

C.N.T.E.E. Transelectrica (TEL)

HOLD

Flash Note – Q3 Results

Price Target: 35.9 RON (-8.2%)

Higher net profit, sanctions from ASF

- **Transelectrica reported a net profit of 410 million RON for the first nine months, up by 98.7% compared to last year's period and exceeding our estimate of 343 million RON.** The growth was driven by improved revenues from the transport service (+3.8%), due to increased energy billed (+2.3%), higher revenues from CPT capitalization, and some one-off revenues.
- **Revenues from the for-profit segment increased by 16% compared to the same period last year, reaching 1,745 million RON.** Of this, regulated tariff revenues were 1,200 million RON, up by 5.5%, supported by the increase in the amount of electricity billed to 38.32 TWh, compared to 37.44 TWh (+2.3%) last year, and a higher tariff approved by ANRE (+3.1%).
- **Revenues from interconnection capacity allocation decreased by 25.8%, from 255 million RON in 2023 to 189 million RON,** a volatile revenue segment influenced primarily by the demand for interconnection capacity, which fluctuates based on energy prices on European exchanges.
- **On November 18, Transelectrica notified investors about receiving a sanction (warning) from the Financial Supervisory Authority (ASF) regarding the capitalization method of additional CPT expenses in intangible assets.** ASF stated that the recognition of the additional CPT cost did not comply with IFRS standards and requested a restatement of the consolidated financial statements for the 2024 financial year. As a reminder, starting September 30, 2022, Transelectrica capitalized every quarter the additional costs related to electricity procurement to cover CPT, above the costs included in regulated tariffs, amortizing these over five years in line with the existing regulations (Emergency Ordinance 119/2022). The net book value of intangible assets resulting from the capitalization of additional CPT is 265.1 million RON, with a gross value of 401.5 million RON and related amortization of 136.4 million RON for the entire 2022-2024 period. Besides the downward adjustment of intangible assets, the relevant impact will be 72.5 million RON lower annual amortization expenses starting from 2024.
- **Consequently, we adjusted the level of amortization expenses downward in our DCF model by this amount for the entire forecast period.** The target price is thus revised from 44.2 RON/share to 35.9 RON/share (-18.8%), while the estimated tariff for this period is adjusted downwards by an average of 3.7%.

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Sector: Utilities

Shares information

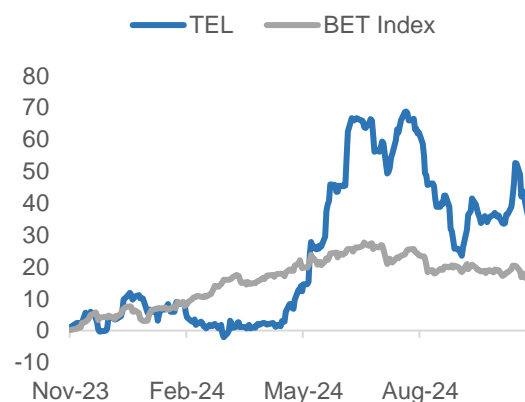
Min/max price, 52 weeks.	28.0 – 49.65
Dividend/share	0.28
Total Shares* (mln.)	73.303
Capitalization (mln. RON)	2.928.460
52 weeks liquidity (mln. RON)	144.098

Major Shareholders

	%
Romanian Gov.	58,68
Institutional	34,5
Retail	6,8

1-year performance vs BET

	%
TEL	35.8
Vs BET Index	15.7



source: Bloomberg

9M Results Overview

On the expenses side, personnel expenses marked an increase of 17.8%, from 242.5 million RON to 285.6 million RON, while depreciation expenses rose by 4.5% to 263 million RON. Depreciation costs also included expenses related to additional CPT depreciation, amounting to 54.4 million RON (compared to 50.7 million previously). Total operational expenses increased by 12.0%, reaching 1,321 million RON, influenced by an 8.0% rise in system operation expenses.

EBITDA grew by 20.0%, to 687 million RON, compared to 573 million in the same period of the previous year, although the EBITDA margin dropped to 11.1% (vs. 17.3%). The company's net profit nearly doubled, from 206.5 million RON in 2023 to 410.4 million RON in the first nine months of this year, also influenced by a fourfold increase in net financial results, reaching 16.5 million RON.

(RON 000, individual statements)	30-Sep-23	30-Sep-24	%
Total Revenue	3.308.305	6.170.561	86,5%
Transport Services	1.438.903	1.493.477	3,8%
System Services	291.901	474.185	62,4%
Balancing Market	1.532.048	4.012.865	161,9%
Other income	45.454	190.034	318,1%
Total Operating Expenses	(3.077.640)	(5.739.018)	86,5%
System Operation	(469.570)	(508.435)	8,3%
Balancing Market	(1.531.820)	(4.011.906)	161,9%
Technological System Services	(362.649)	(406.028)	12,0%
Depreciation	(252.047)	(263.310)	4,5%
Personnel Expenses	(242.558)	(285.650)	17,8%
Repairs and Maintenance	(72.491)	(84.431)	16,5%
Materials Expenses	(5.909)	(5.250)	-11,1%
Other Operating Expenses	(140.597)	(174.008)	23,8%
Operating Profit	230.665	431.543	87,1%
Financial Revenue	31.974	22.803	-28,7%
Financial Expenses	(28.641)	(6.342)	-77,9%
Net Financial Result	3.332	16.461	394,0%
Profit Before Tax	233.997	448.004	91,5%
Income Tax	(27.467)	(37.591)	36,9%
Net Profit	206.530	410.413	98,7%

source: TEL, own estimates

Net domestic electricity consumption in the first nine months of the year was 39.1 TWh, 2.6% higher than the same period last year. Imports increased to 6.4 TWh (+88%), while exports totaled 5.1 TWh (-17.7%).

Starting in April, Romania faced an electricity deficit and had to import energy due to low hydropower availability and lower-than-expected production, with the Cernavodă nuclear power plant experiencing multiple planned and unplanned shutdowns of Reactor 1.

DCF Valuation

We value the company at 35.9 RON per share based on the DCF method (-8.2% upside), where the main difference compared to our previous estimate stems from lower depreciation expense. Other assumptions in our model include:

- Weighted Average Cost of Capital (WACC) of 13.8%, calculated using a cost of equity of 13.9% and a cost of debt of 6.9%;
- Levered Beta of 0.81, estimated through linear regression against the BET index;
- Market Risk Premium of 8.2%, representing the historical total return of the BET index over the 10-year government bond yield of 7.2%;
- Terminal Value estimated using the Gordon Growth model, with a terminal growth rate of 3.0%, aligned with the long-term inflation rate.

(RON mln, consolidated)	Reported 31-Dec-21	Reported 31-Dec-22	Reported 31-Dec-23	Estimated 31-Dec-24	Estimated 31-Dec-25	Estimated 31-Dec-26	Estimated 31-Dec-27	Estimated 31-Dec-28
Total Revenues	3.784	6.307	4.725	7.139	4.359	4.355	4.468	4.496
% chg	58,1%	66,7%	-25,1%	51,1%	-38,9%	-0,1%	2,6%	0,6%
Revenues (for profit segment)	1.338	2.295	2.065	2.229	2.088	2.146	2.187	2.281
% chg	21,3%	71,5%	-10,0%	8,0%	8,0%	8,0%	8,0%	8,0%
EBITDA	379	982	792	1.019	1.045	1.054	1.096	1.086
EBITDA M	10,0%	15,6%	16,8%	14,3%	24,0%	24,2%	24,5%	24,1%
EBIT	11	604	241	518	514	537	547	550
EBIT M	0,3%	9,6%	5,1%	7,3%	11,8%	12,3%	12,2%	12,2%
Tax Rate	42,3%	12,4%	8,9%	6,5%	10,0%	10,0%	16,0%	16,0%
EBIT*(1- Tax Rate)	7	529	220	484	463	483	460	462
D&A	284	281	340	282	289	292	299	303
WCC	-4	-16	66	-65	-40	-40	-41	-41
CAPEX	-495	-466	-439	-511	-480	-479	-491	-495
FCFF	-209	328	187	189	232	256	227	230
discount factor				0,88	0,77	0,68	0,60	0,53
NPV FCFF				166	179	174	136	121
PV FCFF	776							
PV Terminal Value	1.376							
Terminal growth	3,0%							
Firm Value	2.152							
Net Debt	-480							
Equity Value	2.632							
No. shares	73							
Price/share	35,91							
Market Price	39,10							
Upside/Downside	-8,16%							

source: TEL, own estimates

Financial Statements

(RON M, consolidated)	Raported 2020	Raported 2021	Raported 2022	Raported 2023	Estimated 2024e	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e
Total Revenue	2.393	3.784	6.307	4.725	7.139	4.359	4.355	4.468	4.496
Transport Services	1.035	1.252	1.885	1.956	1.910	1.993	2.013	2.103	2.140
System Services	795	624	534	391	569	575	579	577	578
Balancing Market	495	1.823	3.479	2.269	4.481	1.639	1.589	1.609	1.598
Other Revenue	68	85	410	109	178	153	174	179	180
System Operation Expenses	-310	-576	-902	-640	-503	-493	-481	-486	-483
Balancing Market Expenses	-495	-1.810	-3.480	-2.269	-4.481	-1.639	-1.589	-1.609	-1.598
Technological System Services Exp	-566	-610	-467	-499	-569	-575	-579	-577	-578
Gross Result	1.022	788	1.459	1.316	1.585	1.653	1.707	1.796	1.837
Personnel Expenses	-339	-318	-386	-447	-483	-522	-564	-609	-657
Repairs and Maintenance	-76	-60	-51	-55	-61	-63	-65	-67	-69
Consumable Materials Expenses	-27	-31	-40	-21	-22	-23	-23	-24	-25
EBITDA	580	379	982	792	1.019	1.045	1.054	1.096	1.086
Depreciation and Amortization	-275	-284	-281	-340	-282	-289	-292	-299	-303
Other Operating Expenses	-129	-84	-97	-211	-219	-242	-226	-249	-232
EBIT	176	11	604	241	518	514	537	547	550
Financial Revenue	10	7	65	36	38	23	23	24	24
Financial Expenses	-15	-16	-73	-38	-48	-29	-29	-30	-30
Gross Profit	171	2	596	239	508	508	530	541	544
Income Tax	-29	-1	-74	-21	-51	-51	-85	-87	-87
Net Profit	142	1	522	217	457	457	446	454	457

	Raported 2020	Raported 2021	Raported 2022	Raported 2023	Estimated 2024e	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e
GPM	42,7%	20,8%	23,1%	27,9%	22,2%	37,9%	39,2%	40,2%	40,9%
EBITDA M	24,3%	10,0%	15,6%	16,8%	14,3%	24,0%	24,2%	24,5%	24,1%
EBIT M	7,4%	0,3%	9,6%	5,1%	7,3%	11,8%	12,3%	12,2%	12,2%
NPM	6,0%	0,0%	8,3%	4,6%	6,4%	10,5%	10,2%	10,2%	10,2%
ROE	4,2%	0,0%	14,3%	4,7%	7,8%	7,1%	6,2%	5,6%	5,1%
ROA	2,9%	0,0%	6,7%	2,6%	4,6%	4,4%	3,8%	3,5%	3,1%

source: TEL, own estimates

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CNTEE Transelectrica	TEL	not applicable

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