

02/11/2022

Strong top-line; provisioning up

Net profit above consensus: core revenues expand; fees strong
TSKB reported 3Q22 net income of TL1,123mn (+23% q/q, +280% y/y), above both market consensus (TL1,065mn) and our forecast (TL1,065mn). Our deviation came mainly from higher-than-expected trading income on lower FX transaction losses. Core revenues grew 25% q/q on higher securities yield backed by CPI-linkers and surged TL loan yield. Fees expanded 139% y/y backed by investment banking and advisory fee collections, while opex posted an above inflation 147% growth. Subsidiaries income continues to support earnings, albeit at a lesser extent vs 2Q. Net CoR climbed to 437bp this quarter from 359bp in 2Q on higher coverage for both stage 2 and 3 loans. In fact, NPL coverage jumped to 81% in 3Q from 63% in 2Q, underpinned by the conversion of one big ticket FX loan to TL during the quarter. All in all, ROE rose to 50.6% in 3Q from 46.6% a quarter ago and 18% a year ago.

TSKB is exempted from recent regulations stipulating banks to buy G-bonds if their TL deposits share in total is less than 50%. Although some TL loan growth is owed to conversion of one big ticket FX loan to TL, TSKB gained market share in TL loans in 3Q, posting a striking 40% q/q expansion. Besides, TSKB operates relatively freely in pricing loans vs deposit banks, which, in turn, pushed its TL loan yields further up. All in all, we expect TSKB's margin to widen sequentially in 4Q.

FX spread went further north; NIM expands

FX loan/borrowing spread widened 13bp q/q on higher FX loan yields. TL loan yields, on the other hand, rose by 13.5ppt, while securities yields inched up 3.7pp q/q in 3Q thanks to higher linker yields as TSKB raised its October CPI assumption to 81% in 3Q from 67% in 2Q. Loan volumes went further south this quarter. In FX-adjusted terms, loans declined 8.9% y/y in 9M2 on subdued FX loan demand and redemptions. Reflecting all these, swap-adjusted NIM ticked up by 1.4ppt q/q.

Asset quality appears good; free provisioning remains strong

The share of stage 2 loans increased to 12.6% in 3Q from 13.4% a quarter ago as some stage 2 loans transferred to stage 1, while the coverage rose to 22.2% (+2.2ppt q/q). NPL rate declined to 3.1% in 3Q, while NPL coverage soared to 81% (+19ppt q/q). Note also that TSKB has free provisions of TL720mn as of 9M22.

FY22-23E earnings and OP rating maintained

We foresee TSKB's 2022E earnings to grow 277% y/y to TL4.1bn, while contracting by 14% in 2023 to TL3.5bn, assuming that inflation retreats and linker yields drop in 2023. TSKB trades attractively at 23E P/BV of 0.6x and 2.4x P/E, while 23E ROE stands at 29%. We maintain our Outperform rating for the stock with a TP of TL3.88 per share.

TSKB TI / TSKB.IS

Current Rating	Outperform		
Expected Market Reaction	Slightly Positive		
Analyst Action	None		
Price	TL2.97	Mcap	\$446mn
Target Price	TL3.88	Prev. Target Price	TL3.88
Upside	31%	Free Float	40%
High /Low 30Day	6.6 / 2.3		

BB 2022FY Consensus

Estimate Revisions	1W	4W	3M
EPS	9.2%	9.2%	17.2%
# of Buy/Hold/Sell	5/6/2	4/6/2	5/6/1
Rel Perf. XU030	10.1%	-2.7%	-22.1%
ADV (TLmn)	63.4	38.2	31.7

OYAK vs BB consensus (22E TLmn)

	OYAK	Cons.	% Diff
NI	4,108	3,427	20%

Multiples & Ratios (OYAK Est)

	2021	2022E	2023E
P/E	7.64x	2.02x	2.35x
P/B	1.20x	0.78x	0.60x
RoE	16.7%	46.6%	28.9%

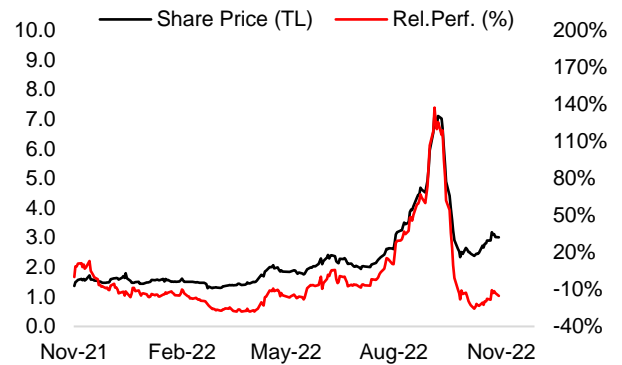
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Exhibit 1: Summary Financial Statements (solo)

Income Statement					
TLM	3Q21	2Q22	3Q22	q/q (%)	y/y (%)
I. Net Interest Income	743	1,509	1,916	27.0	158.0
II. Net Fee Income	15	51	37	(28.4)	139.4
III. Net Trading Gain/Loss	-57	186	329	77.0	n.a.
IV. Other Income	14	14	44	204.5	210.2
V. OPEX	63	113	157	38.3	147.5
HR	42	69	102	48.5	142.3
Non-HR	21	44	54	22.6	157.7
VI. Pre-provisioning Income	651	1,647	2,168	31.7	232.9
VII. Provisions	276	667	829	24.3	200.4
Loan Loss Provisions	146	610	829	35.9	467.8
Other	130	57	0	n.a.	n.a.
VIII. Income From Participations	42	156	118	(24.6)	177.6
IX. Pre-Tax Income	418	1,136	1,457	28.3	248.8
X. Net Profit	296	915	1,123	22.7	279.9

Balance Sheet						
TLM	3Q21	2Q22	3Q22	q/q (%)	ytd (%)	y/y (%)
Loans	45,323	69,201	75,103	8.5	18.2	65.7
LC	5,354	5,560	7,787	40.0	37.4	45.4
FC (USDm)	4,502	3,820	3,635	(4.8)	(16.3)	(19.3)
Security Portfolio	9,320	20,230	21,826	7.9	69.5	134.2
Assets	60,072	99,135	108,284	9.2	28.8	80.3
Deposits	38,242	63,791	67,261	5.4	24.0	75.9
LC	402	14	0	n.a.	n.a.	n.a.
FC (USDm)	4,262	3,828	3,632	(5.1)	(10.6)	(14.8)
Equity	6,687	8,112	9,632	18.7	38.8	44.0

Source: Company, Oyak Securities Research

Exhibit 2: Key Financial Ratios (solo)

(%)	3Q21	2Q22	3Q22
RoE	18.0	46.6	50.6
FX Loan/Borrowing Spread	3.9	3.9	4.0
TL Loan Yield	17.2	20.5	34.0
Securities Yield	15.0	20.4	24.1
Swap adjusted NIM	4.9	6.4	7.8
Net CoR (bps)	115	359	437
NPL Ratio	3.8	3.4	3.1
NPL Provision Rate	55	63	81
Loans / Borrowings	119	108	112
Loans / Total Assets	75	70	69
Securities Portfolio / Total Assets	16	20	20
CAR	18.7	17.7	19.9
Tier-I Ratio	12.6	16.5	18.7

Source: Company, Oyak Securities Research

Exhibit 3: TSKB Summary Financials

Balance Sheet					
TLm	2019	2020	2021	2022E	2023E
Cash and Banks	882	1,249	3,820	5,944	4,965
Money Market	526	1,423	1,421	3,434	5,010
Securities Portfolio	6,749	7,686	12,877	24,914	28,034
Loans	31,295	38,915	63,558	73,006	65,593
TRL Loans	4,529	5,515	5,668	8,153	11,894
FX Loans	26,766	33,400	57,890	64,853	53,699
Subsidiaries	867	1,233	1,695	2,580	3,167
Fixed Assets	156	154	161	136	206
Intangible Assets	3	3	3	2	2
Other Assets	1,903	2,556	3,675	5,416	6,971
Total Assets	41,500	51,466	84,096	115,432	113,948
Deposits	0	0	0	0	0
TRL Deposits	0	0	0	0	0
FX Deposits	0	0	0	0	0
Money Market	1,032	1,045	775	1,477	1,277
Funds Borrowed	26,347	32,297	54,244	74,506	70,614
Securities Issued	6,023	8,021	14,928	19,034	15,760
Provisions	337	418	743	2,482	5,126
Subordinated Loans	1,830	2,300	4,029	3,776	3,776
Other Liabilities	764	1,281	2,437	3,457	3,566
Total Liabilities	36,333	45,362	77,156	104,733	100,119
Shareholders' Equity	5,167	6,105	6,941	10,699	13,829
Total Liabilities & Shareholders' Equity	41,500	51,466	84,096	115,432	113,948
Income Statement					
TLm	2019	2020	2021	2022E	2023E
Interest Income	3,255	3,267	4,541	10,118	10,806
Interest Expenses	1,323	1,267	1,678	3,071	3,046
Net Interest Income	1,932	1,999	2,863	7,047	7,760
Net Fee & Commission Income	30	50	71	143	197
Trading Income	-446	40	509	839	-656
Other Banking Income	32	6	58	60	55
Total Banking Income	1,548	2,096	3,501	8,088	7,356
Total Operating Costs	202	222	263	456	665
Operating Income	1,346	1,874	3,238	7,632	6,691
Loan Loss Provisions	417	885	1,448	2,429	2,358
Other Provisions	42	124	564	536	230
Operating Income after Provisions	887	865	1,226	4,667	4,103
Income from Associates	82	82	232	524	618
Pre-tax Income	969	947	1,458	5,191	4,721
Tax	193	215	369	1,083	1,180
Net Income	776	733	1,089	4,108	3,541

Source: Company, Oyak Securities Research

Exhibit 4: TSKB Key Financial Ratios

	2019	2020	2021	2022E	2023E
Banking Income Breakdown					
NII	125%	95%	82%	87%	105%
Net Fees & Commissions	2%	2%	2%	2%	3%
Trading Income	-29%	2%	15%	10%	-9%
Other Operating Income	2%	0%	2%	1%	1%
Profitability Ratios					
NIM	5.3%	4.6%	5.0%	7.3%	8.4%
Loans/Borrowing Spread	1.1%	1.5%	3.1%	4.6%	5.6%
Leverage	8.03	8.43	12.12	10.79	8.24
ROA	1.9%	1.6%	1.6%	4.1%	3.1%
ROE	15.7%	13.0%	16.7%	46.6%	28.9%
Efficiency Ratios					
C/I	13.0%	10.6%	7.5%	5.6%	9.0%
Net Fees/Costs	14.8%	22.6%	26.9%	31.3%	29.6%
Costs / Loans	0.6%	0.5%	0.4%	0.6%	0.9%
Net Fees / Loans	0.1%	0.1%	0.1%	0.2%	0.3%
Loans / Employee	10,432	12,972	21,186	24,335	21,864
Loans / Branch	83	100	156	179	161
Deposits / Employee	0	0	0	0	0
Deposits / Branch	0	0	0	0	0
Asset Quality					
NPL Ratio	3.5%	4.3%	3.3%	4.9%	8.9%
NPL Coverage	32%	45%	54%	63%	63%
Cost of Risk (net)	1.32%	2.51%	2.74%	3.46%	3.63%
Balance Sheet Structure (as % of total assets)					
Liquid Assets	8%	8%	8%	8%	9%
Securities	20%	20%	20%	22%	25%
Loans	66%	66%	66%	63%	58%
Wholesale Borrowings	68%	68%	68%	68%	65%
Equity	8%	8%	8%	9%	12%
Funding Structure					
Liquid Assets / Repos	5.7	5.7	5.7	6.3	7.8
Loans/Borrowings	97%	97%	97%	93%	88%
Securities/Repos	1500%	1500%	1500%	1686%	2195%
Securities/(Repos & SHE)	214%	214%	214%	205%	186%

Source: Company, Oyak Securities Research