

# Dogan Holding

**Buy**

Price: TRY 6.00/ Target TRY 6.95

03 October 2006

TURKEY

Sector	Market Cap	Free Float	Reuters Code	12 mth range
Conglomerates	US\$ 2,954 mn	34%	DOHOL.IS	TRY 3.07-4.87

## Key Data

	TRY	US\$
Share Price	6.00	4.02
NAV (US\$ mn)	Current	Target
Subsidiary Portfolio	2,089	2,346
Listed	2,089	2,346
Unlisted	0	0
Cash	1,075	1,075
NAV	3,164	3,421
Discount(-)/Premium to NAV	-7%	-14%
TRY/\$		1.4936
ISE-100		36,830

US\$ mn	2005A	2006F	2007F
Sales	7,312	8,518	7,743
EBITDA	396	486	561
Net Profit	475	684	238
P/E	6.2	4.3	12.4

Source: Company data, Yapi Kredi Yatirim

## Stock Performance



Source: ISE

	1 mth	YTD
Absolute %	0%	41%
Relative %	2%	53%
Average Trading Volume:	US\$15mn	

## Boasting the largest acquisition war chest in town

- Sale of a 34% stake in Petrol Ofisi to OMV for \$1 bn created a strong war chest for Dogan Holding to enter new businesses and reduce its fx risk besides the strategic benefits of this partnership in oil business. With the sale, Dogan Holding's consolidated open fx position declined from \$2.1 bn at end 2005 to \$562 mn. Dogan Holding has \$1.1 bn of cash on a stand alone basis currently.
- Dogan Holding's deep pockets make it a potential strong bidder in the upcoming privatisation of electricity distribution grids and national lottery. Initial targets are tenders for electricity distribution in the Asian side of Istanbul, Sakarya and Baskent regions, which accounted for 1/5 of Turkey's paid electricity consumption in 2005.
- In the media business, long expected recovery in broadcasting profitability was realised in 1H06 with EBITDA margin rising from 10% to 18% on improved efficiency with Star TV.
- Petrol Ofisi's plans to expand its oil distribution business into refining with OMV are positive as vertical integration should support long term profitability. In the short run, Petrol Ofisi faces uncertainty about TRY 598 mn of fines from Energy Market Regulator. Attributable risk to Dogan Holding is TRY 316 mn, if the fines are approved at the end of the legal process.
- Dogan Holding offers a 16% upside potential to our target NAV of \$3.4 bn, which incorporates a 15% holding discount but excludes any value from potential new businesses.

**Rationalisation of portfolio...**

- After selling Disbank to Fortis in April 2005, Dogan Group increased focus on its core businesses of energy and media. Dogan Holding purchased Is Group's 44% stake in Petrol Ofisi for \$616 mn in September 2005 and formed a strategic partnership with OMV of Austria, which purchased 34% of Petrol Ofisi from Dogan Holding for \$1 bn in March 2006. Meanwhile, media subsidiary Dogan Yayin Holding acquired Star TV for \$306 mn in September 2005. As a result, Dogan Holding is now extending its targets in energy businesses into new areas such as refining with OMV and strengthened its broadcasting businesses, complementing an already strong position in print media.

**...provides deep pockets for new businesses,**

- Dogan Holding has announced plans to bid for privatisation tenders for electricity distribution in Istanbul (Asian side) and Sakarya regions, in partnership with Turkish Dogus Group, Anadolu Endustri Holding and Luxemburg based Unit Investment. The Holding will also evaluate tender for Baskent (capital city Ankara) region with two local partners. Target regions accounted for about 1/5 of Turkey's paid electricity consumption in 2005. Bids for these tenders are expected by Dec.15. With its deep pockets, we believe Dogan Holding can be aggressive enough to grab a sizeable share in Turkey's electricity distribution privatisations, which will be tendered in 20 regions in 2006 and 2007.
- Dogan Holding's another target is Turkish National Lottery, which offers synergies with its media business and wide distribution network. Privatisation of National Lottery is planned in 2007.

**...a better investment theme,**

- We expect Dogan Holding to participate in the tenders for electricity distribution business and National Lottery via unlisted subsidiaries, which would mean these businesses could only be purchased via the Holding itself if and when Dogan Holding wins these tenders. This would support better reasons for investing in Dogan Holding, which is a purely relative value play currently with its NAV made up almost wholly by listed subsidiaries. Note that we are currently applying a 15% holding discount in the calculation of Dogan Holding's target NAV.

**...and less risk.**

- \$1 bn proceeds from the sale of Petrol Ofisi to OMV enabled Dogan Holding to reverse a consolidated net debt position of \$771 mn at end 2005 to a consolidated net cash position of \$405 mn at the end of 1H06. Open fx positioned declined from \$2.1 bn at end 2005 to \$562 mn, meaning the Holding has become less vulnerable to the fluctuations in fx rate. Dogan Holding has \$1.1 bn of cash on a stand alone basis currently.

### Potential strong bidder in electricity distribution privatisation tenders

Turkey has kicked off the long awaited privatisation process of electricity distribution privatisations. Privatisation composes of 20 regions, three of which will be tendered in December 2006. We expect good interest for Anatolian side of Istanbul, Sakarya and Baskent, which are attractive regions due to dense population and high degree of industrialisation. Dogan Holding has announced plans to bid for Istanbul (Asian side) and Sakarya regions, in partnership with Turkish Dogus Group, Anadolu Endustri Holding and Luxemburg based Unit Investment. The Holding will also evaluate tender for Baskent (capital city Ankara) region with two local partners (Kantur-Akdas Insaat and Saray Hali). Target regions accounted for about 1/5 of Turkey's paid electricity consumption in 2005. Bids for these regions are expected latest by Dec.15. Next tender announcement is expected in February 2007 for seven regions including Izmir and Manisa. With its deep pockets, we believe Dogan Holding can be aggressive enough to grab a sizeable share in electricity distribution market.

### Electricity Distribution Privatisations by Region

Company Name	Region	Consumption MWh	Share in Turkey's Consumption	Teft & Loss MWh	Share of Teft & Loss
1 Bogazici	Istanbul	14.074.235	15,1%	2.730.089	16,2%
2 Toroslar	Southeastern Anatolia	10.034.146	10,8%	1.513.228	13,1%
3 Gediz	Aegean Region	9.447.095	10,1%	726.646	7,1%
4 Baskent*	Central Anatolia	8.040.940	8,6%	1.004.475	11,1%
5 Ayedas*	Istanbul	6.315.069	6,8%	733.716	10,4%
6 Uludag	Marmara Region	5.969.956	6,4%	673.537	10,1%
7 Meram	Central Anatolia	4.320.123	4,6%	332.012	7,1%
8 Sakarya*	Marmara Region	4.133.970	4,4%	577.942	12,3%
9 Menderes	Aegean Region	4.050.287	4,3%	403.069	9,1%
10 Akdeniz	Mediterranean Region	4.035.336	4,3%	411.896	9,3%
11 Dicle	Southeastern Anatolia	4.002.750	4,3%	7.216.380	64,3%
12 Osmangazi	Central Anatolia	3.417.706	3,7%	252.114	6,9%
13 Trakya	Marmara Region	3.039.601	3,3%	335.594	9,9%
14 Goksu	Southeastern Anatolia	2.370.302	2,5%	282.808	10,7%
15 Yesilirmak	Black Sea	2.993.807	3,2%	399.289	11,8%
16 Coruh	Eastern Black Sea	1.663.978	1,8%	278.833	14,4%
17 Fırat	Eastern Anatolia	1.643.520	1,8%	274.497	14,3%
18 Camlibel	Central Anatolia	1.559.926	1,7%	178.195	10,3%
19 Aras	Eastern Anatolia	1.326.434	1,4%	615.133	31,7%
20 Vangolu	Eastern Anatolia	756.607	0,8%	1.241.188	62,1%
<b>TOTAL</b>		<b>93.195.788</b>	<b>100,0%</b>	<b>20.180.642</b>	<b>17,8%</b>

\* Tenders announced

### Vertical integration should support long term profitability in oil business

Petrol Ofisi (PTOFS.IS), Turkey's leading fuel distribution company, has plans to expand its business into refining with OMV, which we believe is positive as vertical integration should support long term profitability. Increasing interest in refining and distribution businesses in Turkey indicates higher competition in the market in the mid to long term. Petrol Ofisi's wide network throughout Turkey is an already established competitive advantage in the distribution business, while planned refinery should secure the supply side.

Petrol Ofisi plans to build its refinery in Ceyhan (Mediterranean coast) with an annual capacity of 10 mn tons pa. Meanwhile, Turkish Calik Group and Indian Oil Corp. are planning to establish a refinery with an annual capacity of 15 mn tons in Ceyhan as well and Russian Lukoil plans to build one in Zonguldak (Black Sea coast) with a capacity of 8-10 mn tons/pa. While Turkey's estimated supply shortage of about 10 mn tons by the year 2010 is much lower than planned refinery capacity additions, Petrol Ofisi's downstream distribution business should comfortably secure capacity utilisation requirement for a feasible operation in its own refinery.

In the short run, Petrol Ofisi faces uncertainty about TRY 600 mn of fines from Turkish Energy Market Regulatory Authority, which fined 28 distribution companies in Turkey for a total TRY 1.6 bn for distributing fuel to dealers which had not obtained mandatory licenses. Petrol Ofisi appealed the fines. Attributable risk to Dogan Holding is TRY 316 mn, if the fines are approved without any change at the conclusion of legal process.

### Broadcasting margins rapidly expanding with Star TV

Thanks to its dominant market position, Dogan Yayin Holding (DYHOL.IS) has been the main beneficiary of the recovery in the advertisement market since the economic crisis in 2001. Print media has especially been strong with Hurriyet (HURGZ.IS), which is the dominant leader of newspaper ad market. However, broadcasting profitability was struggling largely due to a more fragmented market structure. Long expected recovery in broadcasting business profitability has been achieved in 2006 following the acquisition of Star TV in September 2005. Broadcasting ad revenues rose sharply by 58%, while EBITDA margin rose from 10% to 18% on improved efficiency in the first half of 2006. On an incremental basis, broadcasting business recorded an EBITDA margin of 23% in 2Q06.

#### Dogan Yayin Holding

<b>Publishing</b>	<b>1H06</b>	<b>1H05</b>	<b>2005</b>
Ad Revenues (TRY mn)	281	238	510
Ad Market Share	57,8%	57,5%	56,5%
EBITDA Margin	13,9%	15,2%	15,2%
<b>Broadcasting</b>	<b>1H06</b>	<b>1H05</b>	<b>2005</b>
Ad Revenues (TRY mn)	244	155	323
Ad Market Share	36,2%	27,7%	28,5%
EBITDA Margin	18,1%	10,4%	6,4%

Print media profitability weakened in 1H06 due to low ad sales in 1Q, market turmoil in June, higher newsprint costs and increase in opex as a result of promotion campaigns and advertising costs related

to new product launches. Better broadcasting results helped DYHOL maintain consolidated EBITDA margin at 14% despite weaker results in publishing. We expect publishing margins to post some recovery in 4Q06 with seasonally higher ad revenues and normalisation of costs in the second half of the year. Broadcasting margins are likely to show a seasonal weakness in 3Q but will continue to contribute to the blended margin positively with increasing profitability going forward.

### Earnings boom on one-off gains

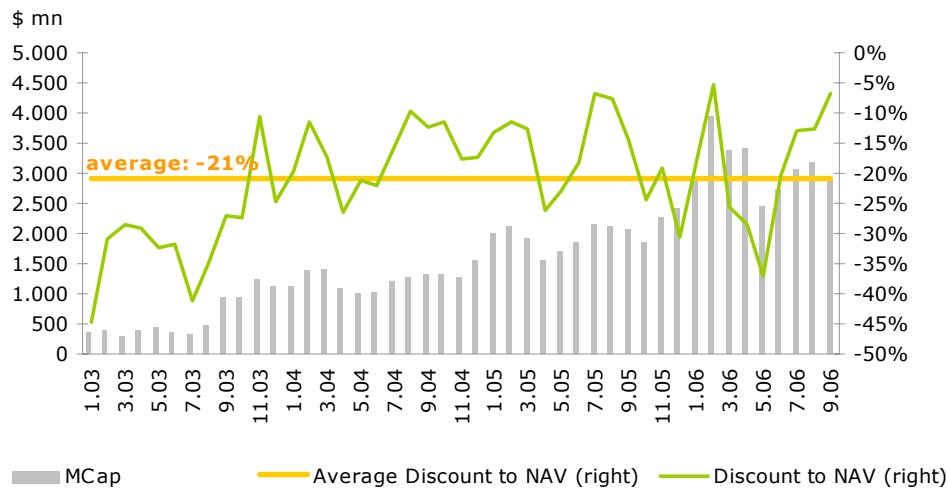
Dogan Holding reported TRY 763 mn (\$549 mn) of net income in 1H06, compared to TRY 84 mn in 1H05. Capital gains of TRY 760 mn from the sale of Petrol Ofisi to OMV and TRY 140 mn from the private placement of a 6% stake in DYHOL were the major boost to bottom line earnings, which more than offset the negative impact of TRY 270 mn of fx losses. Excluding the impact of non-cash fx losses and above mentioned one-off capital gains, we calculate Dogan Holding's earnings before tax as TRY 136 mn (\$98 mn) in 1H06. With the recovery in Turkish lira compared to the end of 2Q, (when TRY weakened to 1.6 against the Dollar), we expect some of these fx losses to be reversed in 3Q06. Note that \$1 bn proceeds from the sale of Petrol Ofisi to OMV enabled Dogan Holding to reverse a consolidated net debt position of \$717 mn at the end of March 06 to a consolidated net cash position of \$405 mn at the end of 1H06. Meanwhile, open fx positioned declined from \$1.9 bn to \$562 mn, meaning the Holding has become less vulnerable to the fluctuations in the fx rates. Dogan Holding has \$1.1 bn of cash on a stand alone basis currently.

#### Dogan Holding Summary Results, Consolidated

	1H06	1H05	Change	1H06	1H05
	TRY mn	TRY mn		\$ mn	\$ mn
<b>Revenues</b>	<b>6.721</b>	<b>3.323</b>	<b>102%</b>	<b>4.839</b>	<b>2.481</b>
<b>Operating Profit</b>	<b>246</b>	<b>103</b>	<b>138%</b>	<b>177</b>	<b>77</b>
Other Inc.,net	895	-14	nm	644	-10
Fin Inc., net	-325	-2	19884%	-234	-1
Tax	-4	-47	-92%	-3	-35
<b>Net Profit</b>	<b>763</b>	<b>84</b>	<b>811%</b>	<b>549</b>	<b>62</b>

**DOGAN HOLDING NET ASSET VALUE TABLE**

Sector/ Company	Business Line	Valuation Basis	Share Price	Total Value \$ mn	Holding's Stake		Target Value \$mn	Holding's Stake \$mn
					%	\$mn		
<b>Media</b>								
Dogan Yayin Holding	Media	Market Cap	TRY 4,80	1,956	63.0	1,232	2,313	1,457
<b>Total</b>						<b>1,232</b>		<b>1,457</b>
<b>Energy</b>								
Petrol Ofisi	Fuel Distribution	Market Cap	TRY 5,08	1,420	52.7	749	2,265	1,194
<b>Total</b>						<b>749</b>		<b>1,194</b>
<b>Others</b>								
Ray Sigorta	Insurance	Market Cap	TRY 2,78	54	78.2	42	54	42
Ditas Dogan	Automotive Parts	Market Cap	TRY 7,75	26	50.9	13	26	13
Celik Halat	Steel Wires	Market Cap	TRY 4,42	22	62.4	14	22	14
Milpa	Trade & Marketing	Market Cap	TRY 2,46	60	65.0	39	60	39
<b>Total</b>						<b>108</b>		<b>108</b>
<b>Total Subsidiaries</b>						<b>2,089</b>		<b>2,760</b>
<i>Listed</i>						2,089		2,760
<i>Unlisted</i>						0		0
<b>Total Subsidiaries with 15% holding discount</b>						<b>--</b>		<b>2,346</b>
Net Cash						1,075		1,075
<b>TOTAL NET ASSET VALUE</b>						<b>3,164</b>		<b>3,421</b>
<b>DOGAN HOLDING</b>			TRY 6,00			<b>2,954</b>		<b>2,954</b>
<b>Discount (-) or Premium to NAV</b>						<b>-7%</b>		<b>-14%</b>

**Historic NAV&Market Capitalisation**

**FINANCIAL STATEMENTS****IFRS****Condolidated Income Statment**

	<b>6M06</b>	<b>6M05</b>	<b>6M06</b>	<b>6M05</b>
	<b>TRY mn</b>	<b>TRY mn</b>	<b>\$ mn</b>	<b>\$ mn</b>
Revenues	6.721	3.323	4.839	2.481
Gross Profit	613	316	441	236
Operating Profit	246	103	177	77
Other Inc., Net	895	-14	644	-10
Financial Income,net	-325	-2	-234	-1
Inc.bef.Tax and Min.Int.	815	88	587	65
Income Tax	-4	-47	-3	-35
Minority Interest	-49	-27	-35	-20
Net Income	763	13	549	10

**Consolidated Balance Sheet Summary**

	<b>June 06</b>	<b>Dec. 05</b>	<b>June 06</b>	<b>Dec. 05</b>
	<b>TRY mn</b>	<b>TRY mn</b>	<b>\$ mn</b>	<b>\$ mn</b>
<b>ASSETS</b>	<b>7.529</b>	<b>8.007</b>	<b>4.697</b>	<b>5.962</b>
Current Assets	4.220	3.171	2.633	2.361
Non-Current Assets	3.309	4.836	2.064	3.601
<b>LIABILITIES&amp;SHE</b>	<b>7.529</b>	<b>8.007</b>	<b>4.697</b>	<b>5.962</b>
Current Liabilities	2.005	2.581	1.251	1.922
Long Term Liabilities	1.567	2.023	978	1.506
Total Liabilities	3.572	4.604	2.229	3.428
Outside Interests	714	792	446	590
Shareholders' Equity	3.242	2.612	2.023	1.945

## Notes

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