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Fund manager-Interview: Turkey after the victory of the opposition in Istanbul

Dieter Kerschbaum

Turkey

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A new spirit of optimism has come to Turkey. After the victory of the member of the opposition, Ekrem Imamoglu, in the mayoral election in Istanbul, the hope of an imminent [rise of the country from its economic trough](#) has taken hold of Turkey. The stock exchange reacted positively, as did the Turkish lira. Alexandre Dimitrov, fund manager of [ESPA STOCK ISTANBUL](#), explains the chances of Turkey to pull off an economic turnaround.

How do you rate the success of the member of the opposition at the mayoral elections in Istanbul?

It is a positive fact that the incumbent AKP and President Erdogan accept the result. While I would not expect political loosening for the time being, the victory of the opposition in the biggest Turkish city with more than 10 million voters is still a clear signal. At its core, AKP is a party that is supportive to the economy and investors, and its member and leading officials should now urge the government and President Erdogan to return to this set of policies. And Imamoglu (which means "son of an imam") is actually conservative, his wife wears a headscarf. This scenario is now all about regaining confidence, which will only work step by step.

But there are certain latent political risks at play, not the least the conflict with the USA because of the intended purchase of the missile defence system S-400 from Russia?

That is without a doubt another risk, with possible US sanctions looming at the horizon. But Turkey is an important NATO partner. The first deliveries are expected for July. As initial sanction, the USA might block the participation of Turkey in the joint production of the US fighter jet F-35 (source: [Spiegel online](#) /German)

How is the Turkish economy doing?

The sentiment has picked up from the beginning of the year, as has the trust of senior managers in June (Turkey Real Sector Confidence Index). Capacity utilisation has increased to the highest level since September 2018 (source: Bloomberg). That being said, growth is expected to remain negative in 2019 at -1.5 percent.



Alexandre Dimitrov, Fondsmanager ESPA STOCK ISTANBUL

The balance of trade deficit had fallen by 66% as of April (y/y), whereas exports had increased by 7% and imports were down 14% (source: Bloomberg). Revenues in the service sector increased by 30%. In the tourism sector, we expect a double-digit growth rate for 2019. Due to the significant depreciation of the currency in recent years, the popular holiday destination Turkey has also become more affordable.

The Turkish economy depends on raw material imports. Due to the weak lira, the prices of goods and investments from abroad have been going up. Also, Turkey and its corporate sector have found it increasingly hard to service their debt in dollar. This has now started to slowly change.

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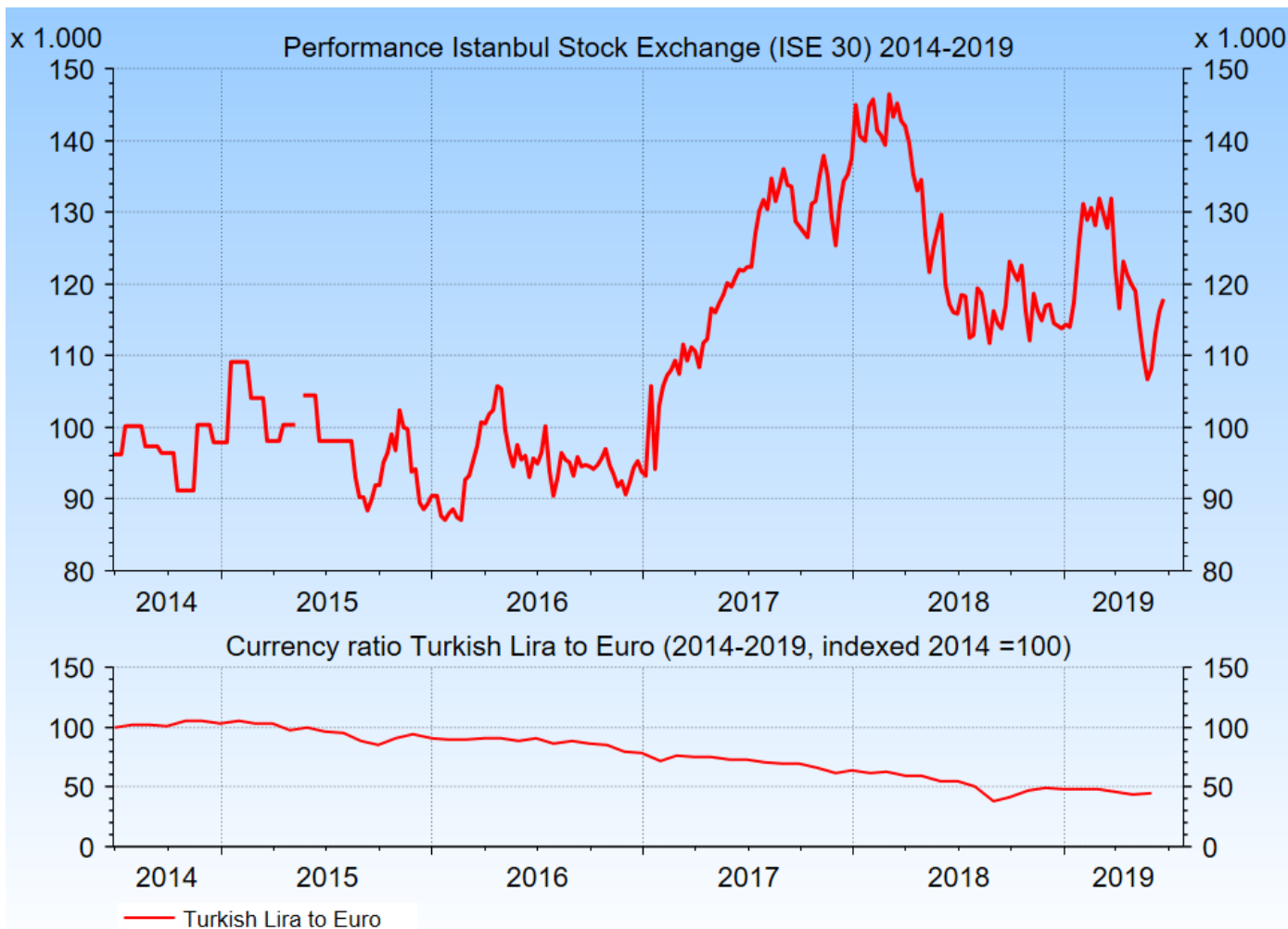
What would the government have to do to support the economic recovery now?

That is not overly difficult. It has to engage in solid financial policies and thus regain investor confidence. It also has to be clear that the central bank acts independently and responsibly. It will take a while for credibility and foreign capital flows to be restored to their former levels. But we also have to bear in mind: Turkey has a population of 80 million people, and they are largely young and like to consume.

How has the stock exchange reacted to the latent political and economic uncertainties in the past years?

At minus 42 percent (in euro) over the past 5Y, the Turkish equity market is still among the worst performers globally. The weak currency complements the picture. Since the beginning of 2018, the Turkish lira has lost 53 percent relative to the US dollar (as of 30 June 2019; source: Bloomberg). The Turkish central bank was clearly too late and hesitant in its reaction. It only raised the key-lending rate when inflation had increased to 24 percent last year.

CHART STOCK EXCHANGE AND CURRENCY 5 Years



Quelle: Thomson Reuters Datastream

Note: Past performance is not indicative of future development.

Is this a good moment to invest in Turkish equities?

It is definitely the best opportunity to buy in five years. At an average PE of 6.8x (in terms of 2019 earnings estimates; source: Bloomberg), the valuations are extremely attractive. Turkish shares are traded at a discount of almost 50 percent to other emerging markets stock exchanges. Only Russia is cheaper. Inflation fell to 18.7 percent at the end of May, and the currency stabilised somewhat in its wake. The industrial sector of Turkey is solid. All exporting sectors are well off.

How is your fund, **ESPA STOCK ISTANBUL**, positioned?

We currently focus our investments on raw materials companies and export-oriented companies. There are a number of highly interesting companies in Turkey that are excellently managed, e.g. the white goods producer [Arcelik](#) or the airport operator [TAV Airports](#). We are cautious with financials, i.e. banks and real estate companies.

⚠ Risk notes according to 2011 Austrian Investment Fund Act

ESPA STOCK ISTANBUL may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

Legal note:

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