

Turkish Banks

Why domestic-retail investors shouldn't be a worry

Industry Overview

Fears of possible overhang as retail clients feel squeeze

One issue that frequently comes up during meetings is the outlook for domestic investors. These stakeholders have come to dominate the Turkish stock market over the past three years, with the number of retail accounts exceeding 8mn (vs. <1.2mn in early 2020) and domestic ownership reaching multi-decade high levels. The key concern is a potential overhang in light of past years' gains and the revival of alternative products (+40% rates in deposits and bonds) as affordability becomes a growing problem. While this could be a drag for the broader stock market performance, large-cap private banks are likely to be less affected (see below). We reiterate our positive view (see our in-depth report: [Turkish Banks: The Great Normalization – Buy private banks.](#))

Retail investors +5x since 2020; affordable inflation hedge

The absence of alternative investment products and constraints on buying big-ticket tangible assets have positioned stocks as an attractive and 'affordable' inflation hedge for a broad audience. Retail accounts now exceed 8mn from 1.2mn in 2020 (Exhibit 3). Rising demand and regulatory actions have also led local institutional investors to raise their equity exposures. The percentage of foreign ownership has declined to multi-decade lows (Exhibit 5). Meanwhile, corporates have reaped the benefit of the increased popularity of the stock market, and IPO and SPO numbers have risen steeply (Exhibit 10, Exhibit 12).

Flood of retail investors not a concern for large-cap banks

The Turkish stock market may seem to have the usual ingredients for an inflated market: rising popularity among retail investors; continuing IPO wave; and triple-digit real returns in various indices. We argue that this top-down approach is misleading as it is not a widespread theme across sectors. Incremental retail demand has mostly targeted small caps (Exhibit 16) and IPOs (Exhibit 15). Our focus is blue-chip bank stocks and we see limited risks for a domestic-retail driven overhang, particularly for Buy-rated private banks. Higher free-float market caps, decent trading volumes and benign performance and valuation levels suggest to us that retail involvement in these stocks is limited.

Buy Akbank, Garanti, Isbank and Yapi

Turkish private banks have performed well in 2023 versus EM peers (Exhibit 19), though recovering off a low base. Their longer-term performances remain significantly below EM banks (Exhibit 20) as well as Turkish Industrial companies (Exhibit 21). We think valuations remain attractive within the EEMEA and GEM universe (Exhibit 22). We reiterate our Buy ratings for Akbank, Garanti, Isbank and Yapi.

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Refer to important disclosures on page 12 to 15. Analyst Certification on page 11. Price Objective Basis/Risk on page 9. 12635646

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Equity
Turkey
Banks

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Exhibit 1: # of investors in Turkish stock markets

Up from 1.2mn in 2020 to +8mn in 2023

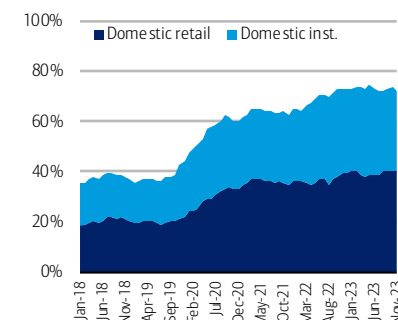


Source: Turkish Capital Markets Board Association, BofA Global Research

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Exhibit 2: Ownership of equities

Locals own >70% of equities



Source: Turkish Capital Markets Board Association, BofA Global Research

*Figures are adjusted to exclude unlisted stakes of QNB Finansbank (QNBFB)

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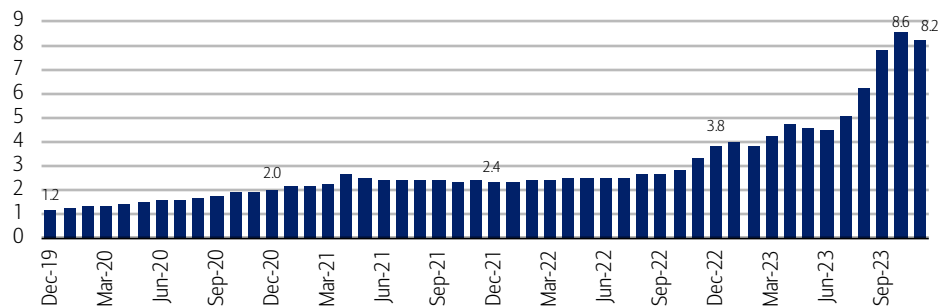
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Domestic retail ownership has doubled

- Number of domestic investors in Turkish stock market exceeds 8mn. This was less than 2mn in early 2020.
- Domestic retail investors' ownership has doubled to c.40%. Foreign ownership remains near all-time lows at <30%.
- Equities constitute 13% of residents' financial assets vs. 7% in 2020.

Exhibit 3: # of investors in Turkish stock market (in mn)

Number of investors have exceeded 8mn vs. <2mn in 2020

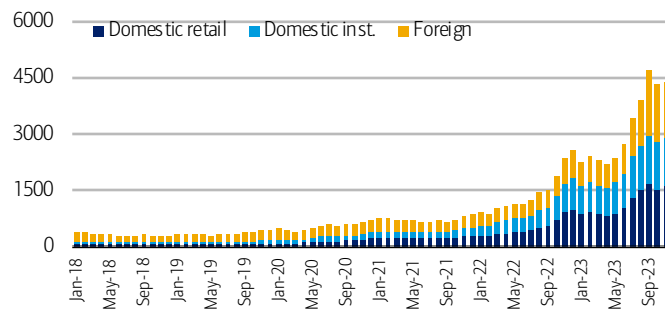


Source: Capital Markets Board (SPK), Turkish Capital Markets Board Association, BofA Global Research

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Exhibit 4: Progression of equity ownership*

Domestic participation has increased

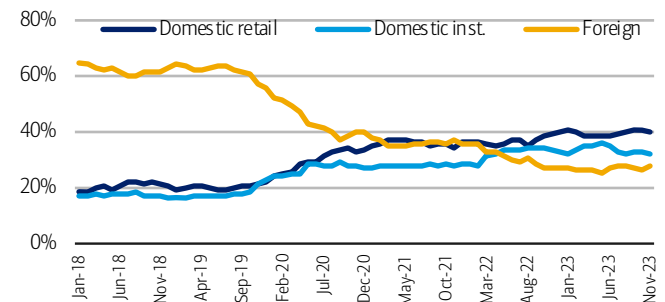


Source: Turkish Capital Markets Board Association, BofA Global Research
*Figures are adjusted to exclude unlisted stakes of QNB Finansbank (QNBFB)

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Exhibit 5: Breakdown of equity ownership

Domestic retail ownership at 40% (vs. 20% in 2019), foreign ownership at 28% (+60% in 2019)

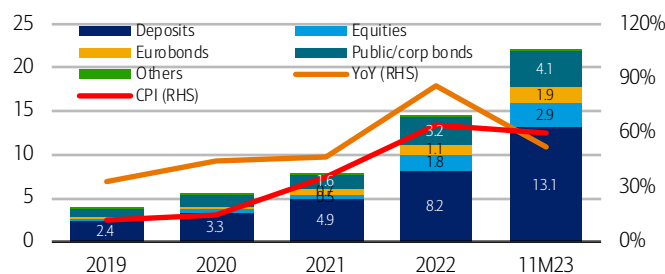


Source: Turkish Capital Markets Board Association, BofA Global Research
*Figures are adjusted to exclude unlisted stakes of QNB Finansbank (QNBFB)

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Exhibit 6: Progression of residents' financial assets

Financials assets have generally been a good inflation hedge

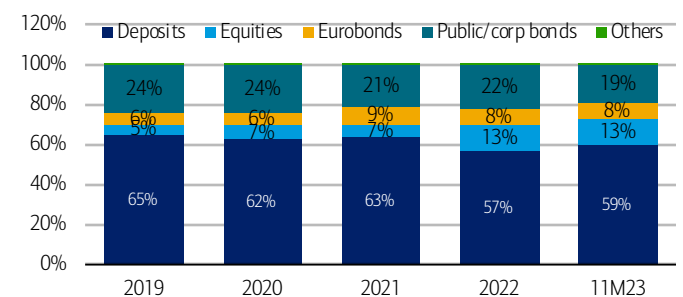


Source: Turkish Capital Markets Board Association, TUIK, BofA Global Research *YtD growth rate and YtD CPI figure for 11M23

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Exhibit 7: Breakdown of residents' financial assets

% of equities has nearly doubled



Source: Turkish Capital Markets Board Association, BofA Global Research

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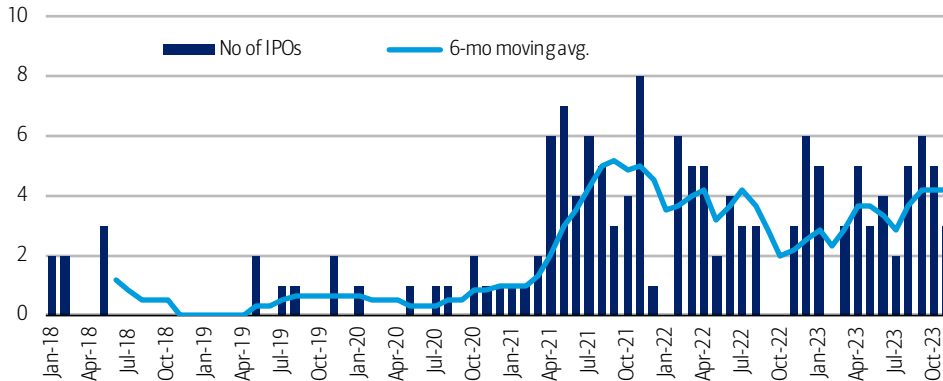


The IPO wave remains intact

- IPO wave that has started in 2021 has not slowed down.
- SPOs and capital injections have also been on the rise.

Exhibit 8: Progression of IPOs – number of new listings

The IPO wave remains intact

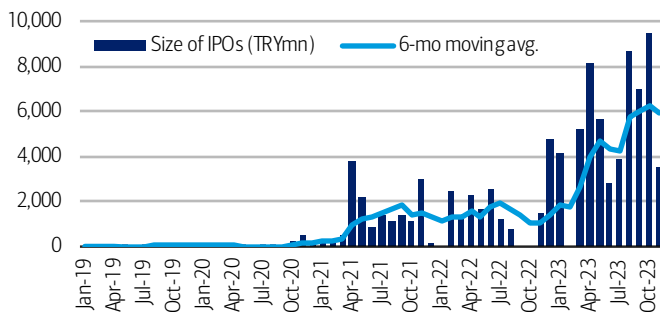


Source: Turkish Capital Markets Board Association, BofA Global Research

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Exhibit 9: Size of the IPOs (in TRYmn)

Increasing in TRY terms...

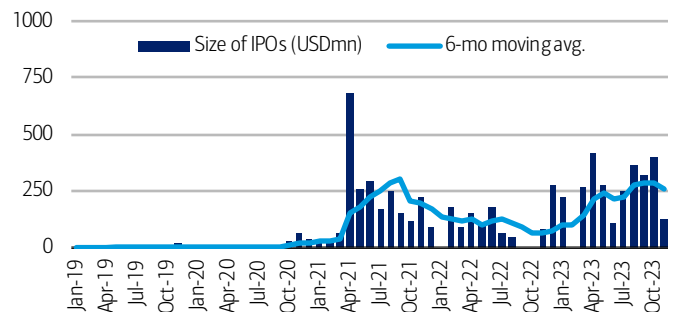


Source: Turkish Capital Markets Board Association, BofA Global Research

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Exhibit 10: Size of the IPOs (in USDmn)

...remains high in USD terms, as well

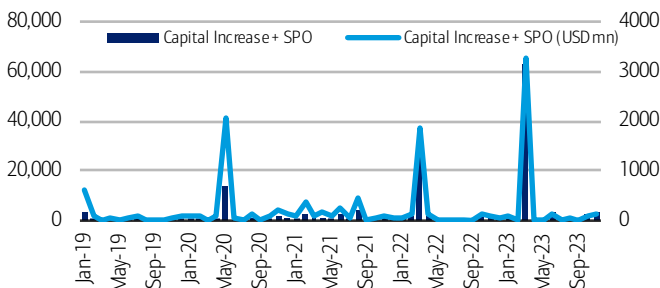


Source: Turkish Capital Markets Board Association, BofA Global Research

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Exhibit 11: Size of SPOs and capital injections

Peaks driven by capital injections at state banks

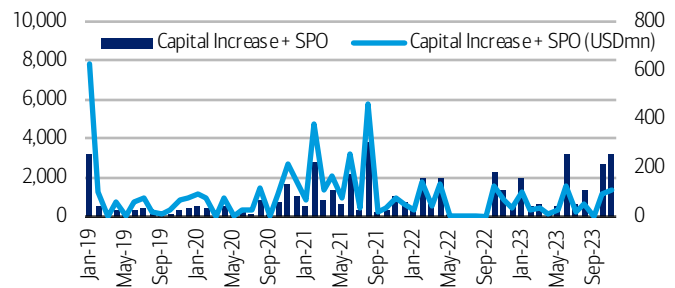


Source: Turkish Capital Markets Board Association, BofA Global Research

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Exhibit 12: Size of SPOs and capital injections (excl. state banks)

Flows remain above pre-2020 levels



Source: Turkish Capital Markets Board Association, BofA Global Research

The peak in Jan19 is related to Akbank's right issue

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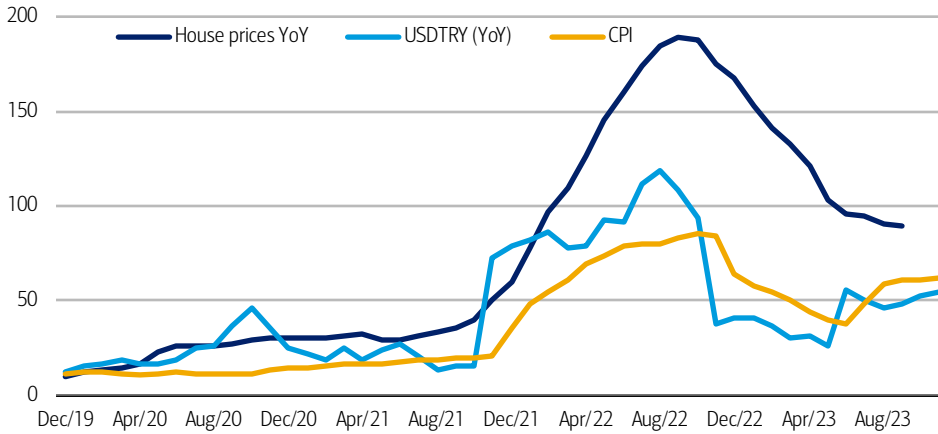


Stocks are no longer the only option

- Deposit rates and bond yields have risen. Hence, stock market is no longer the only viable option for inflation hedge.

Exhibit 13: Backward looking indicators (CPI, House prices and Currency)

Inflation has been a big constraint

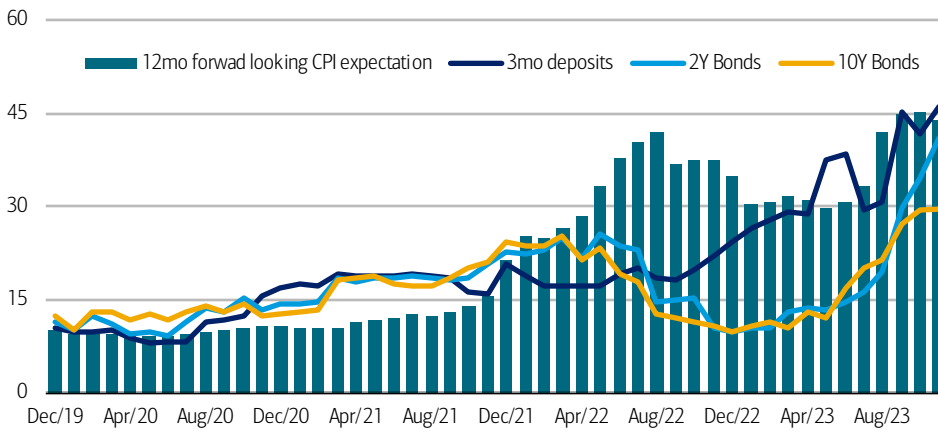


Source: Bloomberg, TUIK, CBT

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Exhibit 14: Forward looking indicators (interest rates vs. CPI expectations)

Deposit and bond rates are attractive again



Source: Bloomberg, TUIK, CBT

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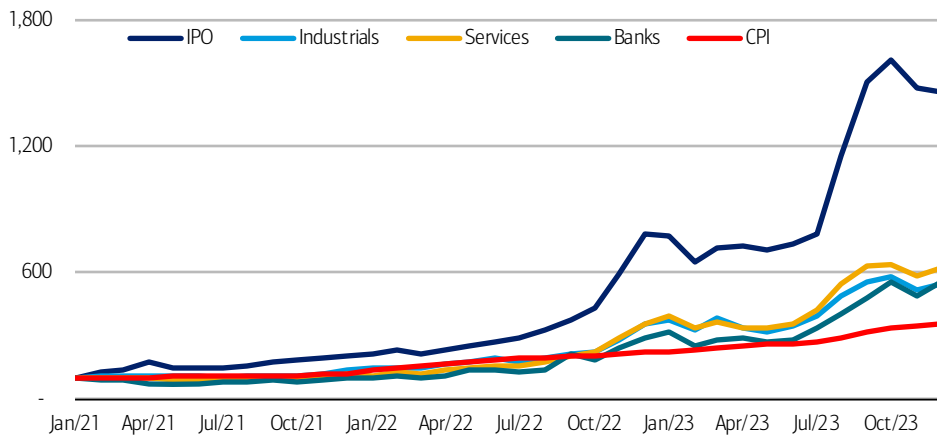


Inflows mostly targeted IPOs & small caps

- The IPO Index and small caps have outperformed other indices in the Turkish stock market by a wide margin.

Exhibit 15: Performance comparisons across key sectors in Turkish stock market

The IPO Index has outperformed significantly

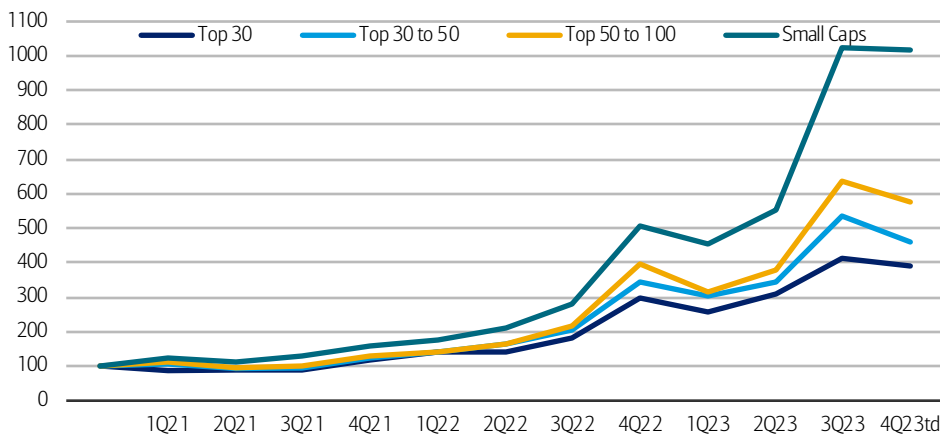


Source: Bloomberg * IPO: XHARZ Index, Industrials: XUSIN Index, Services: XUHIZ Index, Banks: XBANK Index,

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Exhibit 16: Performance comparisons across key indices in Turkish stock market

Small caps have outperformed significantly



Source: Bloomberg, BofA Global Research

Calculations are based on aggregate FF Market Caps of XU030, XU050, XU100 and XUTUM indices. Performances are based on intra-quarter returns to avoid the implications caused by the revisions in the indices.

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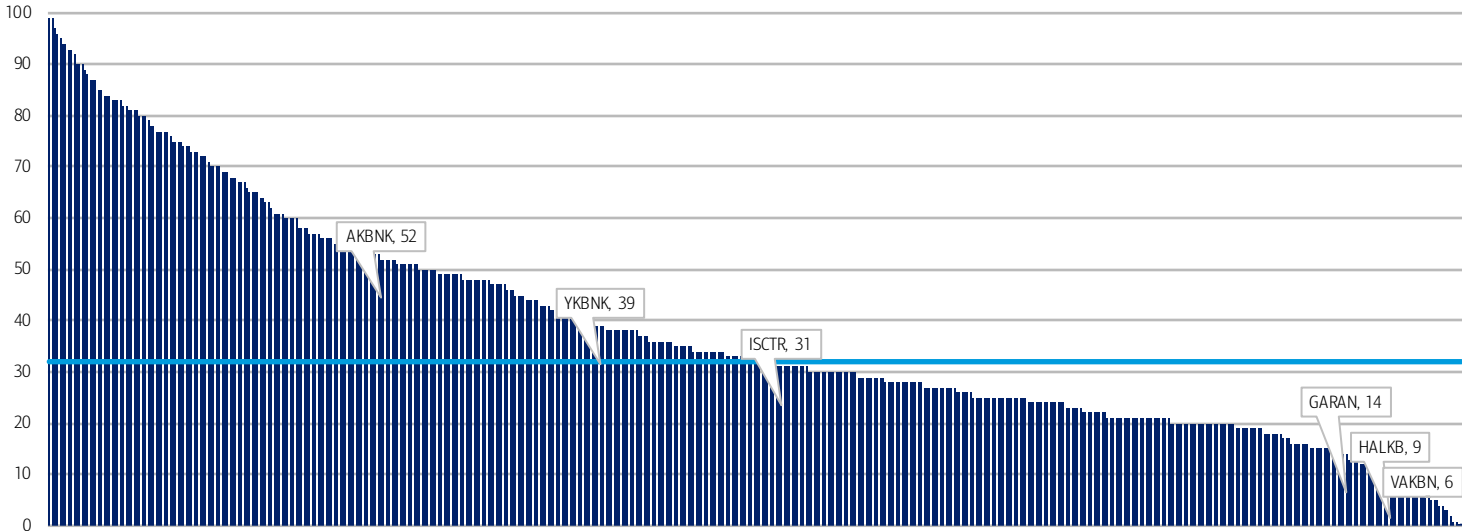


Private banks are fine

- Private banks' free float Mcaps are materially above the stock markets' average (Akbank highest, Garanti lowest among private peers).

Exhibit 17: % of free floats – Ranking of all listed stocks (516 in total)

Akbank, Yapi and Isbank have decent free floats. Garanti's float have declined in recent years. State banks floats are in single digits.

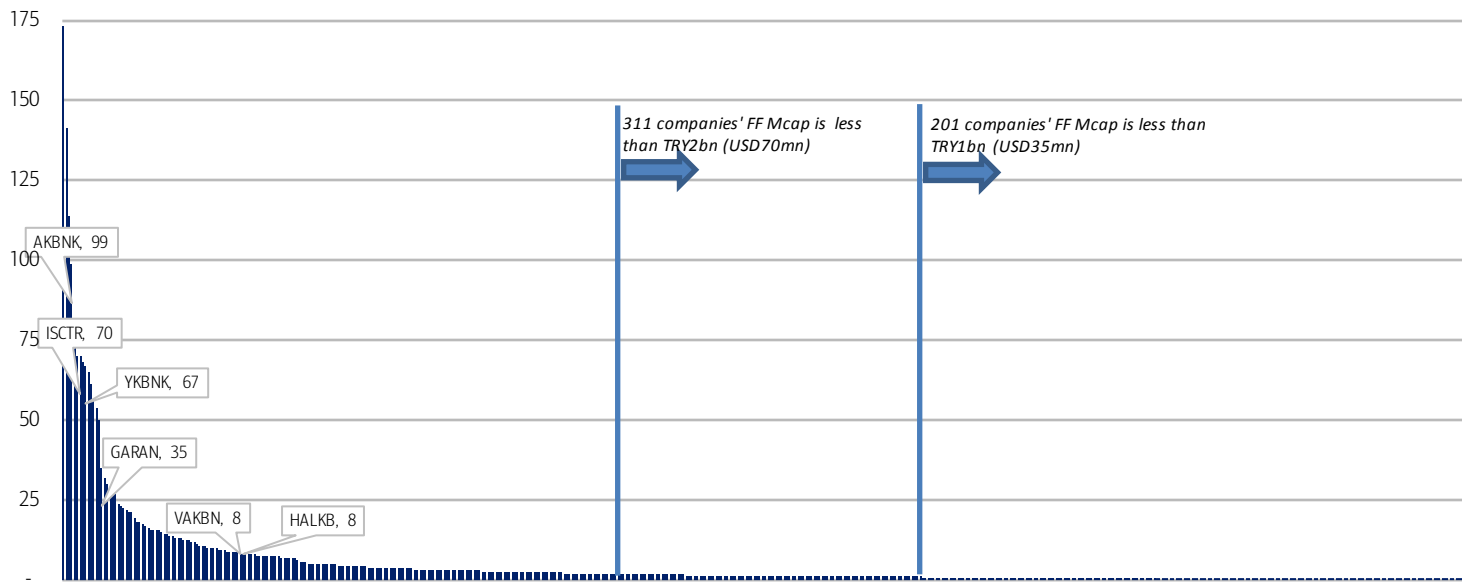


Source: Rasyonet, BofA Global Research

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Exhibit 18: Ranking of free-float Mcaps (in TRYbn, 516 stocks in total)

Akbank, Isbank and Yapi's free-float Mcaps are among top 10. Garanti has a decent FF Mcap, despite low free-float



Source: Rasyonet, BofA Global Research

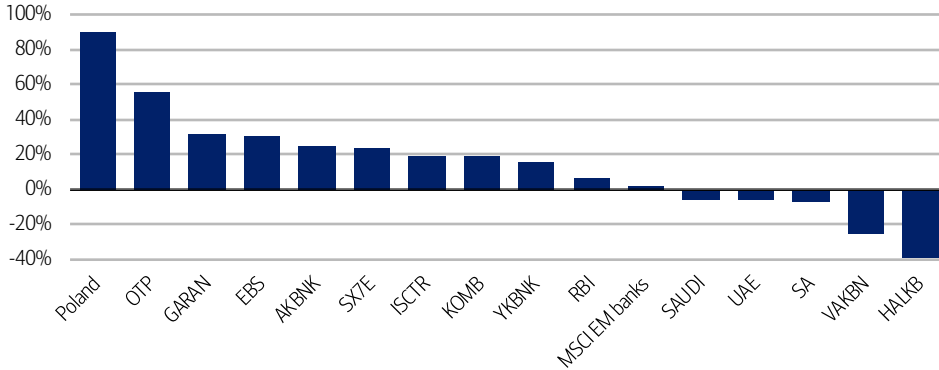
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- Turkish private banks have generally performed well this year when compared with EM peers. However, it was a recovery off a low base.
- Longer-term performance vs. EM banks and Turkish Industrial companies remain in the negative territory

Exhibit 19: EEMEA banks - YtD performance comparison (USD terms)

Turkish private banks have performed well YtD...

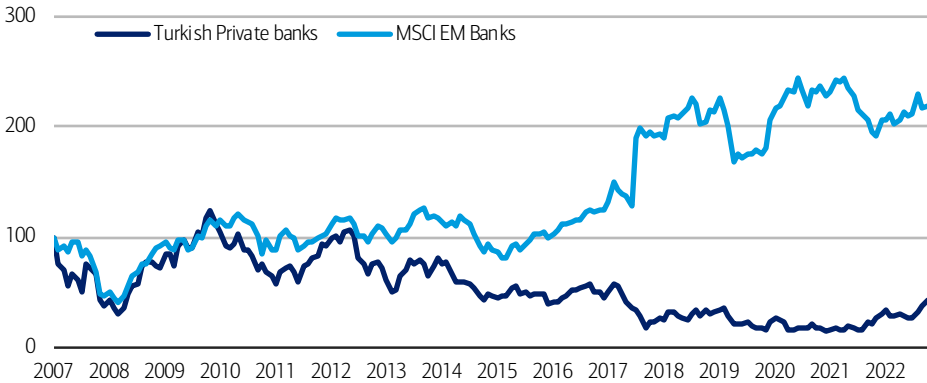


Source: Bloomberg, BofA Global Research

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Exhibit 20: Turkish private banks' total Mcap vs. MSCI EM banks

...but they have long been underperforming EM banks

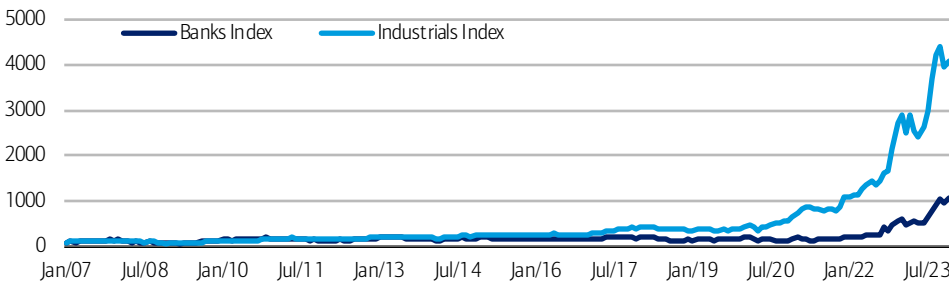


Source: Bloomberg, BofA Global Research

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Exhibit 21: Turkish banks vs. Turkish Industrials

Banks have underperformed industrials in the long-run



Source: Bloomberg, BofA Global Research

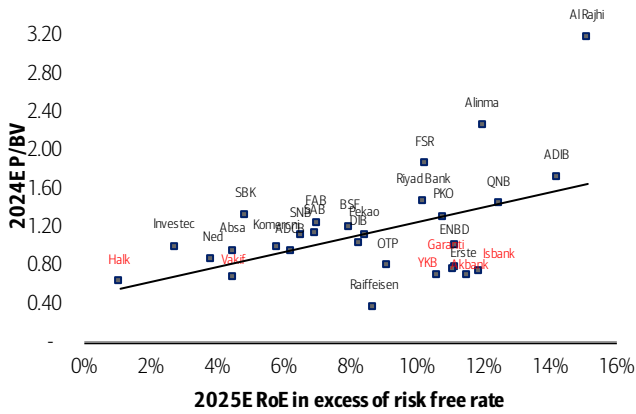
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- Turkish banks' valuations remain attractive within EEMEA / GEM context.
- Re-rating in the Turkish banks has been muted vs. Turkish industrials and Turkish IPO index.

Exhibit 22: EEMEA banks – 2025 RoE in excess of 10Y rates vs. 2024E PB

Private banks appear in the attractive zone (below the trend line)

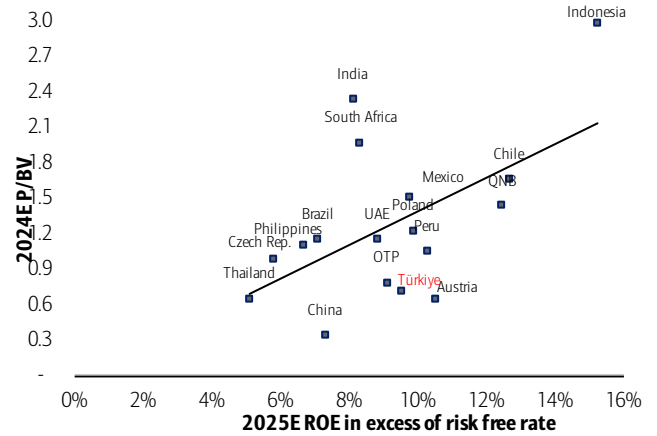


Source: Bloomberg, BofA Global Research

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Exhibit 23: GEM banks – 2025 RoE in excess of 10Y rates vs. 2024E PB

Türkiye is in the attractive zone (below the trend line)

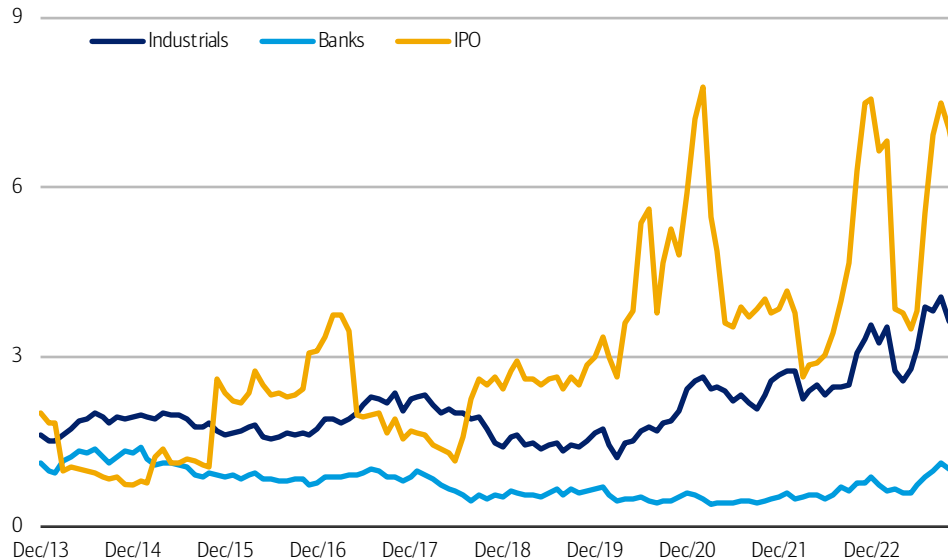


Source: Bloomberg, BofA Global Research

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Exhibit 24: P/BV comparison of Turkish banks vs. Turkish Industrials and Turkish IPO Index

Re-rating has been relatively muted at banks



Source: Bloomberg, BofA Global Research

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Exhibit 25: Companies mentioned in this report

Companies mentioned in this report are as follows:

Name	BofA Ticker	Bloomberg Ticker	Opinion	Q-R-Q	Price
Akbank	XHRAF	AKBNK TI	Buy	C-1-7	35.88
Garanti Bank	TKGBF	GARAN TI	Buy	C-1-7	59.4
Vakif Bank	TKYVF	VAKBN TI	Underperform	C-3-9	13.5
Yapi Kredi Bank	YVKBF	YKBNK TI	Buy	C-1-7	19.89
Isbank	TYIBF	ISCTR TI	Buy	C-1-7	22.44
Halkbank	THBIF	HALKB TI	Underperform	C-3-9	12.58

Source: BofA Global Research

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Price objective basis & risk

Akbank (XHRAF)

Our TRY53.50 PO values Akbank with BRSA consolidated financial forecasts, using a dividend discount model and a Gordon Growth model, assigning equal weight to each method.

In Gordon Growth methodology we use 2025-27 average RoE and CoE assumptions and 2025E BV to calculate the YE2025 value. We then discount it to 12-mo ahead using our 24 CoE assumptions. In our dividend discount framework, we assume 15% payout in 2023-24, 20% in 2025 and 25% thereafter. For both methodologies we use a 15% terminal growth rate.

We see the following risks to our PO: The bank uses short-term repo markets and external borrowing to fund a part of its balance sheet. As a result, its profitability is impacted by changes in global and local short-term interest rates, as well as by currency volatility. Severe currency volatility, increasing unemployment, and slower GDP growth could potentially lead to higher than expected cost of risk charges.

On the other hand, the bank also carries a sizeable CPI inflation-linked bond portfolio on its balance sheet which would limit the potential negative impact of higher CPI (on funding cost and opex) via increased security yield. Additionally, the bank's valuation is highly sensitive to CoE assumptions hence an improvement in TRY sovereign rates would have a positive impact on our PO

Garanti Bank (TKGBF)

Our TRY78 PO values Garanti with BRSA consolidated financial forecasts, using a dividend discount model and a Gordon Growth model, assigning equal weight to each method.

In Gordon Growth methodology we use 2025-27 average RoE and CoE assumptions and 2025E BV to calculate the YE2025 value. We then discount it to 12-mo ahead using our 24 CoE assumptions. In our dividend discount framework, we assume 15% payout in 2023-24, 20% in 2025 and 25% thereafter. For both methodologies we use a 15% terminal growth rate.

We see the following potential risks to our PO: The bank uses short-term repo markets to fund a part of its balance sheet. As a result, its profitability is impacted by changes in global and local short-term interest rates, as well as by currency volatility. The bank also carries a sizeable CPI inflation-linked bond portfolio on its balance sheet and its net interest revenues can be impacted by changes in inflation dynamics in Türkiye. Severe currency volatility, increasing unemployment, and slower GDP growth could potentially lead to higher than expected cost of risk charges.

Halkbank (THBIF)



Our TRY10 PO values Halkbank with BRSA bank only financial forecasts, using a dividend discount model and a Gordon Growth model, assigning equal weight to each method.

In Gordon Growth methodology we use 2025-27 average RoE and CoE assumptions and 2025E BV to calculate the YE2025 value. We then discount it to 12-mo ahead using our 24 CoE assumptions. In our dividend discount framework, we assume 10% payout in 2026-27. In this approach, the lion's share of the valuation comes from the terminal value. For both methodologies we use a 15% terminal growth rate.

We see the following potential downside risks to our PO. A significant downturn in the economy may lead to a faster deterioration in the bank's asset quality, in absolute terms and also relative to peers.

The bank's NIM progression has been disconnected from peers on a negative basis due to lower lending yields and sustained pressure on the deposit side as a result of declining external borrowing. Therefore, diversification in funding sources and improvement in lending yields would support the revenues and is an upside risk. Additionally, the bank has room for improvement in fee income and efficiency metrics. Any progress at these metrics would support the valuation.

Isbank (TYIBF)

Our TRY34.50 PO values Isbank with BRSA bank only financial forecasts, using a dividend discount model and a Gordon Growth model, assigning equal weight to each method.

In Gordon Growth methodology we use 2025-27 average RoE and CoE assumptions and 2025E BV to calculate the YE2025 value. We then discount it to 12-mo ahead using our 24 CoE assumptions. In our dividend discount framework, we assume 15% payout in 2023-24, 20% in 2025 and 25%. For both methodologies we use a 15% terminal growth rate.

Upside risks for Isbank: Apart from top-down macro upside risks we think Isbank-specific upside risks would be successful implementation of a successful cost-cutting programme, and non-core asset sales.

Downside risks to our PO: If the economy slows down considerably, then Isbank's income from NPL recoveries may decrease substantially, posing a threat to earnings. Isbank also generates a material portion of its bottom line through dividend income from subsidiaries. Any risks regarding the stream of subsidiary income would be negative for the earnings outlook.

Vakif Bank (TKYVF)

Our TRY14 PO values Vakifbank with BRSA bank only financial forecasts, using a dividend discount model and a Gordon Growth model, assigning equal weight to each method.

In Gordon Growth methodology we use 2025-27 average RoE and CoE assumptions and 2025E BV to calculate the YE2025 value. We then discount it to 12-mo ahead using our 24 CoE assumptions. In our dividend discount framework, we assume 10% payout in 2026-27. In this approach, the lion's share of the valuation comes from the terminal value. For both methodologies we use a 15% terminal growth rate.

Upside risks for Vakifbank: Efficiency improvement and faster than expected loan repricing would be a positive contributor to valuation.

Downside risks to our PO: If the economy slows down considerably, then Vakifbank's income from NPL recoveries may decrease substantially, posing a risk to earnings.



Yapi Kredi Bank (YVKBF)

Our TRY28.50 PO values Yapi Kredi with BRSA consolidated financial forecasts, using a dividend discount model and a Gordon Growth model, assigning equal weight to each method.

In Gordon Growth methodology we use 2025-27 average RoE and CoE assumptions and 2025E BV to calculate the YE2025 value. We then discount it to 12-mo ahead using our 24 CoE assumptions. In our dividend discount framework, we assume 15% payout in 2023-24, 20% in 2025 and 25% thereafter for the private banks. For both methodologies we use a 15% terminal growth rate.

Upside risks: The bank carries a sizeable CPI inflation-linked bond portfolio on its balance sheet which would limit the potential negative impact of higher CPI (on funding cost and opex) via increased security yield. Additionally, the bank's valuation is highly sensitive to CoE assumptions, and hence an improvement in TRY sovereign rates would have a positive impact on our PO.

Downside risks to our price objective: The bank utilizes short-term cross-currency swaps, allowing it to effectively swap its foreign-exchange-denominated liabilities into local currency. Also, it uses short-term repo markets (from time to time) to fund part of its balance sheet. As a result, its profitability is impacted by changes in global and local short-term interest rates, as well as currency volatility.

Analyst Certification

I, David Taranto, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EEMEA - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Absa Group Ltd	AGRPF	ABG SJ	Bankole Ubogu, CFA
	Abu Dhabi Islamic Bank	XQPVF	ADIB UH	Olga Veselova
	Akbank	XHRAF	AKBNK TI	David Taranto
	Emirates NBD	XHGGF	EMIRATES UH	Olga Veselova
	Garanti Bank	TKGBF	GARAN TI	David Taranto
	Investec	XBZGF	INVP LN	Bankole Ubogu, CFA
	Investec	IVTJF	INP SJ	Bankole Ubogu, CFA
	Isbank	TYIBF	ISCTR TI	David Taranto
	Komercni Banka	KMERF	KOMB CP	Olga Veselova
	Nedbank	NDBKF	NED SJ	Bankole Ubogu, CFA
	Pekao S.A.	BKPKF	PEO PW	Olga Veselova
	Riyad Bank	XRYDF	RIBL AB	Olga Veselova
	Saudi Awwal Bank	XBUAF	SABB AB	Olga Veselova
	Saudi National Bank	XBYNF	SNB AB	Olga Veselova
	Standard Bank	SBGOF	SBK SJ	Bankole Ubogu, CFA
	Yapi Kredi Bank	YVKBK	YKBNK TI	David Taranto
NEUTRAL				
	Al Rajhi Bank	XRHJF	RJHI AB	Olga Veselova
	Alinma	XALBF	ALINMA AB	Olga Veselova
	Dubai Islamic Bank	XUIBF	DIB UH	Olga Veselova
	FirstRand	FANDF	FSR SJ	Bankole Ubogu, CFA
	OTP Bank	OTPF	OTP HB	Olga Veselova
	PKO BP	PSZKF	PKO PW	Olga Veselova
	Qatar National Bank	XQTNF	QNBK QD	Olga Veselova
UNDERPERFORM				
	Abu Dhabi Commercial Bank	XBUDF	ADCB UH	Olga Veselova
	Banque Saudi Fransi	XRDCF	BSFR AB	Olga Veselova
	Capitec Bank	CKHGF	CPI SJ	Bankole Ubogu, CFA
	First Abu Dhabi Bank	XNBUF	FAB UH	Olga Veselova
	Halkbank	THBIF	HALKB TI	David Taranto
	National Bank of Kuwait	XPOBF	NBK KK	Olga Veselova
	Vakif Bank	TKYVF	VAKBN TI	David Taranto
RVW				
	Moscow Exchange	XMCSF	MOEX RX	Olga Veselova
	Sberbank	AKSJF	SBER RM	Olga Veselova
	Sberbank preferred shares	AGNYF	SBERP RM	Olga Veselova
	TCS Group	XCIXF	TCS LI	Olga Veselova

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Banks Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	98	50.78%	Buy	81	82.65%
Hold	47	24.35%	Hold	35	74.47%
Sell	48	24.87%	Sell	36	75.00%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.



FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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