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Fondul Proprietatea Management roadshow takeaways

We spent time with management of Fondul Proprietatea (FP) and have returned confident in our BUY rating. Although the stock price has pulled back due to its c. 45% exposure to the oil & gas sector, the catalysts remain intact. We have lowered our NAV to and TP as the public portfolio is marked to market, but it still implies 16% potential upside.

London listing by May 2015 at the latest

The London technical listing faced a hiccup due to the Romanian regulator (FSA) not approving the Depository Interest (DI) route, based on the fear of liquidity being taken away from Romania. The GDR route has been approved and the prospectus is being finalised. Management has gone back to the FSA, maintaining that since the GDR is more likely to steal away liquidity, the FSA should reverse its decision on the DI ruling. Whether GDR or DI, the listing will occur by May 2015 at the latest.

No fear of management contract being revoked

Though Franklin Templeton Investment Management (FTIM) has not met the criteria of lowering the discount to NAV to 15% for two-thirds of the agreed trading year (1 October 2014 – 30 June 2015), it has assured investors that its management contract will not be revoked and re-tendered. The continuance vote will take place in September 2015. If FP were listed right now, it would have the steepest discount to NAV out of the top 15 funds on the LSE, thus we are optimistic on the discount contracting from current 29% levels.

Hidroelectrica IPO delayed, but had record profits

Due to ongoing litigation issues, Hidroelectrica remains in technical insolvency. However, for FY14 the company posted a record PAT of over RON1bn, despite lower electricity pricing for FY14. Further, Hidroelectrica will be paying out dividends, despite being insolvent, which will be passed on directly to shareholders. Management believes the IPO will not happen before 1H FY16.

Catalysts, though delayed, remain intact. Re-iterate BUY

There remains a list of catalysts for 1H FY15, which we believe will help with the discount contraction. ENEL distribution assets are to be disposed; the IPO of Posta Romana; a fifth buyback program and a sixth to be approved; and finally the London listing. We believe the pullback in the share price provides for an attractive entry point. We increase our discount for OMV Petrom to 10% from 5% of marked-to-market value, and we increase our discount for CE Oltenia to 50% from 25% of FP's valuation based on poor performance. We have a revised NAV of RON1.10/sh (from RON1.20/sh) and a TP of RON0.99/sh (from RON1.08/sh), implying 16% potential upside from the current price. Maintain **BUY**.

Report date: 27 January 2015

Current price, RON 0.85
Upside/downside, % 16

MktCap, RONmn 11,542.5
Average daily volume, RONmn 24.0
Free float, RONmn 80%
Bloomberg FP RO

NAV summary

RON	RenCap	FP
NAV, mn	12,020.19	13,236.70
NAV/sh	1.10	1.21
Listed % of portfolio	54	49
Unlisted % of portfolio	43	49
Cash % of portfolio	2.39	1.99

Source: Company data, Renaissance Capital estimates

Figure 1: Price performance – 52 weeks, RON

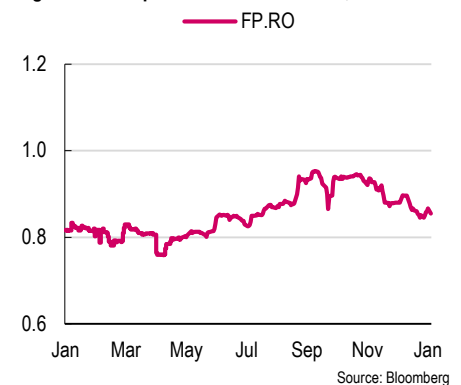


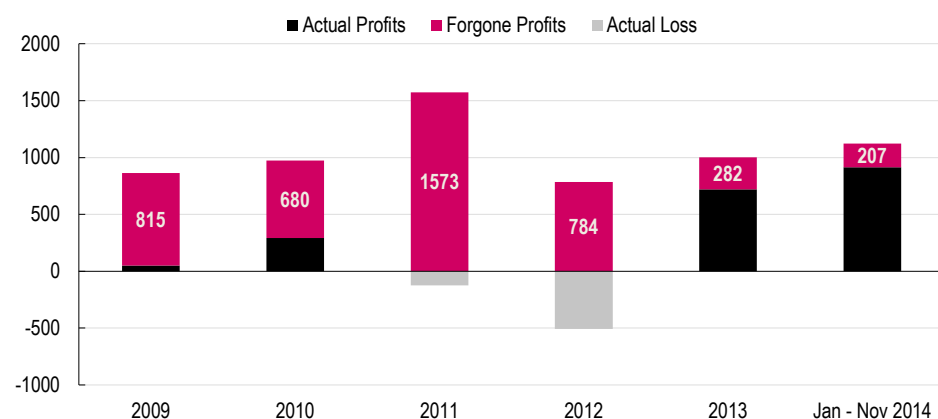
Figure 2: Top 15 funds on LSE

Fund	Symbol	Total NAV, \$bn	Premium/discount to NAV
Scottish Mortgage	SMT	4.68	2.70%
Alliance Trust	ATST	4.03	-12.50%
Fondul Proprietatea	FP	3.73	-29.00%
F&C Investment Trust	FRCL	3.69	-6.10%
RIT Capital Partners	RCP	3.33	-3.90%
HICL Infrastructure Company	HICL	2.97	17.20%
Templeton Emerging Markets UK	TEM	2.77	-11.10%
New Europe Property Investment	NEPI	2.52	48.70%
Witan	WAN	2.19	1.00%
Mercantile Investment Trust	MRC	2.16	-11.80%
Kennedy Wilson Europe Real Estate	KWE	2.15	5.00%
3i Infrastructure	3IN	2.03	12.70%
Murray International	MYI	1.97	4.20%
Caledonia Investments	CLDN	1.94	-14.50%
NB Global Floating Rate Income	NBLS	1.82	-0.60%
	Average		0.13%

Source: Company data, Bloomberg

Discount contraction is inevitable...

Figure 3: Hidroelectrica – financial performance, RONmn



Source: Company data

Impressive financial performance despite being insolvent...

Figure 4: ENEL distribution companies – financial performance, RONmn

Enel Distributie Banat (EDB)	2010	2011	2012	2013	2014 Budget
Operating revenue	593.3	621.3	636.6	659.3	571.8
Operating profit	159.7	238.3	181.2	203.4	191.3
Net income	148.4	220.5	167.2	190.7	176.1

Enel Distributie Dobrogea (EDD)	2010	2011	2012	2013	2014 Budget
Operating revenue	445.1	487.9	509.4	544.5	480.7
Operating profit	107.2	126.4	103.0	149.0	154.7
Net income	99.6	108.9	94.5	133.5	130.6

Enel Distributie Muntenia (EDM)	2010	2011	2012	2013	2014 Budget
Operating revenue	817.2	815.8	966.7	997.7	903.4
Operating profit	76.0	51.6	172.4	221.0	287.7
Net income	105.1	50.5	206.3	267.2	254.0

Source: Company data

ENEL group represents 5% of NAV to be sold and unlock cash to shareholders...

Figure 5: Strong balance sheet

	EDM	EDB	EDD
Cash/shareholders' equity	39%	37%	24%

Source: Company data

Figure 6: NAV summary, RONmn

Listed	RenCap NAV	Methodology	FP NAV	Variation	% of NAV
OMV Petrom	3,690.42	Mark to Market & Discount	4,100.47	-410.05	30.70%
Romgaz	1,802.91	Mark to Market & Discount	2,003.23	-200.32	15.00%
Transelectrica	243.23	Mark to Market & Discount	270.25	-27.03	2.02%
BRD - Group Societe Generale	206.96	Mark to Market & Discount	229.95	-23.00	1.72%
Nuclearelectrica	187.42	Mark to Market & Discount	220.50	-33.07	1.56%
Banca Transilvania	132.74	Mark to Market & Discount	147.49	-14.75	1.10%
Conpet	130.20	Mark to Market & Discount	144.67	-14.47	1.08%
Alro Slatina	77.65	Mark to Market & Discount	86.27	-8.63	0.65%
Romaero SA	19.00	Mark to Market & Discount	21.11	-2.11	0.16%
Primcom SA	12.51	Mark to Market & Discount	13.90	-1.39	0.10%
Oil Terminal SA	4.87	Mark to Market & Discount	5.41	-0.54	0.04%
Alcom	4.00	Mark to Market & Discount	4.44	-0.44	0.03%
Severnav SA	1.54	Mark to Market & Discount	1.71	-0.17	0.01%
Palace SA	1.15	Mark to Market & Discount	1.28	-0.13	0.01%
IOR SA	0.71	Mark to Market & Discount	0.78	-0.08	0.01%
Mecon SA	0.17	Mark to Market & Discount	0.19	-0.02	0.00%
Illiquid					0.00%
Comcereal Cluj SA	0.00	Mark to Market & Discount	0.00	-0.00	0.00%
Forsev	0.00	Mark to Market & Discount	7.24	-7.24	0.00%
Romplumb	0.00	Mark to Market & Discount	0.00	0.00	0.00%
Transilvania-Com SA	0.00	Mark to Market & Discount	1.66	-1.66	0.00%
	6,515.46				54%
Unlisted					
Hydroelectrica	2,094.50	Comps (EV/EBITDA, P/E, EV/CAPACITY)	2,239.41	-144.91	17.42%
GDF Suez Energy Romania	488.35	Comps (EV/EBITDA, P/E)	404.41	83.94	4.06%
ENEL Distributie Banat	436.12	Comps (EV/EBITDA, P/E)	573.25	-137.13	3.63%
ENEL Distributie Dobrogea	315.01	Comps (EV/EBITDA, P/E)	379.11	-64.10	2.62%
Aeroporturi Bucuresti	290.63	Comps (EV/EBITDA, P/E)	287.65	2.97	2.42%
ENEL Distributie Muntenia	287.21	Comps (EV/EBITDA, P/E)	473.07	-185.86	2.39%
Electrica Distributie Muntenia Nord	262.34	Comps (EV/EBITDA, P/E)	296.20	-33.86	2.18%
E ON Moldova Distributie	250.54	Comps (EV/EBITDA, P/E)	345.36	-94.82	2.08%
Electrica Distributie Transilvania Sud	200.41	Comps (EV/EBITDA, P/E)	192.00	8.41	1.67%
Electrica Distributie Transilvania Nord	196.17	Comps (EV/EBITDA, P/E)	206.70	-10.53	1.63%
E ON Gaz Distributie	123.89	Comps (EV/EBITDA, P/E)	165.20	-41.31	1.03%
CE Oltenia	60.00	FP NAV * 50% Discount	120.00	-60.00	0.50%
Other Unlisted Assets	211.77	FP NAV * 35% Discount	491.10	-279.33	1.76%
	5,216.93				43%
Cash & receivables	287.80				
Total NAV	12,020.19				
Shares outstanding, mn	10,915.98				
NAV/sh, RON	1.10				

Source: Company data, Bloomberg, Renaissance Capital