

Fitch Assigns Tupras's USD-Denominated Bonds 'BBB-(EXP)'

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Fitch Ratings-London/Istanbul/Warsaw-17 October 2012: Fitch Ratings has assigned Türkiye Petrol Rafinerileri A.Ş. (Tupras) planned USD-denominated bonds an expected foreign-currency senior unsecured rating of 'BBB-(EXP)'.

The final rating is contingent on the receipt of final documents conforming materially to the preliminary prospectus. Tupras plans to use the proceeds from the bond issue for general corporate purposes, including for debt and working capital management.

Tupras has the following ratings: Long-term local and foreign-currency Issuer Default Ratings (IDR) of 'BBB-' and National Long-term rating of 'AAA(tur)'. The Outlooks are Stable.

The company's ratings incorporate Fitch's expectations of a weakening in credit metrics in 2012-2014 until the Residuum Upgrading Project (RUP), the main part of Tupras's large capex plan, will start 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.

The RUP will enhance the company's business profile by improving the refining product mix and substantially increasing 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.

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.

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, which is subject to renewal every six months. Iranian oil is the most significant of 13 different crude types processed by Tupras (47% of 2011 oil purchases).

In Fitch's view, Tupras's liquidity position was temporarily stretched 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. Liquidity at the Tupras standalone level was sufficient at end-June 2012 with unrestricted cash of TRY1.81bn against short-term debt of TRY1.69bn.

WHAT COULD TRIGGER A RATING ACTION?

Positive: Future developments that may, individually or collectively, lead to a positive rating action include:

- Positive rating action is currently unlikely given the company's business profile as a pure refining and marketing company and the large capex plan.

Negative: Future developments that may, individually or collectively lead to negative action include:

- 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.
- Substantial delays in the RUP construction process resulting in delays in EBITDA improvement and ratio recovery would be negative for the ratings.
- A substantial reduction in Iranian imports by Tupras would be treated as an event risk if Iranian crude cannot be economically replaced with suitable alternative sources, and may lead to a review of the ratings depending on the circumstances.
- Challenges to maintain an adequate liquidity profile.
- 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. A downgrade of Turkey's Country Ceiling would lead to a corresponding downgrade of Tupras's Long-Term foreign currency IDR and foreign-currency senior unsecured rating.

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Additional information is available at www.fitchratings.com. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable criteria, 'Corporate Rating Methodology', dated 8 August 2012, is available at www.fitchratings.com.

Applicable Criteria and Related Research:

Corporate Rating Methodology

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