

Aksigorta

NEUTRAL

Current price: TRY2.54
12-mo T.Price: TRY2.89

Analyst Hakan Deprem
+90 (212) 334 94 62

Hakan.deprem@akyatirim.com.tr

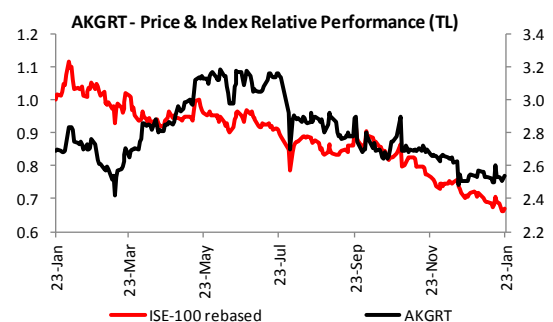
MTPL segment remains a headache

- MTPL segment still hurting profitability.** The rise in provisions regarding claims for bodily injuries in the MTPL (Motor third-party-liability) segment continues to squeeze the company's profitability. Although the company revised its MTPL prices upward in December 2014, we have revised down our net profit forecast for 2015 from TRY72mn to TRY63mn, and our net profit forecast for 2016 from TRY90mn to TRY83mn by considering the increased risks in the MTPL segment. **Accordingly, while maintaining our "Neutral" rating for the company, we have lowered our 12-month target price for Aksigorta to TRY2.89 per share (from TRY3.34), which includes the dividend.**
- We estimate a weak set of 4Q14 results.** Total non-life premiums declined by 5.8% YoY to TRY360mn in 4Q14. The slowdown in MTPL premium growth resulted in lower premium generation in 4Q14 compared to the previous year. Considering the increase in provisions related to MTPL claims, we estimate a net profit of TRY8.6mn in 4Q14, compared to the TRY16.7mn in 4Q13 and TRY10.9mn in 3Q14. Note that the company's total premium generation grew by 12.3% in 2014 (2015F premium growth: 10%). On the other hand, we estimate growth of ~8% in the market's non-life premiums in 2014, and 11% in 2015.
- Dividend yield of 4.2%.** We are assuming that the company will distribute a TRY33mn dividend in 2Q15, implying a yield of ~4.2%.
- Upward revision in the market's MTPL prices may pose upside risk to our 2015 forecasts.** Note that there has not been a significant upward revision in MTPL prices in the market to cover the increasing costs in this segment. Aksigorta has recently revised up its MTPL prices. However, we doubt that this will fully meet its increasing costs. A rational move from the market (through a material increase in MTPL prices), which would also support Aksigorta's premium growth, may bring upside potential to our 2015 forecasts.
- No major expected contribution from the stake sale in Merter Turkey BV.** Merter BV, 25% of which is owned by Aksigorta, has applied to the Competition Authority for the approval of its 50% stake sale in Merter Turkey BV to the Blackstone affiliate MRT Investment Holding BV. Note that Merter Turkey BV has a shopping mall and an office building in Istanbul. According to Aksigorta's September 2014 financials, the book value of the 25% stake in Merter BV was TRY7.96mn. However, there are no details regarding the price of the stake sale. Considering the TRY22mn diminution in the book value of Merter BV (in 1Q14), we think that the market value should not deviate much from the reported book value.

Stock Data

Ticker (Reuters, Bloomberg)	AKGRT.IS, AKGRT TI
Market Cap (TRYmn)	777
Number of Shares (000)	306,000
Free Float	28%
Daily Vol. (3 month avg, TRYmn)	1.0
BIST-100 Index (TRY / USD)	90,736 / 38,881

Stock data is as of 23 January 2015



Stock Performance

	1W	1M	3M	1Y
TRY	0.4%	1.2%	-7.6%	-4.7%
Index Rel.*	-3.3%	-5.8%	-19.2%	-31.6%

* vs. BIST Total Return Index

Forecasts (TRYmn)

	2013*	2014E	2015F	2016F
Premium	1,526	1,714	1,884	2,141
Net Profit	160	42	63	83
P/Premiums	0.5	0.5	0.4	0.4
P/B	1.5	1.5	1.4	1.3
P/E	4.9	18.6	12.4	9.3
RoE	33.4%	8.0%	11.9%	14.9%

*includes one-off gains of TRY94mn

Shareholding Structure

Sabancı Holding	36%
Ageas	36%
Free Float	28%

Balance Sheet (TRYmn)	2012	2013	2014E	2015F	2016F
Cash and Equivalents	740	902	909	964	1,022
Marketable Securities	40	168	202	293	356
Short Term Receivables	295	295	388	450	615
Other Current Assets	114	132	130	143	153
Fixed Assets	32	11	22	23	24
Intangible Fixed Assets	12	20	25	27	28
Total Assets	1,267	1,547	1,687	1,910	2,209
Short Term Payables	75	105	127	135	143
Other Short Term Payables	34	44	56	60	63
Technical Reserves	647	763	871	1,046	1,292
Deferred Income and Expenses	22	29	43	47	50
Long Term Technical Reserves	25	33	40	42	45
Other Liabilities, Provisions and Reserves	23	22	22	23	25
Shareholders' Equity	424	533	514	543	576
Liabilities & Sh. Equity	1,267	1,547	1,687	1,910	2,209
Income Statement (TRYmn)	2012	2013	2014E	2015F	2016F
Total Non-Life Premium Generation	1,311	1,526	1,714	1,884	2,141
Earned Premiums	905	1,035	1,175	1,202	1,285
Investment Income	38	51	76	80	89
Other Technical Income	3	8	15	18	19
Technical Income	946	1,095	1,266	1,300	1,393
Total Claims	-607	-660	-847	-817	-851
Net Changes in Other Technical Reserves	-38	-46	-45	-53	-59
Operating Expenses	-246	-287	-320	-337	-364
Technical Expense	-891	-993	-1,212	-1,207	-1,274
Technical Balance	55	101	54	93	119
Financial Income	19	13	12	-1	-1
Other Income / Expenses	-11	71	-13	-13	-14
Profit (Loss) Before Taxes	63	186	53	78	104
Taxes	-14	-26	-11	-16	-21
Net Profit (Loss)	49	160	42	63	83
Profitability Ratios	2012	2013	2014E	2015F	2016F
Claims Ratio	-67%	-64%	-72%	-68%	-66%
Expense Ratio	-31%	-31%	-30%	-31%	-31%
Combined Ratio	-98%	-95%	-102%	-99%	-98%
Technical Profit Margin	4%	7%	3%	5%	6%
Net Profit Margin	4%	10%	2%	3%	4%
Growth (YoY)	2012	2013	2014E	2015F	2016F
Gross Premiums	15%	16%	12%	10%	14%
Technical Profit	49%	85%	-47%	72%	29%
Net Financial Income	76%	-32%	-6%	-112%	-28%
Net Income	52%	228%	-74%	50%	33%
Multiples	2012	2013	2014E	2015F	2016F
P/B	1.8	1.5	1.5	1.4	1.3
P/Premiums	0.6	0.5	0.5	0.4	0.4
P/E	16.0	4.9	18.6	12.4	9.3
ROAE	12%	33.4%	8.0%	11.9%	14.9%

Source: The Company, Ak Investment

This report has been prepared by Ak Investment (Ak Yatırım Menkul Değerler A.Ş.) by using the information and data obtained from sources which are reasonably believed to be trustworthy. The statements indicated in the report should not be assumed to be sales or purchase offers under any circumstances. Ak Investment does not guarantee that the information contained is true, accurate and unchangeable. Thus, the readers are advised to have the accuracy of the information contained confirmed before acting by relying on such information and the readers shall bear the responsibility of the decisions taken by relying thereon. Ak Investment shall not in any case be responsible for incompleteness and inaccuracy of the information. Furthermore, the personnel and consultants of Ak Investment and Akbank shall not have any responsibility in any case for direct or indirect damage caused by such information. Moreover, Ak Investment shall not be held liable for any damage to the hardware or software of the receiver caused by a virus, detected transfer or any other technical reason in case of the receipt of the reports via internet or through e-mail.