-5%
LONG TERM LIABILITIES	10.9	10.8	1%	11.6	-6%
Long-Term Financial Loans	10.1	10.0	1%	11.0	-8%
Long-Term Trade Payables	0.0	0.0	n.m.	0.0	n.m.
Other Long-Term Liabilities	0.8	0.8	3%	0.6	38%
MINORITY INTEREST	9.5	9.2	4%	7.8	22%
SHAREHOLDERS EQUITY	114.5	117.9	-3%	102.9	11%
TOTAL LIABILITIES AND S.HOLDERS EQUITY	395.0	429.0	-8%	387.8	2%
Financial Ratios	2Q10	1Q10		2Q09	
Debt/Equity	2.45	2.64		2.77	
Current Ratio (x)	1.35	1.32		1.31	
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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