

### EPS growth set to accelerate

- Compelling valuation backed by strong earnings dynamics**

We increase our TP for Anadolu Sigorta to TL213.80 from TL142.80 on revised earnings estimates and higher long-term ROE assumption for the company. We reiterate our Outperform call for the stock.

We find ANSGR's valuation attractive on 25E P/E of 3.6x and P/B of 1.5x with a ROE of 48%. If we exclude its 20% share in ANHYT, ANSGR trades only at 1.2 times to its 25E book. On top of that, Anadolu Sigorta has an investment portfolio of around TL36bn as of 1Q24, corresponding to 67% of its current market capitalization. We estimate its portfolio to reach TL50bn by 24YE, being almost at par with its current mcap.

We foresee earnings expanding 56% in 2024 and 52% in 2025, leading to a 3Y EPS CAGR (22-25E) of 131%. We expect 75% y/y increase in earnings in 1H24 vs 1H23. In terms of adjusted earnings, we foresee 2Q earnings expanding 34% q/q vs 1Q. Note that ANSGR was booked one-off income of TL1.2bn in 1Q, which was composed of dividends from ANHYT (TL200m) and income from discount rate adjustment for liability products (TL1bn).

With this report, we lift our 2025E net earnings estimate by 30% mainly on revisions in technical loss and investment income forecasts considering higher tariffs, moderate provisioning and growing portfolio size of Anadolu Sigorta (see page 3). We kept 24E earnings unchanged at TL9.2bn. We inch up our long-term ROE assumption for ANSGR to 51% from 43% as we foresee strong future earnings through higher contribution from growing investment portfolio. We expect ROE to hover around 48% in the next two years.

- Interim minimum wage hike is not in the cards**

The government decided not to adjust minimum wage semi-annually this year. This will bring no additional provisioning burden on non-life insurance companies such as ANSGR. Thus, a downside risk appears to be eliminated. Anadolu Sigorta's market share in loss-generating MTPL (5.5% as of May24) decreased by 1ppt compared to last year, yet remained high in profitable MOD (13.6% as of May24). Motor business is one of the key drivers of underwriting performance at Anadolu Sigorta. MOD margins have already recovered thanks to price increases and reduced claims frequency, although expensive auto spare parts have put some pressure.

- Investment portfolio keeps growing**

We expect investment income to be the main driver of 2024-25E earnings as reallocation to high yielding assets should keep portfolio yield at elevated levels. Besides, the CBRT's tightening monetary policy bodes well with portfolio returns. We foresee 24E AUM size reaching to TL50bn (+57% y/y) and TL76bn (+51% y/y, previous: TL56bn) for 2025.

#### ANSGR

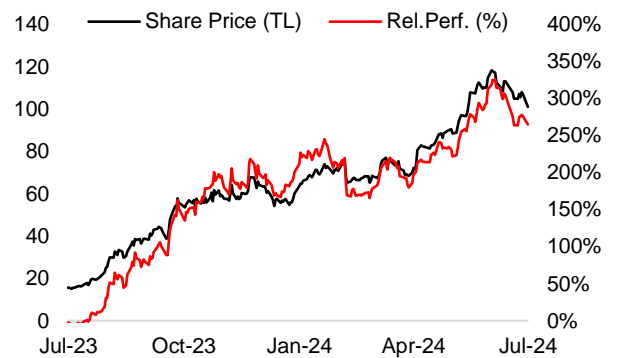
Bloomberg/Reuters Code	ANSGR TI / ANSGR.IS
Recommendation	Outperform
Current Price (TL)	101.00
Target Price (TL)	213.80 (previous: 142.80)
Upside Potential	112%

Market Cap (TL mn)	50,500
Free Float (%)	35%
12M high/low (TRL)	118.30 / 15.10
ADV (3M avg - \$mn)	6.1

Summary Financials	2023	2024E	2025E
GWP (mTL)	44,228	77,915	124,664
% growth	86%	76%	60%
Technical loss (mTL)	-4,441	-3,265	-5,870
% growth	27%	-26%	80%
Net Income (mTL)	5,909	9,204	13,957
% growth	421%	56%	52%
RoE	58%	49%	48%
EPS (TL)	11.82	18.41	27.91
DPS (TL)	0.00	5.55	8.41
Dividend Yield	0.0%	5.5%	8.3%

Multiples			
P/E	8.5x	5.5x	3.6x
P/B	3.6x	2.1x	1.5x

	1M	3M	12M	YTD
Rel. Performance	-11%	28%	265%	21%
Absolute	0%	44%	555%	68%



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## Valuation

We value Anadolu Sigorta using the Gordon Growth Model (GGM). Our model suggests a 12-month target value of TL107bn for Anadolu Sigorta, which implies a TP of TL213.80 per share (previous TL142.80). We assume Anadolu Sigorta's ROAE (return on average equity) to average 51% (previous 43%) between 2024E-34E. Assuming 15.5% (unchanged) nominal long-term growth rate with a 21.0% (unchanged) risk-free rate and a beta of 0.76 (previous 0.63), our implied 12-month target P/BV of 3.7x stock suggests 112% upside to the current share price. Every 1ppt change in CoE changes our target price by 9%, on average.

### Exhibit 1: ANSGR GGM Valuation

TLm	2022	2023	2024E	2025E	2026E	2027E	2028E	2029-34E
Net income	1,133	5,909	9,204	13,959	20,189	29,935	43,616	
(-) Income from participations	88	100	200	230	265	304	350	
Attributable net income	1,045	5,809	9,004	13,729	19,924	29,631	43,266	
Shareholders' equity	6,048	14,204	23,587	34,769	50,755	74,619	109,239	
(-) Participations	1,895	3,277	3,708	4,178	4,665	5,115	5,607	
Core equity	4,154	10,927	19,878	30,591	46,090	69,504	103,632	
Core ROE	32.6%	77.0%	58.5%	54.4%	52.0%	51.3%	50.0%	50.0%
L/T core ROE (2024E-34E)	51%							
Cost of equity	25.2%							
L/T growth rate	15.5%							
Implied target P/B	3.71							
Core equity (1Y forward)	25,279							
Target Market Cap.	93,856							
Participations*	13,020							
<b>Target Market Cap.</b>	<b>106,875</b>							
Number of shares	500							
<b>Target price/share</b>	<b>213.80</b>							
Current price/share	101.00							
<b>Return potential</b>	<b>112%</b>							

\* 20% of the target value of ANHYT acc. to our estimates

## Risks

- Lower-than-expected GDP growth, less consumption, slower investment and banking activities.
- A potential cap on MTPL prices and other adverse regulatory changes in MTPL: MTPL insurance comprises 25% of the market as of April 2024 and insurers must offer this product as stipulated by the state. Higher-than-expected claims in MTPL and other lines of business such as MOD, fire, natural disasters, construction, health and etc. would hurt profitability.
- Depreciation in the TL against the USD since half of MOD claims is related to spare parts and 80% of that is FX-sensitive.
- Any change in interest rates has a significant impact on earnings since insurance companies are highly dependent on financial income.
- Sharp changes in the minimum wage rate have a direct impact on provisions of long tail products such as MTPL and general liability.

## Forecast revisions

We do not change our 2024 earnings forecast. We think that earnings momentum keeps rising over the coming periods. Higher deposit rates and stable local currency have supported earnings dynamics of ANSGR so far. We assume that higher interest rates prevail throughout 2024 and depreciation of TL against USD remains limited.

However, we lift our 2025E net earnings estimate by 30% mainly on revisions in technical loss and investment income forecasts considering higher tariffs, moderate provisioning and growing portfolio size of Anadolu Sigorta. Policy prices doubled y/y on the back of high inflation, natural disasters and elevated reinsurer charges. We expect GWP of Anadolu Sigorta to expand 76% y/y in 2024 and 60% in 2025. We envisage a moderate increase in provisioning reserves in 2025 on the back of high discount rate used for calculating indemnities related to liability products and limited depreciation in TL against USD as inflation ebbs and FX reserves of the CBRT continue to rise. Reflecting this, we reduce our 25E combined ratio assumption to 108% from 110%.

On top of that, we expect investment income to be the main driver of 2024-25E earnings as reallocation to high yielding assets should keep portfolio yield at high levels. The CBRT's prevailing monetary tightening is also good for ANSGR's earnings as its investment portfolio is largely composed of fixed income instruments. We foresee 24E AUM size reaching to TL50bn (+57% y/y) and TL76bn (+51% y/y, previous: TL56bn) for 2025.

### Exhibit 2: Revisions in key estimates

TL m	New			Old			Change (%)		
	2023A	2024E	2025E	2023A	2024E	2025E	2023A	2024E	2025E
Gross written premiums	44,228	77,915	124,664	44,228	77,915	124,664	-	-	0.0
Technical net loss	-4,441	-3,265	-5,870	-4,441	-3,265	-7,002	-	-	(16.2)
Net investment income	11,610	16,586	25,186	11,610	16,586	22,251	-	-	13.2
Net income	5,909	9,204	13,957	5,909	9,204	10,703	-	-	30.4
Combined ratio (*)	119%	107%	108%	119%	107%	110%	-	-	(1.4)

Source: Oyak Securities Research \* Changes are in ppt

**Exhibit 3: Anadolu Sigorta Summary Financials**

<b>Income Statement</b>				
(Unconsolidated, TLm, 31/12)	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
Gross written premium	23,756	44,228	77,915	124,664
Net written premium	17,567	32,414	56,366	90,236
Chg in unearned premium provision	-6,261	-8,320	-12,401	-18,447
Chg in unexpired risk provision	-537	-847	449	-10
Net premium earned (NPE)	10,769	23,247	44,414	71,779
Other technical income	259	473	1,079	1,775
<b>Technical income</b>	<b>11,028</b>	<b>23,720</b>	<b>45,493</b>	<b>73,554</b>
Net claims paid	-8,214	-14,859	-28,171	-45,525
Chg in outstanding claims provision	-2,681	-6,297	-6,786	-13,713
Net claims incurred	-10,894	-21,156	-34,956	-59,238
Chg in other technical provision	-180	-80	-83	-87
Total claims expenses	-11,075	-21,236	-35,039	-59,326
Acquisition costs	-1,855	-4,237	-8,539	-14,518
Administration costs	-2,187	-3,990	-7,666	-9,600
Commissions received	603	1,302	2,487	4,019
Opex	-3,439	-6,925	-13,718	-20,099
<b>Technical expense</b>	<b>-14,514</b>	<b>-28,161</b>	<b>-48,757</b>	<b>-79,424</b>
<b>Technical net income</b>	<b>-3,486</b>	<b>-4,441</b>	<b>-3,265</b>	<b>-5,870</b>
Investment income	7,257	18,484	22,243	30,713
Investment expenses	-2,329	-6,874	-5,657	-5,527
<b>Net investment income</b>	<b>4,928</b>	<b>11,610</b>	<b>16,586</b>	<b>25,186</b>
Other income & expenses	-32	405	-1,780	-1,869
Pretax income	1,410	7,574	11,541	17,446
Taxes	-277	-1,664	-2,337	-3,490
<b>Net income (loss)</b>	<b>1,133</b>	<b>5,909</b>	<b>9,204</b>	<b>13,957</b>
<b>Balance Sheet</b>				
(Unconsolidated, TLm, 31/12)	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
Cash and cash equivalents	9,253	11,303	12,021	14,149
Financial assets	10,086	24,169	42,136	65,517
Receivables	6,694	14,425	26,350	42,461
Participations	1,985	3,277	3,708	4,178
Other assets	2,687	5,194	7,342	10,603
<b>Total Assets</b>	<b>30,706</b>	<b>58,368</b>	<b>91,557</b>	<b>136,908</b>
Payables	2,591	5,215	8,670	9,277
Technical reserves	20,438	35,982	54,774	86,988
Other liabilities	1,629	2,967	4,527	5,874
<b>Total liabilities</b>	<b>24,658</b>	<b>44,164</b>	<b>67,971</b>	<b>102,139</b>
<b>Total equity</b>	<b>6,048</b>	<b>14,204</b>	<b>23,587</b>	<b>34,769</b>
<b>Total liabilities and equity</b>	<b>30,706</b>	<b>58,368</b>	<b>91,557</b>	<b>136,908</b>

Source: Company, Oyak Securities Research

**Exhibit 4: Anadolu Sigorta Key Financial Highlights**

<b>Growth Rates</b>				
(Unconsolidated, 31/12)	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
Gross written premium	121%	86%	76%	60%
Net premium earned (NPE)	83%	116%	91%	62%
Net claims incurred	84%	94%	65%	69%
Opex	108%	101%	98%	47%
Technical net income	114%	27%	-26%	80%
Net investment income	106%	136%	43%	52%
Net Income	117%	421%	56%	52%
<b>Margins &amp; Ratios</b>				
(Unconsolidated, 31/12)	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>
Net claims paid ratio	76%	64%	63%	63%
Reserving ratio	27%	27%	15%	19%
Net loss ratio	103%	91%	79%	83%
Net commission ratio	12%	13%	14%	15%
Administration cost ratio	20%	17%	17%	13%
Net expense ratio	32%	30%	31%	28%
Other technical income	-2%	-2%	-2%	-2%
<b>Combined ratio</b>	<b>132%</b>	<b>119%</b>	<b>107%</b>	<b>108%</b>
<b>Technical net income margin</b>	<b>-14.7%</b>	<b>-10.0%</b>	<b>-4.2%</b>	<b>-4.7%</b>
Net investment income margin	20.7%	26.3%	21.3%	20.2%
<b>Net income margin</b>	<b>4.8%</b>	<b>13.4%</b>	<b>11.8%</b>	<b>11.2%</b>
<b>Premium retention ratio</b>	<b>74%</b>	<b>73%</b>	<b>72%</b>	<b>72%</b>
Net investment yield	36.5%	46.8%	40.3%	39.9%
Technical reserves/NPE	245%	212%	162%	150%
Equity/NPE	73%	84%	70%	60%
<b>ROAE</b>	<b>24.5%</b>	<b>58.4%</b>	<b>48.7%</b>	<b>47.8%</b>
ROAA	4.8%	13.3%	12.3%	12.2%
Leverage	5.1	4.4	4.0	3.9

Source: Company, Oyak Securities Research

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