

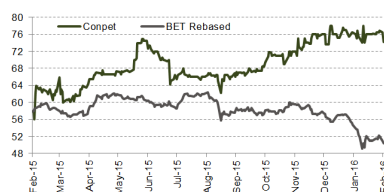
10 February 2016

Conpet

HOLD

Conpet: decent 4Q15 results, tariff changes could reduce import revenues

BBG Ticker	COTE RO
Market Cap (USD mil)	162
Price	74.2
Price target	74.3
Upside	0.1%



Conpet reported its 4Q15 preliminary results today, before the market opened. Net profit for 4Q15 is usually low, and not relevant for the full year, while FY15 net profit was 7% above our estimates and 5.6% higher yoy. The new tariffs for 2016 have also been published, with a 1.4% increase in domestic tariffs and a change in the way import tariffs are structured (higher for the lower tranches; lower for the higher ones). We consider the changes neutral, while a slight decline in the quantities transported, as estimated by the operators, could lead to a <5% drop in net profit next year, if not offset by a cut in costs. This supports our view that Conpet is a stable profit earner which pays a good dividend (close to an 8% yield this year). A catalyst could stem from increased investment projects, which would utilise Conpet's high cash position (more than 50% of its market cap), while a threat remains in the technical process of increasing the share capital with the value of the land plots belonging to the state.

A conference call will be held on 12 February to discuss the results (dial-in details to be confirmed).

FY15 results and dividend: net profit for 4Q15 was RON 2.3m, down 10% yoy and 87% qoq. However, 4Q is usually weak due to provisions for employee benefits being booked in the quarter. For FY15, the company reported net profit of RON 54.3m, up 5.6% yoy and 7% above our estimates. Assuming a 90% payout ratio, the dividend yield would be 7.6%.

Conpet: quarterly results

(RON m)	4Q14	3Q15	4Q15A	yoy	qoq	4Q15E vs. WoodE	
Turnover	93.1	99.5	95.7	3%	-4%	92.0	4%
Total operating revenues	100.1	108.2	103.3	3%	-5%	97.4	6%
OPEX	85.9	73.5	83.9	-2%	14%	84.7	-1%
EBITDA	14.2	34.7	19.4	36%	-44%	12.7	52%
Depreciation	11.3	12.1	15.1	34%	25%	12.0	26%
EBIT	2.9	22.6	4.3	46%	-81%	0.7	489%
Financial profit	2.5	1.2	1.2	-52%	-1%	1.0	22%
Pre-tax profit	5.4	20.8	5.5	1%	-74%	1.7	218%
Profit tax	2.9	3.9	3.2	10%	-18%	0.5	540%
Net profit	2.5	16.9	2.3	-10%	-87%	1.2	87%

Source: Conpet, Wood Research

Conpet: 2015 results

(RON m)	2014	2015	yoy	2015E vs. WoodE	
Turnover	375.0	381.4	2%	362.3	5%
Total operating revenues	402.4	411.8	2%	390.5	5%
OPEX	302.0	298.1	-1%	296.9	0%
EBITDA	100.5	113.7	13%	93.6	21%
Depreciation	46.5	51.4	11%	41.9	23%
EBIT	54.0	62.2	15%	51.7	20%
Financial profit	9.7	5.8	-41%	8.7	-34%
Pre-tax profit	64.5	68.0	5%	60.4	13%
Profit tax	13.2	13.7	4%	9.7	42%
Net profit	51.4	54.3	6%	50.8	7%

Source: Conpet, Wood Research

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Cash and investments: the cash position for the year end stood at RON 380.3m, up from RON 343.03m at the end of last year. This is mainly invested in governmental bonds and T-Bills, producing just the interest. We hope to see increased confidence towards new investment projects by the company, as we believe that the cash position and the leverage power could allow projects of more significant size, and also a better return on the funds held.

New tariffs: the new tariffs for 2016 have also been published. Tariffs for domestic transport have been increased by 1.4%, while the structure of those for import activity has changed (increased for smaller quantities transported; reduced for higher quantities). Taking into account the estimated reduction in the quantities to be transported, we expect a small decline in revenues and possibly a slight decline in net profit, but we do not expect it to be more than 5%.

Tariff changes

Tariff (RON/t) applied for:		Old tariff	New tariff	Change
Domestic transport		78.64	79.75	1.4%
Ploiesti basin (Lukoil)	up to 60k tons	28.03	38.0	39.3%
	60k tons-100k tons	27.27		
	100-150k tons	26.18		
	more than 100k tons	23.06	16.0	-30.6%

Source: Official Gazette

Increase in share capital: we continue to see a threat related to the required share capital increase, as the land plots that are being included in the value by the company belong to the state. As the share capital increase would need to be done at par value (RON 3.30/share), this would mean that the minority shareholders would need to contribute cash matching the in-kind contribution of the state, or be diluted. The accounting value of the land is RON 12.7m, but a revaluation needs to be done in order to assess the current market value. If using the inflation index, the land plots could be revalued at RON 55m. Using the par value, the number of shares to be attributed to the state could range between 3.6m and 16.6m (or 42-190% of the current number of shares), which means that the minority shareholders would also need to contribute cash in order to maintain their ownership, even though the amount would be relatively small (ranging from EUR 2m to EUR 8m for the entire 41% held by minority investors). The operation is still pending, with the final valuation still not having been published.

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
2012	334	31	8.7	3.6	7.9%	20.8	5.1	5%	3.3	4%
2013	349	31	8.7	3.6	1.6%	20.5	5.9	5%	3.4	5%
2014	375	50	8.7	5.8	61.3%	12.7	3.0	7%	5.9	8%
2015E	362	51	8.7	5.9	0.5%	12.6	3.1	7%	5.0	7%
2016E	363	51	8.7	5.9	0.7%	12.5	3.3	7%	5.0	7%
2017E	366	51	8.7	5.9	-0.5%	12.6	3.2	7%	5.0	7%

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Wood's 12-month rating and PT history for Conpet

Recommendation		Price Target	
30/05/2014	BUY (Init)	30/05/2014	RON 63.1
		03/03/2015	RON 74.3
22/10/2015	HOLD		

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BUY: The stock is expected to generate total returns of over 15% during the next 12 months as measured by the target price.

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Equity Research Coverage	45%	34%	13%	1%	N.A.	7%
IB Clients	1%	1%	N.A.	N.A.	N.A.	N.A.

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CEZ	5
Conpet	1
DO&CO	1
Erste Group Bank	5
Enea	5
Energia	5
Fortuna	5
S.C. Fondul Proprietatea S.A.	1, 4, 5
Getin Noble Bank	5
GTC	5
ITG	1, 3
Immofinanz	5
IPF	5
JSW	5
KGHM	5
Komerční	5
mBank	5
Millennium	5

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Netia	5
Orange PL	5
Pekao	5
PGE	5
Philip Morris	5
PKO BP	1, 2, 3, 5
PKN	5
PZU	5
RC2	4
Romgaz	5
SIF2	10
SNP	3, 5
O2 CR	5
Transilvania	5
Transgaz	1
WSE	1
Warimpex	1, 5

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