SIF MUNTENIA

-fundamental issues-

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SIF4

- Market price: RON 0.725
- Target price (12 M): RON 0.827
- Recommendation: HOLD
- Short term potential: RON (0.668 – 0.999)
- Market Cap: RON 585,101,473
- NAV (February 2012): RON 1.5595
- Net Assets (February 2012): RON bn 1.26
- EUR/RON: 4.3737 (28th of March)
SIFs resulted from the Romanian privatization process, according to the Law 133/1996;

At the end of 2011 the Parliament approved the increase of the ownership threshold at SIFs from 1% to 5%;

Listed on Bucharest Stock Exchange since 1999, the SIFs are among the most liquid companies on BSE;

SIF4 share capital: RON 80 703 651.5;

Total assets of SIF4 decreased at CAGR 1.1% during the period 2006-2011, from RON mil. 1 401 to RON mil. 1 323;

Net profit of SIF4 decreased at CAGR 1.9% during this period, from RON mil. 72 to RON mil. 65;

Dividend (proposal 2011): RON 0.081 (dividend yield 11%).
Net Asset Value of SIF4 – RON bn 1.26 (February 2012);

SIF4 holds stakes in 207 companies (of which 94 listed);

The listed companies have a weight of 73% in the portfolio structure of SIF4 (the share of unlisted companies is 16%); BRD has a weight of 45% in the structure of listed companies;

At the end of 2011 SIF4 sold the stake in BCR (Banca Comerciala Romana – the leader of the domestic banking sector) to Erste Group (EBS): the transaction involves 2 components: cash and EBS shares;

The cash transaction was closed during December 2011;

For the other component, there was signed an option transaction (sale of BCR shares/contribution to share capital increase at EBS) (to be struck in 2012/2013).
The evolution of NAV (presented on the right hand graph) is dependent mainly on the international macro-financial climate, but also on the portfolio management policy;

During the second half of 2007 the NAV entered a downward trend, as the international macro-financial climate deteriorated in the context of the first wave of the financial crisis;

Starting March 2009 NAV temporarily reversed the trend, as the global macro-financial climate improved, given the expansionary macroeconomic policies implemented in order to answer the first wave of the global crisis;

However, NAV reentered the downward trend during the Spring of 2011, as the second wave of the global crisis hit the global economy.
The right-hand table presents the Income Statement of SIF Muntenia during 2006-2011;

- Operating income increased at CAGR 9.1% during the period 2006-2011, evolution mainly determined by the component “income from disposal of financial assets” (CAGR 11.9%);

- However, operating expenses rose at CAGR 19.7%, given the evolution of the component “depreciation, amortization, provisions, losses form receivables and sundry debtors” (CAGR 25.3%);

- Consequently, operating result was nearly flat during the period (CAGR 0.4%);

- Net profit decreased at CAGR 1.9%.
The right-hand table presents the Balance Sheet of SIF Muntenia during 2006-2011:

- Current assets increased at CAGR 26.3% during the period, mainly given the evolution of the component “cash&equivalents” (CAGR 60.2%);
- Non-current assets decreased at CAGR 3.3%, as financial assets fell CAGR 2.9%;
- Total equity decreased at CAGR 0.8%, as reserves diminished at CAGR 1%.
World economy struggles between two economic cycles, being confronted with several short-run challenges: sovereign debt crisis across developed economies (especially Europe); slow-down of emerging and developing economies (China);

Even though the recent evolution of macroeconomic indicators expresses resilience, the US economy is confronted with high unemployment level, a distressed real estate market and the fiscal consolidation process;

The Euro Area probably entered the second recession since the launch of the global crisis (2007), and despite the recent macroeconomic measures, the debt crisis may intensify at any moment;

In other words, the risks are still high for the global macro-financial outlook over the following quarters.
The following table presents the financial forecasts for the period 2012 – 2016:

The main hypotheses of this scenario:

- Total operating income increases at CAGR 12.4%;
- An average annual profit margin of 50%.

Considering a valuation method similar to DCF (but taking into account the forecasted net profit) and an average annual discount rate of 18.4%, there results a possible 12 M target price of RON 0.802 for SIF4 share.
For the peer group analysis I selected the Romanian SIFs (Financial Investment Companies): SIF1, SIF2, SIF3 and SIF5;

According to PER indicator, SIF4 is overvalued (level of 9, above the average of the selected companies);

On the other hand, SIF4 is undervalued as regards P/BV indicator (level of 0.5, below the average of the companies included in the peer group analysis).
- Portfolio valuation is an important approach for the financial investment companies;

- In what regards the listed companies I took into account the market prices (close, as of the 28th of March);

- I also considered the BCR sale transaction (the cash component and the EBS shares);

- For the other unlisted companies I employed the Multiples approach (PER, P/BV): starting from the results of these companies in 2010 and considering an average PER of 5 and an average P/BV of 1.
- Listed on Bucharest Stock Exchange (BSE) since November 1999, SIF4 is included in the BET-FI Index;

- The evolution of SIF4 share is dependent mainly on the macro-economic climate, either international, or domestic;

- At the same time, special factors, such as the threshold (increased to 5% at the end of 2011) and the transaction with Erste Group (regarding the sale of the stake in BCR) have recently influenced the performance of SIF4 share;

- As can be noticed on the graph, SIF4 share is highly correlated with BET-FI (98.12% coefficient).
The 12 M target price for SIF Muntenia (established by weighting the results of Portfolio valuation, Financial Forecasts valuation and Peer Group Analysis) is RON 0.827;

However, I mention two alternative scenarios:

- In a positive macro-financial climate (especially global, but also domestic), the share price of SIF Muntenia may increase to RON 0.999, with intermediate steps at RON 0.802 and RON 0.827;
- In a negative macro-financial climate (mainly international), the share price of SIF Muntenia may decrease to RON 0.668.

Taking into account the fundamental analysis my recommendation for SIF Muntenia for the short-run (following quarters) is HOLD.
THANK YOU!