

CONCORDE RESEARCH

CEE Equity Research | Hungary | Real Estate  
04 December 2023

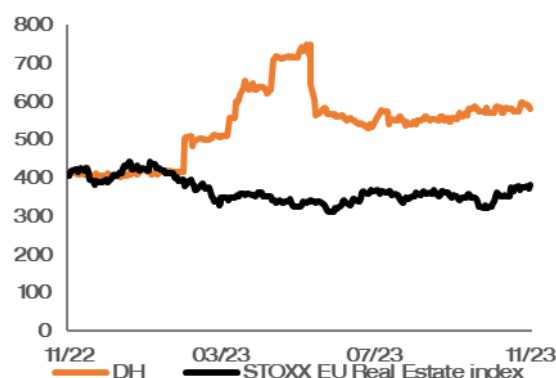
# Duna House

Recommendation: BUY

Target price (12M): HUF 800 (under revision)

Hun. Core HUF million	2023 Q3	2022 Q3	Ch (%)
Revenues	7,261	8,455	-14%
EBITDA	710	904	-21%
Cleaned core EBITDA	755	685	10%
EBIT	413	744	-45%
Profit	255	727	-65%
EPS*	7.1	18.6	-62%
Cumulated EPS	50.5	57.3	-12%
Loan volume HUFbn	177	186	-7%

\*after minorities



Share price close as of 04/12/2023	HUF 550	Bloomberg	DUNAHOUS HB
Number of shares [million]	34,6	Reuters	
Market capitalization [HUF mn/EUR mn]	19,000 / 50	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 350-560

## Polish segment rose like a phoenix

### In short:

DH's clean cored profit improved on a yearly (+14% y-o-y) and remained flat on a quarterly basis. This was thanked to mainly the combination of better of core EBITDA from HU (+28% q-o-q) and PL (+160% q-o-q), and still weaking IT operation (core EBITDA: - 43% y-o-y). Unfortunately, the pace of deacceleration of Italian operation caught mgmt. by surprise and they have flagged a potential weaker than expected FY core group profit, though they still expect it to arrive in the guided range. This would imply a HUF 60 EPS vs. 9M HUF 45 EPS. Reported profit arrived to HUF 267 m (-53% y-o-y) vs. core profit of HUF 561 m pressured by many non-recurring and non-cash items.

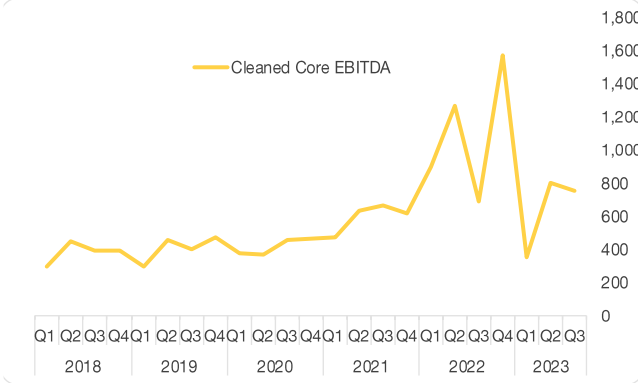
- **Key positives of the Q3 report:**
  - HU clean core operation clearly bottomed out in Q1, managed to further improve in Q3 (+28% q-o-q, +5% y-o-y)
  - Polish operation surprised on the upside with EBITDA jumped to HUF 133m from last year's Q3's HUF -50m
  - Strategic cooperation in Italy with the largest real estate agency was struck (+22% upside to clean core group EBITDA) – *this alone implies ca. 200 HUF per share additional value based on mgmt. expectation*
  - Scope confirmed DHG's bond rating and outlook
- **Key negatives of the Q2 report:**

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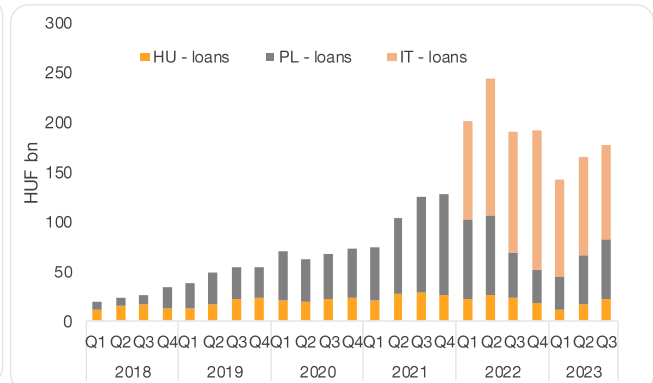
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- Management cautioned that core profit may reach the lower end of the guidance only – (9M core profit reached 76% of the FY midpoint of the profit guidance)
- Slowdown continued at the Italian segment as well; EBITDA – 35% y-o-y

Quarterly Cleaned Cored EBITDA Development

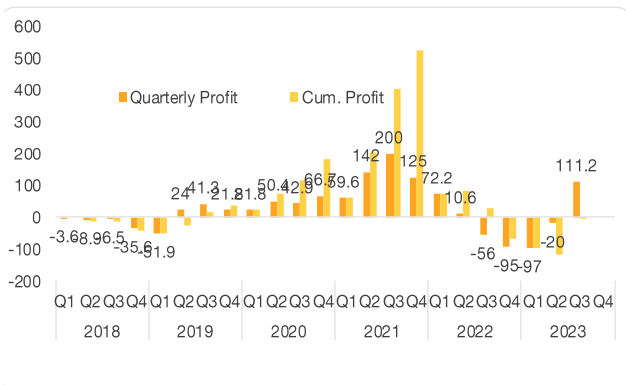


quarterly Intermediated loan volume [HUF bn]

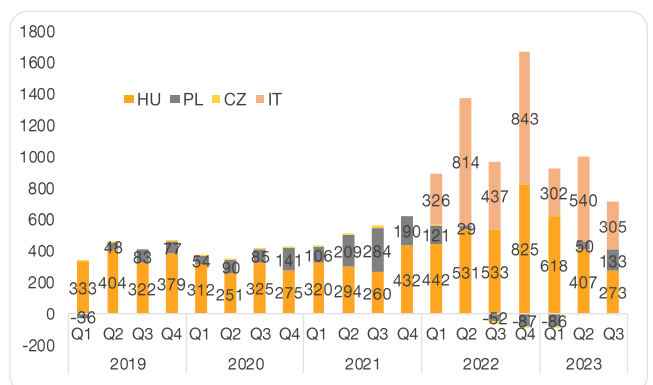


source: Concorde, DH

Poland's quarterly earnings development (profit)



quarterly EBITDA country breakdown



source: Concorde, DH

It is the second quarter, that intermediated loan volume came higher than last quarter (Q3: HUF 177bn vs. Q2: HUF 166bn vs. Q1: HUF 142bn), which sounds encouraging, and helped financial figures to stabilize. As mentioned above, HU & PL operations were strong, while Italian segment was relatively weak (mainly because of lower loan volumes -22% y-o-y). Obviously, base rate cuts in PL (100bps) and HU (650bps) might put momentum behind loan originations, which should continue in our view, and held back the Italian.

During Q3, mgmt. stroke a deal with the largest Italian real estate agency (**Professionecasa**) which allegedly could increase DHG's EBITDA by ca. +22% vs. 2022 Core EBITDA (or ca. by HUF 950m). This post tax CF alone would imply ca. HUF 200 per share assuming as a perpetual CF. Based on mgmt. assumption, 20% of guided EBITDA improvement may come from the termination of DH's local agency business, and the remaining could arrive from the redirection of deal flows towards Ccreditpass (DHG). As for the details of the deal, Professionecasa and DHG agreed on an exclusivity, meaning that the real estate agency will work exclusively with Credipass (DHG) to finance the house transactions if needed (for 15 yrs). Last but not least, DHG purchase 10% stake in Professionecasa. Any further possibility for cooperation is under examination. Based on mgmt. positive track record in Poland, we inclined to believe that synergy could indeed materialize.

Development segment slowed, MyCity managed to sell a couple of flats in the quarter (total sales of HUF 315m). Furthermore, the mgmt. idea of streamlining the operation continued and divest 6 properties (HUF 668m) and reclassified the remaining assets from Investment properties to asset held for sale category.

Valuation

share price		586
no. Of share	mn	34
<b>Market cap</b>	[HUF mn]	<b>20,151</b>
-	Investment prop. (asset for sale)	[HUF mn] 668
-	exp. cash inflow - Forest Hill	[HUF mn] 4,000
-	cash	[HUF mn] 7,217
+	debt	[HUF mn] 14,092
=	<b>net debt</b>	[HUF mn] <b>2,207</b>
	<b>minority *</b>	[HUF mn] <b>6,100</b>
	<b>EV</b>	[HUF mn] <b>28,458</b>
	Core EBITDA'22	[HUF mn] 3,454
	Core Profit'22	[HUF mn] 2,290
	minority**	[HUF mn] 298
	Core Profit'22 to parent	[HUF mn] 1,992
	Guidance'23 [midpoint]	
	Core EBITDA	[HUF mn] 3,058
	Core Profit	[HUF mn] 2,080
	minority**	[HUF mn] 80
	Core Profit'23 to parent	[HUF mn] 2,000
	<b>EV/EBITDA'22</b>	<b>8.2x</b>
	<b>P/E'22</b>	<b>10.1x</b>
	<b>EV/EBITDA'23</b>	<b>9.3x</b>
	<b>P/E'23</b>	<b>9.7x</b>
	* earn outs + obligation to buy the remaining equity in Hgroup S.p.a	
	**HGroup 5%	

Source: Concorde, DH

DH trades at 9.7x P/E'23 vs. BUX index of 5.6x and vs. its' IPO valuation of 11x P/E.

**Opinion:** HU and PL data reassures us that region's loan intermediation has passed the bottom of the cycle. In HU, new housing subsidy system (CSOK+) could provide tailwind to the sector, while in PL the regulator eased amongst others the PIT (payment to income) conditions adding momentum for the loan originations (October was strongest loan intermediated volumes on record). These measures definitely support DH'G's financials but the real tailwind could be if the rate cutting cycle would commence at major central banks. For which we think investor might not need to wait that much. We inclined to believe that DHG might be over the most difficult part of the cycle, and could come out of that stronger. Especially, in Italy where the segment will be supported by exclusivity deal flows from the largest real estate agency.

DH'S SIMPLIFIED P&L

[HUF mn]	2022		2023			Ch (%)	
	Q3	Q4	Q1	Q2	Q3	Y-o-Y	Q-o-Q
<b>Revenue</b>	<b>8,455</b>	<b>9,001</b>	<b>9,425</b>	<b>7,261</b>	<b>7,261</b>	<b>-14%</b>	<b>0%</b>
Operating revenue	8,385	8,938	9,391	7,175	7,138	-15%	-1%
Other income	70	63	34	86	123	77%	43%
<b>OPEX</b>	<b>7,711</b>	<b>7,751</b>	<b>8,841</b>	<b>6,585</b>	<b>6,848</b>	<b>-11%</b>	<b>4%</b>
Cost of materials	57	51	38	29	34	-41%	15%
Cost of sold goods and services	542	388	493	303	313	-42%	3%
Used services	5,853	5,995	4,789	5,045	5,286	-10%	5%
Personnel expenses	441	366	578	529	484	10%	-8%
Depreciation and amortization	159	323	248	313	297	86%	-5%
Other operating expenses	659	627	2,695	366	435	-34%	19%
<b>EBITDA</b>	<b>904</b>	<b>1,573</b>	<b>832</b>	<b>989</b>	<b>710</b>	<b>-21%</b>	<b>-28%</b>
Franchise	68	36	20	47	96	41%	106%
Own Offices	-48	-21	-25	18	42	-187%	128%
Loan intermediation	593	1044	358	711	550	-7%	-23%
Other related	2	12	3	25	21	1300%	-16%
Real estate mgmt.	312	560	507	200	22	-93%	-89%
Elimination	-22	-57	-32	-12	-22	0%	90%
<b>Cleaned Core EBITDA</b>	<b>685</b>	<b>1,574</b>	<b>351</b>	<b>802</b>	<b>755</b>	<b>10%</b>	<b>-6%</b>
<b>EBIT</b>	<b>744</b>	<b>1,250</b>	<b>585</b>	<b>676</b>	<b>413</b>	<b>-45%</b>	<b>-39%</b>
Financial income	269	385	573	618	223	-17%	-64%
Financial expense	162	248	293	245	303	87%	23%
Revaluation	1	1	3	0	-2	-367%	-500%
<b>EBT</b>	<b>853</b>	<b>1,388</b>	<b>867</b>	<b>1,049</b>	<b>332</b>	<b>-61%</b>	<b>-68%</b>
Income tax expense	126	370	167	196	68	-46%	-65%
<b>Net income</b>	<b>727</b>	<b>1,018</b>	<b>700</b>	<b>838</b>	<b>255</b>	<b>-65%</b>	<b>-70%</b>
Transaction Number	27,926	22,800	19,893	24,094	22,297	-20%	-7%
Intermediated loans [HUF bn]	190,000	191,700	142,100	165,600	176,800	-7%	7%
EPS [after split]	18.6	33.6	19.8	23.6	7.1	-62%	-70%
EBIT margin	9%	14%	6%	9%	6%	-35%	-39%
EBITDA margin	11%	17%	9%	14%	10%	-9%	-28%

Source: DH

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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%
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