

# *IPO Watch:* Turkey Focus Quarter 1 of 2013

Capital Markets



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# Introduction

*In Quarter 1 of 2013, 1 IPO raised a total of €106million*

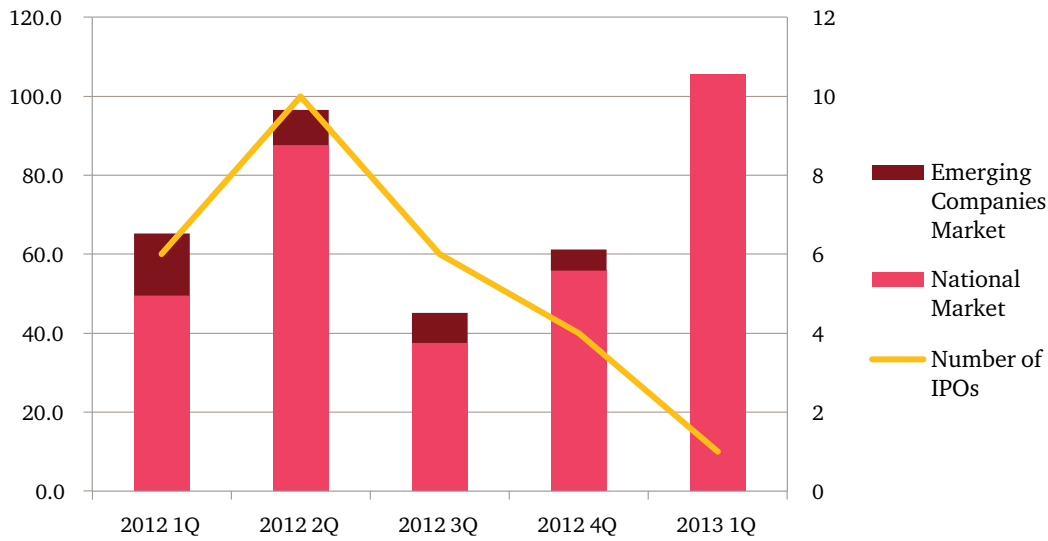
Activity on the Borsa Istanbul in Q1 2013 has been particularly slow with only 1 IPO raising €106 million. The IPO of Halk Gayrimenkul Yatırım Ortaklığı A.Ş. ('GYO') in February 2013 was the largest for two years and resulted from the sale by main share holder Turkiye Halk Bankasi A.Ş. of shares in its real estate unit.

The IPO of Halk GYO sustains the relative dominance for IPOs in Real Estate Investment Trusts ('REIT's). In Q1 2012, the largest of 3 IPOs was also that of a REIT, Özak Gayrimenkul Yatırım Ortaklığı A.Ş., raising approximately €42 million in February 2012.

Despite the slow IPO activity, the capital raised in this transaction amounted to about 40% of the entire proceeds raised in 2012,

thereby indicating an increase in average IPO size. Average deal size in 2012 was only about €10 million, due in part to an increasing number of transactions on the Emerging Companies Market ('ECM'). So far in 2013 there have been no IPOs on the ECM as compared with 3 in Q1 2012 out of a total of 10 for the whole year in 2012.

## IPOs by quarter 2012 – 2013



### IPO Pipeline

On 22 April 2013, Pegasus Airlines succeeded in raising 650 millionTRY, making it the second publicly traded Turkish carrier after Turkish Airlines (THY). This is the biggest IPO on the Borsa Istanbul in 2013 to date.

In April 2013, the CMB also announced the IPO applications of Akyürek Tüketim Ürünleri A.Ş., Odaş Elektrik Üretim Sanayi ve Ticaret A.Ş. and the Panora Real Estate Investment Partnership. In addition, Emlak Konut GYO has applied for a secondary public offering. In May 2012, the shares of Royal Halı İplik Tekstil Mobilya Sanayi ve Ticaret A.Ş. began to be traded.

### Changes to Regulations

In February 2013, the Capital Markets Board announced changes to Turkish Capital Markets Regulations aimed at improving investor confidence such as introducing more transparency around use of proceeds, related party transactions, requirements for additional valuation reports from other banks / brokers and sharedealings for significant shareholders.

However, some changes may have an adverse impact on market activity, such as the new requirement to 100% underwrite transactions under 20 millionTRY and up to 50% of tranches between 20 millionTRY and 40 millionTRY. This may reduce

IPO activity for smaller companies as underwriters become hesitant to take market risk.

New rules regarding a valuation cap of 20% above the bottom of the target range for the maximum valuation of shares may also result in issuers being hesitant to come to market if they feel that the 20% premium does not represent a sufficient valuation.

## Update to Capital Markets Law

A summary update to the Capital Markets law is as follows:

### Underwriting

- The CMB resolution requires brokerage houses to underwrite IPOs based on the market value of the Issuer.
- If the size of an IPO is less than 20 million TRY, the brokerage house that intermediates the IPO is required to underwrite all unsold shares. This underwriting requirement is also applicable to 50% of the value of IPOs priced at between 20 – 40 millionTRY.
- The underwriter cannot sell the shares bought resulting from

the underwriting requirement at a price under the public offering price as quoted on the stock exchange for a period of 6 months.

### Valuations

- Subsequent to an IPO, the issuer must prepare a report covering its assessments on whether or not the assumptions used in the valuation of the offer price have been satisfied or not. If not satisfied, the reasons for such departures must be explained. This report is to be filed within 10 business days after disclosure of its financial statements for two years subsequent to the IPO. This report

must be published on the website of the company and the Public Disclosure Platform.

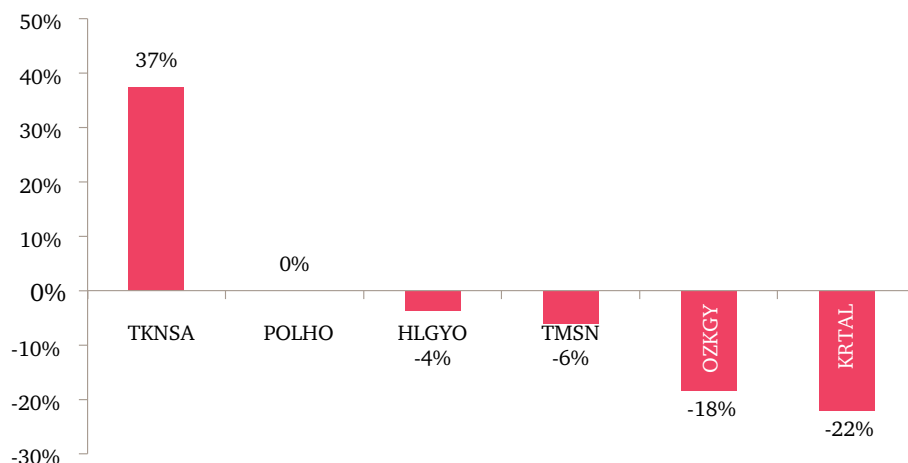
- A new set of criteria has been set for minimum and maximum price limits. In book building with a price spread, the maximum price at the IPO cannot exceed 20% of the minimum price at the time of the IPO.

### Post-IPO performance

A snap-shot of post IPO-performance as at 31 March 2013 of the top 5 largest IPOs in 2012 and the only IPO so far in 2013 are a little disappointing with only one share, Teknosa İç ve Dış Ticaret A.Ş. (“Teknosa”) outperforming its listing price.

### Post IPO Performance

(share price as at 31 March 2013 compared with price at IPO)



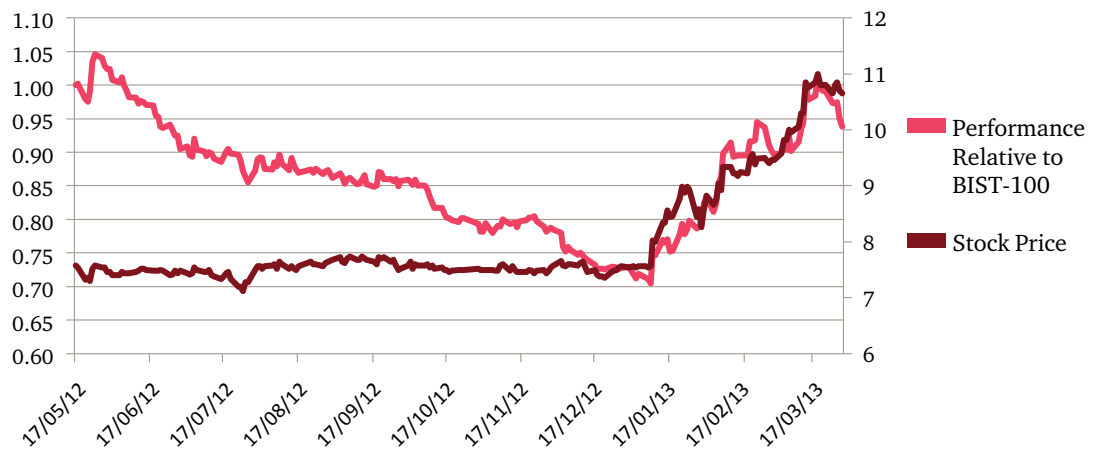
The performance of the related stocks was not favorable as compared to the BIST 100 index.

However, Teknosa started off at a lower level but began to climb again by January 2013,

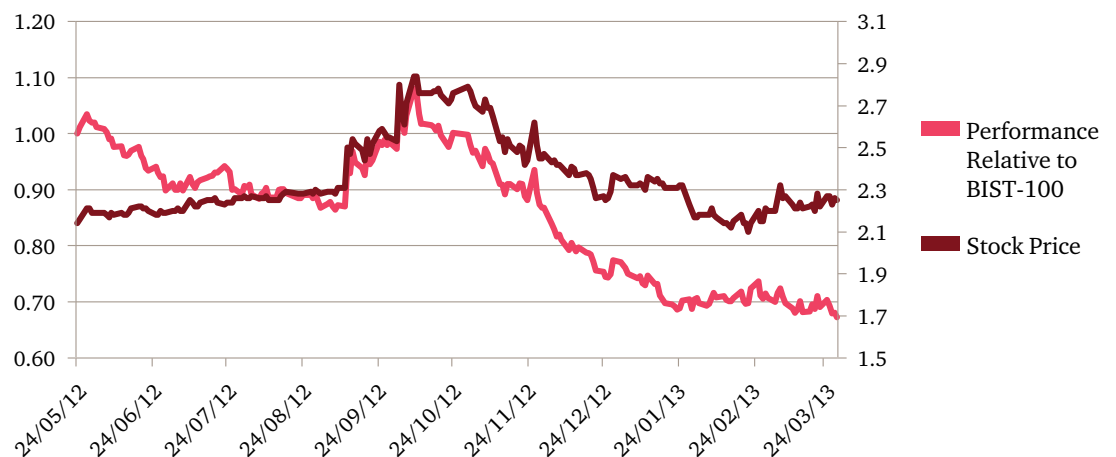
nearly equalling market performance by March 2013.

## Share price performance of selected stocks compared to the BIST 100

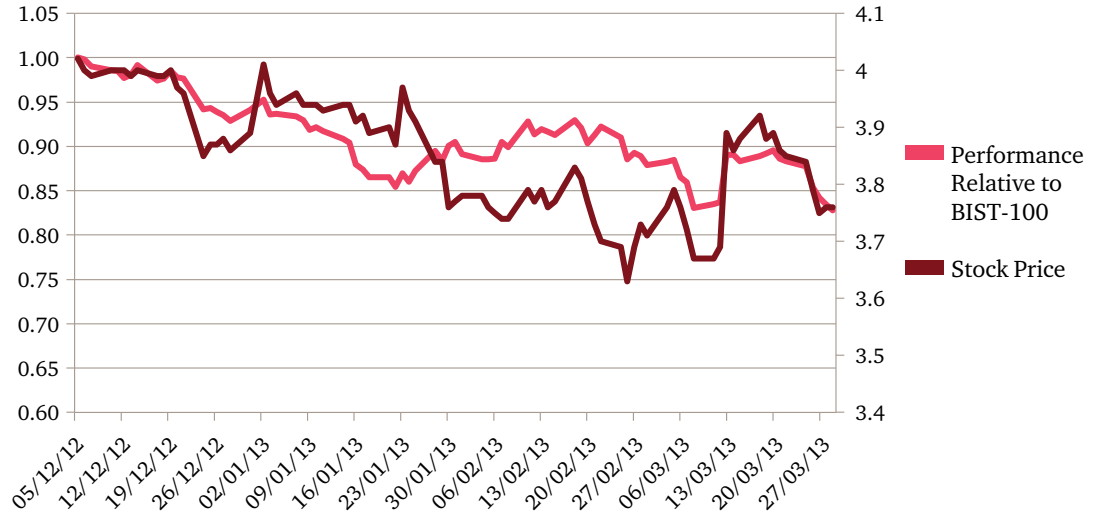
### Teknosa



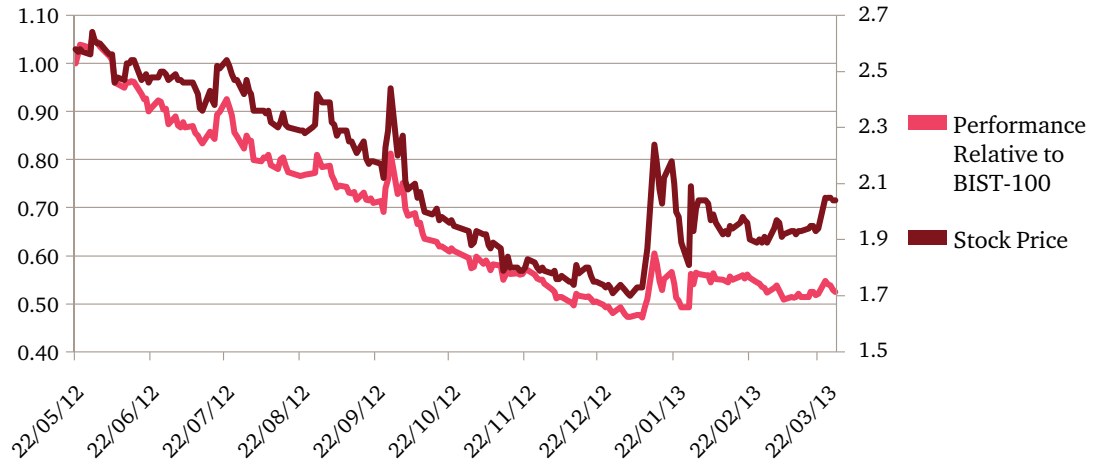
### Polisan Holding



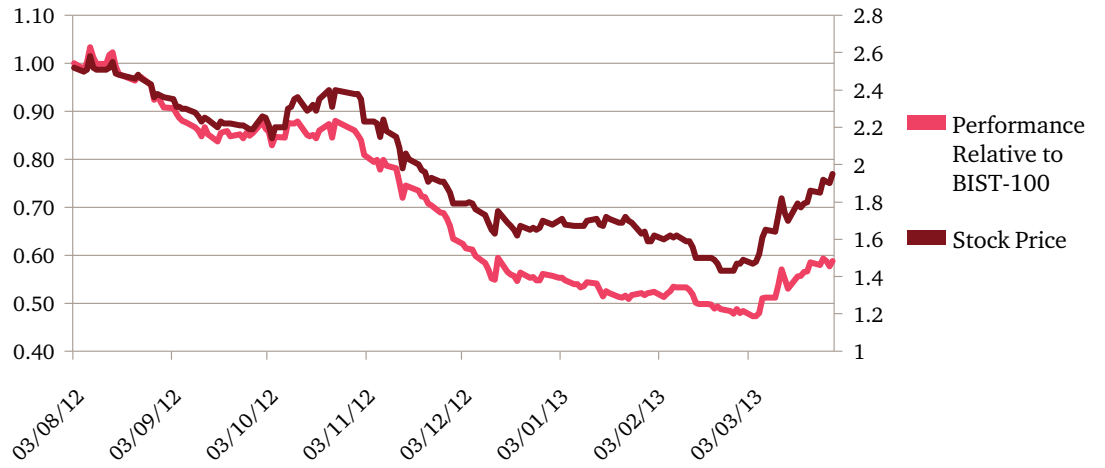
## Tümosan



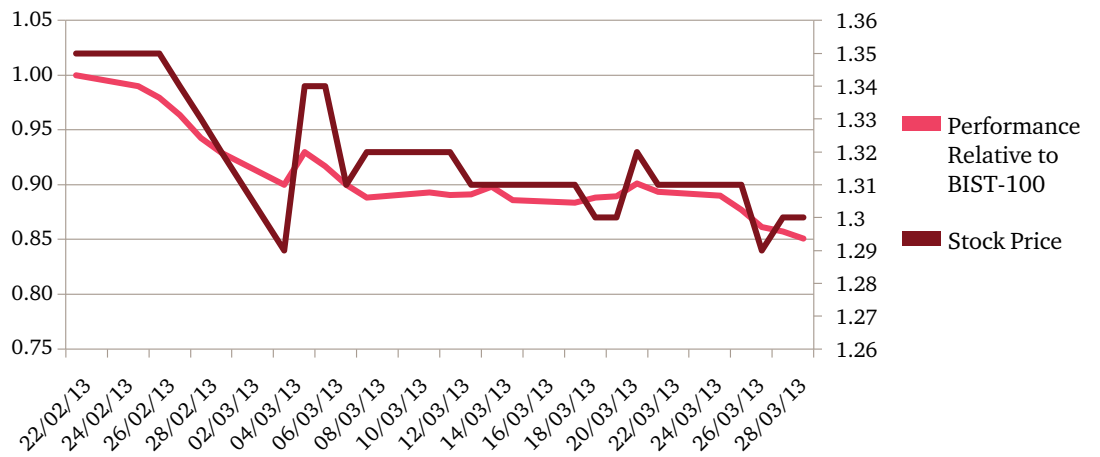
## Özak GYO



### Karakaş Atlantis



### Halk GYO



### **Economic Outlook**

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

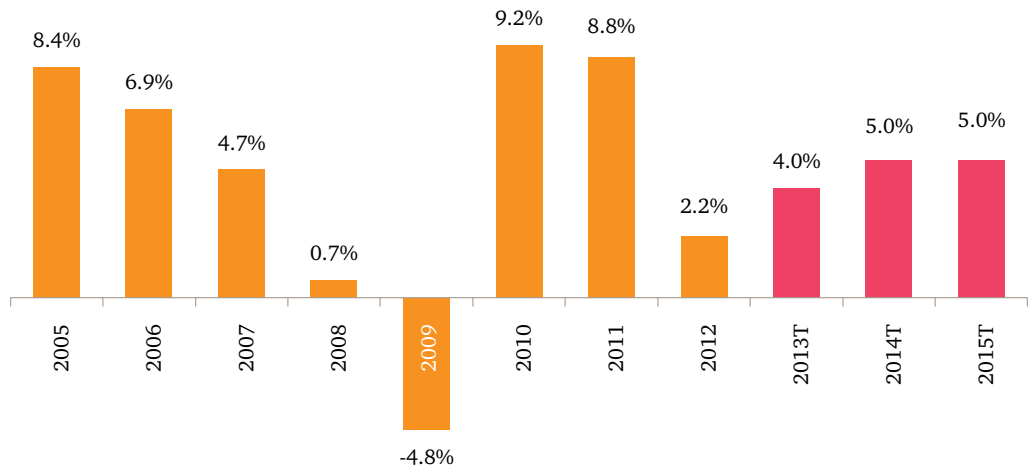
### **GDP**

The Turkish economy grew only by 1.4% y-o-y in the

last quarter of 2012 which is significantly below the market consensus of 2.4%. Economic growth for FY 2012 has been 2.2%, a full 1% below the revised growth estimate of 3.2% announced in the latest Medium Term Program of the government. Taking into account these

latest figures, the size of Turkish economy grew to TRY 1.4 billion (USD 786 billion) and the per capita GDP rose to approximately TRY 18,927 (USD 10,504).

### **Annual Growth Rate**



Source: Turkstat, Medium Term Programme, PwC Turkey

Latest GDP information has not yet been published at the date of printing, however, the first quarter 2013 industrial

production figures indicate a positive outlook. If this continues, the Turkish economy may experience

with a relatively strong growth rate in Q1 2013.



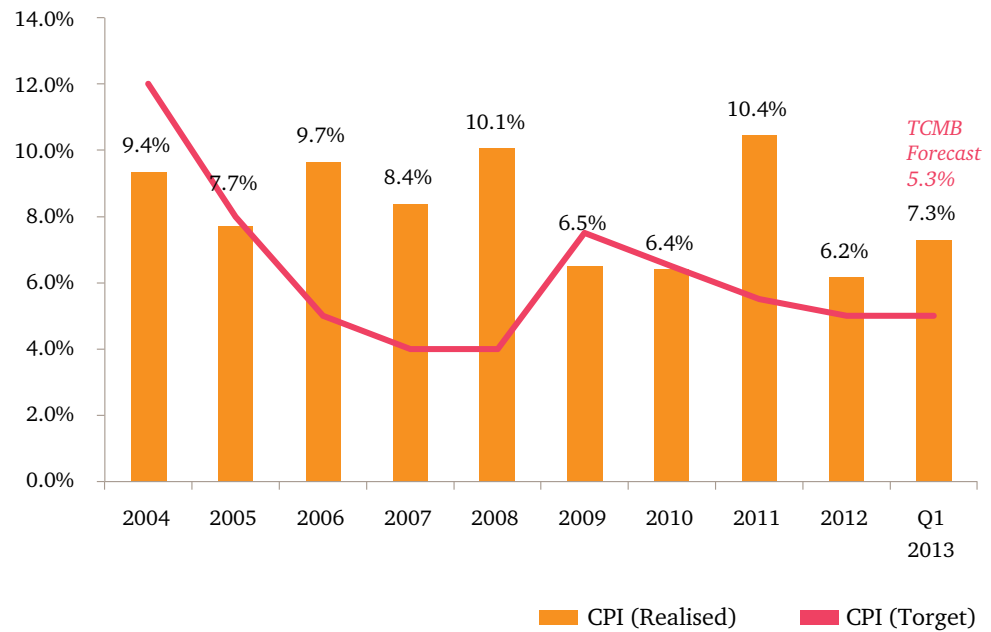
### **Inflation**

According to inflation figures released by Turkstat, consumer prices increased by 0.66% in March 2013, which

is above market consensus of 0.4%. With the latest figure, annual inflation surged to 7.29% from 7.03%. Looking for the first three months

of the year, average annual inflation rose to 7.21% as of Q1 2013.

### **Annual Inflation Rates (Based on 2003 prices)**



Source: Turkstat, CBRT, PwC Turkey

The main reason for this rise in inflation was the increase in unprocessed food prices, which soared by around 10

percentage points in the first quarter of the year. This accounted for nearly 1 percentage point of the 1.1

percentage point rise in CPI inflation in the same period.

### **S&P upgrade**

Subsequent to Fitch Ratings' upgrade of Turkey to investment grade, Standard & Poor's ('S&P') upgraded

Turkey's long-term foreign currency sovereign credit rating by one notch to 'BB+' from 'BB', just one level below investment grade at the end of March 2013. At the same

time, S&P raised the local currency sovereign credit rating to 'BBB' from 'BBB-'. Underlying reasons for these upgrades are:



A steady and sustained decline in Turkey's still-sizable net external financing requirements as export performance has improved amid some deceleration in domestic demand;



Policies limiting foreign currency lending, measures to cap nominal credit growth, and the benefits of a floating foreign-exchange regime all facilitate Turkey's external adjustment; and



Economic growth eased to a more sustainable level, without undermining Turkey's relatively strong fiscal performance;



Progress made on resolving Kurdish issues.

### **Summary of Economic Outlook**

If industrial production is an early indicator of GDP growth, the target of 4% GDP growth in 2013 may still be achievable, potentially stimulating demand for capital and therefore IPO activity. Further, if inflation

does not come down further, borrowing costs are not likely to reduce in the near term. This may prevent bond issuances and companies may seek financing from alternative sources.

The Rating Upgrade is a positive outcome, however

one more rating agency needs to raise its rating to Investment Grade in order for these effects to be felt more strongly.

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