

EQUITY NOTE: PANNERGY NYRT.

Recommendation: BUY (unchanged)

Target price (12M): HUF 2,072 (unchanged)

17 January 2025

Highlights

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PannErgy had an excellent Q4 and produced a record 676,675 GJ energy, which is 18.6% higher YoY and it is also 7.2% higher than the management's plan was for the quarter (631,543 GJ). The record Q4 heat sales can be primarily attributed to favorable weather conditions and the newly installed third production well in Miskolc also contributed to the great performance. We note, however, that the new, so-called two-element pricing system that was put in place from 2024 October is less sensitive to heat volume sold (ie. introduction of monthly base tariff but lower heat sales tariff). Overall, the company sold 1,766,586 GJ in 2024, which is 3.6% higher YoY but 0.4% below the management target. The heat sales target for 2025 is 1,770,599 GJ.

The management maintains the consolidated EBITDA target range of HUF 3.9-4.1bn for 2024. For 2025, the company has set a consolidated EBITDA target range of HUF 4-4.15bn HUF (+1.88% YoY on a mid-point basis). Our current EBITDA estimate for 2024 is HUF 3.91bn, while it is HUF 4.16bn for 2025. The figures already include the estimated impact of the new Miskolc well, which is now in operation. We reiterate our BUY recommendation with the same target price (HUF 2,072) as before.

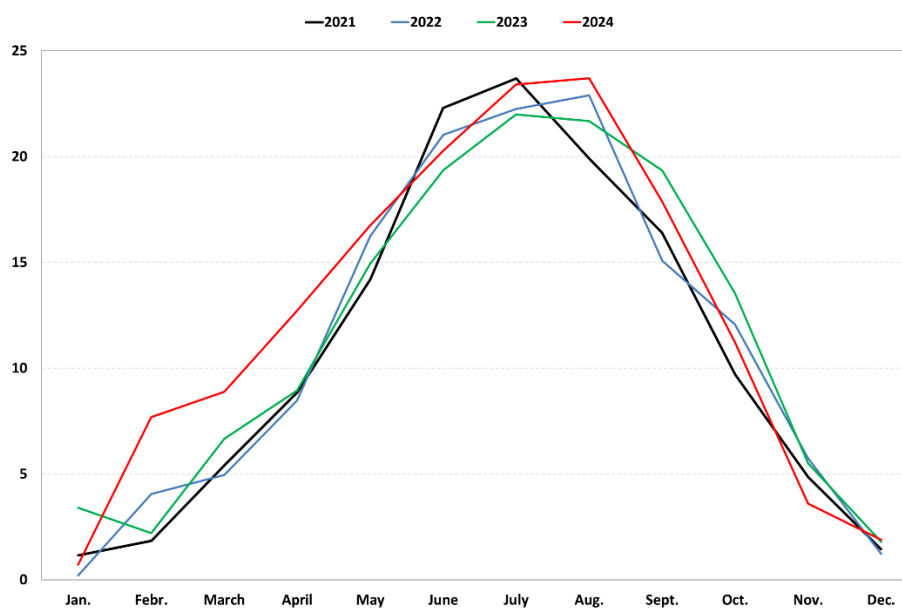
Main takeaways from the quarterly production report:

In the fourth quarter, PannErgy produced record 676,675 GJ energy, which is 18.6% higher than a year earlier and it is also 7.2% higher than the management's plan was for this quarter (631,543 GJ). The record heat sales can be primarily attributed to favorable weather conditions and the newly installed third production well in Miskolc also contributed to the great performance. We note, however, that the new, so-called two-element pricing system that was put in place from 2024 October is less sensitive to heat volume sold. The new system includes not only the usual heat tariff element applicable for the amount of heat sold but also a monthly base tariff. The base tariff itself is divided into two seasonality periods (a higher one for October-December and a lower one for January-October). Effectively this means that the heat tariffs for the heat volume sold are now significantly lower, hence this has an overall lower revenue impact. On the other hand, the monthly fix base tariff element provides a more predictable and less seasonally dependent revenue stream. Overall, the company sold 1,766,586 GJ in 2024, which is 3.6% higher YoY but 0.4% below the management target (1,773,116 GJ). The heat sales target for 2025 is 1,770,599 GJ.

Regarding the performance of individual sites, **Miskolc produced a record 308,864 GJ in Q4, an increase of 23.5% YoY (250,086 GJ)**. As mentioned above, the new Miskolc well contributed to this performance. At the same time, **production in Győr was 359,211 GJ in Q4, which is also a record and 14.6% higher YoY (313,436 GJ)**. Overall, the Győr project accounted for ~53.1% of heat sales volume in Q4, while the Miskolc project for ~45.6% (in Q4 2023 Győr accounted for ~54.9% of heat sales and Miskolc for ~43.8%). **Overall, in 2024 the Miskolc site produced 759,281 GJ (+6.1% YoY), while Győr produced 985,262 GJ (+1.8% YoY)**.

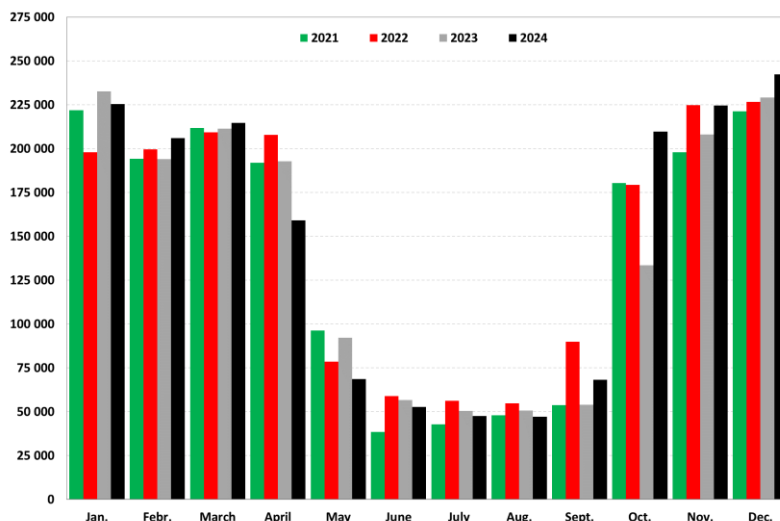
The management maintains the consolidated EBITDA target range of HUF 3.9-4.1bn for 2024. Our current EBITDA estimate for 2024 is HUF 3.91bn, which is in line with management's guidance. **For 2025, the company has set a consolidated EBITDA target range of HUF 4-4.15bn (+1.88% YoY on a mid-point basis)**. Our current EBITDA estimate for 2025 is HUF 4.16bn, which is incrementally higher than management's upper EBITDA target (this estimate already includes the expected impact of the new Miskolc well).

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



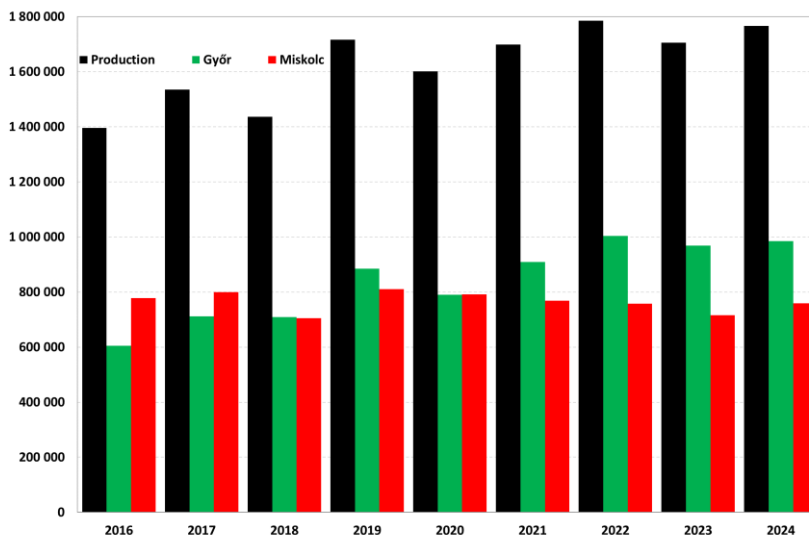
Source: AccuWeather

Monthly consolidated heat sales 2021-2024 (GJ)



Source: PannErgy

Annual heat sales: overall and by site 2016-2024 (GJ)



Source: PannErgy

Other notable highlights:

New Miskolc well: the company disclosed on Nov 8th that it has completed the boring of the 3rd geothermal production well in Miskolc with the official well testing. PannErgy also confirmed that the results of the official well testing without the operation of the well-pump indicated that the new well has the required capacity to meet previously expected results of the investment. These previously expected results include: (A) the usable capacity of the system may increase by up to 15-20% and (B) the new well will improve the operational continuity significantly (spare capacity will become available and restart of heat production in an event of failure would be a few hours vs. 7-12 days of well-pump replacement). On Nov 26th PannErgy confirmed that it has also carried out well testing with a well-pump in operation and results confirmed the achievement of the objectives expected from the investment as mentioned above already.

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
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
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

Period	Recommendations	Percent of recommendation
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%
2025Q1	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 finalized at 3:44:08 PM on 17 January 2025