Pushing the Limits on Bond Pricing, Tenors, YDA sets New Benchmark for Turkey

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YDA Group's TRY250mn was a well-structured deal that set a new benchmark for size and tenors in the local currency bond market, a deal made even more impressive by the fact that it was executed during one of the country's most volatile periods. We speak with Cumhur Bilen, CFO of YDA Group about the company's landmark bond transaction and the its bid to push the limits in the country's capital markets – particularly through PPPs.

What are some of the key initiatives in place at YDA Group's treasury this year?

The two most important risks we have to manage closely are the exchange rate risk and interest rate risk, particularly given the significant volatility seen in the FX markets this year (EUR/TRL, USD/TRL and EUR/USD). We mainly rely on a number of hedging instruments and techniques including dual currency loans, ınterest rate swaps, time deposit swaps and collar-band FX hedging. Our revenues and expenses generated by our operations are denominated in the same currency, so YDA Group holds a natural hedge on its currency risk. Nevertheless, we actively benefit from hedging instruments to mitigate our financial risks, and we will continue to focus on optimising how we deploy these instruments throughout the year.

The markets have been pretty tough for Turkey the last 6 months. How has it impacted the way the company manages its finances and exposures?

As a result of rising geopolitical and political risks within Turkey and neighbouring countries, our revenues from airport management and the aviation sector have been adversely affected by diminishing total passenger volume. Furthermore, political developments and macroeconomic uncertainty had an important impact on the real estate development sector in two ways: longer collection period for accounts receivables from properties already sold, and delays of the purchasing decisions of customers. To overcome these challenges, we are extending our accounts payable period, reducing currency and interest rate risk by using hedging instruments mentioned earlier, and diversifying into new markets.

I know international lenders have been quite supportive of Turkey's construction sector, and have bolstered their participation in recent months. Are you seeing renewed interest from other kinds of lenders, either geographically or institutionally, in Turkey's construction sector?

YDA is good at breaking ground in the sectors where the company is active. For instance, the company is one of the pioneers of public-private partnership (PPP) projects in Turkey. In line with our diversification strategy in financial instruments, we are trying to innovate with new financial structures alongside our main lenders. With the Konya Healthcare PPP Project, YDA adopted a structure that includes a conventional and Islamic tranche, a strategy that proved to be successful – we reduced the cost of funding and extended our tenor significantly. Before this deal, Islamic instruments had not been exploited in order to finance PPP projects in Turkey, and this was the first combination of Islamic and conventional tranches under the same documentation for the financing of a PPP Healthcare Project. This also created new opportunities for Islamic banks in the Turkish market, and will serve as a catalyst for other Islamic lenders, funds and investors, as well as borrowers looking to tap into new liquidity pools. For our Manisa Healthcare PPP Project, we are also in talks with Islamic banks and other international lenders to fund the project solely through Sharia-compliant instruments. All of this is to say that despite some of the challenges facing the Turkish economy, PPP Healthcare Projects in the country continue to attract the interest of foreign investors and lenders.

YDA Group's TRY250mn local currency trade was a landmark deal in the Turkish capital markets, particularly given the backdrop. Can you talk us through the issuance process?

The issuance was YDA's debut bond and only the third in the Turkish market to use TRLibor as a reference rate. At almost four years, this was also the longest tenor seen in the lira-denominated corporate bond market, demonstrating the viability of longer tenor issuances – one of the major bottlenecks for many Turkish corporates. The issue size, at TRY250mn, is almost triple the average in the local market.

The timing was especially significant. The bond was launched shortly after the failed coup attempt of July 2016, and subsequent state of emergency declaration, events that caused a significant S&P rating downgrade, an outflow of foreign capital, numerous defaults and increased tension in the local private bond market. Thanks to our solid standing, and despite the volatility in the market, the bond was oversubscribed.

ABOUT THE AUTHOR

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