

Mid Cap
 Conglomerates
 Equity – Turkey

Overweight (V)

Target price (TRY)	3.06		
Share price (TRY)	2.26		
Potential total return (%)	35.2		
Performance	1M	3M	12M
Absolute (%)	0.0	-10.3	-27.4
Relative ^A (%)	1.1	-17.4	-24.0
Index ^A	ISTANBUL COMP		
RIC	DOHOL.IS		
Bloomberg	DOHOL TI		
Market cap (USDm)	2,431		
Enterprise value (USDm)	3865		
Free float (%)	34		

Note: (V) = volatile (please see disclosure appendix)

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Dogan Holding

Time to be positive – Upgrade to Overweight

- ▶ **The announcement of the tax fine on Petrol Ofisi removed most of the uncertainties; impact on Dogan Holding is very much limited**
- ▶ **Focus is again on M&A. Leaving insurance, Dogan is eager to enter the electricity business. Forthcoming tenders will make use of USD1bn cash position and fuel growth**
- ▶ **Because of substantial underperformance, shares offer good value. New target of TRY3.06 has 41% total return potential. We upgrade rating to Overweight (V) from Neutral (V)**

Dogan offers good value after a year-long weakening

Dogan Holding's shares have lost 35% of their absolute value and underperformed the market by 24% since end- February 2006. In addition to the stretched valuation, uncertainty about Petrol Ofisi's tax problems and a delay in electricity distribution tenders (lack of catalysts) have been the main reasons behind this weakening. After the recent conclusion of the tax investigation, we think that things should move in favour of the holding in the coming months with a possible settlement.

The recent decision to exit from the insurance business also leads us to focus again on the M&A opportunities. Dogan and its partners are expected to be aggressive in entering the electricity business (production tender to be held in May 2007 and distribution tenders after the elections in November 2007). Dogan's cash position of more than USD1bn and reduced uncertainty regarding the tax matter will increase Dogan's likelihood of success in these tenders in our view. Axel's partnership in Dogan Yayin and Hurriyet's acquisition of TME provide growth opportunities in the media segment with a limited debt position. Overall, Dogan's strong consolidated financial position, promising partnerships, and growing operational profitability in both the petroleum and media segments make it a strong play going forward on the growing Turkish economy.

We do not think that Dogan Holding deserves to trade at around a 32% discount to its current NAV. Besides, we believe, the underlying assets also have limited downside risks, but huge upside potential. By applying a direct cash impact of penalties (tax fine and regulator's fine to be paid back to OMV) of TRY135m on Dogan's cash position and a 20% discount to the target NAV, we set our new target price at TRY3.06 (down from TRY3.24). Including 5% dividend yield estimate, the total return potential for Dogan's shares stands at 41%. We therefore upgrade our rating from Neutral (V) to Overweight (V).

Petrol Ofisi's penalty below expectations

On 13 March 2007, Petrol Ofisi, Dogan Holding's fuel distributor JV, stated that the company had been ordered to pay TRY985m, slightly below our expectations. Petrol Ofisi is expected to appeal to the courts to annul the penalty. We believe that, given its solid legal arguments, its chances of at least reducing it are high. Petrol Ofisi's management has said that shareholders are willing to reach a settlement in the process. Management also argues that the TRY360m tax portion of the charge may be reduced, and further will not be subject to interest or penalties. Even though we are not as optimistic, we agree that the TRY985m penalty is the most severe to be levied on the company. Hence we think it's reasonable to assume interest will not be charged, and the settlement may be finalized at around TRY360m, ie, the current tax charge level. Our base-case assumption is, therefore, a TRY360m charge (please see Petrol Ofisi note *Manageable risk at an attractive value* dated 15 March 2007). In addition to its impact on Petrol Ofisi's valuation (already reflected in our valuation of Petrol Ofisi), Dogan Holding is also liable to OMV, which purchased a 34% stake in Petrol Ofisi in April 2006. Parallel to our base-case assumption for Petrol Ofisi, we model in a payment of TRY135m to OMV after a settlement is reached. Considering target NAV of USD4.3bn for Dogan Holding, the impact of the additional liability is limited to 3% with the given assumptions. Therefore, we think that the worst news (the penalty decision) is already out and that from now on there is an increasing chance of seeing things recovering from this front. Good news (e.g., court cases, settlements) should serve as positive catalysts for Dogan Holding.

Earnings revision because of cancellation of regulator's penalty

With the recent market regulator's decision, the total penalty levied on Petrol Ofisi and its subsidiary Erk for supplying fuel products to unlicensed petrol stations has been reduced from TRY600m to TRY60m. For Q4 2006, we have revised our expectation for Petrol Ofisi to reverse a possible provision of the fine on its P&L. As shown below, mainly on the basis of this item, our expectation for 2006 year-end profit has been revised up from TRY695m to TRY952m.

HSBC Forecast Revisions for Dogan Holding

	2006e		2007e		2008e	
	old TRYm	new TRYm	old TRYm	new TRYm	old TRYm	new TRYm
Revenue	12,199	11,940	10,306	10,238	10,886	10,367
EBITDA	667	652	722	718	900	857
Margin	5.5%	5.5%	7.0%	7.0%	8.3%	8.3%
EBIT	408	397	450	447	614	585
Net Profit	695	952	550	545	520	505

Source: HSBC estimates

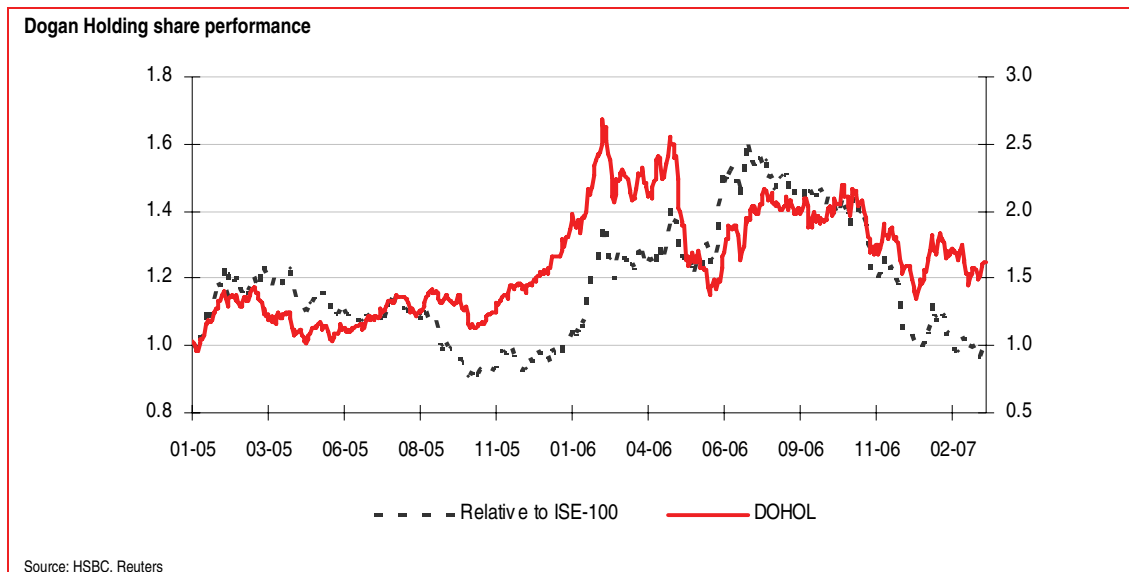
We believe that comparisons of the financial results of Dogan Holding with any previous data do not yield a reasonable analysis, since the company had sold its stake in its banking subsidiary in 2005 and has sold and purchased various stakes in its Petrol Ofisi subsidiary, both in 2005 and 2006, and recorded sales profits from these transactions. The lack of a banking subsidiary (sold its stake in Disbank at the beginning of Q3 2005) and a lower stake in Petrol Ofisi (sale of 34% stake in Q2 2006) will show its negative effects on the operational results. But the sale of a 25% stake in Dogan TV could generate a profit of around USD400m for Dogan Yayin, and this will have a positive impact on the bottom line in 2007. A lower share of Petrol Ofisi in 2007 financials will lead to a contraction in 2007 revenues. We still

foresee growth in EBITDA figures, since we forecast strong EBITDA growth rates in both Petrol Ofisi and Dogan Yayin for the coming years. Because of the sale of Petrol Ofisi, an increasing cash position has led to lower financial expenses in our forecasts.

Valuation and rating

We calculate the current and target NAVs of the company as TRY4,981m (TRY3.32 per share) and TRY5,920m (TRY3.94 per share). However, we applied TRY135m cut to cash position of the holding because of a possible payment back to OMV (regarding the tax penalty and regulator's charge) and a 20% discount to the target NAV. We set our new target price at TRY3.06 (down from TRY3.24). Including 5% dividend yield estimate, total return potential for Dogan shares stands at 41%. We therefore upgrade our rating from Neutral (V) to Overweight (V).

Poor performance during the last one-year period could be attributable to stretched valuation as well as Petrol Ofisi's tax problems and delays in electricity distribution tenders. Over the last year, Dogan Holding shares have lost c35% of their value in USD terms and underperformed the ISE-100 index by 24%. This long-term underperformance has created a value opportunity, in our opinion, and growth prospects of the holding could be bolstered with the forthcoming tenders, which would serve as positive catalysts.



We continue to be positive on the growth prospects of the media segments, and we think that there could be many more opportunities on the agenda, such as a lottery and energy and telecoms deals, given Dogan's net cash position of more than USD1b. Dogan is keen to acquire electricity distribution companies in large cities, especially Istanbul. It announced that it has teamed up with strong partners for the forthcoming three tenders to be held after the elections in November 2007. Electricity production tenders to be held in May 2007 are also critical for the Holding, which wants to make a strong entrance into the business. The lottery, which is currently under state control, is set to be privatized in 2008 as well. Dogan has stated that it believes the lottery fits in well with its own business, having huge media power and an extensive distribution network. The privatization of cable TV in Turkey could also provide the group with an opportunity for growth, as previously discussed by management. The plans of Dogan Holding to acquire a promising business are an opportunity for Dogan's shares.

Risks to rating

Failure for Petrol Ofisi to reach a settlement in tax penalties or the Company to face larger charges could be a downside risk to our Overweight (V) rating. Delays in the forthcoming privatization might postpone expectations for the Group to benefit from these opportunities. Even though its current cash position makes the Group a safer play compared to other leveraged companies, a sustained positive economic environment throughout the year will lead to underutilization of the group's resources in cash instruments. Wrong utilization of the cash position in non-promising businesses also remains a risk to our rating. Turkey's macro and political risks remain a major concern of all companies operating in Turkey. In addition, 2007 is an election year. The new government's policies and the global environment will be important in shaping Turkey's macro environment. Possible depreciation of the TRY against foreign currencies and rising interest rates would severely hit the operational profitability of Dogan Holding and its underlying assets. However, its huge cash position will be a cushion in that sense.

Disclosure appendix

Analyst certification

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For each stock we set a required rate of return calculated from the risk free rate for that stock's domestic, or as appropriate, regional market and the relevant equity risk premium established by our strategy team. The price target for a stock represents the value the analyst expects the stock to reach over our performance horizon. The performance horizon is 12 months. For a stock to be classified as Overweight, the implied return must exceed the required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands are classified as Neutral.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation of coverage, change of volatility status or change in price target). Notwithstanding this, and although ratings are subject to ongoing management review, expected returns will be permitted to move outside the bands as a result of normal share price fluctuations without necessarily triggering a rating change.

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From 15 November 2004 to 7 June 2005, HSBC carried no ratings and concentrated on long-term thematic reports which identified themes and trends in industries, but did not make a conclusion as to the investment action that potential investors should take.

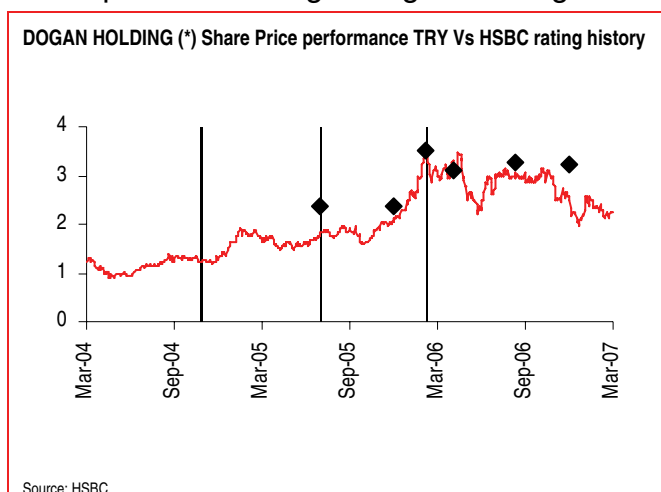
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Overweight (Buy)	44%	(16% of these provided with Investment Banking Services)
Neutral (Hold)	36%	(16% of these provided with Investment Banking Services)
Underweight (Sell)	20%	(11% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities



Recommendation & price target history

From	To	Date
N/A	N/R	15 November 2004
N/R	Overweight	22 July 2005
Overweight	Neutral	24 February 2006
Target Price	Value	Date
Price 1	N/R	15 November 2004
Price 2	2.35	22 July 2005
Price 3	2.37	21 December 2005
Price 4	3.50	24 February 2006
Price 5	3.09	26 April 2006
Price 6	3.28	31 August 2006
Price 7	3.24	22 December 2006

Source: HSBC

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