

Company Update

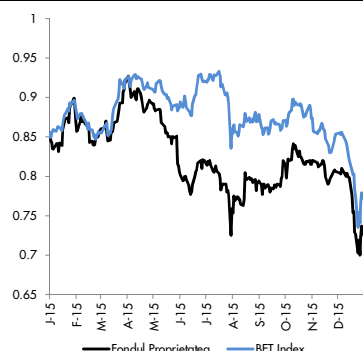
Fondul Proprietatea

January 26, 2016

Diversified Financials/Romania

Buy

Price 25.01.16*	0.7190
Price target	0.8300
Volatility risk	medium
Year high/low	0.9270/0.7000
Currency	RON
RON/EUR	4.53
GDR rate	n.a.
Shares outstanding eoy in mn	10,452.39
Market capitalisation (total shares) in EUR mn	1,761.9
Free float	100.0%
Free float in EUR mn	1,761.9
Avg. daily turnover (12 m) in EUR mn	1.51
Index	BETI
ISIN code	ROFPTAACNOR5
Bloomberg	FP RO
Reuters	FP.BX



Source: Raiffeisen Centrobank

A stock for volatile times

Compared to our last update on Fondul Proprietatea (FP) from April 2015, the discount to NAV has enlarged from 24% to around 30%, an evolution only partially justified by the increased weight of unlisted stakes in its shares portfolio from 50% to 62%. Moreover its tighter liquidity has limited the ability to return cash to shareholders, with the total amount returned in 2015 significantly below 2013 and 2014 levels. Besides, NAV has suffered a lot owing to the high exposure on oil&gas producers, especially given that the long awaited divestment of a stake in OMV Petrom was postponed due to tougher market conditions. The hopes to decrease the weight of unlisted stakes this year still rely on Electrica as an IPO of Hidroelectrica by the end of 2016e is a tough call with the company in insolvency. The chances to have a deal with Electrica to be bought out of the subsidiaries look brighter as the shareholders of the former mandated the Board to try to reach a deal by March. A deal with Electrica will not only alleviate FP's liquidity constraints but would also swap an unlisted asset for which the market demands a larger discount with cash. We raise our rating for FP shares to BUY from HOLD considering that discount is not yet at the level which we consider fair, 19.8%, for the current portfolio structure. Further, FP remains the most shareholder friendly Romanian company, continuing to return cash to investors, even though at a slower rate (FP has just suspended a plan for a new tender offer to accelerate buy-backs). While the sentiment for the stock may suffer until there is more clarity regarding the oil complex, nevertheless FP is in our opinion one of the best defensive plays on local stock exchange.

Valuation and recommendation: Obviously OMV Petrom is the main reason for the contraction in the value of FP's shares portfolio, down 7.7% compared to our previous update to RON 10.5 bn. We assigned a slightly higher value to the unlisted portion of the portfolio, especially due to an increased value for Hidroelectrica (by including in our DCF the elimination of the tax on special constructions from 2017e), airport companies (better traffic figures) and power&gas utilities. We put our own price tags on the largest part of FP's unlisted portfolio, using mostly comparable valuation but also DCFs in several cases. We get an NAV per share of RON 1.03, 7.6% lower compared to our previous report and 10.9% below FP's official value for December. We barely changed the discounts we apply to reach our fair value. We still use 12.5% for the listed shares, despite FP's latest ABB being done at a lower discount compared to the average of its previous deals. For unlisted stakes we have the same 25% but for cash we increased a bit the discount to 2% from 1.5% to account for the manager's fees (including the distribution fee which will remain at 2% by March 2017) and distribution costs. All in all, we reach a TP of RON 0.83, down from RON 0.91 before, which included also the 2015 special dividend of RON 0.05. This corresponds to a TP of USD 9.87 for its GDRs. We never cease to remind that this TP is not carried forward for 12m.

Key figures and ratios

	Share/RON mn	GDR/USD mn
Portfolio	10,503.0	2,511.4
- Listed	3,970.5	949.4
- Not-Listed	6,532.5	1,562.0
Debt	43.1	10.3
Cash	306.1	73.2
NAV	10,766.1	2,574.3
NAV per unit (RON/USD)	1.03	12.31
Current price (RON/USD)	0.719	8.970
Discount to NAV (%)	-30%	-27%
Current fair value	8,632.0	2,064.0
Target price (RON/USD)	0.83	9.87

Source: Fondul Proprietatea, Raiffeisen Centrobank estimates

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* The indicated price is the last price as available at 6.30 AM on 26.01.16, Source: Reuters/Bloomberg

Valuation

Our valuation is relying on detailed portfolio for September 2015 whereas the cash position and the number of shares are based on December 2015 figures. The listed shares are marked to market and we value independently the most important unlisted stakes.

We estimate NAV per share at RON 1.03

Despite a slightly higher value attached to the unlisted portion, FP's total shares portfolio contracted significantly, by 7.7% (adjusted) since our previous report to RON 10.5 bn, given the large oil&gas exposure. As expected OMV Petrom (SNP) was the biggest negative contributor while the largest positive contribution was due to a greater value attached to the unlisted Hidroelectrica. With a net cash of RON 263 mn, we assess FP's total NAV at 10.8 bn, translating into an NAV per share of RON 1.03, down 7.6% since our last update.

Fondul Proprietatea valuation table

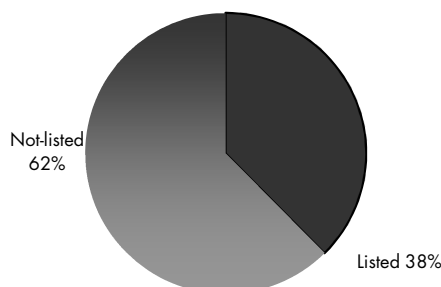
	Share/RON mn	GDR/USD mn
Portfolio	10,503	2,511
- Listed	3,971	949
- Not-Listed	6,533	1,562
Debt	43	10
Cash	306	73
NAV	10,766	2,574
NAV per unit (RON/USD)	1.03	12.31
Current price (RON/USD)	0.719	8.970
Discount to NAV (%)	-30.2%	-27.2%
Discount for listed shares and cash	12.5%	12.5%
Discount for not-listed shares	25.0%	25.0%
Value of discounted portfolio	8,374	2,002
Net cash	263	62.9
Current fair value	8,632	2,064.0
Target price (RON/USD)	0.83	9.87

Source: Raiffeisen Bank estimates; Prices as of January 26, 2016, 6:30 CET+1AM

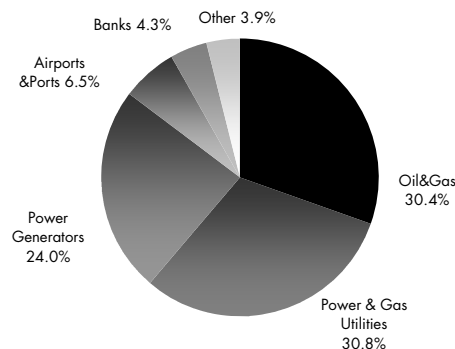
Unlisted stakes account now for more than half of total shares portfolio

Unfortunately, the weight of unlisted shares in total shares portfolio has increased to almost 62% from 50% before. The plunge of SNP share price and the divestment of around half of Romgaz (SNG) stake were the main drivers of this evolution. SNP remains the largest position in the shares portfolio with a weight of around 25.3%, while the unlisted Hidroelectrica is now in our view the second most important stake with a weight of 21.9%.

Portfolio Structure: Listed vs. Not-Listed



Portfolio Structure by Sector



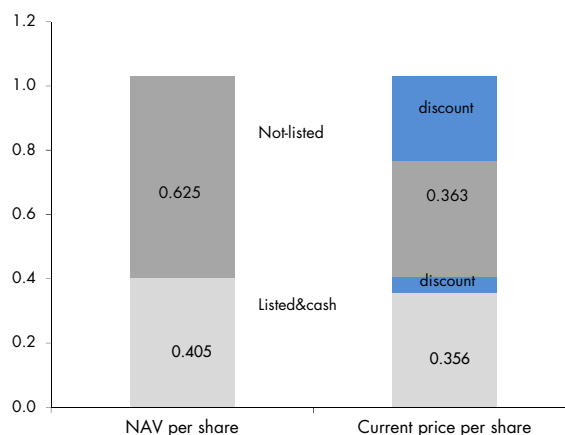
Source: Raiffeisen Bank estimates

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Market still demands a discount of around 42% for unlisted stakes

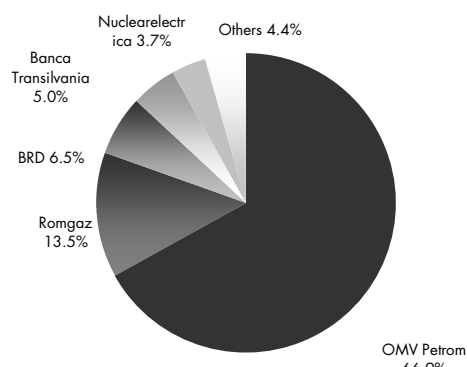
We run the same logic to try to infer the discount demanded by the market for unlisted shares. We can say NAV per share could be split on RON 0.405 coming from the listed & cash position and RON 0.625 from unlisted shares. If we consider that market is demanding also a 12.5% discount for listed shares, then we can assume that market puts a price tag of RON 0.363 to the unlisted portion. This suggests a market discount of 42% for the unlisted shares, up from 36% in April 2015, and significantly above the all-time low of 30% during the previous tender offer for its own shares.

NAV per share vs. price per share and the implied discount



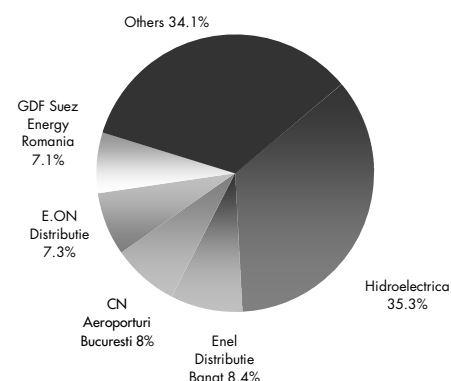
Source: Company, Raiffeisen Bank estimates

Listed Portfolio Structure



Source: Raiffeisen Bank estimates

Unlisted Portfolio Structure



Source: Raiffeisen Bank estimates

We mark to market listed stakes

Listed companies: This portion of the portfolio is marked to market considering closing prices as of January 26 (with a discount of 25% for two small illiquid companies).

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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%	2,656.9	25.30%
Romgaz	SNG	Oil&Gas Producer	5.9%	537.8	5.12%
BRD	BRD	Banks	3.6%	256.2	2.44%
Banca Transilvania	TLV	Banks	2.9%	197.1	1.88%
Nuclearelectrica	SNN	Energy Producer	9.1%	147.0	1.40%
Alro	ALR	Aluminium Smelter	10.2%	86.7	0.83%
Conpet	COTE	Oil&Gas	6.1%	39.8	0.38%
Romaero	RORX	Machinery & Engineering	21.0%	23.6	0.22%
Primcom	PRIB	Real Estate	76.0%	14.8	0.14%
Oil Terminal	OIL	Oil&Gas	6.3%	3.7	0.04%
Alcom	ALCQ	Retail/Real Estate	71.9%	2.9	0.03%
Palace	PACY	Hotels	15.4%	2.7	0.03%
IOR	IORB	Optical and photo production	2.8%	1.0	0.01%
Mecon	MECP	Metallurgy	12.5%	0.1	0.00%
Romplumb	ROMR	Lead producer	33.3%	0.0	0.00%
Total				3,970.5	37.8%

Source: Bucharest Stock Exchange; Stock prices as of January 26, 2016, 6:30 CET+1AM

We estimate a larger value for the main unlisted stakes

Unlisted companies: We put our own price tag on 22 unlisted stakes with a combined weight of 60% in total shares portfolio. Their value was assessed with either simplified DCFs for some of them such as Hidroelectrica and Electrica's subsidiaries or comparable valuation based on 2014 results. All in all, we estimate a larger cumulated value for these stakes mainly because of power generators, by taking into account the elimination of the tax on special constructions from 2017e, CN Aeroporturi Bucuresti due to the growth in traffic which is reflected at bottom line level, and Electrica stakes due to the change in valuation method.

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

Company	Sector	Valuation method / Comparables	Used Multiples	FP stake	FP stake Value	% of FP Portfolio
Hidroelectrica	Power generator	Discounted Cash Flow		19.9%	2,304.8	21.9%
CE Oltenia	Power generator	Discounted Cash Flow		21.6%	72.7	0.7%
Electrica Distributie Muntenia Nord	Power Distribution	Discounted Cash Flow		22.0%	225.4	2.1%
Electrica Distributie Transilvania Nord	Power Distribution	Discounted Cash Flow		22.0%	202.5	1.9%
Electrica Distributie Transilvania Sud	Power Distribution	Discounted Cash Flow		22.0%	207.7	2.0%
Enel Distributie Banat	Power Distribution	Avg. P/E, EV/EBITDA, EV/RAB		24.1%	547.8	5.2%
Enel Distributie Dobrogea	Power Distribution	Avg. P/E, EV/EBITDA, EV/RAB		24.1%	348.2	3.3%
Enel Distributie Muntenia	Power Distribution	Avg. P/E, EV/EBITDA, EV/RAB		12.0%	445.1	4.2%
Electrica Furnizare	Power Supply	Discounted Cash Flow		22.0%	75.0	0.7%
Enel Energie Muntenia	Power Supply	Avg. P/E, EV/EBITDA		12.0%	59.5	0.6%
Enel Energie	Power Supply	Avg. P/E, EV/EBITDA		12.0%	114.0	1.1%
E.ON Distributie	Gas&Power Distribution	Avg. P/E, EV/EBITDA, EV/RAB		18.3%	480.0	4.6%
E.ON Energie Romania	Gas Supply	Avg. P/E, EV/EBITDA		13.4%	71.9	0.7%
GDF Suez Energy Romania	Gas Distribution&Supply	Avg. P/E, EV/EBITDA, EV/RAB		12.0%	461.5	4.4%
CN Aeroporturi Bucuresti	Airports	Discounted Cash Flow		20.0%	508.3	4.8%
Aeroportul International Timisoara Traian Vuia	Airports	Avg. P/E, EV/EBITDA, P/Pax, discounted by 25%		20.0%	23.6	0.2%
Aeroportul International Mihail Kogalniceanu	Airports	Avg. P/E, EV/EBITDA, P/Pax, discounted by 25%		20.0%	2.5	0.0%
CN Administratia Porturilor Maritime	Ports	Avg. P/E, P/S, EV/EBITDA, discounted by 25%		20.0%	134.3	1.3%
CN Administratia Porturilor Dunarii Maritime	Ports	Avg. P/E, P/S, EV/EBITDA, discounted by 25%		7.7%	1.7	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	Avg. P/E, P/S, EV/EBITDA, discounted by 25%		20.0%	0.0	0.0%
CN Administratia Canalelor Navigabile	Ports	Avg. P/E, P/S, EV/EBITDA, discounted by 25%		20.0%	12.2	0.1%
Posta Romana	Postal Services	Avg. P/E, EV/EBITDA, discounted by 50%		25.0%	47.6	0.5%
Total					6,346.4	60.4%

Source: Raiffeisen Bank estimates

We use FP's own values for 12 unlisted stakes

The rest of 12 unlisted stakes have a cumulated weight of 1.8% in shares portfolio and for them we use FP's own values.

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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%	142.9	1.4%
Zirom	Titanium Processing	100.00%	39.3	0.4%
Plafar	Health Care	48.99%	1.8	0.0%
Comsig	Retail	69.94%	1.7	0.0%
Cetatea	Real Estate	20.43%	0.3	0.0%
Salubriserv	Waste Collection	17.48%	0.0	0.0%
World Trade Hotel	Hotels	19.90%	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%
Petrotel Lukoil	Oil & Gas	0.97%	0.0	0.0%
Total			186.1	1.8%

Source: Fondul Proprietatea, Raiffeisen Bank estimates

With just one major divestment in more than one year, cash position remains stretched

Relevant for the more stretched cash position is the fact that in 2015 FP has not conducted a tender offer for its own shares, unlike the past two years, and it was even forced to take a RON 1.0 bn bank credit line. As of December the outstanding of the credit line was zero thanks to the proceeds from the ABB for SNG, its only deal during the past year. Considering a net cash position of RON 263 mn, we compute a total NAV of RON 10.8 bn, translating into an NAV per share of RON 1.03, 7.6% lower compared to April 2015. This suggests that FP shares are trading at a hefty discount of 30%, wider compared to the levels recorded during early 2015.

We upgrade to Buy with a new TP of RON 0.83 for FP shares

We leave barely unchanged the discounts we apply to get our fair value for FP's assets. For the listed shares we continue to apply a 12.5% discount, despite the fact that FP concluded its recent ABB for SNG at a discount of 6.4% (without the fees for banks), lower compared to an average of 8% for its previous ABBs. We prefer to be on the safe side, as such ABBs are small relative to its total listed portfolio and divesting big stakes when market conditions are not favourable is not easy, as exemplified by its intention to sell a stake in SNP. We discount unlisted shares by the same 25% but we increased the discount for cash from 1.5% to 2%. This discount is meant to account for the cost of distributions and Franklin Templeton's fees (shareholders voted to keep the distribution fee at 2% by March 2017).

Based on a fair value of FP's NAV of RON 8.6 bn, we set our TP at RON 0.83 per share (RON 0.91) and at USD 9.87 for GDRs. We always feel the need to emphasize that this TP is a fair value not carried forward for 12m. We lift our rating for FP's shares to BUY and we also set a BUY for its GDR. We consider that there is enough potential for discount compression toward a fair level of around 19.8%. Once there will be more clarity about oil complex, investors' sentiment toward FP should improve. Moreover, FP remains by far the friendliest Romanian stock toward its shareholders, therefore investors will continue to seek its safeness during volatile times.

Risks:

- Political risk remains the most relevant, given the large weight of majority state owned companies.
- Investors are also exposed to regulatory risk, as several portfolio companies are regulated.
- FP is mainly a minority shareholder in the unlisted companies from its portfolio.
- Uncertainties regarding fiscal regime, especially related to the royalties for oil&gas companies
- The transparency of some portfolio companies still not yet at acceptable levels.

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FP distributed cash to shareholders at a slower rate

Recent developments/update

Returning cash to shareholders. The main tool to narrow the discount to NAV remains returning cash to shareholders. Buy-backs are running almost non-stop with FP currently conducting the sixth program of 892 mn shares and shareholders have already approved a seventh program for an effective amount of around 125 mn shares (FP is running a cycle of a small buy-back followed by a larger one, as according to regulations it is not allowed to have more than 10% in treasury shares). While in 2013 and 2014 it returned through buy-backs RON 1.0 and RON 1.2 bn respectively, in 2015 it returned to shareholders only slightly more than RON 0.3 bn. The difference is explained by tender offers which accelerate buy-backs. In 2015 FP did not conduct such an operation, but in mid-January 2016 announced that it was asking the approval from FSA for a new tender offer for 430 mn shares. However unexpectedly, FP has just informed that it decided to suspend the plans for this tender offer. The decision was justified by the increased market volatility, with the fund intending to ensure that the tender offer is priced appropriately relative to the market price. Previous experiences suggest that FP was targeting a price for the tender close to RON 1.0 per share, which would have implied a large premium to the current market price. The fund said that it might restart the procedure when market conditions are more supportive. FP proposed also to pay in 2016 a special dividend of RON 0.05, similar to the level paid in previous years, with an ex-dividend date on June 3.

Divestments needed to complete the current buy-back without drawing the credit line

Divestments/cash position. FP's divestments have slowed markedly during the past year with just one ABB, for SNG, and no major sale of an unlisted stake. While the deal for SNG has proved a smart move as its share price plunged afterwards, the fund has apparently waited too much to reduce its stake in SNP and the market conditions have moved against it. FP has tried to have the best conditions for this deal, as it convinced SNP to have its shares dual listed in London at the moment of the offer. FP's management has stated that it would not divest SNP at the current depressed share price. On the unlisted front, there was disappointment in early 2015 when FP and Electrica have not reached an agreement to buy it out from the subsidiaries. But now the chances for a deal between FP and Electrica are higher since Electrica's shareholders have mandated the Board to try to reach an agreement by the end of March 2016. Moreover, Electrica has a new Board which combined with a new more supportive energy minister also increase the chances for a deal.

FP is in a clear need of divestments with or without a deal with Electrica since it needs around RON 600 mn only to complete the current buy-back, as dividends to be received should finance the payment of its special dividend. The strained liquidity position is illustrated by the fact that in early 2015 FP took a RON 500 mn credit line, drawn for several months during the year, and which was extended by September 2016 (and could be expanded to RON 1.0 bn). As of December the outstanding was zero and net cash position was RON 263 mn.

Franklin Templeton to remain at the helm by March 2018

New investment agreement. In fall of 2015 shareholders voted to extend the management agreement with Franklin Templeton (FT), but the current manager, FT UK Bucharest branch will be replaced by another group entity, FT Luxembourg. The new entity will commence its duties on April 2016 and will be at the helm for a period of two years. This change is due to the need to comply with European directive on Alternative Investment Fund Managers but the day to day management will continue to be performed by the local team. The manager will still have a discount objective, below 15%, and an NAV objective (adjusted NAV for June 2016 higher than NAV for June 2015). The FT's standard management fee remains at 60 bps but the manager is entitled to a bonus fee of between 5 bps (for each day the discount to the NAV is below 20% but above 15%) and 10 bps (for each day the discount to the NAV is below 15%). The distribution fee (for buy-backs, special dividends) will remain at 200 bps until March 2017 (it was scheduled to drop to 1% from October 2015), it will decrease then to 150 bps and will eventually be 100 bps from October 2017 till March 2018.

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The secondary listing finally took place

Secondary listing. After years of delays, FP's shares were eventually dual listed in London in late April through GDRs. The outstanding GDRs represent currently around 33% of the issued shares, the maximum limit allowed by Romanian regulations. While the listing had so far a negative impact on domestic liquidity of FP shares, one can say that it was beneficial for discount compression, since GDRs are trading sometimes at a discount a few percentage points below that of shares.

Power Generators

Compared to our previous update, the cumulative valuation of the three stakes is slightly greater, due to a higher price tag for Hidroelectrica which more than compensated the decrease of Nuclearelectrica's market capitalization.

Summary of Key Figures for Power Generators

Producer	Effective capacity (MW)	EBITDA margin 2015e	FV derived from DCF (RON mn)	DCF Valuation EUR mn/MWh
Hidroelectrica	6,132	63%	11,559	0.42
Nuclearelectrica*	1,414	38%	1,728	0.27
CE Oltenia	3,570	-1%	337	0.02

Source: Raiffeisen Bank estimates

*listed, current market cap

Romanian domestic power consumption has turned positive in 2014 a trend which continued into 2015 with a growth rate of around 2% yoy. Power exports have also lent a helping hand to domestic production during this period. After a weak 1H 15 from the perspective of the power prices, mainly due to above average hydrological conditions, there was a rebound in the second part of the year as hydrological conditions normalized and demand continued to expand. Our medium term view continues to be that Romanian power prices should post modest increases. Strong economic growth and a cut in distribution tariffs (for 2016) should in the short term support power demand and more than compensate for the slow tackling of the overcapacity problem and the drive for efficiency. Later in the decade a decrease of the supply of CO2 certificates should trigger an increase in power prices.

Hidroelectrica

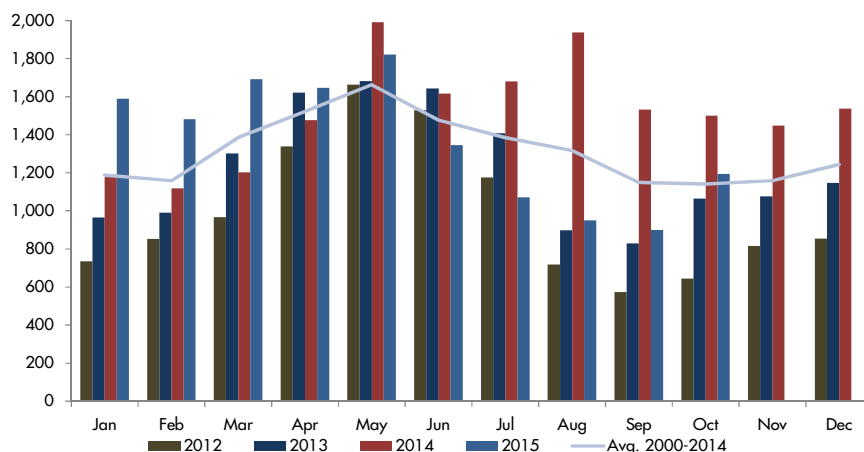
Unfortunately, the process of the exit from insolvency is advancing at a slow pace mainly owing to the unresolved pending litigations with power traders for cancellation of the bilateral contracts and opposition to the opening of the insolvency procedure. According to public releases of Hidroelectrica, the litigations for cancelling the contracts are for a total amount of RON 2.0 bn. The company's rhetoric is that the chances to be forced to pay are almost zero, but some representatives are admitting that Hidroelectrica might have to settle by paying a smaller proportion of the claims. Regarding the exit from insolvency, the base case seems to be 1H 16 (May) and the management suggests that an IPO might be possible by end of the year. Nevertheless, given the time constraints an IPO in 2017 could not be ruled out. There are discussions to change a bit the structure of the offer to avoid the Electrica model by stuffing the company with cash.

The exceptional hydrological conditions from 2014 which propelled net (consolidated) profit to a record of RON 956 mn, up 25% yoy, have continued into 1H 15. With power output up 12.9% yoy, its 1H 15 sales increased by 19% yoy to RON 1.85 bn while net (unconsolidated) profit came in at RON 597 mn, up 48% yoy.

The base case for exiting insolvency procedure is May-June 2016

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Hidroelectrica's monthly output vs. average



Source: Hidroelectrica

After an exceptional 2014 & 1H 15, hydrological conditions worsened in 2H 15

In July, hydrological conditions have changed radically, with monthly power output decreasing below average and dropping 31% yoy. Hydrological conditions remained close or below average for the rest of 2015 and the company's FY 2015 output was around 15.9 TWh, down 13.6% yoy but close to its normal production of 16.4 TWh.

We forecast that FY 2015e sales decreased by 7.6% yoy and we expect (consolidated) net profit at RON 895 mn down 6% yoy. Hidroelectrica's realized net power prices seem to be stickier than Nuclearelectrica's prices to the downward pressure. We suspect that one explanation for this might be the renegotiated bilateral contract with Alro which has an imbedded floor. Moreover, the company's bottom line benefited from trading activities, with around RON 100 mn of profits as of October 2015.

We expect its 2015e net realized price on the competitive market to have decreased by only 0.1% yoy to RON 157.9/MWh. But, in line with our view for the Romanian power prices, we expect competitive prices to go up at a 2015-20e CAGR of 2.0%. The regulator has barely increased the regulated price for 2016e by 0.3% yoy at RON 120.6 /MWh and we expect a flat regulated price for 2017e, the last year of this market. As the regulated sales had a weight of 24% in 2015e, down from 28% in 2014, Hidroelectrica stands to benefit significantly from the phasing out of this market. Thus, net average realised price was probably up by 1.1% in 2015e and should expand at a 2015-20e CAGR of 3.3%. On the costs side, we incorporated in our projections the elimination of the tax on special constructions from 2017e as stated by the new fiscal code. This tax should have cost the company RON 98 mn in 2015e.

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Hidroelectrica Business Model Assumptions

		2013	2014	2015f	2016e	2017e	2018e	2019e	2020e
Revenues	RON mn	3,114	3,425	3,160	3,099	3,281	3,438	3,542	3,579
EBITDA	RON mn	1,959	2,128	2,002	1,959	2,207	2,340	2,417	2,437
EBITDA margin	%	63%	62%	63%	63%	67%	68%	68%	68%
Gross power generated	TWh	14.8	18.5	15.9	16.3	16.4	16.5	16.6	16.6
Power sold	TWh	15.0	18.7	17.3	16.6	16.9	17.1	17.3	17.1
% of power sold on regulated market	%	26%	28%	24%	16%	6%	0%	0%	0%
Avg. net selling price of power	RON/MWh	170.1	147.2	148.8	152.9	160.0	167.4	171.2	174.6
Royalties for water	RON/MWh	21.6	20.6	20.6	20.6	21.6	21.6	21.6	21.6
Salaries	RON/MWh	32.0	22.7	26.2	26.4	27.3	27.8	28.3	29.1
Other expenses (incl. tax on special constructions)	RON/MWh	7.8	14.1	13.1	14.3	7.2	7.4	7.6	7.8

Source: Hidroelectrica, Raiffeisen Bank estimates

Our valuation points to a higher value for the company

We continue to assess the value of Hidroelectrica with a simplified DCF for which we rolled on one more year of detailed projections. Moreover, as we did before to be on the safe side, we assume that the power generator will have to pay some damages (RON 700 mn) to "the smart guys" to settle the litigations. Regarding CAPEX, we have barely changed our projections which would point to a significant increase in investments after a period of several years with a downward trend. This view is in line with the latest statements from the company which is targeting a very ambitious 2015-20e CAPEX of EUR 1.3 bn, out of which EUR 450 mn for ongoing projects, EUR 305 mn for the refurbishment of four large power plants, EUR 240 mn for capitalized maintenance works and even EUR 300 mn in new renewables capacities.

All in all, our simplified DCF suggests a total equity value of the company of RON 11,529 mn some 10% up compared to the previous update. By far the largest part of this increase is due to the elimination of the tax on special constructions from 2017e. We stress again that this valuation is dependent on our view that the worst has passed for the Romanian power prices.

Hidroelectrica DCF Valuation

RON mn	2016e	2017e	2018e	2019e	2020e
EBIT*(1-T)	850	1,035	1,138	1,203	1,217
Depreciation	959	975	985	985	988
Change in WC	-125	-95	-100	-110	-115
CAPEX	-544	-548	-875	-971	-981
FCFF	1,140	1,367	1,148	1,107	1,109
WACC	7.9%	8.4%	8.9%	10.2%	11.1%
Discounted FCFF	1,063	1,176	907	793	716
PV of FCFF	4,654				
Terminal growth rate	0.0%				
TV	10,917				
PV of TV	7,041				
Net debt	-564				
Claims due to insolvency	700				
Fair Value	11,559				

Source: Raiffeisen Bank estimates

Decisive restructuring is not yet in the cards but acknowledging the need is a beginning

CE Oltenia

The integrated coal fired generator's problems aggravated in 2014-15 due to a lack of serious restructuring, lower power prices and sluggish domestic power consumption which is capping its capacity utilisation. More recently, the collection of bad debts has been added to the long list of woes. The planned listing of the company seems a distant prospect while insolvency is sometimes mentioned in association with CE Oltenia.

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The company's 2014 power output of 11.8 TWh was up by 1.5% yoy thanks to exports but a far cry from more than 17 TWh recorded in 2012. The high renewables installed capacity (4,250 MW at the end of 2014) limits the ability of the company to significantly expand the output even under adverse hydrological conditions. Nevertheless, in 2015e we expect its output was around 14.7 TWh, up a respectable 17% yoy, due to the drought and heat wave.

The power generator was deeply in red in 2014, booking a net loss of RON 693 mn, with average price dropping by 8% yoy since the company was not allowed any more to sell on the regulated market. The biggest burden on the bottom line was a RON 355 mn adjustment for bad receivables.

The company was loss making also in 2015 with a negative bottom line of around RON 850 mn, despite hesitant restructuring measures. It span off some mining assets and decreased the headcount by around 3,000 to "just" 15,000. But the higher cost of CO2 certificates, additional provisions for receivables and FX losses have burdened the bottom line.

CE Oltenia Business Model Assumptions

		2013	2014	2015f	2016e	2017e	2018e	2019e	2020e
Sales	RON mn	2,294	2,164	2,414	2,473	2,622	2,780	2,923	3,051
EBITDA	RON mn	543	-53	-27	688	798	921	1,003	1,107
EBITDA margin	%	23.7%	-2.4%	-1.1%	27.8%	30.4%	33.1%	34.3%	36.3%
Electricity									
Gross Power Production	TWh	11.6	12.5	14.6	14.8	15.2	15.7	16.2	16.5
Avg. Selling Price	RON/MWh	169	155	157	161	166	171	175	179
Lignite									
Lignite production (out of which)	mn tons	21.1	21.0	23.0	22.8	23.4	24.1	24.8	25.4
- Own consumption	mn tons	16.0	17.3	20.2	20.2	20.8	21.4	22.1	22.6
CO2 Certificates									
CO2 Certificates Allocated	mn	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CO2 Emissions	mn tons	10.6	11.2	13.2	13.1	13.4	13.8	14.1	14.5
CO2 Certificate Price	EUR	4.5	6.9	8.0	8.4	9.5	10.3	11.2	11.4
Specific Costs per MWh									
Lignite	RON/MWh	103.9	100.9	96.0	96.4	98.3	100.0	101.8	103.7
CO2 Certificates	RON/MWh	18.1	27.5	32.0	33.1	36.5	38.4	41.0	41.4
Personnel	RON/MWh	45.1	41.3	32.4	29.5	28.7	27.7	27.1	26.8

Source: CE Oltenia, Raiffeisen Bank

We reduced the value attached to company's equity

We put a price tag of RON 337 mn to the company's equity based on a simplified DCF, down 15% compared to our last update. We lowered the TV growth rate to -1% from 0%, as long term prospects of coal fired generators seem bleaker. The relative modest downward revision of the fair value is explained by the assumption of a higher output in 2016-17e, the elimination of the tax on special construction from 2017e and the non-cash nature of expenses spike in 2014-15. There are still doubts about deeper restructuring measures, even though the CEO has been replaced recently after the pressure from the new minister of energy.

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CE Oltenia DCF Valuation

RON mn	2016e	2017e	2018e	2019e	2020e
EBIT*(1-T)	65.9	159.4	265.2	293.8	343.8
Depreciation	622	638	656	676	697
Change in WC	-80	-90	-90	-100	-105
CAPEX	-515	-500	-520	-620	-625
FCFF	93	208	311	250	311
WACC	7.1%	7.8%	8.3%	9.4%	10.1%
Discounted FCFF	87	181	250	184	208
PV of FCFF	910.4				
Terminal growth rate	-1.0%				
Terminal WACC	10.2%				
TV	2,835				
PV of TV	1,894				
Net debt	2,467				
Fair Value	337				

Source: Raiffeisen Bank estimates

Power and Gas Supply and Distribution

The power&gas utilities have between them a cumulated weight of 31% in the shares portfolio, according to our estimates, almost as much as the oil&gas producers. The total value is estimated now higher than before as we changed the valuation method for Electrica stakes and the performance of some others improved.

Key 2014 Figures for Distribution Companies

RON mn	RAB*	T/O	EBITDA	EBIT	EBIT/RAB	Net profit	Net debt
Enel Banat	1,433	601	323	188	13.1%	172	-1,039
Enel Dobrogea	1,143	493	239	103	9.0%	88	-467
Enel Muntenia	2,487	888	440	246	9.9%	241	-1,877
Electrica distribution segment	4,624	2,442	688	370	8.0%	301	-262
Enel Energie		1,922	133	128		130	-571
Enel Energie Muntenia		1,834	49	46		47	-512
Electrica supply segment		4,133	232	226		180	-403
E.ON Distributie Romania	2,928	1,550	482	168	5.7%	155	
E.ON Energie		4,725	112	109		94	-52
GDF Suez Energy	3,078	4,337	839	561	18.2%	442	-175

Source: Companies, Raiffeisen Bank estimates

* End-2014 PPE excl. subsidies and work in progress

Large cuts in 2016e tariffs for power distributors

After cutting the rate of return for power distributors to 7.7% from 8.5% starting 2015, the regulator has come up with another negative surprise. The tariffs of all power generators for 2016 were cut aggressively by an average of 11% due to larger volumes distributed than estimates, lower than expected inflation and negative correction factors. For gas utilities the rate of return has remained at 8.43%, the level set for the period 2013-17. The regulator has cut the distribution tariffs for the two companies in spring of 2015, by between 0.2% and 6.3% for E.ON and by between 2.8% and 21.1% for GDF Suez.

We value Electrica stakes based on DCF

Valuation

For previous update, we tried in a way to mark to market the stakes in Electrica's distribution and supply subsidiaries (from Electrica's prevailing market capitalization we deducted the cash raised through the IPO). We changed our valuation method to DCF considering that it is more likely to reflect where the potential deal with Electrica might be concluded. Thus, we see the total value of the four stakes at RON 711 mn, up 17% compared to the last update. The DCF takes into account the pressure that the distribution segment will face due to the adjustment of regulated revenues until 2019e and the expected growth afterwards on the back of a larger asset base.

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Electrica Minorities Valuation

RON mn	2016e	2017e	2018e	2019e	2020e	2021e	2022e
EBIT	460	443	415	398	462	506	554
NOPLAT	387	372	348	335	388	425	466
CAPEX	-658	-771	-873	-910	-910	-910	-910
Depreciation	372	417	468	525	582	639	696
FCFF	101	18	-56	-51	60	154	252
WACC	6.4%	6.9%	7.4%	8.9%	9.9%	10.4%	10.4%
Discounted FCFF	95	15	-46	-38	41	95	141
TV Growth rate	2.0%						
TV WACC	10.4%						
TV	4,296						
Discounted TV	2,184						
EV	2,667						
Net debt end-Sept 15	-563.4						
Fair value of equity	3,231						
FP's 22% stake, out of which	711						
Electrica Dist. Muntenia	226						
Electrica Dist. Transilvania Nord	202						
Electrica Dist. Transilvania Sud	208						
Electrica Furnizare	75						

Source: Raiffeisen Bank estimates

We increased modestly the cumulated value assessed for FP's other stakes in power&gas utilities, mainly because of improved performance of Enel Energie and GDF Suez. We continue to value these stakes with a comparable valuation relying on their FY 2014 figures. For distribution companies our assumption of the fair value is obtained by averaging the values suggested by applying P/E, EV/EBITDA and EV/RAB multiples. For E.ON Distributie Romania which was established in December 31, 2014 by merging E.ON Moldova Distributie into E.ON Gaz Distributie, we added the values implied for the two precursors. The estimates for supply companies are based for obvious reasons just on P/E and EV/EBITDA multiples. The profits for many of these companies are likely to suffer in 2015e and 2016e due to the cuts in tariffs. That is why we are comfortable with our use of 2014 trailing multiples for our peer group companies which are lower than forward looking multiples.

Peer Group 2014 Multiples

	P/E	EV/EBITDA	EV/RAB
Energia	5.5	5.6	1.3
PGE	6.8	4.1	2.4
ENEA	5.6	4.1	1.3
Tauron	4.1	4.1	1.1
CEZ	9.1	5.5	4.0
Transgaz	6.1	3.3	2.0
Transelectrica	6.0	2.8	1.7
Electrica	13.9	2.2	1.6
Median	6.0	4.1	1.7

Source: Bloomberg, Raiffeisen Bank estimates

Enel, E.ON and GDF Minorities Valuation

RON mn	PE of 6.0	EV/EBITDA of 4.1	EV/RAB of 1.7	Avg. fair value	Avg fair value (FP's stake)
Enel Banat	1,038	2,359	3,416	2,271	548
Enel Dobrogea	529	1,443	2,364	1,445	348
Enel Muntenia	1,452	3,673	6,004	3,710	445
Enel Energie	783	1,116		950	114
Enel Energie Muntenia	282	710		496	60
E.ON Distributie Romania	934	2,013	4,904	2,617	480
E.ON Energie	567	507		537	72
GDF Suez Energy	2,666	3,600	5,282	3,849	462

Source: Raiffeisen Bank estimates

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Transportation Sector

We employ DCF valuation for CN Aeroporturi Bucuresti, by far the most important company among this group. The remaining companies are valued with comparables based on their 2014 figures while for airports we also used 2015 passengers traffic numbers. For CN Adm. Port. Dunarii Fluviale we assigned a value of zero since comparables point to a negative value.

Valuation Summary

Company Name	Sector	Fair Value, RON mn	FP Stake, %	FP stake value, RON mn	% of FP Portfolio
CN Aeroporturi Bucuresti	Airports	2,541.4	20.0%	508.3	4.8%
Aeroportul International Timisoara Traian Vuia	Airports	118.0	20.0%	23.6	0.2%
Aeroportul International Mihail Kogalniceanu	Airports	12.3	20.0%	2.5	0.0%
CN Administratia Porturilor Maritime	Ports	672.0	20.0%	134.3	1.3%
CN Administratia Porturilor Dunarii Maritime	Ports	22.1	7.7%	1.7	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	0.0	20.0%	0.0	0.0%
CN Administratia Canalelor Navigabile	Ports	60.9	20.0%	12.2	0.1%
Total				682.6	6.5%

Source: Raiffeisen Bank estimates

Passengers growth accelerated in 2015 into double digit zone

CN Aeroporturi Bucuresti

The company's passengers traffic soared by 8.8% in 2014, a trend that continued into 2015 with a growth of 11.6% yoy. The top line jump was also helped by a growth in revenues per aircraft movements and this translated into a growth at bottom line level, as expenses were contained. After a 43% yoy increase in net profit in 2014, the company reported a growth of 72% yoy in 1H 15 bottom line to RON 90 mn.

The management has a very upbeat view on traffic evolution, expecting an 8% growth for the next couple of years. We modelled a slower growth, at a 2015-20e CAGR of 5.3%. According to the management the current infrastructure could cope with a traffic of 12 mn pax, from currently 9 mn, and even 15 mn with modest investments. That is why we have included significantly lower CAPEX than would be implied by some statements of the management. The previous government has mentioned that CN Aeroporturi might be a candidate for an IPO but for the moment no official procedure was initiated.

CN Aeroporturi Bucuresti DCF Assumptions

		2013	2014	2015f	2016e	2017e	2018e	2019e	2020e
Growth in pax	%	1.3%	8.8%	11.6%	7.0%	6.2%	5.7%	4.5%	4.5%
Growth revenues per pax	%	3.3%	1.6%	2.1%	3.0%	2.7%	2.6%	2.5%	2.5%
Staff expenses growth rate	%	6.4%	4.1%	8.6%	5.5%	5.0%	4.8%	4.8%	5.0%
Other expenses to sales ratio	%	32.4%	29.4%	29.6%	31.5%	32.7%	32.7%	32.8%	32.8%
CAPEX	RON mn	63	33	60	100	125	175	195	205
EBITDA	RON mn	235	258	313	335	361	396	427	458
Net profit	RON mn	69	99	151	197	219	243	258	275

Source: CN Aeroporturi Bucuresti, Raiffeisen Bank estimates

We value the company 46% higher than before at RON 2,541 mn

Mainly because of rosier assumptions triggered by a faster growth of traffic, we lifted our valuation for the company's equity by 46% compared to the previous update, to RON 2,541 mn.

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

CN Aeroporturi Bucuresti DCF valuation

RON mn	2016e	2017e	2018e	2019e	2020e
Sales	814	888	964	1,033	1,107
yoy growth	10%	9%	8%	7%	7%
EBITDA	335	361	396	427	458
EBITDA margin	41%	41%	41%	41%	41%
CAPEX	-100	-125	-175	-195	-205
Change in WC	8	3	0	1	1
FCFF	209	201	178	186	203
WACC	7.3%	7.8%	8.3%	9.8%	10.8%
Disc. FCFF	196	175	143	136	134
PV of FCFF	784				
TV growth rate	3.0%				
TV	2,504				
PV of TV	1,653				
Net Debt	-105				
Fair Value	2,541				
FP's stake	508				

Source: CN Aeroporturi Bucuresti, Raiffeisen Bank estimates

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**Raiffeisen
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**Raiffeisen
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Fact Sheet

Company description

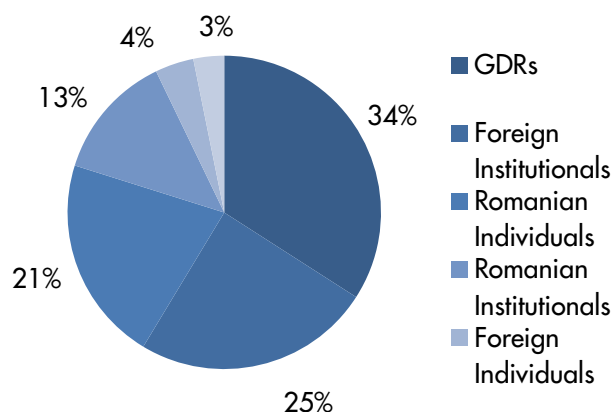
Fondul Proprietatea was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the former communist regime. FP was set up in 2005 as an investment company and all of its shares have been transferred to parties entitled to receive indemnities.

FP has a large exposure to energy (including oil&gas production, power generation, supply and distribution), which has a weight of 85% in its shares portfolio. The 19% stake held in the oil&gas producer Petrom (SNP) accounts for around 26% 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. Its mandate was extended by March 2018 with a clear objective to narrow the discount to NAV. The manager's activism for the past years has led to an improvement in the corporate governance standards of state owned companies.

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
- Listing or divesting the unlisted companies should lower the discount to NAV

Weaknesses/Threats

- Political risk is a sensitive issue for FP, with 60% of its portfolio made up of companies whose majority shareholder is the state
- Large part of the portfolio companies are regulated and thus subject to regulatory risk
- A large exposure to energy sector in a context with weak crude price
- The weight of unlisted shares is going up as the fund divest mainly listed stakes
- Romania's program with IMF is technically suspended

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Date	Publication
15.02.2016	4Q Earnings release
26.04.2016	Extraordinary General Meeting
13.05.2016	1Q Preliminary results

Recommendation history

16.08.2010 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
07.04.2015	Hold	0.91	0.85	7.6%
17.11.2014	Hold	0.97	0.94	2.9%
26.03.2014	Buy	0.87	0.79	9.9%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	68	53	6	2	3	2
Universe %	51%	40%	4%	1%	2%	1%
Investment banking services	21	14	4	0	1	0
Investment banking services %	53%	35%	10%	0%	3%	0%

Source: Raiffeisen Centrobank, rounding differences may occur

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