RAYMOND JAMES - TURKEY

Dogus Otomotiv

EQUITY RESEARCH

BUY (Maintained)

Growth in bottom-line with new projects

- **Recovery in the market beginning from 2H07…** Auto market contracted by 28% yoy in 1H07. Banks started to cut auto loan rates after the market friendly general elections outcome. We expect further rate cuts by banks after the Central Bank decreases interest rates, which we believe will take place in 3Q07. Thus, we foresee a better second half for Turkish auto market and estimate that the market will close the year with a 5% yoy contraction. Auto market will grow by 17% yoy in 2008 in our view, in which we expect further gradual rate cuts by the Central Bank.

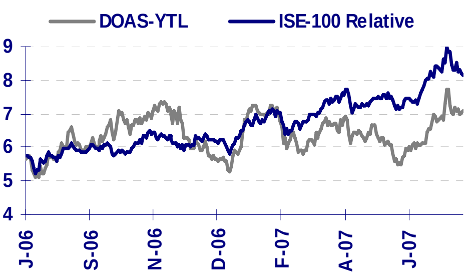
- **Efforts to reduce market exposure…** Being a sole importer Dogus Otomotiv (DOAS) is highly vulnerable to market downturns. However, the company invests in various projects to reduce its dependency on the cyclical auto market in Turkey.

- **New projects will improve the bottom-line…** Council of State confirmed the transfer of vehicle inspection stations to the consortium in which DOAS has 33% stake. The concession agreement is to be signed until August 22. We value DOAS' stake in vehicle inspection business as US$162mn and estimate its contribution to net income as 19% in 2010E. Krone production will contribute to net income by 5% by 2012E in our view. On the other hand, we expect the LCV business in Egypt to comprise 2.5% of revenues in 2010E, while Porsche sales in Switzerland and Otofiks outlets will contribute to net sales by 0.8% and 1.2% respectively in 2010E according to our forecasts.

- **37% CAGR growth in net income until 2010E…** We expect the net income and EBITDA to grow by 37% and 16% CAGR respectively between 2006 and 2010E thanks mainly to the contribution of profitable projects.

- **Maintaining our BUY recommendation…** We believe that DOAS offers value on a 12-month view as we expect a recovery in the auto sector beginning from 2H07 and continuing in 2008 thanks to decline in interest rates, political uncertainty and fx rates. Our DCF based valuation points to a 53% upside potential from current levels.

Current Price (Aug 07, 2007)				**YTL7.10**
Current Mcap (mn)				**US$616**
12-mth Target Price				**YTL11.35**
Target Mcap (mn)				**US$933**
12-mth Forecast Returns (US$)				
Dividend Yield				1.8%
Capital Appreciation				51.4%
12-mth Total Return				53.2%
Stock Data				
Ticker		DOAS.IS		DOAS TI
Sector				Retail-Automobile
# of Shares (mn)				110
3M Avg. Trd. Vol. (mn)				US$8.4
52-week Range	YTL	5.20	YTL	8.02
Market Data				
ISE 100				50,708
YTL/US$				1.2669
Shareholder Structure				
Dogus Insaat				14%
Dogus Holding				35%
Dogus Arastirma Gel. Ve Mus. Hizm				16%
Free Float				35%
Foreign Holding as % of Free Float				49%
Financials (US$ mn)	**2006**	**2007E**	**2008E**	**2009E**
Net Sales	1,765	1,730	2,111	2,248
% ch yoy	*-3*	*-2*	*22*	*6*
Operating Profit	42	38	55	77
% ch yoy	*-62*	*-10*	*45*	*39*
EBITDA	50	53	73	95
% ch yoy	*-59*	*5*	*37*	*30*
Net Income	15	22	29	49
% ch yoy	*-82*	*46*	*28*	*70*
Operating Margins	**2006**	**2007E**	**2008E**	**2009E**
Operating Margin	2.4%	2.2%	2.6%	3.4%
EBITDA Margin	2.8%	3.1%	3.4%	4.2%
Net Profit Margin	0.9%	1.3%	1.4%	2.2%
Dividend Yield	5.5%	0.8%	1.8%	2.3%
Financial Ratios	**2006**	**2007E**	**2008E**	**2009E**
P/E (US$, x)	40.1	27.4	21.4	12.6
EV/EBITDA (US$, x)	11.4	11.6	8.9	6.9
EV/Sales (US$, x)	0.3	0.4	0.3	0.3
Debt/Equity (x)	0.13	0.13	0.15	0.15
Price Performance	**1M**	**3M**	**YTD**	**YoY**
US$ Absolute	10%	15%	43%	34%
ISE-100 Relative	8%	-3%	-4%	-13%



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UPDATE ON PROJECTS

The company's management announced that 2007 and 2008 will be investment years for Dogus Otomotiv, which has profitable projects not only in the domestic market but also in international markets.

DOMESTIC PROJECTS

Vehicle Inspection Stations will improve the bottom line… The long awaited positive news came on July 11, 2007. Privatization Administration sent an invitation letter to Tuvturk, in which Dogus Otomotiv has a 33% stake, for signing the concession agreement of vehicle inspection stations until August 22, 2007. The consortium had already won the tender for the privatization of vehicle inspection stations which was opened in 2004. However, the transfer could not be materialized due to court cases. Tuvturk is going to open at least 227 vehicle inspection stations in 18 months. Until the stations are operational, the inspection business will continue to be maintained in the current stations by General Directorate of Highways. Although DOAS has not disclosed any information yet regarding the size and profitability of the inspection business, we value the inspection stations business as US$162mn. As DOAS consolidates the business using equity pickup method, we estimate that it will constitute 19% of DOAS' net income in 2010E, increasing to 25% by 2015E.

Assumptions: Currently around 62% of total required vehicles are inspected. We expect this ratio to climb to 82% in 10 years, reaching EU levels. We estimate the total number of vehicles inspected each year to grow by 8% CAGR in the next 20 years. In our valuation we assumed that Tuvturk will open 120 stations in 2008 and the number will increase to 227 in 2009E, making an investment of US$200mn in the next two years. Although our EBITDA margin estimation of above 40% might be regarded as high at first glance, vehicle inspection is a cash cow business. TÜV SÜD AG, which is operating the vehicle inspection business in Germany, had an EBITDA margin of 48% in 2006. Please see pp. 5 for our DCF valuation considering the vehicle inspection business.

Otofiks outlets will create synergy with inspection business… Dogus Otomotiv started to launch Otofiks outlets, which provide fast and economic service including tire replacement, exhaust emission, brake inspection, oil and filter, suspension, headlamps, battery and muffler change. The company opened the first outlet in May 2007 and intends to increase the number to 4 or 5 in Istanbul until the end of 2007. Although Otofiks business is independent from the vehicle inspection business, the company considers speeding up the opening of new outlets after the vehicle inspection business is initiated. The repair outlets are planned to be located near motor vehicle inspection stations, creating synergy with the motor vehicle inspection business. We expect that Otofiks will generate revenues of around US$30mn in 2010E which refers to 1.2% of DOAS' total revenues.

Otofiks Revenues (US$mn)	2007E	2008E	2009E	2010E
No of stations	9	25	50	75
Revenue per station	0.4	0.4	0.4	0.4
Total revenues	3.6	10	20	30

Source: RJS estimates

Otomotion is a special marketing concept … Dogus Otomotiv is collecting all of its brands under the same roof in central city of Istanbul with Otomotion concept, which is viewed as a special marketing concept to attract visitors. Otomotion, which will include Istanbul's largest service area, will be on a 29K m2 area. The center is planned to include car display area for all DOAS passenger cars, new car sales as well as after-sales services. There will also be an entertainment center on a 7.5K m2 area, which is a brand new application in Turkey. Service station was opened in March 2007 and 9,300 vehicles were serviced thereafter. The showroom is expected to be opened in September 2007. Dogus Otomotiv receives rent income from Otomotion which is rented to Dogus Oto, in which DOAS has 87% stake.

Entering into production field with Krone trailers… DOAS is planning to produce Krone branded trailers in Turkey beginning from early 2009. Krone is currently the leader in the imported trailers market in Turkey. In the joint investment DOAS is expected to have a share of 49% and consolidate the business using equity pick-up method. According to our estimations, 4,500 units will be produced in 2009 and the number will increase to 10,000 units by 2012, of which 90% will be exported. We expect that the project's contribution to DOAS' net income will be US$4.1mn in 2012E, constituting around 5% DOAS' net income.

Krone Figures	2009E	2010E	2011E	2012E
Unit Sales				
Domestic	450	600	800	1,000
Export	4,050	5,400	7,200	9,000
Total	4,500	6,000	8,000	10,000
Revenues (US$mn)				
Domestic	12	16	21	26
Export	105	140	187	234
Total	117	156	208	260
EBITDA	6	9	12	16
Depreciation	4	4	4	4
Operating Income	2	5	8	12
Financial Exp	3	3	3	3
Net income	-1	2	5	8
DOAS' share of 49%	**-0.4**	**1.1**	**2.6**	**4.1**

Source: RJS estimates

Growth opportunities in fleet rental with Leaseplan… In May 2007 VW Financial Services AG signed a share transfer agreement with LeasePlan Corporation N.V. for the transfer of its shares in VDF Holding. According to the latest situation 51% of VDF Holding shares are owned by LeasePlan, while DOAS has still 38% stake in the company. Leaseplan is one of Europe's leading fleet rental companies, which aims to reap the benefits of the growing fleet rental business in Turkey.

Representation of new brands in Turkey… Dogus Otomotiv signed a letter of intent with Lamborghini S.p.A, Bentley, VW Marine Engines and Meiller (trucks, tip lorry and semi-trailer tractor) to be the distributor of the brands in Turkey.

Dogus Otomotiv will become the direct dealer of the brands in Turkey, so that it will be providing marketing, sales and after-sales services.

INTERNATIONAL PROJECTS

Import and Distribution of VW branded light commercial vehicles in Egypt… The successful sales figure and strong market position of Dogus Otomotiv motivated VW to give the right of distribution, import and after-sales services of VW branded light commercial vehicles in Egypt. The Egyptian market is one of the most promising markets in North Africa with a car park of only 3 million units and a low car ownership ratio. Every 40 out of 1000 people have a car and the total market is around 120,000 units in Egypt. According to our estimations, US$8mn revenues will be generated from the project in year 2007, which will increase to US$60mn by 2010E, constituting around 2.5% of DOAS' total revenues.

Egypt Sales	2007E	2008E	2009E	2010E	2011E	2012E
Unit Sales	521	2,000	3,000	4,000	4,200	4,410
Total Revenues (US$mn)	8	30	45	60	63	66

Source: RJS estimates

Dealership and after-sales services of Porsche in Switzerland... As the second step of the international expansion strategy, Dogus Otomotiv agreed with Porsche AG for the authorized dealership and after-sales services of Porsche branded vehicles. The agreement will be signed after the company is built and the land is bought in Lausanne area. The company intends to start its operations by 2H08 in Lausanne, where around 200 Porsche vehicles are sold per year. DOAS sold 217 Porsche branded vehicles in 2006 in Turkey. We expect that US$18mn sales revenues will be reached in 2010E, which refers to 0.8% of DOAS total revenues.

Porsche sales in Lausanne	2008E	2009E	2010E	2011E	2012E
Sales volume	75	120	150	200	200
Sales revenues	9	14.4	18	24	24

Source: RJS estimates

Value of Vehicle Inspection Stations Project

no of veh inspected yearly (in mn)	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
pc	2.037	2.272	2.528	2.768	3.028	3.309	3.611	3.935	4.278	4.626	4.858	5.100	5.355	5.623	5.904	6.200	6.510	6.835	7.177
lcv	0.775	0.912	1.064	1.215	1.379	1.558	1.751	1.961	2.136	2.325	2.469	2.622	2.784	2.957	3.140	3.335	3.542	3.761	3.995
hcv	0.302	0.337	0.394	0.449	0.510	0.576	0.648	0.725	0.803	0.881	0.934	0.990	1.049	1.112	1.179	1.250	1.325	1.404	1.488
total	3.114	3.521	3.986	4.432	4.917	5.443	6.010	6.621	7.217	7.832	8.260	8.712	9.189	9.692	10.224	10.784	11.376	12.001	12.660
inspection price per unit (in ytl)	**2008e**	**2009e**	**2010e**	**2011e**	**2012e**	**2013e**	**2014e**	**2015e**	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**
pc	108.0	112.3	116.8	123.2	127.9	132.3	137.0	141.6	146.3	151.2	156.3	161.5	166.9	172.5	178.3	184.3	190.4	196.8	203.4
lcv	56.4	58.6	61.0	64.3	66.8	69.1	71.5	73.9	76.4	79.0	81.6	84.3	87.2	90.1	93.1	96.2	99.4	102.8	106.2
hcv	143.5	149.3	155.2	163.8	170.0	175.9	182.1	188.2	194.5	201.0	207.8	214.7	221.9	229.3	237.0	245.0	253.2	261.7	270.4
revenue (mn ytl)	**2008e**	**2009e**	**2010e**	**2011e**	**2012e**	**2013e**	**2014e**	**2015e**	**2016e**	**2017e**	**2018e**	**2019e**	**2020e**	**2021e**	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**
pc	219.9	255.0	295.1	341.0	387.2	437.9	494.6	557.0	625.9	699.5	759.1	823.7	893.9	970.0	1052.7	1142.3	1239.6	1345.2	1459.8
lcv	43.7	53.5	64.9	78.1	92.1	107.6	125.2	144.9	163.1	183.5	201.4	221.1	242.7	266.4	292.3	320.9	352.2	386.5	424.3
hcv	43.3	50.4	61.1	73.6	86.7	101.4	117.9	136.5	156.2	177.1	194.0	212.5	232.8	255.1	279.4	306.1	335.4	367.4	402.5
total	306.9	358.9	421.1	492.7	565.9	646.9	737.8	838.4	945.3	1060.1	1154.5	1257.4	1369.4	1491.5	1624.4	1769.3	1927.1	2099.1	2286.5
Cash flows (US$mn)	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**
passenger cars	*81.1*	*126.0*	*200.1*	*220.2*	*238.1*	*256.5*	*275.9*	*295.9*	*316.6*	*347.1*	*376.8*	*406.9*	*439.6*	*477.0*	*517.6*	*561.7*	*609.6*	*661.5*	*717.8*
light com. veh.	*16.1*	*26.4*	*44.0*	*50.5*	*56.6*	*63.0*	*69.9*	*77.0*	*82.5*	*91.1*	*100.0*	*109.2*	*119.3*	*131.0*	*143.8*	*157.8*	*173.2*	*190.1*	*208.6*
heavy com. veh.	*16.0*	*24.9*	*41.4*	*47.5*	*53.3*	*59.4*	*65.8*	*72.5*	*79.0*	*87.9*	*96.3*	*105.0*	*114.5*	*125.4*	*137.4*	*150.5*	*164.9*	*180.7*	*197.9*
Total revenues	**113.2**	**177.3**	**285.5**	**318.1**	**348.0**	**378.9**	**411.5**	**445.4**	**478.2**	**526.1**	**573.1**	**621.2**	**673.4**	**733.4**	**798.8**	**870.0**	**947.7**	**1032.2**	**1124.4**
share of government	30%	30%	30%	40%	40%	40%	40%	40%	40%	40%	50%	50%	50%	50%	50%	50%	50%	50%	50%
revenue to government	33.9	53.2	85.7	127.3	139.2	151.5	164.6	178.2	191.3	210.4	286.5	310.6	336.7	366.7	399.4	435.0	473.8	516.1	562.2
Consortium revenue	**79.2**	**124.1**	**199.9**	**190.9**	**208.8**	**227.3**	**246.9**	**267.2**	**286.9**	**315.7**	**286.5**	**310.6**	**336.7**	**366.7**	**399.4**	**435.0**	**473.8**	**516.1**	**562.2**
cost of sales (inc. depreciation)	-57.7	-83.3	-84.8	-86.7	-87.8	-88.8	-89.9	-91.0	-92.0	-94.7	-98.3	-101.9	-105.7	-110.1	-114.8	-118.2	-121.7	-125.5	-129.5
Operating Profit	**21.5**	**40.8**	**115.0**	**104.2**	**121.0**	**138.5**	**157.0**	**176.3**	**194.9**	**221.0**	**188.2**	**208.7**	**231.0**	**256.6**	**284.6**	**316.8**	**352.1**	**390.6**	**432.7**
Operating margin	*19%*	*23%*	*40%*	*33%*	*35%*	*37%*	*38%*	*40%*	*41%*	*42%*	*33%*	*34%*	*34%*	*35%*	*36%*	*36%*	*37%*	*38%*	*38%*
EBITDA	**54.3**	**79.2**	**153.6**	**142.9**	**159.8**	**177.4**	**196.1**	**215.5**	**234.3**	**260.6**	**228.1**	**248.8**	**271.4**	**297.3**	**325.7**	**358.0**	**393.2**	**431.7**	**473.8**
EBITDA margin	*48%*	*45%*	*54%*	*45%*	*46%*	*47%*	*48%*	*48%*	*49%*	*50%*	*40%*	*40%*	*40%*	*41%*	*41%*	*41%*	*41%*	*42%*	*42%*
Financial expenses	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2	-44.2
Taxes	-4.3	-8.2	-23.0	-20.8	-24.2	-27.7	-31.4	-35.3	-39.0	-44.2	-37.6	-41.7	-46.2	-51.3	-56.9	-63.4	-70.4	-78.1	-86.5
Net Income	**-27.0**	**-11.5**	**47.9**	**39.2**	**52.6**	**66.6**	**81.4**	**96.8**	**111.8**	**132.6**	**106.4**	**122.8**	**140.6**	**161.1**	**183.5**	**209.3**	**237.5**	**268.3**	**302.0**
Capex	-100	-100	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	0	0	0	0
Change in Working Capital	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2
Tax	-1.7	-4.2	-17.2	-15.2	-18.3	-21.6	-25.1	-28.8	-32.4	-37.5	-31.1	-35.0	-39.3	-44.3	-49.7	-56.1	-63.1	-70.7	-79.0
Free cash flows	**-49.4**	**-27.0**	**132.3**	**123.7**	**137.5**	**151.8**	**166.9**	**182.7**	**197.9**	**219.1**	**193.0**	**209.8**	**228.0**	**249.0**	**272.0**	**299.9**	**328.2**	**359.1**	**392.8**
WACC	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%	11.5%
Present value of the project	987.3																		
Net debt	-552.0																		
Net Present value of the project	435.3																		
DOAS Share	0.3																		
12 mth target value for DOAS	**162**																		

Source: RJS estimates

VALUATION

53% upside potential... We value DOAS using DCF analysis. We do not include peer comparison method in our valuation as the company is a sole importer unlike its competitors in the automotive sector. We calculate the 12-mth market capitalization as US$933mn. At the current market capitalization of US$616mn, the shares show a 53% total return potential over the next 12 months. Therefore, we maintain our BUY rating for the company shares.

A target market capitalization of US$933mn…

Cash Flow Statement(US$mn)	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Net Revenues	1,765	1,730	2,111	2,248	2,374	2,483	2,598	2,775	2,890	2,990
Domestic	1,765	1,722	2,081	2,203	2,314	2,420	2,532	2,706	2,817	2,914
International		8	30	45	60	63	66	69	73	77
COGS	-1,563	-1,516	-1,846	-1,954	-2,063	-2,156	-2,255	-2,407	-2,506	-2,592
Gross Profit	**202**	**214**	**266**	**294**	**312**	**328**	**343**	**368**	**384**	**398**
Gross Profit Margin	*11.5%*	*12.4%*	*12.6%*	*13.1%*	*13.1%*	*13.2%*	*13.2%*	*13.3%*	*13.3%*	*13.3%*
Operating Expenses	-160	-176	-211	-218	-227	-234	-245	-259	-266	-276
Operating Profit	**42**	**38**	**55**	**77**	**85**	**93**	**99**	**109**	**117**	**122**
Operating Profit Margin	*2.4%*	*2.2%*	*2.6%*	*3.4%*	*3.6%*	*3.7%*	*3.8%*	*3.9%*	*4.1%*	*4.1%*
Other Non-operating Revenues	16	21	15	19	42	43	52	59	65	72
Other Non-operating Expenses	-11	-10	-13	-13	-14	-15	-16	-17	-17	-18
Financial Expenses	-30	-23	-23	-23	-22	-22	-22	-22	-21	-21
Profit Before Tax and Minorities	**17**	**26**	**34**	**59**	**90**	**99**	**113**	**129**	**144**	**155**
Tax	-3	-6	-7	-12	-18	-20	-23	-26	-29	-31
Net Income	**15**	**22**	**29**	**49**	**74**	**81**	**92**	**105**	**116**	**126**
Net Profit Margin	*0.9%*	*1.3%*	*1.4%*	*2.2%*	*3.1%*	*3.3%*	*3.5%*	*3.8%*	*4.0%*	*4.2%*
EBITDA	**50**	**53**	**73**	**95**	**104**	**114**	**121**	**134**	**143**	**149**
EBITDA Margin	*2.8%*	*3.1%*	*3.4%*	*4.2%*	*4.4%*	*4.6%*	*4.7%*	*4.8%*	*4.9%*	*5.0%*
Depreciation and Sev. Pay.	8	15	18	18	20	21	23	24	25	27
Severance Payments	0	0	0	0	0	0	0	0	0	0
Taxes	-9	-8	-12	-16	-17	-19	-20	-22	-24	-25
Capital Expenditures	-13	-67	-40	-22	-24	-25	-25	-25	-26	-27
Change in W/C	28	32	-5	-11	-12	-12	-12	-14	-15	-17
Free Cash Flow	**57**	**9**	**16**	**46**	**51**	**58**	**65**	**72**	**78**	**81**

Source: ISE, RJS estimates

Our DCF based target capitalization of US$933mn was calculated with an assumed WACC of 11.8%, and terminal growth rate of 1%. US$199mn (21%) of our target market capitalization comes from the book value of the 3.86% stake the company holds in Dogus Holding.

WACC (%)	2006	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E
Risk Free rate	7.50%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
Risk Premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Beta	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**	**1.1**
Cost of Equity	**13.0%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**	**12.5%**
Cost of Debt	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Cost of Debt after Tax	**6.4%**	**6.4%**	**6.4%**	**6.4%**	**6.4%**	**6.4%**	**6.4%**	**6.4%**	**6.4%**	**6.4%**
Weight of Equity	87%	88%	87%	87%	87%	87%	88%	88%	88%	89%
Weight of Debt	13%	12%	13%	13%	13%	13%	12%	12%	12%	11%
WACC	**12.1%**	**11.8%**	**11.7%**	**11.7%**	**11.7%**	**11.7%**	**11.8%**	**11.8%**	**11.8%**	**11.8%**

Source: RJS estimates

Near term multiples are high but strong earnings growth should bring the P/E ratio to simple digit in 2010E…

Multiples of DOAS	2006	2007E	2008E	2009E	2010E
P/E	40.1	27.4	21.4	12.6	8.3
EV/EBITDA	11.4	11.6	8.9	6.9	6.0

Source: ISE, RJS estimates

We expect that with high earnings growth in the coming years thanks to growth in the auto sector as well as the contribution of new projects, P/E ratio will reach simple digit by 2010E. DOAS currently trades at 12.6X 09E and 8.3X 10E earnings.

We are conservative in our margin assumptions... When YTL appreciates, DOAS enjoys EBITDA margins as high as 6.6% as was the case in 2005 or 5.7% in 2004. We foresee EBITDA margin evolving from 2.8% in 2006 to 5.0% at the end of our forecast horizon in 2015E. Therefore, we believe that there is upside to our forecasts.

FORECASTS

In 1H07 DOAS sales volume decreased more than the market... While auto market contracted by 28% yoy in 1H07, sales volume of DOAS decreased by 35% yoy in the same period. As a result, DOAS' market share decreased from 11.9% in 1H06 to 10.7% in 1H07, in which YTL depreciated against EUR by 6% yoy. Thus, being a sole importer without any production and export facilities, DOAS was more affected from the contraction in the market than the sector in terms of sales.

Sales Volume	1H07	1H06	%chg
DOAS unit sales	26,916	41,479	-35%
Market volume	252,220	349,642	-28%
DOAS market share	10.7%	11.9%	
Average TRY/EUR rate	1.8173	1.7141	6%

Source: ADA, Rasyonet

We expect a recovery in demand beginning from 2H07... Although auto market contracted by 28% yoy in 1H07 due to postponed demand stemming from political uncertainty and high auto loan rates, we expect that the market will close the year with a 5% yoy contraction. Auto loan rates are the major demand drivers in the auto sector where around 60% of vehicles are sold with loans. General elections outcome came as market friendly and banks have already started to cut their auto loan rates. We expect a further freshening in the postponed demand after Central Bank cuts interest rates, which we believe will take place in 3Q07. We foresee that the Central Bank will continue to decrease interest rates gradually in 2008. Thus we forecast a 17% yoy growth in auto market in 2008, in which we expect a politically stable environment, relatively low level of fx rates and interest rates.

Market Volume	2006	2007E	06-07E %chg	2008E	07E-08E %chg
Passenger Cars	373,219	345,000	-8%	408,063	18%
Light Com. Veh.	244,633	240,000	-2%	274,692	14%
Total	617,852	585,000	-5%	682,755	17%

Source: AIA

We expect DOAS' sales volume to grow above the market in 2008... Although we expect sales volume of the company to decline by 8% yoy in 2007, we estimate that DOAS' unit sales will increase by 21% yoy in 2008E, higher than our market growth estimate which is 17% yoy.

DOAS Sales Volume Distribution	2005	2006	2007E	2008E
Domestic				
Passenger Cars	51,503	42,856	40,015	46,927
Light Com. Veh.	33,163	31,947	28,315	34,886
Heavy Com. Veh.	2,073	2,099	2,187	2,307
International				
Egypt LCV			521	2,000
Porsche (Lausenne)				75
Total	**86,739**	**76,902**	**71,037**	**86,196**
%change		**-11%**	**-8%**	**21%**

Source: AIA, RJS estimates

Improving profit margins going forward… In our view with recovering auto market starting from 2H07 and the contribution of DOAS' various profitable projects, profit margins of the company will improve in coming years. We expect the net margin to rise to 3.1% and EBITDA margin to 4.4% in 2010E, which were 0.9% and 2.8% in 2006 respectively.

DOAS profit margins (US$mn)	2006	2007E	2008E	2009E	2010E
Gross Profit Margin	11.5%	12.4%	12.6%	13.1%	13.1%
Operating Profit Margin	2.4%	2.2%	2.6%	3.4%	3.6%
Net Profit Margin	0.9%	1.3%	1.4%	2.2%	3.1%
EBITDA Margin	2.8%	3.1%	3.4%	4.2%	4.4%

Source: ISE, RJS estimates

Significant growth in the bottom line… We estimate a 37% CAGR growth in net income between 2006 and 2010E thanks mainly to the contribution of ongoing projects such as vehicle inspection stations and Krone production that are consolidated using equity pickup method.

CAGR estimates (US$mn)	2006-2010E	2006-2015E
Net Revenues	6.1%	5.4%
Gross Profit	9.0%	7.0%
Operating Profit	15.1%	11.3%
Net Income	36.9%	23.4%
EBITDA	15.7%	11.5%

Source: RJS estimates

FINANCIAL STATEMENTS

INCOME STATEMENT (US$mn)	2006	2007E	2008E	2009E
Net Sales	1,765	1,730	2,111	2,248
Domestic	*1,765*	*1,722*	*2,081*	*2,203*
International	*0*	*8*	*30*	*45*
Cost Of Sales	-1,563	-1,516	-1,846	-1,954
Gross Profit	**202**	**214**	**266**	**294**
Gross Profit Margin %	***11.5%***	***12.4%***	***12.6%***	***13.1%***
Operating Expenses	-160	-176	-211	-218
Net Operating Income	**42**	**38**	**55**	**77**
Operating Profit Margin %	***2.4%***	***2.2%***	***2.6%***	***3.4%***
Income from Other Operations	16	21	15	19
Expenses from Other Operations	-11	-10	-13	-13
Financial Expenses	-30	-23	-23	-23
Operating Profit	17	26	34	59
Net Changes on Monetary Positions	0	0	0	0
MINORITY INTERESTS	2	2	2	2
INCOME BEFORE TAXES	19	28	36	61
Taxation on Income	-3	-6	-7	-12
NET PROFIT	**15**	**22**	**29**	**49**
Net income margin %	**0.9%**	**1.3%**	**1.4%**	**2.2%**
EBITDA	**50**	**53**	**73**	**95**
EBITDA margin %	***2.8%***	***3.1%***	***3.4%***	***4.2%***

Source: Company data, RJS estimates

BALANCE SHEET (US$mn)	2006	2007E	2008E	2009E
Liquid Assets	86	45	23	20
Short-term Trade Receivables	120	114	135	145
Inventories	300	289	328	352
Other current assets	8	8	10	10
Total Current Assets	**514**	**457**	**496**	**527**
Tangible fixed assets	77	129	152	160
Intangible fixed assets	4	5	33	46
Financial assets	200	224	217	217
Other long-term assets	6	8	10	12
Total Long-Term Assets	**288**	**367**	**412**	**435**
TOTAL ASSETS	***802***	***823***	***908***	***962***
Short-term Trade payables	383	398	452	473
Short-term Financial Loans	21	20	24	25
Other payables	27	28	33	36
Total Current Liabilities	**431**	**446**	**508**	**533**
Long-term Financial Loans	22	26	31	33
Other Long-term Liabilities	6	5	6	6
Total Long-Term Liabilities	**28**	**31**	**36**	**39**
Total Shareholder's Equity	**340**	**341**	**357**	**383**
Minority Interest	3	5	6	7
TOTAL LIABILITIES & SH. EQUITY	***802***	***823***	***908***	***962***

Source: Company data, RJS estimates

Stock Ratings:

Buy: Stocks with a forecast 12mth (US$) absolute total return of greater than %15%
Hold: Stocks with a forecast 12mth (US$) absolute total return of between 15% and -15%
Sell: Stocks with a forecast 12mth (US$) absolute total return of less than -15%

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