

Monday, 13 January 2025 | update

## Orlen: buy (reiterated)

PKN PW; PKN.WA | Oil & Gas, Poland

### Strategy Update Brings Relief

After a long series of disappointments (incl. decisions to continue with the Olefiny 3 petchem plant, raise Capex for other legacy projects, and get involved in rescuing Azoty), finally, the announcement in January of an updated Strategy 2035 has added a silver lining to Orlen's equity story. The new strategy does not include the Capex cuts the market had been hoping for, but, on the upside, the pipeline to 2035 does not include any new controversial investments, and the spending plan looks flexible and scalable to varying macro conditions. Some of the proposed projects that are in very early stages or need M&A activity should be viewed as aspirational, and so we include only part of the declared PLN 140bn growth Capex in our valuation model.

Strategy 2035 provides a detailed EBITDA guidance with a short-term outlook that suggests the market consensus for 2025 and 2026 may be underestimated by at least 10%. Current macro prints are even more supportive than Orlen's base case, so the upside potential may be even higher. Positive earnings surprises, along with the new discretionary component of dividend payments, could trigger more bullish expectations on this year's DPS (DYield above 10%). A very strong balance sheet (ND/EBITDA ratio well under 1.0x) can provide an additional catalyst.

We stick to our view that Orlen's de-rating vs. closest peers is unjustified as most risks have either already materialized, or have been addressed, and Orlen's business profile (>40% EBITDA share of utility business) deserves much higher multiples than today's 2025E EV/EBITDA ratio at 2.2x vis-à-vis an implied business-weighted average closer to 6.0x.

After including value destructive Olefiny 3 Capex, extra Capex for CCGT/district heating decarbonization, and updated trading multiples, we lower our target price for Orlen by 7% to PLN 87.36 per share, and we maintain our buy call for PKN stock.

### Strategy Update

Strategy 2035 does not contain many surprises in terms of general directions of development. Capex looks high but allows flexibility in case of macro headwinds (e.g., lower CO2 price=>no rationale behind CCS). The worst-case scenario of new, controversial, value destroying "flagship" projects did not materialize. The DPS upgrade turned out slightly less than hoped, but the new dividend policy allows an option to add 25% of operating cash flow to the distributions, so the final DYield could still exceed expectations. We also highlight that the detailed EBITDA guidance (underpinned by reasonable short-term macro assumptions) suggests the current 2025-27 consensus may be underestimated by >10% vs. Orlen's avg. EBITDA LIFO target at PLN 40bn.

### Current Macro Exceeds our Base Case Assumptions

Our 2025 EBITDA LIFO estimate for Orlen at PLN 40bn is based on fairly conservative macro assumptions, with current prints suggesting upside potential. Of course, the year has only just begun, but, nevertheless, it is worth noting that, relative to our base case for 2025-27, current TTF gas prices are ~25% higher, the HH-TTF fwd arbitrage margin is 4-5 EUR/MWh higher, and refining margins as well as holding \$1-2/boe above our forecast. In our view, current market predictions as to oil prices and crude price discounts may prove overly pessimistic, as well.

(PLN m)	2022	2023	2024E	2025E	2026E
Revenue	282,434	372,640	281,658	278,963	271,341
EBITDA (adj.)	51,918	46,750	31,848	40,556	42,202
margin	18.4%	12.5%	11.3%	14.5%	15.6%
EBIT	48,338	35,789	14,103	24,842	25,250
Net profit	39,654	27,553	7,336	15,352	16,827
P/E	1.5	2.1	8.0	3.8	3.5
P/S	0.2	0.2	0.2	0.2	0.2
P/B	0.4	0.4	0.3	0.3	0.3
EV/EBITDA (adj.)	1.3	1.5	2.5	2.2	2.3
DPS	1.29	5.50	4.15	5.30	5.45
Dividend Yield	2.6%	10.9%	8.3%	10.5%	10.8%

Current Price*	PLN 50.26
Target price	PLN 87.36
mCap	PLN 58.3bn
Free Float	PLN 29.3bn
ADTV (3M)	PLN 134.6m

\*Price as of January 10, 2025, 5:00 PM

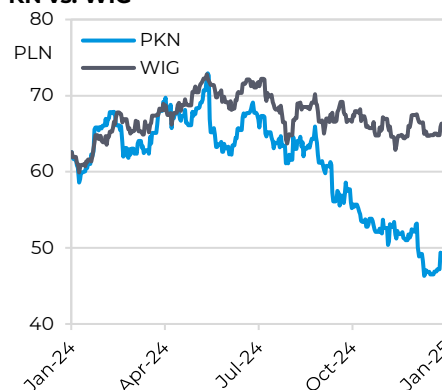
### Ownership

Polish Government	49.90%
NN Pension Fund	5.72%
Allianz Pension Fund	4.99%
PZU Pension Fund	3.02%
Others	36.37%

### About Orlen

Orlen Group is the biggest oil refiner in the CEE region with 42mt of annual crude processing capacity located in Poland, Lithuania, and the Czech Republic. PKN also operates over 3,500 service stations as well having a presence in the markets for fertilizers and petrochemicals through subsidiary units and joint ventures, including one with LyondellBasell. Moreover, the Company built a portfolio of upstream assets with annual production >200 mboe/d and 2P reserves of ~1,200 mmb. Company is also present in the gas/power utility business with distribution network, sales and generation assets, incl. offshore projects.

### PKN vs. WIG



company	target price		recommendation	
	new	old	new	old
Orlen	87.36	94.08	buy	buy

company	current price	target price	upside
Orlen	50.26	87.36	+73.8%

Forecast Revision	2024E	2025E	2026E
EBITDA LIFO	-0.3%	-0.1%	+0.1%
Ref. margin* (USD/Bbl)	-1.0%	0.0%	0.0%
Petchem margin (USD/t)	0.0%	+0.2%	+0.2%
TTF natgas (EUR/MWh)	0.0%	0.0%	0.0%
Brent (USD/bbl)	+0.1%	0.0%	0.0%

\*incl. average weighted crude discount

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**List of abbreviations and ratios used by mBank:**

**EV** (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases)  
**EBITDA margin** - EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market

**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market

**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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**HOLD** – we expect that the rate of return from an investment will range from 0% to +10%

**SELL** – we expect that an investment will bear a loss

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**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.

**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

**mBank issued the following recommendations for Orlen in the 12 months prior to this publication:**
**Orlen (Kamil Kliszcz)**

Rating	buy	buy	buy
Rating date	2024-12-02	2024-09-02	2024-03-26
Target price (PLN)	94.08	105.37	94.74
Price on rating day	51.02	64.34	62.38

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