



THE DRIVE YOU DEMAND

Today's Turkey from the Eyes of an Emerging Markets Investor

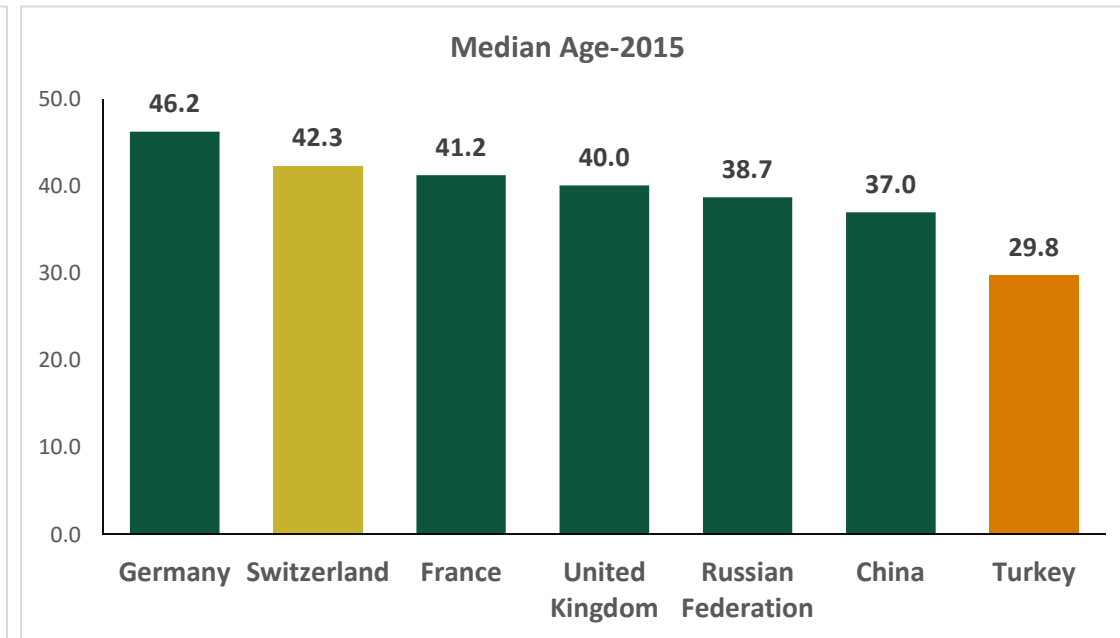
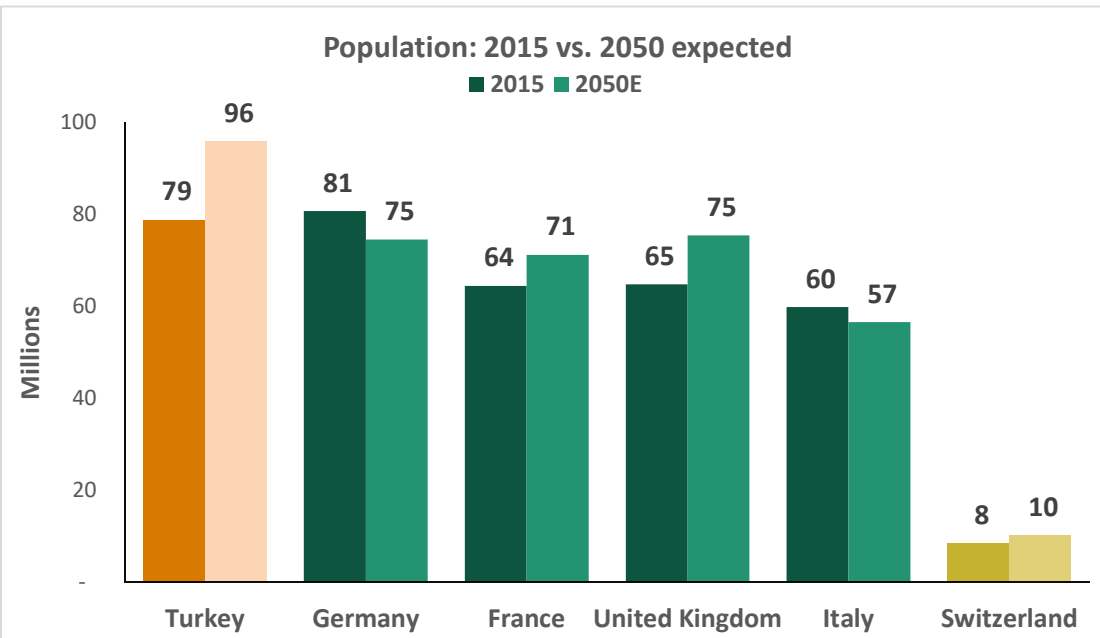
Presentation for Swiss Chamber of Commerce

Istanbul, September 26th 2017



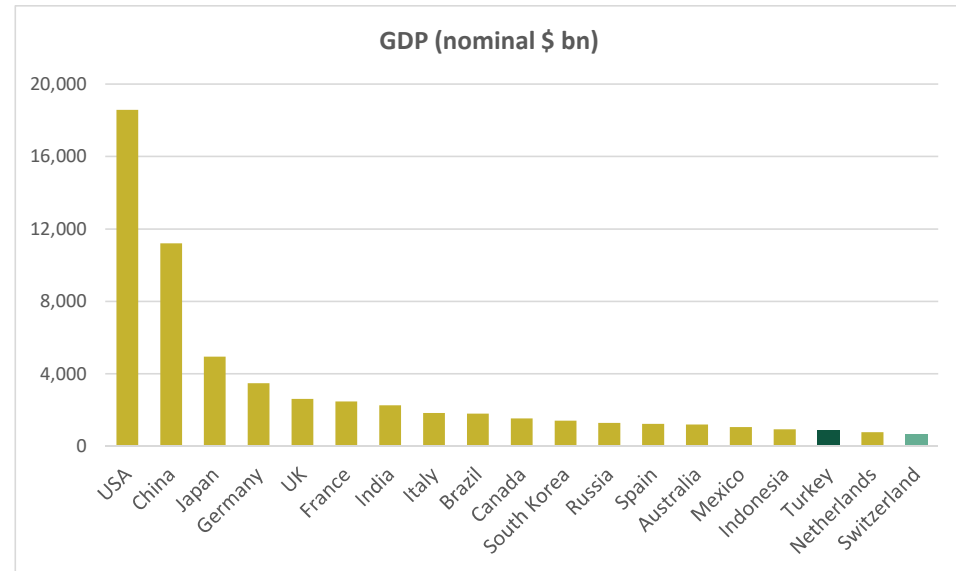
UNION BANCAIRE PRIVÉE

Strong Demographics



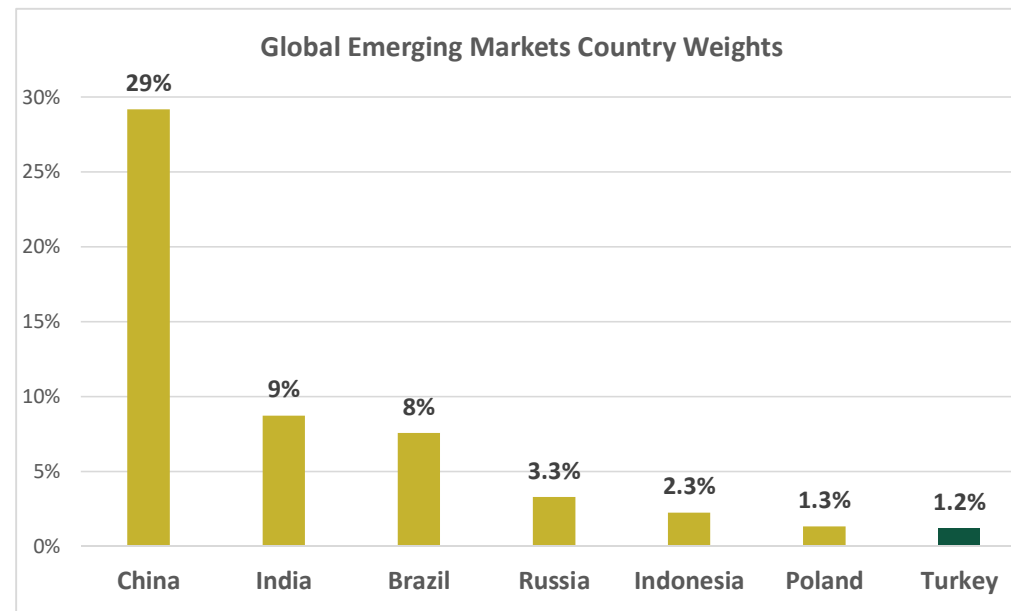
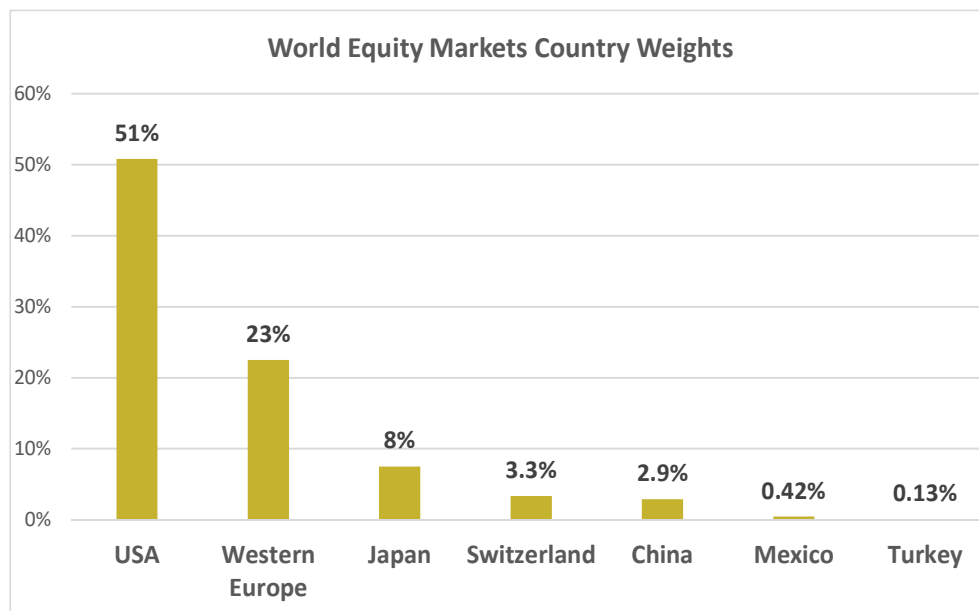
- ◆ Population of 79 million, the 16th-biggest in the world.
- ◆ Median age of 29.8 is among the lowest of all emerging markets.
- ◆ 56% of the population aged under 35

Large Economy, Geopolitical Significance



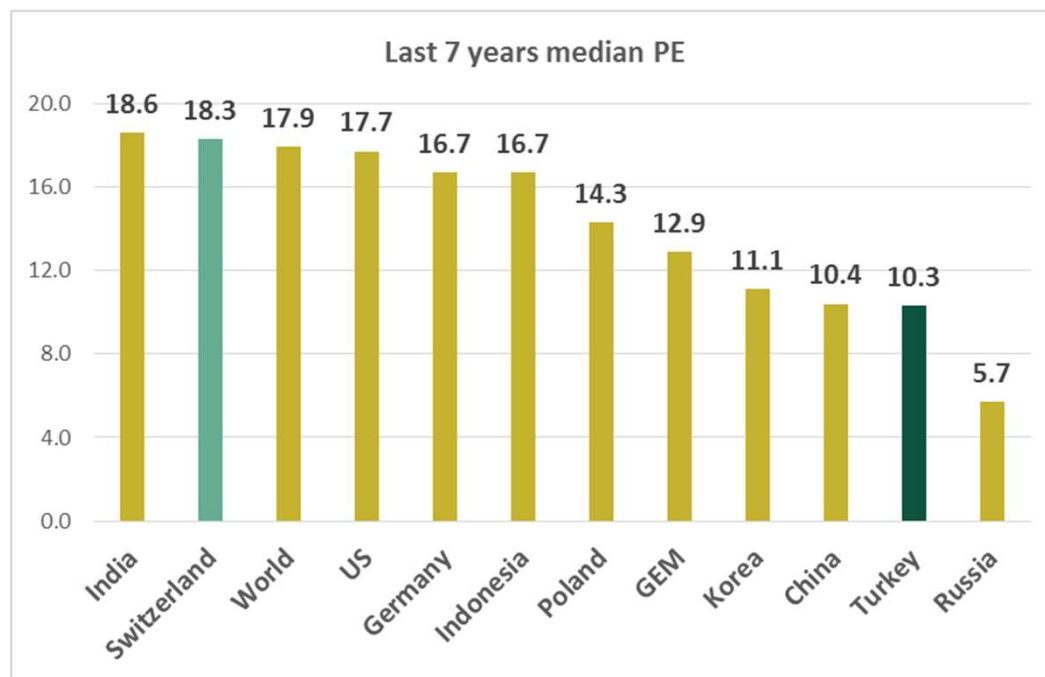
- ◆ The world's 17th largest economy
- ◆ Strategically located between Europe, Russia, North Africa and the Middle East: easy access to 1.5 billion consumers
- ◆ Vital energy transition point. Emerging as a regional transport hub, for goods, energy and people

Negligible Weight in Global Equities



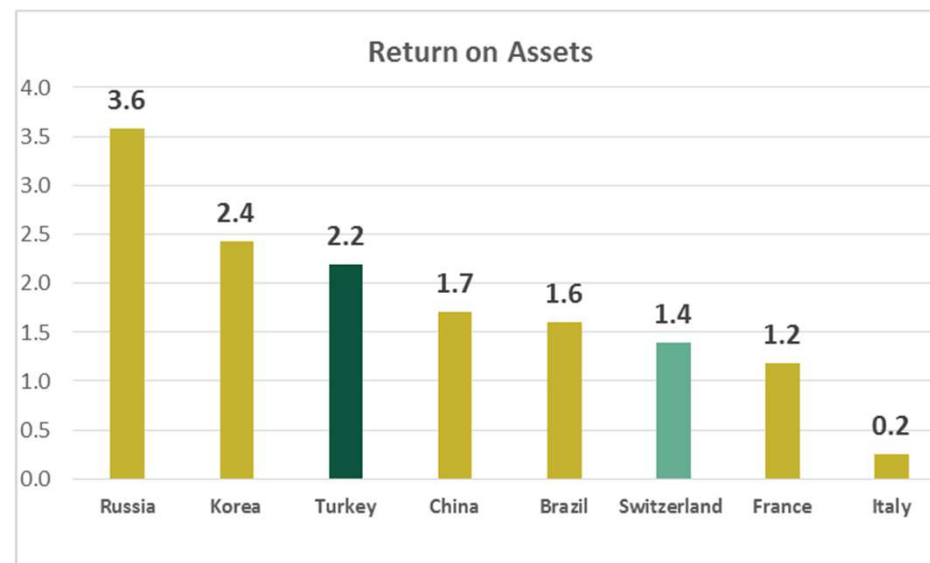
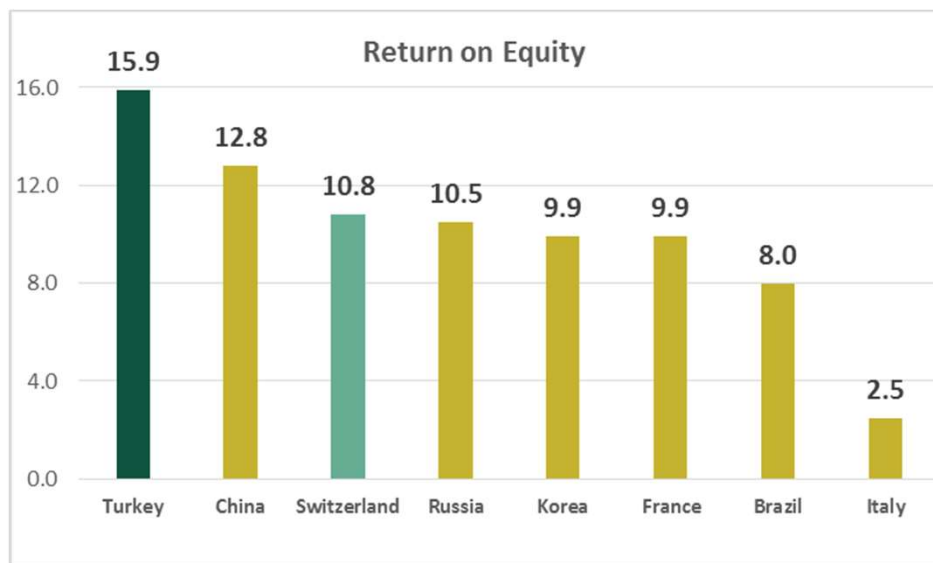
- ◆ Total world equity market cap is USD 85trln as of Sep 2017, of which USD 10trln is EM
- ◆ Turkey is a small equity market even in the emerging markets context
- ◆ What explains the discrepancy between GDP and equity size?

Valuation is at a Deep Discount to the Rest of the World



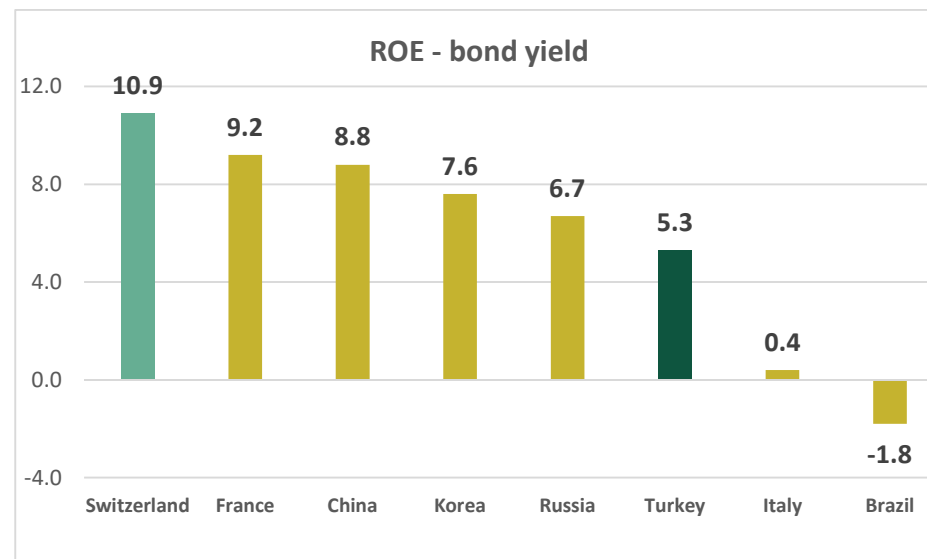
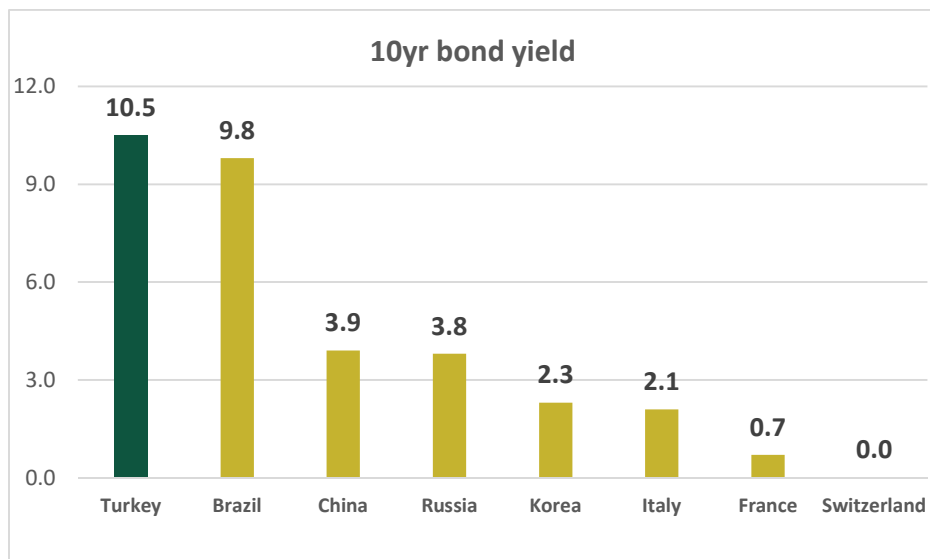
- ◆ Last 7 years median PE 10.3x Current PE 9.5x
- ◆ Lowest PE in the world after Russia
- ◆ Why? What determines what a PE ratio should be?

Are Turkish Companies Badly Managed?



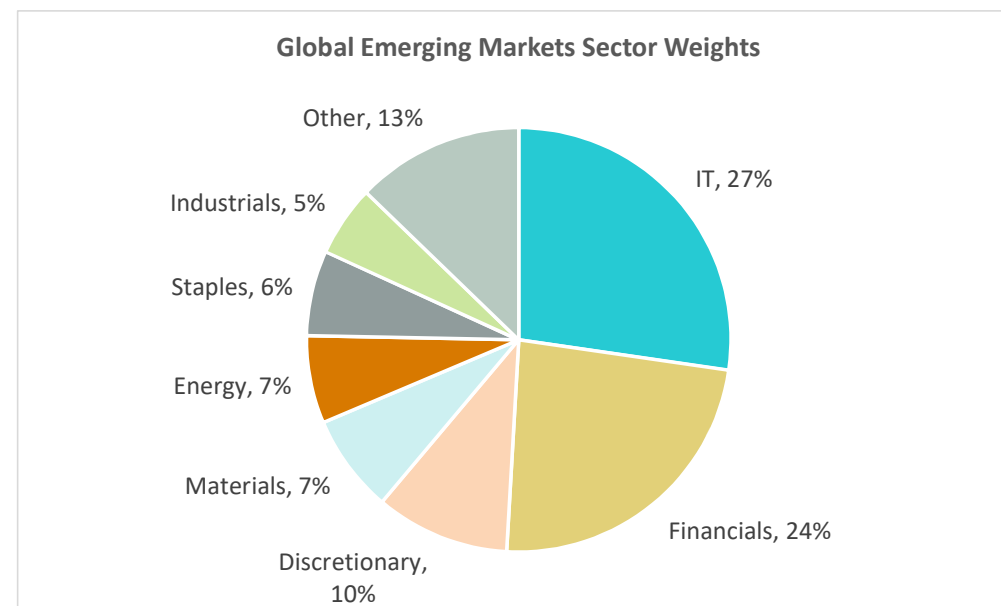
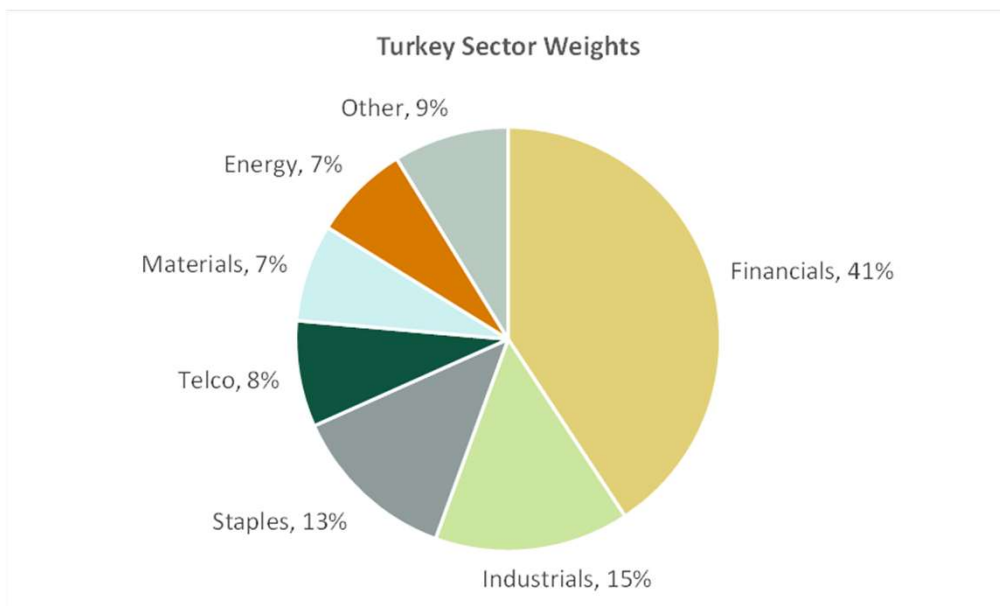
- ◆ Turkish companies generate some of the highest returns in the world
- ◆ Management quality, corporate governance, financial and operational performance better than GEM average

High Cost of Capital



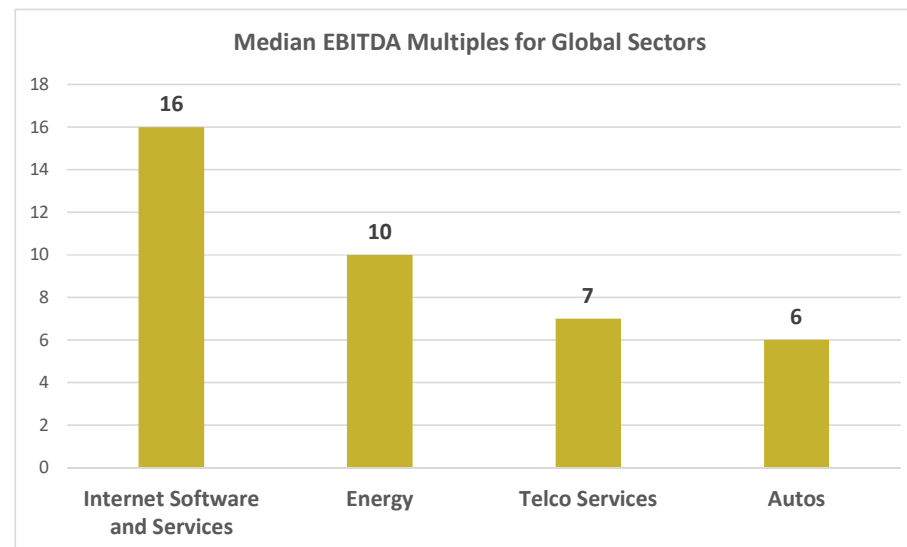
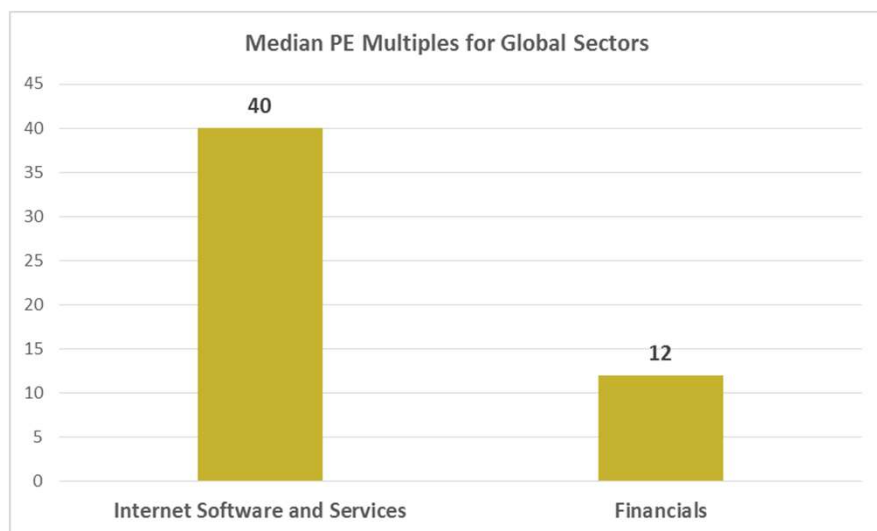
- ◆ A low PE is stock market's way of compensating investors for high cost of capital
- ◆ Turkish equities suffer from high cost of capital
- ◆ Supply is reduced as corporate owners find valuations unattractive

Sectoral Structure is Not Helping



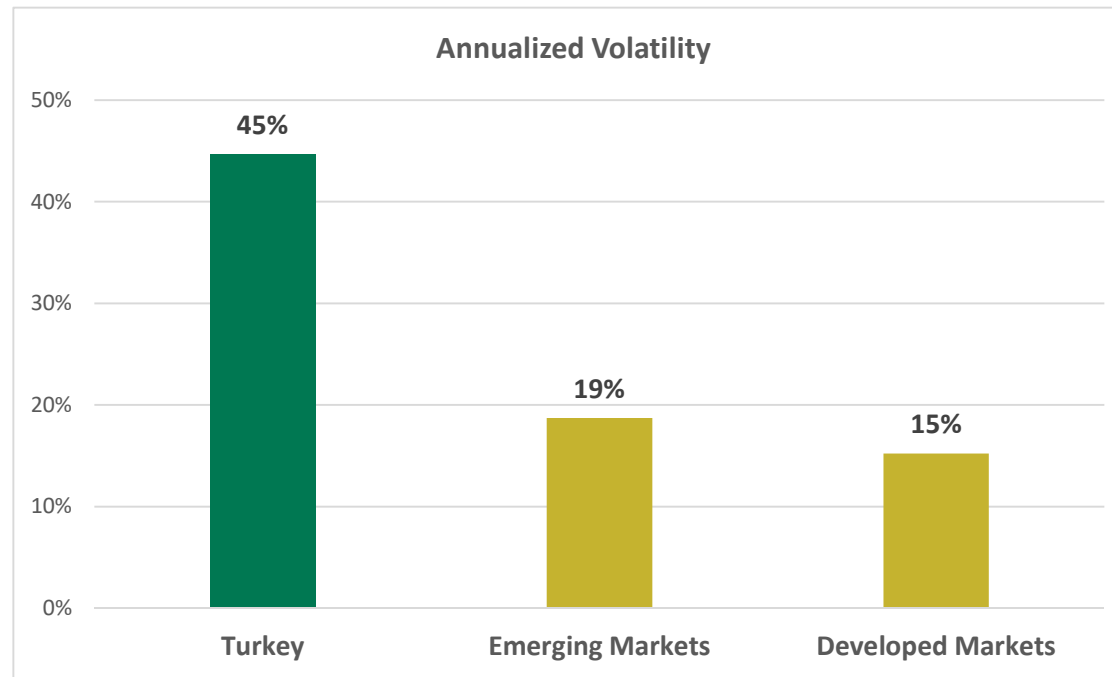
- ◆ Turkey stands out by large weight of financials and lack of technology
- ◆ Large weight of financials is a legacy of high inflation environment
- ◆ Lack of IT is source of concern for future growth and among reasons for valuation discount

Why Does Sectoral Structure Matter?



- ◆ Turkey : high in lowly valued sectors and low in highly valued sectors
- ◆ Low share of high growth sectors is a problem for future growth
- ◆ Ignoring equity valuations could lead to policy errors

One of the Most Volatile Equity Markets in the World



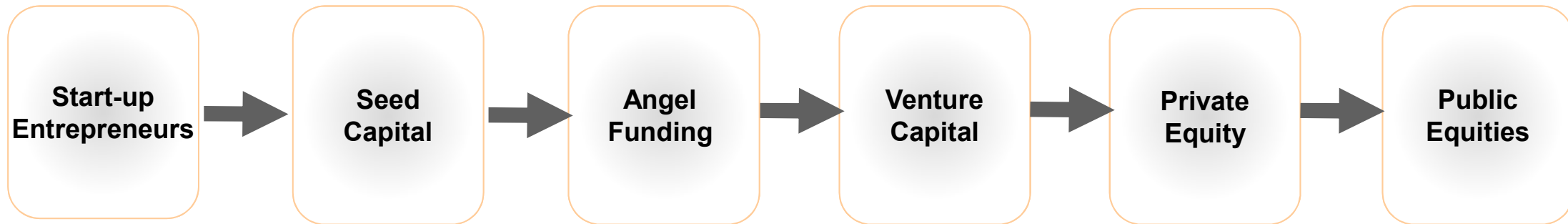
- ◆ Equity market volatility 3x developed markets
- ◆ More than 2x emerging markets
- ◆ What makes the Turkish equity market so volatile?

Low Interest in Equity Market by Locals

TRYbn	Dec-05	Dec-08	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16
TRY deposits & repo	173	329	530	568	663	739	825	938
FX deposits	92	161	236	252	352	391	530	609
Mutual funds	29	24	30	31	30	33	37	44
Pension funds	1.2	6.0	14.3	20.4	26.2	37.8	47.9	58.4
Domestic bonds held by non-banks	97	90	95	107	111	132	146	161
BIST market capitalisation	218	182	381	553	506	627	555	614
BIST free float	68	62	140	212	194	247	227	246
BIST free float domestic	23	20	53	73	73	89	86	90
-local institutional*	0.9	1.1	3.2	5.1	5.8	7.4	9.8	10.7

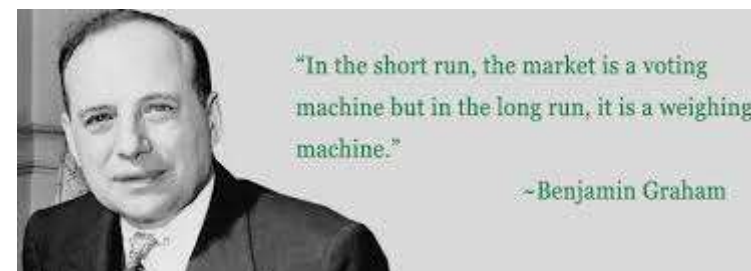
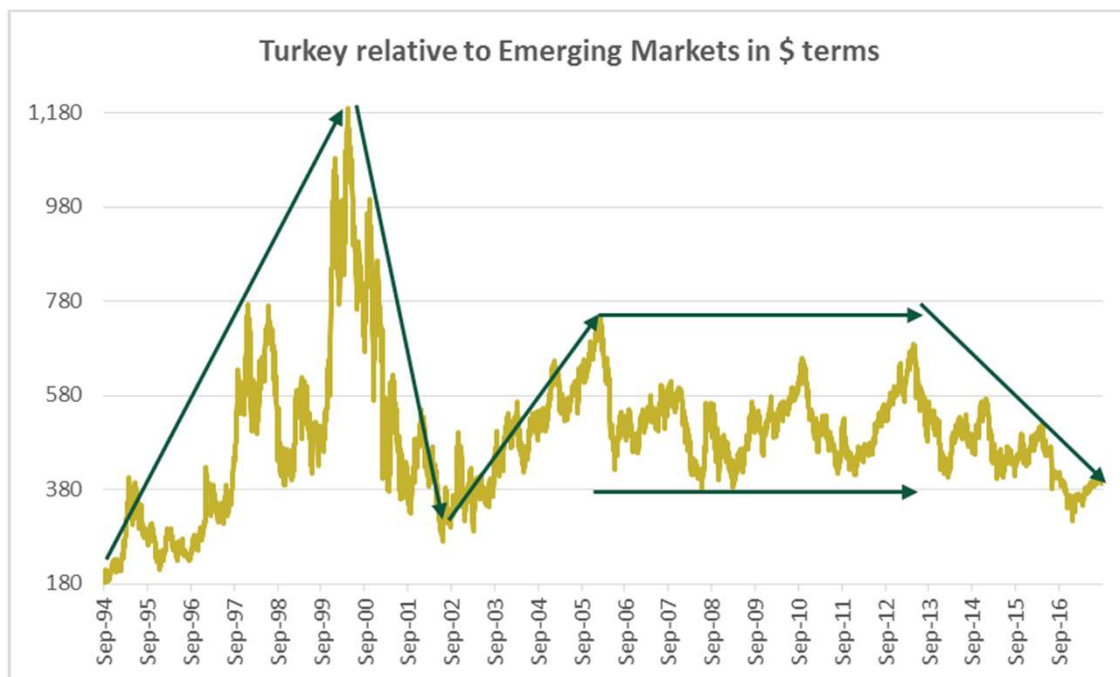
- ◆ TRY and FX deposits are the investment choice for locals
- ◆ Only 52% growth in mutual funds in 11 years, versus 442% in TRY deposits
- ◆ Hard to compete with 12-13% guaranteed annual return

Capital Raising Chain



- ◆ Equity market is a capital generation and allocation system
- ◆ Strong Public Equity Market feeds the whole entrepreneur eco system

Turkey Relative to Other Emerging Markets



- ◆ Long term relative performance tells a different story than consensus narrative
- ◆ 5 phases of Turkey's relative performance since 1994
- ◆ Very strong relative performance in second half of 90s and 02-05, in line for 05-13
- ◆ Underperformance since 2013

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