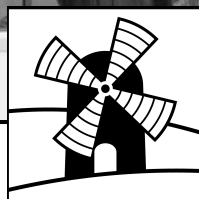


TAV Havalimanlari Holding AS
ISE:TAV
Istanbul, Turkey
Public Equity
TRY



East Mill
Capital

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This document does not constitute investment advice. Conduct your own due diligence.

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Executive Summary

TAV Havalimanlari Holding AS (*hereinafter referred to as; "TAV", "TAV Airport Holdings", "the Company"*) is a Turkey-based company engaged in the development, construction and management of airports, aircraft hangars, duty free shops, hotels, cafes and restaurants as well as passenger lounges.

It operates in five main segments: Terminal Operations, Catering Operations, Duty-free Shop Operations, Ground Handling and Bus Services Operations and Other Non-Aviation Administrative Services.

TAV Airport Holdings renders its services at Istanbul Ataturk Airport's international and domestic terminal buildings, car parks and general aviation terminal, as well as other airports, including Ankara Esenboga Airport , Izmir Adnan Menderes Airport and Antalya Gazipasa Airport in Turkey, as well as international airports in Georgia, Tunisia, Macedonia Latvia and Saudi Arabia. TAV owns Havas Co, a ground handling services company; ATU, a duty-free operator and BTA, a food and beverage company – a portfolio of non-aviation services crucial to sustaining airline and airport profitability.

TAV was established as a joint venture between Tepe and Akfen groups and Airport Consulting Vienna in 1997. TAV Airports is the leading airport operator in Turkey as per the DHMI 2010 passenger statistics including transfer passengers.

Consensus:

TAV Havalimanlari Holding AS is a well-structured company with a comprehensive service offering portfolio that has been hindered by political risk that attributed to a decrease in investor positive sentiment for securities within the region. The analysis shows that the Company is committed to effectively managing their risks, and are committed to exploring innovative means in increasing profitability. High expectations for increases in passenger traffic within the Company's operating regions support the conclusion that the company is on track to sustain and grow its profitability.

At this time East Mill Capital Research Group supports investments in this company and is committing to a position within the research fund.

Market Capitalization

TAV Havalimanlari Holding AS's share price currently stands at 24.52 TRY (3.96 EUR). TAV Havalimanlari Holding AS's Shares Outstanding (EOP) for the quarter that ended in Sep. 2018 were 363,281,250, contributing to market capitalization of 1.43 Bn EUR.

TAV Airport Holdings operates primarily in the airport ground-handling and concessions sector across 40 different airports across 19 countries, including; Turkey, Georgia, Latvia, Saudi Arabia, Macedonia, and Croatia. While traditionally airports employ their own inhouse staff for ground-handling services, the Company is well known and considered a large player within the relatively small sector, as one of the few companies that operates internationally.

Other subsidiaries of TAV Airport Holdings also provide airport security services, IT consulting, and non-aviation revenue generation and management consulting. Overall, TAV Airport Holdings serves as a one-stop-shop for all airport supporting services. ¹

¹ <http://www.tavhavalimanlari.com.tr/en-EN/Pages/ServiceCompanies.aspx>

Expectations

Political risk and sanctions imposed on Iran, Turkey's neighbour are important to consider determining the company's future. The latest dispute between the Turkish government and Russia caused a major downturn in summer tourism coming from Russia, which ultimately affected the aviation sector. Taking into account both tensions with Russia and European Union visa exemption disputes, aviation in Turkey has undergone a short-term decrease.²

Despite frequent international tensions Turkey has risen to a significant position in the international arena in civil aviation with the records broken in air traffic and the number of passengers, airport investments in the world, developments in the domestic and international flight networks and the regulations made on flight safety and aviation security. Turkey, which has bilateral aviation agreements with 168 countries, is one of the countries with the highest number of flight networks in the world.³

Excluding Turkey, the Company is present in 19 countries and 40 airports. 2018 was a record year for most of the airports where international passengers set record results. Tunisia grew 50%, Georgia 21% and Macedonia grew 18% in total passenger numbers. While our ex-Antalya Turkish portfolio passenger traffic grew at 10%, the international airports grew at 15%.⁴

In the first nine months of 2018 TAV experienced a 36% surge in passenger numbers, excluding the inorganic contribution from Antalya Airport, an 11% passenger growth was achieved. In 2018 May, a fifteenth airport was added to the portfolio by purchasing a 50% stake in the company operating Antalya Airport for EUR360 million. Antalya Airport is Turkey's second largest airport in terms of international passengers that served 26 million passengers in 2017. In the first nine months of 2018, international passengers served in Antalya airport registered a 27% year on year growth. Given that it is Turkey's top holiday destination, Antalya offers an excellent growth potential for TAV Airports.

Considering all the factors listed, strength of the company, country's position as a major international flights hub and recent cooperation with Antalya Airport, the Company stands to continue supporting tourist passenger inflow, and remain profitable and growing as the demand for facilitating increased passenger traffic grows.

2

<http://www.strategicview.co.uk/strategic-view/aviation-law/the-strategic-view-aviation-2017/turkey>

³ <http://dergipark.gov.tr/download/article-file/510729>

⁴ <http://www.tavhavalimanlari.com.tr/en-EN/Pages/Announcements.aspx?aID=334>

Competitors

Companies operating within the ground-handling, concessions, and non-aviation airport supportive services sector are generally smaller private companies, with few companies covering an international scope and operating in multiple airports. TAV's main competition comes from the few companies that have similar service offering portfolios.^{5 6}

Generally, the airport logistics industry is not very competitive. Airport companies incur incredibly high switching costs in the event of switching between ground-handlers and concession operatives. Therefore, once a contract is entered it is generally indefinitely enforced. However, competition arises whenever the construction of a new international airport is announced and tender offers for administrative and supportive services are issued. It comes down to the service solutions and prices offered by TAV Airport Holdings and its competitors. The Company lost the tender for logistic services for the [new] Istanbul Airport in 2013.

Swissport International LTD

With more than 223 stations worldwide, serving more than 265 million passengers, and hauling 4.7 million tonnes of air cargo across 133 warehouses world-wide yearly, Swissport Ground Handling could impose a threat to TAV holdings. The company is active in 315 airports in 50 countries across all five continents.⁷ Today, Swissport is recognised as the biggest independent global ground services provider with the largest number of hub and LCC base operations globally.⁸

Today, Swissport is recognised as the biggest independent global ground services provider with the largest number of hubs globally. Despite its size the company poses little immediate threat to TAV Airport Holdings. Swissport operates within western markets, handling mostly transatlantic flights in developed regions in Western Europe, and the Americas.

Çelebi Ground Handling LTD

Standing as one of the five world's best ground handling companies, Çelebi Ground Handling boasts one of the most successful examples of an integrated services portfolio in the Turkish civil aviation industry; offering the full range of services within the scope of ground handling at world-class quality Çelebi Holding. It represents a threat to TAV operations as their main competitor. Çelebi offers a full range of ground handling services and operates as Zeus Aviation Services Investments B.V. subsidiary.⁹

⁵<https://www.businesswire.com/news/home/20181009005625/en/Global-Airport-Handling-Services-Market-2018-2022->

⁶<http://www.atomaviation.com/top-5-ground-handling-companies/>

⁷<http://www.swissport.com/corporate/corporate-profile/>

⁸<http://www.swissport.com/products-services/products-services/ground-handling/>

⁹<https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=27012547>

DNATA LTD

Being the fifth best ground handling service provider in the world and operating in more than 70 airports, [Dubai National Air Transport Association](#) is recognized as one of the main tender competitors to TAV. DNATA is present on five continents and employs over 6500 people who handle passenger, cargo, ramp and technical services for airlines at Dubai International Airport¹⁰.

BBA Aviation PLC

Out of the four TAV's main competitors, BBA Aviation PLC is the only company which is publicly listed. BBA Aviation is a British multinational aviation services company headquartered in London, United Kingdom, listed on the London Stock Exchange and is a constituent of the FTSE 250 Index. In 2000, company has sold its Mintex brake-pad division for £389m and spread its operations to flight training by acquiring Oxford aviation in the same year. In 2001 they doubled their market presence in ground handling services by acquiring Service International Group ('ASIG') of the US. BBA Aviation's main focus is in the Americas, where TAV is not conducting its business. As for Europe, BBA focuses exclusively on countries in the EU, while their Middle-Eastern presence is limited to the UAE, and in sub-Saharan Africa to South Africa . BBA aviation does not pose an immediate threat and does not overlap with TAV's geographical presence.

¹⁰<https://www.technavio.com/report/global-aircraft-ground-handling-system-market-analysis-share-2018>

Management

TAV Airport Holdings is led by a number of highly qualified individuals who make up a very diverse board of directors. Most members of the board are relatively new to the company, attributing to the company's practice of aiming to employ only the most qualified and knowledgeable executives.

Name	Since	Current Position
Edward Arkwright	2017	Chairman of the Board
Mustafa Sener	1997	President, Chief Executive Officer, Director
Franck Mereyde	2017	Deputy Chief Executive Officer, Director
Serkan Kaptan	-	Deputy Chief Executive Officer
Fernando Echegaray del Pozo	2017	Vice Chairman of the Board
Ali Kurtdarcan	2017	Vice Chairman of the Board, Representative of Tepe Insaat Sanayi A.S.
Burcu Geris	2014	Chief Financial Officer, Vice President
Murat Ornekol	2014	Chief Operating Officer, Vice President
Hakan Oker	2016	Vice President Human Resources
Kemal Unlu	-	Vice President TAV Istanbul
Philippe Pascal	2017	Director
Jerome Calvet	2018	Non-Executive Director
Ebru Capa	2018	Independent Director
Filiz Demiroz	2018	Independent Director
Aylin Selen	2018	Independent Director
Nursel Ilgen	-	Head of Investor Relations

Mr. Mustafa Sener has been with the company for the longest time and is credited for the vision and growth of the company in the last 20 years. It is reassuring that despite a high executive turnover the company is still guided by a professional with tenure.

Extended biographies are available in the Appendix section.

Risks

The risks faced by TAV Airport Holdings and their shareholders are outlined throughout this section. While TAV engages in operates pertaining to supportive services of general and commercial aviation it is important to examine multiple factors that are attributed to the company's profitability. Often these are the same factors that contribute to airline profitability. Passenger numbers, especially, are a fundamental variable in assessing the future performance of the company, this guidance takes those factors into account.

Financial Risk

Overall, there is no immediate concern of financial risk for TAV Holdings. However it is important to outline that TAV has a leveraged balance sheet consistent with the capital intensity of the sector, but in a region that has been subject to debt issues. Additionally, TAV's liquidity profile leaves investors uncertain of the company's ability to meet short term obligations in the event of institutional lender insolvency, or unexpected short-term payables.

Interest rate changes on loans also present a minimal risk. Changes in the fair value of the derivative hedging instruments designated as a cash flow hedge are recognized directly in equity to the extent that the hedge is highly effective. To the extent that the hedge is ineffective, changes in fair value of the ineffective are recognized in profit or loss.

Idiosyncratic Risk

The Company is finally experiencing a growing number of passenger traffic, which previously declined after terrorist attacks in 2016. The Company has increased passenger controls in its security subsidiary, although eliminating total security risk remains impossible without forfeiting passenger liberties and satisfaction.¹¹ Furthermore, the entire industry's problems were exacerbated by the wave of international terrorist threats in 2016, including assaults on German tourists in Istanbul and the city's Ataturk international airport.¹² In the first nine months of 2018, they achieved 36% surge in passenger numbers. TAV has shown ability to perform quality crisis management and to withstand it's position during troubling periods.¹³ This period demonstrated how contingent profitability is on passengers' safety sentiment.

Competitive Risk

The [new] Istanbul Airport , opened on 29-Oct-2018, is geared towards alleviating passenger traffic from the neighbouring Atatürk Airport which currently shares international traffic with Sabiha Gökçen Airport in the eastern part of the city.¹⁴ In 2013 a tender for ground handling and concession services was petitioned, with TAV losing the tender to smaller companies that offered competitive pricing. TAV Investor Relations has commented on the loss of domestic market share, citing that they are not concerned by the neighbouring airport affecting future cashflows. It is

¹¹ <https://centreforaviation.com/analysis/video/tav-group-ceo-update-404>

¹² <https://www.ft.com/content/340b5762-5c0d-11e7-9bc8-8055f264aa8b>

¹³ <http://www.tavhavalimanlari.com.tr/en-EN/Pages/Announcements.aspx?aID=334>

¹⁴ <https://centreforaviation.com/analysis/reports/istanbul-new-airport-impact-on-other-airports-in-istanbul-and-beyond-440970>

believed that neighbouring ground handling services should not affect company profitability as the Istanbul Airport is not expected to be operating at full capacity until the end of 2019. Furthermore, the new airport is built to accommodate the increased levels of passenger traffic internationally, thus sustaining TAVs international operations. Competitors listed previously do not represent much short-term risk to the company, only as an expansionary threat. Airports cannot operate without ground handling services, and switching costs are generally too high for airports to switch between ground handling service companies. Therefore, TAV's competitor risk only gains relevance in the face of tender competition.

Supply-Side Risk

Turkey is highly dependent on foreign energy with 42 million tonnes of petroleum products imported in 2017 (Petroleum Sector Report). Turkey mostly imports petroleum products from Iran (16.94%), the Russian Federation (18.87%), Iraq (16.55%), and India (8.23%). Crude oil and diesel oil form more than 90% of Turkey's petroleum product imports.¹⁵

That places the country among Iran's top importers of oil. In 2012, when the United States imposed sanctions on Tehran, Ankara reduced its oil imports to around 120,000 barrels per day to qualify for similar waivers from the U.S. State Department. This time around, Turkey likewise cut its imports to 129,000 barrels per day—and succeeded in earning one of Washington's eight exemptions.¹⁶ With an option to increase import of oil from other countries and adhering to rather loose adherence to US sanctions towards Iran, risk on the side of supply of oil should not be of too high impact on company's future performance.

Currency Risk

TAV Airport Holdings conducts their business in 7 different countries and employs select methods for managing foreign exchange risk.

TAV subsidiaries; TAV Esenboga, TAV Milas Bodrum and TAV Ege enter swap transactions so they could decrease their exposure interest rate risk so they could adjust to the floating interest rates relating to their loans.¹⁷

TAV's primary currency rate risk relates to the relative volatility of the Turkish Lira (TRY) against the US Dollar and Euro. TAV manages its exposure to foreign currency risk where possible by sustaining their expenses with respect to each contract in its base currency and attempts to perpetuate its cash and cash equivalents in currencies consistent with its liabilities.

¹⁵

[https://content.next.westlaw.com/Document/Id4af1a851cb511e38578f7ccc38dcbee/View/FullText.html?contextData=\(sc.Default\)&transitionType=Default&firstPage=true&bhcp=1](https://content.next.westlaw.com/Document/Id4af1a851cb511e38578f7ccc38dcbee/View/FullText.html?contextData=(sc.Default)&transitionType=Default&firstPage=true&bhcp=1)

¹⁶ <https://foreignpolicy.com/2018/11/12/trump-waives-iran-sanctions-for-turkey/>

¹⁷ http://www.tavyatirimciiliskileri.com/en-EN/Pages/Investor_Kit.aspx

TAV Airport Holdings Operating Currency Exchange Lists

FX Rates	31 December 2016	31 December 2017	Present
EUR/TRY	3.71	4.52	6.10
USD/TRY	3.52	3.77	5.38
EUR/USD	1.05	1.20	1.13
EUR/GEL	2.79	3.10	3.04
EUR/MKD	61.48	61.49	61.66
EUR/TND	2.49	2.95	3.30
EUR/SAR	3.95	4.49	4.25

The oscillations in value of the derivative hedging instrument, classified as a cash flow hedge, are recognized in equity to the extent that the hedge is very effective. In the cases that the hedge is ineffective, changes in fair value of the ineffective are recognized in profit or loss.

Despite current volatility of Turkish Lira in the third quarter, the net profit of EUR 206 million with a 25% growth is satisfactory considering the mentioned circumstances.

Aggregate Market Risk

Airport traffic and congestion are one of the main reasons behind Turkey's expansionary aviation policies, and the construction of the Istanbul Airport. According to Technavio's aircraft ground-handling system market report, the modernization and expansion of airport terminals will be one of the primary factors fuelling the growth of the market during the next few years. Airports are undergoing modernization and expansion activities due to the increasing cargo transport demand and the number of passengers. In order to ease the accommodation of the increasing volume of passengers, TAV will need to upgrade its current terminals with advanced technologies. According to Technavio, such factors are leading towards a rise in the aircraft ground-handling system market value during the forecast period.¹⁸

Increasing infrastructure developments is one of the only ways to combat congestion in the airports caused by the constant increase of passenger traffic. In order to handle the growing number of passengers certain countries are increasing the limits of passengers and cargo. Taken into the consideration, this will create an increased demand for airport handling services, thereby boosting market growth. ¹⁹ According to TAV's strategy report, TAV adopts a unique business model whereby its subsidiaries offer a full range of integrated auxiliary aviation and commercial services at its airports; including ground handling, duty free, food and beverage, aviation security, etc. TAV recently intensified its focus on further integrating existing businesses as well as extracting additional value by further streamlining and rationalizing interactions among its subsidiaries. To realize the full benefits of this integrated model. TAV adheres to improvement of its internal business and operational processes, with the objective of increasing overall efficiency and productivity as well as to improve overall passenger service levels and commercial yields. ²⁰

¹⁸ <https://www.technavio.com/>

¹⁹

<https://www.businesswire.com/news/home/20181009005625/en/Global-Airport-Handling-Services-Market-2018-2022-->

²⁰ <http://www.tavyatirimciiliskileri.com/docs/pdf/strategy.pdf>

Political Risk

Turkish politics – and its unstable reception has been the cause of serious investor sentiment decrease, and has brought increased volatility of foreign exchange, equity, and debt markets. On July 15 2016, the Turkish military launched coordinated operations in major cities in Turkey in attempts to overthrow president Erdogan. This coup attempt was believed to be provoked by a Turkish businessman known as Fethullah Gulen. Gulen then fled to the United States where he is currently seeking refuge. Tensions could rise high between the two states due to the fact that Turkey is requesting America to send the businessman back to Turkish soil.

This could possibly bring a strain within the relationship and might cause Turkey to suffer sanctions in the long run because Turkey is sanction prone state.

The Turkish trade minister is involved in many trade conferences in the coming weeks, in an attempt to stimulate investment inflow. Turkey is working on a bilateral agreement with Bulgaria on agreements pertaining to investment opportunities, construction services , as well as customs policies. Furthermore Turkey is attempting to boost trade with several other countries such as Belarus, and raising its trade income to \$1Bn with Cambodia. Lastly, introduced at the end of November 2018, Turkey is hosting the Confederation of Asia-Pacific Chambers of Commerce and Industry (CACCI). The CACCI is focusing on creating sustainable investment opportunities within the state.

Tourism in Turkey has been significantly increasing in recent years. In 2018 Turkey will reach 40 million foreign visitors; rising by almost a fourth (32.41 million in 2017). Furthermore, reservations for the 2019 year look promising, with estimates pointing to 50 million visitors. Tourism Minister, Mehmet Nuri Ersoy, stated the countries tourism budget is set to increase in hopes of attracting tourists from the UK and Germany.

Should Turkey's international diplomacy policies align with international investors, Turkey would experience a strong investor inflow and greatly benefit TAV Airport Holdings through increased passenger traffic backed by tourism, and a strengthening foreign exchange rate.

Valuation Multiples

It is our belief that the company has been significantly mispriced by the market due to worsened investor sentiment as a result of political uncertainty and currency fluctuations.

Based on the trailing six months of the interim financial reports, we have determined that the company is relatively undervalued by 30% +/- 5%, and are expectant of the price action to reflect our consensus by 2019Q1. The current share price stands at 23 TRY, with our expectation for the price to move within the range 29.5 – 32.0 TRY.

The enterprise value of the Company has been determined amounting to 3.512 Bn EUR, with a high discrepancy from the market capitalization of 1.348 Bn EUR due to the company's substantial debt.²¹

EBIT (EUR)	271,032,000
EBITDA (EUR)	325,515,000
Enterprise Value (EUR)	3,512,656,800
Market Capitalization (EUR)	1,348,606,800
Market Capitalization (TRY)	8,355,468,750
EV / EBIT	12.96
EV / EBITDA	10.79

It is partly due to this leveraged valuation that the company financials have dissuaded investors in the past, however the company continues to post significant profitability. It is very important to note that the companies market cap has shifted erratically due to currency fluctuations, but offers an opportunity for outsized returns by using foreign currency buying power.

The table presented on the following page shows several comparative metrics between the Company and other international airport holding companies worldwide. We examined these companies not due to comparative market capitalizations, but rather sector-wide similarity in capital expenditure. The marginal income of these companies remains very similar, while the T6M P/E ratio of TAV Airports Holding is significantly less than the companies examined.

²¹ Tav Airport Holding consolidated financial statements are available on public domain through the company website and are well updated and reliable:
<http://www.tavhavalimanlari.com.tr/en-EN/Pages/Main.aspx>

Balance Sheet

Reviewing the consolidated balance sheet of the company and its subsidiaries lends investors insight into position of the company in the midst of a highly levered lending environment. It is important to identify any issues of debt that may factor into future performance.

Presented on the following page is the consolidated balance sheet for Tav Airport Holdings with relevant periods notes. Relevant ratios are examined below.

Working Capital Ratio:	0.91
Total Debt to Equity Ratio:	2.66
Total Liabilities to Total Assets:	0.73

Upon examination of the balance sheet several issues regarding the financial health of this company became apparent. The Company has undertaken a lot of debt in the last couple of years, attributable to facilitating company growth. The Company's working capital ratio suggests potential liquidity risk, should the company need to cover short-term obligations quickly. A closer sector level analysis reveals low liquidity ratios across most ground handling and airport companies. The Company operates in a sector that requires significant capital contribution to facilitate the growth necessary to remain profitable and competitive.

TAV Havalimanlari Holdings and its Subsidiaries Statement of Financial Position is presented on the following page.

TAV HAVALIMANLARI HOLDING A.Ş. AND ITS
SUBSIDIARIES

Balance Sheet 30.06.18 31.12.17 Relative Change.
All values EURO T unless otherwise stated.

ASSETS

Property and equipment	216,008	192,364	12%
Intangible assets	11,360	11,803	-4%
Airport operation right	1,597,366	1,617,634	-1%
Equity-accounted investees	441,187	88,232	400%
Goodwill	135,980	136,050	0%
Prepaid concession and rent expenses	4,664	6,191	-25%
Derivative financial instruments	108	26	315%
Trade receivables	72,660	78,963	-8%
Non-current due from related parties	1,840	1,779	3%
Other non-current assets	3,962	7,846	-50%
Deferred tax assets	29,540	34,561	-15%
Total Non-Current Assets	2,514,675	2,175,449	16%
Inventories	9,803	9,895	-1%
Prepaid concession and rent expenses	110,909	71,654	55%
Trade receivables	142,982	129,562	10%
Due from related parties	28,920	22,338	29%
Other receivables and current assets	57,925	60,813	-5%
Cash and cash equivalents	248,122	344,214	-28%
Restricted bank balances	204,695	188,344	9%
Total Current Assets	803,356	826,820	-3%
<u>Total Assets</u>	<u>3,318,031</u>	<u>3,002,269</u>	11%

LIABILITIES

Loans and borrowings	605,889	551,068	10%
Reserve for employee severance	18,097	23,240	-22%
Due to related parties	301,356	0	
Derivative financial instruments	28,682	36,192	-21%
Deferred income	17,973	20,968	-14%
Other payables	541,079	553,602	-2%
Deferred tax liabilities	15,247	15,491	-2%
Total non-current liabilities	1,528,323	1,200,561	27%
Loans and borrowings	572,285	567,649	1%
Trade payables	46,723	46,332	1%
Due to related parties	992	691	44%
Derivative financial instruments	0	2,303	-100%
Current tax liabilities	24,300	19,767	23%
Other payables	221,278	251,843	-12%

Provisions	6,392	6,102	5%
Deferred income	11,879	17,735	-33%
Total current liabilities	883,849	912,422	-3%
Total Liabilities	2,412,172	2,112,983	14%
EQUITY			
Share capital	162,384	162,384	0%
Share premium	220,286	220,286	0%
Legal reserves	118,854	109,935	8%
Other reserves	(81,295)	(79,298)	3%
Purchase of shares of entities under common control	40,064	40,064	0%
Cash flow hedge reserve	(47,117)	(52,637)	-10%
Translation reserves	(45,202)	(48,488)	-7%
Retained earnings	540,829	541,233	0%
Total equity attributable to equity holders of the Company	908,803	893,479	2%
Non-controlling interests	(2,944)	(4,193)	-30%
Total Equity	905,859	889,286	2%
<u>Total Liabilities + Equity</u>	<u>3,318,031</u>	<u>3,002,269</u>	11%

Profitability

In an increasingly competitive emerging market hindered by external debt and currency pressures it becomes crucial to establish whether the company is able to sustain its income. Despite having discovered imperfections in the company's leveraged balance sheet, the company has had a very profitable first-half of 2018, relative to its past performance.

The net comprehensible income for the period (1.1.2018 – 30.6.2018) was reported 108,632,000 EUR – a 63% change in performance relative to 1H2017.

The company also posted a 36% gross margin in 1H2018, and an overall profit margin 19.9% - a 7.1% difference from 1H2017.

Total Comprehensive Income for Period (EUR 000's)	108,632.00
Gross Margin (EUR 000's)	194,808.00
Profit Margin	0.20
Return on Equity	0.12
Return on Assets	0.03

The company posts a relatively higher return on equity (ROE) than its competition. It is important to establish that a ROE below the comparable derived average (0.7) would be a greatly unfavourable financial position for stakeholders.

Outstanding Shares	363,281,250
Earnings Per Share (EUR)	0.30
Price to Earnings Ratio (EUR)	12.41

The company has a great number of outstanding shares and not high enough net income to generate a high EPS, as it stands that company has a slightly below average EPS. TAVHL also trades at a lower P/E multiple than competition.

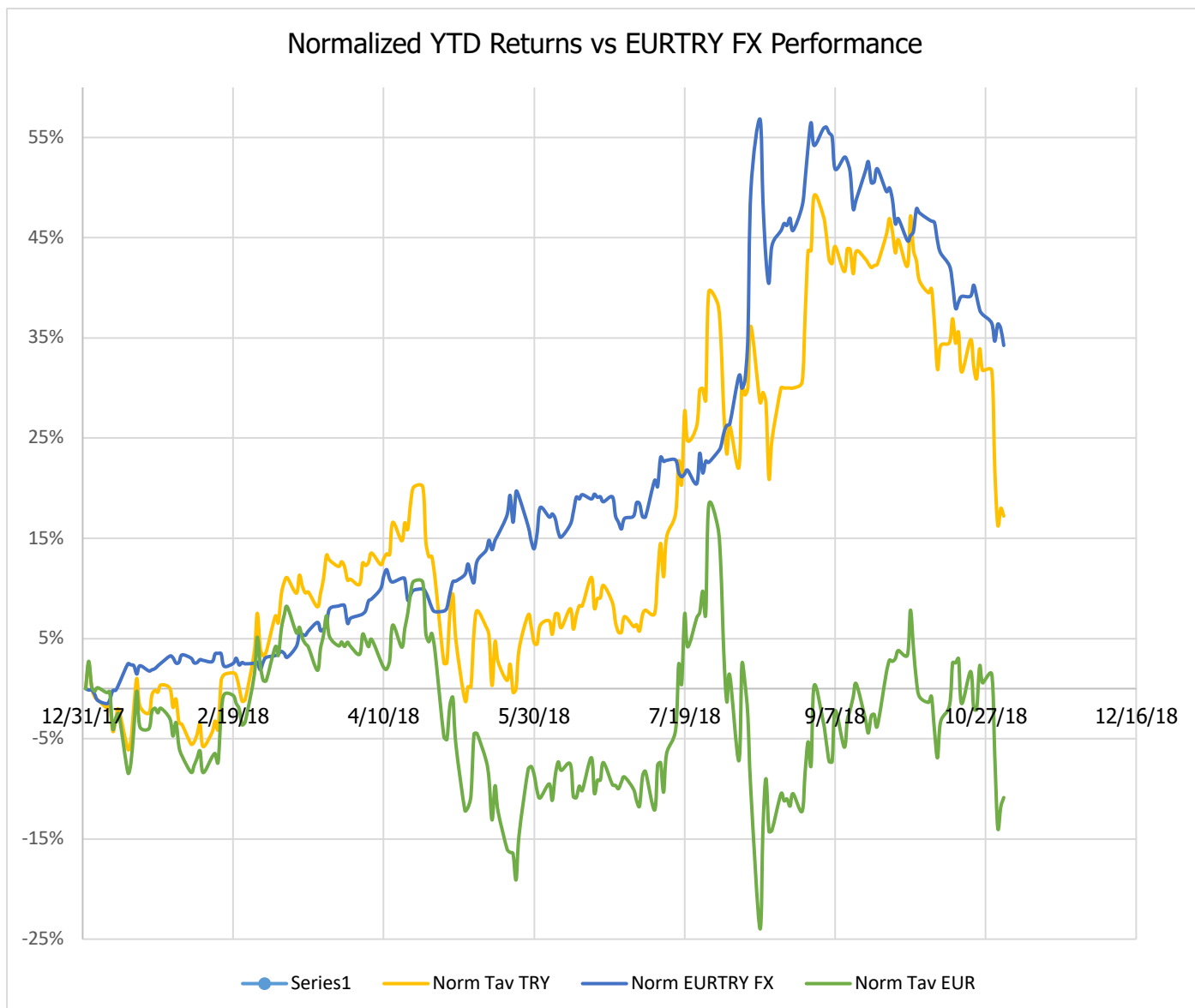
With expectations of increased airport traffic within the operating regions of the company – the outlook for the profitability of the company remains positive for the foreseeable future.

The consolidated income statements for 1H2017 and 1H2018 are presented on the following page.

TAV Havalimanları Holding A.Ş. and its Subsidiaries	<i>all values EUR 000's</i>	
Income Statements for the periods ending:	<u>1H2018</u>	<u>1H2017</u>
Construction revenue	-	13,464
Operating revenue	545,258	507,916
Other operating income	251	439
Construction expenditure	-	(13,464)
Cost of catering inventory sold	(19,041)	(19,687)
Cost of services rendered	(29,665)	(33,300)
Personnel expenses	(118,192)	(119,132)
Concession and rent expenses	(80,881)	(79,917)
Depreciation and amortization expenses	(54,483)	(58,842)
Other operating expenses	(70,024)	(56,651)
Share of profit of equity-accounted investees, net of tax	21,585	637
Operating profit	194,808	141,463
Finance income	7,052	4,615
Finance costs	(63,049)	(54,381)
Net finance costs	(55,997)	(49,766)
Pre-Tax Income	138,811	91,697
Tax Expense	(43,354)	(30,167)
Profit for the period	95,457	61,530
<i>Other Income</i>		
Defined benefit obligation actuarial differences	2,094	(2,468)
Defined benefit obligation actuarial differences from equity accounted investees	(278)	(262)
Tax on defined benefit obligation actuarial differences	(419)	494
Tax on defined benefit obligation actuarial differences from equity accounted investees	21	51
Total items that will not be reclassified to profit or loss	1,418	(2,185)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
Effective portion of changes in fair value of cash flow hedges	2,899	14,444
Effective portion of changes in fair value of cash flow hedges from equity accounted investees	858	(1,202)
Portion of cash flow hedges charged to profit or loss	4,152	(6,046)
Foreign currency translation differences for foreign operations	8,751	7,544
Foreign currency translation differences for foreign operations from equity accounted investees	(3,329)	(6,532)
Tax on cash flow hedge reserves	(1,531)	(1,017)
Tax on cash flow hedge reserves from equity accounted investees	(43)	79
Total items that are or may be reclassified subsequently to profit or loss	11,757	7,270
Other comprehensive income for the period, net of tax	13,175	5,085
Total comprehensive income for the period	108,632	66,615

Historical Performance

TAV Holdings ordinary shares are listed on the Istanbul Stock Exchange, and are Turkish Lira (TRY) denominated. The price action of the asset has reflected investor uncertainty throughout the region, foreign exchange risk, and political risk – all of which caused increased volatility throughout Turkish assets.



The chart above outlines the normalized performance of the TAVHL shares on the Istanbul Stock Exchange from January 1st, 2018 to November 1st, 2018.

TAVHL shares achieved a YTD return of 17% in Turkish Lira. However, examining further the adjusted value of the asset against the Euro shows the reality of the foreign exchange risk, and the impact of the devaluation of the Turkish Lira on TAVHL equity. The normalized Euro-adjusted YTD return stands at -11%.

As of November 1st, 2018 the Turkish Lira devalued 34%.

TAV Holdings 5 - Year Normalized Returns



Examining the 5-Year performance of the company, benchmarking against its Euro value also shows the large discrepancy in value of the company.

TAVHL TRY has achieved a return of 105% over the last five years, while the Euro-adjusted value stands at 31%.

	TAVHL	TAVHL EUR adj.
YTD High	32.72	5.384
Date	31.08.18	27.07.18
YTD Low	20.16	3.428
Date	09.02.18	13.08.18
YTD Average	24.61	4.41

Appendix

Management Biographies:

Edward Arkwright, Chairman of the Board of Directors

Mr. Arkwright is a graduate from the Higher School of Economics and Commerce with a degree in science from the political institute of Paris and a master's degree in modern history. In addition to his career in business, Mr. Edward Arkwright built a career in politics: he worked as an administrator in the Senate (1997-1999), the Finance Committee of the Senate (1999-2002), from 2002 to 2007 he held several positions in the Ministry of Finance and Budget, was in charge of the implementation of the budgetary reform and currently has a seat in the French Senate. From 2007 to 2012, he went from being the principal private Secretary to a member of the board (General Director) in real estate at the company Caisse des Dépôts Group. After that, he was appointed CFO. He is also chairman of Hub One, the IT company of ADP Group, member of the board of TAV Airports and member of the supervisory board of Royal Schiphol Group. Since that, Mr. Edward Arkwright brought to the company stability and profitable results due to his high performance.

In the company, he serves as the chairman of the Board of Directors: planning the work of the Board of Directors, managing the training and organizing the work of the CEO and top managers, directing and organizing the work of the board, reforming and shaping the direction of the Board's discussions.

Fernando Echegaray, Vice Chairman of the Board

Mr. Echegaray has a degree in industrial engineering and computer engineering with technology (Polytechnic University of Catalonia and the University of the Balearic Islands), also has a degree in business Management and Administration at IESE Business School. From 1985 to 1999 - Deputy Director of the airport Palma de Mallorca. Since 2000, he became a member of the board of the GAP in Mexico. From 2004 to 2012, he was director of several airports, and in 2012 he was appointed director of the AENI airport network (46 airports in Spain) and was appointed Director of International Operations in 2017 at ADP. Fernando Echegaray is a Chief International Officer, member of the Executive Committee, starting 1 May 2018.

Ali Haydar Kurtdarcan, Vice Chairman

Mr. Kurtdarcan graduated from the Middle East Technical University, Faculty of Civil Engineering. He began his career at the Bilkent holding, where he held various executive positions from 1987 to 2016, and in 2016 he was appointed general director (CEO) of this holding. Ali Haydar Kurtdarcan is a businessperson who has been the head of 12 different businesses. He is chairman of the board of directors of many companies, including: TAV Insaat A.S. (TAV Construction), Tepe Guvenlik A.S. (Tepe Security), Sports International A.S., Bilintur A.S., Meteksan Matbaa A.S. (Meteksan Printing), Tepe Home A.S., Tepe Emlak A.S. (Tepe Real Estate), Tepe Prefabrik AS (Tepe Prefabricated), Tepe Betopan A.S. and Bilenerji A.S., and also a shareholder of TAV Airports Holding.

In TAV Airports Holding, in the role of Deputy Chairman of the Board of Directors, Ali Haydar plays an important role in planning the work of the board, formulating issues for voting, observing regulations, personnel and appointments.

Mustafa Sani Şener, Board member, Chief Executive Officer & Executive President

Mustafa Sani Şener is a Board member, Chief Executive Officer & Executive President. He graduated from the Black Sea Technical Institute, University of Sussex, and received his doctorate at the University of New Hampshire (Master in Fluid Mechanics, Business Administration) and holds many positions, including: member of the Board of Directors of the Airports Council International (ACI), Turkish-French Business Council; lecturer in complex systems management at the Massachusetts Institute of Technology. Being a member of the Boards of Directors of the Airports Council International, Mustafa Sani Şener improved relations between Turkey and France and was honored with the "Legion d'honneur" of the Chevalier order by France. In the TAV Airport Holdings Mr. Sani is a member of the board of directors, where he is engaged in project and risk management, conducts negotiations with representatives of states and companies regarding joint international

projects (Osh and Manas airports Kyrgyzstan;; Pulkovo airport, Russia; Batumi and Tbilisi, Georgia; Skopje and Ohrid, Macedonia, etc.)

Philippe Pascal, Board Member / Director

Mr. Pascal graduated from Ecole Nationale des impots and holds a master's degree in public law. He began his career in the Directorate of tax legislation from 1998 to 2007 (taxation of real estate, agriculture tax and taxation of persons). In 2008, he became a finance inspector in the office of the minister for the budget. In 2008-2013, Mr. Pascal participated in audit missions from the Ministry of Finance. In 2013, he joined Groupe ADP as a director of financial operations and equity stakes (shareholdings). From 2013 to 2016, he changed several management positions in the finance sphere. He is the representative of Groupe ADP on the board of the several subsidiary companies, and represents their interests at the meetings.

Franck Mereyde, Deputy Chief Executive Officer & Director

Franck Mereyde is a civil engineer and a holder of a postgraduate qualification in geophysics and space technology. He has graduated from the Ponza Engineering School, DEA. From 2002 he worked in the Ministry of Infrastructure as a technical consultant with responsibilities in research and intermodal issues, when until 2005 he was appointed as an advisor in charge of budget, financial affairs and civil aviation, and joined Aéroports de Paris. At this moment, he is the head of several companies of this group, namely Aéroports de Paris Management and Hub Safe (subsidiaries of the Airport de Paris) and responsible for freight for Aéroports de Paris.

Burcu Geris, Chief Financial Officer, Vice President

Burcu Geris graduated from Bosphorus University studying Business Administration and received her MBA degree from London Business School and Columbia Business School. She has 15 years of professional experience in project finance, corporate finance and treasury. Ms. Geris joined TAV Airports in 2005, and headed the Project & Structured Finance Department of the Company until 2012. Ms. Burcu Geris was appointed as a Chief Financial Officer (CFO) in 2012 and Vice President in 2014. She was responsible financing and refinancing of eight airports around the world and played a major role in various share sale transactions. She was named a "Young Global Leader" by the World Economic Forum in 2015.

Jerome Calvet, Board Member

Mr. Jerome Calvet has several law degrees from Institut d'Etudes Politiques and Ecole Nationale d'Administration. For around 15 years he worked in the French Finance Ministry and was the Financial Secretary of the France Mission of EU, while at the same moment serving on the Boards of Directors of many companies. He has significant experience serving as the Managing Director and Co-Head of Investment Banking. He took a position of CEO in Nomura (France) since 2009. Mr. Calvet served as an Independent Board Member between 2012-2017 in TAV Airports Holding.

Disclaimer:

East Mill Capital is an academic endeavour serving as a demonstrative tool in confirming the assumptions of the investment thesis.

Investment Thesis:

Select investments in public emerging markets equity and debt securities are able to yield outsized, risk-adjusted returns that outperform traditional western benchmarks.

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