

AEGEAN AIRLINES S.A.

October 5, 2018

[Bloomberg Ticker: AEGN:GA] [Reuters Ticker: AGNr.AT] **Greek Equities | Consumer Discretionary**
Listed on Athens Stock Exchange, Greece **VRS Research Team | www.vrs.gr**

Earnings Estimates Update

STOCK PRICE € 7.16 | MKT CAP € 511.35 MN

Business Overview

- Aegean Airlines S.A. is a Greek based airline company **owning 49 Jet and 12 Turboprop aircrafts** (as of 2018) that **serve 153 destinations**.
- The company was awarded by Skytrax as **the best regional airline in Europe for 2018 for the 8th consecutive time**.
- Aegean is **the undisputable leader in the domestic market with 71% market share** (as of 2017). Ryanair comes second with a market share of 17%.
- Aegean is also **the leading airline regarding passenger traffic in Athens International Airport** with an impressive 49% share despite the presence of intense competition from other airlines.
- The company recently signed **an agreement with Airbus for the acquisition of 30 new aircrafts between 2022 and 2024** which are expected to significantly enhance the fleet efficiency and capacity.

Financial Highlights & Investment Considerations

- We have projected a **3.0% 2Y Sales CAGR (FY2017-FY2019)** driven both by **the increasing ASK** from 16,657 in 2017 to 17,500 in 2019 and the expected double-digit sustainable **growth in passenger traffic in Greece**.
- **EBIT margin is estimated to slightly decrease from 8.9% in FY2017 to 8.52% in FY2019** as a result of the increased aircraft fuel cost.
- Despite the expected revenue growth and the favorable exchange rate, we have estimated a **2Y 0.8% EBIT CAGR for the projected period** due to the increased aircraft fuel cost.
- During 2018, the company reached to an agreement with Airbus for the purchase of 30 new aircrafts (with the option of buying 12 more), accompanied by a **prepayment of \$ 40 million from Aegean**. The payments prior to full acquisition of the new aircrafts are expected to reach **\$ 460 million in total**.
- During 2018, Aegean made the last € 10 million payment regarding the preceding acquisition of Olympic Air.
- We have estimated a **50% dividend payout ratio for the projected period** thus implying a **€0.38 and €0.43 DPS from the profits of 2018 and 2019 respectively**.
- Leverage is expected to remain flat at zero level for the projected period up until the next payment in 2020 for the acquisition of new aircrafts from Airbus.
- We expect the profits generated during 2018 to cover the dividend payments, the Olympic Air payment and the prepayment towards the Airbus agreement, **leaving the strong cash position of the company unchanged**.
- **The most significant risk for Aegean comes from fluctuations in fuel prices and the Eurodollar exchange rate**. The company takes all the necessary measures (using derivative products) to hedge against those risks.

AEGEAN AIRLINES S.A. – Summary of Consolidated Financials

October 5, 2018

(in € mn)	TURNOVER	EBITDA	EBT	EATAM	EQUITY	BANK DEBT	DEBT / EQUITY (x)	P/E (x)	P/BV (x)	EV/EBITDA (x)	ROE %
2009	622,713	39,807	32,526	23,037	224,564	20,059	0.09	22.20	2.3	8.1	10%
2010	591,004	-3,237	-18,679	-23,292	200,943	20,067	0.10	-21.95	2.5	-107.3	-12%
2011	668,218	-18,043	-31,153	-27,176	169,319	20,025	0.12	-18.82	3.0	-20.2	-16%
2012	562,858	44	-12,618	-10,496	154,370	12,710	0.08	-48.72	3.3	8,423.4	-7%
2013	698,917	86,188	75,075	57,759	212,877	0	0.00	8.85	2.4	3.3	27%
2014	911,794	118,791	94,891	80,441	218,992	0	0.00	6.36	2.3	2.6	37%
2015	982,964	111,214	100,317	68,394	221,974	0	0.00	7.48	2.3	2.9	31%
2016	1,020,313	76,839	51,599	32,211	244,271	0	0.00	15.88	2.1	3.4	13%
2017	1,127,625	119,804	85,785	60,365	247,940	0	0.00	8.47	2.1	1.8	24%
2018	1,167,822	110,522	76,067	54,007	274,944	0	0.00	9.47	1.9	1.9	20%
2019	1,197,018	122,318	86,956	61,738	305,813	0	0.00	8.28	1.7	4.2	20%

Source: The Company, VRS Estimates

Please see important disclosure and disclaimer statements at the end of this report.

Important Note:

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Notes: Projections are based on IFRS consolidated accounts. Projected years concern the period 2018 – 2019.

H1 2018 Results

Source: Company

Financial Results

	2017 H1	2018 H1
Sales	450,675	455,714
y-o-y Change %		1.12%
EBITDA	-10,454	-14,742
% of Sales	-2.32%	-3.27%
y-o-y Change %		41.02%
EBIT	-19,421	-23,949
% of Sales	-4.31%	-5.31%
y-o-y Change %		23.31%
EATAM	-20,038	-13,754
% of Sales	-4.45%	-3.05%
y-o-y Change %		-31.36%

Financial Position

	2017 H2	2018 H1
Total Non-Current Assets	204,958	245,858
% Total Assets	30.07%	27.92%
Total Current Assets	476,624	634,829
% Total Assets	69.93%	72.08%
TOTAL ASSETS	681,582	880,687
Total Equity	247,940	230,393
% Total Equity & Liabilities	36.38%	26.16%
Total L-Term Liabilities	71,439	76,117
Total Current Liabilities	362,202	574,177
Total Liabilities	433,641	650,294
% Total Equity & Liabilities	63.62%	73.84%
TOTAL EQUITY & LIABILITIES	681,582	880,687

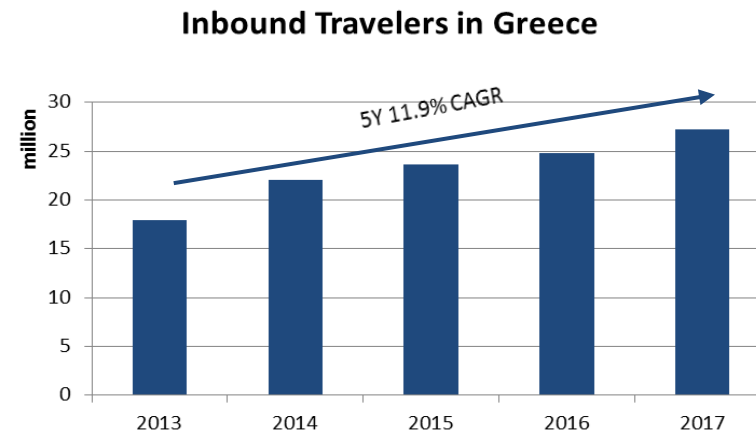
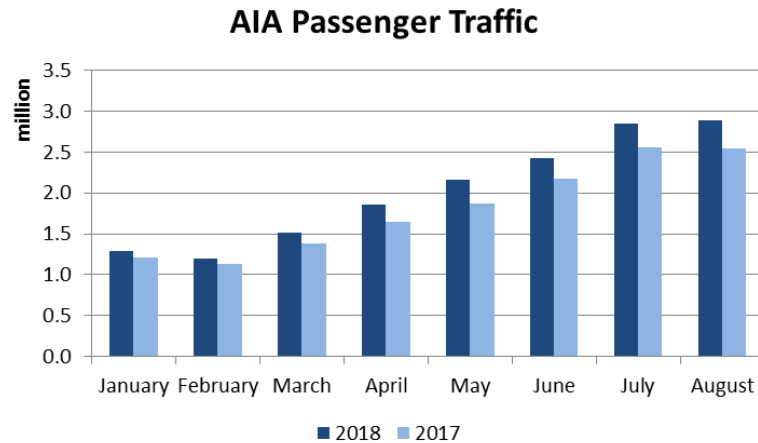
Income Statement

Source: Company, VRS Estimates.

		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Turnover		622,713	591,004	668,218	562,858	698,917	911,794	982,964	1,020,313	1,127,625	1,167,822	1,197,018
	y-o-y Change %		-5.1%	13.1%	-15.8%	24.2%	30.5%	7.8%	3.8%	10.5%	3.6%	2.5%
Cost of Sales		573,591	580,898	665,784	541,549	593,125	765,115	849,119	915,847	977,603	1,007,831	1,033,026
	% of Turnover	92.1%	98.3%	99.6%	96.2%	84.9%	83.9%	86.4%	89.8%	86.7%	86.3%	86.3%
	y-o-y Change %		1.3%	14.6%	-18.7%	9.5%	29.0%	11.0%	7.9%	6.7%	3.1%	2.5%
Total Gross Operating Results		49,122	10,106	2,433	21,309	105,792	146,678	133,844	104,466	150,023	159,992	163,991
Gross Operating Margin		7.9%	1.7%	0.4%	3.8%	15.1%	16.1%	13.6%	10.2%	13.3%	13.7%	13.7%
	y-o-y Change %		-79.4%	-75.9%	775.7%	396.5%	38.6%	-8.7%	-21.9%	43.6%	6.6%	2.5%
Operating Expenses		29,583	26,851	33,471	33,086	31,690	40,439	36,640	45,611	49,622	68,925	46,254
	% of Turnover	4.8%	4.5%	5.0%	5.9%	4.5%	4.4%	3.7%	4.5%	4.4%	5.9%	3.9%
	y-o-y Change %		-9.2%	24.7%	-1.1%	-4.2%	27.6%	-9.4%	24.5%	8.8%	38.9%	-32.9%
EBITDA		39,807	-3,237	-18,043	44	86,188	118,791	111,214	76,839	119,804	110,522	122,318
EBITDA Margin		6.4%	-0.5%	-2.7%	0.0%	12.3%	13.0%	11.3%	7.5%	10.6%	9.5%	10.2%
	y-o-y Change %		-108.1%	457.5%	-100.2%	193624.5%	37.8%	-6.4%	-30.9%	55.9%	-7.7%	10.7%
Depreciation		12,003	13,509	12,995	11,822	12,086	12,551	14,010	17,984	19,403	19,456	20,362
	% of Turnover	1.9%	2.3%	1.9%	2.1%	1.7%	1.4%	1.4%	1.8%	1.7%	1.7%	1.7%
EBIT		19,539	-16,745	-31,038	-11,778	74,102	106,239	97,204	58,855	100,401	91,067	101,956
	% of Turnover	3.1%	-2.8%	-4.6%	-2.1%	10.6%	11.7%	9.9%	5.8%	8.9%	7.8%	8.5%
	y-o-y Change %		-185.7%	85.4%	-62.1%	-729.2%	43.4%	-8.5%	-39.5%	70.6%	-9.3%	12.0%
Net Financial Results		12,987	-1,934	-115	-841	974	-11,349	3,113	-7,256	-14,616	-15,000	-15,000
Net Results Before Taxes		32,526	-18,679	-31,153	-12,618	75,075	94,891	100,317	51,599	85,785	76,067	86,956
EBT Margin		5.2%	-3.2%	-4.7%	-2.2%	10.7%	10.4%	10.2%	5.1%	7.6%	6.5%	7.3%
	y-o-y Change %		-157.4%	66.8%	-59.5%	-695.0%	26.4%	5.7%	-48.6%	66.3%	-11.3%	14.3%
Income Tax		9,489	4,613	-3,977	-2,122	17,316	14,449	31,923	19,388	25,420	22,059	25,217
	Effective Tax Rate	29.2%	-24.7%	12.8%	16.8%	23.1%	15.2%	31.8%	37.6%	29.6%	29.0%	29.0%
Net Results After Taxes		23,037	-23,292	-27,176	-10,496	57,759	80,441	68,394	32,211	60,365	54,007	61,738
EAT Margin		3.7%	-3.9%	-4.1%	-1.9%	8.3%	8.8%	7.0%	3.2%	5.4%	4.6%	5.2%
	y-o-y Change %		-201.1%	16.7%	-61.4%	-650.3%	39.3%	-15.0%	-52.9%	87.4%	-10.5%	14.3%
Net Results (a.t.&m.i.)		23,037	-23,292	-27,176	-10,496	57,759	80,441	68,394	32,211	60,365	54,007	61,738
Net Margin		3.7%	-3.9%	-4.1%	-1.9%	8.3%	8.8%	7.0%	3.2%	5.4%	4.6%	5.2%
	y-o-y Change %		-201.1%	16.7%	-61.4%	-650.3%	39.3%	-15.0%	-52.9%	87.4%	-10.5%	14.3%

Market Trends

Source: Company, VRS Estimates



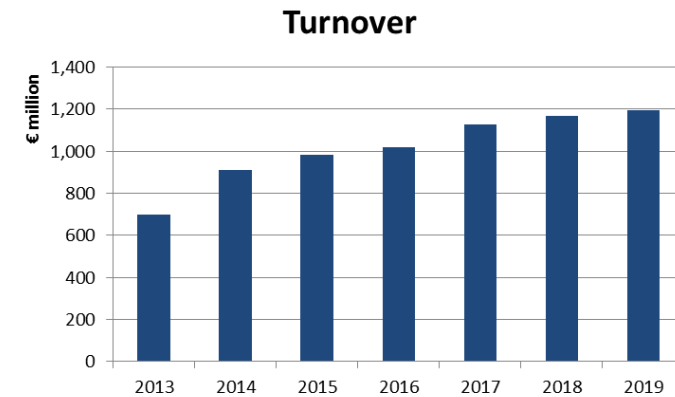
Key Facts:

- 75% of Aegean's revenues come from international flights with the contribution of tourism playing an important role.
- Inbound travelers have grown steadily at a 5Y 11.9% CAGR between 2013 and 2017 creating a clear upward trend.
- During 2018, taking into account the Athens International Airport (AIA) data, the trend seems to continue: AIA passenger traffic during H1 2018 has been increased by 11.5% compared to the H1 2017.
- Taking into account the planned and the ongoing investments in the touristic industry in Greece and the general stabilization of the macroeconomic environment, we expect the upward trend to be further continued after 2018.
- Consequently, the projected growth in passenger traffic is the main pillar of our assumptions for ASK growth potential for Aegean.

Main Assumptions

	2016	2017	2018	2019
ASKs (in millions)	16,383	16,657	17,073	17,500
RASK (Revenue per ASK, in € cents)	6.31	6.85	6.84	6.84
CASK (EBT level, in € cents)	6.00	6.33	6.48	6.42
CASK (EBT level, in € cents) excl. fuel costs	4.80	5.11	5.07	5.02
RPKs (in millions)	12,715	13,851	14,598	14,963
Load factor Scheduled (Pax/AVS)	77.0%	82.5%	83.5%	83.5%
Load factor Scheduled (RPK/ASK)	77.4%	83.2%	85.5%	85.5%

Source: Company, VRS Estimates



Key Drivers:

- Aegean added 3 aircrafts to its fleet during 2018 which are expected to offer 700 thousand additional seats and cover 11 new routes.
- ASK is expected to grow at a 2Y 2.5% CAGR between 2017 and 2019 driven by the fleet expansion.
- The expected double digit increase of passenger traffic in Greece is expected to cover the additional ASK.
- We have assumed a slight improvement in the load factor from 83.2% in 2017 to 85.5% in 2018 and no change for 2019.
- So, RPK is expected to grow at 2Y 3.9% CAGR between 2017 and 2019 driven by the projected ASK growth and the improvement in load factors.
- Taking all these into account, we have estimated a 2Y 3.0% Revenue CAGR for the projected period.

Balance Sheet – Asset Side

Source: Company, VRS Estimates.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Assets											
Intangible Assets	3,806	8,078	31,466	32,108	96,921	102,788	104,968	107,022	108,159	109,559	110,959
Accumulated Depreciation	2,621	3,380	4,290	5,317	13,227	15,123	17,610	20,219	23,289	25,978	28,723
Net Intangible Assets	1,185	4,697	27,177	26,791	83,694	87,665	87,358	86,803	84,870	83,581	82,236
Tangible Assets	145,501	164,689	146,978	147,832	153,256	161,596	196,333	208,358	217,596	226,557	235,518
Accumulated Depreciation	34,413	46,530	48,033	58,591	72,251	81,107	92,395	107,590	123,404	139,671	156,788
Net Tangible Assets	111,088	118,159	98,945	89,241	81,005	80,489	103,938	100,768	94,192	86,886	78,730
Other L-term assets - Deferred Tax	49,469	38,442	45,019	65,736	57,514	107,800	82,861	39,910	26,365	59,500	59,500
Total Non-Current Assets	161,743	161,297	171,140	181,768	222,212	275,954	274,157	227,481	205,427	229,967	220,466
% Total Assets	35.02%	36.05%	40.89%	45.80%	39.58%	43.80%	40.99%	34.96%	30.12%	32.43%	29.71%
Inventories	9,232	5,986	5,975	5,331	10,951	13,238	13,182	16,080	15,193	16,567	16,981
Trade Receivables	66,229	67,483	52,425	47,090	76,945	87,648	104,476	104,467	115,557	118,382	121,342
Other Items	16,365	28,330	22,148	13,380	24,371	45,645	87,695	54,257	44,942	45,000	45,000
Cash in Bank and at Hand	208,225	184,272	166,801	149,300	226,877	207,482	189,325	248,478	300,932	299,238	338,306
Total Current Assets	300,050	286,072	247,349	215,101	339,144	354,013	394,677	423,281	476,624	479,187	521,628
% Total Assets	64.98%	63.95%	59.11%	54.20%	60.42%	56.20%	59.01%	65.04%	69.88%	67.57%	70.29%
TOTAL ASSETS	461,793	447,369	418,489	396,869	561,356	629,966	668,834	650,762	682,051	709,154	742,095

Balance Sheet – Liability Side

Source: Company, VRS Estimates.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Equity & Liabilities											
Share Capital	46,421	46,421	46,421	46,421	46,421	46,421	46,421	46,421	46,421	46,421	46,421
Share Premium Account	144,774	144,774	144,774	144,774	144,774	72,776	72,776	72,776	72,776	72,776	72,776
Reserves & Profit Carried Forward	33,369	9,747	-21,877	-36,825	21,682	99,795	102,777	125,074	128,743	155,747	186,616
Minority Rights	0	0	0	0	0	0	0	0	0	0	0
Total Equity	224,564	200,943	169,319	154,370	212,877	218,992	221,974	244,271	247,940	274,944	305,813
% Total Equity & Liabilities	48.63%	44.92%	40.46%	38.90%	37.92%	34.76%	33.19%	37.54%	36.35%	38.77%	41.21%
L-Term Bank Loans	20,000	0	0	8,340	0	0	0	0	0	0	0
Provisions	25,139	31,257	37,897	35,483	41,921	35,801	28,321	25,234	20,958	21,000	21,000
Deferred Tax Liabilities	0	0	0	0	0	0	0	0	0	0	0
Total L-Term Liabilities	103,760	109,234	111,421	108,307	133,643	125,177	113,885	87,087	71,439	72,000	72,000
Suppliers	41,179	40,826	41,191	48,470	53,565	63,438	77,123	87,106	72,976	82,835	84,906
Banks	59	20,067	20,025	4,370	0	0	0	0	0	0	0
Taxes-Duties	8,963	4,984	0	0	10,218	15,417	7,822	0	14,320	14,000	14,000
Other Payables & Prepayments	0	0	0	0	0	0	0	0	0	0	0
Total Current Liabilities	133,469	137,192	137,750	134,191	214,836	285,797	332,975	319,404	362,671	362,210	364,281
Total Liabilities	237,229	246,426	249,170	242,499	348,479	410,974	446,860	406,491	434,110	434,210	436,281
% Total Equity & Liabilities	51.37%	55.08%	59.54%	61.10%	62.08%	65.24%	66.81%	62.46%	63.65%	61.23%	58.79%
TOTAL EQUITY & LIABILITIES	461,793	447,369	418,489	396,869	561,356	629,966	668,834	650,762	682,051	709,154	742,095

Cash Flow Statement

Source: Company, VRS Estimates.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Profit after Tax	23,037	-23,292	-27,176	-10,496	57,759	80,441	68,394	32,211	60,365	54,007	61,738
Plus: Change of Depreciation	11,797	12,876	2,413	11,585	21,571	10,751	13,774	17,804	18,884	18,956	19,862
Plus: Depreciation Differences from sales/acquisitions	0	0	0	0	0	0	0	0	0	0	0
Gross Cash Flow	34,834	-10,416	-24,763	1,088	79,330	91,193	82,169	50,015	79,249	72,963	81,601
<u>Change in:</u>											
(-) Trade Debtors	-3,986	1,254	-15,058	-5,335	29,855	10,704	16,828	-9	11,090	2,825	2,960
(-) Other Receivables	11,707	11,965	-6,182	-8,768	10,991	21,274	42,050	-33,438	-9,315	58	0
(+) Trade Creditors	-6,190	-353	365	7,279	5,096	9,873	13,685	9,983	-14,131	9,860	2,071
(+) Liabilities for Taxes	3,402	-3,978	-4,984	0	10,218	5,200	-7,595	-7,822	14,320	-320	0
(+) Other Short - Term Liabilities	0	0	0	0	0	0	0	0	0	0	0
Change in Working Capital	-8,577	-14,305	16,632	22,026	-31,152	-19,192	-52,731	32,710	-699	5,283	-1,303
Operating Cash Flow	26,257	-24,721	-8,131	23,115	48,178	72,001	29,438	82,725	78,550	78,246	80,298
<u>Change in:</u>											
(-) Intangible Assets	921	4,272	23,389	642	64,813	5,867	2,180	2,054	1,137	1,400	1,400
(-) Tangible Assets	50,333	19,187	-17,710	854	5,424	8,340	34,737	12,025	9,238	8,961	8,961
(-) Other Long - Term Receivables	-47,523	-11,028	6,577	20,718	-8,223	50,286	-24,939	-42,951	-13,545	33,135	0
(+) Other Long - Term Liabilities	28,938	25,474	2,187	-11,453	33,675	-8,466	-11,292	-26,798	-15,648	561	0
(+) Cons. Diff. / Minority Interests	0	0	0	0	0	0	0	0	0	0	0
Cash Flow from Investment	25,206	13,043	-10,068	-33,666	-28,340	-72,959	-23,270	2,074	-12,478	-42,935	-10,361
Net Cash Flow before Financing Activities	51,463	-11,678	-18,200	-10,552	19,838	-958	6,168	84,799	66,072	35,310	69,937
Net Change in Reserves	-11,248	-329	-4,448	-4,452	748	47,664	-15,420	18,653	-17,417	0	0
Change in Long - Term Debt	20,000	-20,000	0	8,340	-8,340	0	0	0	0	0	0
Change in Short - Term Debt	-39,421	20,008	-42	-15,655	-4,370	0	0	0	0	0	0
Other Items and Dividends	-4,625	11,952	-5,219	-4,817	-69,702	-5,897	8,905	44,299	-3,798	37,004	30,869
Minority Interests on Profit	0	0	0	0	0	0	0	0	0	0	0
Net Cash Flow from Financing	-26,044	-12,274	728	-6,950	57,739	-18,437	-24,325	-25,646	-13,618	-37,004	-30,869
Cash at Beginning	182,805	208,225	184,272	166,801	149,300	226,877	207,482	189,325	248,478	300,932	299,238
Change in Cash and Marketable Securities	25,419	-23,952	-17,471	-17,501	77,577	-19,395	-18,157	59,153	52,454	-1,693	39,068
Cash at End	208,225	184,272	166,801	149,300	226,877	207,482	189,325	248,478	300,932	299,238	338,306

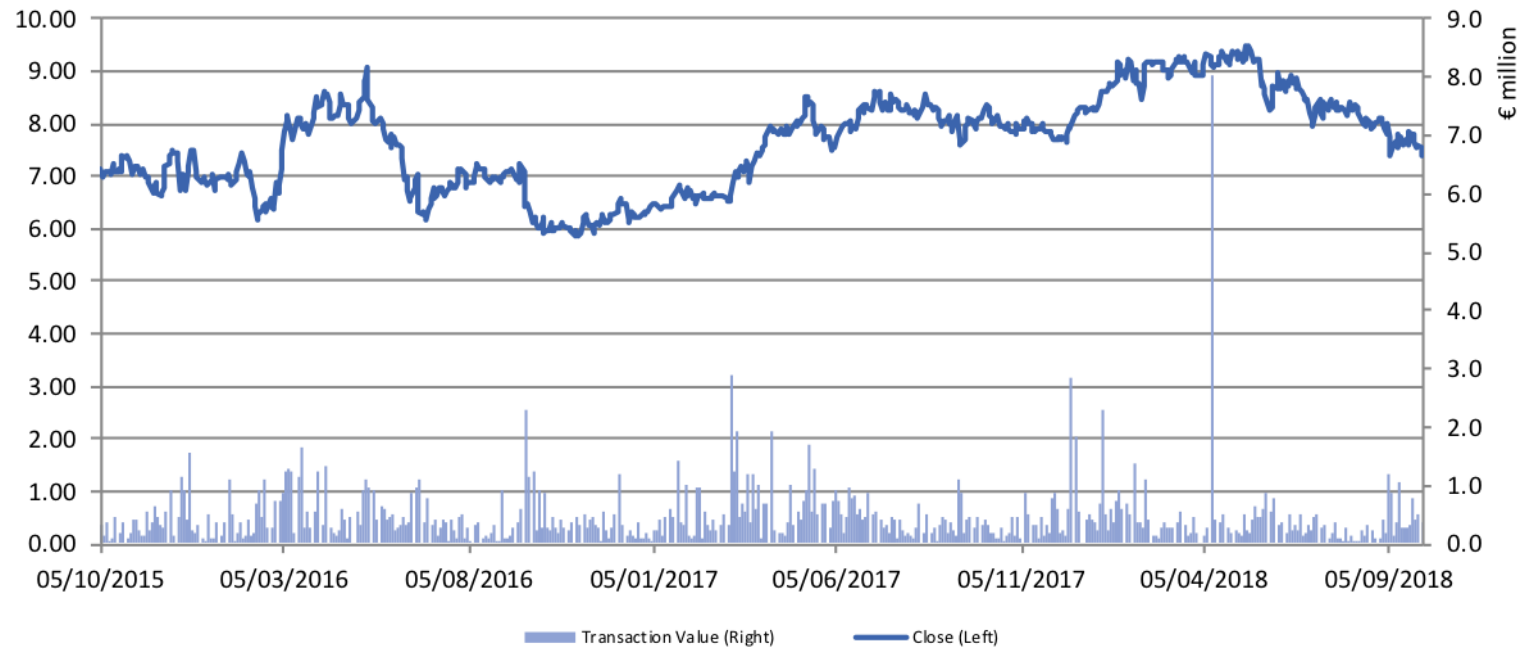
Financial Ratios

Source: Company, VRS Estimates.

PROFIT MARGINS	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gross Margin	7.89%	1.71%	0.36%	3.79%	15.14%	16.09%	13.62%	10.24%	13.30%	13.70%	13.70%
EBITDA Margin	6.39%	-0.55%	-2.70%	0.01%	12.33%	13.03%	11.31%	7.53%	10.62%	9.46%	10.22%
EBIT Margin	3.14%	-2.83%	-4.64%	-2.09%	10.60%	11.65%	9.89%	5.77%	8.90%	7.80%	8.52%
Pre-Tax Profit Margin	5.22%	-3.16%	-4.66%	-2.24%	10.74%	10.41%	10.21%	5.06%	7.61%	6.51%	7.26%
Net Profit Margin	3.70%	-3.94%	-4.07%	-1.86%	8.26%	8.82%	6.96%	3.16%	5.35%	4.62%	5.16%
BALANCE SHEET RATIOS	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Stock Days	6	4	3	4	7	6	6	6	6	6	6
Debtors Days	39	42	29	31	40	35	39	37	37	37	37
Creditors Days	26	26	23	33	33	30	33	35	27	30	30
Total Liab. / Total Equity	1.06	1.23	1.47	1.57	1.64	1.88	2.01	1.66	1.75	1.58	1.43
Bank Loans / Total Equity (D/E Ratio)	0.09	0.10	0.12	0.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current Ratio	2.25	2.09	1.80	1.60	1.58	1.24	1.19	1.33	1.31	1.32	1.20
Quick Ratio - Acid Ratio	2.18	2.04	1.75	1.56	1.53	1.19	1.15	1.27	1.27	1.28	1.16

Stock Price

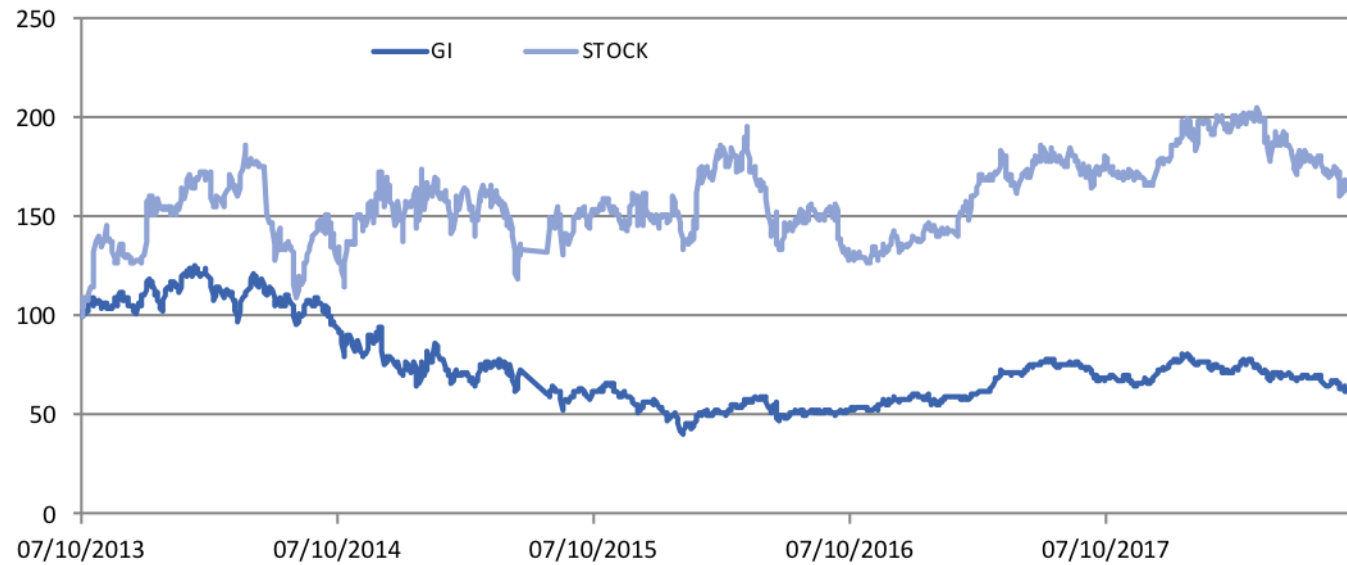
Period September 2015 – October 2018 | € (Euro) | Period as day/month/year



Source: Athens Exchange, Greece. | Note: Transaction value is depicted in € million (on the right axis).

Stock versus Athens Exchange General Index

Period September 2013 – October 2018 | Basis = 100 | Period as day/month/year



Source: Athens Exchange, Greece.

NOTES

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Covered Company	Bloomberg	Reuters	Stock Price	Date	Disclosure
AEGEAN AIRLINES S.A.	AEGN:GA	AGNr.AT	€ 7.16	October 5, 2018	2, 3, 6

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2. VRS has sent the research report to the covered company, prior to publication or dissemination, for factual verification.
3. VRS has changed the contents of the initially sent report, with respect to: only factual changes have been made.
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