

ACQUISITION OF A SOLAR POWER PLANT

ALTEO (the "Company") announced that the Company made a contract with EDELYN SOLAR Kft. to acquire the firm. According to the purchase agreement, the entire business interest of the target company will be transferred to ALTEO.

After the close of the acquisition and obtaining of the permits ALTEO will develop a solar power plants with capacity of 20MW in the Tereske area (60-70 km north of Budapest).

Based on the acquisition the solar capacity of the Company will be doubled it can reach approximately 40 MW.

CONCLUSION

Based on the above the Company's renewable segment's capacity can reach approximately 90 MW. The market-based segment is cca. 70 MW, so ALTEO full capacity is approximately 160MW, mostly consists wind, solar and gas fired power plants.

Last time we refreshed our DCF-model on 18 May 2022. We think the management's strategy is echoed in our last DCF-models, but it's time to rethink our model again to take into consideration the recent company specific, economic and geopolitical events.

We had to raise the risk-free rate and adjust the cost of capital. We calculated the expected impact of the share dilution (more on this please read the previous report).

Moreover, we believe the energy market turbulence positively affected the Company, which can be seen in the previous earnings reports too. The higher electricity prices mean that the margin of the renewable power plants (outside of the subsidized system) may improve, but at the same time the maintenance cost of these power plants won't change significantly. The volatility of the spark spread is high (the spark spread is the difference between the electricity price and the cost of natural gas) which means that the market-based segment is able to reach extraordinary profits if the conditions are favorable. These market conditions in certain situations favor the capacity and balancing market too.

Based on the recent news we have changed the financial assumptions of the renewable power plants from the year 2024.

According to our new model we slightly raise our one-year target price from HUF 2423 to HUF 2951. Our recommendation is buy.

		Total Equity Value		
		Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	6,4%	44 756	55 600	66 445
Rate	8,4%	39 112	48 993	58 873
(WACC)	10,4%	34 059	43 076	52 093

		One Year Target Price		
		Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	6,4%	2696	3349	4002
Rate	8,4%	2356	2951	3546
(WACC)	10,4%	2051	2595	3138

Source: ALTEO, Bloomberg, MKB

million HUF	2022	2023	2024	2025	2026
EBITDA	13990	12815	14474	14904	14782
D&A	4177	5397	6617	7755	7876
Capex	-10000	-10000	-10000	-6979	-7088
FCFF	-337	-1212	392	3931	3731
Terminal value	94606				
WACC	8,39%				
Net Debt	18548				

Source: ALTEO, Bloomberg, MKB

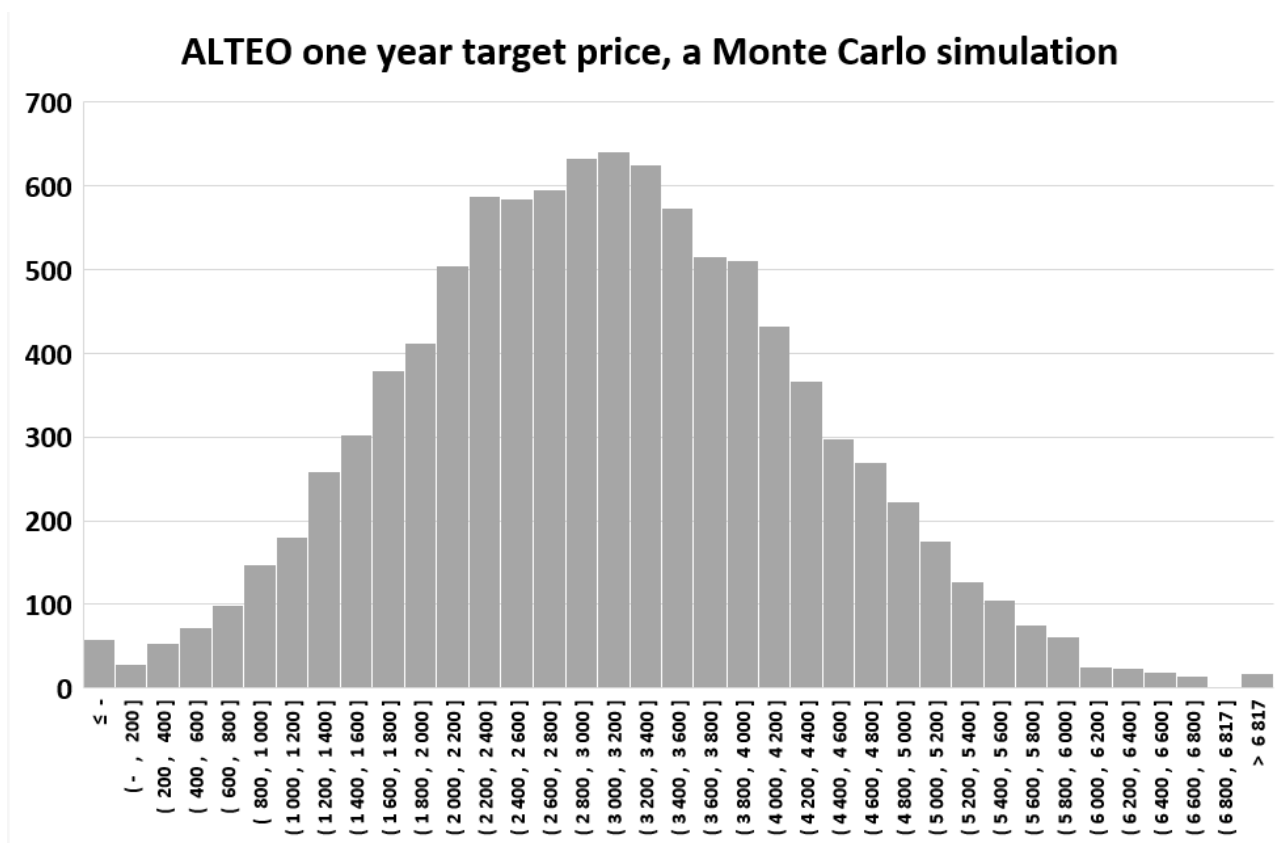
APPENDIX I.

We ran a Monte Carlo simulation to check our DCF-model's one year target price. (We are aware of the limitations of such simulations)!

The capital expenditure and the annual tax rate are static inputs, while the growth of the EBITDA, the weighted average cost of capital, the depreciation and amortization and the change in the net working capital are changing inputs.

We assume that the growth of the EBITDA is 100 basis points above the long-term GDP growth of Hungary, with the same standard deviation. The Company long-term capital allocation consists of 30 percent equity and 70 percent debt. To calculate the WACC we use the long-term average and standard deviation of the country's risk-free rate and equity risk premium.

Based on the above and according to the simulation the average one-year price target is approximately HUF 3000 per share. The one-year price target distribution of the 10 thousand steps Monte Carlo simulation can be seen below.



Source: MKB

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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 2951, which is 17.9% higher than the previous target price of HUF 2423 (18 May 2022).

Prior researches

Prior 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.