

Friday, 19 May 2023 | research report

Photon Energy: buy (new)

PEN.PW; PEN.WA | Renewables, CEE

Solar Expertise with a Cleantech Options

We initiate coverage of Photon Energy Group (“Photon,” “PEN,” the “Company”) with a target price of PLN 18.54 and a buy recommendation.

Photon operates 92 solar power plants in Australia, Czech Republic, Hungary, Slovakia, and Romania with total installed capacity of 113 MWp. In addition, projects with a combined capacity of over 940 MWp are under development in Australia, Hungary, Poland, and Romania. Photon’s RES generation volume has more than quadrupled since 2018 and our prediction that it will more than double by 2025 looks conservative vis-à-vis the Company’s own goals. The majority of Photon’s IPP portfolio uses the merchant power plant model, making PEN’s shares a uniquely pure play on European spot power prices. An impressive track record, vertical integration, geographical diversification, and a focus on minimizing equity tie-up on particular projects, are Photon’s main strengths in this respect.

Further, Photon Energy is perfectly positioned to leverage fast-growing demand for energy services (RES aggregation, balancing, ESCO/behind-the-meter solutions), driven by the global shift to renewables. Moreover, by acquiring Lerta in November 2022, Photon became a leading DSR aggregator in the Polish capacity market with revenue potential of up to EUR 40m in three years and potential to expand beyond Poland. We also want to highlight the CleanTech opportunities built into PEN’s investment profile (PFAS remediation, RayGen solar-plus-storage technology) that can open up new growth and upside avenues once proved viable.

Even with conservative assumptions as to power prices, the annual EBITDA of Photon Energy can grow 60% in 3 years according to our calculations. On our estimates, PEN appears to be trading at a 20-25% discount to the peer group based on blended P/E and EV/EBITDA ratios.

An Integrated Platform for Solar Plant Development

Photon’s presence across the entire value chain of solar power plants development means it is capable of delivering extra efficiencies above market benchmarks, both in terms of Capex (in-house project development, equipment procurement, construction) and Opex (O&M, energy trading, balancing, ancillary services). Reduced investment costs allow an increase in project leverage above 80% or higher than 90% upon completion (as was the case with a Romanian portfolio refinancing). A minimized equity tie-up facilitates elevated ROCE and potentially higher capacity additions.

Built In Growth Features

Photon looks beyond its core IPP business for potential growth opportunities within the broad renewables sector. We have identified the following top 4 most compelling growth features built into PEN’s investment profile: 1) Patent-pending PFAS water remediation technology with the global market worth USD 2bn (the Australian trial is nearing a conclusion); 2) A 7.6% stake in RayGen, developing solar power-plus-storage technology (the pilot project will move to operational status in July 2023); 3) Behind-the-meter energy solutions for self-investment or an energy-as-a-service model (leveraging Photon’s expertise); 4) Further development and monetization of Virtual Power Plant software (TAM of USD 3bn and 17% CAGR).

(EUR m)	2021	2022	2023E	2024E	2025E
revenue	36.4	95.1	107.4	138.3	153.7
EBITDA	9.6	24.3	21.9	34.0	36.4
margin	26.4%	25.6%	20.4%	24.6%	23.7%
EBIT	-0.7	17.0	11.0	21.8	23.0
net profit	-6.4	6.3	0.5	9.0	9.7
P/E	-	24.9	339.6	17.9	16.5
P/S	4.3	1.7	1.5	1.2	1.0
P/B	3.0	2.2	2.2	1.9	1.7
EV/EBITDA	25.7	11.7	14.2	9.5	9.0
DPS	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%

current price*	PLN 11.90
target price	PLN 18.54
mCap	PLN 729m
free float	PLN 166m
ADTV (3M)	PLN 0.2 m

*Price as of May 18, 2023, 5:00 PM

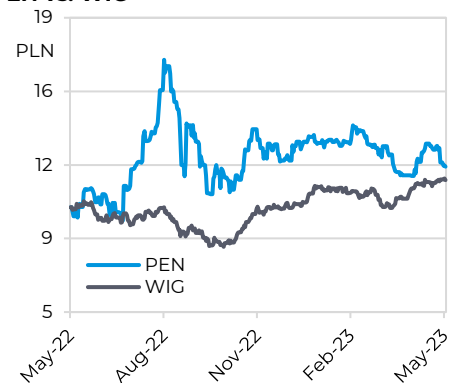
Ownership

Solar Future Cooperatief	35.6%
Solar Power to the People	33.5%
Lerta Founders	5.8%
Treasury shares	2.4%
Others	22.8%

About Photon Energy

Photon Energy Group is a renewable energy utility focused on photovoltaic power systems. The Company’s business model covers a wide range of services from project development, engineering (EPC) to operations and maintenance. The Group is also involved in PV technology distribution. After the acquisition of Lerta, Photon’s revenues stream was expanded to include RES aggregating services and DSR/capacity market activity.

PEN vs. WIG



name	target price		recommendation	
	new	old	new	old
Photon Energy	18.54	-	buy	-

name	current price	target price	upside
	Photon Energy	11.90	18.54

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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
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REDUCE – we expect that the rate of return from an investment will range from -5% to -15%
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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 did not issue any recommendations for Photon Energy in the 12 months prior to this publication

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