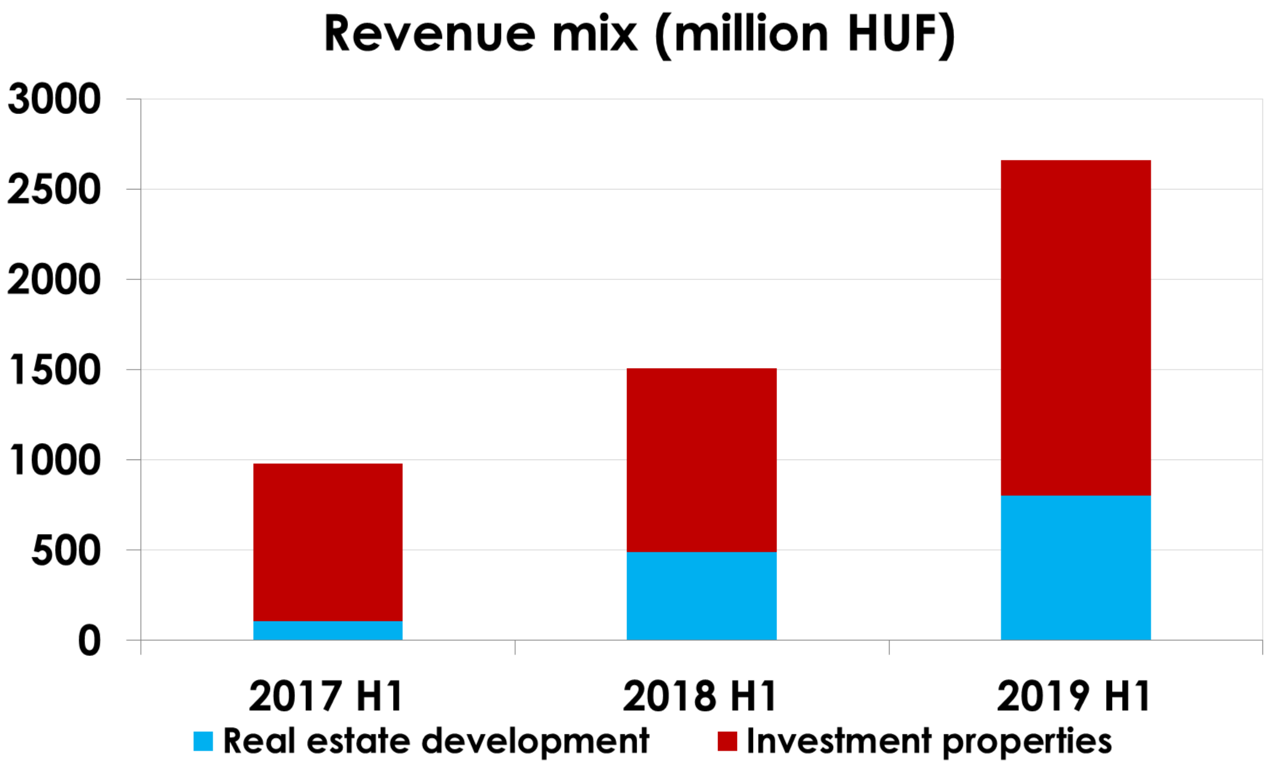
REPORTED EARNINGS OF THE FIRST HALF OF 2019

The Company published its first half of 2019 figures on 30 August 2019. The Company achieved an after-tax profit of HUF 1.1 billion in the first six months, which represents an increase of about HUF 250 million compared to YoY. Net sales increased by 75 percent from HUF 1.5 billion to HUF 2.7 billion, while other operating income was flat.



Source: Consolidated company fillings, MKB

The results of the Company's segments were the following: the revenue of the investment property segment was HUF 1.9 billion which represents a 83% increase compared to the previous year. BIF purchased and completed the full renovation and modernization of the Vigadó Palota, so in the last year the Company has raised the size of its rentable area by about 15,000 square meters. In the following years BIF will be able to make further improvements on the existing properties such as the extension of the buildings or building additional parking lots. We believe that the total rentable area will reach approximately 70,000 square meters by 2022. Furthermore the parking lot segment showed recovery in the last year, both the parking contracts and the volume of the hourly paid parking increased.

The Harsánylejtő segment; which means the real estate development segment; earned HUF 800 million after the result of HUF 490 million in the first half of 2018. The Company has finished the implementation of 4 residential apartments with 20 residential properties in 2018 (80 percent of them are sold), and the occupancy permits for the built homes were given this year, so the Company could realize the revenue from Stage I of the development project (there are four stages in this project.) The occupancy permits of the properties in Stage II are expected in the first quarter of 2020.

In the first half of the year the cost of sales also increased. Material expenses increased by 60 percent due to the real estate developments and the designing of the Vigadó Palota. Payroll expenses also increased by 56 percent due to the staff expansion.

In the remainder of 2019 the Company focuses on the following important areas:

- Delivery of Stage II of the Harsánylejtő residential property (20 properties). In Stage III and IV 40 properties can be constructed in the future
- Designing the development concept of Bajcsy-Zsilinszky Office Building (raising the rentable area from approximately 3,600 square meters to about 30,000 square meters) and Városmajor Office Building with total development area: 6,000 square meters
- The Company acquired an ELMŰ property located at 99 Attila street, Budapest, District I. in the beginning of 2019. The Company is designing the development concept of several luxury loft properties there on about 6000 square meters
- Designing the utilization and development concept of the property complex at 80-82 Andrássy street, Budapest, District VI. which will function as a 4-star boutique hotel from 2021

UPDATED DCF MODEL

During the last year both the cash balance and the outstanding debt changed. On 3 September the Company informed the market participants that an amount of HUF 7.6 billion was provided to the Company by the MFB Magyar Fejlesztési Bank with maturity of 10 years and a fixed rate of 1.82% per annum. It represents the final payment of its investment loan outstanding at Magyar Takarékszövetkezeti Bank Zrt. The new loan has an effect on the Company's cost of capital (WACC.)

Furthermore, after the earnings report we could calculate the expected earnings from the new real estate development project (mainly the ELMŰ property on the Attila street), so we made a little change in our DCF model.

The previous model can be reached here: https://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/bif-elemzesek

Based on the above, our new one year price target decreased a bit from HUF 299 to HUF 293.

DCF valuation

millions of HUF	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
Total income	2225,6	2217,2	2901,7	2754,9	3805,6	3792,0	5105,7	6653,5	10394,0	11706,6	10246,4
Property related costs	-1247,2	-1366,3	-1804,9	-1430,7	-1341,3	-2335,4	-2552,8	-3326,7	-5197,0	-4682,6	-4098,6
Net interest costs	-522,4	-737,1	-141,9	-67,5	-103,0	-254,8	-437,5	-507,9	-500,0	-500,0	-500,0
FFO	691,2	176,6	1100,3	1288,5	2385,5	1201,2	919,2	2594,4	5137,2	5614,9	5093,6
CAPEX	-299,5	-45,4	0,0	-805,8	-8068,2	-680,9	-3000,0	-4000,0	-6000,0	-500,0	-500,0
AFFO	391,7	131,1	1100,3	482,7	-5682,7	520,3	-2080,8	-1405,6	-862,8	5114,9	4593,6

WACC	6,9%
Growth rate	2,5%

Enterprise value	80031,8
Debt	-9600,0
Cash	6950,0
Fair value of equity	77381,8
Shares outstanding	287,024

1 year target	293

Source: Consolidated company fillings, MKB

Target price scenarios

		Terminal growth						
		-2%	-1%	0%	1%	2%	3%	4%
WACC	5%	216,5	254,4	307,4	387,0	519,6	784,8	1580,4
	6%	180,4	207,8	244,3	295,3	371,9	499,6	754,9
	7%	152,6	173,1	199,5	234,6	283,8	357,5	480,5
	8%	130,6	146,4	166,1	191,5	225,4	272,7	343,8
	9%	112,7	125,2	140,4	159,5	183,9	216,5	262,2
	10%	98,1	108,1	120,1	134,7	153,1	176,7	208,1

Source: Consolidated company fillings, MKB

Analyst:

Balázs Rácz
Tel: +36-1-268-7388
E-mail: racz.balazs@mkb.hu

Csaba Debreczeni
Tel: +36-1-268-8323
E-mail: debreczeni.csaba@mkb.hu

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Prior researches

MKB Bank wrote an initiation report on 29 June 2018. 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-zrt-bif-initiation-report

The flash notes are 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-zrt.---bif-elemzoi-kommentar---2018.09.12.

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_BIF_flash_note_-_2018.09.24._.pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_BIF_elemzoi_kommentar_-_2018.11.09..pdf1

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https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_BIF_flash_note_-_2019.03.11..pdf1

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.