

8 AUGUST 2024

RESULTS FLASH

ISBANK

ISCTR TI

TÜRKİYE/BANKS

BUY

TARGET PRICE	TRY22.69
CLOSE	TRY13.66
UP/DOWNSIDE	+66.1%
PRIOR TP	TRY21.67
CHANGE IN TP	4.71%

Core NIM turns negative

Low-quality earnings beat in 2Q24

ISCTR's 2Q24 net income of TRY15.1b was better than both our and RT consensus estimates of TRY10.6b, mainly due to higher subsidiary income and deferred tax income of TRY3.3b. The core banking performance in 2Q24 was weak as swap adjusted NII turned negative at TRY9.8bn vs +TRY0.9bn in 1Q24. 2Q24 annualized ROE came down to 20.4% and the consolidated Tier-1 ratio settled at 12%. Post results, management lowered its 2024E ROE target from +35% to c30%, targeting a swap adjusted NIM of 2% for the year (vs 4% previously). While 2Q24 results are better than our expectations, NIM progress has been worse than expected. Hence, we slightly lower our 2024E numbers. Also, the stock performance has been weak in the past month on the back of the news that Isbank would defer its plans for the partial demerger of its subsidiaries. The demerger plans were a clear catalyst for shares and given rather weak operating results, ISCTR shares could potentially struggle to outperform in the near term. However, on a 12-month horizon, we see ample scope for shares to rerate due to the expected recovery in ROE, amid lower cost of equity for TRY stocks. Trading below 1x 2025E PBV, we reiterate our BUY recommendation.

Swap adjusted NIM turns negative in 2Q24

ISCTR's TRY loan book grew 6.5% q-q, while TRY deposit growth was sharper at 22.5%. Larger TRY funding was consumed by higher liquid assets as well as reserve requirements. With peaking deposit costs in 2Q24, TRY loan deposit spread declined to red (or -415 bps), leading to swap adjusted NIM falling to negative 159bps. Thus, 1H24 swap adjusted NIM was 73bps. Post 2Q24 results, we find management's 200bps guidance for the year to be aggressive, unless deposit costs fall significantly lower in 4Q24.

Free provision bucket is down to TRY3b

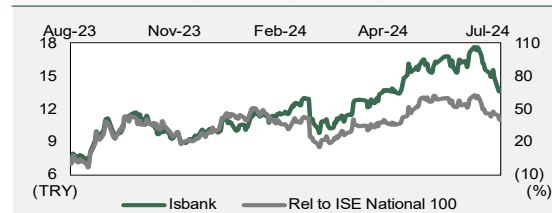
2Q24 net cost of risk came in at 70bps. There was also a TRY3b free provision release in 2Q24, depleting free provision coffers to TRY3b. We expect the remaining free provisions to be released in 2H24.

Fee income growth continues to be solid

ISCTR continued to deliver double digit q-q fee growth, while opex was flat q-q, resulting in an improvement in the fee to opex ratio.

KEY STOCK DATA

YE Dec (TRY m)	2023A	2024E	2025E	2026E
Operating Profit	77,082	83,806	168,103	218,158
Rec. net profit	72,265	82,418	147,286	192,250
Recurring EPS (TRY)	2.89	3.30	5.89	7.69
Prior rec. EPS (TRY)	7.23	3.45	6.07	7.50
Chg. In EPS est. (%)	(60.0)	(4.3)	(3.0)	2.5
EPS growth (%)	18.0	14.1	78.7	30.5
Recurring P/E (x)	4.7	4.1	2.3	1.8
Dividend yield (%)	2.1	2.4	6.5	8.4
Price/book (x)	1.3	1.0	0.7	0.5
ROE (%)	31.5	27.2	36.1	34.2
ROA (%)	3.7	2.9	4.1	4.4



Share price performance	1 Month	3 Month	12 Month
Absolute (%)	(15.7)	(1.5)	87.7
Relative to country (%)	(8.7)	1.6	39.9
Mkt cap (USD m)			10,194
3m avg daily turnover (USD m)			160.3
Free float (%)			35
Major shareholder			Isbank Pension Fund (37%)
12m high/low (TRY)			17.62/7.30
3m historic vol. (%)			41.6
ADR ticker			-
ADR closing price (USD)			-
Issued shares (m)			25,000

Sources: FactSet Estimates; TEB Investment/BNP Paribas estimates



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Our research is available on Refinitiv, Bloomberg, S&P Global, FactSet and ONEaccess.



The bank for a changing world

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Exhibit 1: ISCTR – 2Q24 earnings summary

ISCTR	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	2Q24E	----- Change -----	
	(TRY m)	(TRY m)	(TRY m)	(TRY m)	(TRY m)	(TRY m)	(TRY m)	(q-q %)	(y-y %)
TRY loan growth (%)	12.8	4.5	8.8	20.2	13.0	6.5	6.4	6.5	57.4
FX loan growth – USD (%)	(2.9)	(0.5)	(6.9)	0.6	1.3	14.2	15.0	14.2	8.3
Average IEA	1,328,342	1,534,782	1,756,775	2,011,983	2,264,433	2,453,828	2,447,049	8.4	59.4
Book value	196,882	208,451	221,707	267,797	274,992	285,498	285,623	3.8	37.0
Net Interest Income	19,919	15,238	15,774	16,142	15,999	8,580	11,254	(46.4)	(43.7)
Net interest income, including swaps	18,129	14,039	12,436	5,790	867	(9,767)	(5,573)	(1,226.7)	(169.6)
<i>of which CPI linker income</i>	7,628	8,016	12,790	13,197	12,327	14,166	13,773	14.9	76.7
Swap adjusted NII ex CPI linker gains	10,501	6,023	(354)	(7,407)	(11,460)	(23,933)	(19,345)	108.8	(497.4)
Trading income, incl. Swaps	763	7,679	4,873	(1,091)	(6,727)	(6,843)	(6,208)	1.7	(189.1)
<i>of which swap income/(loss)</i>	(1,790)	(1,199)	(3,338)	(10,352)	(15,132)	(18,347)	(16,826)	21.2	1,430.2
<i>of which clean trading income</i>	2,373	6,478	7,736	8,611	7,625	11,254	10,361	47.6	73.7
<i>of which FX loan loss hedge</i>	180	2,400	475	650	780	250	257	(67.9)	(89.6)
Income from subsidiaries	2,659	10,925	8,332	12,145	7,787	12,520	7,397	60.8	14.6
Net fee income	6,154	7,467	11,964	16,852	19,371	21,504	21,107	11.0	188.0
Net provisions	(74)	(6,166)	75	(7,159)	(1,747)	(2,360)	(1,947)	35.0	(61.7)
Opex	(16,845)	(16,467)	(18,661)	(20,256)	(25,539)	(25,405)	(25,539)	(0.5)	54.3
Pre-provision earnings	15,523	25,063	22,390	23,724	14,935	14,385	12,354	(3.7)	(42.6)
EBT	15,630	21,298	22,939	17,216	13,967	12,275	10,664	(12.1)	(42.4)
Reported net profit	12,903	18,595	20,548	20,219	14,048	15,103	10,631	7.5	(18.8)
CPI linker book size	116,186	108,351	124,397	128,813	132,693	138,382	138,019	4.3	27.7
RWA	1,364,092	1,637,293	1,750,342	1,973,450	2,471,612	2,675,749	2,647,876	8.3	63.4
Key ratios	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(q-q bps)	(y-y bps)
TRY loan yield	15.73	14.51	18.80	26.84	30.15	32.73	32.29	258	1,822
TRY interest bearing deposit cost	15.83	21.00	27.14	32.83	37.22	44.67	45.87	745	2,366
TRY loan deposit spread	4.42	(1.14)	(2.58)	(0.21)	(0.85)	(4.15)	(5.60)	(329)	(300)
NIM, adjusted for swaps	5.93	4.05	3.15	1.28	0.17	(1.73)	(0.99)	(190)	(579)
NIM, adjusted for swaps, ex. CPI linkers	3.16	1.57	(0.08)	(1.47)	(2.02)	(3.90)	(3.16)	(188)	(547)
Net specific cost of risk	(0.04)	(2.65)	0.03	(1.24)	(0.57)	(0.70)	(0.57)	(12)	195
Net specific cost of risk, ex f/x impact	0.05	(1.56)	0.23	(0.99)	(0.32)	(0.62)	(0.50)	(30)	94
Cost income ratio	(63)	(54)	(57)	(63)	(89)	(109)	(98)	(2,015)	(5,512)
NPL	2.68	2.24	1.94	2.13	1.91	1.77	1.84	(14)	(47)
NP Ratio (NPL + Group 2 Restructured)	7.85	7.73	7.47	7.10	6.36	5.80	5.97	(56)	(193)
Subsidiary + Fixed Asset / Total Equity	50.90	57.61	61.86	66.72	70.79	74.09	70.74	330	1,648
Net income / Total Revenues (NII + Fee + dividends + trading income)	43.74	45.01	50.19	45.90	38.56	42.23	31.69	367	(278)
FX liquidity ratio	506	442	360	327	387	347	387	(4,007)	(9,510)
Consolidated Tier-1 ratio (without forbearance)	14.80	13.20	13.10	13.80	12.40	12.00	11.32	(40)	(120)
ROE	26.2	35.7	37.1	30.2	20.4	21.2	14.9	73	(1,452)
ROA	3.46	4.22	4.08	3.57	2.20	2.18	1.54	(2)	(205)

Sources: Isbank; TEB Investment/BNP Paribas estimates

Financial statements

Isbank

Profit and Loss (TRY m) Year Ending Dec	2022A	2023A	2024E	2025E	2026E
Interest income	123,170	222,486	509,916	570,963	885,055
Interest expense	(48,251)	(155,413)	(444,456)	(459,404)	(712,125)
Net interest income	74,919	67,073	65,460	111,560	172,930
Net fees & commission	16,147	42,438	83,683	97,098	125,869
Foreign exchange trading income	(5,163)	8,518	(14,637)	25,954	(1,293)
Securities trading income	9,685	3,705	2,864	0	0
Dividend income	21,829	34,061	49,228	84,835	114,527
Other income	1,927	6,839	13,603	3,200	3,200
Non interest income	44,425	95,561	134,741	211,087	242,303
Total income	119,344	162,634	200,202	322,647	415,233
Staff costs	(15,096)	(25,307)	(40,102)	(57,048)	(79,205)
Other operating costs	(18,934)	(46,922)	(65,798)	(77,412)	(93,320)
Operating costs	(34,029)	(72,229)	(105,900)	(134,460)	(172,525)
Pre provision operating profit	75,629	86,700	91,438	188,188	242,708
Provisions for bad and doubtful debts	(5,882)	(9,158)	(10,495)	(20,085)	(24,550)
Other provisions	(5,768)	(4,165)	(0)	0	0
Operating profit	73,664	77,082	83,806	168,103	218,158
Recurring non operating income	0	0	0	0	0
Associates	-	-	-	-	-
Goodwill amortization	-	-	-	-	-
Non recurring items	0	0	0	0	0
Profit before tax	73,664	77,082	83,806	168,103	218,158
Tax	(12,411)	(4,818)	(1,388)	(20,817)	(25,908)
Profit after tax	61,253	72,265	82,418	147,286	192,250
Minority interests	0	0	0	0	0
Preferred dividends	0	0	0	0	0
Other items	-	-	-	-	-
Reported net profit	61,253	72,265	82,418	147,286	192,250
Non recurring items & goodwill (net)	0	0	0	0	0
Recurring net profit	61,253	72,265	82,418	147,286	192,250
Per share (TRY)					
Recurring EPS *	2.45	2.89	3.30	5.89	7.69
Reported EPS	2.45	2.89	3.30	5.89	7.69
DPS	0.37	0.28	0.33	0.88	1.15
Growth					
Net interest income (%)	149.0	(10.5)	(2.4)	70.4	55.0
Non interest income (%)	297.1	115.1	41.0	56.7	14.8
Pre provision operating profit (%)	390.8	14.6	5.5	105.8	29.0
Operating profit (%)	403.6	4.6	8.7	100.6	29.8
Reported net profit (%)	385.4	18.0	14.1	78.7	30.5
Recurring EPS (%)	385.4	18.0	14.1	78.7	30.5
Reported EPS (%)	(12.6)	18.0	14.1	78.7	30.5
Income Breakdown					
Net interest income (%)	62.8	41.2	32.7	34.6	41.6
Net fees & commission (%)	13.5	26.1	41.8	30.1	30.3
Foreign exchange trading income (%)	(4.3)	5.2	(7.3)	8.0	(0.3)
Securities trading income (%)	8.1	2.3	1.4	0.0	0.0
Dividend income (%)	18.3	20.9	24.6	26.3	27.6
Other income (%)	1.6	4.2	6.8	1.0	0.8
Operating performance					
Gross interest yield (%)	11.81	13.00	20.21	17.84	23.20
Cost of funds (%)	5.13	9.97	18.88	15.36	20.00
Net interest spread (%)	6.68	3.03	1.33	2.48	3.20
Net interest margin (%)	7.18	3.92	2.60	3.49	4.53
Cost/income (%)	28.5	44.4	52.9	41.7	41.5
Cost/assets (%)	2.91	3.74	3.72	3.73	3.98
Effective tax rate (%)	16.8	6.3	1.7	12.4	11.9
Dividend payout on recurring profit (%)	15.1	9.7	10.0	15.0	15.0
ROE (%)	44.0	31.5	27.2	36.1	34.2
ROE - COE (%)	13.4	0.8	(3.5)	5.4	3.5
ROA (%)	5.25	3.74	2.90	4.08	4.44
RORWA (%)	5.92	4.50	3.31	4.29	4.51

*Pre exceptional, pre goodwill and fully diluted

Sources: Isbank; TEB Investment/BNP Paribas estimates

Financial statements

Isbank

Balance Sheet (TRY m) Year Ending Dec	2022A	2023A	2024E	2025E	2026E
Gross customer loans	782,423	1,172,261	1,672,714	2,191,337	2,715,749
Total provisions	(32,644)	(37,967)	(46,986)	(67,071)	(91,621)
Interest in suspense	0	0	0	0	0
Net customer loans	749,779	1,134,294	1,625,728	2,124,266	2,624,127
Bank loans	0	0	0	0	0
Government securities	278,281	472,417	617,295	696,798	647,831
Trading securities	0	0	0	0	0
Investment securities	0	0	0	0	0
Cash & equivalents	221,826	566,472	628,897	707,180	828,241
Other interest earning assets	0	0	0	0	0
Tangible fixed assets	17,197	34,231	37,124	37,124	37,124
Associates	79,859	144,453	203,317	288,152	402,679
Goodwill	0	0	0	0	0
Other intangible assets	3,514	6,399	7,706	7,706	7,706
Other assets	57,864	95,516	115,029	115,029	140,944
Total assets	1,408,321	2,453,780	3,235,096	3,976,254	4,688,651
Customer deposits	931,076	1,662,177	2,089,215	2,573,950	3,077,939
Bank deposits	0	0	0	0	0
Other interest bearing liabilities	139,869	312,432	555,868	659,730	689,588
Non interest bearing liabilities	112,442	171,503	203,742	209,358	209,358
Hybrid Capital	33,559	39,871	47,506	55,406	63,800
Total liabilities	1,216,945	2,185,983	2,896,331	3,498,445	4,040,685
Share capital	10,000	10,000	25,000	25,000	25,000
Reserves	181,376	257,797	313,765	452,809	622,966
Total equity	191,376	267,797	338,765	477,809	647,966
Minority interests	-	-	-	-	-
Total liabilities & equity	1,408,321	2,453,780	3,235,096	3,976,254	4,688,651
Supplementary Items					
Risk weighted assets (RWA)	1,236,265	1,973,450	2,999,176	3,870,600	4,657,841
Average interest earning assets	1,043,150	1,711,534	2,522,551	3,200,082	3,814,221
Average interest bearing liabilities	941,062	1,559,492	2,353,534	2,990,838	3,560,207
Tier 1 capital	196,566	272,336	353,041	492,085	667,327
Total capital	425,498	593,945	745,455	1,019,098	1,362,196
Gross non performing loans (NPL)	23,134	24,920	34,171	40,880	62,793
Per Share(TRY)					
Book value per share	7.66	10.71	13.55	19.11	25.92
Tangible book value per share	7.51	10.46	13.24	18.80	25.61
Growth					
Gross customer loans (%)	52.2	49.8	42.7	31.0	23.9
Average interest earning assets (%)	51.5	64.1	47.4	26.9	19.2
Total assets (%)	52.0	74.2	31.8	22.9	17.9
Risk weighted assets (%)	48.1	59.6	52.0	29.1	20.3
Customer deposits (%)	56.3	78.5	25.7	23.2	19.6
Leverage & capital measures					
Customer loans/deposits (%)	80.5	68.2	77.8	82.5	85.3
Equity/assets (%)	13.6	10.9	10.5	12.0	13.8
Tangible equity/assets (%)	13.3	10.7	10.2	11.8	13.7
RWA/assets (%)	87.8	80.4	92.7	97.3	99.3
Tier 1 CAR (%)	15.9	13.8	11.8	12.7	14.3
Total CAR (%)	34.4	30.1	24.9	26.3	29.2
Asset Quality					
Change in NPL (%)	11.1	7.7	37.1	19.6	53.6
NPL/gross loans (%)	3.0	2.1	2.0	1.9	2.3
Total provisions/gross loans (%)	4.2	3.2	2.8	3.1	3.4
Total provisions/NPL (%)	141.1	152.4	137.5	164.1	145.9
Valuation					
Recurring P/E (x) *	5.6	4.7	4.1	2.3	1.8
Recurring P/E @ target price (x) *	9.3	7.8	6.9	3.9	3.0
Reported P/E (x)	5.6	4.7	4.1	2.3	1.8
Dividend yield (%)	2.7	2.1	2.4	6.5	8.4
Price/book (x)	1.8	1.3	1.0	0.7	0.5
Price/tangible book (x)	1.8	1.3	1.0	0.7	0.5
Price/tangible book @ target price (x)	3.0	2.2	1.7	1.2	0.9

*Pre exceptional pre - goodwill and fully diluted

Sources: Isbank; TEB Investment/BNP Paribas estimates

Disclaimers and Disclosures

APPENDIX

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ANALYST(S) CERTIFICATION

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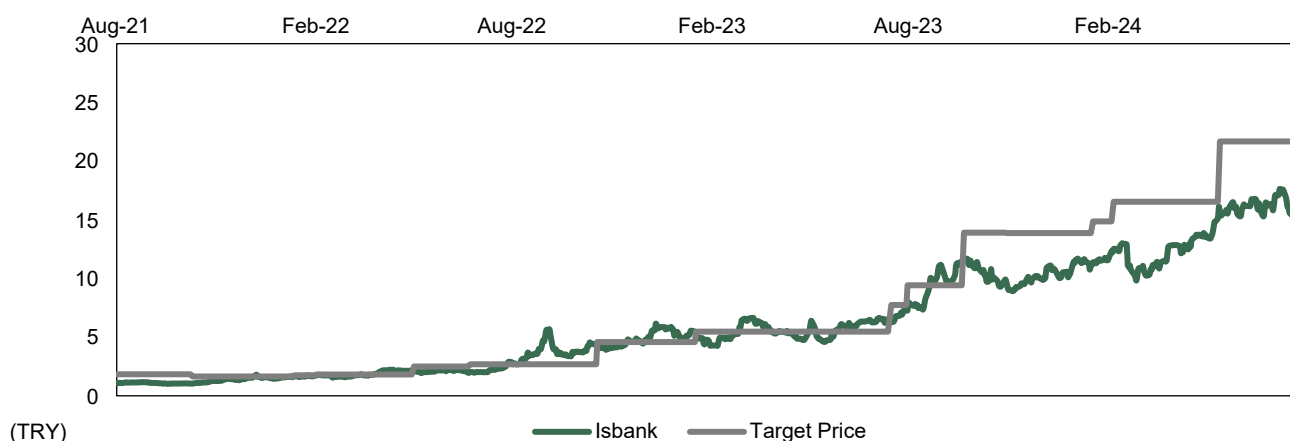
Company	Ticker	Disclosure (as applicable)
N/A	N/A	N/A

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Isbank (ISCTR TI)



Date	Rating	Target price	Date	Rating	Target price	Date	Rating	Target price
08-Aug-21	Buy	1.83	26-Oct-22	Hold	4.58	07-Nov-23	Buy	13.86
18-Oct-21	Buy	1.65	25-Jan-23	Hold	5.47	26-Jan-24	Buy	14.86
20-Jan-22	Hold	1.75	07-Feb-23	Hold	5.47	14-Feb-24	Buy	16.53
09-Feb-22	Hold	1.81	24-Jul-23	Hold	7.74	22-May-24	Buy	21.67
10-May-22	Hold	2.50	08-Aug-23	Hold	9.42			
01-Jul-22	Hold	2.69	29-Sep-23	Hold	13.90			

Pinar Uguroglu started covering this stock from 28 April 2021

Price and TP are in local currency

Sources: FactSet; BNP Paribas

Company	Ticker	Price	Rating	Valuation & Risks
Isbank	ISCTR TI	TRY 13.66	Buy	Downside risks to our Warranted Equity Model based valuation: Any further de-rating of TRY assets which would further enhance equity risk premiums would pull down our TPs. Lower than expected real GDP growth or a further fall in TRY would increase asset quality risks for the banks as well. Any negative regulatory measures that would cap fee or NIM growth would be other risks.

Sources: FactSet, BNP Paribas

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