Photon Energy

Buy

Maintained

Price: CZK 68
Price target: CZK 101
(From: CZK 105)

Diversification starting to pay off

We reiterate our BUY rating on Photon Energy but decrease our 12M price target (PT) to CZK 101/share (from CZK 105), yielding 48% upside. In line with our January expectations, power prices have fallen ytd, which has also led to weaker EBITDA in the Investments segment. Following the 1Q23 numbers, however, we now see much stronger profitability and sales in the remaining segments, which also require much lower capex or balance sheet needs. We believe the market is yet to appreciate Photon's unique business model, diversified across the solar downstream sector, especially with growing competition in photovoltaic (PV) power generation facing higher borrowing costs. We now see power prices growing once more in 2H23E and believe the company's guidance of EUR 29m EBITDA could be met this year, with favourable weather conditions and a timely delivery in Romania. Photon is trading at our 2023-25E EV/EBITDAs of 9.1-13.2x, 27% below its peer group, and on attractive multiples, in our view, despite the very low liquidity of its shares. Adding the potential trigger from its PFAS technology in the coming months, and the hidden value of the company's equity stake in RayGen, we view Photon as one of our top utilities picks.

PFAS results close. We believe that Photon is in the final stage of its PFAS trial in Australia, after which it should share the results of its technology, which attempts to degrade PFAS chemicals. Given the growing global awareness of "forever chemicals", we believe the market should recognise the value of this technology once the company confirms the promising results and manages to secure the patent it has already filed in Switzerland.

Romania solar additions on track. With more than 30MW of capacity capex in 2022, and the plants already added in Romania this year, we expect additions to reach >30MW for the full year, offsetting lower power prices yoy, leading to a roughly flat Investments EBITDA. In the other segments, we are becoming generally more bullish on sales and EBITDA generation, especially at Engineering and New Energy (Lerta), after the strong 1Q23 results. We are slightly below the company's guidance of EUR 29m this year, at EUR 24.7m, due mainly to our conservative load factors and our generation EBITDA margin. We now believe that power prices should pick up again in 2H23E, and that Photon should continue to receive favourable pricing, running mostly merchant plants, compared to the regulated revenues abandoned last year.

Value of Lerta and RayGen still hidden. We stress the importance of this year's acquisition of Lerta, with Photon generating stable, high-margin revenues on DSR, providing better access to the electricity markets and opening new revenue streams from third parties. With capacity additions becoming more difficult to make money on, the Lerta expansion makes Photon much more attractive than its peers, in our view. Its 7.6% stake in RayGen, which is developing solar baseload batteries, also looks very promising and is being fully overlooked by the market at present, in our view.

Valuation. Our 70:30 weighted DCF analysis and peers valuation generate a 12M PT of CZK 101/share, yielding 48% upside. **The main risks for our forecasts include:** CEE power prices; government intervention; execution risks; and the supply chain issues in the PV industry. Upside risks come from a higher Romania load factor than we model, or stronger revenues and margins than reflected in our model for Lerta.

Expected events

2Q23 results	16 August

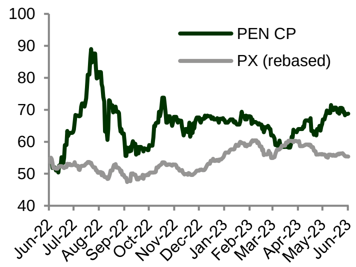
Key data

Market cap	EUR 173m
Free float	29%
3M ADTV	EUR 0.1m
Shares outstanding	60m
Major shareholder	
	Management/co- founders (68%)
Bloomberg code	PEN CP
PX Index	1,302

Price performance

52-w range	CZK 50-89
52-w performance	+24%
Relative performance	+23%

12M share price performance



Year	Sales (EURm)	EBITDA (EURm)	Net profit (EURm)	EPS (EUR)	EPS growth	P/E (x)	P/CE (x)	EV/ EBITDA	DPS (EUR)	Dividend yield (%)
2021	36.8	9.6	-6.4	-0.11	n.m.	n.m.	14.5	18.7	0.00	0.0%
2022	95.7	24.3	6.3	0.10	n.m.	26.2	57.7	12.0	0.00	0.0%
2023E	137.3	24.7	7.5	0.12	18%	23.5	25.5	13.2	0.00	0.0%
2024E	147.6	34.3	12.4	0.20	65%	14.2	7.1	9.8	0.00	0.0%
2025E	171.3	46.4	21.5	0.35	73%	8.2	6.4	9.1	0.00	0.0%

EQUITY RESEARCH

Analysts: Ondrej Slama; Bram Buring, CFA
E-mail: ondrej.slama@wood.cz, bram.buring@wood.cz
Prague: +420 222 096 250
Website: www.wood.com

Contents

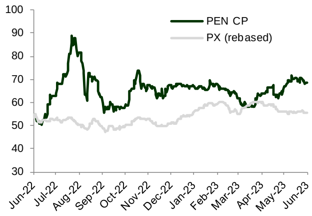
Closing Prices as of 28 June 2023

WOOD & Company Financial Services a.s.
Palladium, Namesti Republiky 1079/1a,
110 00 Prague 1 – Czech Republic
tel.: +420 222 096 111
fax: +420 222 096 222
http//:www.wood.cz

Company snapshot - BUY, PT CZK 101

BUY

Bloomberg ticker	PEN CP
Closing price (CZK)	68
Price Target (CZK)	101
Upside to PT	48%
Shares outstanding (m)	60
MCAP (EUR m)	173
Free float	28%
ADTV (EUR m)	0.1
52 Week Range (CZK)	50-89
52 Week Performance	24%
52W Relative Performance	23%



COMPANY DESCRIPTION

Photon Energy Group, founded in 2008 and based in the Netherlands, is a vertically-integrated utility in the downstream segment of the photovoltaic (PV) industry. Its business model covers the whole life cycle of a power plant, from development through to electricity generation, to decommissioning. Currently, it operates more than 110MW of its own PV capacity in CEE and Australia, and maintains around 300MW of solar plants, mainly in Europe. Photon is also active in the water treatment business, and is awaiting the results of its R&D currently. It recently took full control of Lerta, a Polish power-tech company. Moreover, Photon holds an equity state in an Australian developer of solar battery storage and generation: RayGen. The shareholder structure is composed of two main players: Solar Future (Michael Gartner, CTO) and Solar Power to the People (Georg Hotar, CEO), which control 68% of the company's shares. Roughly 29% are in free float, of which almost 6% is owned by Lerta's founders.

RATIOS

PER SHARE RATIOS	2021	2022E	2023E	2024E	2025E
EPS	-0.11	0.10	0.12	0.20	0.35
CEPS	0.10	0.05	0.11	0.40	0.45
BVPS	0.86	1.17	1.27	1.48	1.83
DPS	0.00	0.00	0.00	0.00	0.00

FINANCIAL RATIOS	2021	2022	2023E	2024E	2025E
Capex/depreciation	0.8x	3.8x	1.4x	4.2x	6.1x
Capex/net fixed assets	0.07x	0.23x	0.10x	0.29x	0.38x
Op. cash flow/capex	1.3x	0.6x	1.0x	0.5x	0.3x
EBITDA margin	26.1%	25.4%	18.0%	23.2%	27.1%
EBIT margin	-3.0%	17.8%	10.2%	14.4%	16.9%
Net margin	-17.5%	6.5%	5.5%	8.4%	12.6%
ROE	-12.5%	10.3%	10.1%	14.8%	21.3%
Net debt/(cash) to equity	1.7x	1.8x	1.9x	1.8x	2.2x
Net debt/EBITDA	9.3x	5.2x	6.0x	4.7x	5.3x

VALUATION RATIOS	2021	2022	2023E	2024E	2025E
P/E	n.m.	26.2x	23.5x	14.2x	8.2x
P/CF	14.5x	57.7x	25.5x	7.1x	6.4x
P/B	1.8x	2.3x	2.3x	2.0x	1.6x
EV/EBITDA	18.7x	12.0x	13.2x	9.8x	9.1x
EV/Sales	4.9x	3.0x	2.4x	2.3x	2.5x
EV/EBIT	n.m.	17.2x	23.2x	15.9x	14.5x
Cash flow from ops, EUR m	6.2	2.8	6.9	24.7	27.5
EV, CZK m	4,601	7,162	7,682	7,965	9,945
FCF, EUR m	-8	-31	-5	-27	-68
FCF yield	-0.3%	-0.8%	-0.1%	-0.6%	-1.6%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

COMPANY FINANCIALS

INCOME STATEMENT, EUR m	2021	2022	2023E	2024E	2025E
Revenues	36.8	95.7	137.3	147.6	171.3
COGS & opex	-27.2	-71.4	-112.6	-113.3	-124.8
EBIT	-1.1	17.0	14.1	21.3	29.0
Depreciation	10.7	7.3	10.6	13.0	17.5
EBITDA	9.6	24.3	24.7	34.3	46.4
Generation	17.2	28.0	27.4	34.3	47.4
O&M	0.2	-0.1	0.9	1.3	1.6
Engineering	-2.5	3.2	6.9	5.2	5.6
Technology	1.5	6.7	4.7	5.9	6.6
New Energy	0.0	0.0	0.6	4.4	5.0
Other & Elimination	-6.1	-4.0	-4.4	-4.2	-5.9
Financial income/(expense) & other	-6.5	-9.5	-10.4	-10.5	-15.9
Profit before Tax	-5.9	8.7	4.0	11.2	13.4
Income tax due/deferred	-0.5	-2.5	0.2	-2.1	-2.9
Profit/loss	-6.4	6.3	7.5	12.4	21.5

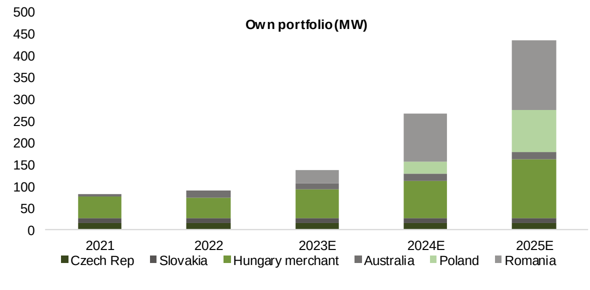
CASH FLOW, EUR m	2021	2022	2023E	2024E	2025E
CF from Operations	6.2	2.8	6.9	24.7	27.5
Thereof depreciation	10.7	8.9	10.6	13.0	17.5
Thereof changes in w/c	-5.0	-15.9	-7.9	-1.9	-4.5
CF from Investments	-14.2	-33.4	-11.4	-51.4	-95.5
Thereof CAPEX	-8.6	-33.8	-15.2	-55.1	-106.9
CF from Financing	30.6	9.3	11.2	21.5	68.0
Dividends	0	0	0	0	0

BALANCE SHEET, EUR m	2021	2022	2023E	2024E	2025E
Current assets	54.2	64.5	84.3	82.4	89.8
Cash & Equivalents	32.5	11.3	17.9	12.8	12.7
Trade receivables	9.1	18.7	22.9	23.9	26.3
Inventories	2.2	20.3	29.2	31.4	36.5
Other	10.4	14.3	14.3	14.3	14.3
Non-current assets	142.5	189.3	193.8	235.9	325.4
Tangible	127.5	145.5	150.1	192.2	281.7
Intangible	0.8	7.5	7.5	7.5	7.5
Other	14.1	36.2	36.2	36.2	36.2
Total assets	196.6	253.8	278.1	318.3	415.2
Current liabilities	34.0	33.5	38.8	40.1	43.1
ST debt	28.5	10.9	10.9	10.9	10.9
Trade payables	4.5	18.6	23.8	25.1	28.1
Other	1.0	4.0	4.0	4.0	4.0
Non-current liabilities	111.1	149.8	161.3	187.8	260.2
LT debt	98.3	135.0	146.5	173.0	245.3
Other	12.8	14.8	14.8	14.8	14.8
Total liabilities	145.1	183.3	200.1	227.9	303.2
Minority interest	-0.2	-0.2	-0.2	-0.2	-0.2
Shareholders' equity	51.5	70.5	78.0	90.4	112.0
Total liabilities and equity	196.6	253.8	278.1	318.3	415.2
Net Debt	89.1	127.4	149.0	161.0	244.9
Change in Net debt	5	38	22	12	84

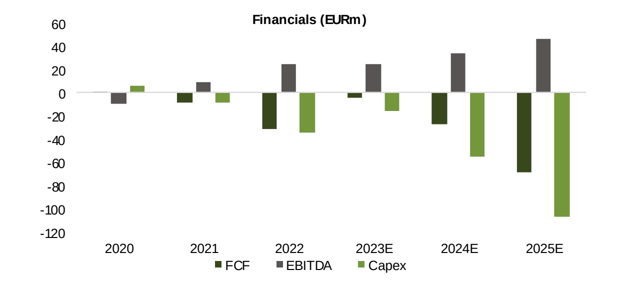
OPERATIONS	2021	2022	2023E	2024E	2025E
Generation capacity, MW (YE)	**91**	**92**	**141**	**221**	**391**
Growth (yoy)	*13%*	*1%*	*53%*	*57%*	*77%*
Czech Rep	15	15	15	15	15
Slovakia	10	10	10	10	10
Hungary merchant	51	52	71	76	126
Australia	15	15	15	25	25
Poland	0	0	0	5	75
Romania	0	0	30	90	140

MACRO ASSUMPTIONS	2021	2022	2023E	2024E	2025E
Inflation, EU	1.5%	8.4%	3.3%	2.0%	0.0%
German 1y forward, EUR/MWh	88	297	155	131	102
German spot, EUR/MWh	95	229	115	106	82
Generation volume, GWh	103	122	190	297	500
Growth (yoy)	*48%*	*18%*	*56%*	*57%*	*68%*

Solar capacity by country forecast



FCF, EBITDA and capex forecasts



*Source: Company data, Bloomberg, WOOD Research; *valuation multiples on the current share price*

Diversification starting to pay off

We reiterate our BUY rating on Photon Energy but decrease our 12M price target (PT) to CZK 101/share (from CZK 105), yielding 48% upside. In line with our January expectations (click here for further details), power prices have fallen ytd, which has also led to weaker EBITDA in the Investment segment. Following the 1Q23 numbers, however, we now see much stronger profitability and sales in the remaining segments, which also require much lower capex or balance sheet needs. We believe the market is yet to appreciate Photon's unique business model, diversified across the solar downstream sector, especially with growing competition in photovoltaic (PV) power generation facing higher borrowing costs. We now see power prices growing once more in 2H23E and believe the company's guidance of EUR 29m EBITDA could be met this year, with favourable weather conditions and a timely delivery in Romania. Photon is trading at our 2023-25E EV/EBITDAs of 9.1-13.2x, 27% below its peer group, and on attractive multiples, in our view, despite the very low liquidity of its shares. Adding the potential trigger of its PFAS technology in the coming months, and the hidden value of the company's equity stake in RayGen, we view Photon as one of our top utilities picks.

We have updated our numbers following the 1Q23 results, and given the quickly-changing power price macro. At the results call in May, the company confirmed its guidance of 2023E revenues of EUR 150m and EBITDA of EUR 29m. Despite power prices falling to levels previously expected by us, we believe the targets could be met, should favourable weather conditions improve the revenues and EBITDA generation, and the rollout in Romania continue in line with the company's plans. For now, we prefer remaining conservative, after the weak 1Q23. We believe the market should now appreciate Photon's unique business model, which is not focused solely on power generation. The company may have lower margins than those of its competitors that we use in our peer group, but the peers are now more exposed to the lower power prices hitting revenue generation, with the only way to offset this trend being higher capacity growth. With borrowing costs growing and the segment becoming more competitive every year, we believe that Photon is way ahead of its peers, despite falling behind its capacity growth expectations, due to exposure to segments other than generation, i.e. i) Technology, ii) Operations & Maintenance, iii) Engineering; and most recently, iv) the New Energy segment, focused on the balancing market and demand side response (DSR).

We also expect the company to present the results of its perfluoroalkyl and polyfluoroalkyl substances (PFAS) trial in Australia in the coming months, explaining its technology for degrading these chemicals to the market, leading to more upside. Given the growing global awareness of "forever chemicals", we believe the market should recognise this value once the technology shows promising results, and the company manages to secure the patent it has already filed in Switzerland.

Its 7.6% stake in RayGen, which is developing solar baseload batteries, also looks very promising. We note that we only use the 2022 book value for RayGen in our valuation but believe that the stake is worth much more. Neither do we include the 300MW project adjacent to the RayGen facility in our forecasts as yet.

With Photon being exposed mainly to merchant pricing, the Investments (generation) EBITDA should now be weaker than we expected in our January report. We model EUR 24.7m (vs. EUR 30.8m previously), +1.5% yoy, including >30MW of additions in Romania, with capex spent already and running at full capacity in 2H23E, followed by dozens more next year, where the technology has already been purchased and reflected in the 1Q23 working capital. We note that the capacity rollout is moving more slowly than we had expected previously, but this is due mainly to bureaucratic burdens, rather than Photon's execution, in our view. In Hungary, the same process took only a few weeks.

Compared to our previous report, we have increased our estimates for Engineering to EUR 6.9m (from EUR 1.9m), after the strong 1Q23 results, and also see better EBITDA generation at Lerta, which has recently become part of the New Energy segment. At EUR 24.7m (+1.5% yoy), we are slightly below the guidance, but we note that we expect spot prices to pick up again in late summer. With very good weather conditions, we believe that Photon's EBITDA guidance could even be exceeded, assuming the other segments are in line with our numbers.

Model update

EURm	Revenues			EBITDA			Net profit		
	2023E	2024E	2025E	2023E	2024E	2025E	2023E	2024E	2025E
New	137.3	147.6	171.3	24.7	34.3	46.4	7.5	12.4	21.5
Old	113.2	136.1	n/a	30.8	43.5	n/a	12.5	15.8	n/a
% difference	*21.3%*	*8.4%*	*n/a*	*-19.9%*	*-21.2%*	*n/a*	*-39.8%*	*-21.3%*	*n/a*

Source: WOOD Research

Valuation: BUY, PT CZK 101, 48% upside

Our price target (PT) for Photon Energy is CZK 101/share, implying 48% upside. Our valuation is derived from our DCF and peer group EV/EBITDA calculations, weighted 70% and 30%, respectively. As Photon does not plan to distribute dividends in the foreseeable future, we do not employ a DDM; while, due to the relatively-volatile net profit forecasts for Photon and its competitors, we also skip a P/E valuation for now.

As we believe that Photon should attract additional interest in Poland, Germany and other markets, we also show our PLN and EUR PTs. In both cases, and based on the current 1Y forward FX rates, these generate similar upside to our PT in CZK.

Valuation summary

	PT CZK/share	Upside
DCF	87	29%
Peers (EV/EBITDA)	131	93%
Weighted average (70:30)	**101**	**48%**
Implied PLN and EUR PTs		
12M PT (PLN)	19.3	50%
12M PT (EUR)	4.28	52%

Source: Bloomberg, WOOD Research

DCF

Our DCF valuation yields a 12M PT of CZK 87/share, or upside of 29%. Our assumptions are:

- ✓ A WACC of 9.2% across our forecast period, derived from a debt-adjusted Beta of 1.2, an ERP of 5.0%, and a risk free rate of 6.0%, which yields a cost of equity of 12.0%, and a cost of debt of 8.0% (all unchanged vs. our January report).
- ✓ Terminal growth of 2.5%.
- ✓ Our DCF period covers 2022-27E, by which time we believe that the CEE capacity targets should be met, on our numbers. We note that the 300MW RayGen project is not included in our valuation (the first 50MW is planned for 2024E) and our CEE capacity addition estimates are more conservative than the management's, due largely to the market situation, not the company itself.
- ✓ We use our in-house power price estimates for the markets in which Photon operates, except for Australia, where we rely on the company's guidance and the local power market. We prefer, however, to focus on the current growth story for the next six years, rather than any longer-term forecasts, where the sensitivity of long-term power prices and cost inflation alter the valuation significantly, to both the upside and the downside.

DCF

EUR000	2023E	2024E	2025E	2026E	2027E
EBIT	**14,053**	**21,269**	**28,989**	**37,784**	**41,414**
Depreciation	10,619	13,005	17,460	21,578	22,903
Capex	-34,306	-54,215	-105,813	-96,444	-24,026
Working capital	-7,858	-1,943	-4,473	-7,646	-7,646
Tax	189	-2,127	-2,899	-9,057	-9,783
FCF	-17,302	-24,011	-66,735	-53,784	22,862
Discount factor	0.96	0.88	0.80	0.73	0.67
Discounted FCF	**-16,543**	**-21,024**	**-53,510**	**-39,492**	**15,373**

Discounted cash flows	-89,516		
Terminal value	392,864		
Enterprise value	303,348	Risk free rate	6.0%
2022 net debt	127,442	Beta	1.20
2022 minorities	197	ERP	5.0%
Equity stakes (e.g. RayGen)	6,118	**Cost of equity**	**12.0%**
Equity value	175,709	Weight of equity	30.0%
PT (CZK/share)	78	Weight of debt	70.0%
12M PT (CZK/share)	**87**	Cost of debt, net tax	8.0%
Upside	*29%*	**WACC**	**9.2%**

Source: Company data, WOOD Research

Peer valuation

Our peer valuation approach remains unchanged. Looking at the CEE region, there are no well-covered solar companies with publicly-available sell-side forecasts. Therefore, we have chosen a mix of Western European and US companies which have similar business models, size and growth profiles. We admit, however, that this basket is not perfect. The peer group 2023-25E EV/EBITDAs, on the Bloomberg consensus, produce a higher PT than our DCF, which we believe is likely to be due to the low liquidity of Photon Energy's shares traded. Therefore, we have decided to place only a 30% weight on the peer valuation, as Photon's business model is specific and exposed to a different region. Regarding the other multiples, e.g., P/E and P/CF, we believe it is premature to use these, given the volatility of earnings at both Photon and its peers.

We expect Photon's EBITDA margin to grow gradually, thanks mainly to the higher weight of power generation, but we also expect the profitability of its other segments to improve over our forecast period. Being an integrated solar utility, with segments such as technology trading or engineering, it still produces lower margins than most of its peers (below), which are more invested in high-margin power generation. Despite these lower margins we believe this is where Photon's added value is: in a business model that can grow in any solar downstream direction globally, while not overpaying for generation capacity expansion.

On our numbers, Photon is trading at 2023-25E EV/EBITDAs of 9.1-13.2x, a 27% discount vs. the peer average. Despite the low liquidity, we believe these multiples are attractive. Our peer valuation yields CZK 131/share, or 93% upside.

Peer valuation: EV/EBITDA

EUR000	2022E	2023E	2024E
Peer multiple	19.4	12.9	11.9
EBITDA	24,672	34,274	46,450
Net debt	149,050	161,031	244,936
Equity value	**328,768**	**281,400**	**309,946**
Average	305,084		
PT (CZK/share)	**131**		
Upside	*93%*		

Source: Bloomberg, WOOD Research

Valuation multiples of selected peers

Company		Mcap	ADTV 3M	EV/EBITDA			EBITDA growth			EBITDA margin		
		(EURm)	(EURm)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
ABO Wind	EUR	535	0.2	22.2	11.9	11.3	7%	4%	10%	21%	19%	21%
Encavis	EUR	2,428	0.1	14.5	13.7	13.5	-6%	8%	11%	72%	72%	71%
Grenergy Renovables	EUR	860	1.1	27.5	14.7	12.9	86%	342%	-37%	87%	96%	60%
Neoen	EUR	4,498	4.3	24.1	16.2	15.7	-13%	8%	11%	72%	72%	80%
Scatec	NOK	933	2.0	8.9	11.7	10.5	126%	47%	33%	35%	39%	52%
Solaria Energia	EUR	1,732	7.0	24.7	14.7	12.7	24%	18%	23%	82%	81%	100%
Voltalia	EUR	2,025	0.6	22.7	12.8	11.6	25%	27%	18%	73%	67%	79%
7C SolarParken	EUR	299	0.4	10.2	7.6	7.4	29%	29%	22%	85%	86%	105%
Average		**1,490**	**1.8**	**19.4**	**12.9**	**11.9**	**41%**	**68%**	**11%**	**65%**	**66%**	**71%**
Photon		**173**	**0.1**	**13.2**	**9.8**	**9.1**	**1%**	**39%**	**36%**	**18%**	**23%**	**27%**
Discount to its peers' delta				*-32%*	*-24%*	*-24%*	*-39%*	*-29%*	*24%*	*-47%*	*-42%*	*-44%*

Source: Bloomberg, WOOD Research

Risks

Power prices. Our model is based on Photon selling a large portion of its generated power through merchant pricing, opting out of the regulatory schemes where it can, until the market power price drops below the regulated one, if not before, after which the plants could return to regulated earnings, depending on the company's future strategy. We believe that our future power price estimates are conservative enough, but we stress that there is both upside and downside to our estimates, depending on future developments on both the European and Australian power markets. With most of the EBITDA coming from Electricity Generation. the risks are clearly skewed towards the generation segment, rather than the stable, services-like earnings of the other segments. Over time, once power prices fall and the other segments grow with the market (including the water treatment business) the power price risk should fall.

Regulatory risks. As with any other utility, the majority of Photon's EBITDA comes from power generation, which might again face risk of government intervention in all of the countries in which Photon operates, should power prices rally again. Since last year, Photon has been running most of its PV capacity at merchant pricing, and we have already seen changes in the renumeration schemes in the Czech Republic and Slovakia recently. Having said that, any form of price caps, additional changes in renumeration schemes or other measures, could result in downside for our current estimates and valuation.

Execution risk. In its last strategy update, which is currently on hold, the company planned to reach 600MW of generation capacity by 2024E, which would mean that its production capacity would grow almost sevenfold vs. its current capacity. Although the company has diversified through Lerta, and we believe it may present a new strategy soon, we see a notable risk to future execution, depending on the goals to be set.

Supply chain issues/inflated costs. While the LCOE of PV. has dropped by around 90% over the past two decades, and the recent price rise has been >20%/MW of PV capacity, the supply chain disruptions and the unprecedented demand for new solar capacity, coupled with inflation, could increase the company's capex/MW further, or delay the pipeline, due to missing components.

Disclosure and modelling. Considering our coverage universe, Photon has detailed disclosure for a small cap, and we see both the company and its majority shareholders as transparent. In our view, Photon is doing what it can do reach out to the market through a well-prepared IR team and improving segmental disclosure. That said, we still find it quite difficult to model the Engineering and Technology arms of the business, and their future added-value for Electricity Generation profitability, as well as their own long-term revenue growth and margins. Moreover, we prefer pencilling in conservative load factors in Romania, where Photon has built 32MW of new capacity, and believe our Lerta estimates are also cautious. Separately, neither the water business and its potential upside, or the giant 300MW RayGen project and the rights to it, are reflected fully in our numbers. Therefore, we may adjust our numbers in the future, in line with ongoing developments, observing the market trends, the company's performance and more detailed guidance on each of the projects mentioned above. We believe we are conservative in our assumptions, and see the risks as more skewed towards the upside than the downside.

Main shareholders. Mr. Hotar and Mr. Gartner, own around 70% of the company's shares. We are not aware that they are planning to dispose of their stakes, and we are pleased with the corporate governance at Photon, but we note that the business is highly dependent on their leadership, from the CEE capacity growth to new developments in Australia.

Competition. Photon operates in a very competitive space. It is a well-established player in each of the solar segments, and competes with both large, international players on larger-scale projects, as well as many more smaller players, focusing on smaller projects. Similarly, in the Engineering, Technology and O&M segments, the market is extremely competitive, and the company has yet to show the market that it can succeed in new regions, such as Poland and Romania.

Liquidity of the shares. Photon is traded in Prague, Warsaw and Germany. Being a small cap, the combined 3M daily liquidity stands at only EUR 0.1m.

Financials

Income statement

EURm	2021	2022E	2023E	2024E	2025E
Revenues	**36.8**	**95.7**	**137.3**	**147.6**	**171.3**
Raw materials and consumables used	-12.7	-43.9	-48.9	-78.1	-136.6
Solar levy	-0.9	-2.0	-2.0	-2.0	-2.0
personnel expenses	-6.7	-9.5	-9.8	-10.0	-10.0
Other expenses	-6.8	-15.9	-51.9	-23.2	23.8
EBITDA	**9.6**	**24.3**	**24.7**	**34.3**	**46.4**
Depreciation	-10.7	-8.9	-10.6	-13.0	-17.5
Impairments	-0.2	-0.7	-0.7	-0.7	-0.7
Gain (loss) on disposal of investments	0.5	2.2	2.2	2.2	2.2
Share of profit equity-accounted investments	0.1	0.1	0.1	0.1	0.1
EBIT	**-0.7**	**17.0**	**14.1**	**21.3**	**29.0**
Financial income	0.2	0.4	0.4	0.4	0.4
Financial expenses	-6.8	-9.5	-10.4	-10.5	-15.9
Profit before tax	**-5.9**	**8.7**	**4.0**	**11.2**	**13.4**
Result from discontinued operations	0.0	**0.0**	**3.7**	**3.8**	**11.4**
Income tax due/deferred	-0.5	-2.5	0.2	-2.1	-2.9
Profit/loss	**-6.4**	**6.3**	**7.5**	**12.4**	**21.5**

Source: Company data, WOOD Research

Balance sheet

EURm	2021	2022E	2023E	2024E	2025E
Current assets	**54.2**	**64.5**	**84.3**	**82.4**	**89.8**
Cash & equivalents	32.5	11.3	17.9	12.8	12.7
Trade receivables	9.1	18.7	22.9	23.9	26.3
Inventories	2.2	20.3	29.2	31.4	36.5
Other	10.4	14.3	14.3	14.3	14.3
Non-current assets	**142.5**	**189.3**	**193.8**	**235.9**	**325.4**
Tangible	127.5	145.5	150.1	192.2	281.7
Intangible	0.8	7.5	7.5	7.5	7.5
Other	14.1	36.2	36.2	36.2	36.2
Total assets	**196.6**	**253.8**	**278.1**	**318.3**	**415.2**
Current liabilities	**34.0**	**33.5**	**38.8**	**40.1**	**43.1**
Short-term debt	28.5	10.9	10.9	10.9	10.9
Trade payables	4.5	18.6	23.8	25.1	28.1
Other	1.0	4.0	4.0	4.0	4.0
Non-current liabilities	**111.1**	**149.8**	**161.3**	**187.8**	**260.2**
Long-term debt	98.3	135.0	146.5	173.0	245.3
Other	12.8	14.8	14.8	14.8	14.8
Total liabilities	**145.1**	**183.3**	**200.1**	**227.9**	**303.2**
Minority interests	-0.2	-0.2	-0.2	-0.2	-0.2
Shareholders' equity	**51.5**	**70.5**	**78.0**	**90.4**	**112.0**
Total liabilities and equity	**196.6**	**253.8**	**278.1**	**318.3**	**415.2**

Source: Company data, WOOD Research

Cash flow statement

EURm	2021	2022E	2023E	2024E	2025E
Profit before income tax	-5.9	8.7	4.0	11.2	13.4
Depreciation and amortisation	10.7	8.9	10.6	13.0	17.5
Finance costs	5.2	8.3	10.1	10.1	15.6
Other	3.7	-5.4	-9.7	-9.7	-17.3
Operating cash flows before WC changes	**13.7**	**20.5**	**15.0**	**24.5**	**29.1**
WC changes	-5.0	-15.9	-7.9	-1.9	-4.5
Income tax paid	-2.3	-1.7	-0.2	2.1	2.9
Other	-0.1	0.0	0.0	0.0	0.0
Net cash from operating activities	**6.2**	**2.8**	**6.9**	**24.7**	**27.5**
Capex	-8.6	-33.8	-15.2	-55.1	-106.9
Other	-5.6	0.4	3.7	3.8	11.4
Net cash used in investing activities	**-14.2**	**-33.4**	**-11.4**	**-51.4**	**-95.5**
Net proceeds from borrowings	29.8	20.6	21.6	32.0	83.9
Other	-6.9	-11.2	-10.4	-10.5	-15.9
Capital increase	7.8	0.0	0.0	0.0	1.0
Net cash used in financing activities	**30.6**	**9.3**	**11.2**	**21.5**	**68.0**

Source: Company data, WOOD Research

Important disclosures

This publication is issued by WOOD & Company Financial Services, a.s. ("WOOD&Co") and/or one of its branches who are authorised and regulated by the Czech National Bank (CNB) as Home State regulator and in Poland by the Polish Financial Supervision Authority (KNF), in Slovakia by the National Bank of Slovakia (NBS), in Italy by the Companies and Stock Exchange Commission (CONSOB), in Ireland by Central Bank of Ireland (CBI), in Romania by National Bank of Romania (NBR) and in the UK by the Financial Conduct Authority (FCA) as Host State regulators.

This investment research has been commissioned by Photon Energy and prepared by WOOD&Co. in consideration of a fee payable by Photon Energy. This investment research was prepared by WOOD&Co. independently as an outsider's view in accordance with applicable laws. The draft of any investment research commissioned by the subject company might be sent to the subject company before publication for factual check. In accordance with WOOD&Co.'s policies: i) the factual check made by the subject company is limited to the verification of the factual accuracy of the investment research draft; and ii) the investment research draft sent for factual check to the subject company cannot include a valuation, an investment summary, a recommendation or a price target, as the case may be.

This investment research was completed on 29/06/2023 at 19:30 CET and disseminated on 30/06/2023 at 07:30 CET.

WOOD&Co's ratings and price target history for Photon Energy in the preceding 12 month period

Date	Rating	Date	PT
25/05/2022	BUY - initiation of coverage	25/05/2022	CZK 84.0
		21/07/2022	CZK 90.0
		16/01/2023	CZK 105
		30/06/2023	CZK 101

The history of all WOOD&Co's investment research disseminated during the preceeding 12-month period can be accessed via our website at **https://research.wood.com**.

The meanings of recommendations made in WOOD&Co's investment research are as follows:
BUY: The stock is expected to generate total returns of over 15% during the next 12 months as measured by the price target.
HOLD: The stock is expected to generate total returns of 0-15% during the next 12 months as measured by the price target.
SELL: The stock is expected to generate a negative total return during the next 12 months as measured by the price target.
RESTRICTED: Financial forecasts, and/or a rating and/or a price target is restricted from disclosure owing to Compliance or other regulatory/legal considerations such as a blackout period or a conflict of interest.
NOT RATED: Suspension of rating after 30 consecutive weekdays where the current price vis-à-vis the price target has been out of the range dictated by the current BUY/HOLD/SELL rating.
COVERAGE IN TRANSITION: Due to changes in the Research team, the disclosure of a stock's rating and/or price target and/or financial information are temporarily suspended.

As of the end of the last calendar quarter, the proportion of all WOOD&Co's investment research vis-à-vis the proportion of subject companies that were investment banking clients over the previous 12 months is as follows:

	BUY	HOLD	SELL	Restricted	NOT RATED	Coverage in transition
Equity Research Coverage	61%	32%	6%	1%	n.a.	n.a.
IB Clients	1%	1%	n.a.	n.a.	n.a.	n.a.

Any prices of financial instruments quoted in this investment research are taken as of the previous day's market close on the home market unless otherwise stated.

Details of the methodologies used to determine WOOD&Co's price targets and risk assessment related to the achievement of the targets are outlined throughout the most recent substantive report/note on the subject company.

It should be assumed that the risks and valuation methodology presented in daily news or flash notes, and not changing WOOD&Co's estimates or ratings, are as set out in the most recent substantive research report/note on the subject company and can be found on our website at **https://research.wood.com**.

WOOD&Co's policy is to update investment research as it deems appropriate, based on developments in the subject company, sector or market that may have a material impact on the views or opinions stated in the investment research.

WOOD Research Disclosures (as of 30 June 2023)

Company	Disclosures
Alior Bank	5
AmRest	5
Astarta Holding	4
Banca Transilvania	5
Bank of Cyprus	4
BRD	5
Bucharest Stock Exchange	5
CCC	5
CD Projekt	5
Colt CZ Group	3, 5
CEZ	5
Dino	5
DO&CO	5
Electrica	5
Erste Group Bank	5
Eurobank	4
Eurocash	5
Fondul Proprietatea	4, 5
Kazatomprom	5
Kernel	5
KGHM	5
Kofola CS	5
Komercni	4, 5
Kruk	5
Lotos	5
MedLife	4
MONETA Money Bank	5
Mo-BRUK	3
NLB Group	5
Nuclearelectrica	5
O2 Czech Republic	4, 5
OMV Petrom	5
Orange PL	5
Pekao	4, 5
PGE	5
PGNiG	5
Philip Morris CR	5
PKN Orlen	5
PKO BP	4, 5
PZU	4, 5
Romgaz	5

Santander Bank Polska	**5**
Siauliu Bankas	**5**
TBC Bank	**3**
Transelectrica	**5**
Transgaz	**5**

#	Description
1	The company currently is, or in the past 12 months was, a client of WOOD&Co or any of its affiliates for the provision of corporate finance/investment banking services.
2	In the past 12 months, WOOD&Co or any of its affiliates have received compensation for corporate finance/investment banking services from the company.
3	In the past 12 months, WOOD&Co or any of its affiliates have been lead manager or co-lead manager of a publicly disclosed offer of the company's financial instruments.
4	In the past 12 months, WOOD&Co or any of its affilates have acted as broker to the company
5	WOOD&Co or any of its affiliates are market maker(s) or liquidity provider(s) in relation to financial instruments of the company.
6	In the past 12 months, WOOD&Co or any of its affiliates have provided to the company any services set out in Sections A and B or Annex I to the Directive 2014/65/EU of the European Parliament and of the Council, other than services listed under points 1, 3, 4 or 5 above, or received compensation for such services from the company.
7	The authoring analyst or any individual involved in the preparation of this investment research have purchased/received shares in the company prior to a public offering of those shares; and the price at which they were acquired along with the date of acquisition are disclosed above.
8	The authoring analyst or any individual involved in the preparation of this investment research has a direct ownership position in securities issued by the company.
9	A partner, director, officer, employee or agent of WOOD&Co and its affiliates, or a member of his/her household, is an officer, or director, or serves as an advisor or board member of the company.
10	WOOD&Co or its affiliates hold a net long or short position exceeding the threshold of 0,5% of the total issued share capital of the company, calculated in accordance with Artcle3 of Regulation (EU) No 236/2012 and with Chapters III and IV of Commission Delegated Regulation (EU) No 918/2012.
11	The company owns more than 5% of the total issued share capital in WOOD&Co or any of its affiliates.

The authoring analysts who are responsible for the preparation of this investment research have received (or will receive) compensation based upon (among other factors) the overall profits of WOOD&Co, which includes corporate finance/investment banking, sales and trading and principal trading revenues. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific activities, or to recommendations contained in the investment research. One factor in equity research analyst compensation is arranging corporate access events/meetings between institutional clients and the management teams of covered companies (with the company management being more likely to participate when the analyst has a positive view of the company).

WOOD&Co and its affiliates may have a corporate finance/investment banking or other relationship with the company that is the subject of this investment research and may trade in any of the designated investments mentioned herein either for their own account or the accounts of their clients, in good faith or in the normal course of market making. Accordingly, WOOD&Co or their affiliates, principals or employees (other than the authoring analyst(s) who prepared this investment research) may at any time have a long or short position in any such designated investments, related designated investments or in options, futures or other derivative instruments based thereon.

WOOD&Co manages conflicts of interest arising as a result of preparation and publication of research through its use of internal databases, notifications by the relevant employees and Chinese Walls as monitored by Compliance. For further details, please see our website at **https://www.wood.cz/mifid-information/**.

The information contained in this investment research has been compiled by WOOD&Co from sources believed to be reliable, but (with the exception of the information about WOOD&Co) no representation or warranty, express or implied, is made by WOOD&Co, its affiliates or any other person as to its fairness, accuracy, completeness or correctness. WOOD&Co has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this investment research constitute WOOD&Co' judgement as of the date of this investment research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

WOOD&Co salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients and our proprietary trading desk that reflect opinions that are contrary to the opinions expressed in this investment research. WOOD&Co's affiliates, proprietary trading desk and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this investment research.

This investment research is provided for information purposes only and does not constitute or form part of an offer or invitation or solicitation to engage in investment activity or to buy or sell any designated investments discussed herein in any jurisdiction. As a result, the designated investments discussed in this investment research may not be eligible for offer or sale in some jurisdictions. This investment research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction.

This investment research is prepared for general circulation to WOOD&Co's clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should consider this report as only a single factor in making their investment decision and obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of WOOD&Co, its affiliates or any other person accepts any liability whatsoever for any direct or consequential loss arising from or in connection with the use of this investment research.

For United Kingdom or EU Residents:
This investment research is only for persons who are eligible counterparties or professional clients within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 (or any analogous legislation) on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations, etc.) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or Europe to retail clients, as defined under the rules of the Financial Conduct Authority.

For United States Residents:
This investment research distributed in the United States by WOOD&Co, and in certain instances by Brasil Plural Securities LLC ("Brasil Plural"), a U.S. registered broker dealer, only to "major U.S. institutional investors", as defined under Rule 15a-6 promulgated under the U.S. Securities Exchange Act of 1934, as amended, and as interpreted by the staff of the U.S. Securities and Exchange Commission ("SEC"). This investment research is not intended for use by any person or entity that is not a major U.S. institutional investor. If you have received a copy of this research and are not a major U.S. institutional investor, you are instructed not to read, rely on or reproduce the contents hereof, and to destroy this research or return it to WOOD&Co or to Brasil Plural. Analyst(s) preparing this report are employees of WOOD&Co who are resident outside the United States and are not associated persons or employees of any U.S. registered broker-dealer. Therefore the analyst(s) are not be subject to Rule 2711 of the Financial Industry Regulatory Authority ("FINRA") or to Regulation AC adopted by SEC which, among other things, restrict communications with a subject company, public appearances and personal trading in securities by a research analyst. Any major U.S. Institutional investor wishing to effect transactions in any securities referred to herein or options thereon should do so by contacting a representative of Brasil Plural. Brasil Plural is a broker-dealer registered with the SEC and a member of FINRA and the Securities Investor Protection Corporation. Its address is 545 Madison Avenue, 8th Floor, New York, NY 10022 and its telephone number is 212-388-5613. WOOD&Co is not affiliated with Brasil Plural or any other U.S. registered broker-dealer.

The views and sentiments expressed in this investment research and any findings thereof accurately reflect the analyst's truthful views about the subject securities and or issuers discussed herein.

WOOD & COMPANY

CONTACTS

Czech Republic
namesti Republiky 1079/1a
Palladium
110 00 Praha 1
Czech Republic
Tel +420 222 096 111
Fax +420 222 096 222

Poland
Centrum Marszalkowska
Marszalkowska 126/134
7th Floor
00 008 Warszawa
Poland
Tel +48 22 222 1530
Fax +48 22 222 1531

UK
16 Berkeley Street
London
W1J 8DZ

Tel +44 20 3530 0691

Italy
Via Luigi Settembrini, 35
20124 Milan
Italy

Tel +39 02 36692 500

Kristen Andrasko
Head of Equities
+420 222 096 253
kristen.andrasko@wood.com

Bloomberg page
WUCO

www.wood.com

Romania
Lamda Building
7A Bucuresti-Ploiesti Street
4th Floor
013682 Bucharest 1
Tel.: +40 316 30 11 81

Research

Co-Head of Research/ Head of Research Poland
Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Co-Head of Research/Head of Greek Research
Alex Boulougouris
+30 216 200 5261
alex.boulougouris@wood.com

Head of Consumer/Industrials
Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Macroeconomics
Raffaella Tenconi
+44 20 3530 0685
raffaella.tenconi@wood.com

Head of Turkey Research
Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Head of Romania Research
Iuliana Ciopraga
+40 316 30 1185
iuliana.ciopraga@wood.com

Head of Financials
Can Demir
+44 20 3530 0623
can.demir@wood.com

Macroeconomics
Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Head of TMT
Piotr Raciborski
+48 22 222 1551
piotr.raciborski@wood.com

Energy
Jonathan Lamb
+44 20 3530 0621
jonathan.lamb@wood.com

Utilities/Mining/Pharma
Bram Buring
+420 222 096 250
bram.buring@wood.com

Consumer/Real Estate
Jakub Caithaml
+420 222 096 481
jakub.caithaml @wood.com

Energy/Utilities
Ondrej Slama
+420 222 096 484
ondrej.slama@wood.com

Gaming/Mid-caps
Maria Mickiewicz
+48 602 450 718
maria.mickiewicz@wood.com

Turkey
Can Yurtcan
+420 222 096 780
can.yurtcan@wood.com

Greece
Fani Tzioukalia
+30 216 200 5260
fani.tzioukalia@wood.com

Russia
Dmitry Vlasov
+44 750 714 6702
dmitry.vlasov@wood.com

Financials
Miguel Dias
+420 735 729 418
miguel.dias@wood.com

Real Estate
Peter Palovic
+420 222 096 486
peter.palovic@wood.cz

Sales

Head of Sales
Kristen Andrasko
+420 222 096 253
kristen.andrasko@wood.cz

Ilgin Erdogan
+420 222 096 708
ilgin.erdogan@wood.com

Jan Koch
+48 22 222 1616
jan.koch@wood.com

Piotr Kopec
+48 22 222 1615
piotr.kopec@wood.com

Ioana Pop
+44 20 3530 0693
ioana.pop@wood.com

Michal Sergejev
+420 732 297 143
michal.sergejev@wood.com

Grzegorz Skowronski
+48 22 222 1559
grzegorz.skowronski@wood.com

Jarek Tomczynski
+48 22 222 1611
jarek.tomczynski@wood.com

Tatiana Sarandinaki
Brasil Plural in association with WOOD&Co.
1 212 388 5613
tsarandinaki@wood-brasilplural.com

Sales Trading and Execution Services

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Ermir Shkurti
+420 222 096 847
ermir.shkurti@wood.com

Vladimir Vavra
+420 222 096 397
vladimir.vavra@wood.com

RECENTLY PUBLISHED REPORTS

Date	Company/Sector	Title	Analyst
28/06/23	AUGA Group	Agtech direction clearly set	Ondrej Slama; Peter Palovic
28/06/23	WAG Payment Solutions (Eurowag)	Democratising digitalisation for small truckers	Bram Buring, Peter Palovic
2706/23	Kaspi.kz	Consumer credit deep dive	Can Demir; Miguel Dias
26/02/23	EME Macro/Strategy	Macro all-in-one (19-25 June)	Raffaella Tenconi, Alessio Chiesa
22/02/23	Ignitis Group	Green gold	Ondrej Slama, Bram Buring
21/06/23	Solutions by STC	M&A as the next stage of growth	Dmitry Vlasov, Piotr Raciborski
19/06/23	EME Macro/Strategy	Macro all-in-one (12-18 June)	Raffaella Tenconi, Alessio Chiesa
19/06/23	Lamda Development	A bet on the transformation of Athens	Jakub Caithaml, Peter Palovic
13/06/23	Wirtualna Polska	M&A-fuelled expansion ahead	Piotr Raciborski, Lukasz Wachelko
12/06/23	EME Macro/Strategy	Macro all-in-one (5-11 June)	Raffaella Tenconi, Alessio Chiesa
07/06/23	European Oil and Gas Monthly	May 2023	Jonathan Lamb, Ondrej Slama
06/06/23	Halyk Bank	Dividends, and then some	Can Demir, Alex Boulougouris
05/06/23	EME Macro/Strategy	Macro all-in-one (29 May-4 June)	Raffaella Tenconi, Alessio Chiesa
02/06/23	The Rear-View Mirror – EME markets	Stellar performance from Greece	Research Team