SCOPE | Ratings

ALTEO Energiaszolgáltató Nyrt

Hungary, Utilities

Issuer
BBB-

Outlook
Stable

Short-term debt
S-2

Senior unsecured debt
BBB-

Rating composition

Business risk profile		
Industry risk profile	BB+	BB+
Competitive position	BB+	
Financial risk profile		
Credit metrics	BBB+	BBB+
Cash flow generation	good	
Liquidity	+/-0 notches	
Standalone credit assessment		**BBB-**
Supplementary rating drivers		
Financial policy	+/-0 notches	+/-0 notches
Governance & structure	+/-0 notches	
Parent/government support	+/-0 notches	
Peer context	+/-0 notches	
Issuer rating		**BBB-**

Key metrics

			Scope estimates	
Scope credit ratios*	**2023**	**2024**	**2025E**	**2026E**
Scope-adjusted EBITDA interest cover	Net interest	>20x	8.1x	5.6x
Scope-adjusted debt/EBITDA	0.2x	0.8x	2.7x	2.3x
Scope-adjusted funds from operations/debt	506%	85%	27%	30%
Scope-adjusted free operating cash flow/debt	390%	20%	-24%	18%
Liquidity	>200%	>200%	107%	>200%

Rating sensitivities

The upside scenario for the ratings and Outlook is:

- A positive rating action is unlikely in the foreseeable future due to the company's limited size and scope

The downside scenarios for the ratings and Outlook are (individually):

- Debt/EBITDA above 4.0x on a sustained basis
- EBITDA interest cover below 4.0x on sustained basis
- Financial policy is perceived as becoming more aggressive

**All credit metrics refer to Scope-adjusted figures.*

Lead Analyst

Kamila Hoppe
+49 30 27891-405
k.hoppe@scoperatings.com

Related methodologies

General Corporate Rating Methodology, February 2025
European Utilities Rating Methodology, June 2024

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1. Key rating drivers

Positive rating drivers	Negative rating drivers
• A gradually growing and solidly balanced energy generation portfolio of regulated renewable generation capacity as well as non-regulated renewable energy and thermal generation capacity • Ability to provide reserve capacity leads to cash flow upside from the supply of balancing services, through the operation of gas-fired power plants and a 'virtual power plant' across Hungary, including volatile renewables and peak-load gas-fired power plants (ESG factor: credit-positive environmental factor) • Exposure to quasi-monopolistic heat generation and supply • Integrated business model covering generation and supply is complemented by energy and waste management services • Strong financial ratios in terms of leverage and debt protection, together with solid liquidity profile	• Small, niche energy supplier with insignificant share of the Hungarian power generation and energy supply markets • Almost all business exposure to Hungary for the foreseeable future, which could create regulatory risks for regulated renewable capacity under the KÁT and METAR systems • Margin dilution from supply and energy services • Higher regulatory risks in Hungary than in other Western European markets (e.g. Robin Hood tax on utilities, suspension of the inflation adjustment from KÁT) • Weakening of debt protection metrics (EBITDA interest cover) due to the significant increase in gross financial debt

2. Rating Outlook

The Stable Outlook reflects our expectation that ALTEO's financial position will remain solid in the context of its expansion strategy, as evidenced by a medium-term leverage (debt/EBITDA) of 1.5x-2.5x and EBITDA interest cover of 5x-8x. The Outlook does not consider large-scale or transformational acquisitions.

3. Corporate profile

ALTEO is an integrated utility with activities in regulated and non-regulated power generation, energy supply (electricity and gas), waste management and energy services. The company has grown strongly through a multi-billion HUF investment plan focused on organic growth and opportunistic acquisitions.

Integrated utility with growing exposure to waste management

4. Rating history

Date	Rating action/monitoring review	Issuer rating & Outlook
27 May 2025	Affirmation	BBB-/Stable
27 May 2024	Affirmation	BBB-/Stable
22 June 2023	Upgrade	BBB-/Stable

5. Financial overview (financial data in HUF '000s)

			Scope estimates		
Scope credit ratios	**2023**	**2024**	**2025E**	**2026E**	**2027E**
EBITDA interest cover	Net interest	27.5x	8.1x	5.6x	7.9x
Debt/EBITDA	0.2x	0.8x	2.7x	2.2x	1.6x
Free operating cash flow/debt	390%	20%	-24%	18%	25%
Liquidity	>200%	>200%	107%	>200%	>200%
EBITDA					
Reported EBITDA	19,431,572	19,048,184	19,278,840	21,171,871	23,169,720
Other items (incl. one-offs)[1]	223,232	1,937,332	1,776,644	-	-
EBITDA	**19,654,804**	**20,985,516**	**21,055,484**	**21,171,871**	**23,169,720**
Funds from operations (FFO)					
EBITDA	19,654,804	20,985,516	21,055,484	21,171,871	23,169,720
less: interest	1,301,991	(764,139)	(2,602,598)	(3,795,923)	(2,938,098)
less: cash tax paid	(3,120,515)	(5,629,686)	(3,007,000)	(3,125,000)	(3,313,000)
Funds from operations	**17,836,280**	**14,591,691**	**15,445,886**	**14,250,948**	**16,918,622**
Free operating cash flow (FOCF)					
Funds from operations	17,836,280	14,591,691	15,445,886	14,250,948	16,918,622
Change in working capital	(1,728,295)	2,287,170	(4,893,000)	3,585,000	(870,000)
Non-operating cash flow	8,202,952	432,011	-	-	-
less: capital expenditures (net)	(10,034,376)	(13,177,047)	(23,551,000)	(8,608,000)	(6,145,000)
less: lease amortisation	(530,566)	(766,008)	(766,008)	(766,008)	(766,008)
Free operating cash flow	**13,745,995**	**3,367,817**	**(13,764,122)**	**8,461,940**	**9,137,614**
Interest					
Net cash interest per cash flow statement	(1,363,743)	680,775	2,452,000	3,648,000	2,798,000
add: other items[2]	61,752	83,364	150,598	147,923	140,098
Interest	**(1,301,991)**	**764,139**	**2,602,598**	**3,795,923**	**2,938,098**
Debt					
Reported financial (senior) debt	26,632,687	25,192,842	62,682,080	53,125,080	42,337,080
less: cash and cash equivalents	(24,345,080)	(10,201,898)	(10,066,976)	(9,885,847)	(9,141,567)
add: asset retirement obligations	1,235,039	2,202,884	3,979,528	3,908,849	3,702,075
Debt	**3,522,646**	**17,193,828**	**56,594,632**	**47,148,082**	**36,897,588**

[1] Includes share-based payments and provisions net for asset retirement obligations (AROs)
[2] Interests on AROs

6. Environmental, social and governance (ESG) profile[3]

Environment	Social	Governance
Resource management (e.g. raw materials consumption, carbon emissions, fuel efficiency)	Labour management	Management and supervision (supervisory boards and key person risk)
Efficiencies (e.g. in production)	Health and safety (e.g. staff and customers)	Clarity and transparency (clarity, quality and timeliness of financial disclosures, ability to communicate)
Product innovation (e.g. transition costs, substitution of products and services, green buildings, clean technology, renewables)	Clients and supply chain (geographical/product diversification)	Corporate structure (complexity)
Physical risks (e.g. business/asset vulnerability, diversification)	Regulatory and reputational risks	Stakeholder management (shareholder payouts and respect for creditor interests)

ESG factors: credit-positive credit-negative credit-neutral

Virtual power plant enhances ALTEO's market position and cash flow profile

ALTEO's combined operation of volatile renewable energy power plants, cogeneration, and storage facilities is a positive environmental credit driver. These are operated individually but also as a combined 'virtual power plant' through the company's own Power Plant Control Centre. The virtual power plant allows several small stand-alone power plants to enter the electricity and system services market as a single, large power plant. This makes it a very effective, flexible, and economical energy production technology. In this way, ALTEO can meet outright demand and provide balancing capacity to the national grid operator, which supports its credit quality in terms of market position, profitability, and cash flow.

No credit-negative aspects from governance

ALTEO has implemented a Corporate Governance Practise based on the Corporate Governance Recommendations of the Budapest Stock Exchange. In addition, long-term incentives related to financial KPIs and sustainability targets have been set for ALTEO's Board of Directors. As a result, we are more confident that ALTEO's operations will be managed in a prudent and conservative manner in the interest of creditors.

[3] These evaluations are not mutually exclusive or exhaustive as ESG factors may overlap and evolve over time. We only consider ESG factors that are credit-relevant, i.e. those that have a discernible, material impact on the rated entity's cash flow and, by extension, its credit quality.

7. Business risk profile: BB+

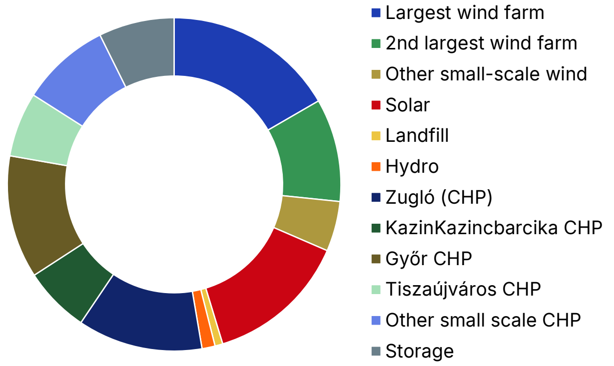
New investments strengthen ALTEO's competitive position

The rating continues to reflect a BB+ business risk profile assessment. ALTEO's limited geographic presence and comparatively small size are still constraints. However, its competitive position is strengthening through acquisitions and growth investments. The investment phase remains focussed on expansion in both the utilities and waste management segments.

The development of the power generation portfolio includes renewable capacity. In 2024, ALTEO added new renewable capacities to its generation portfolio through the acquisition Mov-R Kft., which operates 12 wind turbines with a total capacity of 24 MW, followed by the acquisition of Aerope Kft, which owns a solar farm project with 20 MW of installed capacity. New capacities will further reduce concentration risks associated with the current generation portfolio (around 200 MW) and increase the company's renewable generation portfolio from 90 MW to over 120 MW. Additionally, the development of a 70 MW energy storage project, which will operate under fixed compensation for at least 10 years, bolsters ALTEO's solid market position.

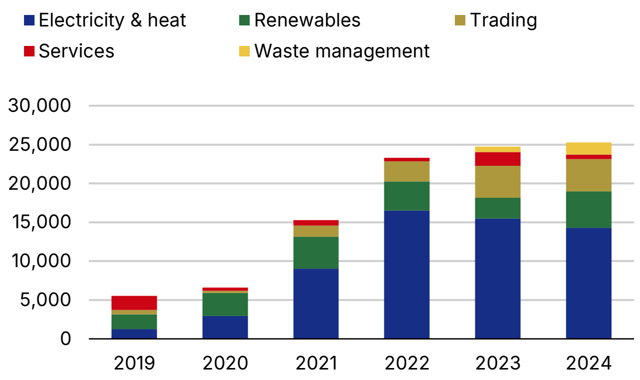
The ability to provide grid balancing through the virtual powerplant reduces transitions risks (credit positive ESG factor). At the same time, ALTEO's expansion of its waste management arm through the acquisition of ÉLTEX, a leading waste management company in Hungary, improves business diversification and helps to mitigate cash flow volatility from the exposure to renewable generation.

Figure 1: Revenue split by assets



Sources: ALTEO, Scope

Figure 2: EBITDA split by segment (HUF m)

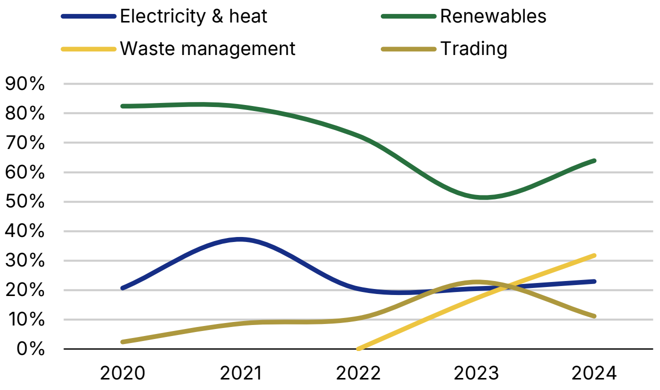


Sources: ALTEO, Scope

Satisfactory margin profile

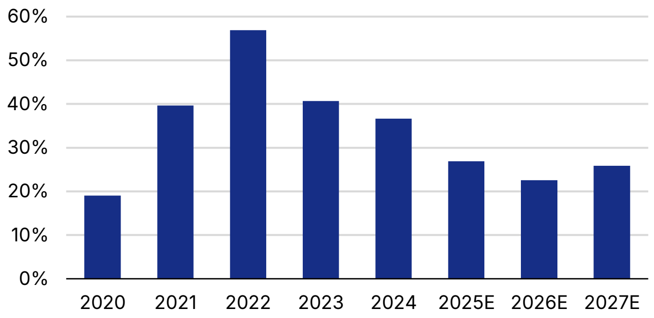
In 2024, ALTEO continued to perform well in terms of profitability. The EBITDA margin stood at 20%, supported by: i) an increased share of high-margin renewable energy production; and ii) greater profitability in the waste management segment. Between 2025 and 2027, we expect EBITDA margin to deteriorate to between 13%-15%, due to continued investments in the lower margin waste management segment including the lower profitability of the recently acquired ÉLTEX. Moreover, trading activities also dilute profitability. On the other hand, margins will be supported by a growing share of regulated income from an energy storage project, which will operate under fixed compensation from April 2026. At the same time, we expect profitability to be continuously underpinned by a very strong ROCE of 25%-30%.

Figure 3: ALTEO's reported EBITDA margin per segment



Sources: ALTEO, Scope

Figure 4: Expected ROCE development



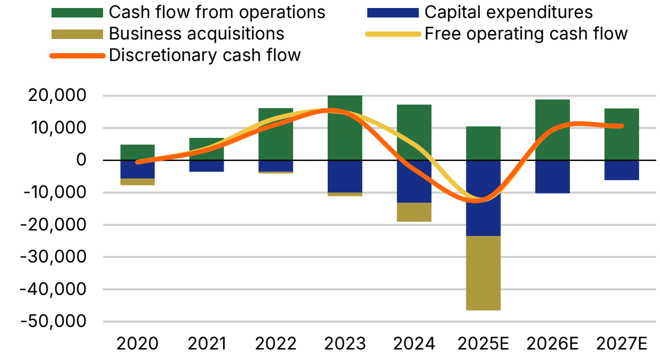
Sources: ALTEO, Scope estimates

8. Financial risk profile: BBB+

Current strong credit metrics are not sustainable in the medium term

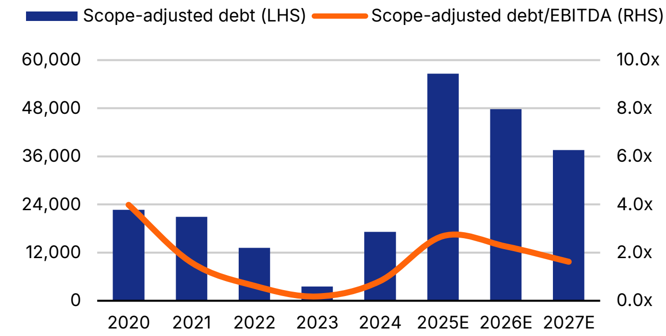
The rating is supported by ALTEO's solid financial risk profile. However, the very strong financial metrics reported in 2022-2024 are not representative of the company's medium-to-long-term financial position and are therefore not sustainable. At the same time, we expect credit metrics to improve over the medium term. Ongoing investments are focused on organic and dynamic growth. This includes the development of an energy storage, representing the company's largest greenfield investment to date (estimated net capex of HUF 20bn), followed by the acquisition of ÉLTEX at the end of 2024. While these investments are expected to be partially financed by current operating cash flow and the available cash buffer, a large proportion will be financed by new debt. As a result, we expect leverage – as measured by debt/EBITDA – to peak at above 2.5x in 2025 and then gradually decreasing to below 2.0x in 2027 due to anticipated debt repayments and improved operating performance, with EBITDA expected to reach HUF 19-23bn in the medium term (2024: HUF 19bn).

Figure 5: ALTEO's cash flow profile (HUF m)



Sources: ALTEO, Scope estimates

Figure 6: Expected development of debt and leverage (HUF m)



Sources: ALTEO, Scope estimates

Free operating cash flow under pressure in 2025

Similarly, we anticipate that cash flow cover (free operating cash flow/debt) will be strongly negative in 2025, driven by increased capital expenditures, before rebounding to a positive range of around 25% as a result of the expected reduction in capex.

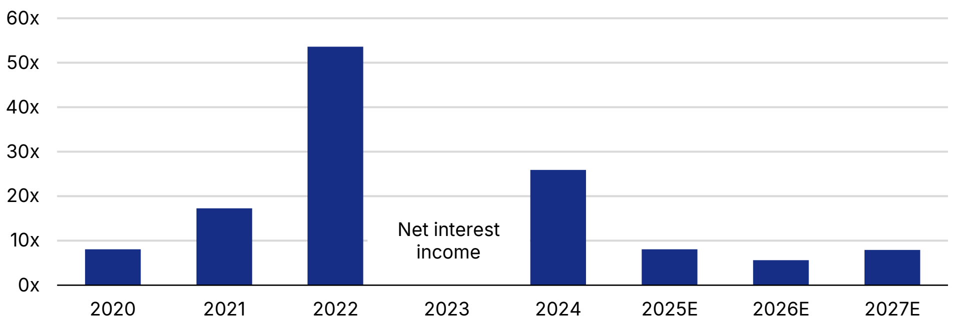
Interest cover expected to deteriorate

Medium-term debt protection is expected to settle between 5x-8x. In the past, the ratio was largely supported by the company's low leverage and significant interest income on bank deposits. However, ALTEO's interest cover is expected to be negatively impacted by the growing debt exposure and lower overall interest income from deposits, as the company is using its accumulated cash buffer to finance investments.

Potential new investments will affect medium-term forecasts

While the capex guidance for 2025 includes already secured investments, there is limited transparency regarding 2026 and 2027, for which capex guidance only relates to already approved spendings. Therefore, credit metrics may come under pressure after 2025, should the company decide to pursue new growth opportunities.

Figure 7: EBITDA interest cover



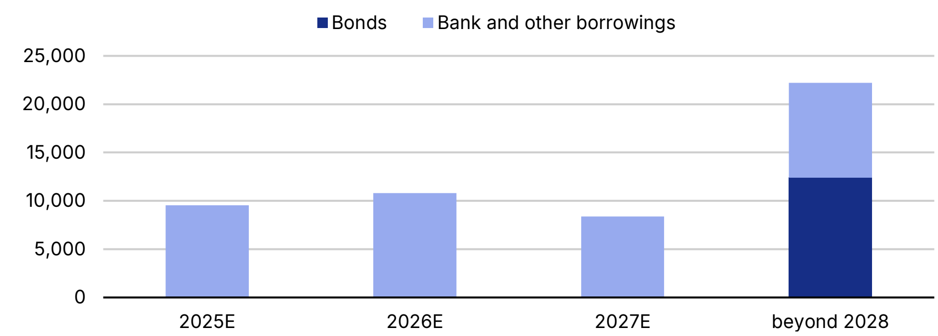
Sources: ALTEO, Scope estimates

Adequate liquidity

ALTEO's liquidity position remains solid. Upcoming debt maturities between 2025 and 2027, totalling HUF 21.8bn should be covered by the company's cash buffer (HUF 10bn as of December 2024) and available credit facilities of HUF 45bn as of May 2025. This includes overdraft facilities of HUF 5bn and a HUF 40bn corporate loan facility.

We are aware that the credit facilities from Erste Bank and OTP are only provided on a rolling basis; however, we consider them equivalent to committed lines, as most of them are in place for at least six years. The HUF 40bn corporate loan facility from MBH bank, with maturity in June 2031, will be gradually repaid on a quarterly basis, with the first repayment expected in December 2025.

Figure 8: Debt maturity profile (HUF m)



Sources: ALTEO, Scope

A major debt refinancing will occur in 2029, when the bullet payment of the MNB bonds (HUF 8.6bn and HUF 3.8bn) comes due in October. At present, we are not overly concerned about a successful refinancing of this maturity, especially after the change in the company's shareholder structure.

Despite its small size, ALTEO has good access to external financing, as evidenced by its continuous bond issuance (first bond in 2011) and well-established credit relationships not only with Hungarian banks such as MBH and OTP, but also with Austria's Erste. As a result, ALTEO retains good refinancing alternatives in case of a need for bridge financing.

Table 1: Liquidity sources and uses (in HUF '000s)

	2024	2025E	2026E
Unrestricted cash (t-1)	24,345,080	10,201,898	10,066,976
Open committed credit lines (t-1)	45,000,000	6,062,000	6,062,000
FOCF (t)	3,367,817	(13,764,122)	8,461,940
Short-term debt (t-1)	1,703,817	1,448,762	9,557,000
Liquidity	**>200%**	**107%**	**>200%**

Sources: ALTEO, Scope estimates

9. Supplementary rating drivers: +/- 0 notches

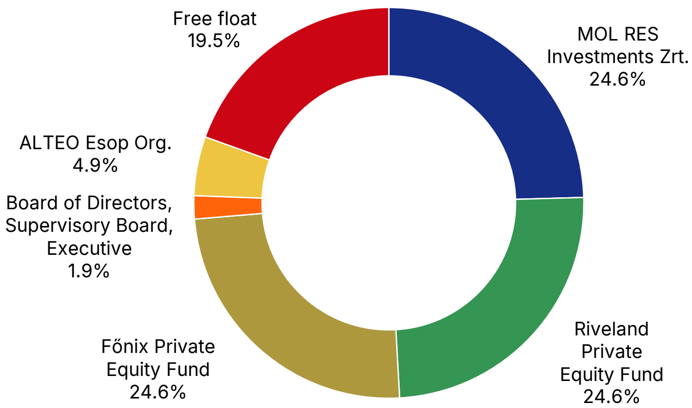
Financial policy: credit-neutral

The company maintains a prudent financial policy, which we do not expect to change. While we expect that ALTEO's investment decisions will likely include both new M&A activities and dynamic growth opportunities, we do not see major integration risks or large delays in earnings accretion. Consequently, acquired businesses are likely to be accretive to earnings growth. We expect shareholder remuneration to continue to be linked to ALTEO's operating performance and not to jeopardise credit quality. Shareholder remuneration would likely be adjusted if necessary to maintain the company's credit profile, which we believe is a clear focus for management. At the same time, we highlight the company's ambitious development strategy focused on continual M&A and growth investments. Such rapid and debt-funded growth could lead to volatile financial results and deteriorating leverage. We have factored this risk into the issuer's financial risk profile and standalone credit assessments. However, future adjustments remain possible should the company's aggressive financial policy have a significant impact on its risk profile. Finally, we highlight the long-term incentives related to financial KPIs and sustainability targets set for the ALTEO Board of Directors. As such, we are more confident that ALTEO's business will be managed in a prudent and conservative manner in the interest of creditors.

No direct impact from shareholder structure

The shareholder structure is credit neutral for the rating and does not result in any rating adjustments to the stand-alone credit assessment. Following the completion of the takeover bid by the new consortium of shareholders led by MOL RES Investments Zrt, there is no longer a de facto controlling shareholder of ALTEO (each of the three shareholders, including Főnix Private Equity Fund and Riverland Private Equity Fund, holds 24.6%). However, we consider the Hungarian oil and gas incumbent MOL (the ultimate parent company of MOL RES Investments Zrt) to be the leader among the new shareholders. We believe that MOL has a long-term investment horizon for ALTEO and views the utility as an associated subsidiary, which could strengthen MOL's ambitions to diversify outside its core business. We view MOL's creditworthiness as slightly better than ALTEO's standalone credit profile, with much stronger financial strength in terms of size and funding channels. This implies that MOL would likely be able to provide financial support to ALTEO if needed, either to execute capex or for refinancing needs. Overall, the shareholder structure does not result in any rating adjustments and justifies ALTEO's investment-grade rating.

Figure 9: Shareholder structure



Sources: ALTEO, Scope

10. Debt ratings

Senior unsecured debt rating: BBB-

Senior unsecured debt issued by ALTEO is rated at the same level as the issuer rating. This is aligned with our general rating approach for the senior unsecured debt of investment-grade rated issuers.

ALTEO's short-term debt rating is based on the underlying BBB-/Stable issuer rating and the company's solid liquidity profile, characterised by consistently solid liquidity and adequate access to external funding channels.

Short-term debt rating: S-2

Scope Ratings GmbH

Lennéstraße 5, D-10785 Berlin
Phone: +49 30 27891-0
Fax: +49 30 27891-100
info@scoperatings.com

Scope Ratings UK Limited

52 Grosvenor Gardens
London SW1W 0AU
Phone: +44 20 7824 5180
info@scoperatings.com

in
Bloomberg: RESP SCOP
Scope contacts
scoperatings.com

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