

Adding Pegasus to our Top Picks List

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We are adding Pegasus to our Top Picks list. Pegasus continued to positively differentiate itself from global LLCs in 2023, both with its 47% jump in EBITDA and 32% expansion in capacity, compared to their levels in 2019 vs. 5% and 2% increases for its peers. In 2024, we expect the airline to maintain its healthy operational performance with a successful management strategy on 1) its choice of profitable destinations with 24 new routes since 2019, 2) sustainable growth in its ancillary revenues – comprising 30% of its revenues vs. an average of 14% for its global peers and 3) strong cost management as the lowest cost base airline in its peer universe. On our assumption of a 12% YoY rise in the ASK on the back of an expanding fleet, a 6% rise in the ex-fuel CASK with a 1% rise in the passenger yields vs. an expected rise of 1.8% for global airlines, we calculate 12% YoY EBITDA growth for 2024 in EUR terms. Following its 1Q24 financials release, the stock underperformed the BIST-100 Index by 4.4% yesterday although the figures were broadly in line with our expectations that 1Q figures are not indicative for its full year operational performance amid the weak seasonality of the quarter. The stock trades at 5.6x P/E and 6.2x EV/EBITDA, implying an average of 39% discount to its global peers and 21% discount to its historical average. Considering nearing high season and on-going healthy passenger traffic, we add the stock to our “Top Picks” List.

TOP PICKS LIST	Rating	12m TP	Upside Potential	Inclusion date	Since inclusion	Relative Perf. (XU100)					
						1W	2W	1M	3M	6M	YTD
PGSUS	Outperform	1,310.00	32%	10.05.2024	0.0%	-4.9%	-2.8%	7.3%	8.7%	2.2%	10.9%
CIMSA	Outperform	43.50	32%	11.12.2023	-17.2%	1.2%	0.4%	-0.8%	-19.6%	-22.1%	-15.6%
BOBET	Outperform	57.41	53%	24.10.2023	-28.0%	-2.5%	-1.6%	-1.1%	-14.7%	-20.4%	-11.5%
MGROS	Outperform	464.00	-2%	02.10.2023	5.0%	5.3%	1.3%	0.3%	-6.0%	-1.9%	2.6%
KRDMD	Outperform	32.60	19%	08.05.2023	-11.4%	-0.4%	3.9%	7.1%	-15.9%	-16.6%	-15.9%
SUNTK	Outperform	24.57	52%	06.10.2022	-38.5%	-10.9%	-14.0%	-10.0%	-25.1%	-33.3%	-40.0%
THYAO	Outperform	U/R	U/R	02.06.2021	236.2%	-0.6%	-1.7%	0.5%	-2.8%	7.9%	3.5%
QNB Finansinvest Top picks Portfolio					359.1%	-2.0%	-2.6%	-1.5%	-13.9%	-10.3%	-11.8%

QNB Finansinvest Rating System

We employ a relative scale in our rating system (i.e. Market **Outperform**, **Neutral**, **Underperform**) in order to better present relative value propositions and more actively pursue long vs. short ideas at the BIST. The relevant benchmark is the broader Turkish stock market, using the BIST-100 index as a basis. The ratings also incorporate a certain degree of relativity within the analyst's own stock coverage universe due to asymmetric return expectations among the industries under our BIST coverage. The rating system combines analysts' views on a stock relative to the sectors under coverage, and the sector call relative to the market, together providing a view on the stock relative to the market.

Individual ratings reflect the expected performance of the stock relative to the broader market over the next 6 to 12 months. The assessment of expected performance includes a function of near-term company fundamentals, industry outlook, confidence in earnings estimates and valuation, and other factors.

An essential element of our rating methodology involves benchmarking a 12-month expected return against the cost of equity. We set a required rate of return for each stock, calculated from our risk-free rate and equity risk premium assumptions. The price target for a stock represents the value that the stock is expected to reach or sustain over the performance horizon of 12 months, according to the view of the analyst.

We have separated the stocks under our coverage into two groups, mainly with respect to their liquidity (market cap, free float market cap and historical average daily trading volume) as small-cap stocks exhibit different risk/return characteristics to more-liquid large-caps. For the purposes of the relative stock rating, however, stocks within each group will be considered on an unweighted basis with regard to their market capitalization.

For a stock to be assigned an **Outperform** rating, the implied return *must* exceed the required rate of return by at least 5 percentage points over the next 12 months for our larger-cap stock coverage, or by 10 percentage points for the small-cap group. For a stock to be assigned an **Underperform** rating, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months. Stocks between these bands will be classified as **Neutral**.

When the potential upside of an *average* stock in our coverage exceeds its required rate of return (i.e. the market upside exceeding the implied average cost of capital), a greater number of stocks would fall into the aforementioned Outperform (Buy) category, illustrating the significance of the "relative return" concept (*vis-à-vis* absolute return) in picking better investment ideas with a positive alpha. The same holds true when the potential upside of an *average* stock in our coverage falls short of its required rate of return.

In this regard, as a supplemental methodology, we rank the stocks in our coverage according to their notional target price with respect to their current market price, and then categorize the top group (approximately 40-50% of the companies under coverage) as Outperform, the next 40-50% as Neutral and the lowest 10-20% (and no less than 10%) as Underperform.

It should be noted that the expected returns on some stocks may at times fall outside the relevant ranges of the applicable respective rating category because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges are permitted but becomes subject to review.

Also note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

Outperform. We expect the stock to outperform the BIST-100 over the next 6 to 12 months.

Neutral (Market Perform). We expect the stock to broadly perform in line with the BIST-100 index over the next 6 to 12 months. (Although we would normally have a neutral assessment of stocks in this category, if a stock has gone through a period of market underperformance, it would be an indication that the stock may be expected to improve its performance relative to market averages in the coming period, and vice versa).

Underperform. We expect the stock to underperform the BIST-100 over the next 6 to 12 months.

N/R. Not Rated.

U/R. Under Review.

Analyst Certification

The following analysts hereby certify that the views expressed in this research report accurately reflect their own personal views regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report: **Can Alagöz, Emine Yağmur Avcı and Tolga Han.**

Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

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