Bank Pekao
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Program Wsparcia Pokrycia Analitycznego GPW

Company Report | **Power Utilities** | **Poland** | **18 June 2025**

ZE PAK

Sale of CCGT Adamów is a key story now

For ZE PAK, the key focus is currently not on the performance of its lignite-based generation segment, which, given the market environment, is relatively solid, but rather on the future of its gas project and the potential sale thereof.

In our view, the successful acquisition of the gas project and the remaining stake in the nuclear venture by PGE appears highly likely. This is supported by PGE's recently announced strategy, which includes ambitions to develop up to 10 GW of gas-fired capacity in the coming years (1.4 GW currently). While the strategy does not specifically mention ZE PAK's Adamów project, it does reference unspecified "potential M&A opportunities." Given the current global shortage of gas turbines, where lead times for CCGT turbines now extend to 3-5 years due to soaring demand, acquiring ZE PAK's project would undoubtedly support PGE's strategic goals.

We conservatively estimate the transaction value at around PLN 1.65bn, a slight downward revision from our previous recommendation, reflecting an increase in the risk-free rate from 5.4% to 5.6%. Based on our projections, total capital expenditures at the time of transaction settlement would amount to approximately PLN 1.6bn. This would mean that the project would be sold almost at cost (which is much lower than current market levels). ZE PAK is developing the project at an estimated cost of PLN 4.6mn per MW, whereas market estimates for similar projects currently range between PLN 5.5mn and PLN 7.0mn per MW.

Should the transaction take the form of a "fire sale," we assume a downside scenario where a discount of 30-40% may apply. Based on the market replacement cost of PLN 6 mn per MW, the Adamów CCGT project's total replacement value would be approximately PLN 3.4bn. Assuming the buyer would need to invest roughly PLN 1bn to complete the project, the replacement value of the capital already deployed would be around PLN 2.4 bn. Applying a 30-40% discount to this figure results in an implied valuation of PLN 1.4-1.7 bn.Given our DCF-based valuation of the project at over PLN 1.65bn, **we believe the likelihood of a sale below our estimated value is limited.**

A **more probable risk is a delay in the transaction**, especially considering that the agreement with PGE for negotiating acquisition terms expires at the end of June 2025, and no definitive announcements have yet been made. **We assume the transaction will close by year-end,** given that the bridge financing used by ZE PAK to fund the gas project is due for repayment by the end of 2025, potentially creating pressure to finalize the deal.

It's also worth noting that, beyond the gas project, ZE PAK holds other valuable assets, including a 49% stake in PAK-PCE. The company is also actively developing several other projects, such as a 500 MW onshore wind portfolio in the development phase, and 200 MW of early-stage battery storage projects and a 280 MW PV farm in Przykona. We estimate the combined value of these initiatives at approximately PLN 1.0bn.

Taking all factors into consideration, we maintain our BUY recommendation and rise a TP to PLN 38.8/sh (43% upside potential).

ZE PAK: Key figures, 2023-2028e *(PLNmn unless stated otherwise)*

	2023	2024	2025e	2026e	2027e	2028e
Revenues	3,106	2,185	1,246	685	147	145
EBITDA	**729**	**282**	**83**	**73**	**131**	**126**
EBITDA recurring	**928**	**104**	**44**	**9**	**72**	**68**
Pretax income	682	241	31	88	190	134
Net Income	**558**	**263**	**19**	**71**	**153**	**108**
EPS (PLN/sh)	11.0	5.2	0.4	1.4	3.0	2.1
DPS (PLN)	-	-	-	-	-	-
DY (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
P/E (x)	2.0	3.5	70.8	19.3	9.0	12.7
EV/EBITDA (x)	0.9	1.6	1.7	3.2	6.5	12.6

Source Company, Pekao Equity Research

Buy (reiterated)

Target price **PLN 38.8**

Upside to TP **43%**
Price on 16 June 2025 PLN 27.05

ESG rating C
Final ESG Score 0.94

Relative share price performance vs. WIG

UPCOMING EVENTS

2Q'25 results	30 September
3Q'25 results	28 November

STOCK DATA

Bloomberg	ZEP PW
Free float (%)	15.2
Market capitalization (PLNmn)	1,375
Diluted no. of shares (mn)	50.8

Shareholders	Zygmunt Solorz 65.96%
	OFE PZU 7.53%
	OFE Allianz 6.30%
	OFE NN 5.02%
	Other 15.19%

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Recent developments

- **Publication of new PGE's strategy (12th of June)**

  From ZE PAK's perspective and in the context of a potential transaction with PGE, PGE's plans for gas and nuclear capacity development are particularly relevant. PGE aims to achieve 5 GW of installed gas capacity by 2030 and 10 GW by 2035, compared to its current 1.4 GW at Gryfino and the 0.9 GW project under construction in Rybnik (with PLN 1.5 bn already spent out of a total planned investment of PLN 4 bn by the end of 2024). The total cost of implementing these plans over the 2025-2035 period is estimated at PLN 37 bn.

  Excluding the Rybnik and Gryfino projects, the remaining investment of PLN 34.5 bn will need to fund nearly 8 GW of new capacity. This implies an average cost of approximately PLN 4.5 bn per GW. Within that 8 GW pipeline, around 6 GW is expected to be based on OCGT (Open Cycle Gas Turbine) technology, which typically requires about 30% lower capital investment than CCGT (Combined Cycle Gas Turbine) systems. Taking this into account, we estimate that PGE has likely assumed an average capex of around PLN 6 mn per MW for CCGT projects and PLN 4 mn per MW for OCGT projects. While the Adamów CCGT project is not explicitly named in PGE's strategic documents, the mention of "potential M&A opportunities" suggests the project could still be under consideration.

  PGE also plans to invest several hundred million PLN in site assessments for second nuclear power plant in Poland. Among the locations identified for evaluation are Bełchatów, Turów, and Konin, the latter currently owned by ZE PAK.

- **Budget for the energy storage support program exceeded sevenfold (9th of June)**

  One of the projects currently under consideration by ZE PAK is the construction of energy storage facilities with a capacity of 200 MW. In our latest recommendation, we highlighted that such storage projects could benefit from highly attractive subsidies. However, securing these subsidies may prove to be a challenge, as according to WysokieNapiecie.pl, the budget for the energy storage support program has been exceeded nearly sevenfold during the application intake. The program had a budget of PLN 4.15 bn, including up to PLN 3.73 bn in grants (covering up to 45% of total investment costs) and PLN 415 mn in loans. Applications could be submitted until the end of May.

  According to aggregated data shared with WysokieNapiecie.pl by the press office of the National Fund for Environmental Protection and Water Management (NFOŚiGW), a total of 627 applications were submitted, requesting approximately PLN 27.6 bn in support. Of this amount, around PLN 25.4 bn was for grants. Altogether, the applications cover energy storage facilities with a combined capacity of 20.6 GW and a total energy storage volume of 122.3 GWh. The total value of the proposed projects is estimated at around PLN 70 bn.

  The high level of interest suggests that only a small fraction of projects will receive grant support, just around 15% of them are expected to qualify. The aggregated data also indicates that investors estimate the average cost of building 1 MW of energy storage capacity in Poland at approximately PLN 3.4 mn.

- **Publication of 1Q'25 results (30th of May)**

  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).

ZE PAK has announced that as of the end of the first quarter of 2025, CCGT project progress stands at 49.6%. 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. 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 key financials (PLNmn)

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%*		
CO2 emission (mnt)	0.29	0.35	0.40	0.50	0.60	0.49	*40%*	*-18%*	*0.50*	*-2%*		
Realized CO2 price (PLN/t)	297	406	398	381	288	275	*-32%*	*-5%*	*285*	*-4%*		
CO2 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-CO2, 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 CO2 allowances provisions, land reclamation provisions and provision for reclamation of ash sites and decommissioning costs of fixed assets.*

Source: Company, Pekao Equity Research

Change in estimates

The 1Q'25 results demonstrated that ZE PAK is capable of reducing lignite mining costs more effectively than previously anticipated. The changes introduced primarily reflect a revised assumption of lower lignite extraction costs compared to earlier estimates. We now assume a cost of PLN 162/152 per tonne in 2025/26e, versus PLN 208/200 per tonne in the previous forecast.

Change in estimates

	2025e			2026e			2027e		
	Previous	Current	chg.	Previous	Current	chg.	Previous	Current	chg.
Revenues	1,348	1,246	-8%	661	685	4%	147	147	0%
EBITDA	**66**	**83**	**25%**	**68**	**73**	**8%**	**137**	**131**	**-5%**
EBITDA recurring	**19**	**44**	**134%**	**-3**	**9**	**na**	**75**	**72**	**-3%**
EBIT	49	67	37%	52	59	13%	118	111	-6%
Net income	8	19	143%	66	71	8%	122	113	-7%

Source: Pekao Equity Research

ESG Rating

Our methodology implies final ESG Score for ZE PAK at 0.94 and ESG Rating "C". According to our methodology, rating "C" have no impact on our cost of equity calculation.

ZE PAK: ESG rating summary

Financials	E	S	G
Score	0.75	1.20	1.08
Sector weight	60%	20%	20%
Final ESG Score		**0.94**	
ESG Rating		**C**	

Source: Pekao Equity Research

ZE PAK: ESG rating methodology

	score from:	to	Rating	WACC risk premium impact (% of RFR)
ESG Score	1.5	2	**A**	-15.00%
	1	1.5	**B**	-7.50%
	0.5	1	**C**	0%
	0	0.5	**D**	15.00%

Source: Pekao Equity Research

Valuation summary

We use sum-of-the-parts (SOTP) and peer valuation methods with a weighting of 100% and 0% respectively. We do not use the multiples due to the fact that the ZE PAK is at the point of transition and the current financials do not accurately reflect its true economic potential. Based on our detailed financial expectations for the company's business through 2035e, we have developed a 10-year DCF valuation model. The key assumptions incorporated in the DCF model are listed below:

- Risk free rate of 5.6% (4% in terminal),
- Beta of 1.0,
- Equity risk premium of 6.0% (5% in terminal)
- Terminal growth rate (g) at 0%.

ZE PAK: Valuation summary

Valuation method	PLN per sh.	Weight (%)
12M SOTP valuation	38.8	100%
12M Multiples valuation	16.2	0%
12M Target price	**38.8**	
Current price	27.05	
Upside/Downside vs. current price	*43%*	

Source: Pekao Equity Research

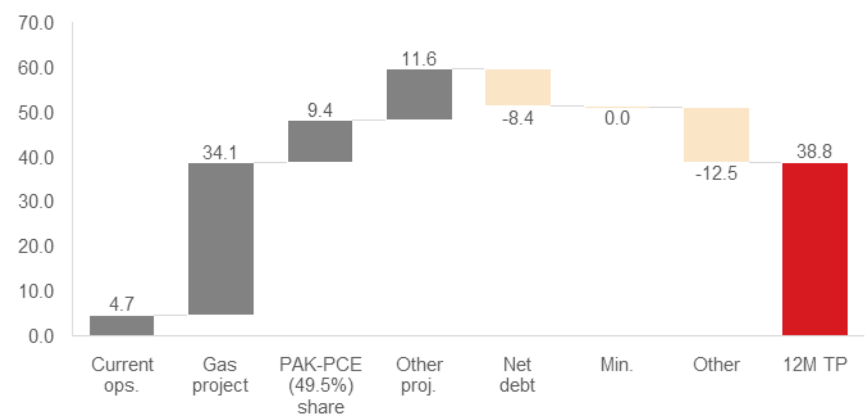
Other projects include a DCF valuation of the 280 MW PV farm in Przykona (PLN 23mn), a 500 MW portfolio of onshore projects in development phase (PLN 290mn) and 200 MW battery storage projects in early stage development (PLN 236mn) and proceeds from sale of nuclear project in Konin (PLN 10mn)

For valuation of PV and onshore, we assume target debt structure of 30% equity and 70% debt and 50/50 financing for battery storage. We also note that we do not include in our valuation of PAK-PCE assets related to hydrogen projects or buses production, as data for these projects is limited and their current profitability remains questionable.

Taking into consideration above assumptions, our model implies ZE PAK equity value at PLN 38.8 per share (43% upside potential).

ZE PAK: Summary of SOTP valuation

Current operations	225
Gas project	1,645
PAK-PCE (49.5%) share	453
Other projects	559
Enterprise value	**2,882**
Net debt*	-407
Minorities	-2
Other	-601
Equity Value	**1,872**
Number of shares (mn)	50.8
12M target price per share	**38.8**
Share price as of 09/05/2025	*27.1*
Upside/Downside vs. current price	*43%*



Source: Pekao Equity Research

** excl. proceeds from sale of gas-fired projects (shown separately as "Gas project")*

Below, we present a discounted cash flow (DCF) **valuation of our current lignite-related activities**. It is important to note that nearly the entire value estimate is driven by changes in net working capital (NWC).

WACC calculation

	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	Terminal Year
Risk free rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
ESG	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**9.0%**
Cost of debt	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	6.5%
After-tax cost of debt	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**5.3%**
Equity weight	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
WACC	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**9.0%**

DCF valuation

	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	Terminal Year
Revenues	685	47	48	49	50	52	53	54	56	57	57
EBITDA	**9**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**
EBIT	-6	0	0	0	0	0	0	0	0	0	0
Taxes on EBIT	0	0	0	0	0	0	0	0	0	0	0
NOPAT	**-6**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Depreciation and write-offs	15	1	1	1	1	1	1	1	1	1	1
Capital expenditures	0	0	0	0	0	0	0	0	0	0	-1
Change in NWC	131	117	1	1	0	0	0	0	0	0	
FCFF	**140**	**118**	**2**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**0**
Terminal value growth											*0%*
Terminal value											0
Discount factor	*0.90*	*0.80*	*0.72*	*0.64*	*0.58*	*0.52*	*0.46*	*0.42*	*0.37*	*0.33*	0.31
Discounted free cash flow	125	95	1	1	0	0	0	0	0	0	0
Enterprise value	**225**										
Equity value	**225**										
Number of shares (mn)	50.8										
12M target price per share	**4.7**										
Revenues growth	-43%	-93%	3%	2%	3%	3%	3%	2%	3%	2%	0%
EBIT margin	-1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Capex/revenues	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	2%
Capex/depreciation	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%

Source: Pekao Equity Research

Below, we present a discounted cash flow (DCF) **valuation for the gas-fired project**. Our analysis assumes a target financing structure of 50% debt and 50% equity.

WACC calculation

	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	Terminal Year
Risk free rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
ESG	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**9.0%**
Cost of debt	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	6.5%
After-tax cost of debt	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**5.3%**
Equity weight	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%	50%
WACC	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**9.1%**	**7.1%**

DCF valuation

(PLNmn)	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	Terminal Year
Revenues	0	865	1,905	1,761	1,667	1,620	1,419	1,370	1,346	1,356	1,356
EBITDA	**-14**	**179**	**431**	**418**	**419**	**393**	**332**	**322**	**318**	**322**	**322**
EBIT	-14	127	327	314	315	289	228	218	214	218	218
Taxes on EBIT	0	-24	-62	-60	-60	-55	-43	-41	-41	-41	-41
NOPAT	**-14**	**103**	**265**	**254**	**255**	**234**	**185**	**177**	**173**	**177**	**177**
Depreciation and write-offs	0	52	104	104	104	104	104	104	104	104	104
Capital expenditures	-800	-200	0	0	0	0	0	0	0	0	-104
Change in NWC	0	-86	-104	14	9	5	20	5	2	-1	
FCFF	**-814**	**-132**	**265**	**373**	**369**	**342**	**309**	**286**	**279**	**279**	**177**
Terminal value growth											*0%*
Terminal value											2,475
Discount factor	*0.92*	*0.84*	*0.77*	*0.71*	*0.65*	*0.59*	*0.54*	*0.50*	*0.46*	*0.42*	0.39
Discounted free cash flow	-747	-111	204	263	239	203	168	142	128	117	1,038
Enterprise value	**1,645**										
Revenues growth	0%	0%	120%	-8%	-5%	-3%	-12%	-3%	-2%	1%	0%
EBIT margin	0%	15%	17%	18%	19%	18%	16%	16%	16%	16%	16%
Tax rate	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Capex/revenues	0%	23%	0%	0%	0%	0%	0%	0%	0%	0%	8%
Capex/depreciation	0%	385%	0%	0%	0%	0%	0%	0%	0%	0%	100%

Sensitivity of 12M target price per share to Terminal value growth & WACC

WACC / Terminal value growth	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%
6.1%	34.1	35.7	37.6	39.8	42.4	45.7	49.7
6.6%	32.7	34.1	35.7	37.6	39.8	42.4	45.7
7.1%	31.4	32.7	**34.1**	35.7	37.6	39.8	42.4
7.6%	30.3	31.4	32.7	34.1	35.7	37.6	39.8
8.1%	29.4	30.3	31.4	32.7	34.1	35.7	37.6

Sensitivity of 12M target price per share to WACC & CSS

WACC / CSS spread (PLN/MWh)	-30	-20	-10	0	10	20	30
6.1%	23.1	27.9	32.8	37.6	42.4	47.2	52.0
6.6%	21.8	26.4	31.1	35.7	40.3	45.0	49.6
7.1%	20.6	25.1	29.6	**34.1**	38.6	43.0	47.5
7.6%	19.6	24.0	28.3	32.7	37.0	41.4	45.7
8.1%	18.7	23.0	27.2	31.4	35.7	39.9	44.1

Source: Pekao Equity Research

Below is our DCF **valuation of PAK-PCE shares (49.5%)**. PAK-PCE does not report net debt for onshore and PV projects separately, but Cyfrowy Polsat does. As of end of 1Q'25, Cyfrowy Polsat reported PLN 1.4bn in project financing for these projects but we estimate that this value could rise to PLN 2bn due development of Drzeżewo project. We do not include PV Przykona figures as we value it as separate project.

WACC calculation

	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	Terminal Year
Risk free rate	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	4.0%
Equity risk premium	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	5.0%
Beta	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
ESG	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Cost of equity	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**11.6%**	**9.0%**
Cost of debt	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	8.1%	6.5%
After-tax cost of debt	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**6.6%**	**5.3%**
Equity weight	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
WACC	**8.1%**	**8.1%**	**8.1%**	**8.1%**	**8.1%**	**8.1%**	**8.1%**	**8.1%**	**8.1%**	**8.1%**	**6.4%**

DCF valuation

(PLNmn)	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	2034e	2035e	Terminal Year
Revenues	672	649	646	627	616	618	571	567	563	568	568
EBITDA	**344**	**321**	**312**	**288**	**273**	**269**	**217**	**208**	**198**	**198**	**198**
EBIT	188	164	156	132	117	113	60	51	42	41	41
Taxes on EBIT	-36	-31	-30	-25	-22	-21	-11	-10	-8	-8	-8
NOPAT	**152**	**133**	**126**	**107**	**94**	**91**	**49**	**41**	**34**	**33**	**33**
Depreciation and write-offs	156	156	156	156	156	156	156	156	156	156	156
Capital expenditures	0	0	0	0	0	0	0	0	0	0	0
FCFF	**309**	**289**	**282**	**263**	**251**	**248**	**205**	**198**	**190**	**190**	**190**
Terminal value growth											*0%*
Terminal value											2,661
Discount factor	*0.93*	*0.86*	*0.79*	*0.73*	*0.68*	*0.63*	*0.58*	*0.54*	*0.50*	*0.46*	0.43
Discounted free cash flow	285	248	224	193	170	156	119	106	95	87	1,233
Enterprise value	**2,916**										
Net debt	2,000										
Other	0										
Equity value	**916**										
Equity value of 49.5% stake	**453**										

Sensitivity of 12M target price per share to Terminal value growth & WACC

WACC / Terminal value growth	-1.0%	-0.5%	0.0%	0.5%	1.0%	1.5%	2.0%
6.1%	8.4	9.2	10.0	11.0	12.2	13.5	15.1
6.6%	8.1	8.9	9.7	10.7	11.8	13.1	14.7
6.4%	7.8	8.6	**9.4**	10.3	11.4	12.8	14.3
7.6%	7.5	8.3	9.1	10.0	11.1	12.4	13.9
8.1%	7.2	7.9	8.8	9.7	10.8	12.0	13.5

Source: Pekao Equity Research

Peers' valuation

Our peers valuation in presented for illustrative purposes as it carries 0% weight.

	Country	Mcap (EURmn)	YTD return	LTM return	EV/EBITDA (x) 2025e	2026e	2027e	P/E (x) 2025e	2026e	2027e	DY (%) 2025e	2026e	2027e
Power utilities													
IBERDROLA	ES	104,047	21.5%	39.3%	9.9	9.4	9.2	17.2	16.5	15.4	2.9%	3.3%	3.8%
ENEL	IT	80,774	15.4%	29.8%	7.1	6.8	6.5	11.7	11.4	11.1	5.0%	5.4%	5.8%
ENGIE	FR	48,328	29.6%	58.2%	5.8	6.2	6.6	10.1	10.7	10.3	6.3%	7.2%	7.3%
SSE	GB	23,466	12.7%	5.6%	9.3	9.3	7.9	11.5	11.5	9.5	0.0%	0.1%	0.0%
VEOLIA ENVIRONNEMENT	FR	22,345	11.3%	7.9%	6.5	6.2	5.9	13.7	12.6	11.5	3.7%	4.2%	4.7%
RWE	DE	26,481	23.5%	9.2%	6.9	6.3	5.7	17.0	15.4	12.6	2.5%	2.8%	3.1%
EDP	PT	15,029	16.2%	3.6%	7.1	7.0	7.4	12.3	12.5	12.5	5.3%	5.7%	5.6%
CENTRICA	GB	9,565	24.6%	31.7%	5.2	4.5	4.2	12.0	11.5	11.6	0.0%	0.0%	0.0%
ENDESA	ES	28,300	28.7%	55.7%	7.2	7.1	6.8	13.8	13.5	13.4	5.4%	3.8%	4.5%
FORTUM	FI	14,325	22.4%	28.9%	12.2	11.3	11.5	16.9	18.7	19.3	5.5%	6.5%	6.4%
BKW	CH	9,675	14.8%	25.6%	10.5	9.3	9.6	18.1	15.4	16.5	1.7%	2.0%	2.2%
A2A	IT	7,337	9.2%	29.2%	5.7	5.6	5.9	10.6	10.7	10.7	3.6%	3.9%	4.3%
DRAX GROUP	GB	2,727	1.6%	40.3%	3.9	5.3	5.7	5.8	9.4	10.9	0.0%	0.0%	0.0%
AB IGNITIS GRUPE	LT	1,513	6.7%	18.6%	5.9	4.9	5.4	8.2	6.8	6.6	6.0%	6.2%	6.3%
PUBLIC POWER CORP	GR	5,089	11.7%	28.3%	4.0	4.1	4.4	11.9	8.8	7.0	na	1.5%	2.8%
NATURGY ENERGY	ES	25,714	13.4%	34.9%	8.1	8.0	8.0	13.9	14.6	14.5	4.5%	5.1%	5.3%
EVN	AT	4,263	7.7%	-15.5%	6.4	6.7	6.2	10.0	10.0	9.8	2.1%	4.8%	4.4%
HIDROELECTRICA	RO	10,720	-1.8%	4.9%	na	8.4	8.7	14.5	12.3	13.0	na	9.9%	8.1%
ROMANDE ENERGIE	CH	1,318	1.2%	-21.2%	7.5	7.8	9.1	25.1	17.2	34.8	3.4%	3.5%	3.3%
Average		**23,211**	**14.2%**	**21.9%**	**7.2**	**7.1**	**7.1**	**13.4**	**12.6**	**13.2**	**3.4%**	**4.0%**	**4.1%**
Median		**14,325**	**13.4%**	**28.3%**	**7.0**	**6.8**	**6.6**	**12.3**	**12.3**	**11.6**	**3.6%**	**3.9%**	**4.4%**
ZE PAK	**PL**	**315**	**93.0%**	**37.5%**	**3.1x**	**26.8x**	**11.8x**	**70.8x**	**19.3x**	**9.0x**	**0%**	**0%**	**0%**
Premium/discount vs. median					*-59%*	*240%*	*59%*	*413%*	*49%*	*-39%*			
Implied value per share (PLN/sh)					**neg.**	**neg.**	**7.8**	**4.7**	**17.2**	**35.0**			

Source: Bloomberg, Pekao Equity Research

Risk factors

Risk related to acquisition of CCGT Adamów by PGE. The valuation of the gas project is highly sensitive to a range of assumptions, particularly CAPEX, the evolution of clean spark spreads (CSS), and the load factor, meaning that the acquisition price proposed by PGE could differ significantly from our estimates (both directions). Moreover, we lack comparable conventional projects of this scale that have changed ownership during the construction phase, making benchmarking difficult. In our view, the likelihood of the transaction falling through is low, as PGE is focused on development of new gas-fired capacity.

Risk of power price, gas, and CO2 prices. Lower electricity prices and higher gas and CO2 costs have a negative effect on the profitability of the gas-fired units. At the same time lower electricity price and CO2 costs have a negative effect on the profitability of the lignite-fired unit.

Faster than expected development of renewables and energy storages. Development of renewables could have an impact on gas load factors and reduce electricity prices, which in turn could reduce the profitability of gas-fired project. There is also load factor risk for lignite units, but we believe the company will close these units in 2026e, so the overall risk is relatively insignificant compared to other risks.

Risk of not closing the financing of the Adamów CCGT. ZE PAK had not closed financing for the project. The scale of the investment makes it impossible to finance internally. External funding is critical to the success of the project if the project is not sold. We believe that this is risk will be mitigated through sale of the gas-fired project.

Risk of rising construction costs and delays in commissioning. Rising costs could reduce the profitability of projects. As we assume Adamów CCGT to be sold, this is related mostly to ongoing renewable projects. Both PV in Przykona and onshore development projects are exposed to this risk. We believe this risk is lower for battery storage, as we see decreasing capex in recent months.

Regulatory risk. Power market participants operate in a regulatory environment that is constantly changing. Issues relating to the operation of the capacity market and the balancing market are important factors that can affect financial performance.

Currency risk. ZE PAK operates on the territory of Poland, where it incurs costs and generates revenues in PLN, but the transactions related to the purchase of emission allowances are settled in EUR. Depreciation of PLN could increase CO2 allowance costs quoted in PLN and ultimately reduce profitability. The risk in the short term is to a large extent mitigated by the use of hedging instruments by the company.

Higher than expected cost of reclamation. ZE PAK is responsible for reclaiming areas where lignite has been mined and continuously reclaims the unexploited parts of the landfills. On the end of 1Q'25 company reported reclamation provisions that amount of PLN 534mn that will have to be cover in coming years.

Majority shareholder risk. The controlling shareholder may make decisions that could be unfavorable to minority shareholders. These include not paying dividends, engaging in related party transactions, and undertaking risky strategic decisions.

Key financial data

P&L (PLNmn)	2023	2024	2025e	2026e	2027e	2028e
Revenues	**3,106**	**2,185**	**1,246**	**685**	**147**	**145**
EBITDA	**729**	**282**	**83**	**73**	**131**	**126**
EBITDA recurring	**928**	**104**	**44**	**9**	**72**	**68**
EBIT	**689**	**265**	**67**	**59**	**130**	**106**
Financial Income/(Cost)	-7	-23	-36	30	60	28
Pretax Income	**682**	**241**	**31**	**88**	**190**	**134**
Income Tax	-124	21	-12	-17	-36	-25
Non-controlling interests	0	0	0	0	-1	-1
Net Income	**558**	**263**	**19**	**71**	**153**	**108**
EPS (PLN)	10.99	5.17	0.38	1.40	3.02	2.12

Balance Sheet (PLNmn)	2023	2024	2025e	2026e	2027e	2028e
Current assets	**1,998**	**1,569**	**1,908**	**1,558**	**692**	**463**
Cash and equivalents	534	506	1,266	1,171	552	324
Other Current Assets	1,464	1,063	641	387	140	139
Fixed assets	**1,592**	**2,281**	**3,139**	**3,539**	**4,507**	**5,345**
Tangible Assets	330	612	1,482	1,818	2,727	3,507
Other Fixed Assets	1,262	1,669	1,657	1,721	1,780	1,837
Total assets	**3,590**	**3,850**	**5,047**	**5,097**	**5,199**	**5,808**
Short-term liabilities	**1,099**	**1,055**	**587**	**541**	**488**	**488**
Short-term debt	4	5	5	5	5	5
Other Current Liabilities	1,095	1,050	582	536	483	484
Long-term liabilities	**579**	**620**	**620**	**620**	**620**	**1,120**
Long-term debt	36	29	23	23	23	523
Other Long - Term liabilities	544	591	597	597	597	597
Stockholders' Equity	**1,912**	**2,173**	**3,839**	**3,935**	**4,088**	**4,196**
Minorities	**-**	**2**	**2**	**2**	**3**	**4**
Total Equity & Liabilities	**3,590**	**3,850**	**5,047**	**5,097**	**5,199**	**5,808**
Net debt	**(494)**	**(472)**	**(1,238)**	**(1,143)**	**(525)**	**204**

Cash Flow (PLNmn)	2023	2024	2025e	2026e	2027e	2028e
Net Profit	558	263	19	71	153	108
Depreciation and Amortization	39	17	15	15	1	19
Other (incl. WC)	(919)	200	(32)	115	76	(84)
Operating Cash Flows	**(322)**	**480**	**2**	**201**	**231**	**44**
Capital Expenditures	(576)	(482)	(852)	(350)	(910)	(800)
Other	87	3	1,642	25	-	-
Cash Flows from Investing Activities	**(489)**	**(478)**	**790**	**(325)**	**(910)**	**(800)**
Dividends paid	-	-	-	-	-	-
Other	(1)	(30)	(32)	30	60	528
Cash Flows from Financing Activities	**(1)**	**(30)**	**(32)**	**30**	**60**	**528**
Change in Cash	(929)	(28)	760	(95)	(619)	(229)
Cash at the end of period	**534**	**506**	**1,266**	**1,172**	**553**	**324**
Y/Y growth ratios						
Revenues	-26%	-30%	-43%	-45%	-79%	-2%
EBITDA	86%	-61%	-71%	-11%	78%	-4%
EBIT	96%	-62%	-75%	-13%	122%	-18%
Net profit	159%	-53%	-93%	267%	115%	-30%
EPS	159%	-53%	-93%	267%	115%	-30%
Margins						
EBITDA margin	**23.5%**	**12.9%**	**6.6%**	**10.7%**	**88.8%**	**86.9%**
EBITDA recurring margin	**29.9%**	**4.8%**	**3.6%**	**1.3%**	**49.2%**	**47.1%**
EBIT margin	22.2%	12.1%	5.4%	8.5%	88.3%	73.5%
Net income margin	18.0%	12.0%	1.6%	10.4%	104.3%	74.6%
ROE	**42.4%**	**12.9%**	**0.6%**	**1.8%**	**3.8%**	**2.6%**
Balance sheet ratios						
BVPS (PLN)	37.6	42.8	75.5	77.4	80.4	82.6
Net debt/EBITDA	(0.7x)	(1.7x)	(15.0x)	(15.6x)	(4.0x)	1.6x
Bank Debt/Equity	2%	2%	1%	1%	1%	13%

Source: Company, Pekao Equity Research

Summary of key financial data

Table with key financials	2023	2024	2025e	2026e	2027e	2028e
EPS GAAP	10.99	5.17	0.38	1.40	3.02	2.12
Revenue	3,106	2,185	1,246	685	147	145
EBIT	689	265	67	59	130	106
EBITDA	729	282	83	73	131	126
Net income GAAP	558	263	19	71	153	108
Net debt	(494)	(472)	(1,238)	(1,143)	(525)	204
BPS	37.6	42.8	75.5	77.4	80.4	82.6
DPS	-	-	-	-	-	-
Return on Equity %	42.4%	12.9%	0.6%	1.8%	3.8%	2.6%
Return on Assets %	13.7%	7.1%	0.4%	1.4%	3.0%	2.0%
Depreciation	0	0	0	0	0	0
Amortization	39	17	15	15	1	19
Free Cash Flow	(929)	(28)	760	(95)	(619)	(229)
CAPEX	(576)	(482)	(852)	(350)	(910)	(800)

Source: Company, Pekao Equity Research

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The remuneration of BM or persons working for BM, and who were involved in producing the recommendation, is not directly tied to transactions in services of BM set out in Sections A and B of Annex I to Directive 2014/65/EU or other type of transactions BM or any legal person part of the same group performs, or to trading fees BM or any legal person that is part of the same group receives.

Information on the possession of financial instruments or their derivatives by persons participating in the process of preparation of investment recommendation or information that the person making the recommendation is not in possession of such instruments:

Analyst	Position	Financial instrument	Number of instruments	Exposure (long/short)	Average transactions price	Transactions dates
Andrzej Kędzierski	Expert, Analyst	ZE PAK	n.a.	n.a.	n.a.	n.a.

BM and/or other legal person part of the same group may regularly trade shares of the analyzed company. BM and/or other related legal persons may hold significant open derivative positions on the stocks of the company. Banks and other legal persons in the Pekao Group may have handed out substantial loans to the analyzed company. BM and/or other related legal persons may have a significant financial interest relating to the analyzed company or may have such at any future point of time. Due to the fact that BM and/or any related legal person are entitled, subject to applicable law, to perform such actions at any future point in time which may lead to the existence of a significant financial interest, it should be assumed for the purposes of this information that BM and/or any related legal person will in fact perform such actions which may lead to the existence of a significant financial interest relating to the analyzed company.

The analyzed company and BM and/or any legal person part of the same group may have concluded an agreement relating to the provision of services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU of the European

Parliament and of the Council in the previous 12 months, in return for which BM and/or such legal person part of the same group received a consideration or promise of consideration or intends to do so. Due to the fact that BM and/or any legal person part of the same group are entitled to conclude, subject to applicable law, an agreement on services relating to the provision of services of investment firms set out in Sections A and B of Annex I to Directive 2014/65/EU of the European Parliament and of the Council with the analyzed company at any future point in time and may receive a consideration or promise of consideration, it should be assumed for the purposes of this information that BM and/or any legal person part of the same group will in fact conclude such agreements and will in fact receive such consideration or promise of consideration.

To prevent or remedy conflicts of interest, BM and/or other legal person part of the same group have established the organizational arrangements required from a legal and supervisory aspect, adherence to which is monitored by its compliance department. Conflicts of interest arising are managed by legal and physical and non-physical barriers designed to restrict the flow of information between one area/department of BM and/or other related legal persons with them. In particular, Investment Banking units, including corporate finance, capital market activities, financial advisory and other capital raising activities, are segregated by physical and non-physical boundaries from sales units, as well as the research department. Disclosure of known and potential conflicts of interest and other material interests is made in the research. Analysts are supervised and managed on a day-to-day basis by line managers who do not have responsibility for investment banking activities, including corporate finance activities, or other activities involving offering of securities.

METHODS USED TO FORMULATE OUR RECOMMENDATIONS:

Our company valuations are based on two valuation methods selected from among the following: discount model, multiples-based model or asset-based valuation method.

Discount models are characterized by simultaneous and comprehensive consideration of key determinants of intrinsic value, e.g. operating cash flow, capex, cost of capital (WACC). They are theoretically appealing and provide a direct computation of intrinsic value. However, discount model valuations are highly sensitive to changes in assumptions, particularly the risk free rate and terminal growth rate. Moreover, projections cannot be stated with certainty; unforeseen future events can cause income or earnings projections to be invalid.

Multiples-based models are based on the analysis of the valuation multipliers of a given company in relation to other similar companies in the industry. Among strengths of multiplier models we can highlight their simplicity, as they are easy to compute as well as to understand. Moreover, only the key statistics for investors are chosen for valuation. On the other hand, multiples are based on historic data or near-term forecasts. Valuations based on multiples will therefore fail to capture differences in projected performance over the longer term. Finally, it may be problematic to select a suitable peer group.

Asset-based models can be used even if a company has a brief record of earnings or its future existence is uncertain. However, it may be challenging to determine market value of some assets, particularly intangibles. Additionally, asset-based models do not take into account future changes in financial results, nor do they include non-balance sheet items, such as know-how.

Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and target prices derived from the models might therefore change accordingly.

The investment ratings generally relate to a 12-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward. In the tables and charts throughout this report, we designate the years with an “E” to denote that the figures presented are forecasts and estimates.

Definition of ratings used in our publications:

We currently use a three-tier recommendation system for the stocks in our formal coverage: Buy, Hold, or Sell (see definitions below):
A **Buy** is applied when the expected total return over the next twelve months is higher than 15%.
A **Hold** is applied when the expected total return over the next twelve months is within the range of 0% to 15%.

A **Sell** is applied when the stock's expected total return over the next twelve months is negative.

We employ three further categorizations for stocks in our coverage:
Restricted: A rating and/or financial forecasts and/or target price is not disclosed owing to compliance or other regulatory considerations such as blackout period or conflict of interest.
Coverage in transition: Due to changes in the research team, the disclosure of a stock's rating and/or target price and/or financial information are temporarily suspended. The stock remains in the research universe and disclosures of relevant information will be resumed in due course.
Under review: A rating and/or financial forecasts and/or target price is at the moment under revision of an analyst and the previous rating and/or financial forecasts and/or target price should not be relied on.
Not rated: We do not issue company-specific recommendations and we do not plan to issue them in the foreseeable future.

EXPLANATION OF THE PROFESSIONAL TERMINOLOGY USED IN THE REPORT:

P/E – „Price/Earnings" is the ratio of the financial instrument price to the net financial result for the issuer of the financial instrument.
P/B – „Price/Book Value" is the ratio of the price of the financial instrument to the issuer's equity capital.
EPS – „Earnings per Share", i.e. net profit per share.
BVPS – „Book Value per Share".
FWD – „Forward" - stands for the ratio (eg. P/E) calculated on the basis of the expected results.
DPS – „Dividend per Share".
DY – "Dividend Yield", a ratio calculated as dividends per share divided by the current share price.
EBIT – „Earnings Before Interest and Taxes".
EBITDA - „Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization".
EV/EBITDA – "Enterprise Value / Earnings Before Interest, Taxes, Depreciation and Amortization" is the company's market capitalization (price x number of shares) increased by the value of net financial debt and the value of minority shareholders divided by the operating result increased by the value of the company's asset depreciation.
AGM – Annual General Meeting