

Hitit Bilgisayar

OVERWEIGHT

Aug 02, 2023

A challenger in aviation software

🔗 **Initiating with an overweight rating...** We set our ex-dividend target price at TL63.0/share, implying a 25% upside potential in US\$ based. Reasons for our recommendation: i) New AnadoluJet contract (%15 potential contribution to revenues) ii) Solid US\$ based growth potential (2023-2030 %20 CAGR), iii) Positive contribution of the per passenger agreement model together with the strong recovery in aviation. IV) Favorable Revenue- Cost structure. Hitit currently trades at 2023E EV/EBITDA of 17.8x and P/E of 30.5x.

🔗 **Potential contribution of the new Anadolu Jet contract...** In Feb-23, Hitit signed an agreement with Turkish Airlines for its AnadoluJet brand. Within the scope of the agreement, various Hitit's airline solutions, especially the Crane PSS Reservation and Passenger Services System (PSS), will be offered as "Software as a Service" for 5 years. Hitit has already started to implement the software. We anticipate that the installation will be completed by 4Q23 and the main impact on financials will begin by 2024. Based on our current passenger estimations, we calculate that the new contract will contribute approximately US\$3.2mn to Hitit's revenues, indicating a 15% y/y increase. Considering Anadolu Jet targets within Turkish Airlines' 2033 growth vision, we believe that AnadoluJets' contribution to the company will be critical in the upcoming period.

🔗 **New client acquisitions and passenger-based revenue model...** Hitit's number of customers reached 64 in 2022, representing a 33% y/y increase. As of 1Q23, Hitit added another customer, reaching 65. Hitit starts to generate revenue from its SaaS customers when the implementation period is completed, 6-8 months after the signing of the contract. This indicates that the impact of new customer acquisitions in 2022 should be reflected onto financials in 2023. In addition, the rapid recovery in passenger numbers continues. According to IATA data in May-23, the number of passengers reached 87% of pre-pandemic levels. Hitit generates 57% of its revenues from SaaS revenues which is directly linked to the number of passengers. In light of these developments, we expect a 39% increase in US\$ based revenues in 2023 and a 37% CAGR between 2022-2025.

🔗 **Guidance points to strong growth...** The company guidance indicates a top-line growth range of 33%-38% (Tera est.: 38.5%) and EBITDA margin will be approximately 43%-48% in 2023E (Tera Est.:45.5%). The company is also guiding a 25%-30% net margin (Tera Est.:30.2%) and Capex/Revenue to be between 30%-35% in 2023E (Tera Est.:35% or US\$9.1mn).

🔗 **Key risks...** 1) Volatility in passenger numbers, 2) Aggressive pricing by competitors with economies of scale.

Price Data

| | |
|-------------------------------|-------|
| Current Price (TL, 01-Aug-23) | 50.50 |
| Current Mcap (TLmn) | 6,439 |
| Current Mcap (US\$ mn) | 239 |
| Target Price (TL/share) | 63.00 |
| Target Mcap (TLmn) | 8,032 |
| Return Potential | 25% |
| Dividend yield | 0% |

| Financials (US\$ mn) | 2021 | 2022 | 2023E | 2024E |
|----------------------|------|------|-------|-------|
| Revenues | 14.5 | 18.8 | 26.0 | 37.1 |
| % ch y/y | | 30 | 38 | 43 |
| EBITDA | 5.4 | 8.1 | 11.8 | 18.5 |
| % ch y/y | | 50 | 47 | 56 |
| Net Income | 2.8 | 3.6 | 7.8 | 12.9 |
| % ch y/y | | 29 | 116 | 64 |

| Margins (%) | 2021 | 2022 | 2023E | 2024E |
|----------------------|------|------|-------|-------|
| EBITDA Margin | 37.1 | 43.0 | 45.5 | 49.8 |
| Net Margin | 19.5 | 19.4 | 30.1 | 34.7 |
| Gross Dividend Yield | 0.0 | 0.0 | 0.0 | 0.0 |

| Ratios | 2021 | 2022 | 2023E | 2024E |
|---------------------------|------|------|-------|-------|
| P/E (US\$, x) | 84.6 | 65.7 | 30.5 | 18.6 |
| EV/EBITDA (US\$, x) | 20.4 | 11.9 | 17.8 | 11.2 |
| Net Debt/EBITDA (US\$, x) | -0.5 | -2.0 | -1.4 | -1.1 |
| ROE (US\$,%) | 14.2 | 7.8 | 14.5 | 19.2 |

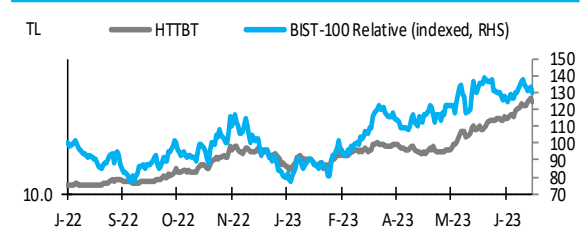
Stock Data

| | | |
|-----------------------|-----------|-------------------|
| Ticker | HTTBT.IS | HTTBT.TI |
| Sector | | Aviation Software |
| # of Shares (mn) | | 128 |
| 3M Av. Trd. Vol. (mn) | | US\$0.6 |
| 52-week Range | TL13.89 - | TL52.50 |

Market Data

| | |
|----------|---------|
| BIST-100 | 7,169 |
| TL/US\$ | 26.9329 |

Price Chart



| Price Performance | 1M | 3M | YTD | YoY |
|-------------------|-----|-----|-----|------|
| TL Absolute | 17% | 84% | 82% | 261% |
| BIST-100 Relative | -6% | 15% | 40% | 33% |

Major Shareholders

| | |
|------------------|-----|
| PEGASUS | 37% |
| Fatma Nur Gökman | 23% |
| Privately Held | 14% |
| Free Float | 26% |

Burak Salman

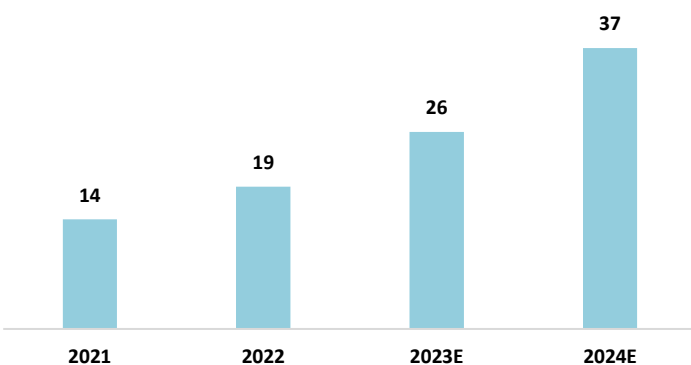
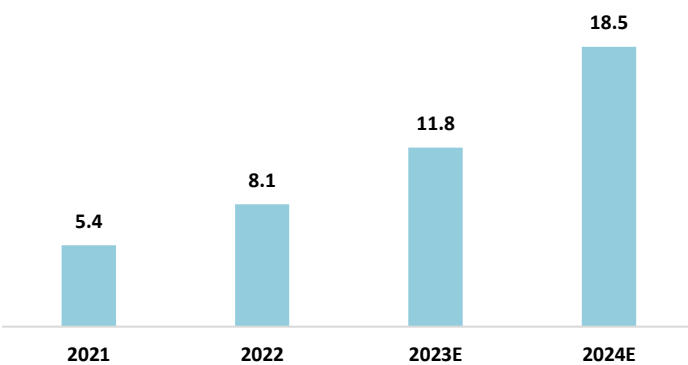
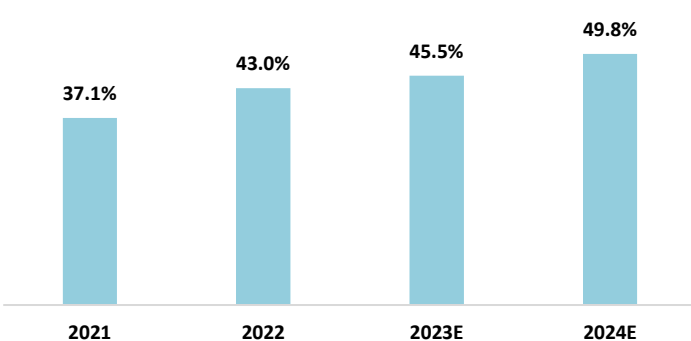
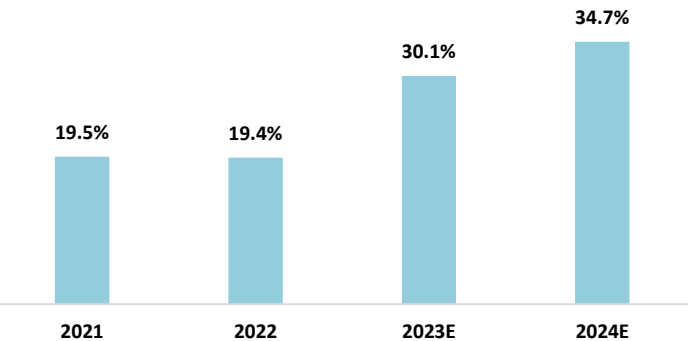
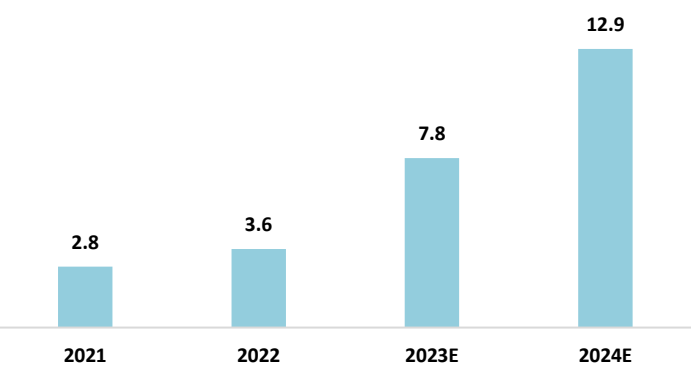
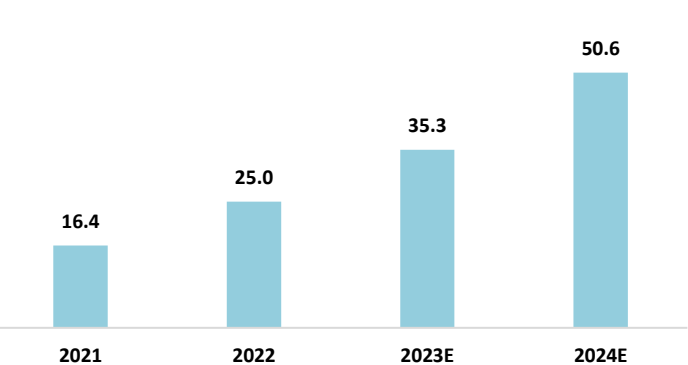
bsalman@terayatirim.com

Tel: +90 212 365 1000

Mustafa Bayram

mbayram@terayatirim.com

Tel: +90 212 365 1030

HITIT in a nutshell
Revenues (mn US\$)

EBITDA (mn US\$)

EBITDA Margin

Net Margin

Net Income (mn US\$)

Number of Passenger (mn)


VALUATION

We value Hitit (HTTBT) based on DCF analysis and reach a target price of TL63.0 per share, indicating a 25% upside potential. In DCF analysis, we assume constant 12.3% WACC derived from a US\$ risk-free rate of 7.5%, equity risk premium of 5.5% and beta of 1.0. We use a 6% real terminal growth. We expect 41% CAGR growth in FCF between 2023-2030.

Exhibit: HTTBT –DCF Model

| '000 US\$ | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E |
|---------------------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 26,028 | 37,139 | 48,778 | 55,785 | 63,811 | 73,004 | 83,538 | 95,609 |
| EBITDA | 11,840 | 18,498 | 25,505 | 29,853 | 34,718 | 40,191 | 46,375 | 53,580 |
| Tax | -338 | -612 | -873 | -1,036 | -1,216 | -1,419 | -1,646 | -1,913 |
| CAPEX | -9,110 | -10,770 | -12,194 | -13,946 | -15,953 | -18,251 | -20,885 | -22,946 |
| Chg in NWC | 103 | -1,280 | -1,148 | -569 | -623 | -680 | -742 | -806 |
| FCF | 2,495 | 5,835 | 11,290 | 14,302 | 16,926 | 19,840 | 23,103 | 27,914 |
| <i>Revenue Growth y/y</i> | 38% | 43% | 31% | 14% | 14% | 14% | 14% | 14% |
| <i>EBITDA Growth y/y</i> | 47% | 56% | 38% | 17% | 16% | 16% | 15% | 16% |
| <i>EBITDA Margin</i> | 45% | 50% | 52% | 54% | 54% | 55% | 56% | 56% |
| <i>FCF Margin</i> | 10% | 16% | 23% | 26% | 27% | 27% | 28% | 29% |
| WACC | 12.3% | 12.3% | 12.3% | 12.3% | 12.3% | 12.3% | 12.3% | 12.3% |

| | |
|------------------------------------|----------------|
| Terminal Growth rate | 6% |
| Enterprise Value (000 US\$) | 282,032 |
| Net debt ('000 US\$) | -16,213 |
| Target Mcap ('000 US\$) | 298,245 |
| US\$/TL Spot | 26.93 |
| Target Price (TL) | 63.00 |
| Upside | 24.75% |

HTTBT Target Price (TL/Share)

| % | Terminal Growth Rate | | |
|-----------------|----------------------|--------------|-------|
| | 4.0 | 6.0 | 8.0 |
| WACC +1% | 45.79 | 74.06 | 68.59 |
| WACC | 51.67 | 63.00 | 84.92 |
| WACC -1% | 59.21 | 75.39 | 111.3 |

Peer Analysis

While creating our peer analysis, we used Aviation Software companies and Accommodation Solutions companies that are in competition with Hitit in the tender processes abroad. Since there is no similar publicly traded company in Turkey, we used public offering software companies that offer software solutions. We use our assumptions of US\$11.8mn EBITDA and US\$7.9mn net income for 2023T. HTTBT, 2023E EV/EBITDA and P/E multipliers are trading at a premium of 20% and 68%, respectively, compared to their peers. Considering that Hitit is a growth company, we believe that it deserves higher multiples than its peers.

Exhibit: Company Peers

| Peer Group | | | | | | | | |
|-------------------------------|----------------|---------------|--------------|--------------|-------------|--------------|--------------|--------------|
| Company | Region | Mcap US\$m | EV/EBITDA | | | P/E | | |
| | | | 2023E | 2024E | 2025E | 2023E | 2024E | 2025E |
| Amadeus | Western Europe | 33,513 | 15.13 | 12.62 | 11.51 | 27.88 | 22.46 | 19.98 |
| Sabre | North America | 1,342 | 17.39 | 8.55 | 6.05 | -6.88 | 18.66 | 4.48 |
| Travelsky | Asia Pacific | 5,333 | 14.88 | 12.06 | 9.82 | 20.83 | 14.28 | 11.10 |
| Booking Holdings | North America | 106,877 | 15.42 | 13.32 | 11.79 | 21.11 | 18.44 | 16.31 |
| Airbnb | North America | 94,396 | 29.79 | 26.13 | 22.30 | 37.64 | 32.61 | 28.94 |
| TripAdvisor | North America | 2,470 | 6.08 | 4.42 | 3.77 | 15.46 | 11.19 | 8.91 |
| Logo | Turkey | 292 | 8.50 | 5.26 | 3.56 | 10.23 | 7.68 | 5.75 |
| Expedia | North America | 17,305 | 6.41 | 5.05 | 4.57 | 12.94 | 10.69 | 9.11 |
| Trivago | Western Europe | 473 | 1.14 | 0.28 | 0.26 | 8 | 7.00 | 6.44 |
| Unisky | North America | 375 | 2.80 | 2.51 | - | - | - | - |
| Median of Entire Group | | | 14.88 | 8.55 | 7.94 | 18.15 | 16.36 | 10.10 |
| Hitit Bilgisayar | | | 17.84 | 11.42 | 8.28 | 30.47 | 18.55 | 13.50 |
| Premium/Discount | | | 20% | 33% | 4% | 68% | 13% | 34% |

Source: Bloomberg,
Tera Estimates

Estimates

Strong earnings growth in 2023-2025... We foresee a 37% CAGR in revenues until 2025, mostly driven by PSS based SaaS revenues. We expect that the acquisition of new customers from major competitors will continue and the increasing trend in the number of customers will continue strongly. We project an EBITDA of US\$11.8mn in 2023E, corresponding to an EBITDA Margin of 45.5% (+2.5pps y/y).

Exhibit: Tera Estimates

| ('000 US\$) | 2021 | 2022 | 2023E | 2024E | 2025E |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Revenues | 14,484 | 18,796 | 26,028 | 37,139 | 48,778 |
| COGS | -7,926 | -8,586 | -12,233 | -16,341 | -21,462 |
| Gross Profit | 6,558 | 10,211 | 13,795 | 20,798 | 27,316 |
| EBIT | 3,265 | 4,667 | 6,767 | 12,240 | 17,460 |
| Depreciation | 2,299 | 3,273 | 4,425 | 5,571 | 7,317 |
| EBITDA | 5,373 | 8,081 | 11,840 | 18,498 | 25,505 |
| Net Other Income | -191 | 141 | 648 | 687 | 728 |
| Net Financial Income | 183 | -423 | 1,260 | 1,357 | 1,467 |
| Profit Before Tax | 3,258 | 4,386 | 8,675 | 14,285 | 19,656 |
| Tax | -432 | -746 | -826 | -1,386 | -1,924 |
| Net Income | 2,826 | 3,639 | 7,850 | 12,898 | 17,732 |
| Revenue Growth | 14% | 30% | 38% | 43% | 31% |
| Gross Margin | 45% | 54% | 53% | 56% | 56% |
| EBITDA Margin | 37% | 43% | 45% | 50% | 52% |
| Net Margin | 20% | 19% | 30% | 35% | 36% |

Source: Company Data, Tera Estimates

Hitit at a glance:

Hitit is a software solution provider to the aviation and travel industry... For the past 30 years, Hitit has been providing solution-oriented services to aviation and travel industry aiming at development and improvement. Hitit is the world's third largest software company in its field.

A comprehensive product that can be adjusted to customer needs... Hitit develops software solutions under six main headings with the "Crane" brand for companies operating in the air transportation and travel sectors, especially airline companies. The company offers these solutions to its customers under the "Software as a Service" ("SaaS") model. The comprehensive program caters to different needs of the airline industry. The program has six modules including Passenger Services System (PSS), Operational Planning, Virtual Merchandising, Travel Solutions, Accounting and Cargo. Hitit Bilgisayar provides services to a total of 65 airline and travel sector companies operating in 6 continents and 47 countries.

SaaS product generates additional revenue above the guaranteed minimum passenger volume... SaaS contracts consist of guaranteed and variable portions. When the passenger number exceeds the contractually guaranteed amounts (approximately 70% of SaaS passenger volumes are guaranteed), SaaS revenues increase parallel to the growth in passenger volumes. In 2022, revenues from Pegasus accounted for 21% of revenues. Hitit earns its revenues from Pegasus through fixed monthly payments based on hourly wages on personnel working hours and maintenance income. Therefore, revenue generation for Pegasus is not directly linked to the number of boarding passengers as it is the case for SaaS. Installation and Infrastructure-as-a-Service (IaaS) accounted for 16% of total revenues in 2022. For new clients, Hitit charges a fixed pre-setup fee under the SaaS contract. Setup revenues depend on the number of new contracts. IaaS revenues consist of hosting services to Amadeus under its loyalty program.

Exhibit: Hitit Product Portfolio

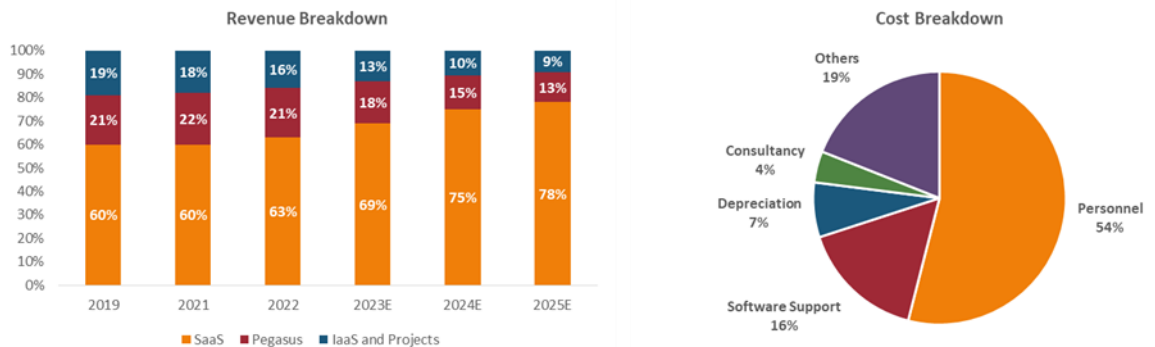
| CRANE | | |
|----------------------------------|----------------------------------|------------------------|
| PSS | | |
| Reservation and Ticketing System | Departure Control System | Consumer Care Layer |
| Internet Booking Engine | Weight& Balance | Communication Module |
| Mobile Application | Baggage Reconciliation Itinerary | Loyalty Layer |
| Charter Management System. | | |
| Accounting | | Operations Planning |
| Revenue Accounting | | Schedule Planning |
| Cost Accounting | | Crew Planning |
| Crane Business Performance Index | | Operations Control |
| Travel Solutions | Cargo | Virtual Merchandising |
| Online Travel Agency | Reservation and Cargo Services | Airlines Digital Store |
| Agent Portal System | Domestic Cargo Services | |

Source: Company Data

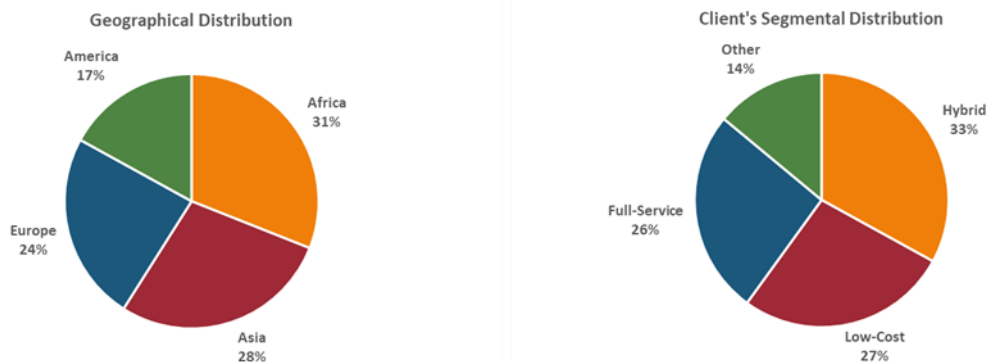
Advantages of operating out of a technopark... Hitit continues its activities in Istanbul Technical University (ITU) Technopark within the scope of R&D projects. Technoparks benefit from various tax and social security advantages in accordance with the “Technology Development Zones Law”. Income from R&D businesses conducted at technoparks are exempt from VAT and corporate tax. R&D staff and 10% of support staff are exempt from payroll tax. Companies also benefit from various government supports and technology grants.

Breakdown of cost items: Personnel expense is the main cost item and constitutes 54% of total expenses. The majority of personnel expense is based in Turkish Lira. In addition, operating out of a technopark also helps the company to offer competitive salary to its R&D employees and help to retain its qualified workforce. Similar to other software companies, Hitit capitalizes R&D expenditures and accounts them as developed software under intangible assets which are later on depreciated in 10 years. The depreciation expense and software support expense have a share of 7% and 16% in costs, respectively.

Balanced breakdown of revenues by geography and airline type... Hitit's customer portfolio has a distribution that minimizes geographical risk. 31% of revenues are generated in Africa, followed by 28% in Asia and 24% in Europe. It also has a balanced distribution between airline segments. Hybrid airlines account for 33% of total revenues while low cost airlines represent 27% and full service 26%.



Source: Company Data, Tera Estimates

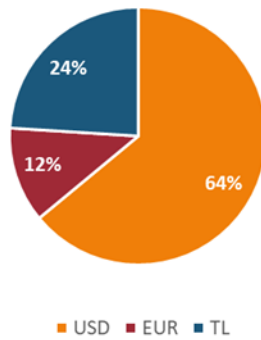


Source: Company Data, Tera Estimates

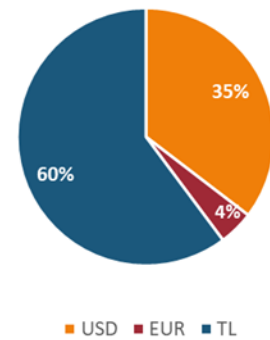
FX Exposure

Hitit's revenues consists of 69% US\$, 16% EUR while only 13% of costs are based in US\$ and 3% in EUR. The company has a favorable cost base against hard currency revenues. Looking at the operational FX exposure of Hitit, the company is negatively affected from TL appreciation against US\$. We believe that Hitit's US\$ based revenue generation, the high portion of TL-based costs and the high growth status of their operations will support the margins in an environment where TL depreciates.

Revenue Breakdown



Cost Breakdown



Hitit raised US\$23.1mn equity capital from its initial public offering in Feb-22. The company used funds generated via the IPO for 1) R&D to produce its own product 2) new business lines (such as Agency Distribution system (ADS)), 3) International expansion (New Office in Amsterdam, MENA, CIS and Africa regions and some marketing activities), 4) Cloud infrastructure.

Planned use of IPO proceeds

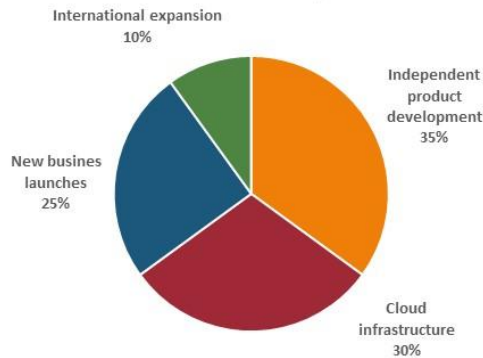


Exhibit: Shareholder structure

| Shareholders | Paid-in-Capital | | | |
|------------------|-----------------|-----|--------------|-----|
| | Before | % | After | % |
| mn Shares | | | | |
| Fatma Nur Gokmen | 31.5 | 32% | 29.6 | 23% |
| Dilek Ovacik | 6.5 | 7% | 6.1 | 5% |
| Hakan Unlu | 6.0 | 6% | 5.6 | 4% |
| Ozkan Dulger | 6.0 | 6% | 5.6 | 4% |
| Pegasus | 50 | 50% | 46.9 | 37% |
| Other | 0.0 | 0% | 33.6 | 26% |
| Total | 100.0 | | 127.5 | |

Source:Company Data

Tera Yatirim Stock Ratings

| Rating | Definition |
|--------------|--|
| OVERWEIGHT | The analyst expects that the stock will generate a return above that of the BIST-100 index over the next twelve months. |
| MARKETWEIGHT | The analyst expects that the stock will generate a return in line with that of the BIST-100 index over the next twelve months. |
| UNDERWEIGHT | The analyst expects that the stock will generate a return below that of the BIST-100 index over the next twelve months. |

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