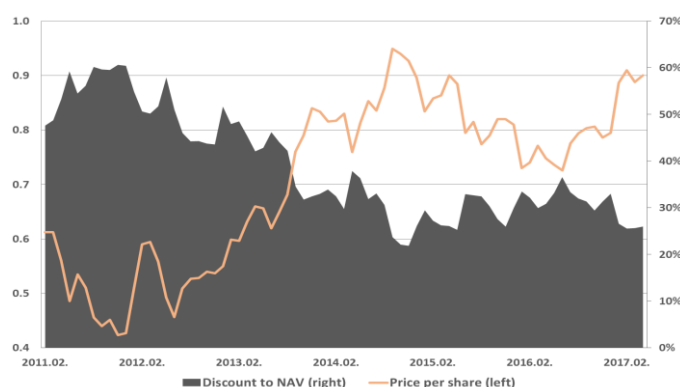
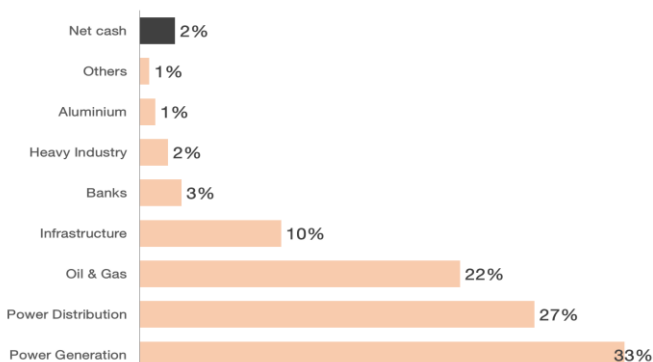


Fondul Proprietatea

Overweight (unch.)

Target price (e-o-2017): RON 0.95 (prev. RON 0.9)



Share price close as of 15/05/2017	RON 0.9	Bloomberg	FP RO
Market cap. [RON mn/EUR mn]	8,037/1,766	Reuters	FP.BX
Daily turnover 12M [EUR million]	1.6	52 week range	RON 0.68-0.92

Distribution to shareholders will increase

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- Investment story:** Despite the strong ytd price increase we maintain our positive view on Fondul, since 1.) we wait for the regular and additional special dividends, 2.) furthermore the buy-back gives a protection against country and regulatory 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.) government passed a memorandum to request the SOEs to pay-out 90% of the 2016 profits 6.) last but not least MSCI watchlist inclusion will come soon after DIGI IPO, which was price at RON 40 per share and start trading due on 16th of May.
- First quarter results:** Fondul reached 0.04 RON EPS in the first quarter of 2017 higher than the EPS was in H1 past year. The company sold its remaining stake in TLV. Portion of the unlisted portfolio increased above 70%, the maximum ratio is 20%/80%.
- Buy-back:** In July 2016 FP contracted a revolving credit facility for a maximum committed amount of RON 1 billion from BRD, which was recently extended until July 2018. The purpose of this credit facility is for buybacks and distribution to shareholders. Approximately 81.1% of the 7th buyback program was completed and the 8th will start soon up to 10% of the used shares.
- 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 was paid to shareholders on the 27th of March. The Fund will also pay annual cash distribution of RON 0.05 per share. The ex-date in the 9th of June and payment date is on the 30th of June 2017.
- Recommendation:** We have increased our end of the year ex-div target price to RON 0.95 per share. We wish to highlight that the buy-back program and special dividends gives also additional upsides. We remain Overweight in case of FP.

- Hidro:** 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 synd judge. The listing of Hidro is still not certain as it might be included to the Sovereign Fund for Development and Investment (FSDI), which contains all profitable SOEs. The deadline to set up FSDI is 1 July 2017. We do not expect Hidro to float on BVB in 2017 despite the rumors which expect the IPO in H2, like they did in the past three years. Hidro reported RON 3.3 billion up by 2% y-o-y, while the EBITDA increased by 4% to RON 2.16 billion slightly lower than all-time high 2014's level. The company reported record net profit at RON 1.26 billion up by 41%.
- Special dividend:** Fondul tried to convince BRD to pay-out 100% of past year's profit however it is unlikely to reach this goal with Societe Generale. On the other hand, the government might be rather keen on receive higher dividend from its holdings thus a 100% pay-out for the future might be beneficial for both parties. Hidro will pay dividend around RON 675 million, which is ca. 75% of its past year's profit. However the company is still in net cash, which has increased from RON 1 billion to RON 1.7 billion during 2016 and probably increase further.
- We believe that the government and the fund will decide to take out this amount of cash before the IPO like GE did in case of Moneta Money bank. Furthermore, we assume that the company might increase its net debt to EBITDA ratio till 1.0x, which is ca. half of the average of the peer group's level. Adding up this two component we arrive to ca. RON 3.8 billion distributable cash of which Fondul would receive 0.8 billion lei or 0.09 per share. We assume that the government and Hidro's management will achieve this goal within two steps but it is very likely that Fondul will be able to pay out 0.05 special dividend this year again in any circumstances. Running four scenarios with different net debt/EBITDA ratio we believe that Fondul will be able to pay-out special dividend between 0.04-0.13 per share or 4%-15% calculating with the current price, before the IPO.

SPECIAL DIVIDEND SCENARIOS [RON MILLION AND RON]

Net debt/EBITDA	Distributable cash	FP's stake	Special DPS	Special DY
0.0x	1,695	338	0.04	4%
1.0x	3,861	770	0.09	10%
1.5x	4,944	986	0.11	12%
2.0x	6,027	1,202	0.13	15%

Source: Concorde

- After DIGI's and Medlife's successful IPOs we are more positive about Hidro's listing as well. We believe that DIGI was fairly priced with an EV/EBITDA around 5.4x, which is slightly higher than the regional average and shows no country discount rather DLOC. The stock was priced at RON 40 per share 28.6% below the max. price of RON 56 but the allocation index was only 5.12% for retails due to the extremely high oversubscription. After this transaction we believe that a 6x EV/EBITDA multiple for Hidro ex-net cash is not irrational vs. its peers and market trends.

TOP EQUITIES WHICH MIGHT BE INCLUDED TO MSCI EM INDEX [EUR BILLION]

	Market cap	MSCI FF	FF. Market cap	Sector
1 TLV	2.2	70%	1.55	Bank
2 Romgaz	2.8	30%	0.83	Oil & Gas
3 OMV Petrom	3.3	20%	0.65	Oil & Gas
4 Hidroelectrica	3.2	20%	0.65	Utility
5 Electrica	1.1	45%	0.50	Utility
6 BRD	1.9	25%	0.47	Bank

Source: Bloomberg and Concorde's forecast

- In case of Hidroelectrica we calculate with 6x EV/EBITDA

TOP EQUITY HOLDINGS [RON MILLION]

	H1 2015	9M 2015	FY 2015	Q1 2016	H2 2016	9M 2016	FY 2016	Q1 2017
OMV Petrom	4,055	3,604	3,120	2,582	2,582	2,625	1,858	2,153
Romgaz	1,403	1,156	613	608	0	0	0	0
BRD	274	264	307	266	249	279	301	313
Banca Transilvania	160	199	234	234	12	12	21	0
Nuclearelectrica	205	192	176	146	138	135	132	184
Conpet	37	36	40	46	38	40	41	59
Unlisted Equity	6,172	6,173	6,943	6,949	7,346	7,357	7,556	7,597
of which Hidro	2,178	2,178	2,654	2,654	2,654	3,269	3,384	3,384
Top 20	12,305	11,625	11,434	10,832	10,364	10,448	9,908	10,305
% of total equity	97%	96%	97%	96%	99%	98%	99%	99%
Total equity Holdings	12,742	12,082	11,841	11,247	10,521	10,621	10,034	10,428
Net cash	-96	-81	247	194	1,284	736	1,394	262
NAV	12,646	12,000	12,088	11,440	11,805	11,357	11,427	10,690
NAV per share	1.19	1.13	1.16	1.10	1.14	1.17	1.19	1.19
Price per share	0.80	0.79	0.81	0.77	0.73	0.80	0.80	0.90
Discount to NAV	-33%	-30%	-30%	-30%	-37%	-31%	-33%	-25%

MANAGEMENT FEES & OTHER OPEX [RON MILLION]

	H1 2015	9M 2015	FY 2015	Q1 2016	H2 2016	9M 2016	FY 2016	Q1 2017
Management fee	40	54	68	13	36	58	71	34
SPO expenses	0	0	17	0	0	0	0	0
FSA monthly fees	6	9	12	3	5	8	11	3
Fees related to disposal	0	1	9	0	0	10	33	2
Depository fees	1	1	1	0	0	1	1	0
Other opex	22	28	19	3	15	13	17	0
Operating expenses	69	93	125	19	56	90	132	40
Man. fee as a % of NAV	0.3%	0.5%	0.6%	0.1%	0.3%	0.5%	0.6%	0.3%

PROFIT AND LOSS [RON MILLION]

	H1 2015	9M 2015	FY 2015	Q1 2016	H2 2016	9M 2016	H1 2015	Q1 2017
Gross dividend	435	569	569	0	347	351	435	0
Net losses	-327	-775	-1241	-536	-541	-499	-327	296
Impairment losses	-20	-29	-91	-30	-41	-43	-20	19
Interest income	2	2	4	1	3	4	2	6
Gain on disposal	0	0	345	0	913	926	0	6
Other items	0	21	19	2	20	22	0	-4
NOI	89	-211	-394	-563	701	761	89	323
OPEX	-69	-93	-125	-19	-56	-90	-69	-40
Finance costs	0	-2	-3	0	0	0	0	0
Tax expense	-129	-127	-44	-4	-104	-101	-129	10
Net profit	-109	-432	-565	-586	541	571	-109	293
Other income	122	-107	212	-31	-189	-154	122	75
Adj. profit	13	-540	-353	-617	352	417	13	368
EPS	0.00	-0.05	-0.03	-0.06	0.03	0.04	0.00	0.04

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SUMMARY OF CONCORDE'S RECOMMENDATIONS

