

TAV Airports (TAVHL TI)

Upgrade to Buy: Valuation turns attractive again

- ◆ Traffic, profitability and “3A” investments remain on track
- ◆ We incorporate planned new investments at Almaty
- ◆ Upgrade to Buy from Hold; raise TP to TRY325 from TRY310

Strong Q3: Despite headwinds from currency and inflation as well as a high base from last year, TAV managed to grow revenues, EBITDA and adjusted net profit by 18%, 12% and c6% y-o-y in 3Q24 in EUR terms. Top-line growth (18%) was well in excess of traffic growth (6%) enabled by consolidation of Paris Lounge operations, price increases and Ankara’s exit from the capped traffic scheme. Despite high wage inflation in Türkiye, EBITDA margin contraction was limited (39.2% from 41.4% in 3Q23) thanks to 60% of revenue being driven by non-Türkiye operations.

Solid progress in new investments: TAV is coming close to finalising its “3A” investments at the Almaty, Antalya and Ankara Airports. Almaty was already completed with the opening of the new terminal building in June. Antalya new terminal is 91% completed for a targeted opening at the end of 1Q25. Airside investments at Ankara are progressing faster than original plans, with expected completion now brought forward to 2Q25 from 4Q25. All this should translate into a continuation of stronger revenue growth next year than traffic thanks to incremental commercial revenues at Almaty, higher tariffs at Ankara with the start of the new concession in May 2025, and continued growth in services companies.

Almaty becoming the new crown jewel: Almaty Airport’s progress since TAV’s acquisition in April 2021 has been remarkable, with the airport today accounting for c51% of TAV’s consolidated revenue and c27% of EBITDA (9M24). The airport’s growing presence as a cargo hub in central Asia has prompted TAV to plan for further new airside investments in the range of EUR150-300m in 2025-28, to prepare the airport for future growth. The final investment size will depend on the outcome of tariff negotiations, which TAV expect to crystallise by February 2025. TAV targets 13-15% positive impact on Almaty’s EBITDA from the planned investment.

Our estimates now incorporate new Almaty plan: Among other revisions to our estimates, we assume EUR250m additional investments at Almaty in 2025-28 and tariff adjustments in line with the new commitments. This overall lifted the fair value for Almaty in our SOTP model by 10% (now c30% of total SOTP value). With relatively more cautious traffic growth in 2025 for the TAV Group as a whole (we cut international traffic by 3%, now growing 10% y-o-y), our 2025e EBITDA is unchanged with a flattish margin around 30%. We see the margin rising slightly to c31% in 2026.

Raise TP, upgrade to Buy: Our new forecast and a slightly higher EUR/TRY spot rate result in a higher TP of TRY325 (from TRY310). This implies 39.5% upside and we upgrade to Buy from Hold. The shares have de-rated by c15% in the past three months and offer an attractive risk/reward profile, in our view, also implied by the valuation vs peers (average 35% discount on 2024-25e EV/EBITDA, c20% discount on PE).

Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

Equities Transportation Infrastructure

Türkiye


UPGRADE TO BUY
TARGET PRICE (TRY)
325.00
PREVIOUS TARGET (TRY)
310.00
SHARE PRICE (TRY)
233.00
(as of 04 Nov 2024)
UPSIDE/DOWNSIDE
+39.5%

MARKET DATA

Market cap (TRYm)	84,645	Free float	44%
Market cap (USDm)	2,464	BBG	TAVHL TI
3m ADTV (USDm)	14	RIC	TAVHL.IS

FINANCIALS AND RATIOS (EUR)

Year to	12/2023a	12/2024e	12/2025e	12/2026e
HSBC EPS	0.69	0.46	0.54	0.69
HSBC EPS (prev)	0.68	0.48	0.54	0.66
Change (%)	0.7	-4.5	0.1	4.6
Consensus EPS	0.37	0.47	0.70	0.76
PE (x)	9.1	13.6	11.5	9.0
Dividend yield (%)	0.0	0.0	4.4	5.6
EV/EBITDA (x)	7.9	6.7	5.8	5.0
ROE (%)	19.1	11.1	12.0	14.3

52-WEEK PRICE (TRY)



Source: LSEG IBES, HSBC estimates

Cenk Orcan*

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Conditional love

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Financials & valuation: TAV Airports

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (EURm)				
Revenue	1,310	1,626	1,899	2,143
EBITDA	385	484	574	673
Depreciation & amortisation	-138	-157	-175	-180
Operating profit/EBIT	398	362	450	559
Net interest	-107	-151	-164	-190
PBT	291	210	286	369
HSBC PBT	206	210	286	369
Taxation	-32	-34	-72	-92
Net profit	249	167	197	252
HSBC net profit	249	167	197	252
Cash flow summary (EURm)				
Cash flow from operations	177	297	359	440
Capex	-217	-287	-214	-189
Cash flow from investment	-217	-287	-214	-189
Dividends	-14	0	-99	-99
Change in net debt	35	207	81	50
FCF equity	-39	10	145	251
Balance sheet summary (EURm)				
Intangible fixed assets	238	260	273	284
Tangible fixed assets	2,251	2,574	2,664	2,704
Current assets	1,032	842	923	970
Cash & others	720	452	468	459
Total assets	4,753	4,959	5,189	5,336
Operating liabilities	974	1,051	1,084	1,063
Gross debt	2,253	2,192	2,289	2,330
Net debt	1,533	1,740	1,821	1,871
Shareholders' funds	1,411	1,598	1,697	1,823
Invested capital	1,827	2,173	2,307	2,436

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	24.6	24.1	16.8	12.8
EBITDA	19.4	25.8	18.7	17.2
Operating profit	42.4	-9.1	24.3	24.2
PBT	84.7	-27.6	36.1	28.9
HSBC EPS	103.9	-33.0	18.1	27.7
Ratios (%)				
Revenue/IC (x)	0.8	0.8	0.8	0.9
ROIC	12.7	13.7	13.4	15.6
ROE	19.1	11.1	12.0	14.3
ROA	7.8	5.7	6.2	7.6
EBITDA margin	29.4	29.8	30.3	31.4
Operating profit margin	30.4	22.3	23.7	26.1
EBITDA/net interest (x)	3.6	3.2	3.5	3.6
Net debt/equity	107.5	107.7	106.2	101.6
Net debt/EBITDA (x)	4.0	3.6	3.2	2.8
CF from operations/net debt	11.6	17.1	19.7	23.5
Per share data (EUR)				
EPS Rep (diluted)	0.69	0.46	0.54	0.69
HSBC EPS (diluted)	0.69	0.46	0.54	0.69
DPS	0.00	0.00	0.27	0.35
Book value	3.88	4.40	4.67	5.02

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	2.3	2.0	1.7	1.6
EV/EBITDA	7.9	6.7	5.8	5.0
EV/IC	1.7	1.5	1.4	1.4
PE*	9.1	13.6	11.5	9.0
PB	1.6	1.4	1.3	1.2
FCF yield (%)	-1.7	0.4	6.4	11.1
Dividend yield (%)	0.0	0.0	4.4	5.6

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a	Governance Indicators	12/2023a
GHG emission intensity*	30.0	No. of board members	11
Energy intensity*	85.2	Average board tenure (years)	12.0
CO ₂ reduction policy	Yes	Female board members (%)	27.3
Social Indicators		Board members independence (%)	36.4
12/2022a			
Employee costs as % of revenues	23.1		
Employee turnover (%)	13.5		
Diversity policy	Yes		

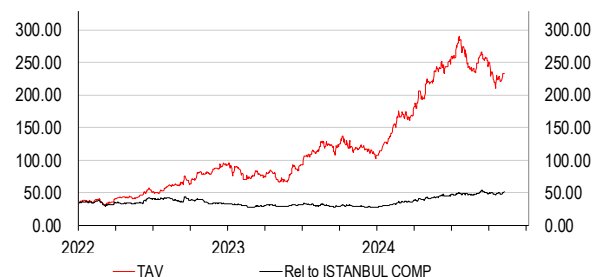
Source: Company data, HSBC

* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	233.00	Free float	44%
Target price (TRY)	325.00	Sector	Transport Infrastructure
RIC (Equity)	TAVHL.IS	Country/Region	Türkiye
Bloomberg (Equity)	TAVHL TI	Analyst	Cenk Orcan
Market cap (USDm)	2,464	Contact	+90 212 376 46 14

Price relative

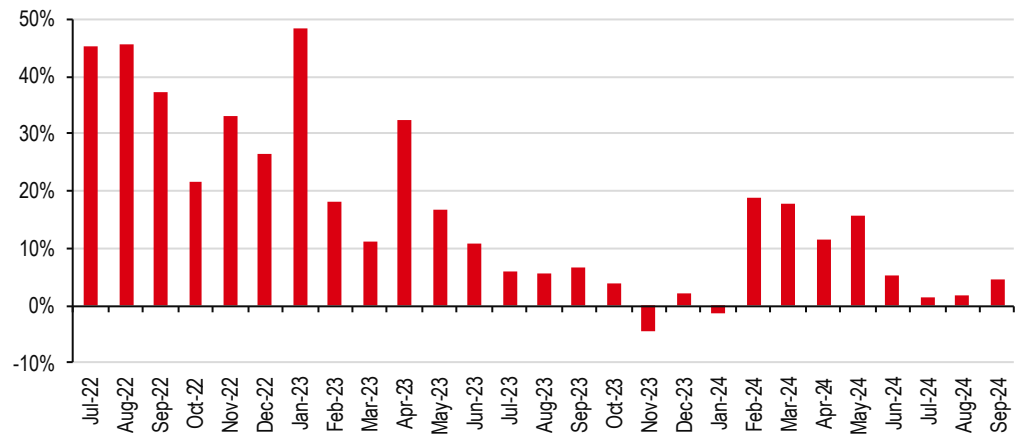


Source: HSBC

Note: Priced at close of 04 Nov 2024

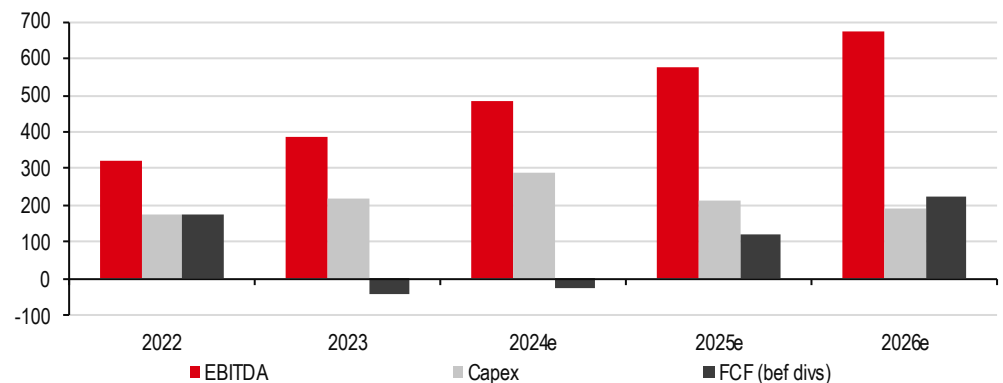
TAV in charts

Turkish tourism: foreign visitor arrivals up 7% y-o-y in Jan-Sep 2024*



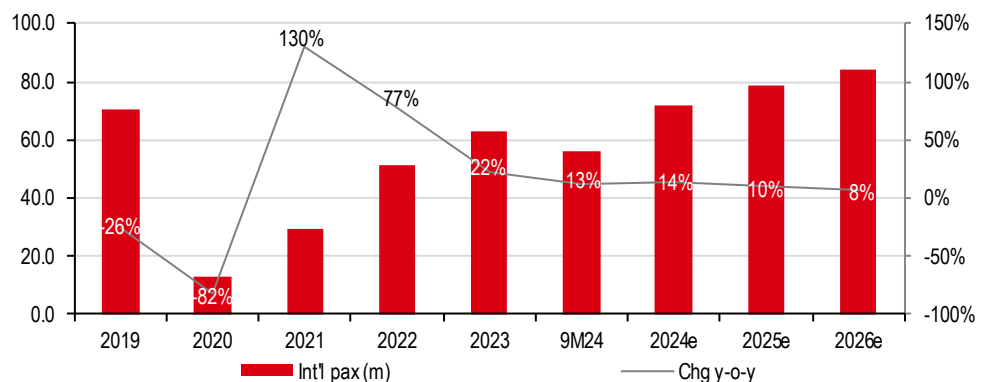
Source: Ministry of Tourism * Monthly foreign arrivals via air y-o-y change

TAV FCF profile (EURm)



Source: Company data, HSBC estimates

TAV international traffic



Source: Company data, HSBC estimates

Forecast changes

We make modest forecast changes driven by a slight cut to passenger estimates on the operational side, but an increase in profits from equity investees (equity pick-up profits) as per year-to-date trends. Our EBITDA forecasts remain broadly the same for 2024-25 and slightly higher for 2026 as we incorporate benefits of additional investments at Almaty. In return, we project higher capital expenditure for 2025-26, largely due to Almaty, resulting in slower deleveraging than we previously assumed. We note that we have incorporated higher tariffs at Almaty due to the new investment plan but that the new concession at Antalya Airport (part of equity investees) kicks in 2027 with higher tariffs than currently.

TAV: summary interim results

EURm	3Q24	3Q23	chg y-o-y	2Q24	chg q-o-q	9M24	9M23	chg y-o-y
Revenue	499.4	421.8	18%	411.4	21%	1,231.5	982.0	25%
EBITDA	196.0	174.6	12%	129.4	52%	411.3	321.3	28%
EBITDA mg	39.2%	41.4%	-2.1%	31.4%	7.8%	33.4%	32.7%	0.7%
Net profit	103.9	183.7	-43%	72.1	44%	184.8	176.1	5%
Capex	63.0	68.7	-8%	52.0	21%	164.8	166.6	-1%
Net debt	1,614	1,672	-3%	1,739	-7%	1,614	1,672	-3%
Total pax (m)	37.2	35.3	6%	28.7	30%	83.1	74.4	12%
Int'l pax (m)	27.4	25.8	6%	19.6	40%	56.4	50.0	13%

Source: Company data

Almaty Airport estimates

EURm	2022	2023	2024e	2025e	2026e	2027e	2028e
Total pax	7.2	9.5	11.3	12.5	13.5	14.3	15.0
Int'l pax	2.7	4.1	5.0	5.9	6.6	7.2	7.6
int'l/total	37%	43%	45%	47%	49%	50%	51%
Revenue	334	406	482	574	646	708	758
EBITDA	85	88	96	121	142	163	174
EBITDA mg	25.6%	21.7%	20.0%	21.0%	22.0%	23.0%	23.0%
Net profit	55	57	48	67	82	96	104
Capex	114	48	50	64	93	98	73

Source: Company data, HSBC estimates

TAV: forecast changes summary

EURm	2023		2024e				2025e				2026e			
	actual	y-o-y	old	new	new/old	y-o-y	old	new	new/old	y-o-y	old	new	new/old	y-o-y
Revenue	1,310	25%	1,652	1,626	-2%	24%	1,920	1,899	-1%	17%	2,153	2,143	0%	13%
EBITDA	385	19%	490	484	-1%	26%	575	574	0%	19%	652	673	3%	17%
EBITDA margin	29.4%	-1.3%	29.7%	29.8%	0.1%	0.4%	30.0%	30.3%	0.3%	0.5%	30.3%	31.4%	1.1%	1.2%
EBIT	398	42%	355	362	2%	-9%	449	450	0%	24%	545	559	3%	24%
Equity pick up profits	151	185%	25	35	40%	-77%	48	50	4%	42%	73	66	-10%	31%
Net financial cost	-107	-12%	-126	-151	20%	41%	-155	-164	6%	8%	-188	-190	1%	16%
PBT	291	85%	229	210	-8%	-28%	294	286	-3%	36%	357	369	3%	29%
Net profit (after minority)	249	104%	175	167	-4%	-33%	197	197	0%	18%	241	252	5%	28%
Net profit (adjusted)*	94	-2%	175	167	-4%	79%	197	197	0%	18%	241	252	5%	28%
TAV total pax (m)	95.5	21.9%	109.2	106.8	-2%	12%	119.9	115.9	-3%	8%	128.6	124.0	-4%	7%
Int'l pax	62.9	21.9%	73.5	71.6	-3%	14%	80.7	78.6	-3%	10%	86.6	84.5	-2%	8%
Domestic pax	32.6	22.0%	35.7	35.3	-1%	8%	39.2	37.2	-5%	6%	42.0	39.5	-6%	6%
Capex	216.6	25%	282.2	287.4	2%	33%	138.0	213.8	55%	-26%	109.7	189.3	73%	-11%
Net debt	1,533	6%	1,800	1,740	-3%	14%	1,580	1,821	15%	5%	1,382	1,871	35%	3%
Net debt/EBITDA	4.0	-12%	3.7	3.6	-2%	-10%	2.7	3.2	15%	-12%	2.1	2.8	31%	-12%

Source: Company data, HSBC estimates

Valuation and risks

	Valuation	Risks
TAV Airports TAVHL TI Upgrade to Buy	<p>Current price: TRY233.00</p> <p>Target price: TRY325.00</p> <p>Up/downside: 39.5%</p> <p>Our valuation is based on a sum-of-the-parts approach in which we add up our NAV estimates for the underlying parts (ie, the different airports operated and the services companies). We use a EUR-based DCF model to determine our NAV estimates based on the following assumptions: a EUR risk-free rate for Türkiye of 7.4% (unchanged, based on Türkiye's long-term EUR bond rates), blended risk-free rate of 7.1% (from 8.2% due to higher weight for lower RFR operations vs Türkiye), equity risk premium of 5.5% (unchanged) and a beta of 1.03 (from 0.96, based on Bloomberg-adjusted beta), leading to an NAV weighted WACC of 8.8% (unchanged).</p> <p>Our forecast revisions and the use of a slightly higher spot EUR/TRY rate (37.40 from 35.70) overall result in our target price rising to TRY325 from TRY310. Our revised target price implies c40% upside. We therefore upgrade our rating to Buy from Hold.</p>	<p>Downside risks: (1) any event that impacts travel demand adversely, pushing tourism activity and, therefore, air traffic below our expectations (such as security issues, geopolitical tensions, travel restrictions imposed by other countries, pandemics, strikes, severe weather conditions); (2) new airport deals (or renewal of existing concessions) that would be deemed value-dilutive by the market; and (3) lower-than or later-than-expected dividend payments.</p>

Priced at 04 Nov 2024
Source: HSBC estimates

TAV peer comps

Company	EV/EBITDA		PE		Div yield	
	2024e	2025e	2024e	2025e	2024e	2025e
European airports	10.2	9.6	17.2	15.1	3.9%	4.5%
LatAm airports	9.2	7.6	14.8	12.4	3.8%	4.6%
Peer group (Europe & LatAm)	9.9	9.1	16.5	14.3	3.8%	4.6%
TAV Airports	6.6	5.7	13.6	11.5	0.0%	4.4%
Premium/(discount)	-33%	-37%	-18%	-20%	-	-

Source: HSBC estimates

TAV – sum-of-the-parts valuation approach (adding up NAV estimates based on DCF)

EURm Subsidiary	Total value		TAV stake %	Stake value		New/Old chg
	Old	New		Old	New	
TAV Almaty	1,159	1,278	85%	985	1,086	10%
TAV Ankara	182	177	100%	182	177	-3%
TAV Izmir	169	162	100%	169	162	-4%
TAV Gazipasa	33	32	100%	33	32	-2%
TAV Bodrum	55	60	100%	55	60	9%
TAV Antalya	2,105	1,843	50%	1,052	921	-12%
TAV Georgia	227	235	80%	182	188	3%
TAV Tunisia	79	78	100%	79	78	-2%
TAV Macedonia	46	41	100%	46	41	-11%
TAV Medinah	659	659	26%	171	171	0%
Ground Handling	884	854	-	674	647	-4%
Havas	464	440	100%	464	440	-5%
TGS	420	415	50%	210	207	-1%
Duty Free (ATU)	179	174	50%	89	87	-3%
F&B (BTA)	81	83	100%	81	83	3%
Zagreb	29	29	15%	4	4	0%
Total SOTP				3,804	3,739	-2%
Net cash (holding)				-648	-584	-10%
NAV total				3,156	3,155	0%
Per share (EUR)				8.69	8.68	0%
EUR/TRY (spot)				35.70	37.40	5%
NAV/share (TRY)				310.00	325.00	5%

Source: HSBC estimates

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Cenk Orcan.

Important disclosures

Equities: Stock ratings and basis for financial analysis

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From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 30 September 2024, the distribution of all independent ratings published by HSBC is as follows:

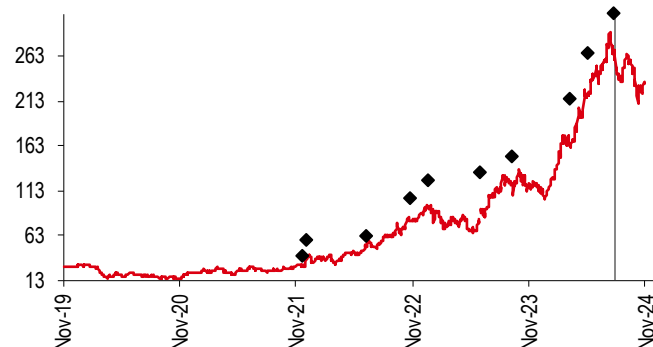
Buy	55%	(15% of these provided with Investment Banking Services in the past 12 months)
Hold	39%	(14% of these provided with Investment Banking Services in the past 12 months)
Sell	6%	(11% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at <http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures>.

Share price and rating changes for long-term investment opportunities

TAV (TAVHL.IS) share price performance TRY Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Hold	29 Jul 2024	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	39.60	23 Nov 2021	Cenk Orcan
Price 2	57.20	03 Dec 2021	Cenk Orcan
Price 3	61.10	08 Jun 2022	Cenk Orcan
Price 4	102.40	25 Oct 2022	Cenk Orcan
Price 5	123.40	20 Dec 2022	Cenk Orcan
Price 6	131.60	04 Jun 2023	Cenk Orcan
Price 7	150.00	13 Sep 2023	Cenk Orcan
Price 8	215.00	07 Mar 2024	Cenk Orcan
Price 9	265.00	07 May 2024	Cenk Orcan
Price 10	310.00	29 Jul 2024	Cenk Orcan

Source: HSBC

To view a list of all the independent fundamental ratings/recommendations disseminated by HSBC during the preceding 12-month period, and the location where we publish our quarterly distribution of non-fundamental recommendations (applicable to Fixed Income and Currencies research only), please use the following links to access the disclosure page:

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HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
TAV HAVALIMANLARI HLDG AS	TAVHL.IS	233.00	04 Nov 2024	7

Source: HSBC

- HSBC has managed or co-managed a public offering of securities for this company within the past 12 months.
- HSBC expects to receive or intends to seek compensation for investment banking services from this company in the next 3 months.
- At the time of publication of this report, HSBC Securities (USA) Inc. is a Market Maker in securities issued by this company.
- As of 30 September 2024, HSBC beneficially owned 1% or more of a class of common equity securities of this company.
- This company was a client of HSBC or had during the preceding 12 month period been a client of and/or paid compensation to HSBC in respect of investment banking services.
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