ZE PAK

BUY (TP PLN 37.9/sh)

1Q'25 EBITDA of PLN -5mn, below our estimates and consensus due to weak result of PAK-PCE

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ZE PAK reported 1Q'25 financial results with the following highlights:

- **Revenues of PLN 309mn (-40% y/y, -50% q/q),** -6% vs. our estimates (PLN 330mn) and -14% below market consensus (PLN 362mn).
- **EBITDA of PLN -5 mn (vs. PLN +29mn year ago and +129mn quarter ago) and was below our estimates (PLN 10mn) and market consensus (PLN 20mn). EBITDA excluding results of PAK-PCE amounted to PLN -2mn vs our estimates of PLN 0mn.**
- **In generation segment reported EBITDA amounted to PLN -32mn** (loss of PLN 91 mm year ago and profit of PLN 132mn quarter ago). Volumes of generated power are higher by 52% y/y and lower 12% q/q.
- **In mining segment reported EBITDA amounted of PLN +37mn** (-70% y/y, and loss of PLN 28mn quarter ago). Coal consumption was higher by 42% y/y and lower 18% q/q.
- Net loss amounted to PLN -14mn and was below our expectations (PLN 1mn) and consensus (PLN 11mn).
- Net cash amounted to PLN 384mn (vs. PLN 472 mn in 4Q'24).
- **ZE PAK** has announced that as of the end of the first quarter of 2025, CCGT project progress stands at 49.6%, with the unit's commissioning scheduled for the third quarter of 2027.Additionally, one of the currently evaluated potential projects involves the modernization of the 474 MW coal-fired unit at the Pątnów Power Plant, aiming to adapt it for natural gas combustion. ZE PAK has already obtained gas grid connection conditions and has applied for electricity grid connection conditions, for which it is currently awaiting approval.

Our view: NEUTRAL

The results came in below our expectations and the consensus (noting that the consensus consists of only two forecasts, including ours). That said, we view the results themselves as neutral. *Compared to our estimates, the consolidated result from PAK-PCE was a negative surprise. We had anticipated that it would contribute around PLN 10mn to EBITDA in 1Q'25, whereas the actual result was a negative PLN 3.4mn. On the positive side, the core business (combined generation and mining segments results) exceeded our expectations, delivering PLN +5 mn versus our forecast of PLN 0mn. This is particularly notable given that we had expected the capacity market to contribute around PLN 20mn in 1Q'25, while the actual contribution was only PLN 7mn. Looking ahead, we expect capacity market revenues in the second quarter may remain limited, but from 3Q'25 onward, the situation should improve as the company has announced the procurement of new capacity contracts, expected to contribute approximately PLN 33 mn per quarter. A positive development is the continued decline in the unit cost of lignite extraction (down 31% q/q), which helped deliver a positive result in core operations despite falling electricity prices (the realized price dropped from PLN 836/MWh to PLN 597/MWh q/q).*

The key factor shaping the company's outlook remains the potential sale of the gas-fired unit in Adamów. *In our view, the transaction remains highly probable, especially considering PGE management's comments during their 1Q'25 earnings call, where they reiterated interest in expanding within the gas segment and confirmed commitment to the deal, expressing hope to provide more details at the next conference.A near-term catalyst could be the announcement of PGE's new strategy on June 12, which may explicitly underline ambitions related to the acquisition of the gas project.*

The main risk we see is whether the transaction will indeed close by the end of June*. However, we still expect that the deal will be finalized no later than year-end 2025. What matters most is the timing of the financial settlement (payment for the acquired project), which we still assume will take place by the end of this year.*

As for the plan to convert the coal unit to gas, we remain skeptical at this stage. To date, no such conversion of a unit of this scale has been carried out in Poland. Past conversions have primarily involved a switch from coal to biomass rather than gas. Even if such a conversion were possible, it seems to us that it would be difficult to prepare the project sufficiently to compete in this year's capacity market auctions. The specifics of the project require revenues from the capacity market, so if the project were to start next year, we would be talking about a potential project launch in 2031e.

ZE PAK: 1Q'25 financial results

P&L (PLNmn)	4Q'23	1Q'24	2Q'24	3Q'24	4Q'24	1Q'25	Y/Y	Q/Q	Pekao	vs. Pekao	Cons.	vs. Cons
Revenues	**829**	**520**	**522**	**521**	**623**	**309**	***-40%***	***-50%***	***330***	***-6%***	***362***	***-14%***
EBITDA recurring	**219**	**-4**	**28**	**-8**	**89**	**-2**	***-50%***	***na***	***0***	***na***		
EBITDA	**445**	**27**	**93**	**33**	**129**	**-5**	***na***	***na***	***10***	***na***	***20***	***na***
Generation	332	-91	-15	-11	138	-32	*-65%*	*na*	*-4*	*689%*		*na*
Mining	220	124	72	22	-28	37	*-70%*	*na*	*4*	*na*		*na*
Other	-107	-7	36	22	18	-11	*64%*	*na*	*10*	*na*		*na*
EBIT	**419**	**23**	**89**	**30**	**122**	**-9**	***na***	***na***	***7***	***na***	***17***	***na***
Net income	**335**	**-5**	**110**	**33**	**124**	**-14**	***197%***	***na***	***1***	***na***	***11***	***na***
EBITDA margin	*54%*	*5%*	*18%*	*6%*	*21%*	*-2%*			*3%*		*6%*	
EBIT margin	*51%*	*4%*	*17%*	*6%*	*20%*	*-3%*			*2%*		*5%*	
Net income margin	*40%*	*-1%*	*21%*	*6%*	*20%*	*-4%*			*0%*		*3%*	
Debt (PLNmn)												
OCF	-57	104	252	92	32	96	*-7%*	*203%*	75	*29%*		
% EBITDA	*-13%*	*389%*	*271%*	*278%*	*25%*	*na*						
CAPEX	-484	-3	-365	-25	-89	-187	*na*	*111%*	-205	*-9%*		
Net debt	-494	-643	-464	-532	-472	-384	*-40%*	*-19%*	-331	*16%*		
Net debt adjusted*	222	157	459	537	129	368	*134%*	*185%*	270	*36%*		
ND / EBITDA	-0.5x	-0.9x	-0.9x	-2.3x	-1.7x	-1.5x	*79%*	*-8%*	-1.2x	*23%*		
ND adjusted / EBITDA	0.2x	0.2x	0.9x	2.3x	0.5x	1.5x	*601%*	*221%*	1.0x	*45%*		
Operational data												
Generation												
Volume of generated power (TWh)	0.20	0.27	0.31	0.39	0.46	0.41	*52%*	*-12%*	*0.41*	*0%*		
Volume of traded power (TWh)	0.25	0.23	0.19	0.12	0.08	0.05	*-78%*	*-38%*	*0.12*	*-57%*		
Realized price of power (PLN/MWh)	1,388	696	731	722	836	597	*-14%*	*-29%*	*580*	*3%*		
CO_2 emission (mnt)	0.29	0.35	0.40	0.50	0.60	0.49	*40%*	*-18%*	*0.50*	*-2%*		
Realized CO_2 price (PLN/t)	297	406	398	381	288	275	*-32%*	*-5%*	*285*	*-4%*		
CO_2 cost per MWh	431	526	514	493	373	328	*-38%*	*-12%*	*347*	*-5%*		
Emission factor (t/MWh)	1.45	1.30	1.29	1.30	1.29	1.20	*-8%*	*-8%*	*1.21*	*-2%*		
Spread (power price-CO_2, PLN/MWh)	**957**	**169**	**217**	**228**	**464**	**269**	***59%***	***-42%***	***233***	***15%***		
Mining												
Coal consumption (mnt)	0.31	0.36	0.39	0.53	0.62	0.51	*42%*	*-18%*	*0.50*	*2%*		
Implied extraction cost (PLN/t)	264	263	312	246	178	123	*-53%*	*-31%*	*180*	*-32%*		
Implied reveneues per t (PLN/t)	605	586	455	279	147	233	*-60%*	*59%*	*184*	*27%*		

**Includes net CO_2 allowances provisions, land reclamation provisions and provision for reclamation of ash sites and decommissioning costs of fixed assets.*

Source: Company, Pekao Equity Research

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