TURKISH EQUITIES / COMPANY UPDATE

10 March 2025

Outperform
(Upgraded from Neutral)

Close Price: TRY139.60
12M Target Price: TRY200.00
Upside Potential: 43%

Tupras

Resilient Refining: Capturing Value in Transition

We are upgrading our rating for Tupras from Neutral to Outperform with a new TP of TRY200/share, suggesting 43% upside potential. Having generated around quarterly USD1bn of EBITDA in the refining upcycle period from 2022-2023, its EBITDA declined to USD230mn in 4Q24 as middle distillate crack spreads gradually declined off their extraordinary peaks. With an average 9% QtD improvement in crack spreads on QoQ basis, we initially forecast a 60% rise in EBITDA generation for the refiner in 1Q25. We also think further downside pressure on crack spreads is limited as we deem the current levels as the "new normal" – still 23% higher than the pre-pandemic level – given that natural gas price adjusted spreads are more or less in line with historical averages. When it comes to oil differentials, the end of Russian crude purchases is likely to have a negative impact on the operational performance, and we have narrowed our oil differential assumptions by USD2.00/bbl by 2Q25 and beyond. We still calculate USD1.3bn in EBITDA generation for 2025, 28% higher than historical averages with FCF generation also forecasted to be 9% higher, and likely 34% higher once the capex normalizes in 2026. This implies sustainable generous dividends with a 10.9% DY in 2025 while maintaining the net cash position. The stock trades at a 3.9x EV/EBITDA on 2025F earnings, implying a 15% discount to regional peers. Although we deem the historical average of 6.3x to be demanding for a benchmark refiner amid ongoing structural change in the oil industry, with Tupras's integration into the future energy transformation and sustainable dividend payments, we also consider the current valuation discounted, placing the stock as a worthy addition for investors constructing a Türkiye-focused portfolio, offering both stability in the dividends and growth potential in a rapidly evolving energy sector valuation.

Downside risks are high for crude oil, but cracks now normalized: We still have a highly sceptical view for oil prices despite the 7% YtD decline, as we find the outlook more favourable for the supply side, versus a more stable demand environment. Med-region Crack spreads, in contrast, are likely to hold on to their recent gains (up by an average 9%) in the short-term as their natural gas cost adjusted levels are in line with their historical averages, vs. a premium of 23% for non-adjusted levels. The end of Russian crude purchases is likely to have a negative impact but NG tariffs for refiners in Türkiye are still 34% lower than European benchmark prices. Accordingly, we think Tupras will maintain its competitive edge in profitability over regional refiners in the short term, as one of the region's highest FCF generators.

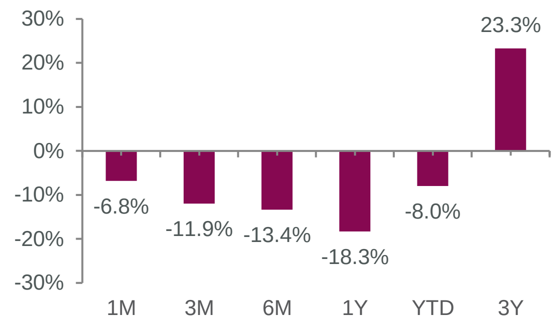
2025F EBITDA still 28% higher than historical averages: We are aware that the record high profitability of 2022-2023 is unlikely to be repeated in the industry but we still project EBITDA to be 28% higher than historical averages. More importantly, despite cumulative dividend payments of USD2.5bn and capex of USD732mn in this time frame (2023-2024), Tupras strengthened its balance sheet during this super cycle with a net cash position of USD1.5bn vs. a net debt of USD900bn at the end of 2022. We forecast that the Company will maintain its net cash position even in the capex-heavy green energy transformation with sustainable dividend payments - a 10.9% DY for 2025 and 11.1% for 2026, one of highest in the BIST Universe and the regional refining industry.

Transformation from a cyclical play to a discounted value driven profile: The stock trades at a 3.9x EV/EBITDA on 2025F earnings, implying a 15% discount to its regional peers. Although we deem the historical average of 6.3x to be demanding for a benchmark refiner, we now consider Tupras a value driven investment with its sustainable dividend payments and its integration into future energy prospects. Accordingly, we find the company's EV of USD5.9bn broadly in line with its historical average and 40% lower than its peak level, offering investors constructing a Türkiye-focused portfolio a discounted valuation offering both stable dividends and growth potential in a rapidly evolving energy sector.

Stock data

Bloomberg / Reuters	TUPRS TI / TUPRS.IS
Mcap (US$mn)	7,407
EV (US$mn)	5860.7
Avg. Trd. Vol. (US$mn)	74.6
Free float	49%

Relative Performance to BIST100



Key Data (TRYmn)	2024	R. 2024	2025E	R 2025	2026E
Revenues	810,386	1,037,294	935,945	1,104,415	1,266,756
Growth	*-18%*		*-10%*		*15%*
EBITDA	50,704	64,901	54,836	64,706	70,258
Growth	*-64%*		*-16%*		*9%*
Net Profit	18,315	23,443	26,076	30,769	36,705
Growth	*-76%*		*11%*		*19%*
P/E (x)	16.5		10.3		7.3
EV/EBITDA (x)	5.2		3.9		2.7
P/BV (x)	1.2		0.8		0.6
FCF yield (%)	7.4%		7.0%		10.8%
Div. yield (%)	13.6%		10.9%		11.1%

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Figure 1 – Summary financials & key metrics (TRYmn)

Income Statement (TLmn)	2023	2024	Restated 2024	2025E	Restated 2025E	2026E
Revenues	**991,203**	**810,386**	**1,037,294**	**935,945**	**1,104,415**	**1,266,756**
Gross Profit	**158,431**	**68,030**	**87,079**	**76,168**	**89,878**	**98,301**
EBITDA	**138,950**	**50,704**	**64,901**	**54,836**	**64,706**	**70,258**
Depreciation	8,754	9,616	12,309	13,661	**16,121**	19,319
EBIT	**130,196**	**41,088**	**52,593**	**41,174**	**48,586**	**50,939**
Net other income	-23,774	-5,394	-6,904	-2,780	**-3,281**	-2,868
Income from investing activities	0	0	0	0	0	0
Net financial income	-24,459	-5,391	-6,900	4,598	**5,425**	12,470
Profit from associates	1,518	1,442	1,846	2,040	**2,407**	2,768
PBT	**83,480**	**31,746**	**40,634**	**45,032**	**53,138**	**63,309**
Taxes Paid	-5,700	-12,712	-16,271	-18,032	**-21,278**	-25,351
Minority Interest	426	718	920	924	**1,090**	1,254
Net Profit/(Loss)	**77,354**	**18,315**	**23,443**	**26,076**	**30,769**	**36,705**
Balance Sheet (TLmn)	**2023**	**2024**	**Restated 2024**	**2025E**	**Restated 2025E**	**2026E**
Current assets	**290,418**	**185,591**	**206,171**	**218,336**	**257,636**	**293,823**
Cash equivalents	140,512	73,534	62,738	95,348	112,511	126,824
Trade receivables	58,386	37,072	47,452	39,824	46,993	53,900
Inventories	64,197	60,278	77,155	64,935	76,623	88,248
Other current assets	27,323	14,707	18,825	18,228	21,509	24,851
Non-current assets	**239,156**	**268,536**	**343,727**	**331,929**	**391,676**	**454,397**
Tangibles	193,236	226,161	289,486	280,792	331,334	382,843
Intangibles	6,141	6,087	7,791	7,281	8,591	9,880
Other non-current assets	39,779	36,289	46,450	43,857	51,751	61,674
Total assets	**529,573**	**454,128**	**549,897**	**550,264**	**649,027**	**748,220**
Current liabilities	**224,179**	**148,768**	**190,424**	**171,659**	**202,558**	**236,074**
Short-term loans	43,268	9,054	11,589	9,927	11,714	13,471
Trade payables	141,428	103,880	132,967	111,906	132,049	152,083
Other current liabilities	39,483	35,834	45,868	49,826	58,794	70,520
Non-current liabilities	**12,391**	**19,111**	**24,463**	**39,330**	**46,410**	**49,518**
Long-term financial loans	7,736	9,935	12,716	28,400	33,512	34,685
Other non-current liabilities	4,655	9,177	11,746	10,931	12,898	14,833
Minority Interest	3,144	4,032	5,162	4,823	5,692	6,545
Shareholders' Equity	**293,004**	**286,248**	**335,011**	**339,275**	**400,059**	**462,628**
Total liabilities and equity	**529,573**	**454,128**	**549,897**	**550,264**	**649,027**	**748,220**
Key metrics	**2023**	**2024**	**Restated 2024**	**2025E**	**Restated 2025E**	**2026E**
Growth						
Revenue growth	8%	-18%		-10%		15%
EBITDA growth	35%	-64%		-13%		9%
Net income growth	26%	-76%		11%		9%
Profitability						
Gross Margin	16.0%	8.4%	8.4%	8.1%	8.1%	7.8%
EBITDA margin	14.0%	6.3%	6.3%	5.9%	5.9%	5.5%
Net margin	7.8%	2.3%	2.3%	2.8%	2.8%	2.9%
Return on assets (ROA)	17.6%	3.7%	3.7%	4.7%	4.7%	5.7%
Return on equity (ROE)	32.7%	6.3%	6.3%	7.7%	7.7%	9.2%
Return on cap. emp. (ROCE)	32.9%	7.8%	7.8%	9.4%	9.4%	10.2%
Leverage						
Net Debt	-89,509	-54,546	-38,433	-57,022	-67,285	-78,668
Net debt / Equity	-0.3	-0.2	-0.1	-0.2	-0.2	-0.2
Net debt / EBITDA	-0.6	-1.1	-0.6	-1.0	-1.0	-1.1
EBIT Interest coverage	28.4	4.4	4.4	3.6	3.6	3.2
Efficiency						
Total asset turnover	1.9	1.8	1.9	1.7	1.7	1.7
Equity turnover	3.4	2.8	3.1	2.8	2.8	2.7
WC/Sales	-1.5%	-0.7%	-0.7%	-0.8%	-0.8%	-0.8%
Opex/Sales	2.8%	3.3%	3.3%	3.7%	3.7%	3.7%
Cash Flow (TLmn)	**2023**	**2024**	**Restated 2024**	**2025E**	**Restated 2025**	**2026E**
EBITDA	138,950	50,704	64,901	54,836	64,706	70,258
Change in working capital	38,383	-7,431	-9,512	-610	-781	184
Taxes	-32,549	-10,272	-13,148	-18,032	-23,081	-25,351
Capital Expenditures	-17,880	-13,790	-17,651	-23,244	-29,752	-17,820
Adjustment	-17,570	4,169	5,337	5,977	7,650	1,826
FCFF	109,334	23,381	29,927	18,926	24,225	29,096
Finansinvest vs Consensus		**2025F**			**2026F**	
	Deviation	Estimate	Cons.	Deviation	Estimate	Cons.
Revenues	0%	935,945	938,134	18%	1,266,756	1,073,444
EBITDA	-20%	54,836	68,824	39%	70,258	50,690
Net Income	-27%	26,076	35,706	-11%	36,705	41,151

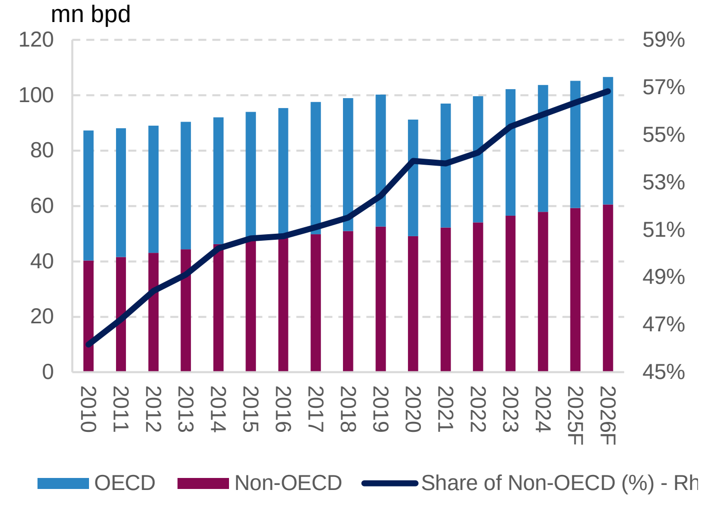
Source: QNBI Calculations

INVESTMENT THEME

We are upgrading our rating for Tupras from Neutral to Outperform with a new TP of TRY200/share, suggesting 43% upside potential. Since the extraordinary super-cycle in the Mediterranean region refining industry in 2022-2023 drew to a close, Tupras's quarterly EBITDA generation has averaged around USD350mn in 2024, coming in at USD228mn as of 4Q24 on the back of consecutive falls in middle distillate crack spreads from their bountiful highs. QıtD average of regional crack spreads are now hovering around 9% higher than their 4Q averages with our initial calculations suggesting a 60% QoQ improvement in EBITDA generation for the refiner in 1Q25. Furthermore, with the last Russian crude oil cargoes, which arrived in February may support Tupras's operational performance, although this boost is expected to whittle away in the following quarters. When it comes to crack spreads, we now find a return to the historical lows seen before unlikely, despite our pessimistic view on oil prices as the natural gas adjusted crack spreads in Europe are in line with their historical average, although non-adjusted figures suggest a 23% premium. In terms of oil differentials, the end of Russian crude purchases is likely to have a negative impact on the operating performance and we have lowered our projections for oil differentials by USD2.00/bbl for 2Q25 and beyond, but still calculate EBITDA generation of USD1.3bn for 2025 - 28% higher than its historical averages even at these normalised spreads, with FCF generation also forecasted to be 9% higher – and 45% higher once the capex normalises in 2026. This suggests a healthy 10.8% FCF yield for 2026, one of the highest FCFs among regional refiners. The refiner's solid cash generation capability also points to sustainable and generous dividend payments with a 10.9% DY in 2025 and 11.1% DY in 2026, with the net cash position set to be maintained. The stock trades at 3.9x EV/EBITDA on 2025F earnings, implying a 15% discount to regional peers. Although we find the historical average of 6.3x to be demanding for a benchmark refiner amid the ongoing structural change in the oil industry, we also view the current valuation as highly discounted for Tupras with the stock emerging as a worthy addition for investors building a Türkiye-focused portfolio, offering both stability and growth potential in a rapidly evolving energy sector valuation, given its integration into the future energy transformation and its sustainable dividend payments.

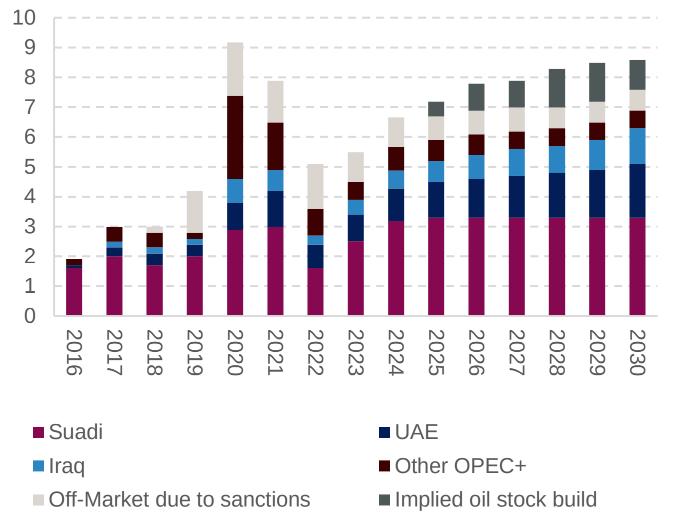
A negative outlook for oil prices: Global oil demand is forecasted to have risen by 1.5% in 2024, exceeding its pre-Covid level by 3.6%. On a regional basis, growth was driven by non-OECD countries with China and India alone accounting for 40% of all the growth. This trend is not surprising, as oil demand in China and India have grown at a CAGR of 3.8% and 2.2% respectively between 2019-2024, compared to a global CAGR in oil demand of 0.7%, with total oil demand in these two countries now comprising 21.4% of the global total, compared to 18.7% in before Covid in 2019. In contrast, oil demand in in OECD countries remains 3.9% shy of its pre-pandemic levels, despite the strong economic growth following the pandemic in 2021 and 2022, with no return to these levels likely until 2025 or 2026. The main reason behind this trend is mostly related to structural changes rather than economic growth factors such as 1) the rapid adoption of electric vehicles (EVs) and advancements in fuel-efficient engines for both cars and aircraft, significantly reducing oil consumption; in 2023, EVs accounted for 18% of global car sales, up from 2.5% in 2019, while improved fuel efficiency in internal combustion engines has further curtailed demand, 2) industrial sectors increasingly shifting to cleaner energy sources and investing in efficiency measures, reducing their reliance on oil with the share of renewable energy in electricity generation in OECD countries rising from 28% in 2019 to over 35% in 2023, while improvements in energy efficiency have lowered industrial fuel consumption per unit output, and 3) remote work trends remain, leading to lower commuting-related fuel demand while office occupancy rates in major OECD cities remain 20-30% below their 2019 levels, reflecting a lasting change in work patterns. These structural shifts indicate that oil consumption in the OECD is unlikely to return to pre-pandemic levels despite steady economic activity. Although we still foresee demand growth in non-OECD countries, it is obvious to that the demand expansion is now occurring at a slower pace. This trend could indicate that these regions are approaching a saturation point, similar to what has already been seen in OECD countries. For instance, demand for oil in China grew by 1.9% in 2024 – despite a solid 5% GDP growth – vs. a CAGR of 4.9% between 2019-2023. This deceleration has largely been driven by the rapid adoption of electric vehicles (EVs) and increasing investments in industrial energy efficiency. In China, more than 50% of new passenger car sales are now electric, significantly reducing oil consumption. Similarly, India and other Asian nations are accelerating their transition toward energy efficiency and cleaner energy sources, further curtailing the growth in demand for oil. These structural shifts suggest that the era of rapid expansion in demand for oil in non-OECD markets could gradually be drawing to a close. Based on the IEA's medium term projections, the use of oil for transport fuels is forecasted to start declining after 2026 as the expansion in electric vehicle purchases, the growth in biofuels and improving fuel economy reduce consumption, with cumulative demand forecasted to peak in 2028.

Figure 2– Global Oil Demand by year



Source: EIA, QNBI Calculations

Figure 3– OPEC+ Spare Production Capacity and Implied Stock Build (2016-2030F)

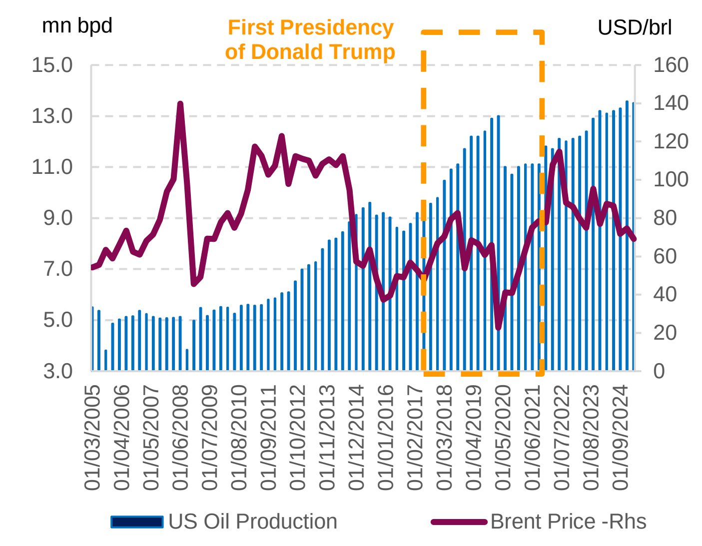


Source: OPEC, QNBI Calculations

Despite this structural change in the industry, current projections for 2025 suggest a further 1.4% growth in demand with another 2.3% growth in non-OECD countries, while demand in OECD countries is forecasted to be stable, as it has in the last couple of years. We deem this assumption highly reasonable once we analyse the demand dynamics in the post-Covid period. In contrast, in addition to the stated structural changes, economic growth prospects are a considerably more shaky when compared to just 3 months ago, given the uncertainties surrounding US tariff policies and ongoing uncertainty in European politics, with global growth forecasts being adjusted sharply downward. Only the US and China are likely to maintain their solid pace of growth in 2025 in a best-case scenario while upside risks are just becoming apparent for European countries again on potential acceleration in the defence spendings.

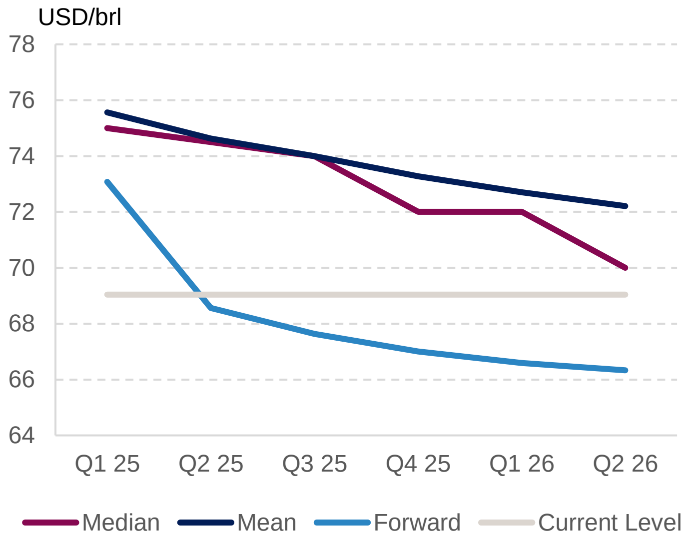
Despite this relatively pessimistic growth outlook globally, in addition to the structural change in the demand momentum for oil, On the supply side, in contrast with the demand outlook, risks are on the upside with a potential end of sanctions against Russia although the Biden Administration tightened sanctions at the end of December 2024. There has been recent positive dialogue between Russia and the US, despite continued disagreement with Ukraine and European countries. Following the imposition of Western sanctions against Russian oil exports after the invasion of Ukraine in February 2022, Russia's crude oil production and exports declined, with output seeing a fall of approximately 500,000 bpd by mid-2023 when compared to pre-war levels. However, despite the sanctions, reportedly, Russia has adapted by utilizing a "shadow fleet" — a network of ageing tankers operating outside Western insurance and tracking systems — to sustain exports, particularly to China and India. Should peace be restored, Russia may gradually regain access to traditional markets, leading to a potential rebound in oil production. Industry analysts estimate that Russian output could return to pre-sanction levels of 10.5-11 million bpd, depending on geopolitical conditions and global demand. President Trump's return to the White House is also expected to usher in more pro-oil policies, potentially boosting U.S. crude oil production. During his first term (2017-2021), U.S. oil output increased from 8.9 million barrels per day (bpd) in 2016 to a record 13.1 million bpd in early 2020 before the Covid-19 pandemic disrupted production, with oil prices averaging USD62/bbl vs. the previous 5-year average of USD82.7/bbl, also leading to a structural change in the petrochemical industry which saw the US become the second largest petrochemical exporter in the world. Currently, U.S. crude production stands at approximately 13.2 million bpd (as of early 2024), placing it as the world's top producer. Analysts predict that if President Trump eases drilling regulations, accelerates federal land leases and rolls back environmental restrictions, production could rise to 14-15 million bpd by 2026. At the same time, the OPEC+ grouping of oil producers has announced plans to increase oil production starting in April 2025, gradually reversing previous output cuts. This strategy aims to add approximately 2.2mn bpd over an 18-month period. Net/net, there is a potential rise of 6-7% in oil supply over the upcoming 2-years, while demand is hovering close to its peak level. Accordingly, we think that the recent backdrop in oil prices – now hovering around 7% lower than their 2024-average – has not yet been fully priced in, with the supply-demand imbalance in the market leaving us somewhat bearish on oil prices for the near future, although current market forecasts for the year-end point to an oil price of USD73.00/bbl for 2025 and USD69.80/bbl for 2026.

Figure 4– US DOE Oil Production and Oil Prices



Source: DOE, Bloomberg

Figure 5– Brent: Bloomberg Forecasts (USD/brl)



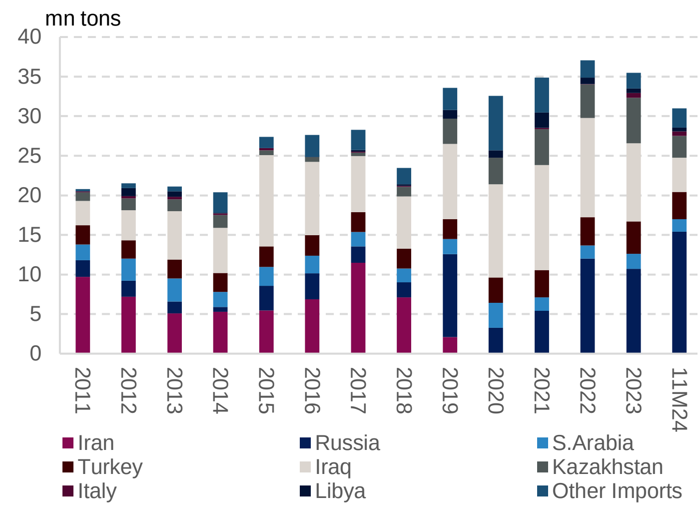
Source: Bloomberg

Divergence in the global refining outlook: In 2024, many cyclical industrial sectors, including steel and petrochemicals, experienced a pronounced shift from post-pandemic super cycles, which had driven record-high profitability, to a more evident down cycle that began in 2023. The surge in demand and supply constraints that fuelled the extraordinary margins in previous years started to fade, leading to significant price corrections and margin compression across various industries. For instance, global steel prices, which peaked at over USD1,800 per tonne in 2021, declined to around USD700 per tonne in early 2024 due to weaker construction activity and destocking trends. Similarly, the petrochemical sector faced a downturn as ethylene-naphtha margins, which had reached USD600 per tonne during the pandemic-driven boom, dropped to nearly USD200 per ton, reflecting oversupply and weakening global demand. This normalization phase, coupled with high interest rates and a slowdown in industrial production, solidified the transition to a more challenging environment for many cyclical industries.

However, the refining sector has exhibited regional divergences due to its unique market dynamics, a reminder that high or low oil prices cannot necessarily be deemed positive or negative for the refining industry given that crude oil is the main feedstock for refiners, with the main determinant of their profitability being the supply/demand balance for oil products such as gasoline, diesel, jet fuel and fuel oil which is followed on the spread between product prices and crude oil prices, that is to say, crack spreads. Accordingly, while global refining margins, particularly crack spreads, declined to pre-pandemic levels, US Gulf Coast gasoline cracks, for example, dropped from over USD 40 per barrel in 2022 to less than USD 15 per barrel in early 2024. On the other hand, Mediterranean refineries exhibited relative resilience as their higher middle distillate product yields mostly outperformed high distillate product crack spreads on limited supply, due to sanctions against Russia. Even in the same region, profitability dynamics have diverged with different types of crude oil procurements as developing economies were not subject to the initial sanctions on Russian crude oil which had been relatively profitable on its discounted prices.

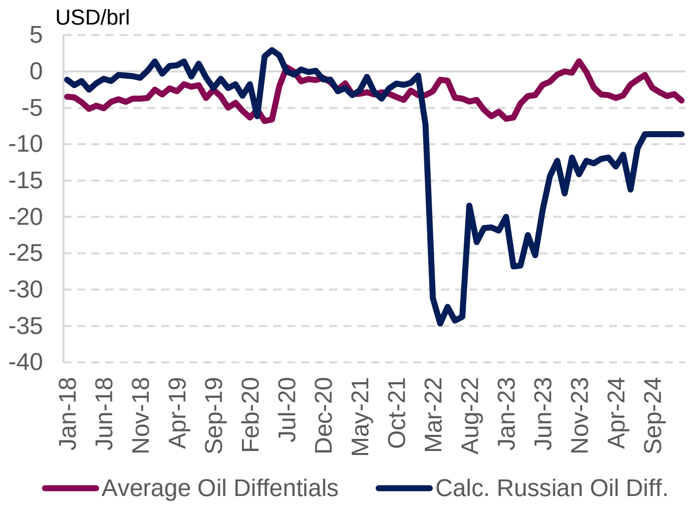
Türkiye has increased its oil imports from Russia since 2022, with the share of Russian oil in total imports reaching nearly 50% as of 11M24. Although we are aware that the pricing mechanism for Russian oil is subject to wide deviations depending on the terms of the agreements between the parties, we calculate that the oil differential averaged USD9.00/bbl in 2024, based on our calculation with Bloomberg data, which is currently calculated at USD6.6/bbl while our calculation finds differential increases when the benchmark Brent price increase. Tupras does not publish details of its crude slate based on oil type, but following the latest sanctions imposed by the Biden Administration, the company is reported to have ended its Russian crude oil procurements, which is expected to negatively impact the refiner in terms of oil differential contributions. However, with the announcement of the latest cargoes to be received in February, we are still likely to see its positive impact on 1Q25 financials and potentially into 2Q25 before fading completely. Last but not least, following the constructive dialogue between President Putin and President Trump, President Putin has reportedly ordered his cabinet to prepare for a potential return of Western companies to Russia while ensuring domestic businesses receive preferential treatment as compensation for sanctions imposed by the West. Accordingly, in the coming period, we might see the removal of ongoing sanctions if the two parties reach agreement, potentially leading to the resumption of Russian crude supplies to Türkiye - but it is also likely that the price advantage offered Russian oil may disappear in this scenario as it had been the case once Iran sanctions were removed for the first time in 2018-2019, having led to a narrowing in oil differentials.

Figure 6– Türkiye : Regional Crude Oil Supply Breakdown



Source: EMRA

Figure 7– Türkiye: Calculated Oil Differentials



Source: QNBI Calculations

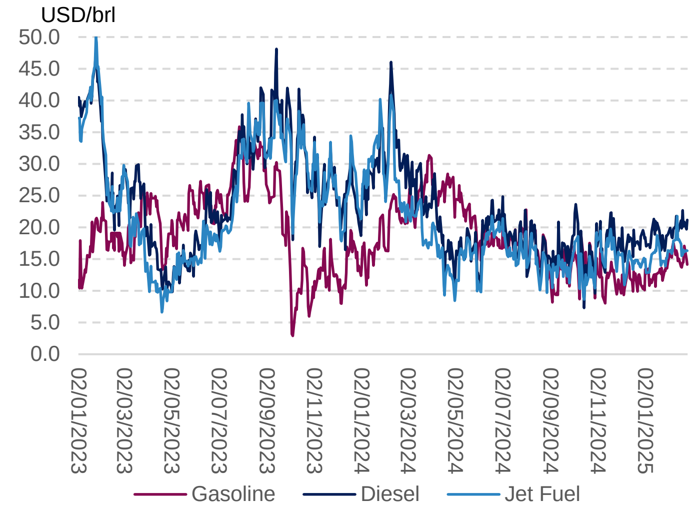
** Calculations were made on calculated oil differentials and weighted average of oil supply*

Cracks near their "new normal" levels: In Türkiye, benchmark oil product prices are determined through a mechanism based on the average prices in the Mediterranean basin. Accordingly, price fluctuations impact all refineries in the region similarly in terms of product breakdowns. However, differences in refinery profitability are primarily driven by two key factors. The first is the cost advantage provided by oil differentials - the price spread between the crude oil processed in the refinery and Brent crude. The second factor is the cost of natural gas used during the production phase. As mentioned earlier, Turkish refineries benefit from their geographical location, allowing them to operate with better oil differentials compared to regional refineries. This advantage also extended to natural gas prices for many years, except for the 2015-2016 period and the pandemic year of 2020. Currently, Turkish refineries still enjoy a strong competitive edge, as their unit natural gas costs for refiners are 34% lower when compared to European benchmark natural prices.

Beyond this, it is well known that natural gas prices in Europe influence regional crack margins. This effect became most apparent during the second half of 2022 during the Russia-Ukraine crisis, when the resulting energy crisis in Europe led to a surge in natural gas prices, driving crack spreads to record highs even in the absence of any significant change in demand dynamics. These cracks were later corrected as market conditions normalized. Therefore, to understand the new normal for middle distillate crack spreads in the region, we must first assess the future trajectory of natural gas prices. While crack spreads are currently around 14% lower compared to 2024 averages , they remain approximately 28% higher than their historical averages. However, when compared to pre-pandemic levels, European natural gas prices are still 2.6 times higher than in 2019, suggesting that crack spreads are unlikely to return to their historical averages. Even if they do, refiners could respond with production cuts, leading to supply constraints that would push crack spreads back up. When adjusting for natural gas prices, current crack spread levels are in line with their historical averages, despite the rising impact of Russian sanctions. Thus, we see limited downside risk for crack spreads unless there is a sharp and sustained decline in natural gas prices in Europe, while the upside potential also appears relatively low.

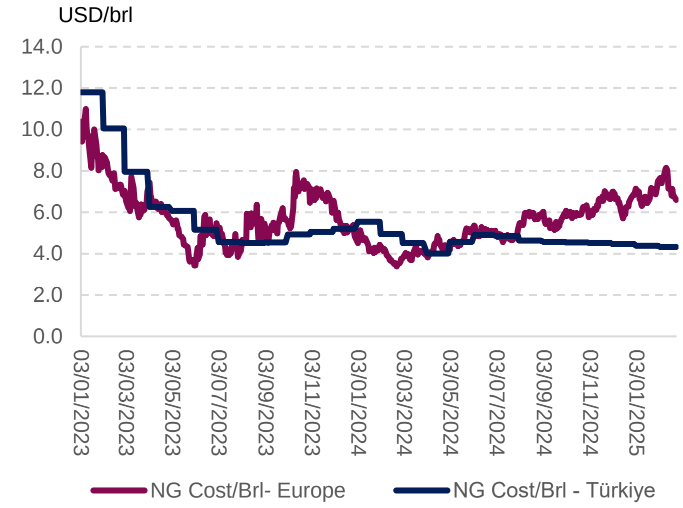
In Europe, natural gas prices could enter a downward trend if a peace deal materializes between Russia and Ukraine. However, President Putin's reported recent statements hinting at the costs of the war and the possibility of rekindling relations with the West suggest that a resolution may take time for discounted natural gas flows, delaying any return to pre-war market dynamics. This implies that Türkiye could maintain its advantageous natural gas pricing in the near term, supporting the argument that Tupras could continue to enjoy higher operational profitability compared to an average regional refinery. Another factor influencing European gas prices is the potential increase in cheap LNG imports from the US as President advocates greater transatlantic energy trade. While US LNG imports into Europe are already around 50% cheaper in unit terms when factoring in liquefaction and transportation expenses, we find the likelihood of a major supply increase before 2027 to be low due to existing LNG capacity constraints in the US.

Figure 8– Mediterranean Region Crack Spreads



Source: QNBI Calculations

Figure 9– Natural Gas Price Comparison (Türkiye: Special Tariffs for Oil Refiners)

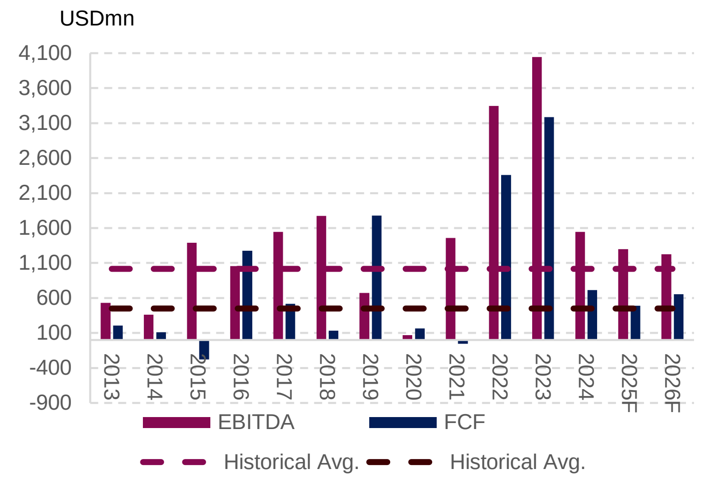


Source: Bloomberg, World Steel Association, QNBI Calculations

Tupras: 2025 EBITDA still 28% higher than its pre-pandemic level in USD-terms: Tupras generated USD1.5bn EBITDA in 2024 while the implication of inflation accounting – inventory revaluation effect – was negligible – which had hit hard most of the industrial companies in BIST – thanks to its less than one-month inventory holding period. For 2025, on quarterly basis, we plug in stable crack spreads until the end of 1Q25 – implying a 11% QoQ improvement in the weighted average crack spread, then, we lower our crack spread assumptions to our calculated new normalized levels – based on historical average of natural gas adjusted crack spread levels for European refiners, implying 5.0% QoQ decline in weighted average crack spreads -in 2Q25 and beyond. For the oil differentials, our 1Q forecast includes a QoQ stable oil differential impact per barrel that we lower it to its historical averages before the implication of high discounted Russian oil started. With these assumptions, our initial calculation implies a nearly 60% QoQ growth in EBITDA for 1Q25 in USD-nominal based that our full year forecast points to USD1.3bn EBITDA generation which is still 28% higher than its historical average, excluding abnormal profitable environment of 2022 and 2023.

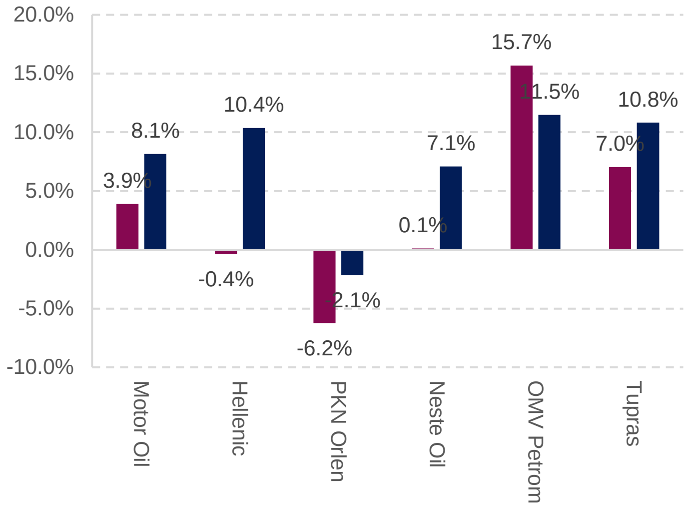
Based on our EBITDA forecast and the company's projected capex of around USD600mn for 2025, declining to around USD350-400mn per year throughout the forecast horizon, we calculate that Tupras will generate USD489mn in FCF for 2025 (7.0% FCF yield) and USD653mn in 2026 (10.8% FCF yield) vs. its historical average of 6.2% and a median of 6.0% for its peer group, leaving Tupras with one of the highest FCF yields for 2026.

Figure 10– Tupras: EBITDA and FCF Generation



Source: The Company, QNBI Estimates

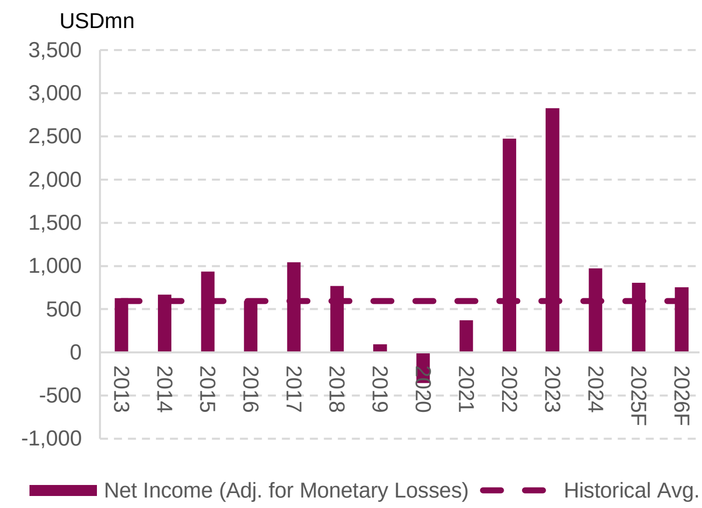
Figure 11– FCF Yield Comparison



Source: QNBI Calculations and Estimates

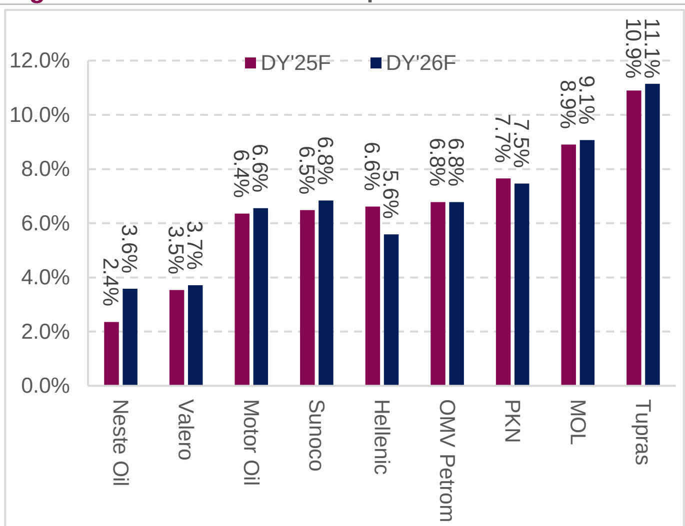
Bottom-line may gain momentum on lower monetary and FX losses in 2025: Tupras held a net cash position of USD1.5bn as of 2024YE. Subject to the approval of the General Assembly, the Company plans to distribute a total of TRY27.3bn in dividends (USD705mn based on our 2025-average USD/TRY assumption) with a primary dividend of TRY7.785/share on 28 March 2025 and an interim dividend of TRY7.422/share on 30 September 2025, implying a 10.9% dividend yield for the full year - one of the highest in our Coverage Universe and among BIST-Industrials. Despite this generous dividend payment, implying a 149% pay-out ratio based on IFRS net income and high capex plan of USD600mn, we expect the company to maintain its net cash position by the end of 2025, with dividend payments appearing to be robust in the face of industrial cycles for the coming period. On the contrary, Tupras's strong balance sheet, with its net cash position and its solid equity structure, have resulted in monetary losses for the company due to inflation accounting, materialising at TRY14.6bn as of 2024YE although the company posted net financial income in 2024 thanks to strong interest income. For 2025, on top of net financial income, the negative impact of monetary losses is forecasted to decline on a lower indexation coefficient. Accordingly, we calculate 11% growth in net income in 2025 in real terms despite our forecasts pointing to a 13% YoY contraction in EBITDA in TRY-terms. This paves a way for another strong dividend payment from 2025 earnings, with our calculations suggesting a slight increase in the DPS, implying an 11.1% dividend yield for 2026.

Figure 12– Tupras: Net Income Generation



Source: The Company, QNBI Estimates

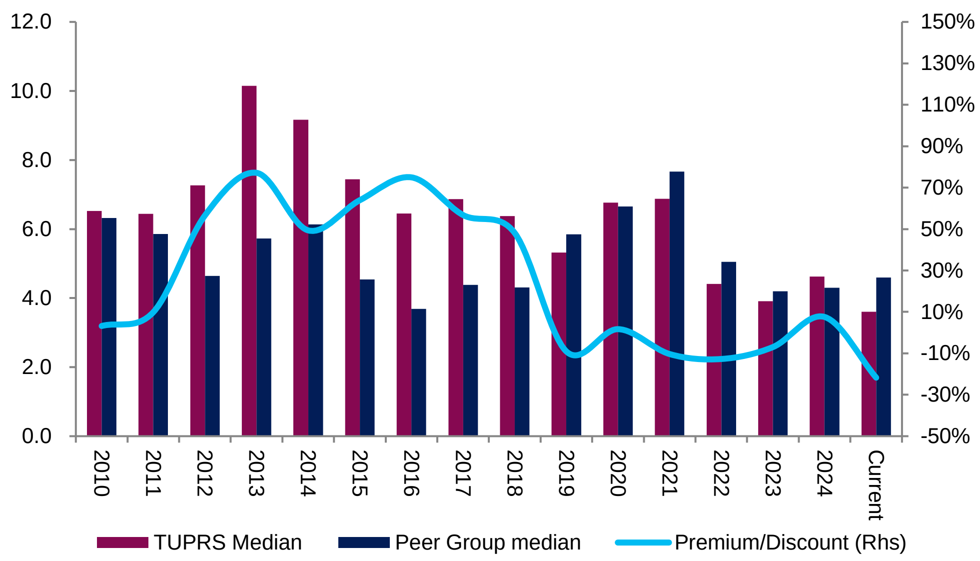
Figure 13– Dividend Yield Comparison



Source: QNBI Calculations and Estimates

Now a value creator rather than a cyclical play with its cash rich balance sheet and energy transformation story: As Türkiye's leading industrial enterprise, Tupras has embarked on a comprehensive Strategic Transformation Plan aimed at aligning with global sustainability trends and ensuring long-term growth. Announced in November 2021, this plan sets ambitious targets, including a 27% reduction in emissions by 2030 and achieving net zero by 2050. Key Components of the Strategic Transformation Plan include 1) **Biofuels:** Recognizing the critical role of biofuels in decarbonizing the aviation sector, Tupras aims to become Türkiye's leading sustainable aviation fuel (SAF) producer. The company plans to invest approximately USD600mn to establish new units at its İzmir refinery. This initiative is expected to yield a cumulative EBITDA of USD1.1bn until 2035, with an initial annual production capacity of 400 kilotons of biofuel. By 2030, The company targets a 10% SAF share in its jet fuel sales, with plans to triple SAF production capacity by 2035. 2) **Zero-Carbon Electricity:** The company has acquired eight hydroelectric power plants and one wind farm, with a total of 330 MW in zero-carbon electricity capacity, through the acquisition of Entek. Entek has also applied for pre-licenses for 22 projects, aiming for an additional 1,461.5 MW of capacity, including associated storage facilities, with Entek already so far this year acquiring stakes in Eco Sun Niculesti S.R.L., which is planned to have a capacity of 214.26 MWm with solar power permits in Romania, and Euromec Ciocanari S.R.L. for an approximate company value of EUR 29.2mn. The company aims to generate USD400mn in EBITDA with a cumulative investment budget of USD1.3bn between 2022-2035. 3) **Green Hydrogen:** The Company is exploring various electrolysis technologies and aims to transition its existing hydrogen production from grey to green by leveraging zero-carbon electricity. The plan includes an investment of USD690mn between 2022 and 2035, with an expected cumulative EBITDA of USD640mn. Throughout this transformation, Tupras remains committed to delivering shareholder value through consistent dividend payments. The company's robust balance sheet and dedication to green energy initiatives position it as one of the few Turkish corporations fully committed to sustainable practices. Consequently, we consider Tupras as a value creator rather than a cyclical play with its cash rich balance sheet since the second half of 2022. The company's current EV of USD5.3bn is broadly in line with its historical average and 40% lower than its peak. Its 2025F EV/EBITDA multiple stands at 3.6x vs. its peer group average of 4.5x and historical average of 6.3x. Although we consider its historical average of 6.3x or its peers historical average of 5.9x premium considering the on-going structural change in the oil industry for the upcoming years, with its integration into the future energy transformation with sustainable dividend payments, we also consider the current valuation to be discounted in USD-terms with the stock emerging as a worthy addition for investors constructing a Turkey-focused portfolio, offering both stability and growth potential in a rapidly evolving energy sector.

Figure 14 – Tupras and Peer Group Historical Average



Source: QNBI Estimates

Valuation

We base our valuation on an 70-30 weighting of the results derived from the extrapolation of DCF and multiple valuation methodology, and derive a 12-month target value of USD9,817mn. With our 12-month forward USD/TRY average forecast, our target value implies a 43% upside potential.

- Our USD-denominated DCF model is based on a 10.3% WACC and a beta of 1.0x. Meanwhile, we assume a risk-free rate of 7.5% and an equity risk premium of 5.0%.
- We use our USD-based nominal forecasts in our DCF model as the company's inflation accounting included financials are not indicative of its cash generation ability on the indexation and inventory revaluation, as was also the case in 2024 in such a high inflation environment. Accordingly, our forecasts for IFRS figures differ slightly from the figures in our DCF model.
- Note that we do not include any input regarding the company's strategic transition plan into our model due to its long-term positive contribution and the limited visibility regarding the sector outlook at this stage
- Our multiple analysis is based on a pure EV/EBITDA multiple as the P/E comparison is misleading due to the negative impact of inflation accounting on Tupras's bottom-line, disrupting its P/E outlook. The stock trades at a 3.9x EV/EBITDA based on our 2025 forecasts, implying a 15% discount to its historical average. Based on our 2026 forecasts, it trades at an EV/EBITDA of 2.7x, implying a 40% discount.

Figure 15 – Valuation Summary

Valuation	Weights	USD mn
DCF	70%	10,652
Peers Analysis Implied Value	30%	7,973
12-Month Target Value (USDmn)		9,848
12-Month Target Price (USD)		5.1
12-Month Target Price (TRY)		200
Current Price /shr (TRY)		139.60
Upside Potential (%)		43%

Source: QNBI Estimates

Figure 16 – DCF Tables

USDmn	2025F	2026F	2017F	2028F	2029F	2030F	2031F	2032F	2033F	20334F	2035F
Revenues	22,179	22,121	22,313	22,508	22,704	22,903	23,103	23,306	23,510	23,716	23,924
Revenue Growth	*-10%*	*0%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
EBIT	976	890	873	854	831	826	798	758	856	863	870
EBITDA	1299	1227	1222	1218	1213	1215	1191	1155	1257	1268	1279
EBITDA Margin	*5.9%*	*5.5%*	*5.5%*	*5.4%*	*5.3%*	*5.3%*	*5.2%*	*5.0%*	*5.3%*	*5.3%*	*5.3%*
Taxes	-195	-178	-175	-171	-166	-155	-146	-137	-147	-148	-150
Inc./dec. in W/C	-16	4	4	4	4	4	4	3	4	4	4
Capex	-600	-400	-350	-368	-386	-405	-405	-405	-405	-405	-405
FCF	**489**	**653**	**701**	**684**	**665**	**658**	**643**	**616**	**708**	**718**	**728**
WACC	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
PV of FCFs	**4446**										
Terminal Growth Rate	2%										
Terminal Value	8982										
PV of TV	**3276**										
Value of Firm	7722										
Net Debt	-1546										
Participations	200										
Equity Value	**9468**										

Source: QNBI Estimates

Figure 17 – Peer Analysis

Company	Country	Mcap (US$mn)	P/E		EV/EBITDA	
			2025E	2026E	2025E	2026E
Motor Oil	GR	2,309	5	5	3.1	3.1
Hellenic	GR	2,622	9	9	5.9	5.6
PKN Orlen	PL	6,459	5	6	2.5	2.5
Neste Oil	FI	32,748	16	9	6.4	5.2
OMV Petrom	RO	9,753	10	10	4.5	4.5
Median			9.2	8.5	4.5	4.5
Tupras		7,407	10.3	7.3	3.9	2.7
Premium/ Discount			12%	-14%	-15%	-40%

Source: Bloomberg, QNBI Estimates

QNB Invest Rating System

We employ a relative scale in our rating system (i.e. Market **Outperform, Neutral, Underperform**) in order to better present relative value propositions and more actively pursue long vs. short ideas at the BIST. The relevant benchmark is the broader Turkish stock market, using the BIST-100 index as a basis. The ratings also incorporate a certain degree of relativity within the analyst's own stock coverage universe due to asymmetric return expectations among the industries under our BIST coverage. The rating system combines analysts' views on a stock relative to the sectors under coverage, and the sector call relative to the market, together providing a view on the stock relative to the market.

Individual ratings reflect the expected performance of the stock relative to the broader market over the next 6 to 12 months. The assessment of expected performance includes a function of near-term company fundamentals, industry outlook, confidence in earnings estimates and valuation, and other factors.

An essential element of our rating methodology involves benchmarking a 12-month expected return against the cost of equity. We set a required rate of return for each stock, calculated from our risk-free rate and equity risk premium assumptions. The price target for a stock represents the value that the stock is expected to reach or sustain over the performance horizon of 12 months, according to the view of the analyst.

We have separated the stocks under our coverage into two groups, mainly with respect to their liquidity (market cap, free float market cap and historical average daily trading volume) as small-cap stocks exhibit different risk/return characteristics to more-liquid large-caps. For the purposes of the relative stock rating, however, stocks within each group will be considered on an unweighted basis with regard to their market capitalization.

For a stock to be assigned an **Outperform** rating, the implied return *must* exceed the required rate of return by at least 5 percentage points over the next 12 months for our larger-cap stock coverage, or by 10 percentage points for the small-cap group. For a stock to be assigned an **Underperform** rating, the stock must be expected to underperform its required return by at least 5 percentage points over the next 12 months. Stocks between these bands will be classified as **Neutral**.

When the potential upside of an *average* stock in our coverage exceeds its required rate of return (i.e. the market upside exceeding the implied average cost of capital), a greater number of stocks would fall into the aforementioned Outperform (Buy) category, illustrating the significance of the "relative return" concept (vis-à-vis absolute return) in picking better investment ideas with a positive alpha. The same holds true when the potential upside of an *average* stock in our coverage falls short of its required rate of return.

In this regard, as a supplemental methodology, we rank the stocks in our coverage according to their notional target price with respect to their current market price, and then categorise the top group (approximately 40-50% of the companies under coverage) as Outperform, the next 40-50% as Neutral and the lowest 10-20% (and no less than 10%) as Underperform.

It should be noted that the expected returns on some stocks may at times fall outside the relevant ranges of the applicable respective rating category because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges are permitted but becomes subject to review.

Also note that the analyst's short-term view may occasionally diverge from the stock's longer-term fundamental rating.

Outperform. We expect the stock to outperform the BIST-100 over the next 6 to 12 months.

Neutral (Market Perform). We expect the stock to broadly perform in line with the BIST-100 index over the next 6 to 12 months. (Although we would normally have a neutral assessment of stocks in this category, if a stock has gone through a period of market underperformance, it would be an indication that the stock may be expected to improve its performance relative to market averages in the coming period, and vice versa).

Underperform. We expect the stock to underperform the BIST-100 over the next 6 to 12 months.

N/R. Not Rated.

U/R. Under Review.

Analyst Certification

The following analysts hereby certify that the views expressed in this research report accurately reflect their own personal views regarding the securities and issuers referred to therein and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report: **Can Alagöz.**

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