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# Borusan Yatirim Holding – Expanding in growth sectors

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#### **Borusan Yatirim offers an exposure to auto, steel and construction sectors**

Borusan Yatirim Holding is a conglomerate active in the flat steel, steel pipe, automotive and heavy machinery, logistics and telecom sectors through its subsidiaries. The company is one of the two investment arms of the Borusan Group, but has limited access to the total Borusan Group Portfolio. The company is listed in the Istanbul Stock Exchange (BRYAT.IS, NR, TRY6.10) and has a \$130m market cap as of 9 February 2006. Its free float is 33% and its average daily trading volume over the past month was \$1.8m.

#### **BMB seeks growth in Europe; organic and/or through acquisitions**

Borusan Mannesman Boru (BMB) is Borusan Yatirim Holding's only listed subsidiary. BMB is listed in the ISE (BRSAN.IS, NR, TRY12.60) and has a \$270m market cap as of 9 Feb 2006. Free float is 16% and average daily trading volume over the past month was \$1.2m. BMB is the largest steel pipe manufacturer in Turkey and one of the largest in Europe. The company has three production facilities with a total capacity of 750k tons. BMB is looking for an acquisition target in Europe. The company also considers establishing a distribution network through an acquisition and/or an alliance with a partner in Europe. BMB will also increase its spiral and longitudinal pipe capacity in 2007 with a \$40m investment.

#### **Borcelik will increase capacity in high value added products**

Borcelik is Borusan Group's flagship company in the flat steel business. The company is the second largest cold-rolled (CR) flat steel producer after Erdemir. In 2000, the company initiated its IPO process in order to finance its \$125m capacity investment. However, due to the financial crisis in 2001, the company delayed its IPO process and financed this investment with bank loans and equity. Currently, the company plans to invest in downstream products and increase its HDG (Hot-dipped galvanised) capacity by 600k tons with an over \$100m investment.

#### **Borusan Makina offers an attractive exposure to the construction sector**

Borusan Makina is the exclusive distributor of Caterpillar (CAT) branded products in Turkey and Central Asia. The company is the leader in the domestic construction equipment market with a 19% market share and also has a strong position in Kazakhstan with a 32% market share among international brands. In June 2005, the company acquired the exclusive CAT distributorship in Iran. Borusan believes that further growth will mostly come from the domestic market.

#### **Borusan Lojistik and Borusan Telekom are the company's new businesses**

Borusan Lojistik stands out as the group's fastest growing business. In 2000, the group restructured its traditional transportation and port operations and merged its three logistics companies under Borusan Lojistik. Besides its port operations in Gemlik, Borusan Lojistik also operates as a third party logistics (3PL) company. The company sees the logistics business as a growth area and seeks strategic partnership opportunities in the local market. Borusan Telekom is also a new business area for the Borusan Group. The company is the market leader in the corporate voice market with a 26% market share. The company seeks acquisition opportunities in the fragmented corporate telecom services sector.

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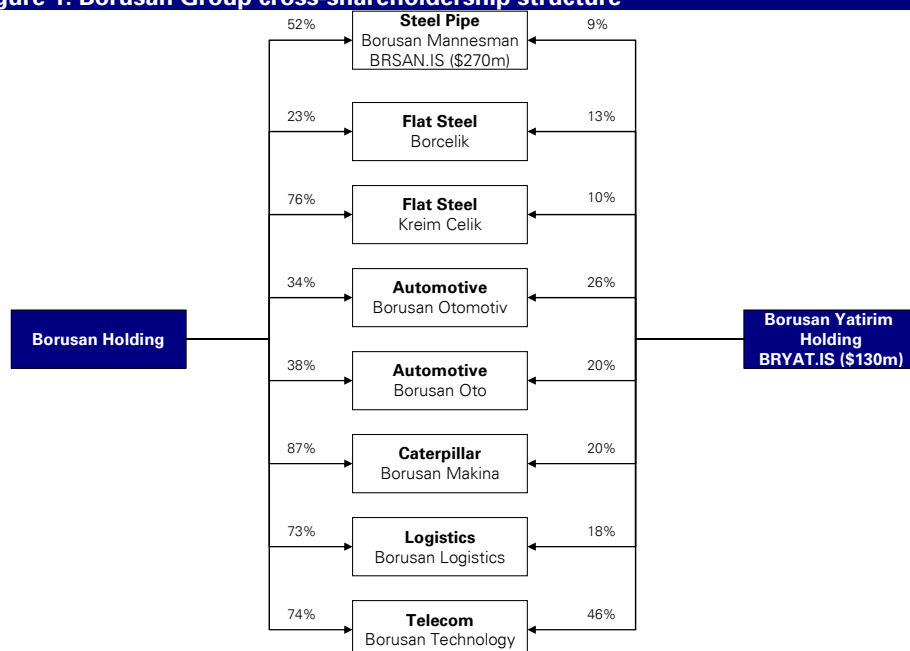
DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1

# Company Overview

## Borusan Yatirim Holding

Borusan Yatirim Holding is a conglomerate that is active in flat steel, steel pipe, automotive and heavy machinery, logistics and telecom sectors through its subsidiaries. The company is one of the two main arms of the Borusan Group, but has limited access to the total Borusan Group Portfolio. Borusan Holding, the other arm of the Borusan Group also has stakes in the same business portfolio. Note that Borusan Holding also has a 19% stake in Borusan Yatirim Holding. Each conglomerate's effective stake is shown in Figure 1.

**Figure 1: Borusan Group cross-shareholdership structure**

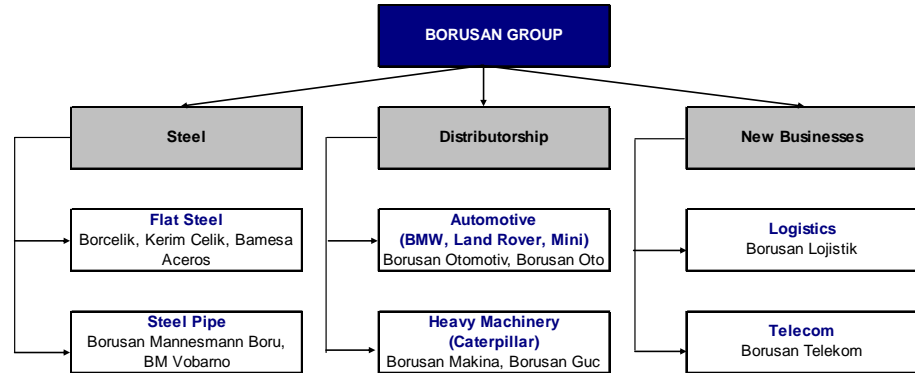


Source: Company data

Borusan Holding, which controls all of the subsidiaries, is not a listed company. Borusan Yatirim Holding is listed in the Istanbul Stock Exchange and has a \$130m market cap as of 9 February 2006. Its free float is 33% and its average daily trading volume over the past month was \$1.8m.

## Borusan Yatirim offers an exposure to many businesses

Borusan Yatirim offers exposure to all of the businesses under Borusan Group's umbrella. The group's main business segments are steel and distributorship. However, the company only consolidates Borusan Technology, Borusan Otomotiv and Borusan Oto on an equity basis.

**Figure 2: Borusan Group companies**

Source: Company data

Borusan Yatirim Holding does not have a controlling stake in any of its participations and it consolidates only Borusan Otomotiv, Borusan Oto and Borusan Teknoloji on an equity basis.

**Figure 3: Borusan Yatirim's participations key financial figures (\$m), 2004**

Participations	Share (%)	Sales	EBITDA	EBITDA margin (%)	Net debt
<b>Steel pipe division</b>					
Borusan Mannesman Boru	9%	370	44	12%	42
<b>Flat steel division</b>					
Borcelik	13%	462	63	14%	87
Kerim Celik	10%	67	2	3%	14
<b>Distributorship</b>					
Borusan Otomotiv	26%	307	26	8%	34
Borusan Oto	20%	181	12	7%	13
Borusan Makina	20%	222	17	8%	25
Supsan	10%	16	3	19%	1
<b>Borusan Lojistik</b>	18%	84	9	11%	10
<b>Borusan Teknoloji</b>	46%	15	0	0%	29
<b>Borusan Yatirim combined</b>		<b>285</b>	<b>27</b>	<b>9%</b>	<b>48</b>
Market cap		130			
<b>Implied EV</b>		<b>178</b>			
Implied EV/EBITDA		6.6			

Source: Company data

## Borusan Mannesman Boru: Seeking growth in Europe

### Steel Pipe

Borusan Mannesman Boru (BMB) is Borusan Yatirim Holding's only listed subsidiary. Borusan Mannesman Boru is controlled by Borusan Mannesman Investment Holding (BMIH) with a 73% stake. BMIH is owned by MannesmanRW AG, Borusan Holding and Borusan Yatirim Holding with 23%, 65% and 12% respective stakes. Borusan Group has been partners with MannesmannRW AG of Germany in its total pipe business since 1998. BMB is listed in the

Istanbul Stock Exchange and has a \$270m market cap as of 9 February 2006. Its free float is 16% and its average daily trading volume over the past month was \$1.2m.

BMB is the largest steel pipe manufacturer in Turkey and the fifth largest in Europe. The company was established in 1958 and merged with its sister company Mannesmann Boru at the end of 2004. BMB offers three main types of products, ERW (Electric Resistance Welded) pipes, SP (Spirally Welded) pipes and plastic pipes. The company has three production facilities with a total capacity of 750k tons (600k tons ERW and 150k tons SP pipes) and has 94 service centers all over Turkey.

BMB aims to grow both organically and through acquisitions. BMB is looking for an acquisition target in Europe. The company also considers establishing a distribution network through an acquisition and/or an alliance with a partner or partners in Europe. BMB will also increase its spiral and longitudinal pipe capacity in 2007 with a \$40m investment. Note that the company also has a \$7-8m annual maintenance capex.

BMB recently won the largest pipe supply contract ever given by Sonatrach TRC, the Algerian state-owned energy company. Under BMB's leadership, the BMB-Noksel-Umran consortium was awarded a \$115m contract for Algeria Sonatrach's NK-1 Haoud El Hamra-Skikda oil pipeline to deliver 112k tons of SP pipes. Consortium members have equal responsibility in manufacturing, where BMB will produce 37k tons. BMB has delivered 19k tons of SP pipes to Algeria so far and currently has four other ongoing pipe supply contracts with a total of 7.2k tons. The total pipe supply will reach 63.2k tons with the completion of NK1 project and BMB's penetration into Algerian market will increase significantly.

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### **Borcelik: Will increase capacity in high value added products**

**Flat Steel** Borcelik is Borusan Group's flagship company in the flat steel business. Borcelik is the second largest flat steel producer after Erdemir. The company was established by Borusan, Erdemir and Usinor, the leading French steel producer in 1994 with a 450k ton annual CR flat steel capacity. In 2001, Usinor merged with Arbed and Aceralia to form Arcelor. Borcelik is now controlled by Borusan Group and Arcelor, each having a 40% effective stake in the company. Erdemir and IFC also have 9% and 11% respective stakes in Borcelik.

In 2000, the company initiated its IPO process in order to finance its \$125m capacity investment, to double its CR capacity and add a HDG (Hot-dipped galvanized) line. However, due to the financial crisis in 2001, the company put-off its IPO process and financed this investment with bank borrowings, mainly ECA covered buyer's credit on machinery, IFC (shareholder) credit and rights issue. This 450k ton investment became operational in 2004 with a 70% CUR and reached 100% CUR in 2005. Currently, Borcelik's capacity is approximately 1m tons. The company plans to invest in downstream products and increase its HDG capacity by 600k tons with over a \$100m investment. Borcelik also sees coated coil as another downstream growth area. Company management stated that the company may reconsider an IPO according to the company's financing needs and developments in the local steel market.

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## Borusan Makina: Construction play with CAT machines

**CAT Distributorship** Borusan Makina was established in 1994 as the exclusive distributor of Caterpillar (CAT) branded products in Turkey and Central Asia (Kazakhstan, Azerbaijan, Georgia and Kyrgyzstan). The company is the leader in the domestic construction equipment market with a 19% market share. The company targets to increase its domestic market share to 20% in 2006. Borusan Makina also has a strong position in Kazakhstan with a 32% market share among international brands. Borusan Makina has operations in two main segments, EME (Earth Moving Equipment) and PS (Energy & Marine).

Borusan Makina has also become the distributor of AGCO, the world's leading agricultural machinery producer, in Kazakhstan in 2004. In June 2005, the company acquired the exclusive CAT distributorship in Iran. We will see the full effect of this investment in its 2006 financials. The company believes that further growth will mostly come from the increasing domestic construction activity and aims to support this growth with new products and management tools. The company management also sees Kazakhstan as an organic growth market.

Borusan Makina was able to increase its domestic sales volume significantly thanks to increasing construction activity. The company's international sales have almost doubled in 2005 mainly due to mining projects in Kazakhstan. Note that sales in Kazakhstan constitute 90% of total international sales. The company management estimates a 58% increase in revenues and EBITDA margins to remain stable at 8% in 2005.

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## Borusan Otomotiv: The luxury car distributor

**Auto Distributorship** Borusan Otomotiv is the exclusive distributor of BMW, Mini Cooper and Land Rover branded vehicles in Turkey. The company operates as the importer and main distributor, while its sister company Borusan Oto operates as a retail and an after sales service company. Borusan Yatirim Holding owns 26% of Borusan Otomotiv and 20% of Borusan Oto and consolidates both companies on an equity basis. Note that both Borusan Otomotiv and Borusan Oto are controlled by Borusan Holding. While new car sales and after sales services is the company's core business, Borusan Otomotiv aims to expand its operations in used car and rental services.

Borusan Otomotiv works with 14 outlets throughout Turkey, five of which belong to Borusan Oto. The remaining outlets are dealer-owned and dealer-operated. Borusan Otomotiv is the leader in the luxury car segment with a 30% market share.

BMW, the market leader in the luxury cars segment, constitutes approximately 70% of the company's total sales. The second largest brand, Land Rover, is a premium brand in the 4X4 segment and ranks among the top three brands. Mini Cooper, which was introduced to the domestic market in 2003, has successfully managed to convert its fast entry to the market to a sustainable business. The company expects Mini Cooper sales to more than double in 2006 with new models being introduced in the market. According to the company guidance, Borusan Otomotiv has a sustainable earnings outlook.

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## Borusan Lojistik: A high growth business

**Logistics** Borusan Lojistik is one of the Borusan Group's new businesses. Borusan Lojistik is controlled by Borusan Holding with a 73% effective stake. Borusan Yatirim Holding owns an 18% stake

in the company. The company stands out as the group's fastest growing business. In 2000, the group had restructured its traditional transportation and port operations and merged its three logistics companies under Borusan Lojistik. Besides its port operations in Gemlik, Borusan Lojistik also operates as a third party logistics (3PL) company. The company sees the logistics business as a growth area and seeks strategic partnership opportunities in the local market as the company operates at full capacity.

Borusan Lojistik operates its port in Gemlik since 1983. Gemlik is an industrial zone in the Marmara Region that contributes 33% to GNP. The company's main port operations are handling, loading & unloading, warehousing and customs operations both for general and containerised cargo. The port also has a car park area for automotive exports. Borusan Lojistik holds 60% of general cargo share and 33% of container share in Gemlik. The company's port operation is a cash cow business, which generates 39% of the EBITDA. The CUR for the general cargo and container businesses are at the limits. The company aims to eliminate this bottleneck through an expansion project in Gemlik. Borusan Lojistik has started a joint feasibility study with Hamburg Port Consulting to build a quay next to one of the two docks currently in use. The size and cost of the investment has not yet been announced.

Borusan Lojistik's 3PL operations include value-added services through warehouse management, customs clearance, PDI (pre-delivery inspection) and land transportation. The company believes that global players continue to penetrate the 3PL market and that there is still room for consolidation in the sector. Borusan Lojistik ranks among the leading logistics companies. Additionally, the company operates its own PDI center in Izmit, which serves Peugeot, Citroen, Volvo, Mercedes and Proton brands. Borusan Lojistik has also expanded its operations internationally. The company currently manages the Turkcell warehouse in Ukraine and offers land transportation services to Middle Eastern companies.

Borusan Lojistik expects to generate \$111m in revenues through both business lines in 2005, implying a 32% growth over its \$84m 2004 revenue. Since 2000, Borusan Lojistik has started to target increasing its revenues from non-group companies. The share of non-Borusan Group revenues reached 55% in 2004. The company estimates this ratio to exceed 63% in 2005 and reach 75% in 2007. The EBITDA margin is expected to remain stable at 11% in 2005.

Recent privatisations of national ports brought a clearer view to port valuations. The company believes that the Mersin port's privatisation is a good benchmark to value ports like Borusan Lojistik's port in Gemlik. Note that the company's port in Gemlik corresponds to about 20% of the Mersin port's business volume. We believe that Reysas' logistics IPO would set a benchmark for Borusan Lojistik's 3PL business. Note that Reysas Logistics, which recorded \$120m in revenues and a \$26m EBITDA in 2004, has an IPO valuation of \$150m.

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## **Borusan Telekom: Number one in the corporate voice segment**

**Telecom** Borusan Telekom is also a new business area for the Borusan Group. The company is the market leader in the corporate voice market with a 29% market share. Borusan Telekom is also the only telecom company that obtained an A-Grade license for long-distance voice services. The company is currently at EBITDA break-even position. Borusan Telekom reported \$15m in revenues in 2004. The management expects 2005 revenues to more than double and reach \$31m. According to Borusan Yatirim's management, Borusan Telekom aims to reach \$100m revenues by 2007 and generate a positive EBITDA. Borusan management seeks acquisition opportunities in the fragmented corporate telecom services sector.

# Appendix 1

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Borusan Yatirim Holding	BRYAT.IS	6.10 (TRY) 09 Feb 06	NA

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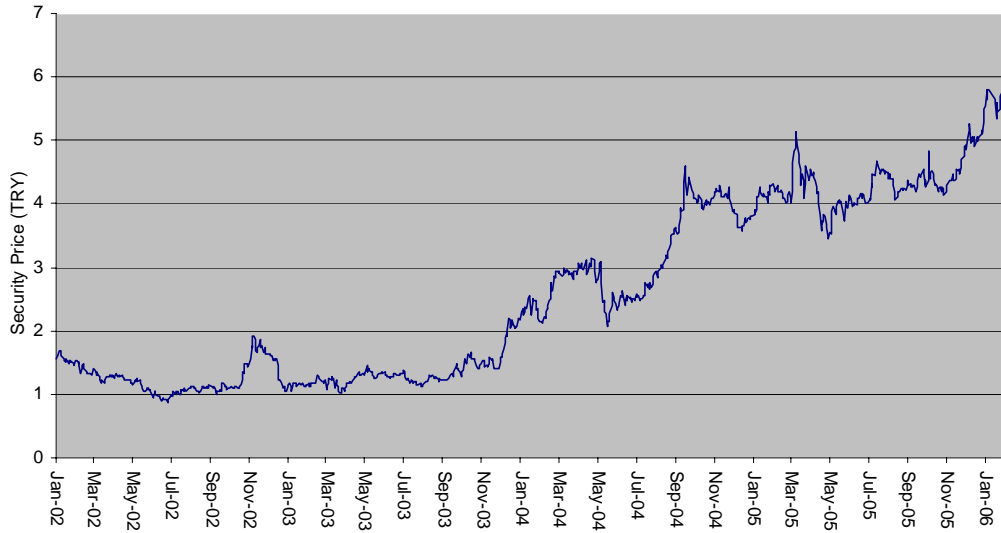
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Vedat Mizrahi

**Historical recommendations and target price: Borusan Yatirim Holding (BRYAT.IS)**

(as of 06/02/06)



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- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*New Recommendation Structure as of September 9, 2002

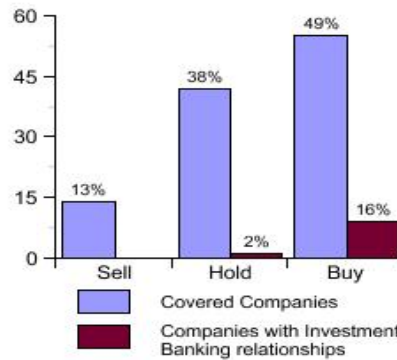
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