Turkish Precious Metal Sector

AYatırım
Equity Research

Company Report

23 August 2005

GOLDAŞ

BUY

Price YTL	:	1.2	Current P/E	:	26.6	Current Market Cap.(US$ mn)	:	69	Codes	:	Istanbul	GOLDS
Price US$	:	0.86	ISE-All P/E	:	15.6	Target Market Cap.(US$ mn)	:	92		:	Franfurt	GKUA (ADR)
YTL/US$	:	1.35	ISE-100	:	29192	Free Float	:	%60		:	USA OTC	GDASY (ADR)
YTL/EUR		1.66	Index	:	ISE-100							

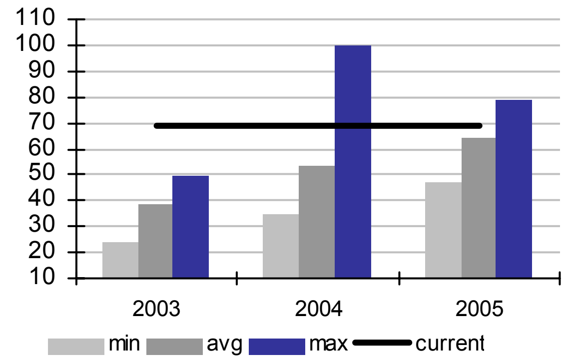
Established in 1993, Goldaş Jewellery produces jewellery from 8, 9, 10, 14, 18, 21 and 22 carat gold as well as 925 carat silver. The Company's 4500 m² plant in Istanbul has an annual production capacity of 14 tons. Goldaş has more than 60,000 models in its portfolio and introduces 5,000 new products to the market every year.

Goldaş is an affiliate of Goldart Holding (38.39%), the first holding company in Turkey specializing in gold. Goldaş is the sole publicly-listed jewellery producer in the Istanbul Stock Exchange. Its ADRs are traded on the Frankfurt Stock Exchange and US OTC market. Goldaş is also a member of IPMI (International Precious Metals Institute) and LBMA (The London Bullion Market Association).

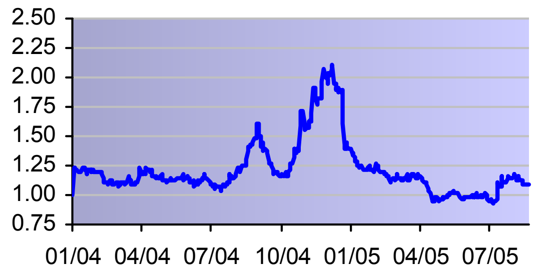
Goldaş exports to more than 40 countries on five continents. It has representatives in England, the US, Russia, UAE, Germany, Thailand, South Africa and China. The Company serves its customers all over the world through the internet.

Goldart Holding, the main shareholder of Goldaş, has two main areas of focus: retailing and gold refining. The Company aims to achieve 46% growth annually over the next four years by increasing the number of its domestic stores from 5 to 35 and its international stores to 65.

Min.-Max. Market Cap. (US$ mn)



ISE-100 Relative Performance



Structure of Ownership	Share of capital	# of shares
Goldart Holding	38.3%	30,638,413
Free Float	61.7%	49,361,584
Other	0.0%	3
Total	**100%**	**80.000.000**

* x 1000

Income Table (mn USD)	2003	2004	1Q04	1Q05
Net Sales	189.7	515.7	74.5	124.3
Cost Of Sales (-)	-178.1	-500.6	-72.6	-120.6
Gross Profit (Loss)	11.6	15.1	1.9	3.7
Operating Expenses (-)	-5.1	-6.1	-1.5	-1.5
Operating Profit (Loss)	6.5	9	0.4	1.3
Expenses & Losses From Other Operations (-)	4.2	1.6	0.6	3.2
Financial Expenses (-)	-4.6	-3.5	-0.3	-0.2
Profit Before Tax	6	7.2	0.7	0.0
Net Monetary Gains / (Losses)	-7.1	-4.8	0.2	0.0
Net Profit After Tax	-1	2.6	0.5	1.3

Summary of Balance Sheet (mn USD)	2003	2004	1Q04	1Q05
Short-Term Assets	67.5	98.4	87.3	111.9
Long-Term Assets	38.5	45.5	43.4	44.3
Total Assets	106	143.9	130.7	156.2
Short-Term Liabilities	21.4	41.6	34.6	55.7
Long- Term Liabilities	2.4	3	2.4	2.6
Shareholder's Equity	82.2	99.3	93.7	97.9
Total Liabilities and Shareholder's Equity	106	143.9	130.7	156.2

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I. The Group

Goldart Holding has two main lines of business, namely retailing and gold refining. The Company aims to achieve a CAGR of 46% over the next four years by increasing the number of its domestic stores from five to 35 and its international stores to 65. This will give the Company 100 stores overall by the end of the decade.

The developing national jewellery market has pushed Turkey into the top ranks globally in terms of gold demand and jewellery production. According to recent data from the Gold Council, Turkey's gold production of 128 tons ranks it seventh globally. Even during the 2001 economic crisis, demand for gold in Turkey did not decrease dramatically.

Although gold demand in the Turkish jewellery sector is strong, Turkey's gold refining segment is still undeveloped. Goldart Holding plans to address this problem with a new gold refinery that it estimates will cost USD 24.1 million to build and USD 13.5 million to operate over the first three years.

II. Gold Sector

The Turkish precious metal and jewellery sector is increasingly expanding its production and export potential, in large part due to the success of private sector efforts promote Turkey as a brand and design country.

Jewellery exports have jumped over the last 10 years, raising Turkey's international ranking in this area. As a result, Turkey ranks among the top five countries in gold jewellery production and is seen as the main rival to Italy. Overall, there are 60,000 companies in Turkey involved in jewellery production and retailing, 10,000 of which are gold manufacturing workshops and 50,000 are retail stores. These have a combined manufacturing capacity of 400 tonnes of gold and 200 tonnes of silver, some of which is still unused.

The centre of gold jewellery manufacturing is Istanbul, though there is also production in Izmır and Ankara. Jewellery production in eastern and southeastern Turkey is also on the rise. Turkey's gold exchange was established in 1995 and its first gold refinery in 2002.

Between 1992 and 2004, the Turkish gold jewellery sector increased its exports from USD 2.8 million to USD 842.6 million and 105 tonnes, according to official records. We estimate that the real export figure is much higher, given the purchases of international tourists in Turkey.

III. The Company

Goldaş Kuyumculuk, which is listed in the Istanbul Stock Exchange, is the manufacturer of Goldaş products, while Goldaş Pazarlama handles domestic sales and marketing through its network of stores in Turkey. Similarly, Goldart Pazarlama is responsible for the international sales and marketing of Goldaş products.

Goldaş's 4500 m^2 factory has an annual production capacity of 14 tonnes. The Company adds 30,000 new designs every year to its portfolio, which already comprises more than 60,000 designs.

Looking at the Company's sales figures, we see that net sales reached USD 124 million in the first quarter of 2005. The regional breakdown of sales was as follows: 40% in the Mediterranean region, 25% in the Aegean region, 20% in the Marmara region and 15% in Central Anatolia. The high share of tourism regions indicates the potential of this sector if tourism continues to grow.

Goldaş achieved export sales of USD 13 million in the first quarter of 2005. One of the main jewellery exporters in Turkey, Goldaş sells its products to more than 40 countries. In past years, export revenues have constituted almost 30% of its total revenues.

Because of its certification policy, the Company has a strong reputation in international markets. As in Turkey, Goldaş has established chain stores under the Goldaş name in such major international markets as Dubai, Dusseldorf and Sharjah. In addition, the Company has a branch office at the Atatürk International Airport Free Zone (this office has a 70% participation in the Belgium Trading Company) and the Tubitak M.A.M. Free Zone.

The Company's sales performance is affected by changes in gold prices and fluctuations in currency valuations caused by economic and political events. Movements in the euro-dollar parity particularly effect gold prices. Gold prices rise when the euro appreciates and fall when the dollar gains value. In general, gold prices have risen since the events of 11 September. Since price increases have generally contributed to about 30% of the Company's revenues, we expect strong sales figures in 2005.

Prospects:

In line with the Company's growth strategy, Goldaş joined International Jewellery London in 2004. It is also the sole Turkish company in the London Bullion Market Association. With the help of these prestigious memberships, Goldaş plans to expand its share of the international metals trade as well as its jewellery production and sales.

Goldaş has product licenses from Chelsea FC, NBA, Trabzonspor, Clup Brugge, Hugo, PSV Eindhoven and Pink Panther. Most recently, the Company renewed its licensing agreement with Walt Disney and obtained new licenses from Germany, Austria, and Switzerland. It also signed an agreement with Granada Ventures for the production and sale of Liverpool and Arsenal-branded jewellery made of gold or other precious metals.

Goldaş recently launched "ChipGold" (gold bullion) in the Turkish market, selling 2000 units of this product in the southeastern city of Adana in one week. Already there is high demand for ChipGold from England, Germany, France and China. The Company expects the value of ChipGold sales to reach to USD 300 million in two years' time.

Goldaş Kuyumculuk recently increased the number of its stores in Moscow to five with three new stores. It has also established a representative office in China to coordinate its foreign operations.

Goldaş Kuyumculuk has a 99.99% share of Goldaş Kıymetli Madenler Ticareti A.Ş., which is involved in international gold trade. Goldaş Kıymetli Madenler Ticareti A.Ş is a member of the Istanbul Gold Exchange.

In Russia, the Company has selected Swedish Ikea as its strategic business partner. With Ikea, it plans to open with stores in Kazan, Yekaterinburg, and Nizhniy Novgorod cities this year, raising to seven the number of its stores in Russia. Goldaş will continue to extend this strategic partnership in 2006 to St.

Petersburg, Ufa and Samara. In China, the Company aims to open Goldaş and Silver D' sign stores through its representative. However, it is not yet considering a partnership or cooperation agreement in China. In Turkey, where it already has 11 stores, Goldaş aims to establish new stores in Bodrum and Antalya.

IV. Financial Performance

Goldaş achieved net sales of USD 124 million in the first quarter of 2005 up 65% with respect to same period of last year. For end-2005, our net sales forecast is USD 950 million, which corresponds to an 84% increase in yoy terms. This forecast is based on the prospect that the Company expands its sales volume and export revenue through new stores in Turkey and abroad.

Despite increasing sales revenue, rising operating expenses have kept profit margins (on a YTL basis) level. The Company had YTL 2.6 million in cash in hand as of the first quarter of the year, up from YTL 695 thousand in 2004/03. A large portion of this cash is invested in USD and euro instruments. On the liability side, the Company had short-term financial debt of USD 16.3 million as of the first quarter of 2005. This figure does not pose any risk, as the Company's capital and EBITDA were respectively USD 97.9 million and USD 19 million as of the same date.

V. Valuation

Goldaş is the only precious metal company traded on the ISE, so we used a global peer comparison for its valuation. However, as our global peer group comprised very large scale jewellery companies in terms of volume, MC, EBITDA and other variables, we applied a 30% discount to Goldaş's multiples. Using this method, we came up with a target market value of USD 92 million for the Company. At its current market value of USD 69 million, therefore, the Company is trading at a 25% discount. Goldaş's Mcap has already reached USD 100 million, so we expect the stock price to reach our target MC, in line with high growth expectations.

Companies	M.Cap	EV	Sales 05	Sales 06	EBITDA 05	EBITDA 06	Net Profit 05	Net Profit 06	Currency (mn)
Signet	1,836	1,912	1,700	1,824	267	287	140	150	£
Zale Group	1,692	1,787	2,393	2,510	245	275	111	128	$
Folli-Follie	781	876	233	280	74	89	58	68	€
GOLDAS*	69	86	950	1,235	20	28	7.6	10	$

* August 23, 2005 closing prices have been used for the calculation of MC and EV.

	EV/Sales		EV/EBITDA		PE	
	2005	2006	2005	2006	2005	2006
Signet	1.1	1.0	7.2	6.7	13.1	12.2
Zale Group	0.7	0.7	7.3	6.5	15.2	13.2
Folli-Follie	3.8	3.1	11.8	9.8	13.5	11.5
Based Multiples			6.1	5.4	9.8	8.6
E. Value	-	-	123	152	74	83
M. Cap	-	-	106	136	58	66
GOLDAS Target M. Cap				92		
GOLDAS Current M. Cap				69		
Discount				-25%		

In light of its sound financial structure, new stores and fast-growing export volume, we believe Goldaş offers a good investment opportunity. We foresee that the Company will increase its profitability significantly in coming periods. Our valuation for Goldaş indicates a USD 92 million target value, which represents 33% upside potential for the Company at its current market price. For this reason, we believe that the stock presents an attractive buying opportunity for investors. The only weak point of the Company is the confusion caused by the large share of trade with affiliates and subsidiaries.

FINANCIAL TABLES

(YTL)	2004/12	2003/12	2002/12
I. CURRENT ASSETS	**132,092,260**	**94,214,926**	**113,716,481**
A. Liquid Assets	695,581	610,003	402,566
B. Marketable Securities	-	-	-
C. Short Term Trade Receivables	81,660,452	54,320,045	60,115,122
D. Other Short Term Receivables	89,671	4,379	38,323
E. Inventories	49,468,082	39,040,178	53,062,125
F. Other Current Assets	178,474	240,321	98,345
II. LONG TERM ASSETS	**61,040,280**	**53,734,702**	**17,108,412**
A. Long Term Trade Receivables	14,100	15,197	643
B. Other Long Term Receivables	-	-	-
C. Long Term Financial Assets	57,176,366	49,345,513	13,723,349
D. Tangible Fixed Assets	2,396,060	1,656,782	1,006,095
E. Intangible Fixed Assets	1,376,927	2,633,376	2,362,008
F. Other Long Term Assets	76,827	83,835	16,316
TOTAL ASSETS	**193,132,540**	**147,949,628**	**130,824,893**
I. SHORT TERM LIABILITIES	**55,901,490**	**29,942,161**	**42,311,553**
A. Financial Loans	23,174,343	18,320,202	31,883,282
B. Trade Payables	28,892,936	8,601,478	6,000,630
C. Other Short Term Payables	936,927	88,555	80,546
D. Advances Received Against Orders	2,692,486	2,805,069	3,318,664
E. Provisions	204,798	126,857	1,028,431
II. LONG TERM LIABILITIES	**3,973,212**	**3,302,183**	**2,023,796**
A. Financial Loans	3,371,519	2,619,396	1,640,789
B. Trade Payables	-	-	-
C. Other Long Term Payables	-	16,615	-
D. Order Advances Received	-	-	-
E. Provisions	601,693	666,172	383,008
III. SHAREHOLDERS EQUITY	**133,257,838**	**114,705,284**	**86,489,544**
A. Capital	80,000,000	70,273,924	54,764,514
B. Capital Commitments (-)	-	-	-
C. Premium on Issue of Shares	228,260	200,509	200,329
D. Revaluation Surplus	-	-	-
E. Reserves	22,250,880	19,545,708	39,751,663
F. Current Year Income	3,501,095	-	20,327,561
G. Current Year Loss (-)	-	-1,376,709	-
H. Accumulated Losses (-)	-36,522,339	-29,981,551	-28,554,523
I. Adjustment (Conversion) Differences	63,799,942	56,043,403	-
TOTAL LIABILITIES	**193,132,540**	**147,949,628**	**130,824,893**

YTL	2004/12	2003/12	2002/12
A. Gross Sales	**692,128,670**	**264,805,289**	**267,857,358**
1. Domestic Sales	607,806,347	225,424,352	213,244,444
2. Exports	83,175,578	38,804,976	23,953,779
3. Other Sales	1,146,745	575,961	659,135
B. Deductions From Sales (-)	-	-	-
1. Sales Returns (-)	-	-	-
2. Sales Discounts (-)	-	-	-
3. Other Deductions (-)	-	-	-
C. Net Sales	**692,128,670**	**264,805,289**	**267,857,358**
D. Cost Of Sales (-)	-671,857,570	-248,635,739	-244,705,581
GROSS PROFIT (LOSS)	**20,271,100**	**16,169,550**	**23,151,777**
E. Operating Expenses (-)	-8,234,720	-7,221,838	-6,832,543
1. Research & Development Expenses (-)	-235,970	-507,156	-267,411
2. Marketing Selling & Distrib.Exp.(-)	-1,832,517	-1,215,935	-1,289,356
3. General Administrative Expenses (-)	-6,166,233	-5,498,747	-5,275,776
OPERATING PROFIT (LOSS)	**12,036,380**	**8,947,713**	**16,319,234**
F. Income & Profit From Other Operations	12,525,068	28,527,110	24,615,739
G. Expenses & Losses From Other Operations (-)	-10,303,241	-22,671,107	-9,572,848
H. Financial Expenses (-)	-4,636,706	-6,388,616	-11,069,572
I. Extraordinary Income & Profit	299,265	78,124	35,699
J. Extraordinary Expenses & Losses (-)	-	228	-691
K. Net Monetary Gains / (Losses)	-6,419,671	-9,869,705	#NAME?
PROFIT BEFORE TAX	**3,501,095**	**-1,376,709**	**20,327,561**
L. TAX & OTHER LEGAL LIABILITIES (-)	-	-	-
NET PROFIT AFTER TAX	**3,501,095**	**-1,376,709**	**20,327,561**

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