

EARNINGS REVIEW 1Q18

Turkey | Banks | 03 May 2018

TSKB

Strong figures remain below consensus

Expected impact: Slightly negative

TSKB posted TRY159mn net income (+10.8% QoQ, +12.9% YoY) in its Q1 bank only financials. This was below both our TRY177mn call and the consensus estimate of TRY173mn by 10.2% and 8.1%, respectively. Bottom-line expanded on the back of i) reduced provisions expense (-84.6% QoQ) largely attributable to high base of Q4 (4Q17 free provisions: TRY190mn), ii) well defended NII (+0.3% QoQ, +39.9% YoY) despite substantial impact of CPI linker normalization (-40.0% QoQ), iii) inflated other income related to IFRS-9 reporting (1Q18: TRY81mn) and iv) additional support from income under equity (1Q18: TRY9mn). On the flip side, though, additional growth for the bottom-line was limited by i) negative trading line (1Q18: -TRY18mn vs. 4Q17: TRY1mn gain), ii) accelerated OPEX (+16.2% QoQ) and iii) weaker fee income generation (-14.8% QoQ). Reported and Trade adj. NIM readings weakened by 28bps and 55bps QoQ to 4.38% and 4.12%, respectively, mostly due to CPI linker income normalization. CPI excluded NIM improved by 19bps QoQ to 3.78% on the back of expanded core spreads (+15bps QoQ) in Q1. Bank's NPL ratio continued to be the best asset quality indicator in our coverage universe (1Q18: 0.21%). Following IFRS-9 related adjustments and no specific provisions in Q1, the post IFRS-9 specific coverage ratio finalized at 96.8%. Solvency metrics showed some deterioration with CAR and CET1 declining by 93bps and 89bps to 16.12% and 11.63%, respectively, mostly linked to dividend payment and TRY depreciation. The ROAE improved by 117bps QoQ to 18.79% in 1Q18. However, given uncertain macro environment, we reduce our FV estimate to TRY1.80/share from TRY1.85/share with BUY rating unchanged, offering 30% upside potential at current valuations.

Solid volume activity - In Q1, TSKB maintained its emphasis on FC loans, which grew by an additional 2.9% QoQ in USD terms which was above the banking sector FC lending (+2.4% QoQ) for the same period. The expansion was also evident on TL front (+4.1% QoQ, +27.8% YoY). On the funding side, FC securities issued was the major source of financing (+34.7% QoQ in USD terms) accompanied by FC funds borrowed which slightly increased by 0.8% QoQ in USD terms, all together more than covering the total lending in Q1.

CPI excluded NIM improves with expanding core spreads - FC loan yields weakened by 21bps QoQ to 5.80%, while TRY yields significantly improved by 186bps QoQ to 14.92%, indicating 8bps QoQ increase on blended loan yields to 7.33%. Funds borrowed costs on the other hand slightly softened by 6bps QoQ to 2.11% in Q1 on the back of FC funds borrowed cost easing by 8bps QoQ to 1.93% in the quarter. Hence, the mixture of aforementioned dynamics led to 15bps QoQ expansion on blended core spreads. Following the issuance of USD300mn Eurobond, securities issued cost remained close-to-flat at 8.72% and didn't have any major impact on NIM evolution. Nevertheless, reported NIM and trade adj. NIM contracted by 28bps and 55bps QoQ to 4.38% and 4.12%, respectively, due to substantial impact of CPI linker income normalization (-40.0% QoQ). However, with successful spread management, CPI excluded NIM improved by 19bps QoQ to 3.78% in Q1.

Re-classifications to Stage II and free provisions - The bank hinted that it has transferred the Yildiz Holding exposure to Stage II and booked additional general provisions accordingly. Following this reclassification and various others (mostly related to IFRS-9 reporting), Stage II share under total loans increased by a noticeable 552bps QoQ to 7.65%. To remind, the OTAS loan has been previously transferred to Stage II and the bank currently holds 25% provisioning for this account. Taking into account the collateral base of OTAS loan which is theoretically c.65%, the effective coverage remains c.90% for this exposure. The bank set aside additional TRY52mn free provisions in the quarter, which brought bank's total free provision account to TRY200mn. Finally, with neither additions nor collections worth mentioning, the NPL ratio remained close-to-flat at 0.21% (-1bps QoQ) in Q1.

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BUY 30% upside
Fair Value TRY1.80
Prev. (BUY) Prev. (TRY1.85)

Bloomberg ticker **TSKB TI**
Share Price TRY1.38
Market Cap USD820mn/TRY3.3bn
Free Float 39%

TRYmn [1Q18]	Actual	Consensus	Deviation	Global Est
Net income	159	173	-8%	177

TRY mn	1Q18	1Q17	YoY	4Q17	QoQ
NII	313	224	39.9%	312	0.3%
Net fees	5	2	110.8%	6	-14.8%
LLP	94	21	344.5%	156	-40.0%
OPEX	40	34	17.5%	34	16.2%
Net income	159	141	12.9%	143	10.8%

Performance	1M	3M	6M	12M
Absolute	-9%	-12%	1%	9%
Relative	-1%	0%	9%	-2%
Relative \$	-11%	-18%	-5%	-4%

Estimates	2016	2017	2018E	2019E
Securities	4,826	4,946	5,126	5,401
Loans	17,319	22,231	26,421	31,688
F. Borrowed	15,841	18,682	22,131	26,463
Book value	2,928	3,535	4,030	4,594
Net income	476	596	680	786
P/E (x)	5.94	5.56	4.87	4.22
P/BV (x)	0.97	0.94	0.82	0.72
P/F. Borrowed	0.21	0.18	0.15	0.13

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With the introduction of IFRS-9 reporting as of 1Q18, certain abnormalities might be observed on banking sector financials; on TSKB case, we observe i) unchanged specific provisions and increased general provisions (c.+TRY114mn) at the time of reporting according to our calculations and ii) inflated provisions expense account (1Q18: TRY94mn) which should be evaluated in this way considering also elevated other income account (1Q18: TRY81mn) as these accounts used to offset one other in the pre IFRS-9 era. Following IFRS-9 related adjustments and no specific provisions in Q1, the post IFRS-9 specific coverage ratio finalized at 96.8%.

OPEX accelerated QoQ - OPEX grew by 16.2% QoQ resulting in 17.5% YoY expansion which remained significantly below the bank's FY18 guidance of c.30% YoY. In Q1, OPEX figures include c.TRY4mn personnel dividend provisions, this account's inflating impact should ultimately bring OPEX evolution to the budgeted trajectory. Due to quarterly acceleration in OPEX figures, C/I ratio slightly increased by 64bps to 10.45% vs the FY18 guidance @ 14-15%. Fee income generation came in at TRY5mn in the quarter, down by 14.8% QoQ; but in YoY terms, we saw fee income more than doubled (Q1: +110.8% YoY vs FY18 Guidance: >20%).

Solvency metrics moderately eased - To remind, following the Tier II subordinate bond issuance of 2017, the bank has lifted its solvency figures to desired levels and created much needed buffer against potential currency fluctuations. In Q1, CAR and CET1 eased by 93bps and 89bps to 16.12% and 11.63%, respectively, mainly due to dividend payment and TRY depreciation (FY18 Guidance: >16%).

Bottom-line: We revise our FV estimate downwards to TRY1.80 from TRY1.85 with BUY rating unchanged - TSKB continued to differentiate from the industry, posting 10.8% QoQ expansion in the bottom-line, which translated into an ROAE of 18.79% (+117bps QoQ). Although we believe decent profitability, solid asset quality, and uninterrupted operational efficiency continues to offer an attractive investment environment, we have reduced our FV estimate for TSKB to TRY1.80/share from TRY1.85/share due to weak TRY and challenging macro environment. We however kept our BUY rating unchanged, offering 30% upside potential at the current valuation. Note that TSKB trades at 2018E P/BV of 0.82x against our coverage banks' average of 0.64x going into publication.

Exhibit 1: Balance sheet ratios

Balance sheet ratios	3M17	6M17	9M17	12M17	3M18
Securities/Assets	18.2%	17.1%	17.5%	17.1%	15.4%
Trading/Total securities	8.3%	7.7%	6.3%	6.6%	0.0%
AFS/Total securities	61.6%	60.0%	63.1%	62.4%	67.7%
HTM/Total securities	30.2%	32.2%	30.6%	31.0%	32.3%
Liquid assets/Total assets	23.6%	21.4%	21.4%	20.1%	19.7%
Loans/Assets	73.4%	75.8%	75.8%	76.9%	75.9%
LFR	115.1%	119.5%	120.8%	119.0%	120.8%
Deposit/Total assets	0.0%	0.0%	0.0%	0.0%	0.0%
Funds borrowed/Total assets	63.7%	63.5%	62.8%	64.6%	62.9%
MM/Total assets	2.2%	3.1%	4.7%	2.8%	1.9%
Securities issued/Total assets	14.4%	13.6%	13.1%	13.0%	16.8%
Equity/Total assets	11.8%	12.3%	12.5%	12.2%	11.7%
Leverage	8.5	8.1	8.0	8.2	8.5
Free equity to assets	10.2%	10.7%	10.7%	10.5%	9.8%
IEA/IBL	114.5%	115.2%	115.0%	114.9%	112.0%
IEA/Total Assets	97.0%	97.2%	97.2%	97.0%	95.6%
CAR	17.39%	17.48%	17.54%	17.05%	16.12%
CET1	12.21%	12.54%	12.76%	12.52%	11.63%
T1	12.21%	12.54%	12.76%	12.52%	11.63%

Source: Bank financials, Global Securities

Exhibit 2: Profitability ratios

Profitability ratios	3M17	6M17	9M17	12M17	3M18
ROAA	2.30%	2.37%	2.45%	2.06%	2.12%
ROAE	20.43%	20.99%	21.08%	17.62%	18.79%
NIM	3.79%	3.93%	4.14%	4.66%	4.38%
Adjusted NIM	3.8%	3.6%	3.8%	4.7%	4.1%
IEA yield (quarterly)	6.77%	7.10%	7.46%	8.05%	8.05%
IBL cost (quarterly)	3.33%	3.54%	3.71%	3.78%	4.04%
IEA-IBL Spread (quarterly)	3.44%	3.56%	3.75%	4.27%	4.01%
Securities yield (Blended)	8.13%	8.35%	9.92%	11.78%	9.68%
Loans yield (Blended)	6.43%	6.54%	6.81%	7.24%	7.33%
F. Borrowed cost (Blended)	1.86%	1.78%	1.93%	2.18%	2.11%
Loans- F. Borrowed spread (Blended)	4.57%	4.76%	4.88%	5.07%	5.21%
Securities issued cost (Blended)	5.77%	7.55%	8.00%	8.76%	8.72%
Interest on loans / Total interest income	71.4%	70.9%	71.3%	70.9%	72.4%
Interest on securities / Total interest income	23.6%	21.3%	23.5%	25.7%	20.2%
Net interest income / Total operating income	97.3%	102.1%	107.7%	88.8%	81.6%
Net fee income / Total operating income	1.0%	1.5%	1.3%	1.6%	1.2%
Net fee income / Opex	6.5%	10.8%	10.1%	16.0%	11.7%
Net fee income / Assets	0.04%	0.06%	0.05%	0.08%	0.06%
Non-banking income / Total operating income	1.7%	-3.6%	-8.9%	9.6%	17.1%
LLPs / Total operating income	9.2%	5.5%	4.5%	44.5%	24.5%
Cost/Income ratio	14.8%	14.1%	12.6%	9.8%	10.5%

Source: Bank financials, Global Securities



Exhibit 5: Publication schedule

Date	Publication
09.08.2018	2Q18 Earnings release
09.11.2018	3Q18 Earnings release

Source: Public disclosure platform

Exhibit 6: Recommendation history

23.09.2014 (Initiation date)	Rating	Target Price	Prev. Day's close	Upside
31.01.2018	Buy	1.85	1.58	17.1%
28.07.2017	Buy	1.70	1.53	11.1%
31.05.2017	Buy	1.53	1.26	21.6%
27.12.2016	Buy	1.79	1.13	59.0%
28.10.2016	Buy	1.79	1.13	59.3%
16.06.2016	Buy	1.79	1.07	67.3%

Source: Global Securities

Exhibit 7: Coverage universe recommendation overview

	Buy	Hold	Reduce	Sell	U/R
Universe	22	16	2	0	1
Universe %	54%	39%	5%	0%	2%

Source: Global Securities



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BUY: Buy stocks are expected to have a total return of at least 15% and are the most attractive stocks in our coverage universe on a 12-month horizon.

HOLD: Hold stocks are expected to deliver a positive total return of up to 15% within a 12-month period.

REDUCE: Reduce stocks are expected to achieve a negative total return up to -10% within a 12-month period.

SELL: Sell stocks are expected to post a negative total return of more than -10% within a 12-month period.

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