

# EQUITY NOTE: PANNERGY

**Recommendation: Buy**

**Target price (12M): HUF 1,024**

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Equity Analyst:  
Dániel Módos

Phone:  
+36 1 301 2810

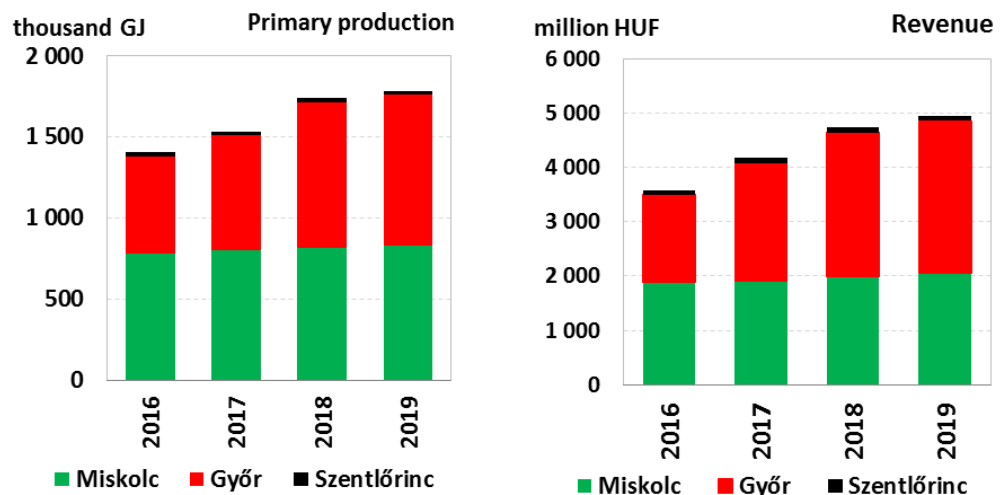
Email:  
modosd@otpbank.hu

Pannergy Nyrt. has released its quarterly production report for 2017Q4. Based on the report we see no downside risk to our forecast so far, but the start of the secondary heat sales in Győr location is definitely good news.

## Q4 production was in line with our forecast

- In Miskolc, the 310,427 GJ output in the fourth quarter represents 5% increase compared to the same period of the previous year. Production in 2017 as a whole was 799,719 GJ, almost matching our 800,000 GJ forecast. The report does not mention any extraordinary circumstances concerning production, maintenance, or sales at the Miskolc Project.
- In Győr, the production went ahead as planned, although it was lower in September and October, as a supplier delayed the instalment of a well. Pannergy was fully compensated for this pause, so the lower production leaves its revenues unaffected. Overall production was 711,980 GJ in full year 2017 – this is below our 737,000 GJ forecast but it was compensated for, as mentioned above.
- In the case of the Szentlőrinc project, the overall production was 23,925 GJ in full year 2017, slightly less than our 25,261 GJ forecast. The report also mentioned that the well pump would need to be replaced in mid-2018, but it was mainly incorporated in our forecast as a yearly maintenance cost.

**Pannergy's primary production and revenues**



### **Secondary heat sales started in Győr**

- The secondary heat sales for the first customer (Innovativ Special Transport Kft) in the Győr location started in November 2017. No exact information is available on the size of the deal but given the company's revenue (around HUF 1 bn) and its balance sheet (HUF 834 million) for 2016, in our estimate the deal could be worth less than HUF 10 million a year. Our forecast will be updated with the new information when its effect can be estimated properly. Overall this is very good news, as it shows that the management sticks to its plan to expand secondary heat sales.

### **Other recent news:**

- On 18 December 2017 the number of Pannergy-owned shares decreased to 3,277,638 as the management called 98,000 option shares under the managerial share option programme. As a result, the ratio of owned shares declined to 15.57%.
- After market close on 12 January 2018 Pannergy Nyrt. announced a change in its ownership structure. ONP Holdings SE sold its share in the company (1,750,000 shares) in an OTC deal. Cashline Holding Zrt bought 1,850,000 shares; its ownership in Pannergy grew to 8.79% and its voting right became 10.41%. We see it as neutral news concerning our valuation.

### **Our valuation is unchanged**

- The production data was mainly in line with our forecast and no extraordinary event was mentioned which would mandate the change of our target price concerning the primary production.
- The start of the secondary heat sale is positive news, but its exact effect cannot be estimated based on the currently available information.
- The increase in the outstanding shares would indicate a slight decrease in our FCFF forecast, but we assume that its effect is compensated by the new sales of secondary heat.
- **Therefore we leave our valuation unchanged at HUF 1,024.**

**The initiation report which contains the methodology and assumptions of the models used is available at:**

<https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/OTP-Research-Pannergy-initiation-report-20171218.pdf1>

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This document was prepared by:

Dániel Módos

Senior Equity Analyst

OTP Research

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