

Turkish Airlines

We attended the analyst meeting of Turkish Airlines to evaluate the company's financial results for Q4 2023, its current operations, and outlook. Turkish Airlines continues to grow in the aviation sector in both Turkey and international markets, with increasing passenger traffic and destinations. With an 8% increase in average daily flights compared to 2019, Turkish Airlines maintains its position with the highest traffic in Europe. We maintain our BUY recommendation for THYAO with a target price of TL428 and continue to hold it in our Model Portfolio.

Key takeaways of the meeting

In 2023, the number of passengers carried increased by 16% compared to 2022... The number of international passengers carried increased by 14%, while the number of domestic passengers carried increased by 19%. As a result, the total number of passengers carried in 2023 reached 83.4mn, which is 16% higher than 2022.

Regional fluctuations in passenger profitability... While the Far East and Americas stood out in terms of operational profitability in 2023, the Middle East region, particularly in the 4th quarter, showed the weakest performance in unit revenues compared to the previous year. In the European region, although unit profitability weakened, heavy traffic was observed. Additional capacity increases would be implemented in the Far East, America, and Europe regions.

Signs of recovery in cargo operations, which performed weak in 2023... Weak cargo operations in 2023 had an increase in air cargo demand due to geopolitical events in the Red Sea and the Panama Canal at the end of the year. It is anticipated that the contribution of the cargo segment to revenue will increase if current geopolitical risks persist. In the 4th quarter, the volume of transported cargo increased by 19% compared to the average of the first 9 months.

Expectations for 2024... The company anticipates a year in 2024 parallel to the operational performance of 2023 but expects the Cost per Available Seat Kilometer (CASK) excluding fuel to increase due to global inflation. A 10% to 20% increase is expected in personnel expense costs based on USD. The company has hedged 37% of its jet fuel costs. It has the capacity to increase the position weight if necessary, reaching a range of 40% to 45%. The EBITDAR expectation for the 2024 period is planned within a margin of 23% to 25%.

THYAO

Target Price	TL428
Return potential	48%

Share Data

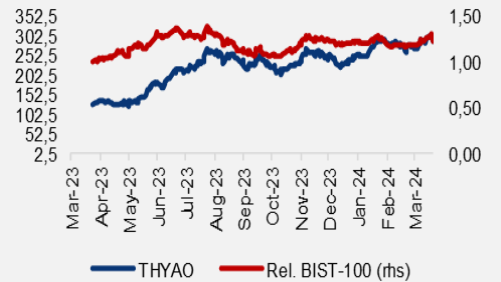
Ticker:	THYAO TI
Share price (as of 19 March 2024)	290,00
Share price (52 week range)	124 / 304
Market cap. (TL mn - USD mn)	400.200 - 12.569
# of shares outstanding (mn)	1.380
Free Float	50%

Avg. trading volume	1M	3M	12M
USD mn	335,3	336,7	334,5

Price performance	1M	3M	Y-t-D
TL	7%	24%	27%
USD	6%	16%	17%
Rel. to BIST-100	5%	3%	4%

TL mn	2021	2022	2023
Revenues	97.378	311.169	504.398
EBITDA	27.922	78.684	115.397
Net Earnings	8.213	47.429	163.003
Net Debt	163.363	175.086	242.746

Valuation	2021	2022	2023
P/E	12,9x	17,3x	4,9x
P/BV	1,1x	1,0x	1,1x
EV/EBITDA	3,7x	3,8x	5,1x
EV/Sales	0,65x	0,65x	1,27x
Dividend Yield	8,1%	4,9%	2,5%



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Shadowed by Deferred Tax Income...

Financial Overview

Turkish Airlines announced its 2023 financial results with a net profit of TL163bn. The disclosed net profit showed an increase of 244% on an annual basis. The pre-inflation-adjusted net profit increased by 53% annually to TL70.2bn.

In 2023, TL504.4bn revenue generation occurred, with an increase of 62% compared to the previous year (Consensus: TL500.3bn, Tacirler Investment: TL505.9bn). Passenger revenues reached TL426.8bn, increasing by 75% annually. Cargo revenues remained parallel to the previous year, generating a revenue of TL62.6bn (2022 Cargo Revenues: TL61.3bn). The Available Seat Kilometers (ASK) in 2023 reached 234.9bn, showing a 16% increase y/y.

Regarding Revenue per Available Seat Kilometer (RASK), there was a 52% increase in TL terms in 2023 compared to the previous year, while there was a 6.6% increase in dollar terms. In the 4th quarter, this rate increased by 42% in TL terms compared to the same period of the previous year, while it decreased by 6.9% in USD basis.

In 2023, the Cost per Available Seat Kilometer (CASK) increased by 42% in TL terms, with personnel salaries recording the highest increase at 87% in TL terms. Passenger service expenses followed with a 70% increase in TL terms, while ground handling expenses increased by 64% in TL terms. CASK excluding fuel, increased by 60% in TL terms, while unit fuel expenses increased by 18% in TL terms, less than CASK excluding fuel due to the dollar-based decrease in annual fuel prices.

The above key indicators indicate a contraction in the company's operational margins, but there is an increase in margin on the net profit side due to inflation accounting.

Inflation Accounting Impact

Although Turkish Airlines reports according to IFRS standards since its functional currency is USD, there is a difference between IFRS and Tax Procedure Law (TPL) financial statements because the financial statements prepared in accordance with TPL are in Turkish Lira. This difference is mainly due to tax differences arising from the acquisitions of aircraft in the fleet and causes a decrease in value in TL terms according to TPL. With inflation adjustment in TPL financial statements, the difference between IFRS and TPL financial statements decreased. As a result of this adjustment, approximately half of the TL163.0bn net profit recorded in 2023 comes from the deferred tax income amounting to TL73.5bn.

Summary (TLmn)

Balance Sheet	2018	2019	2020	2021	2022	2023
Cash	11.339	14.705	13.424	35.748	87.897	177.426
Accounts receivables	3.002	3.205	4.672	12.323	18.618	25.192
Inventory	1.000	1.723	2.236	3.481	6.196	12.311
Other current assets	8.365	8.706	10.327	14.245	22.384	38.114
Current assets	23.706	28.339	30.659	65.797	135.095	253.043
Financial investments	2.338	2.723	2.429	4.335	8.258	26.350
Net fixed assets	73.219	21.640	30.431	58.195	87.045	178.849
Intangible assets	429	489	653	1.088	1.432	2.557
Other non-current assets	9.384	93.680	123.230	224.293	346.741	589.292
Non-current assets	85.370	118.532	156.743	287.911	443.476	797.048
Total assets	109.076	146.871	187.402	353.708	578.571	1.050.091
Short-term financial loans	12.492	18.563	32.726	53.464	70.184	109.810
Accounts payables	5.375	6.708	6.322	11.896	22.482	38.060
Other short-term payables	9.379	10.146	8.331	25.083	61.374	120.086
Current liabilities	27.246	35.417	47.379	90.443	154.040	267.956
Long-term financial loans	43.342	60.976	89.994	145.647	192.799	310.362
Other long-term payables	7.204	9.683	10.518	26.968	50.305	14.661
Non-current liabilities	50.546	70.659	100.512	172.615	243.104	325.023
Shareholders' equity	31.284	40.795	39.511	90.650	181.427	457.112
Parent company	31.281	40.792	39.502	90.640	181.422	457.257
Minorities	3	3	9	10	5	-145
Total liabilities & equity	109.076	146.871	187.402	353.708	578.571	1.050.091
Net debt	44.495	64.834	109.296	163.363	175.086	242.746
Net working capital	-2.387	-3.220	2.582	-6.930	-36.658	-82.529
Net working capital (Operatin	-1.373	-1.780	586	3.908	2.332	-557
Invested Capital	71.261	18.909	33.666	52.353	51.819	98.877
Ratios						
Profitability						
ROE	15,7%	12,6%	-13,9%	12,6%	34,9%	51,1%
Net margin	6,4%	6,0%	-12,0%	8,4%	15,2%	32,3%
Asset turnover	0,7x	0,6x	0,3x	0,4x	0,7x	0,6x
Leverage	3,5x	3,6x	4,2x	4,2x	3,4x	2,6x
ROA	4,6%	3,5%	-3,3%	3,0%	10,2%	20,0%
ROIC	8,4%	6,0%	-10,3%	23,2%	73,3%	71,1%
Leverage						
Financial debt/Total assets	51%	54%	65%	56%	45%	40%
Net debt/Equity	1,42	1,59	2,77	1,80	0,97	0,53
Net debt/EBITDA	3,90	5,41	13,23	5,85	2,23	2,10

Income statement	2017	2018	2019	2020	2021	2022	2023
Revenues	39.779	62.853	75.118	46.448	97.378	311.169	504.398
Gross profit	7.836	13.569	13.079	2.683	22.145	75.641	119.446
Operating expenses	5.103	7.423	9.710	6.060	9.696	27.910	52.523
Operating profit	2.733	6.146	3.369	-3.377	12.449	47.731	66.923
EBITDA	6.626	11.400	11.993	8.261	27.922	78.684	115.397
Other income, net	1.470	532	2.184	3.256	2.869	6.256	27.024
Financial income, net	-3.747	-2.100	-966	-5.402	-6.870	-4.764	-9.381
Earnings before taxes	813	5.234	5.056	-6.101	9.191	51.403	91.282
Tax expense	174	1.189	520	-513	977	3.971	-71.716
Net earnings - Parent	639	4.045	4.535	-5.588	8.213	47.429	163.003
Cashflow statement							
EBITDA	6.626	11.400	11.993	8.261	27.922	78.684	115.397
Taxes on EBIT	585	1.396	346	-284	1.323	3.687	-52.578
Capital expenditures	-406	5.325	5.652	7.904	6.811	15.274	24.549
Chg. in NWC	1.416	1.416	-833	5.802	-9.512	-29.728	-45.871
Free cashflows to firm	5.031	3.263	6.828	-5.161	29.300	89.451	189.297
Growth & margins							
Revenues	35%	58%	20%	-38%	110%	220%	62%
EBITDA	171%	72%	5%	-31%	238%	182%	47%
Net earnings	-1460%	533%	12%	-223%	-247%	477%	244%
Gross margin	19,7%	21,6%	17,4%	5,8%	22,7%	24,3%	23,7%
Operating margin	6,9%	9,8%	4,5%	-7,3%	12,8%	15,3%	13,3%
EBITDA margin	16,7%	18,1%	16,0%	17,8%	28,7%	25,3%	22,9%
Net margin	1,6%	6,4%	6,0%	-12,0%	8,4%	15,2%	32,3%
Free cashflow margin	1,6%	6,4%	6,0%	-12,0%	8,4%	15,2%	32,3%
Per share (TL)							
EPS	0,46	2,93	3,29	-4,05	5,95	34,37	118,12
BVPS	14,62	22,67	29,56	28,63	65,69	131,47	331,24
DPS	0,11	0,18	0,22	0,76	0,83	0,80	0,91
Valuation							
P/E	626,3x	98,9x	88,2x	12,5x	12,9x	17,3x	4,9x
P/BV	1,41x	1,27x	1,01x	0,99x	1,05x	1,04x	1,14x
EV/EBITDA	9,2x	8,2x	5,8x	4,5x	3,7x	3,8x	5,1x
EV/Sales	1,39x	1,31x	0,87x	0,73x	0,65x	0,65x	1,27x
Dividend Yield	1,1%	1,8%	2,4%	8,4%	8,1%	4,9%	2,5%
Free cashflow yield	37,8%	23,5%	55,5%	-41,4%	207,2%	400,4%	378,9%

Source: Bloomberg, Tacirler Investment

* All figures are stated in millions of TL unless otherwise stated.

Important Disclosures

Rating Methodology

Stock ratings are based on absolute return potential of the stock, which is defined as the percentage change in target price from the current share price. All recommendations and target prices are set with a 12-month horizon. Target prices are set by using one or more of the following methodologies: DCF, Net Asset Valuation, sum of the parts model and multiple comparison.

Rating Definition

Strong Buy: The stock is expected to generate a return of more than 25% in TL terms.

Buy: The stock is expected to generate a return of 15-25% in TL terms.

Hold: The stock is expected to generate a return of less than 15% in TL terms.

Sell: The stock is expected to generate a negative return within the forecast horizon.

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