

# Pegasus (PGSUS TI)

**Buy: Smooth ride**

- ◆ 2024 shaping up strongly in terms of traffic performance
- ◆ Headwinds from normalising passenger yields and margins cushioned by strong top-line growth and lower jet fuel price
- ◆ Raise target price to TRY300.00 (from TRY204.60), retain Buy – attractive on 2025e EV/EBITDA of c6x

**Stands out in terms of traffic performance.** 2024 has so far been another year of headwinds for aviation post the pandemic. Delays in aircraft deliveries and rising regional geopolitical tension on top of already normalising travel momentum and TRY devaluation lagging behind inflation have altogether created complications for airlines. We think that Pegasus has dealt with the challenges quite successfully so far in the year. The low cost carrier continued to execute its fleet renewal program, retiring older aircraft (mainly B787-800) and replacing them with larger A321neos. This fleet mix change has brought 15% capacity (ASK) growth in 9M24 y-o-y along with a 3.4pp higher load factor. Average fleet age remains at a very competitive 4.5 years, paving the way for fuel cost efficiency (fuel consumption per ASK is on a steady downtrend). Peak summer months (July and August) witnessed a slowdown in tourist arrivals to Türkiye but we reckon Pegasus performed more strongly with international passengers carried up by 10% y-o-y cumulatively in these two critical months.

**Support from fuel and ancillary revenues.** Air travel activity and airline passenger yields and operating margins are normalising this year following the unprecedented post-pandemic surge with “revenge travel demand” from mid-2022. The pressure is further exacerbated on the demand side by elevated geopolitical tensions in the Middle East, and on the margin side by high Turkish inflation, causing a higher-than-expected increase in non-fuel costs. At this point, a cheaper fuel price and ancillary revenues for Pegasus come as support factors for a 2H24 performance which, in our view, should help the airline achieve its 2024 guidance. Pegasus generated an EBITDA margin above 30% in 2019, 2022 and 2023 but the post pandemic period (2022-23) saw a step up in absolute EBITDA generation (exceeding EUR800m, from under EUR600m in 2019) thanks to traffic and price recovery. While we forecast a slightly softer EBITDA margin this year at c28%, we expect absolute EBITDA to remain at historically high levels (EUR843m). With fuel efficient fleet maturing further and FX rates getting more supportive in the coming years, we see EBITDA margin trending up again towards 30%, along with strong revenue generation.

**Raise target to TRY300, reiterate Buy.** Our revised DCF parameters and financial forecasts along with a higher spot EUR/TRY rate of 37.17 (from 34.33) prompt us to raise our target price to TRY300.00, from TRY204.60. Our revised target price implies c25% upside and we maintain our Buy rating. We see the valuation at 2025e EV/EBITDA of 6x as attractive enough for an airline that keep its growth and profitability at above-industry norms.

## Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

## Equities Airlines

Türkiye



**MAINTAIN BUY**

TARGET PRICE (TRY)

**300.00**

PREVIOUS TARGET (TRY)

**204.60**

SHARE PRICE (TRY)

**239.50**

(as of 21 Oct 2024)

UPSIDE/DOWNSIDE

**+25.3%**

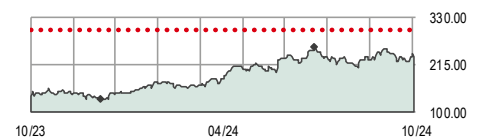
### MARKET DATA

Market cap (TRYm)	119,750	Free float	35%
Market cap (USDm)	3,502	BBG	PGSUS.TI
3m ADTV (USDm)	48	RIC	PGSUS.IS

### FINANCIALS AND RATIOS (EUR)

Year to	12/2023a	12/2024e	12/2025e	12/2026e
HSBC EPS	1.58	0.64	0.71	0.82
HSBC EPS (prev)	1.58	1.10	0.88	0.88
Change (%)	0.0	-41.6	-19.4	-6.4
Consensus EPS	1.68	1.10	0.88	0.88
PE (x)	4.1	10.0	9.1	7.8
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/EBITDA (x)	6.7	7.0	6.1	5.4
ROE (%)	61.2	17.5	16.3	16.1

### 52-WEEK PRICE (TRY)



Source: LSEG IBES, HSBC estimates

### Cenk Orcan\*

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## Conditional love

The 17<sup>th</sup> edition of the EM Sentiment Survey

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## Financials & valuation: Pegasus

**Buy**

### Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
<b>Profit &amp; loss summary (EURm)</b>				
Revenue	2,670	3,011	3,420	3,787
EBITDA	838	843	970	1,090
Depreciation & amortisation	-304	-336	-396	-438
Operating profit/EBIT	520	503	565	646
Net interest	-164	-256	-272	-286
PBT	370	282	322	385
HSBC PBT	369	322	362	425
Taxation	420	40	32	27
Net profit	790	322	354	412
HSBC net profit	790	322	354	412
<b>Cash flow summary (EURm)</b>				
Cash flow from operations	1,121	693	798	887
Capex	-399	-311	-357	-337
Cash flow from investment	-353	-261	-357	-337
Dividends	0	0	0	0
Change in net debt	331	324	15	-92
FCF equity	768	432	441	549
<b>Balance sheet summary (EURm)</b>				
Intangible fixed assets	20	21	21	21
Tangible fixed assets	3,803	4,519	4,919	5,249
Current assets	1,525	1,609	1,624	1,702
Cash & others	1,114	1,056	1,012	1,039
Total assets	6,251	7,217	7,770	8,312
Operating liabilities	928	1,185	1,364	1,508
Gross debt	3,627	3,944	3,964	3,949
Net debt	2,377	2,701	2,715	2,623
Shareholders' funds	1,678	2,000	2,354	2,767
Invested capital	3,306	3,908	4,188	4,423

### Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
<b>Y-o-y % change</b>				
Revenue	9.0	12.7	13.6	10.7
EBITDA	0.4	0.5	15.2	12.3
Operating profit	-10.1	-3.3	12.3	14.4
PBT	-8.2	-23.7	13.9	19.7
HSBC EPS	-62.5	-59.2	9.9	16.5
<b>Ratios (%)</b>				
Revenue/IC (x)	0.9	0.8	0.8	0.9
ROIC	38.0	16.0	15.6	16.2
ROE	61.2	17.5	16.3	16.1
ROA	22.7	10.0	9.5	9.6
EBITDA margin	31.4	28.0	28.4	28.8
Operating profit margin	19.5	16.7	16.5	17.1
EBITDA/net interest (x)	5.1	3.3	3.6	3.8
Net debt/equity	141.6	135.0	115.3	94.8
Net debt/EBITDA (x)	2.8	3.2	2.8	2.4
CF from operations/net debt	47.2	25.7	29.4	33.8
<b>Per share data (EUR)</b>				
EPS Rep (diluted)	1.58	0.64	0.71	0.82
HSBC EPS (diluted)	1.58	0.64	0.71	0.82
DPS	0.00	0.00	0.00	0.00
Book value	3.36	4.00	4.71	5.53

### Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	2.1	2.0	1.7	1.5
EV/EBITDA	6.7	7.0	6.1	5.4
EV/IC	1.7	1.5	1.4	1.3
PE*	4.1	10.0	9.1	7.8
PB	1.9	1.6	1.4	1.2
FCF yield (%)	23.8	13.4	13.7	17.0
Dividend yield (%)	0.0	0.0	0.0	0.0

\* Based on HSBC EPS (diluted)

### ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2021a
GHG emission intensity*	975.6	No. of board members	8
Energy intensity*	3,727.2	Average board tenure (years)	6.1
CO <sub>2</sub> reduction policy	Yes	Female board members (%)	12.5
<b>Social Indicators</b>		Board members independence (%)	50
Employee costs as % of revenues	10.3		
Employee turnover (%)	6.4		
Diversity policy	Yes		

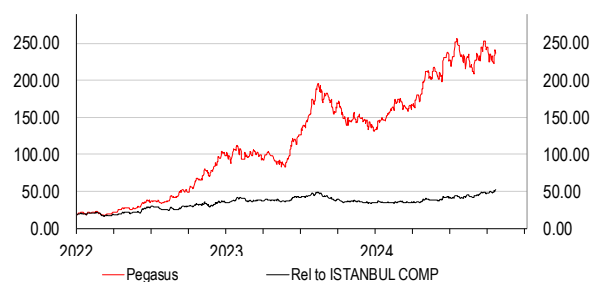
Source: Company data, HSBC

\* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

### Issuer information

Share price (TRY)	239.50	Free float	35%
Target price (TRY)	300.00	Sector	Airlines
RIC (Equity)	PGSUS.IS	Country/Region	Türkiye
Bloomberg (Equity)	PGSUS TI	Analyst	Cenk Orcan
Market cap (USDm)	3,502	Contact	+90 212 376 46 14

### Price relative



Source: HSBC

Note: Priced at close of 21 Oct 2024

## Forecast changes

Our new full-year forecasts incorporate better-than-expected traffic performance so far this year and lower jet fuel prices, but higher ex-fuel unit costs as well as lower passenger yields. With weaker parts of the business offset by the stronger factors (including the good performance in ancillary revenue/passenger as a mitigating factor for the pressure on passenger yields), we revise 2024e EBITDA by 2% but raise 2025e by 3%, due mainly to a lower fuel price assumption. At the bottom-line profit level, we have made more noteworthy cuts due partly to higher financial expenses but mostly to the tax line (lower deferred tax income assumption). All in all, our 2024 estimates are in line with company guidance: we expect ASK growth of 13% (vs guidance 12-14%); a flat RASK y-o-y (same as guided); 5% growth in ancillary revenue per passenger (vs guidance of “mid-to-high single digit growth”); 9% increase in non-fuel CASK (vs guidance of “mid-to-high single digit growth”) and an EBITDA margin of 28% (vs guided range of 28-30%). We see the EBIT margin settling in the 17-19% range in the coming few years and EBITDA margin in the 28-30% range.

### Pegasus - quarterly estimates

EURm	Q4 24e HSBC	Q4 23a actual	Q3 24e HSBC	Q3 23a actual	Q2 24a actual	Q2 23a actual	Q1 24a actual	Q1 23a actual
Revenue	659	609	1,070	962	763	657	519	442
EBITDA	146	131	428	418	230	221	39	69
margin	22.2%	21.5%	40.0%	43.4%	30.1%	33.6%	7.4%	15.5%
Net profit	24	469	290	253	112	91	-103	-22

Source: Company data, HSBC estimates

### Jet fuel price assumptions

USD/t	2023	2024e	2025e	2026e
new	884	792	800	800
old	884	890	890	890
change	0%	-11%	-10%	-10%

Source: Bloomberg, HSBC estimates

### Pegasus - forecast changes

EURm	2023		2024e				2025e				2026e			
	act	yoy chg.	old	new	new/old	yoy chg.	old	new	new/old	yoy chg.	old	new	new/old	yoy chg.
Revenue	2,670	9%	2,971	3,011	1%	13%	3,272	3,420	5%	14%	3,589	3,787	6%	11%
EBITDA	838	0%	860	843	-2%	0%	942	970	3%	15%	1,075	1,090	1%	12%
Operating profit	520	-10%	500	503	1%	-3%	529	565	7%	12%	605	646	7%	14%
EBIT	534	-12%	558	538	-3%	1%	573	594	4%	10%	639	671	5%	13%
Net finance cost	-164	-20%	-190	-256	35%	56%	-221	-272	23%	6%	-220	-286	30%	5%
PBT	370	-8%	368	282	-23%	-24%	351	322	-8%	14%	419	385	-8%	20%
Net profit	790	83%	551	322	-42%	-59%	439	354	-19%	10%	440	412	-6%	16%
Passengers (m)	31.9	19%	35.5	36.7	3%	15%	38.6	41.1	7%	12%	41.7	45.0	8%	9%
Load factor	84.8%	1.2%	85.1%	87.5%	2.5%	2.8%	85.6%	87.3%	1.7%	-0.3%	86.1%	87.3%	1.3%	0.1%
ASK (bn)	58.2	22%	65.4	65.8	1%	13%	71.8	75.2	5%	14%	78.2	83.5	7%	11%
Ancil. rev/pax (EUR)	25.4	9%	27.0	26.8	-1%	5%	28.1	27.9	0%	4%	28.8	28.8	0%	3%
Yield-int'l (pax revenue/pax)-EUR	78.6	-16%	77.0	70.9	-8%	-10%	77.0	68.8	-11%	-3%	77.0	68.1	-12%	-1%
RASK (EURc) - tot	4.59	-11%	4.54	4.57	1%	0%	4.55	4.55	0%	-1%	4.59	4.54	-1%	0%
CASK (EUR) - total	3.69	-6%	3.78	3.81	1%	3%	3.82	3.80	-1%	0%	3.81	3.76	-1%	-1%
CASK (EUR) - ex fuel	2.26	4%	2.40	2.46	2%	9%	2.42	2.47	2%	0%	2.43	2.44	1%	-1%
Fuel cost/ASK (EURc)	1.43	-18%	1.37	1.35	-2%	-6%	1.40	1.33	-5%	-2%	1.38	1.32	-5%	-1%
EBITDA margin	31.4%	-2.7%	28.9%	28.0%	-1.0%	-3.4%	28.8%	28.4%	-0.4%	0.4%	30.0%	28.8%	-1.2%	0.4%
EBIT margin	20.0%	-4.8%	18.8%	17.9%	-0.9%	-2.1%	17.5%	17.4%	-0.1%	-0.5%	17.8%	17.7%	-0.1%	0.4%
Net debt	2,699	23%	3,211	2,933	-9%	9%	3,377	3,082	-9%	5%	3,286	2,979	-9%	-3%
Adj net debt	2,562	25%	3,024	2,746	-9%	7%	3,141	2,845	-9%	4%	2,999	2,692	-10%	-5%
Adj net debt / EBITDA	3.1	25%	3.5	3.3	-7%	7%	3.3	2.9	-12%	-10%	2.8	2.5	-11%	-16%

Source: Company data, HSBC estimates

**Valuation and risks**

		Valuation	Risks to our view
<b>Pegasus PGSUS TI</b>	Current price:	<p>Our EUR-based DCF valuation for Pegasus assumes, after our forecast changes, a medium-term EBIT margin of 18.0% (from 12.0%), medium-term invested capital growth rate of 7.0% (unchanged), and average asset turnover of 0.5x (unchanged). Our WACC parameters are a EUR risk-free rate of 7.2% (from 7.6%, based on an average of Türkiye's long-term Eurobond rates, which we use as a benchmark), equity risk premium of 5.5% (unchanged), and company beta of 0.96 (from 0.94, based on a spot Bloomberg adjusted beta). We assume a cost of debt of 5.0% (from 4.2%, which is the blended figure on its debt portfolio as of 1H24-end) and debt/equity of 70%/30% (from 74%/26%). The lower risk free rate but higher company beta, cost of debt and debt/equity split overall result in our higher EUR-based WACC of 6.4% (from 5.7%). Our revised DCF parameters and financial forecasts along with a higher spot EUR/TRY rate of 37.17 (from 34.33) prompt us to raise our target price to TRY300.00, from TRY204.60. Our revised target price implies c25% upside. We maintain our Buy rating.</p>	<p><b>Downside risks:</b> 1) a major rally in oil and jet fuel prices; 2) weaker-than-expected traffic and pricing; 3) lower or weaker-than-expected market share and ancillary revenue development; 4) external events (such as security issues, pandemics, volcanic eruptions); 5) tougher competition at the Istanbul Sabiha Gokcen Airport from local and foreign airlines; and 6) sustained TRY strength that hurts Turkish tourism traffic inflows.</p>
	Target price:		
Up/downside:			
<b>Buy</b>	<b>TRY239.50</b> <b>TRY300.00</b> <b>25.3%</b>		

Priced at 18 Oct 2024  
 Source: HSBC estimates

# Disclosure appendix

## Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Cenk Orcan

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### From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

### Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile\*). Stocks between these bands were classified as Neutral.

\*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

### Rating distribution for long-term investment opportunities

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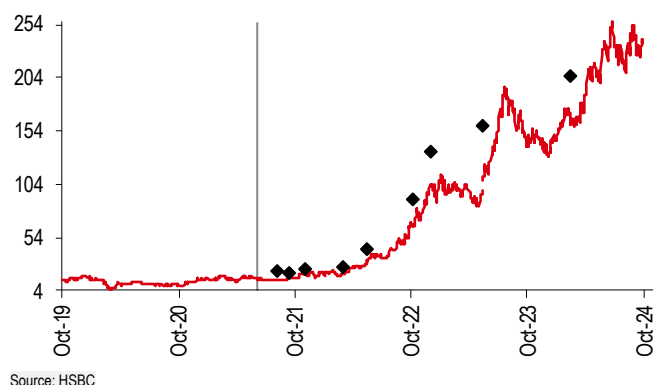
<b>Buy</b>	55%	(15% of these provided with Investment Banking Services in the past 12 months)
<b>Hold</b>	39%	(14% of these provided with Investment Banking Services in the past 12 months)
<b>Sell</b>	6%	(11% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

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### Share price and rating changes for long-term investment opportunities

#### Pegasus (PGSUS.IS) share price performance TRY Vs HSBC rating history



#### Rating & target price history

From	To	Date	Analyst
Hold	Buy	24 Jun 2021	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	20.79	26 Aug 2021	Cenk Orcan
Price 2	19.99	01 Oct 2021	Cenk Orcan
Price 3	24.10	23 Nov 2021	Cenk Orcan
Price 4	25.17	24 Mar 2022	Cenk Orcan
Price 5	42.02	08 Jun 2022	Cenk Orcan
Price 6	88.53	25 Oct 2022	Cenk Orcan
Price 7	134.22	20 Dec 2022	Cenk Orcan
Price 8	158.24	04 Jun 2023	Cenk Orcan
Price 9	204.60	07 Mar 2024	Cenk Orcan

Source: HSBC

To view a list of all the independent fundamental ratings/recommendations disseminated by HSBC during the preceding 12-month period, and the location where we publish our quarterly distribution of non-fundamental recommendations (applicable to Fixed Income and Currencies research only), please use the following links to access the disclosure page:

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### HSBC & Analyst disclosures

#### Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
PEGASUS	PGSUS.IS	239.50	21 Oct 2024	1, 4, 5, 6, 7

Source: HSBC

- 1 HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- 2 HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- 3 At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- 4 As of 30 September 2024, HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- 5 This company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
- 6 As of 31 August 2024, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-investment banking securities-related services.
- 7 As of 31 August 2024, this company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of non-securities services.



- 8 A covering analyst/s has received compensation from this company in the past 12 months.
- 9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.
- 10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.
- 11 At the time of publication of this report, HSBC is a non-US Market Maker in securities issued by this company and/or in securities in respect of this company.
- 12 As of 16 October 2024, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- 13 As of 16 October 2024, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.
- 14 HSBC Qianhai Securities Limited holds 1% or more of a class of common equity securities of this company.

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