2021 H1 IN RETROSPECT

ALTEO (the "Company") reported H1 earnings on 30 August 2021. The Company's revenue grew by 22%, while EBITDA increased by 98% year over year.

The main driver behind the revenue growth was the volume increase of the energy trading segment, the increasing capacity and revenue of the Alteo Control Center (virtual power plant or "VPP") and the bigger energy production capacity as a result of the newly implemented power plants and acquisitions. However, the lower level of the external construction works lowered the revenue.

On 15 October 2020, the Company acquired 100% of the Pannon Szélerőmű Kft. near Győr. The acquired company has operated seven wind turbine units. The total electricity production capacity of the power plant is 15 MW, which is sold through the KÁT system by the middle of 2025.
In the end of 2020, ALTEO completed the Gibárt Hydropower plant's reconstruction works, with a total cost of HUF 1.2 billion. The hydropower plant's total electricity capacity is 1MW, which is projected to be sold through KÁT by 2035.
As a result of the acquisition and the investments in solar power plants the total electricity power capacity of the renewable segment increased further, to 65-70 MW.

The Company implemented six gas-fired motors in 2020, five in Győr and one in Tiszaújváros. The total capacity of the six gas fired motors is 18MW, 3 MW each. The total cost of the project was approximately HUF 2 billion.
As a result of the above, the total electricity power capacity in the market-based segment reached ca. 70 MW.

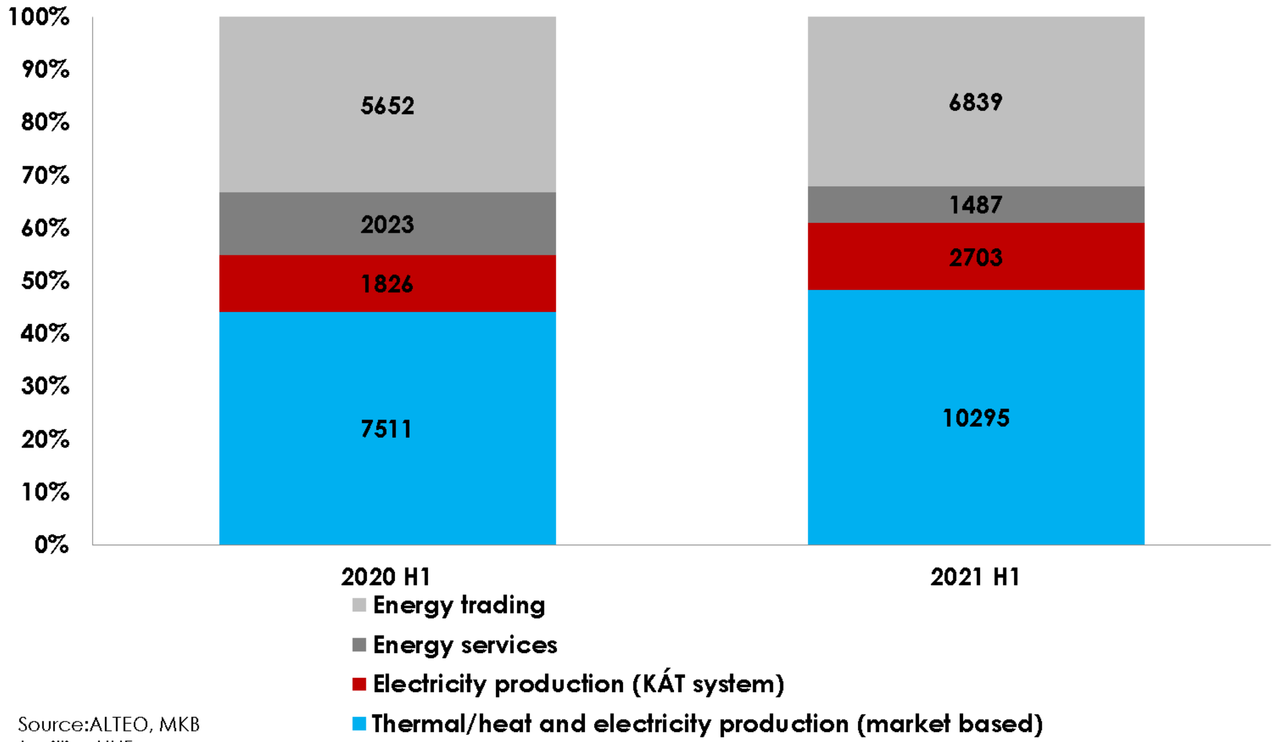
The depreciation and amortization grew significantly because of the higher assets base. In the quarter the costs of the CO_2 increased but it was offset by the recovering of trade receivables.

Results by segments

million HUF	2020 H1	2021 H1	Δ
Thermal/heat and electricity production (market based)	7511	10295	37%
Electricity production (KÁT system)	1826	2703	48%
Energy services	2023	1487	-26%
Energy trading	5652	6839	21%
Other	0	0	0%
Revenue	**16164**	**19781**	**22%**
Thermal/heat and electricity production (market based)	1677	4138	147%
Electricity production (KÁT system)	1536	2260	47%
Energy services	120	-110	-192%
Energy trading	45	390	767%
Other	-241	-466	-93%
EBITDA	**3137**	**6213**	**98%**
EBITDA margin			
Thermal/heat and electricity production (market based)	22,3%	40,2%	17,9%
Electricity production (KÁT system)	84,1%	83,6%	-0,5%
Energy services	5,9%	-7,4%	-13,3%
Energy trading	0,8%	5,7%	4,9%

Source: ALTEO, MKB

Revenue by segments



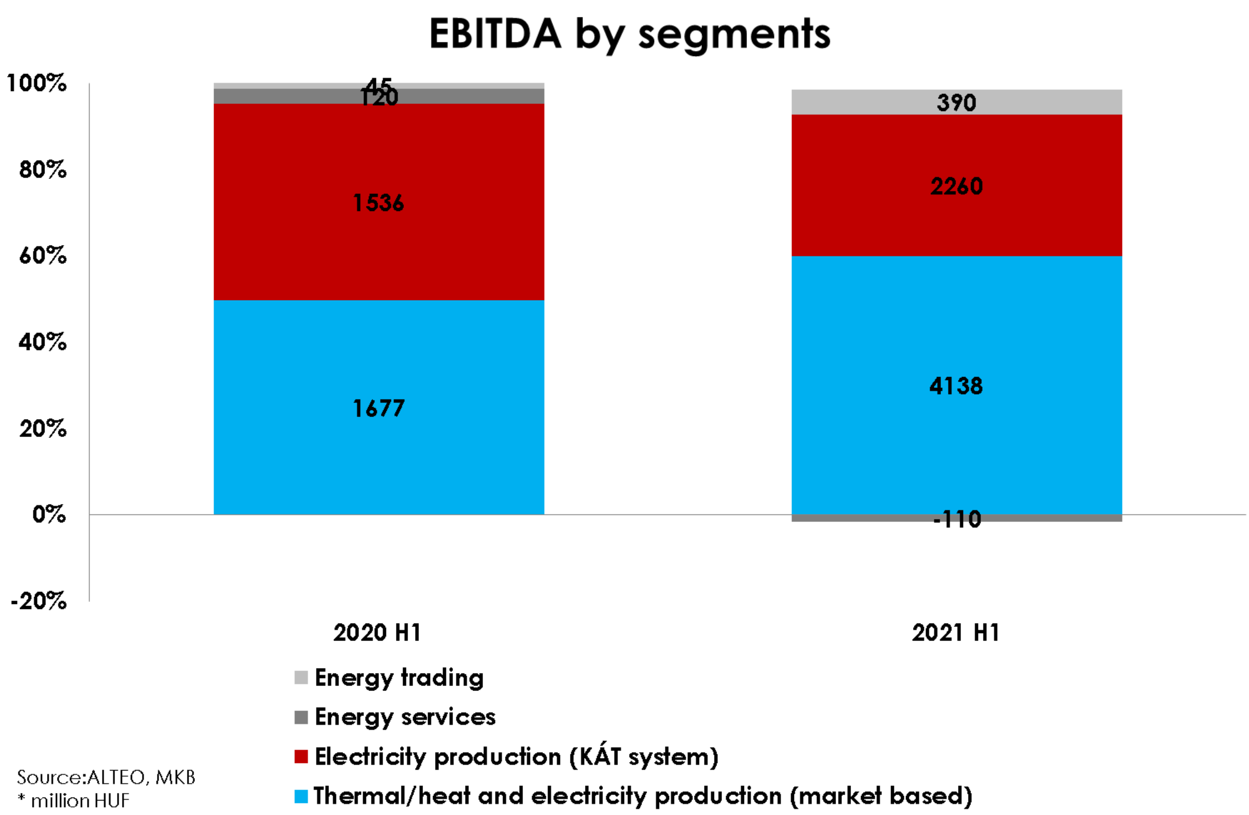
Source:ALTEO, MKB
* million HUF

RESULTS BY SEGMENTS

Production of heat/thermal and electricity (market based): the revenue and the EBITDA increased by 37% and 147% on a yearly basis. The COGS (costs of goods sold) decreased because of the lower gas price. The driver behind the revenue growth was the capacity market revenue and the regulatory revenue.

In recent years some wind power plant and hydropower systems has been integrated into the Alteo 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. Therefore, it is crucial to implement properly the power plants into the Alteo Control Center ("VPP").

The segment EBITDA margin grew significantly because of the lower costs and the efficient operation of the Control Center.



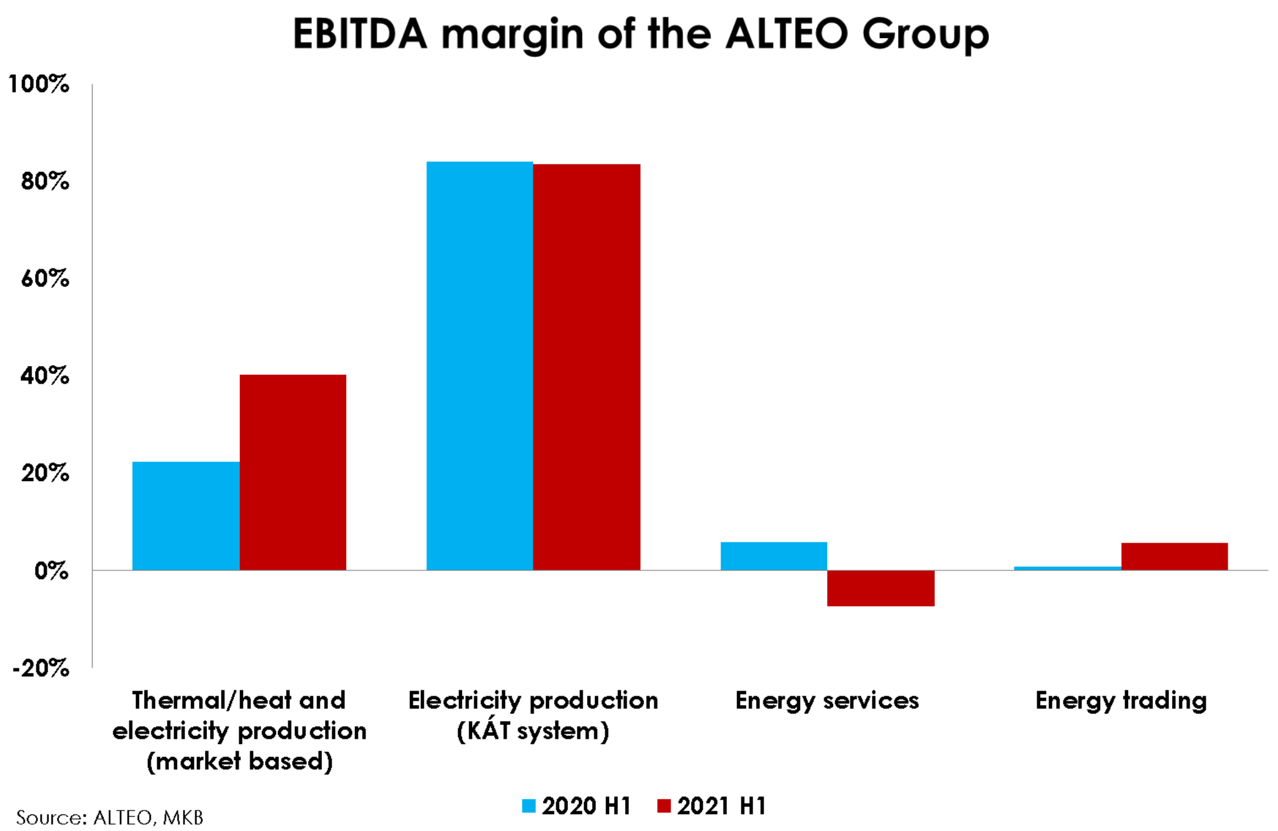
Source:ALTEO, MKB
* million HUF

Electricity production (KÁT system): both the revenue and the EBITDA increased by 48% and 47% on a yearly basis. The KÁT segment has the highest EBITDA margin (approx.: 70-90%), so it is a crucial point to offset the exhausted limits. The segment's earnings grew due to the higher asset base.

Energy services: The revenue decreased by 27% on a yearly basis and the EBITDA turned negative (HUF -110 million). 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 revenue decreased due to the lower construction works for third parties. The revenue from maintenance services for third parties was the same as the previous year.

Energy trading: The revenue and EBITDA increased by 21% and 767% on a yearly basis. The electricity trading was impacted positively by the volume and the electricity prices, the gas trading segment is also grew due to the volume effect and to the favorable system usage fees. Moreover, due to the Covid pandemic the segment's comparison basis (2020 H1) was significantly low.



Source: ALTEO, MKB

CONCLUSION

The investments are slowly paying off, so our long-term forecast hasn't changed. The Company's EBITDA capacity can grow to approximately HUF 6.5-7 billion.

We don't change our DCF model, our one year target price remains at HUF 1420 and our recommendation is hold.

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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 1420.

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.