ALTEO 2023 financial report – Flash note

05 March 2024

After the energy chaos

ALTEO (the "Company") reported FY 2023 earnings on 29 February 2024. In a nutshell the Company's EBITDA decreased by 4% compared to a year ago and reached HUF 19.4 billion in 2023 compared to HUF 20.2 billion in 2022. The revenue declined by 4% too, from HUF 103 billion to HUF 98.9 billion.

The main driver behind the decreasing revenue was that the electricity prices decreased and stabilized in a lower level which had a negative effect on the electricity production and the energy trading segment. At the same time the development of the waste management segments could partially offset these negative effects.

The cost of sales increased because of the higher amortization cost due to the higher level of assets and the staff costs were rising too.

It's worth noting, that the Company has made several acquisitions in the last 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

million HUF	2022	2023	Δ
Non-renewables heat and electricity production and management	80897	75521	-7%
Renewables-based electricity production	5163	5211	1%
Energy services	3866	4903	27%
Energy trading	24939	18041	-28%
Waste management	1222	4268	249%
Other	0	5	NA
Revenue	**103027**	**98954**	**-4%**
Non-renewables heat and electricity production and management	15729	14554	-7%
Renewables-based electricity production	3529	2424	-31%
Energy services	-276	-40	-86%
Energy trading	2459	3957	61%
Waste management	-172	427	-348%
Other	-1048	-1891	80%
EBITDA	**20221**	**19432**	**-4%**
EBITDA margin			
Non-renewables heat and electricity production and management	19,4%	19,3%	-0,2%
Renewables-based electricity production	68,4%	46,5%	-21,8%
Energy services	-7,1%	-0,8%	6,3%
Energy trading	9,9%	21,9%	12,1%
Waste management	-14,1%	10,0%	24,1%

Source: ALTEO, MBH

Results by segments

Non-renewables-based heat and electricity production and management: the revenue decreased by 7% and the EBITDA decreased by 7% too, year over year. The revenue has decreased because of the shrinking electricity prices and the lower revenue of the renewable schedule management segment.

The segment's costs grew due to the higher CO2 quotas (mainly in the first half of the last year), the higher staff costs and the higher cost of the renewable schedule costs, mainly surcharge costs.

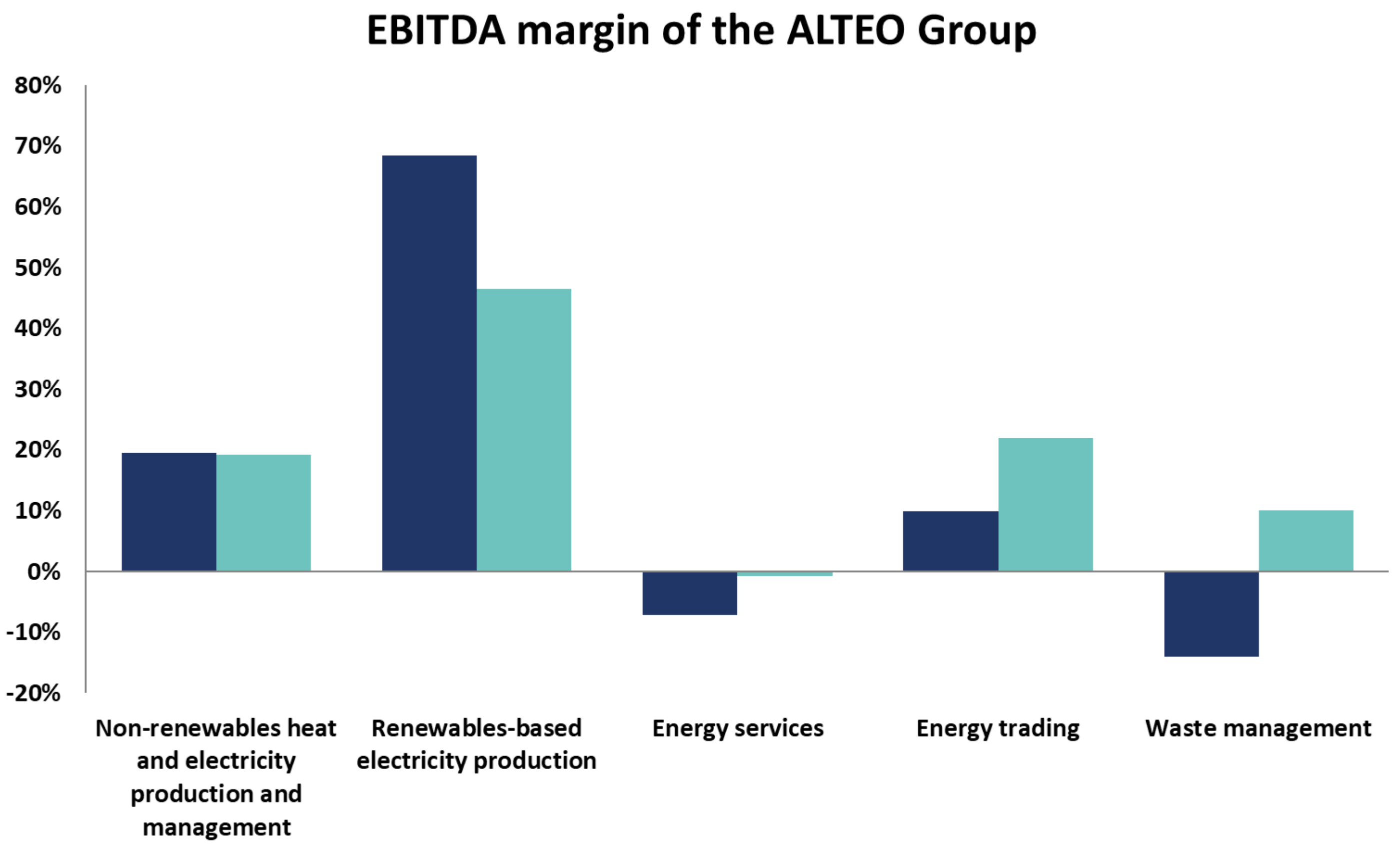
Renewables-based electricity production: the revenue increased by 1% while the EBITDA decreased by 31% year over year in FY 2023. The main cause of the lower EBITDA is that some renewable power plants have exhausted their subsidy system (KÁT). On the other side the segment's EBITDA margin has been under pressure because of the lower electricity generation due to the volatile weather, like calm windy weather and the lower average hours of sunny days in summer of 2023.

Energy services: The revenue grew by 27% year over year. The segment had higher earnings from third party services, but the EBITDA was negative because of the higher starting costs of the E-mobility sub-segment.

Waste managmenet: From 2023 the Waste management segment will be presented as a standalone segment.

The revenue grew by 249% year over year from HUF 1.2 billion to HUF 4.3 billion, and the EBITDA margin was positive (10%). We think the segment has a high potential value. In 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 decreased by 28% because of the lower electricity and energy prices. The EBITDA increased by 61% because of the contracts with fixed higher energy prices. At the same time the Company didn't renew the contracts of the riskiest consumers.



Source: ALTEO, MBH

Conclusion

Last time we refreshed our DCF-model on 15 November 2023 because of the company specific, economic and geopolitical events.

The energy chaos of 2022 (and partly in 2023) has positively affected the Company's earnings. The higher gas and electricity prices have meant that the margin of the renewable power plants, not in the subsidy system, improved and the energy contracts which were fixed at higher price level contributed to better revenue and margins. The spark spread (the difference between the electricity price and the cost of natural gas) has widened too which means the market-based segment reached extraordinary profits.

The revenue from the scheduling of renewable power plants for third party customers, the capacity market and balancing activity (the regulatory revenue) is growing, which is a low cost/high profit margin segment. We saw the early runup of the waste management business.

At the same time some circumstances have changed. We think the energy chaos is behind us (so we hope) which will affect almost all segments for example through the revenue or the change in the net working capital. In the las half year the waste management segment earned higher EBITDA than we thought before.

The interest rate environment has changed too, which affects the cost of capital and so the discount rate. The aforementioned effects influence our DCF model, so we put our one year price target under review.

Our previous one year price target was HUF 4001.

Analyst:
Csaba Debreczeni
Senior Equity Analyst
Tel: +36-1-268-8323
E-mail: debreczeni.csaba@mbhbank.hu
MBH Bank Nyrt.

Closing the research: 16:00 05/03/2024

Disclaimer

Disclaimer 1

This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1013 Budapest, Krisztina körút 55.; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and MBH Bank Plc (registered seat: 1056 Budapest, Váci u. 38.; company register number: 01-10-040952; business registration no.: III/41.005-3/2001. ; member of the Budapest Stock Exchange; supervisory authority: Magyar Nemzeti Bank 55 Krisztina krt., 1013-Budapest, continuously: the Bank). This research/commentary was made with the joint, equally proportional financing of the BSE and the company that is the subject of this research/commentary.
The Investment Service Provider's policies and procedures ensure the independence of this research/commentary, and the Investment Service Provider has undertaken not to accept any instructions or additional remuneration from the company involved in the research/commentary. 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.
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. This research/commentary cannot be deemed as an incentive to enter into contract or covenant.

Disclaimer 2

1.This publication was prepared by MBH Bank Nyrt. (registered seat: 1056 Budapest, Váci u. 38.; company register number: 01-10-040952; business registration no.: III/41.005-3/2001. ; member of the Budapest Stock Exchange; supervisory authority: Magyar Nemzeti Bank 55 Krisztina krt., 1013-Budapest, continuously: the Bank).

2.The findings presented in this document, as an investment analysis, are considered an objective or independent explanation based on Commission delegated regulation (EU) 2017/565, i.e. investment-related research, and an investment recommendation according to regulation 596/2014/EU of the European Parliament and the Council it counts as. The Bank intends to distribute this document to its customers or the public, or to give access to other persons in such a way that this document may be disclosed to the public.

3.The information contained in this publication does not constitute an offer to buy or sell, nor investment advice, nor does it constitute an incentive, invitation, offer to invest, enter into a contract or make an obligation, nor does it constitute tax advice. The information is not comprehensive, the data contained in the publication are informative. The publication does not constitute investment advice even if any part of the document contains a description of the possible price and yield development of a financial instrument. This document does not consider the unique needs, circumstances and goals of individual investors, so in the absence of a personal recommendation, it does not qualify as investment advice.
The Bank excludes its responsibility for the potential use of the contents of this publication as an investment decision, for specific individual investment decisions, and for the resulting consequences, and therefore does not assume responsibility for any damages or losses that the investor may incur as a result of the decisions made on the basis of the contents of this publication, or in any other connection.

4.The information contained in the publication is based on sources considered to be authentic, however, the Bank has not received a guarantee of the veracity, accuracy, correctness and completeness of the information, therefore neither the authors of the document nor the Bank assumes responsibility for the completeness and accuracy of the information described in the document. The contents and opinions indicated in the publication reflect the professional judgment of the specialists who prepared the publication based on the market conditions existing at the time of the preparation of the publication, which may change without special notice or warning in the event of new information, changes in market conditions and economic conditions. The Bank reserves the right to modify the findings and recommendations contained in this document in the future without prior notice.

5.It is not possible to draw clear and reliable conclusions about future prices, returns, or performance from the past development of prices, yields, and other data. Investors must assess and understand the essence and risks of individual financial instruments and investment services on their own (or with the help of an independent expert). We recommend that investors carefully read the business rules, information, other contractual conditions, announcements, and list of conditions for the given financial instrument and investment service before making a decision to invest, because it is only with knowledge of these documents and information that it can be decided that the investment is in accordance with is it in line with the investor's risk tolerance and investment goals, and also carefully consider the subject of your investment, risks, fees, costs and possible losses and damages resulting from investments! We also recommend that you find out about the tax law and other legislation related to the product and investment, and before making your investment decision, contact our staff or visit your bank advisor!

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. Based on the recen t changes, we put our one year price target under review until we refresh our DCF-model.

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):
https://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/alteo-elemzesek

8.The Bank is entitled to provide price quotes, other investment services or additional services for the assets included in the publication. The Bank is still entitled in good faith and according to the usual method of market formation to trade, enter into transactions or trade as a market maker in accordance with the usual course of price quotation, as well as to provide other investment activities or additional servi ces, or other financial or additional financial services to the issuer and to other persons.

9.The Bank has a Conflict of Interest Policy for the description of potentially arising conflict of interest situations related to investment service activities and the handling of such situations, as well as internal regulations for the handling and transfer of bank and securities confidential data, which measures are based on the European Commission 2016/958 are considered effective internal organizational and administrat ive solutions, as well as information limitations, created to prevent and avoid conflicts of interest. The remuneration of the persons participating in the preparation of the analysis is not directly related to the provision of investment service activities defined in Sections A and B of Annex 1 of EU Directive 2014/65 or to transactions carried out by the Bank or other legal entities belonging to the same financial group, or by the Bank or to the commission received by the company belonging to the same financial group.

10.The issuer of the product/financial instrument covered by this document does not have a share exceeding 5% of the total registered capital of the Bank. The Bank does not act as a liquidity provider with regard to the financial instrument that is the subject of this document. The Bank acts as a market maker with regard to the financial instrument that is the subject of this document. The Bank was not the lead organizer or co-lead organizer of any public issue of the issuer's financial instruments in the previous 12 months. The Bank is not a party to the agreement concluded with the issuer regarding the provision of investment services defined in Sections A and B of Annex I of Directive 2014/65/EU . The Bank does not have a net long or short position exceeding the threshold of 0.5% of the total subscribed capital of the issuer concerned in this document.

11.The Bank has established appropriate internal procedures regarding the personal transactions of (i) financial analysts and other interested persons participating in the preparation of investment-related research; (ii) to ensure the physical separation of financial analysts and other interested persons participating in the preparation of investment analyses; in addition, appropriate information limits were also set (iii) regarding the acceptance of incentives and remuneration.

13.This publication is valid at the time of its publication. The date of preparation of the publication: 16:00 05/03/2024

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 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 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 reduce the EV with the net debt. This 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).