Credit Analysis

Moody's Global
Corporate Finance

January 2008

Table of Contents:

Analyst Contacts:

London 44.20.7772.5454

Ayse Kayral Adabag
Analyst

Christian Rauch
Senior Vice President

David Staples
Managing Director

This Credit Analysis provides an in-depth discussion of credit rating(s) for Dogan Yayin Holding A.S. and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. Click here to link.

Dogan Yayin Holding A.S.

Company Overview

Dogan Yayin Holding ("DYH" or "the Group") is the leading media conglomerate in Turkey, with a well-diversified portfolio of assets, ranging from newspaper, magazine and book publishing, to TV and radio broadcasting, print and new media. As at December 2006, the Group reported revenues of YTL2.2 billion and EBITDA of YTL214 million.

The Group's newspaper publishing segment - which has traditionally been the core business of DYH - operates mainly through its two subsidiaries: Hurriyet Gazetecilik ve Matbaacilik A.S. ("Hurriyet") and Dogan Gazetecilik A.S. They together own and operate nine newspapers (Hurriyet, Milliyet, Radikal, Posta, Fanatik, Gozcu, Referans, Turkish Daily News and recently acquired newspaper Vatan), enjoying a 58.7% market share in the newspaper advertising market as of September 2007. In terms of newspaper circulation, recording 1.7 million daily circulations out of 5.2 million in the market, DYH is again the market leader with a 34% market share, being positioned well ahead of its closest rival (which has a share in the low twenties). DYH has a key market position in the distribution of newspapers and magazines in Turkey, attributable to the size and reach of its distribution arm. The Group's logistics reach 25,000 sales points. DYH also has six printing facilities in Turkey and one in Germany.

The Group's broadcasting arm, on the other hand, operates mainly through its subsidiary Dogan TV Holding A.S. ("Dogan TV") which owns and operates three national channels - Kanal D (with 16.9% audience share in prime time), Star TV (10.8%) and CNN Turk; 27 thematic channels, three radio stations, digital TV platform D-Smart, and a production company. Besides the operations in Turkey, the Group has a general entertainment channel in Romania. This was recently launched as a first attempt to diversify the broadcasting operations beyond Turkey, and the channel already reached 4% audience share in prime time as of September 2007.

Moody's Investors Service

The Group, having maintained a 38% advertisement share in this highly fragmented media market for a long time, increased its total ad market share up to 41.6% in 2006 following the addition of Star TV into the portfolio, and finally to 43.6% as of September 2007. Star TV acquisition also secured the Group's impregnable position in a relatively small-scale domestic advertising market. With approximately half of its revenues coming from advertising income, the Group is significantly exposed to cyclical ad spending in Turkey. However, the purchase of 67% of the share capital of Trader Media East ("TME") by Hurriyet in March 2007 implies a certain degree of geographical diversification: Hurriyet generated around 40% of its revenues in 3Q07 in nine countries outside Turkey, mainly in Russia.

Table 1: Operational Highlights

in YTL million	2004	2005	2006	1H06	1H07	9M06	9M07
Total Ad Spending in Turkey	1,812	2,233	2,680	1,317	1,448	1,885	2,084
growth y-o-y		23%	20%		10%		11%
DYH's ad market share	38%	38.7%	41.6%	40.6%	43.8%	41.1%	43.6%
DYH Revenues	1,402	1,712	2,180	1,052	1,253	1,555	1,911
DYH EBITDA	209	206	214	147	95	178	146
DYH EBITDA Margin	14.9%	12.0%	9.8%	14%	8%	11%	8%

Source: DYH presentations

Note: 1H07 and 9M07 DYH Revenues and Ebitda include TME and new ventures in its broacasting business.

Dogan Sirketler Grubu Holding A.S. owns 63% of DYH's equity while 34% of DYH's shares are publicly quoted on the Istanbul Stock Exchange, with the rest owned by the Dogan Family. As of 12 December 2007, DYH had a market capitalisation of YTL 3,030 million.

Management Strategy

In Turkey, DYH's strategy is to maintain its leading position in Turkish media sector through providing customer-focused products and services, and increase the variety and scale of its content distribution network. More specifically, the emphasis is largely on the preservation of its strong ad market share in the publishing segment and the recovery of profit margins, in conjunction with the delivery of online growth. In the broadcasting segment, on the other hand, the target is to fully utilise the existing mainstream channels while improving the margins, and to diversify the revenue streams. In fact, the striking increase in the power ratio of Star TV in 2007, the fast growth in the number of thematic channels (up to 27 as of September 2007), and the initiation of digital TV platform D-Smart in March 2007 are in line with this strategy, although heavy investment requirement in new channel launches and increasing programming costs have negative impacts on operating margins.

In the international arena, the Group's strategy is to diversify beyond its core markets and to become a leading global media player. This was manifested initially in its ultimately unsuccessful bid to acquire control of ProSieben.Sat1 in late 2006, and followed by Hurriyet's purchase of 67% of the share capital of TME in March 2007 for a cash consideration of US$336 million, as the first realised example of the Group's inorganic growth ambition outside Turkey.

Key Rating Considerations

DYH's Ba3 corporate family rating reflects its position as the leading media conglomerate in Turkey with a well-diversified portfolio of assets, ranging from newspaper, magazine and book publishing, to TV and radio broadcasting, print and new media. The Group accounted for more than 41% of the total domestic advertising market, including 61% share of newspaper and 36% of TV advertising spending in 2006. The Ba3 rating also takes account of the opportunities for DYH implied by the structurally positive outlook for growth in the US$1.9 billion Turkish advertising market, which grew by 20% in Turkish lira terms in 2006, although this is somewhat moderated, in Moody's view, by the potential for volatility in what remains a relatively small-scale domestic advertising market and which was last evident during the 2001 crisis. More cautiously the Ba3 rating takes account of the potential operational and financial risks associated with the Group's strategy to invest beyond its domestic market, as well as the investment it is making in developing Dogan TV. Finally, Moody's noted that maintenance of the Group's current distribution policy, which limits the upstreaming of funds to its controlling shareholder, is also factored into the Ba3 rating.

Moody's said that DYH's moderate business risk profile is underpinned by its 60% holding in Hurriyet Gazetecilik ve Matbaacilik A.S. ("Hurriyet"), the Group's flagship newspaper publishing subsidiary. Hurriyet has a long-standing leading market position in Turkey -- it had a 10.6% share of circulation and 42.1% of newspaper advertising in 2006 -- which it has converted into good profitability, as reflected in an EBITDA Margin in the mid-20s% in the three years to 2006, and cash generation. The Ba3 rating factors in the negative impact of the 1H2007 slowdown in newspaper advertising caused by sectoral slowdown, uncertainty ahead of the elections (5% growth y-o-y) as well as the cost of unusually heavy 1Q2007 promotions which resulted in a reduction in profitability at Hurriyet's newspaper business. However, Moody's assumes that the recovery which began during in the 2Q07 will continue into the second half of the year, and notes that Hurriyet was able to improve margins in 3Q07 compared to the first half, and reported EBITDA at YTL 137 million for 9M07 (up 17.1% y-o-y), thanks to the first time consolidation of TME.

DYH's TV holdings are positively incorporated into the Ba3 rating, thanks to the benefits of diversification outside its core newspaper assets, and the potential for growth in TV advertising spending in Turkey. Moody's considers Dogan TV should be well positioned to benefit from this thanks to its channels' improving ratings and an increasing trend in price-per-second and power ratios. More cautiously the Ba3 rating also factors in that Dogan TV's short term profitability and cash generation is likely to be constrained by the following: (i) its status as a still-developing entity, (ii) increasing programming costs following changes in its content mix (iii) rapid growth in the number of thematic channels and (iv) the investment required in its D-Smart digital TV business. The rating also factors in the risk that the scale of Dogan TV's investment may be larger than currently envisaged although this is not expected to include in the short to medium term the cost of any potentially ultimately successful bids for soccer rights in Turkey by D-Smart, Dogan TV's digital free-to-screen business.

From a strategic perspective, the Ba3 rating balances the benefits of diversification against the risks associated with the Group's strategy to diversify beyond its core markets and to become a leading global media player. This was manifested initially in its ultimately unsuccessful bid to acquire control of ProSieben.Sat1 in late 2006, and followed by Hurriyet's purchase of 67% of the share capital of TME in March 2007 for a cash consideration of US$336 million. Considering the fact that the Group is significantly exposed to cyclical ad spending in Turkey with almost half of its revenues coming from domestic advertising income in 2006; Moody's recognizes the TME acquisition as positive in terms of geographical diversification. The agency nevertheless remains cautious about the challenges associated with integrating the acquired business as well as its further exposure to emerging market risks.

From a financial risk perspective, the Ba3 rating factors in DYH's record of turnover growth and moderate profitability as reflected in its consolidated EBITDA margin in the high single to low double digits. The Group's investments and disposals during 2007 are likely to leave net debt higher than in 2006, such that leverage as measured by Net debt/EBITDA (as adjusted by Moody's) is likely to be between 2.5 and 3x at end-2007, although this is expected to decline gradually from 2008 to the extent that free cash flow is applied to debt reduction. DYH's Ba3 rating also factors in that Hurriyet will reduce the substantial incremental debt incurred in connection with the TME acquisition by utilising internally generated cash, and will resume its dividend distributions starting from 2008. Moody's also notes that DYH's sale of its 25% stake in Dogan TV to Axel Springer in 1Q2007 for a total consideration of €375 million has positively impacted the level of consolidated leverage, and resulted in a net cash position of YTL376 million in 9M2007 at DYH on a standalone basis, which Moody's assumes will be retained going forward.

The stable rating outlook reflects Moody's view that DYH is reasonably positioned in the Ba3 rating category, and factors in some modest headroom for potential acquisitions. To the extent DYH were to reduce its financial flexibility through increased investments or debt-financed acquisitions, the stable outlook assumes that these would be managed such that Net debt/EBITDA (as adjusted by Moody's) on a sustainable basis would not exceed 3x, and that, in the event that free cash flow were to turn negative as a result of working capital and/or capital investment, this would be reversed within a reasonable timeframe. The stable outlook also assumes that a conservative dividend distribution policy is to be maintained at the DYH level going forward.

Liquidity

Moody's estimates DYH's liquidity profile to be satisfactory, mainly based upon its available cash position of YTL678 million at September 2007 (YTL 376 million of which is at the holding level on a stand-alone basis, with YTL162 million at Hurriyet) versus forthcoming uses of funds. On the basis of current expectations, the Group's cash flow generation capacity - which is currently under pressure due to a number of broadcasting investments, weakening newspaper ad growth, and increased promotional campaigns in publishing - is on its own unlikely to cover both the Group's debt repayments of YTL132 million over the next 12 months and its high working capital needs. Considering that the vast majority of forthcoming debt repayments in the Group belong to Dogan TV (related with its Star TV acquisition financing) and Dogan TV still has relatively weak cash flow generation capacity to cover those obligations on its own, "refinancing" alternatives are likely to be put in place, as being the case in the 3Q07. Moody's also acknowledges the possibility that the holding company and its subsidiaries shall act as a fully-integrated structure in the case of any liquidity bottleneck and use the ample cash in supporting the illiquid business on a temporary basis.

In line with local market practices, the Group does not have committed facilities in place for its working capital needs, which increases its vulnerability to "shock risks".

Dogan Yayin Holding A.S.

Report Number: 107084

Author	Production Associate
Ayse Kayral Adabag	David Ainsworth

Moody's Investors Service