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Turkey's crisis to have minimal impact on Malaysian companies, economy

KUALA LUMPUR: Turkey's recession is not expected to have a significant impact on Malaysian-based companies operating in Turkey as well as Malaysia's economy.

Of note, earlier this week, Turkey's official statistics reported that its economy contracted lower than expected in 2018 following continuous decline during the second half of the year, indicating that the country could be dipping into a technical recession.

The contractions among others were due to drastic depreciation of the lira, the decline optimism among business and consumer, increase in jobless rate, and the ongoing trade row between Turkey and US.

Despite the decline of this emerging market, analysts believe that the overall impact of Turkey's crisis will be minimal on Malaysia.

In a special report, the research team at MIDF Amanah Investment Bank Bhd (MIDF Research) noted that Turkey's exports to Malaysia's total exports are relatively low, hovering below one per cent, even after the implementation of the Malaysia-Turkey Free Trade Agreement (MTFTA) in August 2015.

It pointed out that Turkey ranked fourth in Malaysia's palm oil exports destination, constituting just 5.2 per cent of the commodity outbound and shipments in January 2019.

"As (the) lira plunged in August 2018, we saw weakening exports to Turkey but on the other hand strong imports of Turkish products by Malaysia.

"With the less significant position, we expect the ongoing crisis in Turkey to have a minimal impact on Malaysia," the research team opined.

Based on its estimate, it believed that the global economy is predicted to contract by 0.04 per cent in the event of Turkey slowdown by three per cent.

"Several economies from the European Union, Middle East and Africa would be impacted the most.

"As for Malaysia, slowdown in Turkey would affect marginal contractions in industries such as textiles, chemicals, food and agriculture. Overall, recession in Turkey has minimal impacts towards global growth as well as Malaysia's economic development," MIDF Research remarked.

As for the impact on Malaysian-based companies operating in Turkey, the research team remained 'neutral' on the impact on companies under its coverage; namely IHH Healthcare Bhd (IHH), Malaysia Airports Holdings Bhd (MAHB), and Tenaga Nasional Bhd (TNB).

It noted that Turkey's leading private healthcare provider, Achibadem Holdings (90 per cent owned subsidiary of IHH) contributed about 32 and 25 per cent to IHH group's revenue and EBITDA respectively for the full year FY18.

"Despite the depreciation in Turkish lira, FY18 revenue has only dropped by three per cent y-o-y to RM1,813.7 million while FY18 EBITDA was up by two per cent y-o-y to RM297.1 million," the research team highlighted.

Looking at inpatient admissions, it noted that it grew by 7.4 per cent y-o-y to 229,433 driven by the contribution from Acibadem Altunizade Hospital which was opened in March 2017.

"In addition to the increase inpatient admission, revenue intensity per patient has also improved driven by the price adjustments for patients on private insurance and paying out-of-pocket, taking on more complex cases, and increase in foreign patients," it added.

Nonetheless, it pointed out that IHH's FY18 earnings was dragged downed by the unrealised foreign exchange loss which had nearly doubled to RM644.1 in FY18 (from RM379.2 million in FY17) driven by its sizeable non-Turkish Lira denominated borrowings (primarily in US dollar).

"According to the management, they are targeting to pare down its US$250 million subordinated loans by 1QFY19. This accounts for about 27.2 per cent of Achibadem Holdings' total debt. Over the medium term, IHH will look to divest Acibadem's non-core assets to further reduce its foreign debt obligations and deleverage its balance sheet. On the bright side, Turkish Lira has recovered by more than 20 per cent since September 2019.

"As such, we believe this has partially alleviate investors' concern," MIDF Research opined.

On MAHB's operations at Turkey's International Sabiha Gokcen Airport (ISG), it noted that MAHB generates around 20 per cent of its total revenue at that airport.

However, it pointed out that the revenues from Turkey operations are primarily generated in euros (around 80 to 85 per cent), while the operating expenses are denominated in the local currency, Turkish lira.

"In relation to this, we opine that any depreciation of the Turkish lira may help ISG to sustain their profitability and could possibly expand margins. Excluding the purchase price allocation for the fair valuation exercise on the Turkey operations, Turkey operations recorded a PBT of RM7.8 million or approximately 1.7 million euros, leading to a PBT margin of 0.2 per cent," it opined.

Furthermore, it highlighted that ISG is operationally robust as it managed to attract a strong flow of passengers over the past few years, leading to annual growth in both domestic and international sector with an eight-year CAGR of more than 10 per cent.

"Therefore, we opine that any depreciation in the Turkish Lira could spur further demand in the international sectors which could offset uncertainties to the domestic traffic flow in the immediate term.

"This can be seen in the passenger traffic growth in ISGA for August 2018 remained resilient at 5.1 per cent m-o-m which offset the 2.8 per cent m-o-m drop in domestic growth despite the plunge in the Turkish lira," it added.

As for TNB, it noted that TNB had already fully impaired its carrying value in its 30 per cent-owned GAMA Enerji (Gama) of RM496 million in FY18 and the research team sees minimal risk of any further impairments going forward.