Fitch Ratings

FITCH AFFIRMS TURCAS AT 'B'; WITHDRAWS RATINGS

Fitch Ratings-Warsaw/London-03 June 2016: Fitch Ratings has affirmed Turcas Petrol A.S.'s (Turcas) Long-term foreign and local currency Issuer Default Ratings (IDR) at 'B' and its National Long-Term Rating at 'BBB-(tur)'. The Outlooks are Stable. Fitch has subsequently withdrawn the ratings.

Fitch is withdrawing the ratings as Turcas has chosen to stop participating in the rating process. Therefore, Fitch will no longer have sufficient information to maintain the ratings. Accordingly, Fitch will no longer provide ratings (or analytical coverage) for Turcas.

Turcas is an investment holding company with minority stakes in JVs in energy-related sectors in Turkey (BBB-/Stable). Its main investments are a 30% stake in the leading Turkish fuel distributor Shell & Turcas Petrol (STAS) and a 30% stake in the 775MW gas-fired power plant (RWE & Turcas Guney Elektrik Uretim A.S. or RTG), commissioned in 2013 in Denizli, Turkey, a JV with RWE AG (BBB/Negative). Turcas's credit profile is subordinate to the weighted average credit profile of these companies as it does not have direct access to their operating cash flows and assets. Constraints on Turcas's ratings include its small size and the limited diversification of its dividend income stream.

KEY RATING DRIVERS

Reliance on STAS

STAS remains Turcas's primary source of revenue as RTG's weak financial results constrain its capacity to fully cover shareholder loan repayments or contribute dividends. STAS, Turcas's JV with Royal Dutch Shell plc (AA-/Negative), is Turkey's leading fuel distributor with 1,036 Shell-branded gas stations and reported EBITDA of TRY0.5bn in 2015. Concentrated dividend inflows are a key rating constraint for Turcas.

Higher Leverage at STAS

Fitch does not rate STAS but based on a comparison with other rated fuel retailers, we believe that its profile would warrant a standalone rating in the 'BB' category. This captures its leading market position in the growing domestic market overlaid by STAS's limited geographical diversification, full exposure to Turkey's regulatory and macro-economic environment and growing leverage. Reported debt to EBITDA increased to 3.0x in 2015 from a healthy 1.0x in 2013. We expect STAS's leverage to moderate in the short to medium term as the dealer contract renewal cycle is over. We also assume STAS will resume dividend payouts in 2016 following no dividend payment in 2015. A longer than expected pause in STAS's dividend payments would be rating negative.

Pressure on Power Plant's Cash Flows

Turcas's 775 megawatt gas-fired power plant is one of the most efficient in Turkey, but the project's economics remain challenging. Spark spreads in Turkey continue to be weak and RTG realised a net loss for 2015 of TRY134m. Combined with the power plant's asset concentration and limited operational track record, RTG's standalone rating is constrained to the low 'B' category.

Turcas's debt consists of project loans raised to finance its 30% share in the construction of the plant. We previously assumed that from 2015, the debt service of these facilities would be fully covered by payments from RTG under a shareholder loan structured to mirror their terms. Our forecasts now project that Turcas will have to fund a shortfall in repayments in the medium term. In December 2015 Turcas converted TRY168m of shareholder loans to RTG to equity, lowering the cash inflows from interest and principal payments to Turcas unless RTG's financial performance improves allowing the JV to pay dividend to its shareholder. The outstanding RTG's shareholder loan amount owed to Turcas equalled TRY207m at end-2015.

New Investments
In May 2014, Turcas sold its 18.5% stake in the STAR refinery project to State Oil Company of the Azerbaijan Republic (BB+/Negative) for USD59.4m. The most advanced new investment project currently realised by the company is the geothermal power plant with 18MW capacity in western Turkey. Turcas holds 92% of shares in the project - Turcas BM Kuyucak Jeotermal Elektrik Uretim A.S. (TBK). Total project cost amount to USD71m with 80/20 debt to equity split. In March 2016, TBK secured financing for the project, which is guaranteed on an interim basis by Turcas. We include around TRY30m of EBITDA generated by TBK in our forecast starting from 2018.

FX Risks Weigh on Profile
Turcas's cash inflows, except for management fee from STAS, are linked to the lira, while its debt is euro and US dollar denominated. Foreign exchange risk is a credit constraint, partly mitigated by US dollar denominated cash and deposit balances

KEY ASSUMPTIONS
Fitch's key assumptions within the rating case for Turcas include:
- USD/TRY exchange rate of 3.1 in 2016-2019 in line with average exchange rate as per Fitch's sovereign team.
- Average stable management fee and dividend from STAS of TRY57m in 2016-2019.
- Shareholder loan repayments from RTG averaging TRY16m in 2016-2019.
- Capital expenditures mainly for geothermal power plant investment project.
- Dividend payments equal to TRY12m per year in 2016-2019.

RATING SENSITIVITIES
Not applicable.

LIQUIDITY
Strong Liquidity, Comfortable Maturities
At end-2015, Turcas's liquidity was adequate with TRY168m of cash and TRY78m of short-term debt. Total debt consisted of TRY444m of mainly project-related ECA long-term loans denominated in euros and US dollars.

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Summary of Financial Statement Adjustments
- Management fees received from STAS: Fitch has increased 2015 Turcas's EBITDA and FFO by TRY36.3m and reduced cash flow from investing activities by the same amount.
- Interest payments from RTG: Fitch has added TRY45m of interest income from loans given to RTG to Turcas's dividends received from associates and decreased Turcas's interest received by the same amount.
- ECA premium and management fee: Fitch has included TRY20.2m of ECA premium and management fee in Turcas's total debt.
- Operating leases: Fitch has adjusted Turcas's debt by adding 5x of annual operating lease expense. Operating lease payments were equal to TRY1.9m in 2015.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

Applicable Criteria
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage (pub. 17 Aug 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869362

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