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Bargains by the Bosporus

Turkish president Recep Tayyip Erdogan fired central bank governor Murat Uysal after the close of the New York Stock Exchange last Friday. On Sunday, economic czar and Erdogan son-in-law Berat Albayrak tendered his resignation via Instagram—not a few thought his account was hacked. Yet, on Monday, the lira soared by 5.5% against the greenback. Bullish things may be afoot in Turkey.

Turks need no reminding that their lira—down by 30.1% against a weak dollar through Nov. 6—is the monetary New York Jets of 2020. They see the exchange rate posted everywhere, like the price of gasoline, as Haydar Acun, CEO of Istanbul-based Marmara Capital Asset Management, tells colleague Evan Lorenz. And no wonder, Acun adds: "Around half of the total deposits are in foreign currency. So that impacts a lot of voters' behavior."

Not even President Trump hates high interest rates more than the president of Turkey, but it has not escaped Erdogan's attention that a general election must be called on or before June 25, 2023 and that the lira-holding electorate is restless (*Grant's*, Dec. 1, 2017). "The market is celebrating that the central bank governor is gone," says Acun, "and there is a big hope that now they realize they should go back to orthodox economic policies," i.e., higher rates.

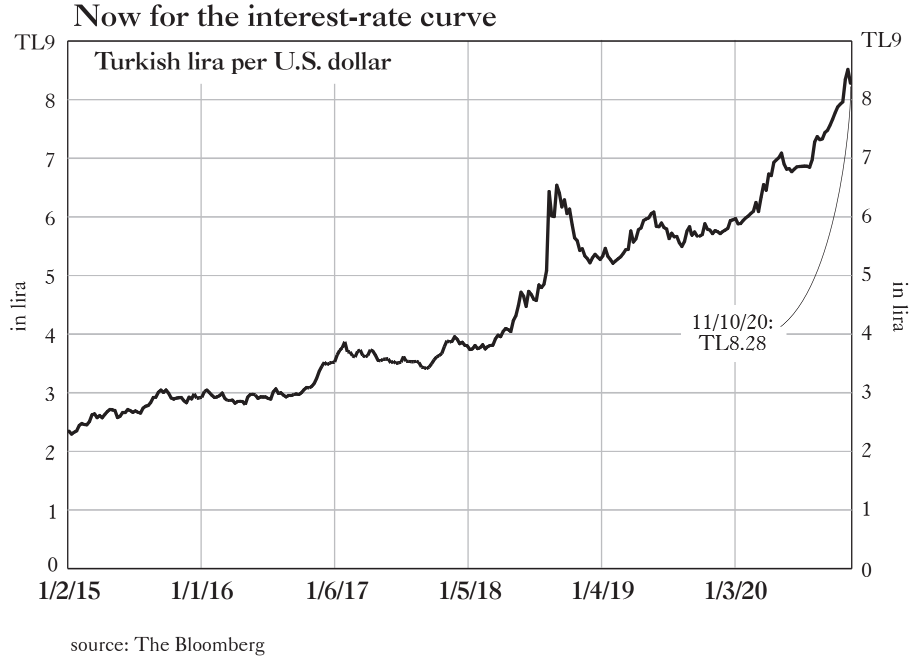
Inflation is running at a 11.89% year-over-year rate, topping the central bank's 10.25% one-week repo rate. Net foreign exchange reserves have more than halved to $18.4 billion as the Central Bank of the Republic of Turkey tries to prop up the drooping FX rate. Despite the weak lira, the current account deficit widened to 4.63% of output in August from 1.94% in July.

"When rates go up again, it will slow down inflation and consumption, and the current account will come to balance," says Acun. At some point, too, Covid-19 will fade and so return the once-thriving Turkish travel industry to revenue-producing form: "My expectation is 2021 may be better for Turkey. Everything will come off from a low base, and it will look like a great improvement."

Cheap Turkish assets beckon now that Erdogan appears to be doing the right thing (having exhausted the alternatives). The Borsa Istanbul 100 Index is priced at 10.7 times trailing, virus-impacted earnings, versus 27.7 times for the S&P 500 and 34.4 times for the Mexican market. According to its website, the iShares MSCI Turkey ETF (TUR) changes hands at 8.1 times earnings and charges an expense ratio of 0.59%.

As for Acun, in the year through October, his Marmara Capital Equity Fund (with $28.3 million under management) was flat in dollar terms compared to a 30.5% drawdown for the overall Turkish market. Asked to name a pair of stocks to illustrate the value on offer, he led off with Turkiye Garanti Bankasi A.S. (GARAN on Istanbul), Turkey's fourth-largest commercial bank. He notes that Garanti is well funded (loans foot to 100.4% of

Now for the interest-rate curve



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deposits), amply reserved (allowances foot to 6.8% of loans, covering the 6.1% of non-performing credits) and profitable (the bank earned a 11.5% return-on-equity in the third quarter). It's cheap, too, quoted at 54% of book value and 5.1 times trailing earnings.

Specimen No. 2 is Coca-Cola Icecek A.S. (CCOLA in Istanbul), whose bottling domain spreads beyond Turkey to Pakistan and Jordan. The soda slinger is lightly leveraged (net debt foots to 97% of trailing Ebitda) and is tipped to expand sales by 9.6% in 2020 and 21.1% in 2021. Such projections notwithstanding, the shares change hands at 9.7 times trailing earnings and 5.7 times enterprise value to Ebitda. For comparison, Coca-Cola FEMSA, S.A.B. de C.V., Coke's Latin American bottler, sports a 20.1 times multiple to trailing earnings.

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