

## New Romanian government approved, IPOs next?

We have revisited our NAV calculation post the recent share price rally in OMV Petrom (in which Fondul Proprietatea [FP] has a 13% stake) and updated our valuation for other assets. We still expect the Hidroelectrica (HE) IPO to take place in 2017 and believe a special dividend distribution from HE is likely ahead of its IPO. If this materialises, we estimate FP's cash distribution might increase to 16% in FY17 (instead of 12%). We consequently increase our TP to RON0.98 (from RON0.93), implying 20% upside potential to the current share price. **OUTPERFORM** maintained.

Metin Esendal  
+44 (207) 005-7925  
MEsendal@rencap.com

### Full of election promises

The Romanian parliament approved the new government on 4 January. Recall that the Social Democratic Party (PSD) came to power on the promise of multiple tax cuts, higher wages in the public sector and pensions, and increased government spending on healthcare, education, defence and infrastructure. Apart from these, VAT on non-food products was cut by another 1% to 19% on 1 January; these all point to higher budget spending. Based on Bloomberg consensus, Romania's budget deficit is expected to be 2.9% of the GDP in FY16, before heading towards 3.5% in FY17, which is above the EU threshold of 3%. We think the government might need to tap other income sources to finance these election promises, starting as early as 2017. Higher dividend pay-outs from state-owned enterprises (SOEs) as well as speeding up the IPO process for SOEs seem to us quite likely scenarios in the short to medium run. If we are right, FP should be the main beneficiary owing to its minority stakes in what we view as the best possible potential IPO candidates (where the state is the major shareholder) including HE, Bucharest Airports, Constant Ports, Salrom, CE Oltenia and Posta Romana. Among these, based on our analysis we think HE is the most likely IPO candidate in the short term and we expect it to go public in 2017 (probably in 2H17).

### HE IPO – crystallising unlisted part and boosting cash distribution

HE exited insolvency and its appraisal value was revised upwards by 23% in 2016. In addition, its IPO mandate with banks was renewed and the Ministry of Energy has selected the supervisory board (not approved yet) following the end of the insolvency. After our meetings with various stakeholders in Romania, we believe the HE IPO is on track and might be possible in 2H17. Given that HE has a substantial cash pile (around RON1.5bn in FY16E), its prospective IPO is planned via new share issues (around RON2.5-3.2bn cash injection), HE has completed sizeable investments in recent years and the government will need higher budget revenues, we see a special dividend from HE as possible ahead of its IPO (unless the IPO mandate is revised). Assuming the distribution of total cash in HE, we estimate FP's cash distribution could reach 16% in FY17 (If not realised the yield would be still attractive at 12%). HE is the largest asset in FP's portfolio (making up around 30% of NAV), thus, the potential IPO would bring down the unlisted portion to 34% from the current 61%.

### OMV Petrom is up c. 30% since its SPO in mid-October

FP sold a 6% stake in OMV Petrom in mid-October. The recovery in oil prices coupled with increased liquidity and elimination of the SPO overhang has helped OMV Petrom's share price, up 30% to date since then. Through its remaining 13% stake, FP has been positively affected by OMV Petrom's higher valuation. As its share of the listed part in the NAV fell to a fund limit of 20% (based on its own calculation), we don't expect any further stake sales of listed assets from FP.

**Report date:** 6 January 2017  
**Current price, RON** 0.81  
**Upside/downside, %** 20

MktCap, \$mn 1,831  
Average daily volume, \$mn 1.2 / 1.0  
Free float, RONmn 100%  
Bloomberg FP RO / FP LI

#### Valuation summary, FP vs Renaissance Capital estimates

	RenCap	FP
NAV, RONmn	10,510	11,043
Fair value per share, RON	1.09	1.14
Listed % of portfolio, %	25	20
Unlisted % of portfolio, %	61	67
Cash % of portfolio, %	14	13

Source: Company data, Renaissance Capital estimates

Figure 1: Price performance – 52 weeks, RON



Figure 2: OMV Petrom vs Brent oil, indexed to 100

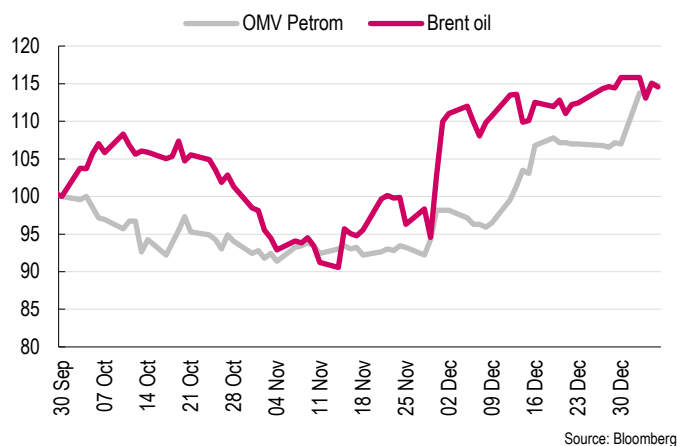


Figure 3: OMV Petrom – share price (RON)

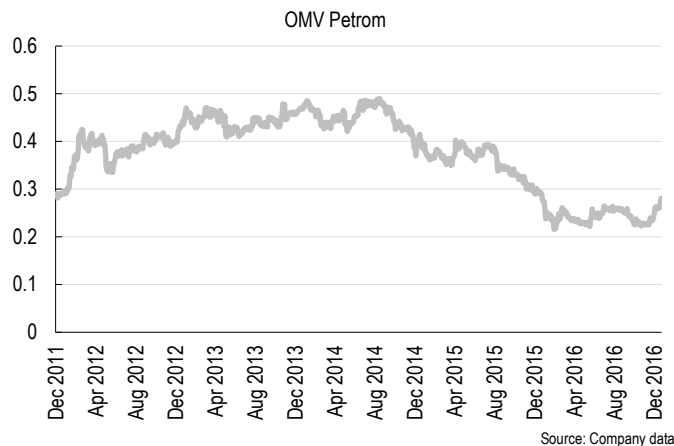


Figure 5: HE – DCF analysis, RONmn

DCF	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	Terminal
EBIT	1,352	1,441	1,530	1,545	1,561	1,577	1,592	1,608	1,624	1,641	
EBIT*(1-tax)	1,136	1,210	1,285	1,298	1,311	1,324	1,338	1,351	1,364	1,378	
Depreciation	744	726	709	716	723	730	738	745	753	760	
Maintenance capex	-250	-250	-250	-250	-250	-250	-250	-250	-250	-250	
New capex	0	-725	-725	-725	-725	-725	-725	0	0	0	
FCF	1,630	962	1,019	1,039	1,059	1,080	1,100	1,846	1,867	1,888	1,378
Discount factor	1.00	1.08	1.17	1.26	1.36	1.47	1.59	1.71	1.85	2.00	
Discounted cash flow	1,630	890	874	825	779	735	693	1,077	1,009	945	
Value for FY17E-FY25E	7,827		Rfr	4.0%		Terminal growth	0.0%				
Terminal value with 0% growth	8,617		Beta	0.8							
Net cash as of FY16E	1,665		Equity premium	5.0%							
Fair value	18,109		CoE	8.0%							

Source: Company data, Renaissance Capital estimates

Figure 6: HE – peer group P/E and EV/EBITDA comparison, x

Name	FY16E EV/EBITDA	FY16E P/E
Rushydro	5.4	6.9
Cez As	6.0	12.6
Aes Tiete Energi	6.9	12.8
Entel	8.5	n.m.
Nhpc Ltd	8.7	11.9
Enel Generacion	7.8	14.0
Aksa Enerji Uret	8.7	n.m.
Akenerji Elektri	13.5	n.m.
<b>Average</b>	<b>8.4</b>	<b>12.6</b>

Intraday prices on 5 January 2017

Source: Bloomberg

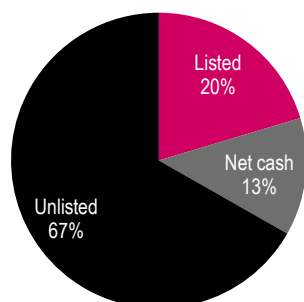
Figure 7: HE – valuation summary, RONmn

	FY16E EBITDA	FY16E net profit	40% EV/EBITDA	40% P/E	20% DCF	Total value	FP stake	Discount	RenCap NAV
Hidroelectrica	2,096	1,111	19,333	14,000	18,109	16,955	20%	15.0%	2,874

Intraday prices on 5 January 2017

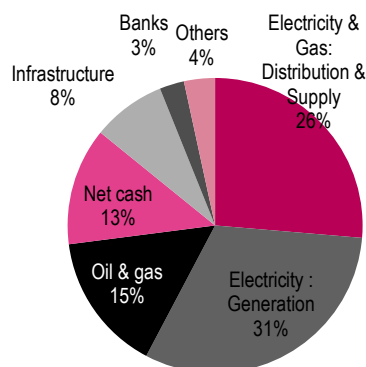
Source: Company data, Bloomberg, Renaissance Capital estimates

Figure 8: Portfolio structure by asset type, as of November 2016



Source: Company data

Figure 9: Portfolio structure by sector, as of November 2016



Source: Company data

Figure 10: Fondul NAV

Listed	RenCap NAV (RONmn)	Methodology	% of NAV
OMV Petrom SA	2,014	Market price	19.2%
BRD-Groupe Societe Generale SA	295	Market price	2.8%
Nuclearelectrica SA	138	Market price	1.3%
Alro Slatina SA	90	Market price	0.9%
Conpet SA	42	Market price	0.4%
Romaero SA	22	Market price	0.2%
Primcom SA	11	Market price	0.1%
Banca Transilvania SA	20	Market price	0.2%
Alcom SA	4	Market price	0.0%
Oil Terminal SA	4	Market price	0.0%
Palace SA	3	Market price	0.0%
IOR SA	1	Market price	0.0%
Mecon SA	0	Market price	0.0%
<b>Total listed</b>	<b>2,644</b>		<b>25.2%</b>

Unlisted	RenCap NAV (RONmn)	Methodology	FP NAV (RONmn)	Variation	% of NAV
Hidroelectrica	2,874	Peer comparison & DCF with 15% discount	3,269	-395	27.3%
CN Aeroporturi Bucuresti SA	792	Peer comparison	632	160	7.5%
Electrica Distributie Muntenia Nord SA	203	Fair valuation with 20% discount	254	-51	1.9%
Electrica Distributie Transilvania Nord SA	172	Fair valuation with 20% discount	216	-43	1.6%
Electrica Distributie Transilvania Sud SA	178	Fair valuation with 20% discount	222	-44	1.7%
Electrica Furnizare SA	120	Fair valuation with 20% discount	150	-30	1.1%
Enel Distributie Banat SA	499	Fair valuation with 20% discount	624	-125	4.7%
Enel Distributie Dobrogea SA	321	Fair valuation with 20% discount	401	-80	3.1%
Enel Distributie Muntenia SA	364	Fair valuation with 20% discount	455	-91	3.5%
Enel Energie Muntenia SA	51	Fair valuation with 20% discount	64	-13	0.5%
Enel Energie SA	61	Fair valuation with 20% discount	77	-15	0.6%
Engie Romania SA	357	Fair valuation with 20% discount	446	-89	3.4%
Other unlisted assets	451	Fair valuation with 20% discount	563	-113	4.3%
<b>Total unlisted</b>	<b>6,444</b>				<b>61.3%</b>

Source: Company data, Bloomberg, Renaissance Capital

Figure 11: Fondul NAV summary

Fondul NAV summary	
Cash & receivables	1,422
Total NAV	10,510
Shares outstanding (excluding treasury shares)	9,649
Fair value per share (RON)	1.09
Target closed-end fund discount	10%
<b>RenCap NAV / share (RON)</b>	<b>0.98</b>
Current price (intraday 5 Jan 2017)	0.82
<b>Upside potential</b>	<b>20%</b>

Source: Company data, Bloomberg, Renaissance Capital