

Fondul Proprietatea - Research Note

Ticker:	FP
Previous Close:	0.8510
12M target price:	1.0065
12M return potential:	18%
Rating:	Outperform

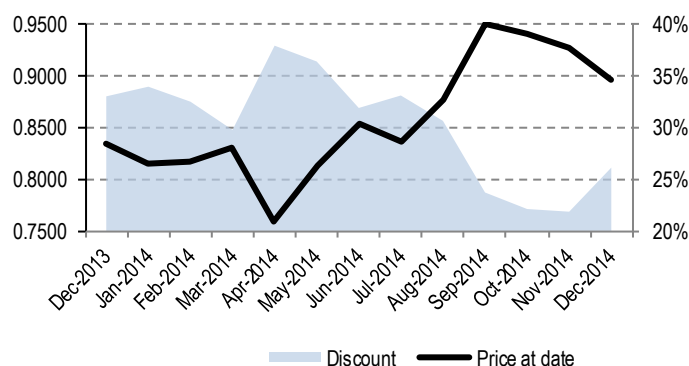
Source: Blue Rock estimates, BSE

NAV Summary

RONm	Dec-2014	Nov-2014	Dec-2013	m/m	y/y
Equities	12,973	12,765	14,619	2%	-11%
Listed	6,495	6,529	8,244	-1%	-21%
Unlisted	6,478	6,236	6,375	4%	2%
Cash & equiv	311	953	451	-67%	-31%
Total assets	13,293	14,027	15,074	-5%	-12%
NAV	13,237	13,979	15,014	-5%	-12%
NAV/sh. (RON)	1.2125	1.1862	1.2436	2%	-3%

Source: Company data, Blue Rock

Price and discount to NAV



Source: Stockground, Company data, Blue Rock

Valuation

Last reported NAV / share	1.2125
Discount to last reported NAV / share	30%
Fair NAV / share (target price)	1.0065
Listed equities (RONm)	5,560.6
Unlisted equities (RONm)	5,113.9
Cash & equivalents	43.7
Other net assets (RONm)	(47.0)

Source: Company data, Blue Rock estimates

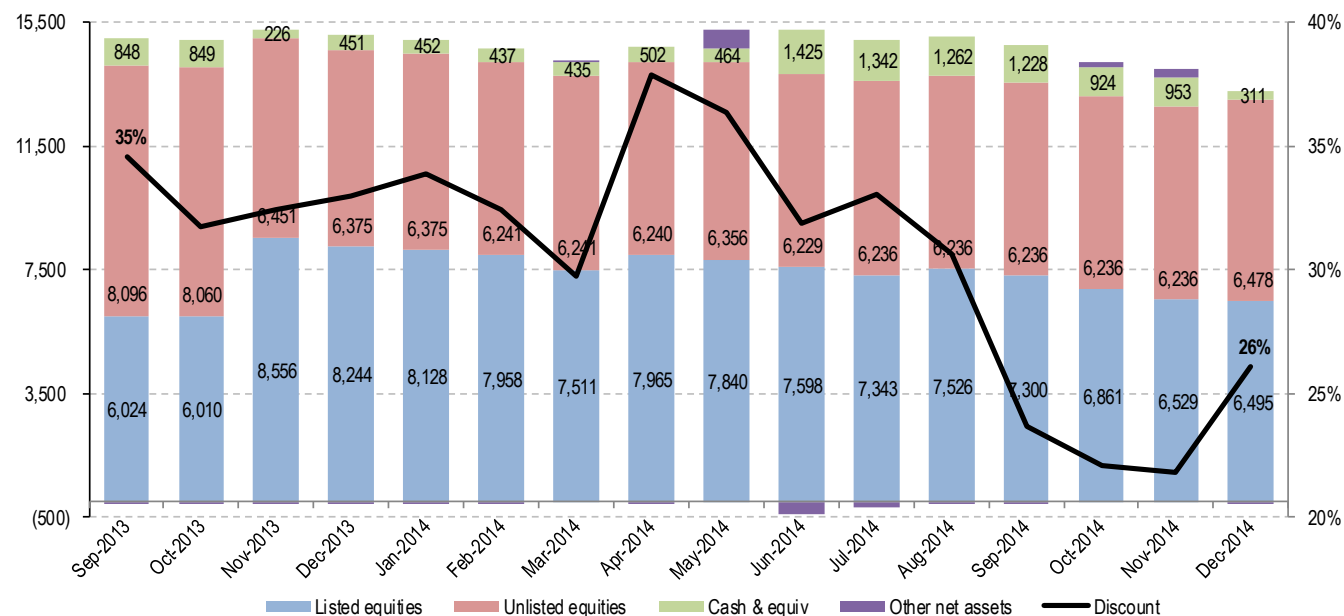
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The fund trades at a discount of 30% to its end-Dec NAV per share, while its listed equity components declined 5% in our computation of up-to-date portfolio. For our fair NAV (target price) we apply a 10% discount for its listed equity portfolio, and a 30% discount for its unlisted equities, with Electrica and Hidroelectrica valued separately, as we see a greater chance of a transaction/IPO this year. Our target price stands at RON 1.0065 per share (18% implied upside).

Key events and expectations:

- **Cash distributions:** After shareholders approved last year a share capital decrease (from RON 1 to 0.95 per share) and a cash distribution of RON 0.05 per share, a GSM is convened on 21-Jan to vote another share capital reduction and tax-free distribution of RON 0.05 per share. (5.9% yield, considering the previous close);
- **Secondary listing:** The attempt to complete a London secondary listing in 2014 failed as the FSA did not approve the required Depository Interest regulatory changes, but the fund manager remains committed to a LSE listing (either through DIs, if necessary approvals from the FSA are obtained, or GDRs). This is seen as a catalyst for NAV discount reduction;
- **Buybacks:** The bulk of the 4th buyback program (990.9m shares) has been completed, with only 86.4m shares remaining to be repurchased at end-Dec, while another 227.6m share buyback program has been approved to start after the cancelling of shares bought back in the 3rd program (from Mar to Jul 2014);
- **Electrica:** After the company's listing in mid-2014, press speculation regarding a purchase by Electrica of FP's shares in its subsidiaries, indicate that the transaction is wanted by both sides. Provided a fair price, we believe this could increase the liquidity of the NAV (as FP could receive cash or Electrica shares). Thus, for our fair NAV computation we use Electrica's market cap adjusted to the subsidiaries' EBITDA shares;
- **OMV Petrom:** FP's largest listed holding could be partially divested this year;
- **Hidroelectrica:** could exit the technical insolvency this year, and an IPO could take place in late-2015 – 1H16. We value Hidroelectrica at a 25% discount to the peer companies' benchmarks for EV/Capacity, EV/EBITDA and EV/Sales multiples.

NAV breakdown and trading discount



Source: Company data, Blue Rock

Listed equity portfolio

At the current estimated values, OMV Petrom (SNP) accounts for 66% of the RON 6.2bn listed equity portfolio and 32% of the NAV. Thus, the difficult E&P environment could result in further pressure on FP's largest holding. SNP shares are down 7% ytd, while Romgaz (SNG), the second largest listed holding, trades 1% lower ytd.

Fondul Proprietatea actual and estimated values in official NAV (RONm)

Company	Ticker	Val at end-Sep	Val at end-Dec (est)	Current val (est)
Listed shares				
Alcom S.A.	ALCQ	3.8	4.4	4.4
Alro Slatina S.A.	ALR	88.0	84.5	83.2
Banca Transilvania S.A.	TLV	130.6	143.2	145.6
BRD-Groupe Societe Generale S	BRD	220.7	222.1	234.8
Conpet S.A.	COTE	127.7	28.9	30.1
Nuclearelectrica S.A.	SNN	226.4	212.1	212.4
Oil Terminal S.A.	OIL	3.7	3.3	3.3
OMV Petrom S.A.	SNP	5,059.8	4,389.5	4,077.5
Palace S.A.	PACY	2.2	2.2	2.2
Primcom S.A.	PRIB	20.8	12.3	12.7
Romaero S.A.	RORX	20.4	21.1	21.1
Romgaz S.A.	SNG	1,387.5	1,362.9	1,343.2
Comcereal Cluj S.A.*	COCL	1.0	1.0	1.0
Forsev S.A.*	FORS	6.5	5.7	5.7
IOR S.A.	IORB	0.9	0.8	0.8
Mecon S.A.	MECP	0.2	0.2	0.2
Total value listed		7,300	6,494	6,178

Source: Fondul Proprietatea, Blue Rock estimates

* at BV/share

Unlisted equity portfolio

Hidroelectrica is officially valued in FP's portfolio at 2.2bn (34% of FP's unlisted equity portfolio and 16% of end-Dec NAV), and is the fund's second largest holding. Currently, the company is under technical insolvency and according to press reports citing judicial administrator Borza, it could exit the procedure in Jun-2015.

Fondul Proprietatea actual and estimated values in official NAV (RONm)			
Company	Val at end-Sep	Val at end-Dec	Difference q/q
Unlisted shares**			
Aeroportul International Mihail Kogalniceanu - Cc	2.3	2.3	-
Aeroportul International Timisoara - Traian Vuia	1.7	1.7	-
Bat Service S.A.	-	-	-
Carbid Fox S.A.	-	-	-
Cetatea S.A.	0.4	0.4	-
CN Administratia Canalelor Navigabile S.A.	16.2	16.2	-
CN Administratia Porturilor Dunarii Fluviale S.A.	3.5	3.5	-
CN Administratia Porturilor Dunarii Maritime S.A.	-	-	-
CN Administratia Porturilor Maritime SA	69.6	132.6	63.0
CN Aeroporturi Bucuresti SA	287.7	332.3	44.6
Complexul Energetic Oltenia SA	120.0	108.5	(11.5)
Comsig S.A.	1.5	1.5	-
E.ON Energie Romania SA	130.9	133.9	3.0
E.ON Distributie Romania SA***	510.6	441.5	(69.1)
Electrica Distributie Muntenia Nord SA	296.2	235.6	(60.6)
Electrica Distributie Transilvania Nord SA	206.7	201.6	(5.1)
Electrica Distributie Transilvania Sud SA	192.0	206.5	14.5
Electrica Furnizare SA	88.0	126.4	38.3
Electroconstructia Elco Cluj S.A.	0.7	0.7	-
ENEL Distributie Banat SA	573.2	640.5	67.2
ENEL Distributie Dobrogea SA	379.1	396.9	17.8
ENEL Distributie Muntenia SA	473.1	465.8	(7.3)
ENEL Energie Mutenia SA	65.1	65.1	0.1
ENEL Energie SA	74.3	74.4	0.1
FECNE S.A.	-	-	-
GDF Suez Energy Romania SA	404.4	461.3	56.9
Gerovital Cosmetics S.A.	-	-	-
Hidroelectrica SA	2,105.2	2,178.1	72.9
Petrotel - Lukoil S.A.	-	-	-
Plafar SA	4.8	1.8	(3.0)
Posta Romana SA	60.8	55.9	(4.9)
Salubriserv S.A.	10.9	10.9	-
Simtex S.A.	-	-	-
Societatea Nationala a Sarii SA	114.1	142.9	28.8
World Trade Center Bucuresti S.A.	-	-	-
World Trade Hotel S.A.	-	-	-
Zirom SA	43.5	39.3	(4.1)
Total value unlisted	6,236	6,478	242

Source: Fondul Proprietatea, Blue Rock estimates

** reported NAV values

*** result of the merger between E.ON Moldova Distribuție S.A. and E.ON Gaz Distribuție S.A.

Valuation

For our fair NAV (target price) computation we apply a 10% discount to all listed equities in the current estimated portfolio and a 30% discount for the unlisted participations. We value separately the Electrica subsidiaries (as we feel that Electrica could purchase FP's holdings in 1H15) and Hidroelectrica (since an exit from technical insolvency and subsequent IPO could happen in 2H15 - 1H16 in our view). The target price lands at RON 1.0065 per share (an implied 18% upside; 17% discount to end-Dec NAV and 15% discount to current estimated NAV), with an Outperform rating versus the BET Plus index.

Valuation for report			
RONm	Latest NAV	NAV estimate	Fair NAV*
Equity investments	12,972.9	12,656.5	10,674.5
Listed	6,494.8	6,178.4	5,560.6
Unlisted	6,478.0	6,478.0	5,113.9
Cash & equiv	310.9	310.9	43.7
Other net assets	(47.0)	(47.0)	(47.0)
NAV	13,236.7	12,920.3	10,671.2
NAV per share (RON) / Target price	1.2125	1.1836	1.0065

Source: Company data, Blue Rock estimates

* Fair NAV adjusts for cash and shares effect of 4th and 5th buybacks at last price

Risks to our valuation could come from pressures on portfolio components due to adverse market conditions (for example, all else equal, a 10% decrease in Petrom's value, would have a 3% impact on our TP), regulatory surprises for the fund (further delays for the secondary listing process) or for portfolio companies (regulated rates of return, royalties, litigations, etc.), among others.

Electrica

For the Electrica subsidiaries (Electrica Distributie Muntenia Nord, Electrica Distributie Transilvania Nord, Electrica Distributie Transilvania Sud and Electrica Furnizare) we derive fair values from the parent's current market capitalization and the share of each subsidiary in the group's EBITDA, with the 30% discount applied for unlisted entities. The computed fair values of the cumulated holdings are 5% below the official values reported at end-Dec by the fund.

Electrica at 9M14					
RONm	EL	EDMN	EDTN	EDTS	EF
Mkt cap	4,237.8				
EBITDA	688.8	198.6	201.3	179.3	189.1
% of group EBITDA		28.8%	29.2%	26.0%	27.5%
Estimated values		1,222.0	1,238.3	1,103.2	1,163.5
% held by FP		21.99%	22.00%	21.99%	22.00%
Estimated FP values		268.7	272.4	242.6	256.0
Discounts applied for unlisted		30%	30%	30%	30%
Estimated values in fair NAV		188.1	190.7	169.8	179.2

Source: Stockground, Electrica, Blue Rock estimates

Hidroelectrica

We value Hidroelectrica at 25% discounts to its peers' benchmarks in terms of Bloomberg estimated EV/Capacity, EV/EBITDA and EV/Sales, for Hidroelectrica's 10M14 trailing 12 month figures, to which we apply the 30% discount for unlisted participations to obtain our fair NAV value. The obtained value is 6% below the official number.

Hidroelectrica peers					
Company	Bloomberg ticker	EV/Capacity (RONm/MW)	EV/EBITDA	EV/Sales	EBITDA margin
AKENERJI ELEKTRIK URETIM AS	AKENR TI Equity	7.49	28.46	2.84	10%
ALPIQ HOLDING AG-REG	ALPH SW Equity	2.61	7.63	0.49	6%
AYEN ENERJI AS	AYEN TI Equity		12.64	4.31	34%
FORTUM OYJ	FUM1V FH Equity	6.12	11.29	4.24	38%
VERBUND AG	VER AV Equity	3.85	11.86	3.33	28%
Benchmark avg		5.02	14.38	3.04	23%
Benchmark med		4.99	11.86	3.33	28%

Source: Bloomberg, Blue Rock

Hidroelectrica valuation			
	EV/Capacity	EV/EBITDA	EV/Sales
Benchmark	4.99	11.86	3.33
Discount	25%	25%	25%
Target EV	19,675	18,646	8,402
Target MktCap	18,733	17,704	7,460
Est Mkt Cap (RONm)		14,632	
% held by FP		19.94%	
Value in est-NAV		2,918	
Discount for unlisted		30%	
Value in FP fair NAV		2,042	

Source: Blue Rock estimates

Hidroelectrica financials at 10M14	
RONm	
Last 12 months	
Sales	3,364
EBITDA	2,096
EBITDA margin	62%
Net profit	899
Avg guaranteed capacity (MW)	5,257
At end-October	
Net debt	942

Source: Hidroelectrica, Blue Rock estimates

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