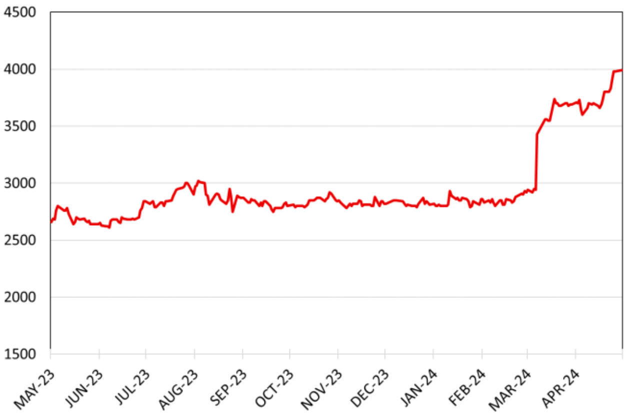
ALTEO 2024 Q1 financial report – Equity research

22 May 2024

ALTEO NYRT.

NEUTRAL

One year price target: HUF 4000



mrd HUF	Q1/23	Q1/24	Change (yoy)
Revenue	36	26,7	-26%
EBITDA	7,84	4,5	-43%
EBIT	6,9	3,4	-51%
Net profit	5,7	2,6	-54%
EBITDA margir	21,8%	16,9%	-0,049
EBIT margin	19,2%	12,7%	-0,064
Profit margin	15,8%	9,7%	-0,061

Price (22/05/2024)	HUF 4000	Net profit (2024 Q1, mrd HUF)	2.6
Shares outstanding (million)	19.9	Bloomberg ticker	ALTEO HB Equity
Free float	26.2%	BÉT ticker	ALTEO
Market capitalization (billion HUF/million EUR)	79/205	52 week min./max.	HUF 2600–4000

Source: BÉT, Bloomberg

Return to the normal

ALTEO (the "Company") reported 2024 Q1 earnings on 21 May 2024. In a nutshell the Company's EBITDA decreased by 43% compared to a year ago from HUF 7.8 billion to HUF 4.5 billion in the first three months of 2024. The revenue decreased by 26% from HUF 36 billion to HUF 27.7 billion.

The main driver behind the decreasing results is the normalization of the energy markets (i.e. the electricity, gas and heat market). To some extent the energy trading and the renewable-based segment could offset the revenue and EBITDA decline.

The cost of sales has also decreased because of the lower gas and CO2 prices (relative to the last year), but not more than the revenue. Because of the higher fixed asset base depreciation became higher and the interest income was negatively affected by the lower interest rate environment.

It's worth noting, that the Company has made several acquisitions in the last years. If you would like to find more, please read our previous flash notes/equity researches on the website of the Budapest Stock Exchange.

In the recent months one has been able to see rapid stock price movements. The main drivers behind these moves are the extra dividend (HUF 400) and the new share repurchase program under which the Company can buy back shares proportion to the 25% of the capital.

We believe that the fair value of the Company is HUF 4000 per share, so we didn't change our one year price target. The extra dividend and the ongoing share buyback did help to reach our one year price target but we think regardless of these events our fair value is valid.

Results by segments

million HUF	2023 Q1	2024 Q1	Δ
Non-renewables heat and electricity production and management	29749	16031	-46%
Renewables-based electricity production	1295	1763	36%
Energy services	1165	1025	-12%
Energy trading	5739	9377	63%
Waste management	928	1151	24%
Other	0	3	NA
Revenue	**36056**	**26678**	**-26%**
Non-renewables heat and electricity production and management	5946	2659	-55%
Renewables-based electricity production	803	1148	43%
Energy services	154	-137	-189%
Energy trading	1173	1024	-13%
Waste management	-36	363	-1108%
Other	-198	-570	188%
EBITDA	**7840**	**4487**	**-43%**
EBITDA margin			
Non-renewables heat and electricity production and management	20,0%	16,6%	-3,4%
Renewables-based electricity production	62,0%	65,1%	3,1%
Energy services	13,2%	-13,4%	-26,6%
Energy trading	20,4%	10,9%	-9,5%
Waste management	-3,9%	31,5%	35,4%

Source: ALTEO, MBH

Results by segments

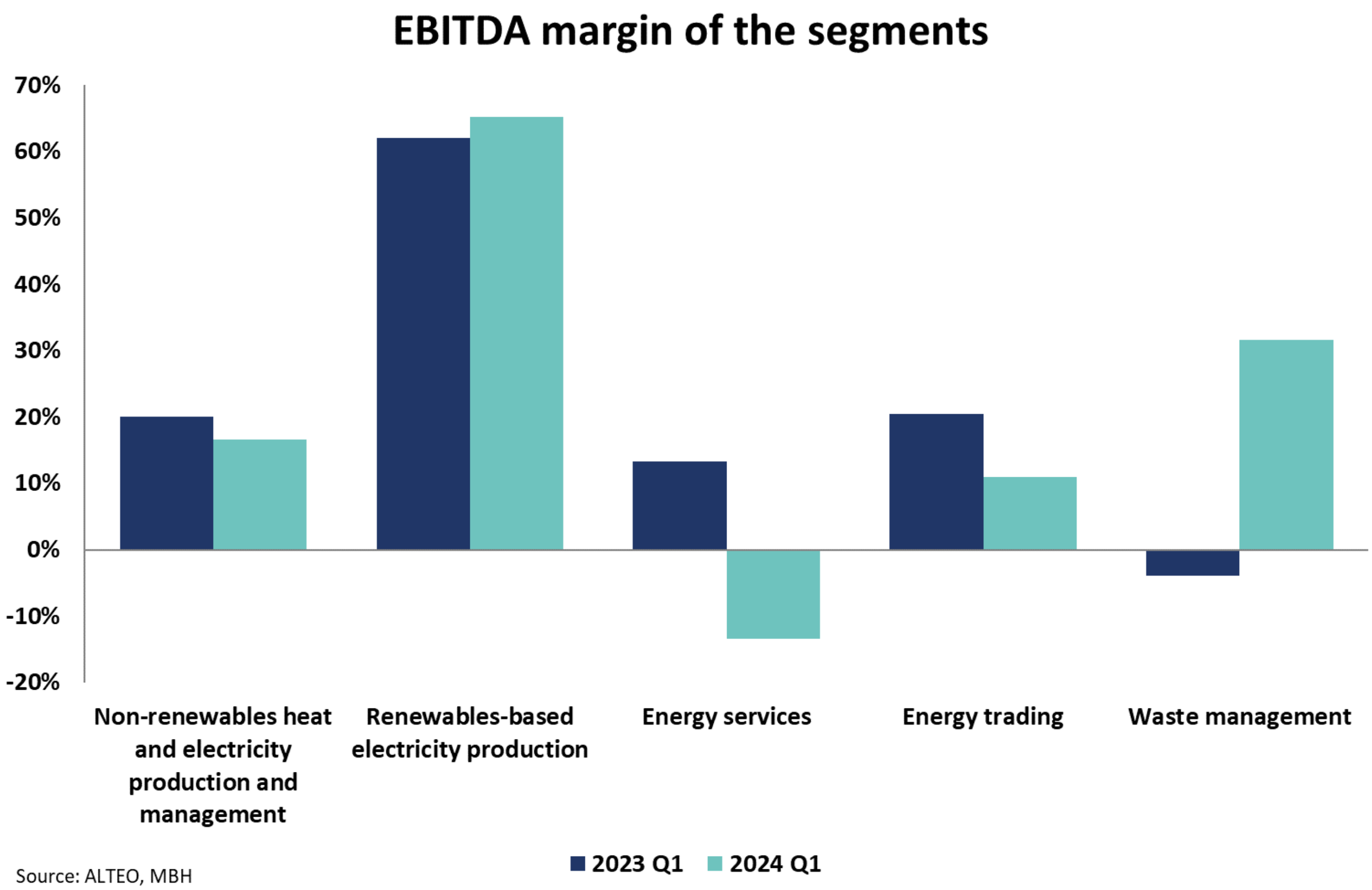
Non-renewables-based heat and electricity production and management: the revenue decreased by 46% and the EBITDA decreased by 55% compared to the same period last year. The revenue has decreased because of the lower energy prices and the lower spark spread (the difference between the gas price used to produce electricity and electricity price). In 2023 December the MAVIR capped the electricity balancing prices which positively affected the renewable schedule management segment but had a negative impact on the balancing activity (two of the highest margin segments). The segment's costs followed the revenue, the lower energy prices had an impact here too.

Renewables-based electricity production: the revenue increased by 36% while the EBITDA increased by 43% year over year in the first three months of 2024. The better result is the consequence of the higher electricity production of the wind power plants, the higher subsidy prices (subsidy prices are growing by the inflation year over year) and the new electricity sale contracts to third parties. Most of these contracts were made two years ago when the electricity prices were lower.

Energy services: The revenue decreased by 12% year over year. The segment's EBITDA is under pressure due to the higher implementing costs of the E-mobility sub-segment.

Waste managmenet: From 2023 the Waste management segment will be presented as a standalone segment. The revenue grew by 24% year over year and the EBITDA turned positive, the EBITDA margin was above 30 percent in the first quarter of the year. We think the segment has a high potential value because in the next 35 years MOL will be managing the collection and treatment of the municipal waste, and ALTEO participates as a subcontractor in this process for 2 (and +2 optionality) years. Nowadays recycling, waste management and the renewable energy is the main theme, which also defines the investment opportunities too.

Energy trading: The revenue increased by 63% because of the higher sales volume. The EBITDA decreased by 13% due to the increasing competition among the energy trading firms and lower electricity prices.



Source: ALTEO, MBH

Conclusion

Last time we refreshed our DCF-model on 13 March 2024 because of the company specific, economic and geopolitical events. At the same time, we think the management's strategy is echoed in our last DCF-models.

The energy chaos of 2022 (and partly in 2023) affected positively the Company's earnings. The higher gas and electricity prices had impact on the top-line and bottom-line. The revenue from the capacity market and balancing activity (the regulatory revenue) is growing, which is a low cost and high margin segment. The renewable schedule management is also an increasingly important segment. We see the runup of the waste management and e-mobility business which can further increase the top-line and bottom -line.

We believe that the energy market turbulence is over, at least temporarily. 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, but we think that the trajectory of the sector can return to a near normal mode, which we emphasized earlier too, and that can also be seen in our forecast model.

We are closely monitoring the events and we will refresh our model if it is justified.

We don't change our one year price target, which remains HUF 4000.

Close date of the research: 22 May 2024, 17:00

Csaba Debreczeni
Head of Equity Research

Investment Research

MBH Befektetési Bank Zrt.
H-1056 Budapest, Váci utca 38.
debreczeni.csaba@mbhbank.hu
mbhbefektetesibank.hu

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- **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 review:** If new information comes to light, which is expected to change the valuation significantly.

7. 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 recen t changes, we doesn't revised our target price, so the target price is HUF 4000, which is the same as in our last research: HUF 4000 (13 March 2024).

Prior researches
MBH Bank wrote an initiation report on 15 December 2017. The research is available on the web page of the BSE (Budapest Stock Exc hange): https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Alteo-initation-report-20171215.pdf
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13.This publication is valid at the time of its publication. The date of preparation of the publication: 17:00 22/05/2024

14.The valuation procedures used:

Discounted cash flow valuation

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 c apital (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 W ACC unless otherwise specified.

In the first step we forecast the company's cash flow. The free cash flow to firm (FCFF) is based on the earnings before inte rest 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, s o 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 reduce the EV with the net debt. Th is figure 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 res pect to the region (DM or EM market).