EARNINGS REVIEW 1Q18

Turkey | Conglomerates | 08 May 2018

Sabanci Holding

Want to break free...

Expected impact: Positive

We maintain our BUY recommendation for Sabanci Holding and keep FV estimate of TRY12.05/share unchanged considering the positive contribution from banking, insurance operations, and energy segment while retail and industrial segments have broadly emerged to be the laggards in 1Q18. Additionally, SAHOL completed the listing of retail/distribution operations of its energy segment and we anticipate a higher share of listed assets should lead to a lower discount to NAV meaning an upside for the stock. The conglomerate is trading at a 24.3% discount to its NAV whereas its 3-year historical average discount stands at 16.2%.

Sabanci Holding announced its 1Q18 results with a bottomline of TRY1,066mn, registering 59% YoY and a 7% QoQ decrease. The earnings figure was above both our estimate of TRY793mn and the market consensus of TRY847mn. Apparently, banking (52% of current NAV) and Enerjisa (13% of current NAV) provided the bigger part of the contribution along with some support from the insurance segment which in turn was driven by both AKGRT and AVISA. On the other hand, other non-financials (21% of current NAV) such as cement companies, BRISA, and, KORDS lagged behind in terms of earnings contribution along with the retail segment.

- AKBNK posted TRY1,709mn net income (+12.2% QoQ, +18.0% YoY) in its 1Q18 bank only financials. Bottom-line was able to expand on the back of i) reduced provisions burden (-39.1% QoQ), ii) softened trading loss (-29.9% QoQ), iii) geared up income under equity (+58.3% QoQ), and iv) increased fee income (+2.7% QoQ). Reported NIM and Swap adj. NIM worsened by 21bps and 31bps QoQ to 4.09% and 3.49%, respectively. On the asset quality front, combination of softened net NPL inflows of TRY259mn, TRY775mn write-offs and positive denominator effect (Loans: +4.7% QoQ) led to improved NPL ratio (-34bps QoQ to 1.99%). That said; this is indeed the lowest NPL ratio among Tier1 banks under our coverage. Additionally, ROAE improved by 159bps QoQ to 17.85%, one of the best profitability readings among Tier1 peers.
- Although cement companies presented positive results in 1Q18 when compared with 1Q17, the posted earnings were 9.6% and 50.4% down QoQ for AKCNS and CIMSA, respectively. Both companies continue to suffer from pressure on margins; yet, we might see some recovery in the margins if the producers would decide to reflect the recent increases in energy costs (especially electricity and natural gas) to their customers.
- BRISA contributed negatively in 1Q18 with a substantial drop in earnings (-54% YoY, -42% QoQ) mainly due to the increase in tax expense with increasing deferred tax expense and the significant increase in financial expenses. KORDS's earnings were flattish compared to 1Q17; yet, were up by 40% QoQ supported by the increasing operational profitability with hard-currency denominated revenues and ability to pass through raw material price volatility.
- Insurance segment continued its strong performance especially with the outstanding contribution from AKGRT with TRY51.3mn earnings (+87% YoY, 25% QoQ) and a technical income (exc. life) TRY465mn with a 37% YoY increase. AVISA also contributed positively in this quarter with its earnings increasing 80% YoY and 19% QoQ. (Technical income- exc. life, +36% YoY).
- ENJSA managed to increase its revenues by 49% YoY in 1Q18 which also contributed positively to energy segment profitability with EBITDA rising 42% YoY. These developments also reflected in the bottom-line performance with Enerjisa posting a net profit of TRY243mn in 1Q18 with a 210% YoY increase. With the support of latest favourable regulatory changes, ENJSA stands out as a stable cash-generating company with robust operational performance supporting the bottom-line.

The company will hold a conference call regarding its 1Q18 results today at 6:00pm local time.

BUY	23% upside
Fair Value	TRY12.05
Bloomberg ticker	**SAHOL TI**
Share Price	TRY9.83
Market Cap	USD4.7 bn/TRY20.1bn
Free Float	44%

TRY mn [1Q18]	Actual	Consensus	Deviation	Global Est
Net Income	1,066.4	847.4	25.8%	793.4

TRY mn	1Q18	1Q17	YoY	4Q17	QoQ
Net Income	1,066.4	669.4	59%	1,141.0	-6.5%

Performance	1M	3M	6M	12M
Absolute	-5.4	-4.6	-3.4	-4.8
Relative	7.6	9.3	7.5	-11.3
Relative $	-9.9	-15.5	-12.6	-20.4

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SAHOL

Exhibit 1 Publication schedule

Date	Publication
10.08.2018	2Q18 Earnings release

Source: Public disclosure platform

Exhibit 2 Recommendation history

06.11.1992 (Initiation date)	Rating	Target Price	Prev. Day's close	Upside
07.11.2017	Buy	12.05	10.85	11.0%
10.05.2017	Hold	10.72	10.75	-0.3%
31.12.2015	Buy	12.00	8.09	48.4%
29.07.2015	Hold	11.20	9.14	22.6%

Source: Global Securities

Exhibit 3 Coverage universe recommendation overview

	Buy	Hold	Reduce	Sell	U/R
Universe	21	17	2	0	1
Universe %	51%	41%	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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