



## FONDUL PROPRIETATEA

Closed-end investment fund

## BUY

24 September 2015

Last close: RON 0.79

Target price: **RON 0.94**

### Company Update

RIC: FP.BX	BQ: FP RO	
<b>Target price</b>	<b>RON 0.94</b>	<b>€ 0.21</b>
Previous	RON 1.08	€ 0.24
Total stock return	19%	

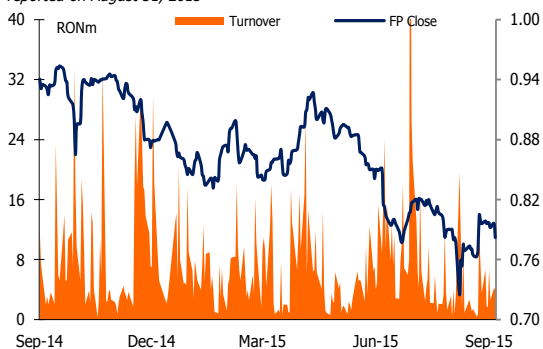
<b>Valuation</b>			
TP discount to reported NAV		-18%	
Last close discount to reported NAV		-31%	
<b>Per share</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>
DPS	0.05	0.05	0.05

(RON m)	Reported Val.(E)	AFR Bottom Value	% Δ *	AFR Fair Value
<b>Traded shares, o/w</b>	<b>5,712</b>	<b>5,441</b>	<b>5%</b>	<b>5,998</b>
Listed - majors	5,706	5,438	5%	5,994
Listed - others	7	3	-50%	3
<b>Unlisted shares, o/w</b>	<b>6,474</b>	<b>4,688</b>	<b>8%</b>	<b>6,970</b>
Unlisted (privately controlled)	3,454	2,580	7%	3,685
Unlisted (state controlled)	3,015	2,108	9%	3,285
<b>Portfolio value</b>	<b>12,186</b>	<b>10,129</b>	<b>6%</b>	<b>12,968</b>
Total assets	12,672	10,518		13,356
<b>NAV**</b>	<b>12,147</b>	<b>9,993</b>		<b>12,832</b>
<b>NAV/share</b>	<b>1.15</b>	<b>0.94</b>		<b>1.21</b>

Trading data	1w	3m	12m	YTD
Performance	-1%	-3%	-14%	-12%
H   L 52w	0.9036	0.6930		
Mkt. cap.(b)	RON 8.4	€ 1.9		

Shareholding Structure	(% voting rights)
Shares with voting rights (m)	10,602.0
Bank of New York Mellon	33.9%
Foreign institutional shareholders	23.9%
Romanian private investors	22.6%
Romanian institutional	13.3%
Others	6.3%

\*Δ% AFR Fair value vs. Reported Value € estimated for August 31, 2015; \*\*as reported on August 31, 2015



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### Buybacks and cash returns should support price appreciation OMV Petrom transaction and Hidroelectrica IPO are next catalysts

We reinforce our **BUY recommendation for Fondul Proprietatea** with a **target price of RON 0.94/share** revealing an **upside potential of 19%** against current trading levels as in our opinion FP should trade closer to **18% discount to reported NAV vs. 31% currently**. We slightly reduced our TP vs. our previous update mostly due to the plunge in oil prices which lead to a significant fall in SNP's market capitalisation from RON 26.6b to ~RON 19.4b currently (accounting for over 30% of FP's NAV).

**FP's story focuses on rewarding shareholders with cash returns via share capital decreases and buyback programs. Forward looking, we expect Hidroelectrica IPO and the sale of a stake in OMV Petrom to be the next catalysts for FP's stock price evolution.**

- ✓ **The 6<sup>th</sup> buyback program started in September.** The closed-end fund plans to acquire 892m FP shares or equivalent GDRs on both BSE and LSE market. We anticipate FP will consider a public tender offer in order to accelerate the buyback program, as it previously did. Moreover, expect buyback programs to continue.
- ✓ **FP paid in June RON 0.05/share to investors via share capital decrease. Expect FP to perform additional returns of capital via reductions of nominal value of at least another RON 0.05 per share** as this method of returning cash to shareholders is more appealing due to tax benefits and higher predictability of returns.
- ✓ **We see portfolio structure changing as assets disposal remains the main source of cash.**
- ✓ **This year FP temporary covered its cash shortage by contracting a credit line for RON 500m.** However, at the end of year, when credit facility should be reimbursed, **the buyback will put pressure on FP's cash position forcing it to consider other asset disposals.** At a glance, we consider SNG and the stakes hold in banks (BRD and TLV) primary candidates for straightening the closed-end fund cash position in 2015.
- ✓ **In the meantime, FP reinforced its commitment of reducing its stake in OMV Petrom via shares and/or GDRs. Hence, we estimated FP could sell up to 5% of SNP's share capital, but we anticipate a transaction will more likely be concluded next year.**
- ✓ **We are looking forward to see Hidroelectrica IPO** as this should lead to a lower discount to NAV. According to latest estimates, we should see an **IPO by the end of next year, after insolvency procedure ends.** Hidroelectrica (17.9% of FP's NAV) positively impressed due to strong increase in profitability and significant improvement in efficiency. Moreover, the company started this year to pay dividends.
- ✓ **On a less positive tone, as negotiation with Electrica for selling minority stakes hold in its subsidiaries failed and Enel decided not to exit Romanian market, FP's opportunities for potential liquidation of unlisted stakes shrank.** We anticipate the Fund will re-start negotiation with Electrica later on. However, we don't expect to see a transaction from unlisted portfolio in the near future.
- ✓ **FP's secondary listing on LSE market concluded in the end of April 2015 via GDRs.** The dual listing should bring more visibility on FP stock and its portfolio.

Wrapping up, **expect the close-end fund to continue outshining as FP's current management is under more pressure to deliver performance to its shareholders and to narrow the discount to NAV.**

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## Contents |

Investment case .....	3
Recent developments .....	4
Valuation .....	10
Financials .....	18



### Investment case

#### Fondul Proprietatea target price: RON 0.94/share

*Expect two digit total return for FP shares...*

We reinforce our **BUY recommendation for Fondul Proprietatea** with a **target price of RON 0.94 per share** revealing an **upside potential of 19%** against current trading levels as in our opinion FP should trade closer to a **18% discount to reported NAV vs. 31% currently**. We slightly reduced our target price vs. our previous update mostly due to the plunge in oil prices which lead to a significant fall in OMV Petrom market capitalisation from RON 26.6b to ~RON 19.4b currently (accounting for over 30% of FP's NAV).

Our valuation provides a price range delimited by a bottom value (RON 0.94/share) and a fair value (RON 1.21/share) of FP's portfolio. We kept unchanged our valuation methodology and AFR NAV is computed based on detailed portfolio as of H1'15, August 2015 NAV, AFR TP and market prices for listed companies and peers comparison for unlisted portfolio.

**Fondul Proprietatea's story focuses on rewarding shareholders with cash returns via share capital decreases and buyback programs. Forward looking, we expect Hidroelectrica IPO and the sale of a stake in OMV Petrom to be the next catalysts for FP's stock price evolution.**

*...supported by another buyback...*

**The 6<sup>th</sup> buyback program started in September.** The closed-end fund plans to acquire 892m FP shares or equivalent GDRs on both BSE and LSE market. We anticipate FP will consider a public tender offer in order to accelerate the buyback program, as it previously did. Moreover, expect buyback programs to continue further on.

*...alongside cash distributions via share capital decreases...*

The closed-end fund paid in June RON 0.05/share to investors via share capital decrease. **We expect Fondul Proprietatea to perform additional returns of capital via reductions of nominal value of at least another RON 0.05 per share** as this method of returning cash to shareholders is more appealing due to tax benefits and higher predictability.

*...and further assets disposals.*

**We see portfolio structure changing as assets disposal remains the main source of cash.** This year, FP temporary covered its cash shortage by contracting a credit line of RON 500m that can be used only for corporate actions and should be reimbursed by the end of the year. However, **the 6<sup>th</sup> buyback puts pressure on FP's cash position mainly at the end of year, forcing it to consider assets disposals.** At a glance, we consider SNG and the stakes hold in banks (BRD and TLV) primary candidates for straightening the closed-end fund cash position in 2015.

*OMV Petrom transaction...*

**In the meantime, Fondul Proprietatea reinforced its commitment of reducing its stake in OMV Petrom.** After the listing of OMV Petrom's GDRs on LSE is concluded, Fondul Proprietatea expects a transaction could be realised easier. Hence, **we estimated FP could sell up to 5% of SNP's share capital via GDRs, but we anticipate a transaction will more likely be concluded next year.**

*...and Hidroelectrica IPO are next catalysts for stock price appreciation.*

**We are looking forward to see Hidroelectrica IPO.** We expect it to bring more value in FP's portfolio and to lead to a lower discount. **According to latest estimates, Hidroelectrica could exit insolvency during the first half of 2016, which implies that an IPO might be concluded by the end of the year.** The hydro power producer (17.9% of FP's August NAV) positively impressed due to strong increase in profitability and significant improvement in efficiency. Moreover, the company started this year to pay dividends (RON 646m).

Forward looking, Constanta Port and Bucharest Airports IPOs could enhance FP's valuation should they conclude. However, we are rather reluctant in establishing a timetable for other IPOs except for Hidroelectrica.

*On the other hand, don't expect significant transactions in unlisted portfolio*

On a less positive tone, **as negotiation with Electrica for selling minority stakes hold in its subsidiaries failed and Enel decided not to exit Romanian market, FP's opportunities for potential liquidation of unlisted stakes shrank.** Moreover, Posta Romana privatisation also failed as Bpost did not submit a binding offer. Forward looking, we anticipate the Fund will re-start negotiation regarding the sale of minority stakes held in EL's subsidiaries. However, **we don't expect to see a transaction in the unlisted portfolio in the near future.**

In the meantime, FP's secondary listing on LSE concluded in the end of April via GDRs. **We expect the dual listing to bring more visibility on FP's stocks and portfolio companies.**

*Expect FP's management to be committed to deliver performance.*

Wrapping up, **expect FP to continue outshining as Fondul Proprietatea's current management is under more pressure to deliver performance to its shareholders and to narrow the discount to NAV.**



## Recent developments

### Franklin Templeton's mandate

*Shareholders must decide whether to expand FT's mandate or not*

**Franklin Templeton called a GSM on October 29, 2015 in order to give shareholders the right to vote on FT's mandate continuation.** During the shareholders meeting, the fund manager will present the performance report for the period: October 1, 2014 and June 30, 2015.

**The main target established according to the Investment Management agreement, to reduce the discount to NAV to 15% or lower in at least 2/3 of the trading days during 1<sup>st</sup> of October 2014 – 30<sup>th</sup> of June 2015, was not accomplished. Average discount to NAV during the mentioned period stood at ~26%.** According to FP's management the high discount was mainly due to postponement of FP's dual listing on LSE (FSA did not approved DI regulation), Hidroelectrica's insolvency and delayed negotiations for other listings.

**On the other hand, adjusted NAV per share at 30<sup>th</sup> of June 2015 was 11.56% higher than the NAV per share at 30<sup>th</sup> of September 2013.** At June 30, 2015 adjusted NAV per share was RON 1.2952, RON 0.1342 per share higher than September 30, 2015 NAV of RON 1.1610/share. Hence, the **NAV objective of FT's mandate was accomplished.** Bear in mind that adjusted NAV per share has taken into account all returns to shareholders (following reductions of the share capital after September 30, 2013) and all variable fees paid to the Fund Manager (after September 30, 2013).

According GSM agenda, if shareholders decide to expand FT's mandate, then **Franklin Templeton Investment Management limited U.K. Bucharest Branch should be replaced by another company from the same group (Franklin Templeton International Services) in order to comply with new regulations** (Directive 2011/61/EU on Alternative Investment Fund Managers). The new mandate shall begin from April 1, 2016.

Should shareholders decide to terminate Franklin Templeton's mandate, then a new fund management must be appointed until latest May 22, 2016.

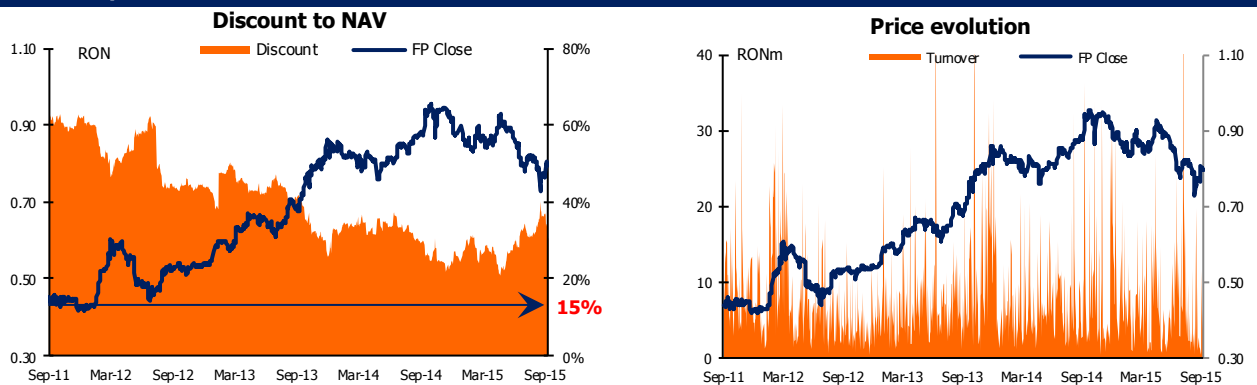
Meanwhile, **FT seeks shareholders' approval on continuation of buyback programs** within the legal threshold of 10% of its share capital at the relevant time, after the shares from the fifth buyback program are cancelled.

Moreover, **FT requested the authorisation for transaction larger than 20%, but below 30%**, of the company's non-current assets less receivables during 2015 and 2016 respectively.

*Expect FT to be under pressure to achieve the 15% target during next mandate*

**Overall, we expect Franklin Templeton not to be revoked, while the 15% discount to NAV target might be maintained, although according to GSM material FT will present a new investment policy.** In our view, **considering Templeton's determination for enhancing shareholders return, discount to NAV could narrow if strong disinvesting process continues.**

### Discount and price evolution on BSE



Source: BSE, AFR computation based on raw closing prices



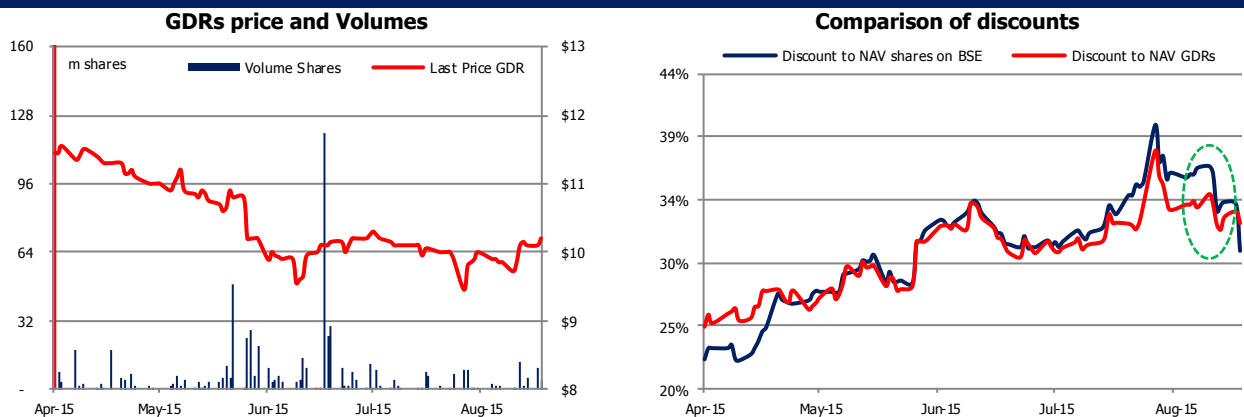
### Secondary listing

Secondary listing on LSE concluded via GDRs

**Fondul Proprietatea dual listing on Specialist Fund Market of London Stock Exchange via Global Depository Receipts (GDRs) was concluded on April 29, 2015.** According to FP data, the closed-end fund is the 5<sup>th</sup> fund considering NAV value listed on LSE and has the highest discount among peers.

Up to 81.22m GDRs were listed on LSE market, each GDR representing 50 FP shares. Following the secondary listing (August 2015 data), Bank of New York Mellon, the depository bank for Global Depository Receipts) owns 33.87% of voting rights (33.16% of paid-up share capital).

### GDRs evolution on LSE



Source: Bloomberg, AFR computation based on raw closing prices

Discount to NAV converged on both markets

Since starting trading on LSE market, FP's discount ranged from 24.7% to 38% (29 April – 15 September 2015), while on local market discount ranged from 22% to 40% for the same period.

In terms of volumes, a large transfer concluded on first day of trading on LSE, representing over 1.5% of shares issued (excluding treasury shares) as Elliot Advisers sold approximately 140m FP shares. Afterwards, **volumes declined to an average of around 6.5m FP shares** per day (excluding first day large transaction) vs. an average daily volume of 8.6m FP shares on Romanian market during the same period. Expect volumes to increase as FP started the sixth buyback program on both BSE and LSE market. Thus, FP will acquire shares on each market up to 25% of average daily volume on the regulated market on which purchases are carried out.

Secondary listing might bring some benefits for FP's shareholders

**It is our view that Fondul Proprietatea's secondary listing might bring benefits, albeit marginal, to FP's shareholders by increasing the number of institutional investors and by bringing more attention towards Romanian equities.**

### Buyback programs & returns of capital

Buyback programs continue...

**Fondul Proprietatea focused during the last 4 years on rewarding shareholders with cash distribution via share capital decreases and buyback programs.** The closed-end fund concluded five buyback programs while the sixth is currently ongoing.

### History of buyback programs

Program	Period	Status	No of shares repurchased/ % of FP's issued capital	Average share price	Cancellation of shares
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	Subject to shareholders approval
Sixth	Started on September 9	Ongoing	891.8m / 7.9%	N/A	N/A

Source: Fondul Proprietatea



## Company update – September 2015

*...as the sixth program started on September 9...*

Fondul Proprietatea started on September 9, 2015 a **new buyback program for ~892m FP shares** which entails the acquisition of both shares listed on BSE and equivalent GDRs listed on LSE. **We believe that the closed-end fund will also consider a public tender buyback in order to accelerate the execution of this program.** Bear in mind that previously FP concluded two tender offers for 6.03% and 4.35% of FP's share capital at a price of RON 1.11/share and RON 1.00/share respectively. Moreover, according to next GSM agenda, FT plans to continue the buyback programs with another program after the completion of the sixth, which should represent approximately 2% of FP's current share capital.

### 6th buyback program - Main assumptions

No of shares to be repurchased	891,770,055
Average daily traded volume (past 12 months)	9,233,921
No of days needed to repurchase the shares*	386

Source: Fondul Proprietatea, BSE, AFR Estimations

Considering the average daily traded volume registered during the last 12 months, we anticipate the current buyback program would require approximately 1 year, should it be concluded on BSE market. **However, the entire buyback program could be accomplished by the end of this year should FP conclude a public tender offer** as it previously did during the 2<sup>nd</sup> and 4<sup>th</sup> buyback programs. If we consider an average price of RON 1.0 per share for the 6<sup>th</sup> buyback program (for purchases on regulated market and a public tender offer) total amount needed might reach to around RON 892m.

*...putting pressure on FP's cash position.*

At first sight, considering FP's current cash position (~RON 389m at the end of August 2015) and additional credit line facility of RON 500m, the closed-end fund appear to has enough cash to support the 6<sup>th</sup> buyback program. However, **as the credit facility needs to be reimbursed by the end of this year the closed-end fund cash position will be under pressure, and therefore, FP will need to dispose some of its assets in order to cover its cash shortage.**

**Starting with 2013 Fondul Proprietatea stopped distributing dividends** as according to Art. 69 from the Companies Law 31/1990 the Fund can distribute dividends only if 'net asset value' of Fondul Proprietatea is higher than its share capital. At the end of August FP's total shareholders' equity was RON 12,147.25m, while the share capital of the Fund was RON 10,074.08m (according to August 2015 NAV, which is based on Romanian accounting standards - RAS). Differences lie on financial asset recognition according to Regulation 4/2011 which states that both listed and unlisted assets can only be valued in the financial statements at historical costs, even though fair values are higher/lower than initial value. Thus, the Fund Manager cannot make any dividend proposals at present time.

Hence, the closed-end fund returned capital to its shareholders by reducing the nominal value of FP's shares to RON 0.90/share vs. RON 0.95/share previously (initial value RON 1.0/share). Thus, **shareholders received at the end of June 2015 RON 0.05 per share.**

*FP cannot distribute dividends as long as total equity stands below share capital value...*

On the other hand, **from 2016 Fondul Proprietatea will report under IFRS (according to latest FSA decision)** which allows asset recognition at fair value, which could enable dividend distribution. At H1'15, according to IFRS financials, total equity was RON 12,614.9m, higher than FP's share capital of RON 10,965.85m.

In the meantime, FP's management reinforced its commitment of distributing each year to shareholders the equivalent of 100% of the sum of Fund's dividend income plus interest on cash balances, less expenses & taxation & compulsory allocations to reserves according to the regulations in force.

*...but expect cash distributions via share capital decreases.*

**Foreword looking, expect Fondul Proprietatea to perform additional returns of capital via reduction of nominal value of at least RON 0.05 per share** as this method of returning cash to shareholders is more appealing due to the following facts:

- ✓ under current regulations, FP cannot distribute dividends as long as 'net asset value' is lower than share capital;
- ✓ it offers tax benefits as based on FP's understanding of Romanian tax law, no Romanian tax will arise for the fund or its shareholders on distributions of this kind;
- ✓ further on when IFRS will be implemented, profitability will be more volatile, leaving less room for stable dividend returns.



### Shareholding structure

Bank of New York Mellon (depository for GDRs) owns ~33% of FP's voting rights

Manchester Securities Corporation and Beresford Energy Corporation own a cumulate stake of 16.52% of FP's share capital, equivalent of 18.76% of total number voting rights (according to May 2015 data). Moreover, following FP's dual listing, Bank of New York Mellon (depository for GDRs) reached 32.08% of FP's share capital (equivalent of 33.87% of voting rights). According to FP's August 31, 2015 reported shareholding structure, foreign institutional shareholders reached 22.65% of subscribed share capital, while their Romanian peers have a 12.60% stake in FP's subscribed share capital. Romanian private individuals own 21.42%, while foreign individuals 5.93%. Overall, FP has 8,605 investors (vs. 7,914 previously).

Shareholder	% of subscribed share capital	% of paid-up share capital	% of voting rights
Bank of New York Mellon (depository bank for GDRs)	32%	33%	34%
Foreign institutional shareholders	23%	23%	24%
Romanian private investors	21%	22%	23%
Romanian institutional shareholders	13%	13%	13%
Fondul Proprietatea	2%	2%	0%
Foreign private investors	6%	6%	6%
Ministry of Public Finance	3%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

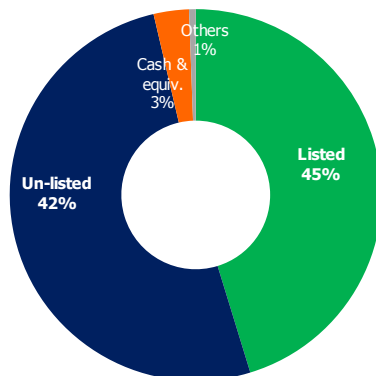
Source: Fondul Proprietatea, August 31, 2015

### Portfolio review

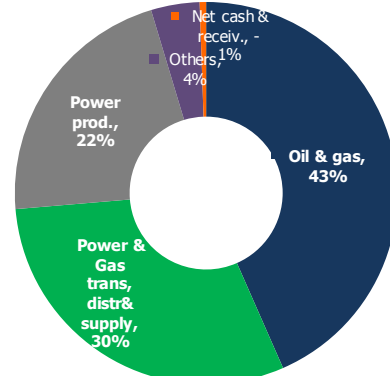
OMV Petrom is FP's top holding, accounting for over 30% of NAV

On August 31, 2015 the Fund's portfolio structure was comprised of 49 companies, out of which 15 were listed and 34 unlisted. The listed equities portfolio accounts for 47.21% of August 2015 NAV, while unlisted equities account for 53.30% of FP's net asset value. Among listed portfolio, OMV Petrom is the top holding, representing over 30% of NAV, followed by Romgaz with a 9.93% stake in net asset value. The largest stakes from the unlisted portfolio are Hidroelectrica (representing 17.9% of NAV) and Enel Distributions companies (Banat and Muntenia which cumulated account for 9.1% of August 2015 NAV).

Portfolio structure: listed vs. unlisted in Total Assets

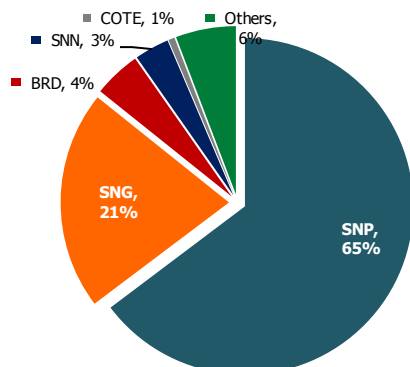


Portfolio structure by sector in NAV

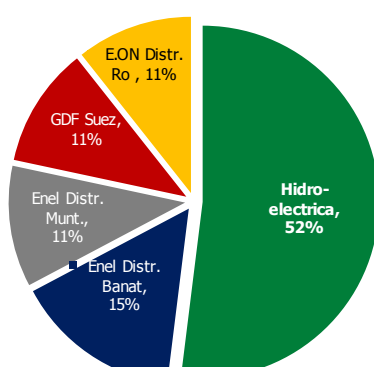


Source: AFR, based on FP's reported NAV as of August 2015

Listed portfolio structure



Unlisted portfolio structure



Source: AFR, based on FP's reported NAV as of August 2015, percentage out of listed/unlisted asset value



**Fondul Proprietatea's portfolio structure did not significantly change since our last report.** In November 2014 FP sold 2.04m COTE shares for ~RON 100m with an 8% discount vs. previous market price. Following the transaction, **FP maintained a 6.1% stake in Conpet.** Moreover, during the first six months of 2015 the Fund sold its entire holdings in Electroconstructia Elco Cluj SA, SIFI CJ Agro SA (Comcereal Cluj) and Forserv SA.

### Discount on Accelerated Book Build Offerings

Company	Price Announcement	Preference Price - pre ABO announcement RON/share	Placement Price RON/share	Discount	Placement Value RON m
OMV Petrom	17-May-13	0.44	0.39	12%	246.7
Transgaz	12-Dec-13	190.40	172.00	10%	303.5
Romgaz	17-Jun-14	35.60	33.50	6%	644.6
Transelectrica	9-Jul-14	23.38	21.50	8%	212.7
Conpet	12-Nov-14	53.00	48.75	8%	99.8
<b>TOTAL</b>					<b>RON 1,507.3m</b>

Source: Fondul Proprietatea

*FP contracted a credit facility for RON 500m*

This year, FP followed a different approach in order to obtain enough proceeds for cash distributions and buybacks, and preferred not to disinvest. Hence, **it concluded a revolving committed credit facility for RON 500m with Citibank Europe PLC Dublin-Romanian Branch.** The facility ends on November 2015 and final reimbursement should take place before December 31, 2015.

**On a medium term outlook, we expect to see changes in FP's portfolio structure from further asset disposals (OMV Petrom and SNG) and new listings (Hidroelectrica).**

*Although SNP remains FP's target for assets disposal we believe such a transaction will be achieved only next year*

**FP reiterated its commitment of disinvesting from OMV stake and reducing its stake below 15% via a public offering of both shares and GDRs (representing interests in shares).** OMV Petrom will conclude a secondary listing on London Stock Exchange by issuance of global depository receipts (GDRs) representing interests in OMV Petrom's existing shares, intended to be admitted to trading on LSE's main market for listed securities. We believe that OMV's secondary listing could be realised until the end of first half of 2016. **Hence, expect FP to conclude a transaction for around 5% of OMV Petrom's share capital only after SNP's GDRs are listed on LSE.**

In the meantime, **FP requested shareholders' approval for transactions larger than 20%, but below 30%, of non-recurring assets less receivables.** Bear in mind that currently, for transactions larger than 20% of the closed-end fund's non-current assets less receivables, during a financial year, the company's management is required to have shareholders' approval according to Law 297/Art.241 and FP's Constitutive Act.

*...while SNG represents a perfect candidate for easily solving cash shortage drawbacks.*

**Taking into consideration all listed portfolio and current market values, Romgaz represents by far the most rewarding holding due to low acquisition cost,** while Petrom has the largest potential loss as the acquisition price stood above RON 0.5/share (without impairments). However, starting with 2016 FP will report under IFRS, which allows asset recognition at fair value vs. recognition at historical cost less impairment according to RAS.

Overall we expect **SNG, BRD and TLV to be the next targets for assets disposals,** while the amount and time table are difficult to estimate due to unpredictability of special circumstances and opportunities that might arise, which could lead to an early or delayed execution of such transactions.

### Fondul Proprietatea: potential assets disposals

	Potential no. of shares to be sold (m)	% of share capital	Market price/share	Price at 15% discount	Value (RONm)	Acquisition cost	Potential profit/loss (RON m)	FP's foregone dividends (RON m)
OMV Petrom	2,832	5.0%	0.34	0.29	826	1,421	-595	19
Romgaz	19	5.0%	30.50	25.93	500	139	361	60
BRD-GSG	25	3.6%	11.04	9.38	238	326	-88	0
Banca Transilvania	75	2.9%	2.40	2.04	153	79	74	0
<b>Total</b>					<b>1,716</b>	<b>1,965</b>	<b>-249</b>	<b>80</b>

Source: Fondul Proprietatea, BSE, AFR Estimates; BRD and TLV % of share capital represent all FP's stake in the companies





### Fondul Proprietatea: potential profit/loss from listed assets disposal

Company name	No. of shares (m)	Cost (Initial value) as of Dec. 2014 RON/share	Market price (RON/share)	Market value (RONm)	Potential profit/loss (RONm)
Alcom SA	0.1	5.2780	49.8000	4	4
Alro Slatina SA	72.9	2.4215	1.3900	101	-75
Banca Transilvania SA	75.1	1.0537	2.3950	180	101
BRD-Groupe Societe Generale SA	25.4	12.8472	11.0400	280	-46
Conpet SA	0.5	5.4966	67.8000	36	33
IOR SA	2.6	0.1330	0.2100	1	0
Mecon SA	0.1	8.0685	4.0000	0	0
Nuclearelectrica SA	27.4	36.4315	7.0400	193	-806
Oil Terminal SA	36.8	0.1983	0.0980	4	-4
OMV Petrom SA	10,758.6	0.5016	0.3430	3,690	-1,707
Palace	5.8	0.3190	0.2500	1	0
Primcom SA	1.4	14.0396	9.9000	14	-6
Romaero SA	1.3	44.6248	18.0400	24	-35
Romgaz SA	38.5	7.2104	30.5000	1,176	898
Romplumb SA	1.6	12.0645	0.0000	0	-19
<b>Total</b>					<b>-RON 1,663m</b>

Source: Fondul Proprietatea, AFR Computation

*Expect Hidroelectrica IPO only after the end of insolvency process*

Moreover, **we should see next year some changes in unlisted portfolio structure following Hidroelectrica's listing.** Hidroelectrica IPO was expected this year, but it was delayed due to prolonged insolvency process. **Expect to see Hidroelectrica's IPO only after the end of insolvency process.** According to latest estimates, insolvency procedure should conclude by the end of the first half of the year, which should push Hidroelectrica IPO in late 2016.

Based on FP's estimated value, **Hidroelectrica IPO could reach ~€426m** (for 15% of the company's share capital). In the meantime, there are still negotiations whether the stake sold via IPO should be higher, as according to market rumours a 25% stake might also be on the books. Moreover, it is not clear whether it will be a share capital increase or a secondary placement of shares instead.

**Regarding CE Oltenia, the public offer was also expected this year, but as the company is still under significant financial distress** (RON 694m losses in FY'14 and RON 0.7m gains expected for 2015 according to budget proposal) **we do not expect an IPO in the near future.** FP estimates the value of CE Oltenia's IPO at ~€15-20m (equivalent of 12% up to 15.3% of the company's share capital).

### Government IPO & Privatisation calendar

Company	Official Timeline	FP expectation	Offering Size %	Offering value EUR m	FP stake Value* EUR m
<b>Hidroelectrica</b>	<b>IPO - June 2014</b>	<b>2016</b>	<b>15%</b>	<b>426.3</b>	<b>492.80</b>
CE Oltenia	IPO - Nov'15	N/A	12% / 15.3%	15.3 / 20.1	24.60
Posta Romana	Postponed	N/A	> 50%	> 38	12.70
<b>TOTAL</b>					<b>EUR 530.1m</b>

Source: Fondul Proprietatea; \* based on FP's Q1'15 presentation

There are also discussions over the **listing of Administratia Porturilor Maritime Constanta and CN Aeroporturi Bucuresti.** We have a positive view regarding potential IPOs as we believe these companies might have strong growth potential. However, we consider significant investment plans and a professional management essential for any successful public offer.



## Valuation

### Valuation methodology

Our valuation provides a price range delimited by a bottom value (RON 0.94 per share) and a fair value (RON 1.21 per share). Our bottom value reveals an 18% discount to official NAV while AFR fair value reveals a 6% premium.

We kept unchanged our valuation methodology and AFR NAV is computed based on the detailed portfolio as of H1'15 adjusted with the closed-end fund disclosed information in August 2015 NAV report and FY'14 financial results. We have filled in closing prices as of 23<sup>th</sup> of September 2015 for all BSE listed companies.

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

- For listed shares: BSE market values as of 23<sup>th</sup> of September 2015, discounted by 5%, except for those not traded in the last 30 days were a 50% discount to last closing price was applied;
- For privately held unlisted shares: relative valuation method based on FY'14 EPS, EBITDA and BV peers multiples, if available, 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 March 24, 2015 update. We applied a 30% discount to fair value in order to account for FP's minority position and lower transparency;
- For state controlled unlisted companies: relative valuation method based on FY'14 EPS, EBITDA and BV peers multiples, 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 30% discount due to the pending IPO);
- For others: we used FP's fair value for unlisted companies with losses and for companies where peers valuation is not reliable.

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

- For listed shares: AFR-Target Prices for the listed companies for AFR Universe and BSE market values as of 23<sup>th</sup> of September 2015 otherwise, except for those not traded in the last 30 days, for which a 50% discount to last closing price was applied. We used current market prices for companies from AFR Universe that are currently under review.
- For unlisted companies: relative valuation method based on FY'14 EPS, EBITDA and BV peers multiples as well as sum-of-parts to reach their fair realisable values;
- For others: we used FP's fair value for unlisted companies with losses and for companies where peers valuation is not reliable.

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



### Listed companies valuation

(RONm)	Market cap	FP's stake	Reported Value (E)	AFR bottom Value	AFR Fair Value	% Δ **	Portfolio weight***	Sector
OMV Petrom SA	19,429	19%	3,712	3,505	3,690	-1%	35%	Oil&Gas
Romgaz SA	11,755	10%	1,206	1,117	1,478	23%	11%	Gas
BRD-Groupe Societe Generale SA	7,694	4%	260	266	275	6%	3%	Banking
Nuclearelectrica SA	2,121	9%	191	183	193	1%	2%	Power generation
Conpet SA	587	6%	35	34	36	2%	0%	Oil transport via pipelines
Banca Transilvania SA	7,247	3%	162	198	180	11%	2%	Banking
Alro Slatina SA	992	10%	98	96	101	3%	1%	Aluminium production
Romaero SA	113	21%	24	22	24	0%	0%	Air/spacecraft machinery
Primcom SA	19	76%	14	13	14	0%	0%	Real estate
Oil Terminal SA	57	6%	4	3	4	-8%	0%	Cargo handling
Others (6 companies)	37		7	3	3	-50%	0%	Others
<b>Total listed</b>			<b>5,712</b>	<b>5,441</b>	<b>5,998</b>	<b>5%</b>	<b>54%</b>	

### Unlisted - privately controlled companies valuation

(RONm)	Total Value *	FP's stake	Reported Value (E)	AFR bottom Value	AFR Fair Value	% Δ **	Portfolio weight***	Sector
Enel Distributie Banat	2,655	24%	640	377	539	-16%	4%	Power distribution
Enel Distributie Muntenia	3,881	12%	466	288	412	-12%	3%	Power distribution
GDF Suez Energy Romania	3,848	12%	461	450	643	39%	4%	Gas supply
E.ON Distributie Romania	2,431	18%	446	462	659	48%	5%	Gas supply
Enel Distributie Dobrogea	1,648	24%	397	231	330	-17%	2%	Power distribution
Electrica Distr. Muntenia Nord	1,071	22%	236	154	221	-6%	2%	Power distribution
Electrica Distr. Transilvania Nord	916	22%	202	129	185	-8%	1%	Power distribution
Electrica Distr. Transilvania Sud	939	22%	206	132	188	-9%	1%	Power distribution
Electrica Furnizare	574	22%	126	128	182	44%	1%	Power supply
E.ON Energie Romania	1,000	13%	134	112	160	20%	1%	Gas distribution
Enel Energie	620	12%	74	73	105	41%	1%	Power supply
Enel Energie Muntenia	543	12%	65	43	62	-6%	0%	Power supply
<b>Total unlisted - privately controlled</b>			<b>3,454</b>	<b>2,580</b>	<b>3,685</b>	<b>7%</b>	<b>25%</b>	

### Unlisted - State controlled companies valuation

(RONm)	Total Value*	FP's stake	Reported Value (E)	AFR bottom Value	AFR Fair Value	% Δ **	Portfolio weight***	Sector
Hydroelectrica	10,923	20%	2,178	1,631	2,330	7%	16%	Hydro power generation
CN Aeroporturi Bucuresti	1,661	20%	332	213	426	28%	2%	Airports services
CN Administratia Porturilor Maritime	663	20%	133	69	139	5%	1%	Ports services
Complexul Energetic Oltenia	503	22%	108	62	124	14%	1%	Thermal Power Generation
Societatea Nationala a Sarii	292	49%	143	71	143	0%	1%	Salt extraction
Posta Romana	224	25%	56	28	57	2%	0%	Post services
CNA Canalelor Navigabile	82	20%	16	9	18	6%	0%	Ports services
Zirom	39	100%	39	20	39	0%	0%	Others
CNA Porturilor Dunarii Fluviale	15	20%	3	1	3	0%	0%	Ports services
Aeroportul Int. Mihail Kogalniceanu	11	20%	2	1	2	0%	0%	Airports services
Aeroportul Int. Traian Vuia	20	20%	4	2	4	5%	0%	Airports services
Other unlisted (15 companies)	23		5	0	0	N/M	0%	Others
<b>Total unlisted - State controlled</b>			<b>3,020</b>	<b>2,108</b>	<b>3,285</b>	<b>9%</b>	<b>21%</b>	

**Total listed** 5,712 5,441 5,998

**Unlisted, of which:**  
State control 3,454 2,580 3,685  
Private control 3,020 2,108 3,285

**PORTFOLIO VALUE** 12,186 10,129 12,968

Source: FP, BSE, Thomson One, AFR estimates; \* Total value as reported by FP; \*\*% Δ AFR Fair value vs. Reported value; \*\*\* weight based on AFR Bottom Value  
 Note: Reported Value (E) estimates according to official methodology, based on H1'15 portfolio data



### Valuation summary

*We see discount to NAV approaching 18% vs. 31% currently*

**AFR Bottom Value emerges at RON 0.94 implying an 18% discount to reported NAV and an upside potential of 19% against current trading levels.**

AFR Bottom NAV has been decreased by 13% from our last report on the back of 25% lower value of listed companies (mostly due to OMV Petrom stake) which offset 9% increase in unlisted companies' value.

**AFR Fair Value reaches RON 1.21 per share implying a 6% premium to reported NAV and a 53% upside potential vs. current market price.**

Fondul Proprietatea: AFR NAV estimations			
(RONm)	Reported Value (E)	AFR Bottom value	AFR Fair value
<b>Traded shares, o/w</b>	<b>5,712</b>	<b>5,441</b>	<b>5,998</b>
Listed - majors	5,706	5,438	5,994
Listed - others	7	3	3
<b>Unlisted shares, o/w</b>	<b>6,474</b>	<b>4,688</b>	<b>6,970</b>
Unlisted - majors (privately controlled)	3,454	2,580	3,685
Unlisted - majors (state controlled)	3,015	2,108	3,285
Unlisted- others	5	0	0
<b>Portfolio value</b>	<b>12,186</b>	<b>10,129</b>	<b>12,968</b>
Cash&cash equivalents	389	389	389
Other assets	96		
<b>Total assets</b>	<b>12,672</b>	<b>10,518</b>	<b>13,356</b>
Liabilities	524	524	524
<b>Reported NAV *</b>	<b>12,147</b>		
<b>AFR NAV</b>		<b>9,993</b>	<b>12,832</b>
No of shares (m)	10,602		
<b>NAV/share (reported)</b>	<b>1.1457</b>		
<b>AFR NAV/share</b>		<b>0.94</b>	<b>1.21</b>
<b>Upside/downside potential</b>		<b>19%</b>	<b>53%</b>

Source: Fondul Proprietatea; Thomson One; AFR estimates;

\* reported NAV as of August 31, 2015; Note: Reported Value (E) are estimates for August 2015 portfolio

*Hidroelectrica achieved an impressive performance last year*

**Hidroelectrica IPO is expected after the end of insolvency process.** Although under insolvency procedure, **the hydro power producer reported in 2014 a record high profitability as bottom line reached RON 941m**, 31% higher Y/Y, implying a profit margin of ~28%. Moreover, Hidroelectrica's shareholders approved the distribution of ~80% of net profit via dividends, equivalent of RON 646m.

**Outstanding performance was achieved by strong cost cuts and efficiency improvements.** Hence, FY'14 operating expenses dropped 20% vs. 2011 levels while number of employees was reduced by 27% during this period. Moreover, the company significantly reduced its debt reaching at the end of 2014 to a 10% Debt to equity ratio vs. 25% in 2011.

Meanwhile, **during first half of the year, the company marked another record high EBT of RON 725m, 42% higher compared to the same period of last year** as sales increased 19% Y/Y to RON 1.85b supported by good hydrological conditions. The company plans to invest €1.3b during the next five years, implying an investment program of around €280m per year. Most of the plans focus on commissioning new power plants in Racovita, Bretea, Rastolita, Siriu-Surduc and Dumira-Bumbesti.

*Hidroelectrica IPO should lead to a lower discount to NAV for FP*

Expect an IPO only after insolvency procedure ends. **According to latest estimates, Hidroelectrica could exit insolvency during the first half of 2016, which implies that an IPO could be concluded by the end of the year.**

For now, we value Hidroelectrica based on peer multiples considering FY'14 results. Our valuation reveals a fair value of RON 11,686m, which translates into a fair value of RON 2,330m for FP's stake.



### Hidroelectrica

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Installed capacity	6,462	x	1.4		9,111.2		-48.5%
Net profit, LFY	942	x	12.1		11,395.8		-35.5%
EBITDA, LFY	2,189.1	x	4.9	10,644.0	10,616.7		-39.9%
Net debt, LFY	27.3						
Book value, LFY	17,679.8	x	0.9		15,622.8		-11.6%
<b>AFR Equity Value</b>					<b>11,686.6</b>	<b>17,679.8</b>	<b>-33.9%</b>

Peers, LFY	Country	Installed cap (MW)	Mkt cap (€m)	P/E	EV/MW	EV/EBITDA	P/B
CENTRICA PLC	UK	7,457	16,365	12.34	3.13	3.52	4.26
CESP - Companhia Energetica	BRA	6,650	2,134	3.75	0.31	2.07	0.50
CEZ, a. s.	CZE	4,173	10,324	12.58	3.89	5.92	1.07
E.D.F.	FRA	28,300	31,546	11.06	2.54	3.81	0.90
Fortum Oyj	FIN	4,758	12,778	11.86	3.22	9.05	1.21
Iberdrola SA	ESP	45,034	37,310	16.04	1.39	9.17	1.07
NHPC Limited	IND	12,860	2,657	14.52	0.36	7.94	0.69
PGE Polska Grupa Energetyczna S	POL	5,500	6,807	7.73	1.44	3.56	0.63
TAURON Polska Energia S.A.	POL	8,638	1,490	5.22	0.42	3.58	0.31
Verbund	AUT	8,639	4,086	18.92	0.88	9.16	0.87
<b>Median of peers</b>				<b>12.10</b>	<b>1.4</b>	<b>4.9</b>	<b>0.88</b>

Source: Thomson One, Fondul Proprietatea, AFR Estimations

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

**CE Oltenia posted disappointing results for 2014 as bottom line plunged into negative territory to -RON 693m vs. RON 4.6m previously.** We value CE Oltenia based on peer multiples. However, due to high CAPEX requirements, poor management performance, low productivity we apply a hefty discount of 50%. **Thus, our valuation reveals a fair value of RON 575m, implying that FP's stake is worth ~RON 124m.** Fondul Proprietatea downwardly adjusted CE Oltenia's stake value from RON 880m in November 2013 to RON 322m in December 2013, and further reduced its stake in the company to RON 108m following December 2015 revaluation. **We do not expect an IPO in the near future as the company needs significant restructuring.** First steps have already been made, as in June 2015 approximately 2,000 employees were laid off.

### Complexul Energetic Oltenia

(RONm)	Company data		Multiples	Implied Equity Value	Book Value	Premium/Discount	
Net profit, LFY	-693.6	x	9.6	N/M		N/M	
EBITDA, LFY	203.6	x	5.6	1,132.3	-591.9	N/M	
Net debt, estimate	1,724.1						
Book value, LFY	4,706.4	x	0.6	2,891.9		-38.6%	
<b>Discount</b>					<b>50%</b>		
<b>AFR Equity Value</b>					<b>575.0</b>	<b>4,706.4</b>	<b>-87.8%</b>

Peers, LFY	Country	Mkt cap (€m)	P/E	EV/EBITDA	P/B
CEZ, a. s.	CZE	€ 10,324m	12.6	5.9	1.1
PGE Polska Grupa Energetyczna S.A.	POL	€ 6,807m	7.7	3.6	0.6
TAURON Polska Energia S.A.	POL	€ 1,490m	5.2	3.6	0.3
Neyveli Lignite Corp	IND	€ 1,907m	8.9	8.8	0.9
Public Power Corporation	GRC	€ 1,253m	13.7	6.0	0.2
<b>Average of peers</b>			<b>9.6</b>	<b>5.6</b>	<b>0.6</b>

Source: Thompson One, Fondul Proprietatea, AFR estimations

*Energy and gas supply & distribution represent RON 3.4b in reported NAV*

**RON 2.4b is invested in energy distribution and supply companies, while FP's investments in gas distribution equities account for ~RON 1b.** We value power and gas companies based on peers multiples taking into consideration 2014 net profit, EBITDA and net debt. Energy distribution and supply are provided by Electrica's and Enel's subsidiaries.



**Fondul Proprietatea lost an important opportunity to sell its minority stakes in Electrica's subsidiaries as negotiations failed. Although both parties seem decided to restart negotiations, we are reluctant in estimating a time table.** FP values Electrica's holdings at ~RON 770m, while for Electrica minority stakes worth RON 810m.

### Potential disposal of other unlisted power and gas distribution companies

Company	FP stake	NAV Value RONm	% of NAV
E.ON Distributie Romania	18%	446	3.7%
E.ON Energie Romania	13%	134	1.1%
Enel Distributie Banat	24%	640	5.3%
Enel Distributie Muntenia	12%	466	3.8%
Enel Distributie Dobrogea	24%	397	3.3%
Enel Energie Muntenia	12%	65	0.5%
Enel Energie	12%	74	0.6%
GDF Suez Energy Romania	12%	461	3.8%
Electrica Distr. Muntenia Nord	22%	236	1.9%
Electrica Distr. Transilvania Nord	22%	202	1.7%
Electrica Distr. Transilvania Sud	22%	206	1.7%
Electrica Furnizare	22%	126	1.0%
<b>TOTAL</b>		<b>RON 3,454m</b>	<b>28.4%</b>

Source: Fondul Proprietatea; Note: \* based on FP H1'15 detailed portfolio

### Enel Distributie Banat

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount	
Net profit, LFY	172.2	x	10.4		1,792.7		-27.6%	
EBITDA, LFY	328.0	x	4.8	1,588.4	2,627.5		6.1%	
Net debt, LFY	-1039.1							
Book value, LFY	2,476.5	x	0.9		2,284.0		-7.8%	
					<b>AFR Equity Value</b>	<b>2,234.7</b>	<b>2,476.5</b>	<b>-9.8%</b>

### Enel Distributie Dobrogea

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount	
Net profit, LFY	97.7	x	10.4		1,017.2		-35.8%	
EBITDA, LFY	240.5	x	4.8	1,164.6	1,631.8		2.9%	
Net debt, LFY	-467.2							
Book value, LFY	1,585.1	x	0.9		1,461.9		-7.8%	
					<b>AFR Equity Value</b>	<b>1,370.3</b>	<b>1,585.1</b>	<b>-13.5%</b>

### Enel Distributie Muntenia

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount	
Net profit, LFY	240.8	x	10.4		2,506.2		-39.3%	
EBITDA, LFY	435.7	x	4.8	2,109.4	3,986.4		-3.4%	
Net debt, LFY	-1,877.0							
Book value, LFY	4,125.9	x	0.9		3,805.3		-7.8%	
					<b>AFR Equity Value</b>	<b>3,432.6</b>	<b>4,125.9</b>	<b>-16.8%</b>

Peers, LFY	Country	Mkt cap	P/E	EV/EBITDA	P/B	
Electricite de France SA	FRA	€31,546m	11.1	3.8	0.9	
Iberdrola SA	ESP	€37,310m	16.0	9.2	1.1	
ENEA SA	POL	€1,469m	6.8	3.8	0.5	
Luz del Sur S.A.A.	PER	€1,359m	10.4	8.8	0.3	
Enel	ITA	€37,800m	12.6	4.8	1.0	
EDP	PRT	€9,233m	8.9	7.2	1.3	
CEZ, a. s.	CZE	€10,324m	12.6	5.9	1.1	
PGE Polska Grupa Energetyczna S.	POL	€6,807m	7.7	3.6	0.6	
			<b>Median of peers</b>	<b>10.4</b>	<b>4.8</b>	<b>0.9</b>

Source: Thomson One, Fondul Proprietatea, Companies data, Securities, AFR estimates



## Company update – September 2015

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

**Our valuation for the three Enel distribution subsidiaries reveals a cumulated fair value of RON 1.3b for FP's stakes** vs. RON 1.5b reported by Fondul Proprietatea. All three distribution companies have high profitability margins, outperforming their peers: EBITDA margin of ~50% and net profit margins of over ~25%.

*We estimate Electrica distribution and supply companies at ~RON 780m*

As far as Electrica subsidiaries are concerned, we value them based on our March 24, 2015 Electrica report as we computed Electrica's value based on a sum of parts valuation according to a three stage DCF model. **Hence, FP's stakes in EDMN, EDTS, EDTN and Electrica Furnizare are estimated at a cumulative value of RON 776m.**

On the other hand, energy supply side seems less appealing, as its margins are lower and competition is fierce on this segment. Based on peer comparison, FP's stake in Enel Energie and Enel Energie Muntenia is estimated at RON 166m vs. RON 140 reported by FP.

Enel Energie							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Premium/Discount	
Net profit, LFY	129.9	x	9.2		1,193.1	119.8%	
EBITDA, LFY	83.3	x	4.7	388.3	959.4	76.7%	
Net debt, LFY	-571.2						
Book value, LFY	542.9	x	0.9		471.5	-13.2%	
<b>AFR Equity Value</b>					<b>874.7</b>	<b>542.9</b>	<b>61.1%</b>

Enel Energie Muntenia							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Premium/Discount	
Net profit, LFY	46.8	x	9.2		429.4	-21.5%	
EBITDA, LFY	26.1	x	4.7	121.6	633.4	15.8%	
Net debt, LFY	-511.8						
Book value, LFY	547.1	x	0.9		475.1	-13.2%	
<b>AFR Equity Value</b>					<b>512.6</b>	<b>547.1</b>	<b>-6.3%</b>

Peers, LFY	Country	Mkt cap	P/E	EV/EBITDA	P/B
Electricite de France SA	FRA	€31,546m	11.1	3.8	0.9
ENEA SA	POL	€1,469m	6.8	3.8	0.5
Enel	ITA	€37,800m	12.6	4.8	1.0
EDP	PRT	€9,233m	8.9	7.2	1.3
PGE Polska Grupa Energetyczna S..	POL	€6,807m	7.7	3.6	0.6
<b>Average of peers</b>			<b>9.2</b>	<b>4.7</b>	<b>0.9</b>

Source: Thomson One, Fondul Proprietatea, Companies data, Securities, AFR estimates

Gas segment is represented by E.ON Gaz Distributie, E.ON Energie Romania and GDF Suez Romania. **Among gas supply companies, GDF Suez is the most valuable, with an equity value of RON 5.36b based on peers valuation.** FP owns 12% of GDF Suez's share capital.

As far as E.ON stakes are considered, E.ON merged the electricity distribution company E.ON Moldova Distributie with E.ON Gaz Distributie and the new company was named E.ON Distributie Romania. Hence, FP's stake in the new entity is 18%.



## Company update – September 2015

### E.ON Energie Romania

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	94.0	x	14.6		1,370.3		70.4%
EBITDA, LFY	153.0	x	8.7	1,327.6	1,119.5		39.2%
Net debt, LFY	208.1						
Book value, LFY	804.3	x	1.4		1,096.6		36.3%
<b>AFR Equity Value</b>					<b>1,195.5</b>	<b>804.3</b>	<b>48.6%</b>

### E.ON Distributie Romania

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	151.0	x	14.6		2,201.3		-32.6%
EBITDA, LFY	495.0	x	8.7	4,295.3	4,132.4		26.6%
Net debt, LFY	162.8						
Book value, LFY	3,264.9	x	1.4		4,451.2		36.3%
<b>AFR Equity Value</b>					<b>3,595.0</b>	<b>3,264.9</b>	<b>10.1%</b>

### GDF Suez

(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	390.6	x	14.6		5,694.6		62.9%
EBITDA, LFY	628.5	x	8.7	5,454.0	5,617.1		60.7%
Net debt, LFY	-163.0						
Book value, LFY	3,496.0	x	1.4		4,766.4		36.3%
<b>AFR Equity Value</b>					<b>5,359.4</b>	<b>3,496.0</b>	<b>53.3%</b>

Peers, LFY	Country	Mkt cap	P/E	EV/EBITDA	P/B
Enagas SA	ESP	€6,004m	14.8	10.6	2.7
SNAM SPA	ITA	€15,509m	14.4	10.4	2.2
GAS NATURAL SDG	ESP	€17,397m	11.9	6.6	1.2
Aygaz AS	TUR	€975m	13.2	16.3	1.2
HERA SPA	ITA	€3,412m	20.9	7.0	1.5
IREN SPA	ITA	€1,643m	16.5	6.2	0.9
<b>Median of peers</b>			<b>14.6</b>	<b>8.7</b>	<b>1.4</b>

Source: Thomson One, Fondul Proprietatea, Companies data, Securities, AFR estimates

*CN Aeroporturi Bucuresti might prove to be a worthy investment...*

**As far as airports are concerned, the only airport worth mentioning is CN Aeroporturi Bucuresti.** We see high growth potential for this company as Romania should eventually become a Schengen member. Hence, we expect the number of passenger to increase and we should see also some improvements in operating activity. **For 2014, the company reported a net profit RON 99m, 43% higher Y/Y on the back of 11% Y/Y increase in sales as number of passengers increased 8.8% Y/Y to 8.3m.** We apply a 30% discount to peers multiples to account for significant lower number of passengers. Based on peer multiples our valuation implies an equity value of around RON 2.1b. According to Government officials, the decision of CNAB IPO has already been taken and we might see an IPO in the near future.





<b>C.N. Aeroporturi Bucuresti</b>							
(RONm)	<b>Company data</b>		<b>Multiples</b>	<b>Implied EV</b>	<b>Implied Equity Value</b>	<b>Book Value</b>	<b>Premium/Discount</b>
Net profit, LFY	98.8	x	<b>21.1</b>		2,084.3		-48.7%
EBITDA, LFY	448.0	x	<b>9.0</b>	4,022.1	3,998.9		-1.6%
Net debt, LFY	23.1						
Book value, LFY	4,064.4	x	<b>1.8</b>		N/M		N/M
<b>Discount</b>					<b>30%</b>		
<b>AFR Equity Value</b>					<b>2,129.1</b>	<b>4,064.4</b>	<b>-47.6%</b>

<b>Peers, LFY</b>	<b>Country</b>	<b>Mkt cap</b>	<b>P/E</b>	<b>EV/EBITDA</b>	<b>P/B</b>
Aeroports de Paris SA	FRA	€9,965m	24.8	10.9	2.5
Fraport AG	DEU	€4,935m	21.0	10.1	1.5
Flughafen Wien	AUT	€1,740m	21.1	9.0	1.8
Flughafen Zurich	CHE	€4,025m	20.4	8.7	2.0
Lufthansa	DEU	€5,524m	24.4	3.4	1.4
<b>Median of peers</b>			<b>21.1</b>	<b>9.0</b>	<b>1.8</b>

Source: Thomson One, Fondul Proprietatea, Company data, Securities, AFR estimates

...alongside Administratia Porturilor Maritime, which both have high growth potential. We value businesses related to port industry based on peer multiples. Out of all of them, **our attention falls over Administratia Porturilor Maritime Constanta, for which fair value stands at around RON 694m.** We apply a 30% discount vs. peers due to old infrastructure, high CAPEX needs and lower sales. The company reported in FY'14 a net profit of RON 70m, 8% higher Y/Y, which implies a net margin of ~26%. According to FP's information, the company is on short list of State's IPOs.

<b>ADMINISTRATIA PORTURILOR MARITIME CONSTANTA</b>							
(RONm)	<b>Company data</b>		<b>Multiples</b>	<b>Implied EV</b>	<b>Implied Equity Value</b>	<b>Book Value</b>	<b>Premium/Discount</b>
Net profit, LFY	70.3	x	<b>14.6</b>		1,023.9		140.6%
EBITDA, LFY	128.6	x	<b>8.1</b>	1,046.8	1,048.3		146.3%
Net debt, LFY	-1.5						
Book value, LFY	425.6	x	<b>2.1</b>		901.8		111.9%
<b>Discount</b>					<b>30%</b>		
<b>AFR Equity Value</b>					<b>693.9</b>	<b>425.6</b>	<b>63.1%</b>

<b>ADMINISTRATIA CANALELOR NAVIGABILE</b>							
(RONm)	<b>Company data</b>		<b>Multiples</b>	<b>Implied EV</b>	<b>Implied Equity Value</b>	<b>Book Value</b>	<b>Premium/Discount</b>
Net profit, LFY	2.3	x	<b>14.6</b>		33.7		-59.6%
EBITDA, LFY	20.0	x	<b>8.1</b>	163.0	164.3		96.6%
Net debt, LFY	-1.3						
Book value, LFY	83.5	x	<b>2.1</b>		177.0		111.9%
<b>Discount</b>					<b>30%</b>		
<b>AFR Equity Value</b>					<b>87.5</b>	<b>83.5</b>	<b>4.7%</b>

<b>Peers, LFY</b>	<b>Country</b>	<b>Mkt cap</b>	<b>P/E</b>	<b>EV/EBITDA</b>	<b>P/B</b>
Kuehne & Nagel Intl Ag B	CHE	€14,486m	23.8	13.9	7.3
Novorossiysk Commercial Sea Port	RUS	€963m	N/M	N/M	1.4
Braemar Shipping Services plc	UK	€189m	16.7	9.8	1.3
Thessaloniki Port Authority S.A.	GRC	€225m	10.6	5.3	1.8
Skil Ports & Logistics	UK	€24m	N/M	N/M	0.3
Luka Ploce	HRV	€40m	7.1	3.6	0.7
<b>Average of peers</b>			<b>14.6</b>	<b>8.1</b>	<b>2.1</b>

Source: Thomson One, Fondul Proprietatea, Companies data, Securities, AFR estimates



Romanian state did not receive a binding offer from the Belgian postal operator (Bpost) for acquiring 51% of Posta Romana, as it was previously expected to happen. Hence, according to representatives of Ministry for Information Society, the privatisation process will be reanalysed. We value Posta Romana based on peer valuation. We apply a 50% discount to peers as Posta Romana needs high investments in order to become efficient and more profitable. According to our valuation, Posta Romana is worth ~RON 227m (vs. FP's fair value RON 224m).

Posta Romana							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	22.9	x	<b>14.89</b>		340.8		149.5%
EBITDA, LFY	98.7	x	<b>7.59</b>	749.3	661.5		384.3%
Net debt, LFY	87.8						
Book value, LFY	136.6	x	<b>2.65</b>		361.9		165.0%
<b>Discount</b>					<b>50%</b>		
<b>AFR Equity Value</b>					<b>227.4</b>	<b>136.6</b>	<b>66.5%</b>

Peers, LFY	Country	Mkt cap	EV/EBITDA	P/B
Deutsche Post AG	DEU	€29,742m	14.36	3.17
Oesterreichische Post AG	AUT	€2,228m	15.21	3.15
UK Mail Group PLC	GBR	€296m	12.54	3.16
Pekas	POL	€85m	17.44	1.11
Royal Mail	UK	€6,410m	10.67	1.19
<b>Bpost</b>	<b>BEL</b>	<b>€4,230m</b>	<b>14.41</b>	<b>6.20</b>
<b>Average of peers</b>			<b>14.89</b>	<b>2.65</b>

Source: Reuters Knowledge, Securities, Fondul Proprietatea, Companies Data, AFR estimates

## Financials

### Financial statements

FP posted a net profit of over RON 1b in 2014...

Fondul Proprietatea reported an **outstanding net profit for 2014 of RON 1,013m as it sold 4.99% of Romgaz's share capital, 13.5% of Transelectrica and 23.6% of COTE**. For 2015, excluding any disposals, Fondul Proprietatea estimates a bottom line of RON 487m, while dividend income was expected at RON 598.3m.

..while in H1'15 bottom line reached RON 356m

**For H1'15, as FP sold only minority stakes from non-performing assets (Electroconstructia Elco Cluj SA, SIFI CJ Agro and Forserv) dividend income was the main source of profit.** Hence, FP posted for H1'15 a net profit of RON 356m, significantly lower compared to the same period of last year when large transactions impacted bottom line.

Fondul Proprietatea: RAS Financial Results							
(RON m)	2011	2012	2013	2014	2015B	H1'14	H1'15
Dividend income	519.1	619.0	649.7	682.1	598.3	649.8	433.2
Revenues from disposals	13.4	208.1	573.1	1,079.0	N/A	762.4	1.9
Interest income	41.1	34.9	36.1	20.9	0.0	8.4	1.5
<b>Total revenues</b>	<b>617.9</b>	<b>871.7</b>	<b>1,311.2</b>	<b>1,822.7</b>	<b>598.3</b>	<b>1,452.6</b>	<b>438.6</b>
Expenses with disposals	4.6	195.1	528.7	661.7	N/A	328.2	5.0
Commissions and fees	17.3	16.2	26.3	30.9	14.9	14.1	9.2
Personnel expenses	0.8	0.7	0.9	1.1	1.1	0.5	0.6
Third party expenses	36.8	42.6	59.4	86.5	93.0	35.7	57.9
Other expenses	12.8	50.2	13.7	12.9	2.0	4.6	4.0
<b>Total expenses</b>	<b>72.3</b>	<b>304.8</b>	<b>629.0</b>	<b>793.2</b>	<b>111.1</b>	<b>383.2</b>	<b>76.7</b>
<b>Net profit</b>	<b>543.8</b>	<b>567.0</b>	<b>682.2</b>	<b>1,012.9</b>	<b>487.3</b>	<b>1,054.5</b>	<b>356.6</b>

Source: FP RAS financial statements;



## Company update – September 2015

According to IFRS financial statements, Fondul Proprietatea posted for 2014 a net profit of RON 427m vs. –RON 39m previously. For H1'15 FP posted according to IFRS a loss of RON 89.6m vs. RON 982m gains posted for the same period of last year.

Fondul Proprietatea: IFRS statements						
RON m	2013	2014	% Δ	H1'14	H1'15	% Δ
Gross dividend income	652.4	687.4	5%	655.1	434.5	-34%
Gain on disposal of equity inv AFS , net	115.1	645.5	N/M	495.0	(0.0)	N/M
Net gain from equities at fair value	422.4	(604.2)	N/M	166.1	(326.6)	N/M
Impairment losses on equity inv.	(835.8)	(344.1)	-59%	(296.4)	(326.6)	10%
Other income	77.8	33.6	-57%	26.0	327.2	N/M
Total operating expenses	(88.4)	(113.6)	29%	(49.4)	(68.6)	39%
Profit before income tax	343.4	304.6	-11%	996.4	39.8	-96%
Income tax expense	(382.1)	122.6	N/M	(14.5)	(129.5)	N/M
<b>Profit of the period</b>	<b>(38.7)</b>	<b>427.2</b>	<b>N/M</b>	<b>981.9</b>	<b>(89.6)</b>	<b>N/M</b>

Source: Fondul Proprietatea IFRS financial statements

### Dividend income

*This year dividend income is ~20% lower compared to the same period of last year*

**Based on FP's data, FY'15 dividend income stands at around RON 567m** (vs. RON 682m previously). **Main contributor to FP's revenues was, surprisingly, Hidroelectrica.** In spite of being under insolvency procedure the hydro power producer distributed dividends. Hence, **FP cashed RON 129m from Hidroelectrica.**

On a less positive tone, as SNP's profit plunged due to falling oil prices, **dividends received from the oil & gas producer decreased to RON 120m vs. RON 331m previously.** Moreover, as FP reduced its stake in Romgaz dividend income fell to RON 121m vs. RON 148m previously, despite increasing profitability for the gas producer. Lower bottom line registered by SNN also negatively impacted FP's revenues as the closed-end fund cashed this year only RON 6.9m vs. RON 28m in 2014.

Fondul Proprietatea: Dividends collected from portfolio companies						
(RONm)	2010	2011	2012	2013	2014	2015
<b>Listed companies</b>						
OMV Petrom	0.0	201.6	353.1	319.0	331.4	120.5
Romgaz	87.8	106.0	140.6	158.9	148.5	121.4
Nuclearelectrica	0.0	0.0	0.0	2.3	27.9	6.9
Conpet	3.8	7.0	6.6	8.4	8.8	3.1
Transelectrica	0.5	1.1	10.9	4.0	22.0	0.0
Transgaz	23.0	50.8	52.5	37.6	0.0	0.0
Alro	11.2	13.5	19.4	0.0	0.0	0.0
BRD - Groupe Societe Generale	0.0	2.0	3.6	0.0	0.0	0.0
Primcom	1.7	19.9	0.0	0.0	0.0	0.0
Romaero	0.0	0.1	0.0	0.0	0.0	0.0
Oil Terminal	0.0	0.2	0.1	0.0	0.0	0.0
IOR SA	0.0	0.0	0.0	0.0	0.0	0.0
Banca Transilvania	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total listed</b>	<b>128.0</b>	<b>402.2</b>	<b>586.9</b>	<b>530.2</b>	<b>538.6</b>	<b>251.5</b>



Unlisted companies	2010	2011	2012	2013	2014	2015
Hidroelectrica	6.5	52.5	0.0	0.0	0.0	128.9
Electrica Furnizare	0.0	0.0	0.0	7.8	19.6	38.3
Electrica Distributie Muntenia Nord	0.0	0.0	1.8	16.2	23.2	24.7
GDF Suez Energy	0.0	9.6	0.0	22.8	33.6	24.0
Enel Distributie Banat	0.0	20.2	0.0	0.0	0.0	20.7
Electrica Distributie Transilvania Sud	0.0	0.0	0.0	0.0	12.7	17.6
Electrica Distributie Transilvania Nord	0.0	0.0	0.0	0.0	11.7	16.7
Enel Distributie Dobrogea	0.0	13.5	0.0	0.0	0.0	10.5
CN Aeroporturi Bucuresti	6.6	9.9	9.4	9.1	12.3	10.2
SN a Sarii	0.0	0.8	0.0	9.3	19.8	10.2
CNA Porturilor Maritime	0.0	0.0	6.6	5.4	10.1	6.5
Enel Disctributie Muntenia	0.0	0.0	0.0	0.0	0.0	0.0
AIT Traian Vuia	0.4	1.5	1.7	0.7	0.0	0.0
CNA Porturilor Dunarii Fluviale	0.4	0.6	0.7	0.5	0.0	0.0
CNA Porturilor Dunarii Maritime	0.0	0.2	0.2	0.2	0.3	0.0
CNA Canalelor Navigabile	0.2	0.2	0.5	0.9	0.2	0.0
CE Oltenia	0.2	0.0	0.0	10.3	0.0	0.0
E.ON Distributie Romania	0.0	0.0	0.0	29.9	0.0	0.0
E.ON Energie Romania	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total unlisted</b>	<b>138.8</b>	<b>215.1</b>	<b>168.0</b>	<b>243.4</b>	<b>143.5</b>	<b>315.9</b>
<b>TOTAL</b>	<b>179.0</b>	<b>519.1</b>	<b>619.0</b>	<b>619.8</b>	<b>682.1</b>	<b>567.4</b>
<b>DPS FP*</b>	<b>0.0314</b>	<b>0.0385</b>	<b>0.0409</b>	<b>0.0500</b>	<b>0.0500</b>	<b>0.0500</b>
<b>DY FP</b>		<b>9.0%</b>	<b>7.4%</b>	<b>6.0%</b>	<b>5.6%</b>	<b>6.3%</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>

Source: BSE, Fondul Proprietatea, AFR Estimations

Note: Based on RAS data; \*paid during next year; special distribution for '13, '14 & '15

### August 2015 NAV

FP's NAV stands at RON 1.1457 per share

Fondul Proprietatea's net asset value reached RON 12,147m in August 2015, 19% lower compared to the same period of last year and 8% lower vs. the end of last year.

Fondul Proprietatea: Reported NAV							
(RON m)	Aug-15	% Δ (M/M)	% Δ (YTD)	% Δ (Y/Y)	Jul-15	Dec-14	Aug-14
<b>Long term financial assets</b>	<b>6,475</b>	<b>0%</b>	<b>0%</b>	<b>4%</b>	<b>6,475</b>	<b>6,486</b>	<b>6,246</b>
Listed shares	0	N/M	-97%	-97%	0	7	9
Unlisted shares	6,474	0%	0%	4%	6,474	6,478	6,236
<b>Short term financial assets</b>	<b>5,735</b>	<b>-11%</b>	<b>-12%</b>	<b>-24%</b>	<b>6,415</b>	<b>6,487</b>	<b>7,517</b>
Receivables	72	-12%	N/M	6262%	82	9	1
Cash	0.6	4%	-92%	-75%	1	7	2
Listed shares	5,735	-11%	-12%	-24%	6,415	6,487	7,517
Government securities	152	84%	-22%	-84%	83	195	933
Bank deposits	236	-26%	116%	-28%	320	109	326
<b>Total assets</b>	<b>12,672</b>	<b>-5%</b>	<b>-5%</b>	<b>-16%</b>	<b>13,376</b>	<b>13,293</b>	<b>15,026</b>
Share capital	10,074	-8%	-15%	-22%	10,966	11,815	12,861
Revaluation differences	3,411	-17%	-12%	-11%	4,090	3,883	3,828
Period result	473	-1%	-53%	-53%	479	1,013	1,010
Reserves	-3,505	-20%	-16%	0%	-4,396	-4,157	-3,492
Others	1,695	0%	149%	131%	1,695	682	734
<b>Total Equity</b>	<b>12,147</b>	<b>-5%</b>	<b>-8%</b>	<b>-19%</b>	<b>12,834</b>	<b>13,237</b>	<b>14,940</b>
<b>Total liabilities</b>	<b>524</b>	<b>0%</b>	<b>N/M</b>	<b>514%</b>	<b>524</b>	<b>41</b>	<b>85</b>
<b>NAV</b>	<b>12,147</b>	<b>-5%</b>	<b>-8%</b>	<b>-19%</b>	<b>12,834</b>	<b>13,237</b>	<b>14,940</b>
<b>NAV per share (RON)</b>	<b>1.1457</b>	<b>-5%</b>	<b>-6%</b>	<b>-9%</b>	<b>1.2105</b>	<b>1.2125</b>	<b>1.2639</b>

Source: Fondul Proprietatea



**August bottom line landed 53% lower vs. the same period of last year at RON 473m** mostly due to outstanding profitability recorded last year as FP concluded the accelerated book building offering for 5% of Romgaz's share capital and cashed RON 645m. Bear in mind that this year Fondul Proprietatea contracted a credit facility in total amount of RON 500m in order to cover cash necessities and did not make any significant changes in portfolio structure. Hence, cash position at the end of August 2015 stood at RON 389m, while liabilities reached RON 524m.

### Changes in reporting standards

*FP will start reporting under IFRS from 2016...*

*...and financial assets will be recorded at fair value vs. historical cost currently.*

**According to latest FSA instruction, all companies under Financial Authority supervision will report under IFRS starting with January 2016.** Initially, the transition to IFRS should have been made in January 2015, but FSA postponed it until next year. Major differences relay on:

- Under RAS all financial assets are valued at cost less impairment, while under IFRS listed and unlisted investments are valued at fair value (only unlisted investments for which a fair value cannot be reliably measured are valued at cost less impairment);
- Adjustments for impairment of financial assets are recorded directly through equity in a separate (negative) reserve account and can be reversed under RAS, while IFRS allows recording adjustments for impairment only through P&L and cannot be reversed;
- RAS allows recognition of bonus shares from portfolio companies, while under IFRS bonus shares received from portfolio companies that increased their share capital through incorporation of reserves are not recognised;
- Under RAS dividend income is presented net of withholding tax while under IFRS dividend income is presented gross of withholding tax (which is included in income tax expense item);
- RAS allows adjustments for impairments of financial assets to be recorded in P&L (for those recorded in 2006&2007) and through reserves (later than 2008) and to be reversed vs. recognition only in P&L under IFRS (and cannot be reversed).



## DISCLOSURE APPENDIX

### Analyst Certification

The research analyst(s) undersigned and responsible for the preparation of this report certify (-ies) that a) the views expressed in this report accurately reflect their (his/her) personal views about any and all of the securities or issuers mentioned in this report and b) no part of the analyst's compensation was, is, or will be, directly or indirectly related to the specific recommendations or views expressed in this research report. Analysts receive compensation based upon various factors, including the quality of research, productivity, experience, individual reputation, competitive factors and feedback from clients.

### Company specific regulatory disclosures

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

Company	Reuters	Rating	Price	Price date	Disclosure
Fondul Proprietatea SA	FP.BX	BUY	0.7910	23/09/2015	NONE

- Alpha Finance Romania and/or its affiliate(s) has acted as manager/co-manager/adviser in the underwriting or placement of securities of this company within the past 12 months
- Alpha Finance Romania and/or its affiliate(s) has received compensation for investment banking services from this company within the past 12 months
- Alpha Finance Romania makes a market in the securities of this company
- Alpha Finance Romania and its affiliate(s) owns five percent or more of the total share capital of this company
- The company and its affiliate(s) owns five percent or more of the total share capital of Alpha Finance Romania and its affiliates
- Alpha Finance Romania has sent the research report to the company prior to publication for factual verification
- Following 6, Alpha Finance Romania has changed the contents of the initially sent research report, with respect to: no change
- Alpha Finance Romania has received compensation from the company for the preparation of this research report

#### 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
01/10/2014	0.9490 vs. 0.7910	1.0791 vs. 0.9426	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

### Regulatory disclosures

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FUNDAMENTAL RATING		
TRP > 12%	12% > TRP > -12%	TRP < -12%
BUY	HOLD	SELL

TRP: Total Return Potential



## General disclaimer

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

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