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Fitch: Dogan Yayin Holding on RWN on Proposed Merger

Ratings Endorsement Policy

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Fitch Ratings-London-17 April 2014: Fitch Ratings has placed Dogan Yayin Holding's (DYH) and Hurriyet Gazetecilik ve Matbaacilik AS's (Hurriyet) 'BB-' Long-term Issuer Default Rating (IDR) on Rating Watch Negative (RWN). This follows Dogan Holding's proposed takeover of its 80%-owned media subsidiary DYH. A full list of rating actions is provided at the end of the commentary.

Under the proposed takeover, DYH will merge all of its assets and liabilities into Dogan Holding. The valuation of both entities will be carried out by an independent advisor and will form the basis for the determination of the shares exchange ratio. Although the transaction is envisaged to take place on a cash-free basis, according to capital market regulation, the two entities will be required to buy out the minorities not voting in favour of the transaction at the shareholder meeting.

The transaction is subject to the necessary approvals from the relevant authorities as well as to Dogan Holding's right to withdraw from the merger should the amount required to buy out non-consenting minorities exceed the maximum limit that is yet to be determined by the board of directors.

The RWN reflects Fitch's view that the credit profile of the merged entity could be lower or in line with the current IDR of DYH. Upon completion of the merger, the rating of DYH will be withdrawn as this legal entity will cease to exist. The Rating Watch is likely to be resolved upon completion of the transaction when Fitch will have full visibility over the final terms and conditions of the merger, enabling it to better assess the group's legal, operational and strategic ties within the group, in accordance with Fitch's Parent and Subsidiary Linkage. In particular, Fitch will focus on legal ties between the merged entity and the group's media assets currently owned by DYH (e.g. Dogan TV, Hurriyet), namely in the form of guarantees and cross default provisions.

The transaction is viewed positively to the extent that it rationalises the group structure by reducing the intermediate holding (DYH) between the ultimate parent company Dogan Holding and the media assets currently owned by DYH which represent approximately 75% and 80% of Dogan Holding's consolidated revenues and EBITDA, respectively. The credit profile of the media group could thus benefit from Dogan Holding's significant net cash position (USD 0.9bn as of end-December 2013) as the merger would simplify parental support for the media group entities in the form of equity injections and/or guarantees given these entities face significant debt obligations in USD. However, Dogan Holding is also invested in other sectors, mainly in energy, and potential M&A cannot be ruled out in the foreseeable future. This event risk, combined with the increased leverage profile of the media group due to recent Turkish lira depreciation and limited dividend payments from its key subsidiaries over the medium-term, is likely to constrain the credit profile of the merged entity.

KEY RATING DRIVERS

Media Group Rating
DYH's 'BB-' IDR reflects 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 significant foreign currency exposure with regard to its USD and EUR-denominated debt and operating expenses.

Parent Subsidiary Linkage for Hurriyet
Hurriyet's 'BB-' IDR reflects the strong legal ties between Hurriyet and its parent DYH. DYH guarantees Hurriyet's debt, which Fitch views as sufficient to justify the equalisation of the ratings of the two entities in accordance with its "Parent and Subsidiary Rating Linkage" criteria. Fitch believes the two entities also exhibit strong operational and strategic ties, as Hurriyet carries out printing and distribution operations for other entities of the DYH group. This, combined with Hurriyet's high visibility in the Turkish news media sector, makes it likely that DYH would support one of its major assets.

FX Impact on Leverage
The sharp depreciation of the Turkish lira against the USD in 4Q13, combined with weak EBITDA performance in 2013, has resulted in a higher-than-expected leverage profile for DYH. Fitch views DYH's currency exposure as a key risk to its credit profile as approximately 85% of its financial debt is denominated in hard currencies (USD and EUR), while EBITDA and cash flows are mainly denominated in Turkish lira. About 30% of DYH's operating expenses (operating costs, cost of sales, and general administrative expenses) are also denominated in hard currencies. This has led in part to cost increases in 2H13 which are likely to continue in 2014, thus placing pressure on operating profitability. Therefore, we do not expect any material deleveraging over the next 12 months. Although the company holds some of its cash balances in hard currencies and has entered into forward transactions with respect to a small amount of USD-denominated debt, in our view DYH's financial profile remains vulnerable to significant currency depreciation.

Low Liquidity
Fitch views DYH's liquidity profile on a standalone basis as fairly weak due to the lack of committed credit facilities, combined with a fairly short-term debt structure. However, the company's TRL531m of cash on balance sheet as of end-December 2013 and expected proceeds from asset sales should enable it to cover its short-term debt repayments obligations and ease the refinancing of its maturing debt in 2014.

RATING SENSITIVITIES (DYH standalone - ie should the merger not be completed):

Positive: Future developments that could lead to positive rating actions 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 of the combined media assets 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 over 12-18 months
- Negative FCF generation continuing beyond 2014
- Significant debt-funded M&A

RATING SENSITIVITIES (Hurriyet standalone - ie should the merger not be completed):

Positive: Future developments that could lead to positive rating actions include:
- Any positive rating action related to its parent DYH provided the legal ties between the two entities remain in place

Negative: Future developments that could lead to negative rating action include:
- As Hurriyet benefits from having the same rating DYH, any negative rating action would be dependent on a downgrade of the parent or on Fitch's assessment of the potential for reduced support from DYH in the absence of guarantees from the parent.

Full list of rating actions:
- DYH's Long-term foreign currency IDR: 'BB-' on RWN
- DYH's Long-term local currency IDR: 'BB-' on RWN
- Hurriyet's Long-term foreign currency IDR: 'BB-' on RWN
- Hurriyet's Long-term local currency IDR: 'BB-' on RWN
- Hurriyet's National Long-term rating: 'A+(tur)' on RWN

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Applicable criteria, Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage (5 August 2013), are available at www.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 and Related Research:
Corporate Rating Methodology: Including Short-Term Ratings and Parent and Subsidiary Linkage

Additional Disclosure
Solicitation Status