Koç University Top Investment Idea
TAV Airports (TAVHL)

Winvestors:
Sunay KÖSE
Burcu GÜLDAŞ
Dicle KOCAOĞLU
Yusuf FETTAHLIOĞLU
Bora ŞAHİN
Exports volume index is raising by 10.5% (yearly), Imports volume index is raising by 2.3% therefore net foreign trade contributes 1.7 to growth.

- 2016: 2.9%
- 2017 Expected: >5%
- GPD/capita_2016: 10,883 $
- Expense on construction is raising by %25 which is quite high. On the other hand, speed of credit growth rate is slowing down so this business is not sustainable in that way. Also, machinery investment is declining by 4 quarters continuously which is a quite negative case for country.
Growth Comparison (YoY, %)

Source: Bloomberg, Turkstat

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Unemployment ratio is declining because of government spending. Growth is raising thanks to government support not private individual spendings.

Even desinflation in global, Turkey has quite high inflation and it is going up and up.
Even low currency and low oil price, Turkey performs not good. Budget deficit is increasing day by day comparing 2016-2017.

Source: Turkstat
**Name:** TAV Airports Conglomerate

**Established:** 1997, Istanbul

**Organization:** Airport Ground Service

3 Continents, 7 countries, 14 airports;

Ataturk, Esenboga, A. Menderes, Gazipasa, Milas Bodrum, Medine (33%), Tiflis (80%), Batum (76%), Monastir & Enfidha (67%), Üsküp & Ohrid, Letonya, Zagreb (15%)

**Subsidiaries:**
ATU (50%), BTA (67%), Havas (100%), TGS (50%), Havas Europe, TAV Isletme, TAV BT, TAV Guvenlik, TAV Akademi

**TAV AIRPORTS OWNERSHIP STRUCTURE**

- Aéroports de Paris Group*
  - 38.0%
- Tepe İnşaat Sanayi A.S.
  - 8.1%
- Akfen Holding A.S.
  - 8.1%
- Sera Yapı Endüstrisi ve Ticaret A.S.
  - 2.0%
- Free-float (Other)
  - 40.3%
- Non-floating (Other)
  - 3.5%

TAV (TAVHL) Revenue & Cost Split

Revenue Generation

- Stable revenue generation due to sector dynamics (Long contract periods for airport operations)
- There is no FX risk like most of the Turkish businesses due to FX income structure

Revenue / Cost Structure

- Approximately %53 of revenue comes from Aviation & Duty Free Sales Commissions
- Main expenses are personnel & rent as most of the service company


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TAV (TAVHL)
Stock Price

Tav Havallımanları Holding A.Ş. (IST:TAVHL)

19.67 -0.21 (-1.06%)
Nov 10 - Close
IST data delayed by 15 mins - Disclaimer
Currency in TRY

Range 19.52 - 20.06
Div/yield 0.68/3.47
52 week 12.26 - 21.82
EPS 2.14
Open 20.06
Shares 363.28M
Vol / Avg. 1.81M/3.20M
Beta -
Mkt cap 7.12B
Inst. own -
P/E 9.21

BIST100 108,949.36 -1.18%
TAVHL 19.67 -1.06%

Source: https://finance.google.com/

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TAV (TAVHL)
Corporate Governance

**MAIN SECTIONS: Avg. 96.17**
- Shareholders: 95.77
- Public Disclosure & Transparency: 97.34
- Stakeholders: 98.82
- Board of Directors: 94.48

**Corporate Governance Rating:**

What 9.62 /10 means?

- Very good performs in terms of Capital Market Boards principles
- Good risk management by effective using internal controls and management
- Best practice, no deficiencies in any of the areas rated
- The highest level at BIST Corporate Governance Index

A multi-disciplinary organizational model

Vertical and horizontal integration within organization

A Sustainability Committee, reporting to the CEO and organize all activities regarding to TAV’s agenda on sustainability
We use a EUR-based DCF and NAV model with the assumptions in the table right bottom below:

EUR risk-free rate for Turkey of 5.4%, an equity risk premium of 5.%, and a 1.27 blended beta from Rayonet, leading to a NAV weighted WACC of 9.9%

Despite a higher WACC, DCF roll forward and higher EUR/TRY (we use a spot rate of 4.40 for setting our target in TRY from a EUR based valuation model) result in a new target price of TRY24.
TAV looks inexpensive trading at ex-IAA 2018e EV/EBITDA of 5.6x and PE of 21.6x vs the global airport peer averages of 13.6x and 22x.

TAVHL’s target share price coming from NAV methodology. 12-month target price is derived as 24.00 TRY which gives 27% upside potential and rates the stock as Buy.

Our target price implies 27% upside from the current share price.
TAV (TAVHL)  
Summary & Recommendation

• TAV Airports reported net income of EUR102m in 3Q17, operationally, 3Q17 EBITDA of EUR189.

• Strong traffic performance and B/S deleveraging creates further upside.

• Traffic recovery is contributed not only by Turkish airports but by also foreign operations (particularly Georgia and Medina)

• We believe there is ample value in TAV’s existing portfolio Consensus and an attractive dividend yield for the next two years.

• Strong traffic recovery, deleveraging and attractive dividend yield – we see value in TAV despite the uncertainties. We assume operations cease at Istanbul Ataturk Airport at end-2019 and anticipate new airport deals until the end of period.

• TAVHL’s target share price coming from NAV methodology. 12-month target price is derived as 24.00 TRY which gives 27% upside potential and rates the stock as Buy.