MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Ba1 ratings to Tupras/(P)Ba1 to notes; stable outlook

Global Credit Research - 18 Oct 2012

First-time rating

London, 18 October 2012 -- Moody's Investors Service has today assigned a Ba1 Corporate Family (CFR) and Probability of Default Rating (PDR) to Turkiye Petrol Rafinerileri A.S. ("Tupras") and a provisional (P)Ba1 rating to the proposed USD notes. The outlook assigned to all ratings is stable. This is the first time that Moody's has assigned a rating to Tupras.

RATINGS RATIONALE

"The Ba1 ratings primarily reflect Tupras's dominant position in the Turkish market as well as the execution risks associated with the company's ongoing capex investment programme," says Martin Kohlhase, a Vice President - Senior Analyst in Moody's Corporate Finance Group and lead analyst for Tupras.

Moody's decision to position Tupras's ratings at the upper end of speculative grade is driven by a combination of factors.

On the positive side, the ratings reflect (i) a dominant position in the domestic market as the sole refiner in Turkey with an established infrastructure, including storage, pipeline and terminal facilities; (ii) positive and supportive economic fundamentals in the domestic market with a strong demand for transportation fuel; (iii) the ability to achieve higher gross margins per barrel as compared to its Mediterranean benchmark due to, amongst other reasons, its refinery capability of processing heavy and sour crude oil, in combination with opportunistic procurement of discounted crudes; and (iv) higher expected operating profit margins from 2015 onwards once the Residuum Upgrading Project (RUP) is completed.

Tupras's ratings also incorporate challenges including (i) exposure to cyclical market conditions inherent to the industry combined with emerging market risk factors (such as public policy, regulatory, foreign exchange volatility risks); (ii) negative free cash flow (FCF) until 2014 at the earliest, due to the combination of a sizable capital expenditure programme and high dividend payouts; (iii) potential for competitive cost disadvantage and supply/demand imbalance risk over the medium term stemming from international and local competition; and (iv) future profitability compression from reduced sourcing of discounted Iranian crude oil and weaker heavy crude differentials and from lower inventory gains (which had previously benefited from rising crude prices in 2011).

In addition, the rating assessment includes Moody's view that the company's asset base profile is comparable to that of peers in the Ba rating category, with three medium-complexity refineries, which are geographically located in a single market, and dependency on imported crude oil. The majority of Tupras's operating profit is derived from the refining business, with the distribution business complementing the former, although it does not provide a large scale of earnings diversification.

Tupras has adequate liquidity. As of June 2012, the company had unrestricted cash of TL1.86 billion against TL3.8 billion of adjusted debt, of which approximately half is short term. Cash flow from operations before working capital has historically been healthy, averaging at TL1.2 billion between 2007-11, but continues to be susceptible to the cyclical and volatile nature of the industry. Moody's expects Tupras to record negative FCF until 2014 at the earliest, with substantial cash outflows for capital expenditure requirements - largely related to its USD2.4 billion RUP - and returns to shareholders in order to repay the remaining balance of USD591 million of the USD1.8 billion acquisition loan placed in the EYAS special purpose vehicle, which was set up specifically during the privatisation of Tupras. Management expects the RUP project to contribute USD550 million in recurring EBITDA from 2015 onwards, which will strengthen underlying operating cash flows. Leverage remains moderate, with adjusted debt/EBITDA of 2.3x as of June 2012, and Moody's expects adjusted debt/EBITDA to be in excess of 3.5x by 2014 as the RUP-specific bank facilities will be drawn down before the company begins to de-leverage from 2015 onwards.

Given that only around 20% of its products are currently destined for export, although this may vary, Tupras is reliant on the stability of Turkey's domestic demand and economic growth. Any sustained deterioration of the macroeconomic environment, such as a material drop in foreign capital inflows and a higher current account deficit, could lead to a more challenging business and operating environment for Tupras. However, this risk is mitigated since Tupras produces dollar-priced commodities which can be easily exported. Political and regulatory policy changes remain a risk, such as future environmental regulations which could impact liquidity and profitability. Moody's has modestly factored shareholder support from Koc Holding, its main equity investor into the rating.

Tupras is exposed to international supply/demand market dynamics for crude oil and has in the past financially benefited from sourcing discounted heavy crude. International sanctions on Iranian crude oil imports (which at times were priced at a significant discount to Ural) will negatively affect Tupras's profitability going forward to the extent that supply is restricted, since Iran had been a major supply source. This is mitigated by the company's ability to opportunistically buy crude from various other countries including Russia, Saudi Arabia and Iraq. Tupras may also face a more challenging competitive environment from 2014 onwards when significant new capacity from the Middle East is expected to enter the market.

The rating outlook is stable and assumes that capex plans remain on schedule, with no material delays and cost overruns of the RUP project that may jeopardise the company's financial flexibility.

Turkiye Petrol Rafinerileri A.S. is the sole refiner in Turkey with a dominant position in the domestic petroleum product market. Its two core business segments are refining and distribution, with the former contributing on average 90% of the operating profit over the past five years. The refining business consists of three medium-complexity refineries located in Izmit, 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 (i) a 40% effective ownership stake in Opet, Turkey's second-largest oil products distribution company as of June 2012, with 1,300 stations operating under the Opet and Sunpet brands, and (ii) an 80% stake in Ditas, a shipping company which primarily serves Tupras's logistic needs.

The principal methodology used in rating Tupras was the Global Refining and Marketing Rating Methodology published in December 2009. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

Headquartered in Körfez/Turkey, Tupras reported sales of TL45.9 billion (USD25.6 billion) and an operating profit of TL1.5 billion (USD850 million) for the last twelve months ending June 2012.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

Information sources used to prepare the rating are the following : parties involved in the ratings, public information, and confidential and proprietary Moody's Investors Service information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Moody's Investors Service may have provided Ancillary or Other Permissible Service(s) to the rated entity or its related third parties within the two years preceding the credit rating action. Please see the special report "Ancillary or other permissible services provided to entities rated by MIS's EU credit rating agencies" on the ratings disclosure page on our website www.moodys.com for further information.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Martin Kohlhase
Vice President - Senior Analyst
Corporate Finance Group
Moody's Investors Services Limited, Dubai Branch
Gate Precinct 3, Level 3
P.O. Box 506845
DIFC - Dubai
UAE
Telephone: 00971 4237 9536

David G. Staples
MD - Corporate Finance
Corporate Finance Group
Telephone: 00971 4237 9536

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454