

# DOGAN HOLDING Conglomerates

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Year to Dec-31	Net Sales US\$ mln	Net Profit US\$ mln	EBITDA US \$ mln	P/E	EV/Sales	EV/EBITDA
2003	4.461	276	448	4.8	0.3	3.1
2004E	4.250	60	220	22.1	0.3	6.4
2005E	4.600	90	250	14.8	0.3	5.6

**Source:** TSKB Research

## Analyst Certification

The analyst certifies that the views concerning the companies and securities in this report are accurate and express his personal opinions. The analyst also certifies that he has not received direct or indirect compensation for the opinions reflected on this report.

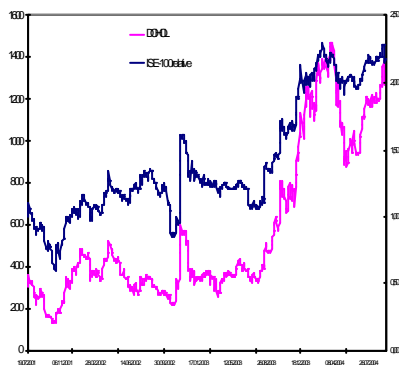
Taking the cue from a disappointing Disbank earnings report in 1H04 under the BRSA format, we expected Dogan Holding's net income to falter in 2Q04, but the extent to which it happened took investors by surprise. Dogan Holding delivered a net loss of US\$6.2mn in 1H04 erasing the memory of a very successful 1Q04. Dogan Holding had reported US\$115mn net income in 1Q04 under the consolidated IFRS format thanks in large part to a US\$57.7mn net financial income and a US\$21.7mn monetary gain.

The announced figures for 1H04 suggest that the conglomerate posted a US \$68.1mn operating loss in 2Q04 while financial expenses mounted to US \$111.2mn due to the depreciation of TL against US\$. Disbank's dramatic fall into the red with a US\$22mn net loss in 1H04 and Dogan Holding's heavy debt burden originating mainly from the energy subsidiary Petrol Ofisi dampened the parent company's earnings potential in 1H04. Though we predicted such a negative development to take place sooner or later due to the overvaluation of TL, our previous earnings forecast of US\$130mn for 2004 looks less likely to be achieved in case of another US\$/TL exchange rate adjustment before the end of the year. 1H04 earnings make a revision in our earnings estimates for 2004 inevitable and we cut our 2004 net income expectation of US\$130mn by more than half to US\$60mn.

We maintain our Market Performer rating on Dogan Holding as the company's premium to our target Mcap on the ISE-30 circles 13% currently while the conglomerate's media arm Dogan Yayin Holding trades at a spectacular 27% premium to our fair value for the company. Our current target Mcap for Dogan Holding stands at US\$1,163mn after we recently revised our target Mcap for Petrol Ofisi up to US\$750mn.

We would like to skim through the vista for new projects for Dogan Holding. Dogan Holding-Is Bank consortium considers several options for its energy company Petrol Ofisi for the remainder of 2004 and 2005 that will encompass tapping the bond market for a longer maturity loan and a SPO on the stock market by the middle of 2005. Another prospect on the agenda remains the imminent privatization of the National Lottery that could inject the company substantial amount of cash in the long run and turn out to be a remedy for the company's debt woes. The always speculated buyout of Disbank by a foreign bank will slide to the back seat now that the flow of information on that front lost some credibility in the short term. Company management has also indicated on a couple of occasions that Dogan Holding will take a more proactive tone in the telecommunication sector by participating in the upcoming Turk Telecom privatization. We had alluded to such a "scant" possibility in our previous reports. Another chance to penetrate the GSM sector has risen in the last few months as Telsim has been put on the marketing tray by SDIF to cover Uzan Group's existing debt to the Treasury. However, judging from Dogan Holding's swelling net debt position, the company has only a few bullets left to go after these projects and needs to collaborate with strong multinational partners.

09/15/2004	
<b>Stock Price (TL)</b>	2,700
<b>Performance</b>	<b>1 Month</b>
US\$	-0.8%
ISE-100 relative	14.4%
<b>Average Volume (US\$m)</b>	39.8
<b>Current Mcap (US\$m)</b>	1,329



<b>Dogan Holding 2Q04 Results (US \$mn)</b>					
<b>Operating Segments</b>	<b>Finance</b>	<b>Media</b>	<b>Energy</b>	<b>Other</b>	<b>Consolidated (After Elimina- tions)</b>
Net Sales	<b>74,732</b>	<b>329,150</b>	<b>722,626</b>	<b>85,799</b>	<b>1,212,308</b>
Share in Total Sales	6%	27%	60%	7%	100%
COGS	<b>-95,612</b>	<b>-253,298</b>	<b>-682,683</b>	<b>-73,413</b>	<b>-1,105,006</b>
Gross Profit	-20,880	65,529	39,943	11,383	107,302
<b>Gross Margin</b>	n.a	20%	6%	13%	9%
Operating Expenses	-65,807	-36,111	-18,065	-10,581	-127,094
Other Operating Ex- penses	-12,144	-8,028	-4,668	-1,014	-28,508
Operating Profit	<b>-101,889</b>	<b>23,845</b>	<b>17,248</b>	<b>-7,267</b>	<b>-68,063</b>
<b>Operating Margin</b>	n.a	7%	2%	n.a	n.a

The net sales figures for each segment on the preceding and following tables also include the inter-group revenue figures that somewhat distort the overall picture, but provide a good overview of the 2Q04 and 1H04. While the finance sector turned out to be the big loser in 2Q04, media sector received a huge boost thanks to the bright outlook for advertising spending. The energy sector pushed its share in total sales higher to 60% in 2Q04 and 56% in 1H04 as the finance sector took a tumble after a very bright 1Q04.

<b>Dogan Holding 1H04 Results (US \$mn)</b>					
<b>Operating Segments</b>	<b>Finance</b>	<b>Media</b>	<b>Energy</b>	<b>Other</b>	<b>Consolidated (After Elimina- tions)</b>
Net Sales	<b>302,541</b>	<b>597,265</b>	<b>1,359,851</b>	<b>150,661</b>	<b>2,410,318</b>
Share in Total Sales	13%	25%	56%	6%	100%
COGS	<b>-201,280</b>	<b>-474,646</b>	<b>-1,283,787</b>	<b>-130,007</b>	<b>-2,089,721</b>
Gross Profit	101,260	105,740	76,064	19,849	290,725
<b>Gross Margin</b>	n.a	18%	6%	13%	12%
Operating Expenses	-144,065	-71,251	-35,805	-20,391	-263,140
Other Operating Ex- penses	-24,430	-8,819	-13,819	29,991	-20,464
Operating Profit	<b>-66,278</b>	<b>29,346</b>	<b>26,492</b>	<b>-17,560</b>	<b>7,121</b>
<b>Operating Margin</b>	n.a	5%	2%	n.a	5%

Dogan Holding's consolidated short FX position jumped by 6% qoq to US\$1,284mn at the end of 1H04. As we emphasized before, Dogan Holding's energy and media subsidiaries Petrol Ofisi and Dogan Yayin Holding continue to post significant net debt positions that deteriorate the company's financial stature. Dogan Holding had made a real stride in cutting its FX exposure in 2003 down to nearly the US\$1bn threshold. (Dogan Yayin Holding would have had to pile more debt in 2004 if the infant Free TV project had started to mature with the Turkish soccer league rights tender in June. However, the company pulled out of the tender after a last minute decision.) However, the tables have turned in 1H04 as the company stands exposed to any currency fluctuation in 2H04 that could take place due to the threat of the burgeoning current account deficit. We deem it positive that some of the bubble of the overvalued TL was aired out in 2Q04 and 2Q04 results will help the company weather a much smaller storm in the future.

## **1H04 Highlights:**

Dogan Holding disclosed net sales of US\$2,101mn in 1H04 as 87% of the total revenue was derived from the non-finance segments. As the announced figure matches our year end expectations, we maintain our 2004 net sales estimate of US \$4,250mn.

Excluding the finance segment, Dogan Holding generated US\$118.8mn EBITDA corresponding to a 6.5% EBITDA margin. The media and energy sectors performed as expected on the operating performance front as accelerating economic growth translated into a better panorama for the respective companies.

Disbank remains the main question mark among Dogan Holding companies as the bank's financial results impact the holding's results to a large extent. Disbank posted US\$140mn other operating expenses on its 1H04 income statement while an additional US\$30mn was expensed on the net monetary loss account. As the bank generated only 29% of the total operating income in 1H04 in the current quarter, operating expenses outstripped operating income in 1H04 and resulted in a US \$22.4mn net loss. Accordingly, Dogan Holding recorded a US\$66.2mn operating loss from the finance segment.

US\$86.5mn in FX losses in 2Q04 depressed the bottomline while short and long term loan expenses charged an additional US\$26.1 to the holding company in the current quarter. A 13% TL devaluation against US\$ in 2Q04 caused the damage in the FX loss department.

Regarding the sale of a 10% stake in Dogan Yayin Holding to international investors, Dogan Holding realized US\$38.9mn net income under the other operating income account.

Dogan Yayin Holding's net debt position continued to deteriorate in 2Q04 reaching US\$267.7mn by the end of the quarter. Long term financial debt has jumped by 38% in real terms since the beginning of the year. Dogan Holding's consolidated net debt position suffered as a result in spite of the improvement in Petrol Ofisi's balance sheet. Dogan Yayin Holding has to tackle the problem of not being able to generate cash in a productive quarter like 2Q04 or could encounter more problems further down the road in 2H04.

## **Valuation:**

Dogan Holding currently trades at 14% discount to its current NAV that takes into account the current Mcaps of all respective subsidiaries. However, we determine our Target Mcap for Dogan Holding based on our fair values for each company and this methodology yields a US\$1,163mn value that corresponds to a 13% premium versus the conglomerate's current Mcap.

Dogan Holding's FX exposure and swelling net debt position continue to worry us as we expected net debt position to abate in 2004 in tandem with the cash generation capability of respective companies. Additional investments and cash outflows from Dogan Holding to bid for the upcoming privatization tenders could render the company more exposed to currency fluctuations. As a result, we reiterate our Market Performer recommendation on Dogan Holding with a High Risk rating.

DOGAN HOLDING									
			CURRENT NAV			TARGET NAV			
US\$mn	Business Segments	DOHOL Direct Stake	Valuation Method	Total MCap	Value of DOHOL Stake	Valuation Method	Total MCap	Value of DOHOL Stake	Share in NAV
Dogan Yayin Holding	Media	67%	Current Mcap	1145	762	Target NAV	840	559	45%
Disbank	Finance	62%	Current Mcap	407	254	P/2004E B/V	400	250	20%
Milipa	Trade	65%	Current Mcap	31	20	Current Mcap	31	20	2%
Petrol Ofisi	Energy	52%	Current Mcap	1085	569	DCF	750	393	32%
Difas	Industry	56%	Current Mcap	13	7	Current Mcap	13	7	1%
Calik Hatat	Industry	48%	Current Mcap	10	5	Current Mcap	10	5	0%
<b>Total Value</b>					<b>1,617</b>			<b>1,234</b>	
Net Cash					-66			-71	
<b>Total NAV</b>					<b>1,551</b>			<b>1,163</b>	
Current MCap					1,329			1,329	
<b>Premium / (Discount) to NAV</b>					<b>-14%</b>			<b>13%</b>	

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