CEEMEA Equity Research
12 August 2008

Ulker Biskuvi

In value territory but needs a catalyst; initiate with Neutral

Initiation
Neutral

YTL3.12

11 August 2008
Price Target: YTL3.60

CEEMEA Consumer

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- **We initiate coverage on Ulker Biskuvi (UB) with a Neutral rating** and 12m DCF-based TP of YTL 3.60 (15% upside potential).
- **We are highly encouraged by UB's long-term growth prospects.** UB is the clear leader with 56% share in the Turkish biscuit market, and consumption levels are low at 4kg per capita vs. 7-15kg in Europe. UB exports to 90 countries, including Europe/ME/CIS.
- **Input cost inflation still a concern despite global signals of some slowdown.** On account of continued cost pressures (wheat +19%, sugar +5%, fuel +43% 1H08, electricity +23% and natural gas +18% in Turkey), we expect UB's 07 gross margin to fall from 22.1% to 20.8% in '08, and EBITDA margin to remain almost flat at 8% with a 130 bps cut on marketing costs.
- **UB shares would significantly benefit from further simplification of corporate/equity structure.** Although we welcome management's ongoing efforts to simplify UB's corporate structure, the company's holding/equity structure (dividend privileges to non-listed A, B and founder shares, which we value at YTL235m) is still complicated.
- **Participation in Godiva (25%) to weigh on UB's earnings at this point.** While Godiva will not be significantly earnings accretive for UB in the short term, in our view, UB will pay substantial interest expense (~YTL17m '08) on $240m participation in the $950m loan obtained to finance the acquisition.
- **Needs a catalyst.** UB's 8.6x/7.6x 08/09E PE and 11.8x/9.7x EV/EBITDA (vs. peer avg. of 14.9x/13.2x 08/09 PE) could rise significantly due to margin recovery (with a potential slowdown in cost inflation) or a strong catalyst, such as improved transparency, eliminating dividend privileges for non-listed shares, or sale of some financial assets (UB owns 12% of BIM).

Price Performance

We are highly encouraged by UB's LT growth prospects …

…but with a lack of catalysts, we think it will trade sideways in value territory for the remainder of the year, particularly following the recent rally (+ 31% since July 1st).

Ulker Biskuvi Sanayi A.S. (ULKER.IS;ULKER TI)

	2006A	2007A	2008E	2009E	2010E
Adj. EPS FY (YTL)	0.37	0.48	0.36	0.41	0.53
Adj P/E FY	8.4	6.5	8.6	7.6	5.9
EV/EBITDA FY	8.1	9.6	11.8	9.7	7.4
Revenue FY (YTL mn)	1,927	1,454	1,628	1,856	2,149
EBITDA FY (YTL mn)	122	115	131	157	205
EBITDA margin FY	6.3%	7.9%	8.0%	8.5%	9.5%
Tax rate FY	0.1%	17.1%	20.0%	20.0%	20.0%
ROE FY	15.2%	17.4%	10.7%	10.0%	11.7%

Source: Company data, Reuters, JPMorgan estimates.

Company Data	
Price (YTL)	3.12
Date Of Price	11 Aug 08
52-week Range (TL)	4.67 - 2.34
Mkt Cap (YTL bn)	0.8
Fiscal Year End	Dec
Shares O/S (mn)	269
Free Float	31.0%

See page 36 for analyst certification and important disclosures, including non-US analyst disclosures.

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Investment Thesis

Biscuit consumption per capita in Turkey is rather low at 4kg, compared to 7-15kg in Europe

Table 1: Biscuit consumption per capita in select countries, kg per annum

Turkey	4
Germany	7
Italy	8
Netherlands	14
Europe (range)	~7-15

Source: Company

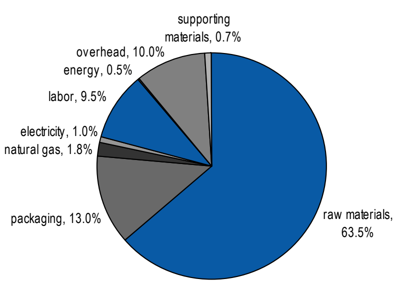
A long-term growth story and a Turkish consumer play

Biscuit consumption per capita in Turkey is rather low at 4kg, compared to the 7-15kg seen in Europe. Biscuit consumption growth in Turkey is directly related to people's income levels, which are gradually improving. Biscuits, wafers and crackers are still viewed as luxury items in rural areas where traditional bakery products are consumed. Moreover, we expect an increase in biscuit consumption owing to changing trends in the regions (especially with urbanization) where home made/traditional products are currently more favored. We see all of these drivers as highly positive for Ulker Biskuvi (UB).

However, 2008 is a difficult year

While we believe UB will continue to benefit from long-term strong growth prospects in Turkey – and similarly in the Middle East/CIS, where the company continues to strengthen its position via exports – we see this story building up gradually. In particular, we are not excited about 2008, as Turkey's GDP growth is expected at around 3.8% (JPM forecast), compared to 4.5% in 2007, 6.9% in 2006 and 8.4% in 2005. All else being equal, this implies a weaker year for Ulker's top line growth in our view.

Figure 1: COGS breakdown, 2007



Source: Company guidance and JPMorgan estimates

Input cost inflation still a threat; pressure on COGS

We believe continued food inflation and the lack of visibility over the potential impact on the company's margins is still a concern for 2008 and possibly 1H09, partly depending on agricultural output in Turkey. With its 56% market share, UB is the price setter on the Turkish market and historically has been able to pass inflation on to the consumer to the extent required to maintain satisfactory margins. However, input prices are now showing a different trend, which we cannot ignore.

We believe high commodity/raw material prices in Turkey (wheat +19% vs. a global slowdown; sugar +5%; fuel +43% YTD 1H08) mean that food companies will have to absorb some of the inflation during the remainder of 2008. We therefore believe UB will continue to see gross margin contraction, down from 22.1% in '07 to 20.8% in '08E. Input cost increases alone led to a 230 bps contraction in UB's gross margin in '07. Moreover, while increases in fuel prices have been pushing up distribution costs (transportation costs are 1.5-2.0% of sales), Turkey has seen a 23% increase in electricity prices (July '08) and 18% in natural gas (Aug. '08), which should further weigh on production costs. For UB's distribution costs in 2H08 and after, much depends on the extent of the current downward trend in oil prices.

Table 2: PPI average price changes on selected commodities in Turkey, YTD 1H08

Wheat	19.1%
Sugar	5.1%
Glucose	4.1%
Margarine	7.3%
Pasteurized milk	26.5%
Butter	0.9%
Crude oil	42.7%

Source: TUIK

We believe a margin decline is better than losing market share

Alternatively, UB could set its prices in line with cost inflation, which would likely limit volume growth. When the operating environment starts to normalize, we believe UB would find it much more difficult to reverse a slowdown in consumer demand and volume growth – let alone possible market share loss to ETI (its largest rival) and other competitors – than some margin decline. Therefore, we think UB management will allow some margin contraction, the best strategy the company can take in this environment, in our view.

Table 3: Ulker Biskuvi's margins

	2007	2008E	2009E
Gross	22.1%	20.8%	21.3%
EBITDA	7.9%	8.0%	8.5%

Source: Company reports, JPMorgan estimates.

Gross margin should be compensated by cutback on marketing costs
In our view, the company could compensate for lower gross margin by making cutbacks in marketing costs. In particular, we expect marketing costs to decline from 11.2% of sales in 2007 to 9.9% in 2008, allowing 2008 EBITDA margin to reach 8.0% (7.9% in '07) despite our assumption of a 130 bps decrease in gross margin.

Vertical integration: an operational plus, but a drawback to investors
Nearly all Ulker Group companies are suppliers/customers of UB. Group companies provide raw materials and packaging to UB, as well as sales and distribution services. UB benefits from this high level of vertical integration: it ensures continuity of operations and consistent product quality while preventing disruptions in procurement and distribution on a daily basis; this is a major advantage, in our view. However, although we believe UB receives no pricing advantages in this relationship, transfer pricing could still be a concern for investors.

The simpler the better: complicated structure harms transparency
We would welcome any further simplification of the company's holdings and share structure (listed C shares remain disadvantaged vs. A, B and founder shares, which have significant dividend and voting rights). The complicated holding and equity structure limits transparency and complicates the valuation of UB's shares.

Value of financial assets offset by privileged shares' dividend and minority stake
UB has attractive financial (strategic) holdings such as BIM (12.03%) and Tire Kutsan (9.83%). While UB's market value of YTL838m may seem low at a first glance – the shares in BIM and Tire Kutsan alone add up to a current value of ~YTL512m (the fair value of total financial assets equals YTL585m in our valuation) – we value the privileged shares' dividend and the Biskot Gida minority at YTL320m in total, which offsets most of the contribution from financial assets.

Participation in Godiva (25%) to weigh on UB's earnings at this point
While Godiva will not be significantly earnings accretive for UB in the short term in our view, the company will pay substantial interest expense (~YTL17m '08) on $240m participation in the $950m loan obtained to finance the acquisition.

Highly experienced management reassuring for growth
With its unchallenged market leadership, large consumer base and per capita income-driven growth, we think UB's story will remain intact over the medium to long term. Moreover, management's record of maintaining healthy growth, even at times of crisis in Turkey, is highly commendable, in our view. We are positive on the company's fundamentals and we will be watching for catalysts, which we believe could include; **1)** greater than expected resilience in margins, with a potential slowdown in input costs; **2)** further steps to improve transparency and equity structure (e.g. termination of A and B type shares via an exchange of listed C type shares –see page 17); **3)** sale of some financial assets; and **4)** potential IPOs of businesses in which UB has a stake (see page 20).

In value territory but needs a catalyst.
We set a 12m DCF-based TP of YTL 3.60 (15% upside potential). UB is trading at a deep discount to its peers 08/09E PE of 8.6x/7.6x and EV/EBITDA of 11.8x/9.7x (vs. peer avg. of 14.9x/13.2x 08/09 PE), which could strongly reverse due to higher resilience than we expect in margins or a major catalyst. Pending such a catalyst we take a Neutral stance.

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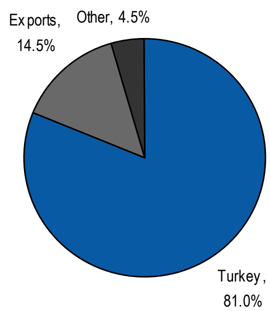
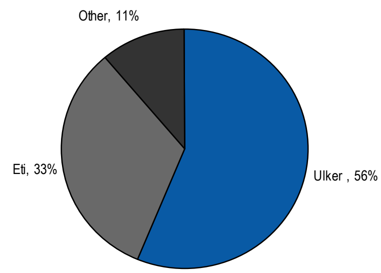
Company Snapshot

Ulker Biskuvi's gross sales split, 2007	Major players in Turkey's biscuit market, 2007





Per capita biscuit consumption, kg per annum	
Turkey	4.0
Germany	7.0
Italy	8.0
Netherlands	14.0
Europe	ranging btw. ~7.0-15.0

Shareholder structure, July 2008	
Yildiz Holding	42.09%
Dynamic Growth Fund	26.57%
Ulker Family	4.23%
Public and other	27.11%
Total free float	c31%.

Operating positives

- Stable market structure; leading market position in biscuits; high entry barriers
- Long presence in Turkey (63 yrs) and export markets; significant sector expertise
- Vertical integration with other group companies; continuity in quality and effective cost management
- Strong and well-established sales and distribution network with significant coverage in Turkey (220k sales points)
- Low capex requirements
- Low but growing consumption levels with rising per capita incomes

Operating negatives

- Input costs still pressuring COGS
- Low GPD growth in 2008: 3.8% vs. 4.5% in 2007, 6.9% in 2006 and 8.4% in 2005
- Prone to possible YTL depreciation due to foreign currency loans, especially after $240m participation in financing the Godiva acquisition
- Massive consolidation required for financial reporting; limits transparency and timely release of financial data
- Complex corporate structure
- Exports to more than 90 countries, some of which are limited scale, in our view

Capacity – Biscuit + wafers, 2007 ('000 tons)	
Topkapi	66
Ankara	119
Gebze	49
Karaman	118
Total Turkey	352

Sales – Biscuit + wafers, 2007 ('000 tons)	
Topkapi	53.0
Ankara	78.7
Gebze	40.2
Karaman	91.9
Total Turkey	263.8

Brand / Products range, 2007

Ulker - umbrella brand: > 50 brand names representing c1500 different products (SKUs); produces biscuits, chocolate coated biscuits, crackers and wafers. Introduces ~ 60 new products pa on average. No. 1 brand of biscuits in ACNielsen 2007 report on Turkish brands.
Main flagship brands: Ulker, Mavi Yesil, Halk

Listing

Listed on the Istanbul Stock Exchange since 2003. Changed name from Ulker Gida (Ulker Food) to Ulker Biskuvi (Ulker Biscuits) in Aug-2007.

Recent acquisitions/corporate activities	
Godiva chocolate company acquired by Yildiz Holding (7.69%), Ulker Biskuvi (25.23%) and Ulker Chocolate (67.08%)	1Q08
Atlantik Gida removed from consolidation; Rekor Gida included in consolidation	4Q06 and 1Q07 respectively

Source: Company data, JPMorgan estimates and analysis

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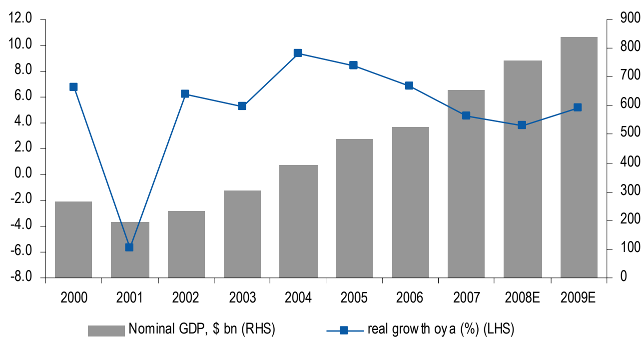
Key share price and earnings drivers

A Turkish consumer play with long-term growth prospects

Macro support

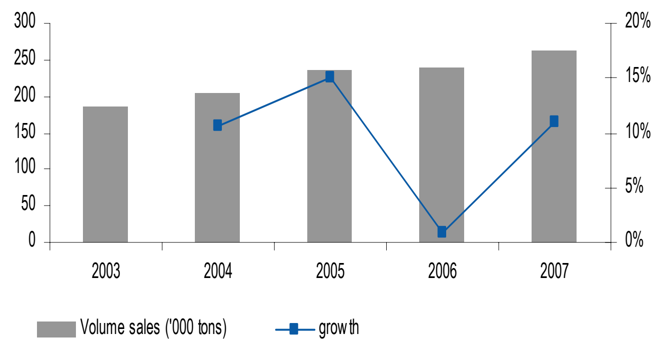
Ulker Biskuvi's domestic growth is strongly tied to GDP and per capita income growth. Since the 2001 crisis, Turkey's GDP has been rising at a rapid pace, beating most markets globally. However, in 2007, Turkey saw a slowdown (partly due to the double elections) recording only 4.5% growth vs. 6.9% in 2006 and 8.4% in 2005. JPMorgan economists foresee only 3.8% growth in 2008 (with downside risk attached if agricultural production is not as supportive as expected). All else being equal, this suggests a weaker top line growth for Ulker Biskuvi this year. Based on assumptions that markets and global economics will start normalizing in 2009 – and with political tensions in Turkey behind us – JPMorgan economists are more optimistic about 2009 growth, which is expected at 5.2%. If realized, this should provide better support for UB's revenues next year.

Figure 2: Turkey GDP and growth



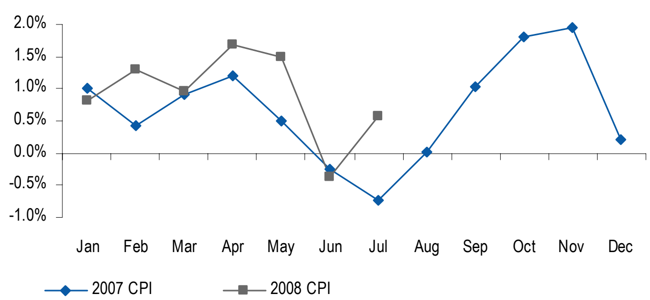
Source: JPMorgan economics research

Figure 3: Ulker Biskuvi sales volume and growth



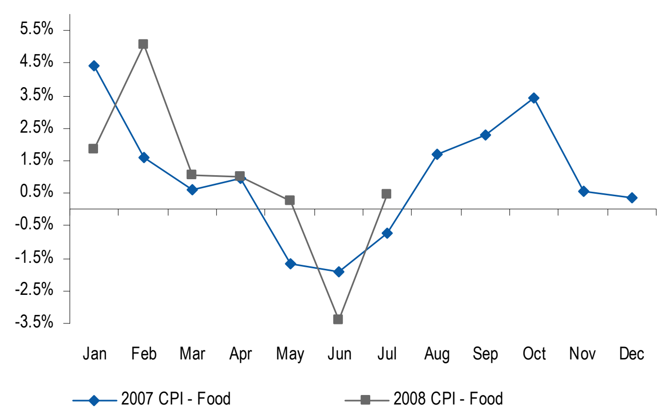
Source: Company reports. YoY growth comparisons in volumes is not entirely meaningful (esp. 2006) due to restructuring over years (subs. deconsolidated or started to be consolidated)

Figure 4: Turkey – CPI



Source: TUIK

Figure 5: Turkey – food CPI



Source: TUIK

Low consumption levels

Based on Turkey's growth outlook and expected impact from input costs *(see below)*, we are not particularly enthusiastic about Ulker Biskuvi's prospects in 2008; however, we are more positive about the company's long-term growth prospects, especially given low domestic consumption levels and the company's dominant position (56% share of the biscuit market). In Turkey, per capita biscuit consumption is around 4kg per year, compared to 7-15kg in Europe, suggesting significant growth potential. Moreover, we believe this 4kg is unevenly distributed amongst various regions; a considerable proportion of the population has limited access to Ulker Biskuvi products in terms of affordability. Biscuits, wafers and crackers are still considered luxury items, especially in low-income rural areas where growth should be higher in the coming years as economic imbalances are reduced.

Biscuit consumption is also a matter of changes in consumption trends; as urbanization increases, people get used to consuming ready-made confectionary/bakery items, rather than homemade products. Traditionally, in less developed regions, people consume more homemade and simple bakery items.

Table 4: Ulker Biskuvi's sales volumes – biscuits + wafers ('000 tons)

	2003	2004	2005	2006	2007
Turkey	185.5	205.1	235.9	237.8	263.8
Growth		10.5%	15.0%	0.8%	10.9%
- Topkapi	51.9	48.9	51.4	51.0	53.0
- Ankara	58.7	65.7	68.9	71.6	78.7
- Gebze	30.6	35.6	43.7	37.0	40.2
- Karaman	44.4	54.9	71.8	78.2	91.9

Source: Company reports. YoY growth comparisons in volumes not entirely meaningful (esp. 2006) due to the restructuring over years (subs. deconsolidated or started to be consolidated).

Table 5: Ulker Biskuvi – capacity, production and sales, 2007 ('000 tons)

	Capacity	CUR	Production	Sales
Turkey	352	75%	261.9	263.8
- Topkapi	66	82%	50.1	53.0
- Ankara	119	81%	79.6	78.7
- Gebze	49	89%	40.2	40.2
- Karaman	118	65-90%	91.9	91.9

Source: Company reports and JPMorgan estimates. Note: Topkapi and Ankara are directly owned facilities of Ulker Biskuvi, while Gebze and Karaman are affiliated facilities with Ulker Biskuvi the majority owner. 97.9% ownership in Gebze/Ideal Gida and 50.8% in Karaman/Biskot Gida.

Strong position in Turkey with years of industry expertise

UB holds a 56% market share in the Turkish biscuit market, which could further increase at the expense of small market players. ETI, the number-two player, holds about 33% of the market. Without underestimating strong competition from ETI, we believe Ulker Biskuvi's position will remain essentially unchallenged due to the company's strengths, which have been built up over many years. Moreover, we see significant entry barriers in the segment, which supports the dominance of these two companies for the foreseeable future, in our view.

Ulker Biskuvi's long-standing leadership, which essentially serves as an entry barrier into the market, can be explained by:

1) Strong brand recognition and economies of scale; the largest producer of biscuits, wafers and crackers in Turkey, the Middle East and the Balkans. Number-one biscuit brand in Turkey. Ulker Biskuvi and ETI hold almost 90% of the biscuit market in Turkey with the remaining 10% shared among various small players.

2) Well-established sales and marketing function; extensive coverage by Atlas Gida, Ulker Biskuvi's dedicated marketing subsidiary, reaching 220k sales point every week. Cost advantages in distribution with comprehensive and flexible logistics and diverse factory locations.

3) Product variety; Ulker Biskuvi offers c1500 SKUs under more than 50 brands (all products display the "Ulker" logo) to meet changing and increasingly sophisticated consumer demands.

4) Vertical integration to Ulker Group; synergies in access to a diverse range/supply of raw materials and additional distribution capacity. Although according to the Group's policy, Ulker Biskuvi is free to buy from third parties as and when pricing terms are more favorable for the company, in practice, Ulker makes almost all of its procurement from the Group companies, benefiting from continued/uninterrupted supply and consistency in quality.

5) The company has established and maintains high quality standards for its products.

6) Single price policy; the same price for same products everywhere in the country (Ulker Biskuvi's price to the sales point; not necessarily the retail price for end consumer).

7) Generally lower margins than seen among European and other peers.

Table 6: Ulker Biskuvi's margins vs. global peer group, 2007

	Gross margin	EBITDA margin	Net margin
Ulker Biskuvi	22.1%	7.9%	8.0%
Kent Gida	34.7%	11.9%	3.9%
Cadbury	46.2%	13.3%	9.8%
Danone	48.5%	18.1%	14.6%
Nestle	58.1%	17.0%	14.0%
Unilever	48.8%	16.8%	14.5%
Hersey Co.	33.0%		4.3%
Wrigley WM	52.7%	21.9%	11.7%
Zetar	27.5%	9.5%	3.4%
Glisten	22.8%	10.6%	3.7%
Lotus Bakeries		17.3%	9.2%
Lindt & Sprungli		15.1%	8.5%
Barry Callebaut		10.4%	5.0%
Associated British Food		12.5%	5.9%
Northern Foods		9.8%	4.1%
Finsbury Food Group	39.1%	8.1%	3.6%
Kerry Group		10.5%	5.1%
IAWS Group	25.7%	10.6%	6.5%
Cloetta Fazer AB	35.3%		10.9%
Petra Foods	14.7%	7.1%	3.1%
Average	36.4%	12.7%	7.5%

Source: Company reports and JPMorgan calculations.

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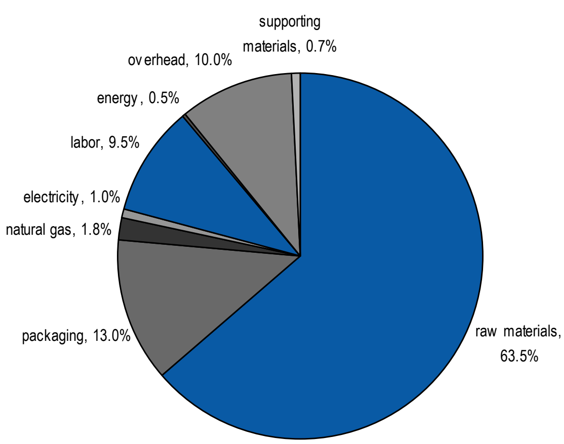
Rising input costs still a concern

The continued rise in raw material, production and transportation costs (particularly wheat, oils/fats, sugar, energy and fuel), coupled with a modest 3.8% (JPM est.) GDP growth forecast, raises concerns over Ulker Biskuvi's performance in 2008. In 2007, Ulker Biskuvi saw an average price increase of 7.5-8.5% compared to higher input cost inflation. On account of raw material cost increases – 15% for wheat and 40% for oils/fats (vs. 25% and c12-38% respectively in Turkey), gross margin contracted by c230 bps in 2007. Looking at Ulker Biskuvi's Q108 results, we believe this trend is continuing to negatively affect margins: Q108 gross margin was 23.0% vs. 25.1% in Q107; Q108 EBITDA margin was 11.3% vs. 13% in Q107. In Q108, Ulker Biskuvi's net sales rose 5.1% (including an average price increase of only c1.0%) vs. 8.1% growth in COGS. We estimate the company's prices increased around 3.0-3.5% in H108, and expect Ulker Biskuvi's prices to lag cost increases for the whole of 2008. Raw materials accounted for 63.5% of Ulker Biskuvi's total COGS in 2007.

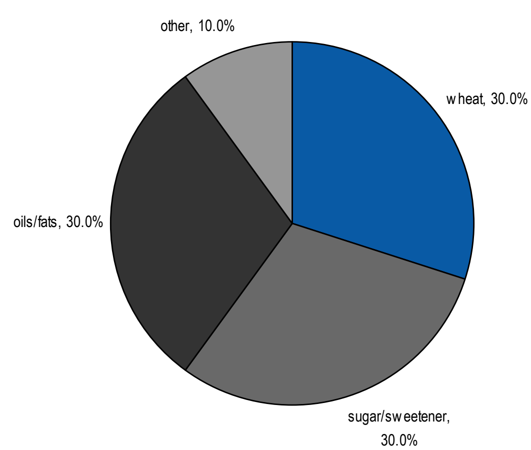
In our view, the company could compensate for lower gross margin by making cutbacks in marketing costs. In particular, we expect marketing costs to decline from 11.2% of sales in 2007 to 9.9% in 2008, allowing 2008 EBITDA margin to reach 8.0% (7.9% in '07) despite our assumption of a 130 bps decrease in gross margin.

Figure 6: Ulker Biskuvi's COGS breakdown, 2007



Source: Company guidance and JPMorgan estimates

Figure 7: Ulker Biskuvi's raw material breakdown, 2007



Source: Company guidance and JPMorgan estimates

Table 7: Ulker Biskuvi's margins, quarterly and annual

	Q107	Q207	Q307	Q407	2007	Q108	2008E
Gross margin	25.1%	25.4%	19.3%	18.8%	22.1%	23.0%	20.8%
EBITDA margin	13.0%	11.8%	9.4%	-5.9%	7.9%	11.3%	8.0%

Source: Company reports, JPMorgan estimates.

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Table 8: Selected financial data, quarterly and annual

	Q107	2007	Q108	2008E
Net sales growth	nm	nm	5.1%	12.0%
COGS growth	nm	nm	8.1%	13.9%
Gross profit growth	nm	nm	-3.6%	5.2%
Gross margin	25.1%	22.1%	23.0%	20.8%
Operating cost growth	nm	nm	2.2%	1.9%
Operating costs as % of sales	13.7%	16.0%	13.3%	14.6%
EBITDA growth	nm	nm	-8.5%	13.8%
EBITDA margin	13.0%	7.9%	11.3%	8.0%

Source: Company reports, JPMorgan estimates. Q107 and 2007 growth figures not provided due to lack of data which is LFL comparable (various subsidiaries deconsolidated or started to be consolidated in 2006 and 2007)

The Turkish Agriculture Chambers Association (TACA) reports the wheat crop could decrease by 2.5m tons in 2008 (source: *Vatan daily, 27.04.08*). According to TACA, the drought is still having a significant impact on agriculture in southeast Anatolia (the Turkish agriculture sector shrank 7.3% in ‘07, with YTL5bn losses to the sector). However, JPMorgan economics research is more positive and looks for better agricultural output in 2008 than in 2007.

Table 9: CEEMEA crop estimates, grain output (m tons)

Country	10-year average	2006	2007	2008E	% change 2008/07
Russia	65.7	78.6	82	85	3.7
Turkey	30.8	33.4	29	30.3	4.6
Poland	25.6	21.8	27.1	25.7	-5.3
Romania	16.8	15.8	7.9	20.5	158.7
Hungary	13	14.5	9.7	14.4	49.3
South Africa	11.2	9.2	12.8	13.6	5.8
Czech Republic	6.9	6.4	7.2	7.4	2.8
CEEMEA Average	24.3	25.7	25.1	28.1	12.1

Source: Eurostat, Agriculture Ministries, JPMorgan estimates

Ulker Biskuvi should be able to pass some of its cost inflation on to consumers primarily because of its strong market position. However, the company has historically been close to the consumer and prefers to limit price increases to maintain satisfactory margins. In other words, management prefers to see market size/total consumption increase, instead of focusing on rapid margin improvement.

We believe steep commodity price increases make it difficult for Ulker Biskuvi to fully reflect the cost impact to the consumer through pricing. In Turkey, PPI for growing crops, vegetables and fruit reached 16.3% y/y and 9.3% YTD as of July ‘08, vs. 15.3% and 6.2% respectively for food CPI. Although these CPI and PPI figures are not perfect matches in terms of the product groups they include, we believe they indicate that some cost inflation is absorbed by food producers and retailers in Turkey.

In Figures 8-11, the rise in commodity prices (most importantly wheat, sugar, oils/fats and fuel), both globally and in Turkey over the last couple of years, is clearly visible. However, despite a slowdown in global wheat price growth since the beginning of 2008, in Turkey, wheat prices rose 19% in 1H08. Additionally, fuel costs rose 43% and electricity and natural gas prices were hiked by 23% (July) and 18% (Aug) respectively. With a large distribution arm, transportation costs account for as much as 1.5-2.0% of Ulker Biskuvi’s net sales. Finally, in Turkey, the government used to cap sugar prices. However, from June ’07 it cut subsidies and increased prices 5% in March ‘08.

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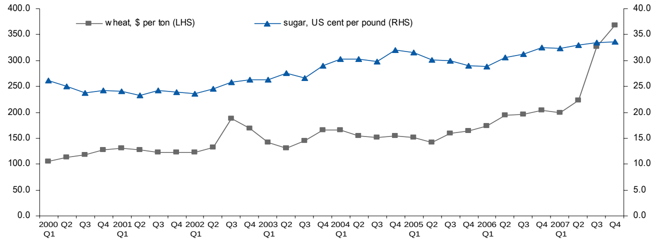
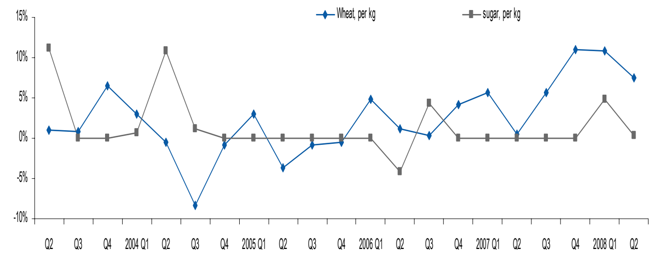
Figure 8: Global wheat and sugar prices



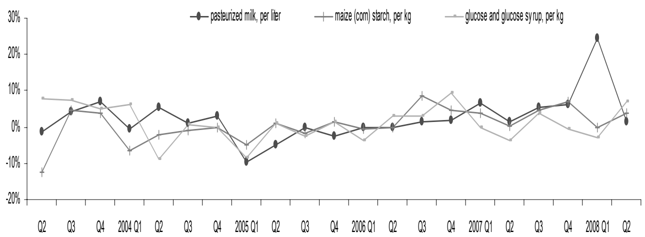
Source: WEO April 2008

Figure 9: Wheat and sugar prices in Turkey, qoq change



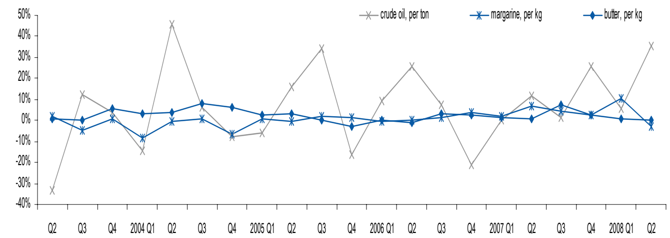
Source: TUIK

Figure 10: Milk, starch and glucose prices in Turkey, qoq change



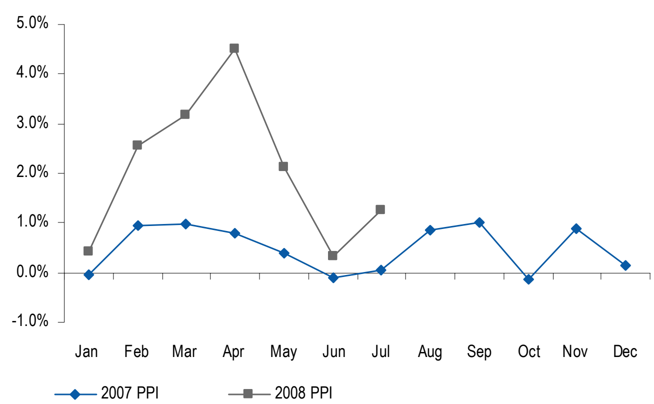
Source: TUIK

Figure 11: Crude oil, butter, margarine prices in Turkey, qoq change



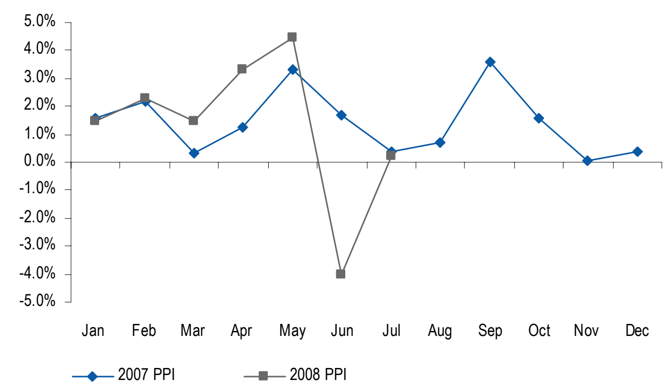
Source: TUIK

Figure 12: Turkey – PPI



Source: TUIK

Figure 13: Turkey – PPI for crops, vegetables and fruit



Source: TUIK

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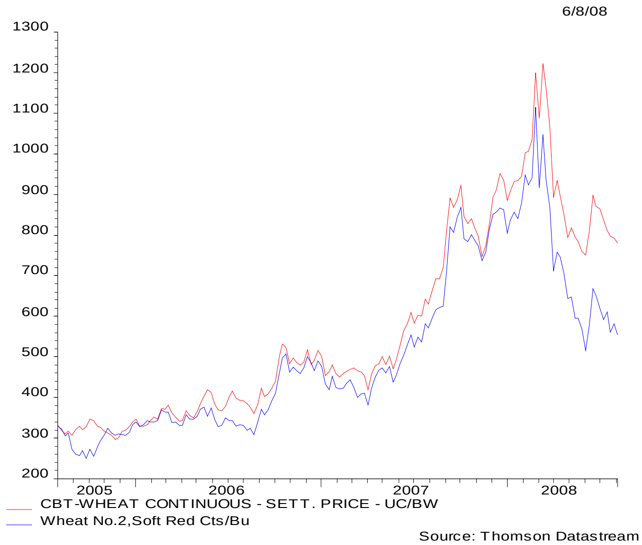
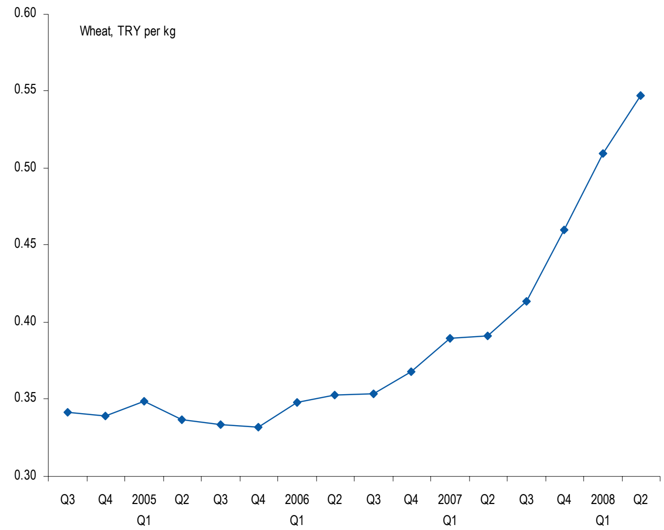
Figure 14: Wheat prices (US Agriculture Department) and wheat futures (CBT), 3-year



Source: Datastream

Figure 15: Wheat prices, Turkey



Source: TUIK

Table 10: PPI average price changes on selected commodities in Turkey, YTD 1H08

Wheat	19.1%
Sugar	5.1%
Glucose	4.1%
Margarine	7.3%
Pasteurized milk	26.5%
Butter	0.9%
Crude oil	42.7%

Source: TUIK

Table 11: PPI average price changes on selected commodities in Turkey, yoy

	Wheat, per kg	sugar, per kg	sugar beet, per kg	crude oil, per ton	margarine, per kg	pasteurized milk, per litre	maize (corn) starch, per kg	glucose and glucose syrup, per kg	butter, per kg
2004 Q1	12%	12%	20%	-34%	-10%	9%	-11%	29%	10%
Q2	10%	12%	20%	46%	-12%	17%	0%	9%	13%
Q3	0%	13%	34%	37%	-7%	13%	-6%	2%	22%
Q4	-7%	13%	11%	22%	-14%	9%	-9%	-3%	23%
2005 Q1	-7%	12%	11%	34%	-5%	-1%	-8%	-16%	22%
Q2	-10%	1%	11%	6%	-5%	-11%	-5%	-7%	21%
Q3	-2%	0%	0%	35%	-5%	-12%	-5%	-10%	13%
Q4	-2%	0%	0%	22%	3%	-16%	-4%	-8%	4%
2006 Q1	0%	0%	0%	42%	2%	-7%	1%	-4%	1%
Q2	5%	-4%	0%	55%	3%	-3%	-1%	-2%	-3%
Q3	6%	0%	0%	24%	2%	-1%	10%	4%	0%
Q4	11%	0%	-10%	16%	5%	3%	13%	12%	5%
2007 Q1	12%	0%	-10%	7%	8%	10%	18%	16%	6%
Q2	11%	4%	-10%	-5%	15%	12%	18%	9%	8%
Q3	17%	0%	-4%	-10%	18%	16%	14%	9%	12%
Q4	25%	0%	7%	43%	16%	21%	17%	-1%	12%
2008 Q1	31%	5%	7%	50%	26%	42%	12%	-3%	12%
Q2	40%	5%	7%	81%	14%	42%	16%	7%	11%

Source: Turkstat

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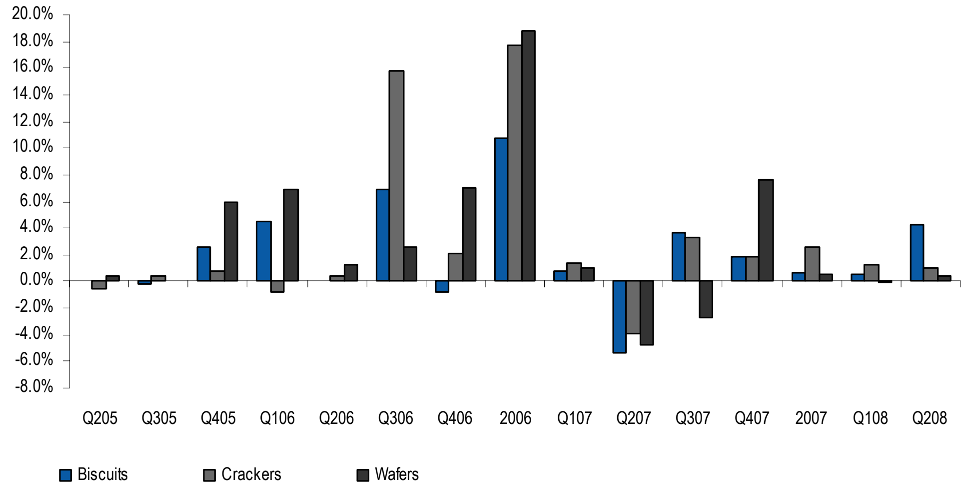
Figure 16: Biscuit, cracker and wafer price increases in Turkey, quarterly and annual

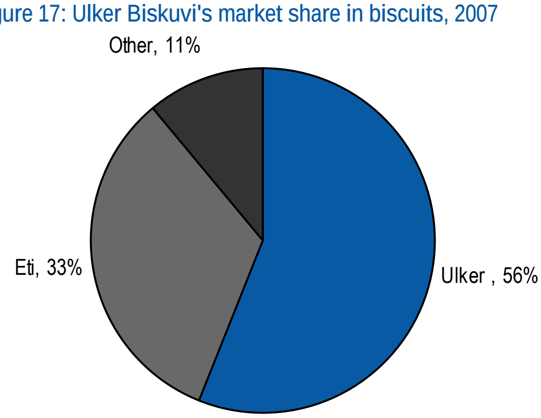


Source: TUIK

Increasing input costs will inevitably have an impact on working capital and cash flow management, in our view. Ulker Biskuvi may stock up on raw materials when prices are advantageous, so we believe working capital may be volatile over the coming quarters until input prices start to normalize.

Finally, we believe competition has intensified along with the tighter economic environment in Turkey (56% market share in 2007 vs. 59% in 2006). We think Ulker Biskuvi will be unwilling to compromise on market share, as opposed to taking cuts anywhere else; in our view, this is the correct strategy in this environment, which should support long-term growth. We therefore expect gross margin to decline from 22.1% in 2007 to 20.8% in 2008. If Ulker Biskuvi does not absorb some of the cost impact, we believe volume growth could be negatively impacted in 2008 given ETI's also strong market position.

Figure 17: Ulker Biskuvi's market share in biscuits, 2007



Source: Company, JPMorgan estimates.

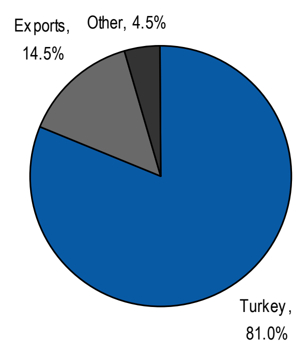
High degree of vertical integration

A strong shield for operations and cost management…
Almost all of Ulker Group's companies are either suppliers or customers of Ulker Biskuvi. In addition to utilizing its own sales and distribution subsidiaries, Ulker Biskuvi sells some of its products to Group companies to further leverage its distribution function through the Group's wide domestic and overseas network.

Continued and timely supply of numerous ingredients/raw materials for different products (~1500SKUs) is important for Ulker Biskuvi's business on a daily basis in order to ensure consistent quality and continuity in production. Ulker Group's general practice (although not a requirement) is to allocate 30-35% of the flour, starch and oil/fat production of Birlik Pazarlama, Pendik Nisasta and Besler Gida respectively for Ulker Biskuvi's and other group companies' requirements. The remaining production is broadly assigned to third-party buyers. Ulker Biskuvi procures almost all of its raw material needs from Group companies.

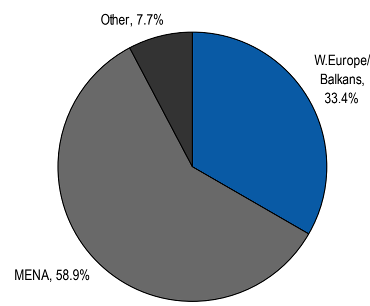
We should note that ETI also enjoys a high level of vertical integration (although not to the same extent as Ulker Biskuvi due to its narrower operations compared to Ulker Group), suggesting this is a defining characteristic of the industry in Turkey.

Figure 18: Ulker Biskuvi's sales* split, 2007



Source: Company reports. *Split of gross sales before discounts.

Figure 19: Ulker Biskuvi's exports by market



Source: Company, JPMorgan estimates. "Other" includes Far East, US, Baltics, Russia and other CIS.

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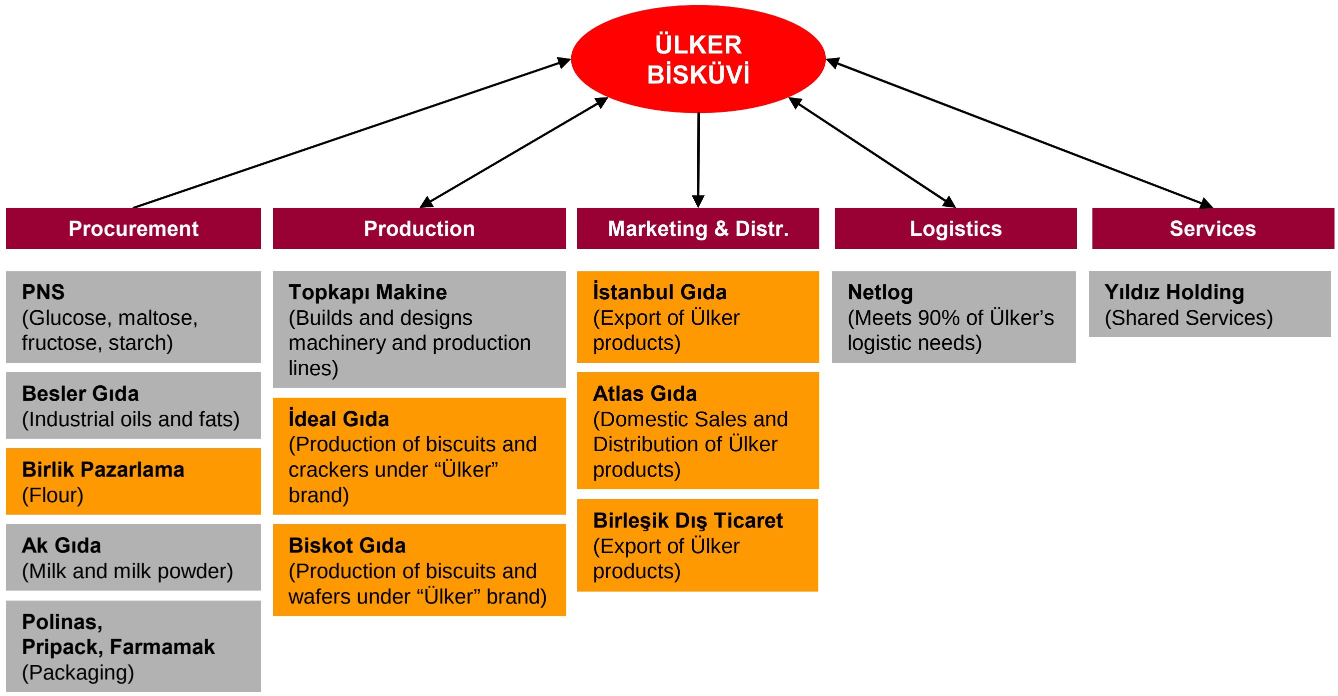
Figure 20: Ulker Biskuvi's vertical integration with Group companies



Source: Company presentation, June 2008

… but a drawback in transparency

The ownership and organization structure of Ulker Group is difficult to understand. This is also true for Ulker Biskuvi, although to a lesser extent given management's restructuring efforts of the past few years. However, the relationship between Ulker Biskuvi and the Group's other companies is still complicated. This structure clouds the transparency of Ulker Biskuvi and we believe the company's share price could significantly benefit if the process of simplifying its corporate and equity structure was accelerated.

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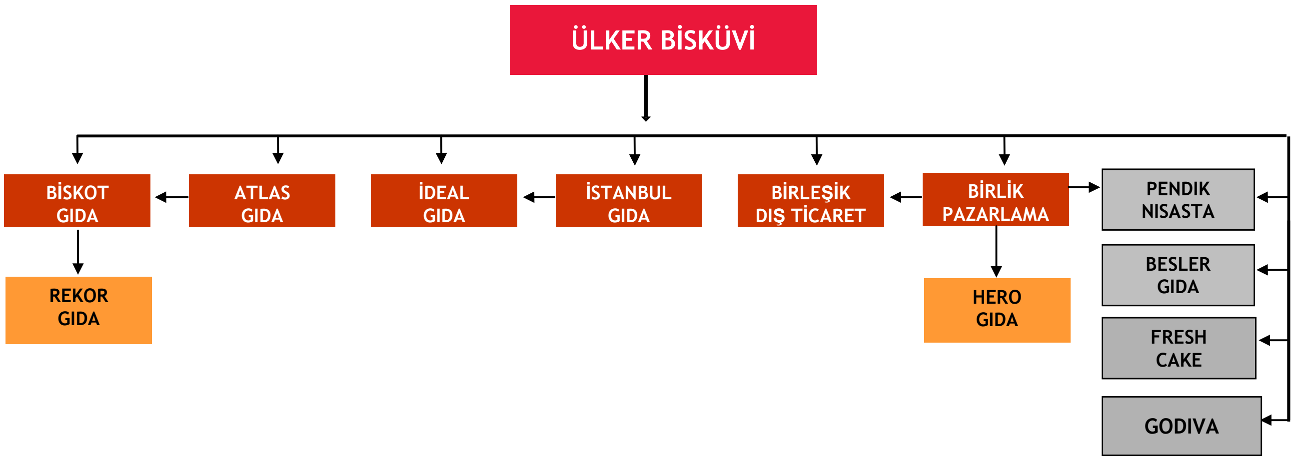
Table 12: Ulker Biskuvi's subsidiary, JV and financial assets portfolio, Q108

	Direct ownership	Indirect ownership	Operations	Financial relationship	Operational Relationship	Comment
Subsidiary						
Ideal Gida	97.5%	97.9%	Production	Fully consolidated	Ulker Biskuvi products only	Production of biscuits and crackers under "Ulker" brand.
Biskot Biskuvi Gida	50.5%	50.8%	Production	Fully consolidated	Ulker Biskuvi products only	Production of biscuits and wafers under "Ulker" brand.
Istanbul Gida	83.8%	83.8%	Foreign Marketing/Trading	Fully consolidated	Ulker group products	Export sales and marketing of Ulker products
Atlas Gida	78.2%	78.2%	Domestic Marketing/Trading	Fully consolidated	Ulker BIskuvi products only	Domestic sales and distribution of Ulker Biskuvi products
Birlesik Dis Ticaret	68.0%	69.0%	Foreign Marketing/Trading	Fully consolidated	Ulker Group products	Export sales and marketing of Ulker products
Birlik Pazarlama	99.0%	99.0%	Production	Fully consolidated	Flour for Ulker Biskuvi and other Ulker Group companies as well as for third parties.	Flour and other raw material production
Rekor Gida		46.6%	Marketing/Trading	Fully consolidated	Ulker Group products, mainly Halk – mid segment brand of the group	Domestic and foreign sales and marketing of Ulker Group products
Joint ventures						
Pendik Nisasta	23.0%	24.0%	Production	Equity pick up	Starch for Ulker Biskuvi and other Ulker Group companies as well as for third parties.	JV with Cerestar (Cerestar acquired by Cargill; partnership renewed with Cargill)
Hero Gida		39.6%	Production	Equity pick up	Baby food	JV with Hero AG of Switzerland
Godiva Belgium BVBA	25.23%		Godiva Chocolatier	Equity pick up	Chocolate	Remaining stake owned by Yildiz Holding and Ulker Chocolate
G New Inc.	25.23%		Godiva Chocolatier	Equity pick up	Chocolate	Remaining stake owned by Yildiz Holding and Ulker Chocolate
Other holdings*						
Netlog	12.6%		Logistics and transportation	Financial assets	Logistics and transportation for Ulker Group companies	Ulker Group company, not listed
Fresch Cake Gida	10.0%		Cake production	Financial assets	Cake is one of Ulker Group's other core businesses	Ulker Group company, not listed.
Tire Kutsan	9.8%		Paper and cardboard packaging materials	Financial assets	Agreement with Mondi to provide cardboard packaging for Ulker Group companies for three years. 9.83% of Ulker Biskuvi's shares will be sold to Mondi by Sep-2010.	Listed in ISE. Majority stake sold to Mondi Packaging (Austria) in 2006.
Besler Gida	7.0%		Industrial oil, margarine, and fluid oil production	Financial assets	Industrial oil, margarine, and fluid oil production for Ulker Biskuvi and other Ulker Group companies as well as for third parties.	Ulker Group company, not listed
Saglam GYO	10.7%		Ulker Group's REIT company	Financial assets	Held for financial investment purposes.	Listed in ISE in March-2007
BIM A.S.	12.0%		Not an Ulker group company	Financial assets	Held for financial investment purposes.	Listed in ISE

Source: Company reports.

(*) In addition to the "other holdings" listed above, Ulker Biskuvi has ownership in some other Group companies and subsidiaries. However, the company does not consolidate these into its financials, but keeps them as financial assets due to their negligible sizes. Among these holdings are Ulker Finance (99%), GF Lovell Deutschland, Dunya Gumrukleme Mus.A.S., KBF Ltd (Ukraine) and Al Baraka Group.

Figure 21: Relationship between Ulker Biskuvi's holdings



Source: Company presentation, June 2008.

Privileged shares dilute valuation

Ulker Biskuvi has attractive financial (strategic) holdings such as BIM (12.03%) and Tire Kutsan (9.83%), both listed on ISE. However, the value contribution of these assets is mostly offset by the value of;

1) privileged dividends distributed to A and B type shares in addition to the ordinary first dividend (which is initially distributed to all equity holders A, B, C and D shares) and to founder shares which do not comprise part of the equity (note only C type shares are listed), *see Table 13*

2) the minority share of Biskot Gida.

While Ulker Biskuvi's market value of YTL838m may seem low at a first glance – the shares in BIM and Tire Kutsan alone add up to a current value of ~YTL512m (fair value of total financial assets = YTL585m in our valuation) – we value the privileged shares' dividend and Biskot Gida's minority at YTL320m in total, which offsets most of the contribution from the financial assets.

There are four different types of shares with different dividend and voting rights in Ulker Biskuvi's equity. In addition, there are some founder shares that are not part of equity, but are eligible for dividend payments (11.76% of the first dividend). Obviously, varying dividends and voting rights (see Table 13) imply different valuations for each class, which significantly increases the complexity of determining the fair value of the trading stock (type C shares).

Ulker Biskuvi is trying to buy back all of the A and B shares from their owners through one of the Group's companies. If this task is accomplished, management says the A and B shares are likely to be terminated by exchanging them for C shares. Most of the A and B shares have already been bought back; however, we believe finalizing the process will be time-consuming, with no guarantee of full success (under current legislation, the owners cannot be forced to sell). Therefore, the complex equity structure will likely persist for a while longer, in our view.

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We adjust Ulker Biskuvi's equity value by YTL235m based on our projections of dividends to be paid to A, B and founder shares over our forecast period (2008-2028E), as well as on a terminal basis. We assume a 3% terminal growth rate for dividends on these shares, in line with our terminal growth rate assumption for Ulker Biskuvi’s steady-state cash flow growth, and use a simple DCF to reach our YTL235 estimate. Currently, we do not assume termination of the A and B shares, since we cannot know when this is likely to occur, as explained above. Obviously, we would welcome the elimination of differences in dividend rights between A, B and C type shares.

In addition, Ulker Biskuvi owns 50.8% of Biskot Gida, but fully consolidates it into its financials. Biskot comprises 33-35% of Ulker Biskuvi’s capacity, production and sales in volume terms. We value Biskot’s 49.2% minority share at YTL85m based on our assumption that its EBITDA contributes 15% of Ulker Biskuvi’s total EBITDA; we adjust Ulker Biskuvi's equity value accordingly (note: Biskot held no debt as of Q108).

Table 13: Ulker Biskuvi's equity structure

Shares	Number of shares	Voting rights	Dividend rights
A type shares	1,486	Elect 4 of 7 board members	A and B shares take the ordinary 1st dividend per share but also an additional 17.65% of the “total” 1st dividend distributed
B type shares	731	No voting rights	
C type shares (listed shares)	26,859,995,566	Elect 2 of 7 board members	1st dividend
D type shares	2,217	Elect 1 of 7 board members	1st dividend
Total no. of shares	26,860,000,000		
Founder shares*	22,171	No voting rights	11.76% of the “total” 1st dividend distributed

Source: Company reports. * Not part of the company's equity.

Improving corporate governance

Solid steps have been taken by management to increase the transparency of the company. Establishing a dedicated investor relations department, divesting ownership in Group companies that did not form part of Ulker Biskuvi's core business (most importantly, deconsolidation of Atlantik Gida in 2006, as well as sale of the majority stake in Tire Kutsan to Mondi Packaging) and increased awareness of the importance of communications with shareholders are major developments in this direction.

Ulker Biskuvi still holds stakes in some Group companies that are not directly related to its operations: Fresh Cake, Godiva, Hero, Besler and Pendik Nisasta. In addition, the company has a majority stake in subsidiaries Birlik Pazarlama, Rekor Gida and Birlesik Dis Ticaret, which provide sales and services to all Ulker Group companies. For example, Fresh Cake (which recently bought 50% of Uno Bread) could at some point merge with Ideal Gida (Ulker Biskuvi’s fully owned production company). While Ulker Biskuvi is trying to simplify its structure by eliminating ownership in non-core businesses, we believe it should tailor these actions in ways that avoid any possible complexity in its corporate structure.

Financing the Godiva acquisition

Interest expense to weigh on earnings

In December 2007, Ulker Group announced the acquisition of Godiva for $850m. Ulker Biskuvi's participation in the acquisition totaled 25.23%, so that portion of Godiva's shares was transferred to the company on March 18, 2008. Similarly, Ulker Biskuvi has become liable for $240m of financial loans on a pro rata basis, together with Yildiz Holding and Ulker Chocolate, of a $950m, 5-year loan obtained to finance the transaction. Ulker Biskuvi is also acting as guarantor of the remaining $710m for Yildiz Holding and Ulker Chocolate.

Although the terms of the loan are favorable (interest rate of Libor + 2.75%, with an early payback option with no penalties), the company has to bear an extra burden on its balance sheet (net debt in Q108 = YTL663m; net debt/2008E EBITDA = 5.1x) in our view, which is to further limit 2008 earnings already under pressure with slower GDP growth and increased input costs. We believe Ulker Biskuvi can easily reduce its net debt position (via sale of some financial assets or a potential IPO of the cake segment, with Ulker Biskuvi selling –partly or fully- its stake).

While additional interest expenses (~YTL 17m in 2008) will eat into the company's earnings in 2008 (a tougher year than 2007), we do not expect Godiva to add significantly to Ulker Biskuvi's earnings in the short term. However, we tend to be positive about Ulker Group and Godiva management's ability to improve growth and profitability in Godiva in the medium to long term. Hence, Ulker Biskuvi's participation in Godiva should be advantageous and the company should enjoy stronger earnings contribution over the coming years.

Finally, we note the potential for depreciation of the YTL (JPM year-end est. USD/YTL of 1.28 vs. 1.17 at end-2007) to weigh on net profitability due to possible FX losses on foreign currency borrowings (~USD 490m and ~EUR 8m as of Q108) and higher interest payments. This effect was already seen in Q108, when USD/YTL jumped to 1.32 (it is now back to 1.18).

Prospects along with the Godiva acquisition; a long term positive

Before the Godiva acquisition, Ulker Biskuvi had almost no involvement in the chocolate business. Godiva remains a separate entity in Ulker Group, owned by Ulker Chocolate (67.08%), Ulker Biskuvi (25.23%) and Yildiz Holding (7.69%). The merger was finalized on March 18, 2008 and the company's incorporation (equity pick up) into Ulker Biskuvi's financials began in Q108. We note that Ulker Biskuvi disclosed a net loss of $0.6 m for Godiva (for March 19 to March 31) in its Q108 results.

Godiva is present in 42 countries, while Ulker Group has operations in 110 countries. We believe there are markets where Ulker Biskuvi has significant expertise that might help Godiva's management gain access for its products and stores.

Although we do not believe this is part of their near-term plans, Ulker Biskuvi and Godiva may at some point decide to expand Godiva's currently limited biscuit line, which could provide a medium to long-term synergy between the two companies. Similarly, some semi-goods and packaging may be supplied from Turkey, forming another area where Ulker Biskuvi and Godiva could extract mid- to long-term synergies.

Further thoughts

Corporate actions postponed; delay in potential catalysts
Ulker Group has been preparing to conduct an IPO for its chocolate (Ulker Chocolate) and cake (Fresh Cake) businesses. We believe the potential float of Ulker Chocolate (which owns 67.08% of Godiva) would help unlock hidden value in Ulker Biskuvi regarding its holding in Godiva. However, the potential IPO which was previously planned for May 08 has been postponed and no specific timeline has been set.

We believe the cake segment's IPO is also unlikely to take place in the short term (previously, management had planned the IPO for 2H08). Similarly, the potential float would unlock the hidden value in Ulker Biskuvi regarding its 10% stake in Fresh Cake. Moreover, we believe Ulker Biskuvi may consider selling some or all of its stake during the IPO although the company management has not decided and publicly shared the structure of this potential offering yet.

Potential sale/placement of financial assets
Ulker Biskuvi owns 12.03% of BIM (current value YTL479m), our top pick for 2008 in the Turkish consumer space. BIM's share price has appreciated 50% YTD. Although we see further upside to BIM's share price and Ulker Biskuvi management sees its holding in BIM as a strategic financial investment, at some point, UB might consider selling some of its shares, particularly if it decides to make an acquisition or reduce its debt. We believe BIM is a long-term asset for the company, but the sale of a significant stake could act as a catalyst for Ulker Biskuvi, given the potentially sizeable cash injection. In our view, the tradeoff would only be worthwhile if investors believe that exchanging BIM shares to pay off debt or make an acquisition is a net positive.

Limited financial disclosure on exports
Ulker Biskuvi exports its products to 90 countries, accounting for 14.5% of gross sales in 2007. While most of its sales go to Europe, the Middle East and the CIS have come into focus, as they offer more attractive growth prospects. However, we would like to know how the profitability of exports compares to the profitability in Turkey (we think it is lower) and understand whether a 90-market export strategy is an efficient model, or it sacrifices profitability to growth.

We should note that exports benefit from a weak YTL; if USD/YTL reaches 1.28 (JPM est.) by 2008-end, we might see a pickup in export sales.

Table 14: Ulker Biskuvi's strategy

Focus area	Strategy
Growth	Sustained and controlled growth in revenues and profitability in its core businesses. Review investment opportunities domestically and overseas and pursue growth organically and inorganically
Market share	Maintain market share in Turkey and pursue growth opportunities in export markets
Operations	Maintain vertical integration with Ulker Group companies and exploit further synergies to maximize cross-selling opportunities domestically and overseas
Products	Invest in new tastes and higher value-added products with continued marketing and brand investments for a full-range portfolio
Distribution	Continued focus on excellence of distribution network, anticipating trends in trade channels.

Source: Company presentation, June 2008.

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Earnings and cash flow outlook

Modeling assumptions

In our model, we use the assumptions shown below as our major performance and financial inputs.

Table 15: Assumptions on performance metrics

	Assumptions	Explanation
Sales volume growth	9% in 2008 and 2009. 7.7% CAGR between 2008E-2013E	Ulker Biskuvi to play on volume growth rather than pricing or margin improvement in tough economic environment in 2008 and possibly H109 unless we see a slowdown in input cost increase.
Revenue growth	Total gross sales growth of 13.6% and 14.0% respectively in 2008 and 2009 (16% in Turkey) with 20% (of gross sales) discounts leading to 12.0% and 14.0% net sales growth in the same period. 13.6% net sales CAGR in 2008E-13E.	We expect discounts to increase from 18.8% of gross sales in 2007 to 20% in 2008E as part of Ulker Biskuvi's strategy of preserving market share and driving volume growth in 2008, given the sensitivity of biscuit consumption to GDP and income growth. We reduce the level of discounts as % of gross sales from 20% in 2008E to 18.5% in 2012E and leave them flat from then onwards.
Gross margin	20.8% in 2008 and 21.3% in 2009. Gradually increasing to 23.2% by 2013.	Cutting gross margin by 130 bps from 22.1% in 2007 to 20.8% in 2008 purely on account of rising input costs. We expect only a 50 bps recovery in 2009, but increase gross margin gradually assuming pressure on costs will start normalizing from 2009 with stabilizing inflation.
Operating costs / sales	14.6% of sales in 2008 and 2009. Decreasing to 13.7% by 2013 mainly due to scale.	Assuming marketing cost is cut back to 9.9% of sales in 2008 from 11.2% oya in order to partly compensate the gross margin loss from increasing COGS. Total operating costs were 16% of sales in 2007.
Capex	2.8% of sales in 2008, decreasing to 1.8% of sales by 2012 due to increasing scale.	Some minor expansion plans in 2008 (see capital requirements section below) in addition to general maintenance capex. Increasing capex requirement to 3.0% of sales in 2013 due to our assumption of a greenfield investment as CUR exceeds 85% in 2012.
Effective tax rate	20%	For entire forecast period, in line with corporate tax rate in Turkey
Receivable days	65	In line with current levels
Inventory days	30	In line with current levels
Payable days	55 for third-party payables and 30 for related party payables	In line with current levels

Source: JPMorgan estimates.

Table 16: Ulker Biskuvi's summary financials

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Volume growth	0.8%	-10.0%	9.0%	9.0%	8.5%	8.0%	7.0%	6.0%
Net sales growth	41.8%	-24.5%	12.0%	14.0%	15.8%	15.3%	12.7%	10.4%
EBITDA margin	6.3%	7.9%	8.0%	8.5%	9.5%	10.1%	10.6%	11.0%
EBITDA growth	-12.4%	-5.6%	13.8%	20.4%	30.3%	22.5%	18.2%	13.9%
EPS growth	33.3%	30.2%	-24.9%	13.7%	28.7%	25.7%	20.2%	15.2%

Source: Company reports, JPMorgan estimates. YoY growth comparison not entirely meaningful for 2006 & 2007 due to restructuring in those years (subsidiaries deconsolidated or started to be consolidated).

Capital requirements

With 352m tons of current production capacity (263.8m sales volume in 2007), Ulker Biskuvi's facilities appear to be adequate to meet capacity requirements for the next couple of years. We see no need for immediate large-scale investments for expansion. Ulker Biskuvi has completed renovation of the Topkapi and Ankara plants, spending a total of ~YTL13m. The company’s capex plans for 2008 include adding three new production lines at Ideal Gida and increasing grain storage and flour processing capacity (currently 35k tons per annum and 930 tons per day, respectively) in Birlik Pazarlama. On account of these investments, we forecast a slightly higher capex budget in 2008, ~YTL46m, or about 2.8% of sales, than in 2007 (YTL34m, 2.3% of sales).

An acquisitive company

Ulker Group has historically been acquisitive and has grown organically and inorganically in equal measure. We believe the Group will continue to follow a similar strategy in the coming years. In that sense, we believe Ulker Biskuvi is likely to be involved in acquisitions (e.g. Godiva). However, we do not incorporate any capex to account for inorganic growth, as we currently have no information about the company's plans on this front.

Ulker Group plans to involve Ulker Biskuvi in international operations by selling it some of its stake in international subsidiaries. Currently, Ulker Biskuvi exports its products to over 90 countries, but only holds a stake in KBF Ltd (through Biskot Gida), the Group’s Ukrainian biscuit producer, which is quite small-scale. The Group pursues a prudent strategy in Ulker Biskuvi’s involvement in international businesses and plans to sell stakes to Ulker Biskuvi only when these businesses can make a positive contribution to the company's cash flow. Therefore, we think the initial plan could be, for example, to start primarily with Romania (a JV is likely according to the company management) followed by Saudi Arabia, the Group’s largest international operations in terms of profitability. However, Ulker Group management has provided no firm details at this stage on the timeline or size of the potential stakes to be sold to Ulker Biskuvi. We therefore incorporate no estimates into our model regarding these potential corporate actions.

Foreign currency exposure

Around 14.5% of Ulker Biskuvi’s 2007 sales came from exports, with most denominated in EUR and USD. Ulker Biskuvi procures most of its raw materials in Turkey, while only 10-15% of COGS (packaging and flavoring) is in foreign currency. This provides a natural hedge between foreign currency revenues and costs. Thus far, the company has not needed to hedge, for example against commodity prices.

However, increased FX risk due to foreign currency borrowing, especially after the Godiva transaction, cannot be disregarded. See the “Key earnings and share price drivers” section of this report for our detailed analysis; *“Financing the Godiva acquisition; Interest expense to weigh on earnings”*.

Dividend payout

Ulker Biskuvi has paid regular cash dividends for the last six years, even before the company was listed on ISE. The payout ratio has historically been around 30-40% of earnings. We find it reasonable to assume this will increase gradually throughout our forecast period, as we assume no acquisition capex in our model. In 2007, Ulker Biskuvi paid YTL31.5m in dividends, corresponding roughly to a 27% payout ratio. For 2008, we expect a 27% payout ratio, which we increase to 45% by 2013.

Table 17: Ulker Biskuvi’s dividend payments

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Dividends (YTL m)	27.2	31.3	31.5	26.2	33.1	42.6	62.5	85.8	111.2
Payout ratio	41%	35%	27%	27%	30%	30%	35%	40%	45%
DPS (YTL)	0.11	0.13	0.12	0.10	0.12	0.16	0.23	0.32	0.41
Growth		14%	-10%	-17%	26%	29%	47%	37%	30%

Source: Company reports, JPMorgan estimates

Valuation

Valuation summary

We use a DCF valuation for Ulker Biskuvi, but also look at comparable company multiples. From our DCF valuation, we derive a 12-month price target of YTL3.60/ share (YTL967m total value), implying 15% upside potential. The stock currently trades on 8.6x/7.6x 08/09E PE, and 11.8x/9.7x EV/EBITDA multiples. We use a 16.3% WACC (higher than what we use for other Turkish consumer companies under coverage) including a 2.0% risk premium on account of Ulker Biskuvi's complicated corporate structure. In addition, we apply a 3.0% terminal growth rate on the company's steady state cash flows.

We adjusted our valuation for the minority share of Biskot Gida, where Ulker Biskuvi holds a 50.8% stake, assuming 15% of Ulker Biskuvi's EBITDA comes from Biskot Gida (no debt in Biskot). However, we had to ignore the minority shares in sales and distribution companies like Atlas Gida, Birlesik Dis Ticaret and Rekor Gida (UB owns 78%, 69% and 47% in these subsidiaries respectively and fully consolidates them all) due to lack of information. We believe this should not cause a significant distortion in our valuation, as the profitability in sales and distribution companies is low.

In addition, we adjust UB's equity value on account of its financial assets (+) and dividend rights provided to non-listed A, B and founder shares (-) (see Table below for details).

Table 18: Valuation summary

Ulker Biskuvi (UW)	Total value (YTL m)	Ownership	Major input
DCF based NPV of FCF	1,157		16.3% WACCC, 3.0% terminal growth rate
Net debt	-696		as of 2008-end
Value of financial assets and associates	826		
BIM	548	12.03%	Based on JPM May-09 target price YTL60.0
Tire Kutsan	33	9.83%	Current market price
Saglam GYO	4	10.71%	Current market price
Associates/Minorities (net)	241		Book value
Value of Biskot Gida minority (49.2%)	-85	50.8%	Assuming Biskot Gida contributes 15% to Ulker Biskuvi's total EBITDA
Value of dividends to A, B type and founder shares	-235		A / B type shares receive the first dividend per share, but also an additional 17.65% of the total first dividend distributed. Founder shares receive 11.76% of the total first dividend distributed. We use a 3% terminal growth rate for these dividend payments
Total DCF value	967		
Number of C type shares	268.6		Only C type shares listed
Fair value per share (YTL), Y/E TP	3.60		
Upside	+15%		

Source: JPMorgan estimates

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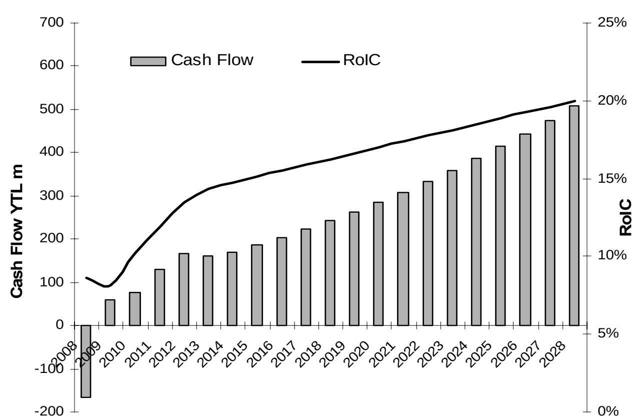
Table 19: Ulker DCF Valuation Summary (YTL m)

Cash flow calculation	2008	2009	2010	2011	2012	2013	2028
EBIT	100.9	124.7	168.5	212.1	255.8	292.2	
Depreciation	29.6	32.5	36.3	38.9	40.8	45.8	
Tax	-20.2	-24.9	-33.7	-42.4	-51.2	-58.4	
Working capital changes	-23.7	-19.4	-26.6	-28.7	-27.2	-25.5	
Capex	-45.6	-52.0	-66.6	-49.5	-50.3	-92.5	
Free cash flow	-165.9	60.8	77.8	130.2	168.0	161.6	508
FCF growth	-440.3%	-136.7%	27.9%	67.3%	29.0%	-3.8%	
NPV	1,157						
Cash / (Net debt)	-696						
Participations/Minorities	741						
Dividend privilege to A,B and founder shares	-235						
Equity	967						
Number of Shares	268.6						
Value per share	3.60						
WACC	16.3%						
Long-term growth	3.0%						

Source: JPMorgan estimates.

Figure 22: Cash flow and ROIC estimates



Source: JPMorgan estimates

Table 20: DCF sensitivity to WACC

WACC	Long-Term Growth							
	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
13.5%	4.95	4.99	5.03	5.07	5.12	5.18	5.23	5.30
14.0%	4.65	4.68	4.72	4.75	4.79	4.83	4.88	4.93
14.5%	4.38	4.41	4.43	4.46	4.49	4.52	4.56	4.60
15.0%	4.13	4.15	4.17	4.20	4.22	4.25	4.28	4.31
15.5%	3.91	3.92	3.94	3.96	3.97	4.00	4.02	4.04
16.0%	3.68	3.69	3.70	3.72	3.73	3.75	3.77	3.78
16.3%	3.57	3.58	3.59	3.60	3.61	3.62	3.64	3.65
17.0%	3.33	3.33	3.34	3.35	3.36	3.37	3.38	3.39
17.5%	3.16	3.17	3.17	3.18	3.19	3.19	3.20	3.21
18.0%	3.01	3.02	3.02	3.02	3.03	3.03	3.04	3.04
18.5%	2.87	2.87	2.88	2.88	2.88	2.88	2.89	2.89
19.0%	2.74	2.74	2.74	2.74	2.74	2.75	2.75	2.75

Source: JPMorgan estimates

Table 21: DCF sensitivity to ROIC

ROIC	Long-Term Growth							
	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
16.0%	3.16	3.17	3.18	3.18	3.19	3.20	3.21	3.22
17.0%	3.26	3.27	3.28	3.29	3.30	3.31	3.32	3.33
18.0%	3.36	3.37	3.38	3.39	3.40	3.41	3.42	3.44
19.0%	3.46	3.47	3.48	3.49	3.51	3.52	3.53	3.54
20.0%	3.57	3.58	3.59	3.60	3.61	3.62	3.64	3.65
21.0%	3.67	3.68	3.69	3.70	3.72	3.73	3.75	3.76
22.0%	3.77	3.78	3.79	3.81	3.82	3.84	3.86	3.87
23.0%	3.87	3.88	3.90	3.91	3.93	3.94	3.96	3.98
24.0%	3.97	3.98	4.00	4.01	4.03	4.05	4.07	4.09
25.0%	4.07	4.08	4.10	4.12	4.14	4.16	4.18	4.20
26.0%	4.17	4.19	4.20	4.22	4.24	4.26	4.29	4.31
27.0%	4.27	4.29	4.31	4.33	4.35	4.37	4.39	4.42

Source: JPMorgan estimates

Table 22: DCF sensitivity to Invested Capital

IC	Long-Term Growth							
	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
2.0%	3.62	3.63	3.64	3.66	3.67	3.68	3.70	3.71
2.5%	3.61	3.62	3.63	3.64	3.66	3.67	3.68	3.70
3.0%	3.60	3.61	3.62	3.63	3.64	3.66	3.67	3.69
3.5%	3.58	3.59	3.60	3.61	3.63	3.64	3.65	3.67
4.0%	3.57	3.58	3.59	3.60	3.61	3.62	3.64	3.65
4.5%	3.55	3.56	3.57	3.58	3.59	3.61	3.62	3.64
5.0%	3.53	3.54	3.55	3.56	3.58	3.59	3.60	3.62
5.5%	3.51	3.52	3.53	3.55	3.56	3.57	3.59	3.60
6.0%	3.50	3.51	3.52	3.53	3.54	3.55	3.56	3.58
6.5%	3.47	3.48	3.49	3.51	3.52	3.53	3.54	3.56
7.0%	3.45	3.46	3.47	3.48	3.50	3.51	3.52	3.53
7.5%	3.43	3.44	3.45	3.46	3.47	3.48	3.50	3.51

Source: JPMorgan estimates

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Comparable company valuation

Although a comparison amongst industry players on a global scale is useful we are cautious about relying too heavily on such analysis. This is due primarily to significantly varying product lines, operating regions, margins, business models, risks and strategies in different companies and even within the same company for different regions if they are multinationals. Note Ulker Biskuvi's focus business is production and sale of biscuits, wafers and crackers only, which does not perfectly match with any of the peer companies. However, we find it useful to have a look at global multiples for food companies active in various segments in different regions to get a sense on the global valuations for the food industry.

Table 20: Comparable company multiples

				Mkt cap	PE		PEG		EPS growth		EV/EBITDA	
	Recomm	Ccy	Price	($ m)	2008E	2009E	2008E	2009E	2008E	2009E	2008E	2009E
Turkish Food companies												
Ulker	N	YTL	3.04	688	8.4x	7.4x	nm	0.5x	-24.9%	13.7%	11.6x	9.6x
Banvit	NC	YTL	3.44	232	7.0x	4.0x	nm	0.1x	-34.7%	75.5%	5.7x	4.8x
Pinar Et	NC	YTL	3.30	120	4.0x	3.5x	0.2x	0.2x	18.6%	14.5%	3.4x	3.0x
Pinar Sut	NC	YTL	4.72	179	5.2x	4.1x	1.5x	0.2x	3.4%	26.4%	4.9x	4.1x
Russian Food companies												
Wimm-Bill-Dann	OW	USD	81.18	3572	19.0x	15.0x	0.6x	0.6x	34.0%	26.0%	9.8x	8.0x
Lebedyansky	UW	USD	81.00	1653	17.4x	15.1x	1.1x	1.0x	16.0%	15.0%	9.7x	8.4x
Cherkizovo	OW	USD	13.49	868	10.3x	7.4x	0.3x	0.2x	35.0%	41.0%	9.7x	7.2x
Black Earth Farming	N	USD	4.73	587	-82.4x	-62.1x	nm	nm	-65.0%	33.0%	42.6x	22.3x
US and European Food companies												
Kraft Foods	N	USD	32.80	49,794	17.0x	15.5x	2.8x	1.7x	6.0%	9.3%	11.2x	10.9x
Kellogg	OW	USD	55.71	21,137	18.6x	16.9x	2.1x	1.7x	8.7%	10.0%	9.6x	9.2x
HJ Heinz	OW	USD	51.29	16,031	19.5x	17.6x	1.7x	1.6x	10.3%	10.0%	10.5x	10.1x
Campbell Soup	OW	USD	37.39	13,891	18.2x	16.6x	3.2x	1.7x	5.7%	9.8%	9.0x	8.3x
Hershey	UW	USD	40.58	9,212	22.4x	21.9x	nm	nm	-13.0%	2.2%	10.0x	10.7x
ConAgra Foods	OW	USD	21.98	10,657	12.9x	15.5x	0.5x	nm	23.9%	-17.0%	8.3x	10.3x
Dean Foods	OW	USD	24.28	3,699	19.3x	15.2x	4.7x	0.6x	4.1%	27.0%	9.4x	7.0x
General Mills	N	USD	67.08	22,552	17.0x	17.7x	0.9x	nm	18.7%	-3.6%	9.0x	9.3x
Sara Lee	N	USD	14.90	10,524	14.9x	12.4x	0.9x	0.6x	16.3%	20.0%	2.0x	1.9x
Cadbury	OW	GBp	619	16,083	21.1x	17.4x	nm	0.8x	-21.5%	21.0%	12.1x	10.8x
Nestle	OW	CHF	48.32	171,119	16.4x	14.8x	2.5x	1.2x	6.5%	12.5%	11.3x	10.5x
Danone	OW	EUR	49.41	38,160	18.0x	15.7x	nm	1.1x	-68.5%	14.1%	12.9x	11.7x
Assoc. British Food	NC	GBp	778	12,174	14.2x	13.1x	nm	1.3x	-0.2%	10.1%	8.1x	7.4x
Premier Foods	OW	GBp	95.75	1,549	5.4x	4.7x	0.4x	0.3x	14.4%	17.5%	6.1x	5.6x
Average (ex-UB)					14.9x	13.2x	1.6x	0.9x	4.2%	17.1%	8.6x	8.0x

Source: JPMorgan and Bloomberg estimates for companies not covered (NC). Prices and multiples are as of COB 08 August 2008.

Stock performance

Following the significant underperformance (see Figure 16 below) relative to ISE-100 and MSCI EM indices since the beginning of the year (partly due to a retreat following significant over-performance in December related to the announcement of Ulker Group's acquisition of Godiva and partly to negative global investor sentiment towards food producers, given rising input costs), Ulker Biskuvi shares recovered from their lowest level of YTL2.38 (July 1, 2008) by 31%. This came on the back of relief in the Turkish market following positive news on the AKP case, which had led to significantly low valuations in Turkey. Following this rally, in the absence of a company-specific catalyst, Ulker Biskuvi's performance for the rest of 2008 will likely remain limited in our view; in particular, we expect quarterly earnings releases to signal further margin contraction compared to last year.

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Figure 23: Relative stock performance, YTD

Source: Datastream

Figure 24: Relative stock performance, 12-month

Source: Datastream

Risks to our rating and price target

Dependence on Turkish GDP growth

Growth in the confectionary industry is strongly correlated to GDP growth in Turkey. Considering the slowdown in global growth in 2008, Ulker Biskuvi may record slower annual growth than we expect, depending on the performance of the Turkish economy.

Rising input costs

Rising raw material costs are a concern for many industries globally. Our margin estimates may prove either conservative or optimistic based on the level of food/input cost inflation in Turkey in 2008. We believe Ulker Biskuvi is likely to see cost increases no higher than industry average due to vertical integration within the Group’s companies. We believe Group companies are likely to avoid arbitrary increases and maintain their prices at a level in line with the industry average in order not to hurt the Group's overall business.

Strong competition in the domestic market

ETI is Ulker Biskuvi’s strongest competitor in Turkey with a 33% market share in biscuits. If ETI started an aggressive pricing strategy, it could potentially hurt Ulker Biskuvi's business.

Limited operational and financial disclosure

In our view, Ulker Biskuvi follows limited guidance/disclosure practices, which may cause significant risks (both upside/downside) to the market's and our forecasts.

Foreign currency exposure

As of end-Q108, Ulker Biskuvi had a net debt position equivalent to YTL663m, largely comprised of loans denominated in USD and EUR. Possible major swings in exchange rates would impact Ulker Biskuvi’s earnings.

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Company overview

Organizational structure and management: Ulker Group at a glance

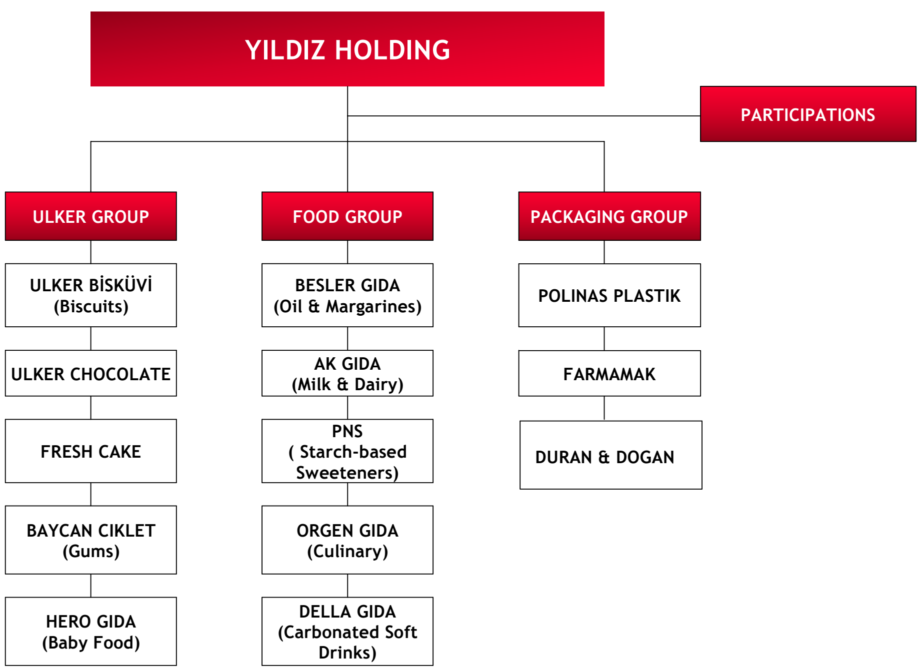
Ulker Biskuvi is the flagship company of Ulker Group. In 2007, the Group generated total revenue of $9.1bn (unconsolidated), of which Ulker Biskuvi contributed 15% (based on net sales) with $1.4bn.

Ulker Biskuvi produces and sells biscuits, wafers and crackers, while Ulker Group, Turkey's largest consumer products company with 29,000 employees (including 4,000 from Godiva) is active in a large variety of food business segments. Yildiz Holding, fully owned by the Ulker family, is the holding company for the Group. Ulker Group also has packaging, service, trade, finance and marketing operations.

Ulker brand is the second-best known in the country after Arcelik and is number three among the top-10 consumer product companies with a 6.1% market share (source: Company presentation, June 2008; ACNielsen data). Ulker Group has had presence in Turkey since 1944 and exports its products to 110 countries globally. Ulker products reach 220k sales points across Turkey with market leadership in chocolate, biscuits and cocoa. Ulker Group is also the largest milk and flour producer in Turkey.

Major export markets include Germany and France, but Western European markets are now rather mature. In terms of exports, Ulker Group has started focusing more on Southern/Eastern Europe/CIS and the Middle East, which offer higher growth opportunities. Transport is the main difficulty in exports, particularly for goods that have a short shelf life.

Figure 25: Ulker Group structure



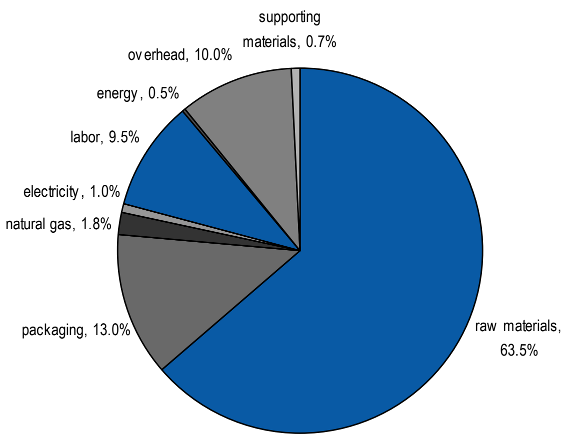
Source: Company data. See Appendix for more info on each division's operations.

The Group has manufacturing operations in six countries: Algeria, Kazakhstan, Romania, Saudi Arabia, Ukraine and Uzbekistan. It recently sold its production assets in Iran and exited the market, but it plans to continue exports to that country. Production in Egypt and Pakistan are planned to start in 2009, according to management. In international operations, Ulker Biskuvi currently has ownership only in Ukraine via its 50.8% stake in subsidiary Biskot, which bought 90% of KBFLtd.

Cost of production and operations

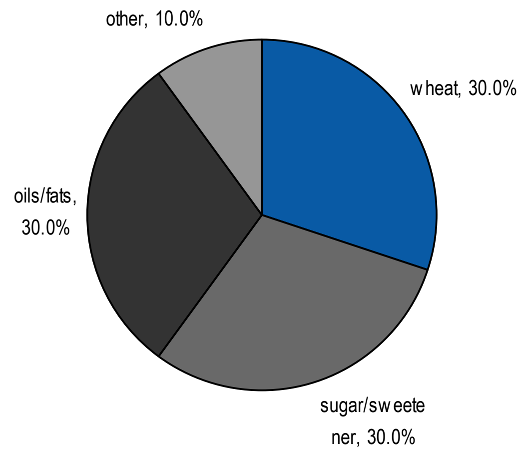
In 2007, raw materials comprised 63.5% of Ulker Biskuvi's COGS, of which wheat, sugar/sweetener and oils/fat comprised about 30% each. Other major COGS items in 2007 included packaging (13%), labor (9.5%) and overhead (10%).

Figure 26: Ulker Biskuvi's COGS breakdown, 2007



Source: Company guidance and JPMorgan estimates

Figure 27: Ulker Biskuvi's raw material breakdown, 2007



Source: Company guidance and JPMorgan estimates

Sales and distribution

Ulker Biskuvi has four production facilities, which are well diversified geographically across the country (48 production lines in total; 321,000 sq m open, 178,000 sq m closed area).

Through its distribution channels, Ulker Biskuvi reaches 220k sales points across Turkey. Ulker Biskuvi utilizes four channels to distribute its products:

1) Atlas Gida (78.2% owned by Ulker Biskuvi) handles most of the distribution in Turkey via its 125 distributors. About 70% of total sales reach consumers via these distributors.

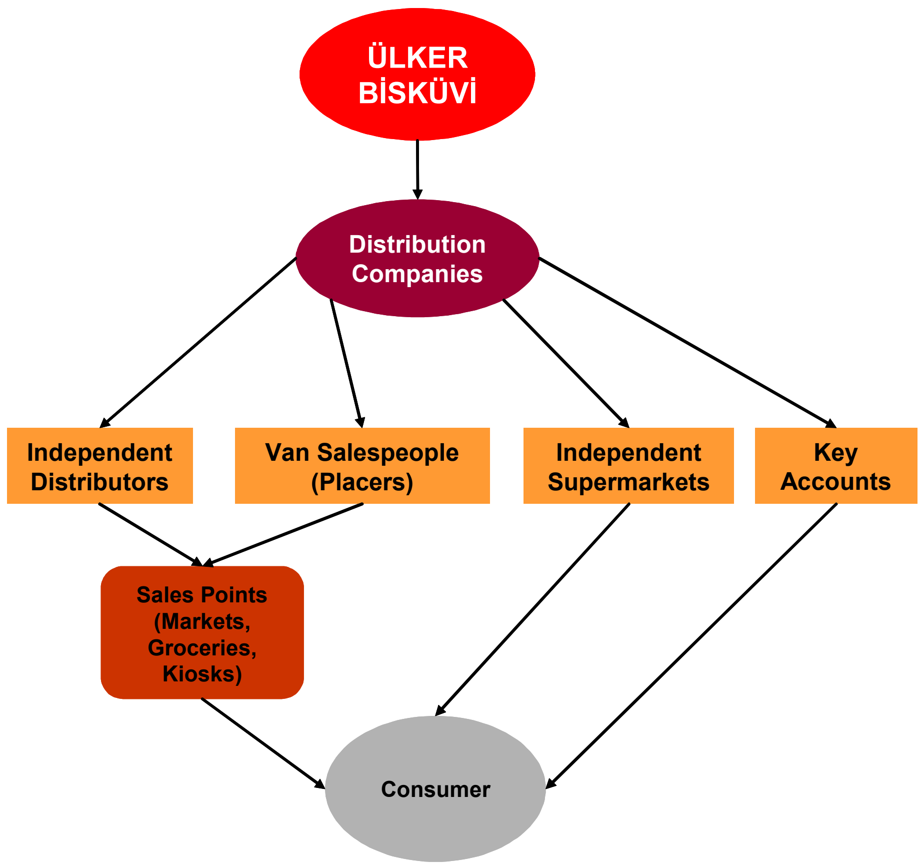
2) 5% of Ulker Biskuvi's sales are distributed by "van salesmen" (or "placers") to various points of sale (markets, groceries, kiosks).

3) 25% of sales involve direct distribution to independent supermarkets and key accounts (i.e. major retailers) by Pasifik Gida (owned by Yildiz Holding) for Ulker Group (not just Ulker Biskuvi products). In other words, Ulker Biskuvi sells its products directly to Pasifik Gida, which distributes them to major retailers.

4) Finally, sales to export markets are channeled through Istanbul Gida (83.8% owned by Ulker Biskuvi) through which Ulker Biskuvi products reach 90 countries. Exports comprised 14.5% of Ulker Biskuvi's sales in 2007. Istanbul Gida handles ~90% of export distribution for the entire Group, not just Ulker Biskuvi exports.

Note that all the sales and distribution companies under Ulker Group use the same infrastructure on a shared basis.

Figure 28: Ulker Biskuvi's sales and distribution structure



Source: Company presentation, June 2008.

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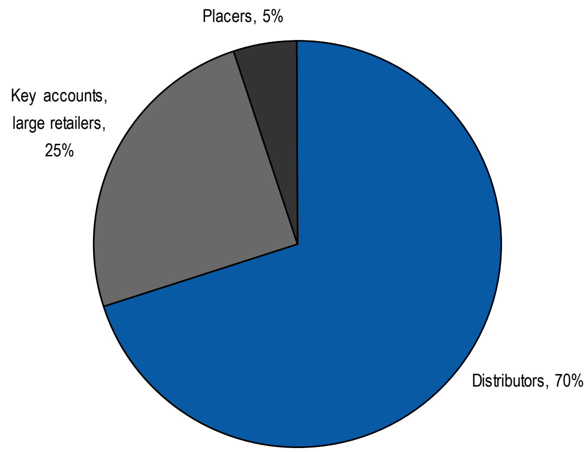
Figure 29: Ulker Biskuvi's domestic sales split by distribution channel, 2007



Source: Company data.

Figure 30: Ulker Biskuvi's production sites

Source: Company presentation, June 2008.

Seasonality

Ulker Biskuvi's sales density is split roughly 40/60% in 1H and 2H of the year; religious holidays, the start of the school year and New Year's sales are mainly in 2H. In general, Q1 and Q4 are the strongest. However, when the 4-days religious festival following Ramadan is fully moved into Q3 from 2009 onwards, we expect to see a limited shift in seasonality.

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Financial statements and ratio analysis

Table 21: Income Statement, YTL m

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Net Sales	1,927	1,454	1,628	1,856	2,149	2,477	2,793	3,083
Cost of sales	(1,541)	(1,132)	(1,289)	(1,460)	(1,674)	(1,917)	(2,153)	(2,367)
Gross profit	386	322	339	395	475	560	640	715
SG&A costs	(294)	(233)	(238)	(271)	(307)	(348)	(384)	(423)
Operating profit	92	89	101	125	169	212	256	292
Net financial income	(12)	29	(7)	(8)	(10)	(7)	(9)	(9)
Net other income/expense	9	30	37	32	32	35	41	49
Pre-tax profit	89	140	121	138	178	223	268	309
Tax	(0)	(24)	(24)	(28)	(36)	(45)	(54)	(62)
Net profit	89	116	97	110	142	178	214	247
Net margin	4.6%	8.0%	6.0%	5.9%	6.6%	7.2%	7.7%	8.0%

Source: Company reports and JPMorgan estimates.

Table 22: Balance Sheet, YTL m

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Fixed assets	281	276	526	546	576	587	596	643
Other non-current assets	211	413	826	826	850	881	913	946
Total non-current assets	492	689	1,352	1,372	1,426	1,467	1,509	1,589
Inventory	90	115	134	153	177	204	230	253
Receivables	421	514	588	670	773	889	999	1,102
Other current assets	10	33	38	43	49	56	63	70
Total current assets	521	662	759	865	999	1,149	1,292	1,426
Total assets	1,013	1,352	2,111	2,237	2,425	2,616	2,800	3,014
Net debt	237	262	696	690	687	652	596	562
Payables	51	171	194	220	252	289	324	357
Other current liabilities	117	122	135	153	175	201	226	248
Other non-current liabs.	32	36	30	30	30	30	30	30
Equity	537	716	1,003	1,080	1,204	1,350	1,511	1,680
Minority interest	39	44	53	64	77	94	114	137
Total equity & liabilities	1,013	1,352	2,111	2,237	2,425	2,616	2,800	3,014

Source: Company reports and JPMorgan estimates.

Table 23: Cash Flow Statement, YTL m

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
EBIT	92	89	101	125	169	212	256	292
Depreciation & amortisation	29	26	30	32	36	39	41	46
Working capital changes	14	(17)	(24)	(19)	(27)	(29)	(27)	(26)
Other items	(141)	(81)	(263)	(50)	(62)	(78)	(79)	(79)
Operating cash flow	(6)	17	(156)	88	116	144	191	233
Capex	(24)	(34)	(46)	(52)	(67)	(50)	(50)	(92)
Acquisition capex & intangible inv.	1	(3)	(205)	0	0	0	0	0
Interest, other financial items & tax	(33)	25	5	(4)	(13)	(17)	(21)	(22)
Dividends	(27)	(31)	(32)	(26)	(33)	(43)	(62)	(86)
Total change in debt	(89)	(25)	(433)	6	3	35	57	33
Net debt/ (Cash)	237	262	696	690	687	652	596	562
Free cash flow	111	49	41	61	78	130	168	162

Source: Company reports and JPMorgan estimates.

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Table 24: Key assumptions

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Volume growth	0.8%	10.9%	9.0%	9.0%	8.5%	8.0%	7.0%	6.0%
Revenue per ton growth			4.2%	4.6%	6.1%	6.1%	4.7%	4.1%
Discount / gross sales	21.9%	18.8%	20.0%	20.0%	19.5%	19.0%	18.5%	18.5%
Other assumptions								
Gross margin	20.0%	22.1%	20.8%	21.3%	22.1%	22.6%	22.9%	23.2%
Effective tax rate	0.1%	17.1%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Capex / net sales	1.3%	2.3%	2.8%	2.8%	3.1%	2.0%	1.8%	3.0%
Depreciation / net sales	1.5%	1.8%	1.8%	1.7%	1.7%	1.6%	1.5%	1.5%
Staff costs / net sales	1.9%	2.3%	2.4%	2.2%	2.1%	2.1%	2.0%	2.0%
Marketing costs / net sales	12.0%	11.2%	9.9%	10.1%	10.0%	9.8%	9.6%	9.6%
Total SG&A / net sales	15.2%	16.0%	14.6%	14.6%	14.3%	14.0%	13.7%	13.7%

Source: Company reports and JPMorgan estimates.

Table 25: Key outcomes

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Gross sales growth	41.6%	-27.4%	13.6%	14.0%	15.1%	14.5%	12.1%	10.4%
Turkey	42.9%	-29.8%	16.0%	16.0%	17.0%	16.0%	13.0%	11.0%
Overseas		5.9%	4.0%	5.0%	6.0%	7.0%	7.0%	7.0%
Other sales		-47.7%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Net sales growth	41.8%	-24.5%	12.0%	14.0%	15.8%	15.3%	12.7%	10.4%
COGS growth	46.2%	-26.5%	13.9%	13.3%	14.7%	14.5%	12.3%	9.9%
EBIT margin	4.8%	6.1%	6.2%	6.7%	7.8%	8.6%	9.2%	9.5%
EBITDA margin	6.3%	7.9%	8.0%	8.5%	9.5%	10.1%	10.6%	11.0%
Pre tax margin	4.6%	9.6%	7.5%	7.4%	8.3%	9.0%	9.6%	10.0%
Net margin	4.6%	8.0%	6.0%	5.9%	6.6%	7.2%	7.7%	8.0%
EPS (YTL)	0.37	0.48	0.36	0.41	0.53	0.66	0.80	0.92
EPS growth	33.3%	30.2%	-24.9%	13.7%	28.7%	25.7%	20.2%	15.2%
Free cash flow / EBIT	1.2x	0.6x	0.4x	0.5x	0.5x	0.6x	0.7x	0.6x

Source: Company reports and JPMorgan estimates.

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Table 26: Ratio analysis

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
VOLUMES, REVENUES & GROWTH								
Volume	238	264	288	313	340	367	393	417
Volume growth	0.8%	10.9%	9.0%	9.0%	8.5%	8.0%	7.0%	6.0%
Volume CAGR (05-YY)	0.8%	5.8%	6.8%	7.4%	7.6%	7.7%	7.6%	7.4%
Volume CAGR (07-YY)			9.0%	9.0%	8.8%	8.6%	8.3%	7.9%
Gross revenue growth	41.6%	-27.4%	13.6%	14.0%	15.1%	14.5%	12.1%	10.4%
Net sales growth	41.8%	-24.5%	12.0%	14.0%	15.8%	15.3%	12.7%	10.4%
COGS growth	46.2%	-26.5%	13.9%	13.3%	14.7%	14.5%	12.3%	9.9%
Net sales CAGR (05-YY)	41.8%	3.4%	6.2%	8.1%	9.6%	10.5%	10.8%	10.8%
Net sales CAGR (07-YY)			12.0%	13.0%	9.7%	7.5%	5.4%	3.7%
MARGINS & PROFITABILITY								
Gross margin	20.0%	22.1%	20.8%	21.3%	22.1%	22.6%	22.9%	23.2%
Operating expenses / Net sales	15.2%	16.0%	14.6%	14.6%	14.3%	14.0%	13.7%	13.7%
EBIT margin	4.8%	6.1%	6.2%	6.7%	7.8%	8.6%	9.2%	9.5%
EBITDA margin	6.3%	7.9%	8.0%	8.5%	9.5%	10.1%	10.6%	11.0%
EBITDA growth	-12.4%	-5.6%	13.8%	20.4%	30.3%	22.5%	18.2%	13.9%
EBITDA CAGR (07-YY)			13.8%	17.1%	21.3%	21.6%	20.9%	19.7%
Pre-tax margin	4.6%	9.6%	7.5%	7.4%	8.3%	9.0%	9.6%	10.0%
Effective tax rate	0.1%	17.1%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
Net margin	4.6%	8.0%	6.0%	5.9%	6.6%	7.2%	7.7%	8.0%
EPS	0.37	0.48	0.36	0.41	0.53	0.66	0.80	0.92
EPS growth	33.3%	30.2%	-24.9%	13.7%	28.7%	25.7%	20.2%	15.2%
DPS	0.13	0.12	0.10	0.12	0.16	0.23	0.32	0.41
Payout ratio	35%	27%	27%	30%	30%	35%	40%	45%
BALANCE SHEET								
Pre-tax ROIC	13.3%	13.3%	10.8%	10.2%	12.7%	14.9%	16.8%	18.0%
ROIC	13.3%	11.0%	8.6%	8.1%	10.2%	11.9%	13.5%	14.4%
ROCE	11.8%	10.0%	6.5%	7.2%	9.2%	11.0%	12.6%	13.5%
ROE	15.2%	17.4%	10.7%	10.0%	11.7%	13.1%	14.0%	14.4%
Net sales / NWC	23.3x	14.6x	13.2x	13.0x	12.7x	12.5x	12.4x	12.3x
Net sales / Capex	80.0x	43.1x	35.7x	35.7x	32.3x	50.0x	55.6x	33.3x
Net Debt / Equity	44.1%	36.6%	69.3%	63.9%	57.1%	48.3%	39.4%	33.5%
VALUATION								
PE	7.8x	6.0x	8.6x	7.6x	5.9x	4.7x	3.9x	3.4x
PEG	0.2x	0.2x	nm	0.6x	0.2x	0.2x	0.2x	0.2x
EV / Capacity (YTL per ton)	2.6	2.9	4.2	4.2	3.5	3.3	3.2	2.7
EV / Net sales	0.5x	0.7x	0.9x	0.8x	0.7x	0.6x	0.5x	0.5x
EV / IC	1.3x	1.6x	1.6x	1.2x	1.2x	1.0x	0.9x	0.9x
EV / EBITDA	7.7x	9.0x	11.8x	9.7x	7.4x	5.9x	4.8x	4.1x
EV/EBITDA to EBITDA Growth	nm	nm	0.9x	0.5x	0.2x	0.3x	0.3x	0.3x
EV / sales (m ton)	3.9x	3.9x	5.3x	4.9x	4.5x	4.1x	3.6x	3.4x

Source: Company reports and JPMorgan estimates.

Appendix I: Ulker Group's businesses

Table 27: Summary of Ulker Group's core business divisions

Ulker Division	The "Ülker Division" is responsible for the Group's core businesses, including cookies, crackers, cakes and chocolates. The Division is the mainstay of the Group, handling various additional and related product categories like flour, chewing gum and baby food.
Food Division	The "Food Division" has been primarily responsible for Ülker's growth in the past decade. It manages the Group's oils and fats, dairy products, soft drinks, starches, cooking ingredients and ready-made foods operations. The division also includes the newly established house brands, and industrial brands marketing companies.
Packaging Division	The "Packaging Division" produces the primary inputs used in the Group's packaging, including cardboard, boxes and BOPP film. The division's smaller companies provide customization and finishing of cardboard and film needed for specific packaging applications.

Source: Company presentation, June 2008.

Table 28: Summary of Ulker Group's major international operations

Company	History	Products	Production summary	Competitive position	Key strengths/ strategy
KBF - Ukraine	Operating for the last 4 years "Ulker" brand launched in 2005	Sweet biscuits, cream biscuits, Swiss rolls, chewing gum	7.4k sq m production facility	4.2% market share	Restructuring and growth with additional investment in 2004
Hamle company limited – Kazakhstan	Acquired in 2000 Operating history of 10 years	Biscuits, wafers, Swiss rolls, muffins, chocolate-coated products, chewing gum	65k sq m land and 25k sq m production facility	Leader in many segments Unique producer of Swiss rolls	Restructuring and growth with additional investment in 2004
FMC – Saudi Arabia	Acquired in 2001	Biscuits, wafers, muffins, chocolate. chocolate-coated products	18k sq m land 25k tons annual production capacity		Serving the Middle East and Gulf countries under "Ulker" brand
Ufuk – Uzbekistan	Acquired in 2004	Biscuits, wafers, muffins, chocolate, chocolate-coated products	20k sq m land 18k tons annual production capacity		
Eurex Alimente – Romania	Established in 2004 Production started in May 2005	Biscuits, wafers, muffins, chocolate, candy	95k sq m land		
Cherchell - Algeria	Established in 2005. Production started in 2005	Biscuits, wafers, candy			

Source: Company presentation, June 2008. Recently sold production facility in Iran and exited this market.

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Table 29: Ulker Group's International Partnerships

Hero - Switzerland	Partnership with Hero AG of Switzerland was established in 2003 for the production of Ülker Hero Baby, the first domestic baby food brand of Turkey produced under Hero AG License Turkey's first baby food production facility was established in Ankara Ülker Hero baby products have been exporting to overseas destinations from Ankara via Hero's distribution network
Mondi Packaging - Austria	Partnership agreement with Mondi was signed in 2007 with the sale of 53.56% of the shares in Tire Kutsan for production and distribution of corrugated board and cardboard Tire Kutsan is the market leader in the Turkish corrugated board and cardboard segment
Dan Cake – Holland	Ülker entered the Turkish cake market in 1995, forming a 50-50% joint venture with Dan Cake, a leading manufacturer of cakes and rolls Partnership operates under Fresh Cake Gıda San. ve Tic. A.Ş. company in Turkey and has been producing varieties of cakes, including family-size, sliced, bar type, muffins, mini-rolls and Swiss-rolls under the "Dankek" brand With a 40% market share, Dankek is one of Turkey's two largest cake producers
Raisio – Finland	Partnership agreement with Raisio was signed in 2006 for production and distribution of Benecol, milk products dedicated to reduce cholesterol, in Turkey In the functional food segment , Ülker has been producing and distributing cholesterol reducing dairy products under the name "KalbimBenecol"
Cargill – USA	Ülker and Cerestar partnership was established in 1993; subsequently the partnership was renewed between Ülker and Cargill after acquisition of Cerestar by Cargill Ülker and Cargill JV is Turkey's largest producer of native and modified starches
Kellogg - USA	Ülker established a 50-50 joint partnership in 2005 with Kellogg, the world's leading producer of cereal and a leading producer of convenience foods Currently, the partnership is producing and distributing ready-made cereals under the "Ülker Kellogg's" brand name

Source: Company presentation, June 2008.

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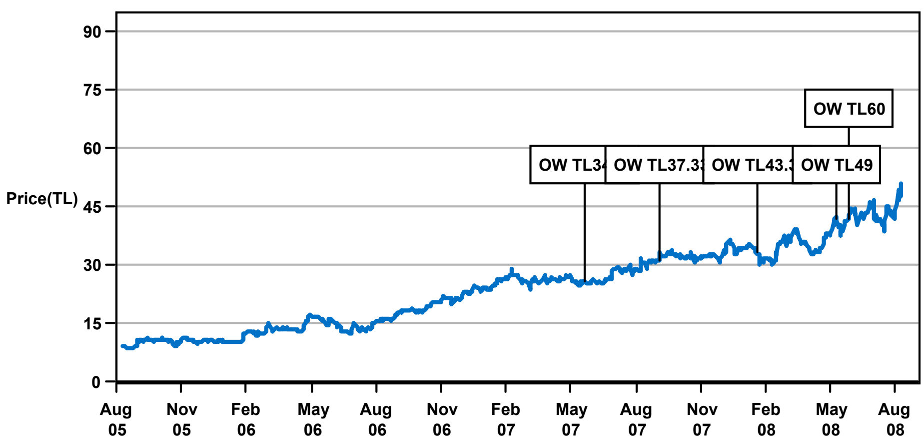

Date	Rating	Share Price (TL)	Price Target (TL)
21-May-07	OW	25.62	34.33
02-Sep-07	OW	31.37	37.33
18-Jan-08	OW	33.51	43.33
08-May-08	OW	41.72	49.00
27-May-08	OW	42.05	60.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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Ulker Biskuvi (ULKER.IS) Price Chart

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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"Other Disclosures" last revised June 30, 2008.

Income Statement, YTL m

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Net Sales	1,927	1,454	1,628	1,856	2,149	2,477	2,793	3,083
Cost of sales	(1,541)	(1,132)	(1,289)	(1,460)	(1,674)	(1,917)	(2,153)	(2,367)
Gross profit	386	322	339	395	475	560	640	715
SG&A costs	(294)	(233)	(238)	(271)	(307)	(348)	(384)	(423)
Operating profit	92	89	101	125	169	212	256	292
Net financial income	(12)	29	(7)	(8)	(10)	(7)	(9)	(9)
Net other income/expense	9	30	37	32	32	35	41	49
Pre-tax profit	89	140	121	138	178	223	268	309
Tax	(0)	(24)	(24)	(28)	(36)	(45)	(54)	(62)
Net profit	89	116	97	110	142	178	214	247
Net margin	4.6%	8.0%	6.0%	5.9%	6.6%	7.2%	7.7%	8.0%

Source: Company reports and JPMorgan estimates.

Balance Sheet, YTL m

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Fixed assets	281	276	526	546	576	587	596	643
Other non-current assets	211	413	826	826	850	881	913	946
Total non-current assets	492	689	1,352	1,372	1,426	1,467	1,509	1,589
Inventory	90	115	134	153	177	204	230	253
Receivables	421	514	588	670	773	889	999	1,102
Other current assets	10	33	38	43	49	56	63	70
Total current assets	521	662	759	865	999	1,149	1,292	1,426
Total assets	1,013	1,352	2,111	2,237	2,425	2,616	2,800	3,014
Net debt	237	262	696	690	687	652	596	562
Payables	51	171	194	220	252	289	324	357
Other current liabilities	117	122	135	153	175	201	226	248
Other non-current liabs.	32	36	30	30	30	30	30	30
Equity	537	716	1,003	1,080	1,204	1,350	1,511	1,680
Minority interest	39	44	53	64	77	94	114	137
Total equity & liabilities	1,013	1,352	2,111	2,237	2,425	2,616	2,800	3,014

Source: Company reports and JPMorgan estimates.

Cash Flow Statement, YTL m

	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
EBIT	92	89	101	125	169	212	256	292
Depreciation & amortisation	29	26	30	32	36	39	41	46
Working capital changes	14	(17)	(24)	(19)	(27)	(29)	(27)	(26)
Other items	(141)	(81)	(263)	(50)	(62)	(78)	(79)	(79)
Operating cash flow	(6)	17	(156)	88	116	144	191	233
Capex	(24)	(34)	(46)	(52)	(67)	(50)	(50)	(92)
Acquisition capex & intangible inv.	1	(3)	(205)	0	0	0	0	0
Interest, other financial items & tax	(33)	25	5	(4)	(13)	(17)	(21)	(22)
Dividends	(27)	(31)	(32)	(26)	(33)	(43)	(62)	(86)
Total change in debt	(89)	(25)	(433)	6	3	35	57	33
Net debt/ (Cash)	237	262	696	690	687	652	596	562
Free cash flow	111	49	41	61	78	130	168	162

Source: Company reports and JPMorgan estimates.