

AgeSA (AGESA TI)

Buy: Growth focus paying off

- ◆ Solid core business results year-to-date thanks to growing scale in life and pension
- ◆ We raise our forecasts; we see new growth avenue via majority ownership in health insurance unit MediSA
- ◆ Raise TP to TRY156.00 from TRY85.00; retain Buy

Growing visibly and profitably. In 1H24, AgeSA nearly doubled its pension AuM and life GWP (gross written premiums) compared to a year ago; an accelerating performance despite the base getting bigger in recent years. The company leads both the pension and life sector with a market share of 19% (pension AuM) and 14.5% (life GWP). The snowball effect paves the way for sustainable profit growth even in volatile macro conditions in terms of FX and interest rates. Following accelerated investments in direct sales and agency channels, digitalisation, and bancassurance cooperation with Akbank (AKBNK TI, Buy, CP TRY58.05), the company is also seeing its expense ratio coming down, thus paving the way for solid growth in net technical income (up nearly 3x in 1H24). AgeSA has a balanced FX exposure with c50% of its pension AuM held in FX-linked instruments; it also has roughly half of its life GWP generated in FX and nearly one-third of its own securities portfolio invested in FX instruments. We see this providing good hedge against any future FX volatility.

Estimates up, MediSA new line in health insurance. In the face of strong results achieved year-to-date, we revised our estimates up, now looking for TRY3.6bn IFRS profits for 2024e (from TRY2.6bn), growing 83% y-o-y. In 2025, we assume a lower inflationary environment with core earnings (net technical income) growth slowing to c40%. Our forecasts do not yet incorporate the new business line, health insurance provider MediSA, in which AgeSA obtained a majority 80% stake in May via a capital injection in which Aksigorta (AKGRT TI, N/R CP TRY5.66) did not participate, lowering its ownership from 100% to 20%. MediSA will likely be dilutive to profitability in the initial phase (TRY30m loss contribution in Q2) but offers a new growth pillar in the field of health insurance, digital health and physical health solutions.

Raise TP to TRY156.00 from TRY85.00, retain Buy. As a result of noteworthy upward revisions to our forecasts along with a slightly lower CoE we use in our valuation (25.2% from 25.5%), we derive a new target price of TRY156.00 from TRY85.00. Based on the implied upside of 33%, we retain our Buy rating. AgeSA trades inexpensively on 2024e PE (IFRS based) of 5.9x and 4.9x for 2025e. A healthy solvency ratio (172% as of end of 1H24, 205% excluding the TRY629m paid for MediSA) suggests sustainable dividends with our assumed pay-out ratio of 15%, in line with the 2023 pay-out. Among the key factors to watch, in our view, are i) impact of expected economic slow down on general consumer loans and hence on credit linked premiums; ii) impact on business of implementation of new IFRS standards expected from 1 January 2025 (IFRS29-17-15-9); and iii) development and progress at MediSA.

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Equities Insurance

Türkiye



MAINTAIN BUY

TARGET PRICE (TRY)

156.00

PREVIOUS TARGET (TRY)

85.00

SHARE PRICE (TRY)

117.30

UPSIDE/DOWNSIDE

+33.0%

(as of 09 Sep 2024)

MARKET DATA

Market cap (TRYm)	21,114	Free float	20%
Market cap (USDm)	620	BBG	AGESA TI
3m ADTV (USDm)	2	RIC	AGESA.IS

FINANCIALS AND RATIOS (TRY)

Year to	12/2023a	12/2024e	12/2025e	12/2026e
IFRS EPS	10.80	19.78	23.76	28.41
IFRS EPS (prev)	10.80	14.65	18.12	20.90
Change (%)	0.0	35.0	31.1	36.0
Consensus EPS	9.19	14.65	18.11	20.90
PE (x)	10.9	5.9	4.9	4.1
Dividend yield (%)	0.7	1.4	2.5	3.0

52-WEEK PRICE (TRY)



Source: LSEG IBES, HSBC estimates

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Financials & valuation: AgeSA

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
P&L summary (TRYm)				
Pension Technical Profit	1,283	2,389	3,336	4,275
Credit-Linked Life Technical Profit	1,186	2,518	3,274	4,092
Life RoP & Savings Technical Profit	1,294	2,129	3,194	4,311
Other Life & Personal Accident Tech Profit	82	150	210	263
Total Technical Profit	3,845	7,186	10,013	12,941
General and Administrative Expenses	-2,351	-3,946	-5,498	-7,105
Total Technical Profit after G&A Expenses	1,494	3,241	4,515	5,836
Total Investment Income & Other	1,277	1,571	1,186	984
Profit Before Taxes	2,771	4,812	5,702	6,819
Tax expense	-710	-1,251	-1,425	-1,705
Net profit (IFRS)	2,061	3,561	4,276	5,115
Net profit (SFRS)	1,425	2,609	3,228	3,899
Dividends	150	300	534	641

*Statutory Financial Reporting Standards

Balance sheet summary* (TRYm)

Cash and cash equivalents	2,083	2,719	2,503	3,049
Financial assets	19,466	24,333	29,199	33,579
Property and equipment, net	124	255	427	636
Intangible assets, net	550	714	929	1,207
Other assets	125,247	225,327	320,040	418,822
Total assets	147,470	253,349	353,098	457,294
Pension business payables	142,804	246,170	343,036	443,783
Insurance contract liabilities	245	274	307	344
Other liabilities	697	871	1,028	1,182
Total liabilities	143,745	247,315	344,371	445,309
Share capital	180	180	180	180
Retained earnings	2,109	4,418	7,111	10,369
Other reserves	1,436	1,436	1,436	1,436
Total shareholders' equity	3,725	6,034	8,727	11,985
Total equity and liabilities	147,470	253,349	353,098	457,294

* Figures reported in SFRS

Ratios & growth

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Pension Technical Profit	112.6%	86.2%	39.6%	28.2%
Life Protection and Savings Tech Profit	116.4%	112.3%	30.0%	25.0%
Other Life & Personal Accident Tech Profit	46.4%	83.0%	40.0%	25.0%
Total Technical Profit	93.0%	86.9%	39.3%	29.2%
General and Administrative Expenses	104.1%	67.8%	39.3%	29.2%
Total Technical Profit after G&A Expenses	77.8%	116.9%	39.3%	29.2%
G&A Expense ratio	61.1%	54.9%	54.9%	54.9%

Per share data (TRY)

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EPS	11.45	19.78	23.76	28.41
DPS	0.83	1.67	2.97	3.56
BVPS	20.69	33.52	48.49	66.58
TNAV	17.64	29.55	43.33	59.87

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
PE (IFRS)	10.9	5.9	4.9	4.1
PE (SFRS)	14.8	8.1	6.5	5.4
P/BV (SFRS)	5.7	3.5	2.4	1.8
P/TNAV	6.7	4.0	2.7	2.0
RoE	65.8%	73.0%	57.9%	49.4%
RoTNAV	85.2%	83.8%	65.2%	55.1%
Dividend yield	0.7%	1.4%	2.5%	3.0%

* Based on diluted shares

ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2022e
GHG emission intensity*	n/a	No. of board members	10
Energy intensity*	n/a	Average board tenure (years)	3.5
CO ₂ reduction policy	Yes	Female board members (%)	30
Social Indicators	12/2022a	Board members independence (%)	20
Employee costs as % of revenues	n/a		
Employee turnover (%)	18.4		
Diversity policy	Yes		

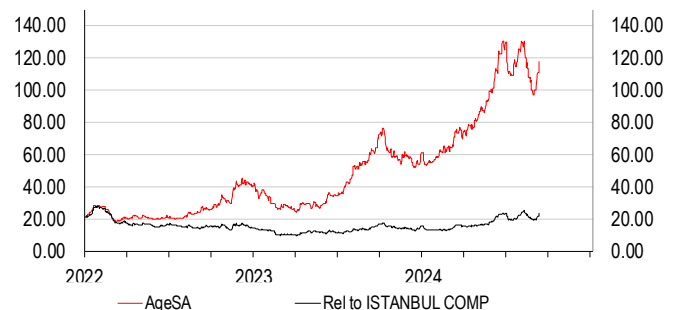
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	117.30	Free float	20%
Target price (TRY)	156.00	Sector	Insurance
RIC (Equity)	AGESA.IS	Country/Region	Türkiye
Bloomberg (Equity)	AGESA TI	Analyst	Cenk Orcan
Market cap (USDm)	620	Contact	+90 212 376 46 14

Price relative

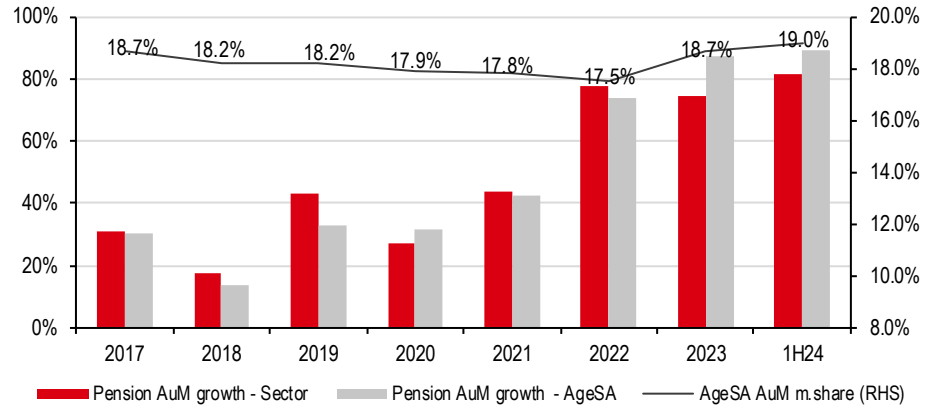


Source: HSBC

Note: Priced at close of 09 Sep 2024

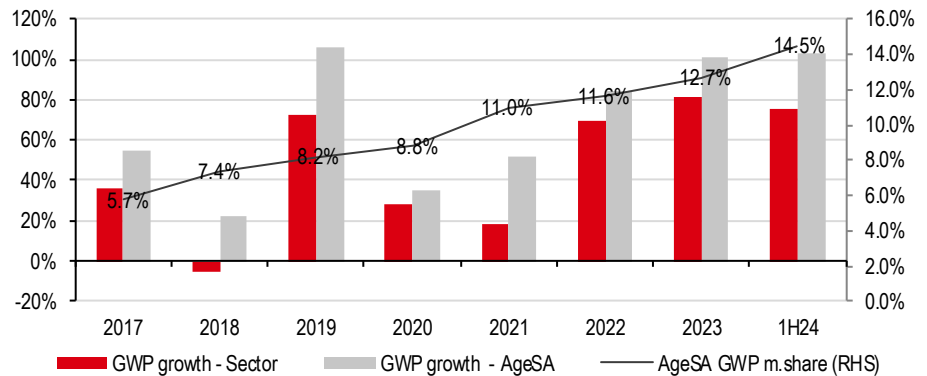
AgeSA in charts

Pension AuM growth and AgeSA market share (includes Auto Enrolment)



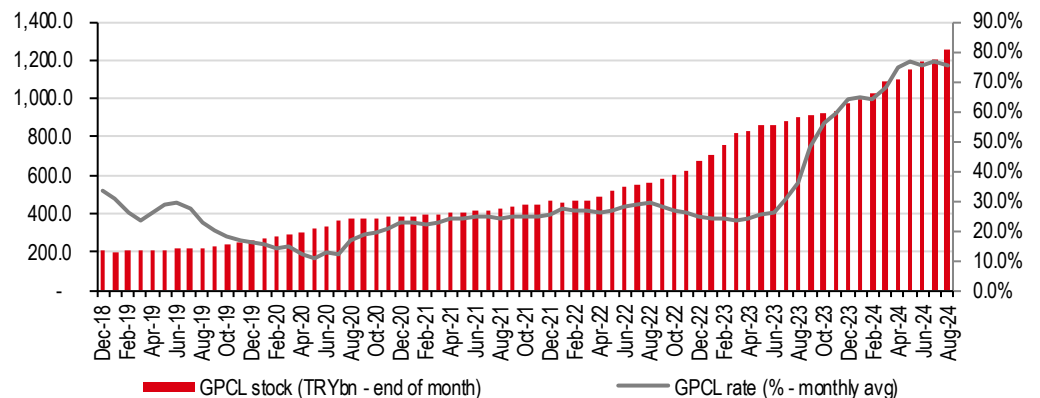
Source: Company data

Life & PA GWP (Gross Written Premium) growth and AgeSA market share



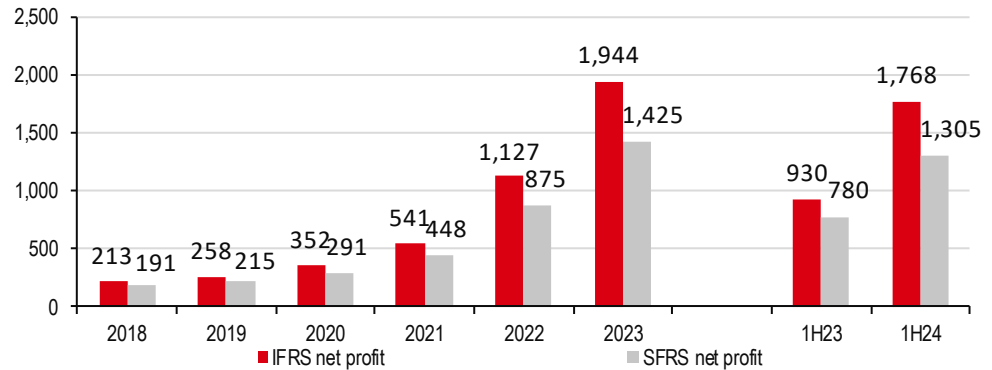
Source: Company data

General Purpose Consumer Loans – still growing with rates settling at high levels



Source: BRSA

AgeSA - IFRS* vs SFRS net profit (TRYm)**



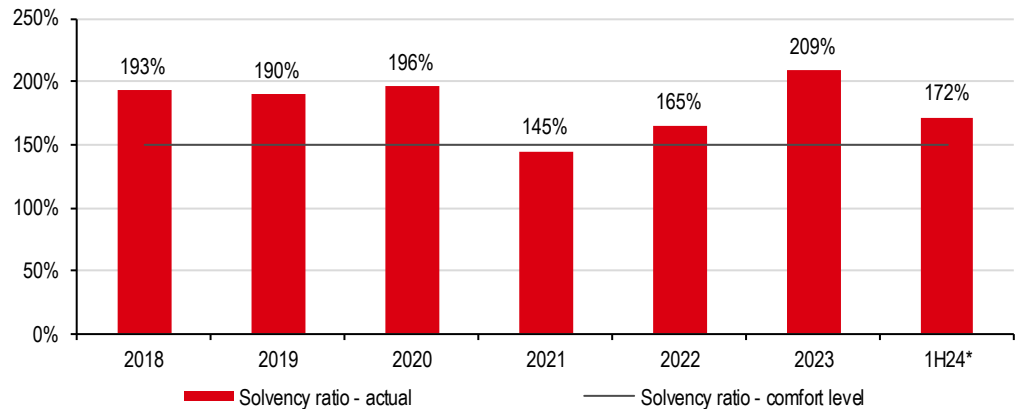
Source: Company data * IFRS results excluding inflation accounting effect as reported by company ** Statutory Financial Reporting Standards

AgeSA: Summary P&L

TRYm	2019	2020	2021	2022	2023	1H23	1H24
Pension technical profit	243	283	349	547	1,166	453	1,146
Credit-linked Life technical profit	115	254	379	548	1,186	446	1,075
Life ROP and Savings technical profit	147	199	367	785	1,294	469	973
Other life and PA technical profit	59	60	55	56	82	33	60
Total Technical Profit	564	796	1,150	1,936	3,728	1,401	3,254
G&A expenses	-352	-424	-621	-1,152	-2,351	-913	-1,822
Net Technical Profit	212	372	529	784	1,377	488	1,432
Total Investment Inc & Other	121	80	200	602	1,277	742	954
Profit Before Taxes	333	451	729	1,386	2,654	1,230	2,386
Tax expense	-75	-101	-188	-259	-710	-300	-618
Net profit (IFRS)	258	350	541	1,127	1,944	930	1,768
Net profit (SFRS)	209	291	448	875	1,425	780	1,305

Source: Company data

AgeSA solvency ratio



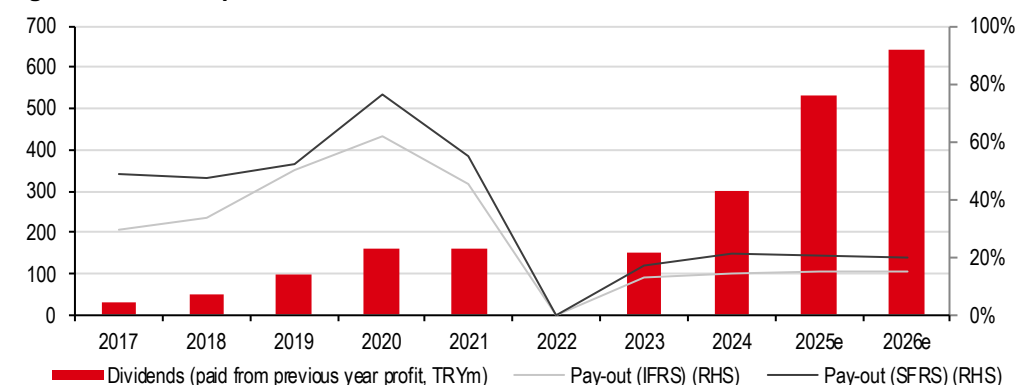
Source: Company data * Solvency ratio for 1H24 would have been 205% excluding the TRY629 capital injected into MediSA in April to obtain an 80% stake

Forecast changes

Our forecast changes incorporate stronger-than-expected results year-to-date, driven by all core business lines. We have noteworthy upward revisions to our technical profit forecasts of around 30% for 2024-26 as well as 30-35% uplift to our IFRS net profit estimates.

A downward trend in the expense ratio in the last quarters drives our 2024 net technical profit estimate 61% higher vs previous; this is offset at the PBT level by muted growth in investment income this year due to notably slower TRY depreciation vs last year. We expect investment income to remain muted in 2025-26e due to lower inflation assumptions. Therefore, as in 2024, we expect bottom-line earnings growth to lag behind net technical profit growth.

AgeSA – dividend profile



Source: Company data, HSBC estimates

AgeSA: Forecast changes*

TRYm	2023		2024e				2025e				2026e			
	actual	chg yoy	old	new	new/old	chg yoy	old	new	new/old	chg yoy	old	new	new/old	chg yoy
Technical Profit														
Pension	1,166	93%	1,846	2,389	29%	105%	2,613	3,336	28%	40%	3,438	4,275	24%	28%
Credit-Linked Life	1,186	116%	1,794	2,518	40%	112%	2,333	3,274	40%	30%	2,916	4,092	40%	25%
Life RoP & Savings	1,294	65%	1,833	2,129	16%	65%	2,566	3,194	24%	50%	3,465	4,311	24%	35%
Other Life and Personal Acc.	82	46%	114	150	32%	83%	160	210	32%	40%	200	263	31%	25%
Total Technical Profit	3,728	87%	5,587	7,186	29%	93%	7,672	10,013	31%	39%	10,018	12,941	29%	29%
General & Admin. Expenses	-2,351	104%	-3,573	-3,946	10%	68%	-4,830	-5,498	14%	39%	-6,207	-7,105	14%	29%
Tech Profit after G&A Exp	1,377	64%	2,014	3,241	61%	135%	2,842	4,515	59%	39%	3,811	5,836	53%	29%
Total Investment Inc & Other	1,277	112%	1,502	1,571	5%	23%	1,339	1,186	-11%	-24%	1,011	984	-3%	-17%
Profit Before Taxes	2,654	84%	3,516	4,812	37%	81%	4,180	5,702	36%	18%	4,822	6,819	41%	20%
Tax expense	(710)	174%	-879	(1251)	42%	76%	-920	(1425)	55%	14%	-1,061	(1705)	61%	20%
Net profit (IFRS)	1,944	64%	2,637	3,561	35%	83%	3,261	4,276	31%	20%	3,761	5,115	36%	20%
Net profit (SFRS)**	1,425	63%	2,048	2,609	27%	83%	2,609	3,228	24%	24%	3,039	3,899	28%	21%

Source: HSBC estimates * Based on management reporting of IFRS results excluding inflation accounting effects. ** Statutory Financial Reporting Standards

Valuation and risks

		Valuation	Risks to our view
AgeSA AGESA TI	Current price:	Our valuation for AgeSA is based on a DDM for the explicit period of 2024e-27e and a warranted equity method for the post explicit period. For CoE, we now use HSBC Strategy Team's updated CoE parameters of a risk-free rate of 3.75% (from 3.50%) and an equity risk premium for Türkiye of 9.75% (from 9.00%), resulting in a USD based CoE of 13.50%. In order to arrive at a CoE in local currency, we use an inflation differential of 13.0% (previously an adjustment factor specific to Türkiye of 14.0%). This results in a CoE of 26.5% (unchanged) if beta is assumed to be 1.00. For AgeSA, we use a company beta of 0.86 (from 0.95, based on Bloomberg adjusted beta) that results in a final CoE of 25.2% (from 25.5%). Our terminal growth rate in TRY is 20% (unchanged). For the explicit period, we discount the expected dividends to the current date, and for the post explicit period, we use the warranted equity method ([2027e ROAEg]/(CoEg)) to reach a discounted value for future dividends, and then discount that value to the current date. We use 2027e ROAE of 46% and 2027e implied P/BV of 5.00x in the warranted equity approach. With revised estimates and a lower CoE, we derive a new target price of TRY156.00 (vs TRY85.00 previously) .This implies 33% upside and we retain our Buy rating.	Key downside risks: 1) negative legislative changes for pensions; 2) macro volatility and prolonged high interest rate environment impacting pension AuMs, exit rates and new enrolments negatively; 3) stronger-than-expected cannibalisation impact of auto enrolment on private pension segment; and 4) lower-than-expected premiums growth rate for life protection business.
	Target price:		
Up/downside:			
Buy	TRY117.30 TRY156.00 +33.0%		

 Priced at 9 Sep 2024
 Source: HSBC estimates

AgeSA valuation multiples

	Ticker	Mcap (USDm)	Rating	Current Price	Target Price	P/E 2024e	P/BV 2024e	Div yield 2024e	P/E 2025e	P/BV 2025e	Div yield 2025e
Anadolu Hayat	ANHYT	1,342	N/R	108.60	n.a.	11.0x	4.8x	n/a	8.5x	3.5x	n/a
AgeSA*	AGESA	620	Buy	117.30	156.00	8.1x	3.5x	2.5%	6.5x	2.4x	3.0%
HSBC Europe Insurance avg.						12.1x	2.2x	5.7%	11.1x	2.0x	5.7%
AgeSA vs Anhyt						-26%	-28%	-	-23%	-30%	-

Source: Company data, HSBC estimates for AgeSA, Bloomberg estimates for Anadolu Hayat * AgeSA multiples based on SFRS

Disclosure appendix

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

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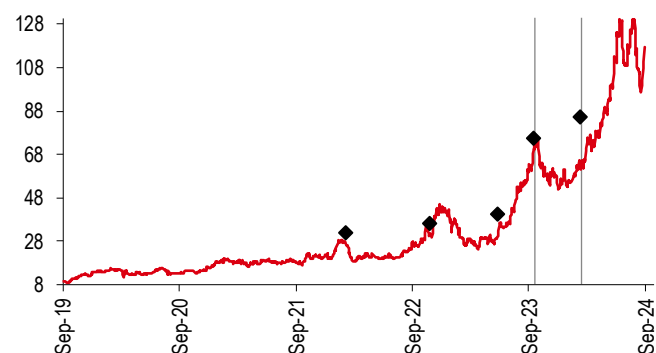
Buy	56%	(14% of these provided with Investment Banking Services in the past 12 months)
Hold	38%	(15% of these provided with Investment Banking Services in the past 12 months)
Sell	7%	(10% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at <http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures>.

Share price and rating changes for long-term investment opportunities

AgeSA (AGESA.IS) share price performance TRY Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Hold	26 Sep 2023	Cenk Orcan
Hold	Buy	22 Feb 2024	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	31.20	16 Feb 2022	Cenk Orcan
Price 2	36.00	03 Nov 2022	Cenk Orcan
Price 3	40.00	07 Jun 2023	Cenk Orcan
Price 4	75.00	26 Sep 2023	Cenk Orcan
Price 5	85.00	22 Feb 2024	Cenk Orcan

Source: HSBC

To view a list of all the independent fundamental ratings/recommendations disseminated by HSBC during the preceding 12-month period, and the location where we publish our quarterly distribution of non-fundamental recommendations (applicable to Fixed Income and Currencies research only), please use the following links to access the disclosure page:

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HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
AGESA	AGESA.IS	117.30	09 Sep 2024	7

Source: HSBC

- HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
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- As of 31 July 2024, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.

- 6 As of 31 July 2024, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
- 7 As of 31 July 2024, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.
- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company.
- 12 As of 04 September 2024, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- 13 As of 04 September 2024, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- 14 HSBC Qianhai Securities Limited holds 1% or more of a class of common equity securities of this company.

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