

DOHOL.IS Dogan Holding

OUTPERFORM

RESEARCH DEPARTMENT

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General Company Information	
Sector:	Conglomerate
Shareholder Structure	
65.52%	Dogan Family and Family Owned Comp.
34.29%	Float
0.19%	Aydin Dogan Vakfi

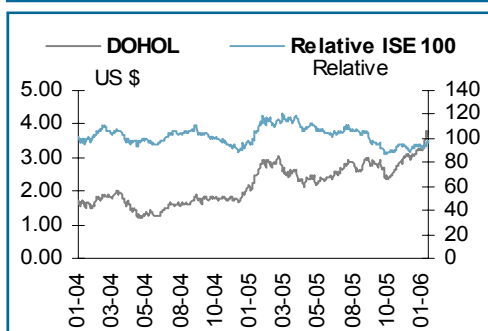
Date	Cash Div.(mn\$)	Dividend Yield
03/09/1998	8.7	2.3%

Stock Data	TRY	US \$
Share Price	5.10	3.82 \$
ISE-100	44,466	3.33 ¢
Number of Shares	735 mn	
Float	34%	
Market Cap.	3,750 mn	2,806 mn

Stock Performance	1 Mn	3 Mn	12 Mn
TL % Change	22.0	57.4	53.6
US\$ % Change	23.2	61.5	54.3
Rel.Index % Change	3.5	8.9	-7.0
Average Volume mn\$	47.17	46.28	46.72

Stock Performance	1 Mn	12 Mn	YTD
Share Price Minimum (\$)	3.15	2.11	3.21
Share Price Maximum (\$)	3.82	3.82	3.82

Estimated Value (\$)	US \$
Target Mcap	3,630 mn
Target Share Price	4.9 \$



Undervalued relative to its underlying assets

Trades at a steep discount compared to its subsidiaries

Dogan Holding ("DH") trades at a 23% discount to its current and target NAV. The shares have underperformed the ISE index by 13% over the past year, and have also trailed behind its listed subsidiaries. We think that with a 100% listed portfolio DH remains a pure NAV play and the Company's valuation and stock performance should not be driven by its consolidated earnings, but by the discount/premium to its sum-of-the parts valuation. We recommend Dogan Holding shares as an cheap way to capitalize on the value driven growth trend in the advertising market. We reiterate our OUTPERFORM recommendation for the stock and set our target as \$3.6 billion.

Aggressive growth strategy

We believe that Dogan Holding will continue its aggressive growth strategy in the coming years. The Company was very successful in past privatisations and most of the companies – Milliyet, Hurriyet, Disbank (sold to Fortis in 2005), Petrol Ofisi, Star TV - were obtained through acquisitions. The media and energy sectors, comprising 94% of the Company's NAV, are the core businesses and the company is planning to expand in business areas that will create synergies with these. Hence, DH is eyeing the upcoming National Lottery privatisation and energy distribution tenders.

Major beneficiary of EU convergence

Dogan is a major beneficiary of EU convergence, on the back of sustainable economic growth, increasing consumer spending, higher FDI and privatisations. These developments are basically fuelling advertising revenues. Note that Dogan Group accounts for approximately 39% of Turkey's advertising revenues. Secondly, Dogan will be able to expand through the upcoming privatisations. Third, in a lower interest environment a leveraged Petrol Ofisi will be able to refinance its loans at lower rates, and thanks to the strength in Turkish Lira, the effect of financial expenses on the income statement is reduced.

DOHOL	2003	2004	2005E	2006E	2007E
Sales	4,470	5,769	7,711	11,150	10,364
EBITDA	463	477	486	625	690
Net Income	275	179	503	281	312
EV/EBITDA	3.21	4.34	8.07	6.28	5.69
EV/Sales	0.33	0.36	0.51	0.35	0.38
EBITDA Margin	10.4%	8.3%	6.3%	5.6%	6.7%
Net Profit margin	6.2%	3.1%	6.5%	2.5%	3.0%
P/E	1.8	6.8	3.9	10.0	9.0
EPS	0.47	0.24	0.68	0.38	0.42

*All figures are in mn \$

Valuation

Dogan Holding's net asset value is composed purely of the listed companies in its portfolio, which increases the transparency of the valuation. Its media subsidiary, Dogan Yayin Holding and fuel retailer subsidiary, Petrol Ofisi make up 94% of DH's target Net Asset Value (NAV). Other subsidiaries are operating in the insurance (Ray Sigorta) and trade and industry (Celik Halat, Ditas Dogan, Milliyet Pazarlama) sectors.

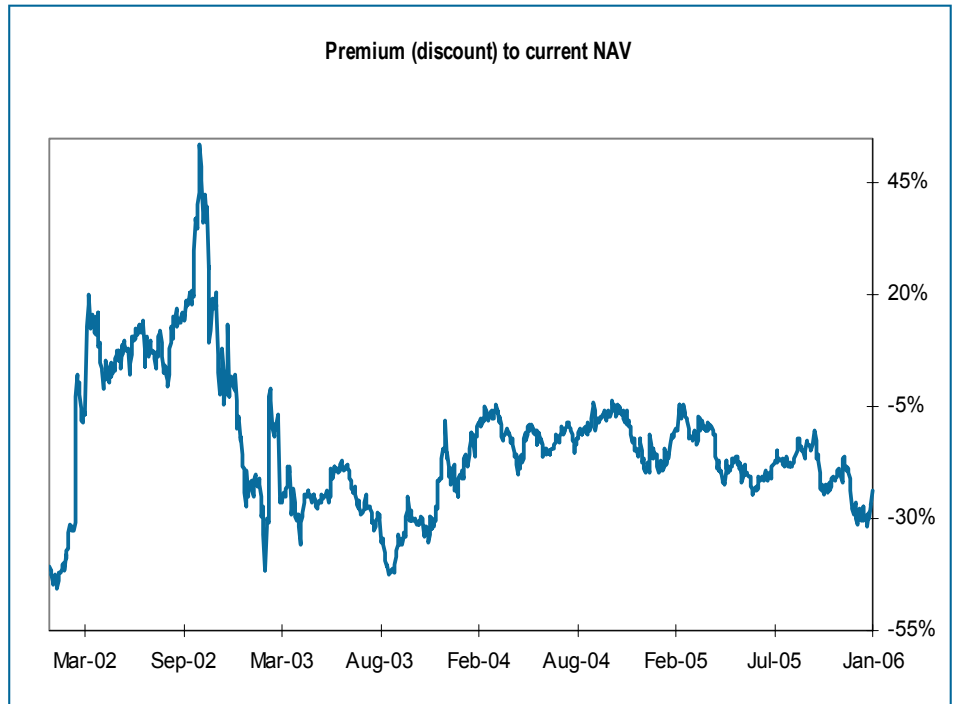
We have increased our valuations for Dogan Yayin Holding (DYH) and Petrol Ofisi. We upgraded our target NAV for Dogan Yayin Holding from \$2bn to \$2.5 bn, as a result of upward revisions to our forecasts for the broadcasting segment, along with the improved advertising market outlook and economies of scale created through the acquisition of Star TV. Likewise, we have raised our fair value estimate for Petrol Ofisi from \$1.7 billion to \$2 billion, due the strong fuel distributor profit margins. Consequently, we have revised our target market capitalisation for Dogan Holding from \$3.3 billion to \$3.6 billion, implying 30% upside.

Dogan Holding NAV					
Company	Current NAV			Target NAV	
	Current Mcap (\$ mn)	% Stake	Participated MCap	Fair Value Estimate (\$ mn)	Participated MCap
Dogan Yayin Holding (DYHOL.IS)	2.694	66,57	1793	2.500	1664
Petrol Ofisi (PTOFS.IS)	1.890	86,73	1639	2.000	1735
Milliyet Pazarlama (MIPAZ.IS)	77	65,00	50	77	50
Celik Halat (CELHA.IS)	32	52,44	17	32	17
Ditas Dogan (DITAS.IS)	35	50,94	18	35	18
Ray Sigorta (RAYSG.IS)	47	78,20	37	47	37
Total			3.553		3.520
Net Cash (Debt)			118		118
NAV			3.671		3.638
Mcap of Dogan Holding			2.806		2.806
Upside/(downside) Potential (%)			31%		30%
(Discount)/ Premium (%)			-24%		-23%

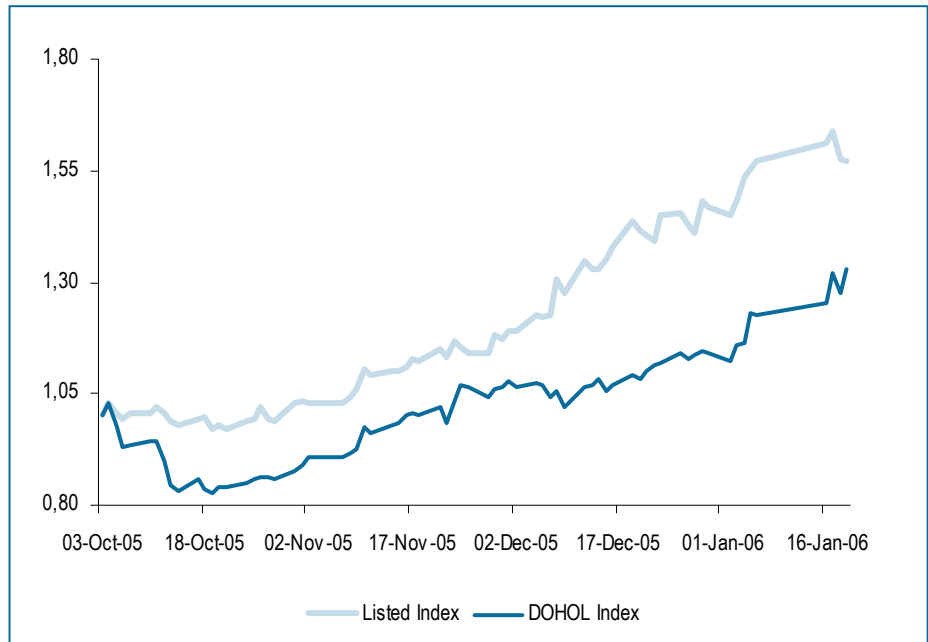
Source: Is Investment estimates

We have accounted for the planned 6.25% share sale of Petrol Ofisi on the ISE Wholesale market. DH is to sell its 6.25% stake in Petrol Ofisi at a price of TRY 5.35 per share for \$1.67 billion, which is 17% lower than our fair value estimate for the Company. Hence, we reduced DH's stake in Petrol Ofisi from 92.98% to 86.73% and raised the unconsolidated net cash position by \$104 million. All in all, the share sale has a negative contribution of \$15 million on DH's NAV. Considering the \$1.4 billion purchase price of the shares from Isbank at the beginning of September 2005, the transaction implies a \$17 million gain to Dogan.

DH has traded at an average 12% discount to its listed participations since 1999



The stock underperformed its subsidiaries by 18% since October 2005



Source: Is Investment

9M 05 Results

Dogan Holding (DH) announced a \$450 million net profit in its 9M05 IFRS consolidated financials, representing a five-fold increase compared to 9M04, mainly due to one-off gain from the 62.6% share sale of Disbank (reported \$263 million “other income”) and the purchase of additional 44.06% Petrol Ofisi shares from Isbank (a total of \$83 million negative goodwill is reported as “other income”). Meanwhile, following the purchase of additional shares at the beginning of September, DH’s stake in Petrol Ofisi was raised to 88.36% from the previous 44.31%. Hence, Petrol Ofisi was fully consolidated for a month, compared to the “partial consolidation” applied previously, which did not allow a QoQ and YoY comparison.

It should be noted that DH reclassified the finance segment with effect from 1Q05 (except for Ray Sigorta) as “terminated operations” and the results of the finance segment are not consolidated, but instead shown as a single line in the P&L. DH’s net profit, excluding the results of terminated operations (Disbank and its subsidiaries, which have been sold to Fortisbank), would have been 10x higher, at \$398 million (9M04 results have been restated to allow YoY comparison).

DH’s 9M05 consolidated revenues reached \$4.5 billion. The energy segment (Petrol Ofisi) accounted for 75% of revenues and 55% of EBITDA. While the contribution from the media segment (Dogan Yayin Holding) was 18% at the top-line, the segment’s contribution to EBITDA was higher, at 40%. The “other” businesses indicated the strongest revenue growth (by 97%), but their contribution to EBITDA was negative (\$12 million), compared to the \$19 million in EBITDA in 9M04. DH generated \$296 million of EBITDA in 9M05, while the EBITDA margin fell by 2.6 percentage points to 6.5%.

(\$ million)	1Q05	2Q05	3Q05	QoQ	9M05	9M04	YoY
Revenues	1.139	1.342	2.047	53%	4.528	3.001	51%
Media	251	301	280	-7%	832	602	38%
Energy	751	942	1.684	79%	3.378	2.266	49%
Other	189	153	146	-5%	488	248	97%
Eliminations	-53	-54	-63	n.m.	-170	-114	49%
EBITDA	49	111	136	22%	296	275	8%
Media	22	56	39	-32%	117	96	22%
Energy	22	42	99	137%	162	89	82%
Other	-2	1	-11	n.m.	-12	19	n.m.
EBITDA Margin	4%	8%	7%		7%	9%	
Media	9%	19%	14%		14%	16%	
Energy	3%	4%	6%		5%	4%	
Other	-1%	1%	-8%		-2%	8%	
Other Income (expense)	-12	1	326	n.m.	327	-12	n.m.
Financial Expenses	-22	21	-17	n.m.	4	-86	n.m.
Monetary Gain	0	0	0	n.m.	0	56	n.m.
Minority Interest	0	-21	-10	-51%	-31	-4	n.m.
Taxes	1	-36	-25	-32%	-61	-42	n.m.
Net Profit (loss) of continuing operations	-22	32	366	1054%	398	37	977%
Net Profit (loss) of terminated operations	15	45	15	-67%	60	30	99%
Minority Interest of terminated operations	-5	-2	-5	n.m.	-8	9	n.m.
Net Profit (loss)	-12	74	376	406%	450	76	491%

Estimates

(\$ million)	1Q05	2Q05	3Q05	4Q05	FY05E	FY06E	FY07E
Revenues	1.139	1.342	2.047	3.184	7.711	11.149	10.364
Media	251	301	280	400	1232	1502	1686
Energy	751	942	1.684	2693	6071	9.305	8276
Other	189	153	146	149	637	672	709
Eliminations	-53	-54	-63	-59	-229	-331	-308
Operating Profit	10	67	82	114	273	400	438
Media	2	37	19	34	92	135	164
Energy	15	35	66	88	205	286	287
Other	-6	-2	-14	-13	-35	-21	-12
EBITDA	49	111	136	190	486	625	690
Media	22	56	39	69	186	273	332
Energy	22	42	99	131	293	365	366
Other	-2	1	-11	-10	-22	-13	-8
EBITDA Margin	4%	8%	7%	6%	6%	6%	7%
Media	9%	19%	14%	17%	15%	18%	20%
Energy	3%	4%	6%	5%	5%	4%	4%
Other	-1%	1%	-8%	-7%	-3%	-2%	-1%
Taxes	1	-36	-26	-36	-97	-70	-78
Net Profit (loss) of continuing operations	-22	32	388	53	451	281	312
Net Profit (loss) of terminated operations	15	45	0	0	60	0	0
Minority Interest of terminated operations	-5	-2	0	0	-8	0	0
Net Profit (loss)	-12	74	387	53	503	281	312

Source: Is Investment

We expect a surge at the bottom line in 2005 on the back of the “one-off gains” from the sale of Disbank and the purchase of Petrol Ofisi shares.

Our projections suggest that the company will record \$281 million of net income in 2006, thanks to a strong improvement in the media sector’s operating performance. We estimate a further 11% growth at the bottom line in 2007.

Balance sheet (mn YTL)	2003/12	2004/12	Δ %	2004/09	2005/09	Δ %
DOHOL						
Current Assets	6,281	6,973	11%	6,669	3,357	-50%
Liquid Assets	1,113	1,488	34%	996	1,037	4%
Marketable Securities	1,251	1,323	6%	877	75	-91%
Short-Term Trade Receivables	608	724	19%	729	1,444	98%
Inventories	220	300	37%	346	613	77%
LONG TERM ASSETS	4,107	4,773	16%	5,293	4,365	-18%
Long-Term Trade Receivables	-	8	n.a.	-	17	n.a.
Other Long Term Receivables	-	73	n.a.	607	8	-99%
Long-Term Financial Assets	954	1,172	23%	1,582	10	-99%
Tangible Fixed Assets	1,383	1,354	-2%	1,383	1,568	13%
Intangible Fixed Assets	2,532	1,472	-42%	2,470	2,640	7%
Other Long-Term Assets	192	693	261%	239	123	-49%
TOTAL ASSETS	10,389	11,745	13%	11,962	7,722	-35%
SHORT TERM LIABILITIES	6,303	7,688	22%	7,887	2,557	-68%
Short-Term Financial Loans	5,409	2,597	-52%	6,709	1,113	-83%
Short-Term Trade Payables	366	525	43%	593	1,210	104%
Other Short-Term Liabilities	35	6	-84%	20	4	-81%
Short-Term Advances Received	-	6	n.a.	-	3	n.a.
Short-Term Provisions	493	4,555	824%	565	227	-60%
LONG TERM LIABILITIES	1,479	1,112	-25%	1,384	1,687	22%
Long-Term Financial Loans	1,286	904	-30%	1,074	1,482	38%
Long-Term Trade Payables	42	44	5%	46	32	-30%
Other Long-Term Liabilities	-	-	n.a.	-	-	n.a.
Long-Term Advances Received	-	19	n.a.	-	40	n.a.
Provisions	150	145	-3%	263	133	-49%
TOTAL LIABILITIES	7,782	8,800	13%	9,271	4,244	-54%
SHAREHOLDERS EQUITY	1,751	1,971	13%	1,792	2,580	44%
Share Capital	670	735	10%	766	735	-4%
Adjustments to Share Capital	-	-	n.a.	-	-	n.a.
Premium in Excess of Par	5	1	-87%	1	1	-15%
Revaluation Funds	-	-	n.a.	-	-	n.a.
Reserves and Other Sholders Equity Items	708	1,220	72%	750	1,220	63%
Current Year Income /(Losses)	-	277	n.a.	-	605	n.a.
Retained Earnings /(Acc. Losses)	368	(262)	n.a.	276	19	-93%
TOTAL LIABILITIES AND S.HOLDERS EQUITY	10,389	11,745	13%	11,962	7,722	-35%
Income Statement (mn YTL)	2003/12	2004/12	Δ %	2004/09	2005/09	Δ %
Net Sales	7,089	7,708	9%	4,681	6,085	30%
Cost Of Sales	-	-	n.a.	(4,185)	(5,531)	32%
Proceeds from Operations/int.+div+lease	-	-	n.a.	-	-	n.a.
GROSS PROFITS/LOSSES	-	-	n.a.	496	554	12%
Operating Expenses	(6,514)	(7,276)	12%	(301)	(341)	13%
NET OPERATING PROFITS	381	327	-14%	195	213	10%
EBITDA	735	638	-13%	428	398	-7%
Income from Other Operations	-	-	n.a.	(19)	439	n.a.
Financial Expenses	92	(21)	n.a.	(134)	5	n.a.
Net Changes on Monetary Positions	212	53	-75%	87	-	n.a.
MINORITY INTERESTS	(139)	(35)	-75%	(6)	(41)	636%
Taxation on Income	(110)	(84)	-24%	(65)	(82)	26%
NET PROFIT AFTER TAXES	436	239	-45%	119	605	409%

Key Ratios	2003/12	2004/12	2004/09	2005/09
Debt to Equity	247.5%	35.0%	329.7%	57.5%
EBITDA Margin	10.4%	8.3%	9.1%	6.5%
Gross Margin	100.0%	100.0%	10.6%	9.1%
Net Profit Margin	6.2%	3.1%	2.5%	9.9%
ROCE	11.7%	6.3%	n.m	13.0%

Cash Flow Statement	2003/12	2004/12	2004/09	2005/09
EBIT	381.38	326.83	194.53	213.24
(-) Taxes on EBIT	114.41	98.05	58.36	63.97
(+) (-) Change in Working Capital	95.6	43.5	16.3	369.1
(-) Capex	(252.5)	(223.0)	(166.9)	(196.1)
(+) Depreciation & Amortization	353.4	311.0	233.6	184.8
Free Cash Flow	272.17	273.27	186.56	(231.14)