

January 20, 2016

## CONPET

### Among the best dividend plays on BSE market

We update our view on Conpet (COTE) with a BUY recommendation and a target price of RON 94.51 per share revealing an upside potential of 21%.

**\* 9% DIVY.** For 2015, we see Conpet's net profit rising 11% Y/Y to RON 57m triggered by increased import revenues and reduced crude oil rail transportation costs. At a pay-out ratio of 100%, we expect a FY'15 DPS of RON 6.6, implying a DIVY of 9%. Despite decreased transported revenues (-1.3% Y/Y), for 2016 we see bottom line at RON 60m (+6% Y/Y) helped by reduced crude oil rail transportation costs (-20% Y/Y to RON 47m).

**\* The tariffs for domestic transport could be increased by 1.4% for 2016, whereas the import tariffs could be raised by at least 3%, partially offsetting the decline in domestic volumes contracted by OMV Petrom.** The domestic average tariff could be increased by 1.41% Y/Y and was set taking into account a 9% Y/Y drop in volumes transported (3.6mt in 2016) as confirmed by the one-year contract signed between Conpet and OMV Petrom (SNP) at RON 287m (-8% Y/Y). Thus, we reduced our volumes estimate accordingly, implying that domestic revenues could decline by 5% Y/Y to RON 286m. Import average tariff could be raised by 3% Y/Y for Petrotel and Petrobrazi refineries and by 17% Y/Y for Petromidia refinery. Based on the one-year contract signed between Conpet and Lukoil at RON 67m (+57% Y/Y) it would imply a surge in volumes transported of 13% Y/Y to 2.5mt. However, we do not expect this level to be achieved as it would mean that in 2016 Lukoil would run at full capacity. We believe that in 2016 Lukoil and OMV Petrom will keep their refinery input at the same level as in 2015, with OMV Petrom processing its entire crude production and the difference being covered from imports. As such, we expect import revenues to add 15% Y/Y to RON 76m.

**\* Dilution risk.** During 2001–2005 period, Conpet received 47 ownership certificates for lands that were valued at RON 26m at the time. Conpet was supposed to increase the company's share capital with the value valid when the ownership certificates were obtained. However, the company did not proceed to the share capital increase as ANRM made claims over those lands. In 2013 the Court of Accounts decided that until 31.10.2013 Conpet had to increase the company's share capital by the value of the lands and according to Government Decision 107/2008 the lands are assessed at market value based on a valuation report realised by an authorized evaluator. Darian DRS SA, the company that made the report, set the value of those lands at RON 12.6m. Assuming the share capital will be increased by RON 12.6m the minority shareholders will have to participate to the share capital increase through RON 9m cash contribution. Otherwise, minority shareholders stake could decrease to 29% from 41% currently.

**Romania**

**Pipeline Transportation**

## BUY

BQ: COTE RO		BUY			
Last close	Target price	RON 78.00			
Upside/downside	Market cap (m)	21%			
		2014A	2015F	2016F	2017F
<b>Trading multiples</b>					
P/E	13.1	11.8	11.2	11.5	
P/B	0.9	0.9	0.9	0.9	0.8
EV/EBITDA	3.3	2.6	2.3	2.1	
DIVY	8%	8%	9%	9%	
<b>Per share data (RON)</b>					
EPS	5.9	6.6	7.0	6.8	
BVPS	83.6	87.6	91.3	94.5	
DPS	5.9	6.6	7.0	6.8	
<b>P&amp;L summary (RONm)*</b>					
Sales revenues	375.0	371.9	367.0	367.8	
Operating expenses	348.2	338.1	327.0	329.8	
EBITDA	101.3	112.8	115.8	113.7	
EBIT	54.8	64.1	69.5	67.6	
EBT	64.5	69.8	75.6	73.5	
Net profit	51.4	57.1	60.5	58.8	
<b>Balance Sheet summary (RONm)*</b>					
Cash&cash equivalents	343.0	380.6	412.6	433.5	
Total assets	805.0	829.1	865.8	893.8	
Total debt	0.0	0.0	0.0	0.0	
Total liabilities	56.9	48.6	52.5	52.0	
Shareholder's equity	723.4	758.2	790.8	818.3	
<b>Margins &amp; ratios</b>					
EBITDA margin	27%	30%	32%	31%	
EBIT margin	15%	17%	19%	18%	
Net profit margin	14%	15%	16%	16%	

\*IFRS



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For analysts certification and other disclosures refer to the Disclosure Section at the end of this report.

### **Investment case**

We update our view on Conpet (COTE) with a **BUY** recommendation and a **target price of RON 94.51 per share** revealing an upside potential of 21%. We used a DCF model with a 5-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth of 1% is employed.

**9% DIVY.** For 2015, we see Conpet's net profit rising 11% Y/Y to RON 57m triggered by increased import revenues and reduced crude oil rail transportation costs. At a pay-out ratio of 100%, we expect a FY'15 DPS of RON 6.6, implying a DIVY of 9%. Despite decreased transported revenues (-1.3% Y/Y), for 2016 we see bottom line at RON 60m (+6% Y/Y) helped by reduced crude oil rail transportation costs (-20% Y/Y to RON 47m).

**The tariffs for domestic transport could be increased by 1.4% for 2016, whereas the import tariffs could be raised by at least 3%, partially offsetting the decline in domestic volumes contracted by OMV Petrom.** ANRM has recently published a draft proposal regarding the tariffs for crude oil transportation that could be applied in 2016. Domestic average tariff could be increased by 1.41% Y/Y and was set taking into account a 9% Y/Y drop in volumes transported (3.6mt in 2016) as confirmed by the one-year contract signed between Conpet and OMV Petrom (SNP) at RON 287m (-8% Y/Y). Thus, we reduced our volumes estimate accordingly, implying that domestic revenues could decline by 5% Y/Y to RON 286m. Import average tariff could be raised by 3% Y/Y for Petrotel and Petrobrazi refineries and by 17% Y/Y for Petromidia refinery. Based on the one-year contract signed between Conpet and Lukoil at RON 67m (+57% Y/Y) it would imply a surge in volumes transported of 13% Y/Y to 2.5mt. However, we do not expect this level to be achieved as it would mean that in 2016 Lukoil would run at full capacity. We believe that in 2016 Lukoil and OMV Petrom will keep their refinery input at the same level as in 2015, with OMV Petrom processing its entire crude production and the difference being covered from imports. As such, we expect import revenues to add 15% Y/Y to RON 76m.

**Dilution risk.** During 2001–2005 period, Conpet received 47 ownership certificates for lands with a total area of 554,537 sqm that were valued at RON 26m at the time. Conpet was supposed to increase the company's share capital with the value valid when the ownership certificates were obtained. However, the company did not proceed to the share capital increase as ANRM made claims over those lands. In 2013 the Court of Accounts decided that until 31.10.2013 Conpet had to increase the company's share capital by the value of the lands and according to Government Decision 107/2008 the lands are assessed at market value based on a valuation report realised by an authorised evaluator. Darian DRS SA, the company that made the report, set the value of those lands at RON 12.6m. Assuming the share capital will be increased by RON 12.6m the minority shareholders will have to participate to the share capital increase through RON 9m cash contribution. Otherwise, minority shareholders stake could decrease to 29% from 41% currently.

## 9M'15 Results

**Net profit helped by increased import transport revenues**

### P&L (IFRS)

(RONm)	Q3'14	Q3'15A	Y/Y	9M'14	9M'15A	Y/Y
<b>Sales revenues, o/w</b>	<b>95.8</b>	<b>97.2</b>	<b>1%</b>	<b>282.0</b>	<b>285.7</b>	<b>1%</b>
Domestic crude oil transport rev.	78.2	75.7	-3%	237.2	232.6	-2%
Import crude oil transport rev.	17.1	20.7	21%	43.4	51.2	18%
Revenues from modernisation quota	6.6	7.4	13%	18.9	21.5	14%
<b>Operating revenues</b>	<b>102.8</b>	<b>105.2</b>	<b>2%</b>	<b>302.3</b>	<b>308.5</b>	<b>2%</b>
Personnel expenses	24.3	26.0	7%	72.2	79.0	9%
D&A	11.3	12.1	8%	35.2	36.3	3%
External services expenses, o/w	29.9	27.4	-8%	88.7	81.2	-8%
Crude oil rail transportation	19.8	12.5	-37%	59.6	46.8	-22%
Other third party services	1.7	6.2	274%	4.9	9.9	101%
Other expenses, o/w	15.6	17.9	15%	46.5	49.3	6%
Modernisation quota expense	14.6	15.7	7%	43.4	44.7	3%
Other OPEX	1.0	2.2	127%	3.1	4.6	49%
Provisions adjustments	(0.3)	(1.0)	187%	(4.7)	(7.8)	65%
<b>Operating expenses</b>	<b>84.5</b>	<b>85.6</b>	<b>1%</b>	<b>251.2</b>	<b>250.5</b>	<b>0%</b>
<b>EBITDA</b>	<b>29.6</b>	<b>31.7</b>	<b>7%</b>	<b>86.2</b>	<b>94.3</b>	<b>9%</b>
<i>EBITDA margin</i>	31%	33%		31%	33%	
<b>EBIT</b>	<b>18.3</b>	<b>19.6</b>	<b>7%</b>	<b>51.1</b>	<b>58.0</b>	<b>14%</b>
<i>EBIT margin</i>	19%	20%		18%	20%	
<b>Financial result</b>	<b>2.5</b>	<b>1.2</b>	<b>-51%</b>	<b>7.2</b>	<b>4.5</b>	<b>-37%</b>
<b>EBT</b>	<b>20.9</b>	<b>20.8</b>	<b>0%</b>	<b>58.2</b>	<b>62.5</b>	<b>7%</b>
<i>EBT margin</i>	22%	21%		21%	22%	
<b>Net profit</b>	<b>17.0</b>	<b>16.9</b>	<b>0%</b>	<b>48.0</b>	<b>52.0</b>	<b>8%</b>
<i>Net profit margin</i>	18%	17%		17%	18%	

Source: Conpet, Swiss Capital estimates

**Net profit helped by increased import transport revenues.** At 9M'15, COTE's net profit increased by 8% Y/Y to RON 52m on increased import transport revenues.

**Total transported revenues added 1% Y/Y to RON 284m.** Revenues from the import sub-system surged 18% Y/Y to RON 51m on increased volumes (+22% Y/Y to 2.4mt) and average tariffs (+10% Y/Y for Petrotel and Petrobrazi refineries and +21% for Petromidia refinery). However, revenues from the domestic sub-system declined 2% Y/Y to RON 233m on decreased domestic volumes of 2.9mt (-2% Y/Y) and flat Y/Y tariff. At 9M'15, total crude oil transported volumes reached 5.3mt (+8% Y/Y).

**OPEX remained flat Y/Y to RON 250m.** Crude oil rail transportation costs slumped 22% Y/Y to RON 47m as in April 2015 Conpet signed a 4-years contract with CFR Marfa worth RON 255m (EUR 56m), which translates into a cost of RON 46.9/tonne vs. RON 71.6/tonne realised in 2014. As well, 9M'15 operating expenses were positively impacted by reversal of provisions of RON 7.8m (+65% Y/Y) mainly related to employees benefits. However, personnel costs hiked 9% Y/Y to RON 79m, as employees benefits more than doubled Y/Y to RON 7.5m (vs. RON 3.4m at 9M'14). Also, third party expenses doubled Y/Y to RON 10m, whereas other operating costs surged 49% Y/Y to RON 4.6m. Thus, 9M'15 EBIT added 14% Y/Y to RON 58m.

**Financial result impacted by reduced interest rates.** COTE's financial result plunged 37% Y/Y to RON 4.5m on low interest rates environment.

### Key DCF assumptions

At the end of December 2015, ANRM published a draft proposal regarding the tariffs for the crude oil transportation that could be applied for 2016.

**The tariffs for domestic transport could be increased by 1.4% for 2016, whereas the import tariffs could be raised by at least 3%, partially offsetting the decline in domestic volumes contracted by OMV Petrom**

Domestic average tariff could be increased by 1.41% Y/Y, slightly below the services CPI registered over December 2014 – September 2015 period of 1.7%. The tariff was set taking into account a 9% Y/Y drop in volumes transported (3.6mt in 2016 vs. 4mt in 2015) as confirmed by the one-year contract signed between Conpet and OMV Petrom (SNP) worth RON 287m (-8% Y/Y). Thus, for 2016 we reduced our volumes estimate accordingly and looking forward we see a drop by 3% Y/Y to 3.3mt on average (down from 3.8mt previously) as SNP's representatives stated that over the medium-term hydrocarbon production could decrease by up to 4% Y/Y on CAPEX reduction. As such, we revised down our domestic crude transport revenues estimate to RON 286m in 2016 (-5% Y/Y and 7% below our initial estimate) and to an average of RON 280m looking forward (from RON 307m previously) assuming yearly inflation adjusted tariffs.

Import average tariff could be raised by 3% Y/Y for Petrotel and Petrobrazi refineries and by 17% Y/Y for Petromidia refinery. Based on the one-year contract signed between Conpet and Lukoil at RON 67m (+57% Y/Y) it would entail a surge in volumes transported of 13% Y/Y to 2.5mt. However, we do not expect this level to be achieved as it would imply that in 2016 Lukoil would run at full capacity. Please note that under the current contractual agreement, Lukoil would not be penalised by Conpet if the effectively transported volumes are by up to 10% lower than the quantities for which the contract was signed. For the explicitly forecasted period we assumed Petrotel's input at 2.3mt, translated into a capacity utilisation rate of 91%. Also, the total input for Petrobrazi refinery is seen at 2015 level (4mt) with OMV Petrom processing its entire crude production and the difference being covered from imports. Thus, we revised up our import revenues estimate to RON 76m in 2016 (+15% Y/Y and 25% above our initial estimate) and to an average of RON 87m looking forward (vs. RON 63m previously).

### Conpet: Estimated transport revenues and volumes

	2014	2015F	2016F	2017F	2018F	2019F	2020F
<b>Transport revenues, o/w</b>							
RONm	372.95	369.32	364.52	365.25	368.57	371.29	370.86
m tonnes	6.63	6.79	6.52	6.52	6.52	6.52	6.42
Domestic crude oil transport							
RONm	311.32	300.88	286.41	282.82	281.20	279.03	276.62
m tonnes	3.96	3.83	3.60	3.49	3.38	3.28	3.18
Import crude oil transport							
RONm	56.61	66.36	76.03	80.35	85.30	90.18	92.16
m tonnes	2.67	2.97	2.93	3.03	3.14	3.24	3.24

*Source: Conpet, Swiss Capital estimates*

**OPEX to decline in 2015 and 2016 on reduced crude oil rail transportation expenses**

We expect OPEX to decline by 3% in 2015 and 2016 to RON 338m and RON 327m, respectively on reduced crude oil rail transportation expenses. Over the rest of the explicitly forecasted period, we expect OPEX to stabilise and to remain relatively flat. We revised down the crude oil rail transportation expenses estimate for 2015 to

RON 59m (from RON 76m previously) and to an average of RON 45m per year going forward (from RON 76m previously). In April 2015, Conpet signed a 4-years contract with CFR Marfa for the railway transport of 5.4mt of crude oil and rich gas worth RON 255m (EUR 56m). This is translated into a significantly lower cost per tonne vs. the cost stipulated in the previous contract (RON 46.9/tonne vs. RON 71.6/tonne realised in 2014). However, we revised up our estimate for personnel costs in 2015 to RON 106m (from RON 98m previously) as at 9M'15 the employees benefits more than doubled Y/Y to RON 7.5m. Going forward, we see personnel costs averaging RON 113m per year (vs. RON 100m previously).

**Operating performance to improve significantly in 2015 and 2016**

For 2015, we estimate COTE's FY'15 EBIT margin at 17% (vs. 16% in our previous report and 15% in 2014) on increased import revenues and reduced crude oil rail transportation expenses.

**COTE's FY'15 CAPEX is seen well behind the budgeted investment plan**

At 9M'15, the realised CAPEX stood at RON 23m, 18% higher Y/Y but 15% below the budgeted figure mainly on reduced investment contracts values compared to initial estimates. Thus, we reduced our FY'15 CAPEX estimate to RON 36m (+18% Y/Y but 31% below the budgeted investment plan). Also, we revised down our CAPEX assumptions for the rest of the explicitly forecasted period to RON 58m on average per year from RON 66m previously.

**Projects that could double the net in the medium-term still pending**

For the **Pitesti – Pancevo project**, Conpet is waiting for NIS' strategy before proceeding to its own feasibility study. The management of the company stated that most likely the first results would be made public in Q2'16. As for the **storage capacity project** the results of the analysis should be ready in Q1'16. Please be reminded that our valuation model on the company does not incorporate the potential cash flows stemming from these investment opportunities, as we need further details to elaborate on.

**We see COTE as one of the best dividend plays on BSE market**

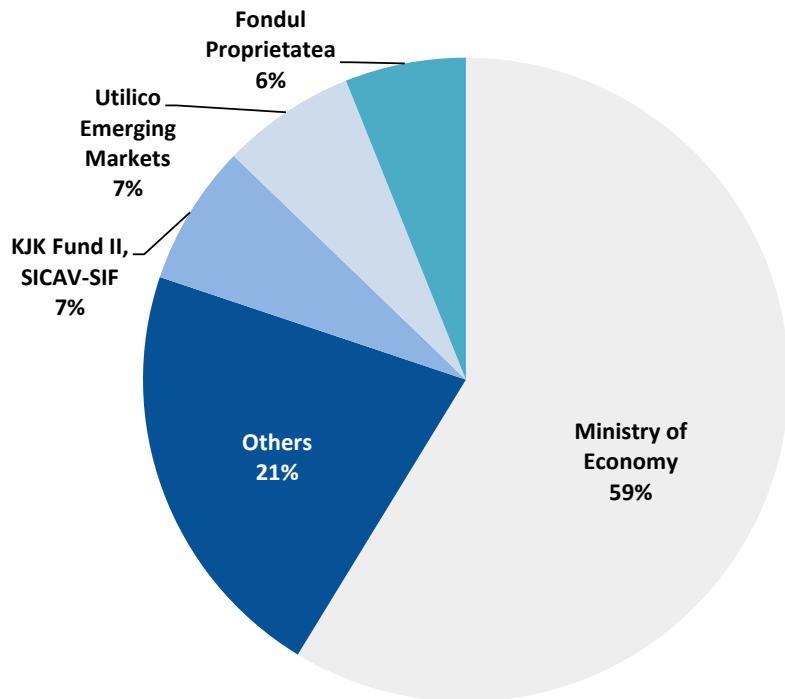
Conpet pay-out ratio increased from 78% in 2011 to 100% in 2014, with DIVY ranging from 3% to 8%, respectively. Given the company's strong net cash position and low CAPEX needs, we believe that over the explicitly forecasted period the company will maintain the pay-out ratio at 100% level, which is translated into a DIVY of 9% on average.

**The Ministry of Economy is the majority shareholder with a holding of 58.72%**

### Shareholding structure

The shareholding structure of Conpet as of 17<sup>th</sup> of December 2015 is as follows:

Conpet: Shareholding structure (as of 17 December 2015)



Source: Conpet

### Dilution risk

**Minority shareholders stake could decrease to 29% from 41% currently**

Conpet could proceed to the share capital increase by the value of 47 land ownership certificates. Although the amount the company will raise its share capital has not been established yet, Conpet could either increase it with the value of the lands when the certificates were initially appraised or the market value set by an authorised evaluator. Either way, the minority shareholders could face dilution risk.

During 2001–2005 period, Conpet received 47 ownership certificates for lands with a total area of 554,537 sqm that were valued at RON 26m at the time. According to Government Decision 577/2002, Conpet was supposed to increase the company's share capital with the value valid when the ownership certificates were obtained, adjusted with a revaluation factor. However, the company did not proceed to the share capital increase as ANRM made claims over those lands. In a report published in June 2005 concerning the state of the pumping/re-pumping and loading/unloading railway stations belonging to the Crude Oil National Transport System, ANRM considered that a clarification regarding the legal status of those lands was needed. In addition to that, in 2006, ANRM issued a report where it stated that a delimitation of Conpet's lands from the ones public property was required. The delimitation must have been realised by a commission appointed by Conpet's management, joined by

an ANRM representative. However, the action was not completed due to the failure to undertake the approaches by ANRM.

In 2013 the Court of Accounts decided that until 31.10.2013 Conpet had to increase the company's share capital by the value of the 47 lands and according to Government Decision 107/2008 the lands are assessed at market value based on a valuation report realised by an authorised evaluator. Darian DRS SA, the company that made the report set the value at RON 12.6m. Conpet requested the extension of the initial deadline, but was not met on none of the established terms – 30.09.2014 and 30.06.2015.

After a meeting between the management of the company and ANRM's representatives in November 2014, the latter stated that in the absence of legal regulation, the claims over the lands were not reasoned. Thus, Conpet was entitled to take all the necessary steps to increase the share capital and in June 2015 shareholders approved the initiation of the procedure as well as the formulation of a request to the Trade Register Office for the appointment of an expert appraiser, authorised by the National Association of Certified Romanian Valuers (ANEVAR), to prepare the valuation report. As the company did not receive any response to their request, Conpet's BoA decided to ask shareholders' approval for contracting legal consultancy services regarding the method of setting the value by which the company's share capital will be increased. However, on 17<sup>th</sup> of December GSM the shareholders rejected COTE's BoA request.

Assuming the share capital will be increased by RON 12.6m, the minority shareholders will have to participate to the share capital increase through RON 9m cash contribution. The relative ownership structure would be:

**Shareholding structure if minority shareholders would participate to the share capital increase for not being diluted**

**Conpet: Post-share capital increase of RON 21m (in kind RON 13m and cash RON 9m)**

	Shares	Percent	Share capital increase participation (RON)
Ministry of Economy	8,908,228	59%	12,622,026
KJK Fund II, SICAV-SIF	1,072,367	7%	1,519,431
Utilico Emerging Markets	1,018,870	7%	1,443,633
Fondul Proprietatea	918,912	6%	1,302,002
Others	3,253,291	21%	4,609,573
<b>Total</b>	<b>15,171,669</b>	<b>100%</b>	<b>21,496,665</b>

*Source: Swiss Capital estimate*

Otherwise, minority shareholders' stake would be diluted and the shareholding structure would be as follows:

**Minority shareholders stake could decrease to 29% from 41% currently if they do not participate to the share capital increase**

**Conpet: Post-share capital increase of RON 13m (in kind)**

	Shares	Percent	Share capital increase participation (RON)
Ministry of Economy	8,908,228	71%	12,622,026
KJK Fund II, SICAV-SIF	611,933	5%	0
Utilico Emerging Markets	581,406	5%	0
Fondul Proprietatea	524,366	4%	0
Others	1,856,451	15%	0
<b>Total</b>	<b>12,482,384</b>	<b>100%</b>	<b>12,622,026</b>

*Source: Swiss Capital estimate*

## Valuation

We update our view on Conpet (COTE) with a BUY recommendation and a target price of RON 94.51 per share revealing an upside potential of 21%. We used a DCF model with a 5-year explicitly forecasted period after which a terminal free cash flow with a perpetual growth of 1% is employed.

We assumed no cash flows stemming from the Pitesti – Pancevo and storage capacity projects. Also, we did not price in our model the share capital increase with the value of the 47 lands. If a RON 13m in kind and RON 9m cash share capital increase would be realised, the price goes down to RON 53.93 per share.

### Conpet: DCF Valuation

(RON'000)	2016F	2017F	2018F	2019F	2020F
EBIT	69,549	67,603	69,338	68,179	62,416
Plus: Depreciation	46,273	46,115	46,039	46,133	48,689
Minus: Tax on EBIT	(11,128)	(10,816)	(11,094)	(10,909)	(9,986)
Capital expenditures	(51,581)	(52,985)	(56,561)	(63,166)	(65,546)
(Increase)/decrease in working capital	(30)	96	(193)	(28)	(9,351)
<b>Free cash flow</b>	<b>53,083</b>	<b>50,012</b>	<b>47,528</b>	<b>40,210</b>	<b>26,221</b>
WACC	7.8%	8.3%	9.0%	9.3%	9.5%
Present value	49,265	42,877	37,384	28,950	17,240
Cumulative net present value	49,265	92,142	129,526	158,475	175,715
Growth Rate	1.0%				
Terminal value	311,562				
Net present value of terminal value	204,850				
<b>Enterprise value</b>	<b>380,566</b>				
Minus: Net debt (net cash)	(380,555)				
<b>Value of equity</b>	<b>818,243</b>				
Shares outstanding	8,658				
<b>Equity value per share (target price)</b>	<b>94.51</b>				
<b>Upside / (downside) potential</b>	<b>21%</b>				
Post-share capital increase shares outstanding*	15,172 (RON 13m in kind and RON 9m cash)				
<b>Adjusted price per share (RON)*</b>	<b>53.93</b>				
<b>WACC assumptions</b>					
Risk free rate	1.8%	2.3%	3.0%	3.3%	3.5%
Market premium	6.0%	6.0%	6.0%	6.0%	6.0%
Beta leveraged	1.00	1.00	1.00	1.00	1.00
Cost of debt	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	7.8%	8.3%	9.0%	9.3%	9.5%
Beta unleveraged	1.0	1.0	1.0	1.0	1.0
Debt/(Debt+Equity mv)	0%	0%	0%	0%	0%

Source: Conpet, Swiss Capital estimates, Thomson One

\*RON 13m in kind and RON 9m cash share capital increase related to the value of 47 lands the company holds land ownership certificates

**Peer comparison**

Company	EV/EBITDA			P/E			P/B		
	2014A	2015F	2016F	2014A	2015F	2016F	2014A	2015F	2016F
KazTransOil	2.0x	n/a	n/a	6.2x	n/a	n/a	0.6x	n/a	n/a
Terna	10.4x	10.9x	11.1x	14.2x	15.7x	16.5x	2.4x	2.5x	2.6x
Enagas	11.0x	11.0x	11.4x	15.4x	14.5x	14.2x	2.8x	2.5x	2.4x
National Grid	10.6x	10.5x	10.3x	16.2x	15.0x	15.1x	2.7x	2.7x	2.7x
Elia	15.2x	15.0x	13.4x	13.5x	14.9x	13.7x	1.0x	1.1x	1.0x
DCP Midstream	13.3x	7.5x	7.6x	16.0x	9.9x	8.4x	1.7x	0.8x	0.8x
Tesoro Logistics	32.4x	10.2x	8.2x	57.0x	17.0x	12.2x	3.2x	1.7x	1.7x
Red Electrica	11.0x	6.5x	6.3x	13.8x	16.0x	14.9x	3.9x	3.6x	3.3x
Rubis	9.1x	10.3x	8.7x	15.7x	17.4x	14.7x	1.4x	1.7x	1.6x
Transelectrica	2.9x	2.6x	2.9x	6.1x	5.9x	661.8%	0.8x	0.7x	64.7%
Transgaz	3.1x	2.9x	3.0x	6.2x	5.9x	6.7x	0.9x	0.8x	0.8x
<b>Median of peers</b>	<b>10.6x</b>	<b>10.3x</b>	<b>8.4x</b>	<b>14.2x</b>	<b>14.9x</b>	<b>14.0x</b>	<b>1.7x</b>	<b>1.7x</b>	<b>1.7x</b>
<b>Conpet (@ market price)</b>	<b>3.3x</b>	<b>2.6x</b>	<b>2.3x</b>	<b>13.1x</b>	<b>11.8x</b>	<b>11.2x</b>	<b>0.9x</b>	<b>0.9x</b>	<b>0.9x</b>
<i>Premium (Discount)</i>	-69%	-74%	-73%	-7%	-21%	-20%	-46%	-48%	-48%
<b>Conpet (@ target price)</b>	<b>4.7x</b>	<b>3.9x</b>	<b>3.5x</b>	<b>15.9x</b>	<b>14.3x</b>	<b>13.5x</b>	<b>1.1x</b>	<b>1.1x</b>	<b>1.0x</b>
<i>Premium (Discount)</i>	-56%	-62%	-58%	12%	-4%	-3%	-35%	-37%	-38%

Source: Thomson One, Swiss Capital estimates

COTE is currently traded at 2.3x FY'16f EBITDA and 11.2x FY16f P/E, implying a discount to the median of peers of 73% and 20%, respectively.

At target price, COTE would trade at 3.5x FY'16f EBITDA and 13.5x FY'16f P/E, implying a discount to the median of peers of 58% and 3%, respectively.

**Conpet: P&L (IFRS individual)**

(RON'000)	2012	2013	2014	2015F	2016F	2017F	2018F	2019F	2020F
Sales revenues, o/w	<b>334,318</b>	<b>348,854</b>	<b>375,033</b>	<b>371,856</b>	<b>367,050</b>	<b>367,784</b>	<b>371,106</b>	<b>373,823</b>	<b>373,390</b>
Domestic crude oil transport rev.	296,480	304,695	311,317	300,885	286,413	282,821	281,195	279,033	276,616
Import crude oil transport rev.	36,007	42,684	56,608	66,361	76,026	80,351	85,300	90,179	92,163
Revenues from modernisation quota	33,703	50,157	25,466	28,118	27,302	27,421	27,863	28,155	28,281
D&A	56,136	36,663	46,430	48,761	46,273	46,115	46,039	46,133	48,689
Personnel costs	101,078	97,885	98,015	106,123	108,375	110,764	113,181	115,637	118,416
Crude oil rail transportation expenses	74,409	77,774	79,067	58,689	46,857	45,451	44,087	43,706	43,242
Modernisation quota expense	51,927	53,293	58,036	57,245	56,500	56,614	57,129	57,550	57,483
<b>EBITDA</b>	<b>86,059</b>	<b>66,613</b>	<b>101,264</b>	<b>112,817</b>	<b>115,822</b>	<b>113,717</b>	<b>115,377</b>	<b>114,312</b>	<b>111,104</b>
<b>EBITDA margin</b>	25.7%	19.1%	27.0%	30.3%	31.6%	30.9%	31.1%	30.6%	29.8%
<b>EBITDA adjusted*</b>	<b>104,283</b>	<b>69,748</b>	<b>133,834</b>	<b>141,944</b>	<b>145,020</b>	<b>142,910</b>	<b>144,643</b>	<b>143,707</b>	<b>140,307</b>
<b>EBIT</b>	<b>29,923</b>	<b>29,950</b>	<b>54,834</b>	<b>64,057</b>	<b>69,549</b>	<b>67,603</b>	<b>69,338</b>	<b>68,179</b>	<b>62,416</b>
<b>EBIT margin</b>	9.0%	8.6%	14.6%	17.2%	18.9%	18.4%	18.7%	18.2%	16.7%
<b>EBT</b>	<b>40,765</b>	<b>41,300</b>	<b>64,467</b>	<b>69,751</b>	<b>75,571</b>	<b>73,540</b>	<b>75,563</b>	<b>74,698</b>	<b>69,103</b>
<b>EBT margin</b>	12.2%	11.8%	17.2%	18.8%	20.6%	20.0%	20.4%	20.0%	18.5%
<b>Net profit</b>	<b>30,808</b>	<b>31,298</b>	<b>51,434</b>	<b>57,122</b>	<b>60,457</b>	<b>58,832</b>	<b>60,451</b>	<b>59,759</b>	<b>55,282</b>

Source: Conpet, Swiss Capital estimates; \*EBITDA adjusted by revenues and costs resulting from the modernisation quota accounting

**Conpet: Balance Sheet (IFRS individual)**

(RON'000)	2012	2013	2014	2015F	2016F	2017F	2018F	2019F	2020F
Long term assets	400,872	421,044	419,183	406,466	411,774	418,644	429,166	446,199	463,056
Inventories	9,316	7,404	7,709	7,390	7,170	7,245	7,299	7,403	10,571
Receivables	37,320	42,016	35,026	34,729	34,280	34,349	34,659	34,913	36,302
Cash	205,530	256,575	343,037	380,555	412,551	433,521	454,591	466,408	463,140
<b>Total assets</b>	<b>653,037</b>	<b>727,040</b>	<b>804,956</b>	<b>829,141</b>	<b>865,776</b>	<b>893,759</b>	<b>925,715</b>	<b>954,923</b>	<b>973,069</b>
Short term debt	32	-	-	-	-	-	-	-	-
Long term liabilities	3,470	4,104	1,892	1,892	1,892	1,892	1,892	1,892	1,892
Current liabilities	40,313	49,469	55,013	46,711	50,590	50,081	50,997	51,009	44,153
Shareholders funds	595,182	650,754	723,425	758,240	790,773	818,340	849,225	877,928	902,653
<b>Equity &amp; liabilities</b>	<b>653,037</b>	<b>727,040</b>	<b>804,956</b>	<b>829,141</b>	<b>865,776</b>	<b>893,759</b>	<b>925,715</b>	<b>954,923</b>	<b>973,069</b>

Source: Conpet, Swiss Capital estimates

**Conpet: Cash Flow (IFRS individual)**

(RON'000)	2015F	2016F	2017F	2018F	2019F	2020F
Profit before taxes	69,751	75,571	73,540	75,563	74,698	69,103
(-) Income tax	(13,374)	(10,537)	(15,456)	(14,367)	(15,258)	(15,881)
(+) Depreciation	48,761	46,273	46,115	46,039	46,133	48,689
(-) (Increase) / Decrease in working capital	(6,941)	(30)	96	(193)	(28)	(9,351)
<b>Cash flow from operations</b>	<b>95,869</b>	<b>111,502</b>	<b>105,218</b>	<b>107,197</b>	<b>106,039</b>	<b>92,835</b>
Capital expenditures/long term investments	(36,044)	(51,581)	(52,985)	(56,561)	(63,166)	(65,546)
<b>Cash flow from investing</b>	<b>(36,044)</b>	<b>(51,581)</b>	<b>(52,985)</b>	<b>(56,561)</b>	<b>(63,166)</b>	<b>(65,546)</b>
Cash surplus (deficit) generated before financing	59,825	59,920	52,234	50,636	42,873	27,288
Other revenues, modernisation quota	29,127	29,198	29,193	29,266	29,395	29,202
Dividends paid	(51,434)	(57,122)	(60,457)	(58,832)	(60,451)	(59,759)
<b>Cash flow from financing</b>	<b>(22,307)</b>	<b>(27,924)</b>	<b>(31,264)</b>	<b>(29,566)</b>	<b>(31,056)</b>	<b>(30,557)</b>
<b>Total change in cash</b>	<b>37,518</b>	<b>31,996</b>	<b>20,969</b>	<b>21,070</b>	<b>11,817</b>	<b>(3,268)</b>
Cash Balance - Beginning of Period	343,037	380,555	412,551	433,521	454,591	466,408
Cash Balance - End of Period	380,555	412,551	433,521	454,591	466,408	463,140

Source: Conpet, Swiss Capital estimates

**Conpet: Key Ratios**

	2012	2013	2014	2015F	2016F	2017F	2018F	2019F	2020F
<b>Profitability</b>									
Net profit margin	9.2%	9.0%	13.7%	15.4%	16.5%	16.0%	16.3%	16.0%	14.8%
RoavgA	7.5%	7.6%	12.2%	13.8%	14.8%	14.2%	14.3%	13.7%	12.2%
RoavgE	5.3%	5.0%	7.5%	7.7%	7.8%	7.3%	7.3%	6.9%	6.2%
<b>Asset management</b>									
Inventory turnover (Days)	11.32	8.87	9.01	9.39	9.34	9.15	9.16	9.13	12.00
Days sales outstanding	36.1	40.7	36.8	33.6	33.6	33.4	33.3	33.3	34.2
Payables days	25.6	22.8	32.9	32.9	32.9	32.9	32.9	32.9	32.9
<b>Leverage and liquidity</b>									
Leverage (total liab/equity)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Gearing (Net debt/equity)	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Net debt/EBITDA	-2.3	-3.8	-3.4	-3.4	-3.5	-3.8	-3.9	-4.1	-4.2
Debt/Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current ratio	6.3	6.2	7.0	9.0	9.0	9.5	9.7	10.0	11.6
Quick ratio	6.0	6.0	6.9	8.9	8.8	9.3	9.6	9.8	11.3
Payout ratio	92%	94%	100%	100%	100%	100%	100%	100%	100%

Source: Conpet, Swiss Capital estimates

**Conpet: Per Share Data and Trading Multiples**

	2012	2013	2014	2015F	2016F	2017F	2018F	2019F	2020F
<b>Per Share Data (RON)</b>									
EPS	3.56	3.62	5.94	6.60	6.98	6.80	6.98	6.90	6.39
<i>EPS growth</i>	8%	2%	64%	11%	6%	-3%	3%	-1%	-7%
BVPS	68.75	75.17	83.56	87.58	91.34	94.52	98.09	101.41	104.26
DPS	3.27	3.41	5.94	6.60	6.98	6.80	6.98	6.90	6.39
<i>DPS growth</i>	27%	4%	74%	11%	6%	-3%	3%	-1%	-7%
<b>Valuation multiples at market price</b>									
P/E	21.9	21.6	13.1	11.8	11.2	11.5	11.2	11.3	12.2
P/BV	1.1	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.7
P/Sales	2.0	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8
EV/Sales	1.4	1.2	0.9	0.8	0.7	0.7	0.6	0.6	0.6
EV/EBITDA	5.5	6.3	3.3	2.6	2.3	2.1	1.9	1.8	1.9
Dividend yield	4.2%	4.4%	7.6%	8.5%	9.0%	8.7%	9.0%	8.8%	8.2%
<b>Valuation multiples at target price</b>									
P/E	26.6	26.1	15.9	14.3	13.5	13.9	13.5	13.7	14.8
P/BV	1.4	1.3	1.1	1.1	1.0	1.0	1.0	0.9	0.9
P/Sales	2.4	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2
EV/Sales	1.8	1.6	1.3	1.2	1.1	1.1	1.0	0.9	1.0
EV/EBITDA	7.2	8.5	4.7	3.9	3.5	3.4	3.2	3.1	3.2
Dividend yield	3.5%	3.6%	6.3%	7.0%	7.4%	7.2%	7.4%	7.3%	6.8%

Source: Conpet, Swiss Capital estimates

## 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%.

A "**SELL**" recommendation indicates that downside is more than 15%.

### Company Specific Regulatory Disclosures

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#### Mentioned companies

Company	BSE	Rating	Price	Price date	Disclosure
Conpet	COTE	BUY	78.00	01/19/2016	NONE

#### Rating history for Conpet

Date	Rating	Share Price (RON)	Target Price (RON)
7/15/2015	Initiation of coverage - BUY	66.95	83.60
01/20/2016	UPDATE - BUY	78.00	94.51

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