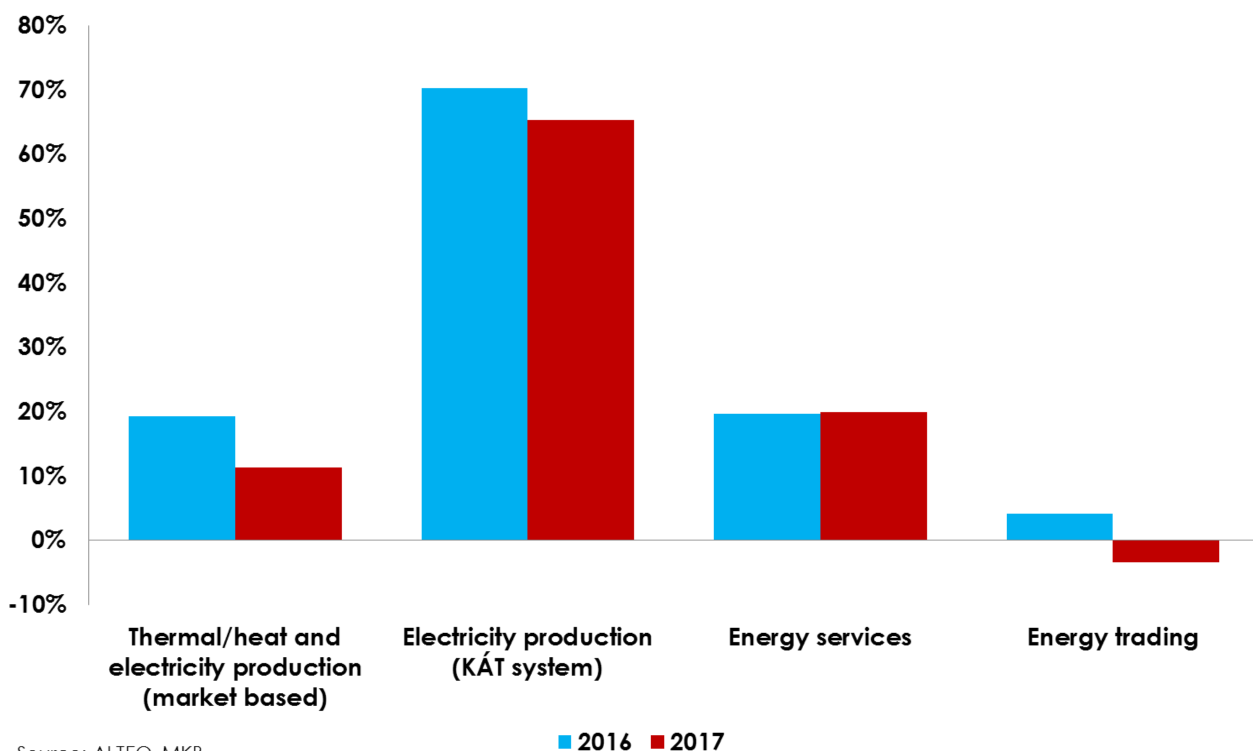
THE ACQUISTIONS OF THE SOLAR POWER PLANTS CONTINUE

The ALTEO Group made a contract with the True Energy Ltd. and the F.SZ. ENERGIA Ltd. to acquire the firms. Based on the transactions the Group will implement two small solar power plants in the outer area of Nagykőrös, which have a combined 7 MW capacity. Both firms have already had the required licenses to implement the power plants. The plants are expected to begin operating in the first half of 2019, and the generated electricity will be sold under the FIT (feed in tariff, KÁT) system for 25 years based on the permission of the Hungarian Energy and Public Utility Regulatory Authority.

COMMENT

The acquisition fits well into the company's small scale power plant strategy. In the recent months the Group has acquired three solar power plants: Domaszék (2 MW), Monor (4MW) and Balatonberény (7MW). With the new transaction the Group's solar power plant capacity would reach 20MW.

The electricity production in the FIT (KÁT) system is a high margin segment. In the last two years the EBITDA margin was 70.2% (2016) and 65.3% (2017). Last year both the revenue and the EBITDA decreased in this segment (see ALTEO financial report – 2017, 2 March 2017, page 3., or the chart below) partly because two wind turbines exhausted the electricity production in the KÁT system. In the future the solar power plants can improve the earnings of this segment.



Source: ALTEO, MKB

Our recommendation is buy with a one year price target of HUF 970.

KEY FIGURES

million HUF	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
EBITDA	-88	401	453	591	816	719	1428	2312	1806	2100	2681	3061	3163	3268
D&A	9	186	166	291	420	404	950	829	563	801	1016	1148	1198	1251
Capex	-1432	-832	-686	-652	-237	-181	-206	-152	-1950	-9400	-1350	-300	-300	-300
FCFF									-229	-7392	1193	2592	2687	2786

Source: ALTEO, Bloomberg, MKB

		Total Equity Value Terminal EBITDA Multiple		
		5x	6,5x	8x
Discount	4%	**12 337**	**16 367**	**20 396**
Rate	6%	**10 706**	**14 369**	**18 032**
(WACC)	8%	**9 248**	**12 585**	**15 921**

		One Year Target Price Terminal EBITDA Multiple		
		5x	6,5x	8x
Discount	4%	**833**	**1105**	**1377**
Rate	6%	**723**	**970**	**1217**
(WACC)	8%	**624**	**849**	**1075**

Source: ALTEO, Bloomberg, MKB

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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, 31 January 2018, 8 February 2018, 2 March 2018, 19 March 2018, 11 May 2018, 22 May 2018 and on 18 June 2018. These researches are available on the web page of the BSE (Budapest Stock Exchange):

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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 15. 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 target price is HUF 970.