

INSURANCE SECTOR

Revision to our insurance valuations

Aksigorta (AKGRT TI) upgraded to 'MO' on the back of attractive upside

- We upgraded our rating for Aksigorta (AKGRT TI) to 'Market Outperformer' with 45% upside (we maintained our 'MO' ratings for the remainder of the coverage). Sabanci Holding plans to merge Aksigorta with a reputable international brand after a restructuring program, which, in our view, creates some selling pressure on the stock due to uncertainties related with the minorities and the process. Yet, the stock underperformed the index by 24% since our last rating downgrade to 'Market Performer' on August 6th (in the same period, Akbank (AKBNK TI) which comprises more than 70% of its market cap underperformed the index by only 4%). Hence, its current price fully reflects the uncertainty of planned restructuring, in our view.

Our model depends on three components

- As you may recall, our target price for a non-life insurance company is a combination of i.) warranted equity model (WEM) with 50% weight, ii.) international peer comparisons based on 2007E P/B multiples with 25% weight, iii.) implied transaction value derived from earlier transactions in the sector (discounted by 42% to reflect control premium) with 25% weight. For life insurance and pension companies including listed Anadolu Hayat Emeklilik (ANHYT TI) and non listed Yapi Kredi and Aviva Emeklilik (which we value because of their contributions to Yapi Kredi Sigorta and Aksigorta), our model implies equal weights for the transaction value and WEM.

Insurance valuations were updated based on 2007E figures

- We have revised our models based on expected premiums, assets under management and equity figures for 2007/12 (earlier we had used actual figures for 2006/12 & 2007/3). The impact of the update is insignificant for Aksigorta and Anadolu Sigorta's (ANSGR TI) target prices, as there is almost no change in the first and 2% rise in the second. Yet, our update resulted in a 14% decline in Anadolu Hayat's target price, largely due to a sharp fall in its WEM valuation (this stems from a downgrade in our fundamental projections for pension business). Similarly, there is also 7% decline in Yapi Kredi Sigorta's (YKSGR TI) target price, largely due to a decline in its life & pension arm's target, which has about 70% weight in its total target value.

(US\$ mn)	AKGRT*		ANSGR*		YKSGR*		ANHYT	
	old	new	old	new	old	new	old	new
- Implied Transaction Value	851	902	1,352	1,392	734	696	2,495	2,429
- WEM	326	394	342	352	265	269	633	393
- Intl. Peer Comparison	310	404	399	562	102	183	-	-
Weighted Avg.	364	429	467	518	264	281	1,040	901
- Life Insurance Contribution	569	535	224	193	718	644	-	-
- Other Participations	1,664	1,639	53	51	-	-	78	66
Target Value	2,597	2,604	743	763	983	925	1,118	967
Tar. Price (YTL per share)	9.90	9.90	3.10	3.20	14.30	13.30	7.40	6.40
<i>Current Mcap</i>	<i>1,790</i>	<i>1,790</i>	<i>427</i>	<i>427</i>	<i>659</i>	<i>652</i>	<i>766</i>	<i>766</i>
Upside		45%	73%	79%	51%	42%	47%	27%
Rating	MP	MO	MO	MO	MO	MO	MO	MO

Source: Ak Securities

* Aksigorta owns 49.7% of Aviva Emeklilik, Anadolu Sigorta has 20% stake in Anadolu Hayat, Yapi Kredi Sigorta owns 99.93% of Yapi Kredi Emeklilik

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