

Classical Insights -- Emerging Markets

Global Investment Analysis Based on the Classical Economic Model

Classical Insights Emerging Markets Bullet Points August 18, 2009

TSKB -- 1.18

all data are in Turkish lira

Sales and earnings

	2008	2009e	2010e	2011e
Earning Assets (TL mn)	5636	6100	7153	8498
Asset growth		8%	17%	19%
EPS	0.23	0.29	0.30	0.33
NPLs	0.7%	0.7%	0.8%	0.8%
Book value/share	1.31	1.57	1.86	2.29
cons. EPS		0.22	0.24	

Target price & valuation data

Our 12-mo. target	2.34	(based on 7x 2011 EPS)	
Upside to target	98%		
Mkt cap (TL mn)	708	Book value/share	1.46
P/E (2009e)	4.0	Price/book	0.81
P/E (2010e)	4.0	CAR:	22.0%
P/E (2011e)	3.5	Dividend yield	0%

cash flow defined simply as EPS + depreciation. FCF defined as cash flow - capex.

I met with Turkish development bank TSKB this morning and the story remains very attractive. Second-quarter earnings of 0.095/share were excellent given the difficult macro scenario. Lending margin rose dramatically in the quarter – from 3.3% to 4.5% sequentially – and NPLs remained below 1.0%. Even if we assume the lending margin contracts a bit next year, TSKB still trades at just 4.0x expected 2010 earnings and 0.83x book.

We are raising our 2009 EPS estimate to 0.28 lira/share (was 0.22) on the improving NIM outlook. For 2010, our EPS estimate rises to 29 cents due to an increase in the loan base and slightly lower cost estimates (in the wake of bank cost cuts this year). The same factors should allow earnings to rise again in 2011. Here are the estimate changes:

TSKB: Changes in EPS estimates

(TRL share)

	was	is
2009e	0.22	0.28
2010e	0.25	0.29
2011e	0.29	0.33

source: Churchill Research ests.

By the way, another key change in the model is that we are no longer expecting issuance of 100 million new shares in 2010 (which would have brought the share count to 700 million). TSKB is making so much money that it can fund ample loan growth just from internal cash flow. The bank pays no dividends, which helps. Its capital adequacy ratio is currently 22%.

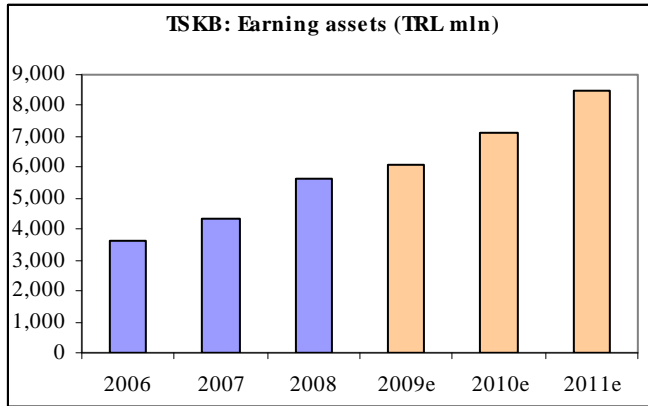
The new price target of 2.30 lira share (was 2.02) is based on a 7x multiple to expected 2011 earnings (as was the old target).

Further points:

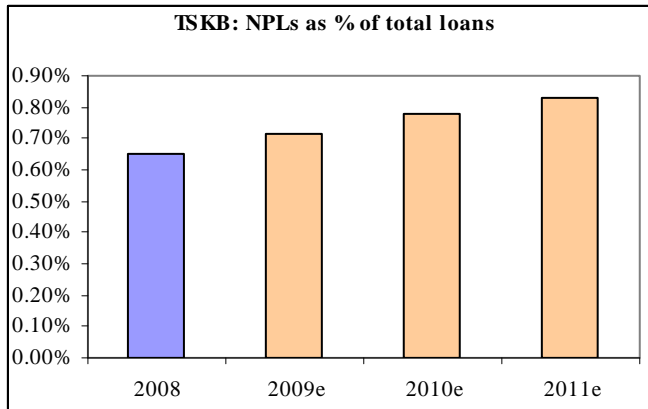
1) TSKB has no branch network. It's a "mission-directed" bank that receives funding from the European Investment Bank (EIB), the World Bank (IBRD) and various other multi-lateral agencies. More than 80% of TSKB's funding comes in the form of 10+-year loans. Nearly 100% of its loans are denominated in dollars or euros.

TSKB's mission is to channel low-cost loans from multilaterals (who want to see Turkey grow) to promising private-sector firms. This model is "lower-spread" in nature when compared to Turkey's consumer-oriented banks – but it's lower-risk, too: TSKB's NPL ratio is just 0.6%.

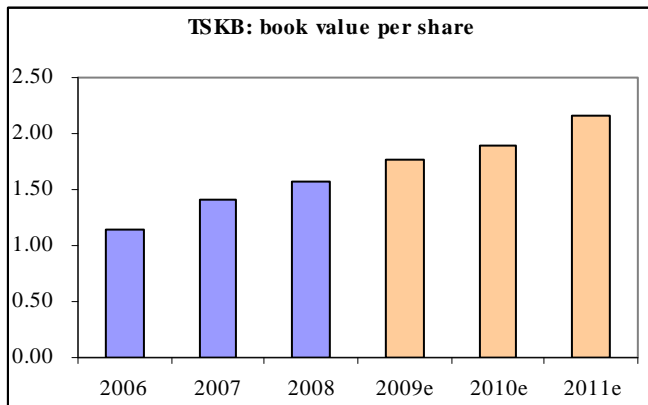
2) Earning assets are on track to rise about 7% this year. For next year the pace of growth should rise to about 17% as the Turkish economy emerges from recession. For 2011, we expect 19% growth in earning assets:



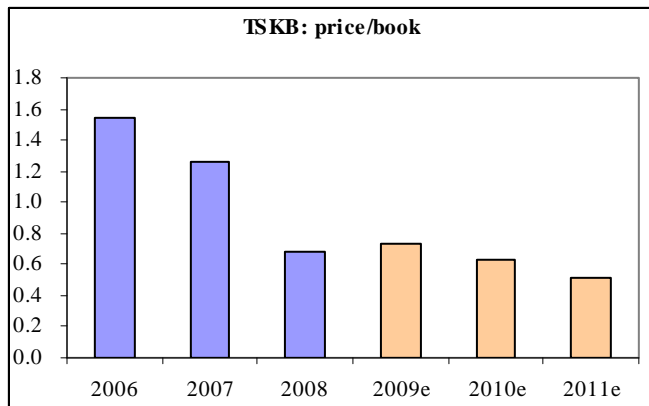
2) Amazingly, TSKB has almost no loans that it can point to and say, "These are bad." The firm has some loans on watch, but almost nothing that is in immediate danger of going bad. We are modeling for a gradual increase in NPLs, to 0.8% by 2011. At the moment the figure is 0.6%.



3) TSKB's book value has been steadily increasing and currently stands at 1.46 lira/share. We expect that figure to rise to 1.57 lira/share at the end of 2009 and 1.86 at year-end 2010:



4) TSKB's price/book ratio is still very low at 0.81x, and if the share price doesn't move that ratio should fall to 0.61x by the end of 2010:



Valuation: We are valuing TSKB at 7x expected 2011 earnings, or 2.30 lira/share. Another way to do it would be to value the firm at 1.5x expected 2010 year-end book value, which would work out to 2.79 lira/share. Prior to 2008, TSKB tended to trade in a range between 1x and 2x book. If it went back to the middle of that range the stock would double (given our EPS estimates).

The Classical Insights portfolio holds TSKB.

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