



4Q 2015 net income to grow c80% YoY

Tupras should report 4Q 2015 IFRS results on 12 February. We expect EBITDA of TRY551mn, CCS EBITDA of US\$313mn (+62% YoY, -39% QoQ) and reported net profit at TRY369mn (+82% YoY, -51% QoQ). Bloomberg consensus stands for US\$318mn for CCS EBITDA and TRY318mn for net income.

4Q15 to be driven by volume growth and TRY weakness YoY

4Q 2015 numbers are to be driven by 15% YoY increase in refining throughput, 29% YoY TRY depreciation vs. USD that should be only marginally mitigated by 4% decline in net refining margin.

Looking for dividend, margin outlook

Post the recent share price decline, Tupras offers attractive 5.3% dividend yield for 2015E and 10.1%, which are significantly above 3-4% average yield for Istanbul stock exchange index. The market should look for some guidance on dividends from Tupras at the conference call on 12 February as well as for an outlook on the refining margins given the recent decline in diesel cracks in Europe.

Reiterating Buy with 23% upside potential

We like Tupras for 1) inexpensive valuation, 2) attractive dividends and 3) near-term upside to the start of Iranian crude oil exports to Europe. The stock is trading on 7.9x 2016E P/E, which has 20% discount to its 5-year average 1-year forward 9.7x P/E and 15% discount to PKN, its closest peer in EEMEA refining.

Estimates (Dec)

(TRY)	2013A	2014A	2015E	2016E	2017E
EPS (Adjusted)	4.78	5.83	8.40	9.04	7.67
EPS Change (YoY)	-18.2%	21.9%	44.2%	7.5%	-15.1%
Dividend / Share	1.58	0	3.76	7.24	6.08

Valuation (Dec)

	2013A	2014A	2015E	2016E	2017E
P/E	14.9x	12.3x	8.50x	7.91x	9.31x
Dividend Yield	2.21%	0%	5.27%	10.1%	8.51%
EV / EBITDA*	24.5x	17.3x	5.66x	5.94x	7.22x
Free Cash Flow Yield*	1.65%	0.98%	-6.18%	12.6%	13.5%

* For full definitions of *IQmethod*SM measures, see page 6.

Key Changes

(TRY)	Previous	Current
2015E EPS	8.51	8.40
2017E EPS	7.69	7.67
2015E DPS	3.66	3.76

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Stock Data

Price	71.45 TRY
Price Objective	88.00 TRY
Date Established	31-Aug-2015
Investment Opinion	C-1-9
52-Week Range	49.50 TRY-82.00 TRY
Mkt Val / Shares Out (mn)	17,892 TRY / 250.4
Average Daily Value (mn)	34.99 USD
Free Float	49.0%
BofAML Ticker / Exchange	TUPRF / IST
Bloomberg / Reuters	TUPRS TI / TUPRS.IS
ROE (2015E)	29.4%
Net Dbt to Eqty (Dec2014A)	62.1%

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Key Income Statement Data (Dec)	2013A	2014A	2015E	2016E	2017E
(TRY Millions)					
Sales	41,078	39,723	48,664	51,138	65,489
EBITDA Adjusted	889	1,258	3,843	3,664	3,013
Depreciation & Amortization	(240)	(258)	(424)	(397)	(412)
EBIT Adjusted	649	1,000	3,419	3,267	2,601
Net Interest & Other Income	(841)	(331)	(1,123)	(429)	(191)
Tax Expense / Benefit	1,186	1,286	471	(568)	(482)
Net Income (Adjusted)	1,197	1,459	2,104	2,263	1,921
Average Fully Diluted Shares Outstanding	250	250	250	250	250
Key Cash Flow Statement Data					
Net Income (Reported)	1,197	1,459	2,104	2,263	1,921
Depreciation & Amortization	240	258	424	397	412
Change in Working Capital	1,525	1,603	(3,467)	(47.9)	(27.8)
Deferred Taxation Charge	(1,192)	(1,292)	(576)	0	0
Other CFO	779	404	1,226	295	771
Cash Flow from Operations	2,549	2,433	(289)	2,907	3,076
Capital Expenditure	(2,255)	(2,258)	(817)	(658)	(667)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other CFI	95.9	70.3	0	0	0
Cash Flow from Investing	(2,159)	(2,187)	(817)	(658)	(667)
Share Issue / (Repurchase)	NA	NA	NA	NA	NA
Cost of Dividends Paid	(964)	(396)	0	(943)	(1,813)
Increase (decrease) debt	2,278	1,233	5,260	(1,334)	(549)
Other CFF	(1,385)	(961)	(352)	(185)	(167)
Cash Flow from Financing	(71.2)	(124)	4,908	(2,461)	(2,528)
Total Cash Flow (CFO + CFI + CFF)	319	121	3,802	(213)	(120)
FX and other changes to cash	82.4	114	(138)	(100)	(100)
Change in Cash	402	235	3,665	(313)	(220)
Change in Net Debt	1,876	998	1,596	(1,021)	(329)
Net Debt	2,859	3,857	5,452	4,431	4,102
Key Balance Sheet Data					
Property, Plant & Equipment	8,326	10,668	11,108	11,380	11,644
Goodwill	189	189	189	189	189
Other Intangibles	39.4	60.6	51.0	41.4	32.4
Other Non-Current Assets	2,820	4,024	4,098	4,098	4,098
Trade Receivables	1,957	170	2,834	2,978	3,814
Cash & Equivalents	3,663	3,898	7,563	7,250	7,031
Other Current Assets	4,145	2,923	3,185	3,316	4,336
Total Assets	21,139	21,933	29,029	29,253	31,144
Long-Term Debt	5,447	6,978	11,166	10,638	8,223
Other Non-Current Liabilities	157	181	181	181	181
Short-Term Debt	1,075	777	1,849	1,043	2,910
Other Current Liabilities	9,322	7,784	7,608	7,938	10,363
Total Liabilities	16,001	15,720	20,804	19,801	21,677
Total Equity	5,139	6,213	8,224	9,452	9,467
Total Equity & Liabilities	21,139	21,933	29,029	29,253	31,144
Business Performance*					
Return On Capital Employed	7.21%	7.89%	18.1%	13.4%	11.0%
Return On Equity	24.1%	25.9%	29.4%	25.8%	20.5%
Operating Margin	2.08%	1.30%	5.68%	6.39%	3.97%
Free Cash Flow (MM)	294	175	(1,106)	2,249	2,409
Quality of Earnings*					
Cash Realization Ratio	2.13x	1.67x	-0.14x	1.28x	1.60x
Asset Replacement Ratio	9.38x	8.75x	1.93x	1.66x	1.62x
Tax Rate	NM	NM	NM	20.0%	20.0%
Net Debt/Equity	55.6%	62.1%	66.3%	46.9%	43.3%
Interest Cover	2.37x	3.39x	6.83x	6.70x	5.70x

* For full definitions of *iQmethod*SM measures, see page 6.

Company Sector

Oil Refining & Marketing

Company Description

Tupras is Turkey's only oil refiner. The refining operations are conducted out of four sites around the country with a total capacity of 28.1mn tons per annum. Nelson Index Complexity should rise from the current 7.3 to 9.9 post the full launch of Residuum Upgrade Project in Izmit Refinery in 2Q 2015. The company also has a 40% stake in OPET, the third largest petroleum retailer in Turkey with approximately 1,300 fuel stations.

Investment Rationale

Tupras is likely to benefit from its dominant position in the Turkish refining sector assuming that Socar's Star refinery project will be operational by 2019YE. Moreover, earnings growth with the Residuum Upgrade Project coming into operation in 2015 is one of the major investment highlights for Tupras.

Stock Data

Price to Book Value 2.2x

4Q 2015 results preview

Table 1: Tupras 4Q 2015 results preview

in TRY mn, unless otherwise

stated	4Q-14A	3Q-15A	4Q-15E	YoY	QoQ	3Q15-Cons
Reported EBITDA	-9	1,152	551	n/a	-52%	n/a
Reported net Profit	203	750	369	82%	-51%	391
CCS EBITDA (US\$ mn)	193	512	313	62%	-39%	318
Throughput (kt)	6,547	7,427	7,517	15%	1%	
Capacity utilisation (%)	93%	106%	107%	15%	1%	
Gross clean refining margin (US\$/bbl)	13.3	14.1	10.4	-22%	-26%	
Net clean refining margin (US\$/bbl)	6.0	9.2	5.8	-4%	-37%	
Average FX rate (US\$TRY)	2.26	2.86	2.91	29%	2%	
End-period FX rate (US\$TRY)	2.34	3.03	2.92	25%	-4%	
Brent oil US\$/bbl average	76.5	50.50	44.69	-42%	-11%	
Brent oil US\$/bbl end period	57.3	48.37	37.28	-35%	-23%	

Source: Company data, Bloomberg consensus, BofA Merrill Lynch Global Research estimates

Price objective basis & risk

Tupras (TUPRF)

Our PO TRY88/share is based on the weighted fair values of the DCF (20% weight), multiples method (40% weight) and dividend yield valuation method (40% weight). Our DCF valuation is based on 10.3% WACC estimate and 2% terminal growth rate. Our comparable multiple valuation is based on the average of 8x EV/EBITDA and 12x P/E target multiples.

Our dividend valuation is based on the required dividend yield assumption of 5% that is applied to the next 3-year average discounted DPS of Tupras (2015-2017E). We use the cost of equity 11.2% as the discount rate for our dividend yield valuation.

Downside risks to our price objective are: (1) Mediterranean refining margins and the heavy-light crude oil spread, which are the key drivers of the company's earnings stream, (2) increases in the oil price would increase Tupras's underlying energy costs, ultimately putting a squeeze on realized margins, (3) the high concentration of cash flows from two key refining assets (Izmit & Izmir) means that unplanned refinery downtime can have a material effect on earnings, (4) any changes in the domestic regulatory environment that may force Tupras to invest significantly to comply with such changes, and (5) cost overruns and delays in the full operational launch of RUP. Upside risks are (1) significant movements in refining margins and further decline in oil prices and (2) higher-than-expected cost cuts.

Analyst Certification

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EEMEA - Energy & Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Advanced Petrochemicals Company	XAECF	APPC AB	Faisal AlAzmeh, CFA
	Bashneft	BNSFF	BANE RM	Denis Derushkin
	Bashneft Pref	XNPBF	BANEP RM	Denis Derushkin
	CEZ	CZAVF	CEZ CK	Denis Derushkin
	Gazprom Neft	XGSOF	SIBN RM	Karen Kostanian, CFA
	Gazprom Neft	XXGAZ	GAZ LI	Karen Kostanian, CFA
	Inter RAO	XEDGF	IRAO RX	Denis Derushkin
	Lukoil	XLKOD	LKOD LI	Karen Kostanian, CFA
	Lukoil	LUKOF	LKOH RM	Karen Kostanian, CFA
	Novatek	XAOOF	NVTK LI	Karen Kostanian, CFA
	Novatek	NVFIF	NVTK RM	Karen Kostanian, CFA
	Sasol Limited	SASOF	SOL SJ	Karen Kostanian, CFA
	Sasol Limited	SSL	SSL US	Karen Kostanian, CFA
	Saudi Basic Industries Corporation	XAUBF	SABIC AB	Faisal AlAzmeh, CFA
	Saudi Industrial Investment Group	XZCSF	SIIG AB	Faisal AlAzmeh, CFA
	Sipchem	XSRPF	SIPCHEM AB	Faisal AlAzmeh, CFA
	Sistema	JSFCF	SSA LI	Denis Derushkin
	Sistema	XJSCF	AFKS RM	Denis Derushkin
	Surgutneftegas-Pfd	SGTPY	SGTPY US	Anton Fedotov
	Surgutneftegas-Pfd	XVRXF	SNGSP RM	Anton Fedotov
	Tasnee	XRAKF	NIC AB	Faisal AlAzmeh, CFA
	Tupras	TUPRF	TUPRS TI	Anton Fedotov
	YANSAB	XUYNF	YANSAB AB	Faisal AlAzmeh, CFA
NEUTRAL				
	E.ON Russia	FXGCF	EONR RM	Denis Derushkin
	Energa	XEENF	ENG PW	Denis Derushkin
	Gazprom	OGZPY	OGZD LI	Karen Kostanian, CFA
	Gazprom	RGZPF	GAZP RM	Karen Kostanian, CFA
	Maaden	XSDRF	MAADEN AB	Faisal AlAzmeh, CFA
	National Petrochemical Company	XZFGF	PETROCH AB	Faisal AlAzmeh, CFA
	PGE	PPOEF	PGE PW	Denis Derushkin
	Rosneft	OJSCF	ROSN LI	Karen Kostanian, CFA
	Rosneft	RNFTF	ROSN RM	Karen Kostanian, CFA
	Saudi Arabian Fertilizer Company	XDUAF	SAFCO AB	Faisal AlAzmeh, CFA
	Tatneft Pref	XUYRF	TATNP RM	Anton Fedotov
	TMK	TMKOY	TMKS LI	Denis Derushkin
	TMK	XNTYF	TRMK RM	Denis Derushkin
UNDERPERFORM				
	Industries Qatar	XQITF	IQCD QD	Faisal AlAzmeh, CFA
	KazMunaiGas-GDR	XZKEF	KMG LI	Anton Fedotov
	MOL	MMGYF	MOL HB	Anton Fedotov
	MOL	MGYOY	MOLD LI	Anton Fedotov
	PGNiG	POGWF	PGN PW	Denis Derushkin
	PKN Orlen	PSKOF	PKN PW	Anton Fedotov
	RusHydro	XGFHF	HYDR RM	Denis Derushkin
	RusHydro	RSHYY	HYDR LI	Denis Derushkin
	Saudi Kayan	XAMBF	KAYAN AB	Faisal AlAzmeh, CFA
	Surgutneftegas	JSUGF	SNGS RM	Anton Fedotov
	Surgutneftegas	SGTZY	SGGD LI	Anton Fedotov
	Tatneft	OAOFY	ATAD LI	Anton Fedotov
	Tatneft	OAO TF	TATN RM	Anton Fedotov
	Tauron	XUTRF	TPE PW	Denis Derushkin
	Transneft Pref	TRNFF	TRNFP RM	Anton Fedotov
RSTR				
	Aksa Enerji	XAKJF	AKSEN TI	Firat Topal

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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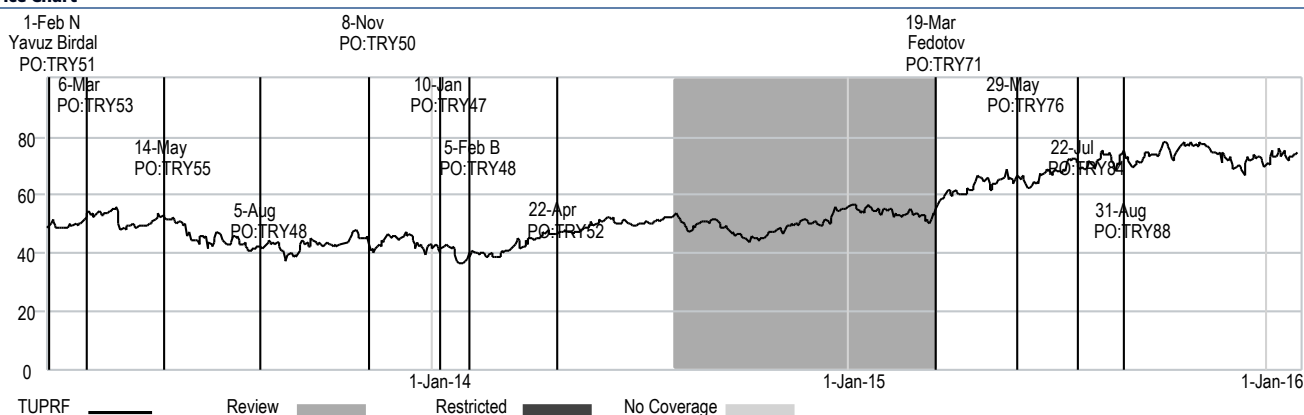
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TUPRF Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of January 31, 2016 or such later date as indicated.

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	114	48.93%	Buy	103	90.35%
Hold	53	22.75%	Hold	44	83.02%
Sell	66	28.33%	Sell	51	77.27%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2015)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1673	50.16%	Buy	1244	74.36%
Hold	777	23.30%	Hold	545	70.14%
Sell	885	26.54%	Sell	533	60.23%

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Neutral	≥ 0%	≤ 30%
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