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CEE Equity Research | Hungary | Real Estate
12 December 2021

Duna House

Recommendation: Under revision (BUY)
Target price (12M): Under revision (prev: HUF 560)

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- Duna House entered the Italian loan intermediation market by acquiring 70% of the Italian HGroup (**the market leader**) with future put/call options that can increase its ownership to 100%. The transaction multiple is relatively high (10.5x EV/EBITDA'21) compared to DH's previous acquisitions and to its own valuation (6.8x EV/EBITDA'21 excluding developments). The equity value (ca. EUR 25 million) will be paid gradually in 4 instalments, throughout 2024.
    - HGroup and its subsidiaries are active in the Italian market since 2014, offering credit brokerage, insurance brokerage, real estate and digital ancillary services. The group has 320 sales offices and close to 1000 financial experts throughout Italy

- **We think transaction is generally positive and in line with the company's strategy to grow in order to reach meaningful size (both in earnings and in market capitalization) for better visibility for international investors. DH could add value by (1), launching the real estate brokerage arm for the Italian operation similarly such as in Poland; and (2), by further consolidating the Italian market – again similarly such as in Poland; (3) DH utilizes its vast cash liquidity (HUF 5bn) and moves the group's capital structure into a more optimal point (DH's pre transaction net debt to EBITDA was a touch below 1x). Furthermore (4) DH emphasized its intention to maintain its dividend policy with the help of another bind issuance; (5) refinance the existing debt in HGroup with NKP; last but not least (6) the structure of the transaction is smart in our view as it does not put too much burden on liquidity in the short term.**

- **Compared to DH's previous acquisitions this time the target company has visible** earnings with HUF 1.4 billion EBITDA vs. DH's this year's EBITDA'21 of HUF 2.3 billion. With this transaction, theoretically DHG's (Duna House Group) reported EBITDA will jump by +73% in 2021 which is significant. *(But please note that the numbers show fully consolidated figures, while DH is entitled only for 70 %.)* In this respect, DH investors do not run exaction risk of restructuring the new target company as was the case in Poland. Admittedly, DH's track record in Poland is impeccable - *(its Polish operation's EBIT was HUF -22 million while the 2021 9M EBIT was HUF 600 million*). DH entered Poland by purchasing Metro House a real estate agency which was further improved by two loan brokerage acquisitions in

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the last two-three years and thus needed 3-4 years in total for putting the operation into the right track. While the Italian story could be the similar such as in Poland there is a risk that every country is a bit different, in our view.

- The new Italian subsidiary **has encouraging growth target** according to the contract signed by the parties. In the next 3 years the Italian operation has to deliver **ca 13% CAGR growth** in EBITDA otherwise the management of the operation could be changed.

- In order to restore its liquidity, DH plans to issue another bond with the size of HUF 6 billion however the transaction is possible without the bond issuance as well. DH has ample of liquidity with HUF 5 billion in cash vs the first instalment of the transaction HUF 4 billion. We do not consider taking the bond too risky as DH expects large inflow (we estimated at HUF 2.6bn) from the developments next year.

- The closing of the transaction is planned for middle of January and in that case HGroup's financials will be consolidated by DHG from 1st of January 2022**. We assess the news and the new subsidiary in detail but until then we put our recommendation and target price under revision.**

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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.
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Valuations and risks:

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