

Company Report

24/06/2024

Benefits the most from rebalancing economy

■ Strong EPS growth potential prevails

We initiate the coverage of ISMEN with an **Outperform** rating (TP: TL74.56/share, 107% upside) on its high earnings growth potential. Is Investment is the largest brokerage house in Turkiye in terms of assets and equity as of 1Q24 and ranks the first among listed brokerage houses with respect to trading volumes in equity and derivatives markets. We expect ISMEN's net earnings to grow by 35% y/y to TL7.5bn in 2024, followed by an 56% y/y growth to TL11.7bn in 2025. We think the worst is over in earnings in 1Q. Thanks to declining inflation and improving macro, **we foresee 2H earnings to be almost threefold of 1H in 2024.** We expect ISMEN's 2024-25E ROAE to average at an eye-catching 43%, which is above expected inflation over the next two years.

■ Revenues set to grow, while opex remains contained

As the economy rebalances and macro parameters improve, we think ISMEN will benefit the most among peers from the return of foreign investors through potential increase in trading volumes in both equity and derivatives markets. ISMEN has seven different profitable financial subsidiaries, which diversifies its revenue base. We foresee revenues to expand by an average 28% over the next two years. We expect non-commission income, namely interest, trading and financial investments, to remain as the main driver of earnings, which constitutes 73% of its revenues as of 1Q24. We expect ISMEN's trading, interest and commission income to grow by an average 26%, 30% and 18%, respectively, between 2024-25E. On top of that, thanks to effective cost control we envisage its cost/income ratio to stay at 22% between 2024-25E, well below the sector average (32% as of 9M23).

■ Retail business strengthens; margin trading supportive

Beside its wide branch network (1Q24: 31 branches), ISMEN has recently launched its digital investment platform "Herkese Borsa". We expect this platform to increase ISMEN's reach in Turkiye, and thus, be earnings accretive through decreasing customer acquisition costs and boosting commission generation. ISMEN had TL6.3bn of loans extended to customers as of 23YE (TL9.9bn in 1Q24), funded by its free capital. We expect 26% growth in loans to customers to TL8bn in 2024. We calculate an average yield of 70% for 2024, 1.5x average O/N rate in the period. If O/N rate decreases, not our base case for 2024, potential rise in loan volume will be enough to compensate the drop in yield.

■ Attractive valuation backed by strong ROE generation

ISMEN trades at a compelling 4.6x 2025E P/E and 1.8x P/B on 3Y (2023-26E) EPS CAGR of 44% and 25E ROE of 46%. We factor in a sustainable dividend pay-out ratio of 30%, indicating a dividend yield of an average 5.3% for 2024-25E.

ISMEN

Bloomberg/Reuters Code	ISMEN TI / ISMEN.IS
Recommendation	Outperform
Current Price (TL)	35.96
Target Price (TL)	74.56
Upside Potential	107%

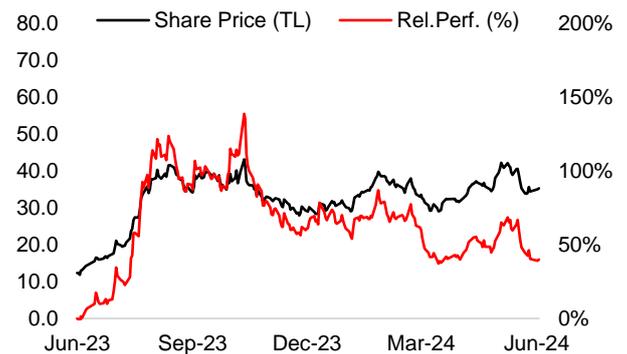
Market Cap (TLmn)	53,940
Free Float (%)	29%
12M high/low (TL)	43.09 / 12.90
ADV (3M avg - \$mn)	8.9

Summary Financials*	2023	2024E	2025E
Net Revenues (TLmn)	16,417	20,294	26,835
% growth	22%	24%	32%
Operating Income (TLmn)	13,781	16,672	22,271
% growth	49%	21%	34%
Net Income (TLmn)	5,540	7,473	11,680
% growth	21%	35%	56%
Equity (TLmn)	15,973	21,130	30,088
Assets (TLmn)	41,994	63,125	98,839
ROE	40.4%	40.3%	45.6%
ROA	10.9%	14.2%	14.4%
EPS (TL)	3.69	4.98	7.79
Dividend per share (TL)	1.07	1.49	2.34
Dividend Yield	3.0%	4.2%	6.5%

Multiples	2023	2024E	2025E
P/E	9.74x	7.22x	4.62x
P/B	3.38x	2.55x	1.79x

	1M	3M	12M	YTD
Rel. Performance	-10%	-6%	47%	-20%
Absolute	0%	11%	204%	15%

*IAS-29 adjusted

Analyst: **Övünç Gürsoy, PhD** +90 212 319 1213

VALUATION

We value ISMEN using the Gordon Growth Model (GGM). Our model suggests a 12-month target value of TL112bn for ISMEN, which implies a TP of TL74.56 per share. We factor in 43% ROAE (return on average equity) for ISMEN throughout our forecast period (2024E-33E). Assuming 19.7% long-term nominal growth rate with a 21.0% risk-free rate and a beta of 1.0, our implied 12-month target P/BV of 3.6x stock suggests a hefty 107% upside to the current share price. Every 1ppt change in CoE changes our target price by 5%, on average.

Exhibit 1: ISMEN GGM Valuation

	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Equity	15,973	21,130	30,088	43,124	58,932	86,329	115,978	156,338	204,816	263,818	340,867
Net Income	5,540	7,473	11,680	16,599	23,331	32,492	43,399	57,566	73,392	92,954	117,569
ROE	40.4%	40.3%	45.6%	45.3%	45.7%	44.7%	42.9%	42.3%	40.6%	39.7%	38.9%

Average Core ROE (2024 - 33E)	42.6%	Risk Free Rate	21.0%
Cost of Equity	26.0%	Equity Risk Premium	5.0%
Long-term Growth Rate	19.7%	Beta	1.0
Implied Target P/B	3.64	Cost of Equity	26.0%
Core Equity (1y forward looking)	30,088		
Target Core Equity Valuation	109,407		
(+) Participations	198		
24E Dividends	2,242		
Target Value	111,847		
Current Market Value	53,940		
Number of Shares	1,500		
Target Price / Share	74.56		
Current Price / Share	35.96		
Upside Potential	107%		

RISKS AND CATALYSTS

- Lower-than-expected GDP growth, slower investment and banking activities would decrease trading volume of the market and impact ISMEN's earnings negatively.
- Potential rise in foreign inflows linked to decreasing CDS, improving CBRT's reserves, higher ratings from credit rating institutions such as S&P, Moody's and Fitch is a major catalyst for the stock.
- Potential decrease in customer acquisition costs through successful execution of the digital platform can be named as an upside risk for the stock.
- Potentially low trading volume in the market, which make it difficult to buy or sell stocks for the institutional investors, poses a downside risk for the stock.
- Potential decline in the headline inflation would alleviate the negative impact of inflation accounting on earnings.
- Every 1ppt change in CoE changes our target price by 5%, on average.

Exhibit 2: ISMEN Summary Financials (IAS-29 adjusted)

BALANCE SHEET (TL mn)	2022	2023	2024E	2025E	2026E
Cash	1,229	2,474	3,064	4,825	7,296
Financial Investments	24,170	12,801	19,355	30,484	46,092
Trade Receivables	30,367	23,795	35,978	56,665	85,677
Other Receivables	2,054	763	961	1,211	1,526
Derivatives	86	23	29	37	47
Other Assets	463	669	1,888	3,285	5,282
Current Assets	58,369	40,525	61,274	96,507	145,919
Financial Investments	389	358	451	568	716
L/T Receivables	9	1	1	1	1
Participations	125	198	249	314	395
Tangible Fixed Assets	164	265	334	421	530
Intangible Assets	568	545	686	865	1,090
Other L/T Assets	5	103	130	164	206
Long Term Assets	1,260	1,469	1,851	2,332	2,938
Total Assets	59,629	41,994	63,125	98,839	148,857
Financial Liabilities	17,034	5,884	12,524	23,810	39,255
Trade Payables	25,325	16,532	24,996	39,368	59,525
Derivatives	1,606	187	236	297	374
Other Current Liabilities	2,414	1,838	2,316	2,918	3,677
Current Liabilities	46,379	24,441	40,072	66,394	102,831
Financial Liabilities	130	151	191	240	303
Other L/T Liabilities	567	151	190	240	302
Long Term Liabilities	697	302	381	480	605
Minority Interest	1,068	1,278	1,543	1,877	2,298
Equity	11,486	15,973	21,130	30,088	43,124
Total Liabilities & Equity	59,629	41,994	63,125	98,839	148,857
INCOME STATEMENT (TL mn)	2022	2023	2024E	2025E	2026E
Net Trading income	2,958	4,847	6,107	7,695	9,695
Interest Income	1,849	6,608	7,758	10,858	15,688
Commission Income (net)	3,126	4,435	5,148	6,222	7,458
Other Revenues	5,489	527	1,280	2,060	2,546
Gross Profit	13,422	16,417	20,294	26,835	35,388
Opex	-2,565	-3,593	-4,527	-5,704	-7,187
Other Operational Income	178	1,376	1,434	1,807	2,277
Other Operational Expenses	-1,791	-420	-529	-667	-840
Operational Profit	9,244	13,781	16,672	22,271	29,638
Income from Participations	83	72	91	115	145
Financial Income	459	811	1,022	1,288	1,622
Financial Expense	-228	-266	-336	-423	-533
Net Monetary Expense	-3,196	-5,137	-6,339	-6,018	-6,469
Pre-Tax Profit	6,361	9,260	11,111	17,233	24,404
Taxes	-1,674	-3,479	-3,333	-5,170	-7,321
Net Income	4,687	5,781	7,778	12,063	17,083
Minority Interest	125	242	304	383	483
Parent's share	4,563	5,540	7,473	11,680	16,599

Source: Company, Oyak Securities Research

Disclaimer

The information, comments and advices included herein do not constitute an offer or a solicitation of an offer to buy or sell any securities. The matters covered on this report may include forward-looking statements that involve risk and uncertainties that could cause actual results to differ materially from those predicted by such forward-looking statements. OYAK Yatırım Menkul Değerler A.Ş. ("OYAK Securities"), does not undertake to advise you of changes in the information or opinions set forth herein or provide you with access to any additional information or to correct any inaccuracies therein which may become apparent subsequent to the date hereof or to publicly update any information or any forward looking statement, whether as a result of new information, future events or otherwise. Content and information provided by third parties is published as supplied to OYAK Securities and OYAK Securities has not independently verified any of such information.

The investment information, comments and advices given herein are not part of investment advisory activity. Investment advisory services are provided by authorized institutions to persons and entities privately by considering their risk and return preferences. Whereas the comments and advices included herein are of general nature. Therefore, they may not be appropriate for your financial situation and risk and return preferences. For this reason, making an investment decision solely by relying on the information given herein may not give rise to results within your expectations. Investors should not make their investment decisions on the basis of this report and construe the contents of this report as legal, tax, financial or investment advice.

OYAK Securities, any of its parents, subsidiaries or affiliates, agents, employees or representatives, do not make any representations or warranties, express or implied, for the accuracy, timeliness, completeness or fairness of any such information or any estimates, conclusions or opinions based thereon, and does not accept any liability or responsibility whatsoever for the contents of the report or for any errors, omissions or mis-statements or for any adverse consequences of the investment decisions made as a result of reliance upon this report.

OYAK Securities, any of its parents, subsidiaries or affiliates, agents, employees or representatives may hold positions and execute transactions in securities of entities mentioned in the document. In addition, OYAK Securities, any of its parents, subsidiaries or affiliates, agents, employees or representatives might have, might be seeking or will seek investment banking or other business relationships with the companies in this report.

Copyright in this report is owned by OYAK Securities except where otherwise indicated by a third party's proprietary notice and may not be reproduced or appropriated in any manner without written permission of OYAK Securities or their respective owners.

Valuation Approach

Valuation tools employed most frequently are Discounted Cash Flow (DCF) and International Peer Group Comparison, though other metrics such as Dividend Discount, Gordon Growth, and Replacement Value Methods are also used wherever appropriate. Oyak Securities analysts may calculate the target return of each stock considering only one method or assigning different weights to more than one method depending on the analyst's opinion. The "Expected Market Return" (**EMR**) of the BIST-100 is determined through aggregate target returns of each stock under coverage based on their respective free float market capitalization.

Rating Methodology

Oyak Securities assigns recommendations to each stock according to the following criteria:

Price target for a stock represents the value analyst expects the stock to reach during our performance horizon, which is 12 months. For stocks with an OUTPERFORM recommendation, target return must exceed the EMR by at least 50% over the next 12 months. For a stock to be classified as UNDERPERFORM, the stock must be expected to underperform the EMR more than 25% over the next 12 months. Stocks that an analyst expects to perform parallel to the EMR within a band of +50%/-25% are rated as MARKETPERFORM. Oyak Securities analysts review their recommendations under continuous screening. Nevertheless, at times, target return of a stock may be allowed to move outside our rating intervals as a result of share price fluctuations. Under such circumstances, the analyst may choose not to change his/her recommendation.