Flashnote

HSBC Global Research

Mid Cap
Conglomerates
Equity – Turkey

Dogan Holding

Neutral (V)

Target price (TRY)	**1.35**
Share price (TRY)	**1.08**
Potential total return (%)	**25.1**

Performance	1M	3M	12M
Absolute (%)	-11.5	-39.3	-52.8
Relative^ (%)	1.3	-1.6	5.1

Index^	ISTANBUL COMP
RIC	DOHOL.IS
Bloomberg	DOHOL TI
Market cap (USDm)	1,010
Market cap (TRYm)	1,620
Enterprise value (TRYm)	2917
Free float (%)	34

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

Tough times ahead due to macro downturn; lowering TP from TRY2.47 to TRY1.35, downgrade from Overweight (V) to Neutral (V)

- **Strong Q3 performance might not be sustainable. Downturn in outlook and TRY depreciation to hurt earnings**
- **Solid balance sheet and net cash position provide acquisition opportunities in current market**
- **We lower our earnings forecasts and cut our target price to TRY1.35 (TRY2.47). We downgrade our rating to Neutral (V)**

Prospects getting weaker despite strong cash position

Dogan Holding posted a strong Q3 2008 performance as better than expected petroleum segment profitability compensated the weak media results. However, in our view Dogan's two businesses, namely media and petroleum are facing tough times due to the sluggish consumption outlook. The worsening profitability of these operations coupled with rising fx losses will pull down earnings. However, given the company's strong net cash position, we see more opportunities for Dogan to acquire assets at attractive prices. With a standalone net cash position of TRY1.6bn (as of Dec-08), Dogan could find quality assets at attractive valuations in 2009.

2008e and 2009e EBITDA cut 8% and 32% respectively

We expect Dogan Holding to post a net FX loss of cTRY340m in Q408 and a further loss of cTRY60m in FY09, due to the swift fall in TRY value. We forecast 2008 EBITDA of TRY671m, down from our previous forecast of TRY730m. Our top-line forecasts are inline or above Bloomberg consensus, however our 2008 and 2009 net earnings forecasts are c80% below consensus, although we believe it is likely that consensus downgrades are due. These potential downgrades could serve as negative catalysts for the shares.

Downgrade rating to Neutral (V) from Overweight (V)

We value Dogan Holding at the average of our DCF model and current NAV calculation. Which yields a target price of TRY1.35 (TRY2.47). Our target price indicates a potential return of 25% on the current share price and we therefore downgrade our rating to Neutral (V) from Overweight (V). Upside risks to our rating include TRY appreciation and the removal of political risk factors for the Group. Recovery in the Turkish ad market and higher oil prices or stronger distribution mark ups will also be positive for Dogan Holding's earnings and valuation. Any reasonable new business acquisition could also increase appetite for Dogan shares. On the other hand, worse than expected GDP contraction in Turkey could lead to lower valuation levels for the Holding.

4 December 2008

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Financials & valuation

Financial statements

Year to	12/2007a	12/2008e	12/2009e	12/2010e
Profit & loss summary (TRYm)				
Revenue	10,310	13,080	12,734	12,929
EBITDA	554	671	578	693
Depreciation & amortisation	-351	-339	-360	-375
Operating profit/EBIT	203	333	218	318
Net interest	101	21	49	74
PBT	821	119	188	366
HSBC PBT	821	119	188	366
Taxation	-156	33	-25	-70
Net profit	395	92	98	178
HSBC net profit	395	92	98	178
Cash flow summary (TRYm)				
Cash flow from operations	108	591	513	541
Capex	-262	-288	-280	-284
Cash flow from investment	-104	-578	-440	-444
Dividends	-150	0	-20	-36
Change in net debt	363	307	-102	-135
FCF equity	61	216	359	356
Balance sheet summary (TRYm)				
Intangible fixed assets	2,790	2,876	2,817	2,758
Tangible fixed assets	1,426	1,570	1,690	1,799
Current assets	4,588	5,828	5,874	6,077
Cash & others	2,376	3,256	3,358	3,494
Total assets	9,068	10,546	10,670	10,942
Operating liabilities	1,706	1,844	1,824	1,835
Gross debt	2,157	3,344	3,344	3,344
Net debt	-219	88	-14	-150
Shareholders funds	3,758	3,849	3,928	4,070
Invested capital	4,722	5,174	5,198	5,305

Ratio, growth and per share analysis

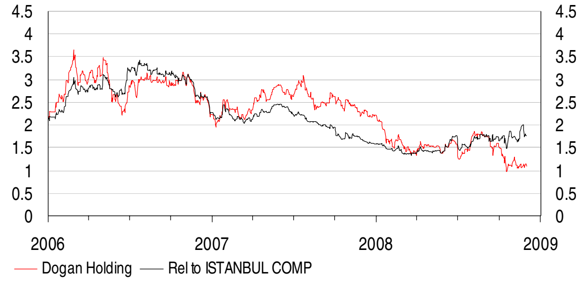
Year to	12/2007a	12/2008e	12/2009e	12/2010e
Y-o-y % change				
Revenue	-14.0	26.9	-2.6	1.5
EBITDA	-8.4	21.2	-13.9	19.9
Operating profit	-18.6	63.5	-34.5	46.1
PBT	-12.4	-85.5	58.0	94.1
HSBC EPS	-55.7	-76.8	7.0	81.3
Ratios (%)				
Revenue/IC (x)	2.5	2.6	2.5	2.5
ROIC	3.9	8.6	3.6	4.9
ROE	11.1	2.4	2.5	4.4
ROA	9.8	4.5	3.3	3.8
EBITDA margin	5.4	5.1	4.5	5.4
Operating profit margin	2.0	2.5	1.7	2.5
EBITDA/net interest (x)				
Net debt/equity	-4.4	1.7	-0.3	-2.7
Net debt/EBITDA (x)	-0.4	0.1	0.0	-0.2
CF from operations/net debt		672.3		
Per share data (TRY)				
EPS reported (fully diluted)	0.26	0.06	0.07	0.12
HSBC EPS (fully diluted)	0.26	0.06	0.07	0.12
DPS	-0.10	0.00	-0.01	-0.02
Book value	2.51	2.57	2.62	2.71

Valuation data

Year to	12/2007a	12/2008e	12/2009e	12/2010e
EV/sales	0.2	0.2	0.2	0.2
EV/EBITDA	4.6	4.3	5.0	4.1
EV/IC	0.5	0.6	0.6	0.5
PE*	4.1	17.7	16.5	9.1
P/Book value	0.4	0.4	0.4	0.4
FCF yield (%)	2.2	7.6	12.5	12.0
Dividend yield (%)	-9.3	0.0	-1.2	-2.2

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 01 Dec 2008

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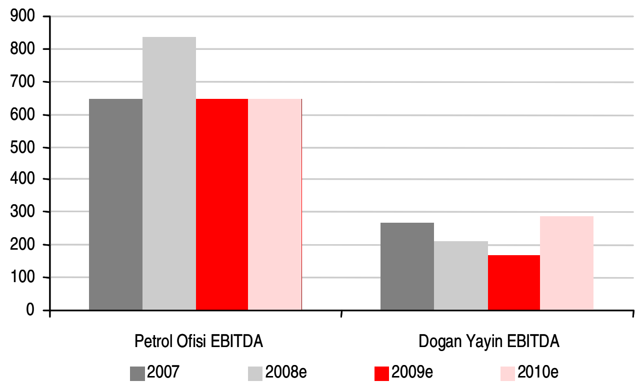
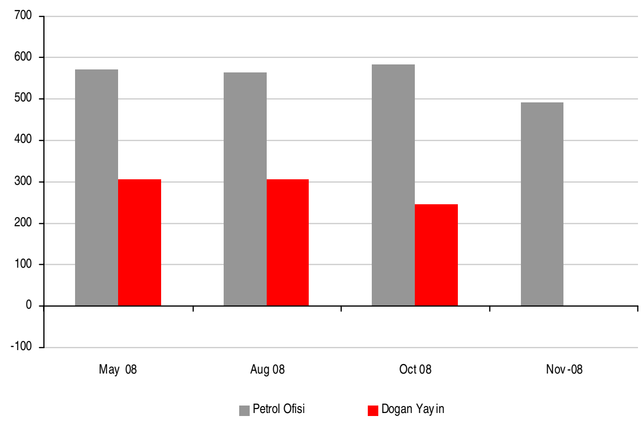
Dogan's subsidiaries; PO and DYHOL's operational profitability will suffer in 2009-2010e due to the economic slowdown, in our view



Source: HSBC estimates (TRYm)

Consensus estimates deteriorated recently. Market now forecasts negative TRY1m EBIT for media operations for 2009



Source: Bloomberg and Thomson Financial Datastream consensus EBIT estimates (TRYm)

Slowdown in Turkish economy pulls down prospects

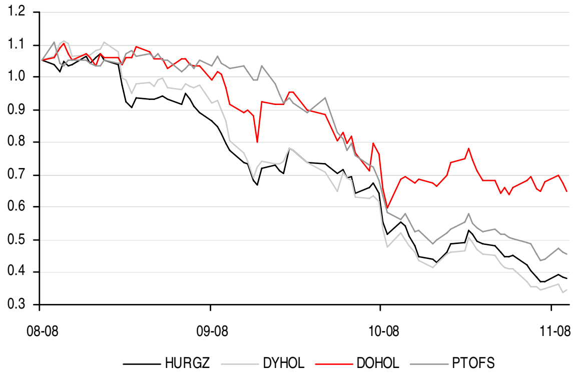
We believe Dogan Holdings' key operations, media and petroleum, started to feel the recessionary risks from the Turkish economy in the last few months. We expect ad revenues for Dogan Yayin (DYHOL.IS, TRY0.63, Underweight (V)) to see a major contraction starting from Q4 2008 and any recovery to take a significant amount time in line with HSBC's macro expectations (refer HSBC note "Dogan Yayin: Ad market meltdown" dated 20 November 2008). On the other hand, Petrol Ofisi (PTOFS.IS, TRY2.55, Underweight (V)), after a successful performance in the last two years, might have difficulty in extending its operational profitability next year, as we believe lower fuel consumption, intensifying competition and regulatory pressure on pump prices threaten the market players (refer HSBC note "Petrol Ofisi: Risks to the fore" dated 13 November 2008).

HSBC's expectations for a contraction in EBITDA figures for both Dogan Yayin and Petrol Ofisi for 2009 indicate that Dogan Holding's operational profitability will remain weak in 2009. Consensus figures indicate that negative expectations for media operations have become much more pronounced during the past few months. While the market was expecting a TRY300m EBIT figure for Dogan Yayin for 2009 just three months ago, it turned to a negative TRY1m level as of the end of November 2008 according to Bloomberg. The market also cut its EBIT expectations for Petrol Ofisi by 16% in the last month even though the company announced strong figures for 9M 2008.

…political factors also remain a question mark…

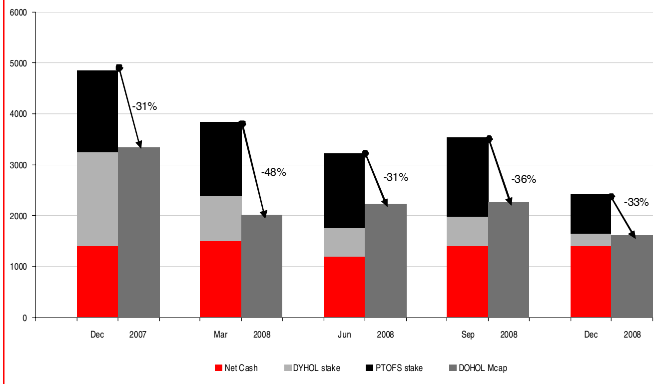
As a result of the political clash between Dogan Holding's major shareholder and the Turkish Prime Minister in September this year, the market responded negatively to all group stocks. As the market feared that political factors might create some risks to operations, Dogan Yayin and Petrol Ofisi shares underperformed the ISE-100 index by 20% and 24%, respectively in September 2008. Dogan Holding shares also initially responded negatively but it performed better than the index in the same period (3% relative to ISE-100), in our view as a result of its large cash position.

Dogan Holding outperformed both its subsidiaries and ISE-100 index in last 3 months despite negative outlook



Source: Reuters

Dogan Holding's discount to its NAV narrowed down but now its only net cash position makes up most of the market cap



Source: HSBC estimates

…but cash position is a safeguard

Dogan Holding has a solo net cash position of TRY1.6bn as of December 2008 and we think that this has been a major protecting factor against any macro or company specific politic risks so far. Even though TRY's depreciation should have generated fx losses on the back of consolidated short fx positions (to be posted in Q4), we see the cash position as a valuable asset in current market conditions. We think there is a high chance that Dogan Holding could look to buy high quality assets at attractive valuations in 2009. The current liquidity situation could force asset sales by some domestic as well as overseas players. If the Government holds on to the privatisation program, Dogan Holding is also willing to submit a bid for the National Lottery tender (to be completed in February 2009) and the remaining electricity distribution regions on sale (schedule to be announced). Despite the fact that relations with the Government remains as an issue, we think acquisition prospects remain intact for the group going forward.

Forecast revised down

Q3 results summary

(TRYm)	9M08	9M07	YOY change	3Q08	2Q08	3Q07	QoQ change	YOY change
Revenue	9,678	7,470	30%	3,688	3,440	2,754	7%	34%
EBITDA	547	396	38%	198	251	159	-21%	24%
EBIT	283	143	98%	109	166	75	-34%	45%
Net Income	161	357	-55%	61	114	75	-47%	-19%

Source: company and HSBC estimates

Dogan Holding posted net profit of TRY61m compared to TRY75m in Q307, a decline of 19% y-o-y. EBITDA was strong, driven by better than expected figures from Petrol Ofisi and it improved to TRY198m for 3Q08 from TRY159m; however lack of fx gains led to a lower profit this year.

We lower our forecasts to net profit of TRY92m in FY08 and TRY98m in FY09 from earlier forecasted net profits of TRY414m and TRY443m in FY08 and FY09 respectively due to higher FX losses and lower operational profitability estimates. We expect Dogan Holding to post a net FX loss of cTRY340m in Q408 and further loss of cTRY60m in FY09 due to the swift fall in TRY's value. We forecast 2008 EBITDA of TRY671m down from previous EBITDA forecasts of TRY730m. Our top-line forecasts are inline or above consensus though our 2008 and 2009 net earnings forecasts are c80% below consensus forecasts, although we believe it is likely that near-term reductions in consensus estimates will come through.

Earnings revision

TRY million	NEW			OLD			Difference		
	FY08e	FY09e	FY10e	FY08e	FY09e	FY10e	FY08e	FY09e	FY10e
Sales	13,080	12,734	12,929	11,810	12,352	11,538	11%	3%	12%
EBITDA	671	578	693	730	848	852	-8%	-32%	-19%
EBIT	333	218	318	313	419	490	6%	-48%	-35%
Net Profit	92	98	178	414	443	382	-78%	-78%	-53%

Source: HSBC estimates

Valuation, rating and risks

Our valuation methodology takes the average of our DCF and NAV to arrive at our target price. The equal weight of our DCF and NAV prices yields a target price of TRY1.35 (previously TRY2.47).

Our DCF valuation using a long term growth rate of 4% and 15% (13%) risk free rate yields a value of TRY1.38 per share. We have increased the WACC to 19.1% (16%) due to rising country risk premium and stock specific political risks. We assume an equity risk premium of 7.5% (5.5%) as a result of the political clash. Our appraised net asset value based on current market prices of all the listed subsidiaries gives a value of TRY1.65 per share. Applying 20% holding company discount we set our NAV target price at TRY1.32. Dogan holding shares are trading at 34% discount to NAV per share.

In our research model for volatile Turkish stocks, the Neutral band is 10pp above or below the hurdle rate of 20.5%. This translates into a Neutral band of +10.5% to +30.5%, leading us to downgrade our rating to Neutral (V), based on 25% potential return implied by our valuation.

We believe our downgrade is also justified by the potential deterioration in the company's financials going forward. FX losses as well as lower operating profits might serve as negative catalysts. On the other hand, a successful new business acquisition might trigger positive expectations for the shares. Note that Dogan Holding is in the process of disposing of its 9.1-9.7% stake in Dogan Yayin for EUR47m (TRY94m). We do not see any other major impact of this transaction on Dogan Holding's financials.

The upside risk to our view on Dogan Holding is the removal of the political risk factors which may lead to lower discount rates and a higher valuation. A sharp pullback in USD/TRY rate from the current levels may lead us to change our FX assumptions and would boost FX gains and operating margins. In addition, any optimistic change in the media sector and fuel distribution mark ups may lead us to change our ad market and energy segment assumptions and Dogan Holding will likely beat our estimates in that case. Further deterioration of macroeconomic situation and depreciation of TRY are the key downside risks to our rating.

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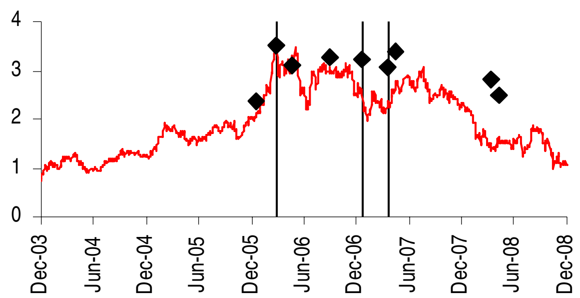
Share price and rating changes for long-term investment opportunities

Dogan Holding (DOHOL.IS) Share Price performance TRY Vs HSBC rating history



Source: HSBC

Recommendation & price target history

From	To	Date
Overweight	Neutral	24 February 2006
Neutral	Neutral (V)	21 December 2006
Neutral (V)	Overweight (V)	23 March 2007
Target Price	**Value**	**Date**
Price 1	2.37	21 December 2005
Price 2	3.50	24 February 2006
Price 3	3.09	26 April 2006
Price 4	3.28	31 August 2006
Price 5	3.24	22 December 2006
Price 6	3.06	23 March 2007
Price 7	3.40	17 April 2007
Price 8	2.80	17 March 2008
Price 9	2.47	14 April 2008

Source: HSBC

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