

**Rating Action: Moody's assigns Ba1 rating to Tupras' proposed bond issuance**

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**Global Credit Research - 04 Oct 2017**

London, 04 October 2017 -- Moody's Investors Service, ("Moody's") has today assigned a Ba1 rating to the proposed US dollar-denominated senior unsecured bond to be issued by Türkiye Petrol Rafinerileri A.S. (Tupras). The rating of the proposed bond is in line with Tupras' corporate family rating of Ba1. The outlook is positive.

The proposed notes will rank pari-passu with all other existing and future unsecured and unsubordinated debt obligations of Tupras. The issuance proceeds will be used to repay at maturity the existing \$700 million bonds due in May 2018.

**RATINGS RATIONALE**

Tupras' Ba1 rating reflects (1) the company's dominant position in the Turkish market being the sole refiner in the country; (2) exposure to a supportive domestic market with growing demand for refined products; (3) the improvement in the company's financial profile following the completion of the Residual Upgrade Program (RUP) in May 2015 and as a result of healthy refining margins in 2016 and 2017; and (4) a strong liquidity profile underpinned by TRY4.4 billion of cash as of 30 June 2017. Debt/EBITDA as adjusted by Moody's decreased to 2.3x as of the last twelve months (LTM) ending 30 June 2017 from 3.3x as of year-end 2015.

The rating positioning also takes into consideration (1) the company's exposure to cyclical market conditions inherent to the refining industry; (2) asset concentration in a single market; and (3) potential for increased competition and supply/demand imbalance risk over the medium term, stemming from capacity addition by international and local players both in Turkey and in the Middle East region. The rating is constrained for now at the Ba1 positive level given the Ba1 negative rating of the government of Turkey.

**RATINGS OUTLOOK**

The positive outlook reflects the improving financial profile of the company but also takes into consideration the Ba1 negative rating on Turkey's government bond rating.

**WHAT COULD CHANGE THE RATING UP / DOWN**

Upward pressure on the rating is constrained by the negative outlook on the Turkey sovereign rating because of Tupras' credit linkages with Turkey. Should the rating on the sovereign change to Ba1 stable, Tupras' rating is likely to be upgraded if current credit metrics are sustained. This includes adjusted debt/EBITDA maintained below 2.5x and adjusted EBIT/interest cover above 5.0x. As of 30 June 2017 (LTM), the metrics were 2.3x and 5.2x respectively.

Ratings could be downgraded if the company fails to maintain adjusted gross debt/EBITDA below 4.0x and adjusted EBIT/interest cover above 3.5x.

The principal methodology used in this rating was Refining and Marketing Industry published in November 2016. Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

The Local Market analyst for this rating is Rehan Akbar, +971 (423) 795-65.

Türkiye Petrol Rafinerileri A.S. (Tupras) is the sole refiner in Turkey, with a dominant position in the domestic petroleum product market. The refining business consists of one very high complexity refinery in İzmit, two medium complexity refineries located in İzmir and Kırıkkale and one simple refinery in Batman, with a combined annual crude processing capacity of 28.1 million tonnes. Other core companies include (1) a 40% effective ownership stake in Opet, Turkey's second-largest oil-products distribution company as of 30 June 2017, with 1,538 stations operating under the Opet and Sunpet brands; and (2) an 80% stake in Ditas, a shipping company which primarily serves Tupras' logistic needs.

The company was established in 1983 when various state-owned refineries were combined under the Tupras name. As part of the privatisation process, 2.5% of its shares were publicly floated in 1991, which had

increased to 49% by 2005. The company was fully privatised on 26 January 2006 when the remaining 51% stake was bought by EYAS, a special purpose vehicle owned by a consortium led by Koc Holding, one of the largest business groups in Turkey.

Headquartered in Korfez/Turkey, Tupras generated sales of TRY45.2 billion and reported a net profit of TRY3.7 billion as of the last twelve months ending 30 June 2017.

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