Equity Watch Transgaz: Earnings improvement on the back of higher tariffs

Raiffeisen Research

March 7, 2024 15:04 EET

- Transgaz's Q4 23 results were strongly supported by higher gas tariffs and the 25% yoy increase of domestic transported volumes
- The impact of higher revenues on net income margin was offset by significantly lower financial income generated in Q4. We rate the results neutral

Transgaz Q4 23 results

in RON mn	Q4 23	Q4 22	+/- %	RBIe	+/- %	Q3 23	+/- %
Revenue*	686.1	470.6	45.8%	627.4	9.4%	337.8	103.1%
Domestic transport revenue	613.5	400.4	53.2%	537.5	14.1%	271.2	126.2%
Transit revenue	27.6	23.2	18.6%	29.9	-7.7%	29.9	-7.7%
Other revenue	45.0	47.0	-4.2%	60.0	-25.0%	36.7	22.6%
EBITDA	276.3	162.8	69.7%	268.9	2.7%	53.2	419.4%
EBIT	148.9	52.0	186.3%	159.1	-6.4%	-69.4	n.a.
Net profit	133.7	83.8	59.5%	215.0	-37.8%	-32.2	n.a.
EPS	0.7	0.4		1.1		-0.2	
EBITDA margin	40%	35%		43%		16%	
EBIT margin	22%	11%		25%		-21%	
Net profit margin	19%	18%		34%		-10%	

**Revenue before balancing and construction activity*
Source: Transgaz, RBI/Raiffeisen Research estimates

Transgaz (HOLD, RON 21.6) announced its Q4 results on Feb. 29. Revenue increased by 46% yoy, mainly driven by: (1) higher tariffs for domestic transportation due to the increase in regulated revenues for the gas year Oct. 23-Sep. 24 and (2) higher transportation volumes. On the cost side, opex increased by 28% yoy. This was primarily due to higher salary costs and royalty expenses, with the royalty fee rising to 11.5% of revenue. In addition, there was a significant increase in other operating expenses, mainly due to the write-off of trade receivables as a result of the non-collection of receivables from Gazprom Export. As a result, EBITDA increased by 70% yoy, with the margin reaching 40%, compared to 35% in the same period last year. At the same time, depreciation and amortisation was 15% higher yoy, while financial income decreased significantly, leading to an 82% yoy decrease in the financial result. Overall, the bottom line increased by 60% yoy, reaching a margin of 19% compared to 18% in Q4 22.

Outlook: According to the company's budget, revenues in 2024 are expected to increase by 15% yoy due to (1) higher transported volumes, as volumes are expected to reach 18.1 bcm (+17% yoy) and (2) increase in tariffs. However, despite the increase in revenues, the net profit for 2024 is expected to be similar to 2022, reaching RON 173 mn, due to higher opex (+15% yoy) and lower financial result (-29% yoy). A notable expense category is royalties, as the royalty rate was increased from 0.04% to 11.5% of revenue effective Oct. 30, 2023. Royalty expenses are not included in the regulated revenue for the current gas year. According to management, it is likely that this cost will be included in the regulated revenue for the coming gas year Oct. 24-Sep. 25. In addition, the company has set up an ambitious investment program. One of the most important projects is the transportation of natural gas from the Black Sea coast.

Dividend expectation: According to local media reports, the Romanian government is planning to introduce a dividend payout ratio of 90% for state-owned companies, except for lower payouts in justified cases. Similar to last year, we expect Transgaz to be exempt from the obligation to distribute 90% of net profit due to its massive investment program. We assume a payout ratio of 50%, which would imply a DPS for 2023 of RON 0.46 and a DY of 2.4% based on the current market price.

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

Daniela POPOV
Analyst Editor
+40 21 306-1239
daniela.popov@raiffeisen.ro

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History of long term recommendations			
Symbol	Date	Recommendation	Company
TGN.BX	16.05.2023	Hold	Transgaz
TGN.BX	02.05.2023	Hold	Transgaz

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Contacts

OLEG GALBUR
Austria ,
oleg.galbur@rbinternational.com

PHILIP HETTICH
Austria ,
philip.hettich@rbinternational.com

JAKUB KRAWCZYK
Austria ,
jakub.krawczyk@rbinternational.com

MARKUS REMIS
Austria ,
markus.remis@rbinternational.com

TERESA SCHINWALD
Austria ,
teresa.schinwald@rbinternational.com

JOVAN SIKIMIC
Austria ,
jovan.sikimic@rbinternational.com

ROK STIBRIC
Austria ,
rok.stibric@rbinternational.com

ANA LESAR
Croatia ,
ana.lesar@rba.hr

ANA TURUDIC
Croatia ,
ana.turudic@rba.hr

ANDREEA-CRISTINA CIUBOTARU
Romania ,
andreea-cristina.ciubotaru@raiffeisen.ro

ADRIAN-COSMIN PATRUTI
Romania ,
adrian-cosmin.patruti@raiffeisen.ro

DANIELA POPOV
Romania ,
daniela.popov@raiffeisen.ro

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