

Company Update

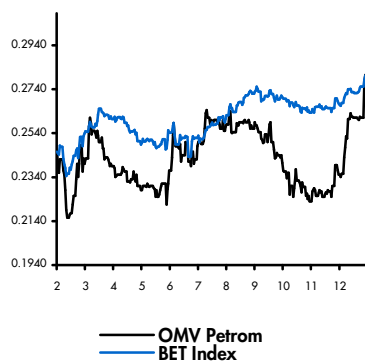
OMV Petrom

January 5, 2017

Oil & Gas/Romania

Buy

Price 04.01.17*	0.2805
Price target	0.3400
Volatility risk	medium
Year high/low	0.2805/0.2155
Currency	RON
RON/EUR	4.51
GDR rate	n.a.
Shares outstanding eoy in mn	56,644.11
Market capitalisation (total shares) in EUR mn	3,523.3
Free float	15.8%
Free float in EUR mn	556.3
Avg. daily turnover (12 m) in EUR mn	0.29
Index	BETI
ISIN code	ROSPPACNOR9
Bloomberg	SNP RO
Reuters	ROSNP.BX
www.petrom.com	



Source: Raiffeisen Centrobank

Catching up on stronger E&P and resilient R&M earnings

After a strong underperformance last year (Petrom's share price decreased by 10% vs. +23% growth of the STOXX Europe 600 Oil&Gas Index), Petrom had a strong start into the year. Besides generally positive sentiment on the global oil market, we reckon that a number of company-specific developments might be helping the company to catch up. Petrom remains strongly geared towards the upstream segment with almost 70% of the projected 2017-18e EBIT to be generated by the E&P segment, which makes it a preferred play under a stronger oil price scenario. Although most of its upstream portfolio is represented by mature oil fields, the decline rate of production remains within a satisfactory range (-2.5% in 2016e). Moreover, the efficiency improvement achieved in the upstream segment prompts us to believe that the lower level of production costs seen in 2016e should be sustainable in the medium term. We do not expect stronger oil prices to hurt Petrom's refining and marketing (R&M) earnings either. Almost 70% of the R&M clean operating profit is generated by the retail business, according to our estimates. Therefore, we expect Petrom's R&M earnings to be more resilient even in a higher oil price environment, being supported by a robust increase of motor fuel consumption in the CEE region. An impressive improvement of the reported net profit that we expect in 2016-17e combined with significantly higher free cash flow estimated in 2017-18e would strengthen the case for a resumption of dividend payments. Consequently, we estimate the DPS to increase in line with net earnings, assuming a payout ratio of ca. 40%. In conclusion, we raise our 12m TP to RON 0.34 (RON 0.28 prev.) and keep Petrom on BUY.

Valuation: We derive our target price and recommendation based on DCF valuation. For information purposes only, we also run a sum-of-the-parts (SOTP) and relative valuation to cross-check our DCF findings. Both auxiliary methods imply that Petrom's share price has an attractive upside. Thus, the SOTP returns a fair value per share of RON 0.37. On a relative basis, Petrom is trading at a >50% discount (based on 2017e EV/EBITDA) to its global peers vs. an average historical discount of 35%. With almost 10 years of 1P reserves life, we reckon that a 2017e EV/EBITDA of 2.9x and P/E of 5.9x are not justified and support our BUY recommendation for Petrom.

Key figures and ratios

RON	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Sales (mn)	21,541	18,144	16,393	19,505	20,005
EBITDA (mn)	8,145	6,805	5,111	6,600	6,795
EBIT (mn)	3,338	44	1,735	3,276	3,474
Net profit a.m. (mn)	2,103	-91	1,500	2,713	2,886
Earnings per share (adj.)	0.066	0.042	0.028	0.048	0.051
EPS adjusted growth	-23.1%	-36.2%	-33.4%	70.7%	6.3%
Adjusted PE ratio	6.2	6.9	9.3	5.9	5.5
DPS	0.01	0.00	0.01	0.02	0.02
Dividend yield	2.7%	0.0%	3.8%	7.1%	7.1%
EV/EBITDA	3.6	3.4	3.9	2.9	2.5
Price book value	0.9	0.6	0.5	0.5	0.5

Source: OMV Petrom, Raiffeisen Centrobank estimates

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6.30 AM on 05.01.17, Source: Reuters/Bloomberg

Share price triggers

Trigger	Momentum	Explanation
Oil price	positive	<ul style="list-style-type: none"> The joint decision of OPEC and several large non-OPEC producers to cut production by 1.8 mn boepd has led to a strong recovery of the oil price. Going forward, we expect the price of Brent to stabilise above USD 60/bbl.
Domestic gas prices	neutral	<ul style="list-style-type: none"> We do not expect the gas price to stay correlated with the oil price due to (i) de-linkage of the Russian gas price from the price of crude oil and (ii) Russia's strategy to defend its market share in Europe.
Refining margins	neutral	<ul style="list-style-type: none"> We reckon that an oil price of USD 60-70/bbl should not be too painful for the consumption of motor fuels in the CEE, which we see growing by 3-5% p.a. in the medium term. Moreover, we believe that Petrom derives most of its R&M earnings from retail activities, which should display a higher resilience vis-a-vis rising oil prices.
Upstream production costs	positive	<ul style="list-style-type: none"> We expect the efficiency improvement reached over the last two years to be sustainable going forward.
Dividends	positive	<ul style="list-style-type: none"> We reckon with higher DPS in 2017-18e on the back of stronger earnings generation and moderate capex needs, at least until the final investment decision on the Black Sea deep-water gas field is taken.
Share overhang	negative	<ul style="list-style-type: none"> After the expiry of the lock-up period in October 2017, Fondul Proprietatea could consider reducing its stake (12.56%) in Petrom further, thus putting some temporary pressure on its share price.

Source: Raiffeisen Centrobank

Changes to our planning model

Most of our medium-term changes refer to the upstream segment and were triggered by our upward revision of the oil price, lifting the 2016-18e output of hydrocarbons and lowering the 2017-18e production costs.

The return of OPEC to reduce oil price volatility

After a two-year experiment with free markets, OPEC surprised the market on Nov. 30, when the cartel decided to cut its total production of crude oil by 1.2 mn boepd – as we had expected. Shortly thereafter, several non-OPEC producers, including Russia, Mexico, Kazakhstan, Oman and Azerbaijan, joined the pact by deciding to cut their output by 0.6 mn boepd. Assuming that the global demand for crude oil rises by another 1.2 mn boepd, the announced cuts of 1.8 mn boepd would be more than enough to put the global oil market back into balance (assuming no significant production increase from countries like Iran, Libya or USA). Therefore, we have raised our 2017e oil price forecast for Brent to USD 58.5/bbl from USD 55.0/bbl previously.

Output decline expected below 3% in 2016-17e

The 2016e output proved to be more resilient than the initial guidance by the management. We estimated a 2.5% decrease of the 2016e output yoy vs. up to a 4.0% decline guided by the management. We reckon that in a stronger and less volatile oil price environment, Petrom could spend more on oilfield redevelopment and thus maintain a lower rate of production decline.

Upstream production costs seen staying low

We project lower than previously assumed upstream production cash costs, since we believe that the improvement achieved in the previous two years should be sustainable in the longer term. Despite higher oil prices, we expect Petrom (similarly to other oil companies) to spend cautiously on exploration and appraisal.

Changes to our forecast

in RON mn	previous			new			comments
	2016e	2017e	2018e	2016e	2017e	2018e	
Total hydrocarbon production, kboe/day	171,823	165,804	159,999	174,210	169,893	164,639	stronger oil price should increase spending on field redevelopments and lower the decline rate of production
chg, yoy	-3.8%	-3.5%	-3.5%	-2.5%	-2.5%	-3.1%	
Avg price of Brent, USD/bbl	44.0	55.0	65.0	43.6	58.5	65.0	2017e forecast revised following OPEC agreement to cut
Total upstream production cash costs, USD/boe	16.7	17.7	19.8	16.5	16.7	18.1	the achieved efficiency improvement should be sustainable
Total capex	2,866	2,909	3,133	2,684	3,077	3,533	2017e capex is seen lower on E&A spending
Clean CCS EBIT:	1,219	2,251	2,692	1,654	3,277	3,475	
thereof E&P	393	1,217	1,642	685	2,234	2,419	lifted by lower production costs and higher oil prices
thereof Downstream Oil	988	1,029	1,046	1,070	1,082	1,089	
thereof Downstream Gas	15	55	50	20	21	27	
thereof C&O and consolidation	-177	-51	-46	-122	-60	-60	
clean EBITDA	4,598	5,612	6,014	5,030	6,600	6,795	mainly driven by the upstream segment
Net profit a.m.	1,058	1,728	2,100	1,500	2,713	2,886	
DPS, in RON	0.007	0.012	0.015	0.010	0.020	0.020	we assumed a flat payout ratio of 40%

Source: Raiffeisen Centrobank estimates

Important: Please read the references at the end of this report to possible conflicts of interest and disclaimers/disclosures.

We keep Petrom on BUY, raising our 12m TP to RON 0.34

Valuation

Our updated DCF model yielded a higher 12-month target price of RON 0.34 (RON 0.28 prev.), which justifies our BUY recommendation. We cross-check our DCF findings with a sum-of-the-parts (SOTP) valuation, which we show for information purposes only. The SOTP result points to a higher fair value.

Sum-of-the-parts valuation

	Qty	Unit	Valuation multiple	Multiple value	Unit	USD mn	per share, RON	comments
Upstream	615	mn boe	EV/1P	10.0	USD/boe	6,150	0.47	implies a 2017e EV/EBITDA of 5.6x
Downstream Oil			2016e EV/EBITDA	4.0	x	1,570	0.12	we use PKN Orlen's discounted multiples
Downstream Gas			P/BV	0.5	x	173	0.01	discounted BV due to weak market environment
Overheads			Perpetuity	-100	RON mn	-952	-0.07	
Provisions						-2,099	-0.16	
EV						4,842	0.37	
Net debt						-32	0.00	
Fair value						4,874	0.37	

Source: OMV Petrom, Raiffeisen Centrobank estimates

Segments' contributions to SOTP valuation, in RON/share



Source: Raiffeisen Centrobank estimates

Unjustified discount to global oils

On a relative basis, Petrom continues to trade at a discount to its peers, which could be partially justified by the characteristics of its upstream portfolio (i.e. mature fields facing high risk of a natural decline). However, we find the >50% discount (based on 2017-18e EV/EBITDA) to global peers unjustified. Historically, Petrom was trading at an average discount of 35% to its global peers. Even under a "do nothing" scenario (meaning no investments in reserves replacement), we believe that Petrom's 2017e EV/EBITDA and P/E do not reflect the current sentiment in the oil market and the potential earnings improvement on the back of stronger oil prices.

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Peer group

	EV/EBITDA			P/CE			P/E			Share price perf.	
	2016e	2017e	2018e	2016e	2017e	2018e	2016e	2017e	2018e	2016	YTD
Gazprom Neft	5.0	3.8	3.3	3.9	3.1	2.6	5.9	4.2	3.7	39.0%	7.0%
LUKoil	4.2	3.3	2.8	4.2	3.7	3.3	13.2	9.7	8.6	77.0%	2.0%
Rosneft	4.8	4.1	4.0	4.6	3.6	3.3	17.5	10.2	11.0	89.0%	2.4%
Median integrated Russian	4.8	3.8	3.3	4.2	3.6	3.3	13.2	9.7	8.6		
MOL	4.7	4.3	3.7	3.4	3.5	3.4	8.0	8.3	7.7	45.0%	2.4%
OMV	5.1	4.0	3.6	3.5	3.6	2.9	33.2	9.9	7.7	29.0%	2.5%
Repsol YPF	5.9	5.0	4.6	13.6	9.8	8.4	12.6	11.0	9.8	33.0%	1.5%
Statoil	n.m.	3.8	3.3	n.m.	7.2	5.6	n.m.	17.9	14.2	28.0%	1.3%
Median integrated regional	5.1	4.2	3.7	3.5	5.4	4.5	12.6	10.4	8.8		
BP	6.8	6.0	5.2	7.3	5.7	5.0	34.5	16.3	12.9	43.0%	1.5%
Chevron	12.3	7.3	6.1	13.9	8.2	7.1	90.1	26.2	18.6	31.0%	0.1%
Exxon	12.9	8.4	8.9	15.3	10.1	9.3	42.3	21.8	20.9	16.0%	0.7%
Royal Dutch Shell	5.8	4.3	3.4	8.7	5.7	5.0	27.1	15.2	11.8	47.0%	1.1%
Total	7.5	5.6	4.6	6.9	5.3	4.7	15.4	12.4	10.6	18.0%	0.0%
Median integrated global	7.5	6.0	5.2	8.7	5.7	5.0	34.5	16.3	12.9		
Petrom BBG consensus	2.8	2.9	1.8	3.5	3.2	2.9	8.1	7.1	4.3		
OMV Petrom	3.9	2.9	2.5	3.2	2.7	2.5	9.3	5.9	5.5	-10.0%	9.0%
Premium / (discount) regional	-23%	-31%	-31%	-7%	-50%	-43%	-26%	-44%	-37%		
Premium / (discount) global	-48%	-52%	-51%	-63%	-52%	-50%	-73%	-64%	-57%		

Source: Raiffeisen Centrobank estimates, Bloomberg consensus

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DCF Valuation

<i>FCF projection (RON mn)</i>	2016e	2017e	2018e	2019e	2020e	2021e	TV CF
Consolidated sales	16,393.4	19,504.6	20,004.9	20,257.5	20,664.5	20,749.6	20,707.8
EBITDA	5,111.4	6,599.9	6,794.9	6,678.0	6,680.6	6,512.9	6,108.8
EBITA	1,735.4	3,276.0	3,473.9	3,356.9	3,360.9	3,192.2	3,108.8
Taxes paid on EBITDA	-220.3	-516.8	-555.8	-537.1	-537.7	-510.7	-497.4
NOPLAT	1,513.2	2,751.8	2,918.1	2,819.8	2,823.2	2,681.4	2,611.4
Adj. NOPLAT	1,513.2	2,751.8	2,918.1	2,819.8	2,823.2	2,681.4	2,611.4
Depreciation of PPE & intangibles	3,376.0	3,323.9	3,321.0	3,321.1	3,319.7	3,320.7	3,000.0
Gross investment in PPE & intangibles	-2,684.0	-3,077.0	-3,533.0	-3,570.0	-3,570.0	-3,570.0	-2,536.4
Change in working capital	-370.5	-211.1	22.9	-62.9	47.0	-2.9	0.0
NWC/Sales	-0.8%	0.4%	0.3%	0.6%	0.3%	0.4%	0.0%
Change in LT provisions other than tax	44.8	5.0	5.0	5.0	5.0	5.0	
Net acquisitions & disposals	0.0	0.0	0.0	0.0	0.0	0.0	
Free cash flow to firm	1,879.4	2,792.6	2,734.0	2,513.0	2,624.9	2,434.3	3,075.0
Adj. free cash flow to firm	1,879.4	2,792.6	2,734.0	2,513.0	2,624.9	2,434.3	3,075.0
EV DCF, mid-year assumption	23,186.1	22,637.5					
+ MV of non-operating assets eop	40.9	42.7					
- MV of net debt eop	-676.5	-2,864.2					
- MV of minorities eop	-55.1	-55.1					
Adjustments to EV eop	-6,218.1	-6,342.5					
Fair value of equity	17,740.4	19,257.1					
Shares outstanding (mn)	56,644.1	56,644.1					
Fair value per share (in RON)	0.3132	0.3400					

<i>Value drivers</i>	2016e	2017e	2018e	2019e	2020e	2021e	TV CF
Consolidated sales yoy	-9.7%	19.0%	2.6%	1.3%	2.0%	0.4%	-4.0%
EBITDA margin	31.2%	33.8%	34.0%	33.0%	32.3%	31.4%	29.5%
Rate of taxes paid	-12.8%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%
Working capital/sales	-0.8%	0.4%	0.3%	0.6%	0.3%	0.4%	0.0%
Capex/depreciation	79.5%	92.6%	106.4%	107.5%	107.5%	107.5%	84.5%
Free cash flow margin	11.5%	14.3%	13.7%	12.4%	12.7%	11.7%	14.8%

<i>WACC</i>	2016e	2017e	2018e	2019e	2020e	2021e	TV CF
Target capital structure (at MV)	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%	95.0%
Debt/equity ratio (at MV)	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%
Risk free rate (local)	3.8%	4.1%	4.5%	4.6%	4.7%	4.7%	4.5%
Equity market premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Levered beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	9.8%	10.1%	10.5%	10.6%	10.7%	10.7%	10.5%
Cost of debt	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Tax rate	-12.8%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%
WACC	9.5%	9.8%	10.2%	10.3%	10.4%	10.4%	10.2%

Sensitivity analysis

<i>Growth sensitivity (RON)</i>	<i>Terminal growth rate</i>						
WACC	-5.5%	-5.0%	-4.5%	-4.0%	-3.5%	-3.0%	-2.5%
8.7%	0.359	0.369	0.380	0.392	0.404	0.418	0.433
9.2%	0.343	0.352	0.362	0.373	0.384	0.397	0.410
9.7%	0.329	0.337	0.346	0.356	0.366	0.378	0.390
10.2%	0.315	0.323	0.331	0.340	0.350	0.360	0.371
10.7%	0.302	0.309	0.317	0.325	0.334	0.343	0.353
11.2%	0.290	0.297	0.304	0.311	0.319	0.328	0.337
11.7%	0.279	0.285	0.292	0.299	0.306	0.314	0.322

<i>Margin sensitivity (RON)</i>	<i>FCF margin TV</i>						
WACC	13.3%	13.8%	14.3%	14.8%	15.3%	15.8%	16.3%
8.7%	0.364	0.373	0.382	0.392	0.401	0.410	0.419
9.2%	0.347	0.356	0.364	0.373	0.382	0.390	0.399
9.7%	0.332	0.340	0.348	0.356	0.364	0.372	0.380
10.2%	0.317	0.325	0.332	0.340	0.348	0.355	0.363
10.7%	0.303	0.311	0.318	0.325	0.332	0.340	0.347
11.2%	0.291	0.298	0.305	0.311	0.318	0.325	0.332
11.7%	0.279	0.286	0.292	0.299	0.305	0.311	0.318

Source: Raiffeisen Centrobank estimates

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<i>Income statement (RON mn)</i>	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Consolidated sales	24,183.5	21,540.7	18,144.4	16,393.4	19,504.6	20,004.9
Cost of sales	-16,130.3	-16,293.7	-16,787.9	-13,364.7	-14,718.6	-14,927.8
Gross profit	8,053.2	5,247.0	1,356.5	3,028.6	4,786.0	5,077.2
Other operating income	298.3	315.9	501.5	482.9	575.9	593.4
Selling expenses	-1,090.4	-1,077.7	-939.2	-943.4	-1,123.1	-1,145.6
Administrative expenses	-193.6	-189.2	-182.9	-138.4	-172.8	-178.0
Other operating expenses	-1,111.3	-957.6	-692.0	-694.4	-790.0	-873.0
EBITDA	9,297.3	8,144.8	6,804.8	5,111.4	6,599.9	6,794.9
Adjusted EBITDA	9,297.3	8,144.8	6,804.8	5,030.1	6,599.9	6,794.9
Depreciation of PPE and intangibles	-3,341.2	-4,806.3	-6,761.0	-3,376.0	-3,323.9	-3,321.0
EBITA	5,956.1	3,338.4	43.8	1,735.4	3,276.0	3,473.9
Amortisation, impairment of goodwill	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	5,956.1	3,338.4	43.8	1,735.4	3,276.0	3,473.9
Adjusted EBIT	6,013.1	4,164.4	43.8	1,735.4	3,276.0	3,473.9
Investment income	4.4	10.6	8.2	9.1	9.1	9.1
Net interest income	-154.3	-476.8	-161.1	-20.0	-54.9	-47.7
Other financial result	-109.4	36.9	-7.9	-4.2	0.0	0.0
Financial result	-259.3	-429.3	-160.8	-15.0	-45.7	-38.6
Earnings before taxes	5,696.9	2,909.1	-117.0	1,720.4	3,230.3	3,435.3
Taxes on income	-874.6	-809.6	12.0	-220.3	-516.8	-549.6
Extraordinary result	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	4,822.3	2,099.6	-104.9	1,500.1	2,713.4	2,885.7
Minority interests	-2.0	3.1	13.9	0.0	0.0	0.0
Net profit after minorities	4,820.3	2,102.7	-91.0	1,500.1	2,713.4	2,885.7
Adjusted Net profit	4,870.6	3,746.0	2,388.8	1,589.9	2,714.0	2,886.2
Changes yoy	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Consolidated sales yoy	-7.9%	-10.9%	-15.8%	-9.7%	19.0%	2.6%
EBITDA yoy	9.2%	-12.4%	-16.5%	-24.9%	29.1%	3.0%
EBITA yoy	5.2%	-44.0%	-98.7%	3,860.3%	88.8%	6.0%
EBIT yoy	5.2%	-44.0%	-98.7%	3,860.3%	88.8%	6.0%
EBT yoy	18.1%	-48.9%	-104.0%	n.a.	87.8%	6.3%
Net profit after minorities yoy	21.9%	-56.4%	-104.3%	n.a.	80.9%	6.3%
Margins	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Gross margin	33.3%	24.4%	7.5%	18.5%	24.5%	25.4%
EBITDA margin	38.4%	37.8%	37.5%	31.2%	33.8%	34.0%
EBITA margin	24.6%	15.5%	0.2%	10.6%	16.8%	17.4%
EBIT margin	24.6%	15.5%	0.2%	10.6%	16.8%	17.4%
EBT margin	23.6%	13.5%	-0.6%	10.5%	16.6%	17.2%
Net margin	19.9%	9.8%	-0.5%	9.2%	13.9%	14.4%
Profitability	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Return on assets	13.1%	5.9%	0.5%	4.1%	6.8%	6.8%
Return on equity	19.2%	7.8%	-0.3%	5.7%	9.6%	9.5%
Return on capital employed	19.1%	8.6%	0.8%	6.0%	9.8%	9.7%
Cash flow statement (RON mn)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Earnings before taxes	5,698.0	2,909.2	-726.0	1,720.4	3,230.3	3,435.3
Taxes paid	-905.0	-926.6	-728.6	-220.3	-516.8	-549.6
Amortisation and depreciation	3,354.0	4,806.3	6,761.1	3,376.0	3,323.9	3,321.0
Other non-cash items	-23.5	360.6	-66.0	44.8	5.0	5.0
Cash flow from result	8,123.5	7,149.5	5,240.6	4,920.9	6,042.3	6,211.6
Change in working capital	-76.5	-319.7	146.2	-370.5	-211.1	22.9
Operating cash flow	8,047.0	6,829.9	5,386.8	4,550.4	5,831.2	6,234.6
Capex PPE and intangible assets	-4,995.0	-5,909.5	-5,025.0	-2,684.0	-3,077.0	-3,533.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0
Disposal of fixed assets (total)	100.9	296.7	71.9	0.0	0.0	0.0
Other items (investments)	0.0	-45.3	0.0	0.0	0.0	0.0
Investing cash flow	-4,894.1	-5,658.1	-4,953.1	-2,684.0	-3,077.0	-3,533.0
Dividend payments	-1,574.3	-1,731.0	-630.7	0.0	-566.4	-1,132.9
Other changes in equity	0.0	0.0	0.0	0.0	0.0	0.0
Change in financial liabilities	-837.3	397.5	-267.7	-102.4	0.0	0.0
Other items	0.0	0.0	0.0	0.0	0.0	0.0
Financing cash flow	-2,411.7	-1,333.6	-898.4	-102.4	-566.4	-1,132.9

Source: OMV Petrom, Raiffeisen Centrobank estimates

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Balance sheet (RON mn)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Current assets	5,486.5	5,868.4	4,979.9	6,580.0	9,394.7	11,000.5
Liquid funds	1,408.2	1,268.0	812.6	2,576.5	4,764.2	6,332.9
Receivables	1,429.2	2,350.3	1,318.3	1,311.5	1,512.0	1,526.7
Inventories	1,996.3	2,250.1	1,965.1	1,882.0	2,318.4	2,340.9
Other assets	652.8	0.0	884.0	810.0	800.0	800.0
Fixed assets	33,682.6	36,208.6	34,575.3	33,883.4	33,636.5	33,848.5
Property, plant & equipment	30,659.4	32,289.6	29,278.2	28,606.2	28,379.4	28,611.4
Intangible assets	814.7	1,656.9	2,430.0	2,410.0	2,390.0	2,370.0
Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
Financial assets	2,208.5	2,262.1	2,867.1	2,867.1	2,867.1	2,867.1
Deferred tax assets	877.3	1,047.8	1,562.9	1,562.9	1,562.9	1,562.9
Total assets	40,046.4	43,124.8	41,118.1	42,026.2	44,594.0	46,411.9
Current liabilities	5,166.9	6,159.7	5,048.5	4,335.4	4,751.2	4,811.3
Short-term borrowings	189.0	273.7	378.7	200.0	200.0	200.0
Notes & trade payables, payments received	2,958.0	2,899.2	2,317.8	2,049.2	2,438.1	2,480.6
Other current liabilities	2,019.9	2,986.7	2,352.0	2,086.2	2,113.2	2,130.7
Long-term liabilities	8,227.1	9,959.8	10,381.6	10,502.7	10,507.7	10,512.7
Long-term borrowings	1,254.0	1,589.0	1,423.7	1,500.0	1,500.0	1,500.0
Long-term provisions	6,683.8	8,091.8	8,678.9	8,723.7	8,728.7	8,733.7
Other long-term liabilities	289.3	279.1	279.0	279.0	279.0	279.0
Hybrid & other mezzanine capital	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	26,670.4	27,041.6	25,743.1	27,243.3	29,390.3	31,143.0
Minority interests	-29.0	-36.3	-55.1	-55.1	-55.1	-55.1
Deferred tax liabilities	11.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	40,046.4	43,124.8	41,118.1	42,026.2	44,594.0	46,411.9
Balance sheet (RON mn)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Net working capital	-899.6	-1,285.6	-502.4	-131.9	79.2	56.3
Net interest-bearing debt	34.8	594.6	989.9	-876.5	-3,064.2	-4,632.9
Capital employed	28,084.4	28,867.9	27,490.5	28,888.2	31,035.2	32,787.9
Market capitalisation	26,611.4	23,110.8	16,426.8	14,784.1	15,888.7	15,888.7
Enterprise value	31,116.8	29,493.2	23,173.1	19,910.9	18,830.9	17,267.2
Financing (x)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Interest cover	26.4	17.1	19.0	23.7	27.0	27.1
Internal financing ratio	1.6	1.2	1.1	1.7	1.9	1.8
Net gearing	0.1%	2.2%	3.9%	-3.2%	-10.4%	-14.9%
Quick ratio	0.7	0.6	0.6	1.1	1.5	1.8
Fixed assets cover	1.0	1.0	1.0	1.1	1.2	1.2
Capex / depreciation	1.8	2.1	1.6	0.8	0.9	1.1
Equity ratio	66.5%	62.6%	62.5%	64.7%	65.8%	67.0%
Per share data (RON)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
Weighted avg. no. of shares (mn)	56,644.1	56,644.1	56,644.1	56,644.1	56,644.1	56,644.1
EPS reported	0.0851	0.0371	-0.0016	0.0265	0.0479	0.0509
Earnings per share (adj.)	0.0860	0.0661	0.0422	0.0281	0.0479	0.0510
Operating cash flow per share	0.1421	0.1206	0.0951	0.0803	0.1029	0.1101
Book value per share	0.4708	0.4774	0.4545	0.4810	0.5189	0.5498
DPS	0.0308	0.0112	0.0000	0.0100	0.0200	0.0200
Payout ratio	36.2%	30.2%	0.0%	37.8%	41.8%	39.3%
Valuation (x)	12/2013	12/2014	12/2015	12/2016e	12/2017e	12/2018e
PE reported	5.5	11.0	-180.5	9.9	5.9	5.5
Adjusted PE ratio	5.5	6.2	6.9	9.3	5.9	5.5
Price cash flow	3.3	3.4	3.0	3.2	2.7	2.5
Price book value	1.0	0.9	0.6	0.5	0.5	0.5
Dividend yield	6.6%	2.7%	0.0%	3.8%	7.1%	7.1%
Free cash flow yield	11.7%	5.0%	2.6%	12.7%	17.4%	17.1%
EV/sales	1.3	1.4	1.3	1.2	1.0	0.9
EV/EBITDA	3.3	3.6	3.4	3.9	2.9	2.5
EV/EBIT	5.2	8.8	528.8	11.5	5.7	5.0
EV/operating cash flow	3.9	4.3	4.3	4.4	3.2	2.8
Adjusted EV/CE	1.2	1.1	0.9	0.8	0.8	0.7
Adjusted EV/CE vs. ROCE/WACC				1.2	0.8	0.8

Source: OMV Petrom, Raiffeisen Centrobank estimates

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Fact Sheet

Company description

Petrom is the largest integrated oil & gas group in SEE. The group owned 0.92 bn boe of 2P hydrocarbon reserves in Romania (0.87 bn boe) and Kazakhstan as of end-2015. At end-2015, the three-year average reserves replacement ratio stood at 35%. Although most of domestic upstream production comes from mature fields, Petrom managed to keep the production decline under 3%. In 2014 Petrom finalised a modernisation program worth EUR 600 mn of its Petrobrazi refinery, with annual refining capacity of 4.5 mtpa, designed to allow for the processing of the whole domestic oil production and increase the yields of middle distillates. Petrom operates some 785 filling stations in Romania, Moldova, Bulgaria and Serbia with a market share of 33% in 2015. Petrom entered the power generation industry with the construction of a first 860 MW gas-fired power plant, which started operating in August 2012. In February 2012, Petrom announced a potentially significant offshore gas discovery in Romania (42 to 84 bcm). The final investment decision could be taken in around two years. Following the slide in the crude price, Petrom has cut its CAPEX forecasts to EUR 700 mn.

Strengths/Opportunities

- Leading position in Romanian E&P; the group owns the complete oil and a large part of the gas reserves.
- Know-how transfer from core shareholder OMV can help to improve the recovery ratio further.
- Petrom has achieved full integration of its oil production: 100% of refining input comes from own fields
- Strong marketing presence in SEE, market leader in Romania.
- Petrom has confirmed a potentially significant offshore gas discovery (gas reserves between 42 and 84 bcm).

Income statement (RON mn)	12/2015	12/2016e	12/2017e	12/2018e
Consolidated sales	18,144.4	16,393.4	19,504.6	20,004.9
EBITDA	6,804.8	5,111.4	6,599.9	6,794.9
EBIT	43.8	1,735.4	3,276.0	3,473.9
EBT	-117.0	1,720.4	3,230.3	3,435.3
Net profit bef. min.	-104.9	1,500.1	2,713.4	2,885.7
Net profit after min.	-91.0	1,500.1	2,713.4	2,885.7

Balance sheet

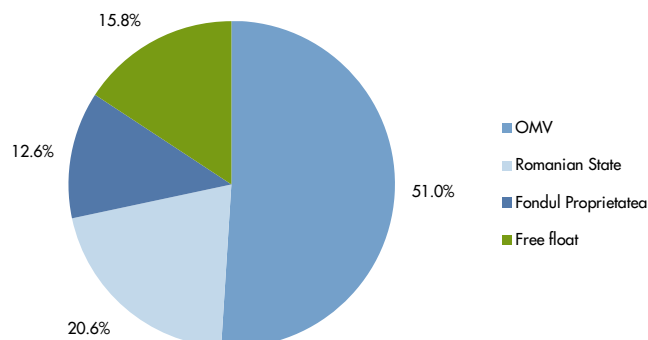
	12/2015	12/2016e	12/2017e	12/2018e
Total assets	41,118.1	42,026.2	44,594.0	46,411.9
Shareholders' equity	25,743.1	27,243.3	29,390.3	31,143.0
Goodwill	0.0	0.0	0.0	0.0
NIBD	989.9	-876.5	-3,064.2	-4,632.9

Cash flow statement

	12/2015	12/2016e	12/2017e	12/2018e
Operating cash flow	5,386.8	4,550.4	5,831.2	6,234.6
Investing cash flow	-4,953.1	-2,684.0	-3,077.0	-3,533.0
Change NIBD	-395.2	1,866.4	2,187.7	1,568.7

Source: OMV Petrom, Raiffeisen Centrobank estimates

Shareholder structure



Weaknesses/Threats

- Mature upstream assets and high fragmentation of resources (250 fields) create tendency for a permanent production decline and high opex.
- Uncertainty regarding future upstream taxation.
- Average reserve replacement ratio for the past three years of 35%.
- No dividend policy.

Per share data (RON)	12/2015	12/2016e	12/2017e	12/2018e
EPS pre-goodwill	-0.002	0.026	0.048	0.051
Adj. EPS diluted	0.042	0.028	0.048	0.051
Operating cash flow	0.095	0.080	0.103	0.110
Book value	0.454	0.481	0.519	0.550
Dividend	0.000	0.010	0.020	0.020
Payout ratio	0.0%	37.8%	41.8%	39.3%

Valuation (x)

	12/2015	12/2016e	12/2017e	12/2018e
PE pre-goodwill	-180.5	9.9	5.9	5.5
Adj. PE diluted	6.9	9.3	5.9	5.5
Price cash flow	3.0	3.2	2.7	2.5
Price book value	0.6	0.5	0.5	0.5
Dividend yield	0.0%	3.8%	7.1%	7.1%
FCF yield	2.6%	12.7%	17.4%	17.1%
EV/EBITDA	3.4	3.9	2.9	2.5
EV/EBIT	528.8	11.5	5.7	5.0
EV/operating CF	4.3	4.4	3.2	2.8

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Publication schedule

Date	Publication
16.02.2017	4Q Earnings release
25.04.2017	Annual General Meeting
25.04.2017	Annual report publication
11.05.2017	1Q Earnings release
10.08.2017	2Q Earnings release
09.11.2017	3Q Earnings release

Recommendation history

06.11.2003 (Initiation date)	Rating	Target Price	Prev. day's close	Upside
11.10.2016	Buy	0.2800	0.2335	19.9%
12.09.2016	Hold	0.2800	0.2545	10.0%
08.06.2016	Hold	0.2900	0.2530	14.6%
10.02.2016	Hold	0.2500	0.2350	6.4%
09.10.2015	Hold	0.3500	0.3355	4.3%
08.10.2015	Hold	0.3500	0.3320	5.4%
22.01.2015	Reduce	0.3500	0.3691	-5.2%

Coverage universe recommendation overview

	buy	hold	reduce	sell	suspended	UR
Universe	46	67	6	2	8	2
Universe %	35%	51%	5%	2%	6%	2%
Investment banking services	26	38	3	1	1	0
Investment banking services %	38%	55%	4%	1%	1%	0%

Source: Raiffeisen Centrobank, rounding differences may occur

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