Turkiye Petrol Rafinerileri A.S. (Tupras)

Update

Ratings

Foreign Currency

Long-Term IDR	BBB−

Local Currency

Long-Term IDR	BBB−

National

Long-Term Rating	AAA(tur)

Outlooks

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term IDR	Stable

Financial Data

Turkiye Petrol Rafinerileri A.S. (Tupras)

	31 Dec 11	31 Dec 10
Revenue (TRYm)	41,385	26,219
EBITDA (TRYm)	2,217	1,242
Funds from operations (TRYm)	1,273	901
Working capital (TRYm)	-3,825	2,045
Free cash flow (TRYm)	-4,005	2,022
Total debt (TRYm)	2,348	2,936
Unrestricted cash and equivalents (TRYm)	846	5,632
FFO adjusted net leverage (x)	1.3	-3.2

Related Research

Rating Oil Refining and Marketing Companies (August 2012)

Updating Fitch's Oil and Gas Price Deck (August 2012)

2012 Outlook: EMEA Oil & Gas (December 2011)

Impact of Iran Oil Ban on EU Oil Companies (January 2012)

Analysts

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Key Rating Drivers

Strong Market Position: The ratings reflect Turkiye Petrol Rafinerileri A.S. (Tupras)'s leading position in the Turkish oil refining and marketing sector, and above-average cash flow from operations for a refining business.

Weaker Credit Metrics: Fitch Ratings expects a weakening in credit metrics in 2012-2014 until the Residuum Upgrading Project (RUP), the main part of Tupras's capex plan, starts to generate cash flow in 2015. The large, primarily debt-funded USD3.4bn capex plan for 2012-2014 will, according to Fitch's projections, result in a weakening of funds from operations (FFO)-adjusted net leverage temporarily above the guideline for the rating (2.5x). Ratios should improve from 2015 as Tupras returns to positive free cash flow.

Refinery Upgrade: The RUP will enhance the company's business profile due to an improvement in the refining product mix and substantially increase EBITDA. In October 2011 Tupras signed a USD2.1bn long-term financing for the RUP with 10 international banks. Fitch currently expects that Tupras will have sufficient headroom under the financial covenants included in the bank loan documentation. However, potential large adverse movements in the Turkish lira/US dollar rate or inventory holding losses may put pressure on covenant ratios.

Generous Dividend Policy: The ratings are constrained by Tupras's generous dividend policy, which is unlikely to change in 2012-2014, despite negative free cash flow driven by high capex.

Iranian Oil: A ban on purchases of Iranian oil due to international sanctions could be negative for Tupras's refining margins and working-capital needs, if Iranian crude cannot be economically replaced with suitable alternative sources. In March 2012 Tupras decided to reduce Iranian oil purchases by 20%. Currently, Tupras benefits from an exemption that the US government granted to Turkey in June 2012 that is subject to renewal every six months. Iranian oil is the largest of 13 different crude types processed by Tupras (47% of 2011 oil purchases).

What Could Trigger a Rating Action

Failure to Improve Ratios: Following a weakening in 2012-2014, Fitch expects credit ratios to return to levels commensurate with the current ratings in 2015 (FFO-adjusted net leverage of below 2.5x and FFO fixed charge cover comfortably above 5x). While Fitch rates the company based on long-term leverage projections, delays in the recovery of its credit ratios, or significant underperformance in terms of FFO would put pressure on the ratings.

Delays in RUP: Substantial delays in the RUP construction process resulting in delays in EBITDA improvement and ratios recovery would be negative for the ratings.

Lower Iranian Imports: A substantial reduction in Iranian imports by Tupras would be treated as an event risk, and may lead to a review of the ratings depending on the circumstances.

Turkey's Ratings: A deterioration in Turkey's ratings (Long-Term Foreign-Currency IDR: 'BB+'/Stable; Country Ceiling: 'BBB−') could lead to a negative rating action on Tupras's Long-Term Foreign-Currency IDR, which would again be capped by the Country Ceiling.

Liquidity and Debt Structure

Temporarily Stretched Liquidity: In Fitch's view, Tupras had a temporarily stretched liquidity position at end-June 2012 at the consolidated group level, when unrestricted cash of TRY1.86bn (USD1bn) did not fully cover short-term debt of TRY2.1bn. The company has no committed liquidity facilities, but has uncommitted undrawn facilities of about USD8bn.

Peer Group

Issuer	Country
BBB	
SK Innovation Co., Ltd.	Republic of Korea (south),
Valero Energy Corporation	United States
BBB-	
Reliance Industries Ltd	India
Turkiye Petrol Rafinerileri A.S. (Tupras)	Turkey
BB+	
Polski Koncern Naftowy ORLEN S.A. (PKN)	Poland

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
20 Jan 12	BBB-	Stable
28 Jan 11	BBB-	Stable
21 Dec 09	BBB-	Stable
3 Dec 09	BBB-	Stable
28 Oct 09	BB	RWP
22 Dec 08	BB	Stable
4 Oct 07	BB	Stable
10 May 07	BB	Stable
19 Oct 06	BB	Positive
17 Aug 06	BB	Positive
16 Feb 06	BB-	Positive
31 Jan 06	BB-	Positive
12 Dec 05	BB-	Positive
13 Sep 05	BB-	Stable
7 Jul 05	BB-	Stable
18 Jan 05	BB-	Stable
17 Jan 05	BB-	Stable
25 Oct 04	B+	Positive
16 Feb 04	B	RWE
16 Jan 04	B	RWN
26 Sep 03	B	Positive
12 Aug 03	B-	Positive
5 Jun 03	B-	Negative

"RW" denotes Rating Watch

Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating factor	Status[a]	Trend
Operations	Average	Neutral
Market position	Strong	Neutral
Finances	Average	Deteriorating
Governance	Average	Neutral
Geography	Average	Neutral

[a] Relative to peer group
Source: Fitch

Related Criteria

Corporate Rating Methodology (August 2012)

Country Ceilings (August 2012)

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

Oil refiners operate in a competitive, capital-intensive and cyclical industry. The profitability of European refiners was weak in 2009-2011 following a period of solid profits in 2005-2008. While there has been an improvement in refining margins since April 2012, the agency expects refining margins to weaken in the remainder of 2012 and to be below the long-term average in 2013 due to refining overcapacity and weak demand in Europe.

The agency believes that cash flow is somewhat better for refiners with an additional margin on top of the cyclical benchmark refining margin. This tends to be thanks to their favourable location, which results in lower logistics costs, and their strong domestic market share.

Financial Risks

General financial risks faced by the sector principally relate to maintaining key credit metrics commensurate with rating levels. Cash flow generation is subject to cyclicality, driven mainly by changes in oil prices, refining margins, and demand for refined products.

Peer Group Analysis[a]

	Valero	SKI	RIL	Tupras	PKN
LT FC IDR/Outlook	**BBB/Stable**	**BBB/Stable**	**BBB−/Stable**	**BBB−/Stable**	**BB+/Positive**
Refining capacity (m bpd)	3.00	1.11	1.24	0.61	0.62
Operating EBITDAR (USDm)	5,760	3,192	6,816	1,160	1,866
EBITDAR margin (%)	4.6	5.4	9.7	5.4	6.0
FFO adjusted net leverage (x)	2.8	1.7	0.9	1.3	1.5
FFO fixed charge cover (x)	5.1	5.3	10.9	11.7	9.6

[a] Financial data for year ended December 2011, except for RIL – year ended March 2012
Source: Fitch, companies

Key Credit Characteristics

Pure refining and marketing (R&M) companies are generally rated lower than integrated oil and gas players of comparable size, due to higher business risks. Only those pure R&M companies that have a strong business profile and prudent or moderate financial policy are rated by Fitch in the 'BBB' rating category.

Overview of Companies

Valero Energy Corporation (Valero, 'BBB'/Stable) – the ratings are supported by the size, scale, and quality of the company's refining assets, modest but growing access to discounted North American shale crudes, ample financial flexibility, good FCF prospects, reasonable leverage and significant export capacity in the Gulf.

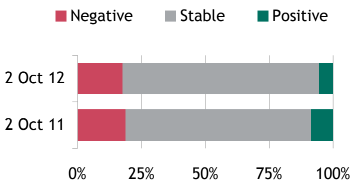
SK Innovation Co., Ltd. (SKI, 'BBB'/Stable) – the rating is underpinned by its position as the largest oil company in South Korea and the fifth-largest oil refiner in the Asian-Pacific region in terms of capacity. A higher degree of earnings stability is provided by its vertical integration – refining and marketing, petrochemicals, exploration and production, and lubricants.

Reliance Industries Ltd (RIL, 'BBB−'/Stable) – the ratings reflect its strong business profile in the oil and gas business, with vertical diversification through the supply chain (upstream, refining and petrochemicals), efficient refining operations, and a dominant position in the Indian petrochemicals sector. The Long-Term Foreign-Currency IDR of 'BBB−' is constrained by India's country ceiling of 'BBB−'.

Polski Koncern Naftowy ORLEN S.A. (PKN) ('BB+'/Positive) – the ratings reflect its improved financial profile thanks to several measures taken by management to reduce leverage, including asset disposals, its modest capex in 2011-2012 following a capex-intensive period up to 2010, and no dividends paid in 2011-2012.

Turkiye Petrol Rafinerileri A.S. (Tupras) Energy (Oil & Gas) Median Emerging BBB Cat Median
Source: Company data; Fitch

Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



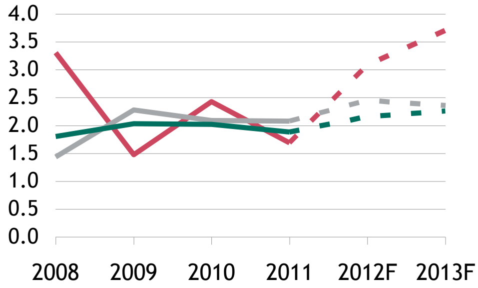
Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- a weakening of refining margins in the remainder of 2012 from the healthy levels seen between April and September 2012;
- refining margins in 2013 to be below the long-term average;
- increased debt in 2012-2014 due to the USD3.4bn largely debt-funded capex plan;
- negative free cash flow covered mainly by the RUP bank funding;
- no change in dividend policy.

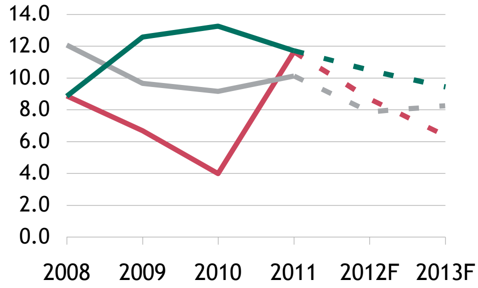
Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "*Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format*" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

Leverage
including Fitch expectations



Interest Cover
including Fitch expectations

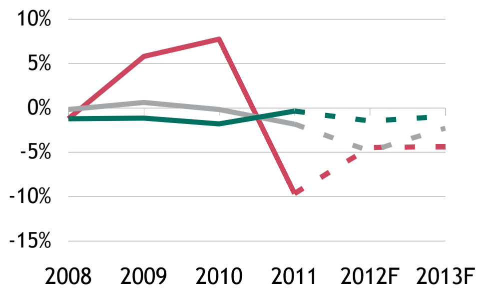


Debt Maturities and Liquidity at End-June 2012

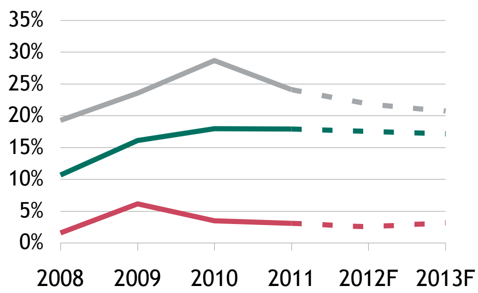
Debt maturities	(TRYm)
Short-term	2,101.7
H213	165.7
2014	127.4
2015	231.8
After 2015	1,105.7
Unrestricted cash and equivalents	1,859.4

Source: Fitch

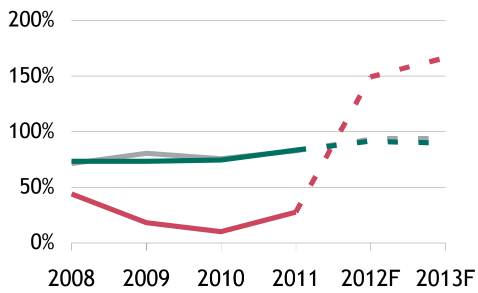
FCF/Revenues
including Fitch expectations



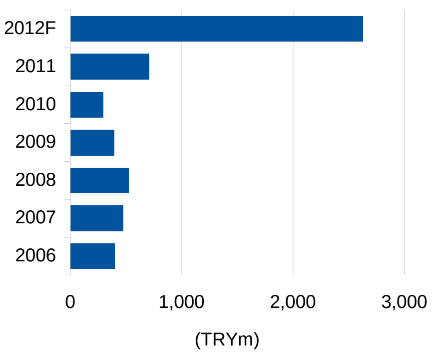
FFO Profitability
including Fitch expectations



Capex/CFO
including Fitch expectations

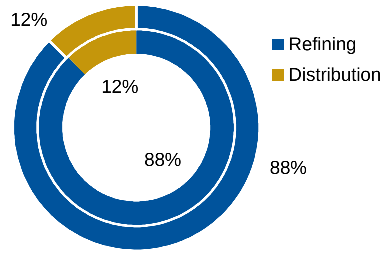


Capex



Source: Tupras, Fitch

6M2012 Segmental Split
Outer ring: Revenue
Inner ring: EBIT



Source: Tupras, Fitch

Sector Credit Factors Mapping

Building Blocks - Global Oil Refining and Marketing Sector - Turkiye Petrol Rafinerileri A.S. (Tupras)

	Sector Risk Profile	Company-Specific Traits				Financial Profile (historical where relevant and forecast, mid-points)				Other
		Business diversification	Scale of operations	Refinery locations	Refining asset quality	FFO adj. net leverage (x)	FFO fixed charge cover (x)	Capex/CFO (%)	Free cashflow	
BBB		• Partially – integrated (with upstream, midstream or petrochemicals) or strong independent status • Integration with well-developed fuel distribution network	• Large capacity, typically at least 500,000 bpd • At least two larger refineries • Dominant position or good geographic diversification	• Markets with low competition or widening supply deficit • Proximity to oil and product pipelines • Low-cost access to end-user markets	• High complexity, outstanding product yield • Above-average margins and utilisation rates vs. industry benchmarks	2.0	5.0	<100	Positive across the cycle	
BB		• Very limited integration with non-refining businesses	• Medium-scale capacity or single-asset facility • Leading market position	• More competitive markets with overcapacity • Higher transportation costs due to less favourable location	• Average complexity and product yield • Average margins and utilisation rates	3.0	4.0	125	Neutral to negative across the cycle	• Government support may result in rating linkage with the state • Political interference, for example price caps of fuels • Country ceiling and country risk, particularly in the case of emerging markets companies
B		• Pure oil refiners	• Small refinery, typically less than 100,000 bpd • Single-asset facility	• Very competitive markets with large overcapacity • High crude oil supply risk with limited alternatives	• Weak complexity and product yield • Weak margins and utilisation rates	4.0	3.0	200	Negative across the cycle	

General
- Cyclical, capital-intensive and competitive industry
- Margins and utilisation rates change considerably during a cycle
- Demand-supply balance affected by refining overcapacity
- Refined oil products are essential for end-users (fuels) or for other industries (semi-finished products)
- Benefits of economies of scale and product and geographical diversification
- Regional environmental regulations with regards to cleaner fuels, biofuels and carbon dioxide emissions have an impact on refiners' capex and FFO

Current Forecast

This diagram shows indicative features observed for rated issuers in developed markets. Ratio levels refer to the mid-point of a through-the-cycle range, and as a result actual observations are likely to vary from these. Weighting of factors will vary substantially based over time for a given issuer, and between issuers based on relative significance determined by the rating committee. Factors give a high-level overview as a convenience for rating users, and are neither exhaustive in scope nor uniformly applicable. These may vary for a given rating category, notably in emerging markets, and where group linkages constrain or enhance a rating level.

Turkiye Petrol Rafinerileri A.S. (Tupras)
FINANCIAL SUMMARY

	31 Dec 2011 TRYth Original	31 Dec 2010 TRYth Restated	31 Dec 2009 TRYth Original	31 Dec 2008 TRYth Restated	31 Dec 2007 TRYth Restated
Profitability					
Revenue	41,385,250	26,183,244	20,389,883	30,456,399	22,527,947
Revenue Growth (%)	58.06	28.41	(33.05)	35.19	12.01
Operating EBIT	1,971,808	1,023,436	1,016,940	1,263,707	1,281,214
Operating EBITDA	2,217,282	1,236,459	1,206,383	1,411,595	1,398,223
Operating EBITDA Margin (%)	5.36	4.72	5.92	4.63	6.21
FFO Return on Adjusted Capital (%)	20.62	17.70	24.68	10.13	28.51
Free Cash Flow Margin (%)	(9.68)	7.72	5.78	(1.25)	2.31
Coverages (x)					
FFO Gross Interest Coverage	11.66	3.98	6.67	8.88	64.51
Operating EBITDA/Gross Interest Expense	18.34	4.09	6.04	13.89	27.28
FFO Fixed Charge Coverage (inc. Rents)	11.66	3.98	6.67	8.88	32.74
FCF Debt-Service Coverage	(3.09)	0.86	0.75	(0.24)	1.88
Cash Flow from Operations/Capital Expenditures	(3.61)	9.90	5.49	2.27	3.48
Debt Leverage of Cash Flow (x)					
Total Debt with Equity Credit/Operating EBITDA	1.06	2.37	1.80	1.27	0.52
Total Debt Less Unrestricted Cash/Operating EBITDA	0.68	(2.18)	(0.60)	0.37	(0.08)
Debt Leverage Including Rentals (x)					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	0	0	0	0	21,973
Gross Lease Adjusted Debt/Operating EBITDAR	1.06	2.37	1.80	1.27	0.63
Gross Lease Adjusted Debt /FFO+Int+Rentals	1.69	2.43	1.48	3.31	0.62
FCF/Lease Adjusted Debt (%)	(170.60)	68.88	54.46	(21.31)	58.03
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	1.06	2.37	1.79	1.26	0.63
Liquidity					
(Free Cash Flow+Available Cash+Committed Facils)/(ST Debt + Interest) (%)	(242.11)	293.25	229.72	70.21	475.10
Balance Sheet Summary					
Cash and Equivalents (Unrestricted)	845,753	5,631,829	2,885,193	1,267,773	828,696
Restricted Cash and Equivalents	397,725	326,633	263,823	198,952	134,081
Short-Term Debt	1,136,265	2,409,923	1,645,214	1,287,792	266,725
Long-Term Senior Debt	1,211,553	525,867	520,593	503,745	455,003
Subordinated debt	0	0	0	0	0
Equity Credit	0	0	0	0	0
Total Debt with Equity Credit	2,347,818	2,935,790	2,165,807	1,791,537	721,728
Off-Balance-Sheet Debt	0	0	0	0	175,784
Lease-Adjusted Debt	2,347,818	2,935,790	2,165,807	1,791,537	897,512
Fitch- identified Pension Deficit	16,442	21,001	19,947	19,166	7,615
Pension Adjusted Debt	2,364,260	2,956,791	2,185,754	1,810,703	905,127
Cash Flow Summary					
Operating EBITDA	2,217,282	1,236,459	1,206,383	1,411,595	1,398,223
Gross Cash Interest Expense	(119,470)	(303,764)	(219,938)	(61,027)	(21,949)
Cash Tax	(243,178)	(181,657)	(101,363)	(289,037)	(237,326)
Associate Dividends	0	0	0	0	0
Other Items before FFO (incl. interest receivable)	(581,671)	155,542	362,198	(580,653)	254,972
Funds from Operations	**1,272,963**	**906,580**	**1,247,280**	**480,878**	**1,393,920**
Change in Working Capital	(3,824,938)	2,039,443	920,301	713,998	261,970
Cash Flow from Operations	**(2,551,975)**	**2,946,023**	**2,167,581**	**1,194,876**	**1,655,890**
Total Non-Operating/Non-Recurring Cash Flow	0	0	0	0	0
Capital Expenditures	(707,642)	(297,721)	(394,966)	(526,460)	(475,304)
Dividends Paid	(745,849)	(626,048)	(593,183)	(1,050,254)	(659,729)
Free Cash Flow	**(4,005,466)**	**2,022,254**	**1,179,432**	**(381,838)**	**520,857**
Net (Acquisitions)/Divestitures	0	0	0	0	0
Net Equity Proceeds/(Buyback)	0	0	0	0	0
Other Cash Flow Items	15,349	13,201	63,718	(248,894)	27,426
Total Change in Net Debt	(3,990,117)	2,035,455	1,243,150	(630,732)	548,283
Working Capital					
Accounts Receivable Days	17	9	14	16	25
Inventory Days	27	26	27	23	37
Accounts Payable Days	49	54	38	26	35

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.