

Company Update

Dogus Otomotiv

Creating Value through New Projects and Strong TRY
Automotive
Strong long-term picture with new initiatives

- The company has agreed on various projects to shift its business from local to international markets. Namely, these are: **(a)** Distribution, sales and after-sales services of Volkswagen LCVs in Egypt **(b)** Production of trailers in Turkey with Krone starting from 2009 **(c)** Launch of Oto-fix service stations **(d)** Marketing and after-sale services of Porsche brand in Lausanne, Switzerland.
- **Other than the above mentioned projects, the most important one is the operation of the motor vehicle inspection stations (MVIS).** The three-member consortium in which Dogus Otomotiv has a 33.3% stake won the operation rights of the MVIS in Turkey for 20 years. Although the company does not give any guideline related to the project and profitability, our valuation suggests that the business should generate approximately USD1.8b revenue for the company (USD90m/year) over the 20-year concession period. **On our conservative assumptions, our estimated NPV for MVIS business is USD158m increasing our target price by 23%.**

2008 will be the key recovery year, thanks to strong TRY and lower interest rate outlook

- Despite the new initiatives, Dogus Otomotiv's performance is still largely pegged to the local auto demand, which we expect to contract by 4% in 2007. This should also cap top line and margin expansion in 2007.
- However, we believe, 2008 will be the recovery year and local auto demand should grow by 15% y/y due to the lower interest rate outlook and strong TRY. This should help the company's margins to approach back to 2005 levels. We estimate that the EBITDA margin will increase to 4.5% in 2008.

Recommendation "Outperform": Upside 23%

- Dogus Otomotiv shares trade on 11.1x P/E, 7.4x EV/EBITDA and 1.6x P/BV on 2008 estimates. There is 11%, 7% and 31% discount to the global peers' multiples on 2008 estimates, respectively.
- Our fair value estimate for Dogus Otomotiv is USD846m which corresponds to an upside of 23% in the stock.

USD m	FY 2006	FY 2007E	FY 2008E	FY 2009E
Net Sales	1,765	1,703	2,001	2,147
EBITDA	50	53	90	107
Net Profit	15	27	62	87
Operating Cash Flow	47	46	75	86
Book Value	338	362	422	489
Valuation				
P/E	44.6	25.3	11.1	7.9
EV/EBITDA	13.2	12.6	7.4	6.2
EV/Sales	0.4	0.4	0.3	0.3
P/BV	2.0	1.9	1.6	1.4
P/Sales	0.4	0.4	0.3	0.3

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Maintained

OUTPERFORM

Trading Data as of July 24 th	
Sector	Automotive
Bloomberg	DOAS.TI
Reuters	DOAS.IS
EV (USDm)	663
Mkt cap (USDm)	685
Free float (%)	35%
Shares Outstanding	110,000,000
Ave. Daily Vol. (USDm)	5.30
ISE-100 (TRY)	54,931

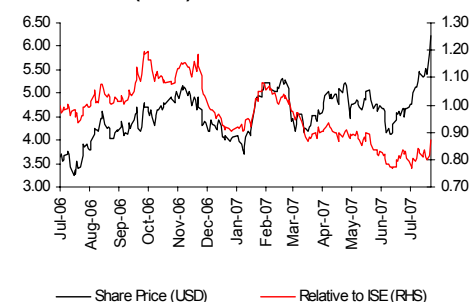
Price Data (USD)	1M	3M	12M
ISE-100	34,691	35,193	22,614
Share Price	4.66	5.00	3.39
Absolute (%)	33.7	24.5	83.5
Relative (%)	4.4	-1.4	-6.6

Current Share Price	Target Share Price
USD 6.23	USD 7.69
TRY 7.70	TRY 9.50

Key Ratios (%)	2006	2007E	2008E
EBITDA margin	2.8	3.1	4.5
Gross margin	11.5	11.8	12.9
Debt/equity	12.8	14.2	10.7
ROA	2.0	3.4	7.1
ROE	4.5	7.7	15.7
ROIC	35.6	38.8	58.7

Ownership Structure (%)

Dogus Holding	35.21
Dogus Insaat A.S.	13.82
Dogus Arastirma ve Gelistirme	16.47
Free-Float	34.50

Price Chart (USD)


We maintain our “Outperform” recommendation with a target price of USD7.69/share (TRY9.50) implying an upside of 23%. As a result of the volatility in the Turkish financial markets in Q2 2006, the company’s local sales volume declined by 11% in 2006. This was mainly because of the fact that as an importer of relatively higher end vehicles, Dogus Otomotiv’s volumes and margins are exposed to FX volatility. However, the company uses hedging policy in order to recover its currency risks. Note that 80% of the sales are TRY based and even with constant prices, margins increase in a strong TRY environment. Moreover, as a result of the political uncertainty and high interest rates in 2007, the company’s local sales volume should contract by 8%, in our view, more than our expected contraction of 4% for the local auto demand. However, on the back of strong TRY and lower interest rate outlook, 2008 will be the key recovery year for Turkish auto companies as the year long pressure in a number of political events should be lifted. ***We believe the company should increase its local sales by 15% in 2008, in line with our outlook for the local auto demand.*** This recovery should also help Dogus Otomotiv to increase its EBITDA and net income by 71% and 128% in 2008, respectively. ***Moreover, the company’s margins should approach to 2005 levels, i.e. EBITDA margin should increase to 4.5% in 2008 from 3.1% in 2007, in our view.***

New businesses: As we noted in our initiation report named “*Awaiting a Catalyst*” dated January 15th, 2007, the company is in constant search for new projects in order to diversify its business segments and enhance the value of its business lines, i.e. to reduce the risks of its business model. The new projects Dogus Otomotiv has been awarded are as follows:

- **Distribution of Volkswagen LCV’s in Egypt:** Dogus Otomotiv agreed with Volkswagen AG to be the distributor and dealer of Volkswagen branded LCVs in Egypt and established a company to provide the distribution, sales and after-sales services. The operations are expected to start in H2 2007 in Cairo, Sharm el-Sheikh, and Alexandria. Egypt is a small but fast growing market with a car park of 3m and car ownership at 40 cars per 1k population (compared to 75 cars per 1k in Turkey). The Egyptian market grew by average of 10% per year in the last 9 years and currently has an annual demand of 120k units, which is expected to increase to 200k in the next two years. LCV sales in Egypt were 25k units in 2005. While this is a relatively small market, it is strategically important for the company as it plans further regional expansion in the future. We expect the company to sell 400 units in 2007 and 2k units in 2008. USD30m additional annual revenue should be generated from this market by 2008, which should grow by 15% per year.
- **Production of Krone trailers in Turkey:** In July 06, Dogus Otomotiv signed a letter of intent with Krone to produce Krone branded trailers in Turkey. Note that, Dogus Otomotiv has been already distributing Krone trucks in Turkey since 2003. Dogus Otomotiv will probably have a 49% share in the new company hence will consolidate the financial results of the new company under equity pick-up method. The capital expenditure for this project is estimated at EUR30m. The annual capacity of the plant will be 10k units and 5k units are planned to be produced at the beginning stage, of which 90% will be exported. The company’s Krone truck sales were 809 units in 2006 in Turkey. We estimate, the company will sell 5k units of trailers in 2009, and assume an average of 19% annual increase (between 2010 and 2013) reaching 10k units in 2013, which should be stable thereafter. We believe, the impact of this new business on the company’s bottom line will be USD3.5m in 2012 (3.4% of the total).
- **Oto-fix after-sale services stations:** Dogus Otomotiv established its first Oto-fix service station in May 2007 in Istanbul. Oto-fix is a fast car-serving business for various brands of its own portfolio. The company targets to reach 100 stations in Turkey within 5 years. The services given in these stations are oil and filter check, tire replacement, brake and suspension, headlamps,

battery and etc. The company expects EUR35m additional revenue in the long-term. Although we believe that there will be no material impact in the near term, it should create synergy when coupled with the company's MVIS business line.

- **Operation of Motor Vehicle Inspection Stations (MVIS) in Turkey:** A three-member consortium (TUV/SUD-Akfen-Dogus Otomotiv) where Dogus Otomotiv has a 33.3% stake won the rights to operate MVIS in Turkey for USD552m (USD184m for Dogus' Otomotiv's part which will be financed through long term debt) for 20 years and the bid amount will be paid in cash. This was also approved by the Privatization Administration on 11th of July. The final agreement will be signed until 22nd of August and the consortium engages in establishing 198 stable and 38 mobile stations in Turkey. This deal incorporates "revenue sharing" with the government (30% in the first three years, 40% in the next seven years and 50% in the next ten years). The company does not provide any guideline on the size or the profitability of the business and there is no publicly available data related to the details. **However, according to our valuation, this business should generate approximately USD1.8b revenue for Dogus Otomotiv (USD90m/year) over the 20-year concession period.** Total investment for 20-year period is estimated as USD200m (USD66.7m for Dogus Otomotiv). To be on the conservative side, we used 10%, 20% and 25% EBITDA margins for 2008, 2009 and 2010, respectively which we increased to 30% starting from 2013 and onwards. We also used average of USD73 inspection charge per vehicle and assumed that 42% of the total registered vehicles should be inspected over the 20-year period. **Based on our DCF valuation method, we derive a fair value of USD475m (USD158m for Dogus Otomotiv's part).** Because of the fact that the MVIS business will be consolidated under equity pick-up method in Dogus Otomotiv's financials, the net income generated will be an additional income item on the bottom line starting from 2008 and onwards.
- **Porsche's marketing and after-sale services in Lausanne, Switzerland:** Dogus Otomotiv established a new company and showroom in Lausanne to perform marketing and after-sale services of Porsche brand. The operations in Lausanne are expected to start in H2 2008. There should be no material effect in the near term, in our view. We believe, this business should generate additional USD21m revenue in 2008.

Table 1: Dogus Otomotiv – Key Figures (USDm)

	2005	2006	2007E	2008E	2009E
Revenues	1,829	1,765	1,703	2,001	2,147
% increase / (decrease)	13%	-4%	-4%	18%	7%
Domestic	1,826	1,974	1,697	1,950	2,091
Exports	3	5	6	51	56
Total Unit Sales	87,141	77,711	71,692	83,963	94,552
% increase / (decrease)	10%	-11%	-8%	17%	13%
Domestic	87,141	77,711	71,292	81,963	88,252
Exports	0	0	400	2,000	6,300
EBITDA	121	50	53	90	107
% increase / (decrease)	29%	-58%	5%	71%	19%
EBITDA Margin	6.6%	2.8%	3.1%	4.5%	5.0%
Net Income	83	15	27	62	87
% increase / (decrease)	64%	-82%	77%	128%	41%

Source: Company data, YF Research

VALUATION

Our fair value estimate for the stock is USD7.69/share, providing a 23% upside. We apply two methodologies to derive our fair value estimate. A 70% weight is applied on comparable multiples, followed by a 30% weight on our DCF-driven value. We also add our conservative NPV estimate for the MVIS business onto our target fair value.

Table 2: Dogus Otomotiv – Valuation Summary

Method	Equity Value (USD m)	Weight	Weighted Equity Value (USD m)
DCF	650	30%	195
MVIS value	158	100%	158
Peer Group Comparison	703	70%	492
Estimated Equity Value (USD m)			846
Current Market Cap. (USD m)			685
Upside Potential (USD)			23%

Source: YF Research

Our DCF indicates a fair value of USD650m. This approach provides no upside to the current share price of the stock. Our DCF model is based on a risk-free rate of 7.3% (30-yr Eurobond), WACC of 12.4%, an equity risk premium of 5%, and a terminal growth rate of 3.0%. Note, on average, the company should generate USD41m free cash per year between 2007 and 2010.

The stock is cheap on 2008 and 2009 estimates compared to the global peers' multiples. We believe, some part of our expected net income recovery for 2008 is not priced in the stock, as it trades at a discount to the international peers. The stock trades at 11%, 7% and 31% P/E, EV/EBITDA and P/BV discounts to global peers on 2008 estimates. On our 2009 estimates, the discounts are 17%, 5% and 27%, respectively. The stock trades at 10.4x P/E, 6.9x EV/EBITDA and 1.5x P/BV on our 2008 estimates whilst it trades at 7.9x P/E, 6.2x EV/EBITDA and 1.4x P/BV on our 2009 estimates. Our fair value derived from this approach is USD703m.

Table 3: Dogus Otomotiv – DCF Analysis

Summary Cash Flow										
USD m	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E
EBITDA	53	90	107	118	123	126	127	129	131	133
- Tax	7	15	22	24	25	26	28	29	31	34
Gross Cash Flow	46	75	86	93	99	100	100	100	100	99
- Capital expenditure	20	25	15	15	10	10	10	10	10	10
- Increase / (Decrease) in WC	16	20	13	12	12	11	10	11	11	12
Free Cash Flow (FCF)	10	30	58	66	77	80	79	79	79	77

Risk Free Rate (30-year Eurobond)	7.3%
Beta	1.0
Equity Risk Premium	5.0%
WACC	12.4%
Perpetual Growth	3.0%

DCF Results	USD m
+Present value of FCFs (2007-2016)	337
+Present value of terminal value	291
% of Terminal Value in Firm Value	46%

Enterprise Value	628
-Net Debt (2007/03)	-22
Equity Value	650

Source: YF Research

Table 4: Peer Group Comparison

Company	Country	Market Cap.	EV/EBITDA			P/E			P/BV			ROE		
			USD m	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E	2009E	2007E	2008E
Europe & United States														
Bilia AB	Sweden	425	5.6	4.9	4.7	16.3	12.5	11.8	1.8	1.9	1.8	11%	15%	15%
Inchcape	UK	4,563	7.8	7.2	6.6	13.3	12.3	11.0	1.5	1.8	1.7	11%	15%	15%
SAG	Portugal	477	12.3	11.2	9.0	12.2	9.2	8.3	1.3	1.4	1.3	11%	15%	15%
United Auto Group Inc	US	2,046	12.7	11.7	10.5	14.6	12.9	11.7	1.6	1.9	1.8	11%	15%	15%
Asbury Automotive Group Inc	US	881	10.0	9.5	8.2	11.9	10.7	10.2	1.3	1.6	1.5	11%	15%	15%
Developed Markets' Average			9.7	8.9	7.8	13.7	11.5	10.6	1.5	1.7	1.6	11%	15%	15%
Turkey														
Ford Otosan	Turkey	3,691	6.9	5.9	5.6	10.8	8.8	8.6	3.6	3.5	3.6	31%	40%	42%
Anadolu Isuzu	Turkey	190	5.8	5.1	4.8	11.2	10.1	9.9	1.3	1.2	1.1	12%	12%	12%
Karsan	Turkey	280	21.1	9.4	3.0	n.m.	26.2	4.5	5.9	4.8	2.1	n.m.	20%	64%
Otokar	Turkey	447	12.3	8.6	7.7	13.1	9.4	8.3	3.9	3.1	2.6	33%	37%	34%
Tofas	Turkey	2,670	11.7	6.0	5.0	19.3	13.1	9.9	3.9	2.3	1.9	20%	22%	21%
Turkish Average			11.6	7.0	5.2	13.6	13.5	8.3	3.7	3.0	2.3	24%	26%	34%
Dogus Otomotiv	Turkey	685	12.6	7.4	6.2	25.3	11.1	7.9	1.9	1.6	1.4	8%	16%	19%
Peer Group Average			10.6	7.9	6.5	13.6	12.5	9.4	2.6	2.4	1.9	17%	21%	25%
Dogus Otomotiv's premium / (discount) to														
<i>Developed Markets</i>			30%	-17%	-21%	85%	-4%	-26%	26%	-6%	-12%			
<i>Turkey</i>			8%	5%	18%	86%	-18%	-5%	-49%	-46%	-38%			
Peer Group Average			18%	-7%	-5%	85%	-11%	-17%	-28%	-31%	-27%			

Source: IBES consensus estimates, YF Research

FINANCIAL STATEMENTS

Dogus Otomotiv - Income Statement – IFRS – USDm – (2005-2009E)

	2005	2006	2007E	2008E	2009E
Net sales	1,829	1,765	1,703	2,001	2,147
COGS	-1,555	-1,554	-1,492	-1,731	-1,846
Depreciation	-9	-8	-10	-11	-12
Gross profit	264	202	201	259	288
Operating expenses	-153	-160	-158	-180	-193
Operating profit	111	42	43	79	95
EBITDA	121	50	53	90	107
Financial income / (expense) (net)	-13	-30	-22	-15	-16
Investments revaluation income / (expense)	0	0	0	0	0
Other income / (expense)	20	5	11	12	28
Profit before tax & monetary gain & minority expense	118	17	32	75	107
Monetary gain	0	0	0	0	0
Minority interest expense	1	2	2	2	2
Profit before tax	119	19	34	77	109
Taxation	-35	-3	-7	-15	-22
Net profit	83	15	27	62	87

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

	2005	2006	2007E	2008E	2009E
Net Sales	13%	-4%	-4%	18%	7%
EBITDA	29%	-58%	5%	71%	19%
Net Income	64%	-82%	77%	128%	41%

Dogus Otomotiv – Margins – (2005-2009E)

	2005	2006	2007E	2008E	2009E
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	-85.0%	-88.1%	-87.6%	-86.5%	-86.0%
Depreciation	-0.5%	-0.5%	-0.6%	-0.6%	-0.6%
Gross profit	14.5%	11.5%	11.8%	12.9%	13.4%
Operating expenses	-8.4%	-9.1%	-9.3%	-9.0%	-9.0%
Operating profit	6.1%	2.4%	2.5%	3.9%	4.4%
EBITDA	6.6%	2.8%	3.1%	4.5%	5.0%
Financial income / (expense) (net)	-0.7%	-1.7%	-1.3%	-0.8%	-0.8%
Other income / (expense)	1.1%	0.3%	0.6%	0.6%	1.3%
Profit before tax & monetary gain & minority expense	6.4%	0.9%	1.9%	3.8%	5.0%
Profit before tax	6.5%	1.1%	2.0%	3.9%	5.1%
Tax Rate	29.9%	18.4%	20.0%	20.0%	20.0%
Net profit	4.5%	0.9%	1.6%	3.1%	4.1%

Dogus Otomotiv - Balance Sheet – IFRS – USDm - (2005-2009E)

	2005	2006	2007E	2008E	2009E
Cash and Banks	94	86	92	112	164
Short Term Trade Receivables	103	105	102	119	128
Other Short Term Receivables	22	14	13	15	17
Inventories	273	299	288	335	357
Other Current Assets	6	8	7	8	9
Current Assets	498	512	502	590	674
Other Long Term Receivables	2	5	4	5	6
Investments in Participations	176	199	214	226	235
Net Tangible Assets	73	77	87	101	104
Intangible Fixed Assets	5	4	4	4	5
Deferred Tax Asset	1	2	1	1	1
Non-Current Assets	257	286	312	338	350
TOTAL ASSETS	755	798	814	928	1,024
Bank Debts	16	21	17	18	18
Short Term Trade Payables	324	380	365	424	453
Advances	5	2	2	2	2
Taxes Payable	6	0	0	0	0
Provisions for Expenses and Liabilities	24	24	22	23	24
Current Liabilities	375	428	407	468	497
Bank Debts	21	22	34	27	27
Retirement Pay Provision	2	2	2	2	2
Deferred Tax Liability	3	5	5	5	5
Long Term Liabilities	26	28	40	34	34
Minority Interest	5	3	3	3	4
Paid in Capital	82	78	78	78	78
Revaluation Fund & Equity Inf.Diff.	108	128	128	128	128
Reserves	12	18	20	23	27
Net Income (Loss)	83	15	27	62	87
Accumulated Reserves	64	99	110	132	169
Shareholders' Equity	349	338	362	422	489
TOTAL LIAB. & SH. EQUITY	756	798	813	928	1,024

Dogus Otomotiv – Cash Flow – IFRS – USDm - (2005-2009E)

	2005	2006	2007E	2008E	2009E
EBT	119	19	34	77	109
+ Depreciation	9	8	10	11	12
+ Allowance for Severece Payments	1	0	0	0	0
- Tax Payments	-28	-35	-3	-7	-15
Cash Inflow	101	-9	40	82	106
Change in Working Capital Requirements					
+/- in ST Trade Receivables	42	3	-4	18	9
+/- in ST Other Receivables	9	-9	0	2	1
+/- in Inventories	-2	25	-10	46	22
+/- in Other Current & Non-Current Assets	1	2	-1	1	1
+/- in LT & Other LT Trade Receivables	0	2	0	1	0
+/- in Investments in Participations	86	23	15	11	9
+/- in ST Trade Payables	18	57	-15	59	28
+/- in Advances	2	-2	0	0	0
+/- in Provisions for Expenses and Liabilities	13	0	-2	1	1
+/- in Working Capital Requirements	104	-8	16	20	13
Investable Funds	-3	-1	24	62	93
Investments	7	17	20	25	15
Operating Cash Flow	-9	-18	4	37	78
+/- in Short Term Bank Debts	0	6	-4	1	0
+/- in Long Term Bank Debts	12	0	12	-7	0
+/- Share Premium & Reserves	4	6	1	3	4
+/- Dividends Paid	-25	-34	-8	-14	-31
Financial Cash Flow	-19	-39	6	21	51

YF Securities: Stock Rating Definitions

YF Rating	Definition	Investment Horizon
Strong Buy	Stock return is > 30%	1-12 months
Outperform	Stock return ranges between 15 and 30%	1-12 months
Neutral	Stock trades near fair value and return is between -15% and 15% depending on the degree of market volatility	1-12 months
Underperform	Stock trades 15-30% > than fair value estimate	1-12 months
Sell	Stock trades 30% > than fair value estimate	1-12 months
Trading Buy	Stock return is > 10%: This is based on technical analysis, supported by fundamentals and potential catalyst	1-2 months
Trading Sell	Stock return is -10%: This is based on technical analysis, supported by fundamentals and potential catalyst	1-2 months

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