

# EQUITY NOTE: PANNERGY NYRT.

**Recommendation: BUY (unchanged)**

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

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## Highlights

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PannErgy produced 163,104 GJ energy in Q3, which is 5.3% higher YoY, but slightly lower than the management's plan was for the quarter. The weather was significantly warmer during the summer, which was followed by a cooler September. We note, that heat sales volumes are typically the lowest in Q3 compared to other periods due to seasonality, hence the impact of Q3 performance on the yearly target is somewhat limited. The company sold 1,089,910 GJ in Q1-Q3 this year, which is 4.5% less than the management's plan for Q1-Q3, hence a small miss vs. yearly sales target is likely in our view. The management confirmed the expected fulfilment of the HUF 3.9-4.1bn EBITDA target range for the year. Our 2024 EBITDA forecast number is HUF 3.91bn, which is in line with management's guidance. We maintain our BUY recommendation with the same target price of HUF 2,072.

## Main takeaways from the quarterly production report:

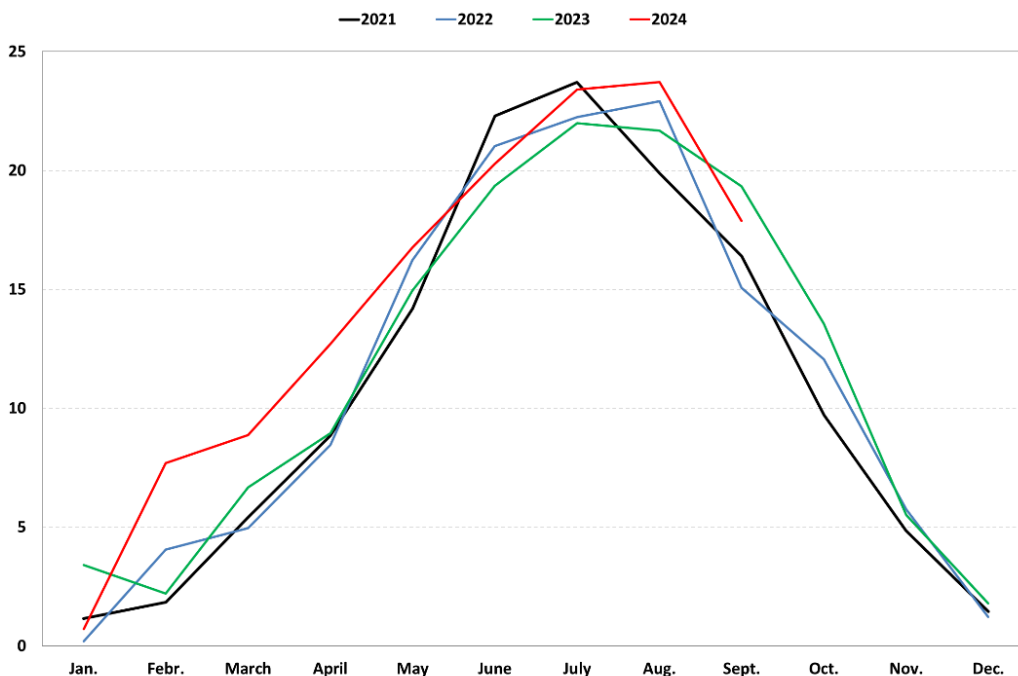
In the third quarter, PannErgy produced 163,104 GJ energy, which is 5.3% higher than a year earlier but 2% lower than the management's plan was for this quarter (166,451 GJ). As noted by the company, the weather was significantly warmer during the summer, which was followed by a cooler, rainy September. We note, that **heat sales volumes are typically the lowest in Q3 compared to other periods due to seasonality**, hence the impact of Q3 performance on the yearly target is somewhat limited.

So far PannErgy sold 1,089,910 GJ in Q1-Q3 this year, which is 4.5% less than the management's Q1-Q3 plan (1,141,572 GJ) and 3.9% lower YoY. This means that even if Q4 heat sales volumes will be in line with the Q4 target (631,543 GJ), the annual production would be 1,721,453 GJ, a roughly 2.9% miss vs. management target. Of course, if Q4 weather is relatively colder the difference may be smaller.

Regarding the performance of individual sites, Miskolc produced 61,101 GJ in Q3, a 6.2% increase YoY (57,505 GJ). At the same time, production in Győr was 100,583 GJ in Q3, a 4.9% increase compared to the previous year (95,915 GJ). Overall, the Győr project accounted for ~61.7% of heat sales volume in Q3, while the Miskolc project for ~37.5% (this is roughly in line with Q3 2023 ratios).

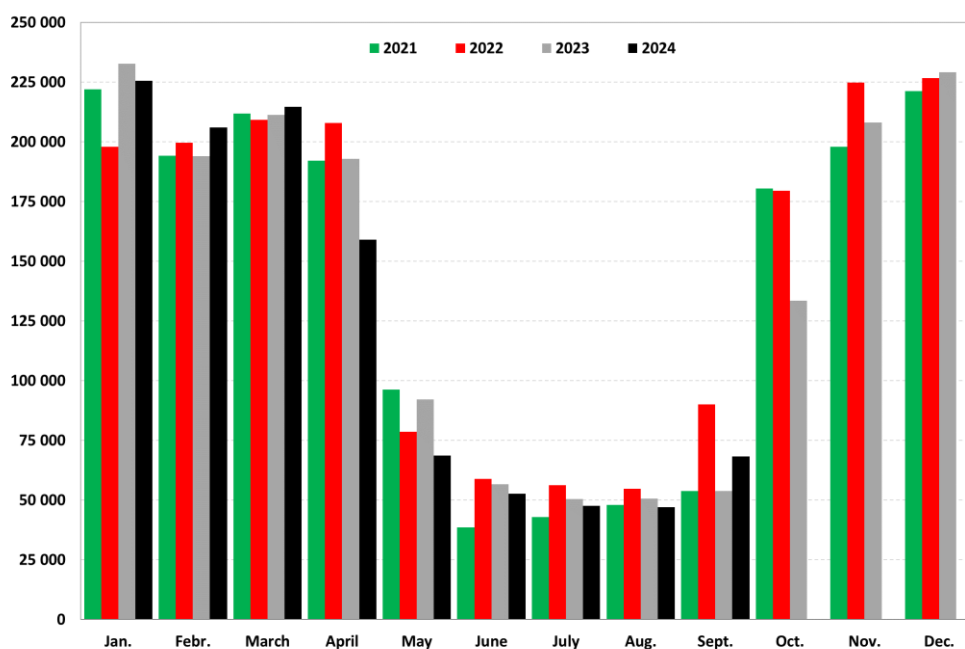
The management confirmed the expected fulfilment of the 2024 EBITDA target range of HUF 3.9-4.1bn that was published previously. Our current 2024 EBITDA estimate is HUF 3.91bn, which is in line with management’s guidance.

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



Source: AccuWeather

Consolidated heat sales (GJ)



Source: PannErgy

## ***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.

**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
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
25/09/2024	BUY	HUF 1,997	Equity note
04/10/2024	BUY	HUF 2,072	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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