FitchRatings

FITCH AFFIRMS TUPRAS AT 'BBB-'; STABLE OUTLOOK

Fitch Ratings-London/Istanbul/Warsaw-28 January 2011: Fitch Ratings has affirmed Turkiye Petrol Rafinerileri A.S.'s (Tupras) Long-term local currency and foreign currency Issuer Default Ratings (IDR) at 'BBB-'. The Outlooks are Stable. The National Long-term rating is also affirmed at 'AAA(tur)' with a Stable Outlook.

The affirmation reflects Tupras's leading position in the Turkish oil refining and marketing sector and above-average cash flow from operations for a refining business, primarily due to its domestic sales margin and favourable position in terms of crude oil supply cost and product slate. Fitch views Tupras's financial policy as moderate, which is reflected in the company's focus on organic growth and low financial leverage in the past few years. The ratings are constrained by Tupras's generous dividend policy, substantial largely debt-funded capex programme, and the company's exposure to foreign currency risk, given the company's US dollar trade payables (although usually hedged by inventories). The ratings also take into account the high business risks in the refining sector, given its cyclicality and capital intensity.

Fitch expects that Tupras's 2011-2014 capex plan, including the approximately USD2bn residuum upgrade project, which Tupras plans to fund primarily with debt, and other investments, will result in higher financial leverage in the next five years. The agency anticipates that leverage will peak in 2013 and then start to recover in 2014, when the residuum upgrade project starts to generate cash flow. This project will enhance the company's business profile due to an improvement in the refining product mix as a result of increased production of diesel and gasoline and lower output of heavy products, in particular fuel oil. The company expects this project to generate additional EBITDA of USD500m based on the current market conditions.

Fitch believes that Tupras currently has rating headroom to increase its leverage on the back of the largely debt-funded capex plan out to 2014 given its net cash position of TRY1.5bn (USD1bn) at end-September 2010. However, a material change in financial metrics beyond the guidelines for the 'BBB-' rating (FFO-adjusted net leverage below 2.5x and FFO interest coverage above 5x) on a sustained through the cycle basis, could result in a negative rating action.

The Stable Outlooks capture Fitch's expectation that the company will maintain a moderate financial policy despite an increase in capex. In addition, its solid domestic position, reflected in its above-average cash flow, is likely to remain largely unchanged in the next five years given the delays in other refinery projects in Turkey. New refining capacity from planned refinery projects is unlikely to be put on stream earlier than 2014. Fitch expects that the negative impact of new capacity on domestic refining margins is likely to be mitigated by a favourable demand-supply balance in Turkey, in particular a large deficit of diesel, the main fuel in the country.

The rating affirmation also reflects Tupras's sufficient liquidity. As at end-September 2010 its short-term debt of TRY2.3bn was comfortably covered with unrestricted cash of TRY4.4bn. The company does not have committed bank facilities, which is common among Turkish corporates. Tupras plans to close the funding for the residuum upgrade project in 2011.

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Additional information is available on www.fitchratings.com.

Applicable criteria, 'Corporate Rating Methodology', dated 13 August 2010, and 'Rating Oil Refining and Marketing Companies - Sector Credit Factors', dated 24 November 2010, are available at www.fitchratings.com.

Applicable Criteria and Related Research:
Corporate Rating Methodology
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=546646
Rating Oil Refining and Marketing Companies - Sector Credit Factors
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=575545