

Conpet**Buy**

Maintained

Price: RON 63.0 Price target: RON 74.3 (From RON 63.1)

Looking for acquisitions

Conpet has posted a strong set of results for 2014, significantly above our Expected events expectations (net profit of RON 50.5m for FY14, up 61% yoy and 44% above our expectations) and management's latest comments have led us to believe that the new set of tariffs for 2015 should allow revenues to at least stay at similar levels to 2014 and that expenses are likely to remain low in the longer term (expenses were higher in 2013 due to one-offs). Increased newsflow regarding potential investment projects indicate that the company is also coming closer to an eventual utilisation of the cash available on the balance sheet, although this is a scenario that we have not yet incorporated in our estimates. Having also included our lower risk free rate assumptions, our 12M price target (PT) has increased by 17.7% to RON 74.3/share (from RON 63.1). We maintain our BUY recommendation.

AGM 28 April 2015 Annual report 29 April 2015

Key data

Market Cap RON 545.4m Free Float 41% Share Outstanding 8.7m Major Shareholder RO State Reuters Code COTE.BX Bloomberg Code COTE RO

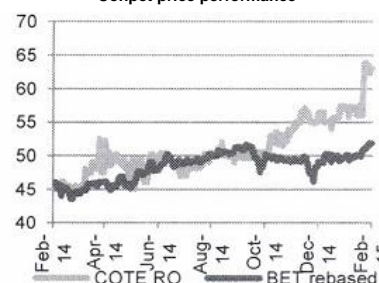
2015E outlook indicates flat earnings: the tariffs for domestic transport have been**Price performance**

adjusted with inflation in 2015, while the import tariffs have been raised, offsetting the decline in quantities contracted by Lukoil. Also, the high provisions and the assets write-offs in 2013 were not repeated in 2014 and look less likely in 2015E. We thus believe that revenues and earnings should stay flat in 2015E.

52-w range 44.7-63.9 52-w performance 37% Relative performance 21.5%

Current business model does not encourage growth...: Conpet operates under a cost plus regulatory regime that provides a reasonable operating margin (in the range of 5-8%). While ANRM, the regulatory agency, has implemented the necessary changes for 2015 to compensate for the declining volumes, we believe the longer-term quantities for domestic oil production are likely to decline due to natural depletion and the volumes imported by Lukoil are close to the maximum possible for the local refinery. As such, while there are still years of good results ahead, in our view, the long-term trend is downward and we have built our model on a negative 2% long-term growth rate. We also believe that potential gains from lower expenses might be offset by a cut in tariffs as the regulatory regime provides a stable profit margin.

Conpet price performance



...but investments could be a trigger: Conpet has amassed RON 335m in cash (at the end of 2014), out of which RON 150m can be used for acquisitions inside Romania. We see potential upside from unlocking this value, with the recent newsflow indicating that the company is taking further steps towards a potential acquisition. A feasibility study is ongoing for the strategic oil and oil products reserves, while the company is looking to hire a consultant for acquisitions outside Romania. With the cash position currently generating just the interest rate, we would see an acquisition that generates a reasonable return as positive.

Trading at low multiples: Conpet trades at a 2015E EV/EBITDA of just 2.1x, and, if adjusted for the development quota (a non-cash expense item similar to depreciation), the EV/EBITDA drops as low as 1.6x. With a stable 7-8% dividend yield and potential upside from the cash held, we see the discount as too high.

Year	Sales (RON bn)	Net profit (RON m)	Shares out. (m)	EPS (RON)	EPS growth	P/E (x)	EV/EBITDA (x)	ROE (%)	DPS (RON)	Dividend yield
2016E	363	51	8.7	5.9	0.7%	10.7	2.2	7%	5.0	8%
2015E	362	51	8.7	5.9	0.5%	10.7	2.1	7%	5.0	8%
2014E	375	50	8.7	5.8	61.3%	10.8	2.1	7%	5.0	8%
2013	349	31	8.7	3.6	1.6%	17.4	4.4	5%	3.4	5%
2012	334	31	8.7	3.6	7.9%	17.7	4.0	5%	3.3	5%
2011	341	29	8.7	3.3	-26.2%	19.1	5.1	5%	2.6	4%

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Valuation

Summary valuation

	Equity value (RON m)	Per share
1. DCF	424	49.0
2. DDM	373	43.1
Average (50:50)	399	46.1
Adjusted with cost of equity		51.0
Cash discounted by 40%	201	23.2
Resulting price		74.3
Current price		63.0
Upside		17.9%

Source: WOOD Research

WACC

WACC calculation

	2014-18
Beta	1.2
Risk free rate	4.50%
Market premium	4.50%
Cost of equity	10.8%
Cost of debt pre tax	6.0%
Marg. tax rate	16.0%
Cost of debt after tax	5.0%
Weight k(e)	100.0
Weight k(d)	0.0%
WACC %	10.8%

Source: WOOD Research

DCF

DCF calculation

	2015E	2016E	2017E	2018E	2019E
EBIT	52	47	46	47	46
Corporate tax rate [T]	16.0%	16.0%	16.0%	16.0%	16.0%
EBIT*(1-T)=NOPAT	43	39	39	39	39
Depreciation & amortisation	42	42	42	41	41
Development quota (net)	30	30	30	30	30
Cash from working capital	-5	-5	-3	-2	-1
Capex [I]	-40	-40	-40	-40	-40
Unleveraged free cash flow [FCF]	70	66	67	69	69
Discount factor	0.92	0.83	0.75	0.67	0.61
Present Value of FCFs [PV:FCF]	64	55	50	46	42
Sum of [PV:FCF]	257				
Long-term FCF growth rate	-3.0%				
Residual value at horizon (modernisation quota adjusted)	275				
PV of residual value	167				
EV	424				
Number of shares	8.66				
Equity value per share	49.0				
Resulting 12m fair value	54				

Source: WOOD Research

DDM

DDM calculation

	2015E	2016E	2017E	2018E	2019E
Dividends	42.9	43.1	43.4	43.2	43.7
Discount factor	0.98	0.88	0.80	0.72	0.65
Present Value	42	38	35	31	28
Sum	174				
Long term FCF growth rate	-3.0%				
Residual value at horizon	307				
PV of residual value	199				
EV	373				
Number of shares	8.66				
Value per share	43				
Resulting 12m fair value	48				

Source: WOOD Research

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Conpet versus its European peers

Company	2015E	P/E 2016E	2017E	EV /EBITDA		2017E	Divi dend yield		2017 E
				2015E	2016E		2015E	2016E	
E NAG AS SA	15.9	14.9	14.6	11.1	11.2	11.3	4.9%	5.2%	5.3%
SNAM SPA	13.6	15.8	15.9	10.2	11.0	11.0	5.7%	5.6%	5.7%
GDFSUEZ	14.6	13.3	13.1	6.5	6.2	6.0	5.3%	5.4%	5.7%
RED ELECTRICA CORPORACION SA	16.7	15.4	14.6	10.9	10.5	10.3	4.2%	4.6%	4.9%
TERNA SPA	14.4	16.7	15.6	8.9	9.5	9.2	5.0%	5.0%	5.1%
ELIA SYSTEM OPERATOR SA/NV	17.3	16.5	16.6	12.6	11.6	15.0	3.9%	4.0%	3.9%
CEZ AS	13.4	14.9	15.4	7.1	7.4	7.5	5.0%	4.5%	4.2%
E.ON SE	15.8	16.8	14.4	5.6	5.7	5.5	3.7%	4.0%	4.2%
PGE SA	11.4	11.7	14.3	5.0	4.9	4.8	4.5%	4.3%	4.6%
ENEA AB	17.6	15.8	14.5	6.1	5.5	5.1	4.4%	4.9%	5.5%
POLSKIE GORNICTWO NAFTOWE 1	11.2	11.1	11.9	5.1	5.0	5.0	3.6%	3.6%	3.8%
TAURON POLSKA ENERGIA SA	8.3	9.9	10.6	4.2	4.2	3.9	3.2%	2.6%	2.5%
RWE AG	11.4	13.2	12.2	4.5	4.7	4.7	4.0%	4.0%	4.1%
Peer Median	14.4	14.9	14.5	6.5	6.2	6.0	4.4%	4.5%	4.6%
Conpet	10.7	10.7	10.7	1.6	1.6	1.5	8%	8%	8%
- vs. peer median	-25.3%	-28.2%	-25.8%	-74.7%	-74.2%	-74.4%	82.1%	75.0%	74.0

Source: Bloomberg, WOOD Research

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Financials

income statement

RON m	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Turnover	341	334	349	375	362	363	366	365
Domestic transport	293	296	305	314	302	309	308	303
Import	46	36	43	59	58	52	55	60
Modernisation quota	35	34	50	25	26	26	27	27
Total operating revenues	384	379	406	402	391	392	395	393
Total volumes transported (mt)	6.40	6.00	5.90	6.50	6.04	5.79	5.79	5.79
Personnel	100	101	98	98	100	102	104	105
Depreciation	49	56	37	46	42	42	42	41
Third parties	123	122	124	118	110	112	114	112
Royalties	26	26	28	30	30	31	31	30
Others	90	90	91	86	77	79	80	79
Modernisation quota	54	52	53	58	56	56	57	57
Total operating expenses	357	349	376	348	339	345	348	347
EBITDA	76	86	67	100	94	88	88	88
EBIT	27	30	30	54	52	47	46	47
Financial profit	11	11	11	10	9	14	14	15
Pre-tax profit	38	41	41	64	60	61	61	61
Net profit	29	31	31	50	51	51	51	51
Dividends	22	28	30	43	43	43	43	44

Source: Company data, WOOD Research

Balance sheet

RON m	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Fixed assets	424	401	421	419	417	416	414	413
Current assets	240	252	306	385	398	403	410	418
Trade and other receivables	30	37	42	34	35	36	36	37
Cash and bank balances	176	199	249	335	348	352	358	365
Total assets	664	653	727	804	815	819	824	831
Equity	574	595	651	721	729	736	744	752
Long-term debt	3	3	7	6	6	6	6	6
Short-term debt	87	54	69	77	80	76	74	73
Trade and other payables	24	18	25	30	33	29	27	26
Other liabilities	25	22	23	24	24	24	24	24
Total equity and liabilities	664	653	727	804	815	819	824	831

Source: Company data, WOOD Research

Cash flow

RON m	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Pre-tax income	38	41	41	64	60	61	61	61
Tax	9	9	10	13	10	10	10	10
Depreciation & amortisation	49	56	37	46	42	42	42	41
Other non-cash adjustments	15	22	-13	21	16	15	15	15
Changes in working capital	1	21	-12	-15	5	5	3	2
Other adjustments	-3	-71	69	-24	-37	-38	-37	-37
Operating cash flow	109	78	131	105	96	95	93	92
Purchase of fixed assets	-26	-33	-57	-45	-40	-40	-40	-40
Investing cash flow	-26	-33	-57	-45	-40	-40	-40	-40
Dividends, net	-35	-22	-28	-30	-43	-43	-43	-43
Long-term debt issued (repaid)	-17	-18	4	-1	0	0	0	0
Financing cash flow	-52	-40	-23	-28	-40	-39	-38	-37
Cash balance changes								
Beginning cash	170	201	206	257	343	355	360	366
- change in cash flow	31	5	51	86	12	4	6	7
Ending cash	201	206	257	343	355	360	366	373

Source: Company Data, WOOD Research

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Ratios

RON m	2011	2012	2013	2014	2015E	2016E	2017E	2018E
Number of shares	8.7	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Net debt	-157	-199	-249	-335	-348	-352	-358	-365
EPS (RON)	3.30	3.56	3.62	5.83	5.86	5.90	5.87	5.94
- EPS growth		8%	2%	61%	1%	1%	0%	1%
Dividend (RON m)	22.3	28.3	29.5	42.9	43.1	43.4	43.2	43.7
DPS (RON)	2.57	3.27	3.41	4.96	4.98	5.02	4.99	5.04
- Payout ratio	78%	92%	94%	85%	85%	85%	85%	85%
Dividend yield	4%	5%	5%	8%	8%	8%	8%	8%
BVPS (RON)	66.3	68.7	75.2	83.3	84.2	85.0	85.9	86.8
ROE	5%	5%	5%	7%	7%	7%	7%	7%
PER (x)	19.1	17.7	17.4	10.8	10.7	10.7	10.7	10.6
EV/EBITDA (x)	5.1	4.0	4.4	2.1	2.1	2.2	2.1	2.0
EV/EBITDA (x) -adj for dev quota	4.1	3.3	4.2	1.6	1.6	1.6	1.6	1.5
P/BV	0.9	0.9	0.8	0.8	0.7	0.7	0.7	0.7

Source: WOOD Research

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