COVERAGE INITIATION | Research
31 October 2022

BT Capital Partners®

Aquila <AQ>
Fast-moving consumer goods distributor

Rating: Neutral
TP: RON 0.607

Moving fast... but where to?

We initiate our coverage with a Neutral recommendation and a TP of RON 0.607/sh.

The main pillars supporting our recommendation are steady financial results and a strong business model based on long-term relationships with different brands. However, the Company shows prolonged delays in fulfilling its IPO commitments, as no M&A deals were announced since the IPO. Instead, the Company used part of the IPO proceeds to repay debt and distribute dividends. Therefore, we initiate our coverage with a neutral recommendation and a slight upside of 7.6% as, in our opinion, the Company is slightly oversold compared to its intrinsic value.

Resilient to inflation environment business

The fast-moving consumer goods distribution industry is vital for the economies of all countries and is usually less affected during uncertain times. Aquila is one of the biggest distribution players in Romania, with an integrated business and a market share of roughly 9%. Apart from the distribution segment, the Company also has transport and logistics divisions that are supporting the main activity. Also, the Company has well-established long-term partnership agreements with well-known brands, which will most likely continue in the future. Additionally, according to the business model of the Company, the rapid increase in prices can result in higher margins as the inventory may appreciate over time. On the other hand, the Romanian FMCG industry has matured, as the growth rate of industry revenues has declined in recent years, and from the volumes perspective this may result in lower growth potential. Therefore, the Company's expansion plan relies on acquisitions rather than organic growth. However, no acquisitions have been announced yet, but management pointed out that it is in active discussion with other distributors regarding M&A deals.

Stabile yet slower future growth

The FMCG industry in Romania has matured with lower revenue growth expected for the following years; Our main scenario points to a 5.4% CAGR for the next five years in revenues, which assumes a flat development for the traditional retail distribution channel, offset by a 7.2% CAGR for organized retail channel and a 15.1% CAGR for distribution to HoReCa until 2026. Sales in Moldova are expected to rise strongly this year due to the acquisition of Trigor AVD in May 2021 and are anticipated to show a 3.4% CAGR growth for 2023-2026. In our view, organic revenue growth is expected to be lower than inflation for the forecasted period due to the industry's maturity and some changes in customer behavior during uncertain times (e.g., cheaper brands are favored over premium brands). One additional factor that may help the Company marginally boost growth is the development of own brands. At the moment, the biggest brands are frozen ready meals LaMasa (2.2% of distribution revenues) and the processed fruits and vegetables brand Gradena (1% of distribution revenues). Own brands may exhibit higher margins while also being exclusive to the Company.

Slight decrease in margins due to inflationary pressures in the following years

As inflationary pressures persist, we expect the Company to be able to maintain its gross margins at roughly 20.2% for the foreseen period, while the operating margin is seen to come in between 3.7% and 4.3%, given the increased pressure on wages, coupled with higher D&A costs related to an ambitious Capex plan of EUR 39m for the next five years.

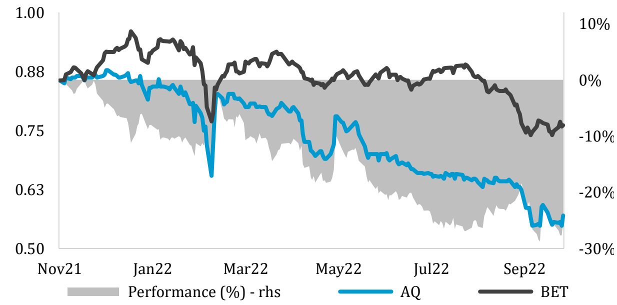
No M&A deal one year after the IPO

In the IPO prospectus, the Company mentioned that it intends to use the raised cash to acquire competitors, while a more recent management statement was pointing at a doubling of EBITDA in the next five years (both organic and acquisition-based growth). However, no completed acquisitions were announced yet, while most of the raised cash at IPO (RON 354m) was used to repay debt (roughly RON 171m) and to distribute dividends (RON 84.6m with a payout ratio of 120% in 2022). Management did state that the Company will announce an acquisition in 2023.

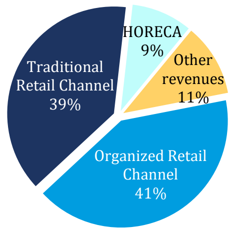
Stock details

Rating	Neutral
Target price	RON 0.607
Upside	7.6%
Bloomberg / Reuters	AQ RO / AQ.BX
Last close 31 Oct 2022	RON 0.564
Market cap	EUR 138m
Free Float	33.3%
3m avg daily volumes	EUR 20k
Δ abs 3m	-13.8%
Δ abs since IPO	-34.1%
Δ% rel 3m (vs. BET)	-0.5%
Δ% since IPO (vs. BET)	-19.8%

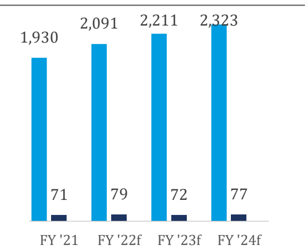
AQ vs. BET (rebased at AQ price on 28/10/2021)



Revenue breakdown FY '21



Revenue and profit evolution 2021-2024



Key ratios / multiples*	FY '21	FY '22f	FY '23f	FY '24f
P/E (x)	9.39	8.56	9.46	8.82
P/B (x)	1.38	1.42	1.31	1.20
EV/EBITDA	3.66	4.04	3.87	3.37
ROA	8.5%	9.3%	8.1%	8.0%

**Price multiples calculated at the last close: RON 0.564*

Dumitru Procopovici
Junior Equity Analyst
dumitru.procopovici@btcapitalpartners.ro
+40 374 778 843

Investment summary

Strengths & Opportunities

- Aquila is the second biggest player of the FMCG distribution sector in Romania and one of the largest distributors in the Republic of Moldova (through its subsidiary Trigor AVD), with more than 26 years of experience. This could allow it to more easily negotiate with counterparties when signing new contracts for distribution;
- Most clients are relatively small-sized, particularly on the Traditional Retail segment; thus, the Company has more negotiating power over them, while being less reliant on larger customers; ;
- The portfolio includes leading brands in their respective categories (for example, Dove, Rexona, Snickers, Pedigree, Dero, etc.); Aquila has also begun developing a portfolio of its own brands (LaMasa, Gradena);
- Long-standing strategic partnerships with suppliers such as Unilever (1996), Mars (1999), Ferrero (1999), Philips (2006), Essity (2007), Coca-Cola (2008), IFFCO (2019), while some of them are exclusive like Lavazza (2010), ETI Romania (2018), Upfield (2019);
- Complementary to the distribution activity, the Company also provides logistics and international transport services, which helps the business provide full-range services;
- The Company's exposure to two emerging economies may fuel sales growth at higher rates than its EU peers;
- The Distributor showcases higher EBITDA margins than the median of its Romanian peers: 5.2% vs. 2.7% (2021);
- The FMCG industry is characterized by high-demand, affordable and frequent-usage products, covering essential items, which makes it more resilient than other sectors in the event of an economic downturn or inflationary pressures;
- During the last quarters the business showed strong results with a slight increase in margins (EBIT margin of 3.6% in 1H '21 vs. 3.1% in 1H '22), as well as double-digit growth in revenues (+10.3% y/y)

Weaknesses & Threats

- The Organised Retail channel keeps gaining ground against Traditional Retail, meaning that the Distributor may see its negotiating power wane as it has to deal with larger clients;
- Losing one of the main suppliers might prove disruptive to Aquila's business;
- Personnel expenses could remain under pressure, in part due to workforce shortage and a rising inflationary environment;
- The FMCG distribution market growth in Romania has been decelerating over the last years (from 12.8% y/y in FY '15 to 7% y/y in FY '21), according to: KeysFin;
- Since IPO the Company made no acquisitions, while spending most of the raised amounts to repay its debt and distribute dividends;
- The FMCG industry in Romania reached maturity and it is hard for the Company to grow organically at a high pace, thus having to rely on acquisitions in order to increase market share;

Sector dynamics

Retail trade as a proxy for FMCG industry

Aquila acts as a key player in the distribution, logistics and transport of fast-moving consumer goods (FMCG) on Retail and HoReCa distribution channels. As a macro indicator, we've identified retail trade as a good proxy in describing the FMCG industry, as distribution is provided as a service for retail selling points in modern and organized channels. Since 2000 (when Romania was classified as a country with market economy), the retail trade industry has been one of the most dynamic sectors of the Romanian economy, growing at a high rate due to several factors:

- The launch from scratch of the modern trade network (hypermarkets, supermarkets, discount stores, cash & carry stores and convenience stores)
- Increasing the real disposable income of the population (CAGR 3.6% of inflation-adjusted rise in household income), evolution also influenced by the process of disinflation (as inflation decreased to single digits since 2005 until 2022)
- The significant development of the banking sector and the decline in real costs of financing, with a favorable impact on consumer lending
- The implementation of fiscal-budgetary and pro-cyclical income measures such as reducing VAT and increasing the minimum wage.

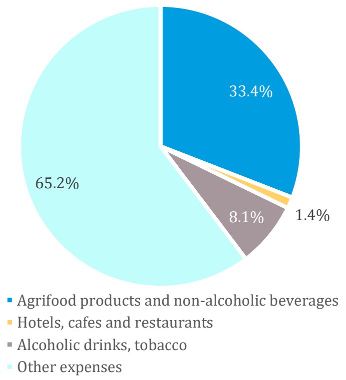
As regards the retail trade sector, we believe that its future evolution can be influenced by various factors such as:

- The evolution of the population's income
- The evolution of consumer prices
- The level of real financing costs
- The globalization processes

One important category of goods the Company distributes is food. In Romania, this segment reached maturity, with agrifood, beverage and tobacco consumption decreasing in terms of household expenses structure since 2008.

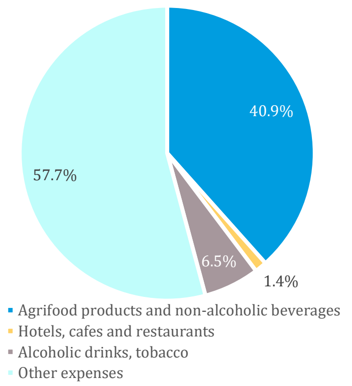
Agrifood and non-alcoolic beverage expenses decrease from 40.9% in 2008 to 33.4% in 2021 for the average Romanian citizen

Chart 1. The structure of household expenses 2021



Source: National Statistics Institute

Chart 2. The structure of household expenses 2008

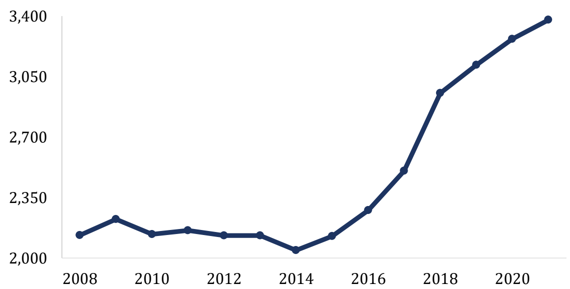


Source: National Statistics Institute

With regards to the whole household income, Romanians' income grew by a CAGR of 3.6% (inflation-adjusted) for 2008-2021 as shown in the chart below. The improved level of income supported the positive developments of the retail trade industry and in particular the business of Aquila Group involved in the distribution of goods. However, as the quality of life is improving, expenses related to food and beverages are not rising with the similar pace.

Romanians' income grew by a CAGR of 3.6% (inflation-adjusted) for 2008-2021

Chart 3. Household income adjusted for inflation (RON)

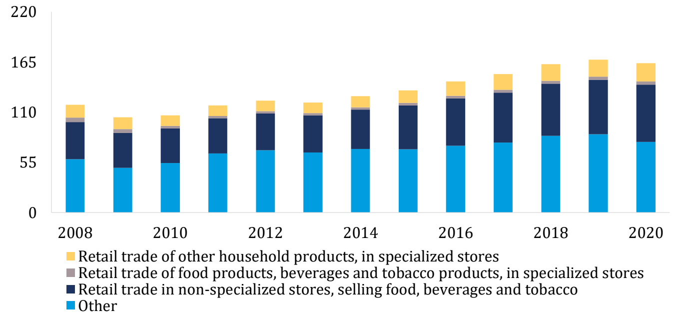


Source: National Statistics Institute

Thus, retail trade except for motor vehicles, and motorcycles (inflation-adjusted) grew by a CAGR of 2.5% since 2008, out of which trade in non-specialized stores (supermarkets, hypermarkets or convenience stores), food, beverages, and tobacco rose by a CAGR of 3.4%. Besides food, Aquila distributes other household products as well, and retailing in specialized stores grew by 2.7% CAGR during 2008-2021. Retail trade of food products, beverages, and tobacco products in specialized stores, on the other hand, decreased by a CAGR of 3% during the same period, as this type of traditional trade became less popular over time.

Retail trade except for motor vehicles, and motorcycles (inflation-adjusted) grew by a CAGR of 2.5% since 2008

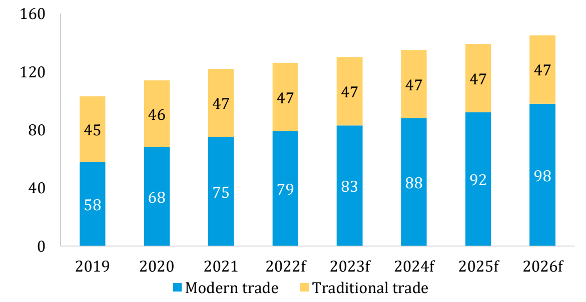
Chart 4. Retail trade with the exception of motor vehicles, motorcycles (bnRON)



Source: National Statistics Institute

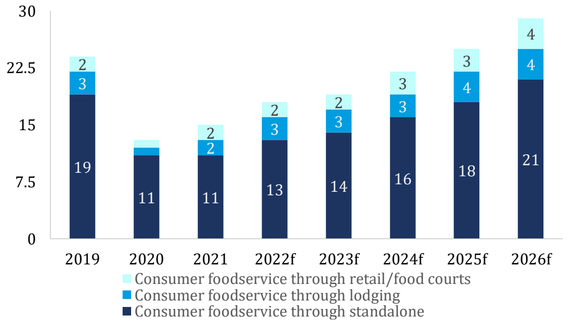
In terms of future growth potential, Euromonitor international envisages a 5y CAGR (2021-2026) of 3.4% for the Romanian FMCG sector that will reach RON 144bn, the largest part of the growth coming from the Modern Trade segment (+5.5%), while the Traditional Trade is expected to remain flattish (-0.2% CAGR). Also, HoReCa industry is expected to gradually recover after the pandemic shock with a 5y CAGR of 13% during the 2021-2026 period. Given the fact that Aquila is a mature leading player on the market, we believe its organic growth in sales will reflect the industry trends and we used Euromonitor growth projections in our sales forecasts.

Chart 5. FMCG growth projections by segment RONbn



Source: Euromonitor International

Chart 6. HoReCa growth projections

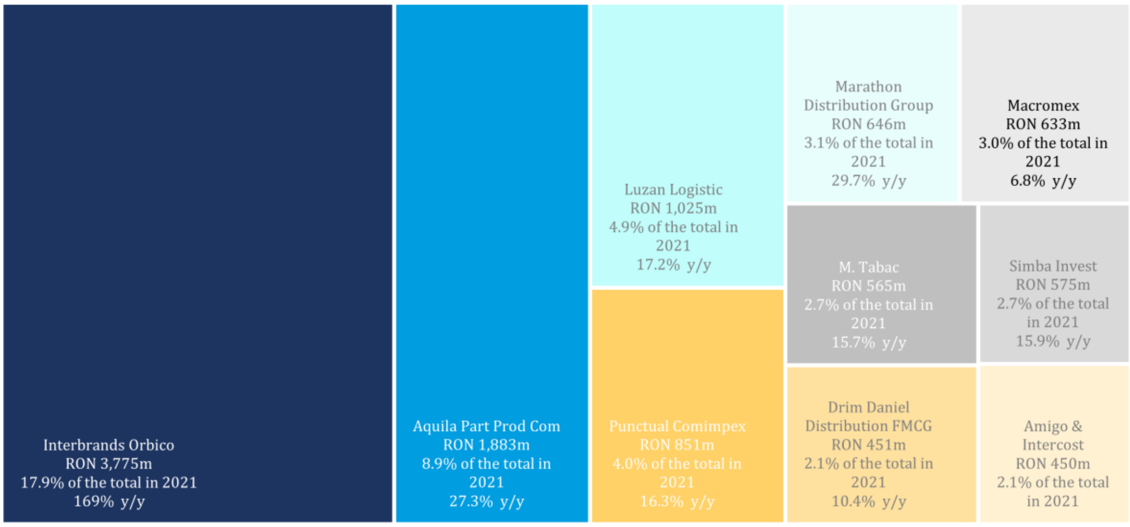


Source: Euromonitor International

The main competitors

The Company is the second biggest player in the FMCG sector with an 8.9% share of the total market according to the KeysFin study based on 2021 data. The Company lost its leading position in 2021 following the Orbico M&A agreement with Intebrands and the consolidation that followed with the creation of Interbrands Orbico company. The 10 largest players concentrated almost 52% of the turnover of local distributors in2021.

Figure 1. Top 10 players on FMCG market

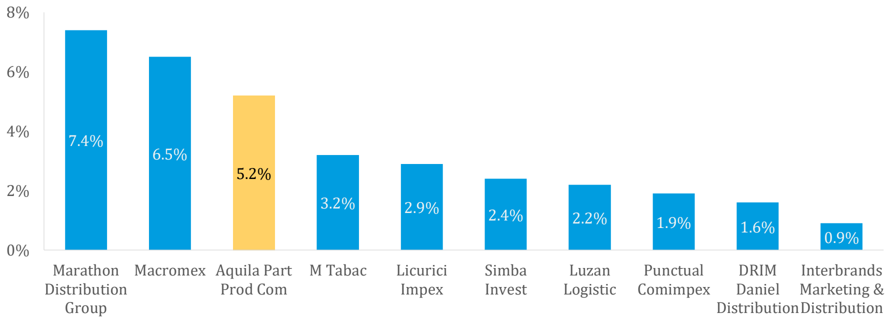


Source: KeysFin report on FMCG (2022)

The second biggest player of the FMCG industry with an 8.9% share of the total market

In terms of EBITDA margin, the Company is among the top 10 players with a 5.2% margin in 2021, vs. 2.7% median showed by the top 10 in the local market and vs. 6.47% for the listed European peers.

Chart 7. Top 10 players on FMCG market by EBITDA margins (FY '21)



Source: KeysFin report on FMCG (2022), RAS individual, Aquila

In conclusion, we can point out that the business is resilient to market changes with a stable gross margin and steady growth. On the other hand, the FMCG industry in Romania reached maturity, which means that organic growth for Aquila is expected to be a less significant driver compared to acquisitions. Also, the market is fragmentated between different players resulting in a high competition which puts pressure on margins. One path for developing under these conditions may be the launch of own brands of products, which the Company is aiming to do. However, at the moment the impact of its own brands development is still minor.

Business description

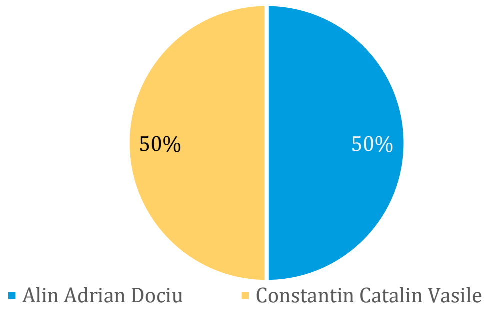
Aquila is one of the main distributors of fast-moving consumer goods in Romania and Republic of Moldova. At the moment, Aquila operates a distribution network that covers more than 67,500 sales points, out of which 58,000 sales points in the Traditional Retail channel, more than 4,500 sales points in the Organised Retail channel and 5,000 sales point in the HORECA channel. The distribution activity accounts for 93% of the revenues, while the other activities (Logistics and Transportation) have a support role for the main activity.

Distribution network that covers more than 67,500 sales points

Brief history of the Company

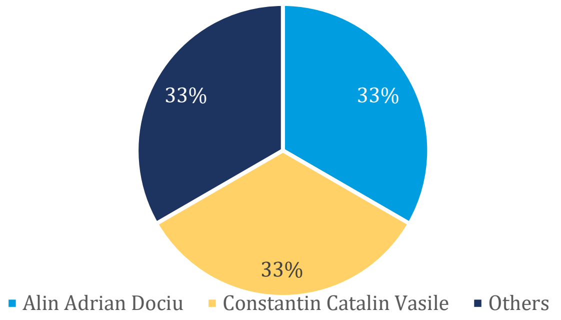
The Company was set up by its founders Alin Adrian Dociu and Constantin Catalin Vasile in Nov 1994 and provided integrated distribution services for fast-moving consumer goods and logistics. In Mar 1999, the Company acquired a 79% stake in Printex (which then increased to 96% during the following years), a company specialized in lease and sub-lease own or leased real estate and investments. In Aug 2001, the Company expanded in the market of the Republic of Moldova, by setting up the distribution company Trigor AVD. In Feb 2019, the Company acquired Agrirom, which specialized in the intermediation of the sale of food, beverages, and tobacco products. In Nov 2021, Aquila became a publicly traded company. In Mar 2022 the Company's shares were included in the BET index.

Chart 8. Shareholders structure pre-IPO



Source: Company data

Chart 9. Shareholders structure post-IPO



Source: Company data

Distribution – the core business generator

The distribution is the main activity of the Company, and essentially means buying goods from partners, storing according to the temperature class (the Company's inventories), managing and preparing the inventory for delivery, transportation to the end selling point and finally selling the product to the end client from the Company's distribution channels.

The final clients from distribution channels could be separated in several groups: Traditional Retail, Organised Retail, HoReCa and clients from Moldova.

- Traditional channel includes: wholesalers, sub-distributors, local trading networks, pharmacies and pharmacy networks. Despite representing roughly 40% (according to Prospectus data) of the distribution segment's revenue, this segment has the lowest potential for future growth (CAGR of -0.2% for the next 5 years according to Euromonitor) as it became less popular among consumers. The main clients of this channel being: Pet Prodexim, Unicarm, Zozo Cafe Distribution, Top Royal Brands, Annabella, Paco Prod Serv.

- Moving on to the organized retail channel (roughly 45% of the distribution segment's revenues according to Prospectus info), this segment could be divided in three main categories: hypermarket and supermarket chains (more than 2,500 selling points), gas station networks (more than 1,400 selling points), and convenience stores (more than 400 selling points). Organized retail channel is anticipated to post a strong evolution in the following years (CAGR of +5.5% for the next 5 years according to Euromonitor) due to high popularity and further development of convenience stores network. The biggest clients in these segments are discount networks like Lidl and Penny, and also the top 5 gas station networks: Lukoil, MOL, Rompetrol, OMV Petrom and Socar.

The main channels for distribution segment are: traditional channel, organized retail channel and HoReCa channel

- HoReCa channel was established in 2016 and covers more than 5,000 clients among which: Profi Rom Food, Unicarm, Narida, Eurest Rom, Phoenicia Express, General Agro Com Service. This channel's revenues represent roughly 9% (according to IPO prospectus) of the distribution segment revenues, and it is anticipated to post strong growth in the following years.

Aquila established strong partnerships with its main suppliers, and successful brands well-known all over the world. The main suppliers are Unilever (1996), Mars (1999), Ferrero (1999), Philips (2006), Essity (2007), Coca-Cola (2008), IFFCO (2019), while some of them are exclusive like Lavazza (2010), ETI Romania (2018), Upfield (2019).

Logistics Segment

Complementary to the distribution of fast-moving consumer goods, the Group provides logistic services, through storage, (re-)packing and domestic transport operations for various temperature classes: ambient, refrigerated and frozen. The Company developed an extensive logistics network of 4 logistics platforms, 14 distribution centers (one located in the Republic of Moldova) and 6 cross-docking points (two located in the Republic of Moldova), with a storage capacity that exceeds 130,000 pallets, over a storage area of approximately 120,000 sqm. The complete list of logistic services consists from: transport, storage, handling in/out, collection, secondary transport, reverse logistics, inventory management, pallet management, labelling, packing and co-packing.

Figure 2. Geographical distribution of logistic facilities of Aquila

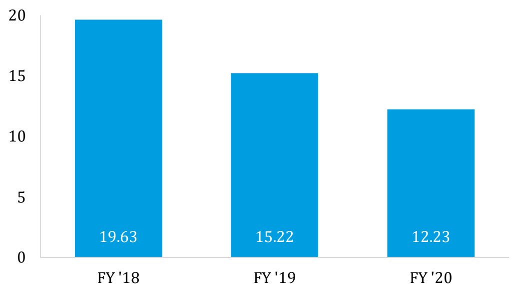
Source: Company data

Logistics network of 4 platforms, 14 distribution centres and 6 cross-docking points

Transport Segment

The international transport division of Aquila covers 15 European countries, with a fleet of 113 heavy trucks (at 1H ’21), with ambient or controlled temperatures. The total distance covered both in the country and abroad declined during 2018 – 2020 due to the decrease of the used fleet, as well as because of route optimization for vehicles used in secondary transport and distribution activity. This segment's activity is mainly focused to deliver goods from their suppliers from other countries in Romania (as a complementary activity to distribution).

Chart 10. The length of the routes traveled by the Company's trucks (mil. km)



Source: Management of Aquila

The number of km traveled is on a downtrend

Operations in Republic of Moldova

The Group is present in the Republic of Moldova through Trigor AVD (consolidated in May 2021), a company having as main activities the distribution, storage, and national and international transport of fast-moving consumer goods, that account for roughly 4% of the distribution revenue. The main suppliers of the company are Unilever, Kimberly Clark, Tchibo, and Ferrero. As of FY ’21, Trigor AVD had a portfolio of more than 3,000 clients. The Company owns roughly 96% of this subsidiary. Also, distribution operations in the Republic of Moldova come with the highest gross margins (more than 30% vs. less than 20% in Romania).

Operations in the Republic of Moldova account for 4% of distributionrevenues

Own brands development

The Company’s portfolio also includes several own brands following the Agrirom merger in 2019. The most important brands from the Company’s portfolio are frozen ready meals LaMasa and processed fruits and vegetables brand Gradena. The Company targets 5% share of processed food and vegetables through the development of its own brand Gradena, while the LaMasa brand targets 10% share in ready meals through organic growth. Revenues from Gradena brand sales rose 17.4% y/y to RON 8.7m in 1H ’22, while the LaMasa revenues rose by 41.5% y/y to RON 19.6m in 1H ’22.

Financial highlights

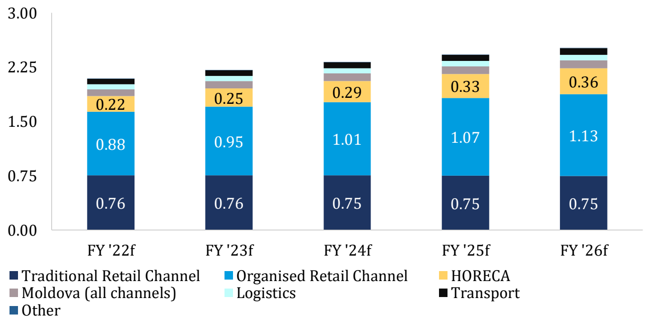
Revenue growth to be steady

The Company operates in a fast-moving consumer goods industry as an integrated business that relies on its distribution segment (roughly 93% of total revenues) with support from logistics and transport segments. Also, the revenue sources are divided between the Republic of Moldova and Romania, with a vast majority of sales (roughly 95% in 2021) in Romania. The distribution sales are divided into four main channels, traditional retail channel, organized retail channel, HoReCa channel, and sales in Moldova. The revenue growth in the past was supported by mergers and acquisitions displaying a CAGR of 25.6% during 2018-2021 based on consolidated financial statements.

In terms of revenue estimates, our projections envisage organic growth of the current business only. We anticipate revenues from traditional retail channels to remain flat as this segment losses market share to the organized retail channel which is estimated to grow at a 7.2% CAGR rate during 2021-2026 reaching 48% of the total distribution segment revenues vs. an estimated 44% currently) due to the rising popularity of convenience stores. The fastest growth is estimated to be posted by the HoReCa channel at a CAGR of 15.1% for the next five years, as this segment's dynamics have developed a lot in recent years and it is expected to do so in the future. As regards the sales in Moldova, we estimated a roughly 25% increase in revenues for 2022 due to the consolidation of Trigor AVD in May of 2021, and more resilient growth of 3.5% to 5% for the next years.

Regarding Logistics revenues, as no acquisitions were taken into consideration, we anticipate a flattish development with insignificant growth for the next five years, while the transport segment is expected to show good growth offset by increasing costs of fuel.

Chart 11. Revenue (RONbn) projections



Source: BTCP Research estimates

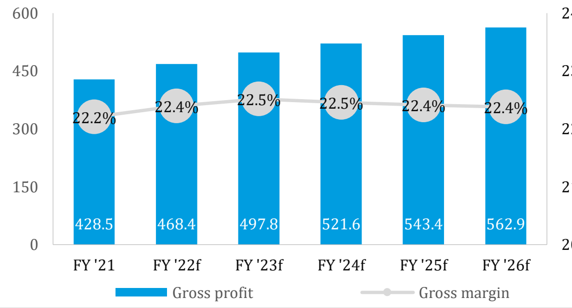
Estimated 5.4% CAGR growth in revenues for the next five years

Certain costs might rise slightly faster than revenues

In terms of costs, we expect some costs to evolve roughly in line with revenues, while the others to increase slightly faster. Thus, we envisage a flat gross margin for the Company at 20.2% as we believe the Company's history showed a stable gross margin even running through tough periods of COVID-19 with lower inflation as well as current environment determined by high inflation. At the same time, we expect the evolution of the cost of fuel to be in line with transportation services revenues. Salaries and other employee benefits are anticipated to outperform the revenues in terms of growth due to inflationary pressures coupled with no announced plans regarding cutting the number of employees. The Company's Capex plan (EUR 39m in the next 5 year spread between EUR 19m for maintenance, EUR 5m for fleet expansion, EUR 11m for Digitalisation & Automation and rest of EUR 4m for management systems and warehousing equipment) will rise the D&A expenses from 2.6% of total revenues in 2021 to 3% in 2022. Thus, the total Opex is estimated to grow at a 5.6% CAGR until 2026, vs. a 5.4% CAGR growth in revenues.

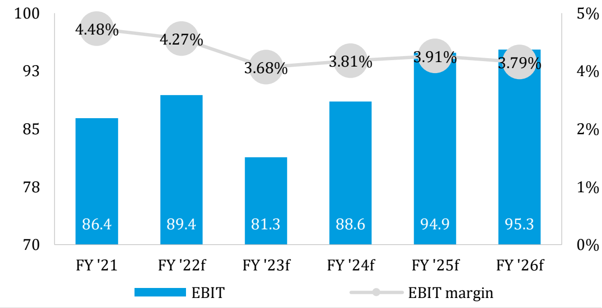
Considering the evolution mentioned above, we expect operating profit to rise by a CAGR of 3.3% up to RON 95.2m in 2026, while the EBITDA is anticipated to increase by 4.4% CAGR in the next five years. In terms of margins, EBITDA margin will be situated between 6.8% and 6.4% (vs. 6.47% for the listed European peers), while EBIT margins will be situated between 4.3% and 3.7% (vs. 3.46% for the listed European peers) for the forecasted period. The evolution of operating income and margins are presented in the chart below.

Chart 12. Gross profit (RONm) and margin forecast (2022-2026)



Source: BTCP Research estimates

Chart 13. Operating income (RONm) and margins forecast (2022-2026)



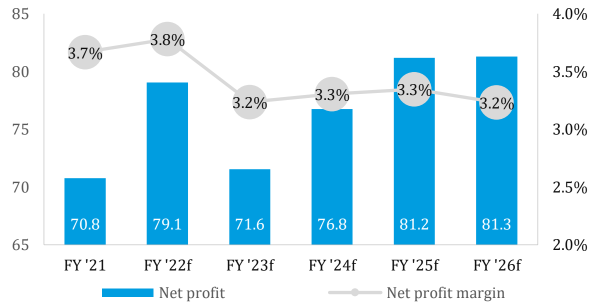
Source: BTCP Research estimates

EBIT margin to be between 4.5% and 3.7% over the forecasted period

Financial income to push net profit higher

As the Company didn't announce any acquisition so far, and the raised cash from IPO was used to pay the Company's debt, we anticipate financial results to switch from negative to positive starting this year (we envisage a RON 4.7m net financial income in 2022). Thus, the net profit is anticipated to rise by an 8.3% CAGR through the forecasted period reaching RON 81.3m in 2026, while net profit margins are anticipated to decrease from 3.8% to 3.2% ((vs. 2.56% for the listed European peers) during the forecasted period mostly due to pressures from the inflation and D&A.

Chart 8. Net profit (RONm) and margin forecast (2022-2026)



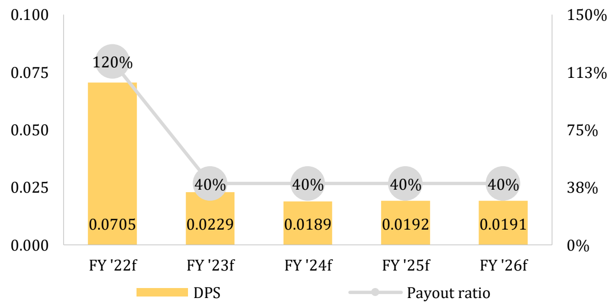
Source: BTCP Research estimates

Dividend policy

Dividend policy – a predictable 40% payout ratio

We forecast that the Company will be paying 40% of net profit as dividends until 2026 according to the Company's dividend strategy mentioned in IPO prospectus. In 2022, however, the Company distributed 120% of its 2021 net profit as dividends (first dividend: DPS of RON 0.071 or a total of RON 53m, and the second one DPS of RON 0.026 or a total of RON 31.6m), using part of the amounts received at the IPO. The detailed dividend estimates are presented in the chart below.

Chart 8. Dividend estimates (2022-2026)



Source: BTCP Research estimates

An 40% payout ratio is taken into consideration for 2023-2026

Valuation

Valuation: TP of RON 0.607/sh. based on DCF with a Neutral recommendation

Based on our valuation model (we used the Discounted Cash Flows), we set our TP to RON 0.607/share (+7.6% vs. the last close), with a Neutral recommendation. We believe the stock is currently fairly valued by the market, as the growth potential for this stock is uncertain considering that no acquisition was announced and the organic growth expectations are weak due to maturity phase of the market. Also, despite being the second largest player in the market, the Company represents only 9% of the total share meaning that the competition in the industry is very high which will not allow margins to improve significantly.

We set our target price to RON 0.607/sh. on higher margins offset by lower than inflation growth of revenues

Following the IPO, the Company's balance sheet improved as the raised capital was used to repay debt, leading to a net cash position of RON 77m as of 30 Jun 2022, out of which cash and short-term deposits are at RON 137m (and with RON 60m in debt both from borrowing and leases). The Company was initially planning to spend the money from IPO for acquisitions, but so far no deal was announced.

Table 1. FCFF projections FY '22 – FY '26

RONk	FY '21	FY '22f	FY '23f	FY '24f	FY '25f	FY '26f
Revenues	1,929.7	2,091.4	2,210.9	2,322.7	2,424.7	2,515.3
y/y	*+13.0%*	*+8.4%*	*+5.7%*	*+5.1%*	*+4.4%*	*+3.7%*
EBITDA	136.9	139.4	140.6	151.0	160.8	171.7
EBITDA margin	*7.1%*	*6.7%*	*6.4%*	*6.5%*	*6.6%*	*6.8%*
Rents	25.7	24.1	24.6	25.5	26.5	27.2
EBITDA (adjusted IFRS 16)	111.2	115.3	116.0	125.5	134.3	144.5
D&A	26.3	27.2	35.8	38.3	41.0	50.7
EBIT (adjusted IFRS 16)	84.9	88.1	80.2	87.2	93.3	93.8
EBIT margin	*4.4%*	*4.2%*	*3.6%*	*3.8%*	*3.8%*	*3.7%*
Tax adjustments	13.6	14.1	12.8	14.0	14.9	15.0
NOPAT	**71.3**	**74.0**	**67.3**	**73.3**	**78.4**	**78.8**
y/y	*+7.7%*	*+3.8%*	*-9.0%*	*+8.8%*	*+6.9%*	*+0.5%*
D&A	26.3	27.2	35.8	38.3	41.0	50.7
Capex	14.2	33.6	38.3	40.4	41.2	41.6
WC Investments	5.4	31.7	11.1	3.1	8.0	7.1
FCFF	**78.0**	**35.9**	**53.7**	**68.1**	**70.2**	**80.8**
WACC		*17.6%*	*17.6%*	*17.6%*	*17.6%*	*17.6%*
discount factor		*0.97*	*0.82*	*0.70*	*0.60*	*0.51*
Present value of FCFF		**34.8**	**44.2**	**47.7**	**41.8**	**41.0**

Source: BTCP Research estimates

In order to discount the FCFFs, we used a weighted average cost of capital (WACC) of 16.7% based on the following parameters:

- A cost of equity (CoE) of 18.18%, based on a risk-free rate of 8.38%, a 9.08% equity market risk premium, as well as an observed daily beta since IPO of 1.08 (source: Refinitiv, Damodaran).
- Risk free-rate of 8.32% was computed as the average yield of the 10y Romanian Gov't bonds over the last month.
- The equity risk premium of 9.08% was published by Damodaran in Jul this year consisting of the risk premium for a mature market like the U.S. of 6.01% and Romania's country risk premium of 3.07%.
- An after-tax cost of debt of 7.32%, reflecting current market borrowing costs, using a synthetic bond rating for Aquila (which indicates a 0.4% corporate spread) and a 5y Gov't bond yield reflecting the maturity of the leases on the Company's balance sheet.
- Debt-to-capital ratio of 5.8%, displaying the Company's capital structure at the end of 1H '22 (including the leases).

Table 2. Cost of Equity calculation

risk-free rate	8.38%
equity risk premium	9.08%
beta	1.08
cost of equity	**18.18%**

Source: Refinitiv, Damodaran, BTCP Research estimates

Table 3. Cost of debt

risk-free rate (5Y)	8.32%
company default spread	0.40%
pre-tax cost of debt	8.72%
after-tax cost of debt	**7.32%**

WACC of 17.6% was used to discount the FCFF and TV

In order to reach our terminal value (TV), we've employed the weighted average of two methods, taking an EV/EBITDA exit multiple of 5x (50% weight) and the perpetuity growth method (50% weight), using a 3% growth rate of the 2026 FCFF.

Table 4. TV calculation

method employed	TV (RONm)	PV of TV (RONm)	weight
perpetuity growth rate (g=3%)	435	290	50%
EV/EBITDA (5x)	858	572	50%
average TV	715	362	100%

Source: BTCP Research estimates

Finally, we arrived at a TP of RON 0.607/share by putting together the PV of FCFFs for 2022-2026 of RON 209m, PV of the TV of RON 362m, and adjusted net cash of RON 157m (cash position as of 31 Dec 2021 minus dividend distribution in 2022 and less rent-related lease liabilities), then divided them by the current number of shares (1.2bn). Our TV accounts for 50% of the total equity value with the full breakdown below.

Table 5. TP calculation

	RONm	RON/sh.	weight
PV of FCFFs 2022-2026	209	0.175	29%
TV	362	0.302	50%
Net cash	157	0.130	21%
Equity value	**728**	**0.607**	**100%**

Source: BTCP Research estimates

TV represents 50% of the TP

Peer comparison

Looking at how the Company trades compared to its European peers, in most cases, its price multiples are below the industry median. We decided not to perform peer valuation for the purpose of TP calculation as Aquila's short trading history doesn't create a complete picture of the stock's intrinsic value comparet to its peers.

Table 6. Peer comparison (LTM)

Company name	Country of HQ	Market cap (RONm)	P/E	P/B	EV/EBITDA	EV/EBIT	EV/Op. CF
Aquila	Romania	670.6	6.09	1.36	4.03	6.28	10.89
Peer median		**3,093.0**	**12.20**	**1.71**	**7.22**	**12.77**	**12.38**
Discount/Premium			*-50%*	*-20%*	*-44%*	*-51%*	*-12%*
Atlantic Grupa	Croatia	3,093.0	13.96	1.47	7.22	12.77	8.71
Kitwave Group	United Kingdom	621.4	5.75	1.71	8.48	14.74	10.20
Marr	Italy	3,356.8	15.23	2.07	10.63	13.71	15.15
Bunzl	United Kingdom	51,772.9	20.15	3.80	11.25	16.07	14.56
Orsero	Italy	1,288.4	8.63	1.31	4.70	8.51	5.95
B&S Group	Luxembourg	2,044.5	11.33	1.49	7.17	10.89	43.43
Compania de Distribucion Integral Logista Holdings	Spain	12,850.7	12.20	4.63	n.m.	n.m.	8.71

Source: Refinitiv

The Company looks undervalued compared to its peers median

Sensitivity analysis

Our model is subject to many estimates and uncertainty regarding a large number of parameters included in our calculations. In this section we'll proceed to assess the sensitivity of our DCF-based target price to inputs such as g, WACC, exit multiples, revenue growth and gross margin.

As regards the revenue growth and gross margin assumption, we anticipate as a base case scenario a five year CAGR growth of revenues of 5.4% with a flat gross margin of 20.2% (gross margin is calculated as a a percentage from the distribution sales, not total sales). In a more pessimistic scenario, we took into consideration a 4.4% CAGR of revenues growth for the next 5 years and a flat gross margin of 19.8%, while for the best case scenatio revenues are estimated to growth at 7.2% CAGR until 2026 with a flat gross margin of 20.6%. The assumptions can be found below:

Table 7. Revenue growth and gross margin assumptions scenarios for FY '22- FY '26

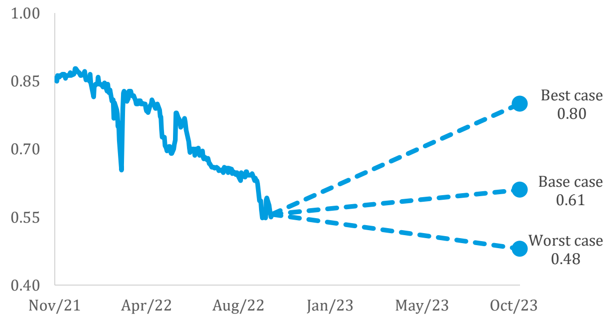
	FY '22f	FY '23f	FY '24f	FY '25f	FY '26f
			Total revenue growth y/y		
Base case	+8.4%	+5.7%	+5.1%	+4.4%	+3.7%
Best case	+10.3%	+7.6%	+6.8%	+6.1%	+5.4%
Worst case	+7.2%	+4.6%	+4.1%	+3.4%	+2.8%
			Gross margin (as a % of distribution revenue)		
Base case	20.2%	20.2%	20.2%	20.2%	20.2%
Best case	20.6%	20.6%	20.6%	20.6%	20.6%
Worst case	19.8%	19.8%	19.8%	19.8%	19.8%

Table 8. Sensitivity to scenarios

	Worst Case	Base Case	Best Case
TP	**0.483**	**0.607**	**0.796**
Potential	*-14.4%*	*+7.6%*	*+41.1%*

Source: BTCP Research estimates

Chart 9. Sensitivity of TP to the main assumptions



Source: BTCP Research estimates

The best case scenario pushes the TP 41.1% higher compared to current price, while the worst case scenario shows a 14.4% downside

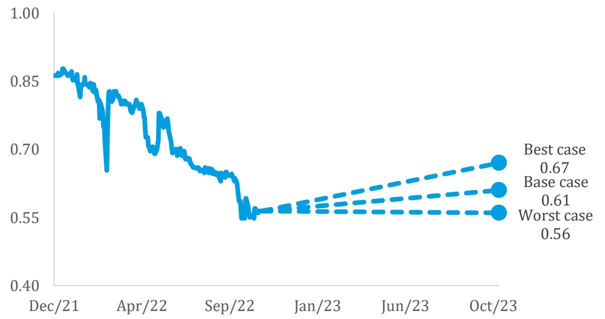
We additionally evaluated how our target price may react to changes in the WACC, g and exit multiple. The results are presented below.

Table 9. Sensitivity to WACC and g

		Perpetuity growth				
		4.0%	**3.5%**	**3.0%**	**2.5%**	**2.0%**
WACC	**19.6%**	0.574	0.570	0.566	0.563	0.560
	18.6%	0.594	**0.590**	**0.586**	**0.582**	0.578
	17.6%	0.617	**0.612**	**0.607**	**0.602**	0.598
	16.6%	0.643	**0.636**	**0.631**	**0.625**	0.620
	15.6%	0.672	0.664	0.657	0.651	0.645

Source: BTCP Research estimates

Chart 10. Sensitivity to WACC and g



Source: BTCP Research estimates

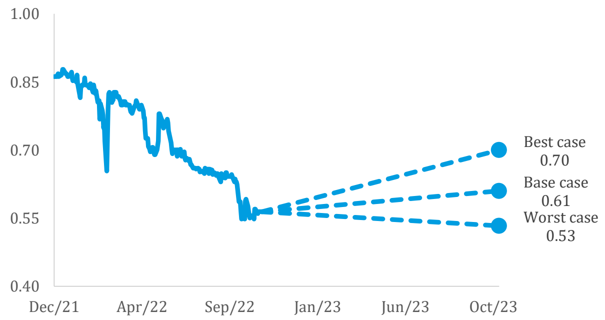
With an g lowet than 2% and a WACC higher than 19.6%, the TP could fall below the current stock price

Table 10. Sensitivity to EV/EBITDA and WACC

		EV/EBITDA exit multiple				
		6x	**5.5x**	**5x**	**4.5x**	**4x**
WACC	**19.6%**	0.600	0.583	0.566	0.549	0.533
	18.6%	0.621	**0.603**	**0.586**	**0.568**	0.551
	17.6%	0.643	**0.625**	**0.607**	**0.589**	0.571
	16.6%	0.668	**0.649**	**0.631**	**0.612**	0.593
	15.6%	0.696	0.677	0.657	0.638	0.618

Source: BTCP Research estimates

Chart 11. Sensitivity to EV/EBITDA and WACC



Source: BTCP Research estimates

With an EV/EBITDA of 4x to 4.5x and a WACC of 19.6%, the TP could fall below the current stock price

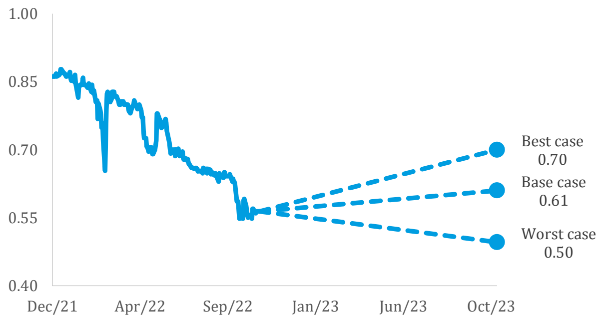
Also, we evalued the TP reaction to the weights of different methods in TV calculation (perperuity growth method and exit multiple method)

Table 11. Sensitivity to used TV method and WACC

		Exit multiple method weight				
		100.0%	75.0%	50.0%	25.0%	0.0%
WACC	19.6%	0.636	0.601	0.566	0.531	0.496
	18.6%	0.651	**0.619**	**0.586**	**0.553**	0.520
	17.6%	0.667	**0.637**	**0.607**	**0.577**	0.547
	16.6%	0.684	**0.657**	**0.631**	**0.604**	0.577
	15.6%	0.701	0.679	0.657	0.635	0.613

Source: BTCP Research estimates

Chart 12. Sensitivity to Exit multiple method weight and WACC



Source: BTCP Research estimates

With perpetuity growth method, the TP decrease to RON 0.55/sh., while the Exit multiple method push TP higher to RON 0.67/sh.

Annexes

Annex 1. Financial Statements (actual and BTCP Research estimates)

Income Statement (Consolidated, RONk)	FY '19	FY '20	FY '21	FY '22f	FY '23f	FY '24f
Revenue	**1,166,878**	**1,707,868**	**1,929,714**	**2,091,363**	**2,210,897**	**2,322,739**
Other income	5,780	4,375	4,981	4,961	5,130	5,238
Cost of goods sold	(800,376)	(1,256,325)	(1,443,195)	(1,551,595)	(1,640,777)	(1,725,817)
Cost of fuel and transportation services	(58,745)	(44,923)	(58,000)	(71,365)	(72,312)	(75,302)
Salaries and other employee benefits	(147,827)	(177,935)	(195,848)	(218,322)	(237,619)	(245,844)
Repairs, maintanance and materials cost	(19,658)	(17,702)	(20,685)	(22,047)	(23,307)	(24,486)
Depreciation and amortization	(47,246)	(48,799)	(50,463)	(50,008)	(59,305)	(62,471)
Impairment gains/losses	(4,840)	165	2,689	-	-	-
Change in provisions, net	(652)	4	(2)	-	-	-
Other operating expenses	(70,101)	(86,029)	(82,795)	(93,599)	(101,381)	(105,502)
EBITDA	**70,459**	**129,498**	**136,861**	**139,396**	**140,631**	**151,026**
Operating profit	**23,213**	**80,698**	**86,398**	**89,388**	**81,326**	**88,555**
Finance income - interest income	2,016	4,060	1,365	7,296	6,218	5,207
Finance income - other	20	-	54	54	54	54
Finance costs	(14,556)	(14,303)	(8,279)	(2,616)	(2,416)	(2,435)
Other gains and losses	(4,459)	(5,671)	-	-	-	-
Net finance (cost)	**(16,979)**	**(15,914)**	**(6,861)**	**4,733**	**3,856**	**2,826**
Profit before tax	**6,234**	**64,784**	**79,537**	**94,121**	**85,182**	**91,380**
Income tax expense	(2,072)	(10,421)	(8,771)	(15,059)	(13,629)	(14,621)
Profit for the year	**4,161**	**54,363**	**70,766**	**79,062**	**71,552**	**76,760**
- owners of the Parent	4,152	54,355	70,742	79,048	71,539	76,746
- non-controlling interests	9	8	24	14	14	14

Source: Company data, BTCP Research estimates

Balance Sheet (Consolidated, RONk)	FY '19	FY '20	FY '21	FY '22f	FY '23f	FY '24f
Property, plant and equipment	174,477	143,902	116,818	136,469	153,144	169,378
Investment property	14,575	13,227	13,855	13,855	13,855	13,855
Intangible assets	2,324	2,064	1,559	1,559	1,559	1,559
Goodwill	5,012	5,012	5,012	5,012	5,012	5,012
Other investments	116	111	-	-	-	-
Loans to related parties	29,488	58,256	52,124	45,452	38,780	32,108
Long term trade receivables from related parties	33,911	-	-	-	-	-
Deffered tax assets	1,661	1,222	4,507	4,507	4,507	4,507
Long term prepayments	472	-	-	-	-	-
Other non-current assets	1,195	248	317	317	317	317
Total non-current assets	**263,232**	**224,044**	**194,193**	**207,172**	**217,175**	**226,737**
Inventories	104,407	123,419	133,654	183,674	156,434	164,542
Trade recivables	146,799	229,409	220,942	233,109	273,310	287,136
Short term proportion of loan to related parties	2,367	7,618	6,672	6,672	6,672	6,672
Other receivables	4,566	17,715	30,014	23,936	23,936	23,936
Prepayments	3,813	5,867	7,421	9,641	9,641	9,641
Short term deposits	-	-	195,000	110,000	110,000	110,000
Cash and cash equivalents	7,414	26,514	43,333	75,336	90,445	128,558
Total current assets	**269,365**	**410,543**	**637,037**	**642,369**	**670,439**	**730,485**
Total assets	**532,597**	**634,586**	**831,229**	**849,540**	**887,613**	**957,222**
Long-term bank borrowings	6,736	4,441	2,051	-	-	-
Lease liabilities	88,815	64,546	32,831	30,326	32,215	38,210
Trade payables	5,547	3,278	1,689	1,689	1,689	1,689
Contract liability	88	307	122	122	122	122
Deffered tax liabilities	865	706	2,339	2,339	2,339	2,339
Total non-current liabilities	**102,052**	**73,278**	**39,032**	**34,476**	**36,365**	**42,360**
Current portion of long-term bank borrowings	2,377	2,422	2,461	2,051	-	-
Short-term bank borrowings	131,478	162,959	-	-	-	-
Lease liabilities	36,145	37,127	37,097	39,309	35,747	32,348
Trade payables	185,617	224,655	219,230	251,094	252,963	271,837
Employee benefits	17,171	21,514	24,276	24,276	24,276	24,276
Current tax liabilities	1,243	2,835	1,777	1,777	1,777	1,777
Contract liabilities	1,213	739	282	282	282	282
Provisions	13	9	99	99	99	99

Other payables	23,494	10,227	23,587	18,303	18,303	18,303
Total current liabilities	**398,752**	**462,486**	**308,809**	**337,190**	**333,446**	**348,921**
Total liabilities	**500,804**	**535,764**	**347,841**	**371,666**	**369,812**	**391,281**
Share capital	2,797	3,615	30,590	180,590	180,590	180,590
Share premium	-	-	345,699	195,699	195,699	195,699
Own shares	-	-	(992)	(992)	(992)	(992)
Legal reserves	644	1,080	4,752	4,752	4,752	4,752
Translation reserve	-	-	240	240	240	240
Retained earnings	27,962	93,730	102,678	97,164	137,092	185,230
Equity attributable to the owners of the Companies	**31,404**	**98,425**	**482,968**	**477,453**	**517,381**	**565,520**
Non-controlling interests	389	397	421	421	421	421
Total equity	**31,793**	**98,822**	**483,389**	**477,874**	**517,802**	**565,940**

Source: Company data, BTCP Research estimates

Cash Flow Statement (Consolidated, RONk)	**FY '19**	**FY '20**	**FY '21**	**FY '22f**	**FY '23f**	**FY '24f**
Net profit	**4,161**	**54,363**	**70,766**	**79,062**	**71,552**	**76,760**
Adjustments for:						
Depreciation	8,637	12,728	10,003	13,606	19,997	26,724
Depreciation of right of use asset	38,130	36,154	40,065	36,402	39,309	35,747
Amortisation	478	444	395	-	-	-
Loss/(Gain) on disposal of property, plant and equipement	1,595	1,494	(1,042)	-	-	-
Impairment charge/(reversal)	4,840	(165)	(2,689)	-	-	-
Changes in provisions, net	652	(4)	2	-	-	-
Net finance cost	12,520	10,243	6,861	4,733	3,856	2,826
Other gains and losses	4,459	5,671	-	-	-	-
Income tax expense	2,072	10,421	8,771	15,059	13,629	14,621
Changes in:						
Decrease/(increase) in inventories	17,143	1,811	(2,527)	(50,019)	27,240	(8,108)
Decrease/(increase) in trade receivables	17,503	(34,022)	18,790	(12,167)	(40,201)	(13,826)
Decrease/(increase) in other receivables	(1,787)	14,608	(12,819)	6,078	-	-
Decrease/(increase) in prepayments	619	(903)	(1,554)	(2,220)	-	-
Increase/(decrease) in trade payables	(21,757)	5,859	(10,519)	31,863	1,869	18,874
Increase/(decrease) in other payables	(11,033)	(15,848)	(4,563)	(5,284)	-	-
Increase/(decrease) in provisions and employee benefits	(2,590)	(696)	1,830	-	-	-
Increase/(decrease) in contract liability	(82)	(1,846)	(643)	-	-	-
Cash generated from operations	**75,561**	**100,310**	**121,128**	**117,114**	**137,251**	**153,617**
Interest paid	(7,104)	(7,062)	(5,792)	(2,705)	(1,936)	(885)
Income taxes paid	(2,364)	(8,547)	(9,816)	(15,059)	(13,629)	(14,621)
Net cash generated by operating activities	**66,093**	**84,701**	**105,520**	**99,350**	**121,686**	**138,111**
Cash flows from investing activities	**(22,668)**	**(7,558)**	**(212,999)**	**(33,550)**	**(38,344)**	**(40,363)**
Payments for purchase of property, plant and equipement	(3,951)	(9,398)	(9,008)	(33,550)	(38,344)	(40,363)
Payments for purchase of intangible assets	(38)	(184)	-			
Proceeds from sale of investment property	-	379	(19,484)			
Payments for purchase of subsidiary, net of cash acquired	(12,915)	-	2,008			
Proceeds from sale of property, plant and equipement	2,523	3,830	-			
Payments for loans granted to related parties	(10,847)	(3,907)	7,078			
Proceeds from loans granted to related parties	2,504	1,404	43			
Dividends received	20	9	1,365			
Interest received	36	10	-			
Cash tranferred at merger	-	301	(195,000)			
Cash flows from financing activities	**(37,993)**	**(58,043)**	**124,298**	**(33,796)**	**(68,233)**	**(59,636)**
Proceeds share issue	-	-	354,164	-	-	-
Proceeds from long-term bank loans	10,859	-	-	-	-	-
Repayment of long-term bank loans	(1,772)	(2,388)	(2,461)	(2,051)	-	-
Proceeds from short-term bank loans	1,889	6,857	-	91,672	6,672	6,672
Repayment of short-term bank loans	(5,525)	(8,036)	(162,959)	(410)	(2,051)	-
Payment of lease liabilities	(38,365)	(40,493)	(43,050)	(38,430)	(41,229)	(37,687)
Dividends paid	(5,079)	(13,983)	(21,395)	(84,576)	(31,625)	(28,621)

Net increase/(decrease) in cash and cash equivalents	**5,433**	**19,100**	**16,819**	**32,003**	**15,109**	**38,112**
Cash and cash equivalents at 1 January	1,981	7,414	26,514	43,333	75,336	90,445
Cash and cash equivalents at the end of the year	**7,414**	**26,514**	**43,333**	**75,336**	**90,445**	**128,558**

Source: Company data, BTCP Research estimates

Annex 2. Key Financial Ratios

Liquidity ratios	**FY '19**	**FY '20**	**FY '21**	**FY '22f**	**FY '23f**	**FY '24f**
Current ratio	0.68	0.89	2.06	1.91	2.01	2.09
Quick ratio	0.41	0.62	1.63	1.36	1.54	1.62
Cash ratio	0.02	0.06	0.77	0.55	0.60	0.68

Return	**FY '19**	**FY '20**	**FY '21**	**FY '22f**	**FY '23f**	**FY '24f**
ROE avg.	13.25%	55.23%	14.65%	16.56%	13.83%	13.57%
ROA avg.	0.78%	8.57%	8.51%	9.31%	8.06%	8.02%

Profitability ratios	**FY '19**	**FY '20**	**FY '21**	**FY '22f**	**FY '23f**	**FY '24f**
EBITDA margin	6.04%	7.58%	7.09%	6.67%	6.36%	6.50%
EBIT margin	1.99%	4.73%	4.48%	4.27%	3.68%	3.81%
Net profit margin	0.36%	3.18%	3.67%	3.78%	3.24%	3.30%

Per share fundamentals	**FY '19**	**FY '20**	**FY '21**	**FY '22f**	**FY '23f**	**FY '24f**
EPS	2.83	3.24	4.97	7.51	7.73	4.81
BVPS	18.61	20.20	23.30	27.02	30.99	31.94
SPS	13.18	10.57	15.19	27.84	22.57	19.32
CFS	6.31	5.28	6.66	9.71	12.17	6.54
DPS				0.071	0.023	0.019
EV (RONm)	2.83	3.24	4.97	7.51	7.73	4.81

Price multiples	**FY '19**	**FY '20**	**FY '21**	**FY '22f**	**FY '23f**	**FY '24f**
P/E (x)	159.76	12.23	9.39	8.56	9.46	8.82
P/B (x)	21.17	6.75	1.38	1.42	1.31	1.20
P/S (x)	0.57	0.39	0.34	0.32	0.31	0.29
P/CF (x)	8.80	6.63	5.49	5.78	4.93	4.41
DIVY				12.50%	4.06%	3.35%
EV/EBITDA (x)	13.10	7.03	3.66	4.04	3.87	3.37

Source: Company data, BTCP Research estimates

Price multiples calculated at RON 0.564

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RATINGS HISTORY

Type	Date	Price (RON)	TP (RON)	Rating
Coverage Initiation	31 Oct 2022	0.564	0.607	Neutral

Type	Date	Price (RON)	TP (RON)	Rating

Source: BTCP Research

RATINGS DISTRIBUTION

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Source: BTCP Research

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Contact

Dumitru Procopovici / Junior Equity Analyst
dumitru.procopovici@btcapitalpartners.ro
T: +40 374 778 843

BT Capital Partners - Headquarters
74-76, Constantin Brancusi Street, Ground Floor
Cluj-Napoca, Romania

BT Capital Partners - Bucharest Regional Centre
43 Bucuresti-Ploiesti Blvd, 4th floor
Bucharest, Romania

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BT Leasing® Grupul Financiar Banca Transilvania

BTCP Trading

Constantin Stirbu / Equity Sales Trader
constantin.stirbu@btcapitalpartners.ro
T: +40 374 778 050
M: +40 757 038 350

Paul Ardelean / Equity Sales Trader
paul.ardelean@btcapitalpartners.ro
T: +40 374 778 031

BTCP Equity Research

Irina Railean, CFA / Head of Research
irina.railean@btcapitalpartners.ro
T: +40 374 778 842

Vlad Podea / Equity Analyst
vlad.podea@btcapitalpartners.ro
T: +40 374 778 025

Dumitru Procopovici / Junior Equity Analyst
dumitru.procopovici@btcapitalpartners.ro
T: +40 374 778 843

Alexandru Stroila/ Junior Equity Analyst
alexandru.stroila@btcapitalpartners.ro
T: +40 374 778 841

BT Macro Research

Andrei Radulescu, PhD / Head of Macroeconomics
andrei.radulescu@btrl.ro
T: +40 371 525 064
M: +40 757 035 080