

KARSAN

February 1, 2008

TIME TO ASSEMBLE

BUY
 Previously HOLD

AUTOMOTIVE

- Compelling valuation following recent sell-off --** Having lost a substantial 47% in value since our SELL recommendation dated November 30, 2007, Karsan has underperformed the market by 33%. Following our upgrade to HOLD on January 9, 2008, we are now raising our recommendation for Karsan to BUY, with the share price having slipped well below our TRY2.60 target price.
- Current Mcap even below that envisaged in our worst case scenario --** The Company extended the LoI with Peugeot Citroen Group (PSA) (production of end-of-series Peugeot Partner (M59) and Citroen Berlingo as of mid-2008, for international and domestic markets) until the end of February 2008 on December 30, 2007. We expect the final agreement to be signed by the deadline of the LoI. On the other hand, it is worth underlining that even in the event that the LoI fails to yield a final agreement -- as foreseen in our worst case scenario -- the resulting target price per share for the stock would be TRY2.18, which is still 14% above the current price.
- Downward revision in our 12-month target price --** While our forecasts for the Company remain unchanged, we have trimmed our 12-month target price by 4.4% to TRY2.60, to reflect changes in our macro estimations and peer companies' 2009 multiples. Our revised target price corresponds to a 36% upside potential.

Market Data

Close Price	TRY1.91
Current MCap. (TRY/US\$ mn)	191 / 164

Target Value

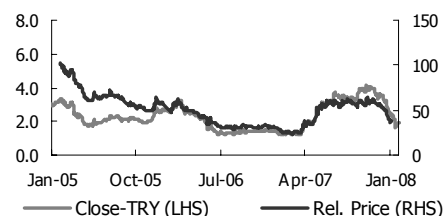
Target Price	TRY2.60
Upside (Downside)	36%

Capitalisation

Enterprise Val.	US\$196mn
Net Debt	US\$33mn
Number of Shares	100 mn
Free Float	33%

Performance

Avg. Daily Vol.	US\$7.84 mn
3y H/L (TRY)	4.24 / 1.17
1y H/L (TRY)	4.24 / 1.18



(%) (TRY)	Absolute	Relative
1m	-21%	-1%
3m	-53%	-37%
12m	50%	50%

* as of January 31, 2008

Research Analyst

Actual vs Estimated Financials (US\$mn) and multiples - IFRS

Year	Net Sales	yoy	EBITDA	yoy	EBITDA Margin	Net Income	yoy	P/E	EV / EBITDA
2009E	756	93%	46	93%	6.1%	34	169%	4.9	4.2
2008E	392	93%	24	221%	6.1%	12	1806%	13.1	8.2
2007E	203	5%	7	18%	3.7%	1	n.m.	249.7	26.3
2006A	192	3%	6	n.m.	3.3%	-22	n.m.	n.m.	31.2

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Changes in US\$/TRY and EUR/US\$ estimations and WACC rate -- We have raised our average US\$/TRY parity estimate for the 2008-2014 period from 1.43 to 1.49, while reducing our average EUR/US\$ parity estimate for the same period from 1.41 to 1.37. The Company's J-9 minibus sales are denominated in the TRY, while its Peugeot Partner&Citroen Berlingo LCV and Renault Truck sales are in terms of EUR. Due to the appreciation of the US\$ with respect to the TRY and the EUR, our average EBITDA forecast has declined by 2.4% in US\$ terms to US\$41mn for the 2008-2014 period. Moreover, the average WACC rate for the same period is lower by 0.2pp at 12.7%, due to a higher D/E ratio of 0.21 (previously 0.17), where the current Mcap is the equity. **Our DCF valuation, incorporating the above-mentioned revisions, is 0.8% lower at US\$235mn.**

Exhibit 1 -- Karsan DCF Model

US\$ mn	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Sales	203	392	756	744	733	732	674	665
Gross Profit (inc. Depr)	18	42	86	86	84	84	77	76
Gross Margin	8.8%	10.6%	11.4%	11.5%	11.4%	11.5%	11.4%	11.4%
Operating Profit (Loss)	4	14	36	36	35	35	32	32
Operating Margin	2%	4%	5%	5%	5%	5%	5%	5%
Non-Cash Charges	4	10	11	11	10	10	9	8
EBITDA	7	24	46	46	45	45	41	40
EBITDA Margin	3.7%	6.1%	6.1%	6.2%	6.1%	6.1%	6.0%	6.1%
Taxes (-)	0	0	0	-7	-7	-7	-6	-6
(Increase)/Decrease in Op. W/C	-16	-7	-3	1	1	0	4	1
Capital Expenditures (-)	-9	-15	-11	-7	-6	-5	-6	-6
FCF to Company	-18	2	33	33	33	33	32	29
Discount Rate	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%

PV of FCF @ 9M07	116
Terminal Growth Rate :	1.5%
Terminal Discount Rate :	12.7%
Terminal Value @ 1.5%	259
PV of TEV @ 9M07	116

Net Debt :	33
Value of Equity	208
12 mo target MCAP	235
12 mo target price (US\$)	2.35
# of shares (mn)	100

Source: Company & EFG Istanbul Estimates

Karsan's implied Mcap based on a peer group multiples comparison now stands at US\$188mn, 8.3% lower than before -- Due to respective 9.6% and 6% drops in the average 2009 P/E and EV/EBITDA multiples of its peers, Karsan's implied Mcap has declined by 8.3% to US\$188mn. Note that we have employed the 2009 multiples only, since the effects of the new projects will become fully evident as of then.

Exhibit 2 -- Peer Comparison

	Country	Mcap	P/E			EV/EBITDA		
		(US\$ mn)	2007E	2008E	2009E	2007E	2008E	2009E
Brilliance China Automotive	China	739	38.7	12.7	9.3	7.6	5.8	5.0
Severtal - Avto	Russia	1714	16.4	12.6	8.1	9.0	6.8	4.7
Yulon Motor Company	Taiwan	1663	18.7	18.0	17.1	N/A	N/A	N/A
Magna International Inc.	Canada	9029	10.5	10.5	9.6	3.5	3.5	3.2
International Peers' Median			18	13	9.4	8	6	4.7
Tofas	Turkey	2231	19.6	9.8	7.7	12.0	5.5	4.5
Ford	Turkey	3520	9.4	8.3	7.4	5.8	5.2	4.7
Anadolu Isuzu	Turkey	188	9.2	7.8	N/A	4.6	3.7	N/A
Turkish Peers' Average			13	9	7.6	7	5	4.6
Karsan	Turkey	164	249.7	13.1	4.9	26.3	8.2	4.2
Implied Mcap (US\$ mn)					285			184
Average of Implied Mcap@20% discount		188						

Our equally-weighted DCF and peer group multiples comparison valuations suggest a 12-month target price of TRY2.60 for Karsan, which is 4.4% lower than our previous target.

Exhibit 3 -- Karsan Valuation Summary (TRY)

	Target Price	Weight	Weighted Target Price
Multiples	2.31	50%	1.15
DCF	2.89	50%	1.45
Total			2.60

Source: EFG Istanbul Estimates

Exhibit 4 -- Income Statement

Income Statement (US\$ mn)	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Net Sales	192	203	392	756	744	733	732	674	665
<i>Growth rate</i>	2.6%	5.5%	93.5%	93.0%	-1.6%	-1.4%	-0.2%	-7.9%	-1.3%
COGS (net of depreciation)	-176	-182	-343	-663	-651	-643	-642	-591	-583
Depreciation	-3	-2	-7	-7	-7	-7	-7	-6	-6
Gross Profit	14	18	42	86	86	84	84	77	76
<i>Gross Margin</i>	7.1%	8.8%	10.6%	11.4%	11.5%	11.4%	11.5%	11.4%	11.4%
Operating Expenses (net of depreciation)	-10	-13	-24	-47	-46	-46	-46	-42	-42
Depreciation	-1	-1	-3	-3	-3	-3	-3	-3	-3
Operating Profit	2	4	14	36	36	35	35	32	32
<i>Operating Margin</i>	1.1%	1.9%	3.6%	4.7%	4.8%	4.7%	4.8%	4.7%	4.8%
EBITDA	6	7	24	46	46	45	45	41	40
<i>EBITDA margin</i>	3.3%	3.7%	6.1%	6.1%	6.2%	6.1%	6.1%	6.0%	6.1%
Net other income / (expense)	-7	-11	1	0	0	0	0	0	0
Income from Other Operations	7	2	1	1	1	1	1	1	1
Expenses from Other Operations	-13	-13	0	-1	-1	-1	-1	-1	-1
Financial Expenses	-17	-5	-2	-2	-1	-1	-1	-1	-1
Income Before Tax	-22	-13	12	33	34	34	34	31	31
Taxation on Income	0	13	0	0	-7	-7	-7	-6	-6
NET PROFIT AFTER TAXES	-22	0.7	12	34	27	27	28	25	25

Exhibit 5 -- Balance Sheet

Balance Sheet (US\$ mn)	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Current Assets	33	69	84	163	175	192	210	219	233
Cash & Marketable Securities	0	19	12	44	58	77	95	113	129
Accounts Receivable	13	26	38	62	61	60	60	55	55
Inventories	19	23	34	55	54	53	53	49	48
Other Current Assets	0	0	1	2	2	2	2	2	1
Long Term Assets	69	68	73	74	70	66	61	59	56
Tangible Fixed Assets	62	62	66	67	63	59	55	52	50
Intangible Fixed Assets	7	7	7	7	7	7	6	6	6
Other Long-Term Assets	0	0	0	0	0	0	0	0	0
Total Assets	102	137	157	236	245	258	272	278	289
Short Term Liabilities	19	13	34	88	74	74	73	68	67
Short-Term Financial Loans	7	1	5	15	3	3	3	3	3
Short-Term Trade Payables	10	10	24	64	62	62	62	57	56
Short-Term Provisions	1	1	3	5	5	5	5	5	5
Other Short-Term Liabilities	1	2	2	4	4	4	4	4	4
Long Term Liabilities	49	34	22	14	9	9	9	9	9
Long-Term Financial Loans	48	33	20	10	5	5	5	5	5
Other Long-Term Liabilities	1	1	2	4	4	4	4	4	4
Shareholders Equity	33	89	101	135	162	176	190	201	213
Total Liabilities and Equity	102	137	157	236	245	258	272	278	289

Our rating system comprises the following designations: BUY (B), HOLD (H), SELL (S). The absolute upside to target value implied by the current market capitalisation is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation, price to book, return on equity, replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. The upside of the market is determined through the aggregate upside of our coverage calculated using free float

Mcaps. Our coverage comprises 52 stocks traded on the ISE, which account for around 71% of the total Mcap of the ISE-100.

Summary of Our Stock Rating System	
Rating	Required Absolute Upside
BUY (B)	>=20%
HOLD (H)	<=10% & >=-10%
SELL (S)	<=-10%

Sector Ratings

Our investment horizon for industry ratings is again 12 months. We have two sets of industry ratings:

- Sector Outlook** -- This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are BUY, HOLD, and SELL.
- Performance** -- This rating provides our analyst's opinion of a stock's performance in that particular industry over the next 12 months. Any difference between industry outlook and performance could stem primarily from stock valuations in that industry. The ratings are same as stock ratings of **B, H, and S**, and the **benchmark index the ISE-100**.

Sector Outlook	Relative Return
BUY (B)	>=15
HOLD (H)	<+15 & >-15
SELL (S)	<=-15

Market Call (3-12m horizon)	Required Abs. Upside
BUY (B)	>=25
NEUTRAL (N)	<15 & >-15
SELL (S)	<=-25

Market Call

Our equity **market call** has an investment horizon of 3-12 months. **Our market calls are BUY, NEUTRAL, and SELL.**

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