

EQUITY NOTE: PANNERGY NYRT.

Recommendation: BUY

Target price (12M): HUF 1,450

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Highlights

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PannErgy announced yesterday that the range of its EBITDA plan for the 2022 financial year of HUF 3-3.1bn has been revised upward, given the recent MEKH announcement, which is related to the treatment of profits made by MAVIR in the separate coffers of the KÁT and Premium schemes due to high electricity prices. The new EBITDA range is HUF 3.15-3.25bn, an increase of ~5% on a midpoint basis. This is a positive development for the company, which will be reflected in our model, which we plan to refresh following the publication of the 2021 annual financial results in March.

Management announced higher 2022 EBITDA plan range:

The company announced yesterday that the range of the EBITDA plan for the 2022 financial year of HUF 3-3.1bn has been revised in line with the announcement and forecast of the the Hungarian Energy and Public Utility Regulatory Authority (MEKH) of 16 February 2022. The new EBITDA range for the 2022 financial year is HUF 3.15-3.25bn, an increase of ~5% on a midpoint basis. This would also mean that EBITDA growth is expected to be ~12.7% YoY rather than the previous figure of ~7.4% YoY. We also note that actual EBITDA exceeded management's expectations in both 2019 and 2020 and it is expected to be within the planned range also for 2021 (HUF 2.8-2.88bn). The new guidance is ~3% higher than our forecast number of HUF 3.11bn for 2022.

According to the MEKH announcement, the market price of electricity has been well above the subsidised prices under KÁT (Mandatory Off-Take Scheme) and METÁR (Renewable Support Scheme) in the recent period. This means that MAVIR, as the company paying the subsidies, has made a profit in the separate coffers of the KÁT and Premium schemes. Based on the current regulations, effective as of 1 January 2022, if the revenues of the schemes exceed the costs, the ultimate beneficiaries of the profit will be the large consumers financing the schemes. Consequently, large consumers, including members of the PannErgy Group, can expect to receive monthly payments in the future as long as the revenues from the sale of electricity at market prices exceed the costs related to the KÁT and METÁR subsidies. The payment amounts will depend mainly on the level of electricity prices in a given month and the amount of electricity subsidised under the KÁT and METÁR schemes.

Overall, this is positive news for the company and will be reflected also in our model, which we plan to refresh following the publication of the 2021 annual financial results

(expected on 24 March 2022). For the time being, we maintain our current price target of HUF 1,450 and the BUY recommendation.

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.

5. **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.

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
15/04/2020	BUY	HUF1,196	Equity note
20/07/2020	BUY	HUF 1,196	Equity note
20/07/2020	BUY	HUF 1,216	Equity note
16/10/2020	BUY	HUF 1,204	Equity note
18/01/2021	BUY	HUF 1,204	Equity note
29/03/2021	BUY	HUF 1,387	Equity note
19/04/2021	BUY	HUF 1,387	Equity note
16/07/2021	BUY	HUF 1,387	Equity note
06/09/2021	BUY	HUF 1,387	Equity note
06/10/2021	BUY	HUF 1,450	Equity note
18/10/2021	BUY	HUF 1,450	Equity note
17/01/2022	BUY	HUF 1,450	Equity note

Period	Recommendations	Percent of recommendation
2021Q1	BUY	100%
	HOLD	0%
	SELL	0%
2021Q2	BUY	100%
	HOLD	0%
	SELL	0%
2021Q3	BUY	100%
	HOLD	0%
	SELL	0%
2021Q4	BUY	100%
	HOLD	0%
	SELL	0%
2022Q1	BUY	100%
	HOLD	0%
	SELL	0%

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

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