

October 11, 2013

Fondul Proprietatea

Two corporate actions with a cumulated return potential to investors of at least 13.5% need assets sale of RON 953m

We update our view on Fondul Proprietatea with a NEUTRAL recommendation and a target price adjusted for corporate actions of RON 0.8761 per share revealing a total return potential of 26% out of which 14% represents corporate actions return.

* Financial Supervisory Authority (FSA) approved the Fund's proposal for own shares tender offer designed to accelerate the buy-back program. **Shares offered: 600m **Offer price: RON 1.0/share **Offer period: Oct 15 - Nov 4 **Allocation method: pro-rata.

** The approved 600m shares buy-back programme will reduce the Fund's cash by RON 600m bringing the investors at least an average return of 6.4% if ahead of FSA approval close of RON 0.74/share considered. After the approval, FP RO closed at RON 0.777/share, 5% up from previous day, reducing the discount to NAV from 37% to 34%.

* If we incorporate also RON 0.05/share proposed to be returned to investors (RON 677m) through the share capital decrease, cumulated investors return will raise to 13.5%. Please be remembered that on the E&OGSM of the 22nd of Nov, subject to shareholders approval will be the Fund' share capital reduction by decreasing the nominal value with RON 0.05/share that will be returned to investors proportionally with their participation to the paid share capital. The share capital decrease shall be effective within two months from the publication in the Official Gazette of the GSM's resolution.

* The two corporate actions will necessitate RON 1,277m in cash by the end of Jan 2014. Based on the latest reported cash position of RON 324m, by the beginning of 2014, the Fund will be short of RON 953m if no other assets liquidised. First in the line for sale could be the Gov't securities of RON 580m as reported by the end of Aug. Still, RON 372m will be missing and further holdings liquidation will probably appear on the Fund's agenda.

* Romgaz 15% stake IPO could start on 18th – 19th October, faster than scheduled, as sources in the capital market stated. Our preliminary valuation indicates a fair value of EUR 3b for Romgaz and of EUR 457m for FP's 15% stake in the company. Next week we will follow up with a complete report on Romgaz although the prospectus was not published yet. After applying a 15% listing discount and a 15% liquidity discount, we add Romgaz stake in FP's portfolio at EUR 320m (+7% vs. reported value)

Romania
Closed-end investment fund

NEUTRAL

BQ: FP RO RIC: FP.BX

Last close	RON 0.7770	
Target price	RON 0.8761	adj for corp actions
Total return o/w	26.3%	
Upside potential	12.8%	
Corporate actions	13.5%	
52 - Week range	RON 0.502 RON 0.781	
Market cap (m)	RON 10,706	€ 2,399
Reported NAV (m)	RON 15,185	€ 3,402
Shares outstanding (m)	13,778	

Valuation (RONm)	Reported NAV	Estimated NAV	??%
Traded shares, o/w	6,273	5,332	-15%
OMV Petrom	4,777	4,060	-15%
Unlisted shares, o/w	7,770	5,858	-25%
Privately-controlled	2,256	1,486	-34%
State-controlled o/w	5,514	4,373	-21%
Romgaz	1,338	1,428	7%
Hidroelectrica	2,001	1,866	-7%
Complexul Energetic Oltenia	880	327	-63%
Portfolio value	14,044	11,191	-20%
Cash & bank deposits	324		
Gov't securities	594		
Total assets*	15,252		
Liabilities	68		
Buy-back offer	600		
Share capital decrease	677		
Reported NAV*	15,185		
Estimated NAV		10,765	
No of shares (m)	12,887		
NAV/share*	1.1783		
Price/share	0.7770		
Premium/discount to NAV	-34%		
NAV/share estimate		0.8761	

* as latest reported



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Valuation

Fondul Proprietatea: NAV estimates

(RONm)	Reported NAV Aug-13	Estimated NAV	Estimated vs. Reported NAV
Traded shares*, o/w	6,273	5,332	-15%
Listed - majors o/w	6,249	5,312	-15%
OMV Petrom	4,777	4,060	-15%
Listed - other	24	21	-15%
Unlisted shares , o/w	7,770	5,858	-25%
Unlisted - (privately controlled)	2,256	1,486	-34%
Unlisted - (state controlled) o/w	5,514	4,373	-21%
Romgaz	1,338	1,428	7%
Hidroelectrica	2,001	1,866	-7%
Complexul Energetic Oltenia	880	327	-63%
Unlisted- other	332	233	-30%
Portfolio value	14,044	11,191	-20%
Total cash & short-term investments o/w	905		
Cash & bank deposits	324		
Government securities	580		
Other assets	14		
Total assets	15,252	12,109	
Liabilities	68		
NAV	15,185	12,042	
<i>No of shares (m)</i>	<i>12,887</i>		
NAV/share (RON)	1.1783	0.9344	-21%
Close price ahead of buy-back offer approval (RON/share)	0.7400		
Discount to reported NAV	-37%		
Upside/downside potential		26.3%	
Buy-back offer (600m shares@RON1/share)	600		
Adj NAV**	14,585	11,442	
<i>No of shares (m)**</i>	<i>12,287</i>		
Adj NAV/share (RON)**	1.1870	0.9312	-22%
Last close (RON/share)	0.7770		
Discount to adjusted NAV	-35%		
Upside/downside potential		19.8%	
Share capital decrease (RON 0.05/share reduction)	677		
Adj NAV***	13,908	10,765	
Adj NAV/share (RON)***	1.1319	0.8761	-23%
<i>No of shares (m)**</i>	<i>12,287</i>		
Last close (RON/share)	0.7770		
Discount to adjusted NAV	-31%		
Upside/downside potential		12.8%	

* At last close; **Adjusted for 600m shares buy-back at RON 1.0/share

***Adjusted for share capital decrease of RON 677m

Source: Fondul Proprietatea; Bucharest Stock Exchange

Valuation methodology

* **Listed companies.** We value listed companies at market value to which a liquidity discount of 15% is applied.

*** Unlisted companies.** We value unlisted companies at relative or DCF value to which a listing discount of 15% and a liquidity discount of 15% 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
Listed - total										
OMV Petrom SA	19.0%	5,170	4,777	Last close	4,777	Last close	4,060	-15%	34%	37.7%
Transgaz	15.0%	177	330	Last close	330	Last close	280	-15%	2%	2.6%
Transelectrica	13.5%	263	133	Last close	133	Last close	113	-15%	1%	1.1%
Alro	10.2%	176	109	Last close	109	Last close	93	-15%	1%	0.9%
BRD - Group Societe Generale	3.6%	326	227	Last close	227	Last close	193	-15%	2%	1.8%
Banca Transilvania	2.9%	60	79	Last close	79	Last close	67	-15%	1%	0.6%
Erste Group Bank AG	0.1%	62	43	Last close	43	Last close	36	-15%	0%	0.3%
Nuclearelectrica	9.7%	968	307	Last close	307	Last close	261	-15%	2%	2%
Raiffeisen Bank International AG	0.4%	153	93	Last close	93	Last close	79	-15%	1%	0.7%
Conpet	29.7%	69	105	Last close	105	Last close	89	-15%	1%	0.8%
Oil Terminal	8.5%	13	6	Last close	6	Last close	5	-15%	0%	0.1%
Romaero	21.0%	59	21	Last close	21	Last close	18	-15%	0%	0.2%
Primcom	75.5%	28	19	Last close	19	Last close	16	-15%	0%	0.2%
Other		587	24	Last close	24	Last close	21	-15%	0%	0.2%
Total		8,111	6,273				5,332	-15%	45%	50%
	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
Unlisted - privately controlled										
Enel Distributie Banat	24.1%	142	486	Book value	455	Relative value	319	-34%	3%	3%
Enel Distributie Dobrogea	24.1%	115	324	Book value	287	Relative value	201	-38%	2%	2%
Enel Distributie Muntenia	12.0%	107	434	Book value	310	Relative value	217	-50%	3%	2%
E.ON Moldova Distributie	22.0%	131	324	Fair value	343	Relative value	240	-26%	2%	2%
Enel Energie Muntenia	12.0%	3	46	Book value	44	Relative value	31	-32%	0%	0%
Enel Energie	12.0%	26	54	Book value	44	Relative value	31	-43%	0%	0%
E.ON Energie Romania	13.4%	46	65	Book value	75	Relative value	53	-19%	0%	0%
E.ON Gaz Distributie	12.0%	38	177	Fair value	158	Relative value	110	-38%	1%	1%
GDF Suez Energy Romania	12.0%	63	346	Book value	406	Relative value	284	-18%	2%	3%
Total		670	2,256				1,486	-34%	16%	14%
Unlisted - state controlled										
Romgaz	15.0%	417	1,338	Fair value	2,040	Fair value	1,428	7%	10%	13%
Hidroelectrica	19.9%	3,107	2,001	Fair value	2,665	Fair value	1,866	-7%	14%	17%
Complexul Energetic Oltenia	21.5%	670	880	Last close	467	Relative value	327	-63%	6%	3%
Electrica Distributie Muntenia Nord	22.0%	165	278	Last close	191	Fair value	134	-52%	2%	1%
Electrica Distributie Transilvania Sud	22.0%	126	213	Book value	148	Fair value	103	-51%	2%	1%
Electrica Distributie Transilvania Nord	22.0%	113	201	Book value	143	Fair value	100	-50%	1%	1%
CN Aeroporturi Bucuresti	20.0%	131	272	Fair value	261	Relative value	182	-33%	2%	2%
Other		314	332		NA		233	-30%	2%	2%
Total		5,043	5,514				4,373	-21%	40%	41%
PORTFOLIO VALUE		13,824	14,044				11,191	-20%		

Source: Fondul Proprietatea, Swiss Capital estimates

* Discounted value of the listed companies: 15% liquidity discount to market value at last close

** Discounted value of the unlisted companies: 15% listing discount to Swiss Capital valuation to which a 15% liquidity discount is added (30% discount to Swiss Capital valuation)

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

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Mentioned companies

Company	BSE	Rating	Price	Price date	Disclosure
Fondul Proprietatea	FP	NEUTRAL	0.7770	10/10/2013	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
11/10/2013	Update – NEUTRAL	0.7770	0.8761

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