

Equity update Conpet: Higher tariffs bring promising future

Recommendation:  **Buy**

Target price: RON86.60

12 - months horizon

Current share price: RON68.80

* price as of 03/01/2023, 11:59 CEST

Sector: Energy

We lift our recommendation to BUY from HOLD and hike the TP to RON 86.6 from RON 76.1, as the recently approved transportation tariffs have triggered an upward revision of our estimates.

Equity Update:
Conpet

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Higher tariffs bring promising future

On 23 December, Conpet announced that the National Agency for Mineral Resources (ANRM) approved new tariffs for the transport of crude oil, rich gas, condensate applicable starting from January 1, 2023. Following this news, we lift our recommendation to BUY from HOLD and hike the TP to RON 86.6 from RON 76.1. By incorporating the new tariffs, we revised our estimates for 2023-24e. We have also revised our FY 2022 estimates on the back of upbeat Q3 22 results and a slightly brighter macro economic outlook.

- **Outlook:** Starting from Jan 1, 2023, the tariff for transport services on domestic subsystem is set at 117.9 RON/t. We deem that transportation tariffs for the domestic subsystem will continue to increase going forward, mitigating the negative effect of declining domestic crude oil volumes on revenues, combined with inflation pressure on margins. Consequently, we project an average EBITDA of RON 137.4 mn in 2022-24e vs. RON 112.0 mn in 2019-21, and the net income increasing at a CAGR of 17.1% in the period 2022-24e, reaching RON 83.3 mn in 2024e.
- **Transported volumes:** We assume a slight downward trajectory of the domestic transported quantities, driven by declining domestic crude volumes (2.9 mn t in 2024e vs. 3.2 mn t in 2021). On the import side, we expect a dip in transported quantities in 2023e vs. historical levels (3.2 mn t in 2023e vs. 3.4 mn t in 2019-21), due to: (i) OMV Petrom's scheduled maintenance work, expected to last approx. 45 days and (ii) Lukoil maintenance work scheduled for the end of 2023. We expect total transported volumes in 2024e to match the 2022e level of 3.9 mn t mainly on the back of higher volume of imported crude oil.
- **Valuation:** We lift our recommendation to BUY from HOLD and hike the TP to RON 86.6 from RON 76.1. Our target price implies an upside potential of 25.9% relative to the current market price.
- **Co-Sponsored Research:** RBI has entered into an agreement with the Bucharest Stock Exchange for producing financial research on Conpet S.A. in exchange for a financial remuneration.

Daniela POPOV

Analyst

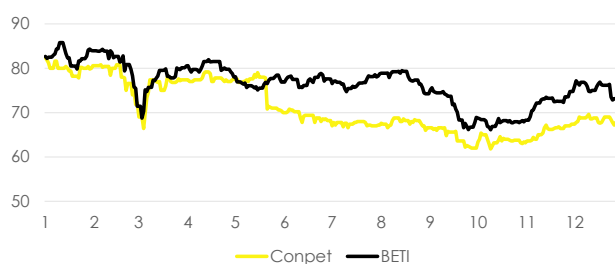
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Key financial data

BUY

Price 3.1.2023	68.8
Price target	86.6
Market cap. (tot. shares, in EUR mn)	120.9
Free float	29%
Free float in EUR mn	34.9
Avg. daily turnover (12 m) in EUR mn	0.04
Bloomberg	COTE RO
Reuters	COTE.BX



Income statement (RON mn)	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
Consolidated sales	407.8	406.9	412.8	469.7	491.6	538.5
EBITDA	110.4	114.3	111.4	128.5	134.8	148.9
Adjusted EBITDA	110.4	114.3	111.4	128.5	134.8	148.9
EBIT	62.1	65.0	57.7	72.9	79.9	94.1
Adjusted EBIT	62.1	65.0	57.7	72.9	79.9	94.1
Earnings before taxes	69.7	70.5	60.8	82.7	87.0	99.1
Net profit before minorities	58.9	60.8	51.9	69.4	73.1	83.3
Net profit after minorities	58.9	60.8	51.9	69.4	73.1	83.3
Adjusted Net profit	58.9	60.8	51.9	69.4	73.1	83.3

Cash flow statement (RON mn)	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
Cash flow from the result	75.4	106.2	82.9	76.2	78.9	91.2
Change in working capital	21.4	-7.3	-5.5	-0.5	-3.4	-2.6
Operating cash flow	96.8	98.8	77.3	75.7	75.4	88.6
Capex PPE and intangible assets	-84.1	-102.0	-63.4	-103.7	-99.4	-97.9
Investing cash flow	-53.0	-65.6	-15.6	-39.5	-33.8	-26.3
Financing cash flow	-16.3	-25.8	4.0	-14.9	-9.0	16.9

Balance sheet (RON mn)	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
Net working capital	-40.2	-32.8	-27.3	-26.8	-23.4	-20.8
Net interest-bearing debt	-238.6	-198.3	-191.8	-163.6	-139.2	-132.1
Capital employed	653.8	657.0	667.9	687.5	710.0	748.0
Market capitalisation	689.1	659.7	683.9	587.0	595.6	595.6
Enterprise value	450.6	461.4	492.2	423.4	456.4	463.5
Shareholders' equity	653.8	657.0	667.9	687.5	710.0	748.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Total assets & liabilities	767.1	759.9	771.4	802.1	825.4	868.3

Margins & profitability	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
EBITDA margin	27.1%	28.1%	27.0%	27.4%	27.4%	27.7%
EBIT margin	15.2%	16.0%	14.0%	15.5%	16.3%	17.5%
Net margin	14.4%	15.0%	12.6%	14.8%	14.9%	15.5%
Return on assets	7.8%	8.0%	6.8%	8.8%	9.0%	9.8%
Return on equity	9.0%	9.3%	7.8%	10.2%	10.5%	11.4%
Return on capital employed	9.0%	9.3%	7.8%	10.2%	10.5%	11.4%

Financing (x)	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
Net gearing	-36.5%	-30.2%	-28.7%	-23.8%	-19.6%	-17.7%
Capex / depreciation	1.7	2.1	1.2	1.9	1.8	1.8
Equity ratio	85.2%	86.5%	86.6%	85.7%	86.0%	86.1%

Per share data (RON)	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
EPS reported	6.8	7.0	6.0	8.0	8.4	9.6
Earnings per share (adj.)	6.8	7.0	6.0	8.0	8.4	9.6
Operating cash flow per share	11.2	11.4	8.9	8.7	8.7	10.2
Book value per share	75.5	75.9	77.1	79.4	82.0	86.4
Dividend per share	7.2	6.9	7.3	7.6	8.0	9.1
Payout ratio	105.6%	98.1%	121.4%	95.0%	95.0%	95.0%

Valuation (x)	12/2019	12/2020	12/2021	12/2022e	12/2023e	12/2024e
PE reported	11.7	10.8	13.2	8.5	8.2	7.2
Adjusted PE ratio	11.7	10.8	13.2	8.5	8.2	7.2
Price cash flow	7.1	6.7	8.8	7.8	7.9	6.7
Price book value	1.1	1.0	1.0	0.9	0.8	0.8
Dividend yield	0.1	0.1	0.1	0.1	0.1	0.1
Free cash flow yield	0.0	0.0	0.0	0.0	0.0	0.0
EV/sales	1.1	1.1	1.2	0.9	0.9	0.9
EV/EBITDA	4.1	4.0	4.4	3.3	3.4	3.1
EV/EBIT	7.2	7.1	8.5	5.8	5.7	4.9
EV/operating cash flow	4.7	4.7	6.4	5.6	6.0	5.2

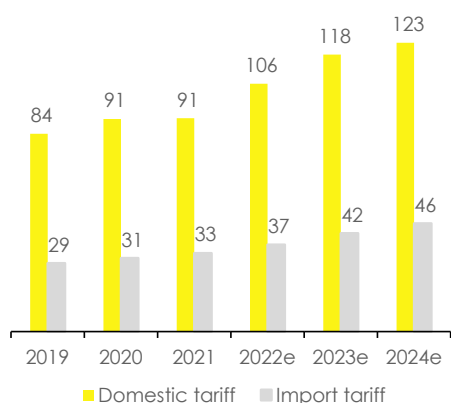
Source: Conpet, RBI/Raiffeisen Research estimates

Changes in forecasts

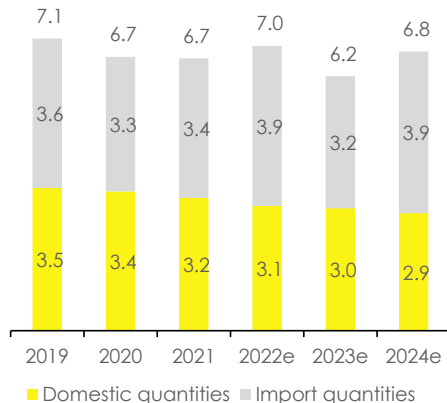
in RON mn	previous			new		
	2022e	2023e	2024e	2022e	2023e	2024e
Turnover, o/w:	470.0	476.5	513.7	469.7	491.6	538.5
Domestic crude	321.8	342.1	342.8	322.5	353.0	353.4
Imported crude	144.5	130.7	167.3	144.6	135.1	181.9
Total operating revenues	521.8	522.6	560.0	518.8	537.9	585.1
Total operating expenses	394.0	401.0	427.9	390.3	403.1	436.2
EBITDA	127.8	121.6	132.1	128.5	134.8	148.9
EBIT	70.9	67.0	77.6	72.9	79.9	94.1
Net profit	67.8	63.0	70.2	69.4	73.1	83.3
EPS	7.8	7.3	8.1	8.0	8.4	9.6

Source: RBI/Raiffeisen Research estimates

Average tariffs (RON/ton)



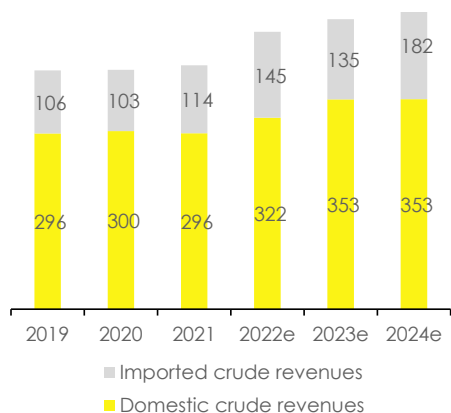
Volumes transported (mn tons)



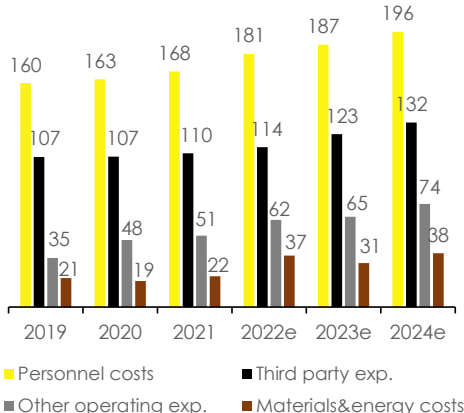
Source: Conpet, RBI/Raiffeisen Research estimates

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Turnover (RON mn)



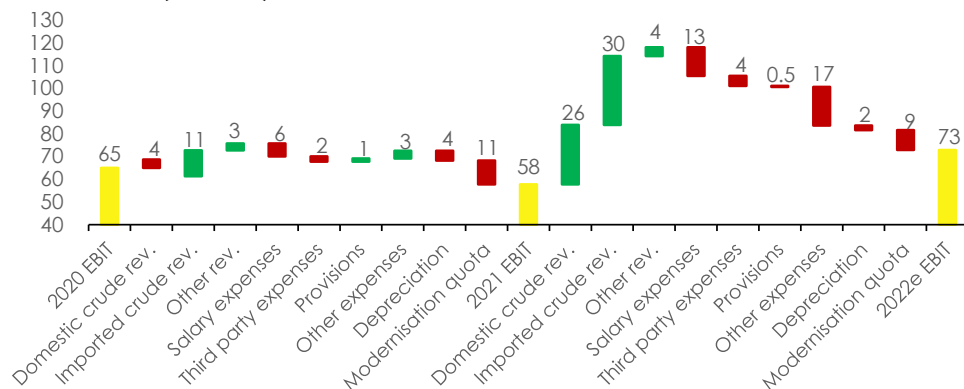
OpEx distribution (RON mn)



Source: Conpet, RBI/Raiffeisen Research estimates

Source: Conpet, RBI/Raiffeisen Research estimates

EBIT evolution (RON mn)



Source: Conpet, RBI/Raiffeisen Research estimates

DCF Model

FCF projection (RON mn)	2022e	2023e	2024e	2025e	2026e	2027e	TV CF
Consolidated sales	469.7	491.6	538.5	554.7	568.6	581.6	593.3
EBITDA	128.5	134.8	148.9	152.5	156.4	159.4	162.0
EBITA	72.9	79.9	94.1	94.3	94.8	94.4	100.4
Taxes paid on EBITA	-11.7	-12.8	-15.1	-15.1	-15.2	-15.1	-16.1
NOPLAT	61.2	67.1	79.1	79.2	79.6	79.3	84.3
Adj. NOPLAT	61.2	67.1	79.1	79.2	79.6	79.3	84.3
Depreciation of PPE & intangibles	55.6	54.9	54.8	58.3	61.6	65.0	61.6
Gross investment in PPE & intangibles	-103.7	-99.4	-97.9	-91.2	-83.5	-75.3	-61.8
Change in working capital	-0.5	-3.4	-2.6	6.4	6.6	6.8	0.0
NWC/Sales	-5.7%	-4.8%	-3.9%	-4.9%	-5.9%	-7.0%	-8.0%
Change in LT provisions other than tax	4.1	1.3	1.4	1.3	1.3	1.3	1.3
Net acquisitions & disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow to firm	16.8	20.6	34.7	54.0	65.5	77.1	85.5
Adj. free cash flow to firm	16.8	20.6	34.7	54.0	65.5	77.1	85.5
EV DCF, mid-year assumption	554.0	610.6					
+MV of non-operating assets eop	0.0	0.0					
-MV of net debt eop	-163.6	-139.2					
-MV of minorities eop	0.0	0.0					
Adjustments to EV eop	0.0	0.0					
Faire value of equity	717.7	749.8					
Shares outstanding (mn)	8.7	8.7					
Fair value per share (in RON)	82.9	86.6					

Value drivers	2022e	2023e	2024e	2025e	2026e	2027e	TV CF
Consolidated sales yoy	13.8%	4.7%	9.5%	3.0%	2.5%	2.3%	0.0%
EBITDA margin	27.4%	27.4%	27.7%	27.5%	27.5%	27.4%	27.3%
Rate of taxes paid	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%
Working capital/sales	-5.7%	-4.8%	-3.9%	-4.9%	-5.9%	-7.0%	-8.0%
CAPEX/Depreciation	1.9	1.8	1.8	1.6	1.4	1.2	1.0
Free cash flow margin	3.6%	4.2%	6.4%	9.7%	11.5%	13.3%	14.4%

WACC	2022e	2023e	2024e	2025e	2026e	2027e	TV CF
Target capital structure (at MV)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Debt to equity ratio (at MV)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk free rate (local)	8.3%	8.5%	8.5%	8.5%	8.5%	8.5%	6.0%
Equity market premium	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Levered beta	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Cost of equity	13.7%	14.0%	14.0%	14.0%	14.0%	14.0%	11.5%
Cost of debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax rate	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%
WACC	13.7%	14.0%	14.0%	14.0%	14.0%	14.0%	11.5%

Growth sensitivity (RON)	Terminal growth rate						
WACC	-1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%
10.0%	89.3	92.0	95.0	98.3	101.9	106.0	110.5
10.5%	85.9	88.4	91.1	94.0	97.3	100.9	104.9
11.0%	82.8	85.1	87.5	90.1	93.1	96.3	99.8
11.5%	80.0	82.0	84.2	86.6	89.2	92.1	95.3
12.0%	77.3	79.2	81.2	83.4	85.8	88.3	91.2
12.5%	74.9	76.6	78.4	80.4	82.6	84.9	87.5
13.0%	72.6	74.2	75.9	77.7	79.6	81.8	84.1

Margin sensitivity (RON)	FCF margin TV						
WACC	12.9%	13.4%	13.9%	14.4%	14.9%	15.4%	15.9%
10.0%	91.8	93.9	96.1	98.3	100.5	102.6	104.8
10.5%	87.9	90.0	92.0	94.0	96.1	98.1	100.1
11.0%	84.4	86.3	88.2	90.1	92.1	94.0	95.9
11.5%	81.2	83.0	84.8	86.6	88.4	90.2	92.0
12.0%	78.3	80.0	81.7	83.4	85.1	86.8	88.4
12.5%	75.6	77.2	78.8	80.4	82.0	83.6	85.2
13.0%	73.2	74.7	76.2	77.7	79.2	80.7	82.2

Source: RBI/Raiffeisen Research estimates

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Symbol	Date	Recommendation	Company

COTE.BX	18.11.2022	Hold	Conpet
COTE.BX	16.05.2022	Hold	Conpet
COTE.BX	17.12.2021	Hold	Conpet

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	Column A	Column B
Investment recommendation	Basis: All recommendations for all financial instruments (last 12 months)	Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
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Hold recommendations	23.1%	25.0%
Sell recommendations	14.2%	15.6%

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