

# 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 154,949 GJ energy in Q3, which is 23% lower YoY, and it is also 19.8% lower than the management's plan was for the quarter. The weaker performance was primarily due to weather conditions as the average temperature in September was unusually high compared to historical values. It should be noted, however, that heat sales volumes are typically the lowest in Q3 compared to other periods due to seasonality, hence the impact of the relatively weaker Q3 performance on the yearly target is limited (but still negative). The company sold 1,134,603 GJ in Q1-Q3 this year, which is 0.7% less than the management's plan for Q1-Q3, hence the yearly target still seems achievable in our view. The management confirmed the expected fulfilment of the HUF 3.95-4.15bn EBITDA target range for the year. Our 2023 EBITDA forecast number is HUF 4.08bn, which is in line with management's guidance. For 2024, we estimate EBITDA to be HUF 3.83bn. We maintain our BUY recommendation with the same target price (HUF 1,908) as before.

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

In the third quarter, PannErgy produced 154,949 GJ energy, which is 23% lower than a year earlier, and it is also 19.8% lower than the management's plan was for this quarter (193,174 GJ). The weaker performance was primarily due to weather conditions as the average temperature in September was significantly higher compared to historical values (while temperatures in July and August were similar to previous years). According to PannErgy's production report this was the warmest September since 1901.

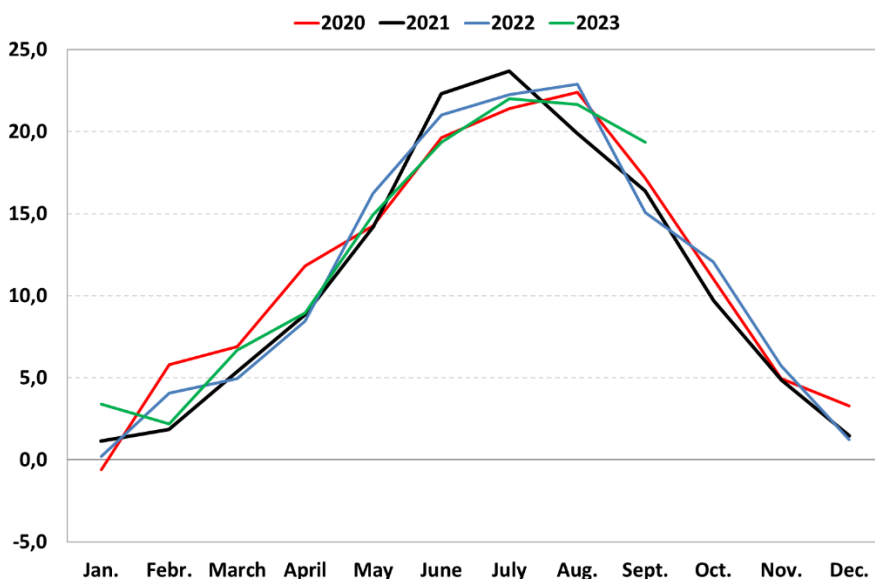
It should be noted, however, that heat sales volumes are typically the lowest in Q3 compared to other periods due to seasonality, hence the impact of the relatively weaker Q3 performance on the yearly target is limited (but still negative). So far PannErgy sold 1,134,603 GJ in Q1-Q3 this year, which is 0.7% less than management's Q1-Q3 plan (1,142,517 GJ). This means that the company would need to perform just minimally better than the Q4 management target in order to hit the overall 2023 target, hence this still seems achievable.

Regarding the performance of individual sites, Miskolc produced 57,505 GJ in Q3, a 33.9% decrease YoY (86,925 GJ), mainly due to the above-mentioned weather condition. At the same time, production in Győr was 95,915 GJ in Q3, a 14.9% decrease compared to the previous year (112,734 GJ). The Győr site performed relatively better despite the unfavourable weather in September, which can be attributed to (A) investment activity in

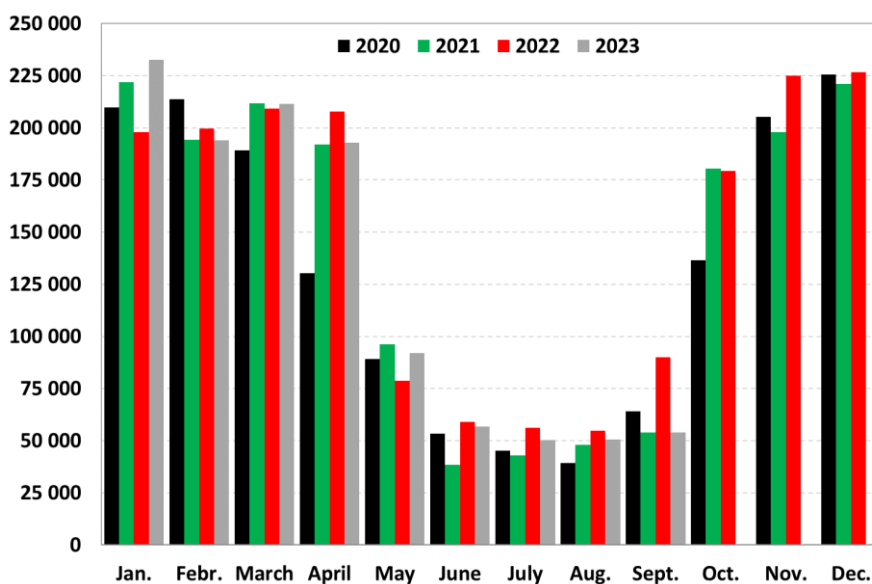
recent periods and (B) the previous agreement with GYŐR-SZOL Zrt. that gives priority to geothermal energy. **Overall, the Győr project accounted for ~61.9% of heat sales volume in Q3, while the Miskolc project for ~37.1% (in Q2 Győr accounted for ~58% of heat sales and Miskolc for ~41%).**

The management confirmed that the company is expected to fulfil the consolidated HUF 3.95-4.15bn EBITDA target range in 2023 (+12.1% midpoint basis YoY), which was previously published. Our current 2023 EBITDA estimate is HUF 4.08bn, which is in line with management’s guidance. For 2024, we estimate EBITDA to be HUF 3.83bn.

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



Consolidated heat sales (GJ)



### ***Other notable highlights:***

**Treasury share transactions:** the company has spent (up to 12<sup>th</sup> Oct) HUF 341 million on share repurchases, which is 37.9% of the authorized amount under the program approved this year. Overall, this means that PannErgy purchased under the program 289,525 shares (1.45% of total shares and 1.87% of total non-treasury shares) for an average price of HUF 1,178.6 / 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 (22.41% at the moment).

### ***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.
- Pandemic risks:** Based on our current knowledge, covid-19 has no material effect on the company. However, the covid crisis and its economic effects may change rapidly and unpredictably in the future. This may pose some unforeseen risks for PannErgy as well.

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

Date	Recommendations	Target Price	Publication
19/04/2022	BUY	HUF 1,420	Equity note
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

Period	Recommendations	Percent of recommendation
2022Q4	BUY	100%
	HOLD	0%
	SELL	0%
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%

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

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