



OPUS



Company Data:	
Recommendation:	Buy
Target Price:	HUF 353
Price:	HUF 218 (21/12/2021)
52 week range:	HUF 212-308
Market cap (HUF, m):	151 555
Average daily turnover (number of shares):	180 659
Code:	OPUS HB
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Opus Global

9M results

Consolidated Results

We updated our valuation model to reflect the TITÁSZ acquisition, this resulted in a Target Price of HUF 353 per share. The slight decrease in the target price was mainly due to the growing liabilities and decreasing cash of the company, however the addition of OPUS TITÁSZ to the group could almost compensate the negative effects. We did not make any significant alteration in our model apart from the one mentioned above. The details of the updates are discussed in the Energy segment chapter.

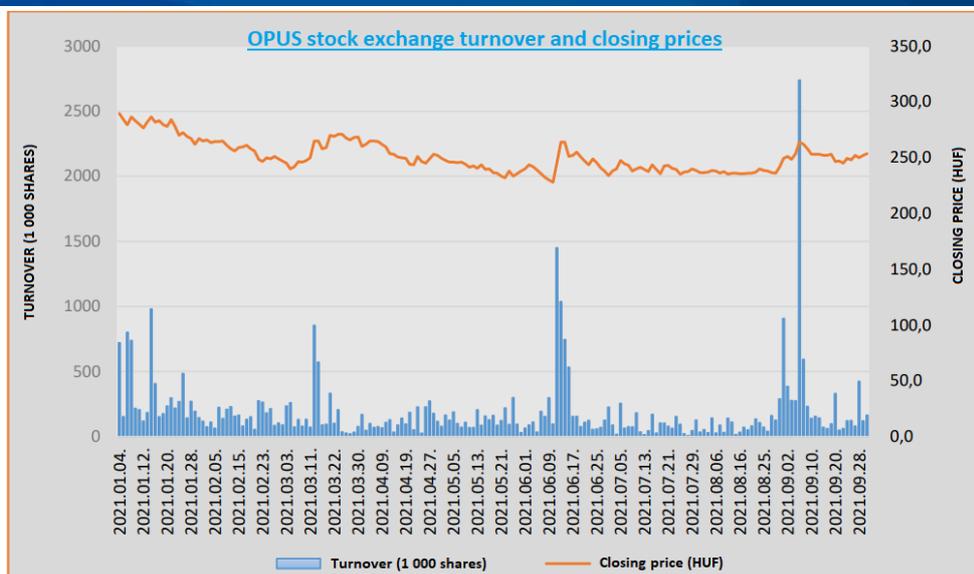
In the first nine months of 2021 Opus had an Operating EBIT of HUF 9.3 bn, compared to HUF 9.9 bn in the first nine months of 2020, while P/L after taxes skyrocketed to HUF 23.8 bn which is a more than 700% YoY growth. The EBIT was slightly down, as the newly added energy segment had a negative EBIT contribution and the agriculture's segment turned to a loss compared to a gain in the first nine months of 2020, as costs increased significantly. The industry segment improved margins and P/L with slightly increasing revenues, while the tourism segment was able to turn around with a significant cost reduction.

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**The target price was based on the fundamental analysis of the company and it is not guaranteed that the price of the share will reach the given target price.*



OPUS



Source: Opus

The revenue of Opus Global increased by 17% YoY, while the operating costs increased by 18% YoY resulting in decreasing operating margins. Without the energy segment’s addition, the revenue growth was 4%, with a 5% expenses growth. Apart from energy, only the agricultural segment’s revenue increased significantly, while tourism segment’s revenue was down.

Consolidated	2021 9M	2020 9M	Change
Revenue*	188 933 841	162 090 787	16,56%
Operating expenses*	179 600 175	152 197 720	18,00%
Operating EBIT*	9 333 666	9 893 067	-5,65%
P/L after Taxes*	23 785 508	3 012 571	689,54%

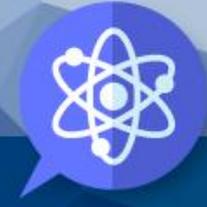
Consolidated (without Energy)	2021 9M	2020 9M	Change
Revenue*	168 928 886	162 090 787	4,22%
Operating expenses*	159 926 154	152 197 720	5,08%
Operating EBIT*	9 002 732	9 893 067	-9,00%
P/L after Taxes*	24 289 423	3 012 571	706,27%

*in thousand HUF

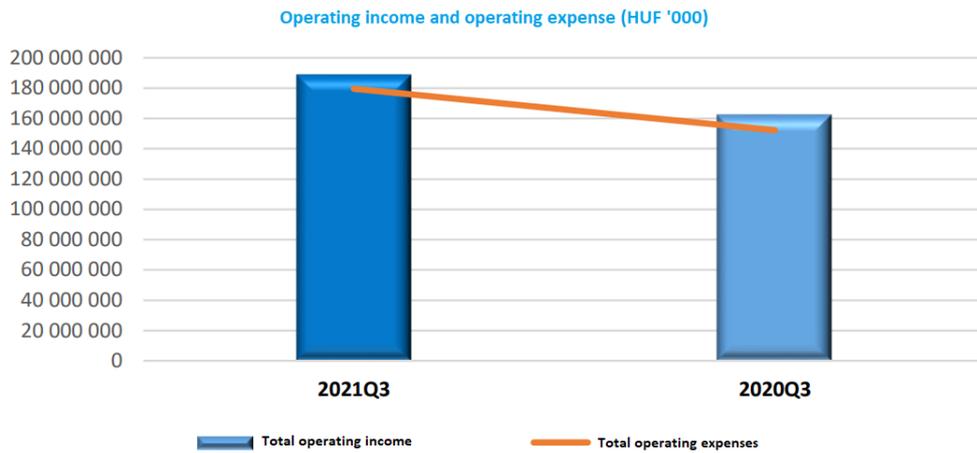
source: OPUS, Equilor

The group’s consolidated P/L after taxes was aided by the significant financial contribution of Mészáros Építőipari Holding Zrt., which received dividends in the second quarter.

The re-addition of the Energetics segment, through the acquisition of TIGÁZ and TITÁSZ increased the Balance sheet by 47% YoY. The cash and

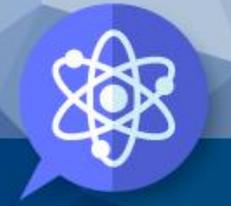


equivalents increased by 2% YoY. But long-term liabilities also increased significantly, partially due to the issuance of new bonds in the NKP program.

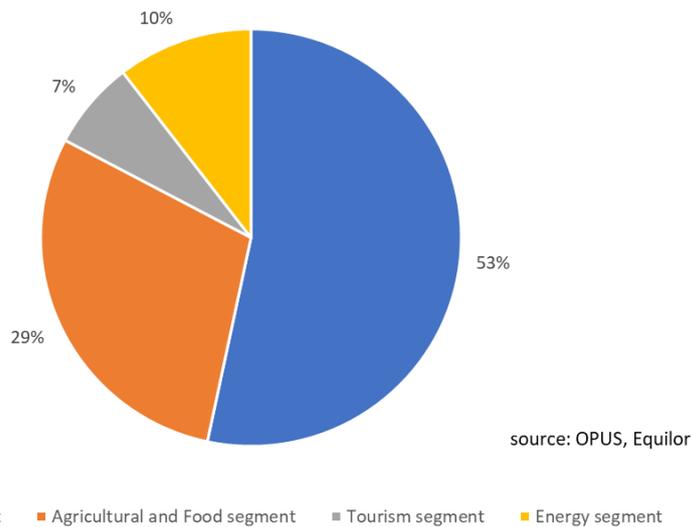


Source: OPUS

The Covid-19 had a larger effect on the firm's operation in the first nine months of the year compared to the same period in 2020. The revenue breakdown shows that in the first nine months the industry segment had the largest contribution. It was responsible for 53% of the revenue, while the agricultural segment contributed with 29% and tourism lagged as the Covid-19 pandemic hit the segment the most, its contribution was only 7%, the new Energy segment with only partial results in Q2 and Q3, already contributed with 10%.



Division breakdown of the revenue (unconsolidated)



Industry segment

While in 2020 the segment was not held back by the Covid-19 pandemic, the first nine months of 2021 was a bit different. The increasing raw material prices, wages and the costs of safety equipment and education increased operating costs significantly. The other main issue was that many of the contracted projects was not able to start on time, resulting in lower-than-expected revenue for the period. Disruptions at Wamsler SE is mostly over, and it achieved a YoY growth. The segment, due to its low leverage, decided to not participate in the loan moratorium.

In the first nine months of 2021 the revenues increased by 0.6% YoY, while the operating expenses were down by 1.1% YoY. This resulted in a slight increase in operating margin. The margin improvement was significant in Q3, as in H1, the EBIT margin was down YoY. If we compare the earnings after taxes the segment achieved a 30.5% YoY growth, due to the 22% YoY growth in the financial lines. Which was the increased dividend payment from Mészáros Építőipari Holding Zrt. for the period.

The sub segment level indicates that 91.5% of the revenue came from the construction arm. The sub segment’s revenue breakdown shows, that 45.1% of revenue came from road and railway constructions and the management



expects this revenue source to be the most important. Water management and civil engineering contributed 20.8%, while Public Utility's contribution was 13.8%.

Wamsler was able to increase production, the number of units produced was up by 32.4% YoY, while sales increased by 14.5% YoY.

Production and sales data for the Wamsler Group

Business management factors	2021Q3	2020Q3	Change year-on-year %	Change year-on-year '000 HUF
Total number of products	36 938	27 897	32,4	9 041
Total number of products sold	42 763	37 348	14,5	5 415
- of which: exported	37 491	31 366	19,5	6 125
- of which: sold in Hungary	5 272	5 982	-11,9	-710
Aver. headcount (ppl)	508	540	-5,9	-32
Closing headcount	507	516	-1,7	-9

Source: OPUS, Equilor

The construction arm's revenue decreased significantly in the period, but at least costs were on check, resulting a minimal margin improvement. Maintaining or preferably improving the margins will be the key for the profitability of the segment, as the revenue is expected to increase in the coming periods. The planned amortization for the period for the contract portfolio was down by 57% YoY, resulting in lower EBITDA, but higher EBIT numbers compared to the first nine months 2020.

Industry segment	2021 9M	2020 9M	Change
Revenue*	102 274 231	101 653 496	0,61%
Operating expenses*	94 220 679	95 338 712	-1,17%
Operating EBIT*	8 053 552	6 314 784	27,53%
P/L after Taxes*	26 333 937	20 179 162	30,50%

*in thousand HUF

source: OPUS, Equilor

Tourism segment

The segment faces the largest difficulties due to the Covid-19 pandemic. The effect is universal and we observed unprecedented collapse in global travel which can affect the segment in the medium term as well.

To offset the negative effect the Hungest Group decided to participate in numerous government aid programs. The most important is the loan moratorium; this is the only arm of the firm which decided to enter the



program, which they left at the end of the period. There were significant changes in the cafeteria program in Hungary, which will benefit the domestic tourism sector. The renovation of the hotels is ongoing, no major delay was reported.

During in the first nine months, until May nearly all hotels were closed, only Hotel Platánus was open, and Hotel Sóstó and Hotel Pelion were opened occasionally to accommodate business travellers. The hotels reopened in May 2021, improving Q2 and Q3 results compared to Q1 2021, but for H1 booking numbers were down significantly. It rebounded significantly in Q3, as domestic travel was strong, which was only partially offset by relatively weak foreign demand. During the whole shutdown in 2021, almost 250 thousand nights were lost.

The portfolio changed slightly in 2021, as they sold Hunguest Grandhotel Galya and the Austrian operations, while acquired Hotel Eger & Park and granted the operating rights of the operation of the hotel built by the municipality, for a period of 120 months, for an annual fee of HUF 121 million + VAT. The renovation of Hotel Panoráma was finished one month before schedule, while the rest of renovations are still on schedule.

The camping operation had to delay opening to May, but were fully functional from that time. The domestic bookings continued to climb, even from the high base of last year, but foreign bookings decreased. As a result, domestic travellers predominated the subsegment with 66% of bookings.

Due to the effect of the pandemic, which was only partially offset with a strong Q3 numbers, revenue was down 9% YoY, while operating expenses decreased by 26%. This significant improvement in margins resulted in an operating gain and the earnings after taxes show a profit of HUF 448.8 mn, compared to a loss of HUF 2.5 bn last year in the same period. Q3 was very strong, the segment achieved 70% of annual revenue in the period, while was able to utilize aggressive cost cutting measures, which resulted in stronger than expected profit numbers.



OPUS

Tourism segment	2021 9M	2020 9M	Change
Revenue*	13 108 911	14 446 065	-9,26%
Operating expenses*	11 423 124	15 411 399	-25,88%
Operating EBIT*	1 685 787	-965 334	-274,63%
P/L after Taxes*	448 815	-2 550 066	-117,60%

*in thousand HUF

source: OPUS, Equilor

Agricultural and Food segment

In terms of the agricultural and food segment there were mainly two issues that negatively impacted this year's performance. Both the raw material prices (especially corn and wheat prices) and the energy price increase had a negative impact on the segment profitability. In the market for finished products the price consolidation is slow and delayed, as sales contracts are operated on an annual basis – regarding the new contracts OPUS achieved that finished product prices can be increased on a quarterly basis. Overall, the food segment output grew due to the recent capacity expansion and optimization. The sales volume grew 22% in Hungary, 48% within the EU and 25% in Non-EU countries. Still the EU countries are responsible for around 68% of revenue of the food segment.

Regarding the income statement of the agricultural and food the revenue grew to HUF 56.4 bn during the 9 months of 2021 which represents a 23% YoY growth, which was driven by increased factory output and favourable EURHUF currency impact. The operating cost grew to HUF 57.1 bn during 9 months ended which is a 30.5% growth YoY driven by increase in the price of raw materials and energy prices versus last year. The loss after taxes grew to HUF 2,8 bn due to the lower operating margin and the negative effect of the financial operations.

Agricultural and Food segment	2021 9M	2020 9M	Change
Revenue*	56 371 840	45 808 720	23,06%
Operating expenses*	57 140 516	43 796 470	30,47%
Operating EBIT*	-768 676	2 012 250	N/A
P/L after Taxes*	-2 628 013	406 258	N/A

*in thousand HUF

source: OPUS, Equilor



Energy segment

Introduction of OPUS TITÁSZ

The main duties of the company are the uninterrupted provision of electricity, including facility management, network development, maintenance, regional customer service and the performance of metering duties, readings and checks. The area of coverage includes Hajdú-Bihar, Szabolcs-Szatmár-Bereg and Jász-Nagykun-Szolnok counties, while to a smaller extent it is also present in Bács-Kiskun, Békés, and Pest counties, covering an area of 18,728 km², operating a 26,177 km long electric energy distribution network in almost 400 towns, in more than 772 thousand homes and workplaces, ensuring uninterrupted electricity supply. In the scope of other activities not subject to authorisation, lease, education, transportation and management services, as well as different other activities are performed by the company. OPUS TITÁSZ Zrt. serves 760 thousand clients in its three main counties.

The relation between OPUS and TITÁSZ started in 2019. OPUS GLOBAL Nyrt. announced its intent to purchase Tiszántúli Áramhálózati Zrt. in October 2019. Following comprehensive due diligence, the listed company made a binding offer to E.ON to acquire TITÁSZ Zrt. in December 2020. The final sale and purchase contract was signed on 30 March 2021. The closing of the transaction was completed on the 31st of August 2021, so the inclusion of the OPUS Group in the consolidation is only effective from this date. Since the 1st of September 2021, the company has been continuing its activities under the name OPUS TITÁSZ Áramhálózati Zrt.

OPUS GLOBAL Nyrt. exercises its control over TITÁSZ Zrt. through OPUS ENERGY Kft, a company that was established by OPUS GLOBAL Nyrt. by a decision of its Board of Directors on the 10th of March 2021 with a 50-50 split with STATUS ENERGY Kft. The Energy division employs 42.8% of all the employees of the OPUS Group, so in this aspect the energy segment became the largest component of the group after the acquisition of OPUS TITÁSZ Zrt.



Valuation

The main revenue sources of the company are the system usage fees after the distribution of electricity. These fees are regulated by the Hungarian Energy and Public Utility Regulatory Authority (HEO). Most of the cases the clients pay these fees through the retail energy trading companies, but one third of the revenue comes from the electricity consumers directly. All in all, 95.6% of the revenue of TITÁSZ comes from energy related services. There is not any natural competitor of the company, so besides TIGÁZ, TITÁSZ can also be a cash cow of the OPUS Group.

The revenue of the company mainly depends on the regulated tariff prices and on the distributed electricity volume. The electricity consumption is not as cyclical within a year than the natural gas usage, because it is not as dependent on temperature. During summer the power consumption can increase rapidly because of the air condition demand. The company's revenue is growing continuously mainly due to the newly connected B2B consumers; therefore, the value of assets has an increasing trend and the D&A as well. Due to the continuously growing electricity need, the Capex cost is higher than the yearly D&A. Regarding Capex growth rate, the five-year historical CAGR was used, which is 6,1% per annum. The network loss is a significant cost element; however, it is incorporated in the regulated tariffs, but in a growing electricity price environment, the company might be compensated only with a time delay until the new elevated tariffs will come into force. Good news that the soaring power prices won't affect negatively the company's 2021 results because of hedging activity. Personnel costs were growing rapidly in the past years, mainly due to increasing salaries, the number of employees grew 4,9% in 2019 and 1,9% in 2020.

The revenues can grow faster than the inflation in each year, due to growing need of electricity in Hungary and the inflationary pressure can be built into the future tariffs. TITÁSZ is an energy utility company, so the same WACC numbers were used in the valuation process what was disclosed in case of TIGÁZ. In or view, the company's enterprise value is near to HUF 80 billion,



and Opus has 50% interest in the company so TITÁSZ has an enterprise value of HUF 58 per share.

HUF mn	2021	2022	2023	2024	2025	2026
Total Revenue	79 534	83 618	87 912	92 426	97 173	102 163
Direct costs (materials)	- 37 276	- 38 394	- 39 546	- 40 732	- 41 954	- 43 213
Personnel costs	- 8 767	- 9 030	- 9 301	- 9 580	- 9 868	- 10 164
Other costs	- 13 328	- 13 728	- 14 140	- 14 564	- 15 001	- 15 451
D&A	- 9 455	- 10 027	- 10 634	- 11 277	- 11 960	- 12 684
EBIT	10 708	12 439	14 291	16 272	18 390	20 651
NOPLAT	6 960	8 085	9 289	10 577	11 953	13 423
D&A	9 455	10 027	10 634	11 277	11 960	12 684
CAPEX	- 16 130	- 17 106	- 18 141	- 19 239	- 20 404	- 21 639
FCFF	285	1 006	1 782	2 615	3 510	4 468
EV						
TV growth rate	2,0%					
EV Terminal value	68 351					
EV Operation	78 955					
Opus' share of TITÁSZ	50,00%					
EV of Opus share	39 477					
EV/share (HUF)	58					

The Parent Company (OPUS Global), in the course of the business combination, used the option at this quarter's report, to include the figures for these items determined by evaluation in the financial statement. OPUS Global will allocate purchase price to assets and liabilities. In the course of this, the real market value of assets, liabilities, contingent liabilities and intangible assets will be determined related to the day of consolidation, and this valuation is expected to be included only in the 2021 year-end report, so small changes can be expected in the valuation as well after the year-end report will be published.

Risks

The revenue structure of OPUS TITÁSZ is quite concentrated, E.ON provides the most of the company's revenues as the Universal Service Provider of the region, but other electricity trading companies has significant contribution as well.

The revenue is almost fully regulated, so there is some political risk to decrease tariffs further in order to make electricity cheaper to residential. Utility and Robin Hood tax increase can further be a risk, but however an opportunity as well if these were decreased by the government.



Currently there is no differentiation between USP (Universal Service Provider) and non-USP distribution tariffs. Because electricity costs are social issues, the government could further subsidize residential by system usage tariff fee cuts for USP entitled customers.

The overhaul of tariff system is scheduled in 2024. The current price regulation cycle is valid from April 2021 till December 2024. However, there is possibility to make modification in the system usage fees within a cycle, but this can only occur in H2 2022 the earliest.

The development of electricity prices on European exchanges and the EUR/HUF cross exchange rate has an impact on one of the company's major cost elements, the cost of electricity purchased to make up for network losses. The cost of network losses is recognized in the company's tariffs, regulated by HEO, in the amount and at the price set by the HEO. However, the real costs of network losses can be higher than the recognized amount by the regulator.

Inflation has an impact on the company's management mainly through the development of operating costs, while the construction price index has an impact on the development of construction investment costs.

Comments on the Q3 results of OPUS TIGÁZ

Opus TIGÁZ had negative EBIT in the period of Q3. It was due to several factors:

- A significant one-off of HUF 1.4 billion was applied due to change in accounting policy. The one-off relates to the depreciation of the residential gas metering units.
- The cost of natural gas had skyrocketed during the period, which adversely affected the profitability of the company, because it must be purchased in order to make up for network losses. The European gas crisis became even worse in Q4, the gas prices are expected to normalize after the tensions solved between Ukraine and Russia. The EURHUF rate was not changed significantly in the period YoY, so it did not have material effect on the cost of gas



purchased. However, in the long term, the regulated tariffs should contain the elevated costs regarding mandatory gas purchases, but in the short term it has negative effect on the results, because the cost side's adaptation is much quicker than of the revenues to the current market environment.

- Rising inflation is a significant short-term risk of the company, due to the same reason like the elevated gas prices. The adaptation of the regulated system usage tariffs to changing market environment is a slow process, however theoretically this will be acknowledged on the long run. Inflation negatively affects the firm's raw material prices and the personnel expenses as well.
- Not so significant than the above-mentioned points, but definitely a positive factor, that due to the NKP bond issuance, the financing costs became more moderate.

To sum it up, revenues were strong in Q3, but besides the one-off element, the rising inflation and the skyrocketing gas prices can pressure the short-term results of TIGÁZ. However, in the mid-term, gas prices can be eased when the tension between Russia and Ukraine is over, and the supply chain problems can be solved after the first shocks of the pandemic, and stricter monetary policies could rein inflation.



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Equilor's regulatory authority is the Hungarian National Bank.

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