

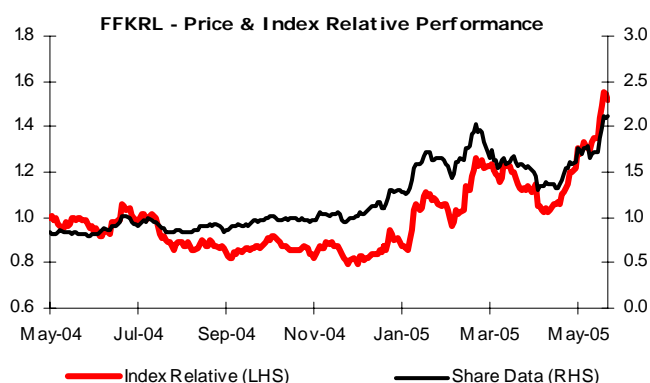
## FINANS LEASING

### Leasing Sector

## Market Outperformer

- Finans Leasing (FL) is the 4th largest leasing company out of a total of 98, with a 6.2% market share in terms of total leasing volume in 2004. The market share climbed from 4.7% levels at year-end 2002. FL targets to increase its market share to 8% until the end of this year.
- The key difference of leasing from bank loans is the VAT advantage. The 18% VAT slides down to 8% for leased commercial vehicles and 1% for leased investment goods. Therefore leasing is one of the primary alternatives of the companies especially for machinery, vehicle and real estate financing. Leasing volume of the sector expanded by 35% in 2004 to US\$2.9bn, whereas Finans Leasing's volume rose 60% during the same period.
- We expect the mortgage scheme to be the new story for the leasing companies. The draft law is likely to be passed through the Parliament this year and the scheme is expected to be triggered in 2006 creating a totally new playground for lessors.
- We expect Finans Leasing to be one of the frontrunners of the plan as 12% of its lease receivables are property related versus a mere 6.7% of the sector. It is worth noting that the Company's potential stance is unclear and it is also ambiguous whether the draft will be passed from the Parliament the way it is or not.
- The valuation of the Company is very attractive. Finans Leasing has a 21% ROE and trades with a mere 0.8x P/B. The current P/E of 4.5x (2005: 3.4x) is even less than half of the peer group average of 8.0x, and significantly lower than ISE's 12.7x.
- Our Warranted Equity Approach (WEA) yields a US\$179mn target market cap for the company that corresponds to an attractive 96% upside potential. With this price level, we believe the stock is nothing but a steal.

Price (TL / US\$)	2.86 / 2.13
Price Range (1 Year, TL/US\$)	1.17 / 0.79 - 2.86 / 2.13
Number of Shares (mn)	43,000
Market Cap. (US\$m)	92
Free Float	12%
Daily Vol. (3 Month, US\$m)	0.3
Ticker (Reuters, Bloomberg)	FFKRL.IS, FFKRL.TI
ISE-100 Index (TL/US\$)	25,799 / 19,201



PERFORMANCE	1 Week	1 Month	3 Month	1 Year
US\$	23.9%	50.5%	19.3%	163.6%
Index Relative	12.7%	38.4%	35.3%	53.3%

#### SUMMARY FORECASTS (IFRS Consolidated, US\$m) & VALUATION

	2003A	2004A	2005F	2006F
Assets	234.0	262.7	315.1	371.9
Sh. Equity	88.1	108.4	112.2	121.2
Net Profit	20.4	20.3	26.6	25.7
ROE	23%	21%	24%	22%
P/B	1.04	0.84	0.82	0.76
P/E	4.5	4.5	3.4	3.6

#### SHAREHOLDING STRUCTURE

Finansbank	80%
Finans Invest	8%
Float	12%

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## I. INVESTMENT THEME

The key difference of leasing from bank loans is the VAT advantage. The 18% VAT slides down to 8% for leased commercial vehicles and 1% for leased investment goods. Therefore leasing is one of the primary alternatives of the companies especially for machinery, vehicle and real estate financing. Leasing volume of the sector expanded by 35% in 2004 to US\$2.9bn, whereas Finans Leasing's volume rose 60% during the same period.

We expect the mortgage scheme to be the new story for the leasing companies as the draft mortgage act grants them that privilege. We expect the draft law to pass through the parliament this year and the scheme is likely to be triggered in 2006 creating a totally new playground for lessors. We expect Finans Leasing to be one of the frontrunners of the plan as 12% of its lease receivables are property related versus a mere 6.7% of the sector. It is worth noting that the Company's potential stance is unclear and it is also ambiguous whether the draft will be passed from the parliament the way it is or not.

The valuation of the Company is very attractive. Finans Leasing has a 21% ROE and trades with a mere 0.8x P/B. The current P/E of 4.5x (2005: 3.4x) is less than half of the peer group average of 8.0x, and significantly lower than ISE's 12.7x.

Our Warranted Equity Approach (WEA) yields a US\$179mn target market cap for the company that corresponds to an attractive 96% upside potential. With this price level, we believe the stock is nothing but a steal.

## II. FINANS LEASING

### Strong Market Share Growth

Finans Leasing (FL) is the 4th largest leasing company out of a total of 98, with a 6.2% market share in terms of total leasing volume in 2004. The market share climbed from 4.7% levels at year-end 2002. FL targets to increase its market share to 8% until the end of this year.

Leasing Company Rankings			
Rank	Company Name	Volume (in USD)	Market Share
1.	Koc Leasing	380,533,000	13.00%
2.	Garanti Leasing	342,286,000	11.70%
3.	Is Leasing	306,035,000	10.50%
4.	<b>Finans Leasing</b>	<b>181,869,000</b>	<b>6.20%</b>
5.	FFK Fon Leasing	175,880,000	6.00%
6.	YKB Leasing	161,875,000	5.5%
7.	Citilease	155,088,000	5.3%
8.	TEB Leasing	127,002,000	4.3%
9.	Halk Leasing	121,813,000	4.2%
10	Dis Leasing	121,051,000	4.1%
	<b>Total</b>	<b>2,073,432,000</b>	<b>71.0%</b>

Source: Fider

The Company has regional network in 7 cities and also uses Finansbank's 170 branches as a part of its distribution network. Finansbank accounts for 18% of the volume, whereas the target is to increase this ratio to 25% until the end of this year. FL does not plan growing through expanding the branch network but by increasing the contribution of Finansbank branches. 40% of the leasing volume is derived from Istanbul, whereas the remainder comes from the rest of the country. Roughly half of the leasing receivables are in TL terms whereas the rest is in Euros and US\$. TL and FX breakdown of leasing volume that were 75% and 25% in 2004 on the other hand is targeted to be switched to 60% and 40% respectively in 2005. FL also aims to increase the leasing volume by 33% in US\$ terms to US\$240mn this year, which we believe is likely given continuing strong growth of the economy.

A strong 16% of FL's leasing receivables are from the retail business followed by machinery and textile sectors. The Company targets to lay more emphasis on tourism and agriculture sectors in 2005. FL also wants to maintain its strong position in health related leasing. The Company holds the leading position in health related leases as of the end of 1Q05 fueled by vendor lease deals.

FL targets to emphasize on vendor lease deals and increase their share in total leasing volume from 11% to 16% at the end of 2005. Suppliers of equipments subject to lease is extremely crucial for leasing companies (lessor) as they are bought by the lessors and then hired to the lessees (assets are booked in lesses' books). Therefore grabbing the suppliers result in strong business volume.

<b>Sector Breakdown of Leasing Receivables</b>		
	<b>2004</b>	<b>2003</b>
Retail	15.9%	16.4%
Machinery and Equipment	15.4%	14.0%
Textile	13.1%	14.1%
Health and Social Services	10.6%	7.5%
Printing	9.8%	14.7%
Transportation	7.3%	6.9%
Finance	6.7%	3.5%
Construction	4.2%	3.9%
IT	1.5%	1.8%
Leisure	1.4%	1.3%
Research and Advertisement	1.0%	1.5%
Other	13.1%	14.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

*Source: The Company*

The Company's related party receivables make up 21% of the total receivables as of the end of 2004 (18% at 1Q05-end). However FL targets to pull down this ratio close to zero by the end of this year mainly due to the divesture of 2% participation Gima's divesture to Carrefour.

The financing of the leasing activities are realized mainly through international borrowings. The Company received a US\$20mn murabaha type syndicated loan from HSBC with two years of maturity in November 2004 and a €6.25mn loan from DEG in December 2004 with six years of maturity. FL targets to increase its total borrowings from US\$81mn to US\$100mn in 2005. The Company finances the TL lease receivables with its shareholders' equity and FX receivables through foreign borrowings. FL has US\$93mn free capital as of the end of 2004, that comfortably covers the TL leases, and foreign borrowings cover the rest.

#### **Mortgage Scheme to Create a New Playground**

The new draft mortgage loan gives the housing finance privileges to leasing companies as well. Currently, although the tax authority allows leasing companies to finance the real estates of the individuals despite VAT leakage,

the leasing companies does not prefer doing so due to ethical reasons. We believe that the leasing companies do not want to take the risk of tax authority's abolishing the tax advantage on leased real estate deals if the volume displays a sudden hike.

The draft mortgage law states that housing finance comprises of the loans that are secured by mortgages on authorized residential houses and leasing transactions on such houses. The draft defines housing finance institutions as banks, **leasing companies** and consumer finance companies. The mortgage plan would definitely bring volume to banks, however banks are larger than leasing companies with many other asset allocation alternatives. The effects of mortgage on leasing companies on the other hand would be substantially higher relative to their sizes.

Real estate financing has a 12% share in total leasing receivables of FL and the Company is quite familiar to property operations. Therefore, we expect to observe a comfortable switch to mortgage financing of individuals if the draft law is approved by the parliament later this year. The mortgage practice is likely to be triggered in 2006.

#### **Financials Include Non-Life Insurance Business**

On top of the leasing business FL also consolidates its 51.5% affiliate Finans Insurance (FI), which is the fastest growing top-10 private non-life insurance Company with 1.8% market share as of the end of 2004.

<b>TOP 10 PRIVATE NON-LIFE INSURANCE COMPANIES</b>			
<b>*</b>	<b>M.Share 04</b>	<b>M.Share 03</b>	<b>YoY Chg in Premiums</b>
ANADOLU	10.04%	8.65%	54.08%
AXAOYAK	9.68%	8.62%	48.83%
KOC ALLIANZ	6.76%	6.06%	48.00%
AKSIGORTA	6.29%	7.18%	16.19%
YAPI KREDI	5.82%	6.11%	26.25%
ISVICRE	5.49%	4.71%	54.65%
GARANTI	2.52%	2.36%	41.89%
RAY	2.51%	2.91%	14.42%
T.GENEL	2.51%	2.24%	48.53%
<b>FINANS</b>	<b>1.80%</b>	<b>1.49%</b>	<b>60.28%</b>

Source: Türkiye Sigorta ve Reasurans Sirketleri Birliği

\* Market shares are calculated on sector totals including public and life insurance companies

FI that makes up 25% of the FL's IFRS consolidated assets does not have any consequential effect on the bottomline. FI had US\$1mn loss in its 2004

financials. We do not expect a meaningful contribution of FI to the consolidated bottomline for the foreseeable future.

<b>Breakdown of Financials Between Leasing and Insurance 2004</b>				
<b>US\$mn</b>	<b>Leasing</b>	<b>Insurance</b>	<b>Eliminations</b>	<b>Total</b>
<b>P/L</b>				
Leasing Income	35.8	-	0.0	35.8
Net Insurance Tech. Income	-	4.9	0.5	5.4
<b>Operating Income</b>	<b>29.0</b>	<b>-0.4</b>	-	<b>28.7</b>
Income from Participations	0.2	-	-	0.2
Tax Reserves	1.5	-0.3	-	1.2
Monetary Loss	-9.9	-0.3	-	-10.3
Minority Interests				0.5
<b>Net Profit</b>	<b>20.8</b>	<b>-1.0</b>		<b>20.3</b>
<b>Balance Sheet</b>				
Operating Assets	191.5	64.4	-0.8	255.1
Participations	7.6	-	-	7.6
<b>Total Assets</b>	<b>199.2</b>	<b>64.4</b>	<b>-0.8</b>	<b>262.7</b>
Operating Liabilities	96.1	53.9	-0.8	149.3
<b>Total Liabilities</b>	<b>96.1</b>	<b>53.9</b>	<b>-0.8</b>	<b>149.3</b>

*Source: Company Financials*

### III. VALUATION

#### WEA Offers Huge Upside

Our key model in valuing financial institutions is warranted equity approach (WEA) in which we use  $[(ROE-g)/(k-g)]$  as a benchmark P/B multiple. For the cost-of-capital (k) calculations we work through an adjusted CAPM approach, with a 3% sustainable growth rate. We arrive at equity risk premiums by subtracting long-term US Government security's current yield from the sustainable yield on 2030 Turkish Government Eurobond. As this risk premium spread can only be valid for bonds and the stock market is empirically 2.2 times more volatile (standard deviation) than the bond market we multiply the risk premium by the volatility coefficient and then add the outcome to the US long-term risk-free rate to arrive at a cost of equity for the Company ( $k=RfUS+B*(RfTR-RfUS)*2.2$ ). Subsequent to reaching a benchmark P/B multiple via the warranted equity approach, it is quite a straightforward process to reach a fair value using the adjusted target book value.

We expect the Company's ROE to climb from 21% to 24% in 2005 due mainly to the abolishment of inflation accounting scheme coupled with a rough US\$1.8mn profit from the sale of 2% Gima stake. Our ROE estimation for this year is really conservative compared to FL's 26% target. We expect the figure

to come down to 22% in 2006 and continue at a sustainable level of 18%. Due to huge investment incentives, the leasing companies frequently do not have any taxable income. FL had a positive tax figure stemming from deferred tax liability reversals in 2003, followed by a minor reversal in 2004. We estimate no tax figure in our projections.

In our valuation we simply write-off intangible assets stemming from the goodwill of Finans Deniz Leasing and Finans Insurance. Before IFRS deterred the amortization practice on the goodwill figure, we were expecting the US\$2.5mn figure to be completely amortized in 2005. However, the companies can only write down the value of intangible assets when they see a permanent impairment in their values. We do not think FL would do so as they see a value in the goodwill mainly coming from cross selling opportunities.

Benchmark P/B Calculations	US\$m
Market Cap	91.5
ROE (Sustainable)	18%
g	3.0%
k	13%
Benchmark P/B [(ROE-g)/(k-g)]	1.57
2005 Sh.Eq.	112
2006 Sh.Eq.	121
1y forw. looking Sh. Equity	117
Intangible Asset Write-Off	3
Adjusted 1y forw. Looking BV	114
Target Value for the Company	179
Upside Potential	96%

Source: Ak Securities

Through a 1.6x benchmark P/B multiple and a 1y forward looking adjusted book value of US\$117mn our base case scenario yields a US\$191mn target value for the Company that corresponds to an attractive 96% upside potential. Even the lowest end of our sensitivity analysis provides a US\$104mn target meaning that the current US\$92mn level is unjustifiably low.

Target Value Sensitivity Analysis (US\$m)			
ROE \ CoE	12%	13%	14%
13%	127	118	104
15%	152	141	125
17%	178	165	145
18%	193	179	158
21%	228	212	187
23%	254	235	208
25%	279	259	228

Source: Ak Securities

### Market Multiples Confirm the Potential

In addition to our WEA based valuation method, it is always a good idea to work through the multiples as a sanity check. Trading with a 3.4x 2005 P/E and a 0.8x P/B the stock is a steal.

Sequence of Key Multiples		
	P/Adj. Book	P/E
2004	0.84	4.5
2005F	0.82	3.4
2006F	0.76	3.6

*Source: Ak Securities Estimates*

Although Seker, Toprak and Yapi Kredi Leasing companies also have less than 1.0x P/B multiples they deserve to be traded below book values as their bottomlines are in the red. Tekstil on the other hand operates with a mere 4% ROE. Average current P/E of the peers with positive net profits is 8.0x that is more than two times higher than that of FL. The current and 2005 P/E of the market stand at 12.7x and 11.1x respectively.

Peer Group Comparison			
	Sh. Eq.04	M.Cap.	P/B
Is Leasing	67	108	1.6
Seker Leasing	24	23	0.9
Tekstil Leasing	17	9	0.6
Toprak Leasing	22	18	0.8
Vakif Leasing	15	22	1.4
Yapi Kredi Leasing	200	161	0.8
<b>Average</b>			<b>1.0</b>

*Source: Company, ISE*

FL distributed a huge 85% of its 2004 net profit as dividends. Assuming an identical dividend payout ratio for 2005, the gross dividend yield of 24% is incomparably the highest figure in the entire ISE. The Company does not have any dividend payout policy but assuming the continuation of the practice in the following years, the return is outstanding in such an environment in which the real return on benchmark bond slipped down to 10%.

We perceive the major obstacle limiting the upside movement of the stock as the low 12% float backed stumpy US\$0.26mn daily trading volume that does not offer enough liquidity even for small sized funds. In late March Fiba Holding and Finansbank deposited 4.1% of the Company to the custody to be sold in the ISE. Increase in the float and daily trading volume of the Bank would help the stock to break its upward resistance.

## IV. FINANCIALS &amp; PROJECTIONS

<b>Finans Leasing Financials (US\$mn)</b>				
<b>IFRS Consolidated Balance Sheet</b>	<b>2003</b>	<b>2004</b>	<b>2005F</b>	<b>2006F</b>
<b>Assets</b>				
Cash	24.5	34.2	36.2	39.2
Leasing Receivables	140.3	146.7	193.4	241.4
Rent Receivables	6.7	5.8	6.3	7.0
Insurance Receivables	22.5	28.6	30.3	32.9
AFS Securities	7.4	17.2	17.3	17.7
Participations	7.4	7.6	8.1	8.7
Fixed Assets to Hire	7.9	5.1	5.5	6.1
Deferred Policy Cost	7.0	9.9	10.5	11.4
Fixed Assets	3.0	2.9	2.8	2.9
Intangible Assets	5.7	3.3	3.1	3.0
Other Assets	1.1	1.5	1.6	1.7
Deferred Tax Assets	0.5			
<b>Total Assets</b>	<b>234.0</b>	<b>262.7</b>	<b>315.1</b>	<b>371.9</b>
<b>Liabilities and Sh. Eq.</b>				
Funds Borrowed	82.2	80.9	126.2	168.5
Trade Payables	15.3	10.9	11.9	13.1
Advances Received	2.0	2.7	2.9	3.1
Liabilities to Insurance Companies	6.7	8.1	8.5	9.3
Insurance Tech. Reserves	25.4	40.0	42.4	45.9
Deferred Commission Income	2.4	3.6	3.8	4.1
Other liabilities and reserves	2.8	2.4	2.1	1.8
Income Tax Payable	3.1	0.0	0.0	0.0
Deferred Tax Liabilities	0.4	0.6	0.6	0.7
<b>Total Liabilities</b>	<b>140.4</b>	<b>149.3</b>	<b>198.4</b>	<b>246.6</b>
Minority Interests	5.6	5.1	4.5	4.1
<b>Shareholders' Equity</b>	<b>88.1</b>	<b>108.4</b>	<b>112.2</b>	<b>121.2</b>
<b>Liabilities and Sh. Eq.</b>	<b>234.0</b>	<b>262.7</b>	<b>315.1</b>	<b>371.9</b>
<b>IFRS Consolidated P/L</b>				
Total Leasing Income	30.6	35.8	34.5	36.4
Net Insurance Tech. Income	7.3	5.4	4.7	5.1
Financial Income	4.6	3.5	3.4	2.7
Reserves for Leasing Receivables	-2.2	1.4	1.9	2.3
Profit After Financial Inc. and Leas.Res.	40.3	46.2	44.5	46.5
Other Op. Income/(Exp)	-17.9	-17.5	-19.1	-20.4
<b>Operating Profit</b>	<b>22.3</b>	<b>28.7</b>	<b>25.3</b>	<b>26.1</b>
Income from Participations	-1.2	0.2	2.0	0.2
Profit Before Tax, Mon. Losses and Min. Int.	21.1	28.9	27.3	26.3
Tax	6.9	1.2	0.0	0.0
Monetary Losses	-7.2	-10.3	0.0	0.0
<b>Net Operating Profit</b>	<b>20.8</b>	<b>19.8</b>	<b>27.3</b>	<b>26.3</b>
Minority Interests	-0.4	0.5	0.7	0.6
<b>Net Profit</b>	<b>20.4</b>	<b>20.3</b>	<b>26.6</b>	<b>25.7</b>
<i>Source: Company Financials, Ak Securities Estimates</i>				

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# AK Securities

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