

COMPANY UPDATE

Akenerji Elektrik Uretim (AKENR.IS)

Neutral

Equity Research

Increased capacity with lower electricity prices, negative outlook**What's changed**

We update our full-year estimates for Akenerji following 1Q14 results. We expect: 1) two CCGT plant closures of 260 MW; 2) delays for new hydro plant projects (c.200 MW installed capacity) as the expected operation dates have been deferred to 2017 from 2016; and 3) new conservative power prices for the Turkish electricity market as we expect 3.3% p.a. electricity demand growth vs. 6.5% p.a. installed capacity growth during 2014-18. As a result, we decrease our price forecasts for the Turkish electricity market by c.20% for 2014-18.

Implications

We are factoring in the closure of two NG plants (c.40% of end-2013 capacity) in our forecasts, on top of incorporating delays in the new hydro plant project and lower profitability expectations for the new Egemer plant. We also reduce our achieved electricity price forecasts for Akenerji by c.16% p.a. for 2014-18, in line with our Turkish electricity price forecasts.

Valuation

We value Akenerji based on the global utilities mid-cycle P/E multiple of 13.0x to which we apply a 10% discount for high gearing. We apply this to 2016E EPS and discount it back by one year to derive our 12-month price target of TRY1.33 (down from TRY1.44 previously on lower estimates).

Key risks

The key upside risks to our view, price target and estimates are higher-than-expected power prices, better NG load factors and operational improvement, while main downside risks include any delay in Egemer CCGT project.

INVESTMENT LIST MEMBERSHIP

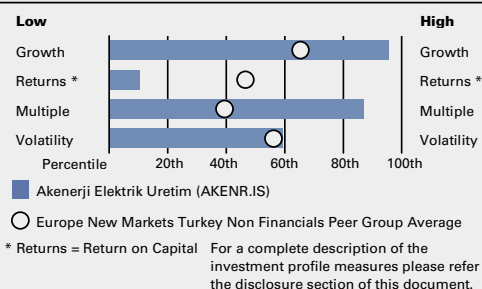
Neutral

Coverage View: Neutral

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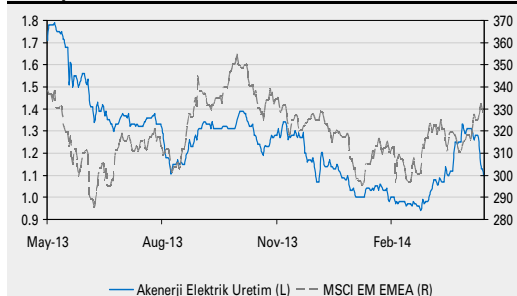
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Investment Profile

Key data	Current
Price (YTL)	1.10
12 month price target (YTL)	1.33
Upside/downside (%)	21
Market cap (YTL mn)	802.1
Enterprise value (YTL mn)	3,366.8

	12/13	12/14E	12/15E	12/16E
Revenue (YTL mn) New	771.0	1,592.7	1,897.4	2,123.5
Revenue revision (%)	1.3	(6.1)	(22.9)	(20.5)
EBIT (YTL mn) New	111.2	160.8	165.0	245.7
EBIT revision (%)	(23.7)	(22.5)	(49.1)	(32.4)
EPS (YTL) New	(0.17)	(0.04)	0.07	0.13
EPS (YTL) Old	(0.07)	(0.04)	0.15	0.14
EV/EBITDA (X)	16.9	13.9	13.7	11.4
P/E (X)	NM	NM	15.4	8.4
Dividend yield (%)	0.0	0.0	0.0	0.0
FCF yield (%)	(44.0)	(94.2)	(14.0)	(57.9)
CROCI (%)	10.4	2.7	5.8	6.9

Price performance chart

Share price performance (%)	3 month	6 month	12 month
Absolute	4.8	(10.6)	(35.7)
Rel. to MSCI EM EMEA	(1.5)	(9.6)	(34.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/16/2014 close.

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Akenerji Elektrik Üretim: Summary Financials

Profit model (YTL mn)	12/13	12/14E	12/15E	12/16E	Balance sheet (YTL mn)	12/13	12/14E	12/15E	12/16E
Total revenue	771.0	1,592.7	1,897.4	2,123.5	Cash & equivalents	242.9	242.9	242.9	242.9
Operating costs	(605.3)	(1,350.6)	(1,642.9)	(1,777.9)	Accounts receivable	92.1	175.2	208.7	233.6
R&D	0.0	0.0	0.0	0.0	Inventory	15.2	23.9	28.5	31.9
Lease payments	0.0	0.0	0.0	0.0	Other current assets	48.1	63.7	75.9	84.9
Other operating profit/(expense)	5.6	0.0	0.0	0.0	Total current assets	398.3	505.7	556.0	593.3
EBITDA	171.4	242.1	254.5	345.7	Net PP&E	2,392.4	3,239.5	3,460.4	4,068.5
Depreciation & amortisation	(60.2)	(81.3)	(89.5)	(100.0)	Net intangibles	121.2	121.2	121.2	121.2
EBIT	111.2	160.8	165.0	245.7	Total investments	2.0	2.0	2.0	2.0
Net interest income/(expense)	(50.7)	(45.7)	(100.1)	(126.7)	Other long-term assets	287.5	287.5	287.5	287.5
Associates	0.3	0.0	0.0	0.0	Total assets	3,201.4	4,156.0	4,427.1	5,072.5
Profit/(loss) on disposals	0.0	0.0	0.0	0.0	Accounts payable	119.3	246.4	293.5	328.5
Others (recurring)	(216.1)	(150.0)	0.0	0.0	Short-term debt	206.4	206.4	206.4	206.4
Pretax profits	(155.3)	(34.9)	64.9	119.0	Other current liabilities	56.2	156.2	215.6	266.5
Income tax	28.2	7.0	(13.0)	(23.8)	Total current liabilities	381.9	609.0	715.6	801.4
Tax rate (%)	18.2	20.0	20.0	20.0	Long-term debt	1,845.7	2,601.2	2,713.8	3,178.2
Minorities	0.0	0.0	0.0	0.0	Other long-term liabilities	145.7	145.7	145.7	145.7
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	1,991.4	2,746.9	2,859.5	3,323.9
Net income (pre-exceptionals)	(127.1)	(27.9)	51.9	95.2	Total liabilities	2,373.4	3,355.8	3,575.1	4,125.3
Other non-recurring items post tax	(22.7)	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	(149.8)	(27.9)	51.9	95.2	Total common equity	828.0	800.1	852.0	947.2
EPS (underlying) (YTL)	(0.17)	(0.04)	0.07	0.13	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, reported) (YTL)	(0.21)	(0.04)	0.07	0.13	Total liabilities & equity	3,201.4	4,156.0	4,427.1	5,072.5
Weighted shares outstanding (mn)	729.2	729.2	729.2	729.2	Capitalised leases	0.0	0.0	0.0	0.0
Common dividends declared	0.0	0.0	0.0	0.0	Capital employed	2,880.2	3,607.7	3,772.3	4,331.8
DPS (YTL)	0.00	0.00	0.00	0.00	Adj for unfunded pensions & GW	0.0	0.0	0.0	0.0
Dividend payout ratio (%)	0.0	0.0	0.0	0.0	Adj capital employed	2,880.2	3,607.7	3,772.3	4,331.8
Dividend cover (X)	NM	NM	NM	NM	Gross cash invested	2,890.2	3,699.0	3,953.0	4,612.6
Growth & margins (%)	12/13	12/14E	12/15E	12/16E	Ratios	12/13	12/14E	12/15E	12/16E
Revenue growth	(3.9)	106.6	19.1	11.9	CROCI (%)	10.4	2.7	5.8	6.9
EBITDA growth	33.8	41.2	5.1	35.8	CROCI/WACC (X)	--	--	--	--
EBIT growth	50.5	44.6	2.6	48.9	ROIC (%)	2.1	4.1	3.7	5.0
Net income growth	(412.3)	81.4	286.1	83.3	ROIC/WACC (X)	--	--	--	--
EPS growth	(271.1)	78.0	286.1	83.3	ROA (%)	(2.9)	0.2	3.1	4.1
DPS growth	--	--	--	--	WACC (%)	--	--	--	--
EBITDA margin	22.2	15.2	13.4	16.3	Inventory days	6.4	4.5	5.0	5.2
EBIT margin	14.4	10.1	8.7	11.6	Asset turnover (X)	0.4	0.6	0.6	0.6
Cash flow statement (YTL mn)	12/13	12/14E	12/15E	12/16E	Net debt/equity (%)	218.5	320.5	314.2	331.7
Net income	(149.8)	(27.9)	51.9	95.2	EBITDA interest cover (X)	3.4	5.3	2.5	2.7
D&A add-back (incl. ESO)	60.2	81.3	89.5	100.0	Valuation	12/13	12/14E	12/15E	12/16E
Minority interest add-back	0.0	0.0	0.0	0.0	EV/sales (X)	3.8	2.1	1.8	1.9
Net (inc)/dec working capital	197.4	119.6	56.3	48.5	EV/EBITDAR (X)	16.9	13.9	13.7	11.4
Other operating cash flow	315.9	0.0	0.0	0.0	EV/EBITDA (X)	16.9	13.9	13.7	11.4
Cash flow from operations	423.8	173.0	197.8	243.7	EV/EBIT (X)	26.0	20.9	21.1	16.1
Capital expenditures	(901.7)	(928.4)	(310.4)	(708.1)	P/E (X)	NM	NM	15.4	8.4
Acquisitions	0.0	0.0	0.0	0.0	Dividend yield (%)	0.0	0.0	0.0	0.0
Divestitures	251.0	0.0	0.0	0.0	FCF yield (%)	(44.0)	(94.2)	(14.0)	(57.9)
Others	(0.1)	0.0	0.0	0.0	EV/GCI (X)	1.0	0.9	0.9	0.9
Cash flow from investing	(650.8)	(928.4)	(310.4)	(708.1)	EV/adj. capital employed (X)	1.1	1.0	1.0	1.0
Dividends paid (common & pref)	0.0	0.0	0.0	0.0	Price/book (X)	1.1	1.0	0.9	0.8
Inc/(dec) in debt	614.7	755.4	112.6	464.4	Note: Ratios are adjusted for leases where appropriate. Only separately disclosed where significant and ongoing.				
Other financing cash flows	(296.8)	0.0	0.0	0.0	Note: Last actual year may include reported and estimated data.				
Cash flow from financing	317.9	755.4	112.6	464.4	Source: Company data, Goldman Sachs Research estimates.				
Total cash flow	69.3	0.0	0.0	0.0					
Capex/D&A (%)	NM	NM	346.8	708.1					
Reinvestment rate (%)	398.4	NM	219.5	362.8					
Cash flow cover of dividends (X)	NM	NM	NM	NM					
Free cash flow cover of dividends (X)	--	--	--	--					

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Downturn in the electricity market; increased Akenerji exposure

We are decreasing our 12-month price target for Akenerji to TRY1.33 from TRY1.44 due to our negative outlook for the Turkish electricity market on the back of a more conservative view of demand growth in addition to overcapacity with new generation plants coming online.

Akenerji's increased installed capacity in the market downturn

Akenerji expects its new CCGT power plant Egemer to be online in 2H14, adding 900 MW installed capacity (end-2013 of 647 MW). While adding Egemer, it will have shut down two other CCGT plants with total installed capacity of 260 MW in 2014. The company closed Kemalpaşa in February 2014 and plans to close down Bozüyük plant in August 2014.

We expect the new plant to ramp up by end-2015, increasing production to c.5700 GWh in 2014 and to c.7000 GWh in 2015 (vs. c.2000 GWh in 2013). We estimate Egemer to operate at a 50% load factor (vs. Akenerji NG load factor of 37% for old CCGT plants in 2013 and company expectations of c.85% for the new plant). Once fully ramped up, we expect the new CCGT plant to reach a 75% load factor.

We also forecast delays in the company's hydro plant which was previously expected to go online in 2016, but was recently delayed to 2017. It is expected to add c.200 MW of additional capacity to Akenerji's 373 MW hydro installed capacity (+54% hydro capacity increase) and increase total electricity production by 8%.

However, as we expect the Turkish economy to slow and electricity prices in euro terms to decline due to overcapacity and decreasing demand, we believe that Akenerji will be negatively affected by these trends given its substantial increase in power generation capacity, mainly targeting base-load demand.

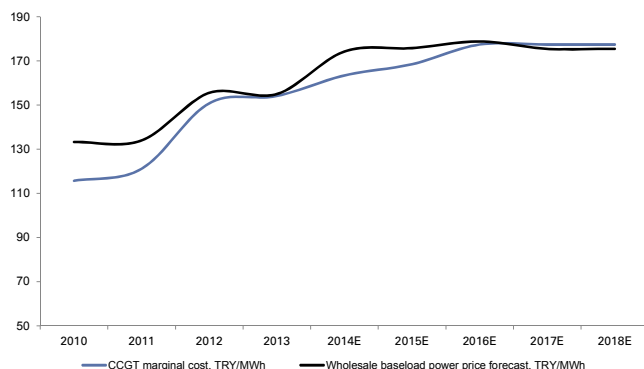
Negative outlook for Turkish electricity market – increased capacity & lower demand

The Turkish electricity industry has undergone significant deregulation in the last-decade with large privatizations of state enterprises. The government's strategy is to fully privatize generation and distribution businesses and keep transmission businesses due to its strategic importance. As of end-2013, all 21 distribution companies in Turkey were fully privatized. The government now plans to privatize state power plants. The privatization process has already started for some state thermal power plants and we expect the liberalization to continue.

The Turkish government also introduced a competitive electricity pricing mechanism in 2006 through a clearing house mechanism called DUY (Electricity Market Balancing and Settlement Regulation). The mechanism became fully functional in 2011 with additional legislation. In the DUY mechanism, power generation companies determine day-ahead wholesale electricity prices, considering the supply and demand dynamics. Currently, c.20% of the electricity is sold in the day-ahead market.

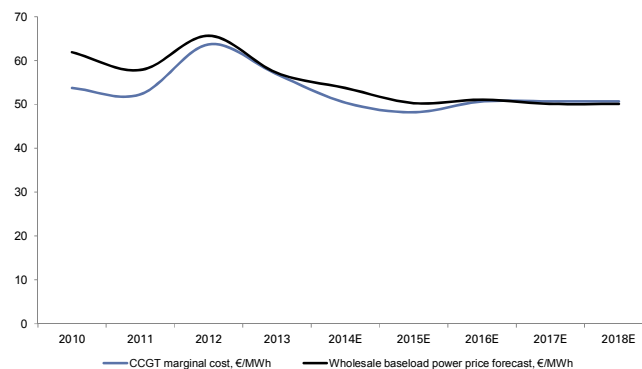
Wholesale power prices have been continuously increasing since 2010 despite a slight slowdown in 2013. In 2014, we expect 12% growth in TRY terms factoring in further FX appreciation affecting raw material prices and a slight decline in euro terms considering the reducing demand due to economic slowdown.

Exhibit 1: We expect a 12% electricity price increase in 2014, factoring in further FX appreciation against TRY...
Turkey wholesale power price forecast, TRY/MWh



Source: TEIAS, Goldman Sachs Global Investment Research

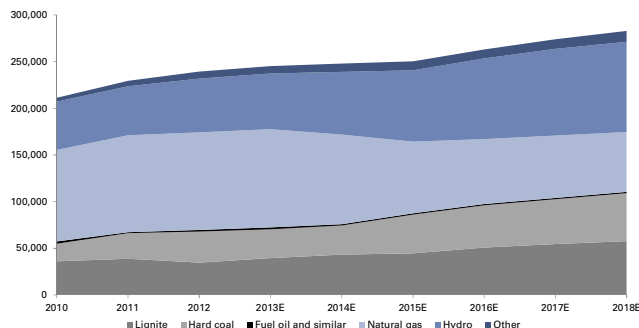
Exhibit 2: ...While we expect a decline in electricity prices in euro terms due to overcapacity
Turkey wholesale power price forecast, €/MWh



Source: TEIAS, Goldman Sachs Global Investment Research

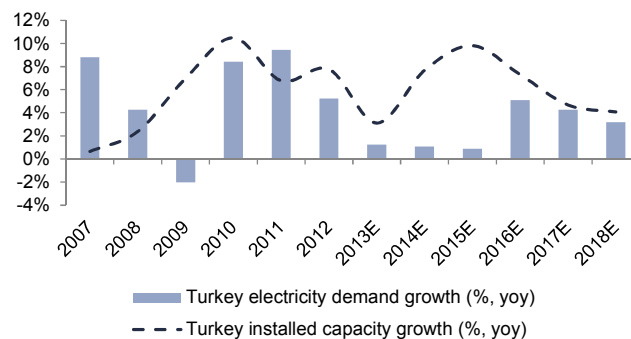
The Turkish Energy Market Regulatory Authority expects electricity demand base growth of 5.6% and a c.7% p.a. capacity increase during 2013-17. However, with the economic slowdown and decreasing GDP expectations, we expect 3.3% p.a. electricity demand growth for the next three years, and 6.5% p.a. installed capacity growth. On top of lower demand, we expect electricity prices to decline due to increased efficiency with new hydro and coal plants coming online and new CCGT plants replacing old gas plants.

Exhibit 3: Increasing share of hydro and coal plants will likely put downward pressure on prices...
Turkey electricity production evolution (GWh), 2007-18E



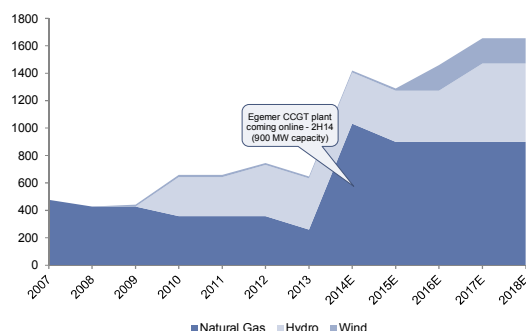
Source: TEIAS, Goldman Sachs Global Investment Research

Exhibit 4: ...Coupled with electricity demand growth lagging installed capacity growth
Turkey electricity demand evolution (% yoy), 2007-18E



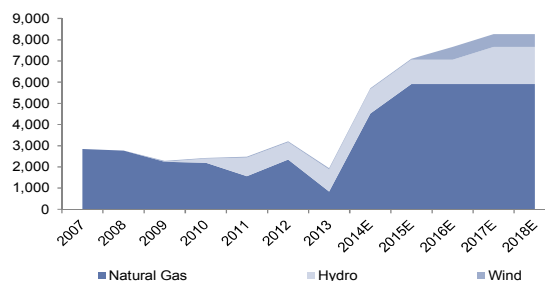
Source: TEIAS, Goldman Sachs Global Investment Research

Exhibit 5: In 2H14, Egemer CCGT should be online with an additional 900 MW installed capacity...
Akenerji installed capacity, MW



Source: Company data, Goldman Sachs Global Investment Research

Exhibit 6: ...which we expect to more than double Akenerji's production once fully ramped-up
Akenerji electricity production, GWh



Source: Company data, Goldman Sachs Global Investment Research

High valuation, increasing debt and low returns

We value Akenerji based on the global utilities mid-cycle P/E multiple of 13.0x to which we apply a 10% discount for high gearing. We apply this to 2016E EPS and then discount it back one year to derive our 12-month price target of TRY1.33/share (down from TRY1.44/share). We believe Akenerji's trading multiples are high given its low returns and increasing gearing. The stock currently trades at TRY1.10/share implying 21% upside potential to our 12-month target price (vs. Turkey coverage median upside of 21%).

Exhibit 7: Our estimates implies an 11.4x P/E multiple for Akenerji in 2016E
Akenerji valuation, 2011-16E; prices as of the close on May 16, 2014

Ak Enerji							Utilities	
Y/E December							Power	
TRYmn							Electric Utilities	
Price	1.10	12-month price target (TRY)				1.33	\$/TRY (spot)	2.10
Market cap	1,084	Potential upside/(downside)				21%		
Market cap (USD mn)	516							
Valuation	2011	2012	2013	2014E	2015E	2016E		
EV/Sales	4.2	2.7	3.7	2.3	2.0	2.0		
EV/EBITDA	22.2	17.0	16.9	15.1	14.8	12.2		
EV/EBIT	39.8	29.5	26.0	22.7	22.8	17.2		
EV/DACF	27.1	26.0	10.8	40.6	17.0	14.2		
EV/NOPLAT	47.7	29.4	33.1	28.4	28.5	21.5		
EV/GCI	1.2	1.1	1.0	1.0	1.0	0.9		
P/E	-5.7	15.1	-8.5	-38.8	20.9	11.4		
P/B	2.3	1.2	1.3	1.4	1.3	1.1		
P/CFO	20.3	22.4	4.8	20.3	7.7	5.6		
FCF yield	-21%	-31%	-44%	-70%	-10%	-43%		
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		

Price target claculation	Clean net income 2016E	P/E multiple	Equity value 2016E	Discount Rate	Price target
Group profits	95	11.7	1,114		Weight
Equity Value			1,114		100%
No. of shares, mn			729		
Implied per share valuation (TRY)			1.53	15%	1.33

Returns and gearing	2011	2012	2013	2014E	2015E	2016E
CROCI	4.6%	4.3%	10.4%	2.7%	5.8%	6.9%
ROIC	3.6%	5.3%	4.6%	4.7%	4.2%	5.6%
ROE	-32.7%	6.5%	-16.9%	-3.4%	6.3%	10.6%
Net debt/EBITDA	12.6	10.0	10.6	10.6	10.5	9.1
Net debt/equity	254.3%	136.1%	218.5%	320.5%	314.2%	331.7%

Growth	2011	2012	2013	2014E	2015E	2016E
Sales growth	31%	43%	-4%	107%	19%	12%
EBITDA growth	236%	21%	34%	41%	5%	36%
EBIT growth	1802%	25%	50%	45%	3%	49%
Net income growth	582%	-135%	-271%	-78%	-286%	83%
EPS growth	582%	-125%	-271%	-78%	-286%	83%

Source: Company data, Goldman Sachs Global Investment Research

Disclosure Appendix

Reg AC

We, Matija Gergolet, Asli Tuncer and Serhat Birbilen, hereby certify that all of the views expressed in this report accurately reflect our personal views about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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The Goldman Sachs Investment Profile provides investment context for a security by comparing key attributes of that security to its peer group and market. The four key attributes depicted are: growth, returns, multiple and volatility. Growth, returns and multiple are indexed based on composites of several methodologies to determine the stocks percentile ranking within the region's coverage universe.

The precise calculation of each metric may vary depending on the fiscal year, industry and region but the standard approach is as follows:

Growth is a composite of next year's estimate over current year's estimate, e.g. EPS, EBITDA, Revenue. **Return** is a year one prospective aggregate of various return on capital measures, e.g. CROCI, ROACE, and ROE. **Multiple** is a composite of one-year forward valuation ratios, e.g. P/E, dividend yield, EV/FCF, EV/EBITDA, EV/DACF, Price/Book. **Volatility** is measured as trailing twelve-month volatility adjusted for dividends.

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EMEA New Markets-MENA Non Financials: Abdullah Abdul Mohsin Al-Khodari Sons Company (Al Khodari), Abdullah Al Othaim Markets Company, Abu Dhabi National Energy (Taqa), Abu Dhabi National Hotels, Advanced Petrochemical Company, Agility The Public Warehousing Company (Agility), Agthia Group, Air Arabia, Al Noor Hospitals Group Plc, Aldar Properties, Almarai Company, Arab Potash Company, Arabian Cement, Arabtec Holding, Aramex, Bahrain Telecom, Ciments du Maroc, Dana Gas, Dar Al Arkan Real Estate Development Company (Dar Al-Arkan), Drake and Scull International, Elsewedy Electric Company, Emaar Properties, Emirates Integrated Telecommunications Company (Du), Emirates Telecommunications Corporation (Etisalat), Etihad Etisalat Co, Fawaz Abdulaziz Alhokair and Company, GB Auto, Halwani Brothers, Herfy, Holcim Maroc, Industries Qatar, Jarir Marketing Company, Jordan Phosphate Mines Co., Juhayna Food Industries, Kuwait Food Company (Americana), Lafarge Ciments, National Industrialization Company (Tasnee), OCI N.V., Oman Telecom, Omani Qatari Telecommunication Company (Nawras), Orascom Development Holding AG, Palm Hills Developments, Qassim Cement Company, Qatar Electricity and Water Company (QEW), Qatar Gas Transport, Qatar National Cement Company, Rabigh Refineries and Petrochemical (Petro Rabigh), Ras Al Khaimah Ceramic Company (RAK Ceramics), Red Sea Housing, Saudi Arabia Fertilizer Company (SAFCO), Saudi Arabian Mining (Maaden), Saudi Basic Industries Corporation (SABIC), Saudi Cement Company (SCC), Saudi Ceramic Company, Saudi Dairy and Foodstuff Company (SADAFCO), Saudi Electricity Company (SEC), Saudi Kayan., Saudi Telecom Company, Savola Group, Sixth of October Development and Investment Company (SODIC), Solidere, Southern Cement, Suez Cement Company, Talaat Mostafa Group Holding Company (TMG Holding), The National Shipping Company of Saudi Arabia (NSCSA), United Electronics Co (Extra), Vodafone Qatar, Yamama Cement, Yanbu Cement Company, Yanbu National Petrochemicals (YANSAB), Zain KSA, Zamil Industrial Investment Company, ezzsteel.

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EMEA New Markets-Turkey Non Financials: Akansa Cimento Sanayi ve Ticaret, Akenerji Elektrik Üretim, Akfen Holding, Aksa Akrilik Kimya Sanayi, Alarko Holding, Anadolu Cam Sanayii, Anadolu Efes, Arcelik, Aygaz, Brisa Bridgestone Sabanci Lastik Sanayi ve Ticaret (Brisa), Carrefoursa, Celebi Hava Servisi, Cimsa Cimento Sanayi ve Ticaret, Coca Cola Icecek, Dogan Sirketler Grubu Holding (Dogan Holding), Dogan Yayin Holding, Dogus Otomotiv Servis ve Ticaret, Emlak Konut Gayrimenkul Yatirim Ortakligi, Ford Otosan, Gubre Fabrikalari (Gubretas), Haci Omer Sabanci Holding, Hurriyet Gazetecilik ve Matbaacilik, Koc Holding, Kordsa, Mardin Cimento, Migros Ticaret, Petkim Petrokimya, Selcuk Ecza Deposu Ticaret, Soda Sanayii, Tav Havalimanlari Holding (TAV), Teknosa, Tofas Turk Otomobil Fabrikasi, Trakya Cam Sanayii, Turcas Petrol, Turk Traktor ve Ziraat Makineleri, Turkiye Sise ve Cam Fabrikalari, Ulker Biskuvi, VESTEL White goods, Vestel Elektronik, Yazicilar Holding.

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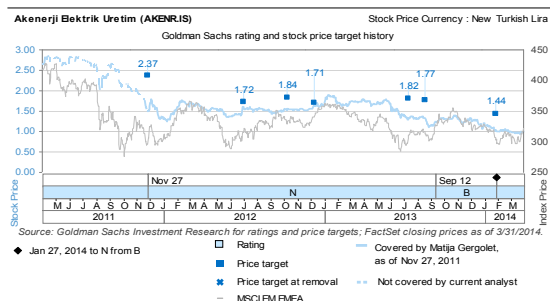
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