

# OMV Petrom

## In (Neptun) Deep need

We change our recommendation for OMV Petrom to Hold from Buy and set a new Fair Value at RON 0.60 per share. Our updated modelling reflects a 3% weaker RON vs USD, 10% higher average realized hydrocarbon prices and robust support from refining markets in the mid-term. Consequently, we have raised our adj. EBITDA CCS estimates for 2023-27E by 11%, relative to previous assumptions. Although we estimate earnings deterioration and heavy capex in the mid-term, OMV Petrom should continue to deliver attractive dividends (avg. DY of ~10%).

### Maturing reserves and earnings

Hydrocarbon prices are normalizing, which means lower OMV Petrom earnings in 2023. We estimate a 26% drop in adj. EBITDA CCS versus 2022. Going forward, we assume further deterioration in OMV Petrom's earnings due to maturing upstream output (2023-27E CAGR of -5%). In our view, refining markets should continue to support OMV Petrom's earnings in the long term, but the company needs "new hydrocarbon reserves" to reverse the negative earnings trend. Accordingly, we assume adj. EBITDA CCS 2023-28E CAGR of -8%. We see adj. EPS CCS of RON 0.13 in 2023E and RON 0.09 in 2025E vs RON 0.16 in 2022.

### The Neptun Deep kicks off

The monetization of the Neptun Deep project should reduce Romania's and the SEE region dependence from Russian natural gas supplies for years. We assume the monetization of this project in 2027, even though it is currently causing some diplomatic tensions between Austria and Romania. Recently, OMV Petrom applied for an environmental permit to explore the concession and signed a EUR 1.6bn project work agreement (OMV Petrom's share is 50%). The project should increase OMV Petrom's reserves base by ca. 44% and at its plateau should add ca. 70kb/d to output. We estimate the value of the Neptun Deep at RON 0.11/sh.

### Romania proposes O&G tax regime tightening

Romanian authorities continue work on tightening the tax regime for O&G sector. The parliament recently approved proposals to introduce a 0.5% (with some adjustments) turnover tax for entities with revenues of more than EUR 50m. New taxation should apply from 2026, but it is still not yet law. The impact of the new taxes should coincide with the launch of the Neptun Deep project.

### FCF backloaded by heavy capex assumed

Our estimate of OMV Petrom's FCF is loaded by heavy capex of around EUR 11bn by 2030. For this reason, we forecast an average FCF yield of 3% over the next five years (versus an average 12% in 2019-22). In the 2030 strategy update, OMV Petrom committed to a progressive dividends, with an annual DPS growth rate of 5-10%. We estimate an average DY of 10% in 2024-28E. Our estimates show that FCF does not cover assumed dividends. However, OMV Petrom should deliver on these commitments as its net cash position amounted to RON 13.2bn in 1H23 (ca. 40% of Petrom's market capitalization).

Figure 1. OMV Petrom financial data

RON m	2020	2021	2022	2023E	2024E	2025E
Revenue	19 717	26 011	61 344	41 555	39 008	34 822
Adj. EBITDA CCS	5 635	7 762	15 506	11 510	10 171	8 887
Adj. Net income	1 931	3 353	10 272	7 809	6 470	5 624
P/E (x)	17.7	10.2	3.3	4.4	5.3	6.1
EV/EBITDA (x)	4.7	3.1	1.3	2.6	3.2	3.9
Dividend yield	5.6%	5.6%	14.4%	15.0%	9.0%	9.4%

Source: Company, IPOPEMA Research

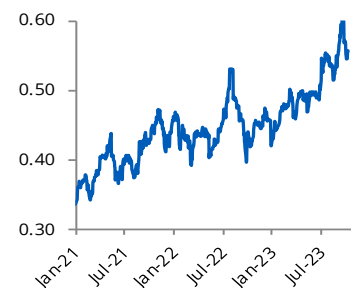
CEE Oil & Gas

## OMV Petrom HOLD FV RON 0.60

8.5% upside

Price as of 12 October 2023 RON 0.55

Downgraded



### Share data

Number of shares (m)	62,31
Market cap (EUR m)	6,912
12M avg daily volume (k)	15.23
12M avg daily turnover (EUR m)	1.49
12M high/low (RON)	0.60/0.41
Reuters	ROSNP.BX
Bloomberg	SNP RO

### Total performance

1M	2.6%
3M	11.2%
12M	53.5%

### 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 its subject company. See important disclaimers and disclosures at the end of this report.

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## OMV Petrom

HOLD

FV RON 0.60

Mkt Cap EUR 6912m

Upside 8.5%

Valuation multiples	2021	2022	2023E	2024E	2025E
P/E (x)	10.2	3.3	4.4	5.3	6.1
EV/EBITDA (x)	3.1	1.3	2.6	3.2	3.9
EV/DACF (x)	3.3	1.7	3.4	3.7	4.8
P/BV (x)	0.9	0.8	0.9	0.8	0.7
FCF yield (%)	11.0%	21.8%	6.9%	3.7%	1.0%
DY (%)	5.6%	14.4%	15.0%	9.0%	9.4%

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	0.07	0.10	0.09
BVPS (PLN)	0.60	0.65	0.64	0.70	0.73
FCFPS (PLN)	0.07	0.12	0.04	0.02	0.01
DPS (PLN)	0.031	0.079	0.083	0.049	0.052

Change YoY (%)	2021	2022	2023E	2024E	2025E
Revenues	31.9%	135.8%	-32.3%	-6.1%	-10.7%
EBITDA	48.0%	115.4%	-29.0%	-6.7%	-12.6%
Adj. EBITDA CCS	37.8%	99.8%	-25.8%	-11.6%	-12.6%
EBIT	152.8%	224.6%	-33.3%	-8.3%	-12.7%
Net profit	121.9%	259.6%	-55.6%	41.5%	-13.1%

Cash Flow metrics	2021	2022	2023E	2024E	2025E
CFFO	6 997	11 337	8 753	8 651	7 285
DACF	7 394	11 985	9 017	8 684	7 315
FCF	3 767	7 472	2 352	1 255	354

Leverage and return	2021	2022	2023E	2024E	2025E
EBITDA margin (%)	29.8%	25.3%	27.7%	26.1%	25.5%
EBIT margin (%)	16.7%	19.9%	20.8%	18.9%	18.5%
Adj. net margin (%)	12.9%	16.7%	18.8%	16.6%	16.2%
Net debt / EBITDA (x)	-1.2	-0.9	-1.0	-0.9	-0.7
Net debt / Equity (x)	-0.3	-0.3	-0.3	-0.2	-0.1
Net debt / Assets (x)	-0.2	-0.2	-0.2	-0.2	-0.1
ROE (%)	10.0%	27.5%	19.4%	15.5%	12.6%
ROA (%)	6.9%	19.1%	13.9%	11.6%	9.9%
ROIC (%)	10.7%	29.7%	21.6%	16.0%	12.5%

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	72.5	68.8	62.3
OPEX (USD/b)	12.7	13.2	15.5	16.0	16.0
Ref. margin (USD/b)	5.5	16.6	15.1	13.3	12.4
Elec. price (RON/MWh)	547	1303	495	450	450
RONUSD	4.2	4.7	4.6	4.5	4.3
RONEUR	4.8	4.9	4.9	4.9	5.0

Operational input	2021	2022	2023E	2024E	2025E
Oil throughput (mt)	4.7	4.6	4.1	4.7	4.7
Refining volumes (mt)	2.4	2.5	2.4	2.4	2.4
Retail volumes (mt)	2.9	3.0	3.1	3.1	3.1
Gas sales (TWh)	38.4	35.8	39.2	37.0	37.0
Net elec. output (TWh)	4.8	5.0	3.8	5.0	5.0
Upstream prod. (mboe)	47.2	43.5	40.6	38.0	36.0
Upstream sales (kb/d)	123.2	114.3	108.9	103.8	98.6

Source: Company data, IPOPEMA Research

P&L (RONm)	2020	2021	2022	2023E	2024E	2025E
<b>Revenues</b>	<b>19 717</b>	<b>26 011</b>	<b>61 344</b>	<b>41 555</b>	<b>39 008</b>	<b>34 822</b>
Prod. costs	-14 082	-18 249	-45 839	-30 045	-28 838	-25 935
<b>Adj. EBITDA CCS</b>	<b>5 635</b>	<b>7 762</b>	<b>15 506</b>	<b>11 510</b>	<b>10 171</b>	<b>8 887</b>
Exploration and Production	2 448	4 288	7 823	6 748	5 770	4 402
Refining and Marketing	2 204	2 810	4 773	3 130	3 123	2 823
Gas and Power	828	913	3 069	2 002	1 314	1 698
Corporate and Other	-38	-45	-61	-35	-37	-37
Consolidation	193	-203	-99	-335	0	0
CCS effect & others	-821	-638	-161	-614	0	0
<b>EBITDA</b>	<b>4 814</b>	<b>7 126</b>	<b>15 346</b>	<b>10 896</b>	<b>10 171</b>	<b>8 887</b>
D&A	3 347	3 417	3 307	2 866	2 808	2 456
Adj. EBIT CCS	2 288	4 346	12 199	8 644	7 363	6 431
<b>EBIT</b>	<b>1 467</b>	<b>3 709</b>	<b>12 039</b>	<b>8 030</b>	<b>7 363</b>	<b>6 431</b>
Financial income (cost) net	12	-311	17	513	339	264
<b>Pre-tax profit</b>	<b>1 479</b>	<b>3 398</b>	<b>12 056</b>	<b>5 812</b>	<b>7 702</b>	<b>6 695</b>
Income tax	-188	-534	-1 756	-1 239	-1 232	-1 071
Minorities	0	0	1	0	0	0
<b>Net profit</b>	<b>1 291</b>	<b>2 864</b>	<b>10 301</b>	<b>4 573</b>	<b>6 470</b>	<b>5 624</b>
Adj. Net profit CCS	1 931	3 353	10 272	7 809	6 470	5 624

BALANCE SHEET (RONm)	2020	2021	2022	2023E	2024E	2025E
<b>Non-current assets</b>	<b>34 505</b>	<b>32 655</b>	<b>32 218</b>	<b>35 418</b>	<b>39 855</b>	<b>44 195</b>
PP&E	27 802	25 865	24 751	26 778	29 783	32 778
Other non-current assets	6 703	6 791	7 467	8 640	10 072	11 417
<b>Current assets</b>	<b>13 115</b>	<b>17 315</b>	<b>25 303</b>	<b>19 128</b>	<b>16 849</b>	<b>13 193</b>
Inventories	2 103	2 293	3 815	2 701	2 536	2 263
Trade receivables	2 701	4 684	7 217	4 987	4 681	4 179
Cash and equivalents	7 451	10 323	14 256	11 426	9 618	6 736
Other current assets	861	15	15	15	15	15
<b>Total assets</b>	<b>47 621</b>	<b>49 970</b>	<b>57 521</b>	<b>54 547</b>	<b>56 704</b>	<b>57 388</b>
<b>Equity</b>	<b>33 071</b>	<b>34 214</b>	<b>40 508</b>	<b>39 940</b>	<b>43 334</b>	<b>45 727</b>
Minorities	1	1	6	6	6	6
<b>Non-current liabilities</b>	<b>8 844</b>	<b>7 563</b>	<b>8 151</b>	<b>6 761</b>	<b>6 074</b>	<b>5 211</b>
Loans and borrowings	652	518	499	0	0	0
Other non-current liabilities	8 192	7 045	7 652	6 761	6 074	5 211
<b>Current liabilities</b>	<b>5 706</b>	<b>8 193</b>	<b>8 862</b>	<b>7 845</b>	<b>7 297</b>	<b>6 450</b>
Trade payables	2 859	3 266	4 266	3 740	3 511	3 134
Loans and borrowings	312	413	294	416	390	348
Other current liabilities	2 535	4 513	4 303	3 690	3 396	2 967
<b>Equity &amp; liabilities</b>	<b>47 621</b>	<b>49 970</b>	<b>57 521</b>	<b>54 547</b>	<b>56 704</b>	<b>57 388</b>
Cash conversion cycle (days)	13.8	15.2	14.2	20.0	13.2	13.5
Gross debt (PLN m)	103	916	778	401	375	333
<b>Net debt (PLN m)</b>	<b>-7 347</b>	<b>-9 406</b>	<b>-13 478</b>	<b>-11 025</b>	<b>-9 243</b>	<b>-6 403</b>

CASH FLOW (RONm)	2020	2021	2022	2023E	2024E	2025E
<b>Operating cash flow</b>	<b>5 556</b>	<b>6 997</b>	<b>11 337</b>	<b>8 753</b>	<b>8 651</b>	<b>7 285</b>
Profit before tax	1 479	3 398	12 056	5 812	7 702	6 695
D&A	3 678	3 497	5 120	2 866	2 920	2 554
Change in WC	964	-433	-3 544	2 388	89	147
Other	-565	535	-2 295	-2 313	-2 060	-2 111
<b>Investment cash flow</b>	<b>-3 163</b>	<b>-2 253</b>	<b>-3 104</b>	<b>-5 937</b>	<b>-7 231</b>	<b>-6 783</b>
Change in PP&E	-3 445	-2 846	-3 208	-5 937	-7 231	-6 783
Other	282	593	104	0	0	0
<b>Financial cash flow</b>	<b>-1 921</b>	<b>-1 914</b>	<b>-4 300</b>	<b>-5 647</b>	<b>-3 228</b>	<b>-3 383</b>
Change in equity	0	0	446	0	0	0
Change in debt	-181	-173	-308	278	-25	-42
Dividend	-1 740	-1 741	-4 438	-5 141	-3 077	-3 230
Other	0	0	0	-784	-126	-111
<b>Change in cash</b>	<b>7 014</b>	<b>7 481</b>	<b>10 323</b>	<b>14 256</b>	<b>11 426</b>	<b>9 618</b>
FX gains/losses	-4	11	2	0	0	0
<b>Cash as of eop</b>	<b>7 481</b>	<b>10 323</b>	<b>14 256</b>	<b>11 426</b>	<b>9 618</b>	<b>6 736</b>

# Contents

<b>Contents</b> .....	<b>3</b>
<b>Executive summary</b> .....	<b>4</b>
In (Neptun) Deep need .....	4
Assumptions and modelling inputs .....	6
<b>Valuation of OMV Petrom</b> .....	<b>7</b>
DCF valuation .....	7
Comparative valuation .....	9
<b>Risks to fair value</b> .....	<b>10</b>
<b>Financials</b> .....	<b>11</b>

# Executive summary

## In (Neptun) Deep need

We change our recommendation for OMV Petrom to Hold from Buy and set a new Fair Value at RON 0.60 per share. Our updated modelling reflects a 3% weaker RON vs USD, 10% higher average realized hydrocarbon prices and solid support from refining markets over the mid-term. We estimate earnings deterioration and heavy capex in the mid-term. All of this should have a negative impact on cash delivery. However, we remain confident that OMV Petrom will deliver attractive dividends over the mid-term with an average DY of 10%.

We have increased our estimates of adj. EBITDA CCS and adj. net profit CCS estimates for 2023-27E by 11%, relative to previous assumptions. As a result, we estimate OMV Petrom's adj. net profit CCS at RON 7.8bn (-24% y/y) in 2023E and RON 6.5bn (-17% y/y) in 2024E. For 2025E, we assume a net earnings of RON 5.6bn (-13% y/y). OMV Petrom's negative earnings trend assumed in the mid-term is primarily due to maturing upstream production and normalization of refining margins. OMV Petrom needs new upstream reserves to return earnings to an upward trajectory.

Below are our updated earnings estimates relative to our previous assumptions. The 44% decrease in estimated net profit in 2023 is due to the inclusion of the solidarity tax, which weighs on this year's results and next year's cash flow.

Figure 2. OMV Petrom: change in earnings estimates

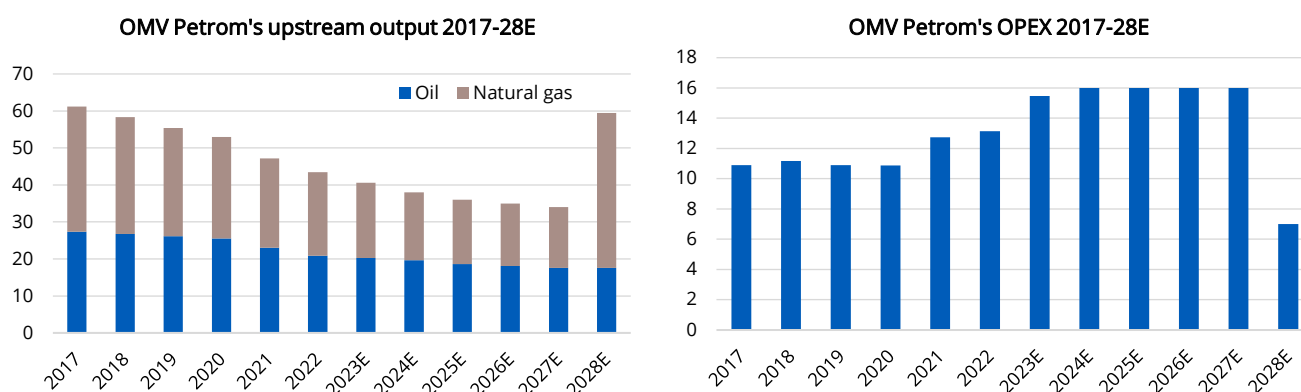
(RON m)	2023E			2024E			2025E		
	New	Old	chg. %	New	Old	chg. %	New	Old	chg. %
Revenue	41 555	43 645	-5%	39 008	37 695	3%	34 822	32 886	6%
Adj. EBITDA CCS	11 510	12 528	-8%	10 171	9 031	13%	8 887	7 442	19%
Net profit	4 573	8 155	-44%	6 470	5 805	11%	5 624	4 673	20%
Adj. Net profit CCS	7 809	8 505	-8%	6 470	5 805	11%	5 624	4 673	20%

Source: Company, IPOPEMA Research

## The Neptun Deep kicks off

The Neptun Deep offshore gas project has an estimated reserves potential of 50Bcm (~300mboe) and a production plateau of 24mboe (or 70kboe/d) net to OMV Petrom. The monetization of the Neptun Deep project should reduce Romania's and the SEE region dependence from Russian natural gas supplies for years. We assume that OMV Petrom will spend up to EUR 2.0bn on this project in years ahead, even though it is currently causing some diplomatic tensions between Austria and Romania. Recently, OMV Petrom applied for an environmental permit to explore the concession and signed a contract for project work worth EUR 1.6bn (Petrom's share is 50%). The project should increase OMV Petrom's reserves base by ca. 44%. We estimate the value of the Neptun Deep at RON 0.11/share. Below, is the impact of the Neptun Deep project on OMV Petrom's upstream output and production costs.

Figure 3. OMV Petrom: Impact of the Neptun Deep project on upstream output (in kb/d) and unit OPEX (USD/b)



Source: Company, IPOPEMA Research

According to OMV Petrom, the monetization of the Neptune Deep project should significantly reduce the production costs of the upstream segment. We estimate the average cost of hydrocarbon production in 2023-27E at USD 16/b. Monetization of the Neptune Deep project should reduce this figure to USD 7/b.

### Romania proposes O&G tax regime tightening

The Romanian government is not slowing down and is proposing additional taxation for the O&G sector. The parliament recently approved proposals to impose a 0.5% (with some adjustments) turnover tax on entities with revenues exceeding EUR 50m. The new taxation should take effect from 2026, but it is still not law. The impact of the new taxes should coincide with the launch of the Neptune Deep.

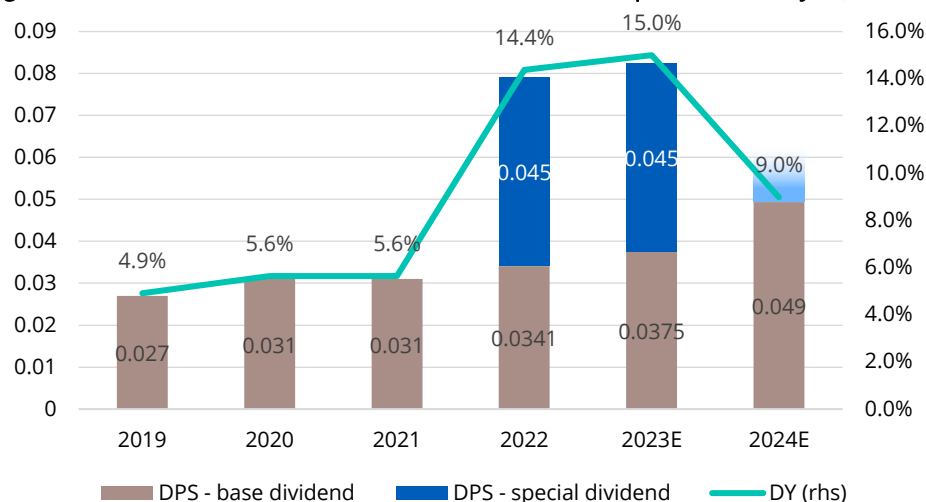
### FCF generation backloaded by heavy capex

Our estimate of OMV Petrom's FCF is backloaded with heavy capex of around EUR 11bn through 2030. For this reason, we forecast an average FCF yield of 3% over the next five years (versus an average 12% in 2019-22). This cash generation trajectory may suggest difficulties in delivering OMV Petrom's dividend policy. In its 2030 strategic update, OMV Petrom committed to progressive dividends with an annual DPS growth rate of 5-10%.

We are not concerned about OMV Petrom's dividend capacity, given its cash position in 1H23 representing 40% of its current market capitalization. Therefore, we assume that OMV Petrom will pay RON 17.0bn in dividends in 2024-28E, with an average annual dividend payout of RON 3.4bn (or RON 0.055/share). Our estimates imply an average DY of 10% on a five year outlook.

For 2024E, we assume a dividend (paid from 2023 earnings) of RON 0.049/share (DY of 9.0%). This represents a 40% y/y cut in dividend relative to dividend paid in 2023. Our assumption rather illustrates the normalisation of dividend payments, as the extraordinary market conditions seen in 2022 allowed the company to pay a dividend of RON 0.083/share, which included a special dividend of RON 0.045/share. We do not assume that such a market environment (with extremely high hydrocarbon prices and refining margins) will be repeated in the near term. We would potentially expect a dividend cut in the scenario of a sharp drop in hydrocarbon price drop and/or a significant deterioration in refining margin.

Figure 4. OMV Petrom: DPS in RON/share versus DY 2019-2024E (paid in a certain year)



Source: Company, IPOPEMA Research

## Assumptions and modelling inputs

Here we present our 2023-27E 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.

Again 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 refined product cracks if we are to evaluate OMV Petrom. Hence, we believe it is prudent to assume that oil prices, natural gas prices and refined product cracks could drop in the years ahead.

### We keep our assumption of Brent oil price at USD 75/b over the long term

We continue to assume Brent oil price at USD 85/b in 2023E, USD 80/b in 2024E and USD 75/b from 2025E onwards. We have cut our assumptions for the European CEGH natural gas price which now we see at EUR 42.1/MWh (vs prev. EUR 51.9/MWh) in 2023E, EUR 38.4/MWh (vs prev. EUR 40.7/MWh) in 2024E and at an avg. 65% of the Brent oil price in 2025-2027E. Despite, lower natural gas benchmarks in Europe, we have increased our assumptions for OMV Petrom natural gas selling price on average by 25% over 2023-27E.

We assume fuel crack spreads will remain robust, following a tight demand/supply balance. As a result, we see OMV Petrom's refining margin at USD 15.1/b in 2023E, USD 13.3/b in 2024E and USD 12.4/b in 2025E. We now assume that OMV Petrom's refining margin over the next five years will be 11% higher relative to our previous assumptions.

Figure 5. OMV Petrom: Key macro, earnings and operational assumptions

Assumptions	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<b>Brent oil price (USD/b)</b>	<b>64.2</b>	<b>41.8</b>	<b>70.9</b>	<b>101.5</b>	<b>85.0</b>	<b>80.0</b>	<b>75.0</b>	<b>75.0</b>	<b>75.0</b>
Realized oil price (USD/b)	56.1	34.5	60.3	87.2	74.0	68.0	63.8	63.8	63.8
<b>Avg. hydrocarbon price (USD/b)</b>	<b>43.1</b>	<b>28.8</b>	<b>49.2</b>	<b>82.9</b>	<b>72.5</b>	<b>68.8</b>	<b>62.3</b>	<b>60.2</b>	<b>58.1</b>
Avg. Natural gas selling price (EUR/MWh)	15.8	12.0	19.0	45.8	40.3	38.4	33.2	30.8	28.5
Upstream OPEX (USD/b)	10.9	10.9	12.7	13.2	15.5	16.0	16.0	16.0	16.0
Upstream EBITDA in USD/b	24.5	11.4	22.9	39.9	37.2	33.5	28.5	26.9	25.3
<b>Reserves (1P) in mboe</b>	<b>504</b>	<b>473</b>	<b>419</b>	<b>380</b>					
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					
<b>Indicator refining margin USD/b</b>	<b>4.7</b>	<b>2.9</b>	<b>5.5</b>	<b>16.6</b>	<b>15.1</b>	<b>13.3</b>	<b>12.4</b>	<b>11.1</b>	<b>10.9</b>
Light-Heavy oil differential USD/b	8.1	7.3	10.6	14.2	11.0	12.0	11.3	11.3	11.3
Electricity price RON/MWh	239	191	547	1303	495	450	450	450	450
RONUSD	4.25	4.25	4.17	4.70	4.57	4.54	4.29	4.29	4.29
RONEUR	4.76	4.85	4.93	4.95	4.96	5.07	4.85	4.85	4.85
<b>(RON m)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Revenue	25 485	19 717	26 011	61 344	41 555	39 008	34 822	34 076	33 493
<b>Adj. EBITDA CCS o/w:</b>	<b>8 034</b>	<b>5 635</b>	<b>7 762</b>	<b>15 506</b>	<b>11 510</b>	<b>10 171</b>	<b>8 887</b>	<b>8 568</b>	<b>8 354</b>
Exploration and Production (E&P)	5 425	2 448	4 288	7 823	6 748	5 770	4 402	4 037	3 685
Refining and Marketing (R&M)	2 249	2 204	2 810	4 773	3 130	3 123	2 823	2 741	2 740
Gas and Power (G&P)	374	828	913	3 069	2 002	1 314	1 698	1 826	1 965
Corporate and Other	-47	-38	-45	-61	-35	-37	-37	-37	-37
Consolidation	34	193	-203	-99	-335	0	0	0	0
Net profit reported	3 635	1 291	2 864	10 301	4 573	6 470	5 624	5 303	5 087
<b>Adj. net profit CCS</b>	<b>3 863</b>	<b>1 931</b>	<b>3 353</b>	<b>10 272</b>	<b>7 809</b>	<b>6 470</b>	<b>5 624</b>	<b>5 303</b>	<b>5 087</b>
CFFO	6 803	5 556	6 997	11 337	8 753	8 651	7 285	7 159	6 913
DACF	7 045	5 840	7 394	11 985	9 017	8 684	7 315	7 187	6 941
FCF	3 168	2 321	4 239	8 231	2 352	1 255	354	353	1 833
<b>Oil throughput (mt)</b>	<b>4.7</b>	<b>4.5</b>	<b>4.7</b>	<b>4.6</b>	<b>4.1</b>	<b>4.7</b>	<b>4.7</b>	<b>4.8</b>	<b>4.8</b>
Refining volumes (mt)	2.6	2.4	2.4	2.5	2.4	2.4	2.4	2.4	2.5
Retail volumes (mt)	2.9	2.6	2.9	3.0	3.1	3.1	3.1	3.2	3.2
<b>Gas sales to third parties (TWh)</b>	<b>47.2</b>	<b>47.8</b>	<b>38.4</b>	<b>35.8</b>	<b>39.2</b>	<b>37.0</b>	<b>37.0</b>	<b>37.0</b>	<b>37.0</b>
Net elec. output (TWh)	3.4	4.1	4.8	5.0	3.8	5.0	5.0	5.0	5.0
<b>Upstream prod. (mboe)</b>	<b>55.4</b>	<b>53.0</b>	<b>47.2</b>	<b>43.5</b>	<b>40.6</b>	<b>38.0</b>	<b>36.0</b>	<b>35.0</b>	<b>34.0</b>
Upstream sales (kb/d)	142.7	137.5	123.2	114.3	108.9	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 2024-2025E. Our methodology yields a fair value (FV) of **RON 0.60** 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 2024-28E. We used a discount rate based on WACC of 16.3% (avg. 2024-28E) and a terminal value based on perpetuity. Our assumptions for cost-of-equity were assumed by using a variable risk-free rate (fwd 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 2023, and added forecasted net cash as of 31 December 2023.

We then deducted **RON 7.0bn** of decommissioning obligations and **RON 6m** of minority value, and added **RON 14.5bn** which represents estimated value of the company's hydrocarbon reserves not commercialized in our detailed forecasting period (2024-28E). We then divided the equity value by the number of shares. **Our DCF model yields a fair value of RON 0.60 per share, implying 8.5% upside potential from the current market price. We therefore downgrade our recommendation for OMV Petrom to Hold from Buy.**

Figure 6. OMV Petrom: DCF valuation

DCF (RON m)	2024E	2025E	2026E	2027E	2028E	>2028E
<b>EBIT</b>						
Tax rate	7 363	6 431	6 155	5 983	6 039	4 926
Taxes on EBIT	16%	16%	16%	16%	16%	16%
<b>NOPLAT</b>	-1 178	-1 029	-985	-957	-966	-788
D&A	6 185	5 402	5 170	5 026	5 073	4 138
CAPEX net	2 920	2 554	2 510	2 465	2 465	916
Lease payments	7 231	6 783	6 663	4 939	4 648	809
Change in working capital	126	111	109	107	107	107
<b>FCFF</b>	-242	-398	-71	-55	18	32
Discount ratio	1 990	1 460	978	2 501	2 766	4 106
<b>PV of FCFF</b>	0.86	0.74	0.64	0.55	0.47	
<b>Terminal value</b>						26 729
Sum of PV of FCFF	6 081					
+ PV of Terminal Value	12 552					
<b>Enterprise Value</b>	<b>18 633</b>					
Net debt/cash (IFRS 16)	-11 025					
Minorities	6					
Decommissioning obligations	7 022					
Upstream assets (2P; Neptun Deep)	14 545					
<b>Fair Value</b>	<b>37 176</b>					
Number of shares (m units)	62 312					
<b>Fair value per share (PLN)</b>	<b>0.60</b>					
Current value per share	0.55					
<b>Upside/downside</b>	<b>8.5%</b>					

Source: IPOPEMA Research

Figure 7. OMV Petrom: WACC calculation

WACC	2024E	2025E	2026E	2027E	2028E	>2028E
Risk free rate	7.2%	7.3%	7.4%	7.4%	7.4%	7.4%
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
<b>Cost of equity</b>	<b>16.3%</b>	<b>16.4%</b>	<b>16.4%</b>	<b>16.5%</b>	<b>16.5%</b>	<b>16.4%</b>
Risk free rate	7.2%	7.3%	7.4%	7.4%	7.4%	7.4%
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%
<b>After tax cost of debt</b>	<b>8.1%</b>	<b>8.3%</b>	<b>8.3%</b>	<b>8.3%</b>	<b>8.3%</b>	<b>8.3%</b>
E%	98.9%	99.0%	99.0%	99.0%	99.0%	99.0%
D%	1.1%	1.0%	1.0%	1.0%	1.0%	1.0%
<b>WACC</b>	<b>16.2%</b>	<b>16.3%</b>	<b>16.3%</b>	<b>16.4%</b>	<b>16.4%</b>	<b>16.4%</b>

Source: IPOPEMA Research

### Operating earnings split post-2028E

Our EBIT forecast post 2028E is adjusted for exploration and production (upstream) segment earnings. The valuation of upstream reserves, not commercialized in our detailed forecasting period (2024-28E), is included in a separate line of our DCF valuation. Our post-2028E earnings also include the annual contribution from “green projects” of RON 1.12bn (or EUR 230m). We note that our capex estimates for 2024-28E include RON 10.6bn 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. Below, we illustrate the split of earnings post-2028E as well as provide some more detailed valuations of the remaining upstream reserves.

**Figure 8. OMV Petrom: operating earnings estimate post 2028E**

Terminal op. earnings (RON m)	>2028E
<b>EBIT</b>	<b>4 926</b>
Refining and Marketing	1 996
Gas and Power	1 838
Green projects	1 116
Others	-24

Source: IPOPEMA Research

### Upstream assets valuation post-2028E

Our OMV Petrom DCF valuation includes RON 14.5bn of upstream assets, not commercialized in the detailed forecasting period (2024-28E). Our estimates include RON 9.3bn of CAPEX for the Neptun Deep project that will be spent in years 2024-28E. Our estimate adds some RON 0.23 per share to our OMV Petrom valuation.

**Figure 9. OMV Petrom: upstream assets valuation post-2028E**

	1P Reserves	2P Reserves
Reserves in mboe	162	601
EBITDA USD/b	25.3	29.1
FCF USD/b	18.0	18.8
Risk factor	90%	70%
<b>Total value in USDm</b>	<b>2 627</b>	<b>7 889</b>
Total value in RONm	11 269	33 836
PV of Reserves in RONm	4 548	13 656
Liabilities in RONm	-	-3 658
<b>Net value in RONm</b>	<b>4 548</b>	<b>9 998</b>
Net value in RON per share	0.07	0.16

Source: IPOPEMA Research

**Figure 10. OMV Petrom: DCF sensitivity analysis**

DCF sensitivity (RON per share)		WACC in Terminal Year				
		15.4%	15.9%	16.4%	16.9%	17.4%
Terminal growth	0.5%	0.60	0.60	0.59	0.58	0.58
	0.8%	0.61	0.60	0.59	0.59	0.58
	1.0%	0.61	0.60	<b>0.60</b>	0.59	0.58
	1.3%	0.61	0.61	0.60	0.59	0.59
	1.5%	0.62	0.61	0.60	0.60	0.59

Source: IPOPEMA Research



## Comparative valuation

Our peer-multiple-based weighted valuation based on P/E and EV/EBITDA ratios for 2024-25E implies a share price of **RON 0.56**.

OMV Petrom currently trades at 2024E P/E of 5.3x, which implies a 14% discount to international peers (IOCs). Our estimates point to 2024E EV/EBITDA of 3.2x, which implies a 14% premium to IOCs. In general, OMV Petrom is trading at a discount on 2024-25E P/E and at a premium on 2024-25E EV/EBITDA ratios to international peers. This situation reflects deteriorating earnings following the maturation of upstream output.

**Figure 11. 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	3.2	4.4	4.9	1.5	1.8	1.8
TOTAL ENERGIES	6.7	6.8	7.2	3.4	3.6	3.9
SHELL	7.6	7.3	7.4	3.7	3.8	4.0
OMV	4.8	5.5	6.1	1.8	1.8	2.0
EQUINOR	9.5	9.0	9.8	2.3	2.2	2.5
BP	5.9	5.8	5.8	2.0	2.2	2.2
ENI	6.1	6.5	6.9	3.0	3.1	3.3
MOL	4.3	4.3	4.6	2.5	2.4	2.4
REPSOL	4.2	5.3	5.7	2.3	2.4	2.6
ROMGAZ	6.6	4.6	4.6	3.0	3.3	4.7
EXXON MOBIL	11.4	11.6	11.5	6.0	6.0	6.1
CHEVRON CORP	11.7	11.0	10.4	6.1	5.9	6.0
<b>MEDIAN</b>	<b>6.3</b>	<b>6.1</b>	<b>6.5</b>	<b>2.8</b>	<b>2.8</b>	<b>2.9</b>
OMV Petrom (IPOPEMA)	4.4	5.3	6.1	2.6	3.2	3.9
Premium/discount to IPOPEMA est.	-31%	-14%	-6%	-5%	14%	33%

Source: IPOPEMA Research

**Figure 12. OMV Petrom: Valuation Summary**

RON	Fair Value	Weight	Weighted FV
DCF	0.60	100%	0.60
Comparative valuation 2024-25E	0.56	0%	0.56
<b>Average</b>			<b>0.60</b>

Source: 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 hazardous 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.

# Financials

**Figure 13. OMV Petrom: Financial statements 2019-27E**

P&L (RON m)	2019	2020	2021	2022	2023E	2024E	2025E	2026E	2027E
<b>Revenues</b>	<b>25 485</b>	<b>19 717</b>	<b>26 011</b>	<b>61 344</b>	<b>41 555</b>	<b>39 008</b>	<b>34 822</b>	<b>34 076</b>	<b>33 493</b>
Production costs	14 207	10 573	14 454	38 506	24 659	23 609	21 249	20 939	20 682
<b>Gross Profit</b>	<b>11 279</b>	<b>9 144</b>	<b>11 557</b>	<b>22 838</b>	<b>16 896</b>	<b>15 399</b>	<b>13 573</b>	<b>13 137</b>	<b>12 811</b>
<b>EBITDA</b>	<b>7 706</b>	<b>4 814</b>	<b>7 126</b>	<b>15 346</b>	<b>10 896</b>	<b>10 171</b>	<b>8 887</b>	<b>8 568</b>	<b>8 354</b>
- y/y change	-7.6%	-37.5%	48.0%	115.4%	-29.0%	-6.7%	-12.6%	-3.6%	-2.5%
<b>EBIT</b>	<b>4 245</b>	<b>1 467</b>	<b>3 709</b>	<b>12 039</b>	<b>8 030</b>	<b>7 363</b>	<b>6 431</b>	<b>6 155</b>	<b>5 983</b>
- y/y change	-18.6%	-65.4%	152.8%	224.6%	-33.3%	-8.3%	-12.7%	-4.3%	-2.8%
Net Financial Expenses and Other Items	32	12	-311	17	513	339	264	158	73
<b>Pre-tax Profit</b>	<b>4 277</b>	<b>1 479</b>	<b>3 398</b>	<b>12 056</b>	<b>5 812</b>	<b>7 702</b>	<b>6 695</b>	<b>6 313</b>	<b>6 056</b>
Income Tax	-642	-188	-534	-1 756	-1 239	-1 232	-1 071	-1 010	-969
Minority (Profits) / Losses	0	0	0	1	0	0	0	0	0
<b>Net Income</b>	<b>3 635</b>	<b>1 291</b>	<b>2 864</b>	<b>10 301</b>	<b>4 573</b>	<b>6 470</b>	<b>5 624</b>	<b>5 303</b>	<b>5 087</b>
- y/y change	-10.9%	-64.5%	121.9%	259.6%	-55.6%	41.5%	-13.1%	-5.7%	-4.1%
<b>EPS (PLN)</b>	<b>0.064</b>	<b>0.023</b>	<b>0.051</b>	<b>0.165</b>	<b>0.073</b>	<b>0.104</b>	<b>0.090</b>	<b>0.085</b>	<b>0.082</b>
- y/y change	-10.9%	-64.5%	121.9%	226.9%	-55.6%	41.5%	-13.1%	-5.7%	-4.1%
<b>Profitability Ratios</b>									
EBITDA Margin	30.2%	24.4%	27.4%	25.0%	26.2%	26.1%	25.5%	25.1%	24.9%
EBIT Margin	16.7%	7.4%	14.3%	19.6%	19.3%	18.9%	18.5%	18.1%	17.9%
Net Margin	14.3%	6.5%	11.0%	16.8%	11.0%	16.6%	16.2%	15.6%	15.2%
ROE	10.8%	3.9%	8.5%	27.6%	11.4%	15.5%	12.6%	11.4%	10.5%
<b>Balance Sheet (PLN m)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
<b>Total Non-current Assets</b>	<b>34 933</b>	<b>34 505</b>	<b>32 655</b>	<b>32 218</b>	<b>35 418</b>	<b>39 855</b>	<b>44 195</b>	<b>48 458</b>	<b>51 038</b>
Tangible Assets	27 945	27 802	25 865	24 751	26 778	29 783	32 778	35 720	37 325
Other Non-current Assets	6 988	6 703	6 791	7 467	8 640	10 072	11 417	12 737	13 713
<b>Total Current Assets</b>	<b>12 563</b>	<b>13 115</b>	<b>17 315</b>	<b>25 303</b>	<b>19 128</b>	<b>16 849</b>	<b>13 193</b>	<b>10 042</b>	<b>8 234</b>
Inventories	2 464	2 103	2 293	3 815	2 701	2 536	2 263	2 215	2 177
Trade and other Receivables	2 867	2 701	4 684	7 217	4 987	4 681	4 179	4 089	4 019
Cash and Equivalents	7 014	7 451	10 323	14 256	11 426	9 618	6 736	3 724	2 023
Other Current Assets	217	861	15	15	15	15	15	15	15
<b>Total Assets</b>	<b>47 495</b>	<b>47 621</b>	<b>49 970</b>	<b>57 521</b>	<b>54 547</b>	<b>56 704</b>	<b>57 388</b>	<b>58 500</b>	<b>59 272</b>
<b>Shareholders Equity</b>	<b>33 501</b>	<b>33 071</b>	<b>34 214</b>	<b>40 509</b>	<b>39 940</b>	<b>43 334</b>	<b>45 727</b>	<b>47 638</b>	<b>49 164</b>
Minority Interest	1	1	1	6	6	6	6	6	6
<b>Non-current Liabilities</b>	<b>8 197</b>	<b>8 844</b>	<b>7 563</b>	<b>8 151</b>	<b>6 761</b>	<b>6 074</b>	<b>5 211</b>	<b>4 647</b>	<b>4 100</b>
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	6 761	6 074	5 211	4 647	4 100
<b>Current Liabilities</b>	<b>5 797</b>	<b>5 706</b>	<b>8 193</b>	<b>8 862</b>	<b>7 845</b>	<b>7 297</b>	<b>6 450</b>	<b>6 214</b>	<b>6 009</b>
Current Debt and Leases	261	312	413	294	416	390	348	341	335
Trade and Other Payables	3 372	2 859	3 266	4 266	3 740	3 511	3 134	3 067	3 014
Other Current Liabilities	2 163	2 535	4 513	4 303	3 690	3 396	2 967	2 807	2 659
<b>Total Equity &amp; Liabilities</b>	<b>47 495</b>	<b>47 621</b>	<b>49 970</b>	<b>57 521</b>	<b>54 547</b>	<b>56 704</b>	<b>57 388</b>	<b>58 500</b>	<b>59 272</b>
Net Debt	-5 982	-6 486	-9 391	-13 463	-11 025	-9 243	-6 403	-3 398	-1 703
Net Debt / EBITDA	-0.8	-1.3	-1.3	-0.9	-1.0	-0.9	-0.7	-0.4	-0.2
BVPS (PLN)	0.59	0.58	0.60	0.65	0.64	0.70	0.73	0.76	0.79
<b>Balance Sheet Ratios</b>									
Cash collection cycle (in days)	14	14	15	14	20	13	14	13	13
Debt/Assets	2.2%	2.0%	1.9%	1.4%	0.8%	0.7%	0.6%	0.6%	0.6%
Debt/Equity	3.1%	2.9%	2.7%	2.0%	1.0%	0.9%	0.8%	0.7%	0.7%
<b>Cash Flow (PLN m)</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>
Pre-tax Profit	4 277	1 479	3 398	12 056	5 812	7 702	6 695	6 313	6 056
Depreciation and Amortization	3 638	3 678	3 497	5 120	2 866	2 920	2 554	2 510	2 465
Other (incl. WC change)	-1 112	399	102	-5 839	75	-1 971	-1 965	-1 664	-1 609
<b>Operating Cash Flows</b>	<b>6 803</b>	<b>5 556</b>	<b>6 997</b>	<b>11 337</b>	<b>8 753</b>	<b>8 651</b>	<b>7 285</b>	<b>7 159</b>	<b>6 913</b>
Capital Expenditures (net)	-3 673	-3 235	-2 758	-3 060	-5 937	-7 231	-6 783	-6 663	-4 939
Other	117	72	505	-44	0	0	0	0	0
<b>Cash Flows from Investing Activities</b>	<b>-3 556</b>	<b>-3 163</b>	<b>-2 253</b>	<b>-3 104</b>	<b>-5 937</b>	<b>-7 231</b>	<b>-6 783</b>	<b>-6 663</b>	<b>-4 939</b>
Change in Debt	-328	-181	-173	-308	278	-25	-42	-7	-6
Dividends	-1 516	-1 740	-1 741	-4 438	-5 141	-3 077	-3 230	-3 392	-3 562
Other	0	0	0	446	-784	-126	-111	-109	-107
<b>Cash Flows from Financing Activities</b>	<b>-1 844</b>	<b>-1 921</b>	<b>-1 914</b>	<b>-4 300</b>	<b>-5 647</b>	<b>-3 228</b>	<b>-3 383</b>	<b>-3 508</b>	<b>-3 674</b>
Beginning Cash	5 609	7 014	7 481	10 323	14 256	11 426	9 618	6 736	3 724
FX gain/loss	1	-4	11	2	0	0	0	0	0
Increase / (Decrease) in Cash	1 403	472	2 830	3 932	-2 831	-1 808	-2 882	-3 013	-1 701
<b>Ending Cash</b>	<b>7 014</b>	<b>7 481</b>	<b>10 323</b>	<b>14 256</b>	<b>11 426</b>	<b>9 618</b>	<b>6 736</b>	<b>3 724</b>	<b>2 023</b>
DPS (PLN)	0.027	0.031	0.031	0.079	0.083	0.049	0.052	0.054	0.057

Source: Company, IPOPEMA Research

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The definitions of terms used in the document include:

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 July – 30 September 2023)

	Number	%
Buy	7	87.5%
Hold	1	12.5%
Sell	0	0.0%
Total	8	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
13/10/2023	HOLD	RON 0.60	RON 0.55	Tomasz Kasowicz