2021 IN A NUTHSELL

ALTEO (the "Company") reported Q4 earnings on 28 February 2022. In a nutshell the Company's EBITDA increased by 134% year over year and exceeds HUF 12.8 billion. The revenue grew by 34% from HUF 33 billion to HUF 44.2 billion over the last year.

The main driver behind the growth was the up and down movement of the capacity prices, and the rise of the balancing 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 bigger energy production capacity because of the newly implemented power plants and acquisitions. Nowadays the Company's renewable segment's capacity is approximately 65-70 MW and the market-based segment also reached cca. 70 MW.

Results by segments

million HUF	2020	2021	Δ
Thermal/heat and electricity production (market based)	14138	24285	72%
Electricity production (KÁT system)	3596	5007	39%
Energy services	5353	3305	-38%
Energy trading	11998	16370	36%
Other	0	5	0%
Revenue	**32981**	**44249**	**34%**
Thermal/heat and electricity production (market based)	3028	8568	183%
Electricity production (KÁT system)	2886	4024	39%
Energy services	83	-35	-142%
Energy trading	169	1278	656%
Other	-648	-955	-47%
EBITDA	**5512**	**12880**	**134%**
EBITDA margin			
Thermal/heat and electricity production (market based)	21,4%	35,3%	13,9%
Electricity production (KÁT system)	80,3%	80,4%	0,1%
Energy services	1,6%	-1,1%	-2,6%
Energy trading	1,4%	7,8%	6,4%

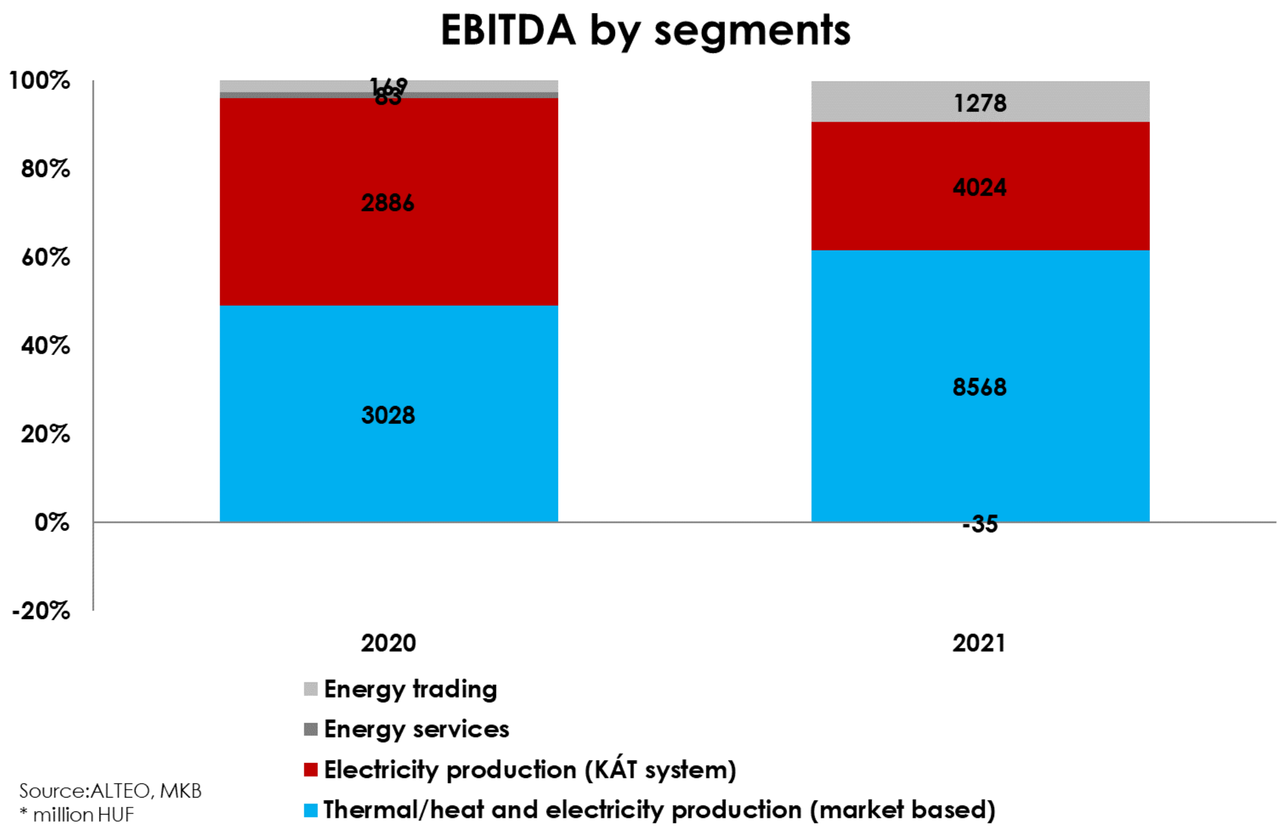
Source: ALTEO, MKB

RESULTS BY SEGMENTS

<u>Production of heat/thermal and electricity (market based):</u> the revenue and the EBITDA increased by 72% and 183% on a yearly basis thanks to the capacity market revenue, the rise of the balancing prices and the regulatory revenue (both of them are high margin activities) and partly thanks to the capacity expansion of the ALTEO Control Center. 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.

The 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.



Electricity production (KÁT system): both the revenue and the EBITDA increased by 39% on a yearly basis. The KÁT segment has the highest EBITDA margin (approx.: 75-85%), so it is a crucial point to offset the exhausted limits.

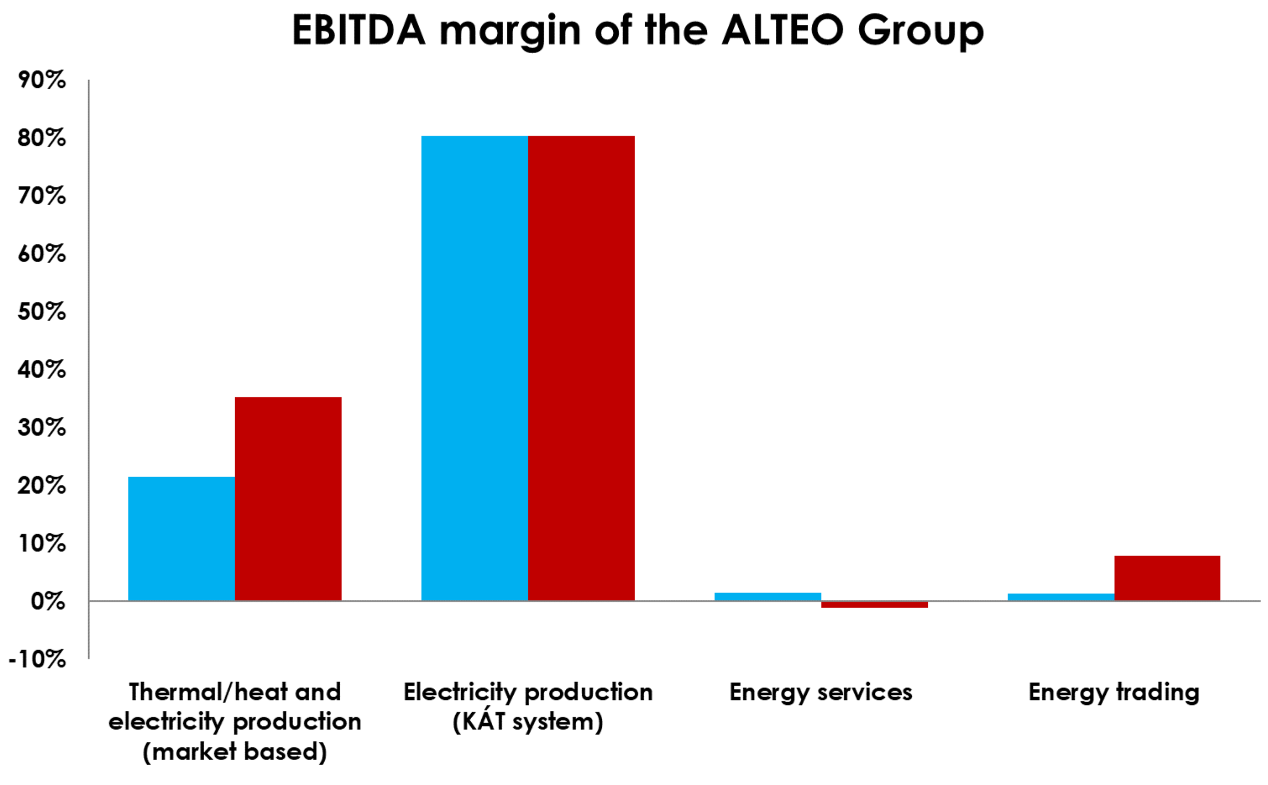
The segment's EBITDA grew due to the newly acquired assets: Pannon Szélerőmű Kft (15MW) and the Gibart Hydropower plant (1MW).

Energy services: The revenue and the EBITDA decreased by 38% and 142% on a yearly basis. 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 revenue decreased due to the lower construction works for third parties. The revenue from maintenance services for third parties was the same as the previous year. The negative

EBITDA is due to the administrative costs of the newly launched segments like waste management and e-mobility.

Energy trading: The revenue and EBITDA increased by 36% and 659% on a yearly basis. The electricity trading was impacted positively by the volume and the rising electricity prices, the gas trading segment is also grew due to the volume effect and to the favorable system usage fees.



Source: ALTEO, MKB

CONCLUSION

We think the Company's growth, environment and operations have reached a new level. We refreshed out DCF-model on 23 November 2021. Since then the management has released a renewed strategy guidance. The new management's strategy is echoed in our last DCF-model.

To take into consideration the recent economic and geopolitical events we refresh our DCF-model. We had to raise the risk-free rate, adjusted the cost of capital and refreshed the Company's net debt.

Other assumptions of the model remained unchanged. See our flash note on 23. November 2021 on the website of the Budapest Stock Exchange.

Moreover, we believe the recent situation rather neutral or slightly positive than negative from ALTEO's point of view. Although gas prices may rise in the future so may the electricity prices too. This means 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. This effect can offset the higher gas prices which can reduce the gas fired power plants margins.

In the case of the cease of the gas transport we suspect that the gas trading partners can partly bridge the supply problem, but this should be treated with reservations.

Based on above we raise our one-year target price from HUF 2185 to HUF 2259. Our recommendation is buy.

		Total Equity Value Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	5,3%	**33 665**	**43 462**	**53 259**
Rate	7,3%	**28 707**	**37 624**	**46 541**
(WACC)	9,3%	**24 278**	**32 409**	**40 539**
		One Year Target Price Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	5,3%	**2021**	**2609**	**3197**
Rate	7,3%	**1723**	**2259**	**2794**
(WACC)	9,3%	**1457**	**1946**	**2434**

Source: ALTEO, Bloomberg, MKB

million HUF	**2022**	**2023**	**2024**	**2025**	**2026**
EBITDA	12041	10590	11131	12090	12672
D&A	4177	5397	6617	7746	7858
Capex	-10000	-10000	-10000	-6971	-7072
FCFF	-942	-2059	-1433	2576	2997
Terminal value	81099				
WACC	7,28%				
Net Debt	19670				

Source: ALTEO, Bloomberg, MKB

Analyst:

Csaba Debreczeni

Tel: +36-1-268-8323

E-mail: debreczeni.csaba@mkb.hu

DISCLAIMER

1. This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and MKB Bank Ltd. (registered seat: H-1056 Budapest Váci utca 38., company registration number: 01-10-040952, hereinafter: Investment Service Provider or MKB Bank)

2. BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.

3. This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.

4. All information used in the publication of this material has been compiled from publicly available sources that are believed to be reliable; however MKB Bank does not guarantee the accuracy or completeness of this material. Opinions contained in this report represent those of the research department of MKB Bank at the time of publication and are subject to change without notice.

5. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Investors are advised to assess the nature and risks of the financial instruments and investment services. A well-founded investment decision can be made only in possession of all the relevant information, therefore investors are hereby explicitly advised to read carefully the information material, contractual provisions, conditions list and general business terms in order to be able to decide if the investment is in line with their risk bearing capacity. MKB Bank also recommends collecting information about the tax consequences and other relevant laws concerning investment services in the financial instruments mentioned in this document.

6. This document is provided for information purposes only, therefore the information provided in or derived from it is not intended to be, and should not be construed in any manner whatsoever as personalised advice or as a solicitation to effect, or attempt to effect, any transaction in a financial instrument (e.g. recommendation to buy, sell, hold) or as a solicitation to enter into an agreement or to any other commitment with regards to the financial instrument discussed. Any such offer would be made only after a prospective participant had completed its independent investigation of the securities, instruments, or transactions and received all information it required to make its investment decision. MKB Bank excludes any liability for any investment decision based on this document.

7. MKB Bank is entitled to provide market making, investment services or ancillary services regarding the financial instruments discussed in this document.

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 2259, which is 3.3% higher than the previous target price of HUF 2185 (19 January 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/Kibocsatok/BET-elemzesek/elemzesek/alteo-elemzesek

MKB Bank wrote flash notes on 12 January 2018, and on 31 January 2018, 8 February 2018, 2 March 2018, 19 March 2018 and 11 May 2018. These researches 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.