

Tupras (TUPRS.IS)

Rating **(from OUTPERFORM) NEUTRAL**
Price (11 Aug 16, TL) 62.45
Target price (TL) (from 85.40) 66.90
Market Cap (TL m) 15,638.7
Enterprise value (TL m) 23,557.5

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
*Target price is for 12 months.

Research Analysts

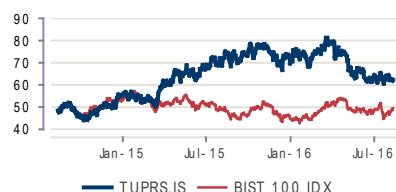
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DOWNGRADE RATING

2Q16 culprits in place; downgrade to Neutral

- **TP revised to TRY66.90 (from TRY85.40); rating downgraded to Neutral from Outperform:** 2Q16 earnings came in 27% below consensus (26% below us), which -we believe- had already taken into account weak international benchmark margins during the quarter. As we passed half of the high season with no clear sign of recovery in the benchmark product spreads, we reduce our 2016E EBITDA and earnings forecasts by 33%38% and downgrade our rating to Neutral from Outperform.
- **Defensive business; however the upside to stock price capped with negative industry margins.** Within Turkish equities context, Tupras is a highly defensive business with full capacity utilisation, US\$-based revenues and regular dividends. However, we see benchmark refining margins in the Med region and the following dividend outlook as key drivers of the stock. With more cautious near term outlook for the former, we reduce our DPS forecast by c.26% given the prevailing weakness in regional product spreads QTD (Figure 1 -Figure 2).
- **FY16 refining margin guidance revised lower** to US\$4.5-5.0/bbl from US\$5.5-6.0/bbl (by around 17%). 1H stands at c.US\$4/bbl including US\$+0.4/bbl inventory gain, on our numbers, which requires a pick-up in 2H to meet the reduced range guidance.
- **We see 22% downside risk to consensus 2016E EBITDA** and as a high pay-out company, we believe investors are closely monitoring the earnings curve. With 1H16 EBITDA at 30% of current FY16 consensus (and earnings at only 20%); we believe street will use 2Q miss as an opportunity to adjust their forecasts further down (Figure 6).
- **Catalysts:** 3Q16 results in early November.
- **Valuation:** Tupras shares trade at 11.4x our revised 2016E P/E versus global peer average at 13x. We forecast 12M-forward DPS yield of 7.7%, broadly in-line with street's expectation from Tupras in the past two years.

Share price performance



The price relative chart measures performance against the BIST 100 IDX which closed at 79033.6 on 11/08/16
On 11/08/16 the spot exchange rate was TL3.29/Eu 1.-
Eu.9/US\$1

Performance	1M	3M	12M
Absolute (%)	-1.7	-3.3	-15.5
Relative (%)	1.1	-4.9	-18.0

Financial and valuation metrics

Year	12/14A	12/15A	12/16E	12/17E
Revenue (TL m)	39,723	36,893	32,407	43,428
EBITDAX (TL m)	789.1	3784.0	2679.5	3452.1
Adjusted net income (TL m)	182.0	1769.3	1371.7	2094.6
CS EPS (adj.) (TL)	0.73	7.07	5.48	8.36
Prev. EPS (TL)	-	-	8.99	8.52
ROIC avg (%)	49.7	30.0	11.0	13.4
P/E (adj.) (x)	85.9	8.8	11.4	7.5
P/E rel. (%)	-	76.8	113.2	85.9
EV/EBITDAX (x)	24.8	6.0	9.0	7.0
Dividend (12/16E, TL)	3.61	Net debt/equity (12/16E,%)		101.8
Dividend yield (12/16E,%)	5.8	Net debt (12/16E, TL m)		8,442.9
BV/share (12/16E, TL)	32.8	IC (12/16E, TL m)		16,739.1
Free float (%)	49.0	EV/IC (12/16E, (x))		1.4

Source: Company data, Thomson Reuters, Credit Suisse estimates

Tupras (TUPRS.IS)

Price (11 Aug 2016): **TL62.45**; Rating: (from **OUTPERFORM**) **NEUTRAL**; Target Price: (from **TL85.40**) **TL66.90**; Analyst: **Onur Muminoglu**

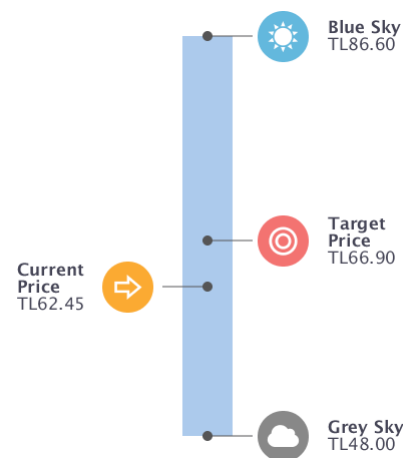
Income statement (TL m)	12/14A	12/15A	12/16E	12/17E
Revenue	39,723	36,893	32,407	43,428
EBITDA	789	3,784	2,680	3,452
Depr. & amort.	(258)	(486)	(543)	(565)
EBIT	531	3,298	2,137	2,887
Net interest exp.	(157)	(349)	(335)	(309)
Associates	(106)	(191)	(170)	(78)
PBT	268	2,758	1,632	2,500
Income taxes	1,286	339	(292)	(524)
Profit after tax	1,554	3,096	1,340	1,976
Minorities	-	-	-	-
Preferred dividends	-	-	-	-
Associates & other	(1,372)	(1,327)	32	119
Net profit	182	1,769	1,372	2,095
Other NPAT adjustments	1,277	781	21	0
Reported net income	1,459	2,550	1,392	2,095
Cash flow (TL m)	12/14A	12/15A	12/16E	12/17E
EBIT	531	3,298	2,137	2,887
Net interest	(157)	(349)	(335)	(309)
Cash taxes paid	-	-	-	-
Change in working capital	1,603	(3,851)	(1,032)	(626)
Other cash and non-cash items	455	1,027	76	166
Cash flow from operations	2,433	125	845	2,118
CAPEX	(2,258)	(961)	(775)	(796)
Free cashflow to the firm	281	(177)	498	1,899
Acquisitions	-	-	-	-
Divestments	0	3	1	1
Other investment/(outflows)	70	70	42	0
Cash flow from investments	(2,187)	(889)	(732)	(796)
Net share issue/(repurchase)	-	-	-	-
Dividends paid	(396)	(6)	(1,628)	(905)
Issuance (retirement) of debt	422	37	1,891	200
Cashflow from financing	(124)	(249)	94	(705)
Changes in net cash/debt	(998)	(3,035)	(1,551)	127
Net debt at start	2,859	3,857	6,892	8,443
Change in net debt	998	3,035	1,551	(127)
Net debt at end	3,857	6,892	8,443	8,316
Balance sheet (TL m)	12/14A	12/15A	12/16E	12/17E
Assets				
Total current assets	6,991	8,675	9,574	12,247
Total assets	21,933	25,470	26,570	29,474
Liabilities				
Total current liabilities	8,561	8,828	8,903	10,109
Total liabilities	15,720	17,102	18,274	19,970
Total equity and liabilities	21,933	25,470	26,570	29,474
Per share	12/14A	12/15A	12/16E	12/17E
No. of shares (wtd avg.) (mn)	250	250	250	250
CS EPS (adj.) (TL)	0.73	7.07	5.48	8.36
Prev. EPS (TL)	-	-	8.99	8.52
Dividend (TL)	0.02	6.50	3.61	5.44
Free cash flow per share (TL)	1.12	(0.71)	1.99	7.58
Valuation	12/14A	12/15A	12/16E	12/17E
EV/Sales (x)	0.5	0.6	0.7	0.6
EV/EBITDA (x)	24.8	6.0	9.0	7.0
EV/EBIT (x)	36.8	6.9	11.3	8.3
Dividend yield (%)	0.04	10.41	5.79	8.71
P/E (x)	85.9	8.8	11.4	7.5
ROE analysis (%)	12/14A	12/15A	12/16E	12/17E
ROE (%)	3.2	24.5	16.6	23.8
ROIC (avg.) (%)	49.7	30.0	11.0	13.4
Credit ratios	12/14A	12/15A	12/16E	12/17E
Net debt/equity (%)	62.1	82.4	101.8	87.5
Dividend payout ratio (%)	3.3	92.0	66.0	65.0

Source: Company data, Thomson Reuters, Credit Suisse estimates.

Company Background

Tupras is Turkey's sole oil refiner operating through four refineries in Izmit, Izmir, Kirikkale and Batman. It has a high refining complexity multiple of 9.5 (NC) as of YE2015. Tupras also owns 40% stake in Turkish petroleum distributor, Opet.

Blue/Grey Sky Scenario



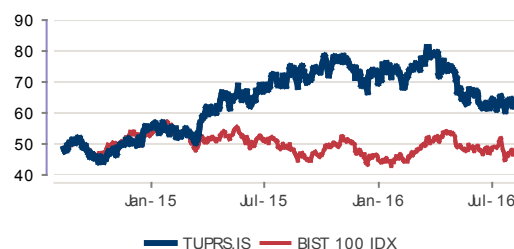
Our Blue Sky Scenario (TL) 86.60

Avg net ref mgn US\$5.2/bbl in 2016E/2018E (vs US\$4/bbl in 2013/2015A) with a capacity utilisation rate of 102% (2013/2015A:86%).

Our Grey Sky Scenario (TL) 48.00

Avg net ref mgn US\$3.6/bbl in 2016E/2018E (vs US\$4/bbl in 2013/2015A) with a capacity utilisation rate of 99% (2013/2015A:86%).

Share price performance

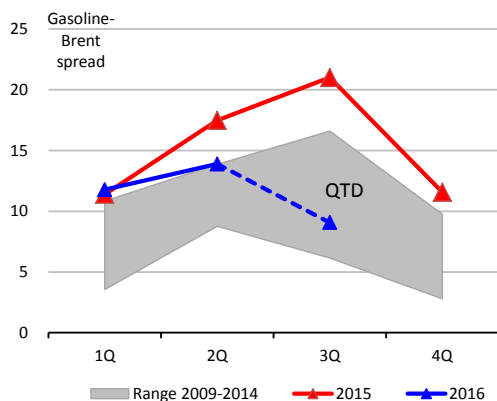


The price relative chart measures performance against the BIST 100 IDX which closed at 79033.6 on 11/08/16

On 11/08/16 the spot exchange rate was TL3.29/Eu 1.- Eu.9/US\$1

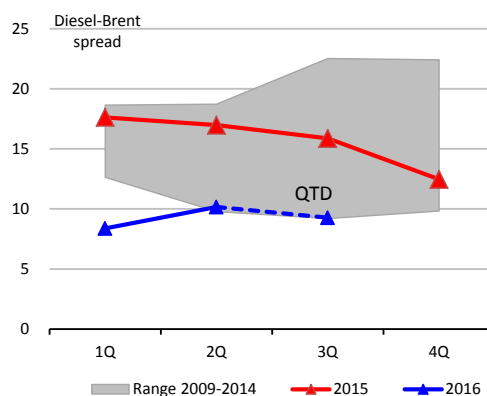
Key charts

Figure 1: Gasoline – Brent spread (US\$/bbl)



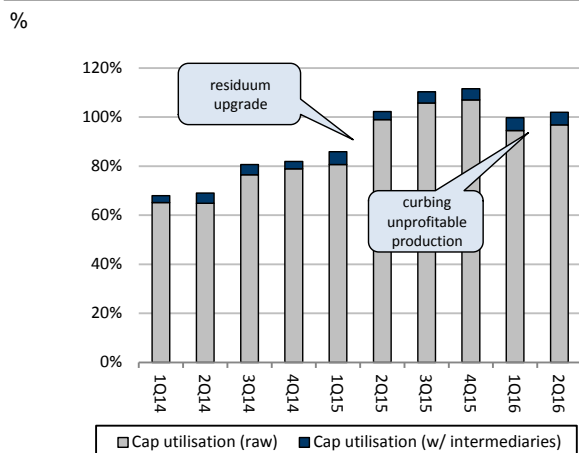
Source: Thomson Reuters, Credit Suisse estimates

Figure 2: Diesel (10ppm) – Brent spread (US\$/bbl)



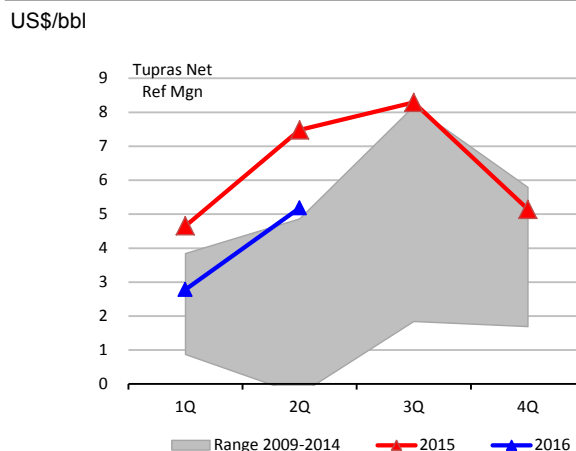
Source: Thomson Reuters, Credit Suisse estimates

Figure 3: Capacity utilisation



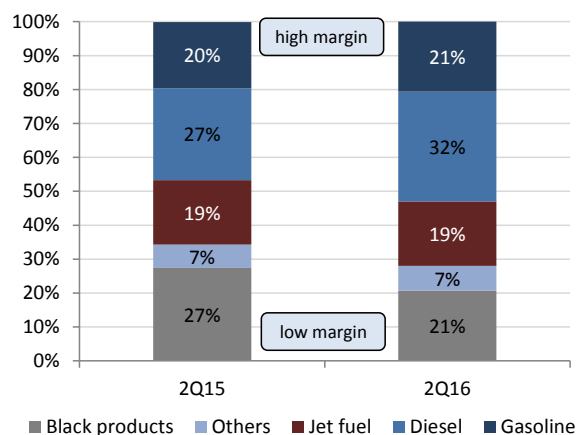
Source: Company data

Figure 4: Tupras Net Refining Margin (inc inv effect)



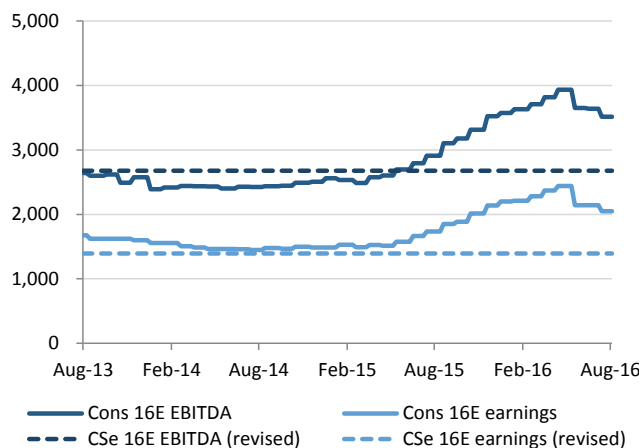
Source: Company data

Figure 5: 2Q: Product yield quality (yoy)



Source: Company data

Figure 6: Consensus momentum vs CSe revised est



Source: Thomson Reuters, Credit Suisse estimates

2Q results and management call

Figure 7: TUPRS: Summary 2Q financials

in TRY millions, unless otherwise stated

TRYm	2Q15	3Q15	4Q15	1Q16	2Q16	CSe	Cons	Act/ CSe	Act/ Cons
US\$TRY	2.66	2.85	2.91	2.94	2.90	2.90			
Sales (m tons)	7.3	7.9	7.9	6.9	7.7	7.7		0%	
Cap utilisation (raw)	99%	106%	107%	94%	97%	101%			
Cap utilisation (w/ intermediaries)	102%	110%	112%	100%	102%	103%			
Net refining margin (US\$/bbl) *	7.5	8.3	5.2	2.8	5.2	3.8		36%	
w/o inventory eff	7.0	9.1	5.9	3.0	4.3	2.8		54%	
Inv gain (inc end-products) (US\$m)	67	(103)	(59)	(23)	86	104		-17%	
Revenues	10,601	10,446	8,899	6,191	8,453	8,503	8,346	-1%	1%
Gross profit	1,154	1,219	1,303	491	725	824			
EBIT	963	988	1,021	264	497	611			
EBITDA	1,075	1,119	1,189	398	633	745	735	-15%	-14%
Net FX gain (loss)	(181)	(680)	207	22	(47)	(42)			
Derivative gain (loss)	20	220	(164)	(81)	(16)	0			
Net interest inc (exp)	(96)	(54)	(40)	(36)	(82)	(55)			
Inc share in associates	32	32	29	15	54	40			
Other items	(29)	(7)	(6)	(88)	(8)	(8)			
Minorities	(3)	(0)	(7)	(4)	(4)	(3)			
PBT	706	498	1,040	92	394	543		-27%	n/a
Tax	4	252	(225)	(13)	(64)	(94)			
Reported net income	710	750	815	79	331	449	453	-26%	-27%
CS adj net income	565	398	832	73	315	434	n/a	-27%	n/a
Capex	(190)	(217)	(236)	(222)	(151)	(196)			
Net financial debt	6,923	8,362	6,892	6,397	6,918	8,762			
of which RUP related	4,908	5,858	5,379	5,242	4,957	4,937			

*Lower EBITDA vs our estimate despite higher net refining margin per barrel was partly due to FX-accounting involved in theoretical calculation of the latter by company management. Source: Company data, Credit Suisse estimates, ResearchTurkey consensus

The tone of the management call was broadly neutral to us. The key message was management's expectation of slightly better margins in 2H16, which has not realised as of mid-August.

- 2Q EBITDA was 15% below our estimate, 14% below consensus, which already took into account the weak benchmark margins of the quarter, in our view. A higher interest expense and derivatives losses led to bigger miss at the bottom-line.
- Management confirmed our view that there is no major recovery in the benchmark margins QTD.
- FY16 net refining margin guidance revised c.17% lower to a range of US\$4.5-5.0/bbl, which assumes a partial recovery after 1H:US\$4.0/bbl. All the remaining FY projections were unchanged, including 100% capacity utilisation.
- The capacity utilisation rate slightly moderated to 100% in 1H16 following a very high 111% in 2H15. The cut was due to lower the refining margin outlook discouraging incremental production for black product exports.
- Net debt was higher qoq (TRY6.9bn vs TRY6.4bn in 1Q), however it was resilient compared to our TRY8.8bn forecast given TRY1.6bn dividend outflow within the quarter and higher turnover qoq (i.e. higher working capital requirement). We estimate Tupras used c.TRY506m factoring for its payables in 2Q16.
- The current temporary shutdown in one of the hydrocracker units is in-line with the production plan and will have no material impact on year-end financials.
- The reason why Tupras left the projection for its Med benchmark margins unchanged but lowered its own outlook was primarily related to the discrepancy between the product yields (Tupras has more weight in diesel than the benchmark but less in black products which are doing relatively better QTD).

- "Discounts from sales" went up from TRY31m in 2Q15 to TRY122m in 2Q16 as a means of marketing activity (volume discounts as alternative marketing expense).
- No major investment in the horizon. Capex guidance maintained as US\$270m for 2016E (and US\$250m p.a. in the medium term).

Forecast revisions and valuation

Figure 8: TUPRS: Our forecast revisions

in TRY millions, unless otherwise stated

	2015	new 2016E	new 2017E	old 2016E	old 2017E	chg 2016E	chg 2017E	
Net refining margin (US\$/bbl)	6.5	4.5	4.8	5.9	5.1	-25%	-6%	1H16:US\$4/bbl, incl +0.4 inventory eff
Sales (mn tons)	28,739	29,652	29,988	29,838	30,183	-1%	-1%	full utilisation guidance intact
Revenues	36,893	32,407	43,428	30,976	47,327	5%	-8%	higher 16E est for higher oil price
Gross profit	4,175	3,136	3,960	4,271	4,249	-27%	-7%	
Opex	(877)	(999)	(1,072)	(983)	(1,057)	2%	1%	
EBIT	3,298	2,137	2,887	3,288	3,192	-35%	-10%	
EBITDA	3,784	2,680	3,452	3,976	3,913	-33%	-12%	lower est with weaker net ref margin
Net FX gain (loss)	(1,115)	(131)	(170)	(174)	(225)			
Derivatives	255	(97)	0	0	0			
Net interest inc (exp)	(230)	(216)	(164)	(317)	(317)			significant cash payout in Apr'16, not helpful
Inc sh in assoc	70	139	146	70	74			improving profit cont. from retail arm
Net other items	(53)	(131)	(63)	(39)	(41)			16E includes TRY(83)m idle portion exp
Minorities	(14)	(17)	(18)	(15)	(16)			
PBT	2,212	1,685	2,618	2,813	2,667	-40%	-2%	
tax	339	(292)	(524)	(563)	(533)	-48%	-2%	less cont. from tax credits post-15
Reported net income	2,550	1,392	2,095	2,251	2,134	-38%	-2%	
CS-adj net income	1,769	1,372	2,095	2,251	2,134	-39%	-2%	

	CSe 2016E	CSe 2017E	cons 2016E	cons 2017E	CSe / Cons 2016E	CSe / Cons 2017E
Consensus						
Revenue	32,407	43,428	33,914	41,516	-4%	5%
EBITDA	2,680	3,452	3,354	3,568	-20%	-3%
Reported net income	1,392	2,095	2,008	2,170	-31%	-3%

Source: Company data, Credit Suisse estimates

We use an equally weighted combination of local currency denominated DCF model and a target dividend yield approach to arrive at our base case price target. In our DCF model, we use our Turkish Lira WACC at 14.3% and assume 0.25% real local currency terminal growth rate. In our target dividend yield approach, we assume 7% target dividend yield for the average of 2016E and 2017E. We assume Tupras' refining margins will track European margins, in particular Credit Suisse estimated NWE Indicator margins, adjusted for differences stemming for local prices, changing product slate (after RUP) and crude oil differentials.

In our DCF, we use a regular 20% tax-rate and account for our estimate of present value of investment tax allowances separately.

Figure 9: TUPRS: Valuation summary

in TRY/share, unless otherwise stated

Valuation summary	Wgt	Value
DCF	50%	69.10
Target dividend yield	50%	64.70
Target yield 16E/17E		7.0%
2016E/17E DPS		4.53
TARGET PRICE		66.90
Current sh price		62.45
Potential upside		7%

Source: Thomson Reuters, Credit Suisse estimates

Figure 10: TUPRS: DCF summary

in TRY millions, unless otherwise stated

	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	Term
EBITDA	3,784	2,680	3,452	3,339	3,479	3,710	3,938	4,219	4,521	4,846	
EBIT	3,298	2,137	2,887	2,748	2,860	3,061	3,257	3,504	3,771	4,058	
Adjusted taxes on EBIT	(660)	(427)	(577)	(550)	(572)	(612)	(651)	(701)	(754)	(812)	
NOPAT	2,638	1,710	2,310	2,199	2,288	2,449	2,606	2,804	3,017	3,246	
Depreciation	486	543	565	591	619	649	681	715	750	788	
Capex and investments	(959)	(774)	(796)	(861)	(922)	(977)	(1,036)	(1,098)	(1,164)	(1,234)	
Change in working capital	(3,851)	(1,032)	(626)	(407)	(182)	(301)	(229)	(250)	(268)	(286)	
Free cashflow	(1,685)	446	1,453	1,522	1,803	1,820	2,021	2,169	2,335	2,514	33,314
Discounted cashflow		147	1,299	1,191	1,235	1,090	1,060	995	937	883	11,700
Terminal growth (real TRY)	0.25%										
Terminal growth - nominal	6.3%										
WACC (TRY)	14.3%										
PV	20,537										
Net debt (adj for divs)	6,918										
Minorities	72										
PV of cash tax benefits (CSe)	596										
Shares in JVs	789										
Implied market cap	14,932										
Number of shares (m)	250.4										
Implied equity value (TRY/share)	59.63										
12M Target (TRY/share)	69.10										

Source: Company data, Credit Suisse estimates

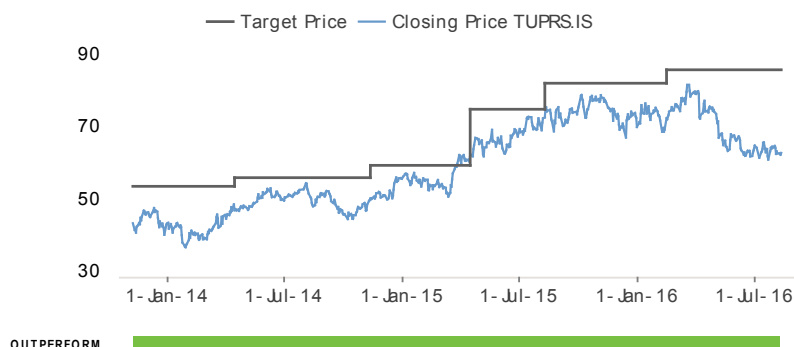
Companies Mentioned (Price as of 11-Aug-2016)**Tupras** (TUPRS.IS, TL62.45, NEUTRAL, TP TL66.9)**Disclosure Appendix****Important Global Disclosures**

Onur Muminoglu and Ates Buldur each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

3-Year Price and Rating History for Tupras (TUPRS.IS)

TUPRS.IS	Closing Price	Target Price	
Date	(TL)	(TL)	Rating
08-Nov-13	43.00	53.20	O
15-Apr-14	46.60	55.60	
12-Nov-14	49.85	59.00	
16-Apr-15	62.20	74.50	
10-Aug-15	72.25	81.70	
15-Feb-16	72.05	85.40	

* Asterisk signifies initiation or assumption of coverage.



The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, the expected total return (ETR) calculation includes 12-month rolling dividend yield. An Outperform rating is assigned where an ETR is greater than or equal to 7.5%; Underperform where an ETR less than or equal to 5%. A Neutral may be assigned where the ETR is between -5% and 15%. The overlapping rating range allows analysts to assign a rating that puts ETR in the context of associated risks. Prior to 18 May 2015, ETR ranges for Outperform and Underperform ratings did not overlap with Neutral thresholds between 15% and 7.5%, which was in operation from 7 July 2011.

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Not Rated : Credit Suisse Equity Research does not have an investment rating or view on the stock or any other securities related to the company at this time.

Not Covered (NC) : Credit Suisse Equity Research does not provide ongoing coverage of the company or offer an investment rating or investment view on the equity security of the company or related products.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

*An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	55%	(44% banking clients)
Neutral/Hold*	29%	(17% banking clients)
Underperform/Sell*	16%	(38% banking clients)
Restricted	0%	

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Target Price and Rating

Valuation Methodology and Risks: (12 months) for Tupras (TUPRS.IS)

Method: We use an equally weighted combination of local currency DCF and a target dividend yield approach to arrive at our base case price target of 66.90, which justifies our Neutral rating for Tupras shares. In our DCF model, we use a Turkish Lira WACC of 14.3% and assume a 0.25% real local currency terminal growth rate. In our target dividend yield approach, we assume a 7% target dividend yield for the average of 2016E and 2017E. A key input to our target price estimate and rating is our assumption of Tupras' refining margins tracking European margins, in particular Credit Suisse estimated NWE Indicator margins, adjusted for differences stemming for local prices and crude oil differentials, a deviation of which would pose a risk factor to our target price and rating. In our DCF, we use a regular 20% tax-rate and account for our estimate of present value of investment tax allowances separately.

Risk: Key risks to our TRY66.90 target price that could cause us to revise our Neutral rating are: (1) the evolution of refining margins in Europe (and in the Mediterranean region in particular), (2) domestic demand conditions, (3) the regulatory environment which has been exposed to Turkish Government's several price interventions at the retail level in the past 10 years, (4) different accounting standards used in the tax-purpose financials from the mainstream IFRS standards where the former has been generally defining the limits of the distributable income.

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This research report is authored by:

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