

Aviation Sector

63% Upside Potential

Wings of the Future

We are initiating coverage on Turkish Airlines (THYAO TI) with a target price of TRY 473.60 per share, and Pegasus Airlines (PGSUS TI) with a target price of TRY 369.90 per share, along with an outperform rating.

Global Aviation Sector: The global aviation sector continues its recovery after the COVID-19 pandemic, showing significant progress in both passenger and cargo transportation. The increasing demand for travel and the easing of restrictions have accelerated the sector's growth, while airlines have taken important steps to improve operational efficiency. Globally, the full recovery process is expected to continue into 2024 and 2025. We believe this recovery will positively impact the sector's long-term growth potential.

Local Aviation Sector: The aviation sector in Turkey has shown rapid growth, with both THYAO and PGSUS standing out for reaching pre-pandemic levels faster than their global competitors. Both companies have maintained consistent financial performance, while the local aviation sector exhibited a strong recovery in 2023, with a significant increase in passenger numbers. A particularly notable surge in demand has been observed in domestic flights. Additionally, strong tourist data supports the tourism potential of the Turkish aviation sector, with Turkey's strategic location continuing to provide an advantage.

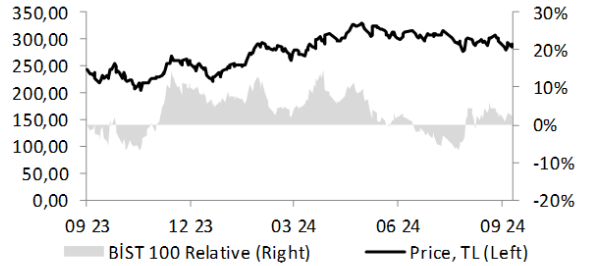
THYAO: Turkish Airlines, known for its high operational capacity and extensive flight network, holds a strong market position with its large fleet and global operations. The fact that the company ranks among the top three air cargo carriers in the world in terms of freight tonne kilometers makes the stock appealing.

PGSUS: Standing out with its low-cost business model and strong operational efficiency, Pegasus has a strong market position, especially in the low-cost air freight segment. The young fleet structure and the addition of fuel-saving aircraft to the fleet make the company even more attractive.

Risks: Macroeconomic risks, exchange rate risk, fuel price risk, competition risk and aviation regulations stand out as risks in the sector. However, companies partially control risks by using hedging opportunities. In particular, Pegasus has low unit costs as it adopts the low-cost carrier model, so it can be said that the company is more resistant to difficulties.

Listing Details and View

| Bloomberg Ticker | THYAO TI |
|------------------------------|-------------------|
| View | Outperform |
| Price per Share, TRY | 290,50 |
| Target Price per Share, TRY | 473,60 |
| Upside | 63% |
| Free Float | 50,33% |
| Market cap, TRY mln | 400.890 |
| Market cap, USD mln | 11.829 |
| BIST-100 Index Weight | 7,33% |
| BIST All Shares Index Weight | 5,51% |
| Foreign Share | 24,85% |
| Pension Funds Share | 7,72% |
| Mutual Funds Share | 5,16% |



Source: BIST, Rasyonet

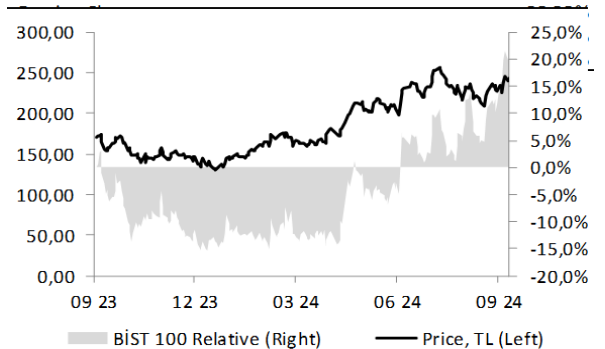
| | 1m | 3m | 6m | 1y |
|-------------------|-------|-------|-------|-------|
| Nominal | -2,2% | -6,4% | 8,2% | 27,9% |
| Relative | 0,8% | 3,3% | -3,3% | 4,4% |
| Trd. Vol. USD mln | 228,2 | 254,7 | 299,8 | 313,1 |

Source: BIST, Finnet

52% Upside Potential

Listing Details and View

| Bloomberg Ticker | PGSUS TI |
|------------------------------|-------------------|
| View | Outperform |
| Price per Share, TRY | 244,00 |
| Target Price per Share, TRY | 369,90 |
| Upside | 52% |
| Free Float | 42,44% |
| Market cap, TRY mln | 122.000 |
| Market cap, USD mln | 3.237 |
| BIST-100 Index Weight | 1,88% |
| BIST All Shares Index Weight | 1,42% |



Source: BIST, Finnet

| | 1m | 3m | 6m | 1y |
|-------------------|-------|-------|-------|-------|
| Nominal | 10,2% | 3,0% | 53,9% | 48,5% |
| Relative | 13,5% | 13,7% | 37,5% | 21,2% |
| Trd. Vol. USD mln | 48,2 | 53,3 | 63,4 | 61,4 |

Source: BIST, Finnet

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A Brief Overview of the Global Aviation Industry

The past year has been a period of significant transformation for the global aviation industry. In the aviation sector, which entered the recovery process after the COVID-19 pandemic, significant increases were observed in passenger and cargo traffic. Increasing travel demands have caused airline companies to increase their operational capacities and open new routes. With the easing of travel restrictions after the pandemic, there has been a strong recovery in the number of passengers in 2023. In particular, the increase in international travel has played a significant role in the growth of the industry. According to IATA (International Air Transport Association) data, global passenger traffic in 2023 reached a point close to pre-pandemic levels. The increase in demand, especially concentrated in the Asia-Pacific region and Europe, led to a significant improvement in the revenues of regional airlines. As 2024 begins, the sector's growth momentum continued despite various economic and geopolitical challenges.

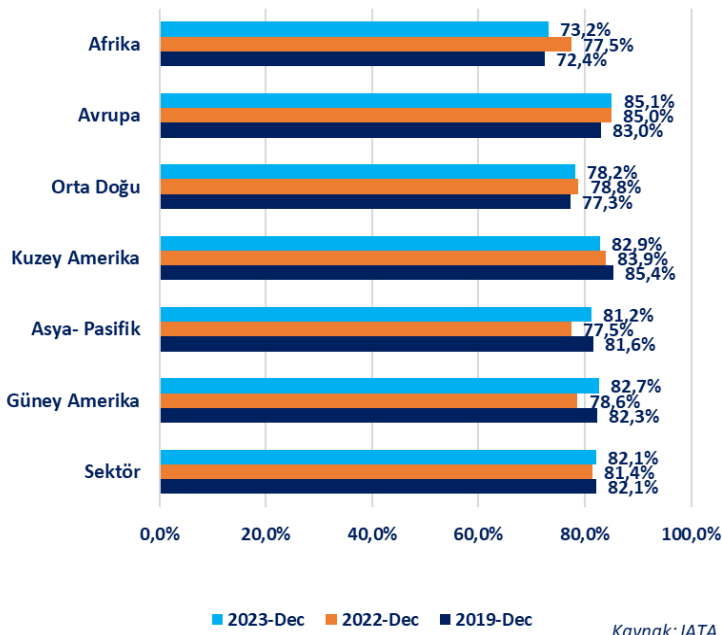
- According to IATA's data; In 2023, total passenger traffic RPK (Paid Passenger Kilometers) increased by 36.9% compared to 2022.
- For the full year 2023, global passenger traffic reached 94.1% of 2019 levels.

One of the most important developments shaping the sector's growth in 2023 was China's reopening of its borders after the restrictive measures it took due to the COVID-19 pandemic. With the lifting of travel restrictions, China's domestic passenger numbers exceeded 2019 levels.

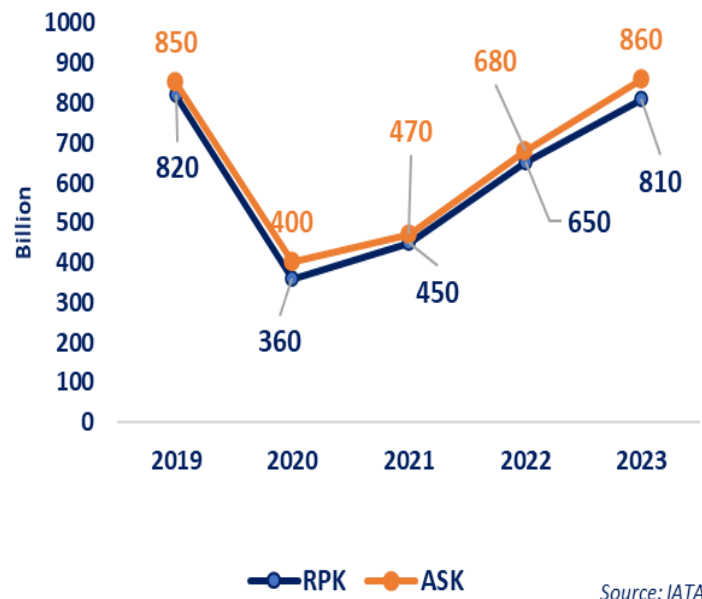
According to data from the United Nations World Tourism Organization (UNWTO), the number of international tourists increased by 30% in 2023, reaching 1.3 billion people. This increase has also made a significant contribution to the aviation industry. In the statements made by the UN World Tourism Organization, it was predicted that global tourism will completely recover from the effect of the pandemic in 2024 and international tourist arrivals will be 2% higher than in 2019.

With the data obtained as of 2023, we see that the global aviation industry's post-pandemic recovery process continues and has the potential to grow in the future. Continued growth in passenger traffic and revenues could allow the industry to grow in a healthy and sustainable way. In the light of these data, we assess that the aviation industry's contribution to the global economy will continue to increase and that the sector has gained a positive momentum despite the challenges it may face in the future.

Passenger Load Factors by Region%



Global ASK and RPK Values



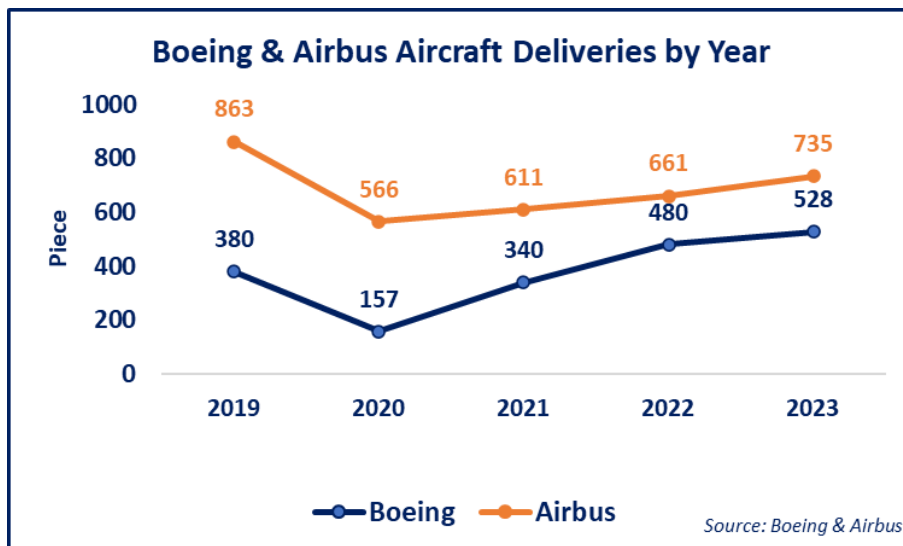
Highlights in 2023

In 2023, the course of revenues per passenger returned to normal...

If we make a regional assessment, the Asia-Pacific region lagged behind other traffic regions due to COVID-19. However, significant progress has been made since March 2022 as concerns about the Omicron variant have subsided. Still, revenues per passenger grew slowly compared to other regions due to the slow normalization of China and Japan. Routes covering the North and South America region led the recovery in revenues per international passenger. Tensions in Ukraine continued to affect international operations due to airspace closures and traffic diversions. The closure of Russian airspace affected airlines from almost 40 countries, with the most affected markets being Europe-Asia and Asia-North America. Airspace closures have had a direct impact on revenues per passenger, as they have required flights to be rerouted or canceled.

Airbus and Boeing deliveries are still weak...

In 2023; Although the number of deliveries at Airbus is below 2019, we see that 2019 is exceeded at Boeing. These deliveries can also contribute to the renewal and expansion of fleets, allowing models with sustainable fuel consumption to be at the forefront.



2024 | Overview of the Global Aviation Industry

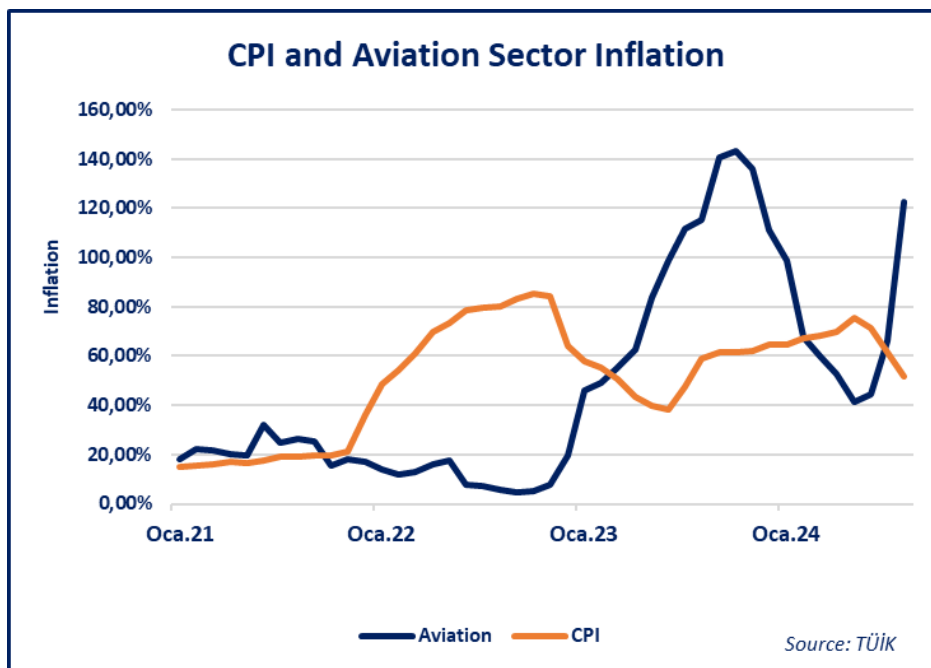
The first quarter of 2024 was a period in which the recovery trend continued for the global aviation industry...

The sector, which has entered the recovery process after the pandemic, is being reshaped with the effect of various economic and geopolitical factors. Macroeconomic developments such as high inflation rates, exchange rate fluctuations and the increase in fuel prices continue to have decisive effects on the sector. According to data from the International Air Transport Association (IATA), global passenger demand increased by 21.5% in the first quarter of 2024 compared to the same period in 2023. During this period, capacity increased by 18.7% and the occupancy rate reached 80.6%. This strong performance was evident in both domestic (up 15%) and international (up 26.3%).

In Turkey, players such as Turkish Airlines (THYAO TI) and Pegasus Airlines (PGSUS TI) continued to take important steps in 2024 within the framework of their strategies to maintain and expand their market shares. In the first half of 2024, Pegasus managed to increase its total ASK (seats supplied) by 19%, while Turkish Airlines increased its total ASK by 10.2%.

High inflation is suppressing profitability in the sector...

High levels of inflation have been a factor that has increased operational costs for the aviation industry. Increases in fuel prices in the first half of the year increased cost pressures in the sector, which negatively affected the profitability of companies. Similarly in Turkey, high inflation rates and fluctuations in exchange rates have made it difficult for airlines to manage their costs. On a global basis, high interest rates have increased borrowing costs, limiting companies' investment capacity. However, with the start of the interest rate cut cycle in the European region as of June and the expectation that the Fed will enter the rate cut cycle this week, we think that the possible revival in the global market will be positive for the sector.



Shipping | Global Cargo Flights and Developments

Following a remarkable performance in 2021, the air cargo industry faced many economic and geopolitical challenges in 2022. Inflation, the Russia-Ukraine war, China's zero-Covid policy, and supply chain disruptions were the main reasons for the demand contraction. Many of these challenges have carried over into 2023. However, the disruption of maritime traffic supported air traffic. With increased trade restrictive measures, Cargo Tonne Kilometers (CTK) across the industry decreased by 1.9% year-on-year in 2023. Air cargo traffic, which started 2023 at the lowest level since the spring of 2020, showed positive and increasing annual growth in August 2023. In March 2024, global CTGs grew by 10.3% compared to March 2023.

From the beginning of 2024, the global aviation industry has entered a recovery process with the lifting of restrictions imposed by the pandemic and an increase in travel demand. In the sector, which entered the recovery process, significant increases were observed especially in the number of international and domestic passengers. Increases in passenger numbers have also improved the operational performance of airlines. However, we would like to remind you that in the current recovery process, challenges such as supply chain disruptions, logistical problems and personnel shortages still remain, albeit partially.

2024 1st half year global cargo flights data...

Global Cargo Tonne-Kilometer (CTK) grew by 14.1% year-on-year in June. According to seasonally adjusted data, CTK increased by 0.9% compared to last month.

International air cargo volumes increased by 15.6% compared to June 2023, supported by all regions and major trade routes. Carriers from Asia Pacific and Latin America recorded the highest annual growth, with demand on Africa-Asia and Middle East-Europe routes increasing by over 30% year-on-year.

Across the industry, Available Cargo Tonne-Kilometers (ACTK) increased by 8.8% year-on-year in June, reaching record levels of year-to-date capacity levels.

Global production and trade figures remained approximately flat according to the latest available data. Purchasing managers remained optimistic about production output despite deteriorating expectations for new export orders.

What are the Effects of the Tourism Sector in Turkey on the Aviation Sector?

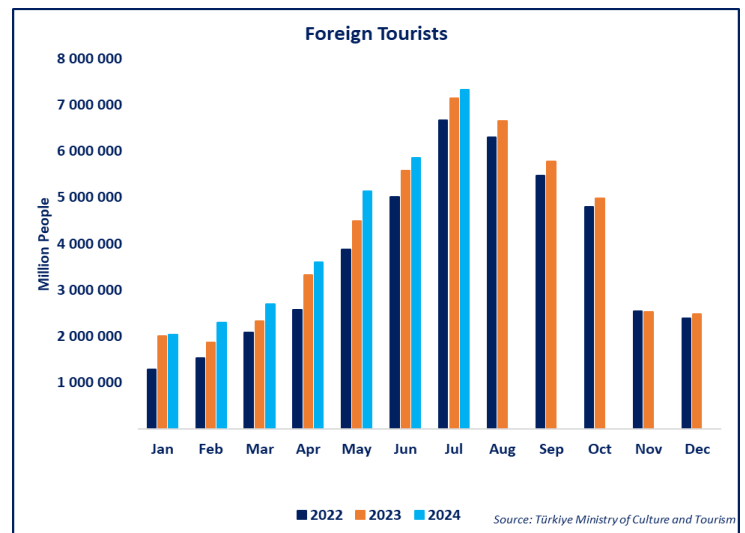
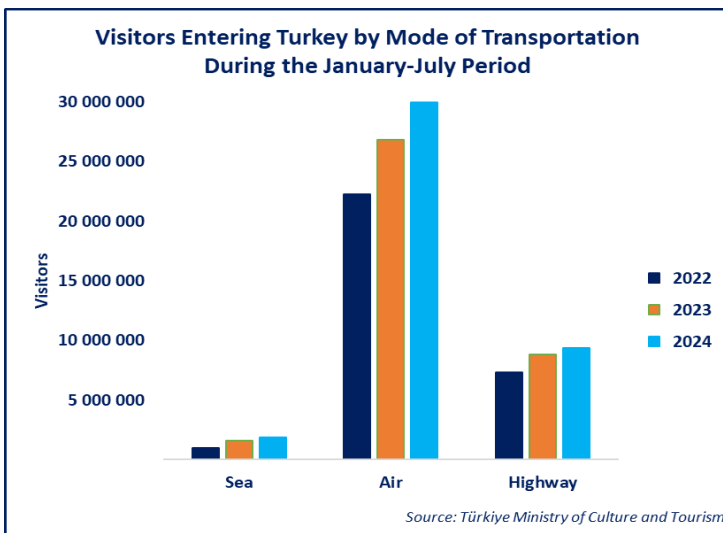
Tourism Sector in Turkey

Although the effects of the pandemic caused a great decrease in tourist arrivals in 2020, the Turkish tourism sector experienced a rapid recovery process from the 2nd half of 2021 and reached record levels in 2023. This growth trend is expected to continue in 2024.

If we look at the latest data, according to the data of the Ministry of Culture and Tourism of the Republic of Turkey, the number of foreigners visiting Turkey increased by 2.60% in July compared to the same month last year. In the first 7 months of 2024, a total of 28,978,471 visitors were recorded in Turkey, an increase of 8.27% compared to the same period last year. In line with the data announced, considering the performance and seasonal effects in the first 7 months, we predict that the total number of visitors in Turkey will be between 60-65 million by the end of the year. The fact that Turkey will continue to be one of the most preferred tourist destinations in 2024 is one of the biggest reasons supporting this prediction. Turkey's diversified tourism model continues to offer a positive outlook for tourist arrivals this year, despite concerns of a less competitive currency.

If we briefly touch on the effects of current tourism data on the Turkish aviation industry;

- i) **Geography:** Turkey has an advantageous geographical position in the middle of Asia and Europe. In addition to being an attractive tourist destination, we are also a connection point for millions of passengers who naturally pass through Turkish airspace. Turkey, the only country in Europe that does not ban flights from Russia, is positioned as a transit hub for Russian passengers, which will become the largest market for foreign passengers in 2023. The fact that there are approximately 6.5 million Turkish citizens living abroad also creates a continuous travel activity and supports the sector.
- ii) **Strong and thriving infrastructure:** To take advantage of the expected influx of foreign travel, the country is upgrading its aviation infrastructure to support inbound traffic. Over the past two decades, the Turkish government has invested billions of dollars in expanding and improving aviation infrastructure. With these investments, we have seen the number of airports increase from 26 in 2022 to 53 in 2023.



Jet Fuels

Jet fuel prices are one of the most important cost items of the aviation industry. High fuel costs can directly affect airlines' operational costs, pricing strategies and overall performance, closely affecting passenger demand. As of the first half of 2024, the share of fuel expenses in total expenses was 31.4% for Turkish Airlines and 36.25% for Pegasus.

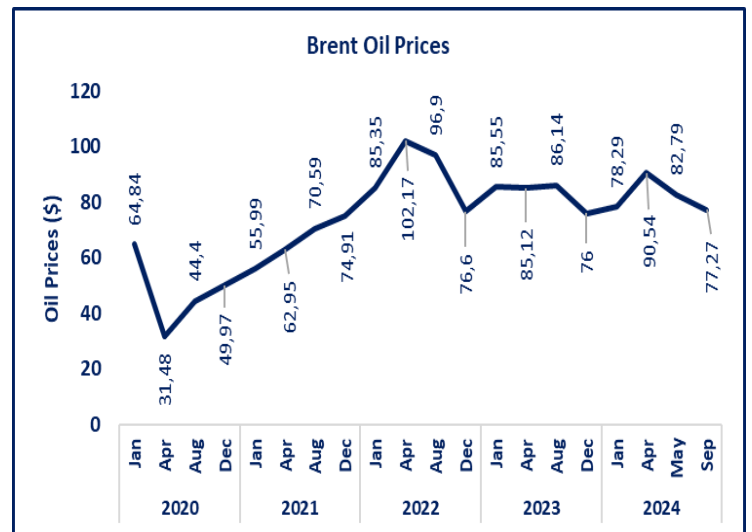
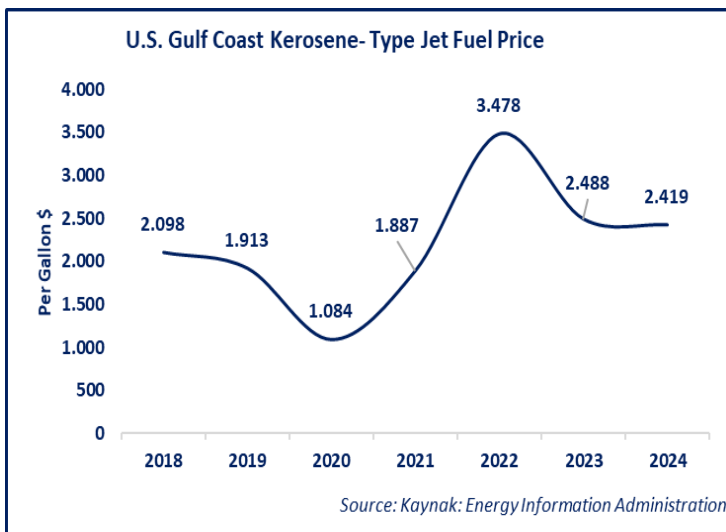
The Course of Oil Prices

As a reminder, after the Russia-Ukraine war that started in February 2022, we saw sharp rises in oil prices from \$91 to \$115.

In addition to the war situation, production cuts and dependence on production quotas by OPEC+ countries during this period led to a contraction of global supply. For this reason, the continuation of Brent oil prices at high levels in 2024 increased the fuel costs of airlines. This has necessitated companies to pay more attention to cost management and efficiency strategies. IATA's forecast for oil prices for 2024 is that prices will remain between \$85-90 per barrel. However, if OPEC raises its production targets to meet increased demand, a decline in prices may occur. The International Energy Agency (IEA) has highlighted that global oil demand growth is slowing, especially due to China's weakening economy, and predicted a potential oversupply in 2024 even if OPEC+ continues its production cuts. When we look at the recent months, we think that the significant pullbacks seen in oil may reflect positively on companies, especially in the 3rd and 4th quarters. In our base scenario, we assume that oil prices will remain in the \$80-\$85 range. In addition, IATA predicts that the slowdown in global GDP growth could also reduce oil prices.

The Impact of U.S. Gulf Coast Kerosene on the Aviation Industry

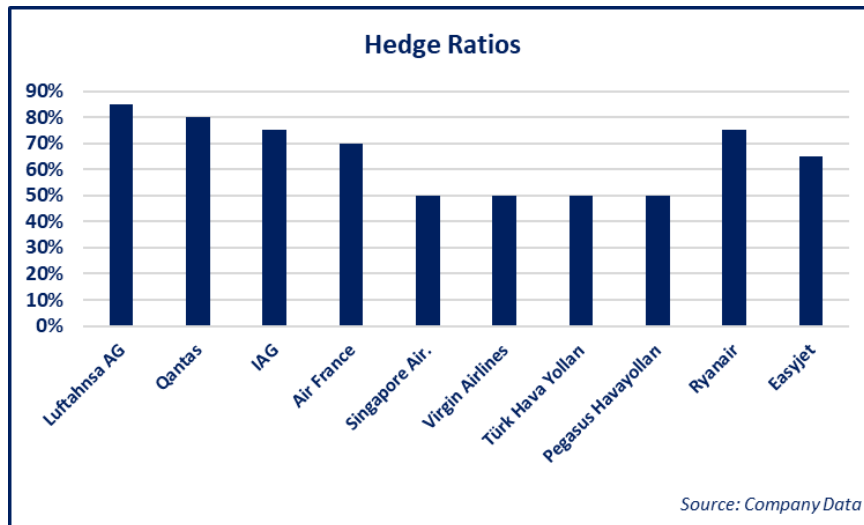
Changes in Brent oil prices also affect the prices of jet fuel (kerosene), which are usually refined products. Kerosene, one of the main components of jet fuel used in aviation, is a type of fuel produced in the Gulf of Mexico. Changes in the price of U.S. Gulf Coast kerosene significantly affect both the operational and financial decisions of airlines and the dynamics of the overall aviation industry. U.S. refinery capacities, local consumption levels, and seasonal demand changes can closely affect U.S. Gulf Coast kerosene prices.



What are airlines doing to avoid being affected by the increase in oil prices?

The reactions of airline companies operating in the aviation sector to movements in oil prices are very important. Companies **protect against unexpected situations by** financially hedging a portion of their fuel needs. In addition, the efficiency of the aircraft, which are added to the fleets as new generation aircraft, that is, the increase in the share of fuel-saving models in the total fleet against other aircraft, helps to keep costs under control.

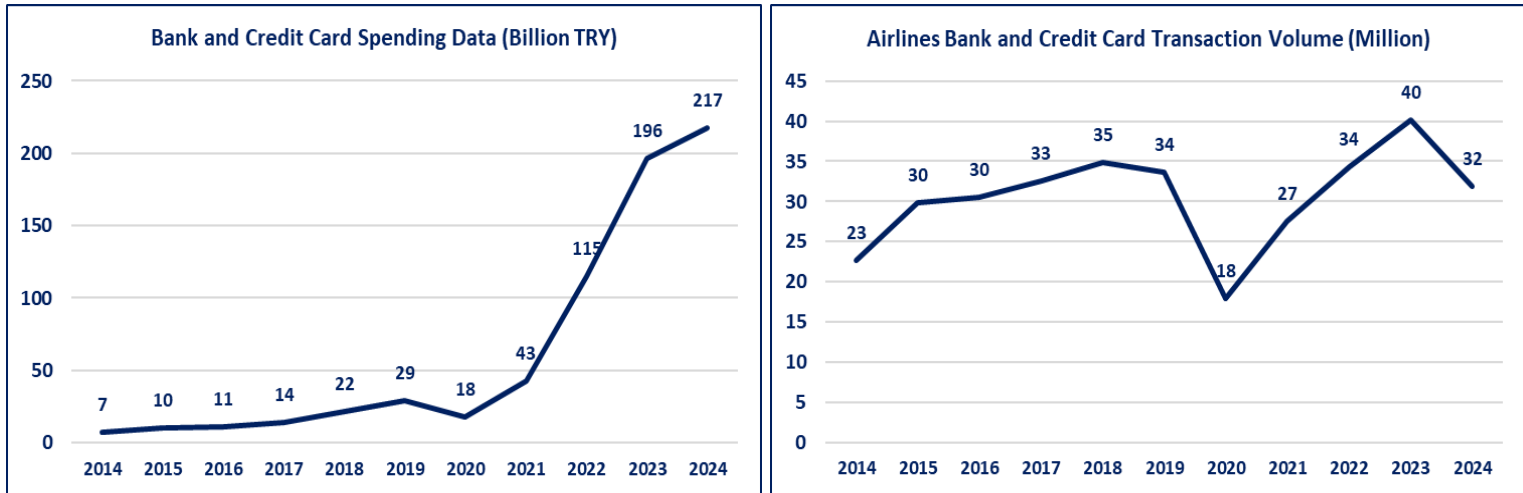
Hedge Ratios of Turkish Airlines & Pegasus Airlines and Global Airlines



Compared to global airlines, Turkish Airlines and Pegasus follow a more balanced strategy with moderate hedging ratios. A balanced hedging strategy provides some protection against cost increases and allows companies to be more flexible in favorable market conditions (e.g., falling fuel prices).



Debit and Credit Card Expenditures in the Domestic Aviation Sector



As we can see in the graph, we can say that bank and credit card expenditures have increased significantly in the airline industry between 2020 and 2024. The increase in these expenditures gives important clues in terms of both demand and the growth of the sector. If we interpret it in terms of sector dynamics, we see that the expenditures made in the aviation sector, which took a serious hit due to Covid-19 in 2020, have also stagnated. However, the resumption of both domestic and international travel since 2021 has caused consumer spending to rise again.

In addition, we think that inflation and the rise in ticket prices are also effective in the increase in expenditures in the aviation sector. Namely; The increase in inflation in Turkey after 2021 caused ticket prices to rise. According to the Interbank Card Center (BKM) data, ticket prices, which were 312 TRY on average in 2014, increased to 6,830 TRY in 2024. This increase corresponds to an increase of 2088% (the 2014-2024 composite CPI shot is around 950%). The increase in ticket prices was higher than the increase in CPI, which was supportive in terms of revenue growth in the aviation sector.

Among the reasons for the increase in airline spending with the increase in inflation; We think that there are situations where there are compulsory travels, the expectation that prices will rise further in the future in an inflationary environment, and the limited alternatives for some routes (international travel), that is, the absence of a means of transportation other than airlines.

In short, while we interpret the increase in expenditures for the aviation sector over the years as positive for companies, we expect this upward trend in aviation expenditures to continue in the coming years.

Pegasus Airlines

52% Upside Potential

We initiate Pegasus with an Overperform rating and a target price of TRY 369.90 per share. The stock trades at a 5.3x EV/EBITDA multiple based on our 2025 estimates. We like the company mainly because of **i)** being one of the most profitable low-cost model airlines in the world, **ii)** using its fleet effectively with new aircraft purchases, **iii)** growth outlook supported by its young fleet structure and increasing flight destinations. In addition, Pegasus will be able to increase its flight capacity by flying double runways in the coming years with the new runway built at Sabiha Gökçen Airport, which it uses as its hub.

Pegasus provides flight services to a total of 141 destinations, 35 domestic and 106 international, in 53 countries. With a fleet size of 108 aircraft as of June 30, 2024, Pegasus also has one of the youngest fleets among all airlines. We believe that the company, which managed to achieve a performance to meet inflation despite the low exchange rate by achieving 65% topline growth and 53% EBITDA growth in TRY terms in 2023, will be able to maintain this performance in the medium term. We expect the company to achieve EBITDA of €973 mn by the end of 2024 and €1,084 mn by the end of 2025. In the aviation sector, where seasonality is quite effective, we think that the number of passengers of the company, which managed to increase the number of passengers by 19% compared to the same period of the previous year according to January-August data, continues to increase steadily, and the number of passengers who catch up with the pre-pandemic period indicates that the growth will continue. Following Pegasus' rapid growth in international routes in the post-pandemic period, we expect it to gain cost advantages and expand its market network with new flight destinations and new aircraft to join the fleet in 2024. The company can achieve a growth trend similar to 2023 with the capacity increase of Sabiha Gökçen Airport. It is possible to say that the second runway opened at Sabiha Gökçen Airport only theoretically increases the capacity of the company for now, but we would like to remind you that in practice, it will be possible to double the capacity in real terms with the completion of the investments.

Catalysts, i)The topline will continue to grow with the newly opened lines, **ii)** they adopt a fast and agile operation model, **iii)** the aircraft maintenance methods do not change much due to the breakdown in fleet distribution in the Airbus model.

The main risk factors are, i) fluctuations in fuel prices, **ii)** regulatory and compliance risks, **iii)** economic fluctuations **iv)** geopolitical and security risks **v)** increased competition in the coming years due to Ajet's adoption of the low-cost aviation model.

Listing Details and View

| Bloomberg Ticker | PGSUS TI |
|------------------------------|------------|
| View | Outperform |
| Price per Share, TRY | 244,00 |
| Target Price per Share, TRY | 369,90 |
| Upside | 52% |
| Free Float | 42,44% |
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| BIST-100 Index Weight | 1,88% |
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| Foreign Share | 23,33% |
| Pension Funds Share | 16,75% |
| Mutual Funds Share | 10,15% |

Source: Matriks, PhillipCapital Research

Price & Market Cap. as of 17-Sep

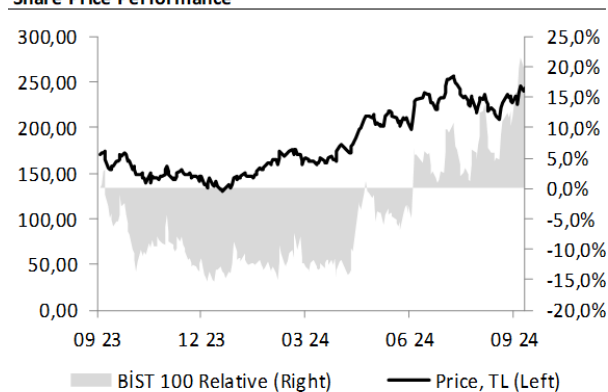
| Key Financials, € mln | 2023 | 2024E | 2025E |
|-------------------------|--------|--------|-------|
| Revenues | 2.670 | 3.210 | 3.555 |
| Revenue Growth | 12% | 17% | 11% |
| Operating Profit | 538 | 610 | 658 |
| Operating Profit Growth | -2,93% | 13,31% | 7,85% |
| Operating Profit Margin | 20,2% | 19,0% | 18,5% |
| EBITDA | 838 | 979 | 1.084 |
| EBITDA Margin | 31,4% | 30,5% | 30,5% |
| Net Profit | 790 | 453 | 412 |
| Net Profit Growth | 83% | -43% | -9% |
| Net Profit Margin | 29,6% | 14,1% | 11,6% |
| Net Debt | 2.597 | 2.523 | 2.771 |
| P/E | 3,2 | 7,1 | 7,9 |
| EV/EBITDA | 7,0 | 5,8 | 5,3 |

Source: Company Data, PhillipCapital Research

| Shareholder Structure | Shares (million) | Rate |
|-----------------------|--------------------|-------|
| Es as Holding A.Ş. | 283.284.475 | 56,66 |
| Diğer | 216.715.525 | 43,34 |
| Total | 500.000.000 | |

Source: Company Data

Share Price Performance



Source: BIST, Finnet

| | 1m | 3m | 6m | 1y |
|-------------------|-------|-------|-------|-------|
| Nominal | 10,2% | 3,0% | 53,9% | 48,5% |
| Relative | 13,5% | 13,7% | 37,5% | 21,2% |
| Trd. Vol. USD mln | 48,2 | 53,3 | 63,4 | 61,4 |

Source: BIST, Finnet

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Pegasus Fleet Details

Pegasus has one of the youngest fleets in Turkey and one of the youngest among global low-cost airlines, with an average of **4.5 years**. While the company owns a total of 6 aircraft, 83 aircraft were included in the fleet through financial leasing and 19 aircraft through operational leasing. **As of the end of June, the total fleet size is 108 aircraft.** The company aims to increase its capacity by constantly expanding its fleet. In line with these goals, it plans to purchase a total of 16 new aircraft in 2024 and plans to remove 8 of its existing aircraft from the fleet. Thus, an increase of around 11% in seat capacity is expected.

The fleet size is planned to be 118 aircraft by the end of 2024.

Orders for 42 A320 neo (received all) and 108 A321 neo (received 45 units) continue according to the delivery schedule. Existing orders support the growth of the company.

In the rest of the year, **11 A321neos** are expected to be delivered **and 1 B737-800** is expected to leave the fleet.

The average number of seats in the fleet will increase from 191 in 2021 to 228 in 2029.

- *If we evaluate the fact that the number of aircraft leased by the company through financial leasing is higher than the number of aircraft leased through operational leasing; Although it creates a loss of flexibility for the company, we evaluate it positively in the long run because it owns the planes and the cost control is in the hands of the company.*
- The company owns 98 Airbus aircraft and 10 Boeing aircraft. The models of Airbus aircraft are A320ceo, A320neo and A321neo. The increasing share of Neo aircraft in the fleet provides the company with consistent efficiency in fuel consumption.

The efficiency of the newly added aircraft, and especially the fact that their fuel consumption is lower than the old aircraft, ensures that costs remain under control. The recent increase in jet fuels gives the company a comparative competitive advantage as new aircraft use less fuel. Compared to companies that have been negatively affected by engine problems recently, it is possible to say that Pegasus is not affected by this situation because it uses aircraft engines of different brands. When we look at the company's aircraft procurement process, the deliveries of Airbus aircraft with limited delays also reflected positively on the company.

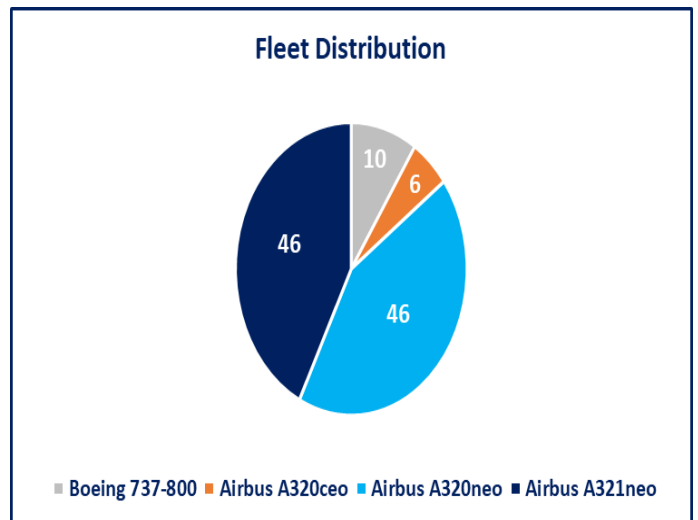
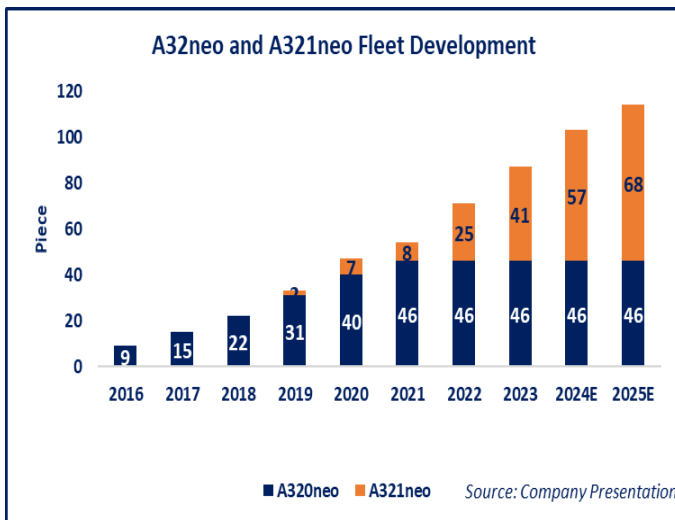
Airbus & Boeing
Breakdown: 90.74% /
9.26%

PGSUS fleet size stands
at 108 aircraft at the end
of 2Q24.

Owned: 5.71%

Finnish. Rental: 75.24%

Op. Rental: 19.05%



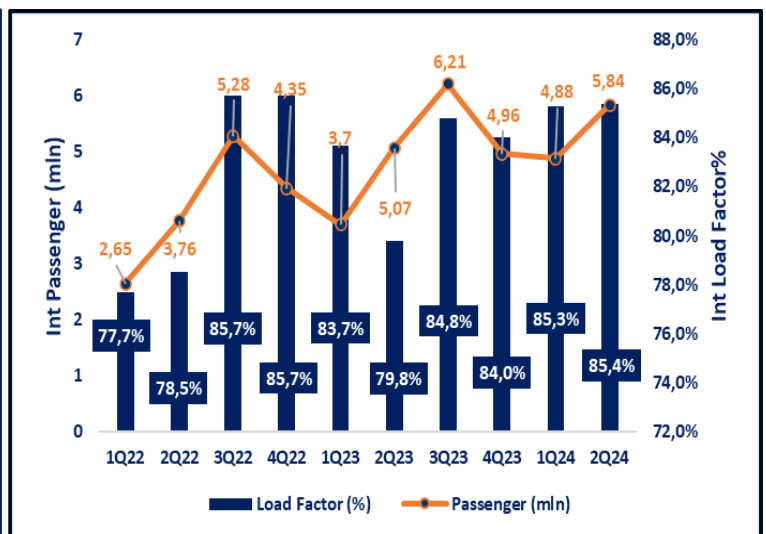
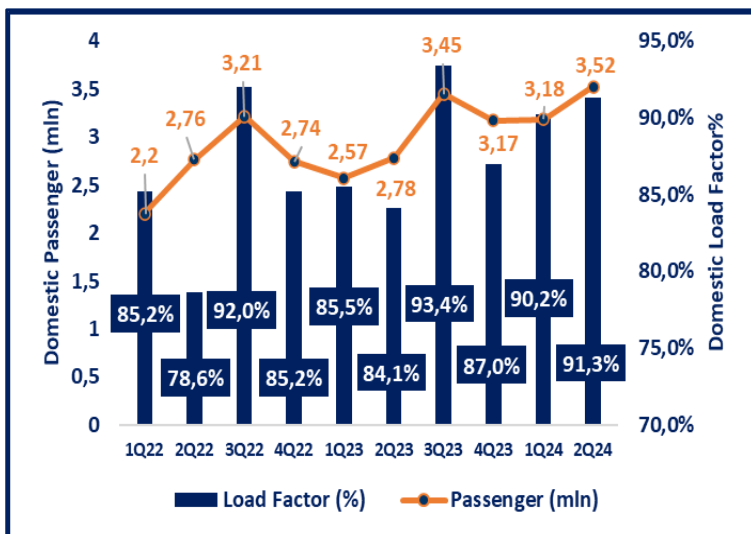
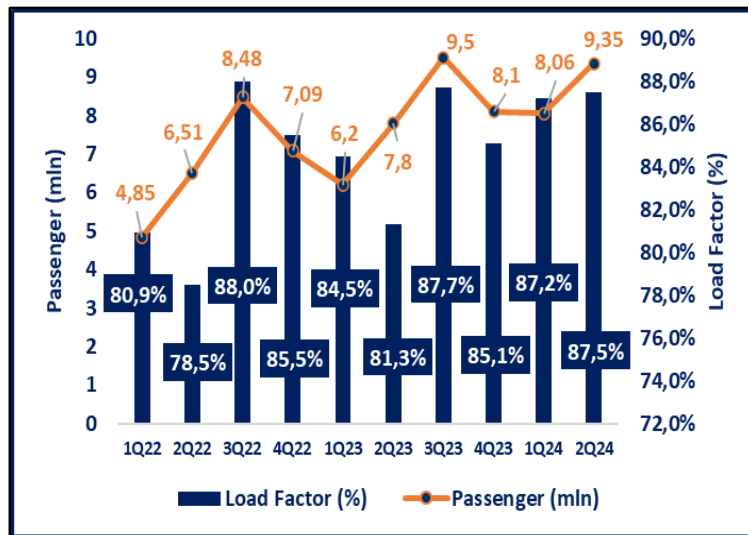


Pegasus Passenger Statistics

It is possible to say that Pegasus showed a strong performance in the first half of 2024 in the aviation sector, where seasonality is highly effective. Increasing the number of passengers by 28% in the first quarter of 2024 compared to the first quarter of 2023, Pegasus maintained its strong outlook in the second quarter of the year, carrying 17.41 million passengers with an increase of 20% compared to the second quarter of 2023. According to the latest data, Pegasus carried 24.65 million passengers in the January-August period of 2024, an increase of 19% compared to the previous year.

We consider it possible that the company, which maintains its strong growth in domestic routes, will be able to maintain this performance in the upcoming period and achieve a growth above 2023 at the end of 2024, especially since it adopts a low-cost business model.

In international routes, we expect the number of international passengers to maintain its positive outlook in 2024 and 2025 thanks to the additional destinations added to the flight network. We expect Pegasus to reach 37 million passengers by the end of 2024 and 39.5 million passengers by the end of 2025.

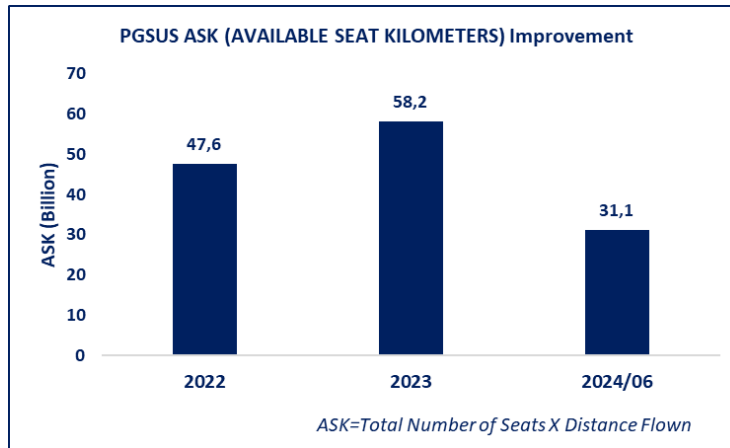


PGSUS ASK (Available Seat) Development

Offered Seat Kilometer (ASK), which is considered an important indicator of capacity in airline companies, is calculated by multiplying the total number of seats and the distance flown. Pegasus' total ASK increased by 22% in 2023. According to the latest data, in the second quarter of 2024, international ASK increased by 9%, while domestic ASK increased by 21%.

When we look at the half of 2024, according to the ASK data, which is 31.1 billion, there is an annual increase of 19% compared to the same period of the previous year. Aiming to complete 2024 with an increase of 12% to 14% in total ASK, Pegasus expects to end the year with ASK of 60.0 billion in the second quarter, assuming that ASK is stronger.

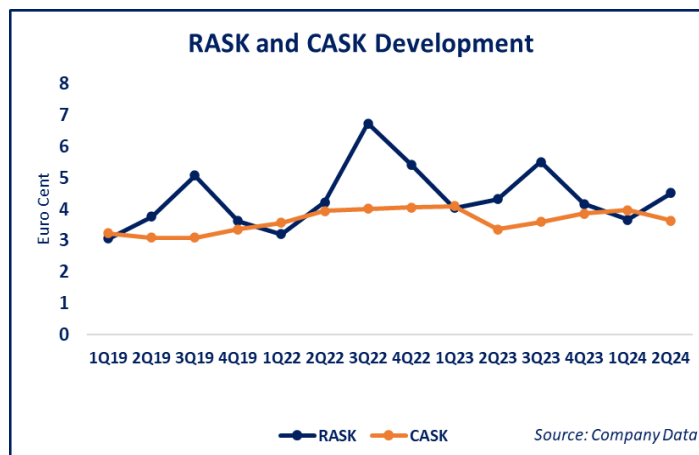
We consider the fact that Pegasus' fuel consumption per ASK data is in a downward trend positive. Namely; By reducing fuel consumption per ASK, the company can gain cost savings due to less fuel consumption, increased profit due to increased profit due to the decrease in fuel costs, and a competitive advantage due to its ability to reach a stronger position in the sector with low fuel consumption.



RASK and CASK

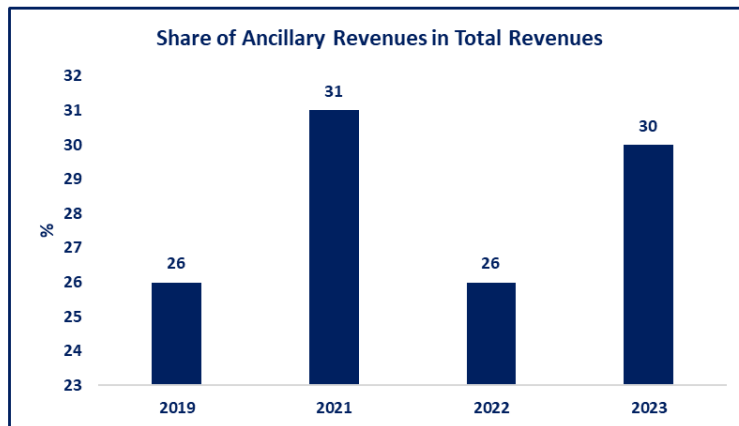
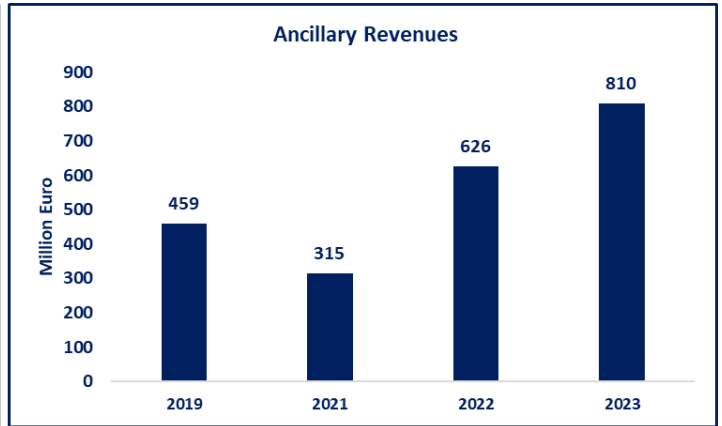
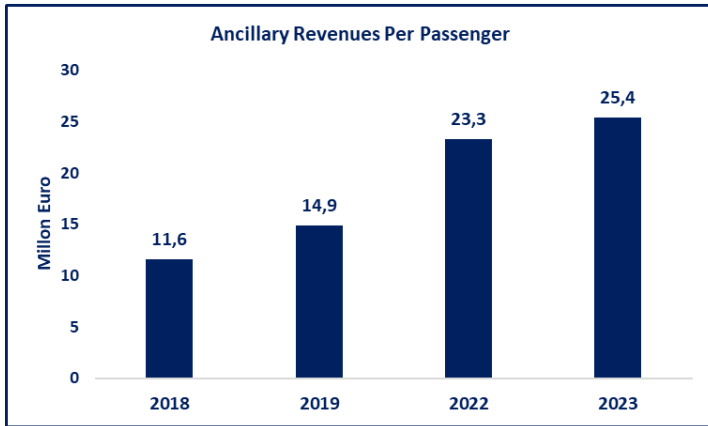
The **RASK** value refers to the unit income of the airline per ASK (seat km supplied), and the **CASK** value refers to the unit expense of the airline per ASK.

At the end of 2023, Pegasus' RASK-CASK difference was recorded as 0.89 Euro cents, approximately 2 times higher than the historical average. In short, we see that Pegasus generates more revenue per kilometer than it costs per seat, and therefore operates profitably. We think that this gap will remain high in the coming periods.

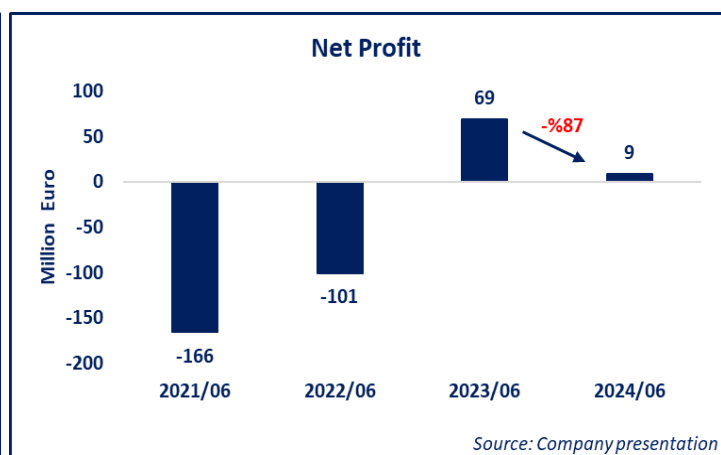
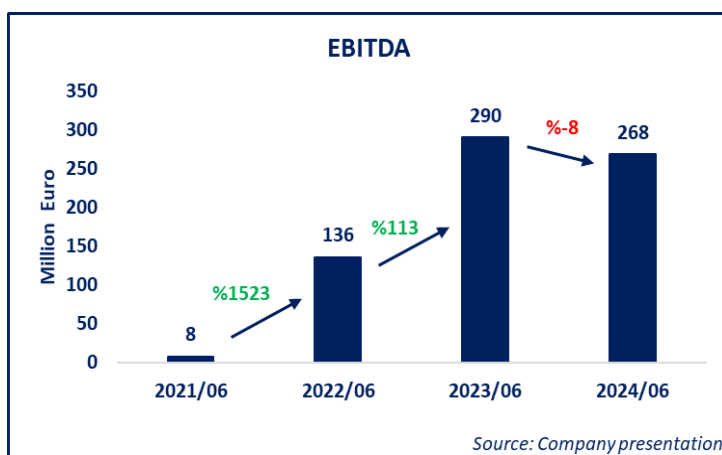
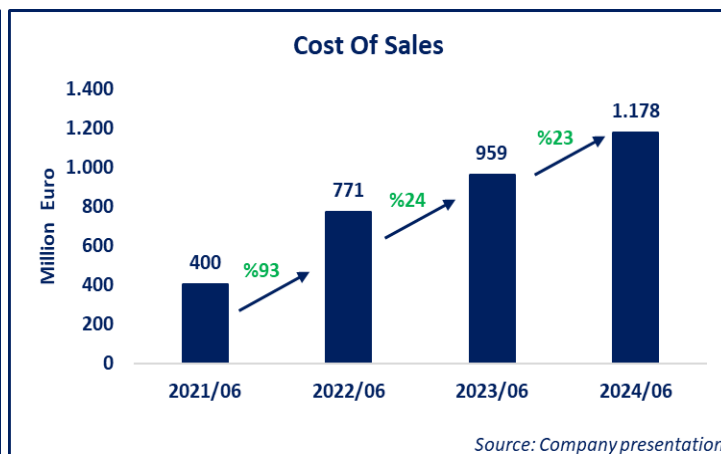
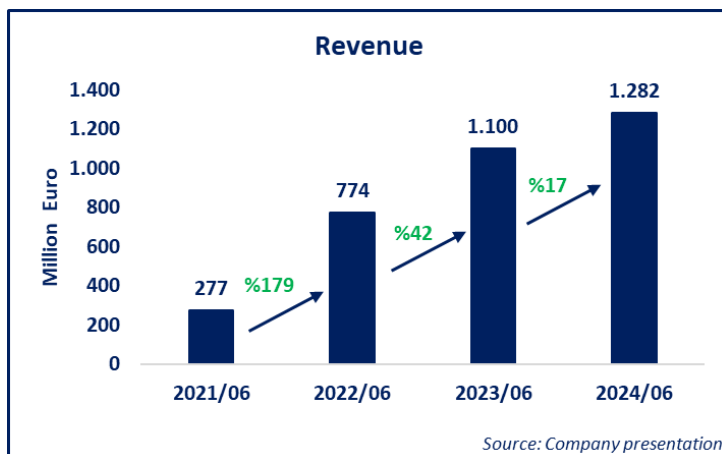


PGSUS Total Ancillary Revenues and Ancillary Revenues Per Passenger

We believe that ancillary revenues are very important for Pegasus, which has adopted the LCC (Low Cost Carrier) model. We have seen that per capita ancillary incomes, which were 11.6 Euros in 2018, increased to 25.4 Euros in 2023 with baggage, food and in-flight service fees. Therefore, the company can reach the potential to maximize operational profitability with high ancillary revenues. With the introduction of charging for cabin baggage, we expect additional revenue growth to continue. Ancillary revenues accounted for 30% of total revenues at the end of 2023.



1H24 Assessment



Pegasus Airlines achieved a net profit of €9 million in the 1H24 period, a decrease of 87% compared to the same period last year. However, on a quarterly basis, it increased its profit by 23% in euro terms compared to the same quarter last year. EBITDA margin remained above the 30% target in 2Q24; The company achieved EBITDA of €268 mn (1H23: €290 mn) in the period of 1H24. The company's revenues increased by 17% in the 1H24 period to EUR 1,282 mn.

Highlights for 2024/06...

- i)** In this period, revenues increased by 17% in euro terms, while domestic revenues increased by 33%. **ii)** The share of ancillary revenues in topline continued to increase. Ancillary revenue per guest amounted to 28 Euros in 2Q24.
- iii)** Personnel expenses increased by 37% year-on-year to EUR 194 mn. **iv)** Its cash position increased from €512 million at the end of 2023 to €579 mn at the end of June 2024. **v)** The load factor was 87.5% in 2Q24 and 87.3% in 1H24. **vi)** Total ASK increased by 11% in 2Q24 and 19% in 1H24 compared to last year. While international ASK increased by 9% year-on-year in 2Q24, it grew by 19% in the 6-month period.

 **Valuation**

| Valuation Summary (EUR mn) | |
|-----------------------------------|---------------|
| EBITDA (2024E) | 979 |
| 2024 EV/EBITDA Avg. | 7,1 |
| Target EV | 6.950 |
| Net Debt | 2.483 |
| Target Mcap | 4.467 |
| Target Mcap (TRY mn) | 184.948 |
| # of Shares | 500 |
| Target Price (TRY) | 369,90 |
| Current Price (TRY) | 244,00 |
| Upside Potential (%) | 52% |

Source: PhillipCapital Research

| Company | Mcap (Million Euro) | P/E | | EV/EBITDA | |
|----------------------------|----------------------------|--------------|--------------|------------------|--------------|
| | | 2024T | 2025T | 2024T | 2025T |
| Easyjet Plc | 4.400 | 7,9 | 7,1 | 2,6 | 2,4 |
| Ryanair Holdings Plc | 16.802 | 11,1 | 8,8 | 5,3 | 4,6 |
| Jetblue Airways Corp | 2.060 | - | - | 13,0 | 7,0 |
| Southwest Airlines Co | 17.184 | 145,6 | 24,3 | 10,1 | 5,8 |
| Wizz Air Holdings Plc | 1.223 | 5,5 | 4,1 | 4,9 | 4,0 |
| Cebu Air Inc | 19.045 | 3,2 | 2,1 | 6,6 | 5,3 |
| Average | | 34,7 | 9,3 | 7,1 | 4,9 |
| PGSUS | 3.187 | 7,1 | 7,9 | 5,8 | 5,3 |
| Premium/ (Discount) | | -79% | -15% | -17% | 9% |

Source: Bloomberg, PhillipCapital Research

PGSUS

Financial Data

| <i>Euro mln</i> | 2022 | 2023 | 2024T | 2025T | 2026T |
|-------------------------|--------|-------|--------|-------|-------|
| Revenues | 2.449 | 2.670 | 3.210 | 3.555 | 3.982 |
| Revenue Growth | 140,4% | 12,1% | 16,9% | 10,8% | 12,0% |
| Operating Profit | 554 | 538 | 610 | 658 | 737 |
| Operating Profit Growth | - | - | 13,3% | 7,9% | 12% |
| Operating Profit Margin | 23% | 20% | 19,0% | 18,5% | 19% |
| EBITDA | 835 | 838 | 979 | 1.084 | 1.214 |
| EBITDA Growth | 285,0% | 0,4% | 16,8% | 10,8% | 12,0% |
| EBITDA Margin | 34,1% | 31,4% | 30,5% | 30,5% | 30,5% |
| Pre-Tax Profit | 381 | 370 | 412 | 374 | 419 |
| Tax Expense | -28 | -420 | -41 | -37 | -42 |
| Net Income | 431 | 790 | 453 | 412 | 461 |
| Net Income Growth | - | 83,3% | -42,7% | -9,1% | 12,0% |
| Net Income Margin | 17,6% | 29,6% | 14,1% | 11,6% | 11,6% |
| Net Cash | 2.423 | 2.597 | 2.523 | 2.771 | 2.984 |
| Change in NWC | -113 | -116 | -163 | -180 | -202 |
| P/E | 6,92 | 3,2 | 7,1 | 7,9 | 7,0 |
| P/B | 6,90 | 7,0 | 5,8 | 5,3 | 4,7 |
| RoAE | 33,4% | 61,2% | 23,9% | 18% | 17% |

Source: Company Data, PhillipCapital Research

Turkish Airlines

63% Upside Potential

We initiate Turkish Airlines with an Overperform rating and a target price of TRY 473.60 per share. The stock trades at a 3,5x EV/EBITDA multiple based on our 2025 estimates. We like the company mainly for **i)** having a wide flight network around the world and increasing transit passenger traffic thanks to Istanbul's strategic location, **ii)** high-quality services and customer satisfaction, **iii)** diversified sources of income (cargo), **iv)** strong financial performance and operational efficiency.

As of the second quarter of 2024, Turkish Airlines has a total of 458 aircraft in its fleet and carries out passenger and cargo air transportation activities in Turkey and abroad. The company flies to 296 destinations in 130 countries.

Successfully continuing to increase its total revenues, Turkish Airlines increased its passenger revenues by 75% year-on-year to TRY 426.8 billion and by 24% to USD 17.7 billion in dollar terms in 2023. With passenger demand remaining strong, the number of passengers increased by 16% to 83.4 million. The fact that Turkish Airlines holds the title of the airline that flies to the most countries in the world and that IGA Istanbul Airport is able to manage its capacity effectively due to its position suitable for growth may continue to provide significant advantages to Turkish Airlines in the coming periods.

Turkish Airlines, which has 25 cargo aircraft in its fleet, is one of the top three air cargo carriers in the world in terms of RPT (Paid Cargo Tonne Kilometers) according to 2024 2nd Quarter IATA data. Turkey's ideal location as a global hub and its increasing trade volume, its presence in the fast-growing express cargo segment, and the opportunity to grow through partnership initiatives and commercial partnerships in Asia provide the company with a great advantage in cargo transportation.

Catalysts; **i)** 2nd and 3rd due to seasonality effect. Strong operational results in the quarters, **ii)** an increase in the amount of cargo carried above expectations, **iii)** an increase in market share with a strong recovery after the pandemic shock, **iv)** being the airline that flies to the most countries in the world.

The main risk factors are; **i)** Tensions in the Middle East may affect demand and occupancy rates, **ii)** High inflation and currency fluctuations have a negative impact on cost structure and operational expenses, **iii)** The continuation of the high course of oil prices, **iv)** GTF engine problems.

Listing Details and View

| Bloomberg Ticker | THYAO TI |
|------------------------------|------------|
| View | Outperform |
| Price per Share, TRY | 290,50 |
| Target Price per Share, TRY | 473,60 |
| Upside | 63% |
| Free Float | 50,33% |
| Market cap, TRY mln | 400.890 |
| Market cap, USD mln | 11.829 |
| BIST-100 Index Weight | 7,33% |
| BIST All Shares Index Weight | 5,51% |
| Foreign Share | 24,85% |
| Pension Funds Share | 7,72% |
| Mutual Funds Share | 5,16% |

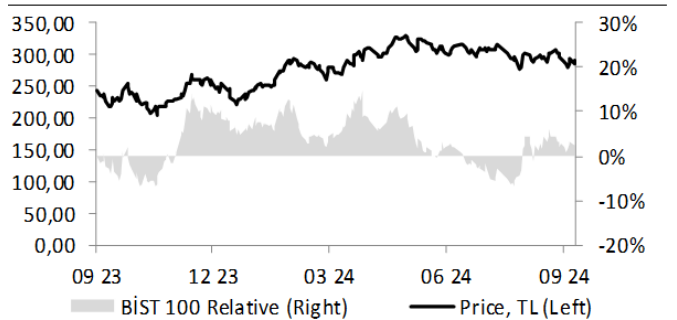
Source: Matriks, PhillipCapital Research
Price & Market Cap. as of 17-Sep

| Key Financials, \$ mln | 2023 | 2024E | 2025E |
|-------------------------|--------|--------|--------|
| Revenues | 20.942 | 22.680 | 24.228 |
| Revenue Growth | 13,7% | 8,3% | 6,8% |
| Operating Profit | 2.859 | 3.289 | 3.271 |
| Operating Profit Growth | 2,88% | 15,03% | -0,54% |
| Operating Profit Margin | 13,7% | 14,5% | 13,5% |
| EBITDA | 4.708 | 5.216 | 5.451 |
| EBITDA Margin | 22,5% | 23,0% | 22,5% |
| Net Profit | 6.021 | 2.504 | 2.481 |
| Net Profit Growth | 121% | -58% | -1% |
| Net Profit Margin | 28,8% | 11,0% | 10,2% |
| Net Debt | 8.246 | 8.591 | 9.951 |
| P/E | 1,9 | 4,9 | 4,9 |
| EV/EBITDA | 4,8 | 3,7 | 3,5 |

Source: Company Data, PhillipCapital Research

| Shareholder Structure | Shares (million) | Rate |
|-----------------------|----------------------|-------|
| Türkiye Varlık Fonu | 677.884.849 | 49,12 |
| Diğer | 702.115.151 | 50,88 |
| Toplam | 1.380.000.000 | |

Source: Company Data



Source: BIST, Rasyonet

| | 1m | 3m | 6m | 1y |
|-------------------|-------|-------|-------|-------|
| Nominal | -2,2% | -6,4% | 8,2% | 27,9% |
| Relative | 0,8% | 3,3% | -3,3% | 4,4% |
| Trd. Vol. USD mln | 228,2 | 254,7 | 299,8 | 313,1 |

Source: BIST, Finnet

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Turkish Airlines Fleet Details

Number of new generation aircraft: 149

Turkish Airlines has a total of **458 aircraft**, including 126 **wide-body**, 307 **narrow-body** and 25 **cargo aircraft**. While **135** of the aircraft are owned by the company, **202** of them are included in the fleet through financial leasing.

The company's average fleet age is **9.8** years.

Airbus & Boeing Breakdown: 55%/45%

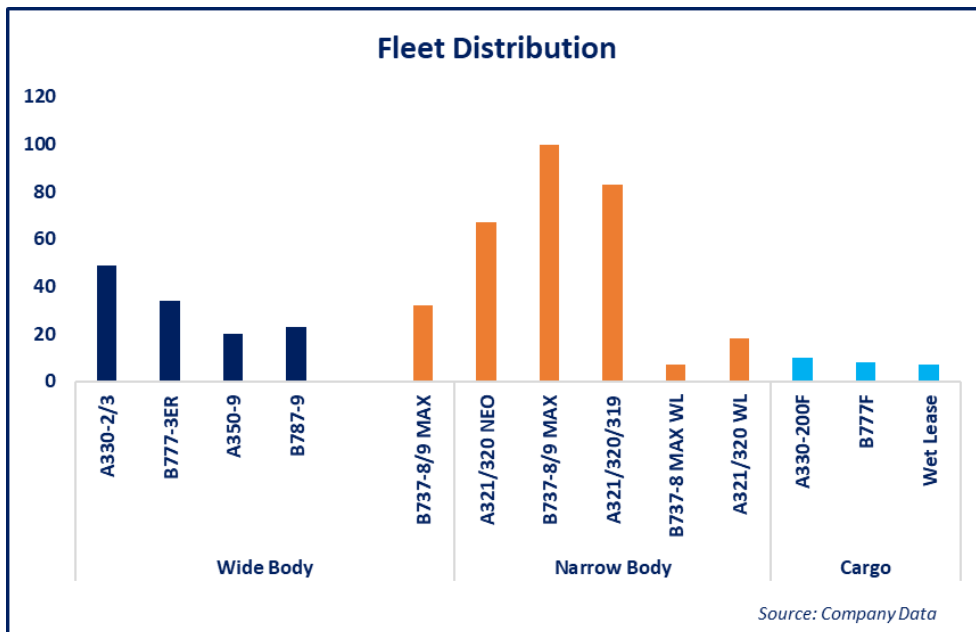
For 2024, the year-end fleet size is expected to be approximately 484 aircraft, with 52 entries and 8 exits, a net increase from 440 aircraft by the end of 2023. About 10 of the new arrivals will be for AJet, 5 for cargo, and the rest for Turkish Airlines.

Owned: 29%

Financial Leasing: 44%

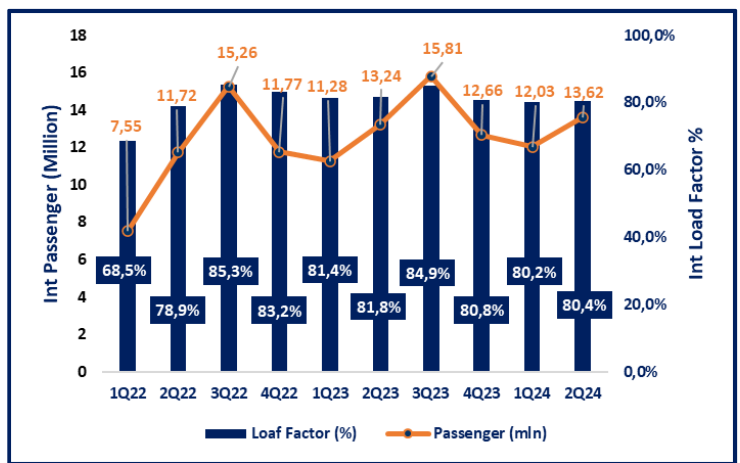
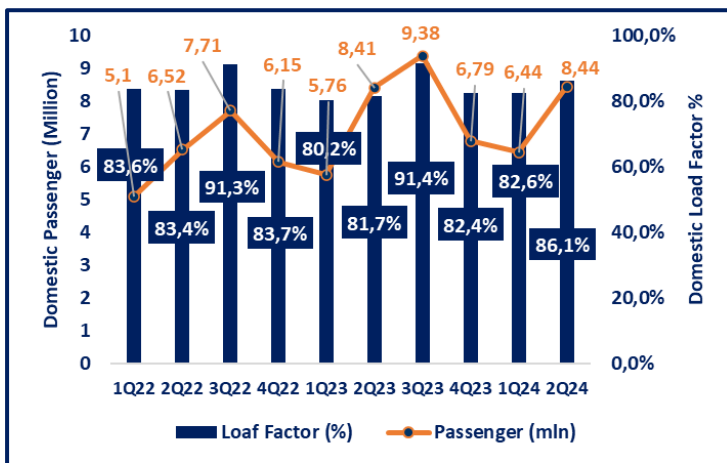
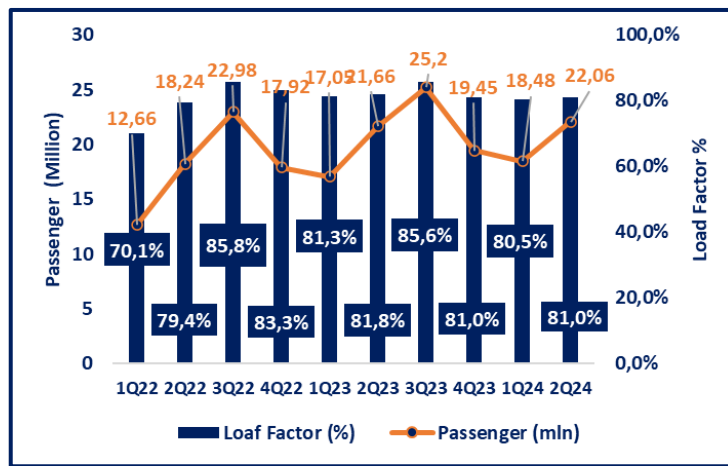
Operational Lease: 26%

In July 2024, the company reached an agreement to revise its agreements with International Aero Engines (IAE) in order to reduce the impact of engine-related operational problems on its A320/321NEO aircraft with PW1100G-JM type engines in its fleet.

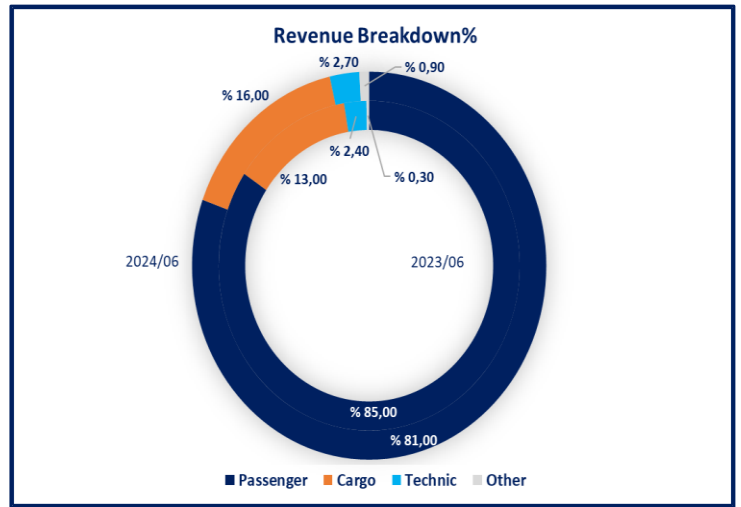
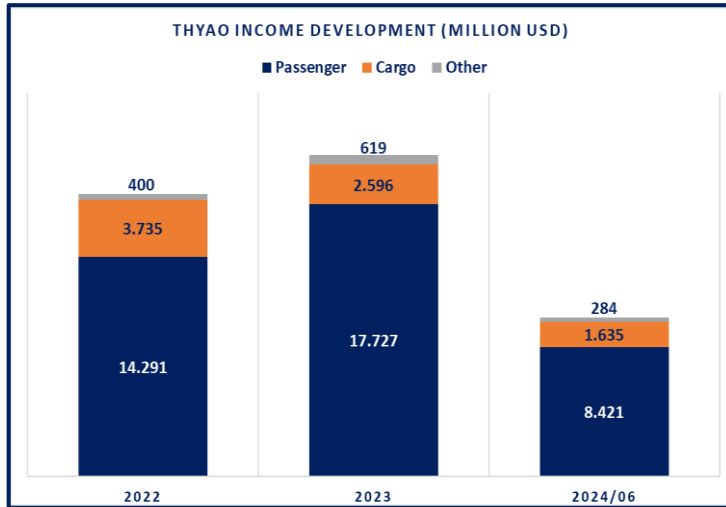


Turkish Airlines Passenger Statistics

With strong capacity increases and demand after the pandemic, the company reached 83.4 million passengers in 2023. Thus, the total number of passengers carried was 16.1% higher than in 2022 and 12.2% higher than in 2019. Number of passengers carried in Q2 2024 compared to the same period of the previous year It increased by 2% to 22 million people, thus bringing the total number of passengers carried in the first half of the year to 40.6 million, an increase of 4.8%. According to the latest data, Turkish Airlines carried 57.3 million passengers in the January-August period of 2024, an increase of 2.5% compared to the previous year. Thanks to its extensive flight network, Turkish Airlines is able to demonstrate operational flexibility against regional risks. **In total, we expect the company to reach approximately 92 million passengers in 2024 and approximately 101 million passengers in 2025.**



THYAO Income Distribution

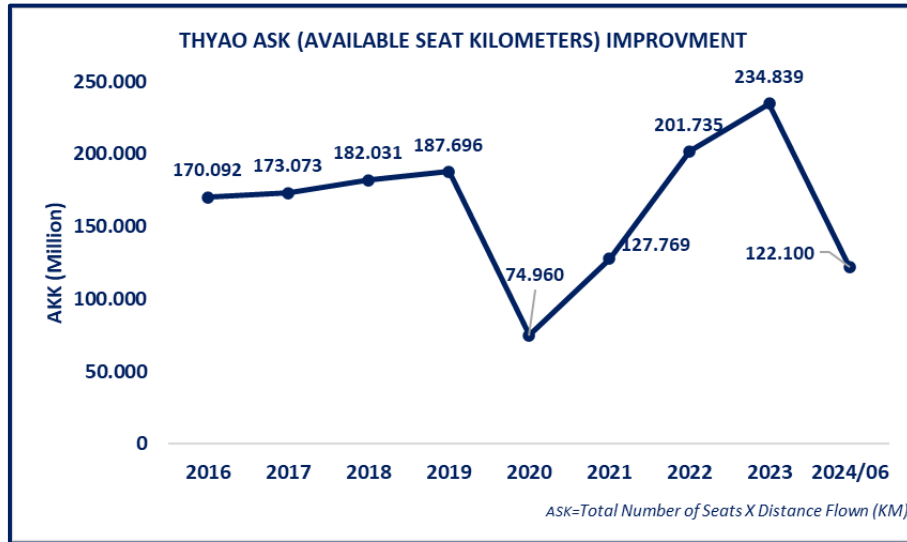


Shipping Revenues

As it is known, with the entry into the pandemic period, we have seen that passenger transportation in both global and domestic aviation has put downward pressure on the operational profitability of companies. However, Turkish Airlines differed positively from its competitors with its strong cargo activities. As it will be remembered, the share of cargo revenues in topline increased to 40% during the pandemic period. In 2023, this rate decreased to 12.4%. Looking at the first half of 2024, the share of cargo revenues in total topline increased to 15.7% (6M23: 12.5%).

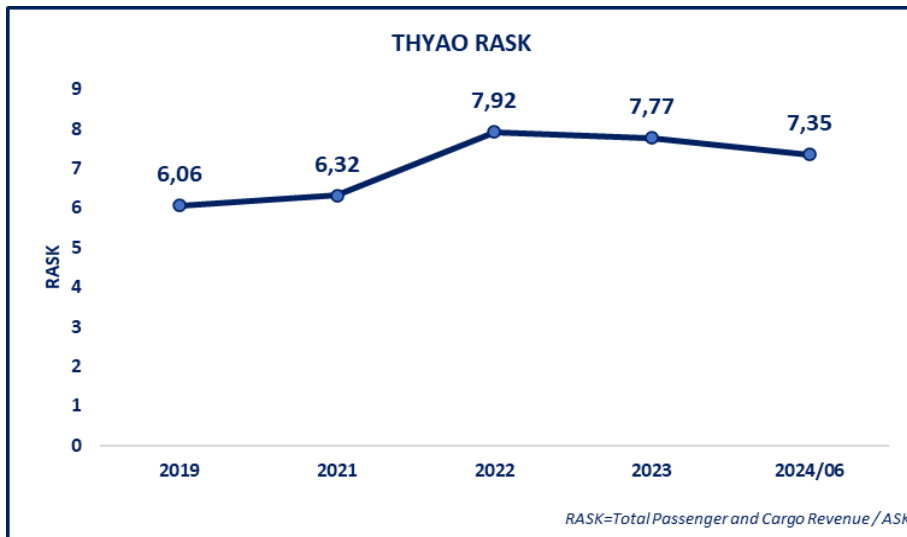
Therefore, we consider cargo transportation to be very important for the company. At the end of 2023, THYAO generated 30.5% less revenue from its cargo activities in dollar terms compared to 2022, but the decline in cargo revenues slowed by 3% in the last quarter of 2023. When we look at the first half of 2024, we believe that cargo revenues increased by 37.3% in dollar terms compared to the previous quarter, and cargo transportation will create a different story for the company in the coming years. In 2024/06, we are seeing a supportive traffic and return environment for cargo operations. However, the fragility of cargo dynamics is among the factors that make it difficult to make a definitive comment on the 2024 year-end forecast.

THYAO ASK (Available Seat) Development



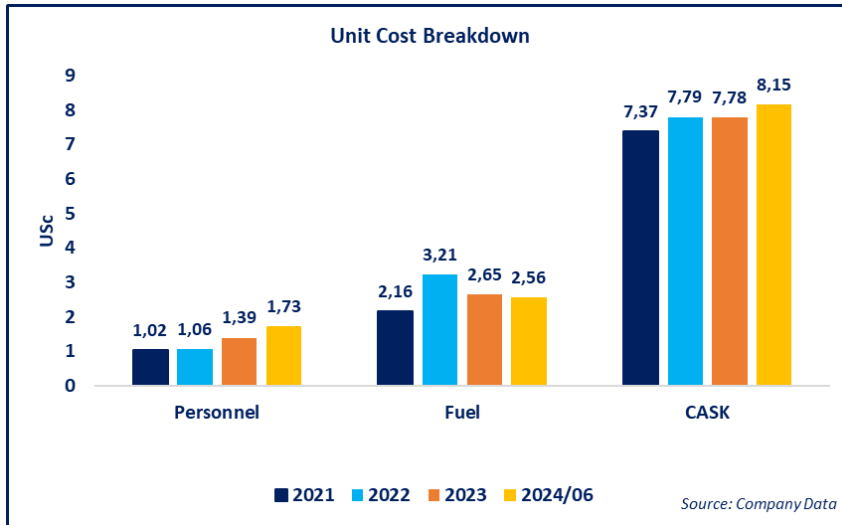
Especially in the ASK data, where we saw a definite decrease in 2020 due to the effect of the pandemic, the appearance of a partial recovery in 2021 and 2022 came to the fore. At the end of 2023, we positively evaluate that the company has overcome the effects of the pandemic and obtained ASK data that exceeded the pre-pandemic period.

THYAO RASK (Unit Revenue Per ASK) Development



When we examine THYAO's ASK and RASK data, it is possible to interpret that the company has overcome the effects of the pandemic and managed to keep its operational efficiency at high levels. The company has been a strong performer in times of crisis due to its flexibility and adaptability.

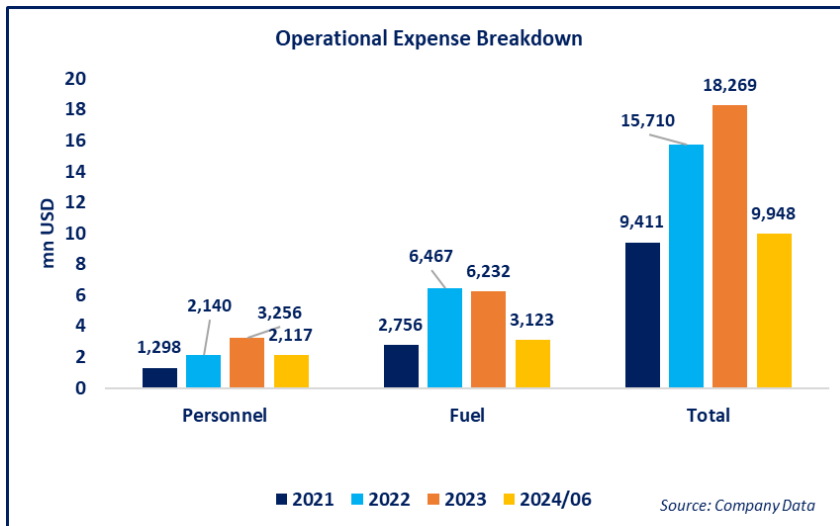
THYAO Unit Expense (CASK) and Operational Expense Breakdown



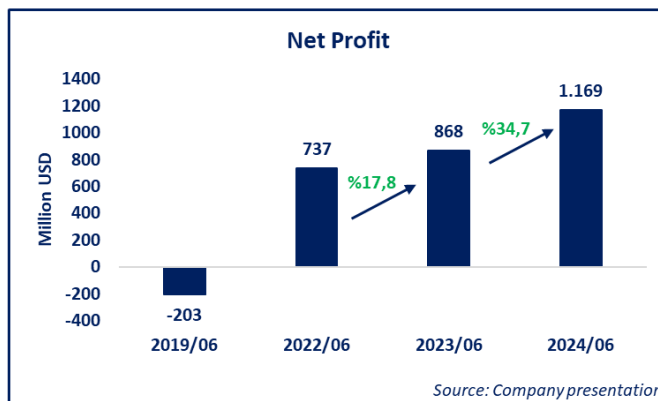
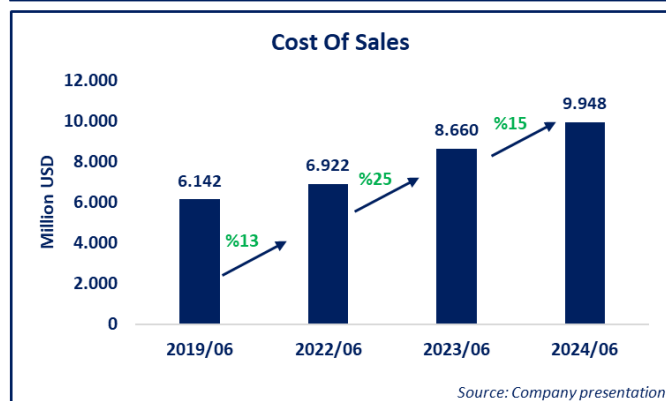
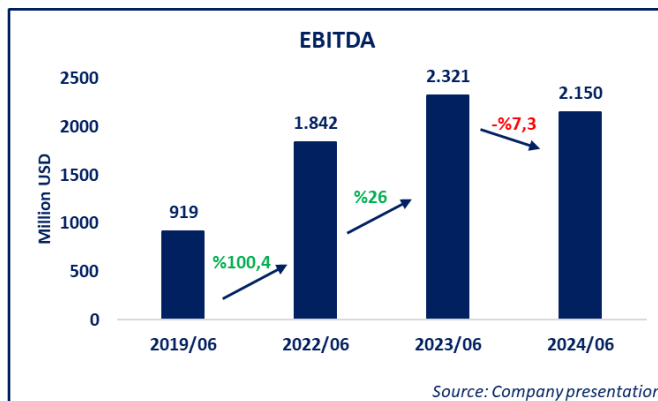
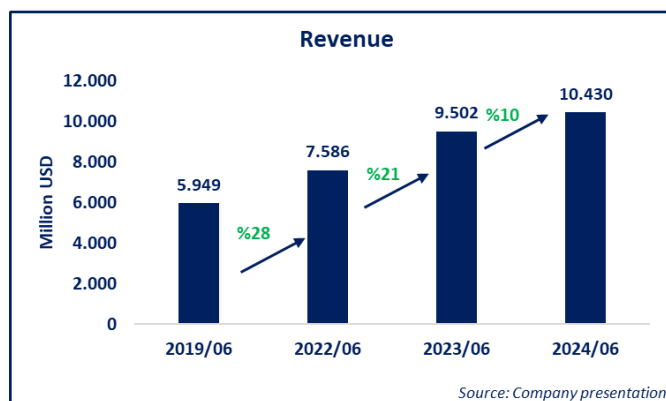
In the table above, the unit expense breakdown CASK is included. When we look at the years between 2019-2023, we wanted to include only these items in our table, since personnel and fuel items have the highest share in unit expenses. Personnel and fuel expenses have significantly impacted Turkish Airlines' operational costs. If we make a very brief evaluation about the pens;

The most important factor affecting personnel expenses is increases in staff salaries. In 2024, we expect the pressure to increase, especially in personnel expenses, to continue.

Fuel: We anticipate that fuel costs will continue to increase due to fluctuations in global fuel prices and increased operations.



1H24 Assessment



In the 1H24 period, Turkish Airlines achieved a net profit of USD 1,169 mn, an increase of 34.7% compared to the same period of the previous year. In the period of 1H24, the company's net profit margin increased to 11.2% (1H23 Net profit margin: 9.1%).

10% increase in total revenues in dollar terms... The company's 2Q24 revenues increased by 10% in dollar terms compared to the same period of the previous year and reached \$5.6 billion. Thus, the company ended the 1H24 period with revenue of USD 10,430 mn.

The strong outlook on the cargo side continues... Cargo revenues increased by 48% in dollar terms in 2Q24 compared to the same quarter of the previous year and reached 885 mn dollars with strong e-commerce growth. As of the 1H24 period, the share of cargo revenues in total topline increased to 16%, while this rate was 13% in the same half of the previous year.

It is noteworthy that passenger revenues have decreased in segment-based revenue distribution... Passenger revenues, which were 85% in total revenue in 1H23, decreased to 81% in 1H24. Traffic data in recent months indicated that cargo activity was stronger than passenger transport activity.

The increase in deferred tax revenue was noticeable this quarter... In the 2Q24 period, the company recorded TRY 2.7 billion in deferred tax revenue.



Valuation

| Valuation Summary (\$ mn) | |
|-----------------------------|---------------|
| EBITDA (2024E) | 5.216 |
| 2024 EV/EBITDA Avg. | 4,4 |
| Target EV | 22.952 |
| Net Debt | 7.165 |
| Target Mcap | 15.787 |
| Target Mcap (TRY mn) | 653.598 |
| # of Shares | 1.380 |
| Target Price (TRY) | 473,60 |
| Current Price (TRY) | 290,50 |
| Upside Potential (%) | 63% |

Source: PhillipCapital Research

| Company | Mcap(Million USD) | P/E | | EV/EBITDA | |
|------------------------|-------------------|-------------|-------------|-------------|------------|
| | | 2024T | 2025T | 2024E | 2025E |
| LHA GR EQUITY | 7.795 | 7,2 | 4,8 | 3,3 | 2,7 |
| AAL US EQUITY | 6.986 | 9,7 | 5,7 | 7,0 | 5,9 |
| ALK US EQUITY | 5.253 | 9,3 | 7,3 | 3,9 | 3,3 |
| QAN AU EQUITY | 7.418 | 7,1 | 6,5 | 3,6 | 3,3 |
| Ortalama | | 8,3 | 6,1 | 4,4 | 3,8 |
| THYAO | 11.575 | 4,9 | 4,9 | 3,7 | 3,5 |
| Prim/ (iskonto) | | -42% | -19% | -17% | -7% |

Source: Bloomberg, PhillipCapital Research

THYAO

Financial Data

| <i>USD mln</i> | 2022 | 2023 | 2024E | 2025E | 2026E |
|-------------------------|--------|--------|--------|--------|--------|
| Revenues | 18.426 | 20.942 | 22.680 | 24.228 | 26.166 |
| Revenue Growth | 72,4% | 13,7% | 8,3% | 6,8% | 8,0% |
| Operating Profit | 2.779 | 2.859 | 2.835 | 3.271 | 3.271 |
| Operating Profit Growth | 97% | 3% | -0,8% | 15,4% | 8% |
| Operating Profit Margin | 15% | 14% | 12,5% | 13,5% | 13% |
| EBITDA | 4.586 | 4.708 | 5.216 | 5.936 | 6.411 |
| EBITDA Growth | 52,3% | 2,7% | 10,8% | 13,8% | 8,0% |
| EBITDA Margin | 24,9% | 22,5% | 23,0% | 24,5% | 24,5% |
| Pre-Tax Profit | 2.939 | 3.641 | 2.676 | 3.101 | 3.349 |
| Tax Expense | 214 | 2.380 | 535 | 620 | 670 |
| Net Income | 2.725 | 6.021 | 2.141 | 2.481 | 3.140 |
| Net Income Growth | 184,2% | 121,0% | -64,4% | 15,9% | 26,6% |
| Net Income Margin | 14,8% | 28,8% | 9,4% | 10,2% | 12,0% |
| Net Cash | 9.364 | 8.246 | 8.500 | 9.376 | 10.200 |
| Change in NWC | 125 | -19 | 287 | 299 | 322 |
| P/E | 4,10 | 1,9 | 5,7 | 4,9 | 4,5 |
| EV/EBITDA | 4,70 | 4,8 | 3,7 | 3,3 | 3,0 |
| RoAE | 32,6% | 47,7% | 12,9% | 13% | 15% |

Kaynak: Company Data, PhillipCapital Research

Methodology

The target value of a stock refers to the value that the analyst expects to reach at the end of our performance period, which is the 12-month period.

Return Above Index (EU)

If this decision has been made for the company, it indicates that a better return is expected in the stock compared to the index in the medium and long term. Of course, this decision does not guarantee that the stock will rise or provide returns on the index. Any conjuncture changes that may occur after the report is published, developments in the macroeconomy, developments in the world economies, and a news about the company can change this decision.

Index Parallel Return (EP)

If a "Return in Line with the Index" decision has been made for the relevant stock, there may be various reasons for this. This decision may have been made if the company's latest data indicates that it will not show significant differences in future forecasts compared to the past. The company's share price may be close to the price it should be in terms of valuations. The fact that a "Return in Parallel with the Index" decision has been made for a stock does not mean that this stock will not move up or down. Generally, this indicates that a return in line with the index is expected to be achieved in the medium and long term on the stocks that are decided. However, every new news and change in the conjuncture may change this decision

Return Under Index (EA)

If a "Return Under Index" decision has been made for a stock, it indicates that a weaker return is expected compared to the index in the medium and long term. Even if the "Index Yield" decision has been made, it is possible that the stock in question may make short-term reaction rises or that its technical indicators have given a short-term buy signal. In some cases, although no return is expected from the stock in the medium and long term, short-term "Return Above Index" or "Return in Parallel with the Index" can be provided when there is important news, news of a temporary profit increase, or developments that will cause the price to follow a positive course in the short term.

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