

|                  |               |
|------------------|---------------|
| Common           | TUPRS TI      |
| Recommendation   | BUY           |
| Last price       | TRY68.85      |
| Target price     | TRY82.00      |
| Upside           | 19%           |
| Free float       | 49%           |
| Market cap       | TRY17,241 mln |
| Enterprise value | TRY24,260 mln |
| ADT, 100 days    | TRY102.3 mln  |

Prices as of February 12, 2016

FLASHNOTE

## Tupras Solid Performance in 4Q15, as Expected

**Tupras on Friday reported 4Q15 IFRS financials, along with information about its refining margin and sales volumes. Despite a weakening environment for refining, the company posted a strong 4Q performance, including a net margin of \$5.17/bbl (versus \$4.56/bbl in 4Q14) and EBITDA of \$422 mln. Net of inventory effects, clean EBITDA reached \$505 mln (compared with \$193 mln in 4Q14). Note that headline EBITDA includes a \$153 mln gain from crude hedges. Adjusted for this, EBITDA is in line with our \$283 mln forecast, but below the \$330 mln consensus estimate. On the back of the y-o-y improvement in the operating performance, the bottom line more than tripled y-o-y to TRY815 mln, a tad below our TRY846 mln estimate and the market expectation of TRY853 mln. The weaker than expected operating performance might spark a negative reaction today. But this should remain short-lived given the management's hint toward a strong dividend payment (we foresee 2015 DPS at TRY5.1) and a \$5.80-6.30/bbl net refining margin target for 2016 (versus our \$6.00/bbl estimate), which implies \$1.2-1.3 bln in EBITDA. In the absence of any major surprises, we keep our TRY82.00 per share target price and BUY recommendation for Tupras. The stock is trading at a 2016E EV/EBITDA of 5.8.**

- Middle distillate (jet fuel and diesel) and fuel oil cracks weakened Q-o-Q in 4Q15 amid concerns over Chinese economic growth and the seasonality effect. Gasoline cracks, on the other hand, were at record high levels thanks to high price ratios and strong demand in developed markets. Accordingly, Tupras reduced middle-distillate yields and kept gasoline output intact to optimize production. Nevertheless, the overall y-o-y weakness in product ratios resulted in an \$81 mln negative impact on the operating profit of Tupras versus 4Q14
- Tupras managed to raise its capacity utilization from 79% in 4Q14 to 106% in 4Q15 and processed 56.0 mln bbl of crude (up 38% y-o-y) with the contribution of the Residuum Upgrading (RUP) units. As a result, the company generated 7.3 mln tonnes of refined products (up 33%). Total sales volumes climbed 29% to 7.86 mln tonnes.
- Accordingly, Tupras produced a net refining margin of \$5.17/bbl (including \$0.76/bbl inventory loss) and outperformed the med-complex margin by \$1.63/bbl during the quarter.
- Due to prevailing weakness in middle distillate cracks, during Friday's conference call on the results the management guided for a \$3.50-4.00/bbl Mediterranean complex margin, down from \$4.80/bbl in 2015, while expecting Tupras' net refining margin to stay within the range of \$5.80-6.30/bbl, which is in line with our \$6.00/bbl forecast for the year. The management also hinted that they are planning to pay all the distributable income from 2015 earnings as dividends, which we estimate to be TRY5.1 per share, pointing to a 7.4% yield.

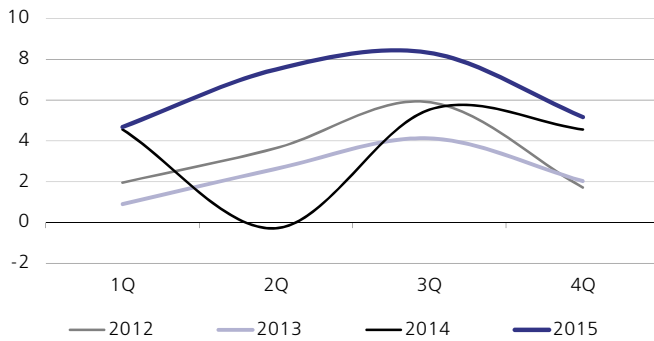
## Tupras 4Q15 IFRS results, TRY mln

|               | 4Q14  | 1Q15  | 2Q15   | 3Q15   | 4Q15  | Q-o-Q | y-o-y | 4Q15E | A/E | 4Q15C | A/C | 12m14  | 12m15  | y-o-y |
|---------------|-------|-------|--------|--------|-------|-------|-------|-------|-----|-------|-----|--------|--------|-------|
| Revenues      | 9,037 | 6,948 | 10,601 | 10,446 | 8,899 | -15%  | -16%  | 6,315 | 41% | 8,469 | 5%  | 39,723 | 36,893 | -7%   |
| EBITDA        | 67    | 400   | 1,075  | 1,119  | 1,189 | 6%    | 11%   | 822   | 45% | 960   | 24% | 804    | 3,784  | 371%  |
| EBITDA margin | 0.7%  | 5.8%  | 10.1%  | 10.7%  | 13.4% | -     | -     | 13.0% | -   | 11.3% | -   | 2.0%   | 10.3%  | -     |
| Net income    | 213   | 275   | 710    | 750    | 815   | 9%    | 15%   | 846   | -4% | 853   | -4% | 1,459  | 2,550  | 75%   |
| Net margin    | 2.4%  | 4.0%  | 6.7%   | 7.2%   | 9.2%  | -     | -     | 13.4% | -   | 10.1% | -   | 3.7%   | 6.9%   | -     |

C – Research Turkey consensus estimates.

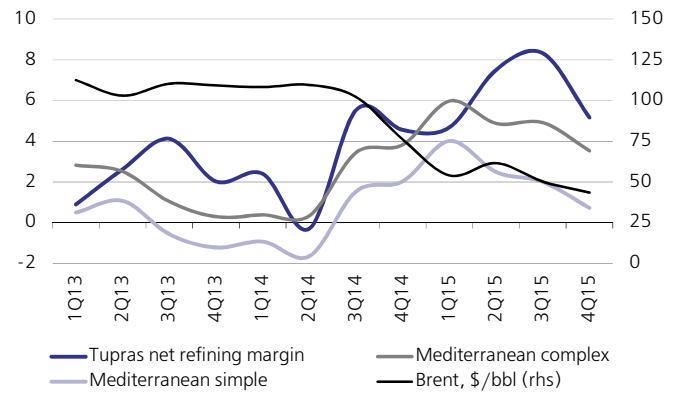
Source: Company, Research Turkey, Deniz Invest Research

## Tupras net refining margins, \$/bbl



Source: Company, Deniz Invest Research

## Net refining margins, \$/bbl



Source: Company, Deniz Invest Research

## Tupras production volumes and yields, mln tonnes

|                        | 3Q15        | 4Q15        | Q-o-Q       | 4Q14        | y-o-y        | 12m14        | 12m15        | y-o-y        |
|------------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| Gasoline               | 1.48        | 1.54        | 3.7%        | 1.26        | 21.7%        | 4.35         | 5.56         | 27.9%        |
| yield                  | 21.5%       | 20.6%       | -           | 22.8%       | -            | 21.7%        | 20.2%        | -            |
| Diesel                 | 2.29        | 2.54        | 11.0%       | 1.41        | 79.8%        | 5.31         | 8.22         | 54.9%        |
| yield                  | 33.3%       | 34.0%       | -           | 25.5%       | -            | 26.5%        | 29.8%        | -            |
| Jet fuel/gas oil       | 1.55        | 1.30        | -16.7%      | 0.92        | 40.5%        | 3.61         | 5.13         | 42.0%        |
| yield                  | 22.6%       | 17.3%       | -           | 16.6%       | -            | 18.0%        | 18.6%        | -            |
| LPG                    | 0.25        | 0.25        | -0.6%       | 0.18        | 36.5%        | 0.70         | 0.90         | 28.8%        |
| yield                  | 3.7%        | 3.4%        | -           | 3.3%        | -            | 3.5%         | 3.3%         | -            |
| Naphtha                | 0.07        | 0.05        | -35.1%      | 0.02        | 87.5%        | 0.10         | 0.26         | 163.7%       |
| yield                  | 1.0%        | 0.6%        | -           | 0.4%        | -            | 0.5%         | 1.0%         | -            |
| Fuel oil               | 0.52        | 0.41        | -20.9%      | 1.12        | -63.6%       | 3.48         | 2.91         | -16.5%       |
| yield                  | 7.5%        | 5.5%        | -           | 20.2%       | -            | 17.4%        | 10.5%        | -            |
| Asphalt                | 0.95        | 0.84        | -10.9%      | 0.45        | 85.2%        | 1.92         | 2.88         | 49.8%        |
| yield                  | 13.8%       | 11.3%       | -           | 8.2%        | -            | 9.6%         | 10.4%        | -            |
| Others                 | 0.16        | 0.40        | 153.9%      | 0.11        | 271.2%       | 0.42         | 1.07         | 153.7%       |
| yield                  | 2.3%        | 5.4%        | -           | 2.0%        | -            | 2.1%         | 3.9%         | -            |
| <b>Overall</b>         | <b>7.27</b> | <b>7.32</b> | <b>0.7%</b> | <b>5.49</b> | <b>33.4%</b> | <b>19.89</b> | <b>26.93</b> | <b>35.4%</b> |
| Overall yield          | 106%        | 98%         | -           | 99%         | -            | 99%          | 98%          | -            |
| <b>Crude processed</b> | <b>6.87</b> | <b>7.47</b> | <b>8.7%</b> | <b>5.54</b> | <b>34.8%</b> | <b>20.04</b> | <b>27.56</b> | <b>37.5%</b> |

Source: Company

## Tupras sales volumes by product group, mln tonnes

|                  | 3Q15        | 4Q15        | Q-o-Q        | 4Q14        | y-o-y        | 12m14        | 12m15        | y-o-y        |
|------------------|-------------|-------------|--------------|-------------|--------------|--------------|--------------|--------------|
| Gasoline         | 1.48        | 1.55        | 4.4%         | 1.23        | 25.8%        | 4.32         | 5.57         | 28.9%        |
| Diesel           | 2.63        | 2.61        | -0.9%        | 1.75        | 48.9%        | 6.80         | 9.24         | 35.9%        |
| Jet fuel/gas oil | 1.52        | 1.30        | -14.7%       | 0.95        | 36.9%        | 3.90         | 5.09         | 30.4%        |
| LPG              | 0.30        | 0.29        | -2.7%        | 0.22        | 33.0%        | 0.83         | 1.06         | 28.5%        |
| Naphtha          | 0.05        | 0.06        | 16.9%        | 0.04        | 34.1%        | 0.14         | 0.27         | 100.0%       |
| Fuel oil         | 0.52        | 0.79        | 51.5%        | 1.30        | -39.3%       | 3.96         | 3.74         | -5.6%        |
| Asphalt          | 1.08        | 0.90        | -16.3%       | 0.51        | 75.8%        | 1.95         | 2.88         | 47.7%        |
| Others           | 0.35        | 0.36        | 4.3%         | 0.08        | 351.5%       | 0.30         | 0.89         | 197.5%       |
| <b>Overall</b>   | <b>7.94</b> | <b>7.86</b> | <b>-0.9%</b> | <b>6.09</b> | <b>29.1%</b> | <b>22.19</b> | <b>28.74</b> | <b>29.5%</b> |

Source: Company

**Analyst certification**

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