

Rating **OUTPERFORM***
Price (12 Feb 16, TRY) 68.85
Target price (TRY) (from 81.70) 85.40¹
Market cap. (TRY m) 17,241.36
Enterprise value (TRY m) 25,583.8

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

Research Analysts
Onur Muminoglu
90 212 349 0454
onur.muminoglu@credit-suisse.com
Ates Buldur
90 212 349 0459
ates.buldur@credit-suisse.com

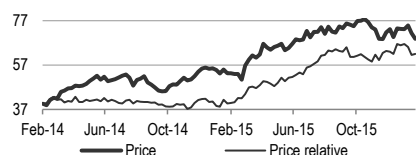
Tupras (TUPRS.IS)

INCREASE TARGET PRICE

Raise TP post 4Q15, maintain Outperform

- **New TP: TRY85.40 (from TRY81.70); maintain Outperform:** We reflect strong 4Q operating results and the first 2016 guidance and raise our 2016E EBITDA estimate by 22% (in TRY). Tupras provides as an attractive mix of US\$-based operating income and high dividend potential as a cushion against downside macro risks. We believe the weak share performance pre-earnings was unjustified and see the current price as buying opportunity.
- **4Q15 PBT in-line:** A major EBITDA beat (+44% vs CSe) was –we think largely because the crude derivative gain (c.US\$150m) was included in the operating line versus among non-operating items in our forecasts (and we believe in some of consensus estimates too, given 24% beat to street EBITDA). A higher tax expense (which has been historically volatile anyway) led to 6% earnings miss to our numbers (and 4% to consensus).
- **The first 2016E guidance positive:** Tupras looks into US\$5.8-6.3/bbl net refining margin (2015:US\$6.5) while taking into account Med-Comp benchmark falling from US\$4.8 to US\$3.5-4 (positive diff for Tupras due to the FY contribution of the recent upgrade). Utilisation is projected to be 100% (despite partial stoppage in early Feb). Capex will be low (US\$270m).
- **Eyes on dividends:** This was a key focus on the 4Q-call. No colour from management yet but we understand that the high pay-out policy likely to be resumed this year.
- **Catalysts:** 1) 2015E DPS to be announced by early March in our view (CSe:TRY3.80), 2) each 10% theoretical cut in the domestic natural gas tariffs would add +4% to our FY EPS.
- **Valuation:** Shares are trading at 7.7x our 2016E P/E versus global peers at 9.7x. We forecast 7% dividend yield for the average of 2016E/17E.

Share price performance



The price relative chart measures performance against the BIST 100 IDX which closed at 70937.4 on 12/02/16
On 12/02/16 the spot exchange rate was TL3.29/Eu 1. - Eu .89/US\$1

Performance over	1M	3M	12M
Absolute (%)	-6.1	-8.1	29.3
Relative (%)	-5.9	4.5	46.6

Financial and valuation metrics

Year	12/15A	12/16E	12/17E	12/18E
Revenue (TRY m)	36,893.3	30,976.2	47,326.9	62,717.9
EBITDA (TRY m)	3,784.00	3,975.87	3,912.84	3,634.15
Adjusted Net Income (TRY m)	1,769.29	2,250.72	2,133.73	1,883.44
CS adj. EPS (TRY)	7.07	8.99	8.52	7.52
Prev. EPS (TRY)	—	6.68	7.29	7.93
ROIC (%)	24.92	14.66	13.40	12.36
P/E (adj., x)	9.74	7.66	8.08	9.15
P/E rel. (%)	89.5	70.8	89.0	112.4
EV/EBITDA	6.4	6.4	6.6	6.8
Dividend (12/16E, TRY)	4.94	IC (12/16E, TRY m)		17,947.21
Dividend yield (%)	7.2	EV/IC		1.4
Net debt (12/16E, TRY m)	8,264.3	Current WACC		14.48
Net debt/equity (12/16E, %)	85.3	Free float (%)		49.00
BV/share (12/16E, TRY)	38.4	Number of shares (m)		250.42

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

DISCLOSURE APPENDIX AT THE BACK OF THIS REPORT CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, AND THE STATUS OF NON-US ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Tupras TUPRS.IS

Price (12 Feb 16): TRY68.85, Rating: **OUTPERFORM**, Target Price: TRY(from 81.70) 85.40

Income statement (TRY m)	12/15A	12/16E	12/17E	12/18E
Revenue (TRY m)	36,893	30,976	47,327	62,718
EBITDA	3,784	3,976	3,913	3,634
Depr. & amort.	(486)	(688)	(721)	(753)
EBIT (TRY)	3,298	3,288	3,192	2,881
Net interest exp.	(349)	(452)	(501)	(533)
Associates	—	—	—	—
Other adj.	(191)	(124)	(172)	(256)
PBT (TRY)	2,758	2,713	2,519	2,093
Income taxes	339	(563)	(533)	(471)
Profit after tax	3,096	2,150	1,985	1,622
Minorities	—	—	—	—
Preferred dividends	—	—	—	—
Associates & other	(1,327)	101	148	261
Net profit	1,769	2,251	2,134	1,883
Other NPAT adjustments	781	—	—	—
Reported net income	2,550	2,251	2,134	1,883

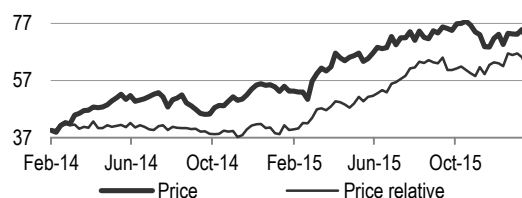
Cash flow (TRY)	12/15A	12/16E	12/17E	12/18E
EBIT	3,298	3,288	3,192	2,881
Net interest	(349)	(452)	(501)	(533)
Cash taxes paid	—	—	—	—
Change in working capital	(3,851)	(1,051)	(729)	(470)
Other cash & non-cash items	1,027	189	276	443
Cash flow from operations	125	1,974	2,238	2,322
CAPEX	(961)	(823)	(773)	(848)
Free cashflow adj.	660	658	638	576
Free cash flow to the firm	(177)	1,809	2,103	2,051
Acquisitions	—	—	—	—
Divestments	3	—	—	—
Other investment/(outflows)	70	—	—	—
Cash flow from investments	(889)	(823)	(773)	(848)
Net share issue/(repurchase)	—	—	—	—
Dividends paid	(6)	(951)	(1,238)	(1,280)
Issuance (retirement) of debt	37	200	200	200
Other	(2,303)	(1,773)	(627)	641
Cash flow from financing	(2,272)	(2,524)	(1,665)	(439)
Effect of exchange rates	—	—	—	—
Changes in Net Cash/Debt	(3,035)	(1,372)	(200)	1,036
Net debt at start	3,857	6,892	8,264	8,464
Change in net debt	3,035	1,372	200	(1,036)
Net debt at end	6,892	8,264	8,464	7,429

Balance sheet (TRY m)	12/15A	12/16E	12/17E	12/18E
Assets				
Cash and cash equivalents	3,028	3,428	3,854	4,249
Accounts receivable	1,881	1,895	3,133	3,924
Inventory	2,102	2,364	3,511	4,244
Other current assets	1,664	1,664	1,664	1,664
Total current assets	8,675	9,351	12,162	14,081
Total fixed assets	11,480	11,615	11,667	11,762
Intangible assets and goodwill	59	59	59	59
Investment securities	—	—	—	—
Other assets	5,256	5,256	5,256	5,256
Total assets	25,470	26,281	29,145	31,158
Liabilities				
Accounts payable	3,798	3,022	4,678	5,732
Short-term debt	1,871	1,871	1,871	1,871
Other short term liabilities	3,159	1,659	1,329	2,309
Total current liabilities	8,828	6,552	7,878	9,912
Long-term debt	8,048	9,821	10,447	9,806
Other liabilities	225	225	225	225
Total liabilities	17,102	16,598	18,551	19,944
Shareholders' equity	8,305	9,605	10,501	11,104
Minority interest	63	78	94	111
Total equity & liabilities	25,470	26,281	29,145	31,158
Net debt (TRY m)	6,892	8,264	8,464	7,429

Per share data	12/15A	12/16E	12/17E	12/18E
No. of shares (wtd avg)	250	250	250	250
CS adj. EPS (TRY)	7.07	8.99	8.52	7.52
Prev. EPS (TRY)	—	6.68	7.29	7.93
Dividend (TRY)	3.80	4.94	5.11	5.11
Div yield	5.52	7.18	7.43	7.43
Dividend payout ratio	53.75	55.00	60.00	67.97
Free cash flow per share	(0.71)	7.22	8.40	8.19

Key ratios and valuation	12/15A	12/16E	12/17E	12/18E
Growth (%)				
Sales	(7.1)	(16.0)	52.8	32.5
EBIT	521.1	(0.3)	(2.9)	(9.7)
Net profit	872.1	27.2	(5.2)	(11.7)
EPS	872.1	27.2	(5.2)	(11.7)
Margins (%)				
EBITDA margin	10.3	12.8	8.3	5.8
EBIT margin	8.9	10.6	6.7	4.6
Pretax margin	7.5	8.8	5.3	3.3
Net margin	4.8	7.3	4.5	3.0
Valuation metrics (x)				
EV/sales	0.66	0.83	0.55	0.40
EV/EBITDA	6.4	6.4	6.6	6.8
EV/EBIT	7.3	7.8	8.1	8.6
P/E	9.7	7.7	8.1	9.2
P/B	2.1	1.8	1.6	1.6
Asset turnover	1.4	1.2	1.6	2.0
ROE analysis (%)				
ROE stated-return on	35.3	25.1	21.2	17.4
ROIC	24.9	14.7	13.4	12.4
Interest burden	0.84	0.82	0.79	0.73
Tax rate	(15.3)	20.0	20.0	20.0
Financial leverage	1.2	1.2	1.2	1.1
Credit ratios (%)				
Net debt/equity	82.4	85.3	79.9	66.2
Net debt/EBITDA	1.8	2.1	2.2	2.0
Interest coverage ratio	9.5	7.3	6.4	5.4

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

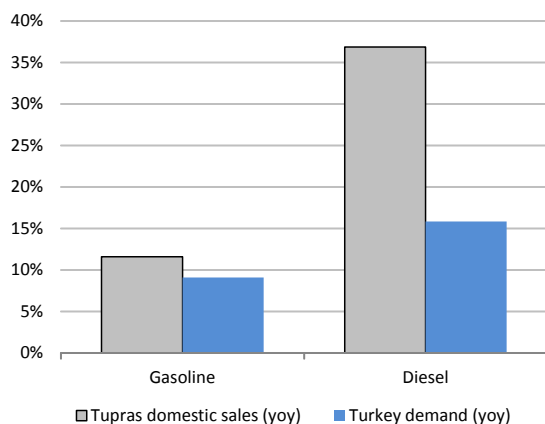


The price relative chart measures performance against the BIST 100 IDX which closed at 70937.4 on 12/02/16
On 12/02/16 the spot exchange rate was TL3.29/Eu 1. - Eu .89/US\$1

Key charts

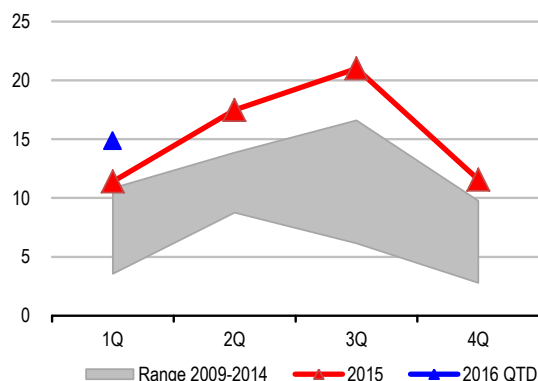
Figure 1: Tupras domestic sales were ahead of market total in 2015*

In volumes, *Turkish market data for 11M15



Source: Company data

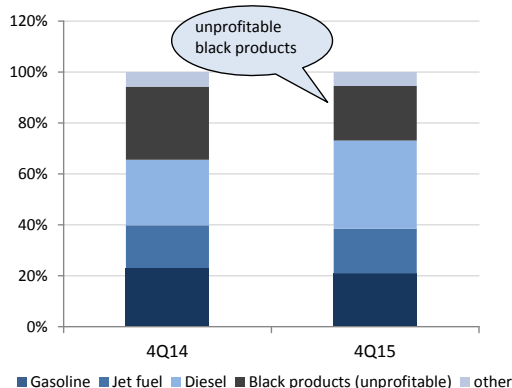
Figure 3: Gasoline spread over Brent crude
US\$ per barrel



Source: Thomson Reuters

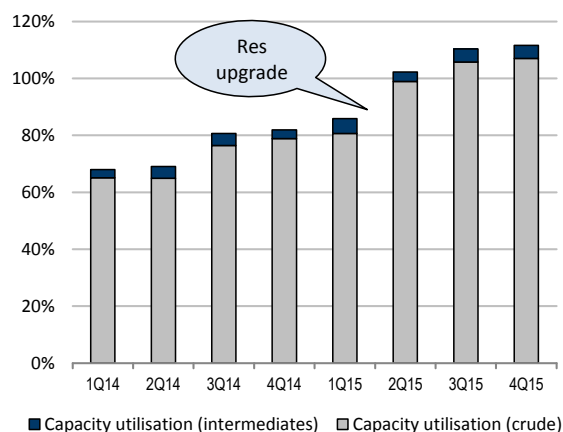
Figure 5: 4Q product yield: Unprofitable black products diluted post upgrade in mid 2015

As % of total production



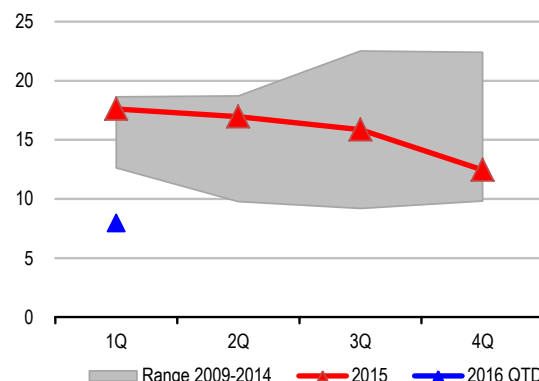
Source: Company data

Figure 2: Capacity utilisation



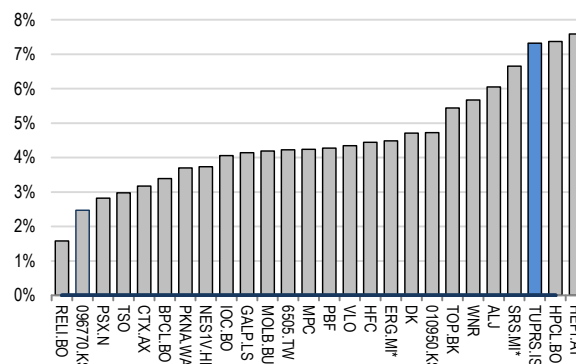
Source: Company data

Figure 4: Diesel spread over Brent crude
US\$ per barrel



Source: Thomson Reuters

Figure 6: Dividend yield
2016E/17E average



*Consensus estimates for those not covered by Credit Suisse Equity Research, Source: Credit Suisse estimates, Thomson Reuters

Figure 7: Tupras: Summary 4Q financials*In TRY millions, unless otherwise stated*

TRYm	4Q14	1Q15	2Q15	3Q15	4Q15	CSe 4Q15	Cons 4Q15	Act/ Cse	Act/ Cons	CS Remarks
Sales (m tons)	6.1	5.6	7.3	7.9	7.9	7.8		1%		
Net refining margin (US\$/bbl)	4.6	4.7	7.5	8.3	5.2	5.5		-6%		miss due to opex/bbl while gross ref mgn was OK
w/o inventory eff	6.0	5.5	7.0	9.1	5.9	6.6		-10%		
Revenues	9,037	6,948	10,601	10,446	8,899	9,032	8,469	-1%	5%	
Gross profit	226	499	1,154	1,219	1,303	994				
EBIT	(16)	327	963	988	1,021	692				
EBITDA	52	400	1,075	1,119	1,189	827	960	44%	24%	apparently incl'ing deriv gains here vs below-the-line in our ests
Net FX gain (loss)	47	(461)	(181)	(680)	207	80				
Derivative gain (loss)	9	179	20	220	(164)	378				
Net interest inc (exp)	(12)	(40)	(96)	(54)	(40)	(87)				
Inc share in associates	(62)	(23)	32	32	29	10				from the distribution JV
Other items	(61)	(11)	(29)	(7)	(6)	(17)				
Minorities	(4)	(3)	(3)	(0)	(7)	(0)				
PBT	(99)	(32)	706	498	1,040	1,055		-1%	n/a	broadly in-line
Tax	312	308	4	252	(225)	(191)				no net cont from def tax gains in 4Q15
Reported net income	213	275	710	750	815	864	853	-6%	-4%	
CS adj net income	(35)	(26)	565	398	832	844	n/a	-1%	n/a	
Capex	(654)	(319)	(190)	(217)	(236)	(100)				
Net financial debt	3,857	6,400	6,923	8,362	6,892	7,226				
of which RUP related	4,566	4,850	4,908	5,858	4,507	5,725				
US\$TRY	2.26	2.46	2.66	2.85	2.91	2.91				

Source: Company data, Credit Suisse estimates, Research Turkey estimates

Forecast revisions and valuation

Figure 8: Tupras: 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	5.9	5.1	5.0	4.9	18%	4%	2016E guid range: US\$5.8-6.3/bbl
Sales (mn tons)	28,739	29,838	30,183	29,423	29,055	1%	4%	2016E guid: 30mn tons
Revenues	36,893	30,976	47,327	56,619	63,407	-45%	-25%	lower ests reflecting lower oil prices
Gross profit	4,175	4,271	4,249	3,746	3,845	14%	11%	
Opex	(877)	(983)	(1,057)	(903)	(941)	9%	12%	
EBIT	3,298	3,288	3,192	2,844	2,904	16%	10%	
EBITDA	3,784	3,976	3,913	3,263	3,342	22%	17%	strong FY16 operational guidance
Net FX gain (loss)	(1,115)	(174)	(225)	(439)	(398)			
Derivatives	255	0	0	0	0			
Net interest inc (exp)	(230)	(317)	(317)	(237)	(147)			
Inc sh in assoc	70	70	74	8	8			improving profit conf from the distribution JV
Net other items	(53)	(39)	(41)	(73)	(73)			
Minorities	(14)	(15)	(16)	(13)	(13)			
PBT	2,212	2,813	2,667	2,090	2,281	35%	17%	
tax	339	(563)	(533)	(418)	(456)	35%	17%	no major cont left from def tax gains
Reported net income	2,550	2,251	2,134	1,672	1,825	35%	17%	
CS-adj net income	1,769	2,251	2,134	1,672	1,825	35%	17%	
		CSe	CSe	cons	cons	CSe / Cons		
Consensus		2016E	2017E	2016E	2017E	2016E	2017E	
Revenue		30,976	47,327	38,584	45,952	-20%	3%	
EBITDA		3,976	3,913	3,690	3,669	8%	7%	
Reported net income		2,251	2,134	2,160	2,170	4%	-2%	

Source: Company data, Credit Suisse estimates, Thomson Reuters

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 14.5% and assume 0.25% real local currency terminal growth rate. In our target dividend yield approach, we assume 6% 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: Tupras – Valuation summary

in TRY, unless otherwise stated

Valuation summary	Wgt	Value
DCF	50%	87.00
Target dividend yield	50%	83.80
Target yield 16E/17E		6.0%
2016E/17E DPS		5.03
TARGET PRICE		85.40
Current sh price		68.85
Potential upside		24%

Priced as of 12 February 2016; Source: Credit Suisse estimates, Thomson Reuters

Figure 10: Tupras: DCF summary

in TRY millions, unless otherwise stated

	2014	2015	2016E	2017E	2018E	2019E	2020E	2021E	2022E	Term
EBITDA	789	3,784	3,976	3,913	3,634	3,891	4,198	4,466	4,796	
EBIT	531	3,298	3,288	3,192	2,881	3,074	3,300	3,475	3,702	
Tax rate	20%	20%	20%	20%	20%	20%	20%	20%	20%	
Adjusted taxes on EBIT	(106)	(660)	(658)	(638)	(576)	(615)	(660)	(695)	(740)	
NOPAT	425	2,638	2,631	2,554	2,305	2,459	2,640	2,780	2,962	
Depreciation	258	486	688	721	753	817	897	991	1,093	
Capex and investments	(2,257)	(959)	(823)	(773)	(848)	(688)	(723)	(759)	(797)	
Change in working capital	1,603	(3,851)	(1,051)	(729)	(470)	(202)	(281)	(200)	(217)	
Free cashflow	29	(1,685)	1,444	1,772	1,741	2,385	2,534	2,812	3,041	34,709
Discounted cashflow			1,193	1,471	1,262	1,511	1,402	1,359	1,283	14,649
Terminal growth (real TRY)	0.25%									
Terminal growth - nominal	5.3%									
WACC (TRY)	14.5%									
PV	24,130									
Net debt (adj for divs)	6,892									
Minorities	63									
PV of cash tax benefits (CSe)	830									
Shares in JVs	762									
Implied market cap	18,767									
Number of shares (m)	250.4									
Implied equity value (TRY/share)	74.94									
12M Target (TRY/share)	87.00									

Source: Company data, Credit Suisse estimates, Thomson Reuters

Companies Mentioned (Price as of 12-Feb-2016)

Alon USA Energy, Inc. (ALJ.N, \$10.58)
Bharat Petroleum (BPCL.BO, Rs771.15)
Caltex Australia (CTX.AX, A\$35.63)
Delek US Holdings, Inc. (DK.N, \$13.64)
Formosa Petrochemical (6505.TW, NT\$80.4)
Galp Energia (GALP.LS, €10.27)
Hindustan Petroleum (HPCL.BO, Rs688.8)
Holly Frontier Corp. (HFC.N, \$30.71)
Indian Oil Corp Limited (IOC.BO, Rs364.65)
Marathon (MPC.N, \$31.73)
PBF ENERGY INC (PBF.N, \$29.13)
Phillips 66 (PSX.N, \$75.2)
Reliance Industries Limited (RELI.BO, Rs906.3)
S-Oil Corp (010950.KS, W74,100)
SK Innovation (096770.KS, W129,500)
Tesoro Corp. (TSO.N, \$71.07)
Thai Oil (TOP.BK, Bt58.0)
Tupras (TUPRS.IS, TL68.85, OUTPERFORM, TP TL85.4)
Valero Energy Corporation (VLO.N, \$57.75)
Western Refining Inc. (WNR.N, \$26.98)

Disclosure Appendix

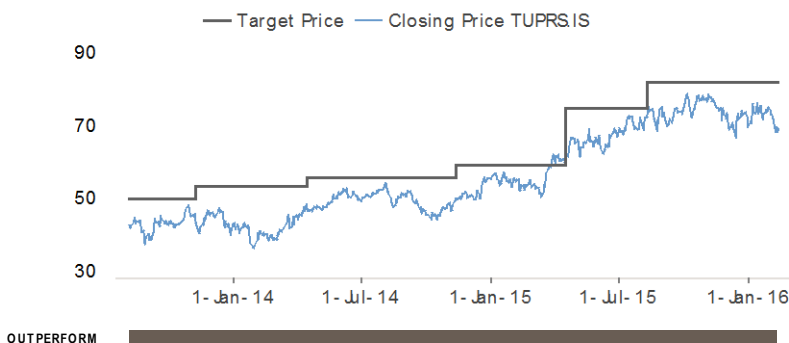
Important Global Disclosures

The analysts identified in this report 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
06-Aug-13	42.50	49.70	O
08-Nov-13	43.00	53.20	
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	

* 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.

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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 85.40, which justifies our Outperform rating for Tupras shares. In our DCF model, we use a Turkish Lira WACC of 14.5% and assume a 0.25% real local currency terminal growth rate. In our target dividend yield approach, we assume a 6% 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 TRY85.40 target price that could cause us to lower our Outperform 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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See the Companies Mentioned section for full company names

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