BACKGROUND

ALTEO Group (the "Company") made a private placement of securities on 19 March 2019. The main goal of the security issuance was to raise capital for further expansion. The Company has made several investments since 2016 (the list is available in the previous flash notes.)

The Company informed the market participants that the equity offering was successful, exceeding the originally targeted amount of HUF 1.5 billion. According to the Information Memorandum the Company accepted the oversubscription to maximum HUF 2 billion at HUF 670 per share. Based on the above the Company has issued 2,985,074 shares.

ALTEO INCREASES THE SHARE OF RENEWABLE ENERGY PRODUCTION

The Company informed the market participants that it had acquired 100% of the EURO GREEN ENERGY Ltd. EURO GREEN ENERGY has operated 13 wind turbine unites near Bőny since 2008. The total electricity production capacity of the power plant is 25 MW, which is sold through the KÁT system by 2023. Due to the acquisition the total electricity power capacity of the renewable segment grew to 50-55 MW, while the market based segment (natural gas fired power plants) reaches approximately 50 MW.

According to the balance sheet and the income statement of the EURO GREEN ENERGY Ltd., the power plant is able to produce approximately 58,000-60,000 MWh of electricity annually. This is equivalent of approximately HUF 1.8 to 2.1 billion of revenue and HUF 1.5 – 1.7 billion of EBITDA. The assets of the power plant are depreciated by 5% annually in 20 years, which is equivalent of approximately HUF 550 million of depreciation and amortization cost per annum. The operating and maintaining CapEx is about HUF 150-170 billion annually. The above mentioned cash-flow items affect our DCF model.

EURO GREEN ENERGY sells the produced energy through the KÁT system, but by the end of 2022 the power plant will have exhausted its KÁT quotes, therefore the produced electricity will be sold at market prices from that point onwards. It will be crucial to implement the wind power system in the Virtual Power Plant effectively. But the Company has already made several implementations because three wind power plants (Ács, Jánossomorja and Pápakovácsi) have already exhausted their electricity production in the KÁT system. The wind power plants are operating efficiently in tandem with gas-fired power plants due to the volatility of the weather. The material costs of the wind power

plants are low, at the same time the price of the electricity is increasing so it may give a segment with high EBITDA margin.

UPDATED MODEL

We have to take into account the increased number of shares, the debt numbers (after the earnings release) and the acquired company's costs and earnings. Given these circumstances we raise our one year price target by HUF 38 (+3,5%) from HUF 1011 to HUF 1049.

million HUF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
EBITDA	-88	401	453	591	816	719	1428	2312	1806	1828	3229	4365	4463	4564	3906
D&A	9	186	166	291	420	404	950	829	563	798	1244	1538	1538	1538	1538
Capex	-1432	-832	-686	-652	-237	-181	-206	-152	-1950	-9400	-7000	-3000	-1064	-1064	-1064
FCFF									-49	-7151	-3469	862	3284	2972	2797

Source: ALTEO, Bloomberg, MKB

		Total Equity Value		
		Terminal EBITDA Multiple		
		5x	6,5x	8x
Discount	4%	**16 058**	**20 930**	**25 802**
Rate	6%	**14 049**	**18 477**	**22 906**
(WACC)	8%	**12 250**	**16 282**	**20 314**
		One Year Target Price		
		Terminal EBITDA Multiple		
		5x	6,5x	8x
Discount	4%	**912**	**1188**	**1465**
Rate	6%	**798**	**1049**	**1300**
(WACC)	8%	**695**	**924**	**1153**

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)

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.

8. Content of this material enjoys copyright protection according to Act LXXVI. of 1999 on copyright, and may therefore be copied, published, distributed or used in any other form only with prior written consent of MKB Bank. All rights reserved. Unauthorized use is prohibited.

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/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/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.

Change from the prior research

Our first research was published on 05. December 2017. In that Initial Coverage our price target was HUF 823, but the changes in fundamental factors and the latest acquisition justified the update of our model. Our new price target is HUF 970 which is higher by 18% than our first price target.