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Overheating Turkey could end up stewing as M&A valuations soar

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A steadily overheating Turkish buyout market could see sale valuations soar to 15 times earnings, investment expert Barış Öney has told AltAssets.

The former investment banker, who has more than 18 years of experience in the country, warned that huge demand in a surging Istanbul is in danger of bringing the market to an abrupt halt.

Turkish growth has averaged about 7.5 per cent in the past ten years, excluding the period around the financial crisis, and has risen to 8.9 per cent since 2010.

That growth has been exacerbated by an influx of Middle Eastern interest in the past 12 months as investors look to move their money away from volatile regions affected by the Arab Spring uprisings, according to Öney.

He said, “My worry is all these people trying to invest, obviously it’s becoming more and more of a seller’s market.

“Valuations are going up like crazy and at one point in time the deal may not be made, we could see some stabilising for a while, no investments being realised for a while.

“That will be a drawback because there’s huge demand and not much supply – we’re yet to see exits in the PE sector.

“Over the last six years PE has invested in 135 companies and we have only seen five or six exits.”

But Öney, who launched Turkey-based investment management and advisory service

GlobalTurk last January, said investor pressure could force funds to pay over the odds to ensure they get a foothold in the market.

He said, “Turkey shareholders are going to ask for huge valuations – 15 times – and investors may not be willing to offer this valuation.

“Of the sector that I know there have been investors in the market that have not invested in the last two or three years, so they are getting stressed out to invest – there’s real pressure from their investors.

“I would not be surprised if we didn’t see deals of 15 times (EBITDA).”

Öney said that like in many emerging markets investors were targeting the growing consumer sector to take advantage of an increasing middle class, but also aiming at businesses such as call centres as Turkey moves further towards becoming a service economy.

But he also highlighted Turkey’s growing need for energy and its increasing demand for IT services as canny investments for foreign funds.

He said, “Especially with ICT, investors who are investing in Turkey do not understand that sector, and they are wary about it.

“I think that’s because it doesn’t have hard assets, and the second reason is that there are so many ways of reading software or putting together hardware… they have a hard time understanding it.”

Öney is hoping to latch on to the burgeoning investment environment in Turkey through his pre and post investment management and advisory firm Globalturk.

He said that M&A deals often hit problems in the post-investment phase when all the advisers have finished, and believes there is a gap for retaining an adviser who knows the deal from start to finish.