

April 14, 2008

**MARKET OUTPERFORMER  
(maintained)**

Current Mcap	US\$1,775mn
Target Mcap	US\$3,100mn
Upside Potential	75%
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Report priced as of April 11, 2008

**Lower than expected results due to the weak performance of the media segment**

**Dogan Holding announced its 2007 IFRS consolidated results.** Note that the YoY and QoQ comparisons are not too meaningful, because the company had fully consolidated Petrol Ofisi (PO) in 1Q06 and in a part of 2Q06, whereas in 2007 it was partially consolidated (the company sold its 34% stake in PO to OMV in May 2006). Furthermore, Dogan Group was an early adopter of the segmental accounting rules of IFRS 8 standards, which are actually to be enacted starting January 1<sup>st</sup>, 2009. This change in the accounting method led to some revisions in the classifications of the "media" and "other" segments, and the 2006 figures are restated accordingly.

**4Q07 yielded strong top line generation, but the change of PO's consolidation resulted in a YoY decline in 2007 revenues.** 4Q07 revenues rose 9% QoQ and 39% YoY to US\$2.34bn. Increasing product prices in PO and the impact of the new businesses (TME and new ventures in broadcasting) in Dogan Yayin Holding's top-line have been the major contributors to this performance. Still, on a full-year basis, revenues, attaining US\$7.9bn - in line with our estimates -, remained 5% below last year's figure, mainly due to the change in PO's consolidation method.

**The impact of weak performance in the media segment was somewhat felt at the operational level.** The costs related to the new ventures in the broadcasting segment and the weakness in publishing margins (despite the positive TME impact) caused a weaker than expected EBITDA performance in the media segment. However, the strong performance of the energy segment was sufficient to offset this impact: 4Q07 consolidated EBITDA at US\$134mn was up 7% QoQ and 71% YoY. Again, due to the changes in the consolidation of PO, 2007 consolidated EBITDA only increased 1.6% YoY, reaching US\$431mn, slightly lower than our US\$444mn estimate.

**Despite the one off gains, weak performance of the media segment and low minority interest figure led to lower than expected net earnings results.** Recall that Dogan Yayin Holding generated a loss figure of US\$4.5mn in 4Q07, which also weighed on the performance of its parent. Still, the net impact of one off gains from Dogan TV and Ray Sigorta sale and the provisions for the tax fines in Petrol Ofisi was a dominating factor again. Dogan posted 2007 net earnings figure of US\$303mn, down 51% YoY and lower than our US\$421mn estimate. Note that the sizeable YoY drop stems from the fact that the company had booked massive gains from PO sale to OMV and Dogan Yayin Holding sale to institutional investors in 2006.

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Summary Figures (US\$mn)	1Q07	2Q07	3Q07	4Q07	QoQ Ch	4Q06	4Q07	YoY Ch	2006	2007	YoY Ch
Revenues	1,508	1,973	2,158	2,342	8.5%	1,689	2,342	38.7%	8,350	7,908	-5.3%
Gross Profit	109	262	236	276	16.8%	177	276	56.0%	780	871	11.6%
EBIT	-30	82	59	51	-12.7%	-56	51	-191.2%	174	156	-10.4%
EBITDA	29	151	125	134	7.3%	78	134	71.2%	425	431	1.6%
Net Income	96	110	58	32	-44.6%	12	32	165.2%	621	303	-51.2%
Gross margin	7.3%	13.3%	11.0%	11.8%		10.5%	11.8%		9.3%	11.0%	
EBIT margin	-2.0%	4.2%	2.7%	2.2%		-3.3%	2.2%		2.1%	2.0%	
EBITDA margin	2.0%	7.6%	5.8%	5.7%		4.6%	5.7%		5.1%	5.5%	
Net margin	6.4%	5.6%	2.7%	1.4%		0.7%	1.4%		7.4%	3.8%	

Source: ISE

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You may find our research on Bloomberg page; EKSP

Dogan Holding has been a major underperformer lately – the underperformance relative to the ISE has been 9% since the beginning of the year and 36% on a 12-month basis. The fact that two major underlying businesses, Petrol Ofisi and Dogan Yayin Holding, are listed, might be a partial explanation for that dismal share price performance. Furthermore, investors might have concerns regarding the utilization of the company's US\$1.2bn cash pile – new business opportunities are scarce at the moment, and the demand for the good ones is extremely high, making an opportunistic acquisition less likely. However, we should note that this cash pile provides a major cushion during the prevailing turbulent environment. Furthermore, valuations are at nearly eccentric levels right now: leaving the cash aside, the current valuations propose that 54% of PO and 63% of Dogan Yayin Holding is only worth US\$597mn. Assigning a generous 20% holding discount, we reach a target NAV figure of US\$3.1bn for Dogan Holding, which offers 75% upside potential. We maintain our MARKET OUTPERFORMER rating for the stock.

**FIGURE – NAV calculations for Dogan Holding**

(US\$mn)	Valuation Method	Effective Stake	Current Value	Target Value	Current Participated Value	Target Participated Value
<b>Listed</b>					<b>2,075</b>	<b>2,667</b>
Dogan Yayin Holding	DCF	63.40%	1,301	1,650	825	1,046
Petrol Ofisi	DCF & multiple comp.	53.72%	2,130	2,820	1,144	1,515
Milliyet Pazarlama	Current Mcap	65.00%	42	42	28	28
Celik Halat	Current Mcap	67.81%	36	36	24	24
Ditas Dogan	Current Mcap	80.40%	18	18	14	14
Ray Sigorta	Current Mcap	20.00%	198	198	40	40
<b>Unlisted</b>					<b>34</b>	<b>34</b>
Others	Book value		41	41	30	30
<b>Net Cash</b>					<b>1,178</b>	<b>1,178</b>
<b>NAV</b>					<b>3,283</b>	<b>3,875</b>
Holding Discount					20%	20%
<b>NAV after holding discount</b>					<b>2,627</b>	<b>3,100</b>
Dogan Holding Mcap					1,775	1,775
<b>Premium /(discount)</b>					<b>-32%</b>	<b>-43%</b>
Upside potential					48%	75%

Source: Ekspres Invest estimates

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