



1Q16 Earnings Preview

Turkish Banks

15 April 2016

Banks' Earnings season to kick off with Akbank

The 1Q16 earnings season will start with the release of Akbank's 1Q financial statements on April 22, 2016. Garanti and Halkbank are expected to announce their earnings in the last week of April while Albaraka Turk, Vakifbank and Yapı Kredi are expected to announce theirs in early May. Banks are required to release their solo financials by May 10th at the latest.

Contraction in the loan-deposit spread and increase in general provisions from a low base may suppress earnings on a q/q basis in 1Q16...

We expect the banks under our coverage to deliver an increase of around 18% y/y and a 3% decline on a q/q basis. We forecast a quarterly increase in general provision expenses while the decline in the NII will be compensated by a lower net trading loss and reduced OPEX. We estimate that Akbank may announce stronger earnings growth on a quarterly basis (up 8%) while we expect q/q declines in earnings for Halkbank, Vakifbank and Albaraka Turk.

The banking sector realized another weak volume performance in loans in the first quarter. Total loan growth was realized at 1.6% in 1Q while deposit volumes increased by around 2.7%. In terms of core spreads, we expect a slight q/q contraction in 1Q on the back of the continuing upward trend in deposit costs. We expect a contraction of around 13bps q/q for the overall NIM with Garanti set to deliver the steepest quarterly decline in its NIM, of 34bps, due to the change in CPI-linker accounting methodology, thereby recording lower interest income from CPI-linkers. The sector's net trading loss may have declined significantly on the quarter, driven by lower swap utilization from several banks and reduced volatility in the TL.

For non-interest income, there is likely to have been a q/q decline in fee income due to the lack of account maintenance fees for several banks and the seasonality factor. OPEX also may have also declined on a q/q basis as banks mostly record higher operating costs in last quarter of the year. In terms of asset quality, we expect the NPL deterioration to have continued in 1Q, but at a tolerable extent. We estimate an increase of around 12 bps in the gross cost of risk q/q, driven by higher general provision expenses.

Table 1: YF Banking Coverage 1Q16 Expected Results

TL Million	1Q15	4Q15	1Q16E	Q/Q	Y/Y	Expected Release Date
Akbank	732	909	979	8%	34%	22-Apr-16
Albaraka Turk	64	91	60	-35%	-7%	Early May
Garanti	862	938	951	1%	10%	27-Apr-16
Halkbank	584	648	628	-3%	8%	29-Apr-16
Vakifbank	435	657	463	-29%	7%	Early May
Yapı Kredi	501	635	666	5%	33%	Early May
Total	3,177	3,877	3,746	-3%	18%	

Source: YF Securities Equity Research

* YF Securities Equity Research refrains from rating parent companies - TSKB and Isbank – to avoid any potential conflicts of interest between YF Securities and rated companies, in connection with, but not limited to, loan agreements or business deals.

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Banks - 1Q16 Earnings Details

Akbank					
TLmn	1Q15	4Q15	1Q16E	Q/Q	Y/Y
NI	1,778	1,960	1,956	0%	12%
Fee Income	515	604	577	-5%	12%
Dividend Income	13	0	15	n.m.	17%
Net Trading Gains/Losses	93	-20	15	n.m.	-84%
Other Income	261	87	139	60%	-47%
Total Income	2,660	2,631	2,702	3%	2%
OPEX	1,046	1,069	1,056	-1%	1%
Provisions	669	397	423	6%	-37%
EBT	946	1,165	1,223	5%	29%
Tax Expense	214	256	245	-4%	14%
Net Income	732	909	979	8%	34%

Comment

We expect Akbank to deliver 8% earnings growth q/q, supported by almost flat OPEX, trading gain, dividend income and contribution from NPL sale gain of TL49mn. We expect NIM to remain almost flat q/q as higher deposit costs in 1Q were compensated by upward loan repricing. Weak loan growth may lead to realize low general provisions. And we may see lower fee income growth q/q due to seasonality.

Albaraka Turk					
TLmn	1Q15	4Q15	1Q16E	Q/Q	Y/Y
Net Profit Share Income	191	243	233	-4%	22%
Fee Income	35	42	40	-5%	15%
Net Trading Gains/Losses	22	22	23	n.m.	9%
Other Income	27	19	26	36%	-4%
Total Income	275	326	323	-1%	17%
OPEX	155	181	178	-1%	15%
Provisions	40	34	70	106%	76%
EBT	80	112	74	-33%	-7%
Tax Expense	16	21	15	-28%	-8%
Net Income	64	91	60	-35%	-7%

Comment

We forecast that Albaraka's 1Q16 earnings to decline by 7% y/y and 35% q/q. We expect net profit share margin may contract 30bps q/q, due to lack of profit share income recorded in 4Q. Based on the recent surge in NPL inflows in participation banks in 1Q, we think the Bank may deliver quarterly higher loan-loss provisions.

Garanti					
TLmn	1Q15	4Q15	1Q16E	Q/Q	Y/Y
NI	1,933	2,637	2,472	-6%	28%
Fee Income	753	718	791	10%	5%
Net Trading Gains/Losses	-22	-352	-281	-20%	n.m.
Other Income	354	275	250	-9%	-29%
Total Income	3,018	3,277	3,232	-1%	7%
OPEX	1,471	1,574	1,538	-2%	4%
Provisions	593	652	618	-5%	4%
Income from subsidiaries	146	82	112	37%	-23%
EBT	1,099	1,134	1,188	5%	8%
Tax Expense	237	196	238	21%	0%
Net Income	862	938	951	1%	10%

Comment

Garanti's 1Q earnings may realize slightly above 4Q15 earnings as quarterly lower OPEX, NPL sale gain of TL30mn, and lower net trading loss will support 1Q earnings. However, we expect NIM to contract by 34bps q/q, driven by higher cost of deposits and lower CPI-linker income due to accounting methodology change. CPI-linker securities will be booked based on expected CPI figure rather than realized CPI. Fee income growth may come lower than the initial guidance of 9%, due to lack of account maintenance fees. We expect to see a growing Group 2 loans again due to management's conservative policy.

Halkbank					
TLmn	1Q15	4Q15	1Q16E	Q/Q	Y/Y
NI	1,283	1,481	1,546	4%	20%
Fee Income	323	308	281	-9%	-13%
Net Trading Gains/Losses	20	-91	10	-111%	-51%
Other Income	178	93	120	29%	-33%
Total Income	1,805	1,791	1,957	9%	8%
OPEX	800	904	936	4%	17%
Provisions	255	88	236	168%	-7%
EBT	750	799	785	-2%	5%
Tax Expense	167	151	157	4%	-6%
Net Income	584	648	628	-3%	8%

Comment

We forecast that Halkbank's 1Q net income to increase by 8% y/y and to decrease by 3% q/q. Quarterly earnings could be supported by a slight improvement in NIM, free provision release and better trading line as swap costs decrease in 1Q. Loan-deposit spreads may contract slightly, driven by relatively higher cost of deposits. We expect fee income to drop y/y due to its high base in last year and OPEX to grow above 15% y/y. We expect to see a general provision expense in 1Q vs. 4Q15 with an assumption that the Bank realized an above sector loan growth.

Vakifbank					
TLmn	1Q15	4Q15	1Q16E	Q/Q	Y/Y
NI	1,240	1,547	1,513	-2%	22%
Fee Income	229	248	240	-3%	5%
Dividend Income	62	0	0	n.m.	-100%
Net Trading Gains/Losses	59	4	-13	n.m.	n.m.
Other Income	279	295	262	-11%	-6%
Total Income	1,870	2,093	2,001	-4%	7%
OPEX	855	931	984	6%	15%
Provisions	449	346	439	27%	-2%
EBT	565	817	579	-29%	2%
Tax Expense	130	160	116	-28%	-11%
Net Income	435	657	463	-29%	7%

Comment

We expect 29% q/q contraction in Vakifbank's earnings, due to weak fee income generation, higher OPEX and higher loan-loss provisions. Also, we expect dividend income to be recorded in 2Q financials. Fee income growth may realize below the management guidance of +20% due to lower loan growth. We forecast 9bps NIM contraction q/q driven by higher cost of deposits.

Yapi Kredi					
TLmn	1Q15	4Q15	1Q16E	Q/Q	Y/Y
NI	1,423	1,965	1,882	-4%	32%
Fee Income	593	777	694	-11%	17%
Net Trading Gains/Losses	-69	-139	-10	-93%	n.m.
Other Income	261	102	116	13%	-56%
Total Income	2,210	2,706	2,682	-1%	21%
OPEX	1,116	1,345	1,211	-10%	9%
Provisions	550	655	718	10%	30%
Income from subsidiaries	90	90	90	0%	0%
EBT	634	797	843	6%	33%
Tax Expense	133	162	177	9%	33%
Net Income	501	635	666	5%	33%

Comment

Yapi Kredi may deliver 5% earnings growth q/q and 33% y/y. We expect the driver of the quarterly earnings growth are lower net trading loss and lower OPEX growth. We expect to see above 15% fee income growth y/y and OPEX growth in-line with annual guidance of 8% level. Quarterly NPL inflow might realize as high as 4Q level, which may suppress profitability. We estimate a 16bps NIM contraction q/q, led by higher increase of cost of TL deposits.

Source: YF Securities Equity Research

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