

PEGASUS
AIRLINES

CFA Institute
Global Research Challenge



Tugay Alyıldız
Strategy



Selin Şişmanoğlu
Governance



Beliz Girgin
Macroeconomy



Melih Gündoğdu
Financials



Senih Mete Dal
Investment



Istanbul Technical University

HIGHLIGHTS

INTERNAL DRIVERS

FLEET ENLARGEMENT

COST REDUCTION

LOAD FACTOR STABILIZATION

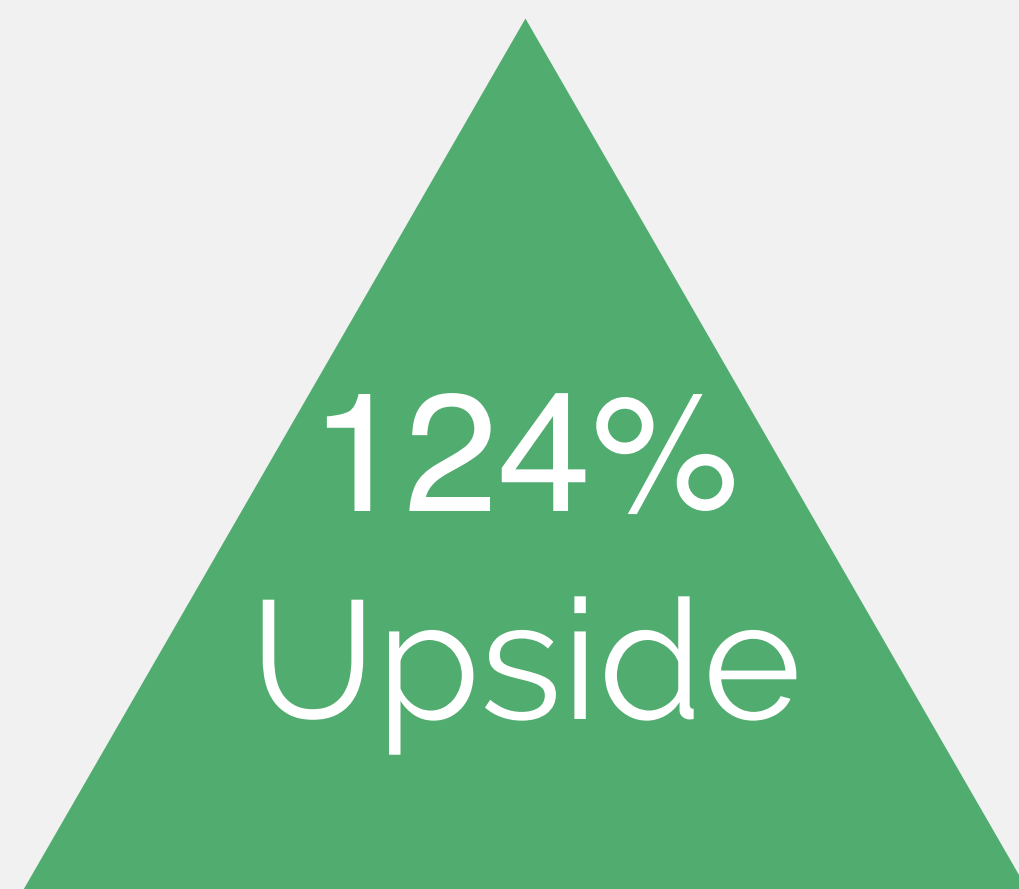
TRENDS

INTERNATIONAL TOURISM

LCC PREFERENCE OF PASSENGERS

TRY 48,99

1 year target



TRY 22,10

as of January 10th, 2019

Largest LCC of Turkey

2018E EBIT:
1.360 M EUR

2018E
Net Income:
87 M EUR

Business Description

Industry Overview

Company Strategies

Finance

Investment

Risks

HIGHLIGHTS

INTERNAL DRIVERS

FLEET
ENLARGEMENT

COST REDUCTION

LOAD FACTOR
STABILIZATION

TRENDS

INTERNATIONAL
TOURISM

LCC PREFERENCE
OF PASSENGERS

TRY 48,99

1 year target

61%
Upside

TRY 30,28

as of January 31st, 2019

Largest LCC
of
Turkey

2018E EBIT:
1.360 M EUR

2018E
Net Income:
87 M EUR

Business
Description

Industry
Overview

Company
Strategies

Finance

Investment

Risks

Business Description Historic Performance



5 YEAR TARGET

33% domestic, 16% int'l market shares with 118 A/C

31% domestic, 13% int'l market shares with 83 A/C



Business Description

Industry Overview

Company Strategies

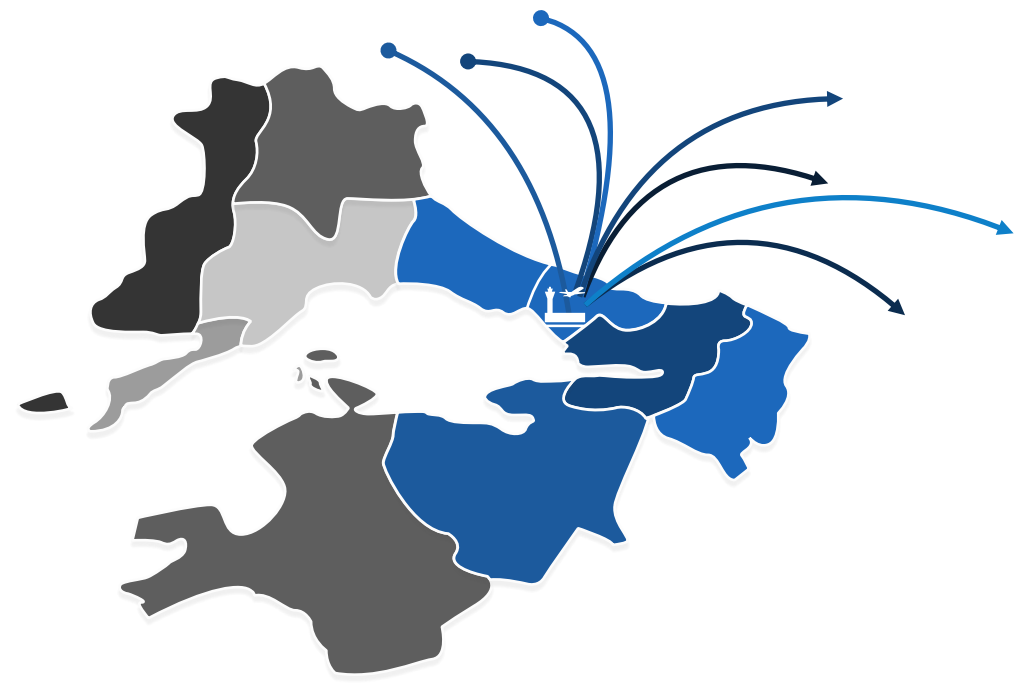
Finance

Investment

Risks

Business Description Hub and Fleet

Business Description



37 Domestic
71 International

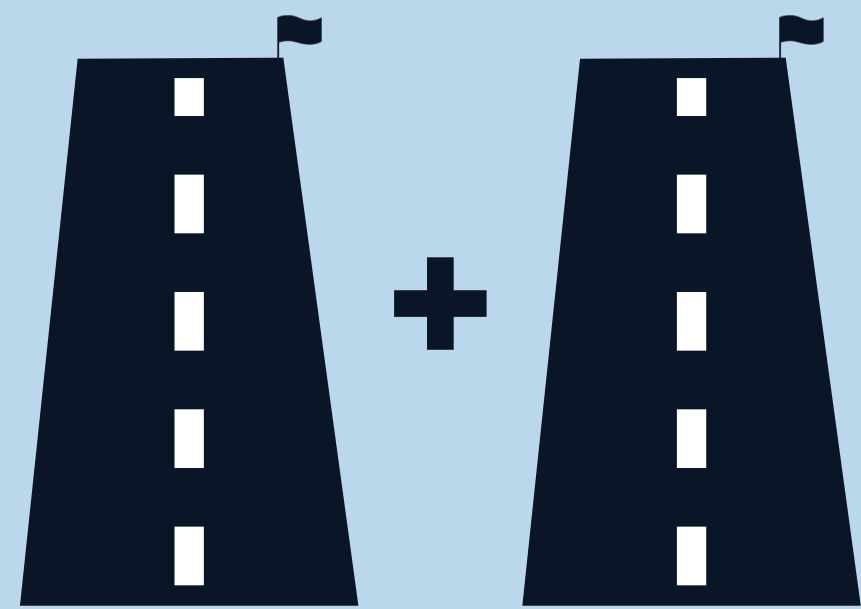


118 A/C's in 2023

Industry Overview



Company Strategies



Main hub capacity doubles in 2020



20% improvement on fuel consumption

Finance



New subway route to main hub



40% increase in transportation time to IST

Investment



Risks



Business Description Corporate Governance

27 Years of Average Experience



Mehmet Nane

*President,
Chief Executive Officer*

- M.Sc in Finance
- 31 Years of Experience



Nasuh Nazif Çetin

*Senior Vice President,
Chief Operations Officer*

- 29 Years of Experience in Aviation

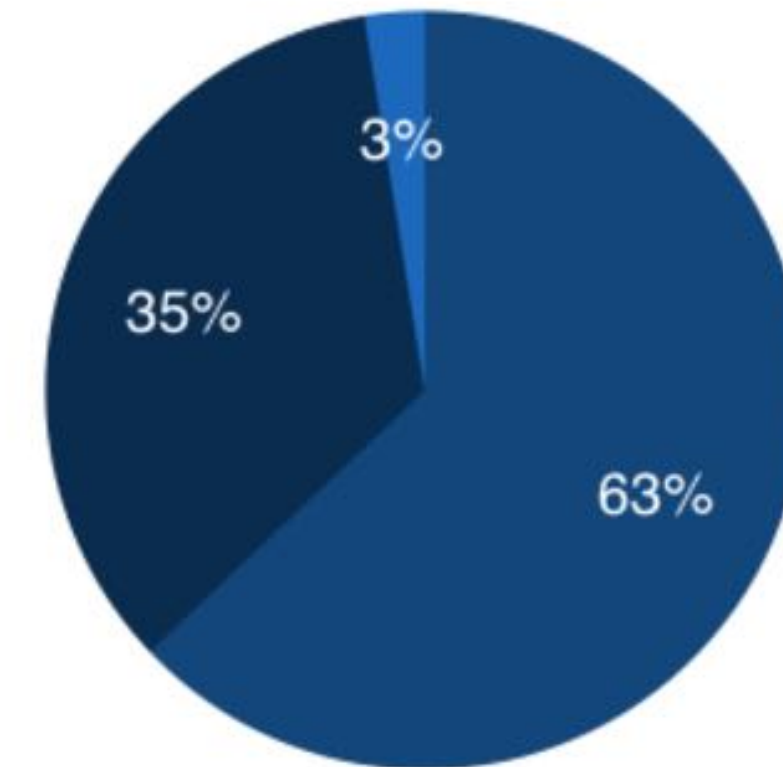


Barbaros Kubatoğlu

Chief Financial Officer

- M.Sc in Management
- 21 Years of Experience in Aviation

Ownership Structure



- Esas Holding A.Ş.
- Publicly Traded
- Sabancı Family

Esas Holding

- Operates in the sector more than twenty years
- Biggest private player in the market

Source: Pegasus

Business Description

Industry Overview

Company Strategies

Finance

Investment

Risks

Industry Overview Competitive Positioning

Business Description

Industry Overview

Company Strategies

Finance

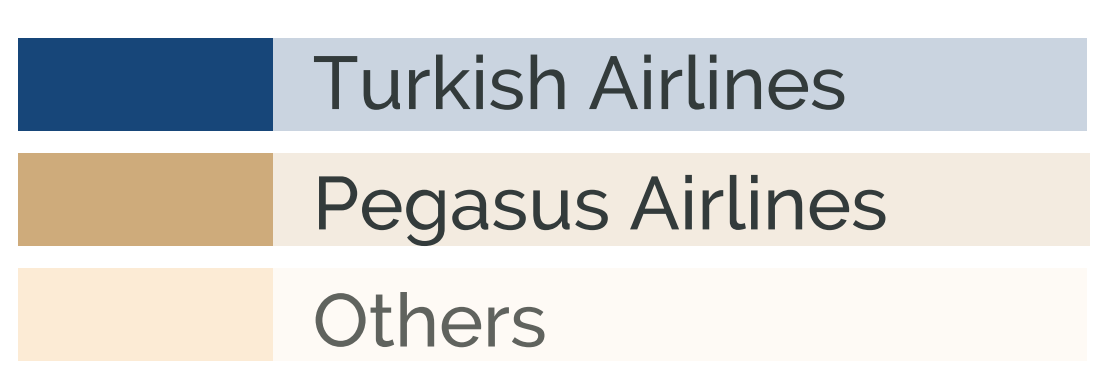
Investment

Risks

DOMESTIC



INTERNATIONAL

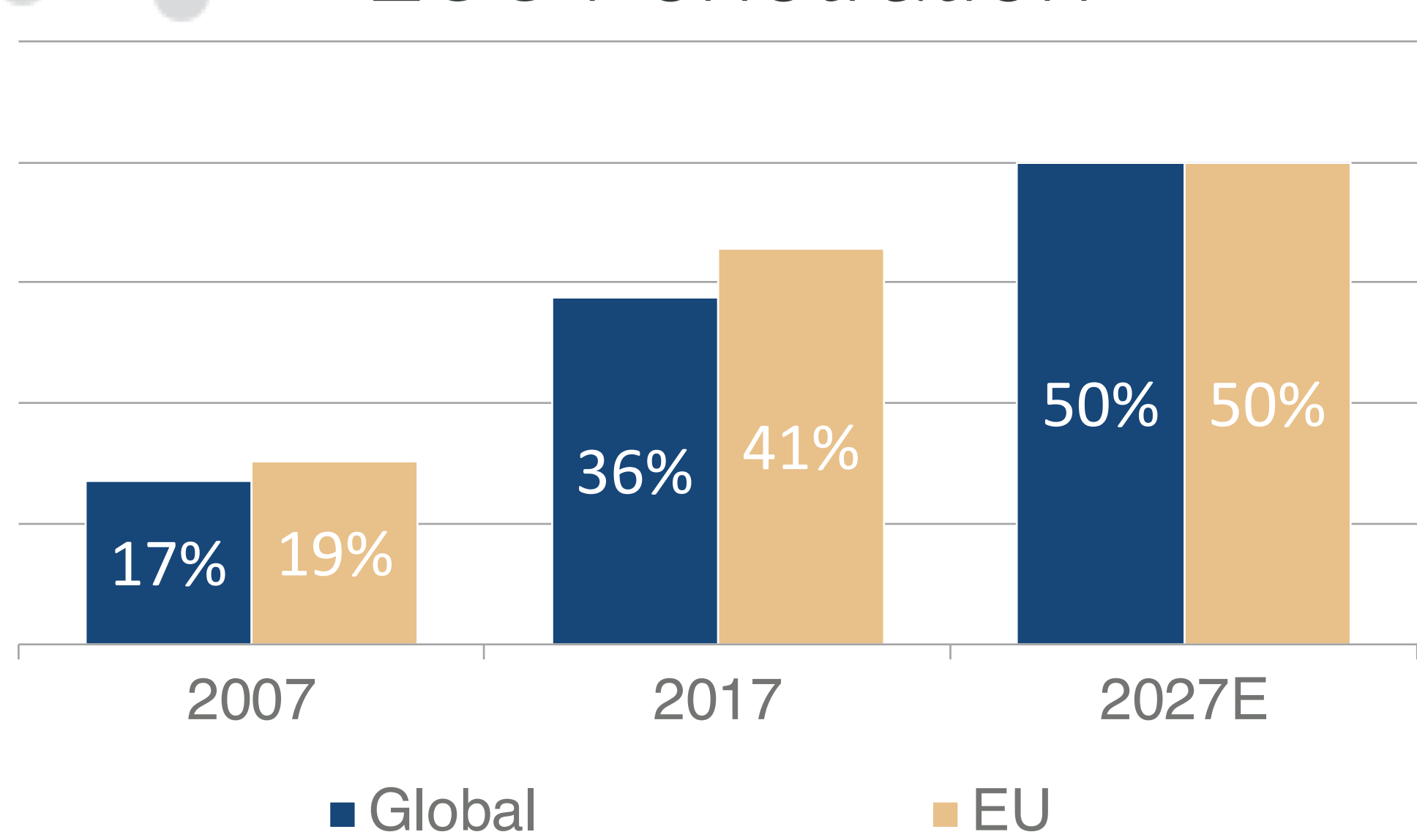


Duopoly, Limited Competition

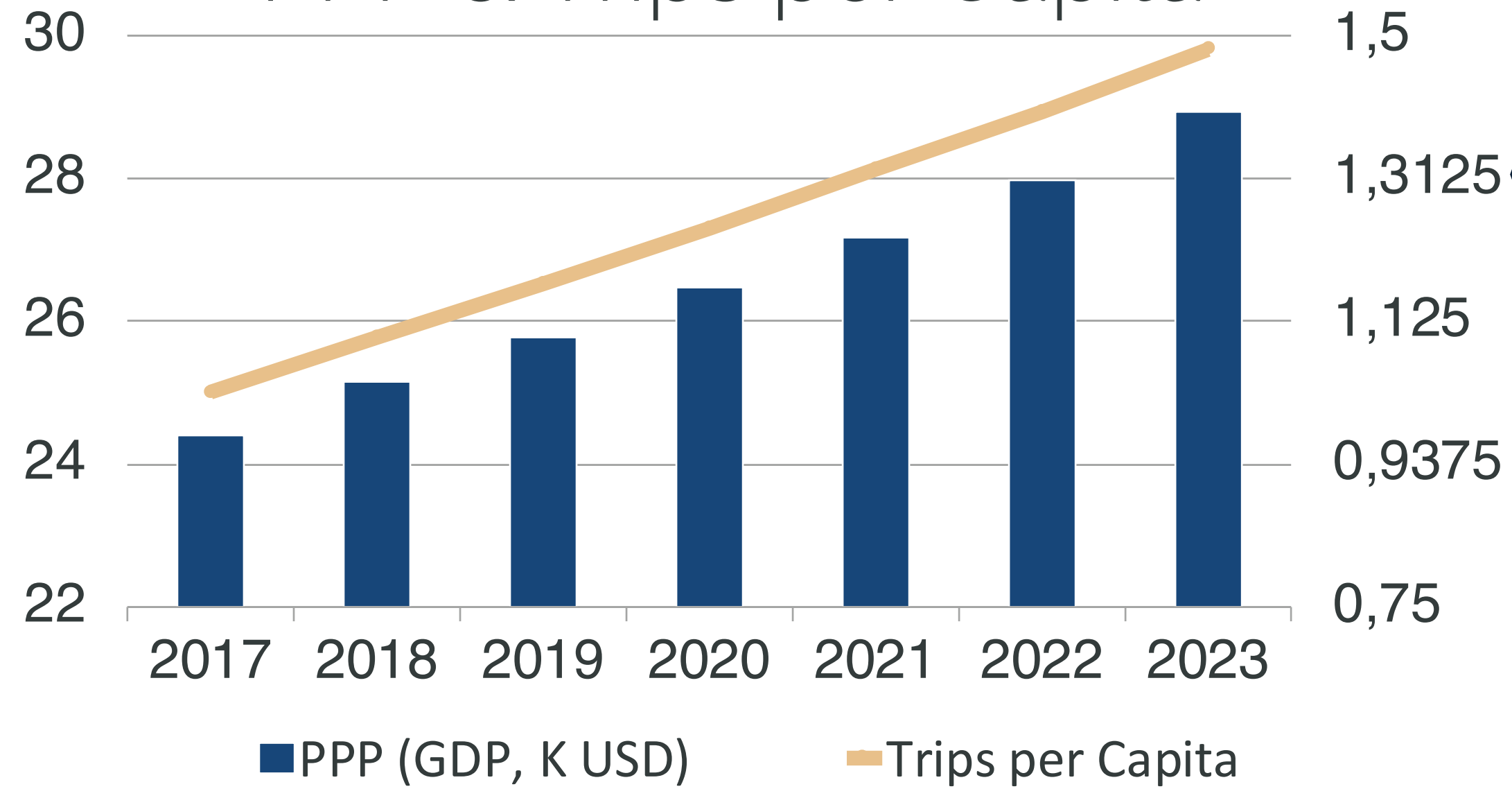
Source: Pegasus & DHMI

Industry Overview Trends

LCC Penetration



PPP & Trips per Capita



Business Description

Industry Overview

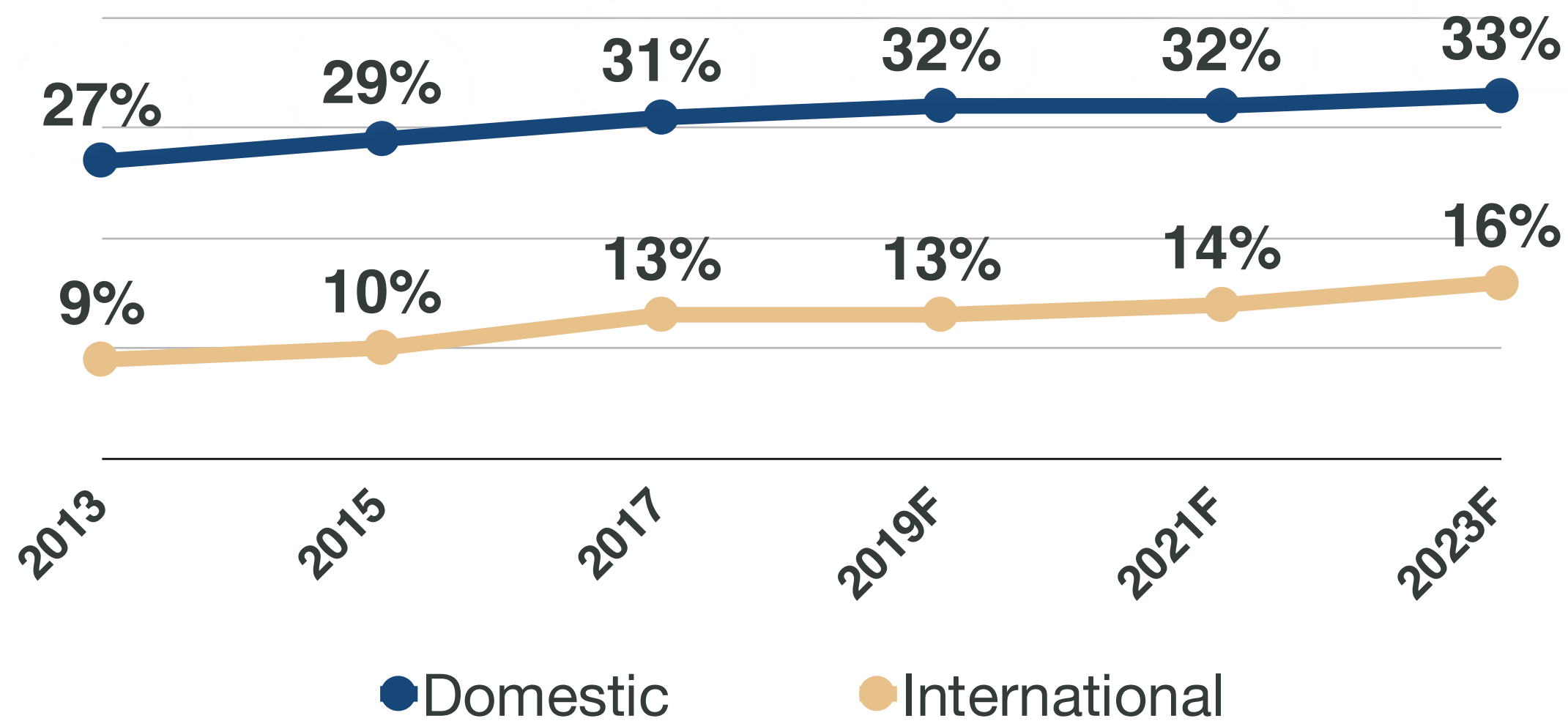
Company Strategies

Finance

Investment

Risks

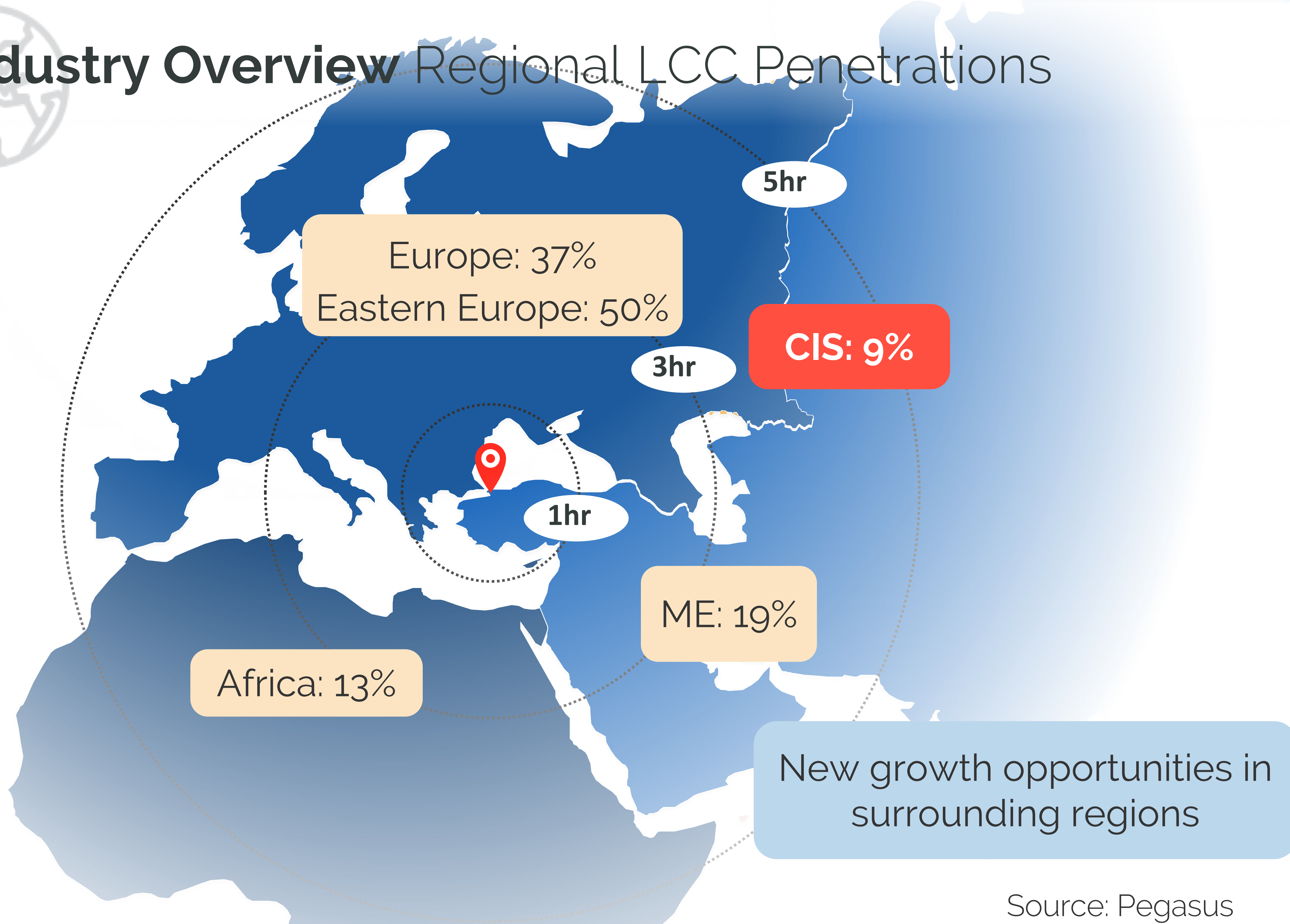
Pegasus Market Share



Improving penetration
Growing market

Source: CAPA, Airbus

Industry Overview Regional LCC Penetrations

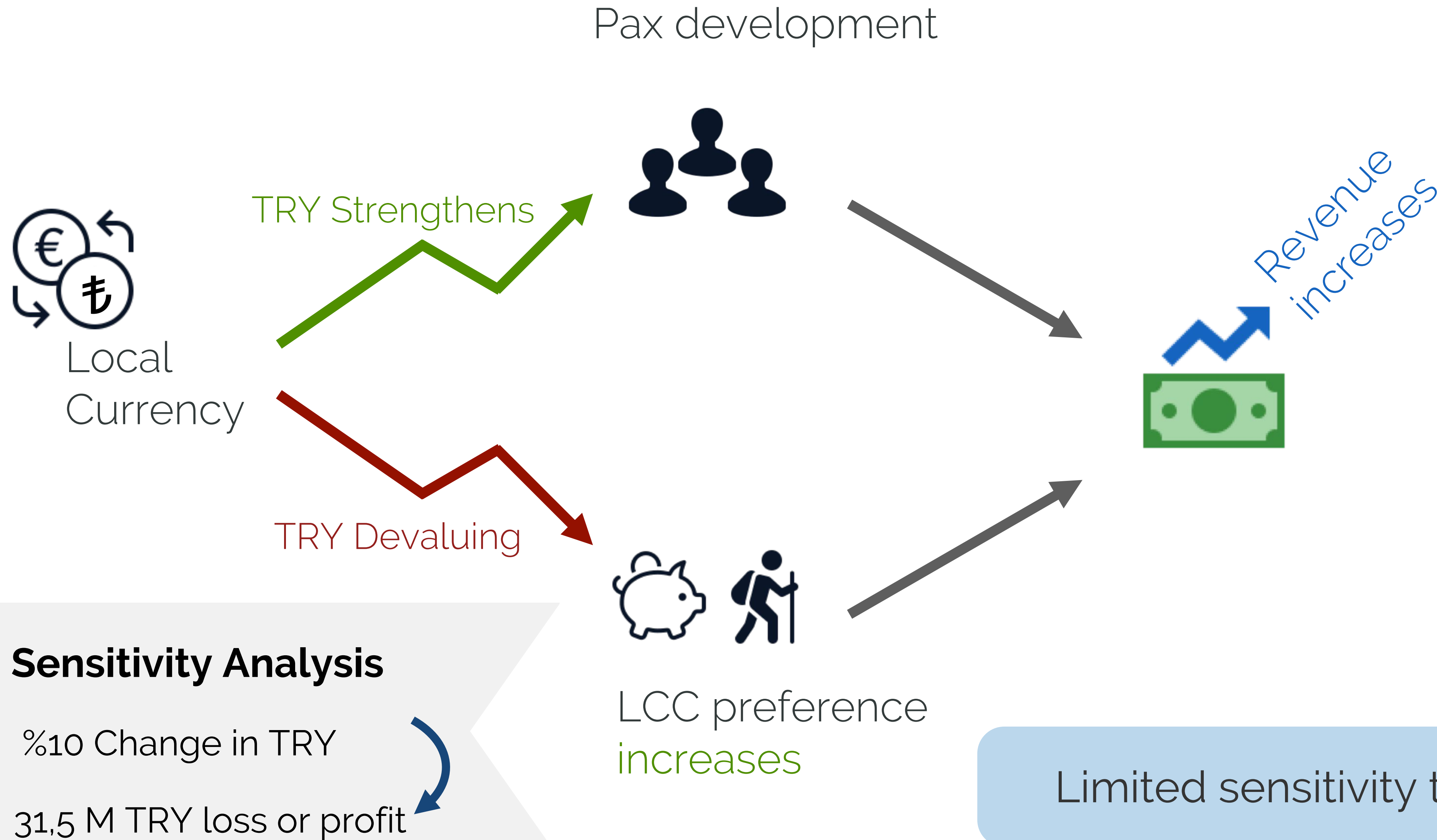


New growth opportunities in surrounding regions

Source: Pegasus

- Business Description
- Industry Overview
- Company Strategies
- Finance
- Investment
- Risks

Industry Overview FX's Effects on Pegasus



Business Description

Industry Overview

Company Strategies

Finance

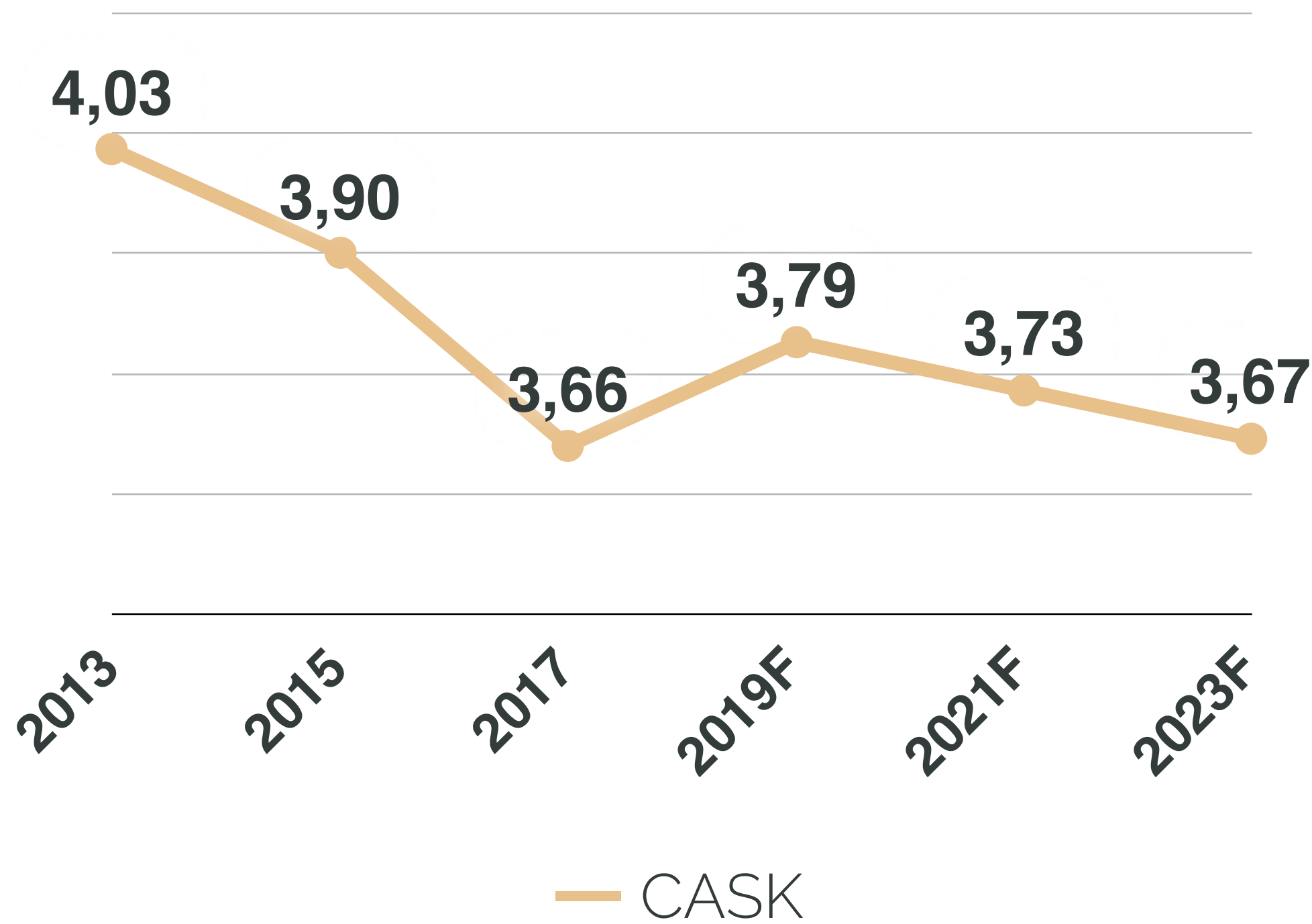
Investment

Risks

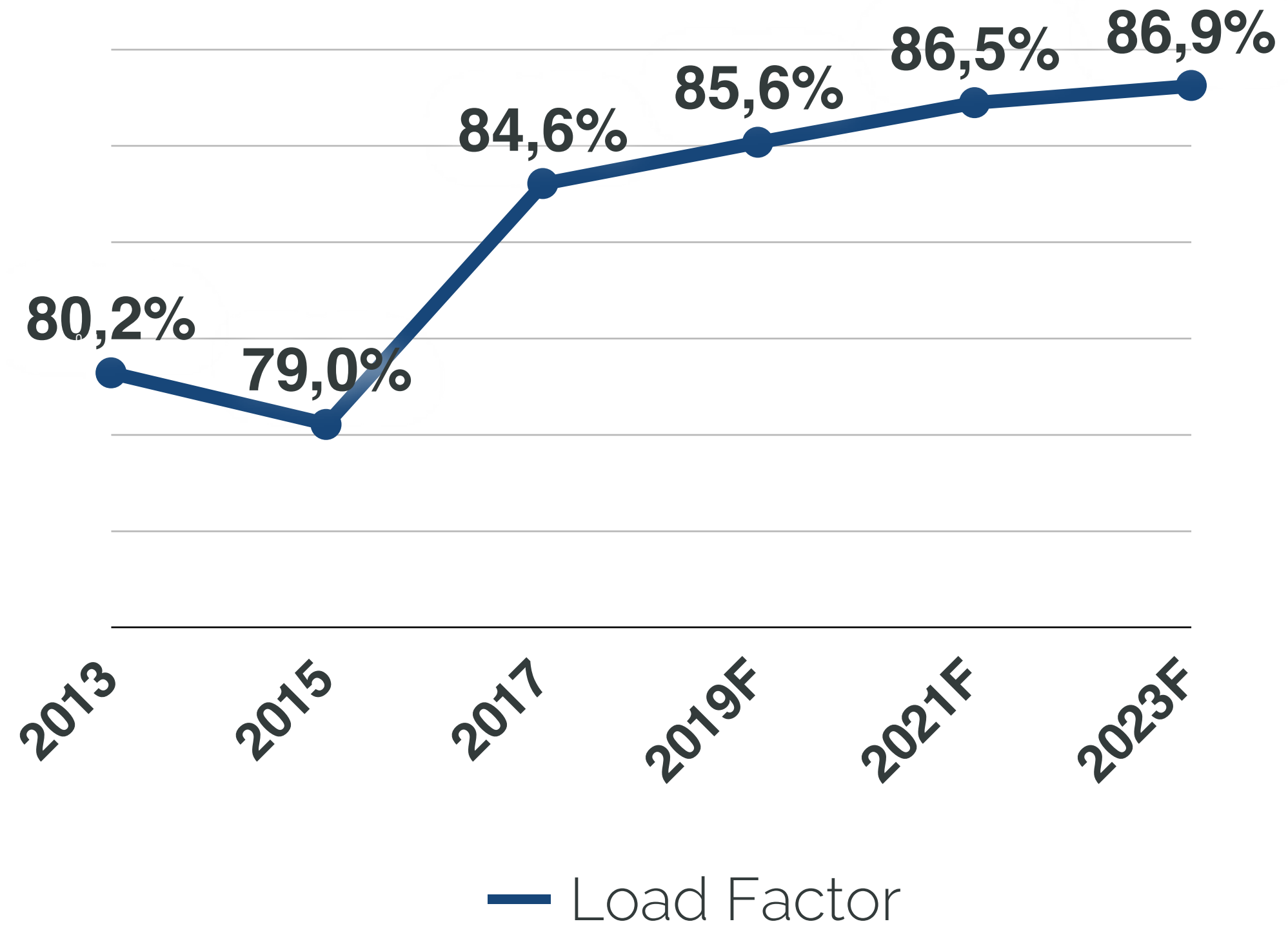
Source: Pegasus

Company Strategies Investment Pillars

Cost Reduction



Load Factor Stabilization



Historical success should continue

Source: Pegasus

Business Description

Industry Overview

Company Strategies

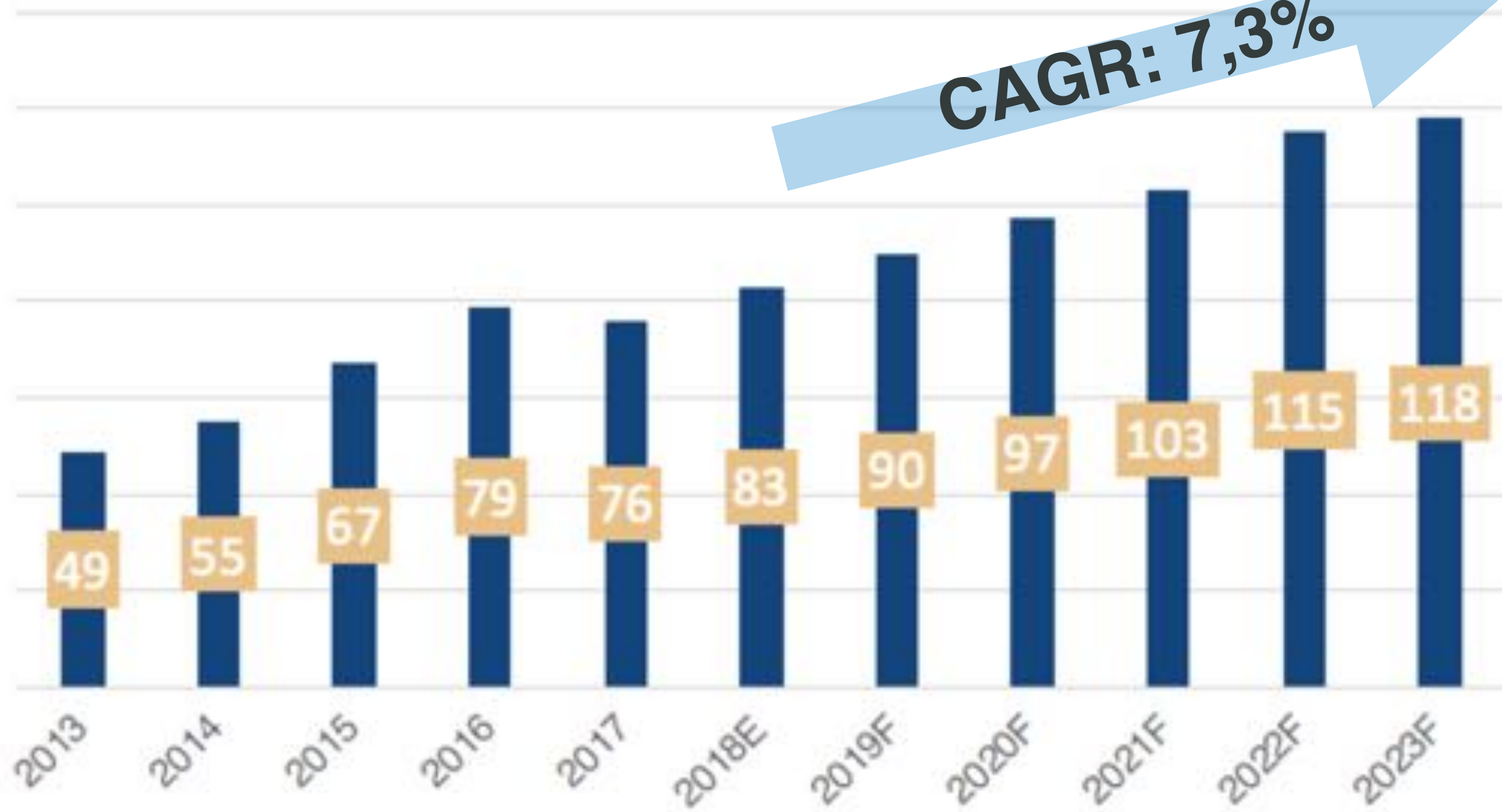
Finance

Investment

Risks

Company Strategies Investment Pillars

Fleet Enlargement



3C Strategies

Cash Holding

Capacity Planning

CASK Reducing

Business Description

Industry Overview

Company Strategies

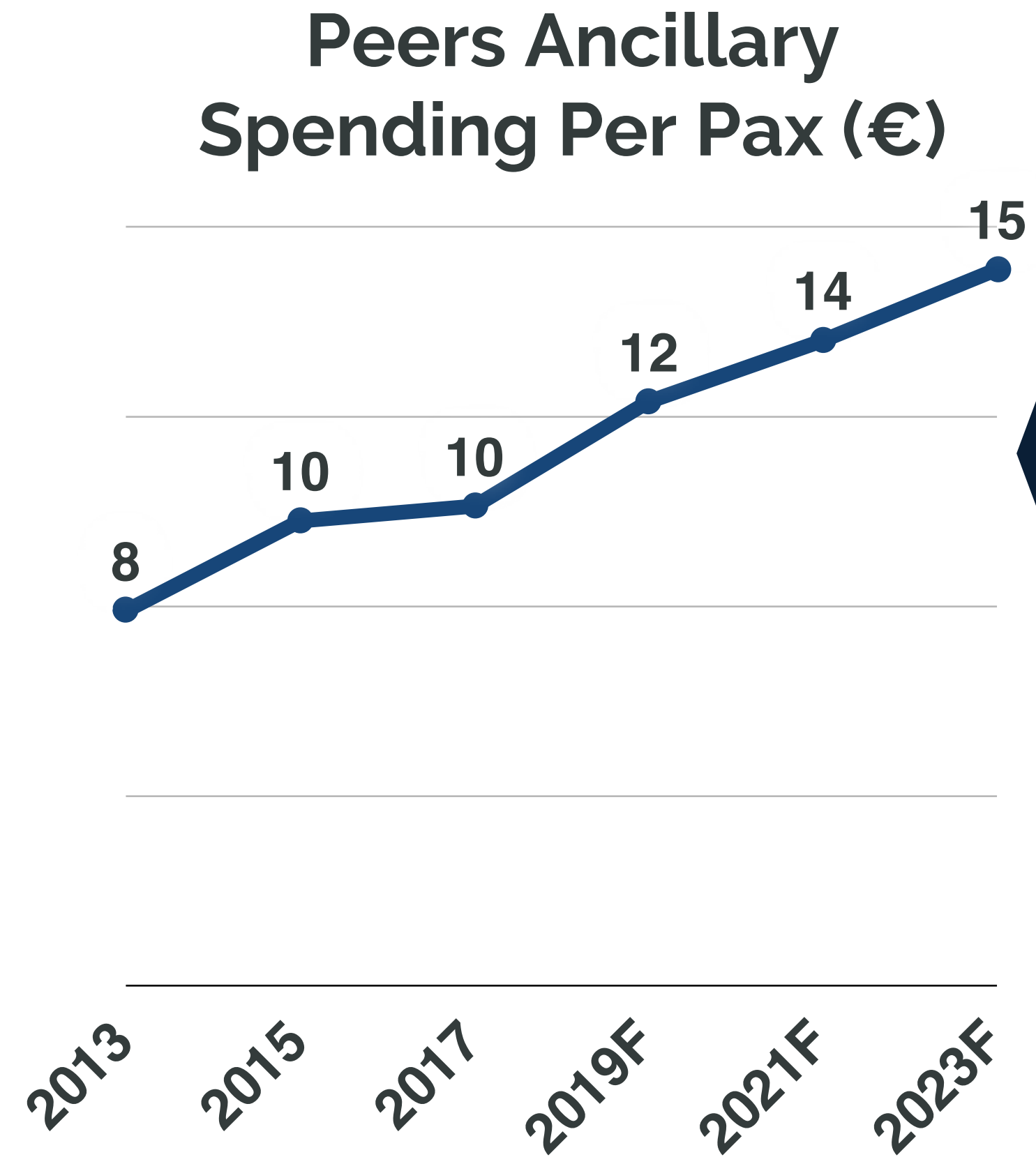
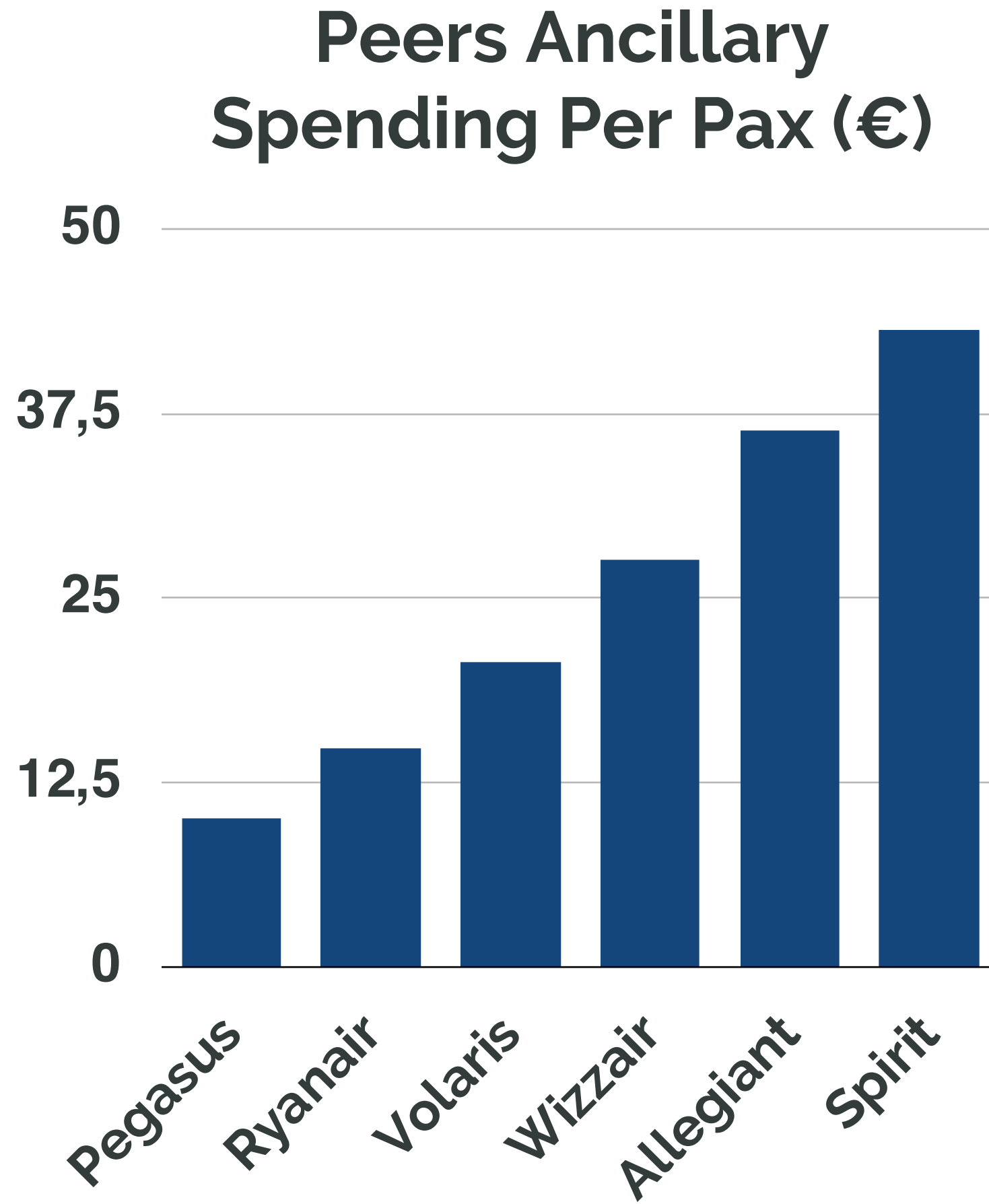
Finance

Investment

Risks

Company Strategies Ancillary Revenues

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%

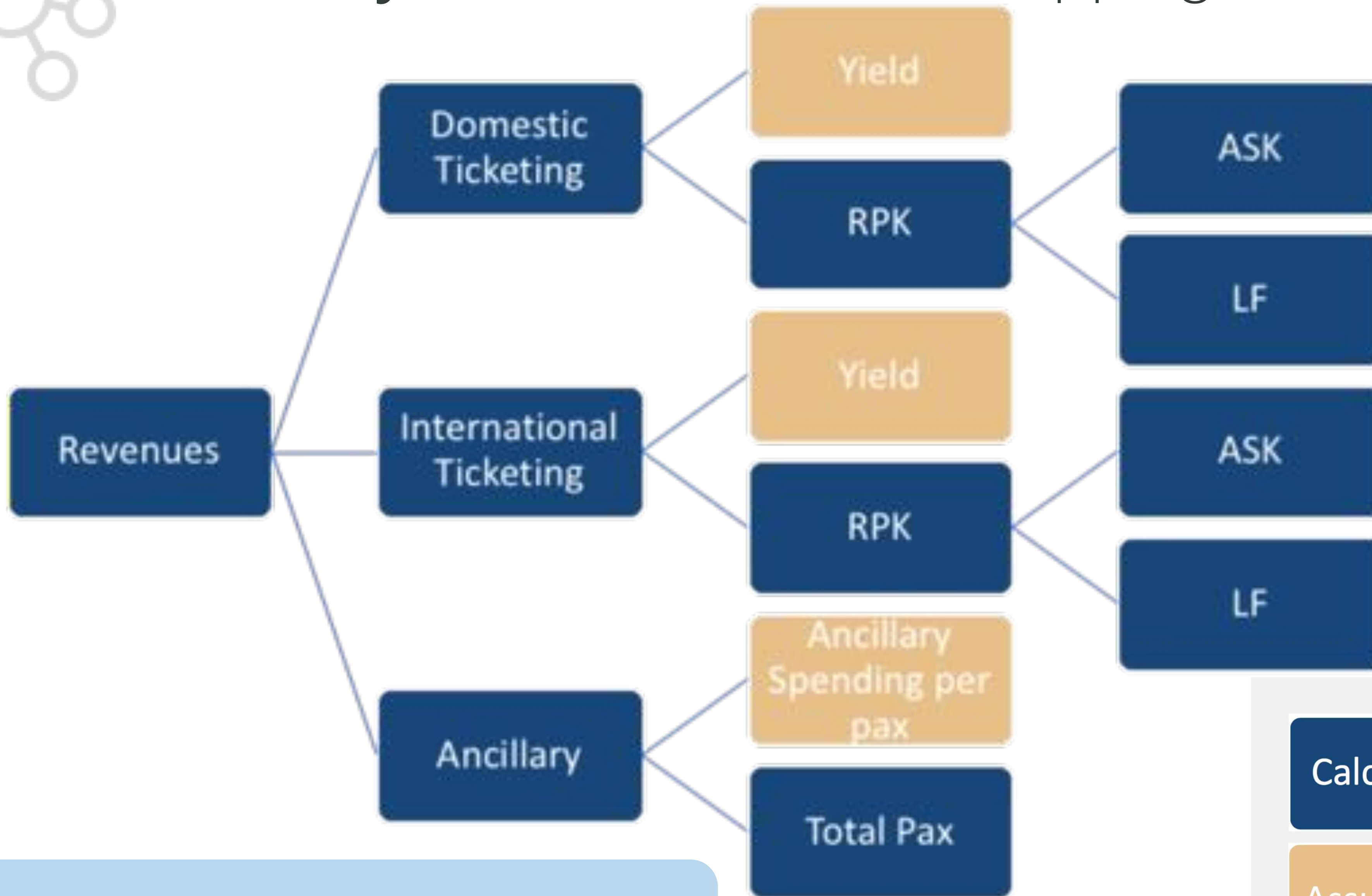


Potential revenue enhancement

Source: Ideaworks, Capitaliq

- Business Description
- Industry Overview
- Company Strategies
- Finance
- Investment
- Risks

Financial Analysis Revenue Model Mapping



Model developed by team

Calculation

Assumption

Business Description

Industry Overview

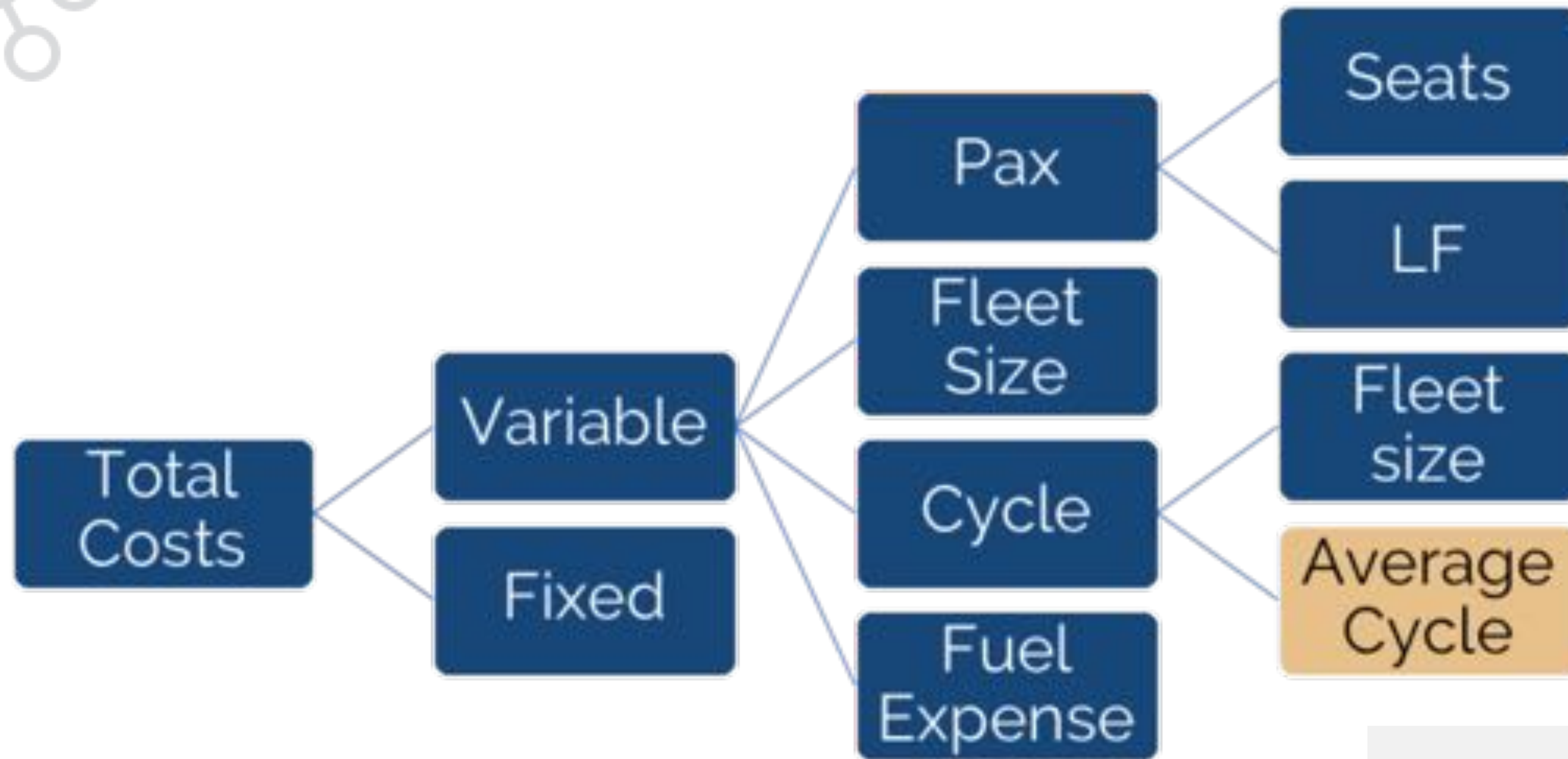
Company Strategies

Finance

Investment

Risks

Financial Analysis Cost Model Mapping



Model developed by team

Calculation

Assumption

Business Description

Industry Overview

Company Strategies

Finance

Investment

Risks



Financial Analysis Revenue Performance

Business Description

Industry Overview

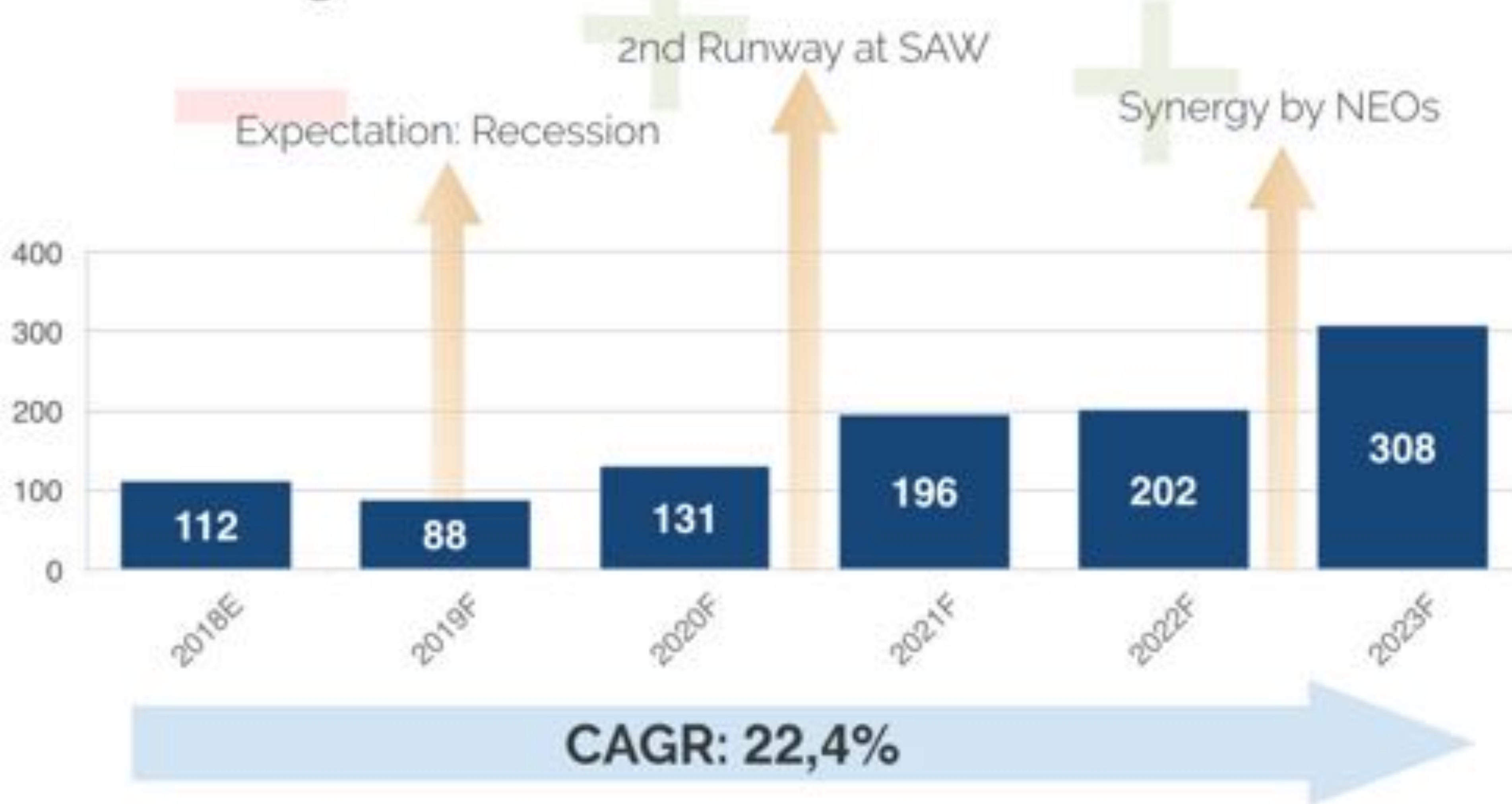
Company Strategies

Finance

Investment

Risks

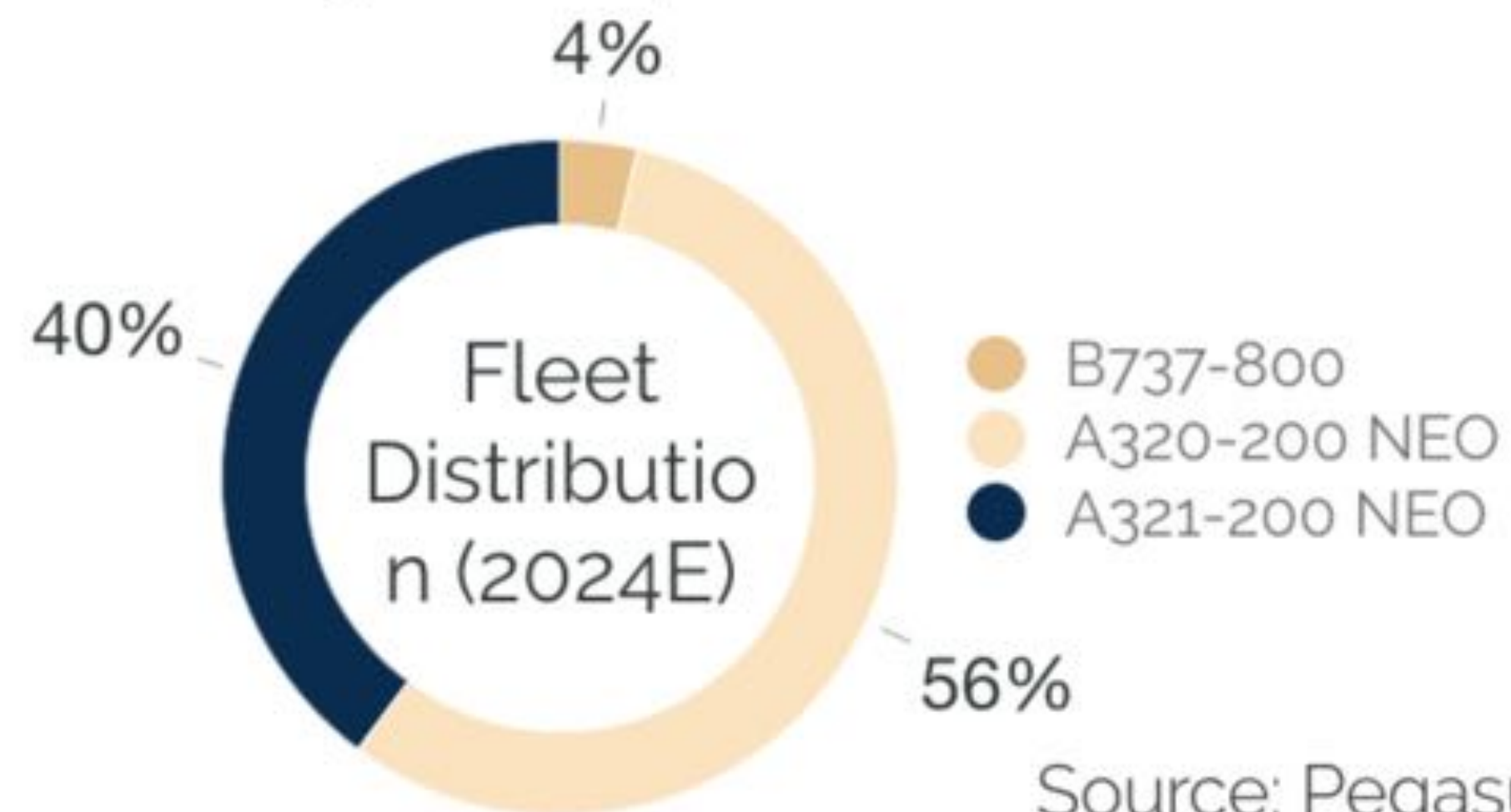
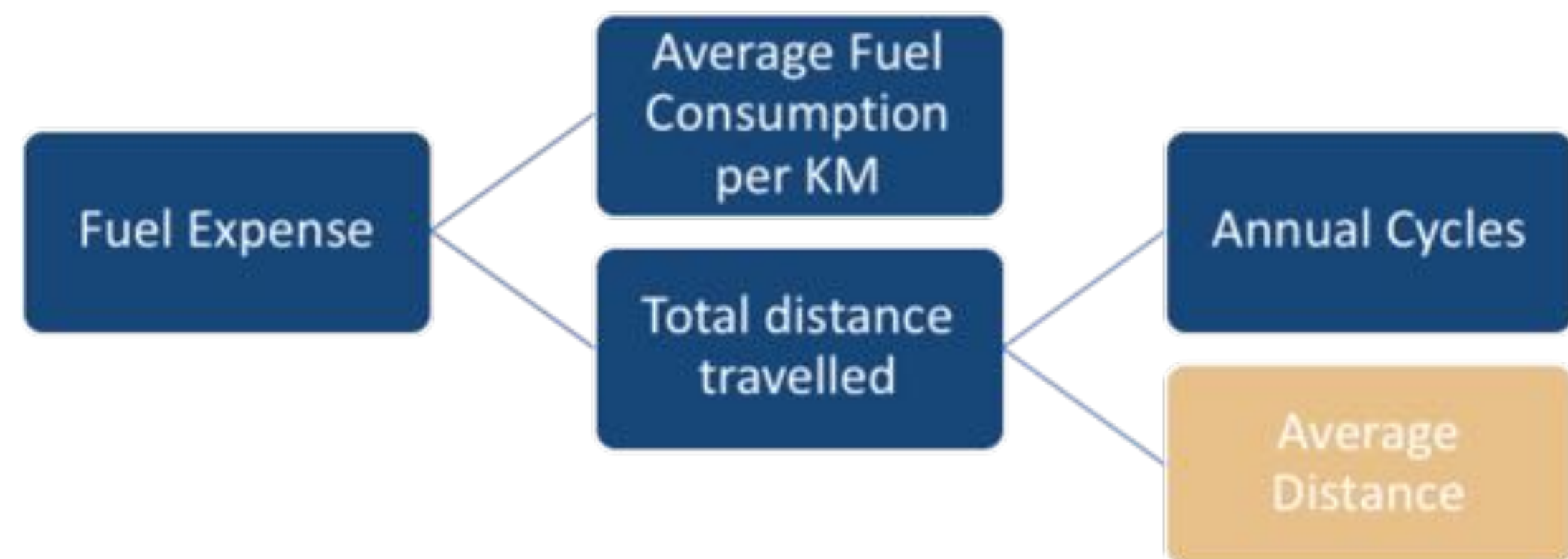
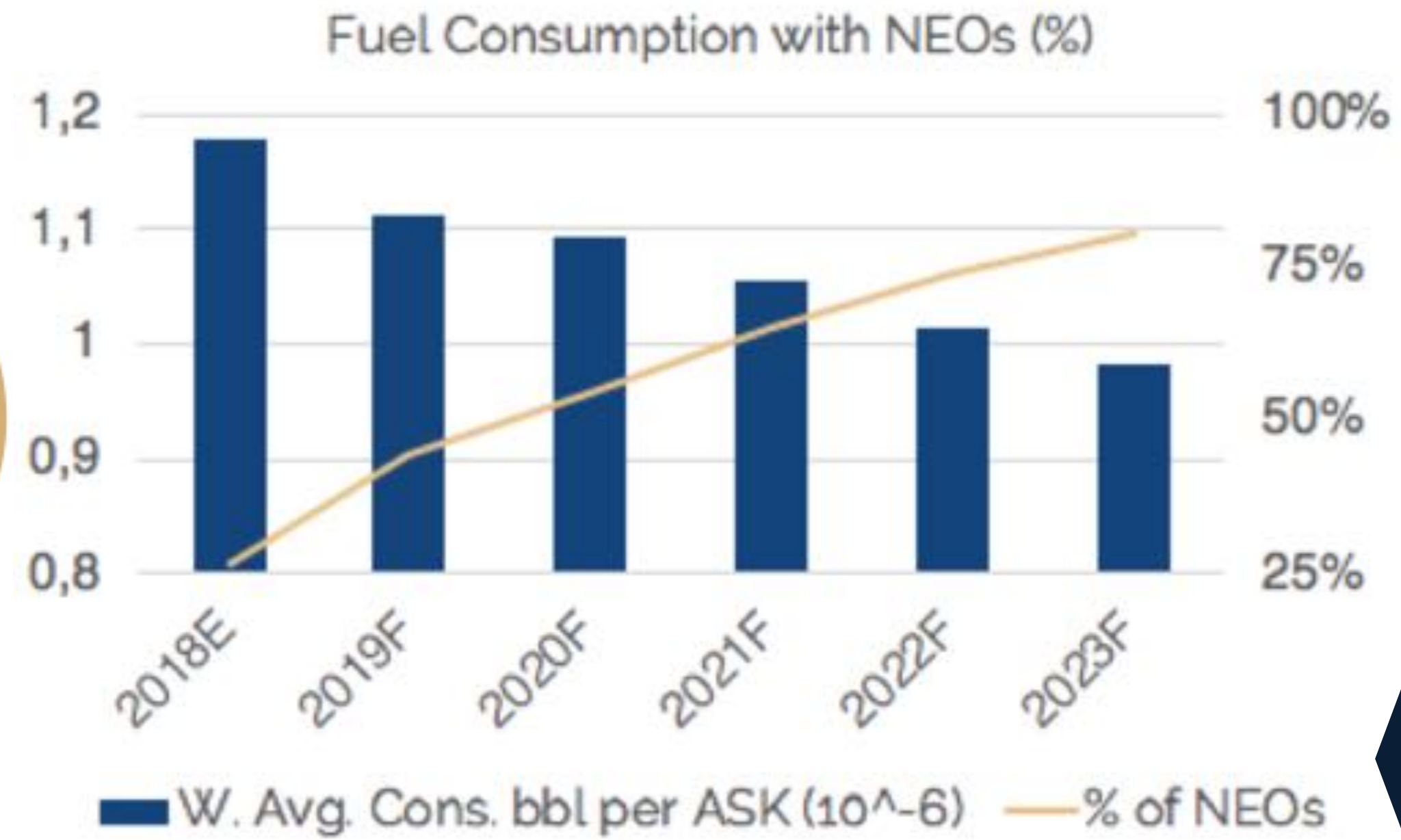
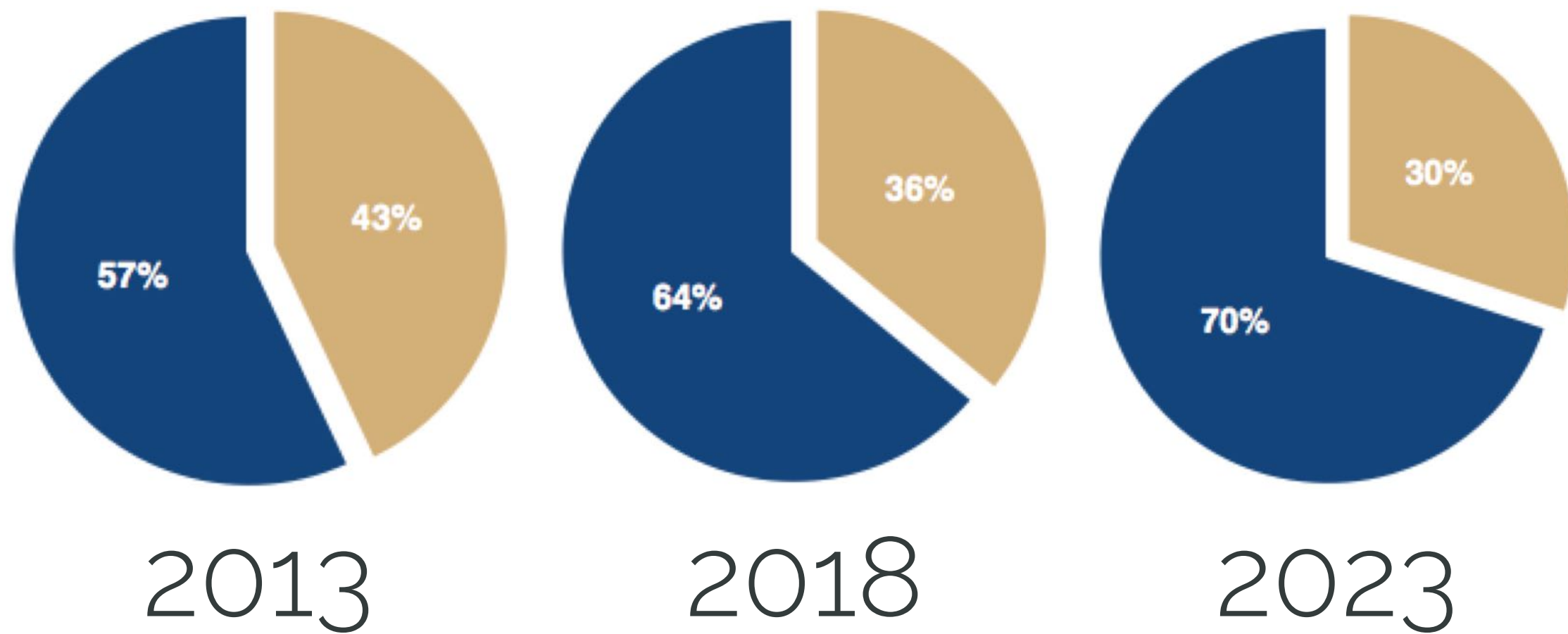
Pegasus Airlines EBIT Forecast (M EUR)



Financial Analysis Fuel Expenses

New aircrafts reduce costs

% of Fuel Cost in Total Costs



Source: Pegasus

Business Description

Industry Overview

Company Strategies

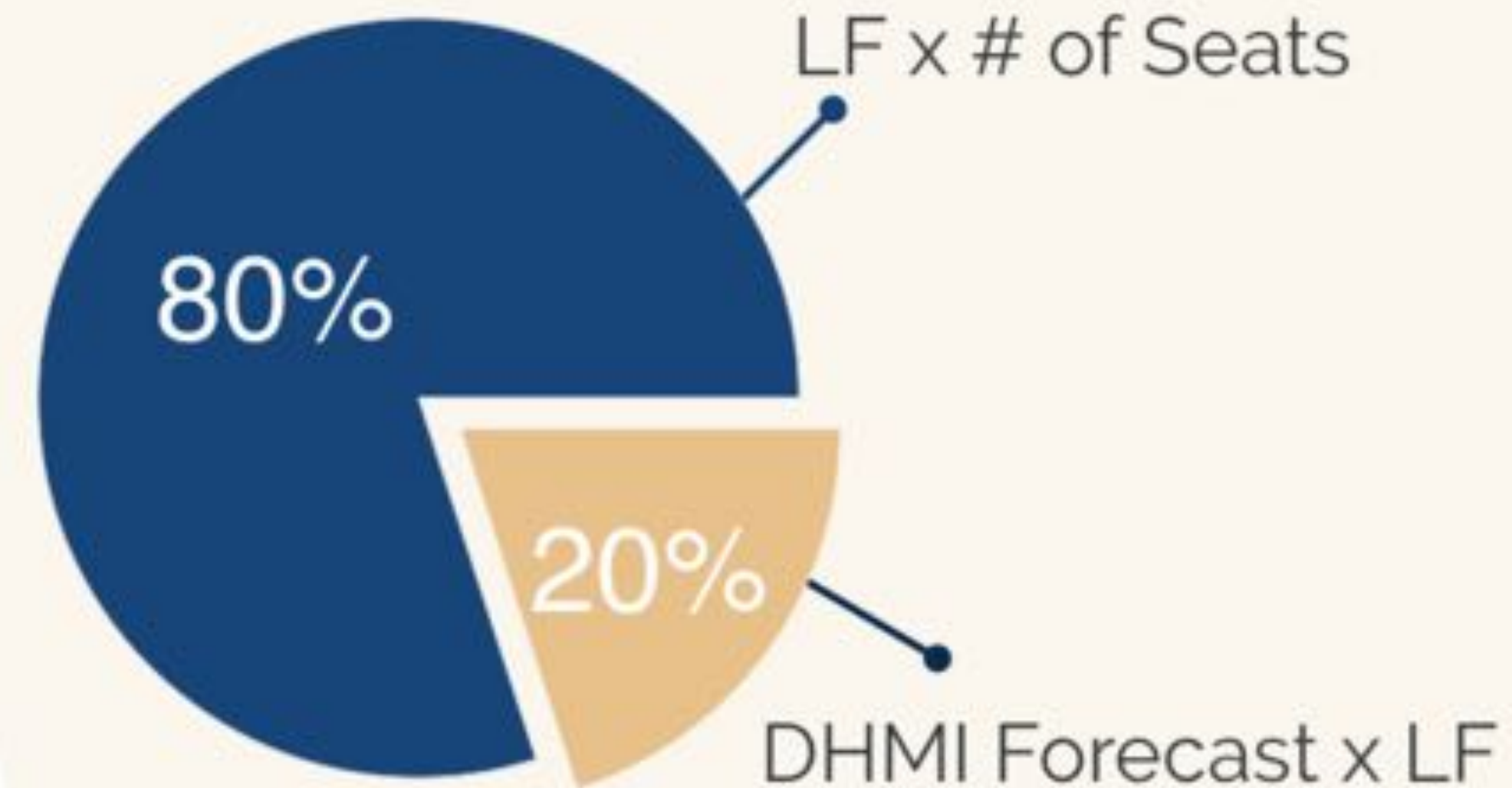
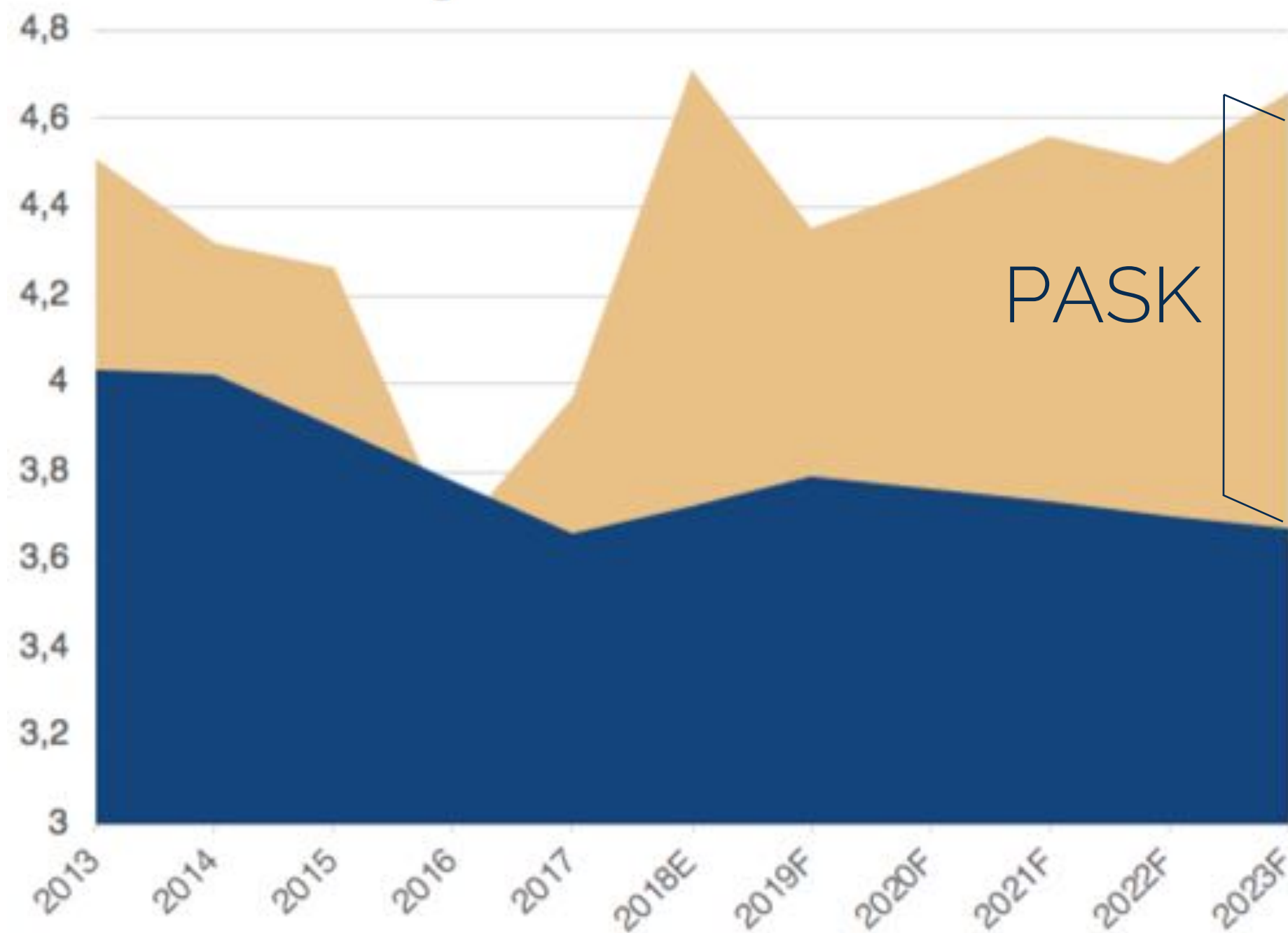
Finance

Investment

Risks

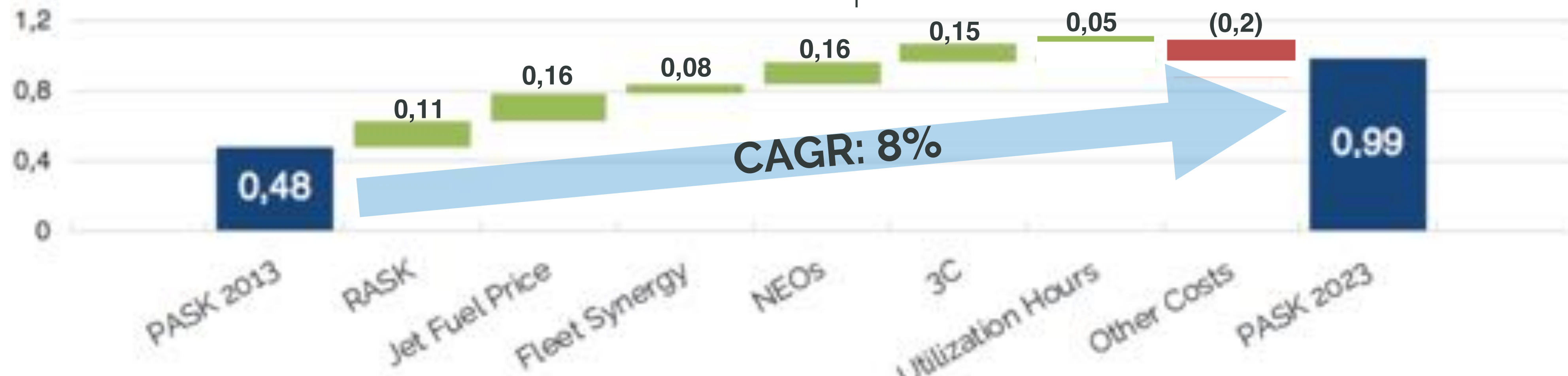
Financial Analysis Activity Ratios

Pegasus RASK - CASK - PASK



RASK EUR Cent CASK EUR Cent

Growth in Profit per ASK (€c)



- Business Description
- Industry Overview
- Company Strategies
- Finance
- Investment
- Risks

Financial Analysis Cash per Share

Pegasus Cash

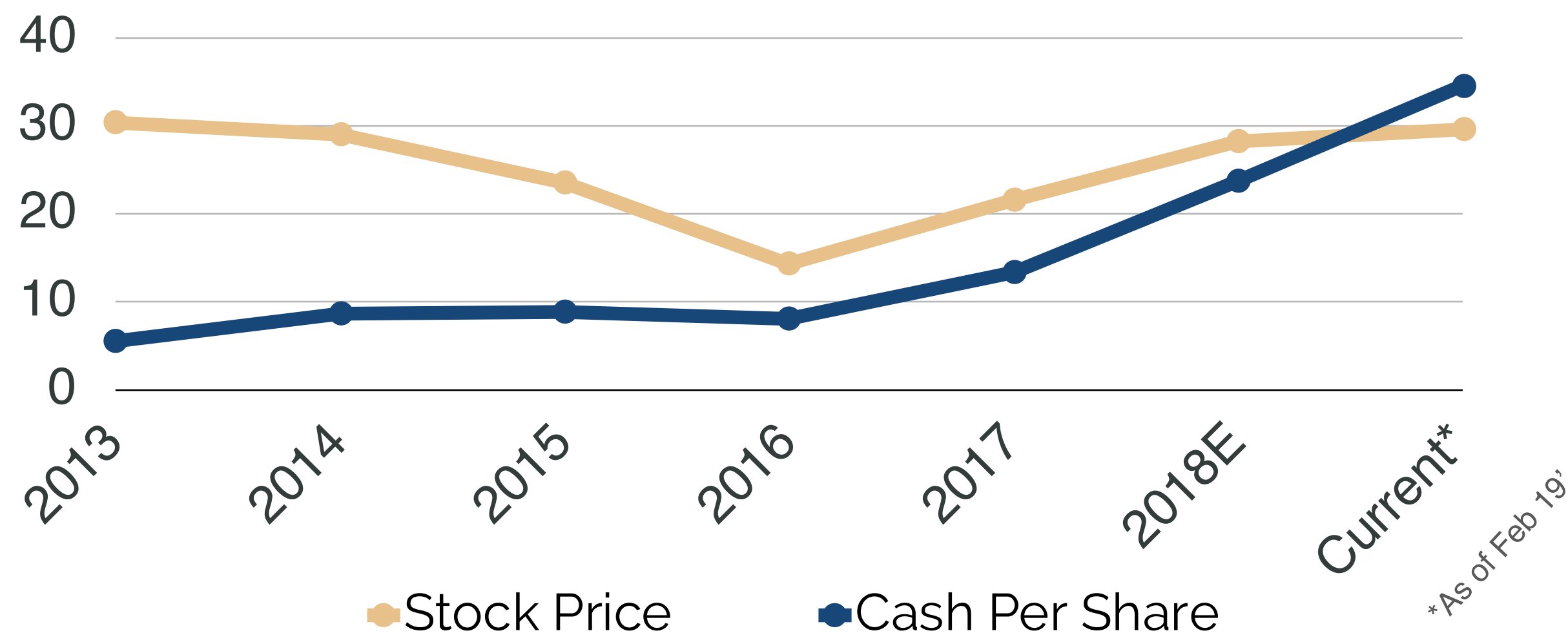
As of 30 September 2018	
Cash	851.512 TRY
Checking Account	148.899.846 TRY
Deposit Account	3.286.908.157 TRY
Total	3.436.659.515 TRY

Interest Income

Deposit Accounts*			
FX	Weight	Balance	Interest
USD	81,82%	2.689.337.357 TRY	6,17%
EUR	14,54%	478.052.529 TRY	1,57%
TRY	3,12%	102.402.294 TRY	25,69%
GBP	0,43%	14.055.376 TRY	1,00%
CHF	0,09%	3.060.601 TRY	0,20%

*Terms are never longer than 90 days

Pegasus Cash Per Share



Shares are undervalued

Source: Pegasus

Business Description

Industry Overview

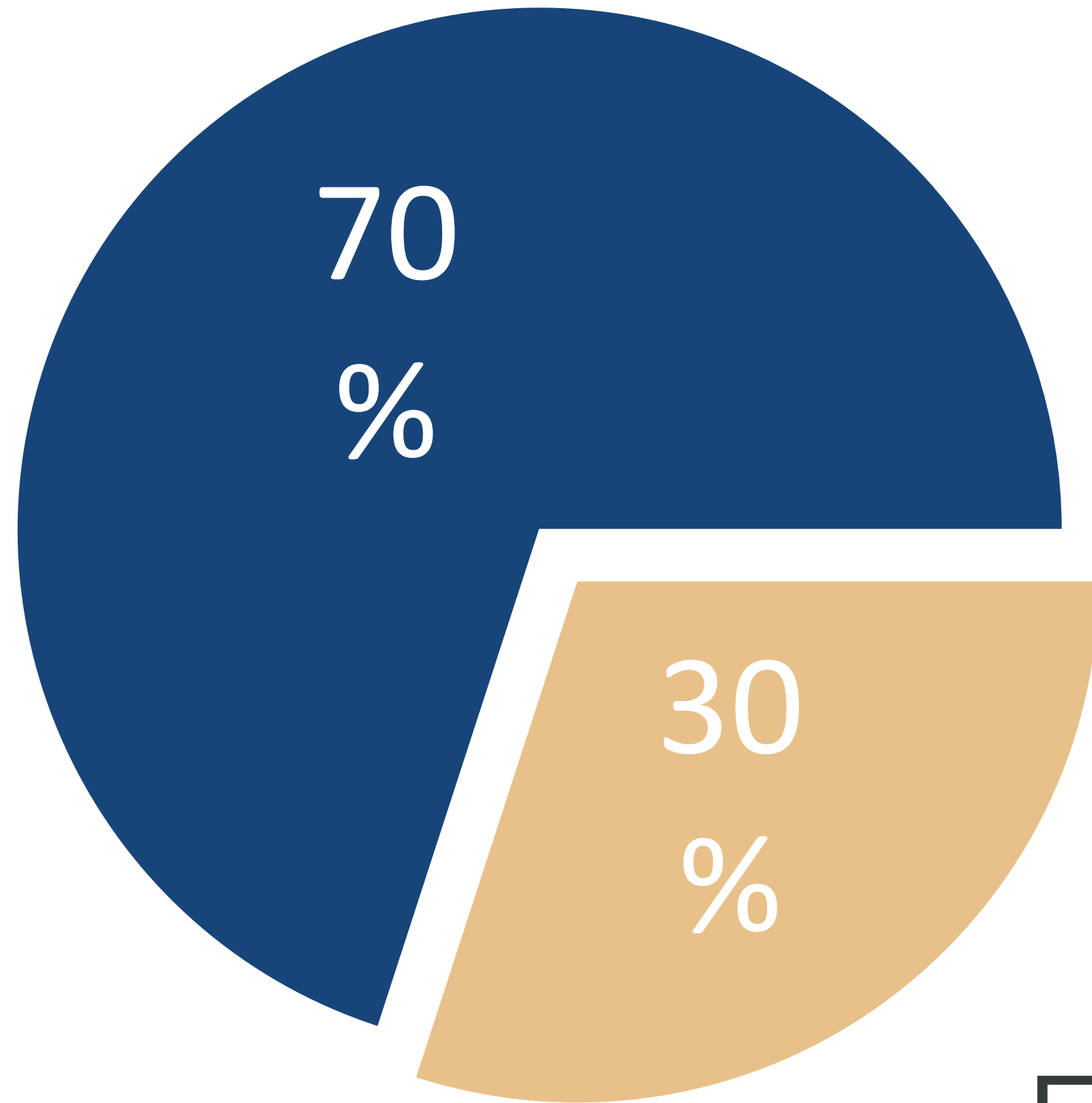
Company Strategies

Finance

Investment

Risks

Investment Valuation



Blend valuation approach

FCFF: **TRY 49,62**

TRY 48,99
1 year target

EV/EBITDAR: **TRY 47,51**

Business Description



Industry Overview



Company Strategies



Finance



Investment



Risks

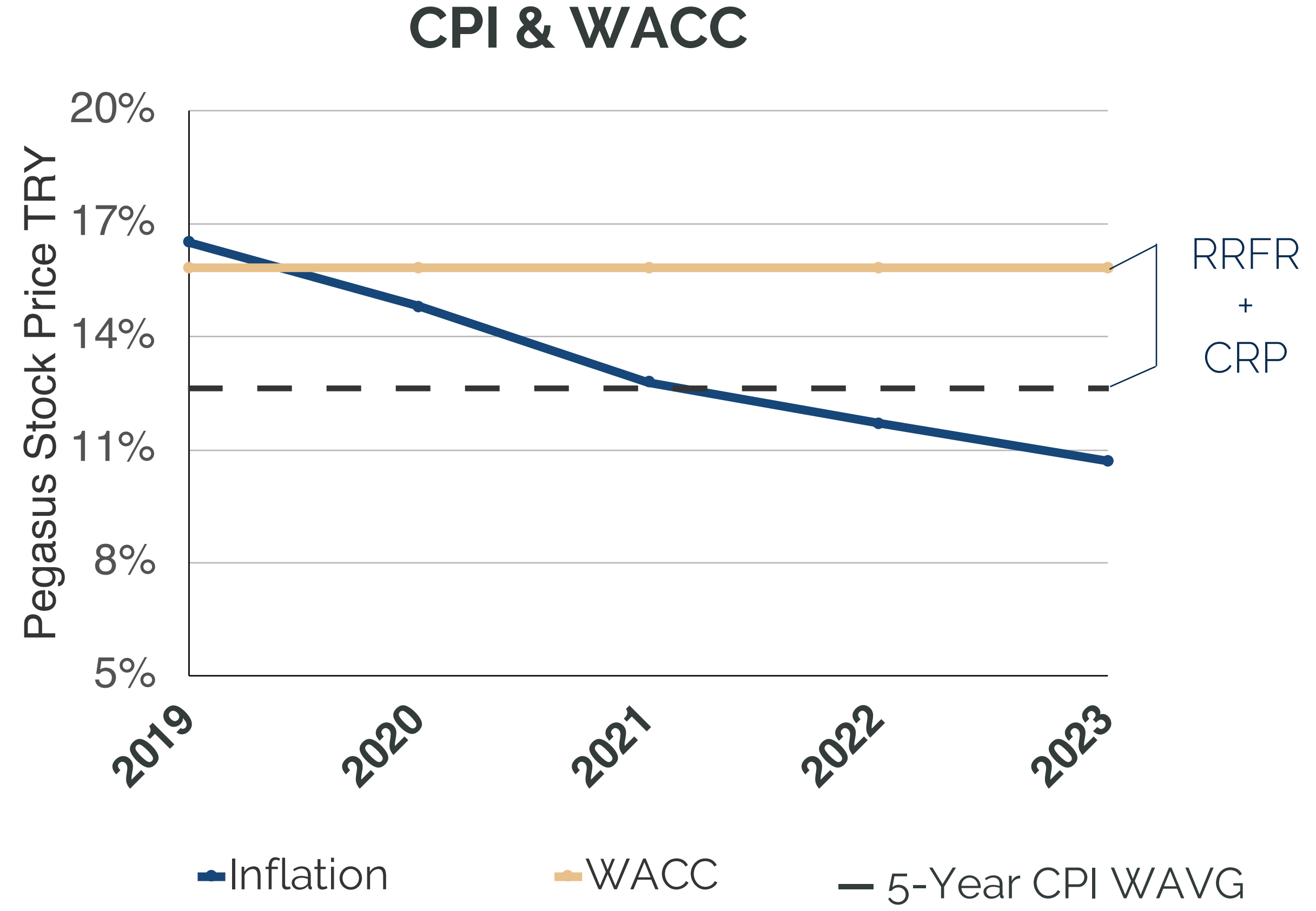




Investment Core Valuation: Free Cash Flow to Firm

- Business Description
- Industry Overview
- Company Strategies
- Finance
- Investment
- Risks

2019 WACC Components	Value
Cost of Equity	25,82%
Risk Free Rate	16,16%
Beta	1,61
Cost of Debt (after-tax)	9,80%
Interest Cost	12,57%
Tax Rate	22%
WACC (5-YEAR)	15,83%



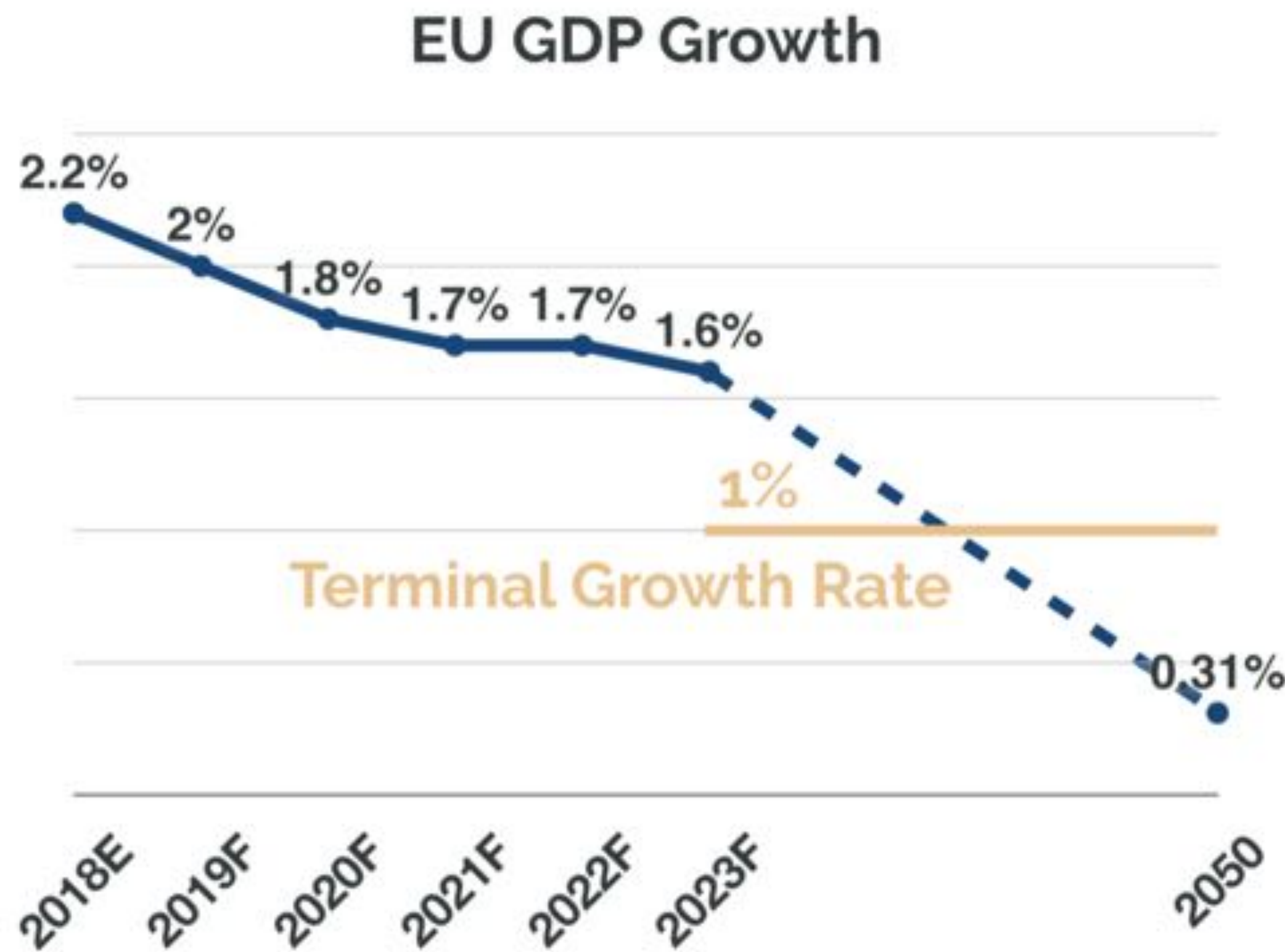
Target Price:
TRY 49,62

WACC separately calculated for each year

Source: Euro Commission, IMF, Aswath Damodaran

Investment Core Valuation: Terminal Growth & Discount

FCFF Final Analysis	Values
Terminal growth rate	1%
Terminal discount rate	8,00%
PV of TEV	9.140,1
Value of firm	13.271,8
Fair equity value	4.034,6
12-month target equity value	5.076,4
12-month target price	49,62



Conservative terminal growth approach

Source: IMF, European Council

Business Description

Industry Overview

Company Strategies

Finance

Investment

Risks

Investment Multiple Analysis

EV/EBITDAR
7.0x

Target Price:
TRY 47,51

Peers	Net Profit Margin FY	ROE	P/E	P/B	Mkt Cap(USD)
THY	2,00%	12,5%	5,3	0,6	3.780.363.636,36
Wizz	14,10%	19,7%	14,4	1,4	2.517.263.567,67
Air Arabia	16,90%	8,4%	8,8	0,7	1.262.987.312,13
Easy	6,10%	11,8%	11,8	1,3	5.255.490.636
Pegasus	9,4%	19,0%	3,4	0,5	408.515.848,95
Peer Average	9,8%	13,1%	10,07	1,00	3.204.026.288

Business
Description

Industry
Overview

Company
Strategies

Finance

Investment

Risks

Source: Reuters

Risks Sensitivity Analysis

Business Description

Industry Overview

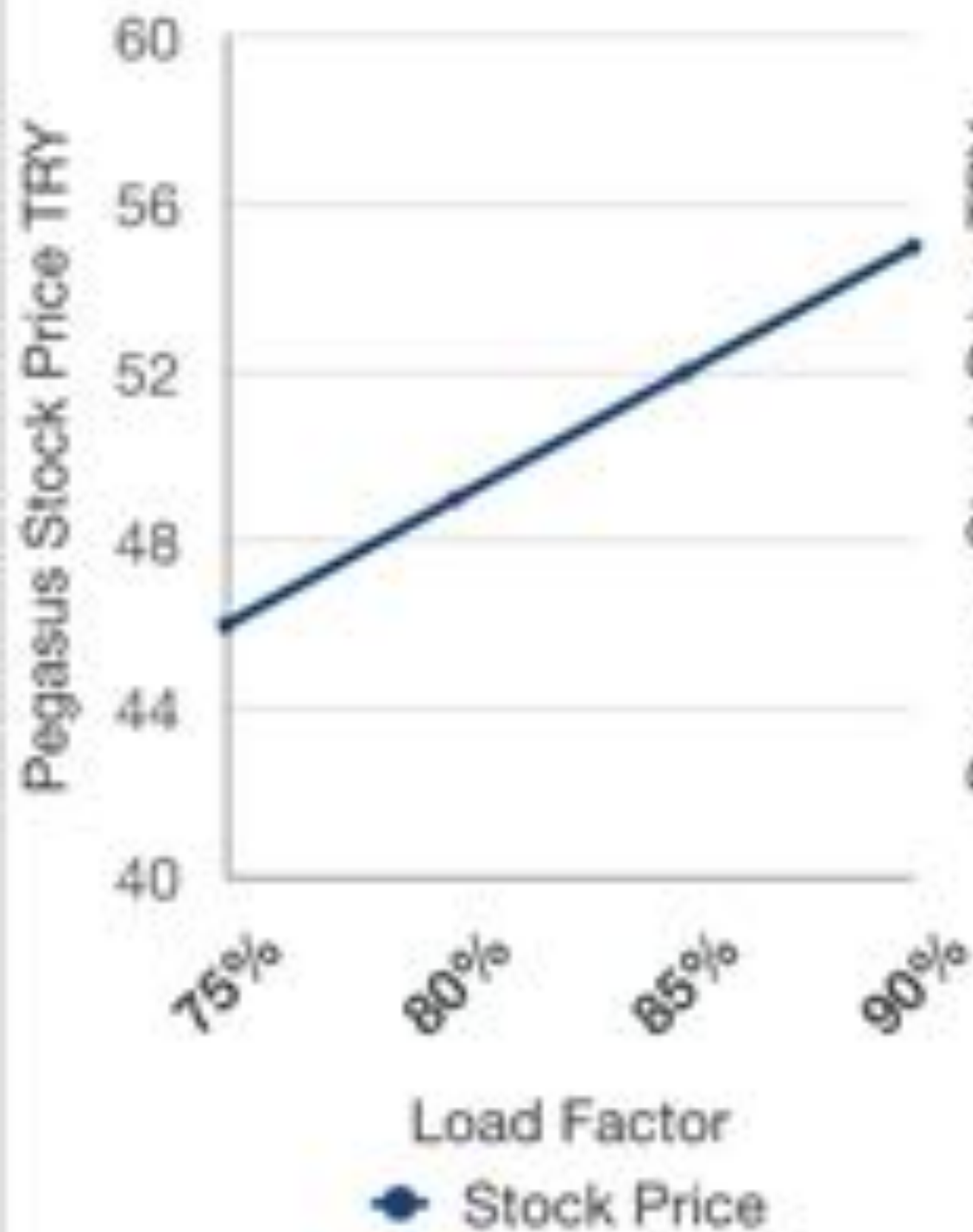
Company Strategies

Finance

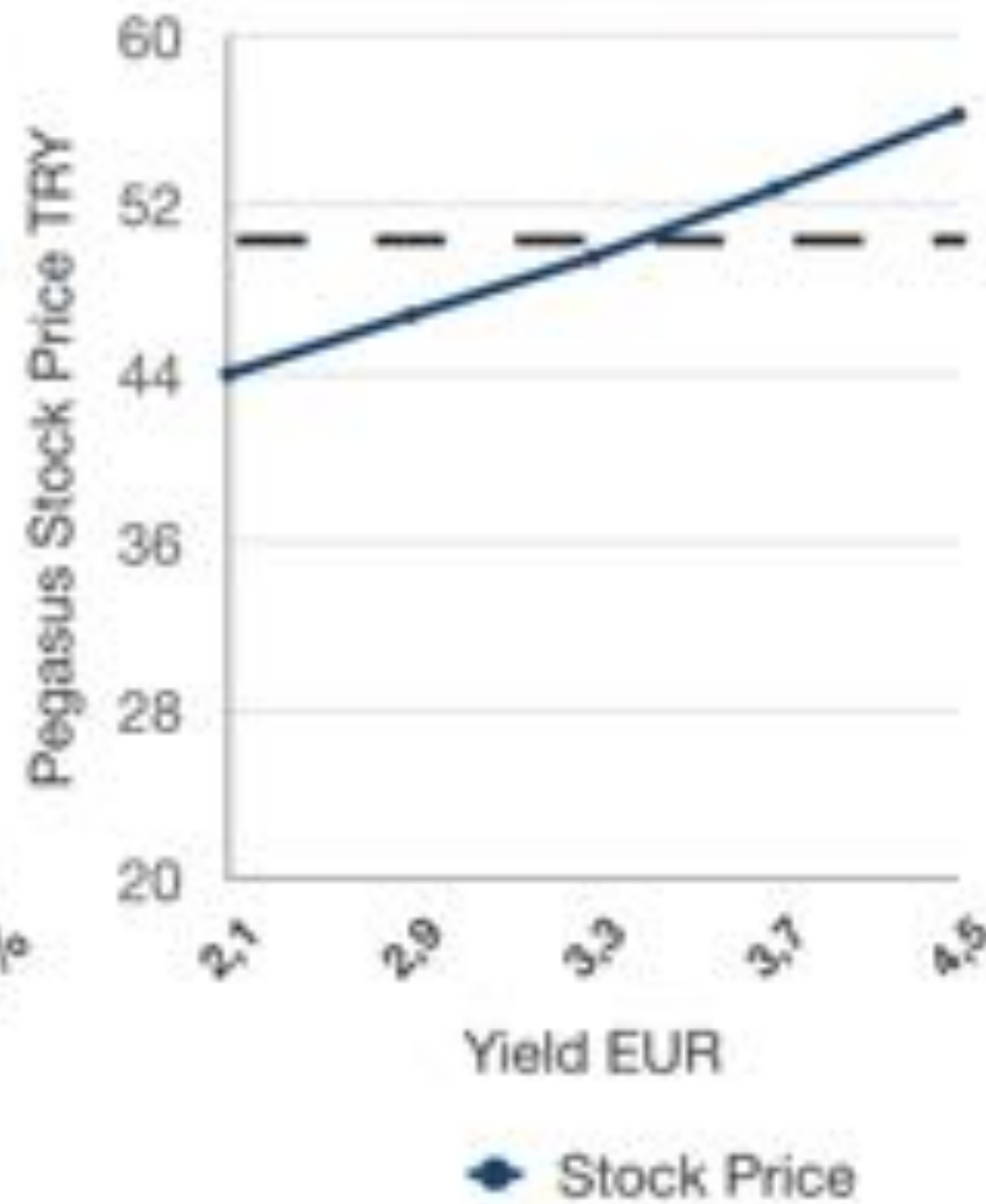
Investment

Risks

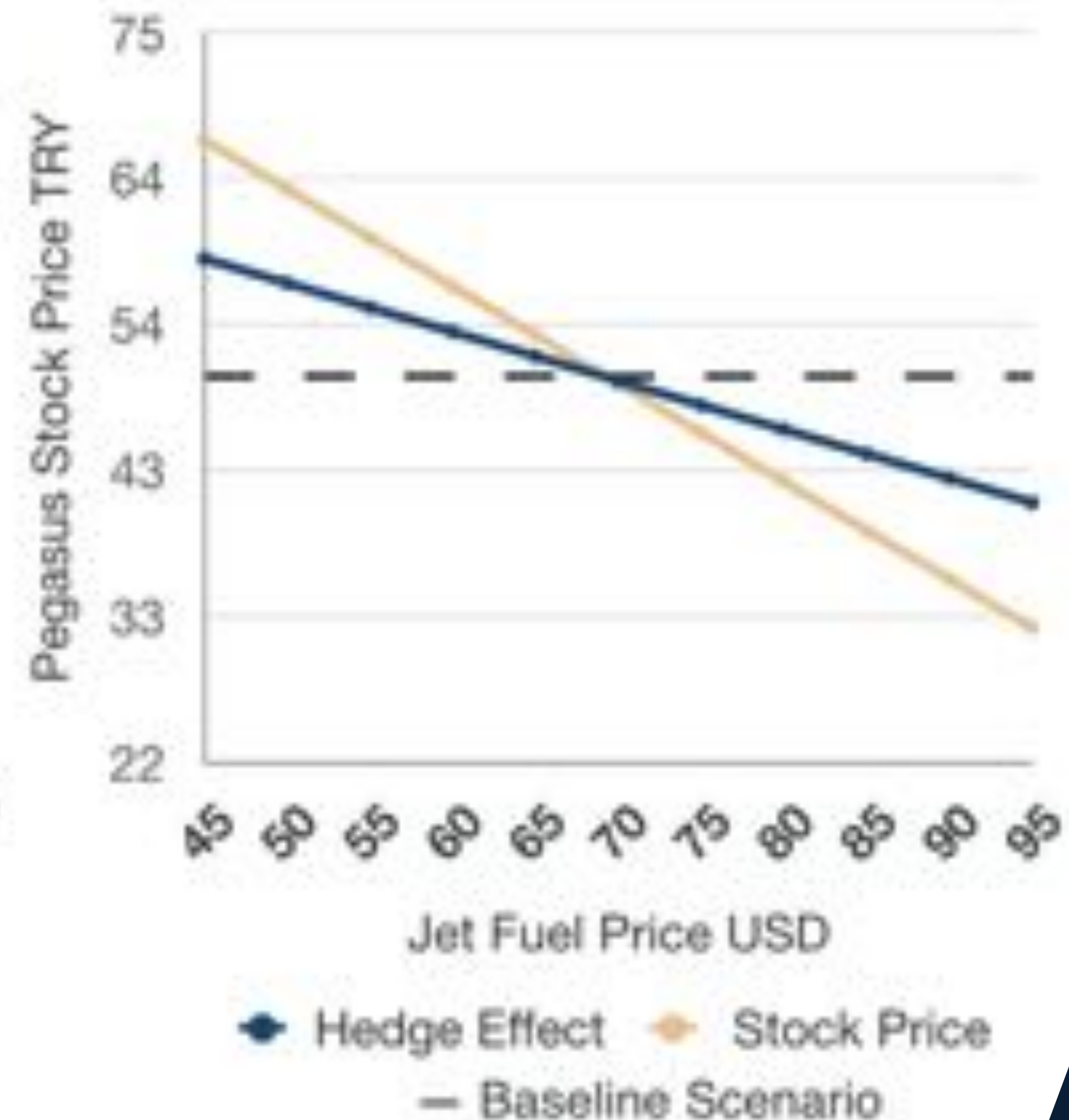
Load Factor Sensitivity



Yield Effect on Stock Price



Hedge Effect and Jet Fuel Price



Limited sensitivity to key factors

Source: Pegasus, Team Estimation

Risks Scenario Analysis

Buy rating with 90% probability

Scenarios

Worst	₺ 21,35	Sell
Base	₺ 49,62	Buy
Best	₺ 63,58	Strong Buy



Business Description

Industry Overview

Company Strategies

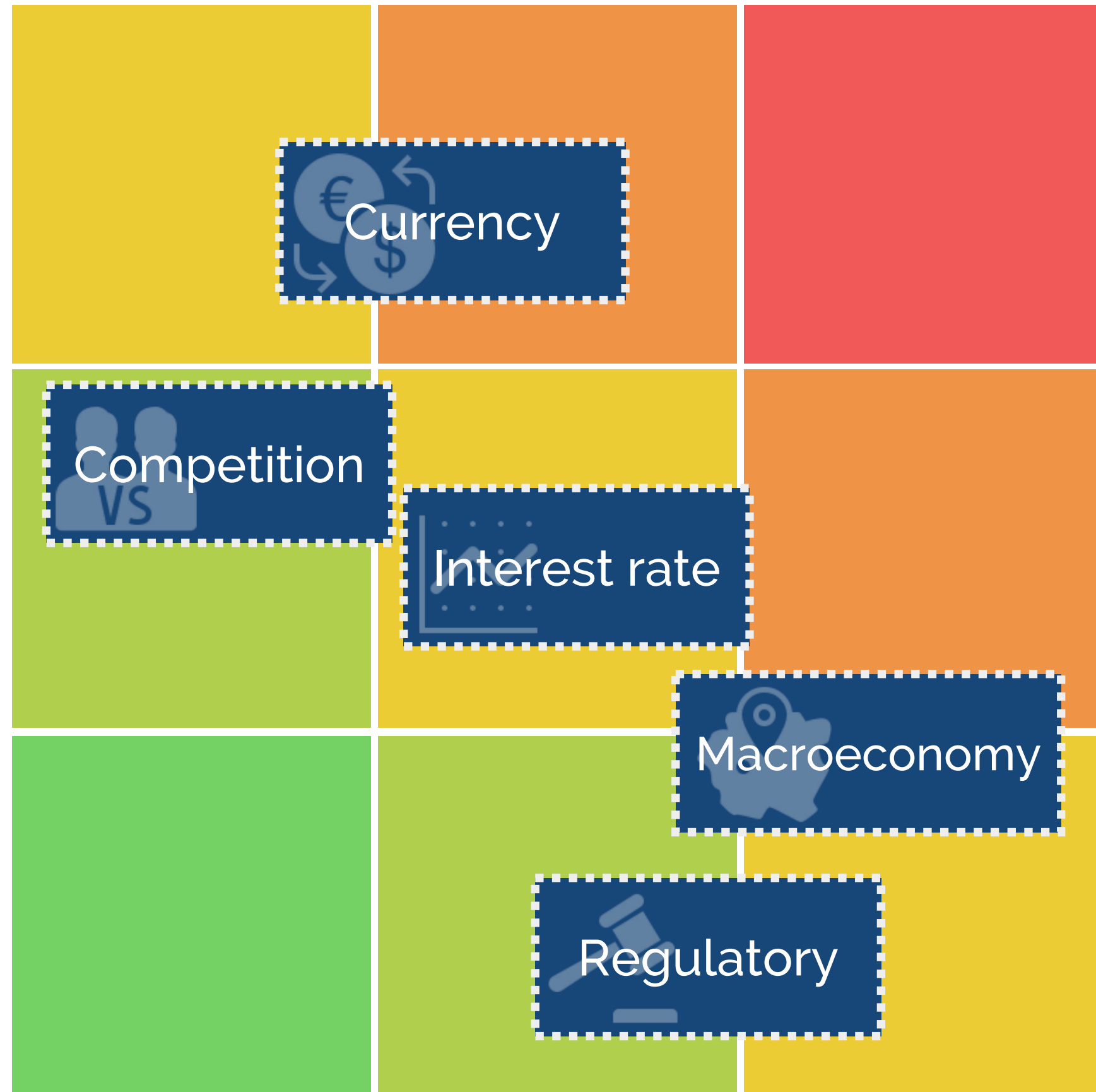
Finance

Investment

Risks

Investment Risks Forward Looking

Probability



Impact

Currency
Competition
Interest Rate
Macroeconomy
Regulatory

- Currency**
 - USD evaluating against EUR & TRY
 - TRY devaluating
- Competition**
 - Competition is regulated
 - Strong competition with THY on overlapping routes
- Interest Rate**
 - Very high interest rates set by TRCB although slightly decreased recently
- Macroeconomy**
 - Highly affected by political issues
 - Politic risk
- Regulatory**
 - Pegasus wouldn't be let acquire so much of market share

integration ● Sensitivity
● Model

All potential risks are covered

- Business Description
- Industry Overview
- Company Strategies
- Finance
- Investment
- Risks

TRY 48,99

1 year target with 124% upside potential

Main Reasons

Growth

Profitability

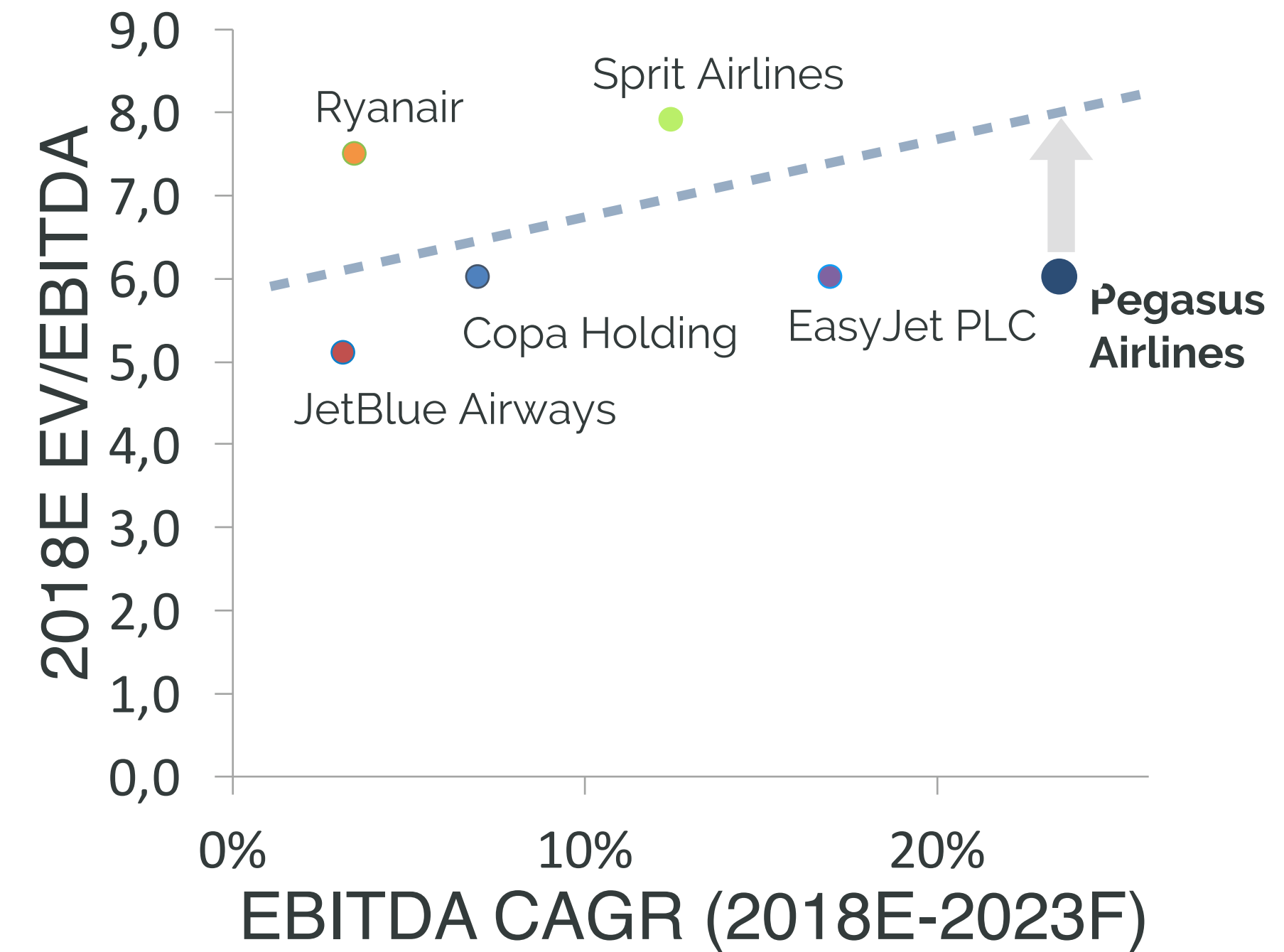
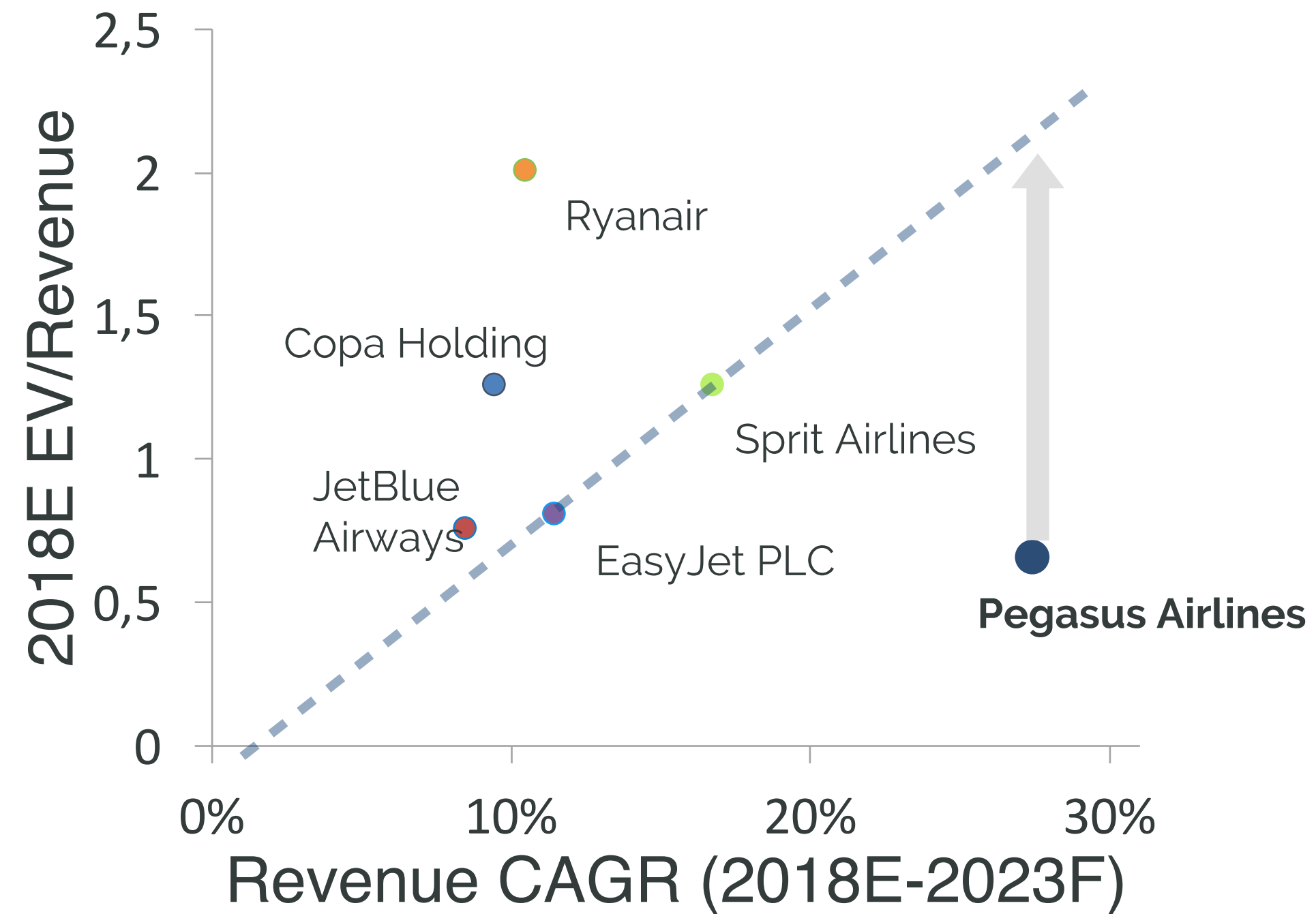
Undervalued



Thanks

• Istanbul Technical University •

Appendix 1 EV/Revenue & EV/EBITDA

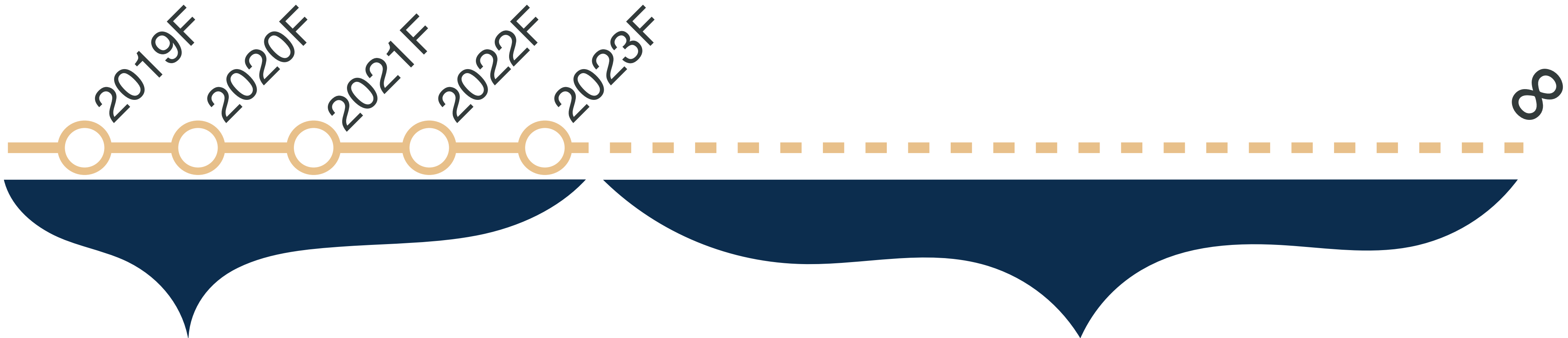


Pegasus	2013	2014	2015	2016	2017	2018E	2019F	2020F
EV (M TRY)	3.644	3.307	2.659	3.111	3.435	11.855	13.156	14.774
EBITDAR	537	610	690	565	1.330	1.694	1.879	2.111
EBITDA	413	412	353	81	739	1.041	1.098	1.372
EV/EBITDA	9	8	8	38	5	11	12	11
EV/EBITDAR	7	5	4	6	3	7	7	7

Source: Bloomberg

Appendix 2 Summary of Valuation

Free Cash Flows to the Firm: **TRY 49,62**



WACC

- WAVG of CPI
- Real Risk Free Rate
- Beta

Terminal Growth Rate

- EU GDP Growth Forecast

EUR → TRY

Terminal Discount Rate

- Real RFR
- Company Risk Pre.

EUR → TRY

Appendix 3 Turkey as a Tourism Destination

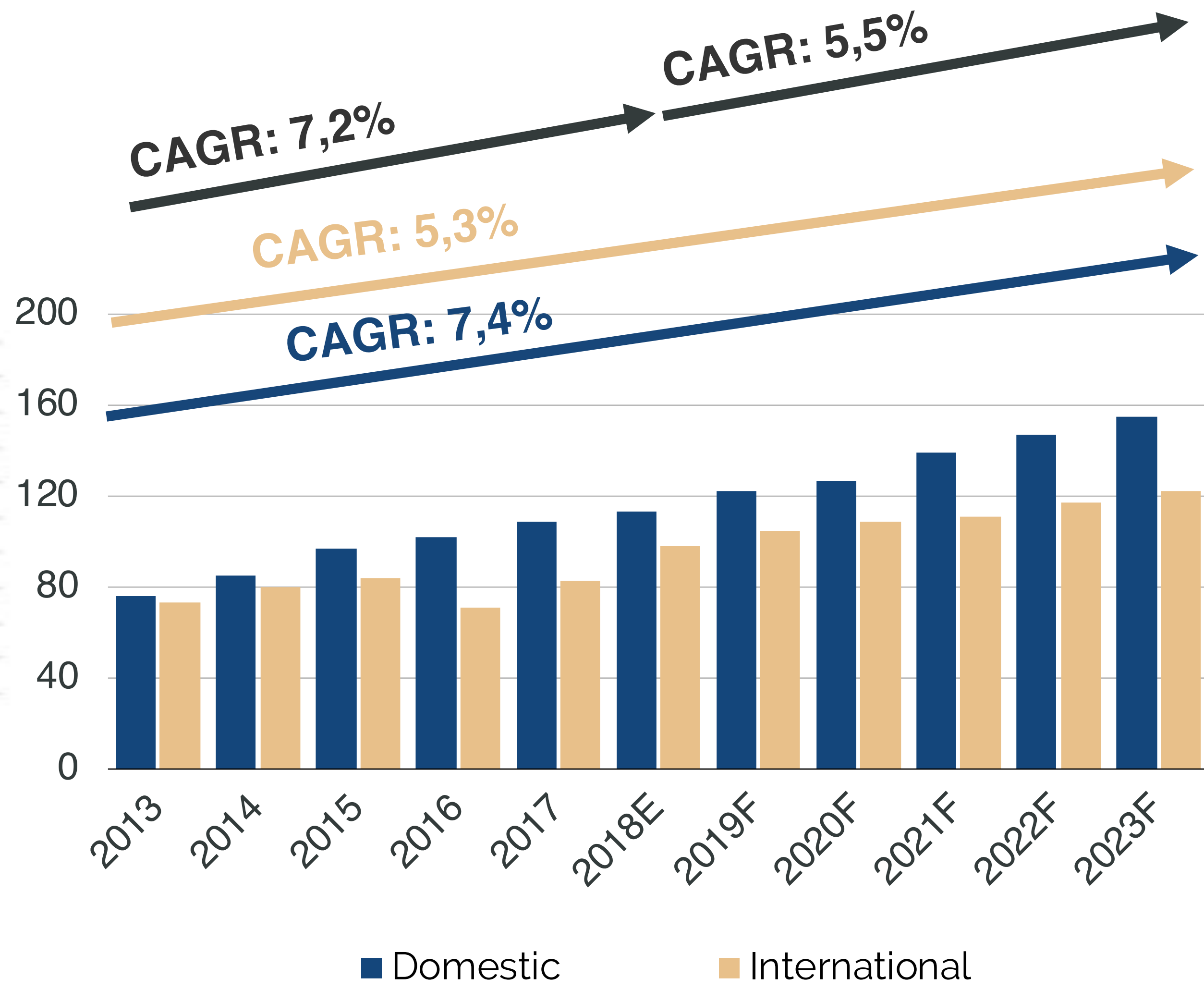
Turkey's Position by Pax Number in EU

Name	2013	2014	2015	2016	2017
United Kingdom	1	1	1	1	1
Germany	3	2	2	2	2
Spain	2	5	4	3	3
Turkey	7	3	3	5	4
France	4	4	4	5	5
Italy	5	6	6	6	6
Russia	8	7	7	7	7
Holland	6	8	8	8	8
Greece	-	19	-	10	9
Norway	9	9	9	9	10

Source: DHMI

Appendix 4 Total Pax Numbers

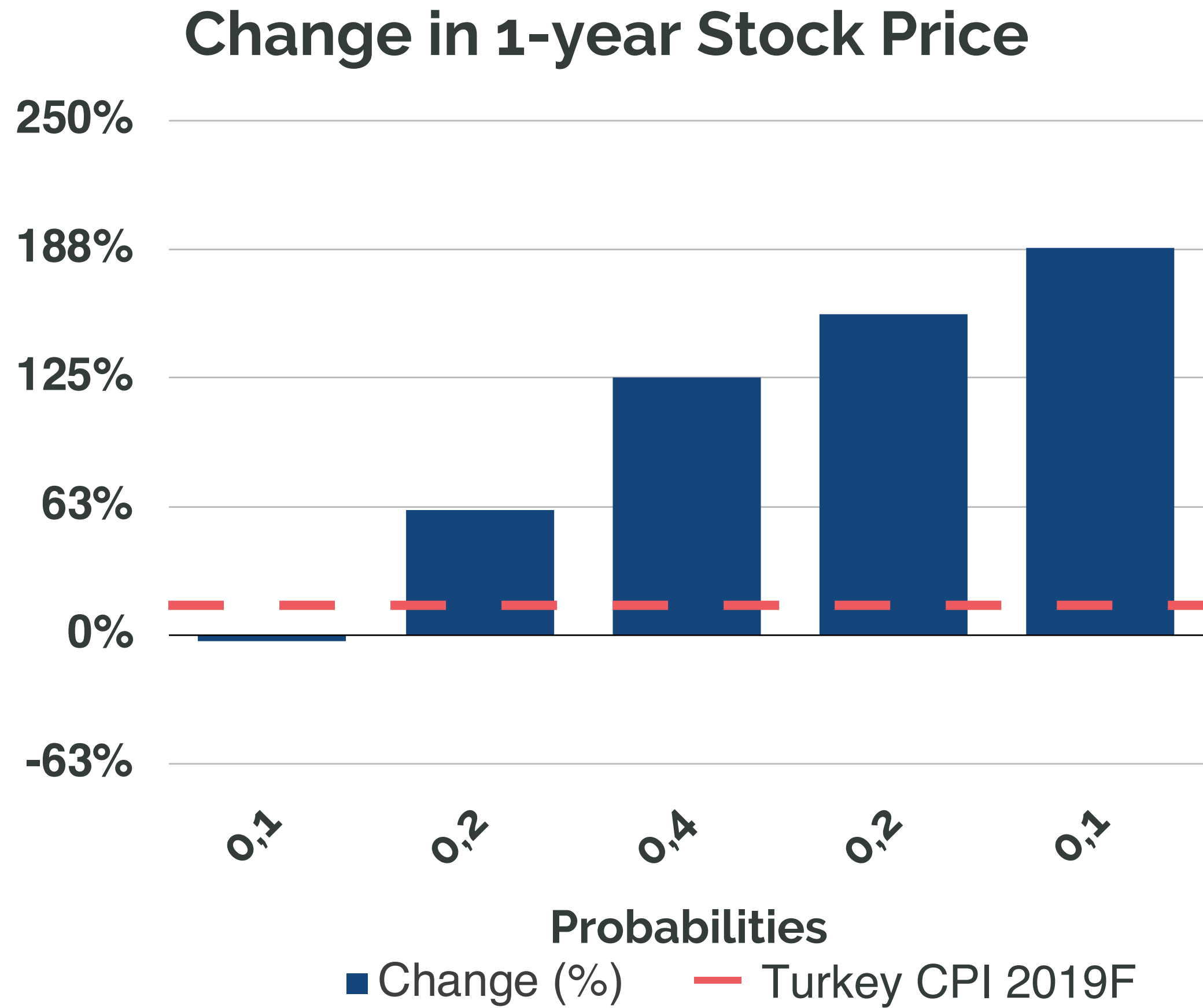
PGSUS Pax Development M



Appendix 5 Summary of Financials

TRY Millions	Sales	EBITDA	Net Income	P/E	EV/EBITDA
2016	3.707	81,4	-133	N/A	38
2017	5.348	739,2	502	10,4	5
2018	8.208	1.167	518	6,88	5
2019	9.644	1.398	481	10,01	8
2020	10.998	1.539	778	8,09	8
2021	12.795	1.727	1249	7,20	8

Appendix 6 Scenario Analysis



Appendix 7 Investment Summary

TRY 48,99

1 year target with 124% upside potential

Main Reasons

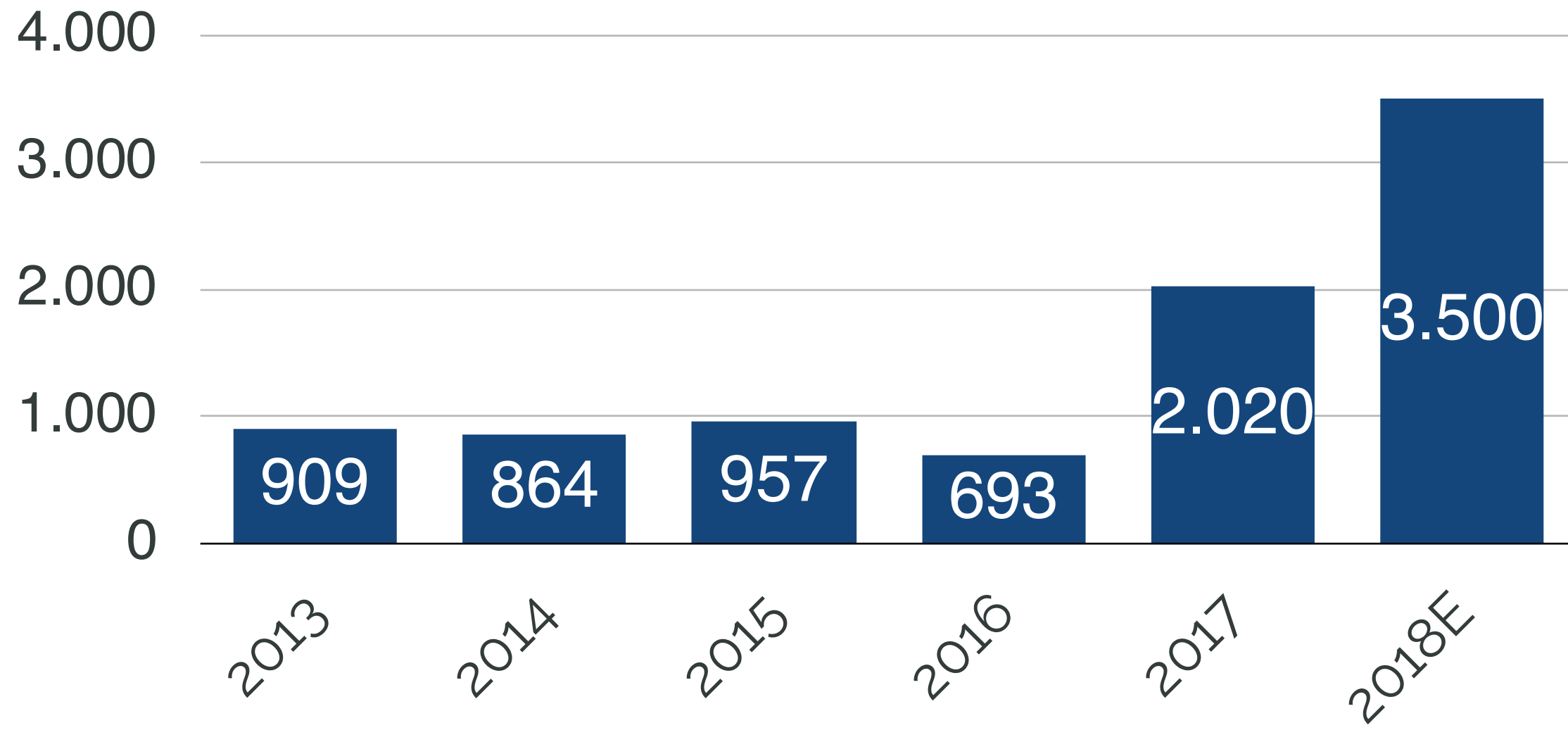
Growth

Profitability

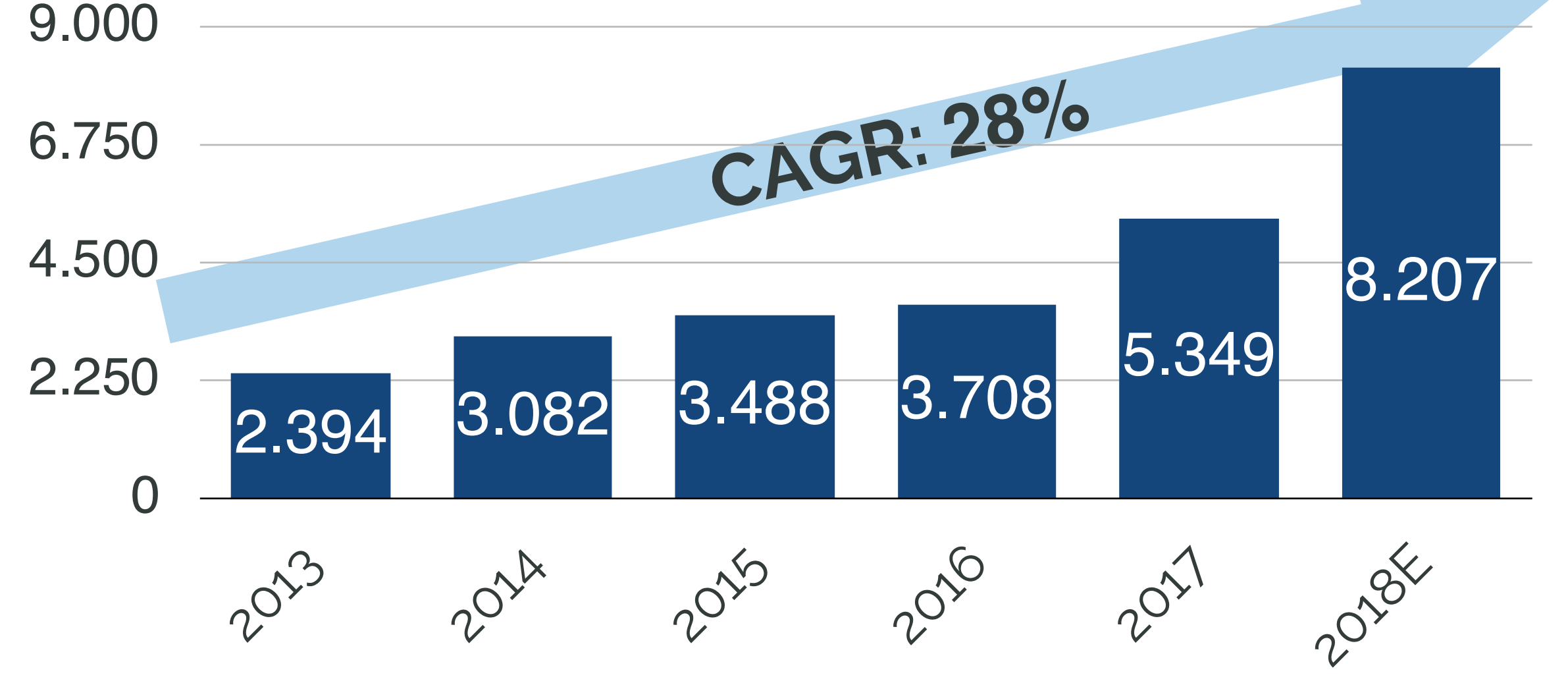
Undervalued

Appendix 8 Growth

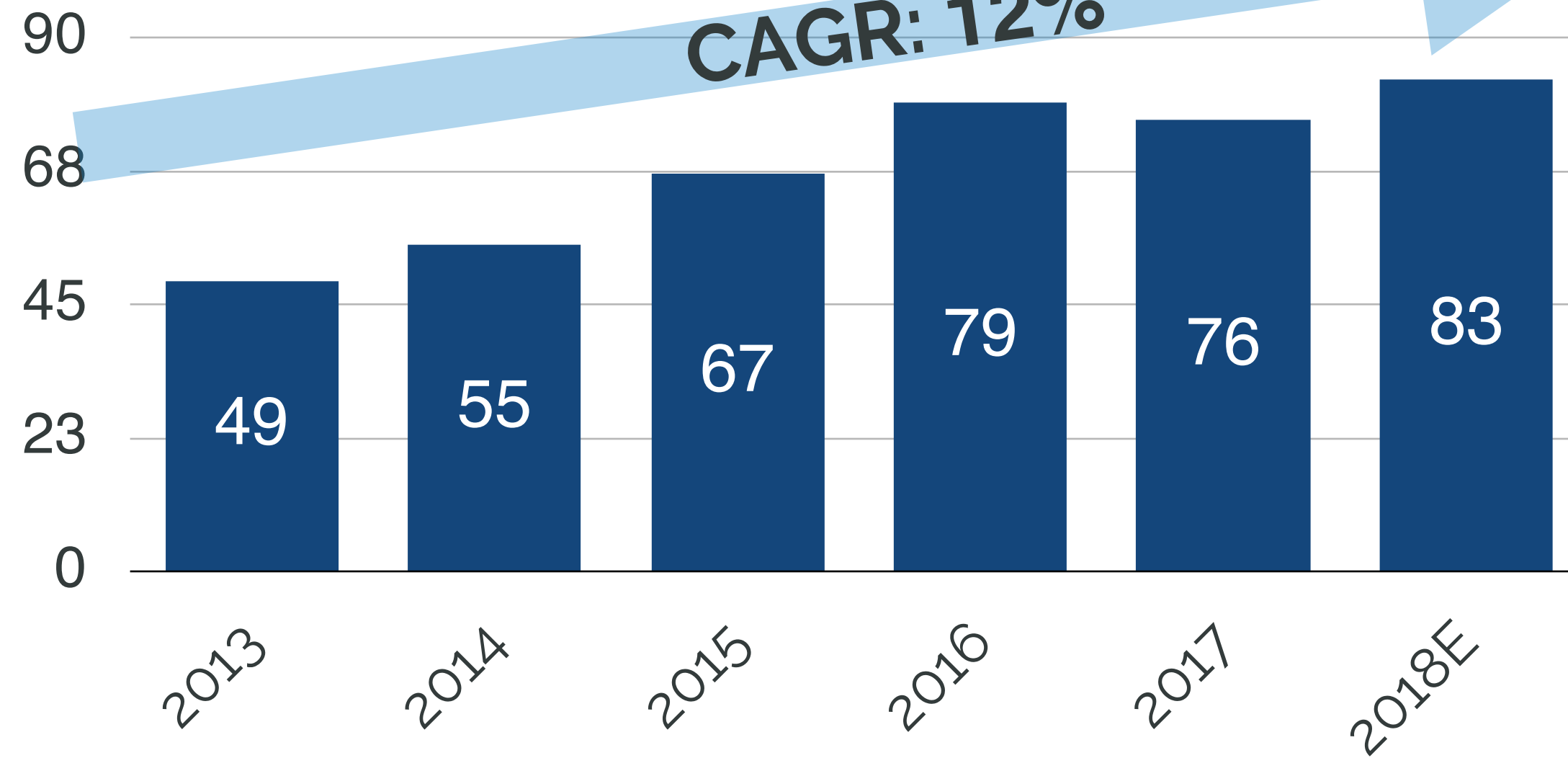
CASH



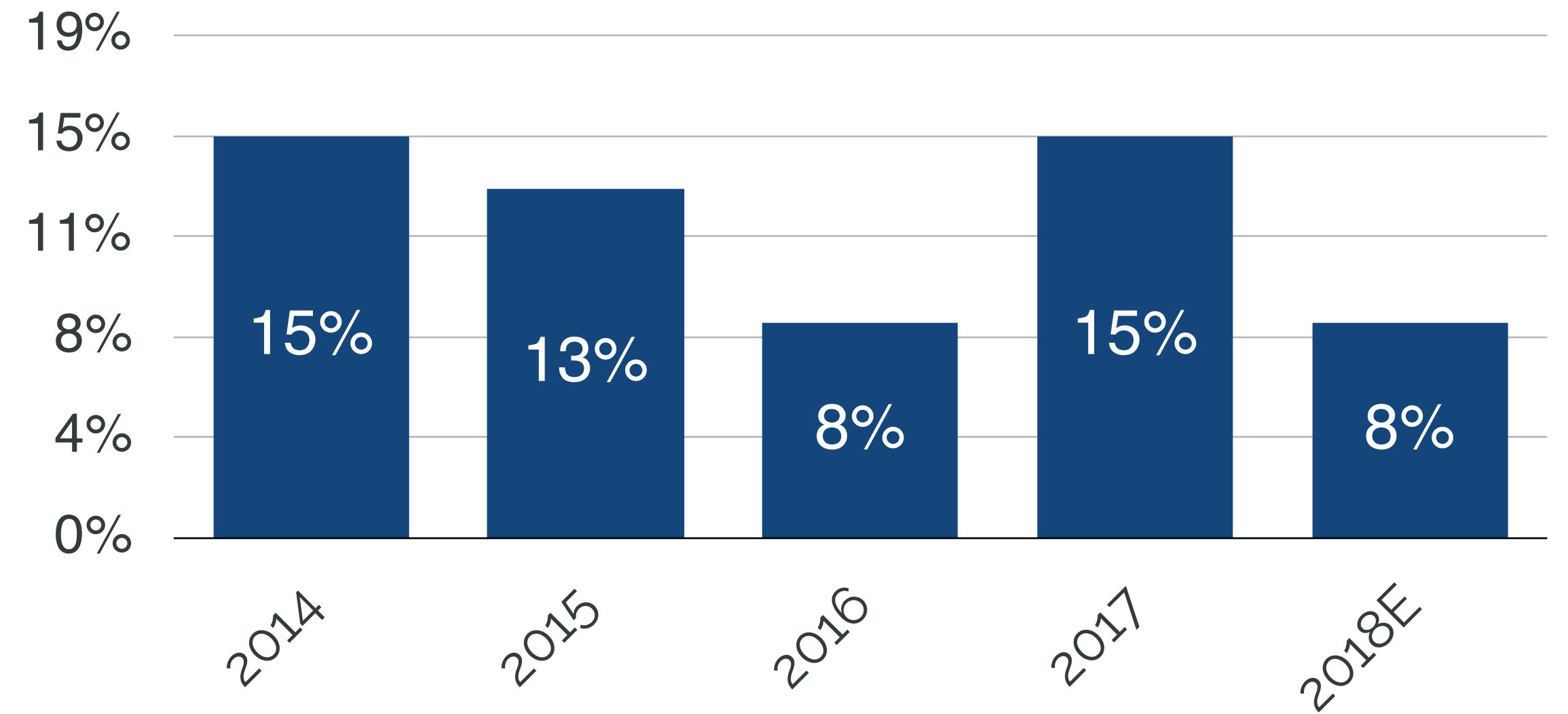
Pegasus Sales Revenue



Pegasus Fleet Size

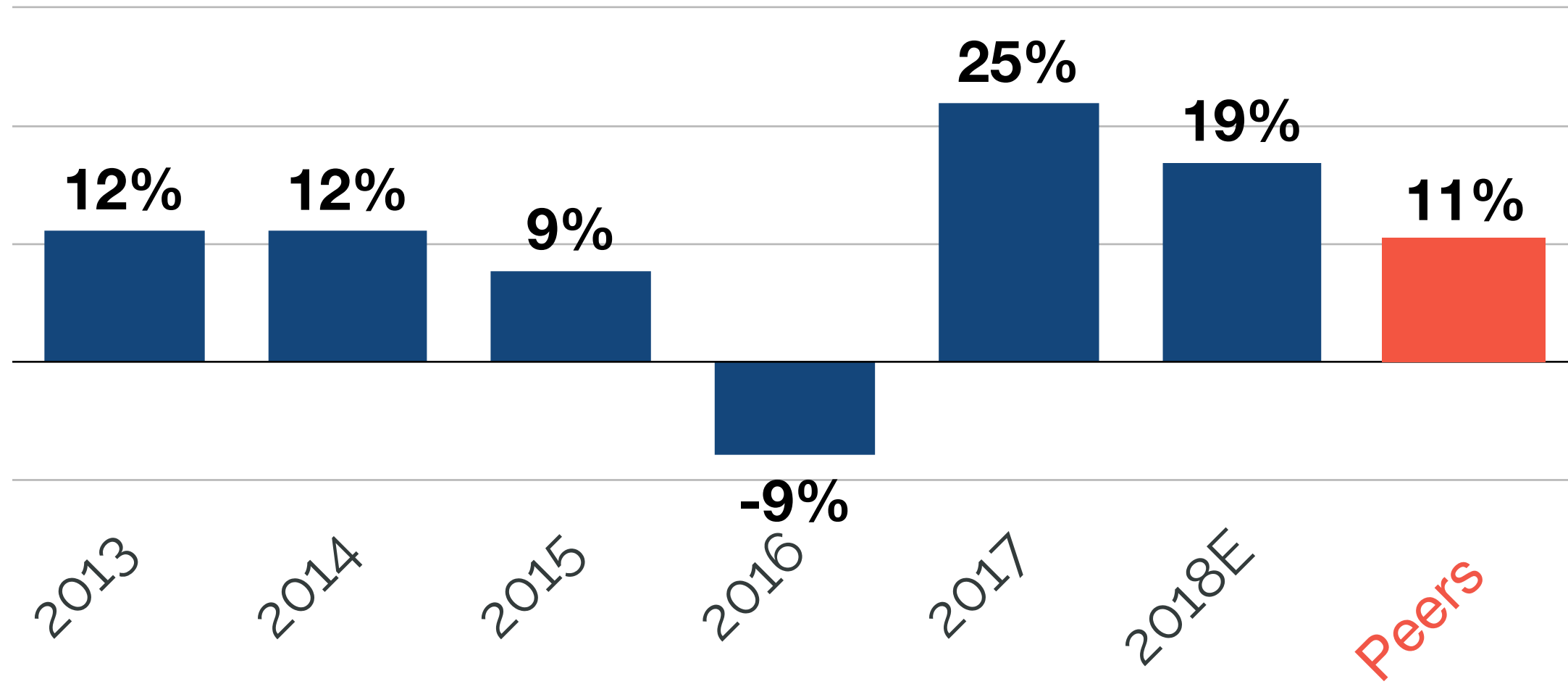


Turkey Total Pax Change %

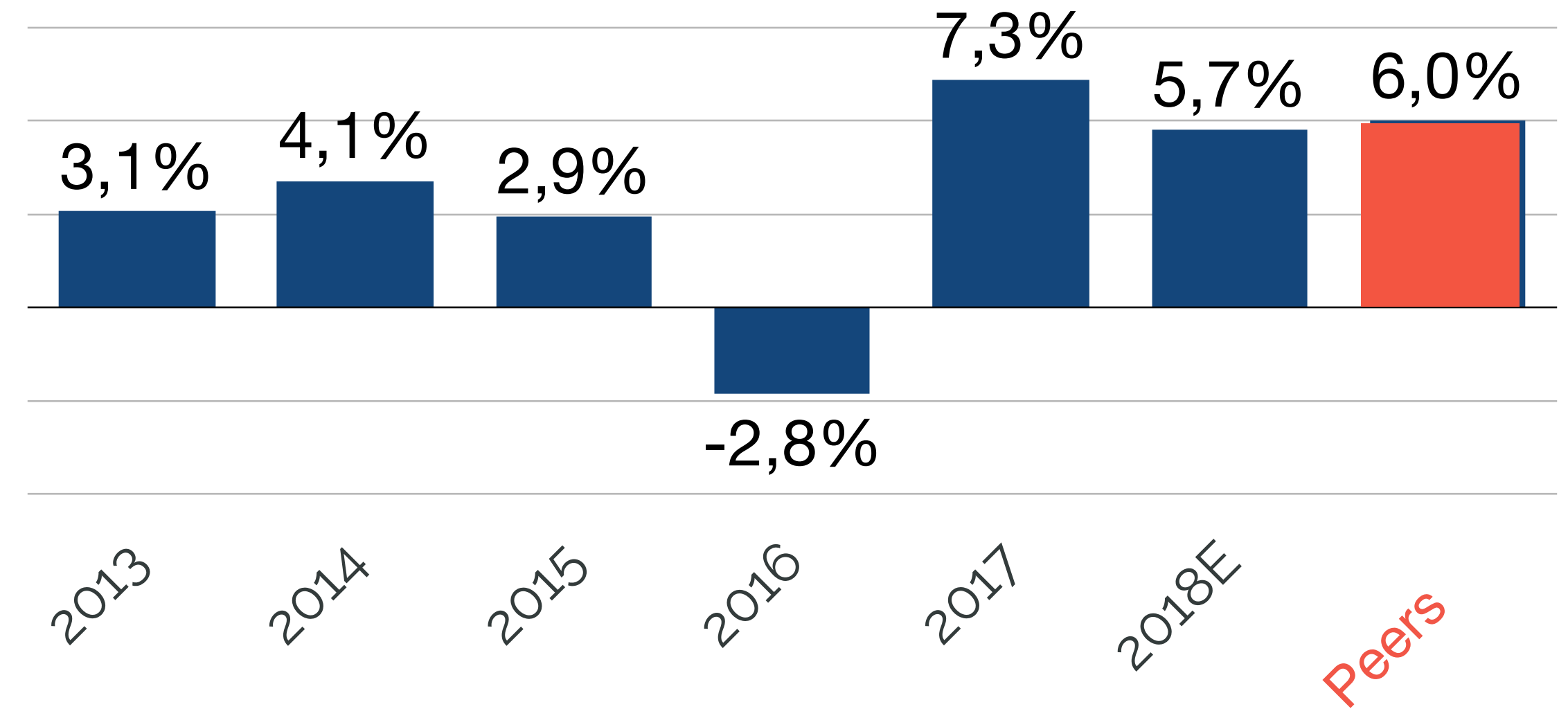


Appendix 9 Profitability

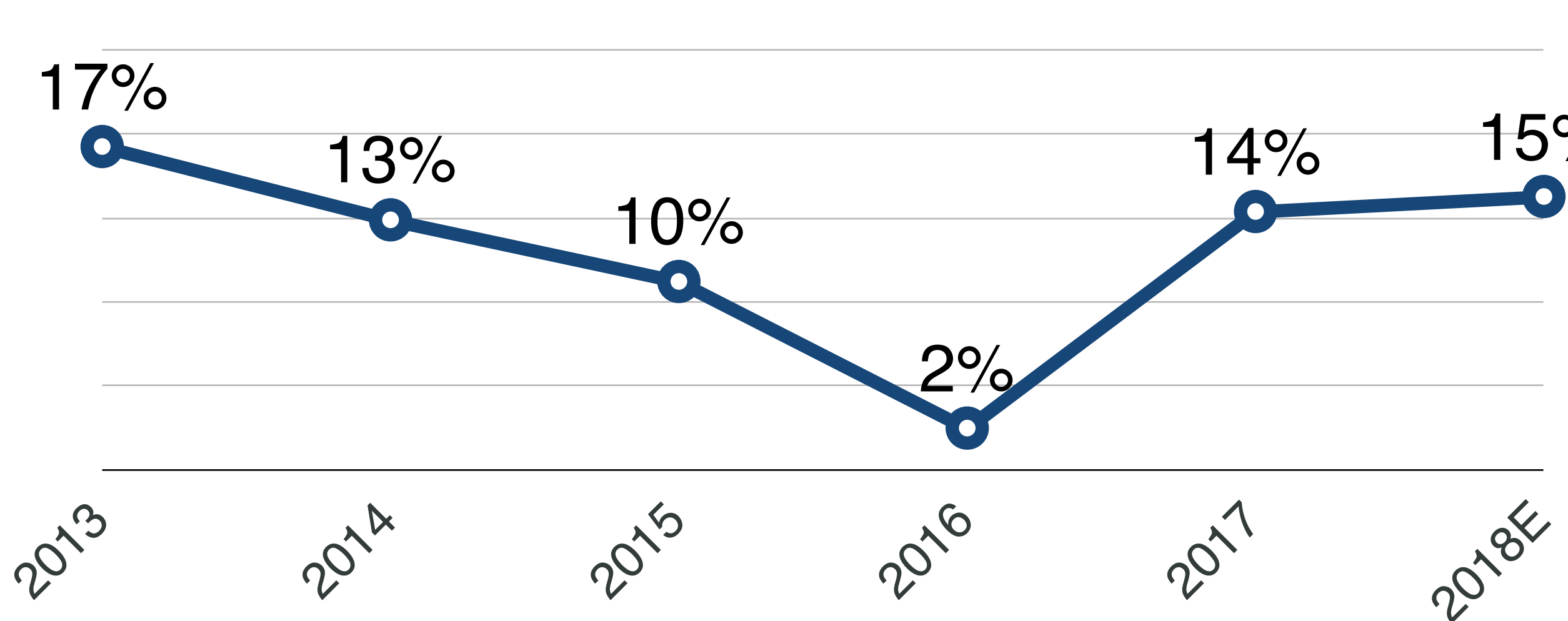
ROE



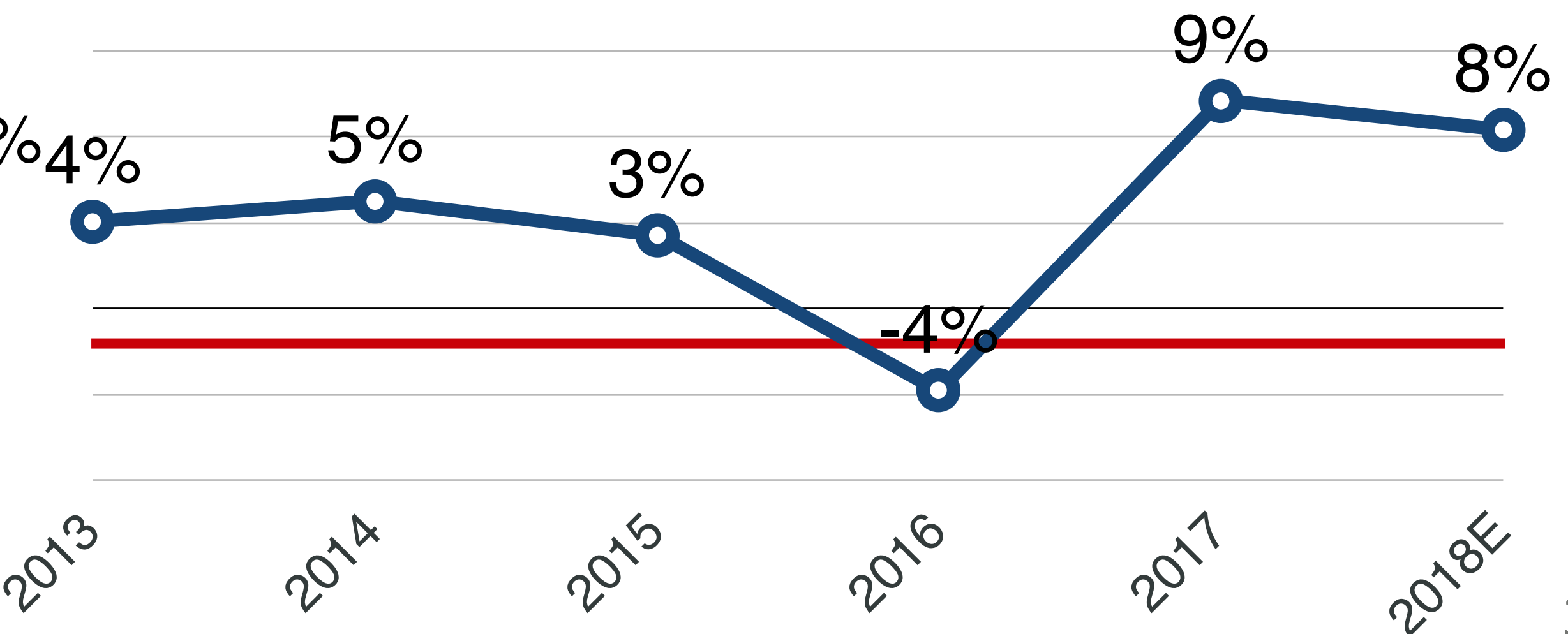
ROA



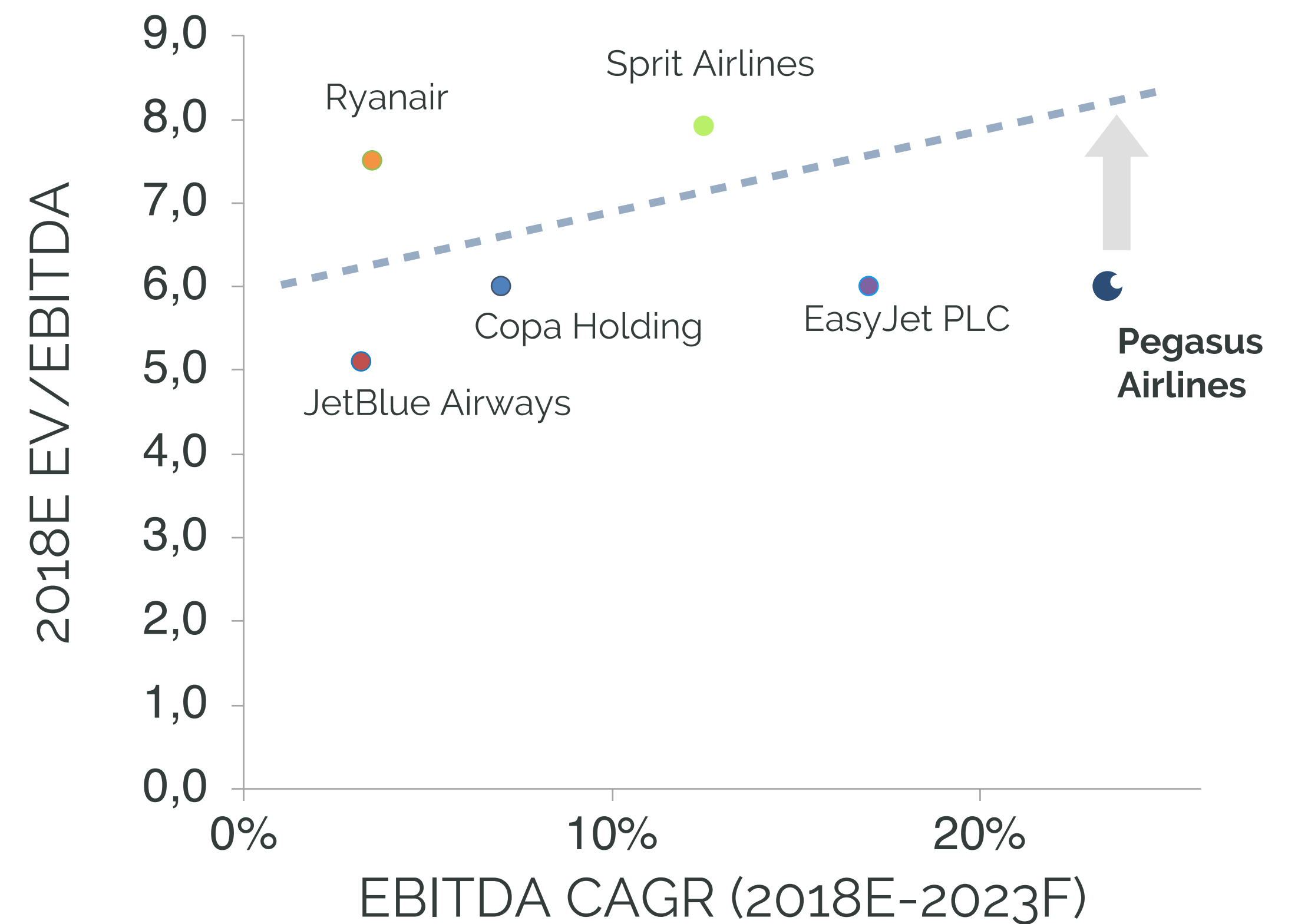
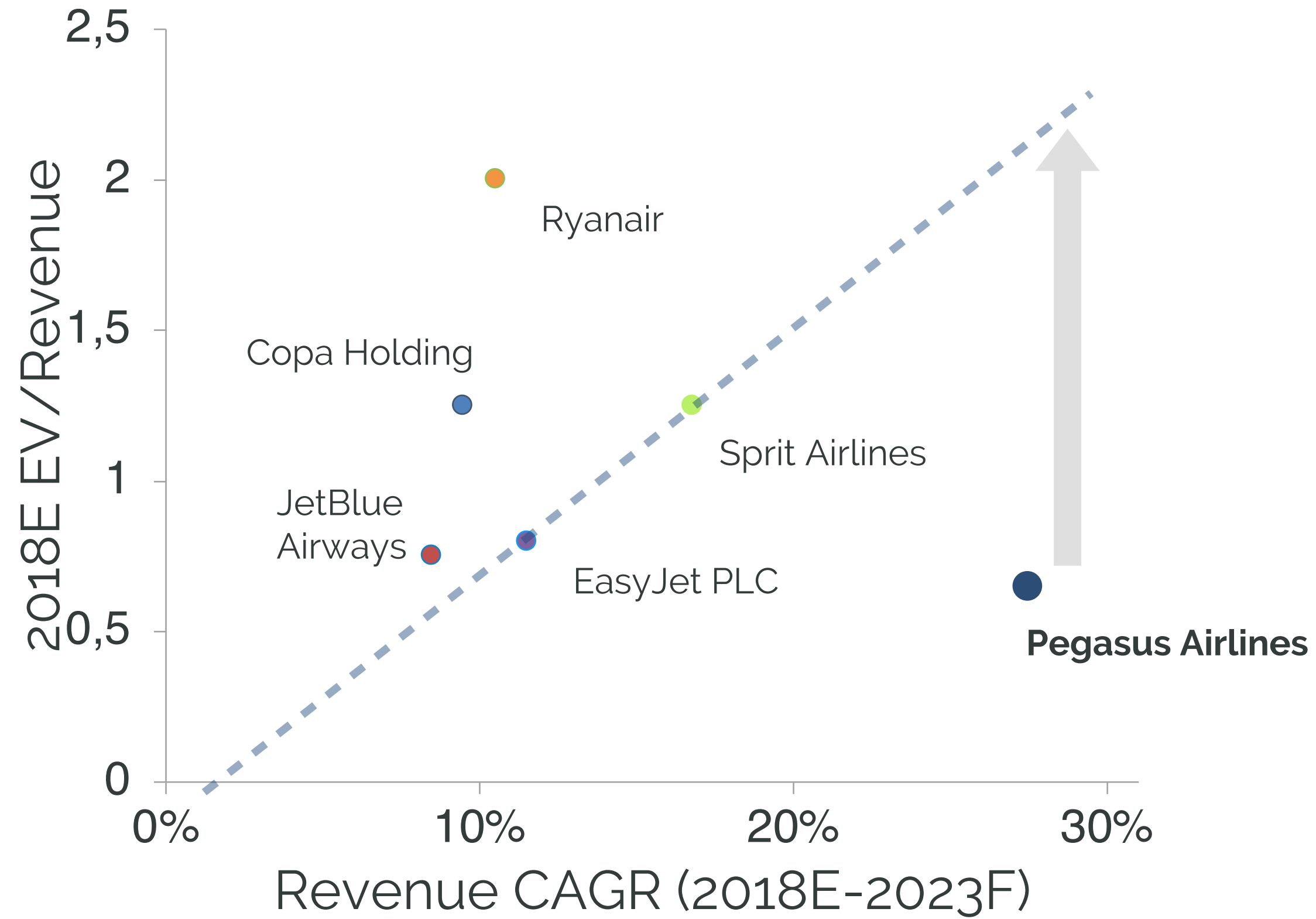
EBITDA Margin



Net Profit Margin

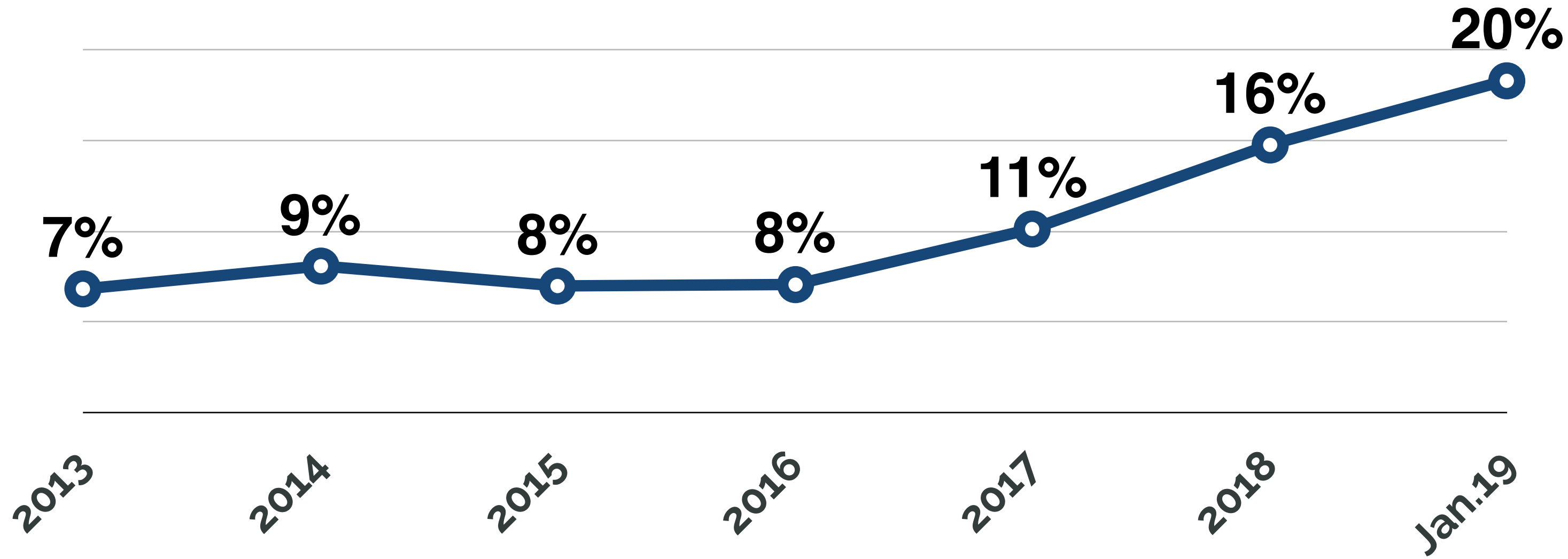


Appendix 10 Undervaluedness



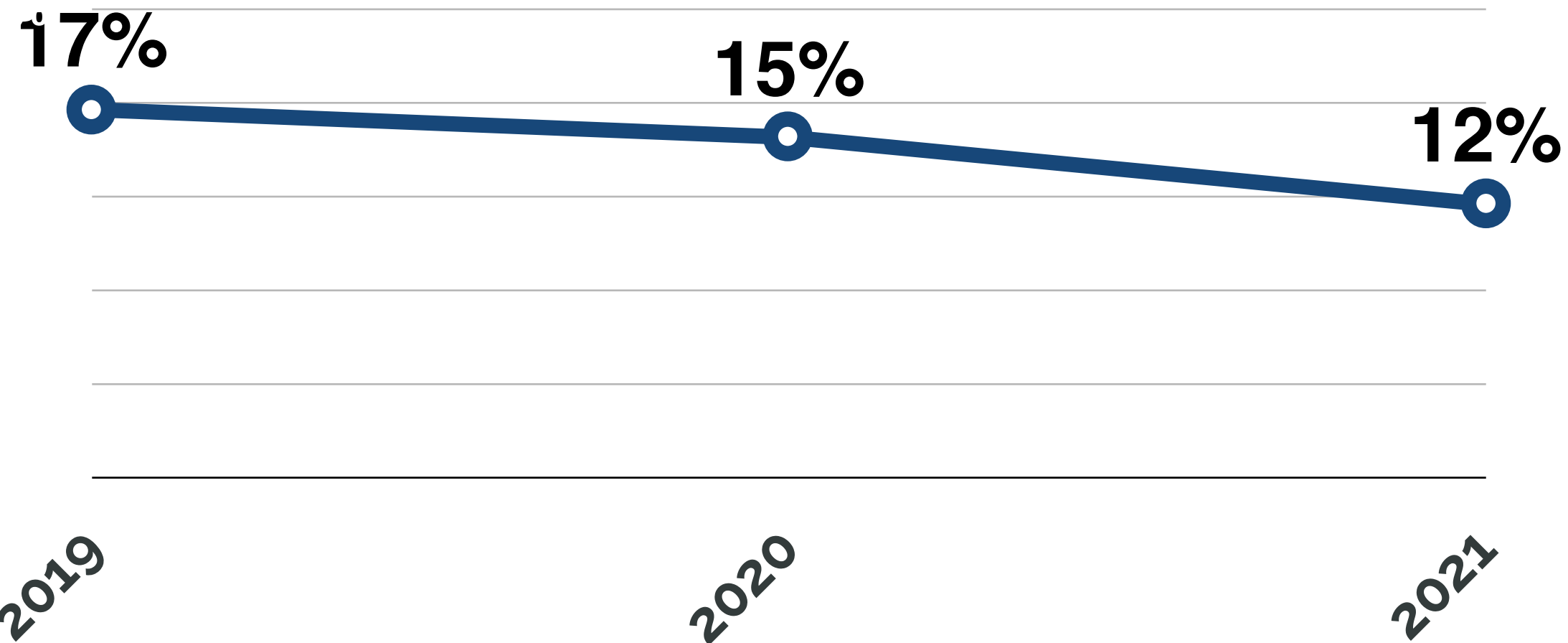
Appendix 11 CPI Forecasts

Historic CPI

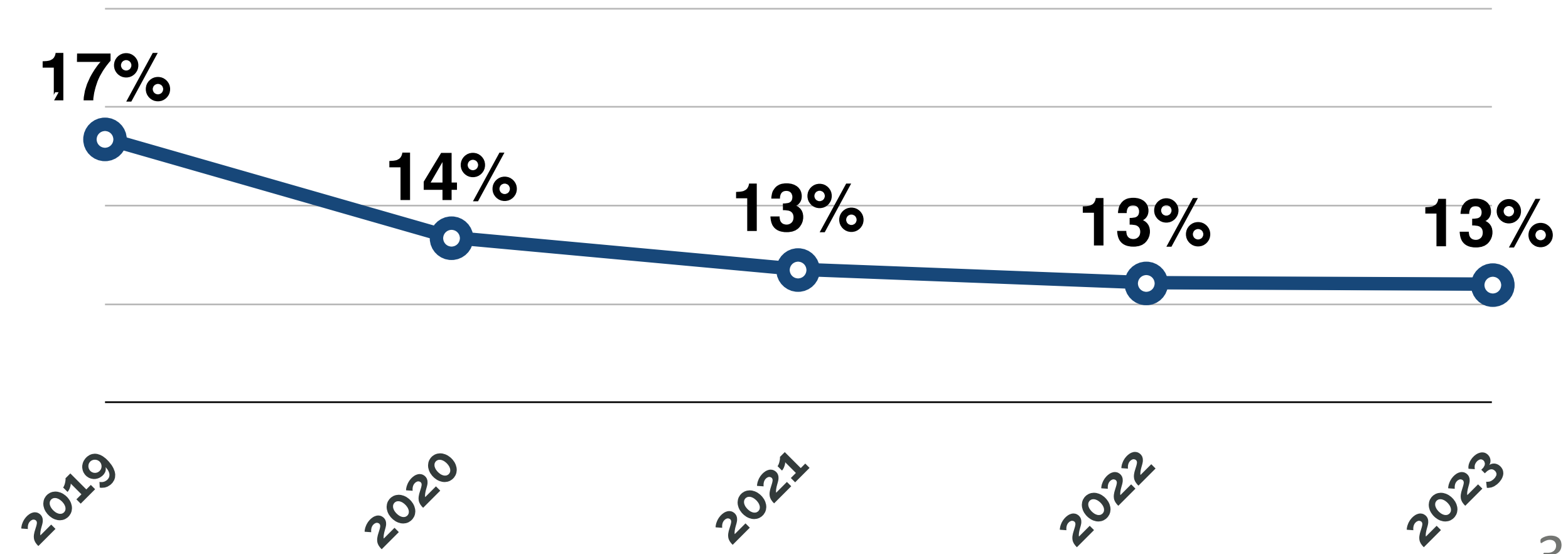


The weighted average of 3 major authorities.

EU Commission CPI Forecast



IMF CPI Forecast



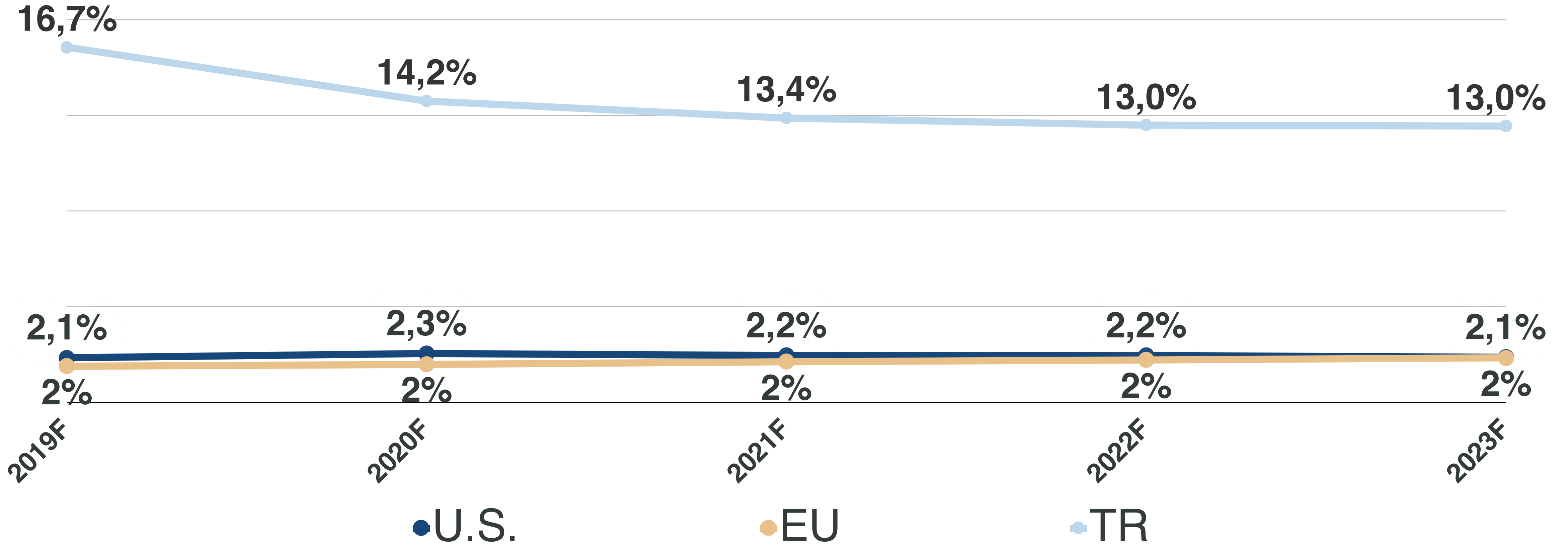
Appendix 12 Sensitivity in Detail

Changes in 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%	

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%

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

Appendix 13 Inflation & FX Forecast



FX	31.01.2019	2019F	2020F	2021F	2022F	2023F
USD/TRY	5,16	5,91	6,65	7,45	8,34	9,37
EUR/TRY	5,91	6,80	7,67	8,61	9,64	10,82

Source: IMF

Appendix 14 2019 Cost of Debt

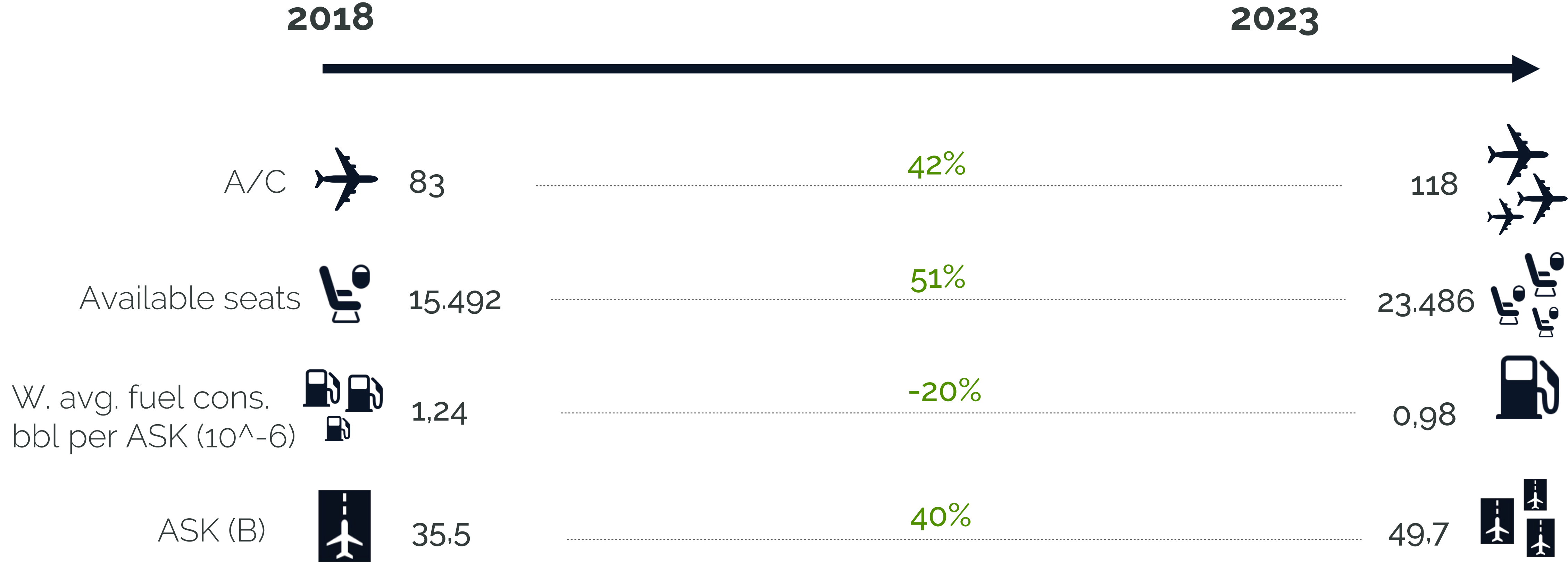
Debt (EUR) - Financial Lease 2018		*September, 30th
EUR Interest		1,91%
TRY Interest		12,08%
Foreign Currency		5,91
Foreign Currency (T+1)		6,5
Debt (EUR)	€	599.741.184,23
Debt (TRY)	₺	3.544.470.398,81
Debt (EUR / T+1)	\$	611.196.240,85
Debt (TRY / T+1)	₺	3.972.775.565,53
Currency Interest		18,69%
Interest Margin		0
Percent of Debt		53,05%

Debt (USD) Financial Lease.		*November, 30th 2018
USD Interest		6,94%
TRY Interest		14,50%
Foreign Currency		5,16
Foreign Currency (T+1)		5,525
Debt (USD)	\$	368.357.943,64
Debt (TRY)	₺	1.900.726.989,19
Debt (USD / T+1)	\$	393.919.098,37
Debt (TRY / T+1)	₺	2.176.403.018,47
Currency Interest		18,45%
Interest Margin		0
Percent of Debt		28,45%

Debt (USD) - Bank Credit		*September, 30th 2018
USD Interest		3,01%
TRY Interest		10,30%
Foreign Currency		5,16
Foreign Currency (T+1)		5,525
Debt (USD)	\$	96.000.000,00
Debt (TRY)	₺	495.360.000,00
Debt (USD / T+1)	\$	98.889.600,00
Debt (TRY / T+1)	₺	546.365.040,00
Currency Interest		18,45%
Interest Margin		0
Percent of Debt		7,41%

Cost of Debt	12,71%
Cost of Debt After Taxes	9,80%

Appendix 15 Hub & Fleet in Detail



Appendix 16 Key Potential Drivers

	2013	2014	2015	2016	2017	2018E	2019F	2020F	2021F	2022F	2023F
ASK (B)	20,16	24,38	27,70	30,51	32,72	35,49	37,39	39,78	42,53	48,13	49,67
RPK (B)	16,01	19,19	21,63	23,21	26,44	28,70	31,34	33,45	36,15	40,39	42,14
LF	79%	79%	78%	76%	81%	81%	84%	84%	85%	84%	85%
RASK €c	4,51	4,32	4,26	3,65	3,97	4,71	4,35	4,45	4,56	4,5	4,66
CASK €c	4,03	4,02	3,90	3,78	3,66	3,72	3,79	3,76	3,73	3,7	3,67
PASK €c	0,48	0,30	0,36	-0,13	0,31	0,99	0,56	0,69	0,83	0,80	0,99