Company Update

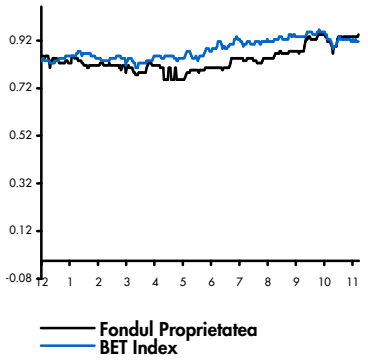
Fondul Proprietatea

November 17, 2014

Financials/Romania

Hold

Price 14.11.14*	0.9430
Fair value	0.9700
Volatility risk	medium
Year high/low	0.9535/0.7560
Currency	RON
RON/EUR	4.43
GDR rate	n.a.
Shares outstanding eoy in mn	11,034.12
Market capitalisation (total shares) in EUR mn	2,571.2
Free float	100.0%
Free float in EUR mn	2,571.2
Avg. daily turnover (12 m) in EUR mn	1.73
Index	BETI
ISIN code	ROFPTAACNOR5
Bloomberg	FP RO
Reuters	FP.BX



Source: Raiffeisen Centrobank

Getting closer to a fair discount

Discount compression continued from 30% in March, based on our estimate, to 20% currently, the lowest level ever. Fondul Proprietatea (FP) has ramped up its return of cash to shareholders and unlike previous years it has been able to implement faster its corporate actions since the local FSA seems to have become prompter. Although the secondary listing has not yet taken place, in our opinion it is just a matter of weeks, as FSA is in the process of enacting the necessary regulatory changes. We reckon that the listing could generate additional demand but we do not see the discount reducing by more than a few percentage points, as we feel that the current price already incorporates in part this potential upside. Discount compression could come from turning the portfolio more liquid, but 2015 seems weak from an IPO perspective. There are only two official candidates, Hidroelectrica, whose insolvency procedure might last longer, and CE Oltenia whose restructuring has been postponed yet again. On the other hand, for the first time we see real chances that FP will be able to report a significant divestment of non-listed stakes. The buyout from Electrica's subsidiaries is the most likely deal as the newly listed company needs to put some cash to work. Moreover, Enel is also looking to divest its Romanian assets and FP has tag along rights for two of the subsidiaries. We expect the divestment process to continue and the most likely candidate is as ever SNP Petrom, who accounts now for ca. 36% of the portfolio. But we fail to see how FP can reduce the discount below the level obtained in the last ABBs. The 20% discount to NAV is close to the discount that we see as fair for the portfolio (of 18%). This limits in our view the upside potential for the stock, which is why we reduce our rating from Buy to Hold.

After marking to market the listed shares and using our valuation for the largest part of unlisted stakes, we have a price tag of RON 12.7 bn for FP's shares portfolio. Despite the divestments, this is only 1% below the previous value as we assigned a higher value to some unlisted companies, like Hidroelectrica and the utilities companies. In case of the former, our simplified DCF suggests a higher value due to the spike in output and lower COE. We adjusted the cash position and the number of shares for the on-going tender offer. We reached a total NAV of RON 13.1 bn which implies an NAV per share of RON 1.185, 8% above our March estimate and 2% versus FP's estimate. We decided to reduce the discounts used to set our TP. We used to apply a discount of 15% for listed shares which we cut it to 12.5% to better reflect the discount from FP's ABBs. We also used to apply a 15% discount for cash, but with FP already having a good track record of returning it to shareholders, we cut the discount to just 1.5%. Since starting the coverage, we applied a discount of 30% for the unlisted holdings, but while still not at the desired levels, corporate governance standards for companies in its portfolio improved over the past few years. That is why we cut the discount for unlisted shares to 25% and we get a TP of RON 0.97, up from RON 0.87 before. We stress out again that this TP is a fair value, not carried forward for 12m.

Key figures and ratios

	RON mn	EUR mn
Portfolio	12,673.8	2,865.4
- Listed	6,590.1	1,490.0
- Not-Listed	6,083.7	1,375.5
Debt adj. for deferred taxes	42.3	9.6
Cash	447.6	101.2
NAV	13,079.1	2,957.1
NAV per share (RON/EUR)	1.19	0.27
Current price (RON/EUR)	0.943	0.213
Discount to NAV (%)	-20%	-20%
Current fair value	10,727.7	2,425.4
Target price (RON/EUR)	0.97	0.22

Source: Fondul Proprietatea, Raiffeisen Bank estimates

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Raiffeisen RESEARCH

Important: Please read the references at the end of this report to possible conflicts of interest and disclaimers/disclosures.

Raiffeisen CENTROBANK

Valuation

We base our valuation on the detailed portfolio for end September 2014 while the cash position is the one for end October, adjusted for the on-going tender offer and the recent Conpet ABB. We mark to market the listed shares and we value separately the most important unlisted shares from FP's portfolio based on different methods, ranging from simplified DCFs to comparables.

We get an NAV per share of RON 1.19, up 8% compared to our previous estimate

The shares portfolio of FP has contracted due to the divestment policy pursued since our March update. We assign a value of RON 12.7 bn, a decrease of only 1% relative to our previous update as higher values attached to unlisted shares have partially mitigated divestments of listed shares such as Romgaz (SNG) and Transelectrica (TEL). With a net cash position of RON 405 mn, after adjusting for the cash needed for the current tender offer for its own shares, we reach a total NAV of RON 13.1 mn. Adjusting also the number of shares with the 750 mn shares planned to be bought under this tender offer, we get an NAV per share of RON 1.185, up 8% compared to our estimate from March.

Fondul Proprietatea valuation table

	RON mn	***EUR mn***
Portfolio	12,674	2,865
- Listed	6,590	1,490
- Not-Listed	6,084	1,375
Debt adj. for deferred taxes	42	10
Cash	448	101
NAV	13,079	2,957
NAV per share (RON/EUR)	1.19	0.27
Current price (RON/EUR)	0.94	0.21
Discount to NAV (%)	-20%	-20%
Discount for listed shares and cash	15%	15%
Discount for not-listed shares	30%	30%
Value of discounted portfolio	9,860	2,229
Net cash	405	91.6
Current fair value	10,728	2,425.4
Target price (RON/EUR)	0.97	0.22

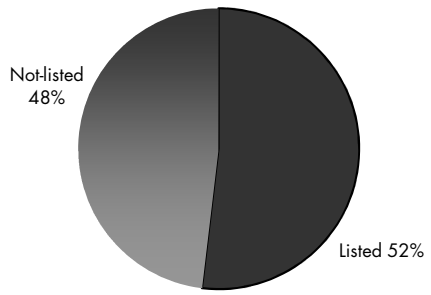
Source: Raiffeisen Bank estimates; Prices as of November 17, 2014, 6:30 CET+1AM

A third of Romgaz stake and all shares in Transelectrica were sold at decent discounts

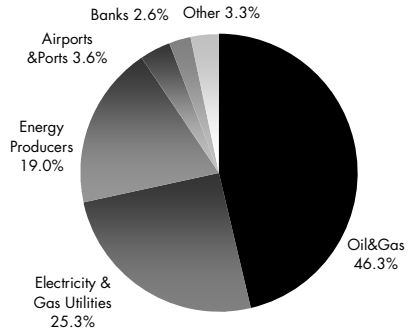
FP has continued to use private placements to divest important stakes from its listed portfolio during this period. The stake in SNG was reduced by a third, the entire holding of TEL was sold, and just a few days ago the vast majority of its Conpet (COTE) shares were divested. FP raised a cumulated RON 957 mn from these deals. Moreover, all the shares in the two Austrian banks were divested and FP sold entirely or partially its stakes in five other small companies

The combined effect of divestments and a higher value attached to the unlisted companies, such as Hidroelectrica, triggered a decrease of the weight of listed shares to 52% from around 60% in our previous update. SNP continues to remain the key asset in FP's portfolio, maintaining its weight despite a small decrease in market cap thanks to the above mentioned portfolio changes. The rest of large listed stakes decreased their weight in total shares portfolio, as the share price for some of them has underperformed. Hidroelectrica is the largest individual unlisted stake from FP's portfolio, while power and gas distributors and suppliers increased their cumulative importance.

Portfolio Structure: Listed vs. Not-Listed



Portfolio Structure by Sector

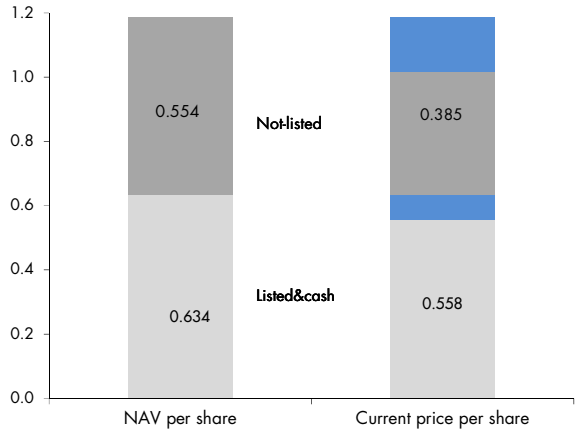


Source: Raiffeisen Bank estimates

The implied discount asked by the market for unlisted shares has plunged

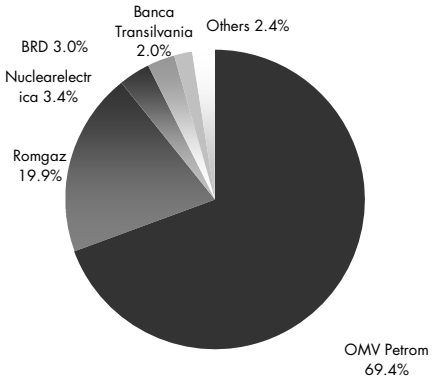
With the NAV per share assigned to listed & cash portion of RON 0.634 which we consider that it should be discounted by investors by 12.5%, it implies that the market is attaching a value of RON 0.385 per share for unlisted stakes with suggests a discount of 30% for unlisted stakes. This means that the discount which the market is demanding for unlisted shares has plunged since our previous update, from around 48% to 30%, very close to the level we now deem as fair of 25%.

NAV per share versus price per share



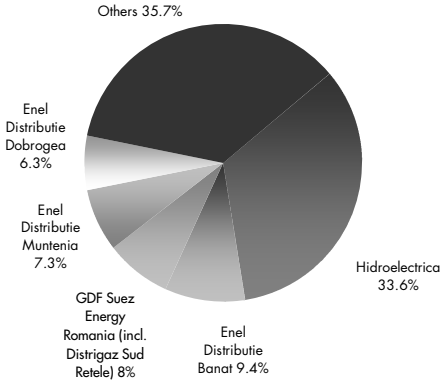
Source: Company, Raiffeisen Bank estimates

Listed Portfolio Structure



Source: Raiffeisen Bank estimates

Not-Listed Portfolio Structure



Source: Raiffeisen Bank estimates

We mark to market listed shares

Listed companies: The value of the listed portfolio is marked to market based on the closing prices from November 13. For the shares not traded for the past 90 days (some very small companies) we continue to apply a 50% discount to the last available prices.

Valuation of FP stakes in Listed Companies, in RON mn

Company	Symbol	Sector	FP stake	FP stake Value	% of FP Portfolio
OMV Petrom	SNP	Oil&Gas Producer	19.0%	4,571.6	36.07%
Romgaz	SNG	Oil&Gas Producer	10.0%	1,310.4	10.34%
Nuclearelectrica	SNN	Energy Producer	9.7%	222.7	1.76%
BRD	BRD	Banks	3.6%	195.3	1.54%
Banca Transilvania	TLV	Banks	2.9%	128.7	1.02%
Alro	ALR	Aluminium Smelter	10.2%	83.9	0.66%
Conpet	COTE	Oil&Gas	6.1%	27.2	0.21%
Romaero	RORX	Machinery & Engineering	21.0%	20.7	0.16%
Primcom	PRIB	Real Estate	69.0%	18.6	0.15%
Alcom	ALCQ	Retail/Real Estate	71.9%	4.3	0.03%
Oil Terminal	OIL	Oil&Gas	6.3%	3.6	0.03%
Palace	PACY	Hotels	15.4%	2.2	0.02%
IOR	IORB	Optical and photo production	2.8%	0.4	0.00%
Forsev	FORS	Metallurgy	28.1%	0.3	0.00%
Mecon	MECP	Metallurgy	12.5%	0.1	0.00%
Comcereal Cluj	COCL	Agriculture	11.4%	0.0	0.00%
Severnav	SEVE	Machinery & Engineering	0.0%	0.0	0.00%
Romplumb	ROMR	Lead producer	33.3%	0.0	0.00%
Total				**6,590.1**	**52.0%**

Source: Bucharest Stock Exchange; Stock prices as of November 14, 2014, 6:30 CET+1AM

We lifted the value of unlisted portion on the back of Hidroelectrica and distribution and supply utilities

Not-listed companies: We ran our own valuation for 23 companies with a total cumulated weight of 47% in total shares portfolio. Compared to our previous update from March, the price tag attached to this portion is larger, as we see a higher value for Hidroelectrica, due to a higher output and lower WACC, and the majority of electricity and gas distribution and supply companies. We now value Electrica minorities based on the implied value from the pre-money valuation of Electrica SA at the moment of its recent IPO, as opposed to FP's official figures previously. For the other distribution companies, we use a comparable valuation based on 2013 P/E, EV/EBITDA and EV/RAB, while we relied previously on valuations implied by transactions. For the supply utilities we used either a comparable valuation or we attached a value similar to their net cash positions. The latter was applied to Enel subsidiaries where the chances for the distribution of cash are higher and out of the two companies one was loss-making and the other reported weak profitability levels.

Valuation of FP's Stakes in Not-Listed Companies, in RON mn

Company	Sector	Valuation method / Comparables Multiples Used	FP stake	FP stake Value	% of FP Portfolio
Hidroelectrica	Energy Producer	Discounted Cash Flow	19.9%	2,051.1	16.2%
CE Oltenia	Energy Producer	Discounted Cash Flow	21.6%	110.2	0.9%
E.ON Moldova Distributie	Energy Distribution	Avg. P/E, EV/EBITDA, EV/RAB	22.0%	328.9	2.6%
Electrica Distributie Muntenia Nord	Energy Distribution	Implied from Electrica's pre-money valuation	22.0%	166.2	1.3%
Electrica Distributie Transilvania Nord	Energy Distribution	Implied from Electrica's pre-money valuation	22.0%	149.2	1.2%
Electrica Distributie Transilvania Sud	Energy Distribution	Implied from Electrica's pre-money valuation	22.0%	153.1	1.2%
Enel Distributie Banat	Energy Distribution	Avg. P/E, EV/EBITDA, EV/RAB	24.1%	573.4	4.5%
Enel Distributie Dobrogea	Energy Distribution	Avg. P/E, EV/EBITDA, EV/RAB	24.1%	387.1	3.1%
Enel Distributie Muntenia	Energy Distribution	Avg. P/E, EV/EBITDA, EV/RAB	12.0%	447.7	3.5%
Electrica Furnizare	Energy Supply	Implied from Electrica's pre-money valuation	22.0%	55.0	0.4%
Enel Energie Muntenia	Energy Supply	Net cash position	12.0%	60.2	0.5%
Enel Energie	Energy Supply	Net cash position	12.0%	47.1	0.4%
E.ON Gaz Distributie	Gas Distribution	Avg. P/E, EV/EBITDA, EV/RAB	12.0%	133.1	1.1%
E.ON Energie Romania	Gas Supply	Avg. P/E, EV/EBITDA	13.4%	239.0	1.9%
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	Gas Distribution&Supply	Avg. P/E, EV/EBITDA, EV/RAB	12.0%	468.7	3.7%
CN Aeroporturi Bucuresti	Airports	Discounted Cash Flow	20.0%	280.7	2.2%
Aeroportul International Timisoara Traian Vuia	Airports	Avg. P/S, EV/EBITDA, P/Pax, discounted by 30%	20.0%	23.1	0.2%
Aeroportul International Mihail Kogalniceanu	Airports	Avg. P/S, EV/EBITDA, P/Pax, discounted by 30%	20.0%	6.7	0.1%
CN Administratia Porturilor Maritime	Ports	Avg. PE, P/S, EV/EBITDA, discounted by 30%	20.0%	134.5	1.1%
CN Administratia Porturilor Dunarii Maritime	Ports	FP's official figure	7.7%	0.0	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	Avg. PE, P/S, EV/EBITDA, discounted by 30%	20.0%	2.4	0.0%
CN Administratia Canalelor Navigabile	Ports	Avg. PE, P/S, EV/EBITDA, discounted by 30%	20.0%	9.7	0.1%
Posta Romana	Postal Services	P/Sales, discounted by 60%	25.0%	80.9	0.6%
Total				**5,907.9**	**46.6%**

Source: Raiffeisen Bank estimates

We rely on FP's figures for 15 small stakes

For the remaining 15 companies, we use the values provided by FP in its official NAV. They have a total weight of 1.4% in total shares portfolio. 60% of their cumulated value comes from Salrom.

Valuation of 'Other' FP shareholdings, in RON mn

Company	Sector	FP stake	FP stake Value	% of PF Portfolio
Salrom	Salt Production	48.99%	114.1	0.9%
Zirom	Titanium Processing	100.00%	43.5	0.3%
Salubriserv	Waste Collection	17.48%	10.9	0.1%
Plafar	Health Care	48.99%	4.8	0.0%
Comsig	Retail	69.94%	1.5	0.0%
Electroconstructia Elco Cluj	Electric installation services	7.61%	0.7	0.0%
Cetatea	Real Estate	20.43%	0.4	0.0%
World Trade Hotel	Hotels	19.90%	0.0	0.0%
Carbid Fox - in bankruptcy	Chemicals	7.96%	0.0	0.0%
Bat Service - in liquidation	Services	33.00%	0.0	0.0%
Gerovital Cosmetics - in liquidation	Cosmetics	9.76%	0.0	0.0%
World Trade Center Bucuresti	Real Estate Rental	19.90%	0.0	0.0%
Simtex - in bankruptcy	Textiles	30.00%	0.0	0.0%
Fecne - in bankruptcy	Metallurgy	12.12%	0.0	0.0%
Petrotel Lukoil	Oil & Gas	1.78%	0.0	0.0%
Total			**175.8**	**1.4%**

Source: Fondul Proprietatea, Raiffeisen Bank estimates

Net cash position adjusted for the on-going tender offer is RON 405 mn

The cash position as of October 2014 is RON 1.18 bn and its debt is amounting to RON 42 mn. We adjust the cash position for the on-going tender offer for 750 mn of its own shares at a price of RON 1.11 and for the recent Conpet deal. All in all, we get a total NAV of RON 13.1mn which implies an NAV per share of RON 1.185 based on a number of shares adjusted for the tender offer. This suggests a discount of 21% to the current market price, down from just below 30% in late March.

We changed the discounts we apply to NAV to get our TP. For the listed shares we now use a discount of 12.5% instead of 15% previously since we consider that FP's latest ABBs justify this revision. From a discount of 12.5% for its first ABB for SNP, the latest ABBs were done at discounts of 5.9% for SNG and 8% for TEL and even for the less liquid COTE. We consider that such low discounts would be difficult to obtain for either some of the least liquid companies or larger stakes and they do not include the market and intermediaries' fees. We also used to apply a 15% discount for cash, but we cut drastically this discount to 1.5% in line with FP's policy to return cash to shareholders. For the unlisted stakes we now apply a discount of 25%, down from 30%. We consider that corporate governance standards have improved for the past several years which would justify this cut.

We hike our TP to RON 0.97 but we change our rating to Hold

We set a TP of RON 0.97 per share, 11.5% above the previous one, based on a total fair value of RON 10.7 bn. We stress out again that in case of FP the TP is a fair value and it is not carried forward 12m as it is the case for other listed companies (SIFs excepted). Given the important discount compression witnessed by FP, we change our recommendation from Buy to Hold.

Risks:

- Political risk remains the most relevant, given the large weight of majority state owned companies. The outlook for many companies is dependent on government's decisions which could have a political cost (i.e. gas market liberalization).
- Investors are also exposed to regulatory risk, as several portfolio companies are regulated.
- Unpredictable fiscal regime, since meeting assumed fiscal targets in the short term is challenging.
- The transparency of some portfolio companies has not yet reached acceptable levels.

Recent developments/update

The fourth buy-back has been started recently and includes a tender offer for 750 mn shares

Returning cash to shareholders. The strategy to return important amounts of cash to shareholders has continued and there is no reason to consider that this strategy will be discontinued. During summer FP has completed a third buy-back program of 253 mn shares and a fourth one of 991 mn is currently under way. As expected, to accelerate the execution of the fourth buy-back, the manager launched a tender offer for 750 mn shares at a price of RON 1.11 which represents a discount of only 8% to October official NAV. The cycle of one large buy-back followed by a smaller one is respected, with FP proposing a fifth program of 228 mn shares. As we expect that the fourth program will last until spring 2015, the fifth one might start in late spring – summer of 2015.

Earlier in 2014, FP has paid shareholders a special dividend of RON 0.05 through the reduction of the share capital (the face value of its shares has been cut from RON 1.0 to RON 0.95). This corporate action is in line with FP's updated dividend policy which will be pursued as FSA changed some regulations and the fund will switch to IFRS from 2015. These might limit its ability to pay regular dividends. The manager will try to pay recurrently either as regular dividends or through special dividends (by decreasing the nominal value of shares) 100% of its revenues from dividends and interest after deducting expenses and compulsory reserves.

Divestment strategy has accelerated

Divestments. In June, FP decreased its holding in SNG by a third after it sold a stake of 5% in the company at a discount of around 6%. In July it sold its entire 13% stake in TEL at a discount of 8% and just days ago it divested the largest part of its COTE shares at a similar discount. FP has raised RON 957mn through the three transactions.

Since announcing in early 2014 that it was looking to decrease the 19% stake in SNP to below 15%, there was no official relevant news on this topic. Nevertheless, there were rumours that FP was looking to sell its entire stake in SNP and appointed Goldman Sachs as the lead advisor. We consider that given SNP's huge weight in FP's portfolio, the manager would like to reduce it to decrease the reliance of FP on the company. According to the current bylaws, FP would need shareholders' approval for any transaction which exceeds 20% of the value of its non-current assets (currently based on RAS financial statements). This threshold, according to the latest financial statements, is RON 2.0 bn which means that FP could not sell a stake of more than 7.5% in SNP without a GSM. But for the incoming GSM there is a proposal to change the bylaws so that shareholders' approval will be needed only for transactions which involve non-current assets and not for all assets as it is the case now. SNP stake (like all other holdings) are not classified as non-current assets under IFRS which FP will use as statutory starting 2015. This proposed amendment seems to support the rumours that FP is looking to divest a significant part of its SNP stake. Given the current weakness of SNP shares, mainly due a lower crude price, we consider that FP should wait for a better moment. Such a moment would be in our opinion the first part of 2015 when an announcement regarding Black Sea exploration is expected and the uncertainty regarding fiscal regime should be eliminated.

For the first time, there are chances that FP might be able to report a significant progress regarding the divestments of unlisted stakes. The most likely candidates are its minority stakes in the four Electrica SA subsidiaries, as both the potential buyer and seller are willing to reach such a deal. Moreover, with Enel having just received non-binding offers for its Romanian subsidiaries, FP has a high chance to raise more money since it enjoys tag along rights in case of Enel Distributie Muntenia and Enel Energie Muntenia.

Secondary listing still pending but the green light is expected shortly

Secondary listing. There was no progress on this front, as FP was waiting for the local FSA to approve the necessary legislative changes which should accommodate the use of depositary interests (DIs). Eventually, FSA has published the draft legislation which was open for public debate until November 15. Since the needed documentation for the secondary listing has already been prepared according to FP, the listing could actually take place in December. The listing on LSE, on the Specialist Fund Market, should open FP to a larger pool of potential investors, especially those deterred to invest on the Romanian market by the cumbersome formalities to open an account.

Power Generators

Despite difficult price environment for Romanian power generators, we assigned a higher value to Hidroelectrica as its FY 2014e output should come in close to the level for a normal hydrological year and insolvency proved once again favourable to cost containing.

Summary of Key Figures for Power Generators

Producer	Effective capacity (MW)	EBITDA margin 2013	FV derived from DCF (RON mn)	DCF Valuation EUR mn/MWh
Hidroelectrica	6,180	62%	10,286	0.38
Nuclearelectrica*	1,414	44%	2,297	0.37
CE Oltenia	3,570	22%	512	0.03

Source: Raiffeisen Bank estimates
**listed*

Domestic power prices continued to trend down in 2014 without an increase in domestic consumption and given the larger renewable capacity. This also triggered a higher weight of sales on the Day Ahead market where prices are lower, relative to the centralized market for bilateral contracts. Some respite for power generators has been provided by exports which surged by more than 3x in the first nine months of 2014 to 5.3 TWh.

Hidroelectrica

The exit from insolvency in June 2015 seems an ambitious target

The power generator has re-entered insolvency on February 25, since the Court of Appeal accepted an appeal against the closing of the first insolvency procedure in June 2013. The appeal had been submitted by several traders whose contracts have been terminated by the judicial administrator. Mr. Borza who led the company during the first insolvency and has a good track record for restructuring has been reappointed as judicial administrator.

Since our update in March, there has been little progress toward the exit from insolvency from a legal point of view. The first hearing in a standard Court has been scheduled for mid-January 2015 which should be followed by subsequent hearings at the Court of Appeal. The total value of the litigations (for termination of the bilateral contracts and the instauration of the force majeure clause in 2011-2012) is around EUR 500 m but the judicial administrator claims that traders have zero chances of winning. Besides these claims there is another one of EUR 80 mn, as one of the traders whose contract was terminated has sued Hidroelectrica at the Court of Arbitration of Berne.

Since re-entering insolvency the judicial administrator claimed that the company could exit it in June 2015 while the IPO which was delayed for obvious reasons, might be possible in 4Q 15. Given the slow progress toward exit, one might notice a change in the rhetoric of the judicial administrator. It seems to us that an exit from insolvency in June 2015 might seem now as a best case scenario. Regarding the IPO, 2016 seems as a more likely deadline.

Starting with this update, we rely on Hidroelectrica's consolidated IFRS financial statements and not on the RAS stand-alone figures which we used before. The main difference between the two is the consolidation of its maintenance subsidiaries (Hidroserves), which inflates staff costs and decreases maintenance expenses, and the accounting for the embedded options (in the bilateral contract with Alro).

Hidroelectrica's output in 2013 was still below average, but increased by 23% yoy to 14.8 TWh while the average (net) realized power price was 173 RON/MWh, up 14.9% yoy due to a 74% hike in regulated price. Helped also by the restructuring measures, EBITDA almost tripled yoy to

RON 2.0 bn, implying an impressive EBITDA margin of 62%. Net profit stood at RON 767 mn, up 4.5x compared to 2012 when financial result was helped by a huge gain on embed options.

Output returned to the level for a normal year in 2014

In 2014 Hidroelectrica enjoyed better hydrological conditions, the output for the whole year being seen currently at 17.5 TWh. We had in our previous update an output of 16 TWh while Hidroelectrica expected at the beginning of the year 14.5 TWh. The judicial administrator said that 1-3Q 14 sales increased by 8.5% yoy to RON 2.5 bn while pre-tax (RAS) profit was RON 817 mn, up 20% yoy. The pre-tax (RAS) profit for FY 2014 is seen by the company at RON 1.1 bn and sales at RON 3.2 bn. The company has copped well with the new tax on special constructions which should cost it around RON 150 mn plus a decrease in regulated price in 1H 14 to 115 RON/MWh. For 2H 14, regulated price was brought back to 2013 level of 125 RON/MWh.

Hidroelectrica Business Model Assumptions

		2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
Revenues	RON mn	2,451	3,154	3,278	3,291	3,433	3,563	3,686	3,770
EBITDA	RON mn	821	1,959	1,954	2,003	2,108	2,187	2,287	2,342
EBITDA margin	%	33%	62%	60%	61%	61%	61%	62%	62%
Gross power generated	TWh	12.1	14.8	17.6	17.3	17.5	17.6	17.6	17.6
Power sold	TWh	12.8	15.0	17.9	17.7	17.9	17.9	17.9	17.9
% of power sold on regulated market	%	32%	26%	30%	21%	13%	6%	0%	0%
Avg. net selling price of power	RON/MWh	150.3	172.7	146.5	150.6	156.0	162.4	169.1	172.9
Royalties for water	RON/MWh	21.9	21.6	21.6	21.6	21.6	22.7	22.7	22.7
Salaries	RON/MWh	47.5	32.0	23.5	24.1	24.7	25.6	26.2	26.9
Other expenses (incl. tax on special constructions	RON/MWh	19.0	10.5	15.4	13.0	13.1	13.4	13.7	14.0

Source: Hidroelectrica, Raiffeisen Bank estimates

We still assume that Hidroelectrica will have to pay some damages to the "smart guys"

We project that average (net) power price will decrease in 2014e by 15.2% yoy to 146.5 RON/MWh on the back of a drop of 17% yoy for the price on competitive market to 157.6 RON/MWh. Going forward we see average power prices going up at an average of 3.4% yoy through 2019e driven by a continuation in the liberalization of power market and an average annual increase of 1.9% yoy for prices on the competitive market. Based on a constant output of around 17.5 TWh, we see a sustainable EBITDA margin of 61% implying an EBITDA level of RON 2.2 bn. We expect an IFRS net profit of RON 846 mn in 2014e and a modest increase for next year. We continue to assume that Hidroelectrica will have to pay some of the damages claimed by the "smart guys" in 2015, that is why we added RON 700 mn to its net debt.

Based on our simplified DCF we attach a price tag of RON 10,286 mn to the company's equity, meaning an increase of 50% compared to our last update. The rationale behind this were better 2014e results, mainly due to a higher output, an increase in the regulated price in 2H 14 and excellent performance on costs containment front. Moreover, on the fiscal side, we assumed that the tax on special constructions will be reduced from 1.5% to 1% in 2015 as announced by the government and the cut by 5% of social contributions will be beneficial for the company. A lower WACC, on the back of a decrease in COE, also acted in the same direction. There is still uncertainty regarding CAPEX evolution going forward. 2,400 MW of capacity are already refurbished, and the needed CAPEX for upgrading another 1,000 MW should be around EUR 400 mn for the next five years. But, given the past experiences there are risks once Hidroelectrica will exit insolvency and recently the judicial administrator talked about increasing investments in 2015.

Hidroelectrica DCF Valuation

RON mn	***2014e***	***2015e***	***2016e***	***2017e***	***2018e***	***2019e***
EBIT*(1-T)	831	869	941	979	1,052	1,081
Depreciation	971	986	1,004	1,022	1,034	1,055
Change in WC	-375	-250	-145	-140	-140	-140
CAPEX	-519	-626	-621	-615	-910	-910
FCFF	908	980	1,179	1,245	1,037	1,086
WACC	8.4%	7.9%	8.3%	8.8%	9.1%	9.4%
Discounted FCFF	899	899	999	970	741	710

PV of FCFF	5,217
Terminal growth rate	0.0%
TV	10,870
PV of TV	7,099
Net debt	1,330
Claims due to insolvency	700
Fair Value	10,286

Source: Raiffeise Bank estimates

CE Oltenia

Large drop in power output in 2013 followed by modest rebound this year

CE Oltenia continues to have the most difficult times among the power generators from FP's portfolio. Having a higher break-even point compared to hydro and nuclear power producers, the integrated coal based generator is suffering in this environment with no growth in domestic consumption and increased capacity of renewables. It seems that 2014 was a lost year from the restructuring point of view, as the company with its almost 19,000 employees could have been a political cost for the government in an election year. That is why, CE Oltenia's IPO, initially planned for 2014 according to the agreement with IMF, has been delayed for 2015-2016

In 2013, despite a drop of 32% yoy in power output and a plunge of 16% yoy in net average price, as Hidroelectrica and renewables increased their production, the company managed to stay in black. The main reason for this was large FX gains due to a JPY denominated loan. The financial standing of the company deteriorated further in 1H 14, as sales decreased 3% yoy to RON 1.2 bn driven by a 10% decline in power prices on the competitive market (the company does not deliver anymore on the regulated market). EBITDA was only RON 131 mn, implying a margin of 10%, while bottom line was a loss of RON 193 mn. The company is in real danger of breaching the loan covenants agreed with the banks.

We expect a FY 2014e gross power production of 12.3 TWh, up 6% yoy on the back of surging exports. We also see output to go up through 2019e as CE Oltenia is the most likely conventional power generator to accommodate the expected marginal increase in demand.

CE Oltenia Business Model Assumptions

		2012 (7m)	2013	2014e	2015e	2016e	2017e	2018e	2019e
Sales	RON mn	2,237	2,429	2,299	2,413	2,605	2,817	3,044	3,197
EBITDA	RON mn	410	543	347	500	693	860	1,043	1,110
EBITDA margin	%	18.3%	22.4%	15.1%	20.7%	26.6%	30.5%	34.3%	34.7%
Electricity									
Gross Power Production	TWh	10.1	11.6	12.3	12.7	13.4	14.1	15.0	15.5
Avg. Selling Price	RON/MWh	217	182	160	162	167	172	177	181
Lignite									
Lignite production (out of which)	'000 tons	17,300	21,124	21,570	22,122	23,157	24,301	25,556	26,283
- Own consumption		13,900	16,037	16,991	17,543	18,464	19,526	20,697	21,339
CO2 Certificates									
CO2 Certificates Allocated	mn	8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CO2 Emissions*	mn tons	16.4	10.6	10.9	11.2	11.7	12.2	12.8	13.1
CO2 Certificate Price	EUR	5.1	4.5	6.5	7.0	7.0	7.4	8.2	9.5
Specific Costs per MWh									
Lignite	RON/MWh	93.4	103.9	108.1	110.8	113.5	115.4	117.2	119.3
CO2 Certificates	RON/MWh	5.6	18.1	25.7	27.4	26.8	27.9	29.9	34.6
Personnel (excluding mining staff)	RON/MWh	32.4	45.1	41.6	38.9	36.4	34.5	32.5	31.7

Source: CE Oltenia, Raiffeisen Bank

**Emissions for the whole 2012*

We assign an equity value of RON 512 mn to CE Oltenia, using the same simplified DCF model, slightly below the value from our previous update. We have increased our estimate for CO2 permits prices which were mitigated by the lower WACC and higher revenues from system services. Our valuation continues to assume that the company acquires all its needed CO2 certificates (despite being theoretically eligible to receive some free of charge certificates for the period 2013-2019e to finance a part of its investments).

CE Oltenia DCF Valuation

RON mn	2014e	2015e	2016e	2017e	2018e	2019e
EBIT*(1-T)	-244.3	-111.6	64.6	214.2	379.9	358.8
Depreciation	591	611	629	645	663	683
Change in WC	-145	-75	-80	-90	-90	-100
CAPEX	-610	-595	-525	-500	-520	-620
FCFF	-408	-170	88	270	433	322
WACC	8.4%	7.9%	8.3%	8.8%	9.1%	9.4%
Discounted FCFF	-404	-156	75	210	309	210
PV of FCFF	243.8					
Terminal growth rate	0.0%					
Terminal WACC	10.0%					
TV	3,223					
PV of TV	2,105					
Net debt	1,837					
Fair Value	512					

Source: Raiffeisen Bank estimates

Power and Gas Supply and Distribution

Key 2013 Figures for Distribution Companies

RON mn	RAB	T/O	EBITDA	EBIT	EBIT/RAB	Net profit	Net debt
Enel Banat	1,379	625	335	203	14.8%	191	-810
Enel Dobrogea	1,111	509	248	149	13.4%	134	-351
Enel Muntenia	2,423	892	424	221	9.1%	267	-1,516
Electrica distribution segment	4,076	2,056	681	294	7.2%	225	-413
Enel Energie		2,261	-21	-25		-39	-393
Enel Energie Muntenia		2,175	27	24		28	-501
Electrica supply segment		4,780	107	100		90	-50
E.ON Moldova Distributie	1,418	702	255	107	7.5%	87	-213
E.On Gaz Distributie	1,397	744	216	74	5.3%	68	154
E.On Energie		5,257	229	227		224	-41
GDF Suez Energy	2,624	4,127	731	519	19.8%	447	67

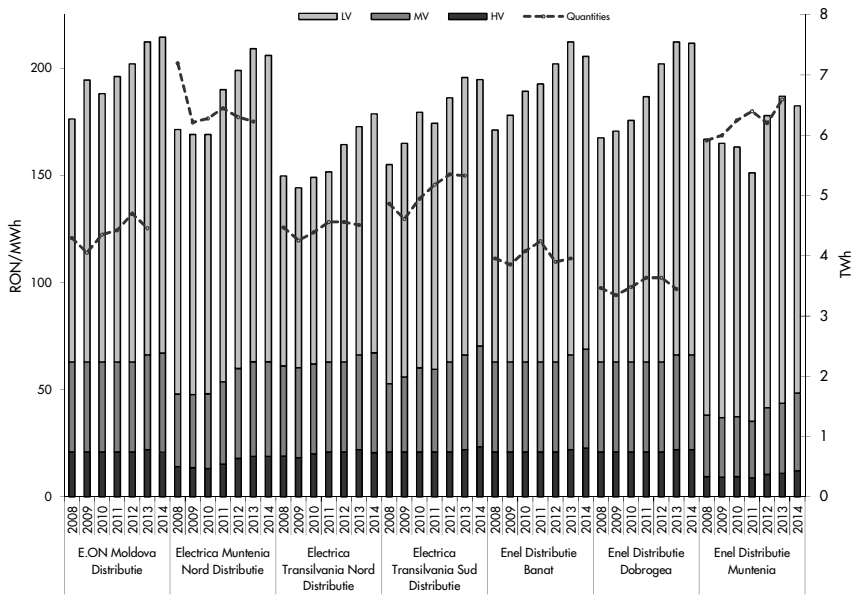
Source: Companies, Raiffeisen Bank estimates

The rate of return for the third regulatory period is 8.5% for power distribution and 8.6% for gas utilities

The rate of return for the third regulatory period, 2014-2018, for electricity distribution has been set at 8.52% in late 2013. But, recently the regulator has approved a regulation which allows it to revise the rate of return to avoid the recognition in tariffs of excessive capital cost depending on the evolution of the parameters taken into account to determine the latter. The parameters which were used to set the 8.52% are: (i) risk free rate of 6%, (ii) market risk premium of 5%, (iii) credit risk premium of 1.35%, (iv) beta of 0.43 and (v) debt to total capital of 50%. With Romanian government bonds yielding now less than 4% there is a risk in the medium term that the regulator might adjust the risk free lower. Electricity supply is regulated for the captive consumers based on a cost plus methodology, while the more lucrative supply activity on the competitive market is not regulated.

The gas distribution activity, as well as the supply business is regulated by a revenue-cap methodology, based on a regulated assets base. The current regulated return on asset is 8.6%.

Tariffs and quantities electricity distribution companies



Source: ANRE

Electrica's IPO represents a reference point for valuing FP's minorities

Valuation

We value separately the stakes in the four Electrica's subsidiaries and we apply a different methodology for the other electricity and gas distribution and supply companies. To value Electrica minorities we rely on the company's IPO, namely on the pre-money value of Electrica considering the IPO per share price of RON 11.0. This value accounts for Electrica's 78% equity interest in the four companies and from here we get a figure for an equity interest of 22% in these companies (we assume zero value for the maintenance subsidiaries). We split this value on the three distribution companies according to their RAB. In our previous update we used FP's official figures.

Electrica Minorities Valuation

RON mn	*Fair value*	*RAB*	*FP official value*
Implied pre money valuation of Electrica SA	1856	n.a.	n.a.
Implied value of FP minority stakes (out of which)	524	n.a.	783
EDMN	166	1446	296
EDTN	149	1298	207
EDTS	153	1332	192
EF	55	n.a.	88

Source: Raiffeisen Bank estimates

For the other distribution and supply electricity and gas utilities we apply a peer group comparison based on 2013 figures. For distribution companies we set our fair value by averaging the implied values based on P/E, EV/EBITDA and EV/RAB. As the Enel supply companies have negative net profit and EBITDA, we value them according to their net cash positions. E.On Energie, the supply company, is valued based on P/E and EV/EBITDA multiples.

Peer Group Multiples

	P/E	*EV/EBITDA*	*EV/RAB*
Energa	10.8	5.8	1.3
PGE	11.1	5.0	2.7
ENEA	11.3	4.8	1.4
Tauron	8.0	4.4	1.2
CEZ	10.8	6.5	4.6
Transelectrica	7.6	3.9	0.9
Transgaz	6.6	3.8	0.9
Median	**10.8**	**4.8**	**1.3**

Source: Bloomberg, Raiffeisen Bank estimates

Enel, E.ON and GDF Minorities Valuation

RON mn	*PE of 10.8*	*EV/EBITDA of 4.8*	*EV/RAB of 1.3*	*Avg. fair value*	*Avg fair value (FP's stake)*
Enel Banat	2,060	2,426	2,647	2,377	573
Enel Dobrogea	1,442	1,548	1,831	1,607	387
Enel Muntenia	2,886	3,561	4,745	3,731	448
Enel Energie				393	47
Enel Energie Muntenia				501	60
E.ON Moldova Distributie	940	1,443	2,103	1,495	329
E.ON Gaz Distributie	733	888	1,707	1,109	133
E.On Energie	2,425	1,144		1,785	239
GDF Suez Energy	4,830	3,457	3,430	3,906	469

Source: Raiffeisen Bank estimates

Transportation Sector

We value CN Aeroporturi Bucuresti, the most important stake from this sector, with a simplified DCF while for the rest we continue to apply comparative valuation.

Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
CN Aeroporturi Bucuresti	Airports	1,403.3	20.0%	280.7	2.2%
Aeroportul International Timisoara Traian Vuia	Airports	115.3	20.0%	23.1	0.2%
Aeroportul International Mihail Kogalniceanu	Airports	33.4	20.0%	6.7	0.1%
CN Administratia Porturilor Maritime	Ports	672.6	20.0%	134.5	1.1%
CN Administratia Porturilor Dunarii Maritime	Ports	0.0	7.7%	0.0	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	11.9	20.0%	2.4	0.0%
CN Administratia Canalelor Navigabile	Ports	48.6	20.0%	9.7	0.1%
Total				**457.0**	**3.6%**

Source: Raiffeisen Bank estimates

CN Aeroporturi Bucuresti

Passengers growth of 7.7% in 1-3Q 14

The company announced a surge in passengers traffic for 2014, with a growth of 7.7% yoy in 1-3Q 14. There was an acceleration in the latest months, as for the September alone, passenger growth stood at 9% yoy.

CN Aeroporturi Bucuresti DCF Assumptions

		2012	2013	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Growth in pax	%	1.3%	1.3%	7.3%	3.4%	3.0%	3.1%	3.0%	2.9%	2.8%
Growth revenues per pax	%	10.9%	3.3%	2.5%	2.9%	3.0%	2.7%	2.6%	2.5%	2.5%
Staff expenses growth rate	%	15.8%	6.4%	4.1%	2.8%	4.5%	5.0%	4.8%	4.8%	5.0%
Other expenses to sales ratio	%	31.8%	32.4%	33.3%	33.3%	34.4%	34.7%	34.7%	34.7%	34.7%
CAPEX	RON mn	299	39	100	125	175	175	175	175	185

Source: CN Aeroporturi Bucuresti, Raiffeisen Bank estimates

We see the fair value of the company's equity at RON 1,403 mn

Our DCF points to a fair value of the company of RON 1,403 mn, slightly above our previous estimate. A hike in passengers traffic and lower WACC, were mitigated by reduced profitability assumptions and higher CAPEX for the 2019e-2020e period.

CN Aeroporturi Bucuresti DCF valuation

RON mn	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Sales	641	683	724	767	810	855	902
yoy growth	10%	6%	6%	6%	6%	6%	5%
EBITDA	245	268	279	294	312	330	348
EBITDA margin	38%	39%	38%	38%	38%	39%	39%
CAPEX	-100	-125	-175	-175	-175	-175	-185
Change in WC	15	-5	3	2	1	1	1
FCFF	141	116	83	95	110	126	132
WACC	8.7%	7.7%	8.2%	9.0%	9.3%	9.7%	10.2%
Disc. FCFF	140	106	71	74	78	82	78

PV of FCFF	629
TV growth rate	3.0%
TV	1,658
PV of TV	977
Net Debt	203
Fair Value	1,403
FP's stake	281

Source: CN Aeroporturi Bucuresti, Raiffeisen Bank estimates

Fact Sheet

Company description

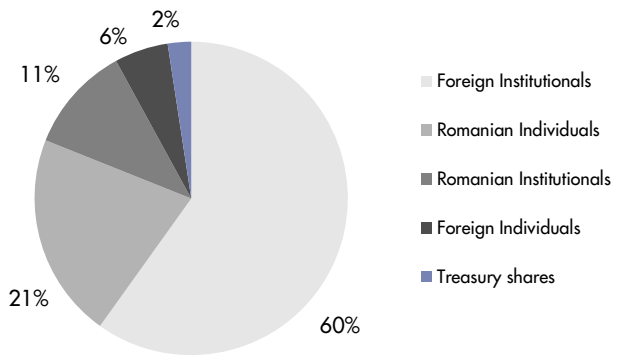
Fondul Proprietatea was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the former communist regime and whose seized assets could not be returned in kind. FP was set up in 2005 as an investment company and all of its shares have been transferred to parties entitled to receive indemnities.

FP has a strong weight of energy shares (including oil exploration and gas and power production, supply and transportation), which come to represent 90% of its shares portfolio. The 19% stake held in the oil&gas producer Petrom (SNP) accounts for around 36% of its portfolio. Other sectors include transportation services (several airports and ports), banks, the aluminium producer Alro and the National Postal Services company.

Franklin Templeton was selected in September 2010 at the helm of the fund. Their mandate was extended in September 2014 for a period of two years.

The manager has started a strategy aimed at reducing the discount to NAV, with an ambitious objective to bring it to below 15%. The key element of this strategy is the return of cash to shareholders through buy-backs and special dividends, financed by portfolio divestments.

Shareholder structure



Strengths/Opportunities

- Fondul Proprietatea is the most liquid stock on the Romanian Stock Exchange and the second largest capitalisation wise
- The manager has launched several corporate actions to narrow the discount to NAV such as buy-backs and special dividends
- The interests of shareholders and manager are well aligned
- Franklin Templeton's appointment has turned Fondul Proprietatea into an active investor
- IMF is a strong ally, pushing for structural reforms which include privatization and restructuring of state-owned companies

Weaknesses/Threats

- Political risk is a sensitive issue for Fondul Proprietatea's shareholders, with 60% of its portfolio being made up of companies whose majority shareholder is the Romanian state
- Large part of the portfolio companies are regulated and thus subject to regulatory risk
- ASF approval is needed for many corporate actions aimed at reducing discount
- A large exposure to energy sector in a context with weak crude prices

Acknowledgements

Recommendation history

Date	Rating	Target Price	Prev. day's close	Upside
26.03.2014	Buy	0.87	0.79	9.9%
19.11.2013	Buy	0.90	0.80	12.5%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	42	59	12	5	16	7
Universe %	30%	42%	9%	4%	11%	5%
Investment banking services	15	15	1	0	3	1
Investment banking services %	43%	43%	3%	0%	9%	3%

Source: Raiffeisen Centrobank, rounding differences may occur

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Hold: Hold stocks are expected to deliver a positive total return of up to 15% (20% for shares with a high volatility risk) within a 12-month period.
Reduce: Reduce stocks are expected to achieve a negative total return up to -10% within a 12-month period.
Sell: Sell stocks are expected to post a negative total return of more than -10% within a 12-month period.
Price targets are determined by the fair value derived from a peer group comparison and/or our DCF model. Other fundamental factors (M&A activities, capital markets transactions, share buybacks, sector sentiment etc.) are taken into account as well.
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Reduce: Reduce stocks are expected to achieve a negative total return up to -10% within a 12-month period.
Sell: Sell stocks are expected to post a negative total return of more than -10% within a 12-month period.
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