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Column: BIZ INSIGHT: Seeking opportunities in Turkish banks after the rough stretch

Seeking opportunities in Turkish banks after the rough stretch

BIZ INSIGHT

SPECIAL TO THE NATION

MANY INVESTORS have jumped to conclusions and are portraying a cloudy outlook on Turkey's economy. Nonetheless, the Turkish economy has been improving for years. Therefore, it offers investors an ideal entry point after going through a rough stretch following the failed military coup in 2015.

Banking accounts for more than 70 per cent of Turkey's financial-services industry, implicating that it is a key driver for the country's economic success.

On the surface, it may seem that Turkey is a risky market, due to a planned three-month extension of the economically costly state of emergency and cost-cutting by Turkish corporations carrying foreign debt. However, with that being said, corporate loans thus far have prevailed unaffected.

Lubomir Mitov, a chief economist at Italy-based banking multinational UniCredit, told US television network CNBC that despite the economic chaos in Turkey, President Recep Tayyip Erdogan still enjoyed a lot of support. Moreover, a Russian investment bank, Renaissance Capital, has said that Erdogan getting the executive presidency he wants could be a catalyst for economic growth.

That being said, such amplification of power could slow down Turkey's structural growth potential, and the disparaging focus on short-term votes to win the referendum should give way to a more realistic focal point on returning to growth.

Regardless of the country's situation, Turkish banks remain well subsidised and meet the Basel III requirements, with their average Tier 1 capital ratio at 13.3 per cent at the end of 2015.

Most banks are expected to remain buoyant in the phase of weakened operating conditions anticipated going forward. Hence 15 of the 17 banks most recently reviewed by Moody's were given a "stable" outlook.

Moreover, Banking Regulation and Supervision Agency data suggest the combined net profit of Turkish banks increased by 63 per cent to 26.55 billion lira (Bt248 billion) in the first eight months of last year.

Regardless of the global banking crisis, Turkish banks have emerged reasonably well while meeting regulatory capitalisation requirements, indicating their strengths.

For those who are interested in generating high returns from Turkish banks but do not have direct access or the time to monitor the market conditions before making the initial investment, it is recommended that they choose mutual funds investing in foreign high-yield bonds that are professionally managed.

Investment entails risk. Investors should thoroughly study prospectuses, product features, return conditions and risk before investing.

Contributed by Asset Plus Fund Management