

# *IPO Watch:* Turkey Focus Quarter 2 of 2013

Capital Markets



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# Introduction

*Landmark IPO of Pegasus in April 2013 raises c. €278 million, the largest IPO in the last 12 months*

Following on from a quiet Q1 on the Borsa Istanbul equity markets, with only one IPO in total, activity in Q2 2013 has picked up raising about 4 times the amount raised in Q1.

A total of c. **€421** million was raised from a total of **10 IPOs**, across both the National Market and the Emerging Companies Market (“ECM”) in Q2 2013. This compares to €106 million raised from just one IPO in Q1 2013 and €88 million raised from 9 IPOs in Q2 2012.

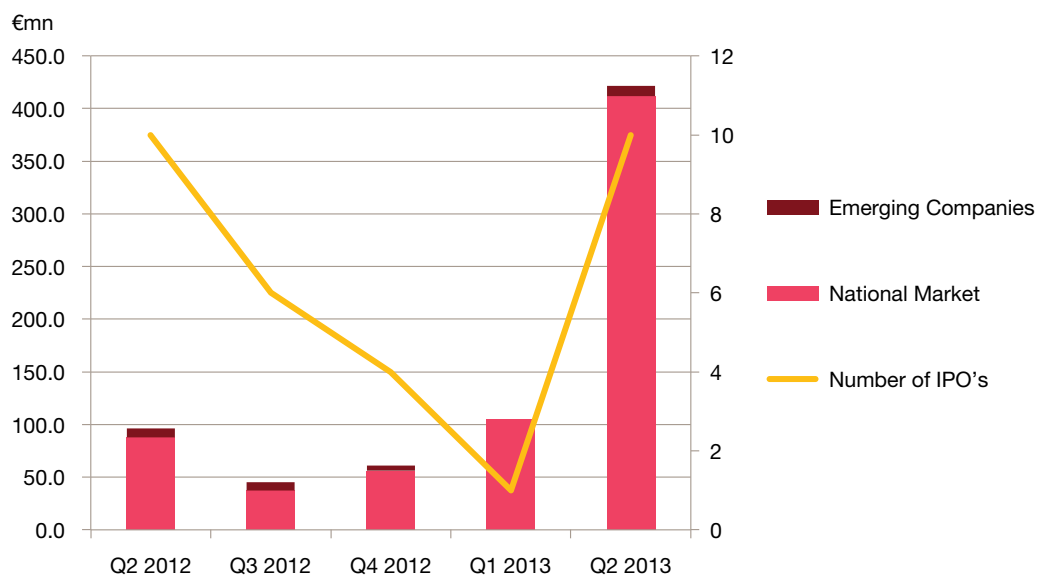
The Q2 2013 statistics represent an average deal size of c. €42 million per deal. If the Pegasus deal is excluded (as this is an exceptional size), the average deal size would be approximately €16 million per deal. This indicates a continuing trend for larger IPOs this year. The average deal size in 2012 was only about €10 million per transaction.

As we stated in our last quarter’s publication, IPO activity for smaller companies may reduce due to the mandatory underwriting requirements for transactions under 40 million TRY, introduced by the Capital Markets Board earlier in 2013.

The ECM had no transactions in Q1 2013, however, there have been 4 transactions in Q2 2013 raising approximately €2.4 million per deal. In Q2 2012, there were 3 IPOs on the ECM raising c. €3 million per deal.

Moving towards the end of 2013, outlook for Turkish capital market activity is not promising due to developments in international markets, especially US Federal Reserve announcements about quantitative easing which has hit emerging markets around the globe. In addition, recent wave of protests in the country may hurt investor confidence and may increase country’s risk premium.

### *IPOs by quarter 2012 – 2013*



### *IPO pipeline*

There were 4 applications for listing in the National Market in Q2 2013, and another 4 for ECM in the same period. There are 8 pending applications for a listing in National Market and 5 for ECM.

## Post-IPO performance

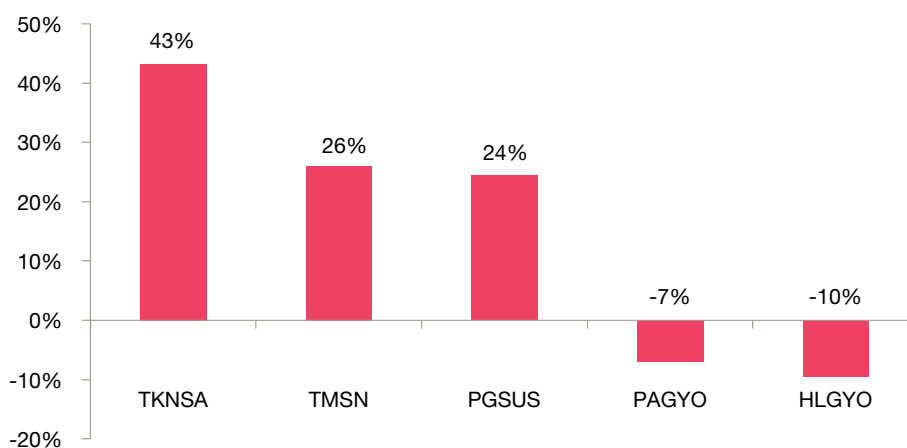
A snap-shot of post IPO-performance as at 30 June 2013 of the top 5 largest IPOs in the last 12 months is shown below.

### Top 5 IPOs in the last 12 months

| Company  | Date    | Amount raised (€mn) |
|--|---------|---------------------|
| Pegasus Hava Taşımacılığı A.Ş.<br>("Pegasus Airlines")       | 04.2013 | 277.5               |
| Halk Gayrimenkul Yatırım Ortaklığı A.Ş.<br>("Halk REIT")     | 02.2013 | 105.6               |
| Tümosan Motor ve Traktör Sanayi A.Ş.<br>("Tümosan")          | 11.2012 | 52.2                |
| Panora Gayrimenkul Yatırım Ortaklığı A.Ş.<br>("Panora REIT") | 05.2013 | 43.1                |
| Teknosa İç ve Dış Ticaret A.Ş.<br>("Teknosa")                | 05.2012 | 42.3                |

Highlight of Q2 2013 IPO's, Pegasus deal at c. €277.5m is the biggest deal since 2012.

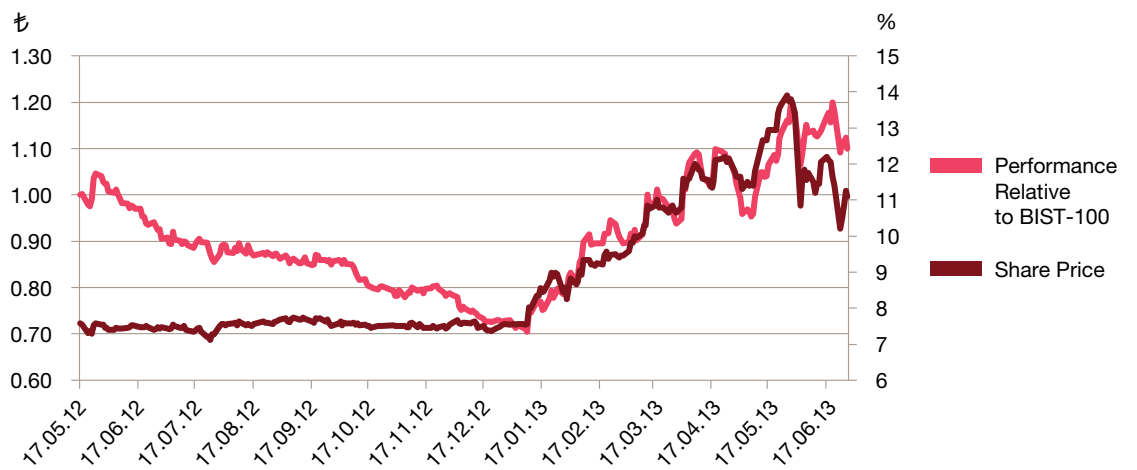
### Share price as at 30 June 2013 compared with price at IPO



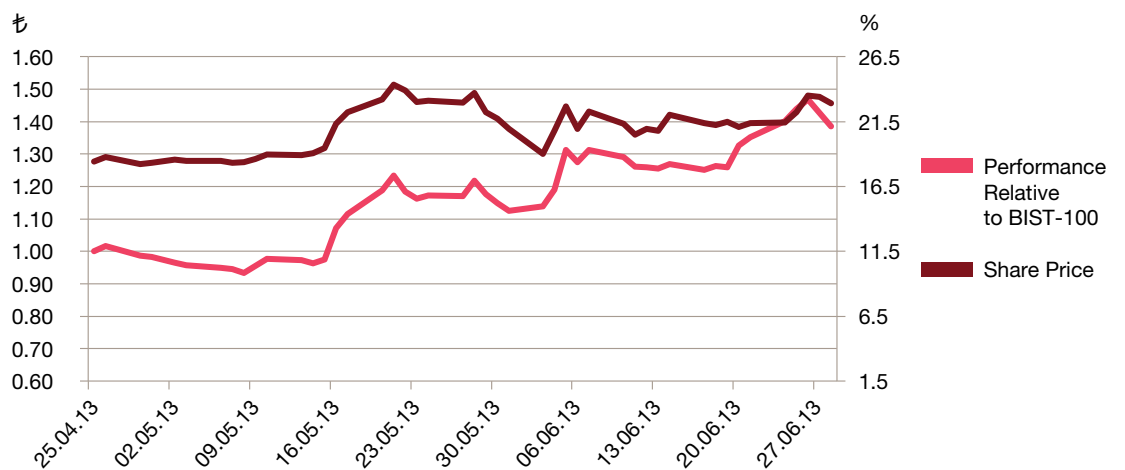
After-market performance of top 5 IPOs is mixed. While Teknosa, Tümosan and Pegasus Airlines are trading at a higher value as of 30 June 2013, Panora REIT and Halk REIT are trading below initial offering price.

## After-market performance of selected stocks compared to the BIST 100

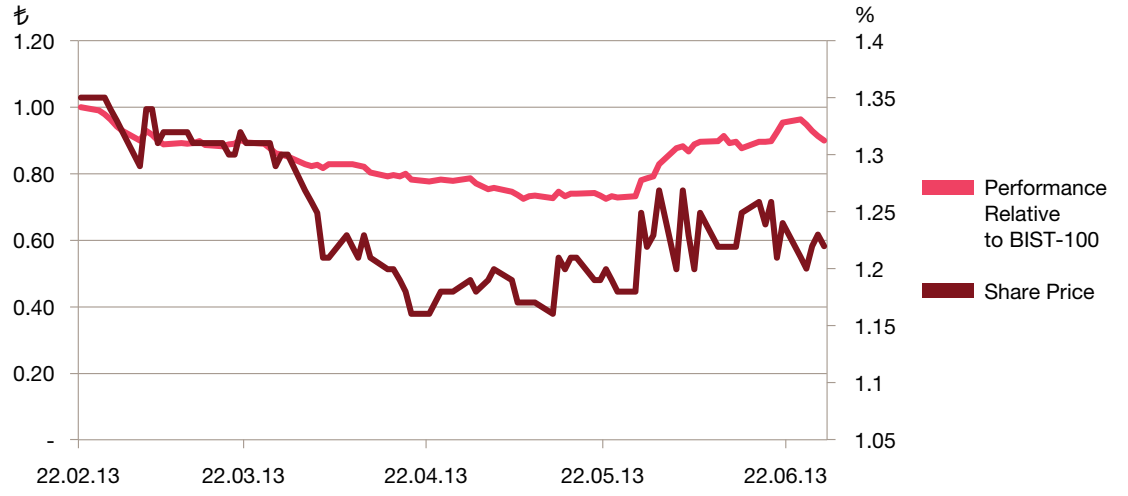
### Teknosa



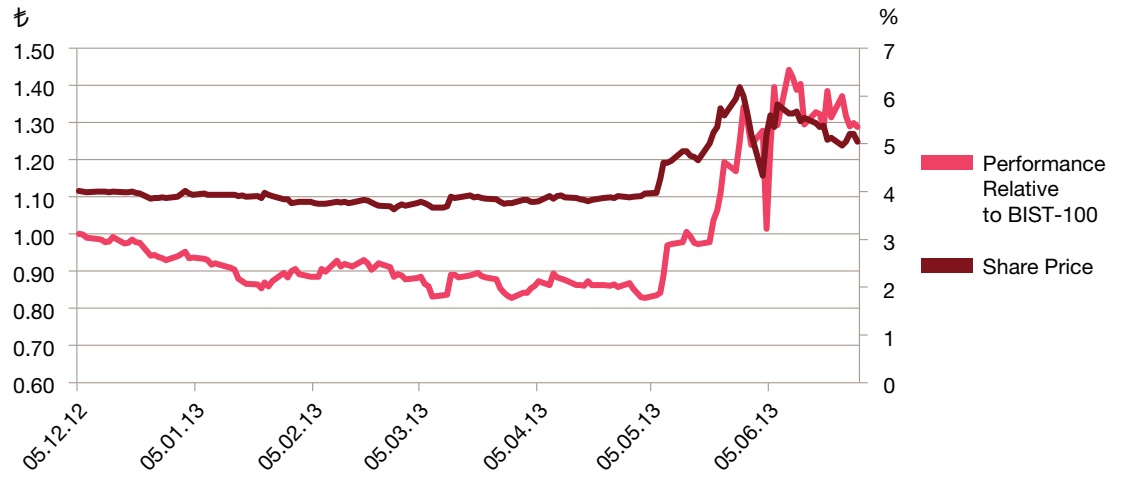
### Pegasus Airlines



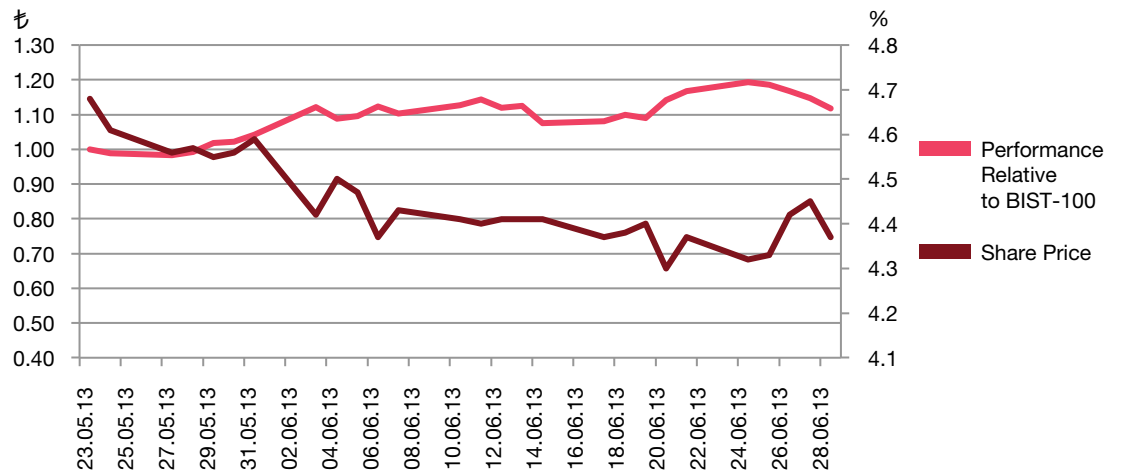
### Halk REIT



### Tümosan



### Panora REIT



## Economic Outlook

Expected capital market activity will depend very much on the economic outlook.

### **GDP**

Turkish economy grew by 3% y-o-y in the first quarter of 2013 which exceeded market consensus of 2.2%. With the latest figures, the size of Turkish economy ascended to TRY 1.44 billion (USD 805 billion from USD 786 billion in year-end 2012).

Looking for the seasonally and calendar effect adjusted growth figures, Turkish economy posted a y-o-y growth of 3.7% in calendar adjusted terms, which grew by 1.6% compared to the previous quarter (Q4 2012).

Looking for the production based GDP, financial intermediation was the main driver behind the Q1 2013 figures which grew by 6.5% y-o-y and drove the bottom-line GDP up by 0.8 percentage point (pp) that is again the biggest contribution as in the previous quarter.

The construction segment continued to ameliorate (that has started in the Q4 2012 after a 2 consecutive quarterly contraction) which posted the second highest growth of 5.9% within the first quarter whose contribution materialized as 0.3 pp.

Industry item seem to be improved (although the magnitude is limited) as we have seen in the industrial production figures, which flourished by 2.8% and lead bottom line GDP to become 0.7 percentage point higher

(the second best contribution following financial intermediation). A relative recovery in manufacturing industry led trade facility to revive, which exhibited a y-o-y growth of 2.9% and demonstrated the third-highest contribution of 0.4 pp.

### **Nearly Doubled Up Public Investments**

As all market agents expected and the leading indicators have already showed, consumer spending began to wake up. With a share above 70% in overall economy, final private consumption posted a growth of 3.9% and raised the bottom-line GDP by 2.1 percentage point. However, a significant fall (9.1%) in private investments offset consumption's positive effect with its 2.1 pp negative contribution.

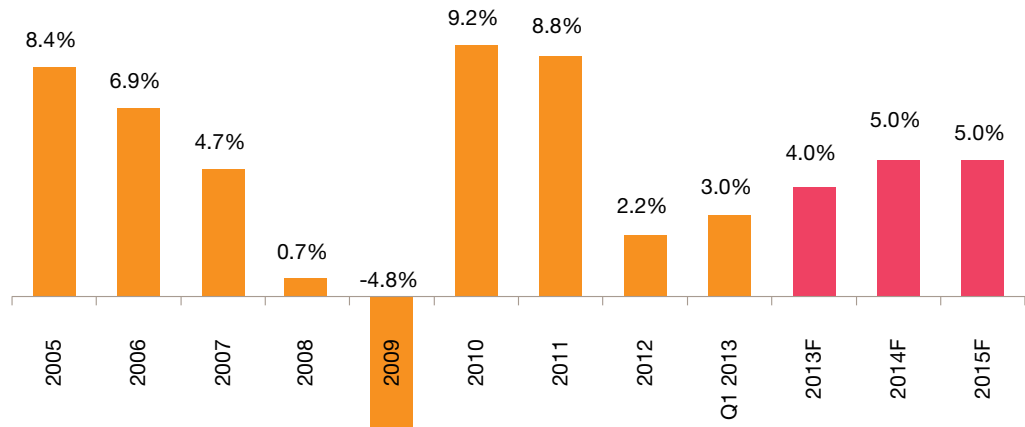
Increased consumer expenditure led rebalancing (which we had started to see in the Q4 2011) to reverse by boosting imports. Imports exhibited an increase of 3.2% in the first quarter of 2013 according to Turkstat GDP figures, where exports posted a y-o-y growth of 3.4%. Therefore the contribution of net export became zero in the corresponding period.

So, what did trigger 3% economic growth from the expenditure side? The answer is "Public Sector". According to the latest numbers, government expenditures expanded by 7.2% who led GDP growth to become 0.7pp higher. But the leading role was performed by

the public investments which is unbelievably mounted by 81.9% in the Q1 2013 and drove the bottom-line GDP up by 2.2 pp. That is equal to 73% of the Q1 2013's GDP growth itself.

Hence, public sector motivated growth continued.

## Annual Growth Rate (%)



Source: Turkstat, Medium Term Programme, PwC Turkey

### Inflation

According to inflation figures released by Turkstat, consumer prices increased by 0.76% in June 2013, which is above the market consensus of 0.1%. With the latest figure, annual inflation mounted to 8.3% from 6.51% in May. The annual average inflation for the first half of the year materialized as 7.1% which was 9.9% in the same period of the previous year.

The main reason behind the high inflation figures for June 2013 was the food and non-alcoholic beverages item, (which was mainly stemmed from the hike in unprocessed foods) that rose by 1.82% and led bottom line CPI to become 0.43 percentage point (pp) higher.

Transportation was the other item that caused the

both monthly and annual consumer inflation to be elevated. A 1.49% m-o-m hike in the corresponding item was driven by the rise in gasoline prices and increased automobile prices due to recent TRY depreciation. Transportation drove the monthly CPI by 0.26 pp. Clothing and footwear led inflation to become lower with seasonal sales which posted a monthly decline of 1.74% and shrank the bottom line inflation down by 12 percentage point.

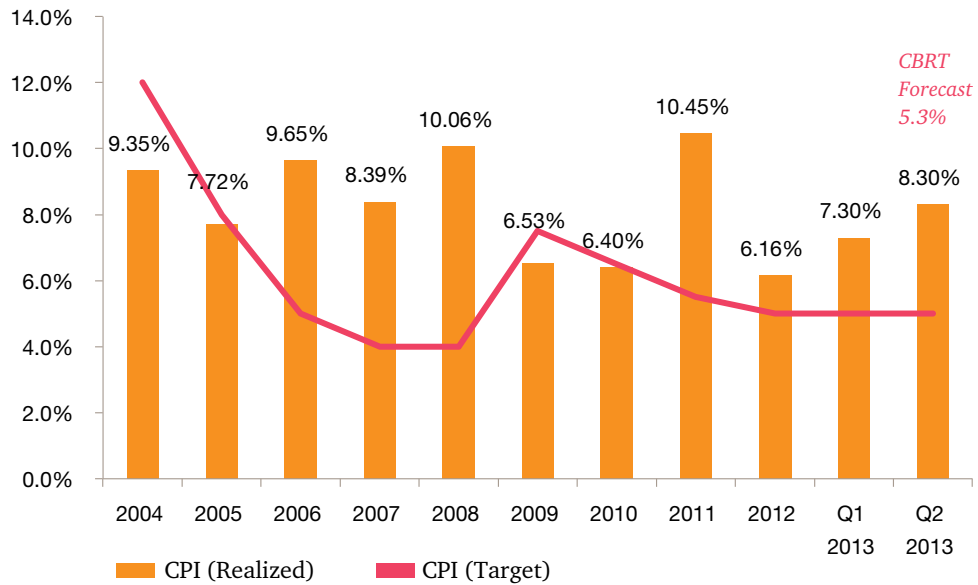
Looking for the annual changes of the main expenditure groups of CPI, the highest y-o-y change continued to be observed in alcoholic beverages and tobacco with 16.09%, where the food and non-alcoholic beverages raised the y-o-y

inflation most (with 3.10%). Looking for the core inflation figures, all indicators of CPI with specified coverage exhibited a hike in monthly terms in June. When one look to the main core CPI items, H and I index soared by 0.43% and 0.41% in May, respectively, which remained at 6.1% and 5.6% annually.

Producer prices ascended 1.46% in June 2013, where the annual PPI rose to 5.23%. For the first half of 2013, the producer price index demonstrated an increase of 2.5% on average compared to the same period a year ago.



## Year-End Inflation (2003 Based Consumer Price Index)



Source: Turkstat, CBRT, PwC Turkey

### Summary of Economic Outlook

Q1 2013 GDP results are important as a concrete outcome of the expectations (such as rise consumer spending and improvement in sectors etc) and figures are positive, which is supported also by the seasonally and calendar adjusted data.

However, on the expenditure side it carries some downward risks for the future.

Accordingly, Turkish economy is experienced with a huge public sector motivated growth in the first quarter of this year whose sustainability is a question mark. Yes, upcoming local (2014) and general elections (2015) will be a motivator for public investments and expenditures, but those are one-off items rather than a structural improvements.

Also, the positive effects of rebalancing (a crucial contributor in last 5 quarters) seemed to be stopped with a rising private consumption and imports. Hence, we might conclude Turkey need to take some actions to raise private investments as well as exports.

Industrial production and other leading indicators signal Turkish economy will complete the 2013 below its Medium Term Program Target of 4%.

For the inflation outlook, the recent appreciation in the Turkish Lira (as well as in the other Emerging Market currencies after Fed's tapering potential) and the significant increase in unprocessed food may become an impediment on achieving both the CBRT's inflation forecast and target.

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