

September 24, 2014

## Fondul Proprietatea

The discount to NAV mandated at 15% for at least two-thirds of the trading sessions in the period October 1, 2014 - June 30, 2015; With the 4th buy-back on the way, a tender offer at RON 1.5/share would reach it

We updated our view on Fondul Proprietatea with a target price of RON 1.0666 per share and a BUY recommendation.

\* On the EGSM of Sep 23, shareholders approved the renewal of Franklin Templeton's mandate for a period of two years. The new management agreement includes two criteria that have to be met by the middle of the coming year: 1) trading discount to official NAV per share of a maximum of 15% for at least two-thirds of the trading sessions in the period October 1, 2014 - June 30, 2015, and 2) adjusted NAV per share as of the end of June 2015 higher than the NAV/share value of RON 1.16 from end-September, 2013.

\* The 4th buy-back of 991m shares could reduce the discount to NAV to 15% through a tender offer at RON 1.5/share. NAV/share adjusted for the cash returns would reach RON 1.2424/share, while the cash distribution in amount of RON 1,486m would stand at RON 0.1257/share. To finance the offer, the Fund would need an extra of RON 225m in cash. Reducing the OMV Petrom stake from 19% to 18% would provide the necessary funds to complete such an offer.

\* The tag-along rights in the case of Enel's exit from Distributie Muntenia and Energie Muntenia and a buy-out from Electrica's subsidiaries could increase the Fund's cash by RON 1.1b. However, Enel's exit is currently slowed down by the Romanian State that mulls over lowering the asked price.

\* On the OGSM of Sep 23, shareholders approved the new nominal value of RON 0.95/share and the cancellation of 252.9m shares bought under the 3rd buy-back. The provision imposed by the FSA which stipulated that the appointment of the Fund manager is based on the outcome of a selection made subsequent to a tender has been rejected.

\* Rumours that the Fund mandated Goldman Sachs and Erste Bank to find buyers for the OMV Petrom stake circulate in the media. The Fund holds 18.99% in OMV Petrom worth RON 5b. FP could not sell a stake of more than 7.6% in OMV Petrom without a GSM approval. According to the Fund's bylaws, it would need shareholders' approval for any transaction which exceeds 20% of the value of its non-current assets. This threshold, according to the latest financial statements is RON 2.0b.

\* The documentation for the secondary listing on LSE has been finalised and is ready to be filed as soon as FSA endorses the changes to the current regulations necessary to allow the use of Depositary Interests. Increased visibility could reduce the discount, but cash returns guarantee it.

Romania  
Closed-end investment fund

## BUY

BQ: FP RO RIC: FP.BX

Last close	RON 0.9300
<b>Target price o/w</b>	<b>RON 1.0666</b>
Upside/downside	15%
52 - Week range	RON 0.722   RON 0.948

Market cap (m)	RON 12,590	€ 2,860
Shares outstanding (m)	13,538	

Valuation (RONm)	Reported NAV	Estimated NAV	Δ%
<b>Traded shares, o/w</b>	<b>7,245</b>	<b>6,875</b>	<b>-5%</b>
OMV Petrom	5,021	4,770	-5%
Romgaz	1,370	1,302	-5%
<b>Unlisted shares, o/w</b>	<b>6,229</b>	<b>4,985</b>	<b>-20%</b>
Privately-controlled	3,394	2,823	-17%
State-controlled o/w	2,835	2,162	-24%
Hidroelectrica	2,105	1,708	-19%
Complexul Energetic Oltenia	120	58	-52%
<b>Portfolio value</b>	<b>13,474</b>	<b>11,859</b>	<b>-12%</b>
<b>Total cash &amp; equivalents</b>	<b>1,262</b>		
Cash & bank deposits	328		
Gov't securities	933		
Total assets*	15,026		
Liabilities	85		
<b>Reported NAV*</b>	<b>14,940</b>		
<b>Estimated NAV</b>		<b>13,037</b>	<b>-13%</b>
No of shares (m)	11,820		
<b>NAV/share*</b>	<b>1.2640</b>		
<b>Price/share</b>	<b>0.9300</b>		
Premium/discount to NAV	-26%		
Potential cash returns (RONm)			
<b>4th buy-back program (991m shares)</b>	<b>1,486</b>	<b>(@ RON 1.5/share)</b>	
<b>NAV/share (adj for cash returns)</b>	<b>1.2424</b>	<b>1.0666</b>	
Premium/discount to NAV		-14%	

\* latest reported



<b>Price performance</b>	1m	3m	12m	YTD
	6.9%	14.3%	28.8%	8.6%

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## Valuation

### Fondul Proprietatea: NAV estimate

(RONm)	Reported NAV Aug-14	Estimated NAV	Estimated vs. Reported NAV
<b>Traded shares*, o/w</b>	<b>7,245</b>	<b>6,875</b>	<b>-5%</b>
Listed - majors o/w	7,227	6,866	-5%
<b>OMV Petrom</b>	<b>5,021</b>	<b>4,770</b>	<b>-5%</b>
<b>Romgaz</b>	<b>1,370</b>	<b>1,302</b>	<b>-5%</b>
Listed - other	18	9	-50%
<b>Unlisted shares , o/w</b>	<b>6,229</b>	<b>4,985</b>	<b>-20%</b>
Unlisted - (privately controlled)	3,394	2,823	-17%
Unlisted - (state controlled) o/w	2,835	2,162	-24%
<b>Hidroelectrica</b>	<b>2,105</b>	<b>1,708</b>	<b>-19%</b>
<b>Complexul Energetic Oltenia</b>	<b>120</b>	<b>58</b>	<b>-52%</b>
Unlisted- other	322	161	-50%
<b>Portfolio value</b>	<b>13,474</b>	<b>11,859</b>	<b>-12%</b>
<b>Cash&amp;equivalents o/w</b>	<b>1,262</b>		
Cash & bank deposits	328		
Government securities	933		
Other assets	2		
<b>Total assets</b>	<b>15,026</b>	<b>13,123</b>	
Liabilities	85		
<b>NAV</b>	<b>14,940</b>	<b>13,037</b>	
<i>No of shares (m)</i>	<i>11,820</i>		
<b>NAV/share (RON)</b>	<b>1.2640</b>	<b>1.1030</b>	<b>-13%</b>
Last close (RON/share)	0.9300		
Discount to NAV	-26%		
<b>4th buy-back programme (991m shares)</b>	<b>1,486</b>		
<b>Adj NAV</b>	<b>13,454</b>	<b>11,551</b>	
<i>No of shares (m)</i>	<i>10,829</i>		
<b>Adj NAV/share</b>	<b>1.2424</b>	<b>1.0666</b>	<b>-14%</b>

Source: Fondul Proprietatea, Swiss Capital estimates; \* at last close

### Valuation methodology

\* **Listed companies.** We value listed companies at market value to which a sale discount of 5% is applied.

\* **Unlisted privately-controlled companies.** We value unlisted companies at relative value. No discount applied.

\* **Unlisted state-controlled companies.** We value unlisted companies at relative value to which a listing discount of 15% and a sale discount of 5% are applied.

Fondul Proprietatea: Portfolio valuation

(RONm)	FP's stake	Acquisition price	Market value (@last close)	FP's valuation methodology	Swiss Capital value	Swiss valuation methodology	Discounted value*	Discount/Premium to Reported value	Reported NAV weight	Estimated NAV weight
<b>Listed - total</b>										
OMV Petrom	19.0%	5,397	5,021	Last close	5,021	Last close	4,770	-5%	34%	37%
Romgaz	10.0%	278	1,370	Last close	1,370	Last close	1,302	-5%	9%	10%
Nuclearelectrica	9.7%	968	231	Last close	231	Last close	219	-5%	2%	2%
Alro	10.2%	176	85	Last close	85	Last close	81	-5%	1%	1%
BRD - Group Societe Generale	3.6%	326	221	Last close	221	Last close	210	-5%	1%	2%
Banca Transilvania	2.9%	69	128	Last close	128	Last close	122	-5%	1%	1%
Conpet	29.7%	69	128	Last close	128	Last close	121	-5%	1%	1%
Oil Terminal	8.5%	10	4	Last close	4	Last close	4	-5%	0%	0%
Romaero	0.0%	59	21	Last close	21	Last close	20	-5%	0%	0%
Primcom	75.5%	25	19	Last close	19	Last close	18	-5%	0%	0%
Other		41	18		18		9	-50%	0%	0%
<b>Total</b>		<b>7,419</b>	<b>7,245</b>				<b>6,875</b>	<b>-5%</b>	<b>48%</b>	<b>53%</b>

	FP's stake	Acquisition price	Reported value	FP's valuation methodology	Swiss Capital value	Swiss valuation methodology	Discounted value**	Discount/Premium to Reported value	Reported NAV weight	Estimated NAV weight
<b>Unlisted - privately controlled</b>										
Enel Distributie Banat	24.1%	142	573	Fair value	552	Relative value	552	-4%	4%	4%
Enel Distributie Dobrogea	24.1%	115	379	Fair value	384	Relative value	384	1%	3%	3%
Enel Distributie Muntenia	12.0%	107	473	Fair value	396	Relative value	396	-16%	3%	3%
Enel Energie Muntenia	12.0%	3	65	Fair value	59	Relative value	59	-9%	0%	0%
Enel Energie	12.0%	26	74	Fair value	86	Relative value	86	16%	0%	1%
E.ON Moldova Distributie	22.0%	131	345	Fair value	203	Relative value	203	-41%	2%	2%
E.ON Energie Romania	13.4%	46	131	Fair value	65	Relative value	65	-50%	1%	0%
E.ON Gaz Distributie	12.0%	38	165	Fair value	98	Relative value	98	-41%	1%	1%
GDF Suez Energy Romania	12.0%	63	404	Fair value	330	Relative value	330	-18%	3%	3%
Electrica Distributie Muntenia Nord	22.0%	165	296	Fair value	264	Relative value	264	-11%	2%	2%
Electrica Distributie Transilvania Sud	22.0%	126	192	Fair value	148	Relative value	148	-23%	1%	1%
Electrica Distributie Transilvania Nord	22.0%	113	207	Fair value	148	Relative value	148	-28%	1%	1%
Electrica Furnizare	22.0%	18	88	Fair value	88	Relative value	88	0%	1%	1%
<b>Total</b>		<b>1,093</b>	<b>3,394</b>				<b>2,823</b>	<b>-17%</b>	<b>23%</b>	<b>22%</b>

<b>Unlisted - state controlled</b>										
Hidroelectrica	19.9%	3,107	2,105	Fair value	2,135	Fair value	1,708	-19%	14%	13%
Complexul Energetic Oltenia	21.5%	670	120	Fair value	72	Relative value	58	-52%	1%	0%
CN Aeroporturi Bucuresti	20.0%	131	288	Fair value	293	Relative value	235	-18%	2%	2%
Other		307	322		NA		161	-50%	2%	1%
<b>Total</b>		<b>4,214</b>	<b>2,835</b>				<b>2,162</b>	<b>-24%</b>	<b>19%</b>	<b>17%</b>

<b>PORTFOLIO VALUE</b>		<b>12,726</b>	<b>13,474</b>				<b>11,859</b>	<b>-12%</b>		
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Source: Fondul Proprietatea, Swiss Capital estimates

\* Discounted value of the listed companies: 5% sale discount

\*\* Discounted value of the unlisted-state controlled companies: 15% listing discount plus a 5% sale discount; \*\* Discounted value of the unlisted-privately controlled companies: 0% sale discount

## DISCLOSURE SECTION

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A "STRONG BUY" recommendation indicates that upside is more than 30%.

A "BUY" recommendation indicates that upside is between 15% and 30%.

A "NEUTRAL" recommendation indicates that upside or downside is less than 15%.

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#### Mentioned companies

Company	BSE	Rating	Price	Price date	Disclosure
Fondul Proprietatea	FP	BUY	0.9300	23/09/2014	NONE

#### Rating history for Fondul Proprietatea

Date	Rating	Share Price (RON)	Target Price (RON)
6/02/2012	Resume coverage – STRONG BUY	0.5200	0.7499
28/06/2012	Update - NEUTRAL	0.4400	0.4572
20/09/2012	Update – STRONG BUY	0.5400	0.7325
6/02/2013	Update - BUY	0.5980	0.6899
6/03/2013	Update – BUY	0.6200	0.7427
18/07/2013	Update – STRONG BUY	0.6335	0.8900
11/12/2013	Update – BUY	0.8130	0.9430
24/09/2014	Update – BUY	0.9300	1.0666

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