RECORD EARNINGS IN THE FIRST HALF OF 2022

ALTEO (the "Company") reported 2022 H1 earnings on 28 August 2022. In a nutshell the Company's EBITDA increased by 90% year over year and reached HUF 11.8 billion in the first half of the year. The revenue grew by 92% also from HUF 19.8 billion to HUF 38 billion in the first half.

The main driver behind the growth was the rising energy prices, 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 development of the retail segment. Nowadays the Company's renewable segment's capacity is approximately 90 MW and the market-based segment also reached cca. 70 MW.

The Company made several acquisitions in the first half of 2022. If you like to find put more please read the previous flash notes on the website of the Budapest Stock Exchange.

Results by segments

million HUF	2021 H1	2022 H1	Δ
Thermal/heat and electricity production (market based)	10295	26290	155%
Electricity production (KÁT system)	2703	3090	14%
Energy services	1480	1777	20%
Energy trading	6839	11091	62%
Other	0	0	NA
Revenue	**19781**	**37988**	**92%**
Thermal/heat and electricity production (market based)	4138	8883	115%
Electricity production (KÁT system)	2260	2394	6%
Energy services	-110	-94	-15%
Energy trading	390	1082	177%
Other	-466	-457	-2%
EBITDA	**6213**	**11808**	**90%**
EBITDA margin			
Thermal/heat and electricity production (market based)	40,2%	33,8%	-6,4%
Electricity production (KÁT system)	83,6%	77,5%	-6,1%
Energy services	-7,4%	-5,3%	2,1%
Energy trading	5,7%	9,8%	4,1%

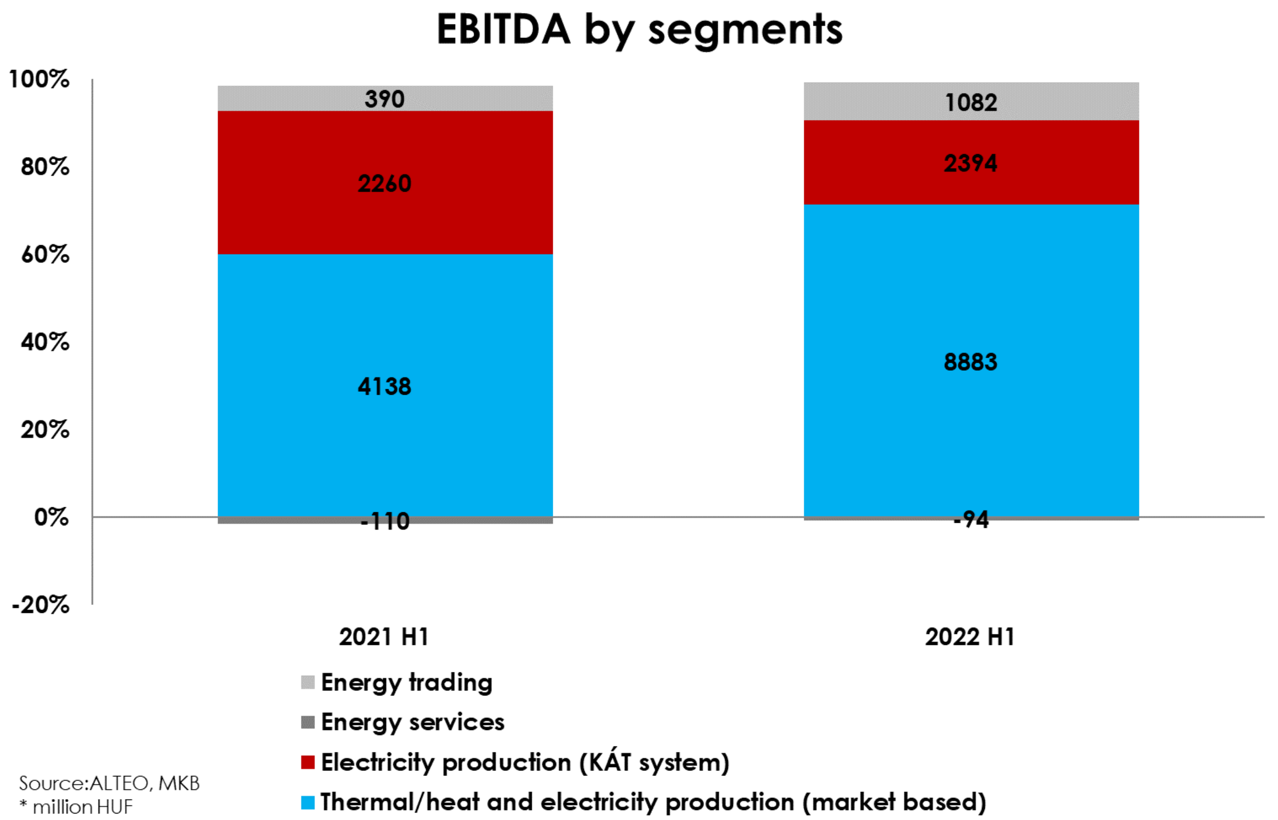
Source: ALTEO, MKB

RESULTS BY SEGMENTS

Production of heat/thermal and electricity (market based): the revenue and the EBITDA increased by 155% and 115% year over year thanks to the capacity market revenue, the rise of the balancing prices and the regulatory revenue (both of them are high margin activities) and the higher electricity prices coupled with higher spark spread (the difference between the gas price used to produce electricity and electricity price).

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, and this process will continue in the future. Nowadays these renewable power plants contribute significantly to the market-based segment's revenue because the electricity prices are high and at the same time these power plants maintenance cost more or less remain the same.

The segment's costs grew too thanks to the higher gas prices, the higher CO2 quotas but these items are dwarfed by the high margin activities like the capacity market, the balancing prices and the forecasting service.



Source:ALTEO, MKB
* million HUF

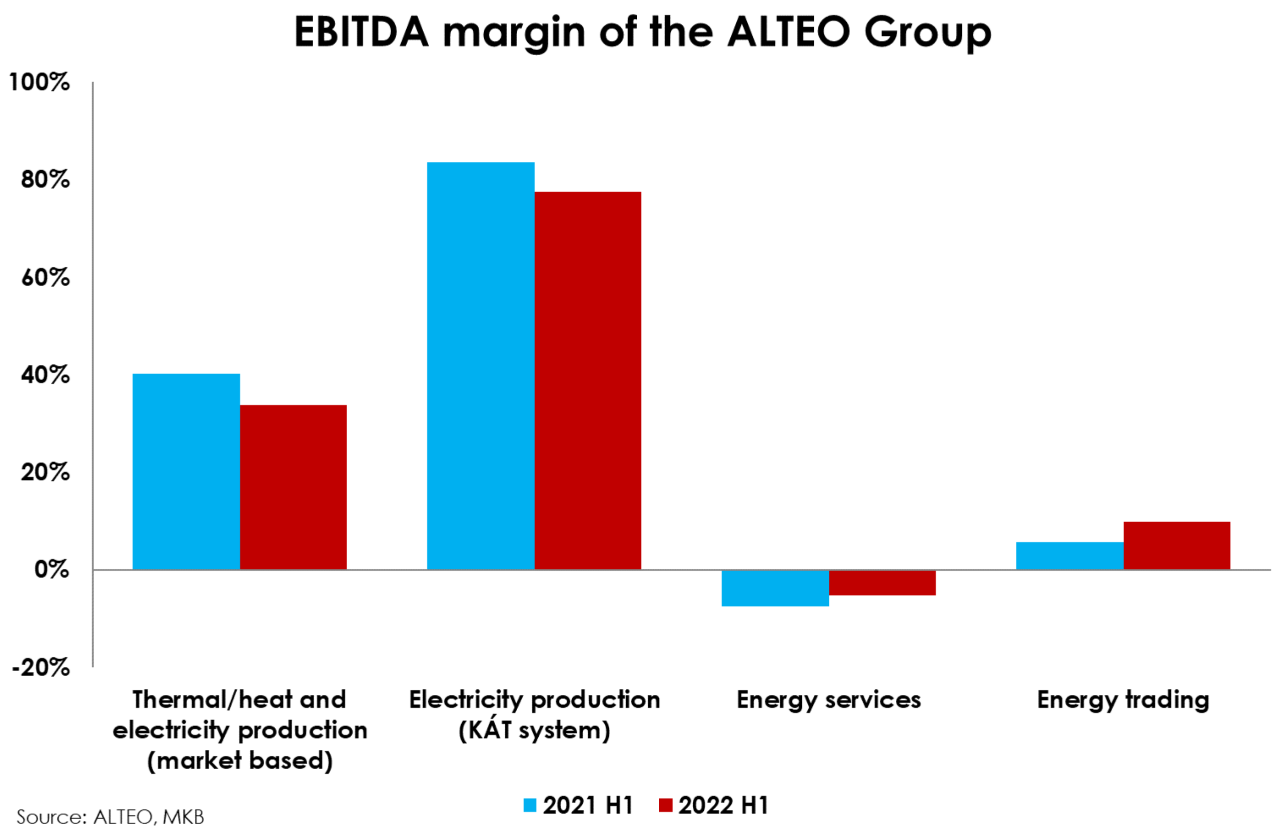
<u>Electricity production (KÁT system):</u> the revenue increased by 14% while the EBITDA increased by 6% year over year in the first half of 2022. The segment grew mainly due to the windier weather at the beginning of the year. The revenue and EBITDA of the solar power plants an landfill gas power plants matched with the previous year's.

Energy services: The revenue grew by 20% but the EBITDA decreased by 15%. 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 waste management segment didn't show significant increase compared to the last comparable period. The profit of the E-mobility segment matched with the management's expectations. But it is worth noting that both of these segments are not yet significant. At the same time in the waste management segment the management are expecting significantly growth due to the acquisition of FE-GROUP.

Energy trading: The revenue and EBITDA increased by 62% and 177% year over year in the first half of 2022. The electricity trading was impacted positively by the rising electricity prices, but on the other side the Company didn't renew the contrcts of the riskiest consumers.

The gas trading segment benefited from the reduction of the gas supply competitors.



Source: ALTEO, MKB

CONCLUSION

We think the Company's growth, environment and operations have reached a new level. Last time we refreshed our DCF-model on 1 August 2022. We think the management's strategy is echoed in our last few DCF-models.

To take into consideration the recent company specific, economic and geopolitical events we refresh our DCF-model again. We had to adjust the risk-free rate, adjusted the cost of capital and the Company's net debt. We calculated the expected impact of the share dilution if the above mentioned specific economic improvement fully implemented.

Moreover, we believe the recent situation (the Russo-Ukrainian war and the energy market turbulence) positively affected the Company, which can be seen in the recent earnings report too. The higher gas and electricity prices mean that the margin of the renewable power plants may improve but at the same time the maintenance cost of these power plants won't change significantly. At the same time the spark spread (the difference between the electricity price and the cost of natural gas) has widened significantly which means the market-based segment reached extraordinary profits. Based on the above we slightly changed the financial assumptions for this and the next year.

At the same time one can identify several risk factors. It is difficult to predict how long the current price environment, the energy market turbulence, mainly in Europe will last. It is a tough task to see the electricity market in the next 5-10 years, which affect the Company's revenue (and earnings) to a large degree. In the last few months, the monetary and financial environment is changed a lot, too. This has made the external source of capital more expensive (in relative term), which could significantly raise the average cost of capital (WACC) in the future. Thanks to the monetary tightening the financial conditions become more strictly, which affect the model's discount factor too. Please note the valuation effect of the change in WACC in the target price scenario's matrix.

Based on the above we slightly raise our one-year target price from HUF 3031 to HUF 3462. Our recommendation is buy.

million HUF	2022	2023	2024	2025	2026	2027
EBITDA	18211	15131	16002	16819	16902	17193
D&A	3547	4547	5297	6047	6841	7570
Capex	-10000	-7500	-7500	-7942	-7289	-5299
FCFF	-4549	255	811	3326	4976	8112
Terminal value	110034					
WACC	8,61%					
Net Debt	16511					

Source: ALTEO, Bloomberg, MKB

		Total Equity Value Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	6,6%	**53 508**	**65 599**	**77 690**
Rate	8,6%	**46 385**	**57 301**	**68 217**
(WACC)	10,6%	**40 062**	**49 936**	**59 809**

		One Year Target Price Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	6,6%	**3233**	**3963**	**4694**
Rate	8,6%	**2802**	**3462**	**4121**
(WACC)	10,6%	**2420**	**3017**	**3614**

Source: ALTEO, Bloomberg, MKB

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Change from the prior research

Our first research was published on 15. December 2017. In that Initial Coverage our price target was HUF 823. The changes in fundamental factors and the operation in the Company required regular updates of our model and the target price. Based on the recent changes, we have revised our target price, the new target price is HUF 3462, which is 14.2% higher than the previous target price of HUF 3031 (01 August 2022).

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/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Alteo-initation-report-20171215.pdf

The flash notes 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.