

## PEGASUS AIRLINES

**Underperform**

(prev. Underperform)

### Lower CASK was not enough to offset hedge losses

- **Net income came in lower than expectations.** Pegasus Airlines announced TRY 234mn net profit in its 3Q15 financials, lower than the consensus' of TRY 256mn and our estimate of TRY 293mn.
- **Enjoyed better than expected margin expansion.** Top-line of TRY 1,320mn in 3Q15 is broadly in line with the market consensus of TRY 1,333mn but c.5% lower than our estimate of TRY 1,381mn. There is a slowdown in the pace of contraction in passenger revenue yields in EUR terms but not enough to prevent the company from registering 4% y/y lower RASK. The company lowered its CASK by 8% in EUR terms driven mainly by lower fuel cost as ex-fuel CASK was up 6% y/y in 3Q15. Since CASK drops higher than RASK, the company experienced a 432bps y/y EBITDAR margin expansion.
- **Higher financial expenses.** Although the company's headline operating margins came in better than expectations, sizeable hedge losses amounting to TRY 87mn below the EBIT line resulted in less than expected bottom-line reading. Meanwhile, adjusted net debt at EUR 666mn as of end-September 2015 corresponds to 3.2x adj. net /EBITDAR (4Q trailing) and 1.4x adj. net debt/equity which are higher than the levels a year ago. The company's rapid capacity growth necessitates expansion in fleet which in turn increase the indebtedness of the company, mostly via higher operational lease debt.
- **Maintaining our cautious stance.** We perceive Pegasus' results as slightly positive, if not neutral, despite the negative deviation at the bottom-line due to better than expected operating margin. However, we do not anticipate any strong share performance because of 3Q15 financials.

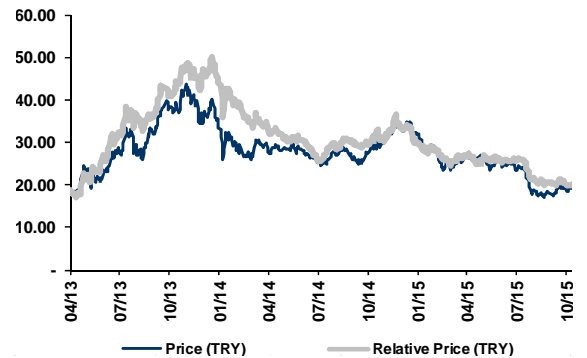
In light of 3Q15 results and after hearing the management's comments in today's conference call, we will review our model assumptions but we are not planning to make material adjustments and we find it too premature to switch our cautious stance for the company in the absence of more visible and sustainable improvement in key operating metrics. Please note that the management fully maintained its full year guidance in the latest company presentation after 3Q15 results which are already within our knowledge.

We have an "Underperform" recommendation for Pegasus with a 12M target share price of TRY 18.2.

#### Stock Data 09 November 2015

<b>Current price</b>	TRY19.5	
<b>Target price</b>	TRY18.2	
<b>DPS</b>	TRY0.0	
<b>Total return</b>	-7%	
<b>Current Mcap</b>	TRY1,994	mn/US\$683mn
Bloomberg Ticker	PGSUS TI	
Number of outstanding shares (mn)	102	
High / Low Price Range (12M)	34.95/17.10	
3-m Average Daily Turnover (\$ mn)	13.0	

Price Performance (%)	1M	3M	6M	YtD
Return	1.3	-17.1	-22.8	-41.2
Relative to BIST100	-2.0	-21.6	-19.5	-38.5



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**Pegasus Airlines– 3Q15 Summary Financials (\*)**

PGSUS- IFRS, TRYmn								
Income Statement	3Q15	3Q14 hg yoy(%)	9M15	9M14 hg yoy(%)	2Q15	Chg qoq (%)		
Revenues	1,320	1,105	19%	2,737	2,410	14%	834	58%
COGS	-882	-768	15%	-2,271	-1,987	14%	-771	14%
Gross Profit	438	337	30%	466	423	10%	63	597%
OPEX	-62	-46	36%	-192	-164	17%	-72	-14%
EBIT	376	291	29%	273	259	6%	-10	-4033%
EBITDA	423	332	27%	404	384	5%	34	1145%
EBITDAR	513	382	34%	637	521	22%	112	356%
Other income, net	-38	44	n.m.	30	53	-43%	-23	67%
Financial income, net	-40	-23	79%	-33	-5	n.m.	51	-178%
Profit Before Tax	298	312	-5%	271	307	-12%	19	1448%
Minority interest	6	2	319%	3	-1	n.m.	3	n.m.
Taxes	-58	-60	-4%	-73	-73	0%	19	-400%
Net Profit	234	251	-7%	195	235	-17%	35	562%

Margins(%)	3Q15	3Q14 hg yoy(%)	9M15	9M14 hg yoy(%)	2Q15	Chg qoq (%)		
Gross	33.2%	30.5%	2.7 pp	17.0%	17.6%	-0.5 pp	7.5%	25.7 pp
EBITDA	32.1%	30.1%	2 pp	14.8%	15.9%	-1.2 pp	4.1%	28 pp
EBITDAR	38.9%	34.5%	4.3 pp	23.3%	21.6%	1.7 pp	13.5%	25.4 pp
Net	17.7%	22.7%	-5 pp	7.1%	9.8%	-2.6 pp	4.2%	13.5 pp

Balance Sheet	3Q15	3Q14 hg yoy(%)	9M15	9M14 hg yoy(%)	2Q15	Chg qoq (%)		
Cash and cash equivalent	1,358	1,235	10%	1,358	1,235	10%	1,098	24%
Trade receivables	356	316	13%	356	316	13%	389	-9%
Inventories	12	5	118%	12	5	118%	10	22%
LT assets	2,501	2,096	19%	2,501	2,096	19%	2,236	12%
Total assets	4,643	3,818	22%	4,643	3,818	22%	3,988	16%
Financial debt	1,586	1,497	6%	1,586	1,497	6%	1,419	12%
Trade payables	350	240	46%	350	240	46%	267	31%
LT liabilities	1,783	1,630	9%	1,783	1,630	9%	1,597	12%
Equity	1,668	1,340	24%	1,668	1,340	24%	1,218	37%
Total liabilities	4,643	3,818	22%	4,643	3,818	22%	3,988	16%

Financial Ratios	3Q15	3Q14 hg yoy(%)	9M15	9M14 hg yoy(%)	2Q15	Chg qoq (%)		
Net debt (on B/S)	228	261	-13%	228	261	-13%	322	-29%
Adj. Net debt (incl. off B/S)	2,278	1,345	69%	2,278	1,345	69%	2,131	7%
Net debt/equity	0.1	0.2	-5.8 pp	0.1	0.2	-5.8 pp	0.3	-12.7 pp
Adj. Net debt/EBITDAR (4C)	3.2	2.3	84 pp	3.2	2.3	84 pp	3.6	-46.4 pp
Receivable days	24	26	-1	36	36	0	42	-18
Inventory days	1	1	1	1	1	1	1	0
Payable days	36	28	8	42	33	9	31	5
Net working capital days	-10	-2	-8	-5	4	-9	12	-22

Source: Company Data, YKY Research

PGSUS 3Q15 Results IFRS, (TRY, mn)	Reported			Expected		Reported	
	3Q15	3Q14	y/y	YKY	Cons.	vs. YKY	vs. Cons.
Sales	1,320	1,105	19%	1,381	1,333	-4.5%	-1.0%
EBITDA	423	332	27%	407	383	3.9%	10.4%
Net Income	234	251	-7%	293	256	-20.1%	-8.7%
EBITDA margin	32.1%	30.1%	2 pp	29.5%	28.7%	2.6 pp	3.3 pp
Net profit margin	17.7%	22.7%	-5 pp	21.2%	19.2%	-3.5 pp	-1.5 pp

Source: Company Data, YKY Research

(\*) EBIT, EBITDA, and EBITDAR calculation methodologies might vary between us and the company and the consensus

## Coverage Cluster

Company	Ticker	Analyst
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Alarko REIT	ALGYO	Elvin Akbulut Daglier
Aygaz	AYGAZ	Elvin Akbulut Daglier
Cimsa	CIMSA	Akif Moroglu
Coca-Cola	CCOLA	Akif Moroglu
Dogan Holding	DOHOL	Akif Moroglu
Emlak Konut REIT	EKGYO	Elvin Akbulut Daglier
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Turk Telekom	TTKOM	Mehmet Aydin Agyuz
Turk Traktor	TTRAK	Mehmet Aydin Agyuz
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Akcansa	AKCNS	Akif Moroglu
Akfen Holding	AKFEN	Gizem Celik
Anadolu Cam	ANACM	Akif Moroglu
Anadolu Hayat	ANHYT	Sezgi Bice Ozener
BIM	BIMAS	Murat Borekci
Celebi	CLEBI	Gorkem Goker
Eczacibasi Ilac	ECILC	Gizem Celik
Erdemir	EREGL	Akif Moroglu
Garanti Bankasi	GARAN	Murat Borekci - Sezgi Bice Ozener
Kardemir (D)	KRDMD	Akif Moroglu
Kiler Gida	KILER	Murat Borekci
Mardin Cimento	MRDIN	Akif Moroglu
Pinar Sut	PNSUT	Gizem Celik
Selcuk Eczacibasi	SELEC	Gizem Celik
Sinpas REIT	SNGYO	Elvin Akbulut Daglier
Sise Cam	SISE	Akif Moroglu
Soda Sanayi	SODA	Akif Moroglu
Tat Gida	TATGD	Gizem Celik
Tofas	TOASO	Mehmet Aydin Agyuz
Trakya Cam	TRKCM	Akif Moroglu
Tupras	TUPRS	Elvin Akbulut Daglier
Turkcell	TCELL	Mehmet Aydin Agyuz
Ulker Biskuvi	ULKER	Gizem Celik
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Arcelik	ARCLK	Mehmet Aydin Agyuz
Avivasa	AVISA	Sezgi Bice Ozener
Ayen Enerji	AYEN	Elvin Akbulut Daglier
Bizim	BIZIM	Murat Borekci
Halkbank	HALKB	Murat Borekci - Sezgi Bice Ozener
Pegasus	PGSUS	Gorkem Goker
TAV Havalimanlari	TAVHL	Gorkem Goker
Tumosan	TMSN	Mehmet Aydin Agyuz-Efe Cetinel
Vakifbank	VAKBN	Murat Borekci - Sezgi Bice Ozener
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Anadolu Sigorta	ANSGR	-
Koza Altin	KOZAL	Mehmet Aydin Agyuz

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<b>Hold:</b> expected total returns of +/-10% over next 6-12 months	<b>Hold:</b> expected total returns of 0-15% over next 6-12 months
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