CEE Utilities

Sector report

Pricing in the windfall taxes

We reiterate our positive view on the utilities. Among the larger names, we favour the Polish utilities, with Tauron as our top pick. Even with the windfall tax being floated in Poland, the carve-out story remains compelling and overshadows the potential hit, in our view. CEZ offers the smallest upside but here, the windfall tax seems to be priced in and the stock is trading at a very generous dividend yield, even if the tax is imposed. We find decent upside for the less liquid names that are less exposed to a possible windfall tax risk or other State interventions. Ignitis stands out, with high upside and limited policy and regulatory risk, followed by Photon and Fintel, two fully-green producers.

Positioning. We favour the Polish utilities, with Tauron as our top pick, as the upside potential from the imminent coal carve-out outweighs the risk of taxation or other interventions, in our models (please click here for further details). At this juncture, the upside at CEZ is limited, as it already trades at close to normal market multiples and the high dividend yield (11% for 2024E) offers limited scope for compression in view of higher interest rates. In an environment where regulatory risk is in focus, we highlight Ignitis with the government in Lithuania being very supportive, not planning new taxes and covering losses in regulated supply. Due to their small size and green portfolios, we also see small risks of Photon and Fintel taking a hit, as opposed to their larger, State-controlled and now very profitable peers.

Further downside from windfall taxes is limited, in our view. Both the Czech and Polish governments have called for (unspecified) windfall taxes on generators in recent weeks and the damage is largely priced in, we believe. At CEZ, we believe it is equally likely that the State would choose to extract cash though dividends vs. special taxes; and in Poland any tax would likely affect only the conventional assets that we expect to be taken over in 1Q23E, anyway. In Lithuania we believe Ignitis is in a similar situation to CEZ (dividends over taxes). Photon and Fintel, on the other hand, are small and green enough to fly below their governments' radars, in our view.

Power prices are at all-time highs. This is due to uncertainties related to the potential full halt of Russian gas flows, in our view. Even in this worst-case scenario, with gas shortages likely this winter, we still see new LNG inflows next year, lower uncertainty and, very likely, lower demand, driving prices down, despite high coal and CO2 prices. We are more conservative in our models than the current power forward trading, but note that the coming years could be very tough for both producers, which may be hit by government measures, and consumers, free or regulated.

Valuations: We are BUYers of all the names, with the largest upside at Photon, Ignitis and Fintel. We also favour the Polish utilities and their unique transition story, which balances many risks with great upside. We compute the lowest upside at CEZ, and remain cautious before the decision on the windfall tax. The major risks to our valuations include: power price levels and volatility; political or regulatory measures hitting cash flows; and higher dividends (on the upside).

Tauron
BUY (maintained)
Price: PLN 3.5
Price target: PLN 6.2 (unchanged)

PGE
BUY (maintained)
Price: PLN 10.5
Price target: PLN 13.2 (unchanged)

Enea
BUY (maintained)
Price: PLN 9.8
Price target: PLN 15.0 (unchanged)

CEZ
BUY (maintained)
Price: PLN 1,125
Price target: CZK 1,314 (from CZK 1,089)

Ignitis Group
BUY (maintained)
Price: EUR 17.5
Price target: EUR 29.4 (from EUR 24.8)

Photon Energy
BUY (maintained)
Price: CZK 62
Price target: CZK 90 (from CZK 84)

Fintel Energija
BUY (maintained)
Price: RSD 590
Price target: RSD 868 (from RSD 814)

Company	Ticker	Market cap (EUR m)	ADTV 3M (EUR m)	Last price	12M PT	Upside	Rating	P/E		EV/EBITDA		Div. yield (%)	
								2022E	2023E	2022E	2023E	2022E	2023E
CEZ	CEZ CP	24,701	14.2	1,125	1,314	17%	BUY	11.4	8.5	7.1	5.8	7.1%	9.4%
PGE	PGE PW	4,972	6.2	10.5	13.2	25%	BUY	5.0	3.3	3.0	2.8	0.0%	0.0%
Enea	ENA PW	1,268	1.0	9.8	15.0	54%	BUY	4.2	2.5	2.6	3.0	0.0%	0.0%
Tauron	TPE PW	1,275	2.0	3.5	6.2	79%	BUY	5.4	3.8	5.0	3.6	0.0%	0.0%
Ignitis	IGN LI	1,300	0.1	17.5	29.4	68%	BUY	7.4	7.4	6.5	6.5	7.3%	7.5%
Fintel	FINT SG	133	0.0003	590	868	47%	BUY	29.9	30.2	16.1	18.9	0.0%	0.0%
Photon	PEN CP	151	0.1	62	90	46%	BUY	39.4	11.7	11.1	9.8	0.0%	0.0%

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EQUITY RESEARCH

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Closing Prices as of 19 July 2022

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Investment case: strong margins often do not mean strong profits

We reiterate our positive view on the utilities. Among the larger names, we favour the Polish utilities, with Tauron being our top pick, followed by Enea and PGE. CEZ offers smallest upside but the windfall tax being discussed currently seems to be priced in and the stock offers very a generous dividend. We also find decent upside at the less liquid names, which are also less exposed to the windfall tax risk or other State interventions. Ignitis stands out, with the least policy and regulatory risks, followed by Photon and Fintel on attractive valuations. Currently, all the stocks are either benefiting from spiking power prices, or are in a favourable position for growth in future. With consumer electricity bills rising across the region, however, some governments are already considering ways to limit, if not halt, power price growth, or taxing the generators, either for budget purposes or to redirect generation profits to consumers. This is hurting valuations and scaring off investors. We believe the three smaller companies should not be affected by any new measures, while the share prices of the larger four are already pricing in the negative news and remain too cheap to ignore.

Coverage overview

Company	Ticker	Mcap (EURm)	3M ADTV (EURm)	Last price	12M PT	Upside	Rating	P/E (x)		EV/EBITDA (x)		Div. yield (%)	
								2022E	2023E	2022E	2023E	2022E	2023E
CEZ	CEZ CP	24,701	14.2	1,125	1,314	17%	Buy	11.4	8.5	7.1	5.8	7.1%	9.4%
PGE	PGE PW	4,972	6.2	10.5	13.2	25%	Buy	5.0	3.3	3.0	2.8	0.0%	0.0%
Enea	ENA PW	1,268	1.0	9.8	15.0	54%	Buy	4.2	2.5	2.6	3.0	0.0%	0.0%
Tauron	TPE PW	1,275	2.0	3.5	6.2	79%	Buy	5.4	3.8	5.0	3.6	0.0%	0.0%
Ignitis	IGN LI	1,300	0.1	17.5	29.4	68%	Buy	7.4	7.4	6.5	6.5	7.3%	7.5%
Fintel	FINT SG	133	0.0003	590	868	47%	Buy	29.5	30.2	16.1	18.9	0.0%	0.0%
Photon	PEN CP	151	0.1	62	90	46%	Buy	39.4	11.7	11.1	9.8	0.0%	0.0%
Total/average		**33,801**	**23.6**			**48%**		**14.6**	**9.6**	**7.3**	**7.2**	**2.1%**	**2.4%**

Source: Bloomberg, WOOD Research

Power prices vs. fighting inflation. Power prices in Europe are at all-time highs, with the main reason for the latest rally being uncertainties related to a potential full halt of the Russian gas flow, in our view. Looking at the latest developments, the worst-case scenario is moving closer. There could, indeed, be shortages of gas this winter in Europe, with landlocked countries, such as the Czech Republic facing this risk. In 1H23E, this capacity could be replaced by LNG, in our view, but this is a more expensive alternative. With elevated coal and CO2 prices, we do not assume that power prices to fall back to 2021 levels within our model periods, despite ongoing additions of cheaper, renewables capacity and probable lower demand in the coming years, due to the economic slowdown. We do not believe that current power price levels are sustainable, and we are more conservative in our forecasts than the forward market. Even with prices at double pre-COVID levels, either business and households would feel the pain, or the generators could be forced to share this burden through higher taxes on their profits, or the suppliers could take a hit to their margins. Having said that, we raise our power price assumptions and find decent upside for our coverage universe overall.

Windfall taxes or higher dividends? In each country under our coverage, the fight against power price inflation has already started, through direct or indirect support for consumers. These measures, however, are not sufficient, in our view, and the governments are starting to realise this. Windfall taxes are being discussed in the Czech Republic and Poland, but thus far, no credible plans have been proposed regarding exactly how the utilities could be affected. In the Czech Republic, we believe it would be much easier to increase CEZ's dividend, with net income to the State at around the same levels generated by a windfall tax. In Poland, we believe the main issue is the potential loss at supply units that would keep bleeding cash, with regulated price hikes having failed to catch up with the market prices for years. The windfall tax on conventional generation becomes irrelevant for the minorities after the carve-out is executed, assuming that renewables are not taxed. We have seen no discussions on paying out dividends in Poland. In Lithuania, the government has been the most generous, covering the difference between the regulated and market prices that Ignitis has to secure in the market, as has the Romanian State. Lithuania faces a high risk of power shortages, being a large power importer, should there be bans on exports. We have not seen any proposals to tax the small renewables companies, e.g. Fintel and Photon, and such measures would present significant downside to our current estimates.

Pecking order. Despite the uncertainties ahead, we are positive on all the utilities names that we cover. They should either benefit significantly from the current situation, with the prospect of very strong earnings ahead (Ignitis, Photon, Fintel) and a small probability of measures affecting their cash flows; or else, we believe the potential hit from tax is priced in (CEZ) and the risk is now skewed to the upside, with a higher dividend payout but no new tax still being a likely scenario. The Polish utilities are a separate case. We would focus on the carve-out and watch out for supply margins or a potential tax on renewables generation. That said, at EV/EBITDAs of around 3x after the carve-out, we are also positive on the three names. Below we describe each case and the provide reasons why we are fans of the sector, despite the significant share price rally already, and our assumptions of power prices falling as soon as next year.

Valuations. With power prices rallying recently, and all the stocks seeing benefits from the current environment either this year or in the medium term, we have raised our PTs on all seven names, and rate them a BUYs. We believe the less-liquid names - Ignitis, Photon and Fintel - are still little known by the market, despite their solid strategies and good managements. As for CEZ, we believe the potential 25% tax hit is priced in already, and still see strong upside, even in our base case, assuming a 80% payout. The Polish utilities, post the carve-out, are trading at the lowest multiples within this group, at around 3x EV/EBITDA, which is not justified, in our view, even with their past track record and many other Poland-related risks. Overall, we increase our RFR, cost of debt and capex assumptions in our respective DCFs, leading to some downside, but this is more than offset by higher power price levels.

Risks. The main risk, both to upside and downside, is clearly power price levels going forward. Second, imposing windfall taxes on renewables generation would present significant downside to our valuations. The largest upside risks to our PTs could be dividend reintroductions at the Polish utilities, which we consider extremely unlikely, or higher dividends at Ignitis and CEZ, both of which are more likely, in our view.

Case by case: all the companies have lots to offer, even with taxes

Power prices keep rising and consumers could feel the pain for years

The German 2023E baseload price has increased 156% during the year, and 19% this month alone, with a renewed push over the past few weeks, on the back of the uncertainty related to a full halt of Russian gas flows, which is drawing ever-closer. This is, of course, positive for our companies' earnings, but the overall picture for the economies is very bleak, on the power price outlook alone, in our view. From probable shortages of gas this winter, to EDF's production issues, even Germany has bowed to the inevitable, and is bringing back coal generation to secure stable power output.

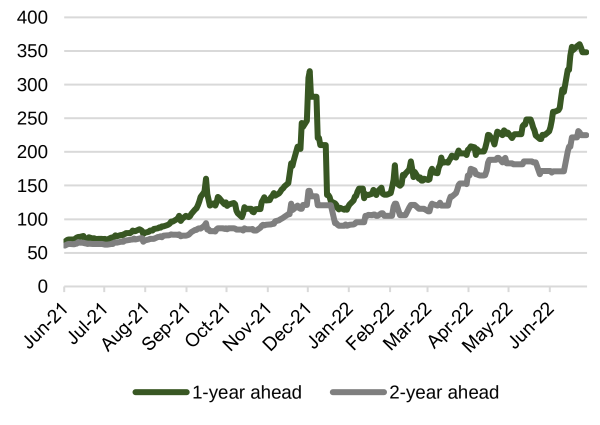
In the Czech Republic, the power price outlook is very close to Germany, with the two markets strongly connected, despite low-cost lignite and nuclear production that could offer domestic consumers power prices well below the German ones, in our view, should the government intervene. This leads to strong profitability for CEZ, which is largely a fixed-costs producer, but also cost growth for businesses and households whose prices are not regulated. The Czech government is already discussing potential measures to redirect the cash generated by the utilities back towards customers. As of now, however, it can only ask the generators for solidarity and, in our view, has no credible plan to tax the sector, this year at least.

In Poland, where major elections are due next year, the government has floated the idea of a windfall tax but has not given any details, so far. Luckily for the minorities, the windfall tax would probably not affect them, with the imminent carve-out of the conventional assets. They would, however, be hit on supply margins, with the regulated power hike probably not covering costs for years, in our view, and there is still a risk of renewables production being taxed.

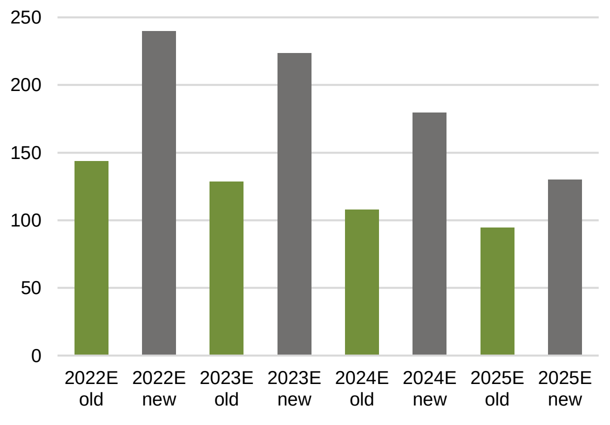
In Lithuania, the State has been fair and generous and is now paying the difference between regulated prices and those that Ignitis, the incumbent supplier, has to buy at market prices, which are well above the regulated levels. Serbia is struggling with its own lignite production and facing power imports, so we do not expect the State to tax the small renewables capacity in the country, as it would generate too little cash flow to even spend time on a new law.

We do not believe these power price levels are sustainable and expect them to fall as soon as next year, due to lower demand, improved gas supply and less uncertainty overall. While the good times for generators last, however, companies such as CEZ, Ignitis or the Polish utilities should secure enough volume ahead at today's elevated levels so that their hedged pricing keeps rising for years to come, even with market prices falling. In our models, we are less bullish in our power price forecast than the current forward power trading but note that even with power prices falling, merchant operations, e.g. Photon, should have great years ahead compared to the pre-COVID price levels.

German baseload rally (EUR/MWh)



Changes in our German baseload forecasts (EUR/MWh)



Source: Bloomberg, WOOD Research

We have raised our German baseload assumptions by 66% on average in 2022-25E (vs. our **March 2022 CEZ report**), leading to the largest upside hike at Ignitis (vs. our **February 2022 update**), followed by CEZ, Fintel (**December 2021**) and Photon with the smallest upside vs. previous estimates as our latest update is relatively recent (**May 2022**).

Driven mainly by the stronger generation segments' outlook, we increase our EBITDA assumptions, with the largest changes at CEZ, where we now see 2022E EBITDA 20% higher and 2023E EBITDA 45% higher, while expecting relatively small update in cost of debt, leading to large upward net profit revisions.

At Ignitis, we see 17% and 5% higher 2022E and 2023E EBITDAs, respectively, vs. our February numbers. We also upgrade Photon's earnings outlook, on higher power prices to which the company is now more exposed, thanks to higher exposure to merchant price, although we expect a higher cost of debt in the longer term. At Fintel, our 2022E EBITDA is only 3.8% higher, on better utilisation of plants, with 2023E EBITDA 14% higher, due to higher PPA pricing vs. our previous expectations. We are even more bearish on the cost of debt assumptions, which leads to lower net profit estimates vs. our previous expectations.

WOOD estimate changes

	Revenues			EBITDA			Net profit		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
CEZ (CZKm)									
New	295,261	338,004	370,327	102,121	125,147	139,537	53,204	70,968	81,933
Old	267,519	275,507	289,672	85,143	86,178	88,024	39,959	40,559	41,722
% difference	**10.4%**	**22.7%**	**27.8%**	**19.9%**	**45.2%**	**58.5%**	**33.1%**	**75.0%**	**96.4%**
Ignitis (EURm)									
New	3,114	2,708	2,830	360	383	414	175	171	181
Old	2,041	1,740	n.a.	307	366	n.a.	139	170	n.a.
% difference	**52.6%**	**55.7%**	**n.a.**	**17.2%**	**4.7%**	**n.a.**	**25.9%**	**0.7%**	**n.a.**
Photon (EURm)									
New	64.5	81.6	102.8	20.5	32.3	49.5	3.3	11.1	17.3
Old	63.6	80.8	93.8	19.5	29.7	41.0	0.1	5.5	16.4
% difference	**1.4%**	**0.9%**	**9.6%**	**5.3%**	**8.6%**	**20.8%**	**n.m.**	**102.6%**	**5.5%**
Fintel (RSDm)									
New	2,795	4,044	5,941	2,033	2,959	4,362	523	518	490
Old	2,681	3,628	n.a.	1,958	2,607	n.a.	666	928	n.a.
% difference	**4.3%**	**11.5%**	**n.a.**	**3.8%**	**13.5%**	**n.a.**	**-21.5%**	**-44.2%**	**n.a.**
Average	**17.2%**	**22.7%**	**18.7%**	**11.6%**	**18.0%**	**39.6%**	**12.5%**	**33.5%**	**50.9%**

Source: WOOD Research

Polish utilities: coal generation taxes are now irrelevant - the main risks are in supply or a renewables windfall tax

In June this year, we updated our views on PGE, Tauron, Enea and Bogdanka (please **click here** for further details). We keep our ratings and PTs unchanged in this report, despite some upside stemming from the latest power price rally. We still believe that their story, and the potential upside of the entire sector, is the most compelling in the CEE region, even with all the risks that ourselves and the market are aware of.

The upside for the three stocks remains too attractive to ignore, in our view, despite: a) windfall taxation on utilities' earnings being floated recently; b) the likelihood of the State squeezing the generation margins on renegotiated coal contracts this year; and c) the latest comments by the regulator on 2023E retail power price hikes in the "dozens of percent", which are still far short of covering the utilities' billions of PLN costs.

Whether a tax is imposed on conventional generation, the groups, or not at all, is irrelevant, in our view. We estimate that the 2022E profits should not be affected, and if the government is serious about the carve-out (which is expected in January 2023E), any windfall taxation on generation becomes irrelevant, both for the minorities and the State, unless it also affects those renewable generation assets that stay with the companies. We are also hearing rumours that PGG is trying to renegotiate this year's coal price contracts upwards, while the utilities have sold most of the 2022E volumes already. This could affect this year's earnings significantly, but is already reflected in our numbers and leaves only slight downside if the tax is imposed on earnings from September. In our June report, we took an extremely conservative stance and did not assume that the utilities receive a single zloty for their assets: only repayments of debt. Nonetheless, a new tax would certainly cause the valuations of the carve-out assets to fall, leading to a negative market reaction, and the State could leverage its stronger position in negotiating the sale prices of the coal and lignite assets. We still believe there is only upside to our conservative approach and, all else equal, would be buyers of all three names, in case of the negative news that we expect before the end of August.

We find little downside for the minorities from potential coal profits taxation, which we assume cannot be imposed retrospectively and would only affect the 4Q22E profit (with very low chance). After that, either the State should carve out the assets, or the conventional earnings should still be too large after, for example, 25% taxation (as discussed in the Czech Republic), and are not in the current price at all, in our view. We note that the three utilities trade at our post-carve-out EV/EBITDA multiples of around 3x in 2023-24E, with the market not reflecting any of the potential earnings below, taxed or not, in our view.

Windfall taxes would be painful but we see only upside with the assets being carved out

PGE, TPE, ENA combined	2022E	2023E	4Q22-23 impact	2024E	Total impact
Conventional generation EBIT	3,161	6,145		6,828	
Group EBIT	9,341	14,005		14,818	
25% tax group	1,168	7,002	**8,170**	7,409	**15,166**
25% tax generation	395	3,072	**3,467**	3,414	**6,724**
Net income	7,025	10,815		11,460	
Net income after group tax	5,858	3,813		4,051	
Net income after gen. tax	6,630	7,743		8,046	

Source: WOOD Research

We are more concerned about the negative effect of elevated power prices on the supply units that stay with the utilities. After the carve-out, potential supply losses would not be compensated for by generation profits in the medium term, as regulated prices would pick up only slowly and the RES/gas margins would not be sufficient to offset this, on our estimates. In Poland, retail prices are still regulated (the G-Tariff) and before the elections (in autumn 2023E), power bills and miners' wages are likely to be major themes. The price adjustment for the suppliers to break even on regulated customers often takes years while power prices are rising, with the regulator arguing that it is protecting all market participants, not just allowing a fair margin for the utilities. We make a simple calculation of the potential G-Tariff losses if power prices remain at current levels. We have no visibility on how much power the supply units have secured already, and at what prices, and we do not know what the hike, if any, could be next year. This makes any modelling rather difficult, but we still present an estimate of potential losses in 2023E alone, even if these prove to be inaccurate. The head of the regulator, Mr Gawin, has spoken of a 2023E hike of "dozens of percent".

G-Tariff scenarios

PLN/MWh	40% hike 2023E	No hike 2023E
G Tariff (generation component), average price	581	415
Average power price traded so far	663	663
Average realised supply cost	1000	1000
Supply losses on G-Tariff (PLNm)		
PGE	4,609	6,435
TPE	4,441	6,201
ENA	2,002	2,795
Total supply loss	**11,052**	**15,431**

Source: URE, TGE, WOOD Research

We believe the Polish government wants healthy utilities and new green investments, but that it would also do what it can to support consumers. Windfall taxes on generation could be used in an unpleasant situation for both the consumer and the supplier, in our view. After the government gains full control of NABE, which would consolidate the coal generation assets, there should be enough proceeds from generation in the next three years, we estimate, to help both groups, especially with Poland exporting power, leaving the renewables generation untouched. That said, the risk of the utilities taking the hit in the coming years remains elevated. It all depends on how much the companies receive from: a) the carve-out transaction; b) future measures by the State; c) the G-Tariff hike; and d) power price levels in the coming years. In the end, we believe the government still considers the utilities as its primary tool to invest in renewables and it should find a way for regulated consumers to enjoy lower-than-market prices while not disrupting the necessary renewables and distribution investments at the utilities.

Of the three utilities under our coverage, Tauron is the most exposed, with the weakest balance sheet, the oldest fleet and a negative generation/supply balance. Receiving a fair price for its generation assets would cover the supply losses next year, however, before the regulated price is hiked again in the following years, on our estimates. PGE and Enea would also be in a difficult position, but PGE is cash rich and should be paid for the internal debt at its generation unit, while Enea could also receive funds from the sale that would solve the cash flow problem next year.

We understand the market's fears, should the government not help the utilities and they end up with deep losses. We note, however, that the conventional generation assets should generate sizable profits in 2023-25E and either this value should be recognised during the carve-out, or it could be used to fund power bills, in our view. We remain optimistic, not blaming the government for the current situation and the potential risks stemming from it to minorities. We believe that Poland's goal is to achieve the EU green funds as soon as possible, rather than punishing the utilities in supply and working on takeovers due to potential bankruptcies, which could prove quite difficult given the dominant position of NABE in generation, from a competition rules point of view.

CEZ: the market is pricing in a 25% tax, but there could still be higher dividends

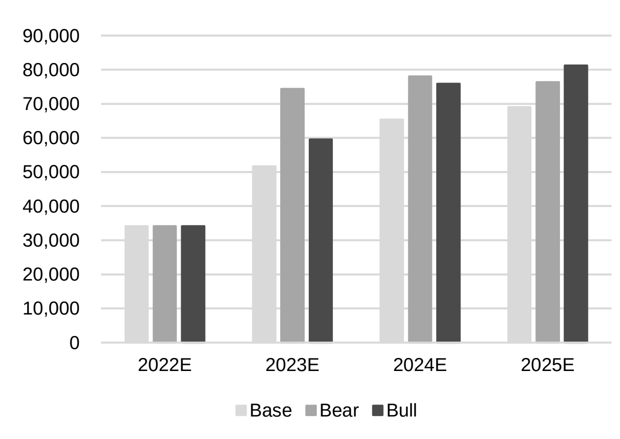
Over the past few weeks, Czech junior coalition partner Pirates has floated the idea of taxing the large power generators, and using the funds for either consumers or State budget support. While PM Fiala was against any new taxation at first, arguing that this is one of the terms of the coalition agreement, all government parties are now open to such discussions. There is still no credible plan on how and when the tax could be imposed, if ever.

The windfall tax proposal is the main reason why the company's share price is not ticking higher and the discounts to its peers are widening, in our view. That said, even if we apply the 25% tax proposed by Pirates to the whole group, which we believe is punishing enough, our dividend yield forecast averages at 7% in 2022-24E at an 80% payout, which is broadly in line with the yields at which CEZ has been trading in past. In our bull case, the dividend yield averages at 11% over the same period and our base case stands at 9%, well above the dividend yields seen previously. We note that there is currently no legislation that would allow the State to tax concerns such as CEZ. A new law would have to be approved and, while the government parties still seem to be divided on the topic, the opposition is against it: ANO favours higher dividends, rather than new taxes; and SPD would prefer to tax those banks which are foreign-owned and pay large dividends. At present, the government could tax CEZ's subsidiaries, but their generation plants are rented by CEZ for covering costs and have fixed incomes. Given the complexity of the issue, we do not expect any of the remaining 2022E profits to be taxed. Should the government come up with a new law, applicable from the start of next year, we struggle to see the benefits stemming from it for the State budget.

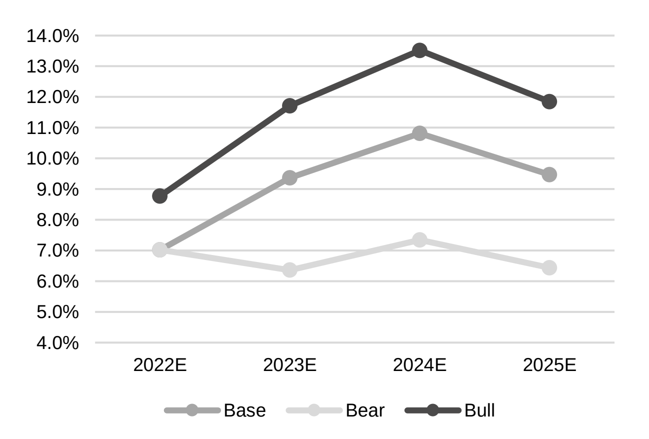
In a simple exercise, as depicted in the charts below, we focus on three scenarios:

1) Base case: no government action, and an 80% payout throughout our model period.
2) Bear case: a 25% tax on the whole group in 2023-25E, and a 0% payout throughout our model period.
3) Bull case: no government action, and a 100% payout reintroduced from the 2022E adjusted net profit.

State net income in three scenarios, CZKm



Dividend yield scenarios



Source: WOOD Research

We believe the most elegant solution would be to reintroduce a 100% payout before the energy crisis ends, e.g. 2024-25E, on our numbers. The State holds 70% of CEZ and also receives 15% of the taxed minorities dividend, on top of regular income tax. With a 100% payout, the State budget would receive only CZK 12bn less than if a 25% tax on the entire group were introduced, on our estimates. Should the tax affect only the generation units, which would be extremely difficult to implement, in our view, the extra income would be even smaller. Last month, Finance Minister Stanjura said that there are alternative ways to raise cash than new taxes. We believe that Mr Stanjura may have undertaken a similar exercise to ourselves, and moreover, being a member of a right-wing party (as is the PM), he would not prefer higher taxes when there are other ways to raise cash. With municipal and presidential elections coming soon, the risk of a windfall tax remains elevated and promises from previous general elections (i.e. no new taxes) could be forgotten quickly, in our view.

If the tax were imposed on the entire sector, where CEZ is the leader, the government would have to think twice before setting the criteria. The second-largest player in the market, sev.en, owned by Mr. Tykac (also a CEZ shareholder) has already offered help to the government and consumers, by proposing selling its power at discount. Other larger players that could be taxed, based on the Pirates proposal, include EPH's Opatovice and those heat producers that also generate electricity. With the ever-increasing CO2 costs, these are already struggling due to slow heat tariff adjustments, and another financial hit might compromise the coalition's municipal election goals, in our view. We understand that discussions about raising taxes on large corporates before municipal elections is a far more attractive theme then simply raising dividend at one cash-rich State-owned company, but we hope that the government comes to its senses in the end.

In his speech to the nation last month, PM Fiala unveiled a CZK 66bn package for both households and companies, which has since been approved by the Lower House. We appreciate the move, but note that the level of support (CZK 27bn for households' power and gas bills) is not sufficient and more funds are needed across the consumer base, both this year, and in the coming years, to prevent bankruptcies and people falling into poverty. The Czech government was the last to announce such measures, looking at those bordering countries that have either supported these from the beginning of the year, or have current programmes that are much larger.

A CEZ split: exciting but the delivery is unlikely and value creation for the minorities is questionable

PM Fiala's government is now seriously considering splitting the company in two, taking over the strategic generation units to control power prices in future, and avoid another energy crisis. While we are not fully convinced that the split would happen, in the end, and we question the government's future ability to control power prices through fully owning generation, especially with it being the main winner in a period of high power prices, we are taking the possibility seriously. As for the minorities, should the deal happen within the next two-to-three years, the government would have to pay a significant premium for the lignite and nuclear assets, most likely via a share swap and cash, rather than just a cash offer, in our view, given the size of the potential transaction.

Separately, the new distribution, supply and most likely RES company could access cheaper financing and would be more attractive to ESG-focused investors. Our final view on this transaction would have to be set by the price the State would offer, however. In the end, it is targeting profitable, dividend paying assets and the second firm, co-owned by the minorities, with RES or without, would face increasingly high capex. As a result, its dividend potential would be lower, at least over the next two decades, on our numbers, and the increased regulatory risk could also affect the new investor base, although it would solve CEZ's current ESG funds inflow issues.

CEZ: SOTP

Segments	EV/share (CZK)	CZKm
Conventional generation	702	377,927
Renewables	341	183,271
Distribution	297	159,623
Sales (inc. ESCO)	123	66,305
Mining	52	28,102
Supporting activities	8	4,203
Total enterprise value	**1,523**	**819,431**
Net debt (2021)	-206	-110,700
Minorities	-3	-1,742
Equity value	**1,314**	**706,989**
Upside	*17%*	

Source: Company data, WOOD Research

We are not against the idea but we are sceptical about the delivery. Based on comments by the PM so far, we are not convinced that the government actually has a detailed plan on the generation and mining carve-out, but we should receive more details in 1H23E, according to the PM. Looking at the potential scale of the transaction, our SOTP valuation (see above) shows clearly that even a swap transaction, where the State would decrease its stake from 70% to, e.g. 51%, in the new distribution, RES and supply company, would need some cash for the transaction to be valued fairly. Moreover, the State does not have any other energy assets that it could, or is willing to, offer to the minorities, and we doubt a cash transaction would happen, given the upcoming budget deficits and the high cost of debt. Most likely, in our view, once power prices return to more reasonable levels, within the next three to four years, this government or a future one would abandon the idea of a split. We appreciate the government's chivalric power price control goals, but they are likely to fail or bring little benefit to consumers, in our view.

Ignitis: winning on all fronts, except the country's borders

Ignitis stands out in our utilities coverage universe due to four factors: 1) rallying power prices leading to high green generation margins, thanks to unhedged 2022E volumes and a much better medium- to long-term outlook; 2) no current State plans to intervene in the power market, from RES tariffs to taxing merchant generators' profits; 3) the State is even helping to cover the power bill for regulated customers from State budget, instead of hitting the company and minorities through a margin squeeze; and 4) despite undertaking heavy capex throughout our model period, Ignitis pays generous dividends to which we see only upside, thanks to the improving EBITDA outlook.

We still believe that Ignitis remains overlooked by the market, despite its IPO almost two years ago and its stellar results since. While in proximity to Russia, and the many risks related to that, Ignitis is benefitting strongly from high power price levels, caused partly by the situation created by its neighbour. It has no direct exposure to Russia or Belarus and faces few commodity risks, with low renewables generation variable costs, and heat plants based on waste and biomass, which are abundant in Lithuania.

We are not aware of any discussions at the government level that could hurt the company's profitability currently, from power price caps to changing the generation renumeration schemes or taxing the power producers. Lithuania is strongly supportive of new domestic power generation investments, and is planning to replace its currently-high imports (around 70%) with its own green generation in the future, for which Ignitis is the primary investment tool. Moreover, given the ongoing difference between market prices and regulated ones, which has led to Ignitis's negative cash flow recently, the government has decided to cover the difference so far by taking around EUR 365m of loans from Ignitis that were used to settle the gap.

In future, the State plans to continue to cover the difference between regulated and market pricing, and Ignitis's supply margins in the regulated segment should be unaffected. This is a very fair and generous move, which is unlikely to be repeated in other CEE countries where power prices are still regulated, e.g. Poland, in our view. The main risk to our equity story is a potential ban on power exports, which could cause power shortages in Lithuania, and its supply and distribution units not being able to deliver power to consumers, although this scenario is unlikely today, in our view.

Therefore, as Ignitis benefits from high power prices and is not being punished by the government, through taxes or other measures, we favour the company as one of our top picks. On our numbers, Ignitis offers a 6% 2021-24E EBITDA CAGR, thanks mainly to green generation growth, while distributing generous dividends, at a 7.5% yield over the next three years, on our estimates. Despite its low liquidity of EUR 0.1m 3M ATDV, we are big fans of the company.

Photon: green, overlooked, and growing massively

Photon, an integrated solar company, stands out in terms of upside (46%) and its expected stellar growth, but also for the diversification of its portfolio across the region. Already, this year, >80% of its PV generation portfolio is operating on a merchant basis, switching from regulated schemes that offer much lower renumeration currently, despite being quite generous compared with the power price levels before COVID and the war. Given our power price outlook, Photon should keep reaping the rewards of the current environment until our model period ends in 2027E, with power prices still above the levels of the regulated schemes, most of which the company can return to if power prices drop below the regulated levels. Being a relatively small, green producer, we do not believe the company is exposed to windfall taxation or, being solely a generator, to a supply margin squeeze. Based on the current power price levels and our outlook, we believe there is even upside to the recently-reconfirmed 2022E EBITDA guidance of EUR 18m (+88% yoy): a target which has hardly been reflected by the market as yet, in our view. We realise the risks of potential regulatory changes, e.g. power price caps or windfall taxes, but given the company's low variable costs and capacity expansion depressing profits for now, we believe it should outperform its larger, conventional peers, and that the tax generated would be too small to bother, at this stage.

We see Photon as one of the best clean utility proxies in our region, and as a valuable long-term investment, with its value multiplying over the next decade on solar growth alone, and more upside from its promising water cleaning business. Recently, the company secured another EUR 10bn through bonds and plans to build only merchant plants in the future, financed through its own cash flow. The stock is traded in Prague, Warsaw and Frankfurt, at limited volumes, but looking at the company's ambitious plans, we would not be surprised if Photon seeks more equity in the market. If so, we would seize the chance, looking at the improving prospects of the entire business and the current valuation.

Fintel Energija: small and little-known, but worth looking at

Fintel is an onshore wind generation pioneer in Serbia. Its entire portfolio is currently receiving inflation-linked tariffs which are generous overall, but far below the current power price levels. There is therefore little upside to the current portfolio earnings. With its improving liquidity position and the solid work done on developing new projects, however, Fintel is already negotiating PPAs for its upcoming projects. The second phase of the Kosava plant (68MW) is already being built and we expect 40 more MWs to be connected by 2H24E. We now see a high chance of PPA prices at around EUR 100/MWh, 25% above our previous assumptions, and outweighing the newly-higher cost of debt and capex estimates. With our new long-term power price assumptions for the region, we find very decent upside, despite ongoing low trading activity which, in our view, is preventing the stock price from rerating upwards, in line with its peers. We note, however, that its investment partners are solid and, in the end, the company, which is controlled by one individual, the CEO, might be put up for sale to a larger buyer.

With more than 1GW of development pipeline in a country that is trying desperately to find a replacement for its failing lignite generation, Fintel looks like a good choice, in our view. As with Ignitis and Photon, we see no risk, currently, that the company's earnings could be affected by any measures by the government, and we only see some risk of the regulator delaying tariffs payments. The company, and the entire RES generation segment in Serbia, is too small to be cornered, in our view. Should the current scheme be cancelled or interfered with, switching to merchant pricing would mean a significant uptake in its earnings, if Fintel can achieve it. Moreover, taxes would not hurt the company significantly, given that it is in an expansion phase and generating small bottom line, in our view.

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Company sections

WOOD & COMPANY

CEZ

Buy

Maintained

Price: CZK 1,125
Price target: CZK 1,314
(from CZK 1,089)

Taxed or not, it is still too cheap

We reiterate our BUY rating on CEZ and increase our 12M price target (PT) to CZK 1,314/share (from CZK 1,089), offering 17% upside. With its 1Q22 results, CEZ revised its EBITDA and net profit targets significantly. Given the rally in power prices since then, we estimate that it can do even better this year, followed by improving financial results in 2023-24E, based on the current power price outlook. We see a 2021-24E EBITDA CAGR of 22%, driven mainly by ongoing growth in its hedged prices, despite power prices falling as soon as next year, on our numbers. The sky-high profitability could also be a curse, however. The government parties are already open to a discussion of a windfall tax and are also considering splitting the company in two, to have better control over power prices in future. In the main section, above, we show the potential downside, based on the information released so far, and maintain to our positive view on the stock, with the potential hit being overshadowed by the improving EBITDA outlook and upside risk from higher dividends. CEZ is trading at our 2022-24E average EV/EBITDA of 6.0x, at attractive multiples, and, assuming a 80% payout, the 2022-24E dividend yield stands at 7.1-10.9%.

Windfall tax the main risk. Over the past few weeks, junior coalition partner Pirates has floated the idea of taxing large power generators and using the funds either for consumers or State budget support. All the government parties seem open to such discussions, but there is still no credible plan on how and when the tax could be imposed, if ever. The idea of a windfall tax is the main reason why CEZ's discounts to its peers are widening, in our view. Given the lack of legislation in this area and the State's 70% stake, we believe a more elegant solution would be to simply raise the dividend payout to 100%.

Model update. For the second time this year, we have raised our 2022E EBITDA, this time to CZK 102bn. This is above the higher end of CEZ's recent guidance but, considering the strong power price outlook for the remainder of 2022E and in 2023-24E, we are comfortable with our new estimates and our EBITDA 2021-24E CAGR of 22%, driven mainly by growing hedged prices.

CEZ split? PM Fiala's government is now seriously considering splitting the company, and taking over the strategic generation units to control power prices in future. While we are not convinced that the split would happen in the end, and we question the government's future ability to control power prices via fully-owning generation, we are taking the proposal seriously. For the minorities, should the deal happen within the next three years, the government would have to pay a significant premium for the lignite and nuclear assets, most likely via a share swap rather than a cash offer, given the size of the potential transaction. Separately, the new distribution, supply and probably RES company could access cheaper financing and would be more attractive to ESG-focused investors, in our view. We are not against the idea but we are sceptical about the delivery.

On our forecasts, CEZ trades at EV/EBITDAs of 5.2-7.1x for 2022-24E, 10% lower than its peer group, and below its 5Y historical average of 8.0x. Our DCF-driven PT yields a 12M PT of CZK 1,314 which offers 17% upside. At present, we see the possible windfall tax as the major risk to our valuation.

Expected events

2Q22 results	9 August 2022

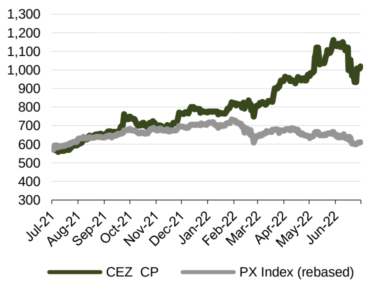
Key data

Market cap	EUR 24,701m
Free float	30.2%
Shares outstanding	538.0
3M ADTV	EUR 14.2bn
Major shareholder	State (69.8%)
Reuters code	CEZ.PR
Bloomberg code	CEZ CP
PX index	1,249

Price performance

52-w range	CZK 559-1,161
52-w performance	94%
Relative performance	90%

CEZ 12M share price performance



Year	Sales (CZKbn)	EBITDA (CZKbn)	Net profit (CZKbn)	EPS (CZK)	EPS growth	EV/ EBITDA	P/E (x)	FCF yield (%)	DPS (CZK)	Dividend yield (%)
2019	206.2	60.2	14.4	26.8	39%	7.0	18.0	4.1%	34	7.0%
2020	213.7	64.8	5.4	10.1	-62%	8.4	72.6	9.7%	52	7.1%
2021	227.8	63.2	9.9	18.5	82%	8.8	44.8	11.7%	48	5.8%
2022E	295.3	102.1	53.1	98.9	436%	7.1	11.4	2.9%	80	7.1%
2023E	338.0	125.1	70.9	132.0	33%	5.8	8.5	7.6%	106	9.4%
2024E	370.3	139.5	81.8	152.1	15%	5.2	7.4	10.0%	123	10.9%

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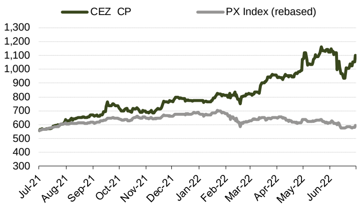
EQUITY RESEARCH

Company snapshot - BUY, PT CZK 1,314

CEZ

BUY

Bloomberg ticker	**CEZ CP**
Closing price (CZK)	**1,125**
Target Price (CZK)	**1,314**
Upside to PT	**16.8%**
Shares outstanding (m)	**538.0**
MCAP (EUR m)	**24,701**
Free float	**30.2%**
3M ADTV (EUR m)	**14.2**
52 Week Range (CZK)	**559-1161**



COMPANY DESCRIPTION

CEZ is a 69.8% state-owned integrated power utility, with most of its operations focused on the Czech Republic, but active in the entire region through its various segments, even after selling its Romanian and Bulgarian assets. CEZ is, essentially, a fixed-cost producer – over 90% of its domestic generation is from fixed-cost lignite or nuclear – so its margins depend on the absolute level of power prices. Thanks to its nuclear power fleet – accounting for c.60% of domestic production – CEZ also produces less CO2 per MWh than its peers, so its earnings are positively correlated to the CO2 price: a EUR 1 change in the CO2 price translates into a EUR 0.2/MWh change in CEZ's generation margin. CEZ and the state have signed the first of several contracts for the construction of a new nuclear block at Dukovany, containing: 1) a General Agreement, not legally binding, covering the principles of cooperation between CEZ and the state, including CEZ's right to sell the project to the state if the two sides are unable to agree on subsequent stages; and 2) a detailed Implementation Agreement for the first stage. In the case of a binding Phase I agreement, CEZ will sell the project to the state for CZK 4,509.591m, unless both sides can agree, by June 2024, on both: 1) the implementation contract for Phase II; and 2) an offtake agreement for power from the plant.

RATIOS

PER SHARE RATIOS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
EPS	26.8	10.1	18.5	98.9	132.0	152.1
CEPS	80.1	134.4	110.2	109.3	166.8	197.6
BVPS	468.0	435.7	300.1	351.2	403.6	449.7
DPS	34.0	52.0	48.0	80.0	106.0	123.0

FINANCIAL RATIOS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Capex/depreciation	1.0x	1.1x	1.0x	1.4x	1.4x	1.5x
Capex/net fixed assets	0.06x	0.07x	0.07x	0.08x	0.08x	0.09x
Op. cash flow/capex	2.1x	1.6x	0.8x	2.3x	2.6x	2.7x
EBITDA margin	29.2%	30.3%	27.8%	34.6%	37.0%	37.7%
EBIT margin	12.8%	5.9%	7.1%	24.9%	28.5%	29.8%
Net margin	7.0%	2.5%	4.4%	18.0%	21.0%	22.1%
ROE	5.9%	2.2%	5.0%	30.4%	35.0%	35.7%
ROCE	6.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Net debt/(cash) to equity+minorities	0.7x	0.6x	0.7x	0.6x	0.5x	0.5x
Net debt/EBITDA	2.76x	2.22x	1.75x	1.17x	0.93x	0.82x

VALUATION RATIOS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
P/E	18.0x	72.6x	44.8x	11.4x	8.5x	7.4x
P/E adjusted for one-offs	13.8x	17.3x	20.0x	11.4x	8.5x	7.4x
P/CF	6.0x	5.5x	7.5x	10.3x	6.7x	5.7x
P/BV	1.0x	1.7x	2.8x	3.2x	2.8x	2.5x
EV/EBITDA	7.0x	8.4x	8.8x	7.1x	5.8x	5.2x
EV/Capital Employed	0.8x	1.1x	1.4x	1.6x	1.5x	1.5x
EV/Sales	2.1x	2.5x	2.4x	2.5x	2.1x	1.9x
EV/EBIT	16.0x	43.1x	34.6x	9.9x	7.5x	6.5x
Cash flow from ops, CZK m	42,931	72,157	59,156	58,693	89,527	106,272
EV, CZK m	429,452	542,748	556,385	725,119	722,682	720,983
Capital Employed, CZK m	515,205	494,819	410,252	445,923	471,068	492,894
FCF, CZK m	10,568	38,434	52,038	17,710	46,028	60,328
FCF yield	4.1%	9.7%	11.7%	2.9%	7.6%	10.0%
Dividend yield	7.0%	7.1%	5.8%	7.1%	9.4%	10.9%

COMPANY FINANCIALS

INCOME STATEMENT, CZK m	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Revenues	206,192	213,737	227,793	295,261	338,004	370,327
Fuel and emissions rights	(21,357)	(23,262)	(24,555)	(49,339)	(49,235)	(51,555)
Purchased power and services	(55,545)	(56,335)	(62,669)	(66,614)	(84,449)	(99,667)
Services	(31,231)	(30,147)	(29,044)	(30,496)	(30,496)	(30,496)
Salaries and wages	(28,820)	(30,855)	(30,591)	(30,744)	(32,281)	(32,443)
Materials and supplies	(10,262)	(10,576)	(11,017)	(11,237)	(11,687)	(11,921)
Emission rights, net	-	-	-	-	-	-
Other operating expenses	(8,882)	(7,203)	(6,209)	(6,209)	(6,209)	(6,209)
EBITDA	60,175	64,783	63,240	102,121	125,147	139,537
Depreciation and amortization	(29,016)	(28,284)	(31,628)	(28,533)	(28,853)	(29,237)
EBIT	26,429	12,585	16,098	73,588	96,294	110,300
Financial income/(expense)	(8,018)	(3,911)	(2,672)	(5,377)	(5,309)	(5,258)
Pretax profit	18,411	7,906	13,426	68,211	90,985	105,042
Income tax	(3,911)	(2,438)	(3,517)	(15,006)	(20,017)	(23,109)
Minority interest	127	30	118	118	118	118
Net income	14,373	5,438	9,909	53,086	70,850	81,815

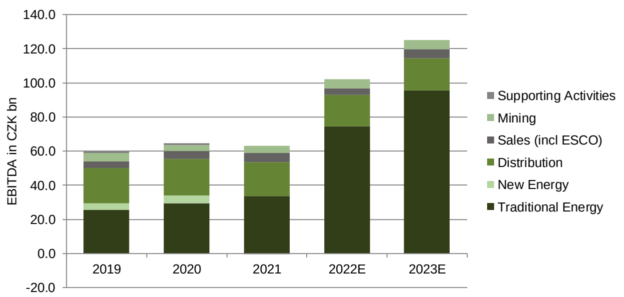
CASH FLOW, CZK m	**2,019**	**2,020**	**2,021**	**2022E**	**2023E**	**2024E**
CF from Operations	42,931	72,157	59,156	58,693	89,527	106,272
Thereof depreciation	29,016	28,284	31,628	28,533	28,853	29,237
Thereof changes in w/c	(20,990)	21,206	32,312	(29,931)	(17,147)	(11,643)
CF from Investments	(32,363)	(33,723)	(7,118)	(40,983)	(43,499)	(45,944)
Thereof CAPEX	(29,802)	(31,558)	(32,226)	(39,300)	(41,810)	(44,250)
Thereof asset acquisitions	(3,342)	(1,288)	25,719	-	-	-
Dividends	(12,836)	(18,116)	(27,813)	(25,644)	(42,740)	(56,630)
(Acquisition) Sale of treasury shares	249	15	660	-	-	-
Change in Net debt	(8,450)	16,250	32,800	(8,646)	2,554	2,942

BALANCE SHEET, CZK m	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Property, plant and equipment	428,088	410,372	403,083	408,823	416,820	427,004
Investment in associates and JVs	3,283	4,075	3,916	3,916	3,916	3,916
Investments and other fin. assets	10,923	11,002	11,805	13,335	14,870	16,410
Intangible assets, net	37,429	24,244	23,677	23,677	23,677	23,677
Deferred tax assets	1,481	828	10,719	10,719	10,719	10,719
Total Fixed Assets	501,936	471,945	474,004	482,963	494,178	507,590
Cash and cash equivalents	9,755	6,064	26,640	21,463	28,986	31,928
Receivables, net	65,030	63,648	137,432	178,136	203,924	223,426
Materials and supplies, net	8,889	9,898	13,372	15,373	16,979	18,438
Fossil fuel stocks	1,764	1,220	574	660	729	791
Other financial assets, net	61,114	61,894	497,295	497,295	497,295	497,295
Other current assets	56,086	87,789	33,605	33,605	33,605	33,605
Total Current Assets	202,638	230,513	708,918	746,533	781,518	805,484
Total Assets	704,574	702,458	1,182,922	1,229,496	1,275,696	1,313,073
Total shareholders' equity	250,761	233,871	161,098	188,541	216,651	241,836
Minority interest	4,603	4,692	1,742	1,860	1,978	2,096
Long-term debt	142,570	122,102	95,924	116,753	121,633	121,633
Accumulated nuclear provisions	89,512	105,326	117,072	119,755	122,444	125,138
Deferred tax liability	9,700	9,414	35,219	35,219	35,219	35,219
Total Non-current Liabilities	262,439	256,259	261,086	284,598	292,166	294,860
Short-term debt	4,260	984	25,310	25,310	25,310	25,310
Current portion of long-term debt	25,063	28,741	16,647	(712)	(624)	(624)
Trade and other payables	66,244	73,189	85,928	98,789	109,103	118,484
Other payables	91,204	104,722	631,111	631,111	631,111	631,111
Total current liabilities	186,771	207,636	758,996	754,498	764,901	774,281
Total equity and liabilities	704,574	702,458	1,182,922	1,229,496	1,275,696	1,313,073
Net Debt	159,750	143,500	110,700	119,346	116,792	113,850

OPERATIONS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Power Prices (EUR/MWh)						
CEZ hedged price (EUR/MWh)	39.1	45.5	52.0	103.6	127.5	147.3
German 1Y baseload (EUR/MWh)	53.3	46.1	89.0	239.9	223.6	179.6
Hedged CO2 price EUR/t)	14.9	15.4	34.0	42.5	64.4	80.8
API2 coal (USD/tonne)	69.6	60.6	121.0	340.0	300.0	244.0
Generation & Trading (TWh)						
Nuclear	30.2	30.0	30.7	30.6	30.7	30.8
Lignite	21.4	17.7	14.1	14.7	14.5	14.0
Gas	4.0	3.9	3.2	3.9	3.5	4.1
RES	2.4	2.4	2.4	2.1	2.1	2.1
Polish CHPs	2.4	2.5	1.8	2.2	2.2	2.2
Tradtional Generation	**60.5**	**56.6**	**52.2**	**53.5**	**53.0**	**53.1**
Czech	0.4	0.5	0.7	0.8	1.0	1.3
Romania	1.3	1.3	0.4	0.0	0.0	0.0
New Energy	**1.7**	**1.8**	**1.1**	**0.8**	**1.0**	**1.3**
Distribution (TWh)						
Power sold to end customers	37.4	37.4	37.4	37.4	37.4	37.4
Elect. distributed to end customers	49.2	49.2	49.2	49.2	49.2	49.2
Mining (m tonnes)						
Coal sold total	20.4	15.4	16.0	16.1	16.0	15.1
o/w Coal sold to CEZ	15.1	10.9	12.0	12.1	12.0	11.6
o/w Coal sold to 3rd parties	5.3	4.5	4.0	4.0	4.0	3.5

MACRO ASSUMPTIONS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
CZK/EUR	25.74	26.42	25.64	24.40	24.40	24.40
CZK/USD	22.38	23.79	21.69	23.51	21.55	20.54
CZK/EUR (hedged)	27.50	26.67	25.64	25.90	24.60	24.60

EBITDA BY SEGMENT



Valuation

DCF

We value CEZ using a 10Y DCF model, with a multiples valuation as a sanity check. We arrive at a DCF-based 12M PT of CZK 1,314/share, offering upside of 17% to the current share price level. The key assumptions in our DCF model include:

- ✓ A WACC of 6.2% (down from 6.3% previously), starting with a risk free rate of 4.5% for the Czech Republic (up from 4.0%) and an equity risk premium of 4.5% (down from 5.0%, with its operations now exposed mainly to the Czech Republic, after the Romania and Bulgaria sales).
- ✓ We apply a levered Beta of 0.65 (down from 0.70), starting with an unlevered Beta from the Damodaran sector Beta database of 0.58 for the European power generators.
- ✓ We calculate the terminal value as the average of: 1) the perpetuity, with a 0% terminal growth rate; and 2) an exit EV/EBITDA of 8.0x (up from 7.5x).

DCF

CZKbn	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	**73.6**	**96.3**	**110.3**	**97.6**	**76.6**	**59.5**	**59.9**	**60.4**	**60.8**
Tax rate	-22%	-22%	-22%	-22%	-22%	-22%	-22%	-22%	-22%
NOPAT	**57.4**	**75.1**	**86.0**	**76.1**	**59.7**	**46.4**	**46.7**	**47.1**	**47.5**
Depreciation	28.5	28.9	29.2	29.6	29.8	30.0	30.2	30.4	30.6
Amortisation of nuclear fuel	4.1	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
Change in NWC	-29.9	-17.1	-11.6	8.6	9.1	7.4	-0.3	-0.3	-0.3
Capex	-39.3	-41.8	-44.3	-44.5	-35.0	-34.4	-34.4	-34.5	-30.7
FCF	**20.8**	**49.2**	**63.5**	**74.1**	**67.8**	**53.6**	**46.4**	**47.0**	**51.3**
NPV of FCF	**19.6**	**43.6**	**53.0**	**58.2**	**50.1**	**37.3**	**30.4**	**29.0**	**31.6**

	I. Perpetuity (g=0%)	**II. Exit EV/EBITDA 8.0x**		
Sum of PV	352.8	352.8	Risk-free rate	4.5%
PV of terminal value	603.3	424.4	Levered Beta	0.65
Enterprise value	**956.0**	**777.1**	Equity risk premium	4.5%
Net debt (2021A)	-110.7	-110.7	Cost of equity	7.4%
Nuclear/mining provisions (net)	-96.3	-96.3	Cost of debt	3.4%
Minorities	-1.7	-1.7	Tax rate	22%
			Effective cost of debt	2.7%
Equity value	**747.3**	**568.4**	Weight of equity	75%
Equity value/share	1,389.1	1,056.6	Weight of debt	25%
Average	1,223		**WACC**	**6.2%**
12M PT	**1,314**			
Upside	17%			

Source: Company data, WOOD Research

Peer group valuation

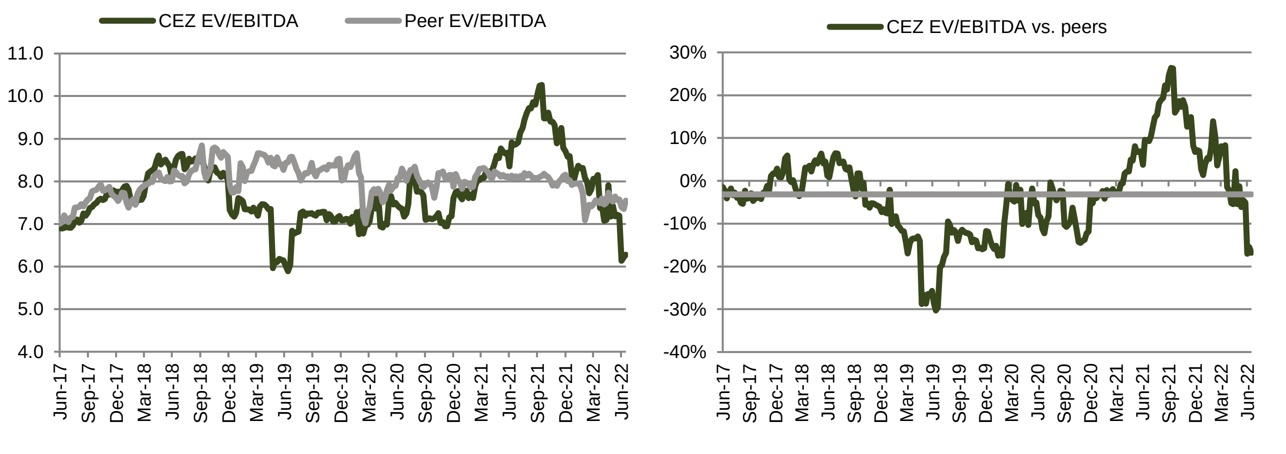
As a sanity check for our DCF valuation, we look at CEZ's three-year forward earnings on the median peer multiples, adjusted by CEZ's three-year trailing premia or discount. We see a fair value for CEZ on forward P/E multiples of CZK 1,298, 15% higher than the current stock level, and well above our DCF. On forward EV/EBITDA multiples, we see a fair value of CZK 1,300, 16% above the current price.

Peer multiples valuation

CZKbn	P/E	EV/EBITDA
Peer group avg. multiples 2022-23E	9.5	7.5
Trailing 1y premium/discount	7%	-1%
Average 2022-24 earnings forecast	68.7	122.3
Enterprise value	**652.7**	**907.8**
Net debt (2021A)		-110.7
Nuclear/mining provisions (net)		-96.3
Minorities		-1.7
Equity value	**698.4**	**699.1**
Implied fair value (CZK/share)	1,298	1,300
Weight	50%	50%
Implied fair value (CZK/share)	**1,299**	

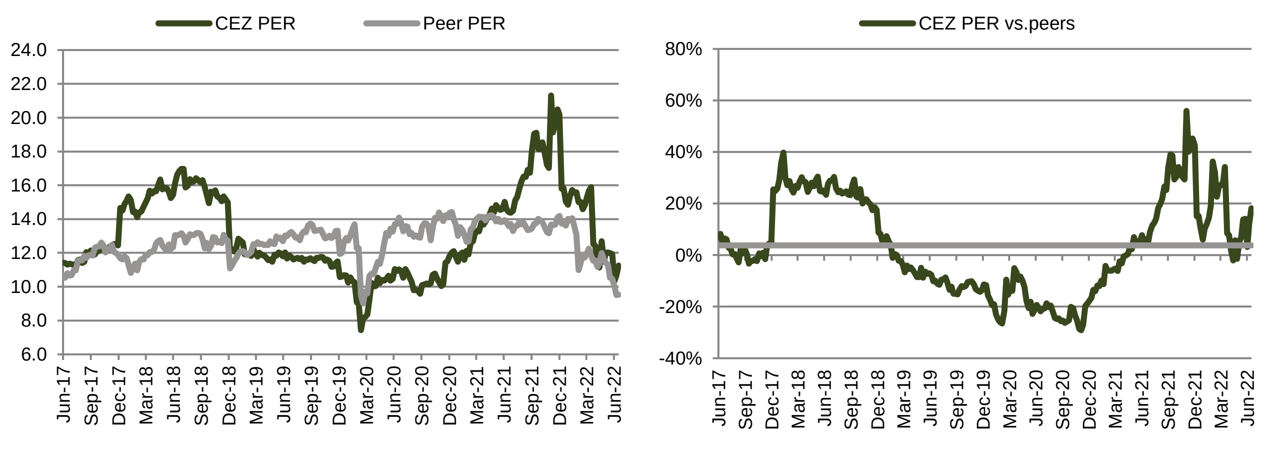
Source: Company data, Bloomberg, WOOD Research

CEZ: historical EV/EBITDA multiples vs. peers



Source: Bloomberg, WOOD Research

CEZ: historical PER multiples vs. peers



Source: Bloomberg, WOOD Research

Updated forecasts

We have raised our EBITDA and net profit forecasts, following the much more favourable market conditions since our March 2022 report, and now see even small upside to the company's full-year guidance from May. We model a 2022E EBITDA of CZK 102bn (+61% yoy) and adjusted net profit of CZK 53bn (+139% yoy), vs. the upper range of the company's guidance of CZK 99bn and CZK 49bn, respectively. This is due mainly to the power price rally in the past months and CEZ's ability to leverage the current situation, thanks to its remaining open position. We maintain an 80% dividend payout estimate from the 2022E profit but, as seen recently with the 2021 dividend, and given the State's attempts to earn more cash from CEZ, we do not rule out a higher payout instead of new taxes that would bring only slightly more funds into the budget vs. a higher dividend.

Model update

CZKm	Revenues			EBITDA			EBIT			Adj. net profit		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
New	295,261	338,004	370,327	102,121	125,147	139,537	73,588	96,294	110,300	53,204	70,968	81,933
Old	267,519	275,507	289,672	85,143	86,178	88,024	56,610	57,320	58,767	39,959	40,559	41,722
% difference	10.4%	22.7%	27.8%	19.9%	45.2%	58.5%	30.0%	68.0%	87.7%	33.1%	75.0%	96.4%

Source: WOOD Research

The strong hike in our 2022E EBITDA forecasts stems solely from higher generation EBITDA, which we increase by 33%, to CZK 75bn. We now assume CEZ's hedged baseload price at EUR 104/MWh in 2022E, up from EUR 85/MWh which we expected previously. For 2023-24E, we still see growth in the company's realised selling power prices, before they start falling again in 2025E. We have made only cosmetic changes to the mining, sales and distribution segments, reflecting the 2021 results.

Power macro assumptions

	2018	2019	2020	2021	2022E	2023E	2024E
German 1Y baseload (EUR/MWh)	43.9	53.3	46.1	89.0	239.9	223.6	179.6
CEZ hedged baseload (EUR/MWh)	31.5	39.1	45.5	52.0	103.6	127.5	147.3
CO2 hedged (EUR/t)	9.5	14.9	15.4	30.0	37.5	59.4	75.8

Source: Company data, WOOD Research

CEZ: EBITDA by segment

CZKbn	2018	2019	2020	2021	2022E	2023E	2024E
Generation	19.8	29.6	33.9	33.5	74.6	95.5	107.4
Distribution	19.7	20.6	21.5	19.9	18.2	19.0	19.8
Sales (inc. ESCO)	4.3	3.7	4.6	5.4	18.2	19.0	19.8
Mining	3.8	5.0	3.4	4.5	4.1	5.2	6.4
Supporting activities	1.9	1.3	1.3	0	n.m.	n.m.	n.m.
EBITDA total	**49.5**	**60.2**	**64.8**	**63.2**	**102.1**	**125.1**	**139.5**

Source: Company data, WOOD Research

Following the recent spike in power prices, we expect more consensus upgrades in the coming weeks. At present, our 2022-24E EBITDA and net profit forecasts are 3.7% and 24% higher, on average, vs. the Bloomberg consensus, respectively.

WOOD vs. consensus

CZKm	Revenues			EBITDA			EBIT			Adj. net profit		
	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
WOOD estimates	295,261	338,004	370,327	102,121	125,147	139,537	73,588	96,294	110,300	53,086	70,850	81,815
Consensus	280,844	327,735	343,361	96,890	122,773	134,597	63,318	85,371	94,452	45,813	58,177	61,308
% difference	5.1%	3.1%	7.9%	5.4%	1.9%	3.7%	16.2%	12.8%	16.8%	15.9%	21.8%	33.4%

Source: Bloomberg, WOOD Research

Financials

Income statement

CZKm	2019	2020	2021	2022E	2023E	2024E
Revenues	**206,192**	**213,737**	**227,793**	**295,261**	**338,004**	**370,327**
Opex	-146,017	-148,954	-164,553	-193,139	-212,857	-230,790
EBITDA	**60,175**	**64,783**	**63,240**	**102,121**	**125,147**	**139,537**
- Traditional energy	25,632	29,260	33,536	74,604	95,487	107,411
- New energy	3,936	4,629	0	0	0	0
- Distribution	20,553	21,502	19,872	18,208	19,005	19,790
- Sales (inc. ESCO)	3,726	4,644	5,381	4,081	5,211	6,353
- Mining	4,991	3,429	4,488	5,228	5,444	5,983
- Other	1,347	1,316	-37	0	0	0
Impairment of PP&E	-5,246	-24,062	-15,799	0	0	0
Depreciation	-29,016	-28,284	-31,628	-28,533	-28,853	-29,237
EBIT	**26,429**	**12,585**	**16,098**	**73,588**	**96,294**	**110,300**
Net interest expense	-5,070	-4,892	-3,775	-3,480	-3,405	-3,348
Interest on nuclear provisions	-1,893	-1,955	-2,014	-1,897	-1,903	-1,910
Gain/loss on sales of subsidiaries/associates	18	188	-534	0	0	0
Income from associates	0	0	0	0	0	0
Other expenses/income, net	-152	2,413	4,100	0	0	0
Pre-tax profit	**18,411**	**7,906**	**13,426**	**68,211**	**90,985**	**105,042**
Income tax	-3,911	-2,438	-3,517	-15,006	-20,017	-23,109
Minority interests	127	30	118	118	118	118
Net income	**14,373**	**5,438**	**9,909**	**53,086**	**70,850**	**81,815**
Adjusted net income	18,856	22,841	22,300	53,204	70,968	81,933
EPS (reported) (CZK)	26.9	10.2	18.5	99.4	132.6	153.1
EPS (adjusted) (CZK)	35.3	42.8	41.7	99.6	132.8	153.4
DPS (CZK)	34.0	52.0	48.0	80.0	106.0	123.0
Dividend payout	96%	122%	115%	80%	80%	80%

Source: Company data, WOOD Research

Cash flow statement

CZKm	2019	2020	2021	2022E	2023E	2024E
Pre-tax profit	18,411	7,906	13,426	68,211	90,985	105,042
Depreciation, impairments	29,016	28,284	31,628	28,533	28,853	29,237
Amortization of nuclear fuel	4,096	4,197	4,110	4,144	4,157	4,169
Cash taxes paid	-4,136	-3,748	-3,550	-15,006	-20,017	-23,109
Changes in working capital	-20,990	21,206	32,312	-29,931	-17,147	-11,643
Interest paid, net of capitalised interest	-5,426	-5,649	-4,415	-3,785	-3,762	-3,830
Interest and dividends received	551	365	377	377	377	377
Other adjustments	16,534	14,312	-18,770	2,742	2,696	2,576
Inflows	**42,931**	**72,157**	**59,156**	**58,693**	**89,527**	**106,272**
Capex	-29,802	-31,558	-32,226	-39,300	-41,810	-44,250
Financial investments/acquisitions	-3,342	-1,288	25,719	0	0	0
Proceeds from sale of fixed assets	2,550	467	468	0	0	0
Dividends	-12,836	-18,116	-27,813	-25,644	-42,740	-56,630
(Acquisition) Sale of treasury shares, net	249	15	660	0	0	0
Other	-9,698	-2,881	-2,526	-2,552	-2,578	-2,577
Cash outflow	**-52,879**	**-53,362**	**-35,718**	**-67,496**	**-87,128**	**-103,457**
Change in net debt	**-15,004**	**22,804**	**32,800**	**-8,646**	**2,554**	**2,942**

Source: Company data, WOOD Research

Balance sheet

CZK m	2019	2020	2021	2022E	2023E	2024E
Net plant in service	395,630	376,619	368,978	375,068	383,415	393,949
Nuclear fuel, at amortised cost	14,250	13,697	13,096	12,746	12,396	12,046
Construction work in progress	18,208	20,056	21,009	21,009	21,009	21,009
Investment in associates and joint-ventures	3,283	4,075	3,916	3,916	3,916	3,916
Restricted financial assets	20,732	21,424	20,804	22,493	24,176	25,864
Investments and other financial assets, net	10,923	11,002	11,805	13,335	14,870	16,410
Intangible assets, net	37,429	24,244	23,677	23,677	23,677	23,677
Deferred tax assets	1,481	828	10,719	10,719	10,719	10,719
Total non-current assets	**501,936**	**471,945**	**474,004**	**482,963**	**494,178**	**507,590**
Cash and cash equivalents	9,755	6,064	26,640	21,463	28,986	31,928
Inventories	10,653	11,118	13,946	16,033	17,707	19,230
Receivables	65,030	63,648	137,432	178,136	203,924	223,426
Other current assets	117,200	149,683	530,900	530,900	530,900	530,900
Current Assets	**202,638**	**230,513**	**708,918**	**746,533**	**781,518**	**805,484**
Total assets	**704,574**	**702,458**	**1,182,922**	**1,229,496**	**1,275,696**	**1,313,073**
Share capital	53,799	53,799	53,799	53,799	53,799	53,799
Treasury shares	-2,885	-2,845	-1,423	-1,423	-1,423	-1,423
Retained earnings	199,847	182,917	108,722	136,165	164,275	189,460
Shareholders' equity	**255,364**	**238,563**	**162,840**	**190,401**	**218,629**	**243,932**
Minorities	4,603	4,692	1,742	1,860	1,978	2,096
Total Equity	**259,967**	**243,255**	**164,582**	**192,261**	**220,607**	**246,028**
Long-term debt, net of current portion	142,570	122,102	95,924	116,753	121,633	121,633
Provisions	89,512	105,326	117,072	119,755	122,444	125,138
Other long-term liabilities	9,700	9,414	35,219	35,219	35,219	35,219
Deferred tax liability	20,626	19,383	12,839	12,839	12,839	12,839
Other long-term liabilities	31	34	32	32	32	32
Total long-term liabilities	**262,439**	**256,259**	**261,086**	**284,598**	**292,166**	**294,860**
Short-term loans	4,260	984	25,310	25,310	25,310	25,310
Current portion of long-term debt	25,063	28,741	16,647	-712	-624	-624
Trade and other payables	66,244	73,189	85,928	98,789	109,103	118,484
Provisions	14,253	13,665	18,253	18,253	18,253	18,253
Other short-term financial liabilities	76,951	91,057	612,858	612,858	612,858	612,858
Total current liabilities	**186,771**	**207,636**	**758,996**	**754,498**	**764,901**	**774,281**
Total equity and liabilities	**704,574**	**702,458**	**1,182,922**	**1,229,496**	**1,275,696**	**1,313,073**
Net debt	**166,304**	**143,500**	**110,700**	**119,346**	**116,792**	**113,850**
Gearing (x)	2.8	2.2	1.8	1.2	0.9	0.8
Capital employed	**515,205**	**494,819**	**410,252**	**445,923**	**471,068**	**492,894**
ROCE	6.4%	3.3%	4.5%	21.0%	25.6%	27.9%

Source: Company data, WOOD Research

Ignitis Group

Buy

Maintained

Price: EUR 17.5
Price target: EUR 29.4
(From EUR 24.8)

Generating margins, without punishment

We reiterate our BUY recommendation on Ignitis, with a new 12M price target (PT) of EUR 29.4/share, implying 68% upside. The company is one of our utilities top picks due to: 1) the upside from high power prices; and 2) the State's generous policies not to punish power producers for their unexpectedly high margins, and even to help cover the power bills for regulated customers from State budget. While in proximity to Russia, Ignitis is benefitting strongly from the high power price levels. It has no exposure to Russia or Belarus and faces few commodity risks, with renewables generation and heat plants based on waste and biomass. It plans to add 3GW of new green capacity by 2030E while distributing generous dividends to its shareholders. Based on the minimum payout set in the IPO, its dividend yield now averages 7.5% for 2022-24E and, given the improving profitability, payouts might be revised upwards, in our view. Ignitis is trading at our 2022-24E EV/EBITDAs of 6.5x and P/Es of 7.0-7.4x, at 49% and 33% discounts vs. its peers, respectively.

State compensation for power acquisition costs. With high electricity imports into Lithuania and attempts to replace these with its own, green generation, there are currently no discussions regarding regulating, capping or taxing the power producers. In supply, Ignitis buys power from the market, which is significantly above the current regulated pricing (e.g. households). In a fair and generous move, the government has decided to cover the difference so far, by taking over around EUR 365m in debt of regulated supply customers accrued by end-H122 and partially compensating for the increase in prices during H222E. Both are covered directly from the State budget.

Upgraded guidance, stronger outlook. Following the very strong 1Q22 numbers, driven mainly by the better-than-expected performance of the green generation segment, Ignitis raised its EBITDA guidance for the year by c.10%, to EUR 330-360m. Thanks to rallying power prices, green generation is expected to perform very well this year. In distribution, Ignitis reiterated a higher EBITDA thanks to the additional tariff component. Supply and flexible generation EBITDAs are expected to fall, in line with previous guidance.

Model update. The main revision in our model is the much stronger power price outlook driving our green generation EBITDA estimates higher, by 17% and 5% in 2022E and 2023E, respectively. We expect the full-year green generation EBITDA to exceed the distribution level as soon as the next year, at EUR 176m. We also revise upwards our consumers & solutions 2022E EBITDA, in line with the recent guidance. We are now slightly more conservative in distribution, as well as the flexible generation segment, with higher inflation and gas prices at their peaks, and the lower probability of solid generation margins. We now estimate a 2021-24E EBITDA CAGR of 6% for the group, led by the green generation CAGR of 18%.

Valuation yields 68% upside. We value Ignitis using our DCF, DDM, and peer multiples calculations. Weighting these equally, we arrive at a 12M PT of EUR 29.4/share, implying 68% upside. The risks include: regulatory risk; execution of the bullish RES pipeline; and power price levels. In our view, the main reason why Ignitis has been underperforming its peers, despite benefitting from the situation, is its proximity to Russia and Belarus.

Year	Sales (EURm)	EBITDA (EURm)	Net profit (EURm)	EPS (EUR)	P/E (x)	EV/EBITDA (x)	P/BV (x)	DPS (EUR)	Div. yield (%)
2019	1,099	60	57	0.8	24.8	39.6	1.1	0.52	2.6%
2020	1,223	334	171	2.3	8.6	6.1	0.8	1.14	5.8%
2021	1,890	335	170	2.3	10.3	7.4	0.9	1.23	5.9%
2022E	3,114	360	175	2.4	7.4	6.5	0.7	1.27	7.3%
2023E	2,708	383	171	2.3	7.4	6.5	0.6	1.31	7.5%
2024E	2,830	414	181	2.5	7.0	6.5	0.6	1.35	7.7%

Expected events

2Q22 results	23 August 2022

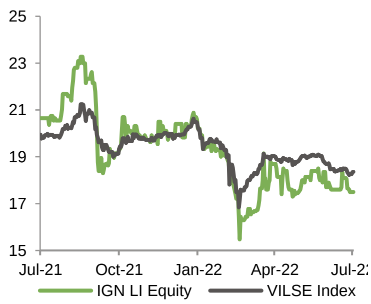
Key data

Market cap	EUR 1,300m
Free float	26%
3M ATDV (EURm)	0.1
Shares outstanding	73m
Major shareholder:	
.	Ministry of Finance, 73%
Bloomberg code	IGN LI/IGN1L LH
VILSE index	889

Price performance

12M range	15.5-23.3
12M performance	-15%
Relative performance	-7%

IGN share price performance since listing



EQUITY RESEARCH

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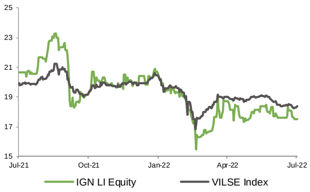
Company snapshot - BUY, PT EUR 29.4

Ignitis Group

BUY

Bloomberg ticker	IGN LI Equity
Closing price (EUR)	17.5
Price target (EUR)	29.4
Upside to PT	68%
Shares outstanding (m)	73.0
Mcap EUR (m)	1,300
3M ADTV (EUR ths)	0.1
Free float	25.7%
52W range	15.5-23.3
52W performance range	-15%
Relative performance	-7%



COMPANY DESCRIPTION

Ignitis Group is one of the largest integrated utilities in the Baltics and the largest in Lithuania, where it is based. The company also operates in Poland, Latvia, Estonia and Finland. Currently most of its EBITDA comes from distribution, but in line with the company's strategy, Ignitis has bullish plans in power generation, planning to add almost 3 GW of green power by 2030 E. Ignitis also operates flexible generation and customer & solutions business. Ignitis was IPOed in 2020 after which the state owns 73% of the company. The securities of Ignitis Group are traded on Nasdaq Vilnius and through GDRs on the London Stock Exchange.

RATIOS

PER SHARE RATIOS	2019	2020	2021	2022E	2023E	2024E
EPS	0.76	2.30	2.29	2.40	2.34	2.48
BVPS	18.2	24.4	24.9	26.8	27.9	29.1
DPS	0.52	1.14	1.23	1.27	1.31	1.35
FINANCIAL RATIOS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
EBITDA margin	5.4%	27.3%	17.7%	11.6%	14.2%	14.6%
EBIT margin	7.6%	17.6%	9.8%	7.4%	8.8%	9.0%
Net margin	5.2%	14.0%	9.0%	5.6%	6.3%	6.4%
ROE	4.2%	9.4%	9.2%	8.9%	8.4%	8.5%
ROIC	3.3%	7.8%	6.1%	6.6%	6.4%	6.2%
ROA	1.8%	4.4%	4.0%	4.0%	3.6%	3.7%
Net debt/EBITDA	16.1x	1.9x	2.9x	3.0x	3.3x	3.5x
Total debt/Equity	84.5%	72.0%	76.1%	74.4%	83.4%	84.7%

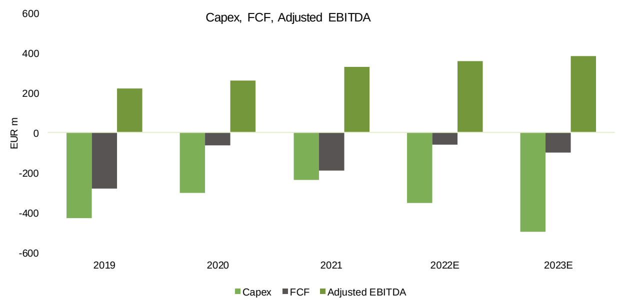
VALUATION RATIOS	2019	2020	2021	2022E	2023E	2024E
P/E	24.8x	8.6x	10.3x	7.4x	7.4x	7.0x
P/CF	8.3x	5.2x	16.3x	4.1x	3.0x	3.5x
P/BV	1.1x	0.8x	0.9x	0.7x	0.6x	0.6x
EV/EBITDA	39.6x	6.1x	7.4x	6.5x	6.5x	6.5x
EV/Sales	2.2x	1.7x	1.3x	0.7x	0.9x	0.9x
EV/EBIT	28.6x	9.5x	13.4x	10.0x	10.4x	10.6x
FCF, EUR m	-279	-65	-188	-61	-99	-130
FCF yield	-19.1%	-4.4%	-11.9%	-4.7%	-7.6%	-10.0%
Dividend yield	2.6%	5.8%	5.9%	7.3%	7.5%	7.7%
Payout ratio	67%	49%	53%	53%	56%	55%

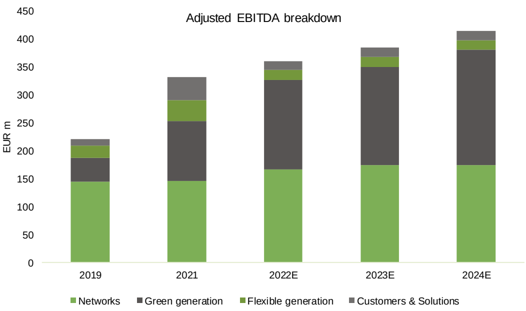
COMPANY FINANCIALS

INCOME STATEMENT, EUR m	2019	2020	2021	2022E	2023E	2024E
Revenues	1,099	1,223	1,890	3,114	2,708	2,830
COGS	-1,039	-889	-1,555	-2,754	-2,325	-2,416
EBITDA	60	334	335	360	383	414
Adjusted EBITDA	223	260	331	360	383	414
Networks	144	181	145	166	173	174
Green generation	43	51	108	159	176	206
Flexible generation	22	29	37	18	18	17
Customers & Solutions	11	11	41	16	16	17
Depreciation	-110	-113	-122	-129	-145	-160
Revaluations	-14	-6	-28	0	0	0
EBIT	83	215	185	231	238	254
Financial Income	2	2	18	2	2	2
Financial Expenses	-19	-23	-34	-28	-38	-42
Profit Before Tax	66	195	168	205	203	214
Taxes	-7	-24	-15	-29	-28	-30
Minorities	2	0	0	2	3	3
Net Income	57	171	170	175	171	181

CASH FLOW, EUR m	2019	2020	2021	2022E	2023E	2024E
CF from Operations	177	281	97	318	431	370
Thereof depreciation	119	123	133	129	145	160
Thereof changes in w/c	-33	-65	-256	-13	77	-13
CF from Investments	-347	-258	-229	-352	-495	-461
Thereof CAPEX	-428	-301	-238	-352	-495	-461
Thereof Interest Received	1	1	1	1	0	0
CF from Financing	25	696	-78	-52	143	-9
Thereof Dividends Paid	-14	-73	-88	-90	-93	-96
Cash Movement	-145	718	-210	-86	79	-100

BALANCE SHEET, EUR m	2019	2020	2021	2022E	2023E	2024E
Fixed Assets	2,771	2,900	2,947	3,213	3,537	3,813
Intangible assets	143	95	114	114	114	114
Property, plant and equipment	2,348	2,560	2,610	2,907	3,232	3,507
Non-current receivables	165	162	96	96	96	96
Other	115	84	127	95	95	95
Current Assets	428	1,022	1,304	1,205	1,221	1,140
Inventories	47	66	186	261	227	237
Trade receivables	118	128	275	219	190	199
Cash and cash equivalents	132	659	449	363	442	342
Other	131	169	395	362	362	362
Total assets	3,198	3,922	4,251	4,417	4,758	4,953
Current Liabilities	499	304	698	704	717	723
Short Term Borrowing	243	29	242	242	242	242
Payables	79	52	100	106	120	126
Other	178	223	355	355	355	355
LT Liabilities	1,350	1,804	1,705	1,755	2,001	2,101
LT Loans	856	1,275	1,164	1,214	1,460	1,560
Other LT liabilities	495	528	540	541	541	542
Total Liabilities	1,849	2,108	2,402	2,459	2,719	2,824
Minority Interest	49	1	0	0	0	0
Shareholders' Equity	1,349	1,813	1,848	1,958	2,040	2,128
Total Liabilities and Equity	3,198	3,921	4,250	4,417	4,758	4,953
Net debt	967	645	957	1,094	1,260	1,460
Total debt	1,098	1,304	1,406	1,456	1,702	1,802





Valuation: BUY, with upside of 68%

We value Ignitis at EUR 29.4/share, implying 68% upside. Our valuation is derived from our DCF, DDM and peer multiples (P/E, EV/EBITDA) valuations, weighted equally. The increase in our PT (previously EUR 24.8/share) is driven mainly by higher green generation earnings, driven by the improved power price outlook.

Ignitis: valuation (EUR/share)

DCF	29.4
DDM	23.0
Peers	35.8
P/E	36.6
EV/EBITDA	34.9
Average (equally-weighted)	**29.4**
Upside potential	68%

Source: WOOD Research

DCF

Our assumptions are:

- ✓ A WACC of 5.8-6.2% for 2022-26E (from 5.9-6.5%)
- ✓ A debt-adjusted Beta of 0.85; an ERP of 7.0%, adjusted upwards due to the low liquidity; and a risk free rate of 4.0%, which yields a cost of equity of 10.0%, and a cost of debt of 3.5% (up from 3.0%, previously) with 15% tax.
- ✓ Terminal growth of 2.5%.

DCF valuation

EURm	2022E	2023E	2024E	2025E	2026E
EBIT	**231**	**238**	**254**	**242**	**246**
Taxes	-29	-28	-30	-28	-29
NOPAT	**203**	**210**	**224**	**214**	**217**
Depreciation	129	145	160	173	181
Change in net working capital	-13	77	-13	-20	-15
Capex	-352	-495	-461	-410	-275
FCF	**-8**	**-217**	**-64**	**-3**	**138**
Discount factor	0.94	0.89	0.84	0.80	0.75
PV of FCF	**-7**	**-193**	**-54**	**-2**	**104**
Sum of NPV of FCF	**-257**				
Terminal growth rate	2.5%				
Terminal value	**3,158**				
Enterprise value	**2,902**				
Net Debt, 2021E (adjusted)	948				
Fair value of equity	**1,953.8**				
Minority interest adjustment	0				
Fair value of shareholders' equity	**1,954**				
Per share	27				
12M PT	**29.4**				
Upside	68%				

Source: WOOD Research

WACC calculation

	2022E	2023E	2024E	2025E	2026E
Risk-free rate	4.0%	4.0%	4.0%	4.0%	4.0%
Beta	0.85	0.85	0.85	0.85	0.85
Equity risk premium	7.0%	7.0%	7.0%	7.0%	7.0%
Cost of equity	**10.0%**	**10.0%**	**10.0%**	**10.0%**	**10.0%**
Cost of debt	3.5%	3.5%	3.5%	3.5%	3.5%
Tax rate	15.0%	15.0%	15.0%	15.0%	15.0%
Effective cost of debt	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
Weight of debt	53.3%	57.1%	58.5%	59.2%	58.5%
Weight of equity	46.7%	42.9%	41.5%	40.8%	41.5%
WACC	**6.2%**	**6.0%**	**5.9%**	**5.8%**	**5.9%**

Source: WOOD Research

DDM

Our assumptions are:

- ✓ A COE of 10.0% in 2021-25E, based on a debt-adjusted Beta of 0.85; an ERP of 7.0%, adjusted upwards due to the low liquidity; and a risk free rate of 4.0%.
- ✓ Terminal growth of 2.5%.

Dividend discount model

EURm	2022E	2023E	2024E	2025E	2026E
Dividends	90	93	96	99	102
Discount factor	0.91	0.83	0.75	0.68	1.00
Present value	**82**	**77**	**72**	**68**	**102**
Present value of dividends	299				
Terminal growth rate	2.5%				
Terminal value	930				
Discounted terminal value	**1,229**				
EV value	**1,528**				
Number of shares	73				
Per share	20.9				
12M PT (EUR/share)	**23.0**				
Upside	*31%*				

Source: WOOD Research

Peer valuation

On our numbers, Ignitis is trading at our 2022-24E EV/EBITDAs of 6.5x and P/Es of 7.0-7.4x, representing 31% and 39% discounts vs. its peers, respectively, on average. Despite the low liquidity, we believe these multiples are attractive. Our peer valuations yield 109% upside on EV/EBITDA and 100% upside on P/E. We use equal weights for the EV/EBITDA and the P/E in our peer valuation.

Ignitis is an integrated utility, which are often traded at lower multiples than, for example, renewables generators. We expect the green generation segment to become the largest EBITDA contributor next year, however, and its weight in EBITDA mix should only grow, on our estimates. In the coming years, we expect the company's valuation to rerate closer to its green generation-exposed peers.

EV/EBITDAs

EURm	2022E	2023E	2024E
Peer multiple	10.2	9.7	9.3
Adjusted EBITDA*	360	383	414
Net debt	957	1,094	1,260
Equity value	**2,707**	**2,637**	**2,581**
Average	2,672		
EUR/share	**36.6**		
Upside	109%		

Source: Bloomberg, WOOD Research

P/Es

EURm	2022E	2023E	2024E
Peer multiple	15.0	14.5	13.3
Adjusted net profit	175	171	181
Equity value	**2,617**	**2,487**	**2,414**
Average	2,552		
EUR/share	**34.9**		
Upside	100%		

Source: Bloomberg, WOOD Research

Valuation multiples of selected peers

Company	Mcap	AVTD 3M	P/E (x)			EV/EBITDA			Div. yield (%)		
	(EURm)	(EURm)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
CEZ	24,701	14.2	13.2	10.4	9.9	7.5	5.8	5.2	5.1	6.2	7.4
E.ON	22,171	76.1	9.5	9.9	9.9	8.2	8.2	8.4	6.0	6.2	6.5
EDP	18,547	37.3	22.2	17.5	16.0	9.2	8.5	8.2	4.1	4.5	4.7
Endesa	18,930	24.3	11.0	10.1	9.7	7.0	6.7	6.4	6.5	7.0	7.2
Enel SPA	50,564	142.9	8.9	8.2	7.7	6.3	6.1	6.0	8.0	8.6	8.9
Engie	28,020	75.8	7.0	7.9	7.6	4.6	5.2	5.0	8.8	8.6	8.7
Iberdrola	63,093	158.2	15.0	14.2	13.3	10.0	10.0	9.6	4.7	5.0	5.3
Italgas	4,460	8.9	12.3	11.1	10.1	10.3	9.5	9.0	5.5	5.9	6.3
National Grid	47,369	81.2	16.9	15.3	14.3	13.2	12.7	12.2	4.8	5.0	5.2
Naturgy Energy	27,779	12.8	20.2	19.9	20.4	10.6	10.4	10.6	4.3	4.2	4.3
Neoen	4,150	4.8	70.6	55.2	51.1	19.3	17.0	16.6	0.2	0.5	0.6
Orsted Energy	46,018	48.1	23.6	36.4	35.6	13.4	16.7	16.9	1.6	1.8	1.9
PGE	4,972	6.2	7.2	3.5	3.8	2.9	2.2	2.3	0.0	2.0	12.9
PPL	19,704	159.5	19.1	17.0	15.8	na	na	na	3.3	3.6	3.8
Snam	16,435	32.2	14.7	14.5	13.9	14.4	14.0	13.4	5.7	5.7	5.9
SSE	22,370	64.4	16.1	14.8	12.7	12.2	11.0	10.0	5.0	3.9	3.5
Terna Rete	14,609	31.8	18.6	18.0	17.1	13.3	13.3	13.0	4.3	4.6	4.7
Median			**15.0**	**14.5**	**13.3**	**10.2**	**9.7**	**9.3**	**4.8**	**5.0**	**5.3**
Ignitis	**1,300**	**0.1**	**7.4**	**7.4**	**7.0**	**6.5**	**6.5**	**6.5**	**7.3**	**7.5**	**7.7**
Disc./prem. of Ignitis to its peers			-51%	-49%	-47%	-37%	-33%	-30%	52%	50%	46%

Source: Bloomberg, WOOD Research

Risks

Regulatory risk. As opposed to last year, when Ignitis saw its RAB cut and distribution EBITDA taking a hit due to changes in regulation, we are very pleased with the government's actions in shielding both the providers and the consumers. That said, the current favourable policies might not last, based on our power price outlook for the region or changes in governments.

Execution risk. The company plans to add c.3GW of new generation capacity by 2030E, which would mean that its production capacity would grow almost threefold. As with any other utility company, Ignitis faces risks internally, e.g., execution risk, as well as external risks that it cannot control, i.e., delays or cost increases due to contractors, environmental studies, etc.

Power prices. While we believe that current power price levels are not sustainable, we expect normalised Lithuanian power prices to grow in the long term vs. pre-COVID levels, due to ongoing imports of more expensive power, before the country becomes energy independent thanks to less-expensive renewables generation.

The main shareholder. So far, we are not aware of any actions by the controlling shareholder (i.e., the State, with a c.73% stake) that would not be aligned with the minorities' interests. As is often the case with a State-controlled utility, however, we cannot rule out a clash between the State and the minorities in the future. We note that five of the Supervisory Board's seven members are independent, including the Chairman; and thus we see such a risk as low, at the moment.

Competition. Ignitis is operating in a very competitive space. While it is the market leader in Lithuania, where it has a competitive advantage, it is certainly not alone in pursuing investment opportunities in the region. From securing new RES capacity in the region to the deregulation of the supply market in Lithuania, we expect a fierce fight across all fronts, despite the supply EBITDA's weight gradually falling in our model period. Looking at the competition, Ignitis is not alone in wishing to secure as much capacity as possible.

Financials

Income statement

EURm	2019	2020	2021	2022E	2023E	2024E
Revenues	**1,099**	**1,223**	**1,890**	**3,114**	**2,708**	**2,830**
COGS	-1,039	-889	-1,555	-2,754	-2,325	-2,416
EBITDA	**60**	**334**	**335**	**360**	**383**	**414**
Adjusted EBITDA	**223**	**260**	**331**	**360**	**383**	**414**
Networks	144	181	145	166	173	174
Green generation	43	51	108	159	176	206
Flexible generation	22	29	37	18	18	17
Customers & solutions	11	11	41	16	16	17
Depreciation	-110	-113	-122	-129	-145	-160
Revaluations	-14	-6	-28	0	0	0
EBIT	**83**	**215**	**185**	**231**	**238**	**254**
Financial income	2	2	18	2	2	2
Financial expenses	-19	-23	-34	-28	-38	-42
Profit before tax	66	195	168	205	203	214
Taxes	-7	-24	-15	-29	-28	-30
Minorities	2	0	0	2	3	3
Net profit	**57**	**171**	**170**	**175**	**171**	**181**

Source: Company data, WOOD Research

Balance sheet

EURm	2019	2020	2021	2022E	2023E	2024E
Fixed assets	2,771	2,900	2,947	3,213	3,537	3,813
Intangible assets	143	95	114	114	114	114
Property, plant and equipment	2,348	2,560	2,610	2,907	3,232	3,507
Non-current receivables	165	162	96	96	96	96
Other	115	84	127	95	95	95
Current assets	428	1,022	1,304	1,205	1,221	1,140
Inventories	47	66	186	261	227	237
Trade receivables	118	128	275	219	190	199
Cash and cash equivalents	132	659	449	363	442	342
Other	131	169	395	362	362	362
Total assets	**3,198**	**3,922**	**4,251**	**4,417**	**4,758**	**4,953**
Current liabilities	499	304	698	704	717	723
Short term borrowing	243	29	242	242	242	242
Payables	79	52	100	106	120	126
Other	178	223	355	355	355	355
Long-term liabilities	1,350	1,804	1,705	1,755	2,001	2,101
Long-term loans	856	1,275	1,164	1,214	1,460	1,560
Other long-term liabilities	495	528	540	541	541	542
Total liabilities	**1,849**	**2,108**	**2,402**	**2,459**	**2,719**	**2,824**
Minority Interest	49	1	0	0	0	0
Shareholders' equity	1,349	1,813	1,848	1,958	2,040	2,128
Total liabilities and equity	**3,198**	**3,921**	**4,250**	**4,417**	**4,758**	**4,953**
Net debt	967	645	957	1,094	1,260	1,460
Total debt	1,098	1,304	1,406	1,456	1,702	1,802

Source: Company data, WOOD Research

Cash flow statement

EURm	2019	2020	2021	2022E	2023E	2024E
Cash flow from operations	**177**	**281**	**97**	**318**	**431**	**370**
Thereof depreciation	119	123	133	129	145	160
Thereof changes in w/c	-33	-65	-256	-13	77	-13
Cash flow from investments	**-347**	**-258**	**-229**	**-352**	**-495**	**-461**
Thereof Capex	-428	-301	-238	-352	-495	-461
Thereof interest received	1	1	1	1	0	0
Cash flow from financing	**25**	**696**	**-78**	**-52**	**143**	**-9**
Thereof dividends paid	-14	-73	-88	-90	-93	-96
Cash movements	-145	718	-210	-86	79	-100

Source: Company data, WOOD Research

WOOD & COMPANY

Photon Energy

Buy

Maintained

Price: CZK 62
Price target: CZK 90
(from CZK 84.0)

Higher growth, lower risk

We reiterate our BUY recommendation on Photon Energy and increase our 12M PT to CZK 90/share (from CZK 84), yielding 46% upside. Following our initiation in May, power prices have rallied even more and, with over 80% of Photon's generation capacity now exposed to merchant pricing, this brings more upside to our previous figures. This month, it reconfirmed its full-year targets (EBITDA growth of 88% yoy) and, despite slightly lower Romania additions by end-2022E (32MW vs. our 35MW expected previously), we find the guidance credible, if not conservative, given the power price outlook in 2H22E. We now see a 2022-24E EBITDA CAGR of 34% (vs. 28% previously), mainly on higher power prices achieved by the group. We believe that despite the risks of government intervention across CEE, Photon's portfolio is well diversified and the company is still too small to be affected by the measures that are currently being discussed with respect to the larger, conventional generators, in our view. Photon is trading at our 2022-24 EV/EBITDAs of 6.6-11.0x, 35% below its peer group, with the discount widening over the past two months and its share flat since our initiation, despite a much improving power macro outlook.

2022E guidance confirmed. Following stellar 1H22 production volumes, and with over 80% of the generation portfolio exposed to merchant pricing, currently, Photon reiterated its full-year outlook this July, guiding for revenues of EUR 65m (+79% yoy) and EBITDA of EUR 18m (+88% yoy), broadly in line with our numbers. We still believe the market is overlooking the improving performance and the switch from regulated to merchant pricing.

Romania and Poland expansion starts. Photon has broken ground on its first two PV plants in Romania, and expects to finish 32MW of new merchant capacity there by the year end. In Poland, it has signed a 48MW Operations & Maintenance (O&M) services agreement, reaching 328MW of O&M capacity for the group. We note that Photon plans to reach at least 600MW of PV generation capacity, and over 1GW of O&M, by end-2024E: numbers that present upside to our more conservative estimates.

Too green and small to be hit. Photon is a fully-green, relatively-small and now mainly merchant power generator, whose portfolio is spread over CEE and Australia. To the best of our knowledge, no measures that could hit the company (e.g. price caps, green power windfall taxes) are being discussed in its countries of operation at this point. Moreover, should power prices drop significantly on the back of a potential slowdown, Photon has the option to step back into most of the regulatory schemes, limiting the earnings downside.

Model update. We have increased our medium-to-long-term power price estimates vs. our May assumptions, by c.EUR 10/MWh on average. We are slightly more conservative on the Romania expansion this year, following Photon's guidance of 32MW additions by end-2022E. This still results in a slightly higher 2022E EBITDA and a 34% EBITDA CAGR over 2021-24E.

Valuation and risks. Our 70:30 weighted DCF and peers valuation generate a 12M PT of CZK 90/share, or 46% upside. The main risks to our forecasts are: CEE power price levels; government intervention; execution risks; and supply chain issues in the PV industry, among others.

Expected events

2Q22 results	11 August
3Q22 results	10 November

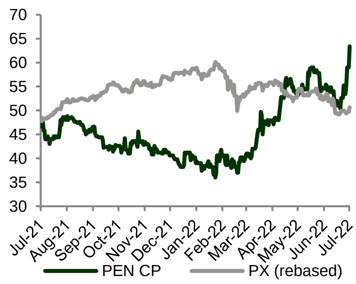
Key data

Market cap	EUR 151m
Free float	23%
3M ADTV	EUR 0.1m
Shares outstanding	56.3m
Major shareholder	Management/cofounders (71%)
Bloomberg code	PEN CP
PX Index	1,249

Price performance

52-w range	CZK 36-63
52-w performance	+21%
Relative performance	+19%

Photon 12M share price performance



Year	Sales (EURm)	EBITDA (EURm)	Net profit (EURm)	EPS (EUR)	EPS growth	P/E (x)	P/CE (x)	EV/ EBITDA	DPS (EUR)	Div. yield (%)
2019	30.4	7.9	-0.7	-0.01	n.m.	n.m.	13.6	19.0	0.00	0.0%
2020	28.6	8.4	-8.7	-0.15	n.m.	n.m.	28.4	30.2	0.00	0.0%
2021	36.8	9.6	-6.4	-0.11	n.m.	n.m.	13.1	17.8	0.00	0.0%
2022E	64.5	20.5	3.3	0.06	n.m.	39.4	6.5	11.1	0.00	0.0%
2023E	81.6	32.3	11.1	0.20	237%	11.7	4.7	9.8	0.00	0.0%
2024E	102.8	49.5	17.3	0.31	55%	7.5	2.5	6.6	0.00	0.0%

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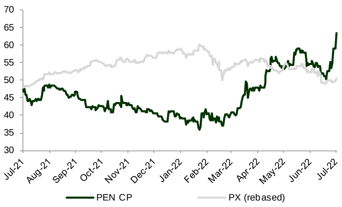
EQUITY RESEARCH

Company snapshot - BUY, PT CZK 90

BUY

Bloomberg ticker	**PEN CP**
Closing price (CZK)	**62**
Price Target (CZK)	**90**
Upside to PT	**46%**
Shares outstanding (m)	**56.3**
MCAP (EUR m)	**151**
Free float	**23%**
ADTV (EUR m)	**0.1**
52 Week Range (CZK)	**36-63**
52 Week Performance	**27%**
52 Relative Performance	**23%**



COMPANY DESCRIPTION

Photon Energy Group, founded in 2008 and based in Netherlands, is a vertically integrated utility in the downstream segment of the photovoltaic industry. Its business model covers the whole life cycle of a power plant from the development through electricity generation to decommissioning. Currently, Photon operates 92MW of its own PV capacity, in the CEE and Australia, and maintains above 280MW of solar plants, mainly in Europe. Photon is also active in water treatment business, currently awaiting results of its R&D, and holds equity stakes in two promising power companies: 1) and Australian developer of solar battery storage and generation RayGen and 2) a Polish energy-tech startup Lerta. The shareholder structure is composed of 2 main players, namely, Solar Future (Michael Gartner, CTO) and Solar Power to the People (Georg Hotar, CEO) with 36.3% and 34.7%, respectively. Roughly 23% of shares are in free float and are 6.2% of treasury shares.

RATIOS

PER SHARE RATIOS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
EPS	-0.01	-0.15	-0.11	0.06	0.20	0.31
CEPS	0.11	0.11	0.11	0.36	0.49	0.91
BVPS	0.67	0.71	0.92	0.97	1.17	1.48
DPS	0.00	0.00	0.00	0.00	0.00	0.00

FINANCIAL RATIOS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Capex/depreciation	2.9x	2.2x	0.8x	2.2x	6.0x	5.5x
Capex/net fixed assets	0.19x	0.14x	0.07x	0.18x	0.42x	0.36x
Op. cash flow/capex	0.3x	0.5x	1.3x	0.9x	0.3x	0.5x
EBITDA margin	26.2%	29.5%	26.1%	31.8%	39.5%	48.2%
EBIT margin	3.8%	0.5%	-3.0%	14.4%	21.0%	29.0%
Net margin	-2.4%	-30.4%	-17.5%	5.1%	13.7%	16.8%
ROE	n.a.	-22.3%	-14.0%	6.2%	18.4%	23.2%
Net debt/(cash) to equity	1.8x	2.1x	1.7x	1.8x	2.8x	2.4x
Net debt/EBITDA	8.5x	10.0x	9.3x	4.8x	5.8x	4.0x

VALUATION RATIOS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
P/E	n.m.	n.m.	n.m.	39.4x	11.7x	7.5x
P/CF	13.6x	28.4x	13.1x	6.5x	4.7x	2.5x
P/B	2.2x	4.2x	1.6x	2.4x	2.0x	1.6x
EV/EBITDA	19.0x	30.2x	17.8x	11.1x	9.8x	6.6x
EV/Sales	5.0x	8.9x	4.6x	3.5x	3.9x	3.2x
EV/EBIT	131.4x	1,975.9x	n.m.	24.7x	18.5x	11.0x
Cash flow from ops, EUR m	6.2	6.0	6.2	20.2	27.8	51.4
EV, CZK m	3,932	6,737	4,546	6,098	8,429	8,722
FCF, EUR m	-8	-14	-8	-4	-56	-52
FCF yield	-0.4%	-0.3%	-0.4%	-0.1%	-1.6%	-1.5%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

COMPANY FINANCIALS

INCOME STATEMENT, EUR m	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Revenues	30.4	28.6	36.8	64.5	81.6	102.8
COGS & opex	-22.4	-20.2	-27.2	-44.0	-49.3	-53.3
EBIT	1.1	0.1	-1.1	9.3	17.1	29.8
Depreciation	6.8	8.3	10.7	11.3	15.1	19.7
EBITDA	7.9	8.4	9.6	20.5	32.3	49.5
Generation	11.6	12.9	17.2	25.9	37.5	54.4
O&M	-0.6	-0.1	0.2	0.3	0.8	1.5
Solutions	6.6	9.1	-2.5	0.8	1.3	1.4
Technology	0.0	0.5	1.5	1.7	1.7	2.9
Other	-0.3	-1.6	-6.1	-7.1	-7.8	-8.7
Financial income/(expense) & other	-4.4	-5.9	-6.5	-7.9	-13.0	-12.8
Profit before Tax	1.0	-6.5	-5.9	1.5	4.1	17.0
Income tax due/deferred	-1.7	-2.2	-0.5	1.1	-0.4	-6.0
Profit/loss	-0.7	-8.7	-6.4	3.3	11.1	17.3

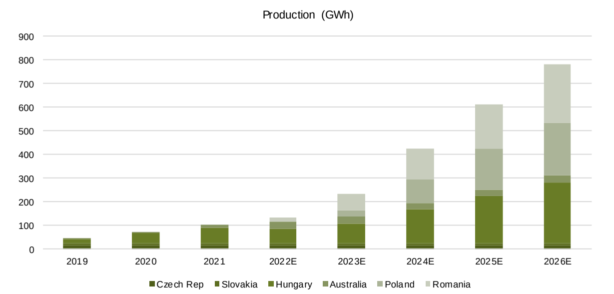
CASH FLOW, EUR m	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
CF from Operations	6.2	6.0	6.2	20.2	27.8	51.4
Thereof depreciation	6.8	8.3	10.7	11.3	15.1	19.7
Thereof changes in w/c	0.7	-2.4	-5.0	-2.8	-1.7	-2.2
CF from Investments	-14.4	-20.2	-14.2	-24.1	-83.6	-103.0
Thereof CAPEX	-19.7	-18.3	-8.6	-24.9	-91.0	-109.2
CF from Financing	11.7	12.1	30.6	11.4	74.5	-1.8
Dividends	0	0	0	0	0	0
Change in Net debt	14	17	5	9	87	11

BALANCE SHEET, EUR m	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Current assets	28.4	23.9	54.2	66.1	37.7	37.8
Cash & Equivalents	12.4	9.9	32.5	39.9	8.7	5.3
Trade receivables	10.4	6.1	9.1	11.9	13.7	15.9
Inventories	1.2	1.0	2.2	3.9	4.9	6.2
Other	4.3	6.8	10.4	10.4	10.4	10.4
Non-current assets	108.7	135.1	142.5	156.1	231.9	321.5
Tangible	102.0	126.3	127.5	141.1	217.0	306.5
Intangible	0.9	1.3	0.8	0.8	0.8	0.8
Other	5.7	7.5	14.1	14.1	14.1	14.1
Total assets	137.0	158.9	196.6	222.2	269.6	359.2
Current liabilities	12.3	15.2	34.0	23.6	24.7	26.0
ST debt	3.7	6.0	28.5	16.4	16.4	16.4
Trade payables	7.4	7.2	4.5	6.2	7.3	8.6
Other	1.2	1.9	1.0	1.0	1.0	1.0
Non-current liabilities	86.8	103.6	111.1	143.8	178.9	250.0
LT debt	76.4	90.9	98.3	131.0	166.2	237.2
Other	10.4	12.7	12.8	12.8	12.8	12.8
Total liabilities	99.2	118.8	145.1	167.3	203.6	276.0
Minority interest	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Shareholders' equity	37.8	40.1	51.5	54.8	66.0	83.3
Total liabilities and equity	137.0	158.9	196.6	222.2	269.6	359.2
Net Debt	67.3	84.5	89.1	98.3	185.8	196.8

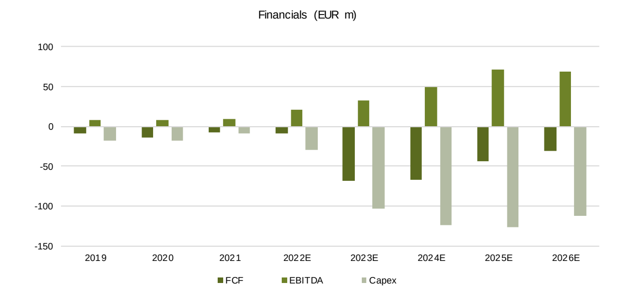
OPERATIONS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Generation capacity, MW	**37**	**80**	**76**	**117**	**245**	**360**
Growth (yoy)	*46%*	*117%*	*-5%*	*54%*	*109%*	*47%*
Czech Rep	15	15	15	15	15	15
Slovakia	10	10	10	10	10	10
Hungary	12	40	51	55	121	116
Australia	0	15	0	5	15	15
Poland	0	0	0	0	28	98
Romania	0	0	0	32	56	106

MACRO ASSUMPTIONS	**2019**	**2020**	**2021**	**2022E**	**2023E**	**2024E**
Inflation, EU	1.2%	0.3%	1.5%	7.3%	3.5%	2.0%
Photon realised merchant price, EUR/MWh	n.m.	n.m.	n.m.	215	170	135
Generation volume, GWh	44	70	103	135	234	424
Growth (yoy)	*54%*	*60%*	*48%*	*31%*	*73%*	*81%*

Generation by country forecast



FCF, EBITDA and capex forecasts



Valuation: BUY, PT CZK 90, 46% upside

We value Photon Energy at CZK 90/share, implying 46% upside. Our valuation is derived from our DCF and peer group EV/EBITDA calculations, weighted 70% and 30%, respectively. As Photon does not plan to distribute dividends in the immediate future, we do not employ a DDM and, due to the relatively volatile net profit forecasts of Photon and its competitors, we also skip a P/E valuation, for now. As we believe that Photon should attract interest in Poland (Warsaw), Germany (Frankfurt) and other markets, we show our PTs in both PLN and EUR. As implied by the current 1Y forward FX rates, both of these generate similar upside to our PT in CZK, as shown in the table below.

Valuation summary

	PT CZK/share	Upside
DCF	81	31%
Peers (EV/EBITDA)	112	82%
Weighted average (70:30)	**90**	**46%**
Implied PLN and EUR PTs		
12M PT PLN/share	17.7	49%
12M PT EUR/share	3.67	58%

Source: Bloomberg, WOOD Research

DCF

Our DCF valuation yields upside of 31%, or a 12M PT of CZK 81/share. Our assumptions are:

- ✓ A WACC of 7.6% across our forecast period (from 7.5% previously), derived from: a debt-adjusted Beta of 1.2 (unchanged); an ERP of 5.0%, adjusted upwards due to the low liquidity; and a RFR of 4.5% (4.0% previously). This yields a COE of 10.5%, and an effective cost of debt of 6.4%.
- ✓ Our DCF period covers 2022-27E, by which time we believe the CEE capacity targets should be met, on our numbers. We note that the 300MW RayGen project is not included in our valuation (the first 50MW is planned for 2024E) and our CEE capacity addition estimates are more conservative than the management's, due largely to the situation on the market, not the company itself. We use a terminal growth rate of 2.5%, assuming Photon grows in line with the expected solar sector expansion after our model period ends (2027E). We believe there is only upside to our forecasts, given the low penetration of solar in Photon's core regions, and the further likely value creation in future, on the back of much higher growth.
- ✓ We use our house power price estimates for the markets in which Photon operates, except for Australia, where we rely on the company's guidance and the local power market. We prefer to focus on the currently growth story of the next six years, rather than longer-term forecasts, where the sensitivity of long-term power prices and cost inflation alter the valuation significantly, both upwards and downwards. Photon is also yet to prove that its 2024E targets are not too ambitious. Our one-to-two year lag is punishing the valuation already, in our view, with more upside potential.

DCF

EUR000	2022E	2023E	2024E	2025E	2026E	2027E
EBIT	9,263	17,109	29,797	47,225	40,227	40,296
Depreciation	11,280	15,147	19,722	24,357	28,564	29,925
Capex	-24,065	-90,056	-108,083	-109,417	-97,622	-29,358
Working capital	-2,805	-1,725	-2,150	-2,961	-317	-317
Tax	1,147	-422	-5,959	-9,445	-9,545	-9,559
FCF	**-5,179**	**-59,948**	**-66,673**	**-50,242**	**-38,694**	**30,987**
Discount factor	0.97	0.90	0.84	0.78	0.72	0.67
Discounted FCF	**-5,010**	**-53,877**	**-55,674**	**-38,979**	**-27,892**	**20,753**

Discounted cash flows	**-160,679**		
Terminal value	414,657	Risk free	4.5%
Enterprise value	253,978	Beta	1.2
2021 net debt	89,104	ERP	5.0%
Minorities	150	Cost of equity	10.5%
Equity value	**164,724**	Weight of equity	30.0%
PT, CZK/share	73	Weight of debt	70.0%
12M PT, CZK/share	**81**	Cost of debt, net tax	6.4%
Upside	31%	**WACC**	**7.6%**

Source: Company data, WOOD Research

Peer group valuation

Our peer group valuation approach remains unchanged. Photon is the first pure solar (and water treatment company) under our coverage. Looking at the CEE region, there are no well-covered solar companies with publicly-available sell-side forecasts. Therefore, we have chosen a mix of Western European and US companies which have similar business models, sizes and growth profiles. Moreover, due to Photon's current high exposure to merchant pricing, we admit that the basket is not perfect. Our 2022-24E peer EV/EBITDAs produce a higher PT vs. our DCF. This is due mainly to us not adding any capacity by 2027E, and the strong outlook for its peers for the next three years, after which we expect power prices to fall significantly from current levels. We have decided to weight the peer valuation by only 30%, as Photon's business model is specific and exposed to a different region. Regarding the other multiples, e.g., P/E and P/CF, we believe it is premature to use these, given the volatility of earnings of both Photon and its peers.

We expect Photon's EBITDA margin to grow gradually, thanks mainly to the higher weight of power generation, but we also expect the profitability of the other segments' to improve over our forecast period. Being an integrated solar utility, with segments such as technology trading or engineering, it still produces lower margins than most of the peers listed below, which are more invested in high-margin power generation. Despite these lower margins, we believe the added value at Photon is derived from its business model, which can grow in any solar downstream direction globally, while not overpaying for generation capacity expansion.

On our numbers, Photon is trading at 2022-24E EV/EBITDAs of 6.6-11.0x, a 35% discount vs. the peer average. Despite the low liquidity, we believe these multiples are attractive. Our peer valuation yields CZK 112/share, offering 82% upside.

Peer valuation: EV/EBITDA

EURk	2022E	2023E	2024E
Peer multiple	16.1	13.2	12.4
EBITDA	20,543	32,256	49,519
Net debt	98,348	185,815	196,829
Equity value	**232,496**	**241,528**	**418,645**
Average	237,012		
CZK/share	**112**		
Upside	82%		

Source: Bloomberg, WOOD Research

Valuation multiples of selected peers

Company		MCAP	AVTD 3M	EV/EBITDA			EBITDA growth			EBITDA margin		
		(EURm)	(EURm)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
ABO Wind	EUR	531	0.1	17.2	13.0	11.2	4%	29%	13%	18%	20%	20%
Azure Power Global	USD	698	2.5	8.6	7.9	n.a.	34%	14%	n.a.	82%	85%	n.a.
Encavis	EUR	3,101	0.1	17.0	16.3	15.0	2%	4%	8%	76%	76%	76%
Grenergy Renovables	EUR	1,045	2.3	21.1	14.9	12.2	77%	68%	46%	36%	43%	48%
Neoen	EUR	4,150	4.8	19.3	17.0	16.6	23%	20%	15%	85%	85%	82%
Scatec	NOK	1,566	5.9	14.4	12.0	9.4	-18%	37%	40%	69%	75%	77%
Solaria Energia	EUR	2,569	10.2	21.5	16.1	14.0	71%	44%	22%	85%	84%	84%
Voltalia	EUR	1,974	0.8	15.8	12.0	10.8	43%	40%	12%	45%	53%	57%
7C SolarParken	EUR	395	0.5	10.1	9.9	10.2	22%	1%	-11%	85%	83%	83%
Average		**1,781**	**3.0**	**16.1**	**13.2**	**12.4**	**29%**	**29%**	**18%**	**65%**	**67%**	**66%**
Photon		**151**	**0.1**	**11.1**	**9.8**	**6.6**	**114%**	**57%**	**54%**	**32%**	**40%**	**48%**
Discount peers, delta				-31%	-26%	-47%	86%	28%	35%	-33%	-28%	-18%

Source :Bloomberg, WOOD Research

Risks

Power prices. Our model is based around Photon selling a large portion of its generated power through merchant pricing, and opting out of the regulatory schemes where it can, until such time as the market power price drops below the regulated one, after which the plants would return to regulated earnings, if not before. We believe that our future power price estimates are conservative enough, but stress that there is both upside and downside to our figures, depending on future developments on both the European and Australian power markets. With most of the EBITDA coming from Electricity Generation (90%, after adjusting for Other EBITDA, which includes the company-level costs), the risks are clearly skewed towards generation, rather than the stable, services-like earnings of the other segments. Over time, once power prices fall and the other segments grow with the market, including the water treatment business, the power price risk should fall.

Regulatory risks. As with any utility, the majority of Photon’s EBITDA comes from power generation, which is facing increasing risks of government intervention in all of the countries in which it operates, given the ongoing elevated power prices. Photon is running most of its PV capacity at merchant pricing this year, and we have already seen changes in the renumeration schemes in the Czech Republic and Slovakia over the past year. That said, any form of price caps, additional changes in renumeration schemes or other measures could result in downside for our current estimates and valuation.

Execution risk. The company plans to reach 600MW of generation capacity by 2024E, which would mean that its production capacity would grow almost sevenfold vs. present levels. The current pipeline looks busy and the targets should be achievable, in our view. The targets may not be reached, however, either due to delays on the company’s end or caused by third parties, which we reflect in our model.

Supply chain issues/inflating costs. While the LCOE of PVs has dropped by around 90% over the past two decades and the recent price spike is at roughly 10-20% for a MW of PV capacity, supply chain disruptions and the unprecedented demand for new solar capacity, coupled with inflation, could increase the company’s capex/MW further, or delay the pipeline, due to missing components.

Disclosure and modelling. Considering our coverage universe, Photon has detailed disclosure for a small cap. We consider the company and its majority shareholders to be transparent and, in our view, Photon is doing what it can do reach out to the market, through its well-prepared IR team and improving segmental disclosure. That said, we still find it quite difficult to model the Engineering and Technology arms of the business and their future value adds for Electricity Generation profitability, as well as their own long-term revenue growth and margins. Separately, the water business and its potential upside are not fully reflected in our numbers, nor is the giant 300MW RayGen project and the rights to it. Therefore, we may adjust our numbers in the future, in line with future developments, market trends, the company’s performance and more detailed guidance on each of the projects mentioned above. We believe we are conservative in our assumptions, and see the risks as more skewed towards the upside than the downside.

Main shareholders. Mr. Hotar and Mr. Gartner own more than 70% of the company’s shares. We are not aware that they are planning to dispose of their stakes, and we are pleased with the corporate governance at Photon. We note, however, that the business is highly dependent on their leadership, from CEE capacity growth to new developments in Australia.

Competition. Photon operates in a very competitive space. It is a well-established player in each of the solar segments, and competes with both large, international players on larger-scale projects, as well as many smaller players, focusing on smaller projects. Similarly, in the Engineering, Technology and O&M segments, the market is extremely competitive, and the company has yet to show the market that it can succeed in new geographies, such as Poland and Romania.

Share liquidity. Photon is traded in Prague, Warsaw and Frankfurt. Being a small cap, the combined 3M daily liquidity stands at EUR 0.04m, with the Prague exchange being the most liquid, at EUR 40k, closely followed by Warsaw.

Financials

Income statement

EURm	2019	2020	2021	2022E	2023E	2024E
Revenues	**30.4**	**28.6**	**36.8**	**64.5**	**81.6**	**102.8**
Raw materials and consumable used	-9.8	-4.6	-12.7	-16.5	-22.5	-42.0
Solar levy	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Personnel expenses	-4.6	-5.8	-6.7	-7.2	-7.5	-7.6
Other expenses	-7.1	-8.9	-6.8	-19.4	-18.5	-2.8
EBITDA	**7.9**	**8.4**	**9.6**	**20.5**	**32.3**	**49.5**
Depreciation	-6.8	-8.3	-10.7	-11.3	-15.1	-19.7
Impairments	-0.1	-0.4	-0.2	0.0	0.0	0.0
Gain (loss) on disposal of investments	4.3	0.0	0.5	0.0	0.0	0.0
Share of profit equity-accounted investments	0.0	0.1	0.1	0.0	0.0	0.0
EBIT	**5.4**	**-0.1**	**-0.7**	**9.3**	**17.1**	**29.8**
Financial income	0.2	0.1	0.2	0.1	0.0	0.0
Financial expenses	-4.7	-6.0	-6.8	-7.9	-13.0	-12.8
Profit before tax	**1.0**	**-6.5**	**-5.9**	**1.5**	**4.1**	**17.0**
Result from discontinued operations				**0.8**	**7.5**	**6.3**
Income tax due/deferred	-1.7	-2.2	-0.5	1.1	-0.4	-6.0
Net profit/loss	**-0.7**	**-8.7**	**-6.4**	**3.3**	**11.1**	**17.3**

Source: Company data, WOOD Research

Balance sheet

EURm	2019	2020	2021	2022E	2023E	2024E
Current assets	**28.4**	**23.9**	**54.2**	**66.1**	**37.7**	**37.8**
Cash & equivalents	12.4	9.9	32.5	39.9	8.7	5.3
Trade receivables	10.4	6.1	9.1	11.9	13.7	15.9
Inventories	1.2	1.0	2.2	3.9	4.9	6.2
Other	4.3	6.8	10.4	10.4	10.4	10.4
Non-current assets	**108.7**	**135.1**	**142.5**	**156.1**	**231.9**	**321.5**
Tangible	102.0	126.3	127.5	141.1	217.0	306.5
Intangible	0.9	1.3	0.8	0.8	0.8	0.8
Other	5.7	7.5	14.1	14.1	14.1	14.1
Total assets	**137.0**	**158.9**	**196.6**	**222.2**	**269.6**	**359.2**
Current liabilities	**12.3**	**15.2**	**34.0**	**23.6**	**24.7**	**26.0**
Short-term debt	3.7	6.0	28.5	16.4	16.4	16.4
Trade payables	7.4	7.2	4.5	6.2	7.3	8.6
Other	1.2	1.9	1.0	1.0	1.0	1.0
Non-current liabilities	**86.8**	**103.6**	**111.1**	**143.8**	**178.9**	**250.0**
Long-term debt	76.4	90.9	98.3	131.0	166.2	237.2
Other	10.4	12.7	12.8	12.8	12.8	12.8
Total liabilities	**99.2**	**118.8**	**145.1**	**167.3**	**203.6**	**276.0**
Minority interest	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Shareholders' equity	**37.8**	**40.1**	**51.5**	**54.8**	**66.0**	**83.3**
Total liabilities and equity	**137.0**	**158.9**	**196.6**	**222.2**	**269.6**	**359.2**

Source: Company data, WOOD Research

Cash flow statement

EURm	2019	2020	2021	2022E	2023E	2024E
Profit before income tax	1.0	-6.5	-5.9	1.5	4.1	17.0
Depreciation and amortisation	6.8	8.3	10.7	11.3	15.1	19.7
Finance costs	4.4	6.4	5.2	7.8	13.0	12.8
Other	-4.5	0.5	3.7	3.6	-3.1	-1.9
Operating cash flows before WC changes	**7.7**	**8.6**	**13.7**	**24.1**	**29.1**	**47.6**
Working capital changes	0.7	-2.4	-5.0	-2.8	-1.7	-2.2
Income tax paid	-0.3	0.8	-2.3	-1.1	0.4	6.0
Other	-1.9	-1.0	-0.1	0.0	0.0	0.0
Net cash from operating activities	**6.2**	**6.0**	**6.2**	**20.2**	**27.8**	**51.4**
Capex	-19.7	-18.3	-8.6	-24.9	-91.0	-109.2
Other	5.3	-1.9	-5.6	0.8	7.5	6.3
Net cash used in investing activities	**-14.4**	**-20.2**	**-14.2**	**-24.1**	**-83.6**	**-103.0**
Net proceeds from borrowings	15.4	18.6	29.8	19.2	87.5	11.0
Other	-3.7	-6.7	-6.9	-7.9	-13.0	-12.8
Capital increase	0.0	0.2	7.8	0.0	0.0	0.0
Net cash used in financing activities	**11.7**	**12.1**	**30.6**	**11.4**	**74.5**	**-1.8**

Source: Company data, WOOD Research

WOOD & COMPANY

Fintel Energija

Buy

Maintained

Price: RSD 590
Price target: RSD 868
(from RSD 814)

Pipeline unwinding begins

We reiterate our BUY on Fintel Energija with a new price target (PT) of RSD 868/share (from RSD 814), implying 47% upside. While Fintel's earnings are not being boosted by rallying power prices currently, with its entire portfolio receiving inflation-linked tariffs, we are now confident that it can secure previously flagged PPAs for its vast pipeline, at higher levels than we assumed previously. The second phase of the Kosava plant (68MW) is already being built and we expect 40 more MWs to be connected by 2H24E. We now see a high chance of PPA prices at around EUR 100/MWh, 25% above our previous assumptions, outweighing the newly-higher cost of debt and capex estimates. With our new long-term power price assumptions for the region, we find very decent upside, despite ongoing low trading activity. Fintel trades at our EV/EBITDAs of 16.1-18.9x for 2022-23E, 17% below its peers, and at a 1Y low, despite the dramatically-changed environment for a low-cost power producer.

Model update. We have not made any changes to our pipeline additions estimates but now see a much higher chance of the company finding partners to co-finance the projects, thanks to the improved power price outlook. Our new long-term power price assumptions outweigh our higher interest costs and capex/MW, driven both by new projects and, importantly, the older plants' higher earnings after the tariff renumeration ends, and it can start selling power at market prices. Assuming that PPAs are secured at EUR 100/MWh vs. EUR 80/MWh, this adds EUR 29m to our 2022-25E EBITDA. On the bottom line, we are less bullish due to higher borrowing costs, but we still see Fintel remaining in the black across in our model horizon.

Capacity additions. Based on Fintel's guidance, we now expect the 68MW Kosava addition to start operating in August 2023E, operating under a PPA. Another three 10MW projects could commence operations at around the same time, although we assume a COB in 2H24E, to be conservative. Currently, 125MW of wind capacity is at an advanced development phase, out of a 1,146MW pipeline in Serbia. Over the next three years, Fintel plans to add between 180MW and 230MW of generation capacity, broadly in line with our estimate of 200MW of additions at RSD 57bn of capex.

No windfall taxes. We are not aware, currently, of any plans by the State to intervene in the power market that could hit Fintel's earnings. Renewables generation in Serbia is very small within the total generation mix, imports included, and interfering with the current scheme or imposing taxation on the few RES generators in the country would not raise material new revenues.

Valuation. At our 2022-24E EV/EBITDAs of 16.1-18.9x, Fintel trades at a 17% discount vs. its peer group, despite: 1) having much higher long-term power price prospects; 2) operating in lignite-based Serbia which is power short; and 3) with its current pipeline plans for more than a tenfold growth within the next five years. Our DCF-driven 12M PT yields 51% upside, and our peer multiples offer 33% upside. **Risks include:** changes in regulation; execution; the cost of debt and capex; the weather; and government actions related to the current energy crisis.

Expected events

2Q22 results	Expected 12 August

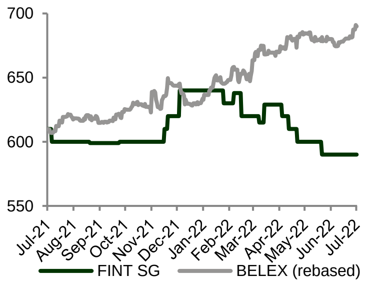
Key data

Market cap	EUR 133m
Free float	6%
3M ADTV	EUR 0.3k
Shares outstanding	26.5m
Major shareholders:	
	Fintel Energija Group 94%
	(of which Tiziano Giovannetti, 81%)
Reuters code	FINT.SG
Bloomberg code	FINT SG
BELEX index	1,689

Price performance

52-w range	590-640
52-w performance	-3%
Relative performance	-18%

Fintel Energija 12M share price performance



Year	Sales (RSDm)	EBITDA (RSDm)	EBIT (RSDm)	Net profit (RSD m)	EPS (RSD)	EPS growth	P/E (x)	EV/ EBITDA	DPS (RSD)	Div. yield (%)
2019	881	677	399	55	2.06	98%	301.0	40.1	0.00	0.0%
2020	1,730	1,215	687	-23	-0.87	-142%	n.m.	21.9	0.00	0.0%
2021	2,570	2,017	1,240	463	17.46	n.m.	36.7	13.7	0.00	0.0%
2022E	2,795	2,033	1,455	523	19.74	13%	29.9	16.1	0.00	0.0%
2023E	4,044	2,959	2,238	518	19.54	-1%	30.2	18.9	0.00	0.0%
2024E	5,941	4,362	2,683	490	18.51	-5%	31.9	16.8	0.00	0.0%

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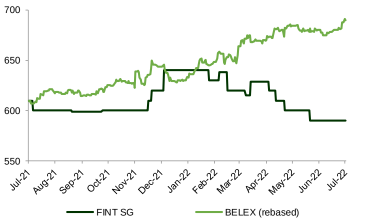
EQUITY RESEARCH

Company snapshot - BUY, PT RSD 868

Fintel Energija

BUY	
Bloomberg ticker	FINT SG
Closing price (RSD)	590
Price Target (RSD)	868
Upside to PT	47%
Shares outstanding (m)	26.5
MCAP (EUR m)	133
Free float	6.0%
ADTV (EUR k)	0.34
52 Week Range (RSD)	590-640
52 Week Performance	-3%
Relative performance	-17%



COMPANY DESCRIPTION

Fintel is an independent renewables power producer in Serbia. Currently, Fintel's capacity stands at 86MW, at three wind farms, but the company aims to reach 1GW of capacity of onshore wind and 640MW of solar in the coming years, together with its minority partners. The three wind farms enjoy a favourable subsidy scheme, set up by the Serbian government. In October 2018, Fintel's IPO on the Belgrade stock exchange was the first in 78 years. Fintel sold 1.5m shares, priced at RSD 500/share, raising EUR 6.7m. Fintel was established in 2007 in Beograd. Fintel Energija's largest shareholder is Fintel Energia Group S.p.A., based in Italy. Fintel Energia Group owns 94% of Fintel Energija, and is 86% owned by Hopafi Srl and other investors. Mr. Tiziano Giovannetti owns a 99.99% stake in Hopafi. Mr. Giovannetti has been Fintel's CEO since 2007.

RATIOS

PER SHARE RATIOS	2019	2020	2021	2022E	2023E	2024E
EPS	2.06	-0.87	17.46	19.74	19.54	18.51
CEPS	0.80	0.00	54.42	84.17	50.67	80.10
BVPS	17.37	14.58	54.91	74.65	94.19	112.69
DPS	0.00	0.00	0.00	0.00	0.00	0.00

FINANCIAL RATIOS	2019	2020	2021	2022E	2023E	2024E
Capex/depreciation	7.9x	0.1x	0.9x	10.6x	30.0x	9.6x
Capex/net fixed assets	0.17x	0.01x	0.05x	0.34x	0.55x	0.30x
Op. cash flow/capex	0.2x	(3.2)x	2.6x	0.5x	0.1x	0.1x
EBITDA margin	76.9%	70.2%	78.5%	72.7%	73.2%	73.4%
EBIT margin	45.3%	39.7%	48.3%	52.1%	55.4%	45.2%
Net margin	6.2%	-1.3%	18.0%	18.7%	12.8%	8.3%
ROE	11.1%	-5.4%	50.2%	30.5%	23.1%	17.9%
Net debt/(cash) to equity	23.3x	26.0x	7.3x	8.6x	16.1x	19.3x
Net debt/EBITDA	15.8x	8.3x	5.3x	8.4x	13.6x	13.2x

VALUATION RATIOS	2019	2020	2021	2022E	2023E	2024E
P/E	301.0x	n.m.	36.7x	29.9x	30.2x	31.9x
P/CF	771.0x	n.m.	11.8x	7.0x	11.6x	7.4x
P/B	35.7x	42.9x	11.7x	7.9x	6.3x	5.2x
EV/EBITDA	40.1x	21.9x	13.7x	16.1x	18.9x	16.8x
EV/Sales	30.8x	15.4x	10.7x	11.7x	13.8x	12.3x
EV/EBIT	68.1x	38.8x	22.2x	22.4x	25.0x	27.3x
Cash flow from ops, RSD m	21	0	1,442	2,230	1,343	2,123
EV, RSD m	27,140	26,621	27,571	32,663	55,913	73,253
FCF, RSD m	-2,130	-83	478	-3,874	-20,283	-13,996
FCF yield	-13.0%	-0.5%	2.8%	-24.8%	-129.7%	-89.5%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

COMPANY FINANCIALS

INCOME STATEMENT, RSD m	2019	2020	2021	2022E	2023E	2024E
Revenues	881	1,730	2,570	2,795	4,044	5,941
COGS & opex	-200	-516	-553	-762	-1,084	-1,578
EBIT	399	687	1,240	1,455	2,238	2,683
Depreciation	-278	-589	-593	-578	-721	-1,680
EBITDA	677	1,215	2,017	2,033	2,959	4,362
Financial income/(expense) & other	-221	-650	-173	-913	-1,731	-3,099
Profit before tax	178	37	1,068	1,120	1,229	1,263
Taxes	-33	-14	-157	-218	-336	-402
Net profit	144	23	911	902	893	860
Minority interest	90	46	448	379	375	370
Net income to Fintel	55	-23	463	523	518	490

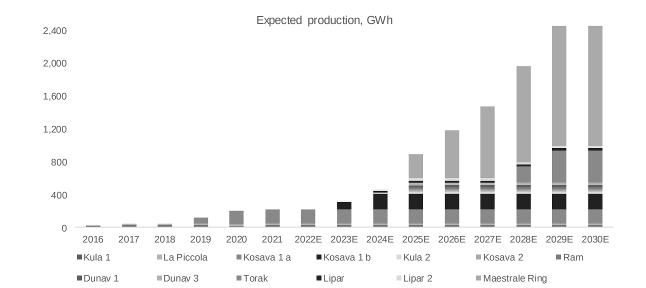
CASH FLOW, RSD m	2019	2020	2021	2022E	2023E	2024E
CF from Operations	21	0	1,442	2,230	1,343	2,123
Thereof depreciation	278	589	593	578	721	1,680
Thereof changes in w/c	-396	265	-3	-842	-8	-13
CF from Investments	-2,152	-83	-964	-6,104	-21,626	-16,119
Thereof CAPEX	-2,190	-83	-560	-6,104	-21,626	-16,119
CF from Financing	1,893	-658	-217	7,179	18,599	13,872
Thereof debt	1,893	-658	-217	7,179	18,599	13,872
Dividends	0	0	0	0	0	0
Change in Net debt	693	-652	552	6,417	23,249	17,340

BALANCE SHEET, RSD m	2019	2020	2021	2022E	2023E	2024E
Current assets	728	771	1,218	2,713	965	857
Cash & Equivalents	278	309	525	2,020	263	140
Trade receivables	183	66	210	210	210	210
Inventories	10	11	21	22	31	45
Other	257	386	462	462	462	462
Non-current assets	13,298	12,788	12,841	18,652	39,709	54,474
Tangible	13,205	12,667	12,377	18,182	39,037	53,492
Intangible	59	59	464	470	673	981
Other	33	62	0	0	0	0
Total assets	14,026	13,559	14,059	21,364	40,674	55,330
Current liabilities	1,836	2,133	3,082	3,556	3,557	3,558
ST debt	1,159	1,310	2,091	3,406	3,406	3,406
Trade payables	592	740	891	50	51	52
Other	85	84	100	100	100	100
Non-current liabilities	11,730	11,039	9,522	15,385	33,985	47,857
LT debt	9,829	9,058	7,759	13,623	32,222	46,094
Other	1,900	1,981	1,763	1,763	1,763	1,763
Total liabilities	13,565	13,173	12,604	18,941	37,541	51,415
Minority interest	44	-58	439	445	637	929
Shareholders' equity	460	386	1,455	1,978	2,496	2,986
Total liabilities and equity	14,026	13,559	14,059	21,364	40,674	55,330
Net Debt	10,710	10,059	10,611	17,028	40,278	57,618

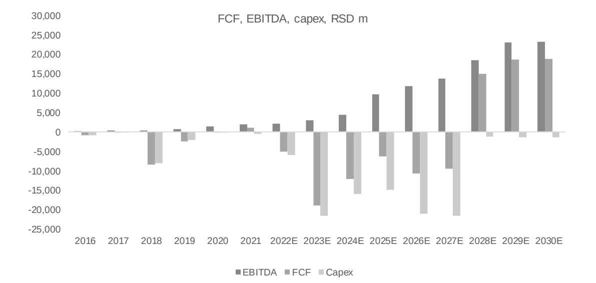
OPERATIONS	2019	2020	2021	2022E	2023E	2024E
Generation capacity, MW	**640**	**85**	**85**	**85**	**119**	**171**
Capacity additions (output adjusted)	29	40	0	0	34	52
Generation volume, GWh	832	199	215	218	312	455
Growth (yoy)	*1994%*	*-76%*	*8%*	*1%*	*43%*	*46%*

MACRO ASSUMPTIONS	2019	2020	2021	2022E	2023E	2024E
Inflation, EU	1.2%	0.3%	2.7%	7.3%	3.5%	2.0%
Inflation, Serbia	1.9%	1.6%	4.1%	10.0%	4.9%	4.9%
Baseload price (RSD/MWh)	5,948	4,583	10,466	25,363	20,819	20,163
FiT price (EUR/MWh)	97.6	98.9	101.6	109.0	112.8	115.1

Generation by plant forecast



FCF, EBITDA and capex forecasts



Valuation

We reiterate our BUY rating, with a new PT of RSD 868/share (from RSD 814), implying 47% upside. As before, we value Fintel using a DCF and peer multiples. We assign an 80% weight to our DCF valuation, as we believe that it captures Fintel's growth story better. The peer multiples (20% weight) indicates higher upside but some of this could be caused by the stock's lower liquidity and general country risk.

Valuation summary

RSDm	Equity value	RSD/share	Upside
DCF	19,308	889	51%
Peers	20,783	784	33%
EV/EBITDA	25,746	972	65%
P/E	15,820	597	1%
Weighted average (80% DCF: 20% peers)	**19,603**	**868**	**47%**

Source: WOOD Research

DCF

Our DCF generates RSD 889/share, or 51% upside. We assign an 80% weight to our DCF, as it captures Fintel's future growth better than the peer group multiples, in our view, with the first new capacity added in 2023E. We believe our assumptions are conservative, and do not rule out upside for our DCF PT, depending on Fintel's execution in the future being successful. Our assumptions are as follows:

- ✓ We apply some discount to Fintel's plans in terms of capacity growth, and expect 760MW of wind to come online by 2029E (vs. Fintel's 1GW). We do not include the 640MW AgroSolar project in our valuation at this time (our pipeline estimates are unchanged)
- ✓ A WACC of 10.8% for the entire period (up from 8.9% previously), with the COE at 22.0% (vs. 19.0%) and the after-tax cost of debt at 6.0% (vs. 4.5%). We use a 70/30 debt/financing model for the entire forecast period.
- ✓ Our cost of equity is a function of a risk-free rate of 8.0% and an equity risk premium of 10.0%, which we adjust upwards compared to our standard Serbian ERP, to account for the uncertainty of: future capex execution; the auction results; the regulatory environment; and the power price outlook in Serbia. We use a levered Beta of 1.4 (unchanged) for our whole forecast period, assuming much higher debt in the coming years.

DCF

RSDm	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033-58E
EBIT	**1,455**	**2,238**	**2,683**	**7,428**	**9,038**	**10,210**	**14,047**	**18,770**	**19,037**	**19,326**	**19,206**	**234,642**
Depreciation	578	721	1,680	2,229	2,665	3,468	4,267	4,176	4,088	4,005	3,924	76,268
Capex	-6,104	-21,626	-16,119	-14,950	-21,200	-21,651	-1,223	-1,537	-1,559	-1,583	-1,587	-29,645
Working capital	-842	-8	-13	-42	-28	-28	-47	-47	1	1	1	219
Tax	-218	-336	-402	-1,114	-1,356	-1,532	-2,107	-2,816	-2,856	-2,899	-2,881	-35,262
FCF	**-5,131**	**-19,011**	**-12,172**	**-6,449**	**-10,880**	**-9,532**	**14,936**	**18,546**	**18,712**	**18,850**	**18,663**	**246,222**
Discount factor	0.95	0.86	0.78	0.70	0.63	0.57	0.52	0.47	0.42	0.38	0.34	
Discounted FCF	**-4,897**	**-16,376**	**-9,463**	**-4,525**	**-6,890**	**-5,448**	**7,704**	**8,634**	**7,862**	**7,148**	**6,387**	**39,199**
Discounted cash flows	**29,336**											
Terminal value	574											
Enterprise value	29,910								Risk free			8.0%
2021 net debt	10,611								Beta			1.4
Minorities	0								Equity risk premium			10.0%
Equity value	**19,308**								Cost of equity			22.0%
PT, RSD/share	728								LT capitalisation ratio			70.0%
12M PT, RSD/share	**889**								Cost of debt, net tax			6.0%
Upside	51%								**WACC**			**10.8%**

Source: Company data, WOOD Research

Peers

Being the only traded renewables producer in Serbia, which is a specific market by itself, and having only 86MW of more than 1GW planned in operation, Fintel's peer valuation proves difficult. Most of the capacity is planned for the coming years and is likely to be financed through debt, and with a heavy presence of minority partners. Given the upcoming debt burden, Fintel's P/E peer valuation becomes less appealing by 2023E, but it is still at favourable multiples, in our view, when looking at EV/EBITDA, which catches the upcoming growth better, in our view. Our EV/EBITDA multiple implies 65% upside, while our P/E valuation produces only 1% upside compared to its peers, leading to a PT of RSD 784/share, or 33% upside. This is due mainly to us being conservative on cost of debt, although we do not rule out upside to our estimates should Fintel secure financing in much cheaper EUR vs. RSD. We apply only a 20% weight to our peer multiples valuation in our final blended PT, as we expect Fintel to deliver growth in 2023E and beyond.

EV/EBITDA

RSDm	2022E	2023E	2024E
Peer multiple	22.4	21.2	19.2
EBITDA	2,033	2,959	4,362
Net debt	17,028	40,278	57,618
Equity value	**28,522**	**22,397**	**26,320**
Average	25,746		
RSD/share	**972**		
Upside	65%		

Source: WOOD Research

P/E

RSDm	2022E	2023E	2024E
Peer multiple	35.3	30.3	27.1
Net profit	523	518	490
Equity value	**18,478**	**15,676**	**13,308**
Average	15,820		
RSD/share	**597**		
Upside	1%		

Source: WOOD Research

Selected peers

Company	Mcap	3M ADTV	P/E (x)			EV/EBITDA (x)			Div. yield (%)		
	(EURm)	(EURm)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
EDP Renovaveis	22,977	16.8	31.4	31.4	29.2	22.4	21.6	20.5	0.4%	0.5%	0.5%
Albioma	1,614	8.1	27.9	24.8	22.3	20.6	19.1	17.5	1.8%	2.0%	2.0%
Energienton	1,250	1.3	31.5	27.8	23.0	20.7	19.4	16.7	1.0%	1.0%	1.0%
Acciona	10,039	26.8	20.7	20.5	19.1	15.5	16.0	16.5	2.2%	2.4%	2.5%
Terna Energy	1,970	2.9	30.5	18.8	16.4	11.8	11.8	7.9	1.7%	2.2%	2.8%
NEOEN	4,150	4.8	70.6	55.2	51.1	31.5	28.1	27.6	0.2%	0.5%	0.6%
Encavis AG	3,101	8.3	38.5	36.0	33.2	35.9	34.1	30.7	1.6%	1.7%	1.6%
Energiekontor	1,250	1.3	31.5	27.8	23.0	20.7	19.4	16.7	1.0%	1.0%	1.0%
Average			**35.3**	**30.3**	**27.1**	**22.4**	**21.2**	**19.2**	**1.3%**	**1.4%**	**1.5%**
Fintel	**133**	**0.00034**	**29.9**	**30.2**	**31.9**	**16.1**	**18.9**	**16.8**	**0.0%**	**0.0%**	**0.0%**
Vs. peers			-15%	0%	17%	-28%	-11%	-13%	n.a.	n.a.	n.a.

Source: Bloomberg, WOOD Research

Risks

Regulatory risk/State intervention. As for any regulated power producer, any change in the current feed-in-tariffs (FiT) scheme presents a significant risk for the investment case. The current wind capacity is relatively small in Serbia and the final consumer, who pays very low prices, does not notice the RES component. To the best of our knowledge, there is no political will to interfere with the current FiT mechanism, and neither are there any plans to tax the RES generators.

Operational risks. So far, Fintel has delivered on its generation volume expectations. Lower wind load factors, caused by unfavourable weather or inaccurate estimates, could affect the company's profitability. We apply some discount to Fintel's expected future generation to remain on the conservative side. Other operational risks include: the performance of third-party contracts; higher-than-expected maintenance capex; a lower lifetime of the assets, which is expected at 30 years currently; or recently, growing costs. Moreover, we note that both fixed and variable costs could differ significantly in the future from our current estimates. Before executing its bullish plan, Fintel also needs to make sure that the country's grid is prepared for its additions, especially the large projects such as the c.500MW Maestrale and 640MW AgroSolar projects.

Execution risk. Fintel plans to add some 1GW of wind and 640MW of solar in the coming years. We apply a discount to the additions, modelling 760MW of wind in total and, for the time being, exclude the solar capacity from our valuation. We note that this capacity pipeline is unprecedented in Serbia. Fintel is in a unique position in the country and we believe it should be able to deliver, but the plan is certainly a challenge for a EUR 133m company.

Funding costs. We assume that 70% of funds for the expansion come from debt financing. So far, thanks to its track record, Fintel has been able to refinance its debt, and while borrowing costs are likely to grow in the coming years, the current power price outlook more than offsets this, on our numbers. We raise our WACC cost of debt assumption to 6% from 4.5%. Should funding costs increase, either in RSD for the smaller projects or in EUR for the larger ones, the company's IRR might not reach sufficient levels to execute the expansion that we model currently in our DCF. On the upside, the share of debt financing could be higher than 70% over time, with the company guiding for 80-90%.

Serbia's power strategy. Recently, Serbia announced plans to add 8.3GW of solar and 3GW of new wind capacity by 2024E. We are still lacking details about how the country aims to accomplish this goal, however. Serbia's long-term energy strategy is outdated and we expect changes ahead. Serbia relies heavily on lignite and hydro and, despite our expectations of a closer alignment with EU regulations, the expansion of renewable power could be delayed due to several factors, from employment losses at the mines, to energy independence, and also to the current terms of the auctions, which are simply not attractive enough for private investors, in our view.

Serbian power prices. Last December, Serbian power prices were roughly double German prices, due to the general market situation and also flaws in the lignite production. Today, the situation looks dire in both Europe and Serbia, and we therefore increase our long-term power price estimates for the country significantly, leading to higher upside. Should Serbia join the EU, the cost of power produced in the country would grow even higher. In our view, RES producers should be the main beneficiaries of this structural shift.

Low liquidity and potential share value dilution from a capital increase. Currently, only 6% of the shares are in free float, and holders consist of only three institutional investors, according to the local central register. Its 3M ADTV is just EUR 0.34k. Fintel does not rule out a share issuance later, depending on developments in the upcoming RES regulation. We would expect it to offer its shares at a discount to the current price, but believe this would be a good entry point for institutional investors. Any increased liquidity should remove some of the discount applied to the share price currently.

Financials

Income statement

RSDm	2019	2020	2021E	2022E	2023E	2024E
Revenues	**881**	**1,730**	**2,570**	**2,795**	**4,044**	**5,941**
COGS & opex	-200	-516	-553	-762	-1,084	-1,578
EBIT	**399**	**687**	**1,240**	**1,455**	**2,238**	**2,683**
Depreciation	-278	-589	-593	-578	-721	-1,680
EBITDA	**677**	**1,215**	**2,017**	**2,033**	**2,959**	**4,362**
Financial income/(expense) & other	-221	-650	-173	-913	-1,731	-3,099
Profit before tax	178	37	1,068	1,120	1,229	1,263
Taxes	-33	-14	-157	-218	-336	-402
Net profit	**144**	**23**	**911**	**902**	**893**	**860**
Minority interest	90	46	448	379	375	370
Net income to Fintel	**55**	**-23**	**463**	**523**	**518**	**490**

Source: Company data, WOOD Research

Balance sheet

RSDm	2019	2020	2021	2022E	2023E	2024E
Current assets	**728**	**771**	**1,218**	**2,713**	**965**	**857**
Cash & equivalents	278	309	525	2,020	263	140
Trade receivables	183	66	210	210	210	210
Inventories	10	11	21	22	31	45
Other	257	386	462	462	462	462
Non-current assets	**13,298**	**12,788**	**12,841**	**18,652**	**39,709**	**54,474**
Tangible	13,205	12,667	12,377	18,182	39,037	53,492
Intangible	59	59	464	470	673	981
Other	33	62	0	0	0	0
Total assets	**14,026**	**13,559**	**14,059**	**21,364**	**40,674**	**55,330**
Current liabilities	**1,836**	**2,133**	**3,082**	**3,556**	**3,557**	**3,558**
ST debt	1,159	1,310	2,091	3,406	3,406	3,406
Trade payables	592	740	891	50	51	52
Other	85	84	100	100	100	100
Non-current liabilities	**11,730**	**11,039**	**9,522**	**15,385**	**33,985**	**47,857**
Long-term debt	9,829	9,058	7,759	13,623	32,222	46,094
Other	1,900	1,981	1,763	1,763	1,763	1,763
Total liabilities	**13,565**	**13,173**	**12,604**	**18,941**	**37,541**	**51,415**
Minority interest	44	-58	439	445	637	929
Shareholders' equity	**460**	**386**	**1,455**	**1,978**	**2,496**	**2,986**
Total liabilities and equity	**14,026**	**13,559**	**14,059**	**21,364**	**40,674**	**55,330**

Source: Company data, WOOD Research

Cash flow statement

RSDm	2019	2020	2021E	2022E	2023E	2024E
Profit before income tax	728	771	1,218	2,713	965	857
Depreciation and amortisation	278	589	593	578	721	1,680
Finance costs	221	650	173	913	1,731	3,099
Operating cash flows before working capital changes	**1,228**	**2,010**	**1,983**	**4,203**	**3,416**	**5,636**
Working capital changes	-396	265	-3	-842	-8	-13
Net interest received/(paid)	-221	-650	-173	-913	-1,731	-3,099
Income tax paid	-33	-14	-157	-218	-336	-402
Other	-556	-1,610	-209	0	1	2
Net cash from operating activities	**21**	**0**	**1,442**	**2,230**	**1,343**	**2,123**
Capex	-2,190	-83	-560	-6,104	-21,626	-16,119
Other	-33	-14	-157	0	1	2
Net cash used in investing activities	**-2,152**	**-83**	**-964**	**-6,104**	**-21,626**	**-16,119**
Net proceeds from borrowings	1,893	-658	-217	7,179	18,599	13,872
Dividend paid to the Group's owner	0	0	0	0	0	0
Capital increase	0	0	0	0	0	0
Net cash used in financing activities	**1,893**	**-658**	**-217**	**7,179**	**18,599**	**13,872**
Net decrease in cash and cash equivalents	**-237**	**-742**	**261**	**1,495**	**-1,757**	**-122**
Cash and cash equivalents at the beginning of year	539	278	309	525	2,020	263
Cash and cash equivalents at the end of year	**278**	**309**	**525**	**2,020**	**263**	**140**

Source: Company data, WOOD Research

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		30/03/2022	CZK 1,089
		21/07/2022	CZK 1,314

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20/07/22	Polish Oil & Gas	You can't have one, without the other	Jonathan Lamb, Ondrej Slama
19/07/22	NLB Group	Strong buffers to weather the storm	Alex Boulougouris, Marta Jezewska-Wasilewska
15/07/22	Jumbo	Dancing in a perfect storm	Fani Tzioukalia, Lukasz Wachelko
13/07/22	Shoper	Attractive but expensive	Maria Mickiewicz, Lukasz Wachelko
12/07/22	Halyk Savings Bank	Ebb and flow	Can Demir, Alex Boulougouris, Alessio Chiesa
07/07/22	European Oil and Gas Monthly	June 2022	Jonathan Lamb, Ondrej Slama
06/07/22	Kazakhstan	Steppe-ing up to the challenges	Ildar Davletshin, Alessio Chiesa
05/07/22	Rear-View Mirror – EME markets	Markets down across the board	Research Team
05/07/22	Ilirija d.d.	The season is back on	Bram Buring, Alex Boulougouris
30/06/22	CCC	Too fast, too furious	Lukasz Wachelko, Maria Mickiewicz
29/06/22	Polish Utilities	The Ugly Ducklings	Ondrej Slama, Bram Buring
28/06/22	Alkaloid AD Skopje	Downgraded on valuation	Bram Buring, Alex Boulougouris
24/06/22	Immofinanz	Will they, won't they, when?	Jakub Caithaml, Ondrej Slama