

Tupras

There is a light that never goes out...

Expected impact: Neutral

We maintain our recommendation at Buy for Tupras and revise our FV estimate upwards to TRY144.95 from TRY140.8 with the expectation of strong 4Q17 results backed by solid operational performance. We expect the recent stable trend in Med refining margins to continue whereas rising product prices and stable volume with high CUR should also continue to support the operational profitability. Nonetheless, we might see some profit taking after lower than expected operational profitability and earnings for 3Q17.

TUPRS announced its 3Q17 results with TRY14,344mn revenues (+52% YoY, 14% QoQ), TRY1,457mn EBITDA (+81% YoY, -2% QoQ) and TRY792mn net income (+71% YoY, -32% QoQ). While top-line results were above the market consensus, operating profitability and bottom-line below both market expectations and our estimates. Higher than expected tax expenses resulted in lower earnings in 3Q17.

Looking into details:

- The increasing trend in product prices continued to support the steady top-line growth which was coupled with rising sales volume (+10% YoY). The contribution to strong sales performance came mostly from domestic diesel, bitumen, and gasoline. Gasoline prices averaged US\$544/tons in 3Q17 while product cracks have risen to 15\$/bbl with a 37% YoY and 5% QoQ increase. Similarly, diesel prices averaged US\$485/tons in 3Q17 while related cracks have surged to \$13.1/bbl with a 46% YoY and 22% QoQ increase. Backed by strong product prices, we expect the strong cash and revenue generation performance of TUPRS to continue for the remaining part of the year as well.
- In 3Q17, refining margins were positively affected by the supply outages in many European refineries. Additionally, strong demand also led to a rise in average diesel crack margins in July and August. Med Complex margin increased to US\$6.5/bbl in 3Q17 (+11% QoQ, +69% YoY) while it had averaged US\$5.8/bbl in 2Q17 and US\$3.81/bbl in 3Q16. Net margin of TUPRS climbed to US\$8.9/bbl (US\$2.4/bbl higher than benchmark) in 3Q17 thanks to increasing product margins, positive domestic market environment, high complexity, and favorable crude purchases. We expect that these developments would lead up to a strong net refining margin for TUPRS in 4Q17 as well. Please note that the company revised up its 2017YE guidance for med complex and TUPRS net margins from US\$4.25-4.75 to US\$5.25-5.75 and from US\$7.0-7.5 to US\$7.5-8.0, respectively.
- The company delivered more than both the market and their own expectations in terms of capacity utilisation which has reached 112.6% for the first nine months. TUPRS continued to achieve a steady quarterly production volume with 7.6mn tons in 3Q17 with a 6% YoY increase (vs around 7.3-7.4mn tons per quarter in average during 2016) with the help of the higher margins backed by the RUP investment's contribution. We can definitely conclude that TUPRS achieved its two main targets which were higher net refining margin and full capacity utilisation. We expect the strong CUR performance of the company to continue during the last quarter of the year as well.
- The company reported a lower than expected bottom-line figure due to lower-than-expected operating profit with increasing OPEX as a result of TRY depreciation and the increase in the tax expenses which is TRY229mn (3Q16: TRY55mn, 2Q17: TRY147mn). Yet, it should be noted that TUPRS managed to lower its net debt position to TRY4.4bn in 3Q17 which was TRY5.9bn in 2Q17, pointing out to its sturdy cash generation capability.

The stock is trading at a 13% premium and a 23% discount in terms of 2017E and 2018E average EV/EBITDA and P/E multiples compared to int'l peers, respectively.

BUY 4% upside

Fair Value TRY144.95

Bloomberg ticker **TUPRS TI**
 Share Price TRY140.00
 Market Cap USD9bn/TRY35bn
 Free Float 49%

TRY mn [3Q17]	Actual	Consensus	Deviation	Global Est
Revenues	14,343.7	12,761.2	12.4%	12,667.9
EBITDA	1,456.7	1,738.4	-16.2%	1,650.4
Margin	10.2%	13.6%	-3.5%	13.0%
Net Income	992.2	1,359.4	-27.0%	1,461.4
Margin	6.9%	10.7%	-3.7%	12%

TRY mn	3Q17	3Q16	YoY	2Q17	QoQ
Revenues	14,343.7	9,450.9	51.8%	12,630.7	13.6%
EBITDA	1,456.7	807.2	80.5%	1,479.7	-1.6%
Margin	10.2%	8.5%	1.6%	11.7%	-1.6%
Net Income	992.2	580.9	70.8%	1,457.2	-31.9%
Margin	6.9%	6%	0.8%	11.5%	-4.6%

Performance	1M	3M	6M	12M
Absolute	13.5	19.7	53.1	130.8
Relative	5.7	17.2	28.4	57.5
Relative \$	5.4	8.7	39.9	88.7

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Tupras

Recommendation:

Fair Value:

Share Price:
Upside / Downside:

Previous Fair Value:
% change to Fair Value:

Bloomberg ticker:
Reuters code:

BUY
TRY 144.95

TRY 140.00
3.5%

TRY 118.44
22.4%

TUPRS TI
TUPRS.IS

Shares In Issue Less Treasury (m) 250
Market Cap (TRY m) 35,059
Net Debt (as of 2Q17-end) 4,404
Adjustments For Associates & Minorities (395)
Enterprise Value (TRY m) 39,068
Net Pension Deficit (Surplus) -

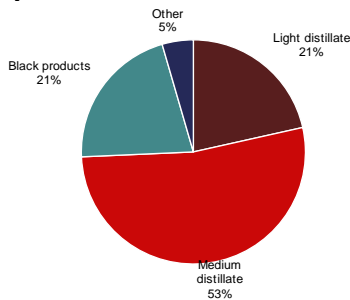
Forthcoming Catalysts

3Q2017 financial results October 2017

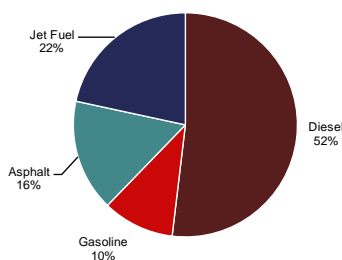
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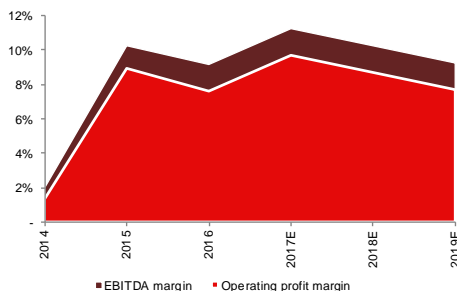
Product yields as of 12M16



Sales volumes as of 12M16



Margin Trends



Valuation Metrics (Year end Dec)	2015	2016	2017E	2018E	2019E
P/E	6.83	9.88	8.5	9.2	10.1
EV / Sales	0.6	0.7	0.8	0.8	0.7
EV / EBIT	7.1	8.7	8.2	8.6	9.3
EV / EBITDA	6.2	7.2	7.0	7.3	7.8
P/BV	2.10	2.19	3.1	2.8	2.6
FCF Yield	-4.1%	9.0%	13.8%	12.2%	11.4%
OCF Yield	1.7%	11.5%	16.2%	14.7%	13.8%

Key Ratios	2015	2016	2017E	2018E	2019E
EBITDA margin	10.3%	9.2%	11.3%	10.3%	9.3%
Operating Profit margin	8.9%	7.6%	9.7%	8.7%	7.7%
Capex / Revenue	2.6%	2.5%	1.7%	1.6%	1.5%
Capex / Depreciation	1.98	1.63	1.11	1.03	0.97
Net Debt / EBITDA	1.8	1.9	0.9	0.8	0.9
ROA	10%	6%	11%	10%	9%
ROE	30%	22%	37%	30%	25%

P&L Summary (TRY m)	2015	2016	2017E	2018E	2019E
Revenue	36,893	34,855	50,487	52,842	55,068
% change	(7.1%)	(5.5%)	44.8%	4.7%	4.2%
EBITDA	3,784	3,195	5,681	5,417	5,095
% change	379.5%	(15.6%)	77.8%	(4.6%)	(6.0%)
% margin	10.3%	9.2%	11.3%	10.3%	9.3%
Depreciation & Amortisation	486	541	784	820	855
Operating Profit	3,298	2,654	4,897	4,597	4,240
% change	521.1%	-19.5%	84.5%	-6.1%	-7.8%
% margin	8.9%	7.6%	9.7%	8.7%	7.7%
Associates					
EBIT	3,298	2,654	4,897	4,597	4,240
Net Financials & Other	-1,073	-710	-505	-528	-551
Pre Tax Profit	2,225	1,944	4,392	4,069	3,690
Income Tax Expense	339	(131)	(242)	(227)	(210)
Discontinued Operations					
Minority Interests	(14)	(20)	(26)	(24)	(22)
Net Income	2,550	1,793	4,124	3,817	3,458

Reported EPS (TRY)	2015	2016	2017E	2018E	2019E
Reported EPS (TRY)	10.18	7.16	16.47	15.24	13.81
Underlying EPS (TRY)	10.18	7.16	16.47	15.24	13.81
DPS (TRY)	6.50	4.32	9.93	9.19	8.33
Payout Ratio	63.5%	60.3%	60.3%	60.3%	60.3%
Shares In Issue Less Treasury (m)	250	250	250	250	250

Cash Flow (TRY m)	2015	2016	2017E	2018E	2019E
Operating Profit	3,298	2,654	4,897	4,597	4,240
Taxes paid	339	(131)	(242)	(227)	(210)
Depreciation	486	541	784	820	855
+ Increase in accounts payable	(1,732)	3,110	802	(59)	(127)
-Increase in accounts receivable	(2,370)	(640)	(19)	(4)	16
-Increase in inventory	268	(1,506)	(530)	15	50
Cash flow from operations	289	4,027	5,692	5,142	4,824
Capex	-964	-884	-866	-849	-832
FCFF	(675)	3,143	4,826	4,293	3,992

Balance Sheet (TRY m)	2015	2016	2017E	2018E	2019E
Cash & Equivalents	3,028	6,051	9,031	9,452	9,851
Inventory	2,102	3,608	4,139	4,123	4,074
Trade Receivables	2,540	3,180	3,199	3,203	3,188
Fixed Assets	11,539	11,797	11,824	11,852	11,830
Other Assets	6,261	6,582	9,534	9,979	10,399
Total Assets	25,470	31,218	37,726	38,610	39,340
Interest Bearing Debt	9,919	12,134	13,901	14,055	14,288
Trade Payables	3,878	6,988	7,790	7,731	7,604
Other Liabilities	3,304	3,929	4,806	4,254	3,707
Total Liabilities	17,102	23,051	26,497	26,040	25,599
Shareholders' Equity	8,305	8,088	11,131	12,462	13,618
Minority Interests	63	79	98	109	124
Total Equity	8,368	8,167	11,229	12,570	13,742
Net Debt (Cash)	6,892	6,084	4,870	4,602	4,437



Changes in estimates

We have revised up our revenue, EBITDA and net income estimates both for 2017 and 2018 due to increasing med. Refining margins, robust crack spreads and revised volume forecasts.

Figure 1 TUPRS: Changes in estimates

	2017			2018	
	Old	New	Consensus	Old	New
Net Sales	50,487	50,487	50,467	52,842	52,842
EBITDA	5,235	5,681	5,751	4,422	5,417
EBITDA Margin	10.3%	11.3%	7.9%	8.4%	10.3%
Net income	3,697	4,124	4,002	2,871	3,817

Valuation

We use a discounted free cash flow method (DCF) and international peer group comparison to reach a fair value for TUPRS of TRY35bn, which corresponds to TRY140.80 per share price. DCF and peer group comparison methods have 70% - 30% weights as we think the initial method is a better measure considering the strategy differences among the peers.

Figure 2 TUPRS: Summary of valuation

Valuation Methodology	Weight	Implied Valuation	Contribution
DCF	70%	40,891	28,624
International peer group comparison	30%	40,263	12,079
Net Debt			4,404
Fair value (TL mn)			36,298
Current mcap (TL mn)			35,059
Fair value (\$ mn)			9,352
Current Mcap (\$ mn)			9,032
Absolute upside potential			3.5%

Source: Global securities estimates



DCF Analysis

In the DCF analysis, we have forecast financials based on expected sales volume, estimates for product prices and feedstock prices. We used a weighted average cost of capital (WACC) of 13.3%.

Figure 3 TUPRS: DCF Analysis

(TLmn)	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E
EBITDA	5,681	5,417	5,095	5,324	5,577	5,853	6,142	6,445	6,816	7,209
- Taxes paid	242	227	210	219	230	241	253	265	281	297
- Increase in accounts receivable	19	4	-16	-15	-14	-17	-27	-37	-25	-37
- Increase in inventory	530	-15	-50	-101	-108	-121	-143	-166	-165	-196
+ Increase in accounts payable	802	-59	-127	-226	-243	-115	-145	-176	-159	-199
Cash flow from operations	5,692	5,142	4,824	4,994	5,227	5,635	5,914	6,207	6,567	6,946
- Capex	866	849	832	790	751	713	677	644	611	581
FCF	4,826	4,293	3,992	4,204	4,476	4,922	5,237	5,563	5,955	6,366
Discounted FCF	4,252	3,333	2,731	2,534	2,377	2,303	2,159	2,021	1,906	1,795
PV of Terminal Value	15,934									
PV of FCFE	25,412									
Fair Equity Value	41,346									

International peer comparison

We calculate that TUPRS is trading at a 20% premium and 31% discount in terms of 2017E and 2018E average EV/EBITDA and P/E multiple respectively compared to int'l peers.

Figure 4 TUPRS: International peer comparison

Company	EV/EBITDA		P/E	
	2017E	2018E	2017E	2018E
GRUPA LOTOS SA	5.9	5.6	10.1	10.4
SARAS SPA	3.7	4.2	11.0	13.5
MOTOR OIL (HELLAS) SA	4.7	5.2	7.2	9.6
NESTE OYJ	9.1	9.6	15.7	15.7
POLSKI KONCERN NAFTOWY ORLEN	5.5	6.2	8.6	10.8
MOL HUNGARIAN OIL AND GAS PL	5.3	5.3	8.2	8.8
PETROL DD LJUBLJANA	7.0	6.7	9.4	9.0
VALERO ENERGY CORP	7.1	6.2	16.7	13.1
HOLLYFRONTIER CORP	8.5	7.3	19.9	16.0
THAI OIL PCL	6.5	6.5	10.0	10.7
REPSOL SA	5.4	5.3	11.2	11.4
TATNEFT-CLS	6.7	6.0	8.6	8.0
BHARAT PETROLEUM CORP LTD	10.0	10.1	13.2	12.1
NEW ZEALAND REFINING CO LTD	4.3	5.4	9.0	15.0
Average	6.4	6.4	11.3	11.7
EV from peers	40,263			

Bloomberg and Global Securities estimates

TUPRS

Exhibit 1 Publication schedule

Date	Publication
10.03.2018	4Q17Earnings release

Source: Public disclosure platform

Exhibit 2 Recommendation history

08.08.1994 (Initiation date)	Rating	Target Price	Prev. Day's close	Upside
04.10.2017	Buy	140.80	123.30	14.2%
03.08.2017	Buy	118.44	108.00	9.7%
05.05.2017	Buy	95.85	87.30	9.8%
14.02.2017	Hold	92.08	80.85	13.9%
27.12.2016	Hold	79.00	65.59	20.5%

Source: Global Securities

Exhibit 3 Coverage universe recommendation overview

	Buy	Hold	Reduce	Sell	U/R
Universe	17	17	2	2	0
Universe %	45%	45%	5%	5%	0%

Source: Global Securities



Date of completion of this report: 04.05.2017 8:15 UTC+3

Date of email-distribution of this report: 04.05.2017 8:20 UTC+3

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12-MONTH RATING DEFINITION

BUY: Buy stocks are expected to have a total return of at least 20% and are the most attractive stocks in our coverage universe on a 12-month horizon.

HOLD: Hold stocks are expected to deliver a positive total return of up to 20% within a 12-month period.

REDUCE: Reduce stocks are expected to achieve a negative total return up to -10% within a 12-month period.

SELL: Sell stocks are expected to post a negative total return of more than -10% within a 12-month period.

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