

## 4Q15 EARNINGS REVIEW

## TUPRAS (TUPRS TI)

### Stellar operating results

### BUY (L/T) OUTPERFORM (S/T)

Current Price (TRL)	68.85			Target Price (TRL)	101.0		
Market Cap (TRL / US\$ mn)	17,241 / 5,899			12M Abs / Rel Return (%)	28 / 52		
P/E (2016E)	6.8x			EV/EBITDA (2016E)	5.0x		
(TRLmn)	YE15	YE14	yoy Δ	4Q15	yoy Δ	qoq Δ	
Revenues	36,893	39,723	-7%	8,899	-2%	-15%	
EBITDA	3,784	789	n.m.	1,189	n.m.	6%	
Net Earnings	2,550	1,459	75%	815	283%	9%	
EBITDA Margin (%)	10.3	2.0	8.3 pp	13.4	12.8 pp	2.6 pp	

### 4Q15 Results at a Glance

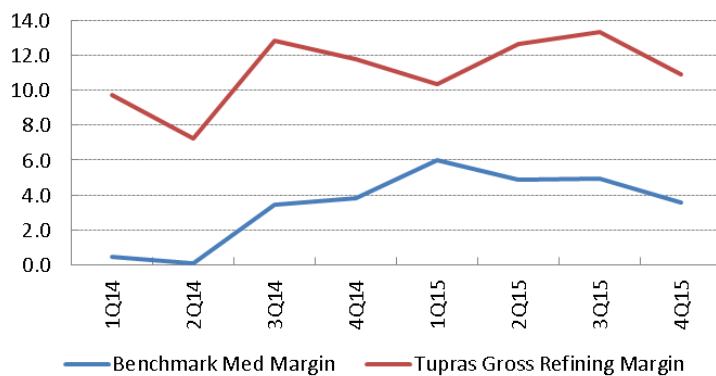
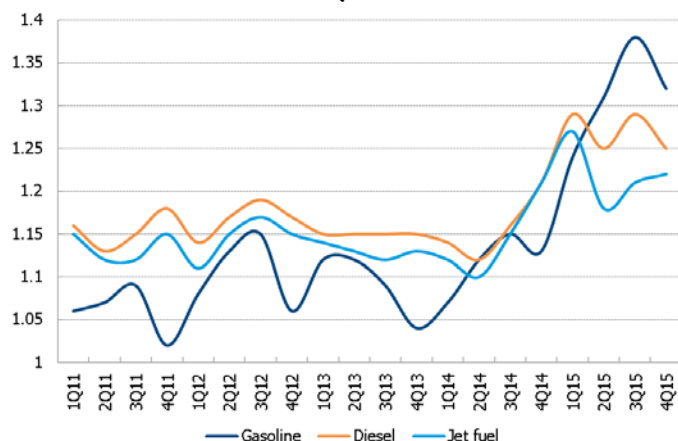
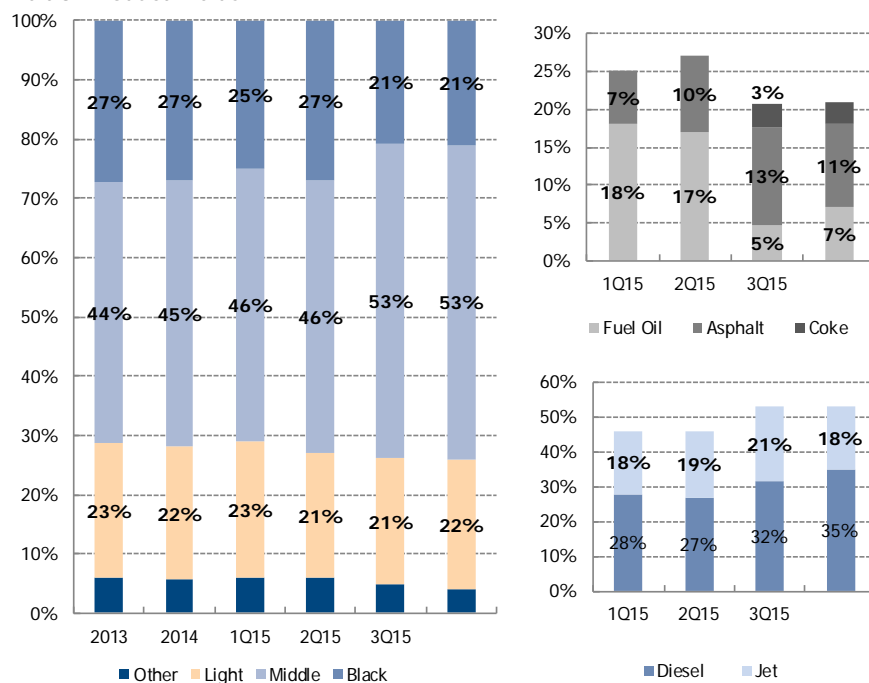
- **Operating performance beats expectations by a wide margin** - Tupras posted TRL815mn net profit for 4Q15, somewhat below consensus (TRL853mn), but significantly lower than our estimate (TRL950mn). The difference versus our estimate was largely attributable to a higher tax provision, and partly to lower financial gains, while the operating performance was significantly better than both our and consensus estimates. EBITDA of TRL1,189mn was 16% and 24% above our and consensus estimates, respectively (BurSec: TRL1,023mn; Cons: TRL960mn). Solid demand leading to soaring volumes, higher capacity utilisation, more favourable mix of crude oil processed, higher white product yields, and a US\$153mn contribution from stock hedging led to this impressive set of results.
- **Favourable 2016 outlook** - Management projects net refining margin in the range of US\$5.8-6.3/bbl, compared to Med Complex margin expectation of US\$3.5-4.0/bbl. This is conservative compared to our US\$6.5/bbl estimate. Average Brent price expectation is US\$45-55/bbl. Capacity utilisation is forecast at 100%, with production of 28mn tonnes and total sales of 30mn tonnes (3% above our estimate). Capex for 2016 is estimated at US\$270mn.

### Our View

- **Solid results reinforce our ratings** - We expect Tupras to continue to post impressive results, particularly in 1H16, boosted by the positive impact of the RUP. Margins should continue to outperform Med margins on favourable operating dynamics. Due to a lower net profit, we revise our cash dividend estimate to TRL5.70/share, implying an 8.3% yield.

### Comments

- **Soaring volumes and capacity utilisation** - Total sales volumes grew 28% yoy to 7.8mn tonnes, ahead of our estimate of 7.4mn tonnes, while capacity utilisation was realised at c.110%, up from 79% year ago. Sales to the domestic market (80% in 4Q15 vs. 70% in 4Q14) surged, thanks to strong demand, with domestic volumes up 44%, while exports declined by 8%.
- **Net refining margin fully in line with our estimate** - Net refining margin of US\$5.2/bbl was identical with our forecast and up from US\$4.6/bbl a year ago, despite a US\$0.3 lower Med complex margin. Tupras was able to process heavier and sour crude in the quarter thanks to the RUP, leading to 30.3 API, the lowest ever. Ability to process higher crude with favourable price differentials to Iran, Iraq and Saudi Arabia, and higher CUR resulted in better product yields and a 79% white product yield, contributing to profitability. Inventory losses totalled US\$84mn in the quarter due to declining oil prices. Negative inventory impact totalled US\$188mn in 2015, which was largely offset by a US\$153mn gain from stock hedging.
- **Higher-than-expected tax and slightly lower financial income** - Net other and financial expenses totalled TRL2mn vs. our TRL49mn gain estimate, while tax provision of TRL225mn was well above our TRL8mn estimate, which in total contributed to a lower bottom line, despite a 15% higher operating profit.
- **Net debt down 18% qoq to TRL6.9bn** - Net debt eased on robust cash generation, as well as a stronger TRL.

**Exhibit 1: Tupras Gross Refining Margin vs. Med Benchmark Margin (US\$/barrel)**

**Exhibit 2: Product Price Ratios (Product US\$/bbl/Crude US\$/bbl)**

**Exhibit 3: Product Yields**


## Tupras - Announced Financials (IFRS Basis; TRLmn)

<i>Income Statement</i>	<i>YE15</i>	<i>YE14</i>	<i>YoY Δ</i>	<i>4Q15</i>	<i>4Q14</i>	<i>YoY Δ</i>	<i>3Q15</i>	<i>QoQ Δ</i>
<b>Net Sales</b>	<b>36,893</b>	<b>39,723</b>	<b>-7%</b>	<b>8,899</b>	<b>9,037</b>	<b>-2%</b>	<b>10,446</b>	<b>-15%</b>
COGS	-32,718	-38,460	-15%	-7,595	-8,811	-14%	-9,227	-18%
<b>Gross Profit</b>	<b>4,175</b>	<b>1,263</b>	<b>231%</b>	<b>1,303</b>	<b>226</b>	<b>n.m.</b>	<b>1,219</b>	<b>7%</b>
Operating Exp.	-877	-732	20%	-283	-242	17%	-231	22%
<b>Operating Profit</b>	<b>3,298</b>	<b>531</b>	<b>n.m.</b>	<b>1,021</b>	<b>-16</b>	<b>n.m.</b>	<b>988</b>	<b>3%</b>
<b>EBITDA</b>	<b>3,784</b>	<b>789</b>	<b>n.m.</b>	<b>1,189</b>	<b>52</b>	<b>n.m.</b>	<b>1,119</b>	<b>6%</b>
Net Other Income	-546	-95	n.m.	164	49	233%	-394	n.m.
Net Gain from Investments	3	-0	n.m.	2	-0	n.m.	1	222%
Income from Associates	70	-16	n.m.	29	-62	n.m.	32	-10%
Net Financial Exp	-599	-235	154%	-168	-67	151%	-128	31%
Taxes	339	1,286	-74%	-225	312	n.m.	252	n.m.
Discont. Operations	0	0	n.m.	0	0	n.m.	0	n.m.
Minority Interest	-14	-11	23%	-7	-4	79%	-0	n.m.
<b>Net Profit</b>	<b>2,550</b>	<b>1,459</b>	<b>75%</b>	<b>815</b>	<b>213</b>	<b>283%</b>	<b>750</b>	<b>9%</b>
<b>Margins</b>								
<i>Gross</i>	<i>11.3%</i>	<i>3.2%</i>	<i>8.1 pp</i>	<i>14.6%</i>	<i>2.5%</i>	<i>12.1 pp</i>	<i>11.7%</i>	<i>3.0 pp</i>
<b>EBITDA</b>	<b>10.3%</b>	<b>2.0%</b>	<b>8.3 pp</b>	<b>13.4%</b>	<b>0.6%</b>	<b>12.8 pp</b>	<b>10.7%</b>	<b>2.6 pp</b>
<i>Operating</i>	<i>8.9%</i>	<i>1.3%</i>	<i>7.6 pp</i>	<i>11.5%</i>	<i>-0.2%</i>	<i>11.6 pp</i>	<i>9.5%</i>	<i>2.0 pp</i>
<i>Eff. Tax Rate</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>22.1%</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
<b>Net</b>	<b>6.9%</b>	<b>3.7%</b>	<b>3.2 pp</b>	<b>9.2%</b>	<b>2.4%</b>	<b>6.8 pp</b>	<b>7.2%</b>	<b>2.0 pp</b>
<b>Balance Sheet</b>								
<i>Cash &amp; Mkt. Sec.</i>	<i>3,028</i>	<i>3,898</i>	<i>-22%</i>	<i>3,028</i>	<i>3,898</i>	<i>-22%</i>	<i>2,487</i>	<i>22%</i>
<i>Fin. Debt</i>	<i>9,919</i>	<i>7,755</i>	<i>28%</i>	<i>9,919</i>	<i>7,755</i>	<i>28%</i>	<i>10,848</i>	<i>-9%</i>
<b>Net Debt</b>	<b>6,892</b>	<b>3,857</b>	<b>79%</b>	<b>6,892</b>	<b>3,857</b>	<b>79%</b>	<b>8,362</b>	<b>-18%</b>
<i>Accounts Rec.</i>	<i>2,540</i>	<i>170</i>	<i>n.m.</i>	<i>2,540</i>	<i>170</i>	<i>n.m.</i>	<i>3,149</i>	<i>-19%</i>
<i>Inventories</i>	<i>2,102</i>	<i>2,371</i>	<i>-11%</i>	<i>2,102</i>	<i>2,371</i>	<i>-11%</i>	<i>2,723</i>	<i>-23%</i>
<i>Accounts Payable</i>	<i>3,878</i>	<i>5,610</i>	<i>-31%</i>	<i>3,878</i>	<i>5,610</i>	<i>-31%</i>	<i>4,796</i>	<i>-19%</i>
<i>LT Assets</i>	<i>16,795</i>	<i>14,941</i>	<i>12%</i>	<i>16,795</i>	<i>14,941</i>	<i>12%</i>	<i>16,725</i>	<i>0%</i>
<i>LT Liabilities</i>	<i>8,273</i>	<i>7,159</i>	<i>16%</i>	<i>8,273</i>	<i>7,159</i>	<i>16%</i>	<i>9,389</i>	<i>-12%</i>
<b>Total Assets</b>	<b>25,470</b>	<b>21,933</b>	<b>16%</b>	<b>25,470</b>	<b>21,933</b>	<b>16%</b>	<b>26,505</b>	<b>-4%</b>
<b>Equity (Cont. Int.)</b>	<b>8,305</b>	<b>6,157</b>	<b>35%</b>	<b>8,305</b>	<b>6,157</b>	<b>35%</b>	<b>7,225</b>	<b>15%</b>
<b>Cash Flow Statement</b>								
<i>Free Cash Flow</i>	<i>-833</i>	<i>178</i>	<i>n.m.</i>	<i>1,099</i>	<i>2</i>	<i>n.m.</i>	<i>-191</i>	<i>n.m.</i>
<i>Net Cash from Operations</i>	<i>125</i>	<i>2,435</i>	<i>-95%</i>	<i>1,333</i>	<i>655</i>	<i>103%</i>	<i>25</i>	<i>n.m.</i>
<i>Net Cash from Investments</i>	<i>-959</i>	<i>-2,257</i>	<i>-58%</i>	<i>-234</i>	<i>-653</i>	<i>-64%</i>	<i>-216</i>	<i>8%</i>
<b>Financial Ratios</b>								
<i>Debt/Equity</i>	<i>119.4%</i>	<i>126.0%</i>	<i>-6.5 pp</i>	<i>119.4%</i>	<i>126.0%</i>	<i>-6.5 pp</i>	<i>150.2%</i>	<i>-20%</i>
<i>Receivable Days</i>	<i>25</i>	<i>2</i>	<i>24</i>	<i>26</i>	<i>2</i>	<i>25</i>	<i>28</i>	<i>-1</i>
<i>Inventory Days</i>	<i>23</i>	<i>22</i>	<i>1</i>	<i>25</i>	<i>25</i>	<i>1</i>	<i>27</i>	<i>-2</i>
<i>Payable Days</i>	<i>43</i>	<i>53</i>	<i>-10</i>	<i>47</i>	<i>59</i>	<i>-12</i>	<i>48</i>	<i>-1</i>
<i>Net Work. Cap. Days</i>	<i>5</i>	<i>-29</i>	<i>34</i>	<i>5</i>	<i>-32</i>	<i>37</i>	<i>7</i>	<i>-2</i>

Source: Burgan Research, The Company

## **Burgan Securities - Equity Rating System**

### **12-month Rating:**

Our 12-month rating system comprises the following designations: **BUY (B)**, **HOLD (H)**, **SELL (S)**. The absolute upside to target value implied by the current market capitalisation is the main determinant of our rating system. Valuation tools employed most frequently are Discounted Cash Flow (DCF) and international peer group comparison, though other metrics such as historical relative valuation, price to book, return on equity, replacement value are also used wherever appropriate. Our analysts set the fair/target values with a 12-month investment horizon. Comparing the upside in a specific stock with the market's upside (determined through the aggregate upside of our coverage based on free float Mcaps), in addition to taking other yardsticks into consideration, analysts recommend **BUY (B)**, **HOLD (H)**, **SELL (S)** based on their 12-month total return views.

### **Sector Rating**

Our investment horizon for industry ratings is again 12 months. This rating gives an indication as to how the analyst sees that particular industry for the next 12-month period in terms of growth, profitability, pricing power, competitive dynamics etc. The rating in this category thus reflects our analyst's assessment of the conjunctural outlook for the industry, without involving any specific benchmarks. The ratings employed are **Overweight (OW)**, **Neutral (N)**, **Underweight (UW)**.

**Overweight (OW):** Due to improving sector related fundamentals and/or attractive valuations, the sector index is expected to perform better than the BIST-100 in the next 12-months

**Neutral (N):** The sector index is expected to perform in line with the BIST-100 in the next 12-months

**Underweight (UW):** Due to worsening sector related fundamentals and/or expensive valuations, the sector index is expected to perform worse than the BIST-100 in the next 12-months

### **Short-term Rating:**

Our short-term rating system comprises the following designations: **OUTPERFORM (OP)**, **MARKETPERFORM (MP)**, **UNDERPERFORM (UP)**. Considering possible triggers, catalysts, and/or company, sector & market views, we rate the stocks as:

**Outperform (OP):** If 3-month total return is expected to exceed the BIST-100 (sector index if specified) by more than 10%

**Marketperform (MP):** If 3-month total return is expected to be in line (+/- 10%) with the BIST-100 (Peerperform if sector index is specified)

**Underperform (UP):** If 3-month total return is expected to be below the BIST-100 (sector index if specified) by more than 10%

*To have a more balanced distribution of ratings, Burgan Securities has requested that analysts maintain **at least 20% of their ratings as Underperform** and **no more than 25% as Outperform**, subject to change depending on market conditions.*

### **Other Qualifiers Utilised:**

**NR:** Not Rated

**NC:** Not Covered

**UR:** Under Review

### **Market Call**

Our equity **market call** has an investment horizon of 3-12 months. **Our market calls are BUY, NEUTRAL, SELL.**

S/T Stock Rating Summary	Relative Return
Outperform (OP)	>=10%
Marketperform (MP)	< +10% & > -10%
Underperform (UP)	<= -10%



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