

# EQUITY NOTE: PANNERGY NYRT.

**Recommendation: BUY (unchanged)**

**Target price (12M): HUF 1,908 (unchanged)**

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## Highlights

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PannErgy produced 570,671 GJ energy in Q4, which is 9.6% lower YoY, and it is also 11.8% lower than the management's plan was for the quarter. The weaker performance was primarily due to unfavourable weather conditions as the average temperature in October was somewhat higher compared to historical values. Overall, the company sold 1,705,274 GJ in 2023, which is 4.4% lower YoY and 4.7% below the management target. The heat sales target for 2024 is 1,773,116 GJ.

The management expects that the consolidated EBITDA in 2023 will be close to the lower end of the HUF 3.95-4.15bn EBITDA target range, which was previously published (+9.4% YoY assuming lower end is achieved). For 2024, the company has set a consolidated EBITDA target range of HUF 3.9-4.1bn. Our current EBITDA estimate for 2024 is HUF 3.83bn. We note, however, that our EBITDA estimate does not include the expected contribution of the new Miskolc well yet (commissioning expected by the start of the 2024/2025 heating season). We maintain our BUY recommendation with the same target price (HUF 1,908) as before.

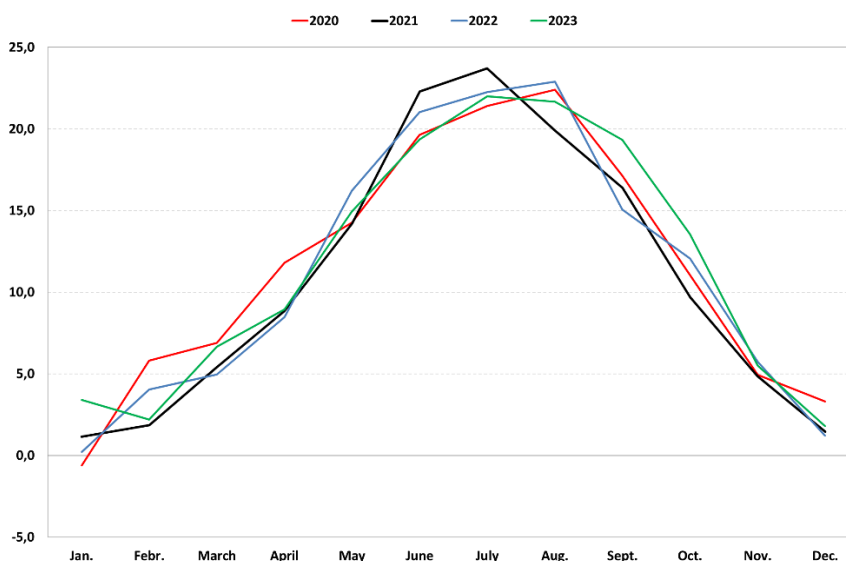
### **Main takeaways from the quarterly production report:**

In the fourth quarter, PannErgy produced 570,671 GJ energy, which is 9.6% lower than a year earlier, and it is also 11.8% lower than the management's plan was for this quarter (647,180 GJ). The weaker performance was primarily due to unfavourable weather conditions as the average temperature in October was somewhat higher compared to historical values (while temperatures in November and December were similar to previous years). Overall, the company sold 1,705,274 GJ in 2023, which is 4.4% lower YoY and 4.7% below the management target (1,789,697 GJ). The heat sales target for 2024 is 1,773,116 GJ.

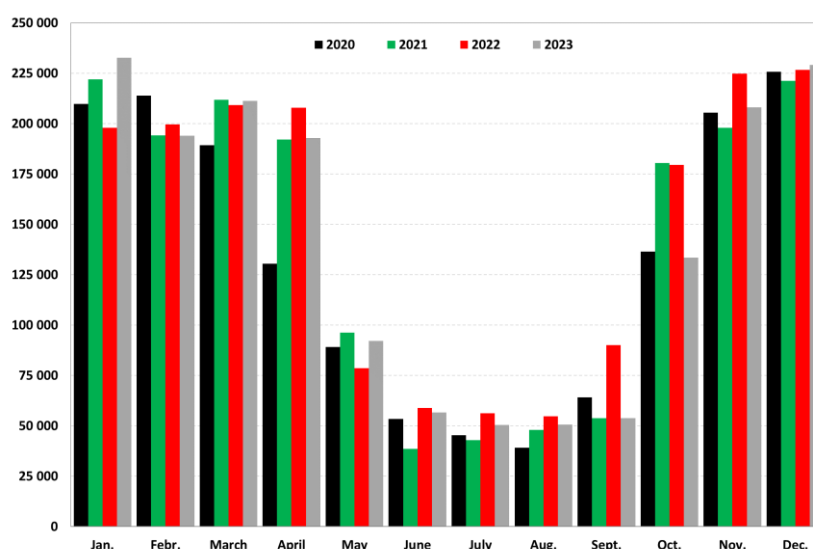
Regarding the performance of individual sites, Miskolc produced 250,086 GJ in Q4, an 8.5% decrease YoY (273,325 GJ), mainly due to the above-mentioned weather condition. At the same time, production in Győr was 313,436 GJ in Q4, a 10.3% decrease compared to the record value of the previous year (349,530 GJ) due to similar reasons. Overall, the Győr project accounted for ~54.9% of heat sales volume in Q4, while the Miskolc project for ~43.8% (in Q3 Győr accounted for ~61.9% of heat sales and Miskolc for ~37.1%). Overall, in 2023 the Miskolc site produced 715,809 GJ (-5.6% YoY), while Győr produced 967,961 GJ (-3.5% YoY).

The management expects that the consolidated EBITDA in 2023 will be close to the lower end of the HUF 3.95-4.15bn EBITDA target range, which was previously published (+9.4% YoY assuming the lower end is achieved). This would be ~3.1% lower than our 2023 EBITDA estimate of HUF 4.08bn. For 2024, the company has set a consolidated EBITDA target range of HUF 3.9-4.1bn (+1.3% YoY on a mid-point basis assuming the lower end of guidance is achieved in 2023). Our current EBITDA estimate for 2024 is HUF 3.83bn, which is slightly below management’s target range. We note, however, that our EBITDA estimate does not include the expected contribution of the 3<sup>rd</sup> Miskolc well yet (commissioning expected by the start of the 2024/2025 district heating season).

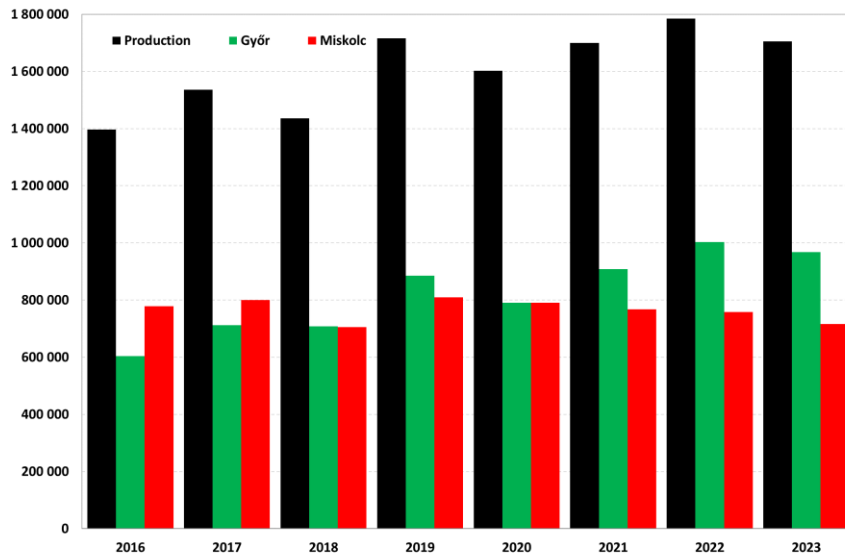
### Combined average monthly temperatures (°C) in Miskolc and Győr



### Monthly consolidated heat sales 2020-2023 (GJ)



Annual heat sales: overall and by site 2016-2023 (GJ)



### Other notable highlights:

**Treasury share transactions:** the company has spent (up to 14<sup>th</sup> Jan) HUF 650.5 million on share repurchases, which is 72.3% of the authorized amount under the program approved last year. Overall, this means that PannErgy purchased under the program 532,532 shares (2.66% of total shares and 3.49% of total non-treasury shares) for an average price of HUF 1221.7 / share. The program is valid until 13<sup>th</sup> April 2024 with a limit on share repurchases of HUF 900 million at a price not exceeding HUF 1,670 and 25% of total shares (23.72% at the moment). We also note that PannErgy announced on 18<sup>th</sup> December, 2023 that it intends to purchase 5,000 shares / day going on compared to the previous 3,800 shares / day.

### Risks surrounding PannErgy's economic activity

1. **Price risk:** The administered price is set at a level that takes into account the cost of doing business and providing a fair profit. However, the administered price setting has inherent risks related to the administrative authority. Moreover, at the moment PannErgy provides heat at a lower cost than its peers (natural gas). However, if natural gas prices fall significantly, then consumers who do not have mandatory purchase agreement with PannErgy could switch to other sources of heat.
2. **Environmental risks:** Extreme weather conditions during the heating season could harm the company's profit target. If the winter season is too short or too cold – due to global warming or other extreme weather conditions – the costs are higher, as the output from the drilling wells drops.
3. **Operational risks:** Maintenance costs increased significantly at the Győr Project in 2016 due to scaling issues concerning the tubing and pumps, and this has reduced production. Although the problem was dealt with, we identify it as a source of risk in the future as well. This could be a risk to our depreciation forecast as well.
4. **Improving energy efficiency risk:** It is not necessarily a PannErgy-specific risk, but in the long term, the building of passive houses and the coming investment – which increases the energy efficiency of houses and flats – could decrease demand for heat.

**Notes:**

[The initiation report, which contains the assumptions of the models used, is available here.](#)

[The valuation methodology used in this present equity research note to determine our price targets and recommendations is available here. \(Also available in Hungarian\)](#)

This investment recommendation has not used proprietary models.

The risk warning, which includes the adequate explanations of the length of time of the investment to which the recommendation relates as well as a sensitivity analysis of the assumptions, is indicated in the part of this recommendation where the length of time and the risks of the investment are presented.

Any information relating to the date and time for the price mentioned in this recommendation is revealed in the part of the recommendation where the given price is indicated.

OTP Bank Plc's recommendations and price targets history for PannErgy in the past twelve months:

Date	Recommendations	Target Price	Publication
19/07/2022	BUY	HUF 1,420	Equity note
02/09/2022	BUY	HUF 1,420	Equity note
06/10/2022	BUY	HUF 1,670	Equity note
15/10/2022	BUY	HUF 1,670	Equity note
23/11/2022	BUY	HUF 1,670	Equity note
02/01/2023	BUY	HUF 1,670	Equity note
18/01/2023	BUY	HUF 1,747	Equity note
27/03/2023	BUY	HUF 1,747	Equity note
17/04/2023	BUY	HUF 1,747	Equity note
18/07/2023	BUY	HUF 1,747	Equity note
20/09/2023	BUY	HUF 1,747	Equity note
05/10/2023	BUY	HUF 1,908	Equity note
17/10/2023	BUY	HUF 1,908	Equity note

Period	Recommendations	Percent of recommendation
2023Q1	BUY	100%
	HOLD	0%
	SELL	0%
2023Q2	BUY	100%
	HOLD	0%
	SELL	0%
2023Q3	BUY	100%
	HOLD	0%
	SELL	0%
2023Q4	BUY	100%
	HOLD	0%
	SELL	0%
2024Q1	BUY	100%
	HOLD	0%
	SELL	0%

[The list of all recommendations made in the past 12 months is available here.](#)

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