18th of December, 2023

Opus Global 3Q 2023 results

Company Data	
Recommendation	**Hold**
Target price*	**HUF 423**
Closing price	HUF 389
52-week range	HUF 101 - HUF 437.5
Market cap (HUF, mn)	273 993
Average daily turnover (number of shares)	1 050 074
Bloomberg code	OPUS HB

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Consolidated Results

Consolidated, HUF '000'	2023 Q3	2022 Q3	Change
Operating income, total	510 720 881	352 114 207	45%
Operating expenses	478 903 194	328 211 823	46%
Operating EBIT	31 817 687	23 902 384	33%
P/L after Taxes	30 666 586	13 986 239	119%

Source: OPUS

Opus operating income continued to increase strongly in the third quarter, while operating profitability generation slowed. Year-to-date, the increase on the top line reached 45 percent, while looking at the third quarter alone, growth was above 26 percent. That being said, operating expenses increased faster, showing a growth of 46 percent year-to-date and 33 percent in Q3 only, on an annual basis. As a result of these developments, operating EBIT increased by 33 percent in the first three quarters of 2023, while falling more than 30 percent in the third quarter alone in yearly terms.

Segment results need to be analyzed carefully to see exact performance. In the industry segment, a considerable part of income related to the Budapest-Belgrade railway line seems to be delayed to 2024-2025 from this year, while the increase of material costs have pulled the cost side upward. However, recent news on Hungary receiving EU funds are positive. In the agricultural and food segment, operating profit generation was strong year-to-date, but in Q3 alone, there was a slowdown on an annual basis. The tourism segment is showing a notable growth not just year-to-date, but also looking at the third quarter only. The energy segment has posted a loss on the operating level, but this was not unexpected – in fact, a worse development could not have been ruled out, and therefore, we view the result on the energy segment as positive.

*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.

The company continues to post increasing results, albeit growth in the segments are uneven. It was apparent that the stock price got a boost on 13 December on news that Hungary could publish the official bulletin containing critical missing legislation to unblock EU funds that afternoon. The EU Commission officially approved 10bn EUR in development funds later that day. This reduces risks tied to revenue prospects in the industry segment of the company.

We keep our HUF 423 per share target price and hold recommendation unchanged for Opus.

Industry Segment

Industry, HUF '000'	2023 Q3	2022 Q3	Change
Operating income, total	209 689 254	127 962 270	64%
Operating expenses	191 706 082	113 581 867	69%
Operating EBIT	17 983 172	14 380 403	25%
P/L after Taxes	40 186 407	25 630 112	57%

Source: OPUS

While operating income and operating expenses both increased considerably in the third quarter year-to-date, it still must be noted that growth in expenses exceeded that of the increase in income. Looking at the third quarter alone, EBIT generation slowed, decreasing by about 50 percent from the single quarter of 3Q 2022.

An important factor to be mentioned in the industry segment is that a considerable part of revenues tied to the Budapest-Belgrade railway line (received by RM International, a company in this segment) will be delayed to 2024-2025 from the current year, according to the report. While in the half-year report, the total income from the project for this year was projected at 38.58 percent, the share for this year dropped in the 3Q 2023 report to 27.42 percent. This decrease will be fully compensated in 2024 and 2025, according to the company. We therefore see the decrease in revenue as temporary. News that Hungary will receive at least a portion of EU funds also improves revenue prospects of the segment.

Financial results have remained rather strong year-to-date, due to dividends from subsidiaries. However, this was already apparent in the second quarter, as YTD financial result amounted to already above 26bn HUF in the first half of the year, while in 3Q 2023 year-to-date, it narrowly missed the 25bn mark.

Tourism Segment

Tourism, HUF '000'	2023 Q3	2022 Q3	Change
Operating income, total	29 593 207	23 530 971	26%
Operating expenses	26 264 369	21 215 032	24%
Operating EBIT	3 328 838	2 315 939	44%
P/L after Taxes	2 380 634	- 1 682 151	242%

Source: OPUS

Operating income increased by 26% year-over-year in the first nine months, with the number of guest nights increasing by 12% year-over-year. However, available capacity increased by 10.6% and domestic guest nights decreased by 1.9%. Excluding any capacity increases, guest nights increased by 3.4%.

As the Q3 period includes the main touristic season, the slight breakeven in the Q2 period increased to a significant profit of 3.3bn HUF, while the EBIT margin of the first nine months improved by 1.4 percentage points, and the EBIDTA improved by 1.2 percentage points. The tourism segment shows strong growth in the topline, and improving margins, against waning domestic demand.

Financial losses decreased in the segment by 3.2bn HUF on an annual basis, year-to-date.

The first nine months were exceptionally strong for the tourism segment, and we expect this good performance to be maintained in Q4. That being said, Q4 margins are expected to moderate from the high Q3 levels.

Agricultural and Food segment

Agricultural and Food segment, HUF '000'	2023 Q3	2022 Q3	Change
Operating income, total	103 364 619	104 049 172	-1%
Operating expenses	94 900 014	99 529 348	-5%
Operating EBIT	8 464 605	4 519 824	87%
P/L after Taxes	2 323 343	1 026 955	126%

Source: OPUS

Operating income in the agricultural and food segment decreased by 1% on a year-on-year basis, while both EBIT and EBITDA significantly improved. Q3 EBITDA improved by 4.4 percentage points, but on a quarter-on-quarter basis the EBITDA margin is deteriorating.

Against the fact that operating revenue was decreasing, the segment could cut its expenses 5% year-over-year. It was due to the normalizing energy and commodity prices, which improved EBITDA by 2.5bn HUF. The other significant, 3.8bn HUF decrease in expenses was due to decrease in other expenses, mainly driven by decrease in factoring expenses. This reduction in expenses was partially offset by increase in personnel expenses of 1.1bn HUF.

The segment suffered 4.7bn HUF financial losses, 1.5bn HUF higher than the first nine quarters of 2022. The losses include both unrealized losses due to FX conversions and realized losses due to increased financing cost.

In the fourth quarter the Q3 trend is expected to continue, with slightly decreasing operating income, but improving margins, due to decreasing energy prices.

Energy Segment

Energy, HUF '000'	2023 Q3	2022 Q3	Change
Operating income, total	171 539 586	102 535 919	67%
Operating expenses	173 350 410	100 089 021	73%
Operating EBIT	- 1 810 824	2 446 898	-174%
P/L after Taxes	2 094 514	1 379 586	52%

Source: OPUS

In the earlier quarters of 2023, the energy distribution segment posted significant losses both on EBIT and EBITDA levels. The losses were driven by network loss expenses. As energy prices normalized in 2023, quarterly losses turned to a quarterly profit in the third quarter. The electricity distribution segment produced approximately 1.7bn HUF EBIT, and 4.7bn HUF EBIDTA. Material expenses of this segment decrease steadily quarter-over-quarter, signifying decreasing network loss expenses due to decreasing energy prices.

In the gas distribution segment, we see a quarterly loss, which is offset by the profits of the first half of the year. However, the July-September period was warm in Hungary, which probably impacted the topline of the gas distribution segment.

The energy segment realized significant, 4.0bn HUF, financial gains due to the staggering 84.8bn HUF cash holdings.

All in all, the third quarter results are welcome news for the Energy segment, as the main loss-making segment in 2023 is turning to a profit. In the fourth quarter, up until the writing of this report the cost of natural gas in Hungary is decreasing, and the energy prices are relatively stable, we are expecting a further improving bottom line for the Energy segment.

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The report was closed on the 18th of December, 2023.

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