

# Company Update

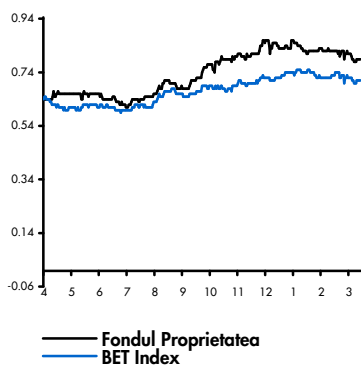
## Fondul Proprietatea

March 26, 2014

Close-end Investment Funds/Romania

### Buy

Price 25.03.14*	0.7915
Price target	0.8700
Volatility risk	medium
Year high/low	0.8605/0.6065
Currency	RON
RON/EUR	4.48
GDR rate	n.a.
Shares outstanding eoy in mn	12.071.9
Market capitalisation (total shares) in EUR mn	2.328.08
Free float	100%
Free float in EUR mn	2.328.08
Avg. daily turnover (12 m) in EUR mn	1.81
Index	BETI
ISIN code	ROFPTAACNOR5
Bloomberg	FP RO
Reuters	FP.BX



Source: Raiffeisen Centrobank

### New playground could be trigger for lower discount

FP's discount to our NAV estimate has narrowed slightly since November, from 30% to 28%. In our view, a new catalyst for its compression to fair levels should come from the recently announced secondary listing on the Specialist Fund Market of London Stock Exchange. The 27 closed end funds listed on this market are trading at an average discount of 5% to their official NAVs. With FP trading at a discount of 35% to the official NAV, we consider that it is reasonable to expect a certain discount compression. On the other hand, FP would be the largest fund on this market, its capitalization being almost 50% of the current combined market cap of the funds listed there. There are not many examples of Romanian dual listed companies to judge the benefits of dual listing. However, we can use OMV Petrom and Romgaz for this exercise, the latter being recently IPO-ed in Bucharest and London. Despite being quite similar companies, OMV Petrom is trading at a discount of 31% to its proxy on 2014e EV/EBITDA multiple and to a discount of 45% in P/E terms. Far from us to believe that the entire discount is explained by Romgaz's dual listing but we see it as an evidence of the benefits of a dual listing on a mature market.

Over the past months when discount compression was modest, there was limited progress on returning cash to shareholders. We consider that the strategy to return cash has not exhausted all of its potential to reduce the discount. FP's corporate actions aimed at this might be implemented sooner from now on, due to lower interference and more dynamism from the FSA after the recent developments.

While there is still room to compress the discount, we do not expect a repeat of the past two years performance. Therefore, NAV appreciation should have a higher importance from now on. The best hope for this should come in our view from OMV Petrom since it is the largest stake (and will remain probably even if FP sells part of it). We believe that the current share price does not reflect the intrinsic value of the company, due to uncertainties related to fiscal regime (which should be clarified this year) and due to overhang risk (which should dissipate after FP's deal).

**Valuation and recommendation:** We assign a value of RON 12.8 bn to the shares portfolio, by marking to market listed shares and by valuing separately the most important unlisted companies (with comparative valuation, simplified DCFs for some or implied transaction valuation). With a total NAV of RON 13.2 bn, we get an NAV per share of RON 1.10, some 4% below our estimate from November. This is explained by lower prices for listed companies, mainly Nuclearelectrica, and especially due to a decreased value assigned to unlisted stakes. We lowered our valuation for power distributors and CE Oltenia while to Hidroelectrica we attached a somewhat higher price tag. We apply a 15% discount to cash and listed shares, and 30% to unlisted stakes to get the TP. Thus, we set a TP of RON 0.87, 3% below the previous one, implying a total return of 16% taking also into account the special dividend of RON 0.05. Thus, we keep our Buy call for the stock.

### Key figures and ratios

	RON mn	EUR mn
Portfolio	12,828.8	2,864.0
- Listed	7,722.4	1,724.0
- Not-Listed	5,106.4	1,140.0
Debt adj. for deferred taxes	22.3	5.0
Cash	439.1	98.0
NAV	13,245.6	2,957.1
NAV per share (RON/EUR)	1.10	0.24
Current price (RON/EUR)	0.792	0.177
Discount to NAV (%)	-28%	-28%
Current fair value	10,489.5	2,341.8
Target price (RON/EUR)	0.87	0.19

Source: Fondul Proprietatea, Raiffeisen Capital&Investment estimates

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\* The indicated price is the last price as available at 6.30 AM on 26.03.14, Source: Reuters/Bloomberg



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## Valuation

For our valuation of FP's NAV we rely on the detailed portfolio composition as of end of December 2013 and we mark to market the listed shares. We run our valuation for the most important unlisted companies. To some unlisted stakes we attach the price tag with the help of a simplified DCF while for the other unlisted shares we apply comparable valuation.

**Our new estimate for NAV per share is RON 1.10, 4% below the previous one**

We attach a value of RON 12.8 bn to the shares portfolio, almost 8% lower compared to our update from November. The divestments are the main reason for this evolution, the most notable being the sale of the whole Transgaz (TGN) stake. Some important listed stakes such as Petrom (SNP) and especially Nuclearelectrica (SNN), are now less valuable due to the decrease in share price. Given a net cash position of RON 417 mn as of end of February, we get a total NAV of RON 13.2 bn. With a lower number of shares after the completion of the second buyback, this implies an NAV per share of RON 1.10, 4% below our estimate from November.

### Fondul Proprietatea valuation table

	RON mn	EUR mn
Portfolio	12,829	2,864
- Listed	7,722	1,724
- Not-Listed	5,106	1,140
Debt adj. for deferred taxes	22	5
Cash	439	98
<b>NAV</b>	<b>13,246</b>	<b>2,957</b>
<b>NAV per share (RON/EUR)</b>	<b>1.10</b>	<b>0.24</b>
Current price (RON/EUR)	0.79	0.18
<b>Discount to NAV (%)</b>	<b>-28%</b>	<b>-28%</b>
Discount for listed shares and cash	15%	15%
Discount for not-listed shares	30%	30%
Value of discounted portfolio	10,139	2,263
Net cash	417	93.0
<b>Current fair value</b>	<b>10,489</b>	<b>2,341.8</b>
<b>Target price (RON/EUR)</b>	<b>0.87</b>	<b>0.19</b>

Source: Raiffeisen Capital&Investment estimates; Prices as of March 26, 2014, 6:30 CET+1AM

**The entire 15% stake in Transgaz was sold at a 10% discount**

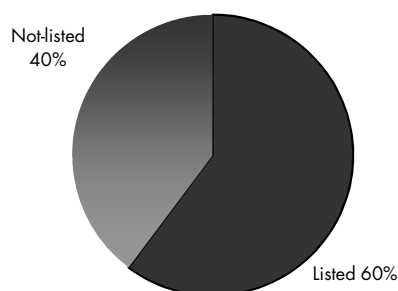
By far the most important change in the structure of FP's portfolio is sale of the whole stake in TGN through a private placement. The deal was done at a discount of around 10% compared to the price from the moment when FP announced its intention to divest. FP has raised RON 303 mn for its 15% stake in the company. In 4Q 13, the fund sold two other small unlisted companies and reduced its stakes in Austrian banks.

Despite this TGN deal, our valuation suggests that the weight of listed shares in total shares portfolio remained almost flat at 60%, as we also attached a lower value to the unlisted companies, mainly to power distributors. SNP remains the undisputed largest stake of FP, and it will probably remain so even if FP materializes its intention to sell a part of its participation in the company. SNP plus the next four big listed companies account for almost 56% of the total shares portfolio. The largest unlisted stake remains Hidroelectrica but as a group the power distributors are the most important with a weight of 17% in total portfolio.

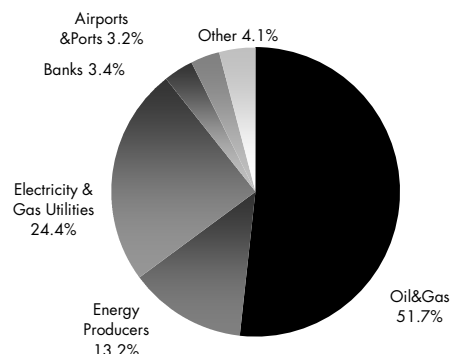
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## Portfolio Structure: Listed vs. Not-Listed



## Portfolio Structure by Sector

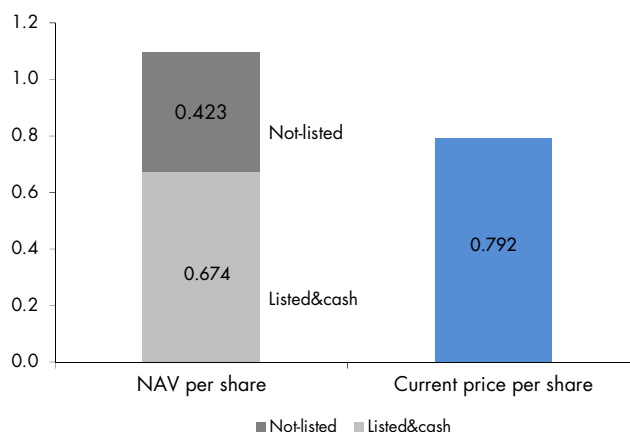


Source: Raiffeisen Capital&Investment estimates

**The market discount for the unlisted stakes is a still excessive 48%**

The market is demanding a significant discount for the unlisted part of FP's portfolio. Assuming a fair discount of 15% for cash and listed shares (of RON 0.674 per share), it would suggest that the market is assigning a value per share of RON 0.219 for the unlisted stakes which implies a discount of 48% for this portion of the portfolio (of RON 0.423 per share). This discount has narrowed slightly from 54% in November and from almost 70% one year ago.

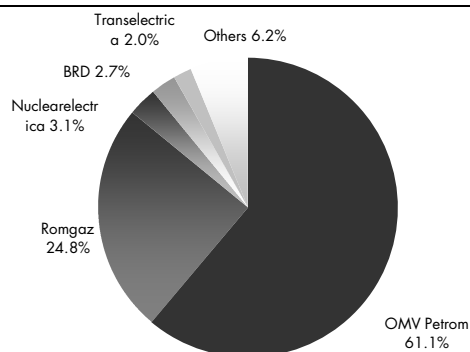
## NAV per share versus price per share



Source: Company, Raiffeisen Capital&Investment estimates

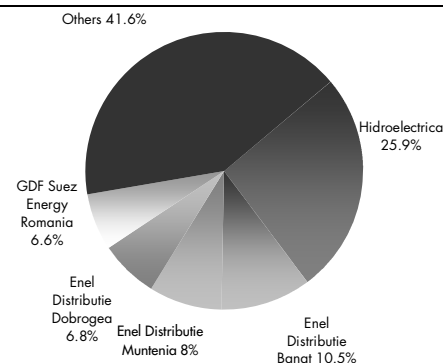
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## Listed Portfolio Structure



Source: Raiffeisen Capital&Investment estimates

## Not-Listed Portfolio Structure



Source: Raiffeisen Capital&Investment estimates

We mark to market listed shares

**Listed companies:** We used the closing prices from March 24 and for the small companies not traded for the past 90 days we apply a 50% discount to the last available price.

### 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%	4,720.0	36.79%
Romgaz	SNG	Oil&Gas Producer	15.0%	1,917.0	14.94%
Nuclearelectrica	SNN	Energy Producer	9.7%	240.5	1.87%
BRD	BRD	Banks	3.6%	210.5	1.64%
Transelectrica	TEL	Energy Transmission	13.5%	153.3	1.19%
Conpet	COTE	Oil&Gas	29.7%	115.7	0.90%
Banca Transilvania	TLV	Banks	2.9%	110.5	0.86%
Alro	ALR	Aluminium Smelter	10.2%	93.3	0.73%
Raiffeisen Bank International	RBI	Banks	0.3%	66.9	0.52%
Erste Group	EBS	Banks	0.1%	42.2	0.33%
Romaero	RORX	Machinery & Engineering	21.0%	18.1	0.14%
Primcom	PRIB	Real Estate	75.5%	17.2	0.13%
Alcom	ALCQ	Retail/Real Estate	71.9%	6.2	0.05%
Oil Terminal	OIL	Oil&Gas	8.5%	5.1	0.04%
Severnav	SEVE	Machinery & Engineering	39.1%	3.0	0.02%
Palace	PACY	Hotels	15.4%	1.3	0.01%
IOR	IORB	Optical and photo production	2.8%	0.8	0.01%
Forsev	FORS	Metallurgy	28.1%	0.3	0.00%
Transilvania Com	TRVC	Real Estate	40.0%	0.2	0.00%
Turdapan	TUSB	Real Estate	44.1%	0.1	0.00%
Mecon	MECP	Metallurgy	12.5%	0.1	0.00%
Comcereal Cluj	COCL	Agriculture	11.4%	0.1	0.00%
Resib	RESI	Real Estate/Hotels	2.9%	0.0	0.00%
Romplumb - in insolventa	ROMR	Lead producer	33.3%	0.0	0.00%
<b>Total</b>				<b>7,722.4</b>	<b>60.2%</b>

Source: Bucharest Stock Exchange, Wiener Stock Exchange; Stock prices as of March 25, 2014, 6:30 CET+1AM

**A lower price tag for the group of the most important companies**

**Not-listed companies:** We usually value independently 23 unlisted companies which account for around 39% of the shares portfolio. This time we used FP's official values for the four companies where Electrica SA is the majority shareholder since Raiffeisen Capital&Investment is part of the syndicate for the company's IPO. We continue to apply simplified DCFs for several companies like Hidroelectrica where we have assigned a slightly higher valuation despite re-entering insolvency (we have more faith that its future CAPEX will make economic sense and we partially provisioned in our previous model for the litigations related to insolvency). But, the cumulative valuation assigned to this group of companies is 8% lower compared to the previous update. This is due to a reduction in the value assigned to CE Oltenia on further weakening of power prices and a jump in CO2 allowances prices but mainly due to a lower valuation for distribution and supply companies. This comes after the transaction through which E.ON has bought out minority

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stakes in E.ON Moldova Distributie and E.ON Energie Romania from Electrica SA. Since for the vast majority of unlisted companies FY 2013 figures are not yet released, we still relied on 2012 multiples to apply comparative valuation. For more details on this, please see our section of the report where we detail the valuation of important unlisted companies.

## 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%	1,321.2	10.3%
CE Oltenia	Energy Producer	Discounted Cash Flow	21.5%	128.7	1.0%
E.ON Moldova Distributie	Energy Distribution	Implied valuation of Electrica SA transaction	22.0%	173.3	1.4%
Electrica Distributie Muntenia Nord	Energy Distribution	FP's official values	22.0%	296.2	2.3%
Electrica Distributie Transilvania Nord	Energy Distribution	FP's official values	22.0%	206.7	1.6%
Electrica Distributie Transilvania Sud	Energy Distribution	FP's official values	22.0%	192.0	1.5%
Enel Distributie Banat	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 40%	24.1%	537.8	4.2%
Enel Distributie Dobrogea	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 40%	24.1%	347.7	2.7%
Enel Distributie Muntenia	Energy Distribution	Avg. EV/EBITDA, P/BV, discounted by 40%	12.0%	436.0	3.4%
Electrica Furnizare (Electrica F. Munt. Nord& Electrica F. Trans. Nord& Electrica F. Tran. S.)	Energy Supply	FP's official values	22.0%	0.0	0.0%
Enel Energie Muntenia	Energy Supply	P/Sales, discounted by 80%	12.0%	132.0	1.0%
Enel Energie	Energy Supply	P/Sales, discounted by 80%	12.0%	131.8	1.0%
E.ON Gaz Distributie	Gas Distribution	Avg. EV/EBITDA, P/BV, discounted by 50%	12.0%	146.2	1.1%
E.ON Energie Romania	Gas Supply	Implied valuation of Electrica SA transaction	13.4%	39.0	0.3%
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	Gas Distribution&Supply	Avg. EV/EBITDA, P/BV, discounted by 50%	12.0%	339.1	2.6%
CN Aeroporturi Bucuresti	Airports	Discounted Cash Flow	20.0%	262.4	2.0%
Aeroportul International Timisoara Traian Vuia	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax, discounted by 25%	20.0%	24.2	0.2%
Aeroportul International Mihail Kogalniceanu	Airports	Avg. PE, P/S, EV/EBITDA, P/Pax, discounted by 25%	20.0%	2.6	0.0%
CN Administratia Porturilor Maritime	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	101.8	0.8%
CN Administratia Porturilor Dunarii Maritime	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	0.0	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	7.8	0.1%
CN Administratia Canalelor Navigabile	Ports	Avg. PE, P/S, EV/EBITDA	20.0%	16.1	0.1%
Posta Romana	Postal Services	P/Sales, discounted by 60%	25.0%	96.0	0.7%
<b>Total</b>				<b>4,938.5</b>	<b>38.5%</b>

Source: Raiffeisen Capital&Investment estimates

## We use FP's valuation for remaining 15 smaller stakes

For the remaining 15 companies, we use the values provided by FP in its official NAV. They have a total weight of 1.3% in total shares portfolio. 60% of their cumulated value comes from Societatea Nationala a Sarii.

## Valuation of 'Other' FP shareholdings, in RON mn

Company	Sector	FP stake	FP stake Value	% of PF Portfolio
Societatea Nationala a Sarii	Salt Production	48.99%	106.3	0.8%
Zirom	Titanium Processing	100.00%	43.5	0.3%
Salubriserv	Waste Collection	17.48%	10.8	0.1%
Plafar	Health Care	48.99%	4.8	0.0%
Comsig	Retail	69.94%	1.6	0.0%
Electroconstructia Elco Cluj	Electric installation services	7.61%	0.5	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%
<b>Total</b>			<b>167.9</b>	<b>1.3%</b>

Source: Fondul Proprietatea, Raiffeisen Capital&Investment estimates

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## **Net cash position of RON 417 mn as of end of February**

Thanks to the TGN divestment, the cash position as of end of February 2014 stood at RON 439 mn while the reported debts were RON 22 mn. We do not compute the deferred tax liabilities any more since a change in Fiscal Code ruled no future tax charge on gains, or relief for losses, on portfolio investments for stakes of at least 10% held for a period of at least one year. Summing up all components, we get a total NAV of RON 13.2 bn which based on the current number of shares translates into a NAV per share of RON 1.10. This implies a discount of 28% based on the current share price, slightly down from a level of 30% in mid-November 2013.

We set our TP as we did before, by applying a set of discounts: 15% for listed shares and cash and 30% for unlisted shares. We see the 15% discount vindicated by the latest big transactions of FP while the release of cash to shareholders is always facing the cumbersome Romanian regulatory and legislative framework.

## **We lower our TP to RON 0.87 but we reiterate our Buy recommendation**

We reach a TP per share of RON 0.87, 3% below the prior one, based on a total fair value of RON 10.5 bn. Our TP suggests an upside of 16% from March 25 closing price, taking also into account the special dividend of RON 0.05. Therefore we maintain our Buy recommendation.

### **Risks:**

- Political risk is the most relevant for an investor in FP shares, given the large weight of companies whose majority shareholder is the Romanian state. 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. Romanian regulatory bodies do not have a good track record in applying the regulatory framework ad litteram.
- Unpredictable fiscal regime, as proven by the recent plans to introduce the 1.5% tax on special constructions.
- The transparency of some portfolio companies has not yet reached acceptable levels.

## **The third buy-back will commence on March 27 and a fourth larger one was recently proposed**

### **Recent developments/update**

**Returning cash to shareholders.** This issue is undoubtedly of extreme importance for FP shareholders since it is at the centre of its strategy to narrow the discount. The slight underperformance of FP share relative to BET over the past months might be explained by the limited progress on this front. FP has completed the second buy-back program of 1,100 mn shares in December, out of which 600 mn shares were bought through a tender offer at an eye watering price of RON 1.0 (only 10% below NAV). A third smaller buy-back of 253 mn shares was approved in November but its launch was delayed as FSA validation of the cancellation of the shares from the first buy-back was needed. After almost two years of pondering, FSA finally validated the cancellation and the third buy-back program will commence on March 27. The manager has proposed a fourth buy-back program of around 991 mn shares which shareholders are asked to approve in April. FP will be able to start this program after the completion of the third one and after FSA will have validated the cancellation of the shares from the second buy-back (in late 2014 in base case scenario). We suspect that given the size of the fourth program the manager might launch another tender offer since it could set the price well above the market price and offer a possibility to large shareholders to exit partially without hitting sentiment toward stock.

## **The special dividend of RON 0.05 will replace the regular dividend this year**

For income shareholders, the manager has proposed a special dividend of RON 0.05 through the decrease of the shares' face value with ex-dividend on April 28. Due to initial high quorum requirements, it was approved at a second EGSM in early February. This type of dividend is more advantageous tax wise, but needs FSA to validate the GSM resolution which approved it.

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## ***FP intends to reduce its equity interest in OMV Petrom to below 15%***

The manager decided not to pay a regular dividend (from 2013 profits) arguing that the RON 0.05 dividend is similar in size with a dividend based on its previous dividend policy. The manager hopes to pay the RON 0.05 in June but if FSA delays the payment it might consider paying a regular dividend.

**Divestments.** The strategy of narrowing the discount through cash returns could not work without portfolio divestments. After getting RON 303 mn for its entire TGN stake in December, FP has confirmed recently that intends to sell a part of its 19% stake in SNP. The manager said that it might decrease its equity interest to below 15%, meaning the sale of at least 4% of SNP. We consider that going for significantly more than 5% is unlikely since the deal size would be too large. According to market rumours Goldman Sachs have been appointed as advisor.

To complete the third buy-back program FP would need some RON 202 bn while for paying the special dividend in June the fund would need RON 600 mn which should be covered mostly by dividends received from portfolio companies. Therefore, with RON 417 mn in cash at end of February, FP would not need to launch in the next months any major divestment (a SNP deal would pay for the fourth buy-back program).

In our opinion FP should have a more transparent strategy regarding divestments or at least regarding its medium term cash needs. As investors are trying to guess which listed company will be the next on the divestments list, shares' performance is suffering due to overhang risk which ends up hurting the performance of its NAV.

## ***The secondary listing to take place on Specialist Fund Market of LSE***

**Secondary listing.** The fund has recently announced that it chose the venue for the secondary listing. It will be an administrative listing on the Specialist Fund Market of London Stock Exchange. Jefferies has been appointed as advisor. The fungible trading between London and Bucharest is expected to be achieved via the use of Depositary Interests ("DIs") in the UK. In this regard, a UK-based registrar and depository would bridge the London and Bucharest markets by holding shares through a Bucharest-based custodian via Clearstream and issuing DIs in London. Theoretically, such a listing would need less involvement from Romanian FSA. The manager intends to attract new investors via placements of shares facilitated by existing shareholders at the moment or after the moment of the listing.

As suggested by its name, the Specialist Fund Market is dedicated to specialist investment funds looking for institutional and highly knowledgeable investors. It is a relatively small market with only 27 close end funds listed whose investment scopes range from distressed debt to real estate. The average market cap of these funds is GBP 125 mn while total market cap is GBP 3.9 bn. With its capitalization of GBP 1.9 bn, FP will be by far the biggest fund on this market. The funds listed are trading at an average discount of 5% to their official NAV, with a range spanning from a discount of 50% to a premium of 17%. As FP is trading at a discount of 35% to its official NAV, we consider that it is realistic to expect a certain contraction of the discount, probably in the region of 10%.

## ***Shareholders will have to approve the new management contract with Franklin Templeton***

**The new mandate of Franklin Templeton.** The shareholders will have to approve in April the new management contract with Franklin Templeton which has been negotiated with the Board of Nominees. As Elliot Associates proposed, the new mandate will be for only two years, starting with September 2014. Moreover, the two very tough performance criteria proposed also by Elliot and validated by shareholders, will be included in the Investment Policy. These are: i) the discount to official NAV should be maximum 15% in at least two thirds of the trading days and ii) the adjusted NAV per share should be higher compared to end of September 2013 value. These two are considered performance objectives and the manager's performance will be reviewed

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yearly but will not be limited to them. Shareholders will have the possibility to vote every year on continuation or not of Franklin Templeton's mandate. To compensate the manager for the tougher contract, the regular management fee will be increased to 60 bps from 47.9 bps and the manager will be entitled to a distribution fee of 200 bps (100 bps starting November 2015), computed on total non-dividend distributions to shareholders.

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## Electricity Market

**The power sector accounts for 38% of the shares portfolio**

We assign a value of RON 4.9 bn to FP's stakes from this sector, 3% below the value from the previous update. This is due mainly to a drop in SNN's share price on the stock exchange and lower values attached to power distributors. We actually raised a bit our fair value for Hidroelectrica despite its re-entry into insolvency.

### Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
Hidroelectrica	Energy Producer	6,625.9	19.9%	1,321.2	10.3%
Nuclearelectrica	Energy Producer	2,474.1	9.7%	240.5	1.9%
CE Oltenia	Energy Producer	597.7	21.5%	128.7	1.0%
Transelectrica	Energy Transmission	1,136.2	13.5%	153.3	1.2%
E.ON Moldova Distributie	Energy Distribution	787.8	22.0%	173.3	1.4%
Electrica Distributie Muntenia Nord	Energy Distribution	1,410.1	22.0%	310.1	2.4%
Electrica Distributie Transilvania Nord	Energy Distribution	1,044.6	22.0%	229.8	1.8%
Electrica Distributie Transilvania Sud	Energy Distribution	1,066.7	22.0%	234.6	1.8%
Enel Distributie Banat	Energy Distribution	2,229.6	24.1%	537.8	4.2%
Enel Distributie Dobrogea	Energy Distribution	1,443.3	24.1%	347.7	2.7%
Enel Distributie Muntenia	Energy Distribution	3,633.2	12.0%	436.0	3.4%
Electrica Furnizare (Electrica F. Munt. Nord & Electrica F. Trans. Nord & Electrica F. Tran. S.)	Energy Supply	2,360.1	22.0%	519.2	4.0%
Enel Energie Muntenia	Energy Supply	1,099.6	12.0%	132.0	1.0%
Enel Energie	Energy Supply	1,098.3	12.0%	131.8	1.0%
<b>Total</b>				<b>4,895.8</b>	<b>38.2%</b>

Source: Raiffeisen Capital & Investment estimates

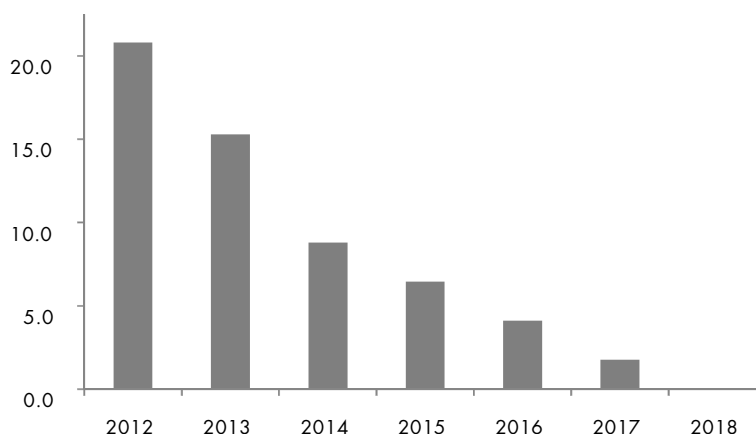
### Power sector update

The liberalization of the Romanian power market has continued according to the calendar and we expect to continue without any delays as public opinion against it is muted due to a small premium between the prices on competitive and regulated markets.

**The opposition to the power market liberalization is negligible**

In 2012, the regulated market represented 20.8 TWh, decreased to 15.3 TWh in 2013 while for 2014 contracted further to 8.8 TWh and now consists only of households, as the liberalization for non-households has been completed. In 2014 the regulated market would account for around 20% of Romania's final consumption down from around 44% in 2011.

### Evolution of the regulated market (TWh)



Source: ANRE, Raiffeisen Capital & Investment estimates

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According to the data published by Statistics Institute, Romania's 2013 gross power production decreased by 1.7% yoy to 55.7 TWh. Final consumption plunged 6.0% yoy to 43.2 TWh, with industrials' consumption dropping 7.3% yoy while households consumption decreased by 1.3% yoy. Exports offered some help, especially in 2H 13, as they doubled yoy to 2.5 TWh.

## Romanian power production & consumption

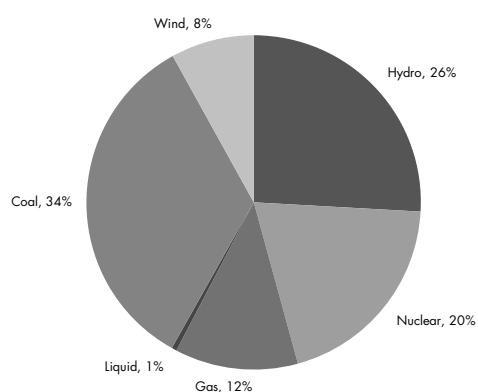
TWh	2006	2007	2008	2009	2010	2011	2012	2013
Production	61.6	60.5	64.0	56.6	59.1	60.4	56.7	55.7
Power delivered	56.8	55.7	59.0	52.4	54.9	55.6	52.1	51.4
Imports	1.0	1.3	0.9	0.7	1.0	1.1	1.4	0.4
Exports	5.2	3.4	5.4	3.2	3.9	3.0	1.2	2.5
Domestic consumption	52.5	53.7	54.6	49.9	52.0	53.8	52.3	49.3
Final consumption	43.9	44.8	45.8	41.6	43.3	45.8	45.9	43.2

Source: ANRE, Statistics Institute, Raiffeisen Capital & Investment estimates

**The weight of renewables in the generation mix doubled in 2013**

Romania's generation mix for 2013 was a balanced one, but renewables have grown in importance to a weight of 8%, almost double compared to previous year.

## Romania's generation mix (2013)



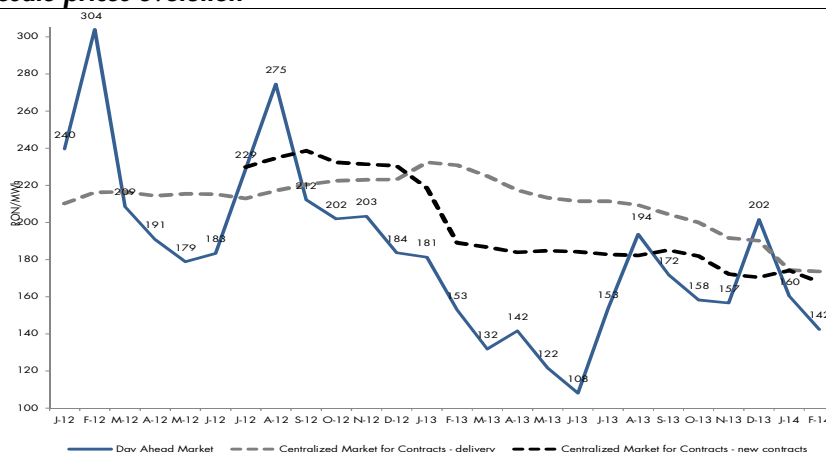
Source: ANRE, Statistics Institute

Over past the one and a half years Romanian conventional power generators had to cope with a steep downward trend in wholesale prices, due to the combined effect of a surge in renewables installed capacity and a decrease in power demand.

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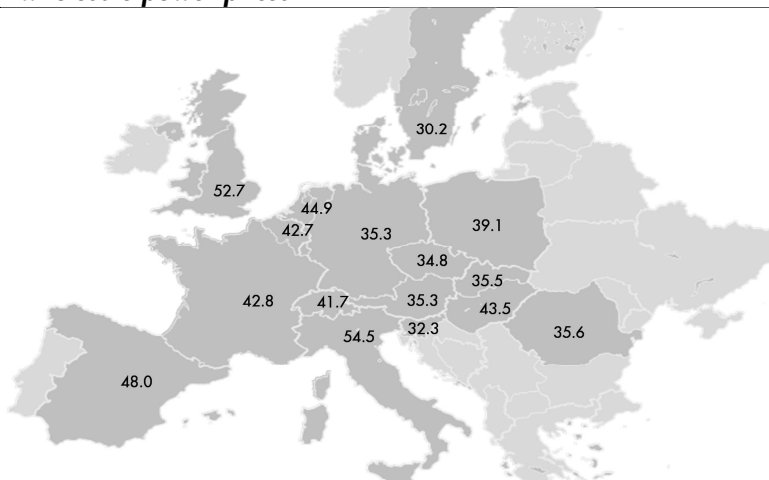
## Wholesale prices evolution



Source: OPCOM

Several other western and CEE countries are facing the same issue of weak power prices as they struggle with overcapacity, generous renewables subsidies, sluggish economic activity and oversupplied coal markets which compensate even the recent jump of prices for CO2 emission allowances.

## European wholesale power prices



Source: Bloomberg, Raiffeisen Centrobank, prices as of March 20, 2014

We reiterate our view that Romanian prices evolution will depend mostly on domestic conditions. The interconnection capacity with neighbouring countries is limited and there should be an important difference between prices so that power trade could be profitable.

**The outlook for Romanian wholesale power prices is not too upbeat in the medium run**

Our view on Romanian power prices is that after the significant drop in prices in 2013 and 2014, we should witness a modest upturn in the medium run. The rebound in power domestic demand should be limited, below real GDP growth rate, as Romania has one of the most energy intensive economies in EU. There is also enough spare capacity to cope with a modest rise in demand since the government will not address this issue too soon and capacity payments are not yet on the agenda. Thus, we see Romanian wholesale prices fluctuating around 40 EUR/MWh.

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## Electricity price assumptions

	2012	2013	2014e	2015e	2016e	2017e	2018e	2019e
German front year base load in (EUR/MWh)	49.3	39.3	36.1	39.5	42.5	43.3	45.0	46.9
Polish front year base load in (PLN/MWh)	184.8	160.0	164.9	170.3	174.9	179.6	188.2	197.2
Romanian front year based load (RON/MWh*)	217.8	209.5	176.6	181.7	187.5	193.4	198.2	204.6

Source: Raiffeisen Centrobank estimates

\*Romanian wholesale prices include also an injection tariff of 10 RON/MWh

## Power Generators

We have now a lower valuation for the three power generators, mainly due to the drop in SNN share price. A reduced valuation for CE Oltenia was mitigated by our new higher value for Hidroelectrica.

## Summary of Key Figures for Power Generators

Producer	Effective capacity (MW)	EBITDA margin 2013e	FV derived from DCF (RON mn)	DCF Valuation EUR mn/MWh
Hidroelectrica	6,180	61%	6,626	0.24
Nuclearelectrica*	1,414	44%	2,474	0.39
CE Oltenia	3,570	19%	598	0.04

Source: Raiffeisen Capital&Investment estimates

\*listed

### Hidroelectrica re-entered insolvency on February 25

Unexpectedly, on February 25, Hidroelectrica re-entered insolvency procedure, as the Court of Appeal has approved an appeal against the closing of the insolvency procedure. The appeal had been submitted by several traders whose contracts have been terminated by the judicial administrator.

There were actually several litigations which the Court of Appeal settled on February 25 which could be divided in three main categories: i) appeals against the closing of the insolvency procedure, ii) appeals against the opening of the insolvency procedure and iii) appeals against the termination of the bilateral contracts with the "smart guys" or against creditors' table.

### The Court of Appeal has admitted the appeal against the closing of the insolvency procedure

The Court of Appeal has admitted the appeals against the exit from insolvency, cancelled the decision of a previous court which had approved it and sent the case to first degree court. The Court of Appeal has also approved the appeals against the opening of the insolvency procedure and the case was sent to the syndic judge to be judged upon merits. Moreover, the Court of Appeal has approved one appeal against the termination of bilateral contracts, sending the case back to the first degree court (there are other second appeals against the termination of these contracts). And finally, the Court of Appeal has admitted five appeals against the creditors' table (claims which were not included as liabilities of the company), sending the case back to the syndic judge for settlements on the merits (the total amount in dispute being EUR 150 mn). There are other pending second appeals against creditors' table for a total amount of EUR 200 mn.

### Mr. Borza was reappointed judicial administrator

Mr. Borza who was the judicial administrator when Hidroelectrica entered insolvency procedure for the first time, has been reappointed while Mr. Dumitrascu, the head of the privatization agency, has been named special administrator. We remind that Mr. Borza initiated a vast restructuring which led to a notable improvement of the company's profitability.

### The new procedure might last for 7 to 12 months

According to the judicial administrator, Hidroelectrica might stay in insolvency for a period of 7 to 12 months. This means that the IPO of the company which was planned for mid-2014, will be delayed until 2015. The company actually finds itself in a similar situation to the one from June 2013. From an operating point of view, we consider that re-entering insolvency will not have any significant impact. On the contrary, given Mr. Borza track record and his recent statements, we

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have confidence that the company will try to optimize the costs base and will prioritize the CAPEX with the highest return.

**The claims of traders have low chances of success as they originated after the opening of the insolvency**

Mr. Borza still considers that energy traders have very low chances to win these litigations. His argument is that they do not have the capacity to be considered as creditors of Hidroelectrica since their receivables have appeared after the opening of the insolvency procedure. The traders are actually asking to be compensated for the unrealized profits due to the cancellation of their bilateral contracts at prices below the market level. Mr. Borza has also hinted that Hidroelectrica might go on the attack, by launching a criminal complaint against the "smart guys" and asking for damages of up to EUR 1 bn, representing losses incurred by the company for the period when these bilateral contracts have been in force.

The company has not published its final figures for 2013, but the management has revealed some key figures and given its 1H 13 results, we could have a pretty good image about FY 2013 performance. Improved hydrological conditions meant that its gross output jumped 23% yoy to 14.8 TWh, but still a long way from a normal production of 17.3 TWh. Average price was probably 172 RON/MWh, up 15% yoy due to the jump in regulated price. Coupled with the costs cutting measures taken during insolvency, EBITDA margin most likely reached a whopping 61%. Preliminary pre-tax profit was revealed at RON 910 mn, implying a net profit of around RON 735 mn.

**Insolvency should not have any impact from operating point of view but 2014 will be tougher**

Unfortunately, 2014 should be a more difficult year, with lower prices on both regulated and competitive market and higher taxes. ANRE has decided that only two conventional power generators will deliver on the regulated market: Hidroelectrica and SNN. The quantity to be delivered by Hidroelectrica was increased to 5.3 TWh (or around 32% of its production) while the price was decreased by 9% yoy to 114 RON/MWh. FP and Hidroelectrica have complained at Competition Council about the decrease, saying that it did not cover the costs. In its defence, ANRE could argue that Hidroelectrica's cost base is lower now after the restructuring undertaken and due to its high operating leverage, Hidroelectrica's unitary costs should decrease once the production returns to normality. On the competitive market we expect for 2014 a price drop of 16% to 159 RON/MWh which would imply an average price of 144 RON/MWh. Accounting also for the new tax on special constructions, estimated at RON 160 mn and provisioning for the insolvency claims, we expect the company's EBITDA margin to shrink to 37% and net profit to nose dive to RON 76 mn. Going forward we see average price going up at an average of 4.6% through 2018, mainly due to the diminishing regulated market. In the medium term, we expect EBITDA margin to hover around 55% and a normalized EBITDA of around RON 1.9 bn.

## Hidroelectrica Business Model Assumptions

		2012	2013f	2014e	2015e	2016e	2017e	2018e
Revenues	RON mn	2418.4	3186.2	2954.7	3318.7	3460.3	3605.0	3755.7
EBITDA	RON mn	905.6	1930.9	1097.1	1806.5	1899.5	2006.4	2062.8
EBITDA margin	%	37%	61%	37%	54%	55%	56%	55%
Gross power generated	TWh	12.1	14.8	16.0	17.3	17.4	17.4	17.5
Power sold	TWh	12.8	15.2	16.3	17.7	17.8	17.8	17.9
% of power sold on regulated market	%	33%	26%	32%	21%	14%	5%	0%
Avg. selling price of power	RON/MWh	150.3	172.4	144.3	152.1	158.2	165.8	172.9
Avg. price for acquired power	RON/MWh	94.2	91.6	79.7	81.3	83.7	86.2	175.1
Repair&maintenance works	RON/MWh	23.8	14.1	13.3	12.8	13.5	14.1	14.4
Salaries	RON/MWh	34.7	23.1	20.3	19.3	20.0	20.9	21.4

Source: Hidroelectrica, Raiffeisen Capital&Investment estimates

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## We have raised our valuation on lower CAPEX assumptions

We value Hidroelectrica with a simplified DCF which is pointing to a fair equity value of RON 6,626 mn, some 18% higher than our previous valuation from November 2013. The more downbeat price estimates were outweighed by the cut in CAPEX estimates. Previously, we were afraid that after insolvency Hidroelectrica will return to its old ways of high CAPEX without a material impact on effective capacity. We are now more upbeat on this issue, given that the Supervisory Board which was appointed in autumn could be characterized by a relatively high degree of independence. Moreover, with Mr. Borza now at the helm of the company, we are more confident that investments will be prioritized based on their expected return. To be on the safe side we already included in our model that Hidroelectrica would have pay some of the damages claimed by the "smart guys". In our previous model we included the payment of RON 315 mn in 2014 but we have raised it now to RON 415 mn, given the larger estimate for the total amount claimed by the traders.

### Hidroelectrica DCF Valuation

	2014e	2015e	2016e	2017e	2018e
EBIT*(1-T)	129.4	711.4	773.9	847.6	883.0
Depreciation	943.0	959.6	978.2	997.3	1,011.6
Change in WC	-195.0	-155.0	-135.0	-130.0	-135.0
CAPEX	-582.0	-651.6	-668.7	-673.7	-983.0
FCFF	295.4	864.4	948.4	1,041.2	776.6
WACC	9.5%	10.0%	9.9%	10.0%	10.1%
Discounted FCFF	276.0	734.3	732.8	731.5	495.5
PV of FCFF	2,970.1				
Terminal growth rate	0.0%				
TV	7,770.0				
PV of TV	4,957.4				
Net debt	1,301.6				
<b>Fair Value</b>	<b>6,625.9</b>				

Source: Raiffeisen Capital&Investment estimates

## Large drop in power output in 2013

### CE Oltenia

The company is the most troubled power generator from FP's portfolio and also the least transparent. In 2013 it suffered due to the increased capacity of renewables and improving hydrological conditions. Its gross power output has apparently reached 12.2 TWh which would represent a drop of around 29% yoy compared to the (annualized) production of 2012. We consider that its average price for 2013 was around 210 RON/MWh, down 3.2% yoy, despite an increase in regulated price. The company's statements suggest that preliminary 2013 EBIT stood at RON 157 mn but we consider that the final figure might be lower as apparently not all provisions have been booked and the company did not buy all the needed CO2 certificates. CE Oltenia reported also a net financial gain for 2013 of RON 143 mn, due to a JPY denominated loan.

## With weak power prices and higher CO2 certificates prices, 2014 seems bleak

For 2014, despite our expectations for a higher output supported by exports, we see a further worsening of the company's financial standing. CE Oltenia was not selected to sell on the regulated market and therefore it will feel the full blunt of the drop in prices on the competitive market. The recent surge in CO2 certificates prices will amplify the pain. Starting 2015, we see a faster recovery of prices for CE Oltenia than for other companies but despite some measures to improve its efficiency, like the spin-off of several mining assets, we consider that it will remain loss making through 2017.

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## CE Oltenia Business Model Assumptions

		2012 (7m)	2013f	2014e	2015e	2016e	2017e	2018e
Sales	RON mn	2,237	3,021	2,805	3,021	3,297	3,607	3,941
EBITDA	RON mn	410	580	175	333	567	840	1,108
EBITDA margin	%	18.3%	19.2%	6.2%	11.0%	17.2%	23.3%	28.1%
Electricity								
Gross Power Production	GWh	10,070	12,260	13,008	13,431	14,136	14,949	15,846
Avg. Selling Price	RON/MWh	216.9	209.9	181.0	188.8	197.8	207.2	216.5
Lignite								
Lignite production (out of which)	'000 tons	17,300	22,513	22,986	23,570	24,669	25,881	27,211
- Own consumption		13,900	16,923	17,955	18,539	19,512	20,634	21,872
CO2 Certificates								
CO2 Certificates Allocated	mn	14.6	0.0	0.0	0.0	0.0	0.0	0.0
CO2 Emissions*	mn tons	16.4	11.5	11.8	12.1	12.6	13.2	13.9
CO2 Certificate Price	EUR	5.1	4.2	6.4	7.0	7.0	7.0	7.4
Specific Costs per MWh								
Lignite	RON/MWh	93.4	100.2	103.9	106.3	108.6	110.2	111.6
CO2 Certificates	RON/MWh	5.6	16.3	27.4	28.1	27.6	27.4	28.6
Personnel	RON/MWh	67.5	77.3	66.9	64.7	61.5	58.3	55.1

Source: CE Oltenia, Raiffeisen Capital&Investments

\*Emissions for the whole 2012

**We reduced the fair value to RON 598 mn**

We continue to value the company with a simplified DCF which suggests a fair value of the company's equity of RON 598 mn, some 38% below our previous estimate. The main drivers of this decrease are the lower estimates for power prices and the higher projections for CO2 certificates. Once again, we emphasize the limitations of our valuation given the reduced visibility into the company's operations.

## CE Oltenia DCF Valuation

	2014e	2015e	2016e	2017e	2018e
EBIT*(1-T)	-415.2	-276.8	-60.2	195.8	375.4
Depreciation	589.9	609.7	627.2	643.9	661.2
Change in WC	-25.0	-45.0	-50.0	-65.0	-85.0
CAPEX	-610.0	-595.0	-525.0	-500.0	-520.0
FCFF	-460.3	-307.1	-8.0	274.7	431.6
WACC	9.5%	10.0%	9.9%	10.0%	10.1%
Discounted FCFF	-430.0	-260.9	-6.2	193.0	275.4
PV of FCFF	-228.7				
Terminal growth rate	0.0%				
Terminal WACC	10.0%				
TV	4,319				
PV of TV	2,755				
Net debt	1,929				
<b>Fair Value</b>	<b>598</b>				

Source: Raiffeisen Capital&Investment estimates

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## Power Supply and Distribution

### Summary of Key Figures for Distribution Companies

RON mn	Qty distr 2012 TWh	2012 EBITDA	2012 EBITDA margin	2012 BV	Fair Value Estimate
E.ON Electrica Moldova Distributie	4.7	212.8	32%	1,893.7	787.8
Electrica Muntenia Nord Distributie	6.3	182.5	25%	1,336.8	1,347.0
Electrica Transilvania Nord Distributie	4.6	180.2	32%	912.2	939.5
Electrica Transilvania Sud Distributie	5.4	176.1	28%	966.8	873.1
ENEL Distributie Banat	3.9	292.4	48%	2,013.5	2,229.6
ENEL Distributie Dobrogea	3.6	189.7	39%	1,345.6	1,443.3
ENEL Distributie Muntenia	6.2	357.9	41%	3,618.4	3,633.2

Source: ISI Emerging Markets, ANRE, Raiffeisen Capital&Investment estimates

### Summary of Key Figures for Supply Companies

RON mn	Qty supplied 2012 TWh	2012 Sales	2012 EBITDA	Fair value estimate
Electrica Furnizare	9.3	4441.4	108.2	0.0
ENEL Energie	3.9	2066.9	-294.1	1,098.3
ENEL Energie Muntenia	3.9	2069.4	-59.5	1,099.6

Source: Source: ISI Emerging Markets, ANRE, Raiffeisen Capital&Investment estimates

**The rate of return for the third regulatory period is 8.5%**

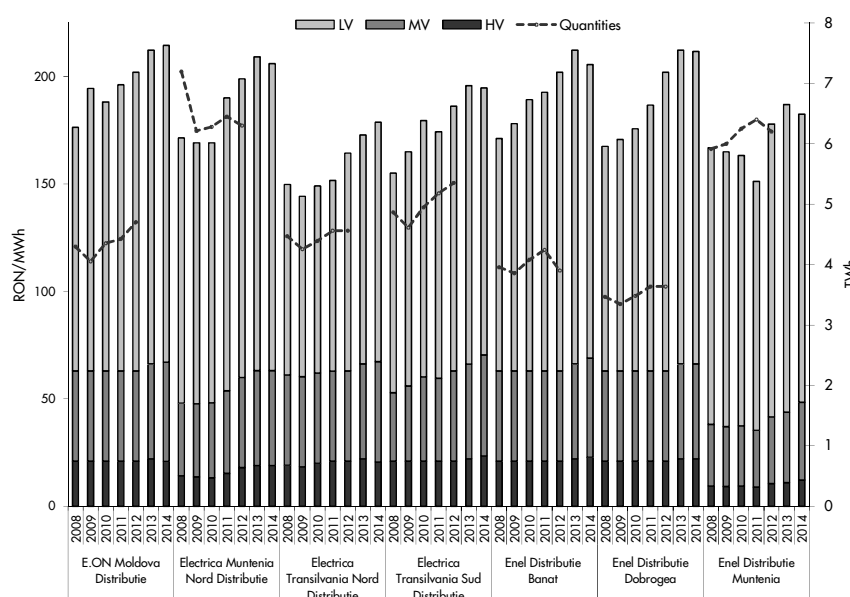
### Distribution

The regulator has decided in late 2013 that the rate of return (on assets above the agreed costs) for the third regulatory period of 2014-2018 will be 8.52% for all distribution companies. For 2013 which was an intermediary period this rate was also 8.52% while for the second period it was 7% for state owned companies and 10% for private companies. During this third regulatory period distribution companies could earn an extra 0.5% if they cut technological losses by more than 1% above the agreed limits.

**For 2014 ANRE cut the low voltage tariffs and increased the medium and high voltage tariffs**

In general, for 2014 the regulator has cut the low voltage tariffs and increased the medium and high voltages tariffs. The overall impact has been flat to slightly lower tariffs for distribution companies from FP's portfolio.

### Tariffs and quantities distributed



Source: ANRE

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## FP intends to take advantage of Electrica SA's IPO to monetize its stakes

There has been no progress regarding FP's intention to divest its minority stakes in the power and gas distribution and supply companies. Most recently, the manager said that the fund would try to take advantage of the Electrica SA's IPO to monetize its stakes in Electrica Muntenia Nord Distributie, Electrica Transilvania Sud Distributie, Electrica Transilvania Nord Distributie and Electrica Furnizare (Electrica SA is the holding company through which the state controls these companies). FP is hoping that it might swap its shares in the four companies for shares in Electrica SA or that Electrica SA would use some of the proceeds from the IPO to buy it out.

### 2012 Financial data

RON mn	Turnover	yoy	EBITDA	yoy	Net profit	BV	Qty distr TWh	yoy
E.ON Electrica Moldova Distributie	665.6	5%	212.8	23%	71.3	1,893.7	4.7	6%
Electrica Muntenia Nord Distributie	720.2	5%	182.5	29%	87.1	1,336.8	6.3	-2%
Electrica Transilvania Nord Distributie	571.1	7%	180.2	50%	53.1	912.2	4.6	0%
Electrica Transilvania Sud Distributie	632.8	6%	176.1	64%	45.8	966.8	5.4	3%
ENEL Distributie Banat	603.2	3%	292.4	-1%	167.2	2,013.5	3.9	-8%
ENEL Distributie Dobrogea	480.3	5%	189.7	11%	94.5	1,345.6	3.6	0%
ENEL Distributie Muntenia	869.9	23%	357.9	150%	206.3	3,618.4	6.2	-3%

Source: ISI Emerging Markets, ANRE, Raiffeisen Capital&Investment

### Valuation

Since Raiffeisen Capital&Investment is part of the syndicate managing the IPO of Electrica SA, we prefer to use FP's official valuations for the four companies where Electrica SA is the majority shareholder.

## E.ON has exercised its call option to buy out a stake in E.ON Moldova Distributie from Electrica SA

For E.ON Moldova Distributie we will use the implied valuation by the recent transaction through which Electrica SA has sold a 17% stake in the distribution company for an amount of EUR 30 mn (together with a stake of 2.4% in E.ON Energie Romania for EUR 1.5 mn). E.ON has exercised its call option to buy out these stakes and the transaction was completed after more than two years of legal disputes at the Arbitrage Court of Paris. The fact that it was a call option might explain the depressed valuation of the E.ON Moldova Distributie transaction: a 2012 EV/EBITDA of 3.25x and a 2012 P/BV of 0.4x. Despite these quite low multiples we decided to be on the safe side and to use for the E.ON Moldova Distribution the implied valuation of the transaction.

For the distribution companies part of Enel group we continue to value them using peers' multiples. Since they have not published their 2013 figures we continue to rely on the 2012 multiples. To derive the fair value we averaged the valuation implied by P/B and EV/EBITDA multiples to whom we apply a 40% discount. The average EV/2012 EBITDA of our peer group companies is 8.1x and the P/2012 BV stands at 2.2x. All in all, we have now a lower amount assigned to the distribution portion of the portfolio.

### Valuation of power distributors

RON mn	Fair value derived from EV/EBITDA	Fair value derived from P/B	Multiples based avg. value discounted by 40%	FP's official fair values	Fair value implied by E.ON/Electrica deal	Fair value used
E.ON Electrica Moldova Distributie	1,824	4,188	1,803	1,570	788	788
Electrica Muntenia Nord Distributie	n.a.	n.a.	n.a.	1,347	n.a.	1,347
Electrica Transilvania Nord Distributie	n.a.	n.a.	n.a.	940	n.a.	940
Electrica Transilvania Sud Distributie	n.a.	n.a.	n.a.	873	n.a.	873
ENEL Distributie Banat	2,979	4,452	2,230	2,377	1,197	2,230
ENEL Distributie Dobrogea	1,836	2,976	1,443	1,574	736	1,443
ENEL Distributie Muntenia	4,109	8,002	3,633	3,942	1,936	3,633

Source: Company data, Raiffeisen Capital&Investment

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## Supply

As mentioned above, we are in a blackout period regarding Electrica Furnizare due to Electrica SA's IPO.

## 2012 Financial Data

RON mn	Turnover	yoy	EBITDA	yoy	Net profit	BV	Qty supplied TWh	yoy
Electrica Furnizare	4,441.4	n.m.	108.2	n.m.	84.5	166.1	9.3	-8%
ENEL Energie	2,066.9	9%	-294.1	n.m.	-244.2	452.4	3.9	-16%
ENEL Energie Muntenia	2,069.4	12%	-59.5	n.m.	-39.6	382.3	3.9	-5%

Source: ISI Emerging Markets, ANRE

\*EBITDA and net profit adjusted for the non-recurrent gains from provisions reversal

## Valuation

The price tag we attach to Electrica Furnizare is FP's official valuation. For the other two power suppliers we continue to use a valuation based on multiples. We use for valuation purposes the P/2012 Sales multiple of a utilities peer group which stands at 2.7x. To the implied values we add an 80% discount to take into account the depressed profitability of our supply companies. We now use the same peer group as for the distribution companies which carry some hefty multiples, being made up of much more profitable European distribution and transport utilities.

## Valuation of power suppliers

RON mn	Fair value derived from P/S	FP's official fair values	Fair value used
Electrica Furnizare	n.a.	0	0
ENEL Energie	1,098	452	1,098
ENEL Energie Muntenia	1,100	382	1,100

Source: Raiffeisen Capital&Investment estimates

**We use now the same peer group as for the power distributors**

## Oil & Gas Market

This sector remains the most important for FP's valuation and comprises mostly listed companies thanks to the heavy weight oil&gas producers SNP and SNG.

### Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
OMV Petrom	Oil&Gas Producer	24,855.4	19.0%	4,720.0	36.8%
Romgaz	Oil&Gas Producer	12,788.3	15.0%	1,917.0	14.9%
E.ON Gaz Distributie	Gas Distribution	1,218.2	12.0%	146.2	1.1%
E.ON Energie Romania	Gas Supply	291.1	13.4%	39.0	0.3%
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	Gas Distribution&Supply	2,825.8	12.0%	339.1	2.6%
<b>Total</b>				<b>7,161.3</b>	<b>55.8%</b>

Source: Companies, Raiffeisen Capital&Investment estimates

### Gas Distribution and Supply

We remind that FP is a minority shareholder in GDF Suez Energy Romania, a gas supplier, which fully owns and consolidates Distrigaz Sud Retele, a distributor. On the other hand, FP is a minority shareholder in both the supply company, E.ON Energie Romania and the distributor, E.ON Gaz Distributie. The E.ON group controls the northern part of the country while GDF group enjoys the same monopolistic position in the south of the country.

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

### 2012 Financial Figures

RON mn	Turnover	yoy	EBITDA	Net profit	BV
Distrigaz Sud Retele	1,026	-7%	104	109	186
GDF Suez Energy Romania	4,047	-1%	501	353	3,245
E.ON Gaz Distributie	744	-7%	207	73	1,472
E.ON Energie Romania	5,257	23%	-4	-33	486

Source: ISI Emerging Markets

### Valuation

As mentioned before, E.ON group has exercised its call option to buy out a stake of 2.4% in E.ON Energie Romania from Electrica SA for an amount of EUR 1.5 mn. The presence of Electrica SA in the shareholding of E.ON Energie Romania is explained by the fact that this company was formed to take over both the gas and power supply businesses of E.ON in Romania. The multiples of the transaction also seemed depressed, with a P/2012 Sales of 0.1x and a P/2012 BV of 0.6x, explained partially by the loss making status of the company.

To be on the safe side, we used the implied transaction valuation for E.ON Energie Romania. For the other companies we apply the same methodology based on multiples. We compute an average implied fair value based on our peer group of utilities and to get the final fair values we add a 50% discount to account for the peers' superior profitability and the quite elevated regulatory risk in Romania.

## Valuation Gas Distribution and Supply

RON mn	Fair value derived from EV/EBITDA	Fair value derived from P/B	Multiples based avg. value discounted by 50%	Fair value implied by E.ON/Electrica deal	Fair value used
E.On Gaz Distributie	1617	3256	1218	n.a.	1218
E.On Energie Romania	n.m.	1075	537	291	291
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	4127	7176	2826	n.a.	2826

Source: Raiffeisen Capital&Investment estimates

## Transportation Sector

CN Aeroporturi Bucuresti, the most important stake from this sector, is valued with a simplified DCF while for the rest we continue to apply comparative valuation. We refreshed the peers' multiples for these companies but given the low visibility we had to rely on 2012 figures.

## Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
CN Aeroporturi Bucuresti	Airports	1,311.9	20.0%	262.4	2.0%
Aeroportul International Timisoara Traian Vuia	Airports	121.1	20.0%	24.2	0.2%
Aeroportul International Mihail Kogalniceanu	Airports	13.0	20.0%	2.6	0.0%
CN Administratia Porturilor Maritime	Ports	509.1	20.0%	101.8	0.8%
CN Administratia Porturilor Dunarii Maritime	Ports	0.0	20.0%	0.0	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	38.8	20.0%	7.8	0.1%
CN Administratia Canalelor Navigabile	Ports	80.7	20.0%	16.1	0.1%
<b>Total</b>				<b>414.9</b>	<b>3.2%</b>

Source: Raiffeisen Capital&Investment estimates

**Number of passengers increased by 1.35% in 2013**

## CN Aeroporturi Bucuresti

The company's number of passengers for 2013 stood at 7.65 mn, increasing 1.35% yoy, with a clear acceleration in 2H 13 compared to the first part of the year. The FY 2013 sales jumped 10% yoy to RON 613 mn, probably helped also by new revenues after the important investments from the past three years. Preliminary pre-tax profit was announced by the company at RON 78 mn, up 15% yoy.

## CN Aeroporturi Bucuresti DCF Assumptions

		2012	2013f	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Growth in pax	%	1.3%	1.3%	2.3%	3.2%	3.0%	3.0%	3.0%	2.9%	2.8%
Growth revenues per pax	%	10.9%	8.7%	2.7%	2.9%	3.0%	2.7%	2.5%	2.5%	2.5%
Staff expenses growth rate	%	15.8%	10.5%	5.9%	4.5%	5.0%	5.0%	4.8%	4.8%	5.0%
Other expenses to sales ratio	%	31.8%	32.3%	33.3%	33.3%	34.4%	34.7%	34.7%	34.7%	34.7%
CAPEX	RON mn	299	290	210	205	125	125	130	130	130

Source: CN Aeroporturi Bucuresti, Raiffeisen Capital&Investment estimates

**We attach a fair value of RON 1,312 mn to the company**

We fine tuned our DCF model and we get a fair value for the company of RON 1,312 mn, up 2% compared to our previous update. Our estimate for passengers' growth remained almost unchanged at a 2013-2020 CAGR of 2.9% and we see EBITDA margin staying in the region of 38.5% over the same period.

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## CN Aeroporturi Bucuresti DCF valuation

RON mn	2014e	2015e	2016e	2017e	2018e	2019e	2020e
Sales	644	685	726	769	813	858	904
yoy growth	5%	6%	6%	6%	6%	6%	5%
EBITDA	248	269	279	294	312	330	349
EBITDA margin	39%	39%	38%	38%	38%	38%	39%
CAPEX	-210	-205	-125	-125	-130	-130	-130
Change in WC	-3	-7	5	5	4	4	4
FCFF	18	38	139	150	159	174	190
WACC	10.0%	10.5%	10.5%	10.8%	11.1%	11.6%	11.6%
Disc. FCFF	17	32	106	103	99	97	95
PV of FCFF	548						
TV growth rate	3.0%						
TV	2,265						
PV of TV	1,127						
Net Debt	363						
Fair Value	1,312						
FP's stake	262						

Source: CN Aeroporturi Bucuresti, Raiffeisen Capital&Investment estimates

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## Fact Sheet

### Company description

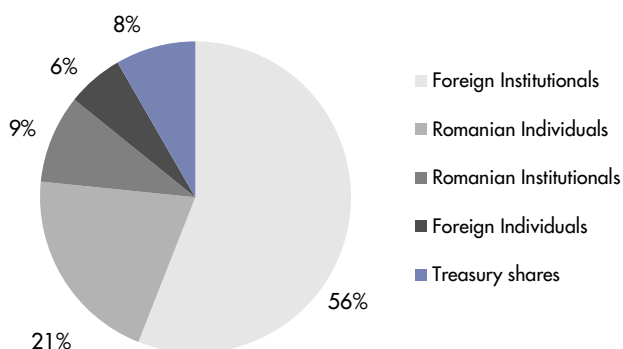
Fondul Proprietatea was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the former communist regime and whose seized assets could not be returned in kind. FP was set up in 2005 as an investment company and all of its 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 37% 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 has been selected in September 2010 at the helm of the fund. Their mandate is due to be renewed in September 2014.

The manager has started a strategy aimed at reducing the discount to NAV. 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
- Significant exposure to gas price liberalization
- 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

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## Recommendation history

<b>Date</b>	<b>Rating</b>	<b>Target Price</b>	<b>Price</b>	<b>Upside</b>
12.01.2011	Buy	0.96	0.52	84.7%
04.05.2012	Buy	0.85	0.59	43.0%
02.04.2013	Buy	0.89	0.64	39.1%
19.11.2013	Buy	0.90	0.80	12.5%

## Coverage universe recommendation overview

	<b>buy</b>	<b>hold</b>	<b>reduce</b>	<b>sell</b>	<b>suspended</b>	<b>UR</b>
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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