BARIS ONEY, GLOBALTURK CAPITAL

Turkey: Aiming for the world's top ten economies

What's the background to Turkey's extraordinary growth, and what opportunities does it present for foreign investors? Baris Oney of Globalturk Capital sheds light on developments

Can you share your views on how Turkey grew during the last decade?

BO: It would be worthwhile to mention certain macro-economic aspects of the last decade which I believe provides a useful background. Turkey has become the 17th-largest economy in the world and sixth-largest in Europe with a 76 million population, half of which is under the age of 30 (i.e. the largest youth population when compared with the European Union).

Despite the recession and financial crisis negatively affecting most of the world's economies, Turkey has experienced significant growth in its economy due to a disciplined fiscal and monetary programme and a solid financial system since 2002. If we take out the period of world crisis in 2008 and 2009, the country has grown consistently with an average growth rate of 7.5 percent between 2002 and 2008, and around 9 percent in 2010 and 2011. It became the third-fastest growing economy in the world with 8.8 percent GDP growth rate in 2011 after China and Argentina.

The growth rate for 2012 was 2.2 percent, yet this was the highest in Europe. Average consumer price inflation saw a historically low level of 6.5 percent in 2012 as the result of its declining trend from 40 percent back in 2002. GDP per capita has tripled in the last decade and reached $10,504 where PPP [purchasing power parity] has far exceeded $15,000 per capita. FDI [foreign direct investment] over the last six years has reached over $110 billion, with close to 15 percent being private equity investments.

Baris Oney

In addition to the macro-economics, Turkey is acting as a regional hub for numerous multinationals – Coca Cola, GE Healthcare, Microsoft, Intel, Ericsson and the like as well as the IFC and EBRD, which have brought their regional headquarters to Istanbul. Apart from being rich in culture and tourism, with 33 million tourists visiting each year, Turkey is the largest manufacturing and services hub between Europe and Asia. It enjoys its pivotal geographic location in the centre of Southeast Europe, Russia, CIS, the Middle East and North Africa, attracting investors, business people and tourists at the same time – a rare commodity for most countries.

How do you see the growth potential of Turkey and how does this translate into energy and other infrastructure investments?

BO: Going forward, Turkey is expected to be the fastest-growing economy among OECD countries with a projected average GDP growth rate of 5.2 percent for the 2012 to 2017 period. Turkey has set out aggressive targets for 2023, which is the 100-year anniversary of the establishment of the Turkish Republic. Turkey aims to become the 10th-largest economy in the world within the next 10 years. To put that in perspective, it means exports need to reach $500 billion from current $150 billion levels and GDP per capita to grow to $25,000 from $10,000. Therefore, the need for investment is huge.

The government, among others, has initiated $250 billion worth of infrastructure projects mainly in the fields of energy, ICT and transportation. The electricity generation capacity of Turkey is 54,000 megawatts (MW) today and, to cope with the aggressive growth of the country, demand is expected to reach at least twice current capacity. Though the current telecoms infrastructure is one of the most advanced and fastest in the world, broadband investments will continue to be made heavily. New roads, tunnels, fast-track railroads, airports, channels and bridges are all being planned for the next decade and tenders have already commenced.

There seems to be an increasing awareness and investment in the energy sector from foreign investors. Do you think this trend will continue?

BO: Current installed energy capacity in Turkey is 54,000MW which has doubled from 27,000MW over the last decade. Turkey's energy market according to IEA [International Energy Authority], has been the fastest-growing market for the last decade after China. As mentioned, energy demand going forward is expected to more than double in the next 10 years and Turkey will need an additional 50,000MW of energy capacity. This translates into an average $3 billion investment per year based on the estimates of the country's Energy Market Regulatory Authority.

"Turkey is the largest manufacturing and services hub between Europe and Asia"

The promising growth targets and prospects make Turkey first choice for local and international energy giants. Besides growing domestic demand and investment need, you have: numerous energy assets in the privatisation portfolio; the establishment of nuclear power plants; acceleration of renewable energy sources to decrease dependency on natural gas; Turkey's geopolitical location as the transit route for delivery of petroleum, natural gas and electricity resources to international markets; and the government's dedicated plan to fully utilise the country's lignite and coal resources for electricity production till 2023. All these are factors which help to explain the attractiveness of the country.

With the privatisation process and further liberalisation of the market, the public sector aims to reduce its current 40 percent share in energy production capacity to 15 percent by 2015. This poses significant investment opportunities for not only Turkish companies but also foreign companies and infrastructure funds. Many foreign companies have already entered the Turkish market by setting up joint ventures or investing into Turkish companies. EON-Enerjisa, SOCAR-TURCAS and further investment in Petkim, GAMA-GE, Calik-Eni, RWI-TURCAS, AES-Koc, OMV-Dogan, Gazprom-Bosphorus GAs are just a few.

Currently at least 100 private equity investors have been chasing Turkish companies in various sectors. However, we haven't yet seen many private equity infrastructure investors. I'd strongly recomm end both classic private equity funds and infrastructure funds look into partnering with strong local energy companies to take advantage of the strong growth prospects. Exits can be realised through IPOs or strategic sales in five to 10 years. And returns will be substantial as well.

For investors contemplating an investment in the Turkish market, what would be most useful for them to know?

BO: The Turkish market, just like Turkey's pivotal situation in the world, is difficult to characterise. The overall culture resembles a combination of Turkish, European, Russian-CIS and MENA [Middle East and North Africa] but the business culture resembles more of a Turkish-US-Japanese combination.

What I mean is that Turkish people are very hard-working, factual but need to be well motivated emotionally and like to entertain themselves and socialise with business associates and friends. Therefore, doing business with Turkish entrepreneurs in the Turkish operating environment is quite sophisticated. Foreign investors looking to partner with Turkish entrepreneurs need to act diligently and carefully in initial dealings with their partners.

Turkish people are very hospitable and, therefore, entrepreneurs and professionals are too. Working with them is generally an enjoyable experience. However, at the same time, they can be quite emotional and, as work becomes more deep and detailed, you may end up offending them without knowing it and sentiment may change momentarily.

Therefore, before you tap into financial, legal and tax issues, it would be advisable for foreign investors to get themselves acquainted with the entrepreneurs and top professional managements and work out a detailed letter of intent or term sheet prior to getting deeply involved in due diligence. All detailed issues need to be agreed up front and nothing major left for the shareholder agreements. Better yet, I recommend foreign investors working with hands-on, partner-level, experienced advisors.

As a pre – and post-investment management and advisory services firm, Globalturk Capital acts as foreign investors' "glo-cal" partners in their investments. Our specialty is that we coordinate, assist and/or manage current and prospective investments in Turkey, by aligning our interests with them as their "glo-cal" hands-on, unique investment partners in the country.

Our main goal is to assist them in their post-investment period by taking active hands-on roles at board level on their behalf, with a professional yet candid approach towards their local partners. We work to eliminate mis-communication and business issues starting from the pre-investment period, which might potentially pose problems between the partners during the post investment period; or whenever during the life of their partnership.

Can you tell us about your activities in Turkey in the energy field?

BO: We are quite involved in the energy sector in Turkey and abroad.

"Doing business with Turkish entrepreneurs in the Turkish operating environment is quite sophisticated"

Currently we are assisting Genel Energy, which is a London Stock Exchange-listed company, in building their relations with the Turkish investment community. It is one of the largest oil and gas exploration and production companies in Northern Iraq and is growing fast in the MENA region.

We are also assisting one of the top privately owned power generators and traders in their capital raising process. The company has a current generation capacity of 1,000MW expected to reach 2,000MW by the end of this year with hydro, gas and renewable assets, not to mention a healthy pipeline. We have also invested in solar CSP technology, which uses direct steam generation, with two pilot units having been installed in the US and Turkey recently and the first commercial unit expected to be built soon.

Can you talk about your other investment and advisory work at Globalturk Capital?

BO: We have recently entered into an exclusive venture partnership with a US-based private equity fund called SEAF, which is the largest US-based emerging markets SME [small and medium-sized enterprise] investor, investing in 30 countries. We are looking into co-investing into Turkish SMEs with SEAF with ticket sizes between $1 million to $7 million. This is a segment where hardly any private equity investors exist yet hundreds of thousands of Turkish companies are thirsty for capital. We are also in the process of raising a $75 million SME fund for Turkey jointly with SEAF.

Apart from that, we co-invested into a call centre company with Japan's Mitsui. We have taken equity stakes and are looking for co-investors into ICT and digital signage companies in Turkey. Apart from that, we are looking into raising capital for Turkish companies through private equity investors or through the stock market via IPOs or reverse mergers and have completed many advisory transactions in Turkey and in the region over the last three years.

Is it always best to work with local partners, or would there be exceptions to that?

BO: Based on my experience in the Turkish market, the answer is YES. It is absolutely advisable to team up with a good Turkish entrepreneur to do business in Turkey. But it is not enough. It is advisable at the same time to team up with companies like us as venture partners, who know and understand how to work with foreign investors, be it strategic or private equity, and at the same time know Turkish entrepreneurs, professionals and the operating environment.

This is especially critical if a foreign investor is teaming up with companies other than the top 500 to 1,000. There are more than 500,000 companies in Turkey to invest in and/or set up a joint venture and, to my mind, it is in most cases a must for a foreign investor to have a local venture partner. ■

***Baris Oney** is managing partner at Globalturk Capital, the Turkish pre-and post-investment management and advisory services firm*