

**Tupras (OP)**

15/02/2016

4Q15 Financial Results - Positive

**Strong operational results**

- Tupras disclosed a net profit of TL815mn in its 4Q15 results, 4.4% lower than the consensus estimates and 7% lower than our own estimate.
- Despite strong operating results, the higher than expected tax expense was the main reason that we missed the bottom line. Tupras recorded TL105mn in deferred tax expenses, while TL164mn in other income yielded a positive surprise (TL133mn were recorded as FX gains).
- The operating results were highly impressive with an EBITDA of TL1.19bn in 4Q15, way beyond the consensus and our own estimate.

**Strong margins despite the falling crude prices**

- Although generally the weakest quarter of the year, 4Q15 witnessed mild weather with snow showers only arriving during New Year's Eve, while Ural crude spreads widened in the same period. The Residuum Upgrade Project (RUP) was up and running at full capacity, and demand was buoyant. Therefore, Tupras recorded a net refining margin of USD5.17/bbl in 4Q versus USD4.56/bbl in the same period a year ago, which was weaker than the third quarter, but higher than the seasonal average. The Med complex margin was USD3.54/bbl vs. USD3.84/bbl in the same quarter a year ago.
- Capacity utilization was very high at 106% in 4Q15 (4Q14:79%) with a quarterly volume production of 7.4mn tons in 4Q. While the domestic sales volume jumped by 45% YoY to 6.2mn tons in 4Q, exports were down 9% YoY to 1.6mn tons in the quarter.

**Market positive reaction**

- We expect a market positive reaction to the 4Q15 results due to the strong operational outcome, even though the bottom line missed the expectations. Tupras will continue on distributing the maximum amount of dividend distribution policy, which will be announced in a few weeks time. We maintain our Outperform recommendation for Tupras.

4Q15	Announced	Consensus	Garanti
Net Sales (TLmn)	8,899	8,469	7,994
EBITDA (TLmn)	1,189	960	805
EBITDA Margin (%)	13.4%	11.3%	10.1%
Net Profit (TLmn)	815	853	874

Share Price	12M Target Price	Potential Return
TL68.30	TL86.40	27%
Mcap		
TL17,104mn	USD5,840mn	

Stock Market Data			
Bloomberg/Reuters:	TUPRS.TI / TUPRS.IS		
Rel. Performance:	1 mth	3 mth	12 mth
	-7%	3%	54%
12M Range (TL):	50.35 / 78.45		
Aver. Daily Vol. (US\$m) 3 mth:	35.5		
YTD TL Return:	-2%		
Shares Outstanding (mn):	250		
Free Float (%):	49		

Financials and Ratios	2014	2015	2016E	2017E
Net Sales (TLmn)	39,723	36,893	42,635	46,108
EBITDA (TLmn)	789	3,784	4,714	4,880
Net Profit (TLmn)	1,459	2,550	3,361	3,319
EBITDA Margin	2.0%	10.3%	11.1%	10.6%
P/E (x)	11.7	6.7	5.1	5.2
EV/EBITDA (x)	30.4	6.3	5.1	4.9
EV/Sales (x)	0.60	0.65	0.56	0.52
EPS (TL)	5.83	10.18	13.42	13.25

Tupras Summary Financials (mn TL)	4Q14	1Q15	2Q15	3Q15	4Q15	12M14	12M15	Change		
								4Q15/4Q14	4Q15/3Q15	12M15/12M14
<b>Net Sales</b>	<b>9,037</b>	<b>6,948</b>	<b>10,601</b>	<b>10,446</b>	<b>8,899</b>	<b>39,723</b>	<b>36,893</b>	<b>-2%</b>	<b>-15%</b>	<b>-7%</b>
<b>Gross Profit</b>	<b>226</b>	<b>499</b>	<b>1,154</b>	<b>1,219</b>	<b>1,303</b>	<b>1,263</b>	<b>4,175</b>	<b>476%</b>	<b>7%</b>	<b>231%</b>
<b>Operating Profit</b>	<b>-16</b>	<b>327</b>	<b>963</b>	<b>988</b>	<b>1,021</b>	<b>531</b>	<b>3,298</b>	<b>n.m.</b>	<b>3%</b>	<b>521%</b>
<b>EBITDA</b>	<b>52</b>	<b>400</b>	<b>1,075</b>	<b>1,119</b>	<b>1,189</b>	<b>789</b>	<b>3,784</b>	<b>2167%</b>	<b>6%</b>	<b>380%</b>
Net Other Income/Expense	49	-223	-93	-394	164	-95	-546	233%	n.m.	n.m.
Financial Inc./ Exp. (net)	-67	-111	-192	-128	-168	-235	-599	n.m.	n.m.	n.m.
Tax	312	308	4	252	-225	1,286	339	n.m.	n.m.	-74%
Taxation on Inc. (Exp.)	-3	-2	-4	-7	-121	-5	-133	n.m.	n.m.	n.m.
Inc. (Exp.) of Deferred Tax	315	309	8	259	-105	1,292	472	n.m.	n.m.	-63%
Minority Interests	4	3	3	0	7	11	14	79%	1320%	23%
<b>Net Income</b>	<b>213</b>	<b>275</b>	<b>710</b>	<b>750</b>	<b>815</b>	<b>1,459</b>	<b>2,550</b>	<b>283%</b>	<b>9%</b>	<b>75%</b>
Net Cash	-3,857	-6,400	-6,923	-8,362	-6,892	-3,857	-6,892			
Working Capital	3,070	1,182	55	-1,076	-764	3,070	-764			
Shareholders Equity	6,213	6,297	6,975	7,281	8,368	6,213	8,368			
Ratios										
Gross Margin	2.5%	7.2%	10.9%	11.7%	14.6%	3.2%	11.3%	12.1 pp	3 pp	8.1 pp
Operating Margin	n.m.	4.7%	9.1%	9.5%	11.5%	1.3%	8.9%	n.m.	2 pp	7.6 pp
<b>EBITDA Margin</b>	<b>0.6%</b>	<b>5.8%</b>	<b>10.1%</b>	<b>10.7%</b>	<b>13.4%</b>	<b>2.0%</b>	<b>10.3%</b>	<b>12.8 pp</b>	<b>2.6 pp</b>	<b>8.3 pp</b>
Net Profit Margin	2.4%	4.0%	6.7%	7.2%	9.2%	3.7%	6.9%	6.8 pp	2 pp	3.2 pp

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### Inventory hedge, inventory losses

Tupras recorded USD83.4mn in inventory losses (USD42.8mn from crude inventory and USD40.7mn from product inventory) compared to the USD207mn loss recorded in 4Q15 (USD101.6mn in losses in 3Q15). Meanwhile, the depreciation of the TL led to a net FX gain of TL133mn from A/R and A/P. Tupras hedged its 12mn barrels of inventory at USD51.67/bbl with maturity price of USD38.9bbl, yielding a difference of USD12.7, which generated USD152.4mn (TL445.1mn) in hedge income accounted in the balance sheet under other assets. This amount was collected on January 8, 2016.

### Financial expenses

Tupras booked TL168mn in financial expenses in 4Q15 with TL81mn comprised of interest expenses. The Company recorded TL105mn in deferred tax expenses in the quarter.

### 2016 Management guidance

- Average Brent prices are expected to be **USD45-55/bbl band**, higher than the EIA estimate of USD38/bbl.
- Its projection for the **Med Complex Margin is USD3.5-4.0** per barrel
- Tupras' **net margins** is expected to be **USD5.8-6.3 per barrel**
- 2016 **CUR** to be around **100%**
- Total **production** is estimated to be **c.28mn tons**
- Total **sales** volume is expected to be **30mn tons**
- **CAPEX** is expected to be **USD270mn**

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## Definition of Stock Ratings

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OUTPERFORM (OP)	The stock's return is expected to exceed the return of the BIST100 over the next 12 months.
MARKET PERFORM (MP)	The stock's return is expected to be in line with the BIST100 over the next 12 months.
UNDERPERFORM (UP)	The stock's return is expected to fall below the return of the BIST100 over the next 12 months.

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