

# EQUITY NOTE: PANNERGY NYRT.

**Recommendation: BUY**

**Target price (12M): HUF 1,420**

**19 April 2022**

## Highlights

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PannErgy produced 606,790 GJ energy in Q1, which is 3.4% lower YoY, and it is 6.1% less than the management's plan was for the quarter, primarily due to technical issues related to the well pump in Miskolc in January, which was only partially offset by record heat sales in Győr. Despite the shortfall in Q1 production, the management confirmed the expected fulfilment of the HUF 3.25-3.35 bn EBITDA target range for the year. The figure was previously raised by the company from HUF 3.15-3.25 bn given an agreement with GYŐR-SZOL Zrt., operator of the district heating system in Győr, which will result in surplus heat potential. Our forecast number is HUF 3.28 bn for 2022 EBITDA, which falls within the updated range. We maintain our BUY recommendation with the same target price (HUF 1,420) as before.

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

In the first quarter, PannErgy produced 606,790 GJ energy, which is 3.4% lower than a year earlier, and it is 6.1% less than the management's plan was for this quarter (646,020 GJ). The shortfall is primarily due to temporary technical intervention needs and operational specificities arising in relation to the well pump in Miskolc in January. This was only partially offset by record heat sales in Győr.

Regarding the performance of the individual sites, Miskolc produced 242,889 GJ energy in Q1, an 11.3% decline YoY, primarily due to the above-mentioned issues. At the same time, Győr sold a historic record volume of 354,760 GJ energy, a 2.9% increase compared to the previous year. This is the result of previous investment activities. The smaller site at Szentlőrinc produced essentially the same energy YoY in Q1, amounting to 8,434 GJ.

Despite the shortfall in Q1 production relative to the 2022 target, the management confirmed the expected fulfilment of the consolidated HUF 3.25-3.35 bn EBITDA target range for the year. Our estimated 2022 EBITDA is HUF 3.28 bn, which falls within the company's target range.

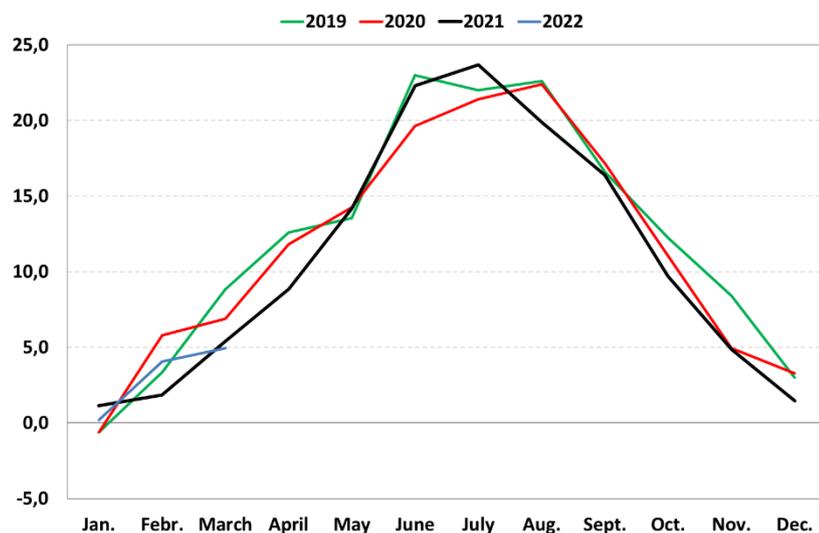
### **Other notable highlights:**

- 1) The company announced on the 30th of March that its indirect subsidiary, Arrabona Koncessziós Kft. had **concluded an agreement with GYŐR-SZOL Zrt., operator of the district heating system in Győr.** According to this agreement the geothermal heat source will have priority over other energy source alternatives feeding into the district heating system in the future. This mainly affects heat demand outside the heating season – in the heating season PannErgy has already operated close to its maximum capacity -, the surplus heat potential is approximately 25-25 TJ in Q2 and Q3 and 15

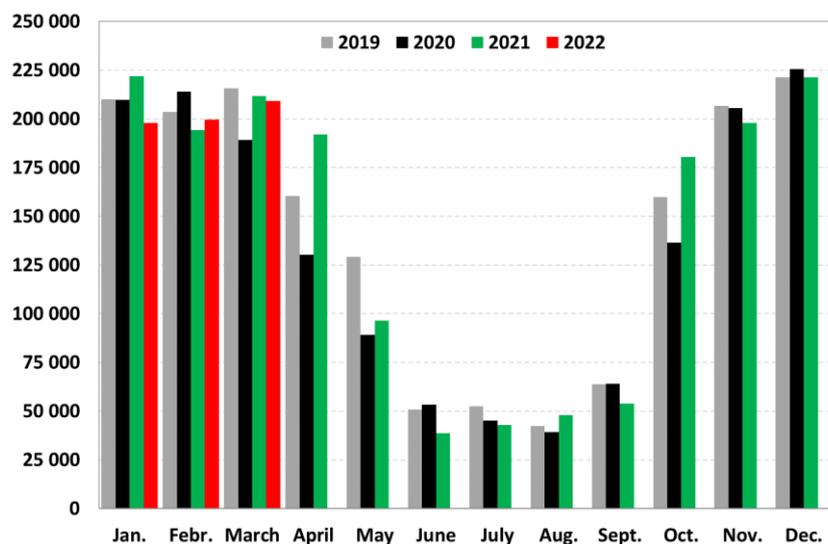
TJ in Q4. As a result, the company raised the range of the consolidated EBITDA plan to HUF 3.25-3.35 bn for 2022 (vs. previous range of HUF 3.15-3.25 bn).

- 2) Pannergy concluded a sale and purchase agreement on the 5th of April to **sell its utility distribution system in Debrecen, TT-Geotermia**, which owns some equipment and facilities that provide conventional utility distribution to Pannergy's properties held for utilisation and sale in Debrecen, as well as to several properties owned by third parties. The sale price was HUF 90 million, the transaction did not change the EBITDA plans.
- 3) The **General Meeting** originally planned for 13 April 2022 has not formed a quorum with respect to the number of attendees. It will be repeated at 9.00 a.m. on 29 (Friday) April 2022 at a different venue (1097 Budapest, Lurdy Konferencia- és Rendezvényközpont, Könyves Kálmán krt. 12-14. 2. room).

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



### Consolidated heat sales (GJ)



### ***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
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
18/02/2022	BUY	HUF 1,450	Equity note
26/03/2022	BUY	HUF 1,420	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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