

Tupras (TUPRS TI)

Buy: Another set of strong results in Q4 2015

- ▶ Q4 2015 EBITDA beat consensus by 24%, marking a strong end to 2015 when EBITDA jumped TRY3.0bn to TRY3.8bn
- ▶ We estimate 18% EBITDA growth in 2016e from a strong base; we expect strong dividend payments starting this year
- ▶ Maintain Buy rating with unchanged target price of TRY90

Strong performance continues: Tupras posted stronger-than-expected Q4 2015 results with EBITDA ahead of both consensus and our forecasts. As such, FY2015 was the best ever year for Tupras with a record EBITDA of TRY3,784m and net income of TRY2,550m. Tupras' management expects the strong performance to continue in 2016, which is in line with our forecast outlined in [Upgrade to Buy: Heading for peak performance in 2016](#), 29 January 2016. We expect 2016 to benefit from: (i) full-year operation of residuum upgrade project (RUP), (ii) balanced refined products' supply-demand dynamics and overall supportive refining sector environment, (iii) inventory gains if there is a crude price rise over the year (HSBC expects Brent to rise to USD55/b by Q4 2016), and (iv) increased imports of favourably priced Iranian crude by Tupras.

Q4 2015 EBITDA was ahead of expectations: Tupras' Q4 2015 EBITDA of TRY1,189m was 24% and 12% ahead of Research Turkey consensus and our estimates, respectively. The beat vs our forecast is explained by lower cost of sales (-5% vs HSBCe) which is likely driven by lower crude procurement costs, lower opex (-3% vs HSBCe) and lower crude oil inventory losses (USD43m vs our estimate of USD50m loss). The refinery capacity utilisation rate (CUR) stood at 112% (+5ppt vs our forecast), which compares with 82% in Q4 2014 and was helped by full-scale operation of RUP. This also resulted in a 9ppt y-o-y rise in middle distillate yields to 52%. However, the Q4 2015 net income of TRY815m was 4% and 23% lower than consensus and our forecast, respectively, which was largely driven by TRY344m FX-related losses.

Maintain Buy with TP unchanged at TRY90.0: Tupras' management expects Turkey's diesel consumption growth to remain strong in 2016 (after 16% y-o-y growth in 11M 2015). The company could also possibly increase Iranian crude imports during the year as it is available at a favourable discount to Brent. For FY2016e, management guided for a CUR of 100% (vs our forecast of 98%), Med-Urals complex gross refining margins of USD3.5-4.0/b (vs our USD4.0/b) and Tupras' net refining margin of USD5.8-6.3/b (vs our USD5.4/b estimate). However, we maintain our estimates. We think the announcement related to dividend payments with respect to the 2015 results could be a near-term trigger for Tupras' share price performance. Tupras' management said during the Q4 2015 results conference call that the dividend payments will be strong and the company will pay out the maximum amount possible from FY2015 statutory profits. We forecast DPS of TRY6.0 for 2015 vs. IBES consensus estimate of TRY3.75.

EQUITIES OIL & GAS

Turkey



MAINTAIN BUY

TARGET PRICE (TRY)

90.00

PREVIOUS TARGET (TRY)

90.00

SHARE PRICE (TRY)

72.05

(as of 15 Feb 2016)

UPSIDE/DOWNSIDE

+24.9%

MARKET DATA

Market cap (TRYm)	18,043	Free float	100%
Market cap (USDm)	6,112	BBG	TUPRS TI
3m ADTV (USDm)	35.7	RIC	TUPRS.IS

FINANCIALS AND RATIOS (TRY)

Year to	12/2015a	12/2016e	12/2017e	12/2018e
HSBC EPS	10.18	10.42	9.88	9.12
HSBC EPS (prev)	11.18	-	-	-
Change (%)	-8.9	-	-	-
Consensus EPS	8.39	8.89	8.70	8.04
PE (x)	7.1	6.9	7.3	7.9
Dividend yield (%)	8.3	8.7	8.2	7.6
EV/EBITDA (x)	6.4	5.8	6.1	5.8
ROE (%)	35.3	29.5	25.1	21.3

52-WEEK PRICE (TRY)



Source: Thomson Reuters IBES, HSBC estimates

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Financials & valuation

Financial statements

Year to	12/2015a	12/2016e	12/2017e	12/2018e
Profit & loss summary (TRYm)				
Revenue	36,893	35,489	45,260	56,575
EBITDA	3,784	3,950	3,605	3,625
Depreciation & amortisation	-486	-525	-522	-522
Operating profit/EBIT	3,298	3,425	3,083	3,103
Net interest	-349	-166	-95	-274
PBT	2,225	3,278	3,110	2,869
HSBC PBT	2,225	3,278	3,110	2,869
Taxation	339	-656	-622	-574
Net profit	2,550	2,609	2,475	2,284
HSBC net profit	2,550	2,609	2,475	2,284
Cash flow summary (TRYm)				
Cash flow from operations	-155	3,665	3,246	2,994
Capex	-961	-800	-650	-600
Cash flow from investment	-959	-800	-650	-600
Dividends	6	-1,503	-1,566	-1,485
Change in net debt	3,035	-1,362	-1,031	-909
FCF equity	-1,043	2,519	2,163	2,067
Balance sheet summary (TRYm)				
Intangible fixed assets	59	59	59	59
Tangible fixed assets	15,970	15,917	15,734	15,525
Current assets	8,675	6,254	8,595	10,993
Cash & others	3,028	835	1,865	2,773
Total assets	25,470	22,997	25,155	27,344
Operating liabilities	6,988	6,951	8,187	9,566
Gross debt	9,919	6,364	6,363	6,363
Net debt	6,892	5,530	4,499	3,590
Shareholders' funds	8,305	9,412	10,321	11,120
Invested capital	14,688	14,445	14,337	14,238

Ratio, growth and per share analysis

Year to	12/2015a	12/2016e	12/2017e	12/2018e
Y-o-y % change				
Revenue	-7.1	-3.8	27.5	25.0
EBITDA	379.5	4.4	-8.7	0.6
Operating profit	521.1	3.9	-10.0	0.7
PBT	1111.7	47.3	-5.1	-7.7
HSBC EPS	74.8	2.3	-5.1	-7.7
Ratios (%)				
Revenue/IC (x)	3.0	2.4	3.1	4.0
ROIC	31.4	18.8	17.1	17.4
ROE	35.3	29.5	25.1	21.3
ROA	13.4	11.9	11.5	9.9
EBITDA margin	10.3	11.1	8.0	6.4
Operating profit margin	8.9	9.7	6.8	5.5
EBITDA/net interest (x)	10.8	23.8	37.8	13.3
Net debt/equity	82.4	58.3	43.2	32.0
Net debt/EBITDA (x)	1.8	1.4	1.2	1.0
CF from operations/net debt		66.3	72.2	83.4
Per share data (TRY)				
EPS reported (diluted)	10.18	10.42	9.88	9.12
HSBC EPS (diluted)	10.18	10.42	9.88	9.12
DPS	6.00	6.25	5.93	5.47
Book value	33.16	37.58	41.22	44.41

Key forecast drivers

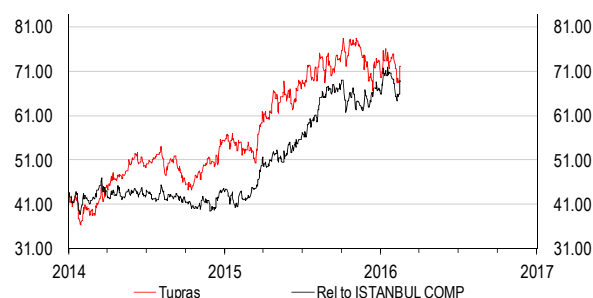
Year to	12/2015a	12/2016e	12/2017e	12/2018e
Med-Urals refining margin (USD)	4.8	4.0	3.5	3.5
Tupras Net Refining Margin(USD)	6.5	5.6	5.3	5.3
GDP growth (%)	3.1	2.1	2.5	2.5
USD/TRY (Average)	2.72	2.95	3.00	3.00

Valuation data

Year to	12/2015a	12/2016e	12/2017e	12/2018e
EV/sales	0.7	0.6	0.5	0.4
EV/EBITDA	6.4	5.8	6.1	5.8
EV/IC	1.6	1.6	1.5	1.5
PE*	7.1	6.9	7.3	7.9
PB	2.2	1.9	1.7	1.6
FCF yield (%)	-6.0	14.5	12.5	11.9
Dividend yield (%)	8.3	8.7	8.2	7.6

* Based on HSBC EPS (diluted)

Price relative



Source: HSBC

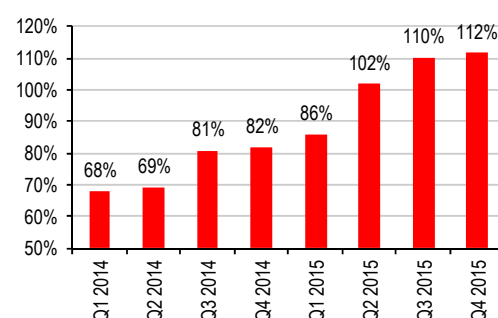
Note: Priced at close of 15 Feb 2016

Tupras financial forecast revisions (TRYm)

	2016e			2017e		
	New	Old	Change	New	Old	Change
Sales	35,489	35,491	0%	45,260	45,260	0%
EBITDA	3,950	3,950	0%	3,605	3,605	0%
Net income	2,609	2,609	0%	2,475	2,475	0%

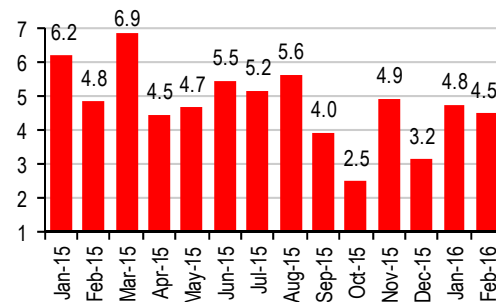
Source: HSBC estimates

Tupras' capacity utilisation rate was above 100% for the last three quarters of 2015



Source: Tupras

Monthly Med-Urals gross refining margins (USD/b)



Source: Thomson Reuters Datastream

Valuation and risks

Valuation

We have updated our model for the Q4 2015 actual results. We value Tupras using a DCF (50% weight) and multiples-based approaches (25% weight each to PE and EV/EBITDA).

Our DCF valuation for Tupras is TRY94.5 per share (from TRY85.5, due to lower WACC). This is derived using a benchmark Med-Urals refining margin of USD4.0/bbl for 2016 and USD3.5/b thereafter, a risk-free-rate assumption of 9.5%, an equity risk premium of 5.5%, and a beta of 0.91, resulting in a CoE of 14.5%. We use cost of debt of 5.0%, leading to a WACC of 11.1% (from 11.7% due to higher debt at the end of 2015). Our DCF model also assumes a terminal growth rate of 3%.

Our EV/EBITDA valuation method yields a valuation of TRY75.8 (from TRY83.6) per share based on the one-year forward sector average multiple of 5.0x (from 5.5x) and our EBITDA estimate for 2016e.

We arrive at a PE-based valuation of TRY95.1 (from TRY103.8) per share using the one-year forward multiple of 7.0x (from 8.6x) and our 2016e net income estimate. On relative valuation multiples, we think Tupras should trade in line with its peer average on forward-looking multiples.

The weighted average of these three valuation methods, rounded to the nearest whole number, results in a fair value target price of TRY90 (unchanged). Our target price implies upside of 24.9%; we therefore maintain our Buy rating on Tupras.

Risks

The downside risks to our estimates and rating include lower-than-expected refining margins and fuel demand in the company's key market Turkey, fiscal and regulatory related risks.

Disclosure appendix

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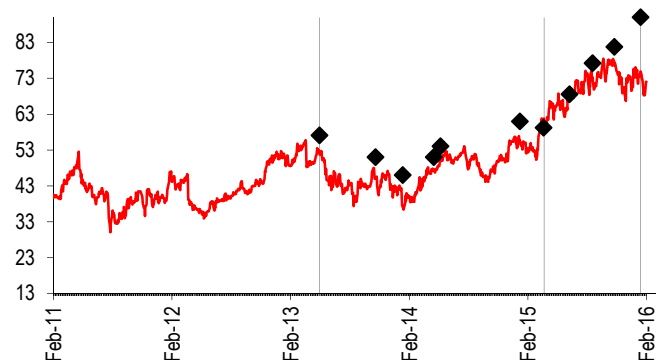
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Hold	38%	(27% of these provided with Investment Banking Services)
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For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

Share price and rating changes for long-term investment opportunities**Tupras (TUPRS.IS) share price performance TRY Vs HSBC rating history**

Source: HSBC

Rating & target price history

From	To	Date
Overweight	Neutral	15 May 2013
Neutral	Hold	06 April 2015
Hold	Buy	29 January 2016
Target price	Value	Date
Price 1	57.00	15 May 2013
Price 2	51.00	04 November 2013
Price 3	46.00	27 January 2014
Price 4	51.00	02 May 2014
Price 5	54.00	23 May 2014
Price 6	61.00	23 January 2015
Price 7	59.20	06 April 2015
Price 8	68.50	24 June 2015
Price 9	77.20	03 September 2015
Price 10	81.70	09 November 2015
Price 11	90.00	29 January 2016

Source: HSBC

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