

Transelectrica

23 June 2010

Weak outlook

Utilities		Current price*	RON 17.80	Sell	
Romania		Fair value	RON 15.29	Rating downgraded	
Performance over	1M	3M	12M		
Absolute	9%	-10%	33%		
Rel. to BET	4%	3%	22%		
12M Lo/Hi	RON 11.50 / 21.90				
Reuters	TSEL.BX				
Bloomberg	TEL RO				
Market cap	€ 308.7m				
Free float	12.81%				
Next corporate event	Financial statements for 1H10 – 13 Aug. 2010				
	IFRS cons. FY/e 31.12	2009A	2010F	2011F	2012F
Sales (RON m)	2,551.9	2,643.0	2,815.1	3,031.6	
EBITDA (RON m)	355.5	371.3	430.3	477.9	
EBIT (RON m)	98.3	106.7	142.7	171.7	
Net profit (RON m)	18.0	70.7	130.9	112.8	
EPS (RON)	0.2	1.0	1.8	1.5	
DPS (RON)	0.3	0.1	0.4	0.9	
P/E* (x)	72.6	18.4	10.0	11.6	
Yield* (%)	1.7%	0.3%	2.4%	5.0%	
EV/EBITDA*	6.1	6.8	6.1	5.6	

Source: KBC Securities

*Priced at COB 22 June 2010

With a recovery in electricity consumption likely to be offset by weaker exports and lower interconnection revenues at Transelectrica, we have cut our short-term revenue forecasts. We have lowered our EBIT forecast by 27.8% for 2010 and 24.9% for 2011. Also factoring in a more bearish €/RON outlook and consequently lower expected financial gains, our net income forecasts are down 50.5% to RON 70.7m (+294% y/y) for 2010 and 30.0% to RON 130.9m (+85% y/y) for 2011. As a result, despite a lower cost of capital, our fair value estimate is down 4.0% to RON 15.29 per share, implying 14.0% downside. We therefore downgrade the stock to Sell.

Downgraded to Sell

- **Electricity consumption recovery to be moderate:** Despite a 2.6% y/y drop in GDP in 1Q10, electricity consumption in Romania increased 3.0% y/y during the first quarter. The uptick was mainly in the industrial sector which had a particular bad year in 2009, with a -12.4% decrease. We expect the rest of 2010 to show only a moderate recovery (+4.5% y/y) as the economy should be mired in recession for yet another year.
- **External factors hit 1Q10 results...:** Transelectrica reported operating revenues of RON 700.6m during 1Q10, almost unchanged (+0.4% y/y) versus 1Q09. Although the disappointing evolution of Q1 revenues was largely due to lower exports and imports, we believe that the following quarters will prove difficult as well because of a staggered rebound of external activity and a relatively modest increase in transported quantities, expected at +3.0% y/y in 2010.
- **...and we expect exports and trading disappoint:** We expect Romania's electricity exports to drop 19% in 2010. An even larger negative impact from changes in methodology and weak trading activity are forecast to reduce Transelectrica's interconnection revenues by 70% y/y to RON 35m this year, although we expect exports to bounce back 5% in 2011.
- **FX exposure increases earnings volatility:** FX exposure (loans 80% in €, 10% in US\$) and an appreciating local currency boosted earnings by RON 21m in 1Q10 but, with the RON under pressure in recent months, we expect an FX loss of RON 20m in 2Q10. Our full-year forecast factors in a 3% appreciation of the RON vis-à-vis the €, in line with the Bloomberg consensus, which implies an FX gain of RON 7m in 2H10.
- **Dividends not very attractive for now:** In view of our lower earnings forecasts, we expect Transelectrica's dividend yield at only 2.3% next year, as 2010 profits recover from an extremely weak 2009. Thereafter, we expect the dividend yield to improve to 4.9%.
- **Trading at a discount:** On a 2010F P/B of 0.7x and a 2010F EV/EBITDA of 6.8x, Transelectrica trades at discounts to its peers of 62.8% and 21.4% respectively. We see this discount as justified by the company's lower profitability, the regulator's lack of transparency, and the risk that tariff hikes going forward will be implemented with a delay due to social pressures.

Lucian Albuлесcu, CFA

+40 21 408 4219

lucian.albuлесcu@kbcsecurities.ro

Antonela Badea

+40 21 408 4218

antonela.badea@kbcsecurities.ro

Refer to important disclosures, disclaimers and analyst certifications at the end of the body of this research.

Analyst certification: The analysts identified in this report each certify, with respect to the companies or securities that the individual analyses that (i) the views expressed in this publication reflect his or her personal views about the subject companies and securities, and (ii) he or she receives compensation that is based upon various factors, including his or her employer's total revenues, a portion of which are generated by his or her employer's investment banking activities, but not in exchange for expressing the specific recommendation(s) in this report.

This publication has been prepared by KBC Securities N.V. Polish Branch, KBC Securities Hungarian Branch, Patria Finance a.s. (Czech Republic) and KBC Securities Romania SA and is distributed through KBC Securities NV or one of its subsidiaries (together "KBC Securities"). This publication is provided for informational purposes only and is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. No part of this publication may be reproduced in any manner without the prior written consent of KBC Securities. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but neither KBC Securities N.V. Polish Branch Kredyt Bank S.A., KBC Securities Hungarian Branch, Patria Finance a.s., KBC Securities Romania SA, KBC Securities nor its affiliates represent that it is accurate or complete, and it should not be relied upon as such. All opinions, forecasts, and estimates herein reflect our judgement on the date of this publication and are subject to change without notice. From time to time, KBC Securities N.V. Polish Branch Kredyt Bank S.A., KBC Securities Hungarian Branch, Patria Finance a.s., KBC Securities Romania SA or KBC Securities, their principals or employees may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Any such persons may have purchased securities referred to herein for their own account in advance of the release of this publication. KBC Securities N.V. Polish Branch Kredyt Bank S.A., KBC Securities Hungarian Branch, Patria Finance a.s., KBC Securities Romania SA or KBC Securities and their principals or employees may from time to time provide investment banking or consulting services to, or serve as a director of a company being reported on herein. This publication is provided solely for the information and use of professional investors who are expected to make their own investment decisions without undue reliance on this publication. Investors must make their own determination of the appropriateness of an investment in any securities referred to herein based on the merits and risks involved, their own investment strategy and their legal, fiscal and financial position. Past performance is no guarantee for future results. By virtue of this publication, none of KBC Securities N.V. Polish Branch Kredyt Bank S.A., KBC Securities Hungarian Branch, Patria Finance a.s., KBC Securities Romania SA or KBC Securities nor any of their employees shall be responsible for any investment decision. In the United States this publication is being distributed to U.S. Persons by KBC Securities, Inc., which accepts responsibility for its contents. Orders in any securities referred to herein by any U.S. investor should be placed with KBC Securities, Inc. and not with any of its foreign affiliates. This publication is for distribution in or from the United Kingdom only to persons who are authorised persons or exempted persons within the meaning of the Financial Services and Markets Act 2000 of the United Kingdom or any order made thereunder or to investment professionals as defined in Section 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This publication is for distribution in Canada only to pension funds, mutual funds, banks, asset managers and insurance companies. The distribution of this publication in other jurisdictions may be restricted by law, and persons into whose possession this publication comes should inform themselves about, and observe, any such restrictions. In particular this publication may not be sent into or distributed, directly or indirectly, in Japan or to any resident thereof.

Copyright © 2010 KBC Securities