OMV Petrom

Unlocking the Power of Gas

Priced as of 26 April 2023

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Unlocking the Power of Gas

We initiate coverage of OMV Petrom with a Buy recommendation and a Fair Value of RON 0.58 per share. We expect relatively strong earnings in 2023E, with normalization thereafter. The company has a strong upstream portfolio that is resilient in the prevailing low hydrocarbons price environment. Maturing upstream production (2022-25E CAGR -6%) remains a challenge, but monetization of the Neptun Deep project should reverse this trend. The firm's exposure to downstream offers robust support for earnings. We assume OMV Petrom will be able to deliver progressive dividends (avg. 2023-27E DY of 9.2%), despite heavy capex commitments.

Earnings normalization ahead

The energy crisis in 2022 led to skyrocketing hydrocarbon, fuel and electricity prices, boosting the results of oil and gas companies. As a result, Petrom's earnings hit an all-time high in 2022. The oil and gas environment is already normalizing in 2023 and we assume a deterioration in earnings in the years ahead, with a clean EBITDA CCS 2022-27E CAGR of -15%. Our estimates point to a clean EPS CCS of RON 0.14 in 2023E and RON 0.08 in 2025E versus RON 0.16 in 2022.

Neptun Deep project – the solution to maturing upstream output

OMV Petrom and Romgaz (SNG RO) both hold a 50% stake in the Neptun Deep project (offshore gas, Black Sea), which has estimated reserves of 50Bcm (around 300mboe) net for OMV Petrom. The project is key to OMV Petrom's maturing reserves problem (we see upstream output at a 2022-25E CAGR of -6%); at its plateau, we believe Neptun Deep could add around 70kb/d output. OMV Petrom estimates capex for the project to be below EUR 2.0bn, with the first gas output in 2027. OMV Petrom expects the Final Investment Decision (FID) in 2023. We estimate Neptun Deep adds RON 0.13 to the Fair Value.

Unfriendly tax regime and new regulations

Recently, many European governments have decided to tighten their tax regimes, to trim the excessive earnings of energy companies arising from skyrocketing electricity and hydrocarbon prices. Romania's government has also hiked specific sector taxes and introduced new ones. As a result, tax charges rose to around RON 9.7bn in 2022, or 3.7x versus the previous year. New regulations also mean that almost all gas is sold at regulated prices.

Strongly positioned for CAPEX and dividend commitments

OMV Petrom's strategy assumes capex of EUR 11bn by 2030 on the Neptun Deep project. For this reason, we forecast an average FCF yield of 3% over 2023-27E versus an average 16% in 2020-22. OMV Petrom has committed to progressive dividends by 2030, with a 5-10% annual DPS growth rate. Estimated FCF does not cover assumed dividends. However, OMV Petrom is cash-rich and can deliver on these commitments: net cash was RON 13.5bn at end-2022 (or 45% of mkt. cap).

Figure 1. OMV Petrom financial data

RON m	2020	2021	2022	2023E	2024E	2025E
Revenue	19 717	26 011	61 344	43 645	37 695	32 886
Adj. EBITDA CCS	5 635	7 762	15 506	12 528	9 031	7 442
Adj. Net income	1 931	3 353	10 272	8 505	5 805	4 673
P/E (x)	16.0	9.2	3.0	3.6	5.3	6.6
EV/EBITDA (x)	4.1	2.7	1.1	1.9	2.8	3.8
Dividend yield	6.3%	6.3%	16.0%	11.6%	8.0%	8.4%

Source: Company, IPOPEMA Research

CEE Oil & Gas

OMV Petrom

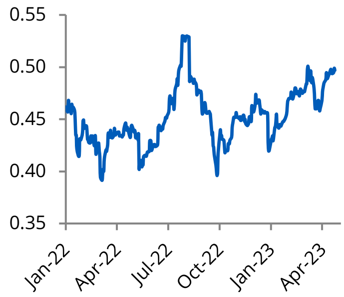
BUY

FV RON 0.58

16.6% upside

Price as of 26 April 2023 RON 0.50

Coverage initiation



Share data

Number of shares (m)	62,312
Market cap (EUR m)	6,694
12M avg daily volume (k)	15,114
12M avg daily turnover (EUR m)	1.4
12M high/low (RON)	0.54/0.39
Reuters	ROSNP.BX
Bloomberg	SNP RO

Total performance

1M	0.4%
3M	10.6%
12M	35.4%

Shareholders

OMV	51.2%
Romanian State	20.7%
Free Float	28.1%

Important disclosure: This report has been prepared by IPOPEMA Securities S.A pursuant to the Research Coverage Programme administered by Bursa de Valori Bucuresti (BVB). This report has been produced independent of any influence from BVB or the subject company. See important disclaimers and disclosures at the end of this report.

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OMV Petrom

BUY — FV RON 0.58

Mkt Cap EUR 6694m — Upside 16.6%

Valuation multiples	2021	2022	2023E	2024E	2025E
P/E (x)	9.2	3.0	3.6	5.3	6.6
EV/EBITDA (x)	2.7	1.1	1.9	2.8	3.8
EV/DACF (x)	2.8	1.4	1.9	3.3	4.5
P/BV (x)	0.8	0.8	0.7	0.6	0.6
FCF yield (%)	13.7%	26.7%	19.1%	2.0%	-0.9%
DY (%)	6.3%	16.0%	11.6%	8.0%	8.4%

Per share	2021	2022	2023E	2024E	2025E
No. of shares (m units)	56 644	62 312	62 312	62 312	62 312
EPS (PLN)	0.05	0.17	0.13	0.09	0.08
BVPS (PLN)	0.60	0.65	0.72	0.78	0.81
FCFPS (PLN)	0.07	0.13	0.09	0.01	0.00
DPS (PLN)	0.031	0.079	0.058	0.039	0.041

Change YoY (%)	2021	2022	2023E	2024E	2025E
Revenues	31.9%	135.8%	-28.9%	-13.6%	-12.8%
EBITDA	48.0%	115.4%	-20.6%	-25.8%	-17.6%
Adj. EBITDA CCS	37.8%	99.8%	-19.2%	-27.9%	-17.6%
EBIT	152.8%	224.6%	-23.6%	-31.4%	-19.9%
Net profit	121.9%	259.6%	-20.8%	-28.8%	-19.5%

Cash Flow metrics	2021	2022	2023E	2024E	2025E
CFFO	6 997	11 337	12 471	7 668	6 346
DACF	7 394	11 985	12 447	7 634	6 316
FCF	4 239	8 231	5 891	632	-263

Leverage and return	2021	2022	2023E	2024E	2025E
EBITDA margin (%)	29.8%	25.3%	28.7%	24.0%	22.6%
EBIT margin (%)	16.7%	19.9%	21.9%	16.7%	15.4%
Adj. net margin (%)	12.9%	16.7%	19.5%	15.4%	14.2%
Net debt / EBITDA (x)	-1.2	-0.9	-1.2	-1.5	-1.4
Net debt / Equity (x)	-0.3	-0.3	-0.3	-0.3	-0.2
Net debt / Assets (x)	-0.2	-0.2	-0.3	-0.2	-0.2
ROE (%)	10.0%	27.5%	19.9%	12.4%	9.4%
ROA (%)	6.9%	19.1%	14.5%	9.6%	7.6%
ROIC (%)	10.7%	29.7%	23.2%	14.1%	10.3%

Assumptions	2021	2022	2023E	2024E	2025E
Brent oil (USD/b)	70.9	101.5	85.0	80.0	75.0
Avg. HC price (USD/b)	49.2	82.9	61.4	64.9	57.1
OPEX (USD/b)	12.7	13.2	15.0	15.0	15.0
Ref. margin (USD/b)	5.5	16.6	15.0	11.5	11.6
Elec. price (RON/MWh)	547	1303	450	450	450
RONUSD	4.2	4.7	4.6	4.3	4.1
RONEUR	4.8	4.9	4.9	4.9	4.9

Operational input	2021	2022	2023E	2024E	2025E
Oil throughput (mt)	4.7	4.6	4.3	4.7	4.7
Refining volumes (mt)	2.4	2.5	2.5	2.6	2.6
Retail volumes (mt)	2.9	3.0	3.0	3.0	3.1
Gas sales (TWh)	38.4	35.8	36.5	36.5	36.5
Net elec. output (TWh)	4.8	5.0	4.4	5.0	5.0
Upstream prod. (mboe)	47.2	43.5	40.8	38.0	36.0
Upstream sales (kb/d)	123.2	114.3	110.5	103.8	98.6

Source: Company data, IPOPEMA Research

P&L (RONm)	2020	2021	2022	2023E	2024E	2025E
Revenues	**19 717**	**26 011**	**61 344**	**43 645**	**37 695**	**32 886**
Prod. costs	-14 082	-18 249	-45 839	-31 117	-28 664	-25 444
Adj. EBITDA CCS	**5 635**	**7 762**	**15 506**	**12 528**	**9 031**	**7 442**
Exploration and Production	2 448	4 288	7 823	5 381	5 282	3 850
Refining and Marketing	2 204	2 810	4 773	3 507	2 822	2 632
Gas and Power	828	913	3 069	3 680	967	1 000
Corporate and Other	-38	-45	-61	-40	-40	-40
Consolidation	193	-203	-99	0	0	0
CCS effect & others	-821	-638	-161	-350	0	0
EBITDA	**4 814**	**7 126**	**15 346**	**12 178**	**9 031**	**7 442**
D&A	3 347	3 417	3 307	2 986	2 728	2 394
Adj. EBIT CCS	2 288	4 346	12 199	9 542	6 303	5 048
EBIT	**1 467**	**3 709**	**12 039**	**9 192**	**6 303**	**5 048**
Financial income (cost) net	12	-311	17	516	608	515
Pre-tax profit	**1 479**	**3 398**	**12 056**	**9 708**	**6 911**	**5 564**
Income tax	-188	-534	-1 756	-1 553	-1 106	-890
Minorities	0	0	1	0	0	0
Net profit	**1 291**	**2 864**	**10 301**	**8 155**	**5 805**	**4 673**
Adj. Net profit CCS	1 931	3 353	10 272	8 505	5 805	4 673

BALANCE SHEET (RONm)	2020	2021	2022	2023E	2024E	2025E
Non-current assets	**34 505**	**32 655**	**32 218**	**35 931**	**40 240**	**44 456**
PP&E	27 802	25 865	24 751	26 703	29 632	32 549
Other non-current assets	6 703	6 791	7 467	9 229	10 609	11 907
Current assets	**13 115**	**17 315**	**25 303**	**24 178**	**21 087**	**17 214**
Inventories	2 103	2 293	3 815	2 837	2 450	2 138
Trade receivables	2 701	4 684	7 217	5 237	4 523	3 946
Cash and equivalents	7 451	10 323	14 256	16 089	14 099	11 115
Other current assets	861	15	15	15	15	15
Total assets	**47 621**	**49 970**	**57 521**	**60 110**	**61 327**	**61 670**
Equity	**33 071**	**34 214**	**40 509**	**45 080**	**48 432**	**50 530**
Minorities	1	1	6	6	6	6
Non-current liabilities	**8 844**	**7 563**	**8 151**	**6 834**	**5 854**	**5 036**
Loans and borrowings	652	518	499	0	0	0
Other non-current liabilities	8 192	7 045	7 652	6 834	5 854	5 036
Current liabilities	**5 706**	**8 193**	**8 862**	**8 195**	**7 041**	**6 104**
Trade payables	2 859	3 266	4 266	3 928	3 393	2 960
Loans and borrowings	312	413	294	436	377	329
Other current liabilities	2 535	4 513	4 303	3 830	3 272	2 815
Equity & liabilities	**47 621**	**49 970**	**57 522**	**60 110**	**61 327**	**61 670**
Cash conversion cycle (days)	13.8	15.2	14.2	19.3	13.8	13.7
Gross debt (PLN m)	964	931	793	436	377	329
Net debt (PLN m)	**-6 486**	**-9 391**	**-13 463**	**-15 653**	**-13 722**	**-10 787**

CASH FLOW (RONm)	2020	2021	2022	2023E	2024E	2025E
Operating cash flow	**5 556**	**6 997**	**11 337**	**12 471**	**7 668**	**6 346**
Profit befor tax	1 479	3 398	12 056	9 708	6 911	5 564
D&A	3 678	3 497	5 120	2 986	2 837	2 489
Change in WC	964	-433	-3 544	2 315	208	168
Other	-565	535	-2 295	-2 538	-2 288	-1 875
Investment cash flow	**-3 163**	**-2 253**	**-3 104**	**-6 580**	**-7 037**	**-6 609**
Change in PP&E	-3 445	-2 846	-3 208	-5 986	-7 037	-6 609
Other	282	593	104	-594	0	0
Financial cash flow	**-1 921**	**-1 914**	**-4 300**	**-4 059**	**-2 622**	**-2 720**
Change in equity	0	0	446	0	0	0
Change in debt	-181	-173	-308	299	-60	-48
Dividend	-1 740	-1 741	-4 438	-3 583	-2 454	-2 576
Other	0	0	0	-774	-109	-96
Change in cash	**7 014**	**7 481**	**10 323**	**14 256**	**16 089**	**14 099**
FX gains/losses	-4	11	2	0	0	0
Cash as of eop	**7 481**	**10 323**	**14 256**	**16 089**	**14 099**	**11 115**

Executive summary

OMV Petrom – the top oil and gas producer in Romania

We initiate coverage of OMV Petrom, Romania's top integrated oil and gas producer, with a Buy recommendation and a fair value of RON 0.58 per share. After record high earnings in 2022, we also expect relativity strong earnings in 2023E. However, OMV Petrom is likely to face earnings normalization over the long term. The firm owns a strong upstream portfolio that is value accretive even in the prevailing low hydrocarbon price environment. Around 95% of OMV Petrom's oil fields are op. CF positive at a long-term oil price of USD 30/bbl. However, the poor reserves replacement ratio (RRR), caused by maturing upstream output, is the firm's key challenge in delivering earnings growth. OMV Petrom has the potential to unlock value in upstream through monetization of the Neptun Deep project. Its R&M assets offer robust support in the current environment. Recent changes in the tax regime and gas market regulations in Romania, as well as heavy capex in the years ahead, will weigh on cash delivery. However, we assume the firm will deliver on its progressive dividend commitments.

Deteriorating earnings ahead

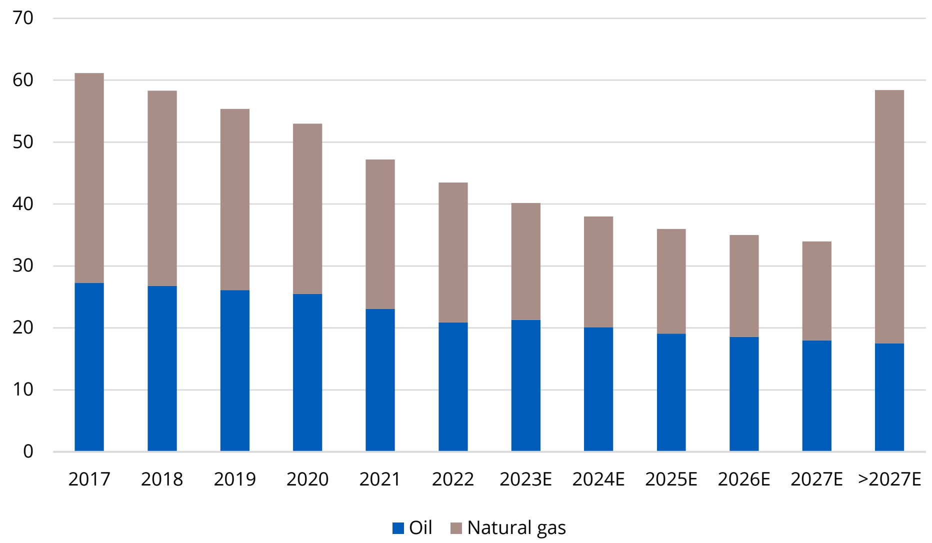
We estimate OMV Petrom's clean net profit CCS at RON 8.5bn (-17% y/y) in 2023E and RON 5.8bn (-32% y/y) in 2024E. For 2025E, we assume net earnings at RON 4.7bn (-19% y/y), predominantly due to maturing upstream production and refining margins normalization. Relative to the current market price, deteriorating earnings do not offer much fundamental upside for OMV Petrom. Our view on fundamental upside potential mainly reflects monetization of the Neptun Deep project.

The Neptun Deep offers significant value potential

OMV Petrom holds 50% of the Neptun Deep project in the Romanian Black Sea, while Romgaz (SNG RO) owns the remaining 50%. Neptun Deep has estimated reserves potential of 50Bcm (~300mboe) and a production plateau of 24mboe (or 70kboe/d) net to OMV Petrom. The project is seen as OMV Petrom's main hydrocarbons production and reserves driver post-2027. While Neptun Deep is rightly perceived as large and significant, it is also a challenging deep-water project. Monetization of the project should be a solution to OMV Petrom's reserves replenishment problem. OMV Petrom says the FID for this project should be made by mid-2023. Inclusion of this project has boosted our fair value for OMV Petrom by some RON 0.13.

Below, we illustrate the estimated impact of the Neptun Deep project on OMV Petrom's upstream output and production costs.

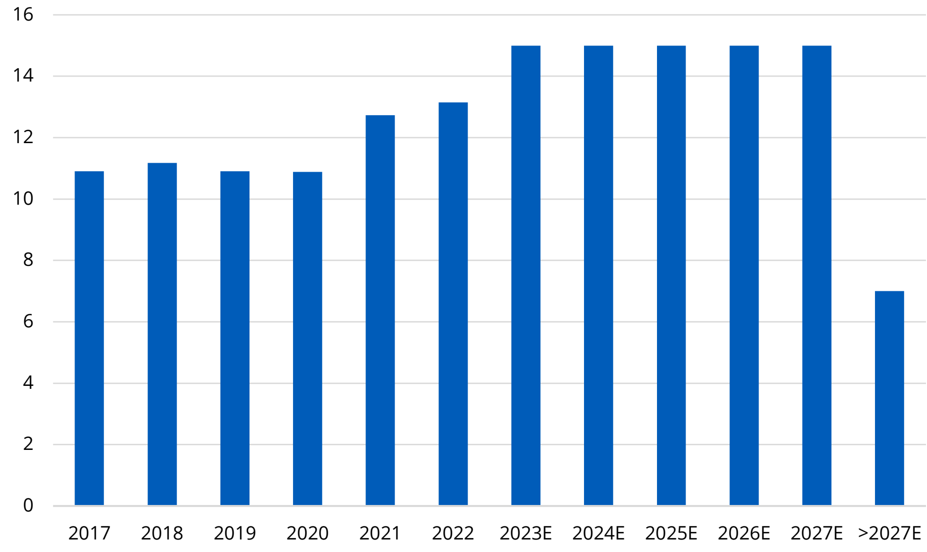
Figure 2. OMV Petrom: upstream output 2017-2027E in mboe



Source: Company, IPOPEMA Research

According to OMV Petrom, monetization of the Neptun Deep project should significantly decrease the firm's upstream opex. We estimate an average 2023-27E upstream opex of USD 15/bbl. Monetization of the Neptun Deep project should lower this to USD 7/bbl. Below we illustrate the development of Petrom's upstream opex in 2017-27E and beyond.

Figure 3. OMV Petrom: upstream OPEX in USD/boe in 2022-2027E



Source: Company, IPOPEMA Research

Specific sector taxes and new regulations introduced in 2022

Romania's oil & gas sector tax regime is one of the most complicated in the SEE region. There are many types and regulations in Romanian sectoral fiscal regime. Below we illustrate the Romanian tax regime for oil & gas firms according to the nature of production.

Onshore

<u>Gas supplementary tax:</u>

Tax base: prices above RON 47.5/MWh

Tax rates depend on gas price:

- 60% for range RON 47.5-85.0/MWh
- 80% for prices above RON 85/MWh (for the *difference between realized price and RON 85.0/MWh)*

Deductions at 30% from:

- tax base for investments
- royalties for supplementary revenues
- for CAPEX at price in the range of RON 47.5-85.0/MWh

<u>Oil taxes:</u> 0.5% of the value of crude oil sold

<u>Royalties:</u>

Royalty rates - based on prod. volumes:

- Oil: 3.5% -13.5% (10-100kt / quarter)
- Gas: 3.5%-13.0% (10-0.2Bcm / quarter)

Royalty base: maximum between RON 85.0/MWh and realized prices

Offshore

<u>Gas supplementary tax as per 2022:</u>

Tax base: prices above RON 85/MWh

Tax rates: variable depending on gas prices, low end of intervals adjusted for inflation stating Jan 2019:

Tax rate	New law as of 2022 Gas price in RON/MWh
0%	<85
15%	85-100
30%	100-115
35%	115-130
40%	130-145
50%	145-160
55%	160-175
60%	175-190
70%	>190

Deductions: 40% tax credit for investments; depreciation of investments fully deductible for CIT purposes; no supplemental tax calculated for capped volumes (households at RON 150/MWh and Gas to Power at RON 100/MWh)

<u>Corporate Income Tax:</u> 16% rate; most investments deductible over the life of fields

In 2022, the Romanian government tightened the existing Government Emergency Ordinance (GEO) and also introduced new energy market regulations and higher taxation. Consequently, total sectoral taxes and contributions increased almost 3.7x relative to 2021 to reach RON 9.7bn. The main provisions are as follows:

- Royalties – up 2.3x y/y to RON 2.1bn;
- Gas windfall tax – hiked 3.1x y/y to 3.2bn;
- Power windfall tax – new taxation stood at RON 1.5bn.

Below we list the key legislative actions for new sectoral regulations taken in 2022.

Gas and power market:

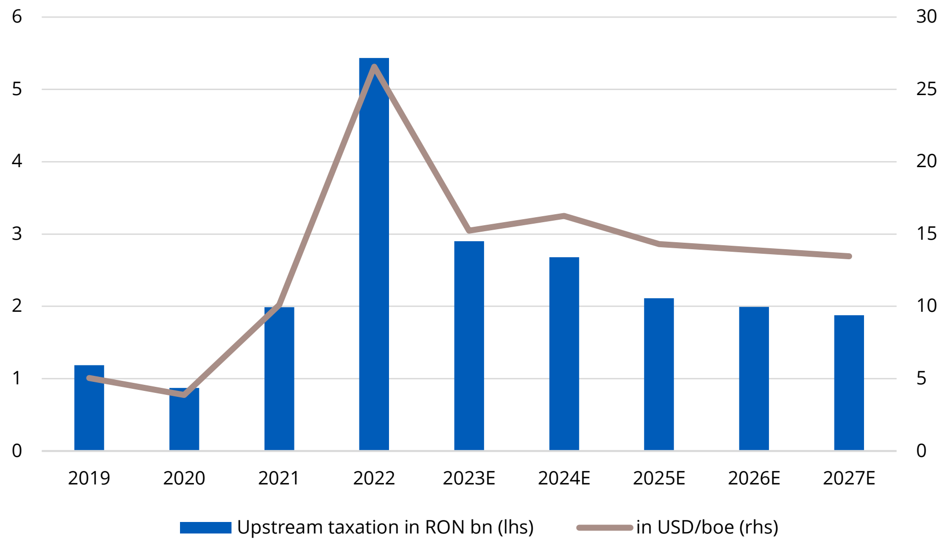
- Law 357: introduced as an amendment to GEO 119. The new regulation extends most deadlines to March 2025.
- GEO 153: Obligation to sell a significant part of electricity produced at a fixed price. The ordinance is applicable from January 2023 to March 2025.

EU solidarity tax – GEO 186:

- Implements into Romanian legislation the solidarity contribution for oil & gas companies provided by EU Regulation 1854 2022.
  GEO 15:
- This regulation may be subject to changes during the Parliamentary process.

In OMV Petrom's P&L, the lion's share of the above-mentioned taxation is booked in Production and similar tax lines which refer to upstream taxation. In 2022, these tax charges amounted to RON 5.4bn, up 173% y/y. Below we illustrate our estimates regarding upstream tax charges over 2019-27E.

Figure 4. OMV Petrom: upstream segment tax charges 2019-27E



Source: Company, IPOPEMA Research

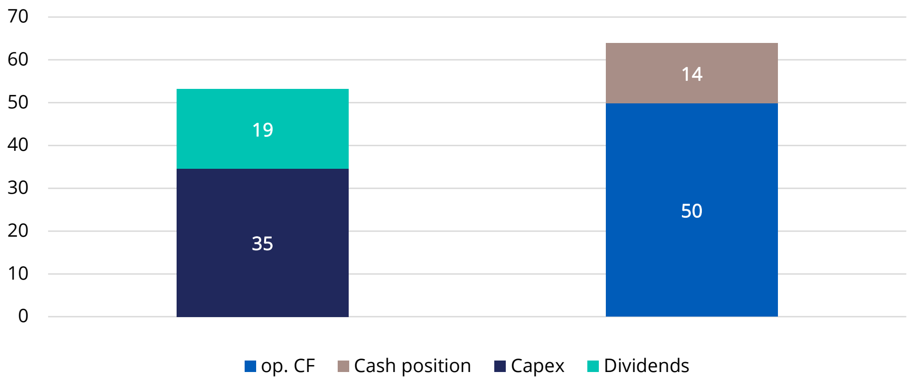
Refining & Marketing earnings offer a robust response in the current environment

We assume that the current fuel markets will remain favourable for the refining business. Decent gasoline and middle-distillate cracks should keep refining earnings relatively strong over the mid-term. This will be visible especially for complex downstream assets, such as OMV Petrom's Brazi refinery. Consequently, we expect the Refining & Marketing (R&M) segment to post an average clean EBITDA CCS of RON 2.99bn over 2023E-25E versus RON 3.01bn seen in 2019-22. Over the long term, we assume R&M earnings will drop, primarily due to our expectation for lower margins in the refining and retail segments.

Solid cash position – 45% of current market cap.

We are not concerned about OMV Petrom's cash position, with 2022 net cash accounting for 45% of current market capitalization. At end-2022, the company's net debt/EBITDA stood at -0.9x and gearing (net debt/total equity) at -33%. The assumed oil & gas as well as refining environment is likely to hit OMV Petrom's operating cash flows in the years ahead, but is still relatively favourable for its business (predominantly upstream) in the long term. Consequently, we expect OMV Petrom's cash position to deteriorate going forward, as we assume hefty capex and the continuation of the dividend policy.

Figure 5. OMV Petrom: estimated sources and uses of cash 2022-27E



Source: IPOPEMA Research

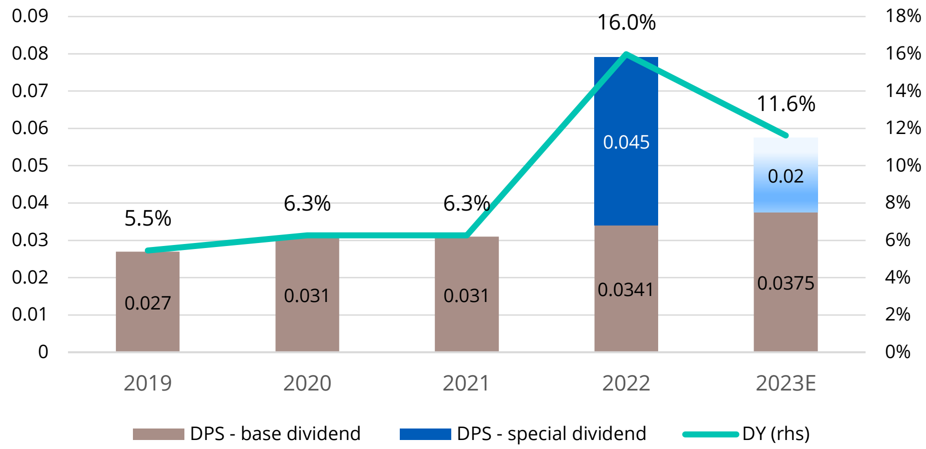
Strongly positioned for progressive dividends

In 2022, OMV Petrom paid a base dividend of RON 0.034 per share and a special dividend of RON 0.045 a share. The total dividend payment implied a yield of around 16.2%. The firm's actual dividend policy assumes an annual dividend growth rate of 5-10% on average. The solid and stable dividend track record should be seen as an advantage over regional peers.

Recently announced capex plans (EUR 11bn by 2030) may cause some concern about dividend payments in the years ahead. However, we assume OMV Petrom will be fully capable of delivering dividend commitments. The solid cash position and robust downstream contribution should support cash flows in the assumed oil & gas environment .

We therefore expect no changes in dividend policy and forecast OMV Petrom to pay out RON 14.2bn in dividends over 2023-27E, with an average annual dividend payment of RON 2.8bn. Our assumptions imply an average yield of 9.3% over the period. For 2023E, we assume a dividend (paid from 2022 earnings) of RON 0.058/share, -27% y/y (DY of 11.6%). We would potentially expect a cut in the dividend under the scenario of a sharp hydrocarbon price drop and/or a significant deterioration in refining margin.

Figure 6. OMV Petrom: DPS in RON/share versus DY 2019-2023E (paid in a certain year)



Source: Company, IPOPEMA Research

Company's strategy

OMV Petrom's strategy for 2022-2030 is focused on growth, shareholder returns, sustainability and energy transition. The expansion of upstream activity, rising shareholder returns, a reduction in the carbon footprint and a resilient business model are the firm's key value creation initiatives. The key goals for 2030 are as follows:

- **Investments:** OMV Petrom intends to invest around EUR 11bn over 2022-30. The main areas of planned capex are traditional fuels, regional gas and low and zero carbon. A more detailed split of planned capex is outlined below:
  - 45% on traditional business (oil, fuels and gas-based power generation)
  - 35% on green projects, which will add five low carbon business activities by 2030, i.e. renewable power (>1GW), biofuels (600ktpa), alternative mobility (>500 charging points), CCU&S, blue & green hydrogen)
  - 20% will be spent on the development of the Neptun Deep project.

  Average annual capex is planned at EUR 1.1bn (2022-25) and EUR 1.3bn (2026-30).
- **Earnings outlook:** OMV Petrom sees clean EBIT CCS at EUR 0.7bn in 2025, moving to EUR 1.5bn in 2030. Growth in planned earnings should stem from the contribution of the Neptun Deep project and the introduction of new low and zero carbon projects. In the downside scenario, earnings are much lower than in the base case:

Figure 7. OMV Petrom: Earnings outlook in diff. scenarios vs IPOP estimates (RON bn)

	2022	2025	2030
Base case prices			
clean EBIT CCS	2.5	0.7	1.5
Downside-price scenario			
clean EBIT CCS	2.5	0.4	1.0
IPOP estimates			
clean EBIT CCS	2.5	1.0	1.5

Source: Company, IPOPEMA Research

  Compared to OMV Petrom's estimates, our forecasts point to slightly higher earnings delivery by 2025 (mainly due to the assumption of higher refining margins) but lower earnings in 2030 (i.e. lower earnings from green projects and upstream).
- **Financials:** ROACE to be above 12% in 2030 (versus an average of 17.7% in 2020-22). Gearing ratio below 20% through 2022-30 (versus negative in the last 5Y).
- **Carbon footprint:** The company aims to be net zero carbon by 2050. By 2030, it aims to reduce carbon emissions by around 30%, with the upstream segment reducing its emissions by more than 70%, refining by more than 20% and power generation by more than 20%. These numbers are relative to CO_2 emissions of 4.3mt in 2019.
- **Dividends:** OMV Petrom aims to deliver progressive dividend payments in each year. The annual base dividend growth rate is assumed at 5-10%. The dividend commitment is also maintained under the downside price scenario. OMV Petrom assumes dividend payments at around 40% of its op. CF over 2022-2030. We discuss our dividend assumptions further on page 8.
- **Macro outlook:** In its base-case scenario, OMV Petrom assumes a normalizing environment with lower oil, electricity prices and refining margins. A downside price scenario mainly reflects a further drop in hydrocarbon prices, with the price of oil hovering around USD 50/bbl over the long term. The downside scenario also assumes depressed refining margins.

Figure 8. OMV Petrom: Key price assumptions comparison over 2022-2030

Key assumptions	Base case prices	Downside-price scenario	IPOP estimates
Brent oil (USD/b)	65-70	~50	avg. 80
Refining margin (USD/b)	5-6	3-4	avg. 11
CO2 (EUR/t)	55-100	60-110	avg. 100
Electricity price (EUR/MWh)	70-90	65-80	avg. 116

Source: Company, IPOPEMA Research

Assumptions and modelling inputs

Here we present our 2022-27E earnings estimates for OMV Petrom in detail, along with the related drivers and macroeconomic assumptions. This is followed by a valuation and recommendation on the stock.

We would like to highlight that we do not forecast oil prices, natural gas prices or fuel cracks, as we believe this is impossible given the extreme volatility of the markets. Instead, we focus on fundamentals that have changed over the last few months.

However, we have to adopt some assumptions for oil prices, natural gas prices and downstream cracks if we are to evaluate OMV Petrom. Hence we believe it is prudent to assume that oil prices, natural gas prices and downstream cracks could drop in the years ahead.

We assume Brent oil price at USD 75/bbl over the long term

Our base-case Brent oil price assumptions stand at USD 85/bbl for 2023E, USD 80/bbl for 2024E and USD 75/bbl for 2025E onwards. We are cautious about the European CEGH natural gas price which we see at EUR 51.9/MWh in 2023E, EUR 40.7/MWh in 2024E and at 60% of the oil price over the long term. We assume fuel cracks normalization, despite the assumption of a tight demand/supply balance. Hence we see OMV Petrom's refining margin at USD 15/bbl in 2023E, USD 11.5/bbl in 2024E and USD 9.4/bbl from 2026E onwards.

Figure 9. OMV Petrom: Key macro, earnings and operational assumptions

Assumptions	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Brent oil price (USD/b)	**64.2**	**41.8**	**70.9**	**101.5**	**85.0**	**80.0**	**75.0**	**75.0**	**75.0**
Realized oil price (USD/b)	56.1	34.5	60.3	87.2	72.5	68.0	63.8	63.8	63.8
Avg. hydrocarbon price (USD/b)	**43.1**	**28.8**	**49.2**	**82.9**	**61.4**	**64.9**	**57.1**	**55.4**	**53.7**
Avg. Natural gas selling price (EUR/MWh)	15.8	12.0	19.0	45.8	26.0	34.6	27.3	25.4	23.4
Upstram OPEX (USD/b)	10.9	10.9	12.7	13.2	15.0	15.0	15.0	15.0	15.0
Upstream EBITDA in USD/b	24.5	11.4	22.9	39.9	28.8	32.0	26.0	24.7	23.4
Reserves (1P) in mboe	**504**	**473**	**419**	**380**					
Reserves Life (Years)	9.1	8.9	8.9	8.7					
Reserves Replacement (in %)	49%	41%	-14%	-10%					
Reserves (2P) in mboe	786	761	680	741					
Indicator refining margin USD/b	4.7	2.9	5.5	16.6	15.0	11.5	11.6	9.4	9.4
Light-Heavy oil differential USD/b	8.1	7.3	10.6	14.2	12.5	12.0	11.3	11.3	11.3
Electricity price RON/MWh	239	191	547	1303	450	450	450	450	450
RONUSD	4.25	4.25	4.17	4.70	4.63	4.35	4.12	4.12	4.12
RONEUR	4.76	4.85	4.93	4.95	4.89	4.76	4.61	4.61	4.61

RON mn	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenue	25 485	19 717	26 011	61 344	43 645	37 695	32 886	32 010	31 447
Adj. EBITDA CCS o/w:	**8 034**	**5 635**	**7 762**	**15 506**	**12 528**	**9 031**	**7 442**	**7 047**	**6 846**
Exploration and Production (E&P)	5 425	2 448	4 288	7 823	5 381	5 282	3 850	3 558	3 275
Refining and Marketing (R&M)	2 249	2 204	2 810	4 773	3 507	2 822	2 632	2 474	2 488
Gas and Power (G&P)	374	828	913	3 069	3 680	967	1 000	1 056	1 123
Corporate and Other	-47	-38	-45	-61	-40	-40	-40	-40	-40
Consolidation	34	193	-203	-99	0	0	0	0	0
Net profit reported	3 635	1 291	2 864	10 301	8 155	5 805	4 673	4 277	4 071
Adj. net profit CCS	**3 863**	**1 931**	**3 353**	**10 272**	**8 505**	**5 805**	**4 673**	**4 277**	**4 071**
CFFO	6 803	5 556	6 997	11 337	12 471	7 668	6 346	6 102	5 862
DACF	7 045	5 840	7 394	11 985	12 447	7 634	6 316	6 074	5 833
FCF	3 168	2 321	4 239	8 231	5 891	632	-263	-392	1 022
Oil throughput (mt)	**4.7**	**4.5**	**4.7**	**4.6**	**4.3**	**4.7**	**4.7**	**4.7**	**4.8**
Refining volumes (mt)	2.6	2.4	2.4	2.5	2.5	2.6	2.6	2.6	2.6
Retail volumes (mt)	2.9	2.6	2.9	3.0	3.0	3.0	3.1	3.1	3.1
Gas sales to third parties (TWh)	**47.2**	**47.8**	**38.4**	**35.8**	**36.5**	**36.5**	**36.5**	**36.5**	**36.5**
Net elec. output (TWh)	3.4	4.1	4.8	5.0	4.4	5.0	5.0	5.0	5.0
Upstream prod. (mboe)	**55.4**	**53.0**	**47.2**	**43.5**	**40.8**	**38.0**	**36.0**	**35.0**	**34.0**
Upstream sales (kb/d)	142.7	137.5	123.2	114.3	110.5	103.8	98.6	95.9	93.2

Source: Company, IPOPEMA Research

Valuation of OMV Petrom

Our valuation approach for OMV Petrom uses the discounted cash flow (DCF) method and a comparative valuation based on P/E and EV/EBITDA multiples for 2023-2025E. Our methodology yields a fair value (FV) of **RON 0.58** per share. We provide a sensitivity analysis to our valuation, varying our terminal growth rate and equity premium assumptions.

DCF valuation

We use a DCF model based on our forecasts for 2023-27E. We used a discount rate based on WACC of 16.6% (avg. 2023-27E) and a terminal value based on perpetuity. Our assumptions for cost-of-equity were assumed by using a variable risk-free rate (forward 12-month interest rate) and adding a 9.0% equity risk premium in each year. We discounted all free cash flows for the company on 31 December 2022, and added net cash as of 31 December 2022.

We then deducted **RON 8.1bn** of decommissioning obligations and **RON 6m** of minority value, and added **RON 13.0bn**, or the value of the company's hydrocarbon reserves not commercialized in our detailed forecasting period (2023-27E). We then divided the equity value by the number of shares. **Our DCF model yields a fair value of RON 0.58 per share, implying 16.6% upside potential from the current market price. We therefore initiate our coverage of OMV Petrom with a Buy recommendation.**

Figure 10. OMV Petrom: DCF valuation

DCF (RON m)	2023E	2024E	2025E	2026E	2027E	>2027E
EBIT	**9 542**	**6 303**	**5 048**	**4 695**	**4 535**	**3 752**
Tax rate	16%	16%	16%	16%	16%	16%
Taxes on EBIT	-1 527	-1 008	-808	-751	-726	-600
NOPLAT	**8 015**	**5 294**	**4 241**	**3 943**	**3 809**	**3 152**
D&A	2 986	2 837	2 489	2 447	2 404	916
CAPEX net	5 986	7 037	6 609	6 494	4 839	824
Lease payments	119	109	96	94	92	92
Change in working capital	-2 620	-565	-457	-83	-54	30
FCFF	**7 516**	**1 551**	**482**	**-114**	**1 335**	**3 122**
Discount ratio	0.86	0.74	0.63	0.54	0.46	
PV of FCFF	**6 462**	**1 145**	**305**	**-62**	**620**	
Terminal value						**19 528**
Sum of PV of FCFF	8 470					
+ PV of Terminal Value	9 064					
Enterprise Value	**17 534**					
Net debt (excl. IFRS 16)	-13 539					
Minorities	6					
Decommissioning obligations	8 096					
Upstream assets (2P; Neptun Deep)	12 991					
Fair Value	**35 963**					
Number of shares (m units)	62 312					
Fair value per share (PLN)	**0.58**					
Current value per share	0.50					
Upside/downside	**16.6%**					

Source: IPOPEMA Research

Figure 11. OMV Petrom: WACC calculation

WACC	2023E	2024E	2025E	2026E	2027E	>2027E
Risk free rate	7.4%	7.5%	7.6%	7.7%	8.0%	8.0%
Equity risk premium	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
beta unlevered	1.0	1.0	1.0	1.0	1.0	1.0
beta levered	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	**16.4%**	**16.6%**	**16.7%**	**16.7%**	**17.1%**	**17.1%**
Risk free rate	7.4%	7.5%	7.6%	7.7%	8.0%	8.0%
Debt premium	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After tax cost of debt	**8.3%**	**8.4%**	**8.5%**	**8.5%**	**8.8%**	**8.8%**
E%	98.6%	98.8%	98.9%	99.0%	99.0%	99.0%
D%	1.4%	1.2%	1.1%	1.0%	1.0%	1.0%
WACC	**16.3%**	**16.5%**	**16.6%**	**16.6%**	**17.0%**	**17.0%**

Source: IPOPEMA Research

Operating earnings split post-2027E

Our EBIT forecast post 2027E is adjusted for exploration and production (upstream) segment earnings. The valuation of upstream reserves, not commercialized in our detailed forecasting period (2023-27E), is included in a separate line of our DCF valuation. Our post-2027 earnings also include the annual contribution from “green projects” of RON 1.06bn (or EUR 230m). We note that our capex estimates for 2023-27E include RON 10.8bn on “green projects”: based on the company’s strategy running up to 2030, capex on “green projects” should amount to 35% of total investments in the period 2022-30. We assume capex for “green projects” at RON 10.8bn in 2023-27E. On the following page we illustrate the split of earnings post-2027E as well as provide some more detailed valuations of the remaining upstream reserves.

Figure 12. OMV Petrom: operating earnings estimate post 2027E

Terminal op. earnings (RON m)	>2027E
EBIT	**3 752**
Refining and Marketing	1 728
Gas and Power	1 003
Green projects	1 060
Others	-39

Source: IPOPEMA Research

Upstream assets valuation post-2027E

Our OMV Petrom DCF valuation includes RON 13.0bn of upstream assets, not commercialized in the detailed forecasting period (2023E-27E). Our estimates include RON 6.1bn of CAPEX for the Neptun Deep project that will be spent in years 2023E-27E. Our estimate adds some RON 0.21 per share to our OMV Petrom valuation, and represents almost entire upside to our fair value (FV).

Figure 13. OMV Petrom: upstream assets valuation post-2027E

	1P Reserves	2P Reserves
Reserves in mboe	196	601
EBITDA USD/b	23.4	28.2
FCF USD/b	16.4	18.0
Risk factor	90%	70%
Total value in USDm	**2 894**	**7 215**
Total value in RONm	11 913	29 697
PV of Reserves in RONm	4 727	11 783
Liabilities in RONm	-	-3 518
Net value in RONm	**4 727**	**8 265**
Net value in RON per share	0.08	0.13

Source: IPOPEMA Research

Figure 14. OMV Petrom: DCF sensitivity analysis

DCF sensitivity (RON per share)						
		WACC in Terminal Year				
		16.0%	**16.5%**	**17.0%**	**17.5%**	**18.0%**
	0.5%	0.58	0.58	0.57	0.57	0.56
	0.8%	0.58	0.58	0.57	0.57	0.57
Terminal growth	**1.0%**	0.59	0.58	**0.58**	0.57	0.57
	1.3%	0.59	0.58	0.58	0.57	0.57
	1.5%	0.59	0.59	0.58	0.58	0.57

Source: IPOPEMA Research

Comparative valuation

Our peer-multiple-based weighted valuation based on P/E and EV/EBITDA ratios for 2023-25E implies a share price of **RON 0.50**.

OMV Petrom currently trades at 2023E P/E and EV/EBITDA of 3.6x and 2.0x respectively, which implies a 36% (P/E) and 26% (EV/EBITDA) discount to international peers (IOCs). On 2024E-25E multiples, OMV Petrom is trading at a premium to international peers. This situation reflects deteriorating earnings following the maturation of upstream output.

Figure 15. OMV Petrom: comparative valuation based on P/E and EV/EBITDA ratios 2023E-25E

Company	P/E			EV/EBITDA		
	2023E	2024E	2025E	2023E	2024E	2025E
PKN ORLEN	3.5	4.7	5.0	1.6	1.8	1.9
TOTAL ENERGIES	6.1	6.5	7.1	3.4	3.6	4.0
SHELL	6.0	5.7	6.6	3.3	3.5	3.7
OMV	4.5	5.1	5.9	1.5	1.7	1.9
EQUINOR	6.5	6.6	8.1	1.7	1.9	2.2
BP	5.3	5.4	5.4	2.0	2.2	2.3
ENI	5.2	5.8	6.6	2.9	3.1	3.2
MOL	3.9	4.1	4.5	2.0	2.1	2.2
REPSOL	4.2	5.1	5.3	2.2	2.4	2.6
ROMGAZ	7.5	5.3	5.3	4.7	3.6	3.9
EXXON MOBIL	11.8	12.3	13.0	6.1	6.4	7.0
CHEVRON CORP	12.0	11.9	11.8	6.1	6.1	6.3
MEDIAN	**5.6**	**5.6**	**6.2**	**2.5**	**2.7**	**2.9**
OMV Petrom (IPOPEMA)	3.6	5.3	6.6	1.9	2.8	3.8
Premium/discount to IPOPEMA est.	-36%	-4%	6%	-26%	2%	30%

Source: IPOPEMA Research

Figure 16. OMV Petrom: Valuation Summary

RON	Fair Value	Weight	Weighted FV
DCF	0.58	100%	0.58
Comparative valuation 2023E-25E	0.50	0%	0.50
Average			**0.58**

Source: IPOPEMA Research

Sensitivity to oil and gas prices change

In our view, visible economic slowdown, persisting high interest rates environment, weakening consumer and energy transition may have a major impact on oil and gas prices going forward. We believe it is prudent to assume that oil and gas prices may drop, at least over a 1Y-3Y horizon. In contrast, the tight supply policy of OPEC+ and geopolitical tensions may cause price shocks on a temporary basis.

Below we present the potential impact for our valuation and key modelling inputs assuming our "low-case" scenario for Brent at USD 50/bbl and natural gas at EUR 15/MWh over the long term. **Our DCF-based valuation falls in a "low-case" 39%, relative to our base-case scenario.** That said, we would see some DCF-based value downside for OMV Petrom's shares. We note, that for the purposes of this analysis we have made no other direct operational or financial modelling changes, meaning that volume phasing, unit opex, downstream cracks and WACC assumptions remain the same in each scenario.

Figure 17. OMV Petrom: Base and low case scenarios for hydrocarbon prices

Assumptions	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Base case									
Brent oil price (USD/bbl)	64.2	41.8	70.9	101.5	85.0	80.0	75.0	75.0	75.0
Avg. gas realized price (EUR/MWh)	15.8	12.0	19.0	45.8	26.0	34.6	27.3	25.4	23.4
Low case									
Brent oil price (USD/bbl)	64.2	41.8	70.9	101.5	65.0	55.0	50.0	50.0	50.0
Avg. gas realized price (EUR/MWh)	15.8	12.0	19.0	45.5	19.0	17.1	14.6	14.6	14.6

Source: IPOPEMA Research

In our "low-case" scenario, 2023-27E EBITDA estimates take a 20% hit (RON 8.7bn)

The upstream segment takes the biggest hit, with a 56% drop in EBITDA (RON 12.0bn) over 2023-27E. This is primarily due to the weaker profitability per boe. Refining and Marketing earnings remain almost unchanged, given unchanged fuel cracks. Gas and Power EBITDA gains 47% under our "low-case" scenario over 2023-27E (RON 3.7bn), mainly due to higher margin on gas and electricity trading. Under our low case scenario valuation of 2P reserves not commercialized in detailed forecasting period drops to RON 2.1bn from RON 13.0bn.

Our "low-case" scenario puts OMV Petrom's fair value at RON 0.35 per share. This implies approximately 29% downside potential in relation to the current market price.

Figure 18. OMV Petrom: DCF valuation under a low-case scenario

DCF (RON m)	2023E	2024E	2025E	2026E	2027E	>2027E
EBIT	**9 762**	**3 511**	**2 782**	**2 638**	**2 663**	**3 839**
Tax rate	16%	16%	16%	16%	16%	16%
Taxes on EBIT	-1 562	-562	-445	-422	-426	-614
NOPLAT	**8 200**	**2 949**	**2 337**	**2 216**	**2 237**	**3 225**
D&A	3 052	2 871	2 469	2 427	2 384	916
CAPEX net	6 077	7 116	6 553	6 439	4 807	824
Lease payments	122	110	95	93	92	92
Change in working capital	-3 075	-1 052	-321	-27	-1	23
FCFF	**8 128**	**-355**	**-1 521**	**-1 863**	**-277**	**3 202**
Discount ratio	0.86	0.74	0.63	0.54	0.46	
PV of FCFF	**6 988**	**-262**	**-963**	**-1 011**	**-129**	
Terminal value						**20 628**
Sum of PV of FCFF	4 624					
+ PV of Terminal Value	9 584					
Enterprise Value	**14 208**					
Net debt (excl. IFRS 16)	-13 539					
Minorities	6					
Decommissioning obligations	8 096					
Upstream assets (2P; Neptun Deep)	2 133					
Fair Value	**21 779**					
Number of shares (m units)	62 312					
Fair value per share (PLN)	**0.35**					
Current value per share	0.50					
Upside/downside	**-29.4%**					

Source: IPOPEMA Research

Figure 19. OMV Petrom: WACC calculation under a low-case scenario

WACC	2023E	2024E	2025E	2026E	2027E	>2027E
Risk free rate	7.4%	7.5%	7.6%	7.7%	8.0%	8.0%
Equity risk premium	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
beta unlevered	1.0	1.0	1.0	1.0	1.0	1.0
beta levered	1.0	1.0	1.0	1.0	1.0	1.0
Cost of equity	**16.4%**	**16.6%**	**16.6%**	**16.7%**	**17.4%**	**17.1%**
Risk free rate	7.4%	7.5%	7.6%	7.7%	8.0%	8.0%
Debt premium	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Tax rate	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
After tax cost of debt	**8.3%**	**8.4%**	**8.5%**	**8.5%**	**8.8%**	**8.8%**
E%	98.8%	99.1%	99.2%	99.2%	93.5%	93.5%
D%	1.2%	0.9%	0.8%	0.8%	6.5%	6.5%
WACC	**16.3%**	**16.5%**	**16.6%**	**16.6%**	**16.8%**	**16.5%**

Source: IPOPEMA Research

Figure 20. OMV Petrom: Sensitivity analysis under a low-case scenario

DCF sensitivity (RON per share)						
		WACC in Terminal Year				
		16.0%	**16.5%**	**17.0%**	**17.5%**	**18.0%**
	0.5%	0.35	0.34	0.34	0.34	0.33
	0.8%	0.35	0.35	0.34	0.34	0.33
Terminal growth	**1.0%**	0.36	0.35	0.35	0.34	0.34
	1.3%	0.36	0.35	0.35	0.34	0.34
	1.5%	0.36	0.36	0.35	0.35	0.34

Source: IPOPEMA Research

OMV Petrom Prolife and Segments

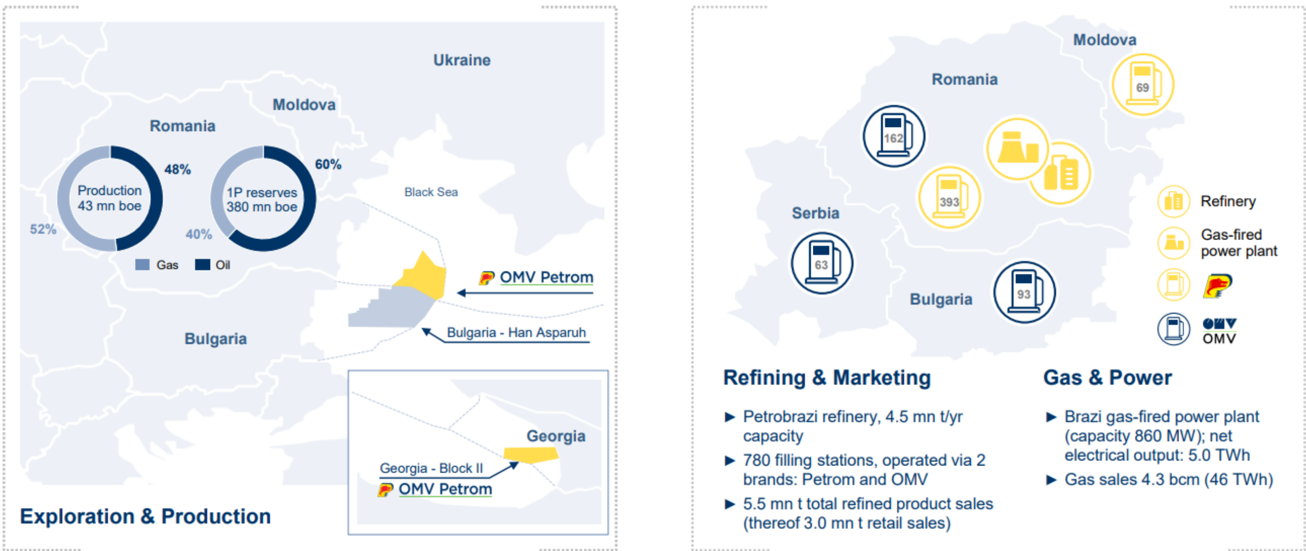
Company profile

OMV Petrom is an integrated oil and gas company owned by the International Oil Company OMV Group (OMV AV) (51.2% stake) and the Romanian State (20.7% stake). The company operates in both the upstream and downstream segments. In 2022, OMV Petrom's proven (1P) reserves stood at roughly 380m boe, while hydrocarbon production was 114k boe/d (or 43.5m boe, which translates into 20.9m bbl of crude oil and natural gas liquids, and 22.6m boe of natural gas). Romania is the main hydrocarbons producing spot, while most of its long-term growth is expected from extraction of offshore natural gas in the Romanian Black Sea through the Neptun Deep project. The firm's strategic goal is to increase hydrocarbon production over the long term. The volatile oil environment, geopolitics, regulation (gas prices, royalties and taxes), production declines and the company's hedging activity are the key risks.

OMV Petrom operates one refinery located in Romania with an annual oil throughput capacity of 4.5mt per annum, and around 780 filling stations, including 555 in Romania (operated under two brands – Petrom and OMV). In 2022, OMV Petrom sold 5.5mt in refined products, of which 3.0mt were retail volumes.

OMV Petrom also operates in the gas business with annual sales volumes of 46.1 TWh in 2022 (of which 35.8 TWh was to third parties). In 2022, the company's gas & power assets portfolio comprised the 860 MW gas-fired power plant Brazi, which cumulatively generated 5.0 TWh of electricity.

Figure 21. OMV Petrom: Business model overview



Source: Company, IPOPEMA Research

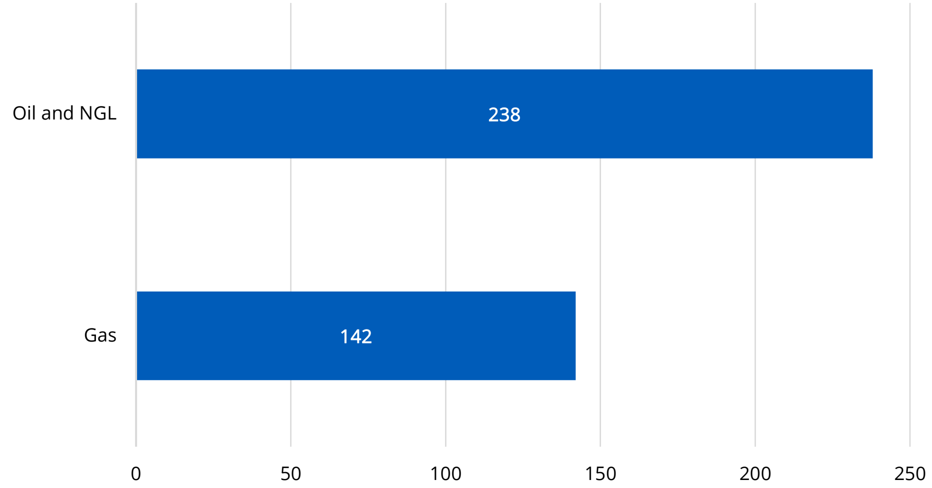
Upstream

OMV Petrom is the largest hydrocarbons producer in Romania. Its peer Romgaz (SNG RO) takes second place, although the latter focuses primarily on natural gas production. OMV Petrom's primary focus is on expanding its production in Romania. The firm operates around 152 commercial oil and gas fields onshore and offshore in Romania. Its portfolio includes fields that have been producing for decades, as well as recently discovered fields. OMV Petrom runs production only in Romania, but has exploration activities in Romania, Bulgaria and Georgia.

In the past, OMV Petrom also ran hydrocarbon production in Kazakhstan. In 2021, however, after 23 years of operations it decided to sell its Kazakh upstream assets to Magnetic Oil Limited. The transaction decreased OMV Petrom's 1P reserves by 21.8m boe and cut its upstream output by 6.8kb/d – around 5% of the company's 1P reserves and production.

The chart below shows OMV Petrom's upstream 1P reserves in Romania. In Romania, OMV Petrom runs both, production and exploration activity.

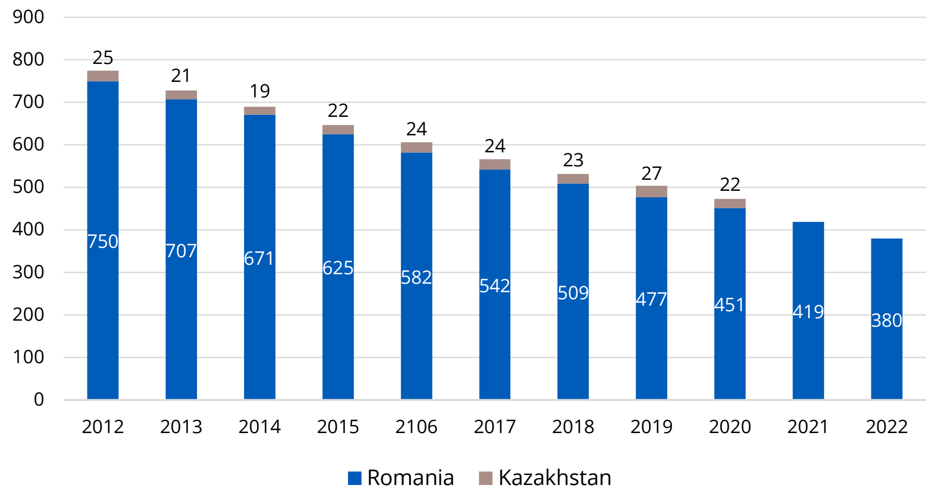
Figure 22. OMV Petrom: 1P reserves by product in million boe



Source: Company, IPOPEMA Research

At the end of 2022, OMV Petrom's 1P (proven) reserves stood at 380m boe, all in Romania. Oil and NGLs (natural gas liquids) account for around 63% of 1P reserves, while the remaining 37% is natural gas. 2P (probable) reserves account for 741m boe, all 2P reserves are located in Romania.

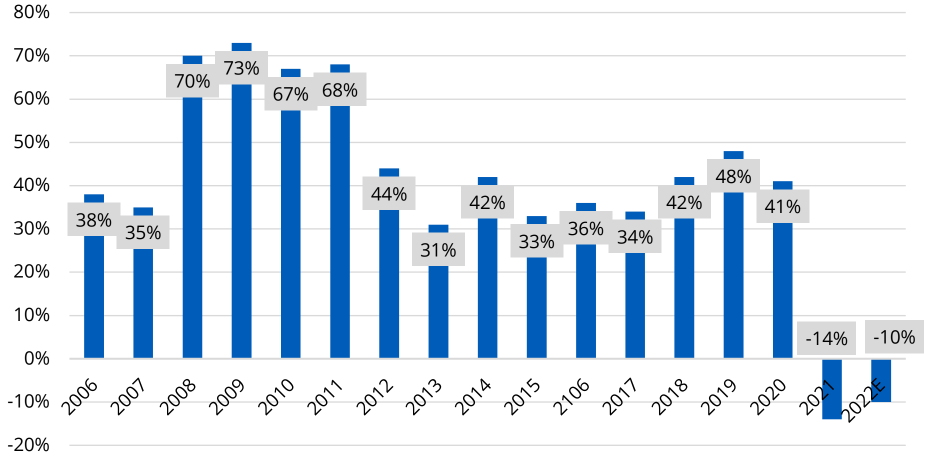
Figure 23. OMV Petrom: Hydrocarbon 1P reserves in million boe 2012-2022



Source: Company, IPOPEMA Research

We would like to highlight maturing 1P reserves and the weak reserves replacement rate (RRR) seen over the last decade. In our view, problems with reserves replenishments is a major challenge for OMV Petrom's fundamental value. In the last two years, the average RRR has dropped to a negative 12% from 39% in the years 2012-2020 and versus 70% in the years 2008-2011. The weak reserves replacement ratio in recent years was driven by a lack of reserves discoveries as well as natural declines and divestments (i.e. Kazakhstan, some marginal fields in Romana). Maintaining a low RRR will mean shrinking reserves going forward and consequently lower production volumes in the years ahead, unless OMV Petrom launches new projects or delivers some M&As.

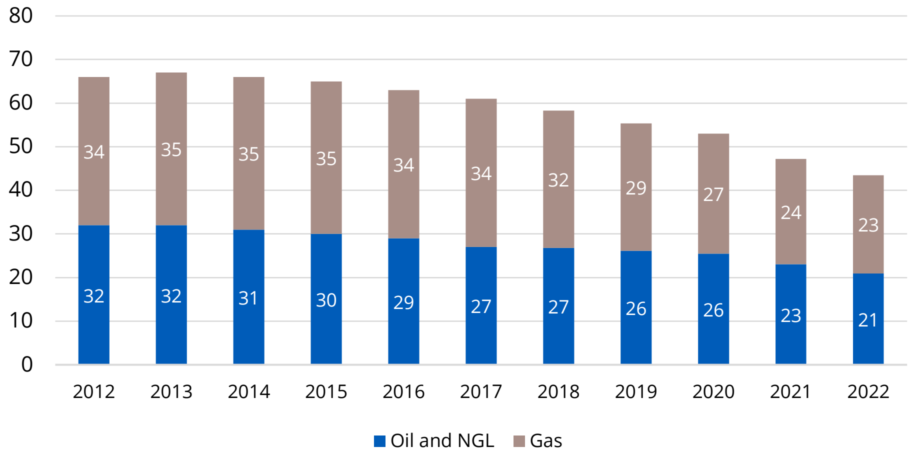
Figure 24. OMV Petrom: Reserves Replacement Ratio (RRR) 2006-2022E



Source: Company, IPOPEMA Research

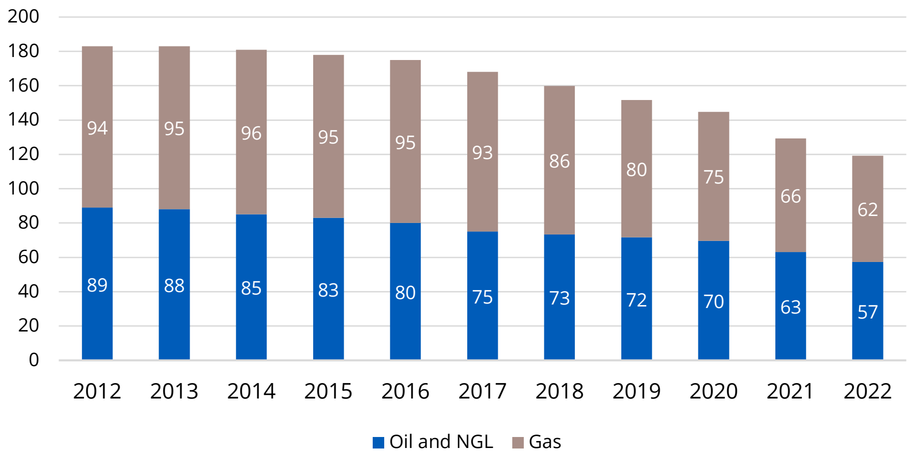
In 2022, OMV Petrom's average production of hydrocarbons amounted to 119kboe/d (or 43.5m boe), of which 48% was oil and NGL, and 52% was natural gas. Compared with 2012-2021, the production of oil and NGL increased slightly at the expense of natural gas. All production came from Romania in 2022.

Figure 25. OMV Petrom: hydrocarbons production in m boe 2012-2022



Source: Company, IPOPEMA Research

Figure 26. OMV Petrom: hydrocarbons production in kboe/d 2012-2022

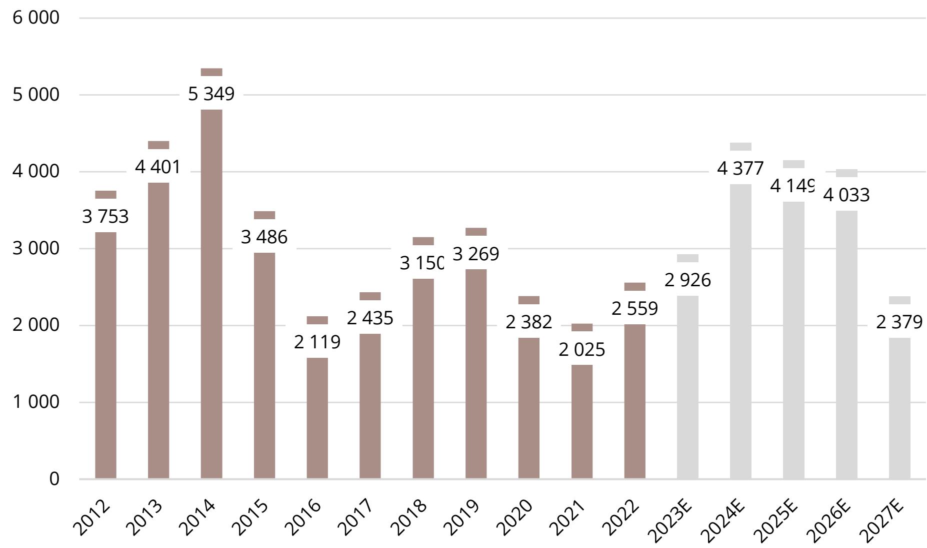


Source: Company, IPOPEMA Research

Hydrocarbons production in Romania dropped by 6% in 2022, reflecting a natural decline and the transfer of 40 non-significant fields to Dacian Petroleum (executed in 4Q21). This transaction resulted in a production decrease of 0.9mb/d. The daily average output, excluding portfolio optimization, dropped 5.6%. Crude oil and NGL output dropped by 6.6%, predominantly on the back of natural decline and divestments. Natural gas production dropped by 6.1% due to a natural decline at the main gas fields (Totea Deep, Lebada East and Totea South), as well as on the back of divestments, which were partially offset by workover operations and new wells.

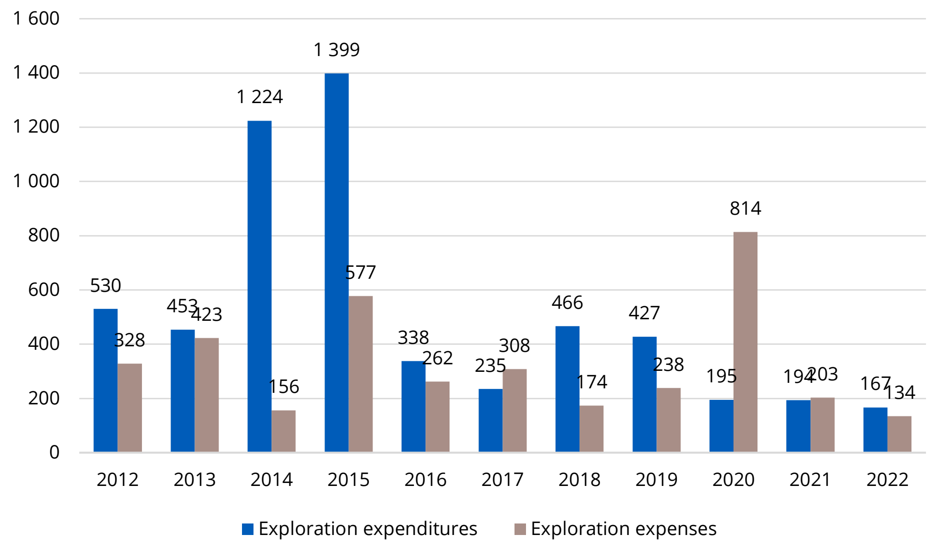
In fact, OMV Petrom has been facing hydrocarbon production declines since 2014, as production matured in Romania, which is the company's main prospective exploration area. In the medium term, we believe the re-development of fields may be unable to prevent further production declines. For the years ahead, OMV Petrom plans higher upstream capex, mainly as it plans the development of its key upstream project – Neptun Deep (offshore gas in the Black Sea). OMV Petrom estimates capex for the Neptun Deep project at below EUR 2.0bn. The Final Investment Decision on this project should be taken by mid-2023. Below, we illustrate OMV Petrom's upstream capex in the years 2012-2027E.

Figure 27. OMV Petrom: upstream CAPEX in RON m 2012-2027E



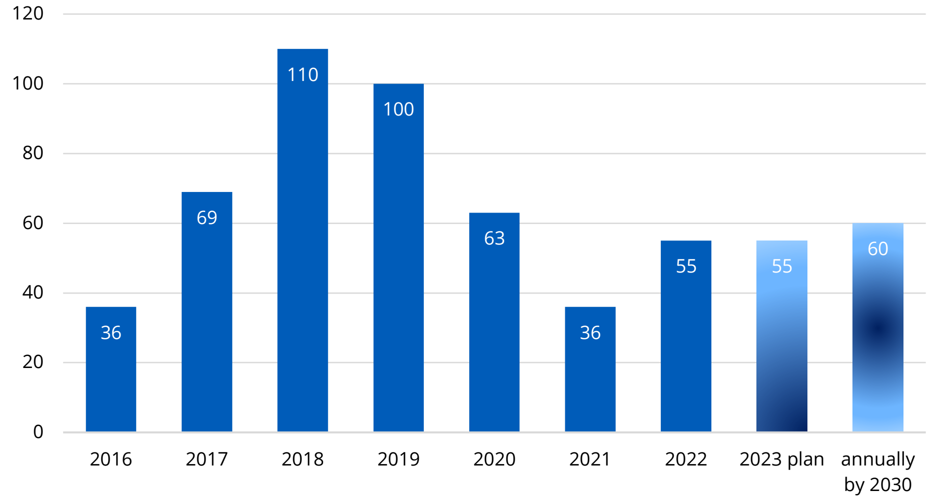
Source: Company, IPOPEMA Research

Figure 28. OMV Petrom: exploration spending in RON m 2012-2022



Source: Company, IPOPEMA Research

Figure 29. OMV Petrom: number of drilled wells in 2012-2022 vs plan for 2023



Source: Company, IPOPEMA Research

Oil and gas production

There are over 400 oil and gas fields in Romania, and more than 13k producing wells. Most of these fields are at a mature stage, while the country has the largest number of active wells in Europe. At the same time, Romania has one of the lowest levels of productivity per well among all European countries – 21 boe/well per day versus 2.35k boe/well per day in Norway; 964 boe/well per day in Denmark; 363 boe/well per day in the UK, and 271 boe/well per day in Italy (all data as of 2017). Oil and gas fields in Romania are very fragmented and the discovery of new resources/reserves often requires drilling at great depths.

Around 25% of oil production is commenced using enhanced oil recovery techniques, with heavy oil representing more than 35% of oil production there. Thus heavy investments are needed to improve extraction technologies (increasing reservoir pressure or deeper drillings) and to increase the recovery factor from maturing fields in order to prevent further production declines.

OMV Petrom's production in Romania is run on 152 oil and gas fields (45%/55% oil/gas mix) and around 6k wells. In 2022, production was 119kboe/d (down 8% y/y), down from a peak of 313kboe/d in 1977. Below, we illustrate OMV Petrom's key producing assets in Romania.

Figure 30. OMV Petrom: estimated hydrocarbons output from main fields in kboe/d

Field/area	Oil&NGL/gas	2021	2016-2017
Oltenia	Oil, NGL and gas	31.7	45.5
Petromar	Oil, NGL and gas	20.0	29.5
Moldova	Oil, NGL and gas	19.6	19.3
Muntenia	Oil, NGL and gas	16.6	10.1
Moesia	Oil, NGL and gas	-	11.6
Mutenia Vest	Oil, NGL and gas	15.0	15.8

Source: Company, IPOPEMA Research

Upstream projects under development

OMV Petrom has proven 1P production potential estimated at 380m boe, of which most is at the development stage. This potential gives OMV Petrom the ability to maintain production in the medium term. The company's 2P reserves are estimated at 741m boe. To unlock OMV Petrom's additional resource potential, the firm aims to focus on investments in the most profitable 100-120 fields, mature the contingent resources via infill drillings and near-field opportunities and implement enhanced oil recovery activities. OMV Petrom also plans to drill >60 new wells and side-works as well as perform more than 400 workover jobs on average annually.

OMV Petrom is focusing its efforts on new drillings. By December 2021 it had launched six active drilling rigs under OMV Petrom's operating licences. A total of 55 new wells and side-tracks were drilled by the end of 2022 (flat y/y) to support the reserves replacement rate (RRR).

The company's current activities include the initiation of an exploration campaign in the Black Sea. The campaign consists of new offshore exploration wells (2-4 annually by 2030) and exploration expenditures of EUR ~30m annually in 2022-2030.

Outside Romania, OMV Petrom runs exploration activities in Bulgaria, where it holds a 43% stake in the Han Asparuh project. The remaining 57% is held by TotalEnergies (operator). So far, a first well is expected in 2022/23, with two or three follow-up options. In Georgia, OMV Petrom holds a 100% stake in Block II. An agreement was signed with the Bulgarian government in March 2021. A campaign for 3D seismic acquisition remains on hold.

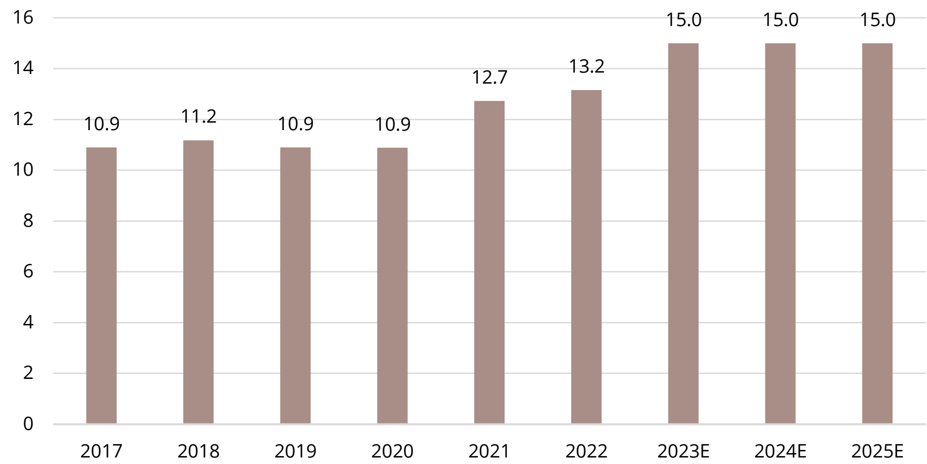
Upstream earnings

Upstream earnings are driven primarily by oil and gas volumes and realized selling prices. The product mix (oil versus gas) is essential for upstream revenues as it determines the segment's average selling price. As OMV Petrom only provides realized prices for crude oil, we can only estimate the selling prices for natural gas. A substantial hike in upstream earnings in the last year was triggered by rising hydrocarbon prices – both crude oil and natural gas prices. Consequently, upstream EBITDA per boe grew 74% y/y in 2022. We expect this figure to drop 28% in 2023E. Exploration expenses, which comprise all costs associated with unproved reserves, including the cost of dry wells, also affects upstream earnings. The non-linear distribution of exploration costs during the fiscal year impairs quarterly upstream profitability. Higher exploration expenses occur during intensification of the drilling campaign. Other costs or macro drivers impacting earnings in the upstream are:

- Opex/boe (materials, services and personnel costs)
- Royalties and similar taxes
- Depreciation, depletion and amortization (DD&A)
- The USD/RON rate

In 2017-2020, OMV Petrom's average opex/boe reached around USD 11.0/boe, but from 2021 upstream production costs accelerated to reach USD 12.7/boe in 2021 and USD 13.2/boe in 2022. For the years ahead, we assume higher production costs at USD 15.0/boe. The monetization of the Neptun Deep project should move OMV Petrom's OPEX/boe to around USD 7.0/boe. Below, we present the development of OPEX/boe on a yearly basis. This is followed by our estimates of upstream EBITDA in USD/boe.

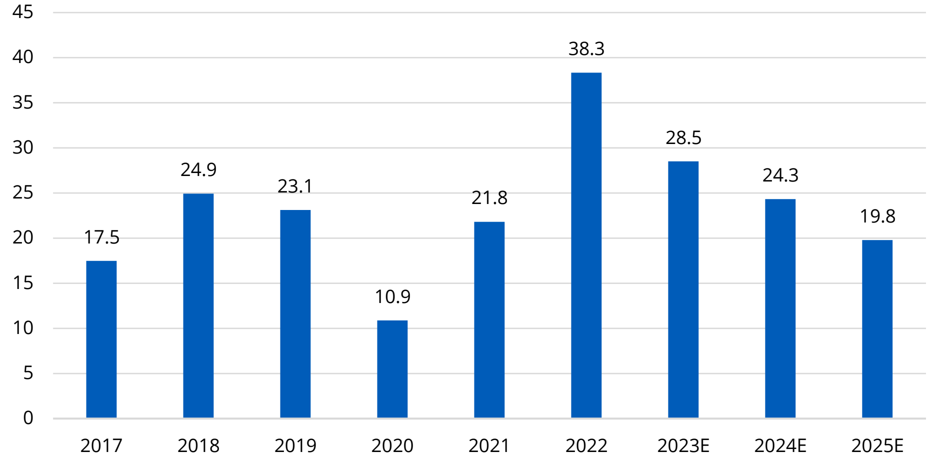
Figure 31. OMV Petrom: OPEX in USD/boe 2017-2025E



Source: Company, IPOPEMA Research

For 2023E and onwards, we forecast upstream EBITDA normalization, mainly due to the assumption of lower hydrocarbons price. According to our estimates, OMV Petrom's EBITDA will drop to below USD 20/boe from 2025E onwards.

Figure 32. OMV Petrom: EBITDA in USD/boe 2017-2025E



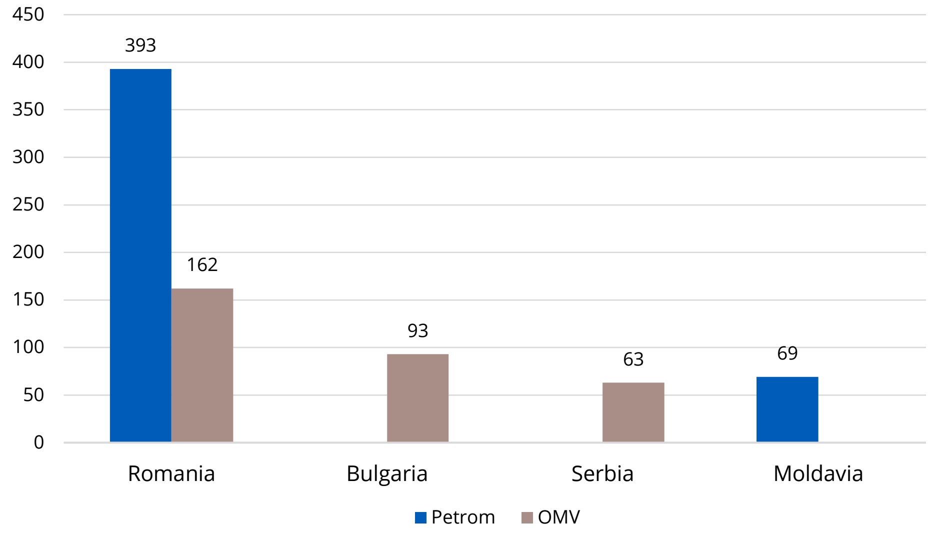
Source: Company, IPOPEMA Research

Refining and marketing

OMV Petrom's downstream segment mainly includes refining and marketing operations. The company operates the Petrobrazi refinery near Ploiesti City (Romania) and a retail network consisting of around 780 filling stations in four countries. It is also engaged in sales and supply operations in the region (Romania, Bulgaria, Serbia and Moldova). The company has a market share of around 46% in Romania, which, together with its strong non-oil retail business (Petrom and OMV), makes it a leading player on its markets.

OMV Petrom's filling network stations include 555 in Romania, 93 in Bulgaria, 69 in Moldavia and 63 in Serbia. In Romania, OMV Petrom operates its retail business under the OMV (premium; 162) and Petrom (economy; 393) brands. In Bulgaria and Serbia, OMV Petrom operates only under the OMV brand, while in Moldavia it is only under the Petrom brand.

Figure 33. OMV Petrom: number of filling stations under different brand



Source: Company, IPOPEMA Research

There are four operating refineries in Romania:

- Petromidia (Rompetrol) is the largest refinery in Romania with annual oil throughput capacities of 5.0mt
- Petrobrazi (OMV Petrom) is the second-largest refinery site in Romania
- Other operating refineries are Petrotel (Lukoil) and Vega (Rompetrol)

Below we present all of the operating refineries in Romania with their oil throughput capacities and complexity measured by the Nelson Complexity Index (NCI).

Figure 34. OMV Petrom: Romanian refineries by owner and size

Refinery	Owner	mt	kb/d	NCI
Petromidia	Rompetrol	5.0	98.5	11.4
Petrobrazi	OMV Petrom	4.5	88.7	11.5
Petrotel	Lukoil	2.4	47.3	7.6
Vega	Rompetrol	0.4	7.5	-

Source: Company, IPOPEMA Research

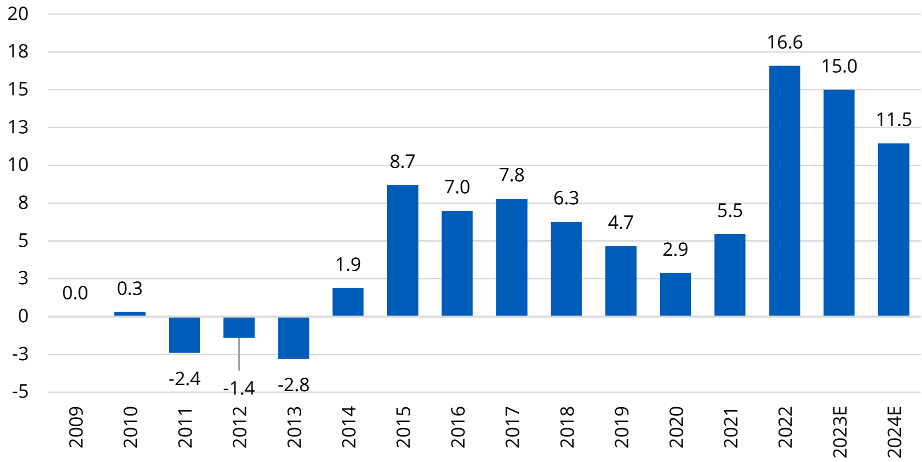
Petrobrazi – a modern refinery

OMV Petrom's refinery is one of the most technologically advanced inland refineries in Europe. It has a total annual oil throughput capacity of 4.5mt (or 88.7kb/d) and an NCI of 11.5. The Petrobrazi refinery is one of the most important in Romania. Since it was privatized, OMV has invested more than EUR 1.1bn (EUR 600m in 2010-14) in modernization, complexity improvement and environmental protection. The latest investments improved the refinery's energy efficiency, yield structure and improved its oil conversion. Petrobrazi is a coking refinery.

Modernization of the Petrobrazi refinery

The last huge modernization programme (finalized in July 2014) increased the middle distillates share of the product mix to 45%, while the production of diesel was increased by 60% versus 2009. Consequently, the indicator refining margin increased by USD 5/bbl relative to 2009. (In reality, the refining margin grew a lot more due to lower crude oil prices and wider light/heavy oil spreads). Following the investment programme, the refinery now has a better response to demand on the fuel market. Petrobrazi is specifically optimized to process Romanian crude oil, but the plant also has pipeline access and is capable of processing imported crude.

Figure 35. OMV Petrom: indicator refining margin in USD/b 2009-2024E

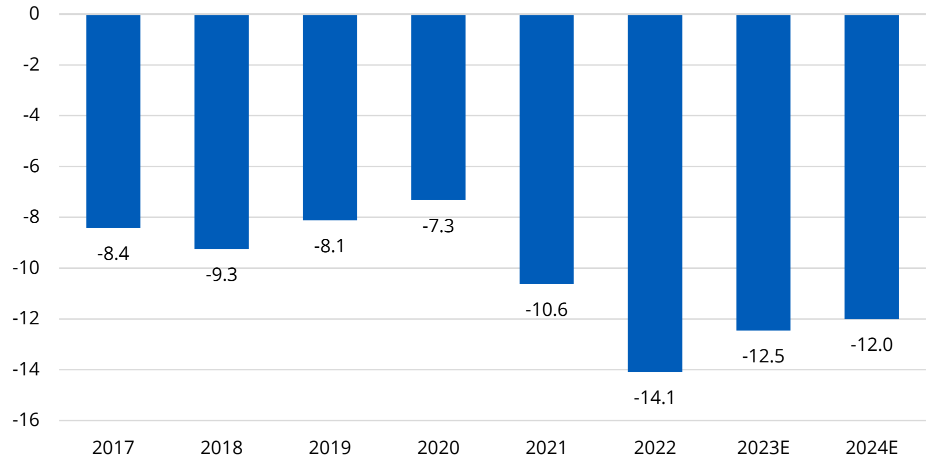


Source: Company, IPOPEMA Research

Petrobrazi is supplied with local oil

OMV Petrom's refinery is supplied with crude oil extracted in Romania and imported from Kazakhstan. Crude oil from Petrom's oil fields is transferred to the refinery through local pipelines, while oil from Kazakhstan is stored in the Constanta oil terminal and transported to the refinery via local pipeline (10ktp/d capacity). Equity oil accounts for around 90% of all oil supplies in Petrobrazi refinery. The high concentration of equity oil is the reason OMV Petrom's refinery hasn't had any problems with Russian oil supplies since Russia's invasion of Ukraine. Below we illustrate the estimated Light-Heavy oil spread, which shows the discount of OMV Petrom's selling oil price and Brent quotations.

Figure 36. OMV Petrom: estimated Light-Heavy oil spread in USD/b 2017-2024E

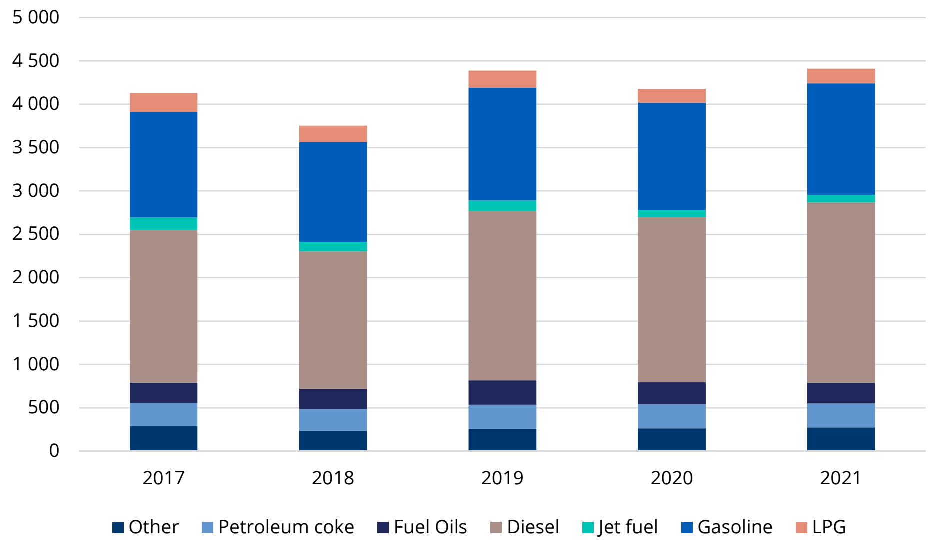


Source: Company, IPOPEMA Research

Petrobrazi refinery product mix

Since the company does not disclose full details of refining operations, we assume that its own oil consumption amounts to around 8% on average. Over the 2017-2021 period, the production of light distillates accounted for 34% of the mix, middle distillates for 47% and heavy distillates 6%. Petroleum coke represented around 6% of the total production mix. The share of other products also accounted for around 6% on average.

Figure 37. OMV Petrom: Petrobrazi refinery product mix 2017-2021 in kt



Source: Company, IPOPEMA Research

Petrochemicals and other products

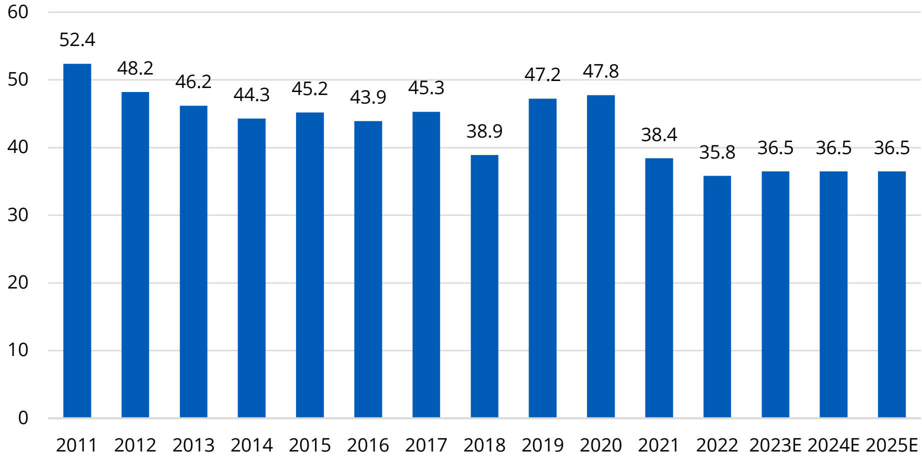
The Petrobrazi refinery has no petrochemical production facilities. However, OMV Petrom is considering investing in a 50kt/annum petrochemical unit that will produce aromatics. Overall, OMV Petrom plans to reduce black products yield by 50% from the current 6% by 2030 (vs 2020). Bottom of the barrel projects aim to increase the production of non-fuel products (bitumen, carbon black or calcinated coke) by 200kt/annum by 2030.

Gas and power

OMV Petrom sells gas and power to final clients. It is a reliable energy supplier for businesses, providing customized gas and power solutions to more than 800 Romanian companies. In Romania, OMV Petrom is number one in natural gas trading on the free market and number two in gas production, after Romgaz (SNG RO).

In 2022, OMV Petrom's annual gas sales volumes were around 46TWh (vs 48.9TWh in 2021), of which sales to external clients stood at 35.8TWh (vs 38.4TWh in 2021). Equity gas (OMV Petrom's own production) is the company's major gas supply source. OMV Petrom also has some gas supply contracts with third parties, but only for marginal volumes. Post-2022, we assume gas sales averaging around 47TWh. Maturing equity gas production could be a challenge to delivering volumes in the years ahead. In this context, the Neptun Deep project could provide sustainable equity gas supplies for OMV Petrom's gas business.

Figure 38. OMV Petrom: natural gas sales to external clients in TWh 2011-2025E



Source: Company, IPOPEMA Research

Romanian gas market development

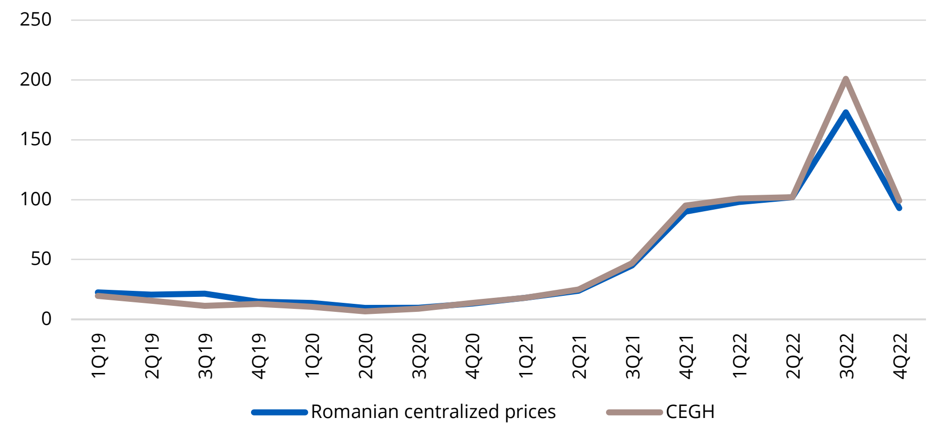
The Romanian gas market liberalization process started in 2007 and was completed for non-households in 2014. Since April 2017, the price of gas sold by domestic producers in Romania has been settled as a result of free market supply/demand factors on the centralized gas market – which can be perceived as a local gas hub. Romanian centralized gas market prices are around EUR 2.5/MWh lower than CEGH (Central European Gas Hub – Austria) prices on average, which may correspond to gas transmission costs.

However, regulatory decisions taken by the Romanian government were introduced in March 2022 and extended until May 2025, aimed at providing gas to domestic clients at a low regulated price. These decisions have hindered further gas market development, liberalization and liquidity. The resolutions require gas companies to sell their products to household suppliers and electricity producers at the amount required to cover domestic demand and at a fixed price of RON 150/MWh without tax (or EUR 30.5/MWh). These regulations marked a return to control of regulated prices for households in Romania, controls that were previously abolished in mid-2020.

The negative effect of these regulations on the gas industry was reinforced in September 2022 by the introduction of a 98% tax on excess earnings from gas and electricity trading. In fact, these regulations allowed companies to keep only 2% after the tax margin to cover operating costs.

In our view, the government's regulations may expose or delay investments in natural gas production in Romania. If Romania does not increase production, its import needs may increase by up to 50% of total demand. This clearly shows why the Neptun Deep project is so important, not only for OMV, but also for the entire country.

Figure 39. OMV Petrom: Romanian centralized market vs CEGH in EUR/MWh

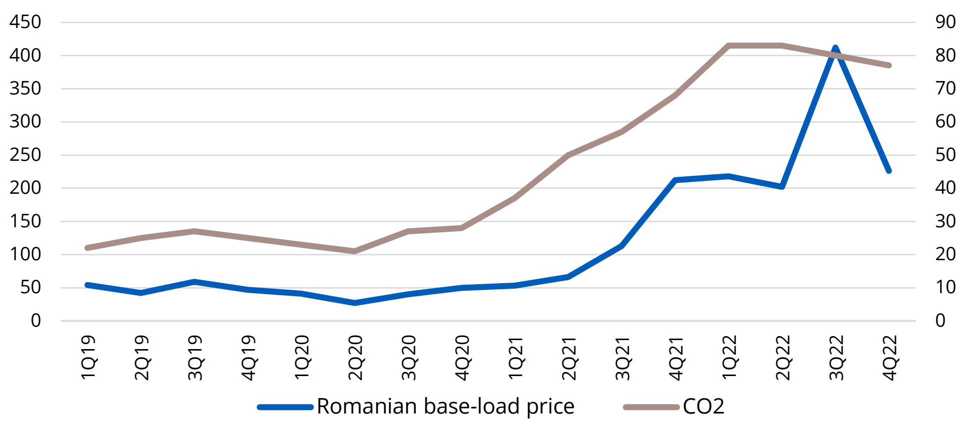


Source: Company, IPOPEMA Research

OMV Petrom operates one gas-fired power plant in Romania. This is the latest generation of combined cycle power plants (gas and steam turbine power plants, CCPP) with an effectiveness of around 57% – currently the highest rating possible (vs 30% average power generation efficiency in Romania) and very low emissions (0.35t CO_2/MWh) compared with the energy generated: power from conventional coal power plants generates emissions at ~0.8t CO_2/MWh. CCPP Brazi (860MW) came on stream in 2012 for EUR 530m.

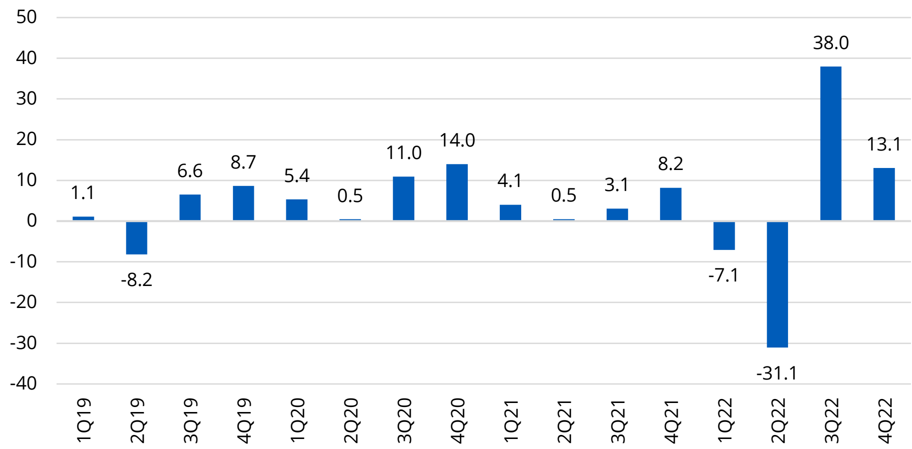
The outlook for OMV Petrom's power generation business remains relatively solid, at least over the short-term. After the implementation of the government's anti-crisis measures, Romanian power plants sell electricity at a price no higher than RON 450/MWh. Sales at higher prices is possible on foreign markets. These regulations were introduced to help consumers who were struggling with rising inflation. OMV Petrom's operations are burdened by weak clean spark spreads, caused by relatively high gas and CO_2 prices – these two factors negatively affect operating hours. On the other hand, rising demand for energy in Romania could be seen as a medium-term catalyst for the generation market.

Figure 40. OMV Petrom: Electricity price in Romania vs carbon credits price in EUR/MWh



Source: Company, IPOPEMA Research

Figure 41. OMV Petrom: clean spark spreads in Romania in EUR/MWh

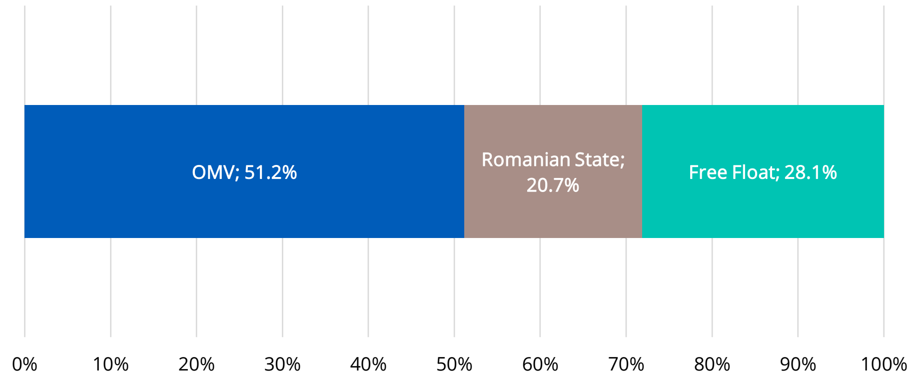


Source: IPOPEMA Research

Ownership

There are currently 62.3bn OMV Petrom shares listed on the Bucharest Stock Exchange. OMV group (an international oil company based in Vienna) is the largest shareholder, with a 51.2% stake, followed by the Romanian State with 20.7%. The Romanian State has no special rights attached to its holding in OMV Petrom. The remaining 28.1% of shares are free float. There are also 2.492m outstanding GDRs listed on the London Stock Exchange. Each GDR equals 150 ordinary OMV Petrom shares.

Figure 42. OMV Petrom: shareholding structure



Source: Company, IPOPEMA Research

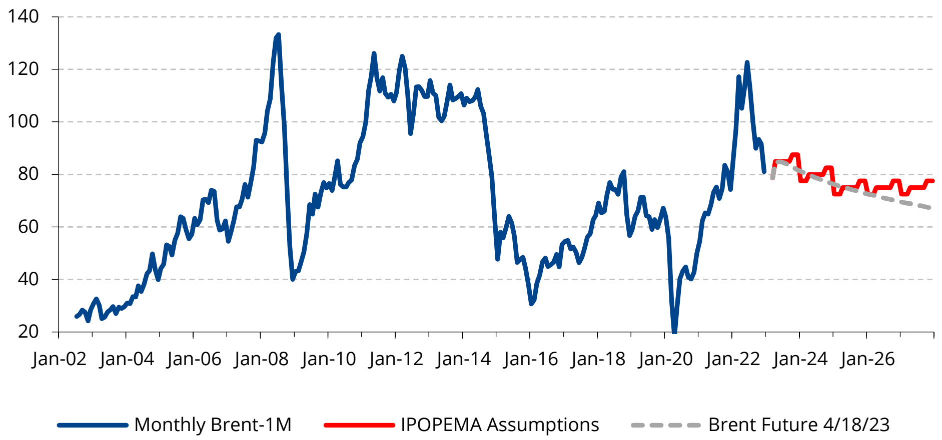
Markets overview

Oil market fundamentals

The volatility in global oil and commodity prices remains a key challenge for upstream companies and their investors. In 2022, oil prices (Brent up 43% y/y) were driven primarily by Russia's invasion of Ukraine. Also, the tight supply policy of OPEC+ had a major impact on oil prices last year. However, worries about the global economic slowdown, booming inflation, the Fed's rising interest-rate policy and a strong US dollar have all weighed heavily on oil prices. The price of Brent dropped to USD 81/bbl (down 21% y/y) in 1Q23. Given the uncertain economic and oil demand outlook for emerging markets, as well as progress in the energy transition towards electric, we believe it is prudent to assume that oil prices will deteriorate over the next 1Y-3Y at least.

The following chart illustrates benchmark Brent oil prices alongside Ipopema's oil price assumptions and future oil price curve by 2027.

Figure 43. OMV Petrom: crude oil price assumptions – Ipopema vs future curve in USD/b 2002-2027E



Source: Bloomberg, IPOPEMA Research

In this section of the report we focus on fundamental drivers that have a significant impact on oil markets. We believe that demand movements have a similar (or even stronger) impact on oil prices than changes in the supply side. Hence the success of the OPEC+ decision to remove around 3.1-3.6mb/d (together with voluntary cuts and extensions) of supply from the global oil markets over 2022-2023, should depend on the global economic outlook and the oil demand growth dynamic in 2023. In our opinion, the anticipated slowdown in the global economy should affect growth in oil demand this year.

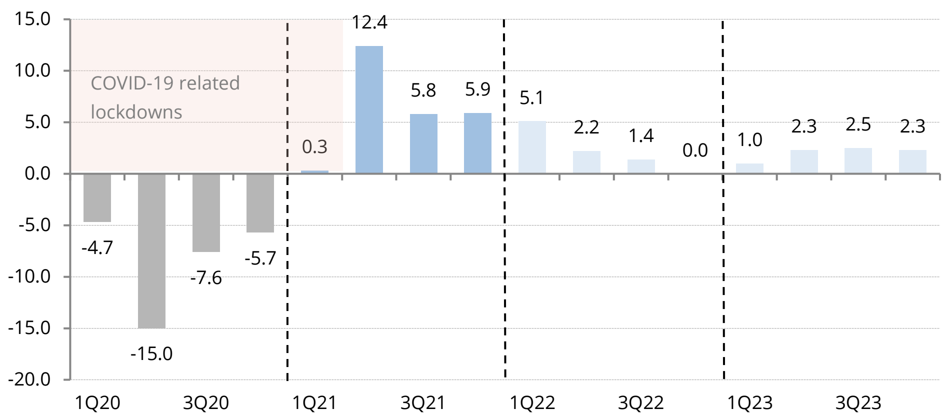
The IEA estimates global oil demand at an average 101.9mb/d in 2023, representing y/y growth of 2.0mb/d. These estimates point to slower growth in demand on a y/y basis. We note that estimated global oil demand in 2023 should be mainly driven by non-OECD countries, which is likely to generate 87% of the estimated growth this year (China should account for 90% of non-OECD growth in oil demand).

- 2015: 95.3mb/d (+1.5mb/d y/y)
- 2016: 96.4mb/d (+1.1mb/d y/y)
- 2017: 98.2mb/d (+1.8mb/d y/y)
- 2018: 99.3mb/d (+1.1mb/d y/y)
- 2019: 100.6mb/d (+1.3mb/d y/y)
- 2020: 91.5mb/d (-9.1mb/d y/y)
- 2021: 97.6mb/d (+6.1mb/d y/y)
- 2022: 99.9mb/d (+2.3mb/d y/y)
- 2023E: 101.9mb/d (+2.0mb/d y/y)

In our view, the weaker oil demand growth expected for 2023 should be driven by a slowdown in the global economy, mainly related to weak industrial activity in the OECD countries and warm weather. In 1Q23 oil demand from OECD countries contracted by 0.4mb/d y/y. But solid Chinese oil demand growth of 0.8mb/d lifted global oil demand to 100.4mb/d. A much stronger oil demand growth of 2.7mb/d is expected (by the IEA) through to the year-end.

In the past few years (not including the post-pandemic period), the actual demand growth for oil has been delivered primarily by emerging countries, China and India foremost. In this period, OECD countries have struggled to generate even anemic demand growth. Hence, the estimated oil demand growth in 2023 follows the same pattern as in previous years. Any uncertainty over oil demand growth from emerging countries (which have delivered around 85% of oil demand growth in recent years) could put pressure on oil prices in the years ahead.

Figure 44. OMV Petrom: Estimated global oil demand growth 1Q20-4Q23E



Source: IEA, IPOPEMA Research

According to the IEA, extra cuts announced by OPEC+ should push global oil supply down by 0.4mb/d by the year-end. From March to December, an increase in global oil supply of 1.0mb/d from non-OPEC countries will not be able to offset a 1.4mb/d decline from the cartel. The IEA assumes that in full-year 2023, global oil supply will grow by 1.2mb/d, compared to 4.6mb/d in 2022. Non-OPEC output, led by the US and Brazil, is driving the 2023 global oil supply growth by 1.9mb/d. OPEC+ output is anticipated to drop by some 0.8mb/d this year.

- 2018: 100.3mb/d(+2.7mb/d y/y)
- 2019: 100.6mb/d (+0.3mb/d y/y)
- 2020: 93.8mb/d (-6.8mb/d y/y)
- 2021: 95.3mb/d (+1.5mb/d y/y)
- 2022: 99.9mb/d (+4.6mb/d y/y)
- 2023E: 101.1mb/d (+1.2mb/d y/y)

The level of global oil inventories increased by 53mb to 2,830mb in January 2023 (only 47mb below the 5Y average). Data for February also showed higher oil inventories, although the trend was turning in March, when OECD inventories declined by 39mb. Higher oil inventories in the past few months have also prompted OPEC+ to cut its output in 2023.

A global economic slowdown is likely to weigh on oil markets in 2023. However, estimated oil demand growth is outpacing supply by some 0.8mb/d; this combined with ongoing geopolitical tensions (especially between Russia and Ukraine) should mitigate any potential drop in oil prices. For this reason, we assume an average Brent price at USD 85/bbl in 2023E and USD 75/bbl from 2025E onwards.

We note that our Brent oil price assumptions would allow upstream companies to generate hefty returns over 2023-27E.

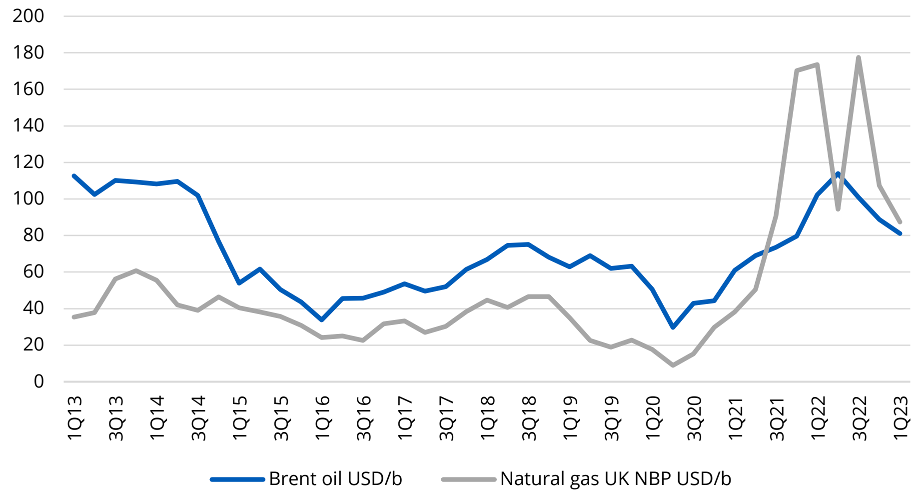
Natural gas

Russia's invasion of Ukraine caused unprecedented volatility on the European natural gas markets. The subsequent supply disruptions led to all-time highs in natural gas prices in Europe in 2022. Reduced natural gas supplies from Russia present a challenge for Europe and have triggered high gas prices.

Over the last 5Y, the UK NBP gas price has traded at an equivalent of 64% the price of Brent oil, while the price was 42% and 118% in 2020 and 2021, respectively. In 2022, the UK NBP gas price was trading at around 177% of Brent oil, on an energy equivalent basis.

The chart below illustrates that natural gas prices in Europe significantly outpaced the crude oil price on an energy equivalent basis.

Figure 45. OMV Petrom: Brent oil vs UK NBP natural gas prices in USD/b



Source: Bloomberg, IPOPEMA Research

Demand for natural gas in Europe dropped 13% y/y in 2022, which implies a 55Bcm reduction from 2021 data, based on IEA data. The drop in gas consumption stemmed from a sharp decline in the utilization of gas-fired capacities in the European power sector, with renewables and coal taking up market share. Extremely expensive and volatile natural gas prices across the region were behind the notable drop in demand for gas in Europe.

The share of natural gas imports from Russia, Europe's main supplier, fell to 10% at the end of 2022 from 40% on average in 2021. In view of the sharp decline in imports of Russian gas, the EU has taken some measures to reduce its dependency on Russian natural gas. Major actions include: 1) higher natural gas imports from Norway/Azerbaijan, amounting to around 10Bcm; 2) increased LNG imports of 20Bcm in the short term, with a near-term target of 60Bcm; 3) the introduction of a gas storage obligation of 90% from 1 October 2022.

Over the past few years, the EU's natural gas imports from Russia have averaged 150-160Bcm annually. Collective efforts and measures taken by the EU should decrease dependency on gas imports to Europe by some 20% over the short term. In 2023, however, the EU will need to make more effort to balance its gas markets (i.e. lower consumption, higher local production and increased LNG imports) as it will need to replace around 50Bcm of gas supplies from Russia.

The natural gas crisis in Europe has triggered extremely high price volatility and we assume the continuation of higher than previously seen prices over the medium term. This assumption supports our earnings forecast and valuation of OMV Petrom.

Refining

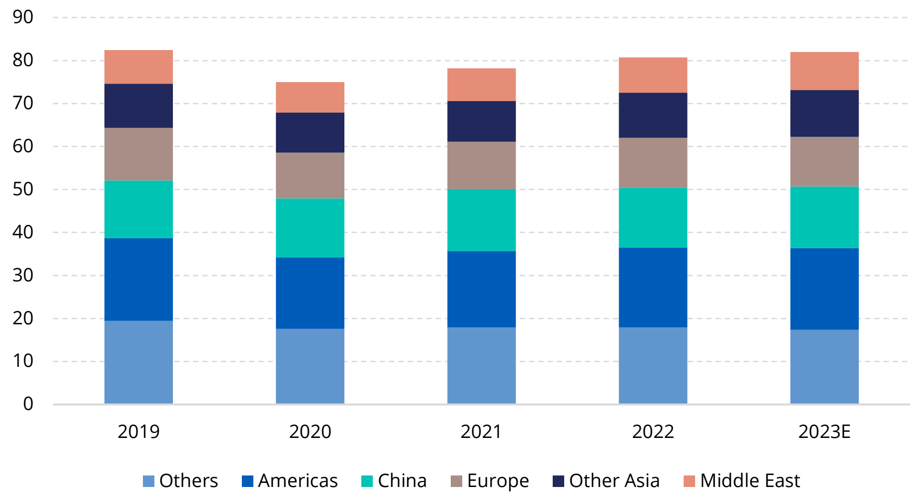
Generally, we can state that 2020 and 2021 were very tough years for European refiners, as the sector struggled to operate comfortably in a low refining margin environemnt. By contrast, 2022 has been an exceptionally strong year for CEE/SEE refiners, as Russia's invasion of Ukraine and unexpected refinery outages in Europe triggered fuel deficits and pushed European refining margins and in-land premiums to levels never previously seen.

Refinery outages were just one of several reasons behind the tight refining markets seen from Central Europe to the Baltics, Ukraine and Romania. Since the Russian invasion of Ukraine, Ukrainian imports of refining products have reoriented westward, away from Russia and Belarus, thereby increasing demand on refined products supplied to the CEE region. In addition, low water levels in the Rhine have been affecting the flow of refined products from global seaborne markets into Central Europe and the CEE region. Alternative supply routes via the Danube and/or from the Adriatic or Black Seas have been subject to local infrastructure constraints.

Demand for refined products has started to normalize in 2023, with new refining capacities coming on stream in 2H23. Weaker growth of the global economy and tighter monetary policies are likely to affect both confidence and investments. This might result in weaker growth in demand for refined products in 2023.

Global refining throughputs have been responding to the slowdown in demand. Weaker-than-expected 1Q23 data forced the IEA to cut its global refining throughput forecast to 82mb/d for 2023, down 0.1mb/d versus the previous estimate. We should see an annual gain of 2.1mb/d in 2Q23, as throughputs in the US should normalize and Chinese activity should be materially higher compared to the weak 2Q22 data. On average, 2023 global refinery throughputs should reach pre-Covid levels, although they are still likely to be 0.3mb/d lower than 2019, according to the IEA.

Figure 46. OMV Petrom: IEA's global refinery throughput estimates for 2019-2023E

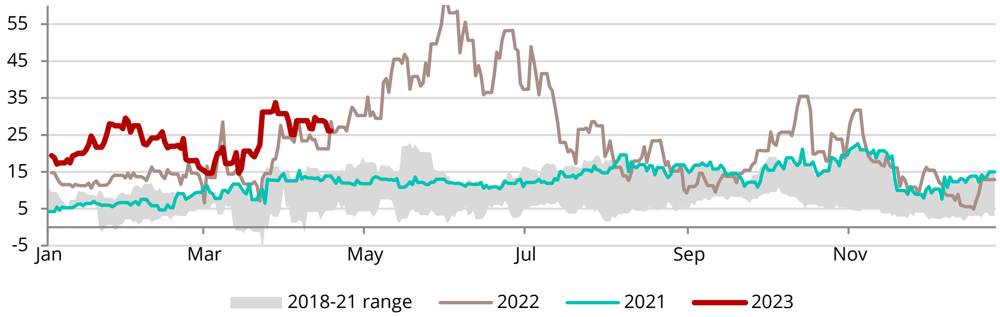


Source: IEA, IPOPEMA Research

We believe the global economic slowdown could trigger the normalization of refining margins in Europe over the medium term. For the short term, however, refining margins are likely to remain at elevated levels amid tight markets in Europe. Restrictions in fuel imports to the European Union from Russia are tightening the already tight diesel markets, keeping refining margins relatively high.

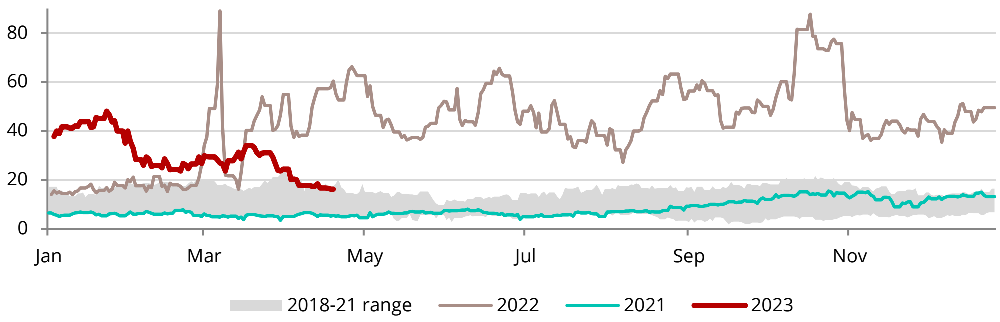
Refining spreads and oil differentials – chart pack

Figure 47. OMV Petrom: European gasoline crack in USD/b



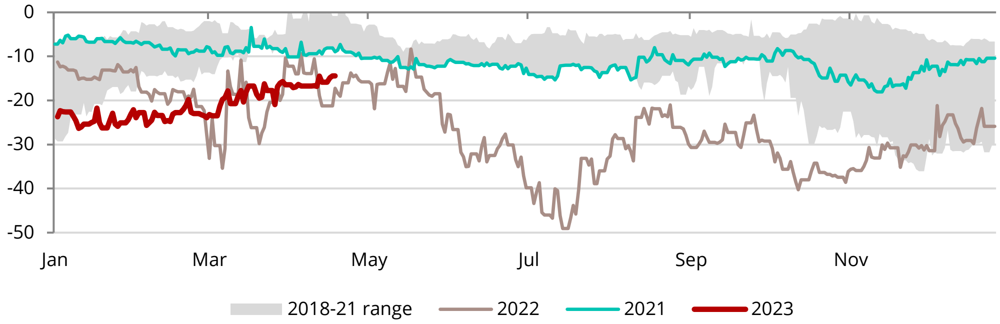
Source: Reuters, IPOPEMA Research

Figure 48. OMV Petrom: European diesel crack in USD/b



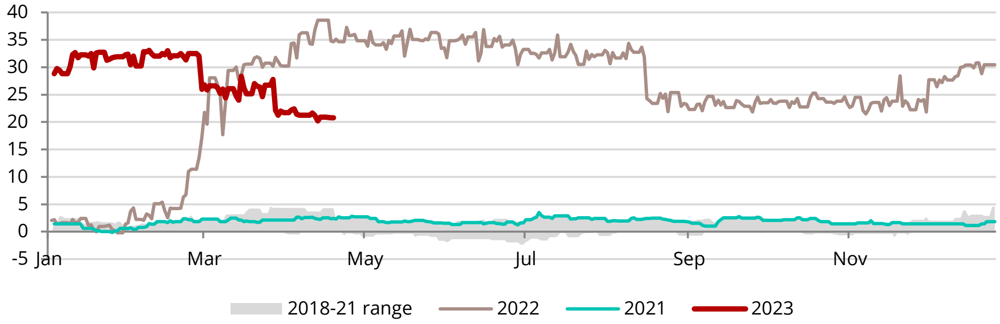
Source: Reuters, IPOPEMA Research

Figure 49. OMV Petrom: European HSFO crack in USD/b



Source: Reuters, IPOPEMA Research

Figure 50. OMV Petrom: Brent-Ural differential in USD/b



Source: Reuters, IPOPEMA Research

Risks to fair value

The oil & gas/energy industry is inherently risky

- The risks attached to oil and gas companies and their valuations include external risks arising from the business climate, which are not directly controllable: i.e. competition risk, price risk (primarily volatile oil and natural gas prices, refining and petrochemical spreads), regulatory risk, developing country risk, local currency risk, fiscal risk and economic risk.
- There are also 'reputational risks' which could impact a company's share price, performance and future operations if actions are not aligned with responsible standards (e.g. in terms of social responsibility, environmental safeguards and compliance).
- An oil and gas company's operations are hazards which also require constant oversight and control, i.e. operational risks (drilling risk, production risk, technical integrity risk and security risk).
- Finally, forward-looking statements and guidance from oil and gas companies involve risk and uncertainty because they relate to events in the future and actual results can differ from targets or views expressed today if any of the risk factors above change significantly.

History

Between 1947-1989, all previously private oil companies in Romania were nationalized and their assets exploited by Sovrom Petrol, a company owned by the Romanian State and Russia. In 1976, a peak of 15m tonnes of oil production was reached and production started to decline thereafter. In 1989, the upstream segment was taken over by the state-owned Romania Petroleum Company; in 1997, it was transformed into SN Petrom, a company that also operated downstream, with its two refineries – Arpechim and Petrobrazi. On the verge of the 21st century, the company had to cope with the lack of investments and negative refining margins.

In September 2001, the company was listed on the Bucharest Stock Exchange.

In late July 2004, the Romanian Ministry of Economy and Commerce (MEC) and OMV signed a privatization contract whereby OMV acquired 51% of Petrom's voting rights through a combination of a direct purchase of 33.34% (EUR 669m) and a simultaneous capital increase in Petrom (EUR 831m). On 7 December 2004, OMV paid EUR 1.5bn for 51% of Petrom's share capital and on 14 December the Privatisation Agreement was closed. Thus, OMV became the majority shareholder and Petrom's share capital increased, as of 31 December 2004, to RON 5.6bn, with a nominal value of 0.1 lei/share. At this time, it was the largest privatization deal in Romania's history. At the beginning of 2006, Petrom acquired Romanian, Bulgarian and Serbian assets from its parent company OMV. This included 178 petrol stations. **In 2010, the company changed its name to OMV Petrom.**

In 2008, OMV Petrom entered a Joint venture with ExxonMobil for the exploration of the Neptun Block. In March 2011, the company decided to close the Arpechim refinery and put more focus on energy production. The new capacity appeared in October 2012, when OMV Petrom launched the Brazi power plant – a project worth roughly EUR 530m. That same month, the company, together with its JV partner ExxonMobil, announced the discovery of a new natural gas field in the Neptun Block. This opened the way for the first deep-water gas production in Romanian offshore. Between 2008 and 2016, both companies invested more than USD 1.6bn in exploration and appraisal activities in the block. In July 2014, OMV Petrom finalized the modernization of the Petrobrazi refinery for EUR 600m.

Between 2012 and 2017, the privatization of OMV Petrom advanced: two significant strategic shareholders – Fondul Proprietatea and the European Bank for Reconstruction and Development (EBRD) – decreased their stakes by 12.2pp, while increasing the free float to 18.4% of shares. The exit of these two shareholders was also continued between 2020 and 2022, consequently these investors sold their entire stakes increasing the free float to 28.1%.

In 2021, OMV Petrom was included in the indices of the global supplier FTSE Russell.

In 2022, ExxonMobile (XOM US) decided to sell its entire stake in the Neptun Deep project to Romanian state-owned Romgaz for USD 1.06bn; OMV Petrom took the operator role on this project after ownership reshuffles.

Financials

Figure 51. OMV Petrom: Financial statements 2019-27E

P&L (RON m)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
Revenues	**25 485**	**19 717**	**26 011**	**61 344**	**43 645**	**37 695**	**32 886**	**32 010**	**31 447**
Production costs	14 207	10 573	14 454	38 506	25 968	23 811	21 132	20 738	20 459
Gross Profit	**11 279**	**9 144**	**11 557**	**22 838**	**17 677**	**13 883**	**11 754**	**11 272**	**10 988**
EBITDA	**7 706**	**4 814**	**7 126**	**15 346**	**12 178**	**9 031**	**7 442**	**7 047**	**6 846**
- y/y change	*-7.6%*	*-37.5%*	*48.0%*	*115.4%*	*-20.6%*	*-25.8%*	*-17.6%*	*-5.3%*	*-2.9%*
EBIT	**4 245**	**1 467**	**3 709**	**12 039**	**9 192**	**6 303**	**5 048**	**4 695**	**4 535**
- y/y change	*-18.6%*	*-65.4%*	*152.8%*	*224.6%*	*-23.6%*	*-31.4%*	*-19.9%*	*-7.0%*	*-3.4%*
Net Financial Expenses and Other Items	32	12	-311	17	516	608	515	397	312
Pre-tax Profit	**4 277**	**1 479**	**3 398**	**12 056**	**9 708**	**6 911**	**5 564**	**5 091**	**4 847**
Income Tax	-642	-188	-534	-1 756	-1 553	-1 106	-890	-815	-776
Minority (Profits) / Losses	0	0	0	1	0	0	0	0	0
Net Income	**3 635**	**1 291**	**2 864**	**10 301**	**8 155**	**5 805**	**4 673**	**4 277**	**4 071**
- y/y change	-10.9%	-64.5%	121.9%	259.6%	-20.8%	-28.8%	-19.5%	-8.5%	-4.8%
EPS (PLN)	**0.064**	**0.023**	**0.051**	**0.165**	**0.131**	**0.093**	**0.075**	**0.069**	**0.065**
- y/y change	-10.9%	-64.5%	121.9%	226.9%	-20.8%	-28.8%	-19.5%	-8.5%	-4.8%
Profitability Ratios									
EBITDA Margin	30.2%	24.4%	27.4%	25.0%	27.9%	24.0%	22.6%	22.0%	21.8%
EBIT Margin	16.7%	7.4%	14.3%	19.6%	21.1%	16.7%	15.4%	14.7%	14.4%
Net Margin	14.3%	6.5%	11.0%	16.8%	18.7%	15.4%	14.2%	13.4%	12.9%
ROE	10.8%	3.9%	8.5%	27.6%	19.1%	12.4%	9.4%	8.3%	7.7%
Balance Sheet (PLN m)	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**
Total Non-current Assets	**34 933**	**34 505**	**32 655**	**32 218**	**35 931**	**40 240**	**44 456**	**48 597**	**51 124**
Tangible Assets	27 945	27 802	25 865	24 751	26 703	29 632	32 549	35 415	36 998
Other Non-current Assets	6 988	6 703	6 791	7 467	9 229	10 609	11 907	13 182	14 127
Total Current Assets	**12 563**	**13 115**	**17 315**	**25 303**	**24 178**	**21 087**	**17 214**	**13 853**	**11 832**
Inventories	2 464	2 103	2 293	3 815	2 837	2 450	2 138	2 081	2 044
Trade and other Receivables	2 867	2 701	4 684	7 217	5 237	4 523	3 946	3 841	3 774
Cash and Equivalents	7 014	7 451	10 323	14 256	16 089	14 099	11 115	7 916	6 000
Other Current Assets	217	861	15	15	15	15	15	15	15
Total Assets	**47 495**	**47 621**	**49 970**	**57 521**	**60 110**	**61 327**	**61 670**	**62 449**	**62 957**
Shareholders Equity	**33 501**	**33 071**	**34 214**	**40 509**	**45 080**	**48 432**	**50 530**	**52 101**	**53 333**
Minority Interest	1	1	1	6	6	6	6	6	6
Non-current Liabilities	**8 197**	**8 844**	**7 563**	**8 151**	**6 834**	**5 854**	**5 036**	**4 495**	**3 969**
Non-current Debt and Leases	770	652	518	499	0	0	0	0	0
Other Non-current Liabilities	7 427	8 192	7 045	7 652	6 834	5 854	5 036	4 495	3 969
Current Liabilities	**5 797**	**5 706**	**8 193**	**8 862**	**8 195**	**7 041**	**6 104**	**5 853**	**5 655**
Current Debt and Leases	261	312	413	294	436	377	329	320	314
Trade and Other Payables	3 372	2 859	3 266	4 266	3 928	3 393	2 960	2 881	2 830
Other Current Liabilities	2 163	2 535	4 513	4 303	3 830	3 272	2 815	2 652	2 510
Total Equity & Liabilities	**47 495**	**47 621**	**49 970**	**57 521**	**60 110**	**61 327**	**61 670**	**62 449**	**62 957**
Net Debt	-5 982	-6 486	-9 391	-13 463	-15 653	-13 722	-10 787	-7 596	-5 685
Net Debt / EBITDA	-0.8	-1.3	-1.3	-0.9	-1.3	-1.5	-1.4	-1.1	-0.8
BVPS (PLN)	0.59	0.58	0.60	0.65	0.72	0.78	0.81	0.84	0.86
Balance Sheet Ratios									
Cash collection cycle (in days)	14	14	15	14	19	14	14	13	13
Debt/Assets	2.2%	2.0%	1.9%	1.4%	0.7%	0.6%	0.5%	0.5%	0.5%
Debt/Equity	3.1%	2.9%	2.7%	2.0%	1.0%	0.8%	0.7%	0.6%	0.6%
Cash Flow (PLN m)	**2019**	**2020**	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**
Pre-tax Profit	4 277	1 479	3 398	12 056	9 708	6 911	5 564	5 091	4 847
Depreciation and Amortization	3 638	3 678	3 497	5 120	2 986	2 837	2 489	2 447	2 404
Other (incl. WC change)	-1 112	399	102	-5 839	-223	-2 080	-1 707	-1 436	-1 389
Operating Cash Flows	**6 803**	**5 556**	**6 997**	**11 337**	**12 471**	**7 668**	**6 346**	**6 102**	**5 862**
Capital Expenditures (net)	-3 673	-3 235	-2 758	-3 060	-5 986	-7 037	-6 609	-6 494	-4 839
Other	117	72	505	-44	-594	0	0	0	0
Cash Flows from Investing Activities	**-3 556**	**-3 163**	**-2 253**	**-3 104**	**-6 580**	**-7 037**	**-6 609**	**-6 494**	**-4 839**
Change in Debt	-328	-181	-173	-308	299	-60	-48	-9	-6
Dividends	-1 516	-1 740	-1 741	-4 438	-3 583	-2 454	-2 576	-2 705	-2 840
Other	0	0	0	446	-774	-109	-96	-94	-92
Cash Flows from Financing Activities	**-1 844**	**-1 921**	**-1 914**	**-4 300**	**-4 059**	**-2 622**	**-2 720**	**-2 808**	**-2 938**
Beginning Cash	5 609	7 014	7 481	10 323	14 256	16 089	14 099	11 115	7 916
FX gain/loss	1	-4	11	2	0	0	0	0	0
Increase / (Decrease) in Cash	1 403	472	2 830	3 932	1 833	-1 991	-2 983	-3 200	-1 916
Ending Cash	**7 014**	**7 481**	**10 323**	**14 256**	**16 089**	**14 099**	**11 115**	**7 916**	**6 000**
DPS (PLN)	0.027	0.031	0.031	0.079	0.058	0.039	0.041	0.043	0.046

Source: Company, IPOPEMA Research

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NII – Net interest income – interest income minus interest expense.
Net F&C – Net fee and commission income – fee and commission income minus fee and commission expense.
LLP – loan loss provisions – an expense set aside as an allowance for bad loans.
NPL – non-performing loan – loans that are in default or close to be in default.
Cost/Income – operating expenses divided by total banking revenue.
ROE – return on equity – net income (or adjusted net income) divided by the average shareholders' equity.
ROA – return on assets – net income (or adjusted net income) divided by the average assets.
EBIT – earnings before interests and tax.
EBITDA – earnings before interests, tax, depreciation and amortization.
EPS – earnings per share – the net income (or adjusted net income divided by the number of shares outstanding.
P/E – price to earnings ratio – price divided by earnings per share.
PEG – P/E ratio divided by the annual EPS growth, usually over a certain period of time.
CAGR – compound annual growth rate.
BVPS – book value per share, the book value of the Company's equity divided by the number of shares outstanding.
P/BV – price to book value - price divided by the BVPS.
DPS – dividend per share – dividend of a given year divided by the number of shares outstanding.
DY – dividend yield – dividend of a given year divided by the current price.
DDM – dividend discount model – a fundamental method of valuation based on the assumption that the value of stock equals the sum of all discounted future dividends.
FV – Fair Value, calculated based on valuation methods outlined in the document.

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Buy	Above 10%
Hold	In between (and including) -10% and 10%
Sell	Below -10%

IPOPEMA Research - Distribution by rating category (1 January – 31 March 2023)

	Number	%
Buy	9	90%
Hold	1	10%
Sell	0	0%
Total	10	100%

Rating History – OMV Petrom

Date	Recommendation	Fair Value	Price at recommendation	Author
27/04/2023	BUY	RON 0.58	RON 0.50	Tomasz Kasowicz, Marcin Nowak