

Tupras

Downgraded to NEUTRAL

Current price: TRY71.40
12-mo T.Price: TRY79.00

1Q16 Earnings Comment

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1Q16 Actual result vs. estimates				Share Price performance		Margins	
TRYmn	Actual	Cons.	Ak				
Revenue	6,191	6,352	6,045	1M	Rel to ind.	Gross	EBITDA
EBITDA	398	669	694	3M	Nominal		
margin	6.4%	10.5%	11.5%	YtD			
Net Inc.	79	468	437				

Comment: Bottom-line below estimates due to weaker than expected operational performance

- ✓ Tupras announced a net profit of TRY79mn in 1Q16, below the consensus estimate of a TRY468mn net profit and our own estimate of a TRY437mn net profit. The main reason for the deviation was the weaker-than-expected operating performance. The refiner's 1Q16 EBITDA of TRY398mn was sharply below both the consensus estimate of TRY669mn and our own estimate of TRY694mn due to the weaker-than-expected refining margins of US\$2.81/bbl compared to our estimate of US\$4.34/bbl. Note that production at the hydrocracker unit in the RUP was suspended between February 3 and March 8 after the unit sustained local damage in the fire that broke out on 3 February in the Izmit refinery, while operations were again halted between March 13 and April 7 due to the maintenance work carried out at the same unit. In our view, the suspension of production at the hydrocracker unit in the RUP had also negatively affected the company's net refining margin in 1Q16 in addition to the seasonality.
- ✓ Considering the weaker than expected 1Q16 results, as well as the ongoing weakness in Mediterranean refining margins, we have revised down our 2016 EBITDA forecast from TRY4,311mn to TRY3,475mn while revising down our bottom-line forecast from TRY2,369mn to TRY1,883mn due to the downward revision in our net refining margin forecast from US\$6.30/bbl to US\$5.54/bbl as well as changes in our exchange rate assumptions. Our 2017 EBITDA forecast stands at TRY4,213mn (previously: TRY4,366mn) and net profit forecast at TRY2,728mn (previously: TRY2,510mn)
- ✓ Tupras shares have traded flat vs. the BIST-100 Total Return Index in the last 3 months. The 1Q16 results should be negative for the share price in the short term. We downgrade our rating to "Neutral" from "Outperform" with a downward revision in the 12-month target price from TRY82.00/share to TRY79.00/share.

Key Highlight: Somewhat disappointing operational profitability

- ✓ Tupras generated an EBITDA of TRY398mn in 1Q16, below the consensus estimate of TRY669mn and our own estimate of TRY694mn. The net refining margins in the Mediterranean region in 1Q16 declined to US\$3.84/bbl in 1Q16 from US\$5.98/bbl in 1Q15 mainly due to the weakness in diesel cracks. The company's net refining margins were negatively affected by seasonality (the low demand season) in addition to the production halt at the RUP due to the fire in 1Q16. Tupras's net refining margin declined from US\$4.69/bbl in 1Q15 to US\$2.81/bbl in 1Q16.

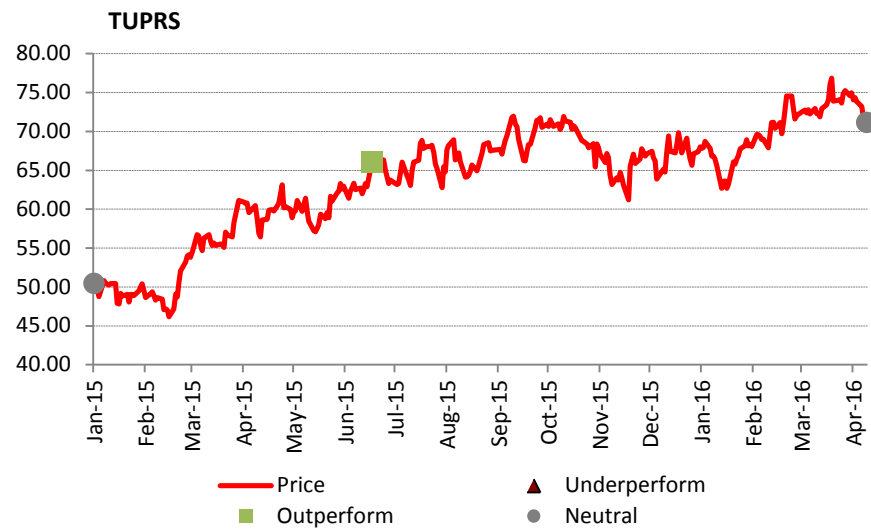
- ✓ Note that the weakness in refining margins continued in April 2016 with a level of US\$2.89/bbl compared to the US\$4.47/bbl margin recorded in April 2015. Weaker diesel cracks appear to have put pressure on regional refining margins. We revised down our MED refining margin forecast from US\$3.92/bbl to US\$3.37/bbl in 2016.
- ✓ Tupras guided for a Brent crude oil price of US\$45-55/bbl for 2016, a 2016 Med complex margin of US\$3.50-4.00/bbl (our forecast: US\$3.37/bbl) and a 2016 net refining margin of US\$5.50-6.00/bbl (previously: US\$5.80-6.30/bbl), compared to our forecast of US\$5.54/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 in 2016.

Key P&L items, TRYmn	1Q16	1Q15	YoY Ch.	4Q15	QoQ chg.	2015	2014	YoY Chg.
Revenues	6,191	6,948	-10.9%	8,899	-30.4%	36,893	39,723	-7.1%
Gross Profit	491	499	-1.6%	1,303	-62.3%	4,175	1,263	230.6%
Gross marg.	7.9%	7.2%		14.6%		11.3%	3.2%	
EBITDA	398	400	-0.4%	1,189	-66.5%	3,784	789	379.5%
EBITDA marg.	6.4%	5.8%		13.4%		10.3%	2.0%	
Net Profit	79	275	-71.3%	815	-90.3%	2,550	1,459	74.8%

Other Key Items, TRYmn	1Q16	4Q15	3Q15	2Q15	1Q15
Net debt	7,267	7,720	9,148	7,667	7,112
FX pos. (US\$ mn)	-1,637	-1,709	-1,925	-1,774	-1,858
OP. cash flow	384	1,333	25	-5	-1,227
Free cash flow	205	1,099	-191	-195	-1,476

RATING HISTORY

Tupras – Rating History



Source: Ak Invest

With this report, we downgrade our rating for Tupras to “Neutral” from “Outperform”. Our 12-month target price is TRY79.00/share implying 11% upside potential on the last closing price.

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Neutral. A neutral rating would convey an expectation that the stock will perform broadly in line with the BIST-100 (XU100) Total Return Index.

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Not Rated (N/R). A not rated rating is assigned when the analyst does not have adequate conviction about the stock's total return relative to the BIST-100 (XU100) Total Return Index or to the average total return of the analyst's industry coverage universe, on a risk-adjusted basis, over the next 6 to 12 months.

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