Equity Research

Oil & Gas Integrated Company

OMV PETROM

Quarterly results missing slightly market expectations

Buy

Price 07/11/2012	**12m target**
RON 0.4105	**0.4929**

Sector

Weighting

Neutral

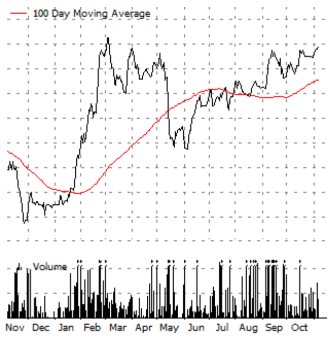
Last recommendation

Buy (TP:RON 0.47) on 21 Apr'11

Type of investment

Deregulation of electricity market	✓
Efficiency increase programme	✓
Deregulation of gas market	✓
Hedged on oil price	✓

1 year-Price, Volume, MA 100



Source: FactSet, BRD-GSG

OMV Petrom on www.petrom.com

Share data

RIC SNPP.BX, Bloomberg SNP.RO			
52-week range			0.275 – 0.4250
EV'12(RONm)-DCF			25,308
Marketcap.(RONm)			23,721
Free float(%)			6.21
Performance(%)	**1m**	**3m**	**12m**
Ordinary shares	1.9	6.3	29.1
Rel. to BET	0.3	2.6	19.9

Key figures

	Q2'12	Q3'12	qoq (%)	Q3'12 Cons.	BRD-GSG Q3'12e
Production (mn boe)	16.57	16.75	1.09	nav	16.57
Crude and NGL production (mn boe)	8.11	8.13	0.25	nav	8.14
Gas production (bcm)	1.30	1.32	1.54	nav	1.34
Net sales (RONm)	6,197	6,983	12.7	6,514	6,256
EBIT (RONm)	909	1,286	41.5	1,259	1,287
EBIT E&P*	1,192	1,289	8.1	nav	1,487.9#
EBIT G&P	29	59	nm	nav	45.2
EBIT R&M	(198)	266	na	nav	175.9
EBIT Corp&other	(37)	(29)	na	nav	(12.5)
EBIT Consolidation	(78)	(299)	na	nav	(271.3)
Net profit (RONm)	643	870	35.3	934	885.1

**excluding intersegmental profit elimination shown in line "Consolidation", #also, excluding net special charges as mentioned in OMV Trading Statement Q3'12; Source: Q3'12 Petrom Investor News, Reuters Cons. Median, BRD-GSG*

BRD-GSG sentiment

Surprise	-/0
Publication vs. cons.	-/0
Market reaction	-
Company new guidance	0
Chg. in sector perception	0

- **Main surprises** Q3'12 IFRS results showed that Group's EBIT of RON 1,286m came in line with our (RON 1,287m) and market estimation (Reuters' cons. median: RON 1,259m), but net profit of RON 870m is in line with our estimation and by 6.8% lower than market consensus (Reuters' cons. median: RON 934m). Company's gearing continues to inch up to 14.53% as of end-Sep'12 vs. 14.4% as of end-Jun'12, following net debt hike by 68% ytd up to RON 3.17bn. Also, Q3'12 CAPEX was almost flat qoq at RON 1.178bn, mainly due to significant investments in E&P and refining (including the modernization of the crude and vacuum distillation unit and coker installation).

  Q3'12 **E&P EBIT** of RON 1.29bn (+8.1% qoq) has been helped by USD appreciation against RON in Q3'12 vs. Q2'12 (+4.8% qoq, avg. terms), by increase of hydrocarbon production (+1.1% qoq), and domestic production costs decline by 4% qoq expressed in RON to RON 51.51/bbl. These positive effects counteracted lower crude price, as avg. Group realized price inched down 1.4% qoq to USD 91.21/bbl. Special negative items worth RON 116m (BRD-GSGe: RON 128.87m) were booked in relation to a legal case in Kazakhstan for uncollected receivables, whilst hedging losses at RON 83m were higher than RON 68m recorded in Q2'12. Q3'12 Clean EBIT of RON 1,405 is 4.1% higher than our estimation of RON 1.349bn. **EBIT G&P** came higher qoq at RON 59m (vs. BRD-GSGe: RON 45.2m), in spite of seasonally lower gas sales volumes (-16.7% qoq). The segment performance has been positively impacted by power segment, as Brazi power plant started commercial operations in Aug'12, being supplied with domestic gas since Sep'12. **EBIT R&M** came positive at RON 266m (vs. loss of RON 198m in Q2'12) in Q3'12, out of which inventory holding gains worth RON 78m, resulting in Clean EBIT R&M of RON 189m, 7.4% higher than our estimation. The yield structure of the products started to improve gradually after the planned six-week shutdown in Q2'12, and higher qoq spreads for gasoline and middle distillated helped the segment result, too. Q3'12 marketing volumes increased by 12.4% qoq due to driving season, but declined by 4% yoy as the environment remains challenging. Q3'12 **financial loss** of RON 237.3m (BRD-GSGe: financial loss of RON 238.6m) is higher than Q2'12 loss, mainly as a result of FX losses related to Petrom's loans granted to Kazakh subsidiaries as RON appreciated against USD (+0.94% end-Sep'12 vs. end-Jun'12).

- **Potential impact on recommendation/forecasts/share price** We keep our "Buy" rating and 12m TP at RON 0.4929 as 9M'12 EBIT is 62% of our 2012 EBIT estimation. Nevertheless, 9M'12 net income is 55.4% of our 2012 forecasts, whilst 9M'12 sales accounted for 77.8% of our 2012 estimation. However, we believe it's likely to see Petrom meeting our year-end operating performance forecasts, given that improvements in E&P and refining will continue, and the reversal of negative consolidation line in Q4'12. Also, financial result is seen to be volatile in coming quarter, based on FX rates evolution and financing needs.

Supervisory Authority: Romanian National Securities Commission (CNVM)

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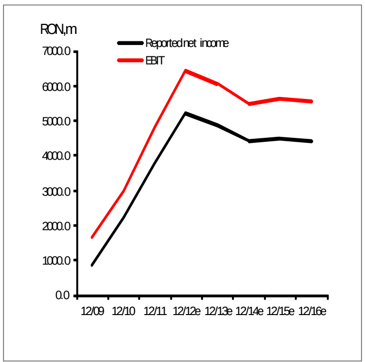
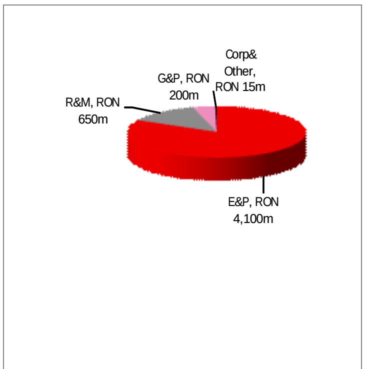
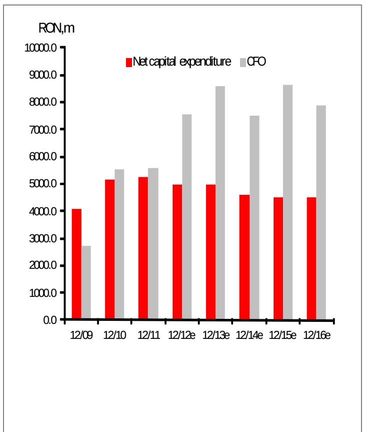
Reported net income and EBIT



CAPEX per segment in 2012e



Net capital expenditure and CFO



Major shareholders (%) as of 31 Dec'11

OMV	51.01
Ministry of Economy	20.64
Property Fund	20.11
Private investors	6.21
EBRD	2.03

Oil&Gas

PETROM

7/11/2012 **RON 0.4105**

12m target **RON 0.4929**

Valuation*	**12/09**	**12/10**	**12/11**	**12/12e**	**12/13e**	**12/14e**	**12/15e**	**12/16e**
Average no of shares (bn,diluted)	56.64	56.64	56.64	56.64	56.64	56.64	56.64	56.64
Share price (average)	0.22	0.32	0.36	0.41	0.41	0.41	0.41	0.41
EV	15268.3	20624.5	22381.7	24431.2	24035.2	24214.6	24973.7	26670.6
P/E (x)	14.96	8.20	5.38	4.45	4.77	5.27	5.18	5.27
Adjusted P/E (x)	14.96	7.30	4.80	4.45	4.77	5.27	5.18	5.27
EV/EBIT (x)	9.42	6.91	4.53	3.81	3.98	4.42	4.44	4.79
EV/EBITDA (x)	4.36	4.03	3.15	2.61	2.63	2.74	2.72	2.88
Price/book value (x)	0.77	0.97	0.96	0.97	0.82	0.84	0.85	0.85
Price/CFO (x)	4.57	3.88	3.14	3.08	2.70	3.10	2.69	2.95
Dividend yield (%)	na	5%	7%	6%	9%	9%	10%	10%
Per share data (RON)								
EPS BRD** (adj.)	0.015	0.043	0.074	0.092	0.086	0.078	0.079	0.078
CFO	0.048	0.082	0.114	0.133	0.152	0.133	0.152	0.152
Book value	0.286	0.326	0.372	0.422	0.502	0.489	0.484	0.484
Gross Div	0.000	0.018	0.031	0.031	0.046	0.043	0.047	0.048
Income statement (IFRS, RON,m)								
Sales	16089.7	18615.7	22613.7	24644.1	24247.0	24218.5	24829.9	25066.0
EBITDA	3498.2	5116.2	7102.5	9362.4	9145.1	8842.7	9170.2	9272.4
Depreciation, depletion and amort.	-1877.7	-2130.2	-2327.8	-2942.3	-3109.1	-3366.5	-3541.6	-3704.7
EBIT	1620.5	2986.0	4935.76	6420.2	6036.1	5476.2	5628.6	5567.7
E&P EBIT	2467.7	3012.0	5236.3	5690.2	5144.7	4205.1	4466.8	4390.4
G&P EBIT	71.4	163.9	148.8	293.3	589.3	561.7	565.9	572.0
R&M EBIT	-618.3	106.3	-187.4	507.1	372.1	778.9	664.8	673.6
EBIT Corporate&Other	-139.7	-135.5	-79.0	-70.4	-70.0	-69.5	-69.0	-68.3
Financial result	-451.1	-380.2	-327.2	-160.8	-202.0	-196.4	-249.9	-282.9
EBT	1169.4	2605.3	4608.6	6259.4	5834.1	5279.8	5378.7	5284.8
Corporate tax	-336.1	-415.7	-850.0	-1032.8	-962.6	-871.2	-887.5	-872.0
Net income	833.3	2189.7	3758.6	5226.6	4871.5	4408.6	4491.2	4412.8
Cash flow statement (IFRS, RON,m)								
Net income	833.3	2189.7	3758.6	5226.6	4871.5	4408.6	4491.2	4412.8
Depreciation, depletion and amort.	1877.7	2130.2	2327.8	2942.3	3109.1	3366.5	3541.6	3704.7
Change in working capital	-583.9	890.3	-747.4	-765.8	463.3	-429.5	393.6	-460.9
Cash flow from operating activities	2726.2	5530.1	5593.3	7537.3	8612.5	7509.6	8635.0	7892.8
Net capital expenditure	4071.2	5144.8	5240.9	4965.0	4965.0	4615.0	4515.0	4515.0
Cash flow from investing activities	-4071.2	-4263.9	-5092.5	-4965.0	-4965.0	-4615.0	-4515.0	-4515.0
Cash flow from financing activities	1149.1	655.5	-2192.6	-2331.6	-4230.6	-2847.8	-3528.1	-4285.5
Net change in cash resulting from CF	-196.0	1921.7	-1691.7	240.7	-583.0	46.8	592.0	-907.7
Balance sheet (IFRS, RON,m)								
Total long-term assets	27684.7	31021.5	32196.1	34052.1	35300.6	36274.0	37084.3	37710.8
o/w tangible assets	21430.6	23777.2	26334.3	27865.7	29620.1	30800.3	31720.5	32486.5
Working capital	254.5	443.7	857.2	1796.5	1515.3	1636.0	1566.4	1754.2
Total debt	2997.5	3465.5	2173.3	2173.3	1194.3	1420.5	2771.5	3560.7
Shareholders' equity	16190.8	18459.0	21076.6	23885.5	28409.6	27715.4	27390.0	27280.3
Provisions	1714.6	1581.4	2171.5	2171.5	2171.5	2171.5	2171.5	2171.5
Net debt (+)/cash (-)	2807	2680	2173	1179	783	962	1721	3418
Accounting ratios								
ROIC	7.1%	11.4%	17.1%	20.6%	17.0%	15.7%	15.6%	15.1%
ROE	5.1%	11.9%	17.8%	21.9%	17.1%	15.9%	16.4%	16.2%
Sales growth (%)	-20.1%	15.7%	21.5%	9.0%	-1.6%	-0.1%	2.5%	1.0%
EBITDA margin	21.7%	27.5%	31.4%	38.0%	37.7%	36.5%	36.9%	37.0%
EBIT margin	10.1%	16.0%	21.1%	26.1%	24.9%	22.6%	22.7%	22.2%
Net income margin	5.2%	11.8%	16.6%	21.2%	20.1%	18.2%	18.1%	17.6%
Net debt/equity	17.3%	14.5%	10.3%	4.9%	2.8%	3.5%	6.3%	12.5%
Interest cover (x)	8.31	17.07	12.69	76.26	92.34	52.25	35.56	29.10
Payout ratio (%)	0%	46%	47%	47%	50%	50%	60%	60%

*Valuation ratios for past years are based on average price;** adj.for exceptional items (e.g.: provisions expenses)

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BRD-GSG rating system (November 2012)

Premium List
Selected from stocks expected to outperform the market by over 25%.

Buy
Expected to outperform the market by at least 10%.

Hold
Expected to perform in line with the market +/–10%.

Sell
Expected to underperform the market by at least 10%.

Assumptions
12 month time horizon and flat market over forecast period.

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