

# Albaraka Turk

## FY17 ROAE on the lower end

Albaraka Turk posted TRY96mn net income (+877.4% QoQ, +147.7% YoY, +8.95% YtD) in its Q4 bank only financials on February 21st. Earnings came out at 20.0% and 12.0% above our call of TRY80mn and consensus estimate of TRY86mn, respectively. In 4Q17, earnings encountered a major expansion on the back of i) base effect from TRY10mn NI in 3Q17, ii) remarkable NII (+39.5% QoQ, +37.3% YoY, +23.9% YtD), iii) strong fee generation (+11.4% QoQ), iv) improved trading line (+138.0% QoQ), v) eased provisions expense (-18.0% QoQ), and vi) increased other income contribution (+71.2% QoQ). Further NI outperformance was however prevented through i) OPEX hiked by 29.6% QoQ in the quarter. Reported and trade adjusted NIM improved by impressive 114bps and 128bps QoQ to 4.34% and 4.57%, respectively. The expansion in NII was mainly led by, i) accelerated interest income from loans (+25.5% QoQ) on the back of finalized JVP sales in the quarter, ii) increased securities income (+21.8% QoQ) and iii) relatively softer deposit and funds borrowed cost evolution at 10.5% and 16.6% QoQ, respectively. Net additions to NPL remained flattish at TRY55mn (3Q17: TR52mn), while TRY139mn worth of NPL write-offs were booked in the quarter. As a result, the NPL ratio improved by another 70bps QoQ to 4.82% in Q4. Sizeable JVP sales and favourable base effect from Q3 led to major ROAE expansion of 14.1pps QoQ to 15.78%, which kept FY17 data print flat at 9.96%. Capital adequacy slightly declined by 31bps QoQ to 17.06% owing to RWA expansion and TRY weakness in Q4. All told, we increase FV to TRY1.50 from TRY1.40, with HOLD rating unchanged.

### Management held a conference call on Friday, February 23<sup>rd</sup>

**Reduced JVPs should take its toll on NIM...** The bank has been involved in construction segment through JV projects over the last few years. The management restated that a gradual reduction of real-estate exposure is on the agenda. The bank expects c.40bps YoY contraction on NIM for 2018E mostly due to JVP contribution losing momentum in the forthcoming period. The management's targets c.17% and c.15% YoY growth for loan and deposit portfolios, respectively for 2018E.

**Asset quality: Gradual improvement should continue...** The management expects continuation of the gradual improvement in asset quality figures. The improvement should likely to originate from the deceleration in new inflows and the pick-up in collections. The bank targets further improvement for the NPL ratio (FY17: 4.82%) towards 4.6% levels for FY18E. From the provisional perspective, aging of the NPL portfolio has been mostly completed and the worst has already weighed on bottom-line through sizeable specific provisions booked over the last period. Going forward, the combination of reduced aging related hurdles and expectations of improved net inflows should noticeably relieve the provisions account.

**FY18 bottom-line optimistic...** The FY17 net earnings remained below the previously communicated year-end target of c.TRY300mn with bottom line actualizing at TRY237mn. For 2018E, despite smaller JVP presence, with strong volume expansion and eased provisional burdens the management targets high double digit expansion for the bottom-line.

**Tier I Sukuk issuance completed in 1Q18...** The bank has completed issuance of USD205mn Basel III compliant Tier I Sukuk notes on February 22<sup>nd</sup> with no maturity (perpetuity) and profit share rate of 10.0%. The issuance should boost the bank's 4Q17 CAR and CET1 figures of 9.81% and 13.46% by 342bps each to 13.23% and 16.88%, respectively.

**Bottom-line: Increasing our FV estimate to TRY1.50 with HOLD recommendation unchanged...** ROAE performance, @ c.10%, in FY17 is not encouraging. We however make upward revision to our FV estimate given enthusiastic expectations highlighted by the management, improved solvency figures and comparably attractive valuation dynamics. **All told, we increase our FV to TRY1.50 from TRY1.40 with HOLD rating unchanged, offering 6% downside potential at current valuations.** Note that ALBRK trades at 2018E P/BV of 0.48x against the banking sector average of 0.81x going into publication.

<b>HOLD</b>	6% downside
Fair Value	TRY1.50
Prev. (HOLD)	Prev. (TRY1.40)
Bloomberg ticker	<b>ALBRK TI</b>
Share Price	TRY1.59
Market Cap	USD377mn/TRY1.43bn
Free Float	21%

TRY mn [4Q17]	Actual	Consensus	Deviation	Global Est
Net income	96	86	12%	80

TRY mn	4Q17	4Q16	YoY	3Q17	QoQ
NII	366	267	37%	262	40%
Net fees	39	41	-4%	35	11%
LLP	102	145	-30%	124	-18%
OPEX	246	189	30%	190	30%
Net income	96	39	148%	10	877%

Performance	1M	3M	6M	12M
Absolute	5%	39%	10%	32%
Relative	6%	25%	2%	0%
Relative \$	5%	44%	1%	25%

Forecasts	2016	2017	2018E	2019E
Securities	2,117	2,876	3,020	3,201
Loans	21,316	23,943	28,014	32,496
Deposits	23,155	25,310	29,132	33,356
Book value	2,280	2,482	2,730	3,003
Net income	218	237	290	324
P/E (x)	6.6	6.0	4.4	4.0
P/BV (x)	0.63	0.58	0.48	0.44
P/Deposits	0.06	0.05	0.05	0.04

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**Exhibit 1: Summary balance sheet (TLmn)**

(BRSA Solo)	12M16	3M17	6M17	9M17	12M17	QoQ	YoY	Ytd
Cash and central bank	4,999	4,280	5,009	5,215	5,757	10.4%	15.2%	15.2%
Banks	2,158	2,325	2,098	1,250	1,511	20.9%	-30.0%	-30.0%
Money markets	0	0	0	0	0	n/a	n/a	n/a
Leasing receivables	879	838	839	840	841	0.1%	-4.4%	-4.4%
<b>Security portfolio</b>	<b>2,117</b>	<b>2,598</b>	<b>3,253</b>	<b>2,828</b>	<b>2,876</b>	<b>1.7%</b>	<b>35.8%</b>	<b>35.8%</b>
Trading	66	557	979	989	994	0.5%	n/a	n/a
Available for sale	1,383	1,428	1,649	1,330	1,349	1.4%	-2.4%	-2.4%
Held to maturity	669	612	625	509	533	4.7%	-20.3%	-20.3%
Loans, net	21,843	22,054	22,111	22,981	24,456	6.4%	12.0%	12.0%
<b>Performing loans</b>	<b>21,316</b>	<b>21,418</b>	<b>21,465</b>	<b>22,396</b>	<b>23,943</b>	<b>6.9%</b>	<b>12.3%</b>	<b>12.3%</b>
TL loans	16,921	16,437	16,127	16,805	17,822	6.1%	5.3%	5.3%
FC loans	4,394	4,981	5,338	5,591	6,121	9.5%	39.3%	39.3%
<b>Non-performing loans</b>	<b>1,106</b>	<b>1,323</b>	<b>1,425</b>	<b>1,309</b>	<b>1,213</b>	<b>-7.4%</b>	<b>9.6%</b>	<b>9.6%</b>
Provisioning for NPL	579	687	778	725	699	-3.5%	20.9%	20.9%
<b>Total assets</b>	<b>32,851</b>	<b>33,021</b>	<b>34,217</b>	<b>33,827</b>	<b>36,229</b>	<b>7.1%</b>	<b>10.3%</b>	<b>10.3%</b>
<b>Deposits</b>	<b>23,155</b>	<b>23,668</b>	<b>23,771</b>	<b>24,109</b>	<b>25,310</b>	<b>5.0%</b>	<b>9.3%</b>	<b>9.3%</b>
TL deposits	12,557	12,523	12,390	12,719	13,248	4.2%	5.5%	5.5%
FC deposits	10,598	11,145	11,381	11,390	12,062	5.9%	13.8%	13.8%
<b>Funds borrowed</b>	<b>4,424</b>	<b>4,281</b>	<b>5,060</b>	<b>4,723</b>	<b>5,412</b>	<b>14.6%</b>	<b>22.3%</b>	<b>22.3%</b>
Money market borrowing	493	0	105	105	340	n/a	-31.0%	-31.0%
<b>Shareholder's equity</b>	<b>2,280</b>	<b>2,278</b>	<b>2,377</b>	<b>2,383</b>	<b>2,482</b>	<b>4.1%</b>	<b>8.9%</b>	<b>8.9%</b>
<b>Total liabilities</b>	<b>32,851</b>	<b>33,021</b>	<b>34,217</b>	<b>33,827</b>	<b>36,229</b>	<b>7.1%</b>	<b>10.3%</b>	<b>10.3%</b>

Source: Bank financials, Global Securities

**Exhibit 2: Balance sheet ratios**

(BRSA Solo)	12M16	3M17	6M17	9M17	12M17
Securities/Assets	6.4%	7.9%	9.5%	8.4%	7.9%
Trading/Total securities	3.1%	21.4%	30.1%	35.0%	34.6%
AFS/Total securities	65.3%	55.0%	50.7%	47.0%	46.9%
HTM/Total securities	31.6%	23.6%	19.2%	18.0%	18.5%
Liquid assets/Total assets	28.2%	27.9%	30.3%	27.5%	28.0%
Loans/Assets	64.9%	64.9%	62.7%	66.2%	66.1%
LDR	92.1%	90.5%	90.3%	92.9%	94.6%
Deposit/Total assets	70.5%	71.7%	69.5%	71.3%	69.9%
Demand deposit/Deposits	23.5%	23.6%	24.3%	25.3%	24.1%
Funds borrowed/Total assets	13.5%	13.0%	14.8%	14.0%	14.9%
MM/Total assets	1.5%	0.0%	0.3%	0.3%	0.9%
Securities issued/Total assets	0.0%	0.0%	0.0%	0.0%	0.0%
Equity/Total assets	6.9%	6.9%	6.9%	7.0%	6.8%
Leverage	14.4	14.5	14.4	14.2	14.6
Free equity to assets	5.2%	5.2%	5.2%	5.3%	5.1%
IEA/IBL	107.2%	108.1%	108.7%	112.7%	111.7%
IEA/Total assets	94.1%	89.9%	90.3%	92.4%	92.9%
CAR	13.5%	16.5%	16.9%	17.4%	17.1%
T1	9.8%	9.7%	10.3%	10.4%	10.1%
CET1	9.8%	9.8%	10.2%	10.4%	10.1%

Source: Bank financials, Global Securities



**Exhibit 3: Summary P&L (TLmn)**

(BRSA Solo)	4Q16	1Q17	2Q17	3Q17	4Q17	QoQ	YoY	12M16	12M17	YoY
<b>Participation income</b>	<b>583</b>	<b>633</b>	<b>655</b>	<b>610</b>	<b>761</b>	<b>24.7%</b>	<b>30.4%</b>	<b>2219</b>	<b>2659</b>	<b>19.8%</b>
Loans	516	555	579	544	683	25.5%	32.3%	1965	2360	20.1%
Banks	0	1	0	0	0	3.2%	-54.2%	1	1	68.1%
Securities	43	51	53	42	51	21.8%	19.7%	160	197	23.4%
<b>Participation expense</b>	<b>317</b>	<b>314</b>	<b>334</b>	<b>348</b>	<b>395</b>	<b>13.5%</b>	<b>24.6%</b>	<b>1195</b>	<b>1391</b>	<b>16.4%</b>
Deposits	222	228	251	250	277	10.5%	24.8%	870	1006	15.7%
Funds borrowed	83	76	81	93	109	16.6%	30.8%	266	358	34.8%
Money market	12	2	1	2	9	420.7%	-21.4%	56	14	-74.6%
<b>Net participation income (NII)</b>	<b>267</b>	<b>318</b>	<b>321</b>	<b>262</b>	<b>366</b>	<b>39.5%</b>	<b>37.3%</b>	<b>1024</b>	<b>1268</b>	<b>23.9%</b>
<b>Net fee and commission income</b>	<b>41</b>	<b>38</b>	<b>36</b>	<b>35</b>	<b>39</b>	<b>11.4%</b>	<b>-3.6%</b>	<b>146</b>	<b>148</b>	<b>1.7%</b>
<b>Dividend income</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>n/a</b>	<b>n/a</b>	<b>0</b>	<b>0</b>	<b>n/a</b>
<b>Commercial profit gain/loss</b>	<b>-7</b>	<b>-7</b>	<b>25</b>	<b>8</b>	<b>19</b>	<b>138.0%</b>	<b>n/a</b>	<b>45</b>	<b>45</b>	<b>0.5%</b>
Other operating income	75	29	34	22	37	71.2%	-51.1%	158	122	-22.5%
<b>Total operating income</b>	<b>376</b>	<b>378</b>	<b>417</b>	<b>327</b>	<b>461</b>	<b>41.0%</b>	<b>22.7%</b>	<b>1372</b>	<b>1584</b>	<b>15.4%</b>
Loan loss provisions	145	138	96	124	102	-18.0%	-29.7%	372	461	23.8%
Other operating expense	189	194	204	190	246	29.6%	30.3%	736	834	13.3%
<b>Net operating income</b>	<b>42</b>	<b>46</b>	<b>116</b>	<b>13</b>	<b>114</b>	<b>767.8%</b>	<b>168.7%</b>	<b>264</b>	<b>289</b>	<b>9.4%</b>
Tax provision	4	10	20	3	18	438.4%	n/a	46	52	11.7%
<b>Net profit</b>	<b>39</b>	<b>36</b>	<b>96</b>	<b>10</b>	<b>96</b>	<b>877.4%</b>	<b>147.7%</b>	<b>218</b>	<b>237</b>	<b>9.0%</b>

Source: Bank financials, Global Securities

**Exhibit 4: Profitability ratios**

(BRSA Solo)	4Q16	1Q17	2Q17	3Q17	4Q17
ROAA	0.5%	0.4%	1.1%	0.1%	1.1%
ROAE	6.9%	6.3%	16.4%	1.7%	15.8%
NIM	3.6%	4.0%	4.0%	3.2%	4.3%
Adjusted NIM	3.5%	3.9%	4.3%	3.3%	4.6%
IEA yield (quarterly)	8.1%	8.4%	8.6%	7.9%	9.4%
IBL cost (quarterly)	4.7%	4.5%	4.8%	5.0%	5.5%
IEA-IBL spread (quarterly)	3.4%	3.9%	3.9%	2.9%	3.9%
Securities yield	8.7%	8.6%	7.3%	5.5%	7.2%
Loans yield	10.2%	10.4%	10.8%	9.9%	11.8%
Deposits cost	4.1%	3.9%	4.2%	4.2%	4.5%
Loans-deposits spread	6.1%	6.5%	6.6%	5.7%	7.3%
Interest on loans/Total interest income	88.4%	87.7%	88.3%	89.2%	89.7%
Interest on securities/Total interest income	7.3%	8.0%	8.1%	6.9%	6.7%
Net interest income/Total operating income	70.9%	84.1%	77.1%	80.2%	79.3%
Net fee income/Total operating income	10.8%	10.0%	8.7%	10.8%	8.5%
Net fee income/Opex	21.6%	19.5%	17.7%	18.6%	16.0%
Net fee income/Assets	0.5%	0.5%	0.4%	0.4%	0.4%
Non-banking income/Total operating income	18.3%	5.9%	14.2%	9.1%	12.2%
LLPs/Total operating income	38.6%	36.5%	23.2%	38.0%	22.1%
Cost/Income ratio	50.2%	51.3%	49.0%	58.0%	53.3%

Source: Bank financials, Global Securities



**Exhibit 5: Publication schedule**

Date	Publication
10.05.2018	1Q18 Earnings release
09.08.2018	2Q18 Earnings release

Source: Public disclosure platform

**Exhibit 6: Recommendation history**

12.31.2010 (Initiation date)	Rating	Target Price	Prev. Day's close	Upside
03.11.2017	Hold	1.40	1.27	10.2%
07.08.2017	Hold	1.56	1.49	4.7%
07.11.2016	Hold	1.30	1.11	17.6%

Source: Global Securities

**Exhibit 7: Coverage universe recommendation overview**

	Buy	Hold	Reduce	Sell	U/R
Universe	19	20	1	1	0
Universe %	46%	49%	2%	2%	0%

Source: Global Securities



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**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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