

# PROSPECTIUNI H1 2012

*- fundamental issues -*

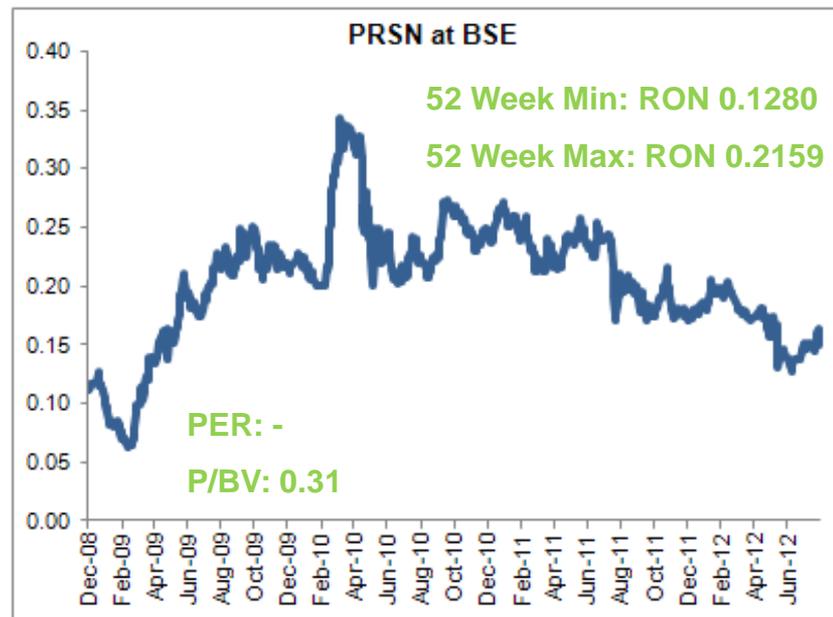
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16<sup>th</sup> of August 2012

# OVERVIEW

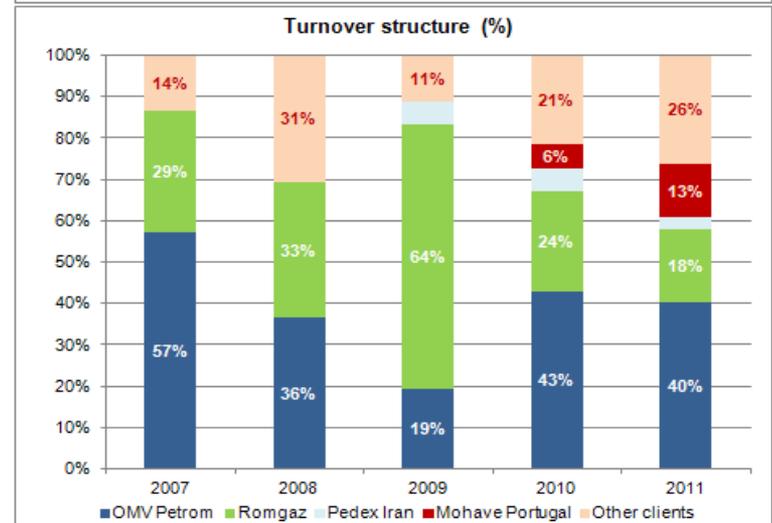
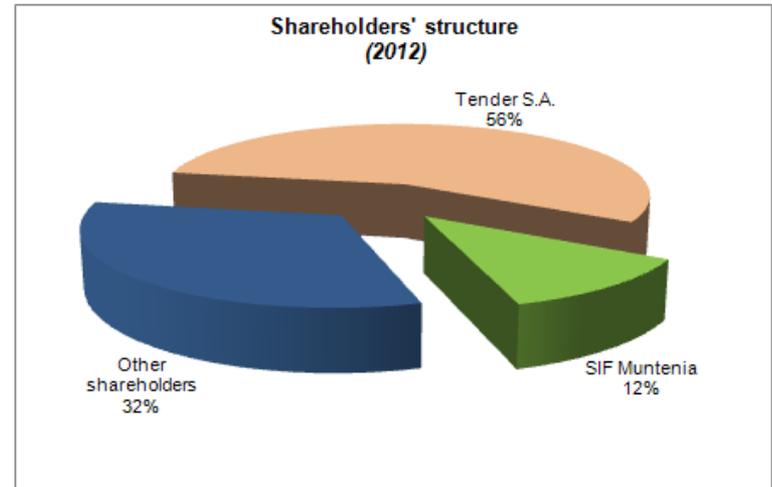
## PRSN

- Market Price: RON 0.1499
- Outstanding shares: 718 048 725
- Market Cap: RON 98 659 895
- 12 M Target Price: RON 0.204
- Recommendation: BUY\*\*
- **\*\* Take into account the foreign macro-financial risks and the domestic macro-financial and political risks (including illiquidity risk)**



# COMPANY PROFILE

- PRSN is the leader of the domestic market of geophysical and geological services (for oil and gas);
- Listed on RASDAQ since 1997, the main shareholder is Tender S.A.;
- The activity of PRSN is highly dependent on the investments of the traditional clients (OMV Petrom, Romgaz) directed to the discovery of new oil and gas resources;
- Over the past years the company implemented an aggressive internationalization policy, in order to diminish the dependence on the domestic clients.



# FINANCIAL RESULTS H1 2012 I

- During H1 2012 the net turnover decreased by 27% y/y, to RON mil. 103; this evolution was negatively influenced by the bad weather (during Q1), but also by the delays on the domestic auctions;
- The operating revenues diminished by 25% y/y, while the operating expenses decreased by only 0.3% y/y;
- Consequently, PRSN had an operating loss of RON mil. 3.5 during H1;
- From financial operations PRSN registered a loss of RON mil. 2.7, as the financial revenues decreased by 35% y/y, while the financial expenses rose by 5% y/y;
- Accordingly, the company had a loss of RON mil. 6.2 during H1 2012.

Quarterly Financial Results (RON, mil.)													
Indicator / period	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Net Turnover	63	57	63	33	28	54	48	68	72	76	99	33	70
Operating Revenues	65	59	71	33	29	57	49	68	73	77	100	34	72
Operating Expenses	45	45	60	32	34	43	55	54	56	69	97	47	62
Operating results	19	14	11	1	-5	14	-6	14	17	7	3	-13	10
Financial result	0	0	0	0	-1	0	0	1	0	-3	-1	-1	-2
Pre-Tax Profit	19	13	11	1	-6	14	-7	15	17	4	2	-14	8
Income Tax	3	2	3	0	0	0	0	3	3	1	2	0	0
Net Profit	16	11	8	1	-6	13	-6	13	15	3	0	-14	8

Source: Financial Reports Prospectiuni

- However, the turnover stabilized during Q2 (a decrease of only 3% y/y, to RON mil. 70.2); the operating revenues decreased by 2% y/y, while the operating expenses increased by 11% y/y;
- Consequently, the operating result diminished by 44% y/y, to RON mil. 9.8;
- PRSN returned to profit during Q2, RON mil. 7.7, a decline of 47% y/y.

# FINANCIAL RESULTS H1 2012 II

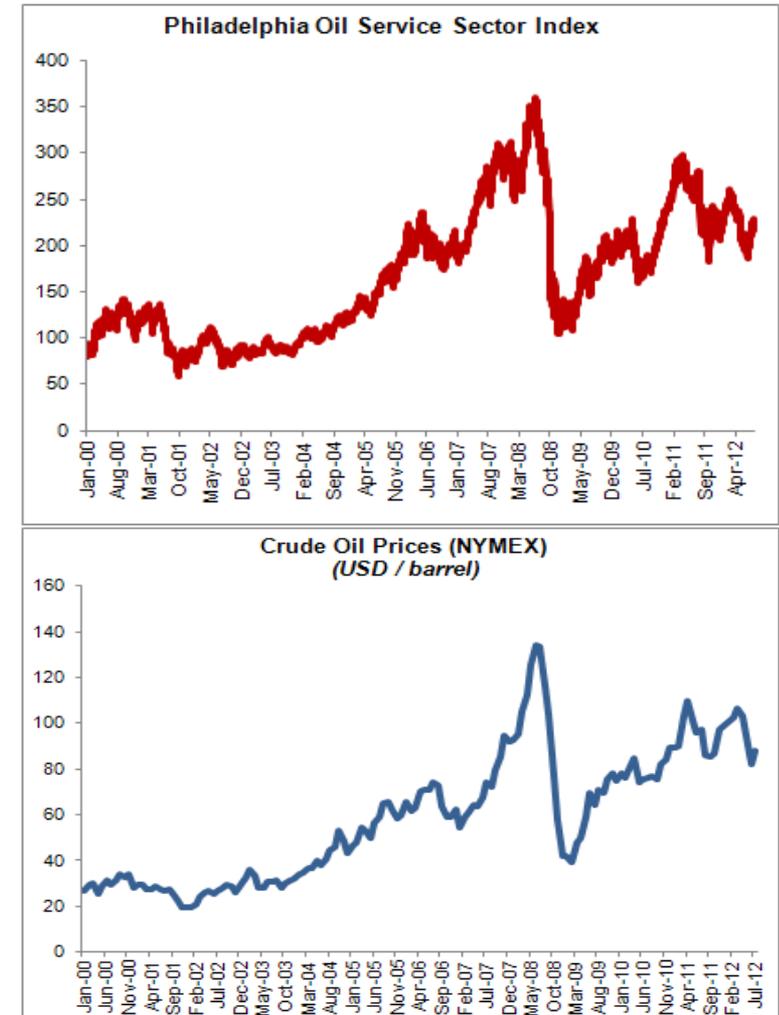
- During H1 the current assets decreased by 5% ytd to RON mil. 150, due to the decline of cash and equivalents by 71% ytd, to RON mil. 7;
- The current liabilities diminished by 4% ytd, to RON mil. 101;
- The non-current assets decreased by 1.5% ytd, to RON mil. 294, due to the decline of the tangible assets by 3% ytd;
- On the other hand, the non-current liabilities increased by 32% ytd, to RON mil. 14;
- The equity decreased by 3% ytd, to RON mil. 322.

Balance Sheet (RON, mil.)							
Indicator / period	H1 09	2009	H1 10	2010	H1 11	2011	H1 12
Inventories	8	8	8	6	9	10	10
Trade receivables	95	87	69	87	116	125	133
Cash and equivalents	14	14	15	8	14	23	7
<b>Total current assets</b>	<b>117</b>	<b>108</b>	<b>92</b>	<b>101</b>	<b>139</b>	<b>158</b>	<b>150</b>
<b>Current liabilities</b>	<b>24</b>	<b>24</b>	<b>48</b>	<b>67</b>	<b>80</b>	<b>106</b>	<b>101</b>
Tangible assets	112	98	109	204	204	222	216
Intangible assets	0	1	1	1	1	1	3
Financial assets	2	47	63	63	63	75	75
<b>Total non-current assets</b>	<b>114</b>	<b>146</b>	<b>173</b>	<b>268</b>	<b>268</b>	<b>298</b>	<b>294</b>
<b>Non-current liabilities</b>	<b>5</b>	<b>2</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>11</b>	<b>14</b>
<b>Equity</b>	<b>202</b>	<b>221</b>	<b>215</b>	<b>300</b>	<b>328</b>	<b>333</b>	<b>322</b>

Source: Financial Reports Prospecțiuni

# SECTOR OVERVIEW

- The oilfield services represent a cyclical sector of the economy, highly dependent on the evolution of the international crude oil prices;
- The Philadelphia Oil Service Index represents a relevant indicator for the evolution this sector; the downward trend of this Index over the past quarters expresses slowdown perspectives for this sector on the short-term;
- However, the long-run perspectives for the evolution of the oilfield services are positive, given the following factors: the tight global demand for/supply of oil and gas; the high utilization rate and the currently explored fields.



# PEER-GROUP ANALYSIS

- For the peer-group analysis I selected listed companies with activities in the oilfield services sector;
- The net result of PRSN over the past 4 quarters was negative, consequently the PER comparison cannot be applied;
- However, the company is undervalued in terms of P/BV indicator (level of 0.3, lower than the average of the selected companies (2.2));
- PRSN is also undervalued in terms of P/Sales indicator, with a level of 0.4, below the average of the companies included in the peer-group analysis (1.9).

Peer-Group Analysis Company / Indicator	PER	P/BV	P/Sales
Schlumberger (U.S.A.)	18.49	2.99	2.35
Baker Hughes (U.S.A.)	11.28	1.25	0.98
Halliburton (U.S.A.)	10.20	2.20	1.16
Weatherford (U.S.A.)	20.81	0.95	0.65
ION Geophysical Corp (U.S.A.)	29.83	2.80	2.40
TGS - Nopec Geophysical Co (No)	14.00	2.97	4.06
<b>Average</b>	<b>17.4</b>	<b>2.2</b>	<b>1.9</b>
<b>Prospectiuni S.A.</b>	<b>-</b>	<b>0.3</b>	<b>0.4</b>

Source: Reuters, Financial Reports, August 2012

# DCF VALUATION

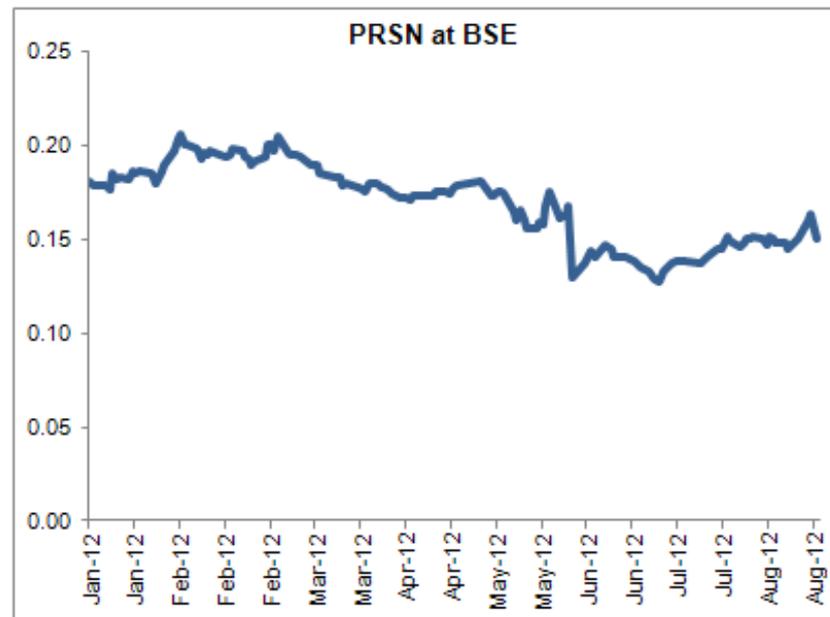
- The table on the right presents a central scenario of financial forecasting for the period 2012-2016;
- The main hypotheses of the scenario:
  - A 20% y/y decline of the turnover in 2012; an increase of this indicator at CAGR 8.7% afterwards;
  - An average annual EBIT margin of 11%;
  - A decline of the discount factor from 28.1% in 2012 to 20.5% in 2016;
  - By employing the DCF valuation method there resulted a possible 12 M target price of RON 0.175.

DCF Valuation (RON, mil.)					
Indicator / year	2012	2013	2014	2015	2016
Turnover	252	265	305	335	352
EBIT	13	33	38	51	35
EBIT (1-t)	11	28	32	43	30
Capex-amortisation	0	3	-4	-8	2
Δ Working Capital	-7	-6	2	1	2
<b>FCFF</b>	<b>18</b>	<b>32</b>	<b>34</b>	<b>50</b>	<b>27</b>

- Compared to the previous analysis I incorporated the financial results during H1 2012 (the Balance Sheet and the Income Statement);
- The evolution of the Income Statement during H1 2012 was in line with the core forecasting scenario of the analysis elaborated in July;
- According to the H1 Financial Report the company is going to operate at full capacity during H2; in this context I expect a good financial performance during H2 and I maintain the forecasting scenario.

# STOCK-EXCHANGE EVOLUTION

- From the analysis elaborated in July the PRSN share increased almost 19% on Bucharest Stock Exchange, to the highest level since the beginning of June (RON 0.1635);
- This evolution confirmed the BUY\*\* recommendation issued on the 11<sup>th</sup> of July, the PRSN share converging during the period towards the 12M target price of 0.21 RON;
- However, the share decreased on the 16<sup>th</sup> of August, after the company reported the H1 results.



# CONCLUSIONS

- Given the medium-long term high potential of the company (in the context of the high volume of investments for the internationalization and diversification of the activities, but also of the dominant position on the domestic market), and the undervaluation according to the peer-group analysis I issue a BUY\*\* recommendation for the PRSN shares; despite the poor financial performance during H1, the company returned to profit during Q2 and I expect a better evolution during Q3 and Q4; at the same time, the internationalization efforts will determine an improvement of the EBIT margin during the period 2013-2016;
- ***However, on the short – run the investors should take into account the persistence of the global macro-financial risks (the sovereign debt crisis in the Euro Area, the economic slowdown in United States and China), but also the high domestic political risk; these risk factors may impact the performance and the liquidity of PRSN share on Bucharest Stock Exchange;***
- The 12 M target price for PRSN share is RON 0.204 (upside potential of 36%); the target price was determined by weighting the results of the DCF valuation and peer-group analysis.

**THANK YOU!**