

EQUITY NOTE: PANNERGY NYRT.

Recommendation: BUY (unchanged)

Target price (12M): HUF 1,997 (unchanged)

25 September 2024

Highlights

Equity Analyst:
Ákos Szemán

Phone:
+36 70 512 3137

Email:
akos.szeman@otpbank.hu

PannErgy delivered a somewhat weaker but still solid H1 performance, which was characterized by the normalization of electricity costs and heat tariffs as well as a milder weather in Q2. Production was slightly lower YoY (-5.4%) in H1, and below management's target (-5%), revenue from heat sales was down by 31% mostly as a result of lower heat tariffs. At the same time, direct and administrative costs were lower by 19% YoY due to significantly lower electricity charges (-46% YoY), which was somewhat offset by higher depreciation and maintenance costs. Given the decrease in revenue was higher than the drop in direct costs, gross profit margin declined to 20.4% from 32.9%. However, net other revenue was positive vs. a loss last year, which somewhat supported EBIT and EBITDA. The EBITDA ratio actually increased to 46.1% from 37.4% (and now in line with historical numbers) as last year's figure was distorted by the significantly higher heat tariffs that have been adjusted to reflect higher production and indirect costs, while depreciation costs did not jump proportionately. The company reported HUF 698m net income after tax (HUF 46 EPS), which is 39.8% lower YoY but above the results of the previous years, which were less affected by extreme energy prices.

Looking ahead, the management confirmed that the HUF 1.905bn H1 EBITDA is an adequate basis for the HUF 3.9bn-4.1bn EBITDA plan in 2024. This is in line with our EBITDA forecast of HUF 3.94bn this year. The company also noted that the new Miskolc well is expected to be commissioned at the beginning of the 2024/2025 heating season in line with the current schedule. We also note that the company decreased its share capital, the number of shares decreased to 18 million from 20 million via the cancellation of treasury shares. PannErgy has purchased no treasury shares under its current share buyback programme running between 2 May 2024 and 17 April 2025. The scope of the programme is HUF 1.5bn and the company intends to make a significant portion of treasury share purchases over 2025 following the completion of the new Miskolc well. At the current share price this budget would cover the purchase of over 1 million shares (~6% of total shares and ~7.16% of total non-treasury shares), which is significant in our view provided it is fully used up.

For now, we maintain our BUY recommendation and the 12M target price of HUF 1,997. We expect to update our valuation once the new heat tariffs are announced in the coming weeks. The currently applicable prices have been set at the end of last September (effective from 1 October 2023) and typically valid for a year.

Main takeaways from the H1 report:

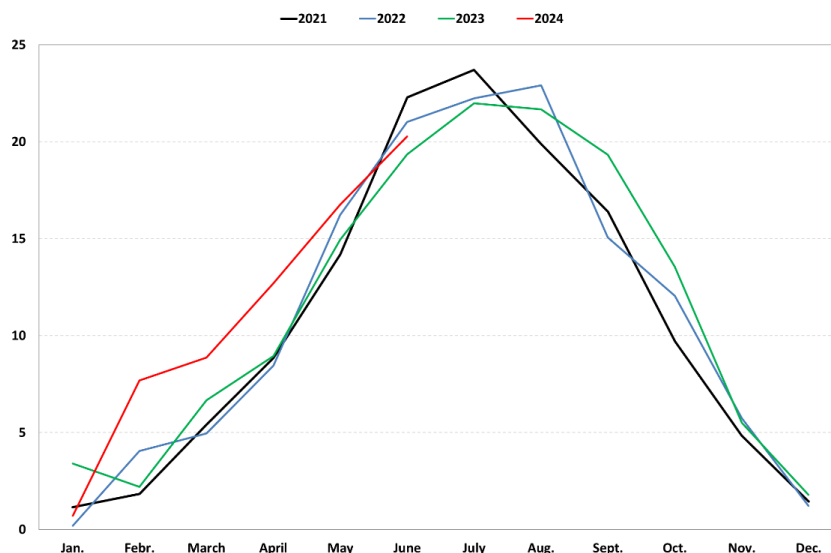
Revenue for H1 2024 was HUF 4.129bn (-32% YoY), while revenue from geothermal heat sales amounted to HUF 4.028bn (-31% YoY). Over the first half of the year, heat sales reached 926,807 GJ, which is somewhat lower than the amount the company sold in H1 2023 (979,654 GJ), and below the management's plan of 975,121 GJ (-5%). In Q1 2024 the company sold 646,259 GJ, which was 1.9% higher than the target amount and 1.3% higher YoY. In Q2 2024 PannErgy sold 280,548 GJ, which was 17.6% below management's plan and also 17.9% lower YoY. The weather was significantly milder in Q2 compared to last year, which resulted in below-average heat sales. Overall, the Győr project accounted for ~57% of heat sales volume in H1, while the Miskolc project for ~42% (the ratios are roughly the same YoY).

In terms of sales revenue by project, **Győr contributed HUF 2.535bn to the sales revenue in H1 2024 (-30% YoY), which is ~62.9% of heat sales related revenues** (~57% of H1 volume). Out of this, sales to Győr-Szol CPlc. amounted to HUF 1.602bn (-30% YoY and ~63.2% share of Győr sales), while HUF 932m (-30% YoY and ~36.8% share of Győr sales) is related to the company's automotive industry customer. **Sales from the Miskolc project amounted to HUF 1.433bn (-33% YoY), which is ~35.6% of heat sales related revenues** (~42% of H1 volume). Most of the heat was sold to MIHŐ Miskolci Hőszolgáltató Ltd. (HUF 1.418bn). The two smaller projects, Szentlőrinc and Berekfürdő, contributed to sales by HUF 52m and HUF 54m (out of which HUF 49m is electricity sales).

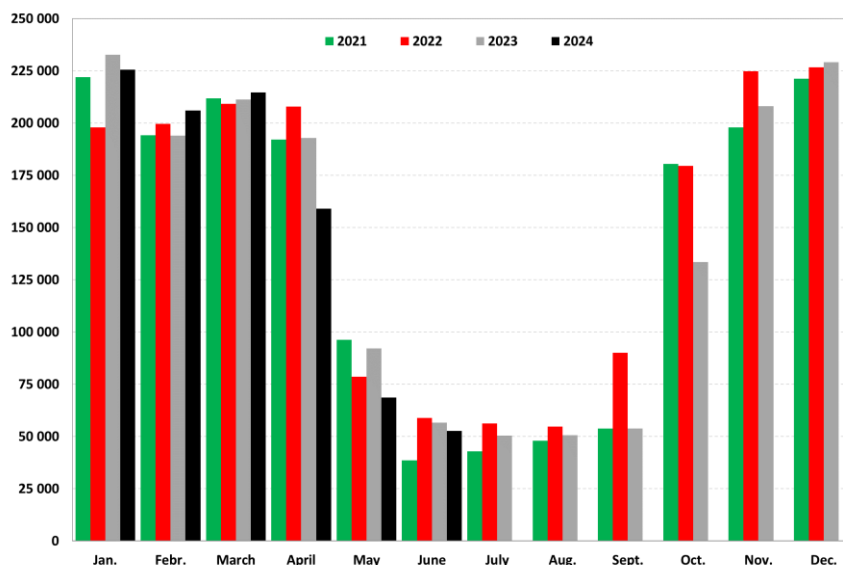
Direct costs amounted to HUF 3.286bn (-19% YoY), which is mainly the result of a decrease and normalisation of electricity costs. Electricity charges dropped to HUF 1.13bn from HUF 2.08bn a year ago (-46% YoY). At the same time, there was a modest increase in direct depreciation costs (+5.2% YoY) and maintenance, operation and facility management costs are also up (+11% YoY). **Given the decrease in revenue was higher than the drop in direct costs, gross profit margin declined to 20.4% from 32.9%.** Overall, gross profit was HUF 843m down 57.7%. The Group's administrative and overhead costs slightly increased by 2.2% YoY to HUF 378m. At the same time, other revenues were significantly higher, up by 277% to HUF 559m from HUF 148m. Last year the company set aside provisions of HUF 329m out of which HUF 185m was released in H1 this year, which is accounted for as other revenue. The company also booked HUF 184m revenue increasing accruals. Other expenditures amounted to HUF 132m (-72% YoY), the difference is mostly related to the provisioning in the base period.

This brings EBIT to HUF 892m (-31% YoY). EBITDA amounted to HUF 1.905bn (-16% YoY), while EBITDA ratio increased to 46.1% from 37.4%. We note that last year's EBITDA ratio was distorted by the significantly higher heat tariffs that have been adjusted to reflect higher production and indirect costs, while depreciation costs did not jump proportionately. **As electricity charges decreased and heat tariffs were lowered the EBITDA ratio reverted back to historical levels (47% in H1 2022 and 45% in H1 2021).**

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



Consolidated heat sales (GJ)



The company reported a net financial loss of HUF 155m in H1, which is 58% higher YoY. This includes HUF 64m FX loss from revaluations compared to a gain of HUF 140m in the base period due to the weakening of the HUF against the EUR.

Overall, the company reported HUF 698m net income after tax, which is 39.8% lower YoY. The recognised tax payment obligation was HUF 39m in H1 2024 compared to HUF 42m in H1 2023.

Looking ahead, the company maintains its plan to sell a total of 1,773,116 GJ in 2024 (+4% YoY) and in H1 delivered 52.3% of that. **The management also confirmed that the HUF 1.905bn H1 EBITDA is an adequate basis for the HUF 3.9bn-4.1bn EBITDA plan in 2024.** This is in line with our EBITDA forecast of HUF 3.94bn this year.

Other notable highlights:

- 1) **New Miskolc well:** the company noted that the project is in progress and the new facility is **expected to be commissioned at the beginning of the 2024/2025 heating**

season in line with the current schedule. PannErgy incurred a total of HUF 1.269bn in investment costs by the end of the reporting period. No non-refundable grant has been drawn down to date but the company has used short-term bank financing to pre-finance the grant. We maintain our previous EBITDA impact estimate of the new Miskolc well of ~40m HUF this year and ~110m HUF in 2025. In our calculations we have estimated a total project CAPEX of ~2.5bn HUF (not reduced by the grants), which implies a further ~1.2bn HUF requirement post the reporting period. The company at the end of June had HUF 620m liquid assets and HUF 1.487bn securities (short-term discount Treasury bills and government bonds maturing within a year), hence remaining investment requirements seem adequately covered by the available liquidity.

- 2) **Share capital decrease:** the AGM held on 30 April 2024 decided on the reduction of share capital. As a result the number of ordinary shares decreased from 20 million to 18 million via the cancellation of treasury shares by 2 million. Consequently the number of treasury shares decreased from 4,917,620 (~24.59% of total shares) to 2,917,620 (~16.21% of total shares).
- 3) **Treasury share transactions:** the company purchased no treasury shares during H1 2024 in relation to the current share buyback programme running between 2 May 2024 and 17 April 2025. The scope of the programme is HUF 1.5bn up to a share price of HUF 1,997. As previously noted, the company intends to make a significant portion of treasury share purchases over 2025, following the completion of the new Miskolc well. At the current share price the budget would cover the purchase of ~1.08 million shares (~6% of total shares and ~7.16% of total non-treasury shares).

P/L Table consolidated (million HUF)	2024H1	2023H1	2022H1	2021H1	2020H1	2019H1
Revenue	4 129	6 051	3 686	3 444	3 197	3 121
Net other revenue	427	-322	218	42	-13	106
OPEX	3 664	4 430	2 976	2 674	2 572	2 447
From which:						
* SGA	378	370	273	258	247	233
* Depreciation	1 013	965	807	748	798	671
EBITDA	1 905	2 265	1 735	1 560	1 461	1 451
EBIT	892	1 299	928	812	612	780
EBT	737	1 201	734	727	106	618
Income Taxes	39	42	2	63	13	15
Net income	698	1 159	732	664	93	603
EPS (HUF)	46,00	74,00	45,10	39,82	5,01	32,90

	2023H1	2023H1	2022H1	2021H1	2020H1	2019H1
EPS (HUF)	46,00	74,00	45,10	39,82	5,01	32,90
EBITDA (HUFm)	1 905	2 265	1 735	1 560	1 461	1 451
Gross profit rate (%)	20,4%	32,9%	26,7%	29,9%	27,3%	29,1%
EBIT rate (%)	21,6%	21,5%	25,2%	23,6%	19,1%	25,0%
EBITDA rate (%)	46,1%	37,4%	47,1%	45,3%	45,7%	46,5%
ROE (%)	5,9%	10,2%	7,1%	6,7%	0,9%	5,9%
ROA (%)	2,7%	4,3%	2,8%	2,6%	0,4%	2,3%
ROS (%)	16,9%	19,2%	19,9%	19,3%	2,8%	19,3%

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
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
17/01/2024	BUY	HUF 1,908	Equity note
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

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

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

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This document was prepared by:

Ákos Szemán
Equity Analyst
OTP Research

This document was finalized at 4:48:33 PM on 25 September 2024