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EQUITY
RESEARCH

GalataSaray Sportif / A dividend play...

GSRAY		RAYMOND JAMES SECURITIES-TURKEY				
KEY STOCK DATA		KEY FINANCIAL DATA and FORECASTS				
Reuters code	GSRAY.IS	UFRS	2005	2006 E	2007E	2008E
Sector	Sports	Net Sales (US\$ mn)	28.2	25.6	28.8	30.9
Share price (TL)	152	<i>growth YoY</i>	-8%	-9%	13%	7%
Number of shares (mn)	2,035	EBITDA (US\$ mn)	23.2	21.0	23.9	25.5
Major Shareholder	Futbol AS	<i>growth YoY</i>	-9%	-9%	12%	7%
3M Avg. daily trading vol. (US\$ mn)	0.48	Net Income (US\$ mn)	22.4	23.0	23.7	25.4
Current MCAP (US\$ mn)	230	<i>growth YoY</i>	-35%	3%	3%	7%
YoY High	230	Shareholder's Eq. (US\$ mn)	38.8	42.3	45.8	49.6
YoY Low	106	<i>growth YoY</i>	-11%	9%	8%	8%
Free Float	16%	Operating Profit Margin	82%	82%	83%	83%
Foreign Holding of Free Float	55%	Net Profit Margin	80%	90%	82%	82%
		P/E (US\$, x)	10.2	10.0	9.7	9.0
		P/BV (US\$, x)	7.3	5.4	5.0	4.6
		EV/EBITDA (US\$, x)	10.0	11.0	9.8	9.1
		EV/Sales (US\$, x)	8.2	9.1	8.1	7.5
		PRICE PERFORMANCE	1W	1M	3M	YTD
US\$ performance		21.5%	20.4%	34.2%	33.1%	
Index Relative performance		30.4%	41.3%	25.7%	27.1%	

TL/US\$ = 1.35 ISE100 = 41,742

- Galatasaray Sportif is one of the most attractive dividend plays on the ISE, with an expected average dividend yield of 9-10% in the next 5 years.
- Unlike most of the companies trading on the ISE, Galatasaray Sportif's revenues and bottomline are quite predictable and stable.
- Valuation looks appealing at 10x 2006E earnings, compared to 11.7x for Fenerbahce Sportif, its major domestic peer.
- Our dividend discount model (DDM) suggests a fair valuation of \$286 mn for Galatasaray, indicating an upside potential of a 24%. At equal weightings, DDM and peer comparison suggest a target value of US\$275 mn, implying an upside potential of 20%.
- Galatasaray Futbol AS, major shareholder of Galatasaray Sportif, transferred its 21.05% stake in the latter to Unit Investment, headquartered in Brussels, in exchange for its outstanding loan of US\$ 23.5 mn. Unit Investment is currently free to sell 21.05% of Galatasaray Sportif shares (all non-voting), which is worth US\$49 mn at the current share price.

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TURKEY

COMPANY OVERVIEW

Galatasaray Sportif (“the company”) is a specialty media company managing all sports marketing operations of the Galatasaray Sports Club, one of the most successful and popular Turkish football teams. The company generates majority of its revenues from the sale of media rights of the Sports Club (mainly Turkish Turkcell Football League broadcasting rights). Sponsorship, advertising & licensing rights and UEFA performance of the soccer team are the other sources of revenues.

SHAREHOLDER STRUCTURE

Major shareholder is Futbol A.S., a 98.6% subsidiary of Galatasaray Sports Club, with an 83.98% stake as of 1H2005 financial statements (Galatasaray has a different reporting period that ends at the end of May. Thus, the first half financial statements are dated November 2005).

However, Futbol A.S. transferred its 21.05% stake to Unit Investment Societe Anonyme (Unit), a Brussel based company owned by one of the Club supporters, on March 8 2006, as a part of a non-interest loan agreement signed in 2004: The Club received US\$23.5 mn non-interest bearing loan from Unit to pay for the Galatasaray Sportif shares it acquired from ex-shareholders AIG Blue Voyage Fund L.P. and AIG Global Sports & Entertainment Fund L.P. On the due date (March 8, 2006), the Club gave the shares it acquired from AIG companies to the Unit instead of making cash payment due to liquidity issues. Hence, Unit is currently free to sell 21.05% of Galatasaray Sportif shares (all non-voting), which is worth US\$49 mn at the current share price.

The shareholder structure of the company before and after the transfer of shares is as follows:

Before March 08 2006		
Shareholders	Paid-in Capital (YTL)	Stake(%)
Futbol A.S	1,708,993	83.98%
Free-Float	325,600	16.00%
Others	407	0.02%
Total	2,035,000	100%
After March 08 06		
Shareholders	Paid-in Capital (YTL)	Stake(%)
Futbol A.S	1,280,626	62.93%
Unit Investment	428,368	21.05%
Free-Float	325,600	16.00%
Others	407	0.02%
Total	2,035,000	100%

OPERATIONS

The strategy of the company is to maximize the bottomline and to pay all distributable income to shareholders, among which the largest is Futbol A.S. (a wholly-owned subsidiary of Galatasaray Sports Club). Dividends are the major revenue stream for the Club, so high dividend payout is inevitable.

Turkish Turkcell Football League broadcasting rights are the major source of revenues, accounting for more than half of the total. Turkish Football Federation renewed the contract for the broadcasting rights for the next four years through an auction in June 2005. The new contract was settled at YTL152 mn for the first year to be increased by the CPI in the following three years.

Turkish Football Association launched a new system to allocate broadcasting revenues among the participants of the Turkish Turkcell Football league in June 2005. The new system is designed based on a performance rewarding system. Table below depicts the major bullets of the system:

Distribution Structure		Stake (%)	Distribution Method	YTL mn	2005-2006 Football Season	
Contribution Stake		35%	35% distributed to all 18 participants equally	53.20	Revenue per Team	2.96
	Champions Stake	14%	14% distributed to football clubs based on their championship track record. Starting from 2007/08, the figure will be decreased by 1% for 2 consecutive years to 12%	21.28	Fenerbahce	6.95
					Galatasaray*	6.95
					Besiktas	4.78
					Trabzonspor	2.61
Performance Stake	Point Performance	44%	44% distributed based on point performance calculated as total points gained by each participant at the end of the season divided by 850. Starting from 2007/08 football season, its % in total will be increased by 1% for 2 consecutive years to 46%	66.88	Revenue for Each Point	0.08
	End of Season Performance	7%	7% distributed to the first six teams based on an fixed multiple (10x for the champion, 8x for the runner-up, followed by 6-4-2-1x)	10.64	Champion	3.4
					Runner-up	2.7
Third Place					2.1	
Fourth Place					1.4	
Fifth Place					0.7	
Sixth Place	0.3					
		100%		152		

Source: TFF, RJS

* Galatasaray Sports Club domestic league broadcasting revenue for 2005/06 season is based on winning the championship title.

Other major sources of revenues are sponsorship (around 20% of the total) followed by licensing, mainly digital soccer betting revenues (around 15% of the total) and advertising, rolling panels, multi-side panels, corner display, TV interview panels, players' benches, footballer exit tunnels and other media channels such as Galatasaray Club magazine and website (around 10%).

GALATASARAY SPORTIF

Expenses are minimized as a part of the profit and dividend maximizing strategy. Accordingly, the company enjoys very high profit margins: it posted a 78% operating profit margin and a 113% net profit margin in 1H2005. Company is exempt from corporate tax under Turkish tax laws for companies associated with sports clubs.

Galatasaray Sportif has US\$31 mn non-trade receivables from related parties on its 1H2005 balance sheet (US\$ 10 mn from Galatasaray Sports Club and US\$21 mn from Futbol A.S.). Around US\$ 13 mn of these outstanding loans were offset with long-term payables to these companies due to license and team rent agreements. The remainder of the loan from Futbol A.S. (around US\$10 mn) will be deducted from the future dividend payments according to the Turkish CMB requirements.

VALUATION

We valued Galatasaray based on a dividend discount model and a multiple comparison with its domestic peer Fenerbahce Sportif. At equal weightings, these two valuation imply a target value of US\$275 mn for Galatasaray and an upside potential of 20%.

1- Dividend discount model:

	2006E	2007E	2008E	2009E	2010E
Broadcasting revenues	13.6	15.9	17.1	18.1	19.1
Turkcell Football League	12.5	13.3	14.5	15.5	16.5
Champions' League	0	0.9	0.9	0.9	0.9
Other	1.1	1.7	1.7	1.7	1.7
Sponsorship Revenues	6.1	6.3	6.5	6.7	6.9
Merchandising and Licensing Revenues	3.1	3.7	3.8	4.0	4.1
Advertisement Revenues	2.8	3.4	3.9	4.3	4.5
TOTAL REVENUES	25.6	29.2	31.3	33.1	34.6
Operating expenses	4.6	5.3	5.8	6.3	6.7
Operating profit	21.0	23.9	25.5	26.7	27.8
Other opr. income	2.0				
Net Income	23.0	23.9	25.5	26.7	27.8
Net distributable income	19.6	20.3	21.7	22.7	23.7
Valuation including Terminal Value					
Cost of Equity		US\$ mn			
11%		229			
10%		286			
9%		349			

GALATASARAY SPORTIF

Major assumptions:

- Galatasaray Sports Club will be ranked in the first four in Turkcell Football League every season. The probabilities of Galatasaray Sports Club being ranked in the first, second, third and fourth place are equal and are 25% each.
- The company will distribute all distributable income as it did in the last couple of years (around 85% of net profit).
- Terminal growth rate= 2%
- Risk free rate=6.9% for 2006, 6.5% going forward.
- Equity risk premium of 50% of risk-free rate
- Beta=1.

2- Multiple Comparison:

We compared Galatasaray Sportif with Fenerbahce Sportif, also a specialty media company, managing sports marketing operations of the Fenerbahce Sports Club, one of Galatasaray Sports Club's major rivals.

A major difference between the two companies, however, is that Fenerbahce Sportif receives a fixed income from stadium revenues (around US\$ 9 per annum) in addition to Galatasaray Sportif's revenue stream.

On a P/E basis, Galatasaray Sportif is trading at a discount to Fenerbahce Sportif based on 2006 and 2007 estimates. Fenerbahce Sportif's multiples for 2006 and 2007, imply a valuation of US\$264 mn for Galatasaray Sportif at equal weightings.

Dividend yield	2005*	2006E	2007E
Fenerbahce	11.8%	7.4%	8.0%
Galatasaray	11.0%	8.5%	8.7%
P/E	2005	2006E	2007E
Fenerbahce	10.1	11.7	10.9
Galatasaray	10.3	10.0	9.7
<i>Implied valuation for Galatasaray</i>		269	258

* calculated based on market capitalizations as of the day dividends were paid