2020 IN NUTSHELL

BIF Nyrt. ("Company") has published its 2020 annual report on 27 April 2021. The Company achieved a net sales revenue of HUF 6.19 billion which is 17 percent higher than net sales of HUF 5.3 billion in 2019. The after-tax profit raised to HUF 4.95 billion in 2020 from HUF 2.27 billion in 2019 (+118%). However, it should be noted that in 2020 fair values of the Company's investment properties have gained HUF 2.67 billion.

LAST YEAR'S TRANSACTIONS

Last year the Company made several purchase and sale agreement:

On 2 January 2020, the Company announced a sale and purchase agreement by and between the Company and Városmajor Projekt Ingatlanhasznosító Kft. concerning the property located at 35 Városmajor street, 1122 Budapest. According to the deal, BIF will acquire a 15,000 sqm office building which has a permit to develop a 7-story, parking garage with a capacity of 248 parking spaces.

On 5 May 2020 the Company announced a sale and purchase agreement concluded by and between the Company and Magyar Posta Zrt. concerning the 511/1000 ownership ratio of the real property located at 1101 Budapest, Üllői street 114-116

On 12 May 2020 the Company announced an agreement, which was concluded by and between the Company as a seller and Kastélyszálló Vendéglátóipari és Szolgáltató Kft. as a buyer of the Fenyőharaszt Kastélyszálló.

On 2 December 2020 the Company announced an agreement, which was concluded by and between the Company as a seller and Országos Szlovák Önkormányzat as a buyer of that monument protected real property which is registered at Topographical No: 34637/0/A/107., located at Rákóczi Street 57.; 1081 Budapest.

2021 PLANS

According to the annual report, the Company focuses in 2021 on the following tasks:

- Continuing the construction works on Városmajor 12. (Major Udvar). The project will be handed in Q1 2022. The total office space is 8,630 square meters.
- Leasing the vacant areas and elaborating the development concept of Városmajor 35 (Major Park). The office building will include 15 thousand square meters and 248 parking lots. According to the management, the project will be finished in Q2 2023.
- Ending the construction works of Attila99Loft. The Company will be leasing 16 luxury apartments and the parking lots.
- Elaboration of the development concept for Bajcsy-Zsilinszky str. Office Building.
- Beginning the renovation works of Üllői str. Office Tower and Üllői str. Educational Centre, and concluding the leasing contracts.

TARGET PRICE REVIEW

According to the annual reports from 2018 to 2020 the renovation and construction works of Bajcsy-Zsilinszky str. Office Building has not yet started. The office consists of 3,630 square meters, however the new building would cover cca. 23,000 square meters. So far we thought this project will realized by 2022 or 2023, therefore the new model doesn't take into account the "rapid" implementation of the project.

The previous model anticipated that the real estate development in Harsánylejtő would continue. According to the annual report of 2020, there is no decision about 40 apartments. The original plan included 80 apartments of which 40 were completed and 38 were sold. There are no plans about the office building and the feasible apartments in this area.

To take consideration of the above and the recent changes in the risk-free rates, equity risk premiums, sector betas, long-term growth rates and the changes in the Company's net debt, our recommendation is buy with a lowered one-year target price: HUF 304.

DCF valuation

millions of HUF	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Total income	3805,6	3792,0	5288,3	6189,1	5842,7	5772,2	6143,6	6233,8	8801,3
Property related costs	-1341,3	-2335,4	-2616,1	-2254,2	-2921,3	-2308,9	-2457,4	-2493,5	-3520,5
Net interest costs	-103,0	-254,8	-190,5	-121,1	-250,0	-250,0	-250,0	-500,0	-500,0
FFO	2385,5	1352,6	2511,3	3603,3	3383,7	3440,7	3702,8	3509,5	5399,3
CAPEX	-8068,2	-680,9	-1117,6	-9512,2	-3643,7	-2000,0	-10000,0	-7000,0	-1500,0
AFFO	-5682,7	671,7	1393,7	-5908,8	-260,0	1440,7	-6297,2	-3490,5	3899,3

WACC	5,7%
Growth rate	2,5%

Enterprise value	89261,1
Debt	-19932,0
Cash	11565,0
Fair value of equity	80894,1
Shares outstanding	287,024

1 year target	304

Source: Consolidated company fillings, MKB

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Change from the prior research

Our first research was published on 29 June 2018, In that Initial Coverage our price target was HUF 2207 (before stock split), but the changes in fundamental factors justified the update of our model. Our new price target is HUF 304 which is 12% lower than the previous price target of HUF 345 published on 19 May 2020.

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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/Kibocsatok/BET-elemzesek/elemzesek/bif-elemzesek

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.