OMV PETROM Bucuresti

Equity|Romania|Oil&Gas Sector

IEBATRUST Financial & Investment Services

Company Update

BUY

previous: BUY

TARGET PRICE 12M (RON)	0.4800
Previous Target price	0.4500
SHARE PRICE (RON)	0.2920

Performance	1M	3M	12M	YTD
Absolute (%)	-4.5%	0.3%	-10.5%	-13.1%
Relative to BET (%)	-1.3%	3.1%	6.1%	5.6%

RIC	SNPP.BX
Bloomberg	SNP RO
Index listed	BET, BET-C, BET-XT, BET-NG
Market Cap (RON m)	16,483.44
Market Cap (EUR m)	3,820.39
Shares Out (m)	56,644.11
52 Week Range (RON)	0.275 / 0.450
% from 52 Week range	5.82% / -35.33%
Avg. daily volume 6M (shares)	3,222,139

Shareholders (%)	
OMV AKTIENGESELLSCHAFT WIEN	51.01%
Ministry of Economy	20.64%
Fondul Proprietatea (FP RO)	20.11%
Free float	8.24%

(IFRS)	09A	10A	11E	12E
P/E(x) adj.	14.5	8.1	4.2	6.8
EPS adj. ch. (%)	-12.1%	155.9%	77.1%	-37.5%
EV/EBITDA(x)	5.0	4.5	3.1	3.5
Net debt/EBITDA	0.6	0.4	0.0	0.4
P/BV(x)	0.8	1.0	0.8	0.7
ROE(%)	5.4%	12.7%	19.6%	11.2%
ROIC(%)	4.7%	10.6%	16.8%	9.9%
P/S (x)	0.8	1.0	0.7	0.8
Div. Yield (%)	0.0%	5.6%	10.8%	6.7%
RON m				
Revenues	16,089.7	18,615.7	22,985.9	21,420.2
EBITDA	4,109.6	5,797.1	7,788.7	6,796.6
Net income	860.2	2,201.2	3,897.3	2,435.4
EPS	0.02	0.04	0.07	0.04
EPS adj.	0.02	0.04	0.07	0.04
BVPS	0.29	0.33	0.38	0.39
DPS	0.00	0.02	0.03	0.02
FCF equity	0.00	0.02	0.03	0.00

20 December 2011

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Petrom posted strong Q311 IFRS results on sustainably favourable crude oil price environment and operational performance in E&P sector, with group EBITDA landing 42% higher YoY on stronger margins. Target price is raised to RON0.48, supported by a forecasted DY11E at 11%. Rating is kept strong BUY.

▪ The crude oil price still remains comfortably high at 105 USD/bbl (+15% YTD, +35% vs. 2010 average) allowing for comfortable cash-flow estimates highly depending on the upstream numbers. In our valuation we remain conservative and incorporate a crude oil price of 90 USD/bbl in 2012, 15% below current price levels and 27% from 2011 highs. We reiterate that in our opinion the upstream activity supports solid numbers, cash-flow and valuation for Petrom and that only a sharp and sudden decline in the oil price (below 70$ or some 34% below current level) could significantly alter our positive view on Petrom's financials, but this scenario looks extremely aggressive at the moment.

▪ OMV PETROM reported 9M'11 IFRS set of results posting a strong bottom line of RON 2,918, double YoY and 55% above our forecast on lower than assumed depreciation charges while the difficult to predict net financial result landed less negative at RON 226m vs. a loss of RON 678m in our numbers. Operational performance improvements and the favourable crude oil price environment (+49% YOY) more than offset the flat YoY production and supported strong Q3'11 results with EBIT four times higher YoY at RON 1,338m. Although the downstream margins remained pressured by the high oil price and the burdening of gas acquisition cost on higher import prices, Q3'11 EBITDA advanced by 46% YoY at RON 1,999m.

▪ We have downward revised our assumption on FY11E depreciation charges by 20% to RON 2,854m while incorporating a lower FY11E financial loss of RON 320m compared to RON 528m in our previous forecast. Following these adjustments, our FY11E IFRS bottom line is now expected to grow by 77% YoY to RON 3,897m (+41% above previous estimates). Following lower assumed net financial losses, from 2012 onwards bottom line is overall lifted by c10%.

▪ For Q4'11 we expect OMV Petrom to post 24% YoY higher sales at RON 6,762 and an EBITDA of RON 1,938.4m backed by 14% YoY higher operating profitability in E&P sector on sustainably favourable crude oil price environment (+36% YoY). The bottom line is expected to land at RON 939.4m vs. RON 780.65m in Q4'10 (+20% YoY), while margins are seen moderating on further assumed pressure on downstream margins and burdening of gas acquisition cost due to higher import prices. We do not yet incorporate the effect of the two energy projects (Dorobantu wind park and Brazi power plant) being in start-up phase in H2'11, as we still expect a better visibility by the management.

▪ We value SNP through a DCF exercise (weight 50%) and a relative valuation over developing peers at par with average EV/EBITDA(11E-12E) of 5.8x. Supported mainly by the relative valuation, we arrive now at a target price of 0.48RON per share (8% higher than previously) implying a strong upside potential of 66% to current price levels and a strong BUY rating. Relatively wise, OMV Petrom trades attractively at 0.8x P/BV(11E) and at 3.1x EV/EBITDA(11E) with a discount of 57% and 55%, respectively, looking very undervalued compared to our emerging peers universe. Compared to its parent company OMV AG, a more diversified group, OMV Petrom trades at similar multiples, albeit that at the end of the day SNP records strong cash flows, offering higher dividend yields and lower debt leverage.

▪ The analyst conference call on the company's Q3'11 IFRS set of results did not deliver any major news, but strengthened the management's promise to continue significantly investing in Romania. Brazi power plant is expected to be available for commercial operations at the end of Q4 this year. However, the plants contribution in 2012 will be adversely impacted by the regulatory changes requiring Petrom to use import gas rather than use gas from own production, imposing a substantial financial burden on G&P.

Financials & Valuation (Summary)

Financial Statements (IFRS)

Profit & Loss (RON Mn)	2008A	2009A	2010A	2011E	2012E
Revenues	20,127	16,090	18,616	22,986	21,420
EBITDA	3,875	4,110	5,797	7,789	6,797
EBIT	1,205	1,620	2,986	4,934	3,257
Net financials	-76	-451	-380	-320	-382
EBT	1,129	1,169	2,605	4,614	2,874
Net income	978	860	2,201	3,897	2,435
IEBA net income	978	860	2,201	3,897	2,435
Dividend	0	0	1,003	1,775	1,106
Cash flow (RON 000) - IEBA TRUST					
Net Cash flow from operations	5,227	3,597	5,554	6,463	6,577
Capex	7,255	4,052	4,452	4,500	4,500
FCFF	-2,028	-455	1,101	1,963	2,077
Other cash flows	-987	-588	-847	-265	-3,906
Cash flow used in investments	445	-319	92	187	-198
Change in debt	1,802	1,173	859	-1,191	494
Change in Capital	0	0	0	0	0
FCF	-768	-189	1,205	694	-1,532
Balance Sheet (RON Mn)					
Net fixed assets	20,625	22,791	25,147	26,792	27,752
Current investments	3,756	3,437	3,529	3,716	3,518
Current assets	4,537	4,299	6,090	7,178	6,056
Cash & others	572	384	1,589	2,282	750
Total Assets	28,917	30,527	34,765	37,685	37,326
Current liabilities	5,057	4,707	5,578	4,995	5,937
Total debt	1,825	2,998	3,857	2,666	3,160
Net debt	1,253	2,614	2,268	383	2,410
Other L-T liabilities & provisions	6,045	6,631	6,871	8,690	6,256
Shareholders capital	18,983	18,983	18,983	18,983	18,983
Other reserves	-3,038	-2,804	-498	2,397	3,057
Total Equity	15,945	16,180	18,486	21,380	22,040
Minorities	45	11	-27	-46	-66
EV	27,988	20,690	26,009	24,169	24,033
Market Cap	21,587	12,501	17,850	16,483	16,483
No of shares Year End (000)	56,644	56,644	56,644	56,644	56,644
No of shares Diluted (000)	56,644	56,644	56,644	56,644	56,644

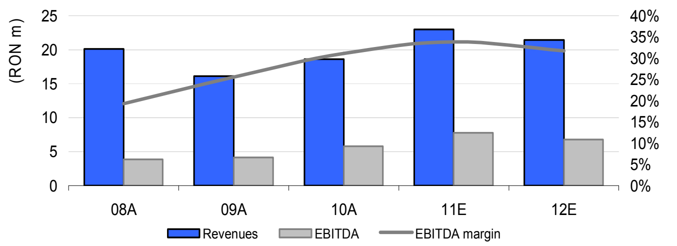
Per share	2008A	2009A	2010A	2011E	2012E
EPS	0.017	0.015	0.039	0.069	0.043
IEBA EPS	0.017	0.015	0.039	0.069	0.043
DPS	0.000	0.000	0.018	0.031	0.020
BVPS	0.281	0.286	0.326	0.377	0.389
FCFPS	-0.036	-0.008	0.019	0.035	0.037
Growth rates & margins					
Revenues	34.7%	-20.1%	15.7%	23.5%	-6.8%
EBITDA	14.6%	6.1%	41.1%	34.4%	-12.7%
EBIT	-36.6%	34.5%	84.2%	65.3%	-34.0%
EBT	-38.6%	3.6%	122.8%	77.1%	-37.7%
Net Income	-36.2%	-12.1%	155.9%	77.1%	-37.5%
IEBA net Income	-36.2%	-12.1%	155.9%	77.1%	-37.5%
Dividend	n/a	n/a	n/a	n/a	-37.7%
EPS	-36.2%	-12.1%	155.9%	77.1%	-37.5%
IEBA EPS	-36.2%	-12.1%	155.9%	77.1%	-37.5%
DPS	n/a	n/a	n/a	n/a	-37.7%
EBITDA margin	19.3%	25.5%	31.1%	33.9%	31.7%
EBIT margin	6.0%	10.1%	16.0%	21.5%	15.2%
Net margin	4.9%	5.3%	11.8%	17.0%	11.4%
IEBA net margin	4.9%	5.3%	11.8%	17.0%	11.4%

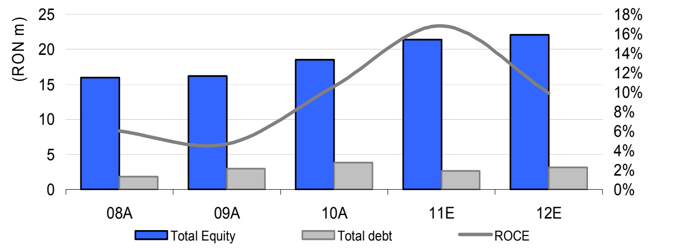
Key items

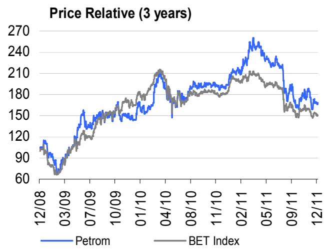
Ratios and multiples	2008A	2009A	2010A	2011E	2012E
P/E(x)	22.1	14.5	8.1	4.2	6.8
P/E(x) IEBA	22.1	14.5	8.1	4.2	6.8
P/E(x) IEBA at 52wks High	32.4	19.2	9.4	6.5	10.5
P/BV(x)	1.4	0.8	1.0	0.8	0.7
ROE	6.4%	5.4%	12.7%	19.6%	11.2%
IEBA ROE	6.4%	5.4%	12.7%	19.6%	11.2%
ROCE	6.0%	4.7%	10.6%	16.8%	9.9%
IEBA ROCE	6.0%	4.7%	10.6%	16.8%	9.9%
EV/EBITDA (x)	7.2	5.0	4.5	3.1	3.5
EV/EBITDA (x) at 52wks High	9.8	6.0	5.0	4.3	4.9
Net debt/EBITDA (x)	0.3	0.6	0.4	0.0	0.4
EBITDA/Net inter. Exp. (x)	146.5	23.3	9.9	10.8	23.8
EV/CE (x)	1.6	1.1	1.2	1.0	1.0
P/S (x)	1.1	0.8	1.0	0.7	0.8
P/FCFPS (x)	-10.6	-27.5	16.2	8.4	7.9
FCF Yield	-9.4%	-3.6%	6.2%	11.9%	12.6%
Dividend Yield	0.0%	0.0%	5.6%	10.8%	6.7%
Dividend payout	0.0%	0.0%	45.5%	45.6%	45.4%
Net debt/Equity	7.9%	16.2%	12.3%	1.8%	10.9%
T.debt/(T.debt + Equity)	10.3%	15.6%	17.3%	11.1%	12.5%

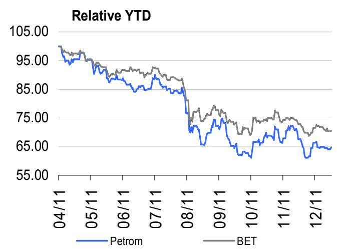
Stock's information

Share price (RON)	0.2910	Target price /share	0.48
52 weeks High price (RON)	0.4500	Mkt Cap (RON m)	16,483
52 weeks Low price (RON)	0.2750	EV (RON m) 11E	24,169
Country	Romania	Reuters	SNPP.BX
Sector	Oil&Gas Sector	Bloomberg	SNP RO









Source: SSIF IEBA Trust estimates

Overview Q3’11/9M’11 IFRS results

OMV Petrom posted solid 9M’11 IFRS EBIT of RON 3,754m, 87% higher YoY supported by the operational performance improvements and by the favorable crude price environment up 49% YoY, lifting the bottom line up to RON 2,918m compared to RON 1,421m during the same period last year, backed by strong Q3’11 results. The operating profitability was mainly supported by the upstream segment following the increase in crude oil price (+49% YoY to 112.57 USD/bbl against 75.55 USD/bbl in Q3’10), while the oil price increase pressured the downstream and Gas&Power activities. The net financial result improved YoY to a loss of RON 226m vs. a loss of RON308m in the first nine months of 2010 mainly influenced by lower interest costs partially offset by increasing FX losses due to USD weakening against RON in the third quarter.

Upstream segment delivered strong results backed by increasing crude oil prices (USD 112.57/bbl, +49% higher YoY) and lower production costs, which more than offset the hedging losses and the unfavorable FX effect due to weaker USD against RON, while the total hydrocarbon production in Q3’11 stood almost flat YOY at 16.93m boe as higher production volumes in Kazakhstan offset somewhat lower production volumes in Romania. Total hydrocarbon production in the first nine months stood at 50.69m, +1% YoY.

G&P segment supplied in the first nine months an EBIT of RON 36m compared to a loss of RON 20.8m during the same period last year supported by the improved bad debt position and higher Q3’11 gas sales by 15% YoY driven by increased industry demand. The EBIT loss was reduced reflecting the lower level of bad debt provisions and lower losses at Doljchim due to the ongoing closing process. Dorobantu wind park was finalized and started commercial operations on the 1st of October, while Brazi power plant is expected to be available for commercial operations at the end of Q4’11. As both projects are in start-up phase, we do not incorporate them in our figures and valuation yet.

The R&M segment was supported during Q3’11 by improved cost and operational performance despite a drop in marketing sales volumes by 3% YoY as slightly higher commercial sales partially offset the 5% decrease in Group retail sales due to a still weak retail demand. The refining margin continued to deteriorate to USD -2.70/bbl compared to USD -1.39/bbl in Q2’11 and USD -1.15/bbl in Q3’10 due to the higher own crude consumption costs on the back of the increasing price environment. The utilization rate of the refineries dropped to 69% vs. 83% in Q2’11 due to the closing of Petrobrazi for 12 days in August for a planned catalyst change.

Recall that starting with this year the refining margin and the utilization rate have been adapted to reflect the planned closure. The utilization rate of the refineries advanced significantly to 82% (reflecting only Petrobrazi) vs. 51% in H1’10 when it reflected both Petrobrazi and Arpechim.

OMV AG announced in September it plans to divest EUR 1bn of R&M assets by 2014 in order to increase its focus on E&P (55% weight by 2021 vs. 35% currently), as Gas and power weight will increase from 12% to 20%, and R&M will fall to 25%. According to management, OMV won’t sell its Petrobrazi plant in Romania or refining assets that are closely linked to petrochemical operations. We wait for further details in order to assess the effects on OMV Petrom.

Table. Brief presentation of reported Q3'11 IFRS results, Q4'11E and FY11E

INCOME STATEMENT (in RON m)	Q311	% YOY	9M10	9M11	% YOY	Q410	Q411E	% YOY	FY11E	% YOY
Net sales	5,952.54	24%	13,158.11	16,223.62	23%	5,457.58	6,762.32	24%	22,985.94	23%
Other sales	3,059.83	24%	7,090.52	9,025.42	27%	2,568.92	2,958.72	15%	11,984.14	24%
Total Sales	**9,012.37**	**24%**	**20,248.63**	**25,249.04**	**25%**	**8,026.50**	**9,721.03**	**21%**	**34,970.07**	**24%**
E&P EBITDA	1,836.00	32%	3,953.00	5,407.00	37%	1,150.00	1,316.25	14%	6,723.25	32%
Refining & Marketing EBITDA	324.00	52%	573.00	567.00	-1%	121.00	396.91	228%	963.91	39%
Gas & power EBITDA	15.00	n/a	(16.00)	44.00	n/a	187.00	160.99	-14%	204.99	20%
Corporate&Others EBITDA	(175.00)	n/a	10.00	(155.00)	n/a	(19.00)	62.56	n/a	(103.44)	1049%
EBITDA	**1,999.00**	**46%**	**4,520.00**	**5,863.00**	**30%**	**1,680.00**	**1,938.38**	**15%**	**7,788.71**	**34%**
margin	33.58%		34.35%	36.14%		30.78%	28.66%		33.88%	
Depreciation	(661.00)	**-36%**	(2,105.56)	(2,097.22)	**0%**	(707.00)	(680.25)	**-4%**	(2,854.76)	**2%**
E&P EBIT	1,344.00	161%	2,291.94	3,775.03	65%	720.00	825.24	15%	4,600.27	53%
Refining & Marketing EBIT	185.00	114%	228.49	188.92	-17%	(123.00)	178.27	n/a	367.19	245%
Gas & power EBIT	12.00	n/a	(20.74)	36.04	n/a	185.00	738.48	-80%	197.75	21%
Corporate&Others EBIT	(16.00)	-25%	(85.25)	(48.20)	-43%	(51.00)	(42.47)	-17%	(90.67)	-33%
Consolidation	(187.00)	-6%	(402.97)	(198.01)	-51%	242.00	135.39	-44%	(62.62)	-61%
EBIT	**1,338.00**	**298%**	**2,414.44**	**3,951.79**	**64%**	**973.00**	**1,258.14**	**29%**	**4,933.95**	**65%**
margin	22.5%		18.3%	24.4%		17.8%	18.6%		21.5%	
Financial, net	56.80	**n/a**	(307.98)	(226.47)	-26%	(72.21)	(93.75)	30%	(320.22)	-16%
EBT	***1,395.09***	**n/a**	**1,703.79**	**3,527.60**	**107%**	**901.52**	***1,086.42***	**21%**	**4,613.73**	**77%**
Income tax charge for the year	***(218.65)***	**n/a**	**(293.01)**	**(606.89)**	**n/a**	**(122.66)**	***(129.21)***	**5%**	**(736.10)**	**-277%**
Tax rate	15.7%		17.2%	17.2%		13.6%	11.9%		16.0%	
EAT	***1,176.44***	**n/a**	**1,410.78**	**2,920.71**	**107%**	**778.86**	***957.20***	**23%**	**3,877.62**	**77%**
Minority interest	***1.16***	**n/a**	**(9.78)**	**1.92**	**n/a**	**(1.79)**	***17.75***	**n/a**	**(19.67)**	**70%**
Net Income	***1,175.28***	**n/a**	**1,420.56**	**2,918.79**	**105%**	**780.65**	***939.46***	**20%**	**3,897.29**	**77%**

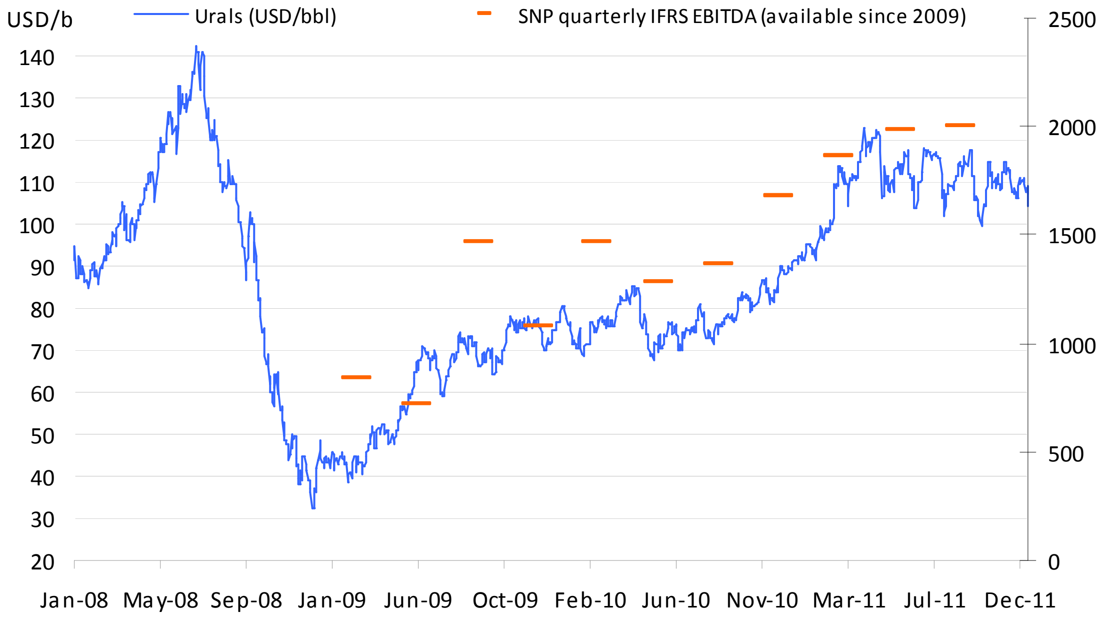
Source: Petrom, SSIF IEBA Trust

Table. P&L estimates breakdown per segment

IFRS consolidated (in RON Mn)	2009A	ch. YoY	2010A	ch. YoY	2011E	ch. YoY	2012E	ch. YoY	2009-12E CAGR
Upstream (Oil&Gas)	**8,249.1**	***-16%***	**9,534.4**	***16%***	**11,591.8**	***22%***	**12,337.1**	***6%***	***14%***
Crude Oil & NLG production (in m boe)	66.0	-4%	67.1	2%	68.9	3%	69.9	2%	2%
Average selling price (Oil USD/bbl)	54.2	-32%	65.4	21%	83.1	27%	80.3	-3%	14%
Average realized crude oil price (USD/bbl)	55.0	-35%	68.7	25%	87.8	28%	79.0	-10%	13%
Avg USDRON parity	3.05	21%	3.18	4%	3.00	-6%	3.10	3%	1%
R&M	**12,700.8**	**-23%**	**15,176.5**	**19%**	**19,278.2**	**27%**	**17,592.7**	**-9%**	**11%**
Total Crude Oil processed (in Mn bbls, appr.)	37.7	-16%	28.5	-24%	28.3	-1%	26.3	-7%	-11%
Production utilisation	65%	-16%	49%	-24%	48%	-1%	45%	-7%	-11%
Refining margin (USD/bbl) - cracking	0.0	-99%	0.3	1550%	-1.0	-400%	2.0	300%	363%
Petroleum products sales (in Mn tons)	4.8	-7%	4.2	-14%	4.1	-1%	3.9	-5%	-7%
No of fuel stations (only Petrom SA)	814	-1%	801	-2%	794	-1%	794	0%	-1%
Gas&Energy	**2,968.5**	**-12%**	**3,065.4**	**3%**	**3,596.3**	**17%**	**3,429.9**	**-5%**	**5%**
Total Gas sales (Bn cm)	4.8	-9%	4.9	1%	5.2	6%	5.2	0%	2%
Avg selling price (RON/1,000cbm)	612.57	-4%	623.42	2%	690.00	11%	658.07	-5%	2%
Intersegment sales	*8,302.0*	*-18%*	*9,659.4*	*16%*	*11,984.1*	*24%*	*12,663.3*	*6%*	*15%*
Total Revenues	**24,391.7**	**-19%**	**28,275.1**	**16%**	**34,970.1**	**24%**	**34,083.5**	**-3%**	**12%**
Upstream (Oil&Gas)	4,078.3	-10%	5,103.0	25%	6,723.2	32%	6,291.9	-6%	16%
margin	17%		18%		20%		19%		3%
R&M	98.5	112%	694.0	604%	963.9	39%	457.4	-53%	67%
margin	0%		2%		3%		1%		49%
Gas&Energy (including chemicals)	83.0	-37%	171.1	106%	205.0	20%	154.3	-25%	23%
margin	0%		1%		1%		0%		10%
EBITDA	**4,109.6**	**6%**	**5,797.1**	**41%**	**7,788.7**	**34%**	**6,796.6**	**-13%**	**18%**
margin	**25.5%**		**31.1%**		**33.9%**		**31.7%**		**7%**
Depreciation charges	2,489.1	-7%	2,811.6	13%	2,854.8	2%	3,539.8	24%	12%
EBIT	**1,620.5**	**34%**	**2,985.5**	**84%**	**4,934.0**	**65%**	**3,256.7**	**-34%**	**26%**
Net financial result	-451.1	-493%	-380.2	16%	-320.2	16%	-382.5	-19%	-5%
EBT	**1,169.4**	**4%**	**2,605.3**	**123%**	**4,613.7**	**77%**	**2,874.3**	**-38%**	**35%**
Corporate tax	336.1	44%	415.7	24%	736.1	77%	458.6	-38%	11%
EAT	**833.3**	**-7%**	**2,189.7**	**163%**	**3,877.6**	**77%**	**2,415.7**	**-38%**	**43%**
Minority interest	82.7	0%	27.0	-67%	11.6	-57%	19.7	70%	-38%
Net Income	**916.0**	**-6%**	**2,216.6**	**142%**	**3,889.2**	**75%**	**2,435.4**	**-37%**	**39%**
Net Income Adjusted	***916.0***	**-6%**	***2,216.6***	**142%**	***3,889.2***	**75%**	***2,435.4***	**-37%**	**39%**
Dividends	0.0	n/a	1,002.6	n/a	1,775.5	77%	1,106.1	-38%	n/a

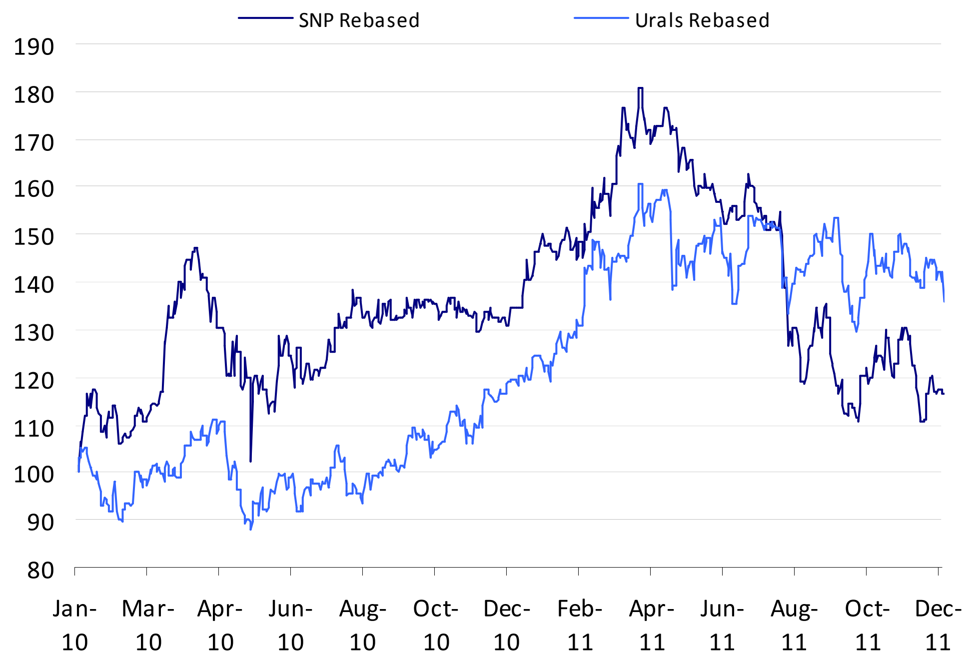
Source: Petrom, SSIF IEBA Trust

Table. Urals price (2008-2011) & SNP IFRS EBITDA quarterly evolution



Source: SSIF IEBA Trust, Bloomberg.

Table. SNP and Urals price rebased 2010



Source: SSIF IEBA Trust, Bloomberg.

Analyst Conference Call and management's outlook

In the analysts' conference call held on the 9th of November, the management did not deliver any major news, but expects a slight ease on oil price remaining above 100 USD/bbl along with further volatility of FX rates. Management expects the key market drivers to remain extremely volatile, with the marketing volumes and margins expected to remain under pressure given the high crude oil price environment and an expected slow economic recovery in the region.

In E&P segment, Petrom will continue its efforts to offset the natural decline and to enhance recovery rates along with strict cost management measures. Petrom aims to maintain the reserves replacement rate at 70% in Romania, while targeting higher production in Kazakhstan on further development of the Komsomolskoe field.

In the G&P business, the focus remains on successfully commissioning the two power plants currently under construction, marking the operational entry in the power business. Petrom's restructuring and modernization are fully on track. Dorobantu wind park was finalized and started commercial operations on the 1st of October, while Brazi power plant is expected to be available for commercial operations at the end of Q4'11. However, management remains reluctant on Brazi's contribution in 2012 as it will be adversely impacted by the regulatory changes requiring Petrom to use import gas rather than use gas from own production, imposing a substantial financial burden on G&P (import price at 477 USD/1,000 cbm vs. gas price for domestic producers at USD 164/1,000 cbm). As previously stated, management does not not expect a material contribution from these two projects this year being at start-up phase.

For the R&M sector, management will continue the strigent cost management in order to support the operational performance in R&M. At Petrobrazi, the investment program will focus on the modernisation of the crude and vacuum distillation unit aming to begin operations by mid 2012. Regarding Arpechim, it is prepared for permanent closure, while at the same time pursuing discussions with the Ministry of Economy regarding their intention to take over the refinery related assets.

Rating is maintained strong BUY

We value OMV Petrom using a SOTP exercise incorporating a DCF absolute valuation (50% weight) and a relative targeted EV/EBITDA (11E) multiple at 5.8x, at par with current emerging peers average EV/EBITDA (11E-12E). Following the upgrade in our valuation, target price is raised by 8% to RON 0.48 per share implying a significant upside potential of 66%. Strong BUY rating is maintained due to the recent downfall; SNP currently trades down 35% from April's highs.

Discounted Cash Flow Model

Our DCF valuation exercise results to an absolute target price of RON 0.38/share, significantly above the current price, but below our relative valuation. Overall, we assume 10-year (FY11-20E) revenues CAGR of 1.9%, EBITDA of 1.6% and operating cash flows of 3.7%. Our weighted average WACC stands at 11.4% and a perpetuity growth of 2%.

FCFs	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Time factor	0	1	2	3	4	5	6	7	8	9
Revenues	22,985.9	21,420.2	21,902.8	22,016.8	22,068.4	22,120.3	22,173.5	22,315.7	22,375.4	22,436.4
ch.%	23%	-7%	2%	1%	0%	0%	0%	1%	0%	0%
EBITDA	**7,788.7**	**6,796.6**	**6,764.3**	**6,735.4**	**6,752.0**	**6,763.3**	**6,774.9**	**6,786.2**	**6,798.2**	**6,810.3**
EBITDA margin	34%	32%	31%	31%	31%	31%	31%	30%	30%	30%
EBITDA ch.%	34%	-13%	0%	0%	0%	0%	0%	0%	0%	0%
Depreciation	-2,854.8	-3,539.8	-3,858.7	-4,181.0	-4,559.1	-4,927.0	-5,285.0	-5,632.9	-5,970.7	-6,298.5
EBIT	4,934.0	3,256.7	2,905.7	2,554.4	2,192.9	1,836.3	1,489.9	1,153.4	827.4	511.8
Corporate Tax paid	-949.6	-626.8	-559.2	-491.6	-422.1	-353.4	-286.8	-222.0	-159.3	-98.5
Tax rate (%)	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%	19.2%
WC	-1,441.4	-1,680.1	-1,449.5	-1,137.9	-1,010.9	-896.6	-796.5	-713.8	-647.0	-592.3
WC/Sales	-6%	-8%	-7%	-5%	-5%	-4%	-4%	-3%	-3%	-3%
Change in WC	-589.3	238.7	-230.6	-311.6	-127.0	-114.3	-100.1	-82.7	-66.7	-54.8
Operating Cash Flows	**6,249.8**	**6,408.5**	**5,974.5**	**5,932.2**	**6,202.9**	**6,295.6**	**6,388.0**	**6,481.5**	**6,572.2**	**6,657.1**
CAPEX	4,500.0	4,500.0	4,500.0	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0	5,000.0
% of EBITDA	58%	66%	67%	74%	74%	74%	74%	74%	74%	73%
FCFs	**1,749.8**	**1,908.5**	**1,474.5**	**932.2**	**1,202.9**	**1,295.6**	**1,388.0**	**1,481.5**	**1,572.2**	**1,657.1**
DCFs	**1,749.8**	**1,686.0**	**1,169.5**	**673.3**	**805.3**	**786.6**	**765.3**	**739.8**	**711.1**	**678.7**

Source: SSIF Iebatrust estimates.

DCF assumptions	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Long Term Free Risk Rate	7.25%	7.00%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Estimated Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Equity Risk Premium	6.0%	6.0%	6.0%	6.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Cost of Equity	**13.3%**	**13.0%**	**12.0%**	**11.0%**	**10.0%**	**10.0%**	**10.0%**	**10.0%**	**10.0%**	**10.0%**
Cost of Borrowing (2011E)	11%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Target Capital Gearing	11%	13%	11%	13%	12%	11%	10%	9%	9%	9%
Discount rate (WACC)	**13.0%**	**13.2%**	**12.3%**	**11.5%**	**10.6%**	**10.5%**	**10.4%**	**10.4%**	**10.4%**	**10.4%**
Average growth to perpetuity	2.0%									

Present value of FCFs (11E-13E)	4,605.4
Present value of FCFs 2nd stage (14E-20E)	5,160.0
Present Value of Terminal Value	8,215.6
Total FCFs	**17,981.0**
(+) book value of investments (-) minorities (10E)	3,669.3
EV	**21,650.3**
(-) net debt (10E)	383.2
(-) liabilities due to the government & provisions	
Shareholder's value:	**21,267.1**
Shareholder's value/share:	**0.38**
Upside(Downside) potential:	29%

Source: SSIF Iebatrust estimates.

RELATIVE VALUATION

For the relative valuation we use a relative targeted EV/EBITDA (11-12E) over integrated Oil & Gas emerging peers at 5.8x. Our relative valuation returns a significantly higher price compared to current price levels, at RON 0.59 per share (+104% from current price levels), reflecting that SNP is really undervalued compared to peers.

SNP trades at 4.2x P/E(11E), 0.8x P/BV(11E) and at 3.1x EV/EBITDA(11E) at a discount of 67%, 57% and 55%, respectively, over our selected emerging peers universe. Furthermore, the EBITDA margin at 34% is double to the integrated developing peers’ margins while the average dividend yield (11E-12E) at 8.7% is also double than of integrated developing peers’s 11E-12E average.

Compared to its parent company OMV AG, a more diversified group, OMV Petrom trades at similar multiples, albeit that at the end of the day SNP records strong cash flows, offering higher dividend yields and lower debt leverage.

Table. Relative valuation

	Country	Mkt Cap (in € m)	Change Y-t-d	P/E 10A	P/E 11E	P/E 12E	EPS ch. 11E	EPS ch. 12E	EV/EBITDA 10A	EV/EBITDA 11E	EV/EBITDA 12E	EBITDA CAGR 11-'12E
Oil and Gas												
MOL Hungarian Oil and Gas Plc	Hungary	8,391.3	4%	13.2	7.8	7.4	68%	5%	5.4	4.3	3.8	3%
Polskie Gornictwo Naftowe i Gazownictwo S.A.	Poland	5,487.8	17%	11.0	18.5	10.3	-41%	80%	5.0	9.9	5.9	32%
INA-Industrija Nafte d.d.	Croatia	5,704.7	32%	43.8	15.3	13.2	187%	16%	9.0	7.2	6.4	5%
Ukrnafta	Ukraine	3,692.9	31%	15.9	11.6	10.1	37%	15%	7.3	7.7	7.1	5%
PKN ORLEN S.A.	Poland	5,432.5	11%	9.4	11.5	10.4	-19%	11%	4.9	5.5	5.4	-2%
OMV Petrol Ofisi A.S.	Turkey	910.0	-41%				n/a	n/a				
Unipetrol A.S.	Czech Republic	1,215.6	-14%	32.8	56.7	20.2	-42%	180%	6.4	8.4	5.9	17%
Grupa Lotos S.A.	Poland	669.2	-36%	5.1	5.4	5.9	-6%	-8%	9.3	5.9	6.7	-7%
Petrol d.d.	Slovenia	334.3	-41%	10.0	12.8	11.5	-22%	11%	9.1	7.2	7.1	4%
Turcas Petrol A.S.	Turkey	189.1	-46%	8.3	14.3	9.0	-42%	59%				-6%
Developing & Emerging Oil & Gas			**12%**	**18.0**	**13.7**	**10.1**	**43%**	**29%**	**6.1**	**6.4**	**5.3**	**8%**
Integrated Developing & Emerging Peers			**18%**	**20.6**	**12.8**	**9.9**	**66%**	**27%**	**6.5**	**6.8**	**5.5**	**11%**
Dragon Oil PLC	Ireland	2,877.8	-11%	10.7	7.1	7.3	52%	-3%	4.9	2.6	2.2	1%
Total Gabon S.A.	France	1,309.5	-6%	7.0	6.0	7.0	18%	-15%	2.0	1.5	1.8	-4%
Lundin Petroleum AB	Sweden	2,690.1	-6%	30.6	21.0	18.9	46%	11%	8.1	5.0	4.8	2%
DNO International ASA	Norway	973.5	-13%	197.8	13.4	4.7	1375%	185%	19.1	5.6	2.3	38%
Premier Oil PLC	Great-Britain	2,234.8	-12%	25.4	13.8	8.6	84%	60%	8.6	6.0	3.0	37%
Etablissements Maurel & Prom	France	1,334.0	29%		9.6	7.1	-205%	35%	10.5	5.4	5.4	-3%
BG Group PLC	Great-Britain	49,260.3	1%	17.1	15.9	13.6	7%	17%	8.7	7.6	6.9	6%
Surgutneftegaz JSC	Russia	24,852.9	-9%	8.2	7.3	8.2	13%	-11%	2.3	1.9	1.7	-7%
Statoil ASA	Norway	53,522.0	-5%	9.9	7.6	7.0	30%	10%	2.7	1.9	1.7	4%
ENI S.p.A.	Italy	63,124.4	-4%	8.3	6.9	6.5	20%	6%	3.5	3.0	2.7	4%
TNK-BP Holding	Russia	32,676.4	15%	7.2	5.8	6.9	26%	-17%	4.4	3.9	4.7	-8%
Total S.A.	France	90,568.1	-3%	8.4	6.8	6.9	22%	-1%	3.9	3.1	3.0	1%
Lukoil Holdings	Russia	34,939.2	5%	5.4	4.6	4.7	17%	-1%	3.6	3.1	3.0	-1%
Repsol YPF S.A.	Spain	27,231.3	7%	13.4	10.6	8.8	27%	20%	4.1	4.2	3.6	7%
Royal Dutch Shell PLC (CL A)	Great-Britain	150,307.0	0%	11.6	8.1	7.4	43%	9%	5.1	3.8	3.5	3%
BP PLC	Great-Britain	93,236.3	-5%	6.5	5.8	5.7	12%	2%	4.2	3.2	3.1	-1%
Fuchs Petrolub AG Nvtg Prf	Germany	2,449.7	-3%	14.9	13.9	13.0	7%	7%	8.8	8.0	7.1	3%
Rosneft	Russia	56,816.8	13%	7.1	6.4	7.1	11%	-9%	4.5	4.3	4.4	-4%
OMV AG	Austria	9,327.3	-8%	7.7	6.1	5.8	25%	6%	3.7	3.3	2.9	5%
Hellenic Petroleum S.A.	Greece	1,986.6	11%	11.2	10.2	6.3	10%	62%	6.9	8.4	6.1	19%
Cia Espanola De Petroleos	Spain						-11%	18%	4.7			7%
Motor Oil Hellas Corinth Refineries S.A.	Greece	651.4	-22%	6.9	4.6	4.7	51%	-3%	7.1	4.7	5.0	-7%
ERG S.p.A.	Italy	1,372.4	-13%		34.7	13.4	-302%	159%	8.7	6.4	4.4	18%
Neste Oil Oyj	Finland	1,838.4	-40%	12.4	18.4	7.6	-33%	141%	9.3	7.9	5.4	17%
Developed European Oil & Gas			**0%**	**9.8**	**7.8**	**7.4**	**25%**	**5%**	**4.5**	**3.7**	**3.5**	**2%**
Integrated Developed Peers			**-1%**	**9.7**	**7.8**	**7.4**	**25%**	**5%**	**4.4**	**3.6**	**3.4**	**2%**
At IEBATRUST estimates												
OMV Petrom S.A.	**Romania**	**5,123.2**	**-13%**	**8.1**	**4.2**	**6.8**	**77.1%**	**-37.5%**	**4.5**	**3.1**	**3.5**	**15.9%**
Premium (Discount) vs Integrated Developing and Emerging peers				***-61%***	***-67%***	***-32%***	***16%***	***-239%***	***-31%***	***-55%***	***-35%***	***49.9%***
Premium (Discount) vs Integrated Developed peers				***-16%***	***-46%***	***-8%***	***212%***	***-918%***	***1%***	***-13%***	***5%***	***874%***

Source: SSIF IEBA Trust, FACTSET.

	EBITDA margin 10A	EBITDA margin 11E	EBITDA margin 12E	P/BV 10A	P/BV 11E	P/BV 12E	Dividend Yield 10A	Dividend Yield 11E	Dividend Yield 12E	Net debt/EBITDA 10A	Net debt/EBITDA 11E	Net debt/EBITDA 12E	ROE 11E	ROE 12E
Oil and Gas														
MOL Hungarian Oil and Gas Plc	13%	13%	14%	1.3	1.2	1.1	1%	4%	4%	1.6	1.1	0.8	16%	15%
Polskie Gornictwo Naftowe i Gazownictwo S.A.	21%	13%	19%	1.0	1.0	0.9	2%	3%	2%	0.2	1.8	1.3	6%	10%
INA-Industrija Nafte d.d.	18%	22%	21%	3.3	2.6	2.4	0%	2%	5%	2.2	1.3	1.1	19%	19%
Ukrnafta	22%	25%	26%	3.5	3.1		9%	9%	10%	0.0	-0.1	-0.1	28%	
PKN ORLEN S.A.	7%	5%	5%	1.0	0.9	0.9	0%	1%	2%	1.4	1.3	1.0	8%	8%
OMV Petrol Ofisi A.S.	4%									n/a	n/a			
Unipetrol A.S.	6%	4%	6%	0.8	0.8	0.7	0%	1%	2%	-0.5	0.5	0.1	1%	4%
Grupa Lotos S.A.	6%	6%	5%	0.4	0.4	0.3	0%	0%	0%	5.2	4.1	4.6	7%	6%
Petrol d.d.	3%	4%	4%							3.2	4.2	4.3		
Turcas Petrol A.S.	-17%			0.8	0.8	0.7	3%	2%	2%	8.8	-0.1	6.7	6%	9%
Developing & Emerging Oil & Gas	**14%**	**14%**	**15%**	**1.7**	**1.5**	**1.1**	**2%**	**3%**	**4%**	**1.3**	**1.2**	**1.0**	**13%**	**11%**
Integrated Developing & Emerging Peers	**18%**	**17%**	**19%**	**2.1**	**1.8**	**1.2**	**2%**	**4%**	**5%**	**1.2**	**1.1**	**0.9**	**16%**	**12%**
Dragon Oil PLC	87%	87%	82%	2.0	1.6	1.4	2%	1%	2%	-2.0	-1.7	-2.0	25%	20%
Total Gabon S.A.	64%	75%	72%	1.0	0.8	0.8	7%	8%	11%	-0.1	0.0	0.1	15%	12%
Lundin Petroleum AB	69%	74%	69%	4.0	3.4	3.0	0%	0%	0%	0.8	0.3	0.3	18%	17%
DNO International ASA	38%	69%	73%	3.6	3.3	2.0	0%	0%	0%	0.9	-0.2	-0.8	25%	53%
Premier Oil PLC	61%	63%	74%	2.8	2.5	1.9	0%	0%	0%	0.8	0.9	0.3	19%	25%
Etablissements Maurel & Prom	51%	63%	65%	1.6	1.4	1.2	2%	2%	2%	3.3	1.5	1.3	16%	18%
BG Group PLC	51%	54%	54%	2.6	2.4	2.1	1%	1%	1%	0.8	1.0	1.1	16%	17%
Surgutneftegaz JSC	40%	36%	32%	0.9	0.7	0.7	2%	2%	2%	-2.4	-2.2	-2.9	11%	9%
Statoil ASA	36%	40%	40%	1.9	1.6	1.4	5%	5%	5%	0.4	0.2	0.2	23%	21%
ENI S.p.A.	26%	27%	28%	1.1	1.0	0.9	6%	6%	7%	1.0	0.8	0.7	15%	15%
TNK-BP Holding	22%	24%	20%	2.3	1.9	1.6	12%	9%	8%	0.2	0.1	0.2	36%	25%
Total S.A.	17%	19%	20%	1.4	1.3	1.1	6%	6%	6%	0.5	0.4	0.4	20%	17%
Lukoil Holdings	15%	14%	14%	0.8	0.7	0.6	3%	4%	5%	0.6	0.3	0.2	16%	14%
Repsol YPF S.A.	15%	14%	15%	1.1	1.1	1.0	5%	5%	6%	1.3	1.2	1.0	10%	12%
Royal Dutch Shell PLC (CL A)	13%	14%	15%	1.4	1.3	1.1	5%	5%	5%	0.6	0.4	0.2	17%	16%
BP PLC	13%	13%	13%	1.4	1.2	1.0	1%	4%	4%	0.7	0.4	0.3	22%	19%
Fuchs Petrolub AG Nvtg Prf	19%	18%	18%	4.7	3.9	3.2	3%	3%	3%	-0.3	-0.5	-0.8	31%	27%
Rosneft	30%	25%	22%	1.4	1.1	1.0	1%	1%	2%	0.7	0.4	0.2	19%	15%
OMV AG	17%	14%	17%	0.9	0.8	0.8	3%	4%	4%	1.3	1.2	1.0	15%	14%
Hellenic Petroleum S.A.	6%	5%	6%	0.8	0.8	0.8	7%	7%	7%	3.3	4.3	3.2	8%	12%
Cia Espanola De Petroleos	6%	7%	6%							1.2	1.0	0.8	10%	11%
Motor Oil Hellas Corinth Refineries S.A.	4%	4%	4%	1.5	1.2	1.0	4%	9%	10%	3.6	3.0	3.0	30%	24%
ERG S.p.A.	4%	4%	6%	0.8	0.8	0.7	4%	4%	4%	3.5	2.5	1.6	2%	6%
Neste Oil Oyj	4%	3%	4%	0.8	0.7	0.7	5%	4%	6%	3.4	4.3	2.8	4%	9%
Developed European Oil & Gas	**23%**	**24%**	**23%**	**1.5**	**1.3**	**1.2**	**4%**	**4%**	**5%**	**0.6**	**0.4**	**0.3**	**19%**	**17%**
Integrated Developed Peers	**22%**	**23%**	**23%**	**1.5**	**1.3**	**1.2**	**4%**	**5%**	**5%**	**0.5**	**0.4**	**0.3**	**19%**	**17%**
At IEBATRUST estimates														
OMV Petrom S.A.	**31.1%**	**33.9%**	**31.7%**	**1.0**	**0.8**	**0.7**	**5.6%**	**10.8%**	**6.7%**	**0.4**	**0.0**	**0.4**	**20%**	**11%**
Premium (Discount) vs Integrated Developing and Eme	***76.8%***	***97.2%***	***68.0%***	***-54%***	***-57%***	***-38%***	***163.2%***	***193.2%***	***41.6%***	***-66.1%***	***-95.6%***	***-58.5%***	***20%***	***-10%***
Premium (Discount) vs Integrated Developed peers	***44%***	***49%***	***39%***	***-36%***	***-42%***	***-36%***	***26%***	***122%***	***33%***	***-27%***	***-87%***	***26%***	***5%***	***-34%***

Source: SSIF IEBA Trust, FACTSET.

Table. SOTP valuation

SOTP	Main assumptions		WACC perpetuity	Fair Value	Weight	Weighted Value	Upside (Downside)
DCF-model	WACC	13.0%	10.4%	0.38	50%	0.19	29%
Relative to peers multiples	EV/EBITDA (11-12E) peers		5.8x	0.59	50%	0.30	104%
					Fair Value:	**0.48**	66%
					Average DY(11E-12E):		9%

Source: SSIF IEBA Trust, FACTSET.

RECOMMENDATION SYSTEM

SSIF IEBA TRUST uses a Relative recommendation system. Such system indicates that each stock is rated on a basis of the excess return, measured by the relative value of the target (calculated) price and the current price, over a 12 months period of time.

The range of recommendations for each stock consists of 4 elements: Buy (B), Accumulate (A), Hold (H), Reduce (R).

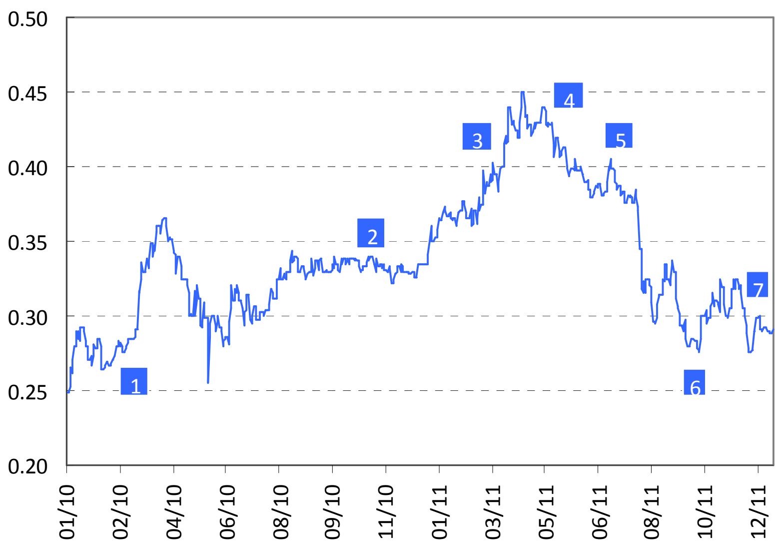
SSIF IEBA TRUST RATINGS	
BUY	The stock is expected to generate potential excess return over 15%
ACCUMULATE	The stock is expected to generate potential excess return of 5 to 15%
HOLD	The stock is expected to generate potential excess return of -5% to 5%
REDUCE	The stock is expected to generate potential excess return below 5%

Excess return: Target price/current price − 1

For the cases of Initial Public Offering, the above-mentioned recommendation system is not applied. In such cases, the recommendation is based on the comparison between the price of the Offering, and the fair value estimated by SSIF IEBA TRUST.

OMV PETROM Bucuresti

Ratings and target price history



#	Date	Rating	Target price (in RON)
1	02/03/2010	BUY	0.35
2	12/11/2010	ACCUMULATE	0.35
3	07/03/2011	BUY	0.46
4	25/05/2011	BUY	0.48
5	11/07/2011	BUY	0.48
6	30/09/2011	BUY	0.45
7	20/12/2011	BUY	0.48

Measures Definitions

IEBA Net Income	Adjusted Net Income for one-off items	
Net Cash Flow from operations	EBITDA (+/-) other provisions (+/-)(Increase)/Decrease in Working Capital	
FCF Equity	Net Cash Flow from operations (-) CAPEX	
Net debt	Total short-term and long-term bank debt (-) cash	
EV	Market Cap (avg historic or current) + book value of minorities + Net debt	
FCFPS	FCF Equity	Diluted no of shares
EPS (or IEBA)	Reported (or IEBA) Net Income	Diluted no of shares
BVPS	Total Equity	Year end no of shares
P/E (or IEBA)	Share Price (avg historic or current)	Reported (or IEBA) EPS
P/E IEBA at 52wks High	52 weeks High price (avg historic or current)	IEBA EPS / Diluted IEBA Earnings Per Share
P/BV	Share Price (avg historic or current)	BVPS
ROE	Reported Net Income	Average Total Equity
ROCE	Reported Net Income	Average (Total debt + Total Equity)
EV/EBITDA	EV (with avg historic or current)	Reported EBITDA
EV/EBITDA (x) at 52wks High	EV using 52 weeks High market cap (avg historic or current)	Reported EBITDA
EBITDA/Net financials	Reported EBITDA	Net financials: Net interest (+/-) Net financials
EV/CE (x)	EV (with avg historic or current)	CE: Total bank debt + Total Equity
FCF Yield	FCFPS	Share Price (avg historic or current)
Dividend Yield	DPS	Share Price (avg historic or current)
Dividend Payout	Dividend	Reported Net Income

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