

Tupras

NEUTRAL

Current price: 46.65 TL
12-mo T.Price: 54.00 TL

3Q14 Earnings Comment

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3Q14 Actual result vs. estimates				Share Price performance		Margins	
TLmn	Actual	Cnbc-e	Ak	1M	3M	YtD	
Revenue	11,812	11,987	12,079				
EBITDA	488	304	290				
margin	4.1%	2.5%	2.4%				
Net Inc.	377	192	151				

Comment: Bottom-line beat estimates on the back of stronger-than-expected operational performance

- ✓ Tupras announced TRY377mn net profit in 3Q14, beating the consensus estimate of TRY192mn and our own estimate of TL151mn. The main reason for deviation is stronger-than-expected operating performance. The company's 3Q14 EBITDA of TRY488mn, was above consensus estimate of TRY304mn and our estimate of TRY290mn. Despite the inventory losses due to crude price declines, Tupras' net margin increased to US\$5.53/barrel in 3Q14 from US\$4.13/barrel in 3Q13 on the back of foreign exchange effects (i.e. depreciation of TRY).
- ✓ We have revised up our 2014 EBITDA forecast to TRY990mn (from TRY935mn) and net profit forecast to TL1,655mn (from TL1,605mn). Furthermore, while we slightly revised up our 2015 EBITDA forecast to TRY2,483mn (from TRY2,420mn) we revised down our 2015 net profit estimate to TRY1,210mn (from TRY1,300mn) mainly due to increase in our financial expense forecasts. The company shares have underperformed the BIST-100 total return index by 7% in the last 3 months. The 3Q14 results will have a positive bearing for the shares in the short term. While we maintain our "Neutral" rating, we fine tune our 12-month target price to TL54.00 per share (from TL53.50). The company shares are trading at a 2015 EV/EBITDA of 6.1x and P/E of 9.7x compared to the international peers average of 6.2x EV/EBITDA and 9.2x P/E.

Key Highlight: FX impact supported the company's Q3 net refining margin

- ✓ The company's 3Q14 EBITDA of TRY488mn was above consensus estimate of TRY304mn and our estimate of TRY290mn. Despite the inventory losses (i.e. US\$72mn in 3Q14) due to crude price declines, Tupras' net margin increased to US\$5.53/barrel in 3Q14 from US\$4.13/barrel in 3Q13 on the back of foreign exchange effects (i.e. depreciation of TRY). Note that Med complex refining margin had improved to US\$3.45/barrel in 3Q14 (from US\$1.05/barrel in 3Q13). The Management revised up its net refining margin guidance to US\$2.5-3.0 per barrel (from US\$2.20), in line with our estimate of US\$2.54/bbl (previously US\$2.04).
- ✓ Total sales volume of the company declined to 6.37mn tons (-8.3% YoY) in 3Q14 mainly due to weaker domestic sales (i.e. -14.6% YoY to 4.91mn tons in 3Q14). Lower asphalt sales (fall of 37% YoY to 789,044 tonnes) due to lower demand from the state were the main reasons for the lower CUR (i.e. down by 6.4pp YoY to 80.7% in 3Q14). The management guidance for CUR is 74-75% (previously 74-78%), compared to our estimate of 72.1%.
- ✓ A total of US\$2.6bn has been spent on RUP (out of a total US\$2.7bn), total completion of which reached 98.2% as of September 2014.
- ✓ The improvement in the working capital requirement, mainly on the back of the reduction in inventory level, continued in 3Q14.

Key P&L items, TRYmn	3Q14	3Q13	YoY Ch.	2Q14	QoQ chg.	9M14	9M13	YoY Chg.
Revenues	11,812	12,167	-2.9%	9,598	23.1%	30,686	30,482	0.7%
Gross Profit	600	661	-9.2%	28	n.m.	1,037	1,139	-9.0%
Gross marg.	5.1%	5.4%	-0.4pps	0.3%	+4.8pps	3.4%	3.7%	-0.4pps
EBITDA	488	553	-11.8%	-64	n.m.	737	829	-11.2%
EBITDA marg.	4.1%	4.5%	-0.4pps	-0.7%	+4.8pps	2.4%	2.7%	-0.3pps
Net Profit	377	818	-53.8%	358	5.5%	1,246	1,084	15.0%

Key B/S items, TRYmn	3Q14	2Q14	1Q14	4Q13	3Q13
Net debt	4,292	4,591	4,962	3,434	3,106
FX position	-2,283	-2,917	-3,734	-3,570	-3,167
OP. cash flow	1,482	1,085	-790	747	1,635
Free cash flow	945	654	-1,355	447	870

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