

## FONDUL PROPRIETATEA

Closed-end investment fund

## BUY

8 May 2013

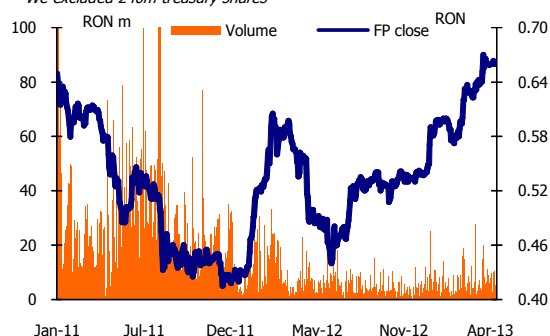
Last close RON 0.6605  
Target price **RON 0.8514**

### Company Update

RIC: FP.BX	BQ: FP RO		
Target price	RON 0.8514	€ 0.1972	
Previous	RON 0.7939	€ 0.1838	
Total stock return		29%	
<b>Valuation</b>			
TP discount to reported NAV		-27%	
Last close discount to reported NAV		-43%	
<b>Per share</b>	<b>2011</b>	<b>2012</b>	<b>2013F</b>
EPS	0.0406	0.0430	0.0430
DPS	0.0385	0.0409	0.0408
DY	5.8%	6.2%	6.2%
<b>(RON m)</b>			
	<b>Reported Value (E)</b>	<b>AFR Bottom Value</b>	<b>% Δ *</b>
<b>Traded shares, o/w</b>	<b>6,405</b>	<b>6,405</b>	<b>-2%</b>
Listed - majors	6,253	6,253	-1%
Listed - other	152	152	-66%
<b>Unlisted shares, o/w</b>	<b>8,116</b>	<b>4,075</b>	<b>5%</b>
Unlisted (privately controlled)	2,018	1,927	-5%
Unlisted (state controlled)	6,043	2,149	9%
<b>Portfolio value</b>	<b>14,521</b>	<b>10,480</b>	<b>2%</b>
Total assets	15,292	11,251	
<b>NAV**</b>	<b>15,239</b>	<b>11,215</b>	<b>15,488</b>
<b>NAV/share</b>	<b>1.1586</b>	<b>0.8514</b>	<b>1.1758</b>
<b>Trading data</b>			
	<b>1w</b>	<b>1m</b>	<b>12m</b>
Abs. Performance	0%	3%	19%
H   L 52w	0.6700	0.4400	
Mkt. cap.(b)	RON 9.1	€ 2.1	
<b>Shareholding</b>			
Shares outstanding (m)***	13,172.5		
Manchester Securities Corp	16.5%		
Beresford Energy Corporation	1.9%		
City of London Investment	9.9%		
Fondul Proprietatea***	0.3%		
Others	71.5%		

\*Δ% AFR Fair value vs. Reported value; \*\*as reported on March 2013

\*\*\*We excluded 240m treasury shares



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### The only way is up

We update our view on Fondul Proprietatea with a **BUY recommendation** and a **target price of RON 0.8514 per share** revealing an **upside potential of 29%** against current trading levels as in our opinion FP should trade at a **27% discount to reported NAV**.

**However, the successful execution of the 2<sup>nd</sup> buy-back programme could raise our target price by 8.7% towards RON 0.9253**, implying a 20% discount to reported NAV.

**Eventually**, after being delayed for approximately one year, due to the actions in Court started by Ms. Ioana Sfiraiala, which blocked the registration of the shareholders' decision, **the buy-back programme was effectively launched on the 12<sup>th</sup> of April 2013**.

One of the most important effect of the buy-back programme, if successfully executed, is that the number of outstanding shares is reduced, which translates into **higher relative ownership stake of each investor** and a **higher NAVPS**.

Taking into consideration that YTD average daily traded volume stood at 19m shares and the buy-back programme is subject to a 25% of the daily trading volume restriction, then **FP would need approximately 231 trading days to repurchase the shares** (at the maximum allowed limit).

**The 2<sup>nd</sup> buy-back programme would have a negative impact on FP's assets** (RON 707.2m) and on **P&L due to lost interest income on cash & cash equivalents** (of RON 19.8m), **but a RON 0.0469 positive impact on NAV per share**, i.e. of 4.1% (treasury shares are excluded for the NAV per share calculation).

Also, **cancellation of the repurchased shares will be translated into a RON 59.8m negative impact on FP's bottom line** (as FP will incur additional costs related to the 16% profit tax on the gain on repurchased shares cancellation) and a **RON 0.005 per share negative impact on NAV per share** (NAV should reach RON 1.1988 per share, 3.6% higher compared to March 2013). **In our view cancellation of the repurchased shares will not be realised earlier than Q4'14**, as the redemption programme will last until September 9, 2014 and the cancellation of the repurchased shares will take effect 60 days after the EGSM decision is published in the Official Gazette.

According to our estimations in 2013 FP **could cash in RON 584.2m as dividends** (-5.7% Y/Y), mainly due to 9.7% decrease in dividends from OMV Petrom, which account for 54.7% of FP's total dividend income (despite the fact that OMV Petrom posted 5% higher net income in 2012, shareholders have recently approved the decrease of payout ratio from 47% in 2011 to 40% in 2012). In our view **FY'13 DPS could reach RON 0.0408** (-0.1% Y/Y), implying a DY of 6.2% if current market price is considered (we assumed that until the EOY FP will buy back approximately 80% of the maximum 1.1b FP shares).

Despite the fact that Romanian government delayed several times the sale of stakes in State-owned companies (now the deadline is December 2013), it seems that it successfully started to honour its commitments made under the agreements with international financial institutions once with the successful closing of Transgaz SPO. Moreover, considering that **the market is attaching a value of only RON 2.1b for the unlisted companies** (FP's current market capitalisation of RON 9.1b is 27.8% above the value of listed holdings plus the net cash position, implying a 75.6% market discount for unlisted companies), it means that FP's price will be positively impacted by the IPOs for the sale of stakes in unlisted companies, if successfully completed.



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## Investment case

### Fondul Proprietatea target price: RON 0.8514/share

We update our view on Fondul Proprietatea with a **BUY recommendation** and a **target price of RON 0.8514 per share** revealing an **upside potential of 29%** against current trading levels as in our opinion FP should trade at a **27% discount to reported NAV**.

**However, the successful execution of the 2<sup>nd</sup> buy-back programme could raise our target price by 8.7% towards RON 0.9253**, implying a 20% discount to reported NAV.

Our fundamental valuation provides a price range delimited by a bottom value (RON 0.8514 per share) and a fair value (RON 1.1758 per share). We kept unchanged our valuation methodology and AFR NAV is computed based on the detailed portfolio as of FY'12, on the March 2013 NAV, financial results for 2011 or 2012 (if available) for the unlisted companies and on closing prices as of 7<sup>th</sup> of May for all BSE and Vienna-listed companies that have been traded in the last 30 trading days.

**In April 2012 FP's shareholders approved the 2<sup>nd</sup> buy-back programme to repurchase 1.1b FP shares** at a price range between RON 0.2 – 1.5, **representing 8.2% in FP's current paid share capital** (the programme will last 18 months starting with the 10<sup>th</sup> of April). The execution of the redemption programme is subject to available cash and a 25% of the daily trading volume restriction. **Eventually**, after being delayed for approximately one year, due to the actions in Court started by Ms. Ioana Sfiraiala, which blocked the registration of the shareholders' decision, **the buy-back programme was effectively launched on the 12<sup>th</sup> of April 2013**.

One of the most important effect of the buy-back programme, if successfully executed, is that the number of outstanding shares is reduced, which translates into a **higher relative ownership stake of each investor** and a **higher NAVPS**.

If we consider the 9<sup>th</sup> of April closing price of RON 0.641 (the day before FP announced that the programme will be launched in the following days), the total value of the buy-back programme stands at RON 707.2m (including brokerage fees). Considering that in March 2013 FP had cash & cash equivalents amounting to RON 768.1m, in 2013 FP has to pay dividends of RON 538.6m and to receive dividends of RON 584.2m, it implies that **FP has enough cash to acquire the maximum number of 1.1b shares**.

Taking into consideration that YTD average daily traded volume (on regular and deal market) stood at 19m shares and the buy-back programme is subject to a 25% of the daily trading volume restriction, then **FP would need approximately 231 trading days to repurchase the shares** (at the maximum allowed limit).

**The 2<sup>nd</sup> buy-back programme would have a negative impact on FP's assets** (RON 707.2m) and on **P&L due to lost interest income on cash & cash equivalents** (of RON 19.8m), **but a RON 0.0469 positive impact on NAV per share**, i.e. of 4.1% (according to the new NAV calculation methodology treasury shares are excluded for the NAV per share calculation).

Also, **cancellation of the repurchased shares will be translated into a RON 59.8m negative impact on FP's bottom line** (as FP will incur additional costs related to the 16% profit tax on the gain on repurchased shares cancellation) and a **RON 0.005 per share negative impact on NAV per share** (NAV should reach RON 1.1988 per share, 3.6% higher compared to March 2013). **In our view cancellation of the repurchased shares will not be realised earlier than Q4'14**, as the redemption programme will last until September 9, 2014 and the cancellation of the repurchased shares will take effect 60 days after the EGSM decision is published in the Official Gazette.

On the 25<sup>th</sup> of April 2013 O&E GSM, FP's shareholders approved the distribution of a **gross dividend of RON 0.04089 per share, implying a DY of 6.2%** if current price considered (the dividends are payable starting with the 28<sup>th</sup> of June and record date is 15<sup>th</sup> of May). The main source of cash distributions to shareholders is the dividend income from portfolio companies.

According to our estimations in 2013 FP **could cash in RON 583.2m as dividends** (-5.7% Y/Y), mainly due to 9.7% decrease in dividends from OMV Petrom, which account for 54.7% of FP's total dividend income (despite the fact that OMV Petrom posted 5% higher net income in 2012, shareholders have recently approved the decrease of payout ratio from 47% in 2011 to 40% in 2012). In our view **FY'13 DPS could reach RON 0.0408** (-0.1% Y/Y), implying a DY of 6.2% if current market price is considered (we assumed that until the EOY FP will buy back approximately 80% of the maximum 1.1b FP shares).

the 2<sup>nd</sup> buy-back programme has been launched

... with positive impact on relative ownership and NAV per share

The buyback will have a positive impact on NAV per share but a...

... negative impact on FY'14 P&L

FP's DY remains elevated despite the fact that...

... in 2013 FP will cash in approximately 5.7% lower dividends



**76% market discount for unlisted companies**

Despite the fact that Romanian government delayed several times the sale of stakes in State-owned companies (now the deadline is December 2013), it seems that it successfully started to honour its commitments made under the agreements with international financial institutions once with the successful closing of Transgaz SPO. Moreover, considering that **the market is attaching a value of only RON 2.1b for the unlisted companies** (FP's current market capitalisation of RON 9.1b is 27.8% above the value of listed holdings plus the net cash position, implying a 75.6% market discount for unlisted companies), it means that FP's price will be positively impacted by the IPOs for the sale of stakes in unlisted companies, if successfully completed.

FP's share price hiked 20% YTD and outperformed BET-NG index by 18%. In our opinion FP will buy-back approximately 80% of the maximum number of 1.1b FP shares until EOY, which should support the current price and is a trigger for further appreciation towards our target price of RON 0.8514/share.

## Financials

**... high dividends from portfolio companies**

**gains from Azomures divestment offset by losses from Austrian banks investments**

### Profit&Loss Account at FY'12

For FY'12 FP posted a **net profit of RON 567m** (+4.3% Y/Y), on the back of 41.1% Y/Y higher revenues of RON 871.7m and 4 times higher expenses of RON 304.8m.

**Revenues from financial assets increased by 19.2% Y/Y to RON 619m**, due to a higher level of dividend distributions from portfolio companies (mainly OMV Petrom RON 353.1m, Romgaz RON 140.6m, Transgaz RON 52.5m and Alro RON 19.4m).

**In FY'12 FP registered a pre-tax net gain from disposal of financial assets of RON 13.1m** (+48.6% Y/Y), related to the entire stake of 11.1% in Azomures (RON 129.9m), to the partial disposal of the holdings in Erste Group Bank AG and Raiffeisen Bank International AG (RON 57.8m) and to the disposal of its 5.4% stake in Comcereal Fundulea (RON 0.4m). FP took a pre-tax profit of RON 107m from AZO investment, which was partially offset by the RON 94.2m loss from the Erste Group Bank AG and Raiffeisen Bank International AG investments.

**Interest income went down 15.1% Y/Y to RON 34.9m**, due to lower interest levels compared to FY'11 and lower average level of bank deposits and treasury bills in H1'12 compared to H1'11 (-21.1% for bank deposits and -43.2% for treasury bills).

Expenses for depreciation, provisions and losses from receivables were more than 4 times higher to RON 49.7m and are referred to the impairment adjustment related to Hidroelectrica 2010 dividend and related penalties (following Hidroelectrica's insolvency).

In FY'12 FP's other expenses from current activity increased to RON 8.8m (+50.3% Y/Y), mostly due to legal, investor relations and audit fees expenses in value of RON 3.5m.

Fondul Proprietatea: Profit & Loss Account			
(RON m)	FY'12	% Δ	FY'11
Dividend income	619.0	19.2%	519.1
Income from assets disposal	208.1	N/M	13.4
Income from provisions	5.6	-81.5%	30.5
FX gains/losses	0.1	-91.9%	1.6
Interest income	34.9	-15.1%	41.1
Other income	3.9	-67.6%	12.2
<b>Total revenues</b>	<b>871.7</b>	<b>41.1%</b>	<b>617.9</b>
Expenses for assets disposal	195.1	N/M	4.6
Personnel expenses	0.7	-15.4%	0.8
Commissions and fees	16.2	-6.1%	17.2
Fees to Franklin Templeton	34.3	6.9%	32.1
Depreciation and losses from receivables	49.7	N/M	11.7
Other expenses	8.8	50.3%	5.8
<b>Total operating expenses</b>	<b>304.8</b>	<b>N/M</b>	<b>72.3</b>
Income tax	0.0	N/M	1.8
<b>Net profit</b>	<b>567.0</b>	<b>4.3%</b>	<b>543.8</b>

Source: Fondul Proprietatea



## Balance Sheet at FY'12

In FY'12 the value of **financial assets increased by RON 469.9m (4.4% Y/Y)** to RON 11,098m, mainly due to the reversal of impairment adjustments for the OMV Petrom investment (SNP's market price increased 47.6% Y/Y, which is translated into a RON 1.6b positive impact), partially offset by the RON 1,1b impairment adjustment for Hidroelectrica. Hidroelectrica entered insolvency in June 2012 and, according to CNVM regulation at that time, the value of Hidroelectrica in FP's reported NAV was written-off from RON 3.3b to RON 0. In December 2012 the value of Hidroelectrica in FP's reported NAV was written-up from RON 0 to RON 2b, as CNVM allowed the use of an independent valuation for holdings in companies under insolvency or reorganisation procedures.

The significant 41.4% Y/Y increase in current assets was mainly due to an increase in treasury bills from RON 195.9m to RON 454.7m. This increase was due to cash inflows from dividend receivables (RON 625.4m) and from the disposal of the entire holding in Azomures and part of the holdings in Raiffeisen Bank and Erste Bank AG (RON 207.7m), net of cash outflows from the payment of dividends and related taxes (RON 510.5m).

Payables halved to RON 21.1m, following the 2011 dividend and related taxes payment and the decrease of the liability to FTIML (FP's administrator) for the management fees, following the switch from annual to quarterly payments of these fees as of the 1<sup>st</sup> of January.

<b>Fondul Proprietatea: FY'12 Balance Sheet</b>			
(RON m)	FY'12	% Δ (Y/Y)	FY'11
<b>Non-current assets</b>	<b>11,097.7</b>	<b>4.4%</b>	<b>10,627.9</b>
Financial assets	11,097.7	4.4%	10,627.9
<b>Current assets</b>	<b>776.5</b>	<b>41.4%</b>	<b>549.2</b>
Cash and equivalents	317.9	6.9%	297.4
Short term investments	454.7	132.1%	195.9
Receivables	3.9	-93.0%	55.9
<b>Total assets</b>	<b>11,874.6</b>	<b>6.2%</b>	<b>11,177.1</b>
<b>Current liabilities</b>	<b>21.1</b>	<b>-50.1%</b>	<b>42.2</b>
Trade payables	10.1	-63.2%	27.5
Other payables	10.8	-26.3%	14.6
<b>Long term liabilities</b>	<b>16.8</b>	<b>18.3%</b>	<b>14.2</b>
Provisions	16.8	18.3%	14.2
Other non-current liabilities	0.0	N/M	0.1
<b>Total liabilities</b>	<b>37.9</b>	<b>-32.9%</b>	<b>56.4</b>
<b>Shareholders' equity</b>	<b>11,836.8</b>	<b>6.4%</b>	<b>11,120.7</b>
Share capital	13,778.4	0.0%	13,778.4
Reserves	-2,443.2	-21.9%	-3,128.3
Impairment for financial assets	2,738.4	-18.9%	3,378.5
Retained earnings	83.3	12.0%	74.4
Treasury shares	120.3	0.0%	120.3
<b>Total liabilities and equity</b>	<b>11,874.6</b>	<b>6.2%</b>	<b>11,177.1</b>

Source: Fondul Proprietatea

## March 2012 NAV

Reported NAV for March 2013 reached RON 15.2b, 0.1% lower M/M (NAVPS of RON 1.1568) and 1.7% higher compared to FY'12. The main reason for the 1.7% increase in NAV was the positive evolution of OMV Petrom's share price (from the beginning of the year until the end of March SNP's market price gained 5.3%, from RON 0.4281/share to RON 0.4506/share, which is translated into a RON 256.3m positive impact).

Unlisted shares accounted for 53.1% of total assets (RON 8.1b, flat M/M).

Cash & cash equivalents amounted to RON 768.1m (+0.1% M/M) and accounted for 5% of total assets.

... Q1'13 losses of  
RON 5.6m

According to reported March 2013 NAV, FP posted for **Q1'13 a net loss of RON 5.6m**, almost 4 times higher compared to Q1'12. Also, the number of unlisted companies in FP's portfolio



## Company update – May 2013

dropped from 44 to 42, as FP continued to clean up its portfolio and sold stakes in two small companies (there is no available data about these two transactions yet).

Fondul Proprietatea: Reported NAV							
(RON m)	Mar-13	% Δ (M/M)	% Δ (YTD)	% Δ (Y/Y)	Feb-13	FY'12	Mar-12
<b>Long term financial assets</b>	<b>8,129</b>	<b>0.0%</b>	<b>-0.3%</b>	<b>-11.2%</b>	<b>8,129</b>	<b>8,152</b>	<b>9,157</b>
Listed shares	13	-0.4%	-62.5%	12.4%	13	35	12
Unlisted shares	8,115	0.0%	0.0%	-11.3%	8,115	8,116	9,146
<b>Short term financial assets</b>	<b>7,147</b>	<b>-0.3%</b>	<b>4.1%</b>	<b>4.0%</b>	<b>7,166</b>	<b>6,865</b>	<b>6,869</b>
Receivables	3	5.6%	-3.8%	-95.1%	2	3	52
Cash	1	-6.0%	-33.9%	-18.5%	1	2	2
Listed shares	6,376	-0.3%	4.7%	0.4%	6,396	6,089	6,348
Government securities	534	-6.9%	17.3%	168.0%	573	455	199
Bank deposits	233	21.1%	-26.5%	-13.1%	193	317	269
<b>Total assets</b>	<b>15,275</b>	<b>-0.1%</b>	<b>1.7%</b>	<b>-4.7%</b>	<b>15,295</b>	<b>15,017</b>	<b>16,026</b>
<b>Total liabilities</b>	<b>20</b>	<b>16.9%</b>	<b>-5.6%</b>	<b>-2.3%</b>	<b>17</b>	<b>21</b>	<b>20</b>
Share capital	13,778	0.0%	0.0%	0.0%	13,778	13,778	13,778
Revaluation differences	3,163	-7.7%	0.7%	-7.2%	3,428	3,142	3,409
Period result	-6	48.9%	-101.0%	270.9%	-4	567	-2
Reserves	-2,319	-9.5%	-9.5%	29.9%	-2,563	-2,564	-1,785
<b>NAV</b>	<b>15,239</b>	<b>-0.1%</b>	<b>1.7%</b>	<b>-4.7%</b>	<b>15,261</b>	<b>14,979</b>	<b>15,992</b>
<b>NAVPS (RON)</b>	<b>1.1568</b>	<b>-0.1%</b>	<b>1.7%</b>	<b>-3.0%</b>	<b>1.1586</b>	<b>1.1372</b>	<b>1.1923</b>

Source: Fondul Proprietatea

## 2013 Budget and AFR Estimations

**We do not believe FP will meet FY'13 budget**

For FY'13 FP budgeted a net profit of RON 570.5m, 0.6% lower compared to FY'12 and 7.9% higher compared to our estimations. FP targeted 24.3% lower total revenues Y/Y, of RON 660.3m, out of which 93.6% would be derived from dividend income (RON 618.2 vs. our estimate of RON 584.2m), while the rest of 6% from interest income (RON 42.1m, 20.6% higher Y/Y vs. our estimate of RON 28.8m). Our opinion regarding FY'13 budget is that it will not be achieved, at least on the revenues side.

Fondul Proprietatea: 2013 Budget and AFR Estimations							
(RON m)	2010	2011	2012	2013B	% Δ	2013E	% Δ
Dividend income	179.0	519.1	619.0	618.2	-0.1%	584.2	-5.6%
Interest income	131.5	41.1	34.9	42.1	20.6%	28.4	-18.8%
<b>Total revenues</b>	<b>576.6</b>	<b>617.9</b>	<b>871.7</b>	<b>660.3</b>	<b>-24.3%</b>	<b>613.7</b>	<b>-29.6%</b>
Commissions and fees	6.1	17.3	16.2	16.5	2.0%	16.8	3.7%
Personnel expenses	4.1	0.8	0.7	1.0	38.3%	1.0	38.3%
Third party expenses	33.6	36.8	42.6	58.0	36.3%	54.0	26.8%
Other expenses	65.5	17.4	0.1	0.1	-28.4%	0.1	-28.4%
<b>Total expenses</b>	<b>109.2</b>	<b>72.3</b>	<b>304.8</b>	<b>76.0</b>	<b>-75.1%</b>	<b>72.4</b>	<b>-76.3%</b>
<b>Net profit</b>	<b>456.2</b>	<b>543.8</b>	<b>567.0</b>	<b>570.5</b>	<b>0.6%</b>	<b>528.6</b>	<b>-6.8%</b>

Source: FP, AFR Estimations

FY'13 AFR Estimates were based on the following assumptions:

- FP will not dispose any of the portfolio investments;
- FP will not acquire any new equity investments;
- **FP will buy back in 2013 approximately 80% of the maximum 1.1b FP shares**, translated into a RON 11.4m negative impact on FP's bottom line, due to lost interest income on cash & cash equivalents. If we consider the 9<sup>th</sup> of April closing price of RON 0.641 per share (the day before FP announced that the programme will be launched in the following days), the total value of the buy-back programme stands at RON 707.2m (including brokerage fees). Considering that in March 2013 FP had cash & cash equivalents amounting to RON 768.1m, in 2013 FP has to pay dividends of RON 538.6m

**FP has enough cash to acquire the maximum number of 1.1b FP shares**





and to receive dividends of RON 584.2m, it implies that **FP has enough cash to acquire the maximum number of 1.1b shares**. Taking into consideration that YTD average daily traded volume (on regular and deal market) stood at 19m shares and the buy-back programme is subject to a 25% of the daily trading volume restriction, then **FP would need approximately 231 trading days to repurchase the shares** (at the maximum allowed limit), which means that during 2013 it could repurchase 0.9b FP shares.

**Lower dividends to be received from portfolio companies this year**

- **Dividend income in 2013 will decrease 5.6% Y/Y to RON 584.2m**, mainly due to 9.7% decrease of OMV Petrom dividends, which account for 54.7% of FP's total dividend income (despite the fact that OMV Petrom posted 5% higher net income in 2012, shareholders have recently approved the decrease of payout ratio from 47% in 2011 to 40% in 2012).

Fondul Proprietatea: Dividends to be collected from portfolio companies				
(RONm)	2010	2011	2012	2013F
<b>Listed companies</b>				
OMV Petrom	0.0	201.6	353.1	319.0
Transgaz	23.0	50.8	52.5	37.6
Alro	11.2	13.5	19.4	0.0
Transelectrica	0.5	1.1	10.9	4.0
BRD - Group Societe Generale	0.0	2.0	3.6	0.0
Raiffeisen Bank Intl AG	0.0	4.5	3.8	4.3
Erste Group Bank AG	0.0	3.3	0.0	0.7
Conpet	3.8	7.0	6.6	9.6
Primcom*	1.7	19.9	0.0	0.0
Romaero	0.0	0.1	0.0	0.0
Oil Terminal	0.0	0.2	0.1	0.0
IOR SA	0.0	0.0	0.0	0.0
Banca Transilvania	0.0	0.0	0.0	0.0
<b>Total listed</b>	<b>40.2</b>	<b>304.0</b>	<b>450.1</b>	<b>375.1</b>
(RONm)	2010	2011	2012	2013F
<b>Unlisted companies</b>				
Romgaz	87.8	106.0	140.6	169.6
Hidroelectrica	6.5	52.5	0.0	1.1
Nuclearelectrica	0.0	0.0	0.0	28.5
Enel Distributie Banat	0.0	20.2	0.0	0.0
Enel Distributie Dobrogea	0.0	13.5	0.0	0.0
CN Aeroporturi Bucuresti	6.6	9.9	9.4	9.1
GDF Suez Energy	0.0	9.6	0.0	0.0
AIT Traian Vuia	0.4	1.5	1.7	0.0
SN a Sarii	0.0	0.8	0.0	0.0
CNA Porturilor Maritime	0.0	0.0	6.6	0.0
CNA Porturilor Dunarii Fluviale	0.4	0.6	0.7	0.0
CNA Porturilor Dunarii Maritime	0.0	0.2	0.2	0.0
CNA Canalelor Navigabile	0.2	0.2	0.5	0.0
Electrica Furnizare Transilvania Sud	0.0	0.1	0.0	0.0
CE Oltenia**	0.2	0.0	6.5	0.8
Electrica Distributie Muntenia Nord	0.0	0.0	1.8	0.0
Ciocarlia	0.0	0.0	0.0	0.0
E.ON Gaz Romania	24.7	0.0	0.0	0.0
E.ON Gaz Distributie	11.4	0.0	0.0	0.0
Complexul Energetic Rovinari (2005)	0.6	0.0	0.0	0.0
<b>Total unlisted</b>	<b>138.8</b>	<b>215.1</b>	<b>168.0</b>	<b>209.1</b>
<b>TOTAL</b>	<b>179.0</b>	<b>519.1</b>	<b>619.0</b>	<b>584.2</b>
<b>DPS FP***</b>	<b>0.0314</b>	<b>0.0385</b>	<b>0.0409</b>	<b>0.0408</b>
<b>DY FP</b>		<b>5.8%</b>	<b>6.2%</b>	<b>6.2%</b>
<b>Payout ratio FP</b>		<b>95.0%</b>	<b>95.0%</b>	<b>95.0%</b>

Source: BSE, Fondul Proprietatea, AFR Estimations

\*It includes the dividend from Delfincom

\*\*Based on the dividends distributed by CE Craiova, CE Rovinari and CE Turceni

\*\*\*2013 DPS is computed based on potential number of shares of 12,296,483,838



- **Interest income should land at RON 28.4m** (-18.8% Y/Y), negatively impacted by the 80% execution of the 2<sup>nd</sup> buy-back programme, which will lower the level of bank deposits and treasury bills. We assumed an average interest rate of 5% for FP's placements in money market instruments;
- On the expenses side, we used January-April 2013 average market capitalisation to estimate FT investment management fee (RON 39.6m), while for the depositary and CNVM fees we assumed a monthly negative impact on NAV of RON 62.5 due to the potential execution of the buy-back programme. Also, we assumed secondary listing expenses of RON 10.8m, according to FP's shareholders' approval in June 2012;
- We expect the dividend payout ratio to be 100% of the distributable net profit (i.e. dividend income and interest earned on cash deposits, less expenses and taxation).

## Valuation

### Valuation methodology

Our fundamental valuation provides a price range delimited by a bottom value (RON 0.8514 per share) and a fair value (RON 1.1758 per share).

**However, the successful execution of the 2<sup>nd</sup> buy-back programme could raise our AFR Bottom Value and AFR Fair Value by 8.7% towards RON 0.9253 and RON 1.2779, respectively, implying a 20% discount to reported NAV and 10.5% premium, respectively.**

We kept unchanged our valuation methodology and AFR NAV is computed based on the detailed portfolio as of FY'12, on the March 2013 NAV and the financial results for 2012 (if available) or 2011 for the unlisted companies. We have filled in closing prices as of 7 of May for all BSE and Vienna-listed companies that have been traded in the last 30 trading days.

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

- BSE and Vienna Stock Exchange market values as of 7 of May for the listed companies, except for those with negative shareholders equity or not traded in the last 30 days, which we valued at zero;
- Relative valuation method based on LFY EPS, EBITDA and BV peers multiples for the privately held unlisted portfolio companies, as well as sum-of-parts to reach their fair realisable values;
- Zero value for the state-controlled companies operating within the power sector.

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

- AFR-Target Prices for the listed companies that are covered by us (SNP, BRD, TLV, TEL and TGN), while for the rest we have used BSE and Vienna Stock Exchange market values as of 7 of May for the listed companies, except for those with negative shareholders equity or not traded in the last 30 days, which we valued at zero;
- Relative valuation method based on LFY EPS, EBITDA and BV peers multiples for the unlisted portfolio companies, as well as sum-of-parts to reach their fair realisable values.

**We use AFR Bottom Value NAV for target price.**





Company update – May 2013

Listed companies valuation								
(RONm)	Market cap	FP's stake	Reported Value (E)	Market value	AFR Fair Value	% Δ *	Portfolio weight**	Sector
OMV Petrom	25,552	20%	5,139	5,139	4,932	-4%	49%	Oil&Gas
Transgaz	2,331	15%	349	349	398	14%	3%	Gas transport
Alro	1,263	10%	129	129	129	0%	1%	Aluminium production
Transelectrica	903	13%	122	122	124	2%	1%	Power transmission
BRD - Group Societe Generale	5,296	4%	191	191	193	1%	2%	Banking
Raiffeisen Bank Intl AG	23,123	1%	128	128	128	0%	1%	Banking
Erste Group Bank AG	41,062	0%	128	128	128	0%	1%	Banking
Conpet	329	30%	98	98	98	0%	1%	Oil transport via pipelines
Primcom	28	56%	16	16	16	0%	0%	Real estate
Romaero	122	21%	26	26	26	0%	0%	Air/spacecraft machinery
Oil Terminal	79	8%	7	7	7	0%	0%	Cargo handling
Banca Transilvania	2,297	3%	67	67	66	-3%	1%	Banking
Other listed (13 companies)	72		7	7	4	-41%	0%	
<b>Total listed</b>			<b>6,405</b>	<b>6,405</b>	<b>6,248</b>	<b>-2%</b>	<b>61%</b>	
Unlisted - privately controlled companies valuation								
(RONm)	FY'11 BV	FP's stake	Reported Value (E)	AFR bottom Value	AFR Fair Value	% Δ *	Portfolio weight**	Sector
Enel Distributie Banat	1,847	24%	446	399	399	-10%	4%	Power distribution
Enel Distributie Dobrogea	1,251	24%	301	306	306	1%	3%	Power distribution
Enel Distributie Muntenia	2,867	12%	344	412	412	20%	4%	Power distribution
E.ON Moldova Distributie	1,473	22%	324	278	278	-14%	3%	Power distribution
Enel Energie Muntenia	310	12%	37	47	47	26%	0%	Power supply
Enel Energie	121	12%	15	20	20	36%	0%	Power supply
E.ON Energie Romania	511	13%	68	0	0	N/M	0%	Gas supply
E.ON Gaz Distributie	1,195	12%	143	130	130	-9%	1%	Gas distribution
GDF Suez Energy Romania	2,830	12%	340	336	336	-1%	3%	Gas supply
<b>Total unlisted - privately controlled</b>			<b>2,018</b>	<b>1,927</b>	<b>1,927</b>	<b>-5%</b>	<b>18%</b>	
Unlisted - State controlled companies valuation								
(RONm)	FY'11 BV	FP's stake	Reported Value (E)	AFR bottom Value	AFR Fair Value	% Δ *	Portfolio weight**	Sector
Romgaz	8,648	15%	1,297	1,558	1,558	20%	15%	Gas E&P
Hidroelectrica	10,035	20%	2,001	0	2,647	N/M	0%	Hydro power generation
Nuclearelectrica	6,667	10%	648	0	853	32%	0%	Nuclear power generation
Complexul Energetic Oltenia	4,087	22%	880	0	284	-68%	0%	Thermal Power Generation
Electrica Distr. Muntenia Nord	1,250	22%	275	0	255	-7%	0%	Power distribution
Electrica Distr. Trans. Sud	921	22%	203	0	189	-7%	0%	Power distribution
Electrica Distr. Trans. Nord	859	22%	189	0	203	8%	0%	Power distribution
CN Aeroporturi Bucuresti	1,360	20%	272	344	344	26%	3%	Airports services
A.I. M. Kogalniceanu	25	20%	5	5	5	-9%	0%	Airports services
Aeroportul Intl Traian Vuia	32	20%	6	13	13	106%	0%	Airports services
CN Adm. Porturilor Maritime	337	20%	67	105	105	56%	1%	Ports services
CNA Porturilor Dunarii Maritime	10	20%	2	2	2	15%	0%	Ports services
CNA Porturilor Dunarii Fluviale	18	20%	4	7	7	109%	0%	Ports services
CNA Canalelor Navigabile	78	20%	16	10	10	-33%	0%	Ports services
Societatea Nationala a Sarii	200	49%	98	104	104	6%	1%	Salt extraction
Posta Romana	323	25%	81	0	0	N/M	0%	Postal services
Other unlisted (19 companies)	148		55	0	0	N/M	0%	
<b>Total unlisted - State controlled</b>			<b>6,098</b>	<b>2,149</b>	<b>6,580</b>	<b>8%</b>	<b>21%</b>	
<b>Total listed</b>			<b>6,405</b>	<b>6,405</b>	<b>6,248</b>			
<b>Unlisted, of which:</b>								
State control			<b>2,018</b>	<b>1,927</b>	<b>1,927</b>			
Private control			<b>6,098</b>	<b>2,149</b>	<b>6,580</b>			
<b>PORTFOLIO VALUE</b>			<b>14,521</b>	<b>10,480</b>	<b>14,754</b>			

Source: FP, BSE, Thomson Reuters, AFR estimates, \* % Δ AFR Fair value vs. Reported value; \*\* weight based on AFR Bottom Value

Note: Reported value (E) estimates according to the official methodology: last close (listed) and FY'12 or FY'11 BV (unlisted)



## Valuation summary

Fondul Proprietatea: AFR NAV estimations			
(RONm)	Reported Value (E)	AFR Bottom value	AFR Fair value
<b>Traded shares, o/w</b>	<b>6,405</b>	<b>6,405</b>	<b>6,248</b>
Listed - majors	6,253	6,253	6,196
Listed - other	152	152	52
<b>Unlisted shares, o/w</b>	<b>8,116</b>	<b>4,075</b>	<b>8,506</b>
Unlisted - majors (privately controlled)	2,018	1,927	1,927
Unlisted - majors (state controlled)	6,043	2,149	6,580
Unlisted- other	55	0	0
<b>Portfolio value</b>	<b>14,521</b>	<b>10,480</b>	<b>14,754</b>
Cash&cash equivalents	768		
Other assets	3		
<b>Total assets</b>	<b>15,292</b>	<b>11,251</b>	<b>15,525</b>
Liabilities	37		
<b>Reported NAV *</b>	<b>15,239</b>		
<b>AFR NAV</b>		<b>11,215</b>	<b>15,488</b>
No of shares (m)	13,172		
<b>NAV/share (reported)</b>	<b>1.1568</b>		
	<b>AFR NAV/share</b>		<b>1.1758</b>
		<b>0.8514</b>	
Upside/downside potential		<b>29%</b>	<b>78%</b>

Source: Fondul Proprietatea; Thomson Reuters Knowledge; AFR estimates;

\*reported NAV as of March 31, 2013

Note: Reported value (E) based on last close (listed) and BV as reported (unlisted)

### AFR Bottom Value emerges at RON 0.8514 implying a 27% discount to reported NAV and an upside potential of 29% against current trading levels.

The AFR Bottom NAV has been increased by 8.5% from our last report, on the back of 12% higher value of listed companies, 2.5% lower value of unlisted companies, 12.7% increase of the market value of listed banks on international markets (Erste Group Bank AG and Raiffeisen Bank International AG) and 1.2% decrease in cash&cash equivalents as of end of March 2013 vs. end of August 2012.

### AFR Fair Value reaches RON 1.1758 implying a 1.6% premium to reported NAV.

However, the successful execution of the 2<sup>nd</sup> buy-back programme could raise our AFR Bottom Value and AFR Fair Value by 8.7% towards RON 0.9253 and RON 1.2779, respectively, implying a 20% discount to reported NAV and 10.5% premium, respectively.

## Recent developments

**Elliott currently owns 18.4% in FP's paid share capital**

Since our last report, US hedge fund Elliott Associates raised its stake in FP from 15.2% to 18.4% of paid share capital (please be reminded that Elliott controls its FP holdings through its affiliates Manchester Securities Corp. and Beresford Energy Corporation). Elliott's favourite strategy is sale of assets and returning money to shareholders through dividends or stocks repurchasing, instead of reinvesting money. The current shareholding structure is as follows:

Shareholding structure (7th of May)			
	No of shares	Paid share capital (%)	Voting rights (%)
Manchester Securities Corp	2,169,047,298	16.5%	16.5%
Beresford Energy Corporation	251,700,500	1.9%	1.9%
City of London Investment Management*	1,300,360,686	9.9%	9.9%
Fondul Proprietatea**	36,421,700	0.3%	0.0%
Others	9,414,968,681	71.5%	71.7%
Total	13,172,498,865	100%	100.0%

Source: Fondul Proprietatea, BSE

\*O/w 576m FP shares and 724.3m warrants issued by RBS (without the right of physical delivery)

\*\*We excluded 240m FP treasury shares

Approximately 36.4m FP shares have already been bought back since the beginning of the 2<sup>nd</sup> buy-back programme, representing 0.27% in FP's paid share capital. The total value of



Foreign investors own  
64% in FP's paid  
share capital

the 2<sup>nd</sup> buy-back  
programme has been  
launched...

... with impact on higher  
relative ownership and  
NAV per share

Elliott's stake in FP would  
increase to 20.1% if the  
buy-back programme is  
successful

transactions amounted to RON 24.1m and were realised at an average price of RON 0.6621/share. Thus, Fondul Proprietatea's stake reached 0.3% in FP's current paid share capital (we excluded 240m treasury shares).

According to the latest monthly report, foreigners continued to consolidate their position in FP, as their stake increased from 59.9% at the end of 2012 to 63.6% in March 2013.

**In April 2012 FP's shareholders approved the 2<sup>nd</sup> buy-back programme to repurchase 1.1b FP shares** at a price range between RON 0.2 – 1.5, **representing 8.2% in FP's current paid share capital** (the programme will last 18 months starting with the 10<sup>th</sup> of April). The execution of the redemption programme is subject to available cash and the 25% of the daily trading volume restriction. **Eventually**, after being delayed for approximately one year, due to the actions in Court started by Ms. Ioana Sfiraiala, which blocked the registration of the shareholders' decision, **the buy-back programme was effectively launched on the 12<sup>th</sup> of April 2013**. Franklin Templeton has recently filed a legal action in court against Ms. Sfiraiala and asked for the recovery of the losses incurred by FP through higher acquisition cost (since April 24<sup>th</sup> 2012 until the 10<sup>th</sup> of April 2013 FP shares hiked 18.5%).

One of the most important effect of the buy-back programme, if successfully executed, is that the number of outstanding shares is reduced, which translates into a **higher relative ownership stake of each investor** and a **higher NAVPS**.

**If successful, then relative ownership stake of each investor would be as follows** (we assumed that the 240m FP shares acquired during the 1<sup>st</sup> buy-back programme have already been cancelled):

Shareholding structure (if the 2nd buy-back programme is successfully completed)			
	No of shares	Paid share capital (%)	Voting rights (%)
Manchester Securities Corp	2,169,047,298	18.0%	19.8%
Beresford Energy Corporation	251,700,500	2.1%	2.3%
City of London Investment Management*	1,300,360,686	10.8%	11.9%
Fondul Proprietatea	1,100,950,684	9.1%	0.0%
Others	7,249,489,013	60.1%	66.1%
Total	12,071,548,181	100%	100.0%

Source: Fondul Proprietatea, BSE, AFR Estimations

\*O/w 576m FP shares and 724.3m warrants issued by RBS (without the right of physical delivery)

If we consider the 9<sup>th</sup> of April closing price of RON 0.641 (the day before FP announced that the programme will be launched in the following days), the total value of the buy-back programme stands at RON 707.2m (including brokerage fees). Considering that in March 2013 FP had cash & cash equivalents amounting to RON 768.1m, in 2013 FP has to pay dividends of RON 538.6m and to receive dividends of RON 584.2m, it implies that **FP has enough cash to acquire the maximum number of 1.1b FP shares**.

Impact on FP's BS (RONm)	
Available cash & cash equivalents as of 31st of March	768
Dividends to be paid	- 539
Dividends to be received	+ 584
Total acquisition value *	- 707
Cash at end of year	= 107

Source: Fondul Proprietatea, BSE, AFR Estimations

Taking into consideration that YTD average daily traded volume (on regular and deal market) stood at 19m shares and the buy-back programme is subject to a 25% of the daily trading volume restriction, then **FP would need approximately 231 trading days to repurchase the shares** (at the maximum allowed limit).

Second buy-back programme - Main assumptions	
No of shares to be repurchased	1,100,950,684
Average daily traded volume (January 1 - April 9, 2013)	4,760,951
No of days needed to repurchase the shares***	231
No of trading days since the 10th of April until EOY***	184
Potential no of repurchased shares during 2013	876,015,027

Source: Fondul Proprietatea, BSE, AFR Estimations

The buyback will have  
a positive impact on  
NAV per share but a...

After the **acquisition of shares** is completed, then **the 2<sup>nd</sup> buy-back programme would have a negative impact on FP's assets** (RON 707.2m) and on **P&L due to lost interest income on cash & cash equivalents** (of RON 19.8m), **but a RON 0.0469 positive impact on NAV per share**, i.e. of 4.1% (according to the new NAV calculation methodology treasury shares are excluded for the NAV per share calculation).



## Company update – May 2013

### ... negative impact on FY'14 P&L

Also, **cancellation of the repurchased shares could be translated into a RON 59.8m negative impact on FP's bottom line** (as FP will incur additional costs related to the 16% profit tax on the gain on repurchased shares cancellation) and a **RON 0.005 per share negative impact on NAV per share** (NAV per share should reach RON 1.1988 per share, 3.6% higher compared to March 2013). **In our view cancellation of the repurchased shares will not be realised earlier than Q4'14**, as the redemption programme will last until September 9, 2014 and the cancellation of the repurchased shares will take effect 60 days after the EGSM decision is published in the Official Gazette.

### IPOs to positively impact FP

Despite the fact that Romanian government delayed several times the sale of stakes in State-owned companies (now the deadline is December 2013 from December 2012 previously), it seems that it successfully started to honour its commitments made under the agreements with international financial institutions once with the successful closing of Transgaz SPO. Moreover, considering that **the market is attaching a value of only RON 2.1b for the unlisted companies** (FP's current market capitalisation of RON 9.2b is 30% above the value of listed holdings plus the net cash position, implying a 74% market discount for unlisted companies), it means that FP's price will be positively impacted by the IPOs for the sale of stakes in unlisted companies, if successfully completed.

**Transgaz SPO** for the sale of 15% in the company's share capital was successfully closed on the 16<sup>th</sup> of April 2013. Allocation price for both institutional investors tranche and large subscriptions tranche was of RON 179/share, 16.2% lower compared to the share price recorded on the day prior to the SPO launch. For the small subscriptions tranche the price was either RON 170.05 per share if the subscription was realised in the first three days of the subscription period or RON 173.63 per share otherwise. The offer was oversubscribed in all of the three tranches (there is no public data for the subscription rate for the institutional investors' tranche, whereas the subscription rate for large and small investors stood at 347% and 257%, respectively). The money raised from the secondary public offering (approximately RON 300m) will be directed to the State Treasury.

Fondul Proprietatea: IPO & SPO Schedule for portfolio companies				
Company	Share Sale	Stake	Investment Consortium	Comments
Transelectrica	SPO	15%	BCR, Swiss Capital, Intercapital Invest	Closed on the 27th of March 2012
Transgaz	SPO	15%	Raiffeisen, Wood & Company, BT Securities	Closed on the 16th of April 2013
Posta Romana	Privatisation	>50%	KPMG, Tuca, Zbarcea, and Associates	Expected in H2'13
Nuclearelectrica	IPO	10%	Swiss Capital, BT Securities	Expected in H2'13
Romgaz	IPO	15%	Goldman Sachs, Erste-BCR, Raiffeisen	Expected in H2'13
Hidroelectrica	IPO	10%	Citi, Societe Generale, BRD, Intercapital Invest	Delayed - insolvency proceedings
CE Oltenia	IPO	12/15.3%	BRD Groupe Societe Generale, Swiss Capital	Expected in H2'13
Electrica Furnizare	IPO	N/A	KPMG, Raiffeisen, Musat&Associates	Expected in 2013
Electrica Distribution companies	IPO	N/A		
Seaport companies	IPO	5%		
Constanta&Timisoara Airports	IPO	5%		

Source: Fondul Proprietatea, Thomson Reuters

### CNVM changed regulations in favour of FP's shareholders

In December 2012 CNVM issued Regulation 11 / 2012 for changing Regulation 4 / 2010 regarding the valuation methodology based on which Fondul Proprietatea (FP) reports net asset value. Thus, **FP can value the companies in insolvency/reorganisation at either zero or at the value derived from an independent valuation report in accordance with international valuation standards**. Also, **treasury shares purchased through buy-back programmes should be excluded from the number of shares used in computing the NAV per share**. Consequence of the change in regulation, FP's total NAV was upwardly adjusted in December by RON 2.2b to RON 15b, mainly due to the Hidroelectrica's revaluation from zero to RON 2b. Also, Nuclearelectrica's market value has been increased by RON 150.4m to RON 648m. The cumulated negative impact of revaluation of E.ON Moldova Distributie, Posta Romana, Zirom, Complexul Energetic Oltenia and C.N. Aeroporturi Bucuresti was of RON 353.4m. A major implication of the change in regulation is that in 2013 FP could distribute dividends out of 2012 net profit, as FP's NAV exceeded the share capital.

### FT's mandate expires in 2014

**Franklin Templeton's mandate expires on the 29<sup>th</sup> of September 2014 and, in our view, FTIM will need to further convince shareholders to extend it for another 4-year period as Elliot could soon become a less comfortable shareholder**. At Elliott's proposal, FP's manager will be appointed by the Board of Nominees, following an international auction and not just following an auction. Also, the minimum quorum for the approval of Ordinary GSM decisions referring to the revocation of member of Board of Nominees and of Fund Manager was changed from two thirds to one fourth of the number of votes. Moreover, FP's manager is appointed for a 4-year period and must call for an Ordinary GSM 6 months before its mandate



expires to decide if the management contract with the current manager is prolonged or an international auction is needed to select a new manager. The above-mentioned changes regarding FP's manager mandate will certainly put pressure on Franklin Templeton to deliver.

Following the request of Manchester Securities Corp, FP's shareholders approved on the 4<sup>th</sup> of April 2012 the change of the Investment Management Agreement (IMA) regarding the introduction of an extra fee on excess distributions to shareholders either by purchases of own shares or by special dividends (1.5% and 1%, respectively for excess distributions that are executed in 2013 and 2014, respectively). However, in January 2013 CNVM rejected the amendment to the IMA, as the proposed fees were not set in accordance with the Regulation for organising the international tender for appointing FP's manager and providing supplemental distribution through special dividend does not comply with FT's objectives convened when it was selected as the Fund's manager. In response, Franklin Templeton submitted an official complaint to CNVM, requesting again the change of the IMA, which was again dismissed on the 25<sup>th</sup> of April. Thus, the execution of the 2<sup>nd</sup> buy-back programme might not be successful, as the current structure of fees (of 0.479% of FP's market capitalisation) encourages FT to reinvest money rather than selling assets and returning cash to FP's shareholders.

### FP's DY remains elevated

On the 25<sup>th</sup> of April 2013 O&E GSM, FP's shareholders approved the distribution of a **gross dividend of RON 0.04089 per share, implying a DY of 6.2%** if current price considered (the dividends are payable starting with the 28<sup>th</sup> of June and record date is 15<sup>th</sup> of May). The main source of cash distributions to shareholders is the dividend income from portfolio companies.

### In 2013 FP will cash in approximately 5.7% lower dividends

According to our estimations in 2013 FP **could cash in RON 583.2m as dividends** (-5.7% Y/Y), mainly due to 9.7% decrease in dividends from OMV Petrom, which account for 54.7% of FP's total dividend income (despite the fact that OMV Petrom posted 5% higher net income in 2012, shareholders have recently approved the decrease of payout ratio from 47% in 2011 to 40% in 2012). In our view **FY'13 DPS could reach RON 0.0408** (-0.1% Y/Y), implying a DY of 6.2% if current market price is considered (we assumed that until the EOY FP will buy back approximately 80% of the maximum 1.1b FP shares).

### FP's listing on Warsaw Stock Exchange is still delayed

FP's listing on Warsaw Stock Exchange has been delayed for more than one year, as currently there is no link between the two depositaries in Bucharest and Warsaw. CNVM lags to approve the regulation that allows Romanian Central Depositary to establish a link with the Polish National Securities Depositary, on **concerns that CNVM and BSE's income will be lowered following FP's dual listing**. Since listing, FP's number of shares traded on BSE reached 17.5b (on regular and deal markets), which represents 133% of the paid share capital. Average daily traded volume stood at 30.8m shares, implying a daily traded turnover of RON 16.2m or 47.2% of average total traded turnover on BSE.

### FP started to win the lawsuits against Ms. Sfaraiala

Currently, FP has more than 100 cases on-going, with portfolio companies, Romanian authorities, Ioana Sfaraiala (64 on-going cases) and other individuals. We expect that the litigations started by Ioana Sfaraiala to have no impact on company's fundamentals. Moreover, in the last few months, Bucharest Court released many decisions in favour of FP, among which we mention those regarding registration with the Trade Register Office of EGSM resolution no 3 of April 2012 for the approval of FP's RON 240m share capital decrease (during May-September 2011 period FP repurchased 240m FP shares at an average price of RON 0.5/share) and of EGSM resolution no 4 of April 2012 for the approval of the 2<sup>nd</sup> buy-back programme.

## Portfolio review

On 31<sup>st</sup> of March the Fund's portfolio structure was comprised of 67 companies, out of which 25 are listed (42% of the reported value) and 42 unlisted (53%). Since our last update in September 2012, the composition of FP's portfolio has not changed too much. However, according to March 2013 NAV, the number of unlisted companies in FP's portfolio dropped from 44 to 42, as FP continued to clean up its portfolio and sold stakes in two small companies (there is no available data about these two transactions yet).

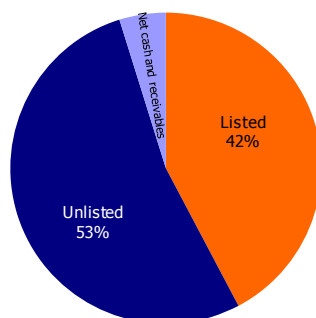
OMV Petrom accounts for 80% in total listed portfolio, while Transgaz and BRD Group Societe Generale stakes account for 5% and 3%, respectively.

Hydroelectrica accounts for 25% in total unlisted portfolio, Romgaz for 16%, CE Oltenia for 11%, while Nuclearelectrica and Enel Distributie Banat stakes account for 8% and 5%, respectively.

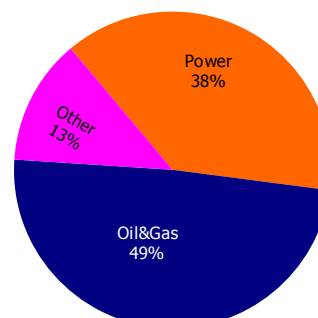




Portfolio structure: listed vs. unlisted

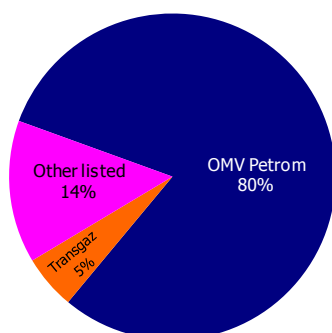


Portfolio structure by sector

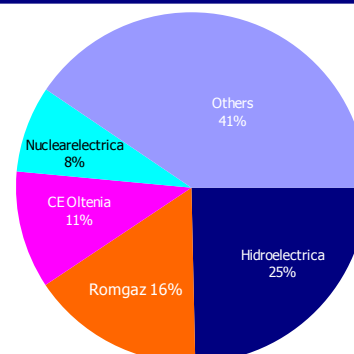


Source: AFR, based on shareholders equity reported by FP in FY'12 for the unlisted stakes and market prices for listed stakes

Listed portfolio structure



Unlisted portfolio structure



Source: AFR, based on shareholders equity reported by FP in FY'12 for the unlisted stakes and market prices for listed stakes

## Romgaz IPO, expected in H2'13

According to the latest IMF Letter of Intent made public on September 2012, **Romgaz's IPO** for the sale of a 15% stake in the company's share capital was supposed to be completed in March 2013. Romanian government missed the deadline again, as the transaction advisor recommended that a valuation of Romgaz's natural gas reserves be completed before an initial public offering (IPO) is launched. The gas reserves audit report is currently performed by DeGolyer & MacNaughton (it won the evaluation contract for €0.6m).

Domestic gas price liberalisation was initially scheduled to start in December 2012, but it was delayed for two months. Romanian government decided to charge a special 60% tax (approximately 32% after adjusting for CAPEX, royalties and income tax) on the supplementary profits generated by local natural gas producers (to be applied during February 2013 – December 2014), following the rise in the regulated price of the domestic natural gas. The market regulator managed to avoid higher end-user prices following the 5% increase in the price of the domestic natural gas as of April 1, explaining that the share of costly imported natural gas decreased.

On the 1<sup>st</sup> of February 2013 the gas fired power plant CET Iernut was transferred to Romgaz as payment for overdue receivables in value of RON 650m from Termoelectrica. Thus, Romgaz is the 2<sup>nd</sup> company in Romania (after OMV Petrom) that is allowed to use gas from its own production for power production as opposed to other electricity producers that have to buy a 30% share of expensive imported gas. Our base case yields a fair value of RON 10,391.8m on a relative basis, which translates into a value of RON 1,558m for the 14.99% stake owned by FP.





Romgaz							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	1,244.0	X	<b>8.69</b>		10,804.6		12.7%
EBITDA, LFY	2,401.6	X	<b>4.30</b>	10,314.9	10,391.8		8.4%
Net debt, LFY	-76.9						
Book Value, LFY	9,584.2	X	<b>1.02</b>		9,775.9		2.0%
AFR Equity Value					<b>10,391.8</b>	<b>9,584.2</b>	<b>8.4%</b>
Peers, LFY	Ticker	Country	Mkt cap		P/E	EV/EBITDA	P/B
Gazprom OAO	GAZP	RUS	\$99,582m		2.53	2.76	0.36
BG Group plc	BG.	GBR	\$61,195m		-	-	-
MOL	MOL	HUN	\$7,492m		10.91	5.53	0.95
PGNiG SA	PGN	POL	\$10,306m		14.62	6.49	1.20
OMV Petrom SA	SNP	ROU	\$7,752m		6.46	3.06	1.09
Median of peers					<b>8.69</b>	<b>4.30</b>	<b>1.02</b>

Source: Reuters Knowledge, Bloomberg, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

## Hidroelectrica IPO, delayed due to insolvency proceedings

**Hidroelectrica's IPO** was scheduled for the end of October 2012 but it was delayed until the judicial reorganisation is finalised. We expect the IPO to take place in 2014.

According to Remus Borza, representative of Hidroelectrica's legal administrator, the odds for Hidroelectrica to exit insolvency process in June 2013 are high. In Q1'13 Hidroelectrica posted net sales of RON 661m (+16% Y/Y) and a positive EBT to RON 144m (compared to losses of RON 136m registered at Q1'12). On 11<sup>th</sup> of April 2012 Bucharest Court released a decision in favour of Hidroelectrica in 73 out of 74 lawsuits against the power traders. Our valuation yields to a fair value of RON 13,275.8m on a relative basis, which translates into a value of RON 2,647.2m for the 19.94% stake owned by FP.

Hidroelectrica							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Installed capacity(MW)	6,423	X	<b>0.7</b>		14,264.7		-11.9%
EBITDA, LFY	897.8	X	<b>6.92</b>	6,212.8	3,772.0		-76.7%
Net debt, LFY	2,440.8						
Book value, LFY	16,190.0	X	<b>0.82</b>		13,275.8		-18.0%
AFR Equity Value					<b>13,275.8</b>	<b>16,190.0</b>	<b>-18.0%</b>
Peers, LFY	Ticker	Country	Installed cap (MW)	Mkt cap	EV/MW	EV/EBITDA	P/B
Tractebel Energia SA	TBLE3	BRA	25,436	\$11,754m	0.5	8.1	4.3
NHPC Limited	NHPC	IND	5,200	\$4,825m	1.4	5.7	0.9
CESP - Companhia Energetica	CESP6	BRA	9,000	\$3,348m	0.5	5.0	0.7
Federal'naya gidrogeneriruyus	HYDR	RUS	11,900	\$5,853m	0.8	13.0	0.3
Median of peers					<b>0.7</b>	<b>6.9</b>	<b>0.8</b>

Source: Reuters Knowledge, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

## Nuclearelectrica IPO delayed for the end of 2013

According to Constantin Nita, Romania's Energy Minister, **Nuclearelectrica's IPO** will be delayed from May until October or November, due to poor market conditions. The IPO is supposed to be realised through a share capital increase of 11.08%, out of which 1.08% to be subscribed by Fondul Proprietatea, whereas the rest of 10% to be available for trading on BSE. Our valuation yields to a fair value of RON 8,779.6m on a relative basis, which translates into a value of RON 853.4m for the 9.72% stake owned by FP.



Nuclearelectrica							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net capacity	1,305.0	X	3.4		19,223.1		143.0%
EBITDA, LFY	549.1	X	11.8	6,495.9	4,042.4		-48.9%
Net debt, LFY	2,453.4						
Book value, LFY	7,909.5	X	1.1		8,779.6		11.0%
AFR Equity Value					8,779.6	7,909.5	11.0%
Peers, LFY	Ticker	Country	Net capacity (MW)	Mkt cap	EV/Capacity	EV/EBITDA	P/B
Electricite de France SA	EDF	FRA	72,678	\$42,519m	1.0	5.9	1.3
Korea Electric Power	15760	JPN	19,921	\$18,493m	2.6	11.8	0.4
Shikoku Electric Power	9507	JPN	1,922	\$4,149m	4.5	67.9	1.3
Hokuriku Electric Power	9505	JPN	1,863	\$3,234m	4.3	11.8	1.0
Median of peers					3.4	11.8	1.1

Source: Reuters Knowledge, World Nuclear Association, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

### CE Oltenia IPO

BRD and Swiss Capital were selected as intermediary for the IPO for the sale of a 12% stake in CE Oltenia's share capital. **CE Oltenia's IPO** is supposed to be realised through a share capital increase of 15.29%, out of which 3.29% to be subscribed by Fondul Proprietatea, whereas the rest of 12% to be available for trading on BSE. CE Craiova was created in 2012, following the merger between the coal-fired power plants CE Turceni SA, CE Craiova SA, CE Rovinari SA and the lignite-producing company Societatea Nationala a Lignitului Oltenia SA.

In December 2012 ANRE issued decisions for quantity and the selling price on the regulated market for CE Oltenia in 2013. The quantity to be sold on the regulated market is of 2.5TWh (representing approx. 13% of the estimated net production) at a regulated price of RON 190.3/MWh (+10.5% Y/Y).

For FY'12 the company budgeted net sales of RON 3.2b RON (-20.1% Y/Y) and a net profit of RON 95.8m (-46.8% Y/Y). Our valuation yields to a fair value of RON 1,319.3m on a relative basis, which translates into a value of RON 284m for the 21.5% stake owned by FP.

Complexul Energetic Oltenia							
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value	Premium/Discount
Net profit, LFY	191.2	X	6.90		1,319.3		-73.6%
EBITDA, LFY	581.5	X	4.39	2,552.8	1,113.4		-77.7%
Net debt, LFY	1,439.4						
Book value, LFY	4,991.3	X	0.89		4,442.3		-11.0%
AFR Equity Value					1,319.3	4,991.3	-73.6%
Peers, LFY	Ticker	Country		Mkt cap	P/E	EV/EBITDA	P/B
Edison SpA	EDN	ITA		\$160m	85.58	3.40	0.38
Tata Power Company	TATAPOWER	IND		\$4,136m	-	4.85	1.80
Irkutskenergo OAO	IRGZ	RUS		\$1,766m	5.43	3.93	0.89
Neyveli Lignite Corp	NEYVELILIG	IND		\$2,185m	8.37	4.39	0.98
TAURON Polska Energia	TPE	POL		\$2,299m	4.97	5.47	0.45
Median of peers					6.90	4.39	0.89

Source: Reuters Knowledge, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

**The list with the 12 stakes in unlisted power and gas distribution and supply companies** (E.ON Moldova Distributie, E.ON Gaz Distributie, E.ON Energie Romania, Enel Distributie Muntenia, Enel Energie Muntenia, Enel Distributie Banat, Enel Distributie Dobrogea, Enel Energie, GDF Suez Energy Romania, Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord and Electrica Distributie Transilvania Sud) **remained unchanged** due to unfavourable market conditions. According to the detailed portfolio as of FY'12, the stakes are valued by FP at RON 2.7b (€621m). Please notice that, according to FP's dividend policy, **gains on disposals of equity investments are not normally distributed as dividends**.

In December 2012 Electrica SA exercised the PUT option and asked approximately €521m for its 13.6% stake in **Enel Distributie Muntenia** and **Enel Energie Muntenia**. The transaction has not been finalised yet.

In October 2012 **GDF SUEZ Energy Romania** raised RON 250m in a 5-year maturity corporate bonds issue. Also, it invested €80m into a 47.5 MW wind park at Gemele, in Braila county, and €90m into a 50MW wind park in Baileni village, Galati county.

Please read the important disclaimer in the last page 17



E.ON Gaz Distributie						
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value Premium/ Discount
Net profit, LFY	85.0	X	<b>12.73</b>		1,082.1	-9.4%
EBITDA, LFY	200.0	X	<b>6.82</b>	1,364.0	1,342.6	12.4%
Net debt, LFY	21.4					
Book value, LFY	1,194.2	X	<b>0.76</b>		907.6	-24.0%
			<b>AFR Equity Value</b>		<b>1,082.1</b>	<b>1,194.2 -9.4%</b>
GDF Suez Energy Romania						
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value Premium/ Discount
Net profit, LFY	379.4	X	<b>12.73</b>		4,829.8	70.6%
EBITDA, LFY	463.3	X	<b>6.82</b>	3,159.7	2,802.5	-1.0%
Net debt, LFY	357.2					0.0%
Book value, LFY	2,830.3	X	<b>0.76</b>		2,151.0	-24.0%
			<b>AFR Equity Value</b>		<b>2,802.5</b>	<b>2,830.3 -1.0%</b>
Peers, LFY	Ticker	Country		Mkt cap	P/E	EV/EBITDA P/B
Enagas SA	ENG	ESP		\$6,316m	12.73	9.04 2.41
Transgaz SA	TGN	ROU		\$690m	8.09	4.09 0.76
Severomoravska	BAASMPY	CZE		\$672m	104.66	26.40 3.73
Lietuvos Dujos AB	LDJ1L	LTU		\$448m	15.86	6.82 0.57
Latvijas Gaze AS	GZE1R	LVA		\$294m	11.71	2.52 0.58
			<b>Median of peers</b>		<b>12.73</b>	<b>6.82 0.76</b>

Source: Reuters Knowledge, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates

Our valuation for **C.N. Aeroporturi Bucuresti** yields to a fair value of RON 1,776.2m on a relative basis, which translates into a value of RON 355m for the 20% stake owned by FP.

C.N. Aeroporturi Bucuresti						
(RONm)	Company data		Multiples	Implied EV	Implied Equity Value	Book Value Premium/ Discount
Net profit, LFY	51.1	X	<b>17.00</b>		868.4	-82.5%
EBITDA, LFY	205.0	X	<b>9.46</b>	1,938.3	1,776.2	-64.3%
Net debt, LFY	162.1					
Book value, LFY	4,975.6	X	<b>1.66</b>		8,259.5	66.0%
			<b>AFR Equity Value</b>		<b>1,776.2</b>	<b>4,975.6 -64.3%</b>
Peers, LFY	Ticker	Country		Mkt cap	P/E	EV/EBITDA P/B
Aeroports de Paris SA	ADP	FRA		\$8,772m	19.33	9.27 1.79
Fraport AG	FRAG.DE	DEU		\$7,700m	9.05	9.05 1.43
Flughafen Zuerich AG	FHZN	CHE		\$3,054m	29.99	9.64 1.53
SAVE SpA	SAVE	ITA		\$832m	14.66	10.60 1.95
			<b>Median of peers</b>		<b>17.00</b>	<b>9.46 1.66</b>

Source: Reuters Knowledge, ISI Emerging Markets, Fondul Proprietatea, AFR Estimates



## 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	BSE	Rating	Price	Price date	Disclosure
Fondul Proprietatea SA	FP	BUY	0.6605	07/05/2013	NONE

1. 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
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3. Alpha Finance Romania makes a market in the securities of this company
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6. Alpha Finance Romania has sent the research report to the company prior to publication for factual verification
7. Following 6, Alpha Finance Romania has changed the contents of the initially sent research report, with respect to: no change
8. 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
28/9/2012	0.528 vs. 0.6605	0.7939 vs. 0.8514	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

### Regulatory disclosures

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#### FUNDAMENTAL RATING

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

TRP: Total Return Potential



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