

TGN RO: 2026 budget points to sharp earnings decline on cost pressure; overly cautious in our view | SLIGHTLY NEGATIVE

* TGN RO: Transgaz published its 2026 budget. The company estimates, on a standalone basis, a 52% Y/Y decline in net profit to RON 379m (vs RON 788m in 2025), mainly as a result of a 25.5% increase in operating expenses, more than offsetting the 3.6% growth in operating revenues. Core operating revenues are expected to reach RON 2.82b, supported by higher capacity reservations (driven by volumes, despite lower average tariffs) and a modest uplift in the volumetric component.

* 2027-2028 projections indicate net profit of RON 320m (-15% Y/Y) and RON 561m (+75% Y/Y), respectively, largely reflecting cost dynamics, while revenues are expected to grow by 9% in 2027 and 5% in 2028.

* The company plans capex of RON 1.3b in 2026, followed by RON 1.7b in 2027 and RON 1.2b in 2028.

* **Our view:** We see the 2026 budget as overly cautious, particularly on the cost side, consistent with Transgaz's track record of building buffers. For reference, the 2025 budget implied net profit of RON 345m, while actual results reached RON 788m. Revenues remain anchored by the regulated income framework (RON 2.30b approved for the October 2025-September 2026 gas year, +15% Y/Y). At the same time, the company incorporates negative revenue adjustments related to prior over-recovery, including RON 319.8m (for 2024-2025 gas year) and RON 131.5m (2025-2026 gas year), proposed to be spread across the full RP5 period, alongside a RON 52.6m annual correction linked to efficiency gains redistribution applied in the 2026-2027 gas year. Overall, in our view prior overperformance will weigh on regulated revenues, but multi-year spreading should dilute the impact, with results likely to come in above budget, though still lower Y/Y | **SLIGHTLY NEGATIVE**