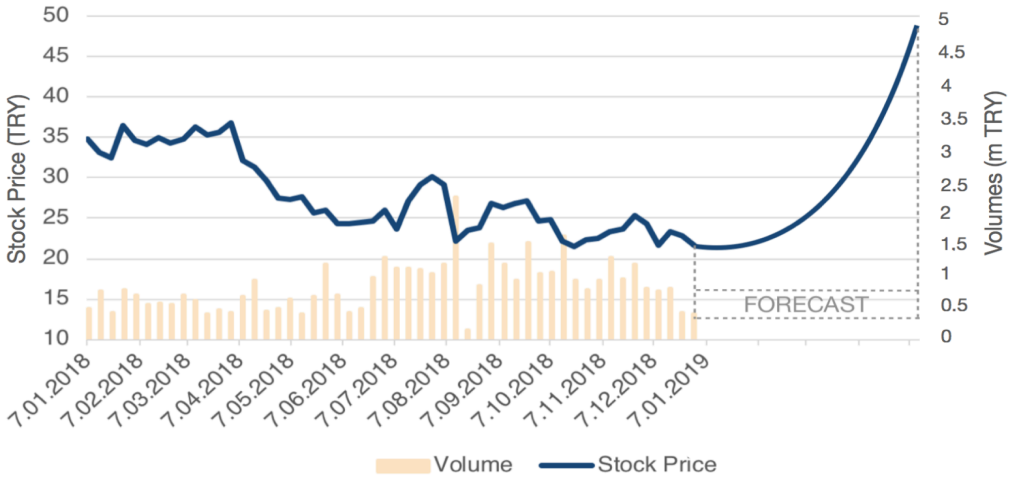
Pegasus Airlines, TR

Report date: 10.01.2019 | Result: Strong Buy | Market: BIST | Ticker: PGSUS
Current price: TRY 22,10. | Upside:124% | Target: TRY 48,99 | Industry: Aviation

Figure 1

FCFF Final Analysis	Values
Sum of PV of FCF	4131,6
Terminal growth rate	1%
Terminal discount rate	8,00%
Terminal value @	17.710
PV of TEV	9.140,1
Value of firm	13.271,8
Net financial debt @YE2019	2.979
Value of equity @YE2019	10.292,8
Fair equity value	4.034,6
12-month target equity value	5.076,4
12-month target price	**49,62**
Upside	**127%**



EXECUTIVE SUMMARY

We initiate coverage on Pegasus Airlines (PGSUS) with **Strong Buy** rating with a one year target price of TRY 48,99 representing 124% upside from its January 10th, 2018 closing price of TRY 22,10. The valuation model is a 70% / 30% blend of DFCF and EV/EBITDAR.

CATALYSTS

FLEET ENLARGEMENT of 42% is promised by the 35 new aircrafts that has already been paid, which corresponds to a 40% increase in ASK capacity. With respect to Pegasus's successfully executed strategies of focusing on international destinations and stabilizing load factor on a profitable level, we expect RPK to increase 44%.

ANCILLARY REVENUES are on the rise as ancillary revenue per PAX continues its strong up trend over the recent years. Moreover as shown on the peer analysis, this still covers a small percent of the annual revenues.

LOAD FACTOR STABILIZATION is one of the biggest targets of 2019, if achieved, average profit per cycle will increase the annual revenue significantly.

The long term growth potential promised by the stock, thanks to the favorable demographics, no-dividend strategy and low penetration of LCCs in Turkey as well as the surrounding regions.

TRENDS

INTERNATIONAL TOURISM trend keeps on increasing the pax number especially by increasing low LCC penetration in Turkey and surrounding regions.

LCC PREFERENCE OF PASSENGERS will increase in the Turkish aviation too, European passengers' preference tends to lead the trend. Therefore biggest competitor is to lose market share due to market positioning. Also The Economist stated that 2019 is going to be the year of cheap flights.

HIGHLIGHTS

SURROUNDING REGIONS have successful LCCs, which may plan on entering into the Turkish market as the capacity of airports in Istanbul will gradually increase over the next 5 years. Therefore this may attract the attention of neighbouring countries' LCCs for new market entries.

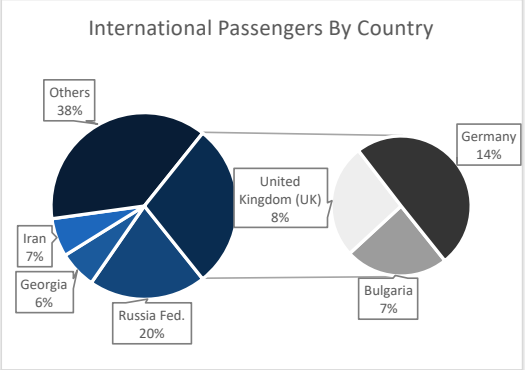
USD STRENGTHENING against EUR and TRY (and developing countries' currencies) has a potential to negatively affect the stock price of Pegasus Airlines. EBITDAR is under threat of decreasing as the costs are in USD and revenues EUR & TRY.

Figure 2

Metrics
ASK: Available seat kilometer, calculated by the sum of the total distance each seat has travelled
RPK: Revenue passenger times kilometer, the sum of the total distance all the passengers has travelled
Load factor: RPK/ASK
RASK: Revenue per available seat kilometer
CASK: Cost per available seat kilometer
PASK: Profit per available seat kilometer, also equal to RASK-CASK
Yield: Average revenue gained per km a passenger travels
Utilization hour: The hours from an aircraft's take-off to landing (including taxi time)

Source Company presentations

Figure 3



Source: DHMI, IATA

Figure 4

Aircraft	2013	2018E	2023F
Fleet Enlargement	49	83	118
Destinations	78	108	140
Pax in Millions	16,82M	29,98	42,87
RPK in Billions	20,35	28,70	42,13

Source: Company reports, DHMI

Figure 5

Aircraft	Cap.	2018	2023
B737-800	189	48	20
B737-400	168	1	0
A320-200 CEO	180	12	3
A320-200 NEO	186	22	61
A321-200 NEO	230	0	34
		83	118
			Growth= 42%

Source: Company reports, Airbus website, Boeing website

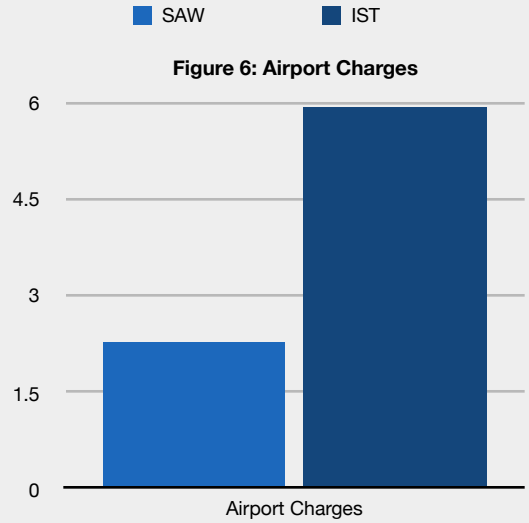


Figure 6: Airport Charges

Source: COPA

BUSINESS DESCRIPTION

SERVICE DESCRIPTION Pegasus Hava Taşımacılığı A.Ş. (BIST: PGSUS) is a publicly traded company founded in 1990 and has been actively operating after being acquired by Sabancı Family in 2005. Over the years, Pegasus has become the leading low-cost airline in Turkey. Providing conveniently priced tickets for all on a point-to-point basis, in short to medium range routes, Pegasus Airline has increased it's RPK by 87.6% within the last 5 years; and has signed leasing contracts allowing it keep up the fleet enlargement of 44,2% in the upcoming 5 years. To reach the target of becoming a broad network hub of flights with high flight frequency for guests, number of destinations has increased from 78 to 108 making 38,4% increase and looking forward to increase 29,6% more during the next 5 years.

FLEET DESCRIPTION Pegasus has the youngest average fleet age in Turkey which is an important factor to keep maintenance costs lower. Current deals with Airbus for A321-200 series aircrafts will also affect the fuel costs as they have the 26% lower fuel cost per PAX per KM compared to Boeing's B737-800 series. As a consequence of new A321-200 series deals, it is expected that amount of available seats will increase 52% in 2023 compared to 2018 and will reach to 23.486. Also, when it is combined with the jet fuel price calculations, weighted average fuel consumption per ASK in barrels is expected to decrease 20,4% by 2023. Although there will be an additional employee training cost created because of the shift from Boeing to Airbus, improvements in the fuel efficiency will cover this cost as fuel expense composes 33,7% of operational expenses. Another critical point in fleet is, as a result of Pegasus' recent sound financial standings, it is eased to make financial leasing deals instead of operational leasing, therefore, the profitability of the leasing agreements will increase for Pegasus' side.2

GEOGRAPHIC LOCATION

S.A.W. Pegasus' main hub Istanbul Sabiha Gökçen Airport (SAW) where the leading Turkish LCC Pegasus has approximately 63% of the seats almost by causing a duopoly with Turkish Airlines owning 32% of the seats. As the Istanbul New Airport opens in Mar-2018, gradually reducing the operations at Atatürk airport, will decrease the pressure on Istanbul's existing airport system, and more importantly provide Turkish Aviation a new potential for becoming a big hub connecting continents to each other. Moreover, this update is expected to future enable SAW concentrate on its actual function as a low cost base. SAW has been progressing successfully towards the expansion plan to increase the capacity by 32 million on the by the summer 2020. Pegasus has placed the necessary orders to keep its fleet in alignment with this capacity upgrade. Besides SAW, Istanbul as a whole is expecting an enormous capacity increase by the opening of the last and biggest phase in 3rd airport and extensions on SAW, 2028 target is 263 million passengers.

ISTANBUL BECOMING A HUB Today more than 40% of Turkey's passenger traffic and commercial flights come from the two airport in Istanbul Ataturk Airport and Sabiha Gökçen International Airport. As the passenger number continues to increase the two airports' capacity stays limited.Atatürk Airport is one of the busiest airports in Europe. Since 2013, it has ranked among the five busiest airports in Europe by passenger traffic. The pressure on Istanbul's airport system will ease with the opening of new airport as operations in Atatürk Airport will reduce phase by phase. Furthermore, it will allow Sabiha Gökçen to focus on being a low cost point-to-point base. Looking at the time differences between airports;Anatolian side of Istanbul will be closer to Sabiha Gökçen than the Istanbul Grand Airport. Furthermore, the survey result show that prices are weighted more in the consumer preferences, than airport proximity. Although the new airport is crucial for transit passengers and the pressure on Atatürk Airport; for next 5 years new airport will not affect Sabiha Gökçen Airport passenger traffic.

COMPANY STRATEGIES

Pegasus has grown its EBITDA by 363% since 2013 and is expected to keep up growing. Main factor for such an assumption is its strategies that have been executed successfully since the acquisition in 2005. Strategies for the

Figure 7

SAW Occupancy	Share of Seats
Pegasus	63,2%
Turkish Airlines	32,2%
Qatar Airways	1%
SunExpress	0,6%
flynas	0,5%
flydubai	0,5%
Emirates Airline	0,4%
Air Arabia	0,3%
Air Arabia Moroc	0,3%
Gulf&Caribbean Air	0,3%
Nile Air	0,2%
Wataniye Airways	0,2%
Azerbaijan Airlines	0,2%
AZAL	0,1%
Iraqi Airways	0,0%

Source: Company report

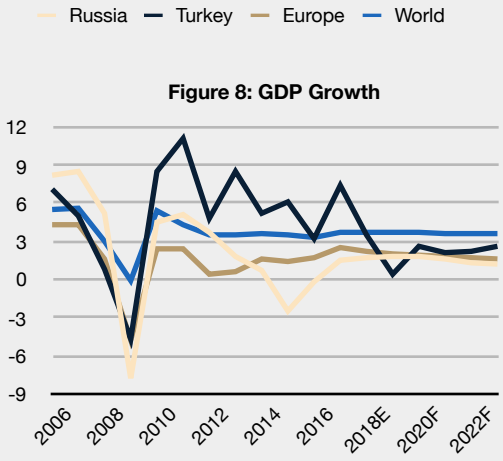
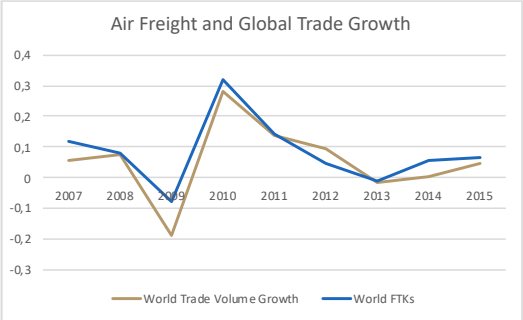


Figure 8: GDP Growth

Source: World Bank Statistics

Figure 9: Air Freight and Global Trade Growth



Source: World Bank Statistics, EC Report

next 5 year contain fleet enlargement, load factor stabilization, increasing ancillary revenues and decreasing costs by the program named 3C. Pegasus has been in Hedging strategy is made similarly to THY, both for FX and fuel; as the industry and financial metrics tend to be similar. Hedge ratios for fuel is around 50% for 2019.

INDUSTRY OVERVIEW & COMPETITIVE POSITIONING

TRENDS

MACROECONOMICS The demand for flights is highly correlated to the economic growth. Thus, a decline in economic growth, or a recession, reduces the demand for flights, which impacts passenger traffic for airlines. On the contrary, steady growth in the global and the US economy, grows demand for air travel, allowing airlines to raise their airfares, occupancy rates, and profits. According to IATA emerging countries have 1,8 income elasticity for air travel. Meaning 1% change in income effects almost 2% of passengers. Income elasticity is region-specific to cater for the differing maturity of the markets. Also, there is evidence that this relationship gradually changes with time: that is, as markets become more saturated, the demand for flights grows less for the same economic growth. For Turkey markets have not yet reached its maturity. The economy is projected by both IMF and OECD to contract in 2019 as a sharp fall in domestic demand from the second half of 2018 will be offset only partially by an increase in exports due depreciated exchange rate. Clearly an economic downturn in Turkey is not going to be good news for domestic passenger demand to, from and within the country. International passenger demand to/from the country is still recovering from the detrimental impacts on demand in 2016, including the failed coup, terror attacks, and the deterioration in diplomatic ties with Russia. A gradual recovery in domestic confidence and demand is projected to help growth to recover in 2020. Yet these projections assume confidence to restored and tighter monetary policies by a more independent central bank. Yet as the economy is expected to go through a trough, recovery of Russian traffic to Turkey will offset the effects of economic contraction on passengers. Also weaker lira will boost tourism, internationally and domestically as it is more expensive to vacate abroad.

LCC PENETRATION LCCs all around the world operated 5.200 flying cycles a day in 2007 has increased this number to 8.400 meaning a 5% CAGR. During this 10 year time, the number of flights operated by traditional carriers has decreased from 16.300 to 14.700. Whiles Low Cost Carriers cover only of the 36% of the seats globally, the market shares in the European region slightly differs as 41%. Therefore such a change in the Turkish aviation is high potential, meaning a positive climate for Pegasus as the leading LCC with the domestic market share of 12%. On average, the LCC penetration in the EU region meaning the number of seats operated by LCCs over the total number of seats flown in the whole region has increased by 1,4% every year; which makes experts expect that the number of seats flown by LCCs hit %50 of all the seats flown by 2027.

EUROPE'S ECONOMIC GROWTH According to Oxford Economics and Iata, Turkey is ranked 4th in 42 European countries for visa openness and 6th for cost competitiveness. This combined with low exchange rates, makes Turkey an accessible destination for Europe. Further look in the arriving passengers show that almost half comes from European countries followed by Russia at 16%. Looking ahead to the 2020s, it is possible to envisage two scenarios for the global economy as the current period of political uncertainty plays itself out. The first – and most likely – scenario is that the present highly globalised economy remains intact. A more worrying and negative scenario is that a new form of economic rivalry developing between the major economic powers – as the US and Europe adopt a protectionist stance to the rise of China. For Turkey, 1st case is reflected in IMF and OECD forecasts and can be considered as a status quo in relations with EU. However for the second case as Eurocontrol calls it Turkey becomes a crucial actor for European Union as an ally. In both cases, Turkish passenger traffic is will not stop growing.

RUSSIA AND TURKEY Visitor arrivals from Russia fell sharply in 2016 but have rebounded as diplomatic ties with Turkey have returned back to

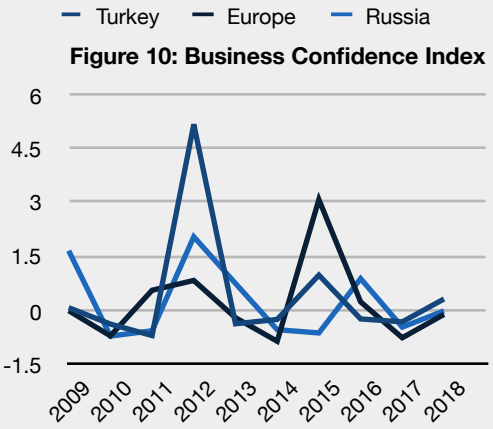


Figure 10: Business Confidence Index

Source: World Bank Statistics

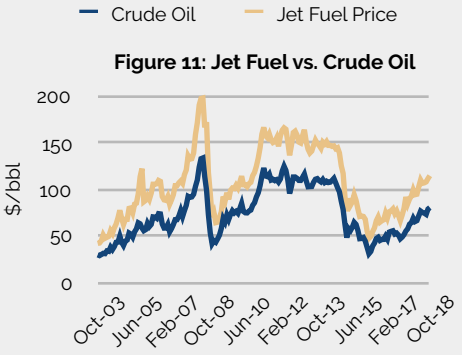


Figure 11: Jet Fuel vs. Crude Oil

Source: IATA, World Bank Report, Indexmundi

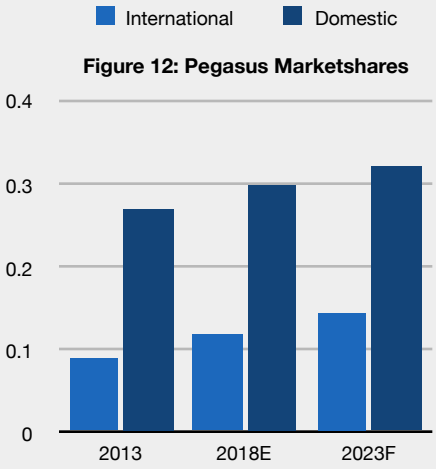


Figure 12: Pegasus Marketshares

Source: DHMI, Company reports

normal. All else equal, the pick-up in oil prices and favorable exchange rate movements (even though the rouble has fallen in recent weeks, the lira has fallen by more) should support inbound visitors from Russia (and other countries, of course) to Turkey and help to mitigate the overall impact on domestic passenger flows.

AIR FREIGHT DEMAND There are two key relations when looking at air freight demand. First is the relation between global GDP growth and global goods trade growth which is positive. Second relation between global goods trade growth and air freight volumes. The relation between trade and air freight can be seen on the graph. IATA forecasts industry-wide freight tonne kilometers (FTKs) to grow by 4.9% on average over each of the next five years, helped by a stronger economic and trade backdrop than we saw over much of the previous five year period.

DOMESTIC TOURISM Domestic tourism between 2003 and 2017 has grown more than 150%. This growth can be attributed to investments made on tourism attractions and weaker Turkish lira. According to TÜİK data domestic tourism has grow more than 8%. This growth slowed down in 2016 due to political instabilities. Yet it continues to grow strong after 2016. Another important point is that domestic travelers going abroad between 2003 and 2017 has grown 150% more. As more agencies help with abroad scheduling for domestic travelers these numbers continue to increase. Domestic tourism is expected to increase with weaker lira and investment on local tourism tours continue to increase. As domestic travelers seek cheaper alternatives, Pegasus Airlines as low cost carrier will have a boast in its domestic passenger number.

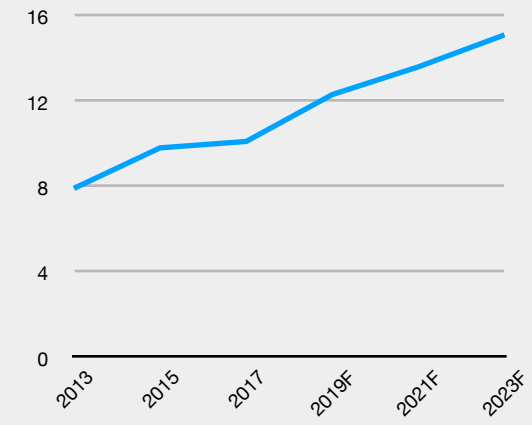
CONSUMER CONFIDENCE INDEX (CCI) According IATA; 31% travels for business whereas 48% travels for leisure. To account for both parties, both consumer confidence and business confidence index have been investigated. Consumer Confidence is the leading indicator of spending power and overall confidence of consumers. It is particularly pertinent in the airline industry because consumers are more willing to spend on leisure services (which is reflects on the ancillary income) when the index is strong. Business Confidence Index however reflects the volume of business. According to Nielsen Global Consumer Confidence Index, approximately one third of European Countries have seen consumer confidence declined, making Turkey experience one of the largest declines in the area with 23 points. European consumers have concerns over their jobs, except countries like Germany, the Netherlands, Switzerland, Ireland and Denmark. Business Tendency Survey (BTS) which shows managers opinions on Business confidence Index has reached its lowest value for Turkey on October for 2018. Yet in November there was approximately 6% increase in the index.

JET FUEL Aircraft fuel is the most critical operating expenses for airlines. Jet fuel, the most common fuel, is highly correlated to oil prices. In the last five years, the industry has been affected by a high volatility due to many different global factors, such as geopolitical, environmental and economic. Looking at the most accurate findings IMF has had higher success so they will be used as Crude Oil Price Forecast. Jet Fuel Prices are calculated with a Machine Learning model developed by the team which uses historic Brent Oil Price and historic Jet Fuel Price to forecast Jet Fuel Price. Model also gives the sensitivities of the output which enabled the team to conduct the sensitivity analysis under the Jet Fuel Price probabilities.

REGULATIONS DHMI and Directorate General of Civil Aviation are the authorities regulating the aviation in Turkey, not to mention the general commercial regulations. Their usual attitude is to prioritize Pegasus' biggest competitor Turkish Airlines. Agreements are made by regulators and distribution of the routes is determined by the governance. Regulations continue on risks section, due to carrying high potential.

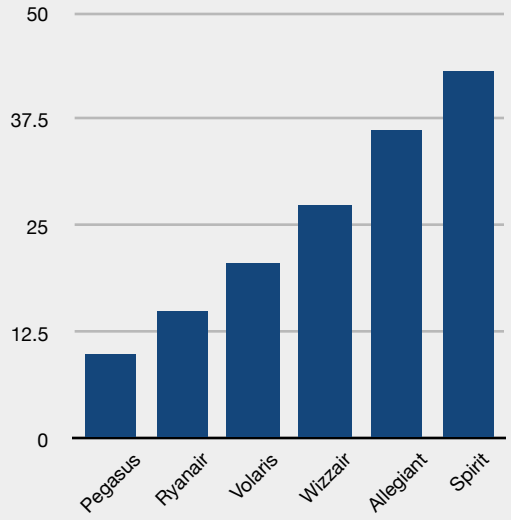
COMPETITIVE POSITIONING Pegasus enjoys the remarkable cost advantage over Turkish Airlines as the demand is highly price-elastic. However the national flag carrier THY has the governmental support almost

Figure 13: PGSUS Anc. Rev. Per Pax. (€)



Source: Company reports

Figure 14: Peers Anc. Rev. Per Pax. (€)



Source: Company websites

Figure 15

Airline	Ancillary rev. / Total revenue
Spirit	46,6%
VivaAeroBus	43,6%
Frontier	42,4%
Wizz Air	41,6%
Allegiant	39,8%
Volotea	34,2%
WOW Air	28,5%
Ryanair	28,2%
Volaris	27,7%
Pegasus	23,1%

Source: Ideaworkds

for any means necessary. Nonetheless, the profit cycles happen to have been very similar throughout the past years, indicating that they are peers. As for the market shares, Pegasus has increased its international market share by 4% and domestic marketshare by 3% since 2013.

INVESTMENT SUMMARY

INVESTMENT THESIS We initiate coverage on Pegasus Airlines (PGSUS) with Strong Buy rating with a one year target price of TRY 48,99 representing 124,67% upside from its January 10th, 2018 closing price of TRY 22,10. The valuation model is a 70% / 30% blend of DFCF and EV/EBITDAR. The valuation is made under support of various key potential drivers outlined below as well as the risks it carries. The company strategies aiming to increase the revenue volume and profit margin in addition to the positive climate around leave no doubts that PGSUS will satisfy its investors.

KEY POTENTIAL DRIVERS

PAX DEVELOPMENT IN 5 YEARS The strong stance of Pegasus PAX development for the upcoming 5 years can be measured by 2 ways, first with supply and demand; meaning load factor and ASK. Pegasus' strategic target of stabilizing LF at higher levels leaves no doubts for one, and ASK is to be increased by the aircraft orders made and changes in destinations. As the calculation notifies, the RPK has increased by TRY 14,17B, making a 87,6% increase since 2013. This trend is expected to keep on for 5 more years by increasing the RPK 44,2% more. When the calculations are made, this brings one to 42,9% increase in PAX. On the other hand, the market is expected by experts to increase 31%. Pegasus continuing to increase its market share, arrives to the same number of passengers expected.

FLEET (ASK) ENLARGEMENT Fleet enlargement plans Pegasus has can be easily seen by the leasing agreements that are already in place. The fleet has increased by 69,3%, and is planned (contracted) to increase by 42,1% until 2023, meaning Pegasus will be operating 118 Aircrafts. This fleet enlargement plan approximately corresponds to a 40% increase on ASK. With respect to Pegasus having successfully executed strategies of focusing on frequency on international destinations aiming increase the profitability.

INCREASING ANCILLARY REVENUE Pegasus has a long way to go in regard to ancillary. Ancillary revenues make up 37% of the total revenues of LCCs on average, with a range from 47%; down to 27% by Pegasus. Which is a standalone reason already to expect Pegasus to increase the ancillary with a higher acceleration then total revenue. Additionally, the comparion of ancillary revenue per PAX indicates the potential and opportunity Pegasus has even more clearly. Whiles other LCCs achieve the numbers up to 43,2 €, ancillary revenue per PAX of Pegasus in Q318 was. According to the customer survey report on Skytrax, Pegasus offers the lowest variety of inflight entertainment options for the passengers. Having mentioned that; according to the CEO Mehmet Nane, the new offers of products, services and bundled sales campaigns will take place by 2019. The planned activities include, intranet, combined tickets, flights pack offers. Lastly, as international passengers and business segment tend to spend more we expect a significant support to the total revenue.

STABILIZE LOAD FACTOR Gradually increasing revenue margin without increasing costs significantly, load factor is highly crucial to focus on for all the LCCs. Although Pegasus has had a lower performance of keeping the Load factor high, last 2 years' performance has been quite promising. This is not only because of focusing on frequency at the correct destinations, but also due to the better strategic approach Pegasus applies through a few channels it has. One of the biggest targets for the upcoming years, is to increase load factor even higher. When/if achieved, average profit per cycle will obviously increase the annual revenue.

VALUATION Our 12-month target price of TRY 48.99 per share offers an upside potential of 124% driven by 70% DFCF to firm model price of TRY 49.62 and 30% EV / EBITDAR multiple analysis price of 47.51. EV/EBITDAR multiples of 7.0x for 19E and 7.0x for 20E weighted equally to drive our

Figure 16

Key Metrics	2013	2018E	2023F
ASK in Billions	20,16	35,49	49,67
Load Factor	80%	85%	88%
RPK in Billions	16,17	30,34	43,76
Pax Turkey in Millions	149,43	211,92	277,61
Pax PGSUS in Millions	16,82	29,99	42,87
Market Share	11,3%	14,2%	15,4%

Source: Company reports

Figure 17: Terminal Growth

	GDP Growth	W of Revenue	GDP x W
Europe	48%	1,85	0,89
Turkey	36%	2,21	0,80
Other	16%	1,86	0,30
			1,98

Source: Company reports, World Bank Statistics

Figure 18

EBITDAR Margin (%)	5Y Avg.
Pegasus	17,6
Turkish Airlines	21,1
Easy Jet	17,1
Cebu Pacific	30,3
Ryan Air	28,1
Wizz Air	27

Source: Company websites

valuation price. We considered it to be more accurate to attribute less weight to EV/EBITDAR multiples methodology is driven by the low level of similarity peer companies with Pegasus. We use a 7x target multiple for PGSUS by adjusting global peers' EV/EBITDAR multiple with PGSUS' historical EV/EBITDAR discount 8%. We decided to discount multiples to account for uncertainties around increasing pressure on its yields and highly dependent on Turkish GDP growth.

CORE VALUATION: FREE CASH FLOW TO FIRM FCFF model was decided to use by our team because of the high lease payments of the company and continuous change in the capital structure. This model compromised of two main stage: (1) based on a specific year to year forecast up to 2023 and (2) constant growth with a terminal growth rate of 1%.

Name	Value
Cost of Equity	**25,82%**
Risk Free Rate	16,16%
Beta	1,61
Market Risk Premium	6%
Cost of Debt (after-tax)	**9,80%**
Interest Cost	12,57%
Tax Rate	22%
Debt-to-Equity Ratio	160,36%
WACC	**15,83%**

COST OF EQUITY Cost of equity was calculated as a 25,82% through the CAPM. The risk-free rate was defined to be 16,16% for Turkey(Damodaran). After the calculation of the expected risk of return and risk-free rate, expected market risk premium obtained at 6%. From the Pegasus' existing debt and lease payments, we calculated the cost of debt as a 9.8%. In our cost of debt calculation, we received 22% as a tax rate that the Turkish government determined as corporate tax up to 2021.

TERMINAL GROWTH VALUE We considered to take Pegasus as a European company cause of most of its revenue comes from Europe. So we took 1% as a terminal growth rate.

TERMINAL DISCOUNT RATE As we have removed the inflation from terminal growth rate, we also have eliminated the inflation from the terminal discounted rate. In this way, although inflation does not come as expected, the model will be able to maintain consistency.

RELATIVE VALUATION: PEER ANALYSIS We decided to use EV / EBITDAR multiplier to make peer analysis. Usage of EBITDAR is more appropriate than EV/EBITDA when comparing airline companies. Since airline companies are generally characterized by high levels of leases on aircraft, along with debt, lease rentals also have to be adjusted to compare airlines with different aircraft ownership structures. In order to compare it with Pegasus, we have selected companies of similar financial structure, not only the companies in the same markets but also the LCCs, which does not have any common route with Pegasus. Excluding the LCCs, we also include flag carrier of Turkey, THY to our relative analysis in consequence of too much overlap routes and same external effects. To compare Pegasus's financial ratios, we have used 17 companies and we mainly used 3 airline companies (THY, Air Arabia, Wizz Air) with similar behavior and composition to calculate EV/EBITDAR multiples. Apart from the EV / EBITDAR ratio, we used these 17 companies to compare industry average with Pegasus for activity, liquidity, solvency, profitability and valuation ratios. When we compare the industry average with the Pegasus, we have reached the information that supports our FCFF model when we used to determine our target price. When we compare the liquidity ratios, we observed that the liquidity ratios of Pegasus were higher than peers that of 59.71%. With the 1.66 Current Ratio and the 1.65 Quick ratios, Pegasus is not currently facing a liquidity risk or any time soon. According to P/E, P/CF and P/S ratios, it observed that 3,96, 2,05 and 2,41 times Pegasus is undervalued, respectively. As a result, our peer analysis leads us to a 1-year target price of TRY47.51, which weighs 30% of the total valuation analysis.

Figure 19

Years	W. avg. fuel cons. bbl per ASK (10^-6)	% of NEOs
2018E	1,18	26,5
2019F	1,11	44,4
2020F	1,09	54,6
2021F	1,06	65
2022F	1,02	74
2023F	0,98	80,5

Source: Boeing & Airbus reports, Company reports

- Fuel Expense
- Opr Leas expenses
- DA
- Navigation expenses
- Commision expenses
- Personnel expense
- Maintenance expense
- Handling fees
- Landing expenses

Figure 20: Operational Expenses as % of Total Costs

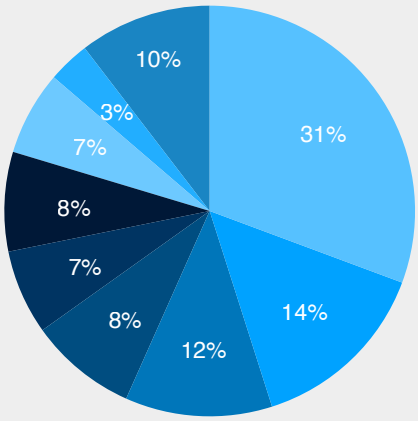
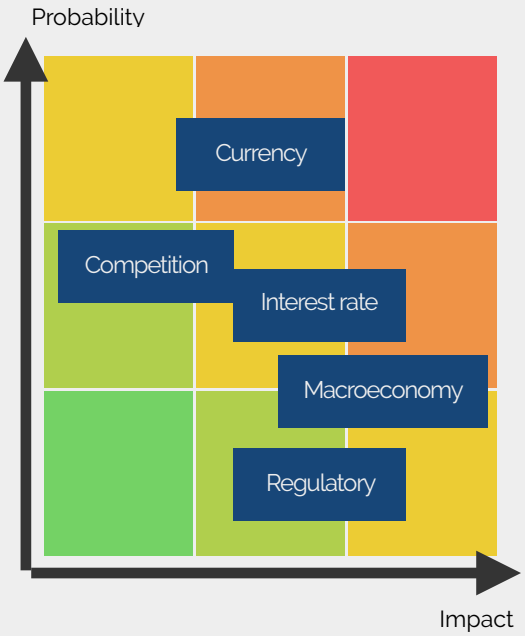


Figure 21: Risk Matrix



FINANCIAL ANALYSIS

ASSUMPTIONS MADE While calculating certain metrics, some assumptions are made within forecasting the future data. The assumptions made in the model are; fleet size, according to the leasing agreements the company has signed, load factor, assuming that the success of executing strategies will continue and overall ratio fluctuate around 87,5% Yield in EUR cents will slightly escalate by 5% in 5 years).

REVENUE GROWTH Within the model used to valuate the company and the stock, the revenues are forecasted by multiplying RPK and Yield. Pegasus increases its ASK by 40% through fleet enlargement and stabilizing load factor at higher levels of 88%; the both components increase, so will RPK by 44,2%. On the other hand yield is demanded by the company be as high as possible, absolutely without getting out of the LCC limits to remain cheaper. The revenue has increased by 252,6% since 2013, and the trend is expected to keep on for 5 more years scaling the revenue by 128%.

FUEL COSTS Fuel prices make up 30-40% of the CASK, therefore the changes in jet fuel price are well-reflected on the pricing of airlines. However, this negative effect and dependency is decreased by two factors. Firstly, due to sound hedging performance received previously, estimation is that Pegasus will not be affected as much as the others. On the other hand though, the arrival of Airbus NEO's will decrease fuel consumption per KM by 15%. When reflected on the weighted average fuel consumption per ASK, this will have an effect of 20,4% by 2023. All these considered, jet fuel might not be very securely forecastable on models, however Pegasus expected to be affected the least.

PASSENGER SERVICING AND SALARIES In total, passenger servicing and personnel expenses make up 13% of the CASK. Because these expenses tend to be lesser/later affected by the increase in FX, future increase expected on this cost component is lower then the others

RISKS

MARKET RISKS

COMPETITIVE The fact that the newly opened Istanbul airport has a very large capacity and the government has been given a guarantee to IGA shareholders about the number of customers. The chances of DHMİ to give line to European Airline companies has increased in order to fill the capacity. New entrances to the market may create a drastic decline in Pegasus profits.

REGULATORY One of the main risk for Pegasus is related to decisions of regulators. DHMİ regulates the bilateral agreements. Bilateral agreements regulate the number of carriers and frequencies, between two countries. THY gets most of the frequencies and most profitable roots in the bilateral agreements. These restrictions currently limit the potential and market share of Pegasus. However, as it mentioned previously we believe that one of the biggest concerns of the government is to fill the capacity of Istanbul Airport. For this reason, we believe that the new lines of Pegasus will be opened in Istanbul Airport as of 2020-2021. With the increase in capacity in SGA, we expect a good load factor with a high capacity increase in the Pegasus.

MACROECONOMIC RISKS

CURRENCY With the FED's high interest rate policy, we observe that the Dollar rising against EUR and TRY. Pegasus gets negatively affected from weak TRY and EUR vs. USD rates since 28% revenues are in TRY and 71% revenues are in EUR. On the other hand, main costs are in USD.

INTEREST RATE Unstable economic situation in Turkey, seems to be a potential hazard that will increase the Pegasus future interest costs. Due to the fact that the most weighted part of the debt is floating debt, it presents a risk for Pegasus. This risk is one of the risks that will cause the Company not to advance its cost leadership strategy in the future.

MACROECONOMY With the increase in the number of passenger situation in Turkey's macroeconomic situation is completely correlated. In particular, GDP growth and growth in tourism thanks to ensure that the existing high-PAX Turkey. According to OECD estimates, GDP growth in 2019 will drop to 0.5% in Turkey. Turkey also may profoundly affect the economic slowdown in the aviation sector. The problems experienced by Turkey's political, terrorist events poses a risk to the Pegasus. As a result; there are two risks that threaten the Turkish aviation sector in terms of macroeconomic: the repetition of events in 2016 and the acceleration of global trade wars.

SENSITIVITY ANALYSIS: RISKS TO TARGET PRICE Alterations in our assumptions variables could distress our target price and may halter our Strong Buy recommendation. Because of the risks as we mentioned before, we performed a sensitivity analysis on the primary variables of the model emphasizing on testing values of yield, oil prices and load factor. The main risk for Pegasus is oil prices due to jet fuel, which accounts for 35% of Pegasus's total cost. If the oil price does not progress in the predicted direction, we have reviewed the changes in our target price. At the same time, load factor and yield were examined as the most critical factors in profitability. In these two figures, the target price is calculated on the basis of scenarios. As a result of the analysis, which can be seen in Appendix 12, 3 factors analyzed separately and our Strong Buy recommendation has not changed even in the worst case scenario.

SCENARIO TESTING With using WACC, Load Factor, EV/EBITDAR, Oil Prices and Yield factors we built three different scenarios. Our worst scenario target price of TRY21,35 per share with HOLD recommendation. Our best scenario target price of TRY63,58 per share with Strong Buy recommendation.

Figure 22: Scenario Summary

Scenario	Price	Recommendation
Worst	TRY21.35	Hold
Base	TRY49.62	Strong Buy
Best	TRY63.58	Strong Buy

CORPORATE GOVERNANCE

SHAREHOLDER STRUCTURE Ultimate shareholders are exempted from shareholder structure of Pegasus Airlines. A major part of capital share is formed by Esas Holding which is 62,91%. The second part is constitued by publicly traded and publicly traded shares prior to IzAir Merger (34,53% and 34,50%). The last part of capital shares belong to Emine Kamışlı, Ali İsmail Sabancı, Kazım Köseoğlu, Can Köseoğlu and shares issued for IzAir Merger. Ultimate shareholders are Şevket Sabancı and Family (65,47%) and publicly traded. Nominal capital (102.299.707 TRY) is distributed according to the share ratios. Also, compliance reports show that the company continues its activities to inform the shareholders and to ensure use of basic shareholder rights with the same sensitivity and efficiency.

GROUP EXECUTIVE COMMITTEE & BOARD OF DIRECTORS Senior Management of Pegasus Airlines is compromised of twelve members. Pegasus Airlines current group of executive committee (GEC) is composed of the CEO (Mehmet Tevfik Nane), CFO (Barbaros Kubatoğlu). The ancient CEO was Sertaç Haybat assigned his official position to Mehmet Tevfik Nane on 18 March 2016. However, Sertaç Haybat still continues his duty as a board member. He started working in the airline industry as the maintenance manager so he knew very well all of information about airline industry. He implemented permanent and sustainable strategy and he made Pegasus Airlines very successful. Pegasus grew stronger in aviation industry. Mehmet Tevfik Nane was CEO and general manager of Carrefoursa A.Ş. between the years of 2013 and 2016. The political situation in 2016 affected all of the companies in different industries unfavorably. Pegasus Airlines was in loss. However, after the changes of the position with Mehmet Nane's successful strategy, it turns around one's business. The margins became strong, the price of tickets were increased, the operational expenses are limited and customer expectation was augmented again. Thus, we can say that Mehmet Tevfik Nane performed a successful strategy. All of the executive officers have the same purpose which is to meet the requirements of customers and industry changes and grow year by year. Board of Directors is currently composed of 2 non executive board members, 4 independent board members and a chairman, vice chairman. Ali İsmail SABANCI serves as the Chairman of our Board of Directors since January 2005. Ali İsmail Sabancı serves as the Chairman of Board of Directors since January 2005. The most of part in BoD has an education and proficiency in economics, finance departments. There is one woman member who is Hatice Zeynep Bodur Okyay. The compensation plan is not clearly announced. During the performance evaluation process of board members, it is realized that there is no practice of rewarding or sacking board members on the basis of this evaluation's results. Nevertheless, the evaluation process is resulted by Board Committees have been working efficiently and proactively.

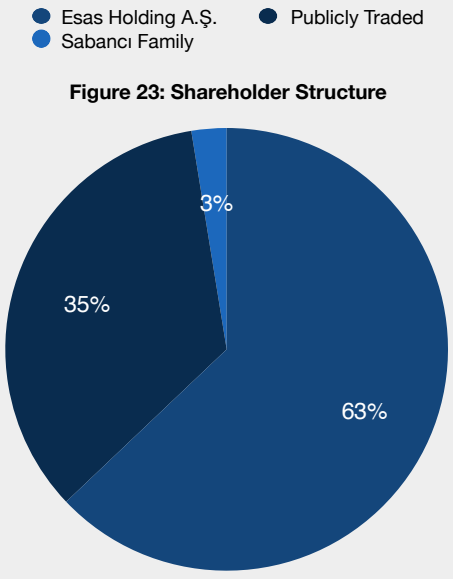


Figure 23: Shareholder Structure

Source: Company website

ENVIRONMENTAL SUSTAINABILITY AND SOCIAL RESPONSIBILITY Pegasus does not consider corporate social responsibility projects independent of its business strategies or operations and includes social and environmental issues in its business strategies and operations. Pegasus cares to cooperate with employees, guests, customers, investors, public entities and alike. Pegasus has an environmental management system certification of ISO14001. Energy and emission reduction are important for them. As a first step to integrate climate change in their strategy, they started calculating their GHG emissions in 2011. They took part in the Green Airport Project developed by the Directorate General of Civil Aviation, and they have started a GHG management system. Their GHG Inventory is being verified by Turkish Standards Institute since 2014. Also, Pegasus has "Green Company" certificate in Izmir Adnan Menderes, Antalya and Istanbul Sabiha Gokcen Airports. They will start to use NEO fuel to reduce air pollution. On the other hand, their activities are creating awareness that will encourage all family members to environmental sensitivity and train at appropriate level, encouraging suppliers and service providers to adopt similar environmental management principles and practices, and to inform employees and all stakeholders, including the public. Pegasus Airlines gives importance on social responsibility projects. One of the example is "Yarınlara Uçuyoruz Projesi". Social benefit and solidarity ideas of youth are implemented within the project. By granting the projects created, Pegasus aims to fly young people to the relevant regions. Additionally, Pegasus Airlines recently conducted a flight simulation program within the scope of the "Precious Wings" project carried out by the Association of Autism in order to help children and their families with autism and asperger syndrome overcome their difficulties in air travel.

Figure 24: Executive Members

Person	Title
Mehmet Tevfik NANE	President & General Manager (CEO)
Boğaç UĞURLUTEĞİN	Senior Vice President, Ground Handling
Güliz ÖZTÜRK	Chief Commercial Officer
Aydın Yumrutaş	Chief Flight Academy Officer
Reha ÖZDEMİR	Chief Flight Operations Officer
Barbaros KUBATOĞLU	Chief Financial Officer
Ergün DEMİRCİ	Senior Vice President, Technic
Dilara OĞUR	Chief Human Resources Officer
Murat Cem ALKAN	Chief Safety & Quality Officer
Tayfun BORA	Security Manager
Barış Fındık	Chief Information Technologies Officer
Nasuh N. ÇETİN	Chief Operations Officer

Source: Company website

LOYALTY PROGRAM The new program brought in by Pegasus in 2018 is called BolBol, through which the member can pay various ancillary services as well as the airport tax. Allowing customers spend on both additional services and flight charges, the new program is expected to have an effect on the customer loyalty, therefore slightly help stabilizing load factors. The points are collected by usual transactions on ticket purchases and also online check-ins to allow customers to have a discount on the total payment for the ticket. Also many new partners are now in place so that the customers can spend not only on services provided by Pegasus.

Appendix 1 Lexicon

Metrics

ASK: Available seat kilometer, calculated by the sum of the total distance each seat has travelled

RPK: Revenue passenger times kilometer, the sum of the total distance all the passengers has travelled

Load factor: RPK/ASK

RASK: Revenue per available seat kilometer

CASK: Cost per available seat kilometer

PASK: Profit per available seat kilometer, also equal to RASK-CASK

Yield: Average revenue gained per km a passenger travels

Utilization hour: The hours from an aircraft's take-off to landing (including taxi time)

Organizations

DHMI: Management of Turkish airports and mission of regulation and control of Turkish airspace are performed by General Directorate of State Airports Authority (DHMI). (Reference: DHMI)

Skytrax: International air transport rating organisation, SKYTRAX, have specialist knowledge, expertise and experience of quality issues affecting the air transport industry. (Reference: Skytrax)

CAPA: Centre for Aviation is one of the world's most trusted sources of market intelligence for the aviation and travel industry. Their unrivalled reputation for independence and integrity means one gets the whole story, with powerful data and in-depth insights on the news, issues and trends that are shaping the industry (Reference: CAPA)

IATA: The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 290 airlines or 82% of total air traffic. We support many areas of aviation activity and help formulate industry policy on critical aviation issues. (Reference: IATA)

SAW: Sabiha Gökçen Airport, the hub of Pegasus Airlines

IST: Istanbul Atatürk Airport, the hub of Turkish Airlines

IGA: Istanbul New Airport

Appendix 1 Summarized Income Statement

USD Millions	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Financials (mn TL)	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Sales	2.394	3.082	3.488	3.708	5.349	7.782	9.644	10.998	12.796	15.330	17.744
Growth yoy	24,7%	28,7%	13,2%	6,28%	44,2%	45,5%	23,9%	14,0%	16,3%	19,8%	15,8%
Operating Income	258,1	324,7	269,4	(106)	482	637	548	849	1.351	1.493	2.463
Depreciation/Amortization	8,3	12,4	16,1	24,1	35,2	60	71	82	99	128	156
EBIT	258,1	325	269,4	(106)	482	637,2	548,0	848,5	1351,0	1492,9	2463,2
Tax Rate	20%	20%	20%	20%	20%	22%	22%	22%	20%	20%	20%
Capex	(31)	(60)	(66)	(197)	(170)	(241)	(257)	(309)	(369)	(441)	(461)
Change in Working Capital	(91)	(261)	(27)	127	86	90	30	86	(20)	60	50

Appendix 2 Revenue Breakdown

	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Domestic											
Domestic Pax Revenue (M TRY)	777	915	1.013	1.098	1.402	1.911	2.377	2.689	3.071	3.340	3.937
Domestic Revenue (%)	41,6%	39,2%	38,0%	40,6%	36,4%	32,6%	33,3%	33,3%	33,1%	30,6%	31,3%
RASK (TRY)	0,060	0,058	0,102	0,099	0,119	0,158	0,180	0,197	0,216	0,213	0,250
Load Factor	78,3%	77,0%	81,9%	82,9%	87,2%	88,6%	88,0%	89,0%	90,0%	90,0%	90,0%
Yield (TRY)	0,076	0,075	0,125	0,119	0,137	0,200	0,205	0,221	0,235	0,237	0,272
Yield (€)	0,029	0,025	0,041	0,035	0,033	0,032	0,033	0,034	0,034	0,032	0,034
RPK (B)	5,84	6,96	8,11	9,24	10,23	10,69	11,62	12,17	13,09	14,10	14,48
International											
International Pax Revenue (M TRY)	1.090	1.422	1.655	1.607	2.447	3.944	4.767	5.394	6.206	7.588	8.629
International Pax Revenue (%)	58,4%	60,8%	62,0%	59,4%	63,6%	67,4%	66,7%	66,7%	66,9%	69,4%	68,7%
RASK (TRY)	0,08	0,09	0,09	0,08	0,12	0,18	0,20	0,21	0,22	0,23	0,25
Load Factor	78,3%	77,0%	74,8%	72,1%	80,5%	81,1%	81,5%	81,5%	81,5%	81,0%	81,5%
Yield (TRY)	0,107	0,116	0,122	0,115	0,151	0,25	0,24	0,25	0,27	0,29	0,31
Yield (€)	0,042	0,040	0,040	0,034	0,037	0,040	0,039	0,039	0,039	0,039	0,039
RPK (B)	10,17	12,23	13,52	13,97	16,21	18,01	19,72	21,28	23,06	26,29	27,66
Ancillary Revenues											
Ancillary Revenue (M)	340	533	663	816	1,155	1,926	2,5	2,915	3,519	4,403	5,178
Ancillary Revenue per pax	20,2	27,0	29,7	33,8	41,5	64,2	76,3	83,9	93,8	106,6	120,8
Ancillary Revenue per pax, EUR	7,9	9,3	9,8	10,1	10,1	10,4	12,3	12,9	13,6	14,4	15,1
Total											
Total International Pax Revenue (M)	1.867	2.337	2.668	2.705	3.849	5.855	7.144	8.084	9.277	10.928	12.566
Total Revenue	2.206	2.870	3.331	3.520	5.003	7.780	9.644	10.998	12.795	15.330	17.744
Total RASK (Including Anc., M TRY)	0,11	0,12	0,12	0,12	0,15	0,22	0,26	0,28	0,30	0,32	0,36
RPK (B)	16,01	19,19	21,63	23,21	26,44	28,7	31,34	33,45	36,15	40,39	42,14

Appendix 3 Cost Breakdown

	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Costs in Millions, TRY											
Fuel Expense	867	1171	1119	986	1516	2619	3073	3155	3464	4051	4378
Personnel expense	236	301	443	645	713	792	830	1033	1124	1320	1345
Opr Lease expenses	116	188	325	467	572	782	1120	1324	1542	1946	2182
Maintenance expense	108	159	271	361	419	501	853	977	1112	1374	1499
DA	134	165	176	227	330	669	784	913	1099	1422	1733
Handling fees	153	212	270	309	387	520	554	615	684	808	879
Navigation expenses	143	203	240	257	328	539	566	621	683	792	861
Landing expenses	60	81	102	125	163	267	287	320	358	427	464
Commision expenses	35	42	55	68	100	155	167	188	210	253	275
Pax Serv & catering	25	34	41	47	55	87	106	120	140	174	199
Advertising expenses	48	66	68	70	45	51	55	65	75	80	85
Other	108	166	203	282	315	349	389	426	459	532	537
Total Cost **in Billion**	20,16	24,38	27,70	30,51	32,72	35,49	37,39	39,78	42,53	48,13	49,67
Total Non-Fuel Cost **in Billion**	2,03	2,79	3,31	3,84	4,94	7,33	8,78	9,76	10,95	13,18	14,44
Metrics, TRY											
CASK	0,10	0,11	0,12	0,13	0,15	0,21	0,23	0,25	0,26	0,27	0,29
Non-Fuel CASK	0,06	0,07	0,08	0,09	0,10	0,13	0,15	0,17	0,18	0,19	0,20

Appendix 4 Operational Expenses as % of Revenue

Operational Expense	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Fuel Expense	39,3%	40,8%	33,6%	28,0%	30,3%	33,7%	31,9%	28,7%	27,1%	26,4%	24,7%
Personnel expense	10,7%	10,5%	13,3%	18,3%	14,2%	10,2%	8,6%	9,4%	8,8%	8,6%	7,6%
Opr Leas expenses	5,3%	6,5%	9,7%	13,3%	11,4%	10,1%	11,6%	12,0%	12,1%	12,7%	12,3%
Maintenance expense	4,9%	5,5%	8,1%	10,2%	8,4%	6,4%	8,8%	8,9%	8,7%	9,0%	8,4%
DA	6,1%	5,7%	5,3%	6,4%	6,6%	8,6%	8,1%	8,3%	8,6%	9,3%	9,8%
Handling fees	6,9%	7,4%	8,1%	8,8%	7,7%	6,7%	5,7%	5,6%	5,3%	5,3%	5,0%
Navigation expenses	6,5%	7,1%	7,2%	7,3%	6,6%	6,9%	5,9%	5,6%	5,3%	5,2%	4,9%
Landing expenses	2,7%	2,8%	3,1%	3,5%	3,3%	3,4%	3,0%	2,9%	2,8%	2,8%	2,6%
Commision expenses	1,6%	1,5%	1,6%	1,9%	2,0%	2,0%	1,7%	1,7%	1,6%	1,6%	1,6%
Pax Serv & catering	1,1%	1,2%	1,2%	1,3%	1,1%	1,1%	1,1%	1,1%	1,1%	1,1%	1,1%
Advertising expenses	2,2%	2,3%	2,0%	2,0%	0,90%	0,65%	0,57%	0,59%	0,59%	0,52%	0,48%
Other	4,9%	5,8%	6,1%	8,0%	6,3%	4,5%	4,0%	3,9%	3,6%	3,5%	3,0%

Appendix 5 Flights & Pax

	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Overall											
Pax in Millions	16,82	19,74	22,34	24,14	27,82	29,99	32,78	34,76	37,50	41,32	42,87
Cycle in k	112,79	133,30	152,21	166,69	177,39	190,10	202,50	214,27	224,34	246,95	248,58
Number of Seats in Millions	20,96	24,69	28,26	30,73	32,88	35,20	38,41	40,58	43,06	48,29	49,49
Number of Aircraft	49	55	67	79	76	83	90	97	103	115	118
Load Factor	80,2%	79,9%	79,0%	78,6%	84,6%	85,5%	85,6%	86,2%	88,1%	86,7%	88,1%
ASK in Billions	20,16	24,38	27,70	30,51	32,72	35,49	37,39	39,78	42,53	48,13	49,67
Passenger per cycle	149	148	147	145	157	158	163	163	169	169	175
Utilization hours	12,60	12,60	12,50	12,00	12,10	12,70	12,60	12,60	12,60	12,60	12,60
RPK in Billions	16,17	19,48	21,88	23,98	27,68	30,34	32,01	34,30	37,47	41,71	43,76
Domestic											
Pax in Millions	10,23	11,97	13,81	15,29	16,89	17,71	19,36	20,28	21,82	23,51	24,13
Cycle in k	66,76	77,91	90,01	98,86	103,54	108,05	115,87	120,31	123,57	133,60	131,75
Number of Seats in Millions	12,54	14,60	16,86	18,45	19,37	20,18	22,00	22,79	23,71	26,12	26,22
Load Factor	78,3%	77,0%	81,9%	82,9%	87,2%	88,3%	88,0%	89,0%	92,0%	90,0%	92,0%
ASK in Billions	12,99	15,89	9,90	11,14	11,74	12,12	13,20	13,67	14,23	15,67	15,73
Passenger per cycle	143	140	153	155	163	164	167	169	177	176	183
RPK in Billions	10,17	12,23	8,11	9,24	10,23	10,69	11,62	12,17	13,09	14,10	14,48
Average Distance, KM in k	1,04	1,09	0,59	0,60	0,61	0,60	0,60	0,60	0,60	0,60	0,60
International											
Pax in Millions	6,59	7,77	8,52	8,85	10,45	11,70	12,72	13,73	14,88	16,96	17,84
Cycle in k	46,03	55,39	62,20	67,83	70,78	78,35	82,19	88,92	95,14	107,12	110,00
Number of Seats in Millions	8,42	10,99	11,40	12,28	12,98	14,37	15,61	16,84	18,26	20,94	21,89
Load Factor	78,3%	77,0%	74,8%	72,1%	80,5%	81,1%	81,5%	81,5%	81,5%	81,0%	81,5%
ASK in Billions	12,99	15,89	18,07	19,37	20,14	22,20	24,19	26,11	28,30	32,46	33,93
Passenger per cycle	143	140	131	137	148	149	155	154	156	158	162
RPK in Billions	10,17	12,23	13,52	13,97	16,21	18,01	19,72	21,28	23,06	26,29	27,66
Average Distance, KM in k	1,54	1,45	1,59	1,58	1,55	1,54	1,55	1,55	1,55	1,55	1,55
Charter*											
Pax in k	480	600	660	720	760	780	790	480	600	660	720
Cycle in k	3,07	3,95	4,29	4,68	4,94	5,07	5,13	3,07	3,95	4,29	4,68
Number of Seats in k	530,00	672,00	734,56	801,33	845,85	868,11	879,24	530,00	672,00	734,56	801,33
ASK in Billions	0,84	1,17	1,23	1,34	1,42	1,45	1,47	0,84	1,17	1,23	1,34

Appendix 6 Governance Assessment

CORPORATE GOVERNANCE ASSESSMENT	WEIGHT	SCORE
SHAREHOLDERS RIGHTS	25%	64/100
a. One share gives right for one vote. There is no privilege in voting right. b. Minority rights have not been granted holding less than 5% of the company capital c. Directors are not elected annually		
PUBLIC DISCLOSURES AND TRANSPERENCY	25%	85/100
a. The corporate website includes all information and documents for last five (5) years, that the public, investors and other relevant parties want to reach.		
STAKEHOLDERS	15%	71
a. Pegasus prepares detailed Sustainability Reports every year since 2015. b. Compensation policy has been prepared for the employees and disclosed to public through corporate website. c. Equal opportunity is given to individuals under equal conditions.		
BOARD OF DIRECTORS	35%	9
a. 1 woman on the board b. 50% are independent director composition of the Board c. 12.5% of the board consists of immediate family members d. Maintains a formal Nominating, Compensation and Audit Committee e. Audit, Corporate Governance and Early Detection of Risk Committees, as referred by the principles have been established and their working principles have been determined in writing. f. Reporting system for Internal Audit and Ethical Activities was improved and audit activities became more efficient. g. In order to preparation of Risk Management Report, Risk Monitoring Board was established to convene four times a year with the participation of General Manager, CFO, CCO,COO, SITO, CHRO, CSQO Chief Legal Counsellor and Secretary General. Reports are assessed by Risk Monitoring Board before they are passed on to Early Detection of Risk Committee. h. Risk Inventory has been reviewed for risks subject to reporting and critical risk indicators (KRI) towards objective and reporting thresholds have been determined. i. Executive members of Board and General Manager are not assigned to Committees		
TOTAL CORPORATE GOVERNANCE SCORE	100%	8.1/10

Source Company website

Grades 7,8,9
The Company complied considerably with the Corporate Governance Principles issued by the Capital Market Board

Appendix 7 Domestic Competitors

TURKISH AIRLINES

Turkish Airlines (IST:THYAO) is the national flag carrier airline of Turkey. As of 2018, it operates scheduled services with 188 aircrafts to 304 destinations in Europe, Asia, Africa, and the Americas, making it the largest carrier in the world by number of passenger destinations. Turkish Airline's load factor is 82, market cap of 20,6B, and the stock price is 16,19 TRY.

Onurair

Onur Air is a low-cost airline with its headquarters in the Technical Hangar B at Istanbul Ataturk Airport in Yesilkoy, Istanbul, Turkey. It operates to 11 domestic, 8 international destinations with 27 aircrafts.

atlasglobal

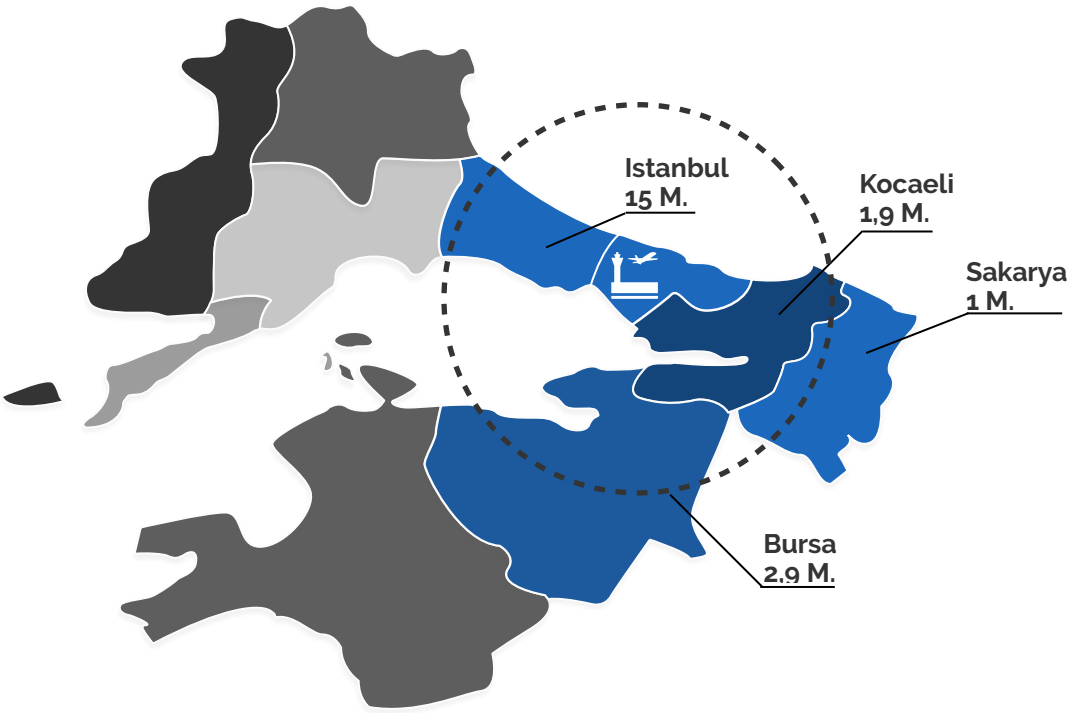
AtlasGlobal is a Turkish full-service airline headquartered in Istanbul, which operates to 7 scheduled domestic and 17 international destinations with 18 aircrafts, mostly out of its base at Istanbul Atatürk Airport.

Source Company websites

Appendix 8 Fleet Details

	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Boeing	47	51	58	61	49	49	38	32	28	24	20
Airbus	2	4	9	18	27	34	52	65	75	91	98
Fleet size	49	55	67	79	76	83	90	97	103	115	118
Fleet age	4,06	4,97	5,33	5,41	5,70	5,89	5,24	5,22	5,19	5,00	5,17
Available seats	9222	10338	12561	14802	14190	15492	17090	18374	19766	22482	23486
Avg. seat per aircraft	188	188	187	187	187	187	190	189	192	195	188
W. avg. fuel cons. bbl per ASK (10^-6)	1,24	1,24	1,24	1,21	1,19	1,18	1,11	1,09	1,06	1,02	0,98

Appendix 9 Istanbul New Airport



Worries about Pegasus losing market share after (having stated that Pegasus does not plan to operate in IGA much) the complete opening of the Istanbul New Airport appear to be irrelevant, due to 2 main reasons. Firstly, the location of the new airport makes it very hard to transport as the public transportation is expected to start operating earliest in 1,5 years. Secondly most of the population lives closer to Sabiha Gökçen Airport (SAW), it's also easier to arrive as various options are there to SAW.

Appendix 10 Airport Accessibility

			IGA		SAW		IST	
Towns in Istanbul*	Population	Population Weight	Time in Mins.	Weighted Time	Time in Mins.	Weighted Time	Time in Mins.	Weighted Time
Buyukcekmece	243474	0,18	50	9,06	74	13,41	24	4,35
Besiktas	185447	0,14	41	5,66	41	5,66	41	5,66
Kartal	463433	0,34	62	21,38	22	7,59	51	17,59
Kadikoy	451453	0,34	53	17,81	33	11,09	34	11,42
		1,00		53,90		37,74		39,02

Appendix 11 Inflation Forecasts

Forecast by Turkish Ministry of Economy	2018E	2019F	2020F	2021F	2022F	2023F
Inflation	20,3	15,9	9,8	6	5	5

Appendix 12 Sensitivity Analysis

Base	2018E	2019F	2020F	2021F	2022F	2023F
Jet Fuel Price	86,8	106,6	99,95	100,08	100,22	100,35

Changes in Jet Fuel Price								
-40%	-30%	-20%	-10%	Base	10%	20%	30%	40%
₺ 55,92	₺ 54,35	₺ 52,77	₺ 51,20	₺ 49,62	₺ 48,05	₺ 46,47	₺ 44,90	₺ 43,32
12,7%	9,5%	6,3%	3,2%		-3,2%	-6,3%	-9,5%	-12,7%

Jet Fuel Price Historic Change	
Min. Change	7,8%
Max. Change	43,3%

To analyze the answer to the question "What happens to the stock price if jet fuel prices go up?", the sensitivity analysis is conducted. As one can see on the scenarios, the stock price still remains favourable.

	Yearly Yield						
Average Yield	2018E	2019F	2020F	2021F	2022F	2023F	Target Price
0,048	€0,032	€0,048	€0,048	€0,048	€0,048	€0,048	₺ 55,38
0,041	€0,032	€0,041	€0,041	€0,041	€0,041	€0,041	₺ 52,83
0,035	€0,032	€0,035	€0,035	€0,035	€0,035	€0,035	₺ 50,65
Base (€0,033)	€0,032	€0,033	€0,034	€0,034	€0,032	€0,034	₺ 49,62
0,031	€0,032	€0,031	€0,031	€0,031	€0,031	€0,031	₺ 49,19
0,025	€0,032	€0,025	€0,025	€0,025	€0,025	€0,025	₺ 47,01
0,018	€0,032	€0,018	€0,018	€0,018	€0,018	€0,018	₺ 44,46

Changes in Yield	
Historical Yield Average	€0,033
Min Change	€0,002
Max Change	€0,015
Historical Max Yield	€0,041

The changes in yield are analyzed through the sensitivity testing methods to determine and calculate the reflections on the stock price to create scenarios. Changes in yield does not affect the recommendation, which still happens to be a Strong Buy.

Pegasus International Load Factor	
Historical Load Factor	77,3%
Minimum Load Factor(In crisis)	72,1%
Maximum Load Factor(Yearly)	81,0%
Maximum Load Factor(Quarterly)	82,5%

Pegasus Domestic Load Factor	
Historical Load Factor	82,6%
Minimum Load Factor	77,0%
Maximum Load Factor(Yearly)	88,3%
Maximum Load Factor(Quarterly)	89,8%
Maximum Load Factor in Industry(Ryan Air)	95,0%

Load factor is an assumption used in the model therefore was one of the most important to be tested. After analyzing the results on the stock price, the recommendation is still a Strong Buy as the price decreases only 10% on the worst scenario of load factor.

Industry Max	2019F	2020F	2021F	2022F	2023F	Target Price
Domestic Load Factor	88,00%	95,00%	95,00%	95,00%	95,00%	฿ 50,55
International Load Factor	81,50%	85,00%	85,00%	85,00%	85,00%	
Optimistic Scenario	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**Target Price**
Domestic Load Factor	88,00%	90,00%	91,00%	91,00%	91,00%	฿ 49,96
International Load Factor	82,50%	82,50%	82,50%	82,50%	82,50%	
Base	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**Target Price**
Domestic Load Factor	88,00%	89,00%	90,00%	90,00%	90,00%	฿ 49,62
International Load Factor	81,50%	81,50%	81,50%	81,00%	81,50%	
Pegasus' Historical Maximum	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**Target Price**
Domestic Load Factor	88,00%	88,30%	88,30%	88,30%	88,30%	฿ 49,51
International Load Factor	81,00%	81,00%	81,00%	81,00%	81,00%	
Worst Case(Y2016 Scenario)	**2019F**	**2020F**	**2021F**	**2022F**	**2023F**	**Target Price**
Domestic Load Factor	77,00%	77,00%	77,00%	77,00%	77,00%	฿ 46,85
International Load Factor	72,10%	72,10%	72,10%	72,10%	72,10%	

Appendix 13 Peer Valuation

		Price / Book Value Per Share			EV / EBITDA			EV / Revenue		
Company Name	**Identifier**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Pegasus	**PGSUS.IS**	1,38	0,59	0,54	6,80	5,48	4,97	0,94	0,74	0,59
Turkish Airlines	**THYAO.IS**	1,07	0,51	0,42	6,46	4,86	4,00	1,16	0,90	0,69
Ryanair PLC	**RYA.I**	4,19	2,43	2,07	8,55	6,87	6,47	2,66	1,68	1,48
Easyjet PLC	**EZJ.L**	1,60	1,18	1,09	5,95	4,47	4,10	0,82	0,57	0,53
Air Arabia PJSC	**AIRA.DU**	0,96	0,75	0,74	7,43	5,98	5,96	1,93	1,52	1,40
JetBlue Airways	**PGSUS.IS**	1,52	1,00	0,87	5,36	4,86	4,26	1,09	0,74	0,68
Southwest Airlines	**THYAO.IS**	4,00	2,40	2,07	8,24	6,39	5,76	1,84	1,25	1,16
GOL SA	**RYA.I**	NA	NA	NA	7,00	7,57	6,04	0,99	1,14	1,03
Copa Holdings SA	**EZJ.L**	2,69	1,44	1,33	9,90	6,88	6,31	2,34	1,34	1,28
Air Asia Co Ltd	**AIRA.DU**	2,76	NA	NA	18,60	NA	NA	1,66	1,14	NA
Wizz Air PLC	**PGSUS.IS**	3,06	2,00	1,62	7,45	2,81	2,07	1,46	0,47	0,40
Interglobe Ltd	**THYAO.IS**	7,01	6,29	5,53	12,99	NA	17,52	1,70	1,06	0,79
Spicejet Ltd	**PGSUS.IS**	NA	NA	18,73	11,26	12,91	10,11	1,10	0,57	0,47
Spring Airlines Ltd	**PGSUS.IS**	3,52	2,39	2,16	13,91	12,59	10,27	3,14	2,50	2,11
Cebu Air Inc	**THYAO.IS**	1,50	1,08	0,97	4,97	5,50	4,72	1,24	1,04	0,90
Juneyao Co Ltd	**RYA.I**	3,18	2,25	1,97	13,58	8,55	7,73	2,75	1,70	1,43
Flybe Group PLC	**EZJ.L**	0,79	0,42	0,46	3,17	4,29	2,78	0,19	0,18	0,18
Norwegian Airbus	**AIRA.DU**	3,02	2,61	3,31	123,35	NA	6,49	0,23	0,36	0,30

		Price / EPS			Price / Cash Flow Per Share			Price / Cash Flow Per Share		
Company Name	**Identifier**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Pegasus	**PGSUS.IS**	6,88	6,15	6,02	4,16	2,49	1,84	0,65	0,28	0,22
Turkish Airlines	**THYAO.IS**	25,63	3,82	3,58	4,43	1,81	1,40	0,52	0,30	0,23
Ryanair PLC	**RYA.I**	13,28	11,35	10,42	9,58	7,03	6,05	2,69	1,54	1,36
Easyjet PLC	**EZJ.L**	14,57	8,69	8,18	9,12	5,07	4,63	0,88	0,63	0,58
Air Arabia PJSC	**AIRA.DU**	9,18	8,14	9,26	5,02	5,23	3,84	1,55	1,17	1,08
JetBlue Airways	**PGSUS.IS**	12,79	10,89	8,37	7,22	4,04	4,01	1,05	0,66	0,61
Southwest Airlines	**THYAO.IS**	18,99	11,89	10,19	11,97	7,23	6,61	1,86	1,27	1,18
GOL SA	**RYA.I**	266,08	NA	29,97	5,78	9,65	7,22	0,48	0,55	0,49
Copa Holdings SA	**EZJ.L**	15,82	10,99	10,57	10,86	6,70	6,06	2,26	1,18	1,13
Air Asia Co Ltd	**AIRA.DU**	32,60	25,23	NA	21,10	NA	NA	1,66	0,87	NA
Wizz Air PLC	**PGSUS.IS**	16,95	13,50	10,87	12,84	7,15	6,20	2,41	0,95	0,80
Interglobe Ltd	**THYAO.IS**	21,54	NA	33,34	18,03	29,04	11,98	2,10	1,42	1,06
Spicejet Ltd	**PGSUS.IS**	13,47	31,63	20,79	9,71	34,83	24,85	0,96	0,46	0,38
Spring Airlines Ltd	**PGSUS.IS**	23,63	19,30	15,36	14,88	13,11	9,51	2,72	2,22	1,88
Cebu Air Inc	**THYAO.IS**	7,52	7,09	6,69	4,03	3,31	2,58	0,87	0,59	0,51
Juneyao Co Ltd	**RYA.I**	20,73	15,16	12,13	13,80	9,29	7,52	2,21	1,49	1,26
Flybe Group PLC	**EZJ.L**	NA	NA	NA	2,04	0,84	0,69	0,09	0,05	0,05
Norwegian Airbus	**AIRA.DU**	NA	NA	NA	NA	3,97	49,59	0,20	0,22	0,18

Source Company websites

Appendix 14 Peer Relative Valuation

	2013	2014	2015	2016	2017	2018E	2019F	2020F
EV	3.644	3.307	2.659	3.111	3.435	11.855	13.156	14.774
EBITDAR	537	610	690	565	1.330	1.694	1.879	2.111
EBITDA	413	412	353	81	739	1.041	1.098	1.372
EV/EBITDA	8,82	8,03	7,53	34,76	4,65	11,39	11,98	10,77
EV/EBITDAR	6,78	5,43	3,85	5,51	2,58	7	7	7
TD	1.445	1.192	1.214	2.338	3.253	6.546	7.874	9.541
EBIT	258	325	269	-106	482	636	548	849
D&A	134	165	176	227	330	669	784	913
Equity Value	2.199	2.116	1.445	772	182	5.309	5.282	5.233
						Shares	102,3	102,3
							Target Price	47,51

Appendix 15 Financial Analysis

Years	2013	2014	2015	2016	2017
Liquidity Ratios					
Current Ratio	1,79	1,77	1,85	1,41	1,66
Quick Ratio	1,79	1,76	1,84	1,38	1,65
Cash Ratio	1,02	0,97	0,67	1,08	0,89
Defensive Interval Ratio	101,82	76,82	74,93	46,57	88,44
Solvency Ratios					
Debt to Asset Ratio	46,4%	38,5%	34,5%	47,6%	44,6%
Debt to Capital ratio	58,7%	53,8%	49,3%	62,9%	59,0%
Debt to Equity Ratio	142,0%	116,6%	97,3%	169,9%	144,0%
Financial Leverage Ratio	3,88	3,04	2,91	3,21	3,36
Fixed Charge Coverage	16.62	14.28	21.68	-7.9	11.24
Profitability Ratios					
EBITDAR Margin	22,4%	19,5%	19,5%	15,0%	24,4%
EBITDA Margin	17,3%	13,4%	10,1%	2,2%	13,8%
EBIT Margin	10,8%	10,5%	7,7%	-2,9%	9,0%
Net Profit Margin	3,7%	4,7%	3,2%	-3,7%	9,4%
ROA	3,09%	4,08%	2,94%	-2,80%	7,31%
ROE	12,45%	12,43%	8,65%	-8,82%	24,61%
ROIC	3,9%	5,2%	3,9%	-3,5%	9,3%
Valuation Ratios					
P/E	16.7	21	17.2	0	10.4
P/CF	10.5	6.94	5.03	25.42	3.84
P/S	1,55	1,1	0,51	0,39	0,65
EPS	2,27	1,61	1,01	0	3,14
Price	37.9	33.9	17.3	12.51	32.56

Appendix 16 Jet Fuel Assumptions

	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Barrel consumed	32646	38318	35088	37807	38437	40886	41593	43451	44883	48871	48785
Barrel /ASK (10^-6)	1,62	1,57	1,27	1,24	1,17	1,15	1,11	1,09	1,06	1,02	0,98
Hedged fuel	45%	59%	46%	64%	39,5%	42,8%	50%	50%	50%	50%	50%
Hedged fuel needs	14691	22608	16140	24196	15183	17499	20797	21726	22442	24436	24393
Unhedged fuel needs	17955	15710	18948	13611	23254	23387	20797	21726	22442	24436	24393
Ave oil bbl	108,44	97,52	54,40	46,00	55,71	72,02	74	69	69,1	69,2	69,3
Ave jet fuel $/bbl	149,13	137,57	77,86	63,75	79,69	86,8	106,6	99,95	100,08	100,22	100,35
Change in jet fuel cost	NA	-7,75%	-43,40%	-18,12%	25,00%	-10,05%	22,81%	-6,24%	0,13%	0,14%	0,13%

Appendix 17 Competitors Assessment

		Pegasus Airlines		Turkish Airlines		Onur Air		Atlas Global	
Key Success Factors	Weight	Rating	Weighted Rating	Rating	Weighted Rating	Rating	Weighted Rating	Rating	Weighted Rating
Food & Beverages	0.05	2	0.1	4	0.2	2	0.1	3	0.15
Inflight Entertainment	0.05	1	0.05	3	0.15	1	0.05	2	0.1
Seat Comfort	0.15	2	0.3	3	0.45	2	0.3	3	0.45
Staff Service	0.05	3	0.15	3	0.15	2	0.1	3	0.15
Affordability	0.55	5	2.75	2	1.1	4	2.2	2	1.1
Transportation	0.15	4	0.6	3	0.45	4	0.6	3	0.45
	1,00		3,95		2,50		3,35		2,40

Source Company websites

The survey done by our team shows that when choosing an airline price is 55% important on average. Importance of price decreases with long range flights. On long range flights passengers care more about their own comfort and safety. It also important to notice that higher income groups and business travelers put more weight to their own comfort.
To keep the sample as reflective of population possible age mean is kept at 27.

Appendix 18 Fuel Efficiency by Aircraft

Name	Capacity	Fleet Size	Qty Difference 2018-2023	Fuel Cost per KM ($)	Fuel Cost per PAX per KM ($)
B 737-400	168	1	-1	4,5327	0,0270
B 737-800	189	48	-28	4,2369	0,0224
A 320-200 CEO	180	12	-9	3,8642	0,0215
A 320-200 NEO	186	22	39	3,3869	0,0182
A 321-200 NEO	230	0	34	4,0764	0,0177

Source: Boeing, Airbus

Appendix 19 Metrics from the Valuation Model

Name	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Assumption											
Fleet size	49	55	67	79	76	83	90	97	103	115	118
Load factor	80,2%	79,9%	79,0%	78,6%	84,6%	85,5%	85,6%	86,2%	88,1%	86,7%	88,1%
Annual # of cycle per aircraft	2.302	2.424	2.272	2.110	2.334	2.290	2.250	2.210	2.180	2.150	2.110
Utilization hours	12,60	12,60	12,50	12,00	12,10	12,70	12,60	12,60	12,60	12,60	12,60
Yield (€ Cent)	0,58	0,55	0,53	0,46	0,47	0,44	0,49	0,49	0,49	0,50	0,51
Domestic	0,030	0,026	0,041	0,035	0,033	0,032	0,033	0,034	0,034	0,032	0,034
International	0,042	0,040	0,040	0,034	0,037	0,040	0,039	0,039	0,039	0,039	0,039
Calculations											
RASK (€ Cent)	4,28	4,06	3,97	3,44	3,72	3,54	4,16	4,25	4,36	4,30	4,47
CASK (€ Cent)	3,94	3,94	3,95	3,76	3,68	3,33	3,79	3,77	3,73	3,70	3,63
PASK (€ Cent)	0,33	0,12	0,02	(0,32)	0,04	0,20	0,37	0,48	0,63	0,60	0,83
Maintenance costs (€, Millions)	42,30	54,77	89,30	107,63	102,00	80,89	137,58	150,30	161,18	185,61	187,38
Utilization hour x Load factor	10,11	10,07	9,88	9,43	10,24	10,86	10,78	10,86	11,10	10,92	11,10

Appendix 20 CapEx Forecast

CAPEX Forecast (m TRY)	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
CAPEX	31	59,6	66,3	197,1	170,4	241,1	257,3	308,9	369,0	440,8	461,3
Fleet Size	49	55	67	79	76	83	90	97	103	115	118

Appendix 21 Peer Analysis

Name	Country	Type of Airline	Fleet Size	Dest.	Market Cap. ($)*	PASK 2017FY	Load Factor	Stock Price*
Pegasus	Turkey	Low Cost	83	105	0,36B	0,36	90	TRY 22,10
Turkish Airlines	Turkey	Full Service	188	300	3,30B	0,08	82	TRY 14,96
Air Arabia	Saudi Arabia	Low Cost	53	151	1,15B	NA	81	AED 1,04
Easy Jet	UK	Low Cost	275	136	5,07B	NA	96,4	GBP 1.142
COPA	Panama	Full Service	93	80	3,21B	NA	81,9	USD 84,93
Cebu Pacific	Philippines	Low Cost	67	64	0,79B	NA	84	PHP 79,20
Ryan Air	Ireland	Low Cost	300	222	13,19B	NA	96	GBP 10,57
Wizz Air	UK	Low Cost	104	134	2,39B	0,69	93,6	GBP 2.920

Appendix 22 PGSUS EBITDAR Margin vs. Peers

EBITDAR Margin (%)	5Y Avg.	2013	2014	2015	2016	2017
Pegasus	17,6	22,4	19,5	19,5	15	11,4
Turkish Airlines	21,1	18	18,8	24,5	16,6	27,5
Easy Jet	17,1	16,7	18	20	16	14
Cebu Pacific	30,3	21,3	23,8	34,8	38,1	33,5
Ryan Air	28,1	23,5	22,1	27,1	30,2*	36,5*
Wizz Air	27	18,6	23,9	27,6	30,8	34,3

*Source: Company websites. *Forecasted by JP*

Appendix 23 Free Cash Flow Forecasts

Name	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
Sales	2.394	3.082	3.488	3.708	5.349	7.781	9.644	10.998	12.796	15.330	17.744
Growth yoy	24,7%	28,7%	13,2%	6,3%	44,3%	45,5%	24,0%	14,0%	16,3%	19,8%	15,7%
EBIT	258,1	325	269,4	-106	482	635,9	548,0	849	1351,0	1.493	2463,2
D&A	134,2	164,8	176,0	226,5	330,1	669	784	913	1.099	1.422	1.733
EBITDA	413,3	411,9	353,3	81,4	739,2	1.167	1.398	1.540	1.727	1.993	2.307
EBITDA margin	17,3%	13,4%	10,1%	2,2%	13,8%	15,0%	14,5%	14,0%	13,5%	13,0%	13,0%
Taxes on EBIT	(51,6)	(64,9)	(53,9)	21,2	(96,4)	(139,9)	(120,6)	(186,7)	(270,2)	(298,6)	(492,6)
Capital expenditure	(31,0)	(59,6)	(66,3)	(197,1)	(170,4)	(241,1)	(257,3)	(308,9)	(369,0)	(440,8)	(461,3)
Chg. in work. cap.	(91,0)	(260,9)	(27,4)	126,6	86,3	(380,0)	30,0	86,0	(20,0)	60,0	50,0
Free cash flow	239,7	26,5	205,7	32,1	558,7	406,1	1.051	1.130	1.068	1.314	1.403
Capex/sales	-1%	-2%	-2%	-5%	-3,19%	-3,10%	-2,67%	-2,81%	-2,88%	-2,88%	-2,60%

Appendix 24 Cash Flows and Discounts

Name	2019F	2020F	2021F	2022F	2023F
Discount factor	0,93	0,80	0,69	0,60	0,52
PV of FCF	976,11	906,57	739,70	785,29	723,97

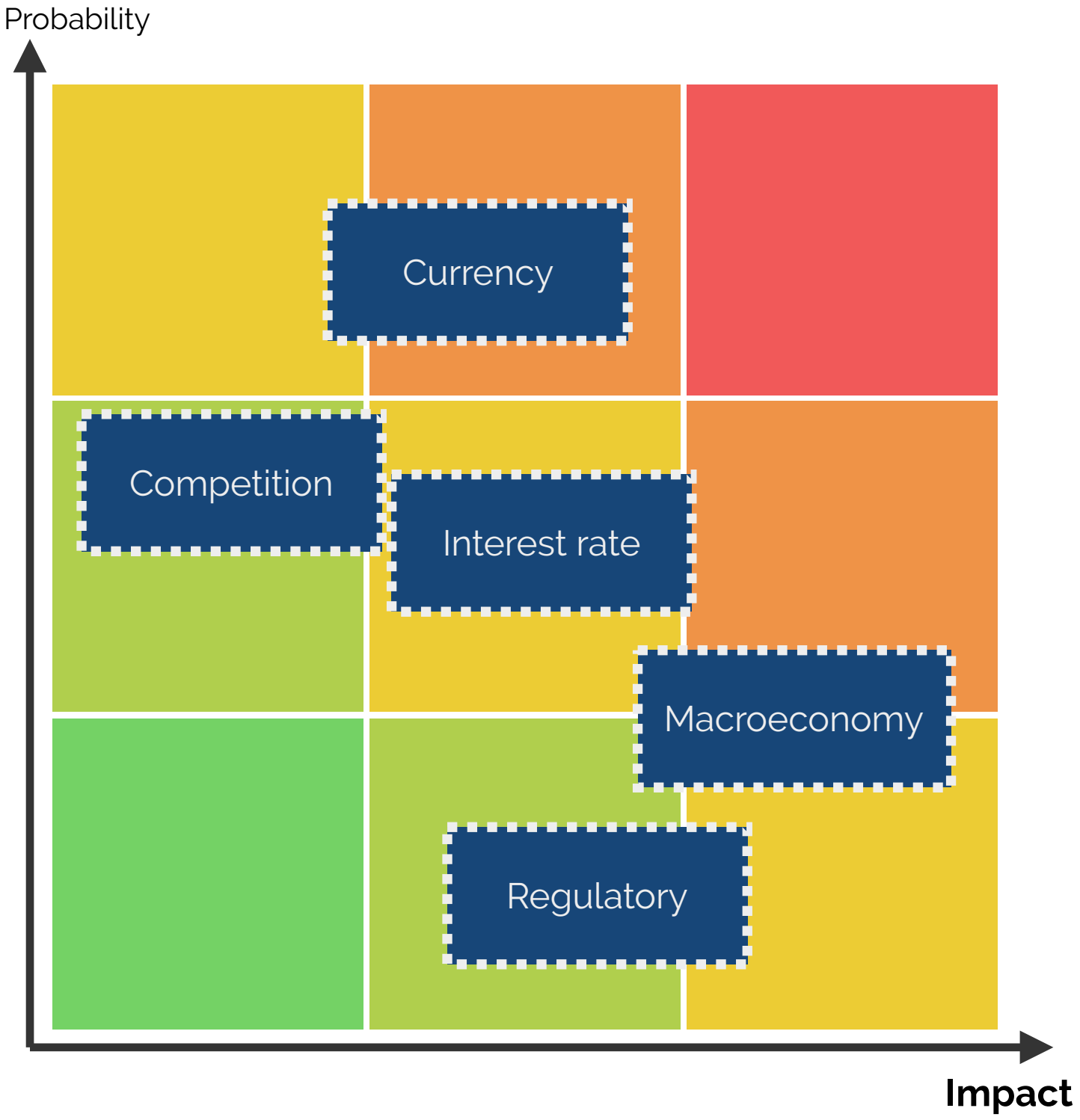
Source: World Data Bank

Appendix 25 Terminal Growth

Region	GDP Growth	W of Revenue	GDP x W
Europe	48%	1,85	0,89
Turkey	36%	2,21	0,80
Other	16%	1,86	0,30
			1,98

Source: World Bank Statistics

Appendix 26 Risk Assessment



MARKET RISKS: Competitive, Regulatory

MACROECONOMIC RISKS: Currency, Interest rate, Macroeconomy

Appendix 27 SWOT Analysis

Strengths

Sound EBITDAR margin (14.5% in 1H)

Robust ancillary revenue

Load factors

Successful historic financial leasing performance

Centralized location: Hub in Istanbul

Skilled managerial team

Leading LCC in Turkey, no LCC competitor

Young fleet

High aircraft utilization hours

Weakness

Low debt ratio

Weak presence in EU market

Low service quality

Poor brand image

highly dependency on Turkey

Low loading factor versus peers

SWOT

Opportunities

Airbus Neo orders

Connecting international flights

High price elasticity of demand

Strong price competition

Globalization and development of Turkey

Technology advances

Global expansion to other markets

Has not fully globalized yet

Low cost airport as the main hub

Threats

High dependency on fuel prices

No strong substitution existence in domestic market

Governmental support on largest competitor

Frequently changing regulations and taxes

Security, terrorism, health issues in Turkey

Very high CCI sensitivity

Difficult situations in Kamışlı and Sabancı Families

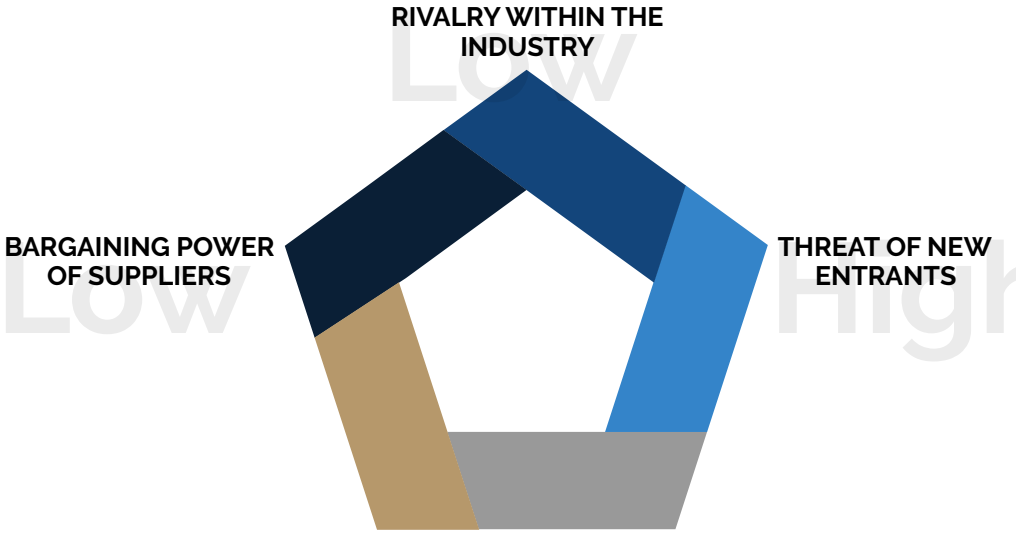
New airport

Increase in interest rates

Upward spike in jet-fuel price can destabilize the business model

Turkey's economic/geopolitical context

Appendix 28 Porter's Analysis



THREAT OF NEW ENTRANTS *HIGH*

- High barriers of entry due to the bureaucracy to be involved with the Turkish government's policy for foreign airlines
- Significant initial investment requirement (High line prices, lease/purchase aircraft prices)
- Economies of scale
- Bureaucracy is involved in settling up a new airline (Turkey's governance policy/regulations)
- Emerging markets attract new entrants from the foreign airlines side, which erodes profitability.
- Cumulative experience and ease of distribution channels
- Capacity increase in Istanbul's airports may create space for new entries by the LCCs of the neighbouring regions

THREAT OF SUBSTITUTES *HIGH*

- Whiles air travel is becoming standardized, the primitive substitution forms are road, rail, marine
- Cost of change to rail is less expensive
- Increasing popularity of technologic alternatives: Video conferencing for business travelers
- The number of customers can afford air-travel is increasing mainly in emerging markets

BARGAINING POWER OF SUPPLIERS *LOW*

- Labor and staff union force
- Supplier power is boosted by the presence of the duopoly (Boeing, Airbus)
- Little control over the rising prices and no subs to jet fuel
- Airport services are also ran by a small number of firms, however, low switching cost

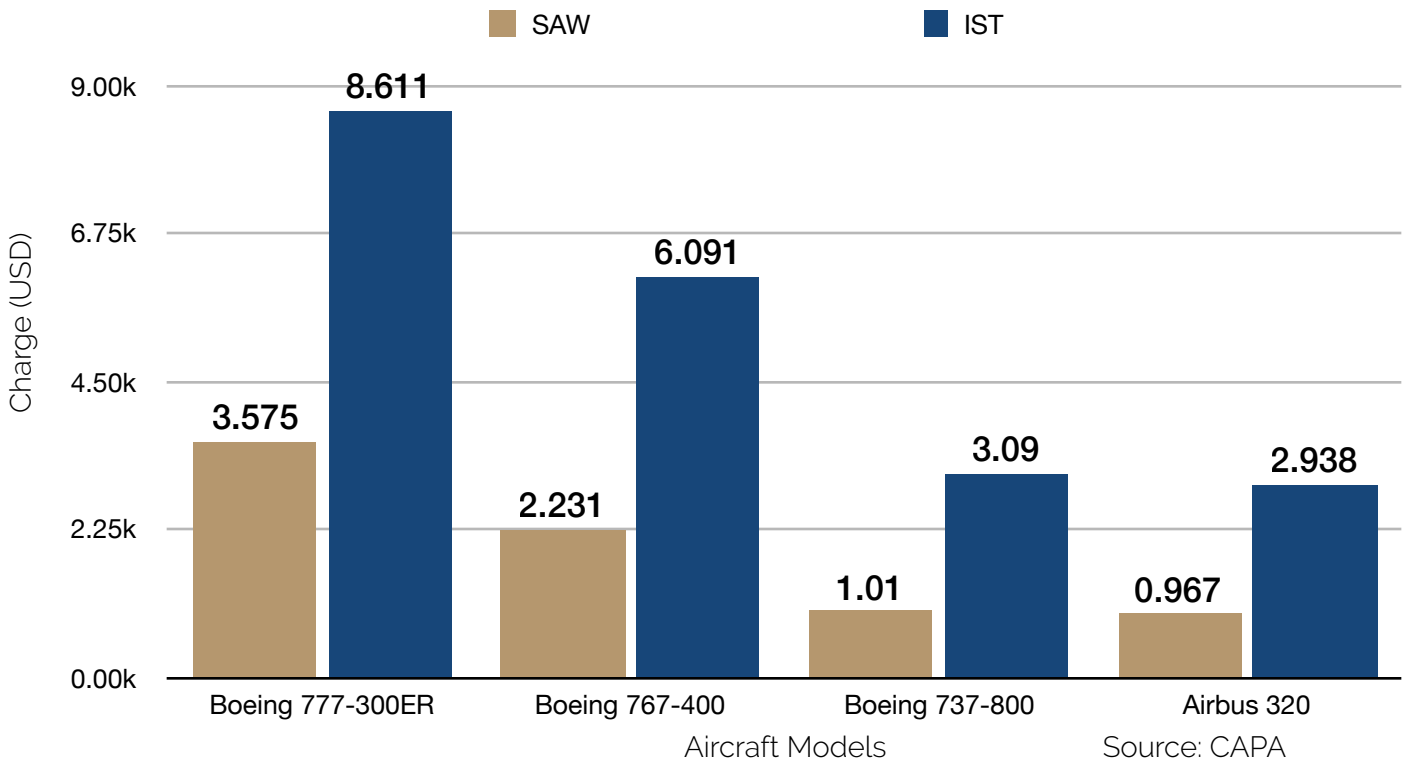
BARGAINING POWER OF CUSTOMER *MID*

- The increasing ease of reaching to information by the presence of own online booking system FLYPGS
- Price elasticity of demand is incredibly high
- Business travelers usually don't prefer LCCs

RIVALRY WITHIN THE INDUSTRY *LOW*

- Exit barriers are high because of long term loan agreements
- The products involved or the aircrafts are highly complex
- Loyalty of customers is low
- Fixed costs are likely to be high which tends to empower the rivalry
- Growth has been rapid but volatile
- Price elasticity of demand is significantly high

Appendix 29 Airport Charges Comparisons



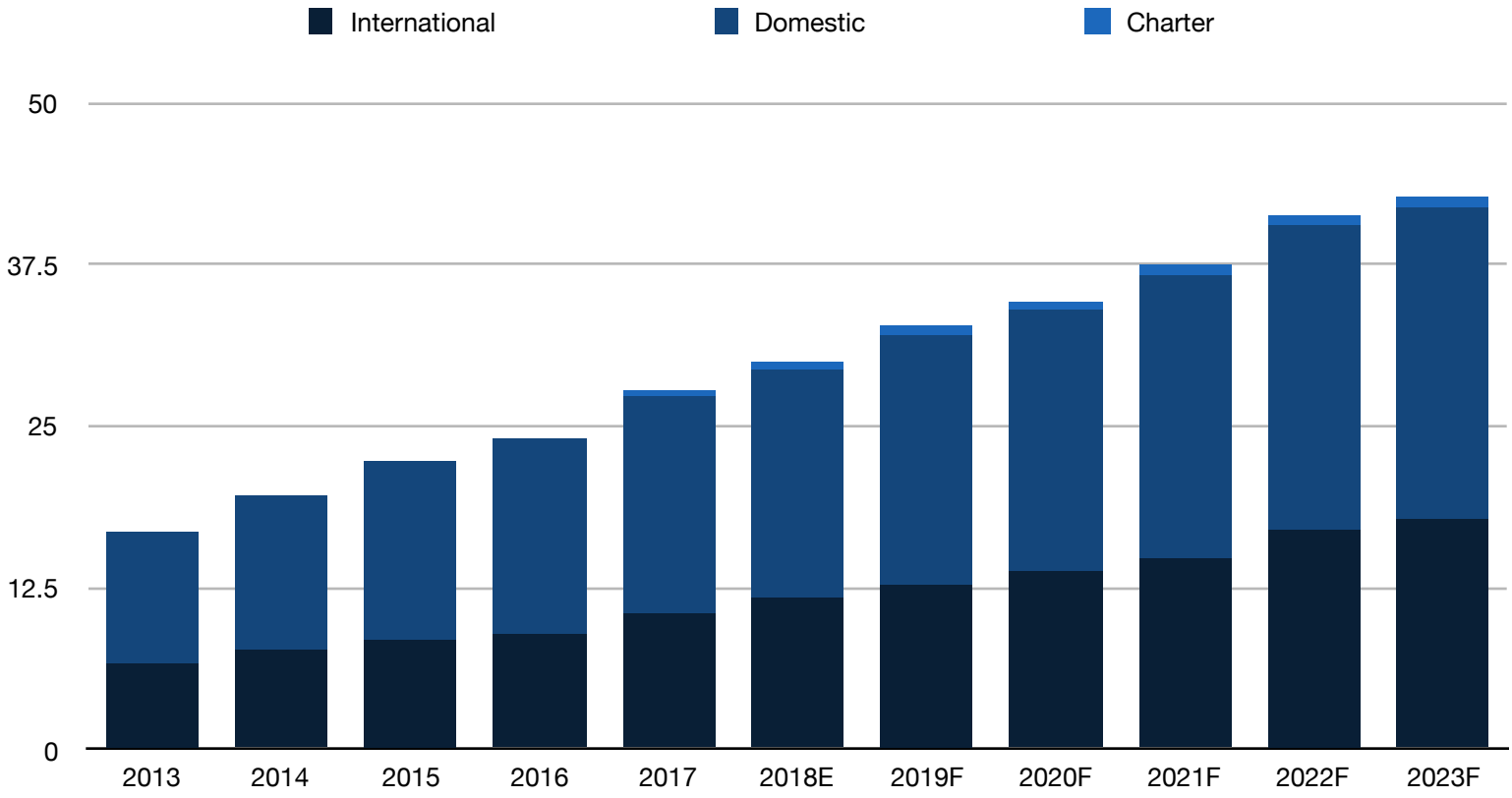
Source: CAPA

As seen on the table, the charges per landing are much higher in Istanbul Ataturk Airport, where is Pegasus' biggest competitor Turkish Airlines' main hub. Whiles the costs are lower in Sabiha Gökçen International Airport meaning it's a cheaper hub, almost belonging to Pegasus with extreme high market shares; which provides another cost advantage to Pegasus Airlines.

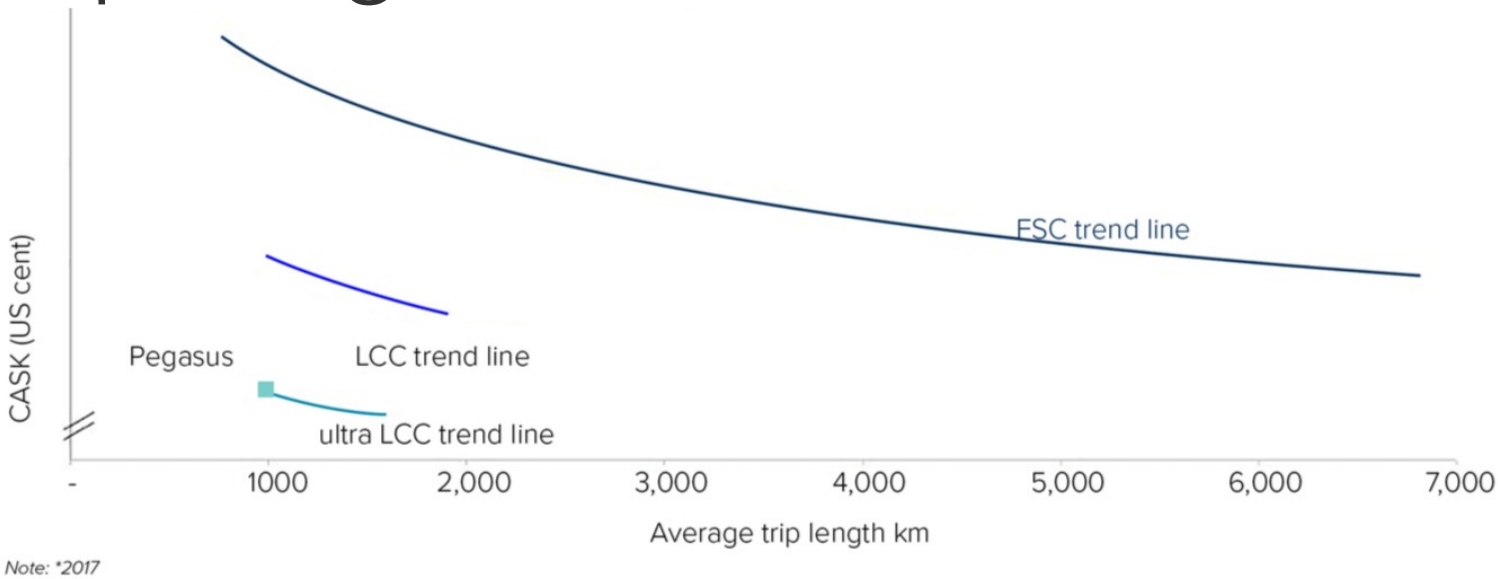
	No. of routes	% of Pegasus routes from SAW	Pegasus seat capacity on these routes	% of Pegasus seat capacity from SAW
Total Pegasus Destinations from SAW	82	100%	422.136	100%
Destinations also operated by THY from SAW	29	35%	276.570	66%
Operated by THY from IST	41	50%	111.051	26%
Other city pair	5	6%	20.772	5%
Total % of Pegasus network from SAW overlapped by THY	75	91%	408.393	97%

Source: CAPA

Appendix 30 Pegasus PAX



Appendix 31 CASK (USc) vs. Avg. Trip Length and Trend Lines



*Note: *2017*

Source: CAPA - Centre for Aviation and airline company accounts

Appendix 32 References

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The information stated throughout the report is taken from various sources below and above. If not found through the links above or the sources stated in place, sources below may be referenced.

- Thompson Reuters
- Bloomberg
- The Wall Street Jounal
- Financial Times
- IMF
- IATA
- DHMI
- Pegasus Airlines
- Company websites
- CAPA
- TRCB