

Turkey and the Arab World

Turkey

Turkey's robust growth tempts private equity firms

But some remain on the sidelines as crackdown continues



Consumer confidence: shopping in Istanbul © Kerem Uzel/Bloomberg

YESTERDAY by Javier Espinoza

With its recent attempted coup, separatist violence and ongoing refugee crisis, it would be understandable if investors were giving Turkey a wide berth, but some private equity groups have stepped up efforts to invest.

Big spenders include the Abraaj Group, an emerging markets-focused fund group headquartered in Dubai, and Turkven, the Istanbul-based private equity group.

They are among bullish investors who see Turkey as a country with booming consumer confidence and robust fiscal policies that help businesses grow, and therefore provide investment opportunities.

Consumer and economic figures tell a compelling story. Gross domestic product for the country grew by [5.1 per cent](#) in the second quarter, slightly below expectations but still far exceeding growth rates in developed countries.

The government's consumer confidence index showed an improvement from 63.4 at the end of 2016 to above 70 for much of the year, though it dipped again in September to below 70.

This resilience explains why firms like Abraaj have made a number of investments in Turkey over the past few years, including, in Abraaj's case, taking a [stake in Netlog](#), the country's largest

integrated logistics group, which Abraaj acquired in July.

In reality, we [in Turkey] were never as good, or as bad, as our PR

SEYMUR TARI

The investment represented the private equity group's 10th investment in Turkey.

Its other recent ventures include a stake in Hepsiburada, an ecommerce company it bought in 2015, and Fibabanka, in which it acquired a stake last year.

Abraaj's backing of Turkish companies rides on the back of what it regards as a strong "growth story", says Omar Syed, a partner with Abraaj.

"We are excited about the trends that we see developing," he says.

Mr Syed highlights ecommerce as example. When Abraaj invested in Hepsiburada, less than 1 per cent of the population engaged in online shopping. This number has doubled since the acquisition in 2015, he says.

"We look for sectors that have high growth potential," says Mr Syed, who says his company has returned \$850m to investors so far from a total investment of close to \$1bn in Turkey.

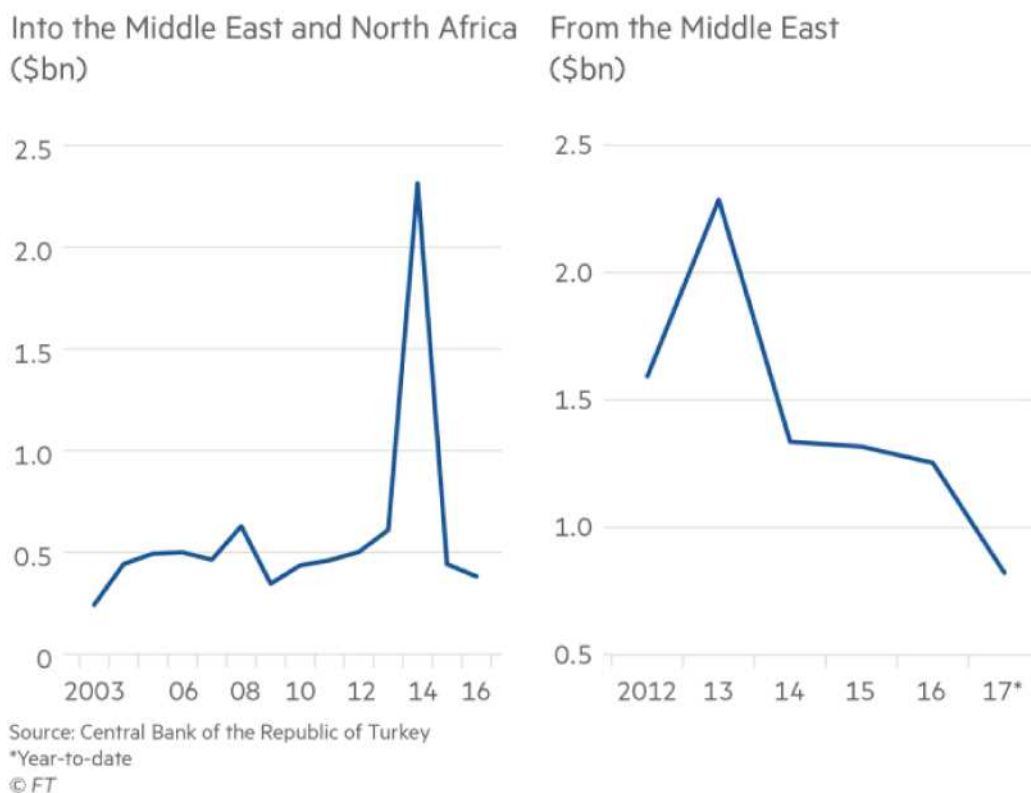
Abraaj is now considering investing in one of the leading companies in the healthcare segment as it looks to pursue further investments in the country.

The group is not alone in its upbeat view of Turkey's prospects. Turkven will have invested \$1.5bn by the time it deploys its 2012 fund in the next six months, according to its chief executive, Seymour Tari.

In Mr Tari's view, the private equity industry's ability to sell investments in Turkey has appealed to backers. Turkven recently sold some of its holdings in Mavi, the jeans retailer, and DP Eurasia, the Domino's Pizza franchisee, through initial public offerings.

In Turkey, he argues, it is easier than in many other emerging markets to cash in on investments. He says his company has sold over 70 per cent of the companies it has acquired since 2002.

Turkey FDI



However, some large private equity firms that were previously active in Turkey have been steering clear in recent years.

Boston and UK-based Advent has not made any Turkish investments since 2010.

Mid Europa, which has offices across Europe, including in Istanbul, has two Turkish assets in its current portfolio but has not been active in the country for the past two years.

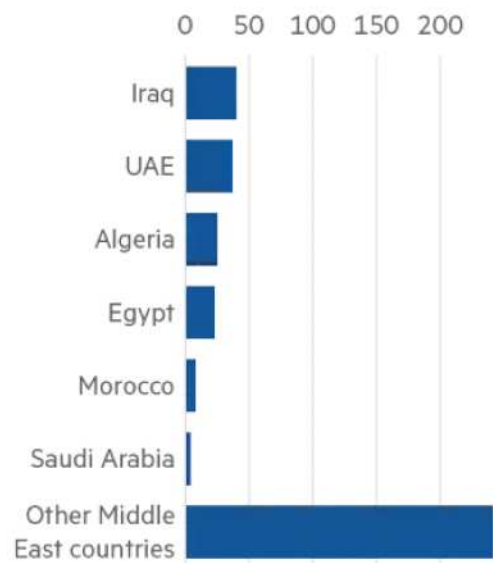
Both firms declined to comment on their strategy in Turkey.

London-headquartered Cinven, the private equity group that bought Turkish alarm system provider Pronet in 2012, also declined a request for comment.

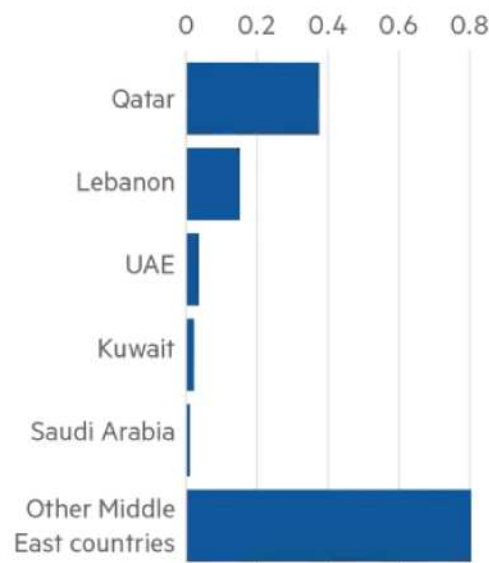
Even the most enthusiastic private equity investors are aware of the challenges. “Turkey does sit in a political hotspot,” says Abraaj’s Mr Syed. “It’s also important that we don’t fuel the consumer story only with private debt but that the country maintains its strong fiscal discipline,” he adds.

Turkey's trade with its neighbours in the Middle East

Recipients of Turkish FDI in the Middle East & North Africa, 2016 (\$m)



Main Middle Eastern sources of FDI into Turkey, 2016 (\$bn)



Source: Central Bank of the Republic of Turkey
© FT

Meanwhile, some independent observers have expressed concerns about the medium to long-term outlook for private equity investors in the country. There is “unpredictability in the country’s decision making”, argues Soner Cagaptay, author of the recently published book: *The New Sultan: Erdogan and the Crisis of Modern Turkey*.

“The government is carrying out a crackdown on many opponents. The waves of prosecution have affected nearly half the population,” Mr Cagaptay says. “This is troubling and it makes it hard for companies to function.”

Nonetheless, Turkven’s Mr Tari argues the country has been a victim of a bad press abroad. “Turkey has come full circle: in 2002 no London-based funds would touch the country,” he says.

“From 2002 up to 2007 we got some good public relations. From 2008 to 2012 there was a big hype and everybody wanted to be here. From 2013 onwards, the PR turned negative.” He adds: “In reality, we were never as good, or as bad, as our PR.”

[Copyright](#) The Financial Times Limited 2017. All rights reserved. You may share using our article tools. Please don't copy articles from FT.com and redistribute by email or post to the web.

