

TRANSGAZ

Q3'12/9M'12 results – Expected flat sales, but lower profit

Buy (12m)

Price 05/11/12 12m target

RON 194.1 RON 227

Sector

Preferred stock

Transgaz

Last recommendation

Buy (TP: RON 237.8) on
09/09/2011

Key figures

(RONm)	Q3'11	Q3'12e	y/y %	2012 BRD GSGe*
Op. revenues	240	237	-1.4	1,376
EBIT	17.7	21.7	22.7	334
Net income	28.7	21.2	-26.1	286

*IFRS data

Source: Transgaz, BRD-GSG; figures according to RAS standards

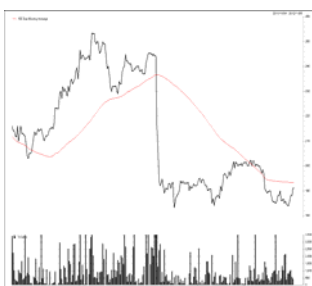
BRD-GSG

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

Type of investment

Defensive stock	✓
Regulatory risk	✓
Dividend play	✓

1 year-Price-Volume



Source: FactSet, BRD-GSG

Transgaz on
www.transgaz.ro

Share data

RIC TGNM.BX, Bloomberg TGN RO

52-week range	183.2 – 253.5		
Market cap. (RONbn)	2.28		
Free float (%)	11.5		
Performance (%)	1m	3m	12m
Ordinary shares	3.2	0.5	-10.1
Rel. to BET	0.9	-3.5	-17.9

▪ **Calendar** Transgaz will report its Q3'12/9M'12 financial statements according to RAS on November 12th, 2012. The report will be published on BSE and company's internet sites. There will be no analysts and investors meeting to discuss 9M'12 results.

▪ **Watch out for** We expect gas consumption in Q3'12 to be 10% lower y/y taking into account Jul'12 data posted by ANRE revealing a sharp monthly decline of 24.4% y/y and OMV Petrom release pointing gas sales by 2.4% y/y lower for Q3'12. Consequently, Q3'12 gas transport revenues should follow the consumption decline. At the same time transit activity, the second most important revenues source of Transgaz, should be positively influenced by RON depreciation against USD (+19.9% y/y, in Q3'12, average values) so we see Q3'12 total operating revenues at RON 237m, lower by 1.4% y/y, while 9M'12 total operating revenues are estimated at RON 973.5m, -1.2% y/y.

We see Q3'12 operating expenses at RON 215m, -3.4% y/y. We expect no surprises from main fixed costs as depreciation and personnel expenses, which should be in line with previous quarters, as well as from royalty expense. Materials expenses and third parties costs depend usually on the timing of the maintenance and repairs works. For Q3'12, we see these items slightly lower compared to a year ago period because of late approval of 2012 budget and lower transport activity. Consequently, Q3'12 EBIT might end at RON 21.7m, +22.7% y/y, while net profit is estimated at RON 21.2m, -26.1% y/y

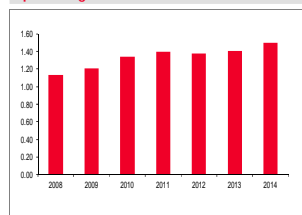
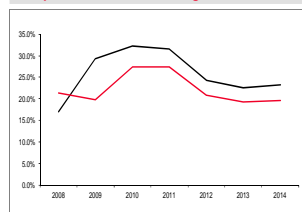
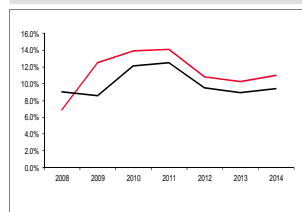
9M'12 BRD-GSG EBIT is seen at RON 266m, by 18.9% lower y/y, 9M'12 estimated net profit points to RON 231.5m, -18.5% y/y).

In annual terms our FY 2012 values according to IFRS point to total operating revenues of RON 1,376m, EBIT of RON 334m and net profit of RON 286m.

▪ **Potential market reaction** We expect the results to have a slightly negative impact on market price, because of lower bottom line both for third quarter, but also for 9M'12 vs. the same periods last year. For the moment we maintain our Buy rating and 12mTP of RON 227.

Supervisory Authority:
Romanian National Securities
Commission (CNVM)

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Operating revenues

Net profit and EBIT margin

ROE and ROIC evolution

Major shareholders (%)

MEF	73.51
Proprietatea Fund	14.99
Others	11.50

Utilities (Romania)

TRANSGAZ

Price 05/11/2012

12m target

BUY
RON 194.1
RON 227

Valuation* (RON m)	2008	2009	2010	2011	2012e	2013e	2014e
Average nb of shares (diluted)	11.77	11.77	11.77	11.77	11.77	11.77	11.77
Share price (eop)	194.10	194.10	194.10	194.10	194.10	194.10	194.10
EV	2154.9	2189.5	2205.3	2133.4	2261.3	2257.5	2175.8
P/E (x)	9.42	9.50	6.22	5.95	7.98	8.45	7.78
Price/cash flow (x)	9.08	5.84	5.04	4.63	5.02	5.25	4.92
EV/EBITDA (x)	5.9	4.4	3.8	3.5	4.4	4.6	4.1
EV/EBIT (x)	11.2	6.1	5.1	4.8	6.8	7.1	6.3
Price/book value (x)	0.85	0.81	0.76	0.74	0.76	0.76	0.73
P/S(x)	2.02	1.88	1.71	1.63	1.66	1.62	1.53
Dividend yield	5.4%	6.7%	14.8%	15.3%	11.0%	8.9%	9.0%
Per share data (RON)							
BRDS EPS	20.61	20.43	31.21	32.64	24.28	23.38	24.96
Book value	228.62	238.58	256.77	260.64	255.16	257.19	264.61
CFO	21.4	33.2	38.5	41.9	38.6	37.4	39.5
Dividend	10.5	13.0	28.8	29.8	21.4	17.5	17.5
Income statement (RON m)							
Transport revenues	917	939	1054	1092	1088	1149	1228
Transit revenues	200	243	254	245	265	243	246
Total Operating revenues	1133	1214	1338	1399	1375	1415	1498
EBITDA	366	492	573	602	508	500	526
Depreciation, depletion and amort.	(174)	(136)	(143)	(160)	(174)	(176)	(179)
EBIT	192	356	430	442	334	325	347
Net financial income/expense	2	18	8	20	7	3	2
EBT	194	374	439	462	340	328	350
Corporate tax	(48)	(134)	(71)	(77)	(54)	(52)	(56)
Reported net income	243	241	367	384	286	275	294
Cash flow statement (RON m)							
Net income	243	241	367	384	286	275	294
Depreciation, depletion and amort.	(174)	(136)	(143)	(160)	(174)	(176)	(179)
Change in working capital	52	8	47	41	(11)	11	7
Cash flow from operating activities	252	391	453	494	455	440	465
Cash flow from investing activities	(203)	(387)	(428)	(145)	(225)	(180)	(180)
Cash flow from financing activities	(98)	(109)	(25)	(280)	(328)	(295)	(226)
Total CF	(49)	(105)	1	69	(98)	(35)	60
Balance sheet (RON m)							
Total long-term assets	2719	2992	3297	3284	3359	3364	3365
of which tangible	747	726	732	702	677	796	909
Working capital	26	34	81	122	111	122	129
Long term liabilities	268	329	486	531	555	531	507
of which long term debt	99	42	79	72	96	72	48
Shareholders' equity	2692	2809	3023	3069	3004	3028	3115
Net debt	(130)	(96)	(80)	(152)	(24)	(32)	(111)
Accounting ratios							
ROIC	6.9%	12.5%	13.9%	14.1%	10.8%	10.5%	11.0%
ROE	9.0%	8.6%	12.2%	12.5%	9.5%	9.1%	9.4%
ROA	5.8%	10.2%	11.1%	11.1%	8.5%	8.3%	8.7%
Sales growth (%)	8.58%	7.15%	10.19%	4.54%	-1.65%	2.86%	5.86%
EBITDA margin	32.3%	40.5%	42.9%	43.0%	36.9%	35.4%	35.1%
EBIT margin	16.9%	29.4%	32.2%	31.6%	24.2%	22.9%	23.2%
Net income margin	21.4%	19.8%	27.5%	27.5%	20.8%	19.5%	19.6%
Current ratio	1.7	1.4	1.6	1.8	1.5	1.6	1.7
Net debt/equity	-5%	-3%	-3%	-5%	-1%	-1%	-4%
Payout ratio	51%	55%	91%	92%	85%	75%	70%

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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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