

## Private Banks Target Price Revisions

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### YTD earnings performance of private banks beat expectations

With stronger than expected NIMs, lower CoR and better than feared asset quality performance, consensus EPS estimates have seen continuous upgrades in 2021; +23% revision for AKBNK (from TL1.56 to TL1.92), +39% for GARAN (from TL2.27 to TL3.16) and +30% for YKBANK (from TL0.81 to TL1.05) since the beginning of the year. Improvement in spreads, higher income from CPI-linkers (which account for 66% of TL securities in AKBNK, 62% in GARAN and 74% in YKBANK), speeding up economic activity (supporting fee generation) and lower CoR were main factors behind solid earnings performance of private banks, but we expect these drivers to slow down in 2022E amid prevailing macro risks for Turkish economy.

Stock	Rating	Old TP	New TP	Upside Potential
AKBNK	Market Perform	8.35	8.52	18%
GARAN	Outperform	11.80	14.54	21%
YKBANK	Outperform	3.40	4.35	23%

Stock	Bank-only ROE		P/BV		P/E	
	2021E	2022E	2021E	2022E	2021E	2022E
AKBNK	14.8%	14.7%	0.52	0.45	4.0	3.4
GARAN	19.3%	19.3%	0.69	0.57	4.2	3.5
YKBANK	19.2%	17.2%	0.52	0.40	3.4	2.9

### Recent deals also helped to improve sentiment towards banking stocks

Recently, Koç Holding has decided to purchase 18% stake in YKBANK from Unicredit, following the expiration of lock-up period from previous sale to market. This decision would remove overhang risk on YKBANK, in our view. Furthermore, on November 15<sup>th</sup>, BBVA, main shareholder of GARAN with 49.85% stake, announced that it would make a voluntary tender offer for remaining GARAN shares (50.15% of GARAN) at a price of TL12.2/share. According to our estimates, the offer corresponds to 2022E 0.58x P/BV and 3.6x P/E. We think these deals reflect commitment from main shareholders in two large private banks, which would also lend support to market sentiment and limit downside risks in share prices.

### TL depreciation inevitably limits balance sheet expansion in FX terms

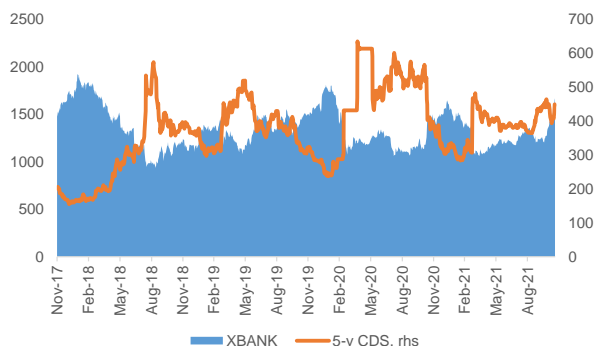
Following loose monetary policy moves from CBRT, private banks are likely to increase their focus to keep FX risks under check amid rising inflation and negative real rates for TL. Pre-provision profit of private banks under our coverage came down by 20% in EUR terms over the last 5 years (2017-9M21) due to TL depreciation, while shareholder's equity (adjusted for dividends, free provisions and right issues) came down by 25% during the same period. According to our estimates, total equity values could have seen another 18% drop in EUR terms quarter-to-date (calculated with 12.7 EUR/TRY parity) due to 23% depreciation of TL since 3Q-end.

### Revising up TPs across the board, but keep cautious view on the sector considering macro volatilities and recent rally in share prices

We increase our 2021/22 net income estimates for private banks by 20% and 10% in line with consensus estimates on stronger 9M results than expected. Parallel to higher earnings estimates, we raise TPs of private banks by 18% and maintain our previous recommendations. According to our estimates, private banks trade at 2022E 0.47x P/BV and 3.3x P/E. We believe that GARAN and YKBANK stand at a stronger position against macro risks on their front-loaded provisioning and FX hedging policies. For further improvement in the sector, lower inflation with reasonable interest rate environment, normalized levels of CoR, stability in FX rates and stronger demand for TL deposits would be the catalysts.

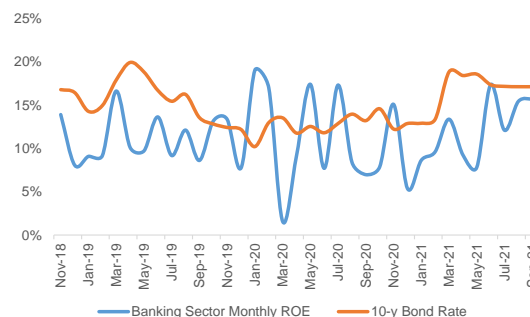
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### Turkey risk premium remains an important driver of banking stocks' performance



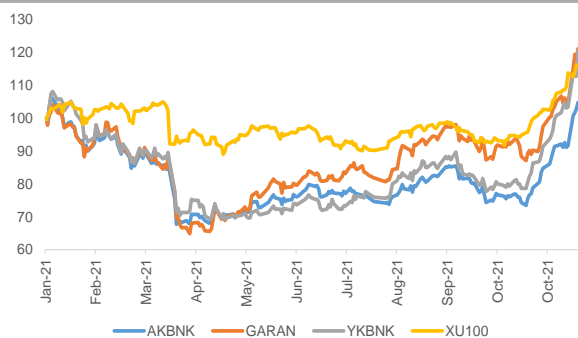
Source: Matriks, BBG

### Sector ROE remains below 10-year rate despite recent improvement



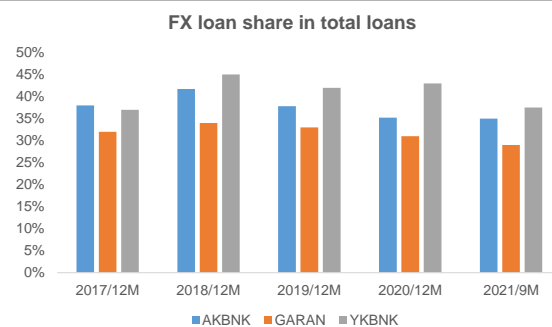
Source: Matriks, BRSA

### GARAN and YKBNK outperformed broader index on earnings and corporate actions



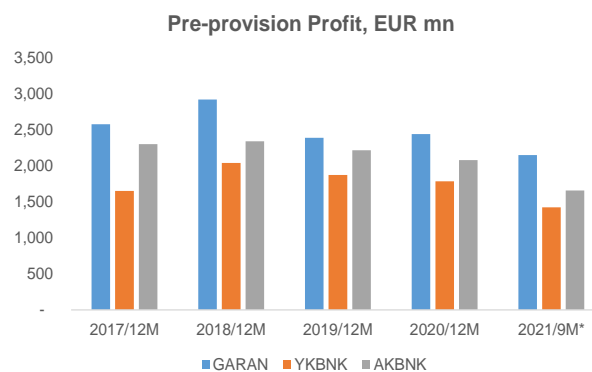
Source: Rasyonet

### FX loan share broadly stable, highest for YKBNK



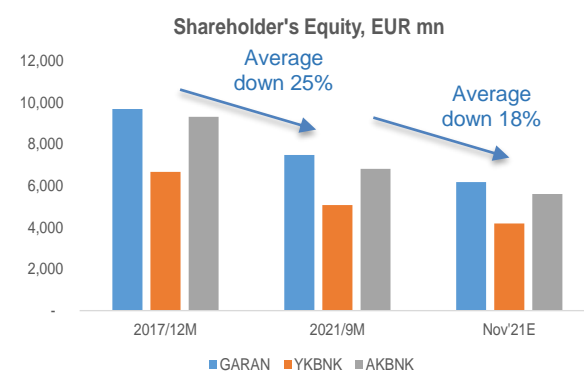
Source: Banks' financials

### Earnings are going slightly down, when converted to FX



Source: Banks' Financials  
\*12m trailing pre-provision profit

### ... while equity values in FX terms are also taking a large hit from TL depreciation



Source: Banks' Financials, YF estimates

## AKBNK

We increase our 2021E net income for the Bank from TL7.7bn to TL9.5bn on the back of improved margins, strong fee generation and well-managed Cost/Income ratio. Addition to improved spreads with loan repricing, we should note that 9M21 CPI valuation of the Bank stands at 17%. Hence, additional c.TL650mn would support NII in 2021, considering 19% October-October inflation. Our 2021E net income points to 14.8% bank-only ROE, while we forecast TL11bn net income in 2022 with 14.7% bank-only ROE. We slightly increase our TP to TL8.52/sh from TL8.35/sh on updated earnings, while maintaining market perform rating. Our valuation is based on 15% sustainable ROE (previously 14%), 16.0% risk free rate (previously 14%) and a 5% equity risk premium (unchanged), resulting in Target P/BV of 0.55x (previously 0.50x). The stock trades at 2022E P/BV of 0.45x and P/E of 3.4x.

<b>Akbank - BRSA Solo estimates (TLm)</b>						
<b>P&amp;L</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
Net Interest Income	10,545	14,566	15,713	19,531	21,981	22,377
Net Trading Gains/Losses	-428	-336	-710	-619	-2,276	-900
Fee Income	2,745	3,450	4,634	3,866	4,825	5,549
Dividend Income	2	5	7	5	5	5
Other Income	1,263	986	819	1,373	1,764	1,230
Income from subsidiaries	365	305	640	956	1,339	1,517
Total Revenues	14,491	18,976	21,104	25,112	27,638	29,778
Provisions	2,313	6,471	7,753	9,480	6,181	4,974
OPEX	4,662	3,406	6,549	7,687	8,841	10,568
Income Before Tax	7,517	9,099	6,801	7,945	12,617	14,236
<b>Tax Expense</b>	<b>1,478</b>	<b>1,286</b>	<b>1,384</b>	<b>1,678</b>	<b>3,131</b>	<b>3,274</b>
<b>Net Income</b>	<b>6,039</b>	<b>7,813</b>	<b>5,417</b>	<b>6,267</b>	<b>9,486</b>	<b>10,962</b>
<b><i>NI growth</i></b>	<b>25%</b>	<b>29%</b>	<b>-31%</b>	<b>16%</b>	<b>51%</b>	<b>16%</b>
<b>B/S</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
Total Assets	316,031	327,642	360,501	446,101	631,200	694,320
Loans	190,509	186,376	203,834	253,319	307,296	336,604
Securities	59,690	69,979	86,422	89,371	165,096	175,907
Deposits	184,904	188,391	224,055	268,570	328,336	368,240
Funds Borrowed	29,672	39,727	31,371	36,264	37,055	41,436
Repo Funding	27,283	13,062	8,812	19,008	122,872	132,164
Securities Issued	15,754	16,936	18,900	25,876	35,627	30,959
Shareholders' Equity	40,425	43,809	54,382	62,919	72,395	83,294
Interest Earning Assets	304,643	306,909	353,157	428,186	663,240	730,119
<b>Key Ratios</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
ROE (Inc. Subs.)	16.6%	18.6%	11.0%	10.7%	14.0%	14.1%
ROA (Inc. Subs.)	2.1%	2.4%	1.6%	1.6%	1.8%	1.7%
Leverage	7.8x	7.5x	6.6x	7.1x	8.7x	8.3x
Net Interest Margin	3.7%	4.8%	4.8%	5.0%	4.0%	3.2%
Cost / Income	32%	18%	31%	31%	32%	35%
NII Growth	33%	38%	8%	24%	13%	2%
Fee Income Growth	14%	26%	34%	-17%	25%	15%
OPEX Growth	9%	-27%	92%	17%	15%	20%
Net Income Growth	25%	29%	-31%	16%	51%	16%
Loan Growth	18%	-2%	9%	24%	21%	10%
Deposit Growth	16%	2%	19%	20%	22%	12%
Loan-to-Deposits	103%	99%	91%	94%	94%	91%
Loan-to-Deposits (bonds included)	95%	91%	84%	86%	84%	84%
Total Cost of Risk (bps)	131	343	397	415	221	154

Source: Company Data, YF Securities Equity Research

## GARAN

Thanks to solid NIM performance, strong fee income and lower provision expenses, we raise our 2021 net income estimate from TL10.5bn to TL12.1bn, implying 19.3% bank-only ROE. Free provision buffer of the Bank reached TL6.6bn as of 3Q21, which provides Bank a strong position against macro risks and possible asset quality deterioration, in our view. On this background, we expect 2022 net income to reach TL14.3bn on a resilient ROE of 19.3%. Parallel to higher earnings estimates, we increase our TP to TL14.54/sh from TL11.80/sh, whereas maintaining Outperform rating. Our valuation is based on 19% sustainable ROE (previously 17%), 16.0% risk free rate (unchanged) and a 5% equity risk premium (unchanged), resulting in Target P/BV of 0.83x (previously 0.68x). The stock trades at 2022E P/BV of 0.57x and P/E of 3.5x.

Garanti - BRSA Solo estimates (TLmn)							
P&L	2016	2017	2018	2019	2020	2021E	2022E
Net Interest Income	11,097	14,468	19,110	19,027	23,768	31,282	38,915
Net Trading Gains/Losses	-791	-1,916	-1,153	-1,940	181	-5,555	-4,400
Fee Income	3,152	3,680	4,870	6,089	5,978	7,777	8,477
Dividend Income	7	7	5	9	19	128	141
Other Income	1,364	982	2,219	3,965	4,568	7,394	8,017
Income from subsidiaries	398	608	752	894	1,323	1,781	1,799
Total Revenues	15,227	17,829	25,803	28,044	35,837	42,807	52,948
Provisions	2,815	3,160	9,883	11,522	17,160	14,866	20,333
OPEX	6,119	6,518	4,459	8,706	10,038	11,930	13,923
Income Before Tax	6,293	8,151	11,461	7,816	8,639	16,011	18,692
<b>Tax Expense</b>	<b>1,223</b>	<b>1,807</b>	<b>1,807</b>	<b>1,657</b>	<b>2,401</b>	<b>3,932</b>	<b>4,410</b>
<b>Net Income</b>	<b>5,071</b>	<b>6,344</b>	<b>9,654</b>	<b>6,159</b>	<b>6,238</b>	<b>12,080</b>	<b>14,282</b>
<b>NI growth</b>	<b>49%</b>	<b>25%</b>	<b>52%</b>	<b>-36%</b>	<b>1%</b>	<b>94%</b>	<b>18%</b>
<b>B/S</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
Total Assets	284,155	325,232	359,477	391,152	492,798	611,761	689,251
Loans	186,048	209,680	230,611	251,165	315,085	385,306	460,751
Securities	43,553	47,630	49,300	54,000	68,700	110,154	122,110
Deposits	161,232	181,116	217,279	248,751	321,512	392,882	438,729
Funds Borrowed	40,286	40,805	31,941	25,123	25,438	26,802	29,912
Repo Funding	9,769	16,665	45	504	72	1,829	2,026
Securities Issued	16,437	22,141	23,984	21,137	25,590	25,004	28,512
Shareholders' Equity	35,539	41,331	46,688	53,766	62,082	73,829	88,112
Interest Earning Assets	270,037	307,503	341,416	371,826	467,796	615,089	694,644
<b>Key Ratios</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
ROE (incl. Subs)	15.2%	16.5%	21.9%	12.3%	10.8%	17.8%	17.6%
ROA	1.9%	2.1%	2.8%	1.6%	1.4%	2.2%	2.2%
Leverage	7.0x	6.9x	6.7x	6.3x	6.9x	7.3x	6.8x
Net Interest Margin	4.3%	5.0%	5.9%	5.3%	5.7%	5.8%	5.9%
Cost / Income	40%	37%	17%	31%	28%	28%	26%
NII Growth	20%	30%	32%	0%	25%	32%	24%
Fee Income Growth	8%	17%	32%	25%	-2%	30%	9%
OPEX Growth	4%	7%	-32%	95%	15%	19%	17%
Net Income Growth	49%	25%	52%	-36%	1%	94%	18%
Loan Growth	17%	13%	10%	9%	25%	22%	20%
Deposit Growth	14%	12%	20%	14%	29%	22%	12%
Loan-to-Deposits	115%	116%	106%	101%	98%	98%	105%
Loan-to-Deposits (bonds included)	105%	103%	96%	93%	91%	92%	99%
Total Cost of Risk (bps)	163	160	449	478	606	424	481

Source: Company Data, YF Securities Equity Research

## YKBNK

We increase our 2021E net income from TL7.2bn to TL8.9bn with 19.2% bank-only ROE on strong earnings momentum with improved spreads, higher CPI-linker income (17.5% CPI-linker assumption as of 3Q21), strong fee generation and lower provision expenses. Our 2022E net income stands at TL10.4bn, corresponding to 17.2% bank-only ROE. We believe that high coverage ratios thanks to its front-loaded provisioning policies enable YKBNK a safe margin against macro risks in 2022. In line with strong net income estimates, we increase our TP to TL4.35/sh from TL3.40/sh, whereas maintaining Outperform rating. Our valuation is based on 16% sustainable ROE (previously 14%), 16.0% risk free rate (unchanged) and a 5% equity risk premium (unchanged), resulting in 2021 Target P/BV of 0.64x (previously 0.55x). The stock trades at 2022E P/BV of 0.40x and P/E of 2.9x.

Yapı Kredi - BRSA Solo estimates (TLm)							
P&L	2016	2017	2018	2019	2020	2021E	2022E
Net Interest Income	7,635	9,211	13,942	14,776	16,977	20,914	25,259
Net Trading Gains/Losses	76	-813	-648	-1,885	257	-4,251	-2,687
Fee Income	2,826	3,136	4,016	5,287	5,247	6,741	7,823
Dividend Income	0	2	6	9	3	3	6
Other Income	552	1,136	1,211	1,428	1,563	1,946	1,618
Income from subsidiaries	476	575	776	781	884	1,163	1,338
Total Revenues	11,565	13,248	19,304	20,397	24,931	26,516	33,357
Provisions	2,844	3,254	7,122	8,813	9,954	5,279	8,565
OPEX	5,077	5,520	3,490	7,244	8,424	9,748	11,325
Income Before Tax	3,645	4,473	8,692	4,339	6,552	11,488	13,466
<b>Tax Expense</b>	<b>712</b>	<b>859</b>	<b>1,188</b>	<b>739</b>	<b>1,472</b>	<b>2,546</b>	<b>3,097</b>
<b>Net Income</b>	<b>2,933</b>	<b>3,614</b>	<b>7,504</b>	<b>3,600</b>	<b>5,080</b>	<b>8,943</b>	<b>10,369</b>
<b>NI growth</b>	<b>58%</b>	<b>23%</b>	<b>108%</b>	<b>-52%</b>	<b>41%</b>	<b>76%</b>	<b>16%</b>
<b>B/S</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
Total Assets	252,820	297,810	348,044	387,496	459,694	594,474	664,811
Loans	172,624	194,960	225,031	241,111	293,927	353,780	391,636
Securities	28,945	37,339	49,900	57,100	25,863	30,358	33,235
Deposits	154,275	169,347	202,549	222,790	254,280	335,302	370,969
Funds Borrowed	27,995	39,130	37,349	38,111	38,280	43,359	48,425
Repo Funding	5,858	12,800	1,546	3,696	27,705	48,309	50,868
Securities Issued	18,313	22,212	29,942	39,284	43,172	53,725	60,797
Shareholders' Equity	26,119	30,098	39,003	41,188	47,564	57,784	74,426
Interest Earning Assets	239,549	283,560	318,136	347,588	393,090	504,326	571,159
<b>Key Ratios</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>
ROE (including subs.)	11.9%	12.9%	21.7%	9.0%	11.4%	17.0%	15.7%
ROA	1.2%	1.3%	2.3%	1.0%	1.2%	1.7%	1.6%
Leverage	9.7x	9.9x	8.9x	9.4x	9.7x	10.3x	8.9x
Net Interest Margin	3.4%	3.5%	4.6%	4.4%	4.6%	4.7%	4.7%
Cost / Income	44%	42%	18%	36%	34%	37%	34%
NI Growth	12%	21%	51%	6%	15%	23%	21%
Fee Income Growth	5%	11%	28%	32%	-1%	28%	16%
OPEX Growth	6%	9%	-37%	108%	16%	16%	16%
Net Income Growth	58%	23%	108%	-52%	41%	76%	16%
Loan Growth	16%	13%	15%	7%	22%	20%	11%
Deposit Growth	22%	10%	20%	10%	14%	32%	11%
Loan-to-Deposits	112%	115%	111%	108%	116%	106%	106%
Loan-to-Deposits (bonds included)	100%	102%	97%	92%	99%	91%	91%
Total Cost of Risk (bps)	177	177	339	378	372	163	230

Source: Company Data, YF Securities Equity Research

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