Romgaz Medias

Equity | Romania | Oil&Gas

IEBATRUST Financial & Investment Services

Company Report - Company Update

BUY

previous: BUY

TARGET PRICE 12M (RON)	28.14
Previous Target price	39.47
SHARE PRICE (RON)	24.50

Performance	1M	3M	12M	YTD
Absolute (%)	6.8%	-8.9%	-31.9%	-9.9%
Relative to BET (%)	7.3%	-5.9%	-19.9%	-1.7%

RIC	RO SNG.BX
Bloomberg	SNG RO
Index listed	BET, BET-XT, BET-NG
Market Cap (RON m)	9,442.85
Market Cap (EUR m)	2,088.29
Shares Out (m)	385.42
52 Week Range (RON)	21.5 / 36.65
% from 52 Week range	14% / -33.7%
Avg. daily volume 6M (shares)	282,155

Shareholders (%)	
Ministry of Economy	70.00%
Fondul Proprietatea (FP RO)	5.84%
Free float	24.16%

(IFRS)	14A	15P	16E	17E
P/E(x) adj.	9.0	11.1	9.3	10.8
EPS adj. ch. (%)	42%	-15%	-15%	-1%
EV/EBITDA(x)	3.9	4.6	3.2	3.9
Net debt/EBITDA	-1.2	-1.4	-1.5	-1.4
P/BV(x)	1.3	1.4	1.0	1.1
ROE(%)	29.0%	12.4%	10.5%	10.3%
ROIC(%)	29.0%	12.4%	10.5%	10.3%
P/S (x)	2.7	3.3	2.6	3.0
Div. Yield (%)	9.6%	7.9%	8.6%	7.4%

RON m				
Revenues	4,629	4,053	3,702	3,576
EBITDA	2,486	2,218	2,018	2,028
Net income	1,410	1,194	1,017	1,002
EPS	3.66	3.10	2.64	2.60
EPS adj.	3.66	3.10	2.64	2.60
BVPS	25.15	24.98	25.17	25.25
DPS	3.15	2.70	2.11	2.08
FCF equity	7.20	6.57	7.13	7.00

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Existing legal and regulatory framework to heavyweight upon upstream leveraged profile; cash-flows should weaken over H2 and not yet a clear royalty picture incorporated. Downside risks inherent on lower gas pricing and volumes, but its 30% cash-to-mkt cap offers a decent 3Y DIVY(E) at 8%.

▪ **Valuation depicts some upside potential.** We update our view on Romgaz with a TP significantly lowered to RON 28.14/share while rating remains at BUY, due to cash stockpile financials and share price weakness although some recent gradual recovery occurred. Earnings margins continue supporting our BUY story, mostly due to the fact that the Gvnm't intends to continue with the gas price deregulation calendar – next hike is on July 1st with a 10% increase to RON 66/MWh vs. RON 60/MWh, despite current households pricing level is only some RON 3/MWh vs. import level.

▪ Changes in estimates implying lower revenues mostly on decreased volumes and prices is main story underlying company operating environment and our TP changes driver. We used a DCF exercise in order to incorporate capex required for development of its mature fields, which is actually the return on its cash overload since alternative satisfactory yields investments are lacking in the current environment. Despite lowering top line, we still included on valuation a quite heavy, but still sustainable capex for the following years at around RON 0.8-0.9bn annually due to fields mature nature. Average WACC stands at 9% and a perpetuity growth of 1%. EBITDA margins on average at 56% going forward, and a relative valuation over peers on 3.93x EV/EBITDA (16E) (at target price).

▪ **Dividend yields remains attractive supported by still satisfactory operating cash-flow.** Despite Romgaz used investors with more elevated margins and leaving aside the downside risk in selling prices, operationally remains sound and with a net cash position. B/S cash-to-mkt cap stands around 30%. We estimate avg. DIVY for the upcoming 3Y at a decent 8%. Margins and profitability is still ahead of peers and we believe that recent price weakeness in the market price is not warranted as it was rather pinpointed by some termporary negative momentum led by announcements of contracts cease by E.ON and Electrocentrale Bucuresti issue. The share lost 33% in the past 12M – tumbling crude oil price and an accelerated book from FP (RON 541m for 22.54m shares) also took its toll upon SNG price.

▪ **Despite price downside risks, cash-flow remains soundly.** In our base case scenario, we estimated FY'16 upstream revenues (95% of full consolidated income) at RON 2.95bn (-11% Y/Y), with EBITDA down 9% Y/Y to RON 2.01bn and net profit at RON 1.01bn (-15% Y/Y). Overall, we do not see Romgaz assuming debt in its balance sheet, as despite its concentrated customer portfolio, we deem that Romgaz retains some low credit risk. Over our forecasting horizon, the company remains with a hefty net cash position, able to support both working capital needs and CAPEX of RON 0.86bn on average over next 4Y. On upstream side, we did not include yet any potential flows from Black Sea as we believe the project is still at early stage to produce effects, but however, should that be the case – somewhere at the higher end of our forecasting horizon, both Romgaz and Petrom should have the ability to export part of local market oversupply, which for the moment is lacking Transgaz capex fulfilment.

▪ **Downside risk inherent due to gas prices and volumes.** Households gas price deregulation is expected to finalize by end - 2017, even if does does not make sense to continue by July 2016 due to current market conditions on crude area. A 30% imports quota in the consumption basket of households might be in place, which is negative for local producers given that they will actually be forced to cut production, leaving revenues almost unchanged if gas price deregulation will continue. Rather not to hike imports level in the current consumption basket and to keep production levels unchanged, the gas price deregulation calendar cease would be a must. In order this issue to be available, some new regulation is required to be enforced, as currently imports are around nil, while local production decreases due to lack of demand. However, we did not incorporate yet in our forecasts, this 30% import quota applicable as we believe Q2/Q3'16 will have low demand and lack of regulations yet. Keeping things simple and considering some equally split volumes between households/non-households and equally split supply weight between the two producers, shifting some 15% from each producer to imports, would translate in lost revenues of around RON 210-250m/year with current gas price deregulation calendar or some RON 0.6/share in undiscounted terms, based on our computations.

▪ **Downside risk due to royalties new regime expected.** A major risk for our estimates remains the unclear yet status of royalties scheme – our model takes into consideration current taxes level, both royalties and windfall tax, while expectations for a new royalty regime have moved to FY'17, since for this year there is not yet a clear picture in this regard and elections are due in late autumn.

▪ **Exploration permits issue:** We view the story only as a bureaucracy pending issue that will not affect company operations, which was actually confirmed by management via an official point of view saying that for most of the fields operated that need Gvnm't approval some good improvements in RRR occurred mostly due to the investments run in the past couple of years and that ANRM issued annual exploration permits in order Romgaz to be able to operate these fields. Romgaz and ANRM put all things together and managed to finalize all legal procedures in order to emerge toward next step of having the Gvnm't ratifying the exploration licences.

Financials & Valuation (Summary)

Financial Statements

Profit & Loss (RON th)	2014A	2015P	2016E	2017E	2018E
Revenues	4,628,604	4,052,694	3,702,433	3,576,343	3,468,201
EBITDA	2,486,475	2,218,285	2,017,743	2,028,409	1,964,441
EBIT	1,709,636	1,424,687	1,218,628	1,201,678	1,132,476
Net financials	78,693	44,151	31,970	31,101	30,226
EBT	1,788,329	1,468,838	1,250,598	1,232,779	1,162,703
Net income	1,409,881	1,194,285	1,016,838	1,002,350	945,372
IEBA net income	1,409,881	1,194,285	1,016,838	1,002,350	945,372
Dividend	1,214,081	1,040,640	813,470	801,880	756,298

Cash flow IEBA TRUST (RON th)					
Net Cash flow from operations	1,943,732	1,783,983	1,797,979	1,747,110	1,678,373
Capex	-831,995	-750,000	-950,000	-950,000	-950,000
FCFF	2,775,727	2,533,983	2,747,979	2,697,110	2,628,373
Other cash flows	0	0	0	0	0
Cash flow used in investments	23,116	0	0	0	0
Change in debt	0	0	0	0	0
Change in Capital	0	0	0	0	0

Balance Sheet (RON th)					
Net fixed assets	6,396,315	6,347,200	6,470,469	6,588,505	6,670,145
Current investments	100,743	100,743	100,743	100,743	100,743
Current assets	1,300,461	1,188,746	1,148,262	1,113,541	1,080,164
Cash & others	2,887,183	3,048,011	2,965,225	2,881,911	2,833,649
Total Assets	10,684,702	10,684,700	10,684,700	10,684,700	10,684,700
Current liabilities	597,296	565,329	549,170	535,311	521,988
Total debt	0	0	0	0	0
Net debt	-2,887,183	-3,048,011	-2,965,225	-2,881,911	-2,833,649
Shareholders capital	385,422	385,422	385,422	385,422	385,422
Other reserves	9,306,800	9,243,963	9,314,502	9,345,904	9,363,589
Total Equity	9,692,222	9,629,385	9,699,924	9,731,326	9,749,011
Minorities	0	0	0	0	0
EV	9,746,963	10,175,831	6,477,624	7,964,813	8,013,075
Market Cap	12,634,146	13,223,843	9,442,849	10,846,724	10,846,724
No of shares Year End (000)	385,422	385,422	385,422	385,422	385,422
No of shares Diluted (000)	385,422	385,422	385,422	385,422	385,422

Per share	2014A	2015P	2016E	2017E	2018E
EPS	3.66	3.10	2.64	2.60	2.45
IEBA EPS	3.66	3.10	2.64	2.60	2.45
DPS	3.15	2.70	2.11	2.08	1.96
BVPS	25.15	24.98	25.17	25.25	25.29
FCFPS	7.20	6.57	7.13	7.00	6.82

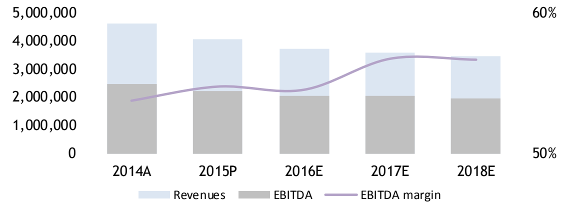
Growth rates & margins					
Revenues	18.9%	-12.4%	-8.6%	-3.4%	-3.0%
EBITDA	26.9%	-10.8%	-9.0%	0.5%	-3.2%
EBIT	45.3%	-16.7%	-14.5%	1.4%	5.8%
EBT	37.5%	-17.9%	-14.9%	2.7%	2.8%
Net Income	41.6%	-15.3%	-14.9%	1.4%	5.7%
IEBA net Income	41.6%	-15.3%	-14.9%	1.4%	5.7%
Dividend	-7.2%	-14.3%	-21.8%	-1.4%	-5.7%
EPS	41.6%	-15.3%	-14.9%	-1.4%	-5.7%
IEBA EPS	41.6%	-15.3%	-14.9%	-1.4%	-5.7%
DPS	-7.2%	-14.3%	-21.8%	-1.4%	-5.7%
EBITDA margin	53.7%	54.7%	54.5%	56.7%	56.6%
EBIT margin	36.9%	35.2%	32.9%	33.6%	32.7%
Net margin	30.5%	29.5%	27.5%	28.0%	27.3%
IEBA net margin	30.5%	29.5%	27.5%	28.0%	27.3%

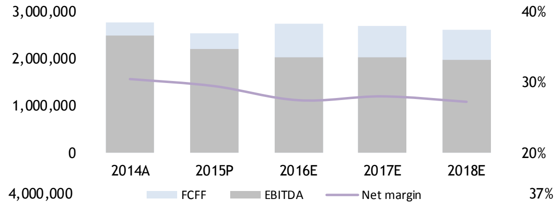
Key items

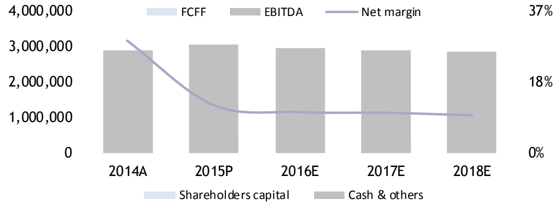
Ratios and multiples	2014A	2015P	2016E	2017E	2018E
P/E(x)	8.96	11.07	9.29	10.82	11.47
P/E(x) IEBA	8.96	11.07	9.29	10.82	11.47
P/E(x) IEBA at 52wks High	0.00	0.00	0.00	0.00	0.00
P/BV(x)	1.30	1.37	0.97	1.11	1.11
ROE	29.0%	12.4%	10.5%	10.3%	9.7%
IEBA ROE	29.0%	12.4%	10.5%	10.3%	9.7%
ROCE	29.0%	12.4%	10.5%	10.3%	9.7%
IEBA ROCE	29.0%	12.4%	10.5%	10.3%	9.7%
EV/EBITDA(x)	3.92	4.59	3.21	3.93	4.08
EV/EBITDA (x) at 52wks High	n/a	n/a	-1.47	n/a	n/a
Net debt/EBITDA (x)	-1.16	-1.37	-1.47	-1.42	-1.44
EV/CE(x)	1.01	1.06	0.67	0.82	0.82
P/S (x)	2.73	3.26	2.55	3.03	3.13
P/FCFPS (x)	4.55	5.22	3.44	4.02	4.13
FCF Yield	22.0%	19.2%	29.1%	24.9%	24.2%
Dividend Yield	10%	8%	9%	7%	7%
Dividend payout	86.1%	87.1%	80.0%	80.0%	80.0%
Net debt/Equity	n/a	n/a	n/a	n/a	n/a
T.debt/(T.debt + Equity)	0.0%	0.0%	0.0%	0.0%	0.0%

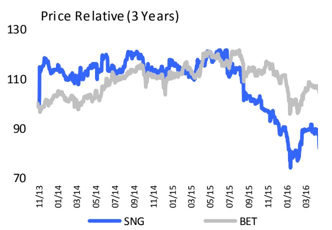
Stock's information

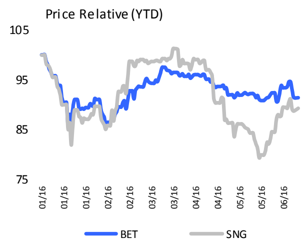
Share price (RON)	24.50	Target price (RON)	28.14
52 weeks High price (RON)	36.65	Mkt Cap (RON th)	9,442,849
52 weeks Low price (RON)	21.50	EV (RON m) 16E	10,847
Country	Romania	Reuters	RO SNG.BX
Sector	Energy	Bloomberg	SNG RO











Source: SSIF IEBA Trust

Investment case brief revisiting – Romgaz in the current landscape

• **Short Company Description: Romgaz is the largest natural gas producer and supplier in Romania, with core business segments in gas exploration and production, gas supply, underground storage and electricity production.** Romgaz is also the **largest natural gas producer in CEE area**, producing on average some 102 kboepd and has a **market share of 50% on the natural gas production in Romania**. Romgaz has access to 140 commercial gas fields and owns some exploration and production rights in Slovakia and Poland. Romgaz holds **a low-risk onshore portfolio with a long established operating history** mostly, but the **vast majority of the wells have been in production for more than 50 years**. **Some milestones were breached in terms of expired existing exploitation agreements, although some partial legal operating environment was offered by National Agency for Mineral Resources and normal business operations not to be affected yet.** Recent announcement of exploitations permits was made, which suggests no production at risk from this point of view as it was not the case should the issue not have been publicly signalled.

• **Valuation:** We continue to **position the stock as a dividend play**, given its **long dividend paying history underpinned by strong recurring cash-flow and stable financial position**. Also, Romgaz retains a **significant cash-position on its balance sheet** and no debt as for the moment the existing upstream projects and related capex need were sufficiently covered by the operating profitability. **Our TP for Romgaz was significantly decreased to RON 28.14/share, and still offers an upside of 15% compared to current market price level since due to cash stockpile financials and share price weakness although some recent gradual recovery occurred. Earnings margins continue supporting our BUY story, mostly due to the fact that the Gvnm't intends to continue with the gas price deregulation calendar** – next hike is on July 1st with a 10% increase to RON 66/MWh vs. RON 60/MWh, despite current households pricing level is only some RON 3/MWh vs. import level. Also, crude oil price seems to hover around USD 50/bbl and looks rather on the downtrend, which suggests that the gas deregulation calendar is useless.

• **Downside risks:** Downside risks arise from the fact that ANRE thinks increasing imported gas weight in consumption basket for households, which means that price increase via deregulation will not be able to offset the drop in production for Romgaz and OMV Petrom and that the more expensive already stored gas (RON 86/MWh) will be gradually released into consumption in order the end user to benefit more from the lower pricing level existent on European markets. However, it remains to be seen if imports quota will exceed some 30% level and if it will be applied more during the cold season when consumption and related costs for gas heating are also higher. A brief sensitivity will translate into some RON 210-250m/year in lost revenues for each producer only from this 30% import quota applicable – considering some equally split volumes between households/non-households for both producers and equally split supply weights.

• **Dividend yields:** We estimate dividend yields to remain around 8% for the next 3Y, as apart from the downside risks arising from pricing side, as per Romanian legislation, the company is obliged to pay as dividends a minimum of 50% of their net profit – in the past 2Y, dividend pay - out carried an average of 86% with yields avg. around 9%, and no other remarks need to be added in the current interest rate levels. **B/S cash-to-mkt cap stands around 30%.** Owing to the gas price deregulation calendar, in the past couple of years, Romgaz posted largest profit among state companies, followed by Hidroelectrica – hydropower producer, with market superior dividend yields delivered so far. **Additional downside risks,** could arise from the fact that the dividend policy is subject to shareholder approval each year (RO state 70% stake), and we rise concerns about any other grant to be made to the state, should the state be forced to end gas price deregulation calendar ahead of time which would cut the windfall tax and clearly royalties level should encourage investments. Last grant Romgaz made to the state was around RON 400m.

• **Royalties level:** For the moment we kept royalties level around 7%. New regime should be on track starting FY'17, but we raise additional doubts given parliamentary elections late in the autumn and that current technocratic Gvnm't seems not to assume pending tasks like gas deregulation calendar and mulls moving forward with price increases and thus ignoring the surrounding environment. Anyway, the new royalty regime raises significant uncertainties provided low selling prices as taxation moving higher should be supported by some good margins. A couple of scenarios were rumoured on the market, like taxing upstream profits after deducting investments carried and different tax level for offshore and onshore level. We keep reserved that any new taxation regime will be in place sooner than H2'17.

• **Market positioning and brief operations overview: Gas supply market share stands at 45%** in Romania while in terms of underground storage, the working capacity stands at 2.77bcm (six storage facilities), with a market share of over 90% in Romania, with regulated revenues using a revenue-cap methodology (RR on RAB). Romgaz is shareholder in two underground gas storage operators, Depomures (40% stake) and Amgaz (35% stake) Romgaz is also active on electricity production side with some 800MW installed nameplate capacity and some 1.8TWh (+16.46% Y/Y) output in 2015 occurred, following the take-over of CTE Iernut from Electrocentrale Bucuresti, as settlement of a receivable worth RON 653m – market share of 2.86% in 2015 in terms of electricity production with good strategic position in the middle of the Romanian electricity system. Romgaz has recently completed the selection of the consultant to help assess procedures and criteria for finding a partner to refurbish Iernut plant: a new power plant based on a gas turbine combined cycle system of maximum 400 MW capacity and gross electrical efficiency of minimum 55%.

• **Cash pile story:** Future cash-flow unfolding is to remain encompassed by the existing potential within the exploitation of both existing as well as new licence for blocks associated with the gas price deregulation calendar, which seems will not be halted for the current year. Production enhancement should remain driven by the efforts management put into increasing reserves and expanding its natural gas portfolio from well-established geological plays, but also continuous seeking of new and diversified growth opportunities. Overall, gas resources within the country are mostly mature with a long history of production, but according to the management they also present some significant upside opportunities mostly derived through the continuous redevelopment programs run so far. Owing predominantly to the re-valuation of the existing reserves, Romgaz has recorded good RRR, with proved reserves at 71% of its total reserves. Romgaz is active within three production areas, Transylvanian Basin (around 90% of production); Muntenia Moesian Platform and Moldavia Platform, while holding some 25 fields at around 70% of gas reserves (avg. size of proved reserves per avg. field of 450m cm, with 17 fields with over 1 bn cm). Recovery factors between 55% and 85% for most of the fields (90% in the more mature fields) as revaluation was driven by investment in well workovers and installation of compressors. Romgaz remains set to increase its reserves by making use of enhanced recovery rates and development of already discovered resources and targets new exploration programs that would help secure discovery of new resources. Frontier reservoirs like on-shore sub-salt reservoirs, exploration of unconventional potential in Romania and increasing focus on deep water reservoirs (Black Sea) are also some other diversified growth opportunities.

VALUATION - Rating remains clearly a BUY due to cash stockpile financials and share price weakness although some recent gradual recovery. TP significantly decreased to RON 28.14/share due to lower pricing and volumes implied

We value Romgaz by making use of a DCF exercise in order to incorporate capex required for development of its mature fields, which is actually the return on its cash overload since alternative satisfactory yields investments are lacking in the current environment.

We arrive at a fair value of RON 28.14/share (15% upside potential to current price levels) and BUY rating. The stock currently trades at an even lower EV/EBITDA (16E) of 3.93x (at target price) vs. mostly due to decrease on both estimates and TP, or some significant discount to selected peers universe. EV/EBITDA (16E) at mkt price is 3.13x at market price. We view a relative valuation less relevant due to business model peculiarities as well as legal framework which drives it, which complicates the assessment of any potential discount to be applied to peers in order to develop a more accurate peer analysis.

Main risks are: (i) increase in royalties Romgaz has to pay (currently around 7%-8% on average on the revenues of domestically produced natural gas); (ii) gas production and reserves replacement; (iii) decline in natural gas demand and prices following the liberalization process and (iv) mature fields, in production for more than 30 years.

Discounted Cash Flow Model

Our DCF valuation exercise results to an absolute target price of approximately RON 28.14/share. We rolled set of forecasts by one year, and we assume over 10-year forecasted model FY'(16-25E) with revenues CAGR of -1% over FY'(16-25E), reflecting EBITDA margin still at elevated levels, on average over our forecasting horizon at 59% due to steady business model and derived operating cash-flows. Our average WACC stands at 9% and a perpetuity growth of 1%. Average CAPEX for the forecasting horizon estimated at RON 800-900m, with FY'16E estimated at RON 750m, below management estimates of RON 1.12bn, as we believe that expectations for weak gas demand during Q2/Q3'16 will postpone some investments ahead as production will be actually decrease in line with demand - in line with market expectations also. Overall should weigh some 27% over the next 4Y estimated company revenues (excluding FY'16E) and some 50% in EBITDA moving forward.

VALUATION - DCF Method	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenues	3,809,969	3,683,879	3,575,737	3,471,782	3,407,958	3,343,216	3,343,587	3,343,402	3,343,494	3,343,448
EBITDA	2,017,743	2,028,409	1,964,441	1,871,418	1,818,195	1,761,563	1,762,318	1,761,940	1,762,129	1,762,035
Depreciation	-793,598	-799,115	-826,731	-831,964	-868,361	-885,864	-938,264	-987,582	-980,400	-968,291
EBIT	1,218,628	1,201,678	1,132,476	1,003,057	932,331	823,299	774,736	781,540	793,838	784,453
Corporate Tax (effective)	233,862	230,530	217,425	193,129	179,916	159,839	151,126	152,753	155,383	153,977
Tax rate (%)	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%	18.7%
WC	447,809	436,517	416,233	402,438	391,794	382,475	382,288	382,381	382,335	382,358
WC/Sales	15.15%	15.00%	14.87%	14.73%	14.64%	14.55%	14.55%	14.55%	14.55%	14.55%
Change in WC	-526,103	-11,292	-20,284	-13,795	-10,644	-9,319	-188	94	-47	23
Operating Cash Flows	1,257,778	1,786,587	1,726,731	1,664,494	1,627,635	1,592,405	1,611,004	1,609,282	1,606,700	1,608,082
CAPEX	750,000	950,000	950,000	950,000	900,000	800,000	800,000	800,000	800,000	800,000
% in revenues	20%	26%	27%	27%	26%	24%	24%	24%	24%	24%
% in EBITDA	37%	47%	48%	51%	49%	45%	45%	45%	45%	45%
FCFs	507,778	836,587	776,731	714,494	727,635	792,405	811,004	809,282	806,700	808,082
DCFs	**465,383**	**702,721**	**597,969**	**504,130**	**470,537**	**469,638**	**440,529**	**402,891**	**368,074**	**337,921**

DCF assumptions	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Long Term Free Risk Rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Estimated Beta	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.9
Equity Risk Premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Cost of Equity	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**
Cost of Borrowing (2016E)	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Target Capital Gearing	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Discount rate (WACC)	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**
Average growth to perpetuity	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

Present value of FCFs (16E-18E)	1,766,072
Present value of FCFs 2nd stage (19E-25E)	2,993,719
TV	10,063,820
PV of TV	4,208,453
Total FCFs	8,968,244
(+) book value of investments (-) minorities (16E)	100,743
EV	**9,068,987**
(-) net debt (16E)	-3,048,011
(-) other adjustments	229,634
(-) dividends to be paid	-1,040,640
Shareholder's value:	**10,846,724**
Shareholder's value/share:	**28.14**
Upside/downside (%)	*14.9%*

Source: SSIF IEBA TRUST

Sensitivity to FY'16E DPS

	DPS YoY ch. %	FY16E DPS +/- 10% variation band				
		-20.0%	-10%	-21.8%	10%	20.0%
ch% from current price	Price	1.69	1.90	**2.11**	2.32	2.53
-20%	19.60	8.61%	9.69%	10.77%	11.85%	12.92%
-10%	22.05	7.66%	8.61%	9.57%	10.53%	11.49%
0%	**24.50**	6.89%	7.75%	**8.61%**	9.48%	10.34%
10%	26.95	6.27%	7.05%	7.83%	8.61%	9.40%
20%	29.40	5.74%	6.46%	7.18%	7.90%	8.61%

Sensitivity to gas prices & implied scenarios:

i) **Scenario 1:** Current gas price liberalization calendar as it is set by the Regulatory side

ii) **Scenario 2:** A freeze of gas price scheduled within the gas deregulation calendar by October 2016 at RON 66/MWh with no other changes implied on costs side

iii) **Scenario 3:** A third, rather more desirable but hardly implementable scenario, which implies a free float from October 2016

The outcome of all these scenarios is presented below, which suggests a target price range hovering between around RON 28-29/share, depending on gas price&deregulation calendar evolution, EBITDA support from lack of windfall and asset tax. For all scenarios we kept royalties level unchanged at 7%, as no clear picture yet and no additional comments made publicly from authorities' side. We do see this as a risk on valuation, but downside potential on valuation remains limited due to the balance offered by the lack of windfall and asset tax, which should compensate at EBITDA level. Upside is also supported by the fact that, should royalties' charges be extremely high, in a worst case scenario, annual CAPEX will be reduced accordingly, as operating cash-flow shrinks, while market price is only some 12% above 52ws low of RON 21.5/share. The valuation excludes the value of the dividends to be paid for the current year at RON 1.04bn. A critical level to our BUY recommendation stands at **sensitivity price levels of RON 20-25/share**, which secures gas price level aligned to those in **European markets and royalties to cover charges above the level implied now by asset, windfall and 7% royalties summed up.**

	Regulated Nat gas price (RON/MWh) for domestic producers	Freeze at RON/66 MWh for indefinite period, gas deregulation not halted	Free float by October 2016
Present value of FCFs (16E-18E)	1,766,072	1,631,852	1,922,720
Present value of FCFs 2nd stage (19E-25E)	2,993,719	2,943,040	3,032,512
TV	10,063,820	10,061,958	10,187,565
PV of TV	4,208,453	4,207,674	4,260,200
Total FCFs	**8,968,244**	8,782,566	9,215,432
(+) book value of investments (-) minorities (16E)	100,743	100,743	100,743
EV	**9,068,987**	**8,883,309**	**9,316,175**
(-) net debt (16E)	-3,048,011	-3,048,011	-3,048,011
(-) other adjustments	229,634	229,634	229,634
(-) dividends to be paid	-1,040,640	-1,040,640	-1,040,640
Shareholder's value:	**10,846,724**	**10,661,046**	**11,093,912**
Shareholder's value/share:	**28.14**	**27.66**	**28.78**
Upside/downside (%)	*14.9%*	*12.9%*	*17.5%*

Source: SSIF IEBA TRUST

Risks to our forecasts & valuation:

- Company's reserves are concentrated within one area so the company acquire or develop additional natural gas reserves to sustain its production flow rates
- Material decreases in the price of natural gas and/or electricity could severely damage the company's cash-flows
- Higher or lower than implied growth rates in production and pricing level could also severely
- Romgaz must maintain elevated level of capital expenditure in order to increase its production level, while the lack of acces to such financing sources could jeopardize the activity of the company
- Certain petroleum agreements of the company may no longer be in force, albeit Romgaz continues operating under normal course of activity
- Current reserves and forward production data may be only estimates and not match actual production flow rates, thus revenues of the company may be overvalued
- Operational risks on drilling side could potentially result on additional charges which are currently not implied in our cash-flow
- The tax regime is still uncertain and could potentially overweigh upon estimated cash-flows – exposure on changing taxes and royalties system imposed on its operations
- The state continues to exert significant influnce upon the company – recall that in 2010 the Government issued an ordinance according to which Romgaz had to make a state donation of approximately RON 400m

RELATIVE VALUATION

Relatively wise, Romgaz trades at much lower discounts looking relatively undervalued compared to our developing markets universe, particularly when in terms of EBITDA margin Romgaz offers a premium of 3x against the weighted avg. of our selected peers. Moreover, at our estimates, DY stands almost double while carrying debt free-financials. In the light of superior earnings margin delivery as well as self-financed activity we deem discounts in terms of EV/EBITDA should lower for the short-to-medium term. However, we view a relative valuation less relevant due to business model peculiarities as well as legal framework which drives it, which complicates the assessment of any potential discount to be applied to peers in order to develop a more accurate peer analysis.

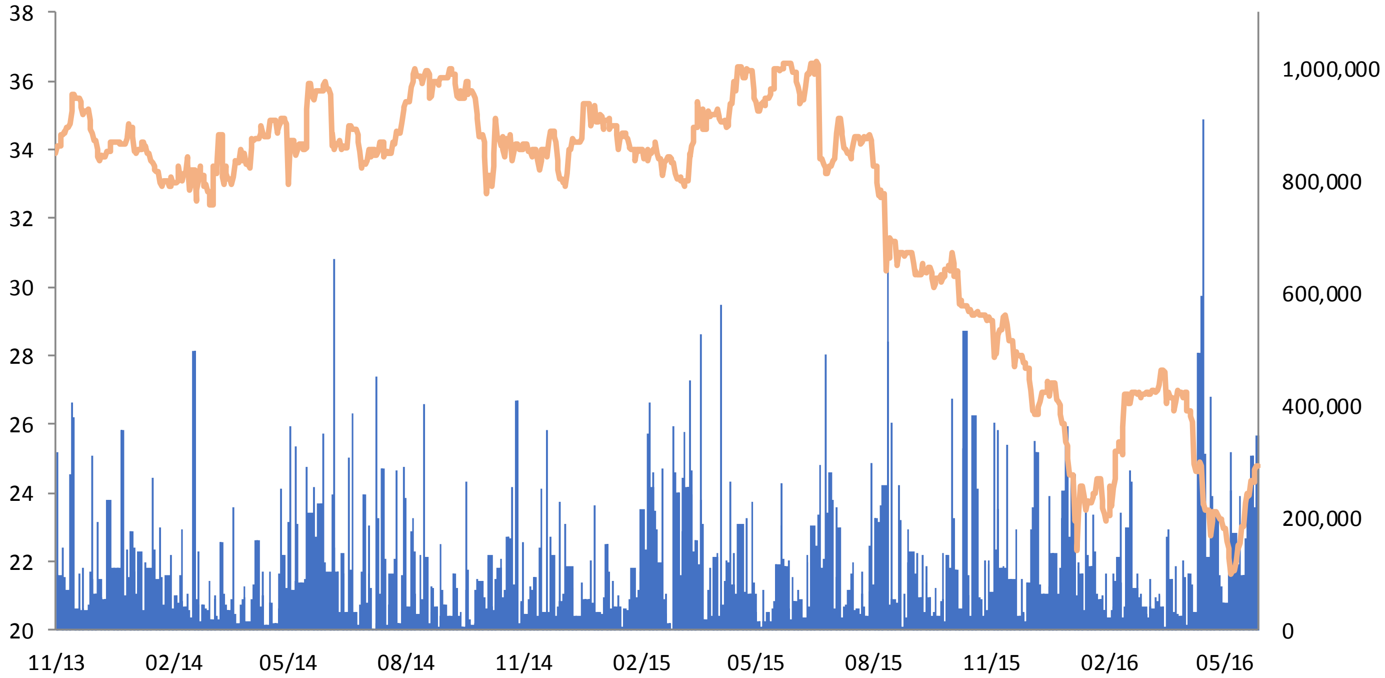
Table. Relative valuation

Ticker	Company Full Name	Country	Mkt cap (local curr.)	Mkt cap (RON)	DIV Y			P/E			P/Sales			P/BV			EV/EBITDA			Operating margin		
					2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
SNG RO	**SOCIETATEA NATIONALA DE GAZE**	**RON**	**9,404**	**9,404**	**0.1x**	**0.1x**	**0.1x**	**7.3x**	**7.0x**	**6.5x**	**2.3x**	**2.3x**	**2.1x**	**0.9x**	**0.9x**	**0.9x**	**3.1x**	**3.0x**	**2.7x**	**34.1%**	**35.2%**	**33.5%**
NVTK RM	NOVATEK OJSC	RUB	2,010,035	122,240	0.0x	0.0x	0.0x	12.8x	10.7x	8.9x	3.9x	3.2x	3.1x	3.5x	2.6x	2.0x	11.0x	8.9x	7.6x	32.9%	31.9%	32.3%
RDGZ KZ	KAZMUNAIGAS EXPLORATION PROD	KZT	1,062,037	12,655							1.8x	1.3x	1.0x									
ENQ LN	ENQUEST PLC	GBp	261	1,486	0.0x	0.0x	0.0x			2.0x	0.4x	0.3x	0.2x	0.5x	0.5x	0.4x	4.5x	4.3x	1.7x	14.5%	7.3%	29.4%
DETNOR NO	DET NORSKE OLJESELSKAP ASA	NOK	19,786	9,574	0.0x	0.0x	0.0x	46.2x	16.6x	12.3x	2.5x	1.6x	1.4x	6.2x	4.5x	3.4x	8.0x	4.6x	4.0x	16.5%	34.3%	41.1%
CNE LN	CAIRN ENERGY PLC	GBp	1,105	6,295	0.0x	0.0x	0.0x			22.8x		9.1x	3.1x	0.7x	0.8x	0.7x		25.4x	5.2x		-11.0%	23.3%
NOG LN	NOSTRUM OIL & GAS PLC	GBp	560	3,191	0.0x	0.0x	0.0x	110.6x	11.1x	4.1x	2.1x	1.4x	0.9x	1.1x	0.9x	0.8x	8.3x	4.8x	2.7x	15.9%	39.4%	47.6%
SIA LN	SOCO INTERNATIONAL PLC	GBp	440	2,506	0.0x	0.0x	0.0x		42.0x	22.2x	3.9x	2.9x	2.6x	0.2x	0.2x	0.2x	5.9x	3.6x	2.9x	10.7%	31.6%	40.6%
PMO LN	PREMIER OIL PLC	GBp	368	2,096	0.0x	0.0x	0.0x			2.8x	0.5x	0.4x	0.3x	1.0x	1.1x	0.8x	6.6x	4.4x	2.4x	-1.2%	17.8%	28.2%
IAE CN	ITHACA ENERGY INC	CAD	477	1,494	0.0x	0.0x	0.0x		305.5x	22.4x	1.5x	0.9x	0.9x	0.5x	0.5x	0.5x	8.5x	3.2x	2.7x	-28.5%	-1.7%	10.9%
FPM LN	FAROE PETROLEUM PLC	GBp	179	1,019							2.2x	2.4x	2.2x	1.0x	0.9x	1.0x	10.4x	11.6x	9.2x	-33.9%	-22.7%	-4.4%
LUPE SS	LUNDIN PETROLEUM AB	SEK	48,029	23,281	0.0x	0.0x	0.0x	33.6x	19.7x	17.1x	5.1x	3.1x	3.0x		29.0x	10.4x	12.6x	6.5x	5.8x	15.4%	36.5%	45.2%
PGN PW	POLSKIE GORNICTWO NAFTOWE I	PLN	31,093	31,992	0.0x	0.0x	0.0x	14.8x	15.3x	11.7x	1.0x	1.0x	1.0x	1.0x	1.0x	0.9x	5.9x	5.7x	4.9x	10.2%	10.9%	12.4%
	Median of peers				0%	0%	0%	33.6x	16.6x	12.0x	2.1x	1.5x	1.2x	1.0x	0.9x	0.8x	8.2x	4.8x	4.0x	0.1x	0.2x	0.3x
	Premium/Discount to peers				n/a	n/a	n/a	-78%	-58%	-46%	11%	53%	76%	-2%	-3%	14%	-62%	-37%	-33%	170%	98%	14%

Source: SSIF IEBA TRUST, Bloomberg

This is confirmed by the past couple of trading sessions when price increases where accompanied by rising volumes as shown by the chart below. However, the gap to be recovered is still some 30% below the price range where SNG share was comfortable for quite a long time period following listing, meaning some RON 33-36 per share. In our opinion this level should have proved to be resilient in lack of crude oil price slump and negative news upon receivables issue particularly with Elcen which is lasting since 2014 and eventually ended with cease of contracts with the latter and some additional non-cash charges in the P&L, but also E.ON announcing some price negotiation is expected through cancelling part of volumes contracted for the year. Even under these circumstances, we believe discounts are not warranted given that Romgaz maintained similar position toward investors, via rich dividends yields disregarding the operating environment which denotes still high EBITDA margins and cash-flows, despite cash overload not compensated accordingly (low interest rate environment and lack of additional upstream pick-ups). We also believe the share partial recovery was due to recent crude oil price revival to levels of USD 50/bbl while an upward trend in crude also mirrors the continuation of the gas price deregulation calendar. Currently, the market price is only some 12% above 52ws low of RON 21.5 and some 34% below 52ws high of RON 36.65/share and obviously a laggard against BET.

Table. Share price evolution



Source: SSIF IEBA TRUST, Bloomberg

Major issues&developments contracts/gas prices - What's new on forecast side?

Summary of recent events/major developments are mostly related to the price war that occurred lately with E.ON and cease of contracts with Electrocentrale Bucuresti. E.ON announced on 26 April that has cancelled a contract worth RON 230m (E.ON gas sales were some 29% in gas sales), which by the moment has not been renewed and no details have been offered but we believe it's only a timing issue until gas sales to E.ON will be resumed but we do expect some lower pricing to be agreed, as currently Romgaz benefits from some artificial price increase at Gvnm't safety. E.ON suggested that is cheaper to imports gas that to buy it from Romgaz, but imports are limited due to the fact that local production exceeds demand (and producers even dropped flow rates since UGS spare capacity is available only for a limited quantity) while exports are also expected, but somewhere in the foreground.

At only two days delay, putting some more pressure on the price, Romgaz has announced the cease of the contract with Electrocentrale Bucuresti (which is Bucharest heating district) as the latter did not prolong the contracts within agreed conditions due to receivables issue with RADET, main supplier in the central heating system for Bucharest, which is actually the source of Romgaz non-cash P&L adjustments roll over. Once with the end of the local elections and new mayor, we believe receivables issue for RADET will be solved and maybe some payments will be made which will span over all players in the system and force some release in provisions for the lower end of the year.

On the other hand, Engie (former GDF Suez) announced some RON 105m addition in contracting volumes from Romgaz, it denotes that E.ON could rather only push for downward prices, but however we were pleased by the fact that not all customers embrace the idea that Romgaz has abnormally high prices (leaving aside that gas price deregulation calendar should make no sense anymore, given that increases in crude oil price are only temporary and retreats are occurring every weak, leaving the price almost unchanged at levels around USD 50/bbl). But still, maybe some commercial negotiation should occur, since E.ON Energie is second largest customer of Romgaz and some long term relationship is in place, but what we are curious instead is the harsh and firm reaction that E.ON had, which makes us question if negotiations already took place with no win-win conclusion or if some though discussions will follow next and who is going to take the reins during the negotiations. Lower pricing or the need for volumes that cannot be compensated through imports? Engie (former GDF Suez) and E-ON Energie accounted for almost 63% of Romgaz sales in Q1'16 (64% in FY'15) while Electrocentrale Bucuresti had a share of 27% (22% in FY'15). FY'16 budget was adjusted to account for this loss in volumes but, in lack of imports Engie will ave to choose either from Romgaz or OMV Petrom. For Q2'16 and Q3'16 we do not believe any major changes will happen due to usual seasonality and lower volumes produced /sold and also because of the hot season that happens with some delays. This would also imply some much lower Y/Y contribution from the UGS side as well and maybe some negative EBITDA levels to occur.

Another issue, related to volumes compensated via imports, surprisingly, already in the media, is the 30% imports quota in the consumption basket of households, which is negative for local producers given that they will actually be forced to cut production, leaving revenues almost unchanged if gas price deregulation will continue. Rather not to hike imports level in the current consumption basket and to keep production levels unchanged, the gas price deregulation calendar cease would be a must. In order this issue to be available, some new regulation is required to be enforced, as currently imports are around nil, while local production decreases due to lack of demand. However, we did not incorporate yet in our forecasts, this 30% import quota applicable as we believe Q2/Q3'16 will have low demand. Keeping things simple and considering some equally split volumes between households/non-households and equally split supply weight between the two producers, shifting some 15% from each producer to imports, would translate in lost revenues of around RON 210-250m/year with current gas price deregulation calendar or some RON 0.6/share in undiscounted terms.

Aside from lost volumes/pricing war, the media has also signalled the fact that Romgaz did not renew a couple of licences where operations were as if legally everything was in place and the company did not issue any official point until 10th of June. In more detail, Romgaz operates some fields with oil exploitation permits expired, situation known by both Romgaz, Ministry of Energy and Gvnm't – all parties involved put the aspect (for media purposes) upon some complicated legislative issues, and theoretically following the end of existing operating agreements, the National Agency for Mineral Resources (ANRM) should have put all these blocks as available for new auctions, which actually did not happen. We concluded that Romgaz has a long term incumbency within its field of activity and excluding OMV Petrom, there is no other local competitor that could substitute Romgaz operations. We view the story only as a bureaucracy pending issue that will not affect company operations given some 4 full quarters were reported since first auction should have taken place, which was actually confirmed by management via an official point of view (June 9) saying that most of the fields operated that need Gvnm't approval some good improvements in RRR occurred mostly due to the investments run in the past couple of years and that ANRM issued annual exploration permits in order Romgaz to be able to operate these fields. However, currently Romgaz and ANRM put all things together and managed to finalize all legal procedures in order to emerge toward next step of having the Gvnm't ratifying the exploration licences. Still, even under circumstances of having Romgaz operating the fields only by ANRM permit, we see not risk of the latter putting up for auction the related fields as OMV Petrom capex was diminished for the year and no other similar peer locally for the moment. We also exclude the pop in of some foreign companies on the upstream side.

Oil exploitation agreements story step by step:

- **Half the oil exploitation agreements concluded between Romgaz and the National Agency for Mineral Resources (ANRM) expired gradually from 2004 to present, without being extended by law. Romgaz reached in a position to exploit natural gas, based on expired agreements, risking the halt of work on several oil blocks**

- In some perimeters with agreements expired gas resources above initial estimates were discovered, but for further exploitation the agreement of the Gvnm't was required by law

- Gvnm't decisions were not issued and thus Romgaz exploited gas, without legal rights

- The IPO prospectus for the listing of Romgaz on the stock market was cautioned by the fact that Romgaz can reach in a position to lose the concession rights, in the absence of this decision by the Gvnm't

- Agreements' prolongation had to be approved by the Gvnm't until the deadlines for expiry. The government cannot grant retroactive prolongation

- According to the petroleum law, upstream activity should cease for those perimeters where agreements are no longer valid and the fields in question should have been auctioned by ANRM, actions that did not take place

- In order to give some form of legal activity for Romgaz, the Parliament approved last autumn Law 228/2015. This allows Romgaz to continue its petroleum operations schedules approved by ANRM and lack of auctions resumption for those perimeters where the licence expired, which actually meant that the Parliament granted the legal right for Romgaz to continue operating such kind of fields

- The question remains instead with the Ministry of Justice if approval of a Gvnm't decision will be given in the lack of an auction

- We deem the issue to some complicated legislative steps that were also affected by the change in Gvnm't and changes brought to the Ministry of Energy.

By comparison to Petrom, Romgaz reserve replacement ratio stands much better, mostly due to FRDs (field redevelopment) but in the case of Romgaz these actions are seen less compelling than in the case of Petrom, while involvement in the Black Sea (stake of 10%) could draw a nice growing picture for the company.

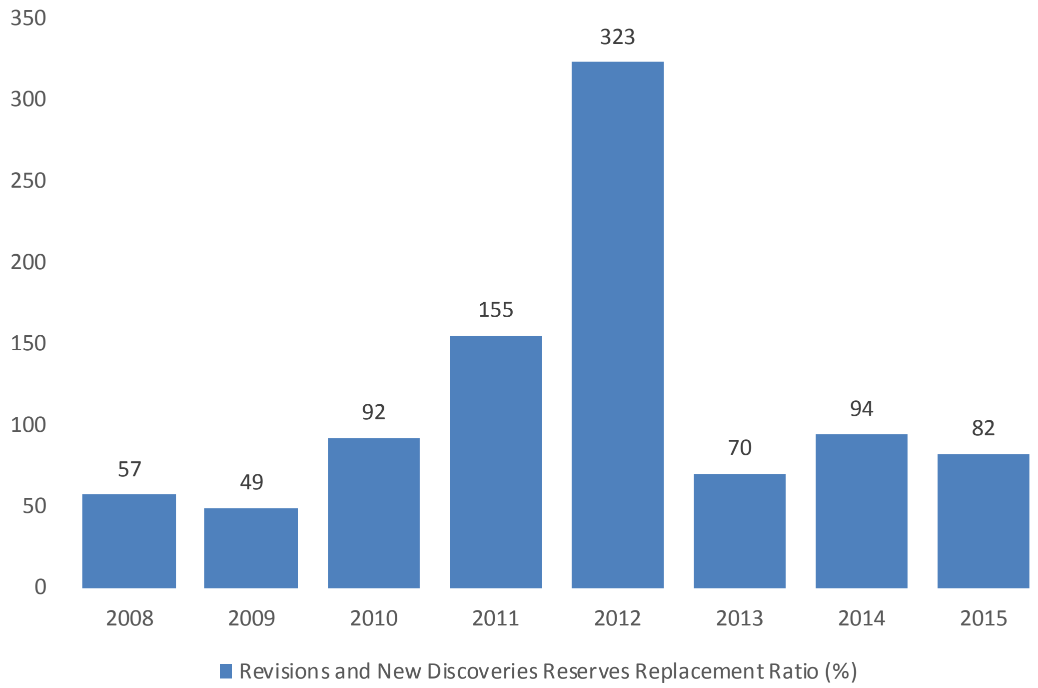
Summary of upstream developments in terms of capex execution and commissioning as well as production enhancement from a couple of selected fields (well workovers and new completion techniques)

• On gas exploration and production, onshore mature natural gas reserves base **1P stands at 62bcm with 2P reserves at 75 bcm**, while production has stabilised to 5.6bcm in 2015 (-1.75% Y/Y vs. 5.7 bcm in 2014) and still retains some significant onshore and offshore exploration potential.

RON Th.,	2014	2015		%
		Scheduled	Realized	
Works in progress - of which	**584,279**	**358,345**	**352,467**	98%
Explorations works, usptream side	424,403	319,051	319,051	100%
UGS capacity deployment	158,309	33,129	32,374	98%
Environmental protection works	1,567	6,165	1,042	17%
New investments - of which	**166,480**	**301,897**	**297,039**	98%
Explorations works, usptream side	162,722	293,155	292,440	100%
UGS capacity deployment	500	112	112	100%
Environmental protection works	3,258	8,630	4,487	52%
Investments in existing fixed assers	254,631	314,489	224,664	71%
Other acquisitions of property and equipment	63,898	90,254	54,080	60%
Other investments (studies, licenses, software)	16,209	35,015	9,666	28%
Total investments run	**1,005,390**	**974,731**	**874,170**	90%

Source: Romgaz, SSIF IEBA TRUST

• Activities completed on the upstream side as well as latest developments as of Q1'16:
- 3D seismic interpretation in progress for the volume acquired in all period
- Development programme in progress for 36 new wells successfully tested and 15 wells are in production of tests to evaluate c14bncm of 2C contingent resources



Source: Romgaz, SSIF IEBA TRUST

- 10% interest in offshore exploration in the Blacks Sea with Lukoil and Pan Atlantic (Trident). Lira discovery new data assessment, geological background reanalysis and future appraisal wells design
- Completed development of Cris discovery (Dec'15)
- Finalized production tests with success for 2 new discoveries, Tapu and Laslau Deep
- Continued exploration and development work of Caragele structural complex
- Drilling of two wells with objective more than 4000m in Moesian Platform are in progress
- As an outcome of all these efforts, gas production potential consolidate to 15.6mn cm/day in 2015, with production decline rates stabilizing below 1%; installation of gas compression and production enhancement/rehabilitation, acquisition of 3D seismic data which forced 2 new discoveries accounting jointly for 3% of Romgaz' daily production. Some compressor stations were commissioned which gave access to additional 0.50 bcm representing some 9% of annual output. Even with these upstream efforts, production declines were felt mostly due to weak gas demand at consolidated level and low crude oil&gas prices which affects cash-flows and forces lower upstream capex.

mn cm	Compression	Production enhancement	New fields		%	%	%
Q1'2011	283	150	63	496	57%	30%	13%
Q1'2012	281	181	83	545	52%	33%	15%
Q1'2013	268	173	63	504	53%	34%	13%
Q1'2014	259	197	85	541	48%	36%	16%
Q1'2015	255	212	90	557	46%	38%	16%
Q1'2016	237	216	111	564	42%	38%	20%

Source: Romgaz, SSIF IEBA TRUST

Forecasts side:

In our base case scenario, we estimated FY'16 upstream revenues at RON 2.95bn (-11% Y/Y) or some 95% of full consolidated income, with EBITDA down 9% Y/Y to RON 2.01bn and net profit at RON 1.05bn (-15% Y/Y). Overall, we do not see Romgaz assuming debt in its balance sheet, as despite its concentrated customer portfolio, we deem that Romgaz retains some low credit risk. Over our forecasting horizon, the company remains with a hefty net cash position, able to support both working capital needs – which overall are not that burdening, as well as our above management guidance implied CAPEX (roughly some RON 0.9bn on average).

On upstream side, we did not include yet any potential flows from Black Sea as we believe the project is still at early stage to produce effects, but however, should that be the case – somewhere at the high end of our forecasting horizon, both Romgaz and Petrom should have the ability to export part of local market oversupply, which for the moment is lacking Transgaz capex fulfilment.

For upstream side, we used a couple of scenario to depict downfall in revenues.

We have used three pricing scenarios for both revenues and costs in order to assess the potential impact upon TP.

i) **Scenario 1:** Current gas price liberalization calendar as it is – according to the media the Gvnm't will maintain the current gas price deregulation calendar in place and their related taxes (budgetary cushion) with a small adjustment: we believe that the gas deregulation calendar for non-households will finalize ahead of FY'21 envisaged deadline starting FY'17 when its implied level would be RON 72/MWh. It is our view that the gas deregulation calendar for non-households should reach an end this year under current oil market conditions and that it does not make sense anymore for the schedule to continue by end 2021, and that is why we assume an earlier deadline (end-2017) since Gvnm't does not support a halt starting July 2016.

ii) **Scenario 2:** A freeze of gas price scheduled within the gas deregulation calendar by October 2016 at RON 66/MWh with no other changes implied on costs side.

iii) **Scenario 3:** A third, rather more desirable but hardly implementable scenario, which implies a free float from October 2016 – we input this exercise as well, albeit this depends solely on state budget outcome and financing needs. Also, a more probable scenario in this regard will occur once with the release of the new royalties' regime, expected by the end of the year/early 2017, which should somehow include also the foregone revenues from the lack of windfall tax, either, and it will be no surprise, some other tax on the sector.

For all the above scenarios, starting FY'17 the asset tax is excluded, while royalties level is kept constant at current standards. Not yet a clear picture with respect to the new royalties' regime – some differentiated level for on-shore/off-shore level will be imposed, with expectations for higher taxation for off-shore and most probably that upstream profits will be taxed for on-shore side, but this does not generate too much revenue for the state considering that oil price is currently hovering around USD 50/bbl.

Moreover, we have assessed, for each scenario the selling price for domestic producers considering Romgaz would sell 50% to households and 50% to non-households. The outcome is depicted below. Our third scenario produces the lowest price levels, and thus the lowest valuation, but we keep our base case scenario incorporated by Scenario 1, which is in compliance with current view of the Gvnm't, albeit offering some premiums to European price levels and support to the budget from the windfall tax.

The table below depicts the current gas price deregulation calendar for households' side:

Table. Latest version of gas price deregulation calendar

Date	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
New gas calendar - RON/MWh	60	66	66	66	72	72	72	72	78	78	78	78	84	84	84
y/y chng.		*10%*	*0%*	*0%*	*9%*	*0%*	*0%*	*0%*	*8%*	*0%*	*0%*	*0%*	*8%*	*0%*	*0%*

Source: ANRE

In more detail, households gas price we used the figures from the existing gas price deregulation calendar while for the industrials side we used spot and forward quotations available on CEGH OTC market – main platform for gas trading in Central Europe.

Table. Gas price deregulation calendar & adjacent scenarios

	Gas price deregulation calendar scenarios			Scenario 1 - Regulated Nat gas price (RON/MWh) for domestic producers		Scenario 2 - Freeze at RON/66 MWh for indefinite period, gas deregulation not halted		Scenario 3 - Free - float by October 2016	
	Scenario 1	Scenario 2	Scenario 3	Non-households	Households	Non-households	Households	Non-households	Households
Date	Nat gas price (RON/MWh)*	Nat gas price (RON/MWh)*	Nat gas price (RON/MWh)*	Gas price (RON/MWh)	Gas price (RON/MWh)	Gas price (RON/MWh)	Gas price (RON/MWh)	Gas price (RON/MWh)	Gas price (RON/MWh)
1-Jan-15	**69.4**	**69.4**	**69.4**	80.5	58.3	80.5	58.3	80.5	58.3
1-Apr-15	**67.0**	**67.0**	**67.0**	75.7	58.3	75.7	58.3	75.7	58.3
1-Jul-15	**69.7**	**69.7**	**69.7**	79.5	60.0	79.5	60.0	79.5	60.0
1-Oct-15	**69.7**	**69.7**	**69.7**	79.5	60.0	79.5	60.0	79.5	60.0
2015	**69.2**	**69.2**	**69.2**						
1-Jan-16	**70.2**	**70.2**	**70.2**	80.4	60.0	80.4	60.0	80.4	60.0
1-Apr-16	**69.6**	**69.6**	**69.6**	79.2	60.0	79.2	60.0	79.2	60.0
1-Jul-16	**67.7**	**67.7**	**64.7**	69.3	66.0	69.3	66.0	69.3	60.0
1-Oct-16	**68.8**	**68.8**	**65.8**	71.7	66.0	71.7	66.0	71.7	60.0
2016	**69.3**	**69.3**	**68.0**						
1-Jan-17	**66.8**	**66.8**	**63.8**	67.7	66.0	67.7	66.0	67.7	60.0
1-Apr-17	**71.2**	**68.2**	**65.2**	70.4	72.0	70.4	66.0	70.4	60.0
1-Jul-17	**71.2**	**68.2**	**65.2**	70.4	72.0	70.4	66.0	70.4	60.0
1-Oct-17	**69.8**	**66.8**	**63.8**	67.7	72.0	67.7	66.0	67.7	60.0
2017	**69.2**	**67.3**	**64.3**						
1-Jan-18	**69.8**	**66.8**	**63.8**	67.7	72.0	67.7	66.0	67.7	60.0
1-Apr-18	**69.8**	**66.8**	**63.8**	67.7	72.0	67.7	66.0	67.7	60.0
1-Jul-18	**69.8**	**66.8**	**63.8**	67.7	72.0	67.7	66.0	67.7	60.0
1-Oct-18	**69.8**	**66.8**	**63.8**	67.7	72.0	67.7	66.0	67.7	60.0
2018	**69.8**	**66.8**	**63.8**						

Source: ANRE

Upstream revenues side – gas price scenarios outcome:

Upstream segment data	FY'14A	FY'15A	Q1'16	FY'16E	FY'17E	FY'18E	FY'19E	FY'20E	FY'21E	FY'22E	FY'23E	FY'24E	FY'24E
Upstream Production (mn cm), o/w	**5,664**	**5,563**	**1,374**	**5,144**	**4,954**	**4,760**	**4,625**	**4,536**	**4,450**	**4,449**	**4,449**	**4,449**	**4,449**
own gas	5,469	5,360	1,331	4,949	4,751	4,561	4,424	4,336	4,249	4,249	4,249	4,249	4,249
(%) Domestic volumes in volumes produced	97%	96%	97%	96%	96%	96%	96%	96%	95%	95%	95%	95%	95%
JV volumes	195	203	44	195	203	199	201	200	201	200	200	200	200
(%) JV volumes in volumes produced	3%	4%	3%	4%	4%	4%	4%	4%	5%	5%	5%	5%	5%
(-) technological consumption	81	79	19.8	79	79	79	79	79	79	79	79	79	79
Upstream net production (mn cm)	**5,388**	**5,281**	**1,311**	**4,871**	**4,673**	**4,482**	**4,346**	**4,257**	**4,170**	**4,170**	**4,170**	**4,170**	**4,170**
Volumes invoiced gas injected (mn cm) - own production	565	738	7	945	842	893	867	880	874	877	875	876	876
Volumes invoiced gas extracted (mn cm) - own production	601	410	309	505	457	481	469	475	472	474	473	473	473
(-) PCS differences	10	16	2	13	15	14	14	14	14	14	14	14	14
Total deliveries own production (mn cm)	**5,414**	**4,936**	**1,611**	**4,418**	**4,274**	**4,057**	**3,933**	**3,838**	**3,755**	**3,753**	**3,754**	**3,754**	**3,754**
(-) Own consumption - power segment (Iernut&Cojocna), (mn cm)	445	527	93	600	550	550	550	550	550	550	550	550	550
Total deliveries, own production, external party (mn cm)	**4,969**	**4,409**	**1,518**	**3,818**	**3,724**	**3,507**	**3,383**	**3,288**	**3,205**	**3,203**	**3,204**	**3,204**	**3,204**
Upstream revenues, own production, external party (RON, Th)	**3,413,733**	**3,159,884**	**1,079,996**	**2,796,692**	**2,722,145**	**2,588,232**	**2,497,162**	**2,426,896**	**2,365,375**	**2,364,135**	**2,364,755**	**2,364,445**	**2,364,600**
Avg. selling price (RON/1000/cm), current mkt conditions	687	717	711	**733**	**731**	**738**	**738**	**738**	**738**	**738**	**738**	**738**	**738**
Avg. realized selling price (RON/MWh), current mkt conditions	65	68	67	69.3	69.2	69.8	69.8	69.8	69.8	69.8	69.8	69.8	69.8
Difference to regulated nat gas price due to computations	*1*	*-3*	*-3*										
Gas price scenarios													
Gas price deregulation calendar revenues													
Regulated Nat gas price (RON/MWh) for domestic producers				2,796,692	2,722,145	2,588,232	2,497,162	2,426,896	2,365,375	2,364,135	2,364,755	2,364,445	2,364,445
Freeze at RON/66 MWh for indefinite period, gas deregulation not halted				2,796,692	2,647,668	2,477,030	2,389,872	2,426,896	2,365,375	2,364,135	2,364,755	2,364,445	2,364,445
Free - float by October 2016				2,742,214	2,529,587	2,365,827	2,282,583	2,218,355	2,162,121	2,160,987	2,161,554	2,161,271	2,161,271
Gas price deregulation calendar													
Regulated Nat gas price (RON/MWh) for domestic producers	68	71	70	**69.3**	**69.2**	**69.8**	**69.8**	**69.8**	**69.8**	**69.8**	**69.8**	**69.8**	**69.8**
Freeze at RON/66 MWh for indefinite period, gas deregulation not halted				**69.3**	**67.3**	**66.8**	**66.8**	**69.8**	**69.8**	**69.8**	**69.8**	**69.8**	**69.8**
Free - float by October 2016				**68.0**	**64.3**	**63.8**	**63.8**	**63.8**	**63.8**	**63.8**	**63.8**	**63.8**	**63.8**
Total deliveries from JVs	**181**	**169**	**41.5**	**156**	**156**	**156**	**156**	**156**	**156**	**156**	**156**	**156**	**156**
JV volumes	181	169	41.5	156	156	156	156	156	156	156	156	156	156
Upstream revenues, JV deliveries (RON, Th)	**139,657**	**131,373**	**32,858**	**117,000**	**117,000**	**117,000**	**117,000**	**117,000**	**117,000**	**117,000**	**117,000**	**117,000**	**117,000**
Avg. selling price (RON/1000/cm)	773	778	792	750	750	750	750	750	750	750	750	750	750
Avg. selling price (RON/MWh)	73	74	75	**71.0**	**71.0**	**71.0**	**71.0**	**71.0**	**71.0**	**71.0**	**71.0**	**71.0**	**71.0**
Total resold volumes (mn cm)	**99**	**20**	**11**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
Upstream revenues resold production of local producers (RON, Th)	**15,050**	**14,545**	**3,716**	**11,250**	**11,250**	**11,250**	**11,250**	**11,250**	**11,250**	**11,250**	**11,250**	**11,250**	**11,250**
Acquisitions from other local producers	17.7	17.1	4.3	15	15	15	15	15	15	15	15	15	15
Avg. selling price (RON/1000/cm)	850	851	864	**750**	**750**	**750**	**750**	**750**	**750**	**750**	**750**	**750**	**750**
Avg. selling price (RON/MWh)	80	80	82	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0	71.0
Margin (RON/MWh)	12	9	12	1.7	1.8	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Regulated Nat gas price (RON/MWh) for domestic producers	68	71	70	69.3	69.2	69.8	69.8	69.8	69.8	69.8	69.8	69.8	69.8
Upstream revenues from import gas resold (RON, Th)	116,443	4,169	10,885	31,374	31,374	31,374	31,374	31,374	31,374	31,374	31,374	31,374	31,374
Import gas delivered	81.1	3	6.8	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**20**	**20**
Avg. selling price (RON/1000/cm)	1,436	1,390	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601	1,601
Cost of resold gas - imports	108,712	4,027	10,173	29,178	29,178	29,178	29,178	29,178	29,178	29,178	29,178	29,178	29,178
Total Upstream revenues (RON, Th) - base case scenario	**3,684,883**	**3,309,971**	**1,127,455**	**2,956,317**	**2,881,769**	**2,747,856**	**2,656,786**	**2,586,520**	**2,525,000**	**2,523,760**	**2,524,380**	**2,524,070**	**2,524,225**
Upstream revenues, own production - incl. JV, external party	**3,553,390**	**3,291,257**	**1,112,854**	**2,913,692**	**2,839,145**	**2,705,232**	**2,614,162**	**2,543,896**	**2,482,375**	**2,481,135**	**2,481,755**	**2,481,445**	**2,481,600**
Upstream revenues, own production, external party	3,413,733	3,159,884	1,079,996	2,796,692	2,722,145	2,588,232	2,497,162	2,426,896	2,365,375	2,364,135	2,364,755	2,364,445	2,364,600
Upstream revenues, JV deliveries	139,657	131,373	32,858	117,000	117,000	117,000	117,000	117,000	117,000	117,000	117,000	117,000	117,000
Upstream revenues resold production of local producers	15,050	14,545	3,716	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250	11,250
Upstream revenues from import gas resold	116,443	4,169	10,885	31,374	31,374	31,374	31,374	31,374	31,374	31,374	31,374	31,374	31,374
Total Upstream revenues (RON, Th), scenarios													
Regulated Nat gas price (RON/MWh) for domestic producers				2,956,317	2,881,769	2,747,856	2,656,786	2,586,520	2,525,000	2,523,760	2,524,380	2,524,070	2,524,225
Freeze at RON/66 MWh for indefinite period, gas deregulation not halted				2,956,317	2,807,292	2,636,654	2,549,497	2,586,520	2,525,000	2,523,760	2,524,380	2,524,070	2,524,070
Free - float by October 2016				2,901,838	2,689,211	2,525,452	2,442,207	2,377,979	2,321,745	2,320,612	2,321,178	2,320,895	2,320,895

Source: Romgaz, IEBA TRUST computations; upstream revenues account for around 96% of total consolidated revenues

Other changes to forecasts, on upstream side:

Considering all changes that we made to forecasts since last update and current developments, in terms of bottom line, we reached up being quite in line with management guidance. Vs. our last update, current estimates are much lower, owing mostly to the volumes implied.
We see FY'16 upstream net production at 4.87bn (-7.7% Y/Y), mostly on the back of decrease in domestic volumes produced (excl. JV) due to lower demand. We see demand at national level down 6% Y/Y, suggesting that in lack of resumption of demand from major industrial players like chemicals, demand from households' side and households assimilates continues hovering at levels that does not support positive growth rates at aggregated level. We see domestic consumption stabilizing at -2% per annum starting FY'20E and reaching flat levels starting FY'23E, when part of the recent real-estate boom cycle on residential construction side will start producing effects on households' consumption side. We do not see an upward trajectory on consumption side from industrials, since the economy, although supporting, did not make yet any additional room for spare industrial capacities, despite commodities being at quite a bottom, and this is owed mostly due to self-sufficiency on demand side and availability of imported goods. All in all, we see revenues CAGR FY'(16-25E) down only 1%, since our base case scenario implies on pricing side current gas price deregulation calendar, which does not take into consideration the level of price on European gas hubs. Our most sensitive forecast period is during FY'(16-19E) when the top line sees a 9% drop mostly on volumes side – next section shows a more detailed upstream revenue metrics, including pricing and volumes used and revenues to be realized for the entire forecast revenues. We remind that in terms of revenues and expenses, our base case scenario complies with the current gas price deregulation since this is currently the price level Romgaz earns and that the since Romania shares parliamentary elections in the autumn, we might some lack of interest from current technocratic Gvnm't to change anything. This is also in the context that some voices are saying that following parliamentary elections, a new Gvnm't will be enforced, most probably politically ruled, which actually pushes forward any decision to be taken with respect to gas prices.

Changes to forecasts on Opex side:

- **Royalties scheme –** for all the three scenarios, royalties have been kept at current paid level of 7%-8% per annum. New regime should be on track starting FY'17, but we raise additional doubts given parliamentary elections late in the autumn and that current technocratic Gvnm't seems not to assume pending tasks like gas deregulation calendar and mulls moving forward with price increases and thus ignoring the surrounding environment. Anyway, the new royalty regime raises significant uncertainties provided low selling prices as taxation moving higher should be supported by some good margins. A couple of scenarios were rumoured on the market, like taxing upstream profits after deducting investments carried and different tax level for offshore and onshore level. We keep reserved that any new taxation regime will be in place sooner than H2'17.

- **Asset tax –** is out starting FY'17; we estimate some RON 72m to be paid for this year.

- **Windfall tax –** taken into consideration only for first two scenarios and some RON 240m were implied/year; for third scenario does not produce effects at EBITDA level and no other taxes were considered in connection with the new royalty regime.

- **Other expenses –** were dimensioned according with the current business model; for the remaining portion of the year, no other non-cash one-offs implied from receivables side; personnel costs estimated based on parameters provided by management within FY'16 new budget, reduced annually with some estimated RON 96m, annual cost of capitalized work.

- **Capex portion -** Average CAPEX for the forecasting horizon estimated at RON 860m, with FY'16E estimated at RON 750m, below management estimates of RON 1.12bn, as we believe that expectations for weak gas demand during Q2/Q3'16 will postpone some investments ahead as production will be actually decrease in line with demand - in line with market expectations also.

Gas price liberalization – mkt structure&recent developments

Recently, market watchdog ANRE retained the view that the current gas price deregulation calendar should be halted as the gas price already reached comparable levels to those at European level, which could be realised by Gvnm't issuing an Ordinance complying with ANRE formal request. On the other hand, due to budget purposes during elections year, officials do not feel very eager in analysing ANRE request and intend continuing with the RON 6/MWh increase starting July 1st, up to a level of RON 66/MWh for households; on centralized markets, gas price for non-households stands at a price range between RON 74-80/MWh from OMV Petrom Gas SRL and RON 82/MWh from Romgaz side.

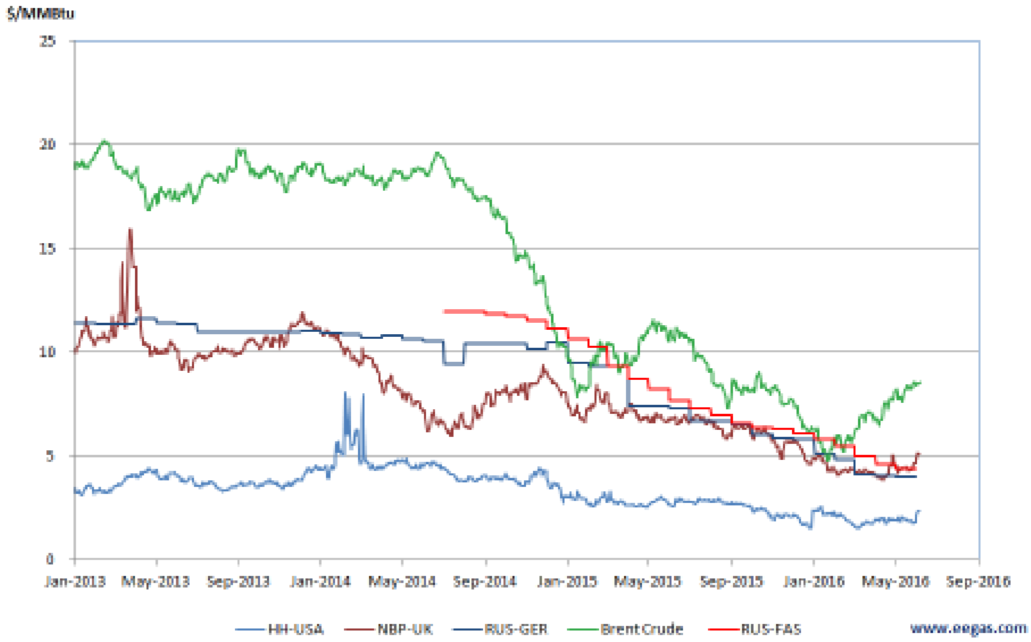
Table. Brent price dynamics

Sources: BAFA, EIA, Bloomberg, EnergoBiznes, Gazprom, IMF, World Bank, FST RF, ICE

CEGH OTC market platform shows spot gas prices around EUR 14.22-15.5/MWh, which shows that even gas price for non-households is more expensive compared to its European peers and that the current gas deregulation calendar should stop. Meanwhile crude oil price looks like having had stabilised around USD 50/bbl as OPEC meeting held on June 2nd, confirmed their commitment to a stable and balanced oil market, with prices at levels that are suitable for both producers and consumers, keeping unchanged the level of existing production. On futures side, highest levels were settled due to disruptions in ongoing supply in Canada and Nigeria. Also, Russia has recently announced that FY'16 should depict a record high in terms of production, as it is the only manner to balance its budget given price level, but their announced production level of 10.8m bbl/day, is expecting to be short lasting as it is obtained through the redevelopment of some very mature oil fields that are expected to deplete soon.

Therefore, we see crude oil prices rather stabilising at current levels, mostly due to overstock. All in all, we do see some downside risk for next two quarters on Romgaz revenues side, as price battle has already started – E.ON Energie Romania already cancelled a contract with Romgaz worth RON 280m (7% in Romgaz upstream revenues). The move rather emphasized that fact that Romgaz is still selling at price levels that are not competitive with those existent at European level and imports would be a better solution to help price going down. On the other hand, management feels that the price level at which Romgaz sells in not yet linked to the European gas prices, as gas price for local producers are still regulated by ANRE, despite non-households' level was liberalized on an early stage mostly due to similar market context.

Table. Gas price dynamics



Sources: BAFA, EIA, Bloomberg, EnergoBiznes, Gazprom, IMF, World Bank, FST RF, ICE

Management also stressed a very interesting point with respect to local market liberalization side, as not only prices need to adjust, but also market mechanisms should function in a similar manner, eying here the exports issue. As a reminder, currently the local gas market remains dominated by two local producers, Romgaz and Petrom, which share a rather similar market share with price level that cannot fluctuate that much. Although imports are available, exports are not available – a major issue pending on Transgaz shoulders to complete a couple of projects that help distributors negotiating their pricing and allow local producers to keep production levels as they like. On distribution and supply side, the market started showing first signs of improvement in terms of competition, while local production secures entirely local demand, provided the collapse of the chemical industry, which freed some volumes to be used by population. It is our understanding that Romgaz would like a drop in prices, but would consider mandatory to have sufficient mechanisms to sell its production (i.e exports). We see downside risks for pricing side for Q2 and Q3, as even with flat Y/Y production levels but similar pricing and complete UGS, in order to set new negotiations with E.ON, pricing would have to be first move. Also, negotiation would more cheap and easier for E.ON as well opposite to imports, and moved to the position of a trendsetter in order to attract more local distributors to force the oligopoly structure to cease the limited competition. Also, Romgaz does not clearly state that the gas price deregulation calendar for households should end. We believe the company would be more advantaged by accepting a decrease in price for non-households while receiving the price increase for households, although not warranted provided peers' competitive pricing. Transgaz announced no imports for the upcoming four months, hence we expect Romgaz to announce in Q3'16 maybe Q4'16 in a more positive note, the resumption of contractual relationship with Romgaz, but at a lower price.

Should Romania make few steps on export side, in FY'19, when OMV Petrom production is expected to come on track, prices should fell below European levels, with needs for additional UGS, either production dimensioned to local market demand, which eventually means fields that are not developed accordingly and reduced IRR on investments run as well as foregone commodities pricing cycle.

We briefly detail below a couple of projects pending on Transgaz side for enabling the local gas market to develop more competitive features. The current development plan of the Romanian gas transmission system includes large projects meant to reconfigure the transport grid, which although complex and extensive, was deployed within a time period when the focus was on securing with natural gas supply the large industrial consumers and to provide them with access to the gas resources which are mostly located in the centre of Romania and to the only source of imports. Given the latest developments and trends in the natural gas transportation routes to Europe is it required the access to two new important supply sources, namely the natural gas from the Caspian region and those discovered in the Black Sea.

Development of the South Corridor: currently, at European level, a series of projects are pending implementation which would allow for natural gas transportation particularly from the Caspian region to Central Europe – South Caucasus Pipeline, Trans-Anatolian Pipeline construction of the pipeline (TANAP), Trans Adriatic Pipeline (TAP) and the construction of interconnector Greece-Bulgaria (IBG). In these conditions, the national grid should be adapted to these new perspective by expanding the transport capacity between existing points of interconnection of the local system with that of Bulgaria (Giurgiu) and Hungary (Nadlac).

- **Transgaz projects pending to set new competitive features to the local gas market:**

    - **BRUA (Bulgaria-Romania-Hungary-Austria): -** EU decided to include this project on main list of major interest in order to provide an alternative diversification source for those member states that were affected by deselecting of Nabucco project; deadline for completion is FY'19 with an estimated cost of EUR 560m.

    - **Development on the Romanian territory of the Southern Transmission Corridor for taking over the Black Sea gas:** Development of an infrastructure on RO territory in order to transport natural gas from the Black Sea to the boarder of Romania-Hungary; included in the Ten Year Network Development Plan (TYNDP 2015) it aims at building a pipeline from the Black Sea to the technological plateau in Giurgiu County to make the connection between the offshore gas available in Black Sea and the corridor Bulgaria - Romania - Hungary – Austria (BRUA). Deadline for finalization is FY'19 with an estimated cost at EUR 262.4m.

    - **Interconnection with international transport pipelines:** this project consists in upgrading Silistea compression station, upgrading and scaling Onesti compression station, changes inside the metering station Isaccea and rehabilitation of sections of pipelines Cosmesti - Onesti (66.2 km) and Silistea - Sendreni (11.3 km). Currently, Transgaz started a pre-feasability study, with completion works estimated by FY'18 with a total cost of EUR 65m.

    - **Development of national transportation grid (NTS) in the north-eastern Romania:** new pipeline interconnection between Romania and Moldova to provide transport capacities to Moldova; the first phase of the project includes the construction of natural gas pipeline Gherăeşti - Letcani and the second phase of the project is to develop transport capacity of NTS in order to provide natural gas flow on the direction Romania – Republic of Moldova. Deadline for the project is FY'17 and investment value is EUR 110m.

    - **Development of Central Corridor:** interconnection with the transmission system and ensuring international Isaccea reverse flow; ensuring reverse flow on interconnection Romania – Hungary and develop NTS between Onesti and Bacia. Deadline is FY'23 and investment value is EUR 544m.

Summarizing, Romania needs some financing worth EUR 1.54bn in order to complete these interconnection projects that secure flow and reverse flow to Europe, while the deadlines implied look very optimistic and currently Transgaz is a laggard in terms of budgeted CAPEX compliance. We consider these deadlines quite near the corner on paper and we believe there are few chances for them to materialize while given also the delayed upstream capex of OMV Petrom for the Black Sea gas, we could see first flow much later than FY'19. On the other hand, considering current demand on the gas market, Romania does not need additional volumes, hence, the Black Sea is only a source of exports and supply to domestic market only when on-shore fields will be completely depleted and redevelopment will produce low IRR compared to available flows.

- **FY'16 budget is pending approval on June 16 (17) – figures were downwards revised mostly due to anticipated lower demand during Q2 and Q3'16 but no details were offered with respect to pricing. We assume Romgaz made use of current gas price deregulation calendar, which is also our base case scenario for the time being since Gvnm't does not look very prone is declaring the market liberalized provided locally gas prices are already in line with European gas prices.**

In more detail, for 2016, Romgaz retained a very optimistic view upon figures. First budget announced was rejected by shareholders on 25 March OGSM (among main items that were worth being mentioned are the high figures for upstream side and a level of RON 1.32bn for net income). New budget which stands for approval on June 16 (17) depicts a more realistic tone, with total operating revenues at RON 3.78bn (-16%) against first budget and down 11% Y/Y. Net income should reach RON 1bn (-16% Y/Y).

Figures in RON th - OGSM on 16 (17) June	BVC 2016, new	BVC 2016, old	% change	Q1'16
Upstream revenues, own production, external party	**2,626,101**	**3,193,306**	**-18%**	**1,079,996**
Upstream revenues, JV	119,569	122,594	-2%	32,858
Upstream revenues, resale of imported gas	11,205	10,371	8%	14,601
Energy revenues	283,547	283,547	0%	69,206
Storage revenues	378,502	187,203	102%	159,664
Other revenues (incl. variation in inventory)	22,843	313,394	-93%	99,573
Capitalised costs of tangible assets	272,459	322,459	-16%	
Other operating revenues	64,411	65,029	-1%	51,645
Total Operating revenues	**3,778,637**	**4,497,903**	-16%	**1,407,970**
Expenses with inventory and third party	**405,412**	**484,700**	-16%	
Inventory related costs	262,912	312,181	-16%	
Third party charges	31,618	39,320	-20%	
Other third party charges	110,882	133,199	-17%	
Expenses with taxes and royalties	**617,124**	**745,515**	-17%	
Royalty on gas production	234,625	285,861	-18%	
Windfall	248,545	326,912	-24%	
Asset tax	74,206	74,206	0%	
Other taxes	59,248	58,536	1%	
Personnel costs	638,335	620,293	3%	
Other operating costs	881,263	990,266	-11%	
Total Operating expenses	**2,542,133**	**2,840,773**	-11%	**797,945**
Gross income	**1,238,218**	**1,643,912**	-25%	**610,025**
Tax	236,544	319,981	-26%	120,705
Net income	**1,001,674**	**1,323,931**	-24%	**489,320**
Dividends	**817,914**	**1,043,591**	**-22%**	
CAPEX	1,020,000	1,120,000	-9%	106,440
Overdue receivables	947,800	947,800	0%	

Source: Romgaz, IEBA TRUST

Q1'16 Results

• Q1'16 results were rather disappointing with net profit at RON 489.3m (-13.1% Y/Y), despite total revenues were flat at RON 1.36bn, revenues from gas production was down 5% Y/Y to RON 1.11bn, compesated by 4% Y/Y rise in services revenues (storage at RON 159.7m vs. RON 38.96m in Q1'15) and double Y/Y energy revenues at RON 69m. The drop in gas production revenues came from a 4.36% Y/Y drop in gas consumption domestically, which reflected in 2.5% Y/Y drop in gas deliveries to Romgaz at 1.52bn cm vs, 1.6bn cm in T1'15. Breakdown of volumes sold in Q1'16 - 49.7% were to households and thermal plants that use gas for centralized heating and 50.3% were to industrials (including from UGS). In terms of credit risk, sales were some 90% concentrated to Engie (34%) and E-ON (29%) and Elcen Bucuresti (27%).

	2012A	2013A	2014A	2015A	Q1'15	Q1'16	Y/Y
Revenues - of which	**3,831**	**3,870**	**4,475**	**4,053**	**1,365**	**1,364**	*-0.1%*
Revenues from Gas Production	2,508	2,808	3,553	3,291	1,170	1,113	*-4.9%*
Revenue from Gas Resale	1,053	461	131	19	6	15	*150%*
Revenue from Services	270	394	455	365	156	163	*4%*
Revenue from Energy		207	336	357	30	69	*130%*
Other income	**134**	**54**	**108**	**80**	**13**	**44**	*238%*
Cost of commodities sold	-905	-439	-176	-40	-11	-21	*91%*
Changes in inventory	111	56	28	138	-93	-100	*8%*
Raw materials	-118	-79	-66	-78	-22	-18	*-18%*
Exploration expense	-193	-59	-43	-42	0	0	
Employee benefit expense	-503	-504	-523	-512	-108	-112	*4%*
Other gains and losses	-50	-204	-275	-319	-23	-138	*n/m*
Other expenses	-436	-745	-1,035	-1,041	-276	-292	*6%*
EBITDA	**1,854**	**1,960**	**2,490**	**2,218**	**841**	**723**	*-14%*
EBITDA margin	48%	50%	55%	55%	62%	53%	
D&A	**-606**	**-782**	**-777**	**-794**	**-176**	**-120**	*-32%*
EBIT	**1,248**	**1,177**	**1,713**	**1,425**	**665**	**603**	*-9%*
EBIT margin	33%	30%	38%	35%	49%	44%	
Net interest income	148	123	75	44	14	7	*-50%*
Profit before tax	1,396	1,301	1,788	1,469	679	610	*-10%*
Income tax	-276	-305	-378	-275	-116	-121	*4%*
Net Profit	**1,119**	**996**	**1,410**	**1,194**	**563**	**489**	*-13%*
Net margin	29%	26%	31%	30%	41%	36%	

Source: Romgaz, IEBA TRUST

• Q1'16 EBITDA level carried the negative impact of RON 87.82m impairment of receivables to Elcen Bucuresti, while since 1st of May, Romgaz does not carry any contractual relationship with Elcen, thus risks for additional charges starting Q2'16 remains limited.

Receivables side	**Q1'16**	**Dec'15**	**Chng.**
Receivables	1,465,513	1,438,204	27,309
Customers - invoices to be issued	437,427	19,537	417,890
Provisions for doubtful customers	945,088	856,676	88,412
Receivables and other receivables, net	**957,852**	**601,065**	**356,787**
Q1'16 chng. in provisions for doubtful customers	**Q1'16**	**Dec'15**	**89,384**
Interagro	275,961	273,229	2,732
GHCL Upsom	60,371	60,371	0
CET Iasi	46,271	46,271	0
Electrocentrale Galati	208,739	209,907	-1,168
Electrocentrale Bucuresti	325,914	238,094	87,820
G-ON Eurogaz	14,848	14,848	0
Others	12,984	13,956	
Total provisions for doubtful customers	**945,088**	**856,676**	**88,412**
Expensed	88,227	292,039	

Source: Romgaz, IEBA TRUST

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).

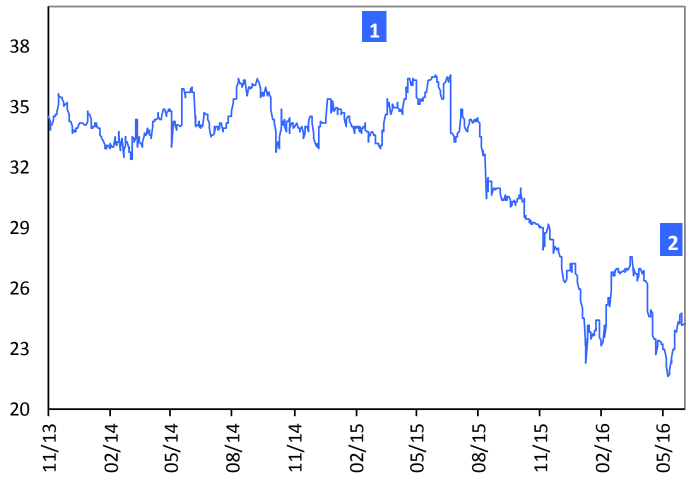
SSIF IEBA TRUST RATINGS	
BUY	The stock is expected to generate potential excess return over 15%
ACCUMULATE	The stock is expected to generate potential excess return of 5 to 15%
HOLD	The stock is expected to generate potential excess return of -5% to 5%
REDUCE	The stock is expected to generate potential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

Romgaz Medias

Ratings and target price history



#	Date	Rating	Target price (in RON)
1	16/07/2015	BUY	39.47
2	15/06/2016	BUY	28.14

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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c) has received compensation for financial investment services from the company within the last 12 months;
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