

DOGAN HOLDING

Comment on 1H04 IAS financials

Market Outperformer

Dogan Holding announced its 1H04 IFRS results. As 1H03 figures are not available, announced figures are not comparable. Versus a US\$103mn (based on 2Q04-end prices) net profit in 1Q04, Dogan Holding announced a net loss of US\$109mn for 2Q04, bringing the first half figure to US\$6.2mn. Out of the Holding's listed participations, which dominate the Holding's participation portfolio, Disbank and Petrol Ofisi have already announced their 1H04 results, Disbank's financials being in the consolidated BRSA format.

Dogan Holding 1H04 IFRS Financials (US\$m)

	1H04	1H03	Ak Securities estimate
Net Profit	-6	n.a.	-9
Revenues	2,101	n.a.	2,231
- non-finance	1,825	n.a.	1,843
- finance	277	n.a.	388
EBIT	7	n.a.	73
- non-finance	73	n.a.	76
- finance	-66	n.a.	-4

Source: Company Financials

Even though the realization is very close to our 2Q04 estimate of US\$112mn net loss (revised with the announcements of Disbank and Petrol Ofisi for the period), in fact, there are deviations in some items, which netted off each other while reaching the bottom-line. For 2Q04, non-finance EBIT was realized at US\$34mn, which is very close to our estimate of US\$37mn, while on the other hand, **finance EBIT was announced at a minus US\$102mn, standing far below our minus US\$39mn forecast, which was derived from Disbank's consolidated EBIT of a minus US\$26mn announced in the BRSA format.**

As expected, the Holding recorded financial expenses in 2Q04, versus financial income recording in 1Q04, due to F/X losses over the Group's high debt position during TL devaluation in 2Q04, versus F/X gains sourced by the appreciation of TL in 1Q04. Meanwhile, our 2Q04 financial expense forecast was at US\$115mn and slightly worse than the realization. We have forecast a US\$26mn tax expense for 2Q04, parallel to US\$31mn tax expense in 1Q04. However, as a result of a significant amount of deferred tax income recording, the Holding posted tax income worth US\$34mn, compensating for higher than expected finance operating loss.

Consolidated non-finance net debt position of the Holding increased slightly from US\$761mn as of 1Q04-end to US\$779mn as of 2Q04-end.

As operational performance of Dogan Holding was worse than our expectations, considering the unexpected level of finance division operating loss, we expected the announcement to cause selling pressure over the stock and the share price fell 5.5% during yesterday's trading.

However, during our conversation with the management today, we learned that TL72 trillion (US\$48mn) net loss stemmed from the different accounting treatment of the marketable securities portfolios, which are held to maturity and which are available for sale, in BRSA and IFRS financials. Loss from those securities portfolio was recorded under the shareholders' equity account directly, without any recording in the P&L, in the BRSA format, while the amount was directly recorded in the P&L in the IFRS format. That was the reason behind finance segment's lower than expected profitability.

Accordingly, the reason behind Dogan Holding's worse than expected operational performance is somehow technical and has already been included in the valuation of Disbank as well as that of Dogan Holding. Therefore, we maintain our target Mcap of US\$1.68bn, offering a 32% upside potential, and our 'Market Outperformer' rating for the Holding.

	Current NAV (US\$m)			Target NAV (US\$m)			
	stake	Valuation method	Mcap	participated Mcap	NAV weight	participated Mcap	NAV weight
<u>Listed Participations</u>							
Milpa	65.0%	Mcap	30	20	1.3%	23	1.4%
Disbank	62.4%	Mcap	400	249	16.3%	343	20.4%
Celik Halat	52.4%	Mcap	10	5	0.3%	6	0.4%
Ditas Dogan	55.7%	Mcap	12	7	0.4%	8	0.5%
Dogan Yayin Holding	66.6%	Mcap	1,125	749	48.9%	700	41.8%
Petrol Ofisi	47.4%	Mcap	1,063	504	32.9%	589	35.1%
Total Value of Listed Participations				1,534	100.1%	1,670	99.6%
Total Value of Unlisted Participations				40	2.6%	48	2.8%
Net Cash of Dogan Holding (2004/04)				-41	-2.7%	-41	-2.4%
NAV of Dogan Holding				1,533		1,676	
Current Mcap				1,268		1,268	
Premium/(Discount)				-17%		-24%	
Target Mcap						1,676	

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