

# Türkiye Sigorta (TURSG TI)

**Buy: Another Goldilocks year**

Equities  
Insurance

Türkiye

- ◆ Accommodative regulatory backdrop and mix shift improving operating margins; high rates boosting financial income
- ◆ We expect earnings to double in 2024e (prev +35%); 2024e PE of 3.8x is still close to the bottom of the range
- ◆ Buy; lift TP to TRY59.50 (from TRY34.00) on higher earnings; shares look undervalued despite strong performance in 2023

**Shares have yet to price in robust earnings outlook for 2024:** We raise our FY24e and FY25e earnings for Türkiye Sigorta by 58% and 72%, respectively, given: 1) a faster shift away from loss-making traffic policies; 2) favourable regulatory changes; and 3) higher returns on the investment portfolio. Our FY24e earnings of TRY13bn correspond to 106% YoY growth and are 25% above BBG consensus. Moreover, they imply a 2024e PE of 3.8x, which is close to the bottom of the last three-year trading range, notwithstanding the stock's c225% appreciation in 2023. Owing to strong earnings momentum, potential for consensus earnings upgrades and an attractive valuation, we raise our TP by 75% to TRY59.50 (from TRY34.00) and reiterate our Buy rating. We expect the stock to come on to the radar of foreign investors in 2024, with more frequent company attendance at investor events abroad.

**Decisive reduction in MTPL market share is helping operational profitability:** We expect the combined ratio to stay at 100% in FY24, with risks to the positive side as: 1) the company gradually substitutes loss making MTPL (motor third-party liability) business with profitable MOD (motor own damage); 2) slower growth in MTPL could release some unexpired risks reserves; 3) recent increase in the regulatory price cap for MTPL policies should alleviate losses in the segment; 4) real appreciation of the currency could help with claims inflation in the motor segment, where spare parts are mostly imported; and 5) the regulator may increase the discount rate (currently 28%) used in actuarial calculations, which could result in provision releases. Note that Türkiye Sigorta's combined ratio is below 100% in all segments except for MTPL (Figure 4).

**Investment income boost amid high interest rates:** As of 3Q23, Türkiye Sigorta's investment portfolio was generating TRY1bn income per month. Allowing for higher interest rates, compounding of the portfolio and further growth from new business underwriting, FY24e investment income should be ahead of TRY12bn. Moreover, our 100% combined ratio projection (ie, breakeven at the operational level) means that investment income will trickle down to the bottom line. As such, we expect Türkiye Sigorta to report TRY13bn earnings in FY24e, 106% above last year.

**Shares look undervalued despite re-rating:** Türkiye Sigorta's share price more than tripled last year, but its 12m forward PE multiple is still a very undemanding 3.8x for its robust earnings growth. Figure 6 shows that Türkiye Sigorta's valuation hasn't fallen below 6.0x on a sustainable basis since 2020.



MAINTAIN BUY

TARGET PRICE (TRY)

**59.50**

PREVIOUS TARGET (TRY)

**34.00**

SHARE PRICE (TRY)

**42.20**

UPSIDE/DOWNSIDE

**+41.0%**

(as of 02 Jan 2024)

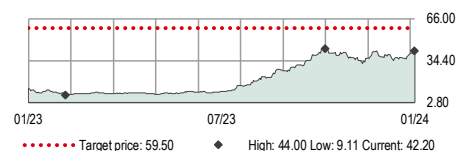
#### MARKET DATA

Market cap (TRYm)	49,016	Free float	19%
Market cap (USDm)	1,649	BBG	TURSG TI
3m ADTV (USDm)	7	RIC	TURSG.IS

#### FINANCIALS AND RATIOS (TRY)

Year to	12/2022a	12/2023e	12/2024e	12/2025e
IFRS EPS	0.81	5.39	11.11	14.38
IFRS EPS (prev)	0.81	5.18	7.02	8.34
Change (%)	0.0	4.1	58.4	72.3
Consensus EPS	0.95	5.36	7.46	8.41
PE (x)	52.1	7.8	3.8	2.9
Dividend yield (%)	1.1	0.3	2.6	5.3

#### 52-WEEK PRICE (TRY)



Source: Refinitiv IBES, HSBC estimates

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**Waiting in the wings**

The 14<sup>th</sup> edition of the EM Sentiment Survey

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## Financials & valuation: Türkiye Sigorta

**Buy**

### Financial statements

Year to	12/2022a	12/2023e	12/2024e	12/2025e
<b>P&amp;L summary (TRYm)</b>				
Earned premiums	6,893	22,221	39,761	57,972
GWP	25,173	55,765	94,215	137,366
Losses incurred (-)	7,263	17,736	30,576	44,599
Opex (-)	1,909	4,889	9,145	13,334
Others	110	260	310	360
Net technical income	-2,169	-144	350	400
Investment income	3,199	8,424	17,108	22,117
Others	235	-450	-250	-250
PBT	1,266	7,829	17,208	22,267
Taxes (-)	324	1,566	4,302	5,567
NI	941	6,263	12,906	16,700
<b>Balance sheet summary (TRYm)</b>				
Cash and banks	9,034	26,241	23,153	41,767
Investments	11,753	23,148	24,820	26,469
Subsidiaries	3,040	3,040	4,712	6,362
Receivables	4,546	10,071	17,014	24,807
Others	2,865	5,335	8,242	11,504
Total assets	28,199	64,794	73,229	104,547
Payables	3,336	3,000	5,069	7,390
Technical provisions	14,923	27,824	37,997	52,834
Others	1,316	2,700	2,700	2,700
Total liabilities	21,778	51,367	48,148	65,347
Equity	6,421	13,427	25,081	39,199

### Ratios & growth

Year to	12/2022a	12/2023e	12/2024e	12/2025e
<b>Y-o-y % change</b>				
Earned premiums	68%	222%	79%	46%
GWP	114%	122%	69%	46%
Net technical income	n.m.	n.m.	n.m.	14%
Investment income	123%	163%	103%	29%
PBT	-10%	519%	120%	29%
NI	-11%	565%	106%	29%
Cash and banks	48%	190%	-12%	80%
Investments	227%	97%	7%	7%
<b>Ratios (%)</b>				
Retention ratio	51%	58%	60%	60%
Dividend payout ratio	50%	17%	20%	20%
Combined ratio	131%	102%	100%	100%
Loss ratio	104%	80%	77%	77%
Expense ratio	28%	22%	23%	23%

### Per share data (TRY)

Year to	12/2022a	12/2023e	12/2024e	12/2025e
EPS reported (diluted)	0.81	5.39	11.11	14.38
HSBC EPS (diluted)	0.81	5.39	11.11	14.38
DPS	0.46	0.13	1.08	2.22
NAV	5.53	11.56	21.59	33.75

### Valuation data

Year to	12/2022a	12/2023e	12/2024e	12/2025e
PE reported*	52.1	7.8	3.8	2.9
PE (HSBC)*	52.1	7.8	3.8	2.9
Price / NAV	7.6	3.7	2.0	1.3
Dividend yield (%)	1.1	0.3	2.6	5.3
Reported ROE	18%	63%	67%	52%

\* Based on diluted shares

### ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2022a
GHG emission intensity*	4.4	No. of board members	6
Energy intensity*	14.4	Average board tenure (years)	n/a
CO <sub>2</sub> reduction policy	Yes	Female board members (%)	0
<b>Social Indicators</b>		Board members independence (%)	33.3
Employee costs as % of revenues	n/a		
Employee turnover (%)	9.9		
Diversity policy	Yes		

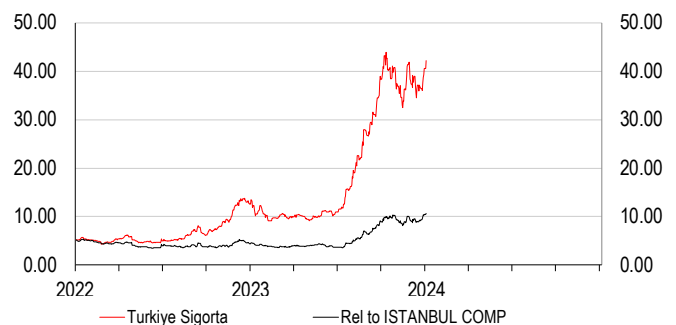
Source: Company data, HSBC

\* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

### Issuer information

Share price (TRY)	42.20	Free float	19%
Target price (TRY)	59.50	Sector	Insurance
RIC (Equity)	TURSG.IS	Country/Region	Türkiye
Bloomberg (Equity)	TURSG TI	Analyst	Cihan Saraoglu, PhD
Market cap (USDm)	1,649	Contact	+90 212 376 46 20

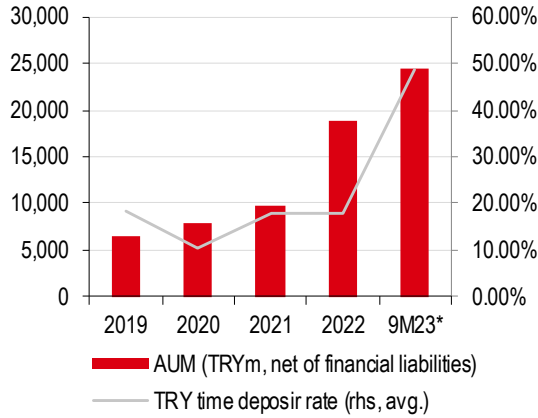
### Price relative



Source: HSBC

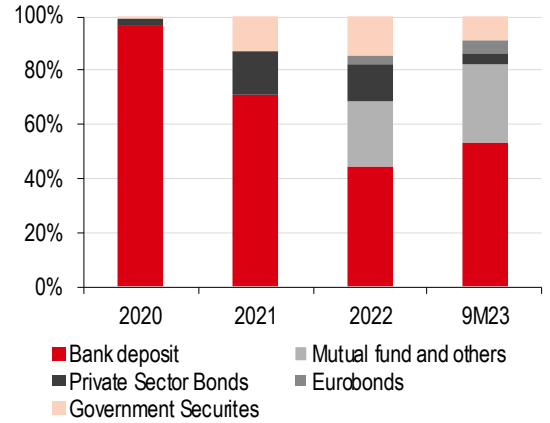
Note: Priced at close of 02 Jan 2024

**1: Strong AUM growth and high interest rates are...**



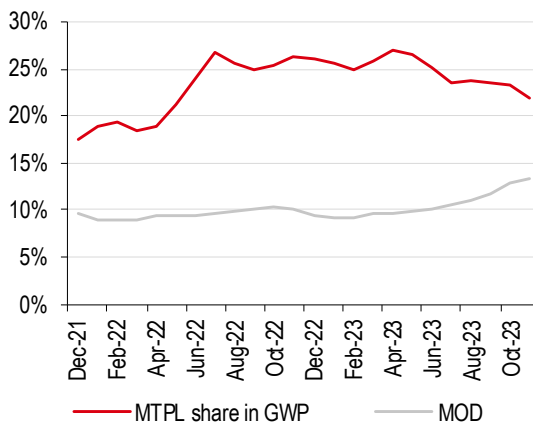
Source: Company data, HSBC calculations, \* latest TRY time deposit rate for 9M23 vs averages for previous periods

**2: ...boosting Türkiye Sigorta's financial income**



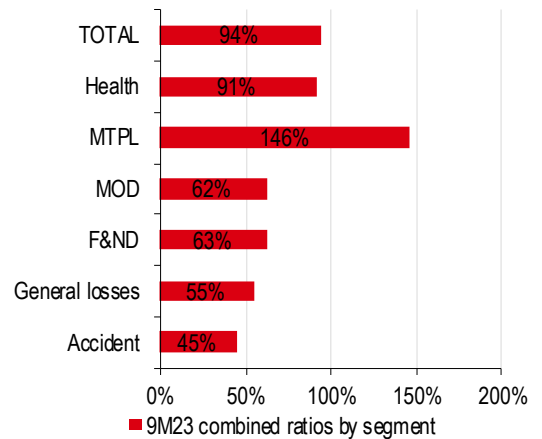
Source: Company data

**3: GWP mix gradually shifting away from loss-making MTPL products to...**



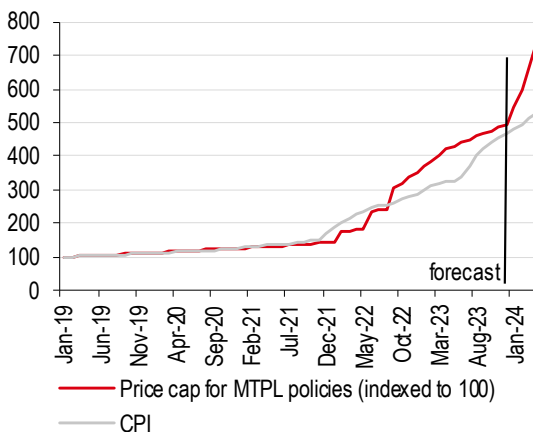
Source: TIA

**4: ...better margin MOD products. Meanwhile, losses in MTPL are likely to decrease further....**



Source: Company data. Notes: F&ND stands for fire and natural disaster, MTPL stands for mandatory third party liability; MOD stands for motor own damage

**5: ...as recent increase in cap rates should improve pricing significantly in 1Q24**



Source: TIA, HSBC calculations

**6: Stock is still trading at c4x PE for 2024**



Source: Refinitiv DataStream, HSBC estimates

**Türkiye Sigorta: Income statement – HSBC estimate revisions**

(TRYm)	Estimates				YoY growth				Revisions		
	2022a	2023e	2024e	2025e	2022a	2023e	2024e	2025e	2023e	2024e	2025e
<b>Earned premiums</b>	<b>6,893</b>	<b>22,221</b>	<b>39,761</b>	<b>57,972</b>	<b>68%</b>	<b>222%</b>	<b>79%</b>	<b>46%</b>	<b>16%</b>	<b>23%</b>	<b>19%</b>
<i>GWP</i>	25,173	55,765	94,215	137,366	114%	122%	69%	46%	2%	3%	-1%
Losses incurred (-)	7,263	17,736	30,576	44,599	133%	144%	72%	46%	12%	19%	15%
Opex (-)	1,909	4,889	9,145	13,334	93%	156%	87%	16%	13%	9%	9%
Others	110	260	310	360							
<b>Net technical inc.</b>	<b>-2,169</b>	<b>-144</b>	<b>350</b>	<b>400</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>14%</b>	<b>-82%</b>	<b>-124%</b>	<b>-117%</b>
Investment income	3,199	8,424	17,108	22,117	123%	163%	103%	29%	-8%	35%	42%
o/w financial assets	1,738	3,336	13,979	18,670							
o/w subsidiaries	562	50	78	105							
Others	235	-450	-250	-250							
<b>PBT</b>	<b>1,266</b>	<b>7,829</b>	<b>17,208</b>	<b>22,267</b>	<b>-10%</b>	<b>519%</b>	<b>120%</b>	<b>29%</b>	<b>-2%</b>	<b>58%</b>	<b>72%</b>
Taxes (-)	324	1,566	4,302	5,567							
<b>NI</b>	<b>941</b>	<b>6,263</b>	<b>12,906</b>	<b>16,700</b>	<b>-11%</b>	<b>565%</b>	<b>106%</b>	<b>29%</b>	<b>4%</b>	<b>58%</b>	<b>72%</b>
Market share	12.0%	13.8%	13.8%	13.8%	-144bps	183bps	0bps	0bps	150bps	150bps	150bps
Retention ratio	51%	58%	60%	60%	8pp	7pp	2pp	0pp	4pp	6pp	6pp
Combined ratio	131%	102%	100%	100%	35pp	-29pp	-2pp	0pp	-3pp	-5pp	-5pp

Source: Company data, HSBC estimates

**Valuation and risks**

	Valuation	Risks to our view
<b>Türkiye Sigorta</b> <b>TURSG TI</b>	Current price: <b>TRY42.20</b>  Target price: <b>TRY59.50</b>  Up/downside: <b>41.0%</b>	<p><b>Downside risks include:</b> (1) drop in deposit rates; (2) growing share of motor vehicle branches in the premium mix, which could lead to lower technical margins; and (3) transfer pricing. Türkiye Sigorta relies heavily on state bank networks for distribution, which could give banks' pricing power when it comes to the commissions they charge.</p> <p>Our COE beyond 2025e until the end of our valuation horizon incorporates a 21% risk-free rate (previously 3.5%), a 5.5% equity risk premium (previously 9.0%), and a beta of 1.0, which implies a cost of equity of 26.5% (unchanged). For 2023e and 2024e, we add to the assumptions an adjustment factor of 13.5% to account for CBRT's monetary tightening amid high inflation. That brings our COE for both years to 40% (previously 26.5%). We update our assumptions to bring our valuation method in line with our bank valuations.</p> <p>We raise our TP to TRY59.50 (from TRY34.00) on higher earnings. Our new TP implies c41% upside and we therefore reiterate our Buy rating.</p>

 Priced at 02 Jan 2024  
 Source: HSBC estimates

# Disclosure appendix

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The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

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For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands were classified as Neutral.

\*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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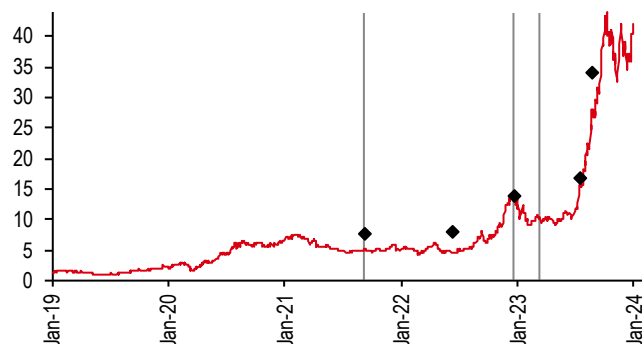
<b>Buy</b>	58%	(14% of these provided with Investment Banking Services in the past 12 months)
<b>Hold</b>	36%	(14% of these provided with Investment Banking Services in the past 12 months)
<b>Sell</b>	7%	(11% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

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### Share price and rating changes for long-term investment opportunities

#### Türkiye Sigorta (TURSG.IS) share price performance TRY Vs HSBC rating history



Source: HSBC

#### Rating & target price history

From	To	Date	Analyst
N/A	Buy	08 Sep 2021	Cihan Saraoglu
Buy	Hold	21 Dec 2022	Cihan Saraoglu
Hold	Buy	14 Mar 2023	Cihan Saraoglu
Target price	Value	Date	Analyst
Price 1	7.60	08 Sep 2021	Cihan Saraoglu
Price 2	7.90	13 Jun 2022	Cihan Saraoglu
Price 3	13.65	21 Dec 2022	Cihan Saraoglu
Price 4	16.70	18 Jul 2023	Cihan Saraoglu
Price 5	34.00	24 Aug 2023	Cihan Saraoglu

Source: HSBC

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#### Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
TURKIYE SIGORTA	TURSG.IS	42.20	02 Jan 2024	4, 7

Source: HSBC

- HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
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- As of 30 November 2023, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
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- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
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- 12 As of 29 December 2023, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
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- 2 All market data included in this report are dated as at close 02 January 2024, unless a different date and/or a specific time of day is indicated in the report.
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1. This report was produced and signed off by the author on 03 Jan 2024 17:29 GMT.
2. In order to see when this report was first disseminated please see the disclosure page available at <https://www.research.hsbc.com/R/34/vVQzBbp>

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