

TUPRAS (TUPRS TI)

Outperform

Upgraded on better gasoline cracks & higher peer multiples

- We are revising our 12M TP to TL125 (from TL90) and upgrading Tupras to Outperform. This was driven by upward revision in gasoline cracks as well as higher contribution from peer multiples to the valuation.
- Based on our revised estimates, our EBITDA for 2017E and 2018E are 16% and 30% above the Bloomberg consensus for Tupras.
- We now foresee 62% y/y EBITDA growth and 93% y/y net income growth for 2017E. (Previously 32% and 60% y/y growth). We also expect Tupras to pay out TL12/per share 2017E dividend, indicating 12% dividend yield.

Strong 2Q17 will be the S/T catalyst. We expect Tupras to generate TL1.4bn EBITDA and TL920mn net income in 2Q17. Tupras' 1H17E EBITDA of TL2.9bn should be a major catalyst for a potential upward revision of 2017E Bloomberg consensus of TL4.5bn.

Discount to peers extends. Tupras is currently trading at 5.9x 2017E EV/EBITDA, implying 21% discount compared to global median of 7.5x. In last 5yrs, Tupras traded at a 16% premium to its peers. We believe that Tupras' better crude slate, favorable product mix, solid FCF generation capability and huge dividend yield outlook will lead to decline of discount to its peers.

We revised up gasoline cracks. In 2Q17, gasoline cracks averaged at US\$14.3/bbl, well above our initial estimate of US\$12.9/bbl. This was mainly due to some structural changes (i.e. some Latin American and African countries became net gasoline importer) in gasoline market. That said, gasoline export market will be more vivid than previously estimated. We believe that the structural changes in the sector will prevail throughout the year. Thus, we revised up our 2H17E gasoline crack estimate by 4.5% to US\$13.8/bbl, leading to 2017E average of US\$13.8/bbl vs. US\$13.3/bbl in 2016.

Estimates revised up. We increased our 2017E EBITDA estimate by 23% to TL5.2bn and net income estimate by 21% to TL3.5bn, mainly due to the upward revision in gasoline crack estimates.

Risks; 1) Lower diesel / fuel oil may lead to lower EBITDA generation, **2)** Socar's new refinery may increase the competition in diesel market.

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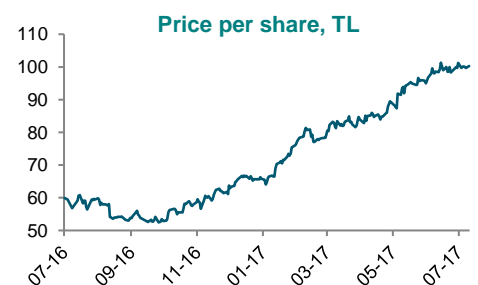
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Valuation

Current Price, TL	102.1
12-mth Target Price, TL	125.0
Expected Dividend Yield	11.8%
Expected Price Appreciation	19%
Total Upside	31%

Stock Data

MCap, TL mn	25,568
MCap, US\$ mn	7,097
Enterprise Value, TL mn	30,034
Free float, %	49%
Average Daily Turnover, TL mn	77.4



Financials, TL mn	2014	2015	2016	2017E	2018E
Net Sales	39,723	36,893	34,855	48,970	60,800
growth	-3%	-7%	-6%	40%	24%
EBITDA	789	3,735	3,195	5,176	5,671
Net Income	1,459	2,550	1,793	3,468	4,113
EBITDA Margin	2.0%	10.1%	9.2%	10.6%	9.3%
Net Margin	3.7%	6.9%	5.1%	7.1%	6.8%
Dividend Yield	0.0%	5.4%	6.1%	11.8%	12.9%
EV/EBITDA	38.5x	8.1x	9.5x	5.9x	5.4x
P/E	17.5x	10.x	14.3x	7.4x	6.2x

Source: Ata Invest Estimates

Share Perf.	1M	3M	1Y
Absolute	4%	19%	74%
Relative to ISE100	-1%	4%	36%

Income Statement (TL mn)	2014	2015	2016	2017E	2018E
Operational revenues	39,723	36,893	34,855	48,970	60,800
EBITDA	789	3,735	3,195	5,176	5,671
Depreciation & other adjustments	258	486	541	592	641
EBIT	531	3,249	2,654	4,584	5,030
Other income, net	-95	-498	-296	-9	90
Profit/loss from subsidiaries	-16	70	159	282	327
Financial income, net	-236	-596	-572	-623	-555
Profit before tax	184	2,225	1,944	4,234	4,891
Net income after taxes	1,470	2,564	1,813	3,488	4,158
Minority interest	11	14	20	20	45
Reported net income	1,459	2,550	1,793	3,468	4,113
Reported EPS	5.83	10.18	7.16	13.85	16.42

Tupras

Sector: Oil Refining
 Bloomberg Ticker: TUPRS TI
 Ata Rating: OUTPERFORM

Balance Sheet (TL mn)	2014	2015	2016	2017E	2018E
Cash & cash equivalents	3,898	2,934	4,638	8,377	4,667
Trade receivables	170	2,540	1,955	3,959	4,916
Inventories	2,371	2,102	2,225	4,363	4,242
Fixed assets	10,724	11,539	11,548	12,421	12,662
Financial investments	4	4	4	4	4
Goodwill	0	0	0	0	0
Other Assets	4,766	6,257	5,788	8,496	7,748
Total Assets	21,933	25,377	26,158	37,621	34,238
Financial borrowing	7,755	9,826	11,035	13,728	9,492
Trade payables	5,610	3,861	3,441	8,125	7,490
Other liabilities	2,355	3,322	3,148	5,729	6,158
Minority Interest	56	63	67	115	88
Shareholders' Equity	6,157	8,305	8,467	9,925	11,010
Net Debt	3,857	6,892	6,397	5,351	4,826

Descriptive Summary

Tupras is the sole refiner in Turkey, having 28mn tons of crude cracking capacity. Tupras meets ~2/3 of overall domestic demand, where the company procures crude from different countries. 51% of Tupras is controlled by Enerji Yatirimlari A.S. while the rest is freely floated in the ISE.

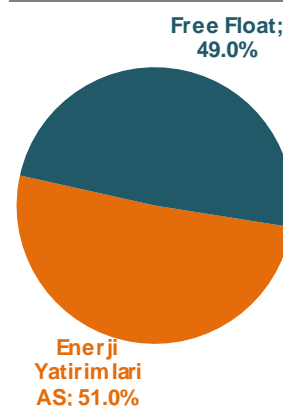
Cash Flow Summary (TL mn)	2014	2015	2016	2017E	2018E
Net earnings before tax & MI	184	2,225	1,944	4,234	4,891
Depreciation	258	486	541	592	641
Δ in WCR	1,689	-3,851	43	541	-1,470
Taxes	1,286	339	-131	-746	-734
CAPEX	2,098	769	770	1,262	837
Dividend paid	396	0	1,381	1,555	3,027
Δ in borrowing	1,233	2,071	1,209	2,693	-4,235
Cash generated during the year	235	-964	1,704	3,739	-3,710
Cash at the end of the year	3,898	2,934	4,638	8,377	4,667

Growth	2014	2015	2016	2017E	2018E
Sales	-3.3%	-7.1%	-5.5%	40.5%	24.2%
EBITDA	-22.2%	373.4%	-14.5%	62.0%	9.6%
Net earnings	21.9%	74.8%	-29.7%	93.4%	18.6%

Key financial ratios	2014	2015	2016	2017E	2018E
ROE	25.9%	35.3%	21.4%	37.7%	39.3%
EBITDA margin	2.0%	10.1%	9.2%	10.6%	9.3%
Net Margin	3.7%	6.9%	5.1%	7.1%	6.8%
Net debt/EBITDA	4.89	1.85	2.00	1.03	0.85
Equity/Total Assets	28.3%	33.0%	32.6%	26.7%	32.4%
Leverage	2.5	2.0	2.1	2.7	2.1
Cash dividend pay-out	-33.1%	0.0%	-54.2%	-86.7%	-87.3%

Key Assumptions	2014	2015	2016	2017E	2018E
Brent Oil (US\$/bbl)	99	52	44	51	60
White product ratio	72%	75%	76%	79%	79%
Diesel Cracks	15.3	14.1	9.3	11.0	11.0
Gasoline Cracks	12.6	16.2	13.3	13.8	13.8

Ownership Structure



* Enerji Yatirimlari is an SPV owned by Koc Holding and Aygaz

Estimate Revisions - Higher margins due to change in gasoline crack estimates

We increased our 2017E EBITDA estimate by 23% to TL5.2bn mn and net income estimate by 21% to TL3.5bn, mainly due to the upward revisions in our gasoline crack estimates.

Exhibit Tupras – Valuation Summary

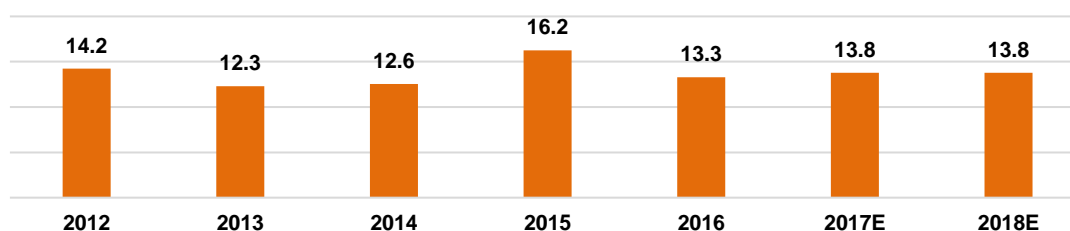
TL mn	2015	2016	New	2017E		2018E		
				Old	Revision	New	Old	Revision
CUR	98%	100%	99%	99%	34 bps	100%	100%	-4 bps
Sales Volume (mn tons)	28.7	30.3	30.2	30.3	0%	30.3	30.3	0%
Domestic	22.2	24.8	24.5	24.7	-1%	24.8	25.5	-3%
Export	6.5	5.5	5.7	5.5	4%	5.5	4.8	14%
Product Cracks (US\$/bbl)								
Diesel	14.1	9.3	11.0	11.0	0%	11.0	11.0	0%
Gasoline	16.2	13.3	13.8	13.1	5%	13.8	13.6	2%
US\$mn								
Revenues	13,572	11,529	13,540	14,032	-4%	15,985	19,507	-18%
EBITDA	1,374	1,057	1,431	1,151	24%	1,491	1,317	13%
Net Income	938	593	959	783	22%	1,081	863	25%
EBITDA Margin	10.1%	9.2%	10.6%	8.2%	237 bps	9.3%	6.8%	257 bps
TLmn								
Revenues	36,893	34,855	48,970	51,351	-5%	60,800	61,904	-2%
EBITDA	3,735	3,195	5,176	4,213	23%	5,671	4,180	36%
Net Income	2,550	1,793	3,468	2,867	21%	4,113	2,738	50%
EBITDA Margin	10.1%	9.2%	10.6%	8.2%	237 bps	9.3%	6.8%	257 bps

Source: Tupras, Ata Invest Estimates

In 2Q17, gasoline cracks averaged at US\$14.3/bbl, well above our initial estimate of US\$12.9/bbl. This was mainly due to some structural changes (i.e. some Latin American and African countries turned out to be net importer in gasoline and a gasoline-oriented refinery in MENA region shutdown) in gasoline market. That said, gasoline export market will be more vivid than previously estimated. We believe that the structural changes in the sector will prevail throughout the year. Thus, we revised up our 2H17E gasoline crack estimate by 4.5% to US\$13.8/bbl, leading to 2017E average of US\$13.8/bbl vs. US\$13.3/bbl in 2016.

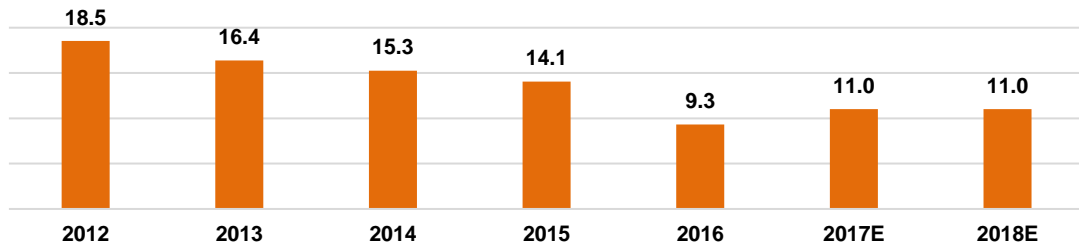
We kept our diesel crack estimate unchanged at US\$11/bbl for 2017E and 2018E, following US\$9.3/bbl.

Exhibit Tupras – Med Complex Gasoline Crack (US\$/bbl)



Source: Tupras, Ata Estimates

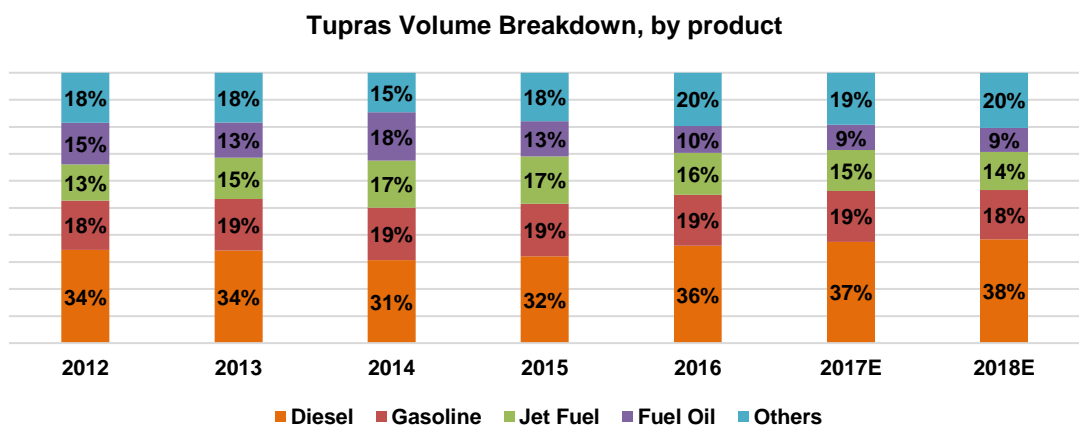
Exhibit Tupras – Med Complex Diesel Crack (US\$/bbl)



Source: Tupras, Ata Estimates

We assume Tupras to run at full capacity (of 28mn tons) in 2017E and 2018E, while expecting 30.2mn tons and 30.3mn tons of sales volume for 2017E and 2018E.

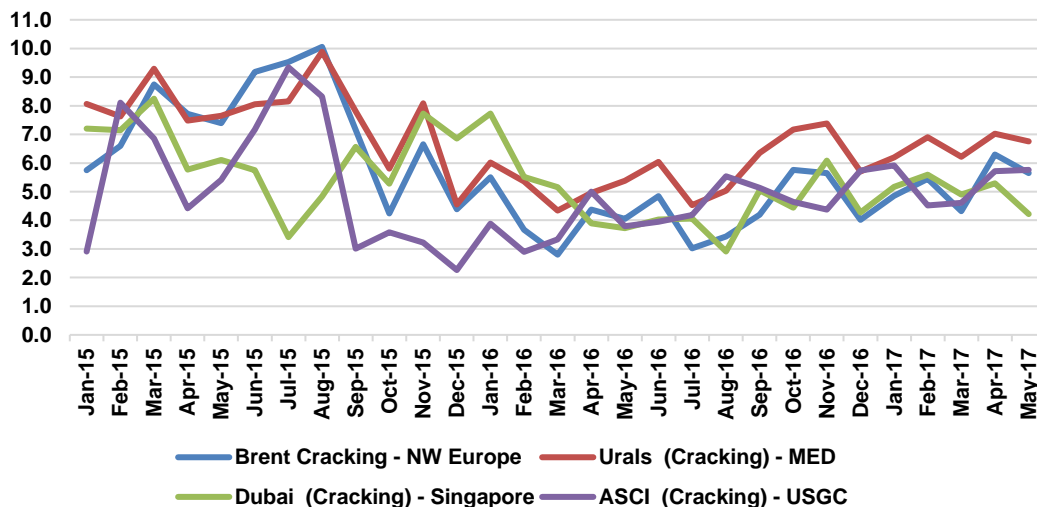
Exhibit Tupras – Volume Breakdown by product



Source: Tupras, Ata Estimates

Following a weak year of 2016, regional refining margins are gaining pace in 2017. This was mainly due to the recovery in diesel and gasoline cracks, from the beginning of 2017.

Exhibit Tupras – Regional refining margins



Source: EIA

Ata vs. Consensus: Where do we stand?

Our EBITDA estimates for 2017E and 2018E are 16% and 30% above the Bloomberg consensus for Tupras.

Exhibit Tupras – Ata vs. Bloomberg Consensus

	2017E			2018E		
	Ata	Bloomberg	Diff.	Ata	Bloomberg	Diff.
Revenues	48,970	52,516	-7%	60,800	58,047	5%
EBITDA	5,176	4,452	16%	5,671	4,346	30%
Net Profit	3,468	2,724	27%	4,113	2,717	51%
EBITDA Margin	10.6%	8.5%	209 bps	9.3%	7.5%	184 bps
Net Margin	7.1%	5.2%	190 bps	6.8%	4.7%	208 bps

Source: Bloomberg, Ata Invest Estimates

Valuation

We use a 75/25 blend of DCF/Peer comparison valuation for Tupras. Our new target price for Tupras stands at TL125 vs. the previous of TL90. The main reason for the upward revision comes from the higher than expected gasoline cracks in particularly in 2Q17 and better outlook in 2H17 & onwards.

Exhibit Tupras – Valuation Summary

Methodology	Implied Value (US\$m)	Weight	Contribution (TLmn)
Discounted Cash Flow	9,345	75%	7,009
Peer Comparison	9,064	25%	2,266
12M Target Mcap			9,275
Current Mcap			7,097
Upside Potential			31%
Current Share Price (TL)			102.1
12M Target Share Price			137
DPS			12
12M Target Share Price (TL- exc. dividend)			125.0

Source: Ata Invest estimates

Exhibit Tupras – DCF Summary

US\$m	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue (US\$m)	13,540	15,985	16,191	16,472	16,847	17,358	18,031	18,923	20,113
EBITDA (US\$m)	1,431	1,491	1,296	1,197	1,172	1,104	1,151	1,177	1,255
NOPAT	1,139	1,124	957	874	852	794	833	856	921
Nopat Margin	8%	7%	6%	5%	5%	5%	5%	5%	5%
CAPEX	349	220	200	200	200	200	200	200	200
Depreciation	164	169	169	169	169	170	170	171	171
Δ in WCR	-157	374	-7	0	13	7	17	21	30
FCF	1,110	699	934	843	808	757	786	805	862
WACC	9.4%	9.4%	9.4%	9.4%	9.5%	9.5%	9.5%	9.4%	9.4%

Net Debt 1,555

Fair Value (12M) 9,342

Source: Ata Invest Estimates

Peer Comparison

Tupras is currently trading at 5.9x 2017E EV/EBITDA, implying 21% discount compared to global median of 7.5x. In last 5y, Tupras traded at 16% premium to its peers. We believe that Tupras' better crude slate, favorable product mix, solid FCF generation capability and huge dividend yield outlook will lead to decline of discount to its peers.

Exhibit Tupras – Peer Comparison

	Mcap	P/E		EV/EBITDA		EBITDA Margin		Net Margin		Div. Yield		
		2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	
US Refineries	CVR REFINING LP	1,432	9.8	10.2	5.0	5.0	6.2%	6.4%	2.7%	2.9%	5.3%	9.1%
	MARATHON PETROLEUM CORP	27,545	18.4	14.9	8.5	7.5	7.6%	8.1%	2.2%	2.4%	2.8%	3.1%
	WESTERN REFINING INC	3,937	27.1	15.4	9.2	7.4	7.6%	9.7%	1.5%	2.9%	4.2%	4.3%
	VALERO ENERGY CORP	30,421	14.9	11.5	6.6	5.7	6.4%	6.6%	2.4%	2.7%	4.1%	4.4%
	TESORO CORP	15,200	19.2	13.3	7.9	6.4	9.1%	10.9%	2.1%	3.2%	2.4%	2.6%
	PHILLIPS 66	42,751	19.5	13.7	10.2	8.3	4.9%	5.7%	2.1%	2.7%	3.2%	3.5%
	HOLLYFRONTIER CORP	4,971	22.2	12.6	8.4	6.6	7.3%	9.4%	1.9%	3.3%	4.8%	4.9%
	PBF ENERGY INC-CLASS A	2,499	22.5	9.3	7.5	5.2	3.3%	4.7%	0.5%	1.4%	5.3%	5.2%
European Refineries	GRUPA LOTOS SA	2,569	11.2	9.7	6.0	5.6	10.1%	9.5%	3.8%	3.7%	0.2%	1.3%
	NESTE OYJ	10,064	13.1	12.9	7.5	7.6	10.1%	9.5%	5.3%	5.2%	3.7%	3.8%
	POLSKI KONCERN NAFTOWY ORLEN	12,701	9.5	11.1	6.0	6.5	9.2%	8.0%	5.1%	4.2%	2.6%	2.8%
	SARAS SPA	2,281	9.6	13.8	3.8	4.4	6.6%	5.2%	2.4%	1.7%	5.6%	4.5%
	MOTOR OIL (HELLAS) SA	2,351	7.5	9.7	4.7	5.0	7.1%	6.2%	3.5%	2.7%	5.6%	5.4%
	HELLENIC PETROLEUM SA	2,783	8.3	10.4	6.1	6.8	8.8%	7.5%	3.5%	2.7%	4.2%	3.9%
Asian Refineries	ESSO THAILAND PCL	1,028	6.5	6.3	6.4	6.3	5.8%	5.7%	3.6%	3.5%	4.8%	6.3%
	HINDUSTAN PETROLEUM CORP	8,045	8.7	8.4	5.2	5.9	6.8%	5.8%	3.3%	3.2%	4.2%	3.7%
	FORMOSA PETROCHEMICAL CORP	32,952	15.5	18.2	9.0	11.0	15.9%	12.3%	10.2%	8.1%	5.4%	4.3%
	INDIAN OIL CORP LTD	28,883	9.2	9.8	6.7	6.9	9.4%	8.3%	5.4%	4.5%	3.8%	3.6%
	BHARAT PETROLEUM CORP LTD	14,702	11.1	10.9	8.5	8.2	7.4%	6.7%	4.3%	3.9%	3.6%	3.6%
	THAI OIL PCL	4,588	9.2	9.6	5.7	5.8	9.4%	8.6%	5.3%	4.8%	4.8%	4.7%
	S-OIL CORP	9,456	9.5	8.5	8.4	7.0	8.9%	10.1%	5.7%	6.0%	5.9%	6.1%
	PETRON CORP	1,837	11.1	9.4	6.7	6.4	8.5%	8.3%	2.1%	2.4%	0.9%	0.9%
	CALTEX AUSTRALIA LTD	6,375	14.1	14.3	7.8	8.0	6.5%	6.2%	3.5%	3.3%	3.6%	3.6%
	RELIANCE INDUSTRIES LTD	70,708	14.8	15.9	12.8	10.7	15.6%	15.7%	9.7%	7.7%	0.9%	0.9%
	IRPC PCL	3,184	10.6	9.3	8.4	7.5	9.4%	9.4%	4.7%	4.9%	4.1%	4.9%
	SK INNOVATION CO LTD	12,876	6.5	6.9	4.0	4.1	8.8%	8.2%	4.8%	4.4%	4.0%	4.1%
	IDEMITSU KOSAN CO LTD	4,092	6.7	5.6	8.2	8.9	5.4%	5.1%	2.1%	2.3%	1.7%	1.7%
	JXTG HOLDINGS INC	15,398	8.7	7.9	8.5	7.6	6.0%	5.4%	1.8%	1.9%	3.2%	3.6%
	SHOWA SHELL SEKIYU KK	3,744	10.2	11.1	7.1	7.0	4.2%	4.1%	2.2%	1.9%	3.4%	3.4%
US Refineries Median	10,086	19.4	12.9	8.1	6.5	6.8%	7.4%	2.1%	2.8%	4.2%	4.4%	
European Refineries Median	2,676	9.6	10.8	6.0	6.0	9.0%	7.8%	3.7%	3.2%	4.0%	3.9%	
Asian Refineries Median	8,045	9.5	9.4	7.8	7.0	8.5%	8.2%	4.3%	3.9%	3.8%	3.6%	
Global Median	6,375	10.6	10.4	7.5	6.8	7.6%	8.0%	3.5%	3.2%	4.0%	3.8%	
Tupras	7,097	7.4	6.2	5.9	5.4	10.6%	9.3%	7.1%	6.8%	6.1%	11.8%	

Source: Bloomberg Estimates for other companies, Ata Invest Estimates for Tupras

Risks

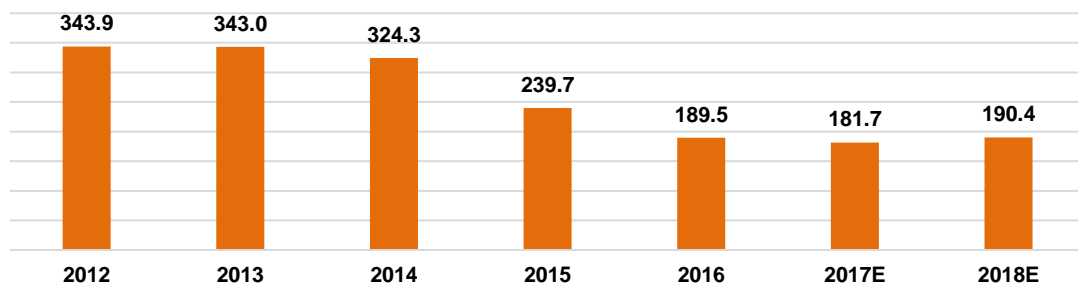
Socar's new refinery may increase competition in diesel

Socar is building a 10mn ton refinery in Aliaga. It is expected to be operational through the end of 2018. The refinery mainly will be producing 1.6mn tons of Naphtha (to be sold to Petkim), 1.7mn tons of Jet Fuel, 4.95mn tons of diesel, mainly to be sold in domestic market. Although the size of the refinery is relatively smaller compared to Tupras' 28mn tons of refining capacity, its product mix (mainly focusing on diesel production) may intensify the competition in domestic diesel market. In 2015, Tupras was able to meet ~40% of domestic diesel consumption, whereas the rest was imported. We believe that Socar's venture into diesel market will rather grasp market share from imported diesel.

Lower diesel/fuel oil spread may lead to lower EBITDA generation

Tupras' RUP unit mainly uses fuel oil to produce mainly diesel. We expect diesel/fuel oil spread to hover US\$190/ton during our valuation period. Lower diesel/fuel oil spread would translate into lower EBITDA for Tupras. According to our sensitivity analysis, a 1% lower diesel/fuel oil spread would lead to 10bps lower EBITDA margin during the valuation period and 3% lower target price for Tupras.

Exhibit Tupras – Diesel – Fuel Oil Spread (US\$/ton)



Source: Tupras, Ata Estimates

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Stock Ratings:

For the purposes of our research report, our rating system is defined as follows;

OUTPERFORM - The stock is expected to return above the benchmark index (ISE-100) over 12 months in the market, or else provides the best risk/reward ratio.

MARKETPERFORM - The stock is expected to return in line with the benchmark index (ISE-100) over 12 months in the market, or else does not offer a compelling risk/reward profile.

UNDERPERFORM - The stock is expected to return below the benchmark index (ISE-100) over 12 months in the market, or else with unacceptable risk relative to the potential reward.

NEUTRAL - There are crucial uncertainties surrounding stock performance preventing us from attaching a relative rating compared to the benchmark.

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