

TUPRAS

Strong profitability in high season...

We revise our forecasts and target price for Tupras <TUPRS TI> in the light of better than expected 2Q23 financial results, recovery in product margins in the third quarter, and improvement in profitability margins through cost-effective method. We raise 12M TP to TL226.00 from TL94.10 per share and maintain our BUY recommendation. Middle distillate product margins have been above the historical average since the year-to-date, the recovery in gasoline product margins due to the high season, the continued high demand for refinery products in the domestic market, and strong operational cash flow remain the main catalysts for a brighter outlook. TUPRS trades at 7.0x P/E and 4.0x EV/EBITDA in our 2023E forecasts, and 5.0x P/E and 3.6x EV/EBITDA in our 2024E forecasts.

Recovery trend in product cracks continues.... In 2Q23, medium distillate product margins decreased compared to last year's high base effect, while gasoline product margin improved due to high demand. The diesel product margin was USD17/bbl in 2Q23. (2Q22: USD45.3/bbl). Jet fuel product margin in 2Q23 was USD14.1/bbl (2Q22: USD44.9/bbl) in line with the decline in diesel product margin. Gasoline product margin rose 6% q/q to USD23/bbl through high demand. Despite last year's high base effect, product margins declined in 2Q23, were exceeding their 5-year averages. After 2Q23, product margins increased on a monthly basis with the high season effect. Diesel cracks increased to USD24.6/bbl up by 18% m/m in July, while jet fuel crack was USD28.5/bbl, up by 11% y/y and 9% m/m. Gasoline cracks rose by 29% m/m to USD22.7/bbl in July USD21.8/bbl by 106% y/y to USD21.8/bbl with the support of high mobility season.

Effective cost management supported profitability margins... Tupras posted TL7,217mn net income in 2Q23 up by 7% q/q, which was 15% above the consensus estimates. The strong operational profitability of TL15.1 billion with an EBITDA margin of 14.5% supported better than the expected net profitability. The impact of the relatively weak product margins in the 2Q23 period was equalized by the decline in energy costs, high heavy-light crude oil price spread, strong domestic demand, and operational performance. In 2Q23, the capacity utilization rate was 83% due to ongoing scheduled maintenance. (2Q22: 100%). Due to the low-capacity utilization, Tupras's production volume decreased by 17% y/y to 5.9mn tons in 2Q23, while total sales volume remained unchanged at 7.3mn tons compared to the same period of the previous year through high demand. Domestic sales volume rose 4% y/y, driven by high demand for gasoline, jet fuel and bitumen products.

Main risks to our valuation... Weaker than expected product cracks, and narrowing crude oil differentials, a contraction in domestic demand, higher energy prices would be the key risks for Tupras.

Rating

Buy

Target Price

226.00

Return potential

60%

Share Data

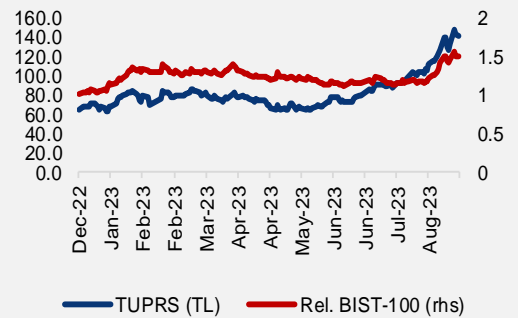
Ticker:	TUPRS TI
Share price (as of 31.08.2023)	141.10
Share price (52 week range)	62.8 / 146.8
Market cap. (TL mn - USD mn)	271,871 - 10,195
# of shares (mn) & free float	1,927 - 49%
Foreign Ownership Rate	35.88%
Market	Star
Industry	Energy

Avg. trading volume	1M	3M	12M
USD mn	252.6	168.2	155.8

Price performance	1M	3M	Y-t-D
TL	36%	111%	101%
USD	38%	63%	41%
Rel. to BIST-100	24%	30%	40%

Forecasts (TL mn)	2021	2022	2023E
Revenues	152,492	481,765	520,530
EBITDA	13,396	55,477	66,802
Net Earnings	3,495	41,045	40,232

Valuation	2021	2022	2023E
P/E	77.8x	6.6x	6.8x
P/BV	14.5x	4.1x	2.9x
EV/EBITDA	19.6x	4.7x	3.9x
EV/Sales	1.9x	0.5x	0.5x
Dividend Yield	0.0%	0.0%	4.6%



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High dividend distribution from 2022 earnings... Tupras target to pay regular dividends and to continue its dividend payment policy in the strategic transformation process. Tüpraş paid a gross dividend of 45.41TL per share on March 10, 2023 as part of its dividend policy. The total gross dividend payment of TL12.5bn indicated a gross dividend rate of 40% over the legal net distributable profit for the period. The company management decided to distribute a second dividend on August 17, considering its strong net cash position. With the second dividend decision, 7.52 TL gross dividend per share is planned to be distributed on September 29, while the decision is expected to be approved at the Extraordinary General Assembly to be held on September 26. While the total amount of dividends distributed by Tupras in 2023 reached TL27.0bn, the payout ratio is 65.8% compared to the net income of 2022. Thus, Tupras's dividend yield is calculated as 17% this year, according to the average share price.

We revise our estimates upwards... Following 2Q23 financial results, Tupras revised its 2022E expectations. Accordingly, Tupras revised its net refinery margin forecast of USD11-12/bbl to USD10-11/bbl and its sales volume forecast of 28-29mn tons to 29-30mn tons for 2023E. Tupras maintained its expectation of 24-25mn tons of production volume with a 90% capacity utilization rate, and a CAPEX of c.350mn USD. Considering the macroeconomic developments and the recovery in product margins, we increase our EBITDA estimate for 2023E to TL66.8bn from TL55.1bn and net income estimate to TL40.2bn from TL34.6bn

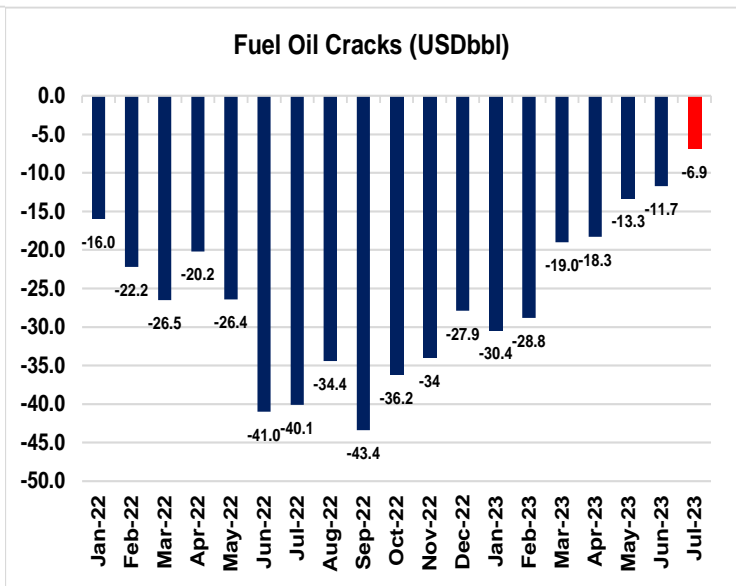
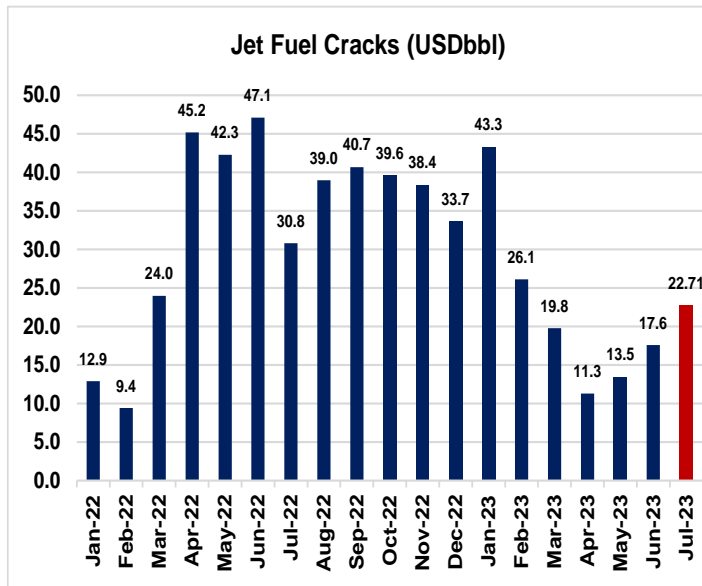
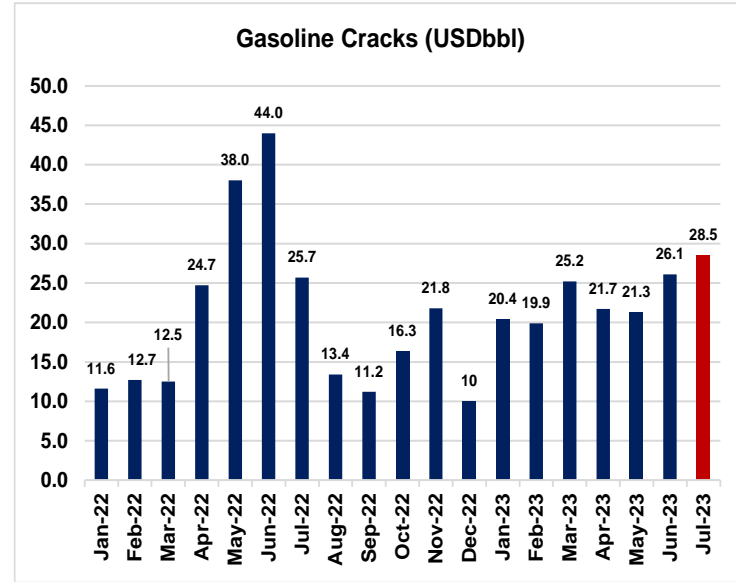
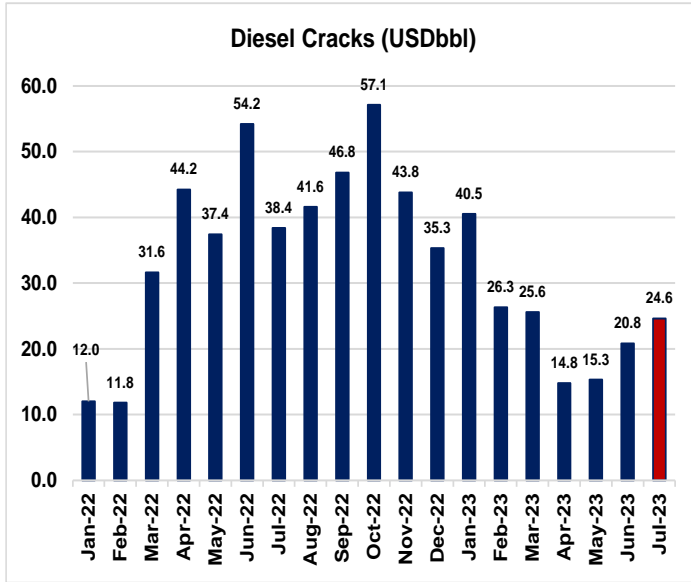
TLbn	2023E			2024E		
	Prev.	New	Δ	Prev.	New	Δ
Revenues	490,811	520,530	6%	587,349	700,697	19%
EBITDA	55,086	66,802	21%	47,329	73,522	55%
Net Income	34,617	40,232	16%	37,508	54,094	44%

Source: Tacirler Investment

Exhibit: Tupras's DCF Valuation

TL mn	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	481,765	520,530	700,697	779,807	851,493	911,848	972,748	1,020,891	1,068,570
Growth%	215.9%	8.0%	34.6%	11.3%	9.2%	7.1%	6.7%	4.9%	4.7%
EBITDA	55,477	66,802	73,522	79,392	85,372	91,135	97,504	103,212	108,537
Growth%	314.1%	20.4%	10.1%	8.0%	7.5%	6.7%	7.0%	5.9%	5.2%
<i>EBITDA Margin</i>	11.5%	12.8%	10.5%	10.2%	10.0%	10.0%	10.0%	10.1%	10.2%
Taxes paid on EBIT	1,894	-7,219	-8,042	-8,589	-9,138	-9,651	-10,220	-10,705	-11,137
CAPEX	-2,759	-7,422	-8,319	-8,914	-9,570	-10,150	-10,034	-10,732	-11,266
Change in Net Working Capital	11,048	5,585	-433	-2,338	-5,166	-2,755	-3,101	-3,338	-3,675
Free cash flow from operations	43,564	46,575	57,595	64,227	71,830	74,088	80,351	85,113	89,809
FCFF Margin	9.0%	8.9%	8.2%	8.2%	8.4%	8.1%	8.3%	8.3%	8.4%
WACC	27%	25%	24%	23%	23%	23%	23%	23%	23%
DFC	629	20,489	43,564	46,575	46,613	42,137	38,244	32,093	28,317
Terminal growth rate	5%								
Terminal Value	537,661								
PV of Terminal Value	126,000								
PV of FCFF	279,468								
PV of Terminal Value	126,000								
OPET	3,668								
Enterprise Value	405,468								
Less:									
Latest Net Debt	-10,089								
Dividends Paid (mn TL)	-12,500								
Equity Value	431,725								
# of shares outstanding (mn)	1927								
Fair Value per share (12-mth fwd)	226.00								
Current share price	141.10								
Upside / (Downside)	60%								

Product Cracks



Source: Company Data, Tacirler Investment

Projected Financials

Balance Sheet	2019	2020	2021	2022	2023E
Cash	10,652	20,319	21,176	47,635	67,951
Accounts receivables	4,788	1,840	13,797	21,418	31,758
Inventory	9,469	7,701	23,758	36,046	44,387
Financial investments	0	0	2,135	366	366
Fixed assets	20,386	23,712	28,878	33,460	39,737
Other non-current assets	10,217	10,042	16,513	29,967	31,694
Total assets	55,512	63,614	106,257	168,892	215,893
Short-term financial loans	5,178	8,534	11,628	11,994	9,835
Accounts payables	17,816	14,204	43,837	52,699	65,795
Long-term financial loans	13,898	21,148	21,565	21,274	27,991
Other long-term payables	5,657	7,031	10,417	16,181	18,229
Non-current liabilities	42,549	50,917	87,448	102,149	121,851
Shareholders' equity	12,963	12,698	18,809	66,743	94,042
Paid in Capital	250	275	275	275	1,927
Other Equity	12,712	12,422	18,534	66,468	92,115
Total liabilities & equity	55,512	63,614	106,257	168,892	215,893
Net debt	8,424	9,363	12,017	-14,366	-30,124
Net working capital	-3,560	-4,663	-6,283	4,765	10,350

Per share (TL)

EPS	0.27	-1.29	1.81	21.30	20.88
BVPS	6.73	6.59	9.76	34.64	48.81
DPS	1.97	0.00	0.01	0.02	6.49

Ratios

Profitability

ROE	4.6%	-19.4%	22.2%	96.0%	50.0%
Net margin	0.6%	-3.9%	2.3%	8.5%	7.7%
Asset turnover	1.9x	1.1x	1.8x	3.5x	2.7x
Leverage	4.2x	4.6x	5.4x	3.2x	2.4x
ROA	1.1%	-4.2%	4.1%	29.8%	20.9%

Leverage

Financial debt/Total assets	34%	47%	31%	20%	18%
Net debt/Equity	0.65	0.74	0.64	-0.22	-0.32
Net debt/EBITDA	2.21	18.94	0.90	-0.26	-0.45

Income statement	2019	2020	2021	2022	2023E
Revenues	89,601	63,244	152,492	481,765	520,530
Gross profit	4,884	1,764	15,860	62,777	78,490
Operating expenses	-1,783	-2,012	-3,318	-8,235	-12,860
Operating profit	3,101	-248	12,542	54,542	65,630
EBITDA	3,807	494	13,396	55,477	66,802
Other income, net	-871	-371	-11,766	-8,935	-12,332
Financial income, net	-2,739	-3,149	881	-6,096	-6,084
Earnings before taxes	-311	-3,795	2,358	39,876	48,396
Tax expense	897	1,372	1,255	1,385	-7,589
Net earnings	526	-2,494	3,495	41,045	40,232

Cashflow statement

EBITDA	3,807	494	13,396	55,477	66,802
Taxes on EBIT	-8,931	90	6,674	1,894	-7,219
Capital expenditures	-1,336	-1,059	-1,201	-2,759	-7,422
Chg. in NWC	-8,257	-1,103	-1,620	11,048	5,585
Free cashflows to firm	-14,717	629	20,489	43,564	46,575

Growth & margins

Revenues	1%	-29%	141%	216%	8%
EBITDA	-55%	-87%	2611%	314%	20%
Net earnings	-86%	-574%	-240%	1074%	-2%
Gross margin	5.5%	2.8%	10.4%	13.0%	15.1%
Operating margin	3.5%	-0.4%	8.2%	11.3%	12.6%
EBITDA margin	4.2%	0.8%	8.8%	11.5%	12.8%
Net margin	0.6%	-3.9%	2.3%	8.5%	7.7%
Free cashflow margin	-16.4%	1.0%	13.4%	9.0%	8.9%

Valuation

P/E	517.0x	-109.0x	77.8x	6.6x	6.8x
P/BV	21.0x	21.4x	14.5x	4.1x	2.9x
EV/EBITDA	68.9x	530.7x	19.6x	4.7x	3.9x
EV/Sales	3.1x	4.4x	1.9x	0.5x	0.5x
Dividend Yield	1.4%	0.0%	0.0%	0.0%	4.6%
Free cashflow yield	-5.4%	0.2%	7.5%	16.0%	17.1%

Source: Company Data, Tacirler Investment

* All figures are stated in millions of TL unless otherwise stated.

Important Disclosures

Rating Methodology

Stock ratings are based on absolute return potential of the stock, which is defined as the percentage change in target price from the current share price. All recommendations and target prices are set with a 12-month horizon. Target prices are set by using one or more of the following methodologies: DCF, Net Asset Valuation, sum of the parts model and multiple comparison.

Rating Definition

Buy: The stock is expected to generate a return of 30% in TL terms.

Hold: The stock is expected to generate a return of less than 15% in TL terms.

Sell: The stock is expected to generate a negative return within the forecast horizon.

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