

## TAV Airports

### Bottom-line below consensus

**We reduce our recommendation to Hold, while keeping our target price unchanged at TRY22.90/shr. We believe the growth in passenger traffic will continue and appreciate the efforts to expand the portfolio, but the uncertainties regarding the future of company's biggest asset, Istanbul Ataturk and the potential new investments limit our target price.**

Tav Airports posted its 4Q17 financial results with EUR280mn revenues (flat YoY), EUR117mn EBITDA (+19% YoY), EUR151mn EBITDAR (+17% YoY) and EUR10mn net income (-44% YoY). Top-line result was slightly below the consensus conducted by the company of EUR292mn, while EBITDA margin was visibly ahead of the consensus, owing to stronger margins in major airports Istanbul Ataturk and Ankara Esenboga. However bottom-line remained both below the consensus of EUR32mn and our call of EUR34mn mainly on the back of elevated financial and translation losses, as well as relatively high tax expenses.

#### Looking into details:

- During the seasonally soft quarter of 4Q, consolidated revenues were flat YoY. Flagship asset Istanbul Ataturk Airport's revenues were up by 3.5%. Strong growth in Georgian airports continued while Ankara Esenboga and Tunisian airports posted revenue contraction. All in all airport revenues grew by 2.3% YoY during 4Q17, while service revenues shrank by 8.9% YoY.
- EBITDA increased ahead of revenues despite headwinds. Major airports of Istanbul Ataturk and Ankara Esenboga posted low double digit growth during the quarter, with expanding margins, while Georgian airports' EBITDA expanded by 22% YoY. On the other hand, EBITDAR growth remained slightly below the EBITDA growth.
- With strong cash generation, the net debt continued to contract and dropped to EUR586mn from EUR655mn a quarter ago and EUR760mn at FY17. The net debt to EBITDA of 1.1x as of FY17 (1.7x in FY16) suggests that the balance sheet is now ready for possible further acquisitions.
- The company surpassed management's somewhat conservative guidance for FY17 with the strong 4Q17 results, while their 2018 guidance is as follows: 6%-8% pax growth and 9%-11% O&D pax in Istanbul Ataturk, 10%-12% growth in total pax. 2%-4% and 5%-7% expansion in revenues and EBITDA in EUR terms, respectively. The management also foresees a double digit net income increase in EUR terms.
- The Board proposed to distribute TRY1.1186141/share cash dividend (c. 50% dividend payout in EUR terms) on March 28, 2018, which corresponds to a dividend yield of 5%.

Please note that TAV Airports is trading at high discounts of around 55% - 65% to international peers on average 2018E and 2019E EV/EBITDA and P/E multiples.

**BUY** 3% upside  
Fair Value TRY22.90

Bloomberg ticker **TAVHL TI**  
Share Price TRY22.34  
Market Cap USD2.15bn/TRY8.12bn  
Free Float 44.33%

EUR mn [4Q17]	Actual	Consensus	Deviation	Global Est
Revenues	280	291	-4%	292
EBITDA	117	106	11%	109
Margin	41.9%	36.4%	5.5 pps	37.1%
Net Income	10	32	-70%	34
Margin	3.4%	11.1%	-7.7 pps	11.8%

EUR mn	4Q17	4Q16	YoY	3Q17	QoQ
Revenues	280	282	0%	346	-19%
EBITDA	117	99	19%	193	-39%
Margin	41.9%	35.0%	6.8 pps	55.7%	-13.8 pps
Net Income	10	17	-44%	105	-91%
Margin	3.4%	6.1%	-2.7 pps	30.3%	-27 pps

Performance	1M	3M	6M	12M
Absolute	1.5	21.4	6.7	49.9
Relative	0.5	9.9	-0.4	14.7
Relative \$	1.4	26.8	-1.0	43.4

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**Exhibit 1 Publication schedule**

Date	Publication
Apr 2018	1Q18 Earnings release

Source: Public disclosure platform

**Exhibit 2 Recommendation history**

04.06.2009 (Initiation date)	Rating	Target Price	Prev. Day's close	Upside
30.10.2017	Buy	22.90	18.73	22.3%
14.06.2017	Buy	21.10	18.14	16.3%
20.02.2017	Reduce	14.75	15.11	-2.4%
28.07.2016	Hold	12.40	10.77	15.1%
03.05.2016	Hold	18.90	15.15	24.8%
30.10.2017	Buy	22.90	18.73	22.3%

Source: Global Securities

**Exhibit 3 Coverage universe recommendation overview**

	Buy	Hold	Reduce	Sell	U/R
Universe	20	19	1	1	0
Universe %	49%	46%	2%	2%	0%

Source: Global Securities



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### **12-MONTH RATING DEFINITION**

**BUY:** Buy stocks are expected to have a total return of at least 15% and are the most attractive stocks in our coverage universe on a 12-month horizon.

**HOLD:** Hold stocks are expected to deliver a positive total return of up to 15% within a 12-month period.

**REDUCE:** Reduce stocks are expected to achieve a negative total return up to -10% within a 12-month period.

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