

### Final Stretch

Carve-out of coal assets from the Polish State-run utilities, key driver of their transformation, seems taking the real shape. State Assets Ministry's conviction in NABE creation (entity to consolidate these assets) is high, generous social proposals may facilitate agreement with the trade unions, and suggestions of 'compensations to utilities' might support thesis of post-transformation net debt reduction. Moreover, negotiations with the EU on mining segment restructuring are to kick off in mid-September, potentially unlocking Tauron's upside. Approval of the EU is still a must in both generation and mining assets' carve-out, and caveats in the process will likely come true, but once any firm decisions are made, Polish utilities' ESG and investment outlooks should improve, we believe. Poland has just become electricity exporter and the Polish PM suggests hike in individual electricity price tariffs (potential upsides to sales segment), mitigated by EU Fit-for-55 package's gloomy outlook for gas. Minor post-2Q2021P models' adjustments (positive for PGE, neutral to Tauron, negative to Enea) and tweaks to our scenarios' likelihood ('net debt reduction' probability upped to 20% from 15%) support our TPs for all three companies, and double-digit share price upsides warrant maintaining Buys.

**Final Stretch at Coal Carve-Out...** In July 2021 State-controlled utilities signed agreement with the State regarding future carve-out of four companies' coal generation assets into State-run NABE. The agreement highlighted that parties involved see the need for close cooperation in planned carve-out process. In late August 2021, State announced its proposal of social agreement within framework of NABE transition. We perceive it to be very generous, which should make NABE deal with unionists easier, but most importantly the proposal includes suggestions of compensation to utilities, for assets transferred and for modernization capex spent. **...and mining restructuring may be nearing.** Deputy State Assets Minister informed that negotiations with EU on pre-notification of mining restructuring were scheduled for mid-September. We believe it could initiate discussion regarding final solution for the Polish thermal coal mining, which would include Tauron's mining segment carve-out, potentially offering answers to Enea's LWB case as well, as we see it.

**2Q2021P results, 2H2021E outlook.** In 2Q2021P, PGE was strong, Tauron was mediocre and Enea was weak, and we expect it will remain the case in 2H2021E as well. Distribution segment comes in strong for all three, but PGE's above-expectation results in conventional generation and sales segment contrast with ENA's weak performance in both. Until February 2022E, Tauron's results should be depressed by +PLN200mn cost of idle Jaworzno unit, we believe.

**Top Picks.** Nearing solutions of NABE, strong 2H2021E results and off-shore exposure all turn PGE into first-choice sector pick. While we assume Tauron will spend PLN1bn on Jaworzno's minority stake, approaching thermal coal segment restructuring may unlock company's 86% upside. Enea is the least expensive on ratios, and debt carve-out would offer highest upside to the stock, but risks of LWB and Polaniec's 'green unit' are still on.

**Forecasts, TPs, recommendations.** In our updated models, we upped 1) gas price for all gas-fired units by 10% (negative) and 2) sales segment's margins by 0.5pp as of 2022E (positive), resulting in 2021-23E EBITDA 8% higher for PGE and Tauron but 1% lower for Enea. Additionally, as State Assets Ministry suggested compensations in NABE carve-out, we twisted likelihood of our best- and worst-case scenarios to 20%/10% from 15%/15% previously. These resulted in minor changes to our TPs, thus we keep three Buy recommendations unchanged.

**Risks & Upsides.** Carve-out process (our core scenario) might be full-of-caveats, we believe, just to mention question marks such as 1) provisions, 2) net debt and 3) certain assets. The restructuring of Polish mining might result in some unexpected concerns. Potential long-term electricity purchase contracts might substantially weaken sales segment EBITDAs after successful carve-out. We see EU's gas approach and gas prices itself posing key risk to gas-fired plans of Polish utilities. Regulatory approach to future G segment electricity tariffs could either turn into risk or unlock upside.

	Rec. cur.	Rec. prev.	TP * [chng]	Upside
PGE	Buy	Buy	12.8 [↑]	+32%
Tauron	Buy	Buy	7.1 [↑]	+108%
Enea	Buy	Buy	14.3 [↑]	+55%

Source: Santander Brokerage Poland estimates, \* PLN and rounded

	P/E (x)		EV/EBITDA (x)	
	2021E	2023E*	2021E	2023E*
PGE	20.2	10.7	6.8	7.5
Tauron	7.6	3.7	6.1	6.3
Enea	5.2	4.7	5.1	4.8

Source: Santander Brokerage Poland estimates, \* assumed post-carve-out (no debt reduction)

Thorough the report we use prices as of 03 September, 2021

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## Forecasts, Target Prices, Recommendations

**Fig. 1. Polish Utilities – PGE Forecasts and Ratios**

PLNmn	2018	2019	2020	2021E	2022E	2023E
Sales	25,946	37,627	43,416	37,627	47,986	53,318
EBITDA	6,402	7,141	5,966	7,427	5,696	5,431
EBIT	2,509	-4,202	1,408	3,018	2,498	2,878
Net income	1,498	-3,961	110	892	1,502	1,690
<b>P/E (x)</b>	13.1	Neg.	99.4	20.2	12.0	10.7
<b>EV/EBITDA (x)</b>	6.1	6.0	6.5	6.8	6.5	7.5
<b>DY</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates, carve-out assumed as of January 2023E

**Fig. 2. Polish Utilities – Tauron Forecasts and Ratios**

PLNmn	2018	2019	2020	2021E	2022E	2023E
Sales	19,380	19,558	20,367	20,550	25,491	27,936
EBITDA	3,375	3,600	4,418	4,377	3,694	3,984
EBIT	791	296	-1,536	2,302	1,629	2,506
Net income	-107	-12	-2,488	792	938	1,638
<b>P/E (x)</b>	Neg.	Neg.	Neg.	7.6	6.4	3.7
<b>EV/EBITDA (x)</b>	5.0	5.7	4.9	6.1	7.5	6.3
<b>DY</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates, carve-out assumed as of January 2023E

**Fig. 3. Polish Utilities – Enea Forecasts and Ratios**

PLNmn	2018	2019	2020	2021E	2022E	2023E
Sales	12,672	16,401	18,177	16,968	19,880	21,501
EBITDA	2,414	3,410	3,302	3,000	3,061	2,698
EBIT	1,037	1,104	-1,706	1,353	1,363	1,414
Net income	599	541	-2,234	782	718	863
<b>P/E (x)</b>	7.1	7.3	Neg.	5.2	5.7	4.7
<b>EV/EBITDA (x)</b>	5.1	3.9	3.9	5.1	4.8	4.8
<b>DY</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates, carve-out assumed as of January 2023E

**Fig. 4. Polish Utilities – Valuation Outcomes, Upsides / Downsides, Recommendations (in PLN/share)**

	DCF valuation	DDM valuation	Comparative valuation	Blended* target price	Current share price	Upside / downside	Recommendation
<b>PGE</b>	15.8	3.1	13.2	<b>12.8</b>	9.63	<b>32%</b>	<b>Buy</b>
<b>Tauron</b>	7.6	2.3	10.7	<b>7.1</b>	3.43	<b>108%</b>	<b>Buy</b>
<b>Enea</b>	10.2	6.5	34.2	<b>14.3</b>	9.22	<b>55%</b>	<b>Buy</b>

Source: Santander Brokerage Poland estimates, \*60% DCF, 20% DDM, 20% comparative valuation, also weighted by scenario likelihood (10% carve-out, all-risks, 70% carve-out, 20% carve-out, incl. net debt), TPs rounded, share prices as of 03 September, 2021

## Key Stories: Sector

### [+] NABE: Compensations for asset carve-out

*[Published as a separate Flash note on 23 August, 2021]*

Today biznesalert.pl web portal published article on social agreement within framework of NABE transition. NABE would be State-run entity, where coal generation assets of PGE, Enea and Tauron are to be carved out. Below we list key takeaways from today's article:

- Today's agreement has been concluded between Polish government, respective trade unions and five companies: PGE, Tauron, Enea, Energa (State-run utilities) and ZE PAK (WSE-listed utility controlled by private investor), the latter mentioned in context to NABE for the first time;
- NABE it to invest into IGCC installations, construction of CO2 capture-and-storage facilities, generation of hydrogen from methane, construction of gas-fired units replacing idling coal-fired ones. By mid-2022 government will propose locations of above-mentioned installations, which would be built and kicked off in years 2023-39 (lifetime of NABE);
- Compensation is to be offered for carved-out coal assets, also compensations for outlays on (past?) modernization capex. Polish government guarantees that carve-out must not result in losses to entities holding coal assets presently;
- Special-purpose Polish Energy Transformation Fund is to be created, fuelled with government's CO2 sales, EU's Just Transformation Fund etc. This fund is intended to provide financing for abovementioned investments and social security themes;
- In process of closures of thermal coal / lignite generation units and lignite mines, government pledges to pay 12-month severance payment to every employee not enjoying retirement benefits. These will be calculated including all today's extra benefits and bonuses. If employee is dismissed, total severance payment will be linked to his years of work experience, but not higher than monthly salary multiplied by factor 48x;
- In NABE, employees would be entitled to annual bonuses, at up to 8.5% of annual salary. NABE will be negotiating annual salary increases. NABE will also offer one-off PLN10k bonus at NABE creation;
- In NABE, no current social security benefits may be cancelled or diminished. Trade unions should keep receiving extra funding for its operations. Employees will be receiving additional fees, if their post-carve-out workplace would be moved farther than 35km from their habitual residence. Two-out-of-five SB members and one MB member will be chosen by employees.

**Comment: Multi-angled Positive.** Employees were quite reluctant to approve NABE. We see social agreement draft to be favourable to employees, so that one of key obstacles in NABE creation might be gone, (provided EU approves all these conditions), thus potentially representing a decent step toward coal assets' carve-out

completion. Moreover, our core scenario assumes assets are transferred for zloty (debt remains at WSE-listed entities), while government's proposals of compensations suggest State-run utilities might receive some extra cash in carve-out process, tweaking our core scenario 'Carve-Out' towards 'Carve-Out, incl. Debt' (see Fig. 1 below), with all implied Target Prices substantially higher vs core scenario.

**Winners.** If we focus exclusively on NABE, its finalization with some extra payments for coal assets is most supportive to Enea (TP 32% higher assuming debt carve-out) and PGE (TP 29% higher assuming debt carve-out) vs 13% TP upside for Tauron. Please note that NABE finalization would imply PGE getting rid of its conventional assets in full, while fate of thermal coal miner Bogdanka remains unclear in Enea case, hence we would prefer safer PGE to riskier Enea. Tauron is most exposed to changes in Polish mining, and we assume agreement on NABE will be followed by similar agreement on Polish mining, with Tauron's mining segment finally carved out. This represents our core scenario, hence we assume high upside to Tauron should be unlocked in coming months.

## [+] Step by step, readying for NABE

*[Published as a separate Flash note on 26 July, 2021]*

Last Friday PGE announced four companies (PGE, Tauron, Enea and Energa) signed agreement with the State regarding future carve-out of four companies' coal generation assets into State-run NABE. The agreement discloses no further details, only highlights that parties involved see the need for close cooperation in planned carve-out process, and parties declare multi-angled mutual exchange of information on the road to NABE creation.

**Comment: Positive.** PGE's communique is not very informative and discloses no additional details. However, precisely as we expected, coming months should bring in continuous news flow on NABE and PGE/TPE/ENA coal assets' carve-out. Also, we believe that the communique provides yet another confirmation of the fact that NABE will be created, and that coal-fired generation assets of PGE, Tauron and Enea will be carved out.

Once it happens (and assuming the same process will be applied to Tauron / Enea mining segments), business profile of three State-run companies would entirely change from unwanted coal to desired mix of distribution/sales/renewables.

On top of that, several days ago PGE announced it may create impairments. We believe it should relate to conventional generation assets, and we also see it as another step towards NABE creation (we expect PGE and other companies to update value of its conventional assets prior to carve-out). In our view it might lower probability of high-upside debt carve-out scenario, but core carve-out scenario still offers decent upsides.

## Polish electricity consumption and generation trends

[Published as two separate Flash notes; on 18 August, 2021 concerning July 2021 and on 02 September, 2021 concerning August 2021]

**Fig. 5. Polish Utilities: Jul2021 electricity production and consumption**

[positive readings for fossil fuels marked green, negative marked red]

GWh	Jul2021	Jul2020	change y/y	YTD2021	YTD2020	change y/y
Total Generation	14,412	11,946	20.6%	97,504	86,039	13.3%
<b>Systemic units</b>	<b>13,102</b>	<b>10,100</b>	<b>29.7%</b>	<b>87,042</b>	<b>70,629</b>	<b>23.2%</b>
incl. Hydro	177	225	-21.3%	1,775	1,617	9.8%
incl. Fossil fuels	12,925	9,875	30.9%	85,267	69,012	23.6%
Thermal coal	7,831	5,601	39.8%	52,526	39,436	33.2%
Lignite	3,972	3,148	26.2%	25,182	21,816	15.4%
incl. Gas	1,123	1,127	-0.4%	7,559	7,759	-2.6%
Photovoltaics	697	298	133.9%	3,088	1,127	174.0%
<b>On-shore wind</b>	<b>612</b>	<b>790</b>	<b>-22.5%</b>	<b>7,374</b>	<b>8,648</b>	<b>-14.7%</b>
Industry's own production	n.m.	759	n.m.	n.m.	5 635	n.m.
<b>Imports, net</b>	<b>34</b>	<b>1,362</b>	<b>-97.5%</b>	<b>3,306</b>	<b>7,910</b>	<b>-58.2%</b>
<b>Polish electricity consumption</b>	<b>14,445</b>	<b>13,309</b>	<b>8.5%</b>	<b>100,810</b>	<b>93,949</b>	<b>7.3%</b>

Source: operator

**July 2021 summary.** TGE's official Jul2021 data show Polish electricity consumption at 14.4TWh, up 8.5% y/y and up 5.5% m/m. The latter may be partially explainable by surprisingly high temperatures in July 2021, as last month prove 2.4 Celsius degree hotter y/y and also 1 Celsius degree hotter m/m, but some +3% m/m electricity consumption growth relies on internal demand's strength, we believe. Gas-fired electricity remained flat m/m and y/y at 1.1TWh, with growth nullified by high base effect, and hydro generation remains weak (down 21% y/y) for another month in row. Electricity imports almost vanished in July 2021, falling 98% y/y to mere 34GWh, and wind generation remained weak (down 23% y/y). These resulted in another strong month to coal generation, with thermal coal generation (7.8TWh, up 40% y/y and up 13% m/m) once again remaining much stronger to lignite-fired generation (4.0TWh, up 26% y/y and up 4% m/m).

**Fig. 6. August 2021E\* electricity production and consumption**

[positive readings for fossil fuels marked green, negative marked red]

GWh	Aug2021E*	Aug2020	change y/y	YTD21E*	YTD20	change y/y
Total Generation	14,170	12,119	16.9%	111,674	98,158	13.8%
<b>Systemic units</b>	<b>12,670</b>	<b>10,508</b>	<b>20.6%</b>	<b>99,712</b>	<b>81,137</b>	<b>22.9%</b>
incl. Hydro**	122	155	-21.3%	1,897	1,772	7.1%
incl. Fossil fuels	12,548	10,353	21.2%	97,815	79,365	23.2%
incl. coal	11,583	9,385	23.4%	89,291	70,637	26.4%
incl. gas**	965	968	-0.4%	8,524	8,727	-2.3%
On-shore wind	943	610	54.6%	8,317	9,258	-10.2%
Photovoltaics	557	283	96.9%	3,645	1,410	158.5%
Industry's own production***	0	719	n.m.	0	6,354	n.m.
<b>Imports, net</b>	<b>-225</b>	<b>1,321</b>	<b>n.m.</b>	<b>3,081</b>	<b>9,231</b>	<b>-66.6%</b>
<b>Polish electricity consumption</b>	<b>13,945</b>	<b>13,440</b>	<b>3.8%</b>	<b>114,755</b>	<b>107,389</b>	<b>6.9%</b>

Source: operator, Santander Brokerage Research estimates, \* all August 2021 data based on actual TGE data for the entire month, \*\* data based on actual July 2021 y/y changes, \*\*\* TGE no longer presents 'industry's own production' as of January 2021 (mostly coal-fired units), including these volumes into systemic units' generation

**August 2021 summary.** We calculate Polish electricity demand at 13.9TWh in August 2021, only 3.8% stronger vs pandemic-depressed 2020 and 2.5% stronger vs August 2019 readings. Still, August 2021 proved relatively cold, with average temperatures 3 Celsius degrees lower y/y and vs 2019, which might have depressed 2021 consumption by some 3pp, we believe. Following several months of Polish negligible imports, relative inexpensiveness of Polish electricity (in light of rallying European gas/coal/electricity prices) resulted in Poland becoming electricity exporter in August 2021, the first monthly exports since 2015. On-shore wind generation was very strong this month, up 55% y/y, while weather was not supportive to photovoltaics, higher only 97% y/y. We expect August 2021 to come in once again strong for coal generation, which we see at 11.6TWh, up 23% y/y and down 0.2TWh m/m (or at 10.9TWh, up 16% y/y and down 0.2TWh m/m adjusted for reclassification of coal-fired 'industry generation').

**Implications.** Coal-fired generation volumes remain high, which may come in positive to spread-expanding PGE (and potentially to ZE PAK as well). Idle new Jaworzno should cancel out any extra gains to Tauron, we believe, while Enea's 2Q21P results suggest the company might run out of inexpensive CO2 certificates, with positive impact of higher volumes potentially negated by declining spread. August 2021 was weak-ish for PV generation, with y/y growth rate falling below 100% threshold despite expanding capacity. In contrary, August 2021 was very strong for on-shore, coming in 55% stronger y/y, thus negating weak July reading. If wind productivity remained stable in September vs July/August 2021 average, 3Q2021E on-shore wind generation would have come in some 20% stronger y/y, outpacing mid-single-digit growth in capacity. Positive for Polenergia.

## Key Stories: Company-specific

### PGE

#### Fit-for-55 package poses risk to gas strategy, Polish households electricity prices to be deregulated – CEO

Below we list key takeaways from PGE's CEO interview as of 19 August 2021 in wnp.pl portal:

- EU's Fit-for-55 program should not affect Polish coal generation assets likely grouped in NABE;
- PGE's CEO is disappointed with Fit-for-55's proposals concerning heat segment, which he finds detrimental to PGE at this stage. PGE eyes gradual conversion to low-pollution sources by 2030, while EU's proposal assumes CO<sub>2</sub> pollution threshold at 0.27kg/MWh already in 2026. Additionally, EU suggests termination of Modernization Fund's support to gas units already in 2024, which (acc. to CEO) effectively prohibits investments into gas cogeneration units. CEO suggests 0.27kg/MWh CO<sub>2</sub> threshold should be applied as of 2030;
- CEO opts for deregulation of electricity priced for households, which would include some protection for low-income people. According to PGE's analyses, it would not trigger any unjustified growth in households' energy bills;
- CEO suggests most of proceeds from CO<sub>2</sub> sale should finance transformation of Polish energy system (presently these represent budget income);
- PGE may revise its strategy in 2-3 years, when Fit-for-55 will be implemented.

**Comment: Negative at gas, Positive at sales.** If EU's ideas (CO<sub>2</sub> pollution threshold own to 0.27kg/MWh in 2026, Modernization Fund ceasing funding gas units as of 2024), gas-skewed strategy of PGE could be at risk, we believe. Moreover, Poland is supposed to idle coal units and build renewable capacity, and gas-fired units represent natural back-up for the latter. We believe Poland has to build substantial capacity in gas for the sake of own energy system security, and costs might be of minor importance.

Deregulation of electricity priced for households would represent very positive news to the Polish utilities, as we assume presently these are loss-making at individuals. PGE's CEO claims that "electricity bills would not grow at unjustified pace", but we expect justified growth would be enough to generate substantial EBITDA and FCF, likely supportive to all electricity-trading entities in Poland.

## [+] 2Q2021P's all-segment positive surprises, strengthened by PLN0.9bn one-off

[Published as a separate Flash note on 31 August, 2021]

**Comment: Strong Positive.** Positive surprises in every segment, further supported by PLN0.95bn provision write-up, drive very strong set of 2Q2021P results, 71% above consensus. 1H2021P one-off adj. EBITDA settles at PLN4.2bn, 37% higher y/y and at some 60% of FY2021 EBITDA consensus. Along with temporary decline in net debt to PLN5.9bn, reported net debt-to-12month EBITDA halves y/y to 0.7x.

We expect PGE will announce substantial non-cash write-offs soon, negative to its bottom line and erasing positive impact of off-shore stake disposal completion. Additionally, we do not have any guarantee (at least until official confcall on September 18, 2021) that either 1) positive price effect in generation or 2) high sales margins will hold in 2H2021E, not to mention that 2Q2021P one-offs might be potentially reversed at year-end. So far so good, though, and PGE is delivering on its all-segment EBITDA growth outlook, with full-year sales segment's EBITDA outlook likely upped after 2Q2021P again (from 'down y/y' in 4Q2020 and 'flat y/y' in 1Q2021). As we see it, PGE is awaiting key decisions on assets' carve-out in pretty good shape.

**Generation / heat.** Another quarter of low temperatures y/y supported generation and heat segments' volumes, while realized electricity prices grew ~5% q/q (positive, in contrast to PGE's past policy of reporting flattish electricity price), the latter adding some PLN184mn of unexpected EBITDA (under assumption of barely changed hedged CO2 prices). **Renewables.** Price effect also supported renewable segment by a notch, though volumes remained flat y/y. **Distribution and Sales.** Both segments' EBITDA come in substantially above our estimates. With no more provisioning for G segment, sales segment EBITDA per TWh grew to PLN39, the highest since 2013. Distribution was depressed by pandemic in 2020, thus healthy volume rebound (and profit-driving hedging of balancing needs) triggered very decent 2Q2021P and 1H2021P results.

Fig. 7. PGE: 2Q2021 preliminary results review

PLNmn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe	Cons.
Sales	7,681	9,696	9,695	12,591	10,185	10,320	10,979	11,900				11,710	10,231
EBITDA	2,506	1,677	1,069	1,770	1,035	1,546	1,615	2,206	<b>3,023</b>	192.1%	37.0%	1,696	1,768
EBITDA margin	32.6%	17.3%	11.0%	14.1%	10.2%	15.0%	14.7%	18.5%				14.5%	17.3%
EBIT	1,567	621	-7,242	773	-502	469	538	1,164				654	698
EBIT margin	20.4%	6.4%	-74.7%	6.1%	-4.9%	4.5%	4.9%	9.8%				5.6%	6.8%
Net profit	1,117	471	-6,134	432	-1,120	273	525	808				363	396
Net margin	14.5%	4.9%	-63.3%	3.4%	-11.0%	2.6%	4.8%	6.8%				3.1%	3.9%

Source: Company data, Santander Brokerage Poland estimates

Key points from the company's 2Q2021 preliminary results:

- **Electricity prices.** Average 2Q21P electricity price at PLN261/MWh in generation (down 11% y/y, up 5% q/q) and PLN252/MWh in heating (up 7% y/y, up 4% q/q), blended electricity price PLN260/MWh, down 9% y/y and up 5% q/q;

- **Volumes.** 2Q21P lignite production at 9.0TWh, up 20% y/y. Thermal coal production at 5.1TWh, up 25% y/y, including two new Opole units at 2.1TWh, up 42% y/y. Heat segment's electricity production at 0.7TWh, up 15% y/y. Renewable production at 0.53TWh, up 6% y/y due to minor increase at on-shore wind production. Total electricity production at 15.9TWh, up 20% y/y. Distribution volume up 12%, electricity sales down 3% y/y, heat sales up 14% y/y;
- **One-offs.** PLN949mn of change in mining- and actuarial-related provisions. Recurring 2Q2021P EBITDA at PLN2.06bn acc. to company, 53% y/y increase, totalling 1H2021P recurring EBITDA at PLN4.27bn, up 37% y/y. Company is still estimating its potential 2Q2021 provisions, thus it withheld presentation of 2Q2021P net profit;
- **Capex, net debt.** 2Q2021P capex at PLN1.4bn, down 9% y/y, totalling 1H2021P PLN2.2bn, down 10% y/y. Net debt at PLN5.9bn, flat y/y and down PLN2.7bn due to CO2 accounting;
- **Key issues.** Capacity market income at PLN670mn, flat q/q. Positive development at sales margin supported EBITDA by +PLN300mn y/y. Lower temperatures and higher heat tariffs +PLN120mn y/y. Substantially higher distribution volume (and lower price paid for balancing difference) +PLN120mn y/y. Higher spot electricity prices +PLN80mn in renewable EBITDA y/y. CO2 cost higher by PLN550mn y/y. Fuels' cost higher by PLN190mn y/y (mostly due to generation volumes, not fuels' prices). Lower Regulatory Income at PLN90mn y/y.

**Fig. 8. PGE: EBITDA breakdown**

PLNmn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe
Generation (conv)*	1,790	752	436	839	428	599	806	1,021	<b>1,718</b>	4.0x	68.3%	625
Energy (renewable)	145	100	107	193	108	110	186	193	<b>189</b>	75.0%	-2.1%	173
Sales	305	58	-252	218	-31	299	158	352	<b>354</b>	n.m.	0.6%	250
Distribution	566	599	496	573	554	611	568	658	<b>724</b>	30.7%	10.0%	638
Other	-300	168	282	-53	-24	-73	-103	-18	<b>38</b>	n.m.	n.m.	10
<b>Total</b>	<b>2,506</b>	<b>1,677</b>	<b>1,069</b>	<b>1,770</b>	<b>1,035</b>	<b>1,546</b>	<b>1,615</b>	<b>2,206</b>	<b>3,023</b>	<b>192%</b>	<b>37.0%</b>	<b>1,696</b>

Source: Company data, Santander Brokerage Poland estimates, \* total of conventional generation and heat segments

**Fig. 9. PGE: Volumes**

TWh	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe
Generation (conv)	13.43	13.56	14.35	14.61	13.22	13.87	14.65	16.36	<b>15.32</b>	15.9%	-6.4%	14.25
Generation (renewable)	0.46	0.38	0.53	0.75	0.53	0.40	0.64	0.65	<b>0.53</b>	-0.1%	-19%	0.60
Retail sale	10.44	10.89	11.23	10.74	9.38	10.34	10.71	10.67	<b>9.08</b>	-3.2%	-15%	10.50
Distribution	8.83	8.99	9.26	9.17	8.12	8.98	9.40	9.53	<b>9.11</b>	12.2%	-4.4%	9.18

Source: Company data, Santander Brokerage Poland estimates

## Tauron

### **[–] New Jaworzno unit to remain idle till 25 February 2021, 9-month EBITDA loss at PLN200mn – company**

*[Published as a separate Flash note on 03 August, 2021]*

Yesterday Tauron announced that it is possible that new Jaworzno unit will be re-synchronized with grid on 25 February 2021. Unit will remain idle until early 2022, as some extra works need to be completed. Company estimates that delay in new Jaworzno unit will lower its profit by PLN200mn.

**Comment: Negative. EBITDA- and cash-negative event, especially as Feb2022 deadline may not be met, we believe. Anticipated transfer of all coal assets to NABE should neutralize Jaworzno's negative impact on Group's financials.**

Originally new Jaworzno unit was to be completed in April 2019, but following several delays the official kick-off took place in mid-November 2020. It has been working for several months since, but it remains idle as of mid-June 2021. 25 February 2022 deadline, suggested by Tauron for unit's re-synchronization, might not be met, we believe, and given unit's short but eventful history we would not be surprised to see other problems popping out later onward.

The company should be losing EBITDA not only due to non-delivering generation unit, but also due to necessary electricity re-purchases (Tauron guaranteed to deliver electricity to-be-produced by new Jaworzno unit). We assume PLN200mn loss includes both these events, and we assume PLN200mn loss is calculated from June 2021 till Feb 2022, which would imply 2021E EBITDA cut at some PLN156mn.

Tauron reported results should remain solid / strong in 1H21P, hence we believe company may meet our 2021E forecasts and market consensus even despite above-mentioned PLN155mn EBITDA cut. Cash-wise, we believe Tauron might lose low hundreds million zloty on new Jaworzno unit (EBITDA losses and extra capex needs), especially as it is uncertain whether any hypothetical claim against Rafako (not mentioned in Tauron's communique, though) may be effective. In this light, transfer of all coal assets to NABE seems blessing to Tauron, as Jaworzno problems would be no longer Tauron problems.

### **PLN944mn provision to depress company's 2Q2021 bottom line**

*[Published in Santander's Daily on 27 August, 2021]*

Yesterday company informed the analysis on potential recoverable value of coal assets resulted in PLN924mn provision in Conventional Generation, PLN14mn provision in Heat and PLN185mn in Mining. In consequence, PLN1.12bn provision will result in 2Q2021 bottom line lower by PLN944mn.

Below we list key rationale, according to company:

- Growth in CO2 certificate prices,

- Change in Polish generation mix,
- Expected decline in market spreads in medium and long-term, due to increase in variable costs,
- Declining demand for coal.

In the parent company, write-offs for new Jaworzno unit should result in PLN748mn provision, depressing parent company's bottom line by PLN748mn.

None of the above-mentioned will affect company's parent or consolidate EBITDA.

**Comment:** Neutral, provisions will not affect EBITDA, these are non-cash, and cut to bottom line would be important only in case any Polish utility was paying net profit-related dividends.

## **[-] Company wants to purchase minority stake of Jaworzno unit from PFR**

*[Published in Santander's Daily on 26 August, 2021]*

Presently PFR holds 14.12% stake in new Jaworzno unit. Tauron informed that it intends to purchase this stake in preparation for carve-out process. Company informs that transaction will be concluded if two parties come to an agreement.

**Comment: Negative.** Prior to carve-out to NABE, Tauron will have to spend unknown amount of cash to consolidate new Jaworzno unit in full, we believe. Some compensations have been mentioned in NABE scheme, but their scale (and whether these would compensate for stakes purchased) remains unknown.

## **2Q2021P EBITDA 7% above consensus, idle Jaworzno weakens sales segment**

*[Published as a separate Flash note on 02 September, 2021]*

**Comment: Neutral...** No surprises at volumes, with flattish mining at 1.26mt (coal sales at 1.1mt) and strong y/y growth vs pandemic-affected distribution. We believe mining EBITDA is supported by sales below production, with some losses likely retained in inventory. Conventional generation and sales segments are both affected by new Jaworzno: the former still includes new units' impact, based on Tauron's arrangements with Polish Development Fund, minority Jaworzno unit shareholder (despite unit will not be operational till February 2022), and the fact that unit is idle can be seen at sales EBITDA, where Tauron reports cost of missing electricity purchased at market at current (high) prices.

**...but sales outlook weakens substantially.** Overall, we see Tauron's 2Q2021P adjusted sales EBITDA at some PLN70mn (reported result adjusted for one-month Jaworzno idling), quite unimpressive adj. EBITDA on standalone basis. Additionally, as Jaworzno will be idle for entire quarter in 3Q/4Q2021E, we could expect new Jaworzno loss tripling vs 2Q2021 (further magnified by rising CO2 prices), potentially resulting

in Tauron's 3Q/4Q2021E sales EBITDA losses at above PLN100mn per quarter. If it was the case, Tauron's reported sales EBITDA could settle at nil or turn red in 2021E.

**Fig. 10. Tauron: 2Q2021 preliminary results review**

PLNmn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe	Cons.
Sales	5,085	4,862	5,470	5,468	4,719	4,989	5,627	6,445	<b>5,422</b>	14.9%	-15.9%	5,732	5,767
EBITDA	996	808	549	957	1,450	1,006	809	1,735	<b>1,183</b>	-18.4%	-31.8%	1,113	1,105
EBITDA margin	19.6%	16.6%	10.0%	17.5%	30.7%	20.2%	14.4%	26.9%	<b>21.8%</b>	-8.9	-5.1	19.4%	19.2%
EBIT	261	330	71	474	-112	539	-2,618	1,212	<b>-482</b>	n.m.	n.m.	590	590
EBIT margin	5.1%	6.8%	1.3%	8.7%	-2.4%	10.8%	-46.5%	18.8%	<b>-8.9%</b>	-6.5	-27.7	10.3%	10.2%
Net profit	142	188	-23	161	-479	377	-2,548	851	<b>-469</b>	n.m.	n.m.	352	384
Net margin	2.8%	3.9%	-0.4%	2.9%	-10.2%	7.6%	-45.3%	13.2%	<b>-8.6%</b>	1.5	-21.9	6.1%	6.7%

Source: Company data, Santander Brokerage Poland estimates

Yesterday after close Tauron presented its preliminary 2Q2021 results. Below we list key takeaways:

- 2Q2021 capex at PLN648mn, totalling PLN1.29bn in 1H2021, net debt at PLN9.7bn, net debt-to-EBITDA (company calculations) 2.06x;
- 2Q2021P provisions at PLN1.12bn, including PN924mn in conventional generation and PLN185mn in mining. Provisions reported at EBIT, not EBITDA;
- Positive FX gains at PLN122mn supporting company's financial income.

**Fig. 11. Tauron: EBITDA breakdown**

PLNmn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe
Mining	-99	-119	-238	-36	43	-39	-125	-14	<b>-32</b>	n.m.	n.m.	-40
Conventional gen.	152	126	319	190	86	76	283	770	<b>322</b>	274.4%	-58.2%	220
Renewables	53	38	100	115	42	54	79	84	<b>83</b>	97.6%	-1.2%	75
Distribution	656	663	606	684	1005	728	606	742	<b>777</b>	-22.7%	4.7%	780
Sales	258	110	-105	179	220	238	43	234	<b>2</b>	-99.1%	-99.1%	50
Other	29	28	1	-60	96	3	2	3	<b>31</b>	-67.7%	933.3%	15
<b>Total</b>	<b>996</b>	<b>808</b>	<b>583</b>	<b>957</b>	<b>1,450</b>	<b>1,006</b>	<b>809</b>	<b>1,735</b>	<b>1,183</b>	<b>-18.4%</b>	<b>-31.8%</b>	<b>1,113</b>

Source: Company data, Santander Brokerage Poland estimates

**Fig. 12. Tauron: Volumes**

	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe
Generation (conv.)	3.03	2.97	3.06	2.64	2.66	2.45	3.24	3.74	<b>3.11</b>	16.9%	-16.8%	3.20
Generation (renew.)	0.30	0.29	0.40	0.57	0.42	0.40	0.55	0.48	<b>0.40</b>	-4.8%	-16.7%	0.45
Retail sale	8.10	8.00	8.70	8.86	7.13	7.72	8.72	8.77	<b>7.86</b>	10.2%	-10.4%	7.80
Distribution	12.54	12.66	12.99	13.25	11.35	12.34	13.32	13.79	<b>12.97</b>	14.3%	-5.9%	12.92
Mining	0.99	0.69	0.84	1.18	1.30	1.10	0.96	1.43	<b>1.26</b>	-3.1%	-11.9%	1.25

Source: Company data, Santander Brokerage Poland estimates

## Enea

### [-] Weak 2Q21P sales and systemic generation imply tough 2H2021E?

[Published as a separate Flash note on 23 August, 2021]

**Comment: Negative.** Enea posts 2Q2021P results in line with consensus at PLN730mn, down 9% y/y and down 21% y/y. While mining (EBITDA doubling y/y) was offset by pandemic-driven weakened distribution reading, both sales and conventional generation segments' EBITDAs have come in weak in 2Q2021P. In 2021 Enea is recognizing some PLN0.2bn of capacity market support, and yet its generation EBITDA has come in PLN112mn weaker y/y, suggesting very steep narrowing of spreads, most likely due to Enea's low-priced CO2 hedging expiring already in 1Q2021. In sales segment we believe some extra provisioning might have negative impact, still tens of million zloty EBITDA loss in 2Q2021P and (negligible EBITDA gain in 1H2021P) come in negative.

Looking into 2H2021E, we expect 1) weakness of both generation and sales segments should continue, and 2) mining segment should come in weaker vs 1H2021 due to lower volumes and potential year-end provisioning. In this light, **we believe company might find it challenging to deliver anything above ~PLN700mn of quarterly EBITDA in 3/4Q2021E, which would result in Enea's FY2021E EBITDA potentially on the verge of PLN3.0bn** (below consensus).

Fig. 13. Enea: 2Q21 preliminary results review

PLNmn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe	Cons.
Sales	3,579	4,580	3,627	4,592	4,357	4,512	4,731	5,041	<b>4,778</b>	9.7%	-5.2%	5,086	4,860
EBITDA	867	890	849	1,016	806	813	667	923	<b>730</b>	-9.4%	-20.9%	710	733
EBITDA margin	24.2%	19.4%	23.4%	22.1%	18.5%	18.0%	14.1%	18.3%	<b>15.3%</b>	-3.2	-3.0	14.0%	15.1%
EBIT	485	503	428	635	-106	394	-2,630	548	<b>n.a.</b>			335	358
EBIT margin	13.6%	11.0%	11.8%	13.8%	-2.4%	8.7%	-55.6%	10.9%	<b>n.m.</b>			6.6%	7.4%
Net profit	260	386	-351	459	-541	38	-2,191	406	<b>314</b>	n.m.	-22.7%	348	305
Net margin	7.3%	8.4%	-9.7%	10.0%	-12.4%	0.8%	-46.3%	8.1%	<b>6.6%</b>	19.0	-1.5	6.8%	6.3%

Source: Company data, Santander Brokerage Poland estimates

Key drivers of segmental results, according to company's statement:

- **One-off.** Company wrote up PLN114mn provision for Ostrołęka C project. This amount is non-cash item, supporting consolidated reported pre-tax profit and net profit;
- **Mining:** increased coal sales mitigated by lower coal price. Bogdanka published its preliminary 2Q2021 results on August 14, 2021 (2Q21P EBITDA at PLN160mn);
- **Distribution:** EBITDA stronger y/y, thanks to higher margin on core distribution activity, trimmed by higher opex and lower gain on other operating activity;
- **Generation:** strong y/y EBITDA decline in Conventional Generation, resulting from narrowing spread and weaker result at balancing market, somewhat

compensated by new-born capacity market support. Enea reported stronger 1H2021 EBITDA in both heat and renewable segments;

- **Sales:** 1H2021 EBITDA weakness results from 1) lower y/y realized electricity price, 2) change in provisioning, 3) revaluation CO2 contracts and 4) higher costs of renewable obligations. Of these, points 1) and 3) were mentioned following 1Q2021, while points 2) and 4) represent new explanations. Also, company's realized electricity purchases at lower prices y/y;
- Enea will present its final 2Q2021 results on September 16, 2021.

**Fig. 14. Enea: EBITDA breakdown**

PLNmn	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe
Generation (conv)*	46	-18	6	110	-70	19	-74	47	-38	n.m.	n.m.	10
Energy (renewable)	266	289	286	307	373	313	319	369	319	-14.5%	-13.6%	310
Sales	330	421	443	472	400	337	321	367	288	-28.0%	-21.5%	240
Distribution	10	20	-40	-3	18	33	-44	-24	6	-66.3%	n.m.	0
Other	215	178	159	129	85	111	145	164	155	82.4%	-5.5%	150
<b>Total</b>	<b>867</b>	<b>890</b>	<b>854</b>	<b>1,016</b>	<b>806</b>	<b>813</b>	<b>667</b>	<b>923</b>	<b>730</b>	<b>-9.4%</b>	<b>-20.9%</b>	<b>710</b>

Source: Company data, Santander Brokerage Poland estimates, \* total of conventional generation and heat segments

**Fig. 15. Enea: Volumes**

	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21P	y/y	q/q	SANe
Generation (conv.)	6.06	6.76	5.39	4.85	4.47	6.10	5.00	5.65	5.55*	24.2%	-1.8%	5.70
Generation (renew.)	0.53	0.44	0.66	0.55	0.53	0.40	0.60	0.45	0.45*	15.1%	0.0%	0.45
Retail sale	4.78	4.90	5.23	5.60	4.90	5.10	5.50	6.30	5.80	18.4%	-7.9%	5.50
Distribution	4.86	4.80	4.99	5.00	4.50	4.80	5.10	5.20	5.00	11.1%	-3.8%	5.00
Mining (Bogdanka)	2.25	2.32	2.30	2.10	1.60	1.84	2.10	2.60	2.28	42.5%	-12%	2.28

Source: Company data, Santander Brokerage Poland estimates, \*own estimate of conventional / renewable generation breakdown

## **[+] LWB signs PLN104mn worth of coal deliveries to Ukraine**

*[Published as a separate Flash note on 16 August, 2021]*

On Friday Bogdanka (Enea's 66% subsidiary) informed that it signed short-term contract for coal deliveries with D. Trading International. It is valid from 18 August, 2021 till 28 February, 2022, and total value of coal settles at USD30.6mn (PLN118mn acc. to communique). Total value of all Bogdanka's coal contracts with this company increased to USD39mn / PLN149mn. Bogdanka did not present volumes implied by the contract.

**Comment: Positive.** Presently we are observing strong rally in European coal prices and declining trend in Polish coal prices, hence we believe coal exports may be made at favourable prices. We assume such deal might be concluded at prices some 30% higher to Polish ones, which would imply Bogdanka would sell some 0.4-0.5mt at PLN290/tonne.

If this contract is delivered (under assumption of no payment problems of Ukrainian partner), we assume it would 1) let Bogdanka sell coal in excess of Enea needs and 1) warrant some price premium. We do not believe Bogdanka may beat its FY2021 coal production guidance, hence we expect this contract could imply PLN33mn extra revenues and EBITDA from August 2021 till February 2022, due to assumed price

premium vs Polish prices. If that was the case, extra cash inflow (after tax) would represent some 2.9% of Bogdanka's Friday's Market Cap, and 0.4% of Enea's Market Cap (adjusted for Enea's 66% stake held).

Last but not least, if Bogdanka's relations with Ukrainian partner (and price levels) are maintained in medium and long term, **assumed misery at Polish market might be mitigated to some extent by high-priced exports**. It would be positive to Bogdanka, but we still argue Enea Group's upside is muted if Bogdanka remains within its structures. In this light, while potential renewal(s) of Bogdanka-Ukraine contracts is negligibly positive to Enea in short-term, in medium or long-term we still argue Enea's carve-out driven upside may be revealed only if thermal coal mining operations are carved out as well.

## Valuation

In valuation process we use DCF, DDM and comparable valuation methodologies. DCF remains our preferred valuation tool, as it relies more on the company's long-term outlook. As changes in financial results or changes in investors' preferences drive the comparable valuation, and management's decisions may alter DDM valuation outcomes, we see these as supportive to the DCF valuation. Hence, we use DCF as the primary valuation tool (60% weight), with DDM and comparable valuation having 20% weight each.

### DCF Valuation

We distinguish between the regulated and unregulated segments of the industry and apply a different valuation assumption to each, using a beta of 0.7x for the regulated segments (distribution, renewables, heat) and 1.0x for unregulated segments (conventional generation, coal mining, sales, other). We continue to use the risk-free rate at 3.0%.

**Fig. 16. Polish Utilities – Detailed WACC Assumptions**

	PGE		Tauron		ENEA	
	Regulated*	Non-regulated**	Regulated*	Non-regulated**	Regulated*	Non-regulated**
Risk-free rate	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Unlevered beta	0.70	1.20	0.70	1.20	0.70	1.20
Levered beta	0.83	1.44	1.07	1.85	0.98	1.68
Equity risk premium	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
<b>Cost of equity</b>	<b>7.17%</b>	<b>10.18%</b>	<b>8.37%</b>	<b>12.25%</b>	<b>7.89%</b>	<b>11.42%</b>
Risk-free rate	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Debt risk premium	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Tax rate	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
<b>After tax cost of debt</b>	<b>3.24%</b>	<b>3.24%</b>	<b>3.24%</b>	<b>3.24%</b>	<b>3.24%</b>	<b>3.24%</b>
%D	20%	20%	40%	40%	33%	33%
%E	81%	81%	60%	60%	67%	67%
<b>WACC [Sept 2021]</b>	<b>6.40%</b>	<b>8.82%</b>	<b>6.32%</b>	<b>8.64%</b>	<b>6.34%</b>	<b>8.70%</b>

Source: Santander Brokerage Poland estimates, \* relates to Distribution and Renewable segments, \*\* relates to all other segments

**Fig. 17. Polish Utilities, Base-Case Scenarios – DCF Valuations I (free cash flows and terminal value)**

PLNmn	PGE			Tauron			ENEA		
	PV FCF	PV TV	Total	PV FCF	PV TV	Total	PV FCF	PV TV	Total
<b>Regulated businesses</b>									
Distribution***	-	-	18,445	-	-	18,652	-	-	9,236
Heat****	-3,410	1,953	-1,457	-1,673	-1,111	-2,785	-284	13	-271
Renewables*	-5,687	15,455	9,768	857	4,912	5,770	-148	3,847	3,698
<b>Sub-total</b>	<b>-9,097</b>	<b>17,409</b>	<b>26,756</b>	<b>-816</b>	<b>3,801</b>	<b>21,637</b>	<b>-433</b>	<b>3,860</b>	<b>12,663</b>
<b>Non-regulated businesses</b>									
Systemic generation***	-7,670	8,994	1,324	-3,820	4,795	975	-4,440	4,123	-317
Coal extraction**	-	-	-	-736	-	-736	-	-	394
Sales & others	5,147	4,572	9,719	2,451	2,772	5,223	516	650	1,166
<b>Sub-total</b>	<b>-2,523</b>	<b>13,566</b>	<b>11,043</b>	<b>-2,105</b>	<b>7,568</b>	<b>5,463</b>	<b>-3,924</b>	<b>4,773</b>	<b>1,244</b>
Net debt and provisions***			12,842			15,593			10,069
<b>Total DCF valuation [PLNmn, Jan 2021]</b>			24,958			11,507			3,838
Number of shares [mn]			1,870			1,752			441
SOTP / DCF valuation [PLN, Jan 2021]			13.3			6.6			8.7
SOTP / DCF valuation [PLN, Sept 2021]			14.1			6.9			9.2
<b>12-month target price [PLN]</b>			15.2			7.5			9.9

Source: Company data, Santander Brokerage Poland estimates

PGE: (\*) includes NPV of PGE's 50% on-shore/PV guidance, includes NPV of off-shore JV, (\*\*) assumes assets' carve-out as of Jan2022E, (\*\*\*) 2021E RAB, (\*\*\*\*) net debt increased for estimated PLN2bn of unpaid CO2 invoices for 2020

Tauron: (\*) includes NPV of total 800MW expected pipeline in on-shore and PV, (\*\*) assumes coal assets' carve-out as of Jan2023E, in conventional generation assumed construction of 2.1GW in gas, (\*\*\*) 2021E RAB, (\*\*\*\*) net debt increased for estimated PLN0.8bn of unpaid CO2 invoices for 2020

Enea: (\*) includes NPV of total 750MW expected pipeline in on-shore and PV, (\*\*) assumes coal assets' carve-out as of Jan2023E, in conventional generation assumed construction of 2.1GW in gas, (\*\*\*) 2021E RAB, (\*\*\*\*) net debt increased for estimated PLN1.5bn of unpaid CO2 invoices for 2020

Fig. 18. Polish Utilities, Base-Case Scenarios – DCF Valuations II

(PLNmn, unless otherwise stated)	PGE			Tauron			Enea		
	New valuation	Old Valuation*	Diff.	New valuation	Old Valuation*	Diff.	New valuation	Old Valuation*	Diff.
<b>Regulated businesses</b>									
Distribution	18,445	18,445	0.0%	18,652	18,652	0.0%	9,236	9,236	0.0%
Heat	-1,457	-1,457	0.0%	-2,785	-2,785	0.0%	-271	-271	0.0%
Renewables	9,768	10,005	-2.4%	5,770	5,702	1.2%	3,698	3,613	2.3%
<b>Sub-total</b>	<b>26,756</b>	<b>26,993</b>	<b>-0.9%</b>	<b>21,637</b>	<b>21,569</b>	<b>0.3%</b>	<b>12,663</b>	<b>12,578</b>	<b>0.7%</b>
<b>Non-regulated businesses</b>									
Systemic generation	1,324	4,326	-69.4%	975	1,923	-49.3%	-317	1349	n.m.
Coal extraction				-736	-736	0.0%	394	394	0.0%
Sales & others	9,719	7,383	31.6%	5,223	4,328	20.7%	1166	638	82.8%
<b>Sub-total</b>	<b>11,043</b>	<b>11,708</b>	<b>-5.7%</b>	<b>5,463</b>	<b>5,515</b>	<b>-0.9%</b>	<b>1244</b>	<b>2381</b>	<b>-47.8%</b>
Net debt and provisions	12,842	12,842	0.0%	15,593	14,478	7.7%	10,069	10,962	-8.1%
Total DCF valuation [PLN mn]	24,958	25,859	-3.5%	11,507	12,606	-8.7%	3,838	3,998	-4.0%
Number of shares [mn]	1,870	1,870	0.0%	1,752	1,752	0.0%	441	441	0.0%
SOTP / DCF valuation [PLN]	13.3	13.8	-3.5%	6.6	7.2	-8.7%	8.7	9.1	-4.0%
<b>12-month target price [PLN]</b>	<b>15.2</b>	<b>15.5</b>	<b>-1.7%</b>	<b>7.5</b>	<b>8.1</b>	<b>-7.1%</b>	<b>9.9</b>	<b>10.2</b>	<b>-2.3%</b>

Source: Company data, Santander Brokerage Poland estimates, \* old valuations refer to report published on 16 June, 2021

## DDM Valuation

We assume PGE, Tauron and Enea will not be paying dividends until 2030E, due to their extensive capex programme. In the long term, we assume three companies' dividend payout will be 20%.

**Fig. 19. Utilities: DDM valuation in core scenario (Carve-Out, no debt reduction)**

PLNmn	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
<b>PGE</b>										
Net profit	892	1,502	1,690	2,083	2,024	1,879	3,169	3,289	3,367	3,644
Payout	0%	0%	0%	0%	0%	0%	0%	0%	0%	20%
Dividend paid*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	673
Cost of equity	8.7%									
<b>Equity value per share [PLN]</b>	<b>2.8</b>									
<b>Tauron</b>										
Net profit	796	946	1,642	1,646	1,673	1,579	2,158	2,114	2,149	2,465
Payout	0%	0%	0%	0%	0%	0%	0%	0%	0%	20%
Dividend paid*	0	0	0	0	0	0	0	0	0	430
Cost of equity	8.4%									
<b>Equity value per share [PLN]</b>	<b>2.4</b>									
<b>Enea</b>										
Net profit	782	718	863	877	925	945	1,481	1,413	1,427	1,663
Payout	0%	0%	0%	0%	0%	0%	0%	0%	0%	20%
Dividend paid*	0	0	0	0	0	0	0	0	0	285
Cost of equity	8.9%									
<b>Equity value per share [PLN]</b>	<b>6.4</b>									

Source: Santander Brokerage Poland estimates, \* calculated vs. previous year's reported net profit

## Comparative Valuation

**Fig. 20. Utilities – Basics of comparable valuation approach**

	2021E	2022E	2023E
<b>PGE</b>			
Share of other segments (heat, gas, sales, other) *	57%	43%	36%
Share of Renewables *	9%	15%	18%
Share of Distribution *	35%	43%	46%
<b>Tauron</b>			
Share of other segments (heat, gas, sales, other) *	28%	19%	22%
Share of Renewables *	7%	12%	14%
Share of Distribution *	65%	69%	64%
<b>Enea</b>			
Share of other segments (heat, gas, sales, other) *	48%	43%	35%
Share of Renewables *	7%	12%	13%
Share of Distribution *	45%	45%	53%

Source: Santander Brokerage Poland estimates, \* percentage of EBITDA in total EBITDA

**Fig. 21. Polish Utilities: Comparable valuation, Valuation Metrics, Impl. Valuation Ratios and Impl. Share Prices**

<i>Western European utilities</i>		<b>P/E (x)</b>			<b>EV/EBITDA (x)</b>		
		<b>2021E</b>	<b>2022E</b>	<b>2023E</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Generation – Polluters	<i>Segment median</i>	18.6	18.9	23.4	6.2	6.0	6.5
Generation – Clean	<i>Segment median</i>	18.2	16.5	15.6	9.9	9.5	9.0
Regulated	<i>Segment median</i>	18.5	18.1	17.1	11.6	11.2	10.5
<b>PGE</b>	<b><i>Implied ratio*</i></b>	<b>18.5</b>	<b>18.2</b>	<b>19.1</b>	<b>8.4</b>	<b>8.7</b>	<b>8.8</b>
<b>Tauron</b>	<b><i>Implied ratio*</i></b>	<b>18.5</b>	<b>18.1</b>	<b>18.3</b>	<b>9.9</b>	<b>10.0</b>	<b>9.4</b>
<b>Enea</b>	<b><i>Implied ratio*</i></b>	<b>18.5</b>	<b>18.3</b>	<b>19.1</b>	<b>8.9</b>	<b>8.8</b>	<b>8.9</b>
<b>PGE</b>	<b><i>Implied share price (PLN)** / ***</i></b>	<b>8.8</b>	<b>14.6</b>	<b>17.3</b>	<b>16.6</b>	<b>8.2</b>	<b>13.8</b>
<b>Tauron</b>	<b><i>Implied share price (PLN)** / ***</i></b>	<b>8.5</b>	<b>9.9</b>	<b>17.3</b>	<b>13.5</b>	<b>9.2</b>	<b>11.0</b>
<b>Enea</b>	<b><i>Implied share price (PLN)** / ***</i></b>	<b>32.8</b>	<b>29.7</b>	<b>37.4</b>	<b>37.0</b>	<b>39.3</b>	<b>36.8</b>

Source: Bloomberg, Santander Brokerage Poland estimates, \* weighted by company's business profile. Share prices as of September 03, 2021, \*\* includes provisions in net debt calculation, \*\*\* blended comparable valuation calculated as average of P/E and EV/EBITDA outcomes for years 2022-23E

Generation – Polluters: applied ratios for RWE, neighboring utility in multi-year transformation process

Generation – Clean: Iberdrola, Endesa, EDP, Verbund, EdF

Regulated: EVN, MVV Energie, Elia Group, Terna, Iren, REN, Red Electrica, SSE

## Valuation summary

We assume a carve-out will take place under all scenarios, taking place on January 2023E. We apply 70% probability to central scenario (Carve-out, no change at net debt), 20% probability to "Carve-out, net debt cut" scenario (net debt reduced by PLN8bn in PGE, PLN3bn in Tauron, PLN2bn in Enea) and 10% probability to "Carve-Out, Risks" scenario. The latter includes, respectively:

- 1) PGE's PLN500mn p.a. cut in tariffs / EBITDA for sales / heat as of 2022E,
- 2) Tauron's PLN500mn p.a. cut in tariffs for sales / heat as of 2022E, and one coal mine remaining in structures;
- 3) Enea's PLN150mn p.a. cut in tariffs for sales / heat as of 2022E, Polaniec's 200MW biomass-fired unit carved out along with thermal coal units (another PLN150mn hit to EBITDA p.a.) and Bogdanka thermal mine remaining in structures.

**Fig. 22. Polish Utilities – Valuation Summary \***

Company		Scenario: Carve-Out, Risks	Scenario: Carve-Out, no change at Net Debt	Scenario: Carve-Out, Net Debt cut **	Weighted Valuation
	Scenario probability	10%	70%	20%	
<b>PGE</b>	DCF	12.8	15.2	19.5	15.8
	DDM	1.6	2.8	4.7	3.1
	Comparative	9.8	13.0	15.6	13.2
	<b>Blended</b>	<b>9.9</b>	<b>12.3</b>	<b>15.8</b>	<b>12.8</b>
	Upside / Downside	3%	28%	64%	32%
<b>Tauron</b>	DCF	4.8	7.5	9.2	7.6
	DDM	0.3	2.4	3.2	2.3
	Comparative	1.0	11.5	12.5	10.7
	<b>Blended</b>	<b>3.1</b>	<b>7.3</b>	<b>8.7</b>	<b>7.1</b>
	Upside / Downside	-9%	112%	152%	108%
<b>Enea</b>	DCF	3.6	9.9	14.5	10.2
	DDM	2.8	6.4	8.5	6.5
	Comparative	10.7	36.3	39.0	34.2
	<b>Blended</b>	<b>4.9</b>	<b>14.5</b>	<b>18.2</b>	<b>14.3</b>
	Upside / Downside	-47%	57%	97%	55%

Source: Santander Brokerage Poland estimates, \* Target Prices rounded, upsides / downsides calculated against share prices as of September 03, 2021, all scenarios assume carve-out of coal assets on the turn on 2022/23E

**PGE assumptions:** \*\* scenario 'extra sales / heat burden' includes total PLN500mn reduction in heat and sales tariffs p.a., 'scenario' including debt carve-out includes PLN8bn debt carve-out

**Tauron assumptions:** \*\* scenario 'extra sales, mining risk' includes total PLN500mn reduction company's EBITDA p.a. and one coal mine remaining within Tauron structures, 'scenario' including debt carve-out includes PLN3bn debt carve-out

**Enea assumptions:** \*\* all scenarios assume Bogdanka remaining within Enea structures, scenario 'extra sales, mining risk' includes total PLN300mn reduction company's EBITDA p.a., 'scenario' including debt carve-out includes PLN2bn debt carve-out

Following State's commentary on potential compensations for modernization of carved-out assets, we change our scenarios' probability to 10%/70%/20% vs 15%/70%/15% previously (Carve-out with risks, core Carve-out, Carve-out with net debt cut). Also, substantial growth in Distribution peers' ratios supports comparative

valuation of all companies, having the strongest positive impact on Enea, where comparative valuation neglects risks of either Bogdanka thermal coal mine or Polaniec's 'green unit'.

**Applied changes trigger growth to all three companies' TPs, respectively to PLN12.8 for PGE, PLN7.1 for Tauron and PLN14.3 for Enea. With upsides ranging from 32% to 108%, we keep our Buy recommendations unchanged, ahead of anticipated assets' carve-out process.**

**Fig. 23. Polish Utilities – Valuation Summaries in previous report \*/\*\***

Company	Scenario probability	Scenario: 2022E Carve-Out, extra risk(s)	Scenario: 2022E Carve-Out	Scenario: 2022E Carve-Out incl. Debt**	Weighted Valuation
		15%	70%	15%	
<b>PGE</b>	DCF	13.0	15.5	19.8	15.8
	DDM	1.2	2.4	4.3	2.5
	Comparative	8.5	11.4	14.2	11.4
	<b>Blended</b>	<b>9.8</b>	<b>12.1</b>	<b>15.6</b>	<b>12.2</b>
	Upside / Downside	8%	33%	71%	35%
<b>Tauron</b>	DCF	5.4	8.1	9.2	7.8
	DDM	0.4	2.5	3.0	2.3
	Comparative	5.0	8.7	9.6	8.3
	<b>Blended</b>	<b>4.3</b>	<b>7.1</b>	<b>8.0</b>	<b>6.8</b>
	Upside / Downside	30%	114%	143%	106%
<b>Enea</b>	DCF	3.8	10.2	14.7	9.9
	DDM	2.4	6.3	8.4	6.0
	Comparative	8.8	21.3	24.0	19.8
	<b>Blended</b>	<b>4.5</b>	<b>11.6</b>	<b>15.3</b>	<b>11.1</b>
	Upside / Downside	-48%	35%	77%	29%

Source: Santander Brokerage Poland estimates, \* Target Prices rounded, upsides / downsides calculated against share prices as of June 13, 2021 all scenarios assume carve-out of coal assets on the turn on 2022/23E

**PGE assumptions:** \*\* scenario 'extra sales / heat burden' includes total PLN500mn reduction in heat and sales tariffs p.a., 'scenario' including debt carve-out includes PLN8bn debt carve-out

**Tauron assumptions:** \*\* scenario 'extra sales, mining risk' includes total PLN500mn reduction company's EBITDA p.a. and one coal mine remaining within Tauron structures, 'scenario' including debt carve-out includes PLN2bn debt carve-out

**Enea assumptions:** \*\* all scenarios assume Bogdanka remaining within Enea structures, scenario 'extra sales, mining risk' includes total PLN300mn reduction company's EBITDA p.a., 'scenario' including debt carve-out includes PLN2bn debt carve-out

## Changes to Santander Forecasts

Carve-Out (no change at Debt) is our central scenario. We assume it will take place as of Jan 2023, hence it affects our 2023E forecasts.

Fig. 24. PGE: Changes to Forecasts

PLNm	2021E			2022E			2023E		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Sales	37,627	37,627	0.0%	47,986	47,986	0.0%	53,318	53,318	0.0%
EBITDA	7,427	7,381	0.6%	5,696	4,773	19.3%	5,431	5,187	4.7%
EBIT	3,018	2,972	1.5%	2,498	2,295	8.9%	2,878	2,634	9.3%
Net profit	892	1,708	-47.8%	1,502	1,341	12.0%	1,690	1,490	13.4%

Source: Santander Brokerage Poland estimates

Fig. 25. Tauron: Changes to Forecasts

PLNm	2021E			2022E			2023E		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Sales	20,550	20,550	0.0%	25,491	25,367	0.5%	27,936	27,562	1.4%
EBITDA	4,377	3,888	12.6%	3,694	3,431	7.7%	3,984	3,835	3.9%
EBIT	2,302	1,813	27.0%	1,629	1,366	19.3%	2,506	2,357	6.3%
Net profit	792	1,173	-32.5%	938	749	25.3%	1,638	1,536	6.7%

Source: Santander Brokerage Poland estimates

Fig. 26. Enea: Changes to Forecasts

PLNm	2021E			2022E			2023E		
	Current	Previous	Change	Current	Previous	Change	Current	Previous	Change
Sales	16,968	16,968	0%	19,880	19,835	0%	21,501	21,364	1%
EBITDA	3,000	3,259	-8%	3,061	3,001	2%	2,698	2,607	3%
EBIT	1,353	1,613	-16%	1,363	1,303	5%	1,414	1,323	7%
Net profit	782	901	-13%	718	670	7%	863	789	9%

Source: Santander Brokerage Poland estimates

## SAN estimates vs market consensus

Fig. 27. PGE: Santander forecasts vs. consensus

PLNm	2021E			2022E			2023E		
	SANe	Cons.	Diff.	SANe	Cons.	Diff.	SANe	Cons.	Diff.
Sales	37,627	40,899	-8.0%	47,986	44,915	6.8%	53,318	42,049	26.8%
EBITDA	7,427	6,607	12.4%	5,696	5,912	-3.7%	5,431	5,766	-5.8%
EBIT	3,018	2,044	47.7%	2,498	1,629	53.4%	2,878	1,782	61.5%
Net profit	892	1,327	-32.8%	1,502	1,133	32.6%	1,690	1,238	36.5%

Source: Bloomberg, Santander Brokerage Poland estimates

Fig. 28. Tauron: Santander forecasts vs. consensus

PLNm	2021E			2022E			2023E		
	SANe	Consensus	Diff.	SANe	Cons.	Diff.	SANe	Cons.	Diff.
Sales	20,550	19,850	3.5%	25,491	22,555	13.0%	27,936	21,652	29.0%
EBITDA	4,377	3,902	12.2%	3,694	3,886	-4.9%	3,984	3,886	2.5%
EBIT	2,302	1,957	17.6%	1,629	2,092	-22.1%	2,506	2,092	19.8%
Net profit	792	1,173	-32.5%	938	1,358	-30.9%	1,638	1,358	20.6%

Source: Bloomberg, Santander Brokerage Poland estimates

**Fig. 29. Enea: Santander forecasts vs. consensus**

PLNmn	2021E			2022E			2023E		
	SANe	Cons.	Diff.	SANe	Cons.	Diff.	SANe	Cons.	Diff.
<b>Sales</b>	16,968	16,511	2.8%	19,880	17,962	10.7%	21,501	16,929	27.0%
<b>EBITDA</b>	3,000	3,250	-7.7%	3,061	2,863	6.9%	2,698	2,642	2.1%
<b>EBIT</b>	1,353	1,688	-19.8%	1,363	1,464	-6.9%	1,414	1,295	9.2%
<b>Net profit</b>	782	1,052	-25.7%	718	922	-22.2%	863	848	1.8%

Source: Bloomberg, Santander Brokerage Poland estimates

# FINANCIALS

**PGE**

**Tauron**

**Enea**

## PGE [Buy, TP PLN12.8, 32% upside]

**Fig. 30. PGE – P&L, Per Share Ratios, Market Ratios, 2017-23E\***

<b>PLNmn</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E*</b>	<b>2023E*</b>
Sales	23,100	25,946	37,627	43,416	37,627	47,986	53,318
<b>Consolidated EBITDA, o/w:</b>	<b>7,688</b>	<b>6,402</b>	<b>7,141</b>	<b>5,966</b>	<b>7,427</b>	<b>5,696</b>	<b>5,431</b>
Distribution	2,333	2,463	2,306	2,306	2,566	2,436	2,482
Generation	4,083	2,408	2,880	1,725	1,754	719	0
Renewables	232	198	517	597	632	828	981
Sales	811	238	279	612	1,232	950	1,044
Other	43	237	-27	-221	50	50	50
EDF	185	858	1,186	947	1,193	713	875
<b>Consolidated EBIT, o/w:</b>	<b>3,591</b>	<b>2,509</b>	<b>-4,202</b>	<b>1,408</b>	<b>3,018</b>	<b>2,498</b>	<b>2,878</b>
Distribution	1,173	1,273	1,075	1,093	1,253	1,093	1,109
Generation	1,617	683	-7,109	-647	-226	0	0
Renewables	-68	-102	657	405	288	463	572
Sales	784	215	246	577	1,207	925	1,019
Other	-29	72	524	-324	-53	-53	-53
EDF	113	368	405	304	550	70	232
Net financial income (costs)	-370	-350	-471	-547	-571	-643	-792
<b>Profit before tax</b>	<b>3,221</b>	<b>2,159</b>	<b>-4,673</b>	<b>861</b>	<b>1,397</b>	<b>1,855</b>	<b>2,086</b>
Income tax	617	681	-775	166	265	352	396
<b>Net profit</b>	<b>2,600</b>	<b>1,498</b>	<b>-3,961</b>	<b>110</b>	<b>892</b>	<b>1,502</b>	<b>1,690</b>
<hr/>							
<b>EPS</b>	1.39	0.80	-2.12	0.06	0.48	0.80	0.90
<b>CEPS</b>	3.58	2.88	0.20	2.50	2.83	2.51	2.27
<b>BVPS</b>	24.80	25.57	23.07	23.27	23.72	11.56	12.46
<b>DPS</b>	-	-	-	-	-	-	-
<b>Div. yield</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<hr/>							
<b>P/E</b>	8.8	13.1	-4.4	99.4	20.2	12.0	10.7
<b>P/CE</b>	3.4	3.6	47.4	2.3	3.4	3.8	4.2
<b>EV/EBITDA</b>	5.1	6.1	6.0	6.5	6.8	6.5	7.5
<b>EV/sales</b>	1.7	1.5	1.1	0.9	1.3	0.8	0.8

Source: Company data, Santander Brokerage Poland estimates, ratios for years 2017-20 based on historical annual share price averages,

\* assumed coal assets' carve-out as of January 2023

**Fig. 31. PGE – Balance Sheet Forecasts, 2017-23E\***

<b>PLNmn</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E*</b>	<b>2023E*</b>
<b>Current assets</b>	<b>9,533</b>	<b>9,140</b>	<b>12,595</b>	<b>15,096</b>	<b>14,976</b>	<b>5,732</b>	<b>6,881</b>
Cash and equivalents	2,566	1,281	1,313	3,156	1,678	2,532	3,529
Other short-term investment	0	0	0	0	0	0	0
Accounts receivable	3,522	4,102	4,815	4,812	4,170	2,000	2,222
Inventories	2,930	3,107	4,716	4,858	6,858	700	630
Pre-paid expenses	515	650	1,751	2,270	2,270	500	500
<b>Fixed assets</b>	<b>62,650</b>	<b>66,765</b>	<b>65,055</b>	<b>66,498</b>	<b>69,782</b>	<b>43,826</b>	<b>49,559</b>
PPE	59,010	62,274	59,690	61,741	65,025	39,069	44,802
Long-term investments	50	48	1,303	1,309	1,309	1,309	1,309
Intangibles	1,032	1,046	735	646	646	646	646
Goodwill	0	0	0	0	0	0	0
Long-term receivables	1,987	2,845	2,009	1,451	1,451	1,451	1,451
Long-term deferred charges	571	552	1,318	1,351	1,351	1,351	1,351
<b>Total assets</b>	<b>72,183</b>	<b>75,905</b>	<b>77,650</b>	<b>81,594</b>	<b>84,759</b>	<b>49,558</b>	<b>56,440</b>
<b>Current liabilities</b>	<b>8,995</b>	<b>12,640</b>	<b>11,826</b>	<b>15,018</b>	<b>14,410</b>	<b>8,801</b>	<b>9,004</b>
Bank debt	1,729	4,571	1,449	1,384	1,384	1,384	1,384
Accounts payable	3,159	3,155	3,636	3,504	3,037	3,873	4,303
Other current liabilities	2,116	2,306	2,375	2,819	2,678	2,544	2,417
Short-term provisions	1,991	2,608	4,366	7,311	7,311	1,000	900
<b>Long-term liabilities</b>	<b>16,810</b>	<b>15,464</b>	<b>22,687</b>	<b>23,075</b>	<b>25,996</b>	<b>19,963</b>	<b>24,952</b>
Bank debt	8,440	6,273	10,859	10,025	13,000	17,000	22,000
Deferred charges	1,302	1,616	920	345	321	363	382
Other long-term liabilities	1,417	1,147	1,256	1,498	1,468	1,438	1,408
Provisions	5,651	6,428	9,652	11,207	11,207	1,162	1,162
<b>Equity</b>	<b>46,378</b>	<b>47,801</b>	<b>43,137</b>	<b>43,501</b>	<b>44,353</b>	<b>20,794</b>	<b>22,484</b>
Share capital	19,165	19,165	19,165	19,165	19,165	19,165	19,165
Capital reserves	23,363	26,064	27,085	23,243	23,353	-817	686
Net income	2,600	1,498	-3,961	110	892	1,502	1,690
<b>Minority interest</b>	<b>1,250</b>	<b>1,074</b>	<b>848</b>	<b>983</b>	<b>943</b>	<b>943</b>	<b>943</b>
<b>Total liabilities and equity</b>	<b>72,183</b>	<b>75,905</b>	<b>77,650</b>	<b>81,594</b>	<b>84,759</b>	<b>49,558</b>	<b>56,440</b>
<b>Net debt</b>	<b>7,603</b>	<b>9,563</b>	<b>10,995</b>	<b>8,253</b>	<b>12,706</b>	<b>15,852</b>	<b>19,855</b>

Source: Company data, Santander Brokerage Poland estimates, \* assumed coal assets' carve-out as of January 2023

**Fig. 32. PGE – Cash Flow Statement Forecasts, 2017-23E\***

<b>PLNmn</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E*</b>	<b>2023E*</b>
<b>Cash flow from operations</b>	<b>13,217</b>	<b>5,989</b>	<b>6,810</b>	<b>7,026</b>	<b>3,451</b>	<b>5,384</b>	<b>4,441</b>
Net profit	2,600	1,498	-3,961	110	892	1,502	1,690
Provisions	647	777	3,224	1,555	0	-10,045	0
Depreciation and amortisation	4,097	3,893	2,722	4,558	4,409	3,197	2,553
Changes in WC, o/w	2,381	-761	-1,841	-271	-1,826	9,164	278
inventories	1,015	-177	-1,609	-142	-2,000	6,158	70
receivables	-817	-580	-713	3	642	2,170	-222
payables	2,183	-4	481	-132	-467	836	430
Other, net	3,492	581	6,667	1,074	-24	1,565	-80
<b>Cash flow from investment</b>	<b>-14,995</b>	<b>-7,773</b>	<b>-8,016</b>	<b>-4,419</b>	<b>-7,864</b>	<b>-8,530</b>	<b>-8,443</b>
Additions to PPE and intangibles	-12,644	-6,856	-7,009	-5,624	-7,693	-8,366	-8,286
Change in long-term investments	-23	2	-1,255	-6	0	0	0
Other, net	-2,328	-919	248	1,211	-171	-164	-157
<b>Cash flow from financing</b>	<b>1,304</b>	<b>499</b>	<b>1,238</b>	<b>-764</b>	<b>2,935</b>	<b>4,000</b>	<b>5,000</b>
Change in long-term borrowing	-1,163	-2,167	4,586	-834	2,975	4,000	5,000
Change in short-term borrowing	1,318	2,842	-3,122	-65	0	0	0
Change in equity and profit distribution	0	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0
Other, net	1,149	-176	-226	135	-40	0	0
<b>Net change in cash and equivalents</b>	<b>-474</b>	<b>-1,285</b>	<b>32</b>	<b>1,843</b>	<b>-1,478</b>	<b>854</b>	<b>997</b>
Beginning cash and equivalents	2,669	2,566	1,281	1,313	3,156	1,678	2,532
Ending cash and equivalents	2,566	1,281	1,313	3,156	1,678	2,532	3,529

Source: Santander Brokerage Poland estimates, \* assumed coal assets' carve-out as of January 2023

## Tauron [Buy, TP PLN7.1, 108% upside]

**Fig. 33. Tauron – P&L, Per Share Ratios, Market Ratios, 2017-23E\***

<b>PLNmn</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E*</b>	<b>2023E*</b>
Sales	17,729	19,380	19,558	20,367	20,550	25,491	27,936
<b>Consolidated EBITDA, o/w:</b>	<b>3,618</b>	<b>3,375</b>	<b>3,600</b>	<b>4,418</b>	<b>4,377</b>	<b>3,694</b>	<b>3,984</b>
Distribution	2,264	2,517	2,606	3,023	2,844	2,554	2,560
Generation	283	439	427	172	1,138	188	0
Renewables	92	114	368	297	294	437	544
Heat	176	192	189	171	275	82	81
Coal extraction	-83	-207	-500	-157	-289	-303	0
Sales	826	320	429	683	-115	508	570
Other	61	-1	81	229	229	229	229
<b>Consolidated EBIT, o/w:</b>	<b>1,879</b>	<b>791</b>	<b>296</b>	<b>-1,536</b>	<b>2,302</b>	<b>1,629</b>	<b>2,506</b>
Distribution	1,172	1,417	1,444	1,857	1,674	1,380	1,382
Generation	67	214	-479	-2,713	668	-264	0
Renewables	7	29	284	146	143	281	370
Heat	111	69	66	-717	194	1	-3
Coal extraction	-203	-339	-1,392	-886	-449	-463	0
Sales	816	306	382	642	-157	466	528
Other	-90	-905	-9	136	229	229	229
Net financial income (costs)	-156	-286	-340	-641	-378	-471	-484
<b>Profit before tax</b>	<b>1,723</b>	<b>505</b>	<b>-44</b>	<b>-2,564</b>	<b>981</b>	<b>1,158</b>	<b>2,022</b>
Income tax	375	298	-4	-78	186	220	384
<b>Net profit</b>	<b>1,198</b>	<b>-107</b>	<b>-12</b>	<b>-2,488</b>	<b>792</b>	<b>938</b>	<b>1,638</b>
<hr/>							
<b>EPS</b>	0.68	-0.06	-0.01	-1.42	0.45	0.54	0.93
<b>CEPS</b>	1.63	0.92	1.72	1.98	1.64	1.71	1.78
<b>BVPS</b>	10.31	10.52	10.89	9.36	9.82	10.35	4.97
<b>DPS</b>	-	-	-	-	-	-	-
<b>Div. yield</b>	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<hr/>							
<b>P/E</b>	4.9	-37.5	Neg.	-1.3	7.6	6.4	3.7
<b>P/CE</b>	2.1	2.5	1.1	0.9	2.1	2.0	1.9
<b>EV/EBITDA</b>	4.8	5.0	5.7	4.9	6.1	7.5	6.3
<b>EV/sales</b>	1.0	0.9	1.0	1.1	1.3	1.1	0.9

Source: Company data, Santander Brokerage Poland estimates, ratios for years 2017-20 based on historical annual share price averages,

\* assumed coal assets' carve-out as of January 2023

**Fig. 34. Tauron – Balance Sheet Forecasts, 2017-23E\***

PLNmn	2017	2018	2019	2020	2021E	2022E*	2023E*
<b>Current assets</b>	<b>4,786</b>	<b>4,556</b>	<b>6,865</b>	<b>7,675</b>	<b>6,504</b>	<b>6,965</b>	<b>5,863</b>
Cash and equivalents	909	824	1,238	910	910	200	891
Other short term investment	1,218	658	1,857	1,274	1,974	2,274	51
Accounts receivable	2,033	2,229	2,291	2,363	2,384	2,958	3,241
Inventories	295	510	684	777	784	973	1,066
Pre-paid expenses	331	334	795	2,351	452	560	614
<b>Fixed assets</b>	<b>31,049</b>	<b>32,542</b>	<b>35,052</b>	<b>31,736</b>	<b>35,810</b>	<b>37,059</b>	<b>27,065</b>
PPE	28,423	29,926	32,899	29,692	33,765	35,014	25,520
Long-term investments	499	544	559	587	587	587	587
Intangibles	1,495	1,505	716	645	645	645	645
Long-term receivables	585	537	856	773	773	773	273
Long-term deferred charges	46	30	22	40	40	40	40
<b>Total assets</b>	<b>35,835</b>	<b>37,097</b>	<b>41,918</b>	<b>39,411</b>	<b>42,315</b>	<b>44,024</b>	<b>32,928</b>
<b>Current liabilities</b>	<b>5,027</b>	<b>7,287</b>	<b>7,862</b>	<b>7,311</b>	<b>7,520</b>	<b>8,054</b>	<b>5,947</b>
Bank debt	351	2,475	2,482	1,479	1,479	1,479	1,479
Accounts payable	1,042	1,128	847	965	974	1,208	1,324
Other current liabilities	2,360	2,084	2,472	2,869	2,369	2,369	2,369
Short-term provisions	1,274	1,600	2,060	1,998	2,698	2,998	775
<b>Long-term liabilities</b>	<b>12,740</b>	<b>11,382</b>	<b>14,963</b>	<b>15,687</b>	<b>17,588</b>	<b>17,825</b>	<b>18,273</b>
Bank debt	9,501	8,488	11,830	13,108	15,000	15,000	16,000
Deferred charges	892	837	605	434	438	543	595
Other long-term liabilities	965	943	1,215	544	549	681	746
Provisions	1,381	1,114	1,314	1,601	1,601	1,601	932
<b>Equity</b>	<b>18,068</b>	<b>18,428</b>	<b>19,093</b>	<b>16,412</b>	<b>17,207</b>	<b>18,145</b>	<b>8,707</b>
Share capital	8,763	8,763	8,763	8,763	8,763	8,763	8,763
Capital reserves	8,076	9,640	9,442	9,244	6,756	7,547	-2,591
Net income	1,198	-107	-12	-2,488	792	938	1,638
Minority Interest	31	133	900	894	897	897	897
<b>Total liabilities and equity</b>	<b>35,835</b>	<b>37,097</b>	<b>41,918</b>	<b>39,411</b>	<b>42,315</b>	<b>44,024</b>	<b>32,928</b>
<b>Net debt</b>	<b>8,944</b>	<b>10,140</b>	<b>13,074</b>	<b>13,677</b>	<b>15,569</b>	<b>16,278</b>	<b>16,588</b>

Source: Company data, Santander Brokerage Poland estimates, \* assumed coal assets' carve-out as of January 2023

**Fig. 35. Tauron: Cash Flow Statement Forecasts, 2017-23E\***

<b>PLNmn</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E*</b>	<b>2023E*</b>
<b>Cash flow from operations</b>	<b>2,798</b>	<b>2,187</b>	<b>17</b>	<b>3,874</b>	<b>2,846</b>	<b>2,472</b>	<b>2,109</b>
Net profit	1,198	-107	-12	-2,488	792	938	1,638
Provisions	8	-266	199	288	0	0	-669
Depreciation and amortisation	1,660	1,721	2,088	5,954	2,074	2,065	1,478
Changes in WC, o/w	264	-326	-516	-47	-20	-528	-261
Inventories	191	-214	-174	-93	-7	-189	-93
Receivables	-139	-197	-61	-72	-21	-573	-284
Payables	212	85	-281	118	9	234	116
Other, net	-332	1,166	-1,742	168	0	-3	-77
<b>Cash flow from investment</b>	<b>-3,269</b>	<b>-3,951</b>	<b>-4,396</b>	<b>-4,277</b>	<b>-4,740</b>	<b>-3,182</b>	<b>-2,419</b>
Additions to PPE and intangibles	-3,474	-3,672	-4,729	-4,041	-3,245	-3,314	-2,984
Change in long-term investments	-38	-45	-15	-28	0	0	0
Other, net	243	-234	349	-208	-1,495	132	565
<b>Cash flow from financing</b>	<b>1,063</b>	<b>1,678</b>	<b>4,793</b>	<b>74</b>	<b>1,894</b>	<b>0</b>	<b>1,000</b>
Change in long-term borrowing	741	-1,013	3,342	1,278	1,892	0	1,000
Change in short-term borrowing	131	2,124	7	-1,003	0	0	0
Change in equity and profit distribution	188	466	677	-195	0	0	0
Dividends paid	0	0	0	0	0	0	0
Other, net	1	101	767	-6	3	0	0
<b>Net change in cash and equivalents</b>	<b>592</b>	<b>-86</b>	<b>414</b>	<b>-328</b>	<b>0</b>	<b>-710</b>	<b>690</b>
Beginning cash and equivalents	-4,315	909	824	1,238	910	910	200
Ending cash and equivalents	909	824	1,238	910	910	200	891

Source: Santander Brokerage Poland estimates, \* assumed coal assets' carve-out as of January 2023

## Enea [Buy, TP PLN14.3, 55% upside]

**Fig. 36. Enea – P&L, Per Share Ratios, Market Ratios, 2017-23E\***

<b>PLNmn</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E*</b>	<b>2023E*</b>
Sales	11,405	12,672	16,401	18,177	16,968	19,880	21,501
<b>Consolidated EBITDA, o/w:</b>	<b>2,236</b>	<b>2,414</b>	<b>3,410</b>	<b>3,302</b>	<b>3,000</b>	<b>3,061</b>	<b>2,698</b>
Distribution	1,056	1,111	1,090	1,313	1,340	1,384	1,428
Generation	609	622	1,098	1,163	731	429	0
Renewables	154	127	90	113	117	116	159
Heat	107	183	406	254	215	371	338
Sales	156	-76	23	-15	66	255	279
Mining	741	469	767	470	568	543	532
Other	-587	-21	-64	3	-37	-37	-37
<b>Consolidated EBIT, incl.</b>	<b>1,581</b>	<b>1,037</b>	<b>1,104</b>	<b>-1,706</b>	<b>1,353</b>	<b>1,363</b>	<b>1,414</b>
Distribution	555	587	520	680	677	692	706
Generation	433	260	784	-2,443	264	-42	0
Renewables	102	72	35	53	57	56	95
Heat	79	155	249	211	171	322	273
Sales	154	-77	-103	-16	64	253	277
Mining	845	62	375	95	177	138	120
Other	-587	-21	-755	-286	-57	-57	-57
Net financial income (costs)	-136	-311	-228	-292	-307	-298	-297
<b>Profit before tax</b>	<b>1,444</b>	<b>726</b>	<b>876</b>	<b>-1,999</b>	<b>1,160</b>	<b>1,065</b>	<b>1,117</b>
Income tax	302	149	184	-369	220	202	212
<b>Net profit</b>	<b>1,056</b>	<b>599</b>	<b>541</b>	<b>-2,234</b>	<b>782</b>	<b>718</b>	<b>863</b>
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<b>EPS</b>	2.39	1.36	1.23	-5.06	1.77	1.63	1.96
<b>CEPS</b>	5.17	4.48	4.88	-1.44	5.50	5.47	4.86
<b>BVPS</b>	31.71	34.09	36.69	29.66	31.43	33.06	23.81
<b>DPS</b>	0.25	-	-	-	-	-	-
<b>Div. yield</b>	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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<b>P/E</b>	5.3	7.1	7.3	Neg.	5.2	5.7	4.7
<b>P/CE</b>	2.4	2.2	1.8	Neg.	1.7	1.7	1.9
<b>EV/EBITDA</b>	6.1	5.1	3.9	3.9	5.1	4.8	4.8
<b>EV/EBIT</b>	8.6	11.8	11.9	Neg.	11.4	10.7	9.2

Source: Company data, Santander Brokerage Poland estimates, ratios for years 2017-20 based on historical annual share price averages,

\* assumed coal assets' carve-out as of January 2023

**Fig. 37. Enea – Balance Sheet Forecasts, 2017-23E\***

<b>PLNmn</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E*</b>	<b>2023E*</b>
<b>Current assets</b>	<b>6,232</b>	<b>6,929</b>	<b>7,735</b>	<b>8,122</b>	<b>8,108</b>	<b>8,932</b>	<b>5,698</b>
Cash and equivalents	3,283	3,237	3,119	1,942	705	1,468	1,557
Other short term investment	50	113	113	67	67	67	67
Accounts receivable	1,904	1,875	2,427	2,132	1,990	2,332	2,522
Inventories	846	1,265	1,637	3,659	5,024	4,743	1,230
Pre-paid expenses	149	439	439	322	322	322	322
<b>Fixed assets</b>	<b>22,081</b>	<b>23,037</b>	<b>23,900</b>	<b>21,768</b>	<b>22,926</b>	<b>23,169</b>	<b>18,727</b>
PPE	20,878	21,866	21,571	18,904	20,042	20,265	15,803
Long-term investments	27	26	915	864	864	864	864
Intangibles	418	436	450	359	359	359	359
Long-term receivables	256	222	429	345	365	385	405
Long-term deferred charges	502	487	535	1,296	1,296	1,296	1,296
<b>Total assets</b>	<b>28,313</b>	<b>29,966</b>	<b>31,635</b>	<b>29,890</b>	<b>31,034</b>	<b>32,101</b>	<b>24,425</b>
<b>Current liabilities</b>	<b>4,250</b>	<b>4,807</b>	<b>5,330</b>	<b>6,786</b>	<b>7,212</b>	<b>7,355</b>	<b>4,617</b>
Bank debt	539	356	1,550	1,224	1,224	1,224	1,224
Accounts payable	2,051	2,535	2,350	2,038	1,864	2,141	2,269
Other current liabilities	1,222	1,496	1,000	2,325	2,925	2,792	525
Short-term provisions	438	420	430	1,199	1,199	1,199	599
<b>Long-term liabilities</b>	<b>10,063</b>	<b>10,110</b>	<b>10,110</b>	<b>10,010</b>	<b>9,945</b>	<b>10,151</b>	<b>9,299</b>
Bank debt	7,720	7,974	7,800	6,608	6,608	6,608	6,608
Deferred charges	645	198	220	261	276	291	306
Other long-term liabilities	315	466	540	1,193	1,114	1,305	1,411
Provisions	1,383	1,472	1,550	1,948	1,948	1,948	974
<b>Equity</b>	<b>14,000</b>	<b>15,049</b>	<b>16,195</b>	<b>13,094</b>	<b>13,876</b>	<b>14,594</b>	<b>10,509</b>
Share capital	588	588	588	588	588	588	588
Capital reserves	11,435	12,910	14,062	13,683	11,449	12,231	8,000
Net income	1,056	599	541	-2,234	782	718	863
Minority Interest	921	952	1,004	1,058	1,058	1,058	1,058
<b>Total liabilities and equity</b>	<b>28,313</b>	<b>29,966</b>	<b>31,635</b>	<b>29,890</b>	<b>31,034</b>	<b>32,101</b>	<b>24,425</b>
<b>Net debt</b>	<b>4,976</b>	<b>5,093</b>	<b>6,231</b>	<b>5,890</b>	<b>7,127</b>	<b>6,364</b>	<b>6,275</b>

Source: Company data, Santander Brokerage Poland estimates, \* assumed coal assets' carve-out as of January 2023

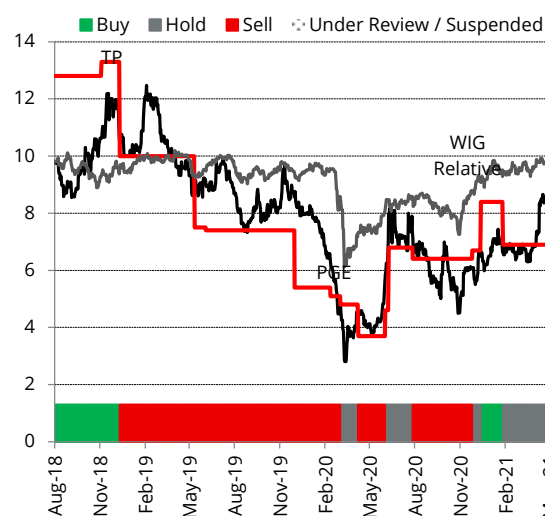
**Fig. 38. Enea: Cash Flow Statement Forecasts, 2017-23E\***

<b>PLNmn</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E*</b>	<b>2023E*</b>
<b>Cash flow from operations</b>	<b>3,128</b>	<b>1,341</b>	<b>1,169</b>	<b>2,296</b>	<b>1,047</b>	<b>2,646</b>	<b>4,039</b>
Net profit	1,056	599	541	-2,234	782	718	863
Provisions	-45	89	78	398	0	0	-974
Depreciation and amortisation	1,224	1,377	1,615	1,598	1,646	1,698	1,284
Changes in WC, o/w	433	94	-1,109	-2,039	-1,396	216	3,451
Inventories	-397	-419	-372	-2,022	-1,365	281	3,513
Receivables	-80	29	-552	295	142	-342	-190
Payables	909	484	-185	-312	-174	276	128
Other, net	460	-818	44	4,574	15	15	-584
<b>Cash flow from investment</b>	<b>-3,294</b>	<b>-1,422</b>	<b>-2,912</b>	<b>-1,088</b>	<b>-2,283</b>	<b>-1,884</b>	<b>-1,902</b>
Additions to PPE and intangibles	-3,171	-1,897	-2,235	-2,440	-2,784	-1,921	-1,921
Change in long-term investments	1	1	0	51	0	0	0
Other, net	-124	474	-677	1,301	501	38	20
<b>Cash flow from financing</b>	<b>1,461</b>	<b>521</b>	<b>1,625</b>	<b>-2,385</b>	<b>0</b>	<b>0</b>	<b>-2,048</b>
Change in long-term borrowing	1,441	254	-174	-1,192	0	0	0
Change in short-term borrowing	88	-183	1,194	-326	0	0	0
Change in equity and profit distribution	42	450	605	-867	0	0	-2,048
Dividends paid	-110	0	0	0	0	0	0
Other, net	0	0	0	0	0	0	0
<b>Net change in cash and equivalents</b>	<b>1,296</b>	<b>440</b>	<b>-118</b>	<b>-1,177</b>	<b>-1,237</b>	<b>763</b>	<b>89</b>
Beginning cash and equivalents	2,276	3,283	3,237	3,119	1,942	705	1,468
Ending cash and equivalents	3,283	3,237	3,119	1,942	705	1,468	1,557

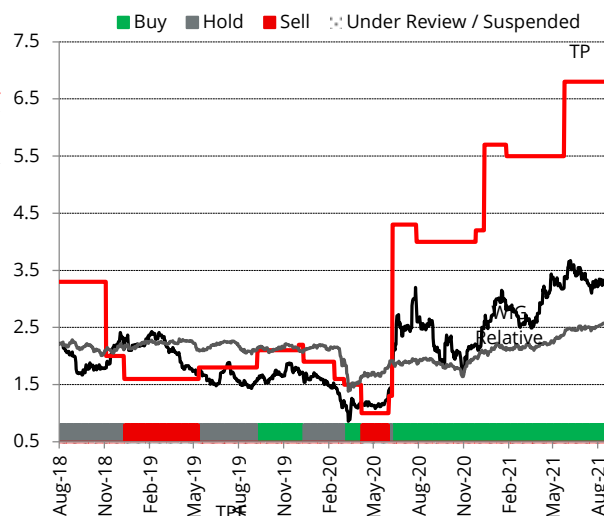
Source: Santander Brokerage Poland estimates, \* assumed coal assets' carve-out as of January 2023

## History of recommendations

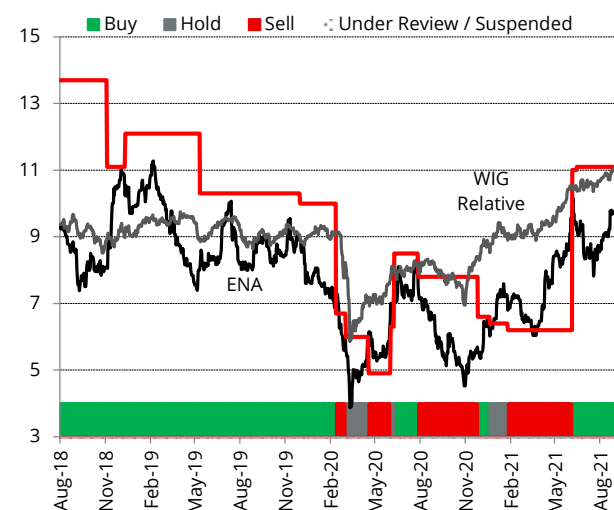
**Fig. 39. PGE – History of Recommendations**



**Fig. 40. Tauron – History of Recommendations**



**Fig. 41. Enea – History of Recommendations**



Source for all graphs: Warsaw Stock Exchange, Santander Brokerage Poland estimates

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It is possible for the analyst to indicate different recommendation (buy, sell, hold) than specified in the definition, with a given total expected rate of return on investment, where it is justified due to additional market factors, industry trends, etc. In such case, relevant clarification of the investment recommendation meaning presented in the recommendation is included in the report.

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**The comparative valuation method** is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.

**The mid-cycle multiple valuation** is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.

**The dividend discount model (DDM) valuation** is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.

**Residual income method** is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.

**The warranted equity method (WEV)** is based on the formula  $P/BV = (\text{two year forward ROE less sustainable growth rate}) / (\text{Cost of equity less sustainable growth rate})$  which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.

**SOTP valuation** - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.

**Liquidation value method** - liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

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