

Akbank

10/25/2024

Target Price Revision and Review of 3Q24 Financials

BUY

Upside Potential 51%

Akbank 3Q24: Margin pressure is still on, TP cut to TL 75 per share

In line with the consensus estimates, Akbank posted TL 9 bn net earnings in

3Q24. Akbank disclosed TL 9 bn net income in 3Q24, in line with our call of TL 8.9bn and the consensus figure of TL 9.1bn. Annualized RoAE came out as 16% in 3Q, down from 20% booked a quarter ago, while the cumulative RoAE turned out to be 20%. As expected, higher deposit and swap funding costs put a major pressure on margins as swap adj. NIM retreated by 20bps to 1.8% in 3Q24. Although the revenue from CPI linkers edged up slightly higher to TL 19.1 bn from TL 17.8bn booked a quarter ago, the elimination of onshore swaps resulted in marginally higher TL funding costs as the bank shifted to repos where the cost has been around 50% while the cost of swaps has been around 40%. The management thinks that the bottom of the earnings and the margins have been seen in 3Q24, and the quarterly better earnings (slightly) is on the making. They also underlined that the revised NIM guidance of 3% and 20% RoAE target have some downside risks.

Net fee income growth track continues its impressive momentum with 15%

QoQ and 136% annual growth. The growth in lucrative retail segments have also been buoying the commission income for the bank as the fee coverage of opex has risen to 91% from 58% levels back in 2022. Operating costs increased 7% on quarterly basis driven by the HR salary increases, but especially the higher regulator costs inflated the non-HR portion of the opex. Thanks to the robust collection performance continuation, the net NPLs turned out to be higher at 15.1bn, yet slightly lower coverages resulted in 87bps net CoR (ccy adjusted), still lower than full year guidance of 100bps.

Highlights of the Quarter

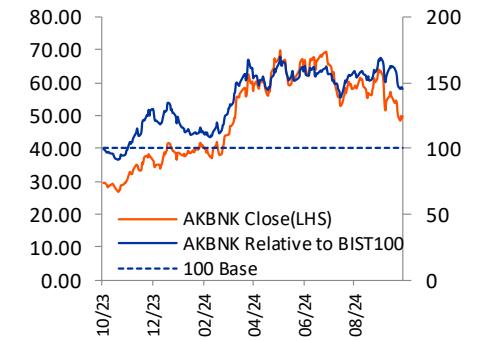
Margins seen the trough by higher repo costs. The regulatory changes in the quarter exacerbated the NIM pressures as higher RRRs and elimination of onshore swaps put a dent on the NIM markedly. The latter led the bank to shift towards higher cost Repo positions where the underlying costs have been around 50% while the swap cost was around 40%. The ongoing loan growth caps also has been denting the recovery while the tamed loan demand also led the competition to pick up, which resulted in lower yields compared to the initial targets. Higher TL deposit costs were accompanied by the inflated swap costs as the consecutive rate hikes weighed heavily on the incremental funding costs on the TL side for the last two quarters. Earlier re-primed TL funding costs, therefore,

Stock Data	TL
Price	49.68
Target Price*	75.00
Prev.TP	75.00
Mcap (mn)	258,336
Float Mcap (mn)	136,763
Avg.Daily Volume (3M, mn)	3941.9
No. of Shares Outstanding (mn)	5,200
Free Float (%)	53
Foreign Share (%)	50

Price Perf. (%)	1 Mn	Ytd	12 Mn
TL	-22.2	41.9	75.1
US\$	-22.4	22.2	43.8
Rel.to BIST-100	-12.1	19.5	46.5

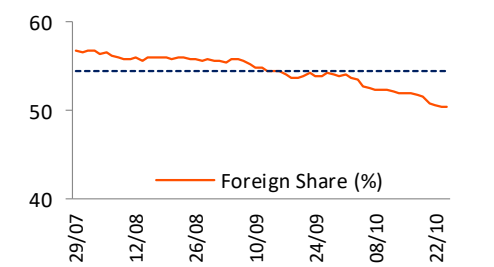
Multiples	2023	2024	2025
P/E	3.9	5.1	2.8
P/BV	1.2	1.0	0.8
EV/EBITDA	36.5	22.1	32.2

Price / Relative Price



52 Week Range (Close TL) 26.83 69.80

Foreign Share (%) Cur.(%) : 50.39



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led the margin to dive into 2% (swap adj.) losing 65bps in the quarter. The income on CPI linkers is slightly up at TL 19.1bn on quarterly comparison with 48% inflation assumption for the full year, which was 45% back in 2Q24. Akbank has been shifting the weight of the FRNs in its security book, replacing some portion of the CPI linkers. The good news is that TL deposit costs have been moderating coming off the peaks of 50% more towards 47% levels while higher re-pricings on the asset side may cause a slight pick up on the quarterly NIM evolution. Still, the management sees downside risks to their revised NIM guidance of 3%.

Net NPL inflows increased in 3Q24. Net inflows seem to have expedited in 3Q24 with TL 15.1 net inflow vs TL 6 bn booked a quarter where TL 8bn stemmed from large files while the rest stemmed from retail deterioration. However, lower coverages and write off of TL 5.8 bn led the first nine month net CoR to be merely at 87bps, lower than the full year guidance of remaining lower than 100bps.

Net fees again proved to be very robust in 3Q24. Net fee income continued to remain strong, surging 136% on annual basis as the new customer acquisitions, strong loan growth in retail segments and credit cards and robust performance on non-lending areas in cultivating fees all helped to fuel the fee income evolution. The bank also diversified its fee income momentum in various areas where insurance, money transfer and wealth management all strongly contributed to the fee income progression as well. Recall that Akbank revised up its full year net fee growth to above 100% from its previous level of above 80%.

Impact on Valuation & Outlook

Further revision in NIM and RoAE could be a threat to the sentiment. After the guidance revision at the end of first half, Akbank management sees further downside risk for 2024 NIM and RoAE, Recall that the NIM guidance was around 3% while the RoAE was 20% It is likely that the NIM will be between 2-3%. We are also revising down our next three-year earnings by c. 15% on average which resulted in a downward revision in our TP. Our new TP is TL 75 per share. We continue to rate the bank as a BUY.

Akbank

Company Description

Akbank is a Turkey-based bank. The Bank's core business activities include retail banking, commercial banking, corporate banking, private banking, foreign exchange, money markets, securities transactions and international banking services.

Shareholder Structure (%)

Diğer
Hacı Ömer Sabancı Hold

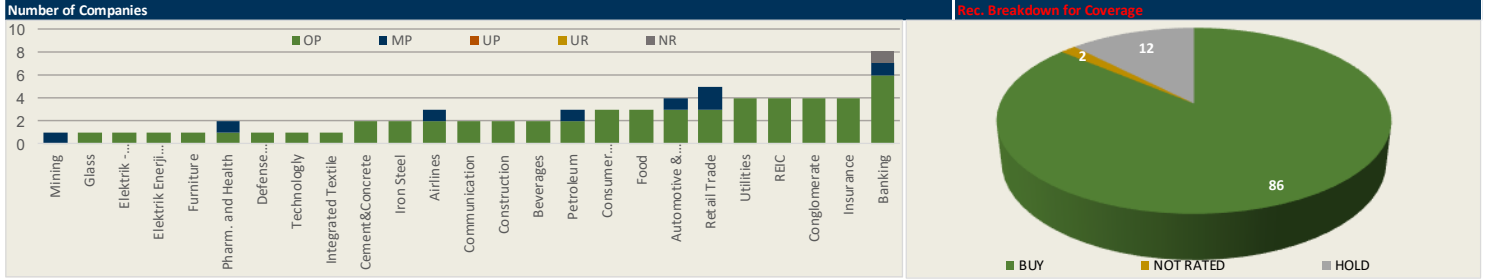
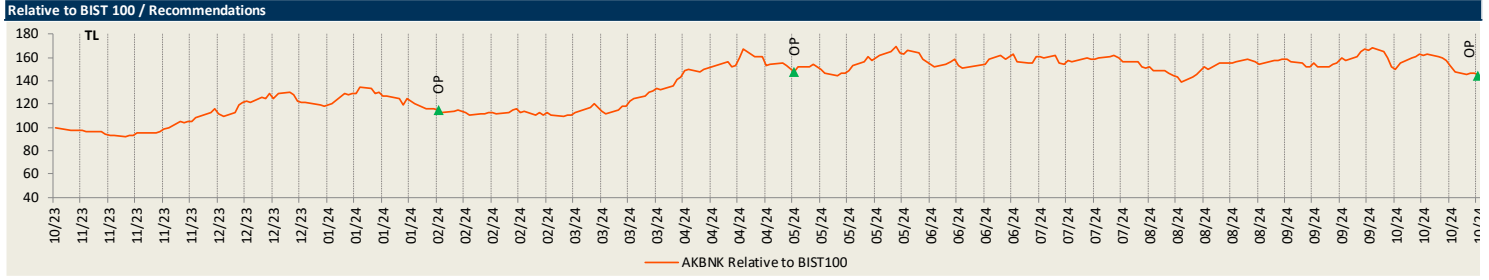
59.25
40.75

Akbank							
Income Statement (TL mn)	3Q23	4Q23	1Q24	2Q24	3Q24	QoQ	YoY
Net interest income	23,173	17,418	18,729	17,136	12,706	(26%)	(45%)
Net fees & commissions	9,177	11,259	13,858	16,001	18,662	17%	103%
Trading and investments	9,216	2,057	(304)	(2,994)	748	n.m.	(92%)
<i>Securities trading</i>	124	1,738	2,270	2,941	1,541	(48%)	1,140%
<i>Swap & derivatives</i>	9,080	316	(2,577)	(5,958)	(797)	(87%)	n.m.
<i>Dividend income</i>	12	3	3	23	5	(80%)	(63%)
Other income	773	3,074	4,141	2,255	3,461	53%	348%
Operating costs	(11,603)	(13,958)	(18,335)	(19,017)	(20,615)	8%	78%
<i>Personnel expenses</i>	(4,677)	(5,050)	(7,216)	(6,664)	(7,110)	7%	52%
PPOP	26,046	14,797	10,871	6,694	7,848	17%	(70%)
Provision expenses	(2,948)	(5,045)	(4,272)	(3,970)	(6,850)	73%	132%
<i>Stage III</i>	(941)	(3,255)	(3,669)	(3,206)	(7,113)	122%	656%
<i>Stage I&II</i>	(1,851)	(2,202)	(601)	(748)	268	n.m.	n.m.
<i>Others</i>	(156)	412	(2)	(15)	(6)	(62%)	(96%)
<i>Free</i>	(0)	0	0	(0)	(0)	(50%)	(50%)
Income from eq. method app'd subs.	2,136	1,955	2,139	2,429	2,417	(0%)	13%
PBT	29,923	16,759	15,955	11,840	10,529	(11%)	(65%)
Tax	9,475	1,741	2,771	916	1,498	64%	(84%)
Net profit	20,447	15,018	13,184	10,924	9,031	(17%)	(56%)
Balance Sheet (TL mn)	3Q23	4Q23	1Q24	2Q24	3Q24	QoQ	YoY
Customer loans	785,553	870,106	975,075	1,100,126	1,204,108	9%	53%
<i>Consumer</i>	18%	18%	18%	18%	0%	n.m.	n.m.
<i>Credit cards</i>	19%	21%	22%	21%	0%	n.m.	n.m.
<i>Commercial instalment</i>	5%	7%	8%	8%	0%	n.m.	n.m.
<i>Other</i>	57%	54%	51%	53%	100%	88%	76%
NPLs	17,372	20,719	21,922	25,037	32,151	28%	85%
<i>Additions</i>	4,385	10,777	6,408	13,385	28,546	113%	551%
<i>Collections</i>	3,763	5,616	5,152	7,311	13,369	83%	255%
<i>Write-off</i>	-14	-1,120	-23	-1,650	-3,916	137%	27,291%
Specific provisions (-)	12,287	12,858	13,641	13,823	18,219	32%	48%
Securities	401,443	440,893	501,278	513,181	545,066	6%	36%
<i>Trading & AfS</i>	252,143	277,586	326,612	329,621	349,699	6%	39%
<i>HtM</i>	149,300	163,306	174,666	183,560	195,367	6%	31%
Total assets	1,612,958	1,789,174	1,959,704	2,180,576	2,277,957	4%	41%
Customer deposits	1,070,043	1,218,108	1,307,173	1,403,594	1,504,757	7%	41%
Securities issued	37,089	39,461	42,837	62,737	63,338	1%	71%
Wholesale funding	212,372	208,396	267,600	367,504	330,311	(10%)	56%
Equity	190,024	211,195	213,101	221,093	230,945	4%	22%

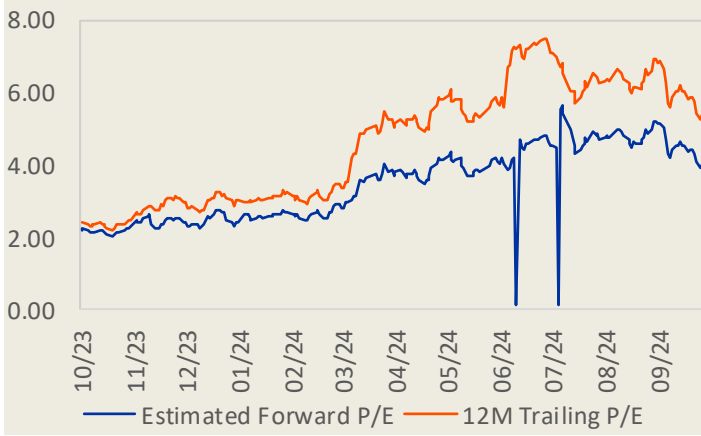
Ratio Analysis	3Q23	4Q23	1Q24	2Q24	3Q24	QoQ	YoY
NIM, quarterly	6.77%	4.50%	4.38%	3.62%	2.50%	(112bps)	(427bps)
<i>adjusted for swap costs</i>	6.84%	3.24%	2.61%	1.97%	1.77%	(20bps)	(506bps)
<i>adjusted for swap and CPI linkers</i>	-0.21%	-1.13%	-1.27%	-1.79%	-1.73%	6bps	(152bps)
TL							
Loans	20.77%	28.07%	31.85%	34.08%	35.23%	115bps	1,447bps
Securities	49.20%	36.44%	36.18%	38.04%	38.03%	(0bps)	(1,117bps)
Deposits	23.51%	29.87%	33.80%	38.64%	36.86%	(178bps)	1,335bps
LtD spread	-2.74%	-1.80%	-1.95%	-4.56%	-1.63%	293bps	111bps
FX							
Loans	8.82%	9.09%	8.62%	8.44%	7.50%	(94bps)	(132bps)
Securities	7.94%	7.86%	7.79%	7.29%	7.25%	(4bps)	(69bps)
Deposits	1.51%	2.04%	1.40%	1.43%	1.37%	(6bps)	(14bps)
LtD spread	7.31%	7.04%	7.21%	7.01%	6.13%	(88bps)	(118bps)
PPOP Margin	7.60%	3.82%	2.54%	1.41%	1.54%	13bps	(606bps)
NPL ratio	2.21%	2.38%	2.25%	2.28%	2.67%	39bps	46bps
Loan loss coverage	70.73%	62.06%	62.22%	55.21%	56.67%	146bps	(1,406bps)
Total risk reserves	168%	155%	152%	138%	120%	(1,755bps)	(4,811bps)
Specific CoR (stage III)	51 bps	157 bps	159 bps	124 bps	247 bps	1,233,572bps	1,963,066bps
Specific CoR (stage I&II)	100 bps	106 bps	26 bps	29 bps	(9 bps)	(381,659bps)	#####
Total CoR (net of collections)	108 bps	137 bps	33 bps	69 bps	123 bps	534,133bps	144,315bps
Net NPL additions (annualised)	0.33%	2.49%	0.54%	2.34%	5.27%	293bps	493bps
Loans under close-watch	2.19%	1.92%	1.81%	2.22%	2.57%	35bps	38bps
Restructured or rescheduled	5.52%	5.13%	4.97%	4.20%	3.64%	(56bps)	(188bps)
Net NPL stock to Tier I (Texas Ratio)	2.76%	3.83%	3.86%	5.04%	5.99%	96bps	323bps
Net NPL stock + Group II to Tier I	12.1%	12.0%	12.1%	16.0%	19.3%	327bps	722bps
CIR	28%	45%	57%	63%	64%	106bps	3,627bps
Costs as % of average assets	3.0%	3.3%	3.9%	3.7%	3.7%	2bps	65bps
Net fees to operating costs	79%	81%	76%	84%	91%	639bps	1,144bps
RoAA	5.4%	3.5%	2.8%	2.1%	1.6%	(49bps)	(375bps)
RoAE	45.5%	29.9%	24.9%	20.1%	16.0%	(415bps)	(2,951bps)
Leverage	8.5 x	8.5 x	8.8 x	9.5 x	9.9 x	3,276bps	13,874bps
Tier-I ratio	18.57%	18.70%	17.23%	16.48%	17.62%	114bps	(95bps)
Total CAR	21.84%	21.92%	20.18%	19.26%	20.54%	128bps	(130bps)
Adj. LtD ratio *	70%	68%	70%	74%	75%	96bps	457bps
Specific prov. expense/PPOP	4%	22%	34%	48%	91%	4,275bps	8,702bps
Short term re-pricing loans to total	51%	48%	46%	45%	46%	84bps	(483bps)
Short term re-pricing deposits to total	64%	65%	56%	65%	67%	216bps	308bps
Saving deposits to total	73%	73%	70%	69%	64%	(539bps)	(893bps)

* *adjusted for securities issued, subloans, LT FX borrowing and bank deposits*

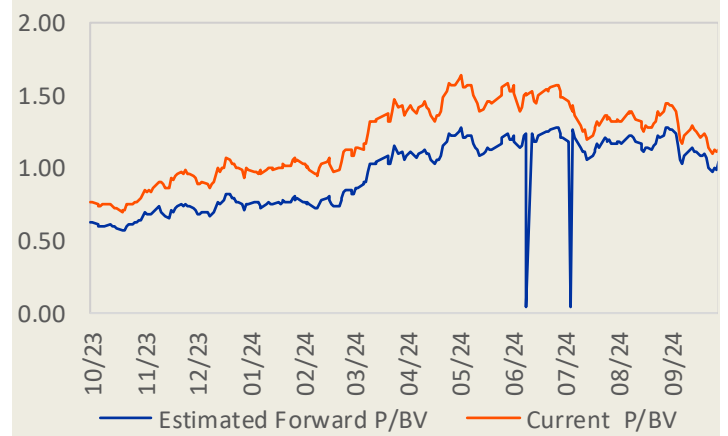
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Estimated Forward P/E & 12M Trailing P/E



Estimated Forward P/BV & Current P/BV



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