



HELLENIC PETROLEUM

Outlook:

We reinitiate ELPE's coverage with a Fair Estimated Price of 7.50Euros/Share and a rating of FV.

- Elpe's Q1'18 revenues reached 2,168mn. Euros 5.00% up from Q1'17.
- EBITDA gains deteriorated by 25.00% due to the adverse impact of A) lower refining margins and B) weak USD.
- As a result, ELPE Group's net income came up at 74.03mn.Euros, substantially below Q1'17 gains of 123mn.Euros respectively.
- Finally, we incorporate the proceeds of the imminent divestment of the group's DESFA stake as we feel more comfortable regarding its completion.

Date: 15/06/18

FAIR ESTIMATED PRICE: **7.50Euros/Share**

Investment Thesis: **FV**

Key Statistics:

VALUATION	15/6/2018
Share Price	7,42
Price High 52 week	6,95
Price Low 52 week	8,79
Current num. of shares	305.635.185
P/E(E)	11
Market Cap.	2.267.813.073
EPS (Trailing)	1,26
DPS	0,36
<i>*Closing Price as 14/06/2017</i>	

HELLENIC PETROLEUM-Q1'18 UPDATE

We reinitiate our coverage for ELPE's share, with a Fair Estimated Price of 7.50Euros/Share and a FV rating.

We reinitiate our analysis on ELPE taking into consideration the fact that the favorable cyclical refining margins are reverting towards more normalized levels, leading ELPE's valuation to more healthy and sustainable levels. Back in 2016 we viewed ELPE's valuation as extremely demanding as it fully reflected and capitalized the 2015 and 2016 peak level periods regarding refining margins. The 2015-2017 era could be characterized as the edge of the cyclical business of the group's refinery. It is more than obvious that the company managed to efficiently utilize its complex refining capacity for the period stated previously, earning substantial returns in terms of operating gains and bottom line profitability. Additionally, the Group gradually recovered from the past trailing periods of accumulative losses due to weaker refining margins and considerably unfavorable prices of crude oil.

As a result, assessing Q4'17 and Q1'18 we can observe a mild declining trend mostly in gross profit margin which is a crucial indicator regarding the factors depicting the Group's refining margin and profitability. Specifically, Q1'18 results demonstrate an early signal of reversion to more normalized levels. Thus, despite the q-o-q revenue growth, the Group's gross profit deteriorated by 5,00% mainly as a result of the sharp increase in crude oil prices. We retain our thesis regarding the cyclical nature of the refinery's business cycle and we believe that according to the signals of the group's performance it is possible that the movement- combined with the business cycle- is leading to more normalized levels. However, we need to pinpoint that the completion of the refinery's upgrading project in the previous years grants a more efficient, complex and ultimately profitable operating capacity for the Group. Q1'18 results are providing better visibility regarding ELPE's revenues, profitability and FCFF generation respectively.

Looking back to our previous valuation reports, our main thesis and valuation model consisted of the proper discount of normalized FCFF to the firm, excluding the extraordinary peak years of considerably strong refining margins as we did not expect that these levels could persist to perpetuity. The 2015-2017 era could be stated as extraordinary, as during these years ELPE's gross profit margin demonstrated a rapid acceleration from 2.00% to 15.00%, leading to substantial gains and to a generous dividend pay-out policy and the gradual deleveraging of the Group's balance sheet. That period resulted in an extremely demanding valuation for the group and led our analysis out of scope. Moreover, we were unable to effectively incorporate to our business model the outcome of the delay of the sale of DESFA stake in addition to the considerable high operating and profitability margins. These were the main reasons behind our decision to pause the coverage of ELPE's share.

Taking into account the Q1'18 results, they came out to prove that nothing lasts forever, and nowadays we have a clearer sign regarding the reversion to more normalized levels. In our model we implement a lower (than the two previous fiscal years) gross margin but still a relatively higher one than the normalized one. This in turn, we expect to decline in the short-term period. Additionally, we believe that ELPE's complex refinery is capable to operate in a relatively efficient manner leading to strong and sustainable FCFF. We reinitiate our Fair estimated price to 7,50Euros/Share, including the outcome of the sale of DESFA's stake and we rate the share as FV.

FINANCIAL SUMMARY AND VALUATION TABLES

Table I: Income Statement

INCOME STATEMENT	2017A	2018E	2019E	2020E
Sales	7.994.690.000	7.637.767.930	7.762.500.357	7.891.930.153
CGS	- 6.907.198.000	6.705.960.243	6.986.250.322	7.339.495.042
Gross Profit	1.087.492.000	931.807.687	776.250.036	552.435.111
Sales Expenses	- 276.182.000	- 229.133.038	- 232.875.011	- 236.757.905
Admin Expenses	- 133.427.000	- 152.755.359	- 155.250.007	- 157.838.603
RD	- 212.000	- 1.000.000	- 1.000.000	- 1.000.000
Other Income/Costs	- 15.888.000	1.000.000	1.000.000	1.000.000
Other Profit/Loss				
EBITDA	851.059.000	769.919.291	608.125.018	377.838.603
D&A	189.276.000	220.000.000	220.000.000	220.000.000
EBIT	661.783.000	549.919.291	388.125.018	157.838.603
Interest	165.053.000	200.000.000	200.000.000	200.000.000
FX Loss/Gains	- 8.173.000	5.000.000	5.000.000	5.000.000
Prof/Loss from Associates	31.228.200,00	5.000.000,00	5.000.000,00	
EBT	519.785.200,00	359.919.290,96	198.125.017,87	- 37.161.396,94
Tax	- 135.862.000,00	104.376.594,38	57.456.255,18	10.776.805,11
N.I	383.923.200,00	255.542.696,58	140.668.762,69	- 47.938.202,06

Source: Company's statements, N.Chrysochoidis Research Department estimates.

Table II: Cash Flows

CASH FLOW ESTIMATIONS (E)	2018E	2019E	2020E
EBIT	491.555.687,47	499.010.543,25	112.183.110,70
Tax Rate	87.451.149,37	71%	71%
Nopat	579.006.836,83	354.297.485,71	79.650.008,59
D&A	215.000.000,00	220.000.000,00	220.000.000,00
CAPEX	200.000.000,00	200.000.000,00	200.000.000,00
IWC	- 15.219.886,09	5.318.845,48	5.519.150,84
DCF	609.226.722,93	368.978.640,23	94.130.857,75

Source: Company's statements, N.Chrysochoidis Research Department estimates

Table III: Valuation Metrics

GROWTH	12/18E	12/19E	12/20E
Sales growth	-4,46%	1,63%	1,67%
EBITDA growth	-9,53%	-21,01%	-37,87%
Net Profit/Loss growth	-33,44%	-44,95%	-134,08%
RATIOS	12/18E	12/19E	12/20E
Debt/Equity	0,45	0,45	0,45
Capex/EBITDA	-2%	1%	1%
ROE	11%	6%	-2%
WACC	9,35%	9,35%	9,35%
VALUATION	12/17A	12/18E	12/19E
Book Value	7,55	7,55	7,55
P/BV	0,98	0,98	0,98
P/E	9	16	-47

Source: Company's statements, N.Chrysochoidis Research Department estimates

Πήτρα Περιορισμού Ευθύνης:

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Σημειώσεις/Notes

P:	Τρέχουσα Τιμή	Market Price
MCAP:	Κεφαλαιοποίηση	Capitalization
EPS:	Καθαρά Κέρδη Ανά Μετοχή	Earnings per Share
P/E:	Λόγος Τιμής προς Κέρδη	Price/Earnings Ratio
P/S:	Λόγος Τιμής προς Πωλήσεις	Price/Sales Ratio
D/A:	Συνολικός Δανεισμός προς Παθητικό	Total Debt/Assets Ratio
DY:	Απόδοση Μερισίματος	Dividend Yield
ROE:	Απόδοση Ιδίων Κεφαλαίων	Return on Equity
FV:	Τιμή Σωστής Αποτίμησης	Fair Value Price

Οδηγός Συστάσεων/Ratings

UV	Χαμηλή Αποτίμηση/ Χαμηλός Κίνδυνος	Underpriced/ Small Risk Stock Price < 20% of Fair
UV1	Χαμηλή Αποτίμηση/ Κίνδυνος	Underpriced/ Risk Stock Price < 10% of Fair
FV	Σωστή Αποτίμηση/ Χαμηλός Κίνδυνος	Fairly Priced/ Small Risk 10% < Stock Price < 10%
OV1	Σωστή Αποτίμηση/ Κίνδυνος	Fairly Priced/ Risk Stock Price > 10% of Fair
OV	Υπερτιμημένη Μετοχή	Overvalued Stock Price > 20% of Fair
NR	Μη Αποτιμημένη Μετοχή	Not Rated