FitchRatings

FITCH UPGRADES DOGAN YAYIN HOLDING TO 'BB-'; STABLE OUTLOOK

Fitch Ratings-London-06 September 2013: Fitch Ratings has upgraded Dogan Yayin Holding's (DYH) Long-term foreign and local currency Issuer Default Ratings (IDRs) to 'BB-' from 'B+'. The Outlook is Stable.

The upgrade reflects DYH's improved operational performance, namely within the well positioned broadcasting segment, as well as the material reduction in leverage expected by Fitch by the end of 2013 through the collection of receivables from asset sales performed in recent years and the planned rights issue. DYH's recently announced rights issue also supports the upgrade as it provides additional evidence of support from the parent company.

DYH's ratings reflect the group's market leading position in the Turkish media sector, which is currently experiencing healthy growth trends in advertising as well as increasing penetration rates of pay-TV services. Nonetheless, the ratings remain constrained by DYH's limited cash flow generation, its weak liquidity profile and potential foreign currency exposure with regards to its USD and EUR-denominated debt.

The Stable Outlook reflects the performance trends recorded by the company in 2012 and H113, supported by the strong performance of its rapidly growing pay-TV business, and Fitch's expectation that this will underpin a return to positive FCF generation over the medium term.

Fitch has not reflected DYH's recent bid for Digiturk into its forecasts, as this potential M&A transaction is still in a preliminary stage and would be treated as event risk.

KEY RATING DRIVERS

Resilient Turkish Macro Outlook

A comparatively strong macro picture coupled with growth in advertising spending (c. 12% in H113) has helped underpin solid growth in DYH's market leading broadcasting businesses. The upgrade reflects Fitch's belief that the business is in a stronger position and able to withstand inevitable volatility associated with cyclical Turkish media sector.

Strong Competitive Profile in Broadcasting

Broadcasting accounts for c. 60% of DYH's EBITDA and remains the group's most important cash generator. Kanal D in particular enhanced its leading entertainment position with strong prime time content. Fitch gains comfort from the fact that following the disposal of Star TV, the broadcasting's division EBITDA growth profile has been strong, largely underpinned by continued subscriber and ARPU growth of D-Smart. The agency expects D-Smart to generate positive cash flow from H214 onwards and to contribute meaningfully to cash flow growth thereafter through economies of scale given the operational leverage in the pay-TV business. DYH's bundled linear and OTT TV offerings with broadband are expected to perform well in the Turkish market as the D-Smart brand name is already well established. Fitch expects this further growth to be supported by increases in the relatively low broadband and pay-TV penetration rates in Turkey.

Print's Structural Transformation

Both Hurriyet and its foreign subsidiary Trader Media (TME) continue the structural shift of their business models online. For the Turkish newspapers, this transformation will take some years and circulation will continue to suffer in the meantime. Hurriyet's leading domestic news websites reflect the hope that a successful transition can be made but at the expense of weaker operational margins in the short term. Nevertheless, Fitch believes that the highly competitive nature of the online advertising segment combined with the generalist nature of Hurriyet's news content entail a high level of execution risk as we have seen with similar generalist print media business in Western

Europe.

Leverage Much Improved
The substantial tax fines imposed by the government in 2010, which led to rating downgrades, have been settled thanks to cash injections from Dogan Holding, the ultimate parent company. Fitch expects FFO net adjusted leverage, which had peaked at an unsustainable level of over 7.0x in 2012, to reduce considerably to approximately 3.0x by year-end 2013, underpinned by the collection of proceeds from asset sales performed in recent years as well as the recently announced rights issue. Fitch estimates that leverage will further improve to c. 2.5x by 2015.

Low Liquidity
Fitch views DYH's liquidity profile as relatively weak due to the lack of committed credit facilities combined with a relatively short-term debt structure. However, the company's TRY293m of cash on balance sheet as of H113 and the expected proceeds from the asset sales should enable it to cover its H213 debt repayment obligations and facilitate the refinancing of its maturing debt in 2014, which is likely to be supported by the group's lower leverage profile.

FX Exposure
Fitch views DYH's currency exposure as a key risk to its credit profile as 88% of its financial debt is denominated in strong currencies (USD and EUR), as opposed to EBITDA and cash flows, which are mainly denominated in Turkish Lira - ie no natural hedge is in place. Hence, fluctuations in the FX currency rate can have a significant impact on leverage metrics and liquidity in case of material currency devaluations. The company holds some of its cash balances in strong currencies (52% as of H113) and has entered into forward transactions with respect to a small amount of USD-denominated debt. However, in our view this will be insufficient to protect the company's liquidity profile in the event of material currency fluctuations which are quite common in emerging countries.

RATING SENSITIVITIES
Positive: Future developments that could lead to positive rating action include:
- Improvements and further maturity of DYH's pay-TV business D-Smart.
- Evidence of positive pre-dividend free cash flow generation.
- FFO net leverage falling below 2.0x.
- Improved financial strategy in terms of liquidity, FX risk and debt maturity structure.

Negative: Future developments that could lead to negative rating action include:
- Underperformance of Fitch's expectations leading to FFO net leverage rising above 3.5x.
- Negative FCF generation to continue beyond 2014.
- Significant debt-funded M&A.

Contact:
Principal Analyst
Giovanni Reichenbach
Associate Director
+44 20 3530 1255

Supervisory Analyst
Mike Dunning
Managing Director
+44 20 3530 1178
Fitch Ratings Limited
30 North Colonnade
London E14 5GN

Committee Chair
Damien Chew, CFA
Senior Director
+44 20 3530 1424

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: peter.fitzpatrick@fitchratings.com.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable criteria, 'Corporate Rating Methodology', dated 5 August 2013, are available on www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715139