

SEKERBANK

Market Performer

Banking

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Earnings Analysis – Elevated EPS with released provisions

Highlights

* 4Q13 bank-only net profit at TL80mn (up 381% QoQ) is significantly better than our estimate at TL35mn (no market consensus). Accordingly, Sekerbank's net profit in 2013 reached TL210mn, down by 12.5% YoY, with an annualized RoE of 10.9% vs. 14.7% in 2012.

* The sharp growth in bottom line is owed to i) the release of excess general provisions on SME loans (under new regulation) with an additional revenue of ~TL25mn ii) the release of another ~TL46mn provision which had been set aside earlier for legal problems, general risks etc.

* On the other hand, the Bank's net interest income also grew by 5.9% QoQ to TL202mn in 4Q13 amidst solid asset growth and expanding yield on TL securities (thanks to CPI linkers anomaly). Yet, due to contraction of core spread, its NIM eroded by 15bps QoQ to 4.6% in 4Q13. Sekerbank's overall NIM at 5.3% in 2013 is also down by 61bps YoY.

* Net NPL growth (thanks to slowdown in NPL additions) was a mere TL9.0mn in 4Q13. Thus the Bank's NPL ratio retreated by 28bps QoQ to 5.0% at end-2013. However, because of large NPL additions in first three quarters and the Bank's eased provisioning policy, its NPL coverage at end-2013 was only 53.1% (down from 59.6% at end-2012), which indicates an ongoing provision pressure. Duly, its specific provisions at TL65mn (up 6% QoQ) corresponds to a specific CoR of 199bps in 4Q13. This figure stands at 171bps for full year of 2013. In 2014, we do not expect a relief and calculate a stable specific CoR.

* Loan book, with solid TL loan growth, expanded by 7.3% QoQ in 4Q13 vs. 5.7% in the sector. On the other hand, its core deposit base, is up by 4.4% QoQ vs. 4.8% in the sector. Finally, CAR, thanks to additional Tier-2 capital, rose by 15bps QoQ to 13.54% at end-2013. However its Tier-1 capital ratio was down by 28bps QoQ to 10.3% at end-2013.

Comment & Rating:

Rating and target remained unchanged – Better than expected bottom line in 4Q13 seems to be a result of one-off provision releases. Thus, even though the Bank outperformed our EPS estimate in 4Q13, we did not change our earnings forecast on 2014 which stands at TL160mn, down ~24% YoY - implying a weak RoE of less than 10%. The stock put on 13.5% and outperformed the ISE banking index by 25% on a YtD basis.

Barring a potential acquisition related expectations (which was not confirmed by the official announcement), its one year forward looking P/B and P/E multiples at 1.3x and 14.7x (vs. sector's average multiples of 0.9x and 7.7x), there is no room for further premium in the stock, in our view. 'Market Performer' rating is maintained.

Summary Fin (TL mn)	3Q13	4Q13	QoQ	Sector*	2012	2013	2014F	YoY	Sector*
Net Interest Income	190	202	5.9%	8.5%	825	816	917	-1.2%	9.8%
Net Income	17	80	380.8%	1.8%	240	210	160	-12.5%	0.1%
Loans	12,319	13,222	7.3%	5.7%	9,928	13,222	15,451	33.2%	31.7%
Marketable Securities	1,906	1,793	-5.9%	-0.5%	2,058	1,793	1,750	-12.9%	6.2%
Core Deposits	11,421	11,925	4.4%	4.8%	9,774	11,925	13,822	22.0%	22.5%
Shareholders' Equity	1,952	2,055	5.3%	2.7%	1,825	2,055	2,205	12.6%	6.5%
NIM	4.8%	4.6%	-15bps	3.6%	5.9%	5.3%	4.8%	-61bps	3.9%
Gross Cost of Risk	265bps	121bps	-144bps	131bps	315bps	178bps	206bps	-137bps	165bps
NPL ratio	5.3%	5.0%	-28bps	2.7%	3.8%	5.0%	5.1%	125bps	2.7%
CAR	13.4%	13.5%	15bps	14.6%	14.5%	13.5%	12.3%	-94bps	14.6%
C/I	59.3%	63.6%	433bps	49.1%	48.9%	59.6%	61.1%	1067bps	43.7%
Core RoE	3.6%	16.8%	1320bps	10.4%	15.7%	11.4%	7.8%	-426bps	13.2%

Source: Ak Investment, the ISE, the BRSA

* based on BRSA monthly bulletin figures

SUMMARY FINANCIALS:

Income Statement (TL mn)	1Q13	2Q13	3Q13	4Q13	2012	2013	2014F	2015F
Interest Income	388	355	391	440	1,721	1,574	2,136	2,456
- on TL loans	317	305	325	369	1,337	1,317	1,806	2,116
- on FX loans	26	25	31	34	106	115	156	174
- on TL securities	43	23	34	36	272	136	160	152
- other	2	1	1	2	6	6	13	15
Interest Expenses	166	154	201	238	896	759	1,218	1,332
- on TL deposits	99	93	132	165	578	489	843	910
- on FX deposits	17	17	20	23	80	77	106	131
- on borrowings and bonds	28	21	17	30	125	97	156	172
- other	21	23	32	20	113	96	113	120
Net Interest Income	222	201	190	202	825	816	917	1,124
FX & Trading Gains/Losses	-5	-1	9	-4	25	-1	5	5
Specific Loan Provisioning	54	16	62	65	257	198	251	289
Gen. Loan Provisioning	3	13	18	-25	38	8	49	42
Adj. Net Int. Income	160	171	120	159	556	610	622	798
Fees & Commissions (net)	48	53	58	66	199	226	286	312
Ordinary Income	209	224	178	224	755	835	908	1,110
Other Income	31	34	23	78	174	166	143	155
Other Provisions	7	8	6	-3	26	18	16	20
Operating Expenses (-)	155	183	169	214	614	721	832	955
EBT	78	67	26	92	290	262	204	291
Dividends	0	2	0	0	0	2	3	3
Other Ext. Income/Loss	0	0	0	0	21	0	0	0
Tax (-)	17	16	9	12	70	54	47	68
Net Profit	61	53	17	80	240	210	160	225
Balance Sheet (TL mn)								
Cash & Equivalents	1,750	1,708	2,305	2,477	1,667	2,477	2,660	2,339
Reserve Deposits	0	0	1,927	2,019	1,348	2,019	2,154	1,834
Marketable Securities	1,637	1,928	1,906	1,793	2,058	1,793	1,750	1,904
TL	1,631	1,912	1,870	1,764	2,026	1,764	1,747	1,900
FX	6	16	36	29	33	29	3	4
Loans	9,930	10,949	12,319	13,222	9,928	13,222	15,451	17,836
TL	8,420	9,275	10,428	11,310	8,371	11,310	13,174	15,236
FX	1,510	1,674	1,891	1,912	1,558	1,912	2,277	2,600
Non Performing Loans	492	564	688	692	387	692	835	1,010
NPL Provisions (-)	274	274	320	367	231	367	454	573
Participations	111	111	111	112	111	112	112	112
Fixed Assets	436	483	539	605	430	605	657	657
Other (incl. leases)	117	124	259	192	167	192	177	186
Total Assets	14,199	15,592	17,806	18,725	14,518	18,725	21,186	23,471
Core Deposits	8,784	9,304	11,421	11,925	9,774	11,925	13,822	15,772
TL	5,741	6,466	7,747	7,975	6,730	7,975	9,140	10,464
FX	3,043	2,837	3,675	3,949	3,045	3,949	4,683	5,308
Bonds Issued	729	317	819	925	953	925	1,011	1,150
TL	729	317	819	925	953	925	1,011	1,150
FX	0	0	0	0	0	0	0	0
Wholesale Funding	808	850	926	1,068	749	1,068	1,089	1,135
Subordinated Debt	71	75	295	413	70	413	486	560
Repo&Interbank	1,354	2,464	1,451	1,573	398	1,573	1,808	1,657
Other	564	644	942	766	749	766	766	766
Sh. Equity	1,890	1,937	1,952	2,055	1,825	2,055	2,205	2,430
Total Liabilities	14,199	15,592	17,806	18,725	14,518	18,725	21,186	23,471
Composition of Assets & Funding Structure								
Liquidity/Assets	12%	11%	13%	13%	11%	13%	13%	10%
Loans/Assets	70%	70%	69%	71%	68%	71%	73%	76%
Securities/Assets	11.5%	12.4%	10.7%	9.6%	14.2%	9.6%	8.3%	8.1%
Core Deposits/Assets	62%	60%	64%	64%	67%	64%	65%	67%
Repo&Interbank/Assets	10%	16%	8%	8%	3%	8%	9%	7%
Wholesale Funding/Assets	6%	5%	5%	6%	5%	6%	5%	5%
Leverage	13%	12%	11%	11%	13%	11%	10%	10%

Growth Rates*	1Q13	2Q13	3Q13	4Q13	2012	2013	2014F	2015F
Net Interest Income	-10.2%	-9.6%	-5.3%	5.9%	46.7%	-1.2%	12.5%	22.5%
Specific Loan Provisions (-)	-41.2%	-69.8%	275.5%	5.7%	82.3%	-23.1%	27.2%	15.1%
Adj. Net Int. Income	2.4%	6.3%	-29.6%	32.0%	35.4%	9.7%	2.1%	28.2%
Fees & Commissions (net)	-8.2%	9.8%	9.7%	12.8%	8.9%	13.3%	26.7%	9.2%
Ordinary Income	-0.3%	7.1%	-20.3%	25.7%	27.2%	10.7%	8.7%	22.2%
Other Income	-22.6%	9.7%	-32.7%	240.7%	44.5%	-4.8%	-13.9%	8.7%
Operating Expenses (-)	-12.8%	18.2%	-7.3%	26.4%	16.5%	17.5%	15.3%	14.9%
EBT	25.4%	-14.7%	-61.6%	257.6%	67.6%	-9.5%	-22.3%	42.9%
Tax (-)	-18.3%	-8.9%	-42.3%	33.0%	78.1%	-23.1%	-13.7%	46.0%
Net Profit	-2.2%	-12.3%	-69.0%	380.8%	103.6%	-12.5%	-24.1%	41.3%
Loans	0.0%	10.3%	12.5%	7.3%	16.9%	33.2%	16.9%	15.4%
Marketable Securities	-20.8%	16.9%	-3.4%	-6.7%	-42.9%	-16.6%	3.5%	8.8%
Total Assets	-2.2%	9.8%	14.2%	5.2%	0.8%	29.0%	13.1%	10.8%
Core Deposits	-10.1%	5.9%	22.8%	4.4%	9.2%	22.0%	15.9%	14.1%
Sh. Equity	3.6%	2.5%	0.8%	5.3%	24.8%	12.6%	7.3%	10.2%
Major Indicators								
NIM	6.5%	5.7%	4.8%	4.6%	5.9%	5.3%	4.8%	5.3%
Adj. NIM	4.7%	4.8%	3.0%	3.7%	4.0%	4.0%	3.3%	3.7%
TL Loan Yield	15.1%	13.8%	13.2%	13.6%	17.4%	13.8%	15.0%	14.9%
FX Loan Yield	6.7%	6.4%	6.9%	7.1%	7.3%	6.7%	7.2%	7.1%
TL Securities Yield	10.2%	4.8%	8.4%	6.7%	9.3%	7.5%	9.6%	8.8%
FX Securities Yield	1.2%	0.3%	1.2%	0.0%	0.7%	0.6%	0.0%	0.0%
Cost of TL Deposits	6.4%	6.1%	7.4%	8.4%	8.9%	7.0%	9.9%	9.3%
Cost of FX Deposits	2.3%	2.3%	2.4%	2.5%	2.8%	2.3%	2.4%	2.6%
RoE (annualized)	13.1%	11.2%	3.4%	15.9%	14.7%	10.9%	7.5%	9.7%
Core RoE (annualized)	13.9%	11.3%	3.6%	16.8%	15.7%	11.4%	7.8%	10.1%
Cost/Income	51.5%	63.5%	59.3%	63.6%	48.9%	59.6%	61.1%	59.4%
Specific Gross Cost of risk	215bps	61 bps	206bps	199bps	275bps	171 bps	172bps	170bps
Overall Gross Cost of risk**	225bps	110bps	265bps	121bps	315bps	178bps	206bps	194bps
NPL ratio	4.7%	4.9%	5.3%	5.0%	3.8%	5.0%	5.1%	5.4%
NPL coverage	55.7%	48.7%	46.6%	53.1%	59.6%	53.1%	54.4%	56.7%
CAR	14.4%	13.5%	13.4%	13.5%	14.5%	13.5%	12.3%	11.8%
Tier-1 ratio	12.5%	11.7%	10.4%	10.3%	12.5%	10.3%	9.1%	8.7%
Loan/deposits	113.1%	117.7%	107.9%	110.9%	101.6%	110.9%	111.8%	113.1%

Source: AK Investment, the ISE

* quarterly growth rates for quarter figures & annual growth rates for cumulative figures

** (specific+general loan provisions)/avg. loans

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