RECORD EARNINGS IN 2022

ALTEO (the "Company") reported 2022 Q3 earnings on 14 November 2022. In a nutshell the Company's EBITDA increased by 68% year over year and reached HUF 16.3 billion in the three quarters of the year. The revenue grew by 116% also from HUF 29.05 billion to HUF 62.8 billion at the same time of the year.

The main driver behind the growth was the rising energy prices; the increasing capacity and revenue of the ALTEO Control Center (virtual power plant or "VPP") and the development of the retail segment. Nowadays the Company's renewable segment's capacity is approximately 90 MW and the market-based segment also reached cca. 70 MW.

The Company made several acquisitions in 2022. If you would like to find more, please read the previous flash notes on the website of the Budapest Stock Exchange.

From this earnings report ALTEO has changed the classification of the Company's segments. The classification of the Energy services and Energy trading segments remain the same. At the same time the electricity and heat production have changed based on their operation. Until now the Production of heat/thermal and electricity (market based) segment contained the fossil fuel based power plants, the renewable power plants which exhausted their subsidizing system, the VPP (Virtual Power Plants), energy storage facilities and other complex services. The Electricity production (KÁT system) segment contained the renewable power plants which are operating under KÁT or METÁR (subsidized system).

From now the (new) Renewables-based electricity production segment show the energy generations from renewable sources, while the (new) Non-renewables-based heat and electricity production and management segment contain the earnings of the conventional power plants (fossil-fuel based), the energy storage facilities, heat production and other complex services, like scheduling services.

In line with the above, we also change the presentation of the segments which are not comparable with the previous analyses.

Results by segments

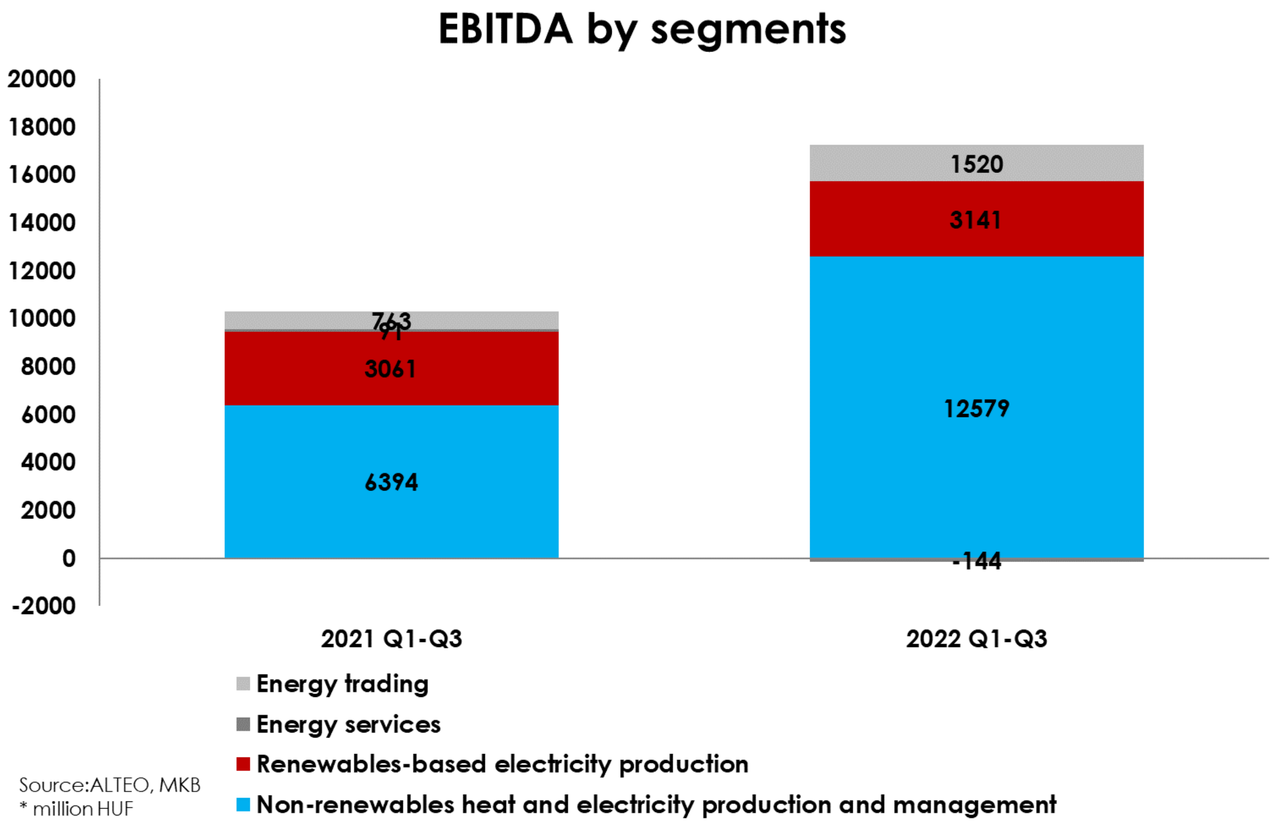
million HUF	2021 Q1-Q3	2022 Q1-Q3	Δ
Non-renewables heat and electricity production and management	15219	46449	205%
Renewables-based electricity production	3734	4275	14%
Energy services	2364	3098	31%
Energy trading	10295	18971	84%
Other	0	0	NA
Revenue	**19781**	**37988**	**92%**
Non-renewables heat and electricity production and management	6394	12579	97%
Renewables-based electricity production	3061	3141	3%
Energy services	91	-144	-258%
Energy trading	763	1520	99%
Other	-612	-759	24%
EBITDA	**6213**	**11808**	**90%**
EBITDA margin			
Non-renewables heat and electricity production and management	42,0%	27,1%	-14,9%
Renewables-based electricity production	82,0%	73,5%	-8,5%
Energy services	3,8%	-4,6%	-8,5%
Energy trading	7,4%	8,0%	0,6%

Source: ALTEO, MKB

RESULTS BY SEGMENTS

Non-renewables-based heat and electricity production and management: the revenue and the EBITDA increased by 205% and 97% year over year thanks to the capacity market revenue, the rise of the balancing prices and the regulatory revenue (both of them are high margin activities) and the higher electricity prices coupled with higher spark spread (the difference between the gas price used to produce electricity and electricity price).

The segment's costs grew too due to the higher gas prices and the higher CO2 quotas but high margin activities like the capacity market, the balancing prices and scheduling services contributed to the segments' growth.



Source:ALTEO, MKB
* million HUF

Renewables-based electricity production: the revenue increased by 14% while the EBITDA increased by 3% year over year in the nine months of 2022. The segment faced with higher costs due to the higher scheduling cost because of the volatile weather in the year.

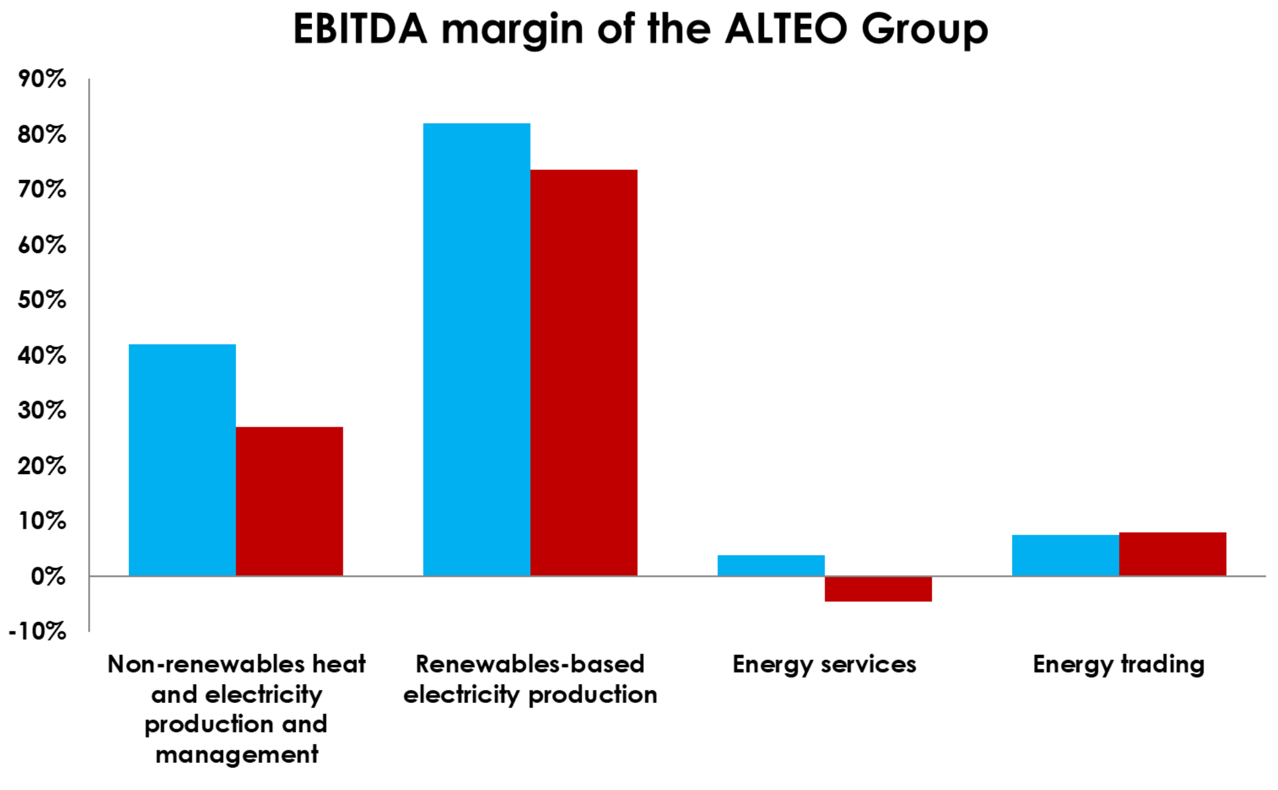
Energy services: The revenue grew by 31% but the EBITDA decreased by 258%. The administrative costs are high because of the start of the new business lines like Waste Management and E-mobility.

By our calculations the energy services' EBITDA from the self-implemented projects was HUF 0.

Both the Waste Management and E-mobility segments are not yet significant. At the same time in the Waste Management segment the Company's management are expecting significantly growth due to the acquisition of FE-GROUP.

Energy trading: The revenue and EBITDA increased by 84% and 99% year over year in Q3 of 2022. The electricity trading was impacted positively by the rising electricity prices, but on the other side the Company didn't renew the contrcts of the riskiest consumers.

The gas trading segment benefited from the reduction of the gas supply competitors.



Source: ALTEO, MKB

CONCLUSION

Last time we refreshed our DCF-model on 1 September 2022 because of the recent company specific, economic and geopolitical events. At the same time, we think the management's strategy is echoed in our last DCF-models.

Moreover, we believe the recent situation (the Russo-Ukrainian war and the energy market turbulence) positively affected the Company, which can be seen in the recent earnings reports too. The higher gas and electricity prices mean 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. At the same time the spark spread (the difference between the electricity price and the cost of natural gas) has widened significantly which means the market-based segment reached extraordinary profits.

At the same time one can identify several risk factors. It is difficult to predict how long the current price environment, the energy market turbulence, mainly in Europe will last. It is a tough task to see the electricity market in the next 5-10 years, which affect the Company's revenue (and earnings) to a large degree. In the last few months, the monetary and financial environment is changed a lot, too. This has made the external source of capital more expensive (in relative term), which could significantly raise the average cost of capital

(WACC) in the future. Thanks to the monetary tightening the financial conditions become more strictly, which affect the model's discount factor too. (Please note the valuation effect of the change in WACC in the target price scenario's matrix).

Moreover, today the Company has an elevated cash balance (approximately HUF 13 billion) which is important for the financing needs (like purchase of gas from the Company's point of view) of the year end's heating season. So, the cash balance will show a volatile path, which strongly affects the Company's fair value.

Based on the above we slightly raise our one-year target price from HUF 3462 to HUF 3812. Our recommendation is buy.

million HUF	2022	2023	2024	2025	2026	2027
EBITDA	19833	17331	17107	17334	17333	17545
D&A	3547	4097	5097	6097	6895	7628
Capex	-5500	-10000	-10000	-7987	-7327	-6865
FCFF	397	-4722	-1237	3609	5235	6809
Terminal value	112290					
WACC	10,01%					
Net Debt	7442					

Source: ALTEO, Bloomberg, MKB

		Total Equity Value Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	8,0%	**58 800**	**70 618**	**82 437**
Rate	10,0%	**52 559**	**63 317**	**74 075**
(WACC)	12,0%	**46 978**	**56 787**	**66 596**

		One Year Target Price Terminal EBITDA Multiple		
		5,4x	6,4x	7,4x
Discount	8,0%	**3540**	**4252**	**4963**
Rate	10,0%	**3164**	**3812**	**4460**
(WACC)	12,0%	**2828**	**3419**	**4010**

Source: ALTEO, Bloomberg, 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 3812, which is 9.2% higher than the previous target price of HUF 3462 (01 September 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.