PGE

Reuters: PGE.WA Bloomberg: PGE PW

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Risks are Mounting

Recommendation cut to Underperform, TP at PLN8.3

Unusual weather conditions supported PGE's 4Q24/1Q25 results, yet its Economic Net Debt remained at ~PLN17bn. RAB expansion (PLN1 y/y upside a share) and numerous regulatory support schemes came in supportive, too. Still, the issue of PGE's lignite mining and generation remains unresolved, which represents the key and material downside risk to multi-year EBITDA / FCFs and stock's investability. Moreover, while 2025E should come in strong due to exceptionally high distribution WACC, the downside (to WACC and to EBITDA) seems very rational in coming years, we believe. Moreover, PGE's off-shore project may be PLN2bn more expensive than other 1st stage projects of this kind, potentially exposing PGE's NPV in that (hypothetically perspective) segment as well. Last but not least, potential acquisition of nuclear entity may expose PGE to brand new risks, we believe. We believe PGE's strategy will point at PLN150-200bn capex until 2035E, and high dozen billion outlays per annum should prevent from dividend payment in coming several years, potentially turning PGE the least attractive in that respect among the three State-run utilities.

Strong 2024/25 winter, Solid RAB expansion, Numerous Support Schemes... Last winter (4Q24/1Q25) was unusually cold and unusually shy at on-shore generation, resulting in six-month uniquely supportive environment to PGE's lignite ops. PGE's Distribution RAB was upped by the regulator by PLN2.2bn or PLN1 per PGE share, which coupled with all-time high WACC should result in strong 2025E Distribution EBITDA. Also, numerous capacity supports (cogeneration, extra support to coal-fired units, balancing market, upped heat tariffs) are all supportive of PGE's results, we note.

...Risks are mounting... Electricity price risk represents the foremost downside risk for lignite-exposed PGE. The Polish consumption has remained in y/y decline for several months now, ARA thermal coal price fell to PLN360/t, and the EU stubbornly declines to cut CO2 price. With the assume renewable volumes back at their rational levels as of 2Q2025E, lignite volumes (and PGE's Conv.Gen. EBITDA) should remain under severe pressure, we assess. Also, with RFR on the slide, we believe PGE's 2025 Distribution WACC at 14% is totally unsustainable, suggesting downside to Distribution EBITDA / FCFs. Lastly, PGE's strategy should be very capex-intensive (+PLN150-200bn until 2035E), and skyrocketing Net Debt-to-EBITDA ratio should keep dividends at nil in mid-term, we believe.

Off-Shore and Nuclear Question Marks. Off-shore is presented as upside, but we note PGE should have spent PLN2bn more on capex than other Polish names, which should substantially undercut PGE's NPV. Also, question marks concerning 2nd stage participation are rational, we believe. Additionally, we believe PGE might acquire 50% stake in nuclear venture from ZE PAK (increasing PGE's stake to 100%), and nuclear exposure might start becoming itching to investors, we assume.

Risks. Reinstation of the Russian gas imports (depressing electricity prices) poses key risk to renewable / heat / Conv.Gen segments, we believe. Macro slowdown may trim growth at distribution and electricity demand, negative to all utilities. Departure from ESG policies could turn Polish utilities investable again, we assume, just like restoration of carve-out hopes. Declines at the Polish RFR may weaken Distribution WACCs, we note. Cut to the European CO2 prices and reduced biomass availability could support PGE's generation, just as low new capacity support for 2026-28. Finally, regulators' steady support to every segment may compensate for PGE's ailing Conv.Gen. segment.

Forecasts, valuation, recommendation. With full-year data available and 1Q2025P supportive developments, we adjust our forecasts for the Group. All the above-mentioned developments make us increase PGE's DCF (up 9% to PLN10.8) and DDM (up 7% to PLN1.4) valuations, while assumed capex at dozen billion zloty per annum trims comparative valuation 8% to PLN8.0. All these result in our blended TP growing 5% to PLN8.3 a share, which, following the recent share price rally, results in an 11% downside to the stock. Seeing PGE's first dividend in 2030s and anticipating capex wall ahead, we cut our recommendation to Underperform from Neutral.

PGE: Financial summary

PLNmn, year to Dec	2022	2023	2024	2025E	2026E	2027E
Revenue	73 435	95 964	64 483	53 736	45 138	41 914
EBITDA	8 669	10 028	12 210	11 152	9 456	9 571
EBIT	4 299	-3 446	-65	6 004	4 203	3 986
Net profit	3 359	-5 022	-3 173	4 264	2 475	1 920
P/E (x)	5.5	-3.3	-5.0	4.9	8.5	10.9
EV/EBITDA (x)	3.7	4.2	2.9	4.1	5.9	6.7
DY	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield	12%	-57%	9%	-27%	-52%	-46%

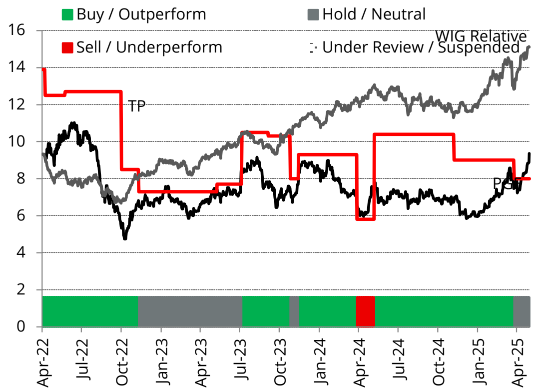
Source: Company data, Santander Brokerage Poland est., historical share prices for 2022-24

Recommendation	Underperform
Target Price [Dec2025]	**PLN8.3**

Price (PLN, 19 May 2025)	9.33
Market cap. (PLNmn)	20,937
Free float (%)	39.2
Number of shares (mn)	2,244

What has changed

- TP upped 5% to PLN8.3, recommendation cut to Underperform
- 2024/25 winter was unusually cold and exceptionally weak at on-shore generation, offering 6-month grace period to PGE's lignite volumes and Group results
- RAB in distribution grows PLN2.2bn in 2025 y/y, up PLN1 a share, and PGE benefits from numerous regulatory support schemes...
- ...but 2025 WACC at ~15%, while warranting high 2025E results, should also suggest hypothetically scalable downside in coming years, should RFR remain sliding
- PGE's lignite fleet (7GW in two running mines and generation complexes) represents the key downside risk to the company, and falling consumption, inexpensive thermal coal and pricey CO2 should all keep lignite volumes (and EBITDAs) under severe pressure. Certainly, that segment would be hit the hardest with kick off of gas / off-shore capacities in 2028/29E
- We assume PGE's strategy will be very capex-intensive (PLN150-200bn until 2035E), resulting in high negative FCF yields, steep NE-EBITDA ratio growth, all likely postponing the first dividend payment until 2030s, we believe
- PGE's off-shore venture is PLN2bn more expensive than these of Orlen and Polenergia, exposing its NPV, we believe. Also, acquisition of minor subsidiary from ZE PAK might expose PGE to nuclear risks, again



The chart measures performance against the WIG index

Main shareholders	% of votes
The Polish State	60.8

Source: Company

Company description

The State-controlled utility, with 12.4GW in lignite / coal-fired capacity, including 100% held lignite mining unit. It also holds 1.4GW in gas-fired units, 2.5GW in heating and 2.7GW in all-kind renewables. PGE also has got one of the largest distribution networks in Poland, with PLN25bn RAB.

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Key Story

[-] New PM, Old Song: Utilities should NOT maximize profits; Focus on Re-Polonization and Polish contractors

[Santander's Flash Note published on April 15, 2025]

Today the Polish Prime Minister Donald Tusk gave a speech at the congress in Warsaw. Below we present key takeaways (based on translation of the direct quotes, as presented by pap.pl; quotes in bold by Santander):

- "This is probably the right time to (...) say that the era of naive globalization is ending. If we want to achieve economic success, if we want to build a secure state, we must clearly tell ourselves and others that Poland in the increasingly ruthless competition of egoists (...) will not be a naive partner, that Polish companies will not be in a losing position with international behemoths. The **end of the era of naive globalization** must also mean, I take upon myself (...) this brutal message, **time to rebuild the national economy**. Time to repolonize the Polish economy, market, capital. (...) This is a task for the state, managers, ministers, Polish companies, today this is action that is effective, ruthless and always in the interest of Polish entrepreneurs, companies, Polish capital";
- "I had a meeting yesterday, not an easy one, with managers of the largest energy companies. (...) What is the **task of a state manager**, even if he is the head of a listed company? His first task, for example in the case of an energy company, is to ensure energy security for the Polish state, Polish (...) households, entrepreneurs - cheap and widely available energy. **Not necessarily maximizing the profit of a State Treasury company**";
- The Prime Minister assessed that currently capital has a nationality, the economy has a nationality, the manager of a company co-managed by the state also has a nationality and must act in the interests of citizens. He stressed that Polish companies should count on the preferences of the Polish state and demanded that companies owned by the State Treasury and those carrying out investments on behalf of the state report on all investments and orders;
- "I talked to the CEOs of the companies about how, in accordance with the law and principles, to **clearly prefer a Polish entrepreneur**, a Polish company (...). What matters is that it is a Polish company. **If it offers comparable: quality, technology, time, price, it must absolutely win such a competition**. The task of all of us is for Polish companies to see every day that they can count on our protection and the state's preferences";
- Additionally, the Polish PM decided that Rafako, company that went bankrupt in December 2025, would receive support of the State. PM believes that Rafako may get involved into the Polish arms industry.

Comment: Strong Negative, Potentially. No details were presented, and pending elections might be the true trigger of the above-mentioned statements. Still, we believe that the PM's suggestion (utilities should NOT focus on profit maximization) 1) represents minority shareholder's worst nightmare, 2) comes in hypothetically negative to companies FCFs,

valuations and dividends, and 3) discourages foreign investors from investing into State-controlled companies.

The Polish Prime Minister openly suggests that utilities should not focus on profit maximization, instead securing cheap and widely available electricity. We note that Sales, Heat and Distribution segments are all regulated via tariffs, hence the Polish government and regulators have got all tools they need to reduce utilities' profitability. Still, we note that in the past the above-mentioned slogans stood as tool in politics, and we believe that Mr. Tusk's statement might serve the very same purpose (Presidential elections in May 2025).

Implications, Hypothetically: Valuation & Dividends. Potentially depressed utilities' EBITDAs and net profits would result in lowered cash generation, detrimental to their indebtedness, SoTP valuation and comparative valuation. Additionally, depressed net profits could have resulted in reduced ability to pay dividends in the future (so far only Tauron committed to the first dividend payment in 2029, maximum at 20% payout).

Preference to Polish entrepreneurs. We fully agree that whenever offers' quality etc. is comparable, the Polish entrepreneur should be preferred. However, we would not be surprised to see this approach leading to contracts' price inflation, not to mention that sometimes there are rationale behind not choosing the Polish contractor. With Rafako in mind, it failed to deliver on two energy projects, and this example highlights that sometimes the foreign contractor is chosen for a reason (even despite hypothetical higher price offered).

State-controlled, or State-owned? The Polish government seems forgetting that the State holds a majority stakes in the Polish utilities, and these are not State-owned. At a 100% ownership, the Prime Minister could do whatever he pleases, from profit maximization to turning these into non-profit organizations. However, until the Polish State completes a minority buy-out, we believe that minority shareholders should be as important as any other stakeholder. Unfortunately, for the moment we believe the PM's statements clearly contradict their rights, as we see that.

Orsted quits Hornsea 4 off-shore project, underlining high risk to the future off-shore NPVs

[Santander's Flash Note published on May 09, 2025]

In its report for the first quarter of 2025, the Danish Orsted announced that it was ceasing to develop one of the offshore wind farms, which was to be built off the coast of the United Kingdom. Hornsea 4 with a planned capacity of 2.4GW was to obtain FID in 2025.

Orsted's CEO points at rising costs in the supply chain, higher interest rates and higher execution risk, all contributing to the deterioration of the expected added value of this project.

The report states that in the second quarter Orsted would write off between DKK3.0-3.5bn, i.e. between EUR400-470mn. The amount includes a write-down of offshore transmission network assets and a provision for termination fees. In addition, Ørsted expects to write off between DKK0.5-1.0bn for the construction costs already incurred.

Hornsea 4's CfD was set at GBP58.87/MWh at 2012 prices, which equals almost GBP89/MWh (some PLN445/MWh).

Comment: Orsted's decision might represent part of CfD price negotiations, we believe. Still, Orsted is actually saying that given today's off-shore opex & capex, 15-year inflation-indexed Contract-for-Difference priced at PLN445/MWh is not enough to validate 2.4GW project. Moreover, Orsted is saying that it would be better off incurring USD0.84bn write-down, which clearly suggests that the implied NPV of Hornsea 4 would have settled substantially lower.

The maximum initial prices in the Polish 2ns round off-shore auction should settle in PLN480-512/MWh range, and the Polish CfD is to last for 100k hours or 20 years, whichever is longer (most likely covering 22 years of operations, we believe). Still, in our view Orsted's decision underlines that prices similar to the 1st Polish off-shore price might be not enough to cover for today's alleviated off-shore capex. Hence, Orsted's decision highlights that NPVs of the Polish 2nd round 12GW off-shore projects might not be high, we conclude (UK's Hornsea 4 project were to be finalized in 2030, just like the first 4GW of the Polish new off-shore projects). From this angle, we believe that **projects belonging to Orlen (4GW), PGE (3.3GW) and Polenergia (1.6GW) (key players of the Polish 2nd off-shore round) might be not as lucrative as the market anticipates**.

Orsted share price slid yesterday on that news +3% d/d to DDK250/share, to the new 12-month low, and these share price levels were last time observable on the turn of 2026/17, actually. The **decline depressed Orsted's EV/EBITDA ratios to 7.2x for 2025E and 6.3-6.1x for 2026/27E, a clear negative to comparative valuation components of all renewable entities / segments**, we conclude.

[+] 1Q2025P: Strong quarter, surprisingly low 1) capex and 2) Economic Net Debt decline

[Santander's Flash Note published on May 16, 2025]

Fig. 1. PGE: 1Q2025 preliminary results, reported

PLNmn	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25P	*y/y*	*q/q*	*SANe*	*Cons.*
Sales	21,515	24,889	16 841	14 453	15 562	17 627				*16 539*	*16 009*
EBITDA	2,458	1,698	2 532	2 604	2 458	4 617	**4 310**	*70.2%*	*-6.6%*	*3 329*	*3 532*
EBITDA margin	*11.4%*	*6.8%*	*15.0%*	*18.0%*	*15.8%*	*26.2%*				*20.1%*	*22.1%*
EBIT	1,206	-8,186	1 408	1 451	1 297	-4 221				*2 168*	*2 313*
EBIT margin	*5.6%*	*-32.9%*	*8.4%*	*10.0%*	*8.3%*	*-23.9%*				*13.1%*	*14.4%*
Net profit	950	-8,041	893	1 171	728	-5 909	**2 416**	*170.5%*	*n.m.*	*1 375*	*1 578*
Net margin	*4.4%*	*-32.3%*	*5.3%*	*8.1%*	*4.7%*	*-33.5%*				*8.3%*	*9.9%*

Source: Company data, pap.pl, Santander Brokerage Poland estimates

Positive. In 1Q2025, every segment except Gas Generation come in solid to strong (and above our estimates), driving material consensus beat. Though, despite very low capex, Economic Net Debt declines only by PLN0.5bn q/q.

The quarter was very unusual due to exceptionally low renewables generation driving high conventional generation, it was also unusually cold. PKPE, Renewables and Heat segments brough in positive surprises, we conclude. In light of decent RAB growth and all-time high WACC, 1Q2025's Distribution segment's EBITDA seems only solid, we note. Finally, while lignite generation volume was 12% higher y/y, it only resulted in positive PLN0.3bn EBITDA, in our view highlighting strong negative opex pressures in that segment.

The company posted very high EBITDA at PLN4.3bn, while its capex was very low at PLN1.7bn. It should trigger decent Net Debt reduction, but actually PGE's Economic Net Debt (the only one metrics that matters, we note) is down only PLN0.5bn, which implies that Working Capital grew significantly in 1Q2025. Finally, investors should keep in mind that while 1Q2025P recurring EBITDA was high, it was largely due to unique factors (cold winter, high lignite generation, compensation for 2H24 at sales), and in the past Distribution used to be the strongest in the first quarter. In this light, while 1Q2025P results are strong, we believe that the Group's EBITDA in coming quarters should come in weaker.

Key 1Q2025P info from PGE:

- **Electricity / CO2 prices**. Average 1Q25P electricity price at PLN504/MWh, down 15% y/y and down PLN122/MWh q/q. It includes conventional generation price at PLN500/MWh (down 14% y/y, down PLN111/MWh q/q), and electricity price in heat sub-segment at PLN482/MWh (down 26% y/y, down PLN200/MWh q/q). Electricity price in gas sub-segment at PLN607/MWh, down PLN77/MWh q/q. The average CO2 cost at PLN282/MWh, down 25% y/y and down PLN55/MWh q/q;
- **Volumes**. Lignite generation 12% higher y/y at 8.5TWh, incl. Turow 7's 28% y/y increase to 0.5TWh in 1Q2025P. Thermal coal-fired generation down 3% y/y to 4.2TWh in 1Q25P, incl. two Opole units at 1.8TWh in 1Q2025P, up 49% y/y. Gas-fired generation up 74% y/y (low base effect) at 2.5TWh, incl. new Gryfino unit's 1.0TWh. Hydro pumped storage plants at 0.09TWh, down 47% y/y. Renewable (on-shore, PV, biomass) generation at 0.6TWh, 20% lower y/y (wind down 24% y/y, PV up 3x y/y). Distribution volumes at 10.75TWh in PGE Group, up 1% y/y;
- **Segments**. Recurring distribution EBITDA at PLN1.48bn (incl. allocation from sales), vs PLN1.35bn year ago. Sales EBITDA at PLN712mn, PLN0.2bn higher y/y. Strong results at Heat (PLN0.9bn, up 76% y/y) & Renewables (PLN446mn, up 18% y/y despite unfavorable conditions). Conv. Gen. EBITDA at PLN286mn, up PLN0.8bn y/y. PKPE's EBITDA at PLN351mn, up 26% y/y and up PLN90mn q/q;
- **One-offs**. PGE reports negligible PLN28mn one-offs, resulting in the recurring EBITDA at PLN4.33bn. Please note that the reported figures include PLN160mn transfer from Distribution to Sales (vs PLN350mn of same-direction EBITDA transfer in 1Q2024);
- **Capex, net debt**. 1Q2025P capex at PLN1.7bn, down 17% y/y and down PLN1.4bn q/q. The reported net debt shrinks by PLN2.9bn q/q to PLN8.1bn (down PLN7.5bn y/y), while debt adjusted for CO2 dues (economic net debt) falls PLN0.5bn q/q to PLN16.7 (down PLN4.5bn y/y);
- **Key results' drivers. Upsides**. Higher income from regulated revenues in Conv.Gen., Gas Generation and Renewables at +PLN0.5bn y/y. Total cost of fuels (coal / gas) down PLN0.2bn y/y. CO2 pollution cost lower by PLN0.9bn y/y, due to CO2 price lower by PLN80/t. **Downsides**. Personnel costs higher by PLN0.1bn y/y in 1Q2025P. Lower electricity price trimming revenues in Conv.Gen, Heat and Gas Generation at PLN0.35bn y/y.

Fig. 2. PGE: 1Q2025 preliminary results review – adjusted EBITDA breakdown

PLNmn	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25P	y/y	q/q	SANe
Heat	312	86	706	510	266	153	554	**903**	*77.1%*	*63.0%*	700
Generation Coal	104	310	404	-520	-194	563	1020	**286**	*n.m.*	*-72.0%*	*200*
Generation Gas						40	106	**90**	*n.m.*	*-15.1%*	100
Energy (renewable)	243	167	272	379	267	382	316	**446**	*17.7%*	*41.1%*	379
Sales	371	382	-495	903	399	-129	220	**744**	*-17.6%*	*238%*	500
Distribution	977	1 001	710	992	1 228	1 142	1 168	**1 319**	*33.0%*	*12.9%*	1 200
Other *	438	504	470	268	339	343	203	**522**	*94.8%*	*157%*	250
Total	**2 445**	**2 450**	**2 067**	**2 532**	**2 305**	**2 454**	**3 587**	**4 310**	***70.2%***	***20.2%***	**3 329**

Source: Company data, Santander Brokerage Poland estimates, PKPE at 'Other' line as of 2Q2023

Fig. 3. PGE: 1Q2025 preliminary results review – volumes

TWh	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25P	y/y	q/q	SANe
Generation (conv)	11.42	12.66	14.94	13.73	12.34	13.16	14.89	**15.51**	*13.0%*	*4.2%*	*13.73*
Generation (renew)	0.50	0.44	0.71	0.87	0.57	0.58	0.60	**0.57**	*-34.5%*	*-5.0%*	*0.75*
Retail sale	8.00	8.49	8.75	9.12	7.92	8.30	8.36	**8.56**	*-6.1%*	*2.4%*	*9.12*
Distribution	8.34	9.64	9.32	10.68	9.43	9.79	9.53	**10.75**	*0.7%*	*12.8%*	*10.89*

Source: Company data, Santander Brokerage Poland estimates

Valuation

In our 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 keep using DCF as our primary valuation tool (60% weight), with DDM and comparable valuation having 20% weight each.

DCF valuation

Fig. 4. PGE – WACC Assumptions

	Regulated business*	Non-regulated business**
Risk-free rate	6.00%	6.00%
Unlevered beta	1.00	1.20
Levered beta	1.20	1.44
Equity risk premium	6.00%	6.00%
Cost of equity	13.18%	14.61%
Risk free rate	6.0%	6.0%
Debt risk premium	1.0%	1.0%
Tax rate	19.0%	19.0%
After tax cost of debt	5.67%	5.67%
%D	20%	20%
%E	81%	81%
WACC	**11.71%**	**12.87%**

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

Fig. 5. PGE – Core scenario DCF Valuation (free cash flows and terminal value)

PLNmn	PV FCF	PV TV	Total	*Previous Valuation, Apr 08, 2025*	*Diff.*
Regulated businesses					
Distribution***			**31 637**	*30 600*	*3.4%*
Heat	-390	-637	**-1 027**	*-975*	*5.4%*
Renewables*	-33 934	38 995	**5 062**	*5 442*	*-7.0%*
Sub-total	***-34 324***	***38 358***	***35 672***	***35 067***	***1.7%***
Non-regulated businesses					
CO2-polluting generation**	-7 328	4 360	**-2 969**	*-3 311*	*-10.3%*
Nuclear *****	0	0	**0**	*0*	
Sales & others	5 217	1 967	**7 183**	*5 984*	*20.0%*
Sub-total	***-2 112***	***6 326***	***4 215***	***2 673***	***57.6%***
Net debt and provisions****			**17 500**	*17 109*	*2.3%*
Total DCF valuation [PLNmn, Jan 2025]			**22 386**	*20 631*	*8.5%*
Number of shares [mn]			**2 244**		
SOTP / DCF valuation [PLN, Jan 2025]			**10.0**		
12-month DCF-based target price [PLN, Dec 2025]			**10.8**		

Source: Company data, Santander Brokerage Poland estimates,
(*) includes NPV of PGE's 50% on-shore/PV guidance, includes NPV of off-shore JV, (**) assumes no assets' carve-out until 2029E, (***) 2026E RAB, (****) net debt equaling 2024 year-end Economic Net Debt; (*****) assumed cancelled exposure to nuclear project

DDM valuation

We assume PGE's heavy capex pipeline should result in lack of dividends paid until 2031E. In that year, we see PGE's dividend payout at 20%, implying the company's DDM valuation at PLN1.4 a share.

Fig. 6. PGE: DDM valuation – core scenario

PLNmn	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net profit	-660	1 396	4 264	2 475	1 920	2 490	1 146	3 579	4 605
Payout *	0%	0%	0%	0%	0%	0%	0%	0%	20%
Dividend paid	0	0	0	0	0	0	0	0	716
Cost of equity	14.0%								
Equity value per share [PLN]	**1.4**								

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

Comparative Valuation

Fig. 7. PGE – Basics of comparable valuation approach

	2025E	2026E	2027E
Share of other segments (heat, gas, sales, other) *	**35%**	**30%**	**28%**
Share of Renewables *	**11%**	**13%**	**15%**
Share of Distribution *	**54%**	**57%**	**56%**

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

In our comparative valuation, we are applying a 50/50 weights to P/E and EV/EBITDA approaches. We believe a 50/50 approach is rational in current highly uncertain environment. In our comparative valuation we rely on average 2025/27E ratios.

We present valuation based on three scenarios. However, we apply 0% likelihood to two alternative ones, and our valuation relies in full on the core one (100% probability). It assumes coal assets' carve-out is delayed until 2029E. For clarification purposes, in "Core, risks" scenario we assume mid-hundred million zloty additional risks to the core scenario. "Carve-out" assumes actual carve-out and net debt reduction, in line with the previous NABE concept.

Additionally, due to Polish companies' dividends at nil and their high exposure to coal and gas, we weigh ratios with respective segments' share in EBITDA only in "carve-out" scenario. In core scenario, we are applying ratios for the European polluters. Finally, in the worst-case scenario "core, risks", we apply the lowest ratio of the European polluters.

Due to the assumed delayed carve-out and lack of dividends, in our core scenario we have applied average of PPC and Drax, for all companies and years. Additionally, we have applied a 5% discount to these ratios for PGE, due to its relatively high scale of coal-related operations.

Fig. 8. PGE: Comparable valuation, Valuation Metrics, Impl. Valuation Ratios and Impl. Share Prices, core scenario ("delayed carve-out")

	Western European utilities	P/E (x)			EV/EBITDA (x)		
		2025E	2026E	2027E	2025E	2026E	2027E
Generation – Polluters	*Segment median*	*11.4*	*8.9*	*10.3*	*5.7*	*5.1*	*5.3*
Generation – Clean	*Segment median*	*14.9*	*14.4*	*13.8*	*7.5*	*8.0*	*7.8*
Regulated	*Segment median*	*13.2*	*13.4*	*12.1*	*8.3*	*8.1*	*7.3*
PGE	*Implied ratio**	8.1	8.2	7.9	4.4	4.6	4.6
PGE	**Implied share price (PLN**	**15.4**	**9.1**	**6.7**	**11.9**	**4.5**	**0.3**

*Source: Bloomberg consensus forecasts, Santander Brokerage Poland estimates, share prices as of May 09, 2025, * implied ratios weighted with each company's individual EBITDA breakdown among distribution, renewables and other*
Generation – Polluters: RWE, PPC
Generation – Clean: Iberdrola, Endesa, EDP, Verbund, EdF, CEZ
Regulated: EVN, MVV Energie, Elia Group, Terna, Iren, REN, Red Electrica, SSE

Fig. 9. PGE: Comparable valuation, Valuation Metrics, Impl. Valuation Ratios and Impl. Share Prices, "Core, risks" scenario

		P/E (x)			EV/EBITDA (x)		
		2025E	2026E	2027E	2025E	2026E	2027E
*Generation – Polluters **		5.6	8.4	6.2	3.5	4.6	4.3
PGE	**Implied share price (PLN)**	**10.6**	**9.3**	**3.5**	**7.6**	**4.3**	**-1.4**

*Source: Bloomberg consensus forecasts, Santander Brokerage Poland estimates, share prices as of May 09, 2025, * the lowest ratio among "Generation - Polluters"*

Fig. 10. PGE: Comparable valuation, Valuation Metrics, Impl. Valuation Ratios and Impl. Share Prices, "carve-out" scenario

		P/E (x)			EV/EBITDA (x)		
		2025E	2026E	2027E	2025E	2026E	2027E
Generation – Polluters	*Segment median*	10.7	12.0	11.8	6.6	7.0	6.8
PGE	**Implied share price (PLN)**	**20.3**	**13.3**	**10.1**	**22.6**	**14.6**	**10.0**

*Source: Bloomberg consensus forecasts, Santander Brokerage Poland estimates, * average of PPC and Drax ratios, with a 5% discount due to large lignite / coal exposure and lack of dividends. Share prices as of May 09, 2025*

Valuation summary

The carve-out committee is reportedly working within the Industry Ministry, and some decisions might be known in months, hypothetically. Thus, we include coal-fired Conventional Generation segment's forecasts until 2029E, assuming its carve-out thereafter. In PGE case, we note exceptionally high 2025 WACC coming in positive to 2025E results and posing downside risk to next years.

We see the above-mentioned scenario as our core one. While we present also two other scenarios ("core, risks" and "carve-out"), we keep their likelihood to nil, hence these do not affect our companies' valuation.

We note that the Polish electricity price (trending down) and FRA / RFR (trending down as well) remain disturbing in the long term. Please note that PGE's large lignite fleet offers the highest downside exposure to volumes and electricity prices among the three State-run companies. Moreover, the long-awaited strategy should come in very intensive at capex (+PLN150bn?), and acquisition of nuclear venture from ZE PAK might highlight the forgotten nuclear risk to PGE.

Fig. 11. PGE – Valuation summary */**

	Scenario: Core, Risks ***	Scenario: Core **	Scenario: Carve-Out	Weighted Valuation and Overall Price Target	*Previous weighted valuation [Apr 08, 2025]*	*Difference*
Scenario probability	**0%**	**100%**	**0%**			
DCF (60%)	4.1	10.8	13.6	10.8	9.9	*9%*
DDM (20%)	0.0	1.4	2.9	1.4	1.3	*7%*
Comparables (20%)	5.6	8.0	15.2	8.0	8.7	*-8%*
Blended average target price	**3.6**	**8.3**	**11.8**	**8.3**	8.0	*5%*
Upside/downside	***-62%***	***-11%***	***26%***	***-11%***		

*Source: Santander Brokerage Poland estimates, * Target Prices rounded, upside / downside calculated against share prices as of May 19, 2025; ** core scenario assumes carve-out delayed until 2029E and substantial KPO inflows, *** scenario 'core, risks' assumes mid-hundred million zloty of additional downside risks to each company's EBITDA per annum*

Fig. 12. PGE: Changes to forecasts

PLNmn	2025E			2026E			2027E		
	Current	Previous	*Change*	Current	Previous	*Change*	Current*	Previous	*Change*
Sales	53736	63976	*-16.0%*	45138	53740	*-16.0%*	41914	49901	*-16.0%*
EBITDA	11152	12134	*-8.1%*	9456	9942	*-4.9%*	9571	8158	*17.3%*
EBIT	6004	7049	*-14.8%*	4203	4671	*-10.0%*	3986	2577	*54.7%*
Net profit	4264	4231	*0.8%*	2475	2980	*-17.0%*	1920	1228	*56.3%*

*Source: Santander Brokerage Poland estimates, * assumed carve-out of coal-fired generation assets as of Dec2029E*

Fig. 13. PGE: Santander forecasts vs. consensus

PLNmn	2025E			2026E			2027E		
	SANe	Consensus	*Diff.*	SANe	Consensus	*Diff.*	SANe	Consensus	*Diff.*
Sales	53736	63779	*-15.7%*	45138	62787	*-28.1%*	41914	69838	*-40.0%*
EBITDA	11152	10794	*3.3%*	9456	11027	*-14.2%*	9571	12086	*-20.8%*
EBIT	6004	5788	*3.7%*	4203	5657	*-25.7%*	3986	6366	*-37.4%*
Net profit	4264	3720	*14.6%*	2475	3562	*-30.5%*	1920	4166	*-53.9%*

Source: Bloomberg, Santander Brokerage Poland estimates

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Fig. 14. PGE – P&L, Per Share Ratios, Market Ratios, 2021-27E

PLNmn, year to Dec	2021	2022	2023	2024	2025E	2026E	2027E
Sales	52 730	73 435	95 964	64 483	53 736	45 138	41 914
Consolidated EBITDA, o/w:	**9 535**	**8 669**	**10 028**	**12 210**	**11 152**	**9 456**	**9 571**
Distribution	2 779	2 864	3 880	4 573	4 943	4 455	4 441
Generation	4 078	2 065	1 472	1 778	-97	-483	-533
Renewables	1 016	1 792	1 114	1 340	1 270	1 204	1 465
Sales	827	2 043	-4	1 904	1 832	1 283	1 265
Other	29	-135	376	43	43	43	43
Heat	805	39	1 952	1 505	2 114	2 031	1 952
PKPE			1 238	1 073	1 048	924	938
Consolidated EBIT, incl.	**5 123**	**4 299**	**-3 446**	**-65**	**6 004**	**4 203**	**3 986**
Distribution	1 557	1 630	2 578	3 133	3 428	2 856	2 751
Generation	1 994	127	-9 418	-7 232	-1 625	-2 011	-2 183
Renewables	672	1 433	738	918	848	783	943
Sales	794	2 010	-38	1 867	1 804	1 252	1 234
Other	1	-163	660	-338	-338	-338	-338
Heat	104	-662	1 168	721	1 330	1 247	1 168
PKPE			866	866	557	414	410
Net financial income (costs)	-273	-158	-619	-717	-647	-1 055	-1 522
Profit before tax	**4 850**	**4 141**	**-4 065**	**-782**	**5 357**	**3 148**	**2 463**
Income tax	926	720	847	2 316	1 018	598	468
Net profit	**3 949**	**3 359**	**-5 022**	**-3 173**	**4 264**	**2 475**	**1 920**
EPS	2.11	1.63	-2.24	-1.41	1.90	1.10	0.86
CEPS	4.47	3.76	3.77	4.06	4.19	3.44	3.35
BVPS	25.83	24.24	21.33	20.29	22.23	23.36	24.25
DPS	-	-	-	-	-	-	-
Div. yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E	4.1	5.5	-3.3	-5.0	5.0	8.6	11.1
P/CE	1.9	2.2	2.0	1.8	2.3	2.8	2.8
EV/EBITDA	3.2	3.7	4.2	2.9	4.1	5.9	6.7
EV/EBIT	0.6	0.4	0.4	0.6	0.9	1.2	1.5

Source: Company data, Santander Brokerage Poland estimates, ratios for years 2021-24 based on historical annual share price averages

Fig. 15. PGE – Balance Sheet Forecasts, 2021-27E

PLNmn	2021	2022	2023	2024	2025E	2026E	2027E
Current assets	**22 727**	**34 046**	**35 103**	**27 692**	**28 018**	**27 641**	**27 724**
Cash and equivalents	6 733	11 887	6 033	4 363	5 228	5 302	5 777
Other short term investment	0	0	0	0	0	0	0
Accounts receivable	4 209	6 517	6 736	6 473	5 934	5 483	5 091
Inventories	2 189	4 918	3 773	2 889	2 889	2 889	2 889
Pre-paid expenses	9 596	10 724	18 561	13 967	13 967	13 967	13 967
Fixed assets	**66 239**	**71 732**	**78 340**	**76 302**	**86 893**	**99 043**	**109 374**
PPE	60 817	64 388	68 508	66 941	78 005	90 557	101 229
Long-term investments	1 257	1 311	1 852	1 893	1 893	1 893	1 893
Intangibles	682	726	1 952	1 938	1 938	1 938	1 938
Long-term receivables	2 550	2 124	2 254	2 377	2 377	2 377	2 377
Long-term deferred charges	933	3 183	3 774	3 153	2 680	2 278	1 936
Total assets	**88 966**	**105 778**	**113 443**	**103 994**	**114 911**	**126 684**	**137 098**
Current liabilities	**21 797**	**35 296**	**42 210**	**34 716**	**32 913**	**31 278**	**29 771**
Bank debt	2 160	3 766	4 513	2 731	2 731	2 731	2 731
Accounts payable	4 601	6 707	7 609	8 172	7 491	6 922	6 427
Other current liabilities	13 989	23 918	28 036	22 436	21 314	20 248	19 236
Short-term provisions	1 047	905	2 052	1 377	1 377	1 377	1 377
Long-term liabilities	**18 878**	**16 099**	**23 378**	**23 749**	**32 130**	**42 988**	**52 913**
Bank debt	8 666	6 799	12 222	10 461	17 000	28 000	38 000
Deferred charges	402	1 002	1 055	1 470	1 342	1 230	1 185
Other long-term liabilities	1 251	1 935	355	2 709	2 679	2 649	2 619
Provisions	8 559	6 363	9 746	9 109	11 109	11 109	11 109
Equity	**48 291**	**54 383**	**47 855**	**45 529**	**49 868**	**52 418**	**54 413**
Share capital	19 165	19 184	19 184	19 184	19 184	19 184	19 184
Capital reserves	24 380	30 995	32 712	28 460	25 287	29 551	32 026
Net income	3 949	3 359	-5 022	-3 173	4 264	2 475	1 920
Minority Interest	**797**	**845**	**981**	**1 058**	**1 133**	**1 208**	**1 283**
Total liabilities and equity	**88 966**	**105 778**	**113 443**	**103 994**	**114 911**	**126 684**	**137 098**
Net debt	4 093	-1 322	10 702	8 829	14 503	25 429	34 954

Source: Company data, Santander Brokerage Poland estimates

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Fig. 16. PGE: Cash Flow Statement Forecasts, 2021-27E

PLNmn	2021	2022	2023	2024	2025E	2026E	2027E
Cash flow from operations	**5 032**	**999**	**-3 348**	**15 274**	**11 143**	**7 498**	**7 358**
Net profit	3 949	3 359	-5 022	-3 173	4 264	2 475	1 920
Provisions	-2 648	-2 196	0	-637	2 000	0	0
Depreciation and amortisation	4 412	4 370	13 474	12 275	5 148	5 253	5 585
Changes in WC, o/w	3 159	-2 931	1 828	1 710	-142	-118	-103
Inventories	2 669	-2 729	1 145	884	0	0	0
Receivables	-607	-2 308	-219	263	539	451	392
Payables	1 097	2 106	902	563	-681	-569	-494
Other, net	-3 840	-1 603	-13 628	5 099	-128	-112	-45
Cash flow from investment	**-686**	**1 635**	**-8 812**	**-13 478**	**-16 891**	**-18 499**	**-16 959**
Additions to PPE and intangibles	-4 662	-7 100	-10 088	-10 689	-16 212	-17 805	-16 258
Change in long-term investments	52	-54	-541	-41	0	0	0
Other, net	3 924	8 789	1 817	-2 748	-679	-694	-701
Cash flow from financing	**-769**	**2 520**	**6 306**	**-3 466**	**6 614**	**11 075**	**10 075**
Change in long-term borrowing	-1 359	-1 867	5 423	-1 761	6 539	11 000	10 000
Change in short-term borrowing	776	1 606	747	-1 782	0	0	0
Change in equity and profit distribution	0	2 733	0	0	0	0	0
Dividends paid	0	0	0	0	0	0	0
Other, net	-186	48	136	77	75	75	75
Net change in cash and equivalents	**3 577**	**5 154**	**-5 854**	**-1 670**	**865**	**74**	**474**
Beginning cash and equivalents	3 156	6 733	11 887	6 033	4 363	5 228	5 302
Ending cash and equivalents	6 733	11 887	6 033	4 363	5 228	5 302	5 777

Source: Company data, Santander Brokerage Poland estimates

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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 = (two year forward ROE less sustainable growth rate)/(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.

In the opinion of Santander Brokerage Poland, this report has been prepared with all due diligence and excludes any conflict of interests which could influence its content. In Santander Bank Polska there are implemented internal regulations, which are designed to prevent conflicts of interest concerning recommendations. Physical and logic barriers are established, and the principles of documentation adequate to the type of Santander Bank Polska operations are implemented. Additionally, Santander Bank Polska introduced a number of obligations and restrictions relating to the protection of confidential information flow between organizational units.
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