

ZE PAK

Hold (TP PLN 17.4)

4Q'24 EBITDA of PLN 129mn, above our estimates and consensus, robust result of generation, new CCGT projects on the horizon?

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ZE PAK reported 4Q'24 financial results with the following highlights:

- **Revenues of PLN 623mn (-25% y/y, +20% q/q)**, +8% above our estimates (PLN 575mn) and +10% above market consensus (PLN 568mn).
- **EBITDA of PLN 129mn (-71% y/y, +287%) and was 174% above our estimates (PLN 47mn) and +219% above market consensus (PLN 40mn).**
- **In generation segment reported EBITDA amounted to PLN 138mn** (-58% y/y, loss of PLN 11mn quarter ago). Volumes of generated power are higher by 132% y/y and higher 20% q/q.
- **In mining segment reported EBITDA amounted of PLN -28mn** (vs. PLN 220mn year ago and PLN 22mn quarter ago). Coal consumption was higher by 100% y/y and higher 17% q/q.
- Net income including income from associates (PAK-PCE's portfolio of green assets) amounted to PLN 7mn.
- Net cash amounted to PLN 472mn (vs. PLN 532mn in 3Q'24).
- As of the end of 2024, three units with a total capacity of 644 MW (Pałnów I units 1, 2, and 5) were decommissioned, leaving the company with only the newer 474 MW unit (Pałnów II) in operation. ZE PAK plans to shut down this unit as well and end its mining operations around the turn of 1Q/2Q 2026.
- Regarding the CCGT Adamów project, construction progress reached 33% by the end of 2024, with commissioning scheduled for 3Q 2027. ZE PAK is currently negotiating the sale of 100% of its stake in the project to PGE. The transaction is expected to close by June 30, 2025.
- ZE PAK also announced it has submitted grid connection applications for two planned CCGT units, each with a capacity of 900 MW.

Our view: POSITIVE

The results significantly exceeded both our estimates and market consensus, driven primarily by a very strong performance in the generation segment. According to our calculations, the average electricity price realized by the company in 4Q'24 increased markedly to PLN 858/MWh, up from PLN 722/MWh in the previous quarter (+19% q/q). At the same time, the implied cost of CO₂ emission allowances fell to PLN 288/t from PLN 381/t in 3Q'24 (-24% q/q). As a result, the generation spread (electricity price minus CO₂ costs) doubled quarter-on-quarter, rising from PLN 228/MWh to PLN 485/MWh (+113% q/q), which is significantly above our expectation of PLN 286/MWh. The company also benefited from lower lignite mining costs, which declined to PLN 178/t (-32% q/q), outperforming our forecast of PLN 235/t. The drop in unit costs was partly driven by higher production volumes, but there was also a notable overall reduction in total costs.

We highlight new information regarding ZE PAK's intention to develop two new CCGT units with a combined capacity of 1.8 GW. According to our estimates, the construction cost of such units could currently approach PLN 10 bn — more than four times the budget of the ongoing CCGT Adamów project (PLN 2.4 bn). A project of this scale would not be feasible without debt financing, and given ZE PAK's current difficulties in securing funding for a significantly smaller project, we believe successful execution of this plan will be highly challenging.

It is possible that ZE PAK will advance both projects to a ready-to-build (RTB) stage and secure capacity market contracts, with the intention of selling them — similarly to the approach taken with CCGT Adamów (likely again to PGE, which has the most ambitious gas capacity expansion

plans). If sold at the RTB stage, the projects could become a positive catalyst for ZE PAK's valuation. However, if the company intends to build and operate the units on its own, we would see this more as a risk than an opportunity.

Given that ownership transfers of such projects are relatively rare, we are keenly awaiting details of the sale price ZE PAK will receive for the Adamów CCGT project. Considering the favorable capacity contract, we believe the sale price should exceed ZE PAK's incurred costs by a few hundred million PLN. That said, any such estimate is highly sensitive to future electricity price trajectories and assumed load factors, making it subject to significant uncertainty.

The company has a net cash position of PLN 474mn, but we note that the provision for CO2 allowances increased to PLN 650mn PLN from PLN 477mn PLN in 3Q'24. Including only this provision net cash is becoming net debt and amounts to PLN 178mn. We highlight that it is important to bear in mind that ZE PAK's cash position does not include a PLN 498m reclamation provision, as reported by the company at the end of 4Q'24, which will need to be covered in the coming years due to cease of lignite-related operations.

ZE PAK: 4Q'24 financial results

P&L (PLNmn)	3Q'23	4Q'23	1Q'24	2Q'24	3Q'24	4Q'24	Y/Y	Q/Q	Pekao	vs. Pekao	Cons.	vs. Cons	2023	2024
Revenues	820	829	520	522	521	623	-25%	20%	575	8%	568	10%	3,106	2,185
EBITDA	397	445	27	93	33	129	-71%	287%	47	174%	40	219%	728	282
Generation	135	332	-91	-15	-11	138	-58%	na	0	na		na	732	22
Mining	190	220	124	72	22	-28	-113%	-225%	19	na		na	25	191
Other	72	-107	-7	36	22	18	-117%	-15%	28	-34%		na	-29	69
EBIT	413	419	23	89	30	122	-71%	314%	41	199%	40	203%	689	265
Net income	376	335	-5	110	33	124	-63%	272%	30	313%	29	330%	745	263
<i>EBITDA margin</i>	48%	54%	5%	18%	6%	21%			8%		7%		23%	13%
<i>EBIT margin</i>	50%	51%	4%	17%	6%	20%			7%		7%		22%	12%
<i>Net income margin</i>	46%	40%	-1%	21%	6%	20%			5%		5%		24%	12%
CF & Debt (PLNmn)														
OCF	141	-57	104	252	92	32	-155%	-66%					-322	480
% EBITDA	36%	-13%	389%	271%	278%	25%							-44%	
CAPEX	304	-484	-3	-365	-25	-89	-82%	258%					-489	-482
Net debt (net cash)	-1,189	-494	-643	-464	-532	-472	-4%	-11%					-494	-472
Net debt adjusted*	148	222	157	459	537	732	230%	36%					222	
ND / EBITDA	-1.8x	-0.5x	-0.9x	-1.0x	-2.6x	-1.7x	215%	-36%					-0.5x	
ND adjusted / EBITDA	0.2x	0.2x	0.2x	1.0x	2.6x	2.6x	987%	-2%					0.2x	
Operational data														
Generation														
Volume of generated power (TWh)	0.31	0.20	0.27	0.31	0.39	0.46	132%	20%	0.45	-3%			1.23	1.43
Volume of traded power (TWh)	0.15	0.25	0.23	0.19	0.12	0.08	-68%	-33%	0.10	25%			0.68	0.62
Realized price of power (PLN/MWh)**	1,392	1,388	696	731	722	858	-38%	19%	710	-17%			1,201	753
CO2 emission (mnt)	0.43	0.29	0.35	0.40	0.50	0.60	107%	20%	0.54	-10%			1.65	1.85
Realized CO2 price (PLN/t)**	394	297	406	398	381	288	-3%	-24%	370	28%			383	351
CO2 cost per MWh	547	431	526	514	493	373	-14%	-24%	444	19%			513	454
Emission factor (t/MWh)	1.39	1.45	1.30	1.29	1.30	1.29	-11%	0%	1.20	-7%			1.34	1.29
Spread (power price-CO2, PLN/MWh)	845	957	169	217	228	485	-49%	113%	286	-41%			688	299
Mining														
Coal consumption (mnt)	0.42	0.31	0.36	0.39	0.53	0.62	100%	17%	0.54	-13%			1.66	1.9
Implied extraction cost (PLN/t)	193	264	263	312	246	178	-32%	-28%	235	32%			283	216
Implied revenues per t (PLN/t)	662	605	586	455	279	147	-76%	-47%	270	84%			566	330

*Includes net CO2 allowances provisions, land reclamation provisions and provision for reclamation of ash sites and decommissioning costs of fixed assets.

** Pekao Equity Research estimates for 4Q'24

Source: Company, Pekao Equity Research

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