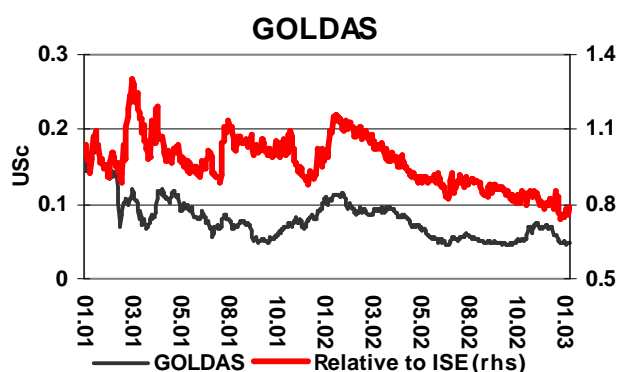


**GOLDAS**
**BUY**


GOLDS.IS	14/01/2003
Price (TL/USc):	790 / 0.05
12-mth Target Price (USc):	0.13
<b>Relative Performance</b>	
1 mth	3 mths
-0.33%	-5.39%
12 mths	-21.61%
52 Week Range (USc):	0.04-0.12
Market Cap (US\$m):	30
Average Daily Vol (US\$m) 3 mth:	1.4
YTD US\$ Return (%):	2.7
Number of shares (bn):	62
Free Float:	51%

**Goldas, the only jewelry company trading in the ISE, is one of the most innovative and visionary companies in the Turkish jewelry sector. Goldas is dedicated to place itself among the most-known and respected jewelry brands of the world. The parent Group has opened representative offices to boost exports and is rapidly expanding its store network in Turkey and abroad to increase Goldas' brand recognition.**

Currently, Goldas is trading at a significant discount to its global peers considering all its 2003 valuation multiples. We estimate Goldas' sales to reach US\$215mn in 2003 with a 13% increase over our forecast of US\$191mn for FY02. We also estimate that Goldas's FY03 EBITDA will increase to US\$18mn and net profit will reach US\$20mn. By using FY03E EV/EBITDA, the most conservative valuation multiple for Goldas, we have reached US\$82mn target market cap, suggesting nearly a 166% upside potential over the current valuation. Due to the strong potential, we initiate coverage for Goldas with a **BUY** recommendation and place Goldas among our **Small Cap Buy List** stocks.

	EXCHANGE	EV/SALES		EV/EBITDA		P/E	
		2002E	2003E	2002E	2003E	2002E	2003E
Signet Group PLC	London	0.96	0.90	6.49	5.99	10.88	9.90
Folli-Follie SA	Frankfurt	3.30	2.39	12.44	8.92	18.88	12.92
Abbeycrest PLC	London	0.34	0.30	3.94	3.32	2.78	2.02
Zale Group	NYSE	0.53	0.49	5.16	4.41	10.59	8.75
Whitehall Jewellers	NYSE	0.73	0.69	8.51	6.67	16.93	11.07
<b>Average</b>		<b>1.17</b>	<b>0.96</b>	<b>7.31</b>	<b>5.86</b>	<b>12.01</b>	<b>8.93</b>
<b>Goldas</b>	IMKB	<b>0.27</b>	<b>0.24</b>	<b>3.49</b>	<b>2.95</b>	<b>1.60</b>	<b>1.54</b>
<b>Upside</b>		<b>329%</b>	<b>295%</b>	<b>109%</b>	<b>99%</b>	<b>649%</b>	<b>478%</b>

**FIGURES AND FORECASTS**

	Sales (US\$m)	EBITDA (US\$m)	Net Profit (US\$m)	P/E (US\$,X)	EV/Sales	EV/EBITDA
2000	150	13	12	2.6	0.3	4.0
2001	188	21	22	1.4	0.3	2.5
2002E	191	15	19	1.6	0.3	3.5
2003E	215	18	20	1.5	0.2	2.9
2004E	247	22	27	1.1	0.2	2.4

## COMPANY BRIEF

Founded in 1993, Goldas is a leading brand in Turkish jewelry sector. Goldas' production facility, established in 3,500-sqm covered area in Istanbul, possesses 12-tons/year processing capacity, which is substantial, given that 200 tons of gold is processed annually in Turkey. All stages of production at Goldas facility is integrated and aided by computer systems, which is innovative for this still traditional sector.

Goldas ranked 125th in the 2001's Istanbul Chamber of Industry Top 500 Companies in Turkey. Goldas serves both domestic and international customers by a large range of jewelry products with about 30,000 models in its portfolio. Most of the domestic customers are small to mid sized jewelers, while exports are directed to wholesalers and other delivery channels.

Goldas Kuyumculuk, the listed company, is the production company. All domestic sales and marketing effort of Goldas is conducted through marketing company called Goldas Pazarlama, which also owns the domestic store network. Likewise, another marketing company, Goldart Pazarlama is responsible from international sales and marketing. Currently, there are 7 Goldas stores in Turkey and 2 abroad. The revenue from these stores is negligible at the moment accounting for less than 1% of total sales. However, stores enhance brand recognition and thus contribute to sales indirectly. Goldas plans to expand the store network and increase the share of store sales in total revenue in the future.

Yalinkaya Group, which is active in gold and jewelry, foreign trade, finance, construction, textile and services with 15 companies, owns Goldart Holding Company, the 49% shareholder of Goldas. Goldart Holding is dedicated to extend its presence in gold and jewelry sector. Consolidated group revenues of the Yalinkaya Group is disclosed as US\$450mn in a company presentation. It is estimated that 15-20% of Goldas shares is held by investment funds. Goldas also has ADRs quoted at the OTC market in US and the Frankfurt Stock Exchange. In total, 51% of Goldas' shares are in free-float.

## SALES

### **Domestic Network and Sales:**

Goldas, which has reached a net sales figure of US\$124mn in 9-mth 2002, has about 1200-1500 customers, most of them being small to mid size jewelers distributed around the country. Geographical breakdown of Goldas' sales is as follows: 40% to Meditterenean, 25% to Aegean, 20% to Marmara, and 15% to Central Anatolia. As the share of tourism regions from total sales is substantial, the increase in tourist visitors to Turkey can be considered as a major sales driver for the company. An Iraq war may have adverse effects on domestic sales due to its negative repercussions on tourism sector, however, we believe that this threat can be alleviated by focusing on exports and the rise in the price of gold. The number of Goldas' stores in Turkey is targeted to reach from its current level of 7 to 20-25 in the next five years.

### **International Network and Exports:**

The parent Group of Goldas has established representative offices in New York, London, Moscow, Dubai and Dusseldorf. These offices are responsible for establishing relationships to increase Goldas' exports, which is about 25% of total sales in the first 9-mths of 2002. Exports are a major diversification for the company, especially during times of domestic contraction. Currently, Goldas is exporting to 31 countries in five continents and mostly under its own brand as the Company is dedicated to create a worldwide brand. All Goldas products are certified, which help build credibility in external markets and increase exports. Goldas is currently working with about 400 wholesalers in external markets in addition to sales through TV channels and department store chains.

Goldart Holding also has two overseas stores in Sharjah and Dubai in United Arab Emirates. Two new stores will be opened in Dusseldorf and Russia in the short term. In the medium to long run, the company plans to open stores in lucrative jewellery markets, such as Germany, Spain, Italy, Russia, UAE, and Hong Kong. The effect of these new stores on sales is expected to be more significant after 2004. The total number of Goldas stores is planned to reach 100 in the next five years.

#### **Online Sales:**

Goldas has also launched an online store at [www.goldas.com](http://www.goldas.com), which makes it possible to view and order Goldas products over the web as well. In our view, this should be considered as another innovative step in the jewelry sector. Apart from being an alternative delivery channel, this web site also enhances control of order book and inventory and improves the delivery time from months to days. Goldas also has its CD-ROM catalogue for orders since 1994.

#### **Sales Expectations:**

A large portion of yearly sales takes place in the last quarter in jewelry sector. Hence we forecast Goldas to reach US\$66mn net sales in 4Q02 bringing FY02 sales to US\$191mn, slightly up from last year's US\$188. Gold prices which has started to rise after Sept 11, maintained an ever increasing trend in 2002 and reached USD 332 /ounce in December 2002 from its 2001 year-end closing level of USD275 /ounce. We believe that this favorable trend in Gold prices will be maintained in 2003 as a looming war in Iraq attract investors to this precious metal that is regarded as one of the best stores of value during times of uncertainty. In 2003, we expect Goldas to increase its sales 13% YoY to US\$215mn. We expect 70% of this increase to stem from sales volume increase and about 30% from the rise in the average gold prices. We forecast that the volume increase will be stronger in 2004 as Goldas' brand recognition and international sales increase.

<b>Sales Model</b>	<b>2001</b>	<b>2002E</b>	<b>2003E</b>	<b>2004E</b>
Sales (Ounces)	687,000	618,644	672,000	796,774
Average Gold Price Per Ounce	274	308	320	310
Sales Revenue(mn US\$)	188	191	215	247

#### **Competition:**

According to 2001 World Gold Council figures, Turkey, where approximately 200 tons of gold is processed each year, ranks seventh among the top gold demanding countries. India is the leader country in gold jewelry production. Turkish jewelry sector has recently reached the second position after Italy in Europe. There are about 40,000 companies in the jewelry sector in Turkey. However, most of these players are small producers incapable of large-scale production. Moreover, it is not possible to export uncertified products, which decreases the number of competitors of Goldas for export markets. The number of exporter companies in Turkish jewelry sector is around 200.

Since the gold processing capacity varies around 150-200 tons, the size of the market is around US\$1.5-2 bn. Hence, we can estimate Goldas' market share to be around 10-15%.

In the branded jewelry sector, Goldas has some prominent competitors like Altinbas, Arpas and Atasay. It is hard to make a comparison, as the other companies are not listed. A small number of imported brands also compete with Goldas on certain products.

#### **Products:**

Goldas manufactures a large product range with about 30,000 models in its portfolio. More than 2,500 new designs are introduced each year in order to meet changing consumer tastes. As another innovative step in the sector, Goldas owns licenses to use Walt Disney, Harry Potter, Lord of the Rings, and football club designs in its products. Goldas has signed up with New Line Productions, Inc to produce the 'Lord of the Rings' products as well. All these

license agreements are country specific. After observing the demand for these products abroad, Goldas launched the process of acquiring licenses for other big countries as well. Goldas also acquired the rights of using colors and logo belonging to three big sports clubs of Turkey.

Design department continuously observes the changing trends and fashions. The company also collaborates with design departments of universities and organizes contests to enlarge product portfolio.

## **OPERATING PERFORMANCE**

### **Procurement and Gross Margin:**

The Group companies manage the procurement of Goldas, including the technical equipment and other supplies. The major raw material, gold, is bought from Istanbul Gold Exchange by the intermediary of another group company called Meydan Doviz.

The normal level of gross margin is expected to be around 9-13%. However, Goldas' gross margin exhibit a high volatility from quarter to quarter. Especially in 2001, Goldas' gross margin was much higher than the normal levels. This was due to the instability in the currency. Goldas bought raw material while the FX rate was around 0.7mn TL/US\$ and sales were realized even at TL/US\$1.6mn levels which was very beneficial for the margins. A similar situation also occurred in 2Q02 as well, when the exchange rate started its ascend from the lows of 1Q02.

### **Financing and Working Capital Requirements:**

It has been announced that the German Financial Group DEG is interested in providing US\$5 mn of equity participation and US\$3mn of long-term financial loans to Goldas. We have been told that the discussions on the long-term credit facility are still continuing, which is likely to be finalized soon. DEG credit will increase Goldas' credibility and will make it easier to open stores abroad.

As of 31/9/2002, Goldas has US\$21.6mn bank credit, more than 80% of which is FX denominated. Bank loans are used to finance investments and net working capital requirement.

Net working capital requirement of Goldas stood at US\$76mn by the end of 9-mth 2002. This high working capital requirement is related to the stock keeping and payment characteristics of the sector. Goldas carries a high level of inventory in order to eliminate the risk of falling short of orders and due to the bureaucratic process in gold imports. 52% of the total inventory of US\$38mn as of 31/09/2002 was comprised of order advances. Goldas' trade receivables are also high since the payment terms are around 2 months in domestic market. The high level of bank loans leads to high financial expenses. In 9-mth 2002, Goldas financial expenses totaled US\$7mn.

### **Investments:**

Leasing is a major financing vehicle for most of Goldas' investments and the current outstanding leasing debt stands around US\$4mn. The investment budget for 2002 was estimated around US\$5mn. However, only about US\$3mn is used. Investments in 2003 are expected to total US\$6-7mn, yet to be determined by market conditions. Goldas' current annual processing capacity is around 12 tonnes, which is expected to increase to 15 with the planned investments.

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**Rights Issue:**

Goldas had recently announced a 140% bonus issue to increase its capital from TL26 trl (US\$16mn) to TL 62.4 trl (US\$37mn). The company has also announced a new capital increase that will increase its paid-in cap by TL17.6 trl (US\$11mn) from TL62.4trl (US\$37mn) to TL80trl (US\$48mn) by restricting the pre-emptive rights of the existing shareholders and placing the new shares to international investors within one year.

**Partnership:**

Goldas is seeking to establish gold mining partnership with international firms in line with the long-term growth and development plans of the company to command a larger share of worldwide gold production and trade. It is announced on 02/01/03 that Goldas is currently in talks with B.T.C (Belgium Trading Company/Mali/Sart) which owns gold mines over a total area of 158 sqm in the Makano region of Mali for a 20% shareholding investment. The details about the planned investment are not disclosed yet.

**Goldas' Quarterly Financial Statements**

	2Q01	3Q01	4Q01	1Q02	2Q02	3Q02	% Change 3Q02/2Q02	9 mt 2001	9 mt 2002	% Change YoY
<b>Balance Sheet</b>										
<b>Current Assets</b>	48	51	55	67	77	76	-1%	51	76	51%
Cash and Near Cash	1	1	0	1	1	0	-15%	1	0	-7%
S/T Trade Receivables	21	22	29	25	33	37	13%	22	37	68%
Inventories	27	28	26	41	43	38	-12%	28	38	37%
<b>Long Term Assets</b>	0	0	0	0	0	0	-11%	0	0	-14%
<b>Total Assets</b>	49	51	56	68	77	76	-1%	51	76	50%
<b>Current Liabilities</b>	26	22	21	24	26	26	-1%	22	26	15%
Financial Debt	16	16	17	20	22	21	-3%	16	21	35%
Trade Payables	5	4	2	1	0	1	49%	4	1	-86%
<b>Long Term Liabilities</b>	1	1	1	1	1	1	58%	1	1	48%
Financial Debt	0	0	0	0	0	1	87%	0	1	43%
<b>Shareholders' Equity</b>	22	28	34	43	51	50	-2%	28	50	78%
<b>Total Liabilities</b>	49	51	56	68	77	76	-1%	51	76	50%
Net Working Capital	38	43	51	63	72	71	-1%	46	75	64%
Net Debt Position	16	15	17	20	21	21	-1%	15	21	37%
<b>Income Statement</b>										
<b>Net Sales</b>	42	47	64	40	45	40	-11%	119	124	5%
Domestic	29	27	39	29	28	35	24%	76	93	23%
Export	13	20	25	12	16	4	-73%	42	31	-
Cost of Sales	(36)	(38)	(59)	(38)	(36)	(36)	n.m.	(98)	(110)	n.m.
<b>Gross Profit</b>	6	9	4	2	9	4	-60%	21	14	-31%
Operating Expenses	(1)	(1)	(1)	(1)	(1)	(1)	n.m.	(2)	(4)	n.m.
<b>Operating Profit</b>	5	8	3	1	8	2	-72%	18	11	-42%
<b>EBITDA</b>	5	8	3	1	8	2	-72%	19	11	-41%
Net Other Income	5	0	1	3	5	1	-82%	13	8	-37%
Financial Expenses	(4)	(3)	(1)	(1)	(4)	(1)	n.m.	(13)	(7)	n.m.
<b>Pre-Ext &amp; Tax Profit</b>	6	5	4	2	9	2	-81%	18	12	-32%
<b>Pre-Tax Profit</b>	6	5	4	2	9	2	-81%	18	12	-33%
Tax	-	-	-	-	-	-	n.m.	-	-	n.m.
<b>Net Profit</b>	6	5	4	2	9	2	-81%	18	12	-33%
<b>Ratios</b>										
Export Ratio	31%	42%	39%	29%	36%	11%		36%	25%	
Gross Margin	13.6%	18.9%	6.8%	5.1%	19.7%	8.9%		17.4%	11.5%	
Operating Margin	12.1%	17.4%	5.0%	2.6%	17.2%	5.4%		15.5%	8.6%	
EBITDA Margin	12.2%	17.6%	5.1%	2.7%	17.4%	5.6%		15.7%	8.8%	
Net Margin	14.2%	11.4%	6.2%	5.5%	19.6%	4.3%		15.5%	9.9%	
Net Debt / Equity	71%	55%	52%	46%	42%	42%		55%	42%	

**GOLDAS' FINANCIALS (mn US\$)**

<b>BALANCE SHEET</b>						
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002E</b>	<b>2003E</b>	<b>2004E</b>
<b>Current Assets</b>	<b>24</b>	<b>48</b>	<b>55</b>	<b>83</b>	<b>108</b>	<b>140</b>
Cash and Near Cash	0	1	0	4	24	51
ST Trade Receivables	16	22	29	39	40	42
Inventory	8	26	26	40	42	45
Other ST Receivables	0	0	0	0	1	1
<b>Fixed Assets</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>
LT Trade Receivables	0	0	0	0	0	0
LT Financial Fixed Assets	-	-	-	-	-	-
Tangible Fixed Assets	0	0	0	0	1	1
Intangible and Other FA	0	1	0	0	0	0
<b>Total Assets</b>	<b>25</b>	<b>49</b>	<b>56</b>	<b>83</b>	<b>108</b>	<b>141</b>
<b>ST Debt</b>	<b>10</b>	<b>27</b>	<b>21</b>	<b>24</b>	<b>24</b>	<b>28</b>
ST Financial Debt	9	17	17	20	19	20
ST Trade Payables	1	6	2	1	1	3
Other ST Payables	0	0	0	0	0	0
Advances Received	-	4	2	2	4	5
Provisions	0	0	0	0	0	0
<b>LT Debt</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>4</b>
LT Financial Debt	1	0	0	1	4	4
LT Trade and Other Payable	1	6	2	1	1	3
Provisions	0	0	0	0	0	0
<b>Sh. Equity</b>	<b>14</b>	<b>22</b>	<b>34</b>	<b>58</b>	<b>80</b>	<b>109</b>
Paid-in Cap	5	10	14	38	40	36
Rev. Surplus and Others	9	11	19	21	40	73
<b>Total Liabilities</b>	<b>25</b>	<b>49</b>	<b>56</b>	<b>83</b>	<b>108</b>	<b>141</b>

**GOLDAS' FINANCIALS (mn US\$)**

<b>INCOME STATEMENT</b>						
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002E</b>	<b>2003E</b>	<b>2004E</b>
<b>Net Sales</b>	<b>104</b>	<b>150</b>	<b>188</b>	<b>191</b>	<b>215</b>	<b>247</b>
Domestic Sales	76	86	118	143	151	136
Export	27	63	70	48	65	111
Cost of Goods Sold	(93)	(134)	(164)	(170)	(191)	(219)
<b>Gross Profit</b>	<b>12</b>	<b>17</b>	<b>24</b>	<b>20</b>	<b>24</b>	<b>28</b>
Operating Expenses	(2)	(4)	(3)	(6)	(6)	(7)
<b>Operating Profit</b>	<b>10</b>	<b>13</b>	<b>21</b>	<b>15</b>	<b>17</b>	<b>21</b>
Net Other Operating Income	3	2	14	11	10	10
Financial Expenses	(6)	(3)	(13)	(7)	(7)	(4)
Operating Profit	8	12	22	19	20	27
Pre Ext. and Tax Profit	(0)	0	0	0	-	-
<b>Pre Tax Profit</b>	<b>8</b>	<b>12</b>	<b>22</b>	<b>19</b>	<b>20</b>	<b>27</b>
Tax	-	-	-	-	-	-
<b>Net Profit</b>	<b>8</b>	<b>12</b>	<b>22</b>	<b>19</b>	<b>20</b>	<b>27</b>

<b>CASH FLOW STATEMENT</b>						
	<b>2000</b>	<b>2001</b>	<b>2002E</b>	<b>2003E</b>	<b>2004E</b>	
<b>Operating Profit</b>	<b>13</b>	<b>21</b>	<b>15</b>	<b>17</b>	<b>21</b>	
Amortisation (+)	0	0	0	0	0	
Severance expense. (+)	0	0	0	0	0	
<b>EBITDA</b>	<b>13</b>	<b>21</b>	<b>15</b>	<b>18</b>	<b>22</b>	
Tax (-)	-	-	-	-	-	
<b>Gross Cash Flow</b>	<b>13</b>	<b>21</b>	<b>15</b>	<b>18</b>	<b>22</b>	
<b>Change in Net Working Capital</b>	<b>(10)</b>	<b>(17)</b>	<b>(25)</b>	<b>(4)</b>	<b>(0)</b>	
Change: T.Receivables (-)	(6)	(7)	(10)	(1)	(3)	
Change: Inventory (-)	(18)	(0)	(14)	(3)	(3)	
Change: Other Current Assets (-)	(0)	0	0	(1)	0	
Change: T.Payables(+)	9	(8)	(1)	(1)	4	
Change: Other ST Payables (+)	5	(2)	0	2	1	
<b>Operating Cash Flow</b>	<b>3</b>	<b>4</b>	<b>(10)</b>	<b>14</b>	<b>21</b>	
Net Interest and Other Income/(Loss)	(1)	1	4	3	6	
Capex (-)	(1)	(1)	(1)	(1)	(1)	
Dividends (-)	-	-	-	-	-	
Cash capital increase (+)	-	2	4	9	-	
Other	(8)	(7)	3	(7)	1	
<b>Cash Increase or Decrease</b>	<b>(7)</b>	<b>(1)</b>	<b>1</b>	<b>18</b>	<b>26</b>	
Beginning Net Cash Position	(9)	(16)	(17)	(17)	1	
<b>Period End Net Cash Position</b>	<b>(9)</b>	<b>(16)</b>	<b>(17)</b>	<b>1</b>	<b>27</b>	

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