

Turkish Airlines

OVERWEIGHT

May 12, 2023

Flying high above

🔗 **Initiating with an Overweight rating...** We like Turkish Airlines' strong market positioning and expect decent momentum in passenger numbers to translate into solid profitability amid a normalization in margins. We believe that the stock is attractively valued and expect strong seasonality to support the share price in the near term. We set our ex-dividend target price at TL284.6/share, implying a 109% upside potential. THYAO currently trades at 2023E EV/EBITDA of 3.9x and P/E of 3.5x.

🔗 **Strong demand momentum...** As of April'23, the number of passengers reached 23.6mn, with an annual increase of 33.6%. In the first four months, 65% of the passengers were international passengers and 35% were domestic passengers. We believe that Turkey's location advantage to 60 countries within a 3-hour flight distance and relatively cheap TL will create high potential for the 2023 tourism season. Due to the differentiation of regional aviation practices during Covid, flights to China were stopped and the wide-body aircraft had been utilized in 4 new destinations opened to America. With the resumption of flights to China, the contribution of the Far East began to increase and increased by 74% y/y in the first four months. We believe that the improvement in the geographical composition of Turkish airlines' passenger distribution will not only reduce geographical risks, but also support the continuation of the strong demand momentum.

🔗 **Noteworthy capacity increase...** We assume that the fleet of 411 aircraft as of 1Q23 will reach 432 by the end of 2023. We believe that with these new aircraft purchases, there will be an increase of 18% y/y in ASK. Despite this strong increase in capacity, we believe that the load factor of Turkish airlines will be 82.7% in 2023, together with the increase in the number of passengers. We believe that there will be a 3.7% y/y decrease in RASK because of the increasing competitive environment partially reducing the pricing power and our forecast that the decline in cargo unit revenues will continue. However, we believe that ex-fuel CASK will increase by 6.2% due to reasons such as an increase in personnel costs, purchase of new aircraft, and increase in aircraft maintenance costs. We believe that the EBITDA margin, which was 26.8% in 2022, will normalize to 23.4% in 2023 with the contraction in the RASK-CASK spread.

🔗 **Solid cash generation helps with debt management...** Turkish Airlines' net debt stood at US\$8.4bn in 1Q23. We believe that strong investment expenditures for new aircraft purchases will be partially offset by solid cash generation and that net debt will reach US\$9.5bn at the end of the year. We believe that the net debt/EBITDA ratio will be maintained at around 2.0x with the support of strong balance sheet management and operational performance.

🔗 **Attractive multiples...** Turkish Airlines trades at 2023E EV/EBITDA of 3.9x, which is 25% below its historical median of 5.2x. THYAO also trades at 2023E P/E of 3.5x which is 26% below its historical median of 4.7x.

🔗 **Key risks...** We think that increase in fuel costs and appreciation of TL could be the main risks that may represent downside risks to our estimates and target price.

Price Data

Current Price (TL, 12-May-23)	136.30
Current Mcap (TLmn)	188,094
Current Mcap (US\$ mn)	9,627
Target Price (TL/share)	284.64
Target Mcap (TLmn)	392,803
Return Potential	109%
Dividend yield	0%

Financials (US\$ mn)	2021	2022	2023E	2024E
Revenues	10,686	18,426	20,911	22,505
% ch y/y		72	13	8
EBITDA	3,416	4,947	4,898	5,158
% ch y/y		45	-1	5
Net Income	959	2,725	2,736	2,738
% ch y/y		184	0	0
Margins (%)	2021	2022	2023E	2024E
EBITDA Margin	32.0	26.8	23.4	22.9
Net Margin	9.0	14.8	13.1	12.2
Gross Dividend Yield	0.0	0.0	0.0	0.0
Ratios	2021	2022	2023E	2024E
P/E (US\$, x)	2.3	1.8	3.5	3.5
EV/EBITDA (US\$, x)	4.0	2.8	3.9	3.7
Net Debt/EBITDA (US\$, x)	3.4	1.8	1.9	1.8
ROE (US\$, %)	14.0	8.8	8.2	7.6

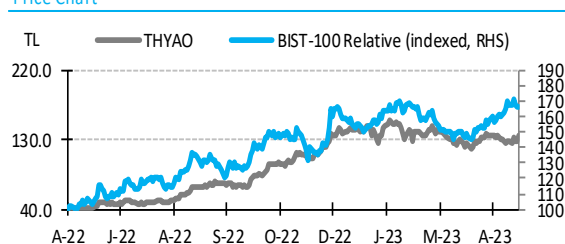
Stock Data

Ticker	THYAO.IS	THYAO TI
Sector		Aviation
# of Shares (mn)		1,380
3M Av. Trd. Vol. (mn)		US\$215.9
52-week Range	TL41.86 -	TL154.60

Market Data

BIST-100	4,848
TL/US\$	19.5389

Price Chart



Price Performance	1M	3M	YTD	YoY
TL Absolute	2%	-4%	-3%	226%
BIST-100 Relative	8%	-2%	10%	61%

Major Shareholders

Türkiye Wealth Fund	49.1%
Free Float	50.9%

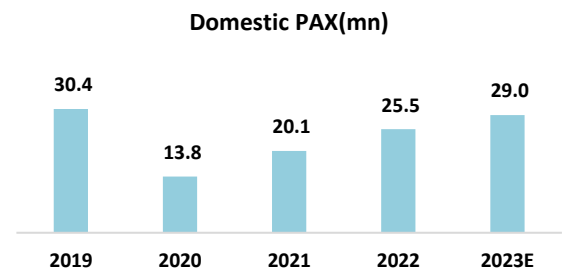
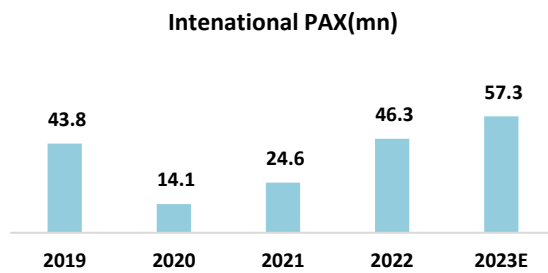
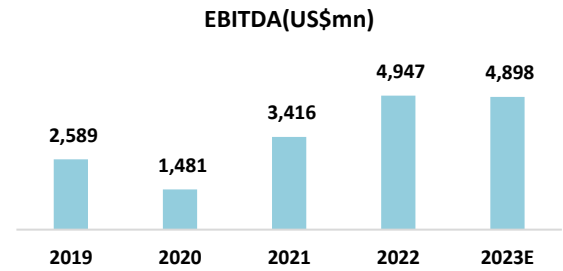
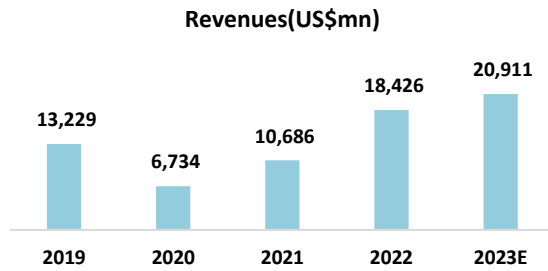
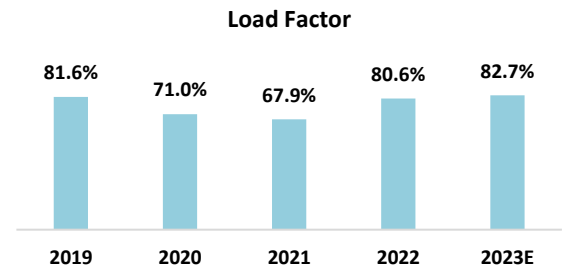
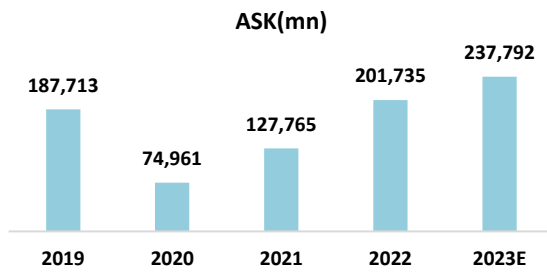
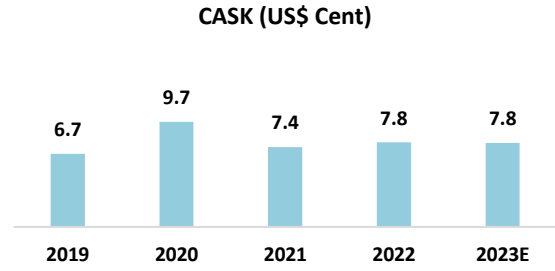
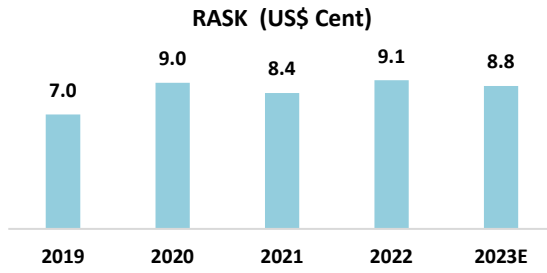
Burak Salman
bsalman@terayatirim.com

Tel: +90 212 365 1000

Mustafa Bayram
mbayram@terayatirim.com

Tel: +90 212 365 1030

Turkish Airlines in a nutshell



Source: Company Data, Tera Estimates

VALUATION

We value THYAO based on 50% DCF analysis and 50% target EV/EBITDA multiples and reach a target price of TL284.64 per share, indicating a 109% upside potential. In DCF analysis, we assume constant 11.4% WACC derived from a USD risk-free rate of 9.0%, equity risk premium of 5.5% and beta of 1.06. We employed a 3.8x target multiple for THYAO, which is the 1-fwd year Peer median EV/EBITDA multiple adjusted for the historical premium/discount. The value driven by DCF differs 47% from the value pointed by the multiple approach since DCF is more eligible to reflect the potential of the company's intrinsic value fueled by its roadmap to 2033.

Methodology	US\$ mn
1 Fwd Year Peer Median EV/EBITDA	3.7
Hist. Premium/(Discount)	1.2%
Target Multiple	3.8
2023E EBITDA	4,898
Implied EV, US\$ mn	18,577
Net Debt (US\$ mn)	8,398
Minority Interest (US\$ mn)	3
LT Financial Investments (US\$ mn)	280
Equity Investments (US\$ mn)	237
Equity Value for Thyao (US\$ mn)	10,693
2023E US\$/TL	26.0
Target Equity Value, TL mn	317,969

Methodology	US\$ mn
DCF	31,848.9
Implied EV, US\$ mn	31,849
Net Debt (US\$ mn)	8,398
Minority Interest (US\$ mn)	3
LT Financial Investments (US\$ mn)	280
Equity Investments (US\$ mn)	237
Equity Value for Turkish Airlines (US\$ mn)	23,965
US\$/TL	19.51
Target Equity Value, TL mn	467,637

Methodology	Weights	Contribution (TL mn)
Target Multiples EV/EBITDA	50%	158,985
DCF	50%	234,124
Target Equity Value, TL mn	100%	393,108
Upside/(Downside) Potential		109.0%
Number of Shares		1,380
Current Price, TL		136.3
Target Price, TL		284.9

Source: Bloomberg, TERA Yatırım Estimates

We foresee a 10% CAGR in revenues until 2025, mostly driven by international revenues. We forecast that the EBITDA margin, which was 26.8% in 2022, will normalize to 23.4% in 2023 with the contraction in the RASK-CASK spread. We foresee ASK and RPK growth of 17.9% and 20.8%, respectively. We forecast passenger numbers to rise by 20% y/y in 2023 and 7.3% y/y in 2024.

Income Statement (US\$ mn)	2017	2018	2019	2020	2021	2022	2023E	2024E
Revenue	10,958	12,855	13,229	6,734	10,686	18,426	20,911	22,505
EBITDA	2,252	2,463	2,589	1,481	3,416	4,947	4,898	5,158
Depreciation	1,066	1,087	1,521	1,659	1,740	1,864	2,013	2,096
EBIT	794	1,169	585	-530	1,275	2,716	2,468	2,500
Profit/loss from subsidiaries	102	123	82	-87	75	121	71	113
Other Operating Income/Expense	228	22	291	275	139	63	143	180
Investing Income/Expense	177	99	89	179	200	293	503	459
Net Financial Expenses	-1,022	-459	-171	-763	-666	-254	-159	-208
Profit Before Tax	279	954	876	-926	1,023	2,939	3,026	3,043
Net Income	223	753	788	-836	959	2,725	2,736	2,738

Key Operational Metrics	2017	2018	2019	2020	2021	2022	2023E	2024E
Year End Fleet Size	329	332	350	363	370	394	432	458
ASK (mn)	173,084	182,031	187,713	74,961	127,765	201,683	237,792	257,874
RPK (mn)	136,927	149,131	153,203	53,248	86,701	162,665	196,575	212,122
Load Factor	79.1%	81.9%	81.6%	71.0%	67.9%	80.6%	82.7%	82.3%
ASK/Fleet (km)	522.1	550.8	550.5	210.3	348.6	528.0	566.6	579.5
PAX ('000)	68.6	75.1	74.3	28.0	44.8	71.8	86.3	92.6
RASK (US\$ Cents)	6.33	7.06	7.05	8.98	8.36	9.14	8.79	8.73
CASK (US\$ Cents)	5.87	6.42	6.74	9.69	7.37	7.79	7.76	7.76

Source: Company data, Tera Yatırım Estimates

COMPANY GUIDANCE

Turkish Airlines shared its roadmap to 2033E. Turkish Airlines guides that consolidated revenues will exceed US\$50bn by 2033. The company guides for at least US\$19bn (2022: US\$18.4bn) consolidated revenues for 2023. The company anticipates reaching an EBITDAR margin of 20-25% in the period of 2023-2033. In 2022, the EBITDAR margin was 29.2%. Considering that last year was a year with above-normal pricing, we find the company's guidance reasonable. The company's fleet size is 411 as 1Q22. The company aims to increase its fleet to 435 aircraft by 2023 and to exceed 800 aircraft by 2033. Turkish Airlines also aims to increase the number of destinations flown from 290 at 1Q22 to 400 points in 2033. By the end of 2022, the company's passenger capacity is 76,067 with existing fleet size. With the purchase of new aircraft, we expect passenger capacity to reach 82,307 in 2023, and the company targets to double this

number by 2033 and reach 161,911. Turkish Airlines expects to serve 170mn passengers in 2033, compared to the number of passengers exceeding 82mn in 2023. Considering that the company served 71.8mn passengers in 2022, we can say that it aims to achieve 8% CAGR over the next 10 years. The company aims to double its cargo volume and to position Turkish Cargo among the top three cargo carriers in the world by 2033. At the end of 2022, cargo revenues accounted for 20% of the consolidated revenues. AnadoluJet, one of the subsidiaries of Turkish Airlines, aims to increase its competitive power by creating 98% of its fleet from new generation aircraft, achieving lower costs. The company aims to increase AnadoluJet's fleet to 64 aircraft by 2023 and to 200 aircraft by 2033. The company also aims to increase the market share of Anadolu Jet at Sabiha Gökçen, Antalya, and Ankara airports. When we consider that Pegasus, whose main hub is Sabiha Gökçen, has 98 aircraft by the end of 2022, we can say that Anadolu Jet would be a serious competitor for Pegasus in the coming period.

Tera Estimates			
THYAO	2022	2023E	2033E
Consolidated revenue (US\$ mn)	18,426	20,911	50,000
<i>growth</i>		13%	139%
Passenger capacity	76,067	82,307	161,911
<i>growth</i>		8%	97%
EBITDAR Margin	29.2%	23.4%	20-25%
Fleet Development	394	432	813
<i>growth</i>		10%	88%
Cargo Volume (thousand ton)	1,679	1,585	3,900
<i>growth</i>		-6%	146%
ASK(mn)	201,735	237,792	492,000
<i>growth</i>		18%	107%
PAX	71.8	86.3	171.0
<i>growth</i>		20%	98%
Anadolu Jet	2022	2023E	2033E
Fleet Development	64	75	200
<i>growth</i>		17%	167%

Source: Company Data, Tera Yatırım

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.
