

Confectionery

1H07 Earnings Review

Ulker Biskuvi

BUY
(Previously HOLD)

How were the results?

- Ulker Biskuvi's consolidated net earnings increased by 79% yoy to TRY75.3mn in 1H07, exceeding our estimate of TRY59mn (Consensus: TRY65mn), due to a significant drop in net FX loss.

Comment

- The Company's net sales decreased by 26% yoy to TRY662mn, above our estimate of TRY609mn (Consensus: TRY699mn). Since Atlantik Gida, a fully-consolidated marketing subsidiary of Ulker Biskuvi, was deconsolidated as of Nov 30, 2006, we adjusted 1H06 financials through deconsolidating Atlantik Gida for comparison purposes. The adjusted figures indicate a 42.4% yoy increase in 1H07 net sales. (Adjusted 1H06 figures are presented in Exhibit 2 below).
- After the adjustment, the EBITDA increased by 17% yoy to TRY87.4mn, in line with our estimate of TRY84.4mn (Consensus: TRY94mn). (Unadjusted figures imply a 28.5% yoy improvement). Post-adjustment figures indicate that although the yoy change in the gross margin in 1H07 was insignificant (i.e. 0.4pps), EBITDA margin declined by 2.8pps yoy to 13.2%. This contraction is mainly driven by a surge (i.e. 62.2% yoy after the adjustment) in marketing&sales expenses in 1H07.
- Moreover, post-adjustment figures indicate an 85.5% yoy growth in 1H07 net income, mainly due to a net fx gain of TRY10.5mn at the end of 1H07, compared to a net fx loss of TRY29mn as at 1H06.

Net/Net

- Although the Company announced a higher net income with respect to our estimate, the results are broadly in line at the operating level.
- We increase our adjusted net sales growth estimate by 1.5pps to 15% for 2007, incorporating 1H07 yoy adjusted growth figures (i.e. 42.4%). Moreover, we raise our 2007 net income estimate by TRY10mn to TRY80.4mn due to fx gains resulting from the appreciation of the TRY in 2007. Furthermore, we reduce our average WACC assumption by 0.2pps to 18.6% due to the change in the D/E ratio. The Company has a net cash position of TRY1.1mn as at 1H07, despite a net debt of TRY20mn at the end of 1Q07.
- Our valuation model incorporating equally-weighted DCF and international multiple comparison indicates a target price of TRY6.71, up from a previous TRY6.45.
- The Company has underperformed the ISE index by 14.4% since June 27, when we initiated coverage with a HOLD rating. We maintain our net sales growth, EBITDA margin, and terminal growth assumptions unchanged and upgrade Ulker Biskuvi to BUY.

Current Price (TRY)	5.40
Target Price (TRY)	6.71
Upside / (Downside) (%)	24%

Announced Financials (IFRS Basis; TRYmn)

Income Statement	1H07	1H06	YoY Δ	2Q07	2Q06	YoY Δ
Net Sales	661.8	898.0	-26.3%	319.5	444.9	-28.2%
COGS	488.8	726.3	-32.7%	238.2	356.1	-33.1%
Gross Profit	173.0	171.7	0.7%	81.3	88.8	-8.5%
EBITDA	87.4	68.0	28.5%	37.7	34.8	8.5%
Operating Exp.	98.5	119.0	-17.2%	50.5	61.3	-17.7%
Op. Profit	74.4	52.8	41.0%	30.8	27.5	11.9%
Net Other Income	9.1	7.5	22.1%	2.2	-3.7	n.m.
Financial Exp	-17.1	31.8	n.m.	-18.3	26.7	n.m.
Minority Interest	-5.2	-0.8	n.m.	-1.5	5.9	n.m.
Taxes	20.1	-14.5	n.m.	9.5	-21.9	n.m.
Net Profit	75.3	42.2	78.6%	40.3	24.9	61.9%

Margins

Gross	26.1%	19.1%	7.0 pps	25.4%	20.0%	5.5 pps
EBITDA	13.2%	7.6%	5.6 pps	11.8%	7.8%	4.0 pps
Operating	11.2%	5.9%	5.4 pps	9.6%	6.2%	3.5 pps
Net	11.4%	4.7%	6.7 pps	12.6%	5.6%	7.0 pps

Balance Sheet	1H07	1H06	YoY Δ	2Q07	2Q06	YoY Δ
Cash & Mkt. Sec.	121	26	362%	121	26	362%
Fin. Debt	279	267	4%	279	267	4%
Net Debt	-1	96	n.m.	-1	96	n.m.
Accounts Rec.	411	416	-1%	411	416	-1%
Inventories	71	136	-47%	71	136	-47%
Accounts Payable	194	338	-43%	194	338	-43%
LT Assets	555	569	-2%	555	569	-2%
LT Liabilities	111	42	167%	111	42	167%
Total Assets	1,167	1,174	-1%	1,167	1,174	-1%
Equity	618	559	11%	618	559	11%
Financial Ratios	1H07	1H06	YoY Δ	2Q07	2Q06	YoY Δ
Debt/Equity (%)	88.8%	110.1%	-21.3 pps	88.8%	110.1%	-21.3 pps

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Financials (TRYmn) and multiples - IFRS

Year	Net Sales	yoy	EBITDA	yoy	EBITDA Margin	Net Income	yoy	P/E	EV / EBITDA (Adj)
2009E	1,350	10%	189	18%	14.0%	129	23%	10.1	6.4
2008E	1,227	12%	160	21%	13.0%	105	30%	12.4	7.6
2007E	1,096	-39%	132	9%	12.0%	80	-9%	16.2	9.2
2006	1,789	32%	120	-13%	6.7%	89	34%	14.7	10.1

Exhibit 1**Summary Financials (IFRS Basis; TRYmn)**

<i>Income Statement</i>	<i>1H07</i>	<i>1H06</i>	<i>YoY Δ</i>
Net Sales	661.8	898.0	-26.3%
Gross Profit	173.0	171.7	0.7%
EBITDA	87.4	68.0	28.5%
Op. Profit	74.4	52.8	41.0%
Net Profit	75.3	42.2	78.6%
Margins			
<i>Gross</i>	26.1%	19.1%	7.0 pps
EBITDA	13.2%	7.6%	5.6 pps
<i>Operating</i>	11.2%	5.9%	5.4 pps
Net	11.4%	4.7%	6.7 pps

Exhibit 2**Adjusted Summary Financials (IFRS Basis; TRYmn)**

<i>Income Statement</i>	<i>1H07</i>	<i>1H06(adj)</i>	<i>YoY Δ</i>
Net Sales	661.8	464.7	42.4%
Gross Profit	173.0	119.7	44.5%
EBITDA	87.4	74.6	17.2%
Op. Profit	74.4	60.2	23.6%
Net Profit	75.3	40.6	85.5%
Margins			
<i>Gross</i>	26.1%	25.8%	0.4 pps
EBITDA	13.2%	16.0%	-2.8 pps
<i>Operating</i>	11.2%	13.0%	-1.7 pps
Net	11.4%	8.7%	2.6 pps