

# IS Private Equity

FY results

Another year of record profits

2013 reported consolidated net profits at Is Private Equity (ISGSY) were a record TRY68.7m (2012: TRY50.3m). A realised profit of TRY82.5m from the sale of Aras Kargo in July 2013, the most profitable exit to date, was the main driver of NAV growth. Separately calculated and disclosed returns for the standalone private equity activities, without the accounting effects of consolidating investments, showed further strong gains during the year, building on a strong five-year performance. The discount to stated NAV remains 34% and offers protection to investors amid the currently heightened uncertainty surrounding investment in emerging markets such as Turkey.

To 31 December 2013	Price total return (%)	NAV total return* (%)	LPX Direct Index TR (%)	ISE 100 Index TR (%)
One year	29.9	40.8	55.5	(11.8)
Three years	104.6	105.9	86.0	9.2
Five years	555.9	147.2	259.8	181.6
Seven years	208.3	204.5	38.9	102.9

Source: ISGSY, Bloomberg (price data). Note: LPX Direct is a global index of listed private equity companies that pursue a direct private equity investment strategy. All data calculated in TRY (31 December 2013, TRY2.15/US\$). \*ISGSY NAV total return is adjusted for inflation, but not marked-to-market, as supplied by the company. Data as at 31 December 2013.

## Realised gains drive record profits

ISGSY has been heading for a record consolidated net profit since it completed the sale of Aras Kargo in July 2013. This deal generated a TRY82.5m gain (or US\$42m at the time), an IRR of 165% and a 5.3x money multiple on a US dollar basis. A direct comparison with listed private equity peers is further complicated by the need to fully consolidate investments. Realised gains drove reported NAV growth as well as the separately calculated and disclosed returns for the standalone private equity activities (see page three), which shows a 40.8% total return for 2013.

## Exits appear well timed

Given increased market volatility, recent exits appear well timed and provide cash resources to take advantage of any new investment opportunities that may arise (72% of the year-end portfolio was in cash and other liquid assets). Turkish capital markets reacted strongly to the reduction in quantitative easing, reflecting the country's dependence on foreign capital inflows. The Turkish lira has declined by c 20% versus the US dollar over the past year, but has recently stabilised, c 5% above the January 2014 low. Also in January, the government successfully sold US\$2.5bn of 10-year debt. However, with elections scheduled for 2014/15, increased political uncertainty seems unlikely to abate soon.

## Valuation: NAV not marked to market

ISGSY has performed strongly, yet still trades at a 34% discount to inflation-adjusted solo NAV (30% to reported NAV), which we believe may reflect current economic and political risks in Turkey. Additionally, a steady stream of realisations has enabled ISGSY to maintain one of the highest yields on the Istanbul Stock Exchange (trailing 12-month dividends yield of 18% vs Turkish average of 2.0%).

### Investment companies

7 March 2014

**Price** **TRY2.57**  
**Market cap** **TRY171m**

Consolidated net cash (TRYm) 31 December 2013	109
Non-consolidated (PE only) net cash (TRYm) 31 December 2013	187
Shares in issue	66.7m
Free float	31.2%
Code	ISGSY
Primary exchange	ISE
Secondary exchange	N/A

### Share price performance



%	1m	3m	12m
Abs	(0.8)	(7.5)	1.4
Rel (local)	0.1	6.1	30.1
52-week high/low	TRY3.1	TRY2.5	

### Business description

Is Private Equity (ISGSY) is a listed private equity fund, which invests directly in Turkey's growing mid-cap private companies.

### Next event

Q1 IMS April 2014 (estimate)

### Analysts

Jonathan Goslin +44 (0)20 3077 5765  
 Martyn King +44 (0)20 3077 5745

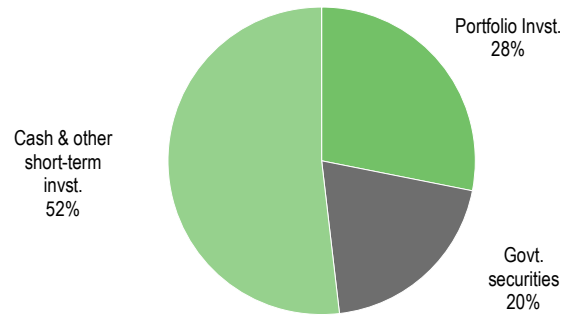
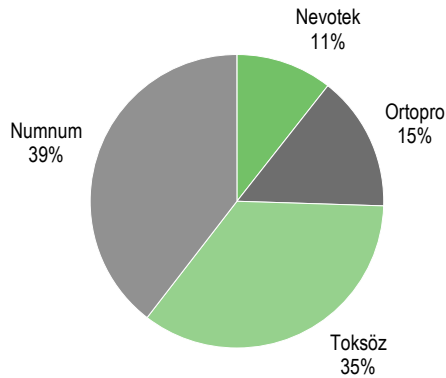
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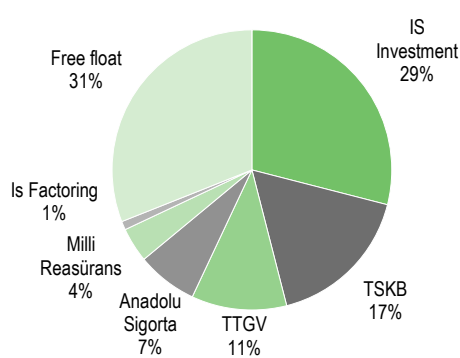
**IS Private Equity is a research client of Edison Investment Research Limited**

### Exhibit 1: Is Private Equity at a glance

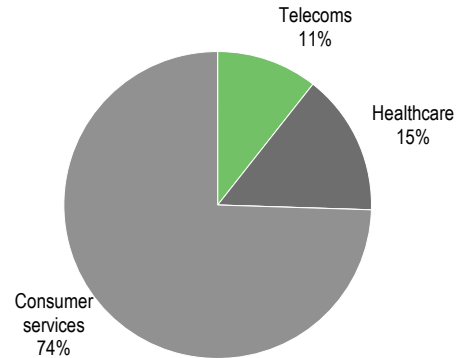
Investment objective and fund background		Recent news			
ISGSY was established in 2000 to invest in Turkey's growing mid-cap private companies.		February 2014: FY13 results July 2013: Sale of Aras Kargo completed			
Forthcoming announcements/catalysts		Capital structure		Fund details	
AGM	March 2014	P/E expense ratio	Not yet disclosed	Group	Is Private Equity
H1 results	Est August 2014	Net gearing	Net cash	Manager	Team managed
Year end	December	Annual mgmt fee	N/A	Address	İş Kuleleri Kule 2, Kat:2 - 34330 Levent, Istanbul, Turkey
Next dividend	March 2014	Performance fee	N/A	Phone	+90 0212 325 17 44
Launch date	2000	Company life	Unlimited	Website	<a href="http://www.isgirisim.com.tr/EN/">www.isgirisim.com.tr/EN/</a>
Wind-up	N/A	Loan facilities	N/A		
Investment portfolio (as at 31 December 2013)			Total portfolio breakdown (as at 31 December 2013)		



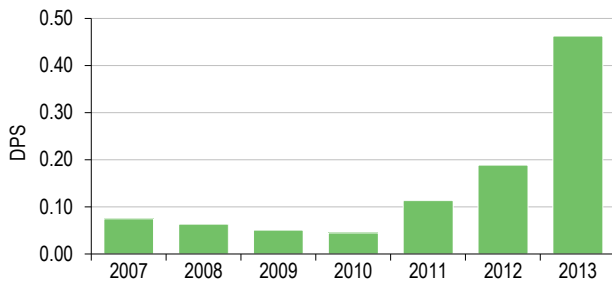
### Shareholder base (as at 31 December 2013)



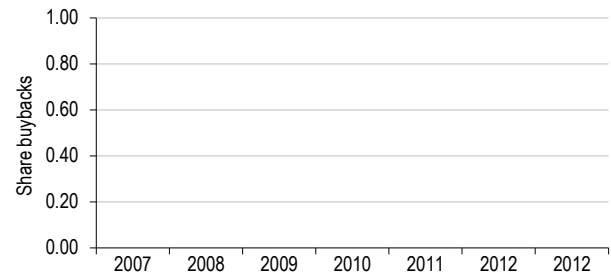
### Investment sector breakdown (as at 31 December 2013)



### Dividend history



### Share buyback history



Source: ISGSY, Edison Investment Research. Note: Dividend history has been adjusted to account for the 15% bonus issue in 2012 and the 15% bonus issue in June 2013.

## Record profits

Reported consolidated net profits at IS Private Equity (ISGSY) for the year to 31 December 2013 were a record TRY68.7m (2012: TRY50.3m). The “solo” private equity net profit after tax, reported in the consolidated accounts (that is, the private equity activities without the subsidiary contribution), increased to TRY71.3m (2012:TRY48.4m). A realised profit of TRY82.5m from the sale of Aras Kargo in July 2013, the most profitable exit to date, was the main driver of the increase in both the consolidated and solo profits. Dividends totalling TRY30.8m have been paid during 2013, equivalent to c 18% of the current market capitalisation, and a distribution of TRY12.0m from 2013 net earnings is proposed for 31 March 2014, if approved at the 26 March AGM.

The consolidated accounts (which are based on IFRS, but include some locally required modifications) fully consolidate ISGSY’s four investments (in each case it owns a majority of the equity or has majority voting rights). The solo private equity contribution (that is, the private equity activities without the subsidiary contribution) showed a stronger increase because it is driven by the realisation gains, with smaller contributions from dividend income from investments and net finance income.

The private equity activity net profit after tax contribution (excluding the subsidiary operating contributions within the consolidated accounts) increased 47% to TRY71.3m, substantially driven by realisation gains of TRY80.3m.

**Exhibit 2: Consolidated profit development, split by activity as disclosed**

(TL millions)	2012			2013		
	Private Equity	Subs	Total consolidated	Private Equity	Subs	Total consolidated
Revenues	73.8	51.1	124.8	108.1	174.4	282.5
Cost of goods sold	-28.8	-26.6	-55.4	-27.9	-107.9	-135.7
Gross profit	45.0	24.5	69.5	80.3	66.5	146.7
Underlying PBT	48.4	-0.9	47.5	71.3	-4.9	66.5

Source: Company data

ISGSY’s investment in Aras Kargo was sold to Austria Post for c TRY100m (US\$51.9m) in July 2013. Aras Kargo is the market-leading courier company in Turkey, with over six million customers per month, and three hundred thousand shipments per day, across the country. Based on an initial investment of TRY17.5m in November 2011, the sale gain of TRY82.5m generated a US dollar-based IRR of 165% and a 5.3x money multiple on a US dollar basis, according to management. This was ISGSY’s largest realisation to date, exceeding the total gains generated in 2011. The Aras Kargo gain was only slightly offset by the TRY2.4m realised loss on the sale of ISGSY’s investment in Turkmed, acquired in December 2007 for TRY2.9m, to its founding shareholders in September 2013. Net realisation gains were TRY80.3m (2012: TRY45.0m).

Since inception in 2004, ISGSY has completed 11 exits for which management calculates an average IRR of 26.5% and an average cash exit multiple of 2.3x, both on a US dollar basis.

The reported consolidated accounts, which include the trading results of the subsidiaries within the P&L, and their trading assets within the balance sheet, do not provide a useful way to track ISGSY as a private equity investment vehicle. To provide additional clarity, management produces supplementary (“solo”) analysis that excludes the subsidiary operating performance and inflation adjusts the carrying value of investments; it does not, however, mark to market the value of those investments, as is common among private equity peers, due to the rules of the Turkish Capital Markets Board. It is the solo data provided by management that is the basis of the performance data on page one. There are timing differences between the reported consolidated accounts and the solo accounts from year to year, but over time, both have been moving in a similar direction. At TRY2.57, the shares trade on a c 30% discount to reported NAV per share (excluding minority

interest) of TRY3.72 per share, whereas on the inflation adjusted solo basis the discount is c 34% to the year-end NAV of TRY3.89 per share.

**Exhibit 3: Reported and underlying NAV per share progression**

TRY per share	2009	2010	2011	2012	2013
Reported attributable equity per share	1.93	2.06	2.56	3.17	3.72
"Solo NAV" per share (inflation adjusted)	2.25	2.36	2.73	3.13	3.89

Source: Company data

From the start of 2014, the Capital Markets Board rules have changed and ISGSY will no longer be able to publish the solo NAV performance. However, it will report solo (non-consolidated private equity) financials, and we will update as appropriate.

As a result of realisations, ISGSY's cash and other liquid assets have increased (TRY187m or 72% of the solo portfolio value), and the share of company private equity investments is currently rather low (28% of portfolio value). We expect a significant element of the liquid reserves to be used to fund new investments, but realisation profits have also provided ISGSY with the ability to pay strong dividends. In 2013, ISGSY distributed TRY30.8m in dividends (46.3p per share), 30% of underlying PBT, which continues to give it one of the highest dividend yields on the Istanbul Stock Exchange (c 18.0% trailing 12-month basis compared with an average of 2%). In fact, at the end of 2013, ISGSY's was the fourth highest trailing dividend yield across the market, and of those, was the best covered by earnings. Over the past five years, ISGSY's trailing dividend yield has averaged a little over 8% compared with a market average of c 2.4%.

Taking into account dividend payments throughout the year, NAV total return for the year was 40.8% (24.1% excluding dividends). The share price total return was 29.9%, less than NAV total return but significantly ahead of the Istanbul Stock Exchange 100 Index, which declined by 11.8%.

## Current uncertainties around long-term Turkish growth

In common with many emerging markets, Turkey faced increased volatility through 2013 and into 2014. Turkish capital markets reacted strongly to the reduction in quantitative easing, reflecting the country's dependence on foreign capital inflows. The Turkish lira had already been declining as a result of increased domestic political tensions as well as instability within the neighbouring region and the fall accelerated. As the currency reached a record low against the dollar in January 2014, the Turkish central bank more than doubled the benchmark weekly repo rate from 4.5% to 10% and increased the overnight lending rate from 7.75% to 12%. The currency has since stabilised at c TRY2.20/US\$, c 5% above the January low (of c TRY2.33/US\$), but remains c 20% lower versus the US dollar over the past year. In the aftermath of the central bank interest rate tightening the government was able to successfully sell US\$2.5bn of 10-year debt, another positive indicator. The challenge that continues to face the Turkish authorities is to maintain international investor confidence and finance the large current deficit (running at more than 7% of GDP), and tackle above target inflation (2013: 7.4% vs target 5%) without further suppressing economic growth.

Domestic political uncertainty also remains high and with elections scheduled for 2014/15 it seems unlikely to abate soon.

Given increased market volatility, recent exits appear well timed and provide ISGSY with the cash resources to take advantage of any new investment opportunities that may arise. Competition for private equity investments across the market has been strong, but ISGSY has the advantage that it is targeting lower- to mid-cap growth companies (equity positions of between US\$20-30m), whereas most other private equity funds are targeting mid-/large-cap investments (with a minimum investment size of c US\$30m).

There is of course no debt at the ISGSY company (or solo) level, although the investee companies do have some financial debt; in aggregate this is current debt of TRY47.5m and long-term debt of TRY46.3m. The ISGSY liquid assets are short term in nature or cash, and the rise in market level rates should be a positive for 2014 earnings despite some modest near-term mark-to-market losses.

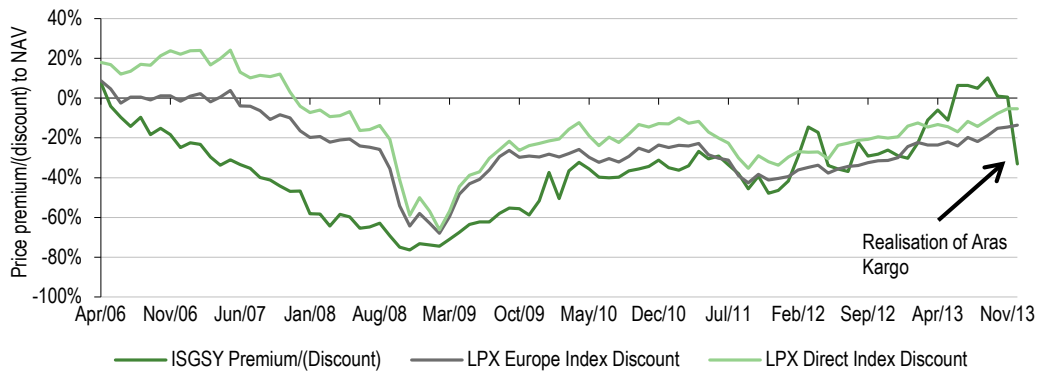
In terms of trading conditions for the investee companies, it is difficult to be precise. The weakness of the currency should be helpful to the export activities of Nevotek and Ortopro, while Toksöz Spor will find imports of sporting goods more expensive. For the restaurant chain Numnum, the level of domestic growth will be key.

## Valuation

Over the last five years to December 2013, ISGSY's aggregate price total return has been 556% vs the Istanbul Stock Exchange (ISE 100 Index) total return of 182%. The LPX Direct Index of directly managed (rather than fund of funds) listed private equity generated a total return of 260% over the same period. The price performance of ISGSY has seen considerable narrowing of the discount to NAV, while five-year aggregate NAV total return was 147%, on the company's solo basis.

As one of only a few listed private equity funds in Turkey, ISGSY lacks a clear comparator peer group. Despite the obvious accounting differences, we show the LPX Europe Index, which covers all liquid private equity companies listed in Europe, and the LPX Direct Index, which covers all liquid private equity that invests directly in companies across the globe as market proxies. The most significant of the accounting differences is that the Turkish Capital Markets Board (CMB) does not allow the mark to market of investments, but does allow for inflation adjustment to book values.

**Exhibit 4: Discount to NAV persists**



Source: LPX, Bloomberg, company data

ISGSY is trading at a c 34% discount to its 31 December 2013 inflation adjusted solo NAV (or 30% on the reported consolidated basis). This discount is wider than the c 5% LPX Direct Index discount, and the c 14% LPX Europe Index discount. Since inception, ISGSY has recorded an average 138% uplift to the inflation adjusted carrying value of investments upon realisation, which indicates the possibility that the current inflation adjusted NAV may be below its true fair market value. The proportion of the portfolio invested in private equity is currently relatively low of course (c 28% at 2013 year end), but conversely, the proportion of cash and short-term liquid assets is relatively high, about which there is less room for accounting value and fair value to diverge.

**Exhibit 5: Financial summary**

	TRYm	2008	2009	2010	2011	2012	2013
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		26.4	8.2	17.1	76.0	124.8	282.5
o/w Private Equity		18.9	0.3	6.2	62.0	73.8	108.1
Cost of Sales		(8.3)	(1.9)	(5.3)	(18.9)	(55.4)	(135.7)
o/w Private Equity		(11.2)	0.0	(1.7)	(15.2)	(28.8)	(27.9)
Gross Profit		18.0	6.4	11.8	57.0	69.5	146.7
Operating expenses		(7.7)	(9.4)	(11.3)	(17.1)	(24.8)	(78.5)
Operating Profit		10.3	(3.0)	0.5	39.9	44.7	68.2
Share in net profit / (loss) of equity investments		(1.4)	(4.8)	3.3	(2.8)	5.4	4.3
Net Interest		11.2	16.0	8.1	6.6	(3.1)	(6.9)
Profit Before Tax (Private Equity)		14.8	13.1	11.0	42.1	48.4	71.3
Profit Before Tax (Consolidated)		20.1	8.2	11.8	43.7	47.5	66.5
Tax (Private Equity)		0.0	0.0	0.0	(1.3)	0.0	0.0
Total tax		0.0	0.0	0.0	(0.1)	(0.0)	0.4
Profit After Tax (Private Equity)		14.8	13.1	11.0	40.8	48.4	71.3
Profit (loss) from discontinued operations		0.0	0.0	0.0	(1.3)	4.2	0.0
Profit After Tax		20.1	8.2	11.8	42.2	51.7	66.9
Average Number of Shares Outstanding (000s)		66.7	66.7	66.7	66.7	66.7	66.7
Private Equity (solo) EPS - (TRY)		0.22	0.20	0.16	0.61	0.73	1.07
Consolidated EPS (TRY)		0.30	0.12	0.18	0.63	0.76	1.00
Dividend per share (TRY)		0.06	0.05	0.05	0.11	0.19	0.50
Cash exit multiple on realisations		1.7	--	3.7	4.1	2.6	3.9
<b>BALANCE SHEET (Consolidated)</b>							
Fixed Assets		42.1	36.7	54.2	51.4	106.2	85.7
Intangible Assets		1.0	0.5	0.1	0.0	70.7	63.2
Tangible Assets		0.2	0.1	0.1	0.2	11.2	21.1
Investments		40.9	36.0	53.9	51.1	23.6	0.0
Other		0.0	0.0	0.0	0.0	0.7	1.5
Current Assets		84.6	94.7	86.4	125.0	249.2	334.9
Stocks		0.0	0.1	0.2	0.3	41.2	54.3
Cash		12.3	9.5	14.4	40.2	40.8	76.0
Financial investments		64.5	77.3	63.1	75.6	101.2	126.7
Debtors		7.8	7.9	8.7	9.0	66.0	77.9
Current Liabilities		(2.3)	(2.3)	(2.0)	(4.1)	(91.2)	(95.7)
Financial liabilities		(0.9)	(0.5)	(0.6)	(1.1)	(50.8)	(47.5)
Other liabilities		(1.3)	(1.8)	(1.4)	(3.1)	(40.4)	(48.2)
Long Term Liabilities		(0.3)	(0.1)	(0.4)	(0.7)	(30.5)	(56.3)
Long term borrowings		(0.2)	(0.0)	(0.2)	(0.1)	(20.8)	(46.3)
Trade payables		0.0	0.0	(0.1)	(0.1)	(2.8)	(1.6)
Other		(0.0)	(0.0)	(0.1)	(0.5)	(6.9)	(8.3)
Total Equity		124.1	129.0	138.2	171.5	233.7	268.7
Shareholders Equity		123.4	128.3	137.2	170.4	211.5	248.2
Number of shares (m)		66.7	66.7	66.7	66.7	66.7	66.7
Attributable equity per share		1.85	1.93	2.06	2.56	3.17	3.72

Source: Company data

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