

## Interest rates down, DOAS up

### Rating

BUY

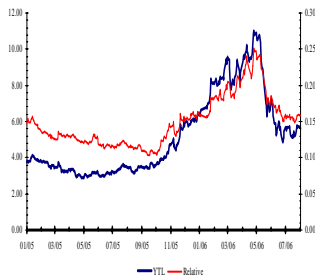
### Current Price

YTL7.55 / US\$6.15

### Target Price

YTL11.1 / US\$9.06

### Price/ Relative



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We re-initiate coverage of Doğuş Otomotiv with a "BUY" rating and assign a target price of YTL11.1, based on a DCF analysis that incorporates demand recovery, which should boost revenues and profitability and strong value contribution of participations, and a peer comparison analysis.

August and early September data suggests light at the end of the tunnel. Deferred demand and pending Central Bank rate cuts would support the early signs of recovery. We expect the 28% YoY contraction in the first half of the year to ease to 11% for the full year.

As a major importer Doğuş Otomotiv would benefit the most from demand recovery. We expect 8% sales growth in 2008 and 6% CAGR in 2007-2012E. Our expected EPS CAGR is 42% in 2006-11E on the back of higher sales and stronger margins.

Vehicle inspection business will be initiated through mid-2008.

This would both create strong participation value and also enhance cash flow generation. We have valued the business at YTL652mn, implying YTL215mn for Doğuş Otomotiv's 33% stake.

Diversifying risks of the import business via production and exporting set to reflect into figures within a three-year period.

Production of heavy commercial vehicles and export agreements stand to be effective between 2008 and 2011.

Forecasts & Valuation	2004	2005	2006	2007F	2008F	2009F
Sales (YTLmn)	2307	2449	2527	2492	2898	3320
EBITDA (YTLmn)	131	161	72	82	98	131
Net Profit (YTLmn)	58	111	22	59	70	98
Net Debt (YTLmn)	-38	-76	-60	22	-5	-45
EV/EBITDA (x)	5.73	4.27	10.4	10.8	8.19	5.81
P/E (x)	13.5	6.86	34.8	17.5	12.4	8.56

**This report must be read together with the disclosures, analyst certifications and disclaimer that form an integral part of the report and which may be found at the back of this report.**

## TURKEY

## DOĞUŞ OTOMOTİV

## ISE SECTOR RANK (2006)

\*among five automotive manufacturers

Sales	3*
Net profits	5*
ROE	5*
Equity	3*

## IDENTIFIERS

ISIN	TREDOTO00013
SEDOL	BO3MRJ0
Bloomberg	DOAS TI
Reuters	DOAS.IS

## CORPORATE INFO

Website [www.dogusotomotiv.com](http://www.dogusotomotiv.com)

Doğuş Otomotiv is the pioneer automotive importers of Turkey. The Company has a 13.5% stake as of August in a highly competitive market. The company recently initiated different projects to diversify the risks of import business.

Mcap (US\$m): 676

Shares Outst. (mn): 110

Free Float: 34%

Foreign Ownership in FF: 47%

3M Dly Trnv (US\$m): 11

ISE-100 (YTL): 53,882

1-month Perf (US\$): +21.7%

1-month Perf (Rel): -3.21%

3-month Perf (USD): +30.8%

3-month Perf (Rel): +7.69%

12-month Perf (USD): +31.5%

12-month Perf (Rel): -20.7%

## KEY ASSUMPTIONS

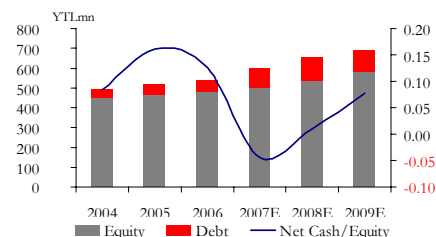
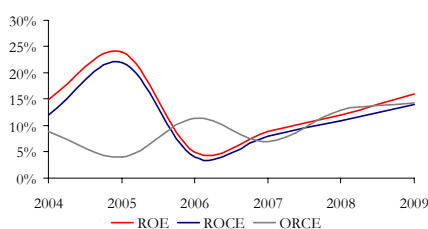
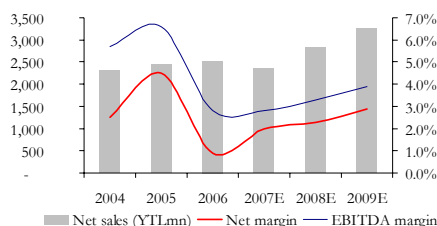
	2006	2007E	2008E	2009E
Per Capita Income (US\$)	5,477	6,299	6,651	7,003
Benchmark Interest Rates (%)	17.5	17.0	15.5	14
Total Automotive Sales ('000 units)	653	582	673	719
DOAS Automotive Sales ('000 units)	76.9	73.3	79.2	82.7

## KEY FINANCIALS (YTLmn)

	2006	2007E	2008E	2009E
Sales	2,527	2,492	2,898	3,320
EBITDA	72	82	98	131
EBIT	60	69	83	115
Net profit	22	59	70	98
Receivables	169	178	213	235
Inventory	422	395	478	533
Net fixed assets	109	195	211	188
Net cash	60	-22	5	45
Payables	484	456	553	616
Equity	478	504	537	579
Total balance sheet	1,127	1,202	1,331	1,406
Depreciation and provisions	12	13	15	17
Cash flow from operations	45	76	70	110
Net capex	20	100	40	35
Free cash flow	-6	53	95	131

## VALUATION DATA

	2006	2007E	2008E	2009E
P/E	34.8	17.5	12.4	8.56
P/E - to - Sales Growth	11	n.m.	0.6	0.6
EV/Sales	0.3	0.4	0.3	0.2
EV/EBITDA	10.4	10.8	8.19	5.81
EV/OCF	16.6	13.1	12.3	7.26
Dividend yield (%)	10	1	3	4



## Investment Case

We initiate our coverage of Doğuř Otomotiv with a “BUY” rating and assign a target market value of YTL1217mn (US\$993mn), suggesting 47% upside potential.

### **Doğuř Otomotiv should be the main beneficiary of a rebound in domestic demand**

Among the listed Turkish automotive companies, Doğuř Otomotiv is the only one to depend solely on the domestic market. As the exclusive distributor of 13 Volkswagen brands in Turkey, the Company is highly sensitive to vehicle demand fluctuations. The recent initiation of a cutting cycle by the Central Bank with a 25bps cut should encourage increased spending on cars via declining rates on auto loans. Our macro team expects a 25bps rate cut for each month until the year-end, and thus the benchmark interest rate should be down to 16.50% by year-end. Aside from short-term drivers, low car density rates, urbanization, and infrastructural development all remain as mid and long-term drivers. Deriving from our regression model for Turkish auto demand, we expect 16% growth for 2008 (considering a rebound from a weak 2007), and a growth rate ranging between 6-7% until 2020. Besides demand recovery, a favorable currency environment would be also very supportive of Doğuř Otomotiv, as new purchases could be directed to imported models.

### **August 2007 figures suggest this turnaround has begun**

Recently released August retail data and the upward trend since June have promised a recovery, after the consumer confidence index rose by 2.3pp MoM in August as political uncertainty subsided following general elections. Partial compensation of deferred demand on rising consumer confidence and effective distributor campaigns that have accelerated market activity, as well as easing auto loan rates that encourage credit purchases pushed up sales. Consequently, in August new vehicle retail sales surged by 16% on a yearly basis, also rising 7% compared to July '07. This bodes well for the future since we could expect these catalysts to be valid in the short run, with even higher effects on demand.

### **Contribution of Vehicle Inspection Stations has not been fully priced-in**

In 2004, Doğuř Otomotiv won the tender for a 20-year license to build and operate Vehicle Inspection Stations in Turkey in an equal stake consortium with Akfen Holding and TUV SUD. We reach a valuation for the inspection business that suggests a YTL215mn (US\$174mn) fair value. The total value of the Vehicle Inspection Business was only booked as YTL6mn in the first half financials of Doğuř Otomotiv. We have added the difference between our fair value calculation and book value to our core business calculation, at YTL211mn.

### Hidden asset value of consumer financing activities should not be ignored

VW-Doğuş Consumer Financing (VDF) was established as a joint venture of VW Financial Services AG and Doğuş Otomotiv in 1999. The market share of VDF was 52% among consumer financing companies and 14% among all financial institutions, as of 2006. And as of year-end 2006, VDF had extended a total of 50,961 vehicle credits (9.5% down YoY) and achieved YTL1.2bn overall transaction volume (24% up YoY). Despite the negative effect of higher loan rates, VDF managed to increase its transaction volume paving the way for 24% higher net interest income. We valued Volkswagen-Doğuş Financing based on international peers' P/BV multiples. We reached a 1.85x P/B average that resulted in a sizeable fair value of YTL71mn for VW-Doğuş Consumer Financing.

## Valuation

Using a mix of dynamic discounted cash flows (DCF) and peer multiples analysis we arrive at a value of approximately YTL1,217mn for Doğuş Otomotiv.

**Exhibit 1: Combined 2007 and 2008 vantage point analyses (YTLmn)**

Method	Weight	2007	2007-Q3 Contrib.	2008	2008-Q3 Contrib.
		Implied Value		Implied Value	
DCF	60%	1310	786	1417	850
International Peer group comparison	40%	1077	431	1125	450
<b>Fair value</b>			<b>1217</b>		<b>1300</b>
Current Cap			831		831
<b>Upside potential</b>			<b>47%</b>		<b>56%</b>

*Source: Global Securities Estimates*

### Discounted cash flow

In our cash flow analysis, we have forecast revenues for subsequent years based on our estimates for market growth, in addition to the market share and pricing dynamics of Doğuş Otomotiv. Accordingly, we expect a 16% increase in 2008 based on our regression model that assumes an easing of interest rates and steady growth in per capita income. Between 2009 and 2017, we expect growth to range between 6-7%. Accordingly, our forecasts for sales and revenue growth for 2008 are 16% and 20%, respectively.

We have incorporated our estimates for both the market and Doğuş Otomotiv into our cash flow analysis and discounted with a real 11.3% long-term cost of equity assumption through our forecast term of 2007-2017. Calculating the cost of equity, we have assumed a real risk free rate of 6%, risk premium of 15% and unlevered beta of 0.96. Our

assumptions, along with a 2.5% nominal terminal growth rate beyond 2017 have resulted in a fair equity value of YTL971mn for the core business. We then added participation values that exceed book values. Details of the discussions for fair participation values are denoted in the subsequent sections of our report. As of yesterday's closing, the market value of stock promises a 47% upside potential based on our DCF driven fair equity calculation.

**Exhibit 2: DCF valuation of Doğuş Otomotiv (YTLmn)**

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
<b>Profits before tax</b>	71	84	120	167	194	233	254	264	299	337	360
- Taxes paid	15	17	25	35	40	48	53	55	62	70	75
+ Depreciation	13	15	17	19	18	18	18	17	19	10	10
+ Net other non-cash outflows	9	11	13	14	16	18	19	21	23	24	26
+ Increase in accounts payable	-28	96	63	69	72	76	82	91	100	101	103
- Increase in accounts receivable	2	31	20	21	22	24	25	29	31	32	32
- Increase in inventory	-28	83	55	59	62	66	71	79	86	88	91
- Increases in other non-cash WC	0	4	3	3	3	3	3	4	4	4	4
<b>Cash flow from operations</b>	76	70	110	151	172	204	221	227	257	279	298
- Capex	100	40	35	35	35	35	30	30	30	30	30
+ Increase in gross financial debt	30	24	20	15	14	10	10	10	10	10	10
<b>FCFE</b>	5	53	95	131	151	179	201	207	237	259	278
Discount Factor	1.09	1.29	1.51	1.76	2.02	2.36	2.76	3.23	3.77	4.41	5.16
Discounted FCFE	5	41	63	74	75	76	73	64	63	59	54
Terminal Growth Rate	2.5%										
Terminal Discount Rate	16.9%										
Terminal Value	1,997										
PV of Terminal Value	453										
PV of FCFE	646										
+value of participation above book value	211										
<b>Fair Equity Value</b>	<b>1,310</b>										

## International peer comparison

For peer multiple analyses, we have refrained from using any domestic automotive companies, since they are all manufacturers. In short, their hugely different margins and cost & expense structures make it impossible to compare auto manufacturers and distributors. Therefore, we have opted to use the multiples of international distributor peers, whose business models mostly overlap with the multiples of Doğuş Otomotiv. Doğuş Otomotiv holds valuable, but mostly hidden value in its financial assets, which lifts market capitalization above enterprise value. In particular after adding the fair value of Vehicle Inspection Stations to participation values, we reach YTL478mn, constituting 65% of total market capitalization. Therefore, to calculate adjusted EV/EBITDA multiples, we have subtracted net cash and participation value from market capitalization. Likewise, to calculate fair market capitalizations for Doğuş Otomotiv, we have added net cash position and participation values to implied enterprise value from the average of international EV/EBITDA multiples. Although we have provided a full display of the comparison of P/E and P/S multiples with international peers', we have not incorporated these multiples to our analysis, as the implied values for Doğuş Otomotiv are unfairly low in the absence of considerable contribution of participation values.

Exhibit 3: Relative valuation of Doğuş Otomotiv

	EV/EBITDA			P/E			P/Sales		
	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
S.A. D'ieren N.V.	5.62	5.27	5.05	11.4	10.5	9.13	0.27	0.26	0.25
Astra International	10.1	8.76	7.65	13.9	11.7	10.3	1.13	0.98	0.86
Sag Gest-Solucoes Automovel	7.22	6.95	7.13	10.6	9.84	11.1	0.51	0.49	0.47
Delek Automotive Systems Ltd	7.28	6.85	6.93	10.1	9.78	9.84	0.84	0.74	0.72
Jardine Cycle&Carriage Ltd	8.34	7.36	6.51	12.6	10.9	9.77	0.46	0.41	0.38
Bilia Ab-A Shs	6.97	5.70	5.40	19.3	12.3	10.3	0.16	0.15	0.15
Pendragon Plc	4.31	4.00	3.77	14.1	9.48	7.43	0.09	0.09	0.09
Lookers Plc	7.39	6.90	6.28	13.2	11.7	9.83	0.18	0.17	0.17
<b>Doğuş Otomotiv (adj.)</b>	<b>4.20</b>	<b>3.07</b>	<b>2.40</b>	18.4	12.2	8.49	0.33	0.29	0.26
<b>Implied multiples for DOAS</b>	<b>7.55</b>	<b>6.83</b>	<b>6.42</b>	<b>13.14</b>	<b>10.75</b>	<b>9.71</b>	<b>0.46</b>	<b>0.41</b>	<b>0.38</b>
<b>Weight</b>	0.13	0.13	0.13	0.00	0.00	0.00	0.00	0.00	0.00
<b>Implied Mcap for DOAS</b>	<b>981</b>	<b>1,092</b>	<b>1,157</b>						
<b>Weighted average implied Mcap</b>	1,077								

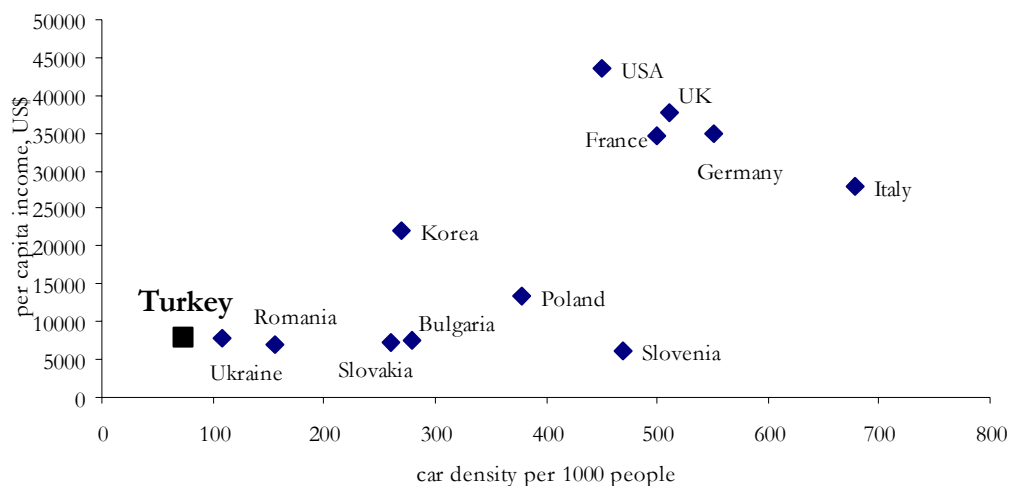
\*adjusted for participation values

## Sector Overview

### Turkish automotive market far from maturity

The old story continues and will do so a while yet; 74 car owners per 1,000 people means fertile grounds for continued growth. As seen in the graph below, Turkey has the lowest car density relative to its per capita income level among OECD countries. Yet despite this, it does make sense relative to its per capita income. Other than per capita income, variables such as highway infrastructure, age of population, and household employment also directly influence car ownership across countries. Putting the OECD comparison aside, we have also included certain other emerging countries to ascertain Turkey's place among countries of similar per capita income level. This indicated that countries such as Bulgaria, Slovakia, Ukraine and Romania that have similar or lower per capita income levels have left Turkey behind in car ownership ratios. One reason for this is the huge stock of old vehicles in those countries, which actually means that new vehicle sales do not exceed those of Turkey. What is in fact happening is that as these countries are undergoing a period of rapid growth, consumption patterns seem to precede real per capita income growth.

**Exhibit 4: TURKEY-Car Ownership /Per Capita Income**



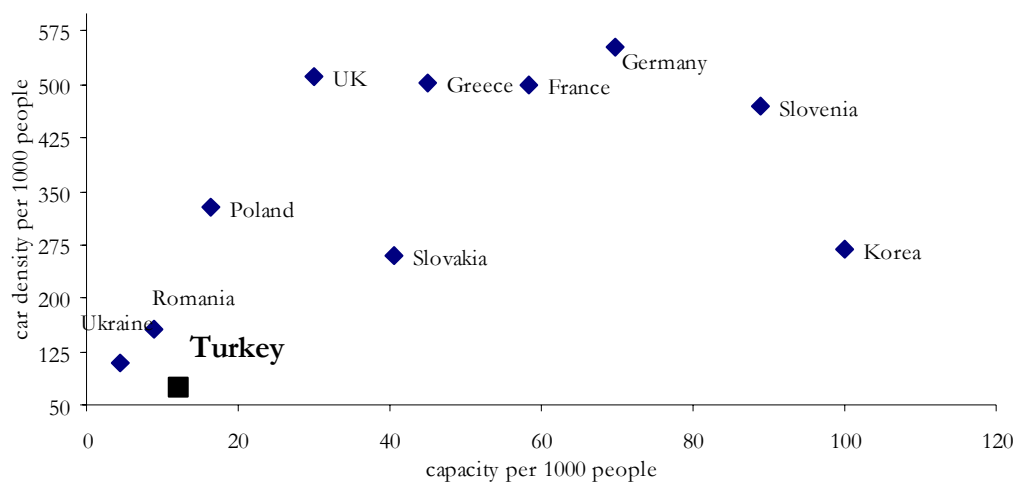
*Source: World Bank, Global Securities*

Nevertheless, rapid growth of European manufacturers in Turkey is at a turnaround point considering the low car park with population growth, rising per capita income and urbanization speed. Assuming that macro-economic challenges ease, or at least do not worsen (due to political instability, a slowing EU process or unsustainable current deficit), consumption should increase at a steady pace to catch up with the global average.

## Supply side of the sector is crowded

The automotive sector in Turkey is composed of both producers and importers of passenger and commercial vehicles. Turkey hosts numerous manufacturing plants for different OEMs such as Fiat, Ford, Honda, Hyundai, Renault and Toyota, along with a huge sector of foreign suppliers. Exhibit 5 points to Turkey's place among numerous OECD countries, as well as emerging markets. Although in the previous graph Turkey appeared particularly weak compared with emerging peer markets, manufacturing capacity seems sizeable relative to its car ownership figures. This mainly results from being a major hub for exports to Western markets. Adding the marginal effect of its high growth prospects, export capability has made Turkey attractive for foreign manufacturers. These aside, a reputation for low labor costs and high quality production sites across Europe has supported investment incentives in Turkey.

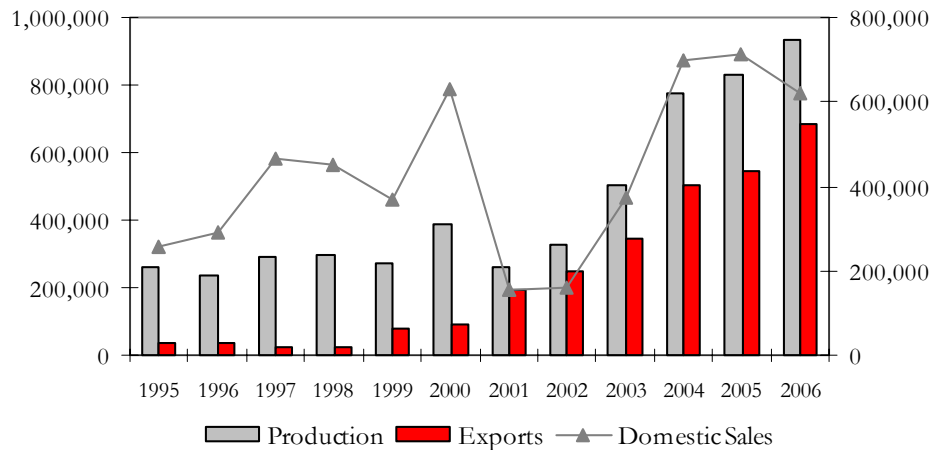
**Exhibit 5: TURKEY – Production Capacity Per 1000 people /Car Density**



*Source: World Bank, Global Securities*

As seen in Exhibit 6, domestic volatility was mostly the name of the game in Turkish auto demand for more than a 10-year period. During years where demand collapsed due to political or financial crisis, producers increased their exports to compensate for revenue losses. That largely helped manufacturers to sustain utilization rates above breakeven. This was indeed the case as the market began to contract in 2006. Although domestic sales contracted severely, producer companies managed to survive without big losses. The graph below denotes this trend since 1995, as once export volumes became sizeable; they provided a soft-landing for exporter companies.

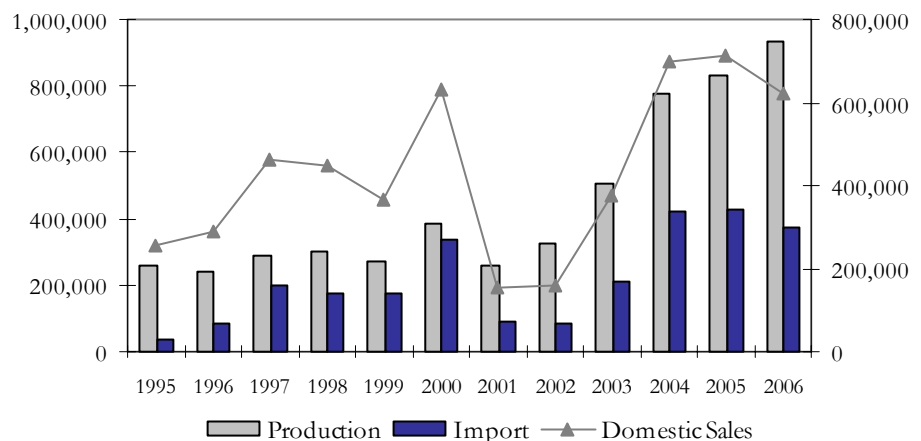
**Exhibit 6: Production/Sales/Exports Per Year (Units)**



*Source: Automotive Manufacturers' Association (AMA)*

For importer companies, the trend has worked in just the opposite manner. As may clearly be seen in the graph below, imports are totally dependent on domestic demand. Production is naturally slower to adjust to either upside or downside demand fluctuations. As we argued in the previous section, exports provide manufacturers some shield against low capacity utilization rates in market downturns. The share of imported vehicles was just 14% in 1995 just before the abolition of import duties on vehicles from the EU with Turkey's Customs Union membership in 1996. After reaching 43% in 1997, the share of imports in total sales ranges between 40-60% due to domestic macroeconomic stability.

**Exhibit 7: Production/Sales/Imports Per Year (Units)**

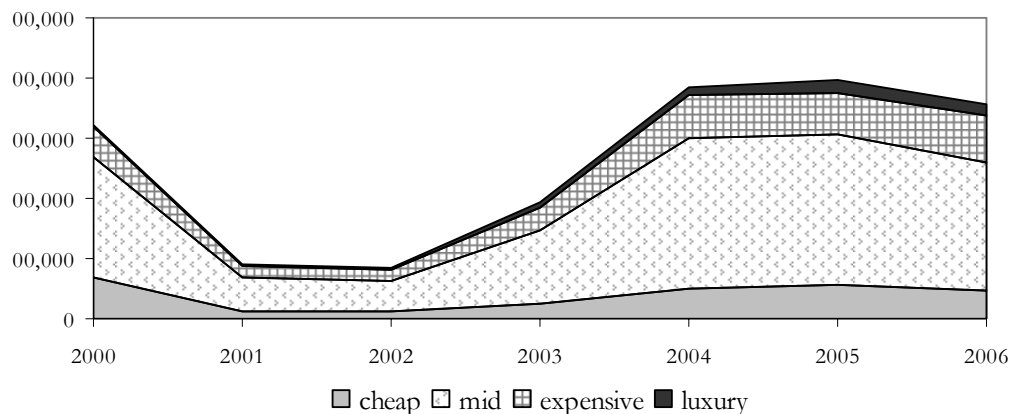


*Source: AMA*

Turkish consumers have a strong appetite for imported cars. Since the current nature of OEM manufacturing has limited model availability in Turkey, consumers preferring a wider choice have had to rely on imported autos. The absence of a Turkish original manufacturer is another reason behind the limited models produced in Turkey, and also gives rise to the need for imports. On the other hand, as delivery periods have shortened with effective inventory management, those consumers reluctant to buy imported cars out of time concerns have become more encouraged.

In order to reveal the consumption patterns on imported cars, we have prepared a breakdown of imported cars based on their prices. At first glance, the mid-price segment is the one with highest share in all years, as expected. Mid-price mostly coincides with cars in A (basic), B (small) and C (lower-medium) segments. These segments are based on an internationally accepted segmentation based on various technical aspects such as engine sizes or body widths. Considering that 83% of the car park is actually composed of the vehicles in these three segments, the high share of mid-priced cars in total imports makes sense. For expensive and luxury segments, we observe that as total imports have increased, the shares of these two segments have also increased. This denotes that as demand is buoyant due to a rising consumption tendency, the upper consumer profile switches more to upper priced cars. The graph below denotes that cheaply priced cars increased their shares in total imports in last 3-4 years. Although the Turkish consumer should have preferred cheap imported cars more due to price concerns, limited low-priced import models have been the main reason for sluggish sales in this segment. Yet we foresee growth here as cheap imported cars are destined to increase supply.

**Exhibit 8: Breakdown of Imports\***



\*cheap segment (below YTL 25,000); mid segment (YTL25,000-70,000); expensive segment (YTL70,000-YTL150,000); luxury segment (above YTL150,000)

Source: AMA

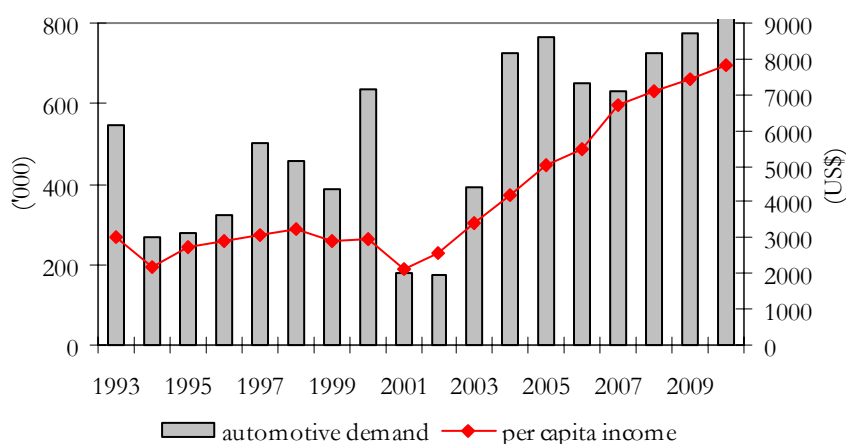
## Major determinants of Turkish auto demand

Automotive demand in Turkey is highly correlated with macroeconomic variables as are many other international markets. Turkish consumers usually base their purchasing decisions on a set of variables including per capita income, borrowing rates, taxes imposed on vehicles and their consumption confidence.

### Auto demand vs. per capita income

We have devised a regression model that simulates the effects of loan rates and per capita income levels on auto demand. After regressing per capita incomes on auto demand, we arrived at a strong correlation. Our model suggests a 5% rise in per capita income in real terms, spelling an automotive demand increase of 14%. This mainly works at both economic and psychological levels. Higher purchasing power in real-terms enables consumers to feel confident about new car purchases, or else about the replacement of their existing model. As shown in the graph below, auto demand moves in same line as per capita income.

**Exhibit 9: Automotive Demand (yearly)/Per Capita Income**



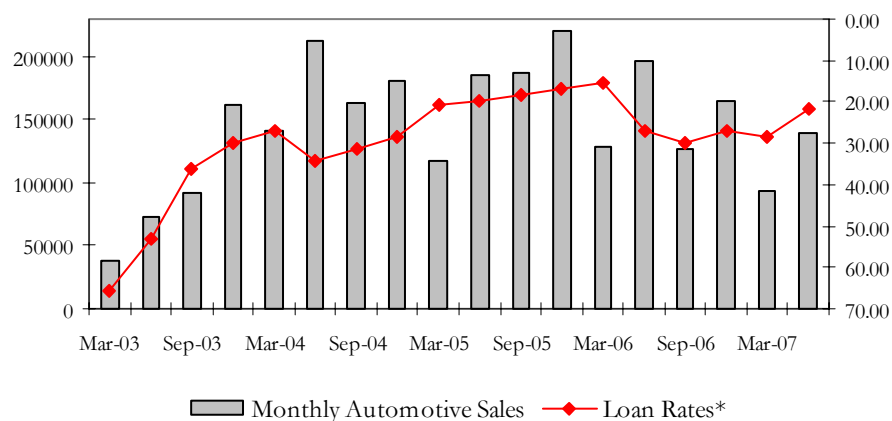
*Source: Automotive Distributor's Association (ADA)*

### Auto demand vs. loan rates

Another suggestion arising from our model is that for every 100bp cut in bank lending rates, car demand climbs 4%. This relates to nominal rates, and so assuming long-term contraction in the Turkish real borrowing rate, as well as a decline in inflation, the long-term prospects for domestic demand will be strong. The share of automotive credits in total purchases has substantially grown on increased demand and lower loan rates. In 2006, 58% of light vehicles sales in Turkey were made on credit, whereas the figure had been a mere 15% in 1991. This development in credit usage has also increased the sensitivity of demand to loan rate fluctuations.

As may be seen in the graph below, demand fluctuates in the same direction as auto loan rates. Having jumped in response to the May '06 turbulence, rates have not succeeded in falling back to early 2006 levels. Yet they had begun to decline by December '06, accelerating their fall once results of July's general elections were in. On rising expectations of a Central Bank rate cut, rates eased to the 1.5-1.6 range in August, the lowest levels seen since May '06. We expect that the first 25bps cut and any subsequent cuts till year-end to encourage banks to drop rates further.

**Exhibit 10: Automotive Demand (quarterly) /Auto Loan Rates**



*\*YTL and compounded*  
*Source: ADA*

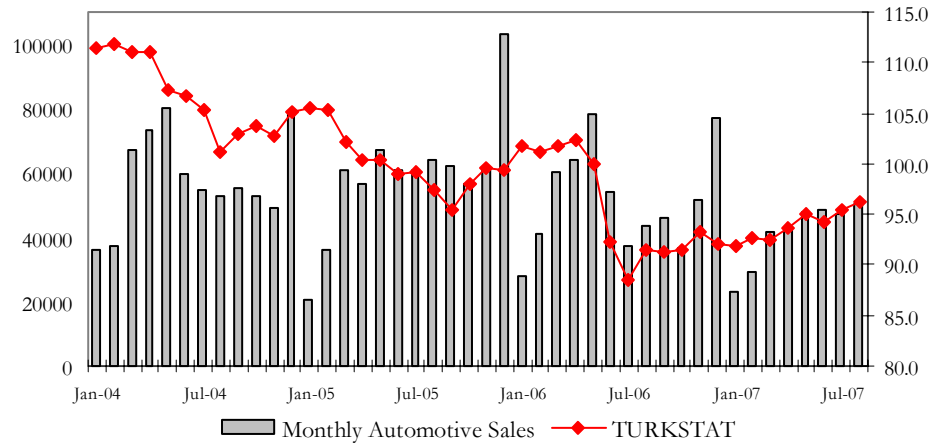
We have incorporated our macro team's forecasts on per capita income growth of 4.8% in 2007 and 5% average growth between 2007 and 2016 into our regression model. Forecasting borrowing rates, we have used updated estimates following the recent Central Bank rate cut. We expect to complete this year with a 16.5% rate (down 75bps from the current level) and then see cutting of between 50-150 bps until 2013. After factoring two variables into the model, we arrive at 15% growth for 2008 (considering a rebound from a weak 2007) with a growth pattern ranging between 7-4% until 2020.

### Auto demand vs. consumer confidence

Besides the effects of income levels and loan rates, other effects such as consumer confidence, tax rates and energy prices are also effective factors that should be mentioned. Consumer confidence is actually influenced by numerous factors such as political and economic stability and various macro indicators such as income increases, interest rates and exchange rates. May '06 turbulence negatively impacted consumer confidence through interest rate increases and currency depreciation. As seen in the graph below, new vehicle sales responded to the decline in confidence with a time lag of 1-month or less, and thereafter recovered with incremental increases in the index. The index deteriorated again ahead of the general elections due to political instability, pulling vehicle demand down. Yet

as is clearly demonstrated in the graph below, since the elections, consumer confidence has begun to recover and the green shoots of a recovery were observed in August data with a time lag. (Please refer to “Is a recovery underway?” section for details).

**Exhibit 11: Automotive Demand (monthly-in units) / Consumer Confidence Index**



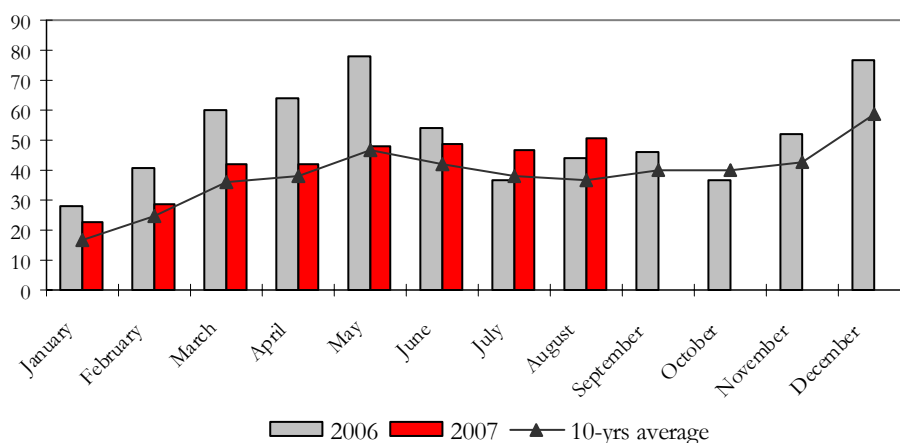
Source: ADA

## Is a recovery underway?

Domestic wholesales began to decline after the May '06 wobble that dented consumer confidence and raised interest rates. Ahead of July elections, most consumers had also awaited an end to political uncertainty and perhaps lower loan rates, too. And while now a recovery based on deferred demand is predictable, its likely size remains vague. August was the first post-election month to indicate whether consumers were actually buying into the election results. Retail data for the month was promising, since new vehicle sales surged in August by 16% on a yearly basis, also rising 9% compared to July '07. Nevertheless, 8M07 unit sales stand at 332,501, hence down 19% YoY.

The market was active in August mainly due to; 1) gradual compensation of deferred demand on rising confidence, 2) effective distributor campaigns that came earlier than expected (campaigns are generally arranged ahead of new model launches), 3) easing auto loan rates that encourage credit purchases. All of these factors (please refer to the "major determinants of auto demand" section for details) have paved the way for higher sales in both passenger cars and commercial vehicles. On 13 September, the Central Bank rather unexpectedly cut rates by 25bp, a step that should encourage banks to cut loan rates further. Yet demand could respond with some lag as consumers wait to see just how far they could fall. We expect new vehicle sales of Sept-Dec '07 to surge 22% YoY, easing full-year contraction to 11%. Yet this forecast could be subject to downward/upward change due to poor September results, or else the positive effect of further rate cuts. Moreover, since August is seasonally weak, we should ideally examine September data to gauge the real extent of recovery.

**Exhibit 12: Monthly New Vehicle Sales ('000 units)**



Source: ADA

## Business overview

Main business lines of Doğuş Otomotiv are;

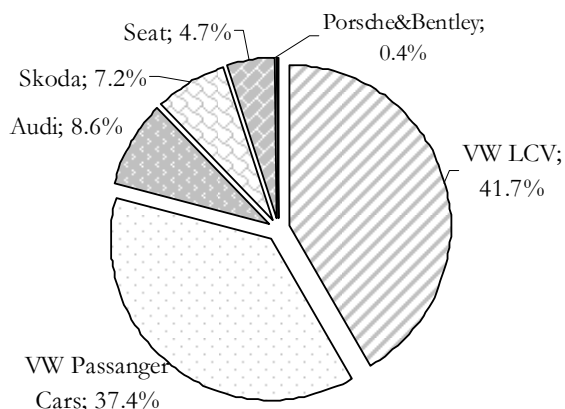
- 1) Exclusive importer and distributor of 13 brands of Volkswagen International, namely Audi, Porsche, Bentley, Lamborghini, Scania, Seat (via 100% subsidiary Katalonya Auto), Skoda (via 50% subsidiary Yuce Auto), Volkswagen Marine, Krone, Meiller and Volkswagen Commercial.
- 2) Operator of a retail and after-sales network that is decomposed into a fully-owned network, called “Doğuş Oto” and independent authorized dealers that purchase from Doğuş Otomotiv for sale to the end-user. “Otofix” Quick service outlets and “DOD” Used car sales are also among the retail businesses of the Company.
- 3) Automotive related areas such as; automotive financing (VDF), fleet leasing, logistics and insurance,
- 4) New pipeline projects such as; a) vehicle inspection business through a 33% stake in a consortium, b) distribution and retailing of VW branded commercial vehicles in Egypt, c) retailing the Porsche brand in Switzerland and, d) production of Krone and Meiller brands (semi trailer and trailers) in Turkey.

## Participating across the value chain

### Import and distribution:

Doğuş Otomotiv has built up robust brand recognition for VW that has significantly contributed to its current market share. The Company has a 12% stake in the overall market, while its share among importers is 20%. Doğuş Otomotiv has very wide sales and service network comprising 279 sales and 309 after sales service points. As seen in the exhibit below, 80% of Doğuş Otomotiv sales are generated by sales in the PV and LCV segments of VW brands. As of August, VW models have 13.5 and 13.3 market shares in PV and LCV segments, respectively. Audi currently holds third place in total sales, after strong performance in 2005 and 2006 on the back of new model launches.

**Exhibit 12: Sales Breakdown as of August '07**



*Source: Company*

As seen in the exhibit below, as of August, Doğuř Otomotiv is ranked second in both PC and LCV sales among all sector players, including local producers and importers. Renault (both producer and importer) takes first place ahead of Doğuř Otomotiv in passenger cars sales, while Ford Otosan is ranked first in light commercial vehicles with a solid 32.8% market share that is hard to catch up with. Among importers, Doğuř Otomotiv is the market leader with a 20% share in light vehicles sales. In PC sales, Ford and Opel are the closest competitors of Doğuř Otomotiv (with 16% and 12% shares, respectively), whereas Renault and Hyundai follow Doğuř Otomotiv in LCV sales with respective 20% and 7% market shares.

**Exhibit 13: Top Three Companies in Monthly Market Share as of August**

	YTD 2006	YTD 2007	% Δ (yoy)	Aug' 06	Sep' 06	Oct' 06	Nov' 06	Dec' 06	Jan' 07	Feb' 07	Mar' 07	Apr' 07	May' 07	Jun' 07	Jul' 07	Aug' 07	% Δ (yoy)	% Δ (mom)
<b>Passenger Car (%)</b>																		
RENAULT	16.6	17.4	0.8	12.7	19.1	19.2	20.4	21.7	18.2	16.3	17.2	19.7	17.7	18.9	17.1	14.1	1.4	-3.0
<b>DOGUS OTOMOTIV</b>	<b>11.5</b>	<b>11.6</b>	<b>0.1</b>	<b>13.8</b>	<b>10.8</b>	<b>13.1</b>	<b>10.4</b>	<b>11.6</b>	<b>11.8</b>	<b>12.4</b>	<b>12.2</b>	<b>11.5</b>	<b>10.5</b>	<b>10.7</b>	<b>10.8</b>	<b>13.5</b>	<b>-0.3</b>	<b>2.7</b>
TOFAS	10.1	9.9	-0.1	8.0	7.4	6.1	6.1	7.3	6.0	7.0	8.3	8.1	12.1	11.6	11.6	10.8	2.8	-0.7
<b>LCV (%)</b>																		
FORD	27.6	34.4	6.8	31.4	27.3	29.4	30.7	29.1	26.7	26.1	27.6	26.0	28.5	27.5	32.2	32.8	1.4	0.6
<b>DOGUS OTOMOTIV</b>	<b>13.9</b>	<b>14.5</b>	<b>0.6</b>	<b>13.4</b>	<b>12.4</b>	<b>12.5</b>	<b>10.1</b>	<b>11.4</b>	<b>12.2</b>	<b>12.3</b>	<b>11.8</b>	<b>11.8</b>	<b>11.5</b>	<b>12.8</b>	<b>11.5</b>	<b>13.3</b>	<b>-0.1</b>	<b>1.9</b>
TOFAS	15.9	19.1	3.2	13.0	14.8	15.2	16.9	19.3	14.6	17.4	16.6	17.3	16.4	16.5	17.1	12.8	-0.2	-4.3
<b>PC+LCV (%)</b>																		
FORD	17.5	16.9	-0.6	19.3	16.1	17.8	18.0	16.3	15.8	16.7	16.6	15.2	15.7	16.3	18.4	19.7	0.3	1.2
<b>DOGUS OTOMOTIV</b>	<b>12.5</b>	<b>11.8</b>	<b>-0.6</b>	<b>13.6</b>	<b>11.4</b>	<b>12.8</b>	<b>10.3</b>	<b>11.5</b>	<b>12.0</b>	<b>12.4</b>	<b>12.0</b>	<b>11.6</b>	<b>10.9</b>	<b>11.5</b>	<b>11.1</b>	<b>13.4</b>	<b>-0.2</b>	<b>2.4</b>
RENAULT	14.3	15.1	0.8	11.9	15.8	15.7	16.4	17.0	14.2	14.0	15.2	16.5	15.3	16.6	15.0	13.1	1.2	-1.9

Source: Automotive Distributors Association (ADA), Global Securities Research

As can be seen in the table below, in August Doğuř Otomotiv increased its market share on a monthly basis. This was mainly due to the sparkling performance of Audi and Volkswagen brands in the passenger car segment. Audi was strong on the new launches of the TT Roadster and R8 that boosted demand. In fact, the overall premium segment increased its share in passenger cars in August. Similarly, Volkswagen brands enjoyed the demand increase in mid-upper and luxury classes with new launches of the Phaeton and a face lift for the Touran. Therefore, increasing demand in the upper-mid and luxury segments paved the way for higher unit sales in August.

**Exhibit 14: Monthly VW Brand Sales (units)**

MODEL	Aug' 06	Sep' 06	Oct' 06	Nov' 06	Dec' 06	Jan' 07	Feb' 07	Mar' 07	Apr' 07	May' 07	Jun' 07	Jul' 07	Aug' 07	% Δ (yoy)	% Δ (mom)
Volkswagen	4,714	4,187	3,762	4,017	7,072	2,208	2,958	3,950	3,792	4,011	4,419	4,133	5,463	15.9	32.2
Passenger Car	2,192	1,900	1,860	1,867	3,606	995	1,486	1,876	1,768	1,845	2,050	1,929	2,519	14.9	30.6
LCV	2,522	2,287	1,902	2,150	3,466	1,213	1,472	2,074	2,024	2,166	2,369	2,204	2,944	16.7	33.6
Audi	468	449	443	563	977	268	328	389	400	554	434	350	635	35.7	81.4
Bentley	-	-	-	-	-	-	-	-	4	5	1	2	2	-	0.0
Porsche	15	17	17	13	15	8	16	22	11	28	17	20	11	-26.7	-45.0
Seat	371	252	257	268	332	133	159	195	300	219	252	290	264	-28.8	-9.0
Skoda	396	363	196	472	426	150	153	484	404	406	465	453	416	5.1	-8.2
<b>MARKET SHARES</b>															
Passenger Car (%)	13.8	10.8	13.1	10.4	11.6	11.8	12.4	12.2	11.5	10.5	10.7	10.8	13.5	-0.3	2.7
LCV (%)	13.4	12.4	12.5	10.1	11.4	12.2	12.3	11.8	11.8	11.5	12.8	11.5	13.3	-0.1	1.9

Source: ADA

**Used car sales (DOD):**

DOD engages in used car purchase, sales and trading services with authorized dealers. Doğuş Otomotiv took over DOD brand in 2006. The Company recently launched a venue called “Dodcity” in October 2006, where the company arranges open auctions every two weeks. Basically, the Company brings potential sellers and buyers of second hand autos together and earns commission on each transaction (Commission rates vary according to the model and vehicle segment). Apart from Dodcity, every single distributor also accepts second-hand cars in part-exchange for new models after necessary inspections are done. This is a multi brand business since Doğuş Otomotiv’s second hand portfolio includes every model sold in Turkey. The Company estimates the total second-hand market ultimately reaching 75% of new car sales. Yet since the market is generally unregulated, current market size remains a bit of a mystery. However, the Company has informed us that DOD had registered 7.7K sales in 2006, nearly doubling YoY.

The Company expects 14,350 sales for DOD this year, with 6,500 already realized as of 1H07. A further doubling is expected in 2008. Although the bulk of the market is currently unregulated, the Company expects this to inevitably change in compliance with EU regulations. An important point worth-mentioning is that Doğuş Otomotiv provides guarantees for these vehicles after necessary inspections, which naturally makes it a preferable address for many customers. We have incorporated in our unit sales forecasts a further 29,000 unit sales in 2008 and 20% CAGR for each year till 2017.

**VDF fleet services:**

VDF Fleet Services provides operational fleet rental services. The Company gained a 9% market share in 2006. Doğuş Otomotiv partnered Volkswagen on this project, and this year Volkswagen transferred its shares to LeasePlan, ranked second in the global fleet market. Accordingly, Doğuş Otomotiv management is hopeful of stronger growth here. Apart from the revenue from fleet sales, for interested companies, the Company will provide loans through VDF Consumer Financing. Additionally, VDF Fleet Services provides a sales platform for the sales of used cars of the fleets that are returned to DOD and all its franchise dealers. Doğuş Otomotiv is thereby creating value through the entire service chain. However, we currently do not reflect any value contribution from this business.

**Quick-Fix Service (Otofix):**

Doğuş Otomotiv plans to open service outlets focusing on fast (max 1.5 hrs) and economic service, to be concentrated in large cities and residential areas. In May 2007, the Company opened the first outlet in Seyrantepe (on the European Side of Istanbul), and is already scoping for another site on the Asian Side of Istanbul. Location of these outlets will also be determined by the location of Motor Vehicle Inspection Stations, to be operational from 2008. The Company expects considerable synergy from these two closely-related businesses. Opening service outlets next door to inspection stations should

attract those car owners, whose vehicles have failed inspection for a quick-fix. Although this business could be accretive in the near future, we have not yet incorporated it, as the business remains very immature.

## A hidden asset: The consumer financing business

VW Doğuş Consumer Financing (VDF) was established as a joint venture of VW Financial Services AG and Doğuş Otomotiv in 1999. VDF's market share was 52% among overall consumer financing companies, and 14% among all financial institutions as of 2006. The main business activity of the company is the financing of customers' automobile purchases. VDF is consolidated through the equity pick-up method in accordance with Doğuş Otomotiv's 49% stake in the JV.

The car loan market has slowed down in parallel to developments in domestic vehicle sales. Rising interest rates combined with financial market volatility has negatively impacted loan usage, with decline in new credits outpacing that of vehicle sales. For VDF, new credit decline was lower than the market (9.5% vs. c20% contraction in the total loan market). Additionally, the penetration rate (percentage of dealers' vehicle sales financed with VDF credits) was kept at 2006's level of 29%, despite new brands joining VDF's portfolio. Customers continue to favor VDF for its swift and practical consumer financing services.

**Exhibit 15: Summary Data on Sector**

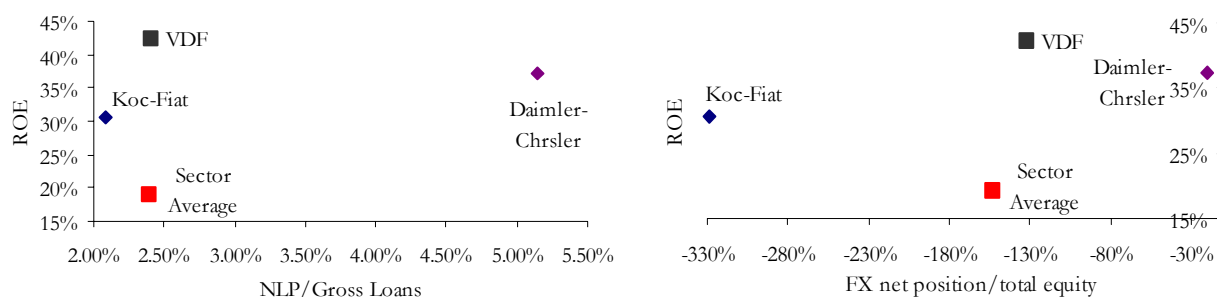
	Mar-06	Jun-06	Sep-06	Dec-06	Mar-07
Number of Companies	9	9	9	9	9
Number of Branches	4	4	4	6	5
Number of Employees	417	433	436	443	453
HH index	3,554	3,390	3,194	3,008	3,005
Number of Customers	82,736	105,499	107,180	103,620	93,491
Aggregate Earnings(YTLmn)	7	21	37	46	14
Aggregate Total Assets(YTLmn)	2,659	3,085	3,181	3,384	3,305
Debt/Equity	13.6	14.0	13.6	13.6	11.8
NPL/Total Loans(%)	1.4	1.6	1.7	2.4	2.0
ROE(%)	4.0	10.0	16.0	19.0	6.0
ROA(%)	0.3	0.7	1.2	1.4	0.4
Net FX Position/Equity(%)	-167.0	-211.0	-113.0	-153.0	-157.0

*Source: Banking Regulation and Supervision Agency, Global Securities*

As of year-end 2006, VDF had extended a total of 50,961 vehicle credits (9.5% down YoY) and achieved a YTL1.2bn overall transaction volume (24% up YoY). Approximately, 60-70% of total car sales are made on credit. Despite the negative effect of higher loan rates, VDF managed to increase its transaction volume paving the way for 24% higher net

interest income. At the bottom line, the Company generated net income of YTL16mn<sup>1</sup>, marking an 18.8% YoY rise.

**Exhibit 16: Comparison of Consumer Financing Companies**



Source: Banking Regulation and Supervision Agency, Global Securities

We have valued Volkswagen-Doğuş Financing based on international peers' Price to Book multiples since there is no consumer financing company listed on the ISE. We have not incorporated domestic banking multiples since it would not be fair to compare the size of the banks' consumer financing activities with that of dedicated consumer financing companies. We have tried to pick automotive and consumer financing companies and to be selective on market capitalization sizes. After simply taking the averages of the P/B multiples, we have applied a 10% discount on transparency concerns. Even after discounting multiples, we have reached a 1.85x P/B average that resulted in a sizeable fair value of YTL71mn. Indeed, comparing these multiples with the current banking P/B of 3.5x, this supports our decision not to use banking multiples.

**Exhibit 17: VDF valuation**

Company	Country	ROE	ROA	Price to Book
Kuwait Financing Inv.	Kuwait	47%	2.3%	2.23
Housing Finance Co.S.A.K.C.	Kuwait	17%	5.1%	1.61
Centrepont Alliance Ltd.	Australia	15%	3.2%	1.16
Asset Loans Ltd	Australia	19%	2.8%	2.97
Acred	Morocco	16%	2.4%	5.43
Dominion Finance Holdings	New Zealand	28%	4.5%	3.35
Thanachart Capital Pcl	Thailand	15%	2.1%	0.88
Orikacapital Co Ltd	Japan	-2%	-1.0%	0.61
Lopro Corp	Japan	-33%	-0.9%	0.22
VDF	Turkey	42%	1.2%	
Sector Average	Turkey	19%	1.4%	
average P/B				2.05
average P/B@disc				1.85
implied value for VDF				YTL71mn

Source: Bloomberg, Global Securities

<sup>1</sup> From 2006 annual report of VDF

## Vehicle inspection is good for business

In 2004, Doğuş Otomotiv won the tender for a 20-year license to build and operate vehicle inspection stations in Turkey in an equal stake Consortium (TUVTURK) with Akfen Holding and TUV SUD. After consideration of various lawsuits filed against the tender, the Council of State rejected all of them and approved the tender going to TUVTURK, which on 15 August 2007 signed the concession contract. The concession requires that at least 189 stationary stations, 433 inspection lanes and 38 mobile stations are established within 18 months of signing. According to the revenue sharing agreement; for the first 3 years 30% of income, between 3-10 years 40% of income and between 10-20 yrs 50% of income will be shared with the government. Even though the business has been perceived as a “cash cow” when considering the captive market and monopoly position, we must also note the reality of a low registration rate in Turkey. Therefore, TUVTURK would need to strictly follow-up un-inspected vehicles to raise value through a higher capture rate. TUVTURK subcontracts the station network on a regional basis. Yet the Consortium will operate the stations in Istanbul through a separate company called TUVTURK Istanbul to be established with a shareholding structure of 31.66% TUV SUD, 31.66% Akfen, 31.66% Doğuş Otomotiv and 5% Minorities.

**Exhibit 18: Car Park Per Year (units)**

	TOTAL	Passenger Car <sup>(1)</sup>	Minibus	Bus	Small Truck <sup>(1)</sup>	Truck <sup>(2)</sup>	Motorcycle	Tractor	Special Purpose Vehicles
1992	4 584 717	2 181 388	145 312	75 592	308 180	379 410	655 347	828 580	10 908
1993	5 250 622	2 619 852	159 900	84 254	354 290	406 398	743 320	870 559	12 049
1994	5 606 712	2 861 640	166 424	87 545	374 473	419 374	788 786	895 506	12 964
1995	5 922 859	3 058 511	173 051	90 197	397 743	432 216	819 922	937 528	13 691
1996	6 305 707	3 274 156	182 694	94 978	442 788	453 796	854 150	988 142	15 003
1997	6 863 462	3 570 105	197 057	101 896	529 838	489 071	905 121	1 053 381	16 993
1998	7 371 541	3 838 288	211 495	108 361	626 004	519 749	940 935	1 107 457	19 252
1999	7 758 511	4 072 326	221 683	112 186	692 935	531 690	975 746	1 131 626	20 319
2000	8 320 449	4 422 180	235 885	118 454	794 459	557 295	1 011 284	1 159 070	21 822
2001	8 521 956	4 534 803	239 381	119 306	833 175	562 063	1 031 221	1 179 068	22 939
2002	8 655 170	4 600 140	241 700	120 097	875 381	567 152	1 046 907	1 180 127	23 666
2003	8 903 843	4 700 343	245 394	123 500	973 457	579 010	1 073 415	1 184 256	24 468
2004	10 236 357	5 400 440	318 954	152 712	1 259 867	647 420	1 218 677	1 210 283	28 004
2005	11 145 826	5 772 745	338 539	163 390	1 475 057	676 929	1 441 066	1 247 767	30 333
2006	12 227 393	6 140 992	357 523	175 949	1 695 624	709 535	1 822 831	1 290 679	34 260
2007 <sup>(3)</sup>	12 590 092	6 295 046	365 113	176 261	1 787 793	717 635	1 901 104	1 309 370	37 770

(1) Land vehicle is included.

(2) Heavy load trucks are included such as tippers, trailers and semi-trailers, tankers)

(3) as of June-end.

*Source: TURKSTAT Road Motor Vehicle Statistics, June/2007*

As can be seen in Exhibit 19, 25% of total vehicles are over 20 yrs old, of which 55% are older than 30 years. Hence many vehicles would face difficulty in passing an inspection. This figure is even higher for Heavy Commercial Vehicles, with 38% older than 20 yrs, and again, with the bulk being unregistered. Therefore, it would prove particularly difficult to register such vehicles, as a much more detailed inspection would disincentivize owners from registration, hence impacting operator revenues.

**Exhibit 19: Age Breakdown of Car Park (units)**

	TOTAL	Passenger Car <sup>(1)</sup>	Minibus	Bus	Small Truck <sup>(1)</sup>	Truck <sup>(2)</sup>	Motorcycle	Tractor	SPV
> 20 years	2,659,064	848,171	66,409	38,762	258,910	259,713	467,765	10,933	708,401
...of total(%)	24	15	20	24	18	38	32	36	57
10-20 years	3,348,166	2,131,913	87,002	46,842	212,134	162,505	443,480	6,677	257,613
...of total(%)	30	37	26	29	14	24	31	22	21
< 10 years	5,138,596	2,792,661	185,128	77,786	1,004,013	254,711	529,821	12,723	281,753
...of total(%)	46	48	55	48	68	38	37	42	23

(1) Land vehicle is included.

(2) Heavy load trucks are included such as tippers, trailers and semi-trailers, tankers)

(3) as of June-end.

Source: TURKSTAT Road Motor Vehicle Statistics, June/2007

### Main Figures of the Vehicle Inspection Business

Turkey's car park increased 7.3% per annum between 1992 and 2006, to 12.2 million. TUVTURK expects the number to grow by 7% per annum on average during the contract period. Another important factor to consider is time specifications for inspection requirements. Private passenger cars require inspection at the end of the first 3 years and every 2 years thereafter. The biggest revenue generator here is commercial vehicles, which require annual inspection. And so when considering that they are currently generally of poor condition, TUVTURK stands to generate a substantial turnover from their inspection. The new inspections would be far more detailed, resulting in the withdrawal of many vehicles from the road.

Currently a very low capture rate is another notable variable in the equation. According to 2006 figures, while 6mn vehicles required inspection (49% of the total car park) in 2005, only 3.6mn vehicles were inspected. The reason for such a low ratio is that publicly-owned stations failed to capture the bulk of drivers due to an inadequate station network. The consortium expects to increase capture rate on the back of new regulations and tighter follow-up. Indeed, de-centralization of follow-up through subcontracting may well boost the capture rate. Yet we still have doubts over the capture rate increasing gradually to 85% within 7 years and stabilizing at 85% thereafter (as expected by the company for cities that have capture rates below 50%). Nonetheless, we believe the ratio could rise to 80% within 10 years.

### Subcontracting into Regional Franchises

TUVTURK currently awards regional franchises to ensure maximum penetration into the population. The consortium decides on the license fees based on the car park and revenue forecasts of a particular city. It obtains 25% of total franchising fees as introduction of the stations. The remaining portion will be paid upon delivery of the stations, in around 1.5 years time. Subcontractors will operate the stations for 20 years along with main operator TUVTURK. According to the system, subcontractors are required to pay 7% of their annual gross revenues to TUVTURK in the first 10 years. And over the subsequent 10 years, the ratio rises to 20%.

TUVTURK has issued US\$552mn in loans (US\$352mn for the operating licenses for the inspection stations excepting Istanbul and US\$200mn for the license fee of TUVTURK Istanbul). Doğuş Otomotiv will be the guarantor of 1/3 of the debt, and will participate in a capital increase proportionate to its stake in the consortium.

#### Exhibit 20: Regional Breakdown of Car Park

	Car Park*	Number of Cities	Number of Stations	Estimated License Fee
<b>Turkey Total</b>	<b>12,227,393</b>	<b>81</b>	<b>189</b>	<b>758</b>
Istanbul	2,480,793	1	12	180
North Marmara	620,288	5	10	45
South Marmara	1,086,593	9	29	79
Aegean	2,152,236	8	31	157
Central Anatolia	2,099,824	12	27	153
Mediterranean	1,813,489	11	27	132
Black Sea	976,962	17	28	71
East Anatolia	997,209	18	25	73

\* estimated figures based on the 2005 actual figures.

Source: TURKSTAT Road Motor Vehicle Statistics, June/2007

### Assumptions & Valuation of the Business

- TUVTURK expects an annual 7% growth in Turkey's car park; we forecast 5% CAGR between 2006 and 2020 based on our regression model also utilized in our DCF analysis of the Company's core business. Average car additions each year should change from year to year based on GNP, per capita growth and loan rates.
- We forecast a higher capture rate in private and official passenger cars, with commercial vehicles adjusting to the new system more slowly. Nevertheless, since inspection period is shorter for commercial vehicles, the same percentage of vehicles should be inspected each year on average. We have assumed the first 10 years' capture rate rising to 80% at a relatively slower pace than the Consortium's





production of other segments to Turkey to avoid excess supply concerns, at least in the medium-term.

#### **LCV Distribution in Egypt:**

Doğuş Otomotiv will start to distribute VW-branded light commercial vehicles in Egypt as of October of this year. They expect to sell 1,000-1,500 vehicles per annum, whereas for the last 4 months of 2007 they expect 500 unit sales. The Company views this project as export experience and also an opportunity to increase its exposure to a country where only 30 cars are owned per 1,000 people. Although the start-up volume is relatively low, circumstances may yet lead Doğuş Otomotiv to consider expanding its penetration in the country in the near-future.

#### **Porsche Distribution in Lausanne:**

Doğuş Otomotiv is to assume the marketing, sales and after-sales retail operations of the Porsche brand in Switzerland through direct leadership in Lausanne. In 2006, 1,692 Porsches were sold in the city. Doğuş Otomotiv plans to establish a new showroom there targeted at becoming one of Switzerland's largest Porsche outlets. The Company expects to sell 220 Porsches at this single outlet (Total Porsche unit sales in Turkey were 220 in 2006). The outlet is expected to become operational in 2H08.

## Financials & Forecasts

### Unit sales

Having been depressed by uncertainty ahead of July's early elections, we expect 3Q07 to have seen a rebound for the automotive industry, and for this to continue in 4Q07, easing overall market contraction for the whole year to 11% from 28% in 1H07. We also anticipate a further increase in 2008 based on our regression model that assumes an easing of interest rates and also steady growth in per capita income. Rising consumer sentiment would also be supportive of demand. Our regression model suggests a 16% rebound in 2008. Between 2009 and 2015, we expect growth ranging between 6-7% per annum.

**Exhibit 21: Market Forecasts (units)**

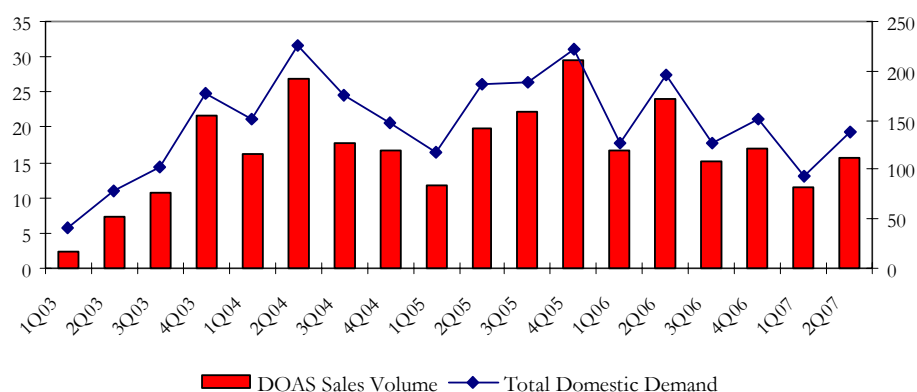
('000 units)	2005	2006	2007E	2008E	2009E	2010E	2011E	2012E
TOTAL Market	767.0	653.0	581.8	672.7	719.0	767.4	818.1	869.0
total market growth	7.0%	-14.9%	-10.9%	15.6%	6.9%	6.7%	6.6%	6.2%
TOTAL PASSANGER CAR MARKET	438.6	373.2	332.5	384.5	411.0	438.6	467.6	496.7
PC market growth	7.0%	-14.9%	-10.9%	15.6%	6.9%	6.7%	6.6%	6.2%
TOTAL LIGHT COMM. MARKET	271.8	244.6	227.7	263.3	281.5	300.4	320.3	340.2
LCV market growth	3.0%	-10.0%	-6.9%	14.6%	6.5%	6.4%	6.0%	6.0%

*Source: TURKSTAT Road Motor Vehicle Statistics, June/2007*

Among the listed Turkish automotive companies, Dođuş Otomotiv is the only one solely dependent on the domestic market. Recent contraction in auto demand hurt the company in particular, as other companies have benefited from the shield of continued export demand. Likewise, Dođuş Otomotiv should make the strongest rebound as a pure importer, as conditions improve. That aside, favorable currency conditions would be also very supportive of Dođuş Otomotiv as consumer purchasing power for imported cars would increase. Assuming no major YTL weakness, strong demand and a favorable currency environment should spell a turnaround for Dođuş Otomotiv beyond this year. The graphs below illustrate the strong link between Dođuş Otomotiv's unit sales and local demand and currency strength.

In Exhibit 22 we see that Doğuř Otomotiv performs literally in line with the domestic market as we have just argued.

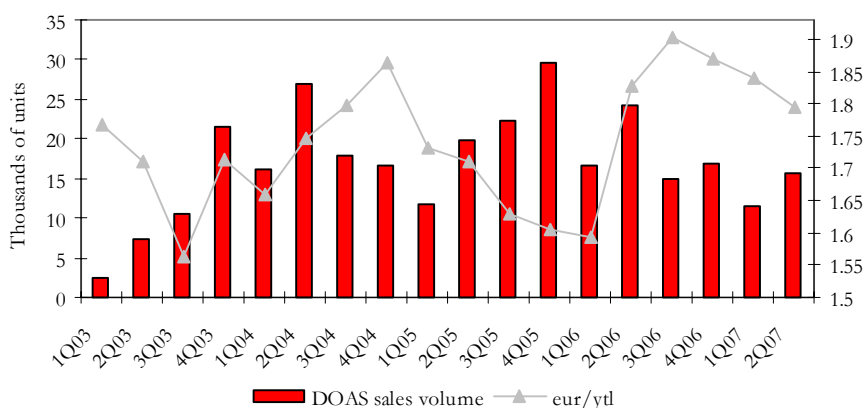
**Exhibit 22: Domestic Market and Doğuř Otomotiv Comparison ('000 units)**



*Source: Company, Global Securities*

Exhibit 23 shows a striking correlation between Doğuř Otomotiv's sales volume and Euro/YTL parity.

**Exhibit 23: DOAS Sales Volume vs. Euro Parity**



*Source: Company, Global Securities*

Our forecasts for both the market and the market share of Doğuř Otomotiv in 2007 suggest 73,255 new vehicle sales, which is just 5% lower YoY. And considering that the company's sales were a mere 27,133 in first half of the year, second half sales should be 68% higher, and 13% above last year's second half. In 2008, we forecast sales rising by a further 8% to reach 79,150 units. Doğuř Otomotiv's market share should rise to 11.9%, which is 0.2pp above the 2006 level. Since small-engine diesel vehicles are expected to have been launched by end-2006, market share should gain a further 30bps.

(Units)	2006	2007E	2008E	2009E	2010E	2011E	2012E
<b>Passenger Car</b>	42,856	38,437	43,675	45,042	47,631	50,315	52,949
Volkswagen	27,619	24,939	29,219	31,850	35,964	38,811	41,722
<b>Market share</b>	<b>7.4%</b>	<b>7.5%</b>	<b>7.6%</b>	<b>7.7%</b>	<b>7.7%</b>	<b>7.9%</b>	<b>8.1%</b>
Audi	4,956	4,655	5,382	6,370	7,456	7,949	8,941
<b>Market share</b>	<b>1.3%</b>	<b>1.4%</b>	<b>1.4%</b>	<b>1.5%</b>	<b>1.7%</b>	<b>1.7%</b>	<b>1.8%</b>
Skoda	5,489	4,655	5,382	4,932	5,263	5,611	5,960
<b>Market share</b>	<b>1.5%</b>	<b>1.4%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>
Seat	4,572	3,990	4,613	4,932	5,263	5,611	5,960
<b>Market share</b>	<b>1.2%</b>	<b>1.3%</b>	<b>1.4%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.6%</b>	<b>1.6%</b>
Porsche	220	196	231	247	263	281	298
<b>Market share</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>0.1%</b>
<b>Commercial Vehicles</b>	34,046	30,818	35,475	37,640	39,869	42,187	44,471
Volkswagen	31,947	29,742	34,231	36,309	38,449	40,673	42,863
<b>Market share</b>	<b>13.1%</b>	<b>13.1%</b>	<b>13.1%</b>	<b>13.2%</b>	<b>13.2%</b>	<b>13.3%</b>	<b>13.4%</b>
Scania	2,099	1,076	1,245	1,330	1,420	1,514	1,608
<b>Market share</b>	<b>6.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>5.0%</b>
Krone	809	1,052	1,262	1,451	1,596	1,676	1,760
<b>TOTAL DOMESTIC SALES</b>	<b>76,902</b>	<b>73,255</b>	<b>79,150</b>	<b>82,682</b>	<b>87,499</b>	<b>92,502</b>	<b>97,420</b>
<b>Light Vehicles Market Share</b>	<b>11.8%</b>	<b>11.9%</b>	<b>11.9%</b>	<b>12.0%</b>	<b>12.3%</b>	<b>12.4%</b>	<b>12.3%</b>
<i>sales unit growth</i>	<i>-11%</i>	<i>-5%</i>	<i>8%</i>	<i>4%</i>	<i>6%</i>	<i>6%</i>	<i>5%</i>

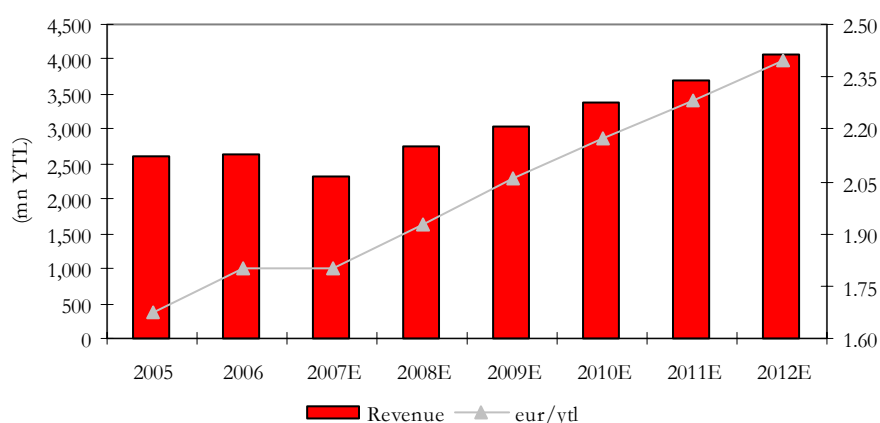
Source: Company, Global Securities

## Revenues

For the end of 2007, we expect 6% lower revenues YoY in YTL-terms. (Revenues would decline by more than the 5% contraction in sales). And because most of Doğuş Otomotiv's sales (excluding premium and luxury segments) are made in the local currency, their pricing is subject to parity fluctuations. Accordingly, we have adjusted the prices of each vehicle, whether or not sold in YTL, based on our macro team's currency estimates. As parity is expected to increase in 2008 and onwards, coupled with sales volume growth, our revenue forecast for 2008 surges by 13%.

Exhibit 24 shows the strong link between parity estimates and our revenue forecasts.

Exhibit 24: Revenue Forecasts



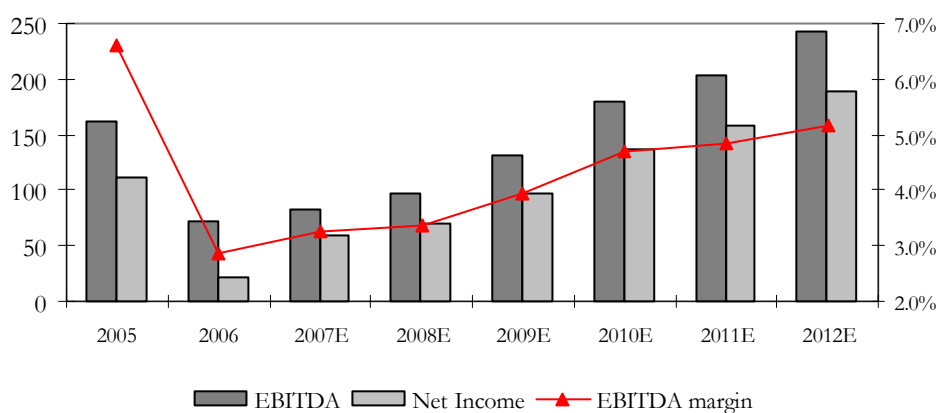
Source: Company, Global Securities

## Margins & EBITDA

Doğuş Otomotiv's margin performance is strongly linked to local demand, currency rate and competition conditions. In 2006, the Company's gross and EBITDA margins fell below historical levels on deteriorating demand and pricing conditions. Growing competition between local producers and importers boosted marketing and distribution expenses, which also pressured the EBITDA margin. As an importer, the Company's gross margin is directly influenced by parity fluctuations, both in terms of pricing and currency conversion. As discussed above, revenue is negatively affected by low parity, as price increases are partially pegged to parity fluctuation. However, since all purchases are Euro-denominated, low parity also means lower COGS, and hence higher margins. Moreover, with cheaper imported vehicles, Doğuş Otomotiv gains competitive advantage which boosts unit sales. In summary, despite the positive and negative implications of lower parity, as demand keeps growing at 5-6% levels per annum, low parity means lucrative margins for Doğuş Otomotiv.

We forecast Doğuş Otomotiv's gross margin at 12.5% as of end-2007, 1pp higher than last year. We also expect to see a 12.7% gross margin in 2008 due to higher sales and a continued favorable currency environment. After reaching 12.8% in 2009, we expect an even higher recovery of 0.4pp with further pricing power, as new small engine diesel vehicles will raise market share. On the EBITDA front, we expect the first recovery to come in 2008, with a 0.3pp rise YoY, and to see further recovery thereafter. Sluggish EBITDA margin performance relative to rising demand and gross profitability is mainly due to continued high distribution and marketing expenses that we expect to prevail. Considering rising competition in the market, we choose to remain on the conservative side with a 4% long-term EBITDA forecast.

**Exhibit 25: EBITDA/Margin/Net Profit Forecasts**



Source: Company, Global Securities

**BALANCE SHEET**

(YTLmn)	2005	2006	2007E	2008E	2009E
<b>Short-Term Assets</b>	<b>669</b>	<b>723</b>	<b>731</b>	<b>837</b>	<b>930</b>
Liquid Assets	126	121	122	147	164
Short Term Trade Receivables	137	143	145	176	196
Short-Term Receivables from Related Parties	8	6	6	6	6
Other Short Term Receivables	30	19	20	24	26
Inventories	367	422	395	478	533
Other Current Assets	8	12	12	12	12
<b>Long-Term Assets</b>	<b>345</b>	<b>404</b>	<b>471</b>	<b>494</b>	<b>484</b>
Long Term Financial Assets	237	281	284	288	292
Tangible	97	109	195	211	188
Intangible	7	6	7	8	8
Other Long Term Receivables	3	6	7	7	7
Long Term Deferred Tax Assets	1	2	3	5	10
<b>Total Assets</b>	<b>1,013</b>	<b>1,127</b>	<b>1,202</b>	<b>1,331</b>	<b>1,414</b>
<b>Short-Term Liabilities</b>	<b>503</b>	<b>605</b>	<b>602</b>	<b>712</b>	<b>768</b>
Borrowings	21	30	54	67	59
Trade Payables	388	484	456	553	616
Short-Term Payables to Related Parties	47	54	56	60	63
Order Advances Received	6	3	4	4	5
Provisions	18	16	16	16	16
Other	23	18	18	18	18
<b>Long-Term Liabilities</b>	<b>35</b>	<b>44</b>	<b>97</b>	<b>82</b>	<b>67</b>
Borrowings	29	36	90	75	60
Severance Provisions	3	2	2	2	2
Deferred Tax Liabilities	3	6	5	5	5
<b>Shareholders' Equity</b>	<b>469</b>	<b>478</b>	<b>504</b>	<b>537</b>	<b>579</b>
Paid-in Capital	110	110	110	110	110
Reserves	359	368	394	427	469
<b>Total Liabilities</b>	<b>1,013</b>	<b>1,127</b>	<b>1,202</b>	<b>1,331</b>	<b>1,414</b>

**INCOME STATEMENT**

	2005	2006	2007E	2008E	2009E
<b>NET SALES</b>	<b>2,449</b>	<b>2,527</b>	<b>2,492</b>	<b>2,898</b>	<b>3,320</b>
Cost Of Sales	2,095	2,238	2,180	2,530	2,888
<b>Gross Profit</b>	<b>354</b>	<b>289</b>	<b>312</b>	<b>368</b>	<b>432</b>
<i>Gross Margin</i>	<i>14.5%</i>	<i>11.4%</i>	<i>12.6%</i>	<i>12.7%</i>	<i>13.0%</i>
Operating Expenses	205	229	243	285	317
<b>Operating Profit (Loss)</b>	<b>149</b>	<b>60</b>	<b>69</b>	<b>83</b>	<b>115</b>
Income From Other Operations	30	17	17	24	32
Expenses From Other Operations	5	15	9	11	13
Net Financial Expenses	16	38	6	13	14
PROFIT BEFORE TAX	159	27	71	83	120
Tax Provision	47	5	15	17	25
<b>Net Profit</b>	<b>111</b>	<b>22</b>	<b>59</b>	<b>70</b>	<b>98</b>
Depreciation	13	12	13	15	17
Severance Provision	2	0	1	1	1
EBITDA	161	72	82	98	131
<i>EBITDA Margin</i>	<i>6.6%</i>	<i>2.8%</i>	<i>2.9%</i>	<i>3.4%</i>	<i>3.9%</i>

Source: ISE, Global Securities Estimates

<b>BALANCE SHEET</b>					
(US\$mn)	2005	2006	2007E	2008E	2009E
<b>Short-Term Assets</b>	<b>499</b>	<b>514</b>	<b>550</b>	<b>598</b>	<b>628</b>
Liquid Assets	94	86	92	105	111
Short Term Trade Receivables	102	102	109	126	132
Short-Term Receivables from Related Parties	6	4	5	4	4
Other Short Term Receivables	22	14	15	17	18
Inventories	274	300	297	341	360
Other Current Assets	6	9	9	9	8
	0	0			
<b>Long-Term Assets</b>	<b>257</b>	<b>287</b>	<b>354</b>	<b>353</b>	<b>327</b>
Long Term Financial Assets	177	200	214	206	197
Tangible	72	78	147	151	127
Intangible	5	4	5	6	5
Other Long Term Receivables	2	4	5	5	5
Long Term Deferred Tax Assets	1	1	2	4	7
<b>Total Assets</b>	<b>755</b>	<b>802</b>	<b>904</b>	<b>951</b>	<b>955</b>
	0	0			
<b>Short-Term Liabilities</b>	<b>375</b>	<b>430</b>	<b>453</b>	<b>509</b>	<b>514</b>
Borrowings	16	21	41	48	34
Trade Payables	289	344	343	395	416
Short-Term Payables to Related Parties	35	38	42	43	43
Order Advances Received	4	2	3	3	3
Provisions	13	11	12	11	11
Other	17	13	14	13	12
<b>Long-Term Liabilities</b>	<b>26</b>	<b>31</b>	<b>73</b>	<b>59</b>	<b>45</b>
Borrowings	22	26	68	54	41
Severance Provisions	2	1	2	1	1
Deferred Tax Liabilities	2	4	4	4	3
<b>Shareholders' Equity</b>	<b>350</b>	<b>340</b>	<b>379</b>	<b>384</b>	<b>391</b>
Paid-in Capital	82	78	83	79	74
Reserves	268	262	296	305	317
<b>Total Liabilities</b>	<b>755</b>	<b>802</b>	<b>904</b>	<b>951</b>	<b>955</b>

<b>INCOME STATEMENT</b>					
	2005	2006	2007E	2008E	2009E
<b>NET SALES</b>	<b>1,827</b>	<b>1,765</b>	<b>1,860</b>	<b>2,027</b>	<b>2,184</b>
Cost Of Sales	1,563	1,564	1,627	1,769	1,900
<b>Gross Profit</b>	<b>264</b>	<b>202</b>	<b>233</b>	<b>257</b>	<b>284</b>
<i>Gross Margin</i>	<i>14.5%</i>	<i>11.4%</i>	<i>12.6%</i>	<i>12.7%</i>	<i>13.0%</i>
Operating Expenses	153	160	181	199	209
<b>Operating Profit (Loss)</b>	<b>111</b>	<b>42</b>	<b>51</b>	<b>58</b>	<b>76</b>
Income From Other Operations	22	12	13	17	21
Expenses From Other Operations	4	10	7	8	9
Net Financial Expenses	12	27	4	9	9
PROFIT BEFORE TAX	119	19	53	58	79
Tax Provision	35	3	11	12	16
<b>Net Profit</b>	<b>83</b>	<b>15</b>	<b>44</b>	<b>49</b>	<b>64</b>
Depreciation	10	8	10	10	11
Severance Provision	1	0	1	1	1
EBITDA	120	50	61	69	86
<i>EBITDA Margin</i>	<i>6.6%</i>	<i>2.8%</i>	<i>2.9%</i>	<i>3.4%</i>	<i>3.9%</i>

Source: ISE, Global Securities Estimates

**BASIS FOR RECOMMENDATIONS**

BUY: Requires 15% or more estimated upside relative to our forecast of the ISE100.

SELL: Requires 15% or more downside relative to our forecast of the ISE100.

HOLD: When estimated relative return is limited to 15% in either direction.

**ANALYST CERTIFICATION**

I, İlknur Kocaer, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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