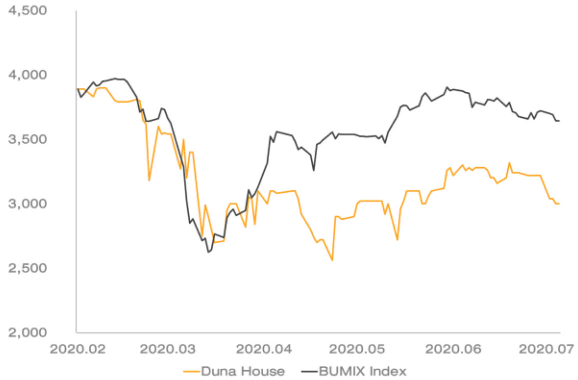
CONCORDE RESEARCH
CEE Equity Research | Hungary | Real Estate
10 July 2020

Duna House

Recommendation: BUY (prev: Accumulate)
Target price (12M): HUF 4,100

Cons. simplified P&L	2019A	2020F	2021F
Revenues [HUF m]*	8,139	8,813	7,580
EBITDA [HUF m]*	1,614	1,205	1,160
EBIT [HUF m]*	1,396	989	943
Net profit HUF m]*	1,114	715	729
EPS*	322	207	211
P/E	12.3x	15.5x	15.2x
No. of transactions	167,110	132,300	138,915
Int. Loan (HUF bn)	74.4	62.8	62.7

**excluding development*



Share price close as of 10/07/2020	HUF 3,140	Bloomberg	DUNAHHOUS HB
Number of shares [million]	3.5	Reuters	DUNAHOUSE.BU
Market capitalization [HUF mn/EUR mn]	10,864 / 31	Free float	20%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 2,560-4,380

Short term pain but long term gain

- **COVID-19 pandemic caused loan growth deceleration, which is expected to last at least 2 years. As a consequence,** in the short term, Duna House's core profit (from loan intermediation and commission from transaction) is **expected to be under pressure as mortgage loan growth is forecast to decelerate in 2020 and 2021 as well but still remains in the positive territory** (average FY growth rate of 5% and 4% in 2020 and 2021, respectively, from 9% in 2019) according to NBH's forecast. However, lower core profit will meet additional profit from the completion of the projects that should support bottom line in the next 1-2 years (cumulative profit of HUF 1.9 billion which should be spread over 2 years). **In light of the short-term pain, we cut our TP to HUF 4,100, but we upgrade our recommendation to BUY, which reflects the intact LT equity story.**

- **Long term equity story remains intact, in our view**. DH's Mgmt set an ambitious target, they aim to grow in market capitalization to reach ca. EUR 100 million threshold vs. last year's average market cap of EUR 50 million (+100%) in order to draw international investor's attention. This could be reached via organic growth in Poland (number of offices increased by 13% y-o-y in 2019) or via acquisitions (mainly in Poland). Management believes that if growth dynamic persists in office numbers in Poland (+15% CAGR) over the next four years, EBITDA of the Polish operation could reach HUF 1 billion from HUF 170 million in 2019 (Pre-Covid '20 EBITDA guidance of HUF 350 million).

ANALYST CERTIFIATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

- **Valuation-wise**, one should note that excluding the expected cash inflow from developments and the property portfolio from DH's market cap, we end up at HUF 5 billion market capitalization and ca. HUF 550 - 600 million FCF for the core operation for 2020 and 2021, assuming no M&A and slow loan growth (4% and 5%, respectively), implying a 10 -11% FCF yield (vs. Pre-COVID 800-900 million FCF).

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Investment thesis

- TOP-DOWN: The reason why we like DH's equity story is the solid FCF generating capacity of HUF 700 million from Hungarian operations (ca. 200 HUF/sh) on average over the last three years, which could be down by ca 30% assuming 0% mortgage loan growth – meaning the new loan disbursement offsets the expiring. **Excluding the cash flow from developments and real estate Investment properties (ca. HUF 3.5 billion and HUF 1.8 billion) from market capitalization, we end up HUF 5 billion market cap, and HUF 700 million FCF from core Hungarian operation – normal times / PRE-Covid, implying a FCF Yield of ca. 14%, leaving us with a free option for the CF from Poland – Pre – Covid HUF 350 million EBITDA.**

- Since the IPO in 2016, DH distributed ca. HUF 560 per share (18% of current share price), entered into Poland and purchased 3 entities. After restructuring and integrating those companies, DH created ca. HUF 250 - 300m FCF generating subsidiary, with great opportunities to grow. DH invested ca. HUF 1.5 billion into the Polish expansion which was expected to generate ca. HUF 250 million profit (ca.11% IRR) by the Co. pre-covid, not calculating with further expansion in office number afterwards. Investors may expect further acquisitions as management intends to attract international investors' attention**. The take-away from here is the confirmation that management is able to restructure and build up a new entity to create value for investors, which bodes well for the assessment of the further acquisitions, in our view.**

- Duna House Group could be categorized as a financial company given more than half of its EBIT arrived from loan intermediation in the last three years (59% in the last three years). **Therefore one of the most important factors (KPI) is the loan growth in Hungary and Poland as this is a dominant earnings driver.**

- EARNINGS FORECAST**: We expect profit to plunge by 35% y-o-y to HUF 715 million in 2020 (EPS 206),remain flat in 2021 as well as loan disbursement dynamic decelerates from 9% (2019A) to 5% and 4% in 2020 and 2021 respectively. This hole in profit will be mitigated by the profit from development completions which we exclude from our earnings projections.** Investors may not expect dividend this year but next year a DPS of 100 (DY: 3%) is feasible –calculated solely from core operation, leaving significant upside potential (ca. 500 per share based on our calculation to be distributed from development). Please note that dividend is subject to normal operation without any M&A transaction.

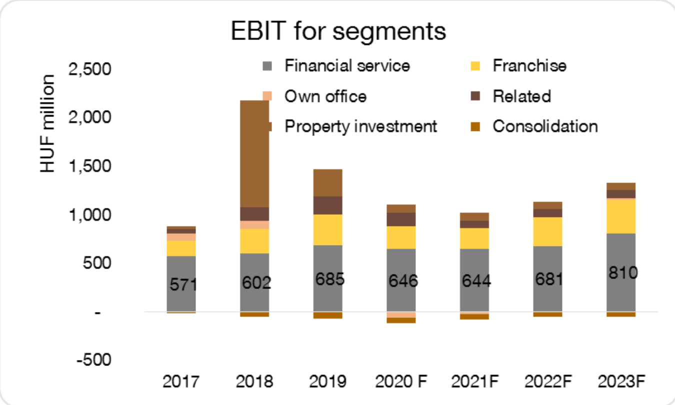
- VALUATION: Because DH Group has Developments, real estate portfolio and the core operation in two countries, we recommend to adjust market cap with the first and the second in order to see the true market cap for the Loan intermediation and franchise business. Excluding the cash inflow from development and the value of real estate Investment properties (HUF 3.5 bn + HUF 1.8 bn) from market capitalization, we end up ca. HUF 5 billion for which we forecast ca. HUF 640 million profit. **Therefore, DH trades at a P/E of 8x on our updated profit** forecast (ca.-40% y-o-y) vs. 14x original P/E ratio at IPO. Please note that other cyclical sector trades at 8x – 15x Banks and Airlines. **Assuming a normalization of the business** (Pre Covid Profit Guidance of 360 HUF/share) **P/E ratio would be 4.3x P/E applying the same logic as before** (ie. excluding the developments and RE portfolio).

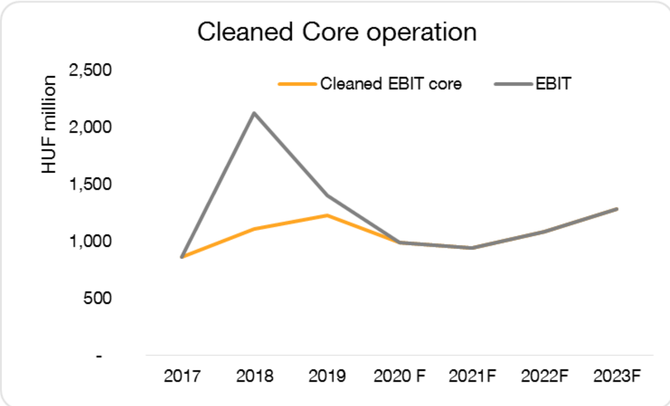
- COVID -19 affected the company via lower number of transaction numbers (with a bottom in early April of 67% y-o-y) which has largely recovered June according to DH's stats (June's monthly transaction number was up by 1% y-o-y). As a result commissions from franchise segment fell by 33% y-o-y, and loan intermediation slowed significantly but still remained in a growth territory (+16% y-o-y).

Forecast

DH posted an EBIT of HUF 1.4 billion (-34% y-o-y) for 2019, which seems awful as a headline but the base year included the two significant one-off items: (1) completion one of the project development that boosted results (by ca. HUF 0.8 bn) significantly, excluding that annual dynamic it would have been an increase of 11% (!); (2) there was no contribution from the home savings account which subsidy scheme was abolished last year. For 2020 we expect a significant (-47% y-o-y) drop in EBIT terms on the back of weak franchise segment and financials as the economy is expected to decelerate.

EBIT AND SEGMENT FORECASTS





Source: DH, Concorde

Consolidated profit and loss [HUF million]

	2017A	2018A	2019A	F2020	F2021	F2022	F2023
Revenue	**4,820**	**8,340**	**8,139**	**8,813**	**7,580**	**8,039**	**8,282**
OPEX	3,955	6,225	6,743	7,824	6,637	6,953	6,999
EBITDA	**952**	**2,215**	**1,614**	**1,205**	**1,160**	**1,303**	**1,500**
EBIT	865	2,115	1,396	989	943	1,086	1,283
- Franchise	*158*	*259*	*315*	*237*	*215*	*297*	*340*
- Own segment	*77*	*79*	*5*	*-64*	*-27*	*-3*	*21*
- Financial intermediary	*571*	*602*	*685*	*646*	*644*	*681*	*810*
- Other	*43*	*147*	*181*	*137*	*80*	*80*	*80*
- Real estate mgmt	*30*	*1,095*	*284*	*80*	*80*	*80*	*80*
- Elimination	*-15*	*-67*	*-74*	*-48*	*-48*	*-48*	*-48*
EBT	1,092	2,014	1,295	881	898	1,057	1,265
Income taxes	-173	-310	-181	-166	-169	-199	-238
Clean Net income	**943**	**1,708**	**1,114**	**715**	**729**	**858**	**1,027**

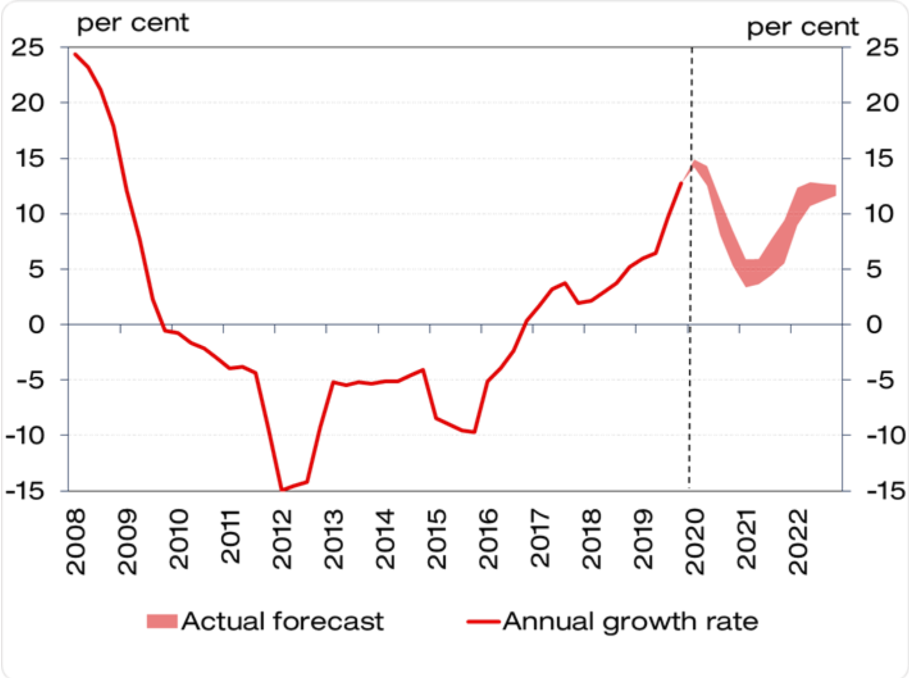
KPI							
Transaction numbers [HU]	168,500	182,100	167,110	132,300	138,915	145,861	153,154
growth	15%	8%	-8%	-21%	5%	5%	5%
Intermediated loans [HUF m] [HU]	54,617	68,271	74,421	62,789	62,664	64,532	71,113
growth	*37%*	*25%*	*9%*	*-16%*	*0%*	*3%*	*10%*
Mortgage loan growth [HU; HUF bn]	3,033	3,355	3,657	3,840	3,993	4,193	4,445
		11%	*9%*	*5%*	*4%*	*5%*	*6%*
No of franchise office [HU&PL&CZ]	234	250	252	254	257	259	262
growth	*-1%*	*7%*	*1%*	*1%*	*1%*	*1%*	*1%*

Source: Concorde's forecast
Please note: We did not incorporate the earnings from the development projects.

As mentioned, majority of the EBIT (60%) is depending on **intermediate loan growth,** out of which ca. 75% comes from Hungary therefore that is one of the most important KPIs for DH's profitability. In 2019, FY EBIT from financial segment arrived to HUF 685 million (+14% y-o-y), on the back of increasing volume (+90%; Hungary +30% y-o-y; Poland +250% y-o-y) and the integration of the newly acquired loan intermediator in Poland. For the next year, we expect the loan growth to decelerate to 5% and hit the low in 2021, pushing segment EBIT (-6% y-o-y) to HUF 646 million and HUF 644 million in 2021. Please note the minor change in segment EBIT despite the deceleration of intermediated loan dynamic (-16% y-o-y) is because of the strong polish operation *(fix cost remained stable but volumes doubled as a result of the acquisition)*.

Please note that, there is a phenomena which helps DH to cushion the deceleration of mortgage loan growth that is the increase if DH's market share in the new loan market. When banks turn risk off mode, and try to limit their loan disbursement DH's offices are a huge help to choose the best bank for the customers. This phenomena worked as a buffer when the economy slowed back in 2008, and DH was managed to increase its market share by 2% in the loan origination market.

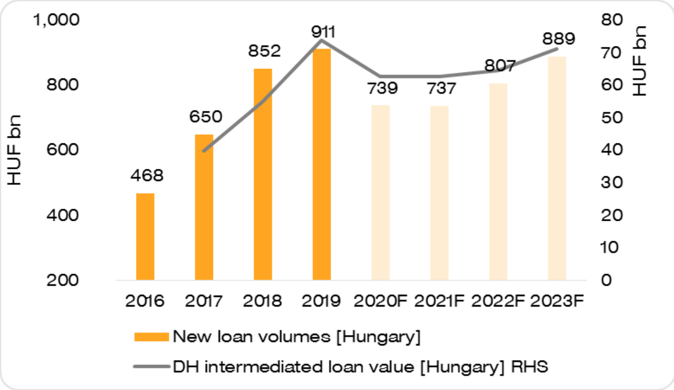
NATIONAL BANK OF HUNGARY'S HOUSEHOLD LENDING FORECAST

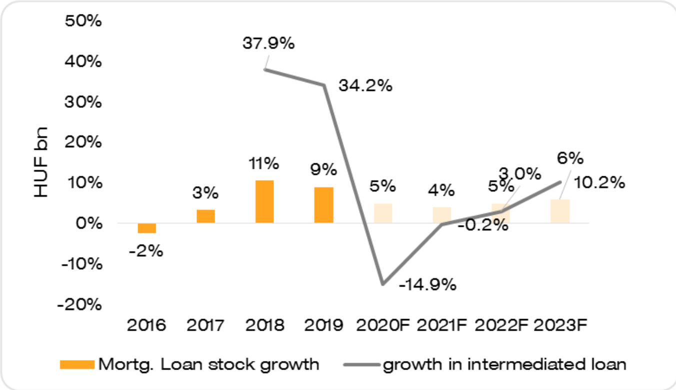


Source: NBH

Notes: Hungarian nominal GDP growth rate should hover around 3-4% in the future, household's debt to GDP is still relatively low in an international comparison (18.7% vs. 35% in Poland), and therefore one may put the mortgage loan growth to 5-10% in the upcoming years.

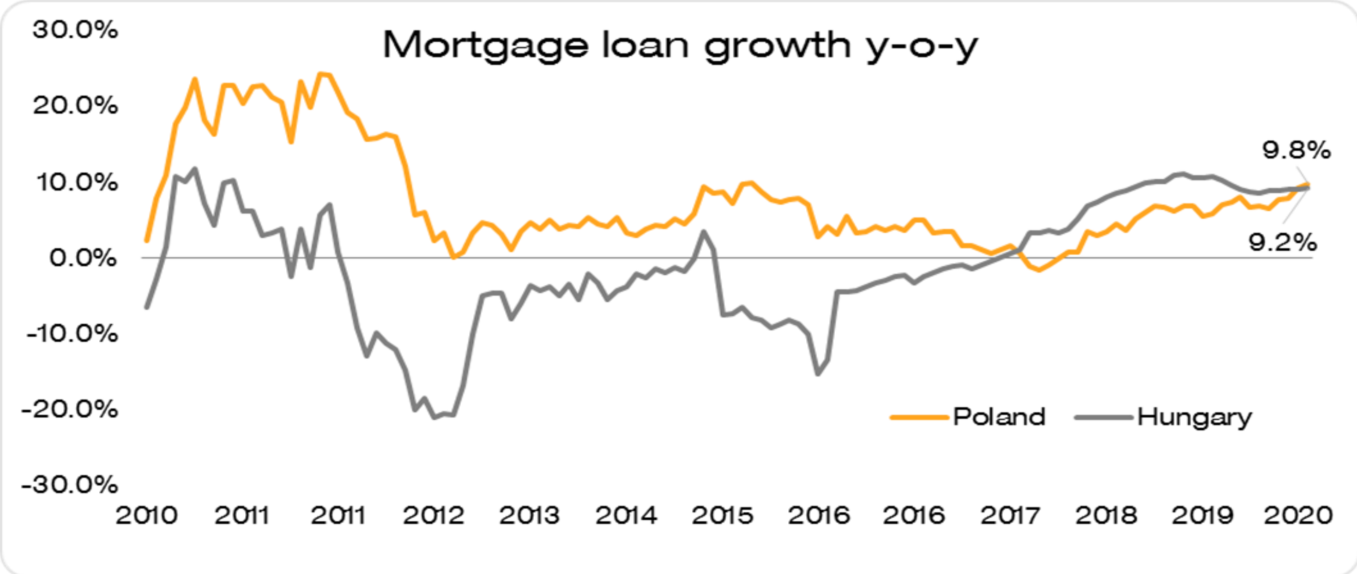
NEW MORTGAGE LOAN VOLUMES [LEFT] AND IT'S DYNAMIC [RIGHT] IN HUNGARY





Source: NBH, NBP

HISTORICAL MONTHLY MORTGAGE LOAN GROWTH IN HUNGARY AND POLAND

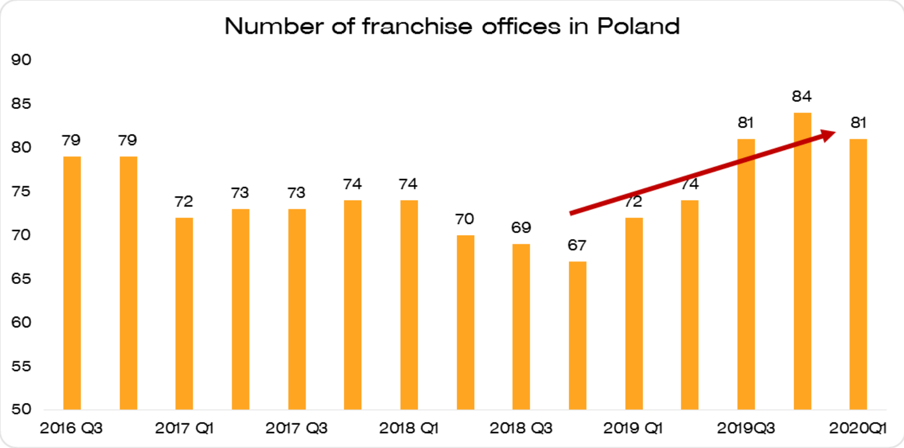


Source: NBH, NBP

Franchise segment is driven by the number of offices and the transaction numbers. We are confidently looking at the expansion of the franchise network in Poland as DH's franchise network is the largest independent loan intermediator (fifth in total volumes but the top 5 are subsidiaries to banks and insurers) in Poland.

After an initial restructuring of the franchise model, interest for the franchise model started to gain momentum. To put the expansion potential into context, the Hungarian franchise offices amounts to 160, double the size compared to Poland.

NUMBER OF FRANCHISE OFFICES IN POLAND



Source: DH, Concorde

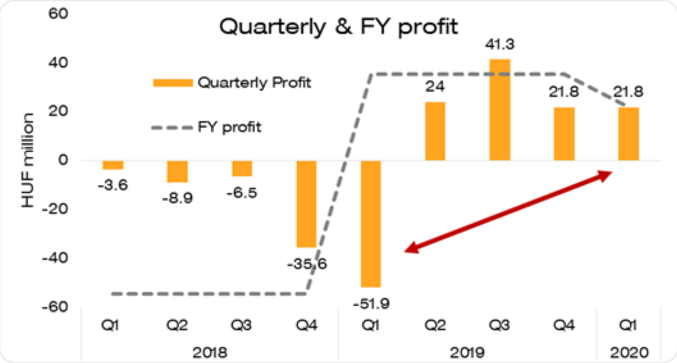
While we are rather optimistic on the Franchise segment, **own offices** that are located mostly in Budapest are expected to make losses this year and forecast to come below their break-even levels for the next few years as the house prices in the Hungarian capital has increased faster than wages.

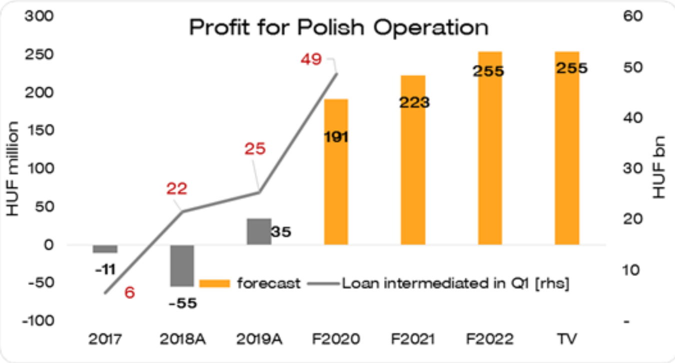
Investment properties segment would be resilient with a consistent HUF 80 million EBIT (mainly from rent), in the next few years from an investment portfolio of HUF 1.8 billion worth of properties.

Acquisitions – grow big to reach visibility

DH plans to grow in order to reach a market capitalization to draw international investors' attention. While the real estate and credit growth exposure to the CEE is desirable, DH's current market capitalization of EUR 35 million and low liquidity is simply not enough. To address this deficiency DH targeted to increase profit and probably free-float as well in multiple years. As for the former, DH entered into Poland in 2016 with an acquisition of Metrohouse a realtor which was followed by two additional acquisition of credit intermediators which helped to finally turn around the operation to a profitable entity. On our calculation, PRE-COVID-19 the IRR for the Polish expansion would have been at 10.5%, assuming the below FCF (as capex need is negligible given the franchise model). **Despite the pandemic, the early signs of the turnaround was visible in last years after the purchase of Gold finance [2018Q4] (second acquisition in Poland but the first loan broker), but the real profit boost should have arrived this year with a guided FY profit of HUF 250 mn on the back of the second acquisition of loan brokerage.** The secret sauce is the loan volume, DH needed to generate volume to cover fix costs which task was managed even after the first acquisition but profit generation would really have accelerated as volumes were expected to double in 2020 – *see the right graphs below as volumes doubled from HUF 25 bn to HUF 49 bn within one year.*

PRE-COVID-19 PROFIT FORECAST FOR POLISH OPERATION





Source: DH, Concorde

Group's Leverage at healthy level

On the financial side, DH accumulated ca. HU 6 bn debt but large part of that is related to the development (ca.HUF 4.3 bn) which will be paid back soon. Its net debt to '19 EBITDA stood at 2.4x, which will climb to 3.2x by the end of 2020, followed by gradual decrease on the back of earnings improvement from 2022. Excluding the part of the loans that relates to the development, net debt to EBITDA should have been at a healthy level of 0.17x (net debt at HUF 700 million).

Valuation

We valued DH by two approaches, one is the SUM OF THE PARTS method and the other is a DCF model. The latter concentrates on the short term earnings while the DCF focuses on the longer term. **Therefore to reflect both the short term and the long term potential we gave equal weights to the two methods, with which our 12 month TP arrives to 4,100 HUF/sh.**

Also we conducted three scenarios to reflect the distribution of DH's FCF in various cases, please see these below:

- **Base case – Fair value at HUF 4,500 per share**
  - 2020 – 2023 with a bottoming in 2021 Mortgage loan growth CAGR 6%
  - Total number of offices grows CAGR 1%
  - TV growth at 2%
  - Liquidity discount of 10%

- **Bull case – Fair value at HUF 6,400 per share**
  - This scenario shows the potential in DH if Mgmt. manages to convince large number of franchise partners to join the network in Poland. This is one of the target of the mgmt. to reach one billion EBITDA in Poland in the next 3-4 years (ca. 45% of the total group's EBITDA).
  - 2020 – 2023 with a bottoming in 2021 Mortgage loan growth CAGR 6%
  - Total number of offices grows CAGR 5% (especially in Poland)
  - TV growth at 2%
  - Liquidity discount of 10%

- **Bear case - Fair value at HUF 3,550 per share**
  - 0% mortgage loan growth during 2021 and 2022, implying only the matured loan will be replaced, and then loan growth to accelerate to 5%.
  - Total number of offices grows CAGR 0%
  - TV growth at 2%
  - Liquidity discount of 10%

WACC CALCULATION

	2020	2021	2022	TV
Risk free rate	2.5%	2.5%	3.0%	4.0%
Equity risk pr	5.5%	5.5%	5.5%	5.5%
Beta	1.2	1.2	1.2	1.3
Cost of Equ	9.1%	9.1%	9.6%	11.2%
Debt premiur	2%	2%	2%	3%
Effective tax	15%	15%	15%	15%
Cost of debt	1.7%	1.7%	1.7%	2.1%
Net Debt/EV	28.2%	26.3%	23.6%	23.6%
WACC	7.0%	7.2%	7.7%	9.0%

Source: Concorde

CASH FLOW FOR VALUATION PURPOSES – OUR BASE CASE SCENARIO

		2017A	2018A	2019A	2020F	2021F	2022F	2023F
EBIT [HU & PL]	-	951	2,214	1,613	1,249	1,236	1,382	1,611
as of development		*10*	*782*	*50*	-	-	-	-
as of Poland			*- 24*	*167*	*250*	*247*	*345*	*403*
Poland share in EBIT(%)			*-2%*	*11%*	*20%*	*20%*	*25%*	*25%*
depreciation		87	100	90	90	90	90	90
interest paid		49	101	144	167	105	80	68
tax		174	310	237	174	183	215	260
OCF		815	1,903	1,322	**998**	**1,038**	**1,177**	**1,372**
CAPEX		-	344	347	339	100	100	100
FCFF		815	1,558	975	659	938	1,077	1,272
DF					0.93	0.87	0.81	0.74
PV					**616**	**818**	**872**	
SZUM	**16,039**							**13,733**
Development	3,500							
TOTAL EV	19,539							
Net debt	4,351							
Equity value	**15,189**							
Per share Equity value	4,390							
Liquidity discount	10%							
Fair value per share	3,951							
12months target price	**4,510**							
Currens share price	3,200							
Upside	41%							

Source: Concorde

Note: Please note that large part of the CAPEX related to acquisition of the Polish companies and some flats in Budapest (Real Estate Properties segment).. Excluding those, CAPEX would be ca. HUF 100 million.

Assumptions:

- Mortgage loan ’20-23 CAGR of 6%, bottoming in 2021
- Total number of offices grows 1% p.a.
- TV growth of 2%

CASH FLOW FOR VALUATION PURPOSES – OPTIMISTIC SCENARIO

		2017A	2018A	2019A	2020F	2021F	2022F	2023F	
EBIT [HU & PL]	-	951	2,214	1,613	1,187	1,151	1,369	2,360	
as of development		*10*	*782*	*50*	*-*	*-*	*-*	*-*	
as of Poland			*- 24*	*167*	*237*	*345*	*548*	*1,062*	
Poland share in EBIT(%)			*-2%*	*11%*	*20%*	*30%*	*40%*	*45%*	
depreciation		87	100	90	90	90	90	90	
interest paid		49	101	144	167	105	80	68	
tax		174	310	237	162	167	213	401	
OCF		815	1,903	1,322	**949**	**969**	**1,167**	**1,981**	
CAPEX		-	344	347	339	100	100	100	
FCFF		815	1,558	975	610	869	1,067	1,881	
DF					0.93	0.87	0.81	0.74	
PV					**570**	**758**	**865**		
SZUM	**22,613**							**20,420**	2%
Development	3,500								
TOTAL EV	26,113								
Net debt	4,400								
Equity value	**21,713**								
Per share Equity value	6,275								
Liquidity discount	10%								
Fair value per share	5,648								
12months target price	**6,447**								
Currens share price	3,200								
Upside	101%								

Source: Concorde

Note: Please note that large part of the CAPEX related to acquisition of the Polish companies and some flats in Budapest (Real Estate Properties segment).. Excluding those, CAPEX would be ca. HUF 100 million.

Assumptions:

- This scenario shows the potential in DH if mgmt. manages to convince large number of franchise partners to join the network in Poland. This is one of the target of the mgmt. to reach one billion EBIT in Poland in the next 3-4 years.
- 2020 – 2023 with a bottoming in 2021 Mortgage loan growth CAGR 6%
- Total number of offices grows CAGR 5% (especially in Poland CAGR 15%)
- TV growth at 2%

CASH FLOW FOR VALUATION PURPOSES – STRESSED SCENARIO

		2017A	2018A	2019A	2020F	2021F	2022F	2023F	
EBIT [HU & PL]	-	951	2,214	1,613	1,187	878	911	1,265	
as of development		*10*	*782*	*50*	*-*	*-*	*-*	*-*	
as of Poland			*- 24*	*167*	*237*	*263*	*365*	*569*	
Poland share in EBIT(%)			*-2%*	*11%*	*20%*	*30%*	*40%*	*45%*	
depreciation		87	100	90	90	90	90	90	
interest paid		49	101	144	167	105	80	68	
tax		174	310	237	162	116	127	195	
OCF		815	1,903	1,322	**949**	**748**	**796**	**1,092**	
CAPEX		-	344	347	339	100	100	100	
FCFF		815	1,558	975	610	648	696	992	
DF					0.93	0.87	0.81	0.75	
PV					**570**	**566**	**565**		
SZUM	**12,876**							**11,176**	2%
Development	3,500								
TOTAL EV	16,376								
Net debt	4,400								
Equity value	**11,976**								
Per share Equity value	3,461								
Liquidity discount	10%								
Fair value per share	3,115								
12months target price	**3,556**								
Currens share price	3,200								

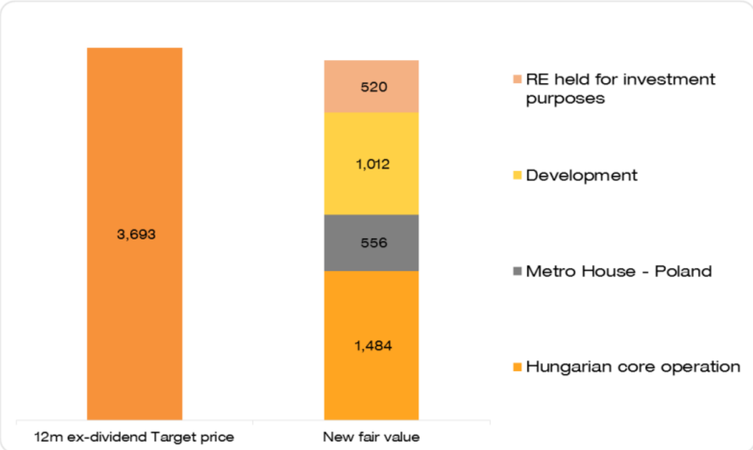
Source: Concorde

Note: Please note that large part of the CAPEX relates to the acquisition of the Polish companies and some flats in Budapest (Real Estate Properties segment).. Excluding those, CAPEX would be ca. HUF 100 million.

Stressed scenario

- 0% mortgage loan growth during 2021 and 2022, implying that only the matured loan will be replaced, and then loan growth will accelerate to 5%.
- Total number of offices grows 0% p.a.
- TV growth of 2%

SUM OF THE PARTS METHOD



Source: Concorde

To value the Hungarian and Polish operation we use 10x P/E'20 and 15x P/E'20, reflecting the growth potential in the Polish subsidiary. Apart from that, the development worth ca. HUF 1,000 per share and the BV of the real estate investment property portfolio is ca. HUF 520 per share. **All in all with this method our 12 month ex-dividend target price would be HUF 3,700 per share.** Please see the more detailed assessments for the segments below.

1. **Hungarian Core – HUF 1,500 per share implying a P/E'20 and P/E' 21 of 12x but a normalized operation of 6x P/E**

To assess the Hungarian Core Operation's FCF generation capacity we stripped last year's figures from non-cash items (revaluations) and from any earnings from development part of the group. As a result we believe that the Hungarian Core Operation could generate ca. an average of HUF 600 – 800 million FCF over the business cycle, assuming 6-8% mortgage loan growth going forward. **However for the next two years when we assume a 5% and 4% loan growth FCF should decrease to 400 – 500 million in our view.**

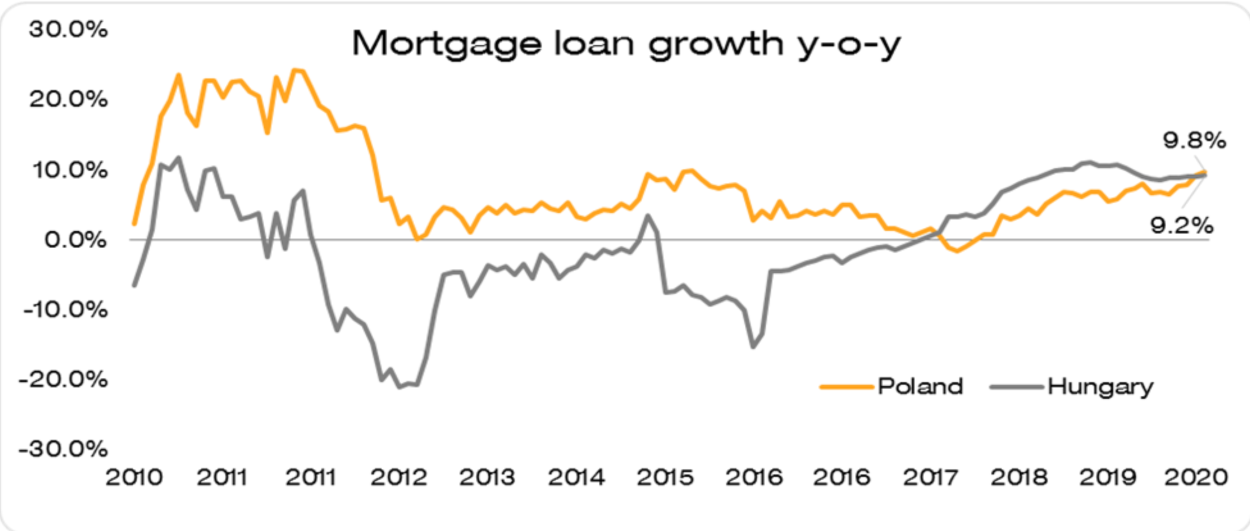
HUNGARIAN CORE OPERATION FCF GENERATION CAPACITY IN THE LAST THREE YEARS

[HUF ths]	2017	2018	2019
Core operation's EBIT	**748,303**	**918,417**	**1,232,176**
as of financial service segment	*76%*	*66%*	*56%*
mortgage loan growth [HU]	3%	11%	9%
EBIT from investment prop.	48,000	52,800	69,264
Polish opration adjustment	- 20,000	41,000	- 84,000
DD&A	86,973	99,697	90,483
adj. Interest expense**	38,150	7,082	57,209
Tax [15%]	106,523	136,700	176,245
OCF	**622,603**	**862,531**	**935,941**
adj. CAPEX*	100,000	100,000	100,000
FCF	**522,603**	**762,531**	**835,941**
LT debt	1,271,662	236,082	1,906,966
interest cost	38,150	7,082	57,209
interest expense [Fact]	48,632	100,989	144,156

*excluding CAPEX to purchase investment properties
** excluding interest cost for developments

Please note that DH increase its investment property portfolio by HUF 700 million in the last two and a half year. For a mid – cycle mortgage loan growth in Hungary we expect a 6-8%, with which the Hungarian Core Operation could generate ca. HUF 750 – 850 million FCF, in our view.
Source: Concorde

MORTGAGE LOAN GROWTH IN HUNGARY AND POLAND



Source: NBH, NBP, *Concorde*

2. **Development –1,000 per share even assuming 10% discounts to current sales prices**

Pre-Covid management guided HUF 3.9 billion cash inflow from the development projects (MyCity, and Forest Hill) this may seem to be optimistic looking at the unemployment rate in Hungary. Ca. 70% of the two project has been already sold, therefore every discount DH will give to buyers will cut a piece from the originally projected cash inflow. Therefore, discounting the sales price by 10% implying giving away ca. HUF 400 million profit (110 per share). There are 70 flats to be sold with an average size of 75 sqm and avg. sales price of HUF 0.75million /sqm, we end up at the original 3.9 bn remaining cash inflow that DH projected. In this case DH's strategy to maximize revenue, which could be a lengthier process, in our view. Nevertheless, even with 10% discount on the remaining flats the cash inflow equivalent of **ca. 33% of the current market capitalization**.

3. Book Value of investment properties is 530 per share

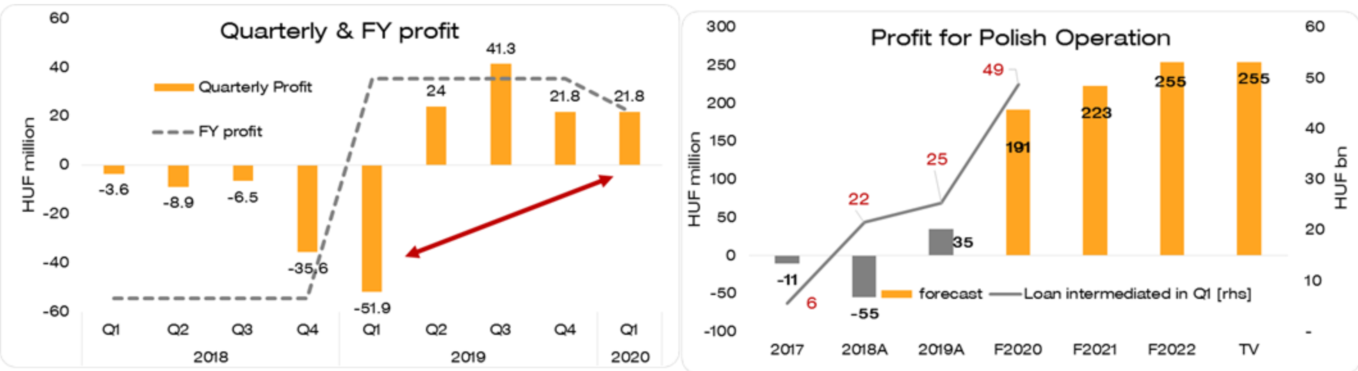
Investors should see and value this segment separately as its cash flow is relatively safe compared to the cash flow from a financial segment. DH has 14 flats in BP with a total book value of HUF 1.8 billion.

4. Polish operation

The average mortgage loan growth in Poland was ca. 8% in the last decade underpinning DH's expansion plans in the country. Pre-COVID management expected ca. HUF 250 million profit from the segment. For 2020 and 2021 we expect similar loan growth than in Hungary, and thus profit decrease as well (ca. HUF 130 million for 2020 and 125 million for 2021).

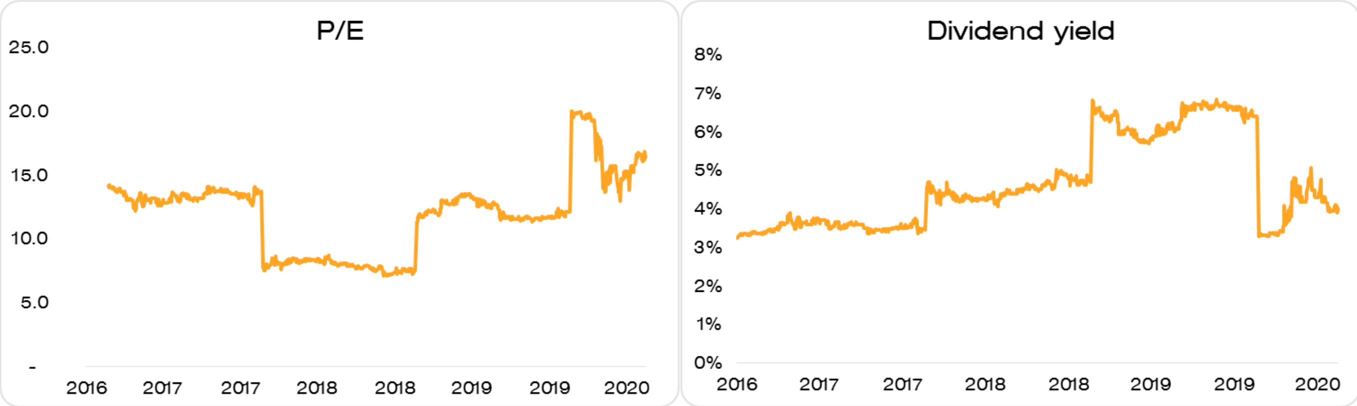
Despite the pandemic, the early signs of the turnaround was visible in last years after the purchase of Gold finance [2018Q4] (second acquisition in Poland but the first loan broker), but the real profit boost should have arrived this year with a guided FY profit of HUF 250 on the back of the second acquisition of loan brokerage. The secret sauce is the loan volume, DH needed to generate volume to cover fix costs which task was managed even after the first acquisition but profit generation would really have accelerated as volumes was expected to double in 2020 – *see the right graphs below as volumes doubled from HUF 25 bn to HUF 49 bn in one year.*

PRE-COVID-19 PROFIT FORECAST FOR POLISH OPERATION



Source: DH, Concorde

DH GROUP'S HISTORICAL VALUATION



Soure: Bloomberg, DH, Concorde

For 2020 we expect a 40% drop in EPS which lead to an increase in P/E'20 rate to 20x from last year's avg of 12x P/E'19, but again measure not take into account the development project DH will complete and sell. While in case of dividend yield, we forecast a DPS of 130 (DH announced implying a 4% dividend yield.

Risk

- **Regulatory risk** – as occurred in the past, commission and fee levels are subject to regulatory risk which may dent DH's profitability in the future.
- **Prolonged and deeper recession**. In our base case we applied a NBH's projection on mortgage loan growth ie 5% and 4% loan growth for 2020 and 2021 respectively then and acceleration to 7%. Therefore deeper and longer recession will risk our earnings trajectory.
- **Higher than expected sales price** discount at the development projects may lead to lower realized cash inflow vs. our forecast amount of HUF 3.5 billion which has already includes a 10% discount.
  - **New wave of the coronavirus and another round to curfew.**

APPENDIX

Consolidated profit and loss [HUF million]

	2017A	2018A	2019A	F2020	F2021	F2022	F2023
Revenue	**4,820**	**8,340**	**8,139**	**8,813**	**7,580**	**8,039**	**8,282**
OPEX	3,955	6,225	6,743	7,824	6,637	6,953	6,999
EBITDA	**952**	**2,215**	**1,614**	**1,205**	**1,160**	**1,303**	**1,500**
EBIT	865	2,115	1,396	989	943	1,086	1,283
- Franchise	*158*	*259*	*315*	*237*	*215*	*297*	*340*
- Own segment	*77*	*79*	*5*	*-64*	*-27*	*-3*	*21*
- Financial intermediary	*571*	*602*	*685*	*646*	*644*	*681*	*810*
- Other	*43*	*147*	*181*	*137*	*80*	*80*	*80*
- Real estate mgmt	*30*	*1,095*	*284*	*80*	*80*	*80*	*80*
- Elimination	*-15*	*-67*	*-74*	*-48*	*-48*	*-48*	*-48*
EBT	1,092	2,014	1,295	881	898	1,057	1,265
Income taxes	-173	-310	-181	-166	-169	-199	-238
Clean Net income	**943**	**1,708**	**1,114**	**715**	**729**	**858**	**1,027**

KPI							
Transaction numbers [HU]	168,500	182,100	167,110	132,300	138,915	145,861	153,154
growth	15%	8%	-8%	-21%	5%	5%	5%
Intermediated loans [HUF m] [HU]	54,617	68,271	74,421	62,789	62,664	64,532	71,113
growth	*37%*	*25%*	*9%*	*-16%*	*0%*	*3%*	*10%*
Mortgage loan growth [HU; HUF bn]	3,033	3,355	3,657	3,840	3,993	4,193	4,445
		11%	*9%*	*5%*	*4%*	*5%*	*6%*
No of franchise office [HU&PL&CZ]	234	250	252	254	257	259	262
growth	*-1%*	*7%*	*1%*	*1%*	*1%*	*1%*	*1%*

Ratios

	2018	2019	2020	2021	2022
EPS (HUF)	493	284	207	211	285
EPS growth (%)	85.6%	-42.3%	-27.2%	1.9%	35.3%
DPS (HUF)	183	260	0	97	99
BVPS (HUF)	865	823	783	819	862
Market capitalisation (HUF mn)	14,532	14,532	10,380	10,380	10,380
Number of shares (mn)	3.5	3.5	3.5	3.5	3.5

Valuation [cons. Group level]

	2018	2019	2020	2021	2022
P/E	8.0x	13.9x	15.5x	15.2x	11.2x
P/BV	2.5x	2.5x	2.0x	3.1x	4.1x
EV/EBITDA	7.1x	11.4x	12.8x	13.0x	11.2x
Net debt/EBITDA	1.0x	2.9x	3.6x	3.5x	2.7x

Other ratios [cons. Group level]

	2018	2019	2020	2021	2022
EBITDA margin (%)	26.5%	19.8%	16.9%	15.3%	16.2%
EBIT margin (%)	25.4%	17.2%	13.8%	12.4%	13.5%
Net profit margin (%)	20.4%	12.6%	10.0%	9.6%	10.7%
ROE (%)	34.2%	18.7%	12.8%	12.7%	16.0%
ROA (%)	15.4%	6.9%	4.5%	5.5%	7.3%

Consolidated balance sheet [HUF million]	2018	2019	2020	2021
Intangible assets	1,387	1,405	1,405	1,405
Property	1,964	2,286	2,069	1,852
Equipment	171	250	250	250
NON-CURRENT ASSETS	3,984	4,639	4,422	4,205
Inventories	3,883	5,508	5,508	5,508
Trade receivables	711	845	845	845
Cash and cash equivalents	1,510	2,526	3,893	1,501
CURRENT ASSETS	7,094	10,147	11,514	9,123
TOTAL ASSETS	**11,078**	**14,786**	**15,936**	**13,328**
Share capital	153	153	153	153
Retained earnings	3,917	3,995	4,029	4,157
Non-controlling interest	-56	-58	-58	-58
TOTAL EQUITY	5,445	5,503	5,654	5,783
Long-term loans	236	1,907	2,907	2,407
NON CURRENT LIABILITIES	408	2,280	3,280	2,780
Short-term loans	2,746	4,474	4,474	2,237
Trade payables	599	790	790	790
CURRENT LIABILITIES	5,225	7,002	7,002	4,765
TOTAL EQUITY AND LIABILITIES	**11,078**	**14,786**	**15,936**	**13,328**

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