

Turkish Airlines (THYAO TI)

Buy: Support from fuel and cargo

- ◆ Headwinds from traffic, revenue yields and staff costs partly cushioned by cheaper fuel and strong cargo operations
- ◆ We expect 2024 to close with operating results slightly below a record 2023, and 2025 to be flattish
- ◆ Raise target price to TRY400.00 (from TRY385.00), retain Buy – attractive on EV/EBITDA of 3.6x 2024e, 3.8x 2025e

Fuel and cargo provide support against headwinds. Turkish Airlines (TK) saw a further slowdown in passenger traffic in Q3, building pressure on revenue yields and continued increase in staff costs. These effects were partially cushioned by strong cargo volume and pricing as well as cheaper fuel prices. We expect these dynamics to remain broadly valid through the year end, with the fuel component likely becoming even more supportive.

2024 likely to close on a positive note. The year has seen numerous challenges for TK such as aircraft groundings (GTF engine related), increased capacity in the market from competitors and the high inflation-devaluation gap which keeps non-fuel unit costs rising (due mainly to TRY based payroll). Despite the headwinds, we see the year closing with 8% revenue growth, a moderate 10% EBITDA decline (2023 EBITDA was more than double that of 2019) and adjusted net profit similar to 2023 (around cUSD3bn).

2025 looks flattish to us for now. Based on our revised forecasts, we see capacity (ASK) growing 6% next year, revenue growing 7% and EBITDAR margin declining further to c24% from c25% this year. Aircraft delivery delays will determine capacity offering and hence unit pricing, and for now, slight passenger revenue yield decline of 1% (vs 4% decline in 2024e). Cargo volumes and pricing have shaped up well above our forecasts so far this year and we assume some normalisation in 2025 but still relatively high cargo revenue growth (13%). Our absolute EBITDAR and EBITDA estimates are broadly flattish y-o-y based on assumptions of unchanged fuel price (USD800/t) and 5% further increase in non-fuel unit cost (vs 12% increase in 2024e).

Raise target price to TRY400, reiterate Buy. Our revised DCF parameters and financial forecasts along with a higher spot USD/TRY rate of 34.37 (from 31.67) prompt us to raise our target price to TRY400.00, from TRY385.00. Our revised target price implies c38% upside and we maintain our Buy rating. We see valuation at 2024e EV/EBITDA of 3.6x and 2025e of 3.8x as among the most appealing in our airlines coverage universe. Thanks to strong cash generation in recent years, TK's balance sheet is very healthy with low leverage (1.2x), making it ready to execute the ongoing fleet expansion programme with comfort as well as reinstate dividends after more than a decade's pause, should the board decide as such following full year results.

Equities
Airlines

Türkiye



MAINTAIN BUY

TARGET PRICE (TRY)

400.00

PREVIOUS TARGET (TRY)

385.00

SHARE PRICE (TRY)

290.25

(as of 08 Nov 2024)

UPSIDE/DOWNSIDE

+37.8%

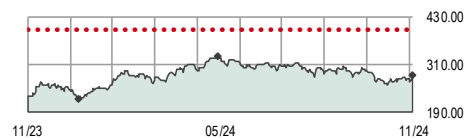
MARKET DATA

Market cap (TRYm)	400,545	Free float	51%
Market cap (USDm)	11,653	BBG	THYAO TI
3m ADTV (USDm)	210	RIC	THYAO.IS

FINANCIALS AND RATIOS (USD)

Year to	12/2023a	12/2024e	12/2025e	12/2026e
HSBC EPS	4.36	2.23	2.08	2.13
HSBC EPS (prev)	2.39	2.18	2.19	na
Change (%)	82.5	2.2	-5.2	na
Consensus EPS	66.38	71.85	71.43	74.60
PE (x)	1.9	3.8	4.1	4.0
Dividend yield (%)	0.0	1.3	1.2	1.3
EV/EBITDA (x)	3.3	3.6	3.8	3.6
ROE (%)	47.6	18.0	14.5	13.1

52-WEEK PRICE (TRY)



11/23 05/24 11/24
 Target price: 400.00
 ♦ High: 330.00 Low: 222.20 Current: 290.25

Source: LSEG IBES, HSBC estimates

Cenk Orcan*

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Conditional love

The 17th edition of the EM Sentiment Survey

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Financials & valuation: Turkish Airlines

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (USDm)				
Revenue	20,942	22,544	24,082	26,604
EBITDA	5,525	4,989	5,024	5,678
Depreciation & amortisation	-2,035	-2,300	-2,580	-2,908
Operating profit/EBIT	2,673	1,841	1,625	2,016
Net interest	-408	-367	-360	-413
PBT	3,641	3,145	2,935	3,013
HSBC PBT	3,641	3,145	2,935	3,013
Taxation	2,380	-72	-68	-69
Net profit	6,021	3,072	2,868	2,943
HSBC net profit	6,021	3,072	2,868	2,943
Cash flow summary (USDm)				
Cash flow from operations	3,781	4,170	4,939	5,124
Capex	-1,155	-3,728	-3,759	-3,676
Cash flow from investment	-1,099	-3,728	-3,759	-3,676
Dividends	0	-154	154	143
Change in net debt	-1,257	-237	1,284	1,306
FCF equity	2,682	441	1,180	1,448
Balance sheet summary (USDm)				
Intangible fixed assets	114	135	135	135
Tangible fixed assets	23,003	25,619	28,550	32,123
Current assets	8,993	11,064	10,497	10,398
Cash & others	6,955	8,328	7,599	7,277
Total assets	35,671	41,159	44,045	47,854
Operating liabilities	5,811	7,153	6,944	7,134
Gross debt	14,247	15,384	15,938	16,922
Net debt	7,292	7,055	8,339	9,645
Shareholders' funds	15,558	18,569	21,110	23,745
Invested capital	24,869	26,325	29,664	33,922

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	13.7	7.6	6.8	10.5
EBITDA	11.7	-9.7	0.7	13.0
Operating profit	-1.6	-31.1	-11.7	24.1
PBT	23.9	-13.6	-6.7	2.6
HSBC EPS	121.0	-49.0	-6.7	2.6
Ratios (%)				
Revenue/IC (x)	0.9	0.9	0.9	0.8
ROIC	24.0	10.3	8.5	8.5
ROE	47.6	18.0	14.5	13.1
ROA	21.0	9.6	8.1	7.7
EBITDA margin	26.4	22.1	20.9	21.3
Operating profit margin	12.8	8.2	6.7	7.6
EBITDA/net interest (x)	13.5	13.6	13.9	13.7
Net debt/equity	46.9	38.0	39.5	40.6
Net debt/EBITDA (x)	1.3	1.4	1.7	1.7
CF from operations/net debt	51.9	59.1	59.2	53.1
Per share data (USD)				
EPS Rep (diluted)	4.36	2.23	2.08	2.13
HSBC EPS (diluted)	4.36	2.23	2.08	2.13
DPS	0.00	0.11	0.10	0.11
Book value	11.27	13.46	15.30	17.21

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	0.9	0.8	0.8	0.8
EV/EBITDA	3.3	3.6	3.8	3.6
EV/IC	0.7	0.7	0.7	0.6
PE*	1.9	3.8	4.1	4.0
PB	0.7	0.6	0.6	0.5
FCF yield (%)	23.0	3.8	10.1	12.4
Dividend yield (%)	0.0	1.3	1.2	1.3

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a	Governance Indicators	12/2022e
GHG emission intensity*	1,003.6	No. of board members	9
Energy intensity*	3,840.5	Average board tenure (years)	4.7
CO ₂ reduction policy	Yes	Female board members (%)	11.1
Social Indicators		Board members independence (%)	33.3
Employee costs as % of revenues	12.2		
Employee turnover (%)	5		
Diversity policy	Yes		

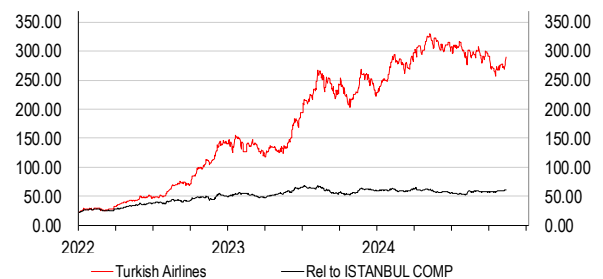
Source: Company data, HSBC

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

Issuer information

Share price (TRY)	290.25	Free float	51%
Target price (TRY)	400.00	Sector	Airlines
RIC (Equity)	THYAO.IS	Country/Region	Türkiye
Bloomberg (Equity)	THYAO TI	Analyst	Cenk Orcan
Market cap (USDm)	11,653	Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 08 Nov 2024

Forecast changes

Our new forecasts reflect numerous revisions including weaker passenger traffic, strong cargo volumes and pricing, higher personnel costs, cheaper fuel price (USD800/t from USD900/t for 2024-25e) and higher investment income (thanks to high liquidity and high interest rates in Türkiye). The combined effects of these changes are: a 2% cut in our 2024e revenue, 10% cut in EBITDA and 2% increase in net profit. For 2025, we incorporate further delays in aircraft deliveries pushing some growth into 2026. We also expect payroll driven high unit cost increase in 2025, driving operating margins further down moderately. We cut 2025e revenue by 4%, EBITDA by 8% and net profit by 5%. We introduce our 2026 estimates.

TK

USDm	2024e				2025e				2026e			
	old	new	new/old	chg yoy	old	new	new/old	chg yoy	old	new	new/old	chg yoy
Revenue	22,897	22,544	-2%	8%	25,021	24,082	-4%	7%	-	26,604	-	10%
Passenger revenue	19,510	18,128	-7%	2%	21,329	19,154	-10%	6%	-	21,205	-	11%
Cargo revenue	2,677	3,672	37%	41%	2,916	4,134	42%	13%	-	4,522	-	9%
EBITDAR	5,811	5,629	-3%	-7%	6,120	5,692	-7%	1%	-	6,397	-	12%
EBITDA	5,186	4,989	-4%	-10%	5,456	5,024	-8%	1%	-	5,678	-	13%
Net operating profit	2,693	1,841	-32%	-31%	2,561	1,625	-37%	-12%	-	2,016	-	24%
EBIT	3,721	3,931	6%	-1%	3,614	3,437	-5%	-13%	-	3,565	-	4%
Net financial income	-98	-786	702%	147%	-252	-502	99%	-36%	-	-552	-	10%
PBT	3,623	3,145	-13%	-14%	3,362	2,935	-13%	-7%	-	3,013	-	3%
Net profit	3,007	3,072	2%	-49%	3,026	2,868	-5%	-7%	-	2,943	-	3%
Passengers (m)	89.6	84.8	-5%	2%	93.7	87.9	-6%	4%	-	94.5	-	8%
Load factor	83.5%	81.8%	-1.7%	-0.8%	83.8%	81.9%	-1.9%	0.1%	-	82.1%	-	0.2%
Capacity (ASK - bn)	262.0	253.0	-3%	8%	287.3	268.53	-7%	6%	-	295.27	-	10%
RPK (bn) - total	218.8	207.06	-5%	7%	240.7	219.98	-9%	6%	-	242.55	-	10%
Cargo tons (x000)	1,827.3	2,095.3	15%	24%	1,971.2	2,505.1	27%	20%	-	2,825.3	-	13%
Cargo yield (USD/t)	1,464.9	1,752.7	20%	14%	1,479.5	1,650.1	12%	-6%	-	1,600.5	-	-3%

Source: Company

Valuation and risks

Valuation		Risks to our view
Turkish Airlines THYAO Buy	Current price: TRY290.25	Downside risks: 1) A major increase in oil and jet fuel prices; 2) weaker-than-expected traffic and pricing; 3) lower or weaker-than-expected network development; 4) external events (such as security issues, pandemics, volcanic eruptions); 5) airport capacity bottlenecks hampering traffic growth; 6) placement of part of the state's 49% stake; and 7) restrictions imposed by countries with noteworthy traffic flow to or from Türkiye, which could affect traffic growth.
	Target price: TRY400.00	
	Up/downside: 37.8%	
Our valuation for Turkish Airlines is based on a USD-driven DCF model. We assume a medium-term EBIT margin of 10.0% (unchanged, medium-term invested capital growth of 8.0% (from 6.0% due to accelerating fleet expansion) and average asset turnover of 0.7x (unchanged). We use a USD risk-free rate of 7.4% (from 7.9% based on Türkiye's long-term Eurobond rates, which we use as a benchmark), equity risk premium of 5.5%, company beta of 0.96 (from 0.98 based on Bloomberg adjusted company beta), and cost of USD debt of 2.7% (from 3.2%), resulting in a WACC of 7.9% (from 7.6%, based on revised debt/equity of 45/55 from 53/47). Our target price of TRY400.00 (from TRY385) implies 37.8% upside and we retain our Buy rating.		

Priced at 8 Nov 2024
 Source: HSBC estimates

Disclosure appendix

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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.

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*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.

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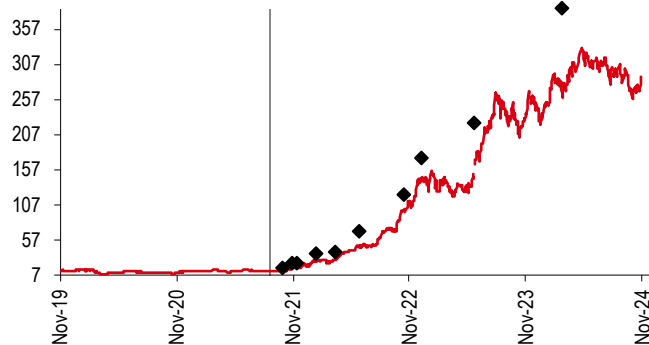
Buy	55%	(15% of these provided with Investment Banking Services in the past 12 months)
Hold	39%	(14% of these provided with Investment Banking Services in the past 12 months)
Sell	6%	(11% of these provided with Investment Banking Services in the past 12 months)

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.

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Share price and rating changes for long-term investment opportunities

Turkish Airlines (THYAO.IS) share price performance TRY Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Hold	Buy	26 Aug 2021	Cenk Orcan
Target price	Value	Date	Analyst
Price 1	17.00	07 Oct 2021	Cenk Orcan
Price 2	23.00	10 Nov 2021	Cenk Orcan
Price 3	23.60	23 Nov 2021	Cenk Orcan
Price 4	36.20	21 Jan 2022	Cenk Orcan
Price 5	40.00	24 Mar 2022	Cenk Orcan
Price 6	67.50	08 Jun 2022	Cenk Orcan
Price 7	120.00	25 Oct 2022	Cenk Orcan
Price 8	172.40	20 Dec 2022	Cenk Orcan
Price 9	223.50	04 Jun 2023	Cenk Orcan
Price 10	385.00	07 Mar 2024	Cenk Orcan

Source: HSBC

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TURKISH AIRLINES	THYAO.IS	290.25	08 Nov 2024	4, 7

Source: HSBC

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