



# Koç University Top Investment Idea TAV Airports (TAVHL)

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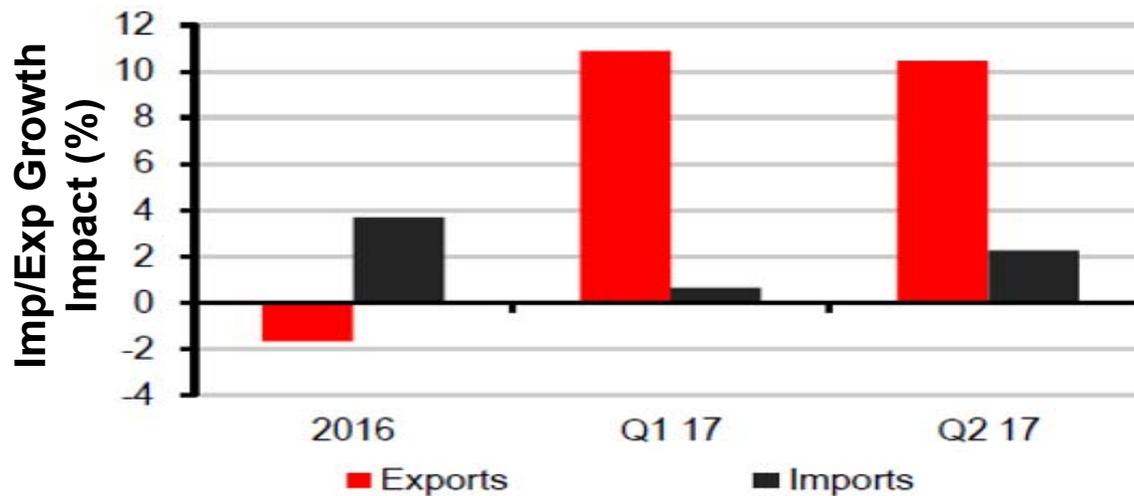
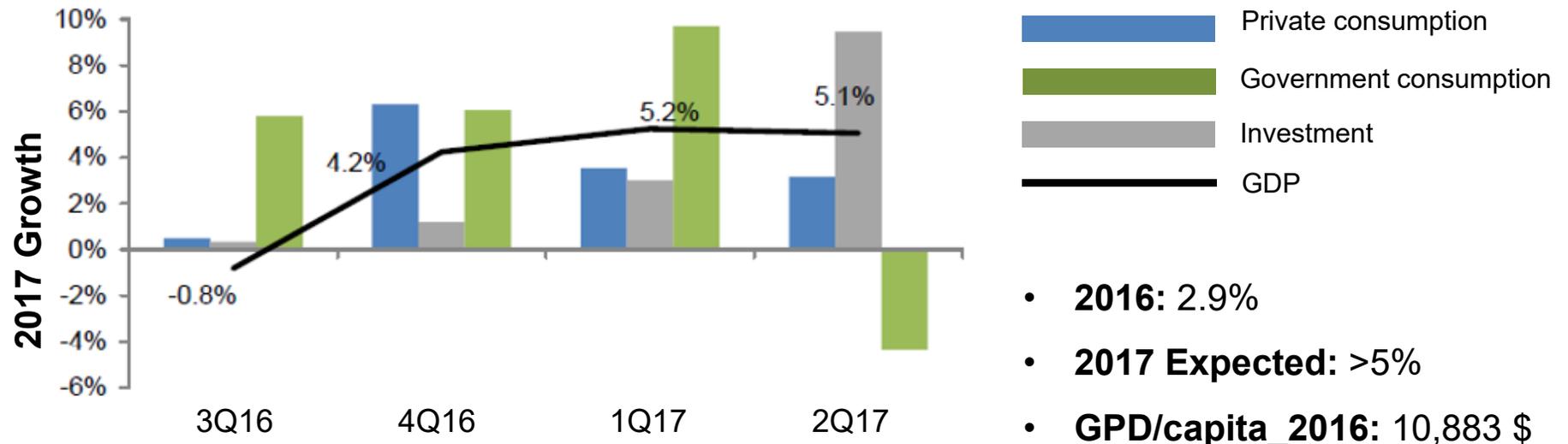
Bora ŞAHİN





# TURKEY

## Macro Outlook



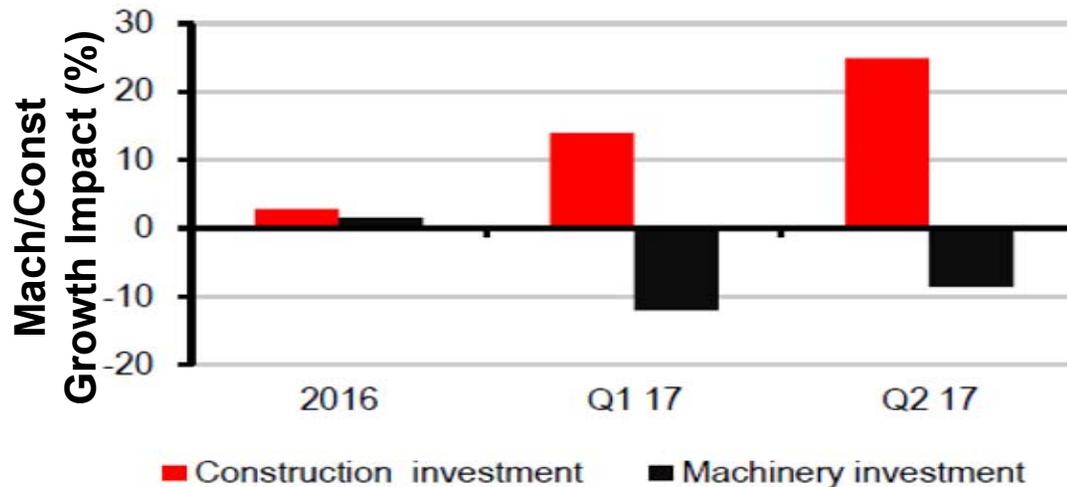
Exports volume index is raising by 10.5% (yearly), Imports volume index is raising by 2.3% therefore net foreign trade contributes 1.7 to growth.

Source: Turkstat

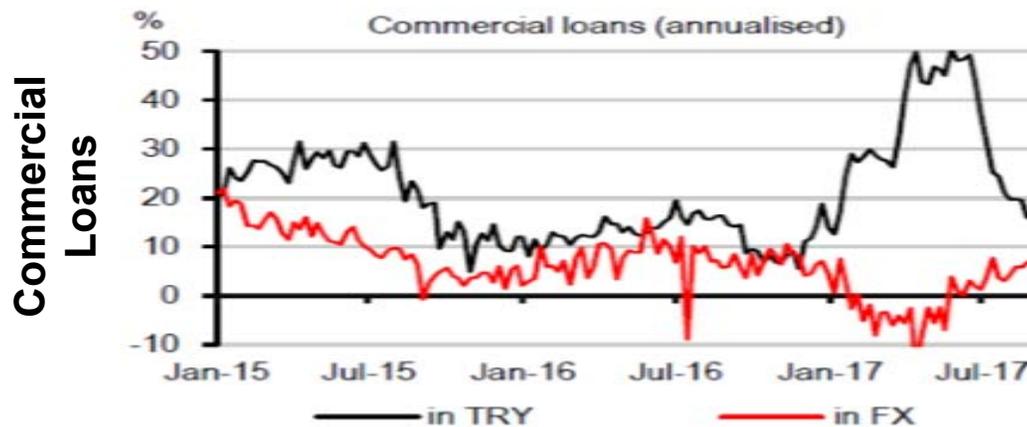


# TURKEY

## Macro Outlook



Source: Turkstat



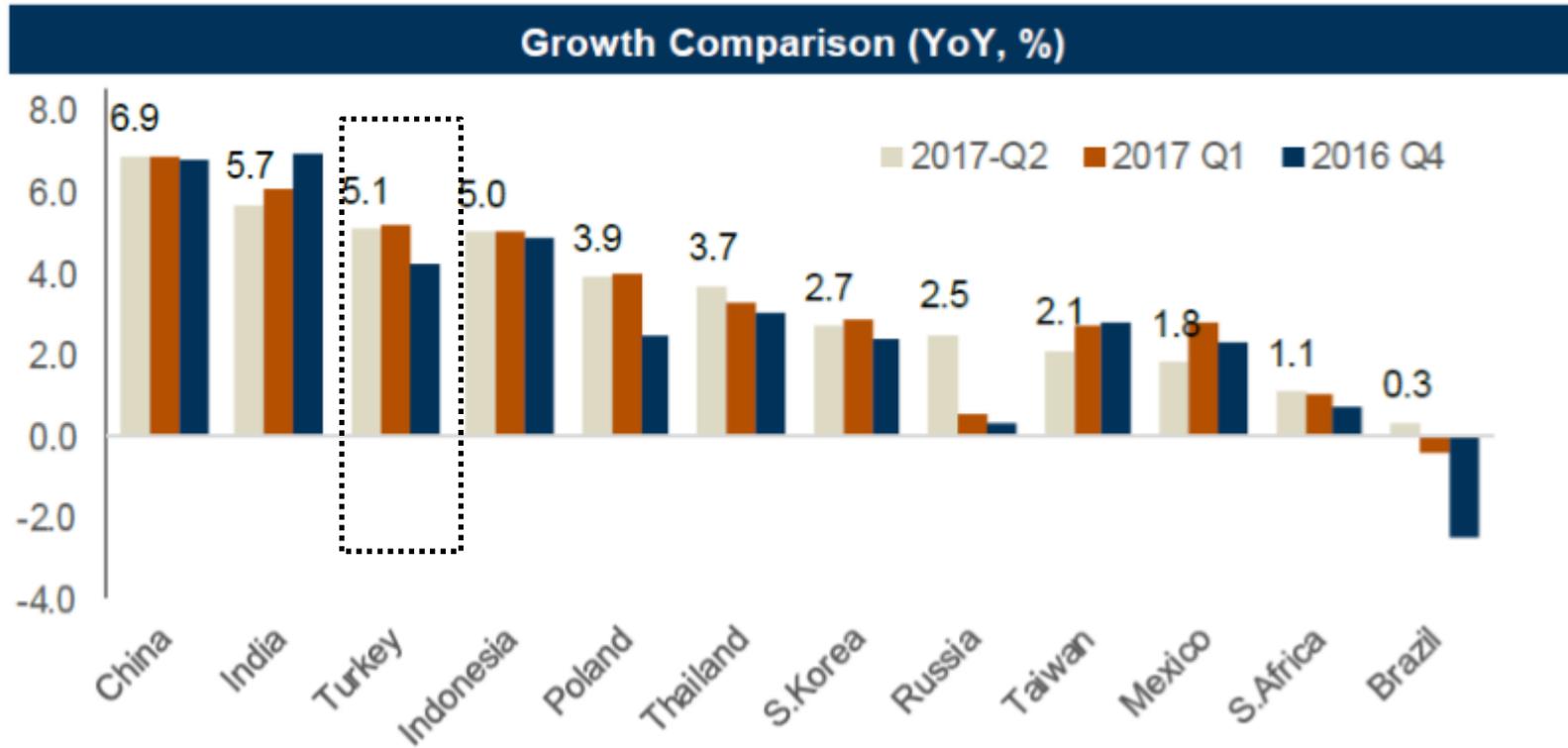
W-o-w annualised change, 13-week moving average. Adjusted for FX effects  
Source: BRSA

- 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.



# TURKEY

## Macro Outlook



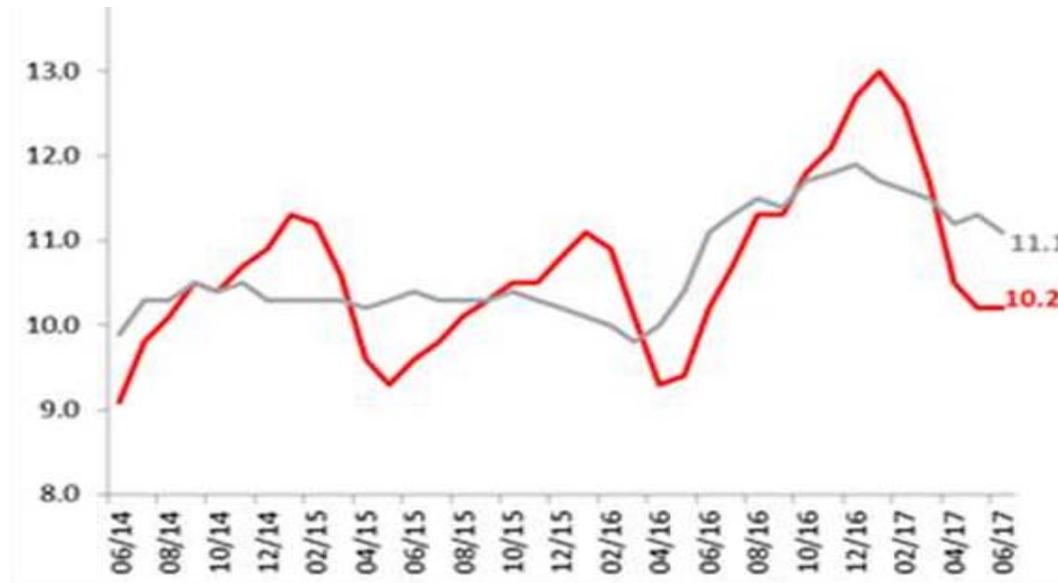
Source: Bloomberg, Turkstat



# TURKEY

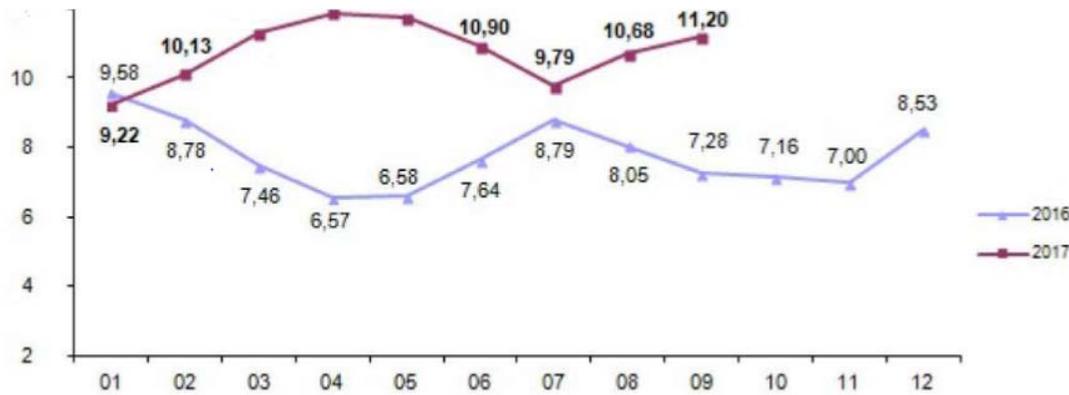
## Macro Outlook

Unemployment (%)



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

Inflation (%)



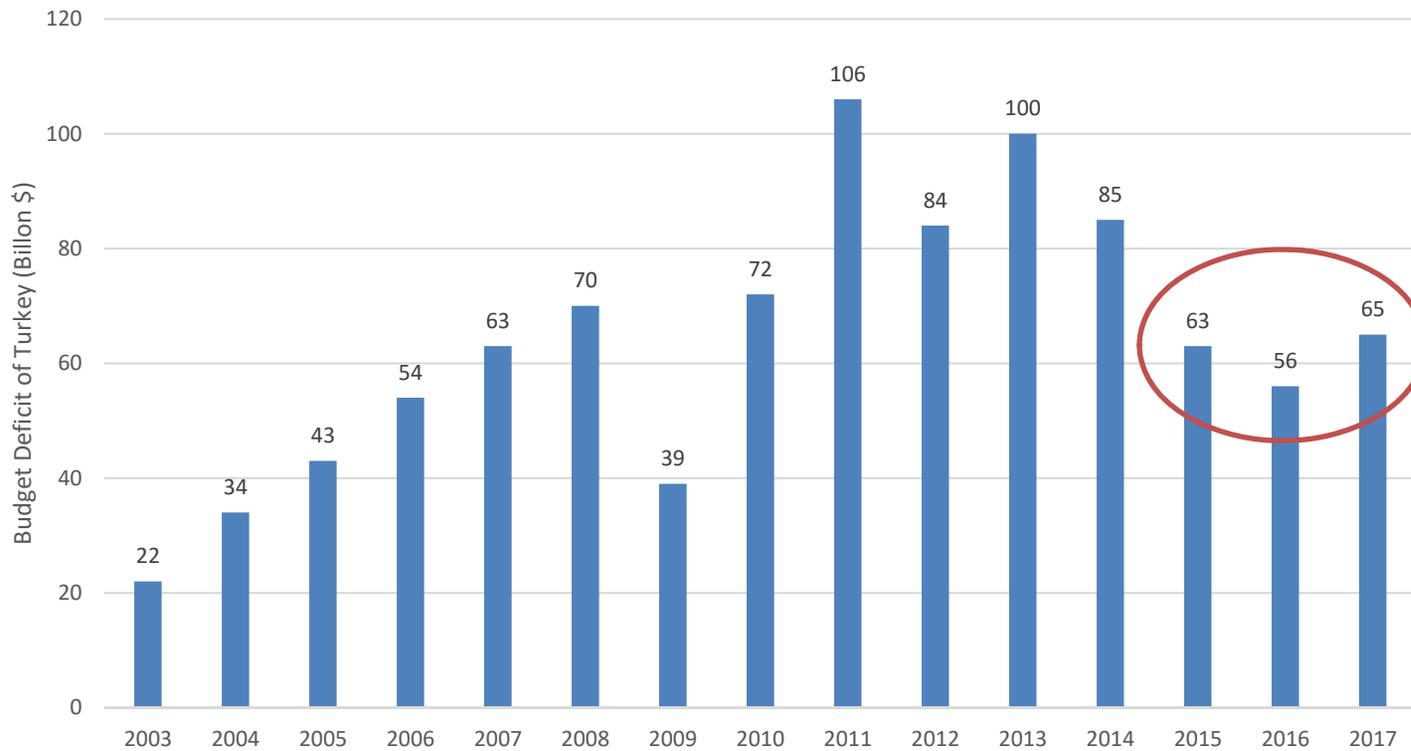
Even desinflation in global, Turkey has quite high inflation and it is going up and up.



# TURKEY

## Macro Outlook

Budget Deficit of Turkey (Billion \$)



Even low currency and low oil price, Turkey performs not good. Budget deficit is increasing day by day comparing 2016-2017.

Source: Turkstat



# TAV (TAVHL)

## Company History & Structure

**Name:** TAV Airports Conglomerate

**Established:** 1997, Istanbul

**Organization:** Airport Ground Service

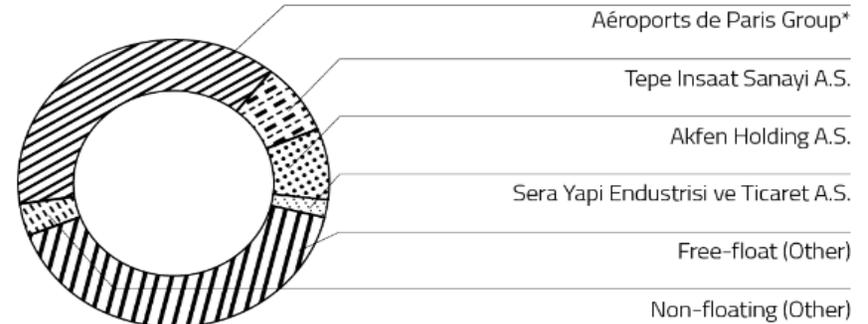
3 Continents, 7 countries, 14 airports;

Ataturk, Esenboga, A. Menderes, Gazipasa,  
Milas Bodrum, Medine (33%), Tiflis (80%),  
Batumi (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 INSAAT SANAYI A.S.

**8.1%**



AKFEN HOLDING A.S.

**8.1%**



SERA YAPI ENDUSTRISI VE TICARET A.S.

**2.0%**



FREE-FLOAT (OTHER)

**40.3%**



NON-FLOATING (OTHER)

**3.5%**



Source: <http://www.tavyatirimciiliskileri.com/en-EN/Pages/IndexPage.aspx>



# TAV (TAVHL)

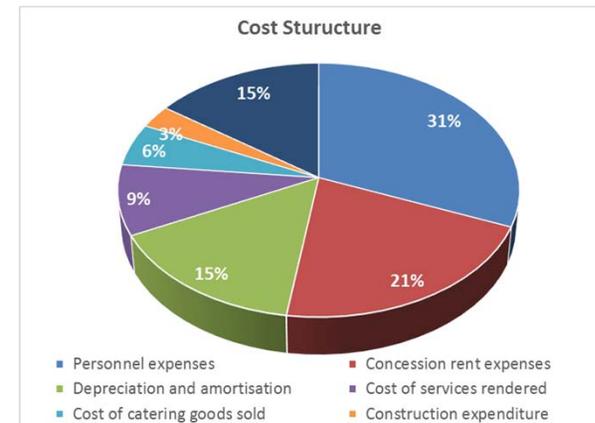
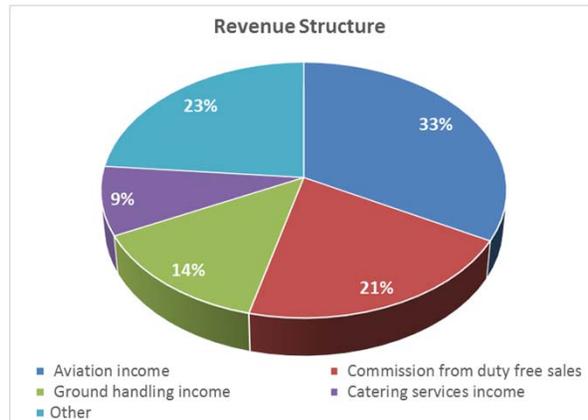
## Revenue & Cost Split

### 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

Source: <http://www.tavyatirimciiliskileri.com/en-EN/Pages/IndexPage.aspx>



# TAV (TAVHL)

## Stock Price

Tav Havalimanlari Holding A.S. (IST:TAVHL)

Add to portfolio

More results

**19.67** -0.21 (-1.06%)

Nov 10 - Close

IST data delayed by 15 mins - Disclaimer  
Currency in TRY

Range 19.52 - 20.06  
52 week 12.26 - 21.82  
Open 20.06  
Vol / Avg. 1.61M/3.20M  
Mkt cap 7.12B  
P/E 9.21

Div/yield 0.68/3.47  
EPS 2.14  
Shares 363.28M  
Beta -  
Inst. own -

G+

BIST100	108,949.35	-1.18%	
TAVHL	19.67	-1.06%	

Compare:

Add

BIST100

CLEBI

AKFEN

THYAO

KCHOL

NTHOL

YAZIC

USAS

ETILR

more »

Zoom: 1d 5d 1m 3m 6m YTD 1y 5y 10y All

Nov 09, 2012 - Nov 10, 2017

● BIST100 +52.66% ● TAVHL +114.73%



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



# 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



0 10 20 30 40 50 60 70 80 90 100

 SAHA  
Corporate Governance Rating:

**9.62**



### 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



Source: <http://www.tavyatirimciiliskileri.com/en-EN/Pages/IndexPage.aspx>



# TAV (TAVHL) Sustainability Organisation



- 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



Source: <http://gelecekicinhalimanlari.org/tr1/surdurulebilirlikorganizasyonu.html>



# TAV (TAVHL)

## Valuation

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 NAV model

EURm	TAV stake	Valuation method	EV	Net debt (combined)	Equity value	Stake Value	% NAV	EUR per share	New
<b>Airports - total</b>			<b>3,755</b>	<b>1,710</b>	<b>2,045</b>	<b>1,562</b>	<b>79%</b>	<b>4.3</b>	<b>1,562</b>
TAV Istanbul	100%	DCF	590	-32	622	622	31%	1.7	622
TAV Ankara	100%	DCF	163	48	115	115	6%	0.3	115
TAV Izmir	100%	DCF	380	198	182	182	9%	0.5	182
TAV Gazipasa	100%	DCF	68	46	22	22	1%	0.1	22
TAV Bodrum	100%	DCF	164	124	40	40	2%	0.1	40
TAV Georgia	80%	DCF	319	-17	336	269	14%	0.7	269
TAV Tunisia	67%	DCF	280	339	-59	-39	-2%	-0.1	-39
TAV Macedonia	100%	DCF	96	45	51	51	3%	0.1	51
TAV Medinah**	33%	DCF	1,415	959	456	150	8%	0.4	150
TAV Saudi new	50%	DCF	280	0	280	140	7%	0.4	140
Others	15%	BV				10	1%	0.0	10
<b>Services - total</b>			<b>491</b>	<b>62</b>	<b>429</b>	<b>278</b>	<b>14%</b>	<b>0.8</b>	<b>278</b>
ATU (Duty Free)*	50%	DCF	234	19	215	108	5%	0.3	108
BTA (F&B)	100%	DCF	47	7	40	40	2%	0.1	40
Havas	100%	DCF	123	36	87	87	4%	0.2	87
TGS**	50%	DCF	87	0	87	43	2%	0.1	43
<b>TOTAL</b>			<b>4,246</b>	<b>1,772</b>	<b>2,474</b>	<b>1,840</b>	<b>93%</b>	<b>5.1</b>	<b>1,840</b>
Net cash (holding)				141		141.0	7%	0.4	141
NAV				1,913		1,981	100%	5.5	1,981
NAV/sh (EUR)						<b>5.5</b>		<b>3.7</b>	<b>5.5</b>
NAV/sh (TRY)						24.0			24.0

### WACC Assumption

Cost of Debt (EUR)	6.4%
Net Debt (EUR m)	635
Risk Free Rate (€)	5.5%
Equity Risk Premium	5.00%
Beta	1.27
COE	11.86%
MCAP(EUR m)	1,549
WACC	9.90%

Source: <http://www.tavyatirimciiliskileri.com/en-EN/Pages/IndexPage.aspx>



# TAV (TAVHL)

## Peers Comparison

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.

### TAV valuation vs global peer averages

EURm	2017e TAV- total	2017e 1st Ataturk	% share	2017e ex Ataturk	2018e TAV- total	2018e 1st Ataturk	% share	2018e ex Ataturk	2019e TAV- total	2019e 1st Ataturk	% share	2019e ex Ataturk
Market capitalisation	1,549	622	40%	926	1,549	430	28%	1,119	1,549	230	15%	1,319
Net debt	635	-64		699	434	-122		556	320	-182		502
Subsidiary value	84	0		84	82	0		82	85	0		85
EV	2,099	558	27%	1,541	1,901	308	16%	1,593	1,783	48	3%	1,735
EBITDA	493	245	50%	247	557	270	49%	287	606	295	49%	311
EV/EBITDA - TAV	4.3	2.3		6.2	3.4	1.1		5.6	2.9	0.2		5.6
EV/EBITDA - Peer avg*				14.8				13.6				12.6
P/E	8.4	3.9		36.7	6.7	2.4		21.6	5.9	1.2		20.3
P/E - Peer avg*				21.6				22.0				20.2

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.

TARGET PRICE (TRY)

**24.00**



SHARE PRICE (TRY)

**18.87**

UPSIDE/DOWNSIDE

**+27.2%**

(as of 31 Oct 2017)

### MARKET DATA

Market cap (TRYm)	6,855	Free float	40%
Market cap (USDm)	1,804	BBG	TAVHL TI
3m ADTV (USDm)	10	RIC	TAVHL.IS

Source: <http://www.tavyatirimciiliskileri.com/en-EN/Pages/IndexPage.aspx>



# TAV (TAVHL)

## Summary & Recommendation

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- 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.