

Common	PGSUS TI
Recommendation	HOLD
Last price	TRY19.50
Target price	TRY21.00
Upside	8%
Free float	35%

Market cap	\$684 mln
Enterprise value	TRY2,384 mln
ADT, 100 days	\$12.2 mln

Prices as of November 9, 2015

Pegasus Airlines

Soft Oil Price Fuels 3Q15 Margins

Pegasus Airlines released 3Q15 IFRS results yesterday. The company delivered TRY234 mln in net income, down 7% y-o-y and 10% below the consensus of TRY256 mln, but in line with our TRY236 mln forecast. The earnings miss came despite a stronger than expected operating performance due to a TRY87 mln loss on hedging instruments. CASK was down 22% y-o-y on the back of the soft fuel prices, which boosted operating margins by 2 pp y-o-y across the board. As the drop in fuel expenses/ASK was ahead of our expectations, TRY423 mln in EBITDA in 3Q15 (up 27% y-o-y) beat both our and the consensus estimates by 18% and 10%, respectively. Hence, we expect a positive reaction to the 3Q15 results today. The management will hold a conference call to discuss the results today at 10:00 Istanbul time. In the meantime, we maintain our HOLD recommendation and TRY21.00 per share target price for Pegasus Airlines.

- Scheduled passenger revenues again declined (this time 7% y-o-y in dollar terms) as yields remained under pressure amid a weak lira and declining fuel costs. However, similar to the situation with Turkish Airlines, Pegasus Airlines experienced a milder y-o-y yield contraction than in 2Q15 (down 17% in 3Q15 versus 24% in 2Q15), thanks to stronger demand during the quarter. Ancillary revenues remained flat at \$69 mln (ancillary revenues improved 3% to EUR9.3/passenger in 3Q15). As the overall load ratio was down 1 pp y-o-y, RASK dropped 20%, which was in line with our forecast.
- CASK shed 22% in dollar terms thanks to lower jet fuel, personnel and ground-handling expenses, while lease expenses surged 10% amid aggressive capacity expansion. Meanwhile, non-fuel CASK (down 9%) was in line with our estimate, as the 37% retreat in fuel costs/ASK exceeded our 31% forecast, and overall CASK remained 5% below our estimate.
- Due to the expansion in the RASK/CASK spread, the EBITDA margin leaped 2 pp y-o-y to 32% versus our 27% forecast. The TRY423 mln in 3Q15 EBITDA was up 27% y-o-y and exceeded our and the consensus forecasts.
- The solid margin expansion seen in 3Q15 will likely lead to a positive reaction in the stock, which has underperformed the BIST 100 by 20% since the disappointing 2Q results. The takeaways from today's conference call will set the tone for the longer-term performance of the stock. For now, we keep our cautiously optimistic view on Pegasus Airlines with a HOLD recommendation and target price of TRY21.00 per share.

Pegasus Airlines 3Q15 IFRS results, TRY mln

	3Q14	4Q14	1Q15	2Q15	3Q15	Q-o-Q	y-o-y	3Q15E	A/E	3Q15C	A/C
Revenues	1,105	672	583	834	1,320	58%	19%	1,328	-0.6%	1,333	-1.0%
EBITDA	332	28	(53)	34	423	n/m	27%	357	18%	383	10%
EBITDA margin	30.1%	4.2%	-9.1%	4.1%	32.1%	-	-	26.9%	-	28.7%	-
Net income	251	(93)	(74)	35	234	562%	-7.1%	236	-0.9%	256	-8.7%
Net margin	22.8%	-13.8%	-12.7%	4.2%	18%	-	-	17.8%	-	19.2%	-

C – Research Turkey consensus estimates

Source: Company, Deniz Invest Research

Summary IFRS income statement, TRY mln									
	2Q15	3Q15	Q-o-Q	3Q14	3Q15	y-o-y	9m14	9m15	y-o-y
Revenues	834	1,320	58.3%	1,105	1,320	19.5%	2,410	2,737	13.6%
Gross income	63	438	596.8%	337	438	30.2%	423	466	10.1%
EBIT	-10	376	n/m	291	376	29.4%	259	273	5.8%
EBITDA	34	423	n/m	332	423	27.3%	384	404	5.3%
EBITDAR	112	513	356.4%	382	513	34.4%	521	637	22.3%
Net income	35	234	562.2%	251	234	-7.1%	236	195	-17.5%
Operational highlights									
<i>Gross margin</i>	7.5%	33.2%	-	30.5%	33.2%	-	17.6%	17.0%	-
<i>Operating margin</i>	-1.1%	28.5%	-	26.3%	28.5%	-	10.7%	10.0%	-
<i>EBITDA margin</i>	4.1%	32.1%	-	30.1%	32.1%	-	15.9%	14.8%	-
<i>EBITDAR margin</i>	13.5%	38.9%	-	34.5%	38.9%	-	21.6%	23.3%	-
<i>Net margin</i>	4.2%	17.7%	-	22.8%	17.7%	-	9.8%	7.1%	-

Source: Company, Deniz Invest Research

Analyst certification

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