

# ALPHA FINANCE ROMANIA RESEARCH

## COMPANY REPORT



## FONDUL PROPRIETATEA

Closed-end investment fund

**BUY**

2 November 2016

Last close: RON 0.81

Target price: RON 0.91

### Company Update

RIC: FP.BX	BQ: FP RO	
<b>Target price</b>	<b>RON 0.91</b>	<b>€ 0.20</b>
Previous	RON 0.94	€ 0.21
Total stock return	13%	

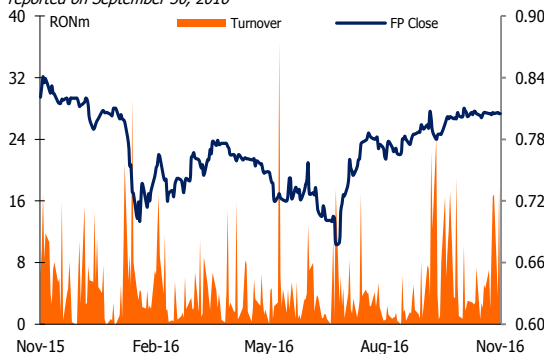
Valuation				
TP discount to reported NAV		-22%		
Last close discount to reported NAV		-31%		
(gross RON/share)	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017e</b>
<b>Return to shareholders</b>	0.05	0.05	0.05	0.10

(RON m)	Reported Val.(E)	AFR Bottom Value	%Δ*	AFR Fair Value
<b>Traded shares, o/w</b>	<b>3,247</b>	<b>2,112</b>	<b>-32%</b>	<b>2,223</b>
Listed - majors	3,221	2,101	-31%	2,211
Listed - others	26	12	-53%	12
<b>Unlisted shares, o/w</b>	<b>7,374</b>	<b>5,210</b>	<b>1%</b>	<b>7,456</b>
Unlisted (privately controlled)	2,932	2,149	5%	3,069
Unlisted (state controlled)	4,437	3,061	-1%	4,385
<b>Portfolio value</b>	<b>10,621</b>	<b>7,322</b>	<b>-9%</b>	<b>9,680</b>
Total assets	11,412	8,873		11,231
<b>NAV**</b>	<b>11,357</b>	<b>8,818</b>		<b>11,176</b>
<b>NAV/share</b>	<b>1.17</b>	<b>0.91</b>		<b>1.15</b>

Trading data	1w	3m	12m	YTD
Performance	0%	4%	-2%	-1%
H   L 52w	0.8440	0.6400		
Mkt. cap.(b)	RON 7.8	€ 1.7		

Shareholding Structure	(% voting rights)
<b>Shares with voting rights (m)</b>	<b>9,708</b>
Bank of New York Mellon (depository bank for GDRs)	37.7%
Foreign institutional shareholders	24.0%
Romanian private investors	20.0%
Romanian institutional shareholders	14.7%
Others	3.7%

\*Δ% AFR Fair value vs. Reported Value estimated for September 2016; \*\*as reported on September 30, 2016



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### Appealing returns. Focus on cash distributions and Hidroelectrica

We reinforce our **BUY** recommendation for Fondul Proprietatea with a target price of RON 0.91 per share revealing an upside potential of 13% against current trading levels.

**Expect FP to deliver appealing two digit returns propped by cash distributions (dividends, capital returns or special distributions) and buyback programs.**

**In 2017 FP will reduce the share nominal value from RON 0.85 to RON 0.57 via two operations.** First, FP intends to reduce the nominal value from RON 0.85 to RON 0.62/share in order to cover the accumulated accounting losses in total amount of RON 2.47b. This operation would entitle FP to resume cash distributions to shareholders. Secondly, FP plans to return to shareholders RON 0.05/share via the reduction of share nominal value from RON 0.62 to RON 0.57. The RON 0.05/share capital return is a special distribution in addition to the annual cash distribution policy.

**Hence, for 2017 expect a RON 0.05/share special distribution (to be paid at the end of March 2017) and an annual cash distribution of at least RON 0.05/share (which could be paid at the end of June 2017) in line with the annual cash distribution policy as part of the fund's strategy to reduce discount to NAV.**

**Appealing cash distributions can only be supported by assets disposals.** Since our previous report, FP sold its entire stake in Romgaz (10% of the company's share capital for RON 997m), liquidated its participation in E.ON subsidiaries (for a confidential amount), partially liquidated its position in banks and recently sold 6.4% of OMV Petrom's share capital via a SPO (for around RON 760m). Current estimated cash position of over RON 1b (following SNP's sale) alongside future dividend income should be enough to support FP's distributions for the next half-year without additional disposals. Further on, bear in mind that with a 360-day lock-up period for Petrom FP's options for liquidating assets are quite limited. A positive surprise could come from a deal with Electrica, but considering previous two rounds of failed negotiations we would be cautious before taking such a deal into consideration.

**Expect Hidroelectrica's IPO to reshuffle portfolio structure as currently is significantly overexposed to unlisted shares (~65%).** Despite prolonged insolvency procedure, Hidroelectrica exit insolvency in June 2016. However, pending litigations that are due to be settled outside insolvency by the Court of Appeal in this autumn **seem to have pushed the expected IPO from late H2'16 to 2017. The closed-end fund has proposed to sell during the IPO a 5% stake and an additional 3.74% participation** (representing subscription rights following the share capital increase) **alongside the 15% stake offered by the state.** This would allow FP to increase its liquidity, while on the downside, portfolio value would further decrease.

Following SNP's price deterioration (market capitalisation fell from RON 19.4b to ~RON 12.8b), **Hidroelectrica became the most valuable FP holding with an estimated equity value of RON 16.4b** (according to FP's March 2016 valuation), implying a value of RON 3.3b for FP's 20% stake (~€726m).

**In the meantime, the 7<sup>th</sup> buyback program started in late September.** The closed-end fund will acquire within current program ~366m FP shares or equivalent GDRs. After the end of this program, FP plans to start another buyback program which should be of a larger size.

Wrapping up, expect FP's management to deliver attractive returns to shareholders via both cash distributions and buybacks propped by an accelerated asset disposal strategy. We do not find the 15% discount to NAV target achievable in the near future, but current portfolio value and management's commitment to enhance shareholders value justify a lower discount to NAV.

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Company update – November 2016

## Investment case

### Fondul Proprietatea target price: RON 0.91/share

*FP should continue to deliver attractive returns...*

We reinforce our **BUY recommendation for Fondul Proprietatea** with a **target price of RON 0.91 per share (vs. RON 0.94/share previously)** revealing an **upside potential of 13%** against current trading levels.

*...propped by cash distributions and buybacks.*

Our valuation provides a price range delimited by a bottom value (RON 0.91/share) and a fair value (RON 1.15/share) of FP's portfolio, implying that FP should trade closer to a 21% discount vs. our fair NAV. We kept unchanged our valuation methodology and AFR NAV is computed based on detailed portfolio as of H1'16, September 2016 NAV, market prices for listed companies and peers comparison for unlisted portfolio.

**Expect Fondul Proprietatea to deliver appealing two digit returns propped by cash distributions (dividends, share capital returns or special cash distributions) and buyback programs.**

*In 2017 expect RON 0.05/share as a special distribution alongside the annual cash distribution of at least RON 0.05/share...*

**In 2017 Fondul Proprietatea will reduce the share nominal value from RON 0.85 to RON 0.57 via two operations.** First, FP intends to reduce the nominal value from RON 0.85 to RON 0.62/share in order to cover the accumulated accounting losses in total amount of RON 2.47b. This operation would entitle FP to resume cash distributions to shareholders. Secondly, FP plans to return to shareholders RON 0.05/share via the reduction of share nominal value from RON 0.62 to RON 0.57. The RON 0.05/share capital return is a special distribution in addition to the annual cash distribution policy.

**Hence, for 2017 expect a RON 0.05/share special distribution (to be paid at the end of March 2017) and an annual cash distribution of at least RON 0.05/share (which could be paid at the end of June 2017) in line with the annual cash distribution policy as part of the fund's strategy to reduce discount to NAV.**

*...supported by massive disinvestments...*

**Appealing cash distributions can only be supported by assets disposals.** Since our previous report, **FP sold its entire stake in Romgaz** (10% of the company's share capital for RON 997m), **liquidated its participation in E.ON subsidiaries** (for a confidential amount), **partially liquidated its position in banks and recently sold 6.4% of OMV Petrom's share capital via a SPO** (for around RON 760m). Current estimated cash position of over RON 1b (following SNP's sale) alongside future dividend income should be enough to support FP's distributions for the next half-year without additional disposals. However, bear in mind that with a 360-day lock-up period for Petrom, FP's options for liquidating assets are quite limited. A positive surprise could come from a deal with Electrica, but considering previous two rounds of failed negotiations we would be cautious before taking such a deal into consideration.

*...while Hidroelectrica IPO could reshuffle FP's portfolio structure...*

**Expect Hidroelectrica's IPO to reshuffle portfolio structure as currently is significantly overexposed to unlisted shares (~65%).** Despite prolonged insolvency procedure, Hidroelectrica exit insolvency in June 2016. However, pending litigations that are due to be settled outside insolvency by the Court of Appeal in this autumn **seem to have pushed expected IPO from late H2'16 to 2017. The closed-end fund has proposed to sell during the IPO a 5% stake and an additional 3.74% participation** (representing subscription rights following the share capital increase) **alongside the 15% stake offered by the state.** This would allow FP to increase its liquidity, while on the downside, portfolio value would further decrease.

*...as it became FP's largest holding.*

Following OMV Petrom's price deterioration (with a market capitalisation that has fallen from RON 19.4b to ~RON 12.8b currently), **Hidroelectrica became the most valuable FP holding with an estimated equity value of RON 16.4b (around €3.6b, according to FP's March 2016 valuation),** implying a value of RON 3.3b for FP's 20% stake (around €726m).

*We expect buybacks to support FP's share price...*

**In the meantime, the 7<sup>th</sup> buyback program started in the last days of September.** The closed-end fund will acquire within current program around 366m FP shares or equivalent GDRs on both BSE and LSE market, within current buyback. After the end of this program, FP plans to start another buyback program which should be of a larger size (up to 10% of subscribed share capital).

*...and discount to NAV to narrow.*

Wrapping up, expect FP's management to deliver attractive returns to shareholders via both cash distributions and buybacks propped by an accelerated asset disposal strategy. We do not find the 15% discount to NAV target achievable in the near future, but current portfolio value and management's commitment to enhance shareholders value justify a lower discount to NAV.



Company update – November 2016

## Recent developments

### Franklin Templeton's mandate

*Shareholders decided upon FT's mandate continuation...*

**During October 31 E&OGSM, shareholders decided upon the continuation of Franklin Templeton International Services as FP's alternative investment fund manager and sole director.**

**During July 1, 2015 – June 30, 2016 the fund's administrator mandate focused on the following strategy:**

- Investment objective:
  - ✓ Maximization of returns and share capital appreciation;
- Investment strategy:
  - ✓ No investments until the discount narrows significantly;
  - ✓ Active management and engagement with current portfolio companies;
  - ✓ Continuing buyback programs and cash distributions;
- Performance Objective:
  - ✗ 15% discount (or less) for at least 2/3 of trading days during July 1, 2015-June 30, 2016;
  - ✓ Higher adjusted NAV/share than the reported NAV per share reported as of June 30, 2015 (RON 1.1851/share);

*...despite the fact that the 15% discount target was not achieved...*

**Main target of 15% discount to NAV has never been achieved**, as during the reported period (July 1, 2015-June 30, 2016) average discount to NAV stood at around 32% (within a range of 25.9% to 40.1%). **Efforts have been made in order to narrow the discount to NAV:** continuation of buyback programs, cash distributions, tender offer, asset disposals, proactive investor relations activities, secondary listing on LSE, implementing a transparent cash distribution policy, supporting new IPOs in order to increase listed companies proportion.

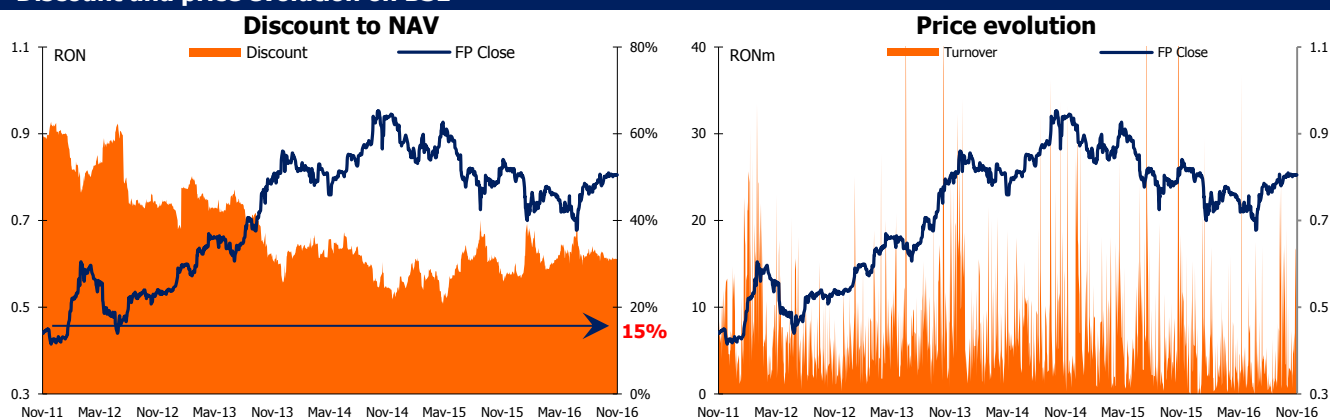
*...while NAV objective was barely reached.*

**On the other hand, NAV objective was achieved as adjusted NAV at June 30, 2016 stood at RON 1.1961/share, just shy over the RON 1.1851/share reported at June 30, 2015.** Bear in mind that adjusted net asset value takes into consideration NAV at the end of reported period, any return to shareholders following the reduction of share capital, less any distribution fees and transaction costs related to non-dividend distributions (including buybacks). Hence, NAV objective was achieved mainly due to RON 516.8m return of capital to shareholders. **In the meantime, during July 1, 2015 and June 30, 2016 FP cashed RON 1.6b proceeds from asset disposals mainly due to Romgaz liquidation (RON 997m for the 10% stake previously owned) and E.ON Distributie Romania & E.ON Energie Romania (which were both valued at RON 636m prior to the transaction, based on March 2016 data).**

*FP's administrators have an incentive fee for accelerated disposals*

**Bear in mind that the fund administrator is entitled to distribution fees from total non-dividend distributions as an incentive for accelerated asset disposals:** 200bps up to March 31, 2017, 150bps between April 1, 2017 and September 30, 2017 and 100bps of distributions concluded between October 1, 2017 and April 1, 2018.

### Discount and price evolution on BSE



Source: BSE, AFR computation based on raw closing prices



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*FP will reduce the share capital value to RON 0.57/share*

**Moreover, Fondul Proprietatea will reduce the share nominal value from RON 0.85 to RON 0.57 via two operations.** First, FP plans to reduce the share nominal value from RON 0.85 to RON 0.62 in order to cover the accumulated accounting losses in total amount of RON 2.47b. **This operation will entitle FP to resume cash distributions to shareholders** as current Romanian regulatory environment requires that all accounting losses must be covered before a cash distribution can be made to shareholders. Secondly, FP will return to shareholders RON 0.05/share via the decrease of share nominal value from RON 0.62 to RON 0.57. **The RON 0.05/share capital return to be paid starting with March 27, 2017 is a special distribution in addition to the annual cash distribution policy.**

*Expect a special distribution of RON 0.05 at the end of March and a regular annual distribution of at least RON 0.05/share somewhere in June*

In the meantime, FP reinforced its annual cash distribution policy as it intends to recommend a cash payment equivalent to 100% of the sum of Fund's dividend income plus interest on cash balances, less expenses and compulsory allocations to reserves, **but not less than RON 0.05 per share. Cash distributions would be paid to shareholders in form of a return of capital (by decreasing nominal value per share) and/or in form of dividends.** Hence, the closed-end fund plans to **propose an annual cash distribution of at least RON 0.05/share to be approved in early 2017 and paid in June 2017.**

**On the long run, we believe that Fondul Proprietatea's main challenge is to generate cash for shareholders in any form (special distributions, dividends, returns of capital) and this can only be achieved through massive disinvestments.**

### GDRs

*Discount to NAV started to be wider on BSE than on LSE*

Since starting trading on LSE market, FP's discount ranged from 27% to 43% (29 April 2015 – November 1, 2016), while on local market discount ranged from 22% to 40% for the same period. Currently, discount to NAV is narrower for GDRs (~29%) vs. shares traded on BSE (~31%). However, it seems like GDRs didn't had a sustained positive impact on narrowing discount to NAV, even though it should have increased visibility of FP on international markets.

In terms of volumes, excluding the large transfer concluded on the first day of trading on LSE (Elliot Advisers sold approximately 140m FP shares) **volumes stand at an average of around 5m FP shares per day** (since GDRs listing up to report date) vs. an average daily volume of 7.2m FP shares on Romanian market during the same period.

### GDRs evolution on LSE



Source: Thomson Reuters, BNR, AFR computation based on raw closing prices

### Buyback programs & returns of capital

*Buyback programs continue...*

**Fondul Proprietatea focused during the last years on rewarding shareholders with cash distributions via share capital decreases and buyback programs.** The closed-end fund concluded so far six buyback programs while the seventh is currently ongoing and the eight should start soon after the completion of the current one, as it was already approved by shareholders.

The 6<sup>th</sup> buyback program execution was accelerated by a public tender offer concluded during August 3 and September 7, 2016 after being initially postponed (at the beginning of the year due to unfavourable market conditions). 575m shares were offered (388.56m shares and 186.44 as equivalent GDRs) at an average price of RON 0.8420/share (equivalent of \$42.10/GDR), implying a 26% discount to June 2016 NAV. This was the widest discount to NAV offered by FP as in the first public tender offer FP offered a 14% discount (price RON 1.0/share in October 2013), while in the second it offered a 11% discount (at a price of RON 1.11/share in October 2014).





### History of buyback programs

<u>Program</u>	<u>Period</u>	<u>Status</u>	<u>No of shares repurchased/ % of FP's issued capital</u>	<u>Average share price</u>	<u>Cancellation of shares</u>
First	May-September 2011	Completed	240.3m / 1.74%	0.4994	Effective as of February 2014
Second	April - December 2013	Completed	1.1b / 7.99%	0.8743	Effective as of September 2014
Third	March - July 2014	Completed	253m / 1.89%	0.8126	Effective as of January 2015
Fourth	October 2014 - February 2015	Completed	991m / 7.32%	1.0557	Effective as of August 2015
Fifth	February -July 2015	Completed	227.6m / 1.86%	0.8501	Effective as of March 2016
Sixth	September 2015 - September 2016	Completed	891.8m / 8.13%	0.8156	Partial / Approved by shareholders
Seventh	Started on 9/29/2015	Ongoing	366.45m	N/A	N/A
Eight	N/A	Approved	up to 10% of share capital	N/A	N/A

Source: Fondul Proprietatea, BSE

Current buyback program had an initial size of 204.8m shares, while following the cancellation of 179.59m shares acquired during the previous program it increased to around 366m FP shares. **We do not expect the ongoing buyback program to be supported by a tender offer due to the relatively small size, but we could see another tender offer during the next buyback.** Bear in mind that the execution of buyback programs is bounded by the 25% limit of average daily trading volumes in the last 20 trading sessions. According to FP's budget proposal, the 7<sup>th</sup> buyback program should conclude in May, while the 8<sup>th</sup> is expected to begin in the third quarter of 2017. Officially

...alongside significant cash distributions.

As far as returns on capital are concerned, as already mentioned, expect a special cash distribution of RON 0.05 per share at the end of March 2017. Moreover, the fund manager plans to propose at the beginning of the year an annual cash distribution of at least RON 0.05/share, which could be paid in late June. Bear in mind that since 2014, FP distributed RON 0.05/share annually via share capital returns as this method offers tax benefits (no tax) and it was the only legal possible option to distribute cash to shareholder as long as accounting losses were not covered.

### Shareholding structure

Elliot Associates owns 21.06% of voting rights

Elliott Associates represent FP's largest investor, holding 21.06% of voting rights, while City of London Investment Mgmt. owns 5.04% of voting rights, according to FP's H1'16 financial report. Bank of New York Mellon (depository for GDRs) reached a 33.3% stake of FP's share capital (equivalent of 37.7% of voting rights). According to FP's October 13, 2016 reported shareholding structure, foreign institutional shareholders reached 21% of subscribed share capital, while their Romanian peers have a 13% stake in FP's subscribed share capital. Romanian private individuals own 17.7%, while foreign individuals 3.2%. Overall, FP has 7,279 investors (vs. 8,605 previously).

<u>Shareholder</u>	<u>% of subscribed share capital</u>	<u>% of paid-up share capital</u>	<u>% of voting rights</u>
Bank of New York Mellon (depository bank for GDRs)	33.3%	34.5%	37.7%
Foreign institutional shareholders	21.2%	21.9%	24.0%
Romanian private investors	17.7%	18.3%	20.0%
Romanian institutional shareholders	13.0%	13.4%	14.7%
Foreign private investors	3.2%	3.3%	3.6%
Fondul Proprietatea	8.3%	8.5%	0.0%
Ministry of Public Finance	3.4%	0.1%	0.1%
Total	100.0%	100.0%	100.0%

Source: Fondul Proprietatea, October 13, 2016; Note: FP's shareholders approved the cancellation of 712m shares during October 10, 2016 EGSM & 179.6m shares are officially canceled



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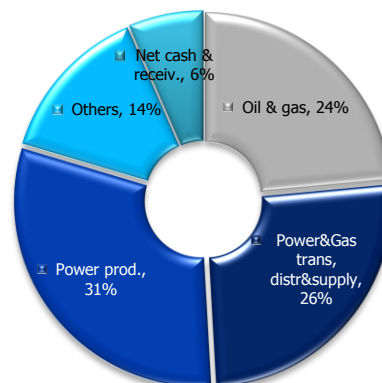
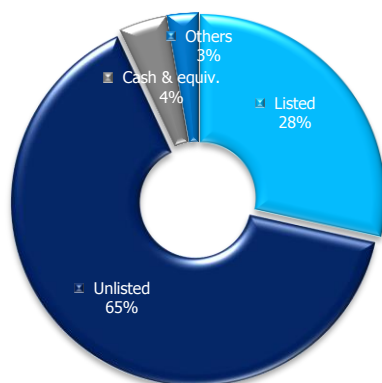
## Portfolio review

*FP continues to be overexposed to OMV Petrom, despite recent SPO*

At September 30, 2016 the Fund's portfolio structure was comprised of 45 companies, out of which 13 were listed and 32 unlisted. The listed equities portfolio accounted for ~29% of September 2016 NAV, while unlisted equities account for around 65% of FP's net asset value. However, adjusting for SNP's SPO concluded in October (for around 6.4% of SNP's share capital) the listed portfolio weight should fall to closer to 20%. **Since our previous report, Hidroelectrica became the most valuable holding, representing 29% of September net asset value**, mostly due to the significant fall in OMV Petrom value.

### Portfolio structure: listed vs. unlisted in Total Assets

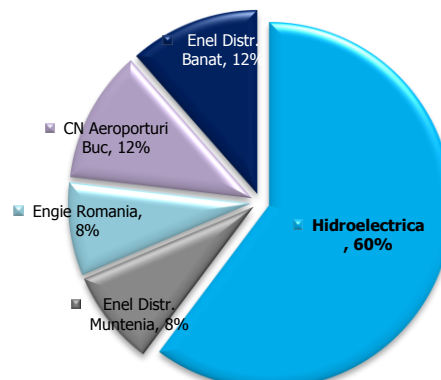
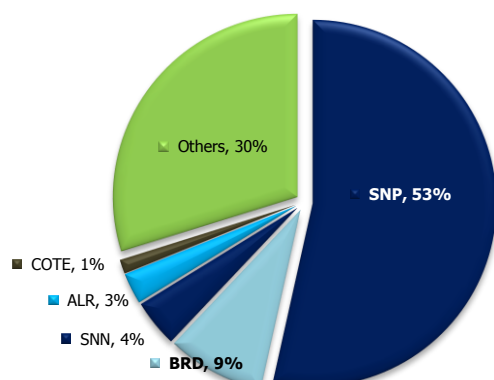
### Portfolio structure by sector in NAV



Source: AFR, FP, based on FP's reported NAV as of September 30, 2016

### Listed portfolio structure

### Unlisted portfolio structure



Source: AFR, FP, based on FP's reported NAV as of September 30, 2016, percentage out of listed/unlisted asset value, **before SNP SPO**

*Since our previous report, major asset disposals: Romgaz, E.ON, banks and SNP...*

**Portfolio structure changed significantly since our previous report as the fund administrator liquidated important participations in order to provide cash for shareholders returns. Hence, major portfolio changes are:**

- **Liquidation of Romgaz stake (10% of share capital)** via two ABBOs performed in October 2015 and June 2016. Fondul Proprietatea cashed around RON 997m from the disposal of SNG participation.
- **Sale of E.ON subsidiaries via a private transaction in June 2016**, namely E.ON Distributie Romania and E.ON Energie Romania, for a confidential amount. However, based on March 31, 2016 portfolio structure, the participations were valued at RON 510.4m (18.34% of share capital) and RON 126.5m (13.39% of share capital), respectively. We expect discount vs. portfolio value to have been higher than the 8% average of previous ABBOs which concluded on the regular market.
- **Partial liquidation of the stakes in banks.** FP sold 74.7m TLV shares on BSE during April-June 2016 reducing its p to 0.18% of TLV's share capital (vs. 2.87% previously) for an estimated value of RON 188m (based on BSE average closing price during that period). Moreover, FP sold in April 24k BRD shares, reducing its stake from 3.64% to 3.63% of BRD's share capital.



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- **Sale of 6.4% of SNP's share capital via a secondary public offer concluded in October, 2016 for around RON 760m.** Key data regarding SNP's SPO:
  - FP sold 3.64b SNP shares (out of which 373.8m shares in form of GDRs) at a final offer price of RON 0.21/share;
  - 3.24b SNP shares were allocated to the institutional tranche, 30m shares to large retail tranche and 364.1m shares to small retail tranche;
  - **FP committed to a lock up period of 360 days;**
  - Total proceeds reached around RON 760m (RON 682m for shares transaction and \$19.2m for GDRs).

### Largest transactions since 2013

<u>Company</u>	<u>Type</u>	<u>Price Announcement</u>	<u>Preference Price - pre ABO announcement RON/share</u>	<u>Placement Price RON/share</u>	<u>Discount</u>	<u>Placement Value RON m</u>
OMV Petrom	ABBO	May 2013	0.44	0.39	11%	246.7
Transgaz	ABBO	December 2013	190.40	172.00	10%	303.5
Romgaz	ABBO	June 2014	35.60	33.50	6%	644.6
Transelectrica	ABBO	July 2014	23.38	21.50	8%	212.7
Conpet	ABBO	November 2014	53.00	48.75	8%	99.8
Romgaz	ABBO	October 2015	30.45	28.50	6%	456.0
Romgaz	ABBO	April 2016	26.05	24.00	8%	541.0
E.ON	private placement	June 2016	N/A	confidential	N/A	confidential
SNP	SPO	October 2016	0.244	0.210	14%	760
<b>TOTAL</b>						<b>RON 3,264m*</b>

Source: Fondul Proprietatea, BSE, AFR; \*does not include E.ON deal transaction

**On the other hand, negotiations with Electrica to sell the closed-end fund's stake in Electrica's subsidiaries have failed twice as parties have not reached an agreement regarding price.** We might see another round of negotiations in the future as both parties have agreed that there are benefits to such a transaction. However, we do not expect it to happen in near term. Should it conclude, expect a massive cash infusion for FP (subsidiaries are currently valued at RON 841m in FP's NAV) and lower further dividend income (for 2016 dividends from the four subsidiaries reached RON 106m).

*...while further on, expect Hidroelectrica IPO to change portfolio structure.*

**Forward looking we expect Fondul Proprietatea's portfolio structure to change significantly as massive disposals must continue in order to support constant cash distributions to shareholders. Moreover, we should see the unlisted portfolio share significantly decreasing following Hidroelectrica's pending IPO.** The company exit insolvency procedure in June, while pending litigations that are due to be settled outside insolvency by the Court of Appeal (as final court) in this autumn **seem to have pushed the expected IPO from late H2'16 to 2017.** According to FP's representatives, the closed-end fund has proposed to sell during the IPO a 5% stake and an additional 3.74% participation representing subscription rights of FP following the share capital increase process alongside the 15% offered by the state. Moreover, FP advocates for Hidroelectrica's dual listing on both BSE and LSE in order to provide more visibility of the company.

*On the other hand, other IPOs (except Hidroelectrica) seem rather unlikely.*

**To continue on a positive tone, according to a Government memorandum published this fall, IPOs of several state owned companies are back on focus.** Should they materialise, expect FP to increase its liquidity (via a higher listed companies share) and to narrow its discount to NAV. Hence, according to the memorandum, for Hidroelectrica and CE Oltenia a 15% and a 15.29% stake, respectively, are expected to be subject to IPOs, while for CN Aeroporturi Bucuresti and CNAPM Constanta a 20-25% participation is considered. Moreover, according to the document, the State considers as an option the acquisition of all or part of FP's participation in Societatea Nationala a Sarii, in order to consolidate its position. However, any decision regarding Societatea Nationala a Sarii should be preceded by a change in the legal framework to allow the state to acquire shares. **We appreciate Government intentions of resuming discussions regarding future IPOs, but besides Hidroelectrica, other listings seem rather unlikely in the near future.**





### Valuation

#### Valuation methodology

Our valuation provides a price range delimited by a bottom value (RON 0.91 per share) and a fair value (RON 1.15 per share). Our bottom value reveals a 22% discount to official NAV while AFR fair value reveals a mere 2% discount.

We kept unchanged our valuation methodology and AFR NAV is computed based on the detailed portfolio as of H1'16 adjusted with the closed-end fund's disclosed information regarding major transactions, September 30, 2016 NAV report and FY'15 financial results for portfolio companies. We have filled in closing prices as of November 1, 2016 for all listed companies.

For **AFR Bottom NAV** valuation, we have applied the following methodology:

- For listed shares: BSE market values as of November 1, 2016, discounted by 5%, except for those not traded in the last 30 days, for which FP's portfolio value was considered, discounted by 5%;
- For privately held unlisted shares: relative valuation method based on FY'16 EPS, EBITDA and BV peers multiples estimates, if available, otherwise LFY as well as sum-of-parts to reach their fair realisable values. For Electrica's subsidiaries: we value EL's subsidiaries based on our equity valuation according to our October 12, 2016 update. We applied a 30% discount to fair value in order to account for FP's minority position, lack of liquidity and lower transparency;
- For state controlled unlisted companies: relative valuation method based on FY'16 EPS, EBITDA and BV peers multiples estimates, if available, otherwise LFY as well as sum-of-parts to reach their fair realisable values. We applied a 50% discount to fair value in order to account for low transparency and poor management for state controlled companies, except Hidroelectrica, for which we applied a 20% discount due to the pending IPO and massive restructuring;
- For others: we used FP's fair value for companies with losses and/or for companies where peers valuation is not reliable.

For **AFR Fair NAV** valuation, we have applied the following methodology:

- For listed shares: BSE market values as of November 1, 2016, except for those not traded in the last 30 days, for which FP's portfolio value was considered.
- For unlisted companies: relative valuation method based on FY'16 EPS, EBITDA and BV peers multiples as well as sum-of-parts to reach their fair realisable values. We value EL's subsidiaries based on our equity valuation according to our October 12, 2016 update.
- For others: we used FP's fair value for companies with losses and/or for companies where peers valuation is not reliable.

**We use AFR Bottom Value NAV as our target price for FP.**



## Company update – November 2016

### Listed companies valuation

(RONm)	Current Mrk Cap	FP's stake	Reported Value (E)	AFR bottom Value	AFR Fair Value	%Δ**	Portfolio weight***	Sector
OMV Petrom	12,830	13%	1,737	1,532	1,612	-7%	21%	Oil&Gas
BRD-Groupe Societe Generale	7,708	4%	279	266	281	1%	4%	Banking
Nuclearelectrica	1,480	9%	135	128	135	-1%	2%	Power generation
Alro Slatina	871	10%	89	84	89	0%	1%	Aluminium production
Conpet	691	6%	40	40	42	4%	1%	Oil transport via pipelines
Romaero	113	21%	24	22	24	0%	0%	Air/spacecraft machinery
Banca Transilvania	8,605	0%	13	15	13	0%	0%	Banking
Primcom	17	68%	13	11	13	0%	0%	Real estate
Oil Terminal	56	6%	4	3	4	-1%	0%	Cargo handling
Others (4 companies)	44		12	12	12	0%	0%	Others
<b>Total listed</b>			<b>2,345</b>	<b>2,112</b>	<b>2,223</b>	<b>-5%</b>	<b>29%</b>	

### Unlisted - privately controlled companies valuation

(RONm)	Total Value*	FP's stake	Reported Value*	AFR bottom Value	AFR Fair Value	%Δ**	Portfolio weight***	Sector
Enel Distribuție Banat	2,587	24%	624	438	626	0%	6%	Power distribution
Engie România	3,721	12%	446	396	566	27%	5%	Gas supply
Enel Distribuție Muntenia	3,795	12%	455	344	491	8%	5%	Power distribution
Enel Distribuție Dobrogea	1,665	24%	401	295	422	5%	4%	Power distribution
Electrica Distr. Transilvania Nord	980	22%	216	150	214	-1%	2%	Power distribution
Electrica Distr. Muntenia Nord	1,155	22%	254	148	211	-17%	2%	Power distribution
Electrica Distr. Transilvania Sud	1,011	22%	222	135	193	-13%	2%	Power distribution
Electrica Furnizare	680	22%	150	131	187	25%	2%	Power supply
Enel Energie	638	12%	77	50	72	-6%	1%	Power supply
Enel Energie Muntenia	533	12%	64	44	63	-1%	1%	Power supply
Others	25		24	17	24	0%	0%	
<b>Total unlisted - privately controlled</b>			<b>2,932</b>	<b>2,149</b>	<b>3,069</b>	<b>5%</b>	<b>29%</b>	

### Unlisted - State controlled companies valuation

(RONm)	Total Value*	FP's stake	Reported Value*	AFR bottom Value	AFR Fair Value	%Δ**	Portfolio weight***	Sector
Hidroelectrica	16,394	20%	3,269	2,312	2,890	-12%	32%	Hydro power generation
C.N. Aeroporturi Bucuresti	3,162	20%	632	335	671	6%	5%	Airports services
C.N.A. Porturilor Maritime	1,057	20%	211	189	378	79%	3%	Ports services
SN a Sarai	362	49%	177	89	177	0%	1%	Salt extraction
Complexul Energetic Oltenia	292	22%	63	79	158	152%	1%	Thermal Power Generation
Posta Romana	235	25%	59	27	55	-7%	0%	Post services
CNA Canalelor Navigabile	86	20%	17	14	29	67%	0%	Ports services
Aeroportul Int. Traian Vuia	13	20%	3	5	10	285%	0%	Airports services
Aeroportul Int. M. Kogalniceanu	8	20%	2	5	10	528%	0%	Airports services
CNA Porturilor Dunarii Fluviale	15	20%	3	2	4	32%	0%	Ports services
CNA Porturilor Dunarii Maritime	15	8%	1	2	3	188%	0%	Ports services
Plafar	4	49%	2	1	2	0%	0%	Plants
<b>Total unlisted - State controlled</b>			<b>4,439</b>	<b>3,061</b>	<b>4,387</b>	<b>-1%</b>	<b>42%</b>	

**Total listed** 2,345 2,112 2,223

**Unlisted, of which:**  
State control 2,932 2,149 3,069  
Private control 4,439 3,061 4,387

**PORTFOLIO VALUE** 9,717 7,321 9,680

Source: FP, BSE, Thomson One, EMIS, AFR estimates; \*Value as reported by FP; \*\*%ΔAFR Fair value vs. Reported value; \*\*\*weight based on AFR Bottom Value  
 Note: Reported Value (E) estimates for the end of September value according to official methodology, based on H1'16 portfolio data and September 2016 NAV



### Valuation summary

*We see discount to NAV approaching 22% vs. 31% currently*

**AFR Bottom Value emerges at RON 0.91 implying a 22% discount to official NAV and an upside potential of 13% against current trading levels.**

AFR Bottom NAV is ~3% lower compared to our last report on the back of significant changes in portfolio structure. Since our previous report, value of listed companies has significantly dropped (mostly due to OMV Petrom market capitalisation fall from RON 19.4b to ~RON 12.8b currently, the sale of 6.4% of SNP's share capital, sale of SNG stake and partial liquidation of banks participation), unlisted privately controlled companies value decreased due to E.ON subsidiaries sale, while on the other hand, value of unlisted state controlled companies increased (mostly following Hidroelectrica's exit from insolvency) and cash position significantly improved (estimated at over RON 1b following SPO proceeds).

**AFR Fair Value reaches RON 1.15 per share, implying a mere 2% discount to officially reported NAV and implies a hefty 43% discount of current market price share.**

Fondul Proprietatea: AFR NAV estimations			
(RONm)	<u>Reported Value (E)</u>	<u>AFR Bottom value</u>	<u>AFR Fair value</u>
<b>Traded shares, o/w</b>	<b>3,247</b>	<b>2,112</b>	<b>2,223</b>
Listed - majors	3,221	2,101	2,211
Listed - others	26	12	12
<b>Unlisted shares, o/w</b>	<b>7,374</b>	<b>5,210</b>	<b>7,456</b>
Unlisted - majors (privately controlled)	2,932	2,149	3,069
Unlisted - majors (state controlled)	4,437	3,061	4,385
Unlisted- others	4	1	2
<b>Portfolio value</b>	<b>10,621</b>	<b>7,322</b>	<b>9,680</b>
Cash&cash equivalents	484	1,244	1,244
Other assets	307	307	307
<b>Total assets</b>	<b>11,412</b>	<b>8,873</b>	<b>11,231</b>
Liabilities	55	55	55
<b>Reported NAV *</b>	<b>11,357</b>		
<b>AFR NAV</b>		<b>8,818</b>	<b>11,176</b>
No of shares (m)	9,708		
<b>NAV/share (reported)</b>	<b>1.1698</b>		
<b>AFR NAV/share</b>		<b>0.91</b>	<b>1.15</b>
<b>Upside/downside potential</b>		<b>13%</b>	<b>43%</b>

Source: Fondul Proprietatea, Thomson One, EMIS, AFR estimates

\* reported NAV as of September 30, 2016; Note: Reported Value (E) are estimates for September 2016 portfolio based on last reported NAV structure

*Hidroelectrica IPO to reshuffle FP's portfolio structure*

**We expect Hidroelectrica's IPO to reshuffle FP's portfolio structure and reduce exposure to unlisted companies.** We expect FP to sell at least 5% of Hidroelectrica during the IPO or soon afterwards, if it doesn't reach an agreement with the State.

**Hidroelectrica achieved in the last years, during insolvency procedure, outstanding performance with EBIT margin jumping from negative territory in 2012 (and only 5% in 2011) to around 35% in 2015. Strong results were achieved due to significant costs reduction and efficiency improvements.** Hence, in FY'15 the company posted a RON 2.1b EBITDA, roughly in line with previous year data, despite a 6.5% Y/Y lower turnover due to pressured power prices. Overall, FY'15 bottom line stood at RON 899m, implying a strong 28% profit margin. In the meantime, the company significantly reduced its debt and improved the company's liquidity position, reaching at the end of 2015 a net debt position of -RON 563m vs. RON 2.4b in 2011.

Meanwhile, during the first nine months of the year, the company posted an EBT of RON 1.13b, 30% higher compared to the same period of last year as strong production in September pushed January-September output 5.2% higher Y/Y.

*The IPO value is estimated at around €500m (15% stake)*

**For now, we value Hidroelectrica based on peer multiples considering FY'15 results. Our valuation reveals a fair value of RON 14.5b (around €3.2b),** which translates into a fair value of RON 2.89b (~€640m) for FP's stake and implies an IPO value of up to €500m (15% stake). According to FP's latest estimates, Hidroelectrica's portfolio value is ~€725m, implying an IPO value of €546m for the 15% stake.



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### Hidroelectrica

(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Installed capacity (MW)	6,434	x 1.2		8,266.3
Net profit, LFY	899	x 14.8		13,293.5
EBITDA, LFY	2,100.3	x 6.8	14,195.1	14,757.9
Net debt, LFY	-562.8			
Book value, LFY	18,032.3	x 1.2		21,652.4
			<b>AFR Equity Value</b>	<b>14,492.5</b>

Peers	Country	Installed cap (MW)	Mkt cap (€m)	P/E	EV/MW	EV/EBITDA	P/B
CEZ as	Czech Republic	12,631	9,011	12.98	1.10	6.12	0.91
Energa SA	Poland	1,400	768	5.66	1.36	4.39	0.38
Iberdrola SA	Spain	45,034	39,516	15.46	1.62	9.12	1.00
E.ON SE	Germany	45,335	13,356	15.62	0.71	4.88	2.47
RWE AG	Germany	44,000	8,738	14.84	0.79	4.02	1.16
Enel SpA	Italy	89,000	39,868	11.62	1.01	6.65	1.13
Ayen Enerji AS	Turkey	472	209	N/M	1.30	11.10	2.94
Akenerji Elektrik Uretim AS	Turkey	1,292	205	N/M	0.68	0.00	0.22
Verbund AG	Austria	9,400	2,589	18.27	0.93	6.86	1.05
Fortum Oyj	Finland	4,758	13,499	23.81	2.32	11.73	1.00
Alpiq Holding AG	Switzerland	2,674	2,362	N/M	1.36	9.46	0.96
<b>Average of peers</b>				<b>14.78</b>	<b>1.20</b>	<b>6.76</b>	<b>1.20</b>

Source: Thomson One, EMIS, AFR calculations, based on FY'16 ratio estimates when available, otherwise LFY, Closing prices as of November 1, 2016

Peers @ FY'15	EBIT Margin	Net Profit margin	ROE	Dividend yield
CEZ as	18%	10%	8%	9%
Energa SA	15%	10%	10%	4%
Iberdrola SA	13%	8%	6%	0%
E.ON SE	3%	-3%	8%	6%
RWE AG	9%	4%	17%	0%
Enel SpA	10%	1%	9%	4%
Ayen Enerji AS	20%	13%	0%	0%
Akenerji Elektrik Uretim AS	-6%	-29%	-33%	0%
Verbund AG	17%	6%	6%	3%
Fortum Oyj	27%	27%	6%	8%
Alpiq Holding AG	1%	-11%	1%	0%
<b>Average</b>	<b>11%</b>	<b>3%</b>	<b>3%</b>	<b>3%</b>
Hidroelectrica	35%	28%	5%	N/A

Source: Thomson One, EMIS, AFR calculations; based on end of period closing prices

*Hidroelectrica has higher margins mostly because its peers have vertically integrated businesses*

*CE Oltenia, on the other hand, is still under significant financial distress...*

**CE Oltenia posted disappointing results for 2015 as bottom line fell in negative territory for the second consecutive year to -RON 961m vs. -RON 694m previously.** We value CE Oltenia based on peer multiples. However, due to high CAPEX requirements, poor management performance, significant losses, low productivity we apply a hefty discount of 70%. **Thus, our valuation reveals a fair value of RON 735m, implying that FP's stake is worth ~RON 158m.** Fondul Proprietatea downwardly adjusted CE Oltenia's stake value from RON 108m to RON 62.8m currently (December 2015 revaluation). We do not expect an IPO in the near future as the company needs significant restructuring. However, on the bright side, first steps have already been made, as according to restructuring plans for the next 5 years, staff number should be reduced by around 5,000 people (2,000 layoffs in 2016, 2,000 in 2017 and



## Company update – November 2016

1,000 afterwards). According to FP's data, profitability turned into positive territory in Q1'16 when it posted a RON 149m EBT vs. -RON 20m previously.

CE Oltenia					
(RONm)	Company data	Multiples	Implied EV	Implied Equity Value	
Net profit, LFY	-961	x 11.2		N/M	
EBITDA, LFY	327.1	x 5.9	1,913.7	N/M	
Net debt, LFY	2,275.0				
Book value, LFY	3,908.3	x 0.6		2,451.4	
Discount				70%	
AFR Equity Value				735.4	
Peers	Country	Mkt cap (€m)	P/E	EV/EBITDA	P/B
CEZ as	Czech Republic	9,011	12.98	6.12	0.91
Iberdrola SA	Spain	39,516	15.46	9.12	1.00
PGE Polska Grupa Energetyczna SA	Poland	4,430	7.47	4.05	0.45
Public Power Corporation SA	Greece	680	8.12	4.89	0.11
Tauron Polska Energia SA	Poland	1,071	4.98	4.06	0.26
Verbund AG	Austria	2,589	18.27	6.86	1.05
Average of peers			11.21	5.85	0.63

Source: Thomson One, EMIS, AFR calculations, based on FY'16 ratio estimates when available, otherwise LFY, Closing prices as of November 1, 2016

Peers @ FY'15	EBITDA Margin	Net Profit margin	ROE	Dividend yield
CEZ as	33%	10%	8%	9%
Iberdrola SA	23%	8%	6%	0%
PGE Polska Grupa Energetyczna SA	60%	-11%	10%	2%
Public Power Corporation SA	18%	-2%	-2%	0%
Tauron Polska Energia SA	21%	-10%	11%	3%
Verbund AG	37%	9%	6%	3%
<b>Average</b>	<b>32%</b>	<b>1%</b>	<b>6%</b>	<b>3%</b>
CE Oltenia	12%	-36%	-22%	N/A

Source: Thomson One, EMIS, AFR calculations, based on end of period closing prices

..and it underperforms compared to peers.

Energy and gas supply & distribution account for around RON 2.9b in reported NAV

Electrica's subsidiaries still represent a significant holding

**Around RON 2.5b is invested in power distribution and supply companies, while FP's investments in gas distribution equities account for ~RON 450m following the sale of E.ON subsidiaries.** We value power and gas companies based on peers multiples taking into consideration 2015 net profit, EBITDA and net debt. Energy distribution and supply are covered by Electrica's and Enel's subsidiaries, while gas supply segment is represented by Engie Romania (previous GDF).

**Negotiations for selling minority stakes held in Electrica's subsidiaries failed twice as parties have not reached an agreement on price.** Although both parties seem willing to restart negotiations, we are reluctant in estimating a time table. FP values Electrica's holdings at ~RON 841m, while for Electrica, minority stakes worth RON 790m (including the RON 106m FY'15 dividends that should have been received). We value Electrica stakes based on our October 12, 2016 DCF valuation. **Hence, we estimate FP's stakes in EDMN, EDTS, EDTN and Electrica Furnizare at around RON 792m.**





Enel Distributie Banat				
(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	158	x 11.3		1,789.7
EBITDA, LFY	327.3	x 6.5	2,124.0	3,302.4
Net debt, LFY	-1,178.3			
Book value, LFY	2,548.7	x 1.1		2,689.3
AFR Equity Value				2,593.8

Enel Distributie Muntenia				
(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	238	x 11.3		2,697.1
EBITDA, LFY	449.5	x 6.5	2,917.1	5,029.9
Net debt, LFY	-2,112.8			
Book value, LFY	4,311.4	x 1.1		4,549.4
AFR Equity Value				4,092.1

Enel Distributie Dobrogea				
(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	115	x 11.3		1,301.3
EBITDA, LFY	253.0	x 6.5	1,641.8	2,205.7
Net debt, LFY	-564.0			
Book value, LFY	1,656.3	x 1.1		1,747.7
AFR Equity Value				1,751.6

Peers	Country	Mkt cap (€m)	P/E	EV/EBITDA	P/B
Iberdrola SA	Spain	39,516	15.46	9.12	1.00
Endesa SA	Spain	20,510	16.05	7.18	2.21
EDP Energias de Portugal SA	Portugal	9,301	11.85	8.20	1.20
Enel SpA	Italy	39,868	11.62	6.65	1.13
Electricite de France SA	France	21,542	5.78	3.94	0.59
Enea SA	Poland	1,022	5.63	4.20	0.35
CEZ as	Czech Republic	9,011	12.98	6.12	0.91
Average of peers			11.34	6.49	1.06

Source: Thomson One, EMIS, AFR calculations, based on FY'16 ratio estimates when available, otherwise LFY, Closing prices as of November 1, 2016

Peers @ FY'15	EBIT Margin	Net Profit margin	ROE	Dividend yield
Iberdrola SA	13%	8%	6%	0%
Endesa SA	9%	6%	12%	6%
EDP Energias de Portugal SA	13%	9%	11%	4%
Enel SpA	12%	5%	9%	4%
Electricite de France SA	12%	2%	13%	8%
Enea SA	14%	-4%	8%	0%
CEZ as	18%	10%	8%	9%
Average	13%	5%	10%	4%
Enel Distributie Banat	30%	26%	6%	N/A
Enel Distributie Muntenia	27%	26%	6%	N/A
Enel Distributie Dobrogea	27%	23%	7%	N/A

Source: Thomson One, EMIS, AFR calculations, based on end of period closing prices

Enel Distributie Muntenia is the most valuable company from this group of energy distributors

Enel distribution subsidiaries are highly profitable, outperforming peers



## Company update – November 2016

*FPs' stake in Enel's subsidiaries accounts for around RON 1.5b*

**Our valuation for the three Enel distribution subsidiaries reveals a cumulated fair value of around RON 1.54b for FP's stakes** roughly in line with FP's valuation. All three distribution companies have high profitability margins, outperforming their peers: EBIT margin of ~28% vs. an average of 13% of peers and net profit margins of ~25% vs. 5% average of peers.

On the other hand, energy supply side seems less appealing, as margins are lower and competition is tougher on this segment as market liberalisation unfolds. Based on peer comparison, **FP's stake in Enel Energie and Enel Energie Muntenia is estimated at RON 135m** vs. RON 141m as reported by FP.

### Enel Energie

(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	35	x 10.4		361.9
EBITDA, LFY	62.6	x 6.0	377.3	895.0
Net debt, LFY	-517.7			
Book value, LFY	515.9	x 1.0		541.0
AFR Equity Value				599.3

### Enel Energie Muntenia

(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	25	x 10.4		258.9
EBITDA, LFY	46.6	x 6.0	281.2	816.2
Net debt, LFY	-535.0			
Book value, LFY	482.0	x 1.0		505.5
AFR Equity Value				526.9

Peers	Country	Mkt cap (€m)	P/E	EV/EBITDA	P/B
Enel SpA	Italy	39,868	11.62	6.65	1.13
EDP Energias de Portugal SA	Portugal	9,301	11.85	8.20	1.20
PGE Polska Grupa Energetyczna SA	Poland	4,430	7.47	4.05	0.45
Tauron Polska Energia SA	Poland	1,071	4.98	4.06	0.26
Endesa SA	Spain	20,510	16.05	7.18	2.21
Average of peers			10.39	6.03	1.05

*Source: Thomson One, EMIS, AFR calculations, based on FY'16 ratio estimates when available, otherwise LFY, Closing prices as of November 1, 2016*

*Lower margins for Enel' supply subsidiaries are justified by the different business model: only supply vs. integrated businesses of peers*

Peers @ FY'15	EBIT Margin	Net Profit margin	ROE	Dividend yield
Enel SpA	12%	5%	9%	4%
EDP Energias de Portugal SA	13%	9%	11%	4%
PGE Polska Grupa Energetyczna SA	19%	-11%	10%	2%
Tauron Polska Energia SA	11%	-10%	11%	4%
Endesa SA	9%	6%	12%	5%
<b>Average</b>	<b>13%</b>	<b>0%</b>	<b>11%</b>	<b>4%</b>
Enel Energie	2%	2%	7%	N/A
Enel Energie Muntenia	1%	1%	5%	N/A

*Source: Thomson One, EMIS, AFR calculations, based on end of period closing prices*



Engie Ro					
(RONm)	Company data	Multiples	Implied EV	Implied Equity Value	
Net profit, LFY	372	x 13.9		5,160.4	
EBITDA, LFY	511.3	x 6.9	3,512.8	3,579.4	
Net debt, LFY	-66.6				
Book value, LFY	3,725.5	x 1.5		5,421.9	
AFR Equity Value				4,720.6	
Peers	Country	Mkt cap (€m)	P/E	EV/EBITDA	P/B
Engie SA	France	31,999	12.67	6.07	0.73
E.ON SE	Germany	13,356	15.62	4.88	2.47
RWE AG	Germany	8,738	14.84	4.02	1.16
Snam SpA	Italy	16,816	16.11	11.80	2.17
Gas Natural SDG SA	Spain	17,994	13.48	7.57	1.21
Aygaz AS	Turkey	961	8.21	8.84	1.17
Hera SpA	Italy	3,472	17.65	7.22	1.44
Iren SpA	Italy	1,934	12.44	4.56	1.29
Average of peers			13.88	6.87	1.46

Source: Thomson One, EMIS, AFR calculations, based on FY'16 ratio estimates when available, otherwise LFY, Closing prices as of November 1, 2016

Peers @ FY'15	EBIT Margin	Net Profit margin	ROE	Dividend yield
Engie SA	9%	-7%	6%	6%
E.ON SE	3%	-5%	8%	6%
RWE AG	7%	-3%	17%	0%
Snam SpA	50%	31%	16%	5%
Gas Natural SDG SA	13%	7%	11%	5%
Aygaz AS	4%	7%	17%	11%
Hera SpA	10%	4%	8%	4%
Iren SpA	12%	5%	7%	4%
Average	13%	5%	11%	5%
Engie RO	8%	8%	10%	N/A

Source: Thomson One, EMIS, AFR calculations, based on end of period closing prices

Following the sale of E.ON subsidiaries, gas segment represents ~RON 566m

Gas segment is represented by Engie Romania (former GDF Suez Romania) following the sale of E.ON subsidiaries. **Based on peer valuation, FP's stake in Engie Romania is estimated at RON 566m (12% of the company's share capital) vs. FP's reported value of RON 446m.**

**As far as airports are concerned, the only airport that draws our attention is C.N. Aeroporturi Bucuresti. For 2015, the company reported a strong net profit RON 179m, 81% higher Y/Y on the back of a 12% Y/Y increase in sales.** In the first six months of 2016 passenger traffic increased 16.5% compared to the same period of last year to 4.9m, while freight traffic advanced 11% Y/Y to 16.6k tones. Since our previous report, Fondul Proprietatea updated its portfolio value for C.N. Aeroporturi Bucuresti from RON 498m at the end of 2015 to RON 632m at the end of June. Based on peer multiples, our valuation implies an equity value of around RON 3.35b, equivalent to RON 671m for FP's 20% stake.



C.N. Aeroporturi Bucuresti					
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value
Net profit, LFY	179	x	18.3		3,270.3
EBITDA, LFY	332.8	x	9.9	3,279.3	3,435.7
Net debt, LFY	-156.5				
Book value, LFY	4,191.9	x	2.6		N/M

**AFR Equity Value 3,353.0**

Aeroportul International M. Kogalniceanu Constanta					
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value
Net profit, LFY	0	x	18.3		N/M
EBITDA, LFY	3.7	x	9.9	36.8	50.6
Net debt, LFY	-13.9				
Book value, LFY	18.4	x	2.6		48.2

**AFR Equity Value 49.4**

Aeroportul International Timisoara Traian Vuia					
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value
Net profit, LFY	1	x	18.3		N/M
EBITDA, LFY	5.2	x	9.9	50.9	43.6
Net debt, LFY	7.3				
Book value, LFY	21.8	x	2.6		57.1

**AFR Equity Value 50.4**

Peers	Country	Mkt cap (€m)	P/E	EV/EBITDA	P/B
Aeroports de Paris SA	France	9,109	22.36	10.14	2.12
Fraport Frankfurt Airport Services Work	Germany	5,000	17.03	8.92	1.36
Aena SA	Spain	20,063	18.70	12.58	3.99
Flughafen Zuerich AG	Switzerland	5,147	23.07	10.96	2.47
Atlantia SpA	Italy	18,430	17.80	9.49	2.62
Deutsche Lufthansa AG	Germany	5,461	4.96	2.33	1.07
Save SpA	Italy	990	24.13	14.55	4.70
<b>Average of peers</b>			<b>18.29</b>	<b>9.85</b>	<b>2.62</b>

Source: Thomson One, EMIS, AFR calculations, based on FY'16 ratio estimates when available, otherwise LFY, Closing prices as of November 1, 2016

Peers @ FY'15	EBIT Margin	Net Profit margin	ROE	Dividend yield
Aeroports de Paris SA	26%	15%	11%	2%
Fraport Frankfurt Airport Services Wor	20%	11%	8%	2%
Aena SA	37%	24%	21%	3%
Flughafen Zuerich AG	28%	18%	10%	4%
Atlantia SpA	42%	18%	13%	4%
Deutsche Lufthansa AG	5%	5%	35%	1%
Save SpA	34%	19%	14%	4%
<b>Average</b>	<b>27%</b>	<b>16%</b>	<b>16%</b>	<b>3%</b>

C.N. Aeroporturi Bucuresti	29%	24%	4%	N/A
A.I. M. Kogalniceanu Constanta	0%	0%	0%	N/A
A.I. Timisoara Traian Vuia	4%	3%	4%	N/A

Source: Thomson One, EMIS, AFR calculations, based on end of period closing prices

Aeroporturi Bucuresti operates at higher margins vs. peers



## Company update – November 2016

*C.N.A. Porturilor Maritime stands out...*

We value businesses related to port industry based on peer multiples. Among the four companies from this group, **Administratia Porturilor Maritime Constanta stands out with an equity value of RON 1.89b**, implying an estimated value of ~RON 380m for FP's 19.99% stake. The company posted for FY'15 a net profit of RON 97.4m, 38 higher Y/Y (implying a net margin of ~34%) propped by a 4% Y/Y advance in sales (to RON 286m).

### C.N.A. Porturilor Maritime

(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	97	x 19.9		1,942.6
EBITDA, LFY	159.4	x 17.3	2,755.5	3,044.2
Net debt, LFY	-288.8			
Book value, LFY	493.6	x 1.4		687.1
AFR Equity Value				1,891.3

### C.N.A. Canalelor Navigabile

(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	3	x 19.9		67.7
EBITDA, LFY	11.7	x 17.3	202.7	239.9
Net debt, LFY	-37.2			
Book value, LFY	89.3	x 1.4		124.3
AFR Equity Value				144.0

### C.N.A. Porturilor Dunarii Fluviale

(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	0	x 19.9		4.9
EBITDA, LFY	1.8	x 17.3	30.9	30.3
Net debt, LFY	0.7			
Book value, LFY	17.4	x 1.4		24.3
AFR Equity Value				19.8

### C.N.A. Porturilor Dunarii Maritime

(RONm)	Company data	Multiples	Implied EV	Implied Equity Value
Net profit, LFY	1	x 19.9		26.3
EBITDA, LFY	4.6	x 17.3	79.9	83.8
Net debt, LFY	-3.8			
Book value, LFY	16.4	x 1.4		22.8
AFR Equity Value				44.3

Peers	Country	Mkt cap (€m)	P/E	EV/EBITDA	P/B
Thessaloniki Port Authority SA	Greece	185	10.35	4.03	1.46
Sutton Harbour Holding PLC	UK	32	17.05	24.51	0.62
Bremer Lagerhaus Gesellschaft Aktiengesellschaft	Germany	61	35.60	42.04	3.15
Piraeus Port Authority SA	Greece	316	37.76	13.95	1.81
Braemar Shipping Services PLC	UK	105	11.33	5.58	0.75
Luka Ploče d.d.	Croatia	31	7.56	13.61	0.56
Average of peers			19.94	17.29	1.39

Source: Thomson One, EMIS, AFR calculations, based on FY'15 ratios, Closing prices as of Nov 1, 2016





...as it has highly competitive margins compared to peers.

Posta Romana generates losses

Peers @ FY'15	EBIT Margin	Net Profit margin	ROE	Dividend yield
Thessaloniki Port Authority SA	46%	35%	14%	2%
Sutton Harbour Holding PLC	28%	23%	4%	0%
Bremer Lagerhaus Gesellschaft Aktien	60%	71%	9%	3%
Piraeus Port Authority SA	9%	8%	5%	1%
Braemar Shipping Services PLC	9%	4%	7%	5%
Luka Ploce dd	8%	20%	7%	0%
<b>Average</b>	<b>27%</b>	<b>27%</b>	<b>8%</b>	<b>2%</b>
C.N.A. Porturilor Maritime	40%	34%	20%	N/A
C.N.A. Canalelor Navigabile	8%	7%	4%	N/A
C.N.A. Porturilor Dunarii Fluviale	3%	2%	1%	N/A
C.N.A. Porturilor Dunarii Maritime	11%	10%	8%	N/A

Source: Thomson One, EMIS, AFR calculations, based on end of period closing prices

**We downwardly adjusted Posta Romana fair value to RON 218m (RON 55m for FP's participation)** based on peer valuation. Posta Romana posted for 2015 losses of RON 33m despite previous year net profit of RON 22.8m, as sales dropped 4% Y/Y to RON 1.08b. For Societatea Nationala a Sarii we use FP's valuations due to lack of reliable peers.

Posta Romana					
(RONm)	Company data	Multiples	Implied EV	Implied Equity Value	
Net profit, LFY	-33	x <b>16.4</b>			N/M
EBITDA, LFY	37.1	x <b>8.8</b>	327.7		265.6
Net debt, LFY	62.0				
Book value, LFY	45.6	x <b>3.8</b>			172.3
<b>AFR Equity Value</b>				<b>219.0</b>	
Peers	Country	Mkt cap (€m)	P/E	EV/EBITDA	P/B
Deutsche Post AG	Germany	34,248	13.51	7.83	3.10
DSV A/S	Denmark	8,392	23.15	17.41	4.74
PostNL NV	Netherlands	1,901	8.89	4.66	N/M
Bpost SA	Belgium	4,849	14.89	6.92	6.98
PEKAES SA	Poland	105	21.45	N/M	1.35
Oesterreichische Post AG	Austria	2,126	13.43	6.40	3.31
UK Mail Group PLC	UK	270	19.82	9.70	3.19
<b>Average of peers</b>			<b>16.45</b>	<b>8.82</b>	<b>3.78</b>

Source: Thomson One, EMIS, AFR calculations, based on FY'16 ratio estimates when available, otherwise LFY, Closing prices as of November 1, 2016

Peers @ FY'15	EBIT Margin	Net Profit margin	ROE	Dividend yield
Deutsche Post AG	4%	3%	15%	3%
DSV A/S	6%	4%	25%	1%
PostNL NV	10%	5%	-49%	0%
Bpost SA	18%	13%	48%	4%
PEKAES SA	2%	3%	6%	0%
Oesterreichische Post AG	9%	3%	25%	6%
UK Mail Group PLC	3%	2%	12%	6%
<b>Average</b>	<b>8%</b>	<b>5%</b>	<b>12%</b>	<b>3%</b>
Posta Romana	-2%	-3%	-35%	N/A

Source: Thomson One, EMIS, AFR calculations, based on end of period closing prices



## Financials

### Financial statements

*SNP's market volatility has a great impact on P&L as it is valued at fair value through P&L*

Fondul Proprietatea posted for H1'16 a net profit of **RON 540.7m** as it sold its entire stake in **Romgaz, E.ON Distributie Romania si E.ON Energie Romania** and partially liquidated its participations in **Banca Transilvania** and **BRD – GSG**. Total net income from assets disposal was RON 913.06m. On a less positive tone, dividend income fell to RON 347m mostly due to the lack of dividends from OMV Petrom.

#### Fondul Proprietatea: IFRS statements

(RON m)	2014	2015	H1'15	H1'16
Gross dividend income	687.4	569.3	434.5	346.9
Gain on disposal of equity inv AFS , net	645.5	344.8	(0.0)	913.1
Net gain/loss from equities at fair value	(604.2)	(1,240.8)	(326.6)	(541.3)
Impairment losses on equity inv.	(344.1)	(90.5)	(20.1)	(40.7)
Other income	39.7	22.1	20.9	23.4
Total operating expenses	(119.7)	(124.0)	(68.9)	(56.7)
Profit before income tax	304.6	(521.5)	39.8	644.7
Income tax expense	122.6	(43.6)	(129.5)	(103.9)
<b>Profit of the period</b>	<b>427.2</b>	<b>(565.1)</b>	<b>(89.6)</b>	<b>540.7</b>

Source: Fondul Proprietatea IFRS financial statements

### Dividend income

#### Fondul Proprietatea: Net dividends collected from portfolio companies

(RONm)	2011	2012	2013	2014	2015	2016
<b>Listed companies</b>						
OMV Petrom	201.6	353.1	319.0	331.4	120.5	0.0
Romgaz*				148.5	121.4	0.0
Nuclearelectrica				27.9	6.9	8.6
Conpet	7.0	6.6	8.4	8.8	0.0	0.0
Transelectrica	1.1	10.9	4.0	22.0		
Transgaz	50.8	52.5	37.6	0.0		
BRD - Groupe Societe Generale	2.1	3.6	0.0	0.0	0.0	7.7
Banca Transilvania	0.0	0.0	0.0	0.0	0.0	16.7
Others	8.2	4.3	4.9	0.0	2.7	3.0
<b>Total listed</b>	<b>304.0</b>	<b>450.1</b>	<b>373.9</b>	<b>538.6</b>	<b>251.5</b>	<b>36.0</b>
<b>Unlisted companies</b>						
Hidroelectrica	52.5	0.0	0.0	0.0	128.9	134.6
CE Oltenia	0.0	6.5	10.3	0.0	0.0	0.0
EDMN	0.0	1.8	16.2	23.2	24.7	26.9
EDTS	0.0	0.0	0.0	12.7	17.6	26.3
EDTN	0.0	0.0	0.0	11.7	16.7	28.0
Electrica Furnizare	0.0	0.0	7.8	19.6	38.3	24.5
Engie Romania	9.6	0.0	22.8	33.6	24.0	0.0
Enel Distributie Banat	20.2	0.0	0.0	0.0	20.7	16.8
Enel Distributie Dobrogea	13.5	0.0	0.0	0.0	10.5	12.0
CN Aeroporturi Bucuresti	9.9	9.4	9.1	12.3	10.2	27.4
CNA Porturilor Maritime	0.0	6.6	5.4	10.1	6.5	14.1
SN a Sarai	0.8	0.0	9.3	19.8	10.2	0.0
Romgaz*	106.0	140.6	158.9			
Nuclearelectrica*	0.0	0.0	2.3			
Others	2.6	4.0	33.6	0.4	7.6	2.9
<b>Total unlisted</b>	<b>215.1</b>	<b>168.9</b>	<b>275.8</b>	<b>143.5</b>	<b>315.9</b>	<b>313.5</b>
<b>TOTAL</b>	<b>519.1</b>	<b>619.0</b>	<b>649.7</b>	<b>682.1</b>	<b>567.4</b>	<b>349.5</b>
<b>FP return</b>	<b>0.0385</b>	<b>0.0409</b>	<b>0.0500</b>	<b>0.0500</b>	<b>0.0500</b>	<b>0.0500</b>
<b>Yield</b>	<b>9.0%</b>	<b>7.4%</b>	<b>6.0%</b>	<b>5.6%</b>	<b>6.2%</b>	<b>6.2%</b>
<i>Payout ratio FP</i>	<i>95.0%</i>	<i>95.0%</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>	<i>N/M</i>

Source: BSE, Fondul Proprietatea, AFR Calculations

Note: Based on RAS data; \* until 2014 securities were considered unlisted; \*\*cash distribution paid during the next year; 2011-2012 DPS, return of capital afterwards, as approved by shareholders

*Hidroelectrica generated the largest dividend income of RON 135m*



## Company update – November 2016

FY'16 dividend income is ~38% lower compared to the same period of last year

Based on FP's data, FY'16 dividend income stands at around RON 350m, 38% lower Y/Y (RON 567m previously). Main contributor to FP's revenues was Hidroelectrica, for the second consecutive year. Hence, FP cashed RON 134.6m dividends from the hydro power producer. On a less positive tone, as SNP's profit plunged due to falling oil prices, the company decided not to distribute dividends. Moreover, FP sold in April SNG participation and lost the dividend income. For 2017, according to Fondul Proprietatea's budget proposal, dividend income is estimated to reach RON 333.6m, roughly in line with current year data.

### September 2016 NAV

FP's NAV stands at RON 1.1698 per share

Fondul Proprietatea's net asset value reached RON 11,357m in September 2016, 5% lower compared to the same period of last year and 6% lower vs. the end of last year. Since our previous report, asset structure has changed as short term listed shares value declined 42% Y/Y, mostly due to SNG participation sale and OMV Petrom's fall in market capitalisation. On the other hand, unlisted shares value increased 14% Y/Y as positive impact of revaluations offset the sale of E.ON Distributie Romania and E.ON Energie Romania.

#### Fondul Proprietatea: Reported NAV

(RON m)	Sep-16	% Δ (M/M)	% Δ (YTD)	% Δ (Y/Y)	Aug-16	Dec-15	Sep-15
<b>Long term financial assets</b>	<b>7,384</b>	<b>0%</b>	<b>2%</b>	<b>14%</b>	<b>7,384</b>	<b>7,232</b>	<b>6,483</b>
Listed shares	10	N/M	-5%	-5%	10	11	11
Unlisted shares	7,374	0%	2%	14%	7,374	7,221	6,471
<b>Short term financial assets</b>	<b>3,237</b>	<b>-4%</b>	<b>-30%</b>	<b>-42%</b>	<b>3,386</b>	<b>4,610</b>	<b>5,600</b>
Receivables	306	0%	N/M	N/M	307	29	68
Cash	8.0	-17%	N/M	-15%	10	1	9
Listed shares	3,237	-4%	-30%	-42%	3,386	4,610	5,600
Government securities	321	101%	N/M	N/M	160	79	131
Bank deposits	155	-77%	-22%	16%	686	198	134
<b>Total assets</b>	<b>11,412</b>	<b>-6%</b>	<b>-6%</b>	<b>-8%</b>	<b>12,078</b>	<b>12,148</b>	<b>12,426</b>
Share capital	9,321	0%	-7%	-7%	9,321	10,074	10,074
Revaluation differences	40	3%	-99%	-99%	39	3,655	3,734
Period result	571	-20%	-27%	21%	717	785	471
Reserves	3,898	-12%	N/M	N/M	4,438	-4,121	-3,973
Others	-2,473	0%	N/M	N/M	-2,473	1,695	1,695
<b>Total Equity</b>	<b>11,357</b>	<b>-6%</b>	<b>-6%</b>	<b>-5%</b>	<b>12,041</b>	<b>12,088</b>	<b>12,000</b>
Total liabilities	55	48%	N/M	-87%	37	41	425
<b>NAV</b>	<b>11,357</b>	<b>-6%</b>	<b>-6%</b>	<b>-5%</b>	<b>12,041</b>	<b>12,088</b>	<b>12,000</b>
<b>NAV per share (RON)</b>	<b>1.1698</b>	<b>0%</b>	<b>1%</b>	<b>3%</b>	<b>1.1674</b>	<b>1.1564</b>	<b>1.1342</b>

FP posted for H1'16 a bottom line of RON 571

Source: Fondul Proprietatea, AFR calculations, 2015 data based on RAS accounting



## DISCLOSURE APPENDIX

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### Company specific regulatory disclosures

#### Disclosure checklist for companies mentioned & other price data information

Company	Reuters	Rating	Price	Price date	Price Hour	Disclosure
Fondul Proprietatea SA	FP.BX	BUY	0.8050	01/11/2016	18:30	NONE

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## Major changes vs. previous research reports

Date of previous report	Previous vs. current market prices (RON)	Previous vs. current TP (RON)	Previous vs. current Rating
24/09/2015	0.7910 vs. 0.8050	0.9426 vs. 0.91	BUY vs. BUY

## Rating history for FONDUL PROPRIETATEA

Date	Rating	Share Price (RON)	Target Price (RON)
24/1/2011	Initiation – N/A	N/A	0.7987-1.0782
8/11/2011	Update - BUY	0.4440	0.6557
21/5/2012	Update - BUY	0.4919	0.6579
28/9/2012	Update - BUY	0.5280	0.7939
8/5/2013	Update - BUY	0.6605	0.8514
5/11/2013	Update - BUY	0.8050	0.9311
01/10/2014	Update - BUY	0.9490	1.0791
24/09/2015	Update - BUY	0.7910	0.9426
02/11/2016	Update - BUY	0.8050	0.91

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Stock ratings are based on the expected total return after employing common but complex valuation tools (Discounted Cash-Flow Models, Dividend Models, etc.). Price targets are determined by the fair value derived from the above mentioned valuation tools. Recommendations are set with a 12-month investment horizon unless specified otherwise. Analysis of specific risks to target prices highlighted in our investment case are outlined throughout current report.

### Explanation of ratings

BUY	TRP > 12%	positive total return of at least 12% within a 12-month period
HOLD	12% > TRP > -12%	total return higher than -12% but lower than 12% within a 12-month period
SELL	TRP < -12%	total return of less than -12% within a 12 month period

*Note: TRP - Total Return Potential within a 12-month period*

For more information regarding concepts and methods used in valuation process please check our [website](http://www.alphafinance.ro).

### Coverage universe recommendation overview

Recommendation	Universe	Universe percentage	Investment banking services	Investment banking services %
BUY	2	13%	0	0
HOLD	9	56%	0	0
SELL	0	0%	0	0
U.R.	5	31%	0	0

*Note: Rounding differences could occur*

**Security prices:** Closing prices as of 01/11/2016 (18:30 CET+1 for BSE).

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## General disclaimer

This report was prepared by Alpha Bank Romania – Equity Research Analyst Ioana Andrei, CFA and Mihai Andrei Anghelescu, on behalf of Alpha Finance Romania.

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