

Turkish Airlines

Ready for Takeoff...

We are increasing our target price for THYAO <THYAO TI> from TL 235.00 per share to TL 428.00 considering the strong 3Q23 operational performance and high pax stats theme. Our 12M target price corresponds to 70% return potential and we remain our BUY recommendation. Fleet expansion and increasing ASK values will be contributing to the operational performance. We expect THYAO to raise its net income by 73% y/y in 2023E and 13% y/y in 2024E. THYAO trades at 4.1x P/E in our 2023E forecasts and 3.6x in our 2024E forecasts.

We revise our forecasts upwards following strong aviation stats in 10M23... During the first 11 months of 2023, total passenger traffic increased by 3.6% from the same period in 2019 and 16.6% y/y to reach approximately 77.3mn. The strong performance observed in passenger traffic statistics is supported by the average load factor achieved in the first 11 months of 2023. As of the first 11 months of 2023, Turkish Airlines achieved load factor of 82.8%, an increase of 230 basis points y/y and 120 basis points from 2019. We anticipate that the strong passenger statistics achieved in the first 11 months of 2023 will support THYAO's revenue. Following the financial results for 3Q23, we expect THYAO to generate USD5bn in revenue for the rest of the year with a 5% standard deviation. We estimate that the company's revenue for 2023E will reach TL506bn, an increase of 63% y/y, with EBITDA of TL128,6bn at a margin of 25.4%. Thus, we expect THYAO to achieve net profit of TL82bn for 2023E with an increase of 73% y/y. For 2024E, we forecast that Turkish Airlines' revenue will increase by 56% y/y to TL788.2bn, with an EBITDA of TL173.1bn at a margin of 22%. We estimate that Turkish Airlines' net profit will reach TL92.7bn for 2024E, an increase of 13% y/y. In our valuation period, we forecast an average EBITDA margin of 21.6% and a compound annual growth rate of 32% in revenue.

Leading aim in cargo operations... The company aims to be one of the top three air cargo companies in the world by reaching 3.9 million tons in cargo operations by 2033. The increasing number of passenger aircraft in parallel with fleet expansion supports the capacity of the cargo segment. Due to the declining freight rates, lightweight, high-value products are preferred in cargo products. While the cargo segment experienced a weak period in the 2023E period, the contribution to turnover in the valuation period is at the level of 11% with an annual growth rate of 9% in the transported load.

Rating

Buy

Target Price

TL 428

Return potential

70%

Share Data

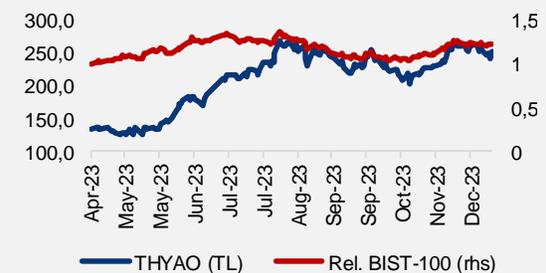
Ticker:	THYAO TI
Share price (as of 14.12.2023)	252,25
Share price (52 week range)	124 / 269
Market cap. (TL mn - USD mn)	348105,0 - 12.012
# of shares (mn) & free float	1.380 - 50%
Foreign Ownership Rate	33,80%
Market	Star
Industry	Aviation

Avg. trading volume	1M	3M	12M
USD mn	344,2	346,2	340,3

Price performance	1M	3M	Y-t-D
TL	6%	6%	79%
USD	5%	-2%	16%
Rel. to BIST-100	4%	10%	26%

Forecasts (TL mn)	2022	2023E	2024E
Revenues	311.169	505.953	788.212
EBITDA	78.684	128.564	173.121
Net Earnings	47.432	81.995	92.741

Valuation	2022	2023E	2024E
P/E	7,3x	4,2x	3,8x
P/BV	7,1x	1,0x	0,8x
EV/EBITDA	5,0x	3,0x	2,3x
EV/Sales	1,5x	1,3x	0,8x
Dividend Yield	0%	0%	0%



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New aircraft and fleet expansion strategy... THYAO has reached a fleet of 439 aircraft as of December 2023, by prioritizing fleet expansion. The company management aims to increase the number of aircraft in its fleet to 441 by the end of 2023. The targeted fleet size corresponds to a 10% y/y increase since 2003 (2003: 65). The company is in negotiations for the purchasing of 355 aircraft, 240 of which are guaranteed and 115 of which are optional, to be delivered between 2026 and 2036. The valuation does not include the contribution of the aircraft designated as optional. In line with the fleet expansion, the aircraft that will be put into service from 2026 will have a positive impact on depreciation. Additionally, new generation aircraft supports operational profitability with higher passenger capacity and better fuel consumption compared to the old aircraft.

Potential for global market share gains supported by ASK growth... As fleet expansion continues, we expect continued strong performance in available seat kilometer capacity (ASK), which will support the company's global market share gains. In the first 11 months of 2023, achieved ASK is at 215bn, up 16.1% from the same period in 2022 (11M22 ASK: 185.2bn). We forecast total ASK for the 2023E period to reach 235bn, up by 16.5% y/y, and total ASK for the 2024E period to reach 258.5bn, up by 10% y/y. As of 3Q23, THYAO's market share reached 2.4%. THYAO's market share is expected to reach 3.8% in 2033 in line with growth expectations.

The decline in geopolitical risks will support operational profitability... The rise in oil prices that began after the Covid-19 period reached above historical averages due to increasing geopolitical risks. We expect oil prices to support the company's operational profitability by approaching historical average values throughout our valuation period. If oil prices rise, THYAO hedges a portion of its expected consumption with financial instruments. As of the end of 2023, THYAO hedged 20% of its expected consumption. The company has been able to maintain its profitability thanks to its ability to increase hedge rates during periods of extreme oil price increases.

Attractive multiples in 2023E and 2024E estimates... With the strong passenger traffic performance, we expect THYAO's net sales to reach TL 506bn in 2023E, up by 63% y/y. At the same time, we forecast TL128.6bn EBITDA with a margin of 25.4%. In 2024E, we expect net sales to reach TL788.2bn, up by 56% y/y. In 2024E, we forecast TL173.1bn EBITDA with a margin of 22%. Based on our 2023E estimates, THYAO is trading at attractive multiples with a P/E of 4.1x and an EV/EBITDA of 2.9x. Based on our 2024E estimates, THYAO is trading at attractive multiples with a P/E of 3.6x and an EV/EBITDA of 2.2x.

Growth will continue with strong growth projections... As part of its growth strategy covering a 10-year period, THYAO aims to nearly double its existing aircraft fleet, carry more than double the number of passengers carried in 2022, and generate 2.8 times the revenue of 2022. Turnover is expected to reach USD50bn in 2033 (USD 18.8bn in 2022). THYAO expects an EBITDA margin in the range of 20 - 25% between 2023 and 2033 (2022: 26% EBITDA margin). By the end of 2023, the number of aircraft is expected to reach 441, by 2033 it's expected to reach 800 planes in the fleet. The number of airports served is expected to reach 400. The number of 71.8 mn passengers served is expected to exceed 170 mn in 2033, passenger capacity is expected to double compared to 2023, with an average annual increase of 7%. On the cargo operations side, THYAO aims to become one of the top three largest cargo airlines by reaching 3.9 mn tons by 2033. We highlight THYAO's strategies for the 2023 - 2033 period and think that the roadmap will contribute to the company's organic growth.

Risks... i) Potential tensions based on regions, ii) Possible loss of momentum in the tourism sector contrary to strong expectations, iii) Re-emergence of a pandemic, iv) Cost increases above our expectations.

Exhibit: THYAO's DCF Valuation

TL mn	2019	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	75.118	311.169	505.953	788.212	1.103.468	1.592.893	2.048.748	2.509.319	3.053.900	3.606.835
Growth%	19,5%	219,5%	62,6%	55,8%	40,0%	44,4%	28,6%	22,5%	21,7%	18,1%
EBITDA	11.993	78.684	128.564	173.121	231.538	338.617	443.849	543.320	661.756	781.770
Growth%	5,2%	181,8%	63,4%	34,7%	33,7%	46,2%	31,1%	22,4%	21,8%	18,1%
<i>EBITDA Margin</i>	16,0%	25,3%	25,4%	22,0%	21,0%	21,3%	21,7%	21,7%	21,7%	21,7%
Taxes paid on EBIT	-346	-4.296	-5.993	-17.573	-25.694	-41.062	-55.627	-69.063	-84.776	-100.223
CAPEX	-5.652	-15.274	-18.373	-28.534	-38.024	-54.046	-66.513	-77.194	-89.462	-100.612
Change in Net Working Capital	-407	333	6.970	18.814	24.814	57.727	74.390	70.978	62.086	76.785
Free cash flow from operations	6.402	58.781	97.228	108.201	143.006	185.782	247.319	326.085	425.431	504.150
FCFF Margin	8,5%	18,9%	19,2%	13,7%	13,0%	11,7%	12,1%	13,0%	13,9%	14,0%
WACC	31%	32%	32%	31%	31%	31%	31%	31%	31%	31%
DFC	1.600	29.391	73.684	62.707	63.343	62.889	63.954	64.378	64.091	57.922
Terminal growth rate	6,0%									
Terminal Value	2.126.983									
PV of Terminal Value	244.370									
PV of FCFF	542.359									
PV of Terminal Value	244.370									
Enterprise Value	786.729									
Less:										
Latest Net Debt	196.328									
Equity Value	590.401									
Fair Value per share (12-mth fwd)	428									
Current share price	252,25									
Upside / (Downside)	70%									

Source: Company Data, Tacirler Investment

Projected Financials

Balance Sheet	2019	2020	2021	2022	2023E	2024E	Income statement	2019	2020	2021	2022	2023E	2024E
Cash	12.328	13.293	14.679	19.563	76.096	135.622	Revenues	75.118	46.448	97.378	311.169	505.953	788.212
Accounts receivables	3.205	4.672	5.990	7.438	19.354	28.073	Gross profit	13.079	2.683	22.145	75.641	128.620	199.695
Inventory	1.723	2.236	2.344	2.373	8.833	19.349	Operating expenses	-9.710	-6.060	-9.696	-27.910	-53.707	-82.544
Financial investments	2.377	131	130	887	133.114	186.355	Operating profit	3.369	-3.377	12.449	47.731	74.913	117.151
Fixed assets	22.129	31.084	35.926	38.495	150.933	125.724	EBITDA	11.993	8.261	27.922	78.684	128.564	173.121
Other non-current assets	105.109	135.986	152.206	159.816	548.711	559.686	Other income, net	1.673	1.995	1.098	1.080	7.112	10.213
Total assets	146.871	187.402	211.275	228.572	937.042	1.054.808	Financial income, net	-966	-5.402	-6.870	-4.764	-4.053	-5.522
Short-term financial loans	18.450	32.600	34.794	37.305	93.450	137.701	Earnings before taxes	5.056	-6.101	9.191	51.403	104.014	136.345
Accounts payables	6.708	6.322	6.378	7.522	18.928	19.349	Tax expense	-520	513	-977	-3.971	-22.019	-43.604
Long-term financial loans	60.976	89.994	98.460	104.976	272.428	272.428	Net earnings	4.535	-5.588	8.213	47.432	81.995	92.741
Other long-term payables	19.945	18.984	23.799	29.905	196.467	176.820	Cashflow statement						
Non-current liabilities	106.079	147.900	163.431	179.708	581.273	606.298	EBITDA	11.993	8.261	27.922	78.684	128.564	173.121
Shareholders' equity	40.792	39.502	47.844	48.864	355.769	448.510	Taxes on EBIT	-346	68	-124	-4.296	-5.993	-17.573
Paid in Capital	1.380	1.380	1.380	1.380	1.380	1.380	Capital expenditures	-5.652	-7.904	-6.811	-15.274	-18.373	-28.534
Other Equity	39.412	38.122	46.464	47.484	354.389	447.130	Chg. in NWC	-407	2.366	1.370	333	6.970	18.814
Total liabilities & equity	146.871	187.402	211.275	228.572	937.042	1.054.808	Free cashflows to firm	5.588	-1.941	19.617	58.781	97.228	108.201
Net debt	67.098	109.301	118.575	122.718	289.782	274.507	Growth & margins						
Net working capital	-1.780	586	1.956	2.289	9.259	28.073	Revenues	20%	-38%	110%	220%	63%	56%
							EBITDA	5%	-31%	238%	182%	63%	35%
							Net earnings	12%	-223%	-247%	478%	73%	13%
							Gross margin	17,4%	5,8%	22,7%	24,3%	25,4%	25,3%
							Operating margin	4,5%	-7,3%	12,8%	15,3%	14,8%	14,9%
							EBITDA margin	16,0%	17,8%	28,7%	25,3%	25,4%	22,0%
							Net margin	6,0%	-12,0%	8,4%	15,2%	16,2%	11,8%
							Free cashflow margin	7,4%	-4,2%	20,1%	18,9%	19,2%	13,7%
							Valuation						
							P/E	76,8x	-62,3x	42,4x	7,3x	4,2x	3,8x
							P/BV	8,5x	8,8x	7,3x	7,1x	1,0x	0,8x
							EV/EBITDA	32,7x	47,4x	14,0x	5,0x	3,0x	2,3x
							EV/Sales	5,5x	9,8x	4,8x	1,5x	1,3x	0,8x
							Dividend Yield	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
							Free cashflow yield	1,6%	-0,6%	5,6%	16,9%	27,9%	31,1%

Source: Company Data, 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

Buy: The stock is expected to generate a return of more than 30% 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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