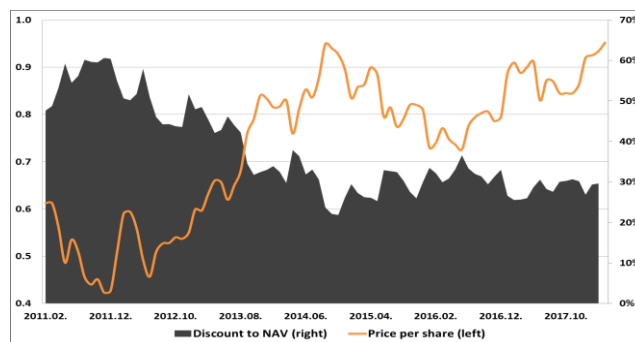


Fondul Proprietatea

Recommendation: Buy

Target price (12M): RON 1.05 (prev. RON 1.00)

	9M 2017	FY 2017	Q1 2018
NAV	10,606	10,790	9,839
NAV per share	1.21	1.24	1.33
Cash per share	0.09	0.17	0.04
% of Net cash	8%	14%	3%
% of Listed equity	30%	36%	30%
Discount to NAV	-30%	-30%	-30%
DIPS	0.08	0.08	0.00
EPS	0.11	0.14	0.04
PM fee per NAV	0.63%	0.58%	0.11%



Share price close as of 15/05/2018	RON 0.968	Bloomberg	FP RO
Market cap. [RON mn/EUR mn]	7,269/1,580	Reuters	FP.BX
Daily turnover 12M [EUR million]	1.6	52 week range	RON 0.68-0.97

No major impact on ENEL's valuation

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- **Q1 results:** Fondul's Q1 results were in line with our expectation and much better than past years. NOI was RON 312 million during the quarter in line with past year's result. G/L from equity investments reached roughly the same level at RON 310. EPS of the quarter was RON 0.04 per share stable y-o-y. NAV decreased to RON 9.8 billion vs. 10.6 billion past year due to the disposals. The discount to NAV increased from 25% to 30%, while the net cash per share reached RON 0.04.
- **ANRE:** The Romanian Energy Regulatory Authority (ANRE) has launched into public debate a draft project to revise the regulated return ratio (RRR), before tax, for electricity distributors from 7.7% to 5.07% starting January 1, 2019. The new provisions are to be applied by the 8 regional distribution monopolies, including the 3 subsidiaries owned by ENEL. The values used by ANRE to calculate the new regulated return ratio are: credit risk premium: 1.35%; average return ratio on risk free investments: 2%; market risk premium: 4.6%. ANRE increased the beta to 0.7x, but the cost of own capital declined to 5.22%, due to the lower risk free rate. The draft project is put into public debate until May 29. We see the increase of the beta from the unrealistically low 0.4x level to 0.7x as a positive sign, while the extremely low RFR is a huge red flag. Since the Romanian 10y bond trades at 4.7% we see the 2% risk free rate depressed.

RRR CALCULATION

	2013-2014	2015-2018	2019F
Risk free rate	6.0%	5.0%	2.0%
Equity risk premium	5.0%	5.0%	4.6%
Credit risk spread	1.35%	1.35%	1.35%
Debt/Capital	50%	60%	60%
D/E	50%	40%	40%
Beta	0.43x	0.43x	0.70x
Cost of equity	8.15%	7.17%	5.22%
Cost of debt (after tax)	7.35%	6.37%	3.35%
RRR calculated	8.5%	7.7%	5.1%

Source: ANRE

- **ENEL:** In August, FP announced that it initiated a competitive process aimed at potential disposals of the Fund's holdings in ENEL. The process is managed by Ithuba Capital acting as the Fund's sole financial adviser in connection with the envisaged transactions. The NAV of the assets declined from RON 1.4 billion to RON 1.3 billion during 2017. Any transaction around NAV of these assets would be very positive however we believe that the likelihood of an event such like that is low, since 1.) the assets are deep in cash but the major shareholder is not paying them out due to legal issues 2.) the current RRR proposal would destroy the investment story of the assets 3.) major discount due to lack of control.
- **ENEL's valuation:** Despite the fact that we see the ENEL assets hard to sell in case of the reduced RRR environment, we wish to highlight that roughly 65% of the NAV is the cash in Muntenia, thus NAV should not decline drastically due to the RRR reduction. Using a significant 20% DLOC we see only 8% lower fair value than the current NAV. In our model we used 5% RFR for the terminal period and zero terminal growth. Since we see the below calculation as the current worth case scenario we believe that the NAV will not decline after the public debate ends. On the other hand, we assume that the distribution companies would reduce the CAPEX level if the RRR decline below the current cost of capital.

ENEL VALUTATION [RON MILLION]

	Base year	2018	2019	2020	2021	Terminal
RAB	4,212	4,216	4,220	4,225	4,231	4,231
RRR	5.3%	7.7%	5.1%	5.1%	5.1%	5.1%
EBIT	221	325	214	214	215	215
DEP	459	459	459	459	459	459
NOPLAT	186	273	180	180	180	180
CAPEX/RAB	15%	11%	11%	11%	11%	11%
CAPEX	612	463	464	464	465	459
FCFF	33	269	175	175	175	180
Cost of capital	8.6%	8.6%	8.7%	8.8%	8.9%	8.9%
EV	2,208					
DLOC	-442	20%				
Net Cash	4,483					
Dividend	-50					
Equity value	6,749					
Fondul's Stake	1,208	18%				
Reported NAV	1,306					
upside/downside	-8%					

Source: Concorde's forecast

- **Recommendation:** We have increased our 12M target price at RON 1.05 per share mainly due to our positive view on Petrom. The delay of Hidroelectrica IPO is in line with our calculation, while we believe that sale of the ENEL assets around NAV would be a significant goal for Fondul we see low likelihood if the RRR decline to 5%. We maintained our Buy recommendation. Last but not least, we would like to highlight that our recommendation and target price might change in the near future due the transfer of coverage.

TOP EQUITY HOLDINGS [RON MILLION]

	9M 2016	FY 2016	Q1 2017	H2 2017	9M 2017	FY 2017	Q1 2018
OMV Petrom	2,625	1,858	2,153	2,018	1,637	1,620	1,801
Romgaz	0	0	0	0	0	0	0
BRD	279	301	313	342	276	286	334
Banca Transilvania	12	21	18	0	0	0	0
Nuclearelectrica	135	132	184	175	202	197	233
Alro	89	85	106	123	146	238	277
Conpet	40	41	59	50	55	52	59
Hidroelectrica	3,269	3,384	3,384	3,384	3,384	3,566	3,566
Bucharest Airport	633	761	761	761	761	774	774
Engie Romania	446	453	453	453	453	472	472
ENEL Distribution	1,481	1,430	1,430	1,430	1,430	1,306	1,306
ENEL Energie	141	146	146	146	146	118	118
ELECTRICA	841	877	877	877	752	0	0
Salrom	177	181	181	181	181	233	233
Administratia Maritime	175	216	216	216	216	230	230
Equity Holdings	10,621	10,034	10,428	10,308	9,786	9,278	9,550
Net cash	736	1,394	262	262	820	1,512	289
NAV	11,357	11,427	10,690	10,570	10,606	10,790	9,839
NAV per share	1.17	1.19	1.19	1.22	1.21	1.24	1.33
Price per share	0.80	0.80	0.90	0.87	0.85	0.86	0.93
Discount to NAV	-31%	-33%	-25%	-29%	-30%	-30%	-30%

PROFIT AND LOSS [RON MILLION]

	9M 2016	FY 2016	Q1 2017	H2 2017	9M 2017	FY 2017	Q1 2018
Gross dividend	351	353	0	540	724	740	0
Net losses	-499	-378	296	159	187	223	310
Impairment losses	-43	-122	19	21	36	27	0
Interest income	4	8	6	7	8	12	3
Gain on disposal	926	926	6	0	22	39	0
Other items	22	-110	-4	39	2	332	-1
NOI	761	677	323	766	979	1,372	312
Administration fees	-58	-71	-34	-54	-66	-63	-11
OPEX	-32	-62	-6	-12	-22	-35	-7
Finance costs	0	0	0	0	0	0	0
Tax expense	-101	-97	10	9	16	16	0
Net profit	571	447	293	709	906	1,290	294
Other income	-154	101	75	107	46	-85	0
Adj. profit	417	548	368	816	953	1,205	294
EPS	0.04	0.06	0.04	0.09	0.11	0.14	0.04

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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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