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Türk Hava Yolları

Solid cargo operations, and income from investment activities supported net profit in 3Q24...

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Turkish Airlines reported a net profit of US\$ 1,544mn in 3Q24, down from US\$ 1.920mn in 3Q23, but surpassing forecasts (Seker: US\$ 1,346mn, Market Avg.: US\$ 1,410mn) for the period. Despite pressures on GP, and heightened operational and financial expenses, THY recorded this net profit, reflecting a YoY decline of 19.6%, aided by favorable outcomes in interest income from financial investments and lower tax expenses. The total passenger count dropped by 2.9% YoY, reaching 24.5mn in 3Q24, while total cargo volume saw a robust increase of 16.8% YoY. Although passenger revenue exhibited limited growth, largely constrained by the slight decline in PAX numbers, Turkish Airlines' total revenue expanded by 4.9% YoY to US\$ 6,630mn in 3Q24, buoyed by resilient cargo revenue (+47.4% YoY) primarily driven by robust demand from the Far East (Seker: US\$ 6,633mn, Market Avg.: US\$ 6,608mn). EBITDA experienced a YoY decline of 9.6% to US\$ 2,167mn (Seker: US\$ 2,023mn, Market Consensus: US\$ 2,079mn), impacted by higher OpEx. However, THY's operational performance aligned with expectations, with deferred tax income and interest income from financial investments mitigating the adverse effects of reduced operational profitability and increased financial expenses. Given the net profit beat, we anticipate a moderately positive reaction in the Company's stock.

The EBITDA margin compressed by 5.0 pp YoY to 35.2%, largely due to cost pressures. The total passenger count for 3Q24 dropped 2.9% on an annual basis, with passenger LF at 85.0%, down 0.8 pp from 3Q23. PAX yields decreased by 4.0% YoY to US\$€9.51 in 3Q24. In contrast, cargo volume rose by 16.8% YoY, with cargo revenue surging by 47.4% YoY to US\$ 911mn, underscoring the resilience in this segment. RASK2 climbed 3.2% YoY to US\$€8.59 in 3Q24 (3Q23: US\$€8.53). Passenger RASK declined by 2.2% YoY to US\$€8.08.

Total CASK increased by 8.5% YoY to US\$€7.88, despite a 6.9% YoY reduction in fuel unit costs (3Q23: US\$€2.60, 3Q24: US\$€2.42) due to lower fuel prices. This cost inflation was driven by expanded cargo operations and a substantial rise in personnel costs resulting from wage hikes (3Q23: US\$€1.21, 3Q24: US\$€1.76, 3Q24/3Q23: +45.9%) and GTF-related challenges. EBITDAR in USD terms decreased by 8.2% YoY to US\$ 2.334mn in 3Q24, while the EBITDAR margin contracted by 5.0 pp YoY to 35.2%.

Following the results, we maintain our target price of "TRY 475.40/share" for THY, and maintain our "OP" recommendation. The company's operational and financial performance reflects a solid outlook, sustained both domestic and international passenger growth and strength in cargo operations relative to the prior-year period. The current share price of TRY 268.50 has upside potential of 77% according to the target share price.

Risks - Another pandemic, natural disaster or rising geopolitical risk presents downside risks to our traffic and profitability assumptions. Also, a swift increase in jet fuel prices would introduce a downside risk to our valuation, and vice versa.

OUTPERFORM
TP: TRY 475.40
Upside potential: 77%
Previous TP: TRY 475.40

	TRY	US\$
Close	268,50	7,83
BIST 100	8.664	253
US\$/TRY (CB Bid Rate):	34,2757	
52 Week High:	332,00	10,27
52 Week Low:	221,60	7,53
Bloomberg/Reuters Ticker:	THYAO.TI / THYAO.IS	

Number of Shares (Mn): 1.380

	(TRY mn)	(US\$ mn)
Current Mcap :	370.530	10.810
Free Float Mcap :	185.265	5.405

	1 M	YoY	YtD
TRY Return (%):	-1,9	-1,6	17,5
US\$ Return (%):	-2,2	-1,6	0,9
BIST 100 Relative (%):	3,1	-12,5	1,3
Avg. Daily Vol. (TRY m):	9.203		
Avg. Daily Vol. (US\$ m):	291		

Beta	1,03
Volatility (Stock)	0,31
Volatility (BIST 100)	0,24

Shareholder Structure	%
Turkey Wealth Fund	49,12
Other	0,33
Free Float	50,55
Total	100,00

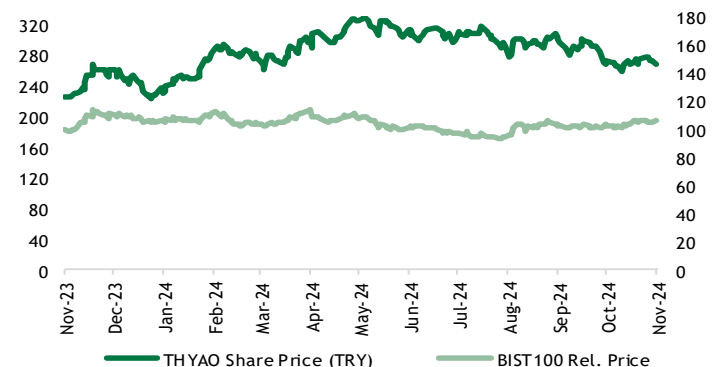


Table 1: Summary P&L

US\$ Million	9M23	9M24	YoY	3Q23	3Q24	YoY
Revenues	15.823	17.060	7,8%	6.321	6.630	4,9%
Gross Profit	4.071	3.435	-15,6%	2.136	1.820	-14,8%
Gross Profit Margin	25,7%	20,1%	-5.6 pp	33,8%	27,5%	-6.3 pp
EBIT	2.998	2.366	-21,1%	1.932	1.612	-16,6%
EBIT Margin	18,9%	13,9%	-5.1 pp	30,6%	24,3%	-6.3 pp
EBITDA	4.456	3.995	-10,3%	2.396	2.167	-9,6%
EBITDA Margin	28,2%	23,4%	-4.7 pp	37,9%	32,7%	-5.2 pp
Net Profit	2.788	2.713	-2,7%	1.920	1.544	-19,6%
Net Profit Margin	17,6%	15,9%	-1.7 pp	30,4%	23,3%	-7.1 pp

Source: Turkish Airlines, Finnet, Seker Invest Res.

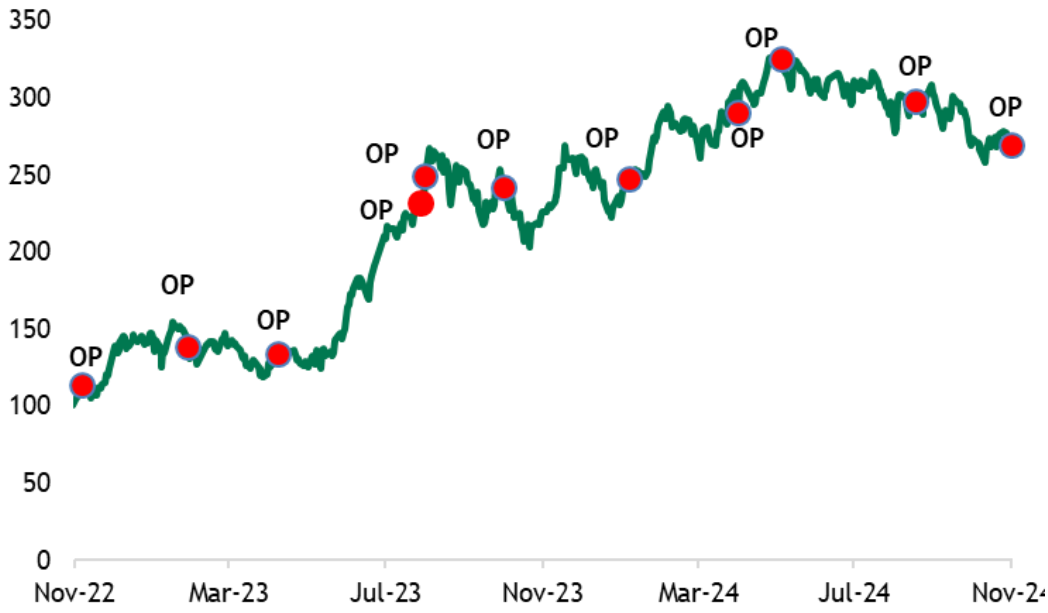
Table 2: Key Financials

Assets (mn USD)	2021	2022	2023	9M24
Cash and Cash Eq. & Short-Term Financial Investments	2.682	4.701	6.027	6.236
Trade Receivables	925	995	856	1.159
Pre-delivery Payment Receivables (PDP)	546	511	305	699
Other Current Assets	785	1.018	1.407	1.838
Total Current Assets	4.938	7.225	8.595	9.932
Net Fixed Assets	4.364	4.723	6.118	6.995
Rights of Use of Assets	15.110	16.577	16.928	17.449
Pre-delivery Payment Receivables (PDP)	279	291	501	262
Other Non-Current Assets	16.956	18.705	20.457	22.484
Total Non-Current Assets	21.599	23.719	27.076	29.741
Total Assets	26.537	30.944	35.671	39.673

Liabilities (mn USD)	2021	2022	2023	9M24
Lease Obligations	10.244	10.766	11.812	12.546
Bank Borrowings	4.659	3.273	2.435	1.933
Passenger Flight Liabilities	1.216	2.291	2.656	3.001
Accounts Payable	891	1.200	1.291	1.404
Other Liabilities	2.690	3.672	1.914	2.617
Total Liabilities	19.700	21.202	20.108	21.501
Total Shareholders Equity	6.837	9.742	15.563	18.172
Total Liabilities & Shareholders Equity	26.537	30.944	35.671	39.673

Source: Turk Hava Yolları, Seker Invest, PDP, Finnet

Historical Recommendations and target prices



Date	Recommendation	Target Price (TRY)
3-Nov-22	Outperform (OP)	145,10
*11-Jan-23	Outperform (OP)	194,70
2-Mar-23	Outperform (OP)	194,70
*1-Aug-23	Outperform (OP)	293,37
9-Aug-23	Outperform (OP)	293,37
2-Nov-23	Outperform (OP)	358,50
*16-Jan-24	Outperform (OP)	402,60
4-Apr-24	Outperform (OP)	402,60
23-May-24	Outperform (OP)	475,40
6-Aug-24	Outperform (OP)	475,40
5-Nov-24	Outperform (OP)	475,40

* RfR change

Basis for 12m equity ratings

Outperform:	The total return is expected to exceed the return of the BIST 100 by more than 10%.
Underperform:	The total return is expected to fall below the return of the BIST 100 by more than 10%.
Market Perform:	The total return is expected to be in line with the return of the BIST 100.

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