

EQUITY NOTE: ZWACK UNICUM

Recommendation: HOLD (unchanged)

Target price (12M): HUF 17,046 (unchanged)

14 September, 2018

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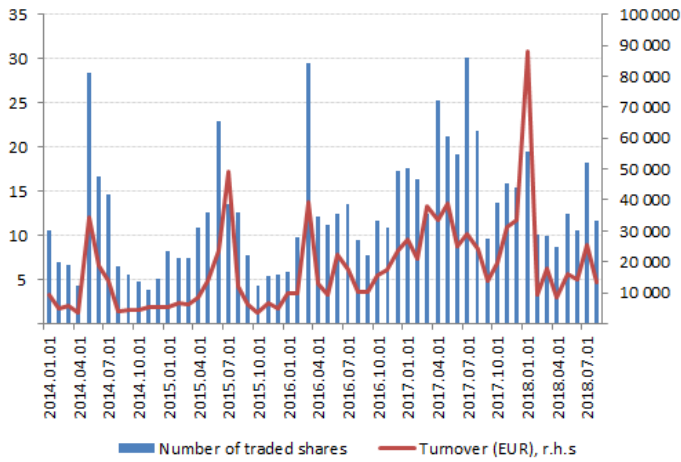
News

The Budapest Stock Exchange (BSE) announced to remove Zwack Unicum from the Hungarian benchmark index BUX as of 24 September 2018. The BSE has recently carried out the semi-annual revision of BSE stock indices (BUX, BUMIX and CETOP) and found that Zwack Unicum had not fulfilled the minimum three of the five index criteria the stock exchange required. This was the second consecutive occasion when Zwack Unicum failed to meet all index criteria. According to BSE's Manual of Hungarian Indices, stocks that failed in both the latest review and the one six months earlier have to be removed. After the index revision Zwack maintains its membership in the small capital index BUMIX, with 4.42% weight and its place in the prime category in BSE.

Comment

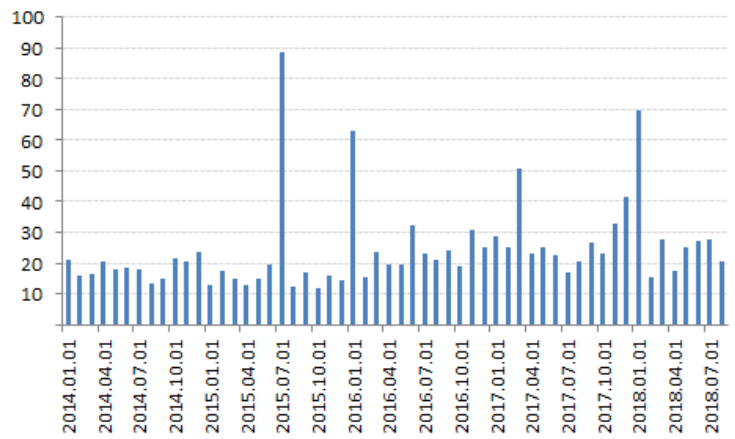
- After the first warning at the beginning of March, the BSE's action caused no big surprise. The [equity ratio criteria](#) can hardly be met by a company of Zwack Unicum's size, while the company failed to fulfil the criteria of the number of trades and the turnover value.
- The relatively small free float, the composition of domestic individual investors, and the positioning of stocks by Zwack Unicum itself as 'family silver' for investors with long-term holding pattern all support the low turnover.
- A year-over-year comparison shows a decrease in average monthly turnover in both volume and value. The monthly average of daily deal size declined as well, while the average price between 1 September 2017 and 31 August 2018 compared to the period one year earlier also slipped somewhat.
- As a new phenomenon, domestic institutional investors increased their share to 7.73% of total shareholders' equity by the end of June, from 2.15% at the beginning of Q2 2018. Domestic individuals also increased their stake, though slightly, while international institutional and individual investors' stake dropped.
- However, the imminent removal of Zwack shares (Zwack has 0.3% weight in BUX) may dissuade investors from holding them due to liquidity/illiquidity concerns.
- In our valuation model, we calculate with 3% small-company discount based on Western European examples. In the coming months we might need to revise our calculation and to apply higher discount ratio. With all other things equal, that would result in somewhat lower equity valuation.
- We are at the moment in a wait-and-see position and it is a question of the future whether the turnover of Zwack shares declines further or it remains at this relatively low level.

Monthly averages of daily turnover and number of traded shares



Sources: BSE, OTP Research

Monthly averages of daily deal size of Zwack shares on BSE



Sources: BSE, OTP Research

Notes:

[The initiation report, which contains the assumptions of the models used, is available here.](#)

[The valuation methodology used in this present equity research note to determine our price targets and recommendations is available here. \(Also available in Hungarian\)](#)

This investment recommendation has not used proprietary models.

The risk warning, which includes the adequate explanations of the length of time of the investment to which the recommendation relates as well as a sensitivity analysis of the assumptions, is indicated in the part of this recommendation where the length of time and the risks of the investment are presented.

Any information relating to the date and time for the price mentioned in this recommendation is revealed in the part of the recommendation where the given price is indicated.

OTP Bank Plc's recommendations and price targets history for Zwack Unicum in the past twelve months:

Date	Recommendation	Target Price	Publication
15/12/2017	BUY	HUF 17,668	Initiation Coverage
06/02/2018	HOLD	HUF 17,781	Quarterly Earnings Update
24/05/2018	HOLD	HUF 17,891	Quarterly Earnings Update
28/06/2018	HOLD	HUF 17,046	Earnings Update
20/07/2018	HOLD	HUF 17,046	News Comment
03/08/2018	HOLD	HUF 17,046	Earnings Update
13/09/2018	HOLD	HUF 17,046	News Comment

Period	Recommendations	Percent of recommendation
2017Q4	BUY	100%
	HOLD	0%
	SELL	0%
2018Q1	BUY	0%
	HOLD	100%
	SELL	0%
2018Q2	BUY	0%
	HOLD	100%
	SELL	0%
2018Q3	BUY	0%
	HOLD	100%
	SELL	0%

[The list of all recommendations made in the past 12 months is available here.](#)

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