# Romgaz Medias

Equity | Romania | Oil&Gas

IEBATRUST Financial & Investment Services

## Company Update

**BUY**
**previous: BUY**

| | |
|---|---|
| **TARGET PRICE 12M (RON)** | 33.00 |
| **Previous Target price** | 28.14 |
| **SHARE PRICE (RON)** | 28.70 |

| **Performance** | **1M** | **6M** | **12M** | **YTD** |
|---|---|---|---|---|
| Absolute (%) | 2.5% | 19.58% | 6.89% | 14.8% |
| Relative to BET (%) | 0.28% | 4.22% | 9.85% | 2.32% |
| RIC | | | | RO SNG.BX |
| Bloomberg | | | | SNG RO |
| Index listed | | | | BET, BET-XT, BET-NG |
| Market Cap (RON m) | | | | 11,061.63 |
| Market Cap (EUR m) | | | | 2,422.93 |
| Shares Out (m) | | | | 385.42 |
| 52 Week Range (RON) | | | | 21.5 / 29 |
| % from 52 Week range | | | | 33.5% / -1% |
| Avg. daily volume 6M (shares) | | | | 124,888 |

| **Shareholders (%)** | |
|---|---|
| Ministry of Economy | 70.00% |
| Free float | 29.99% |

| **(IFRS)** | **15A** | **16A** | **17E** | **18E** |
|---|---|---|---|---|
| P/E(x) adj. | 11.1 | 10.8 | 10.3 | 10.9 |
| EPS adj. ch. (%) | -15% | -14% | 21% | -6% |
| EV/EBITDA(x) | 5.1 | 5.9 | 5.5 | 5.3 |
| Net debt/EBITDA | -0.9 | -1.2 | -1.3 | -1.5 |
| P/BV(x) | 1.4 | 1.1 | 1.3 | 1.3 |
| ROE(%) | 12.4% | 10.7% | 12.9% | 12.3% |
| ROIC(%) | 11.8% | 9.5% | 11.4% | 10.8% |
| P/S (x) | 3.3 | 2.9 | 3.8 | 3.7 |
| Div. Yield (%) | 7.9% | 9.7% | 8.8% | 8.2% |

| **RON m** | | | | |
|---|---|---|---|---|
| Revenues | 4,629 | 4,053 | 3,794 | 3,371 |
| EBITDA | 1,710 | 2,218 | 1,570 | 1,842 |
| Net income | 1,410 | 1,194 | 1,025 | 1,236 |
| EPS | 3.66 | 3.10 | 2.66 | 3.21 |
| EPS adj. | 25.15 | 24.72 | 25.11 | 24.60 |
| BVPS | 3.15 | 2.70 | 2.78 | 2.89 |
| DPS | 7.20 | 5.74 | 2.75 | 5.58 |
| FCF equity | 4,629 | 4,053 | 3,794 | 3,371 |

**20 March 2017**

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## BRUA gas pipeline shapes better upstream volumes of RO gas in Europe - organic growth generation via improvement in volumes/pricing mix from 2020 onwards, is expected to lift cash-flows significantly. Yet, adjustments to planning model seem too early to produce effects.

- **2016 (E) DIVY is around 10%, supported by good operating cash-flow, as Q4'16 operational evolution managed to offset downside risks.** We update our TP on Romgaz with a new TP at RON 33/share with a BUY rating, on the back of better than expected evolution of deliveries in Q4'16 and better than expected financials, which mostly implied that our downside view upon volumes and pricing, did not materialize. Earnings margins remained supportive, receivables issue lagged behind, while the picture that starts to shape ahead seems very encouraging. This is mainly triggered by the recent approval by local officials of the BRUA gas interconector, and although at the moment it is very early to incorporate in the planning model some volumes and top line impact, organic growth is main contributor to DIVY generation which we estimate to remain in a range of 8%-10% for the next 3Y. BRUA gas interconnector is a major infrastructure milestone for OMV Petrom to be able to bring on-shore the gas from the Black Sea and for Romgaz too. The new gas interconnector will have a total length of 500 km, and will have an annual capacity of 1.5bn cm with Bulgaria and 4.4bn cm/annually with Hungary, for a cost of EUR 560m. Transgaz already signed the agreement to access the EUR 179m grant (cashed-in around EUR 25m as per 9M auditor notes) for the construction of the interconnector on the Romanian territory. Cost is EUR 560m, thus the grant from the EU stands for only 31%.
- Romgaz will continue with some cash stockpile incorporated in financials, contributing to some TP weakness due to valuation metrics, in the sense that some debt assumption at bottom interest rates would benefit more upside potential. We think that cash increased leverage could be achieved via faster materialization of current pipeline of upstream projects - relevant for the upstream activity are the last two years discoveries on upstream side and the new exploration programmes as agreed with the National Agency for Mineral Resources. However, as long as there is no export possibility from a technical point of view, the two gas producers, Romgaz and OMV Petrom do not need to produce more gas than currently, as both the existing UGS facilities and domestic consumption volumes on an annual basis, represent a significant cap for any increase in reported upstream volumes.
- **Valuation metrics.** We used a blend between a DCF and DDM exercise in order to incorporate the capex necessary for development of its mature fields, either redevelopment and/or acquisitions, which is actually the return on its cash overload since alternative satisfactory yields investments are lacking in the current environment. Despite a marginal upside impact on the top line, we included on valuation a quite heavy, but sustainable capex for the following years at around RON 0.6bn annual average due to fields mature nature and upstream targets mentioned by Romgaz, although no specific figure was mentioned yet for 2017. Average WACC or cost of equity, since the company is debt free, stands at 9% and a perpetuity growth of 1%. EBITDA margins on average at 55% going forward, 6.3x EV/EBITDA (17E) (at target price). B/S cash-to-mkt cap stands around 30%.
- **2017 gas pricing evolution could be a slender topic, but on the longer term, the trend is positive.** 1st of April will charge an additional 5-6% for the gas price to the domestic producers – market watchdog official comments in the media started running, which means that since 1st of April, the Government cannot regulate the gas price for domestic producers, while the distribution and supply tariffs as well as storage will remain established by the state. This is our current scenario incorporated in the planning model, but media also voiced some intense dispute on the issue, and until further notice, we chose to remain under current scenario. Some more technical issues were brought under discussion related to a more flexible gas trading platform that needs to be secured and some more legislation to support trading should be implemented. A 5-6% increase from current RON 60/MWh will mean some RON 64/MWh price for domestic producers, which means some EUR 14/MWh, which is only EUR 3/MWh below import price which stands around EUR 17/MWh, on average for the next three quarters according to the data provided by CEGH Quarterly Futures. All in all, we think that, at least for the upcoming two summer quarters, the impact will be marginal on financials due to seasonal low volumes, while the crude oil price needs room to climb, on the longer term, above a more sustainable USD 55 /bbl to produce larger cash-flow effects.

# Financials & Valuation (Summary)

**Financial Statements**

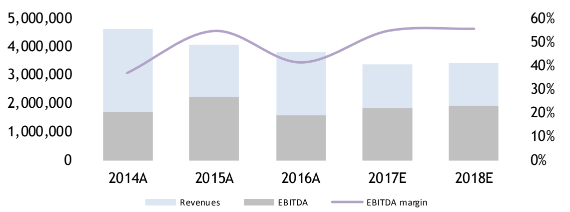
| **Profit & Loss (RON th)** | **2014A** | **2015A** | **2016A** | **2017E** | **2018E** |
|---|---|---|---|---|---|
| Revenues | 4,628,604 | 4,052,694 | 3,793,980 | 3,371,116 | 3,391,220 |
| EBITDA | 1,709,636 | 2,218,034 | 1,569,670 | 1,841,569 | 1,888,214 |
| EBIT | 932,797 | 1,424,436 | 1,258,658 | 1,482,584 | 1,388,558 |
| Net financials | 78,693 | 44,117 | 22,102 | 37,478 | 39,631 |
| EBT | 1,788,329 | 1,468,553 | 1,280,760 | 1,520,062 | 1,428,189 |
| Net income | 1,409,881 | 1,194,000 | 1,024,919 | 1,235,879 | 1,161,182 |
| IEBA net income | 1,409,881 | 1,194,000 | 1,024,919 | 1,235,879 | 1,161,182 |
| Dividend | 1,214,081 | 1,040,640 | 1,072,427 | 1,112,291 | 1,045,064 |
| | | | | | |
| **Cash flow IEBA TRUST (RON th)** | | | | | |
| Net Cash flow from operations | 1,943,481 | 1,713,959 | 1,557,386 | 1,621,207 | 1,657,092 |
| Capex | -831,995 | -497,700 | 497,700 | -527,811 | -533,089 |
| FCFF | 2,775,476 | 2,211,659 | 1,059,686 | 2,149,018 | 2,190,181 |
| | | | | | |
| 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 | 6,104,120 | 6,186,174 | 5,587,483 | 5,336,450 |
| Current investments | 100,743 | 100,743 | 70,978 | 100,743 | 100,743 |
| Current assets | 1,300,461 | 1,532,270 | 1,545,982 | 1,424,433 | 1,438,458 |
| Cash & others | 2,887,183 | 2,947,567 | 3,173,437 | 3,777,596 | 4,042,884 |
| Total Assets | 10,684,702 | 10,684,700 | 10,976,571 | 10,890,255 | 10,918,535 |
| | | | | | |
| Current liabilities | 597,296 | 856,406 | 945,913 | 796,959 | 804,806 |
| Total debt | 0 | 992,480 | 1,300,070 | 1,300,070 | 1,300,070 |
| Net debt | -2,887,183 | -1,955,087 | -1,873,367 | -2,477,526 | -2,742,814 |
| Shareholders capital | 385,422 | 385,422 | 385,422 | 385,422 | 385,422 |
| Other reserves | 9,306,800 | 9,142,804 | 9,291,079 | 9,094,907 | 9,055,997 |
| Total Equity | 9,692,222 | 9,528,226 | 9,676,501 | 9,480,329 | 9,441,419 |
| Minorities | 0 | 0 | 0 | 0 | 0 |
| | | | | | |
| EV | 9,746,963 | 11,268,755 | 9,188,256 | 10,200,847 | 9,935,559 |
| Market Cap | 12,634,146 | 13,223,843 | 11,061,623 | 12,678,373 | 12,678,373 |
| | | | | | |
| 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** | **2015A** | **2016A** | **2017E** | **2018E** |
| EPS | 3.66 | 3.10 | 2.66 | 3.21 | 3.01 |
| IEBA EPS | 3.66 | 3.10 | 2.66 | 3.21 | 3.01 |
| DPS | 3.15 | 2.70 | 2.78 | 2.89 | 2.71 |
| BVPS | 25.15 | 24.72 | 25.11 | 24.60 | 24.50 |
| FCFPS | 7.20 | 5.74 | 2.75 | 5.58 | 5.68 |
| | | | | | |
| **Growth rates & margins** | | | | | |
| Revenues | 18.9% | -12.4% | -6.4% | -11.1% | 0.6% |
| EBITDA | -12.7% | 29.7% | -29.2% | 17.3% | 2.5% |
| EBIT | -20.7% | 52.7% | -11.6% | -17.8% | 6.3% |
| EBT | 37.5% | -17.9% | -12.8% | -69.6% | -5.7% |
| Net Income | 41.6% | -15.3% | -14.2% | -18.7% | 6.0% |
| IEBA net Income | 41.6% | -15.3% | -14.2% | -20.6% | 6.0% |
| Dividend | -7.2% | -14.3% | 3.1% | 3.7% | -6.0% |
| | | | | | |
| EPS | 41.6% | -15.3% | -14.2% | 20.6% | -6.0% |
| IEBA EPS | 41.6% | -15.3% | -14.2% | 20.6% | -6.0% |
| DPS | -7.2% | -14.3% | 3.1% | 3.7% | -6.0% |
| | | | | | |
| EBITDA margin | 36.9% | 54.7% | 41.4% | 54.6% | 55.7% |
| EBIT margin | 20.2% | 35.1% | 33.2% | 44.0% | 40.9% |
| Net margin | 30.5% | 29.5% | 27.0% | 36.7% | 34.2% |
| IEBA net margin | 30.5% | 29.5% | 27.0% | 36.7% | 34.2% |

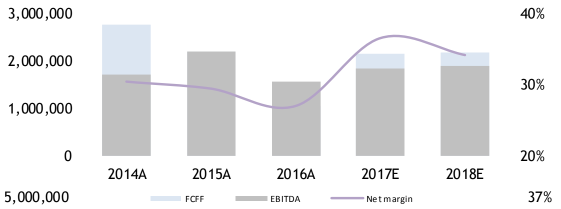
**Key items**

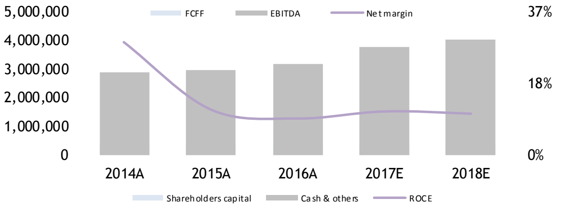
| **Ratios and multiples** | **2014A** | **2015A** | **2016A** | **2017E** | **2018E** |
|---|---|---|---|---|---|
| P/E(x) | 8.96 | 11.08 | 10.79 | 10.26 | 10.92 |
| P/E(x) IEBA | 8.96 | 11.08 | 10.79 | 10.26 | 10.92 |
| P/E(x) IEBA at 52wks High | 9.94 | 11.80 | 11.00 | 9.12 | 9.71 |
| P/BV(x) | 1.30 | 1.39 | 1.14 | 1.34 | 1.34 |
| ROE | 29.0% | 12.4% | 10.7% | 12.9% | 12.3% |
| IEBA ROE | 29.0% | 12.4% | 10.7% | 12.9% | 12.3% |
| ROCE | 29.0% | 11.8% | 9.5% | 11.4% | 10.8% |
| IEBA ROCE | 29.0% | 11.8% | 9.5% | 11.4% | 10.8% |
| | | | | | |
| EV/EBITDA(x) | 5.70 | 5.08 | 5.85 | 5.54 | 5.26 |
| EV/EBITDA (x) at 52wks High | 5.70 | 5.08 | 5.07 | 4.78 | 4.52 |
| Net debt/EBITDA (x) | -1.69 | -0.88 | -1.19 | -1.35 | -1.45 |
| | | | | | |
| EV/CE(x) | 1.01 | 1.07 | 0.84 | 0.95 | 0.92 |
| | | | | | |
| P/S (x) | 2.73 | 3.26 | 2.92 | 3.76 | 3.74 |
| P/FCFPS (x) | 4.55 | 5.98 | 10.44 | 5.90 | 5.79 |
| FCF Yield | 22.0% | 16.7% | 9.6% | 17.0% | 17.3% |
| Dividend Yield | 10% | 8% | 10% | 9% | 8% |
| | | | | | |
| Dividend payout | 86.1% | 87.2% | 104.6% | 90.0% | 90.0% |
| Net debt/Equity | -29.8% | -20.5% | -19.4% | -26.1% | -29.1% |
| T.debt/(T.debt + Equity) | 0.0% | 9.4% | 11.8% | 12.1% | 12.1% |

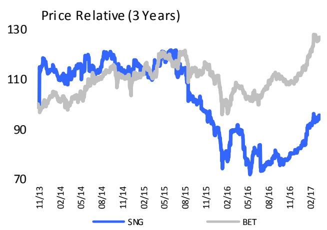
**Stock's information**

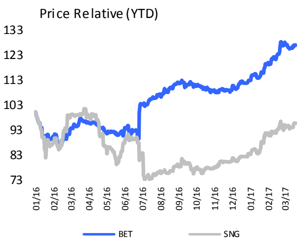
| | | | |
|---|---|---|---|
| Share price (RON) | 28.70 | Target price (RON) | 33 |
| 52 weeks High price (RON) | 29.00 | Mkt Cap (RON th) | 11,061,623 |
| 52 weeks Low price (RON) | 21.50 | EV (RON m) 17E | 15,106 |
| Country | Romania | Reuters | RO SNG.BX |
| Sector | Energy | Bloomberg | SNG RO |




*Source: SSIF IEBA Trust*

**We expect Romgaz to continue generating organic growth via improvement in product/pricing mix from 2020 onwards – BRUA project should unbundle gas market perspectives**

We continue to position the stock as a dividend play, since its long dividend paying history is underpinned by strong recurring cash-flow and stable financial position and structure. 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, and we expect this no remain constant in the future. 2016 (E) DIVY is around 10%, supported by good operating cash-flow, as Q4'16 operational evolution managed to offset downside risks. We update our TP on Romgaz with a new TP at RON 33/share with a BUY rating, on the back of better than expected evolution of deliveries in Q4'16 and better than expected financials, which mostly implied that our quite on the downside view upon volumes and pricing, did not materialize. Earnings margins remained supportive, receivables issue lagged behind, while the picture that starts to shape ahead seems very encouraging. This is mainly triggered by the recent approval by officials of the BRUA gas interconector, and although at the moment is very early to incorporate in the planning model some volumes and top line impact, organic growth is main contributor to DIVY generation which we estimate to remain in a range of 8%-10% for the next 3Y. BRUA gas interconnector is a major infrastructure milestone for OMV Petrom to be able to bring on-shore the gas from the Black Sea and for Romgaz both. The new gas interconnector will have a total length of 500 km, and will have an annual capacity of 1.5bn cm with Bulgaria and 4.4bn cm/annual with Hungary, for a cost of EUR 560m. Transgaz already signed the agreement to access the EUR 179m grant for the construction of the interconnector on the Romanian territory. Cost is EUR 560m, thus the grant from the EU stands for only 31%.

Romgaz will continue with some cash stockpile incorporated in financials, contributing to some TP weakness due to valuation metrics, in the sense that some debt assumption at bottom interest rates would benefit more upside potential. We think that cash increased leverage could be achieved via faster materialization of current pipeline of upstream projects - relevant for the upstream activity are the last two years discoveries on upstream side and the new exploration programmes as agreed with the National Agency for Mineral Resources. However, as long as there is no export possibility from a technical point of view, the two gas producers, Romgaz and OMV Petrom do not need to produce more gas than currently, as both the existing UGS facilities and domestic consumption volumes on an annual basis, represent a significant cap for any increase in reported upstream volumes.

**Dividend yields:** We estimate average dividend yield to remain around 9% 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.

**2017 gas pricing evolution could be a slender topic, but on the longer term, the trend is positive.** 1st of April will charge an additional 5-6% for the gas price to the domestic producers – market watchdog official comments in the media started running, which means that since 1st of April, the Government cannot regulate the gas price for domestic producers, while the distribution and supply tariffs as well as storage will remain established by the state. This is our current scenario incorporated in the planning model, but media also voiced some intense dispute on the issue, and until further notice, we chose to remain under current scenario. Some more technical issues were brought under discussion related to a more flexible gas trading platform that needs to be secured and some more legislation to support trading should be implemented. A 5-6% increase from current RON 60/MWh will mean some RON 64/MWh price for domestic producers, which means some EUR 14/MWh, which is only EUR 3/MWh below import price which stands around EUR 17/MWh, on average for the next three quarters according to the data provided by CEGH Quarterly Futures. All in all, we think that, at least for the upcoming two summer quarters, the impact will be marginal on financials due to seasonal low volumes, while the crude oil price needs room to climb, on the longer term, above a more sustainable USD 55 /bbl to produce larger cash-flow effects.

**VALUATION - Rating remains clearly a BUY - TP increased to RON 33/share due to improvement in metrics incorporated – valuation remains sensitive to volumes and pricing ahead. Excluding short term fluctuations in both variables, trend should remain positive on the longer term**

We value Romgaz by making use of a blend valuation between a DCF and DDM exercise, equally weighted, 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 33/share (15% upside potential to current price levels) and BUY rating. The stock currently trades at lower EV/EBITDA (17E) of 6.3x (at target price) vs. peers, despite increase in TP and estimates, or some significant discount to selected peers universe. 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 positives on the relative side are the better operating margins and higher dividend yields, which suggest by far that Romgaz should trade at much higher multiples.

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 39/share. We rolled set of forecasts by one year, and we assume over 10-year forecasted model FY'(17-28E) with flat revenues CAGR over forecasting horizon, reflecting EBITDA margin still at elevated levels, but incorporating a stabilized pattern on production and relatively flat gas prices onwards. At the moment, we see the business model stable, with some more catalysts needed for better cash-flow leverage, like an operational BRUA project, a more sustainable increase in gas prices, revival of the industrial segment on consumption side, and overall, more production flowing to consumption, locally and/or abroad, lowering UGS segment weight in revenues, excluding the seasonal quarters.

Our average WACC stands at 9% and a perpetuity growth of 1%. Average CAPEX for the forecasting horizon estimated at an average of RON 550m, with FY'17E estimated at RON 520m, below management estimates for 2016 of RON 1.12bn. We think that, in lack of better volumes and pricing, valuation gets eroded by future increases in WACC due to expected hike in risk free rates, while the cash pile held in B/S is not of much help, either, meaning that debt use would add more on valuation side.

| VALUATION - Discounted stream of cash-flows | 2016A | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | 3,851,376 | 3,516,164 | 3,538,421 | 3,574,596 | 3,579,155 | 3,580,695 | 3,584,099 | 3,586,526 | 3,589,026 | 3,590,419 | 3,593,206 | 3,596,193 | 3,599,449 |
| EBITDA | 1,569,678 | 1,841,569 | 1,888,214 | 1,913,140 | 1,916,568 | 1,914,854 | 1,915,711 | 1,915,283 | 2,159,761 | 2,159,654 | 2,159,708 | 2,159,681 | 2,159,694 |
| Depreciation | 311,012 | 358,985 | 499,655 | 585,982 | 610,091 | 634,441 | 659,035 | 683,874 | 708,962 | 734,301 | 759,893 | 785,741 | 811,848 |
| EBIT | 1,258,666 | 1,482,584 | 1,388,558 | 1,327,158 | 1,306,477 | 1,280,413 | 1,256,676 | 1,231,408 | 1,450,799 | 1,425,353 | 1,399,815 | 1,373,940 | 1,347,847 |
| EBIT margin (%) | 33% | 42% | 39% | 37% | 37% | 36% | 35% | 34% | 40% | 40% | 39% | 38% | 37% |
| Corporate Tax (effective) | 255,841 | 284,252 | 267,071 | 256,110 | 252,742 | 248,333 | 244,442 | 240,216 | 281,687 | 277,200 | 272,940 | 268,663 | 264,391 |
| Tax rate (%) | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% | 18.7% |
| **Wcap** | 835,798 | 771,551 | 776,153 | 783,794 | 784,227 | 784,010 | 784,119 | 784,065 | 784,092 | 784,078 | 784,085 | 784,081 | 784,083 |
| *WCap/Sales* | *16.81%* | *16.65%* | *16.66%* | *16.68%* | *16.68%* | *16.68%* | *16.68%* | *16.68%* | *16.68%* | *16.68%* | *16.68%* | *16.68%* | *16.68%* |
| Change in Wcap | 118,137 | -9,250 | -14,393 | -6,178 | -909 | 138 | -227 | 34 | -100,205 | 9 | -14 | 2 | -4 |
| Operating Cash Flows | 1,431,974 | 1,548,067 | 1,606,749 | 1,650,852 | 1,662,916 | 1,666,659 | 1,671,041 | 1,675,102 | 1,777,869 | 1,882,463 | 1,886,754 | 1,891,020 | 1,895,300 |
| CAPEX | 497,700 | 522,585 | 527,811 | 533,089 | 538,420 | 543,804 | 549,242 | 554,735 | 560,282 | 565,885 | 571,544 | 577,259 | 583,032 |
| *% in revenues* | *13%* | *15%* | *15%* | *15%* | *15%* | *15%* | *15%* | *15%* | *16%* | *16%* | *16%* | *16%* | *16%* |
| *% in EBITDA* | *32%* | *28%* | *28%* | *28%* | *28%* | *28%* | *29%* | *29%* | *26%* | *26%* | *26%* | *27%* | *27%* |
| Net profit | 1,024,927 | 1,235,879 | 1,161,182 | 1,113,526 | 1,098,883 | 1,079,712 | 1,062,796 | 1,044,418 | 1,224,728 | 1,205,221 | 1,186,698 | 1,168,101 | 1,149,528 |
| Dividends | 1,072,434 | 1,112,291 | 1,045,064 | 1,002,173 | 988,994 | 971,740 | 956,516 | 939,976 | 1,102,256 | 1,084,699 | 1,068,028 | 1,051,291 | 1,034,575 |
| Pay-out | 105% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% | 90% |
| DPS | 2.78 | 2.89 | 2.71 | 2.60 | 2.57 | 2.52 | 2.48 | 2.44 | 2.86 | 2.81 | 2.77 | 2.73 | 2.68 |
| *% growth rate in DPS* | | *4%* | *-6%* | *-4%* | *-1%* | *-2%* | *-2%* | *-2%* | *17%* | *-2%* | *-2%* | *-2%* | *-2%* |
| FCFs | 934,274 | 1,025,482 | 1,078,938 | 1,117,763 | 1,124,497 | 1,122,855 | 1,121,799 | 1,120,367 | 1,217,587 | 1,316,578 | 1,315,210 | 1,313,761 | 1,312,268 |
| *% growth rate in FCFs* | | *10%* | *5%* | *4%* | *1%* | *0%* | *0%* | *0%* | *9%* | *8%* | *0%* | *0%* | *0%* |
| **DCFs** | **856,269** | **857,461** | **823,063** | **777,923** | **713,995** | **650,446** | **592,861** | **540,193** | **535,598** | **528,367** | **481,542** | **438,840** | **399,910** |
| *% growth rate in DCFs* | | *0%* | *-4%* | *-5%* | *-8%* | *-9%* | *-9%* | *-9%* | *-1%* | *-1%* | *-9%* | *-9%* | *-9%* |
| **DDMs** | **982,894** | **930,047** | **797,223** | **697,477** | **627,959** | **562,909** | **505,511** | **453,216** | **484,865** | **435,309** | **391,041** | **351,166** | **315,284** |
| *% growth rate in DDMs* | | *-5%* | *-14%* | *-13%* | *-10%* | *-10%* | *-10%* | *-10%* | *7%* | *-10%* | *-10%* | *-10%* | *-10%* |
| | | | | | | | | | | | | | |
| **Multiples@TP** | | | | | | | | | | | | | |
| P/E | 12.37 | 10.26 | 10.92 | 11.39 | 11.54 | 11.74 | 11.93 | 12.14 | 10.35 | 10.52 | 10.68 | 10.85 | 11.03 |
| P/BV | 1.33 | 1.33 | 1.34 | 1.34 | 1.35 | 1.35 | 1.35 | 1.36 | 1.36 | 1.36 | 1.36 | 1.37 | 1.37 |
| EV/EBITDA | 7.40 | 6.31 | 6.15 | 6.07 | 6.06 | 6.07 | 6.07 | 6.07 | 5.38 | 5.38 | 5.38 | 5.38 | 5.38 |
| DIVY@mkt price | 9.7% | 10.1% | 9.4% | 9.1% | 8.9% | 8.8% | 8.6% | 8.5% | 10.0% | 9.8% | 9.7% | 9.5% | 9.4% |
| DIVY@target price | 8.5% | 8.8% | 8.2% | 7.9% | 7.8% | 7.7% | 7.5% | 7.4% | 8.7% | 8.6% | 8.4% | 8.3% | 8.2% |

| DCF assumptions | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Long Term Free Risk Rate | 4.0% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% | 4.5% |
| Estimated Beta | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 | 0.85 |
| Equity Risk Premium | 6.0% | 6.0% | 6.0% | 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%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** |
| Cost of Borrowing (2017E) | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| Target Capital Gearing | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| ***Discount rate (WACC)*** | **9.1%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** | **9.6%** |
| Average growth to perpetuity | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |

| | DCF | DDM |
|---|---|---|
| Present value of FCFs (17E-19E) | 3,314,716 | 2,424,746 |
| Present value of FCFs 2nd stage (20E-28E) | 4,881,753 | 4,127,260 |
| TV | 15,393,858 | 12,136,316 |
| PV of TV | 4,691,238 | 3,698,511 |
| **Total FCFs** | 12,887,707 | 10,250,517 |
| (+) book value of investments (-) minorities (17E) | 100,743 | |
| **EV** | **12,988,450** | |
| (-) net debt (17E) | -3,472,597 | |
| (-) other adjustments | 282,385 | |
| (-) dividends to be paid | -1,072,434 | |
| **Shareholder's value:** | **15,106,229** | **10,250,517** |
| **Shareholder's value/share:** | **39** | **27** |
| *Upside/downside (%)* | *36.6%* | *-7.3%* |
| **Blended value (50% DCF/50% DDM)** | **33** | |
| Upside/downside (%) | *14.6%* | |

*Source: SSIF IEBA TRUST*

| | DPS YoY ch. % | FY16'E DPS +/- 10% variation band -20.0% | -10% | -11.4% | 10% | 20.0% |
|---|---|---|---|---|---|---|
| ch% from current price | Price | 1.91 | 2.15 | **2.39** | 2.63 | 2.87 |
| -20% | 22.96 | 8.34% | 9.38% | 10.42% | 11.47% | 12.51% |
| -10% | 25.83 | 7.41% | 8.34% | 9.27% | 10.19% | 11.12% |
| **0%** | **28.70** | 6.67% | 7.51% | 8.34% | 9.17% | 10.01% |
| 10% | 31.57 | 6.06% | 6.82% | 7.58% | 8.34% | 9.10% |
| 20% | 34.44 | 5.56% | 6.25% | 6.95% | 7.64% | 8.34% |

*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 influence 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

**Forecasts side: New vs. Old – 2017 broad picture in terms of production and pricing; gas supply&sales**

Our estimates did not change that much from previous ones – We changed our mind with respect to production side due to Q4'16 better than estimated volumes sold, and higher profitability than expected. 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 and current projects, like upstream and/or improvement in efficiency of the power plant can be financed internally. 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 0.5bn on average). Starting FY'17 we have excluded from computations the asset tax, but we kept the windfall tax, in order to account for some unexpected provisions on royalties' side, should it be the case. Annual cash consumption is around RON 230-300m, and we think government would like to keep these budget revenues stream, although currently the official status is windfall tax is to be maintained by end - 2017. 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.

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, due to major slump recently.

**Pricing:** We have considered that Romgaz would sell 50% to households and 50% to households. The outcome is depicted below. In more detail, for households' gas price we used the figures from the new gas price deregulation calendar until April 2017, while for the industrials side we used spot and forward quotations available on CEGH OTC market – main platform for gas trading in Central Europe. Tables below depict some oldest and latest version of the gas price deregulation calendar. Should the market for households be considered deregulated after April 2017, the gas price for households should follow the trend in import gas prices or at least those on international markets, aligning gradually to those for industrials, if not suddenly, and perhaps more abrupt, following an upward move.

**Table. Old 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, SSIF IEBA TRUST*

**Table. New version of gas price deregulation calendar and comparison with old one**

| Date | Q1'16 | 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 | Q1'20 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Old gas calendar, RON/MWh | 60 | 60 | 66 | 66 | 66 | 72 | 72 | 72 | 72 | 78 | 78 | 78 | 78 | 84 | 84 | 84 | 84 |
| New gas calendar, RON/MWh | 60 | 60 | 60 | 60 | 60 | 66 | 66 | 66 | 72 | 72 | 72 | 72 | 78 | 78 | 78 | 78 | 84 |
| *% chng. new vs. old* | *0%* | *0%* | *-9%* | *-9%* | *-9%* | *-8%* | *-8%* | *-8%* | *0%* | *-8%* | *-8%* | *-8%* | *0%* | *-7%* | *-7%* | *-7%* | *0%* |

*Source: ANRE, SSIF IEBA TRUST*

**2017 gas pricing evolution could be a slender topic, but on the longer term, the trend is positive.** 1st of April will charge an additional 5-6% for the gas price to the domestic producers – market watchdog official comments in the media started running, which means that since 1st of April, the Government cannot regulate the gas price for domestic producers, while the distribution and supply tariffs as well as storage will remain established by the state. This is our current scenario incorporated in the planning model, but media also voiced some intense dispute on the issue, and until further notice, we chose to remain under current scenario. Some more technical issues were brought under discussion related to a more flexible gas trading platform that needs to be secured and some more legislation to support trading should be implemented. A 5-6% increase from current RON 60/MWh will mean some RON 64/MWh price for domestic producers, which means some EUR 14/MWh, which is only EUR 3/MWh below import price which stands around EUR 17/MWh, on average for the next three quarters according to the data provided by CEGH Quarterly Futures. All in all, we think that, at least for the upcoming two summer quarters, the impact will be marginal on financials due to seasonal low volumes, while the crude oil price needs room to climb, on the longer term, above a more sustainable USD 55 /bbl to produce larger cash-flow effects.

**Upstream segment projects update:**

On the agenda for 2017, Romgaz set some strategic goals, which include:

- Maintaining the gas production decline below 1.5%/year
- Investments to stay at RON 1bn, mainly in exploration and production
- Modernization and increase in the efficiency of the UGS facilities

From 2017 onwards, Romgaz expects the opening of the export gas market, which is expected to enlarge client portfolio and expand revenues, despite management will keep a prudent investment policy for projects abroad – investing only in those minority participations which allow for minimizing the operation risk and to avoid the use of cash reserves.

The capex estimated by Romgaz is mainly focused on exploration, but at the same time, some stronger position on the electricity market is expected to be build – on the longer run, Iernut power plant is expected to deliver better cash flow following refurbishment which is expected to start this year, which should also position the company on a better position on the electricity market. Efficiency in UGS is expected to be increased also for the future.

Although no specific guidance for amounts to be spent is provided, some major milestones to overcome are mentioned in Q4'16 presentation, with a particular emphasis on the usptream segment, which provides almost 80% of company revenues.

Romgaz sees as a strategic goal the increase in gas resources and reserves portfolio through the discovery of new resources and improvement of the IRR, and has set some pillars and specific breakdown for approaching each topic, which are detailed below.

Four pillars and actions to support development were mentioned for Upstream segment as to achieve the main strategic goals:

**Enhanced recovery and development of already discovered resources**
- Extend the life of and the amounts recoverable from existing fields
- Appraisal of substantial contingent resource base and subsequent conversion into reserves
- Continue cooperation with Schlumberger and other partners

**Discovery of new resources in established geological plays implies**
- Further exploration program (existing and new licenses)
- Acquire additional blocks for exploration and development of conventional onshore gas resources

**Frontier Reservoirs**
- Further development of on-shore sub-salt reservoirs
- Exploration of unconventional potential in Romania
- Increasing focus on deep water reservoirs (Black Sea)

**Potential international opportunities**
- No specific areas in Europe where interest could be available or if minority and/or majority stakes will be acquired, or if some JV partnerships will be more profitable

Relevant for the upstream activity are the last two years discoveries on upstream side and the new exploration programmes as agreed with the National Agency for Mineral Resources, which, put althoghether, reveal that as long as there is no export possibility from a technical point of view, the two gas producers, Romgaz and OMV Petrom do not need to produce more gas than currently, as both the existing UGS facilities and consumption volumes on an annual basis, represent a significant cap for their reported volumes.

- The drilling of the exploratory well Lira 1X in the Black Sea was completed, leading to the discovery of an important gas field of up to 30 bcm of natural gas. – October 2015

- A hydrocarbon discovery is announced (in NE part of the Moesian Platform in Caragele structure). The contingent resource is estimated to range between 25 –27 bcm – June 30, 2016
- Gov't approved the company's new exploration programme (2016-2021) for 8 blocks, as agreed with the National Agency for Mineral Resources – October, 2016

- **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 Gheraeşti - 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.

Recent news from the Ministry of Energy are related to BRUA (Bulgaria – Romania – Hungary – Austria) gas interconnector – at the end of 2017, preparatory works will start and expectations are for 2020 for the pipeline to be functional. This gas interconnector is a major infrastructure milestone for OMV Petrom to be able to bring on-shore the gas from the Black Sea. The new gas interconnector will have a total length of 500 km, and will have an annual capacity of 1.5bn cm with Bulgaria and 4.4bn cm/annual with Hungary, for a cost of EUR 560m. Transgaz already signed the agreement to access the EUR 179m grant for the construction of the interconnector on the Romanian territory. Cost is EUR 560m, thus the grant from the EU stands for only 31%. The difference will be financed by Transgaz either via own sources or through additional borrowing. An additional pipeline coming from the Black Sea to Podisor (Marea Neagra-Podisor pipeline) will generate costs of EUR 278.3m. The gas reserves discovered in the Black Sea with importance for Romania are the joint ventures run by Lukoil/Romgaz and Petrom/Exxon Mobil for some 30bm cm and 42-84bn cm for the latter.

Romania consumes an annual 10-11bn cm, of which almost equally produced by Romgaz and OMV Petrom. Romania ranks fifth in Europe based on annual production of gas (10.9bn cm), Norway has an annual production of 115bn cm, followed by Holland with 64bn cm, UK with 41 bn cm and Ukraine with a much smaller production at 18.6bn cm, but almost double compared to Romania. Should production from the Black Sea start, Romania could double its annual production. Also, Romgaz will need to build some additional UGS facilities within the area, but both production of OMV Petrom, depend first on the infrastructure in the area. Two years seem a good timetable for the construction of the pipeline but without its being functional, neither Romgaz and/or OMV Petrom we view as front running Trangaz with some extra Upstream capex. OMV Petrom has no reasons to start production due to lack of infrastructure while Romgaz does not need any extra UGS for the moment in lack of production, so the key for this Black Sea gas to be put on stream is mostly in the hands of Transgaz.

The additional pipeline Marea Neagra-Podisor, should connect the shore with BRUA, and construction will be completed in parallel with BRUA, otherwise, there is no connection to the Black Sea.


*Source: Transgaz*

BRUA project will reduce dependence on Russian gas, in the context of materialization of new projects aimed at diversification of gas transportation routes from the Caspian region to Europe Central, and new sources of natural gas in offshore perimeters in the Black Sea. This new gas transport corridor will ensure exploitation of natural gas volumes related to these sources Romanian and European market and the possibility of permanent physical bidirectional flow interconnections with Bulgaria and Hungary.

### Bulgaria started building the interconnector with Greece

In December 2016, Sofia and Athens signed the agreement to build a pipeline that will connect the natural gas networks of the two countries, a gas interconnector that will allow Bulgaria to diversify gas supply and Greece, to connect to the rest of the European network.

The pipeline will become operational in 2018 and has an estimated cost EUR 220m, out of which, the European Union will provide a grant of EUR 45m.

**Romania could receive gas from Azerbaijan** via the interconnector between Bulgaria and Romania so we can buy gas from Azerbaijan, which is developed by national operators in the two states, Transgaz and Bulgartansgaz. The project has an estimated value of EUR 24m, of which EUR 9m are secured by the European Commission. Bulgartansgaz will contribute some EUR 14m while Transgaz is expected to participate with an additional EUR 10m.

### Current pipeline of upstream projects

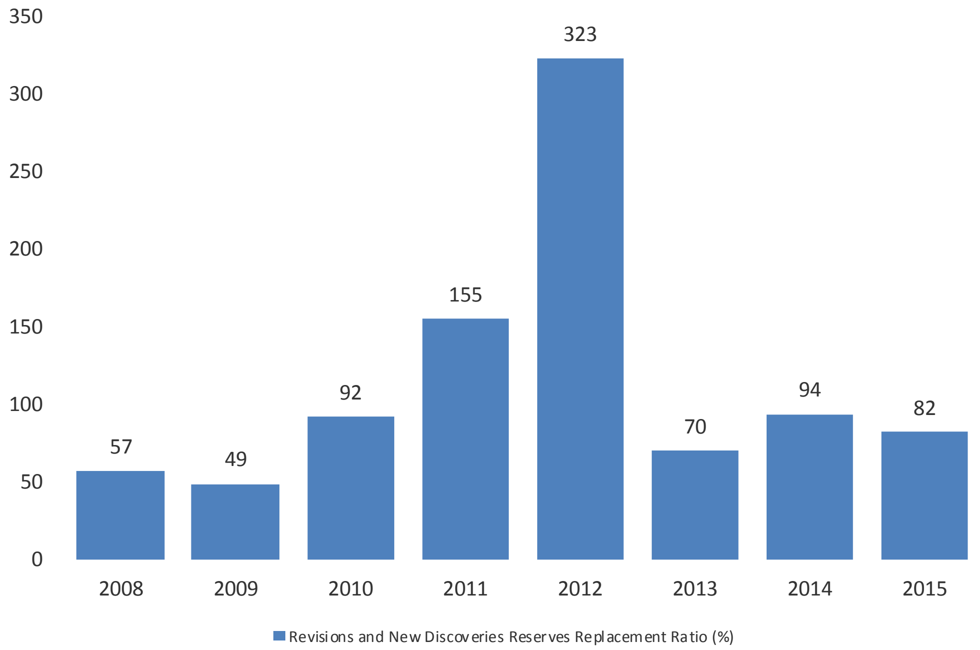
Petroleum agreements for 9 on shore exploration blocks (about 17,650km² across the Transylvania, Moldova, Oltenia and Muntenia basins), with 100% working interests; 2 agreements for offshore E&P in the Black Sea (with Lukoil, and with OMV Petrom and Exxon, respectively)

**Major projects in deep reservoirs in** (Transilvania, Laslau Mare, Deleni Deep), Moldova (Frasin Deep) and Muntenia (Caragele Deep)

Over October 2016-October 2021, the Exploration Programme of Romgaz has been extended by 3D seismic services on an area of over 1,000 km² and drilling of at least 43 new exploration wells, for a total value of over USD 289m (RON 1.1bn approximately)

Developments of the hydrocarbon discovery in the past 30 years located in NE of the Moesian Platformin Caragele structure–production tests completed at 2 exploration wells confirmed an estimated contingent resource of 25-27bcm; as part of Romgaz' major exploration projects , the 35 km long Caragele structure has been explored for production units located at depths between 1500-5000m.

**Chart.** Annual Reserves Replacement Rates (%)




***Source:*** *Romgaz, SSIF IEBA TRUST*

## 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 good premium 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 Name | EV/EBITDA (x) | | | DIVY (%) | | | Operating margin (%) | | | P/E (x) | | | P/BV (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2016 | 2017E | 2018E | 2016 | 2017E | 2018E | 2016 | 2017E | 2018E | 2016 | 2017E | 2018E | 2016 | 2017E | 2018E |
| **SNG RO** | **SOCIETATEA NATIONALA DE GAZE** | **5.37** | **4.06** | **3.77** | **7%** | **8%** | **9%** | **37%** | **35%** | **34%** | **10.53** | **9.84** | **8.98** | **1.12** | **1.10** | **1.07** |
| NVTK | NOVATEK PJSC | 12.45 | 9.88 | 8.65 | 1% | 3% | 3% | 42% | 32% | 32% | 8.37 | 12.36 | 10.59 | 3.36 | 3.02 | 2.50 |
| IAE CN | ITHACA ENERGY INC | 20.98 | 4.69 | 3.48 | 0% | 0% | 0% | -10% | 17% | 26% | | 18.70 | 19.74 | 0.83 | 0.77 | 0.75 |
| SIA LN | SOCO INTERNATIONAL PLC | 4.75 | 2.93 | 2.00 | 3% | 4% | 5% | 4% | 26% | 43% | | 64.01 | 13.36 | 0.62 | 0.61 | 0.64 |
| FPM LN | FAROE PETROLEUM PLC | 10.67 | 3.96 | 3.53 | 0% | 0% | 0% | -54% | 1% | 15% | | 329.17 | 13.53 | 1.48 | 1.46 | 1.41 |
| PMO LN | PREMIER OIL PLC | 6.05 | 3.98 | 2.31 | 0% | 0% | 0% | -15% | 17% | 26% | 2.88 | | 2.28 | 0.49 | 0.59 | 0.50 |
| AKERBP NO | AKER BP ASA | 8.19 | 4.06 | 3.50 | 2% | 4% | 5% | 28% | 40% | 47% | 110.62 | 15.29 | 13.67 | 2.29 | 2.22 | 2.16 |
| LUPE SS | LUNDIN PETROLEUM AB | 11.77 | 6.84 | 6.16 | 0% | 0% | 0% | -31% | 49% | 54% | | 16.85 | 16.54 | | 35.07 | 12.22 |
| ENQ LN | ENQUEST PLC | 4.88 | 4.12 | 1.70 | 0% | 0% | 0% | 24% | 19% | 34% | 3.58 | 18.54 | 2.31 | 0.58 | 0.56 | 0.43 |
| NOG LN | NOSTRUM OIL & GAS PLC | 11.38 | 6.76 | 3.77 | 0% | 1% | 2% | 10% | 29% | 38% | | 21.36 | 7.61 | 1.62 | 1.51 | 1.26 |
| PGN PW | POLSKIE GORNICTWO NAFTOWE I | 6.13 | 5.70 | 5.26 | 3% | 3% | 4% | 10% | 11% | 12% | 11.75 | 13.84 | 12.36 | 1.12 | 1.10 | 1.05 |
| SNP RO | OMV PETROM | 3.13 | 2.70 | 2.39 | 2% | 4% | 5% | 8% | 11% | | 4.43 | 5.11 | 4.12 | 0.62 | 0.58 | 0.54 |
| | **Median of Peers** | **8.19** | **4.12** | **3.50** | **0%** | **1%** | **2%** | **8%** | **19%** | **33%** | **6.40** | **17.70** | **12.36** | **0.98** | **1.10** | **1.05** |
| | **Romgaz Multiples** | **5.37** | **4.06** | **3.77** | **7%** | **8%** | **9%** | **37%** | **35%** | **34%** | **10.53** | **9.84** | **8.98** | **1.12** | **1.10** | **1.07** |
| | *Premium/Discount (%)* | *-34%* | *-2%* | *8%* | *n/a* | *851%* | *286%* | *351%* | *86%* | *4%* | *65%* | *-44%* | *-27%* | *14%* | *-1%* | *1%* |
| | **Romgaz Multiples @ TP** | **7.40** | **6.31** | **6.15** | **9%** | **9%** | **8%** | **44%** | **42%** | **39%** | **12.37** | **10.26** | **10.92** | **1.33** | **1.33** | **1.34** |
| | *Premium/Discount (%)* | *-10%* | *53%* | *76%* | *n/m* | *n/m* | *n/m* | *n/m* | *120%* | *19%* | *93%* | *-42%* | *-12%* | *36%* | *20%* | *27%* |

*Source: SSIF IEBA TRUST, Bloomberg*

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 crude oil price revival to levels above USD 50/bbl while an upward trend in crude should have mirrored the continuation of the gas price deregulation calendar. Currently, the market price is only some 1% below 52wks high of RON 29 and some 34% above 52wks low of RON 21.5/share.

## Q4'16 Results

Q4'16 reported results were better than expected, with net profit at RON 311m vs. our estimated RON 265m. The gap is explained via double revenues from energy segment at RON 145m vs. RON 68m in our estimates, lower than expected depreciation line at a negative RON 45m – not enough details available yet, since the annual report with full acccounting details will be available at end April. Still, Romgaz has mentioned that the negative depreciation line is due to reversal of previuos impairment recognized for some assets that were sold (loss on sale was at RON 108.06m).

Changes in inventory were negative at RON 53m, as volumes extracted from UGS for the year, increased by 13% Y/Y and volumes injected dropped by 44% Y/Y.

A large discrepancy was recorded also on items like employees expenses, other gains and losses and other expenses, due to various provisions booked/reversals and impairment for receivables booked on variuos reasons, which are difficult to forecast.

All in all, in terms of key metrics for the upstream segment, upstream net production was at 1.13bn cm, down 17% Y/Y, but the decline is lower than some 20% estimated. Total deliveries, own production to external parties dropped by 9% Y/Y to 1.08bn cm.

Balance sheet remained robust, with an overall cash position at RON 281m and RON 2.89bn in gvnm't securities and banks depos with maturity between 3-12M, which cumulates to an overall cash&cash equivalents position at RON 3.17bn.

| P&L breakdown | 2014A | 2015A | Q1'16A | Q2'16A | Q3'16A | Q4'16E | Q4'16A | Y/Y | QoQ | FY'16A | Y/Y |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues - of which | 4,475 | 4,053 | 1,364 | 486 | 550 | 927 | 1,010 | -8% | 84% | 3,410 | -16% |
| Revenues from Gas Production | 3,553 | 3,291 | 1,113 | 388 | 397 | 761 | 772 | -14% | 94% | 2,670 | -19% |
| Revenue from Gas Resale | 131 | 19 | 15 | 2 | 2 | 8 | 1 | -79% | -50% | 20 | 5% |
| Revenue from Services | 455 | 365 | 163 | 39 | 83 | 89 | 89 | 0% | 8% | 374 | 2% |
| Revenue from Energy | 336 | 357 | 69 | 54 | 68 | 68 | 145 | 46% | 112% | 336 | -6% |
| Other income | 108 | 80 | 44 | 20 | 29 | 10 | 27 | n/m | -8% | 120 | 51% |
| Cost of commodities sold | 176 | 40 | 21 | 17 | 21 | 21 | 4 | -85% | -81% | 63 | 56% |
| Changes in inventory | 28 | 138 | 100 | 82 | 91 | 8 | -53 | n/m | n/m | 220 | 60% |
| Raw materials | 66 | 78 | 18 | 12 | 12 | 12 | 13 | -33% | 7% | 55 | -29% |
| Exploration expense | 43 | 42 | 0 | 0 | 81 | 0 | 173 | n/m | n/m | 254 | 504% |
| Employee benefit expense | 523 | 512 | 112 | 118 | 126 | 224 | 142 | -46% | 12% | 498 | -3% |
| Other gains and losses | 275 | 319 | 138 | 7 | 26 | 105 | 61 | -42% | n/m | 232 | -27% |
| Other expenses | 1,035 | 1,041 | 292 | 153 | 161 | 249 | 276 | -8% | 71% | 882 | -15% |
| EBITDA | 2,490 | 2,218 | 723 | 291 | 243 | 510 | 313 | -41% | 29% | 1,571 | -29% |
| EBITDA margin | 55% | 55% | 53% | 53% | 44% | 55% | 31% | | | 181% | |
| D&A | 777 | 794 | 120 | 153 | 83 | 174 | -45 | n/m | n/m | 311 | -61% |
| EBIT | 1,713 | 1,425 | 603 | 139 | 160 | 336 | 358 | 35% | 124% | 1,260 | -12% |
| EBIT margin | 38% | 35% | 44% | 44% | 29% | 36% | 35% | | | 153% | |
| Net interest income | 75 | 44 | 7 | 6 | 0 | 4 | 4 | n/m | n/m | 17 | -61% |
| Profit before tax | 1,788 | 1,469 | 610 | 145 | 164 | 341 | 358 | 31% | 119% | 1277 | -13% |
| Income tax | 378 | 275 | 121 | 19 | 65 | 76 | 51 | -7% | -22% | 256 | -7% |
| Net Profit | 1,410 | 1,194 | 489 | 126 | 98 | 265 | 311 | -6% | n/m | 1,024 | -14% |
| Net margin | 31% | 30% | 36% | 36% | 18% | 29% | 31% | | | 30% | |

*Source: IEBA TRUST, Romgaz*

| Upstream segment data | FY'15A | Q1'16A | Q2'16A | H1'16A | Q3'16A | 9M'16A | Q4'16A | FY'16A | FY'17E | FY'18E | FY'19E | FY'20E | FY'21E | FY'22E | FY'23E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Upstream Production (mn cm), o/w** | **5,563** | **1,374** | **823** | **2,197** | **833** | **3,034** | **1,266** | **4,219** | **4,954** | **4,959** | **5,015** | **5,014** | **5,015** | **5,015** | **5,015** |
| own gas | 5,360 | 1,331 | 792 | 2,123 | 802 | 2,925 | 1,143 | 4,068 | 4,751 | 4,760 | 4,814 | 4,814 | 4,814 | 4,814 | 4,814 |
| (%) Domestic volumes in volumes produced | 96% | 97% | 96% | 97% | 96% | 96% | 97% | 193% | 96% | 96% | 96% | 96% | 96% | 96% | 96% |
| JV volumes | 203 | 44 | 31 | 74 | 31 | 110 | 42 | 151 | 203 | 199 | 201 | 200 | 201 | 200 | 200 |
| (%) JV volumes in volumes produced | 4% | 3% | 4% | 3% | 4% | 7% | 3% | 10% | 4% | 4% | 4% | 4% | 4% | 4% | 4% |
| (-) technological consumption | 79 | 20 | 7 | 27 | 7 | 39 | 16 | 55 | 79 | 79 | 79 | 79 | 79 | 79 | 79 |
| **Upstream net production (mn cm)** | **5,281** | **1,311** | **785** | **2,097** | **795** | **2,886** | **1,127** | **4,014** | **4,673** | **4,681** | **4,736** | **4,736** | **4,736** | **4,736** | **4,736** |
| **Y/Y change (%)** | | **-4%** | **-38%** | **-20%** | **-38%** | **-26%** | **-17%** | **-24%** | | | | | | | |
| Volumes invoiced gas injected (mn cm) - own production | 738 | 7 | 204 | 210 | 204 | 414 | 1 | 415 | 842 | 893 | 867 | 880 | 874 | 877 | 875 |
| Volumes invoiced gas extracted (mn cm) - own production | 410 | 309 | 0 | 309 | 0 | 309 | 154 | 463 | 457 | 481 | 469 | 475 | 472 | 474 | 473 |
| (-) PCS differences | 16 | 2 | (2) | 0 | 11 | 0 | 5 | 5 | 15 | 14 | 14 | 14 | 14 | 14 | 14 |
| **Total deliveries own production (mn cm)** | **4,936** | **1,611** | **584** | **2,195** | **580** | **2,781** | **1,276** | **4,057** | **4,274** | **4,255** | **4,324** | **4,317** | **4,320** | **4,319** | **4,319** |
| **Y/Y change (%)** | | **-3%** | **-48%** | **-21%** | **-27%** | **-22%** | **22%** | **-18%** | | | | | | | |
| (-) Own consumption - power segment (Iernut&Cojocna), (mn cm) | 527 | 93 | 59 | 152 | 115 | 267 | 197 | 464 | 550 | 550 | 550 | 550 | 550 | 550 | 550 |
| Gas sold to UGS | | | | | 79.2 | 79.2 | 0 | 79 | | | | | | | |
| **Total deliveries, own production, external party (mn cm)** | **4,409** | **1,518** | **525** | **2,043** | **550** | **2,593** | **1,079** | **3,672** | **3,724** | **3,705** | **3,774** | **3,767** | **3,770** | **3,769** | **3,769** |
| **Y/Y change (%)** | | **-5%** | **-51%** | **-23%** | **-1%** | **-20%** | **-9%** | **-17%** | | | | | | | |
| **Upstream revenues, own production, external party (RON, Th)** | **3,159,884** | **1,079,996** | **363,120** | **1,443,116** | **371,938** | **1,815,054** | **771,771** | **2,586,825** | **2,529,587** | **2,511,251** | **2,557,526** | **2,552,971** | **2,555,249** | **2,554,110** | **2,554,679** |
| Avg. selling price (RON/1000/cm), current mkt conditions | 717 | 711 | 692 | 706 | 676 | 700 | 715 | 704 | **679** | **678** | **678** | **678** | **678** | **678** | **678** |
| Avg. realized selling price (RON/MWh), current mkt conditions | 68 | 67 | 65 | 67 | 64 | 66 | 66 | 66 | 64.3 | 64.1 | 64.1 | 64.1 | 64.1 | 64.1 | 64.1 |
| *Difference to regulated nat gas price due to computations* | *-3* | *7* | *5* | *7* | *4* | *6* | *6* | *6* | | *1%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **Total deliveries from JVs** | **169** | **41.5** | **34.3** | **75.8** | **33.0** | **108.8** | **40.2** | **149** | **156** | **156** | **156** | **156** | **156** | **156** | **156** |
| JV volumes | 169 | 41.5 | 34.3 | 75.8 | 33.0 | 108.8 | 47 | 156 | 156 | 156 | 156 | 156 | 156 | 156 | 156 |
| **Upstream revenues, JV deliveries (RON, Th)** | **131,373** | **32,858** | **24,534** | **57,392** | **22,986** | **80,378** | **0** | **80,378** | **117,000** | **117,000** | **117,000** | **117,000** | **117,000** | **117,000** | **117,000** |
| Avg. selling price (RON/1000/cm) | 778 | 792 | 715 | 757 | 697 | 739 | 0 | 515 | 750 | 750 | 750 | 750 | 750 | 750 | 750 |
| Avg. selling price (RON/MWh) | 74 | 75 | 68 | 72 | 66 | 70 | 0 | 49 | **71.0** | **71.0** | **71.0** | **71.0** | **71.0** | **71.0** | **71.0** |
| **Total resold volumes (mn cm)** | **20** | **11** | **3** | **14** | 2.5 | **16** | **18** | **35** | **35** | **35** | **35** | **35** | **35** | **35** | **35** |
| **Upstream revenues resold production of local producers (RON, Th)** | **14,545** | **3,716** | **2,265** | **5,981** | **2,124** | **8,105** | **1,450** | **9,555** | **11,250** | **11,250** | **11,250** | **11,250** | **11,250** | **11,250** | **11,250** |
| Acquisitions from other local producers | 17.1 | 4.3 | 2.7 | 7 | 2.5 | 9.5 | 1.7 | 11.2 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| Avg. selling price (RON/1000/cm) | 851 | 864 | 839 | 854 | 840 | 853 | 853 | 853 | **750** | **750** | **750** | **750** | **750** | **750** | **750** |
| Avg. selling price (RON/MWh) | 80 | 82 | 79 | 81 | 79 | 81 | 81 | 81 | 71.0 | 71.0 | 71.0 | 71.0 | 71.0 | 71.0 | 71.0 |
| Margin (RON/MWh) | 9 | 22 | 19 | 21 | 19 | 21 | 21 | 21 | 6.7 | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 | 7.1 |
| Regulated Nat gas price (RON/MWh) for domestic producers | 71 | 60 | 60 | 60 | 60 | 60 | 60 | 60 | 64.3 | 63.8 | 63.8 | 63.8 | 63.8 | 63.8 | 63.8 |
| **Upstream revenues from import gas resold (RON, Th)** | 4,169 | 10,885 | 0 | 10,885 | 0 | 10,885 | 0 | 10,885 | 31,374 | 31,374 | 31,374 | 31,374 | 31,374 | 31,374 | 31,374 |
| Import gas delivered | 3 | 6.8 | 0 | 6.8 | 0 | 6.8 | 0 | 6.8 | **20** | **20** | **20** | **20** | **20** | **20** | **20** |
| Avg. selling price (RON/1000/cm) | 1,390 | 1,601 | 0 | 1,601 | 0 | 0 | 0 | 0 | 1,601 | 1,601 | 1,601 | 1,601 | 1,601 | 1,601 | 1,601 |
| Cost of resold gas - imports | 4,027 | 10,173 | 0 | 10,173 | 0 | 0 | 0 | 0 | 29,178 | 29,178 | 29,178 | 29,178 | 29,178 | 29,178 | 29,178 |
| **Total Upstream revenues (RON, Th) - base case scenario** | **3,309,971** | **1,127,455** | **389,919** | **1,517,374** | **397,048** | **1,914,422** | **773,221** | **2,687,643** | **2,689,211** | **2,670,875** | **2,717,150** | **2,712,596** | **2,714,873** | **2,713,734** | **2,714,304** |
| **Upstream revenues, own production - incl. JV, external party** | **3,291,257** | **1,112,854** | **387,654** | **1,500,508** | **394,924** | **1,895,432** | **771,771** | **2,667,203** | **2,646,587** | **2,628,251** | **2,674,526** | **2,669,971** | **2,672,249** | **2,671,110** | **2,671,679** |
| Upstream revenues, own production, external party | 3,159,884 | 1,079,996 | 363,120 | 1,443,116 | 371,938 | 1,815,054 | 771,771 | 2,586,825 | 2,529,587 | 2,511,251 | 2,557,526 | 2,552,971 | 2,555,249 | 2,554,110 | 2,554,679 |
| Upstream revenues, JV deliveries | 131,373 | 32,858 | 24,534 | 57,392 | 22,986 | 80,378 | 0 | 80,378 | 117,000 | 117,000 | 117,000 | 117,000 | 117,000 | 117,000 | 117,000 |
| Upstream revenues resold production of local producers | 14,545 | 3,716 | 2,265 | 5,981 | 2,124 | 8,105 | 1,450 | 9,555 | 11,250 | 11,250 | 11,250 | 11,250 | 11,250 | 11,250 | 11,250 |
| Upstream revenues from import gas resold | 4,169 | 10,885 | 0 | 10,885 | 0 | 10,885 | 0 | 10,885 | 31,374 | 31,374 | 31,374 | 31,374 | 31,374 | 31,374 | 31,374 |

*Source: Romgaz, SSIF 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).

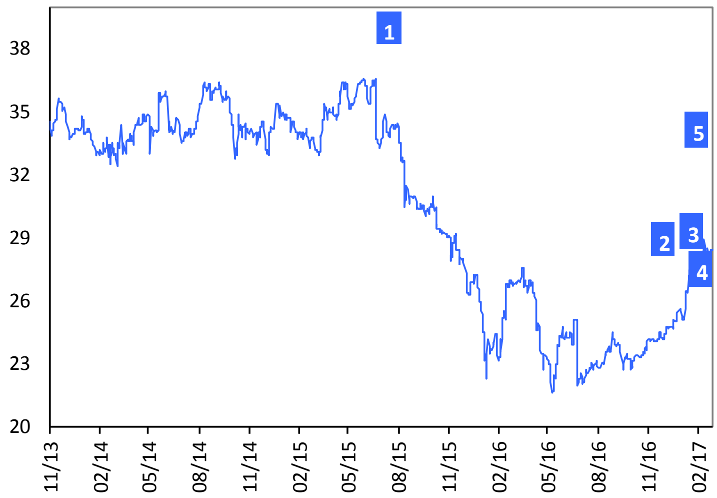
| SSIF IEBA TRUST RATINGS | |
|---|---|
| BUY | The stock is expected to generate potential excess return over 15% |
| ACCUMULATE | The stock is expected to generate potential excess return of 5 to 15% |
| HOLD | The stock is expected to generate potential excess return of -5% to 5% |
| REDUCE | The 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 |
| 3 | 15/06/2016 | BUY | 28.14 |
| 4 | 27/06/2016 | BUY | 28.59 |
| 5 | 20/03/2017 | BUY | 33.00 |

## 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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b) managed or co-managed a public offering of the securities of the company in the last 12 months;
c) has received compensation for financial investment services from the company within the last 12 months;
d) is a market maker or stabilizing manager of the company's securities;
e) has one or more members in the board of directors or supervisory board of the company

Analyst Certification

The analysts that have written this report certify that the views about the companies and securities contained in this report accurately reflect their personal views and that no part of their compensation was or will be directly or indirectly related to the specific recommendations or views in this report.

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