

Equity Update Conpet: Lower volumes & cost inflation trigger downgrade to Sell

Recommendation:  **Sell**

Target price: RON80.00

12 - months horizon

Current share price: RON88.00

* price as of 10/06/2024, 11:59 CEST

Sector: Energy

We downgrade Conpet to SELL and lower our 12m TP to RON 80 as we expect (i) lower transported volumes due to refinery maintenance and (ii) higher opex to lower Conpet's earnings and dividends in 2024-26e.

**Equity Update:
Conpet**

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We downgrade Conpet to SELL from HOLD and set our new 12-month cum-dividend target price at RON 80, which implies a downside potential of almost 10% to the current market price. Our downgrade of Conpet is mainly the result of: (i) a decline in transportation volumes, particularly in 2025e due to maintenance work at the Petrotel refinery and (ii) higher than previously expected cost inflation.

We have updated our forecast for FY 24e based on the tariffs approved by the regulator in December 2023. The domestic transportation subsystem tariff increased by almost 9% yoy to RON 128/t to compensate for the decline in volumes, while import subsystem tariffs decreased by an average of 5% yoy. For domestic crude oil transportation, we expect a further decline in volumes of around 7% yoy. For import crude oil transportation, we see an increase of 28% yoy, albeit on a lower basis due to last year's maintenance shutdown at Petrotel and Petrobrazi refineries. As a result, we expect revenues to increase by 9% yoy to RON 588 mn in FY 24e. Despite the increase in revenues due to higher tariffs (for domestic crude) and volume effects (for imported crude), we expect a slight decrease in profitability due to higher operating costs, leading us to estimate a net profit of RON 61 mn in FY 24e (-1% yoy).

For 2025e, we foresee a decrease in import volumes due to maintenance work at the Petrotel refinery. Although we take into consideration tariffs adjustment for volume effects and cost inflation, we forecast revenue to increase by only 1%, with net profit reaching RON 62 mn (+1% yoy). However, we expect a volume recovery in 2026e as import volumes will rebound, leading to a stronger increase in both revenues (+5% yoy) and net profit (+7% yoy).

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

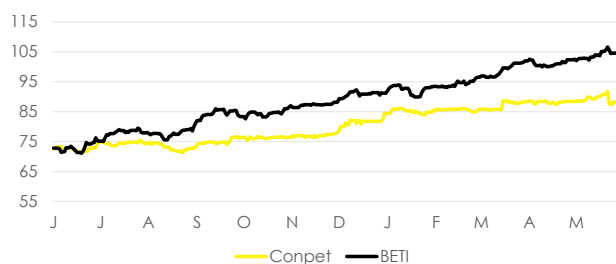
Analyst Editor

+40 21 306-1239

daniela.popov@raiffeisen.ro

Key financial data

SELL	
Price 10.6.2024	88.0
Price target	80.0
Market cap.	153.2
(tot. shares, in EUR mn)	
Free float	29%
Free float in EUR mn	44.3
Avg. daily turnover	0.03
(12 m) in EUR mn	
Bloomberg	COTE RO
Reuters	COTE.BX



Income statement (RON mn)	12/2021	12/2022	12/2023	12/2024e	12/2025e	12/2026e
Consolidated sales	412.8	467.7	485.1	527.8	531.4	558.0
EBITDA	111.4	113.3	129.9	138.2	141.3	149.0
Adjusted EBITDA	111.4	113.3	129.9	138.2	141.3	149.0
EBIT	57.7	58.3	66.4	66.2	67.6	73.6
Adjusted EBIT	57.7	58.3	66.4	66.2	67.6	73.6
Earnings before taxes	60.8	67.6	72.8	72.6	73.4	78.5
Net profit before minorities	51.9	57.2	61.6	60.9	61.6	66.0
Net profit after minorities	51.9	57.2	61.6	60.9	61.6	66.0
Adjusted net profit	51.9	57.2	61.6	60.9	61.6	66.0
Cash flow statement (RON mn)						
Cash flow from the result	82.9	86.7	95.5	70.8	71.0	77.7
Change in working capital	-5.5	15.6	-8.1	1.4	0.6	-0.3
Operating cash flow	77.3	102.3	87.4	72.3	71.6	77.4
Capex PPE and intangible assets	-63.4	-172.1	-104.2	-84.4	-85.2	-86.0
Investing cash flow	-15.6	-118.2	-39.3	-14.0	-14.5	-13.3
Financing cash flow	4.0	-66.7	-2.2	6.4	5.1	12.9
Balance sheet (RON mn)						
Net working capital	-27.3	-40.3	-26.9	-28.3	-28.9	-28.5
Net interest-bearing debt	-191.8	-127.7	-107.7	-107.2	-106.4	-111.8
Capital employed	667.9	684.1	730.3	739.4	749.1	763.9
Market capitalisation	683.9	587.0	708.2	761.9	761.9	761.9
Enterprise value	492.2	459.3	600.4	654.6	655.5	650.1
Shareholders' equity	667.9	684.1	730.3	739.4	749.1	763.9
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Total assets & liabilities	771.4	807.5	846.9	863.3	874.7	893.8
Margins & profitability						
EBITDA margin	27.0%	24.2%	26.8%	26.2%	26.6%	26.7%
EBIT margin	14.0%	12.5%	13.7%	12.5%	12.7%	13.2%
Net margin	12.6%	12.2%	12.7%	11.5%	11.6%	11.8%
Return on assets	6.8%	7.2%	7.4%	7.1%	7.1%	7.5%
Return on equity	7.8%	8.5%	8.7%	8.3%	8.3%	8.7%
Return on capital employed	7.8%	8.5%	8.7%	8.3%	8.3%	8.7%
Financing (x)						
Net gearing	-28.7%	-18.7%	-14.8%	-14.5%	-14.2%	-14.6%
Capex / depreciation	1.2	3.1	1.6	1.2	1.2	1.1
Equity ratio	86.6%	84.7%	86.2%	85.7%	85.6%	85.5%
Per share data (RON)						
EPS reported	6.00	6.60	7.12	7.04	7.12	7.62
Earnings per share (adj.)	6.00	6.60	7.12	7.04	7.12	7.62
Operating cash flow per share	8.93	11.82	10.09	8.35	8.27	8.94
Book value per share	77.15	79.02	84.35	85.41	86.53	88.24
Dividend per share	7.28	6.87	6.79	6.69	6.76	7.24
Payout ratio	121.4%	104.1%	95.4%	95.0%	95.0%	95.0%
Valuation (x)						
PE reported	13.2	10.3	11.5	12.5	12.4	11.6
Adjusted PE ratio	13.2	10.3	11.5	12.5	12.4	11.6
Price cash flow	8.8	5.7	8.1	10.5	10.6	9.8
Price book value	1.0	0.9	1.0	1.0	1.0	1.0
Dividend yield	9.2%	10.1%	8.3%	7.6%	7.7%	8.2%
Free cash flow yield	2.1%	-11.8%	-2.3%	-1.6%	-1.8%	-1.1%
EV/sales	1.2	1.0	1.2	1.2	1.2	1.2
EV/EBITDA	4.4	4.1	4.6	4.7	4.6	4.4
EV/EBIT	8.5	7.9	9.0	9.9	9.7	8.8
EV/operating cash flow	6.4	4.5	6.9	9.1	9.2	8.4

Source: Conpet, RBI/Raiffeisen Research estimates

Q1 24 results

The first quarter revenues were in line with our expectations, while net profit came in below our estimates mainly due to a one-off expense and overall higher than expected opex. Turnover reached RON 134 mn, +5% yoy, with both domestic and import revenues increasing by 4% and 5% yoy, respectively, due to higher tariffs and volumes for the import subsystem. Transported volumes reached 1.8 mn tons (+3% yoy).

EBITDA and net profit missed our estimates by 14% and 36%, respectively, due to one-off expenses related to the impairment of current assets, which had a negative impact of RON -9.5 mn, and higher than expected costs, as the company reported opex of RON 142 mn (+20% yoy).

Conpet Q1 24 results

in RON mn	Q1 24	Q1 23	+/- %	RB1e	+/- %	Q4 23	+/- %
Turnover, o/w:	133.9	127.2	5.3%	134.3	-0.3%	119.7	11.8%
Domestic crude	91.2	86.9	4.9%	89.5	1.9%	82.7	10.2%
Imported crude	40.3	38.8	4.1%	43.3	-6.8%	27.4	47.0%
Other services	2.4	1.5	60.3%	1.5	60.3%	9.6	-75.1%
EBITDA	34.4	33.0	4.0%	40.0	-14.1%	26.5	29.6%
EBIT	14.0	18.9	-25.9%	22.0	-36.3%	10.8	29.7%
Net profit	13.0	17.5	-25.9%	20.2	-35.8%	10.4	24.2%
EPS	1.5	2.0		2.3		1.2	
EBITDA margin	25.7%	26.0%		27.7%		22.1%	
EBIT margin	10.5%	14.9%		15.2%		9.0%	
Net profit margin	9.7%	13.8%		14.0%		8.7%	

Source: Conpet, RBI/Raiffeisen Research estimates

Changes in forecasts

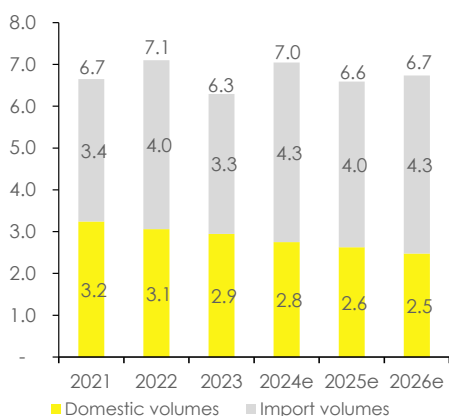
For FY 24e, we adjust our revenue forecasts upwards to reflect the impact of higher tariffs. As a result, we expect higher domestic crude revenues. On the other hand, as tariffs for the import subsystem are below our previous generous estimates, we lower crude import revenues. In terms of volumes transported for FY 24e, we have slightly increased both domestic and imported volumes. In comparison with previous forecast we assume higher operating costs (+4% yoy), mainly due to higher wages and third parties expenses. We expect the EBITDA and net margins to weaken to 26.2% (26.8% in 2023) and 11.5% (12.7% in 2023).

Changes in forecasts

in RON mn	previous		new		2026e
	2024e	2025e	2024e	2025e	
Turnover, o/w:	521.5	541.8	527.8	531.4	558.0
Domestic crude	329.2	330.1	352.0	358.0	361.6
Imported crude	189.6	209.0	168.1	164.0	186.2
Other services	2.7	2.7	7.7	9.3	10.3
Total operating revenues	578.0	601.3	588.5	594.1	622.5
Total operating expenses	433.9	450.3	450.2	452.8	473.5
EBITDA	144.1	151.1	138.2	141.3	149.0
EBIT	80.4	83.4	66.2	67.6	73.6
Net profit	72.2	74.9	60.9	61.6	65.9
EBITDA margin	27.6%	27.9%	26.2%	26.6%	26.7%
EBIT margin	15.4%	15.4%	12.5%	12.7%	13.2%
Net profit margin	13.8%	13.8%	11.5%	11.6%	11.8%

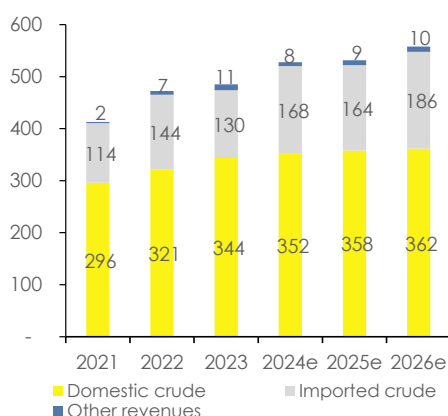
Source: RBI/Raiffeisen Research estimates

Volumes transported (mn tons)



Source: Conpet, RBI/Raiffeisen Research estimates

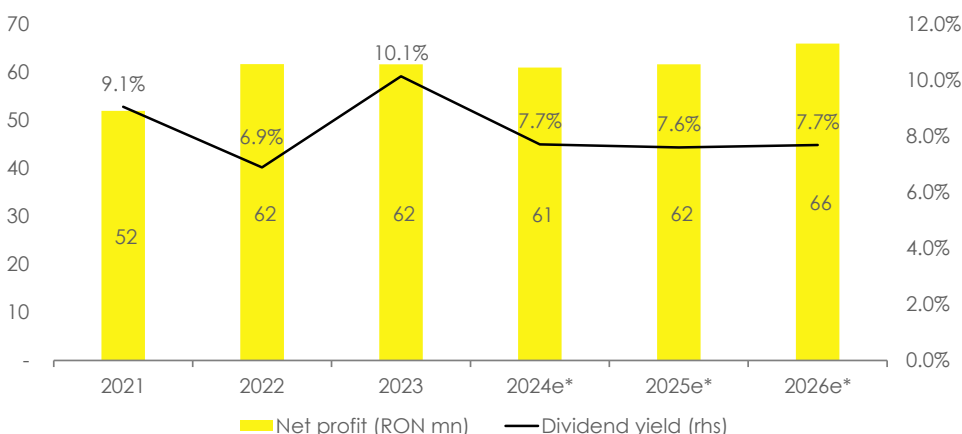
Turnover (RON mn)



Source: Conpet, RBI/Raiffeisen Research estimates

Our FY 25e estimates faced a stronger adjustment due to (i) 8% lower yoy transported import volumes as we have accounted for Lukoil's refinery maintenance work, and (ii) higher operating costs, mainly for higher wages, third party expenses and royalties. As a result, we expect lower profitability in comparison to the previous report, with net profit reaching RON 62 mn. However, we assume a volume recovery in 2026e as import volumes will rebound, leading to an increase in both revenues (+5% yoy) and net profit (+7% yoy).

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



*Based on previous closing price

Source: Conpet, RBI/Raiffeisen Research estimates

We think Conpet will continue to distribute dividends with a payout ratio of 95% given its solid balance sheet (debt-free and strong cash position).

Valuation

We continue to rely on DCF valuation, which yielded a 12-month price target of RON 80 (previously RON 85.6), including a 2024e DPS of RON 6.8. The update of Romania's risk-free rate resulted in a lower WACC rate in the forecast period and a higher one in the terminal value (7.0% vs. the previous 6.8%). We assumed that CF remains comfortably positioned as it benefits from the proceeds from the modernization quota. For the calculation of the terminal value, we have assumed a growth rate of 0% and an EBITDA margin of 26%.

The peer table is shown for information purposes only.

Peer comparison

	P/E			EV/EBITDA			DY		
	2024e	2025e	2026e	2024e	2025e	2026e	2024e	2025e	2026e
Energa	14.8	16.8	17.0	9.8	10.5	10.8	8.4%	7.5%	6.8%
ENEA	2.2	3.1	3.6	1.9	2.3	3.1	0.0%	0.0%	0.0%
Tauron	4.2	3.5	3.2	4.2	3.8	3.9	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	6.6	5.1	4.3	3.2	3.1	3.8	0.0%	0.0%	0.0%
Median CEE Peers	6.6	5.1	4.3	4.2	3.8	3.8	0%	0%	0%
Snam	12.1	11.9	11.6	11.7	11.5	11.1	6.6%	6.8%	7.0%
Terna	15.8	16.5	15.2	11.1	11.6	11.3	4.7%	4.8%	5.0%
Redeia Corporacion	18.2	17.6	15.7	8.8	10.2	10.2	5.1%	4.9%	5.2%
Enagas	14.8	16.8	17.0	9.8	10.5	10.8	8.4%	7.5%	6.8%
Elia	19.4	17.7	15.4	14.1	12.2	11.8	2.1%	2.2%	2.2%
National Grid	12.5	12.1	11.6	11.5	10.8	10.8	6.1%	5.8%	5.9%
Median European Peers	15.3	16.6	15.3	11.3	11.1	11.0	5.6%	5.3%	5.5%
Conpet	12.5	12.4	11.6	4.7	4.6	4.4	7.6%	7.7%	8.2%
Premium/Discount to CEE peers	90.5%	142.6%	168.8%	11.8%	20.6%	15.2%	n.a.	n.a.	n.a.
Premium/Discount to European	-18.4%	-25.5%	-24.2%	-58.4%	-58.7%	-59.8%	35.2%	44.1%	48.3%

Source: Bloomberg, Raiffeisen Bank estimates

DCF Model

FCF projection (RON mn)	2024e	2025e	2026e	2027e	2028e	2029e	TV CF
Consolidated sales	527.8	531.4	558.0	582.7	605.0	624.6	669.2
EBITDA	138.2	141.3	149.0	155.1	160.5	165.2	174.0
EBITA	66.2	67.6	73.6	77.5	81.1	84.4	91.7
Taxes paid on EBITA	-10.6	-10.8	-11.8	-12.4	-13.0	-13.5	-14.7
NOPLAT	55.6	56.8	61.8	65.1	68.1	70.9	77.0
Adj. NOPLAT	55.6	56.8	61.8	65.1	68.1	70.9	77.0
Depreciation of PPE & intangibles	72.0	73.7	75.4	77.6	79.4	80.8	82.3
Gross investment in PPE & intangibles	-84.4	-85.2	-86.0	-87.3	-87.9	-88.0	-82.4
Change in working capital	1.4	0.6	-0.3	1.3	1.2	1.1	0.0
NWC/Sales	-5.4%	-5.4%	-5.1%	-5.1%	-5.1%	-5.1%	-5.5%
Change in LT provisions other than tax	1.6	0.3	1.8	1.8	1.6	1.6	1.6
Net acquisitions & disposals	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow to firm	46.2	46.2	52.6	58.5	62.3	66.2	78.5
Adj. free cash flow to firm	46.2	46.2	52.6	58.5	62.3	66.2	78.5
EV DCF, mid-year assumption	541.1	561.3					
+MV of non-operating assets eop	0.0	0.0					
-MV of net debt eop	-107.2	-106.4					
-MV of minorities eop	0.0	0.0					
Adjustments to EV eop	0.0	0.0					
Faire value of equity	648.3	667.6					
Shares outstanding (mn)	8.7	8.7					
Fair value per share (in RON)	74.9	77.1					

Value drivers	2024e	2025e	2026e	2026e	2027e	2028e	TV CF
Consolidated sales yoy	8.8%	0.7%	5.0%	4.4%	3.8%	3.2%	0.0%
EBITDA margin	26.2%	26.6%	26.7%	26.6%	26.5%	26.4%	26.0%
Rate of taxes paid	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%	-16.0%
Working capital/sales	-5.4%	-5.4%	-5.1%	-5.1%	-5.1%	-5.1%	-5.5%
CAPEX/Depreciation	1.2	1.2	1.1	1.1	1.1	1.1	1.0
Free cash flow margin	8.8%	8.7%	9.4%	10.0%	10.3%	10.6%	11.7%

WACC	2024e	2025e	2026e	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)	6.9%	6.9%	7.1%	7.3%	7.3%	7.3%	7.0%
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	12.3%	12.4%	12.5%	12.8%	12.8%	12.8%	12.5%
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	12.3%	12.4%	12.5%	12.8%	12.8%	12.8%	12.5%

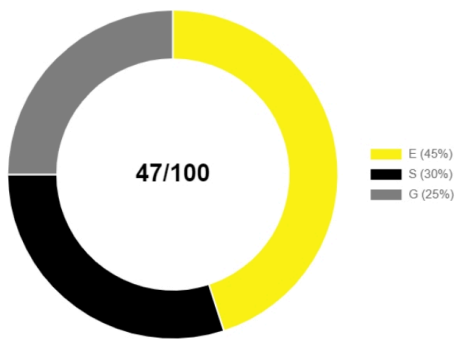
Growth sensitivity (RON)	Terminal growth rate						
WACC	-1.5%	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%
11.0%	80.1	81.4	82.8	84.4	86.1	88.0	90.1
11.5%	77.1	78.3	79.6	80.9	82.4	84.1	85.9
12.0%	74.4	75.4	76.6	77.8	79.1	80.6	82.2
12.5%	71.8	72.8	73.8	74.9	76.1	77.3	78.7
13.0%	69.5	70.3	71.2	72.2	73.3	74.4	75.6
13.5%	67.3	68.1	68.9	69.8	70.7	71.7	72.8
14.0%	65.3	66.0	66.7	67.5	68.3	69.2	70.2

Margin sensitivity (RON)	FCF margin TV						
WACC	10.2%	10.7%	11.2%	11.7%	12.2%	12.7%	13.2%
11.0%	80.3	81.7	83.0	84.4	85.8	87.1	88.5
11.5%	77.2	78.4	79.7	80.9	82.2	83.5	84.7
12.0%	74.3	75.5	76.6	77.8	78.9	80.1	81.3
12.5%	71.7	72.7	73.8	74.9	76.0	77.0	78.1
13.0%	69.3	70.2	71.2	72.2	73.2	74.2	75.2
13.5%	67.0	67.9	68.8	69.8	70.7	71.6	72.5
14.0%	64.9	65.8	66.6	67.5	68.3	69.2	70.0

Source: RBI/Raiffeisen Research estimates

ESG scoring

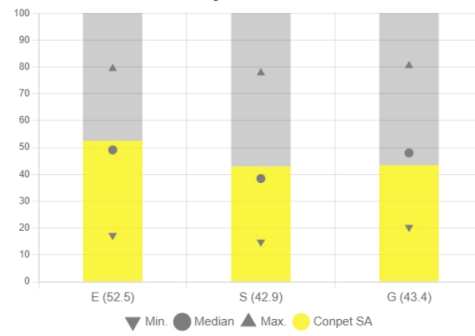
ESG score overall



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

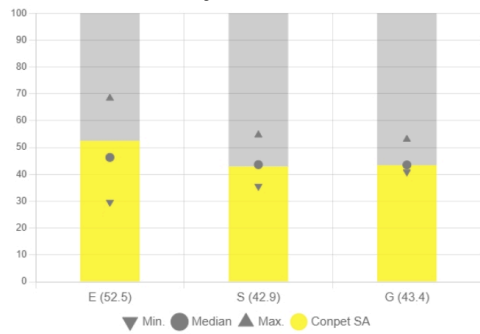
Source: RBI/Raiffeisen Research

ESG score industry



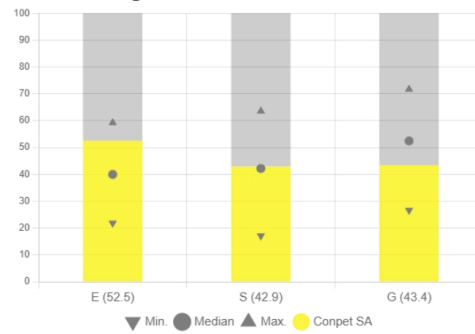
Source: RBI/Raiffeisen Research

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.
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- 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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History of long term recommendations

Symbol	Date	Recommendation	Company
COTE.BX	28.11.2023	Hold	Conpet

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	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
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Hold recommendations	29.8%	28.9%
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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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Raiffeisen Bank International AG Registered Office: Am Stadtpark 9, 1030 Vienna Postal address: 1010 Vienna, Postfach 50 Phone: +43-1-71707-1846 Fax: +43-1-71707-1848

Company Register Number: FN 122119m at the Commercial Court of Vienna VAT Identification Number: UID ATU 57531200 Austrian Data Processing Register: Data processing register number (DVR): 4002771 S.W.I.F.T.-Code: RZBA AT WW

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