

## GARANTI BBVA

## OVERWEIGHT

Upgraded from Marketweight

July 9, 2024

### Robust profitability continues in the weakest quarter

- We estimate Garanti BBVA to report TL18,811mn unconsolidated net income in 2Q24, indicating a 28% ROE. As such, earnings should rise by 2% y/y while declining by 16% q/q. In summary, we expect slower but robust loan growth, flattish margins, continuation of strong fee income, steady cost growth, and a mild pick-up in CoR. Meanwhile, the effective tax rate should normalize up while the bank should record some TL1.5bn mid-year real estate revaluation gains in 2Q24.
- We forecast 7% q/q TL loan growth in 2Q24, driven by market share gain in GPLs at better yields and longer maturities while growth in CCs and TL business loans were more limited. FX loans should continue rising by 6% q/q. We expect TL deposits to increase by 15% q/q, accompanied by an 11% drop in FX loans. Meanwhile, Garanti was not particularly aggressive on the securities front, mainly replacing redemptions.
- We estimate that swap-adj. NIM contracted by 7bps q/q in 2Q24, as the rise in funding costs was mostly offset by the upward repricing of assets, even as the bank continued to utilize a 40% estimate for its CPI-linkers. There should be lower trading gains in the absence of the swap MTM gains recorded in 1Q, partially offset by higher FX transaction spread gains.
- We forecast continuation of the strong growth in fees by 181% y/y in 2Q24, with a slight loss of momentum given the lower loan growth. Whereas, cost growth should be milder but still elevated at some 93% y/y.
- We project that FX-adj CoR will slightly rise q/q to 87bps in 2Q24 and c.80bps in 1H24, remaining below the ~125bps FY24 guidance.
- Following fine-tunings, we now forecast TL loans to grow by 48% y/y, swap-adj. NIM to contract by c.60bps, fees to rise by 108%, opex to increase by 79%, and FX-adj. CoR to realize at 113bps, indicating a 15% EPS growth and an ROE of 35% in 2024, in line with the bank's budget guidance.
- Supported by the ongoing asset repricing, already-peaked funding costs, and the projected kick-off of CBT's rate cut cycle late this year, Garanti's profitability should be on a sequentially rising trend over the next one-year period, with ROE exceeding the 40% mark in 4Q24 and remaining there until late-2025. This suggests a strong 82% y/y EPS growth in 2025 and 43% ROE easily exceeding COE, allowing a further re-rating in the P/B multiple.
- Our 12M TP of TL170.28/share offers a 41% total return potential including a 4% dividend yield. Given our view that Garanti will continue to stand out in the banking sector with its core customer banking revenue generation potential, we upgrade our rating to Overweight from Marketweight.

#### Price Data

Current Price (TL, 8-Jul-24)	123.80
Current Mcap (TLmn)	519,960
12-mth Target Price (TL/share)	170.28
12-mth Target Mcap (TLmn)	715,164
12-mth Return Potential	38%
Dividend yield	4%

#### Financials (TL mn)

	2022	2023	2024E	2025E
Swap-adj. NII	73,042	70,082	93,418	238,125
% ch y/y		-4	33	155
Net income	58,509	87,332	100,149	182,538
% ch y/y		49	15	82
Shareholders equity	152,685	244,797	344,897	522,410
% ch y/y		60	41	51

#### Margins (%)

	2022	2023	2024E	2025E
Swap-adj. NIM	8.1	5.0	4.4	8.1
Cost/income	20	29	39	34
Cost of risk	274	213	187	183

#### Ratios

	2022	2023	2024E	2025E
P/E (TL, x)	1.3	1.9	5.2	2.8
P/B (TL, x)	0.49	0.66	1.51	1.00
ROAE (TL, %)	51.1	44.9	35.0	43.1

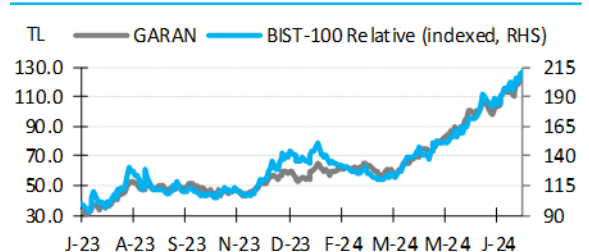
#### Stock Data

Ticker	GARAN.IS	GARAN TI
Sector		Banking
# of Shares (mn)		4,200
3M Av. Trd. Vol. (mn)		US\$65.3
52-week Range	TL31.69 -	TL123.80

#### Market Data

BIST-100	10,864
TL/US\$	32.6401

#### Price Chart



#### Price Performance

	1M	3M	YTD	YoY
TL Absolute	24%	67%	122%	291%
BIST-100 Relative	16%	50%	53%	125%

#### Major Shareholders

BBVA	86%
Free float	14%

Tera Yatirim - Garanti BBVA 2Q24 estimates					
Balance sheet (TLbn)	2Q23	1Q24	2Q24E	Q/Q chg	Y/Y chg
Total loans	884.9	1,223.4	1,311.9	7.2%	48.3%
TRY loans	628.3	891.0	953.7	7.0%	51.8%
FX loans (US\$m)	9.9	10.3	10.9	6.0%	9.8%
Total deposits	1,219.6	1,505.8	1,589.0	5.5%	30.3%
TRY deposits	769.2	921.8	1,057.9	14.8%	37.5%
FX deposits (US\$m)	17.4	18.1	16.2	-10.5%	-7.2%
Income statement (TLbn)	2Q23	1Q24	2Q24E	Q/Q chg	Y/Y chg
Interest income	41,401	96,718	124,697	29%	201%
- of which: CPI-linkers	5,830	8,412	9,174	9%	57%
Interest expense	25,985	77,056	99,864	30%	284%
Net interest income	15,416	19,662	24,833	26%	61%
FX & Trading gains	13,176	4,875	-5,300	n.a.	n.a.
- of which: swap cost	261	-7,328	-11,701	60%	n.a.
Swap adj. NIM (% bps)	4.7	2.6	2.6	-7	-212
Net fees and commissions	7,284	18,733	20,462	9%	181%
Dividends received	2,936	4,507	4,691	4%	60%
Other operational income	4,994	12,329	10,643	-14%	113%
Operating expenses	10,454	18,704	20,206	8%	93%
Total provisions	11,175	14,957	10,490	-30%	-6%
Specific provisions	2,062	5,087	9,806	93%	375%
General provisions	8,857	9,858	659	-93%	-93%
Other provisions	255	12	25	116%	-90%
Total CoR (bps)	439	157	99	-58	-340
Income before tax	22,178	26,445	24,632	-7%	11%
Income taxes	3,708	4,129	5,821	41%	57%
Net income	18,470	22,316	18,811	-16%	2%
ROAE (% bps)	40.9	35.7	28.2	-747	-1,265

Source: Tera Yatirim estimates

<b>GARANTI BANK</b>										
<b>SUMMARY P&amp;L (TLmn)</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
Interest income	20,915	26,608	38,714	39,684	37,229	57,099	125,833	213,960	523,788	665,904
Loans	17,004	21,337	29,660	32,801	29,915	44,085	81,224	152,679	401,323	531,054
Securities	3,577	4,732	8,214	5,586	6,404	10,011	41,163	53,272	94,440	111,346
Cash, banks, other	334	539	839	1,298	909	3,003	3,446	8,008	28,025	23,504
Interest expense	9,818	12,139	19,603	20,657	13,460	23,459	42,514	139,124	408,186	421,422
Deposits	6,883	8,376	14,697	16,382	9,266	19,454	33,502	127,544	387,527	395,150
Money market	999	1,165	1,006	35	240	145	532	1,659	6,270	8,569
Other	1,936	2,598	3,900	4,240	3,955	3,859	8,480	9,921	14,388	17,704
Net interest income	11,097	14,468	19,110	19,027	23,768	33,640	83,319	74,836	115,603	244,482
FX & Trading gains	-791	-1,916	-1,153	-1,940	181	3,838	8,527	27,797	12,888	15,314
Net fees and commissions	3,152	3,680	4,870	6,089	5,978	8,501	16,628	40,764	84,817	114,073
Dividends received	405	615	757	903	1,342	2,480	5,375	14,023	20,330	24,396
Other operational income	1,364	982	2,219	3,965	4,568	8,980	11,974	28,896	30,633	23,452
Total provisions	2,815	3,160	9,883	11,522	17,160	26,933	27,310	35,597	48,503	49,926
Loan loss provisions	2,367	1,606	4,436	6,518	4,324	7,210	5,755	9,791	27,726	36,779
Non-loan related provisions	286	1,132	1,520	821	3,766	7,405	3,412	271	87	100
General provisions	162	423	3,926	4,183	9,071	12,317	18,144	25,534	20,690	13,047
Operational expenses	6,119	6,518	7,475	8,706	10,038	12,673	22,909	47,672	85,308	121,430
Income before tax	6,293	8,151	8,445	7,816	8,639	17,833	75,603	103,047	130,460	250,360
Income taxes	1,223	1,807	1,807	1,657	2,401	4,232	17,094	15,716	30,311	67,822
Net income	5,071	6,344	6,638	6,159	6,238	13,601	58,509	87,332	100,149	182,538

<b>GARANTI BANK</b>										
<b>RATIOS - MULTIPLES</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
<b>PROFITABILITY</b>										
ROAE	15.3%	16.6%	15.0%	12.3%	10.8%	19.8%	51.1%	44.9%	35.0%	43.1%
ROAA	1.90%	2.07%	1.87%	1.63%	1.40%	2.35%	6.05%	5.60%	4.31%	5.76%
NIM	4.01%	4.27%	4.75%	4.54%	4.91%	4.05%	8.15%	4.95%	4.38%	8.10%
Cost of risk	1.10%	0.68%	2.83%	2.93%	3.20%	3.22%	2.74%	2.13%	1.87%	1.83%
Cost to income	49.1%	41.8%	36.3%	42.2%	33.3%	26.5%	20.0%	29.3%	39.5%	33.7%
Effective tax rate	19.4%	22.2%	21.4%	21.2%	27.8%	23.7%	22.6%	15.3%	23.2%	27.1%
<b>EFFICIENCY</b>										
Cost / assets	2.15%	2.00%	2.08%	2.23%	2.04%	1.67%	1.99%	2.47%	3.10%	3.35%
Fees / costs	51.5%	56.6%	65.2%	70.0%	59.6%	67.1%	72.6%	85.5%	99.4%	93.9%
Deposit per branch (TLmn)	160	185	221	263	353	573	929	1,696	2,358	3,112
Loans per branch (TLmn)	192	222	239	263	337	463	756	1,269	1,898	2,616
Assets per branch (TLmn)	294	344	385	429	552	871	1,377	2,401	3,462	4,625
Employees per branch	20	20	20	21	21	21	22	24	24	24
Earnings per employee ('000s)	256	329	357	333	333	733	3,151	4,657	5,283	9,657
<b>ASSET QUALITY</b>										
NPL ratio	2.79%	2.54%	4.86%	6.77%	4.50%	3.74%	2.63%	2.03%	1.92%	2.38%
NPL provision coverage	81%	81%	59%	62%	63%	66%	72%	68%	65%	68%
Loans / Assets	65.5%	64.5%	62.1%	61.3%	61.0%	53.1%	54.9%	52.9%	54.8%	56.6%
TL loans / TL deposits	147.3%	153.3%	139.7%	144.9%	149.8%	151.5%	115.7%	87.0%	90.9%	95.2%
FX loans / FX deposits	86.8%	79.3%	78.1%	66.8%	58.9%	47.0%	48.4%	59.7%	68.3%	69.9%
IEA / Assets	95.0%	96.4%	94.4%	92.1%	92.9%	93.4%	92.1%	90.8%	92.2%	93.2%
IBL / Liabilities	81.5%	81.1%	80.8%	80.5%	80.7%	83.1%	79.3%	80.9%	80.8%	79.5%
<b>VOLUME GROWTH (y/y)</b>										
Assets (in TLmn)	11.7%	14.5%	10.5%	8.8%	26.0%	54.0%	51.8%	67.5%	42.6%	31.6%
TL loans (in TLmn)	18.1%	21.8%	6.9%	13.5%	29.7%	27.1%	80.8%	55.3%	48.0%	40.4%
FX loans (in US\$mn)	-4.8%	-7.8%	-13.2%	-10.0%	-6.4%	-16.9%	-19.9%	8.2%	9.5%	4.1%
TL deposits (in TLmn)	17.7%	15.5%	15.5%	11.3%	27.0%	22.8%	146.8%	108.2%	41.8%	34.5%
FX deposits (in US\$mn)	-4.1%	3.7%	-14.3%	7.6%	7.6%	3.8%	-21.9%	-12.4%	-4.3%	1.7%

GARANTI BANK										
Balance Sheet (TLmn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
TL cash & banks	7,170	7,842	3,212	13,719	15,068	44,568	44,175	193,830	224,235	302,073
FX cash & banks	29,285	39,889	59,521	50,054	69,609	155,920	185,656	236,644	334,766	406,542
Total cash & banks	36,456	47,731	62,733	63,773	84,677	200,489	229,832	430,475	559,001	708,615
TL securities	33,337	37,769	39,823	40,790	48,085	74,250	131,129	204,485	341,319	463,799
FX securities	14,095	12,873	13,375	15,890	24,720	31,409	66,664	98,152	129,447	154,769
TL loans	112,330	136,793	134,715	150,087	195,646	246,599	457,257	720,606	1,063,108	1,493,959
FX loans	73,718	72,887	88,535	89,664	104,821	156,397	175,699	299,429	445,488	554,261
Participations	5,427	6,861	7,060	8,587	11,418	19,970	29,095	56,937	76,736	93,615
Property and equipment	4,888	5,521	5,193	6,633	6,542	6,499	11,761	22,846	25,281	27,674
Other	3,905	4,797	8,044	15,729	16,888	23,267	50,735	97,125	112,221	124,833
<b>ASSETS</b>	<b>284,155</b>	<b>325,232</b>	<b>359,477</b>	<b>391,152</b>	<b>492,798</b>	<b>758,880</b>	<b>1,152,172</b>	<b>1,930,055</b>	<b>2,752,602</b>	<b>3,621,524</b>
TL customer depo	72,492	83,743	96,738	107,653	136,740	167,919	414,472	863,038	1,223,408	1,645,187
FX customer depo	81,991	91,126	109,285	132,229	177,767	331,414	363,183	500,724	650,983	791,322
TL banks and other	13,563	18,070	7,949	6,897	6,934	19,968	12,894	19,577	28,704	55,752
FX banks and other	2,955	4,841	4,132	2,476	143	3,569	16,437	43,820	100,554	120,264
TL borrowed funds	9,543	10,076	6,534	10,811	13,819	15,214	8,236	10,611	14,545	15,595
FX borrowed funds	50,973	55,810	65,897	54,833	62,407	92,209	98,582	123,463	204,936	249,962
Other liabilities	17,099	20,235	22,255	22,487	32,907	48,607	85,683	124,026	184,575	221,033
<b>LIABILITIES</b>	<b>248,616</b>	<b>283,901</b>	<b>312,789</b>	<b>337,387</b>	<b>430,716</b>	<b>678,899</b>	<b>999,486</b>	<b>1,685,258</b>	<b>2,407,704</b>	<b>3,099,114</b>
<b>EQUITY</b>	<b>35,539</b>	<b>41,331</b>	<b>46,688</b>	<b>53,766</b>	<b>62,082</b>	<b>79,981</b>	<b>152,685</b>	<b>244,797</b>	<b>344,897</b>	<b>522,410</b>

GARANTI BANK										
BS Composition	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
TL cash, banks, CB reserves	2.5%	2.4%	0.9%	3.5%	3.1%	5.9%	3.8%	10.0%	8.1%	8.3%
FX cash, banks, CB reserves	10.3%	12.3%	16.6%	12.8%	14.1%	20.5%	16.1%	12.3%	12.2%	11.2%
<b>Liquid assets</b>	<b>12.8%</b>	<b>14.7%</b>	<b>17.5%</b>	<b>16.3%</b>	<b>17.2%</b>	<b>26.4%</b>	<b>19.9%</b>	<b>22.3%</b>	<b>20.3%</b>	<b>19.6%</b>
TL securities	11.7%	11.6%	11.1%	10.4%	9.8%	9.8%	11.4%	10.6%	12.4%	12.8%
FX securities	5.0%	4.0%	3.7%	4.1%	5.0%	4.1%	5.8%	5.1%	4.7%	4.3%
<b>Securities</b>	<b>16.7%</b>	<b>15.6%</b>	<b>14.8%</b>	<b>14.5%</b>	<b>14.8%</b>	<b>13.9%</b>	<b>17.2%</b>	<b>15.7%</b>	<b>17.1%</b>	<b>17.1%</b>
TL loans	39.5%	42.1%	37.5%	38.4%	39.7%	32.5%	39.7%	37.3%	38.6%	41.3%
FX loans	25.9%	22.4%	24.6%	22.9%	21.3%	20.6%	15.2%	15.5%	16.2%	15.3%
<b>Loans</b>	<b>65.5%</b>	<b>64.5%</b>	<b>62.1%</b>	<b>61.3%</b>	<b>61.0%</b>	<b>53.1%</b>	<b>54.9%</b>	<b>52.9%</b>	<b>54.8%</b>	<b>56.6%</b>
Participations and subsidiaries	1.9%	2.1%	2.0%	2.2%	2.3%	2.6%	2.5%	3.0%	2.8%	2.6%
Property and equipment	1.7%	1.7%	1.4%	1.7%	1.3%	0.9%	1.0%	1.2%	0.9%	0.8%
Other	1.4%	1.5%	2.2%	4.0%	3.4%	3.1%	4.4%	5.0%	4.1%	3.4%
<b>ASSETS (TLmn)</b>	<b>284,155</b>	<b>325,232</b>	<b>359,477</b>	<b>391,152</b>	<b>492,798</b>	<b>758,880</b>	<b>1,152,172</b>	<b>1,930,055</b>	<b>2,752,602</b>	<b>3,621,524</b>
TL customer depo	29.2%	29.5%	30.9%	31.9%	31.7%	24.7%	41.5%	51.2%	50.8%	53.1%
FX customer depo	33.0%	32.1%	34.9%	39.2%	41.3%	48.8%	36.3%	29.7%	27.0%	25.5%
<b>Retail customer funds</b>	<b>62.1%</b>	<b>61.6%</b>	<b>65.9%</b>	<b>71.1%</b>	<b>73.0%</b>	<b>73.6%</b>	<b>77.8%</b>	<b>80.9%</b>	<b>77.8%</b>	<b>78.6%</b>
TL banks and other	5.5%	6.4%	2.5%	2.0%	1.6%	2.9%	1.3%	1.2%	1.2%	1.8%
FX banks and other	1.2%	1.7%	1.3%	0.7%	0.0%	0.5%	1.6%	2.6%	4.2%	3.9%
<b>Banks and wholesale</b>	<b>6.6%</b>	<b>8.1%</b>	<b>3.9%</b>	<b>2.8%</b>	<b>1.6%</b>	<b>3.5%</b>	<b>2.9%</b>	<b>3.8%</b>	<b>5.4%</b>	<b>5.7%</b>
TL borrowed funds	3.8%	3.5%	2.1%	3.2%	3.2%	2.2%	0.8%	0.6%	0.6%	0.5%
FX borrowed funds	20.5%	19.7%	21.1%	16.3%	14.5%	13.6%	9.9%	7.3%	8.5%	8.1%
<b>Borrowed funds</b>	<b>24.3%</b>	<b>23.2%</b>	<b>23.2%</b>	<b>19.5%</b>	<b>17.7%</b>	<b>15.8%</b>	<b>10.7%</b>	<b>8.0%</b>	<b>9.1%</b>	<b>8.6%</b>
Other liabilities	6.9%	7.1%	7.1%	6.7%	7.6%	7.2%	8.6%	7.4%	7.7%	7.1%
<b>LIABILITIES (TLmn)</b>	<b>248,616</b>	<b>283,901</b>	<b>312,789</b>	<b>337,387</b>	<b>430,716</b>	<b>678,899</b>	<b>999,486</b>	<b>1,685,258</b>	<b>2,407,704</b>	<b>3,099,114</b>
<b>SHAREHOLDER EQUITY</b>	<b>12.5%</b>	<b>12.7%</b>	<b>13.0%</b>	<b>13.7%</b>	<b>12.6%</b>	<b>10.5%</b>	<b>13.3%</b>	<b>12.7%</b>	<b>12.5%</b>	<b>14.4%</b>

### Tera Yatirim Stock Ratings

Rating	Definition
OVERWEIGHT	The analyst expects that the stock will generate a return above that of the BIST-100 index over the next twelve months.
MARKETWEIGHT	The analyst expects that the stock will generate a return in line with that of the BIST-100 index over the next twelve months.
UNDERWEIGHT	The analyst expects that the stock will generate a return below that of the BIST-100 index over the next twelve months.

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