Fitch Affirms Turkey's Dogan Yayin Holding's IDR at 'BB-'

Fitch Ratings-London-Istanbul/London-6 August 2008: Fitch Ratings has today affirmed Turkey-based Dogan Yayin Holding's (DYH) Long-term local and foreign currency Issuer Default ratings (IDRs) at 'BB-' (BB minus). Both ratings have Stable Outlooks.

The ratings reflect DYH's leading position in the Turkish media & entertainment sector, with a 44.7% market share in total ad spend as of the first five months of 2008. It benefits from strong domestic ad spend growth (19% yoy growth in FY07) and healthy cash balances. DYH's creditworthiness is driven by its healthy cash balance and the credit quality of its main operating subsidiary, Hurriyet, while the high level of debt under its broadcasting subsidiary, Dogan TV, remains a concern. Fitch expects DYH to carry the proceeds from the sale of its 25% stake in Dogan TV on its stand-alone balance sheet and to continue to de-leverage in the medium-term.

Fitch notes DYH has been highly acquisitive in the past 24 months, but does not factor into the ratings any major cash outflows associated with expansion in the medium-term. If DYH uses the Dogan TV stake sale cash for dividends or any further acquisitions, thus increasing its net debt position, it will have immediate negative implications for the ratings. The agency does not expect any cash outflows at the DYH level except for capital contributions to the existing businesses.

The ratings also take into consideration DYH's dominant TV ad market share of 40% at FYE07. Its broadcasting EBITDA margins, excluding new ventures, were up at 18% at FYE07, from 9.9% in FY06. However, cash outflows for new investments, such as the introduction of new thematic channels, Kanal D Romania, and the new digital platform, D-SMART, continue to depress overall operating margins. Fitch does not see D-SMART as a profitable venture in the medium-term and is concerned that cash outflows related to D-Smart programming investments and capital expenditure will weigh on broadcasting operating margins and cash flow. Fitch would like to see more evidence that DYH can sustain its strong operational performance in the long-term.

As at May 2008, DYH had USD307.3m cash after the sale of the 25% stake in Dogan TV to Axel Springer. However, DYH's consolidated gross debt is still high at USD1.42bn, based on management accounts, mainly due to the TME acquisition by Hurriyet in Q107 and Star TV acquisition in 2005 as well as investments in D-SMART and Kanal D Romania. DYH's net debt is USD743m; it has a consolidated cash balance of USD675m, versus consolidated short-term obligations of USD281m. As of May 2008, a total of USD656.7m in debt (46% of total group debt) was reflected on the balance sheets of companies within the broadcasting segment. Dogan TV's net debt was USD530m, with a consolidated cash balance of USD127.8m. Fitch expects DYH to record a net consolidated debt/EBITDA ratio of 2-2.5x at FYE08, in line with its historical average.

As a holding company, DYH depends on dividend flows, service income and capital gains. However, the ratings reflect only dividend flows from small operating companies such as Dogan Gazetecilik and Dogan Burda Rizzoli (DBR) in the short-term. Hurriyet did not pay dividends in 2007 due to the TME transaction, and Fitch understands that it will resume dividend payout only in 2009-2010. Dogan TV is not expected by Fitch to make a contribution to dividend flows before 2010 as it will be paying down the debt stemming from the Star TV acquisition and new investments such as Kanal D Romania and D-SMART. Fitch understands management is willing to sell a minority stake in D-SMART to a strategic partner to reduce Dogan TV's leverage in the medium-term.

DYH is owned by Dogan Sirketler Grubu A.S (63.02% equity and 63.02% voting interests), which is the holding company of Aydin Dogan, and his family. The Dogan Family and AD Foundation together own 3%. The rest of DYH shares are floated.

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