

31 August 2023

Romgaz

BUY

Romgaz: 2Q23 results and conference call takeaways

BBG Ticker	SNG RO
Market Cap (USD mil)	3,410
Price	40.0
Price target	47.6
Upside	18.9%

On 11 August, Romgaz reported net profit of RON 715m, up 13% versus our numbers, on lower profit tax booked in the quarter. The net profit stands 4% lower yoy, as the solidarity tax for 2022 was booked in full in 4Q22, with no solidarity tax reflected in the same quarter of the previous year. Given the quality of the beat, we see the reported results as rather neutral.

We do not see a material impact on our forecasts from the 2Q23 results. It could be somewhat positive if management's guidance on production materialises (we had assumed a 4% drop for FY23E, vs. the maximum 2.5% decline as per the guidance), but the impact would still be marginal.

Iuliana Ciopraga, CFA

E-mail: iuliana.ciopraga@wood.com

Phone: +40 316 30 1185

Revenues from the sale of gas stood 12% below our numbers, but this was offset by the lower windfall tax paid in the quarter. We had assumed that 85% of the gas was sold at the regulated price of RON 150/MWh, but it is likely that the percentage was higher.

Power revenues were lower than we expected, and the segment booked a RON 27m loss in the quarter.

The EBITDA and EBIT were in line with our forecasts.

The solidarity tax came in at RON 433m, 10% above our assumption. We note that the tax is computed based on the taxable profit, whereas we looked at the reported EBT and discounted the figure by 15%. The profit tax in the quarter was far below our estimate (6% profit tax vs. the 16% incorporated in our numbers).

Romgaz: 2Q23 results review

RONm	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	yoy	qoq	WOOD	Diff
Gross gas production, mcm	1,307	1,208	1,172	1,249	1,237	1,147	-5%	-7%	1,147	0%
Gas sold, mcm	1,374	1,108	1,041	1,219	1,302	1,048	-5%	-19%	1,048	0%
Revenues	3,926	3,570	3,317	2,547	2,909	1,988	-44%	-32%	2,237	-11%
EBITDA	1,227	956	712	1,637	1,882	1,277	34%	-32%	1,310	-3%
EBIT	1,138	826	562	1,457	1,742	1,156	40%	-34%	1,180	-2%
EBT	1,169	888	612	1,484	1,785	1,220	37%	-32%	1,220	0%
Solidarity tax	0	0	0	1,003	538	433	n	-19%	395	10%
Net profit	980	746	512	309	970	715	-4%	-26%	630	13%

Source: Romgaz, Wood research

Takeaways from the 2Q23 earnings call

- Management expects the production decline in 2023E to remain limited to 2.5%, despite the 5% yoy drop in 1H23.
- It estimates that 86-88% should be sold at regulated prices for FY23E.
- The boost in other income reflected the amounts expected to be recovered from the budget, related to CO2 costs for sales on the centralised market (at RON 450/MWh). We will continue to see such costs in the following quarters.
- The average 2018-21 taxable profit stood at RON 335m for 3Q and RON 495m for 4Q.
- The low income tax in 2Q23 came from one-off deferred income related to the Romgaz Black Sea entity.

	Sales	EBITDA	EBIT	Net income	EPS	P/E	P/CF	P/BV	EV/EBITDA	ROCE	DPS	Div yield
	RON m	RON m	RON m	RON m	RON	x	x	x	x	%	RON	%
2021	5,853	2,785	2,099	1,915	4.969	7.8	5.7	1.7	4.0	23%	3.80	10%
2022	13,360	4,527	3,977	2,542	6.595	5.7	4.0	1.4	3.1	37%	3.42	9%
2023E	9,258	5,323	4,748	2,581	6.697	6.0	4.4	1.4	2.6	39%	3.47	9%
2024E	8,848	4,985	4,357	3,716	9.642	4.2	4.4	1.1	3.2	29%	4.99	12%
2025E	8,048	3,294	2,663	2,265	5.877	6.8	5.1	1.1	5.8	15%	3.04	8%
2026E	7,069	2,392	1,759	1,458	3.783	10.6	7.8	1.1	9.0	9%	1.96	5%

31 August 2023

DISCLAIMER

Important Disclosures

This publication is issued by WOOD & Company Financial Services, a.s. ("WOOD&Co") and/or one of its branches who are authorised and regulated by the Czech National Bank (CNB) as Home State regulator and in Poland by the Polish Financial Supervision Authority (KNF), in Slovakia by the National Bank of Slovakia (NBS), in Italy by the Companies and Stock Exchange Commission (CONSOB), in Ireland by the Central Bank of Ireland (CBI), in Romania by the Financial Supervisory Authority (ASF) and in the UK by the Financial Conduct Authority (FCA) as Host State regulators.

This investment research was prepared by the assignment of Bucharest Stock Exchange (having its registered office in Bucharest, 34-36 Carol I Avenue, 13-14th Floor, 2nd District, registered with the Trade Register under no J40/12328/13.07.2005, VAT Number RO, Unique Registration Code 17777754) ("BSE") under the agreement which was concluded by and between BSE and WOOD&Co and WOOD&Co will receive a remuneration for this commitment. BSE shall not be liable for the content of this investment research, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions. The views expressed in this investment research are those of WOOD&Co and can in no way be taken to reflect the official opinion of BSE. WOOD&Co is entitled to all copyrights regarding this investment research.

This investment research was completed on 31/08/2023 at 14:35 CET and disseminated on 31/08/2023 at 14:40 CET.

WOOD&Co's ratings and price target history for Romgaz in the preceding 12-month period

Date	Rating	Date	PT
01/07/2021	BUY	01/07/2021	RON 38.4
12/09/2022	BUY – transfer of coverage	12/09/2022	RON 65.6
		09/08/2023	RON 47.6

The meanings of the recommendations made in WOOD&Co's investment research are as follows:

BUY: The stock is expected to generate total returns of over 15% during the next 12 months as measured by the price target.

HOLD: The stock is expected to generate total returns of 0-15% during the next 12 months as measured by the price target.

SELL: The stock is expected to generate a negative total return during the next 12 months as measured by the price target.

RESTRICTED: Financial forecasts, and/or a rating and/or a price target is restricted from disclosure owing to Compliance or other regulatory/legal considerations such as a blackout period or a conflict of interest.

NOT RATED: Suspension of rating after 30 consecutive weekdays where the current price vis-à-vis the price target has been out of the range dictated by the current BUY/HOLD/SELL rating.

UNDER REVIEW: Due to changes in the Research team, the disclosure of a stock's rating and/or price target and/or financial information are temporarily suspended until further notice.

As of the end of the last calendar quarter, the proportion of all WOOD&Co's investment research vis-à-vis the proportion of subject companies that were investment banking clients over the previous 12 months is as follows:

	BUY	HOLD	SELL	Restricted	NOT RATED	UNDER REVIEW
Equity Research Coverage	61%	32%	6%	1%	n.a.	n.a.
IB Clients	n.a.	n.a.	n.a.	n.a.	1%	n.a.

Any prices of financial instruments quoted in this investment research are taken as of the previous day's market close on the home market unless otherwise stated.

Details of the methodologies used to determine WOOD&Co's price targets and risk assessment related to the achievement of the targets are outlined throughout the most recent substantive report/note on the subject company.

It should be assumed that the risks and valuation methodology presented in daily news or flash notes, and not changing WOOD&Co's estimates or ratings, are as set out in the most recent substantive research report/note on the subject company and can be found on our website at <https://research.wood.com>.

WOOD&Co.'s policy is to update investment research as it deems appropriate, based on developments in the subject company, sector or market that may have a material impact on the views or opinions stated in the investment research.

WOOD Research Disclosures (as of 31 August 2023)

Company	Disclosures	Company	Disclosures
Alior Bank	5	Lotos	5
AmRest	5	MedLife	4
Astarta Holding	4	MONETA Money Bank	5
Banca Transilvania	5	Mo-BRUK	3
Bank of Cyprus	4	NLB Group	5
BRD	5	Nuclearelectrica	5
Bucharest Stock Exchange	5	O2 Czech Republic	4, 5
CCC	5	OMV Petrom	5
CD Projekt	5	Orange PL	5
Colt CZ Group	3, 5	Pekao	4, 5
CEZ	5	PGE	5
Dino	5	People Can Fly	1, 2, 3
DO&CO	5	PGNIG	5
Electrica	5	Philip Morris CR	5
Erste Group Bank	5	PKN Orlen	5
Eurobank	4	PKO BP	4, 5
Eurocash	5	PZU	4, 5
Fondul Proprietatea	1, 2, 3, 4, 5	Romgaz	5
Kazatomprom	5	Santander Bank Polska	5
Kernel	5	Siauliu Bankas	5
KGHM	5	TBC Bank	3
Kofola CS	5	Transelectrica	5
Komerční	4, 5	Transgaz	5
Kruk	5		

31 August 2023

Description

- 1 The company currently is, or in the past 12 months was, a client of WOOD & Co or any of its affiliates for the provision of corporate finance/investment banking services.
- 2 In the past 12 months, WOOD & Co or any of its affiliates have received compensation for corporate finance/investment banking services from the company.
- 3 In the past 12 months, WOOD & Co or any of its affiliates have been lead manager or co-lead manager of a publicly disclosed offer of the company's financial instruments.
- 4 In the past 12 months, WOOD & Co or any of its affiliates have acted as broker to the company
- 5 WOOD & Co or any of its affiliates are market maker(s) or liquidity provider(s) in relation to financial instruments of the company.
- 6 In the past 12 months, WOOD & Co or any of its affiliates have provided to the company any services set out in Sections A and B or Annex I to the Directive 2014/65/EU of the European Parliament and of the Council, other than services listed under points 1, 3, 4 or 5 above, or received compensation for such services from the company.
- 7 The authoring analyst or any individual involved in the preparation of this investment research have purchased/received shares in the company prior to a public offering of those shares; and the price at which they were acquired along with the date of acquisition are disclosed above.
- 8 The authoring analyst or any individual involved in the preparation of this investment research has a direct ownership position in securities issued by the company.
- 9 A partner, director, officer, employee or agent of WOOD & Co and its affiliates, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the company.
- 10 WOOD & Co or its affiliates hold a net long or short position exceeding the threshold of 0.5% of the total issued share capital of the company, calculated in accordance with Article 3 of Regulation (EU) No 236/2012 and with Chapters III and IV of Commission Delegated Regulation (EU) No 918/2012.
- 11 The company owns more than 5% of the total issued share capital in WOOD & Co or any of its affiliates.

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the overall profits of WOOD&Co, which includes corporate finance/investment banking, sales and trading and principal trading revenues. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific activities, or to recommendations contained in the investment research. One factor in equity research analyst compensation is arranging corporate access events/meetings between institutional clients and the management teams of covered companies (with the company management being more likely to participate when the analyst has a positive view of the company).

WOOD&Co and its affiliates may have a corporate finance/investment banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their clients, in good faith or in the normal course of market making. Accordingly, WOOD&Co or their affiliates, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

WOOD&Co manages conflicts of interest arising as a result of preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese Walls as monitored by Compliance. For further details, please see our website at <https://www.wood.cz/mifid-information/>.

The information contained in this investment research has been compiled by WOOD&Co from sources believed to be reliable, but (with the exception of the information about WOOD&Co) no representation or warranty, express or implied, is made by WOOD&Co, its affiliates or any other person as to its fairness, accuracy, completeness or correctness. WOOD&Co has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute WOOD&Co's judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

WOOD&Co salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. WOOD&Co's affiliates, proprietary trading desk and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute or form part of an offer or invitation or solicitation to engage in investment activity or to buy or sell any designated investments discussed herein in any jurisdiction. As a result, the designated investments discussed in this investment research may not be eligible for offer or sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction.

This investment research is prepared for general circulation to WOOD&Co's clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should consider this report as only a single factor in making their investment decision and obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of WOOD&Co, its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from or in connection with the use of this investment research.

For United Kingdom or European Economic Area (EEA) Residents:

In the United Kingdom, this investment research is only for persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. In the EEA, this investment research is only for persons who are professional clients within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU. This investment research is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Accordingly, this investment research must not be acted on or relied on by any other class of persons. This material is not for distribution in the United Kingdom or EEA to persons regarded as retail clients in their home jurisdictions.

For United States Residents:

This investment research distributed in the United States by WOOD&Co, and in certain instances by Brasil Plural Securities LLC ("Brasil Plural"), a U.S. registered broker dealer, only to "major U.S. institutional investors", as defined under Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission ("SEC"). This investment research is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research and are not a major U.S. institutional investor, you are instructed not to read, rely on or reproduce the contents hereof, and to destroy this research or return it to WOOD&Co or to Brasil Plural. Analyst(s) preparing this report are employees of WOOD&Co who are resident outside the United States and are not associated persons or employees of any U.S. registered broker-dealer. Therefore the analyst(s) are not be subject to Rule 2711 of the Financial Industry Regulatory Authority ("FINRA") or to Regulation AC adopted by SEC which, among other things, restrict communications with a subject company, public appearances and personal trading in securities by a research analyst. Any major U.S. Institutional investor wishing to effect transactions in any securities referred to herein or options thereon should do so by contacting a representative of Brasil Plural. Brasil Plural is a broker-dealer registered with the SEC and a member of FINRA and the Securities Investor Protection Corporation. Its address is 545 Madison Avenue, 8th Floor, New York, NY 10022 and its telephone number is 212-388-5613. WOOD&Co is not affiliated with Brasil Plural or any other U.S. registered broker-dealer.

The views and sentiments expressed in this investment research and any findings thereof accurately reflect the analyst's truthful views about the subject securities and or issuers discussed herein.

31 August 2023

Czech Republic

namesti Republiky 1079/1a
Palladium
110 00 Praha 1
Tel +420 222 096 111
Fax +420 222 096 222

Poland

Centrum Marszałkowska
Marszałkowska 126/134, 7th Floor
00 008 Warszawa
Tel +48 22 222 1530
Fax +48 22 222 1531

UK

16 Berkeley Street
London W1J 8DZ
Tel: +44 20 3530 0691

Italy

Via Luigi Settembrini, 35
20124 Milan
Italy
Tel +39 02 36692 500
Fax +39 02 67910 761

<http://www.wood.com>

Bloomberg page WUCO

Research

Co-Head of Equities/Head of Research

Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Consumer/Industrials

Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Macroeconomics

Raffaella Tenconi
+44 203 530 0685
raffaella.tenconi@wood.com

Head of Turkey Research

Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Head of Romania Research

Iuliana Ciopraga
+40 727 383 933
iuliana.ciopraga@wood.com

Head of Financials

Can Demir
+44 203 530 0623
can.demir@wood.com

Head of TMT

Piotr Raciborski
+48 22 222 1551
piotr.raciborski@wood.com

Macroeconomics

Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Energy

Jonathan Lamb
+44 203 530 0621
jonathan.lamb@wood.com

Utilities/Mining/Pharma

Bram Buring
+420 222 096 250
bram.buring@wood.com

Consumer/Real Estate

Jakub Caithaml
+420 222 096 481
jakub.caithaml@wood.com

Gaming/Mid-caps

Maria Mickiewicz
+48 602 450 718
maria.mickiewicz@wood.com

Turkey

Can Yurtcan
+420 222 096 780
can.yurtcan@wood.com

Russia

Dmitry Vlasov
+44 750 714 6702
dmitry.vlasov@wood.com

Financials

Miguel Dias
+420 735 729 418
miguel.dias@wood.com

Real Estate

Peter Palovic
+420 222 096 486
peter.palovic@wood.cz

Sales

Co-Head of Equities

Jarek Tomczynski
+48 22 222 1611
jarek.tomczynski@wood.com

Ilgin Erdogan

+420 222 096 708
ilgin.erdogan@wood.com

Piotr Kopec

+48 22 222 1615
piotr.kopec@wood.com

Ioana Pop

+44 20 3530 0693
ioana.pop@wood.com

Tatiana Sarandinaki

Brasil Plural in association with WOOD & Co.
+1 212 388 5613
tsarandinaki@wood-brasilplural.com

Sales Trading and Execution Services

Co-Head of Equities

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Jan Koch

+48 22 222 1616
jan.koch@wood.com

Ermir Shkurti

+420 222 096 847
ermir.shkurti@wood.com

Vladimir Vavra

+420 222 096 397
vladimir.vavra@wood.com