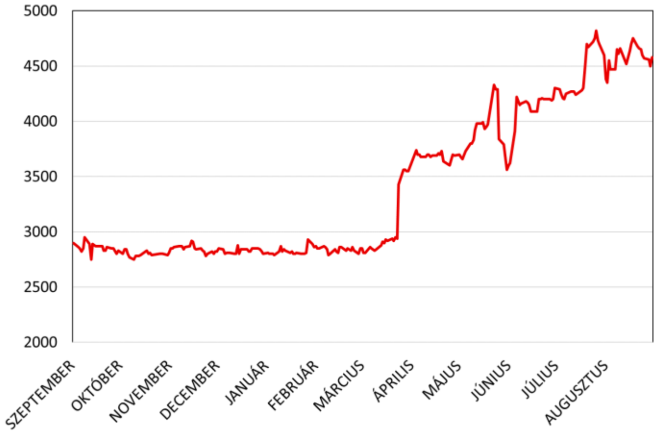
ALTEO Nyrt.

NEUTRAL
One year target price: HUF 4683



mrd HUF	H1/23	H1/24	Change (yoy)
Revenue	58,85	49,78	-15%
EBITDA	12,76	9,76	-24%
EBIT	10,67	7,54	-29%
Net profit	8,87	5,84	-34%
EBITDA margin	21,7%	19,6%	-0,021
EBIT margin	18,1%	15,1%	-0,030
Profit margin	15,1%	11,7%	-0,033

Price (05/09/2024)	HUF 4580	Net profit (H1 2024, mrd HUF)	5,84
Shares outstanding (mln)	19.9	Bloomberg ticker	ALTEO HB Equity
Free float	26.2%	BÉT ticker	ALTEO
Market capitalization (mrd HUF/mln EUR)	91/240	52 week min./max.	HUF 2750–4850

Source: BÉT, Bloomberg

Return to the normal

ALTEO (the “Company”) reported 2024 Q2 earnings on 02 September 2024. In short, the Company’s EBITDA decreased by 24% compared to a year ago from HUF 12.76 billion to HUF 9.76 billion in the first half of 2024. The revenue decreased by 15% too.

The main driver behind the lower earnings is the normalization of the energy markets (i.e. the electricity, gas- and heat market). The energy trading and the renewable-based segment could partially offset the decline of the revenue and EBITDA.

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 assets base the depreciation and amortization became higher relative to 2023.

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

In the recent months one has been able to see rapidly rising stock prices. 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. In the future a share buyback program can be a god support for the stock price.

Results by segments

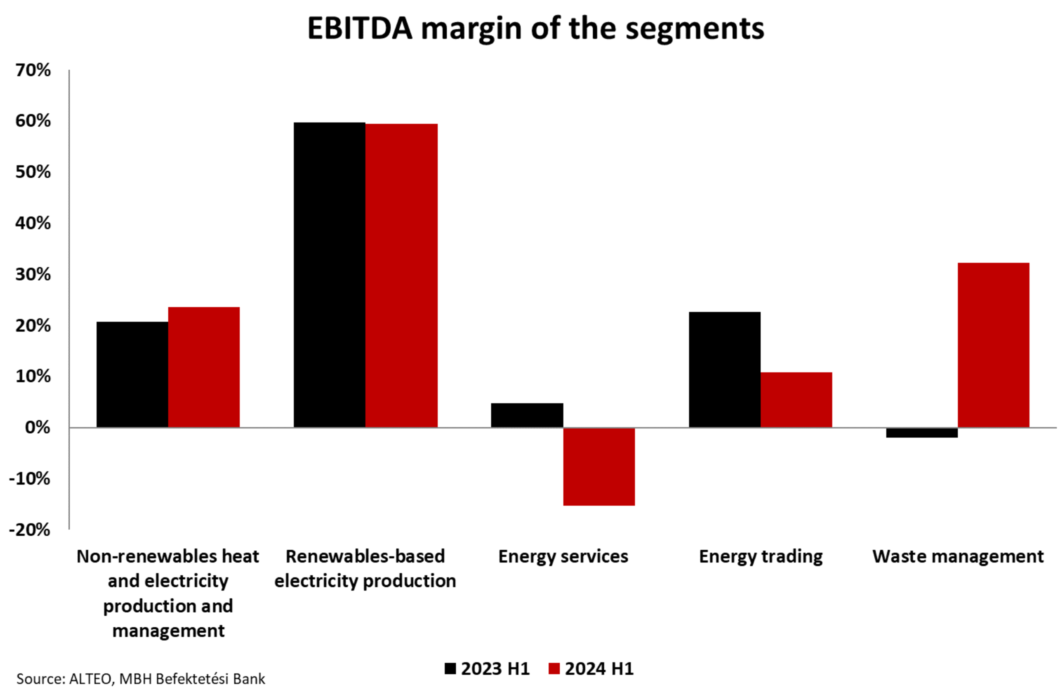
Non-renewables-based heat and electricity production and management: the segment's revenue decreased by 39% and the EBITDA decreased by 30% compared to the same period last year. The main catalysts behind the lower revenue are the lower energy prices and the lower spark spreads (the difference between the gas price used to produce electricity and electricity price). In December 2023 the MAVIR capped the electricity balancing prices which positively affected the renewable schedule segment but had a negative impact on the balancing activity (two of the highest margin segments).

Renewables-based electricity production: in this segment the revenue increased by 26% while the EBITDA increased by 25%. The better results are the consequence of the higher electricity production of the wind power plants and the higher subsidy prices (subsidy prices are growing by the inflation year over year). Moreover, the Energigas Kft. was consolidated from June 2023 which means that the subsidiary's results didn't show up in the financial reports of the ALTEO in the first five months of the last year.

Energy services: The revenue increased by 8% year over year. The segment's EBITDA is under pressure due to the higher costs of the E-mobility sub-segment.

Waste management: From 2023 the Waste management segment will be presented as a standalone segment. The revenue grew by 18% year over year and the EBITDA turned positive; the EBITDA margin was over 30 percent in the first half of this year. This segment has a high potential value. 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 (+2 optionality) years.

Energy trading: The revenue increased by 80% due to the higher sales volume. The EBITDA decreased by 14% because of the increasing competition among the energy traders and the lower electricity prices.



Source: ALTEO, MBH Befektetési Bank

Results by segments

million HUF	2023 H1	2024 H1	Δ
Non-renewables heat and electricity production and management	47567	29056	-39%
Renewables-based electricity production	2611	3283	26%
Energy services	2162	2332	8%
Energy trading	9532	17179	80%
Waste management	2008	2366	18%
Other	3	4	NA
Revenue	**58854**	**49787**	**-15%**
Non-renewables heat and electricity production and management	9838	6844	-30%
Renewables-based electricity production	1558	1949	25%
Energy services	102	-358	-451%
Energy trading	2160	1851	-14%
Waste management	-39	761	-2051%
Other	-853	-1284	51%
EBITDA	**12766**	**9763**	**-24%**
EBITDA margin			
Non-renewables heat and electricity production and management	20,7%	23,6%	2,9%
Renewables-based electricity production	59,7%	59,4%	-0,3%
Energy services	4,7%	-15,4%	-20,1%
Energy trading	22,7%	10,8%	-11,9%
Waste management	-1,9%	32,2%	34,1%

Source: ALTEO, MBH Befektetési Bank

Updated model

We last refreshed our DCF-model on 13 March 2024 because of the change in the company specific, economic- and geopolitical events. We think it is time to update the model again because there have been many changes in the recent months.

We believe that the years of the energy chaos are behind us, the market has returned to a normal state, but some volatility in the price of the electricity, gas, oil etc. can be expected in the future.

The Waste management segment is on the rise which will be able to contribute more to the EBITDA in the future. This segment is operating at a 30 percent EBITDA margin right now. Moreover, ALTEO is a subcontractor in the collection and treatment of the municipal waste in Hungary, which means a high future potential.

The E-mobility segment is considered as an option by us, and thus it is difficult to predict the future path of this operation.

In the recent months the Company has announced several investments: a 20 MW solar power plants has started its operation on 08 August 2024 therefore the capacity of the solar power plants has doubled from 20MW to 40MW. In 2024 ALTEO won a HUF 9.4 billion state subsidy in the RRF tender for some energy storage investments. This will be the largest greenfield investment in the Company's history. This means that the results of the energy storage operation (which is part of the market based segment) will represent increasingly large part of the total earnings. In addition to the above the performance of some gas and/or electricity fired power plants has been increased or will increase.

Based on the above our new one year target price is HUF 4683, our recommendation is neutral.

		Equity Value		
		Long term growth rate		
		0%	2%	4%
Discount	7,1%	86 595	115 513	182 847
Rate	9,1%	65 681	80 982	109 136
(WACC)	11,1%	52 655	61 876	76 836
		One Year Target Price		
		Long term growth rate		
		0%	2%	4%
Discount	7,1%	5 007	6 679	10 573
Rate	9,1%	3 798	4 683	6 311
(WACC)	11,1%	3 045	3 578	4 443

Source: ALTEO, Bloomberg, MBH Investment Bank

million HUF	2024	2025	2026	2027	2028
EBITDA	21 031	21 373	20 914	21 354	22 001
D&A	4 432	4 776	6 753	6 904	7 070
Capex	- 10 000	- 10 299	- 12 078	- 9 713	- 9 863
FCFF	7 756	9 800	5 566	10 734	8 698
PV of FCFF	27 760				
PV of TV	68 639				
WACC	9,12%				
Net Debt	15 417				

Source: ALTEO, Bloomberg, MBH Investment Bank

Close date of the research: 05 September 2024, 17:00

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6. 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 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 revised our target price, so the target price is HUF 4683, which is 17 percent higher than the previous target price of 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
The flash notes are available on the web page of the BSE (Budapest Stock Exchange):
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13.This publication is valid at the time of its publication. The date of preparation of the publication: 17:00 05/09/2024

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 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 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 reduce the EV with the net debt. This 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 respect to the region (DM or EM market).