

An Overview of Capital Structure of Tourism Companies Listed in Borsa Istanbul (BIST)

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ABSTRACT

The optimal mix of capital structure has been an important task of managers in all corporations. A wrong decision may result in financial distress or bankruptcy. This is why analysis of capital structure is an important topic. As tourism plays a critical role in the Turkish economy, we examine the capital structure of tourism sector corporations traded in the Borsa Istanbul (BIST). We examine a sample of 11 tourism corporations. Based on the extracted data from the annual reports of corporations and the relevant databases, capital structure analysis is conducted. In addition, a performance analysis of price indices is carried out as a complement to the capital structure analysis. The findings of capital structure analysis reveal that the corporations in our sample have been financed mainly by equity. In addition, median values of total debt to total asset ratio for corporations in the sample range from 0.2 to 0.6. Median values of short-term debt to total debt ratio analysis reveal that Turkish tourism corporations prefer short-term debt financing to long-term ones due to the seasonality of tourism industry and unstable macroeconomic environment. The median values of annual interest coverage ratio also show that our sample corporations do not perform well financially to cover their debt obligations with their earnings before interest and tax (EBIT). The market index (XU100) and the tourism index follow the same trends but the up and down swings in the tourism index are relatively higher. Consequently, the tourism index is relatively more sensitive to the market conditions. Abnormal monthly returns analysis shows that tourism index has outperformed the market index in some periods while it has underperformed the market index in some other periods.

Keywords: Tourism Corporations, Borsa Istanbul, Tourism Index, XU100 Index, Capital Structure Analysis, Performance Analysis, Turkey.

ÖZ

İdeal sermaye yapısı seçimi tüm şirket yöneticileri için önemli bir görevdir. Yanlış verilen bir karar finansal sıkıntıya veya iflasa neden olabilir. Bu nedenle şirketlerde sermaye yapısı önem teşkil etmektedir. Turizm sektörünün Türk ekonomisinde önemi büyüktür. Bu nedenle İstanbul Borsasında işlem gören 11 turizm şirketi bu çalışmanın örneklemini oluşturmaktadır. Şirketlerin faaliyet raporlarına ve ilgili veri tabanlarından elde edilen verilere dayanarak sermaye yapısı analizleri uygulanmıştır. Buna ek olarak sermaye yapısı analizlerine tamamlayıcı olması amacıyla fiyat endekslerine performans analizleri uygulanmıştır. Sermaye yapısı analizleri sonucunda örnekleme yer alan şirketlerin çoğunlukla öz kaynak ağırlıklı finanse edildiği görülmektedir. Bununla birlikte örnekleme yer alan şirketlerin toplam borç-toplam varlıklar oranının medyan değerleri 0.2- 0.6 arasında değişmektedir. Kısa dönemli borç-toplam varlıklar oranının medyan değerleri sonucunda Türkiye’de bulunan turizm şirketlerinin kısa vadeli finansmanı tercih ettiği görülmektedir. Bunun nedeni ise turizm sektörünün mevsimselliği ve ülkedeki makroekonomik istikrarsızlık olarak görülmektedir. Yıllık faiz karşılama oranının medyan değerlerine bakıldığında ise şirketlerin faiz ve vergi öncesi gelirleriyle kısa vadeli borçlarını karşılayamadığı görülmektedir. Piyasa endeksi (XU100) ve turizm endeksi aynı eğilimleri göstermektedir fakat turizm endeksindeki dalgalanmaların piyasa endeksine göre daha fazla olduğu görülmektedir. Sonuç olarak turizm endeksi piyasa koşullarından daha fazla etkilenmektedir. Olağandışı aylık getiri analizleri bazı dönemlerde turizm endeksinin piyasa endeksinden daha iyi performans gösterdiğini bazı dönemlerde ise piyasa endeksinin daha iyi performans gösterdiğini göstermektedir.

Anahtar Kelimeler: Turizm Şirketleri, Borsa İstanbul, Turizm Endeksi, XU100 Endeksi, Sermaye Yapısı Analizi, Performans Analizi, Türkiye.

To my family

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TABLE OF CONTENTS

| | |
|---|------|
| ABSTRACT | iii |
| ÖZ | v |
| ACKNOWLEDGEMENT | viii |
| LIST OF TABLES | xi |
| LIST OF FIGURES | xii |
| 1 INTRODUCTION | 1 |
| 1.1 Aim and Scope | 1 |
| 1.2 Data and Methodology | 3 |
| 1.3 Structure of Study | 4 |
| 2 LITERATURE REVIEW..... | 5 |
| 2.1 Introduction | 5 |
| 2.2 Internal Financing | 7 |
| 2.3 External Financing | 8 |
| 2.3.1 Debt Financing | 8 |
| 2.3.1.1 Bank Loans | 9 |
| 2.3.1.2 Corporate Bonds | 9 |
| 2.3.1.3 Leasing | 10 |
| 2.3.2 Equity Financing | 10 |
| 2.4 Theories of Capital Structure | 11 |
| 2.4.1 Modigliani and Miller Theory (M&M Theory) | 11 |
| 2.4.2 Trade-off Theory | 11 |
| 2.4.3 Pecking Order Theory | 13 |
| 2.4.5 Market Timing Theory | 14 |

| | |
|--|----|
| 2.5 Capital Structure of Tourism Corporations..... | 15 |
| 3 BORSA ISTANBUL LISTED TOURISM SECTOR CORPORATIONS: | |
| CAPITAL STRUCTURE AND PRICE PERFORMANCE | 18 |
| 3.1 Data and Methodology | 18 |
| 3.2 Sample..... | 21 |
| 3.3 Capital Structure Analysis Results..... | 25 |
| 3.3.1 Total Debt to Total Equity Ratio..... | 25 |
| 3.3.2 Total Debt to Total Assets Ratio..... | 28 |
| 3.3.3 Short-term to Total Debt Ratio | 31 |
| 3.3.4 Annual Interest Coverage Ratio | 33 |
| 3.4 Trend and Performance Analysis of Tourism Sector..... | 35 |
| 3.4.1 Borsa Istanbul XU100 Index and Tourism Index Trend..... | 35 |
| 3.4.2 Monthly Rates of Return of XU100 Index and Tourism Index | 37 |
| 3.4.3 Monthly Abnormal Returns Analysis | 38 |
| 4 CONCLUSION | 40 |
| REFERENCES..... | 43 |

LIST OF TABLES

| | |
|---|----|
| Table 1: Capital Structure Ratios | 21 |
|---|----|

LIST OF FIGURES

| | |
|--|----|
| Figure 1: Financing Sources | 6 |
| Figure 2: Value of Firm and Debt Financing | 12 |
| Figure 3: Median Values of Total Debt to Total Equity | 26 |
| Figure 4: Total Debt-to-Total Equity Ratio (AYCES, FVORI, KSTUR, MAALT and MARTI) versus the Median | 27 |
| Figure 5: Total Debt-to-Total Equity Ratio (NTHOL, NTTUR, PKENT, TEKTU, ULAS and UTPYA) versus the Median | 28 |
| Figure 6: Median Values of Total Debt to Total Assets Ratio..... | 29 |
| Figure 7: Total Debt to Total Assets Ratio (AYCES, FVORI, KSTUR, MAALT and MARTI) versus the Median of Ratios..... | 30 |
| Figure 8: Total Debt to Total Assets Ratio (NTHOL, NTTUR, PKENT, TEKTU, ULAS and UTPYA) versus the Median of Ratios | 31 |
| Figure 9: Median Values of Short-term to Total Debt Ratio | 32 |
| Figure 10: Short-term Debt to Total Debt Ratio (AYCES, FVORI, KSTUR, MAALT and MARTI) versus the Median Values | 32 |
| Figure 11: Short-term Debt to Total Debt Ratio (NTHOL, NTTUR, PKENT, TEKTU, ULAS and UTPYA) versus the Median Values | 33 |
| Figure 12: Median Values of Annual Interest Coverage Ratio..... | 33 |
| Figure 13: Annual Interest Coverage Ratio | 34 |
| Figure 14: Annual Interest Coverage Ratio | 35 |
| Figure 15: BIST XU100 Index versus BIST Tourism Index in Turkish Lira..... | 36 |
| Figure 16: BIST XU100 Index versus BIST Tourism Index in US Dollar..... | 36 |
| Figure 17: Monthly Rate of Return of XU100 Index and Tourism Index | 37 |

| | |
|--|----|
| Figure 18: Monthly Rates of Returns of XU100 Index and Tourism Index in US Dollar..... | 38 |
| Figure 19: Monthly Abnormal Returns of Tourism Index in Turkish Lira | 38 |
| Figure 20: Monthly Abnormal Returns of Tourism Index in US Dollar | 39 |

Chapter 1

INTRODUCTION

1.1 Aim and Scope

The issue of optimal capital structure has been an important task of managers in all corporations. Financially speaking, capital structure is the way a corporation finances itself by using the main capital sources; debt and equity. In other words, the proportion of debt and equity is referred to as capital structure. Modigliani and Miller (1958) initially proposed the capital structure irrelevance theory which has triggered a lot of studies by many researchers in order to further develop this theory (Ganguli, 2013). Their theory is based on the role of taxes, the value of firms and the cost of capital. One of the developments of this theory is recognized as the trade-off theory in which bankruptcy costs, financial distress costs and agency costs are proposed (Jensen & Meckling, 1976; Myers, 1977).

Trade-off theory is mainly concerns with the direct relationship between debt level and bankruptcy, financial distress and agency costs. As the debt level increases, it can cause an increase in all of them leading to a decrease in the corporation value. In 1984, Myers and Majluf proposed another theory called the pecking order theory which assumes that investors are exposed to an information asymmetry. In other words, because less information is available for investors relative to insiders, managers prefer to employ internal financing rather than external financing.

Following the development of new theories, Baker and Wurgler (2002) present a new theory known as the market timing theory. This theory proposes that management selects the most cost efficient financing option depending on the market conditions when capital is required.

While such studies have developed a framework for analysis of capital structure, studies can be focused on specific industries. It is suggested that firms use an optimal mixture of debt and equity according to their industry groups. Some progress has been made in evaluating the capital structure choice of restaurant firms (Upneja, 2001). Although capital structure theory has been a topic in the financial literature for many years, little work has been done regarding the tourism and hospitality, or restaurant industries specifically. It is worthwhile mentioning that although capital structure theories have been recognized a research field in the finance literature for a long time, a small proportion studies have been concentrated on the hospitality and tourism industry (Dalbor & Upneja, 2002).

Due to the capital-intensive nature of tourism-related firms, their financing decisions could be of great importance. The investments in this industry are huge and the operating costs are also high. Moreover, this business is highly exposed to systematic risks. By reviewing the literature on capital structure decisions, it is clear that most of studies have focused on manufacturing sectors while tourism-related corporations have not attracted adequate attention. The evaluation of capital structure of these corporations empowers managers in this sector to decide optimally since capital structure is a major determinant of growth and profitability (Tsai et al., 2011).

Moreover, Turkey has become an attractive destination for international tourists. For instance, in 2009, this industry has contributed about 10 percent to GDP and has generated about 7 percent of total employment in Turkey. Tourism sector has developed greatly and it has contributed to the economic development by providing foreign currency earnings, generating employment and creating growth in the economy. Due to the growth of tourism sector, rural regions of Turkey have developed as well as other regions, and it has resulted in a national development. Specifically, the coastal regions of the Mediterranean and Aegean seas are the main areas where such contributions are concentrated.

Financing decisions are often categorized into two tasks. First, managers need to find out the amount of financing required. Then, the mixture of financing sources has to be chosen properly. Moreover, capital structure would have great impacts on the level of risk and the value of corporation (Ross et al., 2008). A wrong decision may result in financial distress or bankruptcy. This is why analysis of capital structure is an important topic of study.

Hence, the main purpose of this study is to investigate the capital structure of tourism-related corporations in Turkey which are listed in the Borsa Istanbul stock exchange. Moreover, an analysis of tourism sector index performance is conducted as a complement to the capital structure analysis.

1.2 Data and Methodology

There are only 11 tourism sector corporations traded in Borsa Istanbul. Consequently, a sample of 11 Turkish tourism corporations is chosen. This study uses publicly available data sources such as annual financial reports. In addition, a

part of data is obtained from StockGround database which provides some key information about the firms of interest. Based on the extracted information from annual reports and databases, some financial ratios are estimated and analyzed for a period starting from 1991 to 2013. In addition, a performance analysis of relevant price indices is conducted as a complement to the capital structure analysis. For performance analysis, relevant data of price indices for Borsa Istanbul 100 index (XU100) and tourism index is gathered for a period of 19 years starting from 1997 to 2015 on a quarterly basis. The gathered data is both in Turkish Lira and US Dollar. Afterwards, a comparison of tourism index and Borsa Istanbul 100 Index (XU100) is carried out in order to evaluate the performance of corporations which are active in Turkish tourism sector. Finally, an analysis of monthly rates of returns of tourism sector index and Borsa Istanbul 100 index is done.

1.3 Structure of Study

This study is structured in four chapters. The first chapter introduces the aim and scope of study and briefly describes the research method which is employed in the study. The second chapter reviews the relevant literature. In the third chapter, the capital structures of corporations in the sample are analyzed in a framework of ratio analysis. In addition, a performance analysis is carried out based on the price indices of tourism sector and XU100. Finally, chapter five summarizes the main conclusions of this study.

Chapter 2

LITERATURE REVIEW

2.1 Introduction

Corporate financing is referred to as an efficient management in which a firm would be able to finance its operation effectively in order to reach its goals. In other words, corporate finance is an area where decision makers decide how the corporation has to finance itself. In the framework of corporate finance, management tries to maximize the profits and minimize the costs. Fundamentally, corporate financing is based on two main concepts. Firstly, corporate financing provide some insights for managers to value alternative options as the relationship between risk and return. Secondly, managers would be able to evaluate the relationship between return and time value of money. The former relationship indicates that more risk would be taken if it is compensated with higher returns, while the latter relationship shows that any return is affected by the changes in the value of money due to time, inflation and risk.

Financial managers have to choose from a variety of financial instruments, since each instrument or institution offers options with various degree of risk, availability, maturity and of course costs. Cost of financing is known as of the main factors affecting the choice of financial managers and it has great impacts on profitability of the firm. Therefore, financial managers should evaluate investment decisions and choose the best composition of financing sources according to the risk profiles of the alternatives (Watson & Head, 2010).

A financial manager should be well aware of financing sources in order to be able to make efficient decisions. Financing sources can be categorized into: internal and external. The following figure summarizes the available choices.

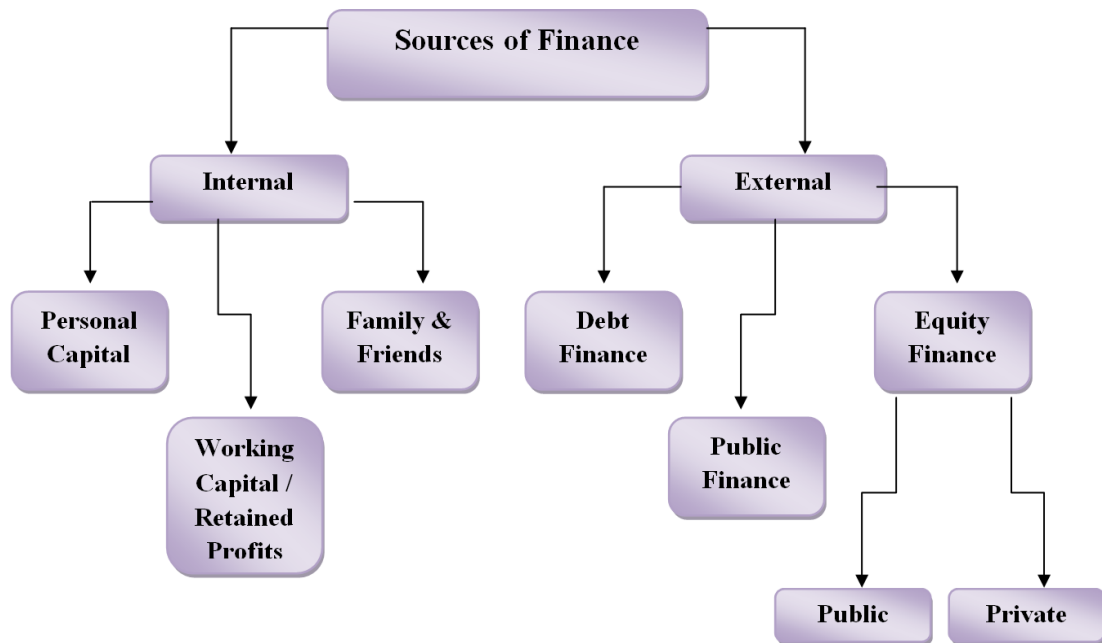


Figure 1: Financing Sources

Source: The Boolean (<http://publish.ucc.ie/boolean/2010/00/Power/33/en>)

So, sources of capital are basically divided into two major groups: internal and external, both of which have their own sub-categories. Internal financing includes personal capital, working capital and friends-family capital.

External sources are consisted of three alternatives. The first option is debt financing such as business loans or mortgages from banks. The second option is public finance from government funded programs such as development grants, business priming grants and innovation grants. Last but not the least is equity financing. This method raises capital in exchange of ownership shares and those who buy shares would own a part of corporation proportional to their number of shares.

2.2 Internal Financing

Internal sources of financing are referred to as the generated cash flow from existing assets of a firm. Another type of internal financing option comes from working capital. Basically, working capital is defined by the balance between current assets and current liabilities which are obtained from income generating and resource purchasing activities of a firm.

Internal sources of funds bring some advantages for the management which mainly originates from the flexibility associated with these types of funds. Therefore, managers prefer to use internal sources and not get restricted by external pressures.

When an external source of fund is being used, shareholders and creditors would require justifications in order to approve financing. Moreover, other factors such as low cost, dilution of control, no restriction on cash flows and access to retained earnings could be counted as advantages of internal financing.

Financial managers would prefer to use internal financing in order to avoid the cost of issuing debt and equity instruments. Moreover, shareholders of the company would be willing not to receive the dividends and let the company use the retained earnings to invest in the projects with positive NPVs, as these projects would likely generate a higher price and greater future dividends for them. Shareholders would also be satisfied with internal financing because it makes their shares more valuable and it may result in capital gains which are being taxed less than dividend earnings (Carpenter, 2009).

2.3 External Financing

External financing is described as obtaining the funds externally, not from internal sources of funds (Richardson, 2007). The external financing is mainly divided into two categories: debt financing and equity financing. In the following section, a description of characteristics of these two categories is represented.

2.3.1 Debt Financing

Debt financing can be referred to as employing loans from banks, bonds of corporations and leasing contracts. The main feature of debt financing is that it makes an obligation of fix payment for borrowers.

While a manager is planning to acquire debt financing, he or she should consider some factors. Firstly, it should be notified whether the firm needs short-term financing or long-term financing. In other words, the manager has to consider the maturity of debt. Secondly, debt financing can be provided by either fixed or floating interest rates. Based on the current economic situation, decision makers should come to a conclusion whether to take a floating-rate debt or a fixed-rate debt. For instance, if there are expectations of an increasing interest rate, fixed interest rate is preferred to floating rate. On the other hand, if there are expectations of a decreasing interest rate, floating rate would provide a better option for the firm. Thirdly, the currency in which the debt would be issued is another factor to be considered based on the type and location of corporation and the current status of the corresponding currency.

Debt financing has several advantages and disadvantages for both lenders and borrowers. First of all, it maintains the ownership of the company; the owners are obligated to pay the agreed payments. Debt holders are now owners and they can only restrict the decisions of managers through debt covenants. Another

characteristic of debt financing is tax deduction which lets the firm deduct the interest expense from taxable income.

On the other hand, there are some disadvantages associated with debt financing. It is hard to obtain debt financing for venture businesses and risk projects. In addition, lenders often put some restricting covenants for borrowers. While debt financing is one of the major sources of financing for corporations, new ventures are exposed to lots of difficulties arising from conflicts of interests (agency problems) between creditors and borrowers (Chua et al., 2011).

As mentioned earlier, the most important types of debt financing are recognized to be bank loans, corporate bonds and leasing. In the following sections, a brief description of their features is outlined.

2.3.1.1 Bank Loans

Loans are referred to as debt instruments which provide debt financing for borrowers. In a loan agreement, borrowers have an obligation to pay back principle of loan plus interest accrued. Loans may be offered by either fixed interest rates or floating interest rates. Another important factor of a loan is its repayment schedule which is negotiable between involved parties.

2.3.1.2 Corporate Bonds

To define bond as a debt instrument, one would say that bonds are agreements between the bond issuer (borrower) and the buyer (lender) in which the issuer is obligated to pay back principle in the maturity time in addition to scheduled interest payments. Corporations employ this instrument to finance their investments (Bodie et al., 2009). The value of the bond has an inverse relationship with the interest rate.

2.3.1.3 Leasing

Leasing is another type of debt instrument which flow funds between the lessee and the lessor. Leasing instrument has some advantages over the other debt financing instruments; firstly, in some cases, costs of service can be much. So, leasing is more cost efficient than bank debt financing. Secondly, flexibility of leasing system allows the lessee to return the asset during the life of assets, especially in case of assets which are highly exposes to technological changes risks.

2.3.2 Equity Financing

Equity financing is known as one of the other means of external financing. Corporations are able to raise funds by selling stocks to investors and in exchange stockholders obtain a share of ownership (Damodaran, 2010).

Equity securities can be issued in different forms such as common stocks and preferred stocks. Common stocks are traded on stock exchange market. The holders of common stocks have a voting right in corporate governance issues and have a share in the financial earnings of corporation proportional to their holding volume of stocks (Bodie et al., 2009). Common stocks are characterized with their residual claim and limited liability.

The other type of stock which can be issued by a corporation is preferred stock. A preferred share guarantees a fix payment or perpetuity to the holder. In other words, even if the corporation is not going to pay dividends to common shareholders, there is an obligation to pay to preferred shareholders. Comparing preferred shares with debt, the former is a riskier option than the latter. In case of financial distress or bankruptcy, debt holders have to be paid before preferred shareholders (Watson & Head, 2010).

Initial public offerings or IPOs are another method of equity financing which are fundamentally based on the initial offering of newly-issued stocks. For this purpose, corporation must disclose its financial information to public in order to provide public by a view of its current financial position. It should be mentioned that IPOs have some disadvantages such as various fees for registration, legal issues and marketing costs.

2.4 Theories of Capital Structure

As shown in the previous sections, corporations are financed through various sources. So, the main question in this part is that “how firms should finance their investment decisions and projects”. Theories of capital structure focus on determining the optimal mixture of debt and equity which results in maximization of profit. In the following sections, a brief description of capital structure theories is provided.

2.4.1 Modigliani and Miller Theory (M&M Theory)

Modigliani and Miller (1958) propose that capital structure is irrelevant to the value of a corporation. In their study, they assume that there are no brokerage fees, no tax benefits for using debt, same interest rate for individual and corporations and no information asymmetry.

2.4.2 Trade-off Theory

Trade-off theory suggests that since debt financing is associated with tax deductions, it would be a better way of financing. However, there are also some indirect costs such as bankruptcy costs and costs of financial distress. Therefore, trade-off theory indicates that marginal benefits of debt financing increases up to an optimal point and then marginal benefit starts to decrease (Kraus & Litzenberger, 1973).

According to trade-off theory, optimal capital structure is gained at a point in which the marginal tax benefits of debt financing offset debt financing costs both direct costs and indirect costs. Based on this theory, equity financing would be translated into a deviation from the optimum point and that is why it is considered as a bad signal in the market (Altman, 1968). This theory implies that debt financing is preferred over equity financing. Van der Sar et al. (2011) support this theory by indicating that debt financing improves the performance of a corporation by acting through a channel in which conflicts of interests between shareholders and managers, or agency costs, are decreased because of reduced excess cash. In the following figure (Figure 2), a schematic relationship between the value of a firm and its debt financing amount is represented.

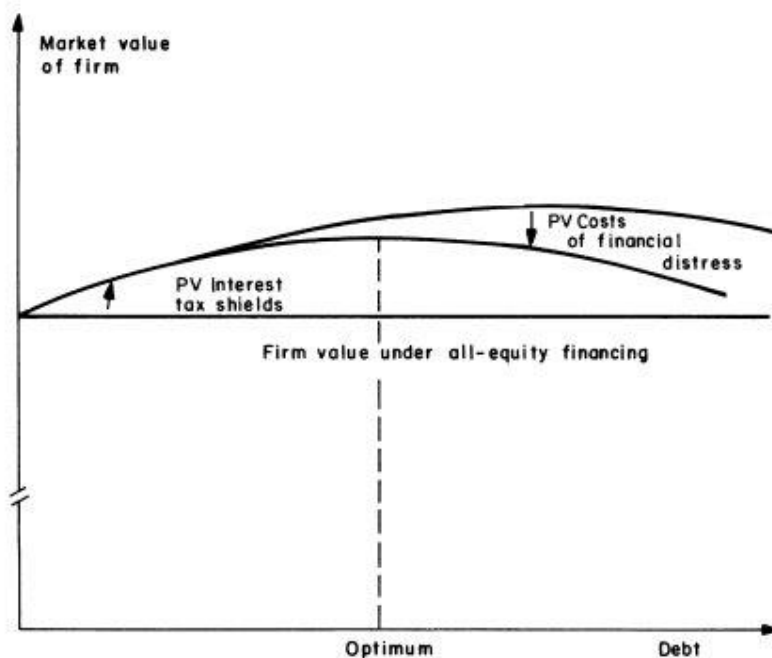


Figure 2: Value of Firm and Debt Financing

To mention some empirical studies in this field, one would refer to a study done by Abor (2005). In this study, he analyzes how debt financing affects the performance of a firm. He employs three major debt ratios: short-term, long-term and total debt ratios. His main findings show that short term debt ratio and total debt ratio have a statistically significant relationship with a firm's performance (return on equity is used as the proxy for performance). Another similar study by Arbabiyan and Safari (2009) indicates similar findings. They suggest that short-term debt ratio and total debt ratio have a positive impact on the profitability of a firm while long-term debt ratios represent a negative association.

2.4.3 Pecking Order Theory

In the framework of pecking order theory, it is suggested that a corporation should choose their financing sources rationally according to the information asymmetries and transaction costs. Generally speaking, this theory does not provide any assumption for having an optimal capital structure. In this respect, internal financing sources would have more priority to external financing sources and similarly among external sources debt is preferred to equity. In other words, corporations with excess cash would be willing to use lower amount of debt in comparison with those with lower cash balance. And, whenever external financing is required, corporations are more interested in debt than in equity.

Therefore, it can be inferred from the pecking order theory that capital structure of a corporation would affect its performance negatively because the more profitable a firm is, the less it would employ debt.

Empirical studies based on this theory suggest that performance of firms would be affected by their debt ratios. There is a negative relationship between debt ratios and

firms' performance because more debt financing is associated with more borrowing costs and more risk of bankruptcy or financial distress (Abor, 2007; Zeitun and Tian, 2007; Muritala, 2012).

2.4.5 Market Timing Theory

Baker and Wurgler (2002) propose a theory of capital structure which is based on behavioral aspects of finance. Their sample of study includes 2,839 observations on firms at the first fiscal year end after IPO over a period starting from 1968 to 1999. They evaluate the capital structure decisions of firms by using IPO date as the base of analysis. Their findings show that leverage ratio has a significant relationship with market-to-book ratio of firms. They claim that a corporation chooses the most cost-efficient option when facing financing requirements. So, during the time that the corporation is performing with a high market-to-book value, the managers prefer to use equity financing by issuing new stocks. On the other hand, during the time that corporation is performing with a low market-to-book value, debt financing is preferred. It should also be notified that Baker and Wurgler's (2002) findings indicate that firms prefer not to change their capital structure subsequent to their IPO date. Their findings are also fostered by US corporate executives survey (Graham and Harvey, 2001).

Similarly, Kayhan and Titman (2007) indicate that changes in leverage ratios are consistent with the market timing theory. In addition, Bie and Hann (2007) claim that the behavior of Dutch firms is also consistent with the theory of market timing. Similarly, there has been evidence of market timing theory consistency of the Chinese firms in the Shenzhen stock market (Tian et al., 2008).

2.5 Capital Structure of Tourism Corporations

The specific nature of corporations in tourism sector has great impacts on their financing behavior. High capital intensity, high fixed costs and high fluctuations in earnings are among their specific characteristics.

According to their special characteristics, tourism corporations are exposed to a high level of operational risk and that is why it is more difficult for these types of firms to finance their funding requirements by external sources. Therefore, tourism corporations rely on their internal sources as the main sources for financing their operations (Andrew et al., 2007). Nonetheless, there may be some cases in which internal funds are not adequate. In these cases, debt instruments are more favorable than equity ones since they are associated with lower costs. It is suggested (Karadeniz et al., 2009) that hotel firms often make their capital structures decisions based on the pecking order theory.

It is also worthwhile to notify that some tourism-related corporations own some assets such as hotels which are being considered as collateral for creditors. So, they would have an easier access to debt financing. In this case, the proper theory to follow would be trade-off theory which takes into account the tax benefits of debt financing.

To summarize, tourism-related firms are considered as heavy debt users and their capital structure is based on long-term debt financing. So, they have different characteristics compared to manufacturing firm. As Sheel (1994) explains, fixed-assets intensity of tourism-related corporations plus their earnings volatility are among the factors which make them different from manufacturing firms. It is stated

that financing of hotel corporations with long-term debt results in more growth opportunities since real state-type investments are preferred by the creditors. In other words, long-term debt and capital expenditures are positively correlated in tourism-related firms (Dalbor & Upneja, 2004).

The relevant literature of capital structure has been developed for a long time and it is still growing based on major theories. A large part of studies is concentrated on manufacturing companies rather than tourism and hospitality industry. However, some studies have attempted to compare capital structures of tourism corporations with other types of corporations (Sheel, 1994). His study contributes to the literature of capital structure in hospitality industry by focusing on hotel industry. He compares the performance of hotels with manufacturing companies. Another study by Tang and Jang (2007) compares the capital structure of software companies with lodging firms.

In addition to these studies which basically compare other sectors with tourism sector, there are also some other studies which mainly focus on the hospital industry. For instance, Upneja and Dalbor (2001) conduct a study on capital structure compositions of restaurants. It is indicated in this study that publicly-traded restaurant corporations would attempt to maintain equal proportions of long-term and short-term debt. They state that it should be notified that short-term debt financing is undoubtedly required in this industry but it is a big challenge for managers of this industry to acquire debt financing due to the risk nature of this industry. Another important finding of their study is that the older a corporation is in this industry, the more it employs long-term debt.

The impact of capital structure on the performance of hotel industries is another topic in the relevant literature. Philips and Sipahoglu (2004) analyze the association of capital structure and a firm's performance for a sample of UK publicly-traded hotel corporations. Their outcomes do not suggest any significant association between debt and financial performance of 43 hotels in the sample.

Lee (2007) analyzes the trends of debt financing in tourism and hospitality industry in order to find an optimal leverage level in this industry. His findings show that the median value of leverage ratios in this industry acts as a norm point. In other words, since mean ratio can be affected by extreme values; it is not a proper representative for leverage ratio of this industry.

Chapter 3

BORSA ISTANBUL LISTED TOURISM SECTOR CORPORATIONS: CAPITAL STRUCTURE AND PRICE PERFORMANCE

In this chapter, a description of sample of study and its consisting firms is provided. Additionally, the sources of data and the methodology are discussed. The sample is taken from tourism sector corporations which are officially classified as operating in the tourism sector by Borsa Istanbul and they are being publicly traded. In April 2013, “Istanbul Stock Exchange” name was changed to “Borsa Istanbul” (BIST) and is the only formal registered institution in which stocks, gold and derivatives are being traded.

3.1 Data and Methodology

For the purpose of capital structure analysis, ratio analysis has been chosen as a convenient means of analysis. It is worthwhile indicating that a single ratio by itself does not convey any meaning and it only provides a complete analysis when analyzed together with other ratios. An analyst cannot determine whether the results are favorable unless there are some benchmarks or standards for comparison (i.e., industry average or median).

Our analysis provides us with the central tendency measures. Measures of central tendency provide a handful tool in order to describe a set of data. The mean and the median are employed in our analysis.

The mean or average is recognized as the most common measure of central tendency. While it is used commonly with continuous type of data, it can be employed in case of discrete data. One of the main disadvantages of this measure is that it is greatly affected by outliers, especially when the sample size is relatively small. This is the case in this study, so we should use another measure of central tendency.

The median is another measure of central tendency which is the middle value for a set of data that is ordered in terms of magnitude. The main advantage of the median measure compared with the mean is that outliers cannot have impacts on the ventral tendency as much as they have on the mean. So, for the purpose of this study, our analysis is based on the median values. Moreover, when we closely observe the distribution of data for our sample of tourism companies, we face a very heterogeneous sample.

In order to collect the required data for analysis, this study uses the StockGround database. 11 active firms in the tourism sector are chosen as the sample companies and the relevant data of these companies are gathered from for a period starting from 1991 to 2013 on a quarterly basis for capital structure analysis. For performance analysis, price indices for Borsa Istanbul 100 index (XU100) and Tourism Index data is gathered for a period of 19 years starting from 1997 to 2015 on a quarterly basis. The gathered data is both in Turkish Lira and US Dollar. Afterwards, a comparison of tourism index and Borsa Istanbul 100 Index (XU100) is provided. Finally, an analysis of monthly rates of returns of tourism sector index and Borsa Istanbul 100 index complements this chapter of our study.

As the main aim of this study is to determine the capital composition of tourism corporations in Turkey, financial leverage ratios are calculated. There are various measures to analyze the financial leverage of a company. For the purpose of this study, we measure total debt to total equity ratio, total debt to total assets ratio, short-term debt to total debt ratio and annual interest coverage ratio.

We got the relevant data for total assets, total equity, total debt and annual interest expenses of these firms. Using the Stockground database program to obtain the relevant financial statements, we can measure the correspondent ratios.

The first ratio, debt-to-equity ratio, is calculated by dividing total debt to total equity. This ratio shows what proportions of debt and equity are being used by a corporation for financing. The second one, debt-to-assets ratio, indicates the proportion of total debt to total amount of assets. In other words, it shows the extent a corporation's assets are financed by debt financing instruments. The third ratio is short-term debt to total debt ratio which is a useful tool to measure what proportion of debt funds are financed by short-term debt. The last but not the least is annual interest coverage ratio which measures the ability of a corporation to meet its debt obligations. Table 1 summarizes the ratios and their measurement formula.

Table 1: Capital Structure Ratios

| Ratio | Measurement | Brief Definition |
|-------------------------------------|------------------------------|--|
| Debt-to-Equity Ratio | Total Debt / Total Equity | Indicating what proportion of equity and debt the firm is using to finance its assets. |
| Debt-to-Assets Ratio | Total Debt / Total Assets | Indicating the proportion of the firm assets, which are financed by debt. |
| Short-term Debt to Total Debt Ratio | Short-term Debt / Total Debt | Indicating what proportion of debt financing is provided by short-term debt. |
| Annual Interest Coverage Ratio | EBIT / Total Debt | Indicating annual coverage of debt obligations by annual earnings. |

All these ratios are useful to analyze the soundness of a corporation's financing decisions. While higher levels of debt can be translated into higher potential returns, it can also increase potential threats of fund raising during lean business cycles as well as financial distress risk.

In addition to capital structure analysis, this study employs a performance analysis as a complement to the capital structure analysis. Accordingly, monthly rates of returns for XU100 and Tourism Index are calculated both in Turkish Lira and US Dollar. Then, abnormal returns of these two indices are also analyzed.

3.2 Sample

The sample includes a group of BIST corporations which are actively involved in tourism and hospitality industry in Turkey. A summarized description of these corporations is provided as below:

Altin Yunus Çesme Turistik Tesisler A.S. (AYCES): This firm is active in providing hotel services. This corporation mainly manage Altin Yunus hotel in

Turkey. It serves its customers with a variety of services ranging from conferences to spa and pool services. This group started its operation from 1974 in Izmir, Turkey. It is a member of YASAR holding and it has been recognized as a leading hotel group in Turkish tourism and hospitality sector (Bloomberg, 2015a).

Favori Dinlenme Yerleri A.S. (FVORI): Based in Ankara, this corporation is involved in investments in tourism and hospitality industry. Aqua Resort in Antalya is operated by this firm and they also have some investments in Natureland project which is a tourism project in Turkey. This company is active under Dokap Holding. This corporation has been operating since 1987 in Ankara, Turkey (Bloomberg, 2015b).

Kustur Kusadasi Tur. End. A.S. (KSTUR): This firm has been involved in tourism industry in Turkey since 1966. They mainly operate Kuştur Club which is a holiday village in Turkey. Kustur tourism resort is recognized as one of the unique holiday places in Turkey located in an area decorated with spring flowers and pine trees. It serves tourists from all over the world and its area amounts to 170 acres. This corporation has begun trading on the free trade platform since 23.10.2012. (Kusturclub Website, 2015).

Marmaris Altinyunus Turistik Tesisler A.S. (MAALT): Based in Mugla, this corporation has been active in Turkish tourism industry by operating hotels and resorts. Divan Mares is hotel operated by this group which is based in Marmaris and another hotel in Antalya. Divan Mares hotel has been leased to Yazici Group since 2008 (Reuters, 2015).

Marti Otel Isletmeleri A.S. (MARTI): Incorporated since 1967, this corporation actively operates hotels and holiday resorts in Turkey. This corporation is primarily operating hotels in Turkey. In addition, they are actively involved in the construction, operation and leasing of hotels and tourism resorts. MARTI is the first Turkish tourism corporation which offered IPO. Currently, one-third of its shares are being traded in Borsa Istanbul Stock Exchange (Marti Group Website, 2015).

Net Holding A.S. (NTHOL): Incorporated in 1974 in Istanbul, Net Holding operates in various sectors one of which is tourism and hotel management. In addition, this firm is active in casino sector under the trademark of Merit Casinos. Since 1989, this corporation has been listed in Istanbul Stock Exchange under the ticker of NTHOL. Net Holding A.S. is ranked 8th in the ranking of world largest casino operators. This corporation has 8 properties in Northern Cyprus operating under the name of Merit Hotels. Casinos are the major sources of revenue for this group. In addition to casino operations, they are also active in real estate industry, car rental services and touristic stores (Net Holding Group Website, 2015).

Net Turizm Ticaret ve Sanayi A.S. (NTTUR): Headquartered in Istanbul since 1975, the main activity of this corporation is devoted to tourism industry. However, it is also active in jewelry, carpet and souvenirs production (Bloomberg, 2015c).

Petrokent Turizm (PKENT): This company is actively involved in tourism industry by managing holiday resorts and hotels. In addition, it participates in tourism development projects. Club Golden Beach and Petroclub Abant Yayla Tatil Koyu are two hotels which are operated by this company. Golden Beach Club has a capacity of

2,600 beds contained in its 632 townhouses and Petroclub has a capacity of 334 beds contained in its 60 suites (Google Finance, 2015).

Metemtur Otelcilik Ve Turizm (METUR): This firm is actively involved in the hotel and tourism industry. Their main operation unit is a hotel in Bodrum region. This resort has a variety of facilities such as restaurants, gyms, swimming pools, tennis courts, shopping center, conference halls and etc. In addition to its activities in tourism and hospitality industry, this group is engaged in the residential constructions in Bodrum region. This firm is headquartered in Istanbul and operates under the subsidiary of Metemteks Tekstil Sanayi ve Ticaret A.S. (Bloomberg, 2015d).

Tek Art Insaat Ticaret Turizm Sanayi ve Yatirimlar A.S.(TEKTU): This company is based in Istanbul and it was formerly known as Tek-Art Turizm Zigana AS. The main activity of this corporation is development of holiday resorts, restaurants, casinos and other tourism-related constructions. The main operation of this group is Club Zigana located at Antalya, Turkey. It is a holiday village serving tourists from all over the world. Tek-Art Holding A.S is the parent company which is active in different sectors such as construction, tourism and media (Financial Times, 2015).

Ulaslar Turizm Yatirimlari ve Dayanikli Tuketim Mallari Ticaret Pazarlama A.S. (ULAS): Founded in 1977 in Ankara, this company owns and operates a holiday resort. This corporation founded under the name of Meftun Carpet Moble. Since 1997, they have been cooperating with Club Hotel company in a partnership (Bloomberg, 2015e).

Utopya Turizm Insaat Isletmecilik Ticaret Anonim Sirketi (UTPYA): this company which is founded in 1980 at Ankara is involved in the construction and development of hotels and shopping centers. Also, it is engaged in the constructions of sewers, tunnels and infrastructure (Bloomberg, 2015f).

3.3 Capital Structure Analysis Results

In the following sections, the measured values of capital structure ratios are presented. For this purpose, the median ratios of tourism companies are shown.. Then, analysis of ratio fluctuations during the specific periods of Turkey's economy is done.

3.3.1 Total Debt to Total Equity Ratio

It can be seen in Figure 3 that the median reaches a low value of 0.25 in the fourth quarter of 1994. This year is known for the currency crisis in Turkey's economy. So, it can be inferred that corporations in the sample have tried to decrease their level of debt since higher levels of debt were equivalent to a higher level of exposure to risk. In 1994, the Turkish economy was exposed to the highest level of annual output loss. As a result, Turkish economy was forced to contract by 6 percent. The first quarter of 1994 was recognized by 50 percent devaluation against dollar. Moreover, the Central Bank of Turkey lost more than half of its reserves and interest rates raised significantly. High interest rates triggered three-digit inflation rates. In the meanwhile, IMF tried to help the Turkish economy by some structural adjustments but this program was not also successful.

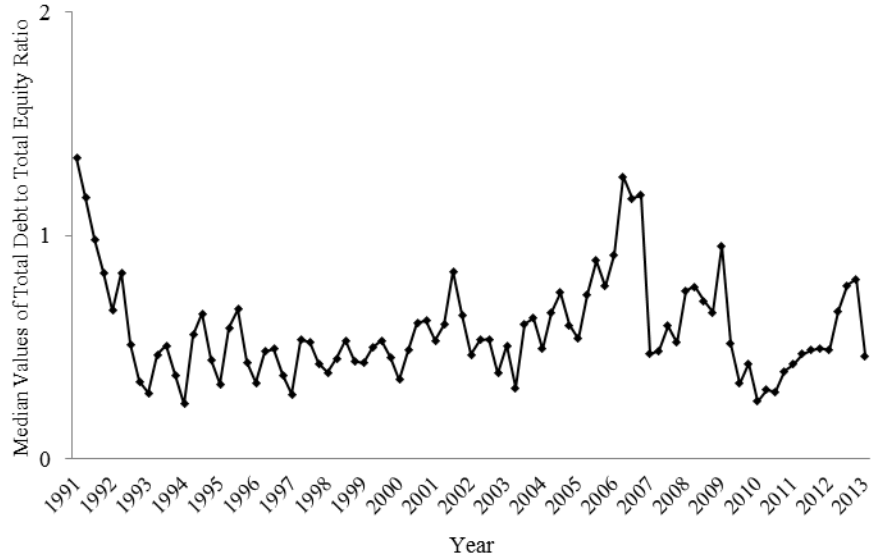


Figure 3: Median Values of Total Debt to Total Equity

According to the results, the median values of total debt to total equity ratios of the companies show almost a straight-line trend (Figure 4) and the median values of debt to equity ratio indicate that the corporations in our sample are mainly financed by equity rather than debt since ratios are less than one in most of periods.

However, it should be notified that Turkish economy has experienced some crises during the period of our study. So, an analysis of those periods provides us an insightful information regarding the performance of the Turkish tourism industry and, more specifically, the tourism corporations in the sample. To simplify charts, we have depicted the measured ratios of companies in two different charts. Accordingly, the ratios of the first five companies are displayed in one chart and the next six companies are shown in a separate chart. Figure 4 is consisted of the total debt to total equity ratio of five companies from the sample in addition to the median values of the sample. Accordingly, Figure 5 depicts the total debt to total equity ratios of the other six companies in addition to the median values.

Due to the huge public sector borrowing in 1993 and early 1994, Turkish Lira experienced a currency crash. Subsequently, there were lots of interventions to control interest rates and Treasury borrowings which they led to a situation where domestic borrowers could not have access to financings by banks and the market for domestic borrowing almost disappeared (World Bank, 1998). In 1994, the Turkish economy was exposed to the highest level of annual output loss. As a result, Turkish economy was forced to contract by 6 percent. The first quarter of 1994 was recognized by 50 percent devaluation against dollar. Moreover, the Central Bank of Turkey lost more than half of its reserves and interest rates raised significantly. High interest rates triggered three-digit inflation rates. In the meanwhile, IMF tried to help the Turkish economy by some structural adjustments, but this program was not also successful. The low ratio in 1994 would imply that as the interest rates were too high, the corporations in the sample preferred to employ less debt since higher levels of debt had been considered more costly and riskier.

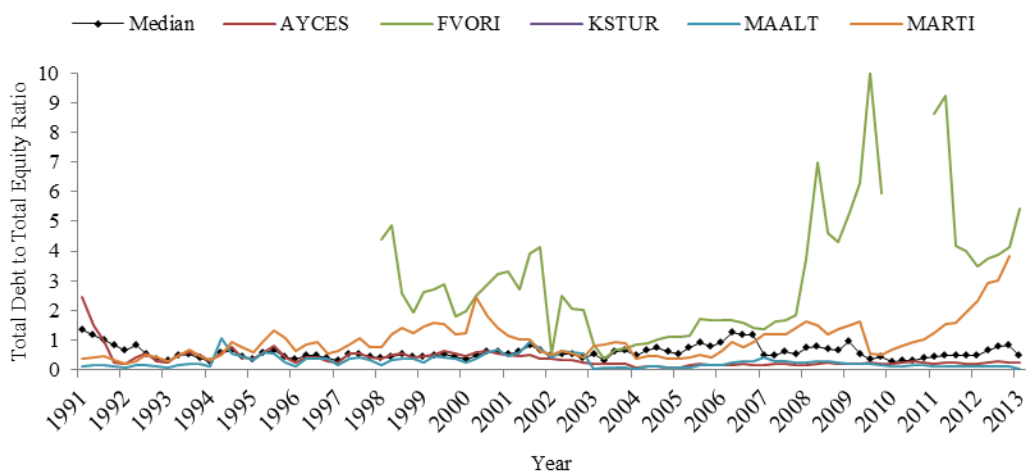


Figure 4: Total Debt-to-Total Equity Ratio (AYCES, FVORI, KSTUR, MAALT and MARTI) versus the Median

As appeared in Figure 4, FVORI and MARTI deviate significantly from the median of the sample. FVORI from 2009 to 2013 has deviated greatly from the median with the ratios amounting to 10 in some periods. This deviation indicates that these companies might have financial problems and that is why they are holding a high debt to equity ratios.

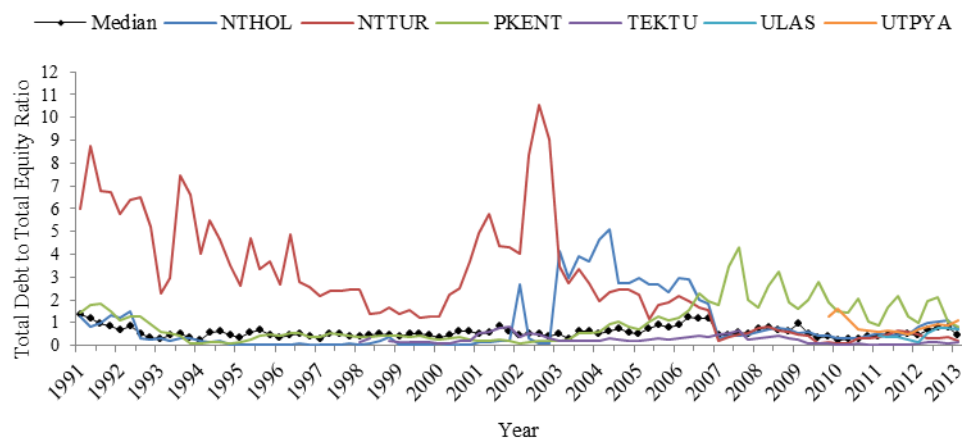


Figure 5: Total Debt-to-Total Equity Ratio (NTHOL, NTTUR, PKENT, TEKUTU, ULAS and UTPYA) versus the Median

In Figure 5, total debt to equity ratios for the second group of companies are depicted. NTTUR showed a significant deviation from the median and its ratio amounted to more than 10 in 2003. This large deviation could be a result of financial problems in the company which led to a high level of borrowing in terms of debt. PKENT and NTHOL also appeared to be deviated from the median after 2002.

3.3.2 Total Debt to Total Assets Ratio

This ratio ranges from 0 to 1. The higher the ratio, the riskier the company is. Especially having ratio greater than one means bankruptcy. Our findings show that median values of total debt to total asset ratios for the corporations in the sample range from 0.2 to 0.6.

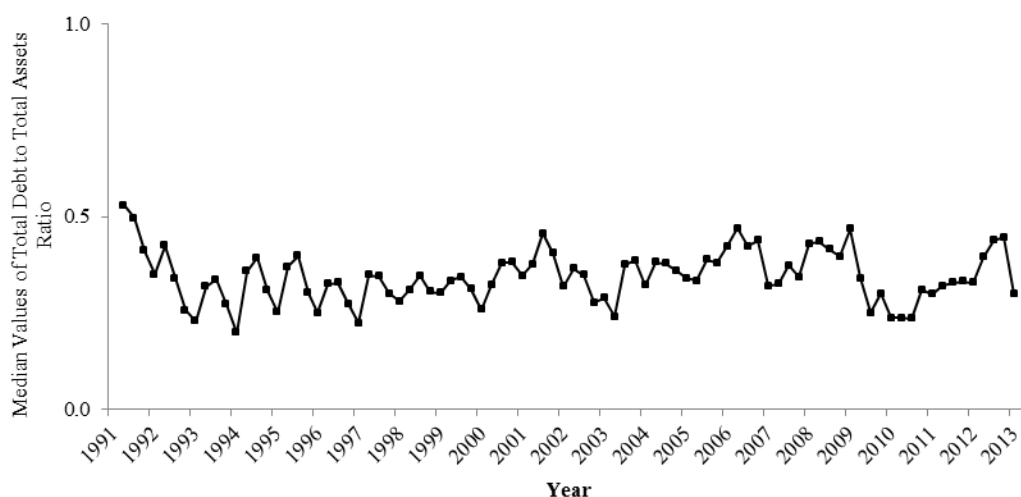


Figure 6: Median Values of Total Debt to Total Assets Ratio

Based on the macro and micro economic situations in a specific period of time, companies have shifted their capital structures. As it is shown in Figure 6, in 1994, debt-to-asset ratio holds a low median of 0.2. As mentioned earlier, Turkey was suffering from an economic crisis and that would be reason why corporations had decided to keep a low proportion of debt relative to their assets.

In addition, an increase of almost 80 percent in debt-to-asset ratio from the fourth quarter of 2000 to the fourth quarter of 2002 may be a sign of the 2001 financial crisis in Turkey. Over-borrowing was a main features associated with this crisis.

And, the global financial crisis of 2007-2008 may be considered as a reason of a 30 percent decrease in the median value of debt-to-asset ratio of the sample from the first quarter of 2007 (0.47) to the fourth quarter of 2007 (0.32).

In 1994, there is a low value of median of 0.2. As mentioned earlier, Turkey was suffering from an economic crisis and that would be reason why corporations had decided to keep a low proportion of debt relative to their assets.

It can be seen in Figure 7 that the total debt to total assets ratios of the first five corporations (AYCES, FVORI, KSTUR, MAALT and MARTI) have followed almost a similar pattern to the median except FVORI which revealed a significant deviation. As total debt to total asset ratio is a general measurement of financial position of a company, its fluctuations over the periods can be interpreted differently. For instance, when this ratio increases significantly, as it is the case of FVORI, it can be inferred that the financial position of the corporation to meet its debt obligations has become volatile since the dependency on debt financing has increased.

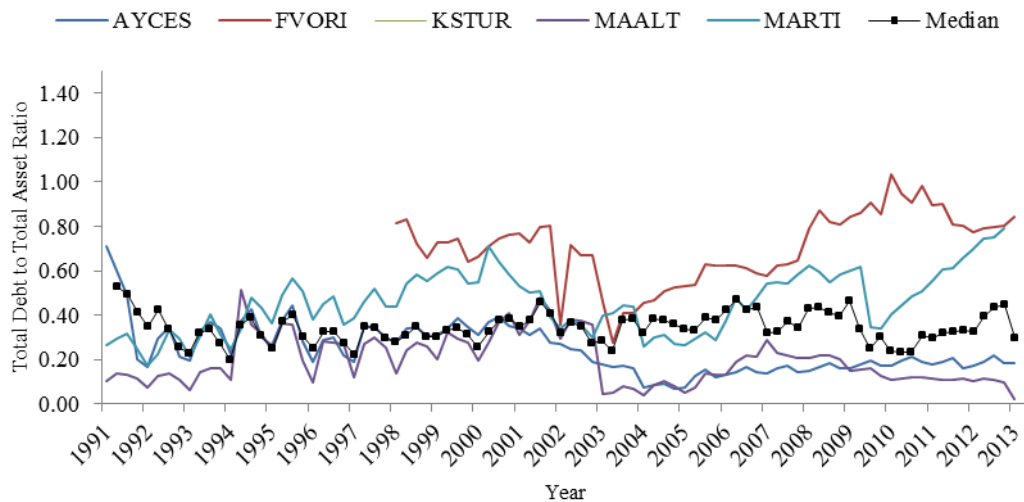


Figure 7: Total Debt to Total Assets Ratio (AYCES, FVORI, KSTUR, MAALT and MARTI) versus the Median of Ratios

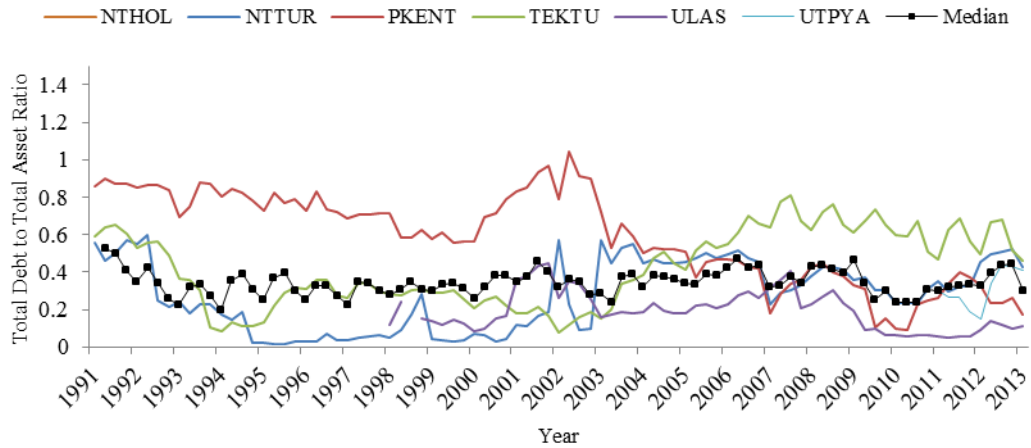


Figure 8: Total Debt to Total Assets Ratio (NTHOL, NTTUR, PKENT, TEKTU, ULAS and UTPYA) versus the Median of Ratios

In figure 8 the other six companies (NTHOL, NTTUR, PKENT, ULAS and UTPYA) are depicted. PKENT showed a significant deviation from 1991 to 2004 and then it has followed a similar pattern to the median. This decrease in its total debt to total asset ratio can be a sign of a decrease in the dependency of the corporation to debt financing. It can also imply that the corporation has become able to finance a higher proportion of its operations by internal financing. In other words, PKENT has been able to manage to reduce its financial risk.

3.3.3 Short-term to Total Debt Ratio

As depicted in figure 9, the median values of short-term debt ratio revealed an almost linear pattern till the end of 2002. It can be inferred from short-term debt to total debt ratio analysis that Turkish tourism corporations prefer short-term debt financing to long-term ones. This may happen probably due to the seasonality of tourism industry which forces the corporations not to enter long-term debt financing.

A sharp decrease in median values occurred. As short-term debt is considered risky, 2003-2004 drop in this ratio may imply that corporations avoided short-term debt financing. A possible explanation for this drop can be that the Turkish economy was

attempting to recovery from the 2001 economic crisis. So, there were lots of uncertainties which had led to a capital structure policy of avoiding short-term debt financings.

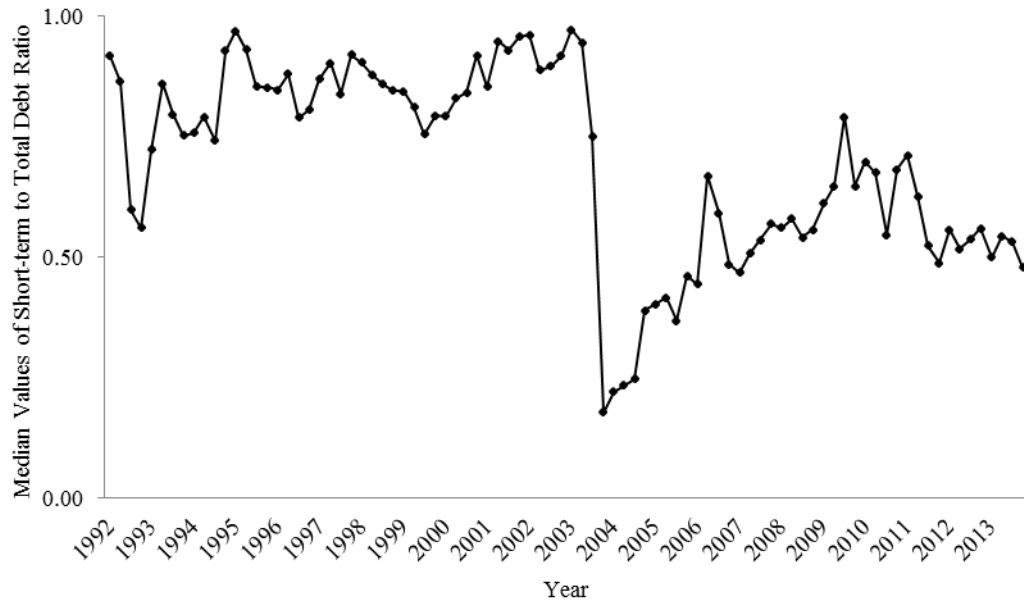


Figure 9: Median Values of Short-term to Total Debt Ratio

As appeared in Figures 10 and 11, the corporations follow a similar pattern to the median except AYCES and MARTI which show more ups and downs during the period of study.

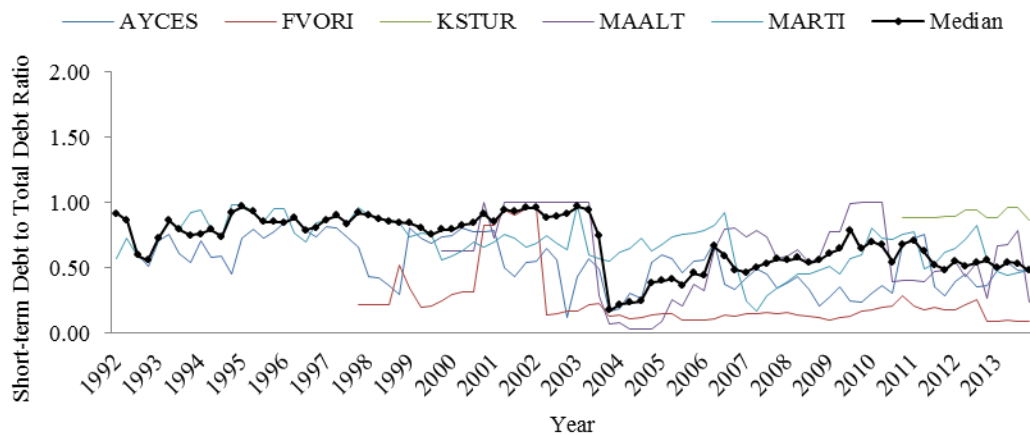


Figure 10: Short-term Debt to Total Debt Ratio (AYCES, FVORI, KSTUR, MAALT and MARTI) versus the Median Values

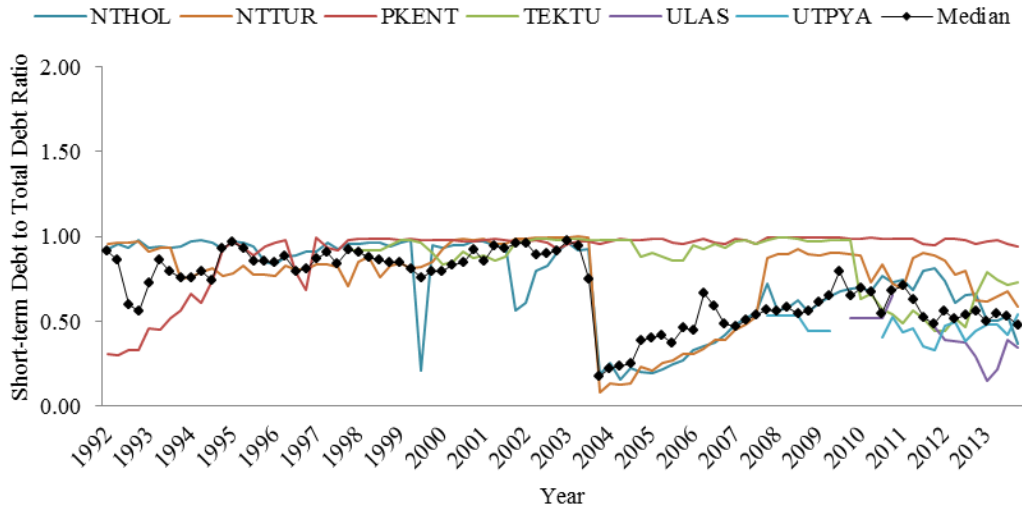


Figure 11: Short-term Debt to Total Debt Ratio (NTHOL, NTTUR, PKENT, TEKTU, ULAS and UTPYA) versus the Median Values

3.3.4 Annual Interest Coverage Ratio

Interest coverage ratio measures the ability of the company to meet its financial obligations. It may be possible that the firm is unnecessarily careful in using debt as a source of capital. This means the risk taken may be lower than average, but so is the return.



Figure 12: Median Values of Annual Interest Coverage Ratio

According to the figure 12, median values of annual interest coverage ratios of the sample have been close to zero. Also, some periods have revealed negative values.

As appeared in Figure 13, the corporations have followed a similar pattern as the median except some deviations by MARTI and FVORI. It is also worth mentioning that the ratio has revealed negative values in some periods because of negative EBIT. So, the earnings of the corporations before interest and tax have been negative in those periods especially from 2003 to 2007. Similarly in Figure 14, NTHOL and TEKTU deviated from the median in some periods and they revealed significant negative values.

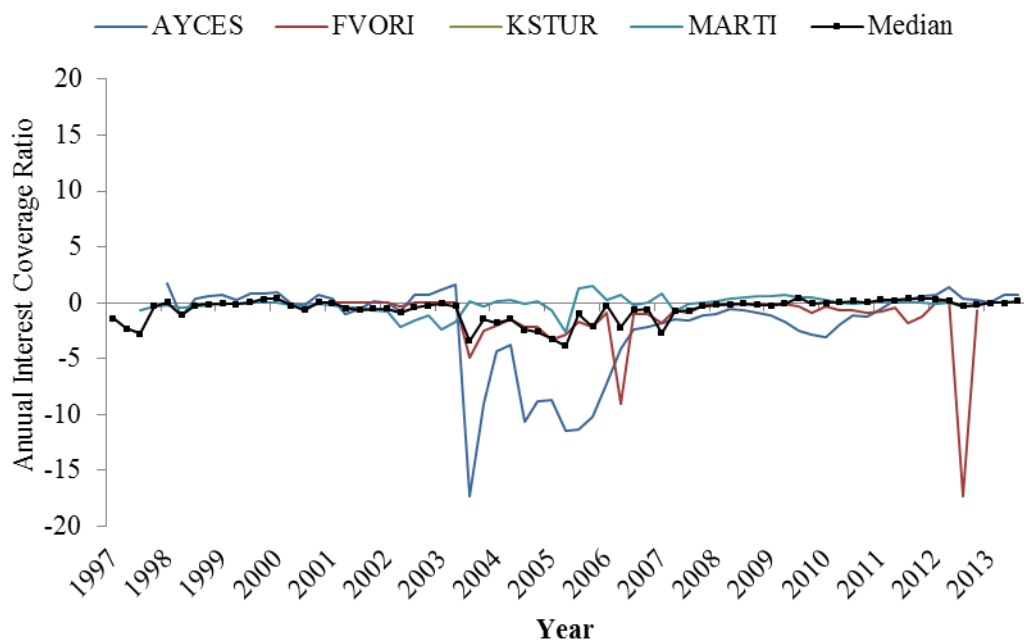


Figure 13: Annual Interest Coverage Ratio

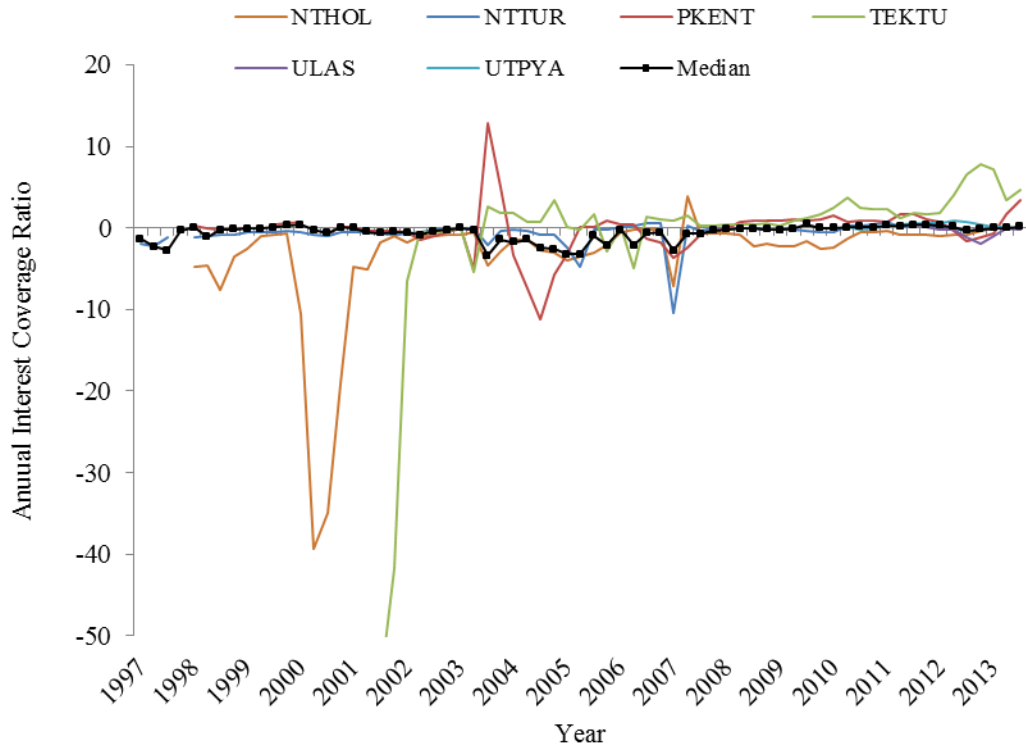


Figure 14: Annual Interest Coverage Ratio

3.4 Trend and Performance Analysis of Tourism Sector

3.4.1 Borsa Istanbul XU100 Index and Tourism Index Trend

Figure 15 depicts both XU100 and Tourism indices in Turkish Lira. It can also be seen that both indices have moved closely with each other and have shown an upward trend until 2007-2008. Global financial crisis has affected both indices significantly and has caused a sharp drop in both indices. Then, after 2009, both indices have started to recover. However, the tourism index has experienced a drop from the 2011 value of 65,000 to the 2015 value of 43,000.

Figure 16 depicts both XU100 and Tourism indices in US Dollars. According to this figure, before the 2000-2001 Turkish economic crises, tourism index was performing better than the market index but the tourism index experienced a significant drop from about USD 16,000 in 1998 to about USD 2000 in 2000. Afterwards, the

indices have behaved similarly until 2007-2008 when they started to deviate from the market index. This deviation may be the result of global financial crisis in 2007-2008. Moreover, although XU100 index has shown an upward trend, the tourism index has revealed a downward trend in recent years.

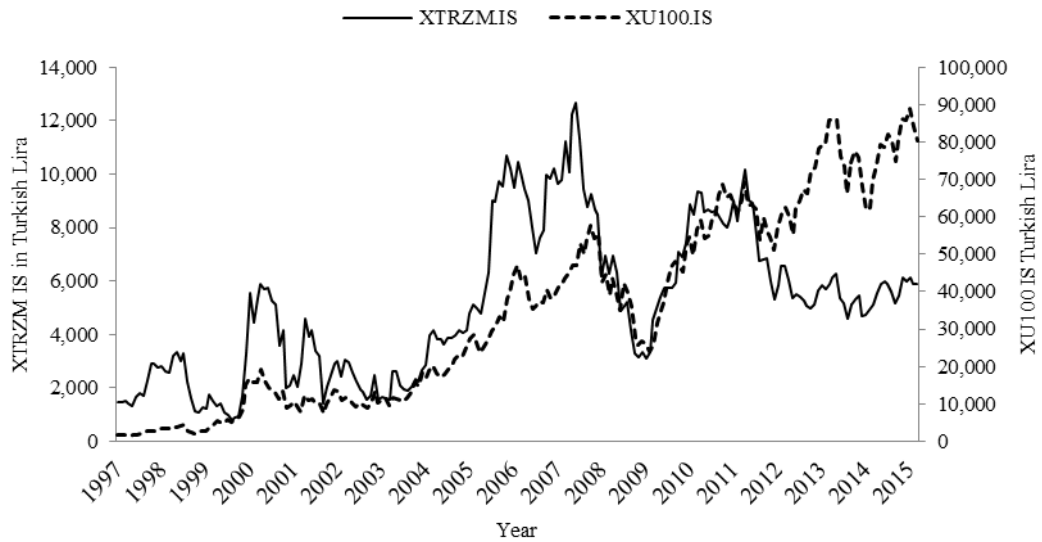


Figure 15: BIST XU100 Index versus BIST Tourism Index in Turkish Lira

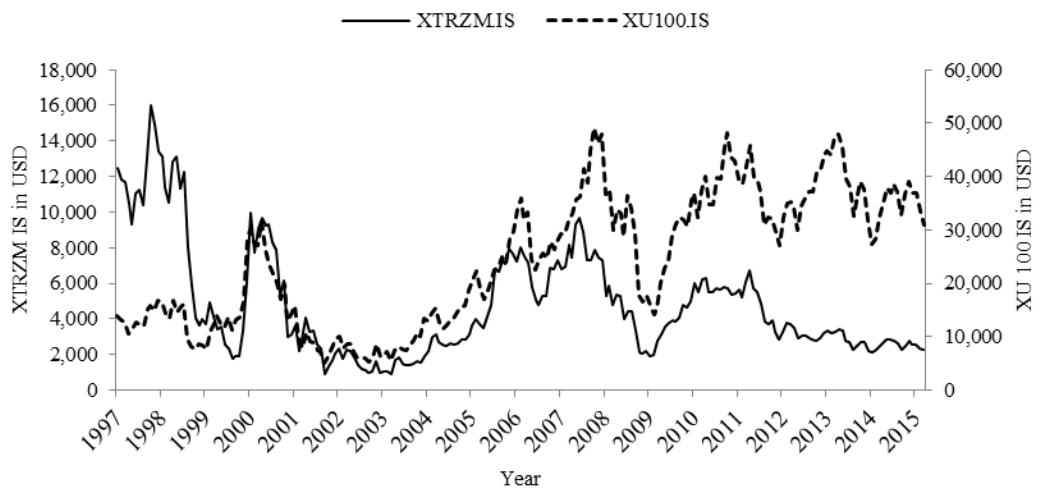


Figure 16: BIST XU100 Index versus BIST Tourism Index in US Dollar

3.4.2 Monthly Rates of Return of XU100 Index and Tourism Index

Monthly rates of return for XU100 and tourism indices are measured. In this purpose, the difference between two subsequent monthly values is divided by the value of the first one. It is worth noting that the monthly rates of return of both indices (XU100 and Tourism Index) have followed the same pattern from 1997 to 2015 (Figure 17). The fluctuations were high in the periods close to 2000-2001. This period is characterized by Turkey's economic crisis. During this period, stock market has shown more volatility. The monthly rates of return of both indices in US Dollars (Figure 18) almost show the same behavior as the ones in Turkish Lira. It should also be notified that the tourism index has jumped up and down more than XU100 index. So, it can be inferred that the stocks of the tourism corporations have experienced more volatilities.

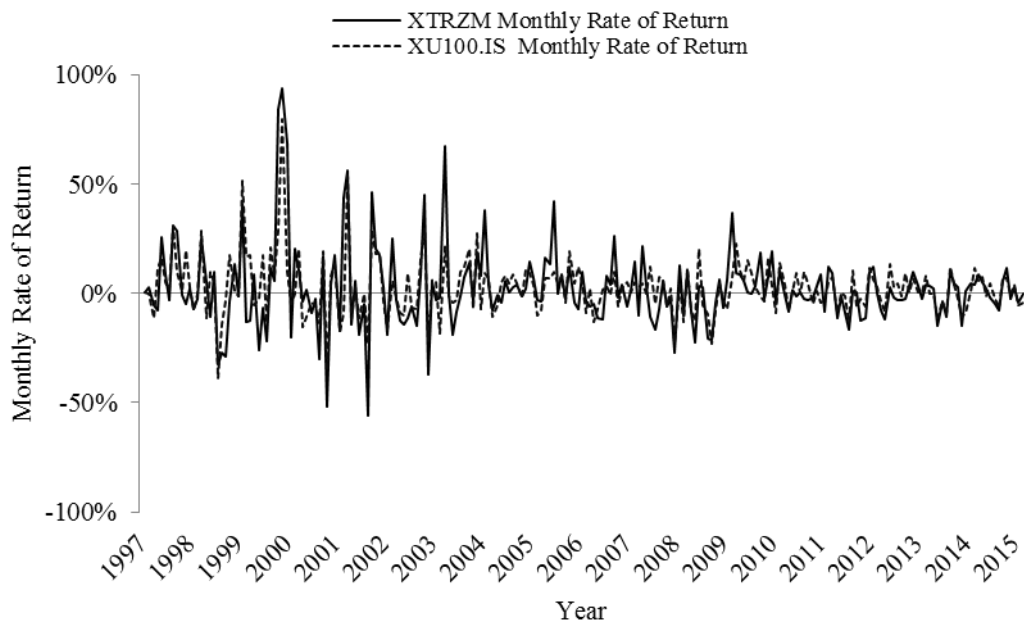


Figure 17: Monthly Rate of Return of XU100 Index and Tourism Index

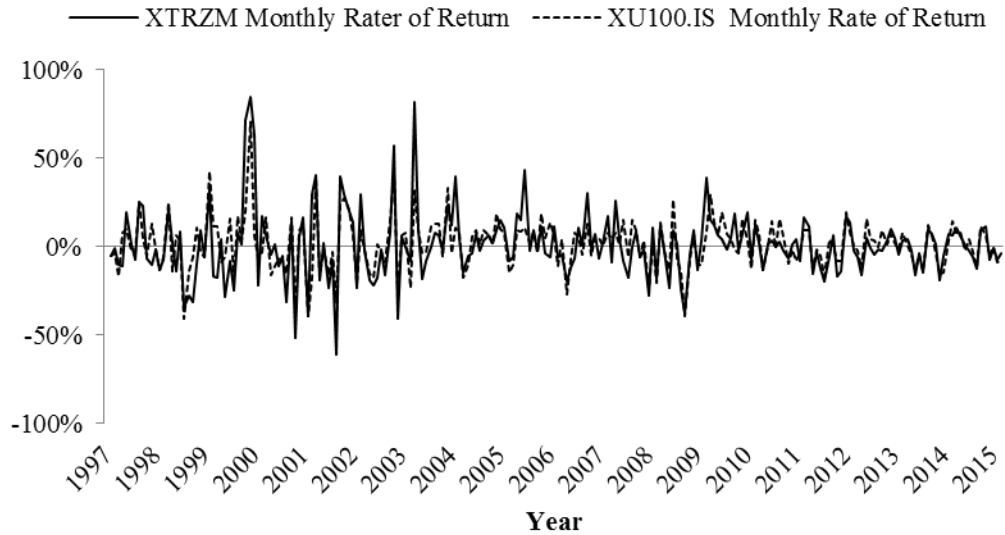


Figure 18: Monthly Rates of Returns of XU100 Index and Tourism Index in US Dollar

3.4.3 Monthly Abnormal Returns Analysis

Another measurement which can be a good complement to our analysis is the measurement of differences between XU100 Index and Tourism Index. This can show the periods of abnormal monthly returns of the tourism sub-index compared to XU100 index. In this purpose, abnormal returns are measured by calculating the difference between the monthly rates of return of tourism index and XU100 index.

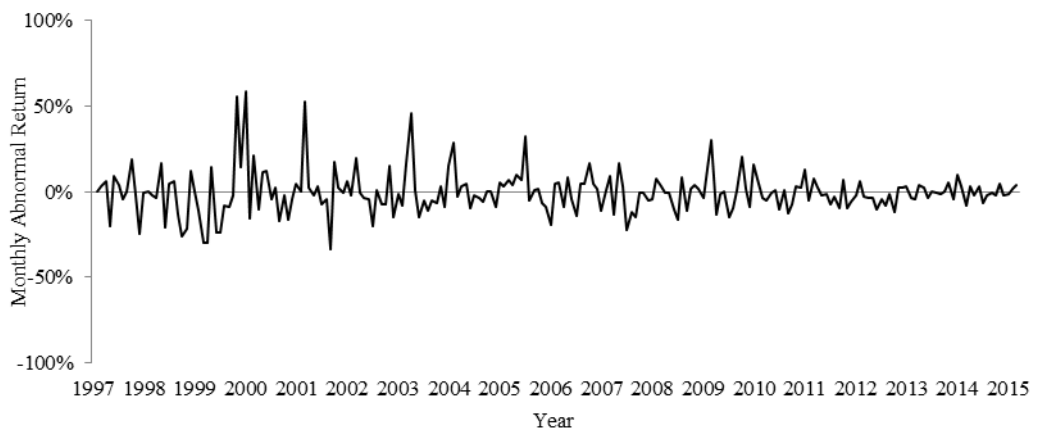


Figure 19: Monthly Abnormal Returns of Tourism Index in Turkish Lira

Since the abnormal returns are the difference between the tourism index and XU100 index, their positive values imply a return which is higher than the overall return of the market index. On the other hand, negative values of abnormal returns can be translated into a lower than the overall return of the market index. As appeared in Figure 19, the abnormal returns in Turkish Lira have fluctuated between positive and negative values during the period of study. Moreover, it should be mentioned that the fluctuations have decreased significantly in recent years. However, there are some periods characterized by high fluctuations such as the significant drop from a positive value of above 50 percent in 2000 to a negative value of -29 percent in 2001 in monthly abnormal returns that can be a result of 2001 Turkish economic crisis. Similar pattern for the same period of time can be seen in Figure 20 which shows the abnormal monthly returns in US Dollar.

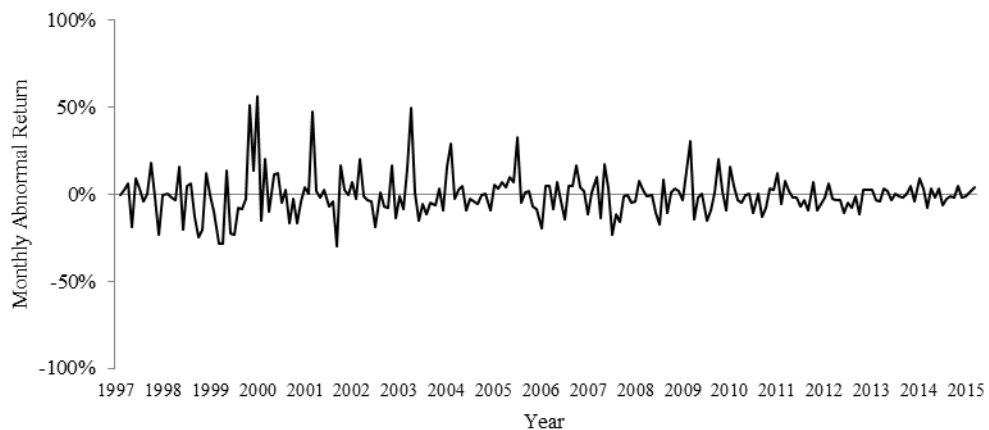


Figure 20: Monthly Abnormal Returns of Tourism Index in US Dollar

Chapter 4

CONCLUSION

This study analyzed the capital structure of a sample of Turkish tourism sector corporations which are listed in Borsa Istanbul. For this purpose, a ratio analysis was conducted. In addition, a performance analysis of price indices was carried out as a complement to the ratio analysis.

The findings of capital structure analysis reveal that the corporations in our sample have been financed mainly by equity. In addition, median values of total debt to total asset ratio for the corporations in the sample range from 0.2 to 0.6. Median values of short-term debt to total debt ratio analysis reveal that Turkish tourism corporations prefer short-term debt financing to long-term one probably due to the seasonal nature of tourism sector and unstable economic environment. The median values of annual interest coverage ratio also show that the corporations in the sample do not perform well financially to cover their debt obligations with their earnings before interest and tax (EBIT).

Also, it is worth noting that the values of debt-to-equity, debt-to-assets, short-term-to-total-debt and annual average ratios of the corporations in the sample have followed a similar pattern to the median values except some deviations in some specific periods. One of the specific periods is 1994 which is characterized by the Turkish economic crisis. In addition, 2000-2001 economic crisis in Turkey is another critical

period which is associated with some deviations in some ratios. And finally, the global financial crisis of 2007-2008 has also caused some financial problems for some corporations.

In addition, our findings from performance analysis show that the market price index (XU100) and the tourism index in Turkish have moved closely with each other and have shown an upward trend until 2007-2008. Global financial crisis has affected both indices significantly and has caused a sharp drop in both indices. Then, after 2009, both indices have started to recover. Our findings for the indices in US Dollar also indicate that before the 2000-2001 Turkish economic crisis, tourism index was performing better than the market index but the tourism index experienced a significant drop. Afterwards, the indices have behaved similarly until 2007-2008 when they started to deviate from the market index. This deviation may be the result of global financial crisis in 2007-2008. Moreover, although XU100 index has shown an upward trend, the tourism index has revealed a downward trend in recent years. In addition, monthly rates of return for XU100 and tourism indices are measured. It is worth noting that the monthly rates of return of both indices (XU100 and Tourism Index) have followed the same pattern from 1997 to 2015. The fluctuations were high in the periods close to 2000-2001. This period is characterized by Turkey's economic crisis. The monthly rates of return of both indices in US Dollars almost show the same behavior as the ones in Turkish Lira. It should also be notified that the tourism index has jumped up and down more than XU100 index. So, it can be inferred that the stocks of the tourism corporations have experienced more volatilities.

Abnormal monthly returns of the tourism sub-index compared to XU100 index are also measured. The abnormal returns in Turkish Lira have fluctuated between positive and negative values during the period of study. Moreover, it should be mentioned that the fluctuations have decreased significantly in recent years. However, there are some periods characterized by high fluctuations such as the significant drop from a positive value of above 50 percent in 2000 to a negative value of -29 percent in 2001 in monthly abnormal returns that can be a result of 2001 Turkish economic crisis.

Thus, the findings of our study can provide insightful information about the financing patterns and capital structures of Turkish tourism corporations for financial managers of Turkish tourism corporations. Also, an overview of the performance of these corporations can be useful for both financial managers and investors of these corporations.

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