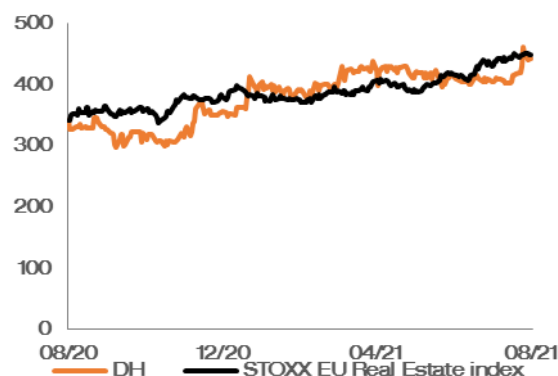


Duna House

Recommendation: BUY

Target price (12M): HUF 540 (Prev: HUF 480)

Hun. Core HUF million	2021 Q2	2020 Q2	Ch (%)
Revenues	3,407	1,939	+75%
EBITDA	511	342	+49%
Cleaned core EBITDA	629	367	+72%
EBIT	431	283	+52%
Profit	270	205	+32%
EPS	8	6	+32%
Cumulated EPS	16	13	
No. of transactions (ths)	41	25	+64%



Share price close as of 30/08/2021	HUF 450	Bloomberg	DUNAHHOU5 HB
Number of shares [million]	34,6	Reuters	DUNAHOUSE.BU
Market capitalization [HUF mn/EUR mn]	15,570 / 44	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 270-450

Profit guidance lift from Poland

In short:

- Duna House Q2 cleaned Core EBITDA and core profit increased significantly by +72% y-o-y and +32% y-o-y respectively, reaching HUF 629 million and HUF 270 million in Q2. Profit was subdued because of FX and non-recurring items from development. Nevertheless, management increased FY profit guidance by 26% thanks to improving margins in Poland. DH trades at 8 x adj. P/E'21 assuming 75 per share CF from development projects. Since DH posted such a strong earnings growth in Poland (H1 profit +180% y-o-y reaching HUF 201m) we adjust our earnings model which led us to increase our **TP to HUF 540 per share**.

Key positives of the Q2 report:

- Polish operation's profit reached HUF 200 million in H1 while we pencilled HUF 260 million for the full year. Better earnings is a result of growth in office numbers and improved margin (EBITDA / office KPI' – see below).
- Thanks to the better results mgmt. lifted guidance by 26% to HUF 1.4 bn as a result expected DPS moves to HUF 19 for the next year based on pay-out policy.
- DH could poach loan brokers from its competitor (that went bankrupt) which resulted in faster than expected network

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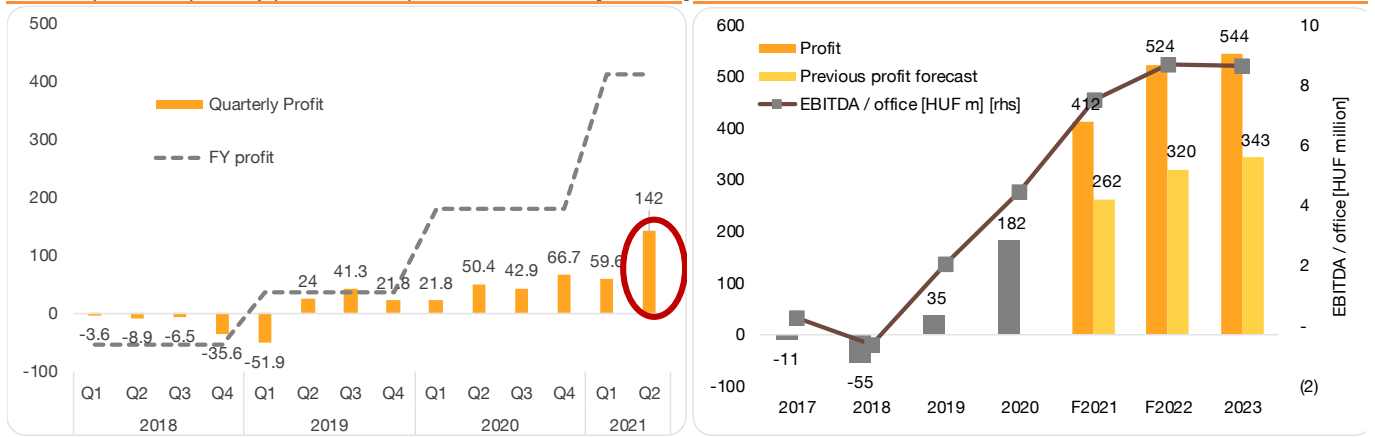
growth – its franchise network in Poland grew by 15% to 90 offices in a year.

- **Key negatives**

1. Profit from development projects continue to be delayed

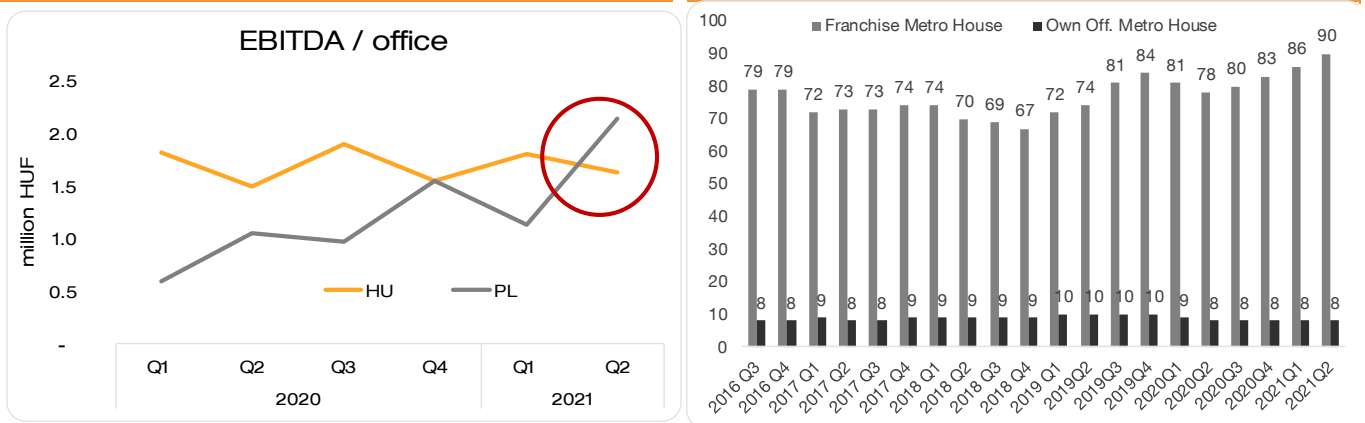
- **Due the stronger than expected profit growth in Poland** (H1 profit reached 75% of our FY profit forecast for Poland) – we increased our FY profit forecast by 53% on the back of higher than forecasted profitability (EBITDA / office) and faster network growth. As a result, our expected profit increased to HUF 412 million for '21 which will further grow, but its pace should decelerate next year, in our view. We pencil HUF 524 million for '22 from the Polish segment. With that robust pace of profit growth Poland's profit in the Group is expected to reach ca 30% in 2021.
- The robust numbers showed that Duna House was able to poach loan brokers from competitor who went bankrupt which helped accelerate the pace of organic growth in Poland, in our view.

Polish operation quarterly profit and FY profit and forecast [HUF mn]



source: Concorde, DH

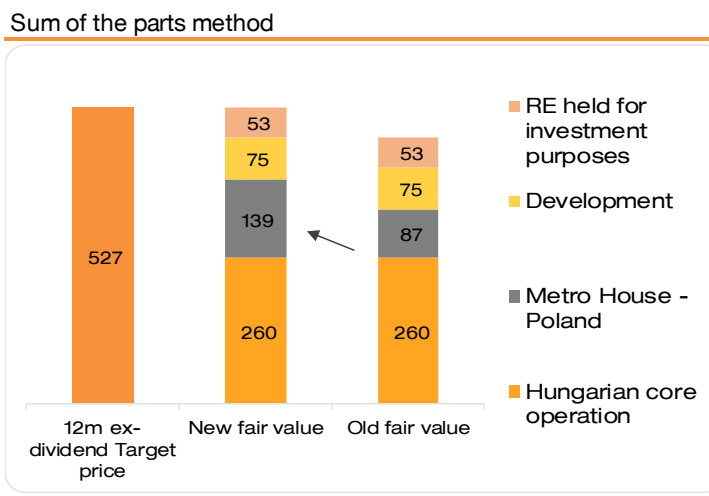
Operation KPI's



source: Concorde, DH

- **Improved outlook for the Polish operation prompt us to increase our target price by 13% to HUF 540 per share.** Previously, in our SOTP (Sum Of The Parts) valuation we assigned 12x P/E to the Polish operation which multiple remained unchanged however our profit forecast was raised significantly to HUF 412 million vs. HUF 262 million (+57%) for 2021 that drove the increase in our TP. This leaves

20% share price upside potential and total return of 24% in DH's case in 12 months' time period in our view.



source: Concorde

	TP	Weights
SOTP	527	50%
DCF @ base case	560	50%
	544	

Source: Concorde

Please see our updated earnings trajectory in the appendix, and please note that our forecast excludes profits from development.

Opinion: This is the second strong quarter from Poland in this year which convinced us that the Polish operation's growth is rather sustainable and fuelled by network (+15% y-o-y) and margin (EBITDA / office +104% y-o-y) expansion. Management expects further strong growth in Poland throughout the year.

Also please note that in the calculation of the clean EBITDA, DH subtracted M&A advisory fees, implying that the group has been looking for acquisition targets in the region. This prospective acquisition is expected to support management's ambition to reach its targeted HUF 5 billion EBITDA by 2025, in our view.

Profit (+32% y-o-y) could not follow the pace of EBITDA (49% y-o-y) because of non-recurring (impairment related and other fees DH had to pay as a result of price hikes at Forest Hill projects).

Valuation-wise, DH trades at 8x P/E'21 and 7x P/E'22 based on management profit guidance (HUF 1.4 billion) and with the assumptions of HUF 2.6 billion cash inflow from developments and excluding the BV of investment properties (HUF 1.8 billion) from market cap (HUF 15.7 billion). Assuming further growth in Poland we think DH is undervalued at current share price as it does not reflect the potential organic growth opportunities DH has in Poland (3 years of profit CAGR 22% from 2020). Our new TP leaves 20% share price upside potential and total return of 24% in DH's case in 12 months' time period in our view.

DH'S SIMPLIFIED P&L

[HUF mn]	2020				2021		Ch (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Y-o-Y	Q-o-Q
Revenue	2,473	1,939	2,228	2,577	2,721	3,407	76%	25%
Operating revenue	2,459	1,892	2,217	2,526	2,539	3,372	78%	33%
Other income	14	47	11	51	182	35	-26%	-81%
OPEX	2,167	1,656	1,861	2,212	2,351	2,975	80%	27%
Cost of materials	54	63	108	100	59	76	20%	30%
Cost of sold goods and services	500	543	666	563	455	602	11%	32%
Used services	1,580	1,169	1,264	1,531	1,652	2,105	80%	27%
Personnel expenses	223	155	210	218	191	212	37%	11%
Depreciation and amortization	60	60	53	57	63	81	34%	27%
Other operating expenses	-249	-334	-441	-258	-69	-99	-70%	44%
EBITDA	366	342	419	423	433	511	49%	18%
Franchise	96	60	171	169	184	137	129%	-26%
Own Offices	1	20	25	3	61	59	192%	-3%
Loan intermediation	222	241	203	273	200	374	56%	87%
Other related	39	20	37	30	15	17	-18%	10%
Real estate mgmt.	38	14	12	-13	-16	-82	-682%	413%
Elimination	-29	-12	-29	-39	-11	8	-162%	-168%
Cleaned Core EBITDA	372	367	454	459	471	629	72%	34%
EBIT	306	283	366	366	370	431	52%	16%
Financial income	51	20	32	51	22	5	-77%	-80%
Financial expense	30	27	37	62	74	110	315%	49%
Revaluation & JV	-13	-11	269	51	24	17	-248%	-30%
EBT	314	265	631	405	343	342	29%	0%
Income tax expense	49	60	82	92	53	72	21%	36%
Net Income	265	205	548	313	290	270	32%	-7%
Transaction Number	34,034	25,557	37,846	33,923	41,384	40,874	60%	-1%
Intermediated loans [HUF bn]	69,522	62,314	61,571	73,050	73,534	102,800	65%	40%
EPS [after split]	7.3	5.7	15.5	8.0	8.1	8.1	42%	0%
EBIT margin	12%	15%	16%	14%	14%	13%	-13%	-7%
EBITDA margin	15%	18%	19%	16%	16%	15%	-15%	-6%

[HUF mn]	2020				2021		Ch (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Y-o-Y	Q-o-Q
EBITDA	366	343	419	423	433	511	52%	18%
HU	312	251	325	275	320	294	17%	-8%
PL	54	90	85	141	106	209	132%	97%
CZ	0.8	1.1	9.9	7.1	6.8	8.5	673%	25%

Source: DH

Consolidated profit and loss [HUF million]

	2018A	2019A	2020A	F2021	F2022	F2023	CAGR from 2020
Revenue	8,340	8,139	9,217	12,850	14,285	14,608	
OPEX	6,225	6,743	7,895	10,918	12,112	12,380	
EBITDA	2,215	1,616	1,550	2,161	2,402	2,457	<u>17%</u>
- Franchise	259	409	496	658	716	776	<u>16%</u>
- Own segment	79	71	49	154	154	154	<u>47%</u>
- Financial intermediary	602	692	938	1,268	1,452	1,446	<u>16%</u>
- Other	147	192	126	100	100	100	<u>-7%</u>
- Real estate mgmt	1,095	311	50	50	50	50	<u>0%</u>
- Elimination	-67	-58	-109	-70	-70	-70	<u>-14%</u>
EBIT	2,115	1,396	1,322	1,932	2,174	2,228	<u>19%</u>
EBT	2,014	1,295	1,615	1,724	1,965	2,035	
Income taxes	-310	-181	-283	-328	-373	-387	
Net income	1,708	1,114	1,332	1,396	1,592	1,648	<u>7%</u>
Net income excluding development & FX effects		1,074	912	1,396	1,592	1,648	<u>22%</u>

KPI		2019A	2020A	F2021	F2022	F2023	
Total number of offices		252	277	292	299	303	
growth		8%	10%	5%	2%	1%	
HU		168	194	194	194	194	
growth		0%	16%	0%	0%	0%	
PL		84	83	98	105	109	
growth		25%	-1%	18%	7%	4%	
Transaction numbers [HU]	152,801	147,207	132,486	149,710	151,207	158,767	<u>6%</u>
growth		3%	-4%	13%	1%	5%	
Intermediated loans [HUF m] [HU]	68,271	74,421	85,100	88,640	101,994	101,471	<u>6%</u>
growth		25%	9%	14%	4%	15%	
DPS		0	38	19	22	22	
EPS		31	38	40	46	48	

Source: Concorde

Main changes in our forecast

HUF mn	2021			2022			2023		
	New	Old	diff (%)	New	Old	diff (%)	New	Old	diff (%)
Group EBITDA	2,161	1,728	25%	2,402	1,940	24%	2,457	1,989	24%
Profit	1,396	1,065	31%	1,592	1,240	28%	1,648	1,292	28%

Source: Concorde

Cash flow for valuation purposes

	2019	2020	2021F	2022F	2023F	
EBIT [HU & PL]	-	1,396	1,322	1,775	2,174	2,228
<i>as of development</i>		50	-	-	-	-
<i>as of Poland</i>		88	287	653	830	862
<i>Poland share in EBIT(%)</i>		7%	22%	37%	38%	39%
depreciation		217	229	228.90	229	229
tax		237	283	328	373	387
OCF		1,376	1,267	1,676	2,029	2,070
CAPEX [M&A included]		347	439	300	300	400
CAPEX/DD&A		160%	192%	131%	131%	175%
FCFF		1,029	828	1,376	1,729	1,670
DF				1.00	0.93	0.85
PV			-	1,376	1,603	
SZUM	20,324					17,345
Development	2,600					
TOTAL EV	22,924					
Net debt'21 [eoy]	3,185					
Equity value	19,738					
Per share Equity value	570					
Liquidity discount	10%					
Fair value per share	513					
12months target price	560					
Current share price	450					
Upside	24%					

source: Concorde

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