

Company Update

BUY

previous: BUY

TARGET PRICE 12M (RON)

37.00

Previous Target price

36.00

SHARE PRICE (RON)

31.35

Performance	1M	6M	12M	YTD
Absolute (%)	9.2%	10%	31.9%	24%
Relative to BET (%)	8.9%	4.6%	11.8%	6.2%
RIC			RO SNG.BX	
Bloomberg			SNG RO	
Index listed			BET, BET-XT, BET-NG	
Market Cap (RON m)			12,082.99	
Market Cap (EUR m)			2,632.46	
Shares Out (m)			385.42	
52 Week Range (RON)			21.70 / 34.35	
% from 52 Week range			55.8% / -1.6%	
Avg. daily volume 6M (shares)			164,975	

Shareholders (%)

Ministry of Economy	70.00%
Free float	29.99%

(IFRS)	15A	16A	17E	18E
P/E(x) adj.	11.1	11.7	6.6	9.1
EPS adj. ch. (%)	-15%	-14%	67%	-28%
EV/EBITDA(x)	5.1	6.5	3.9	4.6
Net debt/EBITDA	-0.9	-1.2	-0.7	-1.1
P/BV(x)	1.4	1.2	1.2	1.2
ROE(%)	12.4%	10.7%	17.7%	12.7%
ROIC(%)	11.8%	9.5%	15.6%	11.2%
P/S (x)	3.3	3.2	2.5	3.1
Div. Yield (%)	7.9%	12.2%	15.1%	10.9%

RON m

Revenues	4,053	3,794	4,449	3,627
EBITDA	2,218	1,570	2,505	1,987
Net income	1,194	1,025	1,709	1,238
EPS	3.10	2.66	4.43	3.21
EPS adj.	24.72	25.11	24.98	25.46
DPS	2.70	3.82	4.43	3.21
BVPS	4.70	4.37	5.79	5.67
FCF equity	4,053	3,794	4,449	3,627

28 August 2017

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FY'17E dividend yield at 12% (at TP) and gross DPS could reach an estimated RON 4.43, up 16% Y/Y, should the gas market conditions maintain for the remaining portion of the year. H1'17 results topped full year estimates incl. consensus, but trend in gas demand needs to be confirmed

Q2'17 Results: Q2'17 net profit landed at RON 307m, due to solid increase in volumes sold – upstream net production hiked by 49% Y/Y to 1.17bn cm and total deliveries of own production advanced by 88% Y/Y to 988mn cm, which send revenues from upstream segment at RON 738m, up 1.9x Y/Y. The advance was motivated by management via increased demand for gas in some industrials sectors and there are nice expectations for this to be maintained for the next quarters and thus for full 2017. Storage was at very low level, remind the intense public disputes upon the levels of storage required by distributors/suppliers. EBITDA landed at RON 425m, consistent above Q2'16 at RON 291m and there were no other major items to draw attention in the P&L for the quarter except some inventory variation and merchandise account mismatch (around RON 80m) and RON 70m booked as exploration expense, which means that should this have not been on expenses side, the net profit could have jumped to at least RON 380m, beating all consensus estimates for the full year and very close to reach the FY'16 net profit reported at some RON 1bn.

Forecasts. For the period FY'18-'20 we changed our estimates very few. OMV Petrom recently reduced the forecast for crude oil price to USD 52/bbl from USD 55/bbl, which confirms expectations for lowering crude oil price, at least for 2017, thus we keep our average selling price unchanged. As regards volumes for the same period, we kept estimates unchanged as we think that the increase in gas demand for the quarter could be temporary for this year although we do not exclude it could be the start of a long term positive trend in local gas demand, but a significant lift in volumes and estimates for a longer time period needs a higher track record for the time being. We think that Q2'18 will be defintory in this regard, once the cold season will be over. We see 2017 as an exceptional year, due to temporary market conditions and expect for the gas market to confirm this trend in demand, benefiting financial results for the next quarters as well. Our estimates changed only for 2017, based on management statements that Q3 and Q4 will have higher gas demand and volumes in storage and injection activity particularly, will remain at low levels by year-end. We see FY'17 upstream net production at 4.97bn cm, up 24% Y/Y and total deliveries of own production at 5.47bn cm, an increase of 35% Y/Y.

Dividend yields: For FY'17 we have increased dividend estimates by around 60% to RON 1.7bn (vs. previous estimates, having in mind a maximum payout ratio of 100%), owing to the second quarter results. We think the 90% payout ratio will be maintained for 2017 as well and an additional 10% will be paid via retained earnings. FY'17E dividend yield at 12% (TP).

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. We arrive at a fair value of RON 37/share (18% upside potential to current price levels because of the price retreat) and BUY rating. The stock currently trades at EV/EBITDA (17E) of 5.2x (at target price) due to much higher increase in estimates vs. a slight pick-up in the target price. 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 over 30 years.

Financials & Valuation (Summary)

Financial Statements

Profit & Loss (RON th)	2014A	2015A	2016A	2017E	2018E
Revenues	4,628,604	4,052,694	3,793,980	4,448,953	3,627,412
EBITDA	1,709,636	2,218,034	1,569,670	2,505,268	1,986,612
EBIT	932,797	1,424,436	1,258,658	2,009,806	1,486,957
Net financials	78,693	44,117	22,102	22,182	36,032
EBT	1,788,329	1,468,553	1,280,760	2,031,988	1,522,988
Net income	1,409,881	1,194,000	1,024,919	1,708,814	1,238,258
IEBA net income	1,409,881	1,194,000	1,024,919	1,708,814	1,238,258
Dividend	1,214,081	1,040,640	1,072,427	1,708,814	1,238,258

Cash flow IEBA TRUST (RON th)

Net Cash flow from operations	1,943,481	1,313,738	2,182,094	1,701,882	1,653,482
Capex	-831,995	-497,700	497,700	-527,811	-533,089
FCFF	2,775,476	1,811,438	1,684,394	2,229,693	2,186,571
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	6,035,824	6,186,174	6,042,109	6,084,485
Current investments	100,743	100,743	70,978	100,743	100,743
Current assets	1,300,461	1,534,717	1,545,982	1,836,517	1,497,387
Cash & others	2,887,183	3,013,417	3,173,437	2,948,278	3,431,976
Total Assets	10,684,702	10,684,700	10,976,571	10,927,647	11,114,591
Current liabilities	597,296	861,917	945,913	852,465	852,465
Total debt	0	992,480	1,300,070	1,300,070	1,300,070
Net debt	-2,887,183	-2,020,937	-1,873,367	-2,848,278	-2,131,906
Shareholders capital	385,422	385,422	385,422	385,422	385,422
Other reserves	9,306,800	9,142,810	9,291,079	8,855,207	8,855,207
Total Equity	9,692,222	9,528,232	9,676,501	9,627,577	9,814,521
Minorities	0	0	0	0	0
EV	9,746,963	11,202,906	10,209,625	8,475,432	9,191,804
Market Cap	12,634,146	13,223,843	12,082,992	11,323,710	11,323,710
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	4.43	3.21
IEBA EPS	3.66	3.10	2.66	4.43	3.21
DPS	3.15	2.70	3.82	4.43	3.21
BVPS	25.15	24.72	25.11	24.98	25.46
FCFPS	7.20	4.70	4.37	5.79	5.67

Growth rates & margins

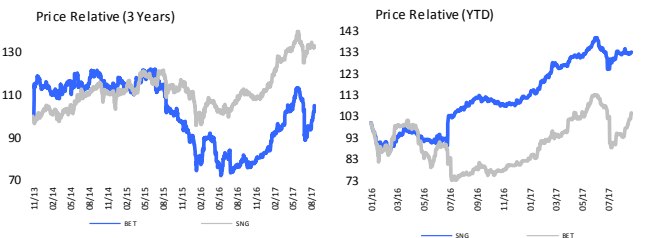
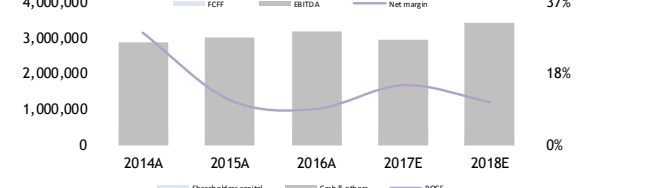
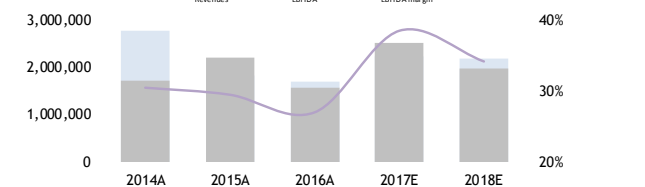
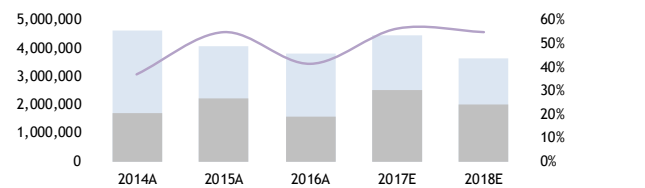
Revenues	18.9%	-12.4%	-6.4%	17.3%	-18.5%
EBITDA	-12.7%	29.7%	-29.2%	59.6%	-20.7%
EBIT	-20.7%	52.7%	-11.6%	-59.7%	26.0%
EBT	37.5%	-17.9%	-12.8%	-0.4%	-62.4%
Net Income	41.6%	-15.3%	-14.2%	-58.7%	25.0%
IEBA net Income	41.6%	-15.3%	-14.2%	-66.7%	27.5%
Dividend	-7.2%	-14.3%	3.1%	59.3%	-27.5%
EPS	41.6%	-15.3%	-14.2%	66.7%	-27.5%
IEBA EPS	41.6%	-15.3%	-14.2%	66.7%	-27.5%
DPS	-7.2%	-14.3%	41.5%	16.1%	-27.5%
EBITDA margin	36.9%	54.7%	41.4%	56.3%	54.8%
EBIT margin	20.2%	35.1%	33.2%	45.2%	41.0%
Net margin	30.5%	29.5%	27.0%	38.4%	34.1%
IEBA net margin	30.5%	29.5%	27.0%	38.4%	34.1%

Key items

Ratios and multiples	2014A	2015A	2016A	2017E	2018E
P/E(x)	8.96	11.08	11.79	6.63	9.14
P/E(x) IEBA	8.96	11.08	11.79	6.63	9.14
P/E(x) IEBA at 52wks High	9.94	11.80	11.00	6.60	9.10
P/BV(x)	1.30	1.39	1.25	1.18	1.15
ROE	29.0%	12.4%	10.7%	17.7%	12.7%
IEBA ROE	29.0%	12.4%	10.7%	17.7%	12.7%
ROCE	29.0%	11.8%	9.5%	15.6%	11.2%
IEBA ROCE	29.0%	11.8%	9.5%	15.6%	11.2%
EV/EBITDA(x)	5.70	5.05	6.50	3.38	4.63
EV/EBITDA (x) at 52wks High	5.70	5.05	4.88	2.43	3.42
Net debt/EBITDA (x)	-1.69	-0.91	-1.19	-1.14	-1.07
EV/CE(x)	1.01	1.06	0.93	0.78	0.83
P/S (x)	2.73	3.26	3.18	2.55	3.12
P/FCF(x)	4.55	7.30	7.17	5.08	5.18
FCF Yield	22.0%	13.7%	13.9%	19.7%	19.3%
Dividend Yield	10%	8%	12%	15%	11%
Dividend payout	86.1%	87.2%	104.6%	100.0%	100.0%
Net debt/Equity	-29.8%	-21.2%	-19.4%	-29.6%	-21.7%
T.debt/(T.debt + Equity)	0.0%	9.4%	11.8%	11.9%	11.7%

Stock's information

Share price (RON)	31.35	Target price (RON)	37
52 weeks High price (RON)	34.35	Mkt Cap (RON th)	12,082,992
52 weeks Low price (RON)	22.65	EV (RON m) 17E	13,573
Country	Romania	Reuters	RO SNG.BX
Sector	Energy	Bloomberg	SNG RO



Source: SSIF IEBA Trust, mkt cap& multiples computed based avg. annual price

Full year estimates outrun by second quarter 49% Y/Y increase in upstream net production (88% Y/Y hike in total deliveries, own production to external parties or 988mn cm)

Q2'17 net profit landed at RON 307m, due to solid increase in volumes sold – upstream net production hiked by 49% Y/Y to 1.17bn cm and total deliveries of own production advanced by 88% Y/Y to 988mn cm, which send revenues from upstream segment at RON 738m, up 1.9x Y/Y. The advance was motivated by management via increased demand for gas in some industrials sectors and there are nice expectations for this to be maintained for the next quarters and thus for full 2017. Storage was at very low level, remind the intense public disputes upon the levels of storage required by distributors/suppliers. EBITDA landed at RON 425m, consistent above Q2'16 at RON 291m and there were no other major items to draw attention in the P&L for the quarter except some inventory variation - merchandise account mismatch and RON 70m booked as exploration expense, which means that should this have not been on expenses side, the net profit could have jumped to at least RON 380m, beating all consensus estimates for the full year and very close to reach the FY'16 net profit reported at some RON 1bn. Revenues from power were not impressive at all, below estimates at RON 73m, comparable with Q3'16 much below Q4'17 and Q1'17 of RON 145m and RON 192m, respectively.

Inventories. In Q2'17 there was pretty much no storage due to lack of sufficient legislative mandatory storage provisions, but also because the additional production was sold. We noticed that the difference between the reported inventory variation account in P&L and YTD inventory (finished goods, mostly gas in storage) increase in balance sheet results in a quite large amount. The explanation is in the cost with the gas transported (i.e invoiced usually by Transgaz for the services rendered), which starting Q2'17 gets capitalized, and further released in the P&L as an expense in the period the gas is sold, thus matching its resulting revenue from sale of production (as such, in accounting terms, the net result of the period gets affected only when revenue is available to be booked and offset the expense required to be done in order to sell the merchandise/finished good, eventually resulting in a positive margin). In Q1'17, changes in inventory account reported in P&L almost equally matched the change in inventories reported in the balance sheet (RON -164m in B/S vs. RON -170m in P&L), because the expenses with cost of gas transportation were registered as prepayments. The capitalized cost in Q2'17 was around RON 84m, which shows that the volume of gas stored that is reflected in the balance sheet, increased very few in Q2, as Romgaz did not put additional volumes in storage.

As a result, the inventory variation account was reported at a negative RON 142m, counting on only RON 22m increase in value of the volumes stored (78mn cm injected into storage in Q2'17), netting RON 164m of first quarter when 491m volume was taken out of storage due to winter season. At the end of August, Romgaz storage level for the 2017 injection cycle was at 1.5bn cm, with small flows injected on a daily basis (filling degree at some 54% as reported by Romgaz). Initial storage level before injection 2017 was 489m cm.

Forecasts. For the period FY'18-'20 we changed our estimates very few. OMV Petrom recently reduced the forecast for crude oil price to USD 52/bbl from USD 55/bbl, which confirms expectations for lowering crude oil price, at least for 2017, thus we keep our average selling price unchanged. With respect to volumes for the same period, we kept estimates unchanged as we think that the increase in gas demand for the quarter could be temporary for this year although we do not exclude it could be the start of a long term positive trend in local gas demand, a significant lift in volumes and estimates needs a higher track record for the time being. We think that Q2'18 will be definitive in this regard, once the cold season will be over. We see 2017 as an exceptional year, due to temporary market conditions and expect for the gas market to confirm this trend in demand, benefiting financial results for the next quarters as well. Our estimates changed only for 2017, based on management statements that Q3 and Q4 will have higher gas demand and volumes in storage and injection activity particularly, will remain at low levels by year-end. We see FY'17 upstream net production at 4.97bn cm, up 24% Y/Y and total deliveries of own production at 5.47bn cm, an increase of 35% Y/Y.

Dividend yields: We estimate average dividend yield to be around 10% for the next 3Y, as per Romanian legislation, the company is obliged to pay as dividends a minimum of 50% of their net profit; the 90% quota per year of dividends somehow remains unclear if it is mandatory for the upcoming fiscal periods or if it was enforced only for 2016 net profits. In our estimates, due to very good profitability expected for the year, the fiscal deficit running for Romania and sufficient available cash in the balance sheet, we implied a 100% dividend payout ratio in our estimates (we expect that country fiscal needs to add 2017 as well with a mandatory 90% quota of net profits and 10% out of retained earnings). In the past 2Y, dividend payout carried an average of 86% with yields averaging around 9%. For FY'17 we have increased dividend estimates by around 60% to RON 1.7bn (vs. previous estimates and having in mind a maximum payout ratio of 100%).

Royalties. Media rumored some changes for the taxation side, namely an increase in statutory tax rate to 36% from current 16% and hike in windfall tax to approximately 80% from current 60%. Theoretically, once with the end of the gas price deregulation calendar for households, the windfall tax should have been cancelled. Currently, both Romgaz and OMV Petrom continue carrying the windfall tax on their P&Ls, the only change that has been made is the change in cap price of RON 72/MWh, which has been replaced with the average selling price on the free market. Starting 1st of April, gas price for households has also been considered deregulated, which means that now in Romania the gas price is no longer regulated by a market watchdog, but established freely by negotiation between parties. Separately, the asset tax was removed starting this year. For the moment, there are very few public information with respect to the new changes expected for the new royalties' regime and we do not expect any ahead of Q1'18.

VALUATION – Rating remains BUY – TP increased to RON 37/share – valuation remains sensitive to volumes and pricing ahead. 2017 seen as an exceptional year.

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 interest rate environment. However, H1'17 capex was reported at RON 222m, only 47% of planned figure of RON 471m, which makes us believe that the full year budgeted figure of RON 1.14bn will not be achieved. Our full year previous estimate was at RON 523m, and we believe this amount fits well for the full year, in the light of the low capex achievement in the first six months.

We arrive at a fair value of RON 37/share (19% upside potential to current price levels) and BUY rating. The stock currently trades at EV/EBITDA (17E) of 5.2x (at target price and drop vs. previous multiple is mostly due to hike in estimates, as the market rally between the two updates was small). 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, even @ premiums.

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 42/share, mostly due to inclusion of much higher estimates for FY'17, no changes were made for estimates starting FY'18 onwards, no changes to capex assumptions and or discount factor – the increase in TP is only due to increase of present value of the estimated cash-flow due to the higher estimated EBITDA level.

Our average WACC stands at 9.6% and a perpetuity growth of 1%. Average CAPEX for the forecasting horizon estimated at an average of RON 440m, unchanged versus previous assumptions, with FY'17E estimated at RON 523m. We think that, in lack of better volumes and pricing, valuation will be 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. Given the inflation acceleration in the past couple of months and the level of interest rates on the interbank market, we think that a hike in the key policy rate is inevitable starting 2018. Now, we prefer to keep WACC unchanged, due to central bank hesitance in running the move while an increased risk for higher, both interest rates and estimates, should bring a neutral impact on TP (albeit it could be the case for higher growth rhythm in estimates rather advance in interest rates).

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 impact estimates
- 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

VALUATION - Discounted stream of cash-flows	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
EBITDA	2,505,268	1,986,612	1,908,807	1,934,588	1,921,697	1,928,143	1,924,920	2,155,205	2,154,399	2,154,802	2,154,600	2,154,701
Depreciation	495,462	499,655	585,982	610,091	634,441	659,035	683,874	708,962	734,301	759,893	785,741	811,848
EBIT	2,009,806	1,486,957	1,322,825	1,324,497	1,287,256	1,269,108	1,241,046	1,446,242	1,420,098	1,394,909	1,368,859	1,342,853
EBIT margin (%)	46%	39%	36%	36%	35%	34%	33%	39%	38%	37%	37%	36%
Corporate Tax (effective)	323,174	284,793	255,381	255,919	249,254	246,217	241,297	279,940	275,132	270,738	266,235	261,791
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%
Wcap	986,035	803,955	786,405	791,777	789,091	790,434	789,763	790,098	789,931	790,014	789,973	789,993
WCap/Sales	16.37%	16.05%	16.02%	16.03%	16.02%	16.02%	16.02%	16.02%	16.02%	16.02%	16.02%	16.02%
Change in Wcap	-118,184	76,995	11,055	-4,870	1,692	-1,217	423	-94,060	106	-76	26	-19
Operating Cash Flows	2,063,910	1,778,813	1,664,481	1,673,799	1,674,136	1,680,708	1,684,047	1,781,204	1,879,372	1,883,988	1,888,392	1,892,891
CAPEX	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	12%	14%	14%	14%	15%	15%	15%	15%	15%	15%	15%	16%
% in EBITDA	21%	27%	28%	28%	28%	28%	29%	26%	26%	27%	27%	27%
Net profit	1,708,814	1,238,258	1,110,378	1,112,719	1,083,741	1,070,535	1,049,142	1,217,159	1,196,254	1,177,148	1,157,570	1,138,249
Dividends	1,708,814	1,238,258	1,110,378	1,112,719	1,083,741	1,070,535	1,049,142	1,217,159	1,196,254	1,177,148	1,157,570	1,138,249
Pay-out	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
DPS	4.43	3.21	2.88	2.89	2.81	2.78	2.72	3.16	3.10	3.05	3.00	2.95
% growth rate in DPS	16%	-28%	-10%	0%	-3%	-1%	-2%	16%	-2%	-2%	-2%	-2%
FCFs	1,541,325	1,251,003	1,131,392	1,135,379	1,130,331	1,131,466	1,129,312	1,220,922	1,313,488	1,312,444	1,311,133	1,309,859
% growth rate in FCFs	64%	-19%	-10%	0%	0%	0%	0%	8%	8%	0%	0%	0%
DCFs	1,288,785	954,322	787,409	720,905	654,777	597,970	544,506	537,065	527,127	480,530	437,962	399,176
% growth rate in DCFs	50%	-26%	-17%	-8%	-9%	-9%	-9%	-1%	-2%	-9%	-9%	-9%
DDMs	1,428,832	944,600	772,784	706,517	627,788	565,769	505,851	535,409	480,079	430,993	386,667	346,879
% growth rate in DDMs	6%	-34%	-18%	-9%	-11%	-10%	-11%	6%	-10%	-10%	-10%	-10%
Multiples@TP												
P/E	8.37	11.55	12.88	12.85	13.19	13.36	13.63	11.75	11.95	12.15	12.35	12.56
P/BV	1.52	1.55	1.57	1.60	1.62	1.65	1.67	1.70	1.73	1.75	1.78	1.81
EV/EBITDA	5.21	6.57	6.83	6.74	6.79	6.77	6.78	6.05	6.05	6.05	6.05	6.05
P/S	3.29	3.79	3.87	3.84	3.85	3.84	3.84	3.84	3.84	3.84	3.84	3.83
DIVY@mkt price	14.2%	10.3%	9.2%	9.3%	9.0%	8.9%	8.7%	10.1%	9.9%	9.8%	9.6%	9.5%
DIVY@target price	12.0%	8.7%	7.8%	7.8%	7.6%	7.5%	7.3%	8.5%	8.4%	8.2%	8.1%	8.0%

DCF assumptions	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Long Term Free Risk Rate	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
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%
Cost of Equity	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%
Target Capital Gearing	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Discount rate (WACC)	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%

	DCF	DDM
Present value of FCFs (17E-19E)	3,889,396	3,146,216
Present value of FCFs 2nd stage (20E-28E)	4,900,018	4,585,952
TV	15,365,597	15,699,209
PV of TV	4,682,626	4,784,293
Total FCFs	13,472,040	12,516,461
(+) book value of investments (-) minorities (17E)	100,743	
EV	13,572,783	12,516,461
(-) net debt (17E)	-2,848,278	
(-) other adjustments	338,320	
(-) dividends to be paid/collected		
Shareholder's value:	16,082,740	12,516,461
Shareholder's value/share:	42	32
Upside/downside (%)	33.7%	4.1%
Blended value (50% DCF/50% DDM)	37	
Upside/downside (%)	18.9%	

Source: SSIF IEBA TRUST

RELATIVE VALUATION

The relative valuation shows premiums due to recovery from lows – only 9.2% below 52wks high and 38% recovery from lows, and higher market multiples compared to peers – EBITDA margin is higher compared to peers, financials are debt free, dividend yield is also double compared to peers.

Table. Relative Valuation

Ticker	Company name	EV/EBITDA			P/BV			P/S			Dividend yield		
		2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
SNG RO	SOCIETATEA NATIONALA DE GAZE	4.88	4.67	4.44	1.25	1.22	1.18	3.18	3.02	2.82	8.8%	9.2%	9.8%
NVTK RM	NOVATEK PJSC	9.58	8.08	7.45	2.38	1.99	1.63	3.17	3.01	2.92	2.5%	3.0%	3.7%
SIA LN	SOCO INTERNATIONAL PLC	4.37	2.97	1.90	0.66	0.67	0.68	3.19	2.61	2.05	4.9%	2.4%	3.2%
FPM LN	FAROE PETROLEUM PLC	5.07	4.19	3.15	1.25	1.26	0.97	1.66	1.44	1.28	0.0%	0.0%	0.0%
AKERBP NO	AKER BP ASA	4.48	3.94	3.80	2.39	2.29	2.22	2.37	2.21	2.17	4.2%	4.5%	4.9%
CNE LN	CAIRN ENERGY PLC		5.87	4.21	0.62	0.62	0.60	12.13	2.95	2.53	0.0%	0.0%	0.0%
NOG LN	NOSTRUM OIL & GAS PLC	6.98	3.92	2.24	1.30	1.14	0.96	2.01	1.32	0.91	0.2%	1.9%	5.2%
IPCO SS	INTERNATIONAL PETROLEUM COR	2.44	1.47	1.06	1.16	0.88	0.76	1.51	1.42	1.66	0.7%	5.7%	5.7%
PGN PW	POLSKIE GORNICTWO NAFTOWE I	5.04	4.69	4.37	1.11	1.05	0.99	1.09	1.02	0.94	3.5%	4.4%	4.4%
Median of Peers		4.96	4.19	3.80	1.25	1.14	0.97	2.37	2.21	2.05	2.5%	3.0%	4.4%
Romgaz Multiples		4.88	4.67	4.44	1.25	1.22	1.18	3.18	3.02	2.82	8.8%	9.2%	9.8%
<i>Premium/Discount (%)</i>		-2%	11%	17%	0%	7%	23%	34%	37%	38%	n/m	n/m	n/m
Romgaz Multiples @ TP		5.21	6.57	6.83	1.52	1.55	1.57	3.29	3.79	3.87	12.0%	8.7%	7.8%
<i>Premium/Discount (%)</i>		5%	57%	80%	22%	36%	63%	39%	72%	89%	n/m	n/m	n/m

Source: SSIF IEBA TRUST, Bloomberg

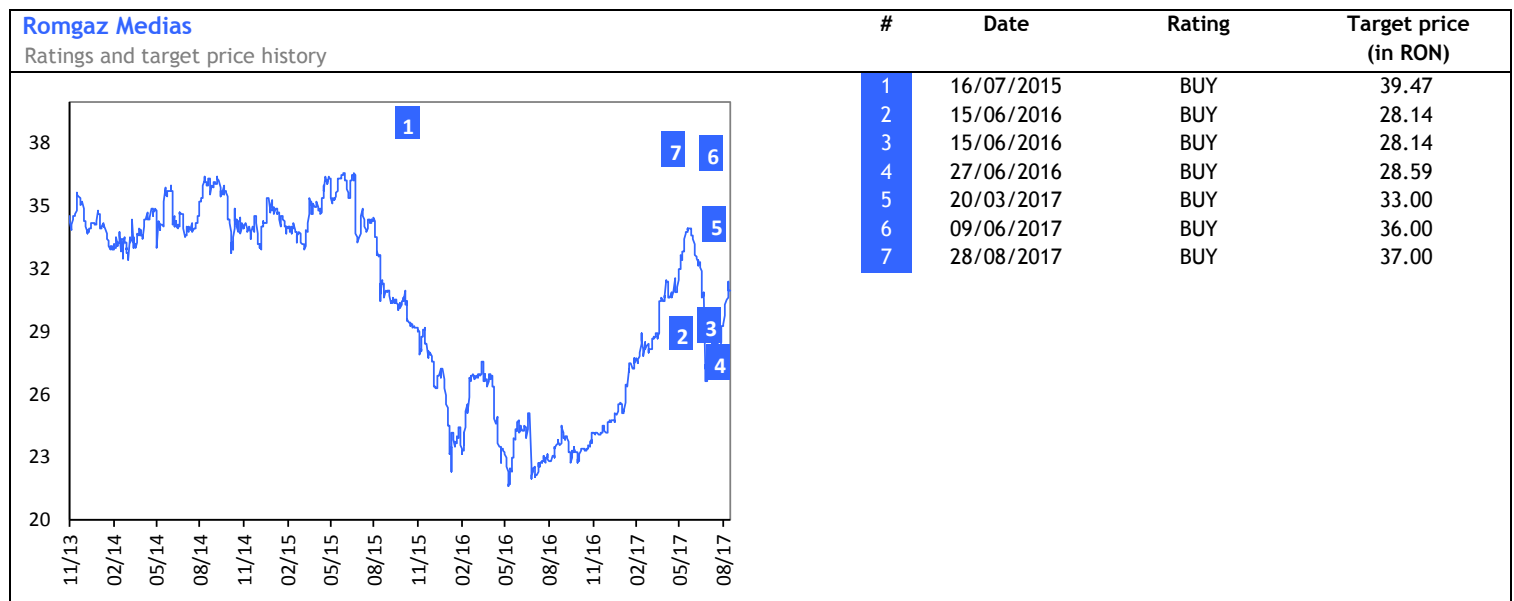
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SSIF IEBA TRUST uses a Relative recommendation system. Such system indicates that each stock is rated on a basis of the excess return, measured by the relative value of the target (calculated) price and the current price, over a 12 months period of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