ACQUISITION OF A SOLAR POWER PLANT

ALTEO (the "Company") announced that the Company made a contract with FE-GROUP INVEST Zrt. to acquire 75.1 percent of the firm.
After the close of the acquisition and obtaining of the permits ALTEO can strengthen the waste management segment. The FE-GROUP INVEST Zrt. has been active in the waste processing industry since 1994. In the last three years the revenue of the target company were HUF 3.0 billion (2021), HUF 1.8 billion (2020) and HUF 2.2 billion (2019), and the EBITDA was HUF 342 million, HUF 257 million and HUF 191 million.

CONCLUSION

Last time we refreshed our DCF-model on 22 July 2022. We think the management's strategy is echoed in our last DCF-models. A little oversimplified we have already calculated with the growth of the waste management segment but now we have tangible benchmark. According to the target company's recent annual reports the FE-GROUP's EBITDA contribution to the ALTEO's EBITDA is currently low (approximately 2 percent) and we are waiting for the conference call after the first half report to know more.

According to the above we slightly raised our one-year target price from HUF 2951 to HUF 3031. Our recommendation is buy.

million HUF	2022	2023	2024	2025	2026	2027
EBITDA	14307	13855	15419	16050	16255	16510
D&A	3547	4547	5297	6047	6841	7570
Capex	-10000	-7500	-7500	-7942	-7289	-5299
FCFF	-2046	342	1257	1240	2100	4315
Terminal value	105667					
WACC	8,39%					
Net Debt	18548					

Source: ALTEO, Bloomberg, MKB

		Total Equity Value Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	6,4%	**46 187**	**57 930**	**69 673**
Rate	8,4%	**39 725**	**50 325**	**60 924**
(WACC)	10,4%	**33 993**	**43 579**	**53 164**

		One Year Target Price Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	6,4%	**2782**	**3489**	**4196**
Rate	8,4%	**2393**	**3031**	**3670**
(WACC)	10,4%	**2047**	**2625**	**3202**

Source: ALTEO, Bloomberg, MKB

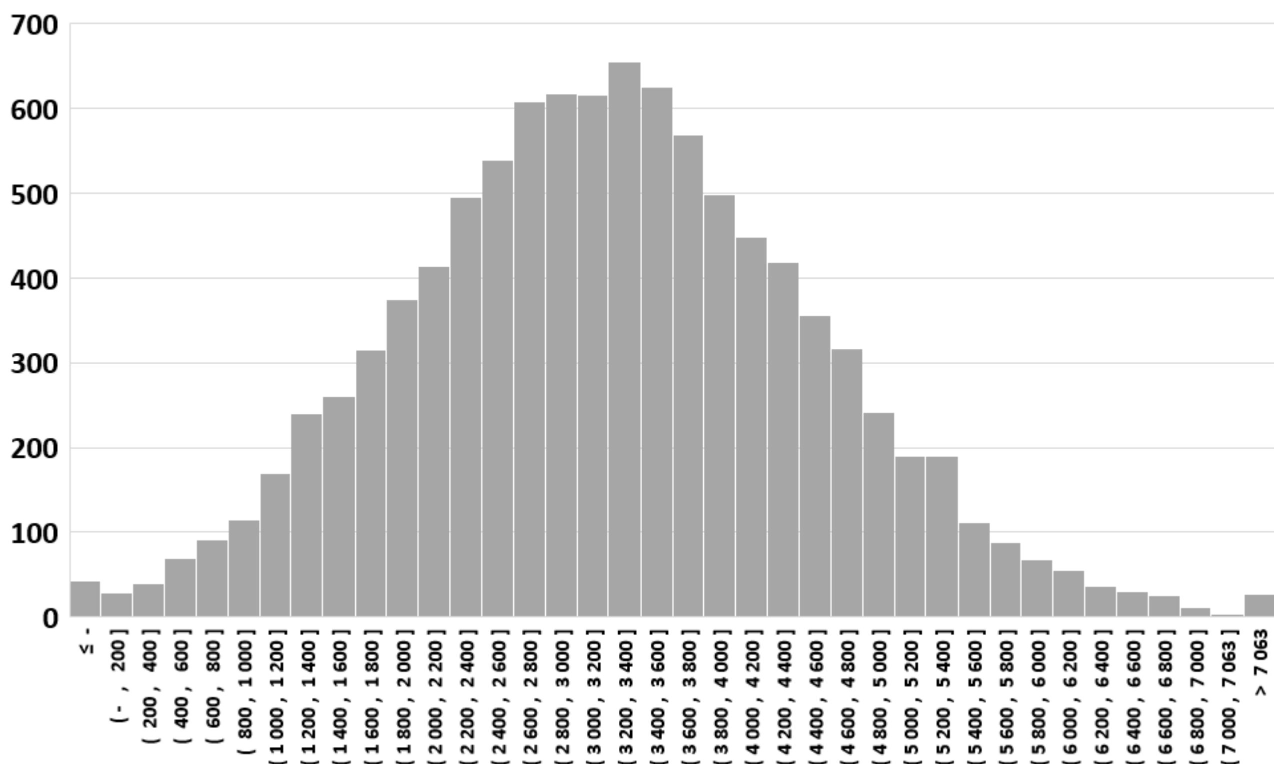
APPENDIX I.

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 average 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 between HUF 3000 and HUF 3200 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. We also reiterate our target price (HUF 3031, 29 July 2022) and the buy recommendation, which is 2.6% higher than the previous target price of HUF 2951 (22 July 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/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):

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.