

PannErgy Nyrt.

Recommendation: BUY

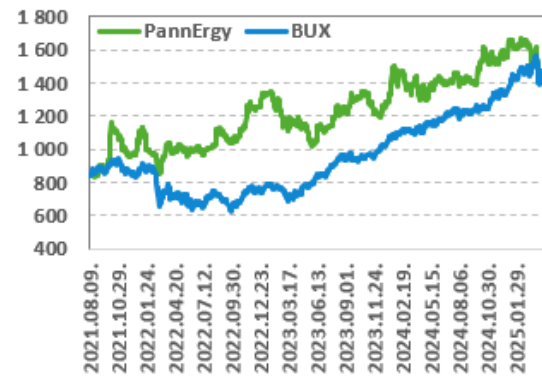
(prev. Buy)

12-month target price: 2 161 Ft

(prev. 2 119 Ft)

Upside potential: 47%

- PannErgy produced a record 670,828 GJ energy in Q1, which is 3.8% higher YoY, and it is also 2.6% higher than the management's plan was for the quarter. The strong performance was primarily due to the launch of the new Miskolc well. In view of the results management maintains the previously published 2025 EBITDA target range of HUF 4-4.15bn.
- At the end of March the company entered into an agreement with MVM to acquire 1,675,745 shares of PannErgy held by MVM (representing a 9.31% ownership) as own shares. The purchase price is HUF 1,512 / share.
- The deal is being done in two tranches: 975,745 shares have been purchased already by PannErgy for a total of HUF 1.475bn. The remaining 700,000 shares will be purchased once certain preconditions are being met with a final date of 30 Sep 2025.
- Preconditions include AGM approval of share capital reduction and authorization of a new share repurchase program. The currently proposed share repurchase program has a budget of up to HUF 1.5bn, which is large enough to cover the purchase of the remaining 700,000 shares (HUF 1.058bn).
- The company had HUF 2.269bn available in cash and securities at the end of December. Basically the existing liquidity was almost already enough to cover both tranches of the MVM transaction, while operational cash flow is significantly positive. With the launch of the new Miskolc well there are also no large investments going on, hence we see no payment related issues.
- Following the first transaction the number of treasury shares increased to 3,893,365 (~21.6% of total). Assuming the AGM approves the share capital reduction this will change to 1,893,365 own shares representing ~11.8% of total reduced share capital.
- We updated our valuation for PannErgy to incorporate the impact of the first tranche of the MVM share transaction (the second will be accounted for upon its execution). Overall valuation is increased to HUF 2,161 share price from HUF 2,119, the recommendation is maintained at BUY.



Performance	3 months	6 months	YTD	1 year
PannErgy	-12%	-8%	-6%	11%
BUX	4%	16%	10%	33%

m HUF	2024	2025e	2026e
Heat revenue	7 941	8 183	8 373
EBITDA	3 921	4 136	4 249
EBIT	1 843	1 845	1 958
Net profit	1 405	1 395	1 527
EBITDA margin	49,4%	50,5%	50,7%
EBIT margin	23,2%	22,5%	23,4%
EPS (HUF)	93	99	108
DPS (HUF)	0	0	0
Payout ratio	0%	0%	0%
EV/EBITDA	9,4	8,9	8,6
P/E	15,9	14,9	13,6
Dividend yield	0,0%	0,0%	0,0%
Share price (17.04.2025):			1 475
Number of shares (m):			18
Market cap. (m HUF):			26 550
Free float:			50,6%
Daily turn. (m HUF):			17,71

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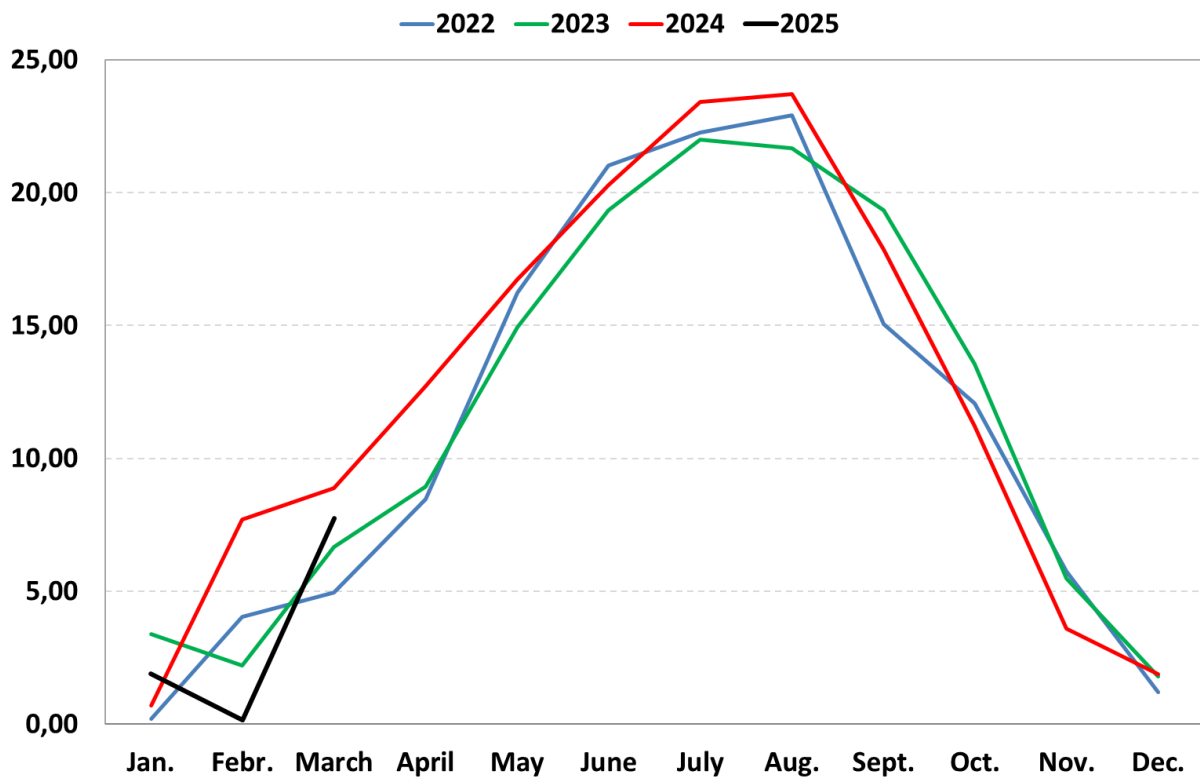
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Main takeaways from the Q1 production report

In the first quarter, PannErgy produced 670,828 GJ energy, which is 3.8% higher than a year earlier, and it is also 2.6% higher than the management’s plan was for this quarter (653,982 GJ). This means that the company achieved record Q1 heat sales, which was mainly due to the launch of the new Miskolc well.

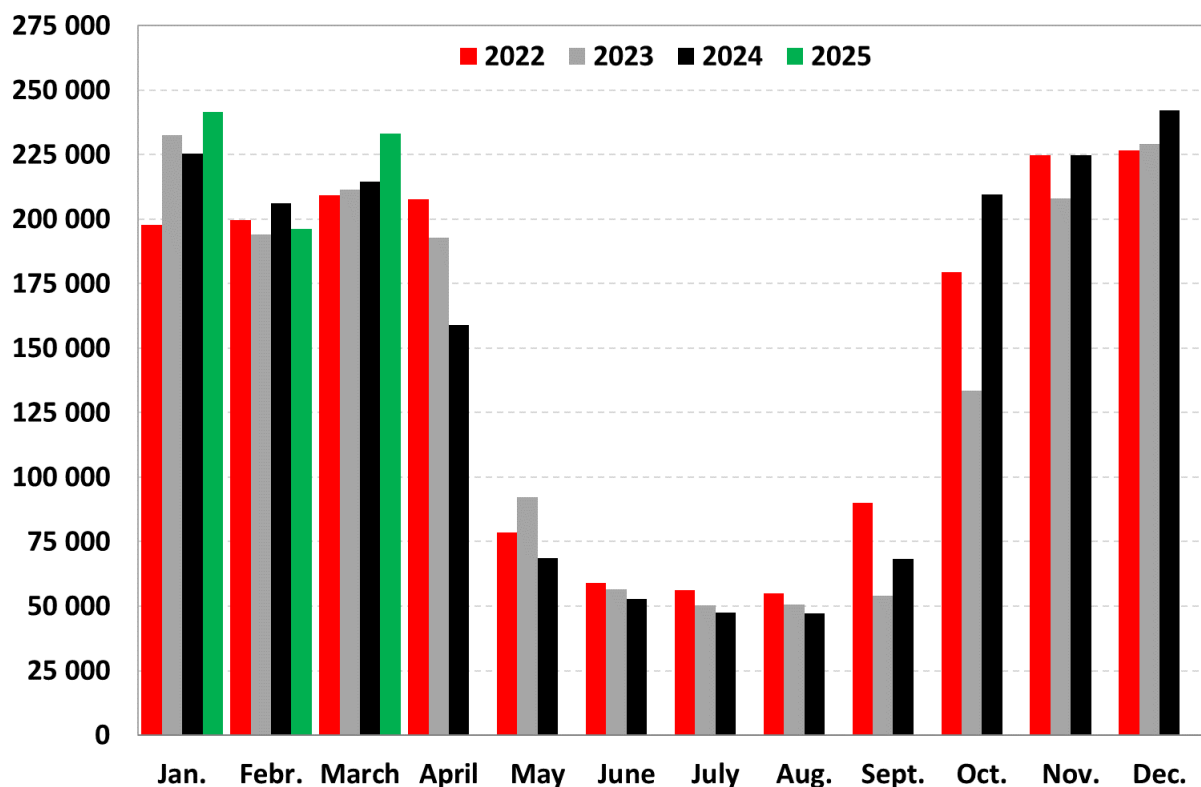
Regarding the performance of individual sites, Miskolc produced a record 328,026 GJ in Q1, a 20.3% increase YoY (272,666 GJ). As already mentioned, the primary reason for this was the launch of the new Miskolc well at the end of 2024. At the same time, production in Győr was 332,706 GJ in Q1, an 8.6% decrease compared to the base period (364,186 GJ), due to temporary technical reasons. Overall, the Győr project accounted for ~49.6% of heat sales volumes in Q1, while the Miskolc project accounted for ~48.9% (in the base period Győr accounted for ~56.4% of heat sales and Miskolc for ~42.2%). **The management maintains the 2025 EBITDA target range of HUF 4-4.15bn that was published previously.**

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



Source: AccuWeather

Consolidated heat sales (GJ)



Source: PannErgy

Other notable highlights

MVM share transaction: at the end of March the company announced that it has entered into an agreement with MVM to acquire 1,675,745 ordinary shares of PannErgy held by MVM (representing a 9.31% ownership) as own shares. The purchase price is HUF 1,512 / share.

The deal is being done in two tranches: 975,745 shares have been purchased already by PannErgy for a total value of 1.475bn. The remaining 700,000 shares will be acquired (for the same per share price) after certain conditions are being met with a final date of 30 September 2025. The conditions include:

(A) reduction of share capital via cancelling 2 million own shares (to be decided at the AGM on 25 April),

(B) authorization by the AGM to conduct a new share repurchase program. The current proposal has a budget of up to HUF 1.5bn with a maximum share price of HUF 2,072. This is large enough to cover the purchase of the remaining 700k shares (HUF 1.058bn).

(C) The company has the funds to pay the purchase price. At the end of December the company had HUF 2.269bn available in cash and securities (short-term discount T-bills). Basically the existing liquidity was almost already enough to cover both tranches, while operational cash flows are significantly positive (2024 operational cash flow was above HUF

3.4bn). With the launch of the new Miskolc well there are also no large investments going on, hence we do not see any liquidity / payment related issues.

Before the first transaction the company had 2,917,620 treasury shares (~16.2% of total). Post the first tranche this increased to 3,893,365 treasury shares (~21.6% of total). Assuming the AGM approves the share capital reduction (via cancelling 2 million own shares) this will change to 1,893,365 own shares representing ~11.8% of total reduced share capital (16 million shares). Following the purchase of the second tranche (700k shares) this would increase to ~16.2%. We also note that following the second transaction there would be still some room for additional share purchases in theory.

Updated valuation

We updated our valuation for PannErgy to incorporate the impact of the MVM share transaction (first tranche). We will include the effects of the second tranche upon its completion. Overall valuation is increased to HUF 2,161 share price from HUF 2,119 (+2%), the recommendation is maintained at BUY given the price target significantly exceeds the current market price.

Income statement						
P/L Table consolidated (million HUF)	2022	2023	2024	2025F	2026F	2027F
Revenue from geothermal-heat	6 238	9 230	7 941	8 183	8 373	8 577
Other revenue	380	-277	542	303	245	207
OPEX	3 913	5 461	4 761	4 555	4 575	4 680
from which: Depreciation	1 716	1 852	2 078	2 290	2 290	2 290
EBITDA	3 612	3 930	3 921	4 136	4 249	4 310
EBIT	1 896	2 078	1 843	1 845	1 958	2 019
EBT	1 416	1 837	1 487	1 585	1 735	1 832
Income Taxes	106	121	82	1 585	208	220
Non-controlling interest	0	0	0	0	0	0
Net income	1 310	1 716	1 405	1 395	1 527	1 612
EPS (HUF)	87	112	93	99	108	114

Balance sheet						
Balance sheet - consolidated (million HUF)	2022	2023	2024	2025F	2026F	2027F
Non-current assets	22 695	22 076	23 881	21 628	19 406	17 207
Current assets	4 636	4 176	4 802	4 211	6 179	8 181
Total assets	27 331	26 252	28 683	25 839	25 586	25 387
Total equity	10 534	11 458	12 564	12 484	13 662	14 892
Non-current liabilities	12 669	11 686	11 485	10 023	8 561	7 100
Current liabilities	4 128	3 108	4 634	3 332	3 363	3 395
Total equity and liabilities	27 331	26 252	28 683	25 839	25 586	25 387

Cash flow statement						
Cash flow statement (million HUF)	2022	2023	2024	2025F	2026F	2027F
Profit before taxes	1 416	1 837	1 487	1 585	1 735	1 832
Cash flow from operations	1 868	4 711	3 438	3 460	3 404	3 541
Cash flow from investment	-2 106	-1 251	-3 889	-520	-525	-535
Cash flow from financing activities	-615	-2 575	908	-3 845	-1 157	-1 157
Change in cash and cash equivalents	-647	885	457	-905	1 722	1 849

FCFF Valuation

Valuation summary (million HUF)	2024	2025F	2026F	2027F	2028F	2029F	Terminal year
Revenue from geothermal heat	7 941	8 183	8 373	8 577	8 758	8 933	9 112
EBITDA	3 921	4 136	4 249	4 310	4 362	4 538	4 629
Depreciation	2 078	2 290	2 290	2 290	2 290	2 290	2 290
Working capital sales	-769	416	272	200	204	210	210
Capex	4 141	250	250	270	280	280	280
FCFF	328	3 248	3 492	3 597	3 629	3 778	3 858
WACC		10,8	11,5	11,8	12,0	12,1	12,1
PV(FCFF)		2 933	2 828	2 606	2 348	2 180	22 927

Share price estimation	
Enterprise value	35 822
Net debt (-)	10 137
Equity value	25 685
Number of shares	14 106
Required return on equity	14,0
Target price for the next 12 M (HUF)	2161

Risks surrounding PannErgy's economic activity

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.

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.

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.

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.

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Date	Recommendations	Target Price	Publication
02/04/2024	BUY	HUF 1,908	Equity note
19/04/2024	BUY	HUF 1,997	Equity note
16/07/2024	BUY	HUF 1,997	Equity note
25/09/2024	BUY	HUF 1,997	Equity note
04/10/2024	BUY	HUF 2,072	Equity note
16/10/2024	BUY	HUF 2,072	Equity note
17/01/2025	BUY	HUF 2,072	Equity note
24/03/2025	BUY	HUF 2,119	Equity note

Period	Recommendations	Percent of recommendation
2024Q2	BUY	100%
	HOLD	0%
	SELL	0%
2024Q3	BUY	100%
	HOLD	0%
	SELL	0%
2024Q4	BUY	100%
	HOLD	0%
	SELL	0%
2025Q1	BUY	100%
	HOLD	0%
	SELL	0%
2025Q2	BUY	100%
	HOLD	0%
	SELL	0%

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

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