

# Aksigorta

## Overdue for a rebound

Aksigorta shares have relentlessly and unjustifiably underperformed the ISE-100 as well as its core holding Akbank since August. The stock's US\$1,335mn market value falls short of its market-based NAV, even after with the application of a 25% discount to participation portfolio. Our target NAV, incorporating such discount on the fair values of participations, on the other hand, offers 60% upside in a 12-month horizon.

■ **Premium generation up 18.7% YoY at TRY793.5mn in 2007, broadly in line with our expectations.** We expect the company to announce a net profit of TRY117mn in 2007, including the TRY28mn profit from the sale of a 10% stake in Ak Emeklilik.

■ **Buy the participations, get the core business for free...** We value Aksigorta's core non-life insurance business at US\$354mn. We calculate the sustainable adjusted RoE of the company at 14% after eliminating the income from participations from the net earnings of the company and the book value of participations from the equity. Applying a 12.5% cost of equity and 4% sustainable growth rate we reach a target P/BV of 1.18x and derive a 12M target non-life insurance business valuation of US\$354mn, which we believe is not reflected in the company's current market value.

■ **Technical income set to improve...** Technical income is set to stage a comeback in 2008 after its weakness in 9M07. We estimate that Aksigorta will have recorded a Claims Ratio of 72.0% for the end of 2007 and 71.0% for 2008. Backed by a decline in operating expenses in 2008, we project an improvement in the Combined Ratio from 99.4% at the end of 2007 to 98% in 2008 thanks to the completion of the restructuring process. We expect the company to close the year with a Net Technical Margin of 2.6%, unchanged from its 9M07 level, but we forecast an improvement to 2.9% in 2008.

■ **TRY28mn from Ak Emeklilik sale...** Financial income is also expected to strengthen in 4Q07. We have revised our earnings model, whereby it is assumed that the weakness on the technical side for the rest of 2007 will have been offset by the higher-than-the-previously-estimated financial income. We also added the TRY27.9mn profit from the sale of Ak Emeklilik in 4Q07.

■ **Avivasa still a hidden gem...** We value Avivasa at US\$1.1bn via DCF analysis. Although the participations of Aksigorta are planned to be divested and placed under Sabanci Holding in the near future, we think Avivasa will represent a good value driver for the company. Aksigorta is seeking opportunities for inorganic growth to increase its market share, raising the stock's attraction with respect to its peers.

■ **Akbank remains a risk...** With banks bearing the brunt of the recent turmoil, Akbank has heavily underperformed the ISE-100 and Banking Sector indices by around 12% in the last three months, serving to limit any further downside risk related to the Bank. Note too that we apply a 25% marketability / minority discount to the participation value of Aksigorta in our price target calculations, as the bulk of its participation value (and overall NAV) comes from its 6.1% minority stake in Akbank.

■ **Outperform rating maintained...** We feel the stock has been unfairly penalised over the past five months. Our target NAV of US\$2.1bn is almost 60% higher than the current m-cap of US\$1.3bn; hence we maintain our outperform rating for the stock.

USD Based Key Financial Ratios	2005	2006	2007E	2008F	2009F	2010F
PER, x	23.50	24.34	13.81	16.34	13.79	11.46
P/BV, x	0.96	1.00	0.65	0.61	0.57	0.53
Price to Premium, x	3.30	2.70	2.07	1.68	1.45	1.21
RoAE	5.5%	4.0%	5.7%	3.8%	4.3%	4.8%
Net Technical Margin, %	5.7%	3.5%	2.5%	2.8%	3.8%	5.0%
EPS, TRY	0.24	0.24	0.38	0.31	0.39	0.48
EPS Growth	8.7%	2.7%	58.0%	-20.1%	25.9%	25.2%
DPS, TRY	0.16	0.21	0.29	0.23	0.29	0.36
Dividend Yield			5.8%	4.6%	5.8%	7.3%

Source: Company Data, Istanbul Stock Exchange and FinansInvest Research Forecasts

## Outperform

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Sadrettin Bagci

+44 (7515) 127174

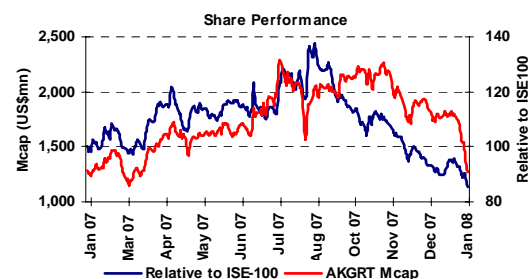
sadrettin.bagci@finansinvest.com

### Stock Data

Bloomberg / Reuters	AKGRT TI / AKGRT.IS
Price (TRY)	5.20
12m Price Target (TRY)	8.70
52 week Price Range (TRY)	4.95-9.25
Shares Outstanding	306,000,000
Market Cap (TRYmn):	1,591
Market Cap (USDmn):	1,335

### Trading Data

Relative Performance	
3mnth:	-24.8%
12mnth:	-15.0%
3 mo. Avrg. Daily Trading Vol.	US\$5.25mn
Weight in ISE-100	0.80%
Beta (5 year, on weekly returns)	1.10
Foreign Ownership	
Current	86.7% of free float
12 month ago	85.5% of free float



**Table 1: Valuation of the Non-Life Insurance Business Value, US\$m**

US\$m	2005	2006	2007E	2008F	2009F	2010F
Book Value (A)	1,315	1,261	1,953	2,084	2,231	2,372
Value of Participations (B)	1,080	1,118	1,634	1,786	1,908	2,018
Adjusted Book Value (C=A-B)	236	142	320	299	323	354
Net Profit (D)	54	52	92	77	92	110
Profit before Tax (E)	63	56	106	97	115	138
Income from Participations (F)	36	41	58	74	80	85
Adjusted Profit before Tax (E-F)	27	14	48	23	35	53
Adjusted Net Profit, 20% Corporate Tax	21	11	38	18	28	43
<b>RoE (D/A)</b>		<b>4.0%</b>	<b>5.7%</b>	<b>3.8%</b>	<b>4.3%</b>	<b>4.8%</b>
<b>Adjusted RoE (G/C)</b>		<b>6.0%</b>	<b>16.6%</b>	<b>5.9%</b>	<b>8.9%</b>	<b>12.6%</b>
Sustainable RoE		14.0%				
CoE		12.5%				
Growth		4.0%				
Target P/BV		1.18				
2008 Adjusted Book Value		299				
<b>12M Target Value for the Stock</b>		<b>354</b>				

Source: FinansInvest Research Forecasts

**Table 2: Current and Target NAV Breakdown, US\$m**

Current and Target NAV Breakdown of Aksigorta, as of 24 January 2008						
US\$m	Ticker	Current M.Cap. US\$m	Target M.Cap. US\$m	Aksigorta's Share	Contribution to Current NAV	Contribution to Target NAV
<b>Listed Participations</b>						
Akbank	AKBNK	17,749	25,300	6.07%	1,077	1,536
Akcansa	AKCNS	852	1,625	7.47%	64	121
Cimsa	CIMSA	748	1,625	2.57%	19	42
Yunsa	YUNSA	36	36	1.49%	1	1
<b>Total</b>					<b>1,161</b>	<b>1,699</b>
		Current Booking Value US\$m	Target Value US\$m	Aksigorta's Share	Contribution to Current NAV	Contribution to Target NAV
<b>Unlisted Participations</b>						
Avivasa Hayat ve Emeklilik*		142	1,100	50.00%	142	550
Others		6	6	100.00%	6	6
<b>Total</b>					<b>148</b>	<b>556</b>
<b>Total Value of Participations</b>					<b>1,309</b>	<b>2,256</b>
<b>Total Value of Participations after 25% Discount</b>					<b>982</b>	<b>1,692</b>
<b>Net Cash Position</b>					<b>73</b>	<b>76</b>
<b>Aksigorta's Non-Life Insurance Value</b>					<b>315</b>	<b>354</b>
<b>Net Asset Value of Aksigorta</b>					<b>1,369</b>	<b>2,122</b>
<b>Aksigorta's Current M.Cap.</b>					<b>1,335</b>	
<b>Upside Potential</b>					<b>3%</b>	<b>59%</b>

\* Current Booking Value for Avivasa is the Akemeklilik's Booking Value as of 9M07 and Aksigorta has 100% stake

Source: FinansInvest Research Forecasts

**Table 3: Balance Sheet Forecasts, TRY Million**

TRY Million	2005	2006	2007E	2008F	2009F	2010F
<b>Current Assets</b>	<b>536</b>	<b>476</b>	<b>798</b>	<b>878</b>	<b>1,047</b>	<b>1,270</b>
Cash and equivalents	197	153	187	191	205	227
Financial Assets	100	54	199	214	264	325
Receivables from Operations	213	253	392	451	553	691
Other Current Assets	26	17	20	22	25	28
<b>Non-Current Assets</b>	<b>1,498</b>	<b>1,623</b>	<b>1,948</b>	<b>2,304</b>	<b>2,554</b>	<b>2,804</b>
Subsidiaries	1,449	1,572	1,894	2,250	2,500	2,750
Fixed Assets	48	48	50	50	50	50
Otehr Non-Current Assets	1	3	4	4	4	4
<b>Total Assets</b>	<b>2,034</b>	<b>2,100</b>	<b>2,746</b>	<b>3,182</b>	<b>3,601</b>	<b>4,074</b>
<b>Short Term Liabilities</b>	<b>207</b>	<b>262</b>	<b>462</b>	<b>531</b>	<b>647</b>	<b>806</b>
Payables from Operations	63	53	156	180	220	275
Insurance Technical Provisions	129	191	286	329	403	503
Provisions for Unearned Premiums - Net	91	128	186	214	263	328
Unexpired Risk Reserves - Net	38	63	99	114	140	175
Other Provisions	0	0	0	0	0	0
Deferred Income and Expense Accruals	0	0	0	0	0	0
Other Short Term Liabilities	15	18	20	23	25	28
<b>Long Term Liabilities</b>	<b>62</b>	<b>66</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>35</b>
<b>Shareholders' Equity</b>	<b>1,765</b>	<b>1,772</b>	<b>2,264</b>	<b>2,626</b>	<b>2,924</b>	<b>3,233</b>
Paid in Capital	153	306	306	306	306	306
Capital Reserves	281	128	128	128	128	128
Profit Reserves	285	309	454	484	507	537
Revaluation of Financial Assets	968	950	1,253	1,609	1,859	2,109
Previous Years Profit/Loss	5	5	5	5	5	5
Net Profit/Loss for the Period	72	74	117	94	118	148
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>2,034</b>	<b>2,100</b>	<b>2,746</b>	<b>3,182</b>	<b>3,601</b>	<b>4,074</b>

Source: Company Data and FinansInvest Research Forecasts

**Table 4: Income Statement Forecasts, TRY Million**

TRY Million	2005	2006	2007E	2008F	2009F	2010F
<b>I-TECHNICAL DIVISION</b>						
<b>A- Non-Life Technical Income</b>	<b>296</b>	<b>392</b>	<b>472</b>	<b>526</b>	<b>632</b>	<b>776</b>
1- Earned Premiums (Net of Reinsurer Share)	212	312	395	444	544	680
2- Investment Income Transferred from Non-Technical Divisions	13	15	18	17	18	21
3- Other Technical Income (Net of Reinsurer Share)	72	65	60	65	70	75
<b>B- Non-Life Technical Expense (-)</b>	<b>-267</b>	<b>-368</b>	<b>-452</b>	<b>-500</b>	<b>-590</b>	<b>-707</b>
1- Realized Claims (Net of Reinsurer Share)	-151	-226	-284	-316	-387	-483
4- Operating Expenses (-)	-113	-138	-168	-185	-203	-224
<b>C- Non Life Technical Profit (A-B)</b>	<b>29</b>	<b>24</b>	<b>20</b>	<b>26</b>	<b>43</b>	<b>69</b>
<b>II- NON TECHNICAL DIVISION</b>						
<b>K- Investment Income</b>	<b>92</b>	<b>99</b>	<b>115</b>	<b>116</b>	<b>131</b>	<b>144</b>
1- Income From Financial Investment	31	25	20	17	18	21
2- Income from Sales of Financial Assets	1	1	0	0	0	0
3- Revaluation of Financial Assets	9	6	12	5	5	5
4- Foreign Exchange Gains	3	7	8	5	5	5
5- Dividend Income from Participations	48	59	75	89	103	113
<b>L- Investment Expenses (-)</b>	<b>-20</b>	<b>-24</b>	<b>-29</b>	<b>-25</b>	<b>-26</b>	<b>-29</b>
1- Investment Management Expenses (including interest) (-)	0	0	0	0	0	0
2- Valuation Allowance of Investments (-)	0	0	0	0	0	0
3- Losses On Sales of Investments (-)	0	0	0	0	0	0
4- Investment Income Transferred to Life Technical Division (-)	-13	-15	-18	-17	-18	-21
5- Losses from Derivative Products (-)	0	0	0	0	0	0
6- Foreign Exchange Losses (-)	-4	-6	-8	-5	-5	-5
7- Depreciation Expenses (-)	-3	-3	-3	-3	-3	-3
8- Other Investment Expenses (-)	0	0	0	0	0	0
<b>M- Other Income and Expenses (+/-)</b>	<b>-17</b>	<b>-17</b>	<b>29</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>N- Net Profit / (Loss)</b>	<b>72</b>	<b>74</b>	<b>117</b>	<b>94</b>	<b>118</b>	<b>148</b>
1- Profit/(Loss) Before Tax	84	79	135	117	147	184
2- Taxes Provisions (-)	-12	-5	-18	-23	-29	-37
3- Net Profit (Loss) after Tax	72	74	117	94	118	148

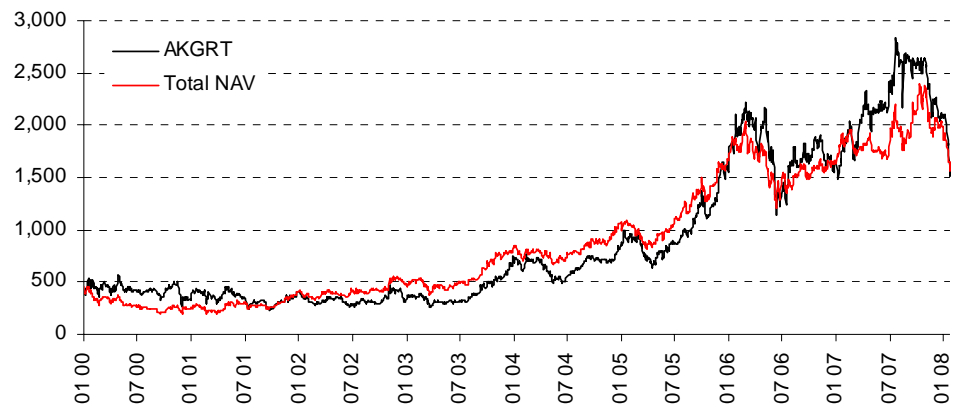
Source: Company Data and FinansInvest Research Forecasts

**Table 5: Key Financial Ratios**

	2006	2007E	2008F	2009F	2010F
RoE	4.0%	5.7%	3.8%	4.3%	4.8%
Adj. RoE	6.0%	16.6%	5.9%	8.9%	12.6%
Net Technical Margin	3.5%	2.5%	2.8%	3.8%	5.0%
Retention Ratio	52.3%	55.0%	55.0%	55.0%	55.0%
Claims Ratio	72.7%	72.0%	71.0%	71.0%	71.0%
Expense Ratio	24.6%	27.4%	27.0%	24.5%	21.8%
Combined Ratio	97.2%	99.4%	98.0%	95.5%	92.8%

Source: FinansInvest Research Forecasts

**Chart 1: Total NAV to Aksigorta's Market Capitalization, TRY Million**



Source: Istanbul Stock Exchange and FinansInvest Research

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 **FINANSINVEST**  
Finans Yatırım Menkul Değerler A.Ş.  
Nispetiye Cad. Akmerkez B Kule Kat:2  
34330 Etiler – İstanbul TURKEY

Switchboard: +90 212 282 1700  
Research Fax: +90 212 282 2256  
Sales & Trading Fax: +90 212 282 1755

## Contacts:

Oguz Büktel	EVP, Research & Institutional Sales	+90 212 336 7285	oguz.buktel@finansinvest.com
Tamar H. Boz	Platform Assistant	+90 212 282 2259	tamar.boz@finansinvest.com

## **Economic Research**

Banu Kivci Tokali	Macroeconomics, Politics	+90 212 336 7278	banu.kivcitokali@finansinvest.com
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## **Equity Research**

Mert Ulker, CFA	Head of Equity Strategy	+90 212 336 7275	mert.ulker@finansinvest.com
Osman Memisoglu	Telecoms, Media, Beverages, Autos & Auto Parts	+90 212 336 7284	osman.memisoglu@finansinvest.com
Sadrettin Bagci	Banking, Insurance	+44 7515 127174	sadrettin.bagci@finansinvest.com
Mehmet Colakoglu, CFA	Conglomerates, Consumer Durables, Cement, Glass, Construction, Retail, Sports Clubs	+90 212 336 7296	mehmet.colakoglu@finansinvest.com
Ozgur Ucur	Real Estate, Pharma & Healthcare, Defence, Technology, Tourism, Quantitative Analysis	+90 212 336 7283	ozgur.ucur@finansinvest.com
David Taranto	Food, Textiles & Apparel, Retail, Quantitative Analysis, Database	+90 212 336 7281	david.taranto@finansinvest.com
Yael Yahya	Quantitative Analysis, Database	+90 212 336 7282	yael.yahya@finansinvest.com

## **Institutional Sales & Trading**

Ceren Onar Karacak	Sales & Trading, Head	+90 212 336 7118	ceren.karacak@finansinvest.com
Egemen Erden	Sales, Head	+90 212 336 7102	egemen.erden@finansinvest.com
Emre Balkeser	Equity Sales & Trading, Head	+90 212 336 7106	emre.balkeser@finansinvest.com
Nezihi Abay	Equity Sales, Head	+90 212 336 7107	nezihi.abay@finansinvest.com
Mete Demir	Sales & Trading	+90 212 336 7116	mete.demir@finansinvest.com
Mert Ozener	Sales	+90 212 336 7112	mert.ozener@finansinvest.com
Mujde Erdogan	Sales	+90 212 336 7101	mujde.erdogan@finansinvest.com
Merih Filiz	Sales & Derivatives	+90 212 336 7287	merih.filiz@finansinvest.com
Sezin Temelli	Trading	+90 212 336 7105	sezin.temelli@finansinvest.com
Ozlem Atas	Trading	+90 212 336 7103	ozlem.atas@finansinvest.com
Sibil Pektorosoglu	Settlement Officer	+90 212 336 7121	sibil.pektorosoglu@finansinvest.com