Turkey – Equity Research

OYAK SECURITIES

Company Update | *October 24, 2007*

DOGAN HOLDING (DOHOL.IS)

Conglomerates

OUTPERFORM

UPGRADED

Time to play

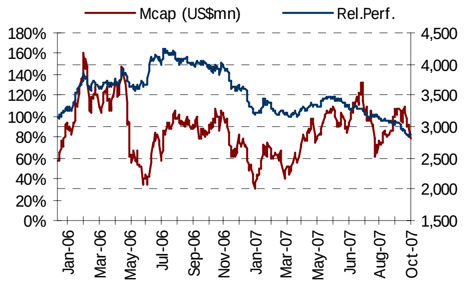
Market Data (As of Oct 23, 2007)	
Price (YTL) / (USD)	2.38 / 1.97
MCap (USDmn)	2,950
Net Cash* (USDmn)	1,190
*holding only, estimate	
Current NAV (USDmn)	4,304
Target Price (YTL) / (USD)	3.47 / 2.72
Target MCap (USDmn)	4,078
Upside Potential	38%
12m High / Low (YTL)	3.16 / 1.95
Avg daily vol (USDmn)	53.0
No. of shares (mn)	1,500
Free Float	34%

Performance	USD	Rel.
1M	-11%	-15%
3M	-20%	-23%
12M	-4%	-43%.

Shareholders	% stake
Dogan Family	66%
Free Float	34%

Key Data	07E	08E
Net Income (USD mn)	403	192
P/E	7.3	15.4
ROAE	14.5%	6.0%

Relative Performance Chart



- **We are upgrading Dogan Holding to "OUTPERFORM"** on: i) positive implications by the upcoming sale of proxy Turkish media assets, namely Digiturk and Sabah-Atv, ii) prospects in upcoming privatisations of electricity distribution and state tobacco company "Tekel" iii) attractive valuation with a 31% discount to current NAV, well below its historic average of 21% .
- With a 37% share in NAV, **Dogan Holding has a good exposure to media business**, which suffered from pre-election uncertainty and high interest rates in 1H07. **We expect a recovery in ad market starting from 4Q07** with expectations of further rate cuts from the CBT. Furthermore, **planned IPO of** Turkish digital broadcasting company "**Digiturk**" in LSE in Nov.07 **is likely to draw further interest in Turkish media assets**. Digiturk aims to raise USD450-550mn from the IPO of its 25% stake, corresponding to a MCap between USD1.8-2.2bn. Meanwhile, **upcoming sale of Sabah-Atv group by the SDIF seems to be attracting good interest** with five potential bidders already (NewsCorp, Antenna, ProsiebenSat1, RTL, and CME) for the tender scheduled for Dec 5 at a minimum price of USD1.1bn. Although the main beneficiary of media sector prospects is DYHOL, it is trading at a 7% premium to current NAV, compared to a 31% discount in Dogan Holding.
- Dogan Holding has USD1.2bn of cash, generated from the sale of Petrol Ofisi to OMV in May 06. In the absence of new investment prospects, this large pile of cash has been a drag on Dogan Holding's value in our view. However, **new business prospects are closer** now with privatisation of long awaited **electricity distribution** expected to kick off in early 2008. Dogan Holding has also expressed interest in the upcoming privatisation of state tobacco company "**TEKEL**". Although timing remains uncertain, Dogan Holding will be a strong bidder in the privatisation of **national lottery** company, given the synergies with its wide distribution network in media and oil businesses. These projects **not only offer new growth and cash generation opportunities for Dogan Holding but also will make it a more attractive investment play** if realised under unlisted subsidiaries, as we expect. Currently, Dogan Holding's businesses are almost wholly listed in the ISE, making it an alternative play to DYHOL, PTOFS and HURGZ.
- We see **overpaying in privatization**, especially in electricity tenders, is the **main risk** for Dogan Holding. While **strong Lira** is positive for media business, it **has a negative impact on large cash pile**, which was mostly in FX as of end June07 (65% of consolidated cash). Dogan Holding is most likely to post FX losses in 3Q07 due to appreciation of Turkish Lira. On the flip side, large cash pile is a strong war chest in times of financial volatility.
- Dogan Holding is trading at a **31% discount to its current NAV**, **well below its historic average of 21%**. While, we believe Dogan Holding should be trading at a discount due to an almost fully listed NAV, we believe the current level of discount is excessive given the short term prospects discussed above. Dogan Holding **offers a 38% upside potential to our target Mcap. of USD4.1bn**, which incorporates a 15% holding discount on listed subsidiaries.

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Please see the important disclosures at the end of this report

Figure 1. DOHOL: NAV Table

Segment/Company	Business Line	Valuation Basis	Share Price/ Valuation Multiple	Total Value USD mn	Current NAV: Holding's Stake %	Current NAV: Holding's Stake USD mn	Current NAV: % of NAV	Target NAV: Target Value USD mn	Target NAV: Holding's Stake USD mn
Media									
Dogan Yayin Holding	Media	Market Cap	5.15	2,589	63.0	1,632	38%	2,652	1,671
Energy									
Petrol Ofisi		Market Cap	6.15	2,500	53.5	1,338	31%	2,957	1,582
Others									
Ditas Dogan	Automotive Parts	Market Cap	3.56	29	50.9	15	0%	29	15
Celik Halat	Steel Wires	Market Cap	8.30	51	62.4	32	1%	51	32
Milpa	Trade & Marketing	Market Cap	2.48	74	65.0	48	1%	74	48
Ray Sigorta	Insurance	Market Cap	7.50	248	20.0	50	1%	248	50
Total						**145**	**3%**		**145**
Total Subsidiaries						**3,114**	**72%**		**3,398**
Listed						3,114	72%		3,398
Unlisted						-	0%		-
Net Cash - Holding only						1,190	28%		1,190
TOTAL NET ASSET VALUE						**4,304**			**4,078 ***
DOGAN HOLDING			**2.38**			**2,950**			**2,950**
Discount (-) or Premium to NAV						**-31%**			**-28%**

*Incorporating 15% discount on listed subs.

Figure 2. DOHOL: Historic Discount to Current NAV

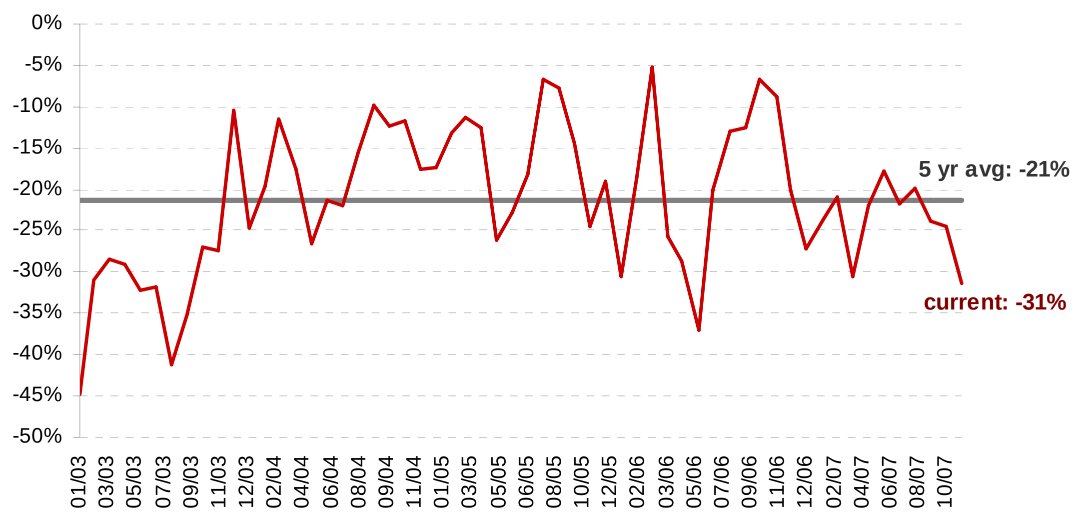

Figure 3. DOHOL: Financial Tables

Income Statement (USDmn)	1H07	1H06	YoY Δ	2006
Net Sales	**3,479**	4,832	-28%	**8,421**
Gross Profit	**368**	441	-16%	**782**
Operating Profit	**49**	119	-59%	**175**
EBITDA	**177**	264	-33%	**426**
Net Income	**206**	555	-63%	**623**
Net Debt	**-425**	-414	3%	**-649**
Net FX Position	**-620**	-574	8%	**-683**
Gross Margin	**10.6%**	9.1%	147 bps	**9.3%**
Operating Margin	**1.4%**	2.5%	-105 bps	**2.1%**
EBITDA Margin	**5.1%**	5.5%	-37 bps	**5.1%**
Net Margin	**5.9%**	11.5%	-556 bps	**7.4%**

Summary Balance Sheet (USDmn)	June07	June06	YoY Δ	Dec06
CURRENT ASSETS	**3,254**	**2,688**	**21%**	**3,095**
Liquid Assets	1,746	1,450	20%	1,696
Short-Term Trade Receivables	966	845	14%	893
Inventories	394	287	37%	374
Other Current Assets	149	106	40%	132
LONG TERM ASSETS	**3,266**	**2,108**	**55%**	**2,528**
Long-Term Financial Assets	7	3	142%	3
Tangible Fixed Assets	1,111	838	33%	1,006
Intangible Fixed Assets	2,026	1,204	68%	1,433
Other Long-Term Assets	121	63	92%	86
TOTAL ASSETS	**6,520**	**4,796**	**36%**	**5,623**
SHORT TERM LIABILITIES	**1,287**	**1,278**	**1%**	**1,324**
Short-Term Financial Loans	499	411	21%	399
Short-Term Trade Payables	641	688	-7%	727
Other Short-Term Liabilities	147	178	-17%	198
LONG TERM LIABILITIES	**1,600**	**998**	**60%**	**1,334**
Long-Term Financial Loans	1,081	804	34%	883
Long-Term Trade Payables	354	151	134%	315
Other Long-Term Liabilities	165	44	279%	136
MINORITY INTERESTS	841	841	0%	818
SHAREHOLDERS EQUITY	**2,791**	**2,065**	**35%**	**2,411**
TOTAL LIABILITIES AND SHE	**6,520**	**4,796**	**36%**	**5,623**

Valuation Approach

Valuation tools employed most frequently are Discounted Cash Flow (DCF) and International Peer Group Comparison, though other metrics such as Dividend Discount, Gordon Growth, and Replacement Value Methods are also used wherever appropriate. Oyak Securities analysts may calculate the target return of each stock considering only one method or assigning different weights to more than one method depending on the analyst's opinion. The "Expected Market Return" **(EMR)** of the ISE-100 is determined through aggregate target returns of each stock under coverage based on their respective free float market capitalisation. Our coverage accounts for around 80% of the total market capitalisation of the ISE.

Rating Methodology

Oyak Securities assigns recommendations to each stock according to the following criteria:

Price target for a stock represents the value analyst expects the stock to reach during our performance horizon, which is 12 months. For stocks with an OUTPERFORM recommendation, target return must exceed the EMR by at least 10% over the next 12 months. For a stock to be classified as UNDERPERFORM, the stock must be expected to underperform the EMR more that 10% over the next 12 months. Stocks that an analyst expects to perform parallel to the EMR within a band of +/- 10% are rated as MARKETPERFORM.

Summary of our Rating Methodology

Rating	Target Return of Stock
OUTPERFORM	> Expected Market Return (%) + 10%
MARKETPERFORM	= Expected Market Return (%) +/- 10%
UNDERPERFORM	< Expected Market Return (%) - 10%

Oyak Securities analysts review their recommendations under continuous screening. Nevertheless, at times, target return of a stock may be allowed to move outside our rating intervals as a result of share price fluctuations. Under such circumstances, the analyst may choose not to change his/her recommendation.

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