

# Tupras

5/10/2016

## Company Update

### Worse than expected 1q results are priced-in

We have revised our valuation for Tupras to incorporate the recently announced below-consensus 1Q16 financials and the downward revision in company's guidance for the net refining margin in 2016. Moreover, we have blended the discounted cash flow analysis and the peer group valuation while reaching our target price, which was based only on discounted cashflow analysis before the completion of the RUP project. Accordingly, our 12-mth target price declined to TL80.3/share from TL98.6/share, suggesting an upside potential of 19%. We maintain our **OUTPERFORM** recommendation for the stock considering the 5% decline in share price following the release of the weaker than expected 1Q16 numbers.

**Weakness in diesel crack spreads continues in 2Q16 with a slight recovery.** Diesel crack is 4% below on a YoY basis in April 2016 and May numbers suggest a 6% YoY contraction during the first 9 days of the month. Although demand conditions are expected to improve in the remaining part of the year thanks to improved demand from South Korea, India and China, along with growing construction activities in the domestic market.

**2016 expectations for Tupras.** The company management expects Med-Complex refining margin of US\$3.5-4/bbl, while company's net refinery margin guidance has been revised downwards to US\$5.5-6.0/bbl from the range of US\$5.8-6.3/bbl. Expected CUR in 2016 is 100% and production will therefore be around 28mn tons. Imports of finished products will be minimal, as the company will focus on selling increased volumes of production. Thus, total sales volume is forecasted at around 30mn tons. Total CAPEX is expected to be US\$270mn.

**Changes in Estimates.** Our EBITDA estimate for 2016 declined by 4% to TL3.8bn due to the downward revision in our net refining margin assumption, while we have revised our sales volume to 29mn tons from 28mn tons, which had a positive impact on revenues and partially offset the decline in net refining margin. We believe that margins and product ratios will be normalized in 3Q16, yet we will see the full contribution of RUP investment. We now expect a net refining margin of US\$5.3/bbl for 2016, lower than the company's guidance.

**FIGURE 1: Changes in our estimate**

	2016E- Old	2016E- New	Chg.	2017E- Old	2017E- New	Chg.
Revenues (TL mn)	28,298	29,845	5%	43,158	45,322	5%
EBITDA (TL mn)	4,061	3,884	-4%	5,038	4,393	-13%
Net Profit (TL mn)	2,145	1,659	-23%	2,872	1,989	-31%
Net Refining Margin (US\$/bbl)	5.8	5.3	-9%	6.3	5.3	-15%
TP - Old (TL/share)	98.6					
TP - New (TL/share)		80.3				

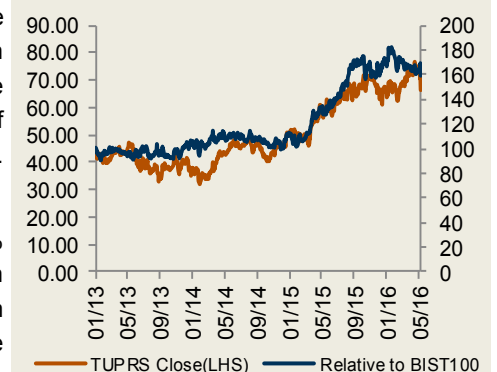
Source: Is Investment Estimates

## OUTPERFORM

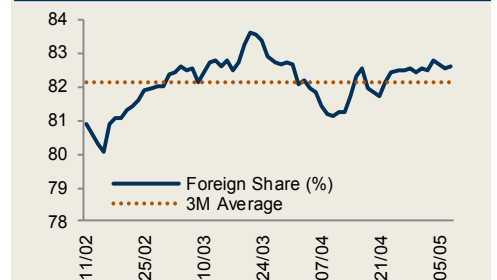
Upside Potential **19%**

Ticker	TUPRS		
Stock Data	TL	US\$	
Price at 09 05 2016	67.65	23.09	
Target Price	80.26	24.65	
Prev.Target Price	98.55	30.27	
Mcap (mn)	16,941	5,786	
Float Mcap (mn)	8,282	2,829	
Avg.Daily Volume (3M, mn)	137.0	47.4	
No. of Shares Outstanding (mn)		250	
Free Float (%)		48.89	
Multiples	2016E	2017E	2018E
P/E	10.2	8.5	6.5
P/BV	2.0	1.9	1.6
EV/EBITDA	6.0	5.3	4.5
Price Perf. (%)	1 Mn	3 Mn	12 Mn
TL	-7	6	15
US\$	-9	6	6
Relative to BIST-100	-3	-4	23

### Price / Relative Price



### Foreign Share (%)



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**Review of 1Q16 Financials:**

Tupras reported TL79mn of net earnings in 1Q16, worse than the market consensus of TL468mn and our below market consensus call of TL330mn mainly due to lower than expected operational profitability. EBITDA of the company was announced at TL398mn, 27% below the our expectation of TL545mn and 40% lower than the market call of TL670mn. Weaker than expected refining margin due to ultra-low mid distillate cracks is the main reason behind the dismal operational performance. If we compare the PBT line, it is worth to note that the company has booked TL29mn of loss before tax in 1Q15, while the PBT for 1Q16 has been reported as TL96mn, since there has been TL309mn of deferred tax income related to RUP investment in 1Q15.

**Tupras' net refining margin was at US\$2.81 per bbl in 1Q16, down by 40%** from US\$4.68 in 1Q15, signaling a higher decline compared to the Med Complex margin falling by 36% to US\$3.84/bbl. Weaker than expected diesel and jet fuel cracks due to El Nino hurricane in US and excess refinery production in China were the main reasons behind YoY decline in Tupras margins. RUP was online for the third consecutive quarter in 1Q16 helping the company to keep capacity utilization at 95% versus 81% in 1Q15.

**Tupras stated that they see some recovery in mid distillate cracks recently but they are still lower than they would normally expect.** Still, the company is confident that both global and domestic demand conditions will improve in the remaining part of the year thanks to robust demand coming from India and South Korea and better market conditions in China. Increase in construction activities in Turkey in high season will also have a positive impact on bitumen and diesel demand.

Although the API of the crude processed in 1Q16 was at 31,1, much lower than the 33,1 of 1Q15, due to the high gasoline cracks, the company has been able to reach light distillate yields of 22% thanks to the optimization done in the quarter.

**Slight downward revision in net refining margin estimate:** For 2016, the company expects a Med complex margin of between USD3.5-4.0 per bbl while Tupras' net margin guidance in the region has been revised down to US\$5.5-6.0 per bbl from US\$5.8-6.3 per bbl. Capacity utilization guidance of 100% delivering a production of 28 mn tons has been kept unchanged.

TL (mn)	1Q16	1Q15	YoY	4Q15	QoQ
Revenues	6,191.4	6,948.3	-11%	8,898.5	-30%
Gross Margin	7.9%	7.2%		14.6%	
EBIT	264.0	326.8	-19%	1,020.6	-74%
EBIT Margin	4.3%	4.7%		11.5%	
EBITDA	398.3	400.0	0%	1,189.4	-67%
EBITDA Margin	6.4%	5.8%		13.4%	
Financial Income-net	(192.4)	(110.6)	n.m.	(167.8)	n.m.
Net Profit	78.9	275.2	-71%	814.9	-90%
Net Margin	1.3%	4.0%		9.2%	

	1Q15	1Q16	(%)	FY14	FY15	(%)
<b>Dtd. Brent Price (\$/bbl)</b>	54.0	33.9	-37.2%	99.0	52.5	-47.0%
<b>Processed Crude API</b>	33.1	31.1	-6.0%	32.3	31.4	-2.9%
<b>White Product Yield (%)</b>	73.8	72.9	-1.1%	72.2	75.4	4.4%
<b>Med. Complex Margin (\$/bbl)</b>	6.0	3.8	-35.8%	2.0	4.8	147.7%
<b>Tupras Net Refining Margin (\$/bbl)</b>	4.7	2.8	-40.1%	3.2	6.5	101.6%

**Summary of Key Financials (TL mn)**

<b>Income Statement (TL mn)</b>	<b>2014A*</b>	<b>2015A*</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Revenues	39,723	36,893	29,845	45,322	60,638
EBITDA	789	3,784	3,884	4,393	5,176
Depreciation & Amortisation	258	486	525	601	679
EBIT	531	3,298	3,359	3,792	4,497
Other income (expense), net	(95)	(546)	0	0	0
Financial expenses, net	(235)	(599)	(1,348)	(1,375)	(1,341)
Minority Interests	11	14	14	14	15
Income before tax	184	2,225	2,091	2,505	3,252
Taxation on Income	1,286	339	(418)	(501)	(650)
Net income	1,459	2,550	1,659	1,989	2,587

**Cash Flow Statement (TL mn)**

Net Income	1,459	2,550	1,659	1,989	2,587
Depreciation & Amortisation	258	486	525	601	679
Indemnity Provisions	7	25	10	10	10
Change in Working Capital	1,728	(3,834)	68	(169)	(86)
Cash Flow from Operations	3,452	(773)	2,261	2,431	3,190
Capital Expenditure	2,621	1,301	1,295	1,375	1,513
Free Cash Flow	831	(2,074)	966	1,056	1,677
Rights Issue	0	0	0	0	0
Dividends Paid	396	0	1,628	1,402	1,244
Other Cash Inflow (Outflow)	(1,433)	(961)	93	204	(35)
Change in net cash	(998)	(3,035)	(569)	(142)	397
Net Cash	(3,857)	(6,892)	(7,460)	(7,603)	(7,205)

**Balance Sheet (TL mn)**

Tangible Fixed Assets	10,668	11,484	12,254	13,028	13,862
Other Long Term Assets	3,482	4,485	4,178	4,079	4,245
Intangibles	61	59	59	59	59
Long-term financial assets	730	766	834	905	982
Inventories	2,371	2,102	2,188	2,237	2,208
Trade receivables	170	2,540	2,626	2,493	2,607
Cash & equivalents	3,898	3,028	3,000	3,000	3,000
Other current assets	553	1,005	895	906	910
Total assets	21,933	25,470	26,068	26,749	27,927
Long-term debt	6,978	8,048	9,415	9,590	9,614
Other long-term liabilities	181	225	255	258	335
Short-term debt	777	1,871	1,046	1,012	591
Trade payables	5,610	3,878	4,118	3,865	3,864
Total Debt	7,755	9,919	10,460	10,603	10,205
Other short-term liabilities	2,174	3,079	2,965	2,889	3,097
Total liabilities	15,720	17,102	17,799	17,614	17,500
Minority Interest	56	63	84	98	113
Total equity	6,157	8,305	8,270	9,135	10,427
Paid-in capital	250	250	250	250	250
Total liabilities & equity	21,933	25,470	26,068	26,749	27,927

**Ratios**

ROE (%)	25.9	35.3	20.0	22.9	26.4
ROIC (%)	4.7	18.9	15.8	17.2	19.4
Invested Capital	11,141	16,793	17,188	18,032	19,118
Net debt/EBITDA (x)	4.9	1.8	1.9	1.7	1.4
Net debt/Equity (%)	62.6	83.0	90.2	83.2	69.1
Capex/Sales (%)	6.60	3.53	4.34	3.03	2.50
Capex/Depreciation (x)	10.2	2.7	2.5	2.3	2.2
EBITDA Margin	2.0	10.3	13.0	9.7	8.5
EBIT Margin	1.3	8.9	11.3	8.4	7.4
Net Margin	3.7	6.9	5.6	4.4	4.3

**Valuation Metrics**

EV/Sales (x)	0.3x	0.5x	0.8x	0.5x	0.4x
EV/EBITDA (x)	17.2x	4.7x	6.0x	5.3x	4.5x
EV/IC (x)	1.2x	1.1x	1.4x	1.3x	1.2x
P/E (x)	8.0x	4.6x	10.2x	8.5x	6.5x
FCF yield (%)	7%	-18%	6%	6%	10%
Dividend yield (%)	4%	0%	8%	8%	7%

\*based on average Mcap during the year

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