BIF – H1 2018 SUMMARY

BIF (the "Company") reported H1 2018 earnings on 21 Sept 2018. The Company increased its net profit by 104.4% to HUF 867 million in H1 2018 compared to the base period of H1 2017. The significant increase in net profit was primarily due to the expanding sales activity, which was coupled with an increase in operational efficiency. The operating profit margin increased from 45.6% in the base period to 64.4% in H1 2018.

Total revenues grew by 55% to HUF 1515.8 million. The impressive growth is due to the higher occupancy rate, the new offices and the Harsánylejtő sales' growth. The latter has grown by 380 per cent, from HUF 101 million to HUF 490 million. The rental income has grown from HUF 549 million to HUF 721 million, and the parking fees has grown from HUF 121 million to HUF 161 million. The other revenues have increased by 91% to HUF 279 million, the major part of the growth was attributed to the fair valuation of investment property.

Income statement

millions of HUF	30 June 2017	30 June 2018
Sales revenue	980 841	1 515 841
Other operating revenues	146 361	279 318
Change in self manufactured inventories	0	163 149
Cost of materials	-464 188	-697 678
Payroll costs	-116 228	-155 478
Other operating expenses	-86 293	-112 391
EBITDA	460 493	992 761
Depreciation	-13 056	-16 279
Operating profit/loss	447 437	976 482
Financial revenues	16 654	1 675
Financial expenses	-39 981	-111 117
Profit/loss before income tax	424 110	867 040
Taxes	-9 852	0
Deferred tax	-89 225	192
Profit/loss after taxation	325 033	867 232

Source: Consolidated comapny fillings, MKB

The operating profit has grown by HUF 529 million to HUF 977 million, and the EBITDA has more than doubled to HUF 993 million compared to the base period. The EBITDA, the operating and the net profit margins have all increased, each with a value between 14.4 and 19.5 per cent. The earnings per share (EPS) equals to HUF 33.6 compared to last year's HUF 12.6.

The operating expenses grew by 20 per cent, a value lower than the rate of increase in sales, which indicates that the Company's efficiency has improved.

The cost of materials in the first half of 2018 has increased to HUF 233.5 million, or about 50% compared to the value recorded in the base period of H1 2017.. The significant increase is mainly due to the settlement of condominium construction started in Harsánylejtő Kft.

One of the key elements of balance sheet items is the investment properties, which increased by HUF 988 million HUF to HUF 32,405 million compared to 31 December 2017. This result is due to the increase in the fair value of real estate in the portfolio and the successful acquisition of real estate in the current period.

Key elements of balance sheets

millions of HUF	31 December 2017	30 June 2018
Investment Properties	31 417 004	32 405 004
Fixed assets	32 395 516	33 896 903
Current assets	3 861 485	2 472 522
Total assets	36 257 001	36 369 425
Subscirbed capital	2 583 220	2 583 220
Equity attributable to the owners of the parents	25 775 098	25 393 719
Financial liabilities	9 265 607	9 899 588
Total long-term liabilities	9 275 414	9 909 395
Total short term liabilities	1 206 489	1 066 311
Total capital and liabilities	36 257 001	36 369 425

Source: Consolidated comapny fillings, MKB

The target price is currently under review, we will soon publish our updated model.

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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/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.