

TURKISH EQUITIES

Strategy

Stage Is Set – Bring the Action!

January 2025

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- Equities perform well during the rate-cut cycles
 - ✓ We expect CBT to deliver 1,750bps of rate cuts in 2025, bringing its policy rate to 30% by the end of the year. Turkish equities have historically performed well during previous rate-cut cycles, delivering strong US\$-based returns and outperforming EM peers. However, the path to recovery is not straightforward, as bringing down inflation has always been a challenging process. Additionally, President-elect Trump's inflationary tariff threats create uncertainty for emerging markets. That said, Turkey offers a unique investment story among EM peers, which is likely to resonate well with foreign investors who remain relatively underweight in Turkish equities. We anticipate the rate-cut cycle to continue into 2026, driven by disinflation, which will further lower Turkey's risk premium and enhance equity valuations. Stocks that we like include: **Ford Otosan, Garanti Bank, GalataWind, Koc Holding, Migros, Sabanci Holding, Turkcell, Turkish Airlines, TSKB, and Türkiye Sigorta.**
- Strong earnings growth expected in 2025
 - ✓ After a terrible performance in 2024, corporate earnings should do rather well in 2025. Banking sector should post strong earnings growth (+82% y/y in nominal terms) on improving margins while consumer demand should improve with declining rate environment supporting non-financial companies' earnings growth (+74% y/y in inflation adjusted terms). That said, the majority of the improvement should be tilted towards 2H25 when the economic activity gains momentum.
- Valuations should also revert to normal in inflation-adjusted terms
 - ✓ We estimate that Turkish equities trade at 6.7x on 1-year inflation-adjusted forward earnings. Foreign portfolio inflows should continue on the back of CBT's rate cut cycle and strong corporate earnings in 2025. Our 12-month BIST100 target stands at 14,300 corresponding to a PER of 9.5x and offering an upside potential of 44% based on current TL prices.
- Risks
 - ✓ Higher-than-expected inflation, lower-than-expected foreign portfolio flows, loaded IPO pipeline increasing equity supply, policy reversal, recession in Europe, and delicate balance between US, EU, and Russia relations.

- Rate cut cycle is the key theme in 2025
 - ✓ Disinflation has already begun, and we expect inflation to gradually decline to 26% by the end of 2025. We anticipate that the CBT will cut rates by 1,750bps in 2025, bringing its policy rate to 30% by the year end. Perhaps equally important, ECB is expected to cut rates by approximately 100bps until the end of 2025 while Fed policy largely depends on Trump tariffs. Turkish equities generally performed well in previous rate-cut cycles, outperforming its EM peers. In '08, MSCI-Turkey doubled (112%) in the first year after rate cuts started, outperforming MSCI-EM by 18%. In '12, Turkish equities rose by 40% in the first year, outperforming its EM peers by 42%. With interest rates dropping to single-digit levels, equities re-rated, and PERs reached 11.0x in both cycles.
- Economic activity should gain momentum in 2H25
 - ✓ Kick-off of the rate cut cycle from December on should lead to a gradual improvement from a weak base in 2H24 but Turkey's economy should be growing below potential until late 2025 as unwinding of macroprudential measures will take time. Accordingly, we forecast a mild pick-up to 3.3% in GDP growth in 2025 from 2.9% in 2024.
- TL to appreciate in real terms in 2025
 - ✓ Sharp improvement in C/A balance has supported the strong performance of TL throughout 2024. Declining inflation and commitment to rational macro policies should set the stage for the continuation of foreign portfolio inflows in 2025, too.
- Solid earnings performance expected in 2025
 - ✓ After a terrible performance in 2024, corporate earnings should do rather well in 2025. Banking sector should post strong earnings growth (82% y/y in nominal terms) on improving margins while consumer demand should improve with declining rate environment supporting non-financial companies' earnings growth (+74% y/y).

- **Rebuilding Syria**
 - ✓ The toppling of the Assad regime paved the way for a new administration to be formed in Syria. While the situation remains complex with numerous moving parts, Turkey may benefit from Syria's reconstruction. Turkish companies could play a key role in rebuilding the country, and a portion of the 4 million Syrian refugees still residing in Turkey might return home, alleviating some of the political pressure.
- **A potential truce in Ukraine**
 - ✓ A potential truce in Ukraine is possible in 2025 given Trump's influence on both ends. The important issue is the conditions of a potential agreement between the Western Alliance and Russia, as Russia would be insisting on the removal of at least some of the sanctions, i.e. partial relief on natural gas and oil exports. This would certainly relieve the pressure on energy markets.
- **Global financial conditions may be tricky for emerging markets in 2025**
 - ✓ President-elect Trump will be increasing uncertainty and volatility in global financial markets. His ad-hoc tariff policies may raise inflation in the US and prevent Fed from cutting rates in 2025; hence, creating a difficult backdrop for emerging markets in general.
- **Higher than expected inflation remains as the key risk**
 - ✓ Disinflation should continue gradually but decline in inflationary expectations and services inflation will be eagerly monitored in early 2025. If inflation remains stubbornly high CBT may be forced to slow down in its rate cut cycle.
- **Delicate balance between US, EU, and Russia relations**
 - ✓ Turkey needs to maintain a precarious balance between Russia and Western countries, as the clashes in the Middle East and the ongoing war in Ukraine may tilt the balance either way.

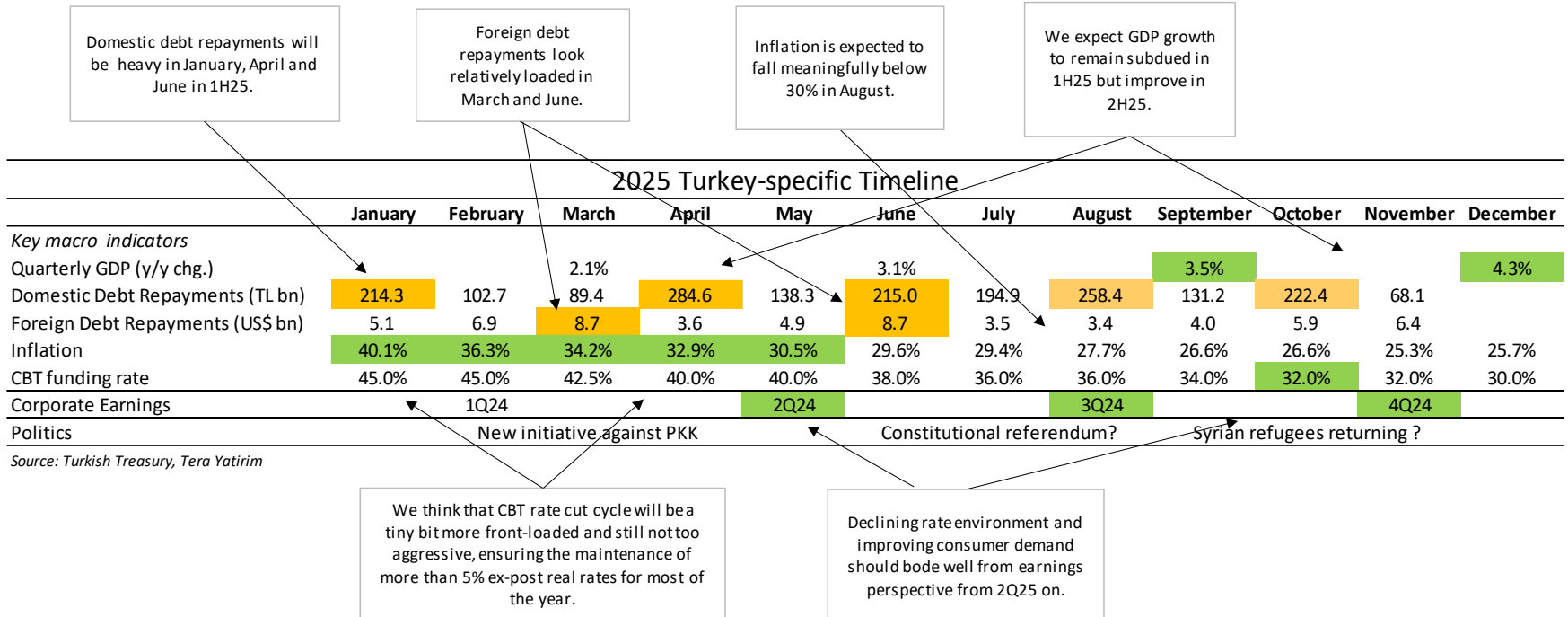
Key issues in domestic politics

- **Election-free period at least for the next two years...** Parliamentary and presidential elections are scheduled to be held in May-28 while local elections will be held in Mar-29.
- **President Erdogan's candidacy...** President Erdogan will be completing his second term. According to the constitution, he cannot serve a third term unless the parliament calls for an early election, before he completes his second term, ideally in 2027 or early 2028. Cumhur alliance currently has about 319 MPs in the parliament and would be needing the support of 41 deputies to reach the critical 360 to call for an early election.
- **New initiative to end the conflict in southeastern Turkey...** MHP leader Bahceli called for the release of PKK leader Ocalan if he announces the dissolution of the group. The call was surprising because MHP, as a nationalist party, is strongly against the pro-Kurdish party DEM/HDP and particularly against the imprisoned PKK leader Ocalan. In the aftermath of the new initiative, DEM deputies may back the candidacy of President Erdogan for the third term.
- **President Erdogan's popularity is rising amid the fallout in Syria...** While CHP has become the first party in Mar-24 local elections, AKP has regained the lost ground and President Erdogan's popularity has recently risen on the back of Assad regime's implosion in Syria and hope of at least some portion of Syrian refugees going back home.

Breakdown of seats in the parliament	
Alliance /Party	today
Cumhur (AKP+MHP+YRP)	319
AKP	268
MHP	47
YRP	4
BBP	
Millet (CHP+İYİ+SP+DEVA+GP)	192
CHP	129
İYİ	30
SP+DEVA+GP	33
HDP+TİP	57
Others	25
DEVA	
Total	593

Source: Turkish Parliament

Timeline 2025



Dividend yields

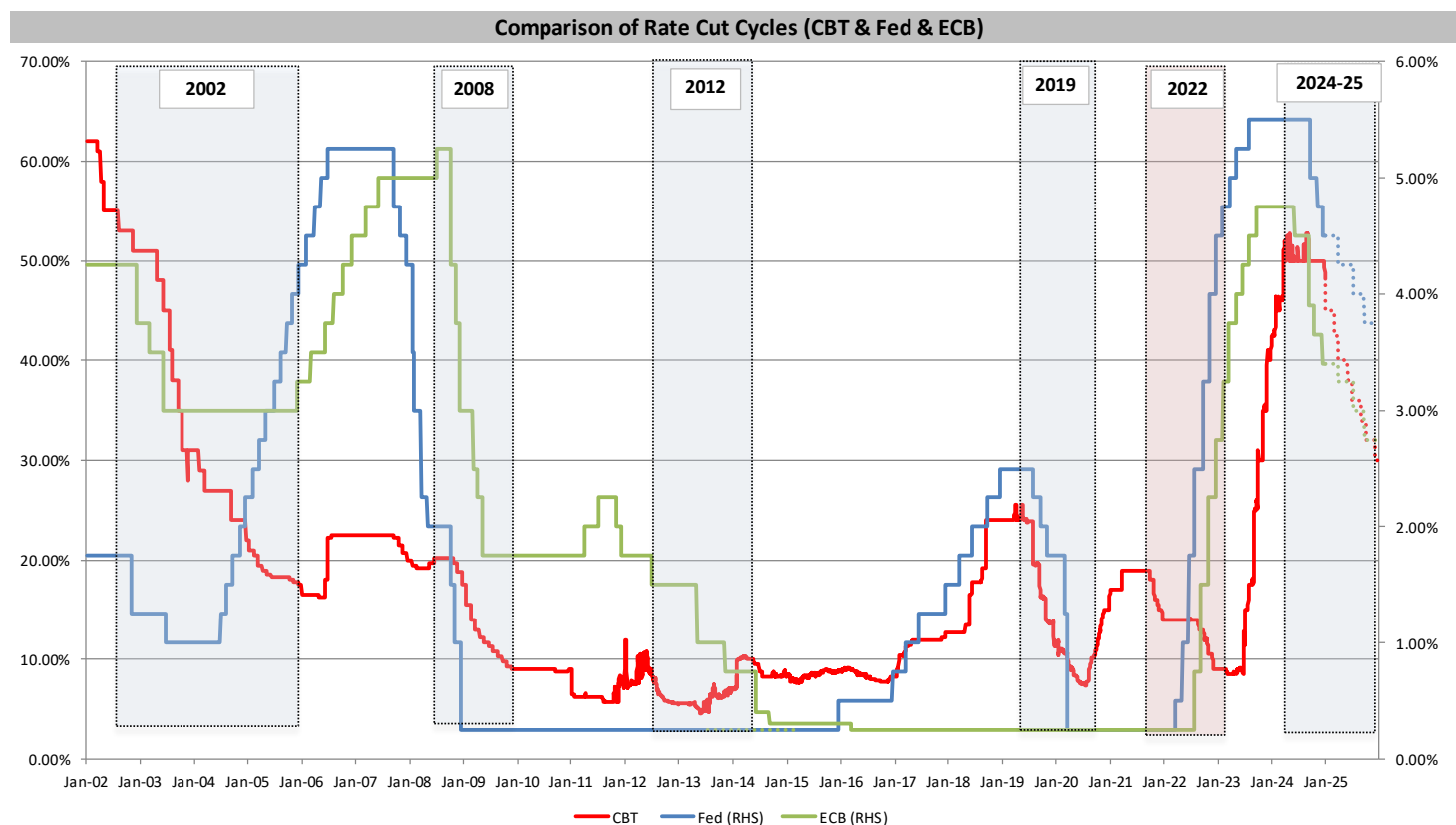
- Attractive names include:
 - Tupras (10.3%), Dogus Otomotiv (9.0%), Ford Otosan (7.2%), and Tofas (6.1%)

Company Name	Mcap US\$m	Avg. Vol. US\$m	Dividend (TL mn)		Gross Dividend Yield (%)		Ex-Date 2024
			2024	2025E	2024	2025E	
Tupras	8,064	66.0	43,000	29,291	14.1%	10.3%	27-Sep
Dogus Otomotiv	1,257	10.3	11,200	4,000	21.8%	9.0%	2-Sep
Ford Otosan	9,417	31.7	20,195	23,818	5.7%	7.2%	22-Nov
Tofas Otomobil Fab.	2,956	27.9	10,000	6,405	7.9%	6.1%	4-Apr
Eregli Demir Celik	4,892	115.5	1,750	7,500	1.2%	4.3%	16-Apr
Baskent Dogalgaz	598	0.8	2,100	875	11.3%	4.1%	16-Oct
Turkcell	6,106	58.4	6,277	8,200	3.1%	3.8%	5-Dec
Emlak G.M.Y.O.	1,495	69.4	0	2,000	n.a.	3.8%	n.a.
Torunlar G.M.Y.O.	1,768	2.6	2,350	2,000	4.4%	3.2%	22-Jul
Turkiye Sigorta	2,264	9.6	1,000	2,551	1.6%	3.2%	29-Aug
Anadolu Hayat Emek.	1,240	2.8	1,000	1,350	5.4%	3.1%	26-Mar
Koc Holding	13,452	91.4	20,287	13,500	3.8%	2.8%	24-Apr
T.S.K.B.	1,036	7.3	0	1,034	n.a.	2.8%	n.a.
Garanti Bankasi	15,413	76.8	13,100	13,630	4.6%	2.5%	29-Mar
Is Yatirim	1,938	5.7	1,600	1,689	2.6%	2.5%	29-May
Bim Birlesik Magazalar	9,180	65.3	6,072	7,949	2.0%	2.5%	18-Dec
Turk Hava Yollari	11,614	210.2	0	10,000	n.a.	2.4%	n.a.
Agesa Hayat Emeklilik	706	1.6	300	550	2.2%	2.2%	15-Apr
Akcansa	953	2.7	1,150	700	4.1%	2.1%	15-Apr
Aksa Enerji	1,420	4.5	1,600	1,000	2.8%	2.0%	6-Jun
Cimsa	1,218	14.6	1,000	800	3.3%	1.9%	29-Apr
Akbank	9,843	133.0	9,971	6,344	4.3%	1.8%	26-Mar

Source: Rasyonet, Tera Yatirim estimates

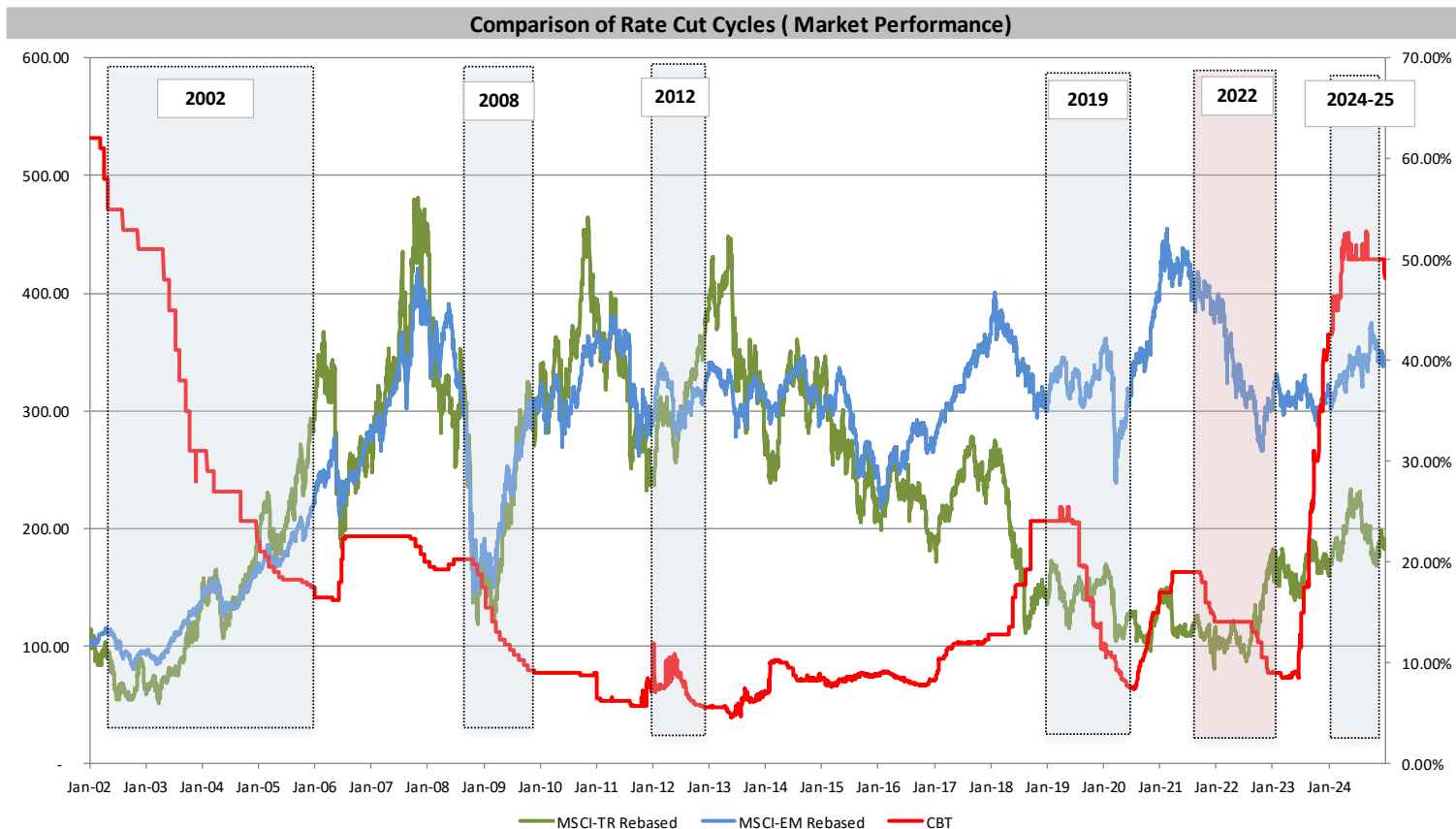
CBT vs Fed and ECB in previous rate-cut cycles

- CBT's previous rate-cut cycles (except in 2002) have also coincided with Fed and ECB each lasting about 13 months. Back in 2008, CBT cut rates by 1,125bps while Fed cut by 125bps and ECB by 250bps. In 2012, CBT cut by about 600bps while ECB cut by 75bps and Fed kept rates constant at the already low 0.25%.
- In '22, CBT started to implement its experimental monetary policy and cut rates by 10ppts while Fed and ECB hiked rates.
- In '25, we expect CBT to cut rates by 1,750bps over the next 12 months vs consensus estimate of 100bps rate cut by ECB and 50bps by Fed.



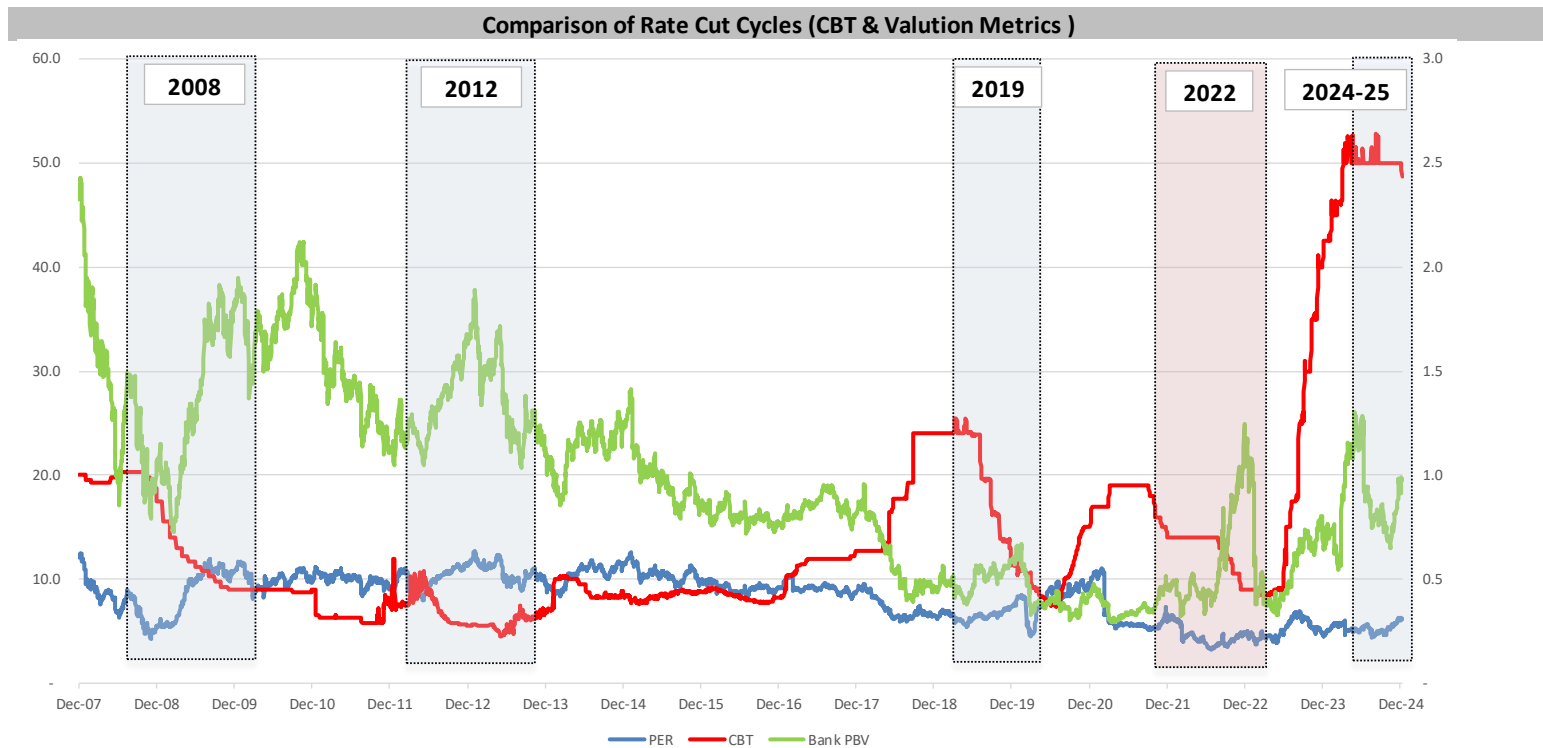
Market performance in previous rate-cut cycles

- In 2008, MSCI-Turkey has risen by 112% in the first year after rate cuts started, outperforming MSCI-EM by 18%. In 2012, Turkey's outperformance stood at a whopping 42% in the first year as the rally was driven by more Turkey specific factors. During the 2002 cycle which lasted about 4 years, MSCI-Turkey has risen by 301%, outperforming MSCI-EM by 93%.
- As for 2019, while global rate environment supports Turkish equities, trade war worries blurs the EM outlook. After the first rate cut on July 25, MSCI-Turkey has outperformed MSCI EM by 9%.



Valuation in previous rate-cut cycles

- In 2008, market PER quickly recovered to 12x from as low as 5x with the economy rebounding sharply. Similarly, banking sector PBVs rose to as high 1.5x from a trough of 0.7x.
- In 2012, Turkish equities re-rated on the back of solid economic growth with PER reaching 11.8x and PBV 1.7x.
- 2019 and 2022 are not really representative as both pandemic and experimental macro policies wreaked havoc in profitability.
- As for 2025, our 1-year target value is not demanding at all, aiming only low inflation era averages.

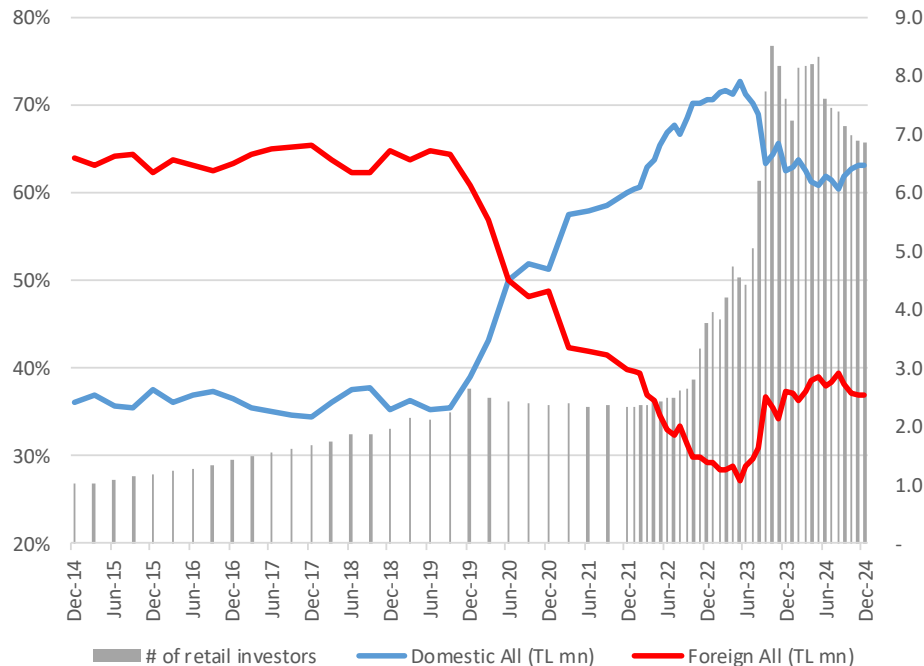


Source: Bloomberg

Domestic investors still rule Borsa Istanbul

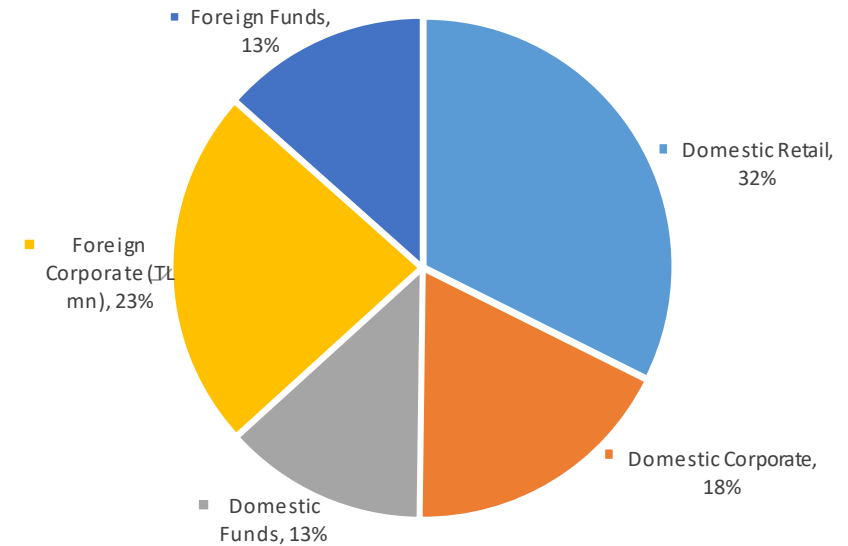
- After reaching a peak of 8.2mn in Apr-24, the number of retail dropped to 6.9mn in Dec-24 which is almost 3x higher compared with only 2.3mn in Dec-21. True, pandemic induced factors created a global interest in equities and crypto assets. However, Turkey decoupled from the world in 2022 on the back of unconventional macroeconomic policies that pushed policy rate to single digits and inflation to triple digit levels. As for 2023 and early 2024, robust IPO performance kept retail investors' interest very much alive in Borsa Istanbul.
- After May-23 elections and the appointment of the new economy team, foreign investors increased exposure, lifting the valuations across the board. Their share in the free float rose to 40% (adjusted for QNB and other anomalies it is only 34% for BIST100) in Aug-24 but fell to about 37% as of Dec-24.

Foreign vs Domestic Ownership of the FreeFloat in Equities



Source: Central Registry

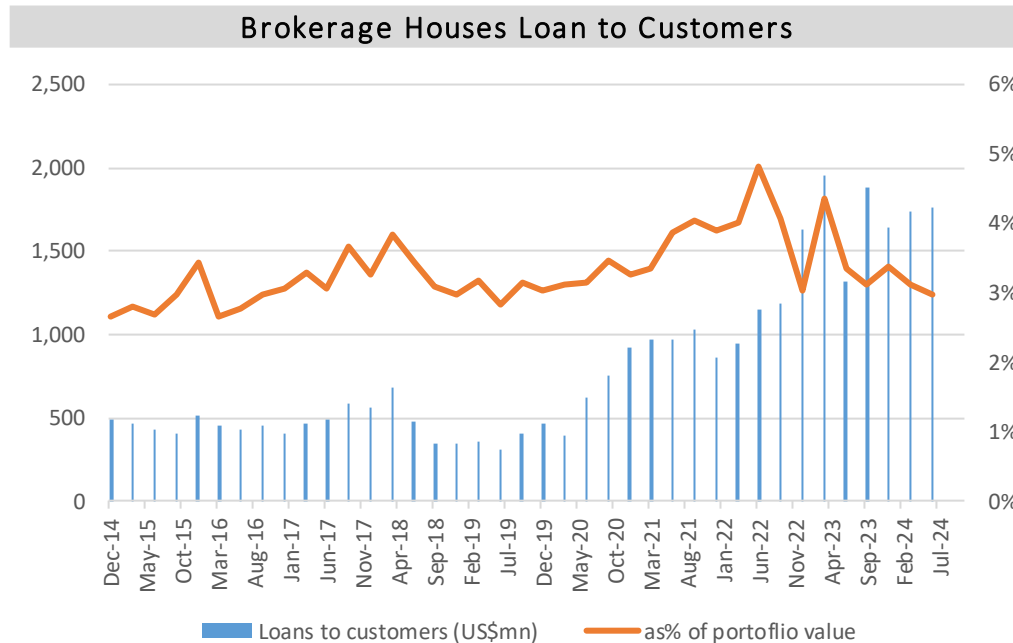
Breakdown of Free Float Ownership by Investor Type



Source: Central Registry

Credit to domestic investors normalized too

- Brokerage houses extend credit to domestic retail investors. The size of the outstanding credit has been rising parallel to the equity market, brokers' balance sheet, as well as retail investors' rising interest in equities. About As of 2Q24, the total credit to domestic investors has risen by 50% y/y to TL58.0bn (or US\$1.8bn), corresponding to about 3% of the portfolio value of domestic retail investors. About 46k retail investors use credit from brokerage houses up from 38k in 2022.
- The average interest rate on loans was at around 70-75% in 3Q24.
- The derivative products including single stock and index futures also provide a decent leverage of about 6x. The average daily trading volume is also comfortably high at US\$903mn for single stocks and US\$738mn for index futures vs spot market of US\$3,655mn.

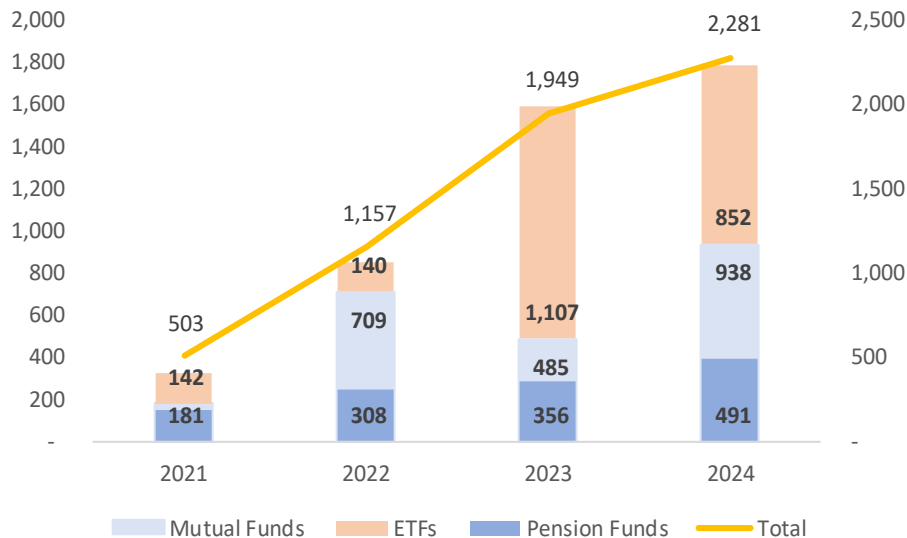


Source: Turkish Capital Markets Association, Tera Yatirim

Local Turkey equity passive funds rose to US\$2.3bn

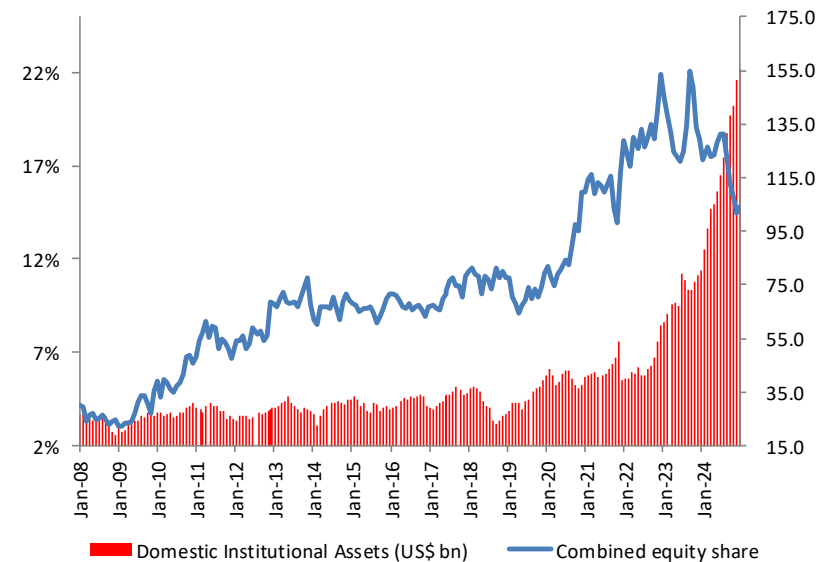
- Domestic institutional asset managers have grown rapidly in size driven by the structural changes in the pension system as well as the new regulations introduced after the Feb-23 earthquake. The total assets under management reached to US\$155bn or about 12% of the GDP as of Dec-24.
- Meanwhile, local Turkey passive equity funds have risen to US\$2.3bn in size vs foreign Turkey ETFs dropping to US\$0.4bn. The government's decision to raise state contribution funds' equity share to 30% from 10% is the key reason for the significant increase in local Turkey ETF size.
- Domestic funds have also doubled their exposure to equities, holding about as high as 22% of their assets in equities. That said, sharp rise in money market funds in 2025 reduced the equity share to about 15% in Dec-24. Domestic funds still account for only 13% of the free float compared with 32% of domestic retail, 18% domestic corporate, and 13% foreign funds.

Growth of Passive Equity Funds (US\$mnn)



Source:TEFAS, Tera Yatirim

Domestic Institutional Assets under Management vs Equity exposure

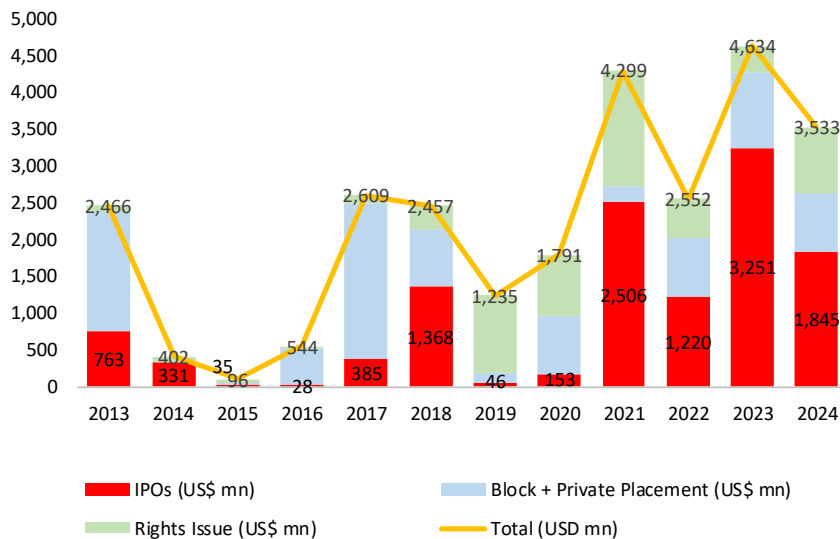


Source :CMB, Tera Yatirim

Equity supply reached US\$3.5bn in 2024

- A total of 34 companies have been listed on Borsa Istanbul in 2024, raising about US\$1.9bn. Adding secondary offerings of US\$0.8bn and rights issues of US\$0.9bn, the total equity supply reached US\$3.5bn in 2024.
- When the number of retail investors reached 8mn, each IPO has attracted at least 3mn retail investors and posted remarkable performances afterwards, at least doubling in a matter of days. The trend has continued in early 2024 but retail interest dropped sharply in July and August with participation being limited to 500k or less in each IPO. Therefore, only small IPOs are being offered to public in 3Q24. Together with rights issues, the size of equity supply reached about US\$3.5bn as of Dec-24.
- As for 2025, the pipeline appears to be stacked with about 100 companies waiting to be listed.

Equity supply in perspective (US\$mn)



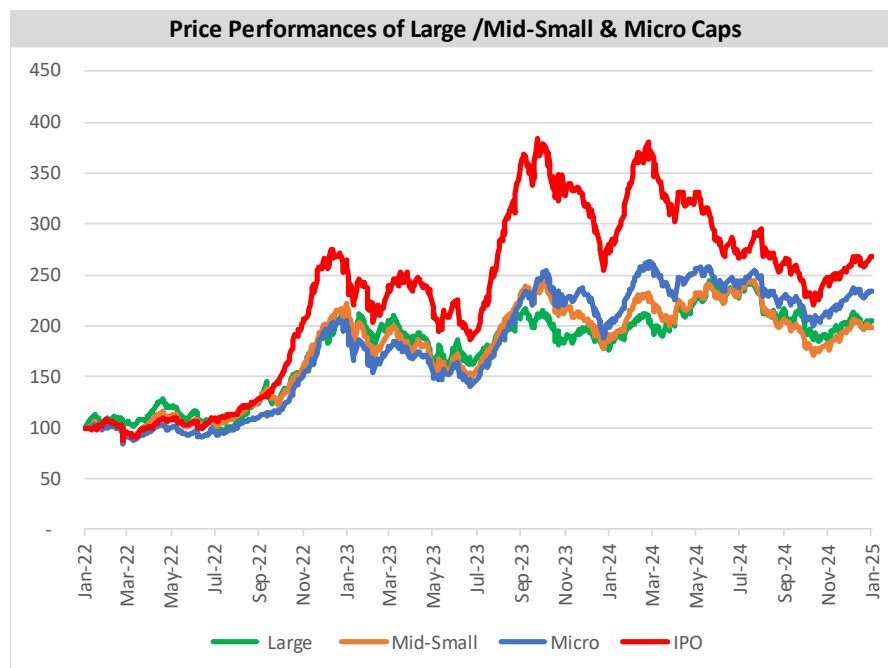
Source: CMB, TCMA, CapitalIQ, Tera Yatirim

Some of the companies
in the IPO Process

Acacia Maden	Kızılay İçecek
Akçelik	Masten Enerji
Akfen İnşaat	Metropol
Albayrak Beton	Meysu Gıda
ARF Bio Enerji	Mopaş Marketçilik
Ata Turizm	Multinet
Balsu	Netcad Yazılım
Beta Enerji	Penti
Beven Enerji	Polifarma İlaç
Birleşim Yeşil Enerji	Pürsan
Club Jolly Turizm	Seranit Granit
Ekinler Demir Çelik	Soybaş Demir Çelik
Enda Enerji	Superkim Kimya
Fiba Faktoring	Tavuk Dünyası
FLO Mağazacılık	Tezkim Tarımsal Kimya
Gama Recycle	Üçay Mühendislik
Intercity	Vakıf Faktoring
Kale Jet Motorları	Vişne Madencilik
Kalyon Güneş	Yeşil Global Enerji
Karesi Polyester	Zorlu Yenilenebilir

IPO performance has faltered in 2024

- IPO index dropped by 2% in 2024 in US\$ terms, underperforming BIST100 by 11%. Over the long term, IPO index has risen by 161% in US\$ terms over the past three years. Large caps, Mid-Small cap and Micro indices posted better than IPO performances in 2024.
- As for the valuation, IPO stocks are still more richly valued but came down from a high of 15x PER and 18x EV/EBITDA early in 2024.



Source: Rasyonet, Tera Yatirim

BIST Multiples			
12MT as of 3Q24	EV/EBITDA	P/E	P/BV
<i>Median</i>			
BIST30 - Large Caps	12.1	7.7	1.3
BIST70 - Mid - Small caps	8.5	12.7	1.3
BIST Others* - Micro caps	14.0	15.7	1.7
BIST IPO	11.3	15.5	1.7

Source: Rasyonet, Tera Yatirim

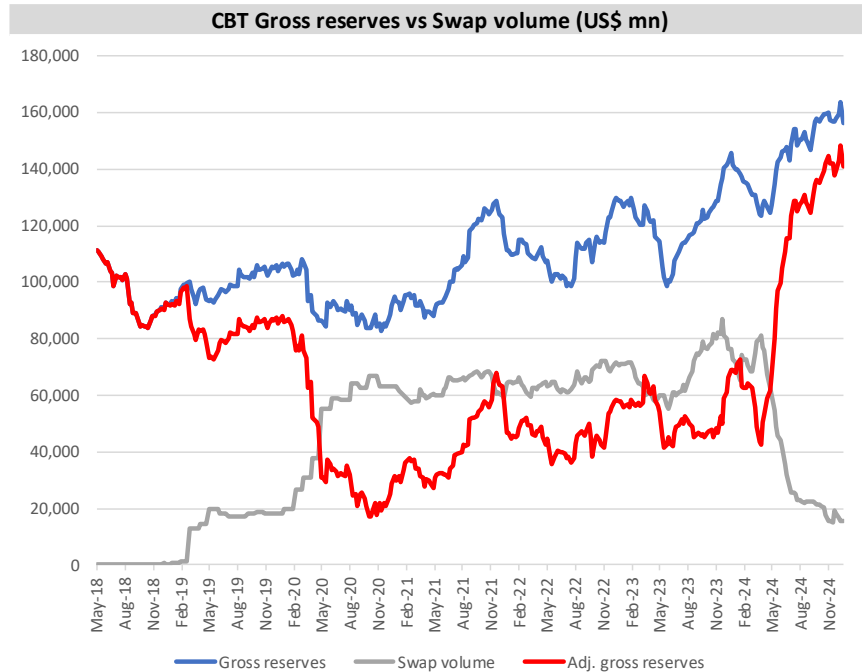
*main market stocks excluding BIST100 constituents

Large/Mid-Small/Micro Cap Price Performance			
US\$	1Y	3Y	5Y
Large	11%	90%	48%
Mid-Small	5%	89%	96%
Micro	17%	127%	197%
IPO	-1%	161%	682%

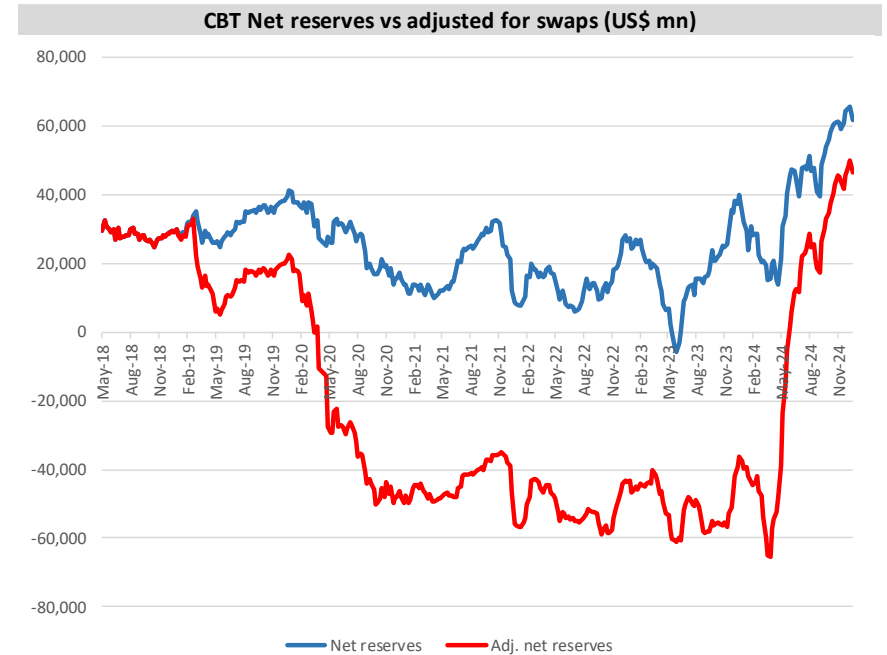
Source: Rasyonet, Tera Yatirim

Central Bank reserves back to normal

- After the CBT winding down its swap with local banks, CBT's official net reserves rose to US\$62bn as of Dec-24. When we strip out remaining foreign swaps, net reserves stand at a positive US\$46bn in Dec-24. The reversal is striking in terms of swap-adjusted net reserves which soared by US\$112bn in nine months. We estimate main sources as follows: Corporates' FX position (US\$42bn), swaps from abroad (US\$25bn), borrowings from abroad (US\$19bn), portfolio flows (US\$10bn), and retail FX sales (US\$8bn).



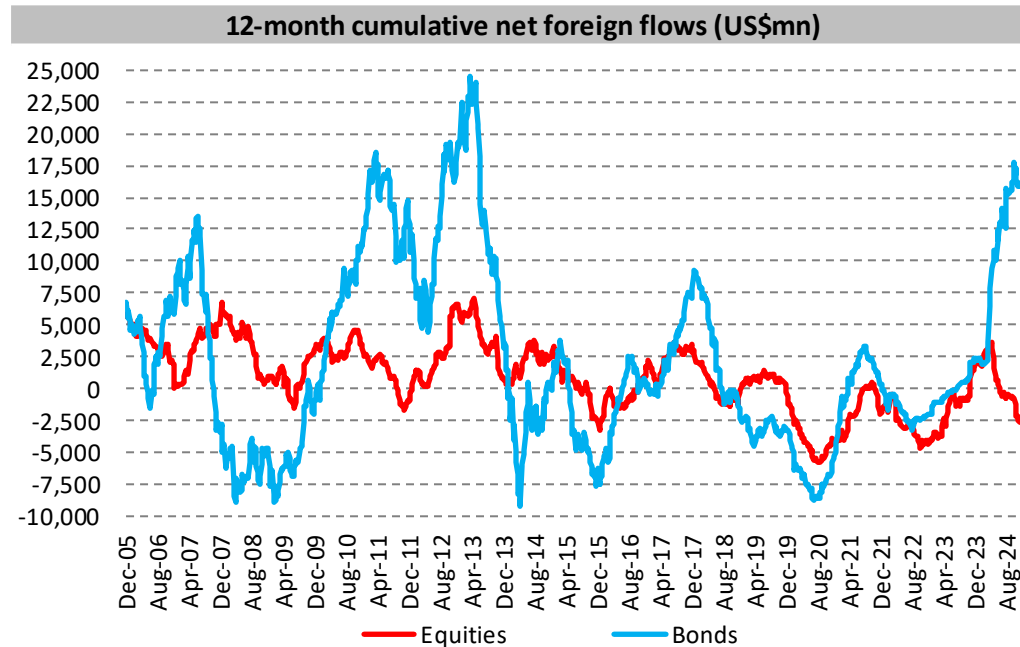
Source: CBT, Tera Yatirim



Source: CBT, Tera Yatirim

Foreign portfolio flows improve

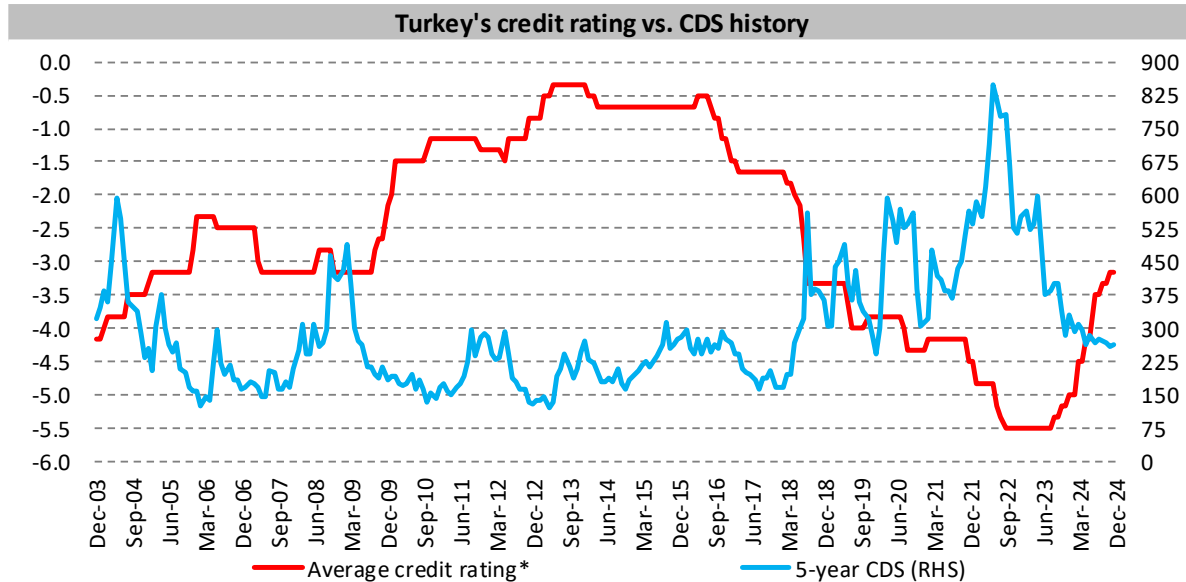
- With a more favorable global backdrop, foreign portfolio flows have increased after the local elections in 2024. Historical data indicates that the peak was seen back in mid-2013 with annual bond flows reaching US\$25bn and equity US\$7.5bn. As of Dec-24, annual bond flows reached US\$16bn beating expectations, while equity flows disappointed, showing US\$3bn of outflows. Additionally, we estimate that Turkish corporates have raised around net US\$25bn of funding from abroad via different forms of financing, such as Eurobonds, securitization, and bilateral deals. Moreover, we estimate another US\$25bn of short-term funding came into the country in the form of swaps.



Source: CBT, Tera Yatirim

Sovereign ratings to continue to be upgraded

- Credit rating agencies usually lag behind the market both in good and bad times. The chart below illustrates the historical CDS levels vs Turkey's average sovereign rating. CDS market has been factoring in positive economic trends in Turkey, currently indicating to another upgrade from Moody's and revisions of the outlook to positive by the other two agencies.



*Average of three rating agencies' ratings and outlooks. 0 = investment grade, every 1 interval is a notch.

Source: Bloomberg, Rating Agencies, Tera Yatirim

Turkey's sovereign ratings		
S&P	Moody's*	Fitch Ratings
BB- (Nov 24)	B1 (Jul 24)	BB- (Sep 24)
Stable	Positive	Stable
Scheduled assessment dates for 2025		
25-Apr-25	24-Jan-25	31-Jan-25
17-Oct-25	25-Jul-25	25-Jul-25

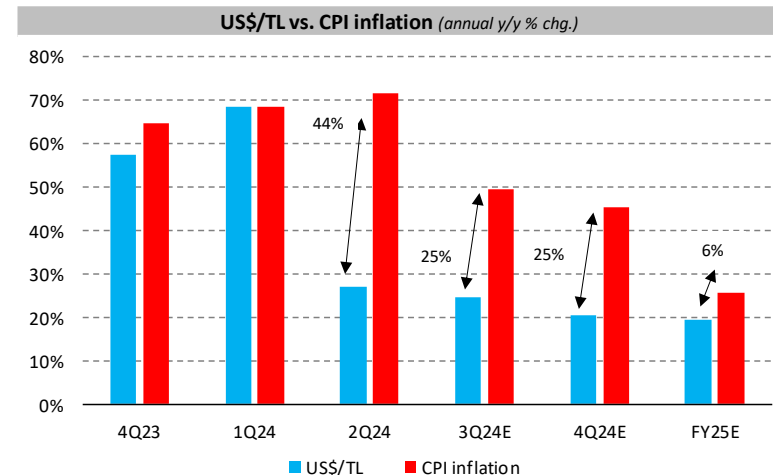
Source: Rating agencies. *B1 is equivalent of B+.

Strong earnings growth in 2025

- In the past, TL appreciation typically had a positive effect on corporate earnings, as companies often held short FX positions, which reduced financial expenses, improved the bottom line, and exceeded analyst estimates. However, in the new era of inflation accounting, the opposite appears to be the case.
- TL's appreciation wreaked havoc in 2024 inflation adjusted financials...** The spread between TL's depreciation and CPI appears to have a significant effect on inflation adjusted financials. The annual change in US\$/TL vs CPI used to be similar to each other with the spread standing at 7% in 4Q23 and almost 0% in 1Q24. However, US\$/TL has risen by only 27% y/y as rational macroeconomic policies have started to be implemented in 2Q23. Meanwhile, CPI continued its upward trend rising by 72% y/y and widened the spread over USD/TL to 44% in 2Q24, 25% in 3Q24 as well as in 4Q24. We expect the spread to narrow down to 6% in 2025. This has led to numerous downward revision in non-financial earnings in 2024 and 2025.
- Sharp increase in earnings growth across board in 2025...** After a terrible performance in 2024, corporate earnings should do rather well in 2025. Banking sector should post strong earnings growth (+82% y/y in nominal terms) on improving margins while consumer demand should improve with declining rate environment supporting non-financial companies' earnings growth (+74% y/y in inflation adjusted terms). Companies with functional currency in US\$ or EUR should post 27% y/y earnings growth in 2025.

BIST50			
Net Earnings Performance	2023	2024E	2025E
y/y % chg.			
Non financial - Inflation Adjusted	-2%	-29%	74%
Banks - NOT Inflation Adjusted	22%	-21%	82%
Functional Currency - US\$ or EUR	178%	-29%	27%

Source: Rasyonet, Tera Yatirim



Source: Tera Yatirim

Calculating the market multiples

- Calculating even the simple market multiple is a challenging task in an environment where banks and insurance companies do not publish their inflation adjusted figures. We have categorized the companies in our sample (extended BIST50 universe) into three groups: financials (primarily banks in our case), non-financial companies with a functional currency other than TL (and therefore not subject to inflation accounting), and all other non-financial companies that are required to publish inflation-adjusted financials.
- As of 3Q24, non-financial companies' LTM P/E currently stands at 15.6x. We estimate that inflation adjustment would have reduced banks' nominal earnings by 60% in 2023. Hence, we calculate that the overall market currently trades at 10.1x 3Q24 LTM inflation adjusted earnings.
- As for 2024, non-financials earnings trade at a P/E of 14.0x. We reduce banks' earnings by 50% in 2024 to adjust for 2024 inflation and estimate the inflation adjusted 2024 market P/E at 12.2x.
- As for 2025, we calculate non-financials to post a 74% real earnings growth (largely using consensus estimates), translating into a P/E of 8.0x. We reduce banks' earnings by 30% in 2025 to adjust for 2025 inflation and estimate the inflation adjusted 2025 market P/E at 6.7x.

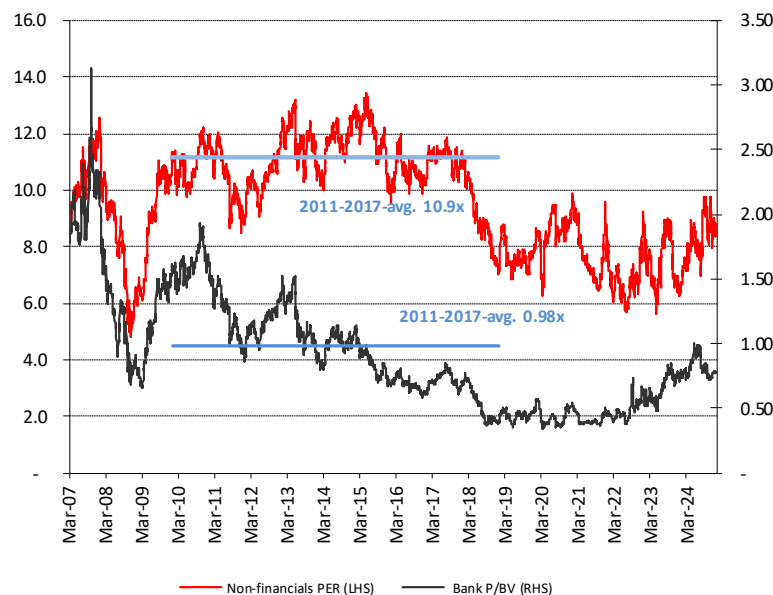
Market Multiples	3Q24 LTM IA adj. EV/EBITDA	3Q24 LTM IA adj. P/E	2024 Nom. Est. P/E	2024 IA adj. P/E	2025 Nom. Est. P/E	2025 IA adj. P/E	1-year forward P/E
Extended BIST-50 stocks							
Financials - NIA *		17.3	7.2	14.3	3.9	5.6	
Functional Cur. Not TL NIA *	6.3	4.3		7.3		5.8	
Non-financial - IA **	19.0	15.6		14.0		8.0	
Market Combined (Banks NIA)		6.5	9.7		5.8		
Market Combined (Banks IA)		10.1		12.2		6.7	6.7

Source: Tera Yatirim, *NIA (Not Inflation Adjusted), **IA (Inflation Adjusted)

Banks vs Industrials – forward multiples

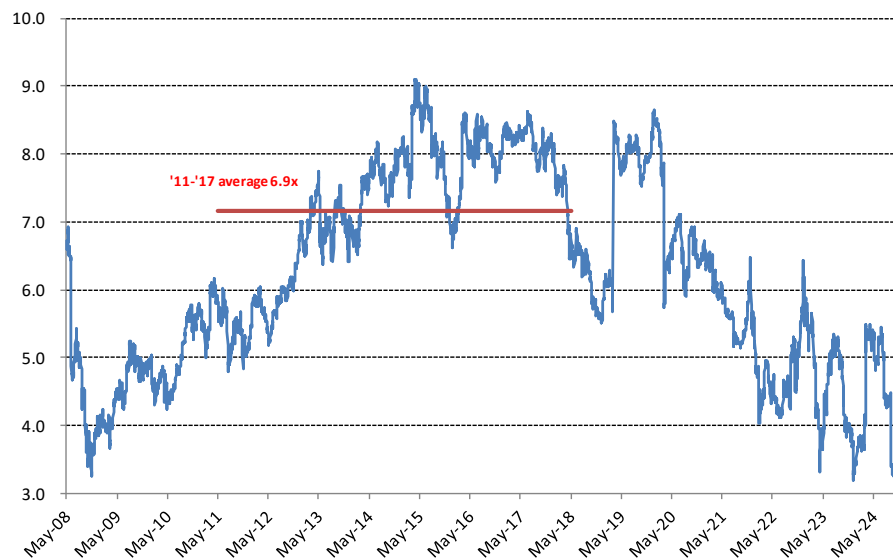
- With rational economic policies being implemented and inflation adjusted financials being published, we believe the benchmark needs to be the low-inflation-era average between 2011 and 2017.
- Forward P/BV of banks hovers at around 0.78x, trading 20% below the '11-'17 average of 0.98x.
- Non-financials trade at 8.6x forward PER or at 23% discount the '11-'17 average of 11.2x.
- In terms of EV/EBITDA, non-financials trade at 3.4x forward EV/EBITDA or at 52% discount the '11-'17 average of 7.2x.

Forward multiples of Banks vs Non-financials



Source: Bloomberg, Tera Yatirim

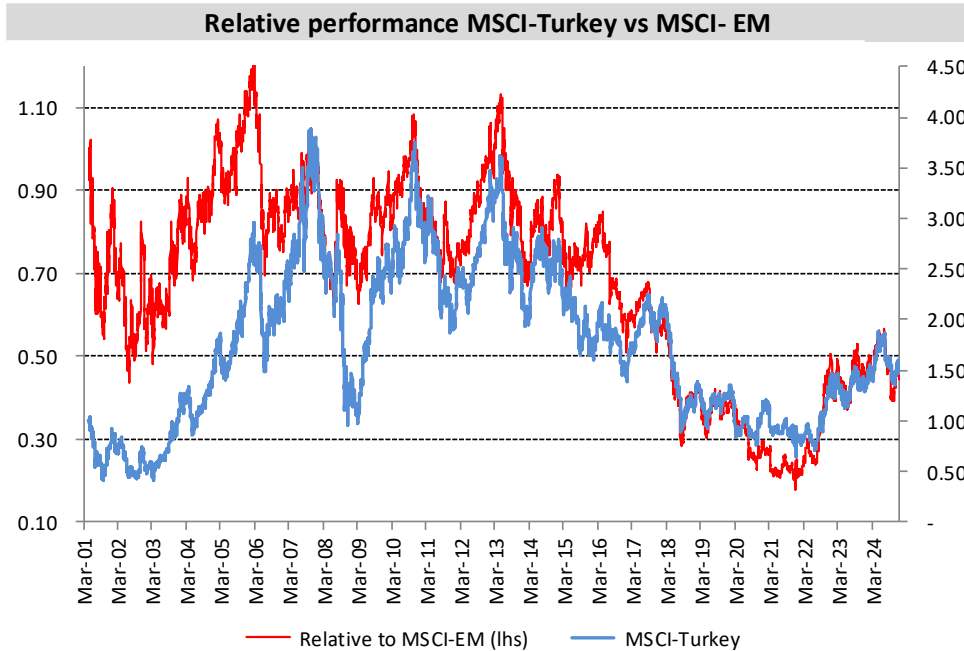
Forward EV/EBITDA of Non-financials



Source: Bloomberg, Tera Yatirim

Upward trend to continue in 2025

- Over the past two decades, Turkish equities' relative performance over MSCI-EM has been volatile.
- The market failed to repeat a strong or weak performance two years in a row up until 2014.
- However, political events and macro blues led to poor performance of Turkish equities over the past seven years.
- In 2022, the experimental macro economic policies helped MSCI-Turkey outperform MSCI- EM by 137%.
- In 2023, the excesses of 2022 was reversed ahead of elections and the market plunged. After elections, Turkish equities gained the lost ground but closed the year in negative territory (-15%) yet again.
- We expect the upward trend to continue in 2025.



Source: Bloomberg

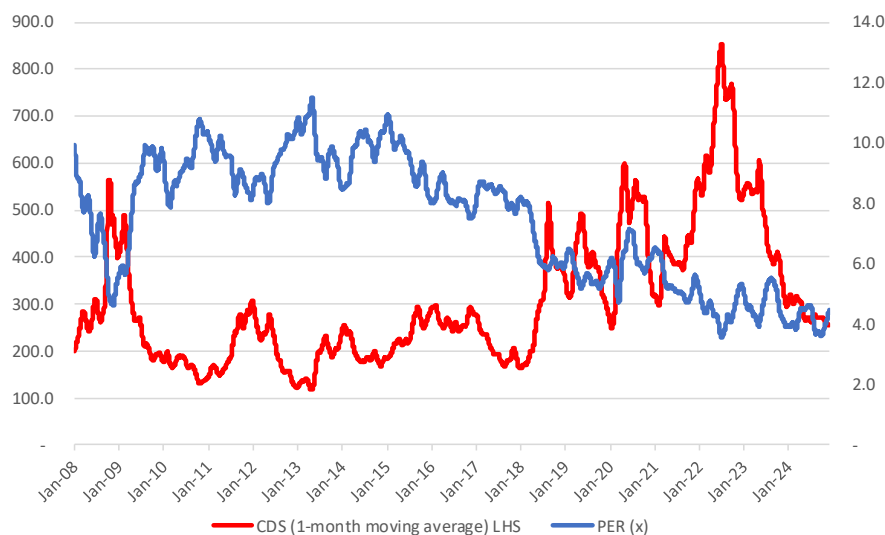
Year	MSCI-Turkey	MSCI-EM	Relative Performance
2005	52%	30%	16%
2006	-9%	29%	-30%
2007	70%	36%	25%
2008	-64%	-55%	-20%
2009	86%	73%	7%
2010	23%	17%	6%
2011	-37%	-20%	-21%
2012	61%	15%	40%
2013	-28%	-4%	-25%
2014	17%	-5%	22%
2015	-34%	-17%	-20%
2016	-11%	9%	-18%
2017	34%	34%	0%
2018	-44%	-17%	-32%
2019	7%	15%	-7%
2020	-10%	16%	-22%
2021	-31%	-5%	-28%
2022	84%	-22%	137%
2023	-9%	7%	-15%
2024	18%	5%	12%

Source: Bloomberg

Taking the rerating cue from CDS

- Experimental macroeconomic policies took its toll on the Turkish economy with inflation soaring amid sharp deterioration in C/A and budget deficits. With credit agencies downgrading Turkey's sovereign rating, 5Y CDS hit historical highs of almost 900bps. High inflation levels lift earnings and lower earnings-based multiples. Lack of visibility also erodes confidence in financials. Therefore, Turkey's 1-year forward PER also dropped to 4.0x with banks trading as low as 2.0x.
- There appears to be a close relationship between Turkey's 5Y CDS and 1-year forward PER. Between Jan-11 and Dec-17, when conventional macroeconomic policies are implemented Turkey's PER averaged at 9.2x compared with an average CDS of 214bps. Later on, PER average dropped to 6.0x while CDS rose to 381bps during '18 and '19 elections. With experimental policies' introduction in Dec-21, things have taken a turn for the worse pushing PER down to 4.5x amid an average CDS of 628bps.
- 5Y Turkey CDS has recently dropped below 300bps from a pre-election high of 600bps but PERs have not responded yet. We believe that re-rating will occur naturally when inflation declines and CBT starts its easing cycle.

5Y Turkey CDS vs 1-year forward PER

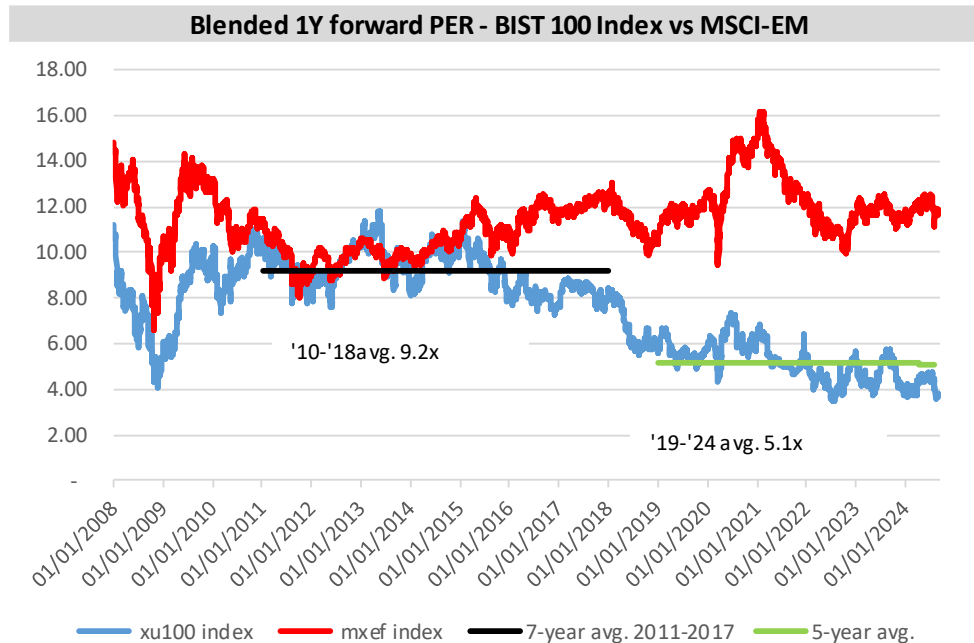


Period average	PER (x)	5Y CDS(bps)
Jan-11 / Dec-17	9.2	214
Jan-18 / Dec-21	6.0	381
Dec-21 / May-23	4.5	628
Jun-23 / Dec-24	4.4	327

Source: Bloomberg

Valuation amid the upcoming easing cycle

- Valuation amid the chaotic inflation adjustment is also another challenge. Not only are the current earnings adjusted but also historical figures are restated making historical comparison more difficult. We believe that it makes more sense to use the low-inflation-era PER of 9.5x as the correct target PER. We expect CBT to deliver a total of 17.5ppts rate cut over the next 12 months. We believe that investors would be willing to increase exposure ahead of these rate cuts amid the ongoing disinflation process.
- Based on Tera + Rasyonet consensus figures, we estimate that Turkish equities trade at 6.7x on 1-year inflation adjusted forward earnings. Our assumptions include a 30% inflation adjustment in banks' nominal earnings in 2025. We believe that the decoupling of CDS and PER is only temporary. With the start of CBT easing cycle, foreign portfolio inflows should continue and lead to BIST100 trading at an inflation adjusted PER of 9.5x, pointing to a BIST100 level of 14,300 with an upside potential of 44% based on current TL prices.



Source : Bloomberg

Themes & Stock Implications

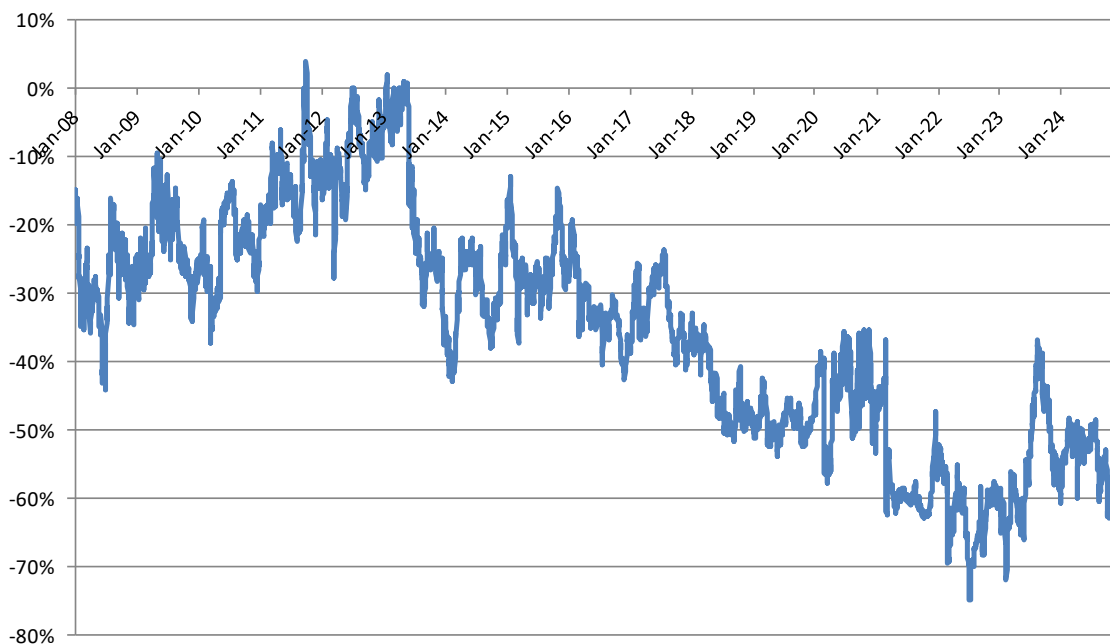
Theme	Related stock (ticker)	Is the story priced in ?	Comment / If the scenario plays out
Margin expansion in banks We expect c235ps margin expansion in '25 and 140bps in '26	All banks	Partially	Core spread expansion on declining TL deposit costs
Recession in Europe on Trump tariffs Exporters may suffer amid a weakening demand in Europe		Partially	REDUCE < TOASO TI, FROTO TI, ARCLK TI, SISE TI, VESTL TI, VESBE TI, QUAGR TI, YYLGD TI, OTKAR TI>
Rebuilding Syria Cement companies may benefit from construction activities in Syria		Partially	BUY <OYAKC, CIMSA, LMKDC>
Upgrade of the electricity grid New solar and Wind power plants need to connect to grid, transition to EVs, supply shortage		Partially	BUY <ASTOR, EKOS, EUPWR, EMKEL, ULUSE, KONTR>
Contrarian bets on surprises - Anything that works against the consensus Surprising decline in inflation to around 20% in '25	REITS	No	Mortgage lending may pick up faster than expected
Depreciation of TL	Weak TL beneficiaries	No	BUY <ASELS TI, KOZAL TI, ALKIM TI> - to a lesser extent aviation <THYAO TI, PGSUS TI, TAVHL TI>
	Weak TL casualties	Partially	SELL <DOAS TI, ULKER TI, TTKOM TI, KRDM TI, CCOLA TI, TUPRS TI>
Oil surges above US\$100	Heavy oil users / refiners / petrochemicals	No	SELL <THYAO TI, PGSUS TI, PETKM TI> / BUY <TUPRS TI> in the short run
Consumer spending to rise late in rate cut cycle Recovery in private consumption should support consumer discretionary such as autos, consumer appliances, apparel, and real estate sectors		Partially	<DOAS TI, MAVI TI, ULKER TI, YATAS TI, ARCLK TI, VESTL TI, VESBE TI, EKGYO TI, OZKGY TI, TRGYO TI>
SPOs - A potential increase in supply may create share overhang - at least until the offering Shares acquired via buy back programs		Not really	<ARCLK, BIMAS, MGROS, HALKB, VAKBN, TURSG, EKGYO, HTTBT, ISCTR>
MSCI inclusion			GARAN may be included in MSCI Turkey Standard index with only 2% BBVA stake sale
Potential sale by various shareholders (35%+)	Sok Marketler <SOKM TI>	Somewhat	35% stake is worth ~US\$0.35bn
Unlocking value - Sale of subsidiary, merger, asset sales, potential IPO Potential IPO of EnerjiSa Power Generation	<SAHOL TI>	Not really	An estimated Mcap of US\$3.4bn would correspond to 15% of SAHOL's NAV
Merger of Koza group companies	<KOZAL TI, KOZAA TI, IPEKE TI>		KOZAA (-27%) and IPEKE (-33%) trade at discount to KOZAL
Potential IPO of Hepsigorta	<DOHOL TI>	Not really	
Potential IPO of Global Tower, Paycell or Superonline	<TCELL TI>	Not really	

Source: Tera Yatirim

GEM Valuation multiples

- Turkish equities' discount to GEM average had gradually declined between 2007 and 2013, narrowing down to 5% late 2012.
- The discount has then widened back substantially to above 50% levels by end-2019.
- In 2024, the discount to GEM average narrowed down and currently stands at 42%.

Turkey vs GEM * PER discount to median



Source: Bloomberg - * Excluding Egypt & Argentina

GEM Valuation Multiples

EMEA	PER '24 (x)	PER '25 (x)
Hungary	6.2	6.1
Poland	9.6	7.8
Czech Rep	10.0	10.0
Greece	7.7	7.9
Egypt	7.0	6.0
Saudi Arabia	17.3	15.2
South Africa	12.5	9.7
Turkey	6.4	4.8
Qatar	9.3	9.1
UAE	9.1	8.9
Average	9.5	8.5

Latam

Brazil	8.2	7.1
Chile	11.1	9.3
Colombia	6.3	6.0
Mexico	11.2	10.0
Peru	12.0	10.8
Average	9.6	8.8

Asia

China	13.0	11.8
Taiwan	18.6	16.0
South Korea	10.0	8.2
India	23.3	20.4
Thailand	15.8	14.1
Indonesia	12.1	11.3
Philippines	11.2	10.1
Malaysia	15.7	14.4
Average	15.0	13.3

GEM Average	11.5	10.2
GEM Median	11.1	9.6

Turkey Discount vs. Average	-44%	-53%
Turkey Discount vs. Median	-42%	-50%

Source: Bloomberg, Tera Yatirim

- **Economic activity to recover in 2H25**

- ✓ Turkey's GDP had recovered strongly since Covid-19, thanks to a historic credit impulse on deeply negative real interest rates. There were mild q/q contractions in both 2Q and 3Q24, as loan demand and supply are being constrained by rate hikes, quantitative tightening, and macroprudential measures, in order to bring down inflation. We expect a meaningful recovery to start in 2H25 following sizeable rate cuts.

- **External balances improved substantially**

- ✓ Risen commodity prices, robust economic activity, and high gold imports had led the increase in the C/A deficit towards 6% of GDP by mid-2023. A gradual decline towards below 1% has been achieved, on slower economic activity, downward normalization in commodity prices, lower net gold imports, and rising tourism income. A slight pick-up should ensue but the deficit should be contained close to 1%.

- **Disinflation to continue gradually**

- ✓ Inflation had surged after the CBT started an easing cycle in Sep'21. Deteriorated pricing behavior, wage adjustments, administrative price and tax hikes, and unfavorable base led to the peak in annual CPI inflation in May'24. Combination of the slowdown in demand, measured TL depreciation, and favorable base kicked off a disinflation trend towards 44% at end-24 and the decline should continue to 26% by end-25E.

- **Budget deficit relatively high but manageable**

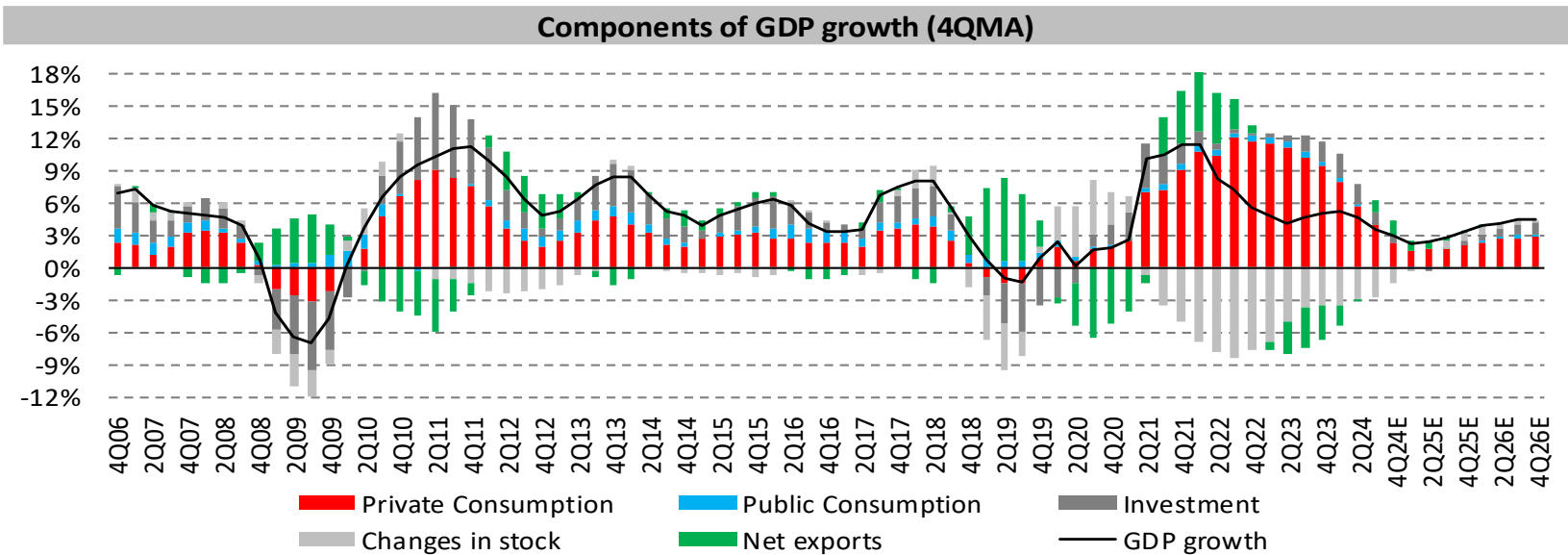
- ✓ Budget has been performing well as revenues were supported by high inflation and strong economic activity, before sizeable non-cash provisions in Dec'23. Deficit remained high throughout 2024, driven by the slowdown in economic activity, cost of new pensioners, earthquake spending, and in interest expenses. Following tax measures and spending cuts, headline deficit should decline below 4% in 2025.

- **Central Bank kicked off its rate-cut cycle**

- ✓ CBT had remained put at 50% most of 2024 before cutting by 250bps in Dec'24. We expect the Bank to continue its rate-cut cycle throughout 2025, bringing the policy rate to 30% at end-25, which indicates to 4% ex-post and 9% ex-ante real rates. In the meantime, the Bank is likely to continue utilizing macroprudential measures to facilitate de-dollarization and constrain loan supply for most of 2025.

GDP growth to recover as of 2H25

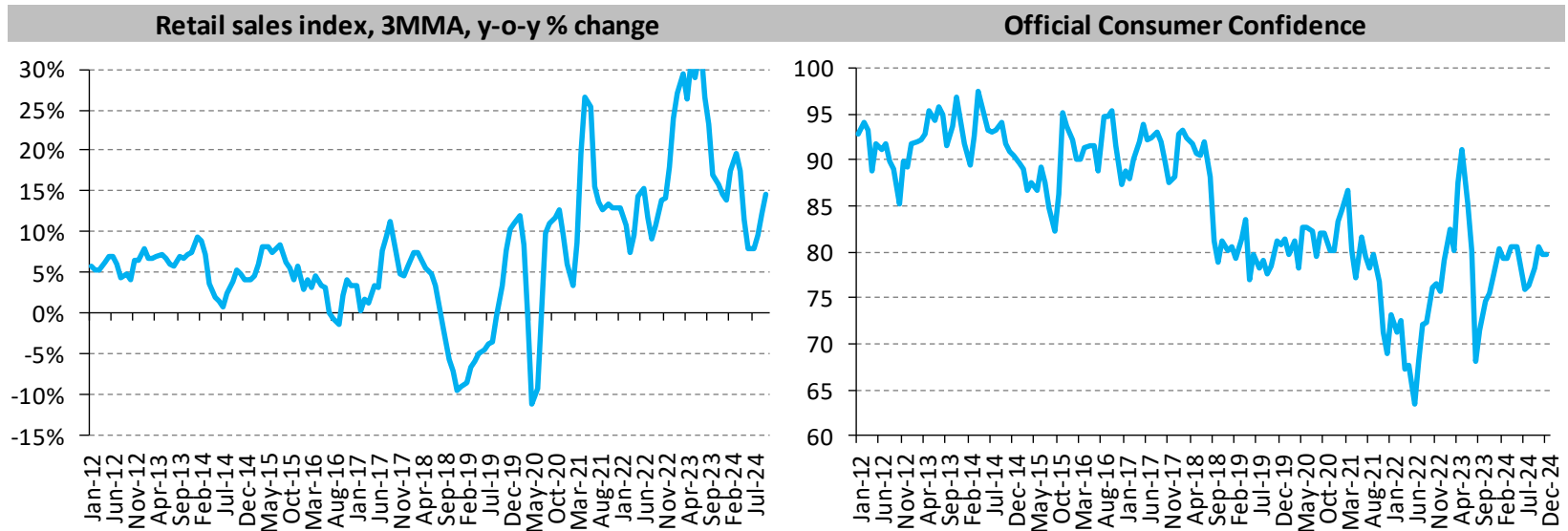
Slowdown in Turkey's GDP growth continues on tight monetary policy... Turkey's GDP had been recovering sharply from the Covid-induced slump in 2Q20, thanks to a historic credit impulse, world-leading negative real interest rates, and an unconventional macroprudential policy set pulling forward consumer demand as well as encouraging production and exports. Accordingly, the seasonally and calendar adjusted GDP in 1Q24 reached 27% above the pre-Covid level in 4Q19. Following the changes in the economy team in the aftermath of the elections, there have been substantial rate hikes as well as quantitative tightening limiting loan growth, which are gradually taking their toll on economic activity. As such, GDP has contracted by 0.2% q/q in each of 2Q and 3Q24. Annual growth is likely to trough in 1Q25 on measured wage increases, weak external demand, and continuation of tight monetary policy. Yet a cumulative 20ppts rate cuts throughout the year should ensure a recovery as of 2Q25 so that GDP growth reaches 3.3% in 2025, following the estimated 2.9% growth in 2024.



Source: Turkstat, Tera Yatirim estimates

Retail sales still strong despite weak confidence

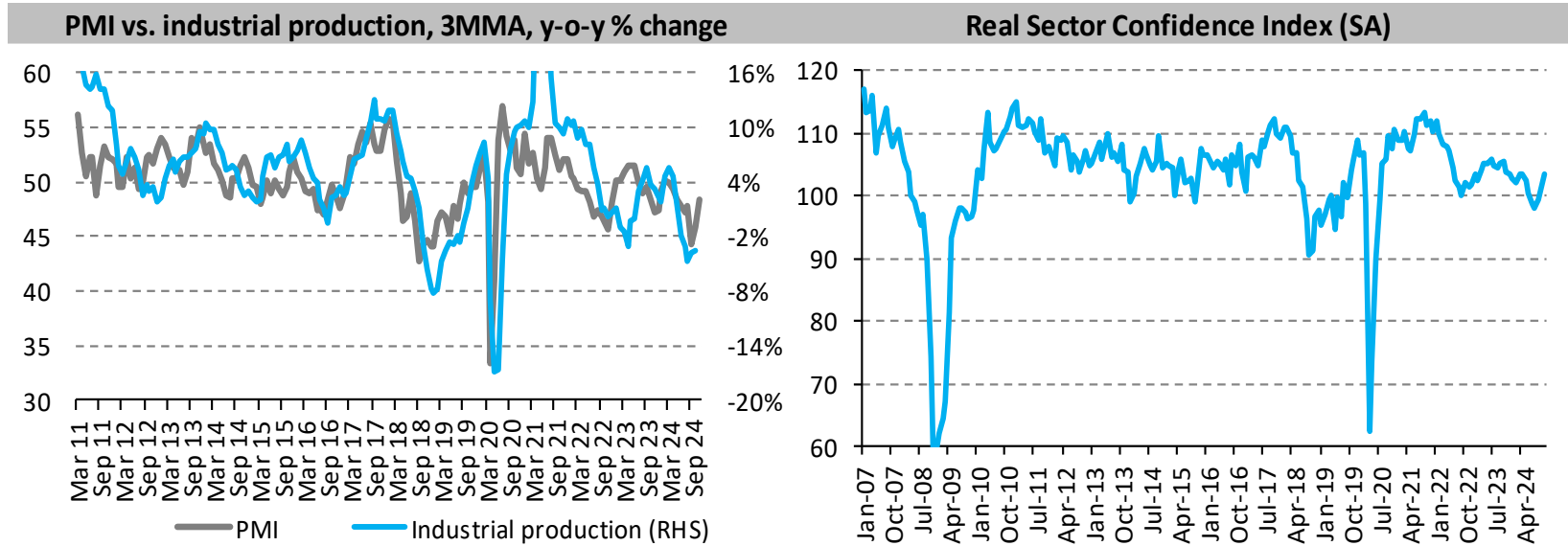
Retail sales growth still remains strong while consumer confidence is weak... Consumption makes up some 60% of Turkey's GDP, i.e. retail sales is the main driver of growth. Retail sales, which had decreased by some 18% y/y in the peak Covid-19 months of April and May 2020, have been recovering sharply since, on ample loan availability and deeply negative real interest rates. Despite some normalization on sharply-rise interest rates, retail sales still grow robustly on the combination of relatively higher inflation expectations and real appreciation of TL. Meanwhile, consumer confidence which has been steadily falling until mid-2022 had rebounded sharply supported by the combination of above inflation wage adjustments, early retirement scheme, extremely cheap financing, and a very stable currency. A collapse followed with significant currency depreciation and rate hikes in the immediate aftermath of elections. A partial recovery has ensued thereafter on normalized macroeconomic policy set and currency stability, mostly in the form of higher propensity to consume.



Source: Turkstat, Tera Yatirim

Real sector momentum is much weaker

Real sector activity weakened more visibly... Investments make up some 20% of Turkey's GDP, i.e. IP and PMI are good indicators for growth. Following the 31% y/y collapse in industrial production in the peak Covid-19 months of April and May 2020, there has been a strong rebound, supported by a historic credit growth as well as robust export momentum. A gradual loss of momentum has been observed in sequential data since early-2022, as the PMI also remained below the 50 mark for most of 2022. Following a divergence in the aftermath of the elections and normalization in economic policies, industrial production and PMI have re-converged in contraction territory as of 2Q24, as loan supply is being constraint, funding costs remain elevated, and both domestic & foreign demand weakening, while certain sectors also feel the heat of rising personnel costs and a currency that has been appreciating. We expect a recovery from 2H25 on, driven by the CBT's rate-cut cycle and gradual easing in the macroprudential policy set in favor of production over consumption.

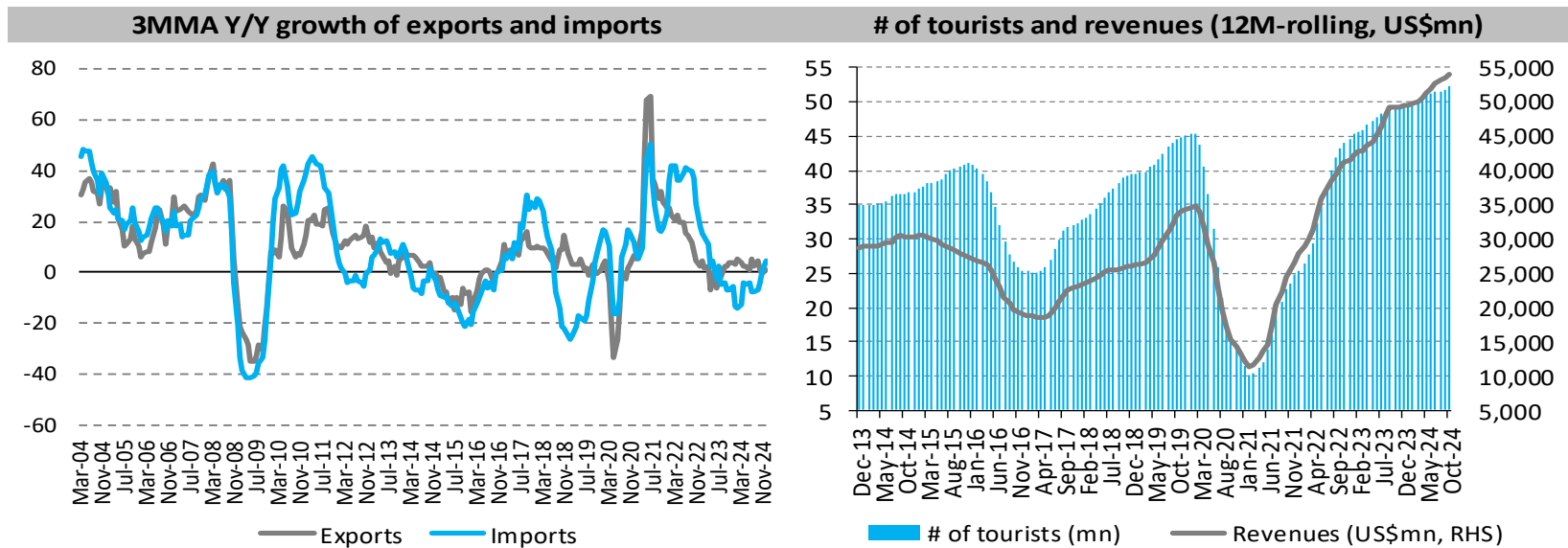


Source: Istanbul Chamber of Industry, Turkstat, Tera Yatirim

Source: CBT, Tera Yatirim

C/A deficit already troughed

C/A balance to increase slightly... Turkey's C/A deficit had widened sharply between end-2021 and May 2023, on a combination of factors including a wider goods deficit due to higher imports on ample loan availability and highly elevated commodity prices, as well as massive net gold imports on a shift in savings preferences, given the sharply negative real interest rates in TL savings instruments. The gradually-tightening monetary policy and a swiftly-depreciated TL in the aftermath of the elections following a period of extreme stability normalized demand for imported goods and brought down the abnormally-high gold demand. These, along with some normalization in commodity prices and the robust growth in tourism & transportation income, has been allowing for a gradual decline in the C/A deficit from a peak of 5.6% of GDP to 0.6% mark as of October 2024. We would expect a gradual increase towards 1% by end-2025, driven by a slight widening in the trade deficit on weak external demand and a relatively strong TL as well as slightly stronger GDP growth.

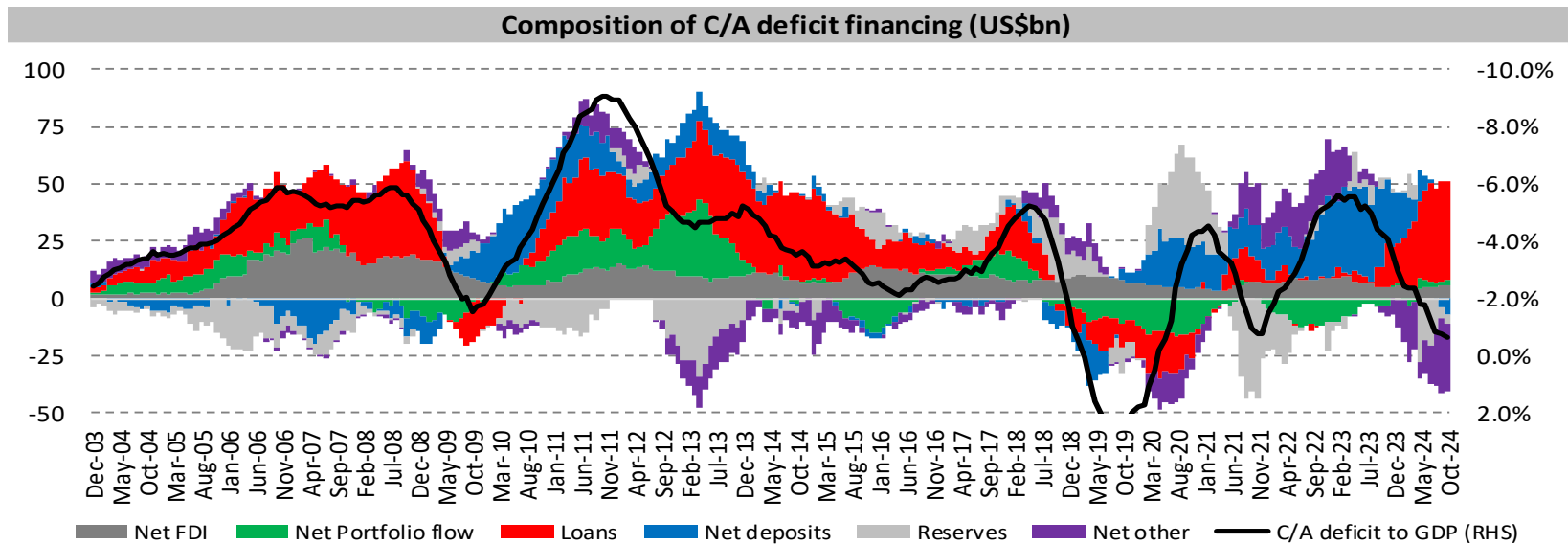


Source: CBT, Commerce Ministry, Tera Yatirim

Source: Tourism Ministry, CBT, Tera Yatirim estimates

Improvement of the capital account a priority

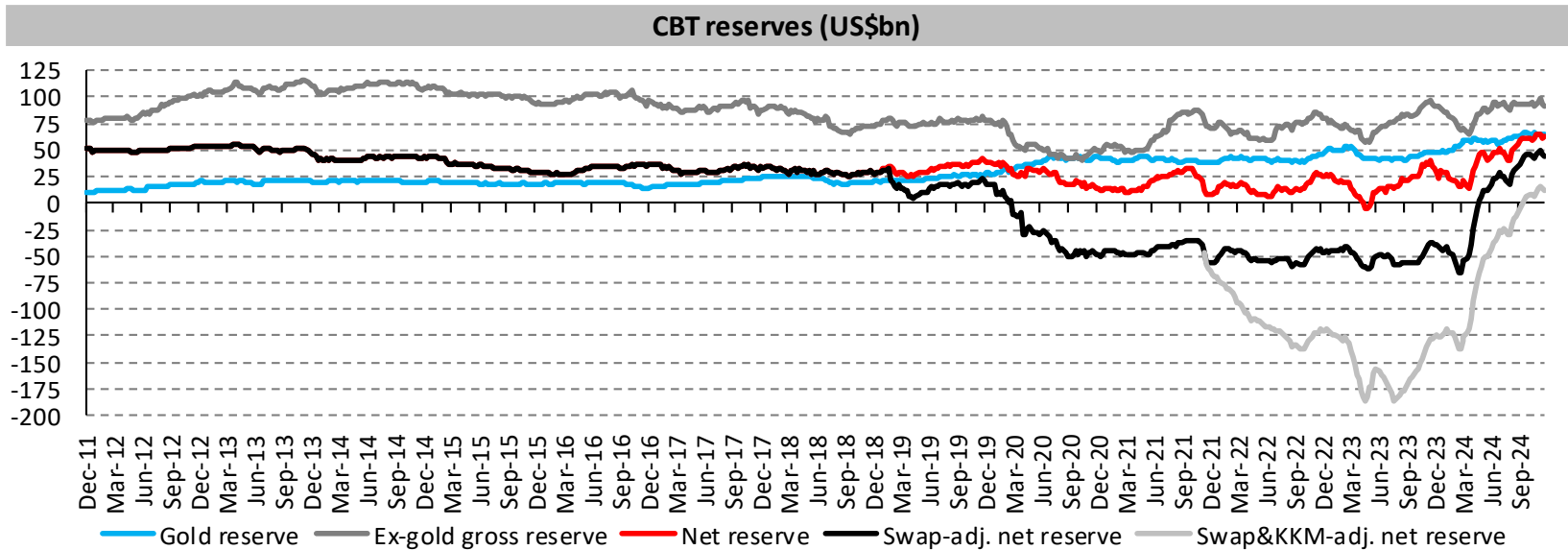
Borrowing channels are wide open but little of anything else... Net errors & omissions, reserve losses, and funding obtained by the Central Bank via bilateral deals had been the main funding sources of the C/A deficit in 2022 and 1H23, while portfolio investments, FDI other than real estate purchases, and credit had been mostly absent. Attracting foreign capital has been one of the priorities of the new economy management, which has initially led to the repatriation of local funds left ahead of elections, while the drop in Turkey's CDS levels have also improved the foreign funding conditions. Accordingly, private sector's external debt rollover exceeded 120% over 2H23-9M24, while sizeable portfolio flows came via swaps and started to come into bonds, albeit being absent from equities or in FDI form so far. We would expect the full liberalization of the swap markets to take some time, with the sustainable improvement of the CBT's fully adjusted net reserve position being a prerequisite. A gradual normalization in the swap markets in 2025 and the recently-announced removal of the short-sale ban could lead to stronger capital flows.



Source: CBT, Turkstat, Tera Yatirim estimates

FX reserves improved faster than expected

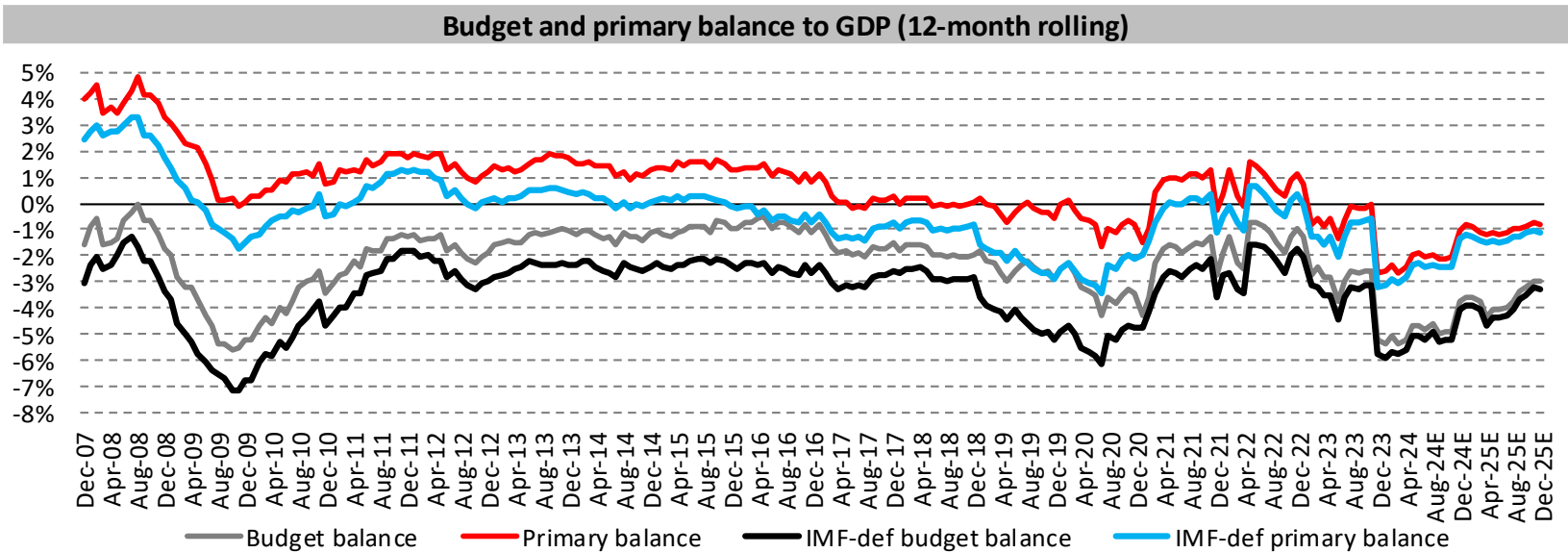
CBT's reserve situation improved significantly after local elections... The gradual closure of the swap market to foreigners in the aftermath of the sharp TL depreciation in August 2018 had necessitated the CBT to sell in excess of US\$120bn in 2019 and 2020, meeting the demand of both international and domestic investors, which has been on a pause & repeat trend since as necessary, with public pressure, FX-protected deposit scheme, receivables from rediscount loans and exporters, and bilateral deals contributing to the volatility. CBT remains the largest player in the FX market, constantly recycling FX with exporters and forcing banks to achieve de-dollarization via macroprudential measures. Since local elections, increase in foreign capital inflows, de-dollarization, and re-shifting of the short FX position back to the private sector have helped the CBT build net reserves by a significant US\$109bn in swap-adjusted net terms. We estimate main sources as follows: Corporates' FX position (US\$45bn), swaps from abroad (US\$24bn), borrowings from abroad (US\$25bn), portfolio flows (US\$13bn), and retail FX sales (US\$9bn).



Source: CBT, Rasyonet, Tera Yatirim

Budget deficits are manageable

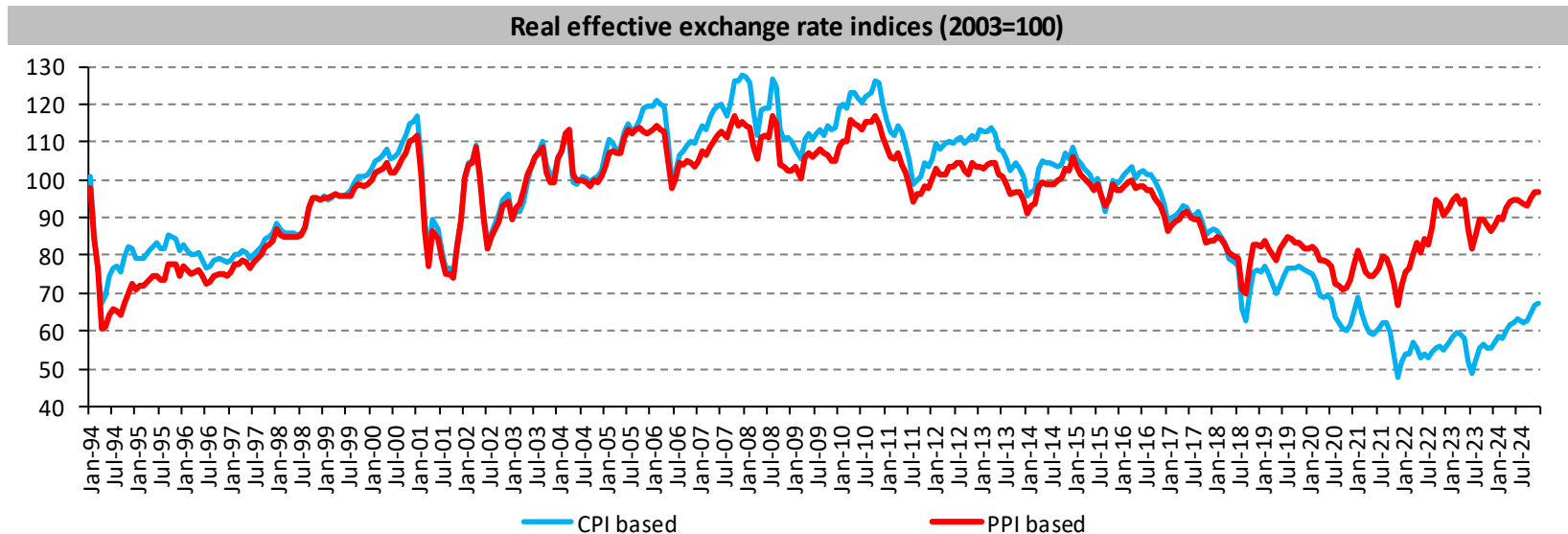
Budget deficits are set to gradually decline... Budget balances have been deteriorating over the five-year election cycle from 2015 to 2019, with the main deterioration having happened in 2019 as budget spending was required to support the weak economic activity. Afterwards came the Covid-19 supports in 1H20, leading to a peak in the headline deficit at 4.3% of GDP in July 2020. However, this was followed by a surge in revenues on the combination of the recovery in economic activity, gradual collection of deferred payments, introduction of new restructurings, as well as the runaway inflation and TL depreciation. As such, headline deficit hit a low of 0.6% in May 2022, accompanied by a primary surplus of 1.7%. Deficits surged in Dec'23 on non-cash provisions and deficit remain high throughout 2024, driven by the slowdown in economic activity, cost of the new pensioner scheme and other contingent liabilities, earthquake spending, and surge in interest expenses. Following tax measures and spending cuts, headline and primary deficits are forecast to decline to c.3% and c.1%, respectively, in 2025.



Source: Ministry of Finance, Turkstat, Tera Yatirim estimates

TL has started to appreciate

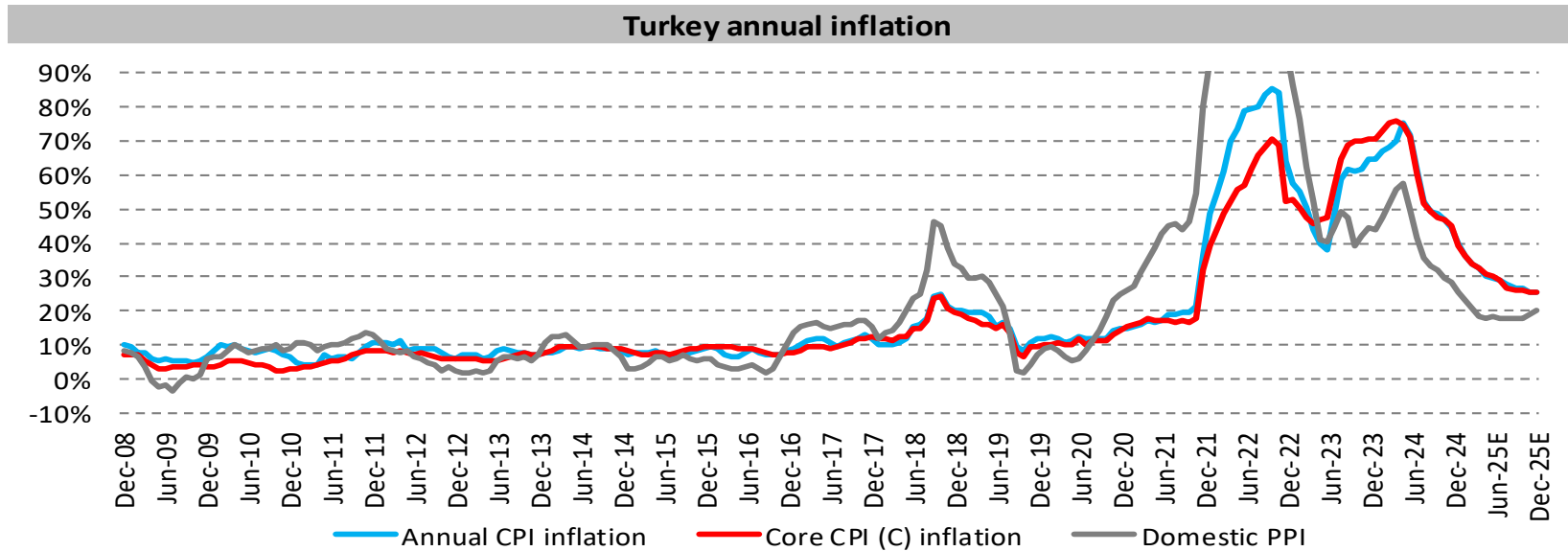
REER indices for TL appear close to fair levels... TL had been continuously depreciating since 2010 on the combination of chronically high C/A deficit and inflation, along with excessive loan growth, rising budget deficit, and surging risk premia exacerbated by geopolitical issues. Supported by the FX-protected TL deposit scheme and sales from reserves, TL had been allowed to appreciate significantly ahead of the elections and depreciate sharply in the immediate aftermath. TL seemingly remains a managed float, as the increase in foreign portfolio flows, robust tourism revenues, gradually improving trade deficit, and some de-dollarization given the sharply raised TL interest rates all make it easier for the CBT to control the nominal depreciation. Given the need to continue rebuilding reserves, commitment to achieve disinflation, and not wishing to deteriorate exporters' competitiveness too greatly, we would expect the CBT to continue allowing for a nominal depreciation of TL slightly below the monthly inflation figures, going forward.



Source: CBT, Tera Yatirim

Gradual disinflation trend has started

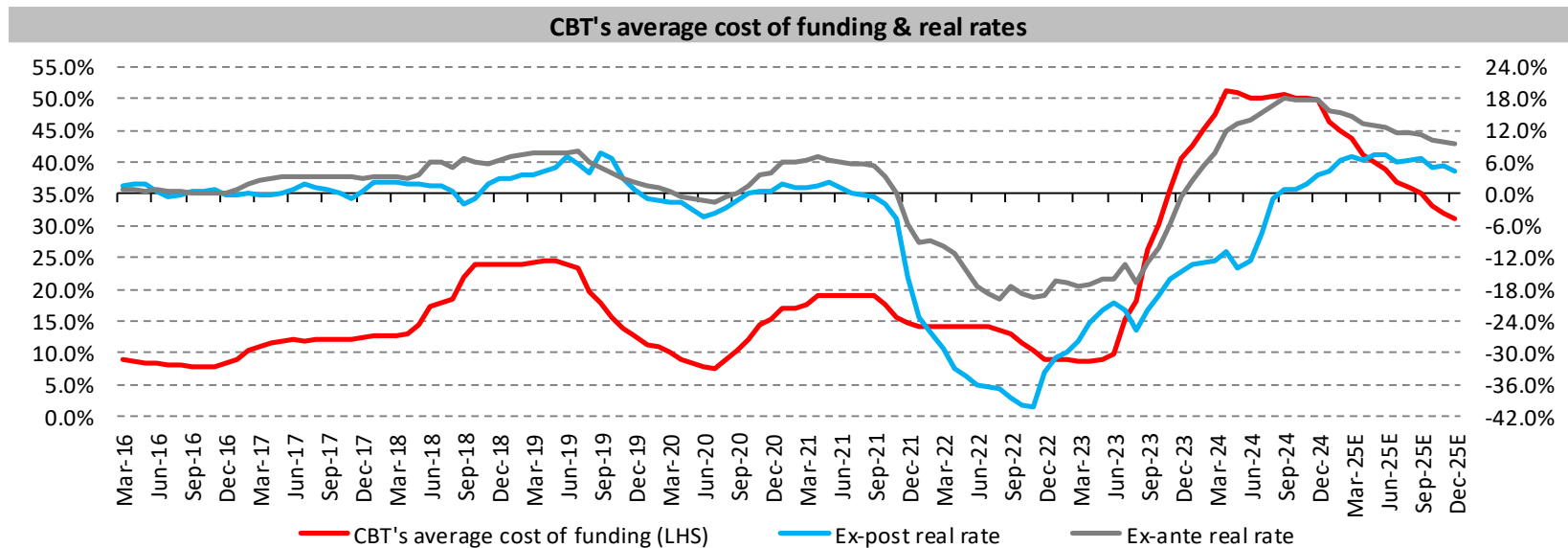
Annual inflation to continue coming down gradually... After years of revolving around the 8% mark within a relatively tight range, breadth of volatility and the peaks of inflation surged as TL's depreciation gained pace, budget deficits started to widen, and consumption picked up on a historic credit impulse. CPI inflation exceeded 85% while PPI inflation exceeded 155% by Sep'22. The favorable base effect and contained TL helped facilitate a drop to just below 40% around the elections in 2023. However, the normalization in TL, sizeable wage adjustments, new pensioner scheme, rollback of major energy price subsidies, new taxes, and chronic problems in the food supply chains have started to push annual inflation higher towards its peak in May'24 at 75%. Thereafter, combination of the gradual slowdown in economic activity, meaningful real appreciation of TL, the base effect, and ongoing fiscal tightening started to lead the drop in annual CPI inflation to 44% as of Dec'24. We expect the same trends, along with a gradual improvement in inflationary expectations and pricing behavior, to ensure the continuation of disinflation.



Source: Turkstat, Tera Yatirim estimates

CBT kicked off its rate cut cycle

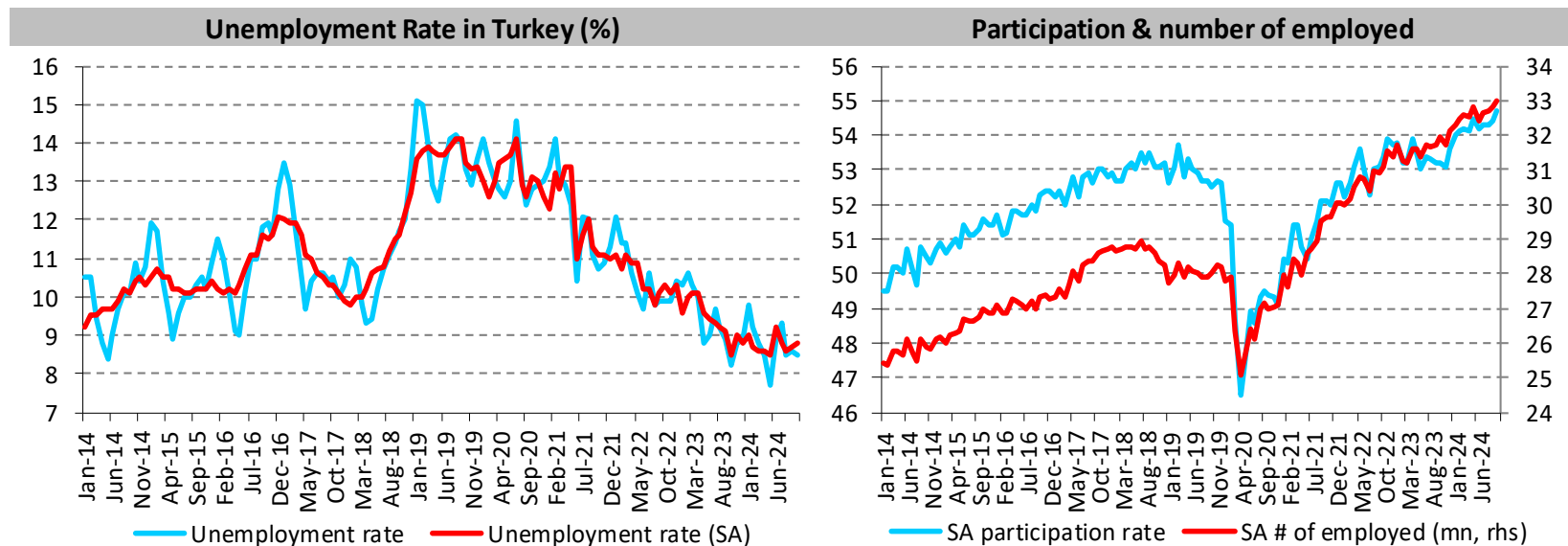
CBT to keep cutting throughout 2025... Immediately following the elections, President Erdogan has replaced the Central Bank Governor and the CBT has kicked off the rate-hike cycle, which initially remained slow with lower-than-expected hikes in the first two meetings. Following the overhaul of the entire MPC, the CBT stepped up the pace of rate hikes while raising reserve requirements to mop of extra TL liquidity and at the same time has been gradually simplifying and improving the macroprudential policy set, in order to achieve de-dollarization and constrain the loan supply. Ex-post real rate reached positive territory as of September and the CBT has started its rate hike cycle as of December after the ex-ante rate peaked at 18%, also taking into account the output gap which turned negative. We forecast that the CBT will conduct a gradual rate cut cycle which will extend a couple of years with a total 17.5ppts in 2025 (9.5ppts in 1H25 and 8ppts in 2H25), bringing the policy rate to 30% at end-2025, which indicates to 4% ex-post and 9% ex-ante real rates.



Source: CBT, Tera Yatirim estimates

Unemployment to pick up from multi-year lows

Unemployment rate to increase slightly in the near future... Relatively slower economic growth with boom-bust cycles, low levels of confidence, lack of investments, and a flurry of unregistered refugee employment have been pushing up unemployment ratio since mid-2012, despite the Government's ongoing employment supports. Having peaked at just above 14% in September 2019, seasonally adjusted unemployment reached a new high of 23% in the peak months of Covid restrictions, once we adjust for the sharp drop in the participation rate to 47% from 53% previously. A year after, once the Covid scare got tamed, employment started to pick up strongly, supported by the sharp recovery in tourism, while companies were encouraged to increase employment via loans linked to such targets. As such, number of employed returned back to its trend growth in 2010s, with the seasonally adjusted unemployment rate standing at 8.8% as of October 2024. We forecast that the slowdown in economic activity and export markets should stall these employment gains over the next one year period.



Source: Turkstat, Tera Yatirim

MACRO FORECASTS

Macro Forecasts		2021	2022	2023	2024F	2025F	2026F	2027F
1-Week Repo Rate	(year-end, %)	14.00	9.00	42.50	47.50	30.00	23.00	17.50
Effective Funding Rate of CBT	(average, %)	17.78	12.96	18.31	49.06	38.27	26.25	20.06
Benchmark Bond Yield	(year-end, %)	22.09	9.80	38.12	42.36	24.96	18.83	15.88
Benchmark Bond Yield	(average, %)	18.05	19.85	20.07	42.60	32.15	20.97	17.23
USD/TRY Rate	(year-end)	13.33	18.70	29.44	35.28	42.18	47.53	53.56
Change	(y-o-y)	82%	40%	57%	20%	20%	13%	13%
USD/TRY Rate	(average)	8.85	16.56	23.76	32.80	38.63	44.80	50.49
EUR/TRY Rate	(year-end)	15.09	19.93	32.57	36.74	43.92	49.49	55.77
EUR/TRY Rate	(average)	10.44	17.38	25.71	35.49	40.22	46.65	52.57
Exchange Basket (EUR+USD)	(year-end)	14.21	19.32	31.01	36.01	43.05	48.51	54.66
GDP Growth	(real % change)	11.4	5.5	5.1	2.9	3.3	4.4	4.2
CPI Inflation	(y-o-y % change)	36.1	64.3	64.8	44.4	25.7	19.6	15.4
Average Brent oil price	(average, US\$)	70	98	82	79	75	75	75
Current Account Balance	(annual, US\$ bn)	-6	-47	-40	-10	-15	-20	-26
C/A Balance as % of GDP	(annual)	-0.8	-5.2	-3.7	-0.7	-1.0	-1.2	-1.4
Budget Balance as % of GDP	(annual)	-2.8	-1.0	-5.2	-4.0	-3.5	-2.8	-2.8
Primary Balance as % of GDP	(annual)	-0.3	1.1	-2.6	-1.1	-0.3	0.3	0.6
Unemployment Rate	(average, %)	12.0	10.5	9.4	8.9	9.7	9.5	9.1

Source: CBT, Treasury, Turkstat, Matriks, Rasyonet, Tera Yatirim estimates

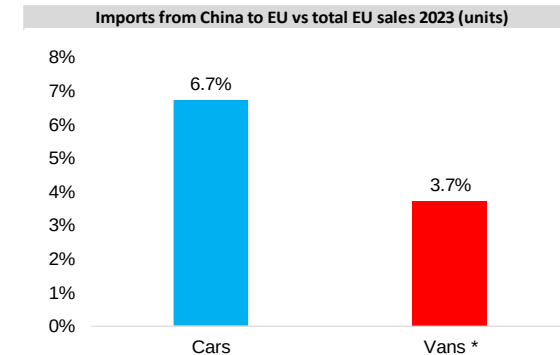
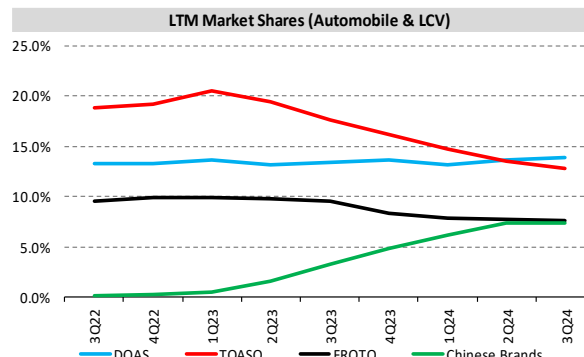
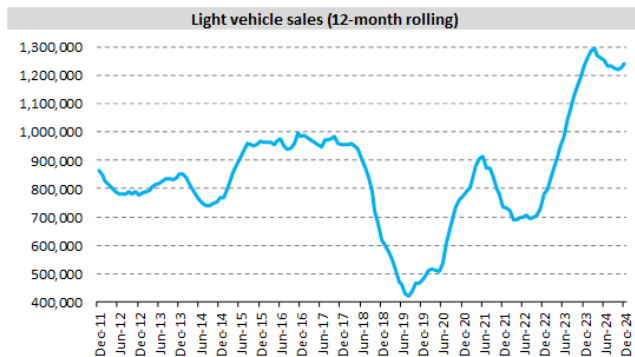
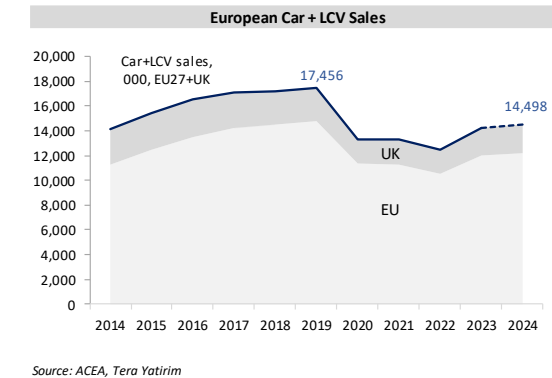
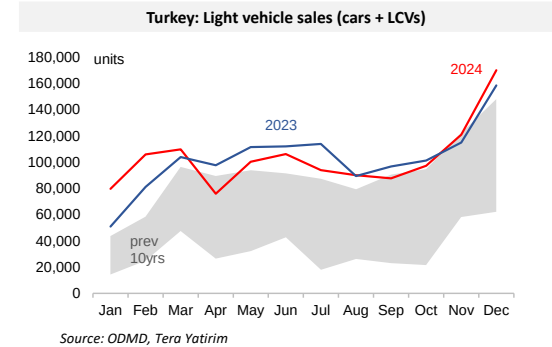
Automotives

🌀 **End-market cautious; bottom-up events likely to drive the shares:** We expect light vehicle demand in Turkey to normalize -20% y/y in 2025 from the extraordinary strong base of 2024. We see FROTO (O/W) has a clearer case of top-line expansion through its upcoming 21% capacity hike. Tofas (Neutral) will have its brand-new van (K0) launched soon, however its 2026+ investment case rests on whether it will replace (or prolong) its Egea-cars, which will –otherwise- expire at YE25.

🌀 **Tofas (M/W):** We think it makes a lot of sense to expect Stellantis to award new model(s) to Tofas as Egea's termination would –otherwise- hurt its scale and cost advantage to produce K0's. However no official guidance yet. Reading from stock's reaction to past newsflow, we believe street overemphasizes Tofas' potential merger with Stellantis-Turkey in distribution. We think launching K0s - or being granted new models - has little to do with its commercial partnership with Stellantis-Turkey. Meanwhile, weak EU-macro backdrop risks the organic volumes in 2025.

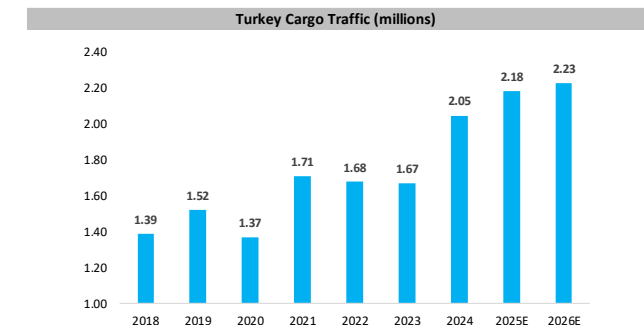
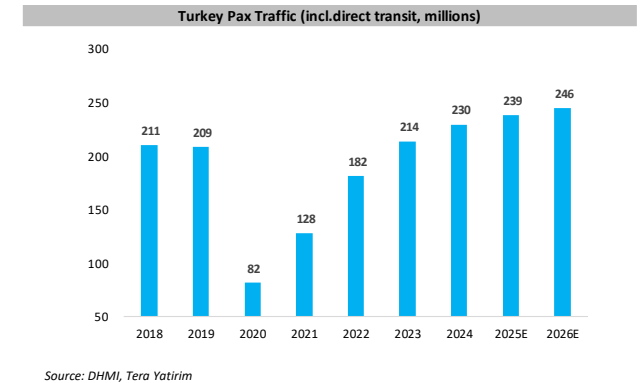
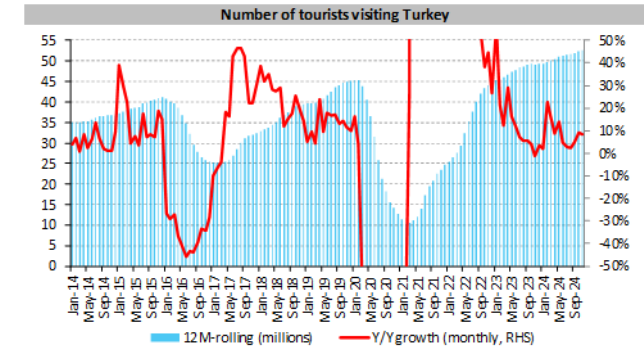
🌀 **Ford Otosan (O/W):** FROTO has completed new launches in most of its line-up, we expect to hear details of the pending Transit upgrade soon (est. 2025-26E), after which FROTO will enter its low-capex cycle. Company has maintained high pay-outs even during the 2022-24 investment period, we believe its low-capex cycle post-26E could yield more attractive dividends over a larger revenue base. Contrary to investors' common concerns about Far-Eastern competition, FROTO's van category faces a lower degree of import-competition in the EU than the car segment. Although it has not been part of the original cooperation between VW & Ford Europe, we think FROTO has the know-how and capacity to assume production of the new VW-Crafter during upcoming Transit-upgrade.

🌀 **Valuation:** Tofas shares are trading at 7.3x/5.7x P/E for 2025/26E on our base case assumption of Egea (or alike model) will be prolonged with 100k pa capacity. FROTO offers slightly more attractive valuation multiples 5.8x/5.3x for 2025/26E with less ambiguity about post-25E line-up risks.



Aviation

- We expect Turkish aviation to maintain positive outlook in 2025...** The sector demonstrated robust performance in 2024 with total pax up +8% y/y in 12M24. Turkey's airport regulator, DHMI, forecasts another +4.1% growth in the total pax for 2025.
- We believe the disinflationary macro economy will foster a more favorable operating environment. Strong growth prospects in foreign tourism could provide additional support. As of latest data, total incoming foreign tourists visited Turkey were 9% y/y in 12M24.
- According to IATA, the global airline industry is expected to demonstrate modest profit growth in 2025 despite the cost and supply-chain challenges.** Pax traffic is expected to grow by 7% y/y in 2025 and pax-km (RPK) by 8.0%, outpacing 7.1% likely increase in ASKs (implying slightly positive loads).
- THYAO (O/W):** Company had an early ASK growth outlook of 5-8% for 2025, down from ">8.2%" in 2024. That said, management sees the near-term booking curve remains positive. Ex-fuel CASK headwinds are expected to ease in 2025 (esp. the high base of staff in 2024). We expect it to deliver 24.6% EBITDAR margin in 2025 (24.9% vs 2024E) despite another strong top-line.
- PGSUS (O/W):** We expect ASK growth in 2025 to be similar to the 2024E guidance of 12-14%, hence outgrow THY. International load factor is likely be close to 90% (vs 1124: 85.8%), which will also increase high-margin ancillary revenues. We estimate unit revenues (RASK) to remain flat y/y, resulting in 31.3% EBITDA margin in 2025 (29.9% in 2024). A major catalyst for Pegasus could be the expected tender for the use of second terminal at its main hub (SAW), which we expect to go operational towards YE27.
- TAVHL (M/W):** showed a robust performance in 2024 with a 11% increase in its pax traffic close to the mid-range of its year end 2024 guidance. Company expects high single to double single digit growth in pax'25. The completion of renewal at Antalya airport will increase capacity and retail space (May-25) probably leading to a higher concession fee going forward. For Ankara, only the air-traffic capacity will increase, the concession fee will increase starting from May-25. Likewise, management suggested its current tariff in Almaty airport is below peers, and subject to a positive adjustment along with its strong capex plan for this airport. Additionally, If TAV Airports' base-case tariff proposal is accepted, a permanent EBITDA increase of 13-15% is expected in Almaty starting from the 2H25. (Almaty's EBITDA will be 13-15% higher than before the tariff increase.)



Banking sector - Overview

- Rate cuts to drive multi-year margin expansion...** Banking sector earnings have remained under pressure in 2024, following the sizeable rate hikes in 2H23, accompanied by gradually tightening liquidity conditions via macroprudential measures, along with caps on loan growth. We expect the recently kicked-off rate cut cycle to continue unabated throughout 2025 and allow for a material margin expansion from 2Q25 onwards, albeit still being weighed down by the existence of high reserve requirements, growth caps, and legacy bond portfolios. We would expect the rate-cut cycle to continue well into 2027, indicating that banks may enjoy relatively elevated spreads for an extended period of time, resulting in further NIM expansion in 2026, with the negative impact of cash and securities also diminishing.
- NIM expansion to alleviate efficiency and CoR pressures...** As such, following a c.210bps NIM contraction in 2024 on top the c.370bps drop in 2023, we forecast NIMs to expand by c.250bps in 2025 to 3.7% and another c.140bps to 5.1% in 2026 on average. These should more than alleviate the downward normalization in fees-to-opex ratios (on lower payment system fees and stickier personnel and marketing expenses) and the upward normalization in CoR (driven by elevated interest rates, lower disposable incomes, and below-trend growth). Accordingly, we expect the earnings of the seven listed banks under our coverage to increase by 82% and 53% y/y in 2025 and 2026, respectively.
- A more meaningful re-rating would present upside risk to our TPs...** We find an average 49% upside potential in our coverage banks, indicating a mild 5% re-rating, combined with the 44% expected book value growth of 2025. A successful disinflation program vs. current market skepticism may further reduce Turkey's CDS level and facilitate a stronger re-rating of bank multiples. On the other hand, pauses in the pace of disinflation and de-dollarization trends may also lead to more reluctant rate cuts by the CBT, delaying the expected margin recovery and putting pressure on shorter-term earnings.
- Garanti BBVA and TSKB remain as top picks for now...** We expect Garanti BBVA and TSKB to continue generating best-in-class ROEs in 2025, thanks to structurally-high margins as well as strong provision and capital positions. Both banks also offer better risk-reward profiles against possible hick-ups regarding the pace of disinflation and rate cuts, with Garanti benefiting from its higher customer business in its balance sheet and TSKB not being impacted by the volatility in TL interest rates and being immune to the ongoing retail NPL evolution.

(as at 06.01.2025, TL)		Current price	Target price	Upside potential	Recom.	P/E		P/B		ROAE	
						2025E	2026E	2025E	2026E	2025E	2026E
Akbank	AKBNK TI	66.80	99.87	50%	MW	4.8	3.0	1.08	0.80	26.5%	31.0%
Garanti Bank	GARAN TI	129.50	205.76	59%	OW	3.8	2.9	1.13	0.83	36.3%	32.9%
Halkbank	HALKB TI	17.21	22.57	31%	UW	4.3	1.6	0.62	0.42	18.0%	31.4%
Isbank	ISCTR TI	14.14	20.29	44%	MW	3.6	2.4	0.79	0.56	26.3%	27.8%
Vakifbank	VAKBN TI	24.14	31.90	32%	UW	3.5	2.3	0.76	0.54	26.1%	27.4%
Yapi Kredi Bank	YKBNK TI	31.92	46.70	46%	MW	4.3	2.7	0.96	0.69	27.1%	30.3%
TSKB	TSKB TI	13.06	22.14	70%	OW	2.8	2.5	0.74	0.58	31.6%	26.5%
Aggregate				49%		3.9	2.6	0.91	0.66	28.0%	30.0%

Source: Companies, Rasyonet, Tera Yatirim estimates

Banking sector - Aggregate Estimates

Tier-I banks aggregate, TLbn	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E
Selected balance sheet items								
Total loans	6,820	9,296	11,835	14,655	54%	36%	27%	24%
TL loans	4,940	6,421	8,298	10,553	56%	30%	29%	27%
FX loans (US\$)	64	81	84	86	-5%	28%	3%	3%
Total deposits	9,135	11,646	15,059	18,755	74%	27%	29%	25%
TL deposits	5,548	7,683	10,274	13,310	97%	38%	34%	30%
FX deposits (US\$)	122	112	113	115	-7%	-8%	1%	1%
Interest earning assets	11,977	16,117	20,424	25,119	64%	35%	27%	23%
Equity	1,202	1,425	2,046	2,841	46%	18%	44%	39%
Summary income statement								
Net interest income	371.7	398.6	788.7	1,230.1	-18%	7%	98%	56%
FX & trading gains	94.9	-88.6	6.6	50.1	162%	n.m.	n.m.	660%
Net fees and commissions	193.2	415.0	558.5	614.7	153%	115%	35%	10%
Dividends	64.2	81.3	102.9	124.7	89%	27%	27%	21%
Other income	119.5	154.8	98.5	144.2	162%	30%	-36%	46%
Specific provisions	46.5	105.2	183.8	230.9	15%	126%	75%	26%
General provisions	97.0	67.8	45.4	43.9	13%	-30%	-33%	-3%
Other provisions	9.0	3.4	5.4	0.5	-71%	-62%	58%	-91%
Operating expenses	311.8	498.5	699.8	908.2	132%	60%	40%	30%
Pre-tax income	379.2	286.1	620.8	980.4	7%	-25%	117%	58%
Tax expense	49.9	30.0	148.4	251.6	-40%	-40%	395%	69%
Net income	329.2	256.1	472.3	728.8	21%	-22%	84%	54%
Key ratios								
L-D spread	3.3%	3.9%	5.6%	6.4%	-347	61	169	86
Adjusted NIM	3.2%	1.2%	3.7%	5.1%	-369	-208	254	138
Fees / opex	62%	83%	80%	68%	496	2,129	-345	-1,213
Gross CoR (bps)	254	213	218	208	-98	-41	5	-10
Net CoR (bps)	129	81	153	121	-128	-48	72	-32
Cost / income	40%	57%	48%	45%	1,811	1,665	-848	-365
ROAE	33.2%	19.6%	28.0%	30.1%	-1,219	-1,352	833	213

Source: Companies, Tera Yatirim estimates

Banking sector - Individual bank forecasts

Y/Y changes	AKBNK		GARAN		HALKB		ISCTR		VAKBN		YKBNK	
(%, bps)	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Loans - FX adj	39%	25%	38%	26%	16%	17%	32%	21%	26%	15%	30%	24%
Deposits - FX adj	23%	27%	20%	24%	22%	21%	20%	20%	18%	22%	20%	24%
Total assets	38%	26%	36%	29%	36%	25%	33%	26%	31%	24%	38%	27%
Average IEA	50%	30%	48%	30%	39%	28%	52%	26%	50%	26%	52%	27%
NIM - swap adj	-242	181	-153	280	-135	232	-355	354	-10	191	-475	291
NIM - swap adj (%)	2.0%	3.8%	3.4%	6.2%	-0.1%	2.2%	-0.6%	3.0%	1.9%	3.8%	0.6%	3.5%
NII - swap adj	-32%	147%	3%	137%	-114%	-2447%	-129%	-761%	46%	148%	-84%	689%
Net fees & comm	124%	41%	130%	38%	112%	30%	117%	33%	81%	31%	113%	30%
Operating expenses	85%	39%	93%	43%	19%	39%	61%	38%	37%	44%	68%	41%
NPL formation (bps)	187	166	182	175	85	86	130	163	99	157	177	154
NPL ratio - adj	85	80	93	100	52	42	52	95	53	110	79	59
NPL coverage ratio	-456	500	-364	350	-1910	750	-307	0	-1140	0	-796	500
Total provisions	-11%	39%	1%	13%	48%	188%	-21%	77%	-24%	-1%	-7%	35%
Gross CoR	-41	5	-60	-58	33	80	2	59	-158	-63	-27	16
Specific CoR	73	-22	68	43	34	43	10	61	49	63	39	63
Net CoR	-40	41	-61	39	31	77	23	48	-186	113	-40	95
Net CoR (bps)	115	157	152	191	34	111	118	166	17	131	73	169
FX-adj. net CoR (bps)	106	148	114	162	34	111	108	157	17	131	53	154
Net income	-36%	71%	4%	58%	13%	150%	-41%	129%	61%	67%	-58%	121%
Equity - divs adj	18%	37%	39%	51%	7%	44%	18%	45%	25%	48%	16%	42%
ROAE (%)	18.9%	26.5%	32.2%	36.3%	8.5%	18.0%	14.9%	26.3%	21.0%	26.1%	15.4%	27.1%

Source: Companies, Tera Yatirim estimates

Banking sector - Assets

📌 **Loan growth remains capped...** We project banking sector loans to grow by some 21% y/y in FX-adjusted terms in 2025, slowing down from the 29% expected growth in 2024, as the monthly growth caps are likely to remain valid for most of 2025 after having been gradually introduced in 2024. Growth should continue to be driven by unconstrained segments such as investment, agriculture, and tradesman loans, as well as credit cards. A further reduction in caps could also be in the cards in tandem with the decline in inflation, which we have not factored in our forecasts. Existence of caps limits differentiation among banks while state banks are likely to remain less aggressive on tighter capital levels.

📌 **Required reserves remain high...** Similar to growth caps, we expect the macroprudential set regarding reserve requirements to also remain intact throughout 2025. Utilized to control the liquidity in the banking system by the CBT in order to ensure that TL deposit costs remain close to its policy rate, average effective TL and FX reserve requirement ratios are currently more than double historical levels at c.17% and c.21%, respectively. As such, cash and equivalent assets including RRs reached a significant 22% of interest earnings assets as at 3Q24, up from 15% at end-2020 and 10% at end-2010.

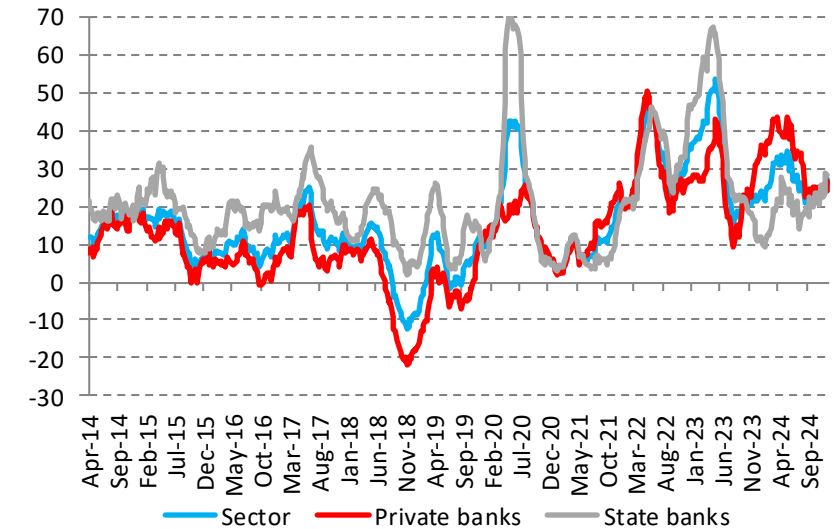
3Q24, loan breakdown	AKBNK	GARAN	HALKB	ISCTR	VAKBN	YKBNK
TL loans	71%	73%	74%	64%	64%	70%
General purpose cash	16%	13%	2%	10%	9%	16%
Auto	0%	1%	0%	0%	0%	1%
Housing	4%	3%	6%	4%	3%	1%
Credit card	22%	25%	6%	20%	8%	25%
Comm. & corp.	29%	30%	59%	30%	44%	27%
FX loans	29%	27%	26%	36%	36%	30%
Loans / deposits	81%	83%	62%	77%	82%	96%

Source: Banks, Tera Yatirim

Loans of big-6 (TLbn)	2023	2024E	Y/Y chg.	2025E	Y/Y chg.
Total loans	6,820	9,296	36%	11,835	27%
TL loans	4,940	6,421	30%	8,298	29%
General purpose cash	682	1,010	48%	1,251	24%
Auto	58	44	-23%	49	10%
Housing	279	345	24%	424	23%
Credit card	1,067	1,583	48%	2,100	33%
Comm. & corp.	2,854	3,438	20%	4,474	30%
FX loans	1,880	2,875	53%	3,536	23%
<i>FX loans (in US\$m)</i>	<i>64</i>	<i>81</i>	<i>28%</i>	<i>84</i>	<i>3%</i>

Source: Banks, Tera Yatirim

Annualized 13-week rolling weekly FX adjusted loan growth



Source: BRSA, Tera Yatirim

Banking sector - Funding

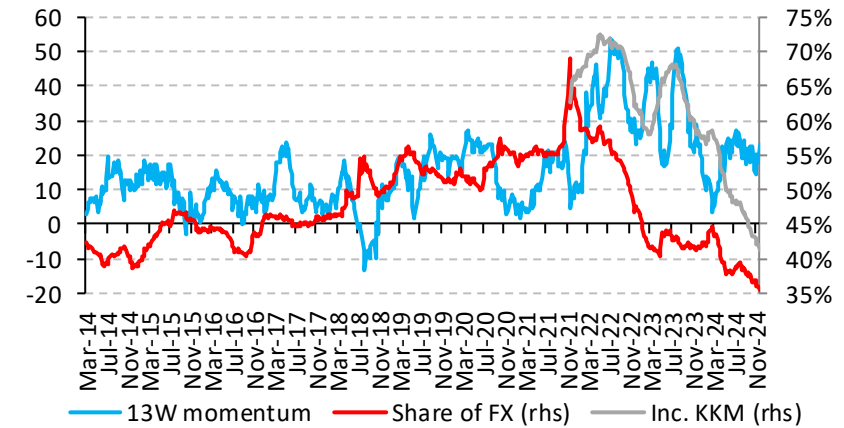
🌀 **De-dollarization and exit from KKM to continue...** We project banking sector deposits to grow by 23% y/y in FX-adjusted terms in 2025, slightly faster than the 20% expected growth in 2024. The de-dollarization trend kicked off as of mid-2023 thanks to the return to a positive real rate policy should continue in 2025, albeit at a slower pace. Meanwhile, the funding escaped to money market funds may also gradually return during the rate-cut cycle, with the annualized return differences narrowing. Note that the size of MM funds reached TL1.3trn or 11% of TL deposits as at end-2024, up from a mere 1% in May'23. In the meantime, CBT noted in its 2025 monetary policy report that the Bank plans to fully terminate the KKM scheme in 2025.

🌀 **External funding is abundant at lower spreads...** With the return to orthodox policies, banks are finding it much easier to access external funding and at lower spreads, which should continue in 2025.

3Q24, liab. breakdown	AKBNK	GARAN	HALKB	ISCTR	VAKBN	YKBNK
Customer deposits	63%	68%	70%	62%	64%	53%
TL savings	26%	31%	24%	21%	21%	22%
Commercial	15%	13%	18%	11%	15%	10%
Institutional	1%	1%	4%	1%	4%	0%
State deposits	1%	1%	4%	0%	5%	1%
FX deposits	16%	18%	17%	22%	16%	15%
Gold deposits	4%	4%	4%	6%	4%	5%
FX-protected (for info)	6%	9%	8%	6%	5%	6%
Bank deposits	3%	2%	11%	3%	1%	1%
Demand deposits ratio	30%	41%	26%	41%	28%	45%
TL repos	4%	0%	4%	8%	5%	9%
FX repos	4%	4%	2%	3%	4%	1%
TL borrowings	1%	1%	1%	1%	2%	3%
FX borrowings	9%	6%	2%	9%	14%	19%
Other liabilities	6%	7%	5%	6%	5%	7%
Equity	10%	12%	5%	9%	6%	8%

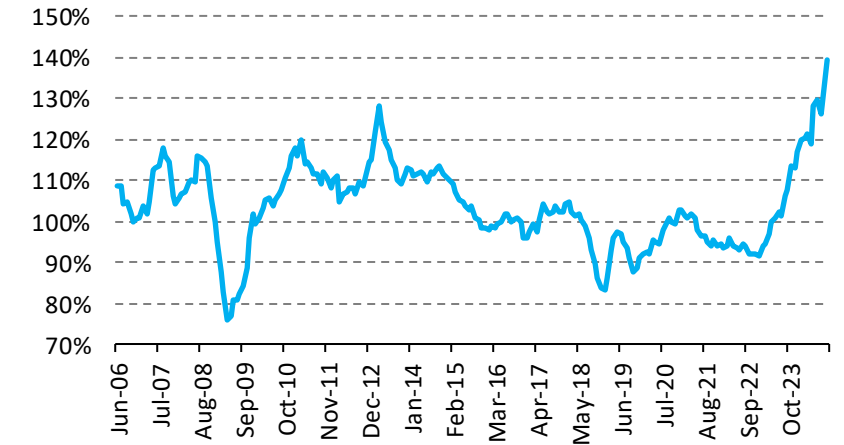
Source: Banks, Tera Yatirim

FX adjusted deposit growth (%)



Source: BRSA, Tera Yatirim

Banks' external borrowing rollover ratio (6MMA)

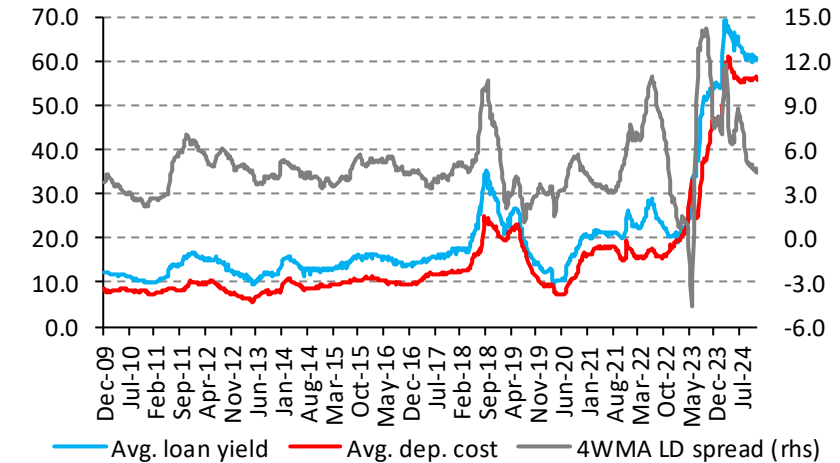


Source: CBT, Tera Yatirim

Banking sector - Margins

- **Margins to gradually pick up from 2Q25 on...** We look for swap-adj. NIMs to increase by c.250bps y/y in 2025 on annual averages, with expansions in each quarter after 1Q25 leading to 350bps pick-up from 4Q24 to 4Q25. The improvement is set to be driven by cumulative 17.5ppts rate cuts by the CBT throughout 2025, to be almost fully reflected to TL funding costs including that of TL deposits, while the downward asset repricing will be more gradual due to the longer maturity profile, apart from revolving corporate loans which should reprice downwards swiftly in tandem with the policy rate.
- **Macroprudential measures to continue weighing on headline NIM...** While the TL loan-deposit spread expansion should be strong at around 525bps y/y, we estimate that the strict macroprudential policy set (i.e. high reserve requirements) is set to continue weighing on headline NIM by a full 2ppts. Meanwhile, we also estimate that the security books will have almost no contribution to NIM, with legacy fixed bonds continuing to generate material negative spreads and CPI-linkers also not generating any meaningful positive spread.

Marginal TL loan-deposit spread (%)



Source: CBT, Tera Yatirim

BIG-6 AGGREGATE	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	1Q26E	2Q26E	3Q26E	4Q26E
Cash yield	1.0%	1.3%	1.4%	1.6%	4.8%	8.3%	9.7%	11.5%	10.7%	9.7%	8.8%	8.0%	7.3%	7.0%	6.6%	6.3%
Security yield	16.8%	15.6%	25.3%	26.2%	22.4%	23.4%	25.2%	25.6%	21.1%	20.7%	20.0%	21.0%	18.4%	17.8%	17.1%	17.8%
Total loan yield	13.4%	14.2%	17.0%	23.7%	26.2%	28.3%	29.2%	29.5%	28.8%	27.6%	26.4%	24.9%	23.6%	22.5%	21.5%	20.5%
- TL loan yield	14.7%	14.9%	19.3%	27.8%	31.5%	35.3%	37.0%	37.6%	36.4%	34.6%	32.8%	30.7%	28.8%	27.1%	25.7%	24.3%
- FX loan yield	9.1%	11.8%	10.2%	11.1%	10.5%	9.3%	9.4%	9.1%	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%	9.1%	9.1%
Total deposit cost	8.8%	11.2%	13.9%	18.2%	20.3%	23.4%	24.8%	25.2%	23.7%	21.2%	19.1%	17.2%	15.8%	15.0%	14.2%	13.6%
- TL deposit cost	14.5%	17.9%	22.7%	29.4%	33.7%	37.8%	38.0%	38.3%	35.4%	31.4%	28.0%	25.1%	22.8%	21.3%	20.1%	19.0%
- FX deposit cost	1.1%	1.8%	1.5%	1.3%	0.9%	0.8%	0.8%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Repo cost	6.6%	9.4%	8.2%	13.8%	21.4%	25.8%	33.1%	32.0%	28.8%	25.7%	22.5%	19.4%	17.5%	16.5%	15.3%	14.0%
Borrowing cost	9.7%	9.9%	9.1%	10.6%	10.7%	10.1%	10.1%	9.4%	9.1%	8.8%	8.4%	8.0%	7.7%	7.6%	7.5%	7.3%
Total L-D spread	4.7%	3.0%	3.2%	5.5%	5.8%	4.8%	4.4%	4.3%	5.2%	6.4%	7.3%	7.7%	7.8%	7.5%	7.3%	7.0%
- TL L-D spread	0.2%	-3.0%	-3.4%	-1.6%	-2.2%	-2.6%	-1.0%	-0.6%	1.0%	3.2%	4.7%	5.6%	6.0%	5.8%	5.6%	5.3%
- FX L-D spread	8.0%	10.0%	8.7%	9.8%	9.5%	8.5%	8.6%	8.6%	8.7%	8.7%	8.7%	8.7%	8.6%	8.6%	8.6%	8.6%
Net interest margin	4.4%	2.5%	4.3%	4.2%	3.4%	2.8%	2.1%	2.9%	2.7%	3.8%	4.7%	5.7%	5.5%	5.4%	5.3%	5.5%
Swap adj. NIM	4.2%	2.5%	3.8%	2.6%	1.2%	0.4%	1.2%	1.8%	1.9%	3.2%	4.2%	5.2%	5.1%	5.0%	5.0%	5.2%

Source: Companies, Tera Yatirim estimates

Banking sector - Asset Quality

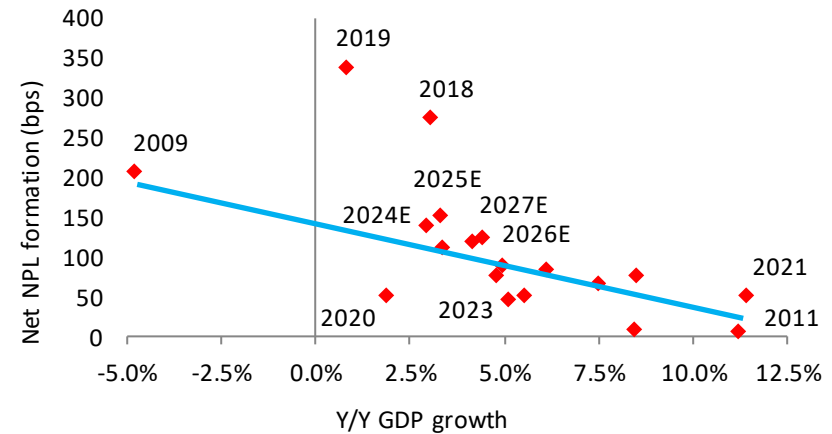
Cost of risks will continue normalizing up... Following the BRSA-induced clean-up of books in 2018/19, combination of forbearances, exceptionally high credit availability, and quite robust economic activity has led to very limited net NPL formation of 50bps/annum over the next four year period. The significant monetary tightening kicked off by mid-2023 has finally started to take its toll on retail books from mid-2024 on, exacerbated by the absence of the mid-year minimum wage adjustment, with the retail NPL ratio rising from a trough of 1.6% to 2.9% at end-2024. On the other hand, there is so far limited deterioration in the corporate segment, as corporates have been enjoying widened spreads and building up equity over the past few years. Whereas, with legacy NPLs mostly collected, we should also expect a normalization in net corporate NPL formation, going forward, albeit a moderate one on our expectation that the upcoming rate cut cycle should gradually improve economic activity.

Coverage levels are not as strong as before... Banks have alleviated the significant margin pressures over the past two years by normalizing down their coverage levels, with stage-1, 2, 3, and total loan coverage decreasing to 0.6%, 16.1%, 64.3%, and 3.4% by 3Q24, respectively, from 0.9%, 23.3%, 76.0%, and 5.9% as at 4Q22. We would expect slight increases, going forward, also driven by a pick-up in stage-II loans and NPLs, as margins and profitability levels improve.

3Q24	AKBNK	GARAN	HALKB	ISCTR	VAKBN	YKBNK
NPL ratio	2.7%	2.2%	2.0%	1.9%	1.8%	3.1%
Category-II ratio	6.2%	11.5%	7.4%	8.4%	7.9%	10.4%
Stage-1 coverage	0.9%	0.5%	0.6%	0.4%	0.6%	0.5%
Stage-2 coverage	14.0%	17.7%	17.1%	14.0%	17.6%	12.7%
Specific NPL coverage	57%	63%	62%	73%	69%	61%
Free provisions (TLmn)	0	0	0	0	8,500	0
Total NPL coverage	120%	179%	153%	155%	205%	117%
Total coverage of loans	3.2%	3.9%	3.0%	2.9%	3.6%	3.7%

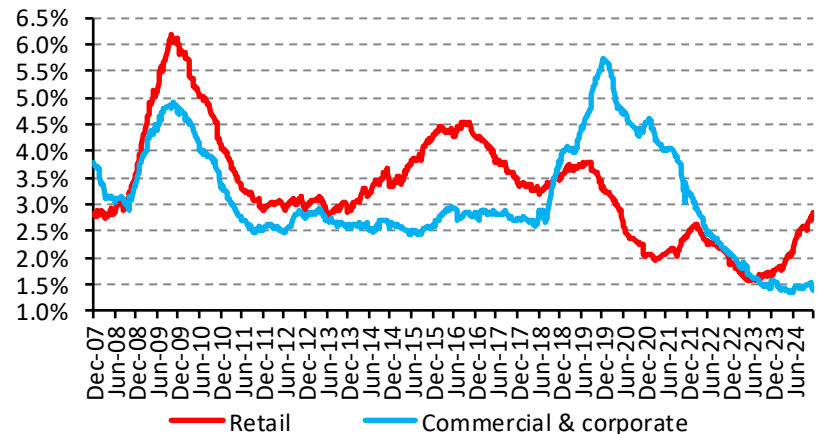
Source: Companies, Tera Yatirim

Net NPL formation* vs. GDP



Source: Banks, Turkstat, Tera Yatirim. *(NPL inflow - recovery)/average loans of big-6.

NPL ratios in different loan segments



Source: BRSA, CBT, Tera Yatirim

Banking sector - Efficiency & Capital

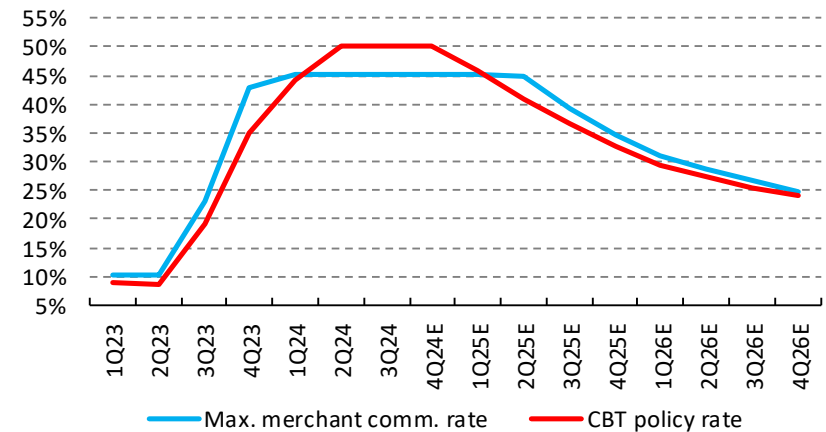
➤ **Downward normalization in fees-to-opex ratio...** Banks' fee revenues are set to more than double for a third consecutive year in 2024, driven by payment systems in particular, along with all of money transfers, bancassurance, investment products, and lending, with fees-to-opex ratio rising by more than 20ppts to 83%. We project a slowdown in the pace of fee growth to a slightly-above-inflation 35% in 2024, in tandem with lower growth, inflation, and rates. We expect the negative impact of payment system to become more visible from 2H25 on, when the reference rate is likely to start to decrease. Whereas, relative backward indexation in costs, along with high personnel and marketing expenses, should lead cost growth to be slightly higher at 41%.

➤ **Capital levels are comfortable for private banks but relatively stretched for state banks...** Most of the private banks have ample cushions over regulatory minimums, adjusted for BRSA forbearances on consolidated financials. State banks are relatively thinner on capital, forcing them to grow less and focus more on profitability.

Growth	Y/Y	AKBNK	GARAN	HALKB	ISCTR	VAKBN	YKBNK
Fees	2023	199%	145%	124%	163%	139%	144%
	2024E	124%	130%	112%	117%	81%	113%
	2025E	41%	38%	30%	33%	31%	30%
Opex	2023	134%	108%	172%	112%	208%	107%
	2024E	85%	93%	19%	61%	35%	68%
	2025E	39%	43%	39%	38%	46%	41%
Fees / opex	2023	69%	86%	39%	59%	49%	74%
	2024E	83%	102%	70%	79%	66%	94%
	2025E	85%	99%	66%	76%	59%	87%
Cost / Assets	2023	3.2%	3.1%	2.6%	3.8%	2.4%	3.3%
	2024E	3.9%	4.0%	2.2%	4.0%	2.2%	3.7%
	2025E	4.1%	4.4%	2.4%	4.4%	2.5%	4.0%

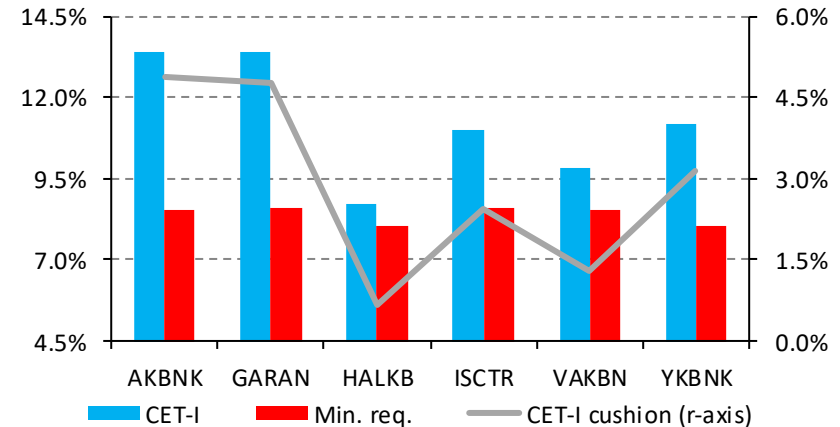
Source: Companies, Tera Yatirim

Maximum merchant commission vs. policy rate (annualized)



Source: CBT, Tera Yatirim estimates

Banks' pre-forbearance consolidated CET-I ratios (3Q24)



Source: BRSA, Companies, Tera Yatirim

Banking sector - Valuation & Multiples

(as at 06.01.2025) TLbn	AKBNK	GARAN	HALKB	ISCTR	VAKBN	YKBNK	TSKB	AGGREGATE
Share price (TL/share)	66.80	129.50	17.21	14.14	24.14	31.92	13.06	
Target price (TL/share)	99.87	205.76	22.57	20.29	31.90	46.70	22.14	
Upside	50%	59%	31%	44%	32%	46%	70%	49%
Recommendation	MW	OW	UW	MW	UW	MW	OW	
Book value								
2024E	240.0	327.2	137.5	308.8	214.0	197.3	32.7	1,457.6
2025E	322.5	481.4	198.2	447.3	315.8	280.7	49.7	2,095.6
2026E	434.4	655.4	294.7	626.4	441.4	388.6	62.7	2,903.6
Earnings								
2024E	42.3	90.9	11.4	42.5	40.4	28.6	10.3	266.5
2025E	72.3	143.3	28.6	97.2	67.7	63.3	12.8	485.2
2026E	115.9	184.7	76.6	147.4	103.7	100.5	14.9	743.8
Y/Y earnings growth								
2024E	-36%	4%	13%	-41%	61%	-58%	47%	-21%
2025E	71%	58%	150%	129%	67%	121%	24%	82%
2026E	60%	29%	168%	52%	53%	59%	16%	53%
P/E (x)								
2024E	8.2	6.0	10.8	8.3	5.9	9.4	3.5	7.2
2025E	4.8	3.8	4.3	3.6	3.5	4.3	2.8	3.9
2026E	3.0	2.9	1.6	2.4	2.3	2.7	2.5	2.6
P/BV (x)								
2024E	1.45	1.66	0.90	1.14	1.12	1.37	1.12	1.31
2025E	1.08	1.13	0.62	0.79	0.76	0.96	0.74	0.91
2026E	0.80	0.83	0.42	0.56	0.54	0.69	0.58	0.66
ROAE								
2024E	18.9%	32.2%	8.5%	14.9%	21.0%	15.4%	38.8%	20.3%
2025E	26.5%	36.3%	18.0%	26.3%	26.1%	27.1%	31.6%	28.0%
2026E	31.0%	32.9%	31.4%	27.8%	27.4%	30.3%	26.5%	30.0%

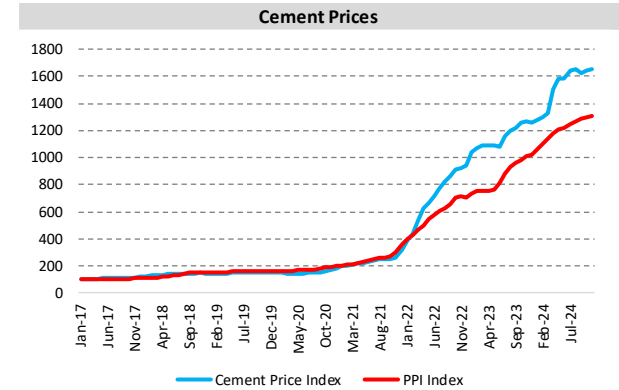
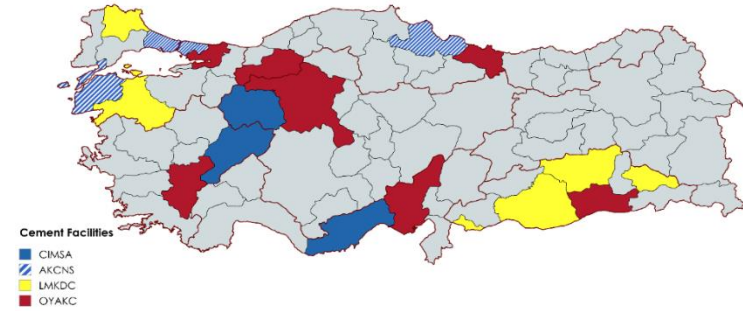
Source: Companies, Rasyonet, Tera Yatirim estimates

- High domestic demand increased the total cement market by 6.7% y/y in 9M24... Domestic cement sales increased by 13% y/y while export sales are down by 17% y/y in 9M24. With high housing supply in the earthquake zone, possible easing of monetary policy and continued urban transformation, we are seeing signs of recovery in the cement sector in 2025.
- Prominent Cement Producers in 2025: CIMSA, OYAKC, and LMKDC... From the listed stocks' perspective, we think that CIMSA, with its new acquisition (Mannok), higher sales volumes and decreasing energy costs, and OYAKC and LMKDC, with their geographical advantage to the earthquake zone, will be prominent cement producers in 2025.
- Long-Term outlook - Syria... Rebuilding of Syria will take a long time and it is too early to talk about the effects, particularly before the new order is established. That said, the effect on construction and building material companies particularly cement in the region such as OYAKC and LMKDC may be positive thanks to their location advantage. Syria grey-cement market had a size of 3.5mn tons pa pre-war, adding that the Turkish producers were among the main suppliers of the neighbor market. CIMSA has received its first order from Syria and payment already received.
- Low-interest housing loan incentive may be before the 2028 General Election... A low-interest, long-term social housing project aimed at making low-income citizens homeowners was implemented before the 2023 elections. We believe that a similar project will be implemented again before the election, which may be positive catalyst for cement producers.

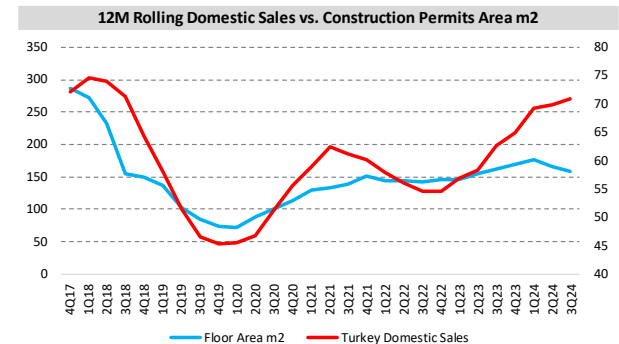
Ticker	Company Name	Clinker Capacity (mn ton/year)	EV/Clinker (US\$)	EV/Sales* (TLx)	EV/EBITDA* (TLx)	P/E* (TLx)
OYAKC	Oyak Cimento Fabrikaları	12.6	217	2.3	7.9	19.4
NUHCM	Nuh Cimento	4.6	267	2.8	14.4	49.4
KONYA	Konya Cimento	1.7	600	6.8	60.8	n.m.
CMET	Cimentas	1.0	1224	3.1	21.8	70.2
CIMSA	Cimsa	6.3	202	1.7	8.1	13.8
AKCNS	Akcansa	7.0	140	1.6	9.4	27.9
BTCIM	Bati Cimento	1.4	612	2.1	15.3	84.7
BUCIM	Bursa Cimento	1.4	266	1.0	4.3	22.0
LMKDC	Limak Doğu Anadolu Çimento	2.3	186	3.6	7.7	9.9
GOLTS	Goltas Cimento	9.0	30	1.6	7.4	15.5
Average		4.7	374	2.7	15.7	34.7
Median		3.5	242	2.2	8.8	22.0

*Based inflation adjusted LTM-3Q24 financials

Source: Tera Yatirim, Rasyonet, Company Data



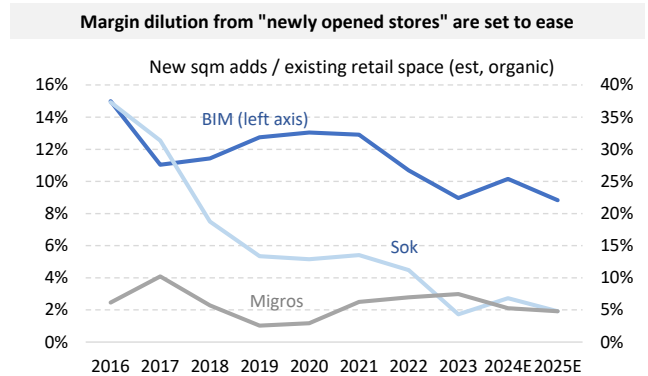
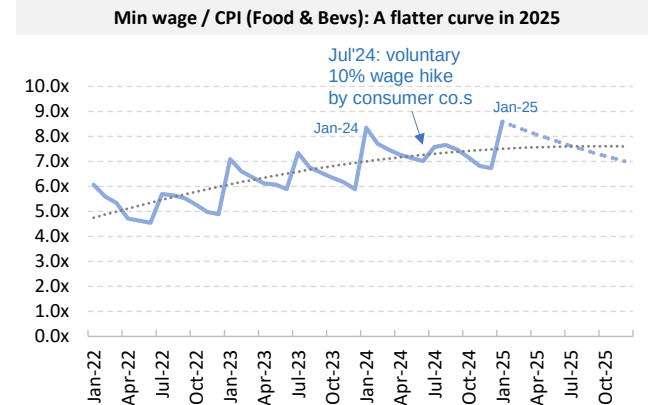
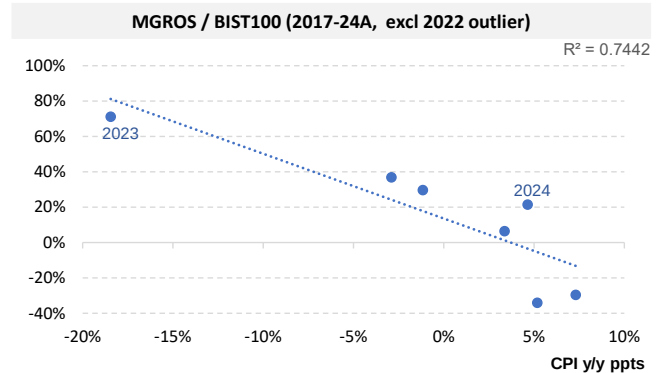
Source: Turkstat, Tera Yatirim



Source: Tera Yatirim, TUIK, Turk Cimento

Food retailers

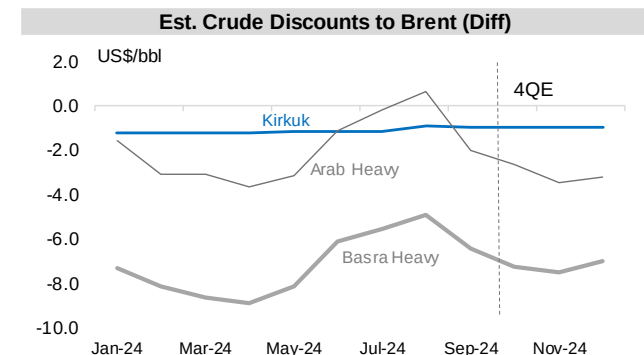
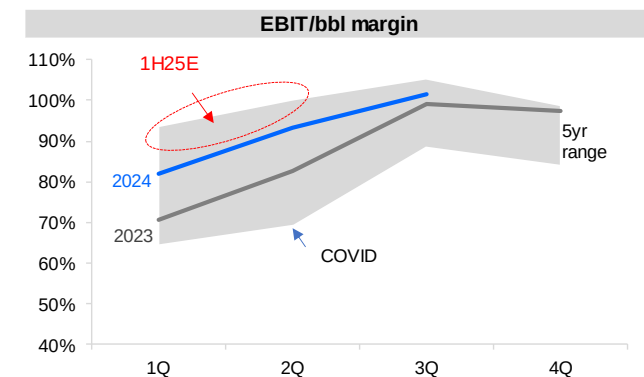
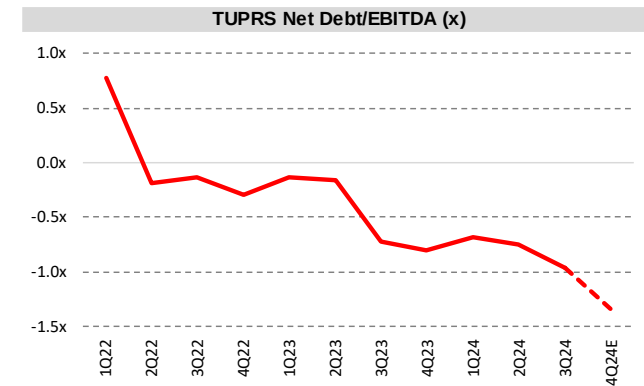
- Turkish food retailers perform better when inflation “falls”, a clear case has been Migros:** This is opposite to the common case of global retailers where inflation generally means higher revenues. In Turkey, higher inflation rates generally put the shelf prices of national retailers under public scrutiny and leads to suboptimal mark-ups. They also frequently result in higher wage hikes and/or sharp tariff increases in utilities. A likely decline in inflation could therefore be a positive macro driver for sector margins this year.
- The min. wage curve vs food-CPI will likely be flatter in 2025. Low wage increase to early-retirees (EYT) might force some back to labour market.** The 30% statutory wage hike increase announced in the last days of 2024 was broadly in line with our 12M-forward inflation as opposed to more higher wage adjustments in the most recent years. Although many consumer staples companies had highlighted public wages as revenue opportunity, we believe, the cost side of the equation is more relevant to retailers. We also think the <20% hike announced for early retirees (EYT) might increase labour supply for retailers, which especially hit Sok in 2024.
- BIM (O/W, new TP:TL803.70):** BIM continues to demonstrate the highest earnings predictability among the major-3. Its lower income volatility is structurally driven by a simple business model and it could be key to attract fresh foreign equity inflows in a benign Turkish macro case. BIM's comparable EBITDA margin in 9M24 was almost -1ppt below -3Y average (7.2% ex inf), leaving room for recovery into 2025/26E. Further support to its y/y cashflows could be from normalisation of payable days and/or capex ratios, helping pave the way to better dividend pay-outs in 2025.
- Migros (O/W, new TP:TL922.60):** We appreciate company's consistently strong execution despite high competition and the challenging macro. We see its strong positioning among mid-to-high income urban consumers as a key competitive advantage. Thus, it also benefits from higher usage of credit cards in the consumer space in the most recent quarters. Its net cash (excl accounting leases) reached almost 25% of MCAP (3Q24), implying a strong source of dividends for its deleveraging focussed parent. Even after strong 2024 run, the shares are at 26% discount to BIM on our both 2025E EV/EBITDA and P/E.
- Sok (M/W, new TP:TL50.70):** Having seriously lagged its peers in 2024, we believe SOK offers the highest long-term recovery potential among big-3 to its normalised margins. We see its recent slow-down in store roll-outs as opportunity to reduce margin dilution from the newly-opened, immature stores. Although wage hikes and staff-turnover issues were at the center of its 2024-issues, the shares have not reacted to the constructive min. wage release in late Dec'24, hinting us that the market participants—including us—might be willing to wait for initial signs of financial recovery before mapping the higher sector multiples on to SOK.



Source: Company, Turkish Central Bank, Tera Yatirim

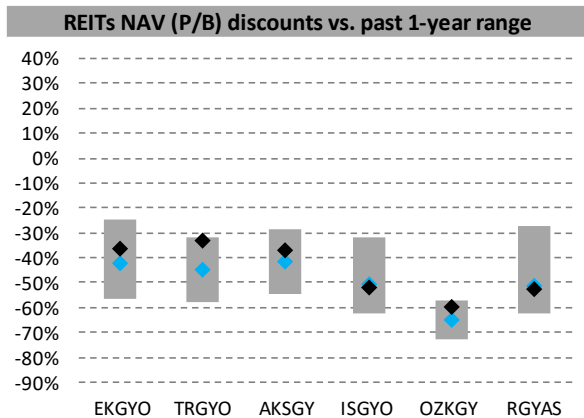
Oil refiners (Tupras)

- Higher throughput likely in 2025:** Having completed major maintenance at core units (including RUP, 2023-24); Tupras is set to increase its utilization this year. A high utilization could also support opex/bbl efficiency gains in 2025.
- Tupras (O/W): Wider crude differentials lately.** Our monthly margin estimator points to a stable-to-minor decline in key product margins qtd despite the negative seasonality of the winter months. A more notable move has been in the heavy crude differentials (i.e. their discounts to Brent), which is positive for high-complexity refiners, which can crack these lower grade crude types.
- It might still be too early for a lumpsum biofuel (SAF) substitution, yet Tupras is making initial progress.** We believe its massive agreement with a local agricultural waste-material supplier has gone underemphasized by the market. In May'24, Tupras secured its biodiesel feedstock supply for international trading effective Jan'25. It also secured a minimum 300k pa of its planned 450k pa feedstock need for biofuel production for 10 years, starting from Jan'29. The sustainable aviation fuel (SAF) prices are around US\$2500-2700/ton (vs its biofuel input costing US\$1500/t) compared to regular jet fuel price of US\$750/ton.
- Tupras' energy division's earnings contribution is still low (4% of EBITDA);** however, it provides self-help efficiency gains to the refining segment. Market's reaction to Tupras' normalizing crack margins from 1Q to 3Q24 was overplayed, in our view. The company's new "crack margin" definition post-IAS29 does not include support from wider crude discounts or scale gains from higher throughput. We expect strong utilization and renewable energy gains to further support opex/bbl in 2025.
- Valuation:** Tupras shares are trading at 7.0x 2025E P/E on our estimates, suggesting 10.3% dividend yield.

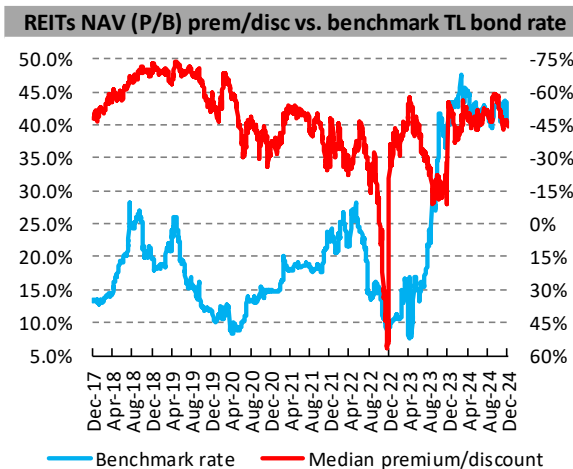


Source: Bloomberg, Tera Yatirim

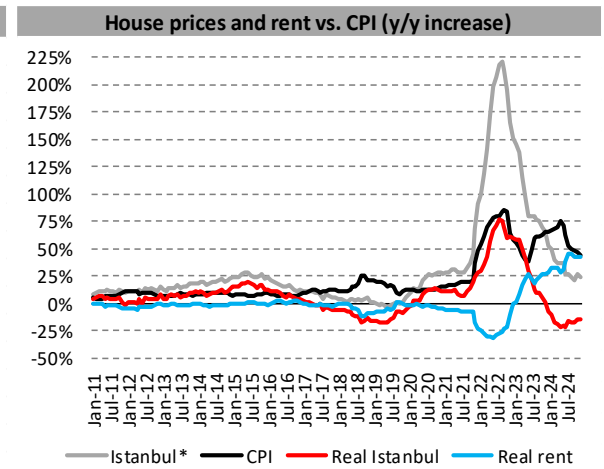
- **First-hand house sales improves after six years of downmarket...** Second-hand house market had boomed in 2020-22, on the low interest rate policy, leading to 444% and 212% absolute and real house price increases. There has been a cool-off since the rate-hike cycle started by mid-2023. Whereas, first-hand house sales have indeed been declining every year since 2017 before picking up by 24% y/y in 11M24, as house prices dropped by 12% y/y in real terms. We would expect the recovery to continue, as mortgage rates decline in tandem with the CBT's policy rate. Yet, pace of sales should remain below potential, as mortgage rates will remain above the critical 1.0%/month level.
- **Social housing supply will be a priority of the Government...** Core drivers of housing demand, such as population growth, urbanization, and regeneration, should remain intact in 2025, while Treasury & Finance Minister Simsek stated that increasing the social housing supply will be one of their priorities.
- **Discounts have started to close with rate cuts...** NAV discounts of REITs have partially closed down towards 48% by end-2024, from the recent high of 59%. We think that discounts may initially drop to 40%, with a gradual move towards 30% throughout 2025 as the rate cut cycle proceeds.



Source: Rasyonet, Tera Yatirim



Source: Matriks, Rasyonet, Tera Yatirim

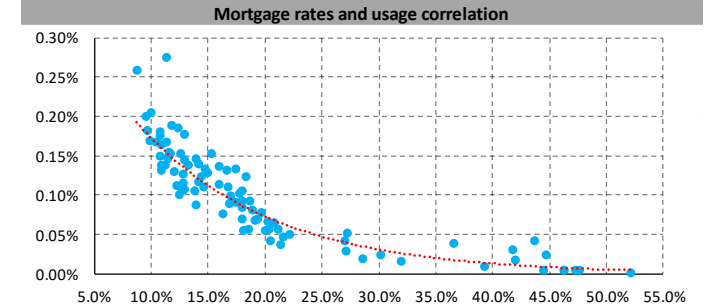


Source: CBT, Turkstat, Tera Yatirim. *Istanbul Residential Property Price Index

Turkish housing market forecasts

Housing	2020	2021	2022	2023	2024E	y/y	2025E	y/y
Mortgage loans (TLmn)	280	302	363	442	516	17%	634	23%
Mortgage loans / GDP	5.5%	4.2%	2.4%	1.7%	1.2%	-48bps	1.1%	-10bps
Mortgage rate/mo (ann. avg.)	1.04%	1.49%	1.59%	2.44%	3.57%	112bps	2.70%	-87bps
1st-hand house sales ('000s)	470	462	460	380	474	25%	546	15%
2nd-hand house sales ('000s)	1,030	1,030	1,026	846	973	15%	1,071	10%
Construction permits ('000s)*	553	724	698	855	870	2%	1,043	20%
Occupancy permits ('000s)*	598	624	640	533	619	16%	742	20%

Source: BRSA, CBT, Turkstat, Tera Yatirim. *Number of units.



Source: BAT, CBT, Tera Yatirim

Renewable Energy

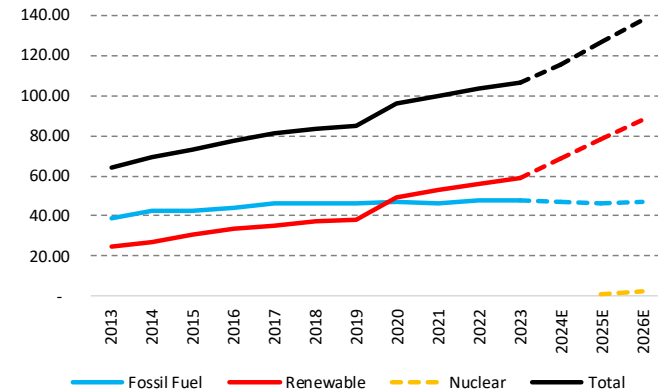
- Renewable accounts for 48% of total power generation in Turkey... In 9M24, renewable energy accounted for 48.4% (+5.7 pts y/y) of Turkey's total energy production. The breakdown by source was 24% from hydro, 10% from wind, 8% from solar, 3% from biomass, and 3% from geothermal. By the end of Sep-24, 59% (+2.4 pts y/y) of Turkey's installed capacity came from renewable sources including licensed and unlicensed.
- Test production at Akkuyu nuclear power plant to start in 2025... The Minister of Energy and Natural Resources announced that it will put the first reactor into production at the Akkuyu Nuclear Power Plant in 2025. When completed, Akkuyu Nuclear Power Plant will consist of 4 units in total. Each unit will have a capacity of 1.2 GW and when the plant is fully operational, it will reach a total capacity of 4.8 GW.
- Strong capacity growth with renewable energy... We anticipate renewable capacity to grow by 17%, 14%, and 12% over the 2024E-2026E period, respectively. We expect renewable capacity to be driven primarily by solar, as evidenced by a 65% growth in 9M24. On the fossil fuel side, we anticipate no additional capacity increases and expect the existing capacity to be maintained. In our nuclear capacity forecast, we anticipate that the first unit will be commissioned in 2025, followed by the second unit in 2026. As a result, we project that Turkey's total installed power capacity will reach 137.4 GW by 2026.
- Listed renewable energy companies currently trade at a median LTM EV/EBITDA of 9.8x. Among the companies under our coverage, **AYDEM** (O/W) trades at a discount across almost all metrics due to its hydro power plant-skewed portfolio, which has suffered from low hydrology in 2024. **GWIND** (O/W) trades at a slight premium, supported by its stable production and wind-heavy portfolio, while **AKFYE** (O/W) trades slightly below the median as it continues investing in new capacity.

Valuation Multiples of Listed Renewables

Company*	Ticker	Mcap US\$m	EV US\$m	Net Debt/ EBITDA (x)	EV/ Capacity US\$m/MW	EV/ EBITDA LTM (x)	P/E LTM (x)	EV/ Production (US\$/MWh)	Sales/ Production (US\$/MWh)	EBITDA/ Production (US\$/MWh)
Akfen Yenilenebilir	AKFYE:IS	653	876	2.5	1.3	9.7	32.3	531	92	55
Aydem Yenilenebilir	AYDEM:IS	474	1,059	4.2	0.9	7.7	4.7	459	89	60
Ayen Enerji	AYEN:IS	227	400	3.5	1.0	8.2	11.6	376	152	46
Biotrend	BIOEN:IS	238	350	10.0	3.1	31.3	36.2	600	133	19
Galata Wind Enerji	GWIND:IS	457	477	0.4	1.6	10.0	25.8	610	85	61
IC Enterra	ENTRA:IS	411	689	4.0	1.8	9.8	6.8	612	83	62
Margun Enerji	MAGEN:IS	645	733	6.2	4.2	51.9	24.3	4,052	155	78
Mogan Enerji	MOGAN:IS	687	1,561	3.9	1.5	6.9	n.m.	427	108	62
Zorlu Enerji	ZOREN:IS	617	1,740	7.3	2.8	11.3	12.3	729	332	65
Average				4.7	2.0	16.3	19.3	933	136	56
Median				4.0	1.6	9.8	18.3	600	108	61

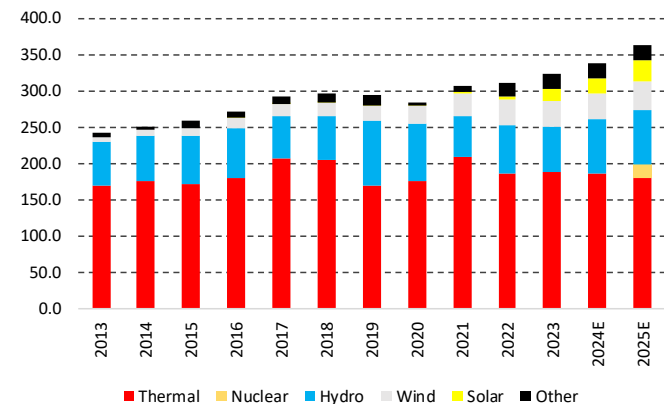
Source: Company Data, Borsa Istanbul, Public Disclosure Platform, Tera Yatirim

Development of Installed Capacity in Turkey (GW)



Source: EMRA, Ministry of Energy, Tera Yatirim

Electricity Generation in Turkey (TWh)



Source: EMRA, Tera Yatirim

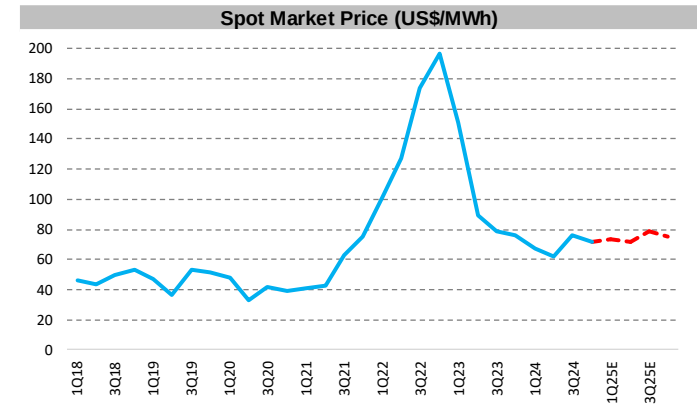
Renewable Energy (con't)

🌀 **Renewable energy auctions to start in 2025 again...** Bloomberg reports that the Ministry of Energy will resume renewable energy auctions (YEKA) in Jan'25, planning to offer 2GW (1.2GW WPP / 0.8GW SPP) new capacity per annum each year until 2035. The ministry is exploring ways to incentivize companies that hold licenses for building wind and solar plants but have yet to act on them. Unused allocated capacity poses a challenge as it restricts opportunities for new investors to enter the market.

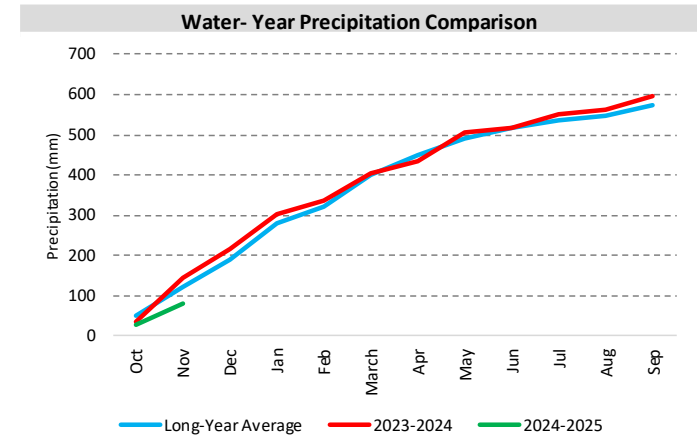
🌀 **We expect the weighted average spot electricity price in 2025 to increase slightly by 8.4% to US\$75/MWh from US\$69/MWh...** One of the key factors driving this is the anticipated acceleration in industrial production starting from 2H25, following a decline that began in 2Q24. Additionally, after Trump's victory, we certain geopolitical risks to ease, such as the Russia-Ukraine crisis, that would have a large impact on the spot market.

🌀 **Precipitation across the country in 1Q25 is expected to be in seasonal norms, neutral for HPP based renewables and agricultural related companies but contrary to earlier drought expectations...** According to forecasts published by the Turkish State Meteorological Service, precipitation in 1Q25 is projected to occur at normal levels. It is worth noting that the decrease in precipitation in 4Q24 had raised concerns among renewable energy company managements about drought for 2025. High precipitation is positive for agricultural production and electricity generation from hydroelectric power plants.

🌀 **EMRA has reduced the system usage fee, positive for renewable producers...** EMRA has reduced system usage (-18%) and operation (-32%) tariffs effective from 2025. Looking at the impact, assuming a total 25% discount, this implies a 2-2.5% EBITDA margin improvement for Galata Wind <GWIND TI>, Aydem Renewables <AYDEM TI> and Akfen Renewables <AKFYE TI> in 2025.



Source: EPIAS, Tera Yatirim



Source: Turkish State Meteorological Service, Tera Yatirim

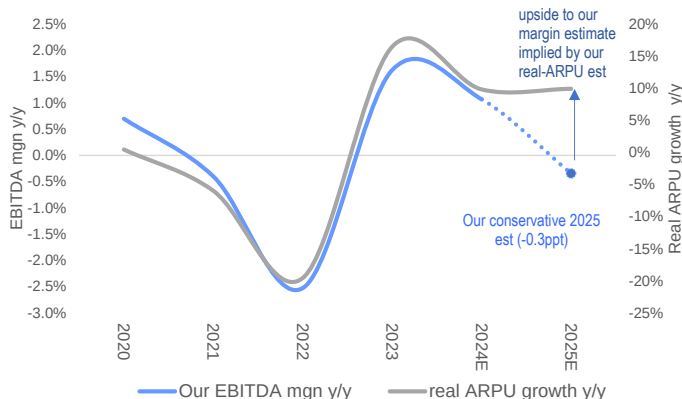
🔗 **Strong ARPU outlook remains key for 2025 profits...** Mobile users typically have 12M+ contract periods, hence it takes around average 12 months for the inflationary tariff adjustments by telecom operators to be fully diffused across the user-base. The delayed ARPU growth during inflationary periods might show itself strongly in 2025. Assuming Turkey will achieve its disinflationary targets, the growth in real-ARPU might be even wider.

🔗 **Subscriber growth likely to sustain in 2025**, supported by shift in consumer preference towards the postpaid tariffs, from prepaids. As a result, the share of higher-value postpaid subscribers increased to 74% in Turkcell (3Q24, from 70% in 3Q23) and to 74% in Turk Telekom (from 68% in 3Q23). This shift led to higher blended-ARPU and improved margin mix for both operators. **Turkey still lags European/OECD countries in mobile penetration** (109% vs 133% in OECD countries) and average ARPU stats (EUR5.2 vs EU average of EUR17.0).

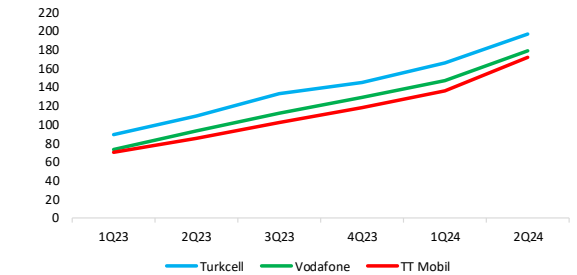
🔗 **5G tender as the key event risk in 2025...** The 5G frequency auction is set for 2025, with network rollout planned for 2025, going operational by 2026. Consequently, forward-capex is guided to increase as a percentage of revenues in the coming years (in both companies).

🔗 **Turkcell (O/W):** We estimate Turkcell might see its nominal mobile (inc. M2M) ARPU growth at around 74% in 2024 and it might remain at healthy 50%+ levels on the average in 2025. (Real mobile ARPU for 2024 and 2025: 9% and %10, respectively). With the end of favorable termination rates in 2024 that made 1.1ppts margin impact and operational cost increase related to 5G Tender, we expect a small margin decrease in 2025 given our positive ARPU momentum.

TCELL's mobile ARPU growth has historically implied positive margin momentum

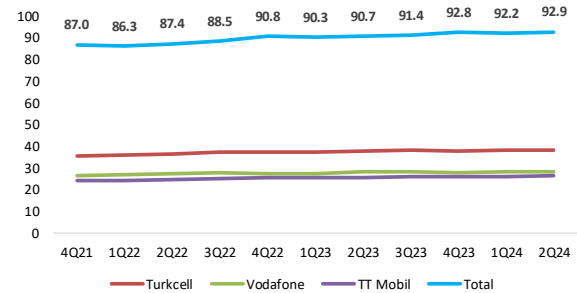


Unadjusted Mobile ARPU (TRY) by Telecom Operators (excl. M2M)



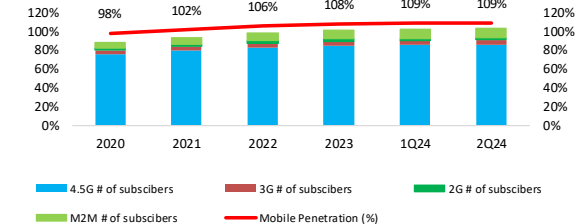
Source: ICTA, Tera Yatirim

Number of Mobile Subscribers (millions)



Source: ICTA, Tera Yatirim

Mobile Broadband Population Penetration (%)



Source: ICTA, Tera Yatirim

Tera Yatirim Top Picks List								
Company Name	Ticker	Mcap (US\$mn)	Avg. Vol (US\$mn)	Price (TL/shr)	'25 P/E	'25 EV/EBITDA '25 P/B (financials)	Target Price (TL/shr)	Upside (%)
Ford Otosan	FROTO	9,417	31.7	947.00	5.8	7.0	1,594.0	68%
Garanti Bankasi	GARAN	15,413	76.7	129.50	3.8	1.1	205.8	59%
Galata Wind Enerji	GWIND	479	2.7	31.32	21.0	9.7	48.0	53%
Koc Holding	KCHOL	13,452	92.3	187.20	6.6	1.0	305.4	63%
Migros	MGROS	2,706	22.1	527.50	11.0	7.5	922.6	75%
Sabanci Holding	SAHOL	6,220	47.5	104.50	n.a.	n.a.	170.9	64%
Turkcell	TCELL	6,106	58.3	97.95	10.8	3.1	167.6	71%
Turk Hava Yollari	THYAO	11,614	211.5	297.00	4.9	3.9	498.7	68%
T.S.K.B.	TSKB	1,036	7.3	13.06	2.8	0.7	22.1	70%
Turkiye Sigorta	TURSG	2,264	9.6	15.98	4.6	2.0	27.2	70%

Source: Rasyonet, Tera Yatirim

UPDATES ON STOCK PICKS

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🔗 **Major capacity hike going effective soon:** Having launched its own 1-tonne van (Custom) in late 2023, Ford Otosan (FROTO) has recently launched the preliminary production of the same platform for VW (Transporter). This new model will be the key source of our estimated 21% capacity increase in 2025, defending the earnings growth against any potential end-market weakness in domestic or in the EU.

🔗 **Delayed full-force introduction of new vans in 2024 will offer light base comps for early 2025:** FROTO was able to complete the full ramp-up in the Next-Gen *Custom* and *Courier* models only towards mid 2024. In the meantime, lost volumes then will offer room for compensation in 2025 annual comps, again defending growth against end market contractions.

🔗 Having completed most of its model upgrades (*Puma* 2024, *Courier* 2023-24, *Custom* 2023-24), FROTO might announce the pending *Transit* upgrade soon (est 2025-26E). After then, company will enter a low-capex cycle. It has maintained high pay-outs even during the 2022-24 capex cycle, we believe its low-capex cycle post-26E could yield more attractive dividends, this time over a larger revenue base.

🔗 **Thinking out-of-the-box:** Although it has not been part of the cooperation scheme between VW & Ford in Europe, we think FROTO has the know-how and capacity to assume production of the new VW-Crafter during the upcoming Transit-upgrade. Currently, VW produces Crafters at a 100k pa capacity plant in Poland, which lacks scale and utilization compared to FROTO's 207k pa capacity for *Transit*.

🔗 **Valuation:** FROTO shares are trading at 5.8x/5.3x P/E multiples for 2025/26E, on our estimates. We believe 2026 would suggest a better benchmark for the shares given the carry-over financing costs weighing on the earnings in the near term until the new models fully contribute to profits. Despite the capex cycle, the shares are offering 6.8% dividend yield potential on our 2025E.

Price Data

Current Price	947.00
Current Mcap (TLmn)	332,312
12-mth Target Price (TL/share)	1594
12-mth Target Mcap (TLmn)	559,351
Upside Potential (TL)	68%

Financials (TLmn)	2023	2024E	2025E	2026E
Net Sales	411,906	627,290	834,889	1,080,251
% ch yoy		52	33	29
EBITDA	42,710	46,321	64,235	88,001
% ch yoy		8	39	37
Net Income	49,056	39,696	57,656	62,610
% ch yoy		-19	45	9

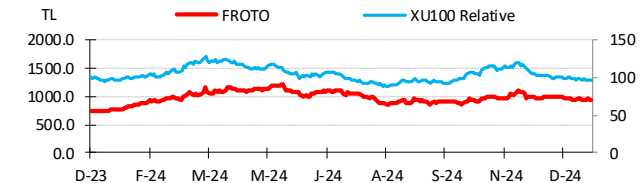
Margins (%)	2023	2024E	2025E	2026E
EBITDA Margin	10.4	7.4	7.7	8.1
Net Margin	11.9	6.3	6.9	5.8
Gross Dividend Yield	6.1%	5.8%	6.8%	14.1%

Ratios	2023	2024E	2025E	2026E
P/E (x)	5.1	8.4	5.8	5.3
EV/EBITDA (x)	7.3	9.5	7.0	5.4
ROE (%)	67.2%	36.7%	40.6%	40.3%

Stock Data

Bloomberg Ticker	FROTO.IS	FROTO TI
3M Avg. Trd. Vol. (US\$mn)		US\$31.7

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	-5%	5%	35%	29%
BIST-100 Relative	-5%	-6%	0%	0%

🔗 Maintaining Overweight rating with a 12M TP of TL205.76/share ...

- Banking sector earnings have remained under pressure in 2024, following the sizeable rate hikes in 2H23, accompanied by gradually tightening liquidity conditions via macroprudential measures, along with caps on loan growth. Despite this very challenging backdrop, we estimate that Garanti BBVA has been able to grow its earnings by 4% in 2024, vs. the expected 45% drop in its private deposit peers.
- We believe that this relative outperformance is due to the fact that the normalized operating environment has crystallized Garanti's franchise premium over its peers and its sustainable core customer banking revenue generation potential. Given the already-higher base, Garanti's earnings growth in 2025 should lag its peers but we still estimate that it will continue enjoying almost a 10ppts higher ROE, allowing for a similarly higher book value growth.
- Meanwhile, we expect the recently kicked-off rate cut cycle to continue unabated throughout 2025 and allow for a material margin expansion from 2Q25 onwards, albeit still being weighed down by the existence of high reserve requirements, growth caps, and legacy bond portfolios. We would expect the rate-cut cycle to continue well into 2027, indicating that banks may enjoy relatively elevated spreads for an extended period of time, resulting in further NIM expansion in 2026, with the negative impact of cash and securities also diminishing.

🔗 Strong metrics across-the-board...

- Garanti BBVA boasts the strongest ROA profile among peers, thanks to peer-high margins and fee yields. At 3.9% of total loans as at end-3Q24, Garanti BBVA has the highest total provisions among deposit bank peers. The bank has also one of the best capital positions with a consolidated pre-BRSA forbearance CET-I ratio of 13.4% as at end-3Q24, which should allow for higher loan growth and/or dividend payments.

🔗 Undemanding multiples...

- Garanti BBVA currently trades at 1.1x 2025E P/B and 3.8x 2025E P/E while our 12M TP indicates that the stock will trade at 1.3x 2026E P/B and 4.7x 2026E P/E at the end of 2025. We believe that the success of the disinflation program will facilitate a further drop in Turkey's CDS level towards 200bps, which would justify the slight re-rating we have assumed, on top of the strong expected book value growth.

🔗 Risks...

- The main risk is a much slower-than-anticipated rate-cut cycle which would pressure margins, CoR, and ROE, limiting absolute upside, albeit accentuating Garanti's relative performance.

Price Data

Current Price (TL)	129.50
Current Mcap (TLmn)	543,900
12-mth Target Price (TL/share)	205.76
12-mth Target Mcap (TLmn)	864,176
12-mth Return Potential	59%
Dividend yield	3%

Financials (TL mn)	2023	2024E	2025E	2026E
Swap-adj. NII	70,082	71,986	170,584	249,415
% ch y/y		3	137	46
Net income	87,332	90,869	143,273	184,674
% ch y/y		4	58	29

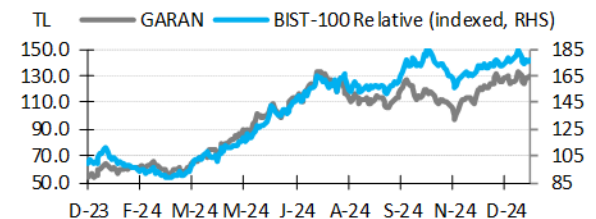
Margins (%)	2023	2024E	2025E	2026E
Swap-adj. NIM	5.0	3.4	6.2	7.1
Cost/income	29	44	43	42
Cost of risk	213	152	191	141

Ratios	2023	2024E	2025E	2026E
P/E (TL, x)	1.9	4.5	3.8	2.9
P/B (TL, x)	0.66	1.26	1.13	0.83
ROAE (TL, %)	44.9	32.2	36.3	32.9

Stock Data

Ticker	GARAN.IS	GARAN TI
3MAv. Trd. Vol. (mn)		US\$77.0

Price Chart



Price Performance	1M	3M	6M	YoY
TL Absolute	1%	14%	5%	118%
BIST-100 Relative	1%	2%	13%	69%

Galata Wind

- The key points supporting our positive stance towards Galatawind** include attractive valuation, high-margin operations, growth prospects in European solar power projects, promising grid scale battery investments and expected recovery in operational performance in 2025. Our 12-month target price for Galata Wind stands at TL47.99, pointing to an upside potential of 53%.
- Wind Power Plants account for c. 91% of the generation in 2024...** Galata Wind is a mid-size pure renewable power generation company with an installed capacity of 297 MW. The company's portfolio is comprised of wind and solar power generation plants. Wind power plants (WPP) represent the largest share of installed capacity with an 83% share, followed by solar (17%). As for generation, WPP has the lion's share representing 91% of the total with 734 GWh in 2024 according to unofficial data, followed by SPPs' 9% with 72 GWh. In 2024, around 54% of the generation benefited from the FX-linked Feed-in-Tariff mechanism in Turkey.
- Investing in new capacity in WPPs...** Galata Wind is positioned for solid growth, leveraging its strong cash flow and low debt levels. Scheduled for commissioning in 2025 are the Taspınar hybrid (25 MW) and the Mersin WPP (39 MW) expansion, we expect production to start in 1Q25 and 1H25, respectively. By 2026, we projected the 13.6 MW Alapınar WPP, 50 MW Europe SPP and 50 MW Battery Storage facilities will be commissioned. Consequently, we anticipate Galata Wind will achieve a capacity of 475 MW in Turkey by the end of 2026.
- Aggressive targets in solar power projects in Europe and grid-scale battery storage...** Galata Wind intends to develop solar power projects with a total capacity of up to 300 MW in Europe. The company has been evaluating several opportunities across Europe, including Italy, Spain, Hungary, Germany, and Macedonia. The goal is to participate in tenders, new Feed-in-Tariff (FIT) programs, and long-term energy purchase agreements in different countries. In addition, Galata Wind has obtained pre-licenses for grid-scale storage in 7 different locations, with a total capacity of 350 MW, of which 300 MW will be in the form of WPPs and 50 MW in SPPs.
- Expected improvement in 2025 financials...** Our valuation model conservatively assumes a 150 MW capacity expansion in European SPPs and 150 MW in grid-scale battery storage facilities. Together with new capacity in WPPs, we project total generation volume to reach 1,397 GWh by 2028, implying a CAGR of 15%. This should result in an EBITDA of US\$83mn at a CAGR of 16% by 2028. As for 2025, we expect EBITDA to rise by 13% while net earnings should remain flattish. **Risks:** Fluctuations in electricity prices, changes in regulations, and natural factors like low hydrology are the key risks.

Price Data

Current Price	31.32
Current Mcap (US\$m)	479
12-mth Target Price (TL/share)	47.99
12-mth Target Mcap (US\$m)	569
12-mth Upside Potential (TL)	53%

Financials (US\$ mn)	2023	2024E	2025E	2026E
Net Sales	63	66	73	87
% ch y/y		5	11	19
EBITDA	48	46	53	61
% ch y/y		-4	15	16
Net Income	21	23	23	28
% ch y/y		6	1	24

Margins (%)	2023	2024E	2025E	2026E
EBITDA Margin	75.6	69.3	72.0	70.4
Net Margin	33.5	34.0	31.0	32.4
Gross Dividend Yield	4.5	3.1	4.2	6.4
Ratios	2023	2024E	2025E	2026E
P/E (US\$, x)	22.6	21.3	21.0	17.0
EV/EBITDA (US\$, x)	10.6	10.5	9.7	8.6
ROE (US\$, %)	6.5	7.7	8.1	9.7

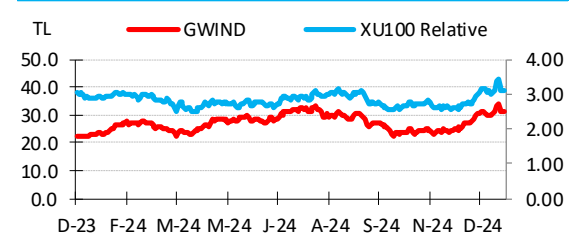
Stock Data

Ticker	GWIND.IS	GWIND TI
3M Av. Trd. Vol. (mn)		US\$2.7

Market Data

BIST-100	10,086
TL/US\$	35.2892

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	14%	30%	-7%	38%
BIST-100 Relative	14%	17%	-10%	5%

- Our key points for a positive KCHOL view are: 1) we have positive earnings growth projection for Yapi Kredi Bank in 2025 -YKB the most correlated subsidiary with KCHOL shares-. 2) The record-high solo cash at the holding level historically justifies tighter NAV discounts - at even times of lower interest rates. 3) The EUR-exposed industrial subsidiaries have their own operating catalysts (cost restructuring in ARCLK or new model(s) in autos); there is just uncertainty which can achieve what or when. We recommend to own their catalysts in one basket.
- Tupras – a core dividend payer – is seeing resilient product margins and wider crude differentials ahead of the dividend season (net cash = 21% of MCAP). Over longer term, we think its recent investments in sustainable supply of biodiesel feedstock, or the sizable solar capacity gradually being added at its refineries, have gone unnoticed.
- Healthcare start-ups to enter consolidation soon? KCHOL has spared a separate slide to its medical investments for the first time in Nov'24 presentation. We take this as sign of increasing substance of this growth area. If their BVs are added to regular YE24 bulletin, street might find ~1.4% incremental NAV - even at this early stage.
- Short term drivers: 1) Dividend season kicking off in Mar'25, the inflation adjustment reduced earnings visibility; yet KCHOL stated it could also consider positive cashflow trends, 2) lighter capex in key industrials, 3) EYAS dividend-stream to filter through consensus NAVs during YE24 presentation (=1.2% of Koc's MCAP).
- Valuation: Koc's NAV discount (24%) is close to its 5-yr average (-23%). However, the discount line correlates to the foreign investors' interest in Turkish equities, which is close to historical lows ahead of a likely disinflationary period.

Price Data

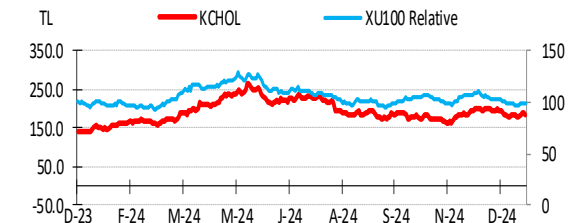
Current Price	187.20
Current Mcap (TLmn)	474,720
12-mth Target Price (TL/share)	305.40
12-mth Target Mcap (TLmn)	774,463
Upside Potential (TL)	63%

Financials (TLmn)	2023	2024E	2025E	2026E
Net Sales	1,604,647	2,392,920	2,948,479	3,419,418
% ch yoy		49	23	16
EBITDA	249,217	163,594	292,112	350,312
% ch yoy		-34	79	20
Net Income	72,230	6,379	76,609	135,881
% ch yoy		-91	1101	77
Margins (%)	2023	2024E	2025E	2026E
EBITDA Margin	15.5	6.8	9.9	10.2
Net Margin	4.5	0.3	2.6	4.0
Gross Dividend Yield	1.6	4.0	2.7	3.0
Ratios	2023	2024E	2025E	2026E
P/E (x)	3.8	n.m.	6.6	3.7
EV/EBITDA (x)			1.0	1.3
ROE (%)	22%	1%	13%	23%

Stock Data

Bloomberg Ticker	KCHOL.IS	KCHOL.TI
3M Avg. Trd. Vol. (US\$m)		US\$91.4

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	-6%	6%	37%	34%
BIST-100 Relative	-6%	-6%	2%	4%

- Delivering positive results, valuation still attractive:** Following a weak start to 2024, Migros has consistently delivered strong margins and positive guidance revisions in the remainder of the year. We believe company has structural strengths, such as distribution power, loyal customer base and competitive procurement, that would help sustain positive results. Even after a strong share performance in 2024, we see a fairly reasonable 2025E P/E of 11.0x.
- Catering to resilience at mid-to-higher income earners:** 2024 was an interesting year where sales of discretionary items (even housing, cars or white-goods) outperformed those of basic consumption items (soft drinks, confectionery). We believe the relative consumption strength of mid-to-high income will remain superior to the low-end; hence benefit Migros' stronger positioning in the super/hypermarket segments or in e-commerce.
- Balance sheet strengthening further:** We believe food retailers will be among top-ranked sectors in Turkey for a positive macro narrative in 2025. Apart from full-TL revenue exposure, Migros has growing cash build at TL21bn (excl c.TL4bn of financial investment, 3Q24, excluding leases). Considering deleveraging focus of its parent, AGHOL, we believe this could imply high pay-outs over the medium-to-long term.
- Short-term drivers:** 1) Sustained market share gains 2) maintaining robust margins, particularly given the weak base of 1Q24, 3) we expect to hear the first 2025 guidance around 4Q results where Migros generally has a conservative start, followed by upward revisions in the interim.
- Valuation:** Migros shares are trading at 7.5x Adj. EV/EBITDA and 11.0x P/E multiples for 2025E, on our estimates. In our adj. EBITDA definition for the sector, we deduct net interest income earned by net trade payables/ receivables from our EBITDA estimate for each year.

Price Data

Current Price (TL, 6-Jan-25)		527.50
Current Mcap (TLmn /USD mn)	95,506	2,706
12-mth Target Price (TL/share)		922.6
12-mth Return Potential (TL)		75%

Financials (TL mn)	2023	2024E	2025E	2026E
Revenues	181,015	297,164	477,117	583,907
% ch y/y		64	61	22
EBITDA	3,221	17,598	27,655	41,336
% ch y/y		446	57	49
Adj. EBITDA	-620	3,292	13,536	33,143
% ch y/y		n.m.	3	1
Net Income	8,829	7,891	8,676	9,993
% ch y/y		-11	10	15

Margins (%)	2023	2024E	2025E	2026E
EBITDA Margin	1.8	5.9	5.8	7.1
Net Margin	4.9	2.7	1.8	1.7

Ratios	2023	2024E	2025E	2026E
P/E (TL, x)	10.8	12.1	11.0	9.6
Adj. EV/EBITDA (TL, x)	n.m.	27.3	7.5	3.1
ROE (TL, %)	24.5	14.0	14.0	14.6

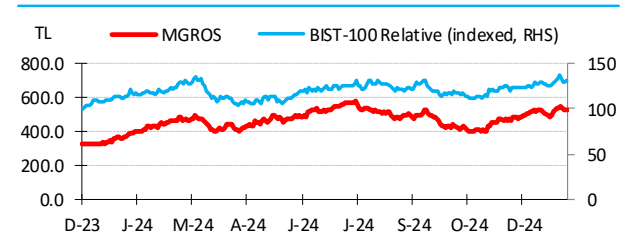
Stock Data

Ticker	MGROS.IS	MGROS TI
Sector		Organized Retailer
# of Shares (mn)		181
3M Av. Trd. Vol. (mn)		US\$22.1
52-week Range	TL342.12 -	TL577.81

Market Data

BIST-100	10,086
TL/US\$	

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	4%	24%	61%	52%
BIST-100 Relative	3%	11%	19%	18%

Our positive stance on Sabancı Holding is based on: i) its attractive valuation, trading at a 40% discount to NAV; ii) being a cheaper way to gain exposure to AKBNK, while also offering exposure to cement, where domestic demand is expected to remain high due to earthquake-related activities and ambitious international growth prospects; and iii) the potential IPO of its energy generation business in 2025..

Strong Outlook in 2025... Despite the headwinds of 2024—defined by high interest rates and subdued economic activity—Sabancı Holding is well-positioned to rebound in 2025. Finance segment (AKBNK, AGESA, AKGRT) currently has the highest share in Sabancı Holding's NAV at 43%. We believe that the holding is more geared to the ongoing normalization in macroeconomic policies and the resulting gradual decrease in Turkey's risk premium, because of the higher share of financial intermediaries in its portfolio. Anticipated rate cuts are set to ease financing pressures and boost profitability across its diversified portfolio. As such, we believe that Sabancı Holding is one of the companies that may see the strongest re-rating associated with the drop in Turkey's risk premium.

Strategic investments in 2024... The acquisition of Mannok expanded Sabancı Holding's footprint in Europe's building materials sector, while the YEKA-2 wind project added 21 MW to its renewable energy capacity. The US\$39mn investment in Bulutistan strengthened its digital transformation efforts through advanced cloud infrastructure.

Finance and energy segments are expected to drive growth in 2025... We anticipate the recently initiated rate-cut cycle to continue unabated throughout 2025, leading to significant margin expansion starting in 2Q25 for the banking sector. This rate-cut cycle is expected to extend well into 2027, allowing banks to maintain relatively elevated spreads for an extended period, resulting in further NIM expansion in 2026, as the negative impact of cash and securities diminishes. Akbank is also set to be a beneficiary of this margin expansion. The energy segment is also projected to deliver robust growth in 2025, driven by capacity expansions, favorable market conditions, and average electricity prices forecasted at around US\$75. Anticipated rate cuts are expected to ease financing pressures, enabling strategic investments in grid modernization and infrastructure upgrades. These initiatives are set to improve operational efficiency, enhance network reliability, and strengthen Sabancı Holding's overall non-financial performance, paving the way for sustainable value creation.

Price Data

Current Price (TL)		104.50
Current Mcap (US\$m/TLmn)	6,220	219,489
12M Target Price (TL/share)		170.86
Upside Potential		64%

Financials (TL mn)	2022	2023	9M24 - LTM
Revenues	68,172	137,009	182,639
% ch y/y		101%	-15%
EBITDA	85,295	142,941	88,294
% ch y/y		68%	-58%
Net Income	43,828	15,427	7,085
% ch y/y		-65%	-53%

Margins (%)	2022	2023	9M24 - LTM
EBITDA Margin	125.1	104.3	48.3
Net Margin	64.3	11.3	3.9
Gross Dividend Yield	1.7%	2.9%	2.8%
Ratios	2022	2023	9M24 - LTM
P/E (TL, x)	2.8	8.0	31.0
EV/EBITDA (TL, x)	10.25	10.6	23.1
ROE (TL, %)	21.9	5.3	1.7

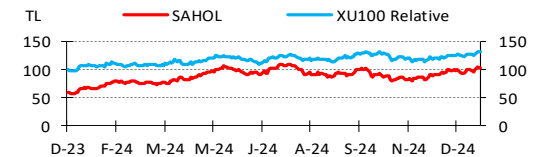
Stock Data

Ticker	SAHOL.IS	SAHOL TI
Sector		Holding
# of Shares (mn)		2,100
3M Av. Trd. Vol. (mn)		US\$47.7
52-week Range	TL60.22 -	TL109.70

Market Data

BIST-100	10,086
TL/US\$	35.29

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	9%	16%	79%	74%
BIST-100 Relative	9%	4%	32%	35%

Our key points for positive outlook for TCELL includes positive real-ARPU outlook in 2025, driven by an increased share of mobile postpaid subscribers, potential growth in the techfin segments, its position as the leader in Turkey's mobile market, a strong brand reputation and proven resilience, and significant investment plans in data centers & cloud infrastructure and 5G tender.

Positive outlook on real ARPU growth in 2025... We expect Turkcell to record strong mobile ARPU growth in 2025, driven by the delayed impact of tariff hikes. We show in the report that company's mobile ARPU has tracked inflation with a 12-month lag. Despite termination of three-year interconnection tailwinds and a possible increase in staff costs, we expect a real mobile ARPU growth of 10% in 2025, which historically implies higher margins. In fact, our 10% real mobile ARPU assumption might prove conservative if the historical inflation-tailwinds hold stronger.

A well-known domestic player, which used to have 90+% foreign ownership... With its heavy-TL revenue base, it could attract the attention of foreign equity investors if Turkish equities recover from currently subdued foreign interest.

The prominent data center business likely to enrich revenue-diversification with high margins... Currently, revenues from data & cloud services currently constitutes a fraction of Turkcell's revenues (1-1.5%). However, it provides sustainable high margins with a lot of white space opportunity. Company currently operates through four such data-centers with approx. 55MW of installed capacity, of which 33MW is in active use and almost "fully utilized". (pricing positive)

Valuation: We use a DCF model in our valuation, focusing on Turkcell's long-term revenue drivers, which require substantial near-term investments in potential 5G tenders, data-centers & cloud infrastructure. TCELL shares are trading at a 3.1x EV/EBITDA multiple, on our 2025 expectations

Price Data

Current Price (TL, 6-Jan-25)		97.95
Current Mcap (TLmn /USD mn)	215,490	6,106
12-mth Target Price (TL/share)		167.6
12-mth Return Potential (TL)		71%
Expected Dividend Yield (%)		3.8%

Financials (TLmn)	2023	2024E	2025E	2026E
Revenues	107,116	165,819	237,824	307,428
% ch y/y (real)		7%	15%	10%
EBITDA	43,877	69,596	99,002	130,436
% ch y/y (real)		10%	14%	13%
Net Income	12,532	16,311	19,952	27,306
% ch y/y (real)		-10	-2	17
Margins (%)	2023	2024E	2025E	2026E
EBITDA Margin	41.0	42.0	41.6	42.4
Net Margin	11.7	9.8	8.4	8.9
Gross Dividend Yield		2.9%	3.8%	3.1%
Ratios	2023	2024E	2025E	2026E
P/E (TL, x)	17.2	13.2	10.8	7.9
EV/EBITDA (TL, x)	4.9	3.7	3.1	2.8
Net Debt/EBITDA (TL, x)	0.6	0.6	0.9	1.1
ROE (TL,%)	10.3	8.8	8.3	9.1

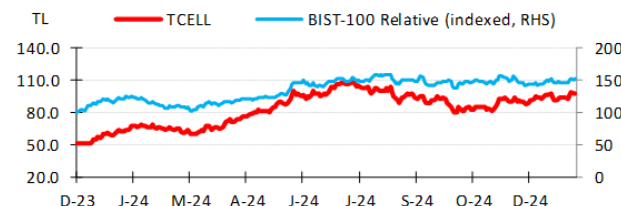
Stock Data

Ticker	TCELLIS	TCELL TI
Sector		Telecommunication
# of Shares (mn)		2,200
3M Av. Trd. Vol. (mn)		US\$58.3
52-week Range	TL59.01 -	TL111.32

Market Data

BIST-100	10,086
TL/US\$	

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	4%	23%	80%	63%
BIST-100 Relative	4%	10%	33%	26%

Turkish Airlines

🔗 **A recovery year ahead?:** Despite positive traffic trends, Turkish Airlines (THY) shares underperformed compared to local aviation peers PGSUS and TAVHL by a wide margin in 2024. We believe this was due to a combination of recurring and one-off factors. While markets cannot predict geopolitical developments, we think that some one-off issues, such as GTF engine groundings, high wage inflation, or initial operational hiccups during AJET's repositioning, may be less significant in 2025. Moreover, we believe Turkish Cargo will continue its strong performance and increasing market share, presenting a major opportunity for earnings uplift. The expansion of THY's international network further supports this outlook. Geopolitics remains a wild card, yet it has been at least somewhat more constructive lately (including Syria). Additionally, Turkish Airlines started compensation negotiations for GTF engine issues in July, receiving payments in 3Q24 and expecting further payments in 4Q24 and 2025. The airline expects to ground 40-45 Airbus aircraft in 2025.

🔗 **Unexpected cost drivers in 2024, softer base comps into 2025...** The main cost drivers in 2024 were 30.6% increase in personnel wages (US\$1.74/ASK), a 10.4% increase in aircraft ownership costs (US\$0.99/ASK) and a 10.3% increase in ground handling costs (US\$0.58/ASK) driven by the growth in cargo operations. If managed well, we see particularly the wage unit costs offering a recovery option for THY's ex-fuel CASK in 2025.

🔗 **Positive tourism data keep rolling:** According to the most recent tourism statistics, Turkey remains a favorable destination for foreign visitors despite TL's real appreciation. THY's management also remains optimistic about forward bookings that imply strong demand and yields into early 2025 (limited visibility afterwards). Potential opening of the Syrian market could also contribute positive transfer-passenger growth. In a recent interview, the Transport Minister said the Turkish Airport Regulating Agency (DHMI) will continue to work closely with relevant authorities in Syria to improve airport infrastructure and facilitate smoother operations for both passengers and airlines in Syria

🔗 **Valuation:** THY shares are trading at a 3.9x EV/EBITDA multiple on our 2025 expectations.

Price Data

Current Price (TL, 06-Jan-25)	297.00
Current Mcap (TLmn)	409,860
Current Mcap (US\$ mn)	11,614
12-mth Target Price (TL/share)	498.71
12-mth Target Mcap (TLmn)	688,222
12-mth Return Potential (TL)	68%
Dividend yield	0%

Financials (US\$ mn)	2023	2024E	2025E	2026E
Revenues	20,942	22,802	24,874	26,082
% ch y/y		9	9	5
EBITDA	5,525	5,101	5,379	5,589
% ch y/y		-8	5	4
Net Income	6,019	2,510	2,376	2,632
% ch y/y		-58	-5	11

Margins (%)	2023	2024E	2025E	2026E
EBITDA Margin	26.4	22.4	21.6	21.4
Net Margin	28.7	11.0	9.6	10.1
Gross Dividend Yield	0.0	0.0	0.0	0.0

Ratios	2023	2024E	2025E	2026E
P/E (US\$, x)	0.8	4.3	4.9	4.4
EV/EBITDA (US\$, x)	2.4	3.6	3.9	4.0
Net Debt/EBITDA (US\$, x)	1.5	1.4	1.8	1.9
ROE (US\$, %)	61.8	16.1	14.3	15.0

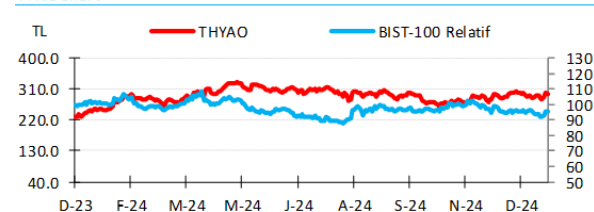
Stock Data

Ticker	THYAO.IS	THYAO TI
Sector		Aviation
# of Shares (mn)		1,380
3M Av. Trd. Vol. (mn)		US\$212.2
52-week Range	TL242.60 -	TL330.00

Market Data

BIST-100	10,086
TL/US\$	35.2892

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	-1%	4%	30%	22%
BIST-100 Relative	-1%	0%	-4%	-5%

Maintaining Overweight rating with a 12M TP of TL22.14/share...

- TSKB is set to deliver a peer-high 39% ROE in 2024 with a 47% y/y net income growth, driven by stable core operational metrics, i.e. a flattish core spread, mild increase in CPI-linker revenues thanks to the risen balance, continuation of robust fee income growth, and a sharp drop in CoR given that the bank had significantly boosted its loan loss provisions earlier.
- We think that TSKB's earnings will remain less volatile compared to deposit bank peers, indicating to a higher ROE in 2025 albeit a lower EPS growth, despite the latter group's advantage in terms of margin sensitivity to the recently kicked off rate cut cycle. We believe that TSKB will continue achieving a low-teens loan growth in real terms in 2025, accompanied with a mild FX-adjusted CoR, as the bank is immune to the ongoing asset quality deterioration in the unsecured retail cash loan segments.
- TSKB currently trades at a deep 20-25% discount over peers, despite a higher ROE prospect, at 0.7x 2025E P/B and 2.8x 2025E P/E while our 12M TP indicates that the stock will trade at 1.0x 2026E P/B and 4.2x 2026E P/E at the end of 2025. We believe that the success of the disinflation program will facilitate a further drop in Turkey's CDS level towards 200bps, which would contribute to the re-rating we have assumed, on top of the strong expected book value growth.

Steady business model with more growth prospects in the upcoming period...

- TSKB continues to boast one of the strongest profitability profiles among peers, with a resilient margin structure and a well-below-peers cost-to-income ratio. Having been suffering from loan book contraction in FX-adjusted terms over the previous six years, TSKB achieved positive growth in 2024 which we expect to continue in the upcoming period, as the bank will be active in financing the transition to low-carbon and circular economies.
- At 6.2% of total loans as at end-3Q24, TSKB has by the far the highest provision coverage among peers, as the bank took advantage of the strong revenues to boost its provisioning levels in 2022 and 2023. Meanwhile, the bank also has a proven track record of limited NPL formation.
- Similarly, TSKB has also been steadily improving its capital ratios, with its pre-BRSA forbearance Tier-I ratio increasing from 8.9% as at end-4Q21 to a well above peers 19.0% as at end-3Q24, which should also allow for the restart of dividend payments.

Risks...

- The bank is prone to macroeconomic risks such as higher rates, TL depreciation, and slower growth.

Price Data

Current Price (TL)	13.06
Current Mcap (TLmn)	36,568
12-mth Target Price (TL/share)	22.14
12-mth Target Mcap (TLmn)	61,991
12-mth Return Potential	70%
Dividend yield	3%

Financials (TL mn)	2023	2024E	2025E	2026E
Adj. NII	11,933	13,227	18,944	22,367
% ch y/y		11	43	18
Net income	7,041	10,342	12,839	14,907
% ch y/y		47	24	16

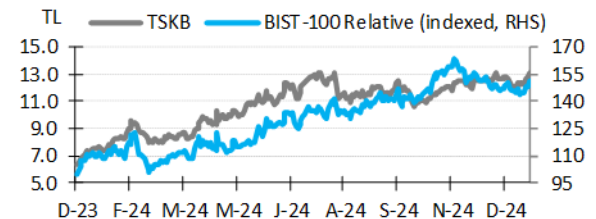
Margins (%)	2023	2024E	2025E	2026E
Adj. NIM	8.7	6.7	7.7	7.1
Cost/income	10	15	15	16
Cost of risk	2.86	0.23	1.20	1.12

Ratios	2023	2024E	2025E	2026E
P/E (TL, x)	2.2	2.9	2.8	2.5
P/B (TL, x)	0.73	0.91	0.74	0.58
ROAE (TL, %)	42.1	38.8	31.6	26.5

Stock Data

Ticker	TSKB.IS	TSKB TI
3MAv. Trd. Vol. (mn)		US\$7.2

Price Chart



Price Performance	1M	3M	6M	YoY
TL Absolute	1%	19%	6%	77%
BIST-100 Relative	1%	6%	14%	37%

Maintaining Overweight rating with a 12M TP of TL27.16/share ...

- We expect Türkiye Sigorta to continue benefiting from 1) its market leader position and distribution network with exclusive bancassurance agreements with the three state banks, 2) business mix change and higher penetration potential in profitable segments, 3) strong loss management capacity and scale advantage, 4) higher investment income potential on rising interest rates, and 5) peer-best capital position.

Market leader with a unique distribution network...

- Türkiye Sigorta is the market leader in an underpenetrated market. The company has a well-diversified portfolio with strong market shares in profitable segments, such as agriculture, fire & natural disaster, and accident, taking advantage of its bank-heavy distribution network and bancassurance agreements, as well as sector-best reinsurance coverages. Türkiye Sigorta benefits from economies of scale, allowing for strong loss management capacity and coverage of big engineering projects.

Further mix change and penetration potential to support growth and profitability...

- Türkiye Sigorta targets to reduce its market share in the traffic segment and shift mix towards MOD and health segments. At the same time, the agency channel will continue to be optimized both in terms of number and business mix with new targets being provided. These, combined with the potential to increase penetration in the bancassurance channel, should help both keep growth intact even if banking sector loan growth slows down and also lower the combined ratio.

Investment income to remain strong on higher AuM despite lower interest rates...

- Türkiye Sigorta's investment income should remain strong, going forward, thanks to increasing assets under management, despite the gradual decrease in interest rates, supported by the maintenance of ample positive real rates.

Peer-best capital position and dividend payment capacity...

- Türkiye Sigorta's CAR stood comfortably above regulatory thresholds at 147% as at end-1H24, which should allow the company to be able to continue distributing dividends.

Risks...

- Türkiye Sigorta is prone to macroeconomic risks such as higher interest rates, TL depreciation, and high minimum wage increases, as well as regulatory and catastrophic event risks. We believe that the company is partially hedged against these risks.

Price Data

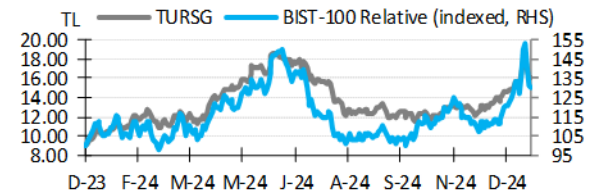
Current Price (TL)	15.98
Current Mcap (TLmn)	79,900
12-mth Target Price (TL/share)	27.16
12-mth Target Mcap (TLmn)	135,801
12-mth Return Potential	70%
Dividend yield	3.2%

Financials (TL mn)	2023	2024E	2025E	2026E
Gross Written Premiums	59,518	103,597	144,577	187,737
% ch yoy		74	40	30
Technical Profit	-1,292	558	947	2,983
% ch yoy	n.m.	n.m.	70	215
Net Investment Income	9,777	17,879	23,832	23,587
% ch yoy		83	33	-1
Net income	6,155	12,756	17,263	18,455
% ch yoy		107	35	7
Shareholders equity	15,426	26,213	40,924	49,440
% ch yoy		70	56	21
Ratios	2023	2024E	2025E	2026E
Combined Ratio	108%	100%	99%	97%
P/E (TL, x)	3.9	5.3	4.6	4.3
P/B (TL, x)	1.6	2.6	2.0	1.6
ROAE (TL, %)	61%	61%	51%	40%

Stock Data

Ticker	TURSG.IS	TURSG.TI
3MAv. Trd. Vol. (mn)		US\$9.6

Price Chart



Price Performance	1M	3M	6M	YoY
TL Absolute	15%	31%	1%	51%
BIST-100 Relative	15%	17%	8%	17%