

SIF MOLDOVA

- fundamental issues -

Ph. D. Andrei RĂDULESCU

Senior Investment Analyst

10th of September 2012

OVERVIEW

SIF2

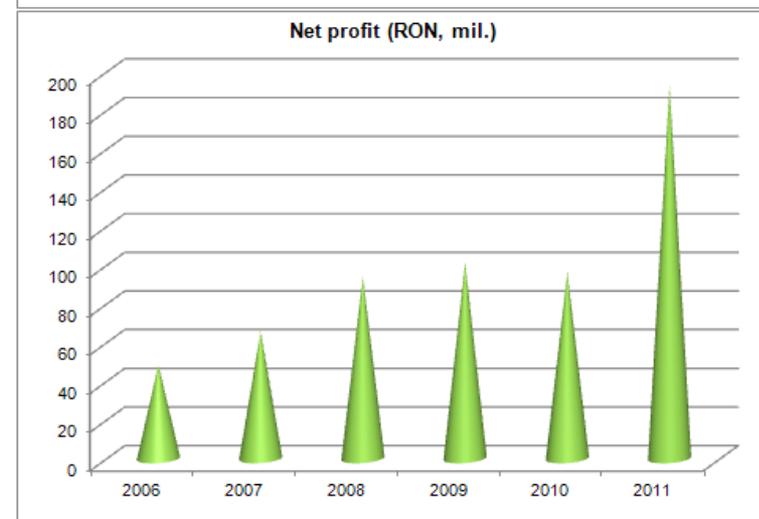
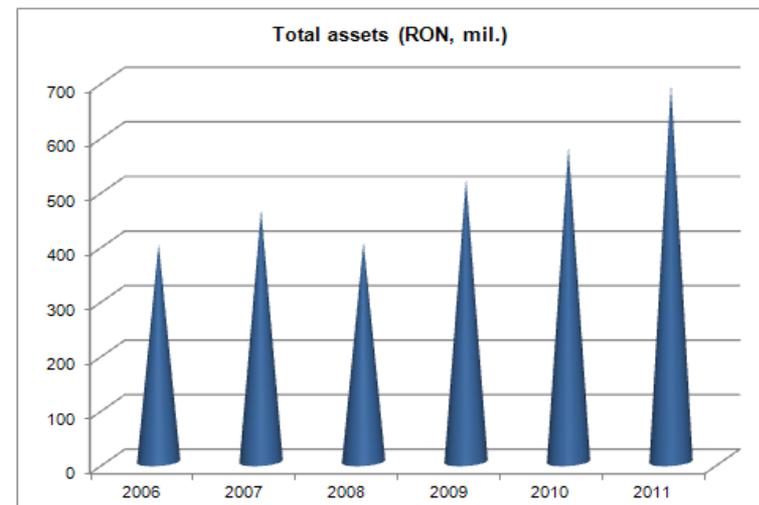
- Market price: RON 1.394
- Target price (12 M): RON 1.696
- Recommendation: BUY**
- Market Cap: RON 723 610 886
- NAV (July 2012): RON 1.9143
- Net Assets (July 2012): RON bn 0.99
- EUR/RON: 4.4792 (10th of September)
- **** Pay attention to the risk factors (foreign and domestic)**

SIF2 at BSE



COMPANY PROFILE I

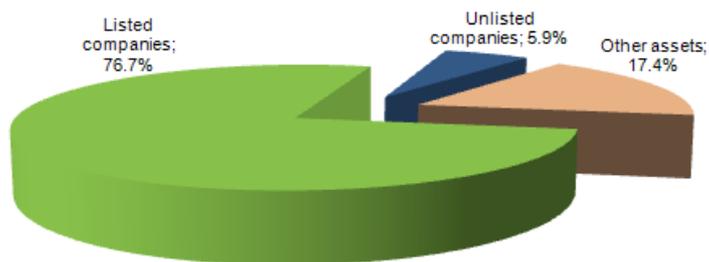
- SIFs resulted from the Romanian privatization process, according to the Law 133/1996;
- At the end of 2011 the Parliament approved the increase of the ownership threshold at SIFs from 1% to 5%;
- Listed on Bucharest Stock Exchange since 1999, the SIFs are among the most liquid companies on BSE;
- SIF2 share capital: RON 51 908 958.8;
- Total assets of SIF2 increased at CAGR 11.6% during the period 2006-2011, from RON mil. 399 to RON mil. 691;
- Net profit of SIF2 increased at CAGR 31.9% during this period, from RON mil. 48 to RON mil. 193.



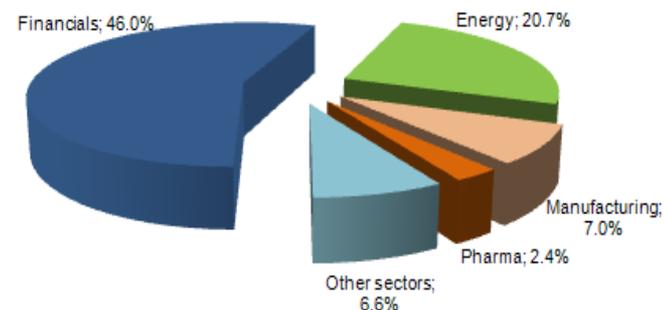
COMPANY PROFILE II

- Net Asset Value of SIF2 – RON bn 0.99 (July 2012);
- SIF2 holds stakes in 199 companies (of which 104 listed);
- The listed companies have a weight of almost 77% in the portfolio structure of SIF2;
- At the end of 2011 SIF2 sold the stake in BCR (Banca Comerciala Romana – the leader of the domestic banking sector) to Erste Group (EBS), in a two-component transaction: cash and EBS shares;
- The cash transaction was closed during December 2011 (RON mil. 123.6);
- SIF2 also sold the remaining shares in BCR and received 4.26 mil. shares in EBS and signed an option sale transaction of these shares (to be struck in 2012/2013).

Portfolio structure
(July 2012)

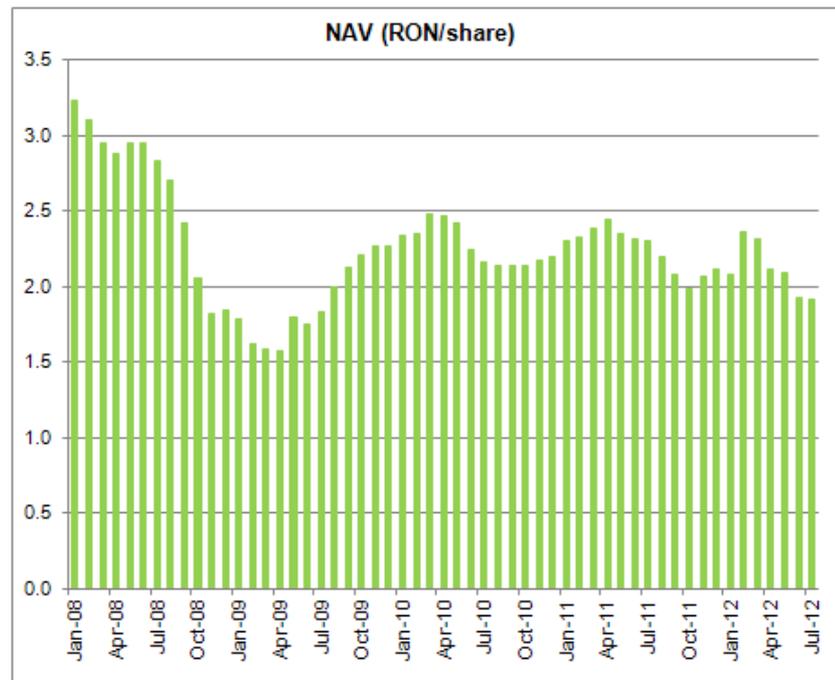


Portfolio structure (equity)
(July 2012)



COMPANY PROFILE III

- 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 2010, as the second wave of the global crisis hit the global economy.



FINANCIALS H1 2012 I

- During H1 the operating income rose by 177% y/y, to RON mil. 207.2, mainly due to the evolution of the income from disposal of financial assets (up 261% y/y);
- The operating expenses increased by 60% y/y, to RON mil. 63.1, as the expenses with disposal of financial assets rose by 74% y/y, while the other operating expenses increased by 63% y/y;
- Consequently, the operating result rose by 307% y/y, to RON mil. 144.2;
- The net profit increased by 284% y/y, to RON mil. 128.8.

Income Statement (RON, mil.)						
Indicator / period	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Total operating income	29.6	45.2	59.8	202.4	42.3	164.9
Income from non-current financial assets	0.0	16.4	0.0	1.6	0.1	23.9
Income from disposal of financial assets	27.8	12.4	57.5	147.1	37.9	107.0
Income from current financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Income from reversal of provisions, reactivated receivables and sundry debtors	0.2	9.5	0.3	5.8	1.0	24.8
Other operating income	1.6	6.9	1.9	47.9	3.4	9.2
Total operating expenses	17.2	22.1	14.2	51.4	11.8	51.3
Expenses with disposal of financial assets	12.1	8.3	8.2	4.8	6.2	29.4
Fees and commissions expenses	0.6	0.6	1.2	2.1	0.7	1.0
Depreciation, amortization, provisions, losses from receivables and sundry debtors	0.3	2.6	1.0	40.4	0.4	1.2
Other operating expenses	4.2	10.7	3.8	4.2	4.5	19.7
Operating result	12.4	23.0	45.6	151.0	30.6	113.6
Gross profit	12.4	23.0	45.6	151.0	30.6	113.6
Income tax	1.9	0.0	7.5	29.7	4.6	10.7
Net profit	10.5	23.1	38.0	121.3	25.9	102.9

Source: Financial Reports, SIF Moldova

FINANCIALS H1 2012 II

- The current assets rose by 24% ytd, to RON mil. 172.7, due to the evolution of receivables (up 22% ytd, to RON mil. 159.1) (the receivables include the value of short-term deposits (RON mil. 149) and their interests);
- The current liabilities increased by 124% ytd, to RON mil. 128.1;
- The non-current assets rose by 4% ytd, to RON mil. 573.9, given the evolution of the financial assets (up 4% ytd);
- The equity rose by 0.1% ytd, as the increase of the retained earnings & result for the period (up 5% ytd) was counterbalanced by the decrease of the reserves (by 6% ytd).

Balance Sheet (RON, mil.)						
Indicator / period	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
Inventories	0.0	0.0	0.0	0.0	0.0	0.0
Receivables	59.3	66.4	72.4	130.7	102.3	159.1
Cash&Equivalents	14.0	12.1	8.2	8.7	14.0	13.5
Current assets	73.3	78.6	80.6	139.4	116.3	172.7
Payables to credit institutions	0.0	0.0	0.0	0.0	0.0	0.0
Other current liabilities	19.8	58.0	40.8	57.3	29.7	128.1
Total current liabilities	19.8	58.0	40.8	57.3	29.7	128.1
Tangible assets	15.7	15.5	15.3	15.1	14.9	15.0
Intangible assets	0.9	1.0	1.1	1.3	1.2	1.2
Financial assets	520.8	502.1	481.0	535.1	594.7	557.8
Total non-current assets	537.3	518.5	497.3	551.5	610.9	573.9
Payables to credit institutions	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total non-current liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Share capital	51.9	51.9	51.9	51.9	51.9	51.9
Reserves	357.9	337.2	294.8	248.9	287.6	235.1
Retained earnings&Result for the period	129.1	105.3	143.3	265.3	291.3	279.8
Total equity	539.0	494.4	490.0	566.2	630.8	566.8

Source: Financial Reports, SIF Moldova

GLOBAL MARKETS OUTLOOK

- The world economy entered the 6th year of the Great Recession – the worst financial and economic crisis since the end of the WW II;
- Struggling between two economic cycles, the world economy is confronted with several short-run challenges: the sovereign debt crisis in Europe, the fiscal cliff in the United States, the slow-down of the emerging and developing economies;
- In this context, the main central banks around the world stand ready to implement new expansionary monetary policies;
- However, a sustainable upward trend on the financial markets is dependent on the relaunch of the investments in the real economy around the world.

MSCI World Index



Baltic Dry Index



PEER GROUP ANALYSIS

- For the peer group analysis I selected the Romanian SIFs (Financial Investment Companies): SIF1, SIF3, SIF4 and SIF5;
- According to PER indicator, SIF2 is undervalued (level of 2.51, below the average of the selected companies);
- On the other hand, SIF2 is overvalued as regards P/BV indicator (level of 1.28, above the average of the companies included in the peer group analysis).

Peer Group Valuation Company / Indicator	PER	P/BV
SIF 1	4.35	0.78
SIF 3	2.71	0.91
SIF 4	5.50	0.53
SIF 5	7.56	1.28
Average	5.03	0.88
SIF 2	2.51	1.28

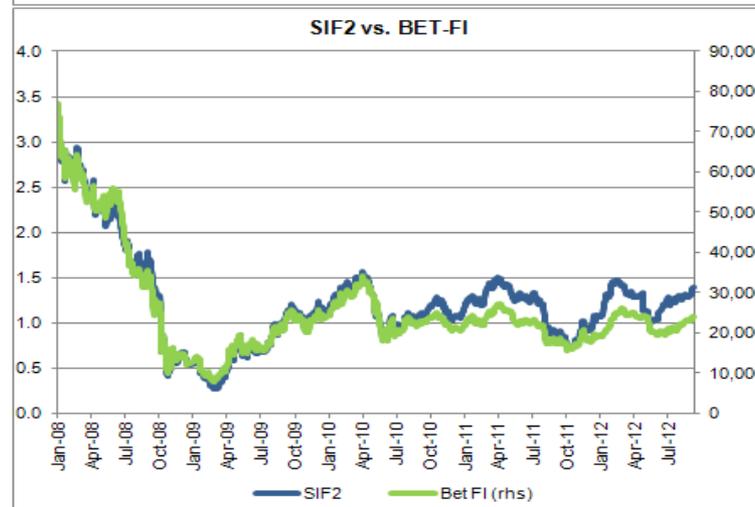
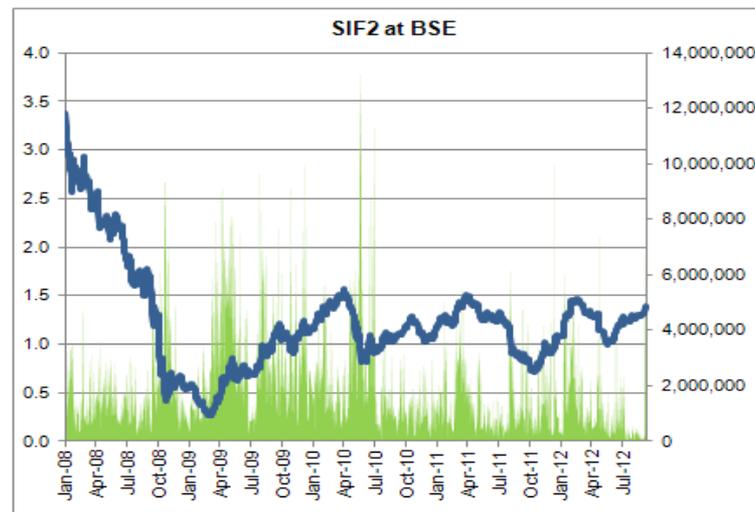
Source: BSE, Financial Reports

PORTFOLIO VALUATION

- 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 10th of September);
- For the other unlisted companies I employed the Multiples approach (PER, P/BV): starting from the results of these companies in 2011 and considering an average PER of 5 and an average P/BV of 1.

STOCK EXCHANGE EVOLUTION

- Listed on Bucharest Stock Exchange (BSE) since November 1999, SIF2 is included in the BET-FI Index;
- The evolution of SIF2 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 SIF2 share;
- As can be noticed on the graph, SIF2 share is highly correlated with BET-FI (97.3% coefficient during the period 2008-2012).



FINAL REMARKS

- Given the evolution of the financial results during the H1 2012 and the undervaluation of the company according to the fundamental analysis I issue a BUY** recommendation for the following 12 months for the SIF2 share;
- The 12 M target price for SIF Moldova (established by weighting the results of Portfolio valuation and Peer Group Analysis) is RON 1.696;
- ***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.***

THANK YOU!