Ata Invest

Research

Turkey

Dogan Holding

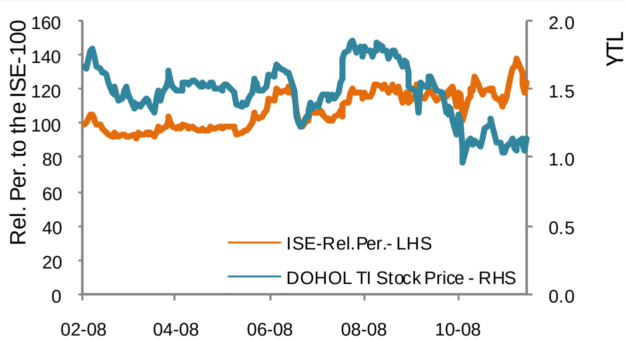
A new deal with Axel Springer

Stock Data*, November 27th,2008	DOHOL TI
Stock Price,	1.15
Price Range, 12 Months,	1 - 2.3
Average Daily Volume, 3 Months, mn	7.73
Number of Outstanding Shares, mn	1,500
Current Market Cap, mn	1,725
Fair Value, mn	3,035
Target Share Price	2.02
Upside Potential	76%

** InYTL terms*

Ownership Structure	
Adil Bey Holding	52.00%
Aydin Dogan & Dogan Family	13.52%
Aydin Dogan Foundation	0.19%
Free Float	34.29%

Stock Price & ISE-100 Relative Performance



Stock Performance	1M	3M	YTD
<DOHOL TI>	5%	-35%	-48%
ISE-100 Relative	0%	1%	13%

Ata Rating: BUY

Axel Springer becoming at least 9.1% stakeholder in Dogan Yayin Holding...

Dogan Holding and Axel Springer came to an agreement where Axel Springer will acquire 78.1 mn nominally valued Dogan Yayin Holding (DYH) shares from Dogan Holding for € 47 mn (YTL 95 mn). This will allow Axel Springer to appoint one of the directors of DYH's BoD which consists of 9. The deal will be materialized following the completion of the planned rights issue of DYH at which Axel Springer will not participate.

In the meantime, Axel Springer will sell 5.13% of its shares in Dogan TV to DYH following the completion of the planned rights issue of Dogan TV. The deal price will be € 77 mn (YTL 156 mn), € 47 mn (YTL 95 mn) of which will be paid at the closing and the remaining will be paid in March 2012 with Libor+1% interest. Reportedly, the deal price is calculated based on the agreement of two years earlier when Axel Springer acquired 25% stake in Dogan TV for US$ 480 mn.

Impact on NAV...

Upon the prospective deal, Dogan Holding's current NAV will <u>slightly increase from YTL 2,727 mn to YTL 2,763 mn</u> as minority stake in DYH will be sold at a premium. Hence, we believe the deal has Neutral effect as far as the valuation is concerned but nonetheless could bring short term positivism to the stock performance.

On target NAV basis; while calculating Dogan Holding's target NAV we incorporate DYH based on its current NAV. Since what DYH will pay for 5.13% stake in Dogan TV is above our valuation, the deal decreases our current NAV for DYH, which leads to <u>slightly lower target NAV for Dogan Holding from YTL 4,152 mn to YTL 4,046 mn.</u> Having applied 25% haircut to target NAV we value Dogan Holding at YTL 3,035 mn. ***With YTL 2.02 per share target price, we maintain our BUY recommendation for DOHOL.***

Change in ownership structure…

The percentage of the stake to be held by Axel Springer will be certain following the capital increase depending on the participation from current stakeholders. Axel Springer's stake will be somewhere between 9.1% to 9.8% which implies YTL 960 - 1,050 mn total value for DYH. This is well above YTL 414 mn current Mcap and also significantly higher than post-capital increase Mcap which could vary around YTL 590 - 660 mn.

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DYH recently announced to increase its paid-in capital by YTL 241.5 mn (39%) via rights issue. In case all the current stakeholders participate in the rights issue, then the capital will increase from YTL 618.5 mn to YTL 860 mn. But in case only parent company Dogan Holding utilizes its pre-emptive rights, the paid-in capital will increase to YTL 794 mn. The first situation implies 9.8% stake for Axel Springer, while the latter suggests 9.1%. These rates are 68.95% and 63.68% respectively for Dogan Holding.

Dogan Yayin Holding - Ownership Structure

	Current Situation		Post capital inc of DYH and deal*		Post capital inc of DYH and deal**	
Company	**# of shares (mn)**	**%**	**# of shares (mn)**	**%**	**# of shares (mn)**	**%**
Dogan Holding	450.0	72.76%	547.6	63.68%	547.6	68.95%
Axel Springer	0.0	0.00%	78.1	9.08%	78.1	9.84%
Others	168.5	27.24%	234.3	27.24%	168.5	21.21%
Total	**618.5**		**860.0**		**794.2**	

Source: Ata Estimates
** Assumes all the current stakeholders participating in the rights issue capital increase*
*** Assumes only the parent stakehoder Dogan Holding participates in the rights issue in line with its stake*

Dogan TV deal…

The Dogan TV deal between DYH and Axel Springer also brings some revisions to the terms of the previous agreement signed between DYH and Axel Springer. Accordingly, the terms related to the future IPO of Dogan TV remain the same in terms of content but will be postponed by 4 years. To be more specific and to refresh memories;

- In case Dogan TV is IPO'd until the end of 2015 (previously 2011); the positive valuation differences (the difference between the deal price and 3-months average market value following IPO) will be shared (Axel will pay for half of the difference to DYH) between the parties while negative differences will be fully covered by DYH to Axel Springer

- In case Dogan TV is not IPO'd until the end of 2015 (previously 2011); then an appraisal value will be conducted in March 2016 (previously 2012). The negative valuation differences (the difference between the deal price and appraisal value) will be fully covered by DYH to Axel Springer. On the other hand, there will not be any action taken for positive differences

- In case Dogan TV is IPOd between 2015-2018 (previously 2011-2014), then the differences between the appraisal value and IPO value will be taken into account. Accordingly, positive valuation differences will be shared while no action will be taken for negative differences.

Note that while acquiring 25% stake in Dogan TV back in 2006, Axel Springer value the company at US$1,920 mn, quite higher than current market valuations (our Dogan TV valuation is app US$300 mn). In this respect, we believe the 4-years delay for the implications of these terms are favorable for DYH, effectively meaning it provides 4-years additional time for Dogan TV to increase its value which is currently under pressure due to deteriorating outlook for ad market in 2009 and loss making new ventures such as D-Smart and Kanal D Romania. In return, Axel Springer increases its effective stake in Dogan TV (by around 1.5-2%) and gains access to DYH's other media businesses via its stake in DYH.

Cash in – Cash out

Considering the rights issue cash-inflow and Dogan TV deal cash-outflow, there will be some € 40 mn (YTL 81 mn) increase in cash at DYH level, while there is expected to be around € 35 mn (YTL 71 mn) decrease in cash position at Dogan Holding level assuming the holding will utilize its preemptive rights in DYH's rights issue.

Valuation...

Since Dogan Yayin Holding will pay above our valuation for 5.13% stake in Dogan TV, the deal decreases our current NAV from YTL 1,108 mn to YTL 986 mn. (Meanwhile our cost capital increase NAV calculation is YTL 1,228 mn assuming all the current shareholders will participate in rights issue) Despite lowering NAV, the news could bring positive sentiment for the short term as the transaction between Dogan Holding and Axel Springer implies higher valuation for DYH compared to our calculated post-capital increase Mcap. Our valuation for DYH is under revision as we are in the process of revising our forecasts.

In Dogan Holding's point of view, the current NAV will slightly increase from YTL 2,727 mn to YTL 2,763 mn (current Mcap: YTL 1,725 mn) as minority stake in DYH will be sold at a premium. Hence, we believe the deal has Neutral effect as far as the valuation is concerned.

Dogan Holding NAV Table, YTL mn

Current Situation

Company	Stake	Current Value	Current NAV	Target Value	Target NAV
Listed Participations					
Dogan Yayin Holding	72.8%	414	302	1,108	806
Petrol Ofisi	54.2%	1,441	781	3,091	1,674
Hurriyet	5.2%	304	16	797	41
Milliyet Pazarlama	65.0%	20	13	20	13
Celik Halat	78.5%	32	25	32	25
Ditas Dogan	66.7%	13	8	13	8
Ray Sigorta	20.0%	88	18	88	18
SubTotal			**1,162**		**2,586**
Net cash			1,566		1,566
Total NAV			**2,727**		**4,152**
Current Mcap			1,725		1,725
Discount to current NAV			-36.8%		-58.5%
25% haircut on NAV			682		1,038
Fair Value			**2,045**		**3,114**
Discount to fair value			-15.7%		-44.6%
Upside to fair value			18.6%		80.5%

Source: Ata Estimates

Dogan Holding NAV Table, YTL mn

Post Capital Increase of DYH and Axel Springer Deal Situation*

Company	Stake	Current Value	Current NAV	Target Value	Target NAV
Listed Participations					
Dogan Yayin Holding	63.7%	656	418	1,228	782
Petrol Ofisi	54.2%	1,441	781	3,091	1,674
Hurriyet	5.2%	304	16	797	41
Milliyet Pazarlama	65.0%	20	13	20	13
Celik Halat	78.5%	32	25	32	25
Ditas Dogan	66.7%	13	8	13	8
Ray Sigorta	20.0%	88	18	88	18
SubTotal			**1,278**		**2,562**
Net cash			1,485		1,485
Total NAV			**2,763**		**4,046**
Current Mcap			1,725		1,725
Discount to current NAV			-37.6%		-57.4%
25% haircut on NAV			691		1,012
Fair Value			**2,072**		**3,035**
Discount to fair value			-16.7%		-43.2%
Upside to fair value			20.1%		75.9%

**Assumes all the current shareholders participated in DYH's right issue capital increase*

Source: Ata Estimates

Dogan Yayin Holding NAV Table, YTL mn

Current Situation

Company	Stake	Current Value	Current NAV
Listed Participations			
Hurriyet	60.2%	304	183
Dogan Gazetecilik	69.8%	149	104
Dogan Burda	42.6%	21	9
Listed Total			**296**
Dogan TV	75%	522	389
Other Unlisted			97
Unlisted Total			**486**
SubTotal			**782**
Net cash			327
Total NAV			**1,108**
Current Mcap			414
Discount to current NAV			-62.6%

Source: Ata Estimates

The Impact of Dogan TV deal with Axel Springer

Company	Stake	Current Value	Current NAV
Listed Participations			
Hurriyet	60.2%	304	183
Dogan Gazetecilik	69.8%	149	104
Dogan Burda	42.6%	21	9
Listed Total			**296**
Dogan TV	80.9%	522	422
Other Unlisted			97
Unlisted Total			**520**
SubTotal			**815**
Net cash			171
Total NAV			**986**
Current Mcap			414
Discount to current NAV			-58.0%

Source: Ata Estimates

Post Capital Increase & Dogan TV deal with Axel Springer

Company	Stake	Current Value	Current NAV
Listed Participations			
Hurriyet	60.2%	304	183
Dogan Gazetecilik	69.8%	149	104
Dogan Burda	42.6%	21	9
Listed Total			**296**
Dogan TV	80.9%	522	422
Other Unlisted			97
Unlisted Total			**520**
SubTotal			**815**
Net cash			412
Total NAV			**1,228**
Adjusted Mcap for rights issue			656
Discount to current NAV			-46.6%

Source: Ata Estimates

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