



# Fondul Proprietatea

## Appealing strategy to narrow the discount

16 April 2014

### Investment Case & Valuation

We employ a sum-of-the-parts valuation (with mark-to-market approach for listed stocks and relative valuation for unlisted holdings) and arrive at a fair NAV of RON13.3bn (EUR3.0bn), to which we apply a 15% discount (scaled-back from 25% used previously) for conglomerates/closed-end funds. We derive a Target MCap of RON11.3bn (EUR2.5bn) and a Target Price per share of RON0.94, entailing a 16.3% upside potential vs the last trading price. We maintain our Outperform rating for the stock due to strong buy-back program pipeline and overall strategy aimed at narrowing the trading discount.

### Buy-back programs will remain central to the strategy aimed at narrowing the trading discount

The impact of the sizable buy-back program in 2013 (8% of capital) has been mirrored in the stock's strong performance, and we believe that high expectations for future tender offers at appealing offering prices (e.g. RON1.0 at the tender offer in 2013) will support the stock's price going-forward. Currently, a 3rd buy-back (worth 1.9% of capital) is in full swing, and the asset manager has submitted for shareholders' approval on 28-April a 4th buy-back worth 7.3% of capital.

### A shift in dividend distribution policy is expected

For the first time since listing, the Fund manager proposed no regular dividend distribution out of the 2013 net profit (RON682.1m), arguing that shareholders have already approved a cash distribution of RON0.05 per share (divld of 6.2%) via the decrease of the share capital through the reduction of the shares' face value. We expect more of this type of cash distributions in the future, considering that the switch to IFRS as of 2015 (most likely) will bring more volatility to the bottom line. Additionally, according to the new IMA, the asset manager will be rewarded with an additional fee for any cash non-dividend distributions to shareholders.

### New secondary listing proposal: in London via DIs by end-2014

The Fund manager came up with a new proposal, namely to list the Fund on the Specialist Fund Market (SFM) of the London Stock Exchange via Depositary Interests (DIs) by end-2014. The proposal will be submitted for shareholders' approval in the 28-Apr GSM. We believe that the new plan will meet with less resistance from the local regulatory body and stock market operator this time, as the concerns regarding potential drop in the local market liquidity (and thus of the fees collected by the two institutions) have been alleviated following the SPO/IPOs undergone in 2013. As such, we assign a high chance for the secondary listing plans to be carried out with success by end-2014.

Net Asset Value (NAV)	RONm	EURm	% of fair NAV	per share (RON)
Listed companies	7,899	1,769	59.2%	0.655
Unlisted companies	5,051	1,131	37.9%	0.419
Other assets (net)	394	88	3.0%	0.033
Fair NAV	13,343	2,989	100.0%	1.11
Target Mcap	11,342	2,540		0.94
NSC NAV*	14,253	3,192		1.18
Last price vs. fair NAV per share				-26.9%
Last price vs NSC NAV per share				-31.6%

Source: Company reports, NBG Securities estimates

\* as of Mar-14 (in line with NSC regulations)

Irina Cretu

+4021 305 17 08

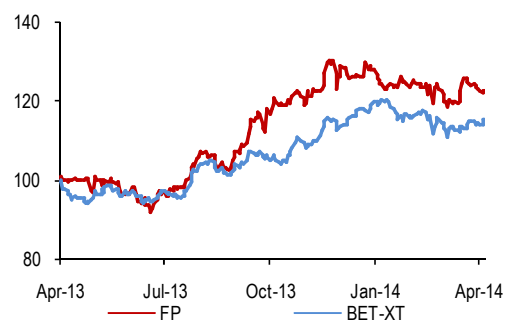
[icretu@nbgsecurities.ro](mailto:icretu@nbgsecurities.ro)

### Stock Data & Performance

Stock Rating	Outperform
	[Unchanged]
12M target price (new)	RON0.94
12M target price (previous)	RON0.72
Last Price	RON0.81(15/04/14)
Upside to Target Price	16.3%
52 week range	RON 0.61/0.86
Market Cap*	RON10,939m
Reuters/Bloomberg	FP.BX/FP RO
3m avg trading vol	11.3m
Free Float	100%
Absolute 3m	-2.2%
Absolute 12m	23.2%
Relative to BET-XT 3m	1.3%
Relative to BET-XT 3m	6.6%

\* based on total outstanding shares

### Price performance



Source: BVB, NBG Securities

## Key investment themes

### Buy-back programs will remain central in returning value to shareholders

The main catalysts which already underpinned and will continue to support to the narrowing of the trading discount of the Fund (now at 32%), are (in the order of their importance): (1) the continuation of buy-back programs, (2) cash distributions to shareholders, (3) IPOs and improvement in the portfolio asset quality and (4) secondary listing.

Fondul Proprietatea has already completed two buy-back programs worth a total of 9.7% of share capital between May-2011 and Dec-2013, and the third one worth 252.86m shares or 1.9% of capital (which has been approved by the 22-Nov-2013 GSM) is currently in full swing (execution started as of 27-Mar). Additionally, the Fund manager has submitted for shareholders' approval (in the 28-Apr GSM) the authorization for a fourth buy-back to repurchase 990.86m shares (or 7.3% of share capital) within a price range of RON0.2-2.0 per share (vs RON0.2-1.5 in the previous programs), to be carried out after the completion of the third buy-back.

#### Buy-back programs highlights

	1st buy-back (completed)	2nd buy-back (completed)	3rd buy-back (on-going)	4th buy-back (proposed)
Period	May-Sept 2011	Apr-Dec 2013	Started on 27-Mar-2014	to be subject to shareholders' approval in the 28-Apr GSM
No of shares (m)	240.3	1,101.0	252.9	990.9
% of share capital	1.7%	8.0%	1.9%	7.3%
Value (RONm)	120.3	974.8	204.3	800.6
Avg price (RON)	0.4994	0.8743	0.81	0.81
Comments	100% via open market purchases	501m shares via open market purchases at an avg price of RON0.7239 per share; 600m shares via tender offer at RON1.0 per share	16.3m shares acquired so far on open market at RON0.8232 per share	

Source: Company reports, NBG Securities estimates

Note: 3rd and 4th buy-back value were estimated based on the last trading price

### Asset disposals are required in order to support the fourth buy-back program

Buy-backs will remain central to the Fund manager's strategy in reducing the discount and returning value to shareholders. The impact of the sizable shares repurchases in 2013 has been mirrored in the stock's strong performance, and we believe that high expectations for future tender offers at appealing offering prices (e.g. RON1.0 at the tender offer in 2013) will most likely support the stock's price going-forward. Albeit the current buy-back is rather modest in size and is more likely to be carried out through open market purchases, the fourth program is large enough and could justify another accelerated buy-back tender offer.

The execution of the buy-back programs is subject to available cash and the 25% of the trading volume restriction. In terms on available cash, the current liquidity position and the dividend income to be received this year will be enough to support the execution of the third buyback and the distribution of the RON0.05 per share special dividend. However, the necessary funds for the completion of the fourth buy-back (estimated to exceed RON800m, if tender offer at RON1.0 per share is pursued) have to be assured via asset disposals. Related to this, the proceeds that the Fund could raise following the sale of a 4% stake in Petrom (as per the recently announced plans) would be roughly sufficient.

Cancellation of the treasury shares has proved cumbersome so far, due to several setbacks, including litigations. The Fund received FSA's approval for the cancellation of the 240.3m shares acquired in the 2011 only as of February this year. We note that the cancellation of the shares acquired in the 2<sup>nd</sup> buy-back is also mandatory in order for the 4<sup>th</sup> buy-back to be initiated, as the fund cannot hold treasury shares more than 10% of the share capital.

### Fund manager proposes 2013 net profit to be retained, unless the RON0.05 special dividend faces delays

For the first time since listing, the Fund manager proposed no regular dividend distribution out of the 2013 net profit (RON682.1m, +20.3% y/y), arguing that it has already recommended, and the shareholders have approved, a cash distribution of RON0.05 per share (divyld of 6.2%) via the decrease of the share capital through the reduction of the nominal value of the Fund's shares. The Fund manager argued that this is a more tax efficient option, as no Romanian tax will arise for the Fund or its shareholders on this distribution, which means that the net cash distribution received by the shareholders will be higher by the applicable dividend withholding rate.

The decrease of share capital is subject to the endorsement from the FSA. If this regulatory

approval, or any litigation or other event will delay or block the implementation of cash distribution, the Fund Manager may consider proposing a dividend distribution of the unallocated profits for 2013, to ensure that shareholders will receive an annual cash distribution.

**DPS**

	2010	2011	2012
Net profit (RONm)	456.2	543.8	567.0
Payout ratio	95%	93%	95%
DPS (RON)*	0.03141	0.03854	0.04089
Divyld	7.0%	7.5%	7.9%

Source: Company reports, NBG Securities estimates

\* for the respective fiscal year

**A shift in dividend distribution policy is in the cards, following the switch to IFRS as of 2015**

Going-forward, we expect more of this type of cash distributions to shareholders instead of regular dividends. There are two reasons which guide for that:

1. Most importantly, in the near future (**probably in 2015**), **IFRS will become the statutory set of financials, which will increase the volatility of the bottom line**, as all impairment losses are recognized through P&L, as opposed to equity currently (standalone IFRS net result in 2013 was a loss of RON837.3m).
2. Additionally, **the old issue regarding the contrasting regulations regarding the distribution of dividends and other reserves of the Fund arises** (i.e. which net asset value out of the two published – (1) RON15.0bn in accordance with FSA regulations or (2) RON10.9bn in line with Romanian accounting standards - to use in order to determine if the Fund meets the regulatory criteria to distribute dividends, which states that net assets should be higher than outstanding share capital). Reportedly, the Fund is currently in the process of obtaining clarifications from the relevant Romanian authorities (being the Ministry of Public Finance, the Ministry of Justice and the FSA) on the interpretation of the provisions of contrasting regulations. Depending on the final conclusion of the clarifications, any change in interpretations from the regulatory authorities increases the legal risks regarding dividend distribution and may require changes in the Fund's distribution policy in the future.

**Solid performance of oil & gas producers in 2013 to support FP's 2014 dividend income**

Dividend income will remain solid this year, as the Fund is expected to cash-in again around RON600m in dividends from its holdings. On an annual basis, we estimate the figure to ease c 7%, mainly due to lower dividends from Romgaz and Transgaz (the Fund sold its stake in the company in Dec-2013). Overall, the two oil & gas players, Petrom and Romgaz, remain the largest contributors to dividend income (jointly accounting for 73% of total dividend income in 2013).

Going-forward, we expect the dividend income line to lose its previous status of main driver of the dividend policy, but will continue to offer a strong support in building the liquidity position needed to fund buy-backs/ other cash distributions to shareholders. Naturally, future disposals in Petrom and Romgaz will be reflected in lower dividend income being received by the Fund, all else equal.

**Contributors to FP's dividend income (RONm)**

Company	2007	2008	2009	2010	2011	2012	2013	2014e	% in total (2013)
Petrom	90.2	195.8	0.0	0.0	201.6	353.1	319.0	331.4	49%
Romgaz	31.6	34.8	40.9	87.8	106.0	140.6	158.9	124.7	24%
Transgaz	16.4	15.3	18.5	23.0	50.8	52.5	37.6	0.0	6%
Alro	24.8	38.7	17.0	11.2	16.0	19.4	0.0	0.0	0%
Transelectrica	13.1	3.2	3.0	0.5	1.1	10.9	4.0	18.5	1%
CN Aeroporturi Bucuresti	5.8	8.4	10.1	6.6	9.9	9.4	9.1	12.0	1%
Conpet	1.2	1.5	7.1	3.8	7.0	6.6	8.4	7.4	1%
CN Admin. Porturilor Maritime	0.0	1.3	0.0	0.0	0.0	6.6	5.4	5.0	1%
CE Oltenia	3.5	17.3	2.8	0.8	0.0	6.5	12.3	8.4	2%
BRD - GSG	0.0	0.0	0.0	0.0	2.4	3.6	0.0	0.0	0%
Hidroelectrica	0.0	0.0	0.0	6.5	52.5	0.0	0.0	0.0	0%
Others	16.5	65.2	18.7	38.9	71.7	9.0	97.7	98.3	15%
<b>Total</b>	<b>203.2</b>	<b>381.6</b>	<b>118.1</b>	<b>179.0</b>	<b>519.1</b>	<b>618.2</b>	<b>652.4</b>	<b>605.7</b>	<b>100%</b>

Source: Company reports, NBG Securities estimates

**Franklin Templeton to take on a new mandate of 2 years, under new IMA terms eyeing a narrowing of the discount towards 15%**

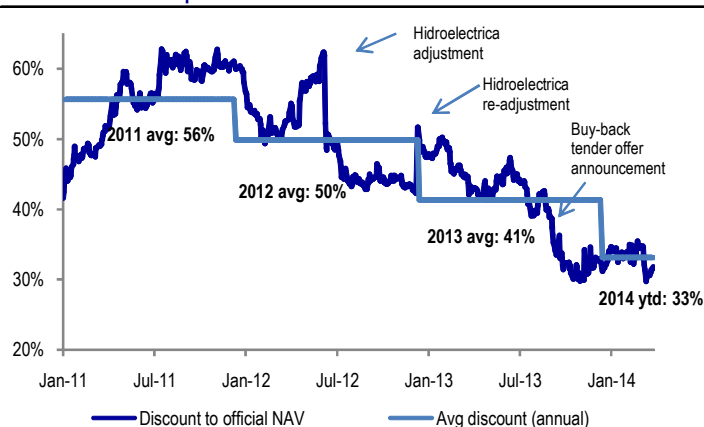
On 22-Nov-2013, shareholders approved the extension of Franklin Templeton's mandate by a 2-years period, starting with 30-Sept-2014. The change of the Constitutive Act regarding the new mandate needs to be endorsed by the FSA in order to enter into force.

Following the negotiations with the Board of Nominees, the key terms of the new IMA (subject to 28-Apr GSM approval) are as follows:

- There are two Performance Objectives included in the Investment Policy Statement :
  - (1) **the discount between the closing share price for each trading day and the latest published NAV per share being equal to or lower than 15% in at least two thirds of the trading days** in the period 1-Oct-2014 and 30-Jun-2015;
  - (2) **the adjusted NAV per share at 30-Jun-2015 must be higher than the NAV per share at 30-Sept-2013 (RON1.1610)**. For the purpose of applying this performance criterion, the adjusted NAV per share will be computed as: the NAV computed as per the legal provisions in force PLUS any returns to shareholders following reductions of the share capital during the period 11-Oct-2013 and 30-Jun-2015 PLUS any variable fee paid to Franklin Templeton, all divided by the number of paid shares at 30-Jun-2015 less the number of shares bought back (and not cancelled) by the Fund.
- The Fund Manager will call a GSM each year in October to review the performance of the Fund Manager and shareholders will have the opportunity to vote on the continuation or termination of the mandate of the Fund Manager.
- The BoN has proposed an **increase in the base fee to 0.60% from 0.479%** of the average quarterly market cap of the Fund, and a **distribution fee will be introduced to reward the Fund manager for excess distributions to shareholders** (2% of total non-dividend distributions until Oct-2015, and 1% afterwards).

We think that the narrowing of the trading discount to 15% until Jun-2015 is a challenging task, but not unattainable. One straight-forward method that could be used by the asset manager would be the pursue of another tender offer (likely during the 4<sup>th</sup> buy-back) at a even more appealing offering price, maybe close to the NAVPS, after the secondary listing.

**Discount to official reported NAV**



Source: BSE, Fondul Proprietatea, NBG Securities

**Portfolio liquidity has increased (weight of listed holdings reached 56%)**

We note below the most important highlights regarding the holdings in FP's portfolio in 2013:

- The number of companies declined to 62 (58 at Mar-2014) from 69 in the beginning of 2013, mainly on the back of a portfolio clean-up through which the number of unlisted companies declined to 38 from 44 previously. 7 companies were tagged under the bankruptcy, insolvency and dissolution category, and were valued at zero.
- The weight of the listed holdings in total portfolio improved to 56% at end-2013 from 44% following the listing of Romgaz and Nuclearelectrica;
- Portfolio remained heavily towards energy companies (c 90% of the NAV);
- The valuation methodology used of the unlisted companies in order to compute the NAV has migrated almost exclusively towards "fair value" method as opposed to "book value" method used at end-2012. Additionally, fourteen unlisted holdings were independently valued in Dec-2013 (for six of them, this was a valuation update).

Although the overall impact was not significant, namely a decrease of RON75.3m or RON 0.0059 per share, there were large adjustments performed in the case of Hidroelectrica (+RON238m or +12%, part of which was reversed in March after the re-entering of the company into insolvency proceedings) and CE Oltenia (-RON558m or -63%).

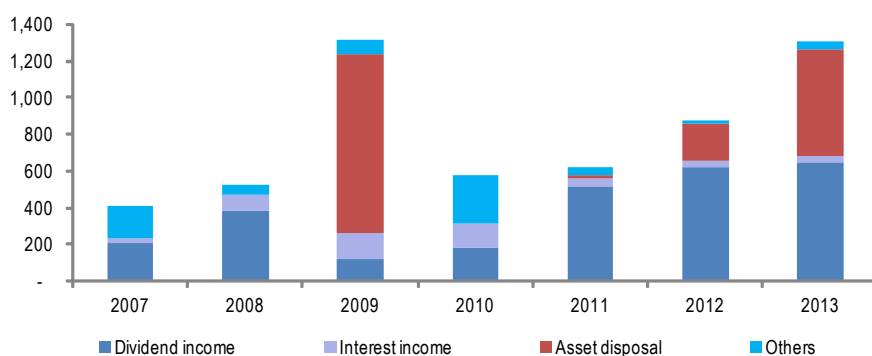
- Regarding the changes in the operating environment of the companies, the ones that bear the highest impact are highlighted below:
  - The start of the natgas and electricity market liberalisation, in line with a schedule approved with IMF (to unfold until 2014 for industrials and 2018 for households);
  - Increase in taxation: most important ones are (1) the taxes imposed following the gas market liberalisation, namely a 60% tax on additional revenues less investments in upstream activity (up to 30% of additional revenues) and less royalties and (2) a 1.5% tax on special constructions as of 2014 (in total, the private and state-owned companies from the Fund's portfolio are estimated to contribute more than RON900m to the State Budget, and the impact of the tax on the Fund's share profit is of c RON150m).
  - Improvements have been achieved regarding the corporate governance of the companies, and much effort has also been put into increasing communication with the energy regulator and the implementation of the OUG 109/2011 which advocates for transparent criteria and procedures for selecting members of the decisional bodies (thus alleviating political interference).

#### Asset disposals are on the rise

Asset disposals will have to continue in order for the Fund manager to be able to finance buy-backs and return cash to shareholders. This will be supported by an increased investor appetite for the Romanian energy market following the dual listing of Romgaz. Most likely candidates for the sale remain large listed companies like OMV Petrom, Romgaz and Transelectrica, due to both appealing story as well as sizable proceeds that can be raised.

Portfolio clean-up continued in 2013, and the Fund sold its entire holdings in Carom Broker de Asigurare Mecanoenergetica, Ciocirlia, Telerom Proiect, Celuloză si Otel and Transgaz (for RON303m), and finalised the disposal of its holding in Commetex. In May 2013, the Fund sold 632.5m shares in OMV Petrom (c. 1.1% stake) for RON247m. Also, in the last quarter of 2013, the Fund sold part of the holdings in Raiffeisen Bank International AG. **Total proceeds from asset disposals reached RON573m in 2013.**

Operating revenues (RONm)



Source: Company reports, NBG Securities estimates

In early March this year, the Fund announced that is reviewing strategic options to potentially reduce its ownership interest in OMV Petrom SA to below a 15% holding (from 19% currently). The review is in its early stages and there is no defined timetable for any decision. Provided that a 4% stake is sold, the Fund could raise as much as EUR225m, which would be enough to support the shares acquisitions in the 4<sup>th</sup> buy-back.



### **Hidroelectrica - back into insolvency procedure,...**

Starting 25-Feb-2014, the company has been placed under insolvency proceedings again, following a Court decision (not related to the company's financial standing), and is run by Remus Borza as judicial administrator and Gabriel Dumitrascu as special administrator. The litigations arising from the insolvency procedure that were settled through recent irrevocable decisions by the Court of Appeal were sent back to the first Court to be judged based on merits (which did not happen previously). This is expected to take up to 7 to 12 months.

In the meantime, the administrator will continue the reorganisation plan, by 1) cutting investment expenses, 2) reducing toxic assets, 3) selling remaining micro hydro power plants, 4) building a division for trading & procurement, headed by professionals from private companies.

According to the judicial administrator, the loss-making bilateral contracts which were cancelled with the energy traders will not be re-instated, even if the claimants happen to receive favourable Court decisions. Worst case, the company could be forced to pay damages, but these are unlikely to be as high as the ones requested by the energy traders (EUR350m). The administrator stated that it would also seek to prove that the cancelled contracts were at unfavourable terms for the company (EUR1bn loss between 2006 and 2012), and ask for damages in its turn.

### **... bears limited impact on NAV, but IPO postponed until 2H15**

**The impact on NAV of the re-entering of Hidroelectrica in insolvency procedure was limited.** The Fund manager has updated the value for its holdings in the hydropower producer at RON2.1bn on 11-Mar-2014, which is RON134.3m lower (6%) than the valuation previously available, before the Court decision. Reportedly, the decrease in the valuation was mainly due to the new legal situation of Hidroelectrica, which has resulted in a higher discount being applied for the lack of marketability (25% versus 10% used in the original valuation report prepared prior to 31 December 2013).

**The negative news comes mainly from the delay of the IPO**, which is postponed for the next year. According to the judicial administrator, the IPO of the company might take place in the second half of 2015.

### **New secondary listing proposal: in London via DIs by end-2014**

Due to extended delays from the CNVM and the FSA, the current regulatory environment did not allow the Fund Manager to complete the secondary listing on the WSE by end-2013, in line with the received mandate. Still, given the envisaged benefits of a secondary listing, the Fund manager came up with a new proposal to list the Fund on the Specialist Fund Market (SFM) of the London Stock Exchange via Depositary Interests (DIs) by end-2014. The proposal will be submitted for shareholders' approval in the 28-Apr GSM, and the main highlights of the proposal are the following:

- Main rationales quoted for the secondary listing: (1) broadening of the foreign institutional investor base not currently active in Romania, which should benefit the Fund as well as other companies including FP's portfolio, (2) increase visibility (the Fund will be one of the largest closed-end funds listed on SFM on LSE), (3) increased research coverage from brokers.
- Fungible trading between London and Bucharest is expected to be achieved via the use of Depositary Interests ("DIs") in the UK. Alternatively, the listing can be achieved via the use of Global Depositary Receipts ("GDRs"), but the current local regulations in Romania limit the issuance of GDRs to IPOs and in order for the Fund to be able to issue such GDRs, either the regulation should change or the local FSA should issue a waiver for the Fund to be able to issue the GDRs.
- The listing on the LSE can be achieved simply with no requirement to change the structure, investment policy or corporate governance of the Fund to make it eligible for a London listing.
- Investors will be attracted via separate placements of shares facilitated by existing shareholders through accelerated placements and/or individual trades on the regular (open) market either at the same time or subsequent to the listing in London
- Following a selection process finalized in Dec-2013, the Fund Manager has selected a consortium of investment banks which will assist the Fund on the secondary listing on the LSE: Jefferies International Limited ("Jefferies") together with two local brokers and a legal advisor.
- The secondary listing recommendation along with the approval of the listing budget, the necessary empowerments and the consortium will be proposed to shareholders in the 28-April GSM.

We believe that the new secondary listing plans will meet with less resistance from the local

### **We expect a successful completion of the listing in London**

regulatory body and stock market operator this time, as the concerns regarding potential drop in the liquidity on the local market (and thus of the fees collected by the two institutions) have been alleviated following the SPO/IPOs undergone in 2013. As such, we assign a high chance for the secondary listing plans to be carried out with success by end of the year, but we are rather skeptical as regards the direct impact of such an action over the trading discount of the stock. At best, the liquidity premium which comes along with the limitations of the frontier market would be diminished. Overall, we believe that the indirect effect is more important, i.e. the increase of awareness regarding the companies in the Fund's portfolio, which has become a must in the context of the planned asset disposals needed in order to be able to finance buy-backs and return cash to shareholders.

### **Gov't IPO/SPO calendar – prospects for 2014 are modest compared to 2013 achievements...**

After a busy 2013, the IPO pipeline has become thinner after the Hidroelectrica's re-entering in the insolvency procedure. Additionally, CE Olenia is likely to be delayed due to resources assessment. Nevertheless, we are happy to see that the Government seems to hold firm its commitment towards the privatization schedule, and we rate the latest delays as being caused by factors which were outside of their control.

#### **Government SPO and IPO calendar for FP's holdings**

Company	Ticker	Seller	Offering stake	Stake value (EURm)*	Official timeline	Status
Transelectrica	TEL	Romanian State	15%	37.6		Completed in March-2012
Transgaz	TGN	Romanian State	15%	72		Completed in April-2013
Nuclearelectrica	SNN	New shares	10%	63.2		Completed in September-2013
Romgaz	SNG	Romanian State	15%	382.8		Completed in November-2013
Hidroelectrica	Not listed	New shares	15%	352	IPO - June 2014	delayed by the insolvency proceedings, which could last another 7-12 months
CE Oltenia	Not listed	New shares	12.0/15.3%	39.8/50.8	IPO - June 2014	might be delayed to Sep-Oct, due to as the assessment of the coal reserves
Posta Romana	Not listed	New shares	>50%	0	Privatisation	no bidder; privatisation delayed until June 2014
CN Admin. Porturilor Maritime	Not listed	Romanian State	5%	3.7	n.a.	n.a.
CN Admin. Canalelor Navigabile	Not listed	Romanian State	5%	0.9	n.a.	n.a.
CN Admin. Porturilor Dunarii Fluviale	Not listed	Romanian State	5%	0.2	n.a.	n.a.
CN Admin. Porturilor Dunarii Maritime	Not listed	Romanian State	5%	0	n.a.	n.a.
Electrica SA**	Not listed	New shares	51%	362.8	IPO - May 2014	Gov't issued law draft updating the privatisation strategy in April

Source: Fondul Proprietatea, NBG Securities, media

Notes: \* Transaction price for completed deals, Dec-2013 NAV for prospects (except Hidroelectrica, where the Feb-2014 NAV was used);

\*\* FP is not a shareholder of the company, but a shareholder of the subsidiaries of Electrica

### **... but it will continue to support the improvement of the Fund's portfolio liquidity in the medium term**

Following the 2013 IPOs, the weight of the listed shares in the Fund's portfolio has increased to 55% from 44% previously. Worth to note that the largest unlisted company is Hidroelectrica (c 35% of the total value of unlisted companies in the portfolio, based on official NAV data). Thus, the exit from insolvency and the subsequent listing of the company will provide another substantial jump in the portfolio liquidity.

### **Litigations – to affect investors sentiment, but bear little impact on the fundamentals of the Fund**

Currently, the Fund has more than 200 cases on-going, with portfolio companies, shareholders, Romanian regulator and others. As regards the litigations against the most fervent claimant in the litigations (Mrs. Sfiraiala), the Fund has irrevocably won more than 150 cases against her, and said that it is seeking full recovery of legal fees.

Despite the noise and the delays created by these litigations, their most harmful effect so far has been the delay in the execution of various decisions of shareholders meetings. Nevertheless, the asset manager has fought back and the number of cases won has increased lately. We posit that, despite the continuous negative newsflow affecting investors' sentiment, the litigations bear little effect on the Fund's fundamental value.

### **Stellar performance of the stock in 2013**

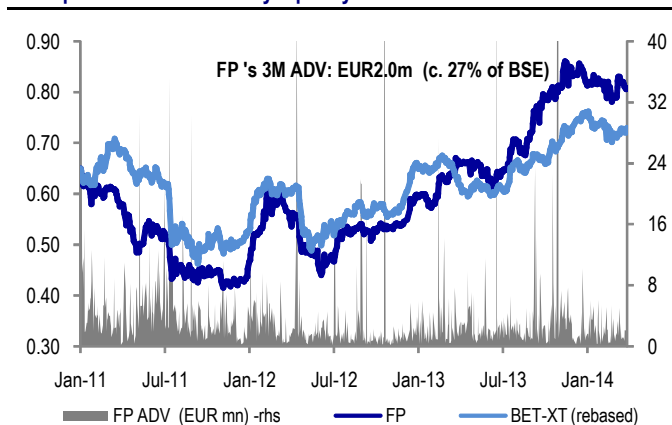
Fondul Proprietatea shares reported a hefty total return of 61.3% in 2013, compared to the 38.3% cumulative increase in the previous year, reaching the historical high of RON 0.8605 per share in December 2013. The discount of the share price to NAV narrowed to 33.0% as at end-2013, from an average of 50% in 2012. In 2013, the discount ranged between 27% and 50%.

The strong advance of the stock was supported by (1) the execution of the 2nd buy-back, including the 600m shares tender offer at RON1.0 price per share (RON 0.0068 impact), (2) better overall conditions on the BVB, which positively impacted the valuation of the listed

holdings in the Fund's portfolio - mainly increase of the share price of OMV Petrom, (3) significant positive impact (RON 0.0555 per share) due to the increase of the price of Romgaz's shares following their dual listing on Bucharest Stock Exchange and London Stock Exchange (via GDRs), (4) the exit from insolvency of Hidroelectrica, which improved investors sentiment.

Net-net, the Fund posted a stellar performance in 2013, exceeding the gains returned by the BET-XT Index, which reflects the performance of the top 25 most liquid stock listed on the Tier 1 of the BVB, and which increased by almost 24% over 2013. The broader BET-C Index increased by over 20% in 2013. Overall, the Romanian market outperformed the largest Central European markets, notably Poland, Czech Republic and Hungary, where the main market indices increased by 7.0%, 4.8%, and 2.2% respectively.

**Price performance and daily liquidity**



Source: BSE



## Valuation

**We derive a fair NAV of RON13.3bn (EUR3.0bn) and Target MCap of RON11.3bn (TP of RON0.94)**

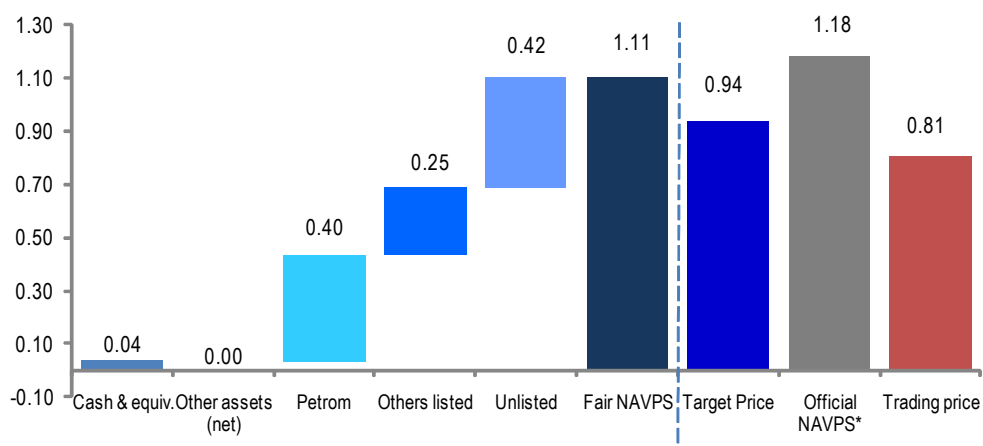
We value Fondul Proprietatea using a sum-of-the-parts methodology. For the holdings in its investment portfolio we have employed different valuation methods based on a series of factors: liquidity (listed/ unlisted companies), size, industry. Our valuation yields a total fair NAV of RON13.3bn (EUR3.0bn), translating into a fair NAV per share of RON1.11 (vs RON0.96 previously). To this, we apply a 15% discount for conglomerates/ closed-end funds (vs 25% estimated previously) and arrive at a Target MCap of RON11.3bn (EUR2.5bn) and a Target Price per share of RON0.94.

### Summary valuation table

Holdings	RONm	EURm	% of fair NAV	per share
<b>Listed (24)</b>	<b>7,899</b>	<b>1,769</b>	<b>59.2%</b>	<b>0.65</b>
o/w Petrom	4,841	1,084	36.3%	0.40
o/w top 5 stakes	7,412	1,660	55.5%	0.61
<b>Unlisted (38)</b>	<b>5,051</b>	<b>1,131</b>	<b>37.9%</b>	<b>0.42</b>
Power generators	1,679	376	12.6%	0.14
Utilities	2,764	619	20.7%	0.23
Aiports	359	80	2.7%	0.03
Ports	135	30	1.0%	0.01
Others	114	26	0.9%	0.01
<b>Total investment portfolio</b>	<b>12,950</b>	<b>2,901</b>	<b>97.0%</b>	<b>1.07</b>
Cash & equivalents	451	101	3.4%	0.04
Other assets	3	1	0.0%	0.00
Liabilities	60	14	0.5%	0.01
<b>Fair Net Asset Value (NAV)</b>	<b>13,343</b>	<b>2,989</b>	<b>100.0%</b>	<b>1.11</b>
No of shares (m)	12,066			
Fair NAV/ share (RON/ EUR)	1.11	0.25		
Discount for closed-end funds	15%			
<b>Target Mcap</b>	<b>11,342</b>	<b>2,540</b>		
<b>Target Price (RON/ EUR)</b>	<b>0.94</b>	<b>0.21</b>		

Source: NBG Securities estimates

### Target Price breakdown (RON)



Source: NBG Securities estimates

\* at Mar-2014

Our valuation is sensitive to the two discounts we employ, namely a) a 20% discount (reduced from 25% previously) in valuing the largest companies in the portfolio (for transparency, liquidity, state ownership) and b) a 15% conglomerate/closed-end funds discount (scaled back from 25%). Sensitivity outcomes are displayed below.

#### Target Price sensitivity (RON)

Discount for conglomerates/ closed-end funds	Unlisted company discount					
		10%	15%	<b>20%</b>	25%	30%
	5%	1.10	1.07	1.05	1.03	1.00
	10%	1.04	1.02	1.00	0.97	0.95
	<b>15%</b>	0.98	0.96	<b>0.94</b>	0.92	0.90
	20%	0.93	0.91	0.88	0.86	0.84
	25%	0.87	0.85	0.83	0.81	0.79

Source: NBG Securities estimates

**Listed companies make up for 59% of fair NAV; Petrom – largest holding with 36% weight in fair NAV**

Fondul Proprietatea held stakes in 24 listed companies from various industries (according to end-2013 data, last detailed NAV). The most important is the equity interest held in the oil & gas player OMV Petrom which stands at EUR1.08bn and accounts for c 60% of the listed portfolio and 36% of the total fair NAV (the largest exposure).

For valuation, we have applied the following methodology: (1) Mark-to-market for the companies which were traded in the last 30 days; (2) 50% discount to book value for the companies which were not traded in the last 30 days or fair value (last close); (3) zero value for the companies which have negative book value or are facing insolvency procedures.

Our valuation leads to a total value of RON7.9bn (EUR1.8bn) for the Fund's stakes in listed companies, representing 59% of the fair NAV.

#### Listed portfolio structure

	EURm	% in total Listed	% in fair NAV
<b>Petrom</b>	1,084	61.3%	36.3%
<b>Top 5</b>	1,660	93.8%	55.5%
<b>Top 10</b>	1,757	99.3%	58.8%

Source: BVB, Fondul Proprietatea, NBG Securities

**Summary valuation for listed holdings**

Company (Figures in RONm, unless otherwise stated)	Ticker	Sector	Last Price (RON)*	Valuation method	FP's stake	FP's stake value	FP's stake value (EURm)	Weight in fair NAV
Petrom	SNP	Oil & gas	0.450	mark-to-market	19.0%	4,841.4	1,084.4	36.3%
Romgaz	SNG	Gas production & distrib	33.230	mark-to-market	15.0%	1,920.2	430.1	14.4%
Nuclearelectrica	SNN	Nuclear power generati	9.400	mark-to-market	9.7%	257.6	57.7	1.9%
BRD - GSG	BRD	Banking	8.340	mark-to-market	3.6%	211.7	47.4	1.6%
Transelectrica	TEL	Electricity transport	18.250	mark-to-market	13.5%	180.6	40.4	1.4%
Conpet	COTE	Crude oil transport	48.000	mark-to-market	29.7%	123.4	27.6	0.9%
Banca Transilvania	TLV	Banking	1.700	mark-to-market	2.9%	110.0	24.6	0.8%
Alro	ALR	Aluminium processing	1.200	mark-to-market	10.2%	87.5	19.6	0.7%
Raiffeisen Bank	RBI	Banking	99.245	mark-to-market	0.3%	67.2	15.1	0.5%
Erste Group Bank	EBS	Banking	107.782	mark-to-market	0.1%	42.8	9.6	0.3%
Romaero	RORX	Aircraft spare parts	14.000	mark-to-market	21.0%	18.4	4.1	0.1%
Primcom	PRIB	Food & beverages	9.000	mark-to-market	75.5%	14.1	3.1	0.1%
Alcom	ALCQ	Food & beverages	69.000	mark-to-market	71.9%	6.2	1.4	0.0%
Oil Terminal	OIL	Oil services	0.110	mark-to-market	8.5%	5.4	1.2	0.0%
Sevemav	SEVE	Shipbuilding	2.500	mark-to-market	39.1%	4.9	1.1	0.0%
Palace	PACY	Hotels	0.220	mark-to-market	15.4%	1.3	0.3	0.0%
IOR	IORB	Electronic equipments	0.330	mark-to-market	2.8%	0.9	0.2	0.0%
Mecon	MECP	Industrials	3.110	mark-to-market	12.5%	0.2	0.0	0.0%
Forsev	FORS	Industrials	n/a	0.5x P/B	28.1%	3.6	0.8	0.0%
Transilvania Com	TRVC	Real estate rental	5.150	0.5x P/B	40.0%	0.8	0.2	0.0%
Comcereal Cluj	COCL	Agriculture	0.340	0.5x P/B	11.4%	0.5	0.1	0.0%
Turdapan	TUSB	Food & beverages	3.200	0.5x P/B	44.1%	0.1	0.0	0.0%
Romplumb	ROMR	Lead production	n/a	Zero (in insolvency)	33.3%	0.0	0.0	0.0%
Resib	RESI	Real estate rental	n/a	Zero (negative equity)	2.9%	0.0	0.0	0.0%
<b>Total Listed</b>						<b>7,898.7</b>	<b>1,769.2</b>	<b>59.2%</b>

Source: BSE, Fondul Proprietatea, NBG Securities estimates

\* Last close as of 15-Apr-14

Given the rather high sensitivity to the top 5 exposures, we have calculated the impact on valuation of using our Target Prices for companies under our coverage (namely Petrom, Transelectrica, Romgaz, BRD and Banca Transilvania). The scenario results in a 15.3% increase in the overall value of the listed holdings (and 9% increase in our Target Price), mostly due to a higher fair value estimated for Petrom. However, the calculations are only for informative purposes. In our final fair NAV valuation, we employ the mark-to-market approach (not the fair value approach) for the companies that we cover.

**Scenario using Target Prices for NBG covered stocks**

Company (Figures in RON m, unless otherwise stated)	Ticker	Last price (RON)	Target price (RON)	Upside/ Downside	Target Mcap	FP's stake	FP's stake value	FP's stake value (EURm)
Petrom	SNP	0.450	0.56	24.4%	31,721	19.0%	6,024	1,349.2
Romgaz	SNG	33.23	33.90	2.0%	13,066	15.0%	1,959	438.7
Transelectrica	TEL	18.25	18.00	-1.4%	1,319	13.5%	178	39.9
BRD - GSG	BRD	8.34	7.82	-6.2%	5,450	3.6%	198	44.4
Banca Transilvania	TLV	1.70	1.79	5.3%	3,950	2.9%	116	25.9
Others							633	141.8
<b>Total Listed - based on NBG Securities fair values</b>							<b>9,107.4</b>	<b>2,039.9</b>
<i>Total Listed based on mark-to-market</i>							7,898.7	1,769.2
<b>% chng vs. mark-to-market approach</b>								<b>15.3%</b>
<b>Impact on Target Price (RON)</b>								<b>0.09</b>
<b>Impact on Target Price (%)</b>								<b>9.1%</b>

Source: NBG Securities estimates

**Unlisted companies make up for 38% of fair NAV**

Fondul Proprietatea has reduced the number of unlisted companies to 38 at end-2013. Based on their size, market positioning and sector, we have selected 22 companies which we aggregated industry-wise into five groups and to which we further applied different valuation methods based on the amount of information available.

Main assumptions in our valuation of the 22 unlisted holdings are as follows:

(1) we employ a relative valuation approach based on a series of multiples relevant for each industry and a normalized 2009-2013e average for income statement items like sales and EBITDA, 2013e book values and latest available net-debt figure (for EV);

(2) for peers, we use global companies which operate in the respective industries, in both developed and emerging countries;

(3) our 2013 estimates for the companies' financials were built based on the last quarterly earnings and management guidance cited in the press, as well as our forecasts for local industry average growth rates/ margins;

(4) we apply a 20% discount to the derived equity values in order to account for illiquidity, low transparency and state ownership. We have reduced the discount used (from 25% previously) due to improvements noted in the corporate governance of the companies.

For the remaining 16 unlisted companies (<1% weight in official NAV) where Fondul Proprietatea holds equity interests, we have based our valuation on their equity book value reported in FP's end-2013 NAV, to which we have applied a 50% discount.

All in all, our valuation leads to a total value of RON5.0bn (EUR1.1bn) for the Fund's stakes in unlisted companies, representing 38% of the fair NAV.

**Financial estimates for main unlisted holdings**

Company (Figures in RONm, unless otherwise stated)	Sales				EBITDA				Net profit				Net debt	EBITDA margin			Net margin		
	2012	2013e	y/y	2009-13e avg	2012	2013e	y/y	2009-13e avg	2012	2013e	y/y	2009-13e avg	2012	2012	2013e	2009-13e	2012	2013e	2009-13e avg
Power generation																			
Hidroelectrica	2,402.8	3,202.0	33%	2,864.0	905.7	1,969.2	117%	1,192.6	-507.6	722.3	n.m	112.4	2,214.6	38%	62%	42%	n.m	23%	4%
CE Oltenia	3,347.0	4,309.1	29%	3,590.3	409.8	511.0	25%	513.7	118.3	78.1	-34%	55.4	1,508.0	12%	12%	14%	4%	2%	2%
E.ON Gaz Distributie	744.4	707.1	-5%	754.1	204.7	332.4	62%	287.6	73.0	161.3	121%	145.1	61.1	28%	47%	38%	10%	23%	19%
GDF Suez Energy	4,315.8	3,884.2	-10%	3,936.7	463.3	582.6	26%	441.7	379.4	385.2	2%	310.8	-58.2	11%	15%	11%	9%	10%	8%
E.ON Energie Romania	5,257.4	4,205.9	-20%	3,749.9	-13.2	179.0	n.m	-3.1	-32.6	140.2	n.m	-7.6	224.5	n.m	4%	n.m	n.m	3%	n.m
E.ON Moldova Distributie	665.6	698.9	5%	651.5	212.8	279.6	31%	221.4	72.3	125.2	73%	84.2	-100.4	32%	40%	34%	11%	18%	13%
Electrica Distributie Muntenia Nord	720.2	792.2	10%	681.1	182.5	237.7	30%	156.7	87.1	130.5	50%	67.3	-265.5	25%	30%	23%	12%	16%	10%
Electrica Distributie Transilvania Nord	571.1	614.0	8%	545.3	180.2	214.9	19%	151.2	53.1	78.8	48%	36.7	-3.4	32%	35%	28%	9%	13%	7%
Electrica Distributie Transilvania Sud	632.8	696.1	10%	610.9	176.1	222.8	27%	156.5	45.8	81.1	77%	36.3	8.4	28%	32%	26%	7%	12%	6%
ENEL Distributie Banat	603.2	645.4	7%	583.4	292.4	355.0	21%	283.7	167.2	210.9	26%	179.6	-610.7	48%	55%	49%	28%	33%	31%
ENEL Distributie Dobrogea	480.3	516.3	8%	451.0	189.7	258.2	36%	186.9	94.5	147.8	56%	108.6	-298.9	39%	50%	41%	20%	29%	24%
ENEL Distributie Muntenia	869.9	974.2	12%	803.3	357.9	487.1	36%	299.5	206.3	322.4	56%	192.9	-1,210.5	41%	50%	37%	24%	33%	24%
Enel Energie Muntenia	2,069.4	2,328.0	13%	1,998.7	52.5	81.5	55%	17.8	72.4	91.2	26%	35.7	-512.2	3%	4%	1%	3%	4%	2%
Electrica Furnizare	n.a.	n.a.	n.m.	3,888.0	n.a.	n.a.	n.m.	25.9	n.a.	n.a.	n.m.	4.5	n.a.	n.m.	n.m.	1%	n.m.	n.m.	0%
ENEL Energie	2,066.9	2,377.0	15%	2,021.9	281.3	95.1	-66%	44.6	331.3	80.9	-76%	58.0	-367.0	14%	4%	2%	16%	3%	3%
CN Aeroporturi Bucuresti	555.5	611.1	10%	486.7	215.3	232.2	8%	195.5	53.1	66.5	25%	57.7	274.5	39%	38%	40%	10%	11%	12%
AI Mihail Kogalniceanu	15.2	12.2	-20%	14.0	1.9	1.9	0%	2.3	-1.4	-1.5	5%	-0.5	-0.8	12%	15%	17%	n.m	n.m	n.m
AI Timisoara - Traian Vuia	48.5	36.4	-25%	42.3	13.8	6.5	-53%	15.1	4.2	-0.6	n.m	5.7	4.3	29%	18%	36%	9%	n.m	13%
CN Admin. Canalelor Navigabile	n.a.	33.2	n.m.	35.6	n.a.	5.0	n.m.	7.1	n.a.	-3.1	n.m.	0.9	-17.3	n.m.	15%	20%	n.m.	n.m	2%
CN Admin. Porturilor Dunarii Fluviale	20.0	20.0	0%	19.0	5.3	7.2	37%	6.2	2.5	4.2	69%	3.4	-1.9	26%	36%	33%	13%	21%	18%
CN Admin. Porturilor Dunarii Maritime	12.1	12.4	2%	11.4	2.6	5.0	87%	2.8	1.2	2.1	74%	1.1	-0.5	22%	40%	24%	10%	17%	10%
CN Admin. Porturilor Maritime	248.3	248.3	0%	229.5	80.8	74.5	-8%	73.9	35.6	33.3	-7%	29.6	-83.0	33%	30%	32%	14%	13%	13%

Source: Companies reports, NBG Securities estimates

**Summary valuation for unlisted holdings**

Company	Sector	Relative valuation based on:	Estimated Mcap (RONm)	FP's stake	FP's stake value (RONm)	FP's stake value (EURm)	Weight in fair NAV
<b>Power generation</b>			<b>8,290.8</b>		<b>1,678.7</b>	<b>376.0</b>	<b>12.6%</b>
Hidroelectrica	Hydro power generation	EV/ EBITDA, EV/ Sales, P/B, EV/ Capacity	6,683.3	19.9%	1,332.7	298.5	10.0%
CE Oltenia	Thermal power generation	EV/ EBITDA, EV/ Sales, P/B, EV/ Capacity	1,607.4	21.5%	346.1	77.5	2.6%
<b>Utilities</b>			<b>16,764.1</b>		<b>2,763.8</b>	<b>619.0</b>	<b>20.7%</b>
E.ON Gaz Distributie	Gas distribution	EV/ EBITDA, EV/ Sales, P/B	1,496.2	12.0%	179.5	40.2	1.3%
GDF Suez Energy	Gas distribution	EV/ EBITDA, EV/ Sales, P/B	3,579.3	12.0%	429.5	96.2	3.2%
E.ON Energie Romania	Gas & power supply	P/B	520.8	13.4%	69.7	15.6	0.5%
E.ON Moldova Distributie	Gas distribution	EV/ EBITDA, EV/ Sales, P/B	1,319.1	22.0%	290.2	65.0	2.2%
Electrica Distributie Muntenia Nord	Power distribution	EV/ EBITDA, EV/ Sales, P/B	1,081.8	22.0%	237.9	53.3	1.8%
Electrica Distributie Transilvania Nord	Power distribution	EV/ EBITDA, EV/ Sales, P/B	765.8	22.0%	168.5	37.7	1.3%
Electrica Distributie Transilvania Sud	Power distribution	EV/ EBITDA, EV/ Sales, P/B	808.4	22.0%	177.8	39.8	1.3%
ENEL Distributie Banat	Power distribution	EV/ EBITDA, EV/ Sales, P/B	1,745.2	24.1%	420.9	94.3	3.2%
ENEL Distributie Dobrogea	Power distribution	EV/ EBITDA, EV/ Sales, P/B	1,125.1	24.1%	271.0	60.7	2.0%
ENEL Distributie Muntenia	Power distribution	EV/ EBITDA, EV/ Sales, P/B	2,744.1	12.0%	329.3	73.8	2.5%
Enel Energie Muntenia	Power distribution	EV/ EBITDA, EV/ Sales, P/B	491.5	12.0%	59.0	13.2	0.4%
Electrica Furnizare	Power supply	fair NAV in FP books: nil	-	22.0%	0.0	0.0	0.0%
ENEL Energie	Power supply	EV/ EBITDA, EV/ Sales, P/B	1,087.0	12.0%	130.4	29.2	1.0%
<b>Aiports</b>			<b>1,796.3</b>		<b>359.3</b>	<b>80.5</b>	<b>2.7%</b>
CN Aeroporturi Bucuresti	Airports	EV/ EBITDA, EV/ Sales, EV/pax	1,608.0	20.0%	321.6	72.0	2.4%
AI Mihail Kogalniceanu	Airports	EV/ EBITDA, EV/ Sales, EV/pax	31.0	20.0%	6.2	1.4	0.0%
AI Timisoara - Traian Vuia	Airports	EV/ EBITDA, EV/ Sales, EV/pax	157.3	20.0%	31.5	7.0	0.2%
<b>Ports</b>			<b>673.9</b>		<b>134.7</b>	<b>30.2</b>	<b>1.0%</b>
CN Admin. Canalelor Navigabile	Ports	EV/ EBITDA, EV/ Sales, P/B	84.4	20.0%	16.9	3.8	0.1%
CN Admin. Porturilor Dunarii Fluviale	Ports	EV/ EBITDA, EV/ Sales, P/B	38.2	20.0%	7.6	1.7	0.1%
CN Admin. Porturilor Dunarii Maritime	Ports	EV/ EBITDA, EV/ Sales, P/B	19.1	20.0%	3.8	0.9	0.0%
CN Admin. Porturilor Maritime	Ports	EV/ EBITDA, EV/ Sales, P/B	532.3	20.0%	106.4	23.8	0.8%
<b>Others</b>			<b>293.2</b>		<b>114.4</b>	<b>25.6</b>	<b>0.9%</b>
Posta Romana	Mail delivery services	0.5x P/B	121.6	25.0%	30.4	6.8	0.2%
Societatea Nationala a Sarii	Salt production	0.5x P/B	108.5	49.0%	53.2	11.9	0.4%
Salubriserv	Waste collection	0.5x P/B	30.8	17.5%	5.4	1.2	0.0%
Zirom	Titanium processing	0.5x P/B	21.7	100.0%	21.7	4.9	0.2%
Electroconstructia Elco Cluj	Services	0.5x P/B	3.6	7.6%	0.3	0.1	0.0%
Comsig	Retail (food)	0.5x P/B	1.2	69.9%	0.8	0.2	0.0%
Cetatea	Real estate rental	0.5x P/B	0.9	20.4%	0.2	0.0	0.0%
World Trade Hotel	Hotels	0.5x P/B	0.0	19.9%	0.0	0.0	0.0%
Carbid Fox	Chemicals	Priced at zero	0.0	8.0%	0.0	0.0	0.0%
FECNE	Metallurgy	Priced at zero	0.0	12.1%	0.0	0.0	0.0%
Gerovital Cosmetics	Health care	Priced at zero	0.0	9.8%	0.0	0.0	0.0%
Petrotel - Lukoil	Oil products manufacturing	Priced at zero (negative equity)	0.0	1.8%	0.0	0.0	0.0%
Plafar	Health care	0.5x P/B	4.9	49.0%	2.4	0.5	0.0%
Simtex	Services	Priced at zero	0.0	30.0%	0.0	0.0	0.0%
World Trade Center Bucuresti	Services	Priced at zero	0.0	19.9%	0.0	0.0	0.0%
Bat Service	Road transport	Priced at zero	0.0	33.0%	0.0	0.0	0.0%
<b>Total unlisted</b>			<b>27,818.4</b>		<b>5,050.9</b>	<b>1,131.3</b>	<b>37.9%</b>

Source: Companies reports, NBG Securities estimates

**Valuation multiples (based on NBG estimates)**

<b>Company</b>	<b>P/E 2013e</b>	<b>EV/EBITDA 2013e</b>	<b>P/B 2013e</b>
Hidroelectrica	9.3	4.5	0.4
CE Oltenia	20.6	6.1	0.3
E.ON Gaz Distributie	9.3	4.7	1.0
GDF Suez Energy	9.3	6.0	1.1
E.ON Energie Romania	3.7	4.2	0.8
E.ON Moldova Distributie	10.5	4.4	0.7
Electrica Distributie Muntenia Nord	8.3	3.4	0.8
Electrica Distributie Transilvania Nord	9.7	3.5	0.8
Electrica Distributie Transilvania Sud	10.0	3.7	0.8
ENEL Distributie Banat	8.3	3.2	0.8
ENEL Distributie Dobrogea	7.6	3.2	0.8
ENEL Distributie Muntenia	8.5	3.1	0.7
Enel Energie Muntenia	5.4	-0.3	1.0
Electrica Furnizare	n.m.	n.m	n.m
ENEL Energie	13.4	7.6	2.0
CN Aeroporturi Bucuresti	24.2	8.1	0.3
AI Mihail Kogalniceanu	n.m	16.2	1.4
AI Timisoara - Traian Vuia	n.m	24.7	4.6
CN Admin. Canalelor Navigabile	n.m	13.5	1.1
CN Admin. Porturilor Dunarii Fluviale	9.0	5.0	1.7
CN Admin. Porturilor Dunarii Maritime	9.1	3.8	1.8
CN Admin. Porturilor Maritime	16.0	6.0	1.4

Source: Companies reports, NBG Securities estimates



**APPENDIX 1: Valuation summary**

Company	Official (NSC) NAV at Dec-2013			NBG estimates	
	FP's stake		weight in	weight in fair	
	%	RONm	official NAV	RONm	NAV
<b>Listed (24)</b>		<b>8,244.2</b>	<b>64.9%</b>	<b>7,898.7</b>	<b>59.2%</b>
Petrom	19.0%	5,054.4	39.8%	4,841.4	36.3%
Nuclearelectrica	9.7%	306.7	2.4%	257.6	1.9%
Romgaz	15.0%	1,975.7	15.5%	1,920.2	14.4%
Alro	10.2%	105.5	0.8%	87.5	0.7%
BRD - GSG	3.6%	228.5	1.8%	211.7	1.6%
Transelectrica	13.5%	156.2	1.2%	180.6	1.4%
Erste Group Bank	0.1%	45.1	0.4%	42.8	0.3%
Raiffeisen Bank	0.3%	77.8	0.6%	67.2	0.5%
Conpet	29.7%	115.7	0.9%	123.4	0.9%
Primcom	75.5%	23.4	0.2%	14.1	0.1%
Romaero	21.0%	20.7	0.2%	18.4	0.1%
Oil Terminal	8.5%	5.6	0.0%	5.4	0.0%
Forsev	28.1%	7.2	0.1%	3.6	0.0%
Severnava	39.1%	5.1	0.0%	4.9	0.0%
Alcom	71.9%	4.9	0.0%	6.2	0.0%
Banca Transilvania	2.9%	106.8	0.8%	110.0	0.8%
Palace	15.4%	1.2	0.0%	1.3	0.0%
IOR	2.8%	0.6	0.0%	0.9	0.0%
Transilvania Com	40.0%	1.7	0.0%	0.8	0.0%
Comcereal Cluj	11.4%	1.0	0.0%	0.5	0.0%
Mecon	12.5%	0.2	0.0%	0.2	0.0%
Turdapan	44.1%	0.1	0.0%	0.1	0.0%
Resib	2.9%	0.0	0.0%	0.0	0.0%
Romplumb	33.3%	0.0	0.0%	0.0	0.0%
<b>Not listed (38)</b>		<b>6,375.1</b>	<b>50.2%</b>	<b>5,050.9</b>	<b>37.9%</b>
Hidroelectrica	19.9%	2,239.4	17.6%	1,332.7	10.0%
CE Oltenia	21.5%	321.6	2.5%	346.1	2.6%
GDF Suez Energy	12.0%	404.4	3.2%	429.5	3.2%
Enel Distributie Muntenia	12.0%	473.1	3.7%	329.3	2.5%
CN Aeroporturi Bucuresti	20.0%	287.7	2.3%	321.6	2.4%
Enel Distributie Banat	24.1%	573.2	4.5%	420.9	3.2%
Electrica Distributie Muntenia Nord	22.0%	296.2	2.3%	237.9	1.8%
E.ON Moldova Distributie	22.0%	345.4	2.7%	290.2	2.2%
Enel Distributie Dobrogea	24.1%	379.1	3.0%	271.0	2.0%
Electrica Distributie Transilvania Sud	22.0%	192.0	1.5%	177.8	1.3%
Electrica Distributie Transilvania Nord	22.0%	206.7	1.6%	168.5	1.3%
Posta Romana	25.0%	60.8	0.5%	30.4	0.2%
E.ON Gaz Distributie	12.0%	165.2	1.3%	179.5	1.3%

Company	Official (NSC) NAV at Dec-2013			NBG estimates	
	FP's stake		weight in official NAV	weight in fair	
	%	RONm		RONm	NAV
E.ON Energie Romania	13.4%	65.1	0.5%	69.7	0.5%
Societatea Nationala a Sarii	49.0%	106.3	0.8%	53.2	0.4%
CN Admin. Porturilor Maritime	20.0%	66.4	0.5%	106.4	0.8%
Electrica Furnizare	22.0%	0.0	0.0%	0.0	0.0%
Zirom	100.0%	43.5	0.3%	21.7	0.2%
Enel Energie Muntenia	12.0%	45.9	0.4%	59.0	0.4%
Enel Energie	12.0%	54.3	0.4%	130.4	1.0%
CN Admin. Canalelor Navigabile	20.0%	16.2	0.1%	16.9	0.1%
AI Timisoara - Traian Vuia	20.0%	6.2	0.0%	31.5	0.2%
Salubriserv	17.5%	10.8	0.1%	5.4	0.0%
CN Admin. Porturilor Dunarii Fluviale	20.0%	3.5	0.0%	7.6	0.1%
AI Mihail Kogalniceanu	20.0%	4.7	0.0%	6.2	0.0%
CN Admin. Porturilor Dunarii Maritime	20.0%	0.0	0.0%	3.8	0.0%
Electroconstructia Elco Cluj	7.6%	0.5	0.0%	0.3	0.0%
Cetatea	20.4%	0.4	0.0%	0.2	0.0%
Comsig	69.9%	1.6	0.0%	0.8	0.0%
World Trade Hotel	19.9%	0.0	0.0%	0.0	0.0%
Bat Service	33.0%	0.0	0.0%	0	0.0%
Carbid Fox	8.0%	0.0	0.0%	0	0.0%
FECNE	12.1%	0.0	0.0%	0	0.0%
Gerovital Cosmetics	9.8%	0.0	0.0%	0	0.0%
Petrotel - Lukoil	1.8%	0.0	0.0%	0	0.0%
Plafar	49.0%	4.8	0.0%	2.4	0.0%
Simtex	30.0%	0.0	0.0%	0	0.0%
World Trade Center Bucuresti	19.9%	0.0	0.0%	0	0.0%
<b>Total portfolio</b>		<b>14,619</b>	<b>115.0%</b>	<b>12,950</b>	<b>97.0%</b>

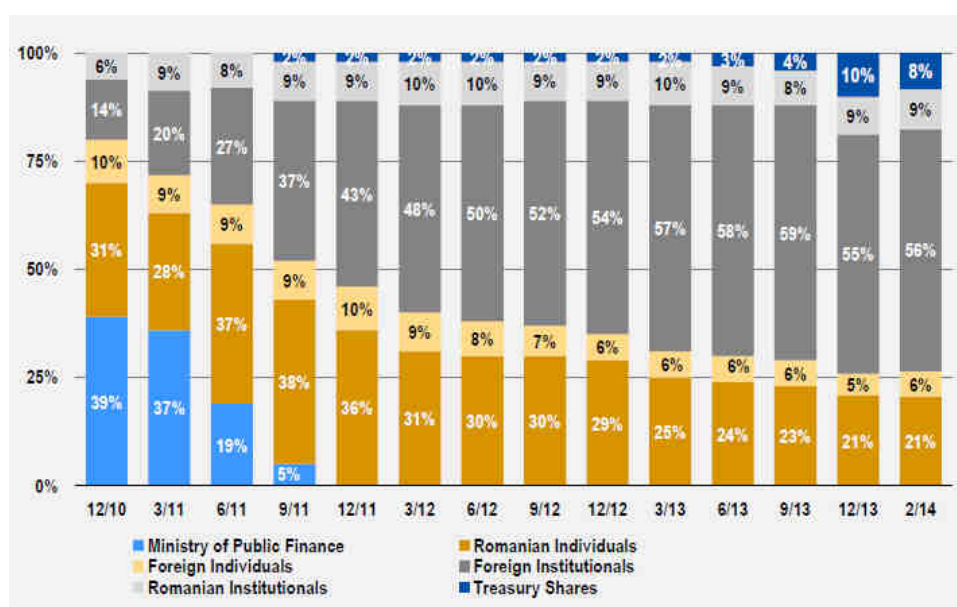
Source: Company reports; NBG Securities estimates

## APPENDIX 2: Shareholding structure

Split by investor type	31 March 2014			28 February 2014			MoM <sup>1</sup>	Ytd <sup>1</sup>
	No of sharehol	% of share capital	% of paid-in capital	No of sharehol	% of share capital	% of paid-un capital		
<b>Ministry of Finance</b>	<b>1</b>	<b>2.7%</b>	<b>0.0%</b>	<b>1</b>	<b>2.7%</b>	<b>0.0%</b>	0.0	0.0
<b>Individual investors</b>	<b>n.a.</b>	<b>25.9%</b>	<b>26.6%</b>	<b>n.a.</b>	<b>25.8%</b>	<b>26.5%</b>	<b>0.1</b>	<b>0.2</b>
<i>local</i>	<i>n.a.</i>	<i>20.2%</i>	<i>20.8%</i>	<i>n.a.</i>	<i>20.0%</i>	<i>20.6%</i>	0.2	0.0
<i>foreign</i>	<i>n.a.</i>	<i>5.7%</i>	<i>5.8%</i>	<i>n.a.</i>	<i>5.7%</i>	<i>5.9%</i>	(0.1)	0.1
<b>Institutional investors</b>	<b>n.a.</b>	<b>63.3%</b>	<b>65.0%</b>	<b>n.a.</b>	<b>63.4%</b>	<b>65.2%</b>	<b>(0.1)</b>	<b>1.5</b>
<i>local</i>	<i>n.a.</i>	<i>9.0%</i>	<i>9.2%</i>	<i>n.a.</i>	<i>8.9%</i>	<i>9.2%</i>	0.1	0.5
<i>foreign</i>	<i>n.a.</i>	<i>54.3%</i>	<i>55.8%</i>	<i>n.a.</i>	<i>54.5%</i>	<i>56.0%</i>	(0.2)	0.9
<b>Fondul Proprietatea</b>	<b>n.a.</b>	<b>8.1%</b>	<b>8.4%</b>	<b>n.a.</b>	<b>8.1%</b>	<b>8.4%</b>	0.0	(1.6)
<b>Total</b>	<b>8,335</b>	<b>100.0%</b>	<b>100.0%</b>	<b>8,315</b>	<b>100.0%</b>	<b>100.0%</b>	-	-

Source: Fondul Proprietatea; 1 - % of paid-un capital;

### Shareholding structure dynamics since listing



Source: Fondul Proprietatea

## Disclosure Appendix

This document is issued by the following company (hereinafter referred to as the "Company"):

NBG SECURITIES Romania SA, 145 Calea Victoriei Str Victoria Center, 7th floor, 8th level, 1st District, Romania  
Regulatory Authority: Romanian National Securities Commission (C.N.V.M.); CNVM Authorization No. 2234 / 07.22.2003

The Company is not engaged in any agreement with the subject companies for the preparation of this report.

The information contained in this report including any expression of opinion has been taken from sources believed to be reliable but it cannot be guaranteed and no warranty or representation is given that such information is accurate or complete and it should not be relied upon as such. The Company and/or their associated group companies or a person or persons connected with the companies may from time to time act on their own account in transactions in any securities mentioned herein. The Company may do and may seek to do business with companies covered in its research reports. Therefore, investors should be aware that there might be a conflict of interest that could influence the impartiality of this report. Investors should consider this report as only one of the factors influencing their investment decision. Securities contented in this report are subject to investment risks, including, but without being limited thereto, the loss of the initial capital invested, fluctuations of market prices and exchange rates, uncertainty of dividends, performance and/or profits. No part of this report may be reproduced or passed on in any manner without prior permission. We verify that this report has been prepared according to our regulations and guidelines concerning conflict management. According to the Company's regulations, the Research and Analysis Departments thereof is restricted to communicate and publish only the necessary data according to applicable laws. The Company implements the appropriate procedures to ensure Chinese walls with Research Department. The Company complies with the related regulations regarding confidential information and market abuse.

This document does not constitute or form part of an offer or invitation to subscribe for or purchase or sell or solicitation of any offer to subscribe for or purchase or sell any securities referred to herein and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. The information contained in this document including any expression of opinion has been taken from sources believed to be reliable but it cannot be guaranteed and no warranty or representation is given that such information is accurate or complete and it should not be relied upon as such.

NBG SECURITIES ROMANIA SA and/or its associated group companies or a person or persons connected with us may from time to time act on their own account in transactions in any securities mentioned herein or in any related investment or may act as a market maker or may have acted in some capacity in relation to a public offering of such securities in the past. Additional information regarding this will be furnished upon request.

This document is furnished to you alone and no part of this report may be reproduced or passed on in any manner without the prior written permission of NBG SECURITIES ROMANIA SA.

The information herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions, forecasts and estimates herein reflect our judgment on the date of this report and are subject to change, so as any changes will be properly distinguish in the following such report. The report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time NBG SECURITIES ROMANIA SA or its affiliates or the principals or employees of NBG SECURITIES ROMANIA SA or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. NBG SECURITIES ROMANIA SA or its affiliates or the principals or employees of NBG SECURITIES ROMANIA SA or its affiliates may from time to time provide investment banking or consultancy services to a company being reported on herein. Further information on the securities referred to herein may be obtained from NBG SECURITIES ROMANIA SA upon request.

### Analyst Certification

The following analysts hereby certify that the views expressed in this research report accurately reflect their personal views about the subject securities and issuers and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report: Irina Cretu.  
Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

The Companies' policy is to update research reports, as they deem appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research view or opinions stated herein.

### Disclosure Checklist for Companies mentioned

Company Name	Reuters	Disclosure
Fondul Proprietatea	FP.BX	None

Source: NBG SECURITIES Romania

1. The Company and/or their affiliate(s) have acted as manager/co-manager/adviser in the underwriting or placement of securities of this company within the past 12 months.
2. The Company and/or their affiliate(s) have received compensation for investment banking services from this company during the past 12 months.
3. The Company and/or their affiliate(s) make a market in the securities of this company.
4. The Company and/or their affiliate(s) own five percent or more of the total share capital of this company.
5. The Company and/or their affiliate(s) own five percent or more of the total share capital of NBG SECURITIES ROMANIA SA and its affiliates.
6. The Company and/or their affiliate(s) have sent the research report to the company prior to publication for factual verification.
7. Following 6, the Company and/or their affiliate(s) have changed the contents of the initially sent research report, with respect to: no change.
8. The Company and/or their affiliate(s) have received compensation from the company for the preparation of this research report.
9. The Company and/or their affiliate(s) have acted as a broker in stock options plans, share buybacks and/or own shares sales of securities of this company within the past 12 months.
10. The Company and/or their affiliate(s) have acted as an arranger and/or credit facilitator and/or advisor in the issuance of convertible bonds and/or in the provision of credit facility.

### Risks and sensitivity:

The views and recommendations for the companies mentioned in this daily report have various levels of risk depending on company, industry and market events. In addition, our target prices and estimates for the companies mentioned in this daily report are sensitive to various factors including interest rates, inflation, the local economic environment, market volatility, management continuity or other company specific events.

### Rating History for Fondul Proprietatea:

The ratings written in bold from the table below have been subject to changes since the previous research report:

Date	Rating	Price (RON)	Target Price (RON)
14 January 2011 - Initiation	Outperform	n.a.(not listed)	0.79
15 October 2012	Outperform	0.537	0.72
16 April 2014	Outperform	0.81	0.94

### Ratings Distribution in Romania

	Outperform	Neutral	Underperform
Romanian Equity Research Coverage (11)	42%	42%	16%

Source: NBG SECURITIES Romania

### Definition of Investment Ratings

**Outperform, Neutral, Underperform:** Denote notional investment ratings (not recommendations) pegged to the performance of the General Index, which imply a positive, neutral and negative view respectively.

**Outperform:** The stock is expected to perform above the General Index

**Neutral:** The stock is expected to perform in line with the General Index

**Underperform:** The stock is expected to perform below the General Index

Further information on the securities referred to herein may be obtained upon request from:

**Irina Cretu**  
Head of Research  
Tel.: +4021 305 1708  
icretu@nbgsecurities.ro

<b>NBG SECURITIES ROMANIA S.A.</b>	<b>Sales</b>		<b>Research</b>	
CNVM Authorization No. 2234 / 07.22.2003	Liviu Avram	+4021 305 1718	Irina Cretu	+4021 305 1708
Bucharest, 145 Calea Victoriei, Victoria Center, 7th floor, 8th level, 1st District, Romania	Alexandru Pasalan	+4021 305 1717		
Tel: +4021 305 17 00 +40723 312 122				
Fax: +4021 305 17 04				
E-mail: invest@nbgsecurities.ro				
Bloomberg page: NBGS				
General Manager +4021 305 17 01				