

21 March 2008

OUTPERFORM (M)

Tat Konserve

***Upside Potential 90%**
* Excluding dividend yield

Bloomberg: TATKS TI

Reuters: TATKS IS

Still very attractive....

- **Upward revision in the target valuation with improved margin and growth outlook, despite lower exposure to Urfa project**

We made a slight upward revision in our 12-month target MCAP to US\$540mn for TAT Konserve reflecting a lower exposure (68.2%) to the Urfa project and improved margin and growth estimates, especially in dairy and meat segments. Our earlier calculations assumed a 100% stake at Urfa project. The company decided to conduct the project under Harranova Livestock Co, at which its has 68.2% stake. The remaining shares at Harranova belongs to Koc family. The company will spend US\$80mn to build new tomato processing capacity in South Eastern Turkey, Urfa.

- **Price adjustments will lead to a margin recovery starting Q1 08**

Tat Konserve announced TRY11mn net earnings in 2007 below expectations on the back of TRY4mn net loss in 4Q07, as the Company could not reflect the increase in raw material costs on its prices in Q4. However, cost increases were fully reflected as of early March, leading to a margin recovery starting Q1 08.

- **Better margins at meat segment with new livestock investments and through synergies with tomato production**

Urfa project related to tomato plantation and tomato paste production will take a start in 2H08. Including the positive effects of the planned capacity increase at Harranova Livestock to 15,000 units from 10,000 units of animals and synergies with the tomato production investment in Urfa, as unused output of tomato processing will be used as feed for animals. The company expects to generate 40% cost advantage at the meat segment. We have penciled in a 3% improvement in the meat segment gross margin from 9% in 2007 to 11% in 2008.

- **Positive outlook for 2008**

We are expecting a 24% growth in 2008, mainly driven by dairy, meat and tomato paste segments. EBITDA is forecasted to grow by 70% , y-o-y, with widening margins. The company had TRY95mn short f-x position as of end of 2007, TRY35mn of this amount was hedged through option contracts expiring April, 2008. The company aims to hedge minimum 50% of its short f-x position in 2008.

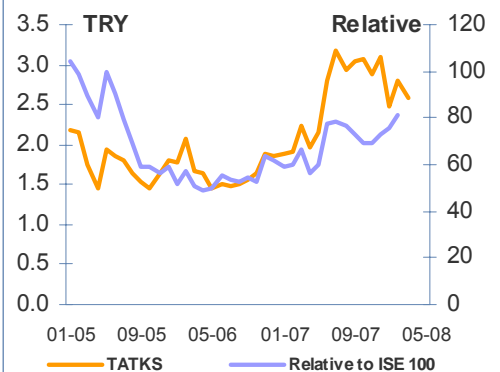
Key Estimates (TRY mn)

TATKS	2005	2006	2007	2008E	2009E
Sales	350	448	547	676	754
EBITDA	1	24	40	68	88
Net Income	-15	-19	11	22	36
P/E (x)	-13.5	-10.0	29.8	16.0	9.7
EV/EBITDA (x)	391.9	17.3	15.1	7.7	6.0
EPS	-0.11	-0.14	0.08	0.16	0.27
Dividend Yield (%)	0.0	0.0	0.0	1.3	3.2

Stock Data	TRY	US\$
Price at 20 Mar 2008	2.59	2.09
12-Month Target Price	5.10	3.97
Mcap (mn)	352	284
Float Mcap (mn)	151	122
No. of Shares Outstanding		136 mn
Free Float (%)		43.00
Avg.Daily Volume (3M, mn)	0.8	0.7

Market Data	TRY		
ISE 100	39,848		
US\$ Spot Rate	1.2418		
US\$ 12-Month Forward	1.3177		
Price Performance (%)	1 Mn	3 Mn	12 Mn
TRY	-8	-15	16
US\$	-10	-19	31
Relative to ISE-100	6	18	24

Price / Relative Price



52 Week Range (TRY) 2.09 3.44

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Highlights from 2007 year end financials...

Tat Konserve posted TRY11mn net earnings in its 2007 year end financials, recording TRY 4.1mn losses in Q4 07. This compares with a net loss of TRY19mn in 2006. Despite of the y-o-y improvement in net profit, it was below consensus estimate of TRY16mn. However, the company announced its year end EBITDA two days before earnings announcement, implying a weaker EBITDA margin in Q4. Thus, the year end results did not come as a surprise. The weakness in margins was due to the hike in raw material prices. However, the company fully reflected cost increases on its prices as of early March 2008, which will lead to an improvement in margins starting Q1 08. On the other hand, net sales grew y-o-y by 22% to TRY547mn from TRY448mn. FY07 EBITDA improved by 64% to TRY40mn in 2007 from TRY24mn in 2006, implying a 1.7% improvement in EBITDA margin to 7.3% due to increased operating efficiency. A restructuring plan including cost savings, shutting down of unproductive plant and rescheduling of loans and optimization of the product portfolio has been executed by the new management since 2005, the effects of which became visible starting from Q107. Finally, financial expenses declined y-o-y by 35% to TRY18mn from TRY30mn due to gains on f-x debt. Net debt position decreased to TRY173mn in 2007 from TRY202mn in 2006. TRY30mn of total net debt in 2007 came from the consolidation of Harranova Livestock Co.

TATKS: Financial Highlights									
TRY mn	2007	2006	Y-o-Y change	Q1'07	Q2'07	Q3'07	Q4'07	Q4'06	Y-o-Y change
Net Sales	547	448	22%	126	124	160	137	116	18%
Gross Profit	97	71	37%	26	21	27	23	20	13%
Gross Margin	17.8%	15.8%		20.9%	16.6%	17.1%	16.7%	17.4%	
OPEX	(66)	(53)	23%	(14)	(14)	(19)	(19)	(14)	32%
OPEX/Sales	12.0%	11.9%		11.4%	11.3%	11.6%	13.8%	12.3%	
EBIT	31	17	79%	12	7	9	4.0	6	-32%
EBIT Margin	5.7%	3.9%		9.5%	5.3%	5.5%	2.9%	5.1%	
EBITDA	40	24	64%	14	8	11	7	8	-6%
EBITDA Margin	7.3%	5.4%		10.8%	6.7%	6.6%	5.2%	6.5%	
Other Income, net	3.3	(7.6)	143%	(0.1)	(0.4)	5.9	(2.2)	(1.1)	93%
Financial Expense	(17.5)	(26.9)	-35%	(7.4)	(4.1)	(2.2)	(3.7)	(0.9)	320%
Net Profit	11.0	(19)	157%	3.1	1.4	10.6	(4.1)	1.0	-521%

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