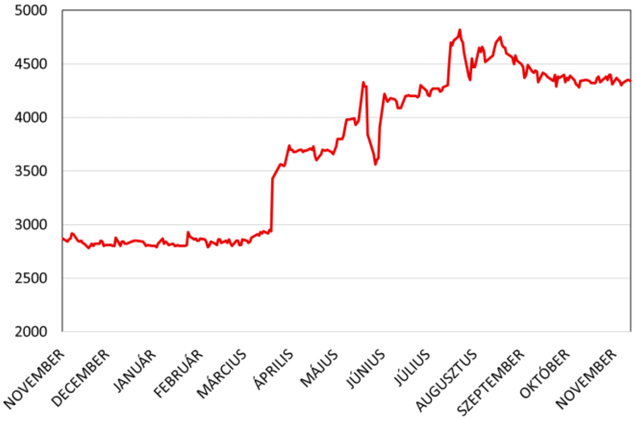
Research note
20 November 2024

ALTEO Nyrt.

Hungary

ALTEO Nyrt.

NEUTRAL
One year target price: HUF 4683



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

	HUF 4330	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)	86/209	52 week min./max.	HUF 2770–4850

Source: BÉT, Bloomberg

After the energy chaos

On 18 November 2024 ALTEO (the "Company") announced financial results for its third quarter of 2024. The Company's EBITDA decreased by 9% compared to a year ago from HUF 16.33 billion to HUF 14.81 billion for nine months ended September 30, 2024. The revenue decreased by 3% too (HUF 76.8 billion vs. HUF 74.4 billion).

The main drivers behind the lower earnings are the normalization of the energy markets (i.e. the electricity, gas- and heat market), the higher general and administrative costs and the lower interest earnings due to the lower yield environment. Because of the higher fixed assets base the depreciation and amortization became higher relative to 2023. At the same time the energy trading and the renewable-based segment could partially offset the decline of the revenue and EBITDA.

On 18 October 2024 the Company made a contract to purchase a wind power plant with 24 MW capacity near Levél and Mosonszolnok. After the deal the wind power capacity of ALTEO will reach 71,5 MW and the renewable capacity will reach 110 MW. The close of the deal is expected in November/December 2024. 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.

Results by segments

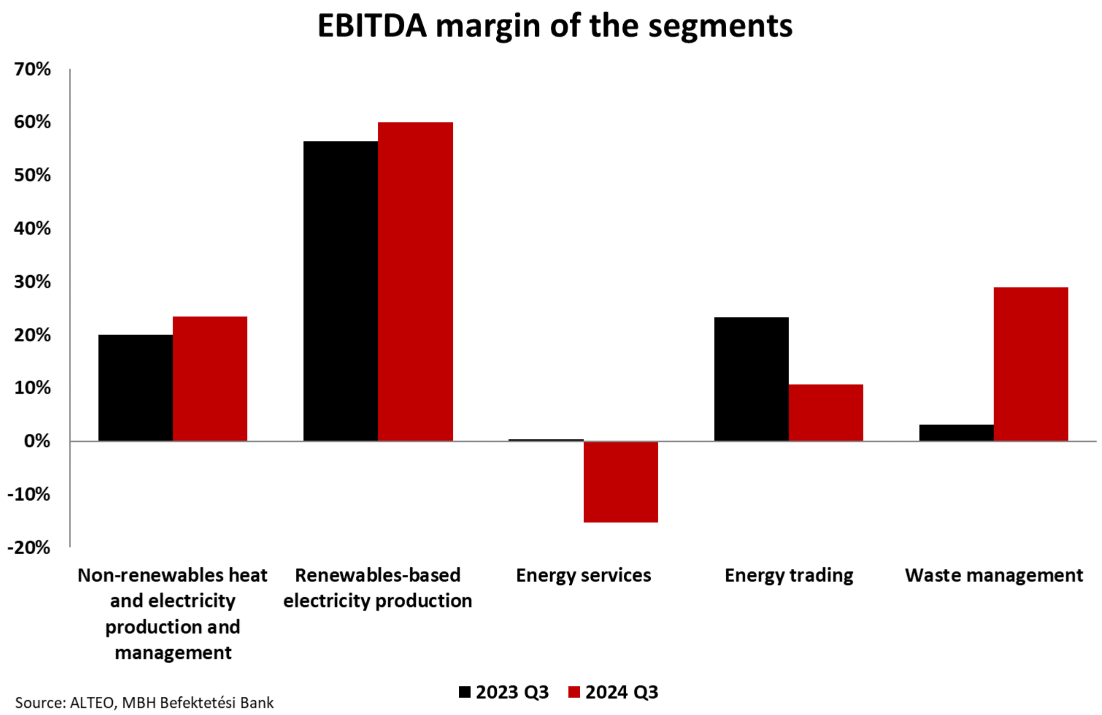
Non-renewables-based heat and electricity production and management: the segment's revenue decreased by 26% and the EBITDA decreased by 14% compared to the same period last year. The main catalysts behind the lower revenue are the lower energy prices and the lower spark spreads (the difference between 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 30% while the EBITDA increased by 39%. 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. The strategic partnership with MOL means that the cost of ALTEO's staff increasing because of the cost of the additional staff development. The staff cost increased by 42% percent year over year.

Waste management: From 2023 the Waste management segment will be presented as a standalone segment. The revenue grew by 15% year over year and the EBITDA turned positive. The EBITDA margin is approximately 30 percent, which means the waste management is the second most profitable segment now. 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 101% due to the higher sales volume. The EBITDA decreased by 9% 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 Q3	2024 Q3	Δ
Non-renewables heat and electricity production and management	60391	44404	-26%
Renewables-based electricity production	3857	5029	30%
Energy services	3342	3603	8%
Energy trading	13191	26520	101%
Waste management	3103	3563	15%
Other	5	0	NA
Revenue	**76850**	**74787**	**-3%**
Non-renewables heat and electricity production and management	12087	10432	-14%
Renewables-based electricity production	2173	3016	39%
Energy services	11	-553	-5127%
Energy trading	3081	2817	-9%
Waste management	94	1031	997%
Other	-1117	-1933	73%
EBITDA	**16329**	**14811**	**-9%**
EBITDA margin			
Non-renewables heat and electricity production and management	20,0%	23,5%	3,5%
Renewables-based electricity production	56,3%	60,0%	3,6%
Energy services	0,3%	-15,3%	-15,7%
Energy trading	23,4%	10,6%	-12,7%
Waste management	3,0%	28,9%	25,9%

Source: ALTEO, MBH Befektetési Bank

Conclusion

We last refreshed our DCF-model in September 2024 because of the change in the company specific, economic- and geopolitical events.

Based on our model the one year target price remains 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: 20 November 2024, 12:00

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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. In this report we didn't revise our target price, so it remains HUF 4683. Our former price target was HUF 4000 (13 March 2024) which was 17 percent lower than our recent target price.

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: 12:00 20/11/2024

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 ca pital (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 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).