

# Despec Computer

IT Consumables Distribution

TURKEY- EQUITY RESEARCH

October 31, 2011

## 3Q net profit doubled the same quarter last year

DESPC announced TRL3.6mn net profit in 3Q11, doubling the bottom-line of same quarter last year. Strengthening USD against TRL had a short term positive impact on the company's profitability as the existing inventory was sold at higher rates. Gross margin jumped to 14% from 11% over a year ago. Stronger USD also led to FX gain of TRL1.5mn thanks to TRL24mn long USD position. The other side of the coin, purchasing power of consumers erodes during TRL weakness. The company's sales declined by 6% in USD terms to USD19.3mn (TRL33.3mn). Meanwhile, the company's net cash reached to TRL6.4mn as of 3Q11-end from TRL2.5mn as of 2010-end, thanks to minimal maintenance capex requirement and stable net working capital. Despite strong results in the quarter, incorporating our revised FX assumptions and higher risk-free rate of 9.5% (prev: 8.5%) for our TRL based valuations, we decreased our target price to TRL8.7 from TRL9.5, that is still implying a significant 74% upside potential.

### Continued TRL weakness is a major concern in longer term

Following a short term pick-up in margins, stronger USD hampers profitability in the longer term due to more incentives to retailers in order to attract consumers for more expensive products.

### Maintaining OUTPERFORM; TRL8.7 target price; 74% upside

Despec distributes high margin IT consumables, that is why profitability ratios are significantly higher than other domestic IT distributors having a mixed product range containing hardware and software. While DESPC's EBITDA margin was 7.7% in 2010, average of peers was only 2.5%. Despite that, DESPC is trading at 13% discount to global IT distributors with its 4.2x 2012E EV/EBITDA multiple.

## OUTPERFORM

(Maintained)

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## DESPC TI / DESPC.IS

### Valuation

Share Price (TRL)	5.0
Target Price (TRL)	8.7
Upside Potential	74%
Market Cap (TRLmn)	57.4
Net Debt (TRLmn)	-6.4
EV (TRLmn)	51.0
Net FX Pos. (TRLmn)	24

### Trading

12m High / Low	11.06 / 3.77
Avg. Daily Vol. (USDmn)	1.3
Num. of shares (mn)	11.5

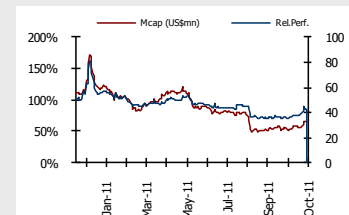
### Ownership Structure

Despec Group B.V.	30.23%
Desbil Teknoloji*	30.25%
Free Float	39.52%

\*owned by Indeks Computer 's (INDES.IS) major shareholder, Erol Bilecik and his family

### Performance Chart

Return	TRL	Rel.
1M	14%	18%
3M	-14%	-6%
12M	-43%	-35%



### Financial Highlights

(TRLmn)	2008	2009	2010	2011E	2012E
Net Sales	111	131	135	156	192
Sales growth	5.7%	18.2%	2.6%	15.7%	23.0%
EBITDA	4.3	11.1	10.3	10.2	12.1
% margin	3.9%	8.4%	7.7%	6.6%	6.3%
Net Earnings	4.4	7.6	8.1	9.7	12.4
% margin	4.0%	5.8%	6.0%	6.2%	6.5%
EPS	0.39	0.66	0.70	0.84	1.08
P/E	12.9	7.5	7.1	5.9	4.6
EV / EBITDA	11.9	4.6	4.9	5.0	4.2
DPS	0.26	0.20	0.21	0.21	0.24
Dividend Yield	5.1%	4.1%	4.3%	4.3%	4.7%

**Despec - Financial Highlights**

TRLmn	3Q11	3Q10	YoY Change	2Q11	QoQ Change	9M11	9M10	YoY Change
<b>Revenues</b>	<b>33.3</b>	<b>30.8</b>	<b>8%</b>	<b>35.4</b>	<b>-6%</b>	<b>108.0</b>	<b>97.6</b>	<b>11%</b>
Cost of Goods Sold	-28.6	-27.4	4%	-32.4	-12%	-96.3	-86.2	12%
<b>Gross Profit</b>	<b>4.6</b>	<b>3.4</b>	<b>37%</b>	<b>3.0</b>	<b>54%</b>	<b>11.7</b>	<b>11.4</b>	<b>3%</b>
Operating Expense	-1.4	-1.1	32%	-1.4	2%	-4.0	-3.8	6%
<b>Operating Profit</b>	<b>3.2</b>	<b>2.3</b>	<b>39%</b>	<b>1.6</b>	<b>99%</b>	<b>7.7</b>	<b>7.7</b>	<b>1%</b>
Depreciation	0.01	0.02	-24%	0.01	3%	0.04	0.05	-11%
Severance Provisions	0.01	0.01	4%	0.02	-19%	0.04	0.05	-26%
<b>EBITDA</b>	<b>3.2</b>	<b>2.3</b>	<b>39%</b>	<b>1.6</b>	<b>97%</b>	<b>7.8</b>	<b>7.8</b>	<b>1%</b>
Other Income	0.0	0.2		0.0	-79%	0.0	0.4	-99%
Other Expenses	0.0	-0.1		0.0	-65%	-0.1	-0.1	-25%
Financial Income/Expenses	1.4	-0.2		0.4	231%	1.2	-0.5	
<b>PBT</b>	<b>4.5</b>	<b>2.2</b>	<b>105%</b>	<b>2.0</b>	<b>130%</b>	<b>8.9</b>	<b>7.5</b>	<b>20%</b>
Taxes	-0.9	-0.5	107%	-0.4	136%	-1.8	-1.5	21%
<b>Net Income</b>	<b>3.6</b>	<b>1.8</b>	<b>105%</b>	<b>1.6</b>	<b>126%</b>	<b>7.1</b>	<b>6.0</b>	<b>20%</b>
<b>Profitability</b>								
Gross Margin	13.9%	11.0%	295 bps	8.5%	542 bps	10.9%	11.7%	-84 bps
Operating Margin	9.6%	7.4%	216 bps	4.5%	507 bps	7.2%	7.9%	-69 bps
EBITDA Margin	9.7%	7.5%	214 bps	4.6%	506 bps	7.2%	8.0%	-72 bps
Net Margin	10.8%	5.7%	512 bps	4.5%	632 bps	6.6%	6.1%	49 bps

**DESPEC, Summary Balance Sheet**

TRL mn	3Q11	2010	Ytd	2Q11	Qtd
Cash and Cash Equivalents	10.2	5.7	80%	3.9	163%
Total Assets	54.3	49.5	10%	52.6	3%
Bank Loans	3.9	3.2	23%	3.3	19%
Total Liabilities	17.3	16.0	8%	18.7	-8%
Total Equity	39.1	35.1	11%	35.8	9%
Net Debt/(Cash)	-6	-2.5	153%	-0.6	944%

### Valuation Approach

Valuation tools employed most frequently are Discounted Cash Flow (DCF) and International Peer Group Comparison, though other metrics such as Dividend Discount, Gordon Growth, and Replacement Value Methods are also used wherever appropriate. Oyak Securities analysts may calculate the target return of each stock considering only one method or assigning different weights to more than one method depending on the analyst's opinion. The "Expected Market Return" (**EMR**) of the ISE-100 is determined through aggregate target returns of each stock under coverage based on their respective free float market capitalization. Our coverage accounts for around 80% of the total market capitalization of the ISE.

### Rating Methodology

Oyak Securities assigns recommendations to each stock according to the following criteria:

Price target for a stock represents the value analyst expects the stock to reach during our performance horizon, which is 12 months. For stocks with an OUTPERFORM recommendation, target return must exceed the EMR by at least 10% over the next 12 months. For a stock to be classified as UNDERPERFORM, the stock must be expected to under perform the EMR more than 10% over the next 12 months. Stocks that an analyst expects to perform parallel to the EMR within a band of +/- 10% are rated as MARKETPERFORM.

<u>Rating</u>	<u>Expected Return (%)</u>
Outperform	> EMR + 10
Marketperform	= EMR +/- 10
Underperform	< EMR - 10

Oyak Securities analysts review their recommendations under continuous screening. Nevertheless, at times, target return of a stock may be allowed to move outside our rating intervals as a result of share price fluctuations. Under such circumstances, the analyst may choose not to change his/her recommendation.

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