

| Utility | Update | Czech Republic |

CEZ

Falling electricity prices

Hold

Price 15.11.24	CZK 907
12m target	CZK 923
Upside to TP	1.8%
Dividend	CZK 45
Total return	6.7%

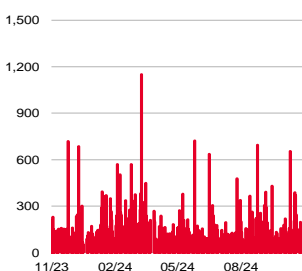
Sector stance
OverweightInvestment type
Commodity price exposure
High dividend yield

1 year performance



Source: Bloomberg

Trading volume (in ths of shares)



Source: Bloomberg

Share data

RIC CEZsp.PR	Bloom	CEZ CP
52-week range	798 - 998	
Market cap. (CZKbn)	488.0	
Market cap. (EURbn)	19	
Free float (%)	30.00	
Performance (%)	1m	3m 12m
Share	5.7	0.8 -8.4
Rel. to PX Index	2.1	-4.9 -23.8

Source: Bloomberg

Investment case: We issue a new **Hold recommendation on CEZ shares with an updated price target of CZK 923** (previous recommendation and price target were Buy and CZK1,034 as of November 7, 2023).

Electricity prices have stabilized around EUR90/MWh after record highs in the last two years. The price will continue to fall in the coming years. Special taxes had a significant impact on CEZ's results. The special windfall profits tax is still in force in 2024 and 2025. In addition, the standard corporate tax rate has increased from 19% to 21% as of this year. This results in a literally extreme effective tax rate (63% for 2023). CEZ has a very low emission intensity due to its high share of emission-free generation, especially nuclear power plants. Therefore, a high allowance price looks positive for CEZ.

CEZ has a solid dividend policy. The current one provides for distribution of 60-80% of adjusted net profit to shareholders. The dividend for 2023-2025 will be significantly influenced by the WFT. This year, CEZ paid out CZK52, which corresponds to a gross yield of +5.6%. The payout ratio was at the upper limit of 80%. Unlike last year, the Ministry of Finance, which exercises shareholder rights on behalf of the state (70% stake), did not propose to distribute the entire net profit. We estimate that CEZ will again propose a payout ratio of 80% next year. This would result in a dividend of CZK45. However, if the ministry were to propose a full payout, for example due to the large state budget deficit, it would mean CZK56 per share. This is our bull-case scenario, but given the validity of the WFT, we do not give it much probability.

We use a DCF (Discounted Cash Flow) model to value CEZ shares. We set the **Fair Value of the stock at CZK923**. This implies a growth potential of only +1.8%. The total return is +6.7%. We value CEZ at 6.0x EV/EBITDA, a discount to the Western European utility median of 7.2x. Moreover, CEZ offers investors a decent dividend yield of +5.0%.

Main risks: This time we will divide the risks into two categories. The first group includes risks related to the Company's operations. The most important risks in this category are the price of commodities (electricity and emission allowances) and the availability of generation resources, mainly nuclear power plants, which offer the highest margins. The second group is **political risks**. In particular, we refer to **special taxes or regulations**. The WFT is still in force for 2024 and 2025.

Financial data	2023	e2024	e2025	e2026	Ratios	2023	e2024	e2025	e2026
Revenues (CZK bn)	340.6	328.2	309.8	294.2	P/E (x)	14.3	16.4	20.6	15.2
EBITDA margin (%)	36.7	40.2	38.7	33.8	Price/free cash flow (x)	6.9	26.5	15.5	21.0
Net income (CZK bn)	29.6	29.0	24.1	32.7	Dividend yield (%)	15.7	5.6	4.9	3.8
EPS (CZK)	65	56	45	61	Price/book value (x)	2.0	2.0	2.0	1.9
Dividend/share (CZK)	145	52	45	35	P/S (x)	1.5	1.5	1.6	1.7
Interest cover (x)	42.3	24.7	14.4	10.1	EV/S (x)	1.9	2.2	2.3	2.5
Payout (%)	99.5	80.4	79.7	78.2	EV/EBITDA (x)	5.3	5.5	6.0	7.3
Net debt/EBITDA (%)	1.3	1.7	1.9	2.3	EV/IC (x)	1.7	1.6	1.6	1.5

The latest analysis and report:

https://bit.ly/CEZ_analysis_202309_ENhttps://bit.ly/CEZ_2Q24_ENhttps://bit.ly/CEZ_3Q24_EN

Upcoming Events: 4Q24/2024 results are expected to be released on March 2025.

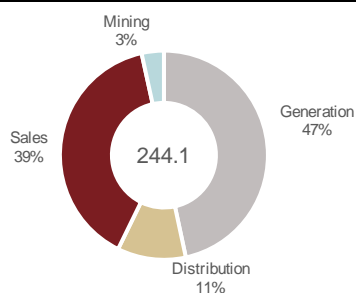
SOCIETE
GENERALE
GROUP

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Company overview

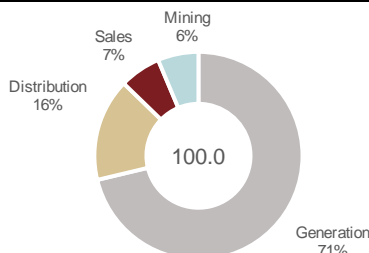
Strengths	Weaknesses
<ul style="list-style-type: none"> Strong position of the company throughout Europe Vertical integration from coal mining and electricity generation to distribution A wide portfolio of production sources Provides services in the field of energy savings and smart solutions (ESCO services) Low emissions intensity 	<ul style="list-style-type: none"> Government influence and impact of political decisions on the company's management Less efficient operation of some coal-fired power plants Strict state regulation of electricity generation and the distribution process Uncertainty of natural gas sourcing due to geopolitical tensions
Opportunities	Threats
<ul style="list-style-type: none"> Dividend policy with maximum payout potential Subsidies from the Modernisation Fund for investments in RES Increasing carbon prices with a positive impact on CEZ profitability due to the anticipated decrease in their needs Closure of nuclear and coal-fired power plants in Western Europe Expected abolition of the special WFT, as the reasons for its introduction have disappeared. 	<ul style="list-style-type: none"> Construction of a new nuclear block without state guarantees Lower support for electricity generation from renewable sources Increased demand for emissions allowances in the case of production failure by non-emissions sources Special taxes: The cap on sales by production source and windfall profits tax continues.

Revenues by segment (9M24, CZKbn)



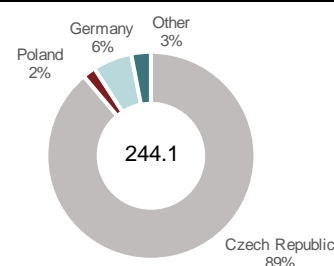
Source: CEZ; * figures are in CZKbn

EBITDA by segment (9M24, CZKbn)



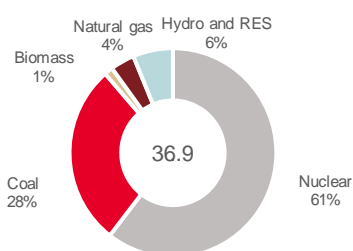
Source: CEZ; * figures are in CZKbn

Revenues by region (9M24, CZKbn)



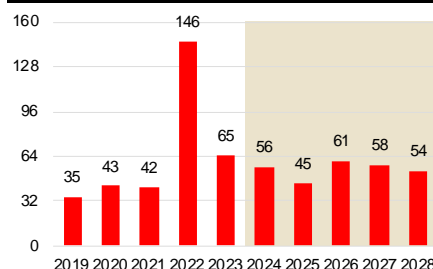
Source: CEZ; * figures are in CZKbn

Electricity generation by fuel (9M24, TWh)



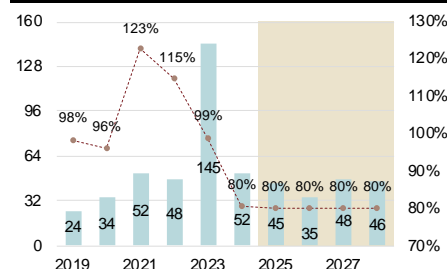
Source: CEZ; * figure is in GW

EPS (CZK)



Source: CEZ; Economic & Strategy Research, Komerční banka

Dividend per share (CZK)



Source: CEZ; Economic & Strategy Research, Komerční banka; in year in which is paid

Sector trends

Electricity prices

The current baseload market price is now around EUR90/MWh, down from an average of EUR140 in the previous year (2023). In fact, it declined throughout last year, starting at around EUR220 and ending at around EUR90. Volatility has decreased significantly, and the commodity price is trading in a relatively narrow range around EUR90/MWh this year compared to previous years, especially 2022. From our perspective, the electricity price has fallen mainly due to the fall in the price of emission allowances. Natural gas prices have also come down. The disappearance of uncertainty about the supply of energy commodities is also an important factor.

Electricity prices will continue to fall in the coming years, futures contracts suggest. From the current price of around EUR90/MWh, the price is expected to fall to around EUR70 in 2028.

Gas

Gas has had a significant impact on the price of electricity in recent years.

Gas, or the increase in its price, together with emission allowances, are the main likely factors behind the increase in the price of electricity. The high gas price in 2022 is due to the uncertainty of gas supply. All this happened at the beginning of the winter season and in a situation where storage tanks were empty. This has been resolved. Last year, the gas prices fell by almost 70% to an average of EUR42/MWh. This year, the price is about 20% cheaper, with an average of about EUR32.

Emissions Allowances

Allowance prices have fallen. Slight increases are expected in the coming years.

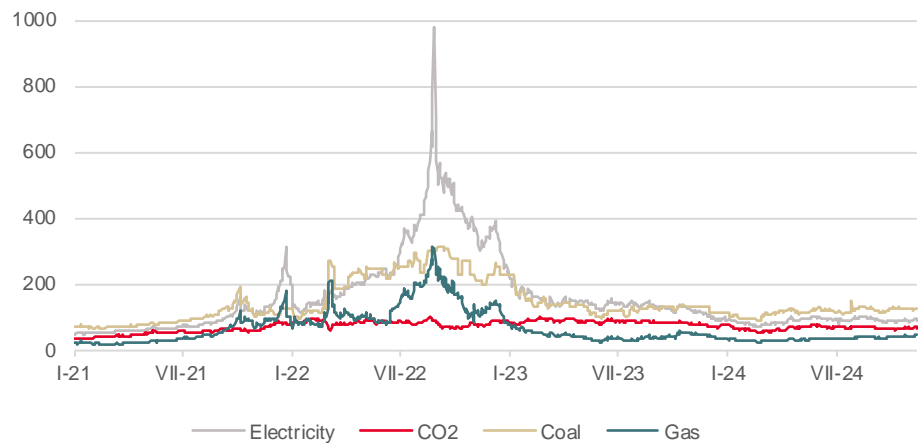
The average price of a ton of CO₂ decreased by approximately 25% yoy to EUR65/t. This is down from last year's record highs of almost EUR100. We believe that demand has decreased due to the reduced use of coal-fired power plants, which simply require twice as many allowances as gas-fired power plants. The allowance price should rise slightly by about EUR10 to EUR75/t in the next few years.

Coal

Coal prices have fallen from last year's highs.

Similar to the previous commodities, the price of thermal coal has also fallen from the highs seen in 2022. Last year, coal traded at an average of about EUR130/ton. This year's level is even lower at about EUR114. CEZ has only lignite-fired power plants in its portfolio. As fuel, they mainly use coal from their own Severoceske doly (mines), which are 100% controlled by CEZ.

Power prices (€/MWh), CO₂ (€/MWh), coal (\$/t) and gas (€/MWh)

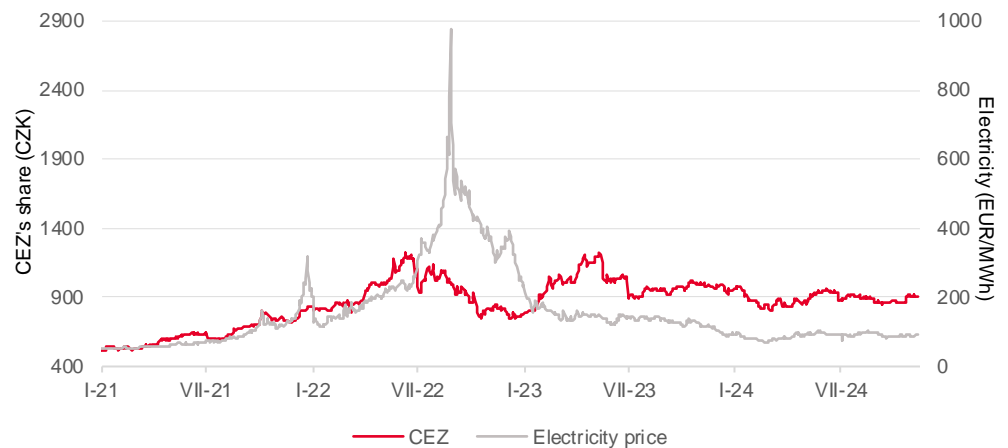


Source: Bloomberg

Since the beginning of the year, the price of CEZ has declined.

In the past, the price of CEZ shares followed the price of electricity. However, due to the geopolitical situation, commodity prices and speculation about possible restructuring, the prices have separated. CEZ was also significantly affected by the approval of a windfall tax (WFT). Although the electricity price fell by a further 25% at the beginning of the year, it subsequently recovered. It is now virtually unchanged since the beginning of the year at EUR90/MWh. In contrast, the price of ČEZ shares peaked at around CZK1,000 at the beginning of the year. It now stands at around CZK900, down almost 6% YTD.

Development of CEZ's shares vs. German electricity prices



Source: Bloomberg

Company results

3Q24

Results well above estimates.

Total revenues in the third quarter reached CZK82.4bn (+7.4% yoy). EBITDA in 3Q24 was CZK30.9bn (-5.4% yoy). This result **exceeded the market consensus by a strong +11%**. In the Generation segment, nuclear resources are higher yoy. Renewables, on the other hand, declined slightly, as did emission sources. Mining is lower due to lower deliveries to the Group and external sales. Distribution benefited from the integration of GasNet. Segment Sales in 3Q24 were positively impacted by the proceeds from the SZDC litigation. **Adjusted net income declined 59% yoy to CZK3.7bn, missing market estimates.** In our view, this is mainly **due to a massive increase in the effective tax rate to 86%** (our expectation 62%, last year 61%).

CEZ's **EBITDA guidance has been raised again to CZK126-130bn**. Compared to the previous target of CZK118-122bn, this is a solid increase of +6.7% (mid). The increase is due to the consolidation of the acquired company GasNet (since around September), higher profits from commodity trading and the proceeds from the legal dispute with SZDC. In addition, this time management also updated the **net profit target, slightly raising the lower limit to CZK26-30bn** (previously CZK25-30bn). Most of the increase in EBITDA will be offset by high taxes on net profit. The current net profit forecast **corresponds to a dividend of CZK39-45** per share (gross yield up to +5.0%) at the upper limit of the dividend policy under consideration (60-80 %).

CEZ's reported YTD numbers are 82% of full-year EBITDA guidance and 83% of full-year net income guidance, compared to the high end of guidance. We expect CEZ to meet its targets.

According to our model, EBITDA should reach CZK131.9bn and net profit CZK30.4bn in 2024. We estimate total revenues at CZK328bn. We are thus above CEZ management's forecasts for both monitored lines. We are +8.1% above our full-year target for EBITDA and +1.3% for net profit.

This year, we estimate that CEZ will produce 45TWh of electricity (after deducting its own consumption). This is a slight decrease of 1.7% from last year's 46.3TWh. The estimated increase in gas and renewable generation outweighs the decrease in coal and nuclear generation. Our projections assume a strike price for electricity of EUR134/MWh, up from EUR130 in 2023.

3Q24 results

CZKbn	3Q23	3Q24	y/y	KB	vs KB	Cons.	vs Cons.
Sales	76.8	82.4	7.4%	76.6	7.6%	76.6	7.6%
EBITDA	32.6	30.9	-5.4%	30.7	0.4%	27.8	11%
margin	42.5%	37.5%	-5.1pps	40.1%	-2.7pps	36.3%	1.1pps
Operating profit	21.8	19.6	-10%	20.0	-2.2%	18.2	7.5%
Adjusted net profit	9.0	3.7	-59%	6.6	-44%	5.7	-35%

Source: CEZ, Economic & Strategy Research, Komerční banka

Special taxes

The period for payment of the special windfall profits tax will not be shortened.

A special tax on excessive profits, the windfall tax, was introduced **to finance the extraordinary expenses of the state budget in connection with the energy crisis. It has been introduced for the years 2023-2025** and applies not only to energy companies. **The tax of 60% is applied to the average of 2018-2021 plus 20%.**

Profits will be taxed at a standard rate of 21% (up from 19%) starting in 2024.

Therefore, the effective tax rate for CEZ consists of the standard corporate income tax of 21% plus 60% WFT. For CEZ, this resulted in a tax rate of 62.6% last year. (WFT does not apply to all of CEZ's operations.)

Last year (2023), CEZ paid CZK30.1bn in windfall profits tax. The total amount collected in the Czech Republic was about CZK39bn (e.g. also applies to banks or refineries). This means that CEZ alone paid about 77% of the total WFT, making it the largest payer of this special tax. For the current year (2024), CEZ estimates that the WFT will amount to CZK29-33bn.

In addition to the WFT, last year CEZ also paid levies on excess sales in the amount of CZK10bn. However, these levies were applied only for 2023 and are not applicable this year.

Finance Minister Stanjura, according to his statements, planned to abolish the WFT for 2024 and 2025. However, he did not propose such a thing and the WFT will remain in force for next year (2025), i.e. for the entire period originally approved. We did not include the repeal in our estimates.

Political risk: Special taxes remain a threat.

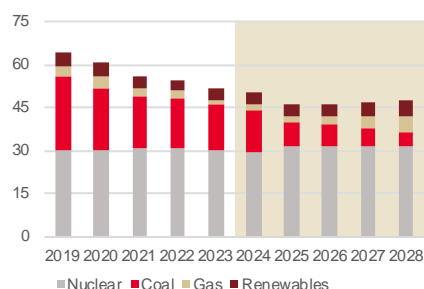
In our opinion, **CEZ's business is exposed to political risks. We would not be surprised if, in the next few years, there are renewed efforts to impose extraordinary taxes on this sector or on CEZ itself.** The government has already tried this with the above example.

Long-term forecasts

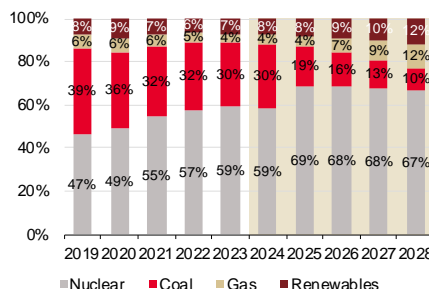
Nuclear power plants account for nearly 60% of the generation mix.

Last year, the two ČEZ nuclear power plants produced 30.4 TWh of electricity. This year they are expected to produce 29.5 TWh, which is about 3% less. The reason for the slightly lower production is the lower availability of the Temelin plant (unplanned outages). In 2023, it will account for more than 59% of total electricity production. This year we expect about the same share. CEZ plans to reach 32 TWh in 2030, and nuclear generation will continue to be a dominant element for CEZ, with a share of around or slightly above the aforementioned 60%. (In the period under review (2024-2028) there will certainly not be any new nuclear units built.) Coal-fired power plants, which are the most polluting, will be phased out. The installed capacity of coal-fired power plants is expected to decline from 4.2 GW in 2023 to 2.2 GW in 2030, when only modernized plants are expected to be in operation. As a result, its share of total electricity generation is expected to decline from 30% in 2023 to about 4% in 2030. No coal-fired units are expected to be in operation by 2033. New gas-fired power plants should replace the retired coal-fired plants. These will also be prepared to burn hydrogen. According to CEZ's plans, the installed capacity of renewable energy sources will also increase. However, the construction of these plants depends, among other things, on the conditions of support from the Czech Republic and the EU. Photovoltaic and wind power plants are to be developed. 2.3 GW in 2023 should increase to 8-9 GW by 2030.

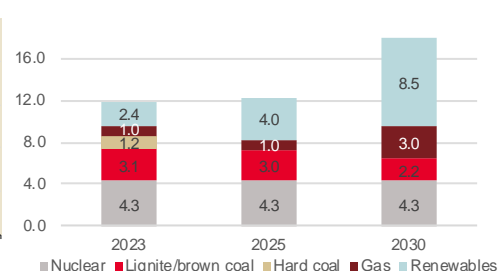
CEZ electricity generation (TWh)



Generation by source



CEZ generation capacity estimate (GW)



Source: CEZ, Economic & Strategy Research, Komerční banka

Realized electricity prices are on track to be up slightly this year.

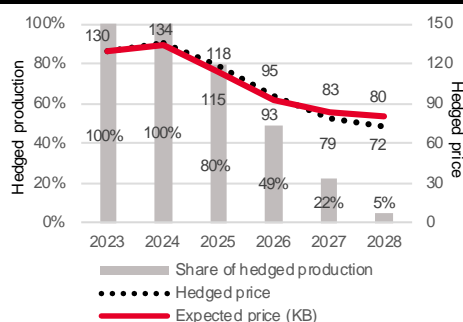
Decline in realized power prices

The price of electricity has been falling for most of last year. This year, the price is fluctuating around EUR90/MWh. In the coming years, the price of electricity is expected to fall further, as indicated by futures contracts, to around EUR70/MWh for 2028.

Last year, CEZ sold electricity for approximately EUR130/MWh. This year, the average realized price of electricity is expected to increase slightly to EUR134. Last year, we estimate the average electricity price to be slightly below EUR80/MWh.

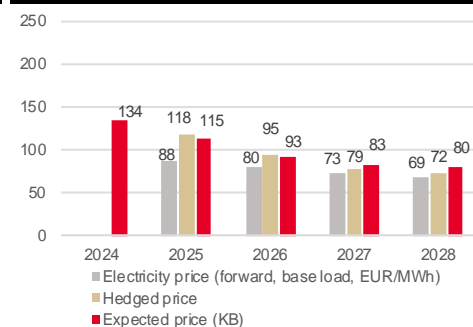
The following charts compare the hedged price, our forecasts and the forward contracts for the next few years.

Hedged sales and average prices (EUR/MWh)



Source: CEZ, Economic & Strategy Research, Komerční banka

Expected higher realised prices (EUR/MWh)



Source: CEZ, Bloomberg

Lower power prices mean lower profits.

Earnings estimates

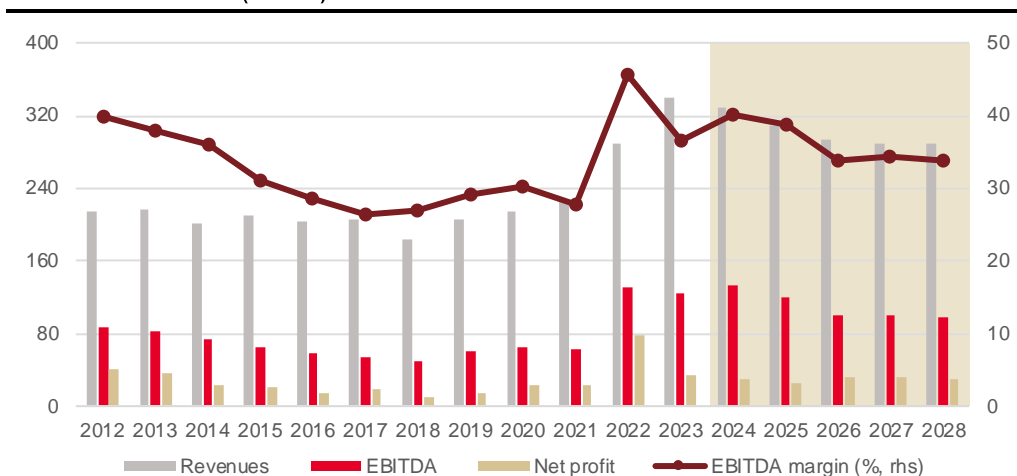
According to our model, total revenues should reach CZK328.2bn this year. This would represent a slight decline of 3.6% compared to 2023. Over the forecast period, revenues should decline by an average of 3.2% (CAGR 2024-2028) to CZK289bn in 2028. Lower realized prices will be one of the reasons for this decline.

CEZ's guidance for this year is to achieve EBITDA profit in the range of CZK126-130bn. EBITDA reached CZK124.8bn last year. Reported 9M24 EBITDA was CZK100bn, or 83.4% of the full-year target. In our forecasts, we estimate full-year EBITDA at CZK131.9bn. By the end of the forecast period, we expect EBITDA to decline to CZK97.7bn (-4.8% CAGR 2024-2028).

On the bottom line, CEZ reported CZK24.8bn for the 9M24. This is 90.1% of the full-year target of CZK26-30bn. In our forecasts, we see net profit slightly above the upper end of CEZ's target. Net profit should reach CZK30.4bn. Net income is expected to decline slightly over the forecast period (-3.6% CAGR 2024-2028), similar to the previous two rows.

It should be noted that net profit decreased significantly in 2023 (CZK34.8bn, -55.6% yoy). This is clearly due to the beginning of the special tax (WFT) period. It will be applied this year and the next. After that, net profit should start to grow again.

CEZ results forecasts (CZKbn)



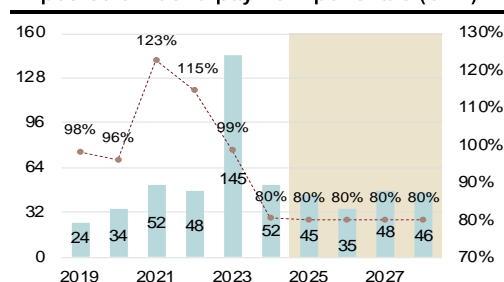
Source: CEZ, Economic & Strategy Research, Komerční banka

Dividend policy

The CEZ' guidance for this year suggests a dividend of up to CZK45.

CEZ's current dividend policy is 60-80% of net profit adjusted for one-off items. This year, i.e. from the 2023 profit, CEZ paid a dividend of CZK52 per share to its shareholders. This payout represents 80% of net profit, which is the upper limit of the company's policy. However, it marks a significant decrease compared to the CZK145 paid out last year.

Expected dividend payment per share (CZK)



Source: CEZ, Economic & Strategy Research, Komerční banka; in year in which is paid

In our view, there are two reasons for the large dividend cut. The first is the WFT introduced by the government for 2023, 2024 and 2025 (see above). The second is that the government or the Ministry of Finance, which exercises shareholder rights on behalf of the Czech Republic, did not propose to pay out the entire net profit this time, as it did last year. This would have meant distributing CZK65 per share to shareholders. This was also our estimate of the dividend.

As a reminder, the 2021 and 2022 dividends consist of a share of net income and an extraordinary payment related to the divestment of Romanian and Bulgarian assets, respectively.

In the next two years, i.e. in 2025 and 2026 (payment from the profits of 2024 and 2025), the dividend will decrease significantly. This is due to the application of the WFT in 2024 and 2025. However, we assume a dividend payout at the upper end of the payout ratio of 80%. Next year (from 2024 earnings) the dividend should be paid at CZK45 per share. In 2026 (from 2025 earnings), the dividend should fall to CZK35 according to our model. (If the WFT does not apply, the payout would jump to CZK93 and CZK74.) In an optimistic scenario, we can imagine paying out the entire net profit. In this case, the dividend would be CZK56 and CZK44.

We expect the payout ratio to be 80% of net income.

However, this marks the end of the three-year period (2023-2025) in which the WFT was applied. In 2027 (from 2026 earnings) the dividend jumps to CZK48 per share. This is with the same payout ratio of 80%. This would be equivalent to a gross yield of +5.2%.

Indebtedness

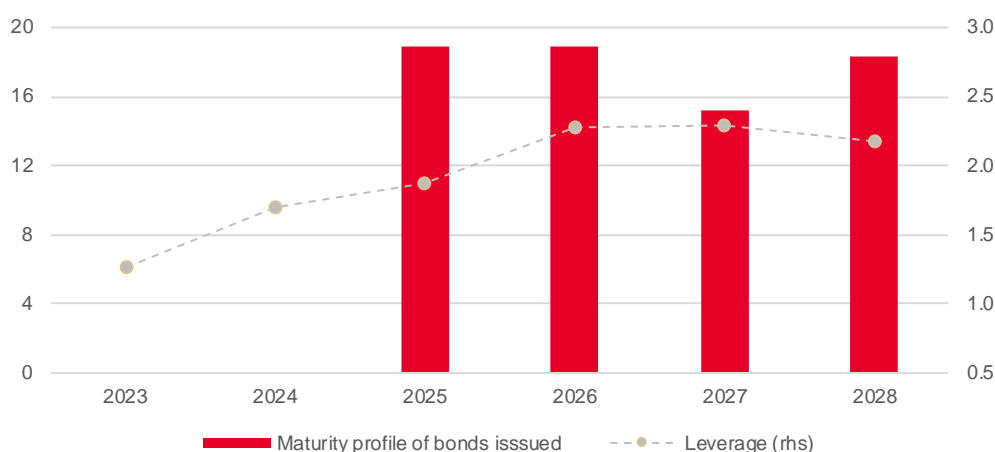
Low leverage will increase.

The net debt/EBITDA multiple was 1.5x in the first nine months up from 0.8x due to the GasNet acquisition and dividend payment. At year-end, we expect leverage to be 1.7x.

According to CEZ's forecast, the debt will be 1.5-2.0x in 2025 and 3.0-3.5x in 2030. The reason for the debt growth will be the decarbonization of the heating sector. There should be a shift from coal to gas combustion. CEZ also foresees a rapid development of renewable energy sources. It wants to increase the capacity of renewable energy sources by 6GW by 2030. In our projections, we estimate that leverage will increase to 2.3x over the next few years.

There are no bonds maturing this year (see graph below). From 2025, bonds of up to CZK20bn will mature annually.

Maturity profile of the issued bonds (CZKbn)



Source: CEZ, Economic & Strategy Research, Komerční banka

M&A

CEZ has completed the acquisition of GasNet.

On August 28, CEZ announced that it had completed the acquisition of a 55.21% stake in GasNet Group. It is the largest gas distribution system operator in the country. It serves about 2.3m customers, manages 65k km of pipelines and has about 80% share in gas distribution in the Czech Republic. CEZ bought GasNet for EUR846.5m (approx. CZK21bn, equity value). Gas distribution and GasNet's activities are regulated by the Energy Regulatory Office (ERO). The business should therefore be more or less stable and predictable.

In 2023, the volume of distributed gas was 59 TWh, down from 65 TWh in 2022. Revenues for 2023 fell by around 6% yoy to CZK 13.6bn and EBITDA fell by 19% yoy to CZK 6.6bn. The decline may be due to savings from high energy prices and more favourable, warmer weather.

The restructuring of CEZ is not on the horizon

No signs of restructuring.

In the spring of 2022, the first information about a possible restructuring of ČEZ appeared on the market. After that, politicians mentioned this possibility several times. Since then, however,

no further information has emerged. It is not even known whether restructuring is still in the works.

Restructuring, in our opinion, means the division of CEZ into the production part, especially the nuclear power plants, and the rest. The reason for restructuring should be the control of critical energy infrastructure, and in our view also the completion of nuclear power plants.

We cannot estimate when or if restructuring will take place. However, if there is a restructuring of ČEZ, we expect that the state will have to settle with minority shareholders. In this case, we would expect a significant premium to the market price.

Construction of a new nuclear unit

Any new nuclear units will be financed by the state.

The government has selected the winner of the tender for the construction of a new nuclear power plant. The winner is the South Korean company KHNP.

The first preparatory phase is now underway. During this phase, the contract should be signed. It is estimated that this could take place in the spring of 2025. It should also include, for example, building permit and environmental impact assessment (EIA). This preparatory phase will be financed by CEZ Group. It is expected to cost approximately EUR0.2bn.

The next phases, preliminary works, construction and commissioning and trial operation, will be financed by repayable financial assistance from the state. The interest rate will be 0% during construction. During operation, it will be the cost of government debt plus 1% (minimum 2%) per year. This for 30 years from the start of the operation.

The electricity generated by the new unit will be purchased by the state. CEZ is still negotiating an agreement with the state on guaranteed purchase prices from this unit. They should cover costs plus a reasonable premium.

CEZ Group does not bear any risk of additional costs.

Valuation

Sector comparison

CEZ multiples are mixed compared to peers.

The following table shows comparable companies in the same industry. These are comparable companies operating in Western and Central Europe. The table shows that CEZ's multiples are mixed. For example, while P/E multiples trade at a premium, EV/EBITDA multiples trade at a discount to selected peers. In addition, it offers a solid dividend yield.

Peer comparison

	P/E akt.	P/E 2024	P/E 2025	P/S akt.	P/S 2024	EV/ Sales 2025	EV/ Sales 2025	EV/ EBITDA akt.	EV/ EBITDA 2024	EV/ EBITDA 2025	Div. yield akt.
ČEZ (KB estimate)	14.3	16.3	20.6	1.5	1.5	1.6	2.3	5.3	5.5	6.0	4.9
ČEZ (consensus)	21.0	14.9	17.0	1.5	n/a	1.9	2.2	5.4	5.6	6.2	4.4
EDP SA	11.9	11.1	12.2	1.0	n/a	2.3	2.4	8.2	8.2	8.3	5.4
E.ON SE	16.9	10.5	10.6	0.4	n/a	0.8	0.8	8.8	7.6	7.4	4.5
Uniper SE	n/a	13.0	24.5	0.2	n/a	0.2	0.2	n/a	5.4	8.3	n/a
Endesa SA	19.2	11.8	11.1	1.0	n/a	1.2	1.2	7.2	6.0	5.9	6.5
Enel SpA	12.4	10.0	10.0	0.9	n/a	1.6	1.5	6.7	6.5	6.5	7.1
Engie SA	n/a	7.0	8.6	0.5	n/a	0.9	0.9	6.1	4.7	5.1	9.3
EVN AG	7.6	9.9	10.3	1.3	n/a	1.7	1.8	7.8	7.5	7.0	n/a
Fortum Oyj	10.3	12.4	14.4	2.0	2.2	2.3	2.5	7.9	8.1	9.3	8.2
Iberdrola SA	15.5	15.3	15.2	1.9	n/a	3.3	3.2	9.9	10.0	9.9	4.9
RWE AG	n/a	11.0	15.0	1.0	n/a	1.4	1.4	10.8	6.4	7.0	1.0
Verbund AG	15.7	14.9	17.0	4.0	n/a	4.0	4.3	10.0	9.0	9.8	3.5
MEDIAN Western Europe	15.5	11.4	12.8	1.0	2.2	1.5	1.5	7.9	7.0	7.2	5.7
PGE Polska Grupa Energetyczna	n/a	4.3	4.4	0.2	n/a	0.4	0.4	2.7	2.6	2.6	0.0
Energa SA	n/a	n/a	n/a	0.2	n/a	n/a	n/a	7.5	n/a	n/a	n/a
Enea SA	3.5	1.5	3.1	0.1	n/a	0.3	0.3	2.1	1.6	2.4	n/a
Tauron Polska Energia SA	n/a	n/a	3.1	0.2	n/a	0.6	0.6	5.6	3.6	3.5	n/a
MEDIAN Central Europe	3.5	2.9	3.1	0.2	n/a	0.4	0.4	4.2	2.6	2.6	0.0
SECTOR MEDIAN	12.4	11.0	10.9	0.9	2.2	1.3	1.3	7.6	6.5	7.0	5.2
ČEZ vs. sector (consensus)	69%	35%	56%	71%	n/a	50%	67%	-29%	-14%	-12%	-14%
ČEZ vs. sector (KB estimate)	15%	48%	89%	71%	-33%	24%	78%	-31%	-15%	-14%	9%
ČEZ vs. w Evropa (KB estimate)	-8%	43%	61%	49%	-33%	9%	59%	-34%	-22%	-16%	-1%

Source: Bloomberg, Economic & Strategy Research, Komerční banka

Target price

We set the target price for CEZ using the DCF model.

To determine the fair value of CEZ shares, we used the discounted free cash flow (DCF) model until 2028. The main parameters and results are shown in the table on the next page. The free cash flow is discounted using a weighted average cost of capital (WACC) in the range of 6.5% to 7.0% for the period under review. A long-term growth rate of 2% is assumed. Based on the DCF model, **we set our target price at CZK923 per share**. Our target price offers a total return of +6.7%, which corresponds to a Hold recommendation.

CEZ valuation

	2024	2025	2026	2027	2028	LT
Calculation of the required rate of return						
risk-free rate	4.2%	4.3%	4.3%	4.3%	4.3%	4.3%
beta	0.87	0.87	0.87	0.87	0.87	0.87
equity risk premium	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
country risk premium	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
cost of equity	9.8%	10.0%	10.0%	10.0%	9.9%	9.9%
weight of debt	47.7%	47.7%	46.6%	46.0%	44.0%	44.0%
cost of debt (after tax)	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
WACC	7.0%	7.0%	6.5%	6.5%	6.7%	6.7%
Discounted cash flow model (CZKbn)						
EBITDA	131.9	120.0	99.5	99.0	97.7	
Amortization of nuclear fuel	3.7	3.7	3.8	3.8	3.8	
Taxes paid	-48.7	-39.3	-8.7	-8.3	-7.7	
Change in working capital and provisions	-0.2	2.7	-13.9	0.9	15.3	
CAPEX	-68.0	-55.0	-57.0	-59.0	-61.0	
FCFF	18.7	32.1	23.7	36.3	48.2	
price / free cash flow	26.5	15.5	21.0	13.7	10.3	
Present value of FCFF	17.5	28.1	19.4	28.0	34.8	
Sum of present values of FCFF until 2028	127.7					
Present value of FCFF after 2028	758.1					
Net debt	224.8					
Nuclear, mining and other provisions	171.1					
Financial investments	4.2					
Joint ventures and associates	3.8					
Minorities	1.5					
Estimated value of equity	496.4					
Fair value (CZK per share)	923					
Target price (CZK per share)	923					

Source: Economic & Strategy Research, Komerční banka

The following table provides a snapshot of the sensitivity of CEZ's target price to changes in key parameters of the valuation, namely forward electricity prices, WACC and the long-term growth rate.

Sensitivity analysis

WACC						Long-term growth in electricity prices							
Long-term growth		-100bps	-50bps	6.7 % / 6.7 % *	+50bps	+100bps	Forward prices		0.0%	1.0%	2.0%	3.0%	4.0%
	1.0%	678	672	666	660	654		-20%	1,014	831	687	571	475
	1.5%	797	790	783	777	770		-10%	1,160	961	805	679	575
	2.0%	938	930	923	916	909		0%	1,306	1,091	923	787	675
	2.5%	1,120	1,112	1,104	1,096	1,088		10%	1,452	1,222	1,041	895	774
	3.0%	1,347	1,338	1,329	1,320	1,311		20%	1,598	1,352	1,159	1,003	874

Note: * the first value corresponds to the average for the years 2022-26, the second value after 2026;

Source: Economic & Strategy Research, Komerční banka

Major risks

- **Political risk** - The government has introduced a special windfall profits tax for 2023-2025. We see a risk that this will be extended or that other special or sectoral taxes will be introduced.
- **Electricity prices** - CEZ share prices are significantly affected by the development of electricity prices on European markets. A significant deviation of German electricity prices from our forecasts may cause a different development of CEZ's profits than we currently expect.
- **Production mix** - In the coming years, we expect full utilisation of nuclear power plants. This has an impact on the development of profit margins. Should longer nuclear block shutdowns occur, it would lead to lower margins.
- **Renewal of the production portfolio** - CEZ has completed the modernisation of its coal-fired power plants. The highest share of investment should go to distribution, renewables and the closure and transformation of production from coal to low emissions. Any contribution to the construction of a new nuclear unit could have a strong negative impact on our valuation.
- **Regulation** - The energy sector suffers from strict regulation and in some countries also comes under political and public pressure. The potential reduction in support for electricity production from renewable sources is also a major risk.
- **Exchange rate developments** – Although the company is naturally hedged against fluctuations of the EUR/CZK exchange rate, the stronger-than-expected appreciation of CZK against EUR would be negative for CEZ. The impact on electricity prices (Czech prices are derived from German prices in EUR) could outweigh the euro-debt reduction. The weakening of the Turkish lira against USD leads to a decline in profits from affiliates and joint ventures and an increase in financial liabilities due to the loan guarantee provided to the Turkish company AkCEZ.
- **Acquisitions** – Potential acquisitions are not included in our forecasts. Big M&A deals would likely increase CEZ's consolidated profits as well as its debt. The impact on our target price and recommendation might be either positive or negative depending on the parameters of the transaction.
- **Tax burden** – Special taxes, the revenue cap and the windfall profits tax are intended to be temporary. However, if they were to be extended, they would have a negative impact on earnings and subsequently on dividend payments. Any additional special or sectoral taxes would have a similar negative effect.

CEZ financials

CZKm	2019	2020	2021	2022	2023	e2024	e2025	e2026	e2027	e2028
INCOME STATEMENT										
Sales	206,192	213,737	227,793	288,485	340,585	328,216	309,786	294,241	288,547	288,842
Cost of materials, services and fuel	-118,395	-120,320	-127,285	-162,010	-180,660	-159,008	-153,028	-151,449	-145,110	-145,291
Salaries (total)	-28,820	-30,855	-30,591	-33,915	-37,783	-42,675	-43,956	-45,274	-46,632	-48,031
Other costs	-6,282	-3,753	-1,924	-1,890	-12,498	-519	1,279	-2,979	-2,837	-2,844
EBITDA	60,175	64,783	63,240	131,568	124,839	131,898	119,967	99,539	98,968	97,675
D&A and impairments	-33,876	-52,346	-47,427	-29,893	-40,636	-41,952	-44,806	-45,805	-46,902	-48,088
Operating profit (loss)	26,429	12,585	16,098	101,927	84,512	89,946	75,161	53,734	52,066	49,587
Interest income	403	377	431	3,804	6,279	2,651	2,391	2,761	3,252	3,496
Interest expense	-5,473	-5,269	-4,206	-5,013	-6,299	-6,288	-7,611	-8,067	-8,368	-8,668
Interest on provisions	-1,893	-1,955	-2,014	-2,861	-7,289	-8,251	-7,695	-8,103	-8,511	-8,919
Other financial income/expense	-1,055	2,168	3,117	1,766	1,813	-388	1,094	1,094	1,094	1,094
Profit (loss) before taxes	18,411	7,906	13,426	99,623	79,016	77,670	63,340	41,419	39,533	36,589
Taxes	-3,911	-2,438	-3,517	-18,918	-49,442	-48,653	-39,271	-8,698	-8,302	-7,684
Net profit (loss)	14,500	5,468	9,909	80,705	29,574	29,017	24,069	32,721	31,231	28,906
Impairments	-4,400	-17,332	-12,391	2,305	-5,226	-1,366	0	0	0	0
Guided net profit (loss)	18,900	22,800	22,300	78,400	34,800	30,383	24,069	32,721	31,231	28,906
BALANCE SHEET										
Share Capital	50,914	50,954	52,376	52,465	52,465	52,465	52,465	52,465	52,465	52,465
Retained Earnings	199,847	182,917	108,722	206,421	191,587	192,629	192,488	206,379	211,787	215,945
Shareholders' Funds	250,761	233,871	161,098	258,886	244,052	245,094	244,953	258,844	264,252	268,410
Long-term Debt	142,570	122,102	95,925	140,234	131,042	196,563	216,563	226,563	236,563	246,563
Other Long-term Liabilities	31	34	32	31	31	31	31	31	31	31
Capital Employed	393,362	356,007	257,055	399,151	375,125	441,688	461,547	485,438	500,846	515,004
Fixed Assets	428,088	410,372	403,092	435,119	452,132	499,101	509,513	519,662	532,618	545,378
Intangible Assets	37,429	24,244	23,854	24,423	27,801	33,384	34,391	35,397	36,404	37,411
Financial Investments	113,332	138,768	533,820	320,528	171,059	149,823	145,336	157,767	156,468	157,143
Cash and Marketable Securities	9,755	6,064	26,640	36,609	10,892	9,245	28,714	35,944	46,620	70,722
Inventories	37,682	48,951	33,480	55,009	53,931	54,056	54,193	54,342	54,502	54,674
Receivables	67,218	65,140	148,521	218,674	87,081	83,252	78,708	74,875	73,471	73,543
Other Assets	11,070	8,919	13,674	17,018	22,869	23,555	24,262	24,990	25,739	26,511
Short Term Debt	29,323	29,725	41,965	61,912	37,868	37,489	37,114	36,743	36,376	36,012
Payables	66,872	73,744	88,176	101,238	62,137	47,229	44,704	42,575	41,795	49,749
Trade Provisions	110,138	124,709	130,034	159,862	209,328	194,727	203,928	213,134	222,344	231,558
Other Liabilities	104,879	118,273	665,851	385,217	141,307	131,284	127,821	125,086	124,462	133,062
Capital Employed	393,362	356,007	257,055	399,151	375,125	441,688	461,547	485,438	500,846	515,004
Total assets	704,574	702,458	1,183,081	1,107,380	825,765	852,417	875,115	902,976	925,822	965,384
CASH FLOW										
Profit (loss) before taxes	18,411	7,906	13,426	99,623	79,016	77,670	63,340	41,419	39,533	36,589
Depreciation	29,016	28,284	31,628	32,757	35,336	40,112	44,806	45,805	46,902	48,088
Amortization of nuclear fuel	4,096	4,197	4,110	3,907	3,655	3,692	3,728	3,766	3,803	3,841
Other non-cash items	21,409	19,596	-14,732	98,839	35,952	6,132	4,407	4,497	4,310	4,370
Change in working capital	-20,990	21,206	32,312	-224,255	43,741	-501	2,388	-14,240	544	15,026
Tax paid	-4,136	-3,748	-3,550	-5,409	-60,313	-48,653	-39,271	-8,698	-8,302	-7,684
Interest paid, net	-5,023	-5,307	-4,051	-397	147	-3,637	-5,220	-5,306	-5,116	-5,173
Dividend received	148	23	13	27	33	33	33	33	33	33
Operating cash flow	42,931	72,157	59,156	5,092	137,567	74,848	74,212	67,275	81,707	95,091
Cash flow from investing activities	-32,363	-33,723	-7,118	-36,712	-46,055	-68,000	-55,000	-57,000	-59,000	-61,000
Dividends paid	-12,861	-18,139	-27,963	-25,649	-77,408	-27,975	-24,210	-18,830	-25,824	-24,748
Cash flow from financing activities	-8,091	-42,125	-31,462	41,589	-117,229	-8,495	257	-3,044	-12,031	-9,989
Change in cash	2,477	-3,691	20,576	9,969	-25,717	-1,647	19,468	7,231	10,676	24,102

Source: Economic & Strategy Research, Komerční banka

CEZ financials

	2019	2020	2021	2022	2023	e2024	e2025	e2026	e2027	e2028
RATIOS (%)										
EBITDA margin	29.2	30.3	27.8	45.6	36.7	40.2	38.7	33.8	34.3	33.8
Operating margin	12.8	5.9	7.1	35.3	24.8	27.4	24.3	18.3	18.0	17.2
Pre-tax margin	8.9	3.7	5.9	34.5	23.2	23.7	20.4	14.1	13.7	12.7
Net margin (adjusted)	9.2	10.7	9.8	27.2	10.2	9.3	7.8	11.1	10.8	10.0
EBIT/Interest (x)	3.6	2.6	4.3	84.3	42.3	24.7	14.4	10.1	10.2	9.6
Net debt/Equity (x)	0.6	0.6	0.7	0.6	0.6	0.9	0.9	0.9	0.9	0.8
Net debt/EBITDA (x)	2.7	2.3	1.8	1.3	1.3	1.7	1.9	2.3	2.3	2.2
ROE	7.8	9.4	11.3	37.3	13.8	12.4	9.8	13.0	11.9	10.9
ROA	2.7	3.2	2.4	6.8	3.6	3.6	2.8	3.7	3.4	3.1
ROCE	4.9	6.1	7.3	23.9	9.0	7.4	5.3	6.9	6.3	5.7
Dividend payout	98.6	96.8	122.7	115.8	99.5	80.4	79.7	78.2	78.9	79.2
DATA PER SHARE (CZK)										
EPS (adj.)	35.3	42.6	41.6	145.7	64.7	56.5	44.7	60.8	58.1	53.7
Book value	468.7	437.2	300.7	482.2	453.6	455.6	455.3	481.1	491.2	498.9
Free cash flow	18.0	103.8	128.3	-222.3	134.5	34.8	59.7	44.0	67.5	89.6
Gross dividend	24.0	34.0	52.0	48.0	145.0	52.0	45.0	35.0	48.0	46.0
MARKET VALUATION										
P/E (x)	14.4	12.1	19.9	6.4	14.3	16.3	20.6	15.2	15.9	17.2
Price/Operating cash flow (x)	5.2	3.4	6.6	45.8	2.5	3.9	4.2	6.1	5.2	4.6
Price/free cash flow (x)	28.3	5.0	6.4	-4.2	6.9	26.5	15.5	21.0	13.7	10.3
Price/book value (x)	1.1	1.2	2.8	1.9	2.0	2.0	2.0	1.9	1.9	1.8
Price/sales (x)	1.3	1.3	1.9	1.7	1.5	1.5	1.6	1.7	1.7	1.7
Dividend yield (%)	4.7	6.6	6.3	5.2	15.7	5.6	4.9	3.8	5.2	5.0
EV/revenues (x)	2.1	2.0	2.4	2.3	1.9	2.2	2.3	2.5	2.5	2.5
EV/EBITDA (x)	7.3	6.6	8.8	5.1	5.3	5.5	6.0	7.3	7.3	7.3
EV/IC (x)	1.1	1.2	2.2	1.7	1.7	1.6	1.6	1.5	1.4	1.4

Source: Economic & Strategy Research, Komerční banka

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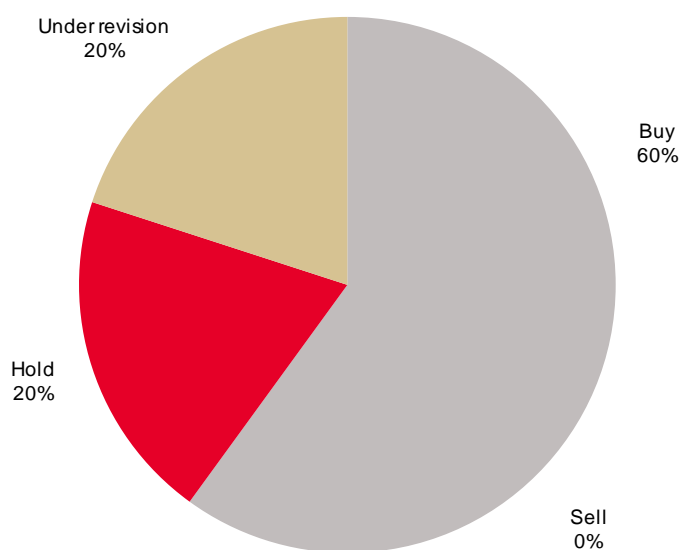
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Investment recommendations of KB equity research



Source: Economic & Strategy Research, Komerční banka

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	CEZ	Colt CZ Group SE	Kofola	MONETA Money Bank	Philip Morris CR	Avast	O2 CR
Overview of last investment research and recommendations related to stocks of particular issuers							
Recommendation	Hold	Buy	Buy	In revision	Buy	End of coverage	End of coverage
Target price	CZK923	CZK921	CZK402	In revision	CZK17,041	07.09.2022	25.02.2022
Date	15.11.2024	09.02.2024	03.09.2024	25.07.2024	21.03.2024		
Price on the day of the publication	CZK907	CZK574	CZK299	CZK111.4	CZK15,400	CZK205.1	CZK270
Investment horizon	12 months	12 months	12 months	12 months	12 months		
Author	B. Trampota	B. Trampota	B. Trampota	B. Trampota	B. Trampota		
Overview of investment researches and recommendations for last 12M (quarterly)							
Recommendation	Buy	Buy	Buy	Buy	Hold	Buy	Buy
Target Price	CZK1,034	CZK652	CZK313	CZK104.6	CZK18,349	GBp600	CZK362
Date	07.09.2023	16.12.2022	29.05.2023	05.09.2022	03.03.2023	11.02.2021	26.03.2021
Recommendation	Buy	Buy	Buy	Buy	Buy	Buy	Buy
Target Price	CZK1,393	CZK645	CZK381	CZK104.6	CZK18,183	GBp466	CZK293
Date	07.06.2022	17.01.2022	12.05.2022	05.09.2022	11.02.2022	30.08.2019	08.01.2020
Recommendation	In revision	In revision	In revision	Buy	Buy	In revision	Buy
Target Price	In revision	In revision	In revision	CZK109.7	CZK16,512	In revision	CZK298
Date	10.05.2022	31.03.2021	15.02.2022	31.08.2021	20.11.2020	14.08.2019	12.12.2018
Recommendation	Buy	Buy	Buy	In revision	Buy	Buy	Hold
Target Price	CZK905	CZK357	CZK367	In revision	CZK18,308	GBp342	CZK270
Date	10.12.2021	27.11.2020	12.01.2021	07.05.2021	03.12.2018	15.06.2018	18.08.2017
Valuation methods	DFCF	DFCF	DFCF	DFCF DDM ERM	DDM	DFCF	DFCF DDM
Frequency of rec. (per year)	once	once	once	once	once	once	once
Direct or indirect share (5% or more) of the issuer of the registered capital of KB	no	no	no	no	no	no	no
Other significant financial interest of KB and/or its linked persons in the issuer	no	no	no	no	no	no	no
KB direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no
Author's direct or indirect share (0.5% or more) of the registered capital of the issuer.	no	no	no	no	no	no	no
Signific. fin. interest in the issuer of the persons partic. in elaboration of inv. research and rec.	no	no	no	no	no	no	no
Relationships of Komerční banka with particular issuers							
KB Management or co- management of public offerings in the past 12 month	no	yes	no	no	no	no	no
Agreements or contractual relations for providing investment services with the issuer	KB can have concluded agreements with the issuer for providing investment services. This information is protected by bank secret and could not be disclosed.						
Agreement with the issuer on production and dissemination of the research	no	no	no	no	no	no	no
KB market making for common stocks of the issuer	no	no	no	no	no	no	no

Note: DFCF – Discounted free cash flow model, DDM – Discounted dividend model, ERM – Excess return model

Source: Economic & Strategy Research, Komerční banka