2 December 2024

EEMEA & LatAm Aviation

ESG Integrated 2.0: Runways for sustainable growth

Equities
Aviation

Emerging Markets

- Environmental sustainability continues to be the most discussed ESG theme in aviation, particularly emissions
- We integrate ESG into our valuations through overlays to our cost of equity of +50 bps, 0 bps and -50 bps
- Azul, Pegasus, Turkish Air and GAP appear well-positioned; Air Arabia and Copa have larger scope for improvement

Breaking down material ESG issues and integrating them into our valuations. In last year's report, *EEMEA & LatAm Aviation – ESG Integrated: 10 questions* (12 December 2023), we discussed 10 ESG-related questions to ask the aviation sector. With this report, we identify and assess seven key issues that are specific to the aviation sector that we believe have a bearing on their financials, valuations and overall competitiveness. We assess the ESG efforts undertaken by our coverage relating to these seven areas and integrate them into our valuations.

ESG integration: emphasis placed on valuations

While some measures tend to get integrated into the financials of our companies, it is increasingly limiting to assess ESG impacts in isolation by taking out the impact of overall cyclicality. We therefore choose to integrate ESG through our cost of equity by adding ESG overlays. Our overlays are +50 bps for below average ESG efforts, 0 bps for average ESG efforts and -50 bps for above average ESG efforts. The overlays are decided based on our assessment of each company's efforts in addressing the seven key issues that we have identified. The assessment is tilted in favour of environmental factors since this is most material to the aviation sector.

Findings from our assessment

Based on our assessments, we find **Azul, Pegasus, Turkish Airlines** (among our airlines coverage) and **GAP** (among our airports coverage) to be best positioned within our coverage across each of the three ESG pillars. Our preferred picks are Buy rated **Pegasus**, TP TRY320 (from TRY300) and **Turkish Airlines**, TP TRY440 (from TRY400) due to strong financial and sustainability prospects.

- **On environmental issues**, we find Azul, Pegasus and Turkish Airlines among our airlines, and GAP and OMA among our airports to be ahead of their peers with regards to environmental sustainability.
- On **social issues**, we find above average efforts and leadership at Pegasus, Turkish Airlines, Volaris and GAP
- On **governance issues**, we believe Air Arabia, GOL, and Pegasus stand out among our airlines; and GAP and TAV among our airports for innovation

This is our latest report on the Future Transport theme. If you want to subscribe to any of our nine big themes, *click here*.

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Exhibit 1. EEMEA & LatAm Aviation: Coverage ratings and valuations

Company	Region	MCap USDm	Price FX	3m ADTV (USDm)	CMP	Old TP	New TP	Upside to new TP	Rating	Absolute Return 1W	1M	3M	12M	YTD	EV/Sales 2024e	2025e	EV/EBITDA 2024e	2025e	P/E 2024e	2025e	Yield 2024e
Airlines																					
Air Arabia	EEMEA	3,748	AED	2	2.95	3.30	**3.10**	5.1%	Hold	1%	8%	12%	8%	5%	1.7x	1.9x	6.1x	6.8x	10.1x	9.4x	5.1%
Azul	LatAm	322	BRL	32	5.36	5.00	**5.70**	6.3%	Hold	10%	1%	-29%	-69%	-66%	1.4x	1.3x	4.8x	4.2x	0.0x	0.0x	0.0%
Copa Holdings	LatAm	3,864	USD	124	92.90	140.00	**135.00**	45.3%	Buy	-8%	-6%	3%	0%	-11%	1.2x	1.1x	3.9x	3.6x	7.2x	6.4x	5.6%
GOL	LatAm	117	BRL	1	1.61	1.50	1.50	-6.8%	Hold	31%	45%	44%	-82%	-82%	1.2x	1.2x	6.0x	5.7x	0.0x	0.0x	0.0%
Pegasus	EEMEA	3,281	TRY	54	227.30	300.00	**320.00**	40.8%	Buy	-5%	-3%	8%	54%	72%	1.9x	1.7x	6.9x	6.0x	9.7x	8.9x	0.0%
Turkish Airlines	EEMEA	11,441	TRY	212	287.25	400.00	**440.00**	53.2%	Buy	3%	7%	0%	14%	30%	0.8x	0.8x	3.6x	3.8x	3.7x	4.0x	1.3%
Volaris	LatAm	846	MXN	4	15.77	22.00	22.00	39.5%	Buy	-5%	11%	41%	26%	-1%	1.2x	1.1x	3.9x	3.9x	6.4x	5.6x	0.0%
Airports																					
ASUR	LatAm	7,737	MXN	26	532.82	590.00	590.00	10.7%	Hold	1%	1%	2%	33%	8%	5.6x	5.0x	8.1x	7.2x	12.2x	12.0x	4.3%
GAP	LatAm	9,326	MXN	48	377.10	375.00	**390.00**	3.4%	Hold	2%	9%	19%	50%	27%	8.5x	6.9x	12.8x	10.2x	21.1x	16.8x	0.9%
OMA	LatAm	3,148	MXN	17	166.53	190.00	190.00	14.1%	Hold	5%	3%	14%	11%	-6%	6.1x	5.5x	8.5x	7.5x	13.0x	11.6x	3.5%
TAV	EEMEA	2,879	TRY	15	274.50	325.00	325.00	18.4%	Buy	7%	25%	18%	132%	157%	2.3x	2.0x	7.7x	6.6x	16.3x	13.8x	0.0%

Source: LSEG, HSBC estimates; Note: as of 26 November 2024

Latest EEMEA & LatAm aviation publications

Publishing date	Company	Title	Click to access
26-Nov-24	Brazilian Airlines	Debt restructuring 2.0	Link to report
20-Nov-24	Air Arabia	Valuation less appealing	Link to report
13-Nov-24	Mexican Airports	Early signs of recovery but pace still uncertain	Link to report
12-Nov-24	Turkish Airlines	Support from fuel and cargo	Link to report
06-Nov-24	TAV Airports	Valuation turns attractive again	Link to report
01-Nov-24	Volaris	Making way for a visible recovery	Link to report
23-Oct-24	Pegasus	Smooth ride	Link to report
23-Sep-24	Embraer	Arbitration outcome – better than nothing	Link to report
05-Sep-24	Brazilian Airlines	Unrelenting debt worries	Link to report
27-Aug-24	Copa Holdings	Softer unit revenue offset by lower fuel costs	Link to report
21-Aug-24	Mexican Airports	A more difficult rest of the year	Link to report
01-Aug-24	Volaris	Groundings near peak, but well managed	Link to report
30-Jul-24	TAV Airports	Close to fair value	Link to report
03-Jul-24	Air Arabia	Recent de-rating emphasises attractive valuation	Link to report
29-May-24	Embraer	Positives priced in	Link to report

Contents

Executive summary

- GHG emissions & energy usage continue to be the key ESG themes discussed; we analyse social & governance factors as well
- ESG may not be a high concern/input in aviation valuations today; however, divergences are likely to arise in the long run
- Within our coverage, we see above average ESG efforts at Azul, Pegasus, Turkish Airlines and GAP

Summary

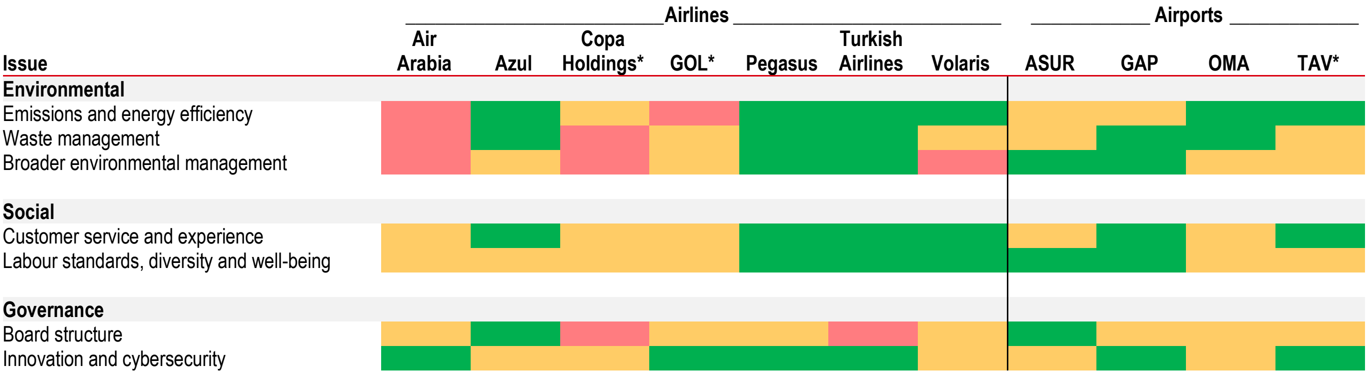
In this report, we analyse the ESG and sustainability disclosures of the airlines and airports in our EEMEA and LatAm aviation coverage universe with the purpose of integrating material ESG risks and opportunities into our valuations. We appreciate the efforts undertaken by our companies to enhance sustainability and their data reporting related to these material issues.

First, we identified and laid out ESG issues that are material to our companies and tried to assess how important each is for each individual company. Based on our findings and company disclosures and communication, we identified seven ESG issues that we think are critical to our coverage (highlighted in Exhibit 2). Our approach to selecting these issues included considering the quality of the disclosures and their uniformity across our companies. We excluded certain issues which could be areas to explore in the future if they become part of the broader sectoral sustainability conversation.

Taking a forward-looking approach to ESG integration
While we reiterate the importance of data disclosures related to ESG performance, we also take a forward-looking view as to how our companies are addressing material ESG issues; for example, whether they have set medium- and long-term targets and what efforts are being undertaken to meet and further expand these targets. Furthermore, we look for factors that may differentiate each company from the rest of our coverage, highlight significant advancements on certain issues and flag areas for potential improvement.

Key findings and highlights
We find Azul, Pegasus, Turkish Airlines and GAP to be the best positioned in terms of their ESG credentials based on their comprehensive strategies and best practices (including developing strategies to further improve their ESG efforts, setting targets, and maintaining high-quality of disclosures). Pegasus and Turkish Airlines have sizeable operations to/from Europe, which means that they are required to comply with a higher set of sustainability standards given the increased scrutiny and stringent regulations within Europe. This causes them to be more proactive in their approach to sustainability. Azul has been working on various methods for alternate aircraft fuels. GAP, on the other hand, has constantly championed the sustainability cause far better than its peers and has a set of impressive plans in place to improve its sustainability. In our assessment, we do not find weakness across all metrics among the laggards. Rather, we find selective strengths in certain individual factors out of our 7 key issues.

Exhibit 2. EEMEA & LatAm Aviation: Our assessment of ESG efforts



Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

ESG integration

At this stage, we integrate ESG considerations into our valuations via CoE overlays (as opposed to explicitly reflecting them in our financial estimates). That said, some ESG initiatives do get factored into the financials of our companies. An example is the use of more fuel-efficient aircraft, which reduce emissions by consuming less fuel, thus also resulting in fuel cost savings (barring the market pricing impact). Another example pertaining to airlines could be the sale of carbon credits/offsets that can be embedded with the purchase of flight tickets. With our airports, additional infrastructure that needs to be built out for the adoption of SAF could be a way in which ESG is integrated into the financial strength and profitability of the company.

As a highly cyclical industry that is still recovering from the impact of the COVID-19 pandemic, our ability to estimate the impact of ESG on various financial items in isolation becomes increasingly limited. For this reason, we find it more effective to integrate our assessment of corporate ESG efforts for our coverage through stock valuations without altering the method through which we arrive at our financial forecasts.

We continue to value our airlines using the economic profit method and our airports using a discounted cash flow model. We integrate ESG by adding overlays to our Cost of Equity based on our assessment of ESG efforts. Our overlays are +50 bps for below average ESG efforts, 0 bps for average ESG efforts and -50 bps for above average ESG efforts. Our preferred picks are Pegasus and Turkish Airlines (both rated Buy) due to strong financial and sustainability prospects.

Exhibit 3. EEMEA & LatAm Aviation: ESG overlays based on ESG effort

Overall ESG effort	Companies	ESG overlay (bps)
	Azul, Pegasus, Turkish Airlines and GAP	-50
	GOL, Volaris, ASUR, OMA and TAV Airports	0
	Air Arabia and Copa Holdings	+50

Source: HSBC; Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

Assessing the ESG impact

- Environmental concerns continue to be at the forefront of ESG concerns for aviation cos
- 7 critical issues identified to assess the ESG efforts of our airlines and airports
- We integrate ESG credentials into our valuations through CoE overlays based on overall efforts

ESG materiality

In our previous report, *EEMEA & LatAm Aviation – ESG Integrated: 10 questions* (12 December 2023), we discussed 10 important questions related to ESG that we thought were relevant to both airlines and airports. In this report, we seek to identify 7 key issues that we think could have a significant bearing on financials, valuations and market position. Through their sustainability-related reports, companies have discussed a wide variety of material risks and opportunities relating to sustainability and their approach when it comes to mitigating these risks and capitalizing on these opportunities. The companies in our coverage have identified material issues that are pertinent to both internal as well as external stakeholders of the company. To identify what ESG issues are material, it is essential to understand who the various stakeholders are and what companies are doing to address their concern. Exhibit 4 lists the various stakeholders that are important to aviation companies in our coverage.

Exhibit 4. Key stakeholders for aviation companies

Operational	Political	Industry	Financial	Societal
Passengers	Governments	Trade associations	Shareholders	Local communities
Airlines^	Regulators	Certifying entities	Financiers	NGOs
Airports*	IGOs	Concessionaires^	Lessors*	Educational institutions
Shop owners^			Financial markets	Media
Employees & unions				
Suppliers				
Subsidiaries & affiliates				

Source: Company data, HSBC
Note: stakeholders marked * are more relevant to airlines and ^ are more relevant to airports; IGOs stand for inter-governmental organizations, NGOs stand for non-governmental organizations

What do companies think are material issues?
Following identification of the various stakeholders, we look at some of the material ESG risks that companies have highlighted in their sustainability-related reports and who are impacted as seen in Exhibit 5. While all material issues impact all the identified stakeholders that a company may engage with, we believe some have a more direct impact than others. The nomenclature of material issues differed across companies but we tried to group these under broader issues that achieve the same or similar goals. In terms of the differences in materiality between subsectors, most of the material risks that were identified were common to both airports and airlines. There were a few items that were more material to one or the other subsector (e.g. natural resource conservation and noise management were more material to airports than to airlines).

Exhibit 5. Commonly identified sustainability issues by our companies

Issue	Top 3 impacted stakeholders	Airlines							Airports			
		Air Arabia	Azul	Copa Holdings	GOL	Pegasus	Turkish Airlines	Volaris	ASUR	GAP	OMA	TAV
Environmental												
Emissions and energy efficiency	Local communities, employees, regulators	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Waste management	Local communities, passengers, governments	✓	✓	✓			✓		✓	✓	✓	✓
Natural resource conservation*	Local communities, governments, regulators	✓					✓		✓	✓	✓	✓
Noise management	Local communities, employees, governments	✓		✓			✓		✓	✓		✓
Social												
Diversity, equity and inclusion (DEI)	Employees, educational inst., local communities	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Employee safety, development and well-being	Employees, educational inst., local communities	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Customer service and passenger experience	Passengers, employees, suppliers	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Aviation safety and security	Passengers, employees, governments	✓	✓	✓	✓	✓	✓	✓		✓		✓
Corporate image and brand perception^	Passengers, employees, shareholders					✓	✓	✓				
Improving connectivity^	Passengers, local communities, employees		✓	✓								
Sustainable catering^	Passengers, employees, suppliers						✓					
Governance												
Good governance and ethics	Employees, shareholders, financiers	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Innovation and digital transformation	Passengers, employees, shareholders	✓		✓	✓	✓	✓	✓	✓	✓		✓
Risk management and business continuity	Employees, shareholders, financiers	✓				✓	✓	✓	✓	✓	✓	✓

Source: Company data, HSBC; Note: * mainly water and biodiversity management; ^ emerging and underrepresented issues highlighted by companies

Evaluating the key **environmental sustainability issues**, we see emissions and energy efficiency being the most material environmental risk. With the sector's ambitious target of being net zero by 2050, this comes as no surprise. Other factors we see at the forefront of sustainability frameworks are waste management and resource conservation. Effective management of the two factors can lead to more circular business models which can aid overall environmental responsibility. Noise management was another key issue that emerged but was largely of greater importance to airports than for airlines. However, this does not make it any less of a responsibility for other players in the value chain as airports would have to work in tandem with OEMs and carriers to achieve lower noise levels.

With **social sustainability issues**, we see some issues emerging as a common concern across all companies while also some identifying material issues specific to them. The more common issues that emerged were related to instances when employees and passengers are stakeholders that are directly impacted. Diversity, equity and inclusion (DEI) as well as employee safety and well-being emerge across our coverage as a key risk concerning employees while customer service and passenger experience was a unanimous concern related to passengers. Some of the less common or specific issues too can be seen ultimately feeding into the more common issues. For example, aviation safety and security are quintessential to ensuring a positive customer experience and employee welfare.

Finally, when looking into **governance sustainability issues**, we find that good governance and ethics as well as innovation take priority. Aviation companies deal with multiple stakeholders and tend to have interactions with government officials and regulators. Airlines may be owned or controlled by governments (or extensions of governments) like Air Arabia and Turkish Airlines. We think a continued dialogue between stakeholders leads to better informed discussions and enhanced board decision-making. More specifically, effective stakeholder engagement may help broaden directors' understanding of stakeholder perspectives and significant changes in the landscape, while assisting with the prediction of future developments. Innovation & digital transformation comes out as another key issue that companies identified. Aviation is a very technology-intensive business in which most functions deploy sophisticated systems ranging from customer experience to safety to security to the operation of aircraft itself.

What material issues are of higher priority and to whom?

While our companies have identified these risks, all risks need not carry equal importance or are not of equal priority. From the extensive range of material topics, we have identified the two most important material issues for each company under each ESG pillar to paint a picture of what each company and their stakeholders believe are critical issues to their operations and shown them in Exhibit 6.

Exhibit 6. Top 2 most material issues highlighted by our companies under each ESG pillar

Company	Environmental	Social	Governance
Airlines			
Air Arabia	1. GHG emissions	1. Customer safety & security	1. Good governance
	2. Energy usage	2. Employee health, safety and well-being	2. Risk management
Azul	1. Ecoefficiency	1. Operational safety	1. Business ethics and integrity
	2. Climate change management	2. Customer experience	2. Relationship with suppliers and associates
Copa Holdings	1. Climate change risks	1. Air & ground safety	1. Regulatory compliance
	2. Energy efficiency	2. Employee health and safety	2. Corporate governance
GOL	1. Energy and climate management	1. Operational safety	1. Innovation and digital acceleration
	2. Sustainable supply chain management	2. Customer experience	2. Preventing and fighting corruption
Pegasus	1. Growth through new generation aircraft	1. Safety and security	1. Cybersecurity and data privacy
	2. Climate change and net zero target	2. Guest experience	2. Operational efficiency
Turkish Airlines	1. Combating climate change	1. Flight safety and security	1. Business ethics, compliance and fair competition
	2. Fleet modernization and development	2. Customer satisfaction and experience	2. Digitalization
Volaris	1. Climate change strategy	1. Operational safety	1. Risk, opportunity and crisis management
	2. Efficiency in fuel management	2. Customer satisfaction and experience	2. Regulatory compliance
Airports			
ASUR	1. Regulatory compliance	1. Employee safety, security and well-being	1. Good governance
	2. Climate change	2. Local community development	2. Risk management
GAP	1. Emissions and energy efficiency	1. Aviation safety and security	1. Governance and ESG risk management
	2. Climate change strategy	2. Diversity and equity	2. Compliance and transparency
OMA	1. Climate change	1. Employee health, safety and well-being	1. Business ethics
	2. Natural environment management	2. Client and passenger experience	2. Relationship with suppliers and contractors
TAV	1. Responsible environment management	1. Occupational health and safety	1. Ethics, compliance and anti-corruption
	2. Climate risk management	2. Diversity and equity	2. Cybersecurity and data privacy

Source: Company data

Seven critical issues

Based on the common material risks and their respective priorities, we identify seven critical issues that are relevant to aviation companies as we believe this could have significant impact on their financials, performance and competitiveness. Environmental issues continue to be at the forefront of concerns for the aviation sector. However, we do not take the focus off social and governance factors. We discuss these topics in greater detail in the upcoming sections including their meaning, importance, associated regulatory frameworks, key metrics, their impact on financials and our assessment of the aviation companies we cover. The critical issues that we have identified are as follows,

- Emission and energy management (Environmental)
- Waste management (Environmental)
- Broader environmental management (Environmental)
- Customer service and experience (Social)
- Labour standards, diversity and well-being (Social)
- Board structure (Governance)
- Innovation and cybersecurity (Governance)

To capture the impact of these risks, we evaluate qualitative commentary and data about their sustainability strategies. This may also be captured in the cost of both debt and equity funding, with investors increasing or decreasing their discount rates or valuation multiples based on ESG considerations.

Assessing corporate ESG efforts

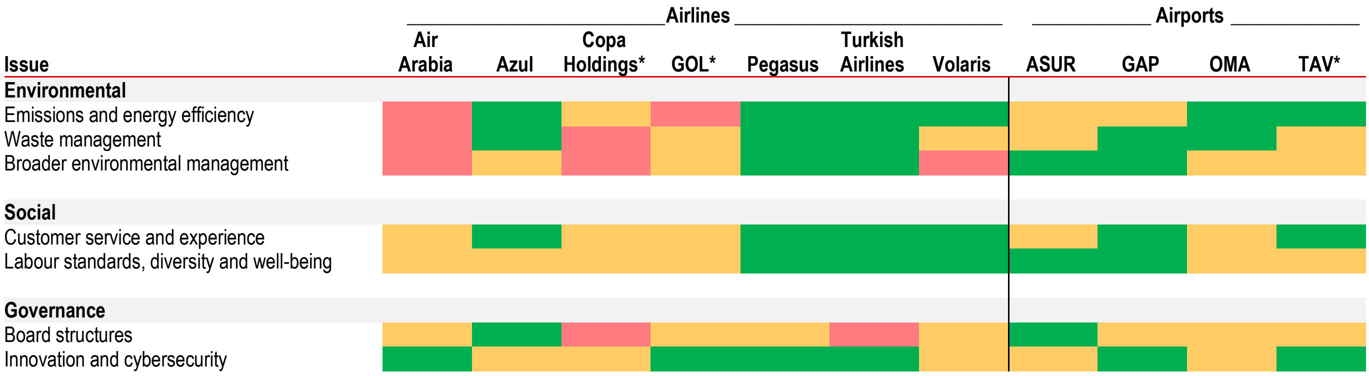
Based on the quantitative data and qualitative aspects of ESG reporting by our companies, we make assessments of their ESG efforts. Wherever suitable, we have considered data disclosure of key performance indicators associated with the aforementioned risks. We note that the data is inconsistent across coverage and we have made efforts to judge their performance more consistently. In addition to the data disclosure, we evaluate whether there is demonstrated action on broad strategies that have been stated by management which makes them stand out in comparison to their peers. We also highlight that our assessments are often forward looking and we place more emphasis on future strategies to achieve their sustainability goals rather than past actions or data disclosures.

Based on this approach, we highlight our findings below in Exhibit 7:

- On the **environmental** front, we look for companies with comprehensive environment management strategies in place that go beyond emissions and energy consumption and that are actively implementing initiatives to combat the same. We find that Azul, Pegasus and Turkish Airlines have the best credentials in this regard among our airlines coverage. With regard to our airports coverage, GAP and OMA were best positioned on environmental factors
- On the **social** front, we look for companies maintaining high standards of service and providing adequate support to the workforces that are rendering these services. We find that Pegasus, Turkish Airlines and Volaris were best positioned in this regard among our airlines while we find that GAP and TAV led the airports

- On the **governance** front, there is a special emphasis on the aviation company of the future which would require strong and competent board structures with a focus on innovation and digital transformation. To this end, we find Air Arabia, Azul, GOL and Pegasus being better positioned vis-à-vis the rest of airlines. With our airports, we only found below average positioning at OMA while the rest appear more positively positioned on this front.

Exhibit 7. EEMEA & LatAm Aviation: Our assessment of ESG efforts



Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

How do we integrate ESG into our valuations?

We incorporate ESG into our valuations through a Cost of Equity ESG overlay. Based on the overall ESG efforts of the companies in our coverage, we add overlays in three groups: +50 bps, 0 bps and -50 bps, to the cost of equity as seen in Exhibit 9. The overlays are assigned after assessing the company's position in relation to their peers and their overall efforts on a weighted basis for Environmental (43% weight), Social (29%) and Governance (29%) highlighting the importance of environmental sustainability as a primary ESG concern for the sector at large. Based on our findings and assessment, we find overall efforts to be above average at Azul, Pegasus, Turkish Airlines and GAP and have thus credit them through a CoE overlay of -50 bps. We find the greatest room for improvement at Air Arabia, Copa and GOL which has led us to add a +50 bps overlay to their CoE. Our reasoning to add a +/- 50 bps overlay is as follows. Based on HSBC Equity Strategy team's assumptions (see *Cost of Equity 2024*, 8 July 2024), shows the average USD cost of equity for the companies under our coverage stood at 10.75%, Adding a +/- 50 bps overlay to this CoE would result in a 5% premium/ discount, as seen in Exhibit 8, which we find to be adequate in our assessment.

Exhibit 8. EEMEA & LatAm Aviation: Impact of ESG overlay on CoE

Country	USD CoE	Absolute Impact of +/- 50 bps
Türkiye	13.50%	4%
UAE	8.75%	6%
Brazil	12.50%	4%
Mexico	11.00%	5%
US	8.00%	6%
Average	**10.75%**	**5%**

Source: HSBC estimates; Note: cost of equity assumes a beta of 1, no other overlays/differentials and no impact of capital structure

Exhibit 9. EEMEA & LatAm Aviation: ESG integration in our valuations

	Airlines							Airports			
Particulars	**Air Arabia**	**Azul**	**Copa***	**GOL***	**Pegasus**	**Turkish Airlines**	**Volaris**	**ASUR**	**GAP**	**OMA**	**TAV***
Overall ESG efforts											
CoE ESG Overlay	**+50**	**-50**	**+50**	**0**	**-50**	**-50**	**0**	**0**	**-50**	**0**	**0**
Risk-free rate	3.75%	3.75%	3.75%	3.75%	7.2%	7.4%	3.75%	3.75%	3.75%	3.75%	7.1%
Beta	1.07	1.53	1.21	2.00	0.96	0.96	1.26	1.27	1.37	1.42	1.03
Equity Risk Premium	5.0%	8.75%	7.25%	8.75%	5.50%	5.50%	7.25%	7.25%	7.25%	7.25%	5.50%
Country Risk Premium	-	-	-	-	-	-	2.0%	2.8%	2.8%	2.8%	-
Long-term Inflation Differential	-	2.25%	-	2.25%	-	-	-	1.5%	1.5%	1.5%	-
Other (shareholder dilution risk)	-	5.0%	-	5.0%	-	-	-	-	-	-	-
ESG Overlay	+50	-50	+50	0	-50	-50	0	0	-50	0	0
Cost of Equity - new	**9.6%**	**23.8%**	**15.0%**	**26.4%**	**12.0%**	**12.2%**	**14.9%**	**17.2%**	**17.5%**	**18.3%**	**12.7%**
Cost of Equity - old	8.9%	24.3%	14.5%	26.4%	12.5%	12.7%	14.9%	17.2%	18.0%	18.3%	12.7%
Currency of RfR and CoE	AED	BRL	USD	BRL	EUR	USD	USD	MXN	MXN	MXN	EUR
Old TP (in local FX)	3.30	5.00	140.00	1.50	300.00	400.00	22.00	590.00	375.00	190.00	325.00
New TP (in local FX)	**3.10**	**5.70**	**135.00**	**1.50**	**320.00**	**440.00**	**22.00**	**590.00**	**390.00**	**190.00**	**325.00**
Change	-6%	14%	-4%	0%	7%	10%	0%	0%	4%	0%	0%

Source: HSBC data, Note: * indicates latest report was published in 2022; green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts; CoE ESG Overlay is measured in basis points

Seven critical issues

1. Emissions and energy efficiency

What do we mean? Emissions and energy, to us, relates to the reporting, reduction and management of GHG emissions (mainly CO_2) and energy consumption. More than this, it also encompasses all the efforts that a company undertakes to reduce its carbon footprint (through reduced emissions and improved fuels) in the future. Due to the fuel intensive nature of the business, **airlines** would be more focused on decarbonising their flights by increasing fuel efficiency or by either adopting more sustainable fuels (like SAF) or alternative propulsion technologies (like electric or hydrogen-powered fleets). Whereas, for **airports**, decarbonisation would largely be driven by lower and/or cleaner energy consumption and by ensuring the minimum viable infrastructure to support the usage of SAF or the operation of hydrogen or electric aircraft.

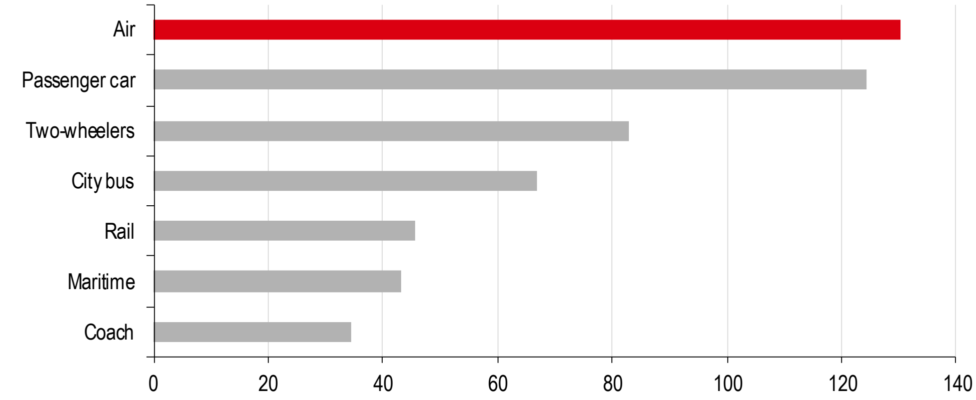
Exhibit 10. Sources of GHG emissions by scope for airlines and airports

Airlines	Airports
Scope 1	
Aircraft	Owned GSE
Owned GSE	Waste and water management
Owned facilities	On-site power generation
	De-icing
	Owned facilities
Scope 2	
Purchased power, cooling, steaming, heating	Off-site power generation for heating, cooling, lighting
Scope 3	
Outsourced ground operations	Aircraft and ground movements
Passenger commute	Auxiliary power units
Staff commute	Outsourced ground handling
Outsourced catering	Passenger commute
Waste generated	Staff commute
Passenger commute	Off-site water and waste management
De-icing	De-icing substances
	Refrigerants

Source: Airports Council International, nagarro
Note: GSE stands for ground-support equipment

Why do we think it is important? Air transportation business consumes significant amounts of energy which is supported by fuels with high calorific values (predominantly emission intensive hydrocarbons). Predictably, with such energy consumption, the industry accounts for anywhere between 2-3% of global GHG emissions and c4% of the global temperature rise since pre-industrial times. Within the transportation sector, as per the IEA, aviation accounted for c10% of all emissions within the sector vs shipping which accounted for c11% and rail at c1%. In terms of GHG emission intensity per passenger, air transportation is 2.9x more emission intensive in comparison to rail and 3.0x more intensive compared to maritime transportation (see Exhibit 11). Energy and emission management with the aviation sector becomes more important when we take into consideration the potential demand and flights that would take place. In its 2033 Strategy Presentation, Turkish Airlines states that 50% of the world population, 35% of global GDP and 50% of global trade volume are within narrowbody range of Istanbul. Given the impact that airlines can have on communities, it is essential that the sector finds way to decarbonise and effectively manage energy resources. Additionally, consumer preferences in favour of more sustainable forms of travel creates an impetus for the sector to decarbonise.

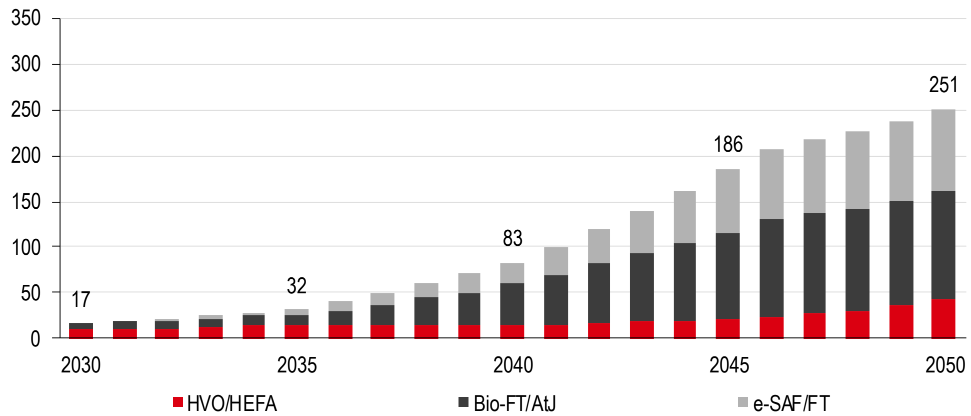
Exhibit 11. Comparison of European modes of travel in terms of GHG intensity



Source: European Environment Agency; Note: GHG intensity measured in gCO2/pax

Given the strategic importance of the aviation sector, IATA member airlines (330+ member airlines carrying 80% of the world's traffic) took a decision to achieve an ambitious target of net zero carbon emissions by 2050. Many industry associations, inter-governmental agencies and academics have studied the various pathways the sector could take to achieve net-zero carbon emissions. A wide majority of the studies conducted on the subject have identified the usage of SAF as the key driver of decarbonisation for the aviation sector. An average 50% of emission-reduction is expected to take place through SAF adoption. The biggest advantage SAF presents is the fact that it can be ultimately used as a drop-in fuel, meaning it can be used directly in a conventional jet engine. This can be achieved without any modifications to either aircraft or airport infrastructure. Today, various carriers and fuel providers are blending various levels of SAF with traditional jet fuel. Despite this significant advantage, SAF production for 2024 is expected to be only 1.5m tons, equivalent to c0.5% of the aviation industry's fuel requirement. Leading SAF producer SkyNRG, predicts that global capacity would increase to c251mtpa by 2050 while demand would increase to c360mtpa in 2050 as per IATA estimates. To this end, between 500 and 800 SAF production facilities will need to be set up to meet the 2050 target. Assuming an average USD2bn capex per facility, cUSD40bn would have to be spent annually with the cumulative amount being cUSD1tn until 2050. Another important factor is operational and technological improvements which could account for an average c30% of the emission reductions as a pathway as per the IATA.

Exhibit 12. Global SAF capacity ramp-up until 2050



Source: SkyNRG

What are the regulatory frameworks? The aviation industry is as global as it comes. Given that participants operate in international airspaces, the industry is subject to regulations at the international, regional and national levels. The two prominent international regulatory mechanisms are the ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and the European Union Emission Trading Scheme (EU ETS). With CORSIA, currently most member states are participating in the monitoring, reporting and verification (MRV state). In the first phase, an airline's participation in the market-based mechanism is voluntary during 2021-26. Starting 2027, CORSIA participation will become mandatory for most participating states (excluding a few exceptions) making it applicable to almost all international routes. CORSIA targets carbon neutral industry growth from 2027-35. In this case, carbon neutral growth would mean the path the industry would take (which is still unclear as of now), to achieve the long-term aspirational goal of net zero emissions by 2050. The EU ETS system initially covered all flights taking off from or landing in an EEA airport. But this was halted until 2026 to give way to develop ICAO's CORSIA and limited it to only intra-EEA flights. In 2026, an assessment will be made and decide whether the scope should be expanded. Airlines were given free allowances earlier. However, airlines are receiving 25% fewer free allowances (c90m) in 2024 and 50% fewer allowances (c27m) in 2025. They will pay entirely for their emissions starting from 2026. To increase the uptake of SAF, the EU will distribute 20m free allowances until 2030 to cover the price differential with conventional jet fuel for operators.

National governmental or regulatory push can also provide an impetus to further adoption of SAF and potentially reward companies for using SAF through financial incentives. This not only benefits aviation companies, but also focuses on providing incentives for SAF producers who would play an integral role in deepening the supply of SAF. Türkiye announced its draft regulation for a SAF (SHT-SAF) mandate in 2022, applicable to all international flights departing from Türkiye. The mandate will start with 1% in 2025-26 and gradually scale up to 5% by 2030. Brazil has advanced policy proposals to enforce a 1% reduction in average GHG emission intensity of jet fuel in Brazil by 2027. This figure will be raised y-o-y to 10% by 2037. This would mean that, there would have been a 3% decrease in overall GHG intensity by 2030. In the UAE, a guideline was announced stating that 1% of the fuel supplied to UAE airports would be SAF produced from domestic facilities by 2031. As of the time of writing this report, all our covered companies are compliant with either the EU ETS or CORSIA requirements.

Exhibit 13. SAF capacity by 2028

Country	Operator(s)	Type	Status	Operational Year	Capacity (mtpa)
UAE	ADNOC	Co-processing	Operational	2023	-
Saudi Arabia	Saudi Aramco, Total Energies	Co-processing	Operational	2023	-
Belarus	Lanzatech	AtJ-SPK	Planned	2024	29,000
Poland	PKN	HEFA-SPK	Planned	2024	7,500
UAE	Etihad, Tadweer	FT-SPK	Planned	2026	403,000
Türkiye	Tupras	Co-processing	Planned	2026	300,000
South Africa	Linde, Sasol, Enertag, Hydregen	PtL	Planned	2028	50,000
EEMEA total					**789,500**
Paraguay	ECB Group	HEFA-SPK	Planned	2025	400,000
Brazil	Brasil BioFuels	HEFA-SPK	Planned	2025	213,000
Brazil	Acelen Renewables	HEFA-SPK	Planned	2026	472,000
Uruguay	Ancap	HEFA-SPK	Planned	2026	137
Colombia	Bio D	HEFA-SPK	Planned	2027	144,000
Brazil	Petrobras	HEFA-SPK	Planned	2028	265,000
LatAm total					**1,494,137**
Coverage regions total					**2,283,637**

Source: Argus Media

What are the key metrics to assess? We take a look at the companies' policy disclosures and reporting with regard to carbon emissions (GHG/CO_2), decarbonisation strategies, energy consumption, both in absolute and relative (per pax/ASK/RPK, etc.) terms. Furthermore, we look for any targets that the company has given and track their progress as well as disclosures pertaining to investments in new technology, SAF offtake agreements, R&D support and collaboration with various stakeholders to further sustainability in the sector.

How are our companies positioned?

- **Above average effort**: Among our airlines, we feel Azul is leading the pack in terms of disclosures and initiatives. Azul aims to achieve net zero carbon emissions by 2045 and has the most ambitious emission intensity reduction among its peers. The company is also actively pursuing opportunities to ramp up not just SAF usage but also electrification or hybridisation of aircraft propulsion mechanisms. We also appreciate the efforts undertaken by Pegasus and Turkish Airlines in detailing their emission mitigation strategy through the various methods available to them until 2050. We find Pegasus' pathway worth highlighting because the dependence on offsetting practices is only 11% (vs 32% at Turkish Airlines). Pegasus also happens to be the only company in our coverage that reports carbon emission intensity on a monthly basis which we think is highly commendable. Both carriers have implemented multiple fuel efficiency initiatives which has resulted in both carriers significantly bringing down their fuel consumption. Turkish Airlines has also made significant investments in renewable energy infrastructure for its own consumption. Volaris stands out to us due to its commitment to improving sustainability in region and the progress it has made on its targets. From 2015, Volaris has already succeeded in bringing down fuel and carbon emission intensity by 20% in 2023. In addition, the company made a USD50m investment in CleanJoule and has a SAF offtake agreement with them. Both Volaris and Pegasus have raised sustainability-linked debt which requires them to meet certain ESG KPIs which reflect their commitment and their intention to deliver.

  Among the airports, OMA leads the pack having already reduced its emission intensity to well-below its 2025 targets. Only 4% of OMA's power consumption is met through the fossil fuels-powered electricity grid. OMA has also raised green bonds and sustainability-linked debt instruments to meet these targets. TAV follows a more granular approach with targets being set for individual airport assets. Some of these targets look at absolute reduction in emissions and not just relative reductions in emission intensity. TAV is further looking to become carbon neutral by 2030 through initiatives to reduce absolute Scope 1 and 2 emissions and shifting the energy consumption mix in favour of renewables.

- **Average effort:** Among the airlines, we find Copa's efforts to be average. We believe the emission intensity target to be average in relation to others. The emissions reduction strategy is largely dependent on fleet renewal (entirely Boeing aircraft) which could face some delay in meeting its target. We see that efforts are being made but it has to ramp up significantly. For airports, ASUR and GAP have set ambitious targets around cleaner energy consumption. The biggest risk that we factor in here is execution risk since a lot would have to be done quickly in order to meet these targets.

- **Below average effort:** We find efforts to be below average at Air Arabia and GOL. While both carriers intend to become net zero carbon emitters by 2050, there is no clear longer-term or medium-term targets outlining their approach. Air Arabia has stated that it will begin using SAF in 2025 and financial conditions at GOL does raise concerns about its ability to continue using SAF in the medium term. Both carriers are largely dependent on fleet renewal to reduce emissions. We find that there is a lot of work that needs to be done in this direction to achieve their sustainability targets.

Exhibit 14. EEMEA & LatAm Airlines: Emission and energy efficiency efforts

Company	Targets	Progress and approach towards decarbonisation	Scope 3 and non-CO2 GHG emissions efforts	ESG effort
Air Arabia	**Medium-term targets** ◆ SAF usage by 2025 **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ Air Arabia focuses largely on emission reduction through fuel efficiency arising from fleet modernization (order for 240 CFM LEAP-1A engines which consume 15-20% lesser fuel and will join its fleet starting 2025) ◆ The company has initiated fuel efficiency programs and operational improvements (flight path and weight optimizations) which could lower fuel consumption ◆ The company stated that it is in discussions with suppliers to uplift SAF and is working on its introduction in 2025	N/A	
Azul	**Medium-term targets** ◆ Reducing emissions per RTK by 46% compared to 2019 levels by 2030 **Long-term targets** ◆ Achieve net zero emissions by 2045, 5 years ahead of the sectoral target	◆ Azul has managed to reduce emissions per RPK by c 11% so far from 2019 levels ◆ Azul's current decarbonization strategy considers fuel efficiency, depending on electrification of ground equipment at airports as well as ramping up the usage of SAF ◆ Under the Fuel Efficiency Program, Azul has an initiative called APU Zero wherein the APU is directly connected to the airports' cleaner electric and cooling infrastructure till take-off. Route and climb & descent optimization also have resulted in significant savings in kerosene consumed ◆ Azul expects 97% of its fleet to be next-gen aircraft by 2026 which could result in up to 20% fuel efficiency. In addition to this, Azul Connecta (regional and cargo) has partnered with Surf Air Mobility to work on making aircraft with electric motors. This is expected to reduce direct opex by 50% and eliminates carbon emissions entirely and will be used to Cessna Caravan fleet (currently 27 aircraft) ◆ The company also has a partnership with Ampaire to transform 6 aircraft with hybrid engines by installing an electric motor on a P&W combustion engine and its use can be alternated (i.e., electric during taxiing, cruise flight and both engines during take-off) ◆ Azul used 7.3k litres of SAF in 2023 and accounted for c0.05% of mWh consumed	Azul reports NOx emissions but has not been integrated into its target Azul reports Scope 3 emissions	
Copa Holdings*	**Medium-term targets** ◆ Reducing carbon emissions per RPK by 14% from 2019 levels by 2026 **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ Copa has seen a reduction in emissions per RPK of c10% in 2022 from 2019 levels ◆ The most significant among the emission reduction initiatives is acquisition 66 B737 MAX aircraft due for delivery between 2023-28 which would lead to reduced carbon emissions. SAF usage on the books but cost a key deterrent ◆ Operational improvements include reducing the usage of the APU, optimizing the flight plan, acquiring electric GSE among others ◆ The company reduced its consumption of fossil fuels in its hangars by c15% in 2022	N/A	
GOL*	**Medium-term targets** N/A **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ Fleet modernization is going to be the major source of emission reduction with the B737 MAX being 15% more fuel efficient compared to 737 NG ◆ GOL has two carbon-neutral routes and has a program which allows voluntary carbon emissions ◆ GOL selects SAF suppliers, in partnership with current fuel supplier Vibra Energia, with whom it has a SAF offtake contract until 2025	GOL reports Scope 3 emissions	
Pegasus	**Medium-term targets** ◆ Reducing carbon emissions per RPK by 20% from 2019 levels by 2030 ◆ 100% renewable energy usage by 2030 **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ Pegasus has outlined its action plan for achieving net zero by 2050, of which, 36% of the reduction will be accounted for by SAF, 33% by new aircraft technology, 11% through operational efficiency and 20% through regulatory offsetting ◆ In 2023, Pegasus increased the volume of SAF to be replenished with contracted suppliers and currently uses SAF in Türkiye, France, Norway, Netherlands, Sweden and the UK ◆ The company offers voluntary carbon offset flights through its partnership with climate tech company CHOOSE ◆ Pegasus raised a sustainability-linked loan in 2022 to finance the purchase of 10 aircraft ◆ Emission intensity has reduced by c6% in 2023 from 2019 levels	Pegasus reports Scope 3 emissions	

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

Exhibit 14. EEMEA & LatAm Airlines: Emission and energy efficiency efforts (contd.)

Company	Targets	Progress and approach towards decarbonisation	Scope 3 and non-CO2 GHG emissions efforts	ESG effort
Pegasus (contd.)		◆ 70% of the airline's power consumption comes from renewable energy ◆ With regards to GSE, 23% of the total ground equipment is electrical equipment (tractor electrification at 67%, ground generator electrification at 33%, passenger stairs electrification at 25%)		
Turkish Airlines	**Medium-term targets** ◆ 95% of 2033 fleet to be constituted by new generation fleet; aims to reduce carbon emissions by 15-20% ◆ Achieve more than 1m tons of fuel savings by 2033 ◆ Conclude long-term SAF fuel purchase agreements ◆ Expect 5% of energy needs of new buildings to be met by renewable energy **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ In Turkish Airlines' decarbonisation strategy, 37% of the 2050 emission reduction is expected to come from SAF usage, 32% from offsetting and 31% from fleet renewal and operational optimization ◆ The company has managed to save 72k tons of fuel since 2008 ◆ Company implements internal carbon pricing to increase efforts to transition to sustainability through low-carbon services, fuel efficiency, SAF usage and investment in innovative technologies and R&D ◆ Turkish Airlines offers carbon neutral flights through its CO2 mission program. The company offset all business trips (c44k in 2023) ◆ The company has completed 100+ operational optimisation and aircraft configuration projects since 2008 ◆ 100% of the company's electricity consumption from existing buildings at Ataturk Airport are sourced from renewable resources; when combined with Istanbul Airport it is c14% ◆ Turkish Airlines has committed USD3bn to 4 solar energy utilization-oriented projects that would prevent emissions of c4,500 tco2/year ◆ The company also intends to add c540 EV charging stations with a capacity of parking c4k cars	Turkish Airlines reports non-CO2 emissions but has not been integrated into its target Turkish Airlines reports Scope 3 emissions	
Volaris	**Medium-term targets** ◆ Have a 100% airbus neo aircraft fleet equipped with sharklets by 2030 ◆ Reduce Scope 1 emissions per RPK by c 35% from 2015 levels ◆ Target to reduce fuel intensity (gal/ASM) of 31% from 2015 levels ◆ Support the decarbonization efforts of the aviation industry ◆ 70% aircraft with lightweight trolleys by 2023 ◆ Recaro lighter seats installed in 80 aircraft by 2028 **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ Currently, neo aircraft make up 59% of the fleet and 88% of the fleet is equipped with sharklets ◆ Emission intensity has reduced 20% vs 2015 ◆ Fuel intensity (gal/ASM) reduced by 20% in 2023 from 2015 levels ◆ The company has executed a USD50m investment agreement to support the development of SAF through CleanJoule and Volaris will receive 30m gallons of SAF as part of the agreement ◆ The company issued the first sustainability linked bond in Mexico which is linked to 2030 emissions reduction ◆ The carbon reduction strategy depends largely on fleet modernization with Airbus neos ◆ 100% aircraft are equipped with lighter onboard trolleys ◆ Recaro seats have been equipped in 13 aircraft (16% of fleet) ◆ Volaris also offers voluntary carbon offset tickets	N/A	

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

Exhibit 15. EEMEA & LatAm Airports: Emission and energy efficiency efforts

Company	Targets	Progress and approach towards decarbonisation	Scope 3 and non-CO2 GHG emissions efforts	ESG effort
ASUR	**Medium-term targets** ◆ Reduce GHG emissions per pax (from 2022 levels) by 5% p.a. in 2023-26 ◆ Install on-site solar plants at all airports by 2025 ◆ Disconnect from electricity grid by 2025 and use gas instead to reduce the carbon footprint by 50% ◆ By 2026, include Colombian Airports in the Airport Carbon Accreditation (ACA) program; reach Level 3 for all airports in Mexico and Level 2 for Puerto Rico ◆ Achieve carbon neutrality by 2030 ◆ Map out 100% of Scope 3 carbon emissions by 2030 ◆ Source 95% of power requirement from clean, renewable sources ◆ Reach Level 4 in Airport Carbon Accreditation program at all airports operated by ASUR **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ 9 airports have received ACA Level 2 certification (1 airport with Level 1); Level 3 certification expected in 2025 ◆ Currently, ASUR's carbon emissions reporting is limited to Mexican airports. This will soon be expanded to Puerto Rico and Colombia. ◆ ASUR installed solar panels at the Huatulco and Tapachula airports in 2023 which will generate clean energy 2024, raising the count to 5 out of its 7 Mexican airports having solar energy infrastructure. At Oaxaca, the renewable energies accounted for as high as 70% of total consumption. ◆ ASUR also has initiatives that make the value chain sustainable through efficient taxiing. The boarding bridges have electrical connections that have been installed to keep critical systems powered while on the ground, limiting aircraft engine usage ◆ Other initiatives have been limiting the usage of diesel, using energy efficient (like LED) or renewables-powered lighting (solar)	ASUR has initiated the process of mapping Scope 3 emissions	
GAP	**Medium-term targets** ◆ Map out Scope 3 emissions and for all airports by 2030 ◆ Reduce directly controlled emissions by 90% by 2030 from 2019 levels ◆ Reduce electricity consumption by 10% at each airport by 2028-29 **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ 100% of the vehicles purchased for executives in 2023 were hybrid or electric ◆ GAP sources c12% of its energy requirement from clean energy sources by installing photovoltaic systems in its carports; there is an evaluation for installing solar power generation systems with energy storage at Los Cabos airport ◆ 3 out of its 14 airports have received Level 3 ACA certification (3 pending approval, likely to be received in 2024); 7 have Level 2 certification while the airport in Kingston achieved Level 1	6 out of 14 airports reported Scope 3 emissions in 2022	

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

Exhibit 15. EEMEA & LatAm Airports: Emission and energy efficiency efforts (contd.)

Company	Targets	Progress and approach towards decarbonisation	Scope 3 and non-CO2 GHG emissions efforts	ESG effort
OMA	**Medium-term targets** ◆ Reduce Scope 1 and 2 emissions by 66% by 2030 from 2018 levels ◆ Reduce Scope 1 and 2 emissions per pax by 58% by 2025 from 2018 levels **Long-term targets** ◆ Achieve net zero emissions by 2050	◆ OMA has met both its medium-term targets 7 years prior to its target of 2030 ◆ OMA has wind energy power purchase agreements that represents 79% of the average total consumption since 2020 ◆ Since 2021, OMA has invested MXN270m in solar panels with an aggregate capacity of 9.64MW across its 13 airports and represented 17% of the company's energy consumption in 2023 ◆ All airports have ACA Level 2 accreditation and is working on achieving Level 3 by 2024-25 ◆ OMA has issued Green Bonds worth MXN1bn to fund eligible projects between 2021-24. Eligible projects include renewable energy, energy efficiency, sustainable water and wastewater management, and biodiversity ◆ OMA has also issued sustainability-linked bonds worth MXN4bn in Mar 2022 and MXN3.2bn in Mar 2023	OMA does not disclose Scope 3 emissions as of now but has a target of 20% reduction from 2018 levels by 2030 by being part of the VINCI Group	
TAV*	**Medium-term targets** *Group level* ◆ Become carbon neutral by 2030 ◆ Increase share of battery powered GSE to 20% (currently 12.5%) by 2025 ◆ Use 10% low carbon energy in terminals and airside ◆ Include all airports under ACA by 2025 ◆ Annual GHG emissions reduction target of 1% p.a. by 2025 *Asset level* ◆ Ankara: Scope 1 + 2 emission reduction by 1% by 2025; reduce energy consumption by 5% vs 2019 ◆ Madinah: Reduce Scope 2 emissions by 20% ◆ Tunisia: Total GHG emission reduction of 2% in 2023 vs 2022 (Scope 1 and 2 target of 15%, Scope 3 by 5%); reduce energy consumption by 13% vs 2019 by 2024 ◆ Izmir: Aims to reduce CO2 emissions by 2% by 2035; generate 10% of energy requirement through renewables by generating 5 MWh of renewable energy	**Group level initiatives** ◆ Includes the use of solar energy, LED lighting transformation, battery-powered vehicles, energy saving with building management system, renewable energy supply, etc. **Asset level initiatives** ◆ Ankara Esenboğa is carrying out GHG reduction projects to achieve ACA Level +3 certification. Received I-REC certificate for 4,174 MWh in 2021 ◆ In Tunisia, Monastir holds ACA Level 2 certification while Enfidha-Hammamet holds ACA Level 3+ certification. ◆ In Georgia, Tbilisi airport achieved ACA Level 2, Batumi has Level 1. Plans to achieve Level 3 by 2026. The airport has obtained 1.5k GJ of energy from solar in 2022 ◆ Izmir Adnan Menderes has been certified as carbon neutral with ACA Level 3+ certification ◆ Antalya Airport is switching all terminal lighting to LED and has installed a 4MW solar panel plant on the roof of Terminal 2 ◆ The Madinah airport has installed 2MW storage-free solar PP in 2023	Scope 3 carbon emissions from 4 airports were reported in 2022 Madinah Airport uses instruments to monitor NOx and SOx emissions	

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

Exhibit 15. EEMEA & LatAm Airports: Emission and energy efficiency efforts (contd.)

Company	Targets	Progress and approach towards decarbonisation	Scope 3 and non-CO2 GHG emissions efforts	ESG effort
TAV* (contd.)	◆ Antalya: generate 25% of total electricity consumption through natural gas and purchase 98m kWh of energy from renewables by 2026-end ◆ Georgia: Minimize use of engines on land by 2025 and source 25% of energy requirements by 2026 **Long-term targets** ◆ Achieve net zero emissions by 2050			

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

2. Waste management

What do we mean? Waste management refers to all the activities that are undertaken to minimize the waste generated by the operations of a company. Waste management includes all measures taken to avoid, reduce, re-use and recycle waste.

Why do we think it is important? The aviation industry has been subject to a lot of criticism for its poor cabin waste management practices. Based on a limited waste composition analysis done by the IATA, an estimated 6.4m tonnes of cabin waste was generated by the sector in 2019. With passenger levels recovering to pre-pandemic levels globally, this figure is expected to be roughly the same in 2024. The data indicates that over 20% of the waste was in the form of untouched F&B which represents a cost of USD2.4-3.6bn p.a. to the sector. If waste management goes unmonitored, volumes could potentially double by 2050 given the growth trajectories of passenger volumes and airline fleets.

What is the regulatory framework? Waste management is subject to regulations and mandates that have been put forward by a country's legislature. However, the biggest challenge is that most local regulations require cabin waste to either be incinerated or sent to landfills for deep burial to protect their agriculture sectors and prevent animal disease outbreaks which can vary from country to country. The IATA has been pushing for regulatory harmonization and been advocating for the re-use and recycling of alternatives to single-use plastics that are subject to strict aviation security and hygiene constraints.

What are the key metrics to assess? We look for absolute waste generation and waste intensity metrics. Disclosures around waste disposal and recycling are evaluated as well. Furthermore, we look for any targets or disclosure about waste reduction or recycling initiatives that the company intends to carry out in the future.

How do our companies fare?

- **Above average effort**: Among the airlines, Turkish Airlines, Pegasus and Azul stood out to us. Both Pegasus and Turkish Airlines have recycling ratios above 99% which we find very impressive. Turkish Airlines was the only company in our coverage that addressed airframe disposal & recycling in our coverage. The airline has also many initiatives to use biodegradable/sustainable materials in its onboard service offering. Pegasus has also made strides in this field and is considering the usage of biodegradable materials to make in-cabin catering sustainable. Azul managed to recover c40% of its total waste through various recovery and recycling means. Azul has also partnered with other agencies to further the waste collection and recycling initiatives. Among the airports, we found GAP and OMA to be better positioned than their peers. Both GAP (50% reduction) and OMA (elimination) have set targets for waste being sent to landfill. Both companies further saw relatively better moderation in their waste intensity ratios which we find positive.
- **Average effort:** We found efforts to be average at GOL and Volaris among our airlines. In its most recent reports, we note that GOL saw waste intensity increase while Volaris saw a 13% decline. Nonetheless, we see opportunities to improve recycling ratios. With our airports, we find limited recycling and waste management strategies at both ASUR and TAV. The absence of targets also becomes another reason we believe efforts and their strategies are average.
- **Below average effort:** We find reporting and initiatives below average at Air Arabia and Copa Airlines. While there are initiatives for recycling as well as paper and plastic reduction, we believe there is greater scope to improve reporting as well as better outline strategies for improved waste management.

Exhibit 16. EEMEA & LatAm Aviation: Waste management efforts

Company	Remarks	ESG effort
Airlines		
Air Arabia	◆ Signed MoU with Bee'ah (Sharjah's leading environmental management company) in 2015 to implement and promote recycling	
	◆ AA has implemented paperless systems such as the Electronic Tech Log, base MRO system as well as the Electronic Flight Bag	
Azul	◆ Azul has a domestic flight waste recycling program called ReciclAzul which has been implemented in 13 airports (17t of cans recycled till date)	
	◆ In partnership with Eureciclo, Azul sends plastic packaging materials for onboard meals to partner cooperatives where they operate (404t sent till date)	
	◆ Hazardous waste ppax increased 34% in 2023 while non-hazardous waste ppax declined 16%; Share of recovered waste stood at c40%	
Copa Holdings*	◆ Copa prevented 2.6m units of plastics being consumed in 2022 through its on-board plastic reduction initiative	
	◆ c11k gallons of hydrocarbon fuels have been recycled and are being reused as alternative fuels in other industries	
GOL*	◆ Hazardous waste ppax increased 12% in 2023 while non-hazardous waste ppax increased 35%; c17% of all waste was sent for recycling	
Pegasus	◆ Pegasus has the best in class recycled waste ratio with 99.7% of total waste being recycled	
	◆ In 2023, Pegasus managed to reduce hazardous waste ppax by 29% and non-hazardous waste ppax by 7%	
	◆ When it comes to in-cabin catering packaging, Pegasus uses up to 5% recycled plastics in new trays and plates and up to 20% recycled plastic in R-PET cups	
Turkish Airlines	◆ Turkish Airlines' recycling ratio stood at 99.2% of total waste; hazardous waste ppax 33% while non-hazardous waste ppax declined 18%	
	◆ Turkish Airlines was the only company in our coverage talking about airframe disposals which aims to re-use various components and materials	
	◆ The company has multiple initiatives for waste and chemical management such as bags, blankets, slippers and rubbish collection bags being produced from eco-friendly materials	
	◆ Turkish Airlines succeeded in bringing down paper consumption over the years and avoided 44.8m units of disposable plastics	
Volaris	◆ Hazardous waste ppax decreased by 13% y-o-y in 2023	
	◆ The SUPs have been replaced with biodegradable materials and 98% of all products for sale onboard have biodegradable packages; plans to introduce a digital onboard food menu in 2024	
	◆ 25.8% of hazardous waste has been sent for co-processing while 2 tons of non-hazardous waste has been recycled	
Airports		
ASUR	◆ ASUR managed to increase recovered waste by 11% vs 2022 at Cancun airport (accounts for 65% of the group's non-hazardous waste)	
	◆ Hazardous waste per pax declined 30% while non-hazardous waste ppax rose c2%; c13% of the non-hazardous waste was recycled	
GAP	◆ Waste generated ppax remained flat in Mexico but increased in Jamaica; c10% of the non-hazardous waste was recycled	
	◆ GAP aims to implement actions required to prevent 50% of airport-generated waste in Mexico from ending up in landfill	
OMA	◆ Hazardous waste ppax has declined 22% while non-hazardous waste per pax increased 11% in 2023; The share of recycled waste was c10% in 2023	
	◆ OMA targets zero waste to landfill by 2030	
TAV*	◆ Share of recycled waste in 2022 was c10%; hazardous waste ppax came down 41% and non-hazardous waste declined by 35%	
	◆ Türkiye has zero-waste management legislation which TAV Airports complies to	

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

3. Broader environmental management

What do we mean? By broader environmental management, we look at a broad set of reported data and initiatives primarily surrounding water management, biodiversity management and noise pollution.

Why do we think it is important? Aviation consumes a significant amount of water especially in the cleaning and maintenance process for aircraft. De-icing fluids tend to seep into the ground or run-off into nearby water systems which could have a significant impact on aquatic life. Similarly, improper discharge of fuel could lead to increased levels of hydrocarbons in water bodies while the oil and lubricants used in MRO activities risk the accumulation of toxic substances in water. Aviation also tends to impact the human as well as animal populations living in close proximity to airports which requires increased focus on controlling noise pollution and improving biodiversity management.

What is the regulatory framework? While there are concerted efforts by global industry bodies like the IATA, ICAO and ACI to improve regulations about these environmental risks, the vast majority of these regulations are enacted by national and/or local governments. Most aviation companies have designed or structured their operations in a way to comply with the local regulations. This is largely the case with water and biodiversity management. We see a greater degree of standardization when it comes to noise pollution. The ICAO has adopted a set of measures that are to be followed by member states on the matter of aircraft noise management which includes a mix of approaches that aims to reduce noise at the source, effectively plan the usage of land, noise abatement through operational improvements and, finally, operating restrictions (the last resort).

What are the key metrics to assess? Both airlines and airports have an important role to play when it comes to broader environmental management. However, the manner in which they play that important role differs. Airports are primarily concerned with biodiversity and noise abatement through effective land planning and usage while airlines would deploy aircraft with significantly reduced noise levels and leverage other noise abatement technologies.

How do our companies fare?

- **Above average effort**: Turkish Airlines and Pegasus stood out among our airlines in terms of broader environmental management. Turkish Airlines has managed to bring down water consumption per capita significantly and also has multiple initiatives to enhance water savings and source water alternatively to reduce the pressure on groundwater. Furthermore, we see an effort to improve biodiversity and natural resource management through the airline's initiatives such as the CO_2mission program. Pegasus also has made strides in improving environment management. The low-cost carrier saw water consumption ppax (per passenger) reducing in 2023. In addition to this, the airline will mitigate noise reduction through the new generation Airbus neo aircraft that they have been adding to fleet. With regards to biodiversity management, we see the airline collaborating with stakeholders to better mitigate wildlife hazards. Among our airports, we see above average efforts from ASUR and GAP. Both airport groups saw water consumption ppax decline in the last year and also have initiatives to treat wastewater. In terms of biodiversity, we see initiatives and programs to assess and monitor wildlife risks. ASUR carries out noise mapping every 5 years to assess the impact of noise pollution while GAP believes that it could achieve a 7.54 dBA reduction in noise levels.

- **Average effort:** With our airlines, there seems to be average efforts across Azul and GOL. We see initiatives for better water management across both while we see a lack of initiatives in terms of noise management at Azul and biodiversity at GOL. Among our airports, we saw average efforts at OMA and TAV. While both airport groups have made commitments to improving water management and mitigating wildlife risks/hazards, we see no tangible initiative to mitigate the impact of aviation noise. TAV has a target of improving water efficiency by 5% at the group level and highlighted a few efforts to reduce water consumption at individual airports ranging from 3-10% across varied time frames.
- **Below average effort:** We find below average efforts at Air Arabia, Copa and Volaris. With Volaris, we have not noticed any data or commentary that highlighted their initiatives for broader environmental management. Air Arabia did address noise reduction through fleet modernization. However, there were little to no tangible initiatives for other aspects. Similarly, with Copa, we saw average initiatives for water management but no real measures to mitigate the other risks.

Exhibit 17. EEMEA & LatAm Aviation: Broader environmental management efforts

Company	Remarks	ESG effort
Airlines		
Air Arabia	◆ Air Arabia looks to mitigate its noise impact through fleet acquisition; the 240 CFM LEAP-1A engines to power the 120 a320 aircraft provides significant reductions in noise levels ◆ There was very minimal to no tangible measures for water and biodiversity management	
Azul	◆ Azul is a pioneer in the aviation sector to improve biodiversity and promote the importance of Amazon conservation ◆ The company has a few initiatives to make efficient use of its water resources	
Copa Holdings*	◆ In 2022, c436k gallons of contaminated water. Out of the water that was collected, c80% was re-purposed ◆ No tangible plans about biodiversity and noise management	
GOL*	◆ Overall water consumption reduced 15% y-o-y (c20% ppax); domestic wastewater is sent directly to sanitation utility providers while industrial wastewater is sent to GOL Aerotech's Industrial Effluent Treatment Station which is further sent to the Sewage Treatment Station at Tancredo Neves Int'l Airport, operated by Copasa ◆ Noise reduction will largely be achieved through fleet renewal as the new 737 MAX aircraft that the company will receive is generates 40% less noise compared to 737 NG	
Pegasus	◆ Pegasus saw water consumption ppax decline 5% y-o-y ◆ Noise management will be achieved through the neo aircraft that the company will receive ◆ Pegasus is working in coordination with local airport operating partners and regulators to enhance biodiversity hazard management, an acoustic bird control device was installed at the end of Runway 06 of the Sabiha Gokcen Airport in 2022	
Turkish Airlines	◆ Water consumption per capita reduced c49% y-o-y in 2023 ◆ The company has initiatives to collect rainwater to feed wet area reservoirs and also replacing water fixtures that could ensure between 30-50% water savings ◆ Noise reduction will primarily be achieved through fleet modernization with noise-reducing vortex generators (23 received in 2023) ◆ Looking at biodiversity initiatives, the company's headquarters was assessed using WWF's Biodiversity Risk Analysis module and found not be in a high-risk category ◆ Furthermore, the company supports reforestation and carbon sequestration initiatives through its CO_2mission program and also uses products that minimize deforestation impacts	
Volaris	◆ No information available on broader environmental management	
Airports		
ASUR	◆ ASUR looks to implement initiatives that capture and use rainwater and intends to increase the volume of water that is treated, recycled and discharged into water bodies ◆ 8 out of the 9 Mexican airports are equipped with on-site water treatment plants which is further re-used or discharged; net water consumption ppax declined 39.6% in 2023 ◆ ASUR carries out noise-mapping activities every 5 years; the company's airports are in relative isolation without towns or communities in close proximity ◆ The company actively pursues biodiversity preservation strategies, especially to prevent bird strikes which could cause significant damage to the aircraft as well as destroy biodiversity	
GAP	◆ Water withdrawal ppax declined 15% y-o-y; 49% of the total withdrawal underwent wastewater treatment ◆ In the case of noise pollution, the company is looking to achieve 7.54 dBA reduction in noise levels ◆ GAP has implemented the Avian and Wildlife Hazard Management Program to assess wildlife risks ◆ Bird strikes per 10,000 flight movements increased 52% y-o-y and 18% vs 2019	
OMA	◆ Overall water consumption rose by c13% y-o-y in 2023 (remaining flat on a ppax basis y-o-y) ◆ Of the water consumed, c32% was directed to the treatment plants located at each respective airport ◆ OMA has management units for the protection and sustainable use of wildlife which largely looks into rescuing animals from harm, protecting species from airport visitors, relocating plans and animals outside an airport building to reintroduce them to their natural habitats and so on. No tangible initiatives for noise reduction/management	

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

Exhibit 17. EEMEA & LatAm Aviation: Broader environmental management efforts (contd.)

Company	Remarks	ESG effort
Airports		
TAV*	◆ Water consumption ppax has declined by 23% y-o-y. c6% of the water consumed by Türkiye was recovered/re-used while this ratio stood at 23% in Madinah. The company has a target of increasing water efficiency by 5% ◆ Among specific airport initiatives, TAV aims to reduce water consumption by 10% by 2025 in Ankara, 3% in 2023 in Georgia, 8% by 2028 (from 2019 levels) in Tunisia. In Izmir, the company has initiated a project to recover 25% of current water consumption ◆ TAV Airports has a biodiversity policy which looks to avoid, reduce, mitigate and balance the impacts of harm done to biodiversity in areas of operation. No real measures to improve noise management	

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

4. Customer service and experience

What do we mean? Customer service and experience refers to all products, services and measures undertaken to provide passengers with safe and comfortable air transport services.

Why do we think it is important? Customers are the key stakeholder for any aviation company and directly represent demand for their services. Recognizing commercial interests as well, it is essential to ensure that customers receive the best service the company can provide and ensure that there are no safety incidents that could deter air travel demand. Hence, it is important for aviation companies to solve a need and provide safe and comfortable journeys.

What is the regulatory framework? All aviation companies are subject to a wide range of regulatory mechanisms at the international, regional and national level which have to be complied with in order to operate. The ICAO has set Standards and Recommended Practices (SARPs) to facilitate harmonised regulations for aviation safety.

What are the key metrics to assess? There are only few metrics such as the Net Promoter Score (NPS) and the On-Time Performance (OTP) which can be used to quantitatively assess. In addition to the companies' stated plans for customer experience improvement, we further use the SKYTRAX ratings of different airlines and the average rating for our airport groups to assess the service excellence. SKYTRAX is an international air transport rating organisation and has developed a quality scale from 1-Star to 5-Star based on the evaluation of product and service standards across the onboard and airport environments. All of our airlines and airports have received either a 3- or 4-star rating. A 4-star rating reflects a good overall quality performance providing good product standards across different travel cabins and delivering good standards of staff service for the onboard and airport environments. Meanwhile, a 3-star rating indicates the industry average of acceptable product and service standards. It differs from a 4-star rating because inconsistencies and scopes for improvement in certain aspects of their value proposition.

How do our companies fare?

- **Above average effort**: Turkish Airlines leads the pack among our airlines with the most innovative and comprehensive approach to improving customer satisfaction which is also reflected by the highest SKYTRAX rating in our coverage. We also find the customer-facing technological innovation at Pegasus as well as Volaris' effective implementation of the bus-switching strategy combined with accelerated digital transformation to be commendable. Bus-switching is a strategy employed by airlines to provide air transport services at prices that are at par, or below, that of bus transportation. Among our airports, we believe TAV Airports and GAP had above average customer service and experience efforts. TAV was the only airport group that owned airports that were rated 4-star by SKYTRAX.
- **Average effort**: With the rest of our coverage, there are initiatives that are being spear-headed to improve the quality and safety of their service offerings. However, they appear very targeted in our view and not entirely resolving multiple issues or addressing all aspects at once. This inherently is not something that we view as negative. We do believe the customer is a main priority for all the aviation companies in our coverage. Our findings and company initiatives to improve the overall customer experience suggest that there are long runways for enhanced services and offerings.

Exhibit 18. EEMEA & LatAm Aviation: Customer service and experience

Company	Remarks	ESG effort
Airlines		
Air Arabia (SKYTRAX: 3-star)	◆ Air Arabia places great importance on customer safety and satisfaction. The company has launched 6 city check-in facilities across Sharjah, Ras Al Khaimah. Ajman and Al Ain which allow passengers flying from Sharjah to drop off their luggage and collect their boarding passes 24 hours ahead of their scheduled departure, saving time and avoiding queues ◆ All flight tickets and advertisements are compliant with consumer protection laws as well as the EU air passenger rights. The company received a 62% rating across all hubs and is continuously adding new destinations to serve all customer categories	Yellow
Azul (SKYTRAX: 3-star)	◆ Azul has positioned itself as the leading provider of air connectivity in Brazil, with 82% of its destinations wherein they are the only carrier providing services. The company has leadership in the bus-to-air switch strategy which improves accessibility to air travel in Brazil, especially on underserved routes with very high profitability ◆ The company achieved 86.3% OTP with an NPS of 54.9 (highest in Brazilian aviation) ◆ In 2023, Azul launched vegan catering options and introduced pre-booked meals for business class on international flights	Green
Copa Holdings* (SKYTRAX: 3-star)	◆ Copa has completed 8 years of its loyalty program ConnectMiles with members representing 20% of Copa passengers ◆ The company has codeshare agreements and has launched new destinations to boost regional tourism and economic development ◆ Copa also expanded its operations in the new Terminal 2 (T2) of Tocumen Int'l Airport, expanding service capacity by making 38 counters and 22 self-service kiosks. A new 2,000 sq. m. lounge at T2 for certain ConnectMiles and Star Alliance passengers was opened in 2022 ◆ The company is also improving digital channels to improve the overall passenger experience	Yellow
GOL* (SKYTRAX: 3-star)	◆ GOL has 15 codeshare agreements, 38 interline agreements and 14 frequent flyer program agreements to enhance connectivity ◆ The company has implemented several digital solutions through its innovation hub GOL Labs to enhance customer experience ◆ The company also has a SMILES Loyalty Program which offers numerous advantages to members	Yellow
Pegasus (SKYTRAX: 3-star)	◆ Pegasus has implemented the largest self-service baggage drop station at SAW; they have also developed their own Express Baggage kiosks; The company also collaborated with ChatGPT in Nov 2023 to enhance its travel support chatbot Flybot ◆ More than 50% of total passenger operations have been automated and the airline continues to make small incremental additions to its tech stack to improve the overall customer experience ◆ Pegasus' SAFA# ratio stood at 0.21 vs Türkiye average of 0.43 in 2023	Green
Turkish Airlines (SKYTRAX: 4-star, Ajet: 3-star)	◆ Turkish Airlines aims to launch a Baggage Reconciliation System which tracks the location of the baggage online starting with domestic stations and at least 10 overseas stations in 2024 ◆ The company achieved a customer satisfaction rate of 81% in 2023 ◆ The airline also has developed multiple enhancements to its payments and settlements systems which allow for more ease and transparency when it comes to pricing and compensation from flight disruptions ◆ Turkish Airlines constantly looks to make flights more accessible for people with disabilities, often prioritising their travel experience ◆ In 2023, the company won the Skytrax 'Best Airline in Europe' award for the 8th time in a row along with the World Class award (3rd time) from the Association for Passenger Experience (APEX) reflecting the emphasis placed on customer experience ◆ Furthermore, Turkish Airlines has developed a world-class loyalty program Miles&Smiles ◆ Turkish Airlines' SAFA# ratio stood at 0.26 vs Türkiye average of 0.43 in 2023	Green
Volaris (SKYTRAX: 3-star)	◆ Volaris has multiple affinity programs such as v.club (818k members), v.pass (50k), v.business (6k), Volaris INVEX credit cards (688k) and the Annual Pass Membership (26k) ◆ Volaris strategically competes with bus routes. c49% of their routes do not have any competition from air carriers and base fares tend to be lower than bus tickets (bus switching strategy) ◆ Volaris had an NPS index of 30.8 and is implementing two projects aimed at improving passenger experience (mystery shoppers and forming a customer council) ◆ The company employs a self-service strategy through various digital channels and has optimised the process of issuing refunds and vouchers for itinerary changes. Digital document validation to be launched in 2024 to save time on international flights	Yellow

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts; # Safety Assessment of Foreign Aircraft

Exhibit 18. EEMEA & LatAm Aviation: Customer service and experience (contd.)

Company	Remarks	ESG effort
Airports		
ASUR (SKYTRAX: 3-star)	◆ ASUR regularly carries out satisfaction surveys which are independently analysed. The company claims to have achieved excellent scores ◆ The company has multiple protocols in place to ensure aviation safety. The company has a hurricane centre based at Merida Airport which coordinates with local civil protection agencies and the National Hurricane centre in Miami, FL to mitigate risks arising from cyclones ◆ All airport infrastructure is fully accessible to users with disabilities. In 2022, the Cozumel Airport obtained official recognition from the Mexican tourism authorities	Yellow
GAP (SKYTRAX: 3-star)	◆ GAP achieved a score above 80% on a 5-point scale satisfaction survey across 12 GAP airports in Mexico; 3 GAP airports were recognized as the best airports in the region as per the ACI-ASQ program ◆ GAP has a passenger border cross named Cross Border Xpress (CBX) which connects Tijuana Int'l Airport with the passenger building in San Diego to allow travellers to avoid the delays at San Ysidro and Otay Mesa crossings ◆ Only airport operator in Mexico with 100% of its airports certified in Safety Management System since 2017; GAP also is seeking to develop and implement a Local Airport Security Program to further improve aviation security ◆ In addition to all these, the company is expanding, upgrading and renovating terminals to better service both passengers and airlines	Green
OMA (SKYTRAX: 3-star)	◆ OMA has continued to find ways to increase capacity and expand its product offering while investing in innovation to aid both clients and passengers ◆ OMA transitioned from physical suggestion boxes to digital platforms which has seen an uptick in suggestions, complaints, inquiries as well as positive feedback	Yellow
TAV* (SKYTRAX: 3.5-star)	◆ TAV's airports have been constantly acknowledged as some of the best airports in the region as per the ACI-ASQ and Skytrax World Airport Awards programs ◆ TAV Technologies has developed the 'Smart Airport Program' which will support standardization and modernization to improve customer experience	Green

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts; SKYTRAX Ratings are at group averages

5. Labour standards, diversity and well-being

What do we mean? Through this metric, we try to encompass all efforts undertaken by the organisation to attract and retain a competent workforce.

Why do we think it is important? The aviation sector is one that is highly labour intensive. Given this, effective means to improve the quality of its workforce and efficient ways to retain talent becomes quintessential. A highly competent and content workforce can help improve the primary service offering as well limit the impacts of employee attrition.

What is the regulatory framework? All our companies have to comply with their respective local government regulations when it comes to labour law. Beyond this, there may be an impact of unions which result in what best practices are adopted for employees as is the case with Türkiye, Brazil and Mexico.

What are the key metrics to assess? We will primarily take a look at employee turnover and employee diversity which has been reported across our coverage. In addition to this, we will take a look at the accident frequency rates, hours spent in training of employees and broader initiatives taken to advance employee attraction and retention.

How do our companies fare?

- **Above average effort**: Among our airlines, we find efforts to enhance employee well-being, diversity and development to be most comprehensive at Turkish Airlines, Pegasus and Volaris. The three of them have relatively high representation of women at the overall workforce and management levels. We also take into consideration the fact that Pegasus is the only company in our coverage that has a female CEO. In addition to this, there are efforts and targets to increase representation. Employee turnover is relatively low (except Volaris) and there are extensive programs and initiatives for employees to upskill and chart out their career paths. With our airports, we found best efforts from ASUR and GAP. Both companies have relatively high female representation in their workforce compared to their peers. Employee turnover is relatively low as well. Both companies continually invest in Learning & Development for their employees.
- **Average effort:** With the rest of our coverage, we find that there are either gaps in certain aspects of our criteria or there is some improvement in initiatives and quantitative metrics but which is lagging behind the leaders. While Copa had the lowest employee turnover in our coverage, we found it was lagging behind in diversity factors and employee training. With Air Arabia, we see very high levels of employee turnover and relatively lower (but improving) representation of women in their workforce. Azul and GOL saw training hours per employee declining significantly. Among our airports, TAV and OMA had low levels of women representation in its individual workforces. Employee training hours remained low for TAV but saw a decline in OMA’s case. Employee turnover has stayed elevated and accident frequency rates saw a steep uptick. In essence, these companies would require identifying these gaps and position themselves better to start showing positive improvement.

Exhibit 19. EEMEA & LatAm Aviation: Labour standards, diversity and well-being

Company	Remarks	ESG effort
Airlines		
Air Arabia	◆ Air Arabia has improved the representation of women in its workforce from 32% in 2021 to 35% in 2023. At the new hire level, this figure stood at 42%. Emiratization (UAE nationals in workforce) rate stood at 2.3% in 2023 vs 2.4% in 2021 ◆ Employee turnover remains elevated at 23% (highest in our coverage) but declined from 28% in 2022. There were no cases of work-related health fatalities in the last 3 years ◆ Training hours per employee has stayed constant at 8 hours per employee. The company has a dedicated Learning & Development department as well as training schools. In addition to technical training, there are three management training programs to ensure career progression and succession planning	
Azul	◆ Representation of women has remained more or less constant y-o-y at 41% in 2023 and at 42% at the new hire level. Women account for an average 33% of Director, Senior Manager, Manager and Airport Manager positions. Furthermore, 7% of the total workforce is made up of people from minorities and/or vulnerable groups ◆ Employee turnover has declined from 11% and is among the lowest figures in our coverage at 8%. The number of high-consequence work-related injuries reduced to 22 from 31 in 2022 ◆ There was an 18% decline in average training hours per employee to 79.3 hours. The company has a wide variety of internal training programs and offers financial support with external training courses and postgraduate programs. In addition to all of this, the company has multiple initiatives to foster connections across departments and improve overall employee well-being	
Copa Holdings*	◆ Women in the workforce stood at 35% in 2022. Representation of women among new hires stood at 30%. 16% of the first officers that were promoted were women ◆ As of 2022, Copa had the lowest employee turnover in our coverage at 3%. The overall accident rate declined to 3.07 from 3.82 in 2022 ◆ 1.9k participants (total workforce of 7.3k employees) underwent training in various corporate competencies. The company also has two training academies, the Latin American Academy of Higher Aviation (ALAS) and the Academy of Aeronautical Technicians (ATA). The company invests in infrastructure and scholarships to attract and develop its talent pools	
GOL*	◆ In 2022, women accounted for 44% of the GOL's total workforce and 39% of the leadership roles. The Black and mixed-race people (accounting for more than half of Brazil's population) represented 33% of the workforce and 15% of the company's leadership positions. Persons with disabilities represented 1% of the workforce. Furthermore, the company has tangible plans to enhance gender and racial equity ◆ Employee turnover came in higher at 14% in 2022 (vs 10% in 2021). The accident frequency rate stood at 3.28 vs 2.56 in 2021 ◆ Training hours per employee declined to 60 hours from 100 hours in the previous period. The company has its internal corporate university to offer various types of Learning & Development	
Pegasus	◆ Pegasus is the only company in our coverage with a female CEO. Women employees accounted for 45% of the total headcount and 40% of the new hires in 2023. Women in leadership positions stood at 30%, the women engineer ratio stood at 32% while the women pilot ratio and women technician ratio stood at 8.1% and 1.8%. The company has set targets for each of these ratios – 33% for leadership positions and engineers, 9% for pilots and 2% for technicians. 37% of the candidates in its talent acquisition program (the GoYoung program) were women, the company has a target of bringing this up to 50% (for the pilot cadet class as well) in 2024 and increase the share of women among new recruits to 45% by 2024 (vs 39% in 2023). The gender pay gap improved from 88% in 2021 to 96% in 2023 ◆ Employee turnover increased from 6% in 2022 to 8% in 2023. The total injury rate increased to 33.97 in 2023 from 30.60 in 2022 and much higher than the reported 16.68 figure in 2021 ◆ Training hours per employee declined to 51 hours from 62 hours in 2022. Pegasus has multiple partnerships via the Pegasus Flight Academy, Pegasus Academy, universities, flight schools and vocational schools to support pilot and cabin crew development as well as offering long-term internships for technicians	
Turkish Airlines	◆ Women employees accounted for 46% of the total headcount. 60% of the recruits during 2023 were women. 36% (domestic) and 31% (international) of promotions were women. This figure was 40% at the executive positions for domestic operations and 38% for foreign operations. Persons with disabilities accounted for c1% of the total workforce ◆ The employee turnover rate in domestic operations stood at 4% while this figure was 1% in overseas operations (total of 5% which is at the lower end of the spectrum). The accident frequency rate increased to 17.60 from 15.58 in 2022 ◆ Average training hours per employee stood increased to 19.8 hours, virtually doubling from 8.6 hours. Turkish Airlines launched the Take Off Project to attract young talent as well as the Turkish Airlines Aviation Academy which offers a wide range of in-classroom and online courses under Corporate Solutions, Organizational Development and Language Skills. USD6.3m was invested in training activities	

Source: Company data; Note: * indicates latest report was published in 2022, green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts; Accident frequency rates are based on the company's calculations

Exhibit 19. EEMEA & LatAm Aviation: Labour standards, diversity and well-being (contd.)

Company	Remarks	ESG effort
Airlines (contd.)		
Volaris	◆ Total women in the company's workforce stood at 47%. Women in STEM related positions stood at 34%, 40% in management positions. The company maintained its 47% ratio at the new hire level as well. The mean and median gender pay and bonus gap was 0%, which we see as very positive since this is equal pay for equal work in effect ◆ Employee turnover remains high at 13%. However, this has come down from 14% in 2022. The accident frequency rate has declined c18% in 2023. However, the accident frequency rate has declined c18% in 2023 but remains significantly higher for women (2.14 vs 0.84 for men) largely due to a high share of the accidents taking place in the flight attendant's' guild composed of 75% female members ◆ Average training hours per FTE declined marginally to 6.1 hours per employee in 2023. Volaris offers a virtual platform Volaris Corporate University which addresses governance, ethics, safety and security, among other topics. There is also a Leadership Academy which offers training on culture, leadership capabilities and the ways of working	
Airports		
ASUR	◆ Representation of women in the workforce was 36% in 2023 whereas this was 25% in management positions and 7% among executive officers. Company is making plans to disclose information on Indigenous groups, people with disabilities and from vulnerable groups ◆ Employee turnover fell to 5% in 2023 from 9% in 2022. The total recordable incident rate stood at 1.40 (vs 1.31 in 2022 and 1.96 in 2021) ◆ Average training hours per employee rose to 49.0 hours in 2023 vs 46.8 in 2022. ASUR launched the Campus ASUR tool which offers various virtual courses on technical and regulatory aspects	
GAP	◆ The share of women in GAP's workforce stood at 42% in 2023. The share of women in top and junior leadership stood at 32%. 29% in STEM positions and 61% in income generating positions. 47% of the individuals promoted and 43% of the new hires in 2023 were women. Furthermore, the company has targets to achieve 50% representation of women in leadership positions as well as designate at least 5% of the newly created positions to be filled by persons with disabilities. The wage gap between women and men stood at 11% in Mexico (only 3% at the senior management level) and 6% in Jamaica ◆ Employee turnover stood above coverage average at 11% although this has declined from 17% in 2022. The accident rate increased significantly to 8.02 from 4.13 om 2022 ◆ Training hours per employee has increased significantly to 68.3 hours. GAP has an Annual Training Plan that identifies skill gaps and trains employees who require the necessary skills. In addition to this, the company has a partnership with AENA to enhance skill development, GAP also provides financial support for those deciding to pursue a master's degree in specific fields as well as an internal e-learning tool (EIVA) to promote employee development	
OMA	◆ OMA's share of women in its workforce stood at 28% (amongst the lowest in our coverage). However, the share accounted for by women among new hires stood at 45%. The share of women in management positions stood at 16%. However, female representation was significantly higher in STEM positions at 44%. The salary gap was in favour of unionized women employees by 2%. However, for non-unionized as well as directors and managers the differences were c19% and c8% respectively ◆ Employee turnover declined from 18% in 2022 to 15% in 2023, albeit being relatively high vs our coverage. The employee injury rate has been elevated to 3.60 (highest in the last 4 years) ◆ The average training hours per employee increased 4% in 2023. Training is primarily done in 2 areas: Technical and Institutional. OMA also developed an e-learning platform to expand the coverage and scope of institutional programs	
TAV	◆ The ratio of women employees to total employees stood at 27% while the representation of women in managerial positions was 28%. 1.4% of the total workforce was represented by persons with disabilities. TAV and its subsidiaries have been ranked among the Top 15 companies with the highest number of women employment and are included in the Top 100 women friendly companies list ◆ The employee turnover stood at 14% in 2022. The accident frequency rate rose in 2022 to 6.57 (from 6.15 in 2021) while the severity rate decline to 0.04 from 0.08 ◆ Total training hours per employee stood at 5.1 hours (lowest among airport peers) in 2022. TAV Eduport platform has multiple training program offerings which include subject areas such as aviation, security, competency and skill development, management and leadership	

Source: Company data; Note: * indicates latest report was published in 2022 green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts; Accident frequency rates are based on the company's calculations

6. Board structure

What do we mean? Board composition in terms of the number of members, and diversity by gender and independence.

Why do we think it is important? A diverse, experienced Board can positively support decision-making and corporate governance while aspiring to maximize and protect value for all stakeholders. As highlighted in *Governance in Focus* (11 July 2024), we see very strong evidence that well-structured and diverse board can result in reduced risk of groupthink, higher incidence of innovation, greater decentralisation, more efficient problem solving along with improved talent retention and corporate performance. In addition to this, independent directors play a significant role in protecting the interest of minority shareholders.

What is the regulatory framework? The regulatory framework is largely dependent on local government listing requirements. Taking Türkiye for instance, the Corporate Governance Principles stated that at least one-third of the Board of a listed company should be composed of independent directors (minimum count of 2). There is no gender diversity requirement. However, the Principles state that companies should set a target for female directors representation, not less than 25%, and there should be a company policy to achieve this target. In the UAE, according to the Securities & Commodities Authority's Decision No 3, there is a requirement that there should be an odd number of board members (ranging from 3 to a maximum of 11). The guidelines also require that the majority of the board members should be independent and c20% of the board should be composed of female members. In Mexico, the Securities Market Law states that at least 25% of the board should be independent and alternate directors may be appointed for each regular director and limits those individuals that may have service as external auditors or any other legal entity consulting the group. In Brazil, the Sao Paulo exchange has 3 different markets: Level 1; Level 2; and Novo Mercado. The minimum size of the board should be 3 members. If the company is listed on the Novo Mercado segment, at least two members of the board or 20% of the board (whichever is higher) must be independent. The segment also requires the CEO and chair positions to be separated. Under Panamanian law, the board must be comprised of a minimum of 3 individuals (regardless of nationality and residence) and does not have any other requirements regarding the board structure and/or composition.

What are the key metrics to assess? We will first evaluate the size of the board. We assess the board size based on the relative size of the company and the nature of its business. Smaller boards could help smaller companies be more agile to the shifting business environment. Larger boards could be more important to larger companies as this can bring different approaches to decision-making. Furthermore, we will look at the ratio of the independent and female directors that form part of the Board and look at trends regarding the same.

How do our companies fare?

- **Above average effort**: In our coverage, we find Azul and ASUR's boards to have the most positive composition with very high shares of board independence and representation of women directors.
- **Average effort**: We see average efforts with most of our companies. We feel board independence could improve at GOL, PGS and TAV while better representation of women directors could be achieved at OMA, Volaris and Air Arabia.
- **Below average effort**: We found board structures to be relatively weak at Copa and Turkish Airlines with lower share of independent and women directors.

Exhibit 20. EEMEA & LatAm Aviation: Board structures

	Size			Independence			Diversity			ESG
Company	**2019**	**2022**	**2023**	**2019**	**2022**	**2023**	**2019**	**2022**	**2023**	**Effort**
Airlines										
Air Arabia	7	7	7	71.4%	71.4%	71.4%	0.0%	0.0%	14.3%	
Azul	11	11	12	81.8%	90.9%	91.7%	9.1%	18.2%	39.0%	
Copa Holdings	11	11	11	36.4%	25.0%	25.0%	18.2%	18.2%	18.2%	
GOL	8	8	8	50.0%	62.5%	37.5%	12.5%	12.5%	12.5%	
Pegasus	8	8	8	50.0%	50.0%	37.5%	12.5%	12.5%	25.0%	
Turkish Airlines	9	9	9	33.3%	33.3%	33.3%	11.1%	11.1%	11.1%	
Volaris	12	14	14	58.3%	64.3%	78.6%	0.0%	14.3%	14.3%	
Airlines Avg	**9**	**10**	**10**	**54.5%**	**56.8%**	**53.6%**	**9.1%**	**12.4%**	**19.2%**	
Airports										
ASUR	9	11	11	55.6%	63.6%	63.6%	0.0%	27.3%	27.3%	
GAP	11	11	11	54.5%	63.6%	54.5%	18.2%	27.3%	27.3%	
OMA	11	11	11	45.5%	45.5%	45.5%	9.1%	9.1%	18.2%	
TAV	11	11	11	36.4%	36.4%	36.4%	27.3%	27.3%	27.3%	
Airports Avg	**11**	**11**	**11**	**49.3%**	**53.2%**	**50.7%**	**12.7%**	**20.7%**	**23.8%**	
Coverage Avg	**10**	**10**	**10**	**52.1%**	**55.1%**	**52.3%**	**10.7%**	**16.2%**	**21.3%**	

Source: Company data, HSBC

7. Innovation and cybersecurity

What do we mean? We refer to all initiatives taken by a company's management to either effectively replace or optimize inefficient operations.

Why do we think it is important? Technology is a very integral part of modernizing the aviation sector. The implementation of digital initiatives can have great influence on both the internal operations as well as the customer satisfaction. Boards that prioritize and continually invest in digital initiatives would be more able to streamline operations while having technological leadership.

What is the regulatory framework? While there are no laws pertaining to innovation and digital transformation, regulation regarding cybersecurity (especially data protection and privacy) are governed primarily by national regulations. In addition to national laws, there are some pan-national compliance laws such as the EU General Data Protection Regulation (GDPR). All of our companies are compliant with their national regulations while some are compliant with GDPR such as Air Arabia, Pegasus and Turkish Airlines.

What are the key metrics to assess? We take a look at the commentary relating to compliance with national and international laws for data privacy. Furthermore, we evaluate the managements' statements with regard to the various innovation and digital transformation initiatives that have been employed or are soon to be employed.

How do our companies fare?

- **Above average effort**: Among our airlines, Air Arabia, GOL, Pegasus and Turkish Airlines led the pack. Turkish Airlines, in our opinion, had the most comprehensive innovation strategy focusing on a wide range of aspects of their value chain. The airline has a strong employee suggestions platform which resulted in a financial benefit of USD82m from implementing these processes. Pegasus is committed to focusing on creating seamless digital customer experiences. This commitment was seen as it established Pegasus Innovation Labs this year in Silicon Valley to further technology and software innovation in the air transport industry. GOL Labs, the innovation arm of GOL, has been recognized for its innovation leadership in the transport and logistics domain. Air Arabia has a subsidiary that offer software products for airlines and the travel industry. Among our airports, we find GAP and TAV's efforts to be the most comprehensive. TAV Technologies developed the Smart Airport Program which will drive the modernization and standardization of TAV Airports while GAP has invested sizeably in automation, infrastructure upgrades for data centres as well as improving its IoT capabilities.
- **Average effort**: We find average but positive efforts at Azul, Copa and Volaris (airlines) and ASUR and OMA (airports). We do not see this as a negative point, as we feel these companies are slightly lagging behind the leaders with above average efforts and are more focused on certain aspects of their operations. We believe the scope can be expanded to be more comprehensive.

Exhibit 21. EEMEA & LatAm Aviation: Innovation and cybersecurity

Company	Remarks	ESG Effort
Airlines		
Air Arabia	◆ Air Arabia's paperless initiatives have resulted in operational efficiency. Furthermore, the company is compliant with GDPR practices and their data management systems continually undergo external audits ◆ Air Arabia's subsidiary ISA offers software solutions for airlines and the travel industry such as aeroMART (Core PSS & e-Commerce), aeroPORT (departure control, weight and balance) and aeroLINE (productivity suite)	
Azul	◆ Azul continues to place emphasis on technological development. 2023 marked a year of comprehensive restructuring, organization and implementation of new automation project incorporate AI. Investments were made in cybersecurity and digitalization ◆ The company is compliant with the General Data Protection Law (LGPD)	
Copa Holdings*	◆ Copa introduced Copa Connect (distribution strategy) to improve the usage of their website along with direct connections through Copa Connect. The company has improved its digital channels and service offering as well ◆ Copa has a Personal Data Protection Committee as part of its corporate governance structure	
GOL*	◆ GOL has emphasised its intention to continue digital acceleration to develop solution-oriented, self-service channels to leverage sales growth ◆ GOL Labs (innovation arm of GOL) works on developing and deploying various solutions. The company was ranked 2nd in Transportation and Logistics at the Valor Inovação Brasil 2022 Award. The company's data protection initiatives are compliant with LGPD	
Pegasus	◆ Pegasus established Pegasus Airlines Innovation Lab in Silicon Valley to explore technology and software solutions and opportunities to cooperate in air transportation. They have also launched 32 digitalization projects (vs 17 in 2021). The company has among the best digitalization initiatives for seamless customer interaction ◆ The company carries out all cybersecurity activities in compliance with local legislation and globally accepted standards	
Turkish Airlines	◆ Turkish Airlines has the Ideaport innovation platform where every employee and stakeholder are given an opportunity to innovate and collaborate. Out of the 102 implemented suggestions, a USD82m financial benefit was recognized in 2023 ◆ Through the company's subsidiary Turkish Technology, Turkish Airlines looks to enhance its digitalization initiatives in the fields of mobile-focused seamless experiences, cybersecurity measures, financial technologies, new distribution channels, ONE Order transformation, new passenger revenue management technologies, CRM, process optimizations, artificial intelligence and robotic process automation. The company is also compliant with national and EU laws for data privacy	
Volaris	◆ Volaris is expected to digitalize the document validation system on the website and mobile app for international flights. In addition, c80% of customer requests were submitted through digital channels. Innovation and new technologies are material ESG topics for Volaris ◆ Volaris' customer privacy strategy is compliant with regulations in the US, Mexico, Colombia, Costa Rica and Peru	

Source: Company data, HSBC; Note: * indicates latest report was published in 2022; green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

Exhibit 21. EEMEA & LatAm Aviation: Innovation and cybersecurity (contd.)

Company	Remarks	ESG Effort
Airports		
ASUR	◆ ASUR's data protection practices are compliant with Mexican regulations. Technological risks are part of the company's risk management framework ◆ ASUR plans to develop and implement a mechanism to monitor client satisfaction as well as a quantitative complaint management mechanism	
GAP	◆ GAP invested a total of MXP233m in technology and innovation in 2023 with the major projects being the automation of INAMI access, infrastructure update for data centres and IoT implementation ◆ GAP's cybersecurity model is based on international standards such as ISO 27001, NIST, CIS Controls and the ICAO cybersecurity strategy	
OMA	◆ OMA has a comprehensive process to assess, identify and manage material cybersecurity threats and is compliant with laws and associated risks	
TAV*	◆ TAV Technologies provide digital solutions and services for a wide range of airport management functions like smart airport solutions, digital transformation, cybersecurity, passenger and baggage processing, airport operations, etc. ◆ The 'Smart Airport Program' developed by TAV Technologies aims to offer support to the standardization and modernization efforts at TAV Airports while also improving passenger experience and optimizing operations ◆ TAV is compliance with the International Code of Conduct and other policies for the protection of personal data	

Source: Company data, HSBC; Note: * indicates latest report was published in 2022; green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts

Company sections

Air Arabia (AIRARABI UH)

- Accelerated efforts in the right direction, room for further progress
- +50 bps ESG overlay added to our CoE now at 9.6%
- Maintain Hold, cut target price to AED3.10 (from AED3.30)

Investment thesis and ESG assessment

Company background. Air Arabia (AA) is the largest low-cost carrier in the MENA region with headquarters in Sharjah/UAE. The airline's core hubs are Sharjah and Ras Al Khaimah. Alongside the main airline, the company has JVs in Abu Dhabi, Morocco, Egypt, and Pakistan. As of 9M24, AA had a total fleet of 77 aircraft (excl. JVs) and flies to 140+ destinations.

On the ESG front, 2023 marked the first year of AA publishing its ESG report identifying and reporting key KPIs in line with its ESG initiatives.

Room for progress on the environmental front. The carrier's decarbonisation strategy is largely dependent on emission reduction arising from lower fuel consumption from fleet modernization. The company placed an order for 120 Airbus a320 aircraft equipped with 240 CFM LEAP-1A engines which are expected to join the fleet in 2025 and should result in a 15-20% lower fuel consumption. The delivery of the new aircraft should positively impact noise management as well. Certain operational efficiencies are also being made to reduce overall fuel consumption. AA stated that it is in talks with fuel suppliers to introduce SAF in 2025 (currently no usage). However, barring the long-term target of net zero emissions by 2050, there were no medium-term targets put forward by the airline or a detailed strategy to mark milestones in its decarbonisation efforts.

No major issues with overall social efforts. AA has been focusing on improving customer experience in multiple ways. We would like to highlight its innovative in-city check-in facilities which allow passengers to drop off their luggage 24 hours in advance, avoiding long queues. The share of women in the workforce stood at 36% in 2023, marginally below our coverage average of 37%. At the new hire level, this ratio stood at 42% (vs the 44% average) which appears average to us. A possible cause for concern is employee turnover, the highest in our coverage at 23% while the coverage averaged at 13%. While average training hours were at the lower end of the spectrum, we take note of the efforts to enhance leadership talent pools through the company's various programs.

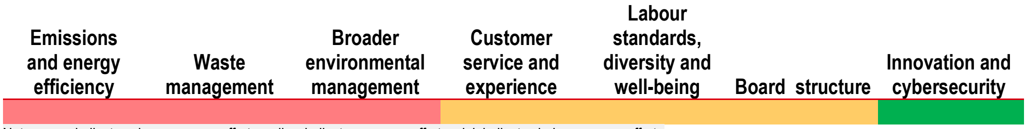
Innovation efforts above average, governance structure could improve. AA subsidiary ISA offers software solutions for airlines and the travel industry. These offerings include a core PSS & e-commerce product, a productivity suite and a departure control, weight and balance offering. The paperless initiatives as part of overall digitalization have led to operational efficiency gains. The concerns we have with low representation of women directors is to some extent offset with the high presence of independent directors on the board which we view as mildly positive.

Key ESG risks: 1) further delays in fleet delivery could harm the overall decarbonisation strategy, 2) non-meaningful outcomes from SAF negotiations, 3) inability to lower high employee turnover rates and increase training efforts, 4) risks arising from Emiratization laws, 5) adverse regulations around board structures.

Key ESG opportunities: 1) ramp up focus on environmental management; 2) could lead LCC sustainability in the region; 3) improve customer service proposition; 4) increased focus on gender diversity in the workforce.

Given its below average positioning in our assessment of its ESG efforts, we add an ESG overlay of +50 bps to our CoE for Air Arabia.

Exhibit 22. Air Arabia: Our ESG assessment



Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

Valuation methodology: Our valuation for Air Arabia is based on a three-stage DCF model for which our medium-term assumptions (all unchanged) are as follows: a medium-term EBIT margin of 18%, an invested capital growth rate of 5%, and an average asset turnover ratio of 0.5x. Our DCF WACC assumption of 7.4% (from 6.9%) is based on an equity risk premium of 5.0% (unchanged), a risk-free rate of 3.75% (previously 3.50%), a beta of 1.07 (unchanged), an ESG overlay of +50 bps and debt/equity of 32%/68% (unchanged). This results in a lower target price of AED3.10 (from AED3.30), implying 5.1% upside. We maintain our Hold rating on the stock given lack of new positive catalysts to justify a more optimistic view.

Downside risks: 1) Slower traffic development due to shifts in consumer preferences; 2) escalation of geopolitical conflicts in the region; (3) higher-than-expected volatility in oil prices due to geopolitical tensions (sharp declines affect economic conditions in the Middle East); (4) increased competition and capacity development putting pressure on yields; (5) weaker-than-expected fleet and network development; (6) lower-than-expected cash dividend; (7) weakening of local currencies in foreign countries & operations (resulting in lower AED profits); (8) fuel price risks, i.e. over-hedged when prices decline or under-hedged when prices rise.

Upside risks: (1) stronger traffic development; (2) de-escalation of geopolitical conflicts in the Middle East; (3) sustained trend of benign fuel prices; (4) stronger fleet and route development from quicker resolution of supply constraints; (5) higher-than-expected dividend payout; (6) lower competition in new routes; (7) strengthening of foreign currencies (resulting in higher AED profits).

Financials & valuation: Air Arabia

Hold

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (AEDm)				
Revenue	6,000	6,650	7,432	8,573
EBITDA	1,873	1,813	2,034	2,443
Depreciation & amortisation	-525	-561	-626	-742
Operating profit/EBIT	1,239	1,132	1,275	1,543
Net interest	108	130	73	25
PBT	1,568	1,487	1,603	1,850
HSBC PBT	1,568	1,487	1,603	1,850
Taxation	0	-122	-144	-166
Net profit	1,567	1,364	1,458	1,683
HSBC net profit	1,567	1,364	1,458	1,683
Cash flow summary (AEDm)				
Cash flow from operations	2,353	1,833	1,879	2,326
Capex	-371	-309	-956	-1,073
Cash flow from investment	-693	-309	-956	-1,073
Dividends	-700	-933	-700	-700
Change in net debt	-1,119	181	2,897	2,797
FCF equity	1,982	1,523	923	1,253
Balance sheet summary (AEDm)				
Intangible fixed assets	1,346	1,357	1,357	1,357
Tangible fixed assets	5,946	6,193	9,660	13,422
Current assets	6,154	6,014	5,624	5,415
Cash & others	5,246	4,804	4,171	3,742
Total assets	14,047	14,437	17,589	21,142
Operating liabilities	4,652	4,925	5,140	5,395
Gross debt	2,279	2,018	4,283	6,650
Net debt	-2,967	-2,786	111	2,908
Shareholders' funds	7,534	7,903	8,662	9,644
Invested capital	6,375	6,391	8,584	12,323

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	14.5	10.8	11.8	15.4
EBITDA	9.4	-3.2	12.2	20.1
Operating profit	15.0	-8.6	12.7	21.0
PBT	28.3	-5.2	7.8	15.4
HSBC EPS	28.3	-12.9	6.9	15.4
Ratios (%)				
Revenue/IC (x)	0.9	1.0	1.0	0.8
ROIC	19.4	17.7	14.9	12.5
ROE	21.6	17.7	17.6	18.4
ROA	12.0	10.2	9.7	9.3
EBITDA margin	31.2	27.3	27.4	28.5
Operating profit margin	20.6	17.0	17.2	18.0
EBITDA/net interest (x)				
Net debt/equity	-39.4	-35.2	1.3	30.1
Net debt/EBITDA (x)	-1.6	-1.5	0.1	1.2
CF from operations/net debt			1687.0	80.0
Per share data (AED)				
EPS Rep (diluted)	0.34	0.29	0.31	0.36
HSBC EPS (diluted)	0.34	0.29	0.31	0.36
DPS	0.20	0.15	0.15	0.15
Book value	1.61	1.69	1.86	2.07

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	1.8	1.7	1.9	1.9
EV/EBITDA	5.8	6.1	6.8	6.8
EV/IC	1.7	1.7	1.6	1.4
PE*	8.8	10.1	9.4	8.2
PB	1.8	1.7	1.6	1.4
FCF yield (%)	14.4	11.1	6.7	9.1
Dividend yield (%)	6.8	5.1	5.1	5.1

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a
GHG emission intensity*	1,695.1
Energy intensity*	5,890.9
CO_2 reduction policy	Yes
Social Indicators	**12/2023a**
Employee costs as % of revenues	15.7
Employee turnover (%)	22.7
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	7
Average board tenure (years)	10.3
Female board members (%)	14.3
Board members independence (%)	71.4

Source: Company data, HSBC

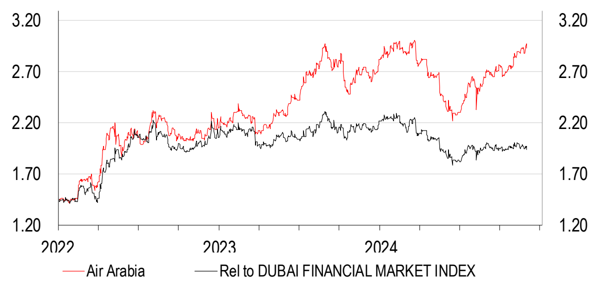
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (AED)	2.95
Target price (AED)	3.10
RIC (Equity)	AIRA.DU
Bloomberg (Equity)	AIRARABI UH
Market cap (USDm)	3,748

Free float	83%
Sector	Airlines
Country/Region	United Arab Emirates
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 26 Nov 2024

Azul (AZUL4 BZ)

- Ambitious environmental targets; differentiated product offering for customers
- Above average positioning results in -50 bps overlay to CoE (now at 23.8%)
- Maintain Hold; raise target price to BRL5.70 from BRL5.00

Investment thesis and ESG assessment

Company background. Azul is Brazil's largest airline by departures and cities served. It is the sole airline on 74% of its routes in c140 Brazilian cities and looks to rival the road transportation system in Brazil. Furthermore, the company operates a logistics business Azul Cargo and the fastest-growing loyalty program in Brazil TudoAzul. Azul operates a fleet of 180+ aircraft with an average of 7.5 years, serving 160+ destinations.

Ambitious and innovative environmental strategy. Azul aims to reduce its carbon emissions per RTK by 46% by 2030 from a 2019 baseline and achieve net zero emissions 5 years ahead of the sector's target of 2050. To this end, emissions per RTK have as of 2023 declined 11% from 2019 levels. The company aims to increase the share of next-gen, fuel-efficient aircraft to 97% by 2026 which should result in 20% more fuel efficiency. Azul Connecta (regional flights and cargo operations) is working on aircraft electrification in partnership with Surf Air Mobility. The company also has a partnership with Ampaire to convert 6 aircraft with P&W combustion engines to hybrid by adding electric motors which can be alternated. Furthermore, Azul has partnered with Eurociclo to recycle plastic packaging materials and has managed to recycle 400 tons to date as part of this partnership.

Social factors have room to improve. Azul positions itself as the leading provider of air connectivity in Brazil where it is the sole carrier on a majority of its routes. While it solves a particularly important need for air connectivity, we find it relatively lacking in customer service and experience enhancement initiatives. On the other hand, workforce gender diversity stood at a commendable 41% (42% at the new hire level, 33% at the managerial level) in 2023 and the representation of persons from minorities and/or vulnerable groups stood at 7%. Employee turnover came down to 8% (among the lowest in our coverage) but there was a spike in high-consequence work-related injuries and an 18% decline in average training hours per employee which becomes a cause of concern to us.

Well-structured board. Azul has the highest share of independent directors as part of its board at a staggering 92% and the highest share of female directors at 39%. The board at Azul is faced with charting the right course for the company as it faces a challenging period of debt restructuring. The company continues to evaluate options for increasing innovation, the most notable to us being the implementation of an automation project and the incorporation of AI in its operations.

Key ESG risks: 1) slower fleet delivery arising from financial troubles; 2) adverse changes to board and ownership structures; 3) failure of partnerships and investment to yield tangible results; 4) employee turnover rising due to financial survivability concerns.

Key ESG opportunities: 1) continued investment and leadership in emission control and reduction; 2) increase focus on broader environmental themes; 3) improve workforce initiatives for talent attraction and retention; 4) continue making technology investments.

Given its above average overall positioning in our assessment of its ESG efforts, we add an ESG overlay of -50 bps to our CoE for Azul.

Exhibit 23. Azul: Our ESG assessment

Emissions and energy efficiency	Waste management	Broader environmental management	Customer service and experience	Labour standards, diversity and well-being	Board structure	Innovation and cybersecurity

Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

Valuation methodology: We value Azul using the economic profit methodology. We include explicit forecasts for the first 5 years, followed by a 15-year steady state phase, and a 5-year phase-out period, when we expect the spread between ROIC and WACC to narrow to zero.

Our DCF model parameters assume a medium-term EBIT margin of 20%, medium-term invested capital growth of 5.0% and an average asset turnover of 0.5x (all unchanged). We assume a long-term BRL-based WACC of 17.0% (from 17.1%), based on a USD risk-free rate of 3.75% (unchanged), an equity risk premium of 8.75% (unchanged), an additional shareholder dilution risk premium of 5.0% (unchanged), a -50 bps ESG overlay, a beta of 1.53 (unchanged), an inflation differential of 2.25% (unchanged), a cost of debt of 15.6% (unchanged), and 82:18 debt-to-equity ratio (unchanged).

The lower WACC results in a higher TP of BRL5.70 (previously BRL5.00), with implied upside of 6.3%; we maintain our Hold rating on the stock, given the potential shareholder dilution risks from ongoing debt restructuring transactions. Based on the spot USD/BRL of 5.82 and the ADR ratio of 3:1, our implied target price for Azul's ADR (AZUL US, CMP USD2.77) is USD2.90 (from USD2.60).

Upside risks: 1) Amicable negotiation with bondholders and lessors improving payment schedule; 2) lower-than expected stock dilution from the equity instrument; 3) assurance of government aid to fund CAPEX and aircraft maintenance; 4) avoidance of bankruptcy protection; and 5) faster-than-expected traffic recovery from May floods

Downside risks: 1) Significant depreciation of the local currency (BRL); 2) a worsening of the competitive environment, with prices declining more than expected; 3) increases in interest rates; 4) a spike and sustained high oil prices; 5) irrational pricing with domestic competitors, such as GOL or LATAM Brazil; 6) aircraft delivery delays by OEMs, 7) negative regulatory changes for airlines in Brazil and, 8) dilution for existing shareholders with the lock-up for the equity instrument coming to an end by mid-2024 (this is an unsecured note for lessors and OEMs maturing in 2030 with a 7.5% p.a. coupon and convertible into preferred shares -6.2m shares will be released for issuance in 2H24 and 25.2m shares in each of 2025 and 2026, unless GOL management pursue cash compensation at BRL36/share to avoid dilution).

Financials & valuation: Azul SA

Hold

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (BRLm)				
Revenue	18,695	19,940	22,173	23,932
EBITDA	5,214	5,978	7,096	7,964
Depreciation & amortisation	-2,314	-2,612	-2,965	-3,285
Operating profit/EBIT	2,900	3,366	4,131	4,679
Net interest	-3,356	-7,482	-4,376	-4,401
PBT	-456	-4,117	-246	278
HSBC PBT	-456	-4,117	-246	278
Taxation	-40	1,400	84	-95
Net profit	-496	-2,717	-162	184
HSBC net profit	-496	-2,717	-162	184
Cash flow summary (BRLm)				
Cash flow from operations	3,861	3,988	5,521	6,436
Capex	-972	-1,584	-1,691	-1,934
Cash flow from investment	-2,442	-1,584	-1,691	-1,934
Dividends	0	0	0	0
Change in net debt	1,599	2,867	930	-642
FCF equity	2,889	2,403	3,830	4,502
Balance sheet summary (BRLm)				
Intangible fixed assets	1,463	1,463	1,463	1,463
Tangible fixed assets	11,307	12,424	14,189	14,626
Current assets	5,044	7,120	5,898	5,807
Cash & others	1,897	3,771	2,634	2,397
Total assets	20,533	23,726	24,269	24,614
Operating liabilities	13,409	14,578	15,491	16,532
Gross debt	26,047	30,788	30,580	29,701
Net debt	24,150	27,017	27,947	27,304
Shareholders' funds	-21,328	-24,045	-24,207	-24,023
Invested capital	2,289	2,439	3,206	2,747

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	17.2	6.7	11.2	7.9
EBITDA	61.4	14.6	18.7	12.2
Operating profit	155.3	16.1	22.7	13.3
PBT				
HSBC EPS				
Ratios (%)				
Revenue/IC (x)	7.3	8.4	7.9	8.0
ROIC	123.8	94.0	96.6	103.7
ROE	2.5	12.0	0.7	-0.8
ROA	-2.5	-12.3	-0.7	0.8
EBITDA margin	27.9	30.0	32.0	33.3
Operating profit margin	15.5	16.9	18.6	19.6
EBITDA/net interest (x)	1.6	0.8	1.6	1.8
Net debt/equity	0.0	0.0	0.0	0.0
Net debt/EBITDA (x)	4.6	4.5	3.9	3.4
CF from operations/net debt	16.0	14.8	19.8	23.6
Per share data (BRL)				
EPS Rep (diluted)	-1.43	-6.07	-0.36	0.41
HSBC EPS (diluted)	-1.48	-8.09	-0.48	0.00
DPS	0.00	0.00	0.00	0.00
Book value	-61.28	-53.67	-54.04	-53.63

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	1.4	1.4	1.3	1.2
EV/EBITDA	5.0	4.8	4.2	3.7
EV/IC	11.4	11.8	9.3	10.6
PE*	nm	nm	nm	nm
PB				
FCF yield (%)	154.5	128.5	204.8	240.8
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a
GHG emission intensity*	1,180.8
Energy intensity*	3,343.7
CO_2 reduction policy	Yes
Social Indicators	**12/2023a**
Employee costs as % of revenues	12.8
Employee turnover (%)	8.2
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	12
Average board tenure (years)	10.4
Female board members (%)	25
Board members independence (%)	91.7

Source: Company data, HSBC

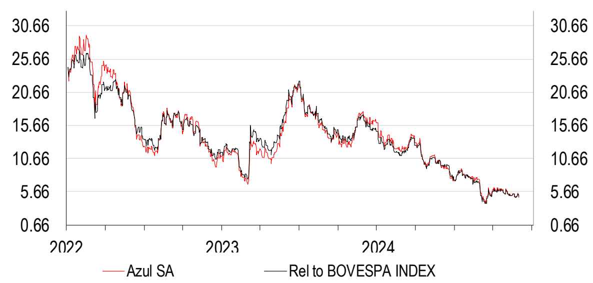
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (BRL)	5.36
Target price (BRL)	5.70
RIC (Equity)	AZUL4.SA
Bloomberg (Equity)	AZUL4 BZ
Market cap (USDm)	322

Free float	83%
Sector	Airlines
Country/Region	Brazil
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 26 Nov 2024

Copa Holdings (CPA US)

- Room for improvement on environmental efforts vs peers
- We incorporate a +50 bps ESG overlay to our CoE (now at 15%)
- Maintain Buy; cut target price to USD135 (from USD140)

Investment thesis and ESG assessment

Company background. Copa Holdings is a Latin American passenger and cargo carrier holding company with two primary operating subsidiaries, Copa Airlines (based in Panama) and AeroRepública (operates a low-cost carrier Wingo in Colombia). The company operates routes to 82 destinations in 32 countries and ended 1H24 with a consolidated fleet of 109 aircraft.

Room for improvement on the environmental front. Copa had set a target of reducing carbon emissions per RPK by 14% from 2019 levels by 2026. To this end, the company has achieved a 10% decline in 2022. However, this would mean only a 4% reduction over the course of the next 4 years, which in our view appears complacent. The key emission reduction initiative is fleet renewal through the Boeing 737 MAX aircraft due for delivery between 2023-28. Furthermore, the company has reduced fossil fuel consumption in hangars by 15% and operational improvements have been made to reduce emissions. We also found little to no information about the company's strategy to mitigate other environmental risks.

Social initiatives a mixed bag. We find the customer service enhancement initiatives to be below average, we do not see a high degree of innovation on this front barring the company's technology platforms which directly link certain other stakeholders in the value chain. On the other hand, we see the lowest employee turnover in our coverage at Copa and the incidence of work-related injuries lower on a sequential basis in 2022. However, women in the workforce stood below our coverage average at 35% and the representation of women among new hires was even lower. We find better initiatives on the learning and development front with the company's continued investments made in ALAS, ATA and other infrastructure along with their scholarship commitments.

Governance structure can improve. Copa has among the lowest board representation of women and independent directors at 25% and 18%, respectively. We find this slightly concerning as most of the other companies still have work to do to improve their board structures on these two metrics. Copa has seen its share of independent directors reducing from 36% in 2019 to 25% in 2023 while board diversity has remained constant. In terms of innovation, we find the efforts taken to improve the digital distribution platform to be commendable but we do not see anything else that is noteworthy.

Key ESG risks: 1) delay in fuel efficient fleet delivery; 2) lack of broader environmental initiatives and implementation of related legislature; 3) inability to increase the share of women in the workforce and governance structure; 4) lower funding for employee training initiatives.

Key ESG opportunities. 1) expand focus on environmental sustainability beyond emissions; 2) increase customer service proposition; 3) improve gender diversity across various organisational hierarchies; 4) favourable board structures over time.

Given its below average overall positioning in our assessment of its ESG efforts, we add an ESG overlay of +50 bps to our CoE for Copa Holdings.

Exhibit 24. Copa Holdings: Our ESG assessment

Emissions and energy efficiency	Waste management	Broader environmental management	Customer service and experience	Labour standards, diversity and well-being	Board structure	Innovation and cybersecurity

Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

Valuation methodology: We value Copa based on the economic profit methodology. We include explicit forecasts for the first 5 years, followed by a 5-year steady state phase, and a 5-year phase-out period when we expect the spread between ROIC and WACC to narrow to zero.

We assume a long-term USD-based WACC of 11.7% (from 11.4%), based on a USD risk-free rate of 3.75% (unchanged), an equity risk premium of 7.25% (unchanged) based on HSBC equity strategists' latest assumptions, additional country (macro volatility) risk premium of 2.0% (unchanged) and an ESG overlay of +50 bps; an unlevered beta of 0.9 (unchanged) based on Bloomberg adjusted stock beta; an average USD cost of debt of 6.2% (unchanged), and debt-to-equity ratio of 32:68 (unchanged, including lease liabilities). This results in a lower target price of USD135 (from USD140); accordingly, we maintain our Buy rating based on the c45% implied upside.

Downside risks: 1) Increased competition from other hubs; 2) weaker economic environment (and local currency weakness) in LatAm; 3) increased competition from point-to-point airlines; 4) unforeseen challenges arising from new COVID-19 variants; 5) a spike in oil and jet fuel prices; and 6) aircraft issues on the OEM side and/or delivery delays limiting capacity expansion.

Financials & valuation: Copa Holdings Sa

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (USDm)				
Revenue	3,461	3,486	3,812	4,139
EBITDA	1,117	1,088	1,222	1,373
Depreciation & amortisation	-306	-334	-370	-397
Operating profit/EBIT	812	754	853	976
Net interest	-196	-29	-36	-53
PBT	616	725	816	924
HSBC PBT	616	725	816	924
Taxation	-97	-181	-204	-231
Net profit	518	544	612	693
HSBC net profit	518	544	612	693
Cash flow summary (USDm)				
Cash flow from operations	1,085	1,042	1,209	1,359
Capex	-543	-166	-299	-357
Cash flow from investment	-320	-166	-299	-357
Dividends	-259	-218	-245	-277
Change in net debt	26	-161	65	-88
FCF equity	542	876	910	1,002
Balance sheet summary (USDm)				
Intangible fixed assets	88	88	88	88
Tangible fixed assets	3,239	3,422	3,850	4,227
Current assets	1,268	1,518	1,617	1,789
Cash & others	915	1,118	1,189	1,334
Total assets	4,916	5,348	5,875	6,425
Operating liabilities	1,325	1,325	1,340	1,353
Gross debt	1,746	1,788	1,924	1,981
Net debt	572	411	477	388
Shareholders' funds	2,126	2,399	2,794	3,241
Invested capital	2,639	2,904	3,482	3,930

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	16.7	0.7	9.3	8.6
EBITDA	55.6	-2.6	12.3	12.4
Operating profit	80.2	-7.1	13.1	14.5
PBT	58.6	17.8	12.6	13.1
HSBC EPS	50.3	0.3	12.6	13.1
Ratios (%)				
Revenue/IC (x)	1.5	1.3	1.2	1.1
ROIC	29.5	20.4	20.0	19.8
ROE	28.6	24.0	23.6	23.0
ROA	11.1	10.6	10.9	11.3
EBITDA margin	32.3	31.2	32.1	33.2
Operating profit margin	23.5	21.6	22.4	23.6
EBITDA/net interest (x)	5.7	37.8	33.8	26.1
Net debt/equity	26.9	17.1	17.1	12.0
Net debt/EBITDA (x)	0.5	0.4	0.4	0.3
CF from operations/net debt	189.5	253.3	253.6	350.1
Per share data (USD)				
EPS Rep (diluted)	12.89	12.93	14.56	16.47
HSBC EPS (diluted)	12.89	12.93	14.56	16.47
DPS	6.45	5.17	5.82	6.59
Book value	52.89	57.05	66.43	77.08

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	1.3	1.2	1.1	1.0
EV/EBITDA	4.0	3.9	3.6	3.1
EV/IC	1.7	1.5	1.2	1.1
PE*	7.2	7.2	6.4	5.6
PB	1.8	1.6	1.4	1.2
FCF yield (%)	14.0	22.7	23.5	25.9
Dividend yield (%)	6.9	5.6	6.3	7.1

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a
GHG emission intensity*	945.1
Energy intensity*	3,634.1
CO_2 reduction policy	Yes
Social Indicators	**12/2022a**
Employee costs as % of revenues	12.8
Employee turnover (%)	3.3
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	11
Average board tenure (years)	11.2
Female board members (%)	18.2
Board members independence (%)	18.2

Source: Company data, HSBC

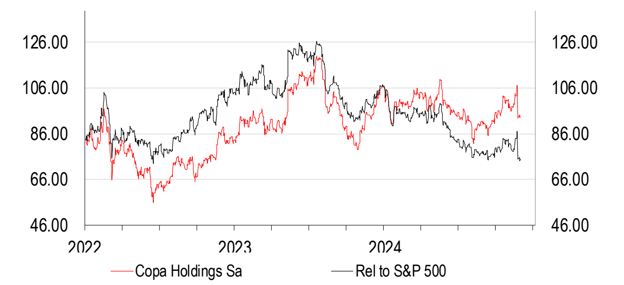
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (USD)	92.90
Target price (USD)	135.00
RIC (Equity)	CPA.N
Bloomberg (Equity)	CPA US
Market cap (USDm)	3,864

Free float	74%
Sector	Airlines
Country/Region	Panama
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 26 Nov 2024

GOL (GOLL4 BZ)

- Innovation of high importance to management; average performance otherwise
- Average ESG credentials do not warrant CoE adjustments
- Maintain Hold with unchanged target price of BRL1.50

Investment thesis and ESG assessment

Company background. GOL is a leading low-cost carrier based out of Brazil. At its main airports, GOL accounts for 30% of the total domestic flights and 34% of total domestic passengers. In addition to its passenger transportation business, it also operates a cargo business GOLLOG. As of 2H24, GOL operated a total fleet of 141 aircraft.

Below average environmental strategy. Barring the long-term ambition of achieving net zero by 2050, GOL does not have any medium-term targets to measure its progress on emission reduction. The emission reduction will largely be coming from fleet renewal with the Boeing 737 MAX aircraft it will receive which are 15% more fuel efficient than the 737 NG aircraft. GOL has a SAF offtake agreement with Vibra Energia until 2025. However, the current financial situation of the company and Chapter 11 proceedings raise concerns regarding the continued usage of SAF.

Moderately positive on social front. We commend the ability to keep customer benefits from the loyalty program, despite the Chapter 11 proceedings. We do not see significant improvements to the customer experience. However, the company ranks very well on workforce diversity, with women representing c44% of the workforce and c39% of the leadership positions in 2022. GOL also provides certain insights into its racial diversity with people with Black and mixed heritage (accounting for 50% of the Brazilian population) representing 33% of the workforce and 15% of leadership positions. While the company ranks well on diversity, we see weaker performance in terms of employee turnover (higher than average at 14%) and a steep rise in accident frequency on a sequential basis. In addition, training hours have come down significantly which should cause some concerns.

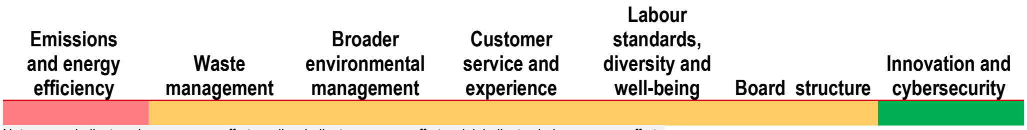
Innovation a key part of corporate strategy. GOL continues to place an emphasis on digital acceleration to create solution-oriented, self-service channels to increase sales. GOL has been recognized for its innovation efforts, especially with its innovation arm GOL Labs. A cause for concern in board structure would be board independence which has come down from 50% to 37.5% but board gender diversity rose from 12.5% to 25%. With the Chapter 11 concerns that lie ahead, the decline in board independence does present a cause of concern.

Key ESG risks: 1) delays in fleet delivery; 2) inability to ramp up employee training and improve employee safety; 3) navigating Chapter 11 concerns; 4) adverse regulations that could alter board structures; 5) lower-than-expected ROI from technology investments.

Key ESG opportunities. 1) accelerated fleet delivery after financial re-emergence; 2) continuing and expanding SAF relationship with supplier; 3) better present and improve gender and cultural diversity ratios; 4) ramp up innovation and tech focus after Chapter 11 concerns fade away.

Given its average overall positioning in our assessment of its ESG efforts, we choose not to add an ESG overlay to our CoE for GOL.

Exhibit 25. GOL: Our ESG assessment



Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

Valuation methodology: We value Gol using the economic profit methodology. We include explicit forecasts for the first 5 years, followed by a 15-year steady state phase, and a 5-year phase-out period, when we expect the spread between ROIC and WACC to narrow to zero.

Our DCF model parameters assume a medium-term EBIT margin of 20%, medium-term invested capital growth of 7.0% and an average asset turnover of 1.4x (all unchanged). We assume a long-term BRL-based WACC of 19.1% (unchanged), based on a USD risk-free rate of 3.75% (unchanged), an equity risk premium of 8.75% (unchanged), an additional risk factor (representing Chapter 11 status) of 5% maintained due to ongoing Chapter 11 process and pending approval by creditors and shareholders on new reorganisation plan, 0 bps ESG overlay; a stock beta of 2.0 (Bloomberg adjusted beta, unchanged); a BRL cost of debt of 22.4% (unchanged); and a 77:23 debt-to-equity ratio (unchanged). This results in a present value of BRL18.5bn (unchanged), to which we add invested capital (including right of use assets) and subtract net debt (including lease liabilities) and non-operating assets. Finally, we add our NPV estimate of cBRL2.4bn (unchanged) for tax benefits from fully incorporating Smiles.

We leave our target price unchanged at BRL1.50 with 6.8% implied downside; we maintain our Hold rating on the stock, as the emergence from Chapter 11 seems achievable with its 5-year plan and plan support agreement (PSA) deal with creditors.

Upside risks: 1) A speedy recovery from Chapter 11 with a more positive outcome for equity shareholders' than we forecast; 2) a faster-than-expected traffic recovery as a result of strong travel demand; 3) weaker and/or slower capacity additions by competitors supporting yields across the industry; 4) stronger local currency (BRL) and/or weakness in oil/jet fuel prices; 5) faster deleveraging than we assume; and 6) improvement on the aircraft delivery schedule allowing for capacity expansion and cost dilution.

Downside risks: 1) Significant depreciation of the local currency (BRL); 2) increases in interest rates; 3) a spike and sustained high oil prices; 4) irrational pricing with domestic competitors pushing yield down; 5) continued delays with OEMs; and 6) natural disasters negatively impacting airport operations.

Financials & valuation: GOL

Hold

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (BRLm)				
Revenue	18,774	19,060	20,797	23,579
EBITDA	5,007	3,833	4,571	5,422
Depreciation & amortisation	-1,667	-1,777	-1,959	-2,147
Operating profit/EBIT	3,340	2,056	2,612	3,275
Net interest	-4,296	-3,564	-3,867	-3,188
PBT	-956	-1,508	-1,255	87
HSBC PBT	-956	-1,508	-1,255	87
Taxation	-266	513	427	-30
Net profit	-1,222	-995	-828	57
HSBC net profit	1,465	-472	-236	-118
Cash flow summary (BRLm)				
Cash flow from operations	5,074	3,873	5,179	6,005
Capex	-783	-1,777	-2,264	-1,604
Cash flow from investment	-6,253	-566	-1,123	-520
Dividends	0	0	0	0
Change in net debt	-3,357	3,212	2,840	280
FCF equity	4,291	2,096	2,915	4,401
Balance sheet summary (BRLm)				
Intangible fixed assets	1,938	1,938	1,938	1,938
Tangible fixed assets	2,754	3,686	4,994	5,558
Current assets	3,171	6,613	7,015	8,019
Cash & others	782	2,302	2,310	2,740
Total assets	10,435	15,067	17,060	18,939
Operating liabilities	16,451	17,067	16,902	16,959
Gross debt	20,025	24,757	27,605	28,314
Net debt	19,242	22,455	25,295	25,574
Shareholders' funds	-23,167	-24,163	-24,991	-24,933
Invested capital	71	1,709	3,043	2,904

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	23.5	1.5	9.1	13.4
EBITDA	127.4	-23.4	19.3	18.6
Operating profit	499.4	-38.4	27.1	25.4
PBT				
HSBC EPS		-132.1		
Ratios (%)				
Revenue/IC (x)	4.7	21.4	8.8	7.9
ROIC	107.4	152.4	72.6	72.7
ROE	-6.6	2.0	1.0	0.5
ROA	-11.2	-7.8	-5.2	0.3
EBITDA margin	26.7	20.1	22.0	23.0
Operating profit margin	17.8	10.8	12.6	13.9
EBITDA/net interest (x)	1.2	1.1	1.2	1.7
Net debt/equity	0.0	0.0	0.0	0.0
Net debt/EBITDA (x)	3.8	5.9	5.5	4.7
CF from operations/net debt	26.4	17.2	20.5	23.5
Per share data (BRL)				
EPS Rep (diluted)	-2.92	-2.37	-1.97	0.14
HSBC EPS (diluted)	3.50	-1.12	-0.56	-0.28
DPS	0.00	0.00	0.00	0.00
Book value	-55.33	-57.47	-59.44	-59.31

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	1.1	1.2	1.2	1.1
EV/EBITDA	4.0	6.0	5.7	4.8
EV/IC	279.0	13.5	8.5	9.0
PE*	0.5	nm	nm	nm
PB				
FCF yield (%)	634.0	309.6	430.6	650.2
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a
GHG emission intensity*	959.4
Energy intensity*	3,669.9
CO_2 reduction policy	Yes
Social Indicators	**12/2022a**
Employee costs as % of revenues	15
Employee turnover (%)	14
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	8
Average board tenure (years)	9.5
Female board members (%)	12.5
Board members independence (%)	37.5

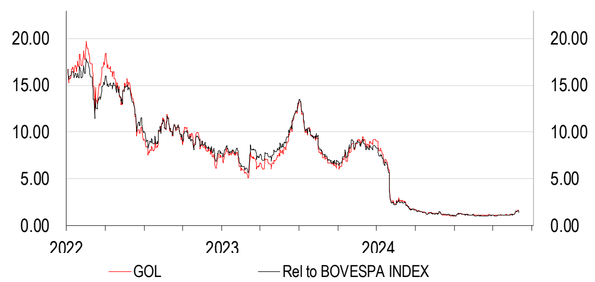
Source: Company data, HSBC

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

Issuer information

Share price (BRL)	1.61	Free float	57%
Target price (BRL)	1.50	Sector	Airlines
RIC (Equity)	GOLL4.SA	Country/Region	Brazil
Bloomberg (Equity)	GOLL4 BZ	Analyst	Cenk Orcan
Market cap (USDm)	117	Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 26 Nov 2024

Pegasus (PGSUS TI)

- Leadership on all fronts through comprehensive strategy and effective initiatives
- We incorporate a -50 bps ESG overlay to our CoE (now at 12.0%)
- Maintain Buy; raise target price to TRY320 (from TRY300)

Investment thesis and ESG assessment

Company background. Pegasus Airlines is a leading low-cost carrier based in Türkiye. The airline's primary hub is the Istanbul Sabiha Gokcen Airport (SAW). As of Jun 2024, the airline has a fleet of 108 aircraft with an average age of 4.5 years (among the youngest globally) and serves a total of 141 destinations in 53 countries.

Strong focus on environmental factors. Pegasus has explicitly stated that there is a medium-term target of reducing carbon emissions per RPK by 20% from 2019 levels, as well as adopting 100% renewable energy usage by 2030. The airline has detailed its action plan to achieve net zero by 2050 which would largely be driven by SAF (driving a 36% emissions reduction), followed by investment in new aircraft (33%). The airline managed to reduce emission intensity by 6% from 2019 levels in 2023 and 70% of its energy consumption already comes from renewable energy. The airline has also managed to achieve a ground equipment electrification rate of 22%. The usage of recycled plastics for in-flight dining combined with the airline reducing its waste intensity per pax presents a positive outcome of the waste management efforts of the airline. The airline has also placed an emphasis on noise management through the neo aircraft that the airline will receive, as well as biodiversity hazard management such as the acoustic bird device installed at the end of Runway 06 of SAW. Lastly, we would like to highlight that Pegasus received the Global Environmental Sustainability Airline of the Year Award at the CAPA Airline Leader Summit Asia and Sustainability Awards in November 2024.

Positive for both customers and personnel. The airline implemented the largest self-service baggage drop station in Europe at SAW among multiple digital and operational enhancements to improve the customer experience and make it as seamless as possible. Furthermore, Pegasus has among the best initiatives for diversity among our companies. It is worth noting that Pegasus is the only company in our coverage with a female CEO, a rather unique sight in the aviation industry. The airline has set targets for improved representation of women across all roles in the overall hierarchy and has been successful in reporting and improving the gender pay gap ratio to 96% vs the average male employee's pay (vs 88% in 2021).

Innovation a top priority at PGS. In 2023, the airline established Pegasus Airlines Innovation Lab in Silicon Valley to explore various investment avenues to pursue technological development of the aviation sector. Given the extremely high emphasis on improving the customer experience, the airline is constantly evaluating opportunities and possible options to improve its digitalization and tech offering. Furthermore, we have seen board diversity improving to 25% in 2023 vs 12.5% in 2019. On the other hand, board independence stood lower than the coverage average at 37.5% in 2023.

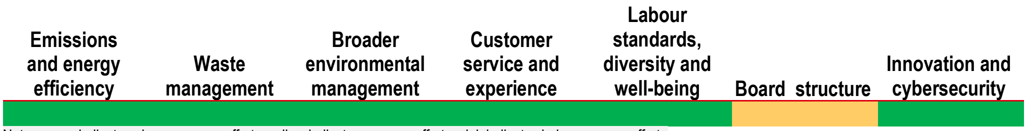
We believe improving this figure would be a strategic step in the right direction to improve the structure of the board. However, there is room for improvement.

Key ESG risks: 1) lower-than-expected SAF offtake and/or elevated price levels could deter adoption, 2) delays in fleet delivery could be a setback for decarbonisation, 3) inability to meet gender diversity criteria across levels, 4) failure to improve occupational safety and limit accidents, 5) adverse changes to corporate strategy and the board structure.

Key ESG opportunities. 1) enhance and continue regional sustainability leadership among LCCs; 2) promoting widespread adoption of SAF; 3) broadening scope of environmental management strategy; 4) meeting and expanding targets for diversity across the organization; 5) increasing focus on innovation

Given its above average overall positioning in our assessment of its ESG efforts, we add an ESG overlay of -50 bps to our CoE for Pegasus.

Exhibit 26. Pegasus: Our ESG assessment



Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

Valuation methodology: Our EUR-based DCF valuation for Pegasus assumes, after our forecast changes, a medium-term EBIT margin of 18.0%, medium-term invested capital growth rate of 7.0%, and average asset turnover of 0.5x (all unchanged). Our WACC parameters are a EUR risk-free rate of 7.2% (unchanged, based on an average of Türkiye's long-term Eurobond rates, which we use as a benchmark), equity risk premium of 5.5% (unchanged), company beta of 0.96 (unchanged, based on a spot Bloomberg adjusted beta) and an ESG CoE overlay of -50 bps which results in a cost of equity of 12.0% (from 12.5%). We assume a cost of debt of 5.0% (unchanged, which is the blended figure on its debt portfolio) and debt/equity of 70%/30% (unchanged). This results in our EUR-based WACC of 6.3% (from 6.4%) yielding a target price of TRY320.00, from TRY300.00. This implies upside of c41% and we maintain our Buy rating.

Downside risks: 1) a major rally in oil and jet fuel prices; 2) weaker-than-expected traffic and pricing; 3) lower or weaker-than-expected market share and ancillary revenue development; 4) external events (such as security issues, pandemics, volcanic eruptions); 5) tougher competition at the Istanbul Sabiha Gokcen Airport from local and foreign airlines; and 6) sustained TRY strength that hurts Turkish tourism traffic inflows.

Financials & valuation: Pegasus

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (EURm)				
Revenue	2,670	3,011	3,420	3,787
EBITDA	838	843	970	1,090
Depreciation & amortisation	-304	-336	-396	-438
Operating profit/EBIT	520	503	565	646
Net interest	-164	-256	-272	-286
PBT	370	282	322	385
HSBC PBT	369	322	362	425
Taxation	420	40	32	27
Net profit	790	322	354	412
HSBC net profit	790	322	354	412
Cash flow summary (EURm)				
Cash flow from operations	1,121	693	798	887
Capex	-399	-311	-357	-337
Cash flow from investment	-353	-261	-357	-337
Dividends	0	0	0	0
Change in net debt	331	324	15	-92
FCF equity	768	432	441	549
Balance sheet summary (EURm)				
Intangible fixed assets	20	21	21	21
Tangible fixed assets	3,803	4,519	4,919	5,249
Current assets	1,525	1,609	1,624	1,702
Cash & others	1,114	1,056	1,012	1,039
Total assets	6,251	7,217	7,770	8,312
Operating liabilities	928	1,185	1,364	1,508
Gross debt	3,627	3,944	3,964	3,949
Net debt	2,377	2,701	2,715	2,623
Shareholders' funds	1,678	2,000	2,354	2,767
Invested capital	3,306	3,908	4,188	4,423

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	9.0	12.7	13.6	10.7
EBITDA	0.4	0.5	15.2	12.3
Operating profit	-10.1	-3.3	12.3	14.4
PBT	-8.2	-23.7	13.9	19.7
HSBC EPS	-62.5	-59.2	9.9	16.5
Ratios (%)				
Revenue/IC (x)	0.9	0.8	0.8	0.9
ROIC	38.0	16.0	15.6	16.2
ROE	61.2	17.5	16.3	16.1
ROA	22.7	10.0	9.5	9.6
EBITDA margin	31.4	28.0	28.4	28.8
Operating profit margin	19.5	16.7	16.5	17.1
EBITDA/net interest (x)	5.1	3.3	3.6	3.8
Net debt/equity	141.6	135.0	115.3	94.8
Net debt/EBITDA (x)	2.8	3.2	2.8	2.4
CF from operations/net debt	47.2	25.7	29.4	33.8
Per share data (EUR)				
EPS Rep (diluted)	1.58	0.64	0.71	0.82
HSBC EPS (diluted)	1.58	0.64	0.71	0.82
DPS	0.00	0.00	0.00	0.00
Book value	3.36	4.00	4.71	5.53

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	2.1	1.9	1.7	1.5
EV/EBITDA	6.6	6.9	6.0	5.3
EV/IC	1.7	1.5	1.4	1.3
PE*	3.9	9.6	8.8	7.5
PB	1.9	1.6	1.3	1.1
FCF yield (%)	24.6	13.8	14.1	17.6
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a
GHG emission intensity*	1,395.5
Energy intensity*	4,234.6
CO_2 reduction policy	Yes
Social Indicators	**12/2023a**
Employee costs as % of revenues	11.3
Employee turnover (%)	7.8
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	8
Average board tenure (years)	5.8
Female board members (%)	12.5
Board members independence (%)	37.5

Source: Company data, HSBC

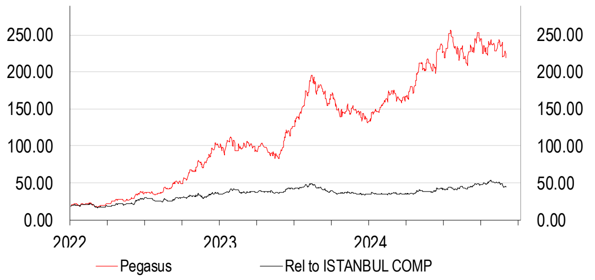
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	227.30
Target price (TRY)	320.00
RIC (Equity)	PGSUS.IS
Bloomberg (Equity)	PGSUS TI
Market cap (USDm)	3,281

Free float	35%
Sector	Airlines
Country/Region	Türkiye
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 26 Nov 2024

Turkish Airlines (THYAO TI)

- Leadership in innovation, environmental and social factors
- We add a -50 bps ESG overlay to our CoE (now at 12.2%)
- Maintain Buy; raise target price to TRY440 (from TRY400)

Investment thesis and ESG assessment

Company background. Turkish Airlines is a leading global full-service carrier which is also the Turkish flag carrier. Turkish Airlines operates a low-cost carrier Ajet and a world-class cargo business as well. In 1H24, the company operated a fleet of 458 aircraft with an average age of c9 years. Turkish Airlines is also the #1 carrier in the world by destinations (290+ international destinations in 130 countries) and is the 3rd largest cargo carrier based on freight ton kilometres as of 9M24.

Comprehensive environmental initiatives. Like Pegasus, Turkish Airlines has also detailed its roadmap for achieving net zero carbon emissions. 37% of the reduction in emissions will come from SAF usage, 32% from offsetting and 31% from fleet renewal and operational efficiencies. The company has developed and deployed several fuel efficiency, operational optimization and aircraft configuration initiatives to further reduce its carbon footprint. 14% of the company's total electricity consumption comes from renewable sources of energy. The company's waste management and environmental management initiatives are also highly commendable. The company has a high recycling ratio and has achieved significant reduction in its waste intensity (per pax basis). Furthermore, Turkish Airlines is the only company in our coverage that has addressed airframe disposals, aiming to re-use various components and materials. The company also has strategies to ensure efficient water consumption.

Exceptional customer focus and employee welfare. Turkish Airlines stood out as the best in terms of customer satisfaction within our coverage, being the only airline with a 4-star SKYTRAX rating. The company has constantly focused on the overall customer experience. One example we want to highlight is the baggage reconciliation system for tracking luggage online as well as the company's transparency in pricing, its compensation for disruption, and the increase in accessibility for persons with disabilities. Women represented 46% of the total workforce, 30%+ of promotions and c40% of executive positions in 2023. Moreover, employee turnover is among the lowest in our coverage at 5%. The company continues to focus on employee training, having spent cUSD6.3m in 2023 on training. The Take Off Project was launched to attract young talent, in addition to the Aviation Academy providing a wide array of courses.

Innovation a key part of governance strategy. Innovation is at the forefront of Turkish Airlines' corporate strategy as the company promotes a culture of innovation. Through its innovation platform Ideaport (accessible to employees and relevant stakeholders), the company had implemented 102 suggestions which resulted in a financial benefit of USD82m in 2023. The company's subsidiary, Turkish Technology, works to develop software solutions for various aspects of the aviation supply chain ranging from cybersecurity to cargo solutions to in-flight applications for customers and cabin crew among many other initiatives. The only cause of concern for us is the governance structure. Turkish Airlines has among the lowest share of independent directors and female directors within our coverage. If not managed effectively, this could present serious corporate governance risks.

Key ESG risks: 1) very high price differential between SAF and traditional jet fuel; 2) delays in fleet delivery; 3) redeployment of capital to other initiatives; 4) failure to maintain/increase levels of employee well-being, diversity and development; 5) governance-related risks from state ownership; 6) lower-than-expected returns from innovation-related investments

Key ESG opportunities. 1) enhance and continue regional sustainability leadership among full-service carriers; 2) promoting widespread adoption of SAF; 3) furthering initiatives for aircraft recycling; 4) better diversity ratios and employee development; 5) continued focus on innovation investment and leadership

Given its above average overall positioning in our assessment of its ESG efforts, we add an ESG overlay of -50 bps to our CoE for Turkish Airlines.

Exhibit 27. Turkish Airlines: Our ESG assessment

Emissions and energy efficiency	Waste management	Broader environmental management	Customer service and experience	Labour standards, diversity and well-being	Board structure	Innovation and cybersecurity

Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

Our valuation for Turkish Airlines is based on a USD-driven DCF model. We assume a medium-term EBIT margin of 10.0%, medium-term invested capital growth of 8.0% and average asset turnover of 0.7x (all unchanged). We use a USD risk-free rate of 7.4% (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 (unchanged, based on Bloomberg adjusted company beta), ESG overlay of -50 bps and cost of USD debt of 2.7% (unchanged), resulting in a WACC of 7.6% (from 7.9%), based on debt/equity of 45/55). We arrive at a target price of TRY440.00 (from TRY400) which results in implied upside of 53.2% and we retain our Buy rating.

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.

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	0.6	0.6
PE*	1.9	3.7	4.0	3.9
PB	0.7	0.6	0.5	0.5
FCF yield (%)	23.4	3.9	10.3	12.7
Dividend yield (%)	0.0	1.3	1.3	1.3

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a
GHG emission intensity*	1,003.6
Energy intensity*	3,840.5
CO_2 reduction policy	Yes
Social Indicators	**12/2023a**
Employee costs as % of revenues	12.2
Employee turnover (%)	5
Diversity policy	Yes

Governance Indicators	12/2022e
No. of board members	9
Average board tenure (years)	4.7
Female board members (%)	11.1
Board members independence (%)	33.3

Source: Company data, HSBC

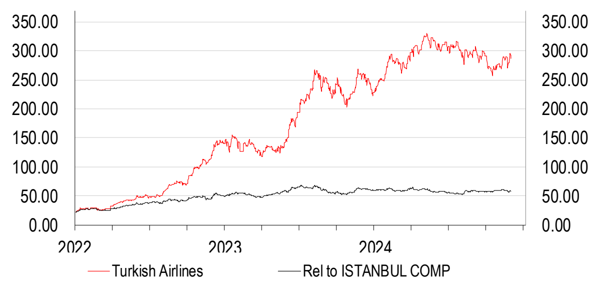
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	287.25
Target price (TRY)	440.00
RIC (Equity)	THYAO.IS
Bloomberg (Equity)	THYAO TI
Market cap (USDm)	11,441

Free float	51%
Sector	Airlines
Country/Region	Türkiye
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 28 Nov 2024

Volaris (VOLARA MM)

- Above average in emissions and energy efficiency initiatives
- No ESG overlay to our CoE; average ESG credentials
- Maintain Buy with unchanged target price of MXN22

Investment thesis and ESG assessment

Company background. Volaris is an ultra-low-cost carrier, with point-to-point operations, serving Mexico, the United States, Central and South America. Volaris primarily caters to passengers who are visiting friends and relatives, as well as cost-conscious business and leisure travellers. As of 9M24, the company operated 137 aircraft with an average fleet age of 6.3 years on 196 routes (122 domestic, 74 international).

Commendable environmental efforts. Fleet renewal with the Airbus neo aircraft is the primary means by which the company aspires to reduce Scope 1 emissions per RPK by 35% and fuel intensity by 31% from 2015 levels. The company aims to have a 100% neo fleet equipped with sharklets (wing shapes that reduce drag and, thus, fuel consumption) by 2030, vs the current 59% neo aircraft (88% with sharklets). Emission intensity and fuel intensity have come down 20% since 2015, We note that Volaris issued the first sustainability-linked bond in Mexico which outlines targets for emissions reduction by 2030. Furthermore, the company has invested USD50m in CleanJoule (a North American SAF producer) and has an agreement with them to avail 30m gallons of SAF. With regards to waste management, we saw hazardous waste intensity declining in 2023 by 13%. Biodegradable materials have replaced single-use plastics and 98% of all products sold on board use biodegradable packaging. However, we do not find comprehensive strategies for broader environmental management.

Unique value proposition. Like Azul, Volaris also aspires to adopt the bus-switching model. With Volaris, c49% of its routes do not have any competition from air carriers and base fares tend to be lower than bus tickets, solving a unique need for its customers using various annuity-like business models such as subscriptions and passes. Women employees represented 47% of the total workforce and new hires, 40% of management positions and 34% of STEM-related positions in 2023. A key positive to highlight is that the median gender pay gap across the organisation was at 0%, living up to the 'equal pay for equal work' statement. While we view gender diversity initiatives with great positivity, we highlight that employee turnover remains elevated at 13% and training and development hours per employee declined marginally in 2023.

Average governance strategy. We find a very high share of independent directors but lower representation from female directors (only 14%). This is slightly concerning since Volaris has the highest number of board members within our coverage. Moreover, for a company that is operating a fairly unique business model, we find the degree of innovation slightly behind the curve in comparison to the rest of our coverage.

Key ESG risks. 1) lack of focus on broader environmental management; 2) failure to meet emission intensity targets; 3) low customer satisfaction; 4) potential disparity in pay, widening the pay gap; 5) regressive changes to board structure

Key ESG opportunities. 1) expand scope of environmental sustainability strategy; 2) accelerating efforts to meet targets; 3) enhancing value proposition to customers; 4) increasing focus on innovation and digitalization

Given its average overall positioning in our assessment of its ESG efforts, we choose not to add an ESG overlay to our CoE for Volaris.

Exhibit 28. Volaris: Our ESG assessment

Emissions and energy efficiency	Waste management	Broader environmental management	Customer service and experience	Labour standards, diversity and well-being	Board structures	Innovation and cybersecurity
green	yellow	pink	green	green	yellow	yellow

Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

Valuation methodology: We value Volaris using economic profit methodology. We include explicit forecasts for the first 5 years, followed by a 15- year steady-state phase, and a 5-year phase-out period when we expect the spread between ROIC and WACC to narrow to zero.

We assume a WACC of 14.6% (unchanged), based on a USD risk free rate of 3.75% (unchanged), equity risk premium of 7.25% (unchanged), both based on HSBC equity strategists' latest assumptions, additional country (macro volatility) risk premium of 2.0% (unchanged); stock beta of 1.26 (unchanged); ESG overlay of 0 bps; cost of debt of 12.3% (unchanged); and a 70:30 debt-to-equity ratio (unchanged; including lease liabilities).

This results in a present value of USD1.80bn (unchanged) to which we add invested capital and subtract net debt, capitalized leases, and non-operating assets. We leave our TP of MXN22.00 unchanged (implies 40% upside) and maintain our Buy rating. Based on spot USD/MXN of 20.00 and ADR ratio of 10:1, the implied target price for the Volaris ADR (VLRS US, CMP USD7.83) is USD11.00 (unchanged).

Downside risks: 1) significant depreciation of the local currency (MXN); 2) a worsening of the competitive environment, with prices declining more than expected; 3) weaker macroeconomic scenario in Mexico and the US; 4) further increases in interest rates; 5) a spike and sustained high oil prices; 6) irrational pricing with domestic competitors, such as Viva Aerobus or Aeromexico; and 7) higher-than-expected aircraft groundings (or longer in duration) for engine revisions, reducing seat offer.

Financials & valuation: Volaris

Buy

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (USDm)				
Revenue	3,259	3,147	3,551	4,136
EBITDA	719	1,008	1,055	1,284
Depreciation & amortisation	-496	-583	-603	-677
Operating profit/EBIT	223	425	451	608
Net interest	-215	-225	-220	-280
PBT	8	200	231	328
HSBC PBT	8	200	231	328
Taxation	0	-60	-69	-98
Net profit	8	140	162	230
HSBC net profit	8	140	162	230
Cash flow summary (USDm)				
Cash flow from operations	320	582	482	701
Capex	-469	-446	-515	-432
Cash flow from investment	-384	-446	-515	-432
Dividends	0	0	0	0
Change in net debt	-374	303	149	285
FCF equity	-149	136	-34	269
Balance sheet summary (USDm)				
Intangible fixed assets	16	56	106	166
Tangible fixed assets	3,158	3,627	3,944	4,476
Current assets	1,248	1,230	1,210	1,285
Cash & others	789	812	762	795
Total assets	5,161	5,652	6,000	5,927
Operating liabilities	1,344	1,370	1,456	1,574
Gross debt	3,559	3,885	3,984	4,303
Net debt	2,770	3,073	3,222	3,508
Shareholders' funds	243	383	545	774
Invested capital	2,289	2,732	3,043	3,558

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	14.5	-3.4	12.8	16.5
EBITDA	56.0	40.2	4.7	21.7
Operating profit	406.8	90.6	6.2	34.6
PBT		2395.4	15.9	41.8
HSBC EPS		1646.8	15.9	41.8
Ratios (%)				
Revenue/IC (x)	1.3	1.3	1.2	1.3
ROIC	9.0	11.9	10.9	12.9
ROE	3.1	44.7	34.9	34.8
ROA	0.2	2.6	2.8	3.9
EBITDA margin	22.1	32.0	29.7	31.0
Operating profit margin	6.8	13.5	12.7	14.7
EBITDA/net interest (x)	3.3	4.5	4.8	4.6
Net debt/equity	1139.9	802.9	591.6	453.0
Net debt/EBITDA (x)	3.9	3.0	3.1	2.7
CF from operations/net debt	11.5	18.9	14.9	20.0
Per share data (USD)				
EPS Rep (diluted)	0.01	0.12	0.14	0.20
HSBC EPS (diluted)	0.01	0.12	0.14	0.20
DPS	0.00	0.00	0.00	0.00
Book value	0.21	0.33	0.47	0.66

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	1.1	1.2	1.1	1.1
EV/EBITDA	5.0	3.9	3.9	3.4
EV/IC	1.6	1.4	1.3	1.2
PE*	112.5	6.4	5.6	3.9
PB	3.7	2.4	1.7	1.2
FCF yield (%)	-17.6	16.1	-4.0	31.8
Dividend yield (%)	0.0	0.0	0.0	0.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a
GHG emission intensity*	1,098.8
Energy intensity*	4,088.2
CO_2 reduction policy	Yes
Social Indicators	**12/2023a**
Employee costs as % of revenues	11.9
Employee turnover (%)	19.7
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	14
Average board tenure (years)	8.9
Female board members (%)	14.3
Board members independence (%)	71.4

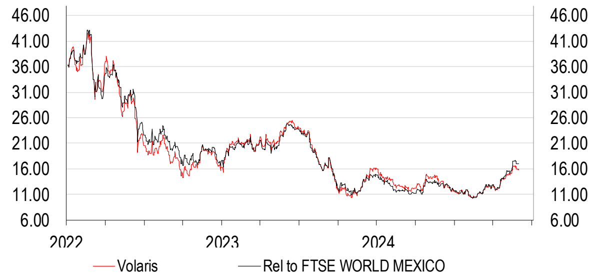
Source: Company data, HSBC

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

Issuer information

Share price (MXN)	15.77	Free float	89%
Target price (MXN)	22.00	Sector	Airlines
RIC (Equity)	VOLARA.MX	Country/Region	Mexico
Bloomberg (Equity)	VOLARA MM	Analyst	Cenk Orcan
Market cap (USDm)	846	Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 26 Nov 2024

ASUR (ASURB MM)

- Balancing act with strength in few areas and weakness in others
- No ESG overlay incorporated due to average performance
- Maintain Hold with unchanged TP of MXN590

Investment thesis and ESG assessment

Company background. ASUR is a leading international airport operator with concessions to operate 16 airports (9 in Mexico, 6 in Colombia and 1 in Puerto Rico). The most important airport in its portfolio is the Cancun airport in Mexico accounting for 80% of revenues and 75% of passenger traffic. As of 2023, ASUR's market share of 2023 Mexican traffic stood at 23%, ranking #3 in Mexico.

Environmental targets in place, execution pending. The company has a target of reducing GHG emissions per pax by 5% over 2023-26 and installing on-site solar plants at all airports by 2025. Furthermore, the company is looking to reduce its dependence on the electricity grid which would result in a 50% reduction in its carbon footprint. The company aims to achieve ACA Level 3 for all Mexican airports, Level 2 for Puerto Rico, include the Colombian airports in the program by 2026, and achieve carbon neutrality in its operations by 2030. We see these targets as positive, however, we do not see enough actions as the company does not yet have even have one airport with an ACA Level 3 certification and only 5 airports have solar energy infrastructure. That said, we appreciate the waste management efforts with 11% of waste at the Cancun airport being recovered in 2023 and the reduction in hazardous waste per pax of 30%. Furthermore, the company has installed infrastructure for efficient water management and carries out noise mapping activities every 5 years which we consider better than average. Overall, the environmental strategy appears positive, but efficiency in execution will be critical.

Strong labour initiatives, customer side slightly weak. The company does not seem to have communicated a comprehensive customer service strategy, leaving room for improvement in this area. On the other hand, compared with our other airport coverage, ASUR's workforce gender diversity is at the higher end of the spectrum. Women accounted for 36% of the workforce, 25% of management positions and 7% of executive positions in 2023 and the company has plans to report data about persons with disabilities and from vulnerable groups. Employee turnover stood at 5% (amongst the lowest in our coverage) in 2023. Furthermore, the average hours invested in employee training increased to 49.0 hours in 2023 vs 46.8 hours in 2022. The ASUR Campus educational tool offers various virtual courses on technical and regulatory topics.

Well-structured board, better innovation initiatives needed. ASUR has the best structured board among our airports with the share of independent directors standing at a high 64% in 2023 from 56% in 2019 (still relatively higher). The share of women directors rose to 27%, up from 0% in 2019 which we think is commendable. However, we do not see a lot of evidence pertaining to innovation. Technological risks have been identified within the risk management framework and the company is looking to develop and implement a client satisfaction monitory and quantitative complain management systems.

Key ESG risks. 1) developing SAF supply infrastructure; 2) delay/disruption of energy efficiency initiatives; 3) failure to meet ACA requirements for certification; 4) adverse changes to board composition

Key ESG opportunities. 1) better emissions and energy management; 2) expanding scope of environmental leadership; 3) scope to enhance customer service standards; 4) potential investments can be made into innovation

Given its average overall positioning in our assessment of its ESG efforts, we choose not to add an ESG overlay to our CoE for ASUR.

Exhibit 29. ASUR: Our ESG assessment

Emissions and energy efficiency	Waste management	Broader environmental management	Customer service and experience	Labour standards, diversity and well-being	Board structure	Innovation and cybersecurity

Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

We value ASUR using a DCF methodology. We assume a WACC of 13.5% (unchanged), based on a cost of equity of 17.2% (unchanged), cost of debt of 7.0% (unchanged), and debt-to-equity ratio of 30:70 (unchanged). Our CoE calculation is based on a risk-free rate of 3.75% (in line with the HSBC Global Equity Strategy view), inflation differential of 1.5% (based on our latest in-house macro forecasts), equity risk premium of 7.25% (based on the HSBC equity strategy team's latest assumptions), and country risk premium of 2.8% (unchanged). We use a stock beta of 1.27 (unchanged), a 0 bps ESG overlay and a long-term tax rate of 30%. The unchanged target price of MXN590 implies c11% upside and we maintain our Hold rating due to potentially slower traffic recovery given capacity reductions at AICM and relatively lower exposure to Mexican ULCCs. Our target price of MXN590 translates into an unchanged target price of USD288 for the ADR (ASR US, CMP USD264.80) based on the 10:1 share ratio.

Upside risks: 1) positive regulatory changes; 2) more benign competitive environment supporting pricing of commercial products/services; 3) favourable macro scenarios in the company's three markets (Mexico, Colombia, Puerto Rico), such as strong growth, local currency strength and/or lower interest rates, impacting returns positively.

Downside risks: 1) negative regulatory changes; 2) emergence of new COVID-19 variants or new pandemics disrupting air traffic; 3) changes in tourism destination trends (e.g. shift away from Cancun); 4) traffic disruption due to worsening of seaweed in Cancun; 5) a worsening of the competitive environment hurting pricing of commercial products/services; 6) adverse macro scenarios in the company's three markets (Mexico, Colombia, Puerto Rico), such as weak growth, major depreciation in the local currency or high interest rates, impacting the return on ongoing or planned expansion projects negatively; and 7) bankruptcy of any major airline in Colombia, Mexico, or Puerto Rico.

Financials & valuation: Aeroportuario Del Sureste

Hold

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (MXNm)				
Revenue	24,519	28,439	31,804	34,784
EBITDA	17,061	19,629	22,199	24,687
Depreciation & amortisation	-2,069	-2,340	-2,648	-2,869
Operating profit/EBIT	15,244	17,288	19,551	21,819
Net interest	-614	2,204	34	-104
PBT	14,630	19,492	19,586	21,714
HSBC PBT	14,630	19,492	19,586	21,714
Taxation	-3,954	-5,971	-5,876	-6,514
Net profit	10,204	13,134	13,342	14,792
HSBC net profit	10,204	13,134	13,342	14,792
Cash flow summary (MXNm)				
Cash flow from operations	13,619	14,866	12,615	15,072
Capex	-1,371	-3,750	-6,997	-8,060
Cash flow from investment	-793	-2,301	-6,997	-8,060
Dividends	-5,979	-6,278	-6,867	-8,162
Change in net debt	-3,678	-6,076	1,249	1,150
FCF equity	12,248	11,116	5,618	7,013
Balance sheet summary (MXNm)				
Intangible fixed assets	49,310	53,922	58,252	63,421
Tangible fixed assets	2,299	2,002	2,021	2,043
Current assets	18,733	25,857	27,375	29,782
Cash & others	13,873	20,355	19,106	17,956
Total assets	70,342	81,780	87,648	95,246
Operating liabilities	3,629	4,451	3,476	4,037
Gross debt	15,123	16,352	16,352	16,352
Net debt	-1,648	-7,725	-6,476	-5,326
Shareholders' funds	44,945	53,291	60,592	68,054
Invested capital	52,841	56,974	65,066	73,253

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	8.4	16.0	11.8	9.4
EBITDA	5.2	15.1	13.1	11.2
Operating profit	3.9	13.4	13.1	11.6
PBT	3.3	33.2	0.5	10.9
HSBC EPS	2.4	28.7	1.6	10.9
Ratios (%)				
Revenue/IC (x)	0.5	0.5	0.5	0.5
ROIC	20.5	21.8	22.4	22.1
ROE	23.6	26.7	23.4	23.0
ROA	15.1	17.8	16.2	16.6
EBITDA margin	69.6	69.0	69.8	71.0
Operating profit margin	62.2	60.8	61.5	62.7
EBITDA/net interest (x)	27.8			236.9
Net debt/equity	-3.2	-12.7	-9.5	-7.1
Net debt/EBITDA (x)	-0.1	-0.4	-0.3	-0.2
CF from operations/net debt				
Per share data (MXN)				
EPS Rep (diluted)	34.01	43.78	44.47	49.31
HSBC EPS (diluted)	34.01	43.78	44.47	49.31
DPS	20.93	22.89	27.21	35.01
Book value	149.82	177.64	201.97	226.85

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	6.7	5.6	5.0	4.6
EV/EBITDA	9.7	8.1	7.2	6.5
EV/IC	3.1	2.8	2.5	2.2
PE*	15.6	12.2	12.0	10.8
PB	3.6	3.0	2.6	2.3
FCF yield (%)	7.7	7.0	3.5	4.4
Dividend yield (%)	3.9	4.3	5.1	6.6

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a
GHG emission intensity*	42.8
Energy intensity*	136.0
CO_2 reduction policy	Yes
Social Indicators	**12/2023a**
Employee costs as % of revenues	5.9
Employee turnover (%)	5.3
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	11
Average board tenure (years)	11.1
Female board members (%)	27.3
Board members independence (%)	63.6

Source: Company data, HSBC

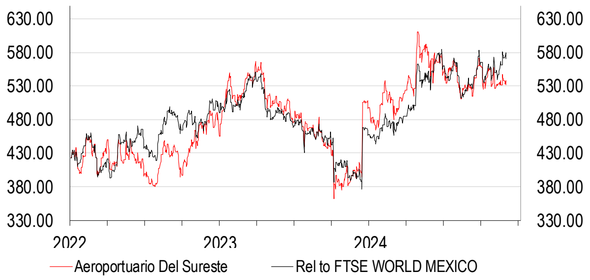
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (MXN)	532.15
Target price (MXN)	590.00
RIC (Equity)	ASURB.MX
Bloomberg (Equity)	ASURB MM
Market cap (USDm)	7,814

Free float	63%
Sector	Transport Infrastructure
Country/Region	Mexico
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 28 Nov 2024

GAP (GAPB MM)

- Relative leadership on all fronts among our airports
- We incorporate a -50bps ESG overlay to our CoE (now at 17.5%)
- Maintain Hold; raise target price to MXN390 from MXN375

Investment thesis and ESG assessment

Company information. GAP operates a portfolio of 12 airports in Mexico and Jamaica. The company caters to a diverse set of geographies: 2 airports catering to metropolitan cities, 6 airports serving mid-sized cities and 4 operating in key tourist destinations. As of 2023, GAP's market share of 2023 Mexican traffic stood at 30%, ranking #1 in Mexico.

Encouraging environmental targets. GAP has outlined in its emission reduction strategy targets of reducing directly controlled emissions by 90% by 2030 from 2019 levels. It is also targeting a 10% reduction in electricity consumption at each airport by 2028/29 and seeking to map out Scope 3 emissions at all airports. To this end, the company sourced 12% of its energy requirement from solar energy in 2023. In addition to this, GAP aims to prevent 50% of the current airport-generated waste in Mexico from ending up in landfills. Furthermore, GAP is the only company that targets a reduction in noise levels (7.54 dBA reduction is achievable with active measures at GDL Airport). Furthermore, water withdrawal per pax declined 15% in 2023.

Best-in-class labour and customer services practices. GAP had the highest representation of women in its workforce among our airports with the figure at 42% in 2023. 61% of the income-generating positions, 32% of junior leadership and 29% of STEM positions were held by women. The gender pay gap between female and male employees stood at 11% in Mexico and 6% in Jamaica. Impressively, this statistic was only 3% at the senior management level. Training hours per employee have also increased significantly which we find positive. On the other hand, employee turnover has declined but remains at a high 11%. The company has an Annual Training Plan that assess skill gaps and focuses on the critical shortages in addition to multiple other learning and development initiatives such as its partnership with AENA (AENA MC, EUR203.80, Reduce, TP EUR129), financial aid, and internal e-learning platform. GAP's customer experience efforts have resulted in it achieving a score above 80% in customer satisfaction surveys. Additionally, 3 of GAP's airports were highlighted among the best airports in the region per the ACI's Airport Service Quality (ASQ) program.

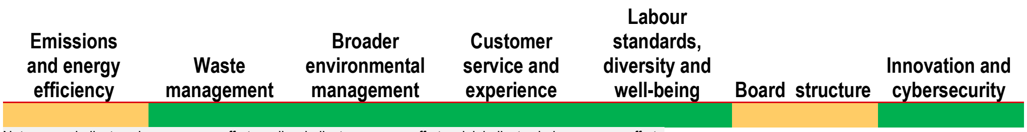
No concerns with board structure, and positive on innovation. GAP invested a total of MXN233m in technology and innovation in 2023 with major projects including the automation of INAMI access, the infrastructure update for data centres and IoT implementation. We do not find any serious concerns with the board structure as independent directors account for c54% of the board seats and women accounted for 27%.

Key ESG risks. 1) delays in meeting ESG targets; 2) regulatory changes in energy pricing that could reduce dependence on renewables/clean energy; 3) inability to ensure parity between the share of men and women in the workforce; 4) unfavourable changes in board structure

Key ESG opportunities. 1) focus on better emission reduction; 2) continued regional leadership in environment management; 3) raising standards for social factors; 4) possibility of a better board structure

Given its above average overall positioning in our assessment of its ESG efforts, we add an ESG overlay of -50 bps to our CoE for GAP.

Exhibit 30. GAP: Our ESG assessment



Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

We value GAP using a DCF methodology. We assume a WACC of 11.9% (from 12.2%), based on a cost of equity of 17.5% (from 18.0%), cost of debt of 9.4% (unchanged), and debt-to-equity ratio of 51:49 (unchanged). Our CoE calculation is based on a risk-free rate of 3.75% (in line with the HSBC Global Equity Strategy view), inflation differential of 1.5% (based on our latest in-house macro forecasts), equity risk premium of 7.25% (unchanged, based on the HSBC equity strategy team's latest assumptions), and country risk premium of 2.8% (unchanged). We use a stock beta of 1.37 (unchanged), -50 bps ESG overlay and long-term tax rate of 30%. Our new target price of MXN390 implies 3.4% upside and we maintain our Hold rating. Our target price of MXN390 translates into a target price of USD190 for the ADR (PAC US, CMP USD185.25) (previously USD183.00) based on the 10:1 share ratio.

Upside risks: 1) positive regulatory changes; 2) stronger than-expected traffic in key routes, such as Los Cabos Tijuana; 3) an easing of the competitive environment supporting pricing of commercial products and services; and 4) favourable macro scenarios in Mexico, such as strong growth, sustained stability in the Mexican peso and/or lower interest rates, impacting the return on ongoing or planned expansion projects positively.

Downside risks: 1) negative regulatory changes; 2) emergence of new COVID-19 variants or new pandemics disrupting air traffic; 3) weaker-than-expected traffic in key routes, such as Los Cabos-Tijuana; 4) a worsening of the competitive environment hurting pricing of commercial products and services; and 5) adverse macro scenarios in Mexico, such as weak growth, a major depreciation in the Mexican peso or high interest rates, impacting the return on ongoing or planned expansion projects negatively.

Financials & valuation: GAP

Hold

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (MXNm)				
Revenue	25,433	26,720	32,706	36,943
EBITDA	17,684	17,803	22,001	25,182
Depreciation & amortisation	-2,546	-2,934	-3,185	-2,932
Operating profit/EBIT	15,139	14,869	18,816	22,250
Net interest	-2,377	-3,209	-3,713	-4,538
PBT	12,762	11,661	15,103	17,712
HSBC PBT	12,762	11,661	15,103	17,712
Taxation	-3,072	-3,022	-4,531	-5,314
Net profit	9,877	9,044	11,323	13,278
HSBC net profit	9,877	9,044	11,323	13,278
Cash flow summary (MXNm)				
Cash flow from operations	13,935	15,384	13,890	14,933
Capex	-10,444	-9,329	-10,319	-7,533
Cash flow from investment	-11,092	-9,302	-10,319	-7,533
Dividends	-7,634	-205	-1,809	-5,952
Change in net debt	8,545	5,552	-1,762	-1,448
FCF equity	3,491	6,055	3,571	7,400
Balance sheet summary (MXNm)				
Intangible fixed assets	10,240	10,963	12,460	13,426
Tangible fixed assets	43,495	51,183	56,819	60,455
Current assets	13,709	15,709	18,382	20,260
Cash & others	10,055	11,878	13,640	15,088
Total assets	67,445	77,855	87,662	94,141
Operating liabilities	5,919	9,999	11,042	11,075
Gross debt	40,620	47,995	47,995	47,995
Net debt	30,565	36,117	34,355	32,907
Shareholders' funds	19,782	18,975	28,532	35,851
Invested capital	51,470	55,978	62,979	67,977

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	12.9	5.1	22.4	13.0
EBITDA	9.7	0.7	23.6	14.5
Operating profit	9.6	-1.8	26.5	18.2
PBT	4.0	-8.6	29.5	17.3
HSBC EPS	5.4	-8.4	25.2	17.3
Ratios (%)				
Revenue/IC (x)	0.5	0.5	0.5	0.6
ROIC	24.6	20.5	22.1	23.8
ROE	51.4	46.7	47.7	41.2
ROA	15.1	11.9	12.8	13.6
EBITDA margin	69.5	66.6	67.3	68.2
Operating profit margin	59.5	55.6	57.5	60.2
EBITDA/net interest (x)	7.4	5.5	5.9	5.5
Net debt/equity	145.9	181.0	119.6	93.6
Net debt/EBITDA (x)	1.7	2.0	1.6	1.3
CF from operations/net debt	45.6	42.6	40.4	45.4
Per share data (MXN)				
EPS Rep (diluted)	19.55	17.90	22.41	26.28
HSBC EPS (diluted)	19.55	17.90	22.41	26.28
DPS	0.41	3.58	11.78	13.14
Book value	39.15	37.55	56.47	70.95

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	8.7	8.5	6.9	6.0
EV/EBITDA	12.6	12.8	10.2	8.8
EV/IC	4.3	4.1	3.6	3.3
PE*	19.3	21.1	16.8	14.3
PB	9.6	10.0	6.7	5.3
FCF yield (%)	1.8	3.2	1.9	3.9
Dividend yield (%)	0.1	0.9	3.1	3.5

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a
GHG emission intensity*	39.4
Energy intensity*	88.1
CO_2 reduction policy	Yes
Social Indicators	**12/2023a**
Employee costs as % of revenues	6.8
Employee turnover (%)	17.9
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	11
Average board tenure (years)	7.1
Female board members (%)	27.3
Board members independence (%)	54.5

Source: Company data, HSBC

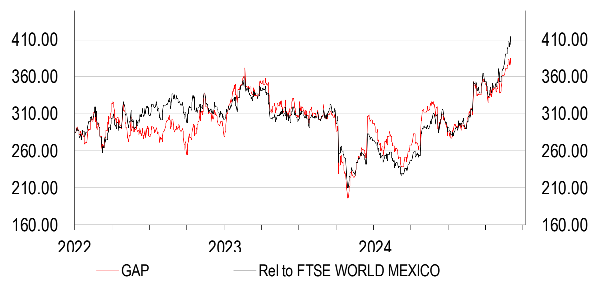
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (MXN)	377.10
Target price (MXN)	390.00
RIC (Equity)	GAPB.MX
Bloomberg (Equity)	GAPB MM
Market cap (USDm)	9,326

Free float	85%
Sector	Transport Infrastructure
Country/Region	Mexico
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 28 Nov 2024

OMA (OMAB MM)

- Leadership in environmental efforts; others lagging
- No ESG overlay added to CoE due to average ESG efforts
- Maintain Hold with unchanged target price of MXN190

Investment thesis and ESG assessment

Company description. OMA operates a portfolio of 13 airports in Mexico. European airport operator VINCI Airports owns c30% of the company. In addition to the airports, the company operates 2 hotels, an industrial park and 4 bonded warehouses. As of 2023, OMA's market share of 2023 Mexican traffic stood at 14%, ranking #4 in Mexico.

Best-in-class emissions and energy management. OMA is the only company in our coverage that has already met its medium-term emission intensity targets. It had targeted a 66% reduction in Scope 1 and 2 emissions by 2030 (58% reduction in intensity) but the 2023 levels are already well below their targets at 0.08 kgCO_2e/pax. This can largely be attributed to the fact that wind and solar energy currently accounts for 96% of the company's energy consumption. OMA is currently working towards achieving ACA Level 3 certification of all airports by 2025. It is worth noting that OMA is the only airport to have issued multiple green and sustainability-linked bonds since 2021 which are linked to performance in areas like renewable energy, energy efficiency, sustainable water and wastewater management, and biodiversity. OMA targets zero waste to the landfills by 2030 resulting in it working towards reducing its hazardous and non-hazardous waste intensity and recycling c10% of its waste. However, we feel there could be additional focus on broader environmental management such as biodiversity, water management and the like.

Average social performance. Except for management's commentary that client and passenger experiences are material issues, we do not see many initiatives targeted at improving customer experience (although we would like to highlight the transition to digital platforms for suggestion boxes which has led to a rise in interactions which included positive feedback). We also find that OMA's share of women in the workforce stood at only 28% in 2023. However, we see women representing 45% of new hires. The share of women in management positions was at 16% but significantly higher in STEM positions (44%). Employee turnover remains relatively high, although it declined to 15% from 18% in 2022. We also a see marginal increase in average training hours and OMA is working to expand the scope and coverage of training topics.

Governance factors not impressive. We see a constant share of independent directors at 45% since 2019. We note the rise in the representation of women at OMA's board which is now at 18% vs 9% earlier. However, these are still well below our coverage average. In terms of digitalization and innovation, we see OMA's focus is largely placed on cybersecurity.

Key ESG risks: 1) complacency in emission and energy management strategy; 2) more stringent environmental regulation ; 3) failure to raise female representation; 4) sustained high employee turnover

Key ESG opportunities: 1) higher standards and targets for emission reduction; 2) more comprehensive customer experience initiatives; 3) sustainability in logistics and hotels business; 4) improving gender diversity at managerial levels

Given its average overall positioning in our assessment of its ESG efforts, we choose not to add an ESG overlay to our CoE for OMA.

Exhibit 31. OMA: Our ESG assessment

Emissions and energy efficiency	Waste management	Broader environmental management	Customer service and experience	Labour standards, diversity and well-being	Board structure	Innovation and cybersecurity

Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

We value OMA using a DCF methodology. We assume a WACC of 12.4% (unchanged), based on a cost of equity of 18.3% (unchanged), cost of debt of 9.7% (unchanged), debt-to equity ratio of 52:48 (unchanged) and stock beta of 1.42 (unchanged). Our CoE calculation is based on a risk-free rate of 3.75% (in line with the HSBC Global Equity Strategy view), inflation differential of 1.5% (based on our latest in-house macro forecasts), equity risk premium of 7.25% (based on the HSBC equity strategy team's latest assumptions), a country risk premium of 2.8% (unchanged), and a 0 bps ESG overlay to our CoE. We assume an unchanged long-term tax rate of 30%. This yields a target price of MXN190 (unchanged), implying 14.1% upside. We maintain our Hold rating due to the uncertain pace of traffic recovery from the engine related disruptions and uncertainty regarding the terms of the new MDP plan due to be announced in 2025. Our target price of MXN190 translates into a target price of USD74 (unchanged) for the ADR (OMAB US, CMP USD66.11) based on the 8:1 share ratio.

Upside risks: 1) positive regulatory changes; 2) stronger than-expected traffic in key routes, such as Monterrey-Mexico City and Monterrey-Cancun; 3) milder competitive environment supporting pricing of commercial products/services; and 4) favourable macro scenarios in Mexico, such as strong growth, sustained stability in the Mexican peso and/or lower interest rates, impacting the return on ongoing or planned expansion projects positively.

Downside risks: 1) negative regulatory changes; 2) emergence of new COVID-19 variants or new pandemics disrupting air traffic; 3) weaker-than-expected traffic in key routes, such as Monterrey-Mexico City and Monterrey Cancun; 4) a worsening of the competitive environment hurting pricing of commercial products/services; and 5) adverse macro scenarios in Mexico, such as weak growth, major depreciation in the Mexican peso, or high interest rates, impacting the return on ongoing or planned expansion projects negatively.

Financials & valuation: Aeroportuario Del Centro

Hold

Financial statements

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Profit & loss summary (MXNm)				
Revenue	11,559	11,992	13,310	15,044
EBITDA	8,708	8,655	9,679	11,031
Depreciation & amortisation	-641	-751	-810	-949
Operating profit/EBIT	8,067	7,904	8,868	10,082
Net interest	-1,007	-965	-919	-949
PBT	7,060	6,939	7,949	9,133
HSBC PBT	7,060	6,939	7,949	9,133
Taxation	-2,039	-1,972	-2,385	-2,740
Net profit	5,012	4,947	5,535	6,360
HSBC net profit	5,012	4,947	5,535	6,360
Cash flow summary (MXNm)				
Cash flow from operations	4,213	5,647	5,787	6,598
Capex	-2,982	-3,100	-3,017	-3,885
Cash flow from investment	-2,710	-2,927	-3,017	-3,885
Dividends	-3,738	-4,229	-2,226	-2,491
Change in net debt	1,243	780	-544	-222
FCF equity	1,232	2,547	2,770	2,713
Balance sheet summary (MXNm)				
Intangible fixed assets	16,421	18,961	20,846	23,354
Tangible fixed assets	3,816	4,384	4,706	5,134
Current assets	5,000	4,325	5,122	5,708
Cash & others	2,576	1,783	2,327	2,549
Total assets	25,238	27,670	30,673	34,196
Operating liabilities	4,677	8,502	8,167	7,788
Gross debt	10,722	10,707	10,707	10,707
Net debt	8,299	9,080	8,536	8,314
Shareholders' funds	9,670	8,324	11,666	15,562
Invested capital	17,984	17,385	20,179	23,859

Ratio, growth and per share analysis

Year to	12/2023a	12/2024e	12/2025e	12/2026e
Y-o-y % change				
Revenue	24.5	3.7	11.0	13.0
EBITDA	31.6	-0.6	11.8	14.0
Operating profit	33.0	-2.0	12.2	13.7
PBT	33.4	-1.7	14.6	14.9
HSBC EPS	28.5	-1.3	11.9	14.9
Ratios (%)				
Revenue/IC (x)	0.7	0.7	0.7	0.7
ROIC	34.3	32.0	33.1	32.1
ROE	55.6	55.0	55.4	46.7
ROA	20.8	18.8	19.1	19.7
EBITDA margin	75.3	72.2	72.7	73.3
Operating profit margin	69.8	65.9	66.6	67.0
EBITDA/net interest (x)	8.6	9.0	10.5	11.6
Net debt/equity	84.4	107.3	72.3	52.9
Net debt/EBITDA (x)	1.0	1.0	0.9	0.8
CF from operations/net debt	50.8	62.2	67.8	79.4
Per share data (MXN)				
EPS Rep (diluted)	12.98	12.81	14.33	16.47
HSBC EPS (diluted)	12.98	12.81	14.33	16.47
DPS	10.95	5.76	6.45	10.00
Book value	25.04	21.56	30.21	40.30

Valuation data

Year to	12/2023a	12/2024e	12/2025e	12/2026e
EV/sales	6.3	6.1	5.5	4.8
EV/EBITDA	8.4	8.5	7.5	6.6
EV/IC	4.0	4.2	3.6	3.0
PE*	12.8	13.0	11.6	10.1
PB	6.7	7.7	5.5	4.1
FCF yield (%)	1.9	4.0	4.3	4.2
Dividend yield (%)	6.6	3.5	3.9	6.0

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2023a
GHG emission intensity*	3.3
Energy intensity*	110.2
CO_2 reduction policy	Yes
Social Indicators	**12/2023a**
Employee costs as % of revenues	2.8
Employee turnover (%)	14.7
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	11
Average board tenure (years)	6.1
Female board members (%)	18.2
Board members independence (%)	45.5

Source: Company data, HSBC

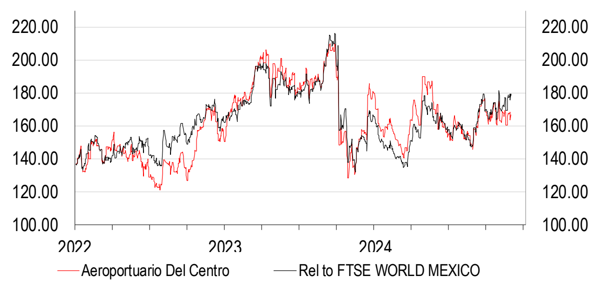
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (MXN)	166.53
Target price (MXN)	190.00
RIC (Equity)	OMAB.MX
Bloomberg (Equity)	OMAB MM
Market cap (USDm)	3,148

Free float	70%
Sector	Transport Infrastructure
Country/Region	Mexico
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 28 Nov 2024

TAV Airports (TAVHL TI)

- Above average emission & energy efficiency and innovation
- Average overall performance does not warrant an ESG overlay
- Maintain Buy with unchanged target price of TRY325

Investment thesis and ESG assessment

Company description. TAV Airports is an airport operator that operates 15 airports in 8 countries. The company also provides duty free, catering, ground handling, IT, security and lounge services. The company is part of Groupe ADP (ADP FP, EUR108.70, Hold) which holds a 46% stake in TAV Airports.

Above average environmental initiatives. Environmental initiatives are both at the group level and the individual asset level. At the group level, the company aims to become carbon neutral by 2030. The company aims to ensure that 20% of the ground service equipment are battery-powered and include all of its airports under the ACA accreditation program by 2025. TAV's recycling ratio is at 10% and is compliant with the local government regulation on zero-waste management. This has led to hazardous and non-hazardous waste per pax declining by 41% and 35%, respectively. Furthermore, we appreciate the efforts taken at both the group and asset level to improve broader environmental management.

Leadership in customer service. As we highlight earlier, TAV was the only airport group which owned airports that were rated 4-star by SKYTRAX. In addition to this, TAV's asset portfolio has been acknowledged as some of the best airports in the region as per the ACI-ASQ and SKYTRAX World Airport Awards programs. The company's technology subsidiary developed the 'Smart Airport Program' which will support standardization and modernization to improve customer experience. Women accounted for 27% of the workforce and 28% of the managerial positions at TAV in 2021. It is important to note that TAV has a female CFO which is unusual given the male-dominated nature of the industry. Among causes of concern, employee turnover remains high at 14% along with the higher incidence of work-related injuries and low average training hours. However, we commend the TAV Eduport platform which offer courses on aviation, security, competency and skill development, management and leadership.

Great importance of technological innovation. TAV Technologies, a wholly owned subsidiary, provides digital solutions and services for a wide range of airport management functions. In addition to that, the Smart Airport Program will be a key part of the group's standardization and modernization strategy. A cause of concern is the relatively lower share of independent (36%) and female directors (27%).

Key ESG risks. 1) high cost of renewable energy; 2) delay in ACA accreditation; 3) inability to increase the share of women in the workforce and leadership; 4) lack of independent directors; 5) delay in execution of the Smart Airport Program

Key ESG opportunities. 1) standardization of environmental strategy across assets and geographies; 2) expanding Scope 3 reporting to all airports; 3) implementation of Smart Airport Program and further modernization; 4) achieving highest ACA accreditation for airport assets

Given its average overall positioning in our assessment of its ESG efforts, we choose not to add an ESG overlay to our CoE for TAV.

Exhibit 31. TAV: Our ESG assessment

Emissions and energy efficiency	Waste management	Broader environmental management	Customer service and experience	Labour standards, diversity and well-being	Board structure	Innovation and cybersecurity

Note: green indicates above average efforts, yellow indicates average efforts, pink indicates below average efforts
Source: Company data, HSBC

Valuation and risks

Our valuation is based on a sum-of-the-parts approach where we add our NAV estimates for the underlying parts (i.e., the airports and 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% (based on Türkiye's long-term EUR bond rates), blended risk-free rate of 7.1%, equity risk premium of 5.5% and a beta of 1.03 (all unchanged) and a 0 bps ESG overlay, leading to an NAV weighted WACC of 8.8% (unchanged). This results in unchanged target price of TRY325.00 (18.4% upside) and we maintain our Buy rating due to pending completion of the heavy investment cycle and case for potential benefits from 2025 onwards.

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.

Exhibit 32. TAV: SOTP valuation approach (adding up NAV estimates based on DCF)

EURm	**Total value**		**TAV stake**	**Stake value**		**New/Old**
Subsidiary	**Old**	**New**	**%**	**Old**	**New**	**chg**
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	75%	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

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	2.7	2.3	2.0	1.8
EV/EBITDA	9.2	7.7	6.6	5.7
EV/IC	1.9	1.7	1.6	1.6
PE*	10.9	16.3	13.8	10.8
PB	1.9	1.7	1.6	1.5
FCF yield (%)	-1.4	0.4	5.3	9.1
Dividend yield (%)	0.0	0.0	3.6	4.6

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2022a
GHG emission intensity*	30.0
Energy intensity*	85.2
CO_2 reduction policy	Yes
Social Indicators	**12/2022a**
Employee costs as % of revenues	23.1
Employee turnover (%)	13.5
Diversity policy	Yes

Governance Indicators	12/2023a
No. of board members	11
Average board tenure (years)	12.0
Female board members (%)	27.3
Board members independence (%)	36.4

Source: Company data, HSBC

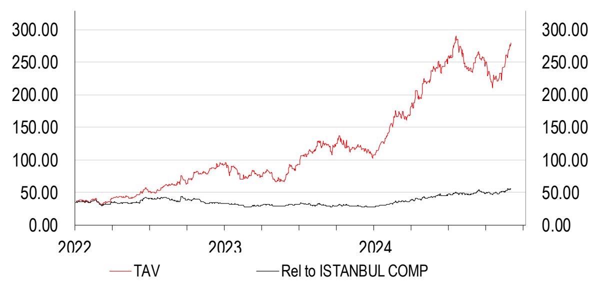
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (TRY)	274.50
Target price (TRY)	325.00
RIC (Equity)	TAVHL.IS
Bloomberg (Equity)	TAVHL TI
Market cap (USDm)	2,879

Free float	44%
Sector	Transport Infrastructure
Country/Region	Türkiye
Analyst	Cenk Orcan
Contact	+90 212 376 46 14

Price relative



Source: HSBC

Note: Priced at close of 26 Nov 2024

HSBC's proprietary ESG database

- Emission intensity and energy intensity levels have declined; airports saw a more rapid rate of decline than airlines
- Employee costs have declined (far more at airports than airlines); but employee turnover has increased
- Board independence remains flat, gender diversity and tenure are on the rise

Key trends from our coverage

HSBC maintains a database of 10 key ESG metrics for the companies in our coverage. Of the 10, 8 are quantitative and 2 are qualitative which are used to effectively analyse ESG trends in various markets.

Exhibit 33. 10 metrics in HSBC's proprietary ESG database

Metrics	
1) Greenhouse gas intensity	6) Diversity policy
2) Total energy intensity	7) Board size
3) Carbon reduction policy	8) Average board tenure
4) Employee turnover	9) Female representation on the board
5) Employee cost as % of revenues	10) Board independence

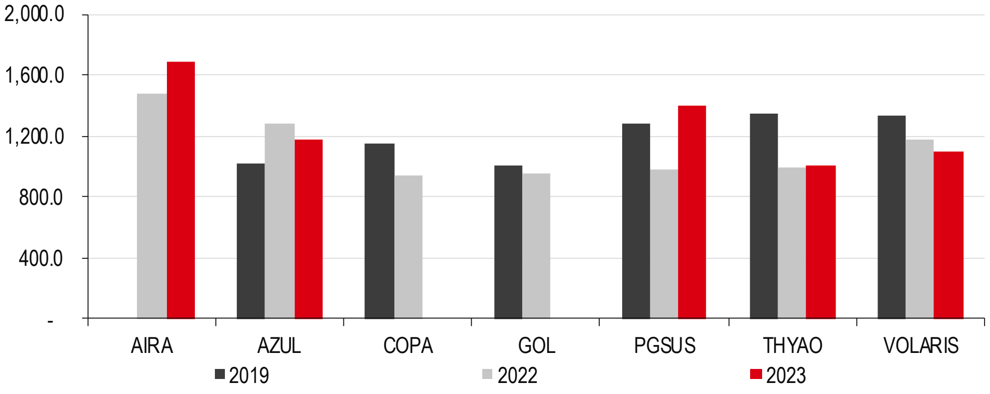
Source: HSBC

Revisiting 2023 ESG metrics and identifying key trends

- In terms of environmental metrics, the average company under our coverage saw GHG emission intensity (measured in kg / USD 000s) decline 1% vs 2022 levels and 29% vs 2019 levels
- Airports saw declines of 18% (vs 2022) and 61% (vs 2019) while airlines emission intensity increase 9% (vs 2022) and decrease 5% (vs 2019). Regional differences show EEMEA GHG intensity increasing 19% (vs 2022) and decreasing 8% (vs 2019) while LatAm declined 14% (vs 2022) and 37% (vs 2019)
- The average company also saw a 5% decline in energy intensity (measured as kWh/USD 000s) compared to 2022 levels while we see a greater decline of 28% compared to 2019
- Airports saw declines of 14% (vs 2022) and 23% (vs 2019) while airlines saw a 1% increase (vs 2022) but a decline of 32% (vs 2019). Comparing regions, EEMEA energy intensity rose 8% (vs 2022) and declining 20% (vs 2019) while LatAm saw decreases of 12% (vs 2022) and 32% (vs 2019)

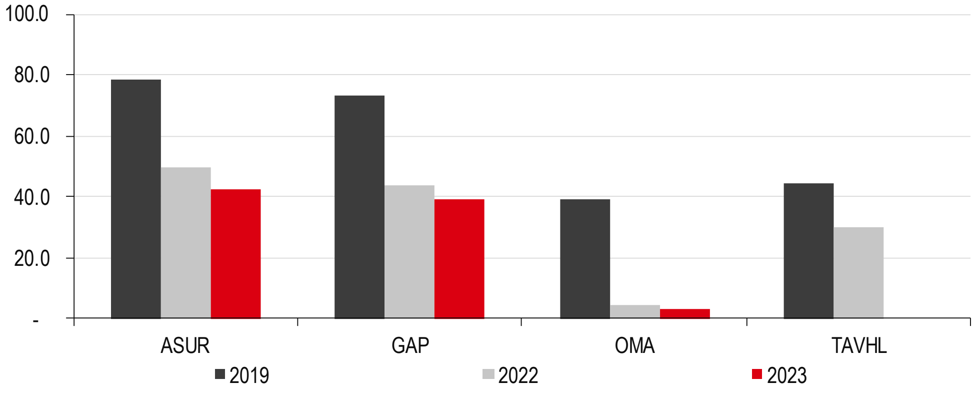
- All the companies in our coverage renewed their commitment to mitigating GHG emissions and have a carbon reduction policy in place
- Taking a look at employee costs as a percentage of revenue, the ratio fell from 13.4% in 2019 to 11.9%. At airports, the ratio was 10.2% while for airlines it was higher at 12.9%
- When we look at the regional differences, we see that relative employee costs have declined from 17.7% in 2019 to 16.2% in 2023 at EEMEA aviation companies while this ratio fell from 10.9% to 9.5% for our LatAm companies
- The employee turnover rose from 9.5% in 2019 to 12.7% in 2023. The employee turnover rate was marginally higher at airlines at 12.7% vs 12.6% at airports. At both airports and airlines, employee turnover stood higher than 2019 levels
- Employee turnover at EEMEA aviation companies stood at 11.8% in 2023 from 8.5% in 2019 while at LatAm aviation cos stood at 10.4% from 9.8% in 2019
- Diversity continues to be at the forefront for all companies in our coverage and all have diversity policies to improve the representation of women in their workforces
- Coming to governance, we find that the aviation company Board size has remained the same with the average company in our coverage having a Board with 10 members
- We find that airports (11 members on average) had marginally larger Boards compared to airlines (10 members). Regional differences reveal that EEMEA Boards (9 members) were smaller than LatAm boards (11 members)
- Looking at board independence, we see the ratio of independent directors being constant (average aviation company at 52%). Airports (48% to 50%) saw board independence improving while this marginally worsened at airlines (54% to 53%). However, while LatAm boards saw an improvement in independence (52% in 2019 to 53%), EEMEA boards saw a decline (48% to 45%)
- In 2023, airlines' boards (53%) were more independent than airports' boards (50%). Looking at the two regions, we see EEMEA boards (45%) to be less independent than LatAm boards (56%)
- The average board member tenure at our coverage companies stood at 8.8 years in 2023 (vs 7.5 years in 2019). Airports saw board tenures rise faster at 33% vs 8% in our airlines companies. EEMEA saw board tenures rise 20% vs 2019 while in our LatAm universe this figure stood at 14%
- Airports (9.1 years) had more tenured boards than airlines (8.6 years). EEMEA board tenure stood at 8.0 years while the figure was 9.2 years for LatAm
- Board gender diversity stood at 19% for our coverage universe. This improved from c11% in 2019 and 16% in 2022. We note that the average diversity ratio at our airports improved to 25% as we reiterate the IATA's target of '25by2025.' Airlines had lesser diversity with female directors only accounting for 15% of the total board
- Gender diversity was better in LatAm boards (average 20%) as compared to EEMEA boards (16%), but this difference does not appear stark to us

Exhibit 33. EEMEA & LatAm airlines: GHG emission intensity (kg / USD 000s)



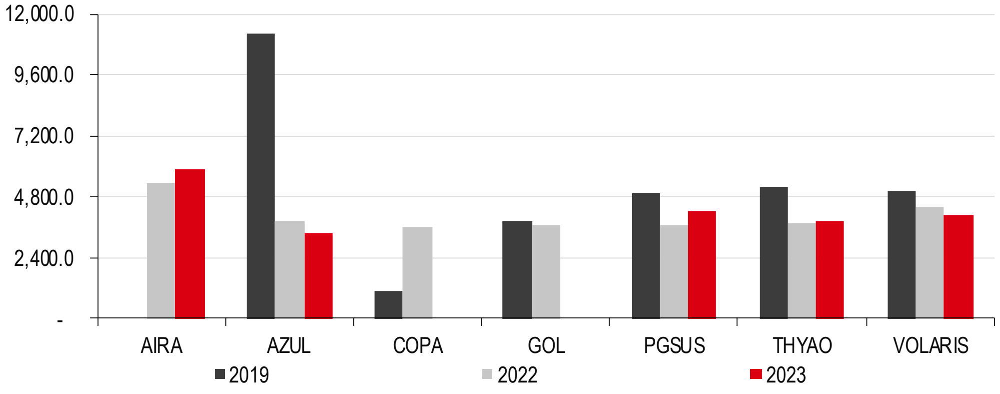
Source: Company data, HSBC calculations

Exhibit 34. EEMEA & LatAm airports: GHG emission intensity (kg / USD 000s)



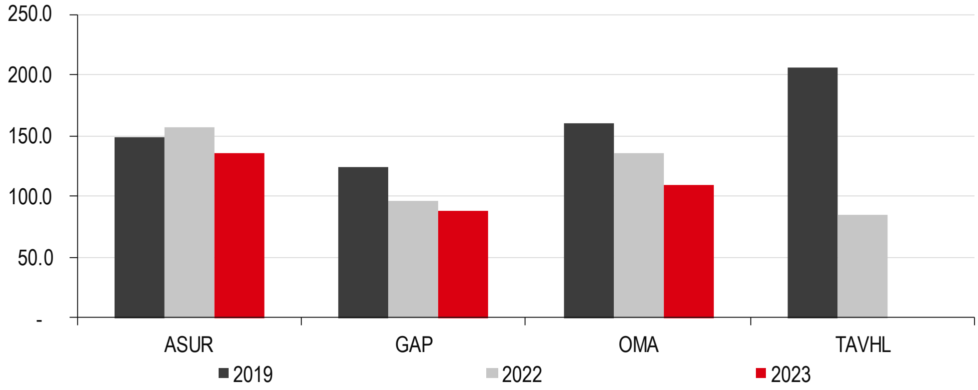
Source: Company data, HSBC calculations

Exhibit 35. EEMEA & LatAm airlines: Energy intensity (kWh / USD 000s)



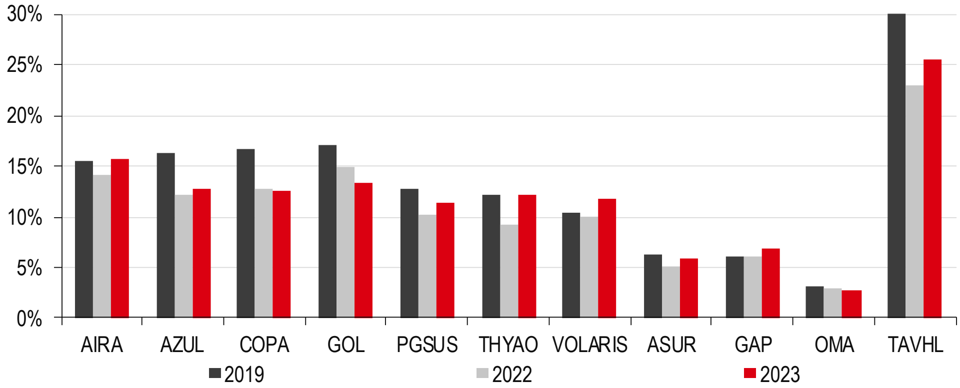
Source: Company data, HSBC calculations

Exhibit 36. EEMEA & LatAm airports: Energy intensity (kWh / USD 000s)



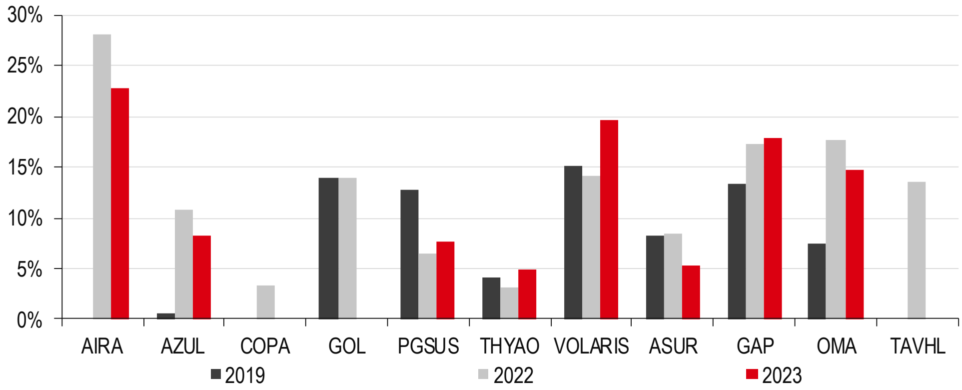
Source: Company data, HSBC calculations

Exhibit 37. EEMEA & LatAm aviation: Employee costs at a % of revenues



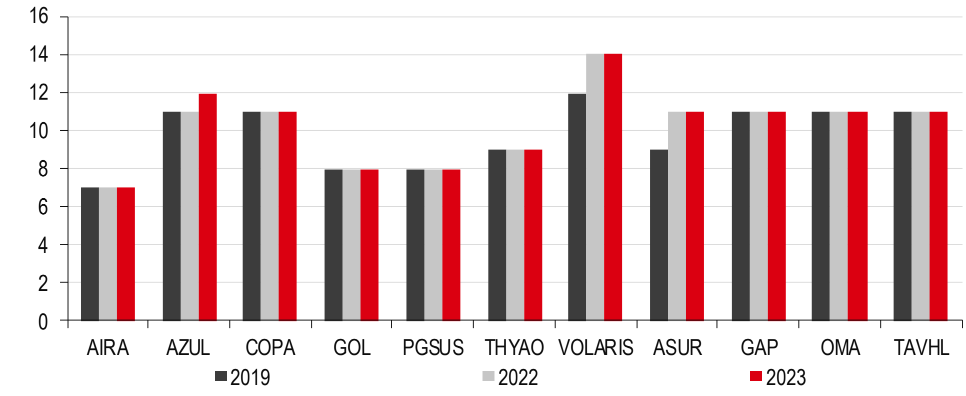
Source: Company data

Exhibit 38. EEMEA & LatAm aviation: Employee turnover



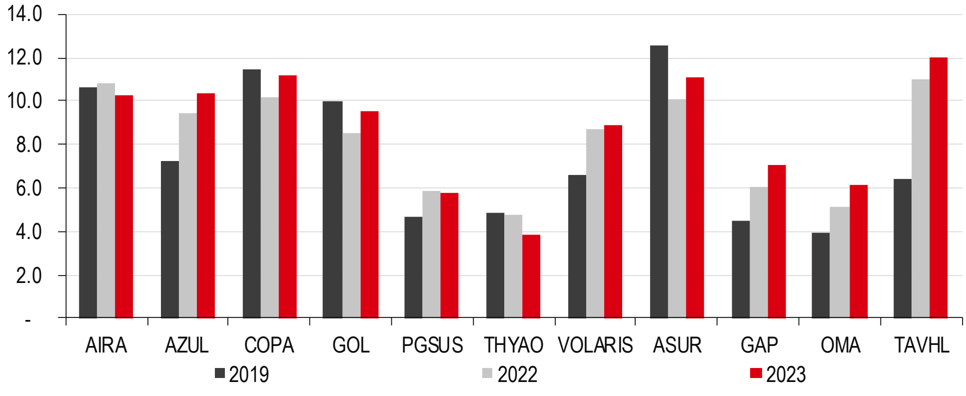
Source: Company data

Exhibit 39. EEMEA & LatAm aviation: Evolution of board size



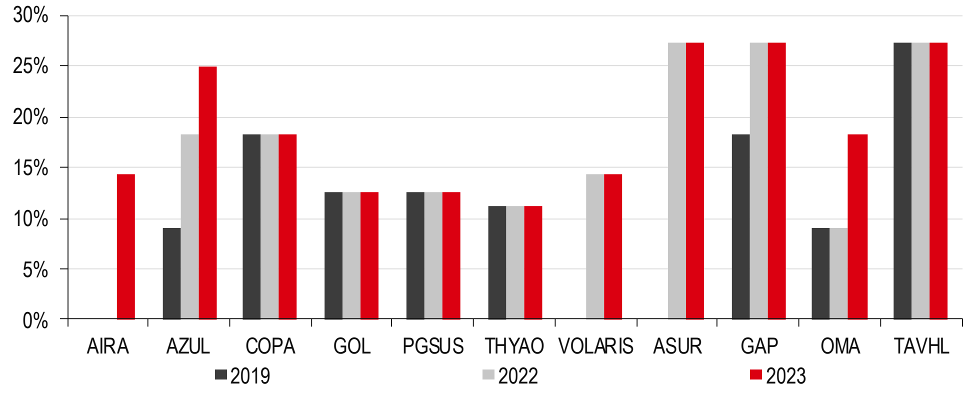
Source: Company data

Exhibit 40. EEMEA & LatAm aviation: Evolution of average board tenure



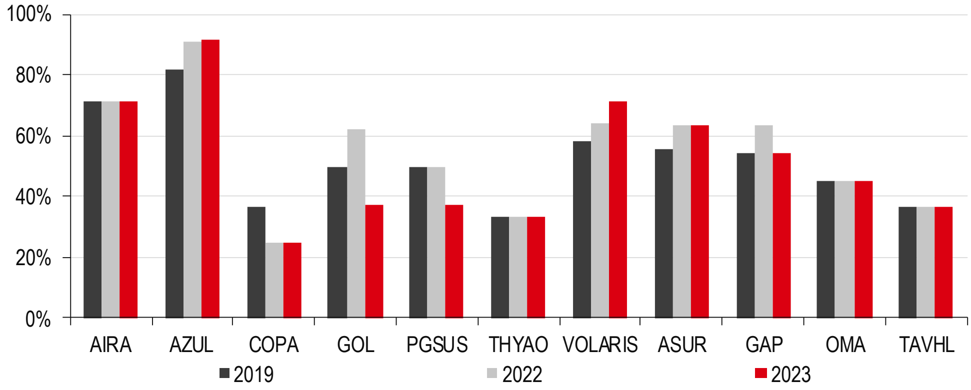
Source: Company data

Exhibit 41. EEMEA & LatAm aviation: Evolution of board gender diversity



Source: Company data

Exhibit 42. EEMEA & LatAm aviation: Evolution of board independence



Source: Company data; Note: board independence is as declared by the company

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, Linnet Cotterill, CFA, James Rydge and Yaryna Kobel

Brazilian Securities Exchange Commission (CVM) Resolution No. 20/2021

Pursuant to CVM Resolution No. 20/2021, HSBC has obtained from the analyst(s) listed above under "Analyst Certification" and disclosed (where applicable), the statements set forth in Article 21 and have rendered (where applicable) the statements set forth in Article 22, under the sections titled "Analyst Certification" and "HSBC & Analyst Disclosures". The analyst(s) furthermore certifies(y) that the recommendations contained in this report have been prepared independently, even in relation to HSBC.

Additionally, for purposes of Article 20, the principal analyst responsible for compliance of the mentioned regulation is the first name in the list under "Analyst Certification" that has local certification, where applicable.

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC and its affiliates, including the issuer of this report ("HSBC") believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

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.

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HSBC & Analyst disclosures

Disclosure checklist

Company	Ticker	Recent price	Price date	Disclosure
AEROPORTUARIO DEL CENTRO	OMAB.MX	166.64	27 Nov 2024	7
AEROPORTUARIO DEL SURESTE	ASURB.MX	538.66	27 Nov 2024	–
AIR ARABIA	AIRA.DU	2.93	28 Nov 2024	7
AZUL SA	AZUL4.SA	5.16	27 Nov 2024	–
COPA HOLDINGS SA	CPA.N	93.35	27 Nov 2024	–
GAP	GAPB.MX	384.68	27 Nov 2024	7
GOL	GOLL4.SA	1.57	27 Nov 2024	–
PEGASUS	PGSUS.IS	225.00	27 Nov 2024	1, 4, 5, 6, 7
TAV HAVALIMANLARI HLDG AS	TAVHL.IS	278.00	27 Nov 2024	7
TURKISH AIRLINES	THYAO.IS	292.50	27 Nov 2024	4, 7
VOLARIS	VOLARA.MX	15.84	27 Nov 2024	7

Source: HSBC

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