

Duna House

Recommendation: Accumulate

Target price (12M): Under revision

Hun. Core HUF million	2020 Q1	2019 Q1	Ch (%)
Revenues	2,473	1,858	+33%
EBITDA	366	298	+23%
EBIT	306	244	+25%
Cleaned Core EBIT	313	220	42%
Profit	265	166	+60%
EPS	76	48	+60%
Cumulated EPS	76	48	+60%
No. of transactions (ths)	34	37	-8%



Share price close as of 28/05/2020	HUF 3,060	Bloomberg	DUNAHHOU HB
Number of shares [million]	3,5	Reuters	DUNAHOUSE.BU
Market capitalization [HUF mn/EUR mn]	12,856 / 37	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 3,450-4,600

Strong results, but macro headwinds may gather

In short:

Senior Equity Analyst
Gellert Gaal
+361 489 2228
g.gaal@con.hu

50 Alkotás Street,
Budapest
www.con.hu

- Duna House Group posted very nice Q1 profit, which **increased by 60% to HUF 264 million (EPS 73)** helped mainly by the consolidation of the recently acquired entity in Poland, and an FX revaluation of ca. HUF 45 million. Excluding the latter, profit would have been up by ca. 30% y-o-y. In Q1, more than half of the consolidated revenue is arriving from Poland.
- **COVID – 19:** Mgmt withdrew its FY guidance (HUF 1.25 billion; EPS 360), in line with other companies. Also they indicated that transaction numbers have been recovering, in the end of May figures stood at w20 -40% y-o-y, with the lowest point in the middle of April (w15) -70% y-o-y. Fixed cost such as employee expenses was reduced for March and April which has gradually been relaxing and by August wages should return to the normal level. Obviously, Q2 results will be under pressure.
- **More than 70% and 81% of the flats for Forest Hill and MyCity projects have been sold**, so one may assume that this year we should see a part of the profit to realize this year. For all the three projects we expect ca. HUF 810 per share profit.

- One of the key drivers of the real estate market is the unemployment rate which has increased lately (from 3.5% to 6% in the last two months), therefore one may expect to headwinds on the macro side.

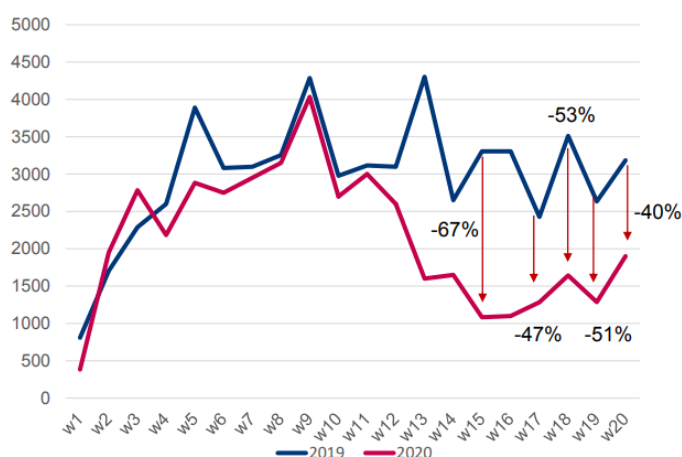
Financials: In nutshell, despite the striking drop in profitability in the own office segment, loan intermediation was able to more than compensate. **Q1 EBITDA and Q4 Profit increased by 23 % and 60% respectively** on the back of strong loan intermediation which increased by +210% y-o-y (HUF +150m y-o-y) largely thanks to the consolidation of the recently acquired polish loan intermediary. Loans volume jumped by ca. 84% y-o-y thanks again to the consolidation. While loan intermediation was strong, EBITDA from own office segment (concentrated in Bp) practically disappeared as a result of 1), diminishing transaction number in the capital (investors are squeezed from the real estate segment due to extremely attractive retail bond); and 2), drop in office numbers (-21%y-o-y) as a result of rationalization of brands of Duna House and SMART. In Q1 ca. 73% of EBITDA arrived from loan intermediation.

SEGMENT BREAKDOWN ON EBIT LEVEL.

	Q1 2020	Q1 2019	Ch (%)
EBITDA	306	244	25%
Franchise	96	86	12%
Own Offices	1	35	-98%
Loan intermediation	222	72	210%
Other related	39	67	-42%
Real estate mgmt.	38	61	-39%
Elimination	-29	-23	25%

Source: DH, Concorde

THE WORST IS BEHIND US – TRANSACTION NUMBERS ON A WEEKLY LEVEL



Source: DH

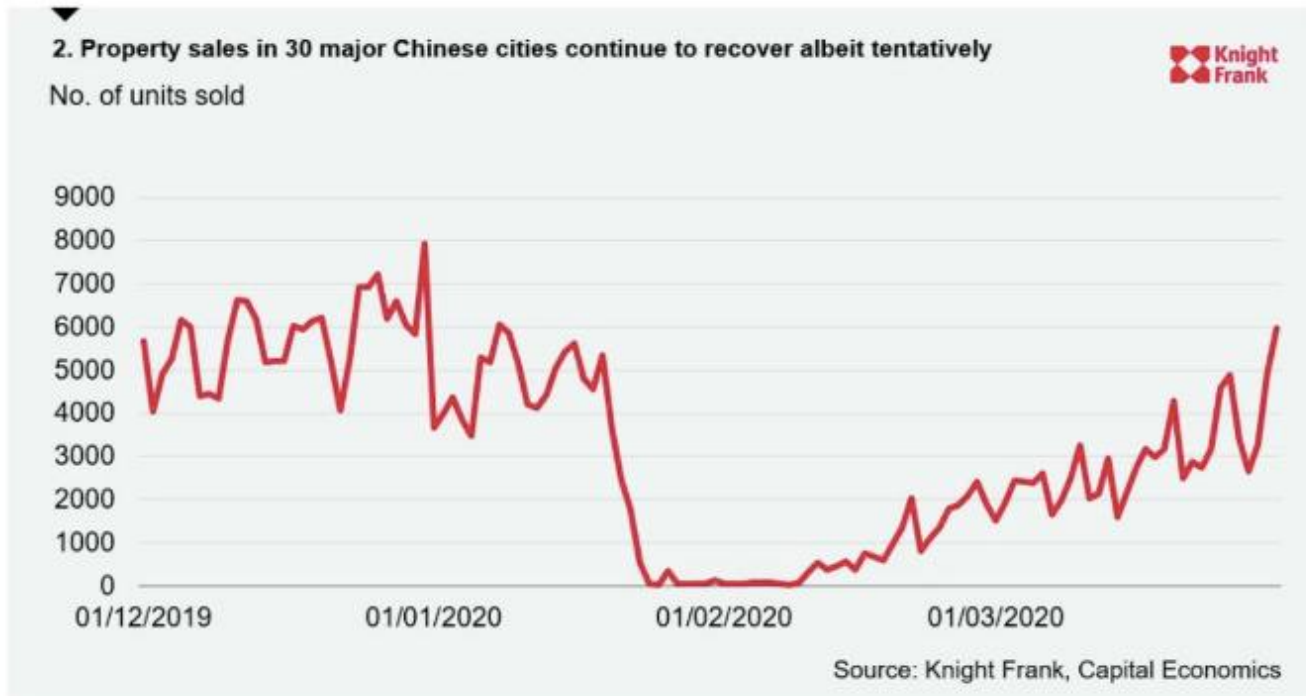
On the country breakdown, Polish operation showed the continuation of strong improvement in Q1 as well, posting HUF 53 million EBITDA (14% of total) and HUF 22 million profit (8% of total). Pre – COVID -19, management guided ca. 300-400 million EBITDA for the Polish segment. Polish operation has grown so much that in

Q1, 59% of the revenue arrived from Poland, however, and EBITDA margin for the Polish operation still lags the Hungarian as it stood at 3% vs. 33%. This is a large question whether and in what extent DH is able to converge the margin of the Polish operation to the Hungarian margin.

Opinion: Duna House posted very nice result mainly thanks to loan intermediation segment superior performance (+210% y-o-y), this segment now is accounting for 73% of the EBITDA in Q1. Due to this, investors may start to consider the group as a company that belongs to the financial sector rather than to the real estate. **As for effect of the pandemic, Duna House business model relies heavily on services especially on loan intermediation which activity should significantly slow as a result of the quarantine, thus one should not be surprise if Q2 profit ends up in the red, in our view.**

Drawing conclusion from the data from China’s real estate transaction, the number of sales was higher than December 2019’s average after the relaxation of lockdown measures, though price information is not yet known, according to Knight Frank.¹ If transaction numbers returns in a similar pace than the Chinese example, then the loss in Q2 may not be that unbearable, in our view. However going forward, unemployment will also be macroeconomic indicator to follow as that is one of the driver of the real estate market and loan intermediation as well. Unfortunately the latter has almost doubled in two months form 3.5% to 6% according to KSH. On the liquidity side, DH Group has ample of liquidity with ca. HUF 1.6 billion on the balance sheet.

PROPERTY SALES IN 30 MAJOR CHINESE CITIES.



Source: Knight Frank, Capital Economics

¹ <https://www.mansionglobal.com/articles/china-sees-number-of-real-estate-transactions-increase-considerably-213800>

Quarterly P&L

	Q1 2020	Q1 2019	Ch (%)
Revenue	2,473	1,858	33%
Operating revenue	2,459	1,832	34%
Other income	14	26	-48%
OPEX	2,167	1,614	34%
Cost of materials	54	16	227%
Cost of sold goods and services	500	236	111%
Used services	1,580	1,218	30%
Personnel expenses	223	218	2%
Depreciation and amortization	60	54	11%
Other operating expenses	-249	-129	94%
EBITDA	366	298	23%
<i>Franchise</i>	96	86	12%
<i>Own Offices</i>	1	35	-98%
<i>Loan intermediation</i>	222	72	210%
<i>Other related</i>	39	67	-42%
<i>Real estate mgmt.</i>	38	61	-39%
<i>Elimination</i>	-29	-23	25%
Cleaned Core EBIT	313	220	42%
EBIT	306	244	25%
Financial income	51	-2	-2655%
Financial expense	30	32	-5%
Revaluation	-13	-9	47%
EBT	314	200	57%
Income tax expense	49	-34	-245%
Net income	265	166	60%
Transaction Number	34,034	36,807	-8%
Intermediated loans [HUF m]	69,018	37,861	82%
<i>EPS</i>	76	48	60%
EBIT margin	12%	13%	-6%
EBITDA margin	15%	16%	69%

Source: company reports

Concorde Securities Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interests that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For analysts certification and other important disclosures, please refer to the “Disclaimer” section at the end of this report.

DISCLAIMER 1.

This research report has been prepared by Concorde Securities Ltd., a full-service Hungarian investment banking, investment management and brokerage firm. Concorde Securities Ltd. is under the supervision of the National Bank of Hungary in its capacity as financial supervisory authority.

Concorde Securities Ltd. is registered in Hungary and does not have any subsidiaries, branches or offices outside of Hungary. Therefore we are not allowed to provide direct investment banking services to US investors and restrictions may apply to our potential investment banking services according to your country’s jurisdiction. For important disclosures to U.S. investors, please refer of the “Notice to U.S. Investors” section at the end of this Disclaimer.

Our salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are their own and may be contrary to the opinions expressed in our research products, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed by our analysts or traders.

Our research, sales and trading professionals are paid based on the profitability of the respective divisions of Concorde Securities Ltd., which from time-to-time may include revenues from the firm’s capital market activity. Concorde Securities Ltd. does not prohibit analysts, salespeople and traders from maintaining a financial interest in the securities or futures of any companies that they cover or trade on their clients’ behalf in strict compliance with the Hungarian Capital Markets Act.

ANALYSTS CERTIFICATION

The research analysts undersigned and responsible for the preparation of this report hereby certify that (i) the views expressed in this research report accurately reflect their personal views about any and all of the securities or issuers referred to in this research report; (ii) no part of the analysts’ compensation was, is or will be directly or indirectly related to the specific recommendation or views expressed in this report and (iii) no part of their compensation is tied to any specific investment transactions performed by Concorde Securities Ltd.

Name and job title of individuals involved in the production of this report are disclosed at the end of this report.

Concorde Securities Ltd. is a leading manager and underwriter of Hungarian equity offerings. We have investment banking and other business relations with a substantial percentage of the companies traded on the Budapest Stock Exchange and covered by our research department. Concorde Securities Ltd, its directors and employees may have a position in these securities, which may change at any time.

Concorde Securities Ltd. acted as Lead Manager of the private and public share placement of the shares of FHB in 2003, Masterplast in 2012 and Duna House in 2016. Concorde Securities Ltd. acted as the Co-lead Manager of Gedeon Richter’s exchangeable bond issue in September 2004. Concorde Securities Ltd. has provided financial advice to Magyar Telekom.

EXPLANATION OF RATINGS AND METHODOLOGY

Rating	Trigger
Buy	Total return is expected to exceed 20% in the next 12 months
Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10%-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if covering analyst considers new information may change the valuation materially and if this may take more time.
Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

Securities prices:

Prices are taken as of the previous day's close on the home market unless otherwise stated.

Valuations and risks:

Analysis of specific risks to set stock target prices highlighted in our investment case(s) are outlined throughout the report. For details of methodologies used to determine our price targets and risks related to the achievement of the targets referred to in the main body of the report or at [Rating Methodology](https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038) on our website. (https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038)

Research disclosures:

Concorde Securities Ltd. may have published other investment recommendations in respect of the same securities/instruments recommended in this report during the preceding 12 months. Disclosure of previous investment recommendations produced by Concorde Securities Ltd. in the previous 12 months can be found at [Rating history](https://www.con.hu/wp-content/uploads/2016/04/Rating-history.pdf?tstamp=201710021038). (https://www.con.hu/wp-content/uploads/2016/04/Rating-history.pdf?tstamp=201710021038)

GENERAL

This report is provided for information purposes only and does not represent an offer for sale, or the solicitation of any offer to buy or sell any securities.

The information, and any opinions, estimates and forecast have been obtained from sources believed by us to be reliable, but no representation or warranty, express or implied is made by us as to their accuracy or completeness. The information, opinions, estimates and forecasts may well be affected by subsequent changes in market conditions. This document may not be reproduced in whole or in part, or published for any purpose.

REPRODUCTION OR REBROADCAST OF ANY PORTION OF THIS RESEARCH REPORT IS STRICTLY PROHIBITED WITHOUT THE WRITTEN PERMISSION OF CONCORDE SECURITIES LTD.

NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed Concorde Securities Ltd. located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker dealer, on behalf of Concorde Securities Ltd. only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) Concorde Securities Ltd. is the employer of the research analyst(s) responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analyst(s) is/are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Important US Regulatory Disclosures on Subject Companies. This material was produced by Concorde Securities Ltd. solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by Concorde Securities Ltd. or an authorized affiliate Concorde Securities Ltd. This document does not constitute an offer of, or an invitation by or on behalf of Concorde Securities Ltd. or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Concorde Securities Ltd. or its Affiliates consider to be reliable. None of Concorde Securities Ltd. accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.

DISCLAIMER 2.

This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and Concorde Securities Ltd. (registered seat: H-1123 Budapest Alkotás utca 50., company registration number: 01-10-043521, hereinafter: Investment Service Provider)

BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.

This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.