

Pegasus Airlines

NEUTRAL

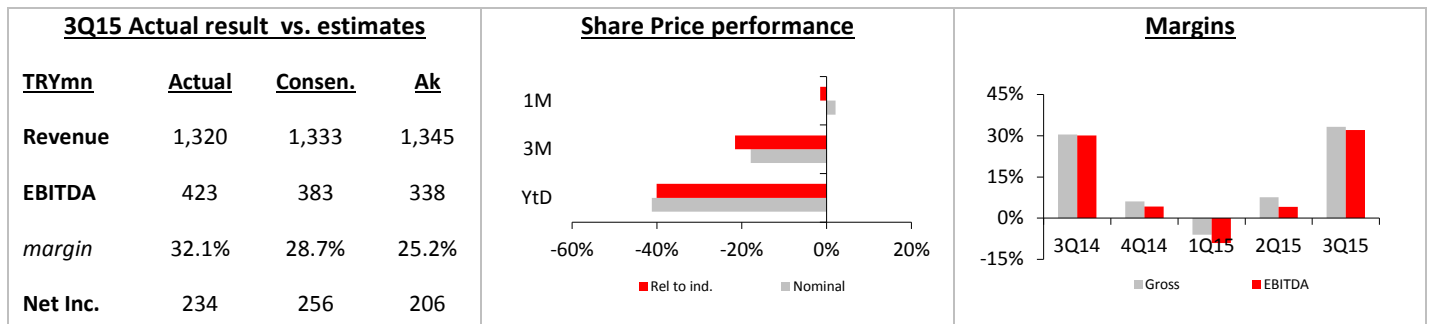
Current price: TRY19.50
12-mo T.Price: TRY22.50

3Q15 Earnings Comment

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Comment: Strong operating performance, yet net income remained below the consensus due to high derivative losses

- ✓ Pegasus recorded TRY234mn net profit in its 3Q15 financial statements, some 10% below the consensus estimate of TRY256mn but above the house call of TRY206mn. The top-line figure was in-line with the estimates (TRY1,320mn actual vs. TRY1,333mn consensus estimate and TRY1,345mn house call). The 3Q15 EBITDA margin was strong at 32.1% with a 2pp YoY expansion, by far better than the 28.7% consensus estimate (nominal EBITDA of TRY423mn beat the consensus by 18%) and 25.2% house estimates. It is worth noting that a quarter ago, the company had recorded an 11pp YoY contraction in its EBITDA margin. However high net financial expenses, driven by the TRY87mn loss recorded from the derivative contracts fully erased the operational gains and pushed the bottom-line below the consensus call.
- ✓ We would expect a positive market reaction to the good Q3 operational delivery of Pegasus Airlines, despite the miss at the bottom-line level. Pegasus shares have underperformed the benchmark index and rival THY by 20% and 16% respectively in the last 3M (since the release of the poor 2Q15 financial results). Besides the slower pax growth and steep yield contraction, the notable deterioration at the on-time performance (fell below the 60% level in August compared to 91% in 2013FY and 85% in 2014FY) had also weighed negatively on the share performance. Under the current circumstances, the pick-up in pax growth (+15.5% YoY in 3Q15 after 10% YoY in 1H15), milder yield decline reported in 3Q15 and the improvement in on-time performance (recovered to 70% in September and 80% in October) should ease part of the concerns in the investors' minds in the short term, in our view. That said, the risks on performance in the long run remain in place, particularly considering the increasing competitive threat from THY. The management will hold a conference call today to discuss the results and the outlook. After quickly reflecting the 3Q15 realizations to our model, we revised up our 2015 and 2016 EBITDA estimates by 13% and 6% respectively. Our new 12-month TP for Pegasus is TRY22.50/share (previously: TRY21.95), "Neutral" maintained.

Key Highlight: The yield contraction was milder in 3Q15 compared to 2Q15, as expected

- ✓ Pegasus' 3Q15 top-line grew 19% YoY to TRY1,320mn. Scheduled passenger revenues in TRY terms were up 21% YoY in 3Q15, accelerating from the 5% YoY growth recorded in 2Q15 – the contraction in yields that hit the 2Q15 top-line was still in effect in 3Q15, but at a lesser magnitude as expected (total US\$ yield was down 17% YoY in 3Q15 compared to 25% drop in 2Q15). Still, ancillary revenues posted 19% YoY growth in EUR terms in 3Q15 (on top of the 25% growth recorded in 1H15). Charter revenues fell by 34% YoY to EUR19mn in 3Q15, maintaining the trend from the previous period. Overall, Pegasus' EUR RASK was down 6% YoY in 3Q15.
- ✓ The airline's 3Q15 EBITDA came in at TRY423mn with 23% YoY growth. Pegasus recorded 37% YoY decline in its fuel CASK in USD terms, parallel to the 45% YoY slide in the jet fuel price. The overall EUR CASK was down 8% YoY in 3Q15 (better than our estimate) following the 4% increase recorded in 1H15.

Key P&L items, TRYmn	3Q15	3Q14	YoY Ch.	2Q15	QoQ chg.	9M15	9M14	YoY Chg.
Revenues	1,320	1,105	19%	834	58%	2,737	2,410	14%
Gross Profit	438	337	30%	63	597%	466	423	10%
Gross marg.	33.2%	30.5%		7.5%		17.0%	17.6%	
EBITDA	423	332	27%	34	1145%	404	384	5%
EBITDA marg.	32.1%	30.1%		4.1%		14.8%	15.9%	
Net Profit	234	251	-7%	35	562%	195	235	-17%

Key B/S & CFS items, TRYmn	3Q15	2Q15	1Q15	4Q14	3Q14
Net debt	228	322	408	497	84
FX position	1432	1091	842	811	875
OP. cash flow	262	236	116	-223	251
Free cash flow	177	173	101	-260	238

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