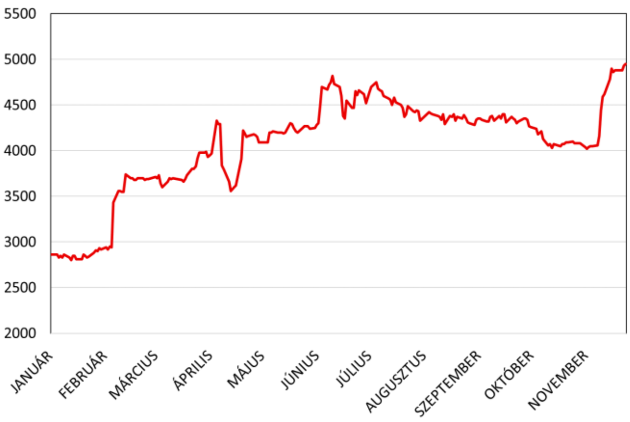
ALTEO Nyrt.

One year target price: HUF 6143, recommendation: BUY



mrd HUF	Q3/23	Q3/24	Change (yoy)
Revenue	76,75	74,79	-3%
EBITDA	16,33	14,81	-9%
EBIT	13,19	11,27	-15%
Net profit	11,3	8,56	-24%
EBITDA margin	21,3%	19,8%	-0,015
EBIT margin	17,2%	15,1%	-0,021
Profit margin	14,7%	11,4%	-0,033

Price (21/01/2025)	HUF 4950	Net profit (Q3 2024, mrd HUF)	8,56
Shares outstanding (mln)	19.9	Bloomberg ticker	ALTEO HB Equity
Free float	26.2%	BÉT ticker	ALTEO
Market capitalization (mrd HUF/mln EUR)	98/239	52 week min./max.	HUF 2780–4970

Source: BÉT, Bloomberg

New strategy 2025-2030

On 09 January 2025 the management of Alteo (the "Company") has issued a renewed guidance on the Company's future earnings and investment opportunities. According to the investor presentation in the next five years the Company will focus on:

- the regional expansion, mainly in Slovakia, Croatia and Serbia, and in the second line in Romania, Czech Republic, Poland and others in the region,
- the upgrade of the renewable power plant portfolio (like significant growth in the capacity of the wind, solar and/or other renewable power plants),
- the waste management segment, which will be a significant segment from 2025/26 onwards,
- the schedule management (includes balancing activity and energy-storage), which is partly a technology intense area.

According to the new guidance the management will likely identify new projects in the amount of approximately EUR 2000-2500 million in the next five years. This is a significant increase compared to the last five years. We believe the optimal ratio of the capital structure will not change so the equity/debt ratio could be around 30%/70%. It is worth noting that the capital expenditure mentioned above can be reach with additional capital, like debt and/or share issuance, so a secondary public offering is highly probable. At the same time, it is not yet possible to determine the timing of the expected projects and/or the capital raising. By our model the Company's shareholder's equity could reach HUF 78 billion by the end of the decade, but the capital expenditure mentioned above (EUR 2000-2500 million, which is approximately HUF 900 billion at an EUR/HUF exchange rate of 410), is 10-12 times greater. 30 percent of the capex guided by the management is cca. HUF 270 billion which means that the Company should raise approximately HUF 180-190 billion capital (2-3 times the shareholder's equity calculated by 2029).

Based on the new guidance by the Company the expected EBITDA could be much higher than the one in our most recent model. Alteo could earn EUR 300 million EBITDA till 2030 according to the management. To put it in context, by our forecast Alteo made HUF 20-21 billion EBITDA (approx. EUR 51 million) in 2024. It is important to note that the effects of such a leap in the expectations is almost impossible to forecast with a DCF model. Since it is a multifactorial model where many factors are unknown and/or unpredictable, like the cost of debt in the future, the possibility of the secondary share issuance, the expected composition of the new energy portfolio, the functioning of the energy market in the neighboring countries for example changing in regulations) to name a few, a small error in the prediction of these factors could cause a very misleading company value. However, there is not so much information content in the fact that the company can be worth more when such a management guidance will be implemented. We don't want to predict the unpredictable, so we continue to value the Company without incorporating the unknown/unpredictable elements into our model which means that our model and the management's guidance could be differ (even significantly too). We believe that the main point in this situation is the continuous monitoring of the company events and the calibration of our model. In this situation we think the less is more…

Assumptions of the model

- The average cost of capital (WACC) is 9.2 percent, and by our calculation the cost of equity is 15.4 percent. The risk-free rate is 7.1 percent.
- According to the betas on the one hand we rely on the Damodaran's unlevered beta, but the levered beta is calculated by us considering the Company's debt/equity ratio.
- The equity risk premium (which is almost always a subject of debate) is 6.6 percent.
- At the end of last year Alteo has bought ÉLTEX Ltd. and we expect that the deal will have been closed by the end of the year. The acquired company is operating in the waste management industry with revenue from HUF 10 billion to HUF 40 billion and EBITDA from HUF 600 million to HUF 3.7 billion in the last five years (2019-2023). ÉLTEX Ltd. contribution to the Company's earnings will be fully expected in 2026. We think from 2026 onwards the waste management segment can become a significant profit center (cca. 20 percent of the total EBITDA).
- The model takes into account all of the announced investments and/or implemented projects (until the release date of this report).
- Our Capex assumptions is that Alteo will spend approximately HUF 70 billion in the next five years (net HUF 32 billion after D&A), which is significantly differ from the management guidance.
- By the end of the decade the debt/EBITDA ratio will have been approximately 2-2.5.
- The risk of the implementation of the future's investments is notable. The energy market, the financing, the sector, the liquidity could change considerably, which could impact the future's investments and profits.
- We think the energy chaos is behind us, but we can't completely rule out a similar period in the future. Forecasting the price of the electricity, natural gas, oil and so forth and so on is still a difficult task. Moreover,

important state and regulatory intervention should not be ruled out either. Regarding the commodity prices we partly relied on the World Bank's forecasts.

- Based on the previous assumptions the EBITDA margin of the electricity and natural gas trading (and of the market-based power plants) will be realized at a lower level. Our assumption is that the EBITDA margin will be decreasing from cca. 27 percent to cca. 19 percent at the end of the decade. At the same time the VPP (virtual power plant, which contains like schedule management, balancing activity and energy storage services) may remain a high margin business.
- The long-term growth rate of the Company is approximately 2.2 percent based on the last eight-year average ROIC (return on invested capital) and the forecasted reinvestment rate.
- The net debt is calculated by the numbers of the latest balance sheet of the Company.
- Our recent model doesn't account for secondary share issuance, and we expect the investments will be financed 70 percent by debt (bank loan and/or bond issuance) and 30 percent by equity.
- The reference exchange rate for the EUR/HUF is HUF 410-420 and we are calculating with a cca. 3-4 percent long-term inflation rate in Hungary.

Based on the assumptions above our one year target price is HUF 6143, our recommendation is buy.

Close date of the research: 20 January 2025, 12:00

DCF, million HUF	2025	2026	2027	2028	2029
Revenue	**96 724**	**139 336**	**139 900**	**142 739**	**151 187**
market based, VPP, trading	*81 494*	*81 601*	*78 575*	*78 627*	*84 151*
subsidy	*5 084*	*3 686*	*3 772*	*3 881*	*3 994*
waste management	*6 146*	*50 050*	*53 553*	*56 231*	*59 042*
services	*4 000*	*4 000*	*4 000*	*4 000*	*4 000*
EBITDA	**25 896**	**28 291**	**27 584**	**26 587**	**27 714**
market based, VPP, trading	*18 876*	*18 987*	*17 861*	*16 508*	*17 263*
subsidy	*4 459*	*3 300*	*3 368*	*3 456*	*3 546*
waste management	*1 560*	*5 005*	*5 355*	*5 623*	*5 904*
services	*1 000*	*1 000*	*1 000*	*1 000*	*1 000*
D&A	**5 183**	**7 911**	**8 132**	**8 351**	**8 590**
Capex	**- 16 665**	**- 17 120**	**- 12 319**	**- 12 516**	**- 11 731**
FCFF	**3 674**	**- 1 670**	**10 684**	**9 333**	**9 968**
PV of FCFF	**24 192**				
PV of TV	**97 309**				
WACC	**9,20%**				
Net Debt	**15 417**				

Source: ALTEO, Bloomberg, MBH Investment Bank

Balance Sheet, million HUF	2025	2026	2027	2028	2029
Non-current assets	53 198	69 668	76 945	78 507	90 712
Property, plant and equipment	*42 559*	*55 735*	*61 556*	*62 805*	*72 570*
Current assets	54 262	71 062	78 484	80 077	92 527
Cash and equivalents	*27 635*	*18 829*	*23 818*	*27 396*	*31 845*
Total assets	**107 461**	**140 730**	**155 429**	**158 584**	**183 239**
Shareholders' equity	48 616	56 711	64 230	71 271	78 107
Retained earnings	*47 886*	*55 576*	*62 303*	*68 420*	*74 983*
Non-current liabilities	35 033	41 248	45 719	50 263	54 521
Long-term debt	*20 670*	*24 336*	*26 974*	*29 655*	*32 167*
Bonds payable	*11 561*	*13 612*	*15 087*	*16 587*	*17 992*
Current liabilities	23 812	42 771	45 480	37 049	50 611
Short-term debt	*2 381*	*4 277*	*4 548*	*7 410*	*10 122*
Total liabilities and equity	**107 461**	**140 730**	**155 429**	**158 584**	**183 239**

Source: ALTEO, Bloomberg, MBH Investment Bank

Equity Value

		Long term growth rate		
		0%	2%	4%
Discount	7,2%	**109 997**	**156 471**	**258 360**
Rate	9,2%	**81 673**	**106 084**	**147 343**
(WACC)	11,2%	**63 961**	**78 618**	**100 209**

One Year Target Price

		Long term growth rate		
		0%	2%	4%
Discount	7,2%	**6 370**	**9 061**	**14 961**
Rate	9,2%	**4 730**	**6 143**	**8 532**
(WACC)	11,2%	**3 704**	**4 553**	**5 803**

Source: ALTEO, Bloomberg, MBH Investment Bank

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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. In this report we put our target price under review. Our former price target was HUF 4683 (05 Sept 2024). The new one year price target is HUF 6143 which is 31 percent higher than our previous price target.

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 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):
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13.This publication is valid at the time of its publication. The date of preparation of the publication: 12:00 20/01/2025

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 ret urn 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 curr ent 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 be cause 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 respect to the region (DM or EM market).