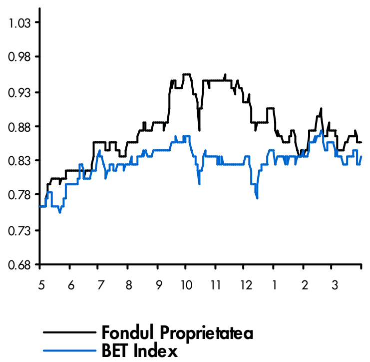
Company Update
Fondul Proprietatea

April 7, 2015 | Diversified Financials/Romania

Hold

Price 06.04.15*	0.8460
Price target	0.9100
Volatility risk	medium
Year high/low	0.9535/0.7560
Currency	RON
RON/EUR	4.41
GDR rate	n.a.
Shares outstanding eoy in mn	10,805.4
Market capitalisation (total shares) in EUR mn	2,262.5
Free float	100.0%
Free float in EUR mn	2,262.5
Avg. daily turnover (12 m) in EUR mn	1.67
Index	BETI
ISIN code	ROFPTAACNOR5
Bloomberg	FP RO
Reuters	FP.BX



Source: Raiffeisen Bank

Weak prospects for a meaningful discount compression

Fondul Proprietatea's (FP) discount stands now at 24%, compared to just above 20% in November, but this is hardly surprising as meanwhile, the weight of listed shares, with their lower discount, decreased in favour of unlisted stakes. Discount has been kept down by almost non-stop buy-backs which the fund has been able to implement faster than a few years ago. From a fundamental point of view, a further reduction of the discount depends on switching the unlisted companies either for cash or by turning them into listed companies. The IPOs outlook does not look too good for this year, as Hidroelectrica's exit from insolvency in 2015 is uncertain and other candidates are just prospective for the moment. Back in November, there seemed good chances that FP would be able to succeed in finally divesting big unlisted stakes, as Enel was seeking to exit Romania and Electrica had to put some money to work. In the meantime, Enel abandoned these plans while FP's hopes to cash in unlisted shares rested on a deal with Electrica for its minorities. In some statements from February, FP suggested that a positive conclusion might be reached soon, but surprisingly the two parties announced recently that negotiations ceased as they were not able to reach an agreement on price. As no deal with Enel and Electrica materialized, FP's current cash position looks quite stretched. It calls for other large divestments to finance its buy-backs from 2H 15 onwards and even to cover partially dividends payment, although there is a possibility for Hidroelectrica to pay dividends and alleviate a bit the situation. Despite the setback at the end of 2014, the secondary listing in London seems now more likely. It should make FP investible for a larger base of investors and might cut a few percentage points from the discount, but we continue to doubt that it would go down below 18.5% which we consider the fair level given FP's portfolio structure. We reiterate the HOLD rating for the stock but we consider that FP will always remain on investors' radar if they want to increase their equity exposure to Romania.

Valuation and recommendation: The plunge in oil price has dragged down the share price of OMV Petrom which is by far the main reason for the lower value assigned to FP's shares portfolio, RON 11.9 bn, down 6.3% versus our previous update. The total value of unlisted shares is also slightly down, mainly due to lower values for utilities on reduced peers' multiples (we value separately the most important unlisted stakes either with comparables or with simplified DCFs in a few cases). Our NAV estimate is RON 12.0 bn, corresponding to a per share value of RON 1.115, down 5.9% versus November and 5.4% below FP's official one for February. In November we altered the discounts used for setting the fair value and we leave them unchanged now: 12.5% for listed shares (justified by the average discounts from FP's ABBs before banks' fees), 25% for unlisted shares and 1.5% for cash (justified by the cost of distributions). Thus, we set a TP of RON 0.91, down from RON 0.97 before, which unlike many of our TPs, is a fair value and not carried forward for 12m.

Key figures and ratios

	RON mn	EUR mn
Portfolio	11,873.0	2,688.8
- Listed	5,901.9	1,336.6
- Not-Listed	5,971.1	1,352.2
Debt adj. for deferred taxes	32.4	7.3
Cash	202.6	45.9
NAV	12,043.2	2,727.4
NAV per share (RON/EUR)	1.11	0.25
Current price (RON/EUR)	0.846	0.192
Discount to NAV (%)	-24%	-24%
Current fair value	9,809.6	2,221.5
Target price (RON/EUR)	0.91	0.21

Source: Fondul Proprietatea, Raiffeisen Bank estimates

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Raiffeisen BANK

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

Raiffeisen CENTROBANK

Valuation

We assess FP's NAV based on portfolio's details as of December 2014 while the cash position and the number of shares come from to the official NAV published for end of February 2015. From the composition point of view, no significant changes took place since our November update, as no major transactions occurred. The only alteration to portfolio composition was the plunge in cash position following the December tender offer for 750 mn of its own shares. We mark to market listed shares and for the most relevant unlisted shares we attach our own values, based on simplified DCFs or comparables valuation.

Our NAV per share estimate is RON 1.115, 6% down on previous update

The decrease in OMV Petrom's (SNP) share price since November, triggered by the plunge in oil price, was the main reason for the 6.3% drop in the value of the fund's shares portfolio to RON 11.9 bn. Compared to our previous update, we also assigned a slightly lower value to FP's stakes in electricity and gas utilities. Adding a net cash position of RON 170 mn, we get a total NAV of RON 12.0 bn, equivalent to a per share value of RON 1.115, down 6% vs. the previous report.

Fondul Proprietatea valuation table

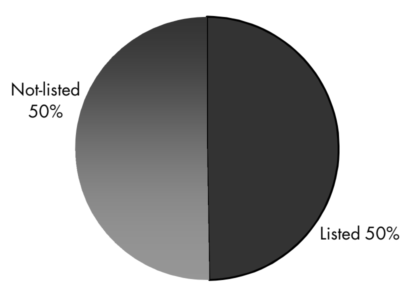
	RON mn	EUR mn
Portfolio	11,873	2,689
- Listed	5,902	1,337
- Not-Listed	5,971	1,352
Debt adj. for deferred taxes	32	7
Cash	203	46
NAV	12,043	2,727
NAV per share (RON/EUR)	1.11	0.25
Current price (RON/EUR)	0.846	0.192
Discount to NAV (%)	-24%	-24%
Discount for listed shares and cash	12.5%	12.5%
Discount for not-listed shares	25.0%	25.0%
Value of discounted portfolio	9,642	2,184
Net cash	170	38.5
Current fair value	9,810	2,221.5
Target price (RON/EUR)	0.91	0.21

Source: Raiffeisen Bank estimates; Prices as of April 7, 2015, 6:30 CET+1AM

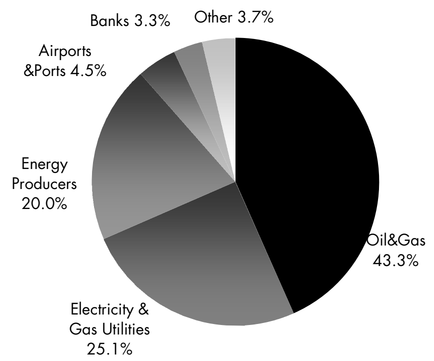
The weight of listed shares went down to 50% on the back of SNP share price decrease

The lower share price of SNP also meant a decrease in the weight of listed shares in total shares portfolio from 52% in November to currently 50%. Nevertheless, SNP continues to be FP's largest asset with 32% and together with Romgaz (SNG) account for 43% of the shares portfolio. Hidroelectrica is the second largest FP stake and also the largest unlisted individual asset.

Portfolio Structure: Listed vs. Not-Listed



Portfolio Structure by Sector

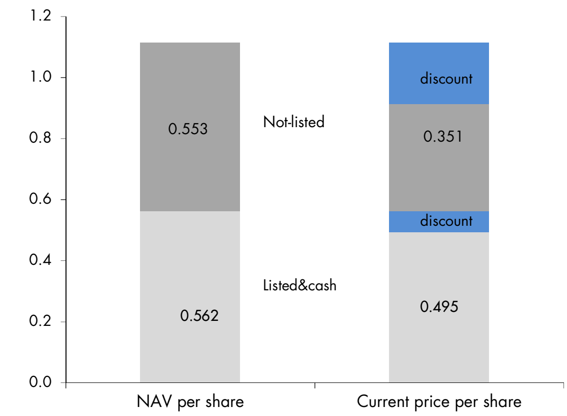


Source: Raiffeisen Bank estimates

The implied discount asked by the market for unlisted is around 35%

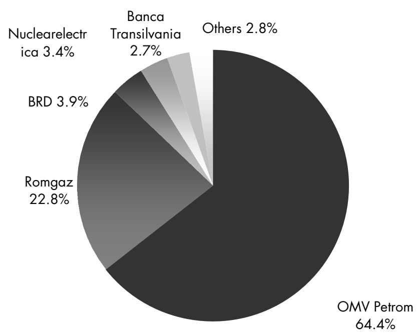
The NAV per share corresponding to the listed & cash position is currently at RON 0.562 for which we consider that market demands a similar discount to ours of 12.5%. This means that out of the current market price of RON 0.846, RON 0.495 is attributable to the listed portion. Going further, this means that the price given by the market to the unlisted part of NAV of RON 0.553 is RON 0.351, implying a discount demanded of 36%. This discount for the unlisted part reached an all-time low of 30% back in November during tender offer, but it stood at 48% just one year ago.

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



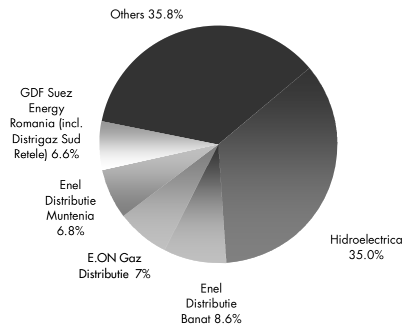
Source: Company, Raiffeisen Bank estimates

Listed Portfolio Structure



Source: Raiffeisen Bank estimates

Not-Listed Portfolio Structure



Source: Raiffeisen Bank estimates

Listed shares are marked to market

Listed companies: We mark to market the listed shares based on the closing prices as of April 6 (with a 50% discount for the small illiquid companies).

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%	3,802.5	32.03%
Romgaz	SNG	Oil&Gas Producer	10.0%	1,343.2	11.31%
BRD	BRD	Banks	3.6%	232.1	1.95%
Nuclearelectrica	SNN	Energy Producer	9.7%	201.3	1.70%
Banca Transilvania	TLV	Banks	2.9%	157.9	1.33%
Alro	ALR	Aluminium Smelter	10.2%	84.1	0.71%
Conpet	COTE	Oil&Gas	6.1%	33.3	0.28%
Romaero	RORX	Machinery & Engineering	21.0%	23.0	0.19%
Primcom	PRIB	Real Estate	69.0%	14.8	0.12%
Alcom	ALCQ	Retail/Real Estate	71.9%	4.4	0.04%
Oil Terminal	OIL	Oil&Gas	6.3%	3.2	0.03%
Palace	PACY	Hotels	15.4%	1.2	0.01%
IOR	IORB	Optical and photo production	2.8%	0.5	0.00%
Forsev	FORS	Metallurgy	26.5%	0.3	0.00%
Mecon	MECP	Metallurgy	12.5%	0.1	0.00%
Comcereal Cluj	COCL	Agriculture	11.4%	0.0	0.00%
Romplumb - in insolventa	ROMR	Lead producer	33.3%	0.0	0.00%
Total				**5,901.9**	**49.7%**

Source: Bucharest Stock Exchange; Stock prices as of April 7, 2015, 6:30 CET+1AM

We see a slightly lower value for unlisted stakes on the back of reduced valuation for electricity&gas utilities

Not-listed companies: To 22 companies we attach our own price tags whose cumulated weight in FP's share portfolio is 49%. Their total value is slightly below our previous update mainly due to a lower value attached to electricity & gas utilities on the back of smaller peers' multiples (we apply comparables valuation for non Electrica utilities based on 2013 P/E, EV/EBITDA and EV/RAB). For Hidroelectrica we barely raised our DCF valuation despite lower WACC and better results for FY 2014 since we learned that its actual normalized output is smaller than what we knew before. On the other hand, we see a higher value for airport companies driven by very strong traffic figures.

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

Company	Sector	Valuation method / Comparables Multiples Used	FP stake	FP stake Value	% of FP Portfolio
Hidroelectrica	Energy Producer	Discounted Cash Flow	19.9%	2,092.5	17.6%
CE Oltenia	Energy Producer	Discounted Cash Flow	21.6%	85.9	0.7%
Electrica Distributie Muntenia Nord	Energy Distribution	Implied from Electrica's market cap	22.0%	192.0	1.6%
Electrica Distributie Transilvania Nord	Energy Distribution	Implied from Electrica's market cap	22.0%	172.4	1.5%
Electrica Distributie Transilvania Sud	Energy Distribution	Implied from Electrica's market cap	22.0%	176.9	1.5%
Enel Distributie Banat	Energy Distribution	Avg. P/E, EV/EBITDA, EV/RAB	24.1%	510.8	4.3%
Enel Distributie Dobrogea	Energy Distribution	Avg. P/E, EV/EBITDA, EV/RAB	24.1%	342.6	2.9%
Enel Distributie Muntenia	Energy Distribution	Avg. P/E, EV/EBITDA, EV/RAB	12.0%	405.2	3.4%
Electrica Furnizare	Energy Supply	Implied from Electrica's market cap	22.0%	65.0	0.5%
Enel Energie Muntenia	Energy Supply	Net cash position	12.0%	60.2	0.5%
Enel Energie	Energy Supply	Net cash position	12.0%	47.1	0.4%
E.ON Distributie	Gas Distribution	Avg. P/E, EV/EBITDA, EV/RAB	18.3%	430.9	3.6%
E.ON Energie Romania	Gas Supply	Avg. P/E, EV/EBITDA	13.4%	185.0	1.6%
GDF Suez Energy Romania (incl. Distrigaz Sud Retele)	Gas Distribution&Supply	Avg. P/E, EV/EBITDA, EV/RAB	12.0%	396.8	3.3%
CN Aeroporturi Bucuresti	Airports	Discounted Cash Flow	20.0%	347.3	2.9%
Aeroportul International Timisoara Traian Vuia	Airports	Avg. P/S, EV/EBITDA, P/Pax, discounted by 30%	20.0%	25.0	0.2%
Aeroportul International Mihail Kogalniceanu	Airports	Avg. P/S, EV/EBITDA, P/Pax, discounted by 30%	20.0%	7.0	0.1%
CN Administratia Porturilor Maritime	Ports	Avg. PE, P/S, EV/EBITDA, discounted by 30%	20.0%	137.3	1.2%
CN Administratia Porturilor Dunarii Maritime	Ports	FP's official figure	7.7%	0.0	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	Avg. PE, P/S, EV/EBITDA, discounted by 30%	20.0%	2.4	0.0%
CN Administratia Canalelor Navigabile	Ports	Avg. PE, P/S, EV/EBITDA, discounted by 30%	20.0%	9.8	0.1%
Posta Romana	Postal Services	P/Sales, discounted by 60%	25.0%	92.4	0.8%
Total				**5,784.4**	**48.7%**

Source: Raiffeisen Bank estimates

We rely on FP's figures for 14 small stakes

For the remaining 14 companies with a total weight of 1.6% in total shares portfolio, we use the values provided by FP in its official NAV.

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	1.2%
Zirom	Titanium Processing	100.00%	39.3	0.3%
Plafar	Health Care	48.99%	1.8	0.0%
Comsig	Retail	69.94%	1.5	0.0%
Electroconstructia Elco Cluj	Electric installation services	7.61%	0.7	0.0%
Cetatea	Real Estate	20.43%	0.4	0.0%
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%
Fecne - in bankruptcy	Metallurgy	12.12%	0.0	0.0%
Petrotel Lukoil	Oil & Gas	1.18%	0.0	0.0%
Total			**186.7**	**1.6%**

Source: Fondul Proprietatea, Raiffeisen Bank estimates

Net cash position stands at just RON 170 mn, barely enough for the current buy-back

FP's cash position was seriously depleted after the conclusion of its fourth buy-back program which included a tender offer for 750 mn shares and no divestment since November. As of February the cash&receivables stood at RON 203 mn while its debt amounted to RON 32 mn. This means that we get a total NAV of RON 12.0 bn which corresponds to a NAV per share of RON 1.115, implying a discount of 24.1%. Back in November, the discount stood at 20%, but given the current reduced weight of listed shares with their lower discount, this evolution is not surprising.

We keep our HOLD rating and cut the TP to RON 0.91

After adjusting in November the discounts we apply to get our fair value, this time we left them unchanged. For listed shares we apply 12.5%, justified by FP's ABBs which were done at discounts of around 8% (for small stakes relatively to FP's total portfolio) without taking into account the fees paid for brokers/banks. For unlisted shares we apply a discount of 25% (while the market is demanding now 36%) and we discount the cash by 1.5% to account for FP's costs related to distribution and Franklin Templeton's management fees.

We set our TP per share at RON 0.91, 6% lower compared to our previous one from November, based on a fair value of FP's NAV of RON 9.8 bn. Once again we stress out that this TP is a fair value and it is not carried forward for 12m. We reiterate our HOLD rating for the stock, on limited room for discount compression toward a level we deem as fair which we see close to around 18.5%.

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.
- Unpredictable fiscal regime, since meeting assumed fiscal targets in the short term is challenging.
- The transparency of some portfolio companies has not yet reached acceptable levels.

Recent developments/update

New buy-backs are thrown at reducing the discount

Returning cash to shareholders. Returning cash to shareholders is cornerstone for FP's strategy to lower the discount, pleasing many of its shareholders. The fund is now able to implement faster the buy-back programs, thanks to a more receptive FSA. FP is running a cycle of one small buy-back program (around 2% of outstanding shares) followed by one large buy-back (around 8% of outstanding shares). Currently a fifth small program of 228 mn shares is on-going and is expected to end by the end of spring and FP has proposed another large one of 892 mn shares. We expect again that the large buy-back will contain a tender offer, allowing big shareholders to exit at a higher price without distorting the sentiment toward the stock.

In line with stated dividend policy, FP has already proposed the payment in 2015 of a special dividend of RON 0.05 through the reduction in the share capital. The ex-date was set for June 23, with payments starting on June 29.

The current stretched cash position suggests more divestments needed

Divestments/cash position. For the past years FP used to finance its buy-backs mainly through divestments while the dividends payments used to be financed with dividends received from portfolio companies. As no divestments took place since November and the perspective for dividends this year looks bleak, the cash position of FP seems stretched. As of end of February its net cash&receivables was barely enough to pay for the on-going buy-back. As for the dividends to be received, we estimate that FP will get this year almost RON 250 mn less than in 2014, due to lower dividends from SNP and the reduced stake in SNG. This means that FP will have to cover around RON 130 mn for the payment of its special dividends from other sources. The situation might brighten if Hidroelectrica pays dividends, as the judicial administrator said that he would propose a pay-out of 80% for 2014. FP should receive around RON 150 mn but the payment is still uncertain since the company is in insolvency and the proposal should also be approved in the creditors meeting.

The fund indicated that short term cash shortages might be covered by bridge loans, but ultimately this leads to more divestments. After Enel has announced that it cancelled the sale of its Romanian assets, FP hopes rested on a deal with Electrica. There were expectations that a deal could have been reached in 1H 15, but surprisingly the two parties announced a few days ago that they ceased the negotiations due to the lack of an agreement on price. Thus, FP desperately needs more divestments to fund the proposed sixth buy-back and so far the only potential deal is the already announced one for SNP. Since our previous update, oil price plunged, dragging down SNP share price. In this context we believe that a deal is not imminent. We expect that FP is looking to a deal which might include a GDRs component on the London Stock Exchange which should lead to a re-rating of SNP shares, an implicitly its NAV through the remaining shares. A recent decision of FSA, to delay the switch to IFRS reporting until January 1, 2016 might complicate a bit a potential deal for a large stake in SNP. A switch back to RAS, means that FP would need shareholders' approval for any big deal (i.e. a stake of more than 8%), since SNP shares are classified as non-current assets under RAS.

Finally the secondary listing seems more likely

Secondary listing. FP's plans for a secondary listing on London have been dealt a blow in December, when FSA rejected a legislation which would have allowed such a listing through Depository Interests (DIs). In January, shareholders have voted to mandate the management to complete the secondary listing by July 10 either through GDRs, for which the needed legislation is in place, or through DIs, if the local FSA changes its mind. The manager has expressed its preference for DIs but has also started to work on the listing through GDRs, for which the formalities are more cumbersome. FP is targeting a secondary listing somewhere in late April or early May. In the meantime, the FSA seemed to have changed its mind and might approve the legislation which allows DIs but considering its time constraints, we expect FP to proceed with a listing through GDRs.

Power Generators

The value attached to power generators is slightly below the one from our previous update, mainly due to the decrease in Nuclearelectrica's share price on the stock exchange. A modest increase in Hidroelectrica's valuation was mitigated by the lower valuation of CE Oltenia.

Summary of Key Figures for Power Generators

Producer	Effective capacity (MW)	EBITDA margin 2014e	FV derived from DCF (RON mn)	DCF Valuation EUR mn/MWh
Hidroelectrica	6,180	61%	10,494	0.38
Nuclearelectrica*	1,414	34%	2,209	0.35
CE Oltenia	3,570	13%	399	0.03

Source: Raiffeisen Bank estimates
**listed*

Overcapacity in the Romanian power generation sector is here to stay as we do not expect the needed decisive restructuring measures to be taken soon and we see power consumption to grow only slowly in the medium term. On the other hand, there are some signs that we might witness a bottom out of Romanian power prices in 2015.

Hidroelectrica

Officials are mentioning the possibility of an exit from insolvency in 2016

Our fears that a June 2015 exit from insolvency was an ambitious target seem to have been confirmed. Both the judicial administrator and FP's manager have changed their rhetoric on this topic. The judicial administrator said recently that Hidroelectrica might settle its litigations with traders, on which the exit from insolvency depends, in 2015 or early 2016. On the other hand, the power generator continues to have success in the Court which rejected complaints of the traders against the opening of the insolvency procedure and the instauration of the force majeure clause. They have the possibility to appeal these decisions at the Court of Appeal. Consequently, the IPO is unlikely this year, with FP's manager stating that even an offer in 2016 is not assured due to the uncertainties related to insolvency.

From an operating point of view, Hidroelectrica had a blockbuster 2014e, as expenses were kept under control and especially due to exceptional hydrological conditions. Unconsolidated preliminary figures for 2014 show that sales went up by 10.4% yoy to RON 3.4 bn on the back of a 25% yoy growth in output to 18.5 TWh while the net power price most likely decreased by 14% yoy to RON 149 /MWh (the price on the competitive market plunged 15% yoy to RON 161/MWh). Despite the tax on special constructions, EBITDA improved to RON 2.2 bn while net stand-alone profit surged by 34% yoy to RON 967 mn.

We reduced our projections for the power output going further, as we found out from the company's top management that the output for a normal hydrological year is 16.0-16.5 TWh and not 17.5 TWh which is usually stated by Hidroelectrica. The latter is a relic of the communist era when there was a tendency to overstate figures. The lower normal seems to be validated by Hidroelectrica's average annual output for the period 2006-2014 which is 16.3 TWh.

Hidroelectrica Business Model Assumptions

		2012	2013	2014f	2015e	2016e	2017e	2018e	2019e
Revenues	RON mn	2,451	3,154	3,443	3,176	3,263	3,416	3,577	3,688
EBITDA	RON mn	821	1,959	2,088	1,904	1,968	2,071	2,201	2,278
EBITDA margin	%	33%	62%	61%	60%	60%	61%	62%	62%
Gross power generated	TWh	12.1	14.8	18.5	16.7	16.5	16.6	16.7	16.9
Power sold	TWh	12.8	15.0	18.5	17.0	16.8	16.8	17.0	17.1
% of power sold on regulated market	%	32%	26%	29%	25%	16%	6%	0%	0%
Avg. net selling price of power	RON/MWh	150.3	172.7	149.3	150.3	156.6	164.5	171.8	175.7
Royalties for water	RON/MWh	21.9	21.6	21.6	21.6	21.6	22.7	22.7	22.7
Salaries	RON/MWh	47.5	32.0	22.5	24.9	26.1	27.0	27.5	28.0
Other expenses (incl. tax on special constructions	RON/MWh	19.0	10.5	14.7	13.5	13.9	14.2	14.4	14.6

Source: Hidroelectrica, Raiffeisen Bank estimates

A decrease in WACC mitigated by the revelation of lower normal output

Hidroelectrica's price on the competitive market has apparently contracted less than Nuclearelectrica's, helped probably by the renegotiated contract with a "smart guy", namely Alro. For 2015e we see a 1% decrease in average net price on the competitive market to RON 160 /MWh and then we see it to grow at a CAGR of 2.3% through 2019e. On the regulated market the price for 2015e was set at RON 120 /MWh, flat on 2014 average and we assume only marginal increases until 2017e, the last year for this market.

Despite lower WACC assumptions compared to our previous update, on the back of a drop in risk free rates, our simplified DCF yields a fair value of equity of RON 10,494 mn, only 2% higher as the revision of the normal output has acted in an opposing direction. To be on the safe side, we continue to assume that Hidroelectrica will have to pay some damages (RON 700 mn) to "smart guys" to settle the litigations for good. CAPEX have dropped significantly during the past two years but we continue to assume the CAPEX will start to grow from 2015e. The company announced that would invest around EUR 350 mn over the next four years to refurbish four plants with an installed capacity of over 1,000 MW. The company representatives also mentioned the possibility of some exotic projects like renewables and foreign generation assets.

Hidroelectrica DCF Valuation

RON mn	2015e	2016e	2017e	2018e	2019e
EBIT*(1-T)	789	829	891	992	1,057
Depreciation	979	995	1,010	1,020	1,020
Change in WC	-250	-125	-95	-80	-65
CAPEX	-534	-541	-535	-875	-970
FCFF	984	1,158	1,271	1,057	1,042
WACC	8.5%	8.9%	9.6%	9.6%	9.7%
Discounted FCFF	927	1,002	1,004	761	684
PV of FCFF	4,377				
Terminal growth rate	0.0%				
TV	10,625				
PV of TV	6,975				
Net debt	159				
Claims due to insolvency	700				
Fair Value	10,494				

Source: Raiffeise Bank estimates

CE Oltenia

The company continues to suffer due lack of restructuring in the context of low prices

The integrated coal based generator's problems aggravated in 2014 due to a lack of restructuring, lower power prices and flat domestic power consumption which is capping its capacity utilisation. The planned listing of the company seems a distant prospect and more and more insolvency is mentioned in association with CE Oltenia.

The company's output was probably up 1.5% yoy in 2014e, thanks to exports, to 11.8 TWh, but a far cry from more than 17 TWh recorded in 2012. The higher renewables installed capacity (more than 5,000 MW at the end of 2014) is limiting the ability of the company to expand the output even under adverse hydrological conditions. Figures for 2014 are not yet available, but the company's representatives were hinting that the power generator was deeply in red as average price dropped by 12% yoy. We expect that its EBITDA halved to RON 282 mn, implying a margin of only 13%, with a net loss of slightly more than RON 400 mn.

CE Oltenia Business Model Assumptions

		2012 (7m)	*2013*	*2014f*	*2015e*	*2016e*	*2017e*	*2018e*	*2019e*
Sales	RON mn	2,237	2,429	2,228	2,335	2,462	2,655	2,861	3,006
EBITDA	RON mn	410	543	282	515	702	853	1,023	1,093
EBITDA margin	%	18.3%	22.4%	12.6%	22.0%	28.5%	32.1%	35.8%	36.4%
Electricity									
Gross Power Production	TWh	10.1	11.6	11.8	12.6	13.0	13.7	14.5	14.9
Avg. Selling Price	RON/MWh	217	182	160	162	167	173	178	182
Lignite									
Lignite production (out of which)	'000 tons	17,300	21,124	20,856	21,382	21,610	22,612	23,710	24,392
- Own consumption		13,900	16,037	16,277	17,376	17,804	18,739	19,770	20,382
CO_2 Certificates									
CO_2 Certificates Allocated	mn	8.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CO_2 Emissions*	mn tons	16.4	10.6	10.5	11.1	11.4	11.9	12.5	12.8
CO_2 Certificate Price	EUR	5.1	4.5	6.5	7.0	7.0		8.2	9.5
Specific Costs per MWh									
Lignite	RON/MWh	93.4	103.9	108.5	103.3	103.5	105.3	106.9	108.9
CO_2 Certificates	RON/MWh	5.6	18.1	25.8	27.4	27.0	28.0	29.9	34.1
Personnel (excluding mining staff)	RON/MWh	32.4	45.1	43.7	36.3	32.3	30.8	29.1	28.2

Source: CE Oltenia, Raiffeisen Bank

**Emissions for the whole 2012*

We lowered further our valuation for the total equity of the company to RON 399 mn

We attach a price tag of only RON 399 mn to the company's total equity, down 22% compared to our previous estimate, as the lower projections more than outweighed the reduced WACC. We took into account the recent restructuring measures leaked to the media such as the lay-off of 3,000 employees (out of its almost 19,000), the closing down of several mines plus two units of Turceni power plant and the two units at Braila power plant (a distressed power plant taken over a year ago to please the government). We see the company being back in black only in 2017e.

CE Oltenia DCF Valuation

RON mn	*2015e*	*2016e*	*2017e*	*2018e*	*2019e*
EBIT*(1-T)	-95.2	74.6	208.8	361.3	345.6
Depreciation	610	627	644	661	682
Change in WC	-75	-80	-90	-90	-100
CAPEX	-555	-525	-500	-520	-620
FCFF	-115	97	263	413	308
WACC	7.6%	7.9%	8.8%	8.8%	8.9%
Discounted FCFF	-109	85	212	306	210
PV of FCFF	704.3				
Terminal growth rate	0.0%				
Terminal WACC	9.8%				
TV	3,119				
PV of TV	2,127				
Net debt	2,433				
Fair Value	399				

Source: Raiffeisen Bank estimates

Power and Gas Supply and Distribution

Key 2013 Figures for Distribution Companies

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

Source: Companies, Raiffeisen Bank estimates

** End-2013 PPE excl. subsidies and work in progress*
***E.On Moldova Distributie was merged into E.On Gaz Distributie on December 31, 2014*

Rate of return for power distribution has been cut to 7.7% from 8.5% starting 2015, while for gas utilities remained at 8.6%

In late 2014 the regulator has approved a legislation which allowed it to revise the rate of return to avoid "the recognition in tariffs of excessive cost of capital" for power distribution. Subsequently, it cut this rate from 8.5% to 7.7% starting 2015 until the end of the regulatory period 2014-2018. The reason behind the decision was the drop in Romanian sovereign bonds yields. We remind that electricity supply for captive market is regulated on a cost plus methodology and there is no regulation for the competitive market.

The regulated rate of return for both distribution and gas supply has been left unchanged for the moment at 8.6%.

Valuation

We try to mark to market Electrica minorities

In our previous update on FP we valued Electrica's subsidiaries based on the implied pre-money valuation at the moment of the IPO, which we remind was done at a price of RON 11.0. In the meantime, Electrica's share price reached RON 11.85. We now try to mark to market FP's minorities, thus we start with Electrica's current market cap from which we deduct the cash raised through IPO, which is anyway kept at headquarter level, and we consider that the resulting value corresponds to a 78% equity interest in Electrica's distribution and supply subsidiaries (we assume that the other segments have zero value). This implied valuation is also in the middle of the range represented by the two parties' expectations during the latest round of negotiations, according to the media. FP is said to have been asked for its Electrica minorities RON 770 mn which is the value from its official NAV, while Electrica offered RON 500 mn, very close to the implied value based on the IPO of RON 524 mn. There is a downside risk for this valuation, as according to the same sources Electrica might try to force FP's hand by performing share capital increases at subsidiaries level. Given FP's stretched cash position, the fund faces a dilution risk.

Electrica Minorities Valuation

RON mn	Fair value	RAB
Current market cap of Electrica	4099	n.a.
Cash from IPO (at HQ level)	1949	n.a.
Implied value for 78% of Electrica's subsidiaries	2150	n.a.
Implied value of FP minority stakes (out of which)	606	n.a.
EDMN	192	1446
EDTN	172	1298
EDTS	177	1332
EF	65	n.a.

Source: Raiffeisen Bank estimates

We value FP's stakes in the other distribution and gas utilities with a comparables valuation based on their 2013 figures (their FY 2014 figures are not yet available). We assign the values for the distribution companies by averaging the implied values from P/E, EV/EBITDA and EV/RAB multiples. In November 2014, E.ON Moldova Distributie, the power distribution company, was merged into E.ON Gaz Distributie, the gas distribution company, which was rebranded as E.ON Distributie Romania. The Enel supply companies have negative net profit and EBITDA, therefore we continue to value then according to their net cash positions. E.ON Energie, the supply company is valued based on P/E and EV/EBITDA multiples.

Peer Group 2014 Multiples

	P/E	*EV/EBITDA*	*EV/RAB*
Energa	10.4	5.7	1.3
PGE	10.7	4.5	2.7
ENEA	7.9	4.2	1.4
Tauron	6.9	4.0	1.1
CEZ	15.2	7.2	5.0
Transelectrica	5.6	3.4	0.9
Transgaz	6.4	3.9	1.0
Median	**7.9**	**4.2**	**1.3**

Source: Bloomberg, Raiffeisen Bank estimates

Enel, E.ON and GDF Minorities Valuation

RON mn	*PE of 7.9*	*EV/EBITDA of 4.2*	*EV/RAB of 1.3*	*Avg. fair value*	*Avg fair value (FP's stake)*
Enel Banat	1,499	2,212	2,643	2,118	511
Enel Dobrogea	1,050	1,389	1,828	1,422	343
Enel Muntenia	2,101	3,290	4,738	3,376	405
Enel Energie				393	47
Enel Energie Muntenia				501	60
E.ON Moldova Distributie*	684	1,280	2,099	1,354	248
E.ON Gaz Distributie *	533	750	1,703	995	183
E.On Energie	1,765	998		1,382	185
GDF Suez Energy	3,516	2,990	3,422	3,309	397

Source: Raiffeisen Bank estimates

**E.ON Moldova Distributie has been merged into E.ON Gaz Dsitributie in December 2014*

Transportation Sector

For the most important stake within this sector, CN Aeroporturi Bucuresti, we use a simplified DCF valuation while for the rest we apply a comparative valuation (with the exemption of CN Adm. Porturilor Dunarii Maritime for which we assign a value of zero, such as FP official figure, due to the difficult financial standing). For peer comparison we still used 2013 financial figures while for airports companies we also used 2014 passengers traffic data.

Valuation Summary

Company Name	*Sector*	*Fair Value, RON mn*	*FP Stake, %*	*FP stake value, RON mn*	*% of FP Portfolio*
CN Aeroporturi Bucuresti	Airports	1,736.6	20.0%	347.3	2.9%
Aeroportul International Timisoara Traian Vuia	Airports	124.9	20.0%	25.0	0.2%
Aeroportul International Mihail Kogalniceanu	Airports	35.0	20.0%	7.0	0.1%
CN Administratia Porturilor Maritime	Ports	686.8	20.0%	137.3	1.2%
CN Administratia Porturilor Dunarii Maritime	Ports	0.0	7.7%	0.0	0.0%
CN Administratia Porturilor Dunarii Fluviale	Ports	11.9	20.0%	2.4	0.0%
CN Administratia Canalelor Navigabile	Ports	48.8	20.0%	9.8	0.1%
Total				**528.7**	**4.5%**

Source: Raiffeisen Bank estimates

CN Aeroporturi Bucuresti

Passengers growth of 8.8% in 2014

The traffic figures for the company which operates two airports in Bucharest, improved throughout the whole 2014, with a total number of passengers of 8.3 mn, up 8.8%. The number of planes movements increased also by around 6% yoy. For 1H 14, the company reported a jump in operating revenues of 7.9% yoy while net profit surged 69% yoy to RON 53 mn as expenses were kept under a tight control. The company is considered as an IPO candidate, but detailed plans lack for the moment.

CN Aeroporturi Bucuresti DCF Assumptions

		2012	*2013*	*2014f*	*2015e*	*2016e*	*2017e*	*2018e*	*2019e*	*2020e*
Growth in pax	%	1.3%	1.3%	8.8%	4.1%	3.4%	3.1%	3.1%	3.0%	2.9%
Growth revenues per pax	%	10.9%	3.3%	1.8%	3.0%	3.0%	2.7%	2.6%	2.5%	2.5%
Staff expenses growth rate	%	15.8%	6.4%	-1.4%	2.0%	4.0%	5.0%	4.8%	4.8%	5.0%
Other expenses to sales ratio	%	31.8%	32.4%	31.1%	31.2%	33.0%	33.7%	33.7%	33.8%	33.8%
CAPEX	RON mn	299	39	100	125	175	175	175	175	185

Source: CN Aeroporturi Bucuresti, Raiffeisen Bank estimates

We hiked our valuation of company's equity by 24% to RON 1,737 mn

We lowered WACC assumptions and revised up our estimates, that is why our simplified DCF points to a fair value of the company's equity of RON 1,737 mn, up 24% compared to our previous update.

CN Aeroporturi Bucuresti DCF valuation

RON mn	*2014f*	*2015e*	*2016e*	*2017e*	*2018e*	*2019e*	*2020e*
Sales	650	697	742	786	832	879	927
yoy growth	12%	7%	7%	6%	6%	6%	6%
EBITDA	263	290	299	312	331	350	370
EBITDA margin	41%	42%	40%	40%	40%	40%	40%
CAPEX	-100	-125	-175	-175	-175	-175	-185
Change in WC	18	-1	5	3	2	2	2
FCFF	159	139	102	112	127	144	151
WACC	n.m.	7.2%	7.8%	8.5%	8.5%	8.7%	9.7%
Disc. FCFF	n.m.	132	90	91	95	99	95
PV of FCFF	602						
TV growth rate	3.0%						
TV	2,018						
PV of TV	1,267						
Net Debt	132						
Fair Value	1,737						
FP's stake	347						

Source: CN Aeroporturi Bucuresti, Raiffeisen Bank estimates

Fact Sheet

Company description

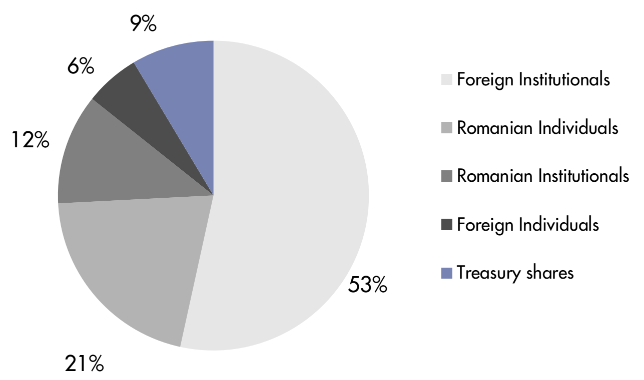
Fondul Proprietatea was established by the Romanian State with the purpose to redeem the owners that had been dispossessed abusively of their properties by the former communist regime and whose seized assets could not be returned in kind. FP was set up in 2005 as an investment company and all of its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

FP has a strong weight of energy shares (including oil exploration and gas and power production, supply and distribution), which come to represent 90% of its shares portfolio. The 19% stake held in the oil&gas producer Petrom (SNP) accounts for around 32% of its portfolio. Other sectors include transportation services (several airports and ports), banks, the aluminium producer Alro and the National Postal Services company.

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

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

Shareholder structure



Strengths/Opportunities

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

Weaknesses/Threats

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

Recommendation history

Date	*Rating*	*Target Price*	*Prev. day's close*	*Upside*
17.11.2014	Hold	0.97	0.94	2.9%
26.03.2014	Buy	0.87	0.79	9.9%
19.11.2013	Buy	0.90	0.80	12.5%

Coverage universe recommendation overview

	buy	*hold*	*reduce*	*sell*	*suspended*	*UR*
Universe	44	61	11	4	16	9
Universe %	30%	42%	8%	3%	11%	6%
Investment banking services	14	21	3	1	2	1
Investment banking services %	33%	50%	7%	2%	5%	2%

Source: Raiffeisen Centrobank, rounding differences may occur

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