2020 Q1 IN RETROSPECT

ALTEO (the "Company") reported Q1 earnings on 18 May 2020. The Company's revenue grew by 39%, while EBITDA increased by 156% year over year. 2019 and 2020 (till date) was a productive year in the Company's life.

The main driver behind the revenue and EBITDA growth was the volume increase of the energy trading segment and the increase in the heat and electricity production under KÁT regime. ALTEO acquired 100% of the EURO-GREEN Energy Kft. in the spring of 2019. EURO GREEN ENERGY has operated 13 wind turbine units near Böny since 2008. The total electricity production capacity of the power plant is 25 MW, which is sold through the KÁT system by 2023. As a result to the acquisition and the investments in solar power plants the total electricity power capacity of the renewable segment grew to 50-55 MW. The capacity of the market-based segment is approximately 60 MW.

On 25 November 2019 the management of the Company has issued renewed guidance on the Company's future earnings and investment opportunities. According to the investor presentation the Company will focus on both new; such as waste management, electric mobility, METÁR; and/or old segments, like the Control Center also known as Virtual Power Plant (**VPP**), energy services or energy trading. In total, the capital expenditure through 2024 can reach HUF 20 billion. The Company wants to reach EBITDA of HUF 7 billion by the end of 2024. Nowadays ALTEO's EBITDA capacity is approximately HUF 4-4.2 billion.

In recent years the technological change has reached the utility sector, in the form of more efficient energy storage, artificial intelligence, microgrid, decentralization, peer to peer energy trading based on blockchain to name a few. The new strategy of the Company; which also contains some new strategic actions, like AI-based production management and optimization, new R&D&I tenders, E-mobility or waste management; confirms that we are still dealing with a growth story.

In the investor presentation the Management wrote:

"In the first quarter, the pandemic has not spread in Hungary at a rate that would have substantially impacted the Group's profitability. Given that a significant portion of the profitability of ALTEO's activities is less vulnerable to changes of the economic cycle, it is the

opinion of ALTEO's management that as a result of COVID-related precautionary measures taken ensuring uninterrupted operation, in comparison to companies active in other, more pro-cyclical sectors, ALTEO is less likely to be impacted by the pandemic and the resulting economic downturn."

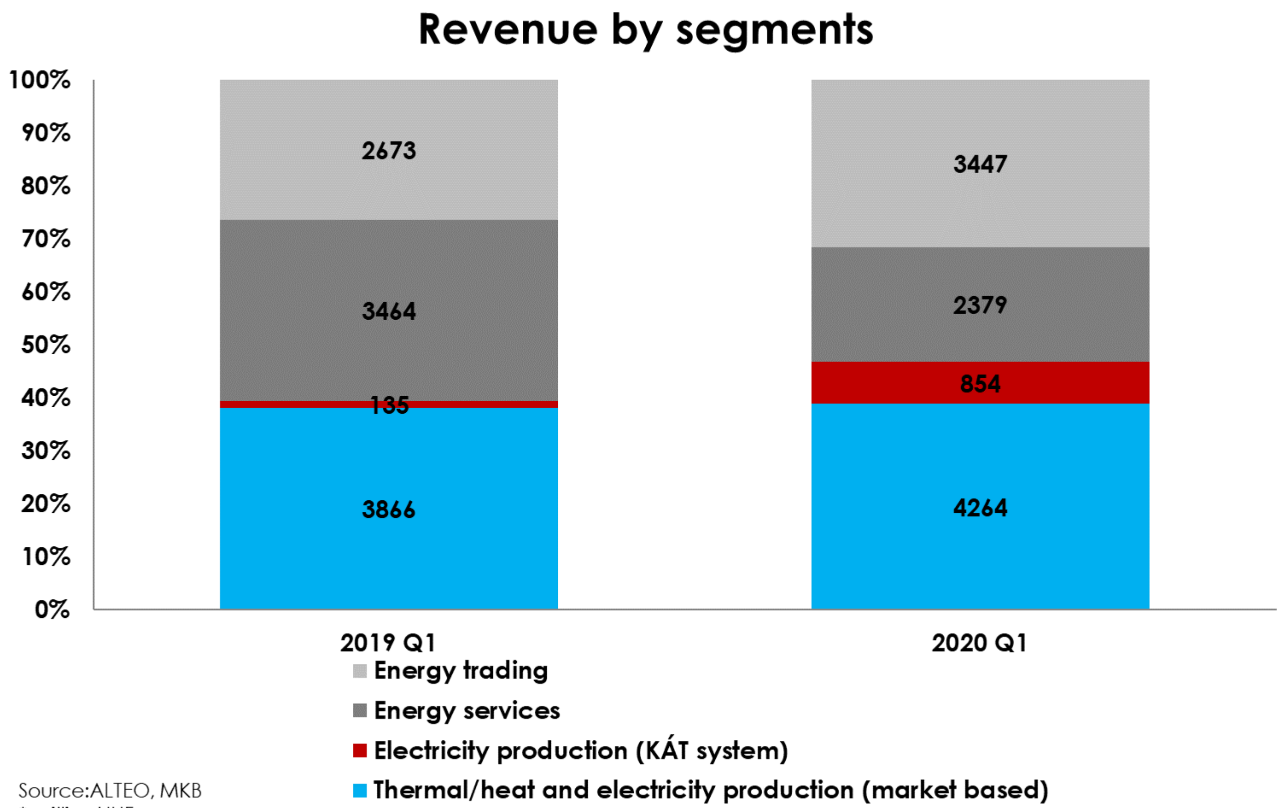
At the same time, it is hard to assess the real negative economic effects of the pandemic. There are also several discussions about the shape of the economy recovery (V, L or U shaped). The recent situation confirmed again that most of the economic data are not normally distributed, see for example the US unemployment data which produced 20-40 sigma movements. Therefore, it is not easy to take into considerations the above-mentioned factors in any model.

Results by segments

million HUF	2019 Q1	2020 Q1	Δ
Thermal/heat and electricity production (market based)	3866	4264	10%
Electricity production (KÁT system)	135	854	533%
Energy services	3464	2379	-31%
Energy trading	2673	3447	29%
Other	100	110	10%
Revenue	**6494**	**9058**	**39%**
Thermal/heat and electricity production (market based)	266	290	9%
Electricity production (KÁT system)	82	726	785%
Energy services	636	254	-60%
Energy trading	66	107	62%
Other	-171	-216	-26%
EBITDA	**454**	**1160**	**156%**
EBITDA margin			
Thermal/heat and electricity production (market based)	6,9%	6,8%	-0,1%
Electricity production (KÁT system)	60,7%	85,0%	24,3%
Energy services	18,4%	10,7%	-7,7%
Energy trading	2,5%	3,1%	0,6%

Source: ALTEO, MKB

On the bottom line, the net profit increased by HUF 415 million from HUF -24 million to HUF 391 million. The main driver behind the increase of net earnings was the higher operating profit and the improvement in the financial profit.



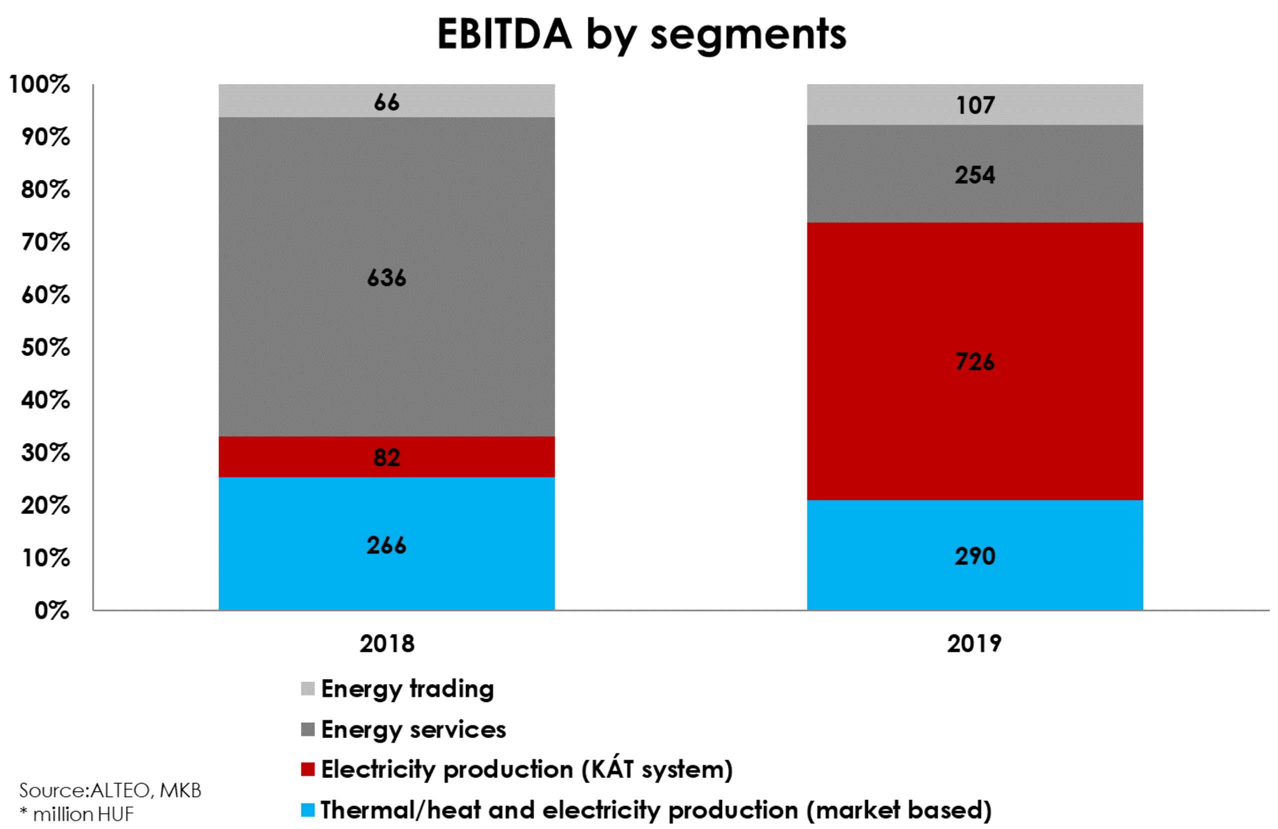
Source:ALTEO, MKB
* million HUF

RESULTS BY SEGMENTS

<u>Production of heat/thermal and electricity (market based):</u> the revenue and the EBITDA increased by 10% and 9% on a yearly basis. The COGS (costs of goods sold) increased by 2%, but the personnel expenditures grew by 87%, which is the result of the expansion of the Control Centrer, aka Virtual Power Plant.

In recent months the wind power plants and hydropower systems has been integrated into the Control Center which exhausted the electricity production in the KÁT system. These power plants were reclassified into the market-based production segment. The wind power plants are operating efficiently in tandem with gas-fired power plants due to the volatility of the weather. So it is crucial to implement properly the power plants in the VPP (Control

Center).



Source:ALTEO, MKB
* million HUF

Electricity production (KÁT system): both the revenue and the EBITDA increased (by 533% and 785%, YoY). The KÁT segment has the highest EBITDA margin (approx.: 60-80%), so it is a crucial point to offset the exhausted limits. In the summer of 2019 two solar power plants started to operate with 7-7 MW capacity. The Company acquired 100% of the EURO-GREEN Energy, which has operated 13 wind power plant near Böny since 2008. The capacity of the wind power plant is approximately 25 MW and sell the produced energy through KÁT system by the end of 2023. The total capacity of this segment reached approximately 50-55 MW.

The Debrecen landfill gas power plant has exhausted its KÁT quota so this item slightly decreased the segment's earnings.

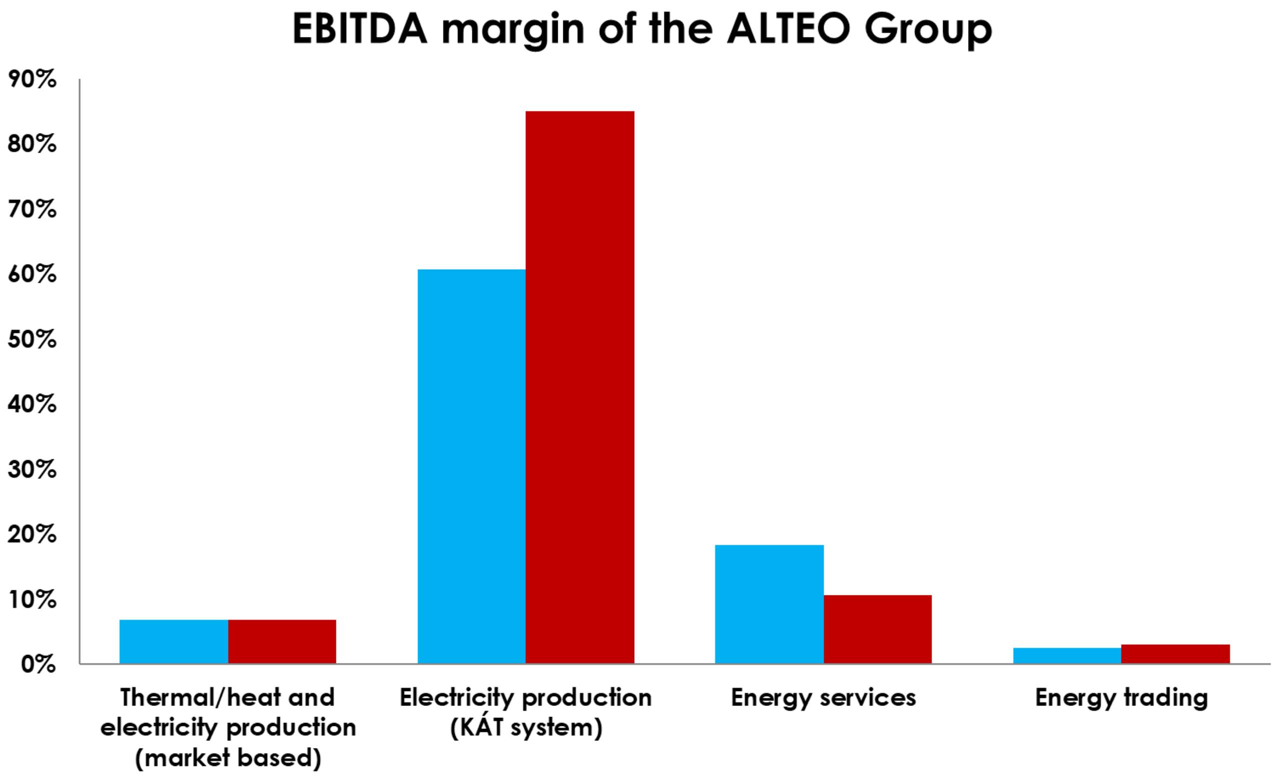
Energy services: The revenue decreased by 31% and the EBITDA decreased 60%. Last year the Group was mainly focusing on self-implemented solar plan projects, but at the same time number of external buyers (such as MOL, DUFI, BERT, LEGO, Gönyű powerplant, Borsodchem, Siemens, Főtáv)also expanded.

In the first quarter of 2020, the energy services' EBITDA from the self-implemented projects was HUF 0, so all of the EBITDA was realized through services to third parties. The segment's

EBITDA without self-implemented projects could grow by 21% from HUF 210 million to HUF 254 million.

Energy trading: The revenue increased by 29% and the EBITDA increased by 61%. The segment increased its market share in the electricity business, but the gas trading unit also produced growth.

In the quarterly report, the Company mentioned that the impact of the COVID pandemic has been already felt in the segment's operation, but it may be more severe in the second quarter because of the lower electricity need of the customers. In the managements' view seasonal effects will have a lower impact on the gas segment.



Source: ALTEO, MKB

CONCLUSION

The annual and Q1 financial and operational figures were in line with our expectations. The investments are slowly paying off, so our long-term forecast hasn't changed. The Company will make several additional investments, capital expenditures in the future so the EBITDA capacity can grow from approximately HUF 4-4.2 billion to approximately HUF 6.5-7 billion, which based also on the Management's new guidance. For further information please read our flash note on 17. December 2019.

We don’t change our DCF model, our one year target price remains at HUF 1070.

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Prior researches

MKB Bank wrote an initiation report on 15 December 2017. The research is available on the web page of the BSE (Budapest Stock Exchange):

https://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/alteo-elemzesek

MKB Bank wrote flash notes on 12 January 2018, and on 31 January 2018, 8 February 2018, 2 March 2018, 19 March 2018 and 11 May 2018. These researches are available on the web page of the BSE (Budapest Stock Exchange):

https://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/alteo-elemzesek

Methodology used for equity valuation and recommendation of covered companies

The discounted cash flow valuation is a method of valuing a company (or project, assets, business, etc.) with the time value of the money. The model forecasts the company's free cash flow (free cash flow to firm) and discounts it with the average cost of capital (WACC). The cash flow is simply the cash that is generated by a business and which can be distributed to investors. The free cash flow represents economic value, while accounting metric like net earning doesn't. The WACC represents the required rate of return by the investors. If a business is risky the required rate of return, the WACC will be higher.

Discounted cash flow model (DCF): We analyze the companies using five year forecast period and set a terminal value based on the entity's long term growth or on different exit multiples like EV/EBITDA or EV/EBIT. In certain cases the forecast period may differ from five years. In this case the analysts must define the reason for difference. The cash flows are discounted by the company's WACC unless otherwise specified.

In the first step we have to forecast the company's cash flow. The free cash flow to firm (FCFF) is based on the earnings before interest and taxes (EBIT), the tax rate, depreciation and amortization (D&A), net change in working capital (which is based on the current assets and current liabilities) and the capital expenditures (CAPEX). The model requires a terminal value which can be based on the long term growth or on an exit multiple like EV/EBITDA, or EV/EBIT. Forecasting the terminal value is a crucial point because in most cases it makes up more than 50% of the net present value.

The discount rate (WACC): The average cost of capital of the company is dependent on the industry, the risk free rate, tax, the cost of debt and the equity risk premium. The cost of equity is calculated by the CAPM model, where the independent variables are the risk free rate, the industry specific levered beta, and the equity risk premium. The WACC is dependent on the capital structure, so the forecast of the equity/debt mix is crucial.

At the end we get the enterprise value (EV). The EV is the market capitalization plus the total debt and preferred equity and minority interest, minus the company's cash. In the last step we have to reduce the EV with the net debt. This figures divided by the shares outstanding we arrive at the target share price.

The discounted cash flow model includes sensitivity analysis which takes the effects of the change in the WACC, the long term growth or the used exit multiples on which the terminal value is based.

Our target price is based on a 12 month basis, ex-dividend unless stated otherwise.

Peer group valuation: For comparison we use peer group valuation. The analysis based on important indicators and multiples like P/E, EV/EBITDA, EV/EBIT, market capitalization, P/S, EBITDA margin, net debt to EBITDA, EBITDA growth, dividend yield and ROIC. If the industry justifies we may use other multiples. The peer group is compiled according to the companies' main business, with respect to the region (DM or EM market).

Recommendations

- Overweight: A rating of overweight means the stock's return is expected to be above the average return of the overall industry, or the index benchmark over the next 12 months.
- Underweight: A rating of underweight means the stock's return is expected to be below the average return of the overall industry, or the index benchmark over the next 12 months.
- Equal-weight: A rating of equal-weight means the stock's return is expected to be in line with the average return of the overall industry, or the index benchmark over the next 12 months.
- Buy: total return is expected to exceed 10% in the next 12 months.
- Neutral: Total return is expected to be in the range of -10 - +10% In the next 12 months.
- Sell: Total return is expected to be below -10% in the next 12 months.
- Under revision: If new information comes to light, which is expected to change the valuation significantly.

Change from the prior research

Our research was published on 15 December 2017. In that Initial Coverage our price target was HUF 823 but the in fundamental factors and the latest acquisition justified the update of our model. Our new price target is HUF 1070.