

## Isbank

**HOLD**

(prev. Hold)

### Net income realized parallel with expectations

Isbank released TRY1,238mn solo net income in 3Q18, in-line with the market consensus of TRY1,209mn (YKY est: TRY1,194mn). Net income declined by 19% q/q and increased by 2% y/y. Cumulative earnings growth realized at 7% y/y in 9M18 vs. 9% in 6M18. Quarterly ROTE realized at 16.8% in 3Q vs. 20.4% in 2Q.

Additional CPI-linker interest income, strong subsidiaries income and provision release were key contributors of 3Q earnings. Moreover, we observe that spread contraction in TRY loan-time deposits remained relatively limited compared to its major peers. On the other hand, heavy provision costs, led by IFRS model revision and NPL inflows, weighed on earnings. Management revised their initial year-end NPL ratio expectation up from 3% to 4.5-5% level.

We expect the results to have neutral impact on share performance as net income met market expectations. We keep our HOLD rating for Isbank with a target price of TRY4.87/sh. According to our '19E estimates, Isbank trades at 3.2x P/E and 0.4x P/BV.

#### 3Q18 performance highlights:

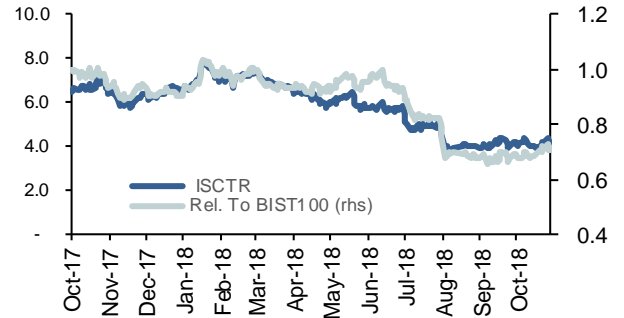
- Net interest margin improved by 45bps q/q while swap adjusted NIM remained flat q/q at 4.0%. TRY loan-to-deposit spread contracted by 81bps q/q whereas FC loan-to-deposit spread improved by 75bps q/q.
- CPI-linkers contributed around TRY321mn to the Bank's revenues q/q. Management guided around TRY1.35bn CPI-linker revenues in 4Q18.
- Fee income growth improved to 37% y/y in 3Q18 from 30% in 2Q18. OPEX growth pace declined to 12% y/y from 14% in 2Q18, due to subdued growth in HR costs.
- Income from subsidiaries increased by 35% q/q, driven by currency gains of its non-financial subsidiaries. Tax expense realized negative, as mainly a result of subsidiary income.
- Isbank, reversed TRY150mn worth of discretionary provision, due to eliminate additional provision impact.
- Isbank's NPL ratio increased by 65bps q/q to 3.4%. NPL provisioning ratio dropped to 58% from 66%.
- Total net CoR jumped to 405bps in 3Q18 from 180bps in 2Q18, driven by both NPL origination and IFRS model revision. Stage 2 loans' share in total increased to 10.4% from 8.7%.
- Without regulatory forbearance measures, Isbank's CAR and Tier-1 ratio stand at 14.4% and 11.5%, respectively.

Prices are as of 07/Nov

Target Price	4.87
Last Price	4.25
Return Potential	15%
Ticker	ISCTR
Market Cap. (TLmn)	19,125
Free Float	31%
Outstanding Shares (mn)	4,500
3-Month Avg. Trading Vol. (TLmn)	271

Price Performance	1M	3M	12M
BIST100	96,087	96,974	111,895
Share Price (TL)	4.2	5.0	6.7
Absolute Return (%)	4.7	-15.2	-36.2
Relative Return (%)	4.0	-13.9	-25.2

#### Price Chart



TLmn	2016	2017	2018E	2019E
Net Income	4,701	5,308	5,690	5,919
growth	53%	13%	7%	4%
Book Value	35,961	42,984	47,430	52,779
growth	12%	20%	10%	11%

#### Valuation Metrics

ROAE	13.8%	13.4%	12.6%	11.8%
ROAA	1.6%	1.6%	1.3%	1.1%
P/E	4.1x	3.6x	3.4x	3.2x
P/BV	0.5x	0.4x	0.4x	0.4x
Dividend Yield	5.9%	5.7%	3.0%	4.6%

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**Parent-Only Financials - Isbank - TRYmn**

P&L	3Q17	2Q18	3Q18	Δ QoQ	Δ YoY
Interest Income	7,107	8,814	11,148	26%	57%
Interest Expense	3,887	4,564	6,108	34%	57%
Net Interest Income	3,219	4,251	5,040	19%	57%
NIM	4.0%	4.8%	5.2%	0.5%	1.2%
Adjusted NIM*	4.0%	4.0%	4.0%	0.0%	-0.1%
Fee Income	821	1,066	1,123	5%	37%
Trading & FX Gains/Losses	-452	-769	-1,230	60%	172%
Other Income	284	377	228	-40%	-20%
Income from subs.	0	669	902	35%	n.m.
Total Revenues	3,967	5,596	6,064	8%	53%
Provisions	612	1,604	2,811	75%	360%
OPEX	1,828	2,183	2,045	-6%	12%
Profit Before Tax	1,527	1,809	1,208	-33%	-21%
Tax Expense	310	280	-31	-111%	-110%
Net Income	1,216	1,528	1,238	-19%	2%

B/S	3Q17	2Q18	3Q18	Δ QoQ	Δ YoY
<b>Total Assets</b>	346,437	398,337	444,331	12%	28%
<b>Loans</b>	229,516	261,041	291,273	12%	27%
TRY	143,022	151,988	152,111	0%	6%
FX (US\$)	24,350	23,912	23,232	-3%	-5%
<b>Securities</b>	56,237	62,144	67,280	8%	20%
<b>Deposits</b>	193,965	219,100	243,037	11%	25%
TRY	93,152	97,783	100,298	3%	8%
FX (US\$)	28,381	26,600	23,829	-10%	-16%
Demand Deposit / Total Deposit	26.4%	27.0%	26.8%	0%	0%
<b>Repo Funding</b>	25,078	25,425	25,292	-1%	1%
<b>Funds Borrowed</b>	32,673	45,462	50,300	11%	54%
Shareholders' Equity	40,942	45,074	46,591	3%	14%

\* Adjusted with respect to swap gains/losses

**Isbank**

Key Ratios	3Q17	2Q18	3Q18	Δ QoQ	Δ YoY
ROE	12.0%	13.6%	10.8%	-2.8%	-1.2%
ROA	1.4%	1.6%	1.2%	-0.4%	-0.2%
Leverage	8.5x	8.8x	9.5x		
Cost / Total Income	46%	39%	34%	-5.3%	-12.4%
NII / Total Income	81%	76%	83%	7.1%	1.9%
Fee Income / Total Income	21%	19%	19%	-0.5%	-2.2%
TRY Loan Yields	12.9%	14.1%	16.8%	2.7%	3.9%
Cost of TRY Deposits	9.3%	9.0%	11.6%	2.6%	2.3%
TRY Loan-Deposit Spread	3.6%	5.2%	5.2%	0.0%	1.6%
FC Loan Yields	5.5%	6.8%	8.0%	1.2%	2.5%
Cost of FC Deposits	1.4%	1.5%	1.7%	0.3%	0.4%
FC Loan-Deposit Spread	4.2%	5.4%	6.3%	0.9%	2.1%
Total Loans-to-Deposits	118%	119%	120%	0.7%	1.5%
TRY Loans-to-Deposits	154%	155%	152%	-3.8%	-1.9%
FC Loans-to-Deposits	86%	90%	97%	7.6%	11.7%
NPL Ratio	2.43%	2.74%	3.40%	0.7%	1.0%
NPL Coverage	84.4%	65.8%	57.5%	-8.3%	-26.9%
Total Gross Provisions / Total Loans	1.0%	2.3%	4.3%	2.0%	3.3%
CAR	17.0%	15.9%	17.4%	1.5%	0.4%
Tier-1 Ratio	14.1%	13.1%	14.3%	1.2%	0.2%

Source: Company Data, YKY Research

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