



Turkey Strategy

May 2023

Macroeconomy

GDP growth is mainly driven by domestic demand

Recent figures suggest a decent pace in economic activity

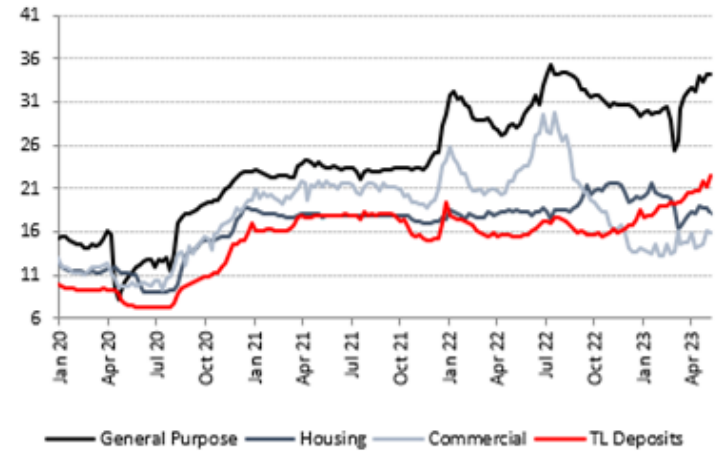
GDP was weaker since 2H22



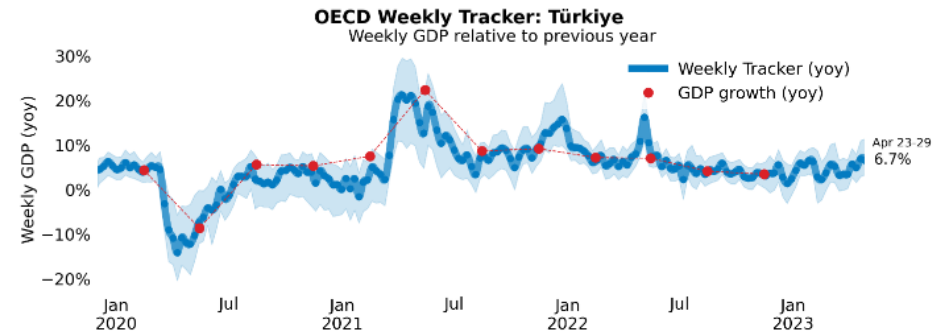
Domestic demand driven growth; external demand has weakened



Low Borrowing costs in real terms (%)



Recovery in economic activity in recent weeks

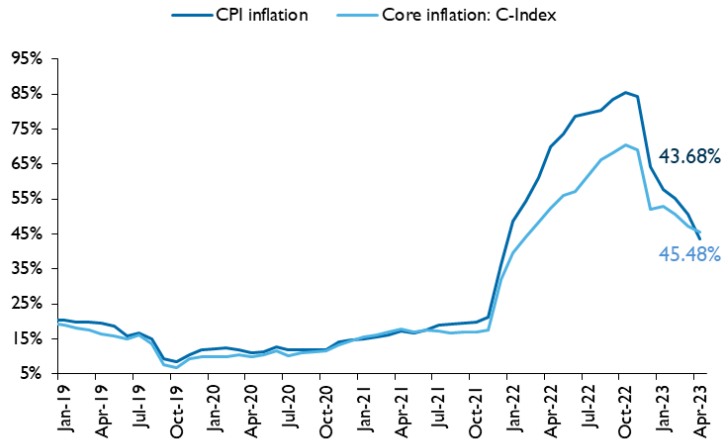


Note: The Weekly Tracker provides an estimate of weekly GDP based on Google Trends search data and machine learning.
Source: OECD Weekly Tracker (Woloszko, 2020), <https://www.oecd.org/economy/weekly-tracker-of-gdp-growth/>; OECD Quarterly National Accounts.

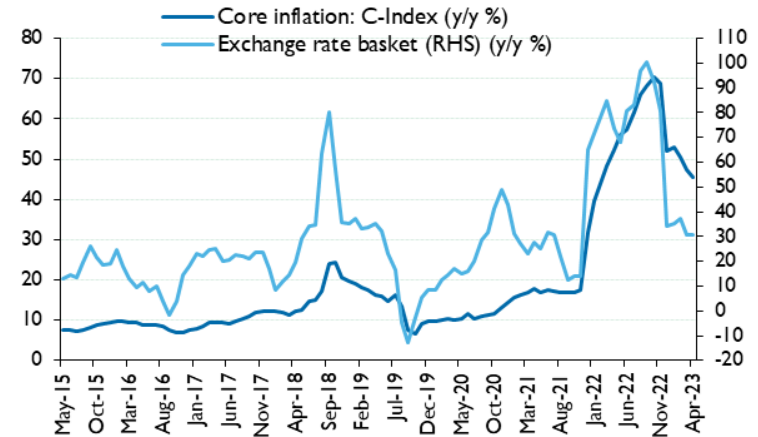
Inflation continues to be challenging, despite the TL appreciation

A slowdown in economic activity is required for deceleration in inflation

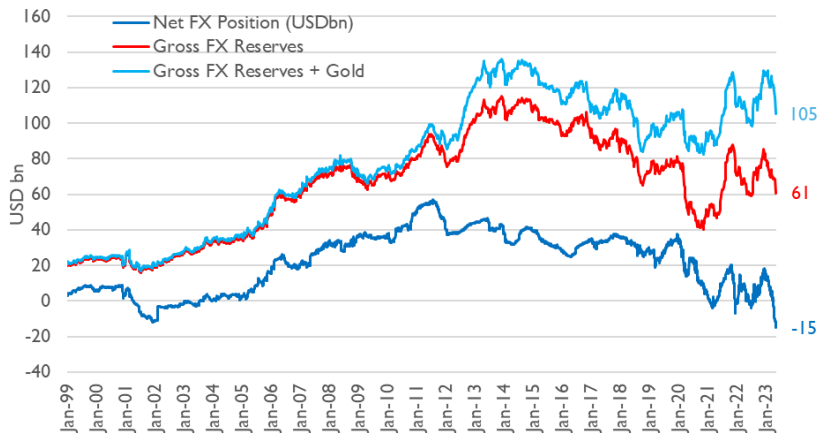
CPI is trending down recently



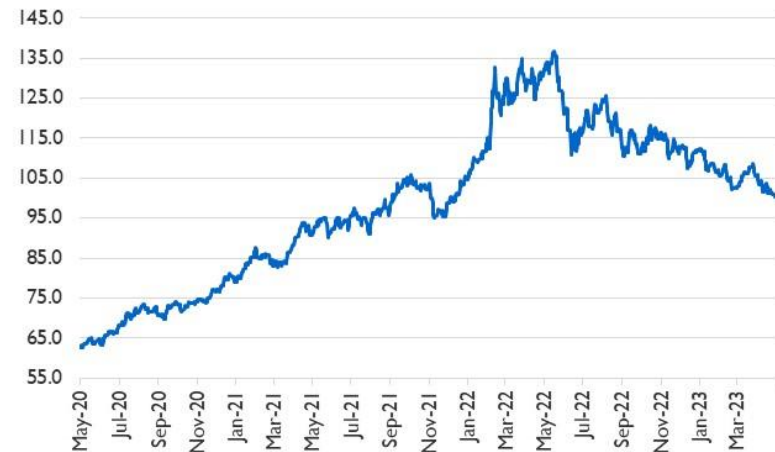
TL's real appreciation drags inflation lower



CBRT Reserves slumped recently (gross, net)



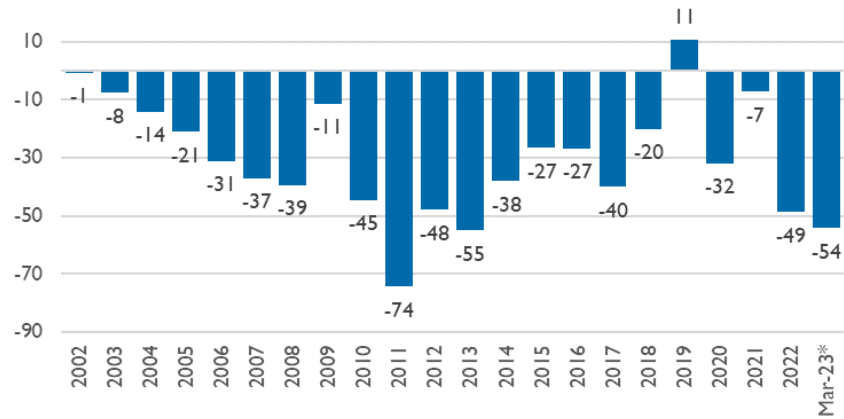
Commodity prices are coming down (BBG Commodity index)



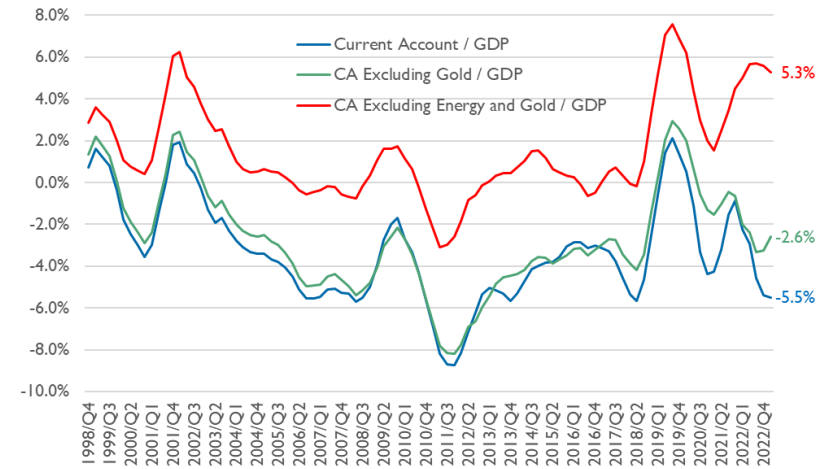
Source for all charts on the slide: TURKSAT, CBRT, Bloomberg

Current account deficit has peaked

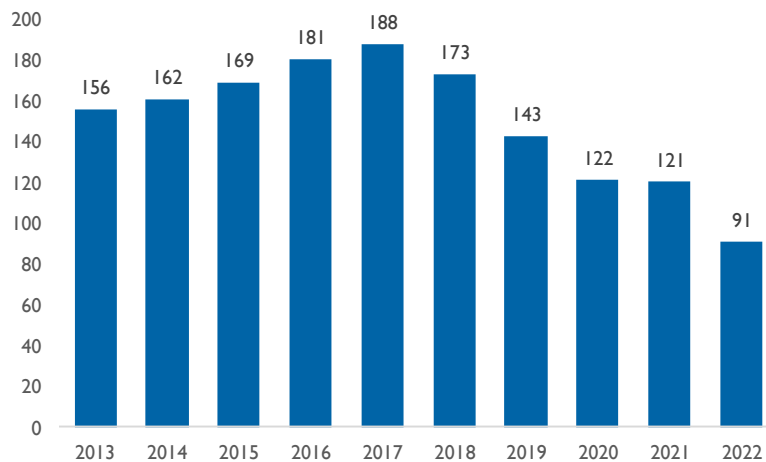
Current account deficit (\$bn) peaked to one of the highest levels



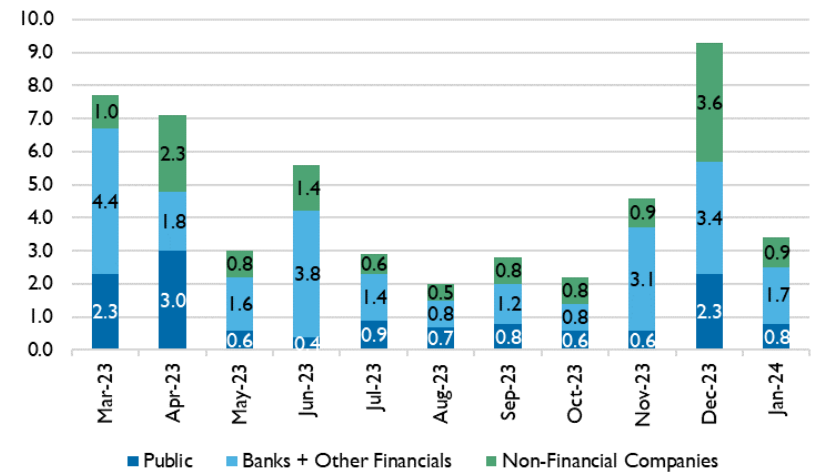
Energy prices and Gold imports have driven the CA deficit



Short FX position (\$bn) of Non-Financial companies is reduced significantly



External debt payment schedule (private + public), \$bn



Source for all charts on the slide: TURKSAT, CBRT

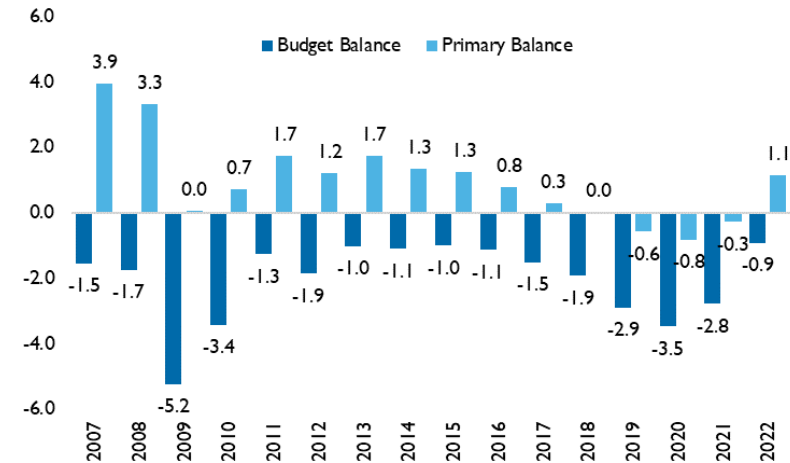
Budget deficit is likely to increase substantially:

Earthquake's costs can surpass USD100bn; spreading over 3-5 years

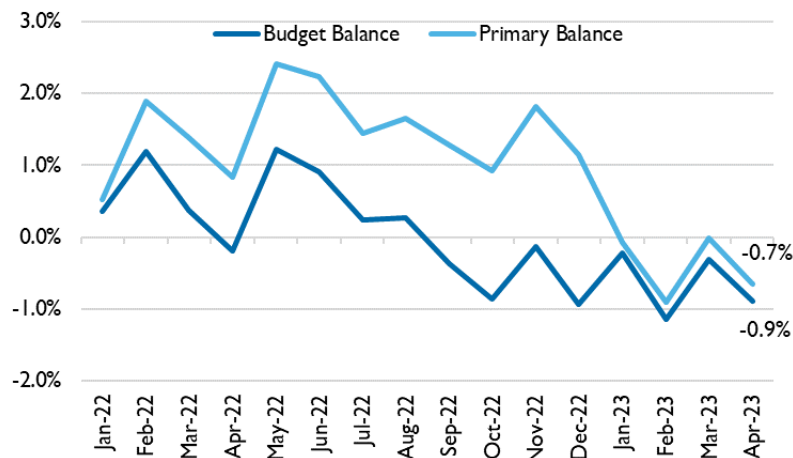
Total cost of the earthquake: expenditures will be spread over 3-5 years and largely covered by long-term external financing.

Total Cost Estimate	USDbn	% of GDP
Emergency Spending	6.8	0.6
Public Sector Damage	12.9	1.1
Private Sector Damage	11.8	1.0
Housing & Household Goods Damage	60.0	5.3
Excavation Cost	2.2	0.2
Private Motor Vehicle Damage	0.3	0.0
Insurance Cost	2.0	0.2
Business Income Loss	0.7	0.1
GDP Output Loss	6.9	0.6
Total	103.6	9.0

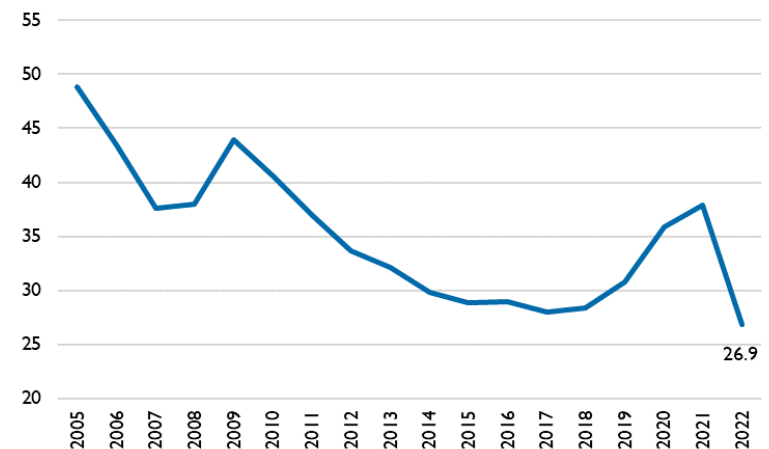
Turkey: Primary Surplus and Budget Deficit (% of GDP)



Turkey: Primary Surplus and Budget Deficit (% of GDP, trailing 12M)



Public Debt Stock as % of GDP (2005-2022)



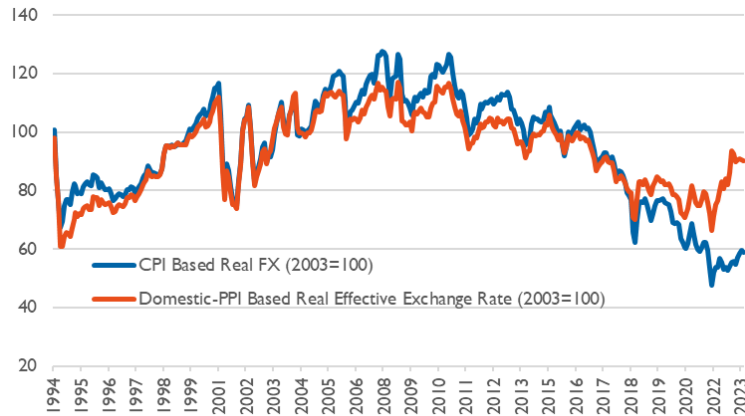
Source for all charts on the slide: TURKSAT, CBRT, BRSA, President's Office, Bloomberg

Macro Forecasts

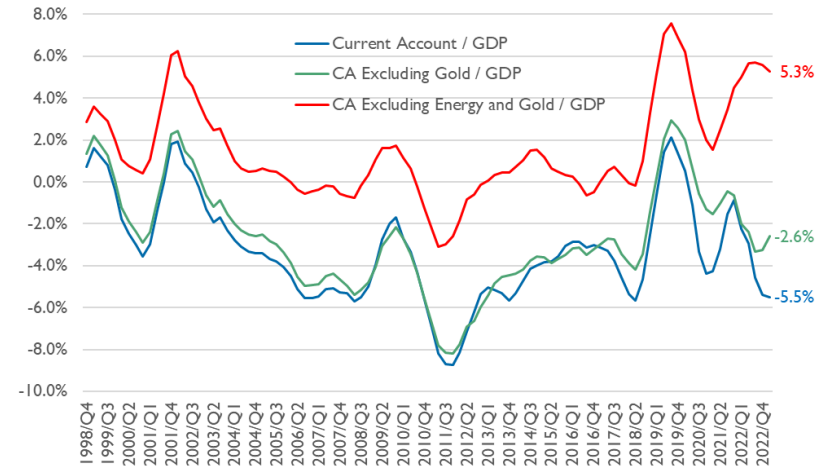
Macro forecasts	2019	2020	2021	2022	2023E	2024E	2025E
TRY/USD (avg.)	5.64	6.99	8.93	16.46	22.76	31.92	36.39
TRY/USD (e.o.p)	5.94	7.42	12.98	18.70	26.18	34.22	39.01
TRY/€ (avg.)	6.32	8.00	10.49	17.27	24.72	33.13	37.76
TRY/€ (e.o.p)	6.65	9.20	14.68	19.88	28.02	35.58	40.57
CPI Inflation	11.8%	14.6%	36.1%	64.3%	52.3%	27.0%	14.0%
CBRT 1-week policy rate	12.0%	17.0%	14.0%	9.0%	30.0%	23.0%	14.0%
GDP growth	0.9%	1.8%	10.5%	5.3%	3.0%	4.0%	4.0%

How TL will perform post the elections is the key question: A deval is likely following the elections

Turkey: Real FX rate (1994 to Apr-23), based on CPI and PPI (2003=100)



Turkey: Current Account Balance as a share of GDP

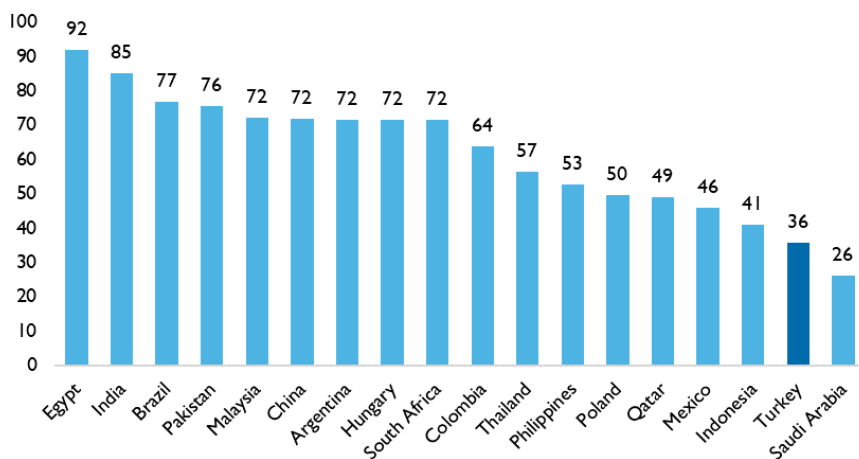


We think that if the government does not return to orthodoxy, risks for the TL could increase, as foreign inflows are likely to remain extremely limited.

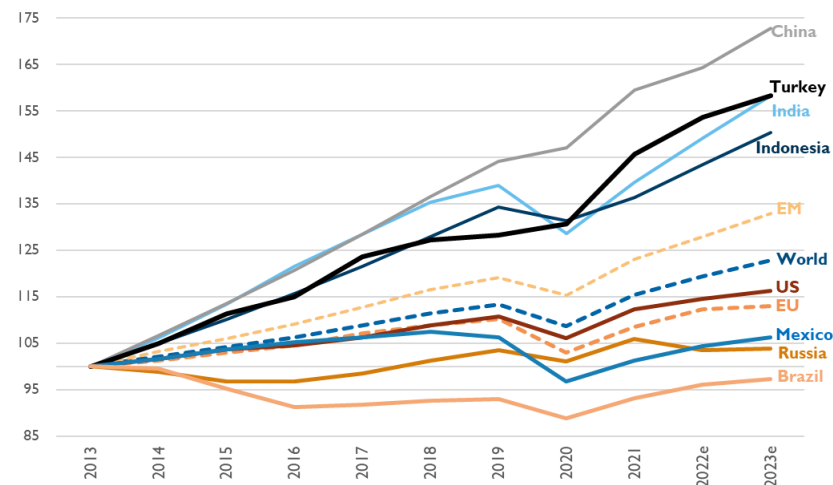
Turkey does not have deep structural problems that cannot be resolved with credible and orthodox monetary and fiscal policies

- Turkey does not have deep structural problems that cannot be resolved with credible and orthodox monetary and fiscal policies.
- If the current macroeconomic policy were to be rationalised, the economy could shift to a positive trajectory, as the fundamentals of the economy are sound.
- Despite all the macroeconomic challenges, Turkey's debt dynamics for government, households and corporates appear relatively favourable versus EM peers.

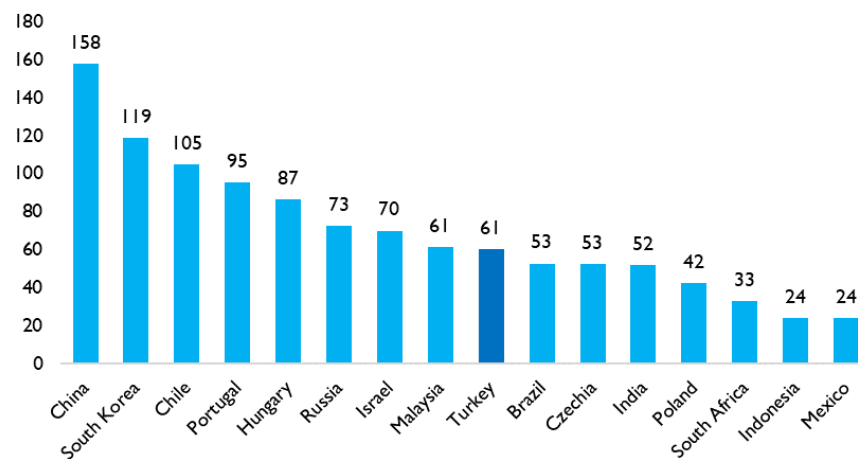
Gross Government Debt to GDP (2022e) - %



Turkey real GDP Growth vs Peers (2013=100)



Corporate Debt to GDP (3Q22) - %



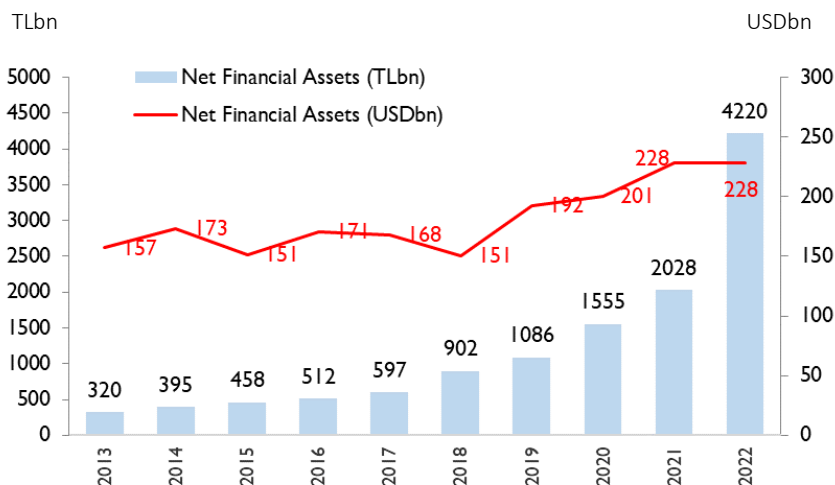
Households' Balance Sheet is in good shape

Financial Assets and Liabilities of Turkish Households (in TL)

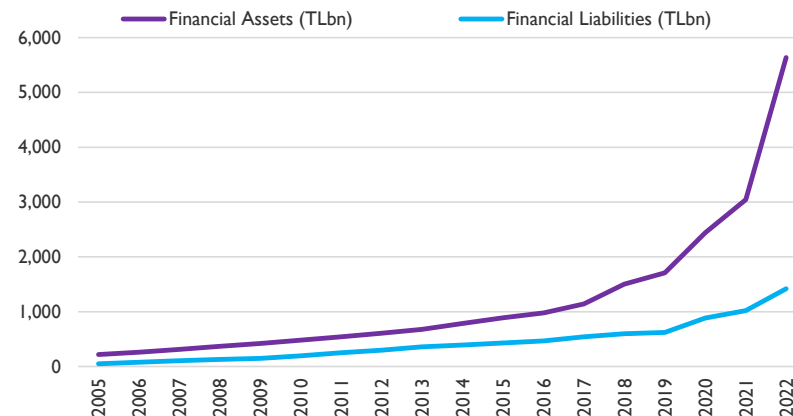
Household Financial Assets	TRY billion			Share in total		
	1Q-2016	3Q-2022	Change (%)	1Q-2016	3Q-2022	Change (pp)
Saving deposits - TRY	438	1895	333%	47.6%	33.6%	-14.0%
Saving deposits - FX	274	1882	586%	29.8%	33.4%	3.6%
Precious metals	9	475	4954%	1.0%	8.4%	7.4%
Bonds and bills	20	151	649%	2.2%	2.7%	0.5%
Investment funds	84	602	621%	9.1%	10.7%	1.6%
Equities	46	537	1071%	5.0%	9.5%	4.5%
Repo	0	9	2175%	0.0%	0.2%	0.1%
Cash in circulation	48	86	80%	5.2%	1.5%	-3.7%
Total financial assets	920	5638	513%	100%	100%	

Household Financial Liabilities	TRY billion			Share in total		
	1Q-2016	3Q-2022	Change (%)	1Q-2016	3Q-2022	Change (pp)
Housing Loans	161	382	138%	36.4%	26.9%	-9.5%
Vehicle Loans	16	42	162%	3.6%	3.0%	-0.7%
Consumer loans + others	167	603	261%	37.9%	42.5%	4.6%
Credit card debt	85	355	318%	19.3%	25.1%	5.8%
Liabilities to asset management firms	13	36	188%	2.8%	2.5%	-0.3%
Total financial liabilities	441	1418	221%	100%	100%	

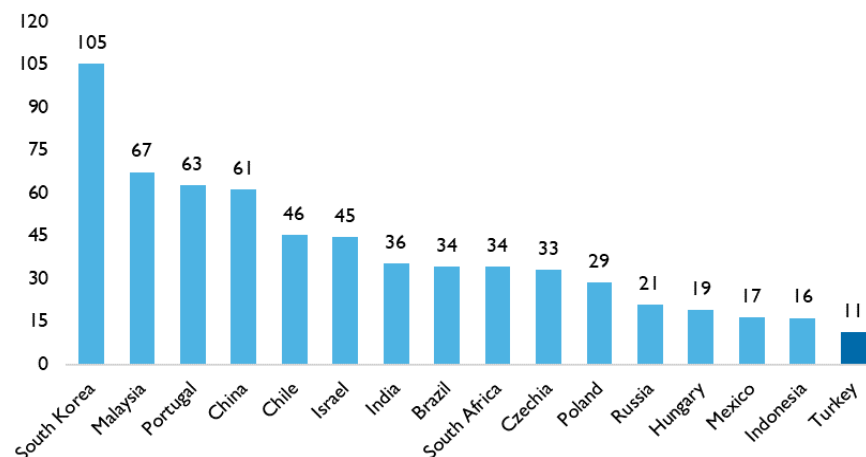
Net Financial Assets of Turkish Households (in TL vs in USD)



Financial Assets and Liabilities of Turkish Households (in TL)



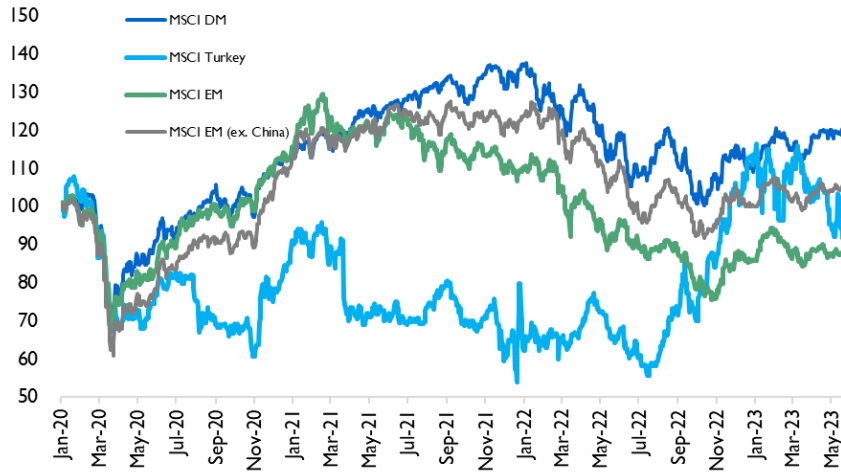
Household Debt to GDP (3Q22) - %



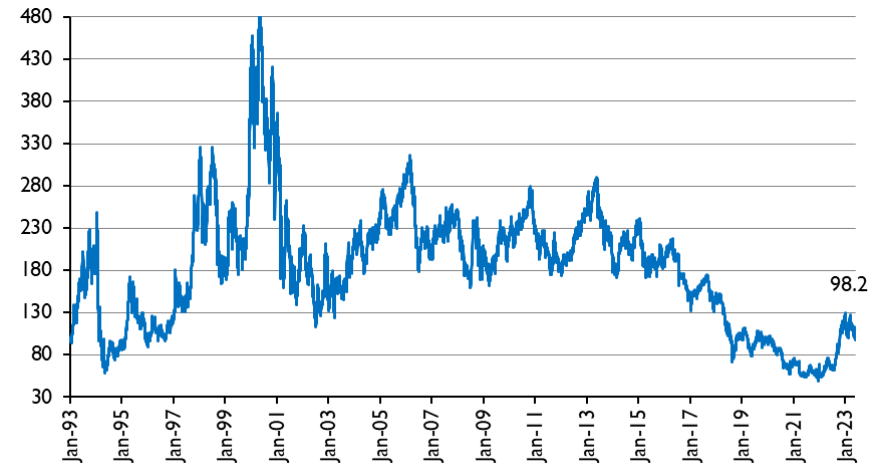
Equity Market Outlook

Turkish Stock Market and Peers

MSCI Turkey vs peers

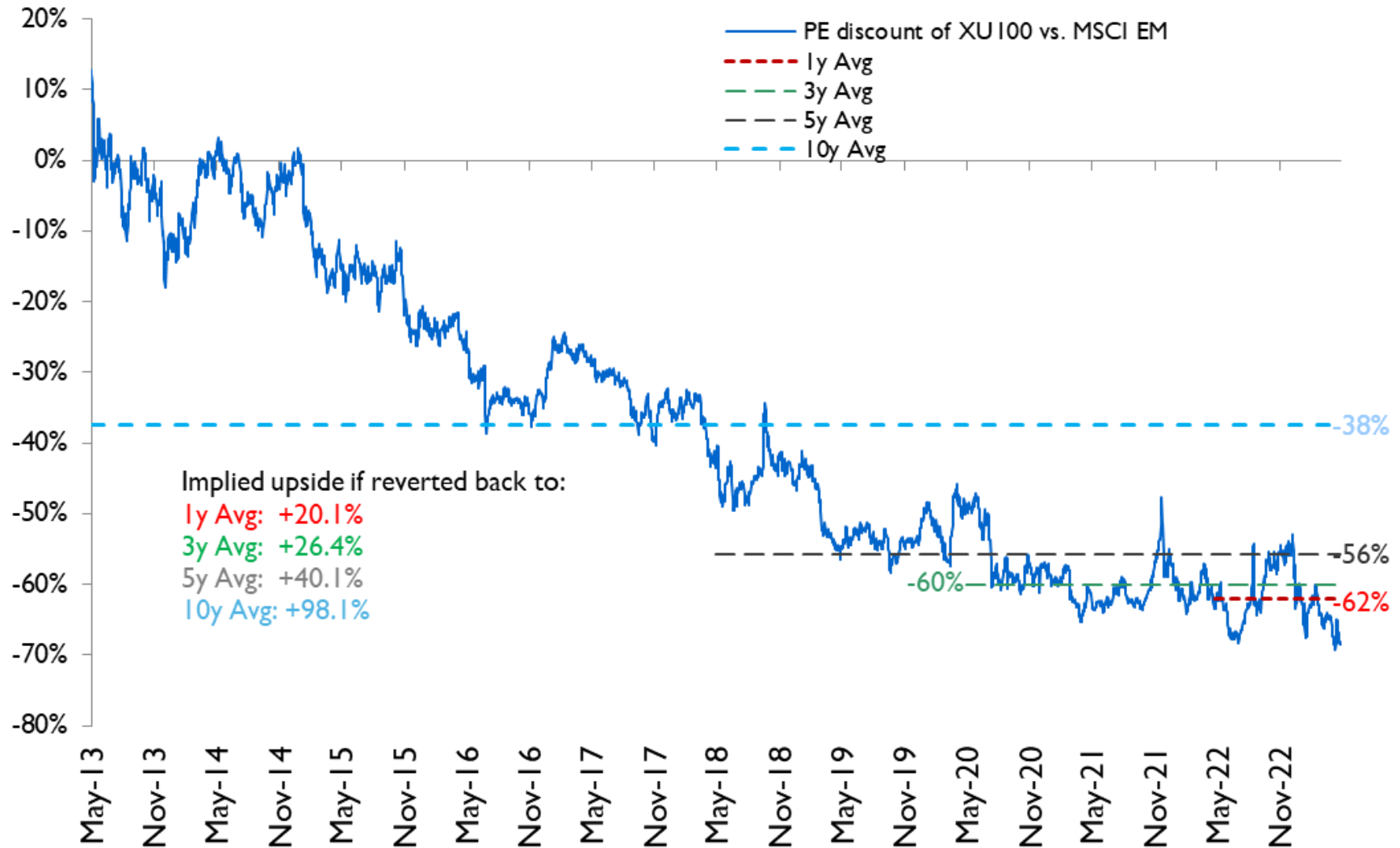


MSCI Turkey vs MSCI EM since 1993

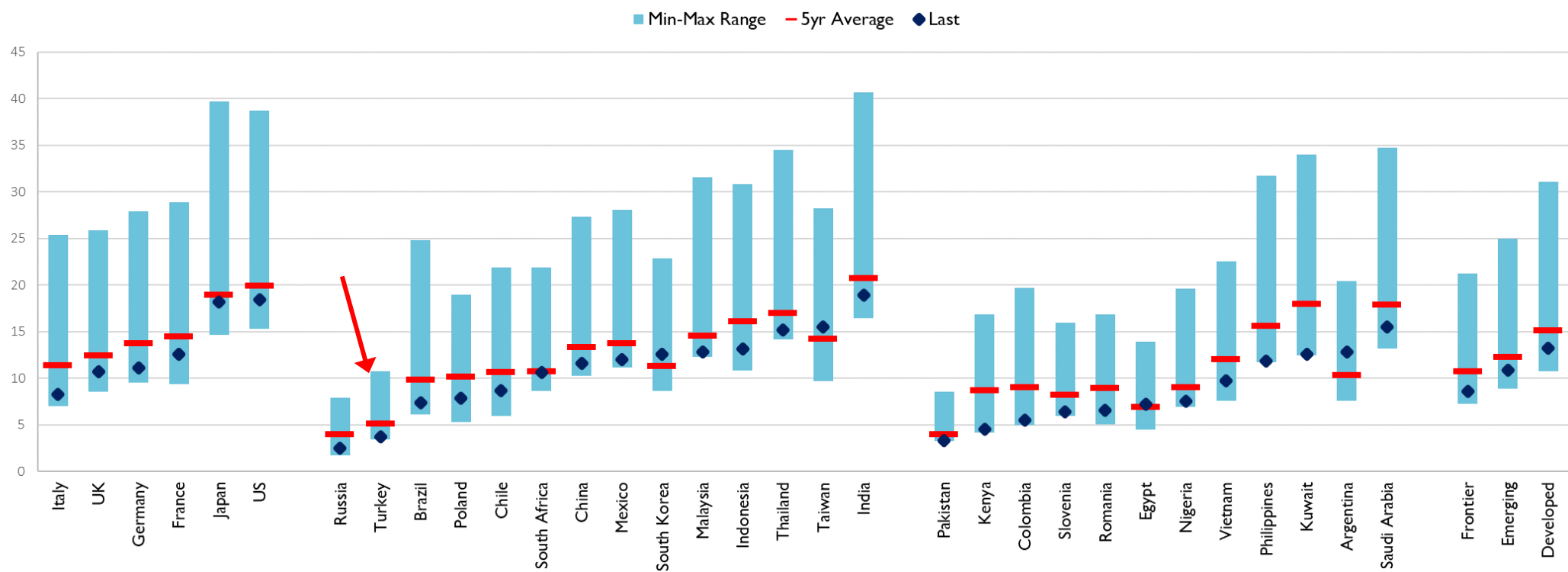


- MSCI Turkey has strongly outperformed its peers since the beginning of August 2022

MSCI Turkey P/E Discount vs MSCI EM 1y, 3y, 5y, 10y averages



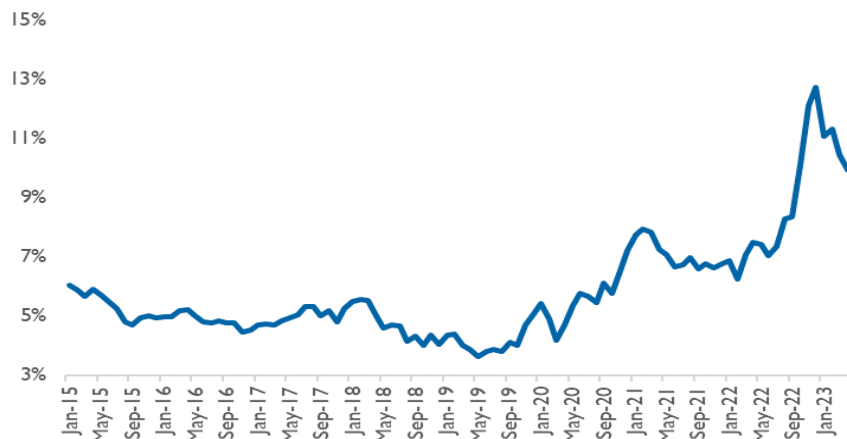
MSCI Turkey 12M Forward P/E vs Peers



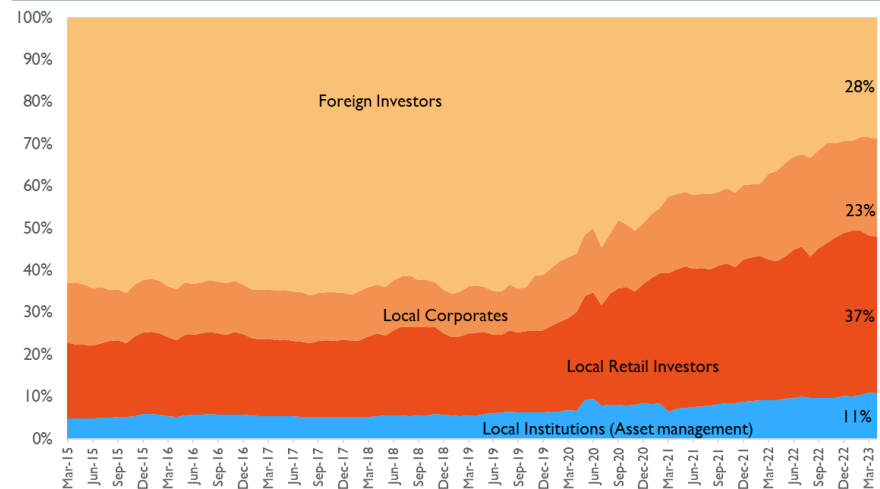
Change in the market structure: Very low foreign ownership

- Share of foreign investors in equity market dropped substantially in recent years, from c.65% in 2019 to 28% currently.
- Domestic retail investors, the fast-growing local asset management industry, and corporates (due also to buybacks) have grabbed the share left by the foreign institutions
- Despite the significant increase in local institutions and retail investors' ownership of equities, these two groups have still limited equity ownership, compared to their asset bases

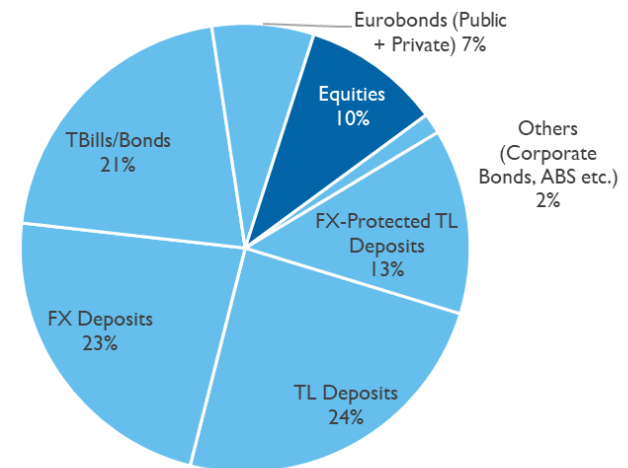
Share of Equities in Locals' Financial Assets



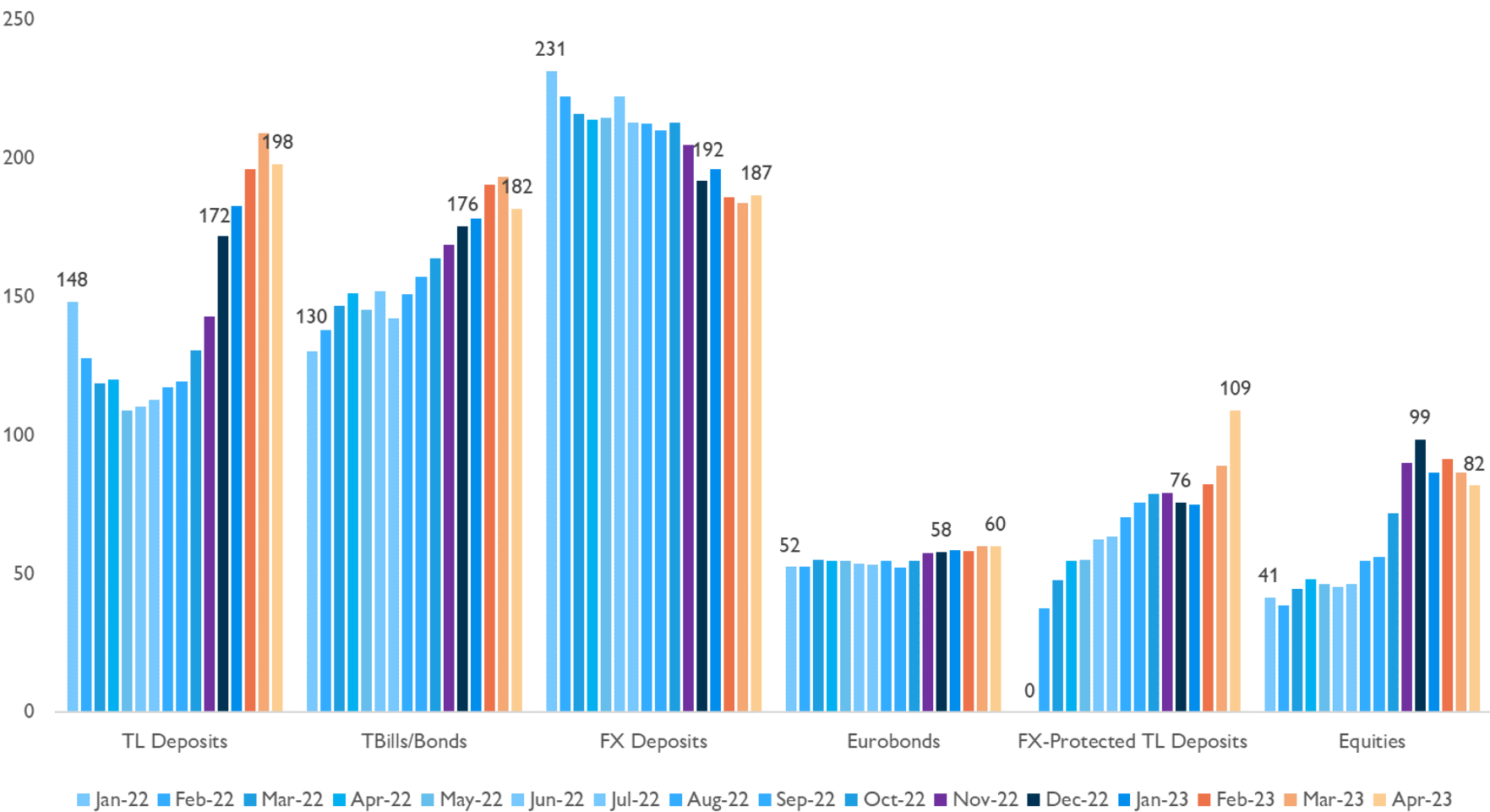
Equity ownership in Turkey



Breakdown of Locals' Financial Assets

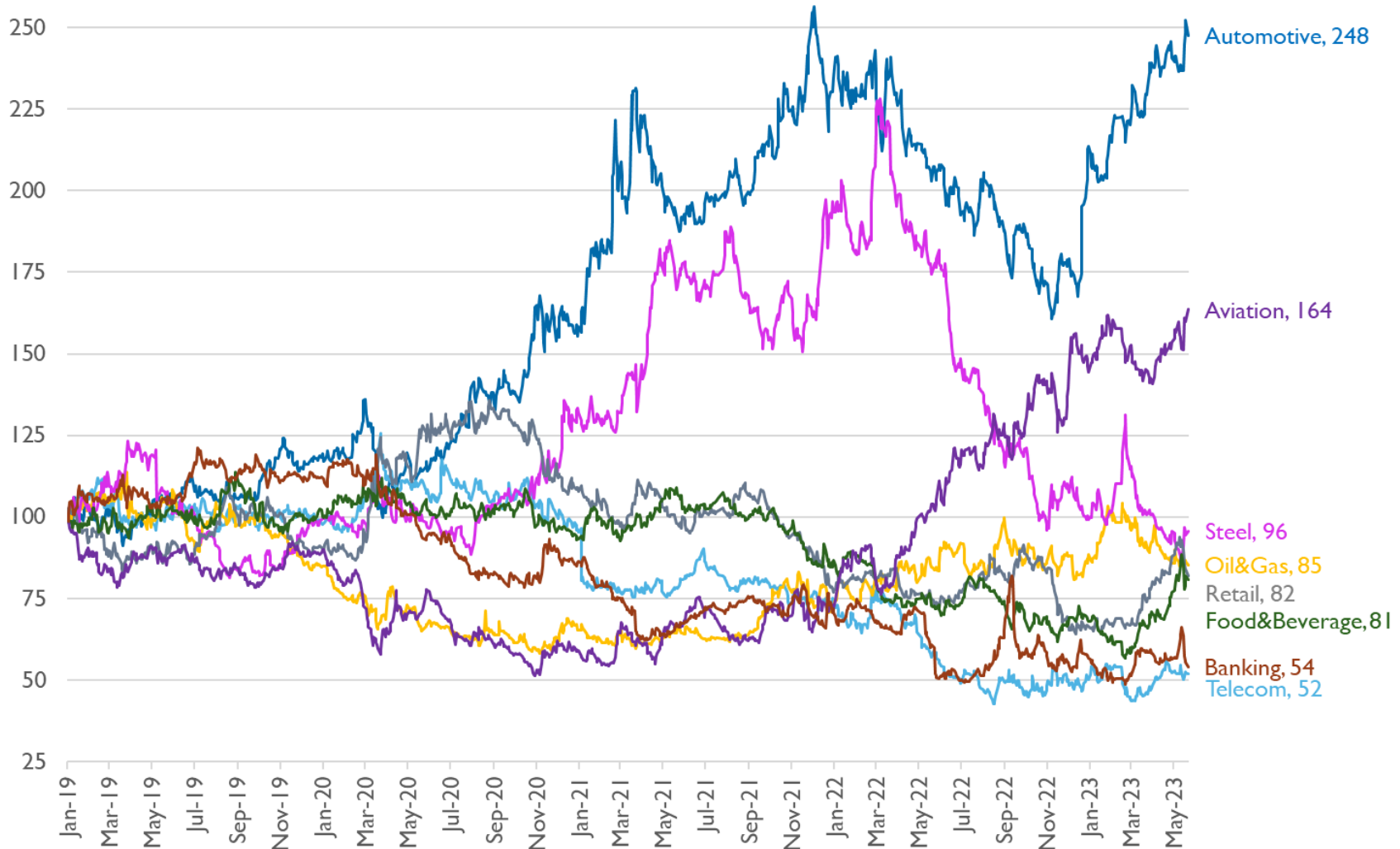


Turkish residents' financial assets (USDbn), monthly



Sectoral performances since end 2018 (Relative to BIST100, End2018=100)

TL businesses have underperformed in recent years



Unlu&Co Coverage

Ticker	Price (TL)	Target (TL)	Upside (%)	Rating	MCap (\$m)	Foreign Own.	Free Float	Avg. vol. (\$m)	Div. Yield 23E (%)	EBITDA			Net Income			P/E		EV/EBITDA		Perf. (rel. to BIST100)		
										2022	2023E	2024E	2022	2023E	2024E	23E	24E	23E	24E	1Y	3Y	5Y
Banks									6.5				275,642	248,293	361,527	2.0	1.4	0.4	0.3			
AKBNK	14.4	24.2	68%	Buy	3,791	44%	52%	128	9.6				60,024	48,000	55,613	1.6	1.4	0.4	0.3	5%	-30%	-47%
GARAN	24.1	35.5	47%	Buy	5,111	8%	14%	78	7.6				58,509	51,029	75,358	2.0	1.3	0.5	0.4	-13%	-17%	-32%
HALKB	11.5	9.1	-21%	Sell	4,154	2%	9%	28	0.0				14,754	16,423	38,737	5.0	2.1	0.4	0.3	18%	-50%	-66%
ISCTR	10.3	13.2	28%	Hold	5,191	35%	31%	156	3.0				61,538	61,691	71,663	1.7	1.4	0.4	0.3	31%	26%	-4%
TSKB	3.6	4.5	23%	Hold	512	17%	39%	15	8.4				4,055	5,680	6,014	1.8	1.7	0.6	0.4	0%	-18%	-20%
VAKBN	8.5	10.6	25%	Hold	4,256	3%	6%	28	0.0				24,017	24,504	55,319	3.4	1.5	0.3	0.2	15%	-57%	-66%
YKBNK	8.7	13.0	49%	Buy	3,715	24%	32%	109	8.4				52,745	40,966	58,823	1.8	1.3	0.5	0.3	17%	5%	-11%
TMT									3.4	41,768	59,432	79,201	15,663	12,518	24,494	9.5	5.2	3.5	2.6			
TTKOM	13.8	27.7	100%	Buy	2,442	29%	13%	37	1.7	19,149	24,531	33,351	4,135	3,278	8,729	14.8	5.5	4.0	3.0	-18%	-48%	-36%
TCELL	31.8	55.0	73%	Buy	3,532	76%	54%	47	3.7	21,994	33,824	44,056	11,052	8,247	13,993	8.5	5.0	3.2	2.5	-6%	-41%	-28%
LOGO	53.7	84.0	56%	Buy	271	41%	65%	3	4.5	493	806	1,225	416	809	1,373	6.6	3.9	2.8	1.5	-29%	-33%	4%
HTTBT	28.4	40.0	41%	Buy	183	13%	28%	1	0.0	133	271	569	60	185	400	22.5	14.6	14.6	9.6	25%	n.a.	n.a.
Contractors									4.1	15,751	18,481	24,114	4,045	16,489	21,816	8.7	6.6	5.8	3.3			
ENKAI	23.2	32.5	40%	Hold	7,017	30%	12%	56	3.3	13,265	14,819	19,213	572	13,633	17,771	10.2	7.8	5.1	3.0	-14%	16%	69%
TKFEN	26.4	52.4	99%	Buy	492	19%	48%	17	2.9	2,487	3,662	4,901	3,473	2,856	4,044	3.4	2.4	2.3	1.2	-18%	-49%	-50%
Conglomerates									3.1	998	1,304	1,500	125,357	93,184	115,240	3.1	2.6	n.m.	n.m.			
KCHOL	75.3	115.0	53%	Buy	9,642	56%	27%	95	2.4				69,806	61,442	78,590	3.1	2.4	n.m.	n.m.	7%	23%	45%
SAHOL	35.8	53.5	49%	Buy	3,690	44%	49%	67	4.3				43,828	23,096	30,487	3.2	2.4	n.m.	n.m.	1%	11%	6%
ALARK	60.2	87.2	45%	Buy	1,321	11%	30%	21	1.5	998	1,304	1,500	11,722	8,646	6,163	3.0	4.2	n.m.	n.m.	19%	176%	523%
Precious Metals									0.0	5,440	8,651	9,435	5,589	8,743	11,001	9.0	7.1	9.7	12.0			
KOZAL	19.4	22.0	13%	Hold	3,137	24%	29%	139	0.0	2,742	4,351	4,752	4,005	6,214	7,798	10.0	8.0	9.0	11.0	27%	41%	125%
KOZAA	41.5	68.0	64%	Buy	814	20%	44%	41	0.0	2,698	4,301	4,683	1,584	2,529	3,203	6.4	5.0	11.6	14.5	-30%	-23%	35%
Steel									10.8	32,248	35,376	48,447	28,829	20,729	28,196	6.1	4.5	6.0	4.8			
EREGL	31.2	40.0	28%	Hold	5,510	27%	48%	191	13.2	26,655	28,556	40,820	26,655	16,502	22,782	6.6	4.8	6.9	5.5	-47%	19%	2%
KRDMD	16.6	22.5	36%	Hold	938	14%	89%	116	3.4	5,593	6,820	7,627	2,174	4,226	5,415	4.4	3.4	3.1	2.8	-33%	66%	-9%
Oil & Gas									17.0	60,236	53,743	50,632	52,695	38,896	25,888	4.4	6.5	3.8	3.7			
AYGAZ	59.5	84.5	42%	Hold	660	55%	24%	2	8.2	537	922	1,162	4,733	2,914	1,657	4.5	7.9	11.8	10.3	-8%	25%	37%
PETKM	12.6	14.8	18%	Hold	1,607	10%	47%	55	2.3	4,221	6,730	9,670	6,917	5,457	4,925	5.8	6.5	10.5	8.1	-28%	0%	1%
TUPRS	64.0	92.9	45%	Buy	6,227	42%	49%	113	21.0	55,477	46,092	39,800	41,045	30,525	19,306	4.0	6.4	1.8	2.3	3%	39%	23%
Utilities									12.1	8,663	12,700	13,729	14,498	5,916	6,763	5.4	4.7	3.9	3.2			
ENJSA	26.8	35.5	32%	Hold	1,601	37%	20%	24	12.1	8,663	12,700	13,729	14,498	5,916	6,763	5.4	4.7	3.9	3.2	8%	-3%	40%

Source: Unlu & Co estimates, Company data, *last trading day's closing price, **P/BV for financials

Unlu&Co Coverage

Ticker	Price (TL)	Target (TL)	Upside (%)	Rating	MCap (\$m)	Foreign Owners	Free float (%)	Avg. vol. (\$m)	Div. Yield 23E (%)	EBITDA			Net Income			P/E		EV/EBITDA		Perf. (rel. to BIST100)		
										2022	2023E	2024E	2022	2023E	2024E	23E	24E	23E	24E	1Y	3Y	5Y
Autos & White Goods					Last				7.3	56,518	85,651	122,475	43,843	53,139	70,615	8.4	6.2	6.3	4.7			
ARCLK	87.1	128.0	47%	Hold	2,972	18%	15%	34	5.2	11,858	20,117	29,478	4,325	6,151	9,816	9.6	6.0	6.3	4.7	-33%	44%	32%
DOAS	127.4	192.0	51%	Hold	1,415	23%	34%	20	19.2	7,853	12,305	13,106	7,824	10,757	11,645	2.6	2.4	1.1	1.1	20%	285%	481%
FROTO	535.2	777.2	45%	Buy	9,483	38%	18%	47	5.6	19,727	29,678	44,480	18,614	20,942	26,287	9.0	7.1	7.8	5.8	8%	132%	171%
TOASO	189.0	302.0	60%	Buy	4,772	34%	24%	73	6.4	11,270	15,042	23,461	8,562	10,023	16,320	9.4	5.8	6.3	4.1	43%	150%	182%
TTRAK	568.8	590.0	4%	Hold	1,533	34%	24%	7	8.4	3,406	5,436	6,586	2,971	3,947	4,473	7.7	6.8	5.8	5.1	42%	169%	219%
KORDS	57.7	99.2	72%	Hold	566	10%	29%	6	0.3	2,403	3,073	5,363	1,547	1,320	2,075	9.8	8.7	7.3	5.8	-27%	24%	108%
Defence									2.1	9,472	12,511	17,074	11,916	12,983	16,028	7.3	5.9	8.6	8.6			
ASELS	41.6	55.6	34%	Hold	4,789	27%	26%	101	2.1	9,472	12,511	17,074	11,916	12,983	16,028	7.3	5.9	8.6	8.6	-3%	-33%	-16%
Retailers									7.3	25,877	41,964	61,229	14,845	17,953	26,050	8.0	5.5	4.3	2.8			
BIMAS	136.9	220.0	61%	Buy	4,197	46%	60%	53	9.1	11,867	18,882	28,322	8,157	10,815	16,391	7.7	5.1	5.6	3.7	-7%	-44%	8%
BIZIM	21.8	38.0	75%	Buy	66	6%	46%	2	1.8	789	1,254	1,813	278	127	233	10.2	5.6	0.7	0.3	-26%	-59%	-18%
SOKM	28.9	42.8	48%	Buy	866	42%	51%	9	4.1	4,772	8,120	11,953	2,380	2,338	3,249	7.3	5.3	2.9	1.9	17%	-45%	n.a.
MGROS	167.2	253.0	51%	Buy	1,529	42%	51%	17	5.0	5,968	10,062	14,245	2,590	3,038	4,111	10.0	7.4	2.4	1.3	112%	13%	95%
MAVI	54.1	99.0	83%	Buy	543	38%	73%	5	4.6	2,481	3,646	4,896	1,439	1,633	2,066	6.6	5.2	2.2	1.3	59%	31%	18%
Glass and materials									3.4	20,455	27,566	36,950	19,345	15,719	21,025	7.2	5.4	5.0	4.5			
SISE	36.8	50.0	36%	Hold	5,692	23%	49%	104	3.4	20,455	27,566	36,950	19,345	15,719	21,025	7.2	5.4	5.0	4.5	3%	81%	127%
Aviation									3.9	98,347	139,937	191,722	56,640	73,323	97,844	3.8	3.0	4.7	3.9			
THYAO	135.5	202.0	49%	Buy	9,442	33%	50%	216	4.6	78,684	106,560	144,015	47,429	57,158	74,636	3.3	2.5	4.3	3.5	68%	179%	87%
PGSUS	416.9	703.8	69%	Buy	2,153	27%	43%	42	0.0	14,099	24,104	34,669	7,100	13,160	18,156	3.2	2.3	4.9	4.1	68%	79%	263%
TAVHL	67.1	121.0	80%	Buy	1,231	64%	48%	16	4.6	5,564	9,274	13,038	2,111	3,005	5,052	9.4	7.5	7.3	7.2	-14%	-17%	-15%
Food and Beverages									5.0	33,609	48,194	72,649	7,817	12,845	22,674	8.8	5.0	4.8	3.4			
AEFES	58.1	93.0	60%	Buy	1,768	58%	32%	10	8.4	17,419	23,277	35,510	3,431	4,127	6,699	8.5	5.2	4.3	3.4	14%	-4%	-29%
CCOLA	250.7	311.0	24%	Buy	3,220	82%	25%	8	3.2	10,097	15,671	24,451	4,331	6,784	11,825	9.4	5.4	5.4	3.6	13%	56%	83%
ULKER	32.1	51.0	59%	Buy	554	14%	39%	13	3.1	5,467	8,246	10,882	-353	1,396	3,060	7.9	3.6	3.1	2.6	11%	-68%	-57%
KRVGD	13.7	35.0	155%	Buy	166	14%	28%	1	4.4	626	1,000	1,805	408	538	1,090	6.1	3.0	7.6	4.3	-24%	n.a.	n.a.
Healthcare									3.1	2,346	3,593	4,900	1,619	1,964	2,524	6.5	5.1	5.3	3.8			
MPARK	61.6	105.0	71%	Buy	647	38%	35%	3	3.1	2,346	3,593	4,900	1,619	1,964	2,524	6.5	5.1	5.3	3.8	9%	-13%	-15%
Insurance									1.0				1,953	5,310	8,861	5.3	3.3	1.2	0.9			
AKGRT	2.7	4.3	62%	Buy	217	23%	28%	4	0.0				-121	592	887	7.3	4.9	1.7	1.3	-8%	-58%	-12%
ANSGR	16.7	29.8	78%	Buy	422	5%	35%	1	0.0				1,133	1,427	2,322	5.9	3.6	1.1	0.8	51%	-30%	4%
TURSG	10.0	19.0	90%	Buy	586	2%	18%	1	2.8				941	3,290	5,652	3.5	2.1	1.2	0.8	15%	-19%	96%
Non-Financials									6.4	402,255	536,595	716,982	390,787	371,417	474,131	6.3	4.8	5.2	4.3			
Coverage									6.4				668,382	625,020	844,519	5.6	4.3	5.2	4.3			

Source: Unlu & Co estimates, Company data, *last trading day's closing price, **P/BV for financials

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