

TO: BUCHAREST STOCK EXCHANGE
FINANCIAL SUPERVISION AUTHORITY
Financial Instruments and Investors Sector

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Bucharest Stock Exchange, Premium category

EVERGENT Investments explains the rigorous process applied in its business decisions for good briefing of investors

By selling half of SN Nuclearelectrica package in June of this year, EVERGENT Investments collected dividends on the entire position and obtained a substantial profit of 8,6 million lei

EVERGENT Investments publishes specifications regarding its investment decisions, in accordance with its investment policy.

EVERGENT Investments is a long-term institutional investor that has built and manages its investment portfolios through a dynamic allocation, with an in-depth understanding of capital market mechanisms. It generated raw alpha 1,77% higher than the average of equity funds in Romania, and highest capitalization between 2018 and 2021.

Market opportunities are constantly studied, and investment decisions are based on a deep analysis and a careful comparison of increase perspectives for various projects, from several activity sectors. Investment or disinvestment decisions aim to obtain the best short-term, average and long-term risk/reward ratio.

In order to understand EVERGENT's rigorous decision-making process the example chosen is the SNN program and share analysis.

SNN Case study: how we attain a good reward/risk ratio

EVERGENT Investments' acquisition of SNN shares were made in October 2020 and January 2021. Average acquisition price in October 2020 was 16,8 lei, given that the company's own valuation through the discounted cash-flow method for a period of 11 years indicated a Target Price of 25 lei with a 49% upside. The forecast period was extended to 11 years to include the case of production of reactor 1 for 2 years: 2027-2028, the CAPEX corresponding to the technological upgrade of Unit 1 and building of reactors U3 and U4.



In January 2021 when the investment program was set-up, the decision was made to increase SNN position. The acquisition was made at the average price compared to 19,99 lei (26% upside up to the target price estimated by analysis). The very good price increase prospects were taken into account due to the high fundamental indicators and convenient context for energy producers. The estimate was also based on the forecast inclusion in FTSE Russell index and prospects for closing 2020 with a higher profit than 2019, confirmed by Nuclearelectrica's management.

In June 2021, the sale of half the held package was made following the ex-date, therefore dividends were collected on the entire position. At the same time, a substantial profit of 8,6 million lei was scored, since the sale was made for an average price of 27,62 lei, 10,5% higher than the forecast target price and 55% higher than the average purchase price. EVERGENT Investments collected dividends of 2,64 million lei for 2020.

On the sale date, Erste Research estimated a TP=20,6 lei, WOOD estimated a TP=24,4 lei and BRD a TP=24 lei, while EVERGENT sold for a price of 27,62 lei above the estimates of these reputable brokerage houses in Romania.

The entire SNN position generated an exceptional return - XIRR 108%.

The sale decision took into account the above coordinates and a number of fundamental issues, such as: the decrease in production due to the closure of Unit 2 for 37 days in May-June, the increase in the cost of uranium on international markets, the low influence of electric energy price on PZU market on SNN profit, since the company sells around 20% of its electrical energy on this market, attainment of only 9% of 2021 Nuclearelectrica's investment program.

The increase of SNN price following ex-date accompanied by a high volatility was due to the expectations of investors regarding the increase of SNN profitability, following the sharp increase of electric energy prices on PZU market.

However, sales structure in Q2 2021 remained similar to that in Q1 2021, in accordance with management's indications: 83% - bilateral contracts and 17% - PZU. Since prices on the bilateral contracts markets increased much less than prices on PZU market, the impact of price increase on this market on H1 2021 profit was under investors' expectations, as EVERGENT had estimated.

The shutdown of reactor 2 resulted in the decrease of the quantity of electric energy sold and increase of expenses for electric energy acquisition to honor contracts in progress. Costs increased almost 12 times, from 8,35 million lei in Q2 2020 to 99,28 million lei in Q2 2021, covering about 73% of the increase in revenue from the sale of electric energy.

For this energy purchased with shorter maturity than that in the company's usual sale contracts, the price paid was higher than that received for its resale. Another impact of the shutdown of Unit 2 was the increase of repair expenses by 21,12 million lei.

Under these conditions, in Q2 2021, SNN's net profit decreased by 35% compared to that achieved in Q1 2021.



Estimated risks have taken into consideration the occurrence of new, unplanned disruptions of U1 and U2 that may generate an increase of expenses for the purchased electric energy necessary to cover contract obligations and a possible delay of the investment program, coupled with the rising cost of uranium on international markets.

In conclusion, the return/risk ratio objectively identified based on fundamental and technical analysis led EVERGENT Investments to the decision to sell half the package, SNN issuer remaining in the company's portfolio and analysis. Last but not least, the cash gained from the transaction was directed to various financial instruments, in accordance with the ongoing investment programs and risk policy, including liquidity.

Evolution of SNN price and acquisition and sale instance:



Claudiu Doros
President CEO

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