

# Tupras

**NEUTRAL**

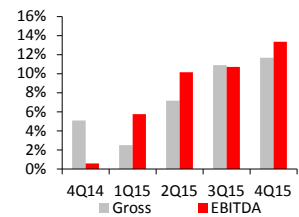
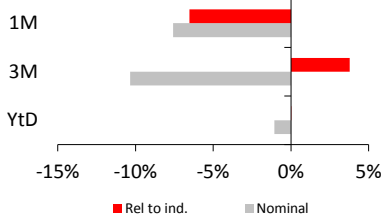
Current price: TRY68.85  
12-mo T.Price: TRY88.50

## 4Q15 Earnings Comment

Analyst Hakan Deprem  
+90 (212) 334 94 62

[hakan.deprem@akyatirim.com.tr](mailto:hakan.deprem@akyatirim.com.tr)

4Q15 Actual result vs. estimates				Share Price performance		Margins
TLmn	Actual	Cons.	Ak			
Revenue	8,899	8,469	9,585	1M		
EBITDA	1,189	960	1,019	3M		
margin	13.4%	11.3%	10.6%	YtD		
Net Inc.	815	853	908			



### Comment: Bottom-line slightly below estimates due to higher than expected tax expense

- ✓ Tupras announced a net profit of TRY815mn in 4Q15, slightly below the consensus estimate of a TRY853mn net profit and our own estimate of a TRY908mn net profit. The main reason for the deviation was the tax expense of TRY225mn, which was in contrast with our estimate of a deferred tax gain of TRY120mn. On the other hand, the company's 4Q15 EBITDA of TRY1,189mn exceeded the consensus estimate of TRY960mn and our own estimate of TRY1,019mn.
- ✓ We maintain our 2016 EBITDA forecast at TRY4,310mn while revising down our bottom line forecast slightly from TRY2,426mn to TRY2,369mn due to a higher expected level of depreciation.
- ✓ Tupras shares have outperformed the BIST-100 Total Return Index by 4% in the last 3 months. The 4Q15 results should be slightly positive for the share price in the short term. We maintain our "Outperform" rating with a slight upward revision in 12-month target price from TRY85.25/sh to TRY88.50/sh.
- ✓ Note that 2015 tax financials, which would be the reference for the dividend to be distributed, have not been announced yet. Furthermore no details have been announced regarding the dividend planned to be distributed. We expect a DPS of TRY5.59 per share, implying a yield of 8.1%.

### Key Highlight: Stronger-than-expected operational profitability

- ✓ Tupras generated EBITDA of TRY1,189mn in 4Q15, above the consensus estimate of TRY960mn and our own estimate of TRY1,019mn. The net refining margins in the Mediterranean region in 4Q15 were slightly lower than in the previous year (Med complex margin 4Q15: US\$3.54/bbl, 3Q15: US\$4.92/bbl, 4Q14: US\$3.84/bbl). Diesel and jet fuel crack margins weakened towards the end of 2015, mainly due to concerns regarding the slowdown in Chinese economic growth, decreased consumption in the winter because of the El-Nino effect and the amount of additional new refining capacity in the Middle East and China. On the other hand, Tupras succeeded in improving its net refining margin from US\$4.56/bbl in 4Q14 to US\$5.17/bbl mainly on the back of the RUP, which entered operation in 2Q15. Furthermore, the US\$153mn gain from hedging of crude oil in addition to lower product inventory loss (4Q15: US\$41mn loss, 4Q14: US\$143mn loss) resulted in a jump in EBITDA from US\$23mn in 4Q14 to US\$409mn in 4Q15.

- ✓ Tupras guided for a Brent crude oil price of US\$45-55/bbl for 2016 (our forecast: US\$40/bbl), a 2016 Med complex margin of US\$3.50-4.00/bbl (our forecast: US\$3.92/bbl, with the Jan-Feb 2016 average of US\$4.70/bbl) and a 2016 net refining margin of US\$5.80-6.30/bbl (our forecast: US\$6.30/bbl). Furthermore, the management guides for a crude oil capacity utilization rate (CUR) of around 100%, in line with our estimate. The management guides for total production of 28mn tonnes and sales volume of 30mn tonnes. Note that Tupras operated at a CUR of 102.5% in 2015 with a total production volume of 26.9mn tonnes (up by 35.4% YoY) and total sales volume of 28.7mn tonnes (up by 29.5% YoY).
- ✓ The management's guidance above does not include any downward revision in natural gas prices. We also do not include any change in natural gas prices. A 10% decline in natural gas prices as of June 2016 would lead to around 1% increase in our 2016 EBITDA forecast.
- ✓ The management expects a slight loss of production as a result of the fire that broke out in the RUP on February 3, but thinks that the impact of the loss would be covered throughout the year.
- ✓ Tupras stated that they did not increase the crude oil procurement from Iran following the easing in sanctions, but they would consider doing so going forward depending on the discount.

Key P&L items, TRYmn	4Q15	4Q14	YoY Ch.	3Q15	QoQ chg.	2015	2014	YoY Chg.
<b>Revenues</b>	8,899	9,037	-1.5%	10,446	-14.8%	36,893	39,723	-7.1%
<b>Gross Profit</b>	1,303	226	476.3%	1,219	6.9%	4,175	1,263	230.6%
Gross marg.	14.6%	2.5%		11.7%		11.3%	3.2%	
<b>EBITDA</b>	1,189	52	2167.0%	1,119	6.2%	3,784	789	379.5%
EBITDA marg.	13.4%	0.6%		10.7%		10.3%	2.0%	
<b>Net Profit</b>	815	213	283.1%	750	8.7%	2,550	1,459	74.8%

Key B/S items, TRYmn	4Q15	3Q15	2Q15	1Q15	4Q14
<b>Net debt</b>	7,720	9,148	7,667	7,112	4,544
<b>FX pos. (US\$ mn)</b>	-1,709	-1,925	-1,774	-1,858	-1,969
<b>OP. cash flow</b>	1,333	25	-3	-1,229	658
<b>Free cash flow</b>	1,099	-191	-193	-1,478	4

**DISCLAIMER**

This report has been prepared by Ak Investment (Ak Yatırım Menkul Değerler A.Ş.) by using the information and data obtained from sources which are reasonably believed to be trustworthy. The statements indicated in the report should not be assumed to be sales or purchase offers under any circumstances. Ak Investment does not guarantee that the information contained is true, accurate and unchangeable. Thus, the readers are advised to have the accuracy of the information contained confirmed before acting by relying on such information and the readers shall bear the responsibility of the decisions taken by relying thereon. Ak Investment shall not in any case be responsible for incompleteness and inaccuracy of the information. Furthermore, the personnel and consultants of Ak Investment and Akbank shall not have any responsibility in any case for direct or indirect damage caused by such information. Moreover, Ak Investment shall not be held liable for any damage to the hardware or software of the receiver caused by a virus, detected transfer or any other technical reason in case of the receipt of the reports via internet or through e-mail.

**IMPORTANT DISCLOSURES FOR U.S. PERSONS**

This research report was prepared by Ak Yatirim Menkul Degerler A.S. ("AK INVESTMENT"), a company authorized to engage in securities activities in Turkey. AK INVESTMENT is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 20 Broad Street 26th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through AK INVESTMENT. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

**Ownership and Material Conflicts of Interest**

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication

**Compensation and Investment Banking Activities**

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

#### Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither AK INVESTMENT nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

AK INVESTMENT may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of AK INVESTMENT.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by AK INVESTMENT with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of AK INVESTMENT and AK INVESTMENT accepts no liability whatsoever for the actions of third parties in this respect.