

11 AUGUST 2021

2Q21 REVIEW

ISBANK HOLD

ISCTR TI

Disappointing pre-tax earnings

- While Isbank's 2Q21 net profit of TRY2.2bn outpaces the consensus mean by 21%, the pretax profit is actually 12% below our expectation. While we were envisaging a mere TRY100mn tax burden on the back of our 5% effective tax rate assumption, the TRY470mn tax reversal boosted the bottom-line beyond all expectations. Quarterly headline ROE of 13% comes down to 10% if we are to disregard the tax reversal. The ROE may even come down to 7.5% if we attach a 25% effective tax rate.
- Isbank's net interest income trailed below our expectation due to contracting net interest margin. Swap adjusted NIM came down by 10bp to 2.4% while we were expecting a 20bp quarterly pickup.
- Opex looks alarming. While we are very much used to observing annual growth way below inflation for the peers, Isbank's personnel costs are up 18% y-y. Non HR costs, that make up the bulk of OPEX is up by a hefty 35%. In all C/I of Isbank for 2Q21 is at a peak of 58% (2Q20:40%).
- Fee growth is strong as expected. Due to low base, the y-y fee growth is a sector high 53%.
- Asset quality is performing well. Net NPL formation is almost zero thanks to recoveries, which is a sector wide phenomenon. The 130bp COR for the quarter implies that the bank will be able to achieve its sub-150bp guidance.
- In all the operational results are a tad weaker than our expectation. We maintain our HOLD call for the bank.

İş Bankası (C)

Rating	BUY
Free float	31%
Major Shareholder	Is. Pens. F.
Share of Major S.holder	37%
Mcap (USD mn)	2,853.3
Mcap (TRY mn)	24,659.8
Target Mcap (TRY mn)	31,049.8
Number of Shares	4,500.0
Share Price (TRY)	5.48
Target Price (TRY)	6.90
Upside	26%
Av. Daily Tr. Vol. (TRY mn)	266.91
Latest financials	2021/06
Weekly Return	1.9%
Monthly Return	4.0%
Y-Y Return	17.9%
Weekly Relative return	-0.2%
Monthly Relative return	-0.3%
Y-Y Relative return	-11.8%

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ISCTR	2Q20	1Q21	2Q21	Y-Y Δ	Q-Q Δ
B/S					
Fin. Assets Exc. Fin. A. At Amortised Cost	147,460	179,252	196,029	33%	9%
Cash And Cash Equivalents	77,998	98,773	112,501	44%	14%
Fin. Assets At Fair Value Through P/L	3,638	5,925	8,124	123%	37%
Fin. Assets At F. V. Through Other Inc.	60,343	63,221	69,429	15%	10%
Derivative Financial Assets	5,482	11,333	5,974	9%	-47%
Financial Assets At Amortised Cost	354,350	400,423	411,864	16%	3%
Loans	335,527	384,318	396,434	18%	3%
Fin. Assets Meas. At Amortised Cost	37,951	40,173	39,925	5%	-1%
Nonperforming Loans	19,011	20,329	19,517	3%	-4%
Allowance For Expected Credit Losses	19,128	24,068	24,494	28%	2%
Non Curr Assets Clas. As Held For Sale	1,084	1,193	1,166	8%	-2%
Investments In Subsidiaries	22,512	27,006	28,850	28%	7%
Tangible Assets	6,610	6,709	6,748	2%	1%
Intangible Assets And Goodwill	1,112	1,352	1,431	29%	6%
Other Assets	10,601	11,095	11,415	8%	3%
Assets	546,639	630,846	661,619	21%	5%
Deposits	336,558	382,067	415,605	23%	9%
Loans Received	43,262	44,875	46,900	8%	5%
Money Market Funds	15,953	36,667	33,280	109%	-9%
Marketable Securities Issued	31,988	33,633	28,507	-11%	-15%
Derivative Financial Liabilities	4,574	4,855	4,705	3%	-3%
Lease Payables	1,475	1,497	1,557	6%	4%
Provisions	8,109	10,905	10,790	33%	-1%
Current Tax Liabilities	2,294	509	542	-76%	7%
Deferred Tax Liabilities	0	0	0	-	-
Subordinated Debt	20,530	24,466	25,499	24%	4%
Other Liabilities	18,630	24,765	23,667	27%	-4%
Equity	63,266	66,606	70,567	12%	6%
Equity And Liabilities	546,639	630,846	661,619	21%	5%
P/L					
NII	6,108	6,058	6,664	9%	10%
Fee And Commission Income Or Exp.	1,136	1,554	1,741	53%	12%
Dividend Income	18	8	11	-41%	40%
Trading Income Or Loss	-416	-1,851	-2,979	616%	61%
Other Operating Income	560	1,312	958	71%	-27%
Gross P/L From Op. Act.	7,405	7,080	6,394	-14%	-10%
Allowance For Expected Credit Losses	2,450	2,660	2,008	-18%	-25%
Other Allowance Expenses	626	357	211	-66%	-41%
Personnel Expenses	1,245	1,459	1,467	18%	1%
Other Operating Expenses	1,670	1,856	2,255	35%	21%
Profit Loss From Operating Activities	1,415	747	454	-68%	-39%
Share Of P/L Of Associates - Eq. M.	499	1,272	1,271	154%	0%
Profit Loss Before Tax	1,915	2,020	1,725	-10%	-15%
Profit Loss	1,579	1,854	2,195	39%	18%
Foreign Exchange Net Position	-46,695	-74,887	-66,526	42%	-11%
Net Off-Balance Account Position	50,484	81,680	75,294	49%	-8%
Net Position	3,789	6,793	8,768		29%
Non-Cash Loans	75,136	95,386	106,000	41%	11%
Capital Adequacy Ratio (%)	19.82	17.77	17.65	-11%	-1%

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