Moody's
INVESTORS SERVICE

Rating Action: Moody's assigns initial Ba3 rating to Dogan Sirketler Grubu Holding, outlook negative

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DIFC - Dubai, December 18, 2018 -- Moody's Investors Service ("Moody's") has today assigned a Ba3 corporate family rating (CFR) to Dogan Sirketler Grubu Holding A.S. (Dogan Holding or Group), a Turkish based investment holding company. The outlook is negative.

RATINGS RATIONALE

Dogan Holding's Ba3 CFR reflects a conservative financial policy with an expectation that the Group will maintain a strong net cash position at the holding company level and a good track record of adhering to such policy which enhances the Group's more moderately positioned investment portfolio. While the majority of its investments are profitable, their limited size and moderate market positions within fragmented industries in Turkey make them vulnerable to the weakening macro environment. The sizable cash balance of around $760 million gives the company the financial flexibility to support its investments and/or pursue acquisitions which may change the overall portfolio composition and risk profile of Dogan Holding.

The rating recognizes the diversified investment portfolio across different industries including petroleum product distribution, electricity generation and trading, real estate, tourism, media and financial services and relatively low gross debt plus guarantees at the holding company level of TL 897 million ($171 million) or 34% of the book value of investments. The rating however is constrained by (1) the small investment portfolio relative to global peers with a total book value equal to TL 2.7 billion ($507 million) excluding cash balances of TL 4.0 billion ($760 million) and an investment strategy which is evolving in light of the recent disposal of its core investments in media; (2) significant geographic concentration with almost all of its investments operating in Turkey and therefore linked to the performance of the Turkish economy; (3) limited investment transparency and liquidity as the bulk of investments are unlisted representing 86% of the portfolio value (excluding cash); and (4) low interest cover ratio (as measured by FFO + interest expense / interest expense at the holding company level) which is expected to be 1.4x for FY2018 and to strengthen to above 4.0x in 2019 supported predominantly by interest income on cash and to a lesser extent dividends.

LIQUIDITY

Dogan Holding's liquidity profile is strong due to the material cash inflow of $1.0 billion following the disposal of its media and retail investments. The large cash balance of around $760 million following acquisition of Trump Towers is sufficient to repay all of the outstanding debt of $81 million and guarantees of $90 million at the holding company level. Furthermore, Dogan Holding benefits from ongoing management fees and dividend income from its subsidiary investments as well as interest on cash that is sufficient to service recurring expenses. Liquidity is further bolstered by listed assets equivalent to TL 385 million. It is Moody's understanding that Dogan Holding will maintain cash position above $500 million to manage its liquidity profile and that the majority of cash is held in foreign currency.

RATIONALE FOR THE NEGATIVE OUTLOOK

The negative outlook is in line with the outlook for the Government of Turkey (Ba3 negative) and reflects the credit linkages of Dogan Holding's investments with the Turkish economy and their material asset exposure to the domestic operating environment.

WHAT CAN CHANGE THE RATINGS UP/DOWN

Dogan Holding's rating could come under negative pressure if (1) the company deviates from its stated financial policy of maintaining sizable net cash balances at the holding level; (2) the credit profiles of its investments weaken such that it requires support from Dogan Holding; and (3) the interest cover falling below 1.0x. Negative pressure on Turkey's sovereign rating could also place downward pressure on Dogan Holding's rating and outlook.

An upgrade is unlikely at this time given Dogan Holding's investments are operationally concentrated in

Turkey, exposing the company to heightened risk associated with the operating environment in Turkey. In the absence of Turkish sovereign considerations, an upgrade would depend on the Group's ability to materially grow its investment portfolio, strengthen the market position of its investments and diversify its sources of recurring dividend income.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Investment Holding Companies and Conglomerates published July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Dogan Holding (Dogan or Group), is an investment holding company that owns majority stakes in companies operating within the energy, petroleum distribution, tourism, media, financial services, industry and trade sectors. The Group employs 8,326 people through 4 joint ventures and 18 direct subsidiaries. Dogan is listed on the Turkish stock exchange (since 1991) and is 63.7% owned by the Dogan family.

Following the disposal of most of its media and retail assets in May 2018, its investment portfolio has a net asset value of TL 2.1 billion as of 30 June 2018 and TL 6.2 billion including cash. For the nine months to 30 September 2018, the Group reported consolidated revenues of TL 8.8 billion and reported EBITDA of TL 507 million (excluding disposed media and retail operations).

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