FitchRatings

FITCH AFFIRMS TURCAS AT 'B'; OUTLOOK STABLE

Fitch Ratings-Moscow/Warsaw-05 July 2013: Fitch Ratings has affirmed Turcas Petrol A.S.'s Long-term foreign and local currency Issuer Default Ratings (IDR) at 'B' and National Long-Term Rating at 'BBB-(tur)'. The Outlook is Stable.

KEY RATING DRIVERS

Holding Company Ratings

The ratings reflect Turcas's profile as a holding company with minority stakes in several JVs in Turkey's fuel distribution, power generation, oil refining, renewable energy and energy trading sectors, its positive free cash flow after dividends but before project cash calls and its long-term debt maturities. While we view positively Turcas's strategy of investing in local projects in partnership with large global players, we note that the ratings are constrained by its small size, high debt load compared to dividend receipts and large cash capital commitments in 2013-2017.

STAS Drives Dividends

Turcas's main source of cash is its 30% stake in Shell & Turcas Petrol A.S. (STAS), a JV with Royal Dutch Shell plc (AA/Stable), Turkey's leading fuel distributor with 1,050 Shell-branded gas stations. One of Turkey's largest companies, STAS reported operating profit of TYR247m in 2012, up 30% yoy, and paid dividends of TYR90m, down from TYR103m in 2011. In 2007-2012, STAS's dividends and management fees accounted for nearly all of Turcas's cash inflows. We expect that Turcas will continue receiving substantial payments from STAS of over TYR200m in 2013-2016 despite its significant capex programme as Turkey remains a growing market for vehicles and motor fuels, in particular diesel. We also anticipate that STAS will remain the primary source of cash inflows for Turcas in 2013-2017.

STAR Refinery Project Commitment

Fitch expects Turcas to increase its leverage in 2013-2015 as it funds its 18.5% share in the STAR refinery, a JV with the State Oil Company of the Azerbaijan Republic (BBB-/Stable) and the State Oil Fund of Azerbaijan, the latter expected to become the shareholder in H213. The JV partners plan to commission STAR, a USD5bn, 10 million ton refinery on Turkey's West coast, in 2017 and project finance it by end-2013 with a 65%/35% target debt to equity split. Turcas expects to fund its remaining USD283m equity commitment using own and borrowed money.

When completed, STAR will enhance Turcas's operations due to integration of refining and fuel distribution. STAR's products will target the undersupplied Turkish fuel market which experiences a deficit in diesel and naphtha.

Denizli Power Plant Commissioned

Denizli, a 775 megawatt gas-fired power plant in south-western Turkey, and a 30%/70% JV with RWE AG (A-/Stable), was commissioned in June 2013. Fitch believes that Denizli, one of the most efficient power plans in the country, has attractive economics and should start generating cash flows to repay its debt in H213. However, its lifecycle profitability will depend on volatile gas and power prices. From 2015, we expect the Denizli power plant to generate sufficient cash flows to repay its shareholder loans back to Turcas, which will then repay its project finance loans, and to be a steady source of dividend income for Turcas.

Rising Leverage, Moderate Payouts

Turcas's ratings are constrained by its very ambitious cash commitments in 2013-2016. We expect that cash outflows related to STAR will substantially increase Turcas's funds from operations (FFO) adjusted net leverage that should peak at around 6.4x in 2014, a level commensurate with a weak 'B' rating, before declining to a more reasonable 4.2x in 2017. In calculating FFO, we include interest payments on a shareholder loan that Denizli makes to Turcas because these are regular cash inflows that Turcas will use to repay its back-to-back obligation raised for funding the loan to the JV.

RATING SENSITIVITIES
Positive: Future developments that may, individually or collectively, lead to positive rating action include:
- FFO net adjusted leverage consistently below 3x coupled with higher diversification of dividend income.

Negative: Future developments that may, individually or collectively, lead to negative rating action include:
- Turcas's ratings would come under pressure if its FFO adjusted net leverage exceeded 6x on a sustained basis or it experiences delays in project execution leading and / or higher than anticipated equity cash calls.

LIQUIDITY AND DEBT STRUCTURE
Adequate Liquidity, Comfortable Maturities
At 31 December 2012, Turcas's liquidity was adequate with TRY118m of cash and TRY16m in short-term debt. Total debt consisted of TRY309m of mainly project-related ECA long-term loans denominated in EUR and USD. Refinancing risk is limited as only TRY32.6m matures annually in 2014-2017 and over half of the debt matures after 2017. These loans will be repaid by the back-to-back shareholder loans from Denizli.

At end-June 2013, Turcas had a consolidated cash balance of USD 89.8m, short term debt of USD3.8m and EUR13m and unused, uncommitted credit lines of USD125m and TRY85m.

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Additional information is available on www.fitchratings.com

Applicable criteria, 'Corporate Rating Methodology', dated 8 August 2012 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=684460