

S.N.T.G.N. Transgaz S.A.

| BVB Symbol | TGN |
|--|----------|
| Closing price (RON) | 205.00 |
| Change since the beginning of the year (RON) | -26.78% |
| Average of price estimates (RON) | 242.40 |
| Capitalization (mil RON, 29.11.2011) | 2,413.64 |

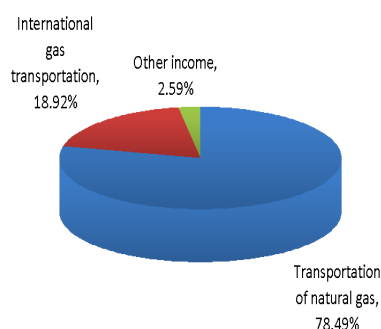
Source: Thomson Reuters

TGN vs. BET-XT (29.11.2010 - 29.11.2011)



- TGN; - BET Source: Tradeville

Income Sources (% 2010)



Source: Transgaz Annual Report, 2010

| | 2008 | 2009 | T4/10* | 2010 | Q3/11* | S-BVB* | | Q1/10* | Q3/11* | S-BVB* |
|------------------|--------|--------|--------|--------|--------|--------|----------------|--------|--------|--------|
| SPS (RON) | 95.07 | 100.85 | 110.15 | 111.52 | 113.62 | 86.32 | TD / TA (%) | 29.61 | 37.05 | 41.06 |
| EBIT/S (RON) | 23.86 | 29.31 | 39.85 | 37.68 | 37.42 | 25.30 | Div./EPS(%) | 40.73 | 90.00 | 90.00 |
| EPS (RON) | 20.30 | 25.36 | 33.42 | 31.97 | 31.94 | 21.37 | Dy(%)*** | 5.54 | 14.17 | 9.39 |
| Nm (%) | 25.10 | 29.07 | 36.18 | 33.79 | 32.93 | 16.88 | P/E | 7.87 | 6.42 | 7.01 |
| x Oper. eff (%) | 34.14 | 34.58 | 25.84 | 34.25 | 23.39 | 47.13 | P/BV | 1.24 | 0.95 | 0.74 |
| ROA (%) | 8.57 | 10.05 | 13.24 | 11.57 | 10.95 | 6.39 | P/S | 2.39 | 1.80 | 0.93 |
| x Fin. eff (%) | 152.11 | 152.07 | 143.00 | 150.86 | 163.73 | 162.13 | Beta | n/a | 0.87 | 0.87 |
| x Fiscal eff (%) | 83.82 | 82.66 | 83.31 | 83.36 | 82.82 | 82.27 | Vol. (σ, 12M) | n/a | 36.62 | 29.00 |
| ROE (%) | 10.92 | 12.64 | 15.78 | 14.55 | 14.85 | 10.61 | Sharpe (12M)** | n/a | 0.31 | 0.21 |

Data Source: Thomson Reuters, Transgaz Annual Report.

In the first nine months of the year, Transgaz achieved approximately 81.8% of the objective set for total income and exceeded by 149.28% the estimated net profit figure, reason why we believe that TGN managers posted rather conservative estimates. **We expect that the company's objectives regarding both total income and profitability ratios to be exceeded for the entire year.**

To calculate the intrinsic value, we took into account the rough international macroeconomic context in the upcoming 3-5 years. This is why we used a sales growth rate of a mere 2% for 2011, 2012, 2014 and 2015 and we assumed that TGN sales will come to a standstill in 2013. Starting from the premise that during the financial crunch of 2008/ 2009 the issuer managed to keep operating margins at reasonable levels, 27% on average, we applied the same percentage for the upcoming 4 years. We considered that TGN will pay 50% of net profit as dividends for 2011 - 2015. By updating estimated dividends, we reached a result of **253 lei/share**.

TGN is traded at a 19% discount set against the intrinsic value estimated by us. Grounded on the ambiguous macroeconomic context, we believe that the investor has to take precautionary measures in the upcoming period, reason why we have applied a higher discount of 30% to the theoretical price. Otherwise said, **we think that TGN deserves investors' attention at the price of Lei 177.**

At the current price and considering a payout ratio of 50% we forecast a **dividend yield of 6.72%**, superior to the 6% key interest rate. If board members keep the 90% payout ratio (less likely if we take into account the company's financing requirement in the upcoming years) than the yield goes up to 12%. Set against the European utilities sector, TGN is undervalued grounded on the P/E multiple and overvalued based on P/BV and P/S.

The Romanian government, majority shareholder in Transgaz, plans to sell 15% stake in the company on the Stock Exchange, 08.12.2011 being the deadline for intermediaries to submit their offers. The management is also planning to lift the share capital by 10-12% in order to back the CAPEX program.

Research Author

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SPS = sales (S) / share;

EBIT/S = operating profit / share;

EPS = net profit (Pr.) / share;

FCF/S = (CFO - CFI) / share;

Pr. = net result — extraordinary result;

Net margin = EBIT / S;

Op eff. = S / Total Asset;

ROA = return on asset;

Fin. eff = $(1 + f / \text{EBIT}) * ((\text{TA} - \text{TD}) / \text{TA})$;

f = financial result

Fiscal eff. = P / Gross profit;

ROE = return for shareholders;

TD / TA (%) = total debts / total asset;

Div./EPS (%) = dividend / net profit;

Dy(%) = dividend yield (price valid on reference date);

P/E = price / net profit per share;

P/BV = price / equity;

P/S = price / sales;

Beta = price sensitivity to market changes;

Vol. (σ , 12M) = annualized daily volatility;

Sharpe (12M) = Sharpe ratio;

* 12-month data was used for the Profit and Loss Statement, the most recent Balance Sheet report and up-to-date reference prices;

** annualized standard deviation of daily returns in the past year (measures the risk associated with the annualized value of the 12M daily average return following the variation of individual daily returns around their average; directly proportional to the risk).

*** dividend yield was calculated considering the dividend paid by the company for the previous year at the share's market price

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