

# Pegasus

## OVERWEIGHT

June 9, 2023

### A cost conscious growth strategy

**Initiating with an Overweight rating...** Reasons for our recommendation are: i) Effective cost management, ii) successful strategy of shifting capacity from domestic to international flights, benefiting from strong tourism activity along with increasing FX revenues, iii) attractive valuation and strong seasonality which should support the share price in the near term. Additionally, the ongoing construction of the second runway at Istanbul Sabiha Gökçen International Airport could be a catalyst. We set our ex-dividend target price at TL924.7/share, implying a 71% upside potential. PGSUS currently trades at 2023E EV/EBITDA of 4.4x and P/E of 4.6x.

**A fleet plan that is growth accommodative with effective cost management...** Fuel costs account for the largest share of the total costs of an airline. Pegasus' share of fuel cost was 37% in 2022. Pegasus aims to expand its fleet with new A321neo aircraft through 2025. Increasing share of Neo seats in total is making significant contribution to efficiency gains. The new Airbus Neo consumes ~20% less fuel per km than the B737-800s and has ~26% more seats. We expect the share of Neo seats in total to reach 97% by 2025. With this increase, Pegasus will have a more uniform fleet of aircraft and will have lower maintenance costs compared to a complex fleet. Between 2022-25E, we foresee EBITDA CAGR of 13%, driven by strong revenue growth coupled with its initiatives to control costs, leading to better margins.

**Capacity shift to international side continues...** In 2022, the number of passengers reached 27.0mn, with an annual increase of 33.6%. We foresee pax CAGR of 12% driven by international passengers, as the shift of the passenger mix towards the international continues. The share of international passengers, which was 38% in 2015, reached 59% in 2022. This indicates higher revenue growth through the pricing effect and ancillary income contribution. We forecast Pegasus' three-year revenue CAGR (2022-25e) at 13% and we expect ancillary revenue per passenger to increase by 9% y/y in 2023.

**Second runway could be a catalyst...** The ongoing construction of the second runway at Istanbul Sabiha Gökçen International Airport is expected to be completed by July 2023. Afterwards, the first runway will be closed for maintenance and both runways will probably be opened for use only in the summer of 2024. With the new runway, Pegasus may place additional aircraft orders to increase its share of the capacity increase in Sabiha Gökçen. We believe that the new runway can be a catalyst for the stock in 2024.

**Key risks...** We think that increase in fuel costs, appreciation of TL (PGSUS is EUR long), and competition with THY at its central Sabiha Gökçen Airport could be the main risks.

#### Price Data

Current Price (TL, 09-June-23)	541.40
Current Mcap (TLmn)	55,385
Current Mcap (EUR mn)	2,214
Target Price (TL/share)	924.73
Target Mcap (TLmn)	94,600
Return Potential	71%
Dividend yield	0%

Financials (EUR mn)	2021	2022	2023E	2024E
Revenues	1,025	2,449	3,034	3,316
% ch y/y		139	24	9
EBITDA	254	835	1,037	1,147
% ch y/y		228	24	11
Net Income	-150	431	477	573
% ch y/y			11	20

Margins (%)	2021	2022	2023E	2024E
EBITDA Margin	24.8	34.1	34.2	34.6
Net Margin	-14.7	17.6	15.7	17.3
Gross Dividend Yield	0.0	0.0	0.0	0.0

Ratios	2021	2022	2023E	2024E
P/E (EUR, x)	-5.2	2.7	4.6	3.9
EV/EBITDA (EUR, x)	9.7	3.9	4.4	3.9
Net Debt/EBITDA (EUR, x)	6.6	2.4	2.3	2.0
ROE (EUR, %)	-4.2	9.0	8.4	9.2

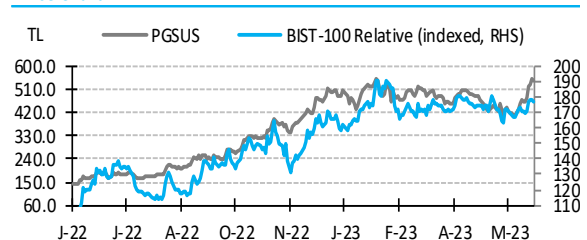
#### Stock Data

Ticker	PGSUS.IS	PGSUS TI
Sector		Aviation
# of Shares (mn)		102
3M Av. Trd. Vol. (mn)		US\$36.8
52-week Range	TL165.70 -	TL549.20

#### Market Data

BIST-100	5,554
TL/EUR	25.0103

#### Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	21%	7%	13%	216%
BIST-100 Relative	-1%	4%	12%	46%

#### Major Shareholders

Esas Holding	56.66%
Free Float	41.53%
Local Privately Held	1.81%

**Burak Salman**

[bsalman@terayatirim.com](mailto:bsalman@terayatirim.com)

Tel: +90 212 365 1000

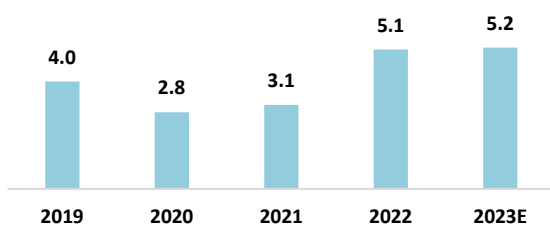
**Mustafa Bayram**

[mbayram@terayatirim.com](mailto:mbayram@terayatirim.com)

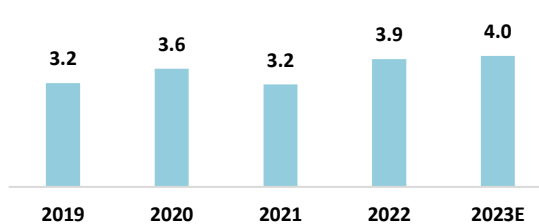
Tel: +90 212 365 1030

## Pegasus in a nutshell

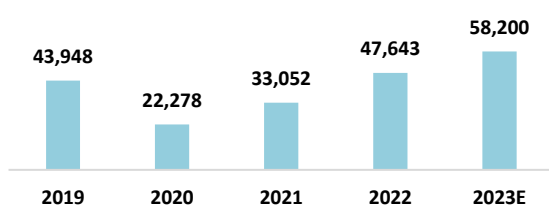
**RASK (EUR Cent)**



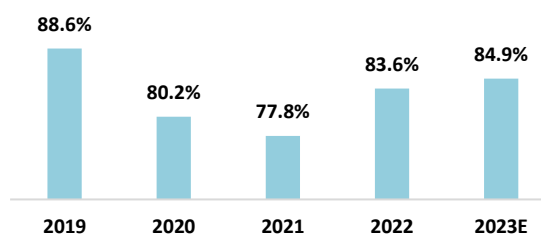
**CASK (EUR Cent)**



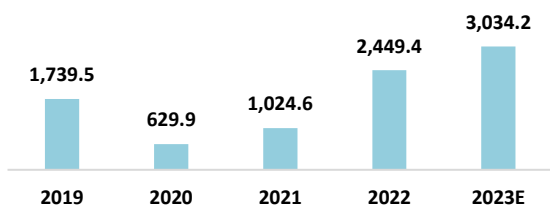
**ASK (mn)**



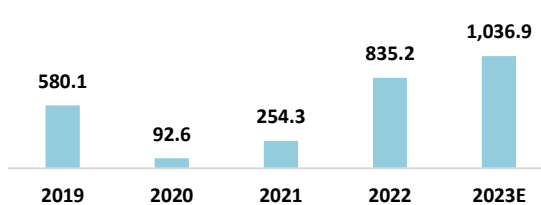
**Load Factor**



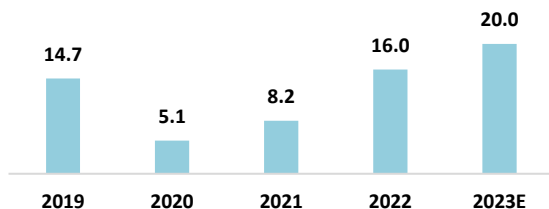
**Revenues (mn)**



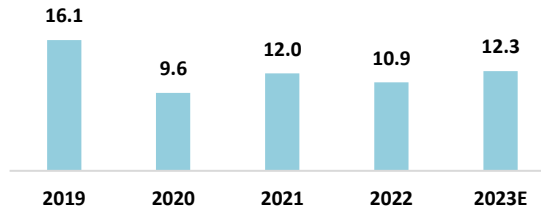
**EBITDA (mn)**



**Intenational PAX (mn)**



**Domestic PAX(mn)**



Source: Company Data, Tera Estimates

## VALUATION

We value PGSUS based on 50% DCF analysis and 50% target EV/EBITDA multiples and reach a target price of TL916.6 per share, indicating a 67.7% upside potential. In DCF analysis, we assume constant 10.1% WACC derived from a EUR risk-free rate of 9.1%, equity risk premium of 5.5%, and beta of 1.0x. We employed a 4.6x target multiple for PGSUS, which is the 1-year forward peer median EV/EBITDA multiple adjusted for the historical premium/discount.

Methodology	Weights	Contribution (TL mn)
Target Multiples EV/EBITDA	50%	40,816
DCF	50%	53,784
<b>Target Equity Value, TL mn</b>	<b>100%</b>	<b>94,600</b>
Upside/(Downside) Potential		70.8%
Number of Shares		102
Current Price, TL		541.4
<b>Target Price, TL</b>		<b>924.7</b>

Source: Bloomberg, TERA Yatirim Estimates

Methodology	EUR mn
1 Fwd Year Peer Median EV/EBITDA	4.8
Hist. Premium/(Discount)	-4.3%
Target Multiple	4.6
2023E EBITDA	1,037
<b>Implied EV, EUR mn</b>	<b>4,727</b>
Net Debt (EUR mn)	2,196
Minority Interest (EUR mn)	0
Equity Pickups (EUR mn)	19
<b>Equity Value for Pegasus (EUR mn)</b>	<b>2,549</b>
2023E EUR/TL	28.3
<b>Target Equity Value, TL mn</b>	<b>81,632</b>

Methodology	EUR mn
DCF	6,478.5
<b>Implied EV, EUR mn</b>	<b>6,478</b>
Net Debt (EUR mn)	2,196
Minority Interest (EUR mn)	0
Equity Pickups (EUR mn)	19
<b>Equity Value for Pegasus (EUR mn)</b>	<b>4,301</b>
EUR/TL	25.01
<b>Target Equity Value, TL mn</b>	<b>107,568</b>

We foresee a 13% CAGR in revenues until 2025, mostly driven by international revenues. We project an EBITDA of EUR1,037mn in 2023E, corresponding to an EBITDA margin of 34.2% (+0.1ppts y/y). We expect 22.2% y/y increase in ASK and 123bps y/y increase in the load factor. We forecast passenger numbers to rise by 19.6% y/y in 2023 and 10.7% y/y in 2024.

Income Statement (EUR mn)	2017	2018	2019	2020	2021	2022	2023E	2024E
<b>Revenue</b>	<b>1,299</b>	<b>1,470</b>	<b>1,739</b>	<b>630</b>	<b>1,025</b>	<b>2,449</b>	<b>3,034</b>	<b>3,316</b>
<b>EBITDA</b>	<b>178</b>	<b>268</b>	<b>580</b>	<b>93</b>	<b>254</b>	<b>835</b>	<b>1,037</b>	<b>1,147</b>
Depreciation	80	96	244	272	269	257	345	375
EBIT	98	172	336	-179	-15	578	690	772
Profit/loss from subsidiaries	1.0	1.5	2.6	1.9	1.0	1.1	4.4	5.0
Investing Income/Expense	42.0	3.9	-4.5	-22.9	1.8	24.6	7.1	0.0
Net Financial Expenses	-8.3	-54.2	-109.5	-60.7	-139.5	-204.9	-195.7	-170.1
Profit Before Tax	146.5	118.6	221.0	-217.9	-158.4	403.1	503.0	603.6
<b>Net Income</b>	<b>121</b>	<b>113</b>	<b>211</b>	<b>-211</b>	<b>-150</b>	<b>431</b>	<b>477</b>	<b>573</b>

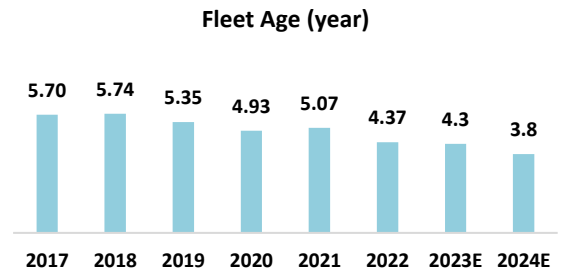
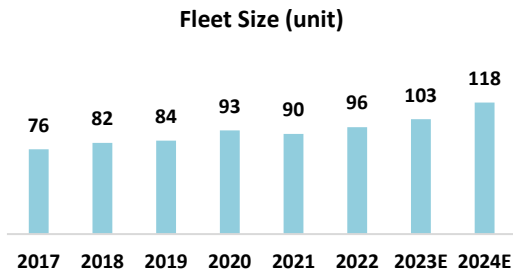
Key Operational Metrics	2017	2018	2019	2020	2021	2022	2023E	2024E
Year End Fleet Size	76	82	84	93	90	96	103	118
ASK (mn)	32,717	39,900	43,948	22,278	33,052	47,643	58,200	65,940
Load Factor	84.6%	87.3%	88.6%	80.2%	77.8%	83.6%	84.9%	84.7%
PAX ('000)	27.8	30.6	30.8	14.7	20.2	27.0	32.2	35.7
RASK (EUR Cents)	3.97	3.69	3.96	2.83	3.10	5.14	5.21	5.03
CASK (EUR Cents)	3.67	3.25	3.19	3.63	3.15	3.93	4.03	3.86

Source: Company data, Tera Yatırım Estimates

Pegasus aims to expand its fleet with new A321neo aircraft through 2025. The fleet size will be 103 aircraft by the end of 2023. There are 13 A321neo deliveries planned for the remainder of 2023; whereas, 7 Boeing 737-800s and 2 A320neos will leave the fleet. PGSUS has an order for 48 A321neo aircraft waiting to be delivered by 2025. The existing fleet has an average age of 4.5 years (youngest fleet in Turkey and one of the youngest among LCCs globally). With new aircraft orders, this figure will drop to 3.5 by the end of 2025. The young age of the fleet will result in lower maintenance costs and efficient fuel consumption. A uniform fleet of aircraft is easier to manage and has lower costs in terms of training (pilots, simulators) and maintenance costs compared to a complex fleet. Additionally, the Airbus Neo consumes ~20% less fuel per km than the B737-800s and has ~26% more seats. We believe that the increased seats per cycle and lower fuel consumption will positively impact the company's margins.

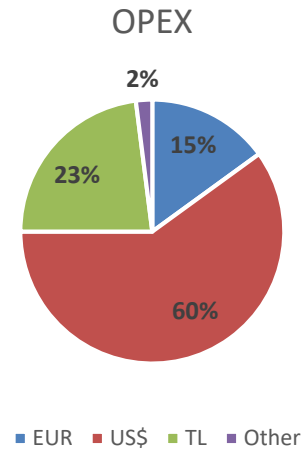
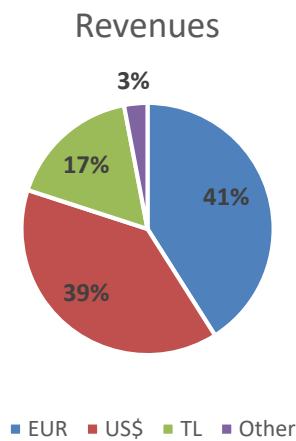
Total Fleet	2017	2018	2019	2020	2021	2022	2023E	2024E
Boeing 737-400	1	1	0	0	0	0	0	0
Boeing 737-800	48	47	39	34	25	18	11	5
Airbus A320 CEO	12	12	12	12	11	7	5	5
Airbus A320 NEO	15	22	31	40	46	46	46	46
Airbus A321 NEO	0	0	2	7	8	25	41	62
<b>Total</b>	<b>76</b>	<b>82</b>	<b>84</b>	<b>93</b>	<b>90</b>	<b>96</b>	<b>103</b>	<b>118</b>

Source: Company data, Tera Yatırım Estimates



Source: Company Data

Shift to international flights will support FX revenues. Share of hard-currency revenues has been gradually increasing with higher capacity allocation to international flights, improvement in ancillary revenues, and the impact of TL depreciation (as there is a price cap on domestic flights). We expect this trend to continue in 2023. Looking at the operational FX exposure of Pegasus, the company is negatively affected from TL depreciation against US\$, while it is positively affected from a strong EUR.



Source: Company Data

### 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.

---

#### DISCLAIMER:

This document is produced by Tera Yatirim Menkul Degerler A.S.(Tera Yatirim). Although information contained herein has been obtained from sources believed to be reliable, Tera Yatirim does not guarantee its accuracy, completeness or reliability. Opinions and estimates may be withdrawn without prior notice. Calculations and valuations contained herein are intended as a basis for discussion. You hereby agree to carry out your own independent appraisal of the relevance and suitability of recommended transactions to your own specific needs, especially with regard to legal, financial, and tax matters. Our analysis shall not be construed as an offer or solicitation to subscribe, sell or lend securities or any other financial instrument and it is not intended to be the basis of any investment decision. Tera Yatirim or its affiliates may hold buy and sell positions on any of the securities or financial instruments referred to herein. Tera Yatirim may perform other services (including acting as inter-dealer broker or adviser) in relation to any of the companies referred to herein. Tera Yatirim makes no representation and gives no warranty as to the accuracy or completeness of the contents of this report. Tera Yatirim, its officers, employees, and affiliates shall not be liable to any person in any way whatsoever for any losses, costs, or claims howsoever arising from any inaccuracies or omissions in the information contained in this report or any reliance upon this report. This report may not be distributed to or passed on to anyone who is not a client of Tera Yatirim.

---