

Pegasus Airlines

OUTPERFORM

Current price: 28.45 TRY

12-mo T.Price: 35.00 TRY

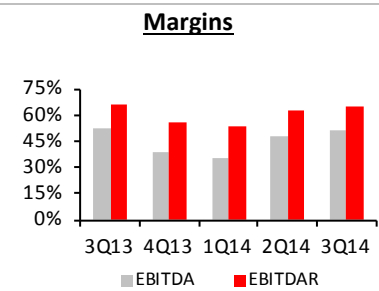
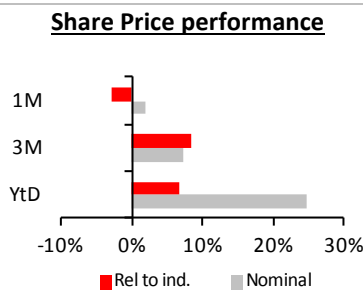
3Q14 Earnings Comment

Analyst Omer Omerbas

+90 (212) 334 95 21

omer.omerbas@akyatirim.com.tr

3Q14 Actual result vs. estimates				Share Price performance		Margins	
EURmn	Actual	Cnbc-e	Ak				
Revenue	1,109	1,048	1,020	1M			
EBITDA	335	282	268	3M			
margin	30.2%	26.9%	26.3%	YtD			
Net Inc.	251	209	271				



Comment: Strong operational performance, bottom-line beat the consensus

- ✓ Pegasus recorded TL251mn net profit in 3Q14 which beat the consensus estimate (CNBC-e poll: TL209mn net profit) yet stood closer to the house call (TL271mn). We note that our estimates regarding the net financial and other income lines ended up bullish compared to the actual result, otherwise house net income call would have been notably below the actual figure. In brief, Pegasus' operational performance was by far better than the consensus with actual EBITDA margin (30.2% in 3Q14, following the 4% recorded in 1H14) beating the estimates by over 3 pps.
- ✓ Key topic ahead of Pegasus' Q3 release was the carrier's yield performance following the steep decline in the previous quarters: exceeding the expectations, Pegasus' 3Q14 EUR pax yield posted a YoY increase (by 2%).
- ✓ We treat Pegasus' 3Q14 financial result as positive. Q3 realizations render the 2014 consensus expectations somewhat bearish, particularly on the EBITDA front (Bloomberg consensus estimate is TRY414mn vs. TRY386mn realized as of 9M14), hence upward revisions in estimates may be expected. The management will hold a webcast today at 17:00 local time to discuss the results. We are planning to revisit our estimates after the call. For now, we maintain our 12-mo TP of TRY35.00 and "Outperform" rating for Pegasus. Key risk ahead is the softening trend in pax volumes Pegasus recorded 25%, 20% and 15% YoY growth in 1Q, 2Q and 3Q14 respectively (adding up to 19% YoY in 9M14), and the we calculate that the YoY pax growth further lost pace in October (14% YoY). Accordingly we see a downside risk on the management's running target for 20% ax growth in 2014.

Key Highlight: Positive passenger yield growth in Q3 after several quarters of YoY slide

- ✓ 3Q14 top-line stood 33% higher YoY, beating the consensus and house estimates by 6% and 9% respectively. Scheduled passenger revenues were up 33% YoY driven by 17% RPK growth, 10% YoY TL depreciation vs. the FX basket and yield growth. We remind that Pegasus' passenger yield posted YoY contraction for the five-quarters-in-a-row since 1Q13 whereas the 2Q14 realization had showed signs of normalization in the trend. We were already expecting a good YoY improvement in yields by Pegasus in 3Q14, yet the actual delivery of a positive growth exceeded our estimate. As for a breakdown, domestic TL yields were up 5% YoY (after 4% YoY decline in 1H14) while int'l EUR yields were up by 6.5% (after the massive 13% YoY decline in 1H14). Ancillary income maintained its strength in 3Q14 with 55% YoY growth (+40% YoY in EUR terms), extending the 70% YoY growth recorded in 1H14.
- ✓ 3Q14 EBITDA amounted to TL335mn, with an eye-catching 30.2% EBITDA margin (after the 4% margin recorded in 1H14) significantly above the estimates. The realized EBITDA figure points to 32% YoY increase. It is worth noting that the EUR RASK was 2% higher in 3Q following the 16% YoY contraction in 1H14. Fuel CASK in US\$ terms was up by 1% YoY in 3Q14; in other words the carrier is yet to benefit from the falling oil prices.

Key P&L items, TRYmn	3Q14	3Q13	YoY Ch.	2Q14	QoQ chg.	9M14	9M13	YoY Chg.
Revenues	1,109	835	33%	799	39%	2,420	1,824	33%
EBITDA	335	253	32%	122	174%	386	405	-4%
EBITDA marg.	30.2%	30.3%		15.3%		16.0%	22.2%	
EBITDAR	384	279	37%	169	128%	523	474	10%
EBITDAR marg.	34.7%	33.5%		21.1%		21.6%	26.0%	
Net Profit	251	115	118%	87	187%	235	162	45%

Key B/S items, TLmn	3Q14	2Q14	1Q14	4Q13	3Q13
Net debt	84	493	758	568	537
FX position	875	689	714	715	807
OP. cash flow	250	264	4	-86	113
Free cash flow	237	234	-16	-102	109

This report has been prepared by Ak Investment (Ak Yatırım Menkul Değerler A.Ş.) by using the information and data obtained from sources which are reasonably believed to be trustworthy. The statements indicated in the report should not be assumed to be sales or purchase offers under any circumstances. Ak Investment does not guarantee that the information contained is true, accurate and unchangeable. Thus, the readers are advised to have the accuracy of the information contained confirmed before acting by relying on such information and the readers shall bear the responsibility of the decisions taken by relying thereon. Ak Investment shall not in any case be responsible for incompleteness and inaccuracy of the information. Furthermore, the personnel and consultants of Ak Investment and Akbank shall not have any responsibility in any case for direct or indirect damage caused by such information. Moreover, Ak Investment shall not be held liable for any damage to the hardware or software of the receiver caused by a virus, detected transfer or any other technical reason in case of the receipt of the reports via internet or through e-mail.

© 2014 **AK Investment**