

OMV PETROM (SNP RO)

Earnings Note - Q2'16

HOLD

previous: ACCUMULATE

TARGET PRICE 12M (RON)	0.3000
Previous Target price	0.3800
SHARE PRICE (RON)	0.2640

Performance	1M	3M	12M	YTD
Absolute (%)	6.0%	14.3%	-32.3%	-9.0%
Relative to BET (%)	-0.3%	8.0%	-22.4%	-7.2%
Market Cap (RON m)			17,163	
Market Cap (EUR m)			3,850	
Shares Out (m)			56,644	

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Q2'16 clean bottom line reported at RON 127m (-74% Y/Y, -38% QoQ), affected by Petrobrazi refinery turnaround and lower gas sales

- Upstream:** On an annual basis, the operating environment was affected by lower avg. realized crude oil price at USD 36.86/bbl (-31% Y/Y, +38% QoQ, -4% against our estimate), crude oil production decreased by 5% Y/Y, was flat on quarterly basis and came below our estimate by some 3% at 7.36mn bbl. OMV Trading Statement disclosed total hydrocarbon production for the Group at 177 kboe/day and we considered a higher share for crude oil since demand for gas is seasonally lower in Q2 and we believed OMV Petrom would capitalize more on the 38% QoQ crude price hike. Natural gas production was at 1.34bn cm (+2%QoQ, flat Y/Y and a hefty +5% against our estimates). Gas production in Romania was higher because the natural decline of main fields (Bulbuceni, Bustuchin, Lebada East) has been compensated by additional contribution from new wells put on stream, workovers performed during the year and by Lebada Est NAG project, commissioned in Q2'16. Crude oil production was lower due to reduced investments, increased number of uneconomic wells and planned maintenance at key wells. Opex/boe dropped by 8% Y/Y to USD 12.09/boe and 1% QoQ and fell by 2% against our estimated one of USD 12.28/boe. The quarter was negatively affected by some RON 58m impairment and personnel restructuring, not mentioned in OMV Trading Statement. Clean EBIT landed at RON 210m vs. our estimate of RON 278m, mainly on the higher estimated crude oil production and higher avg. realized crude oil price.

- Downstream Oil:** Major event in Q2'16 was the Petrobrazi refinery shutdown - refinery utilization rate was at 68%, which generated some positive CCS effects of RON 137m due to positive evolution of crude oil price over the quarter and higher inventory volumes, which was much higher than our estimate of RON 99m. Refinery margin indicator reached USD 6.82/bbl, a drop of 24% Y/Y reflecting the general lowering middle distillate spreads. Clean CCS EBIT landed at RON 166m vs. our estimate of RON 196m. Sales landed at RON 2.71bn, lower by 25% Y/Y, some 6% below our estimate of RON 2.87bn, which was actually a decrease of 20% Y/Y. Due to the refinery shutdown, investments required were at RON 212m.

- Downstream Gas:** Gas sales were lower by 5% Y/Y at 9.67TWh (third party sales) as Brazi gas consumption was higher, generating some 0.48TWh energy production. Stored gas in Q2'16 was at 2.1TWh, 16% higher Y/Y, on higher than estimated seasonality. Clean EBIT was negative at RON 31m, while we were expecting a positive result of RON 17m.

- All in all, our clean CCS EBIT was subdued by some RON 37m effect in total consolidation line from higher than estimated effects of unrealized profit between business segments, RON 60m in upstream segment triggered by lower avg. realized crude oil price and lower crude oil production, and the negative result in Downstream Gas. Also, the higher than expected drop in Downstream Oil sales, mismatched some RON 30m to our estimates.**

- Net profit landed at RON 117m, down 83% Y/Y, with clean figure at some RON 127m, down 74% Y/Y.**

- 2016 Outlook and conf-call highlights:**

- Taxation and regulatory framework to be discussed in early FY'17; no draft available for public consultation yet
- Mgt expects Brent annual avg. at USD 40/bbl
- Refining margins to remain below H1'16
- Gas demand expected to decline and some competitive imports are expected to make place within the market
- CAPEX estimated at EUR 0.7bn, o/w 85% in Upstream
- Decline production for full year at 4% Y/Y still on track due to lower investments and planned surface upgrade facilities at Totea Deep, mostly supported by lower gas volumes extracted (Totea Deep is mainly gas)
- Q2'16 drop in natural gas demand estimated at 16% Y/Y, which translates into 8% Y/Y decline over H2'16, based on Transgaz monthly reported transported volumes

Operational segment	FY'15A	Q1'16A	Q2'16E	Q2'16A	Y/Y (%)	Q/Q (%)	vs. IEBA	
Upstream								
E&P Sales, net of intersegment	681.8	111	142	105	-38%	-6%	-26%	
Total hydrocarbon production (mn boe)	65.2	15.94	16.14	16.02	-3%	0%	-1%	
Total hydrocarbon production (kboe/day)	178.8	175	177	177	-2%	1%	0%	
Crude oil production (mn bbl)	30.4	7.37	7.57	7.36	-5%	-0.1%	-3%	
Natural gas production (bn cm)	5.3	1.31	1.28	1.34	0%	2%	5%	
Natural gas production (bn cf)	187.9	46.36	45.20	47.43	0%	2%	5%	
Average Ural Price (USD/bbl)	51.6	32.29	43.91	43.91	-29%	36%	0%	
Average crude price realized (USD/bbl)	44.9	26.69	38.31	36.86	-31%	38%	-4%	
Exploration investment (mn RON)	1,399.0	275	265	-34	n/m	n/m	n/m	
Exploration expenditure (mn RON)	576.0	57	60	87	-35%	53%	45%	
Production cost (USD/boe)	13.2	12.25	12.28	12.09	-8%	-1%	-2%	
USD/RON	4.006	4.073	3.98	3.98				
EUR/RON	4.445	4.491	4.50	4.50				
	EBITDA	4,099	569	953	876	-33%	54%	-8%
	<i>margin (%)</i>	<i>n/m</i>	<i>16%</i>	<i>25%</i>	<i>24%</i>			
Production related OPEX	3,448.2	795	771	777		-2%	1%	
Depreciation	5,914	649	675	725	-7%	12%	7%	
Impairment	3,133	0	0	58				
Clean depreciation	2,781	649	675	667			-1%	
	Clean EBIT	<i>n/m</i>	<i>n/m</i>	278	210		-25%	
	EBIT	-1,815	-80	278	151	-72%	n/m	-46%
	<i>margin (%)</i>	<i>n/m</i>	<i>n/m</i>	<i>7%</i>	<i>4%</i>			
Total Group sales	26,943	5,200	5,885	5,508	-22%	6%	-6%	
	<i>Intersegment sales</i>	8,798	1,641	2,048	1,875	-26%	14%	-8%
Group sales	18,148	3,559	3,836	3,633	-20%	2%	-5%	
EBIT Corporate	-75	-17	-17	-8	-20%	-53%	-53%	
Consolidation	346	80	-125	-200	28%	n/m	60%	
	EBITDA Group	6,231	1,173	1,429	1,135	-36%	-3%	-21%
	<i>margin (%)</i>	<i>34%</i>	<i>33%</i>	<i>37%</i>	<i>31%</i>			
Group Depreciation, o/w	6,761	830	856	917	-6%	10%	7%	
Additional depreciation	1,459	0	0	63	n/m	n/m	n/m	
Group Normalized Depreciation	3,714	830	856	854	-12%	3%	0%	
	EBIT Group	-530	343	442	218	-72%	-36%	-51%
	<i>margin (%)</i>	<i>n/m</i>	<i>10%</i>	<i>12%</i>	<i>6%</i>			
Clean EBIT	2,256	232	329	273	-61%	18%	-17%	
Special items, o/w	-2,786	111	-7	-55				
Personnel&restructuration	-46	-8	-7	-8				
Additional depreciation	-2,791	0	0	-63				
Litigation provisions	-	-	0	0				
Other	89	118	0	0				
CCS effects	-364	-177	99	44	-6%	n/m	-56%	
	E&P clean EBIT	919	-73	278	210	-62%	n/m	-24%
	G&E clean EBIT	-143	47	17	-31	-63%	n/m	n/m
	R&M clean EBIT CCS	1,315	255	196	166	-45%	-35%	-15%
	Corporate clean EBIT	-76	-17	-17	-8			
	<i>Consolidation</i>	<i>509</i>	<i>196</i>	<i>-146</i>	<i>-108</i>			
	EBIT clean CCS	2,523	408	329	229	-65%	-44%	-30%
	Net profit	-690	288	319	117	-83%	-59%	-63%

Source: OMV Petrom, IEBA TRUST

in RON mn	Q1'15A	Q2'15A	Q3'15A	Q4'15A	Q1'16A	Q2'16E	Q2'16A	Y/Y %	QoQ %	vs. IEBA
Net sales	4,265	4,534	4,810	4,518	3,559	3,890	3,633	-20%	2%	-7%
Clean EBIT Upstream	175	551	416	-223	-73	278	210	-62%	n/m	-24%
Clean EBIT Downstream Gas	3	-84	-52	-8	47	17	-31	-63%	n/m	n/m
Clean CCS EBIT Downstream Oil	174	305	560	277	255	196	166	-46%	-35%	-15%
EBIT Group	494	787	34	-1,845	343	442	218	-72%	-36%	n/m
Clean CCS EBIT	594	657	1,063	211	408	329	229	-65%	-44%	n/m
Net income	345	692	-46	-1,681	288	319	117	-83%	-59%	n/m
Clean CCS Net Income att., to stockholders	445	562	983	68	330	248	127	-77%	-62%	n/m

Source: OMV Petrom, 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.

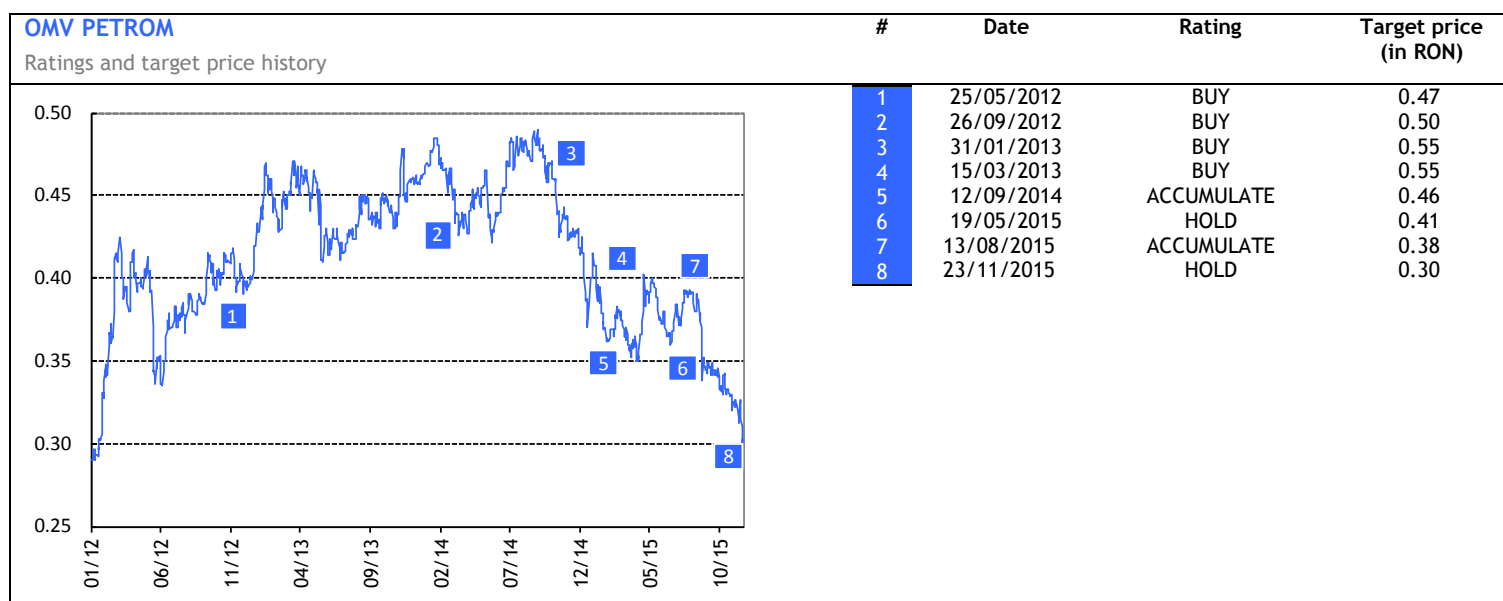
The range of recommendations for each stock consists of 4 elements: Buy (B), Accumulate (A), Hold (H), Reduce (R).

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.



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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