

## Executive Summary:



Tumosan Motor ve Traktor Sanayi AS is engaged in manufacturing & production of diesel engine and tractors. It offers after-sale services & its diesel engines are used for manufacturing tractor, generator, automotive & cleaning equipment & marine vehicle.

The company have an engine production capacity of 75K annually and a tractor production capacity of 45K in Turkey. Tumosan has been privatized by the state in 2004 and now 22 % of the company's shares are public while the rest is controlled by Albayrak family. The company anticipates that it will produce tank engines for the Turkish government in 2017 and then start to produce combine harvester in 2018 which makes the company unique and helps it to differentiate itself in domestic market. It has 104 dealers all around Turkey and 15 dealers all around the world.

Beneficial political position of the stakeholders, upcoming Turkish Army Main Battle Tank tender, structural and competitive advantage to peers, boosted momentum in 2016 Q3 and trading at a discount to global peers; makes Tumosan highly attractive.

On a side note, Tumosan's sales growth is not strictly dependent on exports. Government purchase is the main source of income in the coming terms.

## Tumosan Motor Ve Traktor Sanayi A.S. (TMSN.IS)

Istanbul - Istanbul Delayed Price. Currency in TRY

**8.02** -0.21 (-2.55%)

At close: October 28 5:39 AM EDT

Summary	Conversations	Statistics	Profile	Financials
Open	8.24	Market Cap	922.3M	
Prev Close	8.23	P/E Ratio (ttm)	22.40	
Bid	0.00 x	Beta	N/A	
Ask	0.00 x	Volume	3,705,100	
Day's Range	7.98 - 8.25	Avg Vol (3m)	3,491,214	
52wk Range	6.47 - 10.85	Dividend & Yield	N/A (N/A)	
1y Target Est	N/A	Earnings Date	N/A	

- Turkish government seeks to develop a local tank which is a huge project for the companies. Tumosan is the sole engine producer for the tank project.
- The government will award contracts to companies which will provide pieces of the tank in Q1 of 2017 which will have a great effect on Tumosan and its financials.

## MACRO OUTLOOK – TURKEY

There are significant facts that shall be monitored and investigated in order to find the best fit for the portfolio investments especially in Turkey. We want to underline the facts that happened within the last 6 months so that we can understand why Turkish markets only returned 2.8 % while S&P 500 returned 4 % from December 31, 2015 until October 27, 2016.

- Turkish government changed in May due to a miscommunication issue between the President and the Prime Minister.
- On July 15, there was a coup attempt, organized by the illegal organizations within the government institutions which lead to a state of emergency for at least 6 months.
- After the coup attempt, S&P and Moody's downgraded Turkey from an investment grade to a junk grade.

- Turkey started operations to Syria and some Eastern Turkey regions which resulted with thousands of deaths and questions about Turkey entering to Iraq too.
- Some of the greatest companies of Turkey accused to be linked with the coup and state terminated those companies which created lack of liquidity at the markets.
- Number of tourists arriving to Turkey between January and October 2016 declined 32 % on annual basis while the number of corporations established declined 13 % in the same period.
- Numerous terror attacks occurred while political instability and political arguments covered all the news.

For the next 6 months we anticipate some of the possible news and then forecasted some of the events that may affect XU100.

- The US will have Presidency elections and then Fed will decide on interest rates at their meetings.
- Turkey will possibly have Presidency referendum and the vote for new constitution.
- The European Central Bank discusses ending quantitative easing that may affect Turkish exports to Europe.
- Fitch may cut Turkish bond grades and decline Turkish grade from investment grade to a junk grade.
- Turkey may start a war with Iraq.
- Turkish Central Bank may continue to cut interest rates which will depreciate Turkish Lira.
- 3 elections and 1 referendum will take place in Europe which will have a major effect on European politics on Turkey.

## Why to invest in Turkey?

- Turkey is the standout performer in Emerging Europe and its economic numbers point to a continuation of the rapid growth it has enjoyed since 2002
- Turkey is focused on attracting foreign direct investment to help bolster the technological base of the country and is offering a plethora of incentives
- Turkey's demographics stand in stark contrast to those of its European neighbors; half of its population is under the age of 30
- "Turkey is considered a shining star among emerging markets, with its positive long-term prospects and convenient location to access surrounding markets"
- The country has set itself an ambitious target of becoming one of the ten largest economies in the world by 2023

## Rising political uncertainties weigh on the economy

### General Information

<b>GDP</b>	USD718bn (World ranking 18, World Bank 2015)
<b>Population</b>	78.7mn (World ranking 18, World Bank 2015)
<b>Form of state</b>	Republican Parliamentary Democracy
<b>Head of government</b>	Binali YILDIRIM (Prime Minister; AKP)
<b>Next elections</b>	2019, legislative



### Strengths

- Important geostrategic position that has historically always ensured aid when needed
- Public finances
- Adequate business environment
- Well-educated workforce and competitive economy
- Regional hub between Europe, MENA and Asia

### Weaknesses

- Exchange rate vulnerability to domestic and external shocks
- Economic policy responsiveness
- Persistently large current account deficits, largely financed through short-term external debt which has consequently rapidly risen
- (External) debt refinancing risk of weaker companies and banks
- Deep-rooted division in society between secularists and religious conservatives
- Geopolitical risks

## **Brief Financials on Companies that we have picked:**

We have evaluated Turkish and global macroeconomic indicators and political facts to reach to a conclusion about which stocks to pick. The stocks that we picked at Turkish market are:

<b>2015 Year-end (mio USD)</b>	<b>Tofaş</b>	<b>Arçelik</b>	<b>Akçansa</b>	<b>Tümosan</b>
Revenues	3.394	4.846	502	154
Gross Profit	416	1.552	147	34
Gross Profit Margin	12,3%	32,0%	29,2%	22,4%
Operating Profit	235	439	120	14
Operating Profit Margin	6,9%	9,1%	24,0%	8,8%
Profit Before Tax	211	269	119	14
Profit Before Tax Margin	6,2%	5,5%	23,7%	8,9%
ROE	32,2%	19,1%	23,6%	12,9%
YTD Stock Performance (TRY)	22,1%	43,9%	-3,4%	-11,7%
<b>2015 Year-end (mio TRY)</b>	<b>Avivasa</b>			
Pension Contributions	2.027			
Total AUM	9.200			
Total GWP	250			
Total Technical Profit	272			
Profit for the Period	110			
ROE	30%			
YTD Stock Performance (TRY)	25,4%			

The year to date performance of XU100 is 9.2 % in TRY basis. If we were going to make an investment to our stocks on equal basis as of December 31, 2015 and waited until October 27, 2016 we would have beaten the market by 6.1 basis points and would have a return of 15.3 % in total.

## Brief Fundamental Backgrounds of Stock Pickings:

### Tofaş:

- Tofaş was founded in 1968 as a JV between Fiat Chrysler Automobiles and Koç Holding. It is one of the three world-wide strategic manufacturing centers of Fiat.
- Tofaş is listed in İstanbul and Luxembourg stock exchanges; 24.3% of outstanding shares in free float with 87% foreign ownership.
- It is the 2<sup>nd</sup> largest R&D capability of Fiat in Europe. It has presence in EMEA, North and South America. It is the only manufacturer of Fiat that produces both long commercial vehicle and passenger car. It has taken or pay guarantees at exports.
- Tofaş's plant has a capacity of producing 400K vehicles with 3 shifts of labor. It has at a total of roughly 9K employees. For the first 9 months of the year Tofaş's exports constituted 25 % of all Turkish automotive exports. Tofaş's market share including Premium brands in the first 9 months of the year is 7.1 % at passenger cars, 39.4 % at light commercial vehicles and 10.9 % at PC and LCV combined. 38 % of Tofaş's exports are made to Italy, while, 10 % to Spain, 7 % to Germany and 7 % to France.



## Why to invest in Tofaş:

- Tofaş leads Turkish automotive market with its extensive dealership network.
- It has strong shareholders which are reliable and they run on long term plans.
- Tofaş has a safe financial structure since it has taken or pay agreement with Fiat.
- In addition, we believe that with the economic growth in Europe and devaluation of TL in 2016 Q4 and 2017 Q1 Tofaş will benefit from strong sales performance, increasing profit margins and possible investments in Balkan region for regional expansion.
- Thus, we believe that Tofaş will be our safe bet for this portfolio.

## Arçelik:

- Arçelik, Turkey's leading household appliances manufacturer, is engaged in the production and marketing of consumer durable goods, consumer electronics, small home appliances and kitchen accessories as well as in the provision of after-sales services.
- With 15 factories in 6 countries (Turkey, Romania, Russia, China, South Africa and Thailand), marketing & sales organizations in 27 countries and 26,000 employees, Arçelik provides goods and services in more than 130 countries.
- Arçelik is the distant number 1 in Turkish consumer durables market with 50 % market share. It has exclusive network of roughly 3,000 dealers and more than 600 aftersales service points
- Globally, Arçelik is the number 3 appliances company in Europe and EMEA. It owns number 2 brand in Europe (Beko). It is the number 1 appliances company in Romania and South Africa.

Arçelik AS (ARCLK.IS) 20.10 -0.26 (-1.28%) As of October 28 5:39 AM EDT. Market closed.



## **Why to invest in Arçelik:**

- Arçelik is one of the few globalized companies of Turkey which is immune to the domestic political and economic environment.
- Arçelik's costs are in USD and most of its sales are in EUR which can be a bad sign since USD gains momentum against other currencies. However, Arçelik manages this well and it has a strong financial performance.
- Arçelik seeks for foreign expansion and recently acquired a company in Pakistan. According to the news, it searches companies in Iran and in the US so that it can grow faster inorganically.

## **Akçansa:**

- Akçansa, the leader of the Turkish cement industry, meets 12 % of Turkey's cement need. Becoming the largest cement producer of Turkey with the merger of Akçimento (established in 1967) and Çanakkale Çimento (established in 1974) in 1996, Akçansa is a joint venture of Hacı Ömer Sabancı Holding and Heidelberg Cement Mediterranean Basin Holdings.
- Today, 79, 4% of company's shares are owned equally by Hacı Ömer Sabancı Holding and Heidelberg Cement Mediterranean Basin Holdings, and the remaining 20, 57% of the shares are public.
- Akçansa operates in the Marmara, Aegean, and Black Sea regions for cement and ready-mixed concrete production, and also has three cement plants in Istanbul, Çanakkale, and Samsun.
- The company exports 20 % of its output to foreign companies and it has a potential to progress on this ratio with Russia and Balkan expansion.
- Its biggest export markets are West Africa, USA and North Africa. Therefore, housing market in US and Africa's economic growth supports company's financials.





## Why to invest in Akçansa:

- Turkish government supports domestic growth with infrastructure and housing investments. Especially 3<sup>rd</sup> airport to Istanbul, Channel Istanbul project and urban renewal projects are accelerating especially at the times when unemployment is high and economic prosperity is low.
- As the market leader in cement industry, Akçansa may benefit from government expansion.

## Avivasa:

- One of Turkey's leading private pension and life insurance companies, AvivaSA Emeklilik ve Hayat was established on October 31, 2007 through the merger of AK Emeklilik and Aviva Hayat ve Emeklilik.
- Founded on the vast experience and financial power of Hacı Ömer Sabancı Holding, one of Turkey's largest groups, and British insurance giant Aviva, the Company immediately established itself as a reliable brand and leading figure in the industry.
- The private pension funds of AvivaSA, one of the companies setting the rules and standards of the market since its inception, are managed by AK Portföy from the Sabancı Group, one of the leading companies in the portfolio management sector.

- The multi-channel distribution structure, which boosts access to customers, is a factor that gives AvivaSA an immense competitive edge. The multi-channel distribution structure, which is one of the Company's key strengths, at AvivaSA covers Direct Sales, Agencies, Telesales, and Corporate Projects.
- Through its multichannel distribution structure, the Company serves its over 2 million customers.



### **Why to invest in Avivasa:**

- Turkish government passed a law which requires every working citizen to have an individual retirement plan from the state. The growth in individual requirement plans will be huge and as the market leader of these products in Turkey, Avivasa will start to benefit from the portfolio growth as this law enforces individuals at the beginning of 2017.