

Dogus Otomotiv

Beneficiary of Strong TRY and Demand Recovery

Automotive

Strong growth in local sales likely in Q408

- Dogus Otomotiv prices its cars in TRY while costs are pegged to the Euro. This means the strong TRY should enhance sales and margins.
- Local demand should continue to be sluggish in September (due to Ramadan), but gain momentum in Q408 on the back of increasing consumer confidence and stronger seasonal sales.
- We estimate QoQ sales units to increase by 46% in Q408.
- In H109, local sales momentum should pick up further as we believe the CBT will begin to cut rates in Q209. Hence, the downside in demand growth should be limited from current levels.

Margins are also likely to improve

- As a result of a stronger sales momentum, we estimate EBITDA margins to increase by 2.2pp in H208 based on our average EUR/TRY rate of 1.80 for FY08.
- Our gross and EBITDA margin estimates are 13.4% and 3.3% for 2008 and 14.2% and 4.4% for 2009, respectively.

Increasing market share

- In 2007, Dogus Otomotiv lost market share (by 1pp to 11%) since it did not participate in aggressive sectoral campaigns.
- The strong TRY coupled with 13 new model introductions should help to increase the market share to 12% by Q408.

Reiterating "Buy" recommendation – Upside: 57%

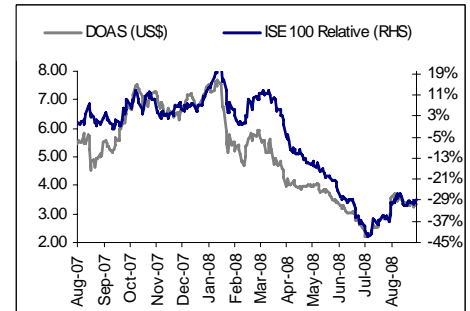
- Our target share price is TRY6.20 providing an upside of 57%.
- Sectoral data indicating better local demand and rising market share, coupled with a better margin outlook should be the key catalysts for the stock in H208.

US\$m	FY 2007	FY 2008E	FY 2009E	FY 2010E
Revenues	1,963	1,919	2,065	2,103
EBITDA	81	63	91	111
Net Profit	49	20	55	82
Book Value	466	463	508	563
P/E	7.5	18.7	6.7	4.5
EV/EBITDA*	2.7	3.5	2.4	2.0
EV/EBITDA	5.3	6.8	4.7	3.8
P/BV	0.8	0.8	0.7	0.7
P/Sales	0.2	0.2	0.2	0.2

* adjusted for participations

Reiterated

Buy



Stock Data

Bloomberg	DOAS.TI
Reuters	DOAS.IS
Close (TRY) *	3.94
Target Price (TRY)	6.20
Mkt cap (US\$m)	369
Free float (%)	34.5
Key Owners	Dogus Holding-35.21%
International Holders as a % of Free Float	46.2
Shares Outstanding	110,000,000
Avg. 6m Daily Vol. (\$mn)	2.05
ISE-100 (TRY)	39,844

* As of August 29th

Performance	1M	3M	12M
Absolute (%)	-6.4	-1.8	-36.1
Relative (%)	2.7	-4.1	-26.8

Key Ratios (%)	2007	2008E	2009E
EBITDA margin	4.1	3.3	4.4
Net Debt/equity	8.9	10.5	5.7
ROA	5.5	2.0	5.4
ROIC	41.4	19.6	30.5
ROE	12.3	4.2	11.4

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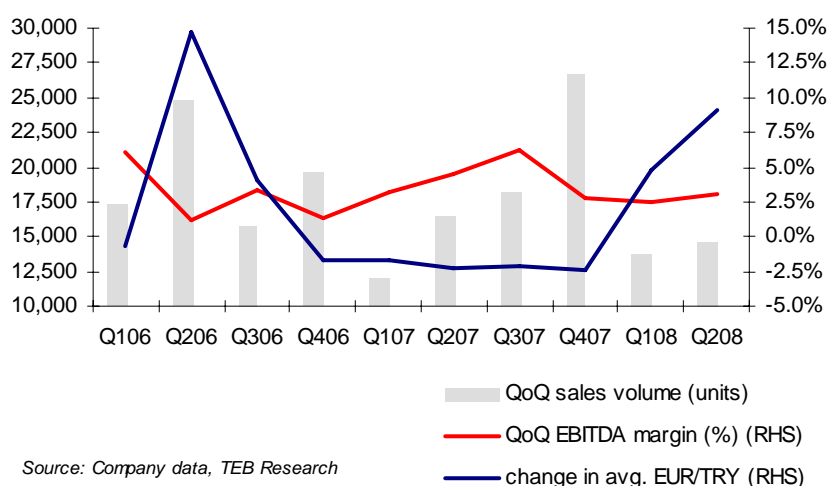
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Sales and margins are likely to recover on the back of the strong TRY in H208. Dogus Otomotiv sells 20% of its cars in EUR and 80% in TRY and all cars are imported in EUR, hence a weaker TRY creates a pressure on sales and margins. The opposite case is the appreciation of TRY which means improvement in the sales and margin outlook. As such, when TRY lost 15% in Q206 compared to Q106, margins immediately fell, followed by a 36% decline in the sales volume in Q306. On the contrary, when the TRY appreciated, margins improved and unit sales increased by 24% in Q406. Hence, sales volume lags but reacts stronger than the margin improvement and vice a versa. Starting from May this year, the TRY gained 12% against the EUR and remains stable between 1.75-1.78 range. Due to the devaluation in Q108 and Q208, sales remain sluggish, but should catch up in Q408. This provides us confidence for a better H208 outlook. We expect 4.4% EBITDA margin in H208 compared to 2.2% in H108. In the long term, we foresee EBITDA margins to reach 5.6% by 2012 pointing an average of 5.4% EBITDA margin in our forecast period (2008-2017).

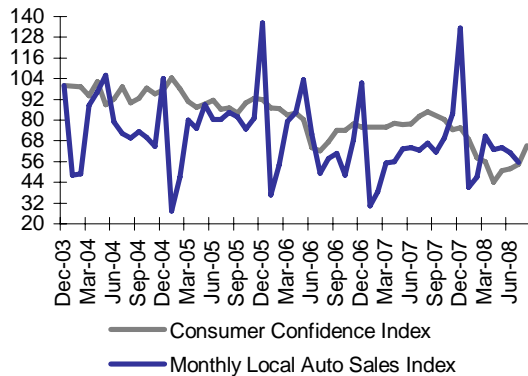
Exhibit 1: EUR/TRY rate versus EBITDA margin & Sales Volume



Local auto demand is likely to recover in Q408 – Consumer confidence and lower interest rates are the key catalysts. Consumer confidence has been on a declining trend since the beginning of this year, but appears to have bottomed out in April 2008 where the data has shown some marginal improvements since then (Exhibit 2). We believe this improvement will continue and strengthen in 2009. On the other hand, better consumer confidence is unlikely to have immediate impact on actual car sales due to one off reasons. July and August are seasonally weak months due to the holiday season, and although September is usually the first month of a seasonally better September-December period, the Ramadan is likely to create a lag in purchases. Hence, we believe data will begin to show a meaningful improvement no earlier than October. As far as the longer term trend is concerned, the Central Bank of Turkey (CBT) recently dropped the tightening bias and softened its tone against inflation risks. Hence, we continue to expect the CBT to keep O/N rates unchanged at 16.75% until the end of Q109, and thereafter adopt the easing cycle by early Q209 and cut O/N rates by 150bp to 15.25% through the end of 2009. Hence, downside risks are now limited due to the potential pass through of elimination of the political uncertainties to consumer confidence and spending. In Q408, we foresee local PC and LCV sales volume to increase by 50%, 27% and 32% compared to Q108, Q208, and Q308, respectively. We believe Dogus Otomotiv should recover faster than the sector. **We expect Dogus Otomotiv to increase its Q408 sales volume by 60%, 50% and 46% compared to**

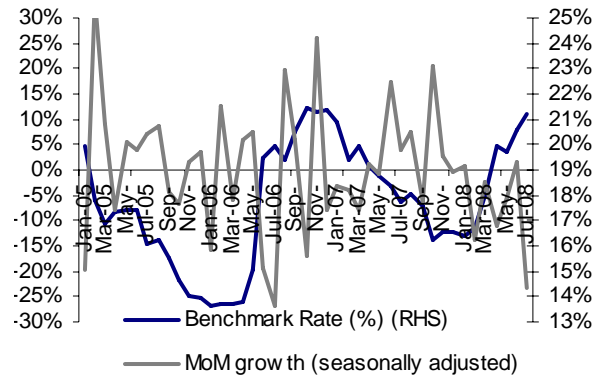
Q1, Q2, and Q308, respectively, which are higher than our QoQ growth estimate for the sector. This is mainly due to the flexible pricing of Dogus Otomotiv and increasing purchasing power for the imported vehicles due to the stronger TRY, and its wider product differentiation compared to the other auto companies appealing both middle and upper class consumers.

Exhibit 2: Confidence Index vs Auto Sales



Source: Cnbc-e, AMA

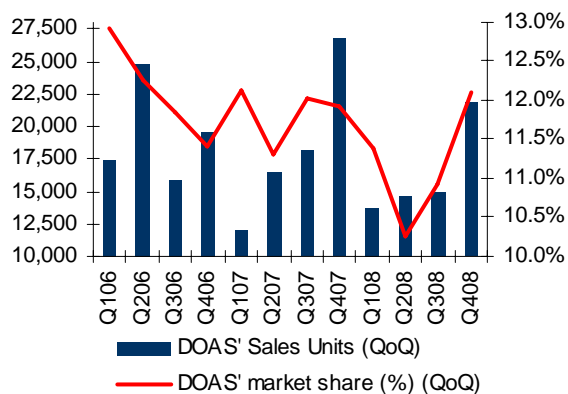
Exhibit 3: Interest Rates vs Auto Sales



Source: AMA, CBT, TEB Research

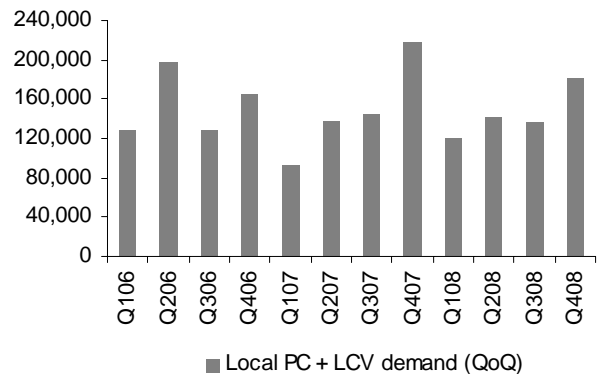
Market share should increase to 12.1% in Q408, thanks to new model launches in September (Exhibit 4). Dogus Otomotiv plans to launch 13-14 new models in September this year. This should help to increase the market share to 12.1% in Q408 from 10.3% in Q208. **The product differentiation in an environment of recovering demand should particularly help sales volume.** This is mainly driven by the company's strategy of having a presence in every segment of the auto value chain with its wide range of brands. As such, Dogus Otomotiv provides sales (including second-hand car sales), after-sales, retail, insurance and financing services to its customers.

Exhibit 4: PC+LCV Sales & Market Share



Source: AMA, TEB Research

Exhibit 5: Local PC+LCV Demand



Source: AMA

Exhibit 6: Key Figures (US\$mn)

	2004	2005	2006	2007	2008E	2009E	2010E
Revenues	1,623	1,829	1,765	1,963	1,919	2,065	2,103
<i>change (%)</i>		13%	-4%	11%	-2%	8%	2%
Domestic	1,619	1,826	1,974	1,955	1,901	2,027	2,064
Exports	4	3	5	8	18	38	39
Total Unit Sales	79,079	87,141	77,711	73,662	67,705	76,077	82,226
<i>change (%)</i>		10%	-11%	-5%	-8%	12%	8%
Domestic	79,079	87,141	77,711	73,412	67,205	75,277	81,336
Exports	0	0	0	250	500	800	890
EBITDA	94	121	50	81	63	91	111
<i>change (%)</i>		29%	-58%	61%	-22%	44%	22%
EBITDA Margin	5.8%	6.6%	2.8%	4.1%	3.3%	4.4%	5.3%
Net Income	51	83	15	49	20	55	82
<i>change (%)</i>		64%	-82%	222%	-60%	180%	49%

Source: Company data, TEB Research

Exhibit 7: Valuation Summary (US\$mn)

Method	Equity Value (US\$mn)	Weight	Weighted Equity Value (US\$mn)
DCF	548	50%	274
Peer Group Comparison	612	50%	306
Estimated Equity Value (US\$mn)			580
Current Mcap. of Dogus Otomotiv			369
Upside Potential			57%
Current Price (TRY/share)			3.94
Target Price (TRY/share)			6.20

Source: TEB Research

Exhibit 8: DCF Analysis
Summary Cash Flow

US\$m	2008E	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E
EBITDA	63	91	111	113	117	120	123	125	127	130
- Tax	5	14	21	21	23	24	25	26	28	31
Gross Cash Flow	58	77	91	92	94	97	98	99	99	99
- Capital expenditure	30	30	30	20	20	20	20	20	20	20
- Increase / (Decrease) in WC	-9	15	18	18	21	23	23	25	26	27
Free Cash Flow (FCF)	37	32	42	54	53	54	55	55	53	51

Risk Free Rate	7.7%
Beta	1.1
Equity Risk Premium	5.0%
WACC	12.9%
Perpetual Growth	2.0%

DCF Results	US\$m
+Present value of FCFs (2008-2017)	254
+Present value of terminal value	145
% of Terminal Value in Firm Value	36%

Enterprise Value	607
-Net Debt (2008/06)	59
+Participations	208
Equity Value	548

Source: TEB Research

Exhibit 9: Peer Group Comparison

Company	Country	Market Cap. US\$m	EV/EBITDA			P/E			EV/Sales			ROE		
			2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E	2008E	2009E	2010E
International Distributors' Average														
Bilia AB	Sweden	232	5.7	5.1	4.7	21.1	11.6	8.6	0.2	0.2	0.1	11%	13%	11%
Inchcape	UK	3,873	6.9	6.1	5.8	10.6	9.6	9.3	0.3	0.3	0.3	22%	22%	18%
SAG	Portugal	661	10.4	9.2	7.9	16.9	13.0	11.0	1.0	1.0	0.9	31%	29%	18%
Asbury Automotive Group Inc	US	518	9.5	8.7	7.5	8.6	7.4	6.5	0.3	0.3	0.3	12%	12%	11%
International Distributors' Average			8.1	7.3	6.5	14.3	10.4	8.9	0.4	0.4	0.4	19%	19%	14%
Turkish Producers' Average														
Ford Otosan *	Turkey	2,748	4.3	4.2	4.2	7.0	6.4	6.5	0.5	0.5	0.5	26%	27%	25%
Tofas *	Turkey	1,703	5.6	4.6	3.8	5.6	6.1	4.7	0.5	0.5	0.4	26%	21%	23%
Turkish Producers' Average			4.9	4.4	4.0	6.3	6.2	5.6	0.5	0.5	0.4	26%	24%	24%
Dogus Otomotiv *														
Dogus Otomotiv *	Turkey	369	3.5	2.4	2.0	18.7	6.7	4.5	0.1	0.1	0.1	4%	11%	15%
Peer Group Average			7.1	6.3	5.7	11.7	9.0	7.8	0.5	0.4	0.4	21%	21%	18%
Dogus Otomotiv's premium / (discount) to														
<i>International Distributors</i>			-57%	-67%	-70%	31%	-36%	-49%	-75%	-75%	-75%			
<i>Turkish Producers</i>			-30%	-46%	-51%	196%	7%	-20%	-77%	-77%	-76%			
Peer Group Average			-51%	-62%	-65%	61%	-26%	-42%	-75%	-76%	-75%			

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.

Exhibit 10: EBITDA & Net Margin compared to peers

Company	Country	EBITDA Margin (%)			Net Margin (%)		
		2008E	2009E	2010E	2008E	2009E	2010E
Bilia AB *	Sweden	2.7	3.0	3.1	0.4	0.7	1.0
Inchcape *	UK	5.0	5.0	4.9	2.9	2.9	2.7
SAG *	Portugal	9.7	10.4	11.8	3.3	4.1	4.6
Asbury Automotive Group *	US	3.1	3.3	3.8	1.1	1.2	1.4
Ford Otosan **	Turkey	11.1	10.9	10.8	6.3	6.7	6.6
Tofas **	Turkey	9.1	9.8	10.6	7.0	5.8	6.7
Dogus Otomotiv **	Turkey	3.3	4.4	5.3	1.0	2.7	3.9
International peers' average		5.1	5.4	5.9	1.9	2.2	2.4
Turkish peers average		10.1	10.4	10.7	6.6	6.3	6.6
Dogus Otomotiv **		3.3	4.4	5.3	1.0	2.7	3.9

* IBES consensus estimates

** TEB Research estimates

DOGUS OTOMOTIV - FINANCIAL STATEMENTS

Dogus Otomotiv - Income Statement – IFRS – US\$mn – (2005-2010E)

	2005	2006	2007	2008E	2009E	2010E
Net sales	1,829	1,765	1,963	1,919	2,065	2,103
COGS	(1,555)	(1,554)	(1,678)	(1,644)	(1,751)	(1,756)
Depreciation	(9)	(8)	(14)	(18)	(20)	(22)
Gross profit	264	202	271	258	294	325
Operating expenses	(153)	(160)	(204)	(212)	(222)	(235)
Operating profit	111	42	67	46	71	90
EBITDA	121	50	81	63	91	111
Financial income / (expense) (net)	(13)	(30)	(21)	(37)	(30)	(22)
Other income / (expense)	20	5	11	16	27	34
Profit before tax & monetary gain & minority	118	17	58	24	68	102
Monetary gain	0	0	0	0	0	0
Minority interest expense	1	2	1	1	1	1
Profit before tax	119	19	59	25	69	103
Taxation	(35)	(3)	(9)	(5)	(14)	(21)
Net profit	83	15	49	20	55	82

Source: TEB Research

Dogus Otomotiv – Margins – (2005-2009E)

	2005	2006	2007	2008E	2009E	2010E
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
COGS	-85.0%	-88.1%	-85.5%	-85.6%	-84.8%	-83.5%
Depreciation	-0.5%	-0.5%	-0.7%	-0.9%	-1.0%	-1.0%
Gross profit	14.5%	11.5%	13.8%	13.4%	14.2%	15.4%
Operating expenses	-8.4%	-9.1%	-10.4%	-11.1%	-10.8%	-11.2%
Operating profit	6.1%	2.4%	3.4%	2.4%	3.5%	4.3%
EBITDA	6.6%	2.8%	4.1%	3.3%	4.4%	5.3%
Financial income / (expense) (net)	-0.7%	-1.7%	-1.1%	-1.9%	-1.5%	-1.0%
Other income / (expense)	1.1%	0.3%	0.6%	0.8%	1.3%	1.6%
Profit before tax & monetary gain & minority	6.4%	0.9%	2.9%	1.3%	3.3%	4.8%
Profit before tax	6.5%	1.1%	3.0%	1.3%	3.3%	4.9%
Tax Rate	29.9%	18.4%	15.5%	20.0%	20.0%	20.0%
Net profit	4.5%	0.9%	2.5%	1.0%	2.7%	3.9%

Source: TEB Research

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

	2005	2006	2007	2008E	2009E	2010E
Cash and Banks	94	86	90	83	88	106
Short Term Trade Receivables	103	105	144	131	141	144
Other Short Term Receivables	22	14	25	24	26	26
Inventories	273	299	265	250	267	268
Other Current Assets	6	8	8	6	7	7
Current Assets	498	512	531	495	529	551
Other Long Term Receivables	2	5	0	0	0	0
Investments in Participations	176	199	284	295	308	326
Net Tangible Assets	73	77	176	188	198	207
Intangible Fixed Assets	5	4	5	5	6	6
Deferred Tax Asset	1	2	2	2	2	1
Non-Current Assets	257	286	467	490	514	541
TOTAL ASSETS	755	798	998	986	1,042	1,092
Bank Debts	16	21	37	47	42	42
Short Term Trade Payables	324	380	356	341	364	365
Advances	5	2	4	4	4	4
Taxes Payable	6	0	0	0	0	0
Provisions for Expenses and Liabilities	24	24	33	39	42	45
Current Liabilities	375	428	430	431	452	456
Bank Debts	21	22	94	84	74	64
Retirement Pay Provision	2	2	2	2	2	2
Deferred Tax Liability	3	5	4	4	4	4
Long Term Liabilities	26	28	100	90	80	70
Minority Interest	5	3	2	2	2	2
Paid in Capital	82	78	95	95	95	95
Revaluation Fund & Equity Inf.Diff.	108	128	158	158	158	158
Reserves	12	18	24	26	27	30
Net Income (Loss)	83	15	49	20	55	82
Accumulated Reserves	64	99	140	163	172	197
Shareholders' Equity	349	338	466	463	508	563
TOTAL LIAB. & SH. EQUITY	756	798	998	986	1,043	1,091
Net Debt / (Cash)	-57	-42	42	48	29	1

Source: TEB Research

TEB Investment Macro Estimates	2006	2007	2008E	2009E
TRY/US\$ (average; CB Bid rate)	1.4311	1.3003	1.2450	1.3400
TRY/US\$ (end of period;CB Bid rate)	1.4131	1.1593	1.2900	1.3400
Benchmark Rate (end-%)	21.15	16.62	18.25	16.00
O/N rate (end of period;YTDav-%)	17.50	15.75	16.75	15.25
CPI (annual-%)	9.65	8.39	11.20	8.80
GDP (US\$m)	526,429	658,786	805,035	858,136

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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