Rating Action: **Moody's changes rating outlook on Tupras to positive; affirms Ba1 ratings**

Global Credit Research - 08 Sep 2017

London, 08 September 2017 -- Moody's Investors Service, ("Moody's") has today changed the rating outlook on Turkiye Petrol Rafinerileri A.S. (Tupras) to positive from stable. Concurrently, the Ba1 corporate family rating (CFR), the Ba1-PD probability of default rating (PDR) and the Ba1 senior unsecured notes rating have been affirmed.

RATINGS RATIONALE

Moody's changed the rating outlook to positive from stable to reflect the company's improving financial performance following the completion of its Residual Upgrade Program (RUP) in May 2015 and as a result of healthy refining margins since 2015. The rating is constrained for now at the Ba1 positive level given the Ba1 negative rating of the government of Turkey.

Tupras' debt/EBITDA as adjusted by Moody's decreased to 2.3x as of the last twelve months (LTM) ending 30 June 2017 from 3.3x as of year-end 2015, while adjusted retained cash flow (RCF)/debt remains healthy at 22.9% from 29.2% over the same period. The company's cash balances are also significant as reflected by net debt to EBITDA of 1.5x as of 30 June 2017 (LTM) as opposed to 2.6x as of year-end 2015 and 2.8x as of year-end 2016.

The affirmation of Tupras' Ba1 CFR reflects the company's dominant position in the Turkish market, given that Tupras is the sole refiner in the country and secures domestic production and distribution of refined products. Refining margins in 2016 decreased compared to 2015 resulting in adjusted funds from operations (FFO) decreasing to TRY2.6 billion in 2016 from TRY3.2 billion in 2015. However, in H1 2017 alone Tupras generated TRY2.7 billion of adjusted FFO by benefiting from a strong operating environment. This exemplifies the volatility inherent in the refining industry because of changes in market dynamics and crack spreads.

With the completion of an intensive multi-year capex programme and no major investment plan over the next several years, Moody's expects that Tupras' gross debt would steadily decline as project finance loans amortize. Tupras' ability to reduce gross financial debt is significant when crack margins are strong such as in the current environment, but its financial policy to maximize dividend payouts - after taking into account market conditions and investment plans - will moderate its deleveraging path. Notwithstanding this, Tupras has considerable flexibility in decreasing shareholder returns given the robust credit profile of Koc Holding A.S. (Baa3 negative). Moody's does recognize that the presence of Koc Holding as a financially strong shareholder is supportive to the rating and to the positive outlook that it has assigned.

All of Tupras' core assets are located in Turkey and a material portion of its profitability is derived from the domestic market which creates credit linkages with the Turkey sovereign. At the same time, the company's ability to increase the export of its refined products is a mitigating factor against an unlikely scenario of a significant drop in domestic demand. As a result, Moody's believes Tupras can be rated above the Turkey government bond rating but limited to one notch above.

On average, about 20% of the refiner's revenues are from exports, of which gasoline and fuel oil are key products sold in the international market. Turkey is a significant importer of diesel and therefore Tupras will maintain its market share even if domestic demand declines and once the country's second oil refining company -- the STAR refinery -- becomes fully operational in 2019.

Tupras' liquidity has strengthened significantly since 2015. Moody's expects FFO generation to remain healthy in the second half of 2017 and forecasts it to be in excess of TRY4.3 billion for the full-year 2017. This, alongside the company's adjusted cash position as of 30 June 2016 (LTM) of TRY4.4 billion, will be sufficient to cover Tupras' debt maturities over the next 12 months of TRY3.9 billion of which about TRY2.5 billion is the $700 million bond due in May 2018. Moody's expects annual capex over the next several years to be in the range of TRY880 -- TRY1,050 million ($250 - $300 million). The company paid TRY1.6 billion in dividends in Q2 2017. Should the financial performance in H2 2017 remain strong, Moody's expects dividend payment in Q2 2018 to range between 60%-80% of FFO.

RATIONALE FOR CHANGE OF OUTLOOK TO POSITIVE

The positive outlook reflects the improving financial profile of the company but also takes into consideration the Ba1 negative rating on Turkey's government bond rating.

WHAT COULD CHANGE THE RATING UP / DOWN

Upward pressure on the rating is constrained by the negative outlook on the Turkey sovereign rating because of Tupras' credit linkages with Turkey. Should the rating on the sovereign change to Ba1 stable, Tupras' rating is likely to be upgraded if current credit metrics are sustained. This includes adjusted debt/EBITDA maintained below 2.5x and adjusted EBIT/interest cover above 5.0x. As of 30 June 2017 (LTM), the metrics were 2.3x and 5.2x respectively.

Ratings could be downgraded if the company fails to maintain adjusted gross debt/EBITDA below 4.0x and adjusted EBIT/interest cover above 3.5x.

The principal methodology used in these ratings was Refining and Marketing Industry published in November 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

The Local Market analyst for these ratings is Rehan Akbar, +971 (423) 795-65.

Turkiye Petrol Rafinerileri A.S. (Tupras) is the sole refiner in Turkey, with a dominant position in the domestic petroleum product market. The refining business consists of one very high complexity refinery in Izmit, two medium complexity refineries located in Izmir and Kirikkale and one simple refinery in Batman, with a combined annual crude processing capacity of 28.1 million tonnes. Other core companies include (1) a 40% effective ownership stake in Opet, Turkey's second-largest oil-products distribution company as of 30 June 2017, with 1,538 stations operating under the Opet and Sunpet brands; and (2) an 80% stake in Ditas, a shipping company which primarily serves Tupras' logistic needs.

The company was established in 1983 when various state-owned refineries were combined under the Tupras name. As part of the privatisation process, 2.5% of its shares were publicly floated in 1991, which had increased to 49% by 2005. The company was fully privatised on 26 January 2006 when the remaining 51% stake was bought by EYAS, a special purpose vehicle owned by a consortium led by Koc Holding, one of the largest business groups in Turkey.

Headquartered in Korfez/Turkey, Tupras generated sales of TRY45.2 billion and reported a net profit of TRY3.7 billion as of the last twelve months ending 30 June 2017.

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