3Q23 Review

Turkey | Bank | 1 November 2023

Türkiye Sınai Kalkınma Bankası <TSKB TI>

Profitability & strong CAR maintained

TSKB's net income was in line with the consensus in 3Q23. According to the solo financial statements, net income in 3Q23 increased by 5% quarterly and reached TRY1,857 million. Our expectation and market expectation were that net income would be TRY1,806 million. Net profit increase was 65% y/y. We evaluate the impact of the third-quarter income, which is in line with expectations, on the stock as neutral in the short term. We leave our 12-month target price constant at TRY10.96 with a 64% return potential and maintain our BUY recommendation.

- **The moderate increase in net income.** First, when we look at net interest income, we see that the increase continues by around 15% q/q. Even if there is a slowdown in the rate of increase in 3Q23, the fact that interest expense is 6.4% lower than our expectations provided positive support to NII. However, the quarterly income of TRY1.1 billion obtained from CPI linkers, which were valued at 62.2% in 3Q23, stands out as the main factor supporting net income. As you may remember, CPI linkers were valued at 49.9% in 1H23. On the net fee and commission side, TRY151 million income was obtained in 3Q23, in line with our expectations. Thus, almost twice the revenue of the last quarter was achieved (2Q23: TRY73 million). On the net trading income, although there was a TRY 255 million contribution to profitability in 3Q23 with the stabilization of exchange rate movements, the contribution was not as strong as it was in the previous quarter (2Q23: TRY1.5 billion).

- **Limited increase in loans.** While TL loans, which constituted a total of 7% of the loan portfolio in 3Q23, grew by approximately 7% q/q, FX loans in USD terms remained stable. Thus, total loans, which grew by nearly 1.8% in exchange rate adjusted terms in the first 9 months, grew by 44.3% on a nominal basis.

- **Asset quality continued to improve.** With the improvement in asset quality that has continued uninterruptedly for the last six quarters, the NPL ratio decreased to 1.8% in 3Q23. It seems that collections, which remained strong in 3Q23 like as in 1H23, were effective in the improvement in asset quality. However, when the provision ratios are examined, it is seen that the provision rates in the first and second stage loans were slightly reduced in 3Q23 and the provision rate in the third stage was raised with a moderate increase. Thus, the Bank continues to attract attention with its strong provision ratios above the sector. In addition, the Bank increased its free provision stock by TRY150 million in 3Q23, reaching TRY1.8 billion.

- **Sustained strong ROE and increased CAR.** The Bank's ROE in the first 9 months increased to 42.3%. As you may remember, it was at 41.1% at 2022-year end. A trend continues to be well above the Bank's own projection of 35% for 2023. CAR increased to 17.6% in 3Q23, excluding BRSA regulations. Last quarter it was at 16.8%.

TSKB:TI / TSKB:IS

Recommendation:	**BUY**
Target Price:	**₺10,96**
Upside/Downside:	**64%**

Price (TL):	6,70
MCAP (TLmn):	18.760
# of Shares (mn):	2.800
Free Float Rate	39,00
FF MCAP (TLmn):	7.316
Market:	Star Market
Sector:	Bank

Financials & Ratios

	2021	2022	2023E*	2024E*
Net Interest Income (TL mn)	2.863	6.735	9.460	13.290
Net Profit/Loss (TL mn)	1.089	4.055	7.523	9.489
Net Interest Margin*	5,5%	7,9%	8,1%	7,2%
P/E	3,7x	1x	1,6x	1,8x
P/BV	0,6x	1x	0,7x	0,5x
ROE	16,9%	45,3%	44,2%	41,2%
EPS (TL)	0,4	1,4	2,7	3,4

* Global Research estimations & datas

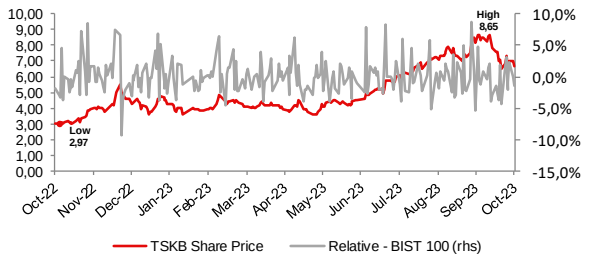
Global vs. Consensus Estimates

	3Q23	Global E	Deviation
Net Profit/(Loss)	1.857	1.806	3%

*Source: Research Turkey Survey

Share Performance

	1M	3M	12M	y-t-d
Absolute	-17%	10%	123%	53%
Relative to BIST100	-8%	6%	18%	12%
Avg. Trading Volume (mn)	90,3	88,2	121,8	89,3
Avg. Value (TLmn)	710,5	647,9	582,5	478,6



Shareholder Structure

	Share in Capital
İş Bank	47,7%
Other	43,9%
Vakıf Bank	8,4%

Company Description

TSKB, which does not collect deposits due to its status as a development and investment bank, brings together the investments of the Turkish business world with the qualified and themed global funds it provides within the scope of business partnerships developed with supranational financial institutions, development finance institutions (DFI) and international financial institutions, and with the debt instruments it issues in foreign capital markets. It also creates additional resources.

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Income Statement (TLmn)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)
Interest Income	2.825	4.191	4.698	12%	66%
Interest Expense	909	1.892	2.064	9%	127%
Net Interest Income	1.916	2.299	2.634	15%	37%
Net Fees & Commissions Income	37	73	151	107%	311%
Operating Expenses	157	220	310	41%	98%
Net Trading Gain/Loss	360	1.534	255	-83%	-29%
Pre-Tax Profit	1.457	2.313	2.655	15%	82%
Net Profit/(Loss)	1.123	1.765	1.857	5%	65%

Source: Global Securities Research

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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.

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