OYAK SECURITIES

Turkey – Equity Research

Earnings Update- 1Q09 Results *April 28, 2009*

Otokar
Automotive & Defense

Thanks to high-margin armored vehicle sales, Otokar posted strong earnings in 1Q09…

OTKAR.IS
OUTPERFORM (Maintained)

Share Price (TRL)	10.40
Mcap (USDm)	154
Target Mcap (USDm)	185
Upside Potential	20%
Net Debt (USDm)	74
Net FX Position (USDm)	9
12m High / Low (TRL)	15.69 / 6.10
Avg daily vol (USDm)	0.5
No. of shares (m)	24
Free Float	28%

Performance	USD	Rel.
1M	28%	9%
3M	28%	12%
12M	-41%	9%

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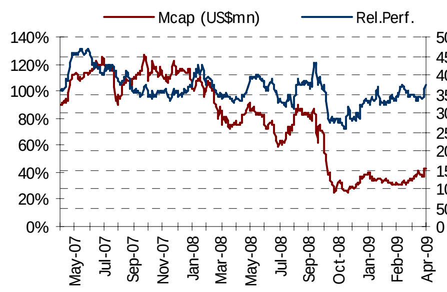
- **Better than expected results...** Otokar recorded USD8.8mn net income in 1Q09, implying 41% YoY decline due to high net financial expenses of USD 5.5mn in 1Q09 versus USD6.5mn net financial income during the same period of previous year. However, bottom line figure was still better than our estimate of USD6mn due to higher than expected operating margins boosted by high-margin armored vehicle sales.
- **High-margin armored vehicle sales saved the quarter…**Amid ongoing financial turmoil, commercial vehicle segment was the one that was hit hard by deteriorating business outlook. Otokar's commercial vehicle sales declined by around 70% YoY in 1Q09 whereas armored vehicle sales were down by only 3% YoY during the same period. Again, armored vehicle business became the savior of the company in times of depressed economic environment. Despite 29% YoY revenue contraction, EBITDA margin almost doubled to 24.7% YoY in 1Q09. Considering the weak margins in commercial vehicle business, high-margin armored vehicle sales and income from battle tank prototype development were obviously the reasons behind impressive EBITDA margin.
- **High debt burden is a major risk in times of heightened uncertainties…** Though it is declining, Otokar's net debt of USD74mn is still high. As readers might remember, acquisition of Otoyol plant was the major reason behind the rise in debt load.
- **Short-term outlook remains cloudy but long-term growth story in defense is still there…** We believe that 1Q09 EBITDA margin of 24.7% will not be sustained for the rest of the year as revenue mix changes in favor of commercial vehicles while armored vehicles business contribute less as major orders were delivered in 1Q. However, we still believe that our earnings estimate of USD19mn has more upside risk rather than downside risk considering seasonality. We will revise up our 2009 estimates after we receive further guidance from the management. All in all, we maintain our "OUTPERFORM" rating for Otokar.

Relative Performance Chart



Estimates

USD mn, IFRS	2007	2008	2009E	2010E
Net Sales	328.8	370.1	341.0	376.7
% growth	39%	13%	-8%	10%
EBITDA	37	48	38	43
% margin	11.4%	12.9%	11.2%	11.5%
Net Profit	29	27	19	26
% margin	8.8%	7.3%	5.7%	7.0%
Key Ratios	**2007**	**2008**	**2009E**	**2010E**
P/E	5.3	5.7	7.9	5.8
EV/EBITDA	6.1	4.8	5.9	5.3
Dividend Yield	14.9%	8.7%	6.3%	6.8%

- **We continue to believe that Modern National Tank project may trigger growth in the longer term. By Mid-2008, Otokar signed the final agreement regarding "national tank prototype development project".** We continue to believe that Otokar's business may grow significantly over the next 5-10 years, although it is at the very early stage. The first stage of the project is the design and development of tank prototype and the project size is around USD500mn. This first stage might take 6.5 years and this process will be managed fully through Otokar. If the first stage is completed successfully, then it might be a new era for Otokar as the national tank production will start possibly in 2013 and continue until 2018.

- **All in all, we maintain our "OUTPERFORM" rating for Otokar shares at current levels,** even taking the depressive economic environment into consideration. Moreover, we believe that Otokar's current share price fully neglects the potential growth in armored vehicles business and mainly tank project development project.

Figure 2 – OTKAR Sales Volume

(units)	1Q09	1Q08	YoY Δ	4Q08	QoQ Δ	2008	2007	YoY Δ
Minibus	46	161	-71%	178	-74%	498	368	35%
Midibus	113	311	-64%	408	-72%	1,555	1,188	31%
Otobus	19	97	-80%	93	-80%	308	50	516%
Land Rover	14	1	1300%	124	-89%	209	782	-73%
Armored LR	115	119	-3%	104	11%	453	358	27%
Trailer	59	244	-76%	183	-68%	994	1,375	-28%
TOTAL	366	933	-61%	1,090	-66%	4,017	4,121	-3%

Source: Company Data

Figure 3 – OTKAR Summary Income Statement

USD mn	1Q09	1Q08	YoY Δ	4Q08	QoQ Δ	2008	2007	YoY Δ
Revenues	**71.2**	**100.0**	**-29%**	**80.5**	**-12%**	**370.1**	**328.8**	**13%**
Cost of Goods Sold	-41.6	-74.0	-44%	-63.5	-34%	-280.0	-240.4	16%
Gross Profit	**29.5**	**26.0**	**14%**	**17.1**	**73%**	**90.1**	**88.4**	**2%**
Operating Expenses	-13.8	-13.4	4%	-10.0	38%	-48.1	-54.5	-12%
Operating Profit	**15.7**	**12.6**	**24%**	**7.0**	**123%**	**42.0**	**33.9**	**24%**
Depreciation	1.4	1.0	32%	1.2	13%	4.8	3.1	52%
Severance Provision	0.5	0.5	-2%	0.1	580%	0.9	0.3	158%
EBITDA	**17.5**	**14.2**	**24%**	**8.3**	**111%**	**47.6**	**37.4**	**27%**
Net Other Income	1.0	0.1	669%	0.3	185%	2.5	0.6	327%
Net Other Expenses	-1.4	-0.6	132%	-0.8	78%	-1.9	-0.6	199%
Financial Expenses	-5.5	6.5	-185%	-13.5	-59%	-14.3	1.7	-951%
Minority Interest	0.0	0.0	-	0.0	-	0.0	0.0	-
PBT	**9.8**	**18.7**	**-48%**	**-6.9**	**-243%**	**28.2**	**35.6**	**-21%**
Taxes	-1.0	-3.8	-75%	3.8	-125%	-1.3	-6.7	-80%
Net Income	**8.8**	**14.8**	**-41%**	**-3.1**	**-388%**	**26.9**	**28.9**	**-7%**
Net Debt	74.4	73.2	2%	94.9	-22%	94.9	26.2	262%
Net FX Position	8.8	27.4	-68%	23.6	-63%	23.6	37.9	-38%
Gross Margin	41.5%	26.0%	1,550 bps	21.2%	2,027 bps	24.3%	26.9%	-254 bps
Operating Margin	22.0%	12.6%	940 bps	8.7%	1,328 bps	11.3%	10.3%	102 bps
EBITDA Margin	24.7%	14.2%	1,049 bps	10.3%	1,432 bps	12.9%	11.4%	149 bps
Net Margin	12.4%	14.8%	-243 bps	-3.8%	1,622 bps	7.3%	8.8%	-151 bps

Source: Company data

Figure 4 - Summary Balance Sheet

USD mn	1Q09	2008	QoQ Δ	1Q08	YoY Δ	2007	YoY Δ
CURRENT ASSETS	**271.5**	**225.7**	**20.3%**	**197.6**	**37.4%**	**182.1**	**23.9%**
Liquid Assets	100.4	43.3	132%	1.4	7092%	3.1	1294%
Short-Term Trade Receivables	75.6	89.7	-16%	99.9	-24%	79.4	13%
Inventories	80.9	76.9	5%	53.7	51%	86.4	-11%
Other Current Assets	14.6	15.7	-7%	42.6	-66%	13.3	18%
LONG TERM ASSETS	**100.0**	**108.1**	**-8%**	**67.7**	**48%**	**69.9**	**55%**
Trade Receivables	22.2	24.7	-10%	28.8	-23%	28.1	-12%
Financial Investments	1.3	1.4	-9%	1.2	7%	1.3	4%
Tangible Fixed Assets	57.0	63.5	-10%	31.2	83%	35.7	78%
Intangible Fixed Assets	16.4	15.5	6%	6.6	149%	4.8	221%
Other Long-Term Assets	3.1	2.9	6%	0.0	n.m.	0.0	n.m.
TOTAL ASSETS	**371.5**	**333.7**	**11%**	**265.3**	**40%**	**252.0**	**32%**
SHORT TERM LIABILITIES	**271.3**	**233.6**	**16%**	**138.9**	**95%**	**124.8**	**87%**
Short-Term Financial Loans	174.8	138.2	26%	74.6	134%	29.3	372%
Short-Term Trade Payables	18.3	36.7	-50%	22.6	-19%	42.2	-13%
Other Short-Term Financial Liabilities	78.2	58.7	33%	41.6	88%	53.4	10%
LONG TERM LIABILITIES	**2.8**	**2.9**	**-5%**	**3.7**	**-26%**	**4.3**	**-32%**
Long-Term Financial Loans	0.0	0.0	-	0.0	-	0.0	-
Long-Term Trade Payables	0.0	0.0	-	0.0	-	0.0	-
Other Long-Term Liabilities	2.8	2.9	-5%	3.7	-26%	4.3	-32%
Minority Interests	0.0	0.0	-	0.0	-	0.0	-
SHAREHOLDERS EQUITY	**97.4**	**97.2**	**0%**	**122.7**	**-21%**	**122.9**	**-21%**
TOTAL LIABILITIES AND S.HOLDERS EQUITY	**371.5**	**333.7**	**11%**	**265.3**	**40%**	**252.0**	**32%**

Financial Ratios	**1Q09**	**2008**		**1Q08**		**2007**	
Debt/Equity	2.81	2.43		1.16		1.05	
Current Ratio (x)	1.00	0.97		1.42		1.46	
Trade receivables day	97	103		98		77	
Stock Turn.	177	116		71		115	
Trade payables day	40	55		30		56	
Cash Cycle	**233**	**163**		**139**		**137**	

Source: Company data

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 that 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.

Summary of our Rating Methodology

Rating	Target Return of Stock
OUTPERFORM	> Expected Market Return (%) + 10%
MARKETPERFORM	= Expected Market Return (%) +/- 10%
UNDERPERFORM	< Expected Market Return (%) - 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.