

DOGAN HOLDING

MARKET OUTPERFORMER

(reiterated)

FY04 RESULTS UNDERPINNED BY STRONG 4Q04

Dogan Holding (Rating: MO ,Close: TRY3.52/US\$2.62, Mcap: US\$1,924 mn, TMcap: US\$2,619 mn) released FY04 consolidated IFRS financials with US\$178 mn of consolidated net earnings, 35% lower than 2003 due to lower FX gains (slower TRL appreciation) and significantly lower net monetary losses in 2004. Yet the figure was far better than our estimate (US\$68 mn, consensus: US\$150 mn) owing to the higher than anticipated results in both energy and finance segments. Compared with a mere US\$33 mn in 3Q04, Dogan Holding's net earnings jumped by 340% to US\$147 mn in 4Q04 driven by the improving operating profitability in media and others segments, strong TRL-led foreign currency gains and lower effective taxation in 4Q04.

Dogan Holding -- Summary Financials (US\$mn)*

	3Q04	4Q04	qoq ch.	FY03	FY04	yoy ch.
Revenues	1,396	1,664	19%	4,461	5,744	29%
<i>Non-banking and financial services</i>	1,153	1,362	18%	3,617	4,828	34%
<i>Banking and financial services</i>	244	302	24%	845	916	8%
Operating Profit	90	123	36%	240	244	1%
<i>Non-banking and financial services</i>	30	66	118%	9	186	1888%
<i>Banking and financial services</i>	60	57	-5%	231	58	-75%
EBITDA	134	161	21%	407	409	1%
<i>EBITDA Margin</i>	9.6%	9.7%		9.1%	7.1%	
Financial income/(expense)-net	-20	84	nm	58	-16	nm
Loss on monetary position	0	16	4,643%	133	39	-71%
Taxation on income	-19	-44	135%	-69	-62	-10%
Minority interests	-19	-32	70%	-88	-26	-70%
Net Income	33	147	340%	275	178	-35%

Source: Company, HCI Research, *figures restated to respective period ends.

Highlights from the reported results are provided below:

- Dogan Holding recorded US\$5,744 mn of consolidated revenues for the full-year, representing a 29% yoy growth. Non-financial segments were the main driver with a 34% revenue growth while revenues in the finance segment grew by a more modest 8%.
- Within the non-financial segments, energy segment posted a 29% topline growth driven by the higher petroleum product prices in 2004, media segment 45% growth thanks to the strong TRL and robust ad revenues, and others segment an impressive 87% growth, which in our view is attributable to the strong TRL effect and domestic recovery. Revenues for the fourth quarter amounted to US\$1,664 mn, 19% higher qoq thanks mainly to seasonal strength in ad revenues and a stronger TRL.

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Dogan Holding -- Consolidated Revenue Breakdown (US\$m)*

Segment	FY03	FY04	yoy ch.	3Q04	4Q04	qoq ch.
Finance	725	916	26%	244	302	24%
Media	665	967	45%	202	279	38%
Energy	2,844	3,661	29%	901	1029	14%
Other	107	200	87%	49	55	10%
TOTAL	4,461	5,744	29%	1,398	1,664	19%

Source: Company, HCI Research, *figures restated to respective period ends.

- Dogan Holding's FY04 consolidated operating profit came in at US\$244 mn, almost flat with respect to 2003. Non-finance segments delivered a real turnaround, boosting their combined operating profit from a mere US\$9 mn to US\$186 mn in 2004, while the finance segment saw a sharp contraction in operating profit from US\$231 mn to US\$58 mn due to higher provisioning for credit card receivables, declining margins and higher operating expenses.
- Within the non-finance segments, media improved its operating margins and profitability significantly in 2004 thanks to leveraging effect of higher ad revenues on EBIT while the others segment moved from a US\$66 mn operating loss to a US\$39 mn operating profit, which is attributed partly to the strong topline growth and partly to the US\$76 mn capital gains recorded from participation sales (US\$45 mn from the sale of 10% DYH shares in Jan'04) during 2004. Parallel to EBIT, consolidated EBITDA remained almost flat with respect to 2003 at US\$409 mn. On a sequential basis, operating profit grew 36% to US\$123 mn in 4Q04 thanks to seasonal strength in the media segment and higher other operating income in the others segment. Likewise, 4Q04 EBITDA rose by 21% to US\$161 mn.

Dogan Holding -- Consolidated Operating Profit Breakdown (US\$m)*

Segment	FY03	FY04	yoy ch.	3Q04	4Q04	qoq ch.
Finance	231	58	-75%	60	57	-5%
Media	5	67	1,240%	10	22	120%
Energy	70	80	14%	24	21	-13%
Other	-66	39	-159%	-4	23	nm
TOTAL	240	244	2%	90	123	37%

Source: Company, HCI Research, *figures restated to respective period ends.

- Below the EBIT, Dogan Holding recorded US\$16 mn of net financial expense vis-à-vis US\$58 mn net financial income in 2003, though this was still down from a hefty US\$86 mn net financial expense in 9M04 thanks to the sharp appreciation of the TRL in 4Q04. Dogan Holding's net monetary losses shrank severely from US\$133 mn in 2003 to US\$39 mn in 2004.
- Dogan Holding's net debt excluding the financial segment fell from US\$836 mn to US\$640 mn in 2004.
- We reiterate our MARKET OUTPERFORMER rating for Dogan Holding on the back of the attractive 36% upside to our estimated TNAV (US\$2.6 bn), likely positive news flow on pending Disbank sale and privatization related expectations.

Our rating system comprises the following designations: **MARKET OUTPERFORMER (MO)**, **MARKET PERFORMER (MP)**, **MARKET UNDERPERFORMER (MU)**. The relative upsides to these targets implied by current Mcaps is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation and replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. The upside of the market is determined through the aggregate upside of our coverage calculated using free float Mcaps. Our coverage comprises 32 stocks traded on the ISE, which account for around 84% of the total Mcap of the ISE-100.

Summary of Our New Stock Rating System

Rating	Required Relative Upside
MARKET OUTPERFORMER (MO)	
• Bluechips - total weight comprising top 50% of ISE-100	>=10
• Mid-caps - subsequent 40% of ISE-100	>=15
• Small-caps - bottom 10% of ISE-100	>=25
MARKET PERFORMER (MP)	<+10 & >-10
MARKET UNDERPERFORMER (MU)	<=-10

We define three major categories in the ISE-100 that indirectly apply to our coverage as well: **Large caps** -- Bluechips, whose combined weight corresponds to the top 50% of the ISE-100, comprising 7-10 stocks (currently 8 stocks). **Mid caps** -- Stocks whose combined weight constitutes the subsequent 40% of the ISE-100 (currently 32 stocks). **Small caps** --

Stocks whose combined weight constitutes the bottom 10% of the ISE-100 (currently 60 stocks). Different relative upsides are envisaged for each category to reflect liquidity and coverage differences.

Industry Ratings

Our investment horizon for industry ratings is again 12 months. We have two sets of industry ratings:

- **Industry Outlook** -- This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are Positive, Neutral, and Negative.
- **Performance** -- This rating provides our analyst's opinion of a stock's performance in that particular industry over the next 12 months. Any difference between industry outlook and performance could stem primarily from stock valuations in that industry. The ratings are same as stock ratings of **MO, MP, and MU**, and the **benchmark index the ISE-100**.

Industry Performance Ratings	Required Relative Return
MO	>=10
MP	<+10 & >-10
MU	<=-10

Market Call

Our equity market call comprises a **market call** with an investment horizon of 3-12 months, and a **trading call** with a shorter span of 1-3 months. **Our market calls are BUY, NEUTRAL, and SELL, and trading calls, TRADING BUY and TRADING SELL.**

Market Call (3-12m horizon)	Required Abs. Upside	Trading call (1-3m horizon)	Required Abs. Upside
BUY	>=15	TRADING BUY	>=5
NEUTRAL	<15 & >-15		
SELL	<=-15	TRADING SELL	<=-5

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