

Doors Are Open for Turkey's Conglomerates

Dogan, Koc and Sabanci are well placed to expand their already diverse holdings through privatisations

Turkey is undergoing another stern test in its attempts to privatise key assets. This time, the list is longer than ever: media, GSM, banking and cement, and state monopolies in fixed-line telecoms, energy, petrochemicals, steel and refining.

Expected macro improvements have significantly increased foreign interest and the government's recent efforts suggest success this time. Liberalisation in telecoms and energy, removal of some foreign ownership limits and more careful consideration of legal issues should aid the process.

The big Turkish conglomerates are hopeful and are once again stepping forward, but we question whether the process can enhance value for them. We focus on three – Dogan, Koc and Sabanci – all keen bidders for the multiple assets on sale.

By Bülent Yurdağül and Cenk Orcan

Disclaimer and Disclosures. This report must be read with the disclaimer, disclosures and analyst certifications in Appendix 1 that form part of it.

Dogan Holding

- ▶ Dogan has been a winner in privatisations in the past. Petrol Ofisi proved to be one of the most successful acquisitions in Turkey
- ▶ Star TV and lottery on the radar; energy and cable TV privatisations awaited
- ▶ Possible sale of Disbank, equity transactions and bond issues to finance acquisitions in the long run

Summary

Dogan Holding is one of the largest conglomerates in Turkey. 99% of its assets lie in three sectors – media, energy and banking – and it operates publicly listed businesses in all of these areas. The company is focused on the media and energy segments and is planning to exit the banking sector and expand in business areas that will create synergies with its energy and media assets via the upcoming privatisation agenda. By acquiring new TV channels, Dogan aims to increase its 40% advertising market share to 50% in the long term. It is also eyeing the upcoming National Lottery privatisation, which fits well with its media presence and energy distribution tenders.

Main beneficiary of the EU theme

Dogan Holding's diversified portfolio is fully exposed to both the opportunities and the risks presented by Turkey, and thus it is much more sensitive to macroeconomic movements than other Turkish conglomerates. The media, energy and banking businesses – all very sensitive to economic wealth – make up 98% of turnover and 99% of NAV. These businesses are all very close to consumers, which means the group's

performance is entirely dependent on consumer spending. The recent improvement in Turkey's economic and structural fundamentals has had a greater positive impact on Dogan Holding's performance than on that of any of the other major Turkish corporates. Dogan should also be a major beneficiary of European Union convergence, which, in simple terms, means sustainable GDP growth, increasing consumer spending and higher foreign direct investment over the next decade. The main benefits are likely to come in the form of opportunities to: 1) boost advertising and fuel sales; 2) refinance loans at lower rates; 3) find new sources of finance in the equity and loan markets; 4) complete the plans to sell off its banking assets at reasonable prices, and, more importantly; and 5) use the current Turkish privatisation programme to unlock asset value via new ventures

TV tenders and National Lottery on medium-term expansion agenda

Dogan Holding's consortiums' chances of success in the National Lottery privatisation and TV asset sale tenders, which are on the medium-term agenda, are strong. The Government plans to sell lottery licences for the next 10 years for a down

payment of cUSD50-200m and incorporating a revenue-sharing agreement. The USD800m lottery market is expected to double in size within two years, prompted by appropriate business plans. The Dogan Group, with its dominant media presence, has the greatest power to expand this market and therefore is likely to be prepared to pay the highest premium in the tender. The Group is also keen to participate in the upcoming Star TV asset sale. Star TV is a sound business that would suit the Group's expansion plans in the broadcasting segment. Dogan is also considering Cine5 or Kral TV, two other national stations up for sale, if it fails to acquire Star TV assets.

Sights on Turk Telekom and natural gas privatisations

Dogan has also been involved in the Turk Telekom privatisation tender. If the Group enters a bidding consortium and this consortium succeeds in acquiring the firm, this will be a significant positive surprise for the markets. Of Turk Telekom's current businesses, Dogan is likely to find the data (internet) and mobile segments attractive if the financing scheme is reasonably designed.

Dogan's subsidiary Petrol Ofisi has also entered the tendering process for the privatisation of the Turkish natural gas contracts. If acquired this business could make Dogan a key player in the natural gas markets as well as electricity, boosting its energy sector presence.

Electricity distribution tenders and CATV on long-term agenda

Dogan Holding has shown an interest in the electricity distribution tenders, especially for Istanbul's European side, expected to take place in 2006; this would strengthen its energy sector presence and create synergies with its existing businesses. Turk Telekom's CATV business, which has recently been separated from the firm, would also fulfil the Group's media targets.

Dogan Holding currently has CATV operating agreements with Turk Telekom for some regions and as Dogan is not strong in satellite broadcasting services (and was not able to acquire Digiturk due to the cancelled tender), CATV could be a reasonable alternative for the company to enhance its media assets. The business is expected to be privatised next year.

Media and energy assets set to boost profits

Dogan's media and energy businesses, Dogan Yayin and Petrol Ofisi, have transformed their cost and organisational structures successfully over the past three years and investment will be very limited in these sectors after 2005. However, Dogan Holding is extremely well positioned with dominant market positions in both segments, which are set to grow with Turkey's higher GDP/capita figures.

Advertising spending, which is very low compared to other CEE countries, is anticipated to grow at an outstanding rate over the next ten years and Dogan Yayin Holding, which has dominant market shares in newspaper circulation, TV viewer rates, magazine sales and ads, is positioned to gather the fruits of this growth.

Petrol Ofisi is Turkey's leader in fuel distribution and is set to increase its operational profit at an exceptional pace, based on GDP growth expectations and the positive impacts of liberalisation that should mainly serve the market leader's purposes. As a result, these two segments will be important cash cows in the next few years.

New era may provide a good exit from banking business

It is expected that in 2005 some of the domestic banks will form partnerships with or be sold entirely to foreign investors. Disbank, Dogan's mid-scale banking subsidiary, is one of those domestic banks that has initiated discussions with

foreigners. Falling risk-free rates, improving macro expectations and a healthier group structure should allow Dogan Holding to reach a feasible solution in this process. Proceeds from any possible sale would support the Group's expansion plans in its main focus areas.

Debt is no longer a vital issue – cash generating plans executed

Dogan has adopted a less risky financial strategy after the restructuring of 2002, when Dogan Holding sold its 10% stake in Dogan Yayin Holding for USD107m and 3.4% stake in Petrol Ofisi for USD40m in 2004, while, Dogan Yayin Holding sold 6.6% of Hurriyet to foreign investors for USD54m. On the other hand, Petrol Ofisi utilised a USD175m eurobond issue and borrowed a murabaha syndication loan (an Islamic bank loan) worth USD92.5m. Dogan's increasing access to international finance has improved the company's financial prospects as well as the Holding's debt structure. In addition, Dogan Holding [has stated that it] is planning an IPO of its major broadcasting asset, Kanal D, by the end of 2005. Further SPOs in Petrol Ofisi may also come onto the agenda as expressed by the company officials. These actions should improve sentiment toward Dogan Holding's shares and create cheaper finances for its expansion plans.

NAV could be boosted with new businesses

Dogan Holding's current net asset value is composed mainly of the listed companies in its portfolio, which increases the transparency of the valuation (the listed company stakes are currently worth approximately USD2.2bn, compared to an unlisted stake valuation of cUSD31m) Media subsidiary, Dogan Yayin Holding, fuel retailer subsidiary, Petrol Ofisi, and finance subsidiary, Disbank, make up almost all of net asset value. Assuming the market valuation is accurate, Dogan Holding shares are currently at a 13% discount.

However, as macro conditions recover, major conglomerates traditionally start to reveal their hidden asset values, with the expectation of new acquisitions through privatisation activities or asset sales. We believe that specific projects will begin to be incorporated into valuations as they begin to materialise in the coming months and that Dogan Holding is one of the most likely winners for some of these projects, which should enhance its media and energy asset valuations. Based on projected economic trends over the next few years, new segments could also be included in its portfolio. Therefore, we think now is the right time to evaluate these possibilities and their possible contribution to Dogan Holding's prospects.

Acquisition targets

Dogan Holding is aiming, in the long term, to improve its activities in its focus areas of media and energy but to exit from banking. Part of this strategy is to make purchases in asset sales or privatisations, meeting its objectives to create synergies in its focus segments. In the medium term, the National Lottery privatisation and the TV asset sales, primarily Star TV, are on the agenda. Turk Telekom's privatisation in 2005 will bring the sale of its cable TV segment (a requirement of the Competition Board) within a year. These businesses would fit perfectly with Dogan's existing dominant media presence. Additionally, the regional electricity distribution tenders should improve prospects for the energy segment.

Broadcasting assets (Star TV)

Dogan Holding, through its subsidiary Dogan Yayin Holding, is the leading media-entertainment conglomerate in Turkey. It has dominant market shares in newspaper, magazine, and book publishing, and in TV and radio broadcasting, printing and alternative media. The Group is aiming to increase its total share of the advertising sector from the current 40% to 50-52% within the next few years by acquiring

TV channels in order to improve its presence in national TV. Currently the Group owns Kanal D (one of the top-rated national channels for all-day viewing), CNN Turk (a joint venture between the Dogan and Time Warner Groups), Euro D (the top-rated private TV channel for Turkish viewers in Europe, based in Germany) and cable TV channels, Bravo TV and Super Channel. The Group's share of TV viewers in Turkey is currently 19%, well below the newspaper segment at 38%. By acquiring one or two more national TV channels, the Group is aiming to increase its share of viewers to around 40%, which should boost its market share of TV advertisements from 32% in 2003 to 50% in the coming three years. This increase should enable the company to achieve economies of scale and boost its operational profitability as revenues increase at a higher rate than costs. These acquisitions would also fully utilise Dogan's recently completed TV studios, which we estimate have a 50% utilisation rate currently, and other operations such as production companies and support systems.

Star TV, which is Turkey's first national private TV group, will be put on sale soon by the Savings Depository Insurance Fund. Star TV has a good reputation, and currently a 15% market share of TV commercials, vs 26% for Dogan Group's Kanal D. It is a good fit for Dogan's growth strategy in the TV segment and could be the first step to full utilisation of its broadcasting capacity. As the acquisition of Star TV will create synergy for other Dogan media assets, we believe that the Dogan Group's consortium has a significant chance to win this tender since it might be ready to pay a higher premium compared to other bidders.

For valuation purposes, we are assuming that the Dogan Group will be able to acquire Star TV for USD200m. The potential impacts of the acquisition, ie increasing Dogan's market share from the current 15% to 22% within two years,

lead us to a fair value for Star TV in 2007 of USD350m. Subtracting the cost of financing the acquisition gives us USD150m of net present value for the project, leading to USD50m contribution for Dogan Holding's 33% indirect stake. This stake in Star TV corresponds to 5% of Dogan's current NAV.

Dogan Holding is also interested in the asset sales of two other national TV channels – Cine 5 and Kral TV. As demonstrated in the 'Broadcasting Assets' section, we believe the tender for these two channels combined could be cUSD80m. If Dogan acquires these assets, the contribution to its NAV could be cUSD20m.

Turk Telekom

Dogan has also been involved in the ongoing Turk Telekom privatisation. It is one of the 13 companies that have been short-listed by the administration to be considered for the tender. Although it is not pursuing the assets aggressively due to their size and nature, we believe Dogan still has time to evaluate any partnership opportunities before the final consortium structures are formed in May 2005, by which time the interested parties must submit their bids. However, it will be a significant positive surprise for the markets if the Group does enter a bidding consortium that is successful. Of Turk Telekom's current businesses, Dogan should find the data (internet) and mobile segments attractive if the financing scheme is reasonably designed. The Group had participated in the third GSM licence tender as part of a consortium five years ago, but its consortium failed to beat the competitors' bids. Data is essential for the firm, as the Group is the largest internet content producer in Turkey with its huge media activity. The Group also owns Turkey's second-largest internet service provider. Therefore, business will certainly have a significant contribution to the group.

TT is huge, and we are assuming Dogan will have a c15% stake in the winning consortium. We assume a fair value for Turk Telekom of USD7bn, but that it will be acquired at an implied value of USD5.56bn. If the winning consortium acquires a 55% stake in TT – for around USD3bn – this would mean Dogan's 15% stake would cost USD450m. The contribution to Dogan's NAV would be cUSD115m – although only a 15% stake, the business value would be c21% of the current NAV.

Natural gas contract transfer tender

Dogan has also entered the privatisation process of the Turkish natural gas contract transfer tender through its energy subsidiary, Petrol Ofisi.

Although the nature of this business means it is expected to have very tight profit margins, the project could provide Dogan with an entrance to the natural gas and electricity markets. Dogan wants to diversify its fuel business into natural gas due to changing consumer demand and electricity is a major focus area for the Group, so we believe Petrol Ofisi may place an aggressive bid.

However, the natural gas contract transfer project of itself would not have a significant impact on Dogan's NAV. Dogan would be likely to have a 10% stake in the contract business, which means it would pay USD10m – we value the business at cUSD35m – leading to a USD25m net present value for Petrol Ofisi (only a USD11m contribution to Dogan Holding's NPV).

Cable TV

Although the tender conditions are not yet clear, we believe that, if Cable TV is put up for sale, it would perfectly suit Dogan Holding's strategy to improve its core businesses. CATV has recently been separated from TT as a result of a decision by the Competition Board, to prevent a lack of competition in the telephony segment. Cable TV technology, despite its current immature stage in Turkey, could be an alternative for both the data

segment and fixed-line telephony services in the long run. As a dominant player in the broadcasting sector (TV and radio channels) and an internet service provider, Dogan Holding is very likely to be in favour of a sell-off of the CATV operations. The business could easily be a turnaround story, especially in combination with Dogan Holding's existing businesses.

We calculate that the Cable TV business could currently achieve a price of USD380m. Under Dogan Holding's control, we assume that, after restructuring, its valuation could improve to USD650m in the long run (compared to its current fair value of USD475m). Therefore, the project would have a net contribution of USD270m to the Group. Assuming that Dogan Holding holds a 50% stake through its subsidiary, Dogan Yayın, the project will bring Dogan USD135m.

Electricity distribution tenders

The long-awaited electricity distribution tenders for the operating rights to 20 regions for 49 years should gradually start soon. Istanbul's European area (Bedas), which accounts for 15% of Turkey's total consumption, will be the top target for the large conglomerates. Dogan Holding and the other major conglomerates, Sabancı and Koc, are keen to take part in these tenders and all of them will focus on the large cities. Details of the tenders are as yet unclear, but it is likely that Dogan will pursue the Bedas tender, which it had already acquired in 1998 for USD500m as part of a consortium that included Cukurova Group and Tekfen.

The Bedas tender is expected to be intensely competitive. The details, such as what tariffs are to be applied and what investments are required, have not yet been revealed, so it is currently very difficult to put a value on this project; however, if the previous tender conditions prevail, this would indicate a price of cUSD500m. We again assume that Dogan will increase the fair value of the business from the current USD700m to USD900m

in the long run, with its effective management and the synergies it can create with its existing consumer-related businesses. Assuming Dogan has 50% stake in the winning consortium, its net benefit will be USD200m.

National Lottery

We believe that Dogan Holding has a significant advantage over its competitors in the bid for the National Lottery, as it owns a large distribution network (24,000 newspaper distributors) and a dominant media presence. We believe that bids, which will include the revenue to be paid to the Government (excluding taxes of 18%) for 10 years, should range between USD850m and USD1,000m but that Dogan could well top this range with a more aggressive offer. By acquiring the lottery business, Dogan would also enhance its earnings in other sectors, primarily media.

We value the current lottery business at USD400m for a standard investor with an upfront payment of USD200m, but we calculate that Dogan Holding could, through restructuring, improve the valuation to USD475m by 2007. Using this target value, we calculate that Dogan's possible 60% stake in a consortium would provide an additional USD165m of value (total project value is USD275m) to the NAV of Dogan. According to our valuations, the lottery business would then correspond to 13% of Dogan's current NAV.

Scenario analysis

Dogan Holding, with its aggressive management strategies and wide capabilities is expected to play an important part in the upcoming sales mentioned above. In order to analyse the possible impact of these acquisitions on the valuation of the company we have created three scenarios. In the worst case, we assume no expansion into new areas; in the base case we assume two new assets and in the best case we assume four.

Base case: Star TV and lottery business acquired

NAV composition – base case (USDm)

Business segment	Fair value	Stake value	NAV share
Existing businesses - total	3,291	1,881	82%
Energy	1,200	532	23%
Media	1,120	737	32%
Financial Services	850	530	23%
Others	121	83	4%
New businesses - total	825	401	18%
Star TV	350	116	5%
Lottery	475	285	12%
Net cash (incl. New bus.)		-222	
Future NAV		2,060	100%
Net NAV share of new bus.		215	10%
Star TV (net of acq. cost)		50	2%
Lottery (net of acq. cost)		165	8%
Current MCAP		1,887	
Prem.(disc) to NAV		-8.4%	

Source: HSBC, Dogan Holding

In our base case scenario, Dogan Holding acquires a 60% stake in the National Lottery by the end of 2005 and a 33% stake in Star TV (through Dogan Yayin) by the end of Q3 2005, but it doesn't win any other projects. It doesn't sell Disbank in the medium term, but the Bank continues to contribute solid earnings to the company. Financing for the new acquisitions (of cUSD180m) would be from operational cash flow, and possible IPO and SPOs.

As demonstrated in the table above, Dogan Holding's participation portfolio would expand by 21% to USD2.3bn, while its future NAV would improve by 12%, reaching USD2,060m. In this case, the company's discount to its future NAV would stand at 8% compared to its current 2% premium.

Best case – four new projects financed by Disbank sale

NAV composition – best case (USDm)

Business segment	Fair value	Stake value	NAV share
Existing businesses - total	2,441	1,351	53%
Energy	1,200	532	21%
Media	1,120	737	29%
Others	121	83	3%
Finance	0	0	0%
New businesses - total	2,375	1,176	47%
Star TV	350	116	5%
Lottery	475	285	11%
Cable TV	650	325	13%
Electricity Distribution	900	450	18%
Net cash (incl. new bus.& sell off)		-132	
Future NAV		2,395	100%
Net NAV share of new bu.		550	23%
Star TV (net of acq. cost)		50	2%
Lottery (net of acq. cost)		165	7%
Cable TV (net of acq. cost)		135	6%
Electricity (net of acq. cost)		200	8%
Current MCAP		1,887	
Prem.(disc) to NAV		-21.2%	

Source: HSBC, Dogan Holding

Dogan Holding would acquire a 33% stake in Star TV, a 60% stake in the National Lottery, a 50% stake in CATV and a 50% stake in the electricity distribution company for Istanbul's European side, and would complete the sale of its banking subsidiary, Disbank. We assume that Disbank is sold at our future value and Dogan gains proceeds of USD530m based on its 62.4% stake in the

Bank. Most of the new project acquisitions (cUSD600m) would be financed with the proceeds received from the banking sale.

New businesses would make up nearly half the total operations as of 2007. Future NAV would be boosted by 30% and the discount to future NAV would increase to 21%. On the other hand, participation value increases by 63%.

Worst case – portfolio remains unchanged

NAV composition – worst case (USDm)

Business segment	Fair value	Stake value	NAV share
Existing businesses - total	2,441	1,351	72%
Energy	1,200	532	28%
Media	1,120	737	39%
Financial Services	850	530	23%
Others	121	82	4%
Listed	3,241	1,850	98%
Unlisted	31	31	2%
Net cash		-36	
Future NAV		1,845	100%
Current MCAP		1,887	
Prem.(disc.) to NAV		2.3%	

Source: HSBC, Dogan Holding

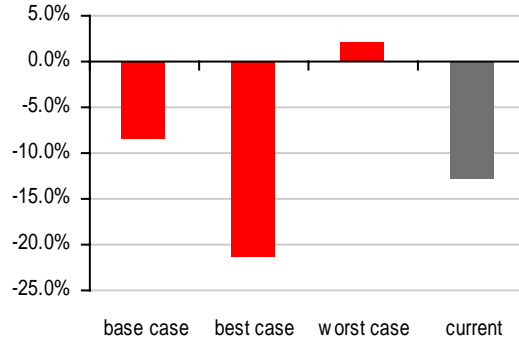
In our worst case, we assume that the Group acquires no new businesses and the current portfolio remains unchanged. In this case, NAV is USD1,845m, indicating a 2% premium compared to future NAV.

NAV contribution of new businesses under three scenarios



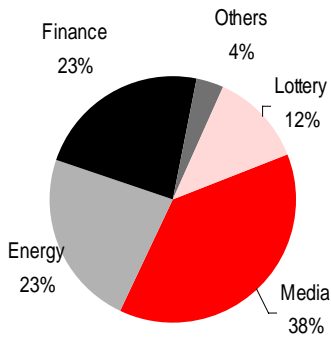
Source: HSBC

Prem (disc.) to NAV under three scenarios versus current



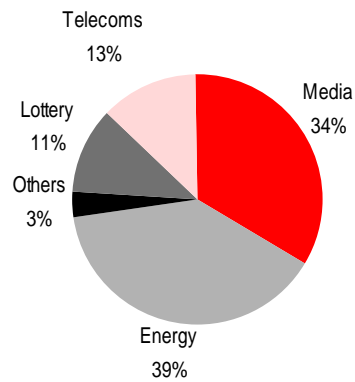
Source: HSBC

Future NAV breakdown – base case*



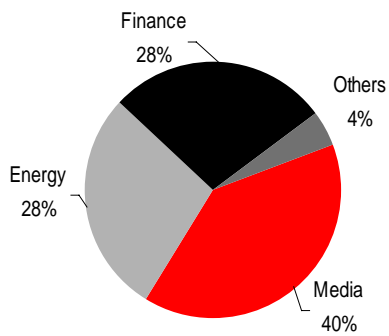
Source: HSBC *Excluding net cash

Future NAV breakdown – best case*



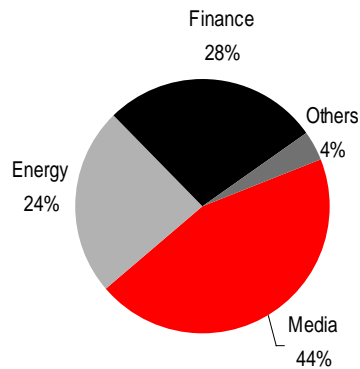
Source: HSBC *Excluding net cash

Future NAV breakdown – worst case*



Source: HSBC *Excluding net cash

Current NAV breakdown



Source: HSBC

Dogan Holding – NAV table

	Stake	Valuation method (Current)	Value (USDm)	Stake value (USDm)	% NAV	Valuation method	Future value (USDm)	Stake value (USDm)	% NAV
Energy									
Petrol Ofisi	44.31%	Market value	1,136	539	24.87%	DCF	1,200	532	28.81%
Total			1,136	539	24.87%				
Media									
Dogan Yayin Holding	66.80%	Market value	1,441	963	44.44%	NAV	1,100	735	39.82%
Star TV	33.30%	Comp.	250	83	3.58%				
Other Unlisted			20	2	0.08%		20	2	0.10%
Total			1,461	964	44.52%		1,120	737	39.92%
Financial Services									
Disbank	62.37%	Market value	988	616	28.44%	DCF & Div. Disc.	850	530	28.73%
Total			988	616	28.44%				
Other									
Milpa	65.00%	Market value	44	29	1.32%	Market value	45	29	1.55%
Celik Halat	57.53%	Market value	18	10	0.48%	Market value	17	10	0.56%
Ditas Dogan	50.94%	Market value	29	15	0.69%	Market value	28	14.2	0.81%
Milta	95.46%	NAV	20	19	0.88%	NAV	20	19	1.03%
Other Unlisted			10	10	0.46%		10	10	0.54%
Total			121	83	3.83%		120	82	4.49%
Lottery	60.00%	DCF	400	240	10.42%	DCF	475	285	13.83%
Total			3,706	2,202	101.66%		3,291	1,881	101.95%
			Total Listed	2,172	100.24%		Total Listed	1,850	100.28%
			Total unlisted	31	1.42%		Total unlisted	31	1.67%
			Net Cash	-36	-1.66%		Net Cash	-36	-1.95%
			Current NAV	2,166	100.00%		Target NAV	1,845	100.00%
			Current NAV (w new bus)	2,303	100.00%		Current NAV (w new bus)	2,060	100.00%
			Current MCAP	1,887			Current MCAP	1,887	
			Pre./(Disc.)	-12.90%			Prem./(Disc.)	2.25%	
			Pre./(Disc.) w new bus.	-18.07%			Pre./(Disc.) w new bus.	-8.42%	

Source: HSBC, Dogan Holding

Outlook for existing operations

Media

Dogan Yayın Holding (DYH) is the leading media concern in Turkey and owns several leading TV stations such as Kanal D and CNN-Turk. It is the controlling stakeholder of newspapers *Hurriyet*, *Milliyet*, and *Posta*. DYH's main income source is advertising revenues, where the group holds a 40% market share. It increased its advertising revenues by 42.5% in 2004 to USD500m, backed by the economic recovery and GDP growth. On top of this growth, DYH managed to post 34% y-o-y ad revenue growth in the January-February 2005 period, mainly fuelled by prices rather than volume. As it is the first to be hit during economic downturns, advertising activity simply increases exponentially when GDP grows. We expect DYH to post 30% growth in 2005, recording USD645m in ad revenues. In 2006 and beyond, we forecast the Turkish advertising market to more than double by 2008, reaching USD3.1bn, and expect DYH to maintain its 40% share. Accordingly, we forecast the EBITDA margin to improve from 11% in 2003, to 19% in 2006, backed by a higher contribution of advertising revenues to the consolidated revenues.

Strategically, we do not expect DYH to further grow in the printed media segment, where the ad market share reached 65%. Also, the group's distribution company YaySat, is an important barrier to entry to this segment. On the other hand, we expect to see a lot of activity in the broadcasting segment. The recent parliamentary approval of the law, which allows foreign companies to own a 100% stake in a TV or radio station, is expected to increase interest in Turkish broadcasting assets. The first test will be the Star TV spin-off by the SDIF, expected to be completed within this year. Star TV, the fourth largest TV station in terms of ad revenues, is a known brand with an established advertising

customer base. Thus, a lot foreign firms have expressed interest in the tender. DYH is likely to be one of the most important bidders in this tender, either alone or in a foreign consortium. Nevertheless, we expect the media sector to be in the headlines both in terms of growth and FDI activity over the next few years. DYH is likely to be a beneficiary of this.

Media

(USDm)	2003	2004e	2005e	2006e
Revenues	672	964	1,100	1,210
Gross profit	161	255	294	333
EBIT	5	5	101	124
EBITDA	97	149	184	215

Source: HSBC estimates

Energy

Dogan Holding's fuel oil retailer Petrol Ofisi continues to maintain its dominant position in the sector while significantly improving its efficiency. Despite a slight loss of market share in 2004, a 9% growth in diesel, an 18% growth in jet fuel and 5% growth in lubricants – thanks to a macro economic recovery – helped the company to continue its growth pace in 2004. Pressure from the strengthening of the Turkish Lira and increasing product prices were relieved by a 1.5 cents increase in fuel distribution profit margins in August and October 2004. In addition, we believe that Petrol Ofisi has succeeded in improving its operating performance with the help of its cost-cutting measures and successful marketing strategies, which were implemented after privatisation in 2001. Based on the growth expectations for the Turkish economy and the liberalisation of the pricing mechanism in 2005, we expect the improvement in operating profitability to be sustained in the long term.

Petrol Ofisi's decision to merge with its highly leveraged parent company, Is-Dogan Petroleum, at end-2002 damaged the financial structure of the company by increasing short-term debt to a risky level. However, the recovery in the macro-

economic outlook during the last two years, with falling interest rates and the greater-than-expected strength of the Turkish lira against the US dollar, and the US dollar's weakness against the euro has improved Petrol Ofisi's outlook significantly. New syndication loans and bond issues realised in 2004 proved that the company has completed most of a strong recovery process in terms of financial structure.

Although the fuel-retailing sector is not as sensitive as media to consumer spending, Petrol Ofisi, carrying a huge debt position, is a strong nominee to benefit from the new era. The EU process, coupled with the deregulation in the sector, will most probably serve to the benefit of the large players in the market. Lower smuggled products, free pricing and removal of import limits should increase operational profitability. Strong market conditions and probably lower tax rates in the long run will increase local consumption significantly. Petrol Ofisi's plans to support its existing operations with a natural gas business will diversify the portfolio and minimise the product-specific risks of the company. In particular, growing natural gas consumption, which has been a significant threat to some existing products sold by Petrol Ofisi, is a chance to sustain long-term growth for the company.

Energy

	2003	2004e	2005e	2006e
Revenues	2,845	3,348	3,431	3,415
Gross profit	160	177	194	186
EBIT	70	73	90	79
EBITDA	129	195	208	188

Source: HSBC estimates

Finance

Disbank is among the major Tier-II group of banks facing intensifying competition, but it has

the advantage of a highly liquid balance sheet, large positive free capital, relatively good quality assets and technological infrastructure. We think Disbank is uniquely positioned to exploit the synergies from Dogan Group's customer focus and aims to clinch its growth performance by establishing a partnership with an international bank. Although more than half of the loan portfolio is classified as corporate (and trade financing loans are the main area of strength), the bank has shown strong growth across retail loans (mainly credit cards), which has been achieved by acquiring retail clients since the bank decided to focus on the market in 1999. A greater presence in credit card business carried the bank's Turkish Lira loan yields to one of the highest levels in the sector as of 2004.

On 11 June 2004, Disbank announced its intention to establish an alliance with an international bank, and authorised a consulting bank to search for partnership opportunities in the sector. It is no secret that the bank is currently in talks with some international banks. We expect the deal with a strategic buyer to be announced in 2005. An alliance with an international bank would reinforce Disbank's market position, which is suffering from its late entry into the retail financial services and credit card businesses, and would also enable the bank to exploit growth opportunities in alternative distribution channels.

Finance

	2003	2004e	2005e	2006e
Revenues	867	1,074	1,197	1,360
Gross profit	477	445	500	563
EBIT	231	160	194	230
EBITDA	284	209	239	270

Source: HSBC estimates

Summary financial tables and forecasts (on existing businesses only)

Income statement (USDm)	2002	2003	2004e	2005e	2006e	2007e
Revenues	3,452	4,461	5,476	5,830	6,100	6,277
Media	469	672	964	1,100	1,210	1,331
Energy	2,232	2,845	3,348	3,431	3,415	3,346
Finance	726	867	1,074	1,197	1,360	1,472
Others	25	77	91	102	115	128
Operating profit	125	240	247	346	392	474
Media	18	5	59	101	124	164
Energy	43	70	73	90	79	126
Finance	107	231	160	194	230	213
Others	-43	-66	-45	-39	-39	-29
Net financial income	-135	58	-7	-45	-49	-46
Net monetary gain/(loss)	121	133	33	30	27	24
PBT and minorities	111	431	273	331	370	452
Tax	-31	-69	-44	-53	-59	-72
PBM	80	362	230	278	311	380
Minorities	-22	-88	9	9	9	10
Net profit	58	275	238	287	321	390
Balance sheet (USDm)	2002	2003	2004e	2005e	2006e	2007e
Current assets	2,917	3,953	5,065	5,164	5,420	5,897
Cash and due from banks	543	700	1,389	1,294	1,448	1,838
Financial assets	554	787	627	627	627	627
Reserve deposits with the CBT	158	164	307	332	360	390
Customer advances	1,200	1,667	1,814	1,956	2,001	2,029
Trade receivables	242	383	521	521	521	521
Inventories	91	138	252	273	296	320
Other current assets	129	114	154	160	166	172
Non-current assets	1,994	2,585	3,377	3,483	3,598	3,722
Financial assets	338	601	1,132	1,132	1,132	1,132
Tangible assets	662	842	954	954	954	954
Intangible assets	803	993	1,081	1,170	1,267	1,371
Other non-current assets	191	149	210	227	245	265
Total assets	4,911	6,538	8,443	8,648	9,018	9,619
Current liabilities	3,156	3,967	5,420	5,461	5,607	5,904
Short-term bank borrowings	872	1,070	1,329	1,038	823	730
Customer deposits (banking)	1,900	2,294	3,178	3,440	3,723	4,030
Trade payables	105	230	433	468	507	549
Other current liabilities	279	372	480	516	554	595
Non-current liabilities	856	931	908	793	706	630
Long-term bank borrowings	700	772	801	680	586	503
Customer deposits (banking)	0	23	0	0	0	0
Other non-current liabilities	155	135	106	113	120	127
Minority Share	342	539	552	543	533	523
Shareholders' equity	586	882	1,102	1,102	1,102	1,102
Share capital	243	421	548	548	548	548
Adj. to share capital and share premium	343	461	554	554	554	554
Others	-29	220	462	749	1,070	1,460
Total liab. & sh. equity	4,911	6,538	8,443	8,648	9,018	9,619

Source: HSBC

Issuer information

Share price (USD)	2.57	Country	Turkey
Reuters (Equity)	DOHOL.IS	Bloomberg (Equity)	DOHOL TI
Market cap (USDm)	1,887	EV (USDm)	N.M.
No of shares (m)	735	Free float (%)	34%
Analyst	Bulent Yurdagul	Contact details	+90 212 366 1604

Source: HSBC

Appendix 1: disclaimer and disclosures

Basis for financial analysis

HSBC does not seek to value companies in order to provide a target price or recommendation. Instead, the principal aim of HSBC's sector and company research is to show how a particular theme or idea may affect the future earnings or cash flow of a company. To this aim we provide earnings and cash flow forecasts, including an illustrative discounted cash flow analysis, and present standard valuation metrics to help clients in their investment decisions.

Issuer & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Disclosure
Akbank	AKBNK.IS	4.55	6, 7
Aksigorta	AKGRT.IS	3.3	2, 5
Altadis	ALT.MC	31.72	2, 3, 5, 6, 7
Aviva	AV.L	6.37	2, 3, 4, 5, 6, 7
Brisa	BRIS.IN	6.45	2, 3
British American Tobacco	BATS.L	9.35	2, 3, 5, 6, 7
BP	BP.L	5.47	2, 3, 4, 5, 6, 7
Carrefour	CARR.PA	41.04	2, 5, 6, 7
Danone	DANO.PA	75.95	2, 5, 6, 7
Gallaher Group	GLH.L	7.6	2, 3, 4, 5, 6, 7
Gazprom	GAZP.L	33.28	2, 5, 6, 7
Imperial Tobacco	IMT.L	13.94	2, 3, 5, 6, 7
Italcementi	ITAI.MI	12.75	6, 7
KOC Holding	KCHOL.IS	4.14	6, 7
Lafarge	LAFP.PA	75.4	2, 5, 6, 7
Metro	MEOG.DE	40.94	2, 5, 6, 7
MTS	MBT_NQ.N	34.32	2, 5, 6
Orascom Telecom	ORTE.CA	393.4	2, 5
Sabanci Holding	SAHOL.IS	3.33	6, 7
Statoil	STL.OL	106.25	2, 3
Telecom Italia	TLIT.MI	2.925	2, 5, 6, 7
Telefonica	TEF.MC	13.57	2, 3, 6, 7
TeliaSonera	TLSN.ST	42.2	2, 5
Tesco	TSCO.L	3.21	2, 3, 5, 6, 7
TF1	TFFP.PA	24.34	2, 3, 6, 7
TIM	TIM.MI	5.155	6
Tupras	TUPRS.IS	12.55	2, 5
Turkcell	TKC_NQ.N	16.0	2, 5
Vimpelcom	VIP_NQ.N	34.72	2
Vodafone Group	VOD.L	1.415	2, 3, 4, 5, 6, 7
Wal-Mart Stores Inc	WMT.N	50.84	2, 5, 6, 7

Source: HSBC

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