

Fitch Upgrades Turkey's Dogan Yayin Holding to 'B+'; Removes Rating Watch Negative

Fitch Ratings-London/Istanbul-15 November 2011: Fitch Ratings has upgraded Dogan Yayin Holding's (DYH) Long-term foreign and local currency Issuer Default Ratings (IDRs) to 'B+' from 'B'. These ratings have simultaneously been removed from Rating Watch Negative (RWN), and the agency has assigned a Stable Outlook to DYH's IDRs.

The upgrade reflects the resolution of the tax issues related to the significant tax fines which had been levied on the company since 2008, the completion of the TRY1bn capital increase as of H111 and the finalisation of asset sales including two newspaper titles and more recently the loss-making Star TV.

DYH's management restructured tax and tax penalties amounting to more than TRY4bn in accordance with the Law 6111 and settled these out of court. Fitch understands that DYH will pay a total of TRY1.07bn including interest to the tax authorities under a 36 month instalment plan with bimonthly payments and expects that the cash inflow from the capital increase will be strictly used to cover these payments for the next three years. Fitch also acknowledges the positive developments related to the company's operational performance in 2010 and 9M11 due mainly to the broadcasting segment driven by its top ranked TV station Kanal D, despite the publishing segment's falling margins.

The ratings also reflect the reduction in DYH's high consolidated leverage and related liquidity risk (DYH's maturities are still concentrated in 2012 and 2013) after capital injections by the parent Dogan Holding and the disposal of some of its media subsidiaries that will be used to reduce leverage at the Dogan TV (DYH's broadcasting subsidiary) level. Fitch expects a more conservative consolidated net debt to EBITDA metric of 4.1x at FYE11 versus the company management's expectation of 2.5x and to deleverage further due to its improved operating performance and cash inflows from asset sales.

The Stable Outlook is based on DYH's leading market position in print, broadcasting and digital media as the company has maintained its position as the leader by a wide margin despite rising competition, but the company's share in ad spend is expected to decline to below 35% after the recent asset disposals. The agency also expects continued long-term growth in ad spend in line with economic growth in Turkey, but also notes that short to mid-term volatility may be expected if economic growth suffers due to the weaker global environment.

The ratings are more dependent on the group's broadcasting businesses' cash generating capability as advertising revenue and EBITDA generated by Kanal D - now that Star TV has been sold - are driving the group. Furthermore, the sale of the loss making Star TV will support the broadcasting segment EBITDA and increase 2012 EBITDA by more than TRY40m based on Fitch's expectations. On a weaker note, D-SMART, the digital platform business poses the main risk for the broadcasting segment despite the fact that it has cut its operating losses in 9M11 owing to the growth of the subscriber base. Fitch notes that a break-even EBITDA at D-SMART would be a major boost to group EBITDA, probably expected by FY13 at the earliest.

A longer track record of sound operating profitability and evidence of higher EBITDA margins at the broadcasting level after the sale of Star TV, signs of a turn-around at D-SMART and deleveraging to a consolidated net debt to EBITDA metric of below 3x may result in an upgrade. DYH's underlying creditworthiness will be mainly driven by the improved operational performance of its broadcasting subsidiaries, and the credit quality of its main operating subsidiaries, Hurriyet Gazetecilik ve Matbaacilik A.S. (Hurriyet; 'B+' /Stable) and Kanal D in the print and broadcasting segments respectively. Dogan TV is expected to make a significant contribution to DYH's dividend income in the next few years - as Kanal D's operating performance has vastly improved with 30+% EBITDA margins recorded in 2010-11.

DYH is owned by the Dogan Group through Dogan Sirketler Grubu A.S. (74.53%), the Dogan Family (2.3%) and Aydin Dogan Vakfi (0.67%), giving the Dogan Group a combined 77.5% equity holding and voting interests. The remaining 22.5% of DYH's shares are free float.

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Corporate Rating Methodology, dated 16 August 2010, is available at www.fitchratings.com.