TEB INVESTMENT

Company Report 12 July 2007

Dogus Otomotiv

On the Verge of a New Era…

Automotive

Re-Iterated
Buy

Oversold due to the weak auto market, where a recovery could be underway

- Following the currency and interest rate volatility in May 06, the local auto demand declined by 28% in H107. However, June 07 data shows a 20% MoM recovery on a seasonally adjusted basis.
- 2008 should be a recovery year for Turkish auto companies; local demand should grow by 15% on the back of our lower interest rate outlook.

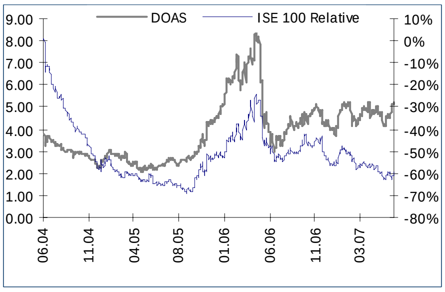
Continuing to diversify its sources of revenues

- Dogus Otomotiv, which started off as a pure importer, has a number of projects lined-up to diversify away from the highly cyclical nature of its business. The projects include; (1) distribution of Volkswagen LCVs in Egypt, (2) production of Krone trailers in İzmir, Turkey, and (3) launch of Oto-fix service stations.
- **The most important new project is the operating rights for Motor Vehicle Inspection Stations (MVIS) for the next 20yrs.** Yesterday, it was confirmed by the Council of State that the Company and its consortium was awarded the operating rights of motor vehicle inspection stations (MVIS) in Turkey for 20 years. This should diversify the business model substantially and create US$102mn additional value, on our conservative assumptions.

Recommendation: Buy –39% upside

- We derive our fair value estimate by a sum-of-parts valuation. On the core business, we assigned equal weights to the international peer group comparables and our DCF. Our target value for the core business is US$700mn or TRY8.19/share.
- Based on available sectoral data, our estimated NPV for the MVIS is US$102mn, with which our target price shoots up to TRY9.39/share (US$802mn).
- Also, Dogus Otomotiv has a 3.86% stake in Dogus Holding, the parent of Garanti bank – a hidden value worth approximately US$198mn. This is not included in our fair value estimate.

USD mn	FY 2006	FY 2007E	FY 2008E	FY 2009E
Revenues	1,766	1,785	2,088	2,266
EBITDA	50	55	85	99
Net Profit	15	24	48	61
Book Value	340	360	401	449
P/E	37.5	23.8	12.1	9.5
EV/EBITDA	11.0	10.2	6.5	5.6
P/BV	1.7	1.6	1.4	1.3
P/Sales	0.3	0.3	0.3	0.3



Stock Data	
Bloomberg	DOAS.TI
Reuters	DOAS.IS
Close (YTL)	6.75
Target Price (YTL)	9.39
Mkt cap (USDm)	577
Free float (%)	34.5
Key Owners	Dogus Holding-35.21%
International Holders as a % of Free Float	40.2
Shares Outstanding	110,000,000
Avg. 6m Daily Vol. ($m)	4.78
ISE-100 (TRY)	50,056

Performance	1M	3M	12M
Absolute (%)	19.5	1.0	17.5
Relative (%)	7.1	-8.1	-15.6

Key Ratios (%)	2006	2007E	2008E
EBITDA margin	2.8	3.1	4.1
Net Debt/equity	-12.5	-4.1	-7.3
ROA	2.0	3.1	5.9
ROIC	26.6	29.8	53.1
ROE	4.5	6.9	12.5

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Summary and Investment Conclusion

The stock is oversold due to the weak auto market, where a recovery could be underway. Also, there is substantial value to be created from the operating rights of the MVIS. As an importer Dogus Otomotiv is remarkably cyclical and exposed to interest and exchange rate volatility. Following the foreign currency volatility in May 06, high-interest rates resulted in a substantially weaker auto market, where local sales declined by 28% YoY in H206 (Dogus Otomotiv 35%). The trend remained weak in H107 with a 28% YoY decline (Dogus Otomotiv 33%). Hence, Dogus Otomotiv shares have underperformed the ISE-100 by 15.6% over the last 12 months. On the other hand, seasonally adjusted monthly data confirms that demand has not only bottomed out, but also started showing signs of improvement (up by 20% on seasonally adjusted MoM basis); going forward we estimate local sales to grow by 15% in 2008. As such, in our view, the Company should be a beneficiary of a turnaround of the auto sector and a stable macro economic environment (strong YTL and lower interest rates). ***Moreover, the operating rights for the MVIS should be a key catalyst for the shares as this should improve the company's business model substantially. There is no publicly available data as of yet, however, based on our very conservative assumptions we value Dogus Otomotiv's one third share in the business at a NPV of US$102mn, or 18% additional value to the current market value.*** The Company will not consolidate the revenues, but rather its share (33%) in the consortium using an equity-pickup method. ***With the help of the NPV from the MVIS our target price is TRY9.39/share (US$802mn).***

A relatively steady fixed cost structure means large margin swings based on sales volumes, as such we expect EBITDA margin to increase 1.2pps by 2008. As Dogus Otomotiv mainly operates as a pure importer (with 70% of revenues generated from import and distribution segment, before consolidation adjustments), volatility in the cost of goods sold is parallel to that of sales volume. In order to eliminate the currency risk, the company utilizes a hedging policy. However, the company has a fairly stable fixed cost structure mainly resulting from its dealer and service network. As sales volume increases, the Company's cost structure remains relatively stable, consequently the increase in sales volume has a greater effect on the bottom line. ***As such, our estimates show while sales volume increases by 17% in 2008, the Company's EBITDA should grow by 57%, implying a 0.86% marginal contribution per 10k units sold on EBITDA margin in 2008.***

Pipeline of new projects could help to diversify the business model and raise bottom line by a 10 year CAGR of 24%. In order to improve its business model and diversify away from the aforementioned risks, Dogus Otomotiv is in constant search for new business areas. As such, the Company is initiating a number of new projects which include: (1) Distribution of Volkswagen LCVs in Egypt, (2) production of Krone trailers in Izmir, Turkey, and (3) launch of Oto-fix service stations. ***The most important new project is the operating rights for Motor Vehicle Inspection Stations (MVIS) for the next 20yrs. Yesterday, it was confirmed by the Council of State that the Company and its consortium was awarded the operating rights of motor vehicle inspection stations (MVIS) in Turkey for 20 years.*** This should not only diversify the business model substantially, but also create a US$102mn value, on our very conservative assumptions. All of the mentioned projects are discussed later in this report (see pages 12-14).

Valuation

Our target price shoots up to TRY9.39/share, an upside of 39%, when we factor in the potential value to be generated from the MVIS. We derive to our fair value estimate from a sum-of parts valuation. On the core business, we employed a blended valuation approach and assigned equal weights to the international peer group comparables and our DCF. Accordingly, our target value for the core business is US$700mn, or TRY8.19/share, corresponding to an upside potential of 21% for the stock. On the MVIS front, the Company is expected to start its operations in 2009 and establish 189 fixed and 38 mobile inspection stations. The details and implications of this project are discussed later in the report (see pages 13 & 14). There is no publicly available data as of yet, however based on our very conservative assumptions we value the business at a NPV of US$102mn, or 18% additional value to the current market value. The Company will not consolidate the revenues, but rather its share (33%) in the consortium using an equity-pickup method. With the help of the NPV from the MVIS our target price shoots up to TRY9.39/share (US$802mn).

The stock is cheap on 2009 multiples, as this is when the Company will start to reap the rewards from its upcoming projects. Dogus Otomotiv trades at 12.1x P/E in 2008, a 5% premium to its international peers, since the company will undertake the necessary investments slightly depressing the bottom line, yet with 9.5x P/E in 2009, a 13% discount as net margin continues to recover (Exhibit 4). Moreover, the stock trades at a respective 8% and 12% discount to the international peer group on its 2008 and 2009 EV/EBITDA multiples, coming in at 6.5x and 5.6x (Exhibit 5). Please note that, income to be generated from MVIS operations are not included in Dogus Otomotiv's multiples. Our target value estimate based on the international distributors' peer group multiples alone, is US$653mn, corresponding to a 13% upside. Dogus Otomotiv's EBITDA margin and net margin are both slightly lower than that of its international peer group in 2007, yet following a recovery reaches peer group average levels (Exhibit 3).

Exhibit 1: Valuation Summary (US$mn)

Method	Equity Value (US$ mn)	Weight	Weighted Equity Value (US$ mn)
DCF	748	50%	374
Peer Group Comparison	653	50%	327
Estimated Equity Value (excluding MVIS)			**700**
MVIS value	102	100%	102
Estimated Equity Value (including MVIS)			**802**
Current Market Cap. (US$ mn)			**577**
Upside Potential (excluding MVIS)			**21%**
Upside Potential (with MVIS)			**39%**

Source: TEB Research

Dogus Otomotiv has a 3.86% stake in Dogus Holding – a hidden value worth approximately US$198mn. Dogus Holding is also the parent of Garanti Bank, and aside from the automotive industry has operations in banking and finance, media, construction, and tourism. Since Dogus Holding is not a public company, information on its value is not readily available, yet based on Dogus Otomotiv's Q107 financials the value of the Dogus Holding stake is US$198mn. Note, Garanti Bank comprises a substantial part (US$125m) of this amount.

Exhibit 2: Peer Group Comparison

Company	Country	Market Cap.	EV/EBITDA			P/E			EV/Sales		
		US$ mn	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E
International Distributors' Average											
Bilia AB *	Sweden	426	5.8	5.0	4.9	16.6	12.9	12.3	0.2	0.2	0.2
Inchcape *	UK	4,785	8.4	7.9	7.2	14.3	13.4	12.1	0.4	0.4	0.4
SAG *	Portugal	432	6.4	5.5	4.7	11.2	8.2	8.2	0.4	0.4	0.4
Asbury Automotive Group *	US	940	10.3	9.8	8.4	12.8	11.4	11.0	0.3	0.3	0.3
International Distributors' Average			7.7	7.1	6.3	13.7	11.5	10.9	0.3	0.3	0.3
Turkish Producers' Average											
Ford Otosan **	Turkey	3,514	6.3	5.4	5.1	9.8	8.0	7.8	0.7	0.7	0.7
Anadolu Isuzu **	Turkey	160	5.7	5.0	4.8	11.0	10.0	9.8	0.6	0.5	0.5
Otokar **	Turkey	441	7.3	6.3	5.4	8.8	7.7	7.0	1.0	0.8	0.7
Tofas **	Turkey	2,543	11.0	5.6	5.4	19.6	12.1	11.7	0.9	0.6	0.6
Turkish Producers' Average			7.6	5.6	5.2	12.3	9.5	9.1	0.8	0.7	0.6
**Dogus Otomotiv ** **	Turkey	577	10.2	6.5	5.6	23.8	12.1	9.5	0.3	0.3	0.2
Peer Group Average			7.7	6.3	5.7	13.0	10.5	10.0	0.6	0.5	0.5
Dogus Otomotiv's premium / (discount) to											
International Distributors			31%	-8%	-12%	73%	5%	-13%	-9%	-19%	-24%
Turkish Producers			34%	17%	8%	94%	28%	4%	-61%	-60%	-61%
Peer Group Average			33%	3%	-3%	83%	15%	-5%	-45%	-46%	-48%

** IBES consensus estimates*

*** TEB Research estimates*

Note: - Results do not include income expected to be generated from Motor Vehicle Inspeciton Station (MVIS) operations.

- Our fair value estimate derived from peer group comparison is based on Dogus Otomotiv's premium/(discount) to international distributors' multiples only.

Exhibit 3: EBITDA & Net Margin compared to peers

Company	Country	EBITDA Margin (%)			Net Margin (%)		
		2007E	2008E	2009E	2007E	2008E	2009E
Bilia AB *	Sweden	3.4	3.6	3.6	1.2	1.4	1.4
Inchcape *	UK	4.8	4.9	5.0	2.9	2.9	3.0
SAG *	Portugal	6.7	7.6	9.0	3.9	5.1	5.2
Asbury Automotive Group *	US	3.3	3.3	3.8	1.2	1.3	1.4
Dogus Otomotiv **	Turkey	3.1	4.1	4.4	1.4	2.3	2.7
International peer avg		4.5	4.8	5.4	2.3	2.7	2.7
**Dogus Otomotiv ** **		**3.1**	**4.1**	**4.4**	**1.4**	**2.3**	**2.7**

** IBES consensus estimates*

*** TEB Research estimates*

Exhibit 4: P/E to 3-year CAGR

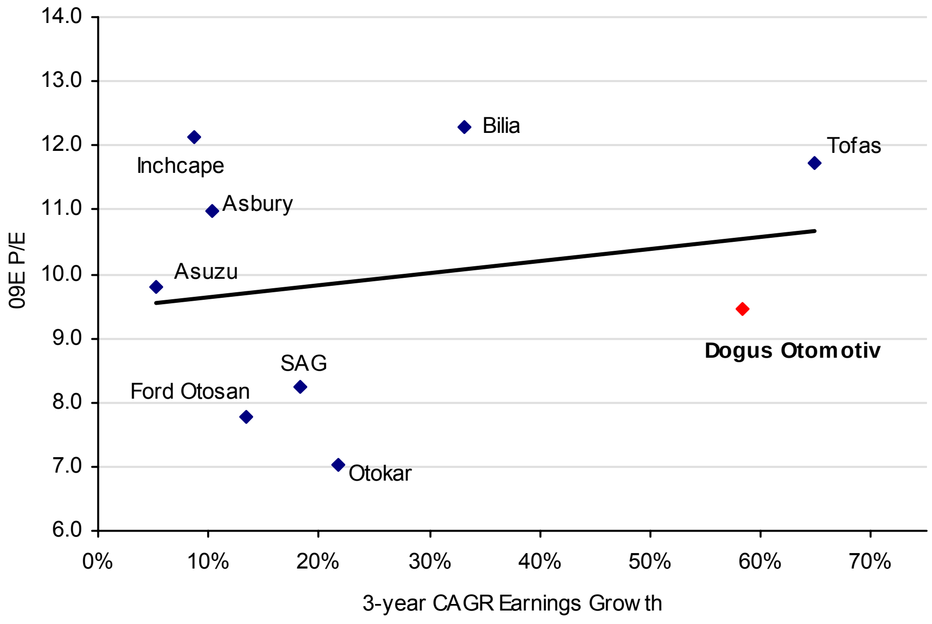


Exhibit 5: EV/EBITDA to 3-year CAGR

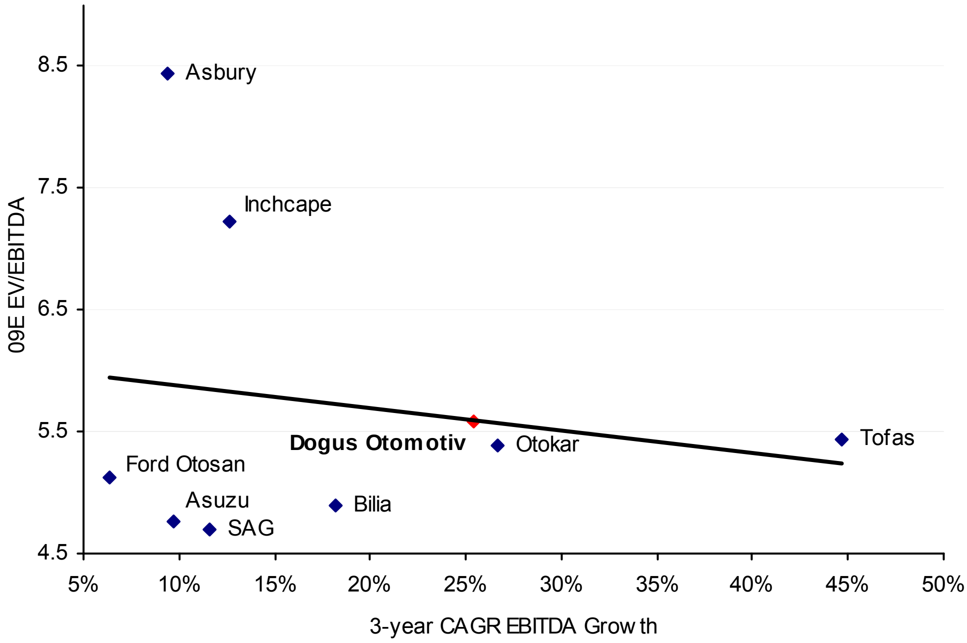


Exhibit 6: EV/Sales to 3-year CAGR

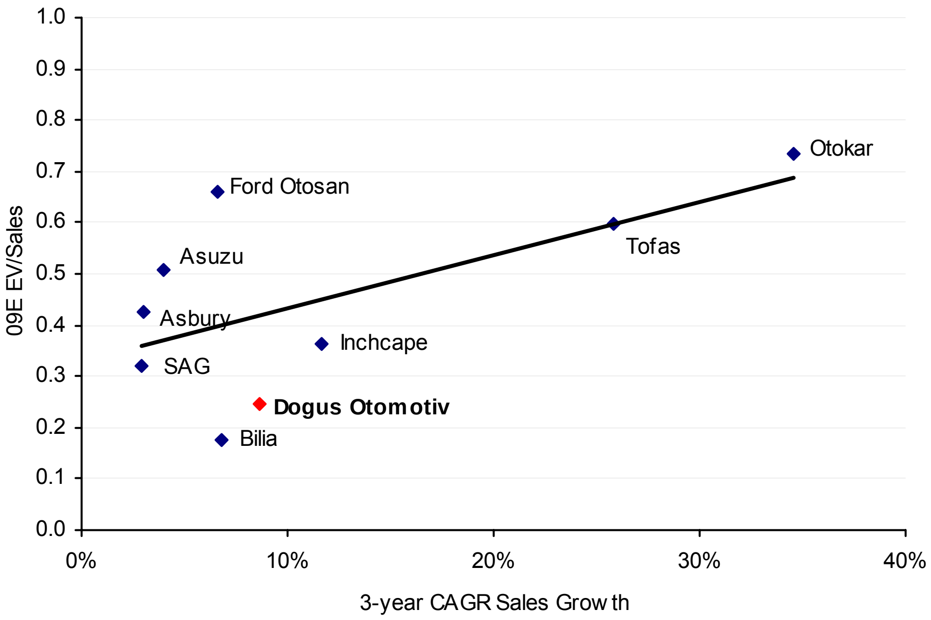


Exhibit 7: DCF Analysis

WACC Assumptions	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
Risk-Free Rate (%)	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Levered Beta	1.1	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.0
Tax Rate (%)	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Equity Risk Premium (%)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Cost of Equity (%)	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
Cost of Debt after tax (%)	6	6	6	6	6	6	6	6	6	6
Weight-Equity (%)	89.2	89.2	90.1	91.5	92.8	93.9	94.8	94.7	95.7	96.2
Weight-Debt (%)	10.8	10.9	9.9	8.5	7.2	6.1	5.2	5.3	4.3	3.8
WACC (%)	11.8	11.8	11.9	11.9	12.0	12.1	12.2	12.2	12.2	12.3
Perpetual Growth (%)	3.0									

Free Cash Flow (US$ mn)	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	55	85	99	109	124	130	136	142	148	153
- Tax	6	12	15	17	20	21	22	23	24	25
Gross Cash Flow	48	74	84	92	104	109	114	119	123	128
- Capital expenditure	78	39	20	15	15	15	15	15	15	15
- Increase / (Decrease) in WC	-12	9	6	6	7	8	9	10	11	13
Free Cash Flow (FCF)	-17	26	57	70	82	86	90	94	97	100

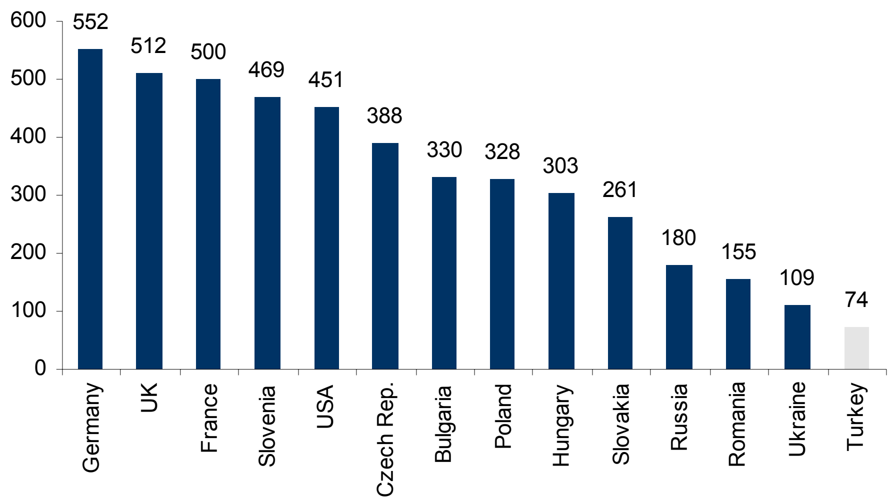
DCF Results	US$ mn
+Present value of FCFs (2007-2016)	343
+Present value of terminal value	382
% of Terminal Value in Firm Value	*53%*
Enterprise Value	725
-Net Debt (2007/03)	-22
Estimated Fair Value	748

Source: TEB Research

An update on the Turkish Auto Sector

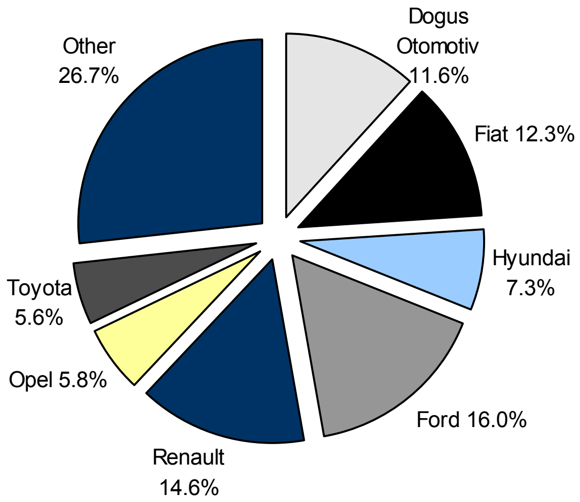
The sector is very competitive and Turkey has become an export base for global auto producers. With over 70mn population, Turkey has an estimated car density of 74 per 1,000 people, lower compared to similar countries (Exhibit 8), hence has the highest growth potential in the European continent in terms of volume. As the size of the Turkish automotive market gets larger, it lures large automotive companies, and eventually gets even more competitive. The Turkish automotive sector mainly comprises of PC and LCV producers and importers, with BMC, Isuzu, Ford Otosan, Honda, Hyundai, Karsan (Peugeot), Renault, Tofas (Fiat), and Toyota being the main producers in the sector, producing passenger cars, light and medium trucks, pick-ups, buses, mini and midi-buses. As of June 07, Ford Otosan, which solely acts as an importer for Ford PCs, is the market leader in the domestic PC and LCV market with a 16% market share, followed by Oyak Renault (Exhibit 9). On the other hand, as a result of over-capacity in the European market, coupled with high costs, many foreign car companies have started to relocate their production facilities in Central and Eastern Europe. Ford-Otosan, Tofas (Fiat), Renault, Hyundai, Honda, and Toyota are using Turkey as an export base for the European market. This commitment of foreign producers allowed Turkish automotive companies to gain international market share, and become an export hub for Europe. This helps Turkish producers to maintain high capacity utilization; thus maintain lower fixed costs and production stability during local market volatilities. Amongst the listed companies, Ford-Otosan and Tofas have made intensive investments to become producers and major exporters of Ford and Fiat brand LCVs. As such, with the increased significance of exports, the overall sales of Turkish producers should continue to grow despite local weaknesses. For example, despite the current weakness of the local market over the last year, in 2006 PC and LCV exports surged by 27% YoY and in H107 continued its growth trend with a 20% YoY growth. As a result, despite a 28% contraction in the local market, the overall sales of the Turkish producers (including exports) contracted by a mere 4% in H107. Turkish auto exports have expanded by a 5 year CAGR of 29%, and going forward our expected 5 year CAGR in exports is 7%. Note that, while exports ensure stability for Turkish auto producers, export margins are substantially thinner than local sales.

Exhibit 8: Car Density per 1,000 people by Country



Source: Global Insight & Ernst & Young

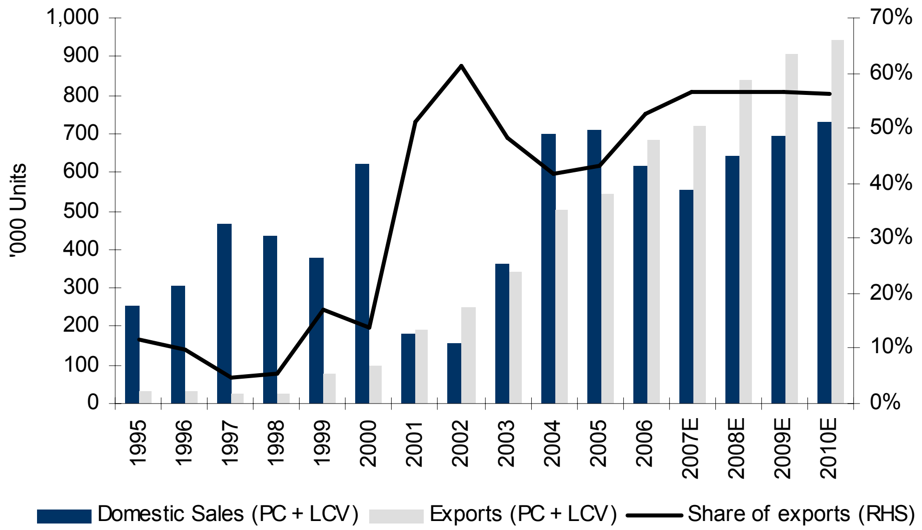
Exhibit 9: H107 local auto market by Company (PC+LCV)



Source: Automotive Distributors Association

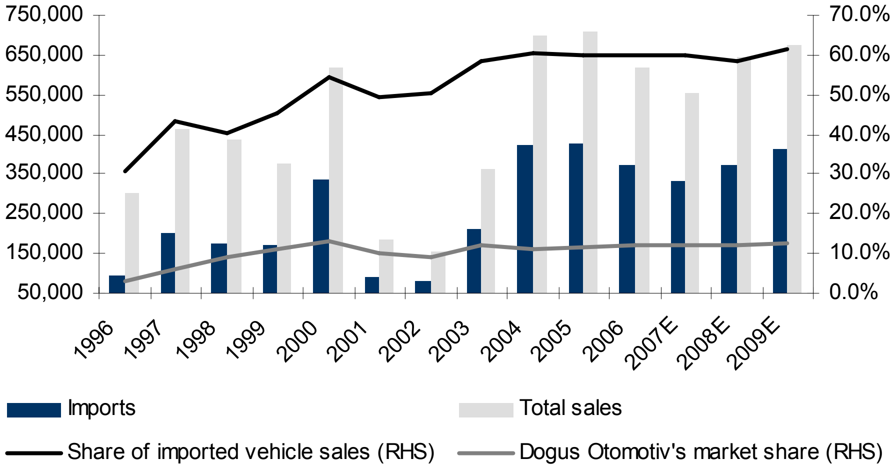
Imports are ahead of the crowd in terms of market share. The customs union was a milestone for the Turkish industry; as tariffs were lifted, competition in the domestic market intensified, and imports grabbed substantial market share. Though the passenger car (PC) market grew at a CAGR of 4.5% in the last decade, PC imports grew at a 10 year CAGR of 16% and grabbed a 68% market share in the segment in 2006. This was mainly thanks to strong YTL and consumers' appreciation for better models on the back of rising GDP per capita. Dogus Otomotiv, as a pure importer and a market leader in import market, has a 20% market share within imports and an overall market share of 11.6% in H107, almost at par with 2006 market share of 12%.

Exhibit 10: Local sales versus exports (PC+LCV)



Source: AMA, TEB Research

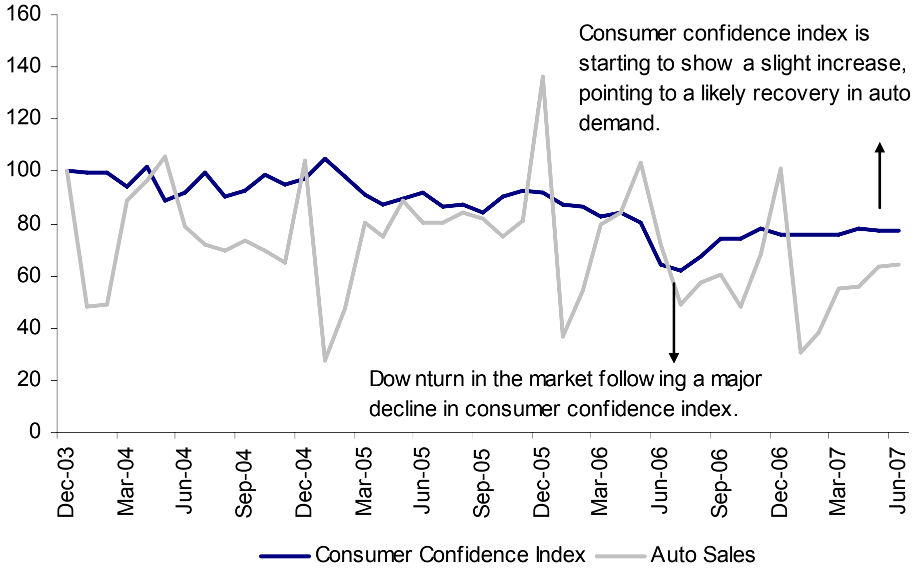
Exhibit 11: The market share of imported vehicles & Dogus Otomotiv



Source: Company data, AMA, TEB Research

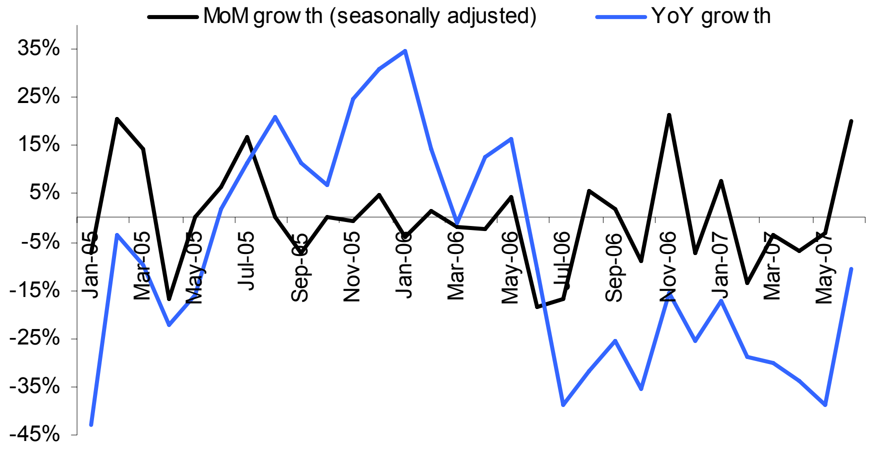
Local demand has been contracting sharply since H206; however, the trend is bottoming out, in our view. While the long term outlook for Turkish auto demand remains promising, the market volatility in H206 led to a contraction in local demand; after a 7.7% YoY increase in H106, local demand started to shrink by 28% YoY in H206 (Dogus Otomotiv 35%). The trend remained weak in H107 with a 28% YoY decline (Dogus Otomotiv 33%). However, June 07 seasonally adjusted monthly data confirms that demand has not only bottomed out, but also started showing signs of improvement signalled by a 20% MoM increase on a seasonally adjusted basis. In our view, the rest of 2007 will continue to be a lacklustre year for the Turkish automotive sector, mainly due to the high real interest rate environment expected to continue for the most part of the year, and we expect the local auto demand to remain weak and overall contract by 10% in 2007. Furthermore, seasonally adjusted data shows that the trend in MoM demand contraction has bottomed and a gradual improvement has begun (Exhibit 13). We believe, a clearer political picture, coupled by rising consumer confidence will help the demand trend to improve in H207, setting up a stage for a strong recovery in 2008 (Exhibit 12).

Exhibit 12: Consumer confidence index & auto sales



Source: Cnbc-e, AMA, TEB Research

Exhibit 13: Seasonally adjusted MoM auto data & estimates

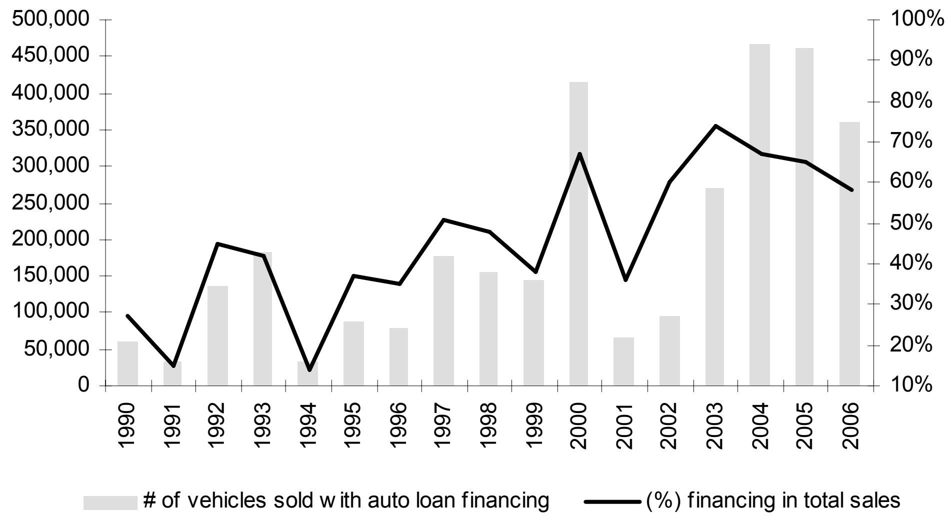


Source: AMA, TEB Research

In 2008, we expect sharp recovery in domestic demand. Following a 1.5 year slump, we believe 2008 should be a recovery year for Turkish auto companies; local demand should grow by 15% on the back of our lower interest rate outlook, as the year long pressure in a number of political events should be lifted.

Ease to obtain auto loans have been a saviour for the auto sector. Following the strategy change in the Turkish banking sector, easier financing has been a key catalyst for the growth of the Turkish auto sector, and we expect this trend to continue in the longer term. As of 2006 nearly 58% of cars sold in Turkey were on non-cash basis, which was 35% a decade ago. This was mainly due to the growing Turkish lending business, providing significant momentum for the growth and profitability of the domestic automotive sector. Following the macro stability and the subsequent fall in interest rates, access to financing has become easier and the growth in auto lending has been substantial, with a 4 fold increase since 2002.

Exhibit 14: Auto Loans



Source: AMA, Central Bank of Turkey, TEB Research

Exhibit 15: Turkish Auto Demand (PC+LCV) 2002-2009E

	2002	2003	2004	2005	2006	2007E	2008E	2009E
PC Sales (units)	90,615	227,036	451,209	438,597	373,219	335,442	383,858	416,109
YoY (%)		*151%*	*99%*	*-3%*	*-15%*	*-10%*	*14%*	*8%*
Domestic	35,519	73,267	139,541	136,708	117,726	111,840	126,673	137,316
Imported	55,096	153,769	311,668	301,889	255,493	223,602	257,185	278,793
Imports (%)	*61%*	*68%*	*69%*	*69%*	*68%*	*67%*	*67%*	*67%*
LCV Sales (units)	66,834	137,012	246,886	271,811	244,633	220,625	258,344	280,044
YoY (%)		*105%*	*80%*	*10%*	*-10%*	*-10%*	*17%*	*8%*
Domestic	42,802	77,575	135,980	147,426	129,075	109,714	129,172	144,414
Imported	24,032	59,437	110,906	124,385	115,558	110,911	129,172	135,630
Imports (%)	*36%*	*43%*	*45%*	*46%*	*47%*	*50%*	*50%*	*48%*
Total Market	157,449	364,048	698,095	710,408	617,852	556,067	642,202	696,153
YoY (%)		*131%*	*92%*	*2%*	*-13%*	*-10%*	*15%*	*8%*
Domestic	78,321	150,842	275,521	284,134	246,801	221,553	255,845	281,730
Imported	79,128	213,206	422,574	426,274	371,051	334,514	386,357	414,423
Imports (%)	*50%*	*59%*	*61%*	*60%*	*60%*	*60%*	*60%*	*60%*

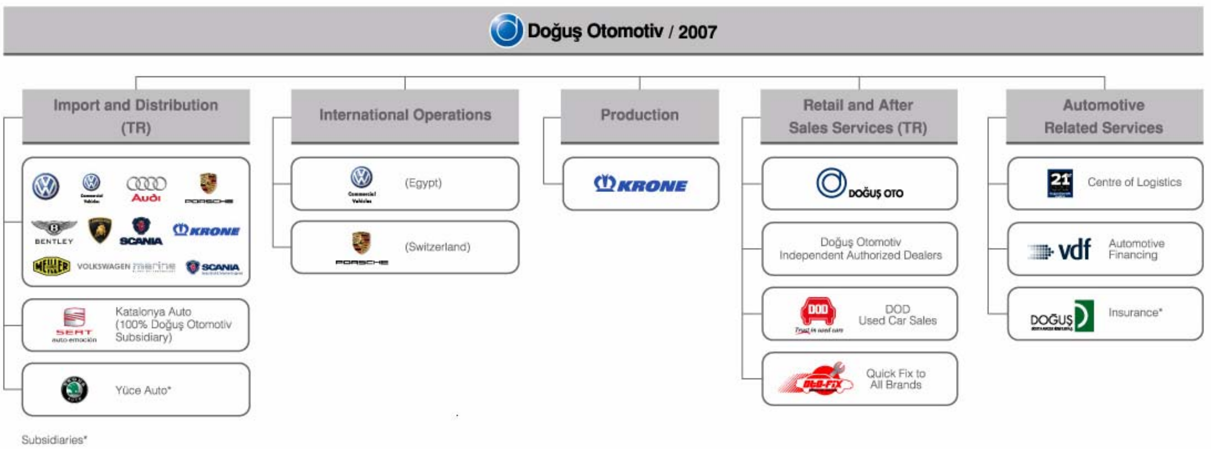
Source: AMA, TEB Research

The potential easier access to used cars could pose a potential threat to local producers, but to a lesser extent to Dogus Otomotiv, through its brand DOD. A number of accession countries experienced that compliance with EU regulations, particularly regarding freer import access for used cars, has caused significant disruption to new car sales. Dogus Otomotiv, which has a successful track record in being able to capitalize on its strong brands, formed an organization to trade the multi-brands distributed in the second-hand market. Not only has this created a new market for Dogus Otomotiv, but has also helped to manage and stabilize the second-hand value of Dogus Otomotiv's brands. As a vehicle brand commands better in the second-hand market with stable prices, consumers can more readily finance their new purchases to upgrade themselves to newer models of the same brand. Consequently, such a problem while posing as a threat to other Turkish auto companies, might act as a plus for Dogus Otomotiv. Dogus Otomotiv 2nd hand car sales, through the brand name DOD, reached 7.7k units in 2006, and volume is expected double reaching 14k units by the end of 2007. Note that, DOD works on a consignment basis earning commission income, as such has no inventory liability.

An In Depth Analysis of New Projects

In order to diversify away from the cyclical business nature, Dogus Otomotiv is in constant search for new businesses. Dogus Otomotiv currently provides services in (1) imports and distribution of vehicles in Turkey, (2) international operations, (3) retail and after sales services in Turkey, (4) trailer production, and (5) automotive related services. Mainly operating as an importer, Dogus Otomotiv's business model is remarkably cyclical, and exposed to currency volatility. While, the long term growth trend of the sector remains strong, demand for imported vehicles is highly dependent on currency and interest rate volatility, hence could be more volatile than its local producer counterparts. This is mainly due to the fact that (1) imported vehicles are relatively higher end compared to those domestically produced in terms of price and quality, and (2) the pricing of all imports are FX based. We have already argued the evident results on this structure following the currency volatility, imports declined by 16.6% in H206 whereas the local sales of domestic producers remained flat compared to H106. As such the Company has a number of projects lined-up, all of which serve the purpose of diversifying its sources of revenues.

Exhibit 16: Dogus Otomotiv's Business Segments



The projects are discussed in detail as follows:

1) **Distribution of Volkswagen LCV's in Egypt - Finalized:** Dogus Otomotiv signed a dealership contract with Volkswagen AG and in January 2007 established a Company in Egypt to become the distributor, direct dealer and provide after sale services of Volkswagen branded LCVs in Egypt. Operations are expected to start in the second half of this year with sales points and service stations in Cairo, Alexandria, and Sharm El Sheikh. Egypt has a car density of 40 cars per 1,000 people (compared to 74 cars in Turkey). In line with the Company's current state of transformation, Dogus Otomotiv also has further plans of regional expansion, and as such, even though the Egyptian auto market appears to be small in size, it is of strategic importance for Dogus Otomotiv. With a current annual demand of 120k units, the Egyptian auto market demand is expected to increase further to 200k in the next two years. We expect the Company to sell 521 units in 2007 and reach 3k units by 2011.

2) **Production of Krone trailers in Turkey – Pending:** Dogus Otomotiv already distributes Krone trucks in Turkey and there also exists an assembly line in Gebze. However with intentions to diverge from being a pure importer, Dogus Otomotiv signed a letter of intent with Bernard Krone Holding to produce Krone brand trailers in Turkey. Dogus Otomotiv will most probably have a 49% share in the new Company, and will consolidate the new business using the equity pick-up method. The capital expenditure for this project is estimated at US$39mn in total. With an annual capacity of 10k units, the plant is planned to produce 5k units, of which 90% will be exported. The Company's Krone sales were 809 units in 2006, we further estimate the Company

should sell 5k trailers in 2009, and assume a 4 year CAGR of 19% (2009-2013) reaching 10k units by 2013, remaining steady thereafter. We believe, the impact of this new business on Dogus Otomotiv's net income will be US$4.4mn starting 2012 and doubling in 2014. Note that the effect of this project will only be reflected onto the Company's bottom line as it will be consolidate using the equity-pickup method.

3) **Launch of Oto-fix service stations – Finalized:** Dogus Otomotiv opened its first Oto-fix service outlet in May 2007, in Istanbul, and is planning to expand its network to 100 outlets within 5 years. The services offered include tire replacement, oil and filter, brake, suspension, headlamps, battery and muffler change, all of which are for multi brand products of Dogus Otomotiv. We believe that in the near term Oto-fix will not have a material impact on the Company's financials, yet is strategically important in terms of possible synergies that could be created when coupled with MVIS business. Dogus Otomotiv is currently gaining experience in this area, and going forward could utilize its Oto-fix network together with the inspection stations to provide required services before or after inspection.

4) **Operation of Motor Vehicle Inspection Stations (MVIS) in Turkey – Finalized as of yesterday – a key segment to diversify the business model:** Dogus Otomotiv was part of the consortium that won the tender for the operating rights of motor vehicle inspection stations (MVIS) in Turkey for 20 years. The total bid was US$613.5mn, of which US$552mn will be paid in cash, with a 10% discount. The consortium comprised of three parties, where Dogus Otomotiv partnered with TÜVSÜD (Germany) and Akfen Holding, each having an equal stake. Given that only 47% of vehicles in Turkey have regular inspections, growth potential in this business area is undeniably high. As of 2003, revenues generated by the vehicle inspection stations were only US$103mn.

Terms of agreement: ***(1) Revenue sharing:*** For the first 3 years, the consortium will pay 30% of revenues generated to the government, between the 4^{th} and 10^{th} year 40% of revenues will be transferred, and going forward 50% of revenues generated will be handed over to the government. ***(2) Station requirements:*** The consortium is to build a certain number of vehicle inspection stations around Turkey, which can either be owned by the consortium or operated by third parties under a franchise agreement, which still holds the consortium responsible for control activities. ***(3) Payment terms:*** Dogus Otomotiv's portion of the total sum is US$184mn, with a 10% discount when paid in cash. The Company will finance the amount through issuing debt, yet the long term borrowing is to be made by a separate company (Tuvturk Kuzey Tasit Muayene İstasyonlari and Tuvturk Guney Tasit Muayene İstasyonlari), hence will not be consolidated under Dogus Otomotiv's financials, Dogus Otomotiv will only act as a guarantee.

Current status: Yesterday, it was confirmed by the Council of State that the Company and its consortium was awarded the operating rights of motor vehicle inspection stations (MVIS) in Turkey for 20 years. This was initially approved by the Council of State, but then was held up in the courts for quite some time. The verdict was announced yesterday and Dogus Otomotiv stated that they received a letter of convocation to sign the agreement until August 22^{nd} after fulfilling the necessary requirements stated in the tender offer. Once the agreement is signed, the consortium commits to establish at least 189 fixed and 38 mobile inspection stations within an 18-month period.

How much is it really worth? The Company does not provide a detailed guideline on the size or profitability of the business, and there is no publicly available data as of yet, however, based on our very conservative assumptions we value the business at a NPV of US$102mn, or 18% additional value to the current market value. We expect that the MVIS should generate approximately US$374mn in earnings for Dogus Otomotiv (US$19mn pa) over the 20 year concession period. The estimated total investment required for the 20 year period, including franchises and parent Company, is estimated at US$120-170mn (our estimate is US$160mn). Based on the fact that the Company will consolidate the business using an equity pick-up method; we included the operating rights for MVIS in Dogus Otomotiv's valuation based on SOTP, as such reached an estimated NPV for the MVIS business separately. Based on DCF analysis we valued the entire project at US$306mn, and Dogus Otomotiv's share at US$102mn. We assume that the number of PCs inspected should grow at a 20 year CAGR of 3.1% between 2008-2027 and LCV and HCV inspections should grow at 3.3% and 3.6%, respectively. In terms of margins we looked at Vicom, a motor vehicle inspection Company operating in Singapore. Vicom operates on 33% EBITDA margins, and in order to be conservative we assumed 25% EBITDA margins in our model.

Exhibit 17: Net Present Value of the MVIS Business

	2008E	2009E	2010E	2015E	2020E	2025E	2026E	2027E
Revenues	55	68	79	101	109	121	123	126
EBITDA	14	17	20	25	27	30	31	31
-Taxes	2	3	4	5	5	6	6	6
-Capital Expenditures	17	17	1	1	1	1	1	1
-Change in WC	2	2	2	-3	-3	-3	-3	-3
Free Cash Flow	**-7**	**-4**	**13**	**23**	**24**	**27**	**27**	**28**

DCF Results	**US$ mn**
+Present value of FCFs	150
+Present value of terminal value	136
% of Terminal Value in Firm Value	*48%*
Total NPV	286
-Net Debt	184
Estimated Fair Value	**102**

Source: TEB Research

5) **Other projects:** In addition to the aforementioned businesses the Company is undertaking two additional projects, which may not be of great importance financially in the near future, but strategically are worth mentioning. (a) Dogus Otomotiv established a new company and showroom in Lausanne to carry out marketing and after sales services of Porsche in Lausanne, Switzerland. In 2006, 1,692 Porsche cars were sold in Lausanne and Dogus Otomotiv sold 220 units in Turkey alone. As such this appears to be market with growth potential. The operations are expected to begin in the second half of 2008 therefore no material effect on the financials in the near term. We estimate the company could generate US$26m revenues in 2008. (b) LeasePlan acquired Vdf Fleet Services, operational fleet leasing subsidiary of Dogus Ototmotiv, through a JV with Dogus Otomotiv, where Dogus Otomotiv has a 48% stake. We believe that this partnership could be a hidden value since the JV is expected to distribute dividends going forward. Even though we do not have the details of the amount of the dividend policy and financial impact, having a 48% stake in the company, Dogus Otomotiv should benefit from the proceeds.

Financial Analysis

We expect Dogus Otomotiv's unit sales to grow by 17% versus 15% growth in local auto market in 2008. In 2007, being a rough year for the Turkish auto sector, we expect unit sales to contract by 8.7% versus 10% in the overall market. Nevertheless, 2008 being a correction year unit sales should grow by an eye catching 17%, outperforming the Turkish auto market which is expected to recover with a 15% increase. Consequently, revenues should decline by 4% in 2007, yet pick up by 2008 with a 17% growth. All in all, Dogus Otomotiv's revenues should grow by CAGR of 5% in the next decade, slightly higher than the 4% growth expected in the market. Note that, Dogus Otomotiv has a minority stake in two of the projects (Krone production plant & MVIS operating rights) mentioned above, hence will consolidate these under an equity pick-up method, thus they will not have a major effect on the top line.

Exhibit 18: Dogus Otomotiv Unit Sales

	2005	2006	2007E	2008E	2009E
Domestic					
PC	***51,503***	***42,856***	***38,626***	***44,207***	***47,736***
Volkswagen	32,049	27,619	24,857	28,461	30,738
Seat	6,570	4,572	4,115	4,711	5,088
Audi	4,705	4,956	4,460	5,107	5,516
Skoda	8,026	5,489	4,940	5,656	6,109
Porsche	153	220	224	236	245
Lamborghini	0	0	7	10	13
Bentley	0	0	22	25	27
LCV	***33,163***	***31,947***	***28,752***	***33,640***	***36,668***
VW	33,163	31,947	28,752	33,640	36,668
Skoda	0	0	0	0	0
HCV	***2,475***	***2,908***	***3,053***	***3,664***	***5,030***
Scania	2,073	2,099	2,204	2,645	2,909
Krone	402	809	849	1,019	2,121
Total Domestic	**87,141**	**77,711**	**70,432**	**81,511**	**89,435**
growth (%)	**10.2%**	**-10.8%**	**-9.4%**	**15.7%**	**9.7%**
Exports					
LCV	***0***	***0***	***521***	***1,500***	***1,500***
Volkswagen	0	0	521	1,500	1,500
HCV	***0***	***0***	***0***	***0***	***4,000***
Krone	0	0	0	0	4,000
Total Exports	**0**	**0**	**521**	**1,500**	**5,500**
growth (%)	**0.0%**	**0.0%**	**100.0%**	**187.9%**	**266.7%**
Total Unit Sales	***87,141***	***77,711***	***70,953***	***83,011***	***94,935***
growth (%)	***10.19%***	***-10.82%***	***-8.70%***	***17.00%***	***14.36%***

Source: Company data, TEB Research

Dogus Otomotiv operates in a business with high margin swings, yet margins should recover back to normalized levels in 2008. As mentioned earlier, as an importer of relatively higher end vehicles, the Company's volumes and margins are exposed to FX volatility. In 2006 gross margin declined by 3 pps, and we believe 2007 will also be a weak year due to the lack of political visibility and high interest rates. We expect the Company's unit sales to decline by 8.7% in 2007, slightly lower that our estimate for the Turkish local auto demand. However, 2008 should be a correction year with sales increasing by 17% and margins to recovering back close to 2005 levels. In 2007 we expect an EBITDA and net margin of 3.1% and 1.4%, respectively. With further margin improvements in 2008 gross margin should reach 12.6%, coupled with a respective EBITDA and net margin of

4.1% and 2.3% EBITDA. This should help for an 8% EBITDA and 58% earnings increase in 2007, followed by a 57% increase in EBITDA and doubling of earnings in 2008.

Exhibit 19: Dogus Otomotiv Key Figures

	2005	2006	2007E	2008E	2009E
Revenues	**1,827**	**1,766**	**1,785**	**2,088**	**2,266**
% increase / (decrease)	*6%*	*-3%*	*1%*	*17%*	*9%*
Total Unit Sales	**87,141**	**77,711**	**70,953**	**83,011**	**89,935**
% increase / (decrease)	*10%*	*-11%*	*-9%*	*17%*	*8%*
Domestic	87,141	77,711	70,432	81,511	88,435
Exports	0	0	521	1,500	1,500
EBITDA	**120**	**50**	**55**	**85**	**99**
% increase / (decrease)	*23%*	*-58%*	*8%*	*57%*	*16%*
EBITDA Margin	**6.6%**	**2.8%**	**3.1%**	**4.1%**	**4.4%**
Net Income	**83**	**15**	**24**	**48**	**61**
% increase / (decrease)	*90%*	*-81%*	*58%*	*97%*	*28%*

Source: Company data,TEB Research

We expect net profit to double in 2008, and a CAGR of 24% over the next 10 years thanks to the new business areas. Although the near term effects of these new projects should be marginal on the bottom line, they should provide investors with a positive outlook in terms of the Company's efforts in establishing a more stable business model. The Krone investment should start to have a positive impact on the bottom line starting 2012. The impact of the MVIS business should be higher than both of these aforementioned as it is more sizeable in comparison, yet as there is no publicly available data as of yet, we value the business at a NPV of US$102mn, and include it in our valuation based on sum-of-the-parts. (see page 13 & 14 for a more detailed discussion). Note, the Company should book this under the equity pick-up method; hence its impact will be directly on the bottom line rather than revenues or EBITDA. We believe, MVIS business contribution to the net income will be approximately US$19mn pa on average over the 20 year period.

DOGUS OTOMOTIV - FINANCIAL STATEMENTS

Dogus Otomotiv - Income Statement – IFRS – US$mn – (2005-2009E)

	2005	2006	2007E	2008E	2009E
Net sales	1,827	1,766	1,785	2,088	2,266
COGS	(1,563)	(1,563)	(1,567)	(1,826)	(1,982)
Gross profit	264	202	218	262	285
Operating expenses	(153)	(160)	(179)	(196)	(206)
Operating profit	111	42	38	66	78
EBITDA	120	50	55	85	99
Other income	20	5	10	11	11
Net Financial income	(13)	(30)	(18)	(17)	(13)
Minority Interest	1	2	0	0	0
Profit before tax	118	19	30	60	77
Taxation	(35)	(3)	(6)	(12)	(15)
Net profit	83	15	24	48	61

Source: TEB Research

Dogus Otomotiv – Margins – (2005-2009E)

	2005	2006	2007E	2008E	2009E
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	-85.5%	-88.5%	-87.8%	-87.4%	-87.4%
Gross profit	14.5%	11.5%	12.2%	12.6%	12.6%
Operating expenses	-8.4%	-9.1%	-10.0%	-9.4%	-9.1%
Operating profit	6.1%	2.4%	2.2%	3.2%	3.5%
EBITDA	6.6%	2.8%	3.1%	4.1%	4.4%
Net Financial income	-0.7%	-1.7%	-1.0%	-0.8%	-0.6%
Other income	1.1%	0.3%	0.6%	0.5%	0.5%
Minority Interest	0.0%	0.1%	0.0%	0.0%	0.0%
Profit before tax	6.5%	1.1%	1.7%	2.9%	3.4%
Tax Rate	29.9%	18.4%	20.0%	20.0%	20.0%
Net profit	4.5%	0.9%	1.4%	2.3%	2.7%

Source: TEB Research

Dogus Otomotiv – Growth Rates – (2005-2009E)

	2005	2006	2007E	2008E	2009E
Net Sales	6%	-3%	1%	17%	9%
EBITDA	23%	-58%	8%	57%	16%
Net Income	90%	-81%	58%	97%	28%

Source: TEB Research

Dogus Otomotiv – Balance Sheet – IFRS – US$mn – (2005-2009E)

	2005	2006	2007E	2008E	2009E
Cash and Banks	94	86	58	78	125
Marketable Securities	0	0	0	0	0
Short Term Trade Rec.	102	102	89	104	113
Other Short Term Rec.	23	18	19	20	21
Inventories	273	300	239	279	303
Other Current Assets	6	8	9	9	10
Current Assets	**498**	**514**	**415**	**490**	**571**
LT Receivables	0	0	0	0	0
Other LT Rec.	2	2	3	3	3
LT Financial Assets	176	200	200	200	200
Net PPE	73	77	139	159	158
Intangible assets	5	4	4	4	4
Other non-current assets	1	4	4	4	5
Non-Curret Assets	**257**	**288**	**350**	**370**	**369**
Total Assets	**755**	**802**	**764**	**860**	**940**
Short Term Fin. Debt	16	22	22	22	22
Accounts Payable	289	344	283	330	358
Other Short-Term Payables	35	38	40	42	44
ST Advances Received	5	2	3	3	3
Other current liabilities	31	24	25	26	27
Current Liabilities	**375**	**431**	**372**	**422**	**454**
Long Term Fin. Debt	21	22	22	27	27
LT Trade Payables	0	0	0	0	0
Other LT Liabilities	5	6	6	6	7
Total Long Term Liabilities	**26**	**28**	**28**	**33**	**34**
Minority interest	5	3	3	4	5
Total paid-in capital	82	78	78	78	78
Adjustments to share capital	(0)	(0)	(0)	(0)	(0)
Reserves and Other Items	120	147	147	147	148
Retained Earnings	64	100	111	128	161
Current year income/(loss)	83	15	24	48	61
Total Equity	**349**	**340**	**360**	**401**	**449**
Total Lia. & Equity	**755**	**802**	**764**	**860**	**940**
Net Debt / (Cash)	**(57)**	**(43)**	**(15)**	**(29)**	**(75)**

Source: TEB Research

TEB Investment Macro Estimates	2006	2007E	2008E	2009E
TRY/US$ (average; CB Bid rate)	1.4311	1.3870	1.4415	1.4885
TRY/US$ (end of period;CB Bid rate)	1.4131	1.3850	1.4500	1.4850
Benchmark Rate (end-%)	21.15	18.00	16.50	15.25
O/N rate (end of period;YTDav-%)	17.50	17.50	16.00	14.50
CPI (annual-%)	9.7	9.0	6.2	5.8
GDP (US$ mn)	400,046	470,998	508,728	547,261

TEB Investment: Stock Rating Definitions

TEB Rating	Definition	Investment Horizon
BUY	Stock return is > 20%	1 year
HOLD	Stock return ranges between -10% and 20%	1 year
SELL	Stock return is < -10%	1 year

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