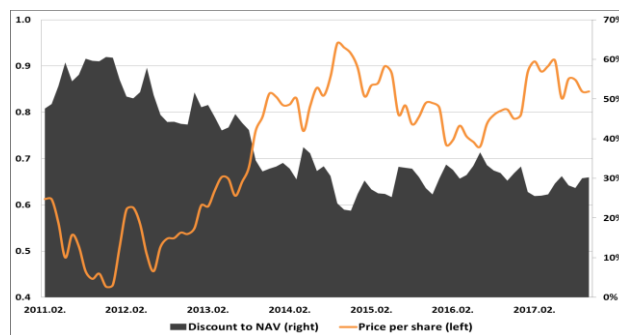


Fondul Proprietatea

Recommendation: Buy

Target price (12M): RON 1.00 (unch.)

	Q1 2017	Q2 2017	Q3 2017
NAV	10,690	10,570	10,606
NAV per share	1.19	1.22	1.21
Cash per share	0.03	0.03	0.09
% of Net cash	2.4%	2.5%	7.7%
% of Listed equity	29%	28%	30%
Discount to NAV	-25%	-29%	-30%
DIPS	0.00	0.06	0.08
EPS	0.04	0.09	0.11
PM fee per NAV	0.32%	0.51%	0.63%



Share price close as of 15/11/2017	RON 0.85	Bloomberg	FP RO
Market cap. [RON mn/EUR mn]	7,463/1,62	Reuters	FP.BX
Daily turnover 12M [EUR million]	1.6	52 week range	RON 0.68-0.92

Clean-up the non-core assets

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- 9M results:** Fondul reached RON 0.11 EPS in the first 9M, driven by the special dividends of the SOEs. During the nine-month period, Fondul sold its entire holdings in Oil Terminal and TLV bank and part of its holding in BRD. Revaluation line in the P&L increased and reached RON 187 million, as a result of share price evolution of OMV Petrom during the 9M period. There were no major revaluations regarding the fair value of the unlisted portfolio. Cash level went up to 7.7% as of 9M, while the portion of listed companies was only 22% as of November, but this ration will improve next quarter due to the Electrica deal. Discount to NAV is ca. 30%.
- Dividend income:** Gross dividend income in the third quarter relates to the special dividends distributed in September by SOEs, namely Hidroelectrica and Bucharest Airport in the amount of RON 130.6 million and RON 40 million. On the short run Conpet and Nuclearelectrica will pay-out special dividend of which the Fondul will receive ca. RON 15 million, so at the end of the year Fondul will realise RON 186 million special dividend inflow. Fondul will pay-out 0.05 RON special dividend next year.
- Buy-back:** The eighth buyback programme was completed in November. During the programme the Fund repurchased a total of 141.8 million shares and total value of the programme was RON 122.3 million at a weighted average price at RON 0.8591 per share. The ninths programme started in November and the maximum amount was increased to 20% of the issued share capital, which is a positive sign for investors.
- OMV Petrom:** During September Fondul sold 1.454 billion shares through an ABB at a price of RON 0.275 per share, the gross proceeds of the transaction amounting to RON 399.8 million, while the remaining holding in OMV Petrom is 9.99% and the lock up is 120 days.
- Hidroelectrica:** In September, Fondul announced that the Fund is reviewing strategic options regarding its Hidroelectrica stake and appointed Citigroup and UBS as financial advisers for the transaction. We believe that Hidro is well-prepared for an IPO in H2 2018 and a transaction above the current NAV (RON 3,384 million) is possible and would create shareholder value since the auditor uses significant discount due to lack of marketability

and control. We do not believe that the company will need CAPEX above maintenance level in the foreseeable future thus we calculate with an average EUR 60 million CAPEX in our model. We hope that political decision will not overshadow the IPO and the MSCI EM inclusion will come one step closer, however Fondul waits for this transaction very long time ago, thus it was very rational that the asset is up for any serious bidder at a fair price. Since the energy sector has national strategic position for the government it would be deeply unfortunate for the government if strategic investor such as the Russian RusHydro or the Austrian Verbund purchase Fondul's 20% stake.

ONGOING MANDATES

Company	FP NAV	FP STAKE [USD mn]	Financial adviser	Status
Hidroelectrica	32%	856	CITI & UBS	Ongoing
ENEL	15%	404	Ithuba Capital	Ongoing
ELECTRICA	7%	192.9	Ithuba Capital	Sold
Engie Romania	4%	114.7	Ithuba Capital	Ongoing
Salrom	2%	46.4	UniCredit	Ongoing
Total	60%	1,614		

Source: Fondul

- ENEL:** In August, Fondul announced that the Fund initiated a competitive process aimed to potential disposals the Fund's ENEL holdings. The process will be managed by Ithuba Capital acting as financial advisor. Since the parent company ENEL is listed it is very unlikely that the Romanian subsidiaries will ever be listed on BVB thus the exit options of Fondul is limited to third party investors or the parent company. The Electrica deal should give a fine benchmark for an ENEL transaction, showing the discount range for potential investors. As we highlighted before ENEL companies are deep in cash and the dividend yield remained below 1% in the past 6 year on average. It is important to adjust with this amount of cash, when one calculate the fair value of the assets. However, from a bidder point of view the cash should be discounted since the major shareholder can block the pay-out in the future.

ENEL DISTRIBUTION COMPANIES' HISTORICAL KPIS

	2011	2012	2013	2014	2015	2016
EBITDA [RON million]						
ENEL Banat	317	292	335	323	316	239
ENEL Dobrogea	186	190	248	239	253	195
ENEL Muntenia	211	358	424	440	451	397
EV/RAB						
ENEL Banat	0.59x	0.81x	1.03x	1.04x	0.91x	0.78x
ENEL Dobrogea	0.58x	0.70x	0.88x	0.88x	0.82x	0.72x
ENEL Muntenia	0.62x	0.55x	0.81x	0.67x	0.57x	0.47x
EV/EBITDA						
ENEL Banat	4.8x	6.6x	6.4x	6.8x	5.6x	6.3x
ENEL Dobrogea	4.1x	5.0x	5.0x	5.0x	4.4x	5.1x
ENEL Muntenia	7.1x	4.6x	5.7x	4.6x	3.7x	3.6x
RORA						
ENEL Banat	15.8%	11.8%	13.3%	12.0%	11.6%	6.9%
ENEL Dobrogea	9.6%	7.5%	10.7%	7.6%	10.1%	6.2%
ENEL Muntenia	2.1%	5.7%	7.4%	8.2%	8.6%	5.9%

Source: Fondul

- Recommendation:** We have maintained our 12M target price at RON 1.00 per share, due to the possible Electrica transaction, which might trigger an ENEL deal later. We wish to highlight that the buy-back program and dividends gives also additional yields (14% and max 20%). We maintained our Buy recommendation.

PRICE PERFORMANCE AND EV/EBITDA OF POWER COMPANIES



Source: Bloomberg

TOP EQUITY HOLDINGS [RON MILLION]

	Q1 2016	H2 2016	9M 2016	FY 2016	Q1 2017	H2 2017	9M 2017
OMV Petrom	2,582	2,582	2,625	1,858	2,153	2,018	1,637
Romgaz	608	0	0	0	0	0	0
BRD	266	249	279	301	313	342	276
Banca Transilvania	234	12	12	21	18	0	0
Nuclearelectrica	146	138	135	132	184	175	202
Alro	86	75	89	85	106	123	146
Conpet	46	39	40	41	59	50	55
Hidroelectrica	2,654	2,654	3,269	3,384	3,384	3,384	3,384
Bucharest Airport	498	633	633	761	761	761	761
Engie Romania	446	446	446	453	453	453	453
ENEL Distribution	1,481	1,481	1,481	1,430	1,430	1,430	1,430
ENEL Energie	141	141	141	146	146	146	146
ELECTRICA	841	841	841	877	877	877	752
Salrom	177	177	177	181	181	181	181
Administratia Maritime	175	175	175	216	216	216	216
Equity Holdings	11,247	10,521	10,621	10,034	10,428	10,308	9,786
Net cash	194	1,284	736	1,394	262	262	820
NAV	11,440	11,805	11,357	11,427	10,690	10,570	10,606
NAV per share	1.10	1.14	1.17	1.19	1.19	1.22	1.21
Price per share	0.77	0.73	0.80	0.80	0.90	0.87	0.85
Discount to NAV	-29.9%	-36.6%	-31.4%	-33.0%	-24.6%	-28.7%	-30.0%

PROFIT AND LOSS [RON MILLION]

	Q1 2016	H2 2016	9M 2016	FY 2016	Q1 2017	H2 2017	9M 2017
Gross dividend	0	347	351	353	0	540	724
Net losses	-536	-541	-499	-378	296	159	187
Impairment losses	-30	-41	-43	-122	19	21	36
Interest income	1	3	4	8	6	7	8
Gain on disposal	0	913	926	926	6	0	22
Other items	2	20	22	-110	-4	39	2
NOI	-563	701	761	677	323	766	979
Administration fees	-13	-36	-58	-71	-34	-54	-66
OPEX	-6	-21	-32	-62	-6	-12	-22
Finance costs	0	0	0	0	0	0	0
Tax expense	-4	-104	-101	-97	10	9	16
Net profit	-586	541	571	447	293	709	906
Other income	-31	-189	-154	101	75	107	46
Adj. profit	-617	352	417	548	368	816	953
EPS	-0.06	0.03	0.04	0.06	0.04	0.09	0.11

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Rating	Trigger
Buy	Total return is expected to exceed 20% in the next 12 months
Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10%-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if covering analyst considers new information may change the valuation materially and if this may take more time.
Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

Securities prices:

Prices are taken as of the previous day's close on the home market unless otherwise stated.

Valuations and risks:

Analysis of specific risks to set stock target prices highlighted in our investment case(s) are outlined throughout the report. For details of methodologies used to determine our price targets and risks related to the achievement of the targets referred to in the main body of the report or at [Rating Methodology](https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038) on our website. (https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038)

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