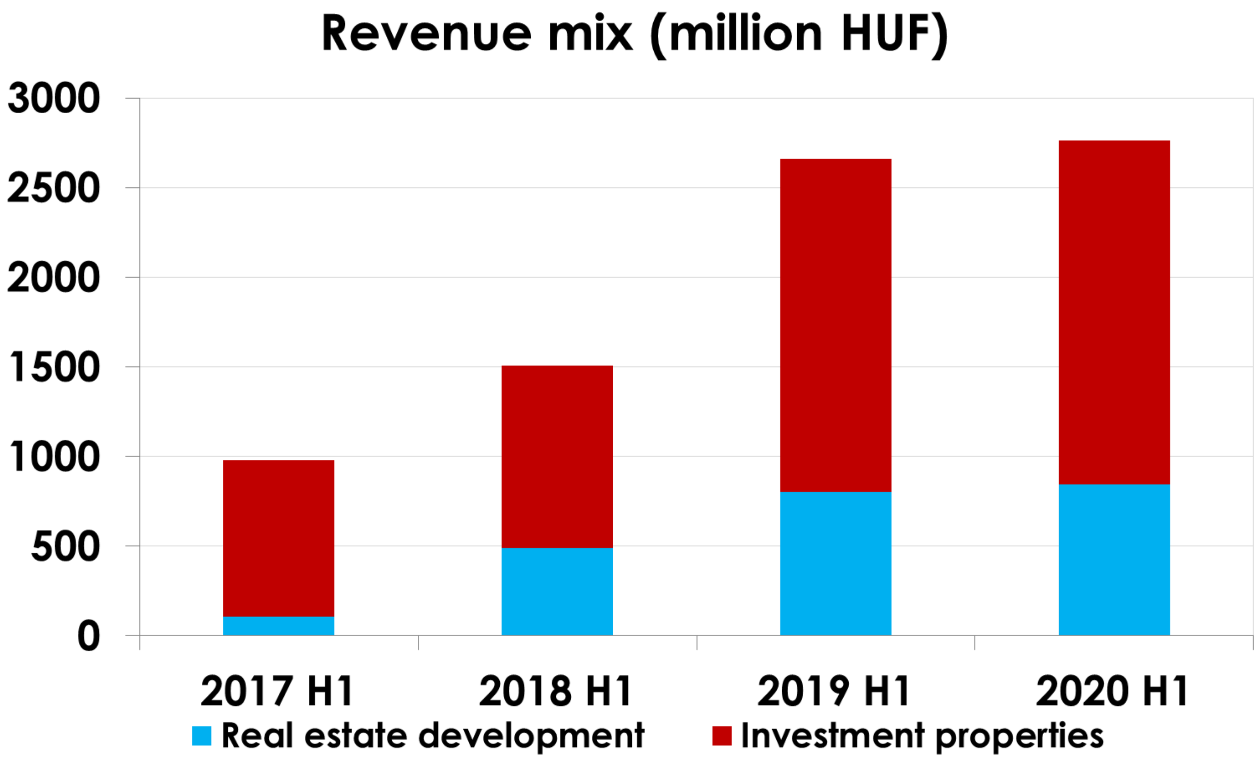
REPORTED EARNINGS OF THE FIRST HALF OF 2020

BIF published its 2020 half year figures on 28 August 2020. The Company achieved an after-tax profit of HUF 1.79 billion in the first six months, which represents an increase of about 60% compared to the first half of 2019 (HUF 1.1 billion). Net sales was HUF 2.76 billion after the HUF 2.66 billion in the H1 2019, but at the same time other revenue increased significantly to HUF 1.4 billion after the sale of the Fenyőharaszt Kastélyszálló, which is a one time item in the income statement.



Source: Consolidated company fillings, MKB

The results of the Company's segments were the following: the revenue of the investment property segment was HUF 1.91 billion which represents a 3% increase compared to the previous year. In recent years, BIF has raised the size of its rentable area by about 20.000 square meters which supported the revenue growth of the investment property segment. In the upcoming years BIF will be able to make further improvements on the existing properties such as the extension of the buildings or building additional parking lots. We believe that the total rentable area will reach approximately 85.000 square meters by 2024. For more details, please see previous flash notes.

The COVID-19 pandemic means difficulty for several companies and industries. In our opinion the pandemic situation will seriously affect many companies in the airlines, real estate, hotel & restaurant, travel, healthcare and financial industry.

BIF drew attention to the risk of the pandemic:

- it is possible that some developments will be finished behind schedule

- it is possible that some lease contracts will be terminated or renegotiated
- after the pandemic, if the WFH (work from home) system has an appropriate efficiency, companies may reconsider the number of office space they require. If the data shows good efficiency it is imaginable that office spaces will be significantly reduced
- tourism is severely affected by the pandemic, which means hotels and restaurants utilization may decrease. BIF has hotel properties which are operated by third parties
- apartment prices can decrease in the near future, which is negative for real estate developments

The Harsánylejtő segment; which means the real estate development segment; earned HUF 840 million after the result of HUF 800 million in 2019 H1 which represents a 5% increase. In 2019 the Company has finished the implementation of 4 residential apartments with 20 residential properties and in 2020 further 20 residential properties will be built. Besides the above. the Company has another two apartments projects in this area (20-20 residential apartments), along further development opportunities.

In the remainder of 2020 and beyond the Company focuses on the following important areas:

- Delivery of Stage II of the Harsánylejtő residential property (only 6 apartments are available). In Stage III and IV 40 properties can be constructed in the future
- Designing the development concept of Bajcsy-Zsilinszky Office Building (raising the rentable area from approximately 3,600 square meters to about 30,000 square meters)
- Development of the Városmajor office buildings (Városmajor 12. and 35.)
- The Company acquired an ELMŰ property located at 99 Attila street, Budapest, District I. in the beginning of 2019. The Company is designing the development concept of several luxury loft properties there on about 6000 square meters. According to the management discussion the loft properties will be utilized as a rental properties
- The Company bought the 511/1000 ownership ratio of the real property located at 1101 Budapest, Üllői street 114-116. The buying agreement contains four buildings and a parking lot for approximately 90-100 cars. At the time of writing, the buildings are empty. According to the management the building will be utilized as an office building with "A" category
- Designing the utilization and development concept of the property complex at 80-82 Andrássy street, Budapest, District VI. which will function as a 4-star boutique hotel from 2021

UNCHANGED TARGET PRICE

Our one-year target price is unchanged at HUF 345.

DCF valuation

millions of HUF	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Total income	2225,6	2217,2	2901,7	2754,9	3805,6	3792,0	5288,3	7090,2	10741,1	12407,3	10491,0	12399,9
Property related costs	-1247,2	-1366,3	-1804,9	-1430,7	-1341,3	-2335,4	-2616,1	-3545,1	-5370,5	-4962,9	-4196,4	-4960,0
Net interest costs	-522,4	-737,1	-141,9	-67,5	-103,0	-254,8	-190,5	-507,9	-500,0	-500,0	-500,0	-500,0
FFO	691,2	176,6	1100,3	1288,5	2385,5	1352,6	2511,3	2915,0	4996,9	5774,8	5168,1	6279,8
CAPEX	-299,5	-45,4	0,0	-805,8	-8068,2	-680,9	-3000,0	-10105,6	-4000,0	-3000,0	-4000,0	-1750,0
AFFO	391,7	131,1	1100,3	482,7	-5682,7	671,7	-488,7	-7190,6	996,9	2774,8	1168,1	4529,8

WACC	6,0%
Growth rate	2,5%

Enterprise value	100100,4
Debt	-16133,0
Cash	8831,4
Fair value of equity	92798,8
Shares outstanding	287,024

1 year target	345

Source: Consolidated company fillings, MKB

Target price scenarios

		Terminal growth						
		-2%	-1%	0%	1%	2%	3%	4%
WACC	5%	147	180	226	295	411	642	1335
	6%	116	140	172	216	283	394	617
	7%	93	110	133	164	207	271	378
	8%	74	88	105	127	157	198	260
	9%	59	70	83	100	121	150	189
	10%	47	56	66	79	95	116	143

Source: Consolidated company fillings, MKB

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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.