

21/09/2023

Attractive valuation; strong EPS growth

Earnings enjoy tailwinds from higher loan yields

We increase our TP for Albaraka to TL6.36 (previous TL4.67) on potentially strong earnings momentum in 2H vs 1H and 2024E. Albaraka profitability should be supported both expanding net interest margin, driven by higher loan yields and its selective growth orientation towards lucrative retail and commercial loans and well-managed asset quality with strong NPL coverage. For potential risks, Albaraka has a free provisioning buffer of TL2.5bn as of 1H23, which should reach to TL3bn till 23YE. On top of that, last year Albaraka booked a revaluation gain of TL860mn from its JV projects, which could materialize at TL500mn for 2023 in our view. Reflecting all, we foresee Albaraka's 24E earnings to grow 52% y/y, while 125% y/y for 2023. We expect ROE to stand high at 30% for the next two years, while we pencil in a long-term (2023-30E) ROE of 27% for Albaraka.

PPI growth supported by improving core metrics

Albaraka's pre-provisioning income should expand an average 19% over the next two years on the back of improving fee generation, better cost and asset quality management. We envisage net fees covering 56% of opex in 2023 and 74% in 2024 thanks to efforts to contain costs through active HR management and leverage on branch network to increase fees. On top of that, we foresee cost to income ratio to recede to 27% in 2024 from a 5Y (2018-22) average of 45%. As for asset quality risks, Albaraka has an NPL coverage ratio of a peer-topping 95% as of 1H23 while NPL ratio stands at peer-low 1.4% vs its 5Y average of 5.5%.

Compelling valuation with solid earnings momentum

Albaraka trades attractively at 24E P/BV of 0.6x and 2.1x P/E, while 24E ROE is pegged at 31%. Note that adjusted for free provisions, 24E P/E would fall to a low 1.4x. With this report, we have increased 2023-24E net earnings estimates by an average 44%, mainly on changed net interest income and provisioning forecasts (see page 2). We lift our TP to TL6.36/share (previous TL4.67) based on upward revisions in our earnings estimates coupled with our higher long-term ROAE forecast for Albaraka supported by improving efficiency of the bank and rising growth prospects of participation banking sector. Our revised TP implies a hefty 66% upside potential. We reiterate our Outperform rating for the stock.

ALBRK

Bloomberg/Reuters Code	ALBRK TI / ALBRK.IS
Recommendation	Outperform
Current Price (TL)	3.83
Target Price (TL)	6.36 (previous: 4.67)
Upside Potential	66%

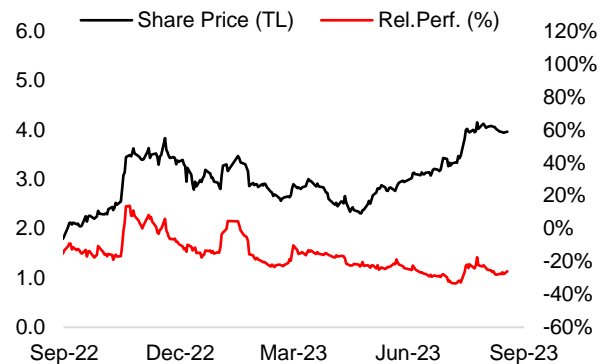
Market Cap (TL mn)	9,575
Free Float (%)	38%
12M high/low (TRL)	4.15 / 1.79
ADV (3M avg - \$mn)	11

Summary Financials	2022	2023E	2024E
Net interest income (mTL)	5,382	5,664	5,756
% grow th	-	5%	2%
Pre-provisioning income (mTL)	8,332	9,871	11,742
% grow th	-	18%	19%
Net Income (mTL)	1,365	3,067	4,660
% grow th	-	125%	52%
RoE	21%	30%	31%
EPS (TL)	0.55	1.23	1.86

Multiples

P/E	7.01x	3.12x	2.05x
P/B	1.18x	0.76x	0.55x

	1M	3M	12M	YTD
Rel. Performance	-6%	-6%	-20%	-18%
Absolute	0%	39%	90%	14%



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Forecast revisions

We have increased 2023-24E net earnings estimates by an average 44%, mainly on changed net interest income and provisioning forecasts. We expect NIM to widen in 2024 on higher loan yields, growing participation business and contribution from JV projects through higher appraisal values. We forecast y/y lower provisioning costs for 2023 on improving asset quality and already high provisioning buffers.

Exhibit 1: Revisions in earnings estimates

TL m	New			Old			Change (%)		
	2022	2023E	2024E	2022	2023E	2024E	2022	2023E	2024E
Net interest income	5,382	5,664	5,756	5,382	5,542	3,515	-	2	64
Net fee income	645	2,203	3,171	645	2,203	3,171	-	0	0
Total provisions	6,017	5,665	5,917	6,017	6,370	5,933	-	(11)	0
Opex	2,234	3,968	4,286	2,234	3,968	4,286	-	0	0
NIM	5.4%	3.6%	2.7%	5.4%	3.6%	1.7%	-	8bp	106bp
Net income	1,365	3,067	4,660	1,365	2,447	2,855	-	25	63

Source: Oyak Securities Research

Valuation

We value Albaraka using the Gordon Growth Model (GGM). Our model suggests a fair value of TL16bn for Albaraka, implying a TP of TL6.36/share (previous TL4.67).

We assume Albaraka's long-term ROAE will be 26.4% (previous 25.2%) on average throughout 2023-2030E. We believe higher efficiency and room for growth, evident by improving profitability metrics, should result in ROAE hiking further going forward. Assuming 9% long-term growth with 24.6% CoE, our 12-month target P/BV of 1.1x for the Albaraka stock suggests 66% upside from current levels.

Exhibit 2: GGM Valuation

TL	
L/T ROE (2023-30E)	26.4%
L/T Growth Rate (g)	9%
Cost of Equity @ 21% RfR, 5.5% ERP, 0.66 Beta	24.6%
Target P/BV: (ROE-g)/(CoE-g)	1.1
12M Forward Equity	9,467
Implied Target MCap	10,515
Other Equity (mn)	5,378
Target MCap (mn)	15,893
Current MCap (mn)	9,575
Upside	66%
Target Price	6.36
Current Price	3.83

Note: Price as at close of market 20/09/2023

Source: BIST, Oyak Securities Research

Risks

Lower-than-expected GDP growth, a sudden rise in funding costs and accelerated currency depreciation pose downside risks to our valuation. Potential decrease in 10Y bond yields (risk free rate), better macro environment and regulations favoring participation banking provide upside risk.

Exhibit 3: Albaraka Summary Financials

Balance Sheet					
TLm	2020	2021	2022	2023E	2024E
Cash and Banks	16,648	31,795	32,205	36,908	47,453
Money Market	0	0	1,726	0	0
Securities Portfolio	8,168	16,433	33,112	61,347	72,389
Loans	42,056	59,305	74,596	113,779	131,886
TRL Loans	23,254	25,485	45,081	78,054	93,198
FX Loans	18,801	33,820	29,515	35,725	38,688
Subsidiaries	43	43	89	124	152
Fixed Assets	1,519	1,628	3,074	4,968	7,820
Intangible Assets	41	83	167	260	319
Other Assets	2,673	2,857	4,251	11,429	11,283
Total Assets	69,316	108,955	146,340	228,815	271,302
Deposits	51,613	91,237	112,676	159,043	183,171
TRL Deposits	15,465	20,200	51,544	85,106	98,018
FX Deposits	36,148	71,036	61,132	73,937	85,154
Money Market	2,276	1	7,818	0	0
Funds Borrowed	7,302	6,259	4,412	29,090	35,234
Securities Issued	0	0	0	0	0
Provisions	284	429	3,312	5,439	9,007
Subordinated Loans	1,733	3,119	4,694	8,874	10,182
Other Liabilities	2,063	3,282	5,309	20,806	24,557
Total Liabilities	65,272	104,328	138,221	223,251	262,150
Shareholders' Equity	4,044	4,627	8,119	12,631	17,291
Total Liabilities & Shareholders' Equity	69,316	108,955	146,340	235,883	279,442
Income Statement					
TLm	2020	2021	2022	2023E	2024E
Interest Income	3,585	5,023	11,052	14,398	17,252
Interest Expenses	1,879	3,330	5,670	8,733	11,496
Net Interest Income	1,706	1,693	5,382	5,664	5,756
Net Fee & Commission Income	234	406	645	2,203	3,171
Trading Income	267	136	2,881	4,361	5,669
Other Banking Income	562	1,143	1,658	1,610	1,432
Total Banking Income	2,768	3,378	10,565	13,839	16,027
Total Operating Costs	1,259	1,462	2,234	3,968	4,286
Operating Income	1,509	1,916	8,331	9,871	11,741
Loan Loss Provisions	1,122	1,575	3,865	4,335	4,022
Other Provisions	63	260	2,152	1,330	1,895
Operating Income after Provisions	324	81	2,314	4,206	5,824
Income from Associates	0	1	1	0	1
Pre-tax Income	324	81	2,315	4,206	5,825
Tax	69	-23	950	1,139	1,165
Net Income	255	104	1,365	3,067	4,660

Source: Company, Oyak Securities Research

Exhibit 4: Albaraka Key Financial Ratios

	2020	2021	2022	2023E	2024E
Banking Income Breakdown					
NII	62%	50%	51%	41%	36%
Net Fees & Commissions	8%	12%	6%	16%	20%
Trading Income	10%	4%	27%	32%	35%
Other Operating Income	20%	34%	16%	12%	9%
Profitability Ratios					
NIM	3.6%	2.7%	5.4%	3.6%	2.7%
Loans/Deposits Spread	5.9%	5.9%	8.2%	7.3%	7.8%
Leverage	17.1	23.5	18.0	18.7	16.2
ROA	0.4%	0.1%	1.1%	1.6%	1.9%
ROE	6.5%	2.4%	21.4%	29.6%	31.1%
Efficiency Ratios					
C/I	45.5%	43.3%	21.1%	28.7%	26.7%
Net Fees/Costs	18.6%	27.7%	28.8%	55.5%	74.0%
Costs / Loans	2.9%	2.3%	2.9%	3.4%	3.2%
Net Fees / Loans	0.5%	0.6%	0.8%	1.9%	2.4%
Loans / Employee	184	258	324	495	556
Loans / Branch	12	18	23	35	40
Deposits / Employee	225	397	490	691	773
Deposits / Branch	15	28	35	49	55
Asset Quality					
NPL Ratio	4.9%	6.4%	2.0%	1.2%	1.9%
NPL Coverage	61%	70%	89%	95%	95%
Cost of Risk (net)	1.82%	1.24%	3.70%	3.16%	2.23%
Balance Sheet Structure (as % of total assets)					
Liquid Assets	24%	29%	23%	24%	25%
Securities	12%	15%	23%	19%	19%
Loans	58%	52%	49%	50%	49%
Deposits	74%	84%	77%	66%	65%
Wholesale Borrowings	13%	9%	6%	17%	17%
Equity	6%	4%	6%	6%	6%
Funding Structure					
Liquid Assets / Repos	78%	62%	64%	75%	75%
Loans / Deposits	143%	117%	83%	92%	95%
TL Loans/TL Deposits	50%	46%	47%	48%	45%
FX Loans/FX Deposits	16%	18%	29%	28%	29%
Securities/Deposits	15%	17%	27%	26%	27%
Securities/(Deposits & SHE)	24%	29%	23%	24%	25%

Source: Company, Oyak Securities Research

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Valuation tools employed most frequently are Discounted Cash Flow (DCF) and International Peer Group Comparison, though other metrics such as Dividend Discount, Gordon Growth, and Replacement Value Methods are also used wherever appropriate. Oyak Securities analysts may calculate the target return of each stock considering only one method or assigning different weights to more than one method depending on the analyst's opinion. The "Expected Market Return" (**EMR**) of the BIST-100 is determined through aggregate target returns of each stock under coverage based on their respective free float market capitalization. Our coverage accounts for around 80% of the total market capitalization of the BIST.

Rating Methodology

Oyak Securities assigns recommendations to each stock according to the following criteria:

Price target for a stock represents the value analyst expects the stock to reach during our performance horizon, which is 12 months. For stocks with an OUTPERFORM recommendation, target return must exceed the EMR by at least 10% over the next 12 months. For a stock to be classified as UNDERPERFORM, the stock must be expected to underperform the EMR more than 10% over the next 12 months. Stocks that an analyst expects to perform parallel to the EMR within a band of +/- 10% are rated as MARKETPERFORM.