

PROSPECTIUNI Q1-3 2012

- fundamental issues -

Ph. D. Andrei RĂDULESCU

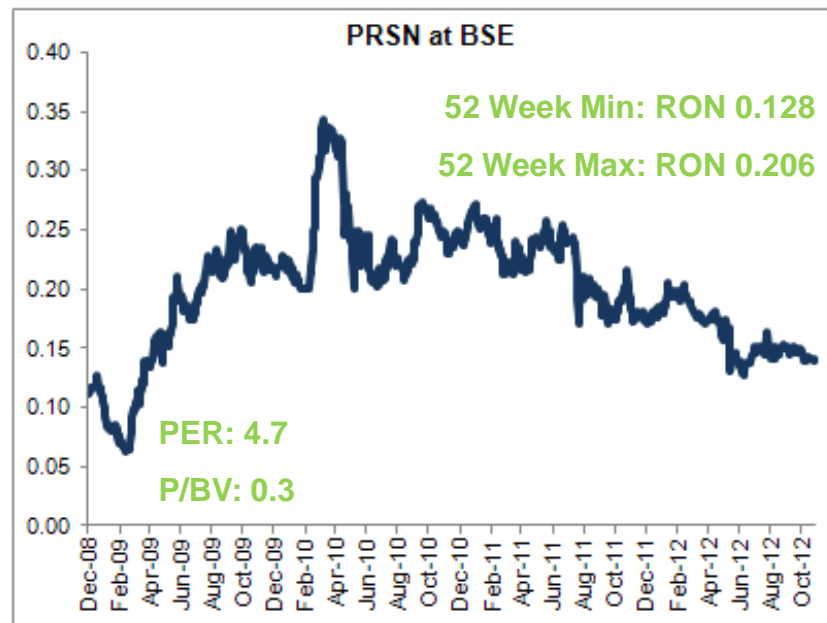
Senior Investment Analyst

14th of November 2012

OVERVIEW

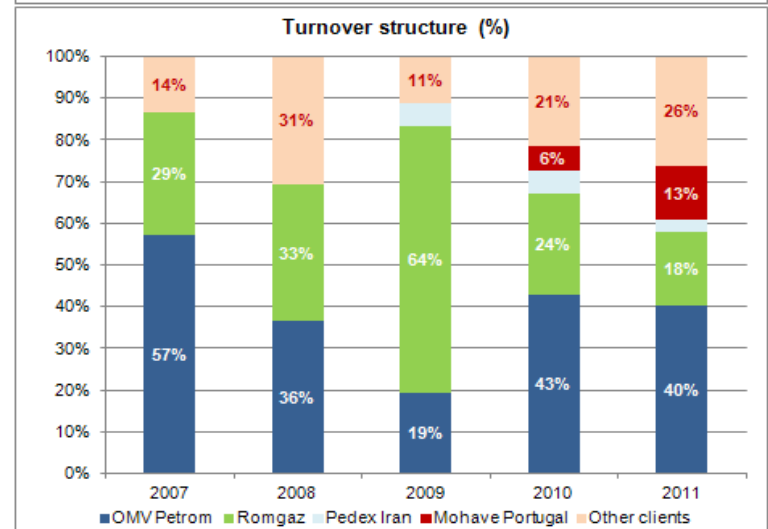
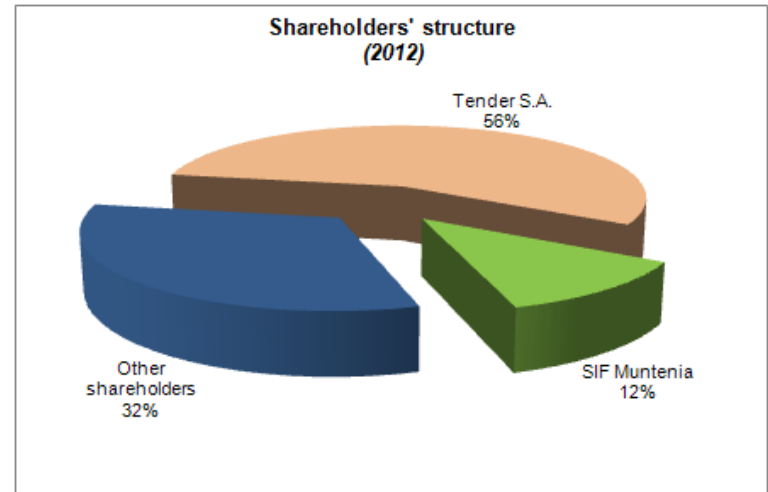
PRSN

- Market Price: RON 0.141
- Outstanding shares: 718 048 725
- Market Cap: RON 101 244 870
- 12 M Target Price: RON 0.218
- 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;
- In October, the shareholders approved an investment loan (EUR mil. 6.5 from Eximbank) and the opening of a branch in the Republic of Mauritius.



FINANCIAL RESULTS Q1-3 2012

- During Q1-3 2012 the net turnover decreased by 1.6% y/y, to RON mil. 212.5; 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 0.4% y/y, while the operating expenses rose by 5.4% y/y;
- Consequently, the operating result decreased by 26.4% y/y, to RON mil. 29;
- From the financial operations PRSN registered a loss of RON mil. 3.6, as the financial revenues decreased by 4.6% y/y, while the financial expenses rose by 3.5% y/y;
- The company had a net profit for the period of RON mil. 21.1, down by 31.3% y/y.

Quarterly Financial Results (RON, mil.)

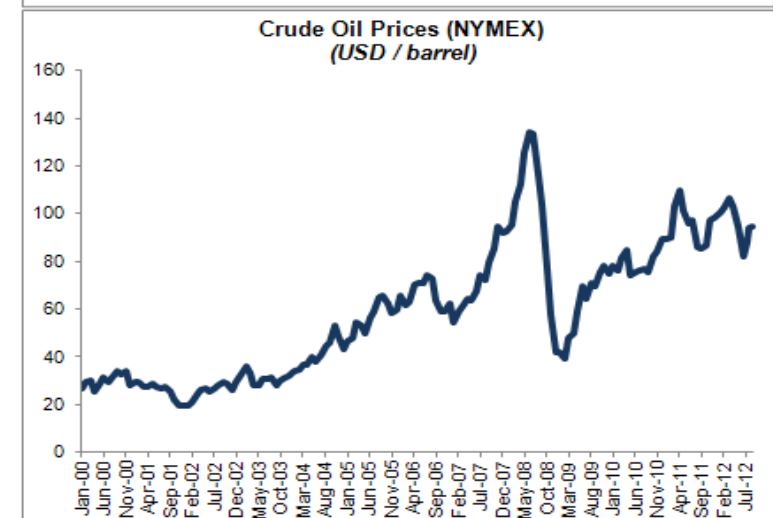
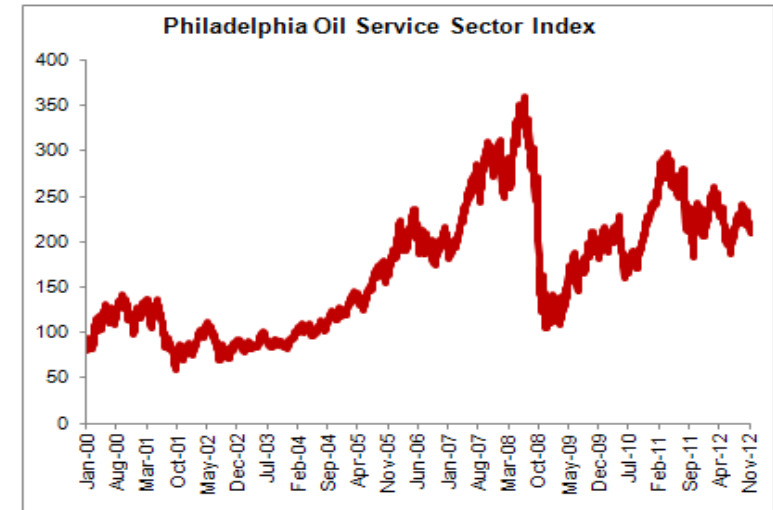
Indicator / period	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12
Net Turnover	54	48	68	72	76	99	33	70	110
Operating Revenues	57	49	68	73	77	100	34	72	112
Operating Expenses	43	55	54	56	69	97	47	62	79
Operating results	14	-6	14	17	7	3	-13	10	32
Financial result	0	0	1	0	-3	-1	-1	-2	-1
Pre-Tax Profit	14	-7	15	17	4	2	-14	8	31
Income Tax	0	0	3	3	1	2	0	0	4
Net Profit	13	-6	13	15	3	0	-14	8	27

Source: Financial Reports Prospectiuni

- However, I underline the positive evolution of the financial results during Q3: the turnover increased by 44% y/y, to RON mil. 109.6, while the operating expenses rose by 14% y/y, to RON mil. 79.1;
- Consequently, the operating result increased by 337% y/y, to RON mil. 32.4;
- PRSN had a net profit of RON mil. 27.3 during Q3, up 702% y/y.

SECTOR OVERVIEW

- The oilfield services represent a cyclical sector of the economy, highly dependent on the evolution of the international crude oil prices;
- The evolution of the international crude oil prices mainly depend on the global macro-financial climate (current situation and perspectives);
- 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;
- PRSN is undervalued in terms of the PER indicator, with a level of 4.7, below the average of the companies included in the analysis (16.0);
- The company is undervalued as regards the P/BV indicator (level of 0.3, lower than the average of the selected companies (2.1));
- PRSN is also undervalued in terms of P/Sales indicator, with a level of 0.3, below the average of the companies included in the peer-group analysis (2.0).

Peer-Group Analysis Company / Indicator	PER	P/BV	P/Sales
Schlumberger (U.S.A.)	16.9	2.7	2.2
Baker Hughes (U.S.A.)	12.8	1.1	0.8
Halliburton (U.S.A.)	9.7	1.9	1.0
ION Geophysical Corp (U.S.A.)	19.9	2.1	1.8
TGS - Nopec Geophysical Co (No)	13.0	2.9	3.9
Petroleum Geo-Services (No)	23.8	1.9	2.4
Average	16.0	2.1	2.0
Prospectiuni (Ro)	4.7	0.3	0.3

Source: Reuters, Financial Reports, November 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 stagnation of the turnover y/y during 2012; an increase of this indicator at CAGR 2.8% afterwards;
 - An average annual EBIT margin of 12%;
 - A decline of the discount factor from 27.9% in 2012 to 20.4% in 2016;
 - By employing the DCF valuation method there resulted a possible 12 M target price of RON 0.191.

DCF Valuation (RON, mil.)					
Indicator / year	2012	2013	2014	2015	2016
Turnover	315	265	305	335	352
EBIT	32	33	38	51	35
EBIT (1-t)	27	28	32	43	30
Capex-amortisation	0	3	-4	-8	2
Δ Working Capital	10	-23	2	1	2
FCFF	17	49	34	50	27

- Compared to the previous analysis I incorporated the financial results during Q1-3 2012 and I increased the 2012 forecasts regarding the evolution of the turnover (to RON mil. 315) and of the EBIT margin (to 10%); this decision was based on the evolution of the financial results during Q3 and on the fact that the company is going to operate at full capacity during Q4 (as mentioned in the Q3 Financial Report of PRSN).

CONCLUSIONS

- Given the medium-long term high potential of the company (in the context of the high volume of investments for the internationalisation 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 maintain the BUY** recommendation for the PRSN shares; the company reported very good results during Q3 and the perspectives are favourable for the final quarter of the year; at the same time, the internationalisation efforts will determine an improvement of the EBIT margin during the period 2013-2016;
- The 12 M target price for the PRSN share is RON 0.218 (upside potential of 54%); the target price was determined by weighting the results of the DCF valuation and the peer-group analysis;
- ***However, on the short – run the investors should take into account the persistence of the global macro-financial risks (the fiscal cliff in the United States, the sovereign debt crisis in the Euro Area), but also the domestic macro-financial and political risks; these factors may impact the performance and the liquidity of PRSN share on Bucharest Stock Exchange.***

THANK YOU!