

EQUITY NOTE: PANNERGY NYRT.

Recommendation: BUY

Target price (12M): HUF 1,387

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Highlights

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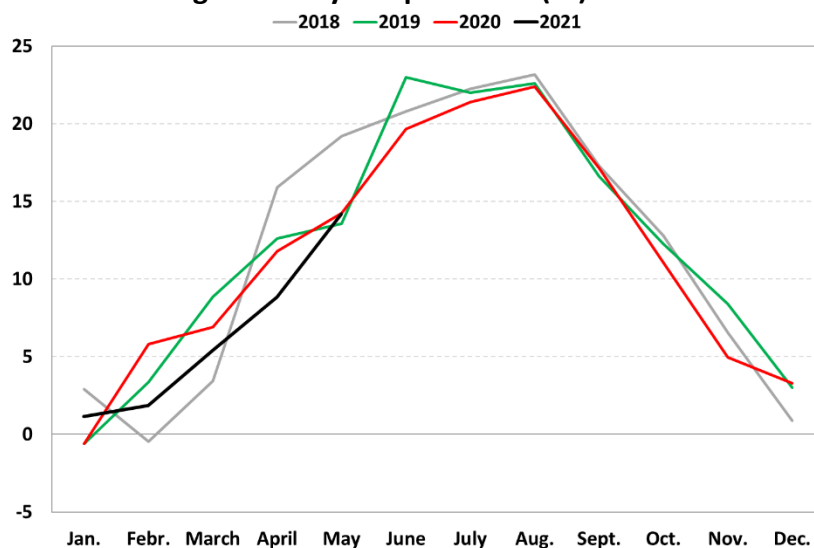
Overall the Q2 production report came above expectations due to the colder than usual weather. This effected mainly the heat sales in April, which was 47.3% higher than a year ago and higher than in any other year since 2017. Overall, heat sales in Q2 increased by almost 20%, surpassing the management expectations as well.

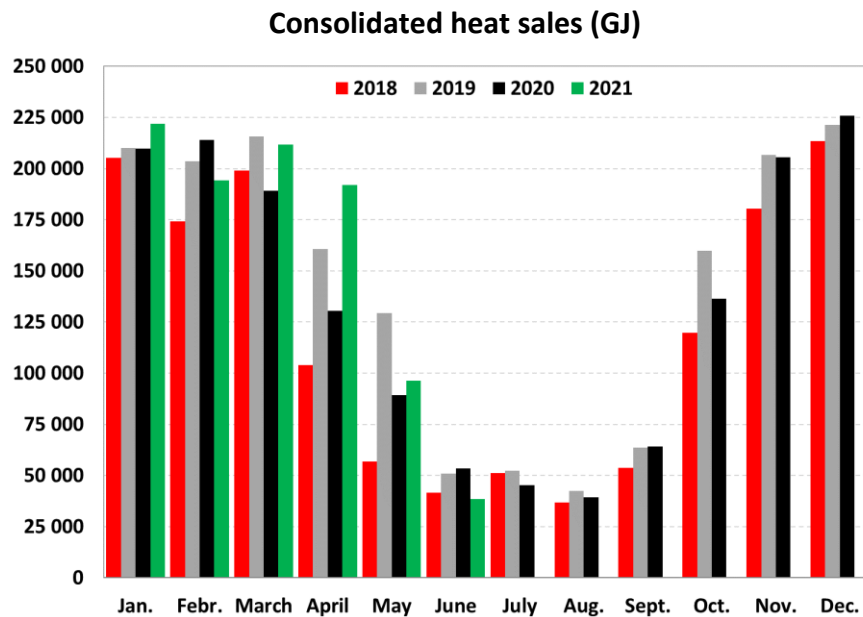
Highlights of the quarterly production report

In the second quarter of 2021, overall production was 326,981 GJ (+19.8% YoY), which is 12.6% higher than the management's target was. Looking at the monthly temperature chart it can be seen that the lower average temperature in Q2 was responsible for the higher heat sales, mainly in April.

Looking at the individual production sites, in Miskolc heat sales amounted to 162,958 GJ (+20% YoY) due to the positive weather effects. In Győr, productions was 161,121 GJ (+20% YoY). In Szentlőrinc, production was 2,786 GJ, 11.8% higher than a year ago. Other than the main production numbers, the Quarterly production report did not contain any material information. Due to the fact that the better than expected Q2 numbers are due to weather-related effects, there is no reason to change **our valuation**, which is maintained at the previous HUF 1,387, with a continued Buy recommendation.

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





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 addressed, 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
16/01/2020	BUY	HUF 1,196	Equity note
30/03/2020	BUY	HUF 1,196	Equity note
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

Period	Recommendations	Percent of recommendation
2020Q1	BUY	100%
	HOLD	0%
	SELL	0%
2020Q2	BUY	100%
	HOLD	0%
	SELL	0%
2020Q3	BUY	100%
	HOLD	0%
	SELL	0%
2020Q4	BUY	100%
	HOLD	0%
	SELL	0%
2021Q1	BUY	100%
	HOLD	0%
	SELL	0%
2021Q2	BUY	100%
	HOLD	0%
	SELL	0%

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

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