

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

HOLD

Company Update

Price Target: 44.4 RON (+13.2%)

Key Points

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- **Transelectrica is Romania's national electricity transmission operator, responsible for managing, operating, and maintaining the national electrical grid.** The company is strategically important and essential to the country's energy security. Consequently, its operations are highly regulated under a revenue-cap model, with tariffs, income levels, and return on equity defined and approved by law.
- **The company has outperformed this year, achieving a return of +29.2% compared to +13.3% for the BET index;** however, its performance over the past years has been mixed. TEL has experienced periods of both outperformance and underperformance. Still, over the 2006-2024 period, it has underperformed, delivering an annualized return of +7.3% vs. +10.7% for the BET index. The strict regulatory framework, which has changed over time, has led to a multi-year average ROE of just 6.1%, with pre-energy crisis levels averaging only 2.2%.
- **We evaluate the company through a DCF model at 44.4 RON per share (+13.5% upside),** incorporating an expected normalization of electricity tariffs over the next five years to 409 RON/MWh (competitive market) and a slightly increasing electricity transmission tariff up to 34 RON/MWh by 2028. We adjusted the company's valuation model to better reflect the regulated framework, starting from cost estimates, regulated revenue, and the estimated implied tariff.
- **H1 2024 results were positive, with the company registering a 2.7% increase in transport revenue (profitable segment) to 985 million RON,** supported by a rise in transmission tariff and the volume of billed electricity. Net profit reached 286 million RON (+62.5%), already surpassing the company's budgeted level for the entire year of 2024 (128 million RON).
- **For 2024, we estimate transport service revenue at 1,988 million RON, roughly in line with last year (+1.6%), but with doubled EBIT (526 million RON vs. 241 million in 2023).** The projected EBIT growth has been influenced by an increase in revenue from energy trading for own technological consumption (CPT), which in H1 grew by 48.7 million RON as a result of surplus energy sales.

Sector: Utilities

Shares information

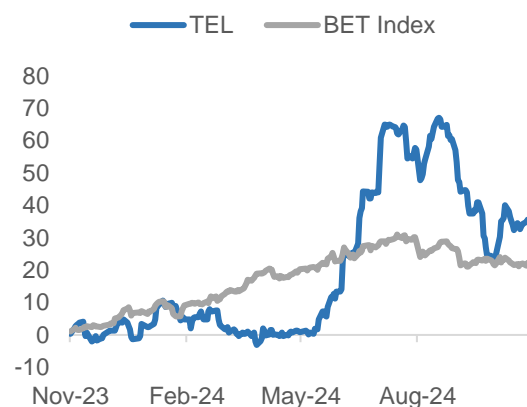
Min/max price, 52 weeks.	28.0 – 49.65
Dividend/share	0.28
Total Shares* (mln.)	73.303
Capitalization (mln. RON)	2.866.152
52 weeks liquidity (mln. RON)	144.098

Major Shareholders

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

1-year performance vs BET

	%
TEL	33.7
Vs BET Index	21.9



source: Bloomberg

H1 Results Overview

Overall, Transelectrica's first-half results were stronger compared to the same period last year, driven by increased revenues from energy transmission and CPT trading, which more than offset rises in operating expenses.

Transmission revenues (profit-allowed segment) rose by 2.7% in the first half of the year, supported by a 1.7% increase in billed electricity (25.4 TWh) and a 1.5% rise in the average ANRE-approved tariff to 31.67 RON/MWh. Revenue from CPT energy trading increased due to the sale of surplus energy resulting from differences between long-term and short-term forecasts, leading to a boost of 48.7 million RON.

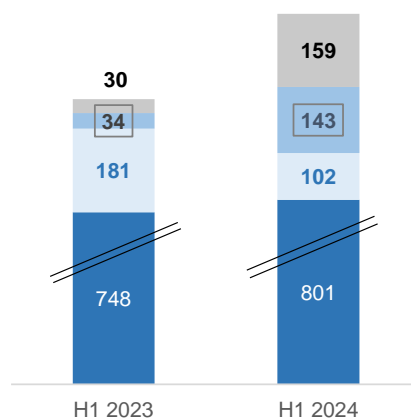
Also, in the profit-allowed segment, revenues from cross-border rents declined to 102 million RON (from 181 million RON previously), impacted by reduced demand for services and price variations in European electricity markets. This decline will also affect investment funding, as revenue from interconnection capacity allocation may be used by the company for investments per ANRE Order no. 171/2019.

(RON ths)	30-Jun-23	30-Jun-24	%
Total Revenue	2.200.704	4.695.331	113,4%
Transport Services	959.057	985.278	2,7%
System Services	192.751	311.695	61,7%
Balancing Market	1.017.616	3.229.089	217,3%
Other income	31.281	169.269	441,1%
Total Operating Expenses	(2.020.039)	(4.425.139)	119,1%
System Operation	(307.070)	(355.201)	15,7%
Balancing Market	(1.017.157)	(3.229.286)	217,5%
Technological System Services	(230.735)	(300.957)	30,4%
Depreciation	(170.310)	(179.106)	5,2%
Personnel Expenses	(202.267)	(238.154)	17,7%
Repairs and Maintenance	(19.646)	(25.486)	29,7%
Materials Expenses	(8.400)	(9.190)	9,4%
Other Operating Expenses	(64.455)	(87.759)	36,2%
Operating Profit	180.665	270.192	49,6%
Financial Revenue	26.925	20.072	-25,5%
Financial Expenses	(25.163)	(4.198)	-83,3%
Net Financial Result	1.762	15.874	800,9%
Profit Before Tax	182.427	286.066	56,8%
Income Tax	(18.346)	(19.504)	6,3%
Net Profit	164.081	266.562	62,5%

On the expenses side, the most significant increase was in personnel expenses, which rose by 17.7% compared to the same period last year, reaching 238 million RON. Overall, expenses in the profit-permitted segment increased by 15.9%, slightly below the 16.6% increase in revenues.

The company's net profit amounted to 266 million RON in H1, already significantly exceeding the budgeted figure for the entire year (128.5 million RON). By year-end, we anticipate a doubling of net profit to 464 million RON, supported by a substantially higher EBIT compared to the previous year (+118.2%).

■ Other revenues ■ ITC, CPT
■ Cross-border rents ■ Tariff



source: TEL, own calculations

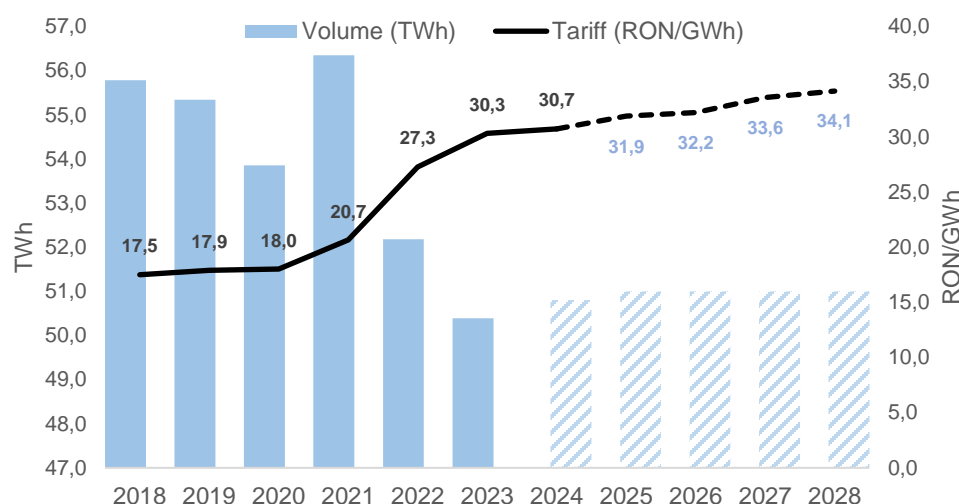
Changes to our model

Transelectrica's business model operates under a revenue-cap structure, with the company's activities regulated by national primary legislation, European standards, and secondary regulations issued by ANRE. The current calculation methodology includes a series of formulas for estimating revenues, tariffs, and return on capital. The company's profitability is determined by the return on the regulated asset base, which is established using the regulated rate of return (RRR) and the regulated asset base (RAB), both defined and approved by law.

The current methodology prescribes that Transelectrica's tariff for the transmission service (profit segment) be estimated based on projected regulated revenues and the estimated volume of billed electricity, according to the following formula:

$$Tariff_{regulated} = \frac{Revenues_{regulated}}{Volume_{EE}}$$

Tariff and Volumes Forecasts



source: TEL, own estimates

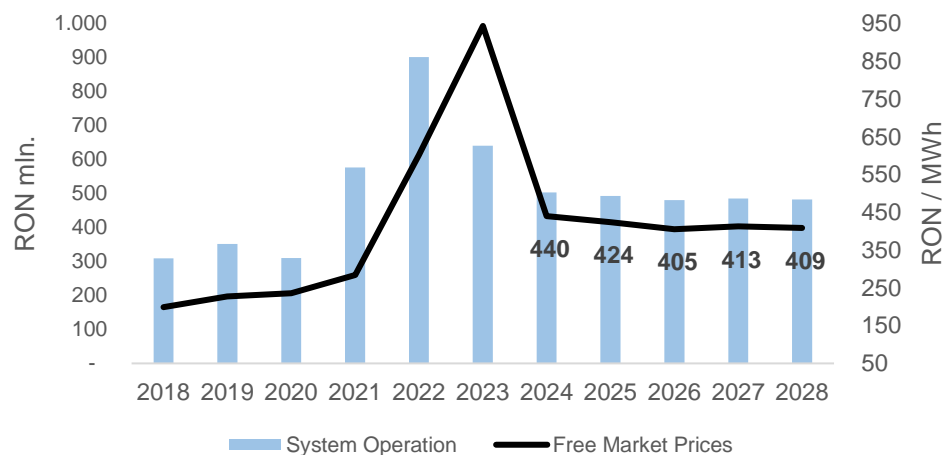
Transelectrica's revenues are estimated through a significantly more complex formula, which includes a cost component (covering operations, maintenance, salaries, depreciation, etc.), an asset profitability component, an adjustment component (actual vs. forecast), and a component related to own technological consumption (CPT). This last component essentially links the company's revenues to market electricity price trends, as CPT-related costs are directly impacted by electricity prices in the competitive market.

$$\begin{aligned} & Revnue (target, initial) \\ &= Costs_{(operating, maintenance)} \times [1 - Factor_{efficiency}] \\ &+ Consumption_{(CPT)} + Return_{(RAB)} + \sum (other costs) \\ &- Adjustments_{forecast} \end{aligned}$$

Compared to the previous valuation model, we have estimated Transelectrica's revenues using the calculation methodology outlined above, beginning with the cost component, to which we added an estimate of CPT consumption and the regulated return on RAB. The revenues estimated in this way reflect the projected

regulated tariff, factoring in our forecast for the volume of billed electricity over the next five years (an average of 51 TWh).

System operation costs and Electricity Price Forecasts

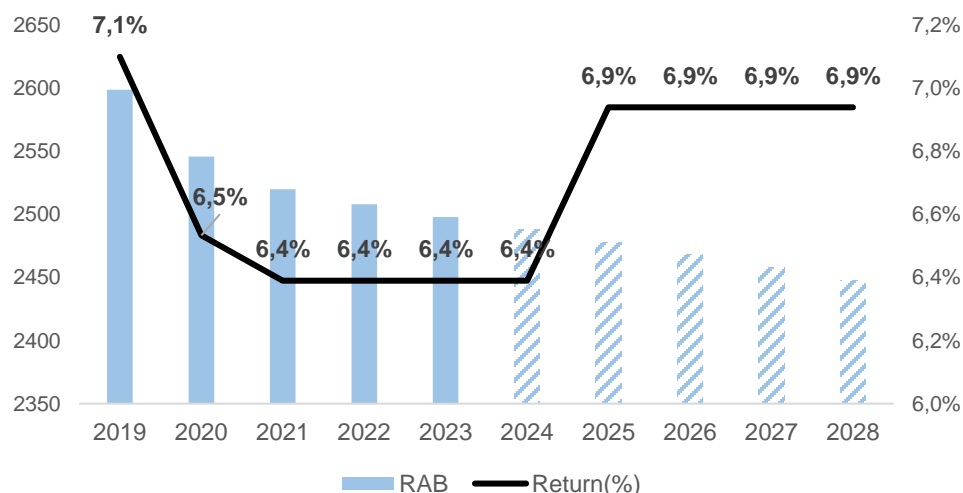


source: TEL, OPCOM, Bloomberg, own estimates

The methodology for each component is as follows:

- **Operating Cost Component:** Estimated based on the forecast of electricity prices in the competitive market; in projecting these prices, we used the price curve for short-term contracts as well as long-term electricity price forecasts in Romania, which were derived from electricity prices in Germany (using Bloomberg estimates and linear regression).
- **Regulated Rate of Return on Assets:** Estimated at 6.9% for the next five years, in line with the level regulated by ANRE for 2024.
- **Regulated Asset Base:** Projected to decline slightly, consistent with the historical trend over the past three years.

Required Return on Regulated Asset Base Forecast



source: TEL, own estimates

DCF Valuation

We value the company at 44.4 RON per share based on the DCF method (+13.2% upside), where we have estimated an average EBIT margin of 11.2% over the next five years.

Other assumptions in our model include:

- **Weighted Average Cost of Capital (WACC)** of 13.7%, calculated using a cost of equity of 13.8% 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 8.54%, representing the historical total return of the BET index over the 10-year government bond yield of 6.91%;
- **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	7.219	4.441	4.437	4.549	4.578
% chg	58,1%	66,7%	-25,1%	52,8%	-38,5%	-0,1%	2,5%	0,6%
Revenues (for profit segment)	1.338	2.295	2.065	2.229	2.169	2.227	2.269	2.363
% chg	21,3%	71,5%	-10,0%	8,0%	8,0%	8,0%	8,0%	8,0%
EBITDA	379	982	792	1.099	1.126	1.136	1.178	1.168
EBITDA M	10,0%	15,6%	16,8%	15,2%	25,4%	25,6%	25,9%	25,5%
EBIT	11	604	241	526	523	546	556	560
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	492	471	491	467	470
D&A	284	281	340	354	361	365	372	376
WCC	-4	-16	66	-66	-40	-40	-41	-42
CAPEX	-495	-466	-439	-511	-488	-488	-500	-504
FCFF	-209	328	187	268	303	327	297	300
discount factor				0,88	0,77	0,68	0,60	0,53
NPV FCFF				236	234	223	178	158
PV FCFF	1.028							
PV Terminal Value	1.744							
Terminal growth	3,0%							
Firm Value	2.772							
Net Debt	-480							
Equity Value	3.252							
No. shares	73							
Price/share	44,36							
Market Price	39,20							
Upside/Downside	13,17%							

Sensitivity Analysis

		Terminal growth				
		2,00%	2,50%	3,00%	3,50%	4,00%
Cost of capital (WACC)	11,00%	45,9	47,1	48,4	49,9	51,5
	12,00%	44,5	45,6	46,9	48,3	49,8
	13,74%	42,1	43,2	44,4	45,6	47,1
	14,00%	41,8	42,8	44,0	45,3	46,7
	15,00%	40,5	41,6	42,7	43,9	45,2

Financial Statements

(RON ths, consolidated)	Reported 2020	Reported 2021	Reported 2022	Reported 2023	Estimated 2024e	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e
Total Revenue	2.393	3.784	6.307	4.725	7.219	4.441	4.437	4.549	4.578
Transport Services	1.035	1.252	1.885	1.956	1.988	2.072	2.092	2.181	2.219
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	180	155	177	182	183
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	1.666	1.734	1.789	1.878	1.919
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	1.099	1.126	1.136	1.178	1.168
Depreciation and Amortization	-275	-284	-281	-340	-354	-361	-365	-372	-376
Other Operating Expenses	-129	-84	-97	-211	-219	-242	-226	-249	-232
EBIT	176	11	604	241	526	523	546	556	560
Financial Revenue	10	7	65	36	39	24	24	24	24
Financial Expenses	-15	-16	-73	-38	-49	-30	-30	-31	-31
Gross Profit	171	2	596	239	516	517	540	550	553
Income Tax	-29	-1	-74	-21	-52	-52	-86	-88	-89
Net Profit	142	1	522	217	464	465	453	462	465

source: TEL, own estimates

	Reported 2020	Reported 2021	Reported 2022	Reported 2023	Estimated 2024e	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e
GPM	42,7%	20,8%	23,1%	27,9%	23,1%	39,0%	40,3%	41,3%	41,9%
EBITDA M	24,3%	10,0%	15,6%	16,8%	15,2%	25,4%	25,6%	25,9%	25,5%
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%	10,1%
ROE	4,2%	0,0%	14,3%	4,7%	7,9%	7,2%	6,2%	5,7%	5,1%
ROA	2,9%	0,0%	6,7%	2,6%	4,7%	4,4%	3,8%	3,5%	3,2%

source: TEL, own estimates

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