

Equity Update Conpet: Higher tariffs required to offset the volume impact

Recommendation:  **Hold**

Target price: RON85.60

12 - months horizon

Current share price: RON77.00

* price as of 27/11/2023, 11:59 CEST

Sector: Energy

We downgrade Conpet to HOLD from BUY, as we expect a thinner profitability from 2023e onwards due to lower transported quantities and higher operating costs.

**Equity Update:
Conpet**

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We cut Conpet to HOLD from BUY with a 12-month cum-dividend target price of RON 85.6 (RON 86.6 previously). We revised our recommendation due to a decrease in expected profitability on: (i) lower than expected revenue, resulting from a decline in transported volumes and (ii) higher than expected operating cost compared to the previous report.

Outlook: From October, the royalties payable by Conpet were increased from 10% to 11.5% of the value of gross revenues from oil transportation. However, this measure has no impact on the company's profitability as the royalty is recognised by the regulator as part of the transport tariffs. We expect transport tariffs for both the domestic and imported subsystem to increase further in the future to mitigate the negative impact of declining domestic crude oil volumes on revenues combined with inflationary pressures on margins. Consequently, we forecast EBITDA to average RON 142 mn in 2023-25e, compared to RON 115 mn in 2020-22. We expect net profit to increase at a CAGR of 7% in 2023-25e, reaching RON 75 mn in 2025e.

Q3 23 results: In Q3 23, turnover reached RON 124 mn (+5% yoy). Revenue from domestically transported products increased by 7% yoy. Revenue from imported products increased by 2% yoy. Thanks to supportive tariffs that offset inflationary pressures and declining volumes, profitability improved in comparison with Q3 22. The EBITDA margin increased from 28% to 33% and the net profit margin improved from 16% to 17%.

Forecasts revision: For the estimated period 2023-25e, we have slightly reduced revenue compared to our previous report due to lower estimated transported volumes due to a declining domestic production of crude oil. However, the impact on EBIT and net profit is more pronounced as we expect lower EBIT and net profit mainly due to higher operating costs.

Co-Sponsored Research: RBI has entered into an agreement with the Bucharest Stock Exchange for producing financial research on Conpet S.A. in exchange for a financial remuneration.

Daniela POPOV

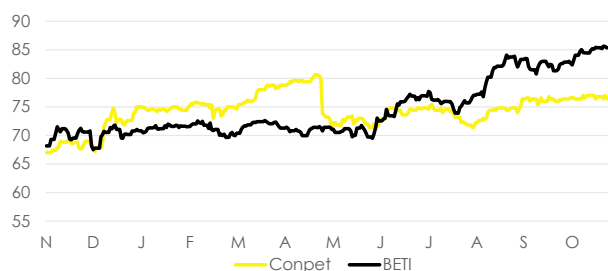
Analyst Editor

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Key financial data

BUY	
Price 27.11.2023	77.0
Price target	85.6
Market cap.	134.2
(tot. shares, in EUR mn)	
Free float	29%
Free float in EUR mn	38.8
Avg. daily turnover	0.02
(12 m) in EUR mn	
Bloomberg	COTE RO
Reuters	COTE.BX



	12/2020	12/2021	12/2022	12/2023e	12/2024e	12/2025e
Income statement (RON mn)						
Consolidated sales	406.9	412.8	472.2	481.4	521.5	541.8
EBITDA	114.3	111.4	117.8	130.2	144.1	151.1
Adjusted EBITDA	114.3	111.4	117.8	130.2	144.1	151.1
EBIT	65.0	57.7	62.8	67.7	80.4	83.4
Financial result	5.4	3.1	9.4	6.4	5.5	5.8
Earnings before taxes	70.5	60.8	72.1	74.0	85.9	89.2
Net profit before minorities	60.8	51.9	61.7	62.2	72.2	74.9
Net profit after minorities	60.8	51.9	61.7	62.2	72.2	74.9
Cash flow statement (RON mn)						
Cash flow from the result	106.2	82.9	86.7	70.9	78.3	83.3
Change in working capital	-7.3	-5.5	15.6	-10.9	8.3	6.1
Operating cash flow	98.8	77.3	102.3	59.9	86.6	89.4
Capex PPE and intangible assets	-102.0	-63.4	-172.1	-89.7	-96.1	-96.4
Investing cash flow	-65.6	-15.6	-118.2	-26.7	-18.5	-19.0
Financing cash flow	-25.8	4.0	-66.7	-17.2	22.4	17.9
Balance sheet (RON mn)						
Net working capital	-32.8	-27.3	-40.3	-29.4	-37.7	-43.8
Net interest-bearing debt	-198.3	-191.8	-127.7	-101.4	-110.5	-112.3
Capital employed	657.0	667.9	684.1	695.8	722.2	744.7
Market capitalisation	659.7	683.9	587.0	666.6	666.6	666.6
Enterprise value	461.4	492.2	459.3	565.2	556.2	554.3
Shareholders' equity	657.0	667.9	684.1	695.8	722.2	744.7
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Total assets & liabilities	759.9	771.4	807.5	811.5	849.2	882.3
Margins & profitability						
EBITDA margin	28.1%	27.0%	25.0%	27.0%	27.6%	27.9%
EBIT margin	16.0%	14.0%	13.3%	14.1%	15.4%	15.4%
Net margin	15.0%	12.6%	13.1%	12.9%	13.8%	13.8%
Return on assets	8.0%	6.8%	7.8%	7.7%	8.7%	8.7%
Return on equity	9.3%	7.8%	9.1%	9.0%	10.2%	10.2%
Return on capital employed	9.3%	7.8%	9.1%	9.0%	10.2%	10.2%
Financing (x)						
Net gearing	-30.2%	-28.7%	-18.7%	-14.6%	-15.3%	-15.1%
Capex / depreciation	2.1	1.2	3.1	1.4	1.5	1.4
Equity ratio	86.5%	86.6%	84.7%	85.7%	85.0%	84.4%
Per share data (RON)						
EPS reported	7.0	6.0	7.1	7.2	8.3	8.7
Earnings per share (adj.)	7.0	6.0	7.1	7.2	8.3	8.7
Operating cash flow per share	11.4	8.9	11.8	6.9	10.0	10.3
Book value per share	75.9	77.1	79.0	80.4	83.4	86.0
Dividend per share	6.9	7.3	6.9	6.8	7.9	8.2
Payout ratio	98.1%	121.4%	96.5%	95.0%	95.0%	95.0%
Valuation (x)						
PE reported	10.8	13.2	9.5	10.7	9.2	8.9
Adjusted PE ratio	10.8	13.2	9.5	10.7	9.2	8.9
Price cash flow	6.7	8.8	5.7	11.1	7.7	7.5
Price book value	1.0	1.0	0.9	1.0	0.9	0.9
Dividend yield	9.1%	9.2%	10.1%	8.9%	10.3%	10.7%
Free cash flow yield	-0.5%	2.1%	-11.8%	-4.5%	-1.4%	-1.0%
EV/sales	1.1	1.2	1.0	1.2	1.1	1.0
EV/EBITDA	4.0	4.4	3.9	4.3	3.9	3.7
EV/EBIT	7.1	8.5	7.3	8.4	6.9	6.6
EV/operating cash flow	4.7	6.4	4.5	9.4	6.4	6.2

Source: Conpet, RBI/Raiffeisen Research estimates

Q3 23 results

Conpet reported Q3 23 results on November 14. Turnover reached RON 124 mn (+5% yoy), which is attributable to the implementation of higher transport tariffs for 2023 by the regulatory authority. The major contributor of revenue growth was the revenues from domestically transported products, which increased by 7% yoy. Revenue from imported transported products increased by 2% yoy.

Transported volumes reached a total of 1.7 mn tons (-5% yoy), with domestic volumes reaching 0.7 mn tons (-5% yoy) and imported volumes reaching 1.0 mn tons (-6% yoy). Consequently, we have revised our volume forecast for FY 23e downwards. We assume that the company's planned targets of 3.0 mn tons of transported domestic volumes and 3.4 mn tons of transported import volumes for 2023 will not be achieved.

Opex was up by 7% yoy to RON 118 mn. There was a 10% yoy increase in expenses with third parties related to rail transportation expenses. Meanwhile, expenses for raw materials and energy and water decreased by 33% yoy, mainly due to lower energy costs. We anticipate that opex will continue to rise due to general cost inflation, allowing the company to apply to the regulator for higher tariffs to cover these costs next year.

Benefiting from supporting tariffs, which have offset inflation pressure and decreasing volumes, margins were better than in Q3 22 (details in the table below).

Conpet Q3 23 results

in RON mn	Q3 23	Q3 22	+/- %	RBIe	+/- %	Q2 23	+/- %
Turnover, o/w:	124.2	118.3	5.0%	124.0	0.2%	113.5	9.5%
Domestic crude	85.0	79.7	6.7%	88.0	-3.4%	88.3	-3.7%
Imported crude	38.6	38.0	1.6%	35.5	8.9%	24.6	56.8%
EBITDA	40.6	32.7	24.1%	32.2	26.0%	27.8	46.0%
EBIT	22.6	18.6	21.2%	16.8	34.2%	11.5	95.7%
Net profit	21.6	18.6	16.1%	16.2	33.4%	10.2	112.9%
EPS	2.5	2.2		1.9		1.2	
EBITDA margin	32.7%	27.7%		26.0%		24.5%	
EBIT margin	18.2%	15.8%		13.6%		10.2%	
Net profit margin	17.4%	15.7%		13.1%		9.0%	

Source: Conpet, RBI/Raiffeisen Research estimates

Changes in forecasts

We assume that transportation tariffs for the domestic subsystem will continue to rise in the future to mitigate the negative impact of declining domestic crude oil production on revenues combined with inflationary pressures on margins. Therefore, we expect that transport tariffs for the domestic subsystem are likely to increase further by 7% yoy in 2024e and 2025e. Tariffs for the import subsystem are also likely to rise, by 11% yoy in 2024e and by 8% yoy in 2025e.

We have revised our volume forecast downwards. Due to declining production of crude oil in Romania, we forecast a shift in the structure of transported volumes. Domestic crude oil volumes are projected to decrease to an average of 2.7 mn tons in 2023-25e (vs. 3.2 mn tons in 2020-22), while transported import volumes are expected to increase to an average of 3.9 in 2023-25e (vs. 3.6 mn tons in 2020-22).

For FY 23e, we expect turnover to be slightly lower than in the previous forecast as we have revised our assumptions regarding transported volumes. However, our forecasts for EBIT and the company's bottom line differ more significantly from previous report. We expect the EBIT margin will decrease to 14% from the previous figure of 16%. Additionally, we assume that the net profit margin will also decrease to 13% from the previous figure of 15%. The reason for the decline in the figures is mainly due to two factors. First, revenues were lower than expected due to lower transportation volumes caused by the prolonged shutdown of OMV Petrom's Petrobrazi refinery for maintenance and the one-month planned maintenance of the Petrotel Lukoil refinery in November. Secondly, operating

costs were higher than expected compared to the previous report, due to inflationary pressures.

We expect the company to continue to pay dividends to its shareholders in the coming years, with a payout ratio of 95% given its solid balance sheet (debt-free and a strong cash position).

Changes in forecasts

in RON mn	previous		new		
	2023e	2024e	2023e	2024e	2025e
Turnover, o/w:	491.6	538.5	481.4	521.5	541.8
Domestic crude	353.0	353.4	347.0	329.2	330.1
Imported crude	135.1	181.9	132.0	189.6	209.0
Total operating revenues	537.9	585.1	532.0	578.0	601.3
Total operating expenses	394.0	401.0	401.8	433.9	450.3
EBITDA	134.8	148.9	130.2	144.1	151.1
EBIT	79.9	94.1	67.7	80.4	83.4
Net profit	73.1	83.3	62.2	72.2	74.9
EBITDA margin	27%	28%	27%	28%	28%
EBIT margin	16%	17%	14%	15%	15%
Net profit margin	15%	15%	13%	14%	14%
Dividend pay-out ratio	95.0%	95.0%	95.0%	95.0%	95.0%

Source: RBI/Raiffeisen Research estimates

Valuation

We continue to rely on DCF valuation, which yields a 12-month cum-dividend target price of RON 85.6 (RON 86.6 previously), including a 2023e DPS of RON 6.8. We have updated Romania's risk free rate, which resulted in a lower WACC. For the terminal value calculation, we assumed a growth rate of 0% and an EBITDA margin of 27%.

The peer table is shown for information purposes only.

Peer comparison

	P/E			EV/EBITDA			DY		
	2023e	2024e	2025e	2023e	2024e	2025e	2023e	2024e	2025e
Energa	14.1	17.5	19.4	10.3	10.9	11.7	10.8%	10.8%	10.8%
ENEA	1.9	4.4	3.5	1.9	4.0	3.4	0.0%	0.0%	13.8%
Tauron	2.4	4.3	3.3	3.3	4.1	3.5	0.0%	0.0%	0.0%
Transgaz	11.8	7.8	7.0	5.5	4.2	3.4	4.3%	6.5%	6.0%
PGE	4.1	5.3	4.3	2.3	3.1	2.9	1.6%	4.2%	2.2%
Median CEE Peers	4.1	5.3	4.3	3.3	4.1	3.4	2%	4%	6%
Snam	14.1	12.7	12.7	13.1	12.0	11.7	5.9%	6.1%	5.7%
Terna	17.8	15.9	16.2	12.2	11.5	11.8	4.5%	4.6%	4.6%
Redeia Corporacion	12.3	16.1	15.6	8.8	10.2	10.2	6.6%	5.5%	5.4%
Enagas	14.1	17.5	19.4	10.3	10.9	11.7	10.8%	10.8%	10.8%
Elia	23.7	24.2	21.6	12.9	8.5	7.6	2.0%	2.0%	2.1%
National Grid	14.3	14.4	13.7	11.9	11.9	11.7	5.5%	5.8%	5.9%
Median European Peers	14.2	16.0	15.9	12.0	11.2	11.7	5.7%	5.6%	5.6%
Conpet	10.7	9.2	8.9	4.3	3.9	3.7	8.9%	10.3%	10.7%
Premium/Discount to CEE peers	162.5%	75.2%	106.0%	29.3%	-5.1%	8.7%	460.5%	145.5%	78.3%
Premium/Discount to European	-24.5%	-42.4%	-44.1%	-64.3%	-65.2%	-68.3%	55.1%	82.9%	92.7%

Source: Bloomberg, Raiffeisen Bank estimates

DCF Model

FCF projection (RON mn)	2023e	2024e	2025e	2026e	2027e	2028e	TV CF
Consolidated sales	481.4	521.5	541.8	558.1	572.0	583.5	583.5
EBITDA	130.2	144.1	151.1	154.7	157.6	159.8	157.4
EBITA	67.7	80.4	83.4	86.0	88.2	90.1	90.3
Taxes paid on EBITA	-10.8	-12.9	-13.3	-13.8	-14.1	-14.4	-14.4
NOPLAT	56.8	67.5	70.1	72.2	74.1	75.7	75.8
Adj. NOPLAT	56.8	67.5	70.1	72.2	74.1	75.7	75.8
Depreciation of PPE & intangibles	62.5	63.7	67.6	68.7	69.4	69.7	67.1
Gross investment in PPE & intangibles	-89.7	-96.1	-96.4	-88.2	-79.1	-69.2	-67.1
Change in working capital	-10.9	8.3	6.1	2.8	2.7	2.5	0.0
NWC/Sales	-6.1%	-7.2%	-8.1%	-8.4%	-8.6%	-8.9%	-8.3%
Change in LT provisions other than tax	0.5	0.8	2.1	0.5	0.8	0.8	0.8
Net acquisitions & disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow to firm	19.2	44.3	49.6	56.0	67.8	79.5	76.6
Adj. free cash flow to firm	19.2	44.3	49.6	56.0	67.8	79.5	76.6
EV DCF, mid-year assumption	550.1	575.1					
+MV of non-operating assets eop	0.0	0.0					
-MV of net debt eop	-101.4	-110.5					
-MV of minorities eop	0.0	0.0					
Adjustments to EV eop	0.0	0.0					
Faire value of equity	651.6	685.5					
Shares outstanding (mn)	8.7	8.7					
Fair value per share (in RON)	75.3	79.2					

Value drivers	2023e	2024e	2025e	2026e	2027e	2028e	TV CF
Consolidated sales yoy	1.9%	8.3%	3.9%	3.0%	2.5%	2.0%	0.0%
EBITDA margin	27.0%	27.6%	27.9%	27.7%	27.6%	27.4%	27.0%
Rate of taxes paid	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%
Working capital/sales	-6.1%	-7.2%	-8.1%	-8.4%	-8.6%	-8.9%	-8.3%
CAPEX/Depreciation	1.4	1.5	1.4	1.3	1.1	1.0	1.0
Free cash flow margin	4.0%	8.5%	9.1%	10.0%	11.9%	13.6%	13.1%

WACC	2023e	2024e	2025e	2026e	2027e	2028e	TV CF
Target capital structure (at MV)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Debt to equity ratio (at MV)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Risk free rate (local)	7.1%	7.2%	7.4%	7.4%	7.4%	7.5%	6.8%
Equity market premium	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Levered beta	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Cost of equity	12.6%	12.7%	12.8%	12.9%	12.9%	12.9%	12.3%
Cost of debt	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tax rate	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%
WACC	12.6%	12.7%	12.8%	12.9%	12.9%	12.9%	12.3%

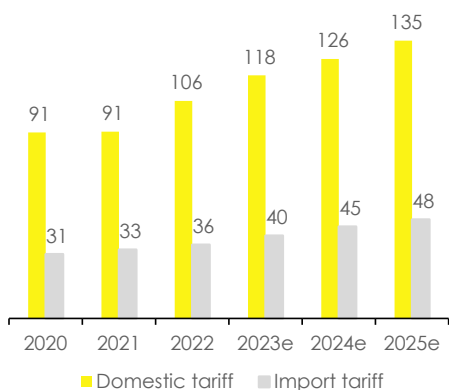
Growth sensitivity (RON)	Terminal growth rate						
WACC	-1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%
10.8%	81.7	83.9	86.4	89.0	91.9	95.1	98.7
11.3%	78.8	80.8	83.0	85.4	88.1	90.9	94.1
11.8%	76.2	78.0	80.0	82.2	84.5	87.1	90.0
12.3%	73.7	75.4	77.2	79.2	81.3	83.7	86.2
12.8%	71.4	72.9	74.6	76.4	78.4	80.5	82.8
13.3%	69.3	70.7	72.2	73.9	75.7	77.6	79.7
13.8%	67.3	68.6	70.0	71.5	73.1	74.9	76.8

Margin sensitivity (RON)	FCF margin TV						
WACC	11.6%	12.1%	12.6%	13.1%	13.6%	14.1%	14.6%
10.8%	82.8	84.9	87.0	89.0	91.1	93.1	95.2
11.3%	79.6	81.6	83.5	85.4	87.4	89.3	91.2
11.8%	76.7	78.5	80.4	82.2	84.0	85.8	87.6
12.3%	74.0	75.8	77.5	79.2	80.9	82.6	84.3
12.8%	71.6	73.2	74.8	76.4	78.0	79.7	81.3
13.3%	69.3	70.8	72.3	73.9	75.4	76.9	78.5
13.8%	67.2	68.6	70.1	71.5	73.0	74.4	75.9

Source: RBI/Raiffeisen Research estimates

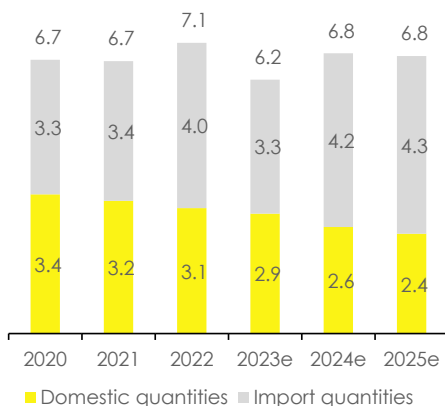
Supporting charts

Average tariffs (RON/ton)



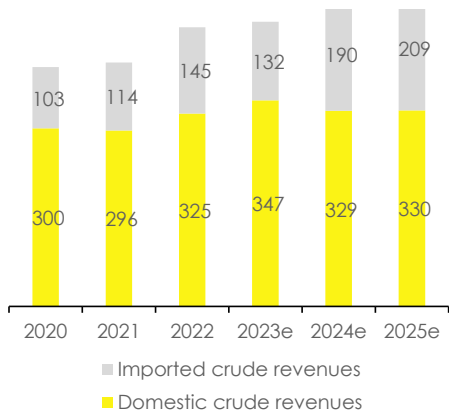
Source: Conpet, RBI/Raiffeisen Research estimates

Volumes transported (mn tons)



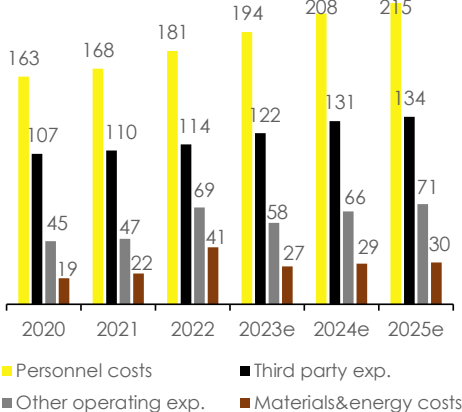
Source: Conpet, RBI/Raiffeisen Research estimates

Turnover (RON mn)



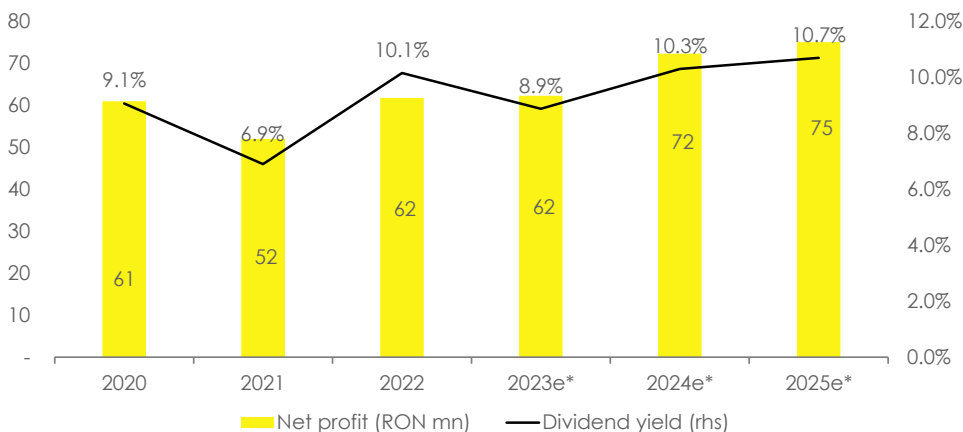
Source: Conpet, RBI/Raiffeisen Research estimates

OpEx distribution (RON mn)



Source: Conpet, RBI/Raiffeisen Research estimates

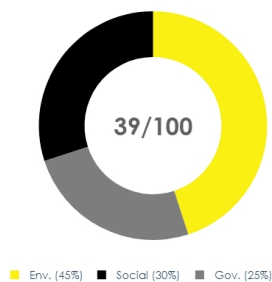
Net profit and dividend yield estimates (RON mn, %)



*Based on previous closing price
Source: Conpet, RBI/Raiffeisen Research estimates

ESG scoring

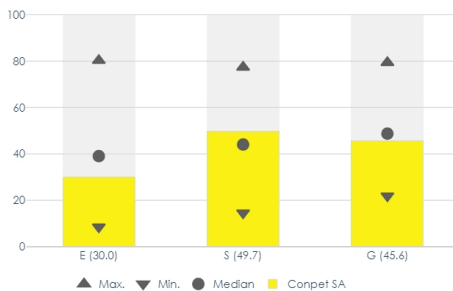
ESG score overall



Pie chart illustrates the industry specific weights for each subcategory within our methodology

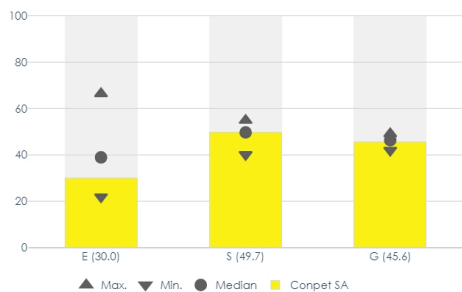
Source: RBI/Raiffeisen Research

ESG score industry



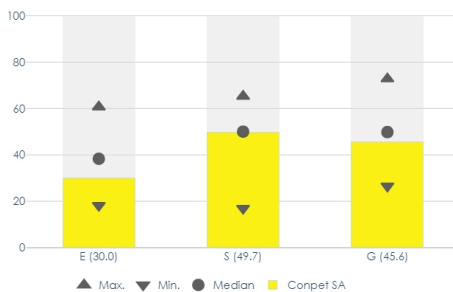
Source: RBI/Raiffeisen Research

ESG score country



Source: RBI/Raiffeisen Research

ESG score global



Source: RBI/Raiffeisen Research

Disclosure

Risk notifications and explanations

Warnings:

- Figures on performance refer to the past. Past performance is not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service. This is particularly true in cases when the financial instrument, financial index or securities service has been offered for less than 12 months. In particular, this very short comparison period is not a reliable indicator for future results.
- Performance of a financial instrument, a financial index or a securities service is reduced by commissions, fees and other charges, which depend on the individual circumstances of the investor.
- The return on an investment in a financial instrument, a financial or securities service can rise or fall due to exchange rate fluctuations.
- Forecasts of future performance are based purely on estimates and assumptions. Actual future performance may deviate from the forecast. Consequently, forecasts are not a reliable indicator for future results and the development of a financial instrument, a financial index or a securities service.

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Conpet Rating History as of 11/24/2023



History of long term recommendations

Symbol	Date	Recommendation	Company
COTE.BX	05.01.2023	Buy	Conpet

The distribution of all recommendations relating to the 12 months prior to the publications date (column A), as well as the distribution of recommendations in the context of which services of investment firms set out in Sections A (investment services and activities) and B (ancillary services) of Annex I of Directive 2014/65/EU of the European Parliament and of the Council (“special services”) have been provided in the past 12 months (column B).

	Column A	Column B
Investment recommendation	Basis: All recommendations for all financial instruments (last 12 months)	Basis: Recommendations for financial instruments of all issuers, for which special services were rendered in the last 12 months
Buy recommendations	57.6%	54.8%
Hold recommendations	26.6%	27.1%
Sell recommendations	15.9%	18.1%

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