Company Report

14 February 2008

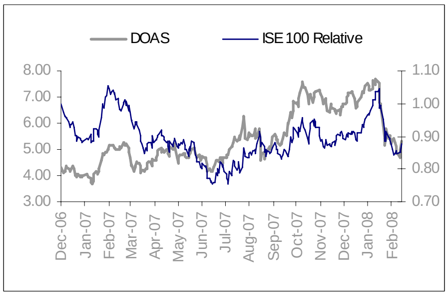
Dogus Otomotiv

Mispriced with a Strong Catalyst

Automotive

Re-Iterated

Buy



Stock Data	
Bloomberg	DOAS.TI
Reuters	DOAS.IS
Close (YTL)	6.40
Target Price (YTL)	10.83
Mkt cap (USDm)	587
Free float (%)	34.5
Key Owners	Dogus Holding-35.21%
International Holders as a % of Free Float	54.0
Shares Outstanding	110,000,000
Avg. 6m Daily Vol. ($m)	4.98
ISE-100 (TRY)	44,752

Performance	1M	3M	12M
Absolute (%)	-30.5	-17.8	7.0
Relative (%)	-15.6	0.3	-12.8

Key Ratios (%)	2007E	2008E	2009E
EBITDA margin	3.9	4.9	5.1
Dividend Yield	0.8*	4.4	6.4
Net Debt/equity	2.9	1.7	-2.5
ROA	6.0	7.9	9.0
ROIC	36.3	36.6	34.8
ROE	13.9	17.9	19.7

** 2007 dividend yield based on actual dividends paid in May 2007.*

We believe the stock is oversold

- The stock fell by 31% in the last month and underperformed the ISE-100 index by 17%, due to the concerns on the weaker TRY.
- Looking at the spread between the stock price and EUR (Exhibit 1), there exists a mispricing. When the spread between DOAS and EUR touches the lower end of the moving standard deviation band, it reverses, i.e the price of DOAS begins to rise, and/or EUR appreciates against TRY. At the present level of the currency, the stock should trade at TRY8.0/share, indicating a 25% return.

No change in the fundamental outlook

- **The Dogus Holding stake sale – A strong near-term catalyst:** Dogus Otomotiv has a 3.86% stake in Dogus Holding, the majority owner of Garanti Bank (Buy), and the management plans a a 1-1.5% stake sale to fund investments. In our view, the decision is likely to be made no later than H108. *The 3.86% stake is valued at US$255mn, hence a US$99mn cash inflow is likely.*
- **Solid growth in local demand in 2008 (+10%):** Despite the fall in consumer confidence due to global worries, we believe market conditions will be solid enough to achieve a 10% recovery in sales volume in 2008, through our lower interest rate outlook.
- **The income stream is still cyclical and sensitive to the TRY, but becoming more diversified: (1)** The distribution and after-sales services of VW LCVs in Egypt, **(2)** production of Meiller tippers and Krone trailers in Turkey, **(3)** marketing and after-sale services of Porsche in Lausanne, and more importantly, **(4)** MVIS operations in Turkey should help to diversify the income stream.

Re-iterating our "Buy" recommendation – 69% upside

- Currently, DOAS trades at 7.8x P/E on our 2008 estimates and our target share price stands at TRY10.83/share.
- Netting off the value of the Dogus Holding stake, the core business trades at 4.4x P/E on our 2008 estimates.

US$ mn	FY 2006	FY 2007E	FY 2008E	FY 2009E
Revenues	1,765	1,891	2,203	2,386
EBITDA	50	74	109	123
Net Profit	15	51	76	94
Book Value	338	398	448	504
P/E	38.2	11.5	7.8	6.3
EV/EBITDA	6.6	4.5	3.0	2.7
P/BV	1.7	1.5	1.3	1.2
P/Sales	0.3	0.3	0.3	0.2

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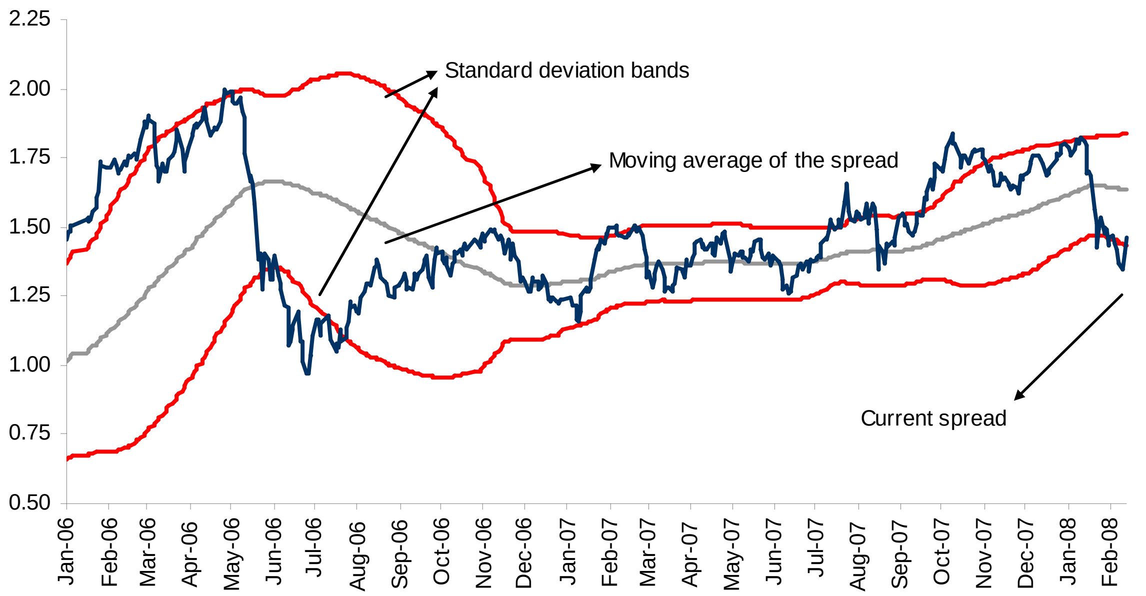
Perceived risks - Unjustified - We believe Dogus Otomotiv share price has entered the oversold territory due to perceived risks listed below:

1. TRY weakness: In 2008, although we expect a volatile exchange rate within the year, on average we maintain our confidence in TRY's strength, mainly due to the fact that the Turkish economy operates with a solid overall FX surplus (US$41bn) on the back of the CBT's strong net FX asset position and households' immense FX deposits (for further details see our Macro Comment "Growth: A moderate cut in 2008 estimates due to the weaker global outlook" dated January 29th, 2008). Hence, going forward as TRY maintains its strength we believe Dogus Otomotiv will be able to maintain its margins and solid growth momentum, and should not experience any reason to justify us cut our fair value estimate.

On a quantitative approach, the spread between DOAS and EURO prices (Log(DOAS/EURO)) justifies a mispricing. As seen in the chart below, when the spread touches the lower moving standard deviation band, it reverses meaning that the price of DOAS begins to rise, and/or the EUR appreciates against TRY. At the current case, it seems there exists a mispricing: If the currency stays at these levels, the price of DOAS should rise, at least to a point it touches the moving average curve which means that DOAS' price could easily reach TRY8.0/share corresponding to a 25% return from the current levels.

Exhibit 1: The spread between DOAS and EUR prices (Log(DOAS/EUR))



Source: TEB Research

2. Weakness in local demand: Local auto sales have been strong in Q407 and January 08, and we expect this strength to continue in 2008. In January 08, local PC and LCV sales surged by 35% YoY implying that sales have been solid compared to last year. However, eventually we could start to see pass through effects of the tightening up of credit, which may make consumers nervous and hesitant about borrowing money to buy big-ticket items such as cars. Despite these events, we believe consumer confidence will be sustained solid enough to achieve our unit growth estimate of 10% in 2008. This is in line with our local auto sales volume growth estimate.

Exhibit 2: Dogus Otomotiv – Key Figures (US$mn)

	2004	2005	2006	2007E	2008E	2009E
Revenues	**1,623**	**1,829**	**1,765**	**1,891**	**2,203**	**2,386**
change (%)		*13%*	*-4%*	*7%*	*16%*	*8%*
Domestic	1,619	1,826	1,974	1,889	2,140	2,315
Exports	4	3	5	3	62	71
Total Unit Sales	**79,079**	**87,141**	**77,711**	**73,482**	**82,291**	**88,893**
change (%)		*10%*	*-11%*	*-5%*	*12%*	*8%*
Domestic	79,079	87,141	77,711	73,412	81,041	87,443
Exports	0	0	0	70	1,250	1,450
EBITDA	**94**	**121**	**50**	**74**	**109**	**123**
change (%)		*29%*	*-58%*	*47%*	*47%*	*13%*
EBITDA Margin	**5.8%**	**6.6%**	**2.8%**	**3.9%**	**4.9%**	**5.1%**
Net Income	**51**	**83**	**15**	**51**	**76**	**94**
change (%)		*64%*	*-82%*	*233%*	*48%*	*24%*

Source: Company data, TEB Research

Income stream is still cyclical and sensitive to the TRY, but becoming more diversified. Dogus Otomotiv has agreed on various projects to diversify its business segments and enhance the value of its business lines, i.e. to reduce the risks of its business model. Namely, these are:

- **Distribution of VW LCVs in Egypt:** Dogus Otomotiv started to provide the distribution, sales and after-sales services of VW LCVs in Egypt in H207. While Egypt is a relatively small market, it has a strategic importance as Dogus Otomotiv plans further regional expansion in the future. We expect the company to sell 1,000 units in 2008 and 1,200 units in 2009. This business should generate EUR30mn (US$40.5mn) additional annual revenue in 2008 (1.8% of total 2008 expected revenues), which should grow by 20% per year.

- **Production of Krone trailers in Turkey:** Dogus Otomotiv will produce Krone trailers in Turkey starting from 2009 in a partnership with Bernard Krone Holding where it will have a 49% stake, hence consolidate the newly established JV by equity pick-up method. We expect the JV to sell 5,000 units (90% is targeted to be exported) in 2009 and assume a 20% growth in 2010. We believe the impact of this new business on the company’s bottom line should be US$1.5mn in 2009 and US$3.6mn in 2010 covering 1.6% and 3.6% of the total net income, respectively.

- **Production of Meiller tippers in Turkey:** Dogus Otomotiv signed a distributorship agreement with Meiller to set up a new JV in which Dogus Otomotiv will have a 49% stake and consolidate the JV using equity pick-up method, hence will only have an effect on the bottom line. We expect the company to sell 3,000 units (90% to be exported) in 2008 and 2009. We believe this business should generate additional revenues of US$3.5mn in 2008 and 2009, 3.7% and 3.4% of Dogus Otomotiv’s total expected net income of 2008 and 2009, respectively.

- **Porsche’s marketing and after-sale services in Lausanne, Switzerland:** Dogus Otomotiv established a new company and showroom in Lausanne to perform marketing, sales and after-sale services of Porsche brand. The operations are expected to start in H208. We believe the company should sell 250 units in 2008 and generate additional EUR16mn (US$22mn) revenues which constitute 1% of the total 2008 expected revenues.

- **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 20 years. With its 33.3% stake, Dogus Otomotiv will consolidate this business under equity pick-up method hence the business will have an impact on the company's bottom line. According to our valuation, MVIS operations should generate net income of US$14.6mn and US$18.3mn (Dogus Otomotiv's part) which cover 19% and 20% of Dogus Otomotiv's expected net income in 2008 and 2009, respectively. Based on our DCF valuation, we derive a fair value of US$233mn for the total MVIS business for Dogus Otomotiv's part.

Exhibit 3: MVIS Business – Key Figures (US$mn)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E
Units inspected ('000)	**10,121**	**11,029**	**11,854**	**12,655**	**13,487**	**14,374**	**15,173**
change (%)		*9%*	*7%*	*7%*	*7%*	*7%*	*6%*
TUVTURK	8,455	9,214	9,903	10,572	11,267	12,008	12,676
ISTANBUL	1,666	1,815	1,951	2,083	2,220	2,366	2,497
Net Income (consortium)	**44**	**56**	**47**	**55**	**63**	**71**	**79**
change (%)		*25%*	*-15%*	*16%*	*14%*	*13%*	*11%*
TUVTURK	34	41	38	42	46	50	54
ISTANBUL	10	14	9	13	17	21	25
Net Income (DOAS' part)	**15**	**18**	**16**	**18**	**21**	**23**	**26**
change (%)		*25%*	*-15%*	*16%*	*14%*	*13%*	*11%*
TUVTURK (33.3%)	11	14	13	14	15	17	18
ISTANBUL (31.66%)	3	4	3	4	5	7	8

Source: TEB Research

Exhibit 4: Valuation Summary (US$mn)

Method	Equity Value	Weight	Weighted Equity Value
	(US$mn)		(US$mn)
DCF	1,078	50%	539
Peer Group Comparison	910	50%	455
Target Value (US$mn)			994
Current Price (TRY/share)			**6.40**
Target Price (TRY/share)			**10.83**
Upside Potential			**69%**

Source: TEB Research

Exhibit 5: DCF Analysis

Summary Cash Flow										
USD m	**2008E**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**
EBITDA	109	123	135	145	157	167	176	185	194	204
- Tax	19	23	26	30	33	36	38	41	46	51
Gross Cash Flow	90	99	109	115	124	131	138	144	148	153
- Capital expenditure	41	40	40	15	15	15	15	15	15	15
- Increase / (Decrease) in WC	25	16	14	13	14	14	14	14	15	15
Free Cash Flow (FCF)	24	43	55	86	95	102	109	115	119	123

Risk Free Rate (30-year Eurobond)	6.9%
Beta	1.1
Equity Risk Premium	5.0%
WACC	12.3%
Perpetual Growth	2.0%

DCF Results	USD m
+Present value of FCFs (2008-2017)	429
+Present value of terminal value	391
% of Terminal Value in Firm Value	*48%*
Enterprise Value	1,105
-Net Debt (2007/09)	27
+Participations	285
Equity Value	1,078

Source: TEB Research

Exhibit 6: Peer Group Comparison

Company	Country	Market Cap.	EV/EBITDA		P/E		EV/Sales	
		US$ mn	2008E	2009E	2008E	2009E	2008E	2009E
International Distributors' Average								
Bilia AB	Sweden	307	5.8	5.4	14.0	9.3	0.2	0.2
Inchcape	UK	3,288	5.8	5.3	9.4	8.2	0.3	0.3
SAG	Portugal	487	6.0	6.0	10.1	10.4	0.7	0.7
United Auto Group Inc	US	1,707	9.9	9.4	10.9	9.8	0.3	0.3
Asbury Automotive Group Inc	US	473	7.9	6.5	6.4	5.6	0.3	0.2
International Distributors' Average			7.1	6.5	10.2	8.7	0.3	0.3
Turkish Producers' Average								
Ford Otosan *	Turkey	3,396	5.6	5.3	8.9	8.3	0.6	0.6
Tofas *	Turkey	2,273	6.4	4.9	10.8	8.6	0.6	0.6
Turkish Producers' Average			6.0	5.1	9.9	8.5	0.6	0.6
Dogus Otomotiv *	Turkey	587	3.0	2.7	7.8	6.3	0.1	0.1
Peer Group Average			6.8	6.1	10.1	8.6	0.4	0.4
Dogus Otomotiv's premium / (discount) to								
International Distributors			-57%	-59%	-24%	-28%	-56%	-58%
Turkish Producers			-50%	-47%	-21%	-26%	-76%	-76%
Peer Group Average			-55%	-56%	-23%	-27%	-64%	-65%

Source: IBES consensus estimates

** TEB Research estimates*

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

DOGUS OTOMOTIV - FINANCIAL STATEMENTS

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

	2005	2006	2007E	2008E	2009E
Net sales	1,829	1,765	1,891	2,203	2,386
COGS	(1,555)	(1,554)	(1,634)	(1,891)	(2,047)
Depreciation	(9)	(8)	(15)	(18)	(21)
Gross profit	264	202	242	293	317
Operating expenses	(153)	(160)	(183)	(202)	(216)
Operating profit	111	42	59	90	102
EBITDA	121	50	74	109	123
Financial income / (expense) (net)	(13)	(30)	(18)	(37)	(32)
Investments revaluation income / (expense)	0	0	0	0	0
Other income / (expense)	20	5	22	39	45
Profit before tax & monetary gain & minority expense	118	17	62	93	115
Monetary gain	0	0	0	0	0
Minority interest expense	1	2	2	2	2
Profit before tax	119	19	64	95	117
Taxation	(35)	(3)	(13)	(19)	(23)
Net profit	83	15	51	76	94

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	-85.0%	-88.1%	-86.4%	-85.9%	-85.8%
Depreciation	-0.5%	-0.5%	-0.8%	-0.8%	-0.9%
Gross profit	14.5%	11.5%	12.8%	13.3%	13.3%
Operating expenses	-8.4%	-9.1%	-9.7%	-9.2%	-9.0%
Operating profit	6.1%	2.4%	3.1%	4.1%	4.3%
EBITDA	6.6%	2.8%	3.9%	4.9%	5.1%
Financial income / (expense) (net)	-0.7%	-1.7%	-1.0%	-1.7%	-1.3%
Other income / (expense)	1.1%	0.3%	1.1%	1.8%	1.9%
Profit before tax & monetary gain & minority expense	6.4%	0.9%	3.3%	4.2%	4.8%
Profit before tax	6.5%	1.1%	3.4%	4.3%	4.9%
Tax Rate	29.9%	18.4%	20.0%	20.0%	20.0%
Net profit	4.5%	0.9%	2.7%	3.4%	3.9%

Source: TEB Research

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

	2005	2006	2007E	2008E	2009E
Cash and Banks	94	86	102	90	95
Short Term Trade Receivables	103	105	104	121	131
Other Short Term Receivables	22	14	15	17	18
Inventories	273	299	316	366	397
Other Current Assets	6	8	8	9	10
Current Assets	**498**	**512**	**544**	**603**	**651**
Other Long Term Receivables	2	5	5	6	6
Investments in Participations	176	199	211	223	231
Net Tangible Assets	73	77	142	164	183
Intangible Fixed Assets	5	4	4	4	5
Deferred Tax Asset	1	2	2	1	1
Non-Current Assets	**257**	**286**	**363**	**398**	**426**
TOTAL ASSETS	**755**	**798**	**907**	**1,001**	**1,077**
Bank Debts	16	21	26	21	16
Short Term Trade Payables	324	380	362	419	453
Advances	5	2	2	2	2
Taxes Payable	6	0	0	0	0
Provisions for Expenses and Liabilities	24	24	23	24	25
Current Liabilities	**375**	**428**	**413**	**466**	**497**
Bank Debts	21	22	87	77	67
Retirement Pay Provision	2	2	2	2	2
Deferred Tax Liability	3	5	5	5	5
Long Term Liabilities	**26**	**28**	**93**	**83**	**73**
Minority Interest	5	3	3	3	4
Paid in Capital	82	78	91	91	91
Revaluation Fund & Equity Inf.Diff.	108	128	128	128	128
Reserves	12	18	19	22	25
Net Income (Loss)	83	15	51	76	94
Accumulated Reserves	64	99	109	132	166
Shareholders' Equity	**349**	**338**	**398**	**448**	**504**
TOTAL LIAB. & SH. EQUITY	**756**	**798**	**908**	**1,001**	**1,077**
Net Debt / (Cash)	**-57**	**-42**	**11**	**8**	**-13**

Source: TEB Research

TEB Investment Macro Estimates	2006	2007E	2008E	2009E
TRY/US$ (average; CB Bid rate)	1.4311	1.3003	1.2850	1.3150
TRY/US$ (end of period;CB Bid rate)	1.4131	1.1593	1.2450	1.2750
Benchmark Rate (end-%)	21.15	16.62	15.00	12.80
O/N rate (end of period;YTDav-%)	17.50	15.75	14.25	12.50
CPI (annual-%)	9.65	8.39	6.20	4.50
GDP (US$ mn)	400,046	496,987	561,775	609,839

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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