

**PETROL OFISI**
**BUY** (maintained)

**DOGAN HOLDING**
**BUY** (Previously HOLD)

**OMV to acquire 34% of Petrol Ofisi from Dogan Holding for US\$1,054mn**

- **OMV, Austrian refiner and Central Europe's leading oil & gas company, announced that it will acquire 34% of Petrol Ofisi (PTOFS, PO) from Dogan Holding (DOHOL, DH) for US\$1,054mn, implying a valuation of US\$3.1bn for the entire PO, nearly 20% above current market value.** DH's stake in PO will decline from 86.7% to 52.7% after the sale. This was a largely anticipated development as we had expected that DH would be keen on finding ways to strengthen PO's position in the fuel-marketing industry especially after Koc-Shell Consortium's bid to acquire 51% of Tupras, as well as to improve its balance sheet via liquidating excessive PO shares.
- **DH and OMV will jointly control the company's business activities, with both companies operating as equal partners.** Having equal controlling power in PO with DH could also be the reason behind OMV's acquisition value's being at a considerable premium to market price. The Board of Petrol Ofisi will have 8 directors, four of which would be appointed by OMV and four by DH. Currently 13.2% of Petrol Ofisi shares are held by other investors with the shares already listed on the Istanbul Stock Exchange. The agreement is subject to the approval of the relevant authorities, which is expected in the second quarter of 2006.
- **Implications for Petrol Ofisi (Positive):** We believe that OMV, with its sectoral know-how and strength, could create additional value for PO in the long run. However, it is too early to precisely comment on this. OMV intends to further expand its leading position in the European growth belt by 2010. Moreover, in view of the rapid growth of the Turkish oil market, OMV and DH will jointly evaluate the possibilities of cooperation in the area of refining – including the potential construction of a new refinery in Turkey to meet increasing demand. A presence in Turkey will also strengthen OMV's Exploration & Production (E&P) business in its search for new opportunities in the Middle East and Caspian Region.
- **The acquisition price at c.20% premium to the latest share price, expectations for a tender offer for minorities, and strengthening market position via the partnership with OMV (one of the strongest players in the region), should continue to keep the demand alive for PO shares.** Recall that we had upgraded PO to BUY in early February (*Please see our latest PO update dated Feb. 03, 2006*). Within this period, the stock increased 50% and outperformed the ISE-100 index. Now, the OMV's acquisition price is c.24% above our fair value estimate for the stock, but due to the aforementioned factors, the demand for PO shares would continue to be buoyant.
- **Tender offer for PO minorities on the agenda.** Considering the acquisition of 34% of PO by OMV, we believe that there may be a requirement by the Capital Markets Board (CMB) for a tender offer to minority shareholders of PO. This should bode well for PO shares in the coming period. On the other hand, please note that there are cases where the acquirer party could obtain exemption from the CMB (*please see the appendix section of this report to see the Capital Markets Board's regulation about tender offers*). We are not assigning low probability for an exemption in this case.
- **Implications for Dogan Holding (Positive):** The sold 34% PO stake is currently valued at US\$886mn at the ISE. Hence the US\$168mn valuation difference in the sale should positively affect DH shares as this differential accounts for 4.8% of DH's current market value even after the 5.8% increase in DH shares in the morning session today. Note that the valuation implication for DH's remaining 52.7% Petrol Ofisi shares is disregarded in this calculation.
- **In other words, DH's market NAV rises to US\$4.7bn along with this sale** (even if the remaining 52.7% Petrol Ofisi shares are accounted at the closing price of the morning session). Petrol Ofisi shares are likely to continue their upward movement, however, as the deal price implies further upside, which would further raise, in turn, DH's market NAV. In case DH's remaining 52.7% is also valued at the deal price of US\$3.1bn, **DH's implied NAV rises to US\$4.95bn.** Note, however, that DH has traded at a *minimum* NAV discount of some 5% in recent years. **DH currently trades at 25% discount to its NAV.**
- **We conservatively raise our target valuation for DH from US\$4.0bn to US\$4.35bn, 25% above current market price.** We may further increase our target valuation up to US\$4.7bn in case Petrol Ofisi's market value reaches the OMV deal price. **We hereby upgrade our recommendation for DH to BUY.**

**Figure 1 . Dogan Holding Sum-of the-Parts Valuation (Market NAV)**

US\$m	Business Line	Dogan's Direct Stake	Valuation Basis	Market Value	Value of Dogan's Stake	Share in Total
Dogan Yayin Holding	Media	63%	Current Market Value	2762	1741	52%
Petrol Ofisi	Energy	53%	Current Market Value	2606	1374	41%
Milpa	Trade	65%	Current Market Value	115	74	2%
Ray Sigorta	Finance	78%	Current Market Value	82	64	2%
Ditas	Industry	51%	Current Market Value	32	16	0%
Celik Halat	Industry	52%	Current Market Value	32	17	0%
Milta	Tourism	95%	Transfer Value	28	27	1%
Others	Various		TR-GAAP Book Value	57	57	2%
<b>Total Value From Participations</b>					<b>3,370</b>	<b>100%</b>
<b>(+) Other Assets (Book Value)</b>					1,451	
<b>(-) Total Liabilities</b>					137	
<b>Total NAV</b>					<b>4,684</b>	
<b>Current MCap</b>					<b>3,490</b>	
<b>Premium / (Discount) to NAV</b>					<b>-25%</b>	

\* Source: FinansInvest  
Closing prices as of Mar. 13, 2006

- **The proceeds from the PO sale will provide DH with ample sources to target new businesses with significant cash generation capacity and profitability potential, which enhance or create synergy with existing businesses entailing proximity to the consumer** (such as the National Lottery, electricity distribution, operation of Turkish F1 Grand Prix Park, cable TV services - on top of DYH's media targets).
- **Note, on the other hand, that DH management has told us DH will proportionately consolidate PO's results going forward** (rather than full consolidation) as the company will be jointly controlled with OMV from now on. This will lead to a change (i.e. reduction) in our DH forecasts. A quick number-crunching yields **2006F net sales, EBITDA, and net earnings figures of US\$7,237mn, US\$500mn, and US\$238mn for DH**, compared with our earlier forecasts of US\$11,649mn, US\$719mn, and US\$318mn, respectively. **The valuation implications of this revision are nonetheless unlikely to worsen our positive view on the stock.**
- **Impact on Tupras (Mixed):** PO is the biggest customer of Tupras representing 20-25% of the overall sales volume. The partnership with an integrated oil company in the region, OMV, which is also a peer company for Tupras, would be negative for Tupras in terms of operational performance. However, considering Tupras' advantageous position in jet fuel and black product segments, we believe that 1.5-2.0mn tons of gasoline and diesel sales in total may be under risk. Tupras could offset this probable amount through selling either its fuel-marketing arm, including OPET after acquired by Koc-Shell partnership, or via exports. In addition, please also note that most of the diesel products coming to Turkey are from CIS countries at high sulphur levels. Assuming that there will be no high sulphur diesel sales after 2007 onwards and excess demand in diesel segment in Turkey (Tupras could only meet 2/3 of diesel demand in Turkey currently), we believe that oil & gas distributors should secure their supplies. PO's recent agreement would be in line with this and the impact on Tupras would be lower in the long run. Apart from these, please note that the OMV – PO acquisition EV/EBITDA and P/E multiples of 8.3x and 13.2x based on 2006F financials imply that Tupras looks attractive considering its respective multiples of 5.4x and 9.4x.
- **Our recommendation is BUY for Tupras mostly because of the strong operating performance, high dividend yield expectations and probable additional value in the long run under Koc-Shell management.** However, one should also note that this recent transaction between PO and OMV may put some pressure on the stock performance of Tupras in the short run.
- **Impact on Turcas (Mixed):** Recall that Shell and Turcas are combining their retail operations. Turcas and Shell will form a JV, in which they will have 30% and 70% stakes, respectively. The JV seems to have the size of approximately half of PO. OMV – DH partnership would create competitive advantage against the JV in terms of operations in Turkey. On the other hand, the OMV – PO transaction price would imply a target enterprise value of US\$1.8bn for the JV (our estimate is US\$1.5bn) and US\$450-500mn target price for Turcas (our current estimate is US\$400mn). Therefore, this news may create some positive sentiment for Turcas.

## Appendix – CMB Regulation for tender offers

### **CMB Law Serial IV No:8 Article 17 says (source Capital Markets Board):**

Individuals who own, by tender offer, block or individual purchases or any other method, 25% or more of the capital and the voting rights of a corporation directly or indirectly, or without being subject to this percentage, persons owning shares controlling the management of the corporation alone or together with the cooperative parties, are obliged to make a tender offer to the other shareholders.

If the individuals owning 25% to 50% of the capital and voting rights of a corporation alone or with the cooperative parties who increase this percentage by 10% or more within any twelve-month period, they are also obliged to make a tender offer.

Within fifteen days following the above mentioned percentages are reached, it is necessary to apply to the Board for tender offer.

In the offer made in accordance with this Article, the bid price proposed to shareholders shall not be below the highest price paid to the targeted shares, if the acquisition of the shares mentioned in paragraph one is made through tender offer; and if the acquisition of the shares mentioned in paragraph one is made by a block purchase, the highest price paid at the block purchase.

If these purchases are realized by other methods, the bid price shall not be lower than the highest price paid for the shares of the corporation three months prior to the purchase by the purchasing individual or cooperating individuals.

The proposed price shall be for cash and the offers must be announced for at least 15 days period.

The Board may impose exemptions for the mandatory tender offer in accordance with this Article in case of existence of the following situations:

- ❖ If the acquisition of shares and voting rights of the corporation is based on the condition that the change in capital or management structure is necessary for the strengthening of the financial structure of the corporation. The Board may ask for a report of an independent organisation proving the existence of such a condition or may have the examinations done by the experts of the Board.
- ❖ If the acquisition of shares and voting rights of the corporation is approved at the Shareholders' Meeting of the corporation by the quorum mentioned in the first sentence of paragraph two in Article 388 of TCC, under which the meeting quorum is presence of shareholders or their representatives owning as to at least 2/3 of the share capital of the Company.
- ❖ Despite the acquisition of shares and voting rights of the corporation, if no change occurs in the control of management due to the capital distribution of the corporation. In this case, upon the application of related parties, the capital structure of the corporation shall be examined by the Board, and if acquisitions are decided to have no impact on control of management, the Board may decide on the exemption from mandatory tender offer.
- ❖ If the shares and voting rights of the corporation have been subject to acquisition due to legal obligations or in case the ratios are exceeded unintentionally, if commitment is made to sell the portion relevant for mandatory tender offer within the minimum period determined by the Board.

The applications for exemption shall be made by the parties required to make the tender offer in five days following the emergence of this obligation. As a result of the examinations undertaken by the experts and assessment of the requested information and documents, if the Board decides that conditions of exemption exist, then it may exempt the related parties from mandatory tender offer.

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