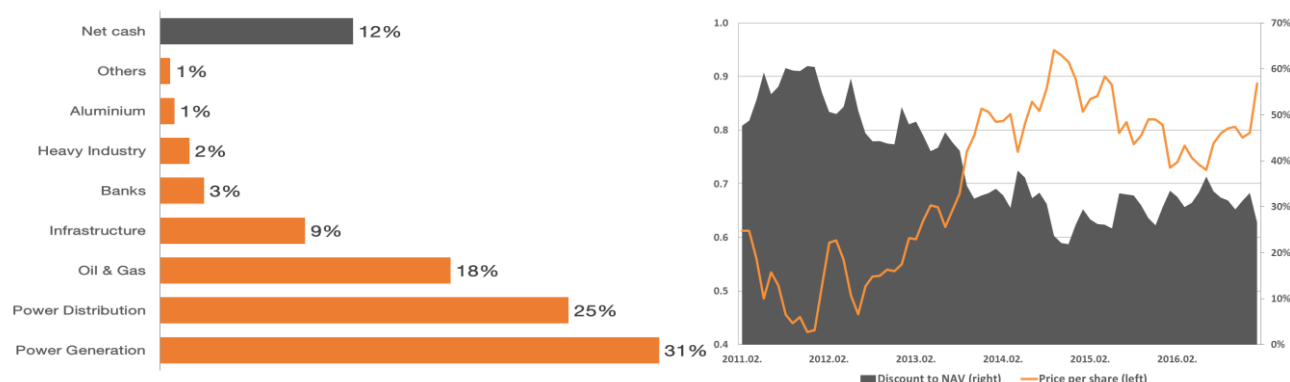


# Fondul Proprietatea

Overweight (unch.)

Target price (e-o-2017): RON 0.90 (prev. 0.87)



Share price close as of 15/02/2017	RON 0.89	Bloomberg	FP RO
Reported NAV [RON mn/EUR mn]	11,798/2,622	Reuters	FP.BX
Daily turnover 12M [EUR million]	1.4	52 week range	RON 0.68-0.90

## Take care when the tide ends

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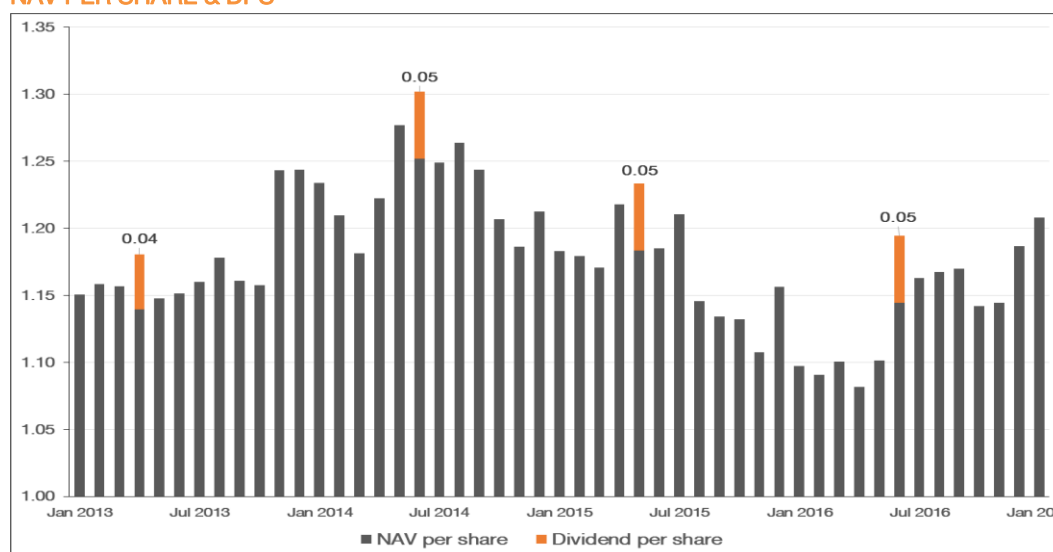
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- **Recommendation:** Despite the strong ytd price increase we maintain our positive view on Fondul, since 1.) we wait for the special and regular dividend (Fondul pays one of the largest dividend yield in our coverage ca. 11%), 2.) furthermore the buy-back gives a protection against risks 3.) Hidroelectrica and Electrica options are still valuable 4.) Romanian GDP growth rate was 4.8% in 2016 and we believe that this year's growth will be around 4-5%, 5.) last but not least MSCI watchlist inclusion should come in 2018 H1.
- **Petrom:** As a result of Petrom's price recovery we slightly increase our end of the year target price. Petrom was significantly lagging behind compared to its peers, thus we believed that this repricing will come soon therefore we recommended a spread trade OMV Petrom vs. OMV AV (we have closed the trade last week with ca. +14% return over two months holding period). We believe that Fondul seek to sell the next tranche (5-6%) after the one year lock up, which expires in October if oil price remains at the current level.
- **Hidro:** No news regarding the IPO. In May, Hidro agreed with the intermediary syndicate (Morgan Stanley, RBI) to resume the obligation under the Engagement Letter regarding the IPO. In June, the company exited insolvency by the decision of the syndic judge. During the first 9M, Hidro's EBIT reached RON 1,118 million up by 26% y-o-y, while the net profit was at RON 891 million vs. RON 709 million a year before.
- **Full year results:** Fondul reached 0.06 RON EPS in FY 2016, due to the gain on disposal of equities, which was reported at RON 926 million vs. 345 past year. However, impairment losses on equity increased by RON 32 million meanwhile the net loss from equity investments was RON 378 million vs. RON 1,241 million in 2015 FY. It is important to highlight that gross dividend income declined by 38%, which is a negative sign for the core business. It is positive that the company is selling these assets, whereof it is possible to finance the buy-backs, but the core business model was built on the stable dividend flow of these asset what they just sold. All in all, we believe that Hidro might compensate the Fund and government will to increase the pay-out ratio to

90% in case of the distribution companies might fuel the core business and compensate the deficit what the Romgaz transaction caused.

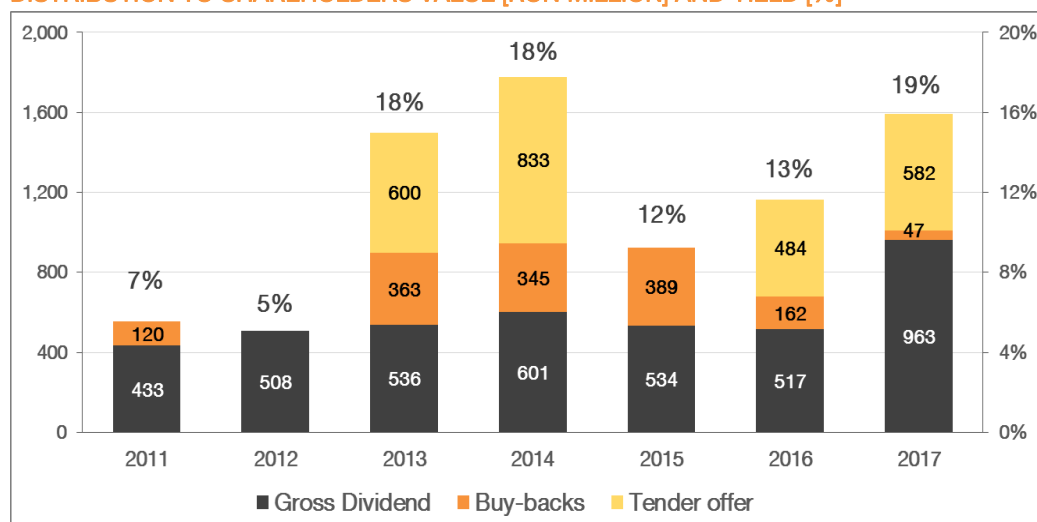
- **Management fees** were higher reaching ca. 0.62% of the NAV vs. 0.57% in 2015 FY. Portion of the unlisted portfolio increased after the Petrom reduction to 65% highest since 2011
- **Dividend:** At the end of September Fondul announced the proposal of a special cash distribution to shareholders of RON 0.05 per share or 5.5% dividend yield with the current price. The proposal for the special distribution is part of the Investment manager's commitment to continue to reduce the discount to NAV and will be paid to shareholders on the 27<sup>th</sup> of March. The Fund also intends to recommend an annual cash distribution of RON 0.05 per share to be approved in early 2017 and paid in June. All in all, the Fund will pay-out RON 0.1 or 11% dividend yield in the next 4 months.

#### NAV PER SHARE & DPS



- **Buy-back:** Fondul announced a public tender offer in relation to the acceleration of the seventh buy-back programme. The Fund willing to buy back 640 million shares at a purchase price of RON 0.91 per share. The subscription period is between 15<sup>th</sup> of February and 20<sup>th</sup> of March.

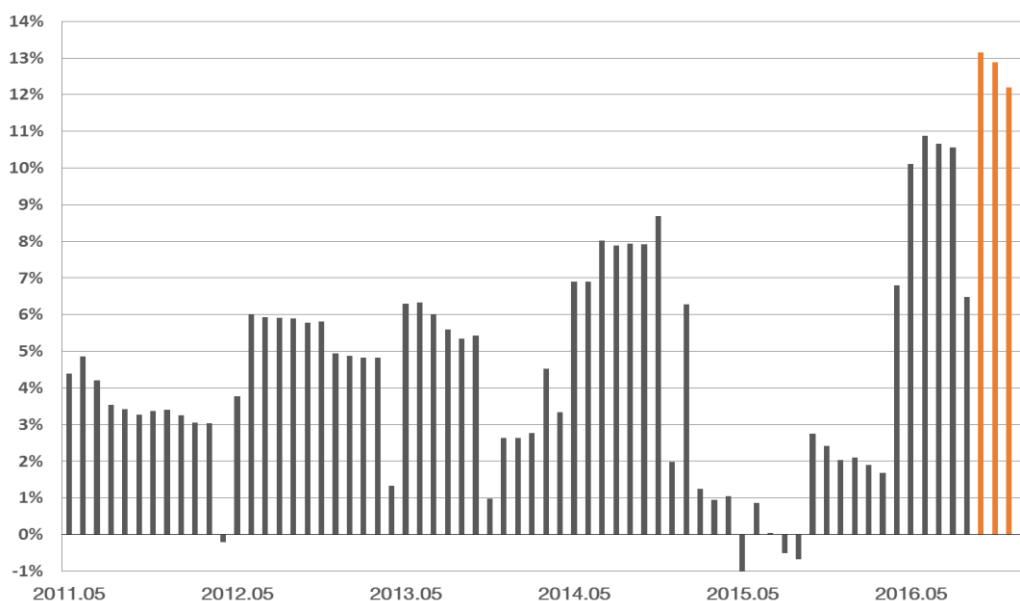
#### DISTRIBUTION TO SHAREHOLDERS VALUE [RON MILLION] AND YIELD [%]



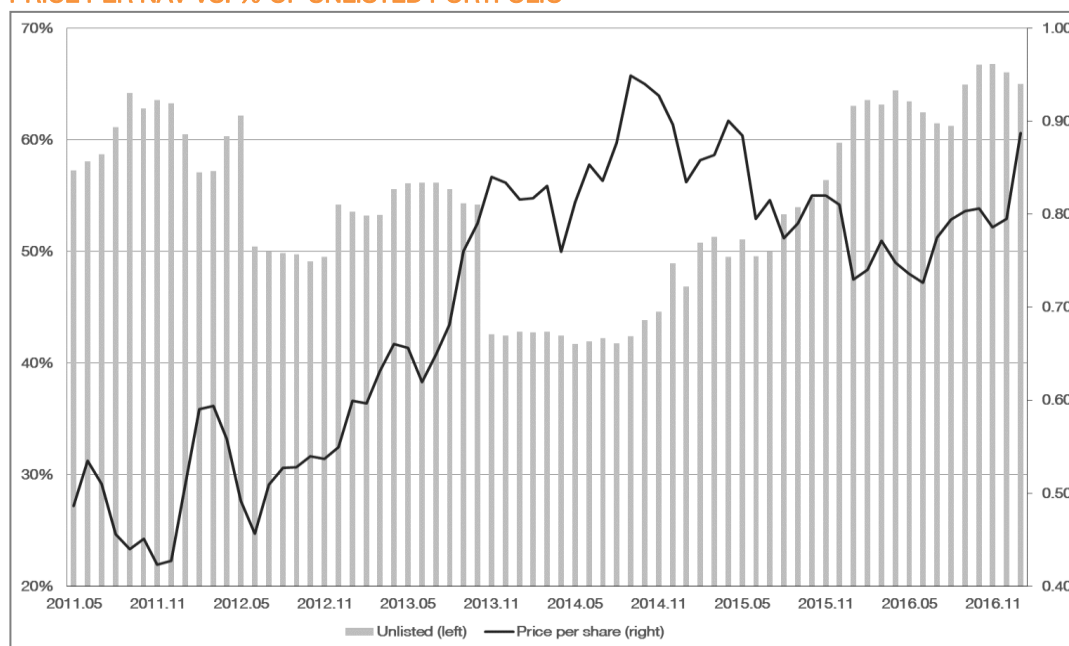
### TENDER OFFERS

	Nov 2013	Dec 2014	Aug 2016	March 2017
Number of shares [million]	600	750	575	640
Value [RON million]	600	833	484	582
Buy-backs program	2nd	4th	6th	7th
% of the Buy-back program	54%	76%	64%	82%
% of the NAV	4.4%	6.3%	4.1%	5.1%
Purchase price [RON]	1.00	1.11	0.84	0.91
Current price [RON]	0.81	0.94	0.77	0.89
Premium	23.2%	18.3%	9.4%	8.3%

### CASH LEVEL AS A % OF NAV



### PRICE PER NAV VS. % OF UNLISTED PORTFOLIO



**TOP EQUITY HOLDINGS [RON MILLION]**

	Q1 2015	H1 2015	9M 2015	FY 2015	Q1 2016	H2 2016	9M 2016	FY 2016
OMV Petrom	3,909	4,055	3,604	3,120	2,582	2,582	2,625	1,858
Romgaz	1,351	1,403	1,156	613	608	0	0	0
BRD	235	274	264	307	266	249	279	301
Banca Transilvania	158	160	199	234	234	12	12	21
Nuclearelectrica	200	205	192	176	146	138	135	132
Unlisted Equity	6,204	6,209	6,209	6,983	6,995	7,384	7,397	7,597
of which Hidro	2,178	2,178	2,178	2,654	2,654	2,654	3,269	3,384
<b>Top 20</b>	<b>12,056</b>	<b>12,305</b>	<b>11,625</b>	<b>11,434</b>	<b>10,832</b>	<b>10,364</b>	<b>10,448</b>	<b>9,908</b>
% of total equity	97%	97%	96%	97%	96%	99%	98%	99%
<b>Total equity Holdings</b>	<b>12,485</b>	<b>12,742</b>	<b>12,082</b>	<b>11,841</b>	<b>11,247</b>	<b>10,521</b>	<b>10,621</b>	<b>10,034</b>
Net cash	120	-96	-81	247	194	1,284	736	1,394
<b>NAV</b>	<b>12,605</b>	<b>12,646</b>	<b>12,000</b>	<b>12,088</b>	<b>11,440</b>	<b>11,805</b>	<b>11,357</b>	<b>11,427</b>
NAV per share	1.17	1.19	1.13	1.16	1.10	1.14	1.17	1.19
Price per share	0.86	0.80	0.79	0.81	0.77	0.73	0.80	0.80
<b>Discount to NAV</b>	<b>-26%</b>	<b>-33%</b>	<b>-30%</b>	<b>-30%</b>	<b>-30%</b>	<b>-37%</b>	<b>-31%</b>	<b>-33%</b>

**MANAGEMENT FEES & OTHER OPEX [RON MILLION]**

	Q1 2015	H1 2015	9M 2015	FY 2015	Q1 2016	H2 2016	9M 2016	FY 2016
Management fee	14	40	54	68	13	36	58	71
SPO expenses	0	0	0	17	0	0	0	0
FSA monthly fees	3	6	9	12	3	5	8	11
Fees related to disposal	0	0	1	9	0	0	10	33
Depository fees	0	1	1	1	0	0	1	1
Other opex	3	22	28	19	3	15	13	17
<b>Operating expenses</b>	<b>20</b>	<b>69</b>	<b>93</b>	<b>125</b>	<b>19</b>	<b>56</b>	<b>90</b>	<b>132</b>
<b>Man. fee as a % of NAV</b>	<b>0.11%</b>	<b>0.32%</b>	<b>0.45%</b>	<b>0.57%</b>	<b>0.11%</b>	<b>0.30%</b>	<b>0.51%</b>	<b>0.62%</b>

**PROFIT AND LOSS [RON MILLION]**

	Q1 2015	H1 2015	9M 2015	FY 2015	Q1 2016	H2 2016	9M 2016	FY 2016
Gross dividend	0	435	569	569	0	347	351	353
Net losses	-476	-327	-775	-1241	-536	-541	-499	-378
Impairment losses	-20	-20	-29	-91	-30	-41	-43	-122
Interest income	1	2	2	4	1	3	4	8
Gain on disposal	0	0	0	345	0	913	926	926
Other items	0	0	21	19	2	20	22	-110
<b>NOI</b>	<b>-495</b>	<b>89</b>	<b>-211</b>	<b>-394</b>	<b>-563</b>	<b>701</b>	<b>761</b>	<b>677</b>
OPEX	-21	-69	-93	-125	-19	-56	-90	-132
Finance costs	0	0	-2	-3	0	0	0	0
Tax expense	-153	-129	-127	-44	-4	-104	-101	-97
<b>Net profit</b>	<b>-669</b>	<b>-109</b>	<b>-432</b>	<b>-565</b>	<b>-586</b>	<b>541</b>	<b>571</b>	<b>447</b>
Other income	15	122	-107	212	-31	-189	-154	101
<b>Adj. profit</b>	<b>-653</b>	<b>13</b>	<b>-540</b>	<b>-353</b>	<b>-617</b>	<b>352</b>	<b>417</b>	<b>548</b>
<b>EPS</b>	<b>-0.06</b>	<b>0.00</b>	<b>-0.05</b>	<b>-0.03</b>	<b>-0.06</b>	<b>0.03</b>	<b>0.04</b>	<b>0.06</b>

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