

Duna House

Recommendation: BUY

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

Hun. Core HUF million	2022 Q3	2021 Q3	Ch (%)
Revenues	8,455	3,842	120%
EBITDA	904	563	61%
Cleaned core EBITDA	685	667	3%
EBIT	744	471	58%
Profit	727	463	57%
EPS*	18,6	13,0	43%
Cumulated EPS	57.3	29.2	+96%
Loan volume HUFbn	190	125	+52%

*after minorities



Share price close as of 30/11/2022	HUF 410	Bloomberg	DUNAHOUS HB
Number of shares [million]	34,6	Reuters	
Market capitalization [HUF mn/EUR mn]	14,200 / 35	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 350-560

Weak quarter but FY guidance will be met

In short:

DHG posted a quarterly core profit of HUF 501 million (2% y-o-y; reported EPS of 18.6) a meaningful slowdown from its Q2 result of HUF 946 million and dynamic of (+111% y-o-y; reported EPS of 24.4), **but still strong enough to meet the lower range of the management conservative core profit guidance** (HUF 1.9 – 3.3bn) in 9M (HUF 2.0bn).

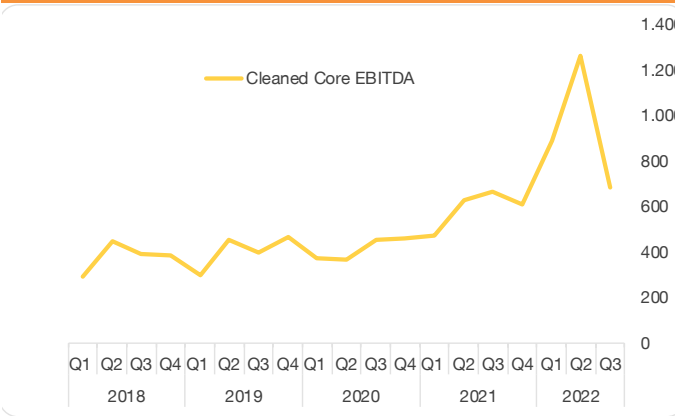
- **High interest rate environment started to take its toll on earnings** which was partly compensated by the gradual sale of flats from the Forest Hill development. Because of the former, Polish operation's quarterly EBITDA slumped into red, Hungarian operation's EBITDA fell by 30% y-o-y, Italian operation's EBITDA also halved compared to last quarter, even when office number grew by 56% q-o-q.
- **All in all, we see weak underlying earnings, supported by non-recurring items**
 - **Key positives of the Q3 report:**
 - Despite the screaming headwind, profit held up relatively well thanks to large financial income (HUF 270m; HUF +90m q-o-q) and gains from the sale of flats from Forest Hill (+HUF 270m on EBITDA level)
 - DHG has already reached the lower part of its guided profit range.(FY cleaned EPS: 65 vs. Q3: HUF 19)

Senior Equity Analyst
Gellert Gaal
+361 489 2228
g.gaal@con.hu

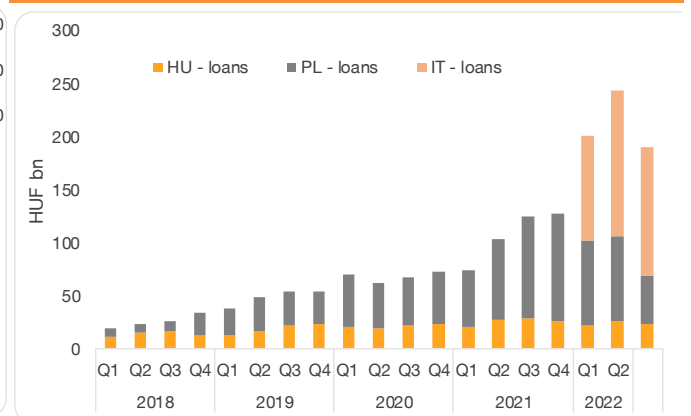
55-61 Alkotás Street,
Budapest
www.con.hu

- Mgmt increase the expected CF from Forest Hill to HUF 6.1 bn or HUF 175 per share (+ 30%).
- **Key negatives of the Q3 report:**
 - EBITDA dropped by 34% q-o-q. Loan intermediary segment's EBITDA halved as loan volume decreased by 22% q-o-q
 - The situation in Poland is suboptimal as the broad market of loan origination has fallen by 60 - 70% y-o-y (DH's volume has fallen by 50% y-o-y) which led the PL operation into red. "The Polish population has been borrowing at floating rates instead of fixed rates at the low-interest rates of recent years, which has caused a much bigger shock in a rising interest rate environment. This was addressed by the regulator by drastically tightening limits on borrowing, which is still a constraint for new lending. In the last couple months, Polish banks have come up with new fixed-rate products (with lower interest rates than variable-rate loans). If combined with more favourable regulatory loan conditions in the future, they could boost lending"

Quarterly Cleaned Cored EBITDA Development

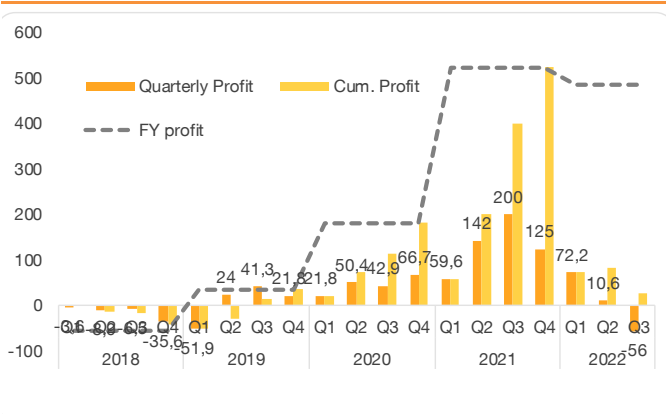


quarterly Intermediated loan volume [HUF bn]

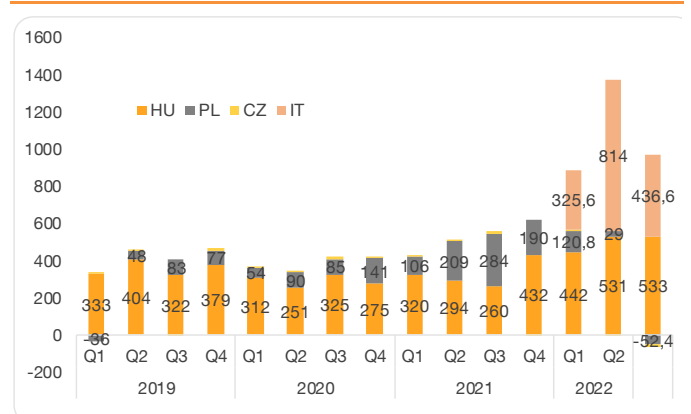


source: Concorde, DH

Poland's quarterly earnings development



quarterly EBITDA country breakdown

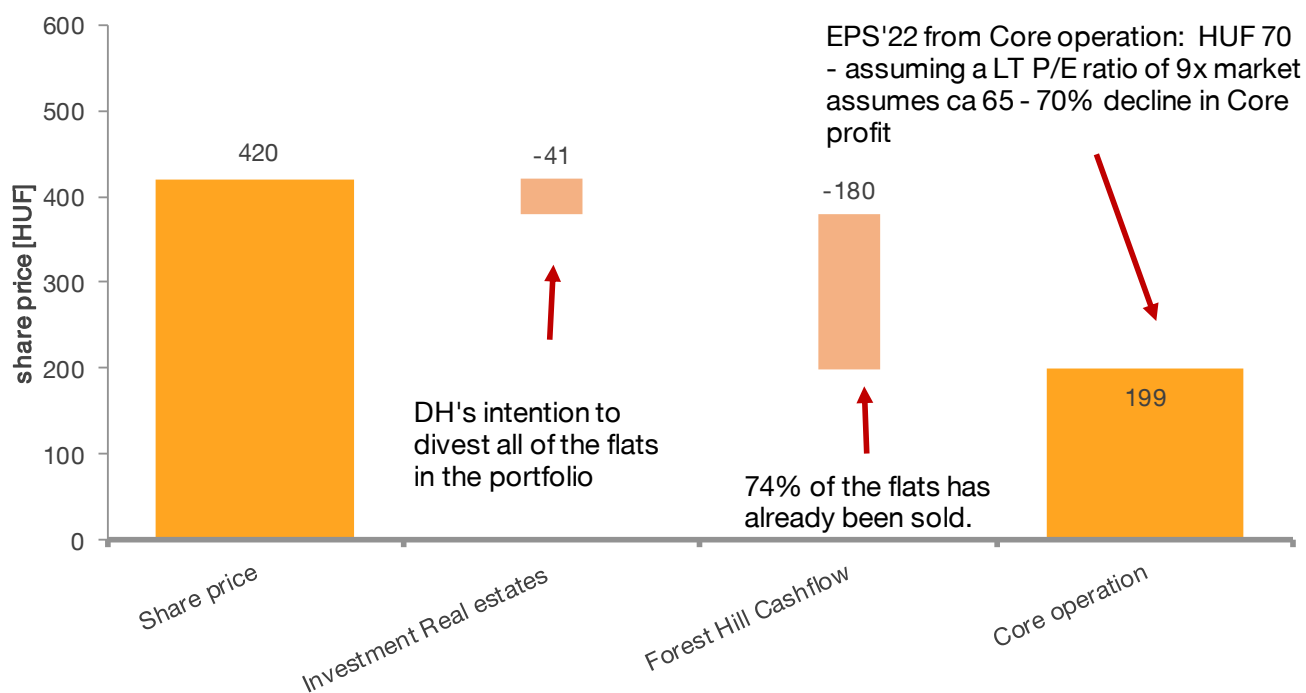


source: Concorde, DH

- Share price has fallen ca 30% since its ATH to 410 per share reflecting investor's gloomy outlook for the loan intermediary segment which view we partly share. **However, current**

share price level is already consistent with ca. 65 - 70% decline in earnings compared to midpoint of this year's guidance (assuming 9x P/E). This seems relatively pessimistic at this point in time as quarterly loan volumes in HU, PL have fallen by 18% y-o-y, 52% y-o-y respectively, but increased in Italy +4% q-o-q. This means in absolute terms of HUF 750 million core profit. However please note that this amount could be easily be delivered only by receiving the financial income from the large cash pile DHG amassed. The company has HUF 8.4 bn cash in the end of Q3 for which they could receive a 10% p.a interest which is similar amount that market expects for profit going forward.

Decomposition of DH's share price



source: Concorde

Opinion: As loan volumes retreat DHG's EBITDA falls with it, however there are multiple factors that could cushion that blow – such as the interest income they receive on their large cash pile (HUF 8.4 bn - 24 per share profit p.a @ 10% interest rate), or the gradual completion and realization of the project Forest Hill (ca. 30% of EBITDA arrived from there). These supporting factors are temporary, but so as this skyrocketed interest rate environment, we believe.

Nevertheless, investors could expect relatively large DPS in the range of HUF 50 – 100 from this year's earnings (DY: 12 – 24%) which would support share price in the current headwinds in our view. Base DPS could be around HUF 35 which could be boosted by the CF from Forest Hill project in the maximum extent of HUF 176 (full realization of Forest Hill project) – but the latter may not be paid out full, and also mgmt. does not expect to sell all of the flats of the project this year.

In light of the Q3 development we put our TP under review. While we had pencilled a 5% and 12% decline in the profit for the Hungarian and Polish operation respectively for next year in our report in beginning of the year. Now, it seems that it is overly optimistic as

Polish operation is barely break even YTD and Hungarian core operation fell by 30% in this quarter. We adjust our earnings and interest rate outlook soon.

DH'S SIMPLIFIED P&L

[HUF mn]	2021		2022			Ch (%)	
	Q3	Q4	Q1	Q2	Q3	Y-o-Y	Q-o-Q
Revenue	3.842	4.789	7.984	9.300	8.455	120%	-9%
Operating revenue	3.817	4.733	7.916	9.079	8.385	120%	-8%
Other income	25	56	68	221	70	180%	-68%
OPEX	3.372	4.253	7.246	8.086	7.711	129%	-5%
Cost of materials	61	66	67	53	57	-7%	7%
Cost of sold goods and services	665	496	627	557	542	-19%	-3%
Used services	2.560	2.654	5.774	6.270	5.853	129%	-7%
Personnel expenses	216	222	522	615	441	104%	-28%
Depreciation and amortization	93	86	152	159	159	72%	0%
Other operating expenses	-222	730	103	431	659	-396%	53%
EBITDA	563	622	890	1.373	904	61%	-34%
Franchise	180	137	178	111	68	-62%	-39%
Own Offices	52	60	85	30	-48	-192%	-262%
Loan intermediation	397	393	620	1103	593	49%	-46%
Other related	15	23	-30	5	2	-90%	-68%
Real estate mgmt.	-102	37	114	125	312	-406%	150%
Elimination	21	-28	-78	0	-22	-203%	#####
Cleaned Core EBITDA	667	611	893	1.267	685	3%	-46%
EBIT	471	536	738	1.214	744	58%	-39%
Financial income	81	117	60	189	269	232%	42%
Financial expense	73	38	154	141	162	121%	14%
Revaluation	70	46	22	58	1	-99%	-99%
EBT	549	661	666	1.320	853	55%	-35%
Income tax expense	83	100	103	287	126	51%	-56%
Net income	463	561	563	1.033	727	57%	-30%
Transaction Number	34.296	33.970	39.156	35.289	27.926	-19%	-21%
Intermediated loans [HUF bn]	125.100	127.100	201.900	243.800	190.000	52%	-22%
EPS [after split]	13,0	15,7	14,3	24,4	18,6	77%	-9%
EBIT margin	12%	11%	9%	13%	9%	-32%	-17%
EBITDA margin	15%	13%	11%	15%	11%	-30%	-14%

[HUF mn]	2021		2022			Ch (%)	
	Q3	Q4	Q1	Q2	Q3	Y-o-Y	Q-o-Q
EBITDA	563	622	565	1.372	904	58%	-34%
HU	260	432	442	531	533	81%	0%
PL	284	190	120,8	29	-52,4	-86%	-281%
CZ	19,1	-0,4	1,7	-2	-13	-124%	550%
IT			325,6	814	436,6		-46%

Source: DH

Concorde Securities Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interests that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. For analysts certification and other important disclosures, please refer to the "Disclaimer" section at the end of this report.

DISCLAIMER 1.

This research report has been prepared by Concorde Securities Ltd., a full-service Hungarian investment banking, investment management and brokerage firm. Concorde Securities Ltd. is under the supervision of the National Bank of Hungary in its capacity as financial supervisory authority.

Concorde Securities Ltd. is registered in Hungary and does not have any subsidiaries, branches or offices outside of Hungary. Therefore we are not allowed to provide direct investment banking services to US investors and restrictions may apply to our potential investment banking services according to your country's jurisdiction. For important disclosures to U.S. investors, please refer of the "Notice to U.S. Investors" section at the end of this Disclaimer.

Our salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are their own and may be contrary to the opinions expressed in our research products, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed by our analysts or traders.

Our research, sales and trading professionals are paid based on the profitability of the respective divisions of Concorde Securities Ltd., which from time-to-time may include revenues from the firm's capital market activity. Concorde Securities Ltd. does not prohibit analysts, salespeople and traders from maintaining a financial interest in the securities or futures of any companies that they cover or trade on their clients' behalf in strict compliance with the Hungarian Capital Markets Act.

ANALYSTS CERTIFICATION

The research analysts undersigned and responsible for the preparation of this report hereby certify that (i) the views expressed in this research report accurately reflect their personal views about any and all of the securities or issuers referred to in this research report; (ii) no part of the analysts' compensation was, is or will be directly or indirectly related to the specific recommendation or views expressed in this report and (iii) no part of their compensation is tied to any specific investment transactions performed by Concorde Securities Ltd.

Name and job title of individuals involved in the production of this report are disclosed at the end of this report.

Concorde Securities Ltd. is a leading manager and underwriter of Hungarian equity offerings. We have investment banking and other business relations with a substantial percentage of the companies traded on the Budapest Stock Exchange and covered by our research department. Concorde Securities Ltd, its directors and employees may have a position in these securities, which may change at any time.

Concorde Securities Ltd. acted as Lead Manager of the private and public share placement of the shares of FHB in 2003, Masterplast in 2012 and Duna House in 2016. Concorde Securities Ltd. acted as the Co-lead Manager of Gedeon Richter's exchangeable bond issue in September 2004. Concorde Securities Ltd. has provided financial advice to Magyar Telekom.

EXPLANATION OF RATINGS AND METHODOLOGY

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.
Coverage in transition	Coverage in transition rating is assigned to a stock if there is a change in analyst.

Securities prices:

Prices are taken as of the previous day's close on the home market unless otherwise stated.

Valuations and risks:

Analysis of specific risks to set stock target prices highlighted in our investment case(s) are outlined throughout the report. For details of methodologies used to determine our price targets and risks related to the achievement of the targets referred to in the main body of the report or at [Rating Methodology](https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038) on our website. (https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038)

Research disclosures:

Concorde Securities Ltd. may have published other investment recommendations in respect of the same securities/instruments recommended in this report during the preceding 12 months. Disclosure of previous investment recommendations produced by Concorde Securities Ltd. in the previous 12 months can be found at [Rating history](https://www.con.hu/wp-content/uploads/2016/04/Rating-history.pdf?tstamp=201710021038). (<https://www.con.hu/wp-content/uploads/2016/04/Rating-history.pdf?tstamp=201710021038>)

GENERAL

This report is provided for information purposes only and does not represent an offer for sale, or the solicitation of any offer to buy or sell any securities.

The information, and any opinions, estimates and forecast have been obtained from sources believed by us to be reliable, but no representation or warranty, express or implied is made by us as to their accuracy or completeness. The information, opinions, estimates and forecasts may well be affected by subsequent changes in market conditions. This document may not be reproduced in whole or in part, or published for any purpose.

REPRODUCTION OR REBROADCAST OF ANY PORTION OF THIS RESEARCH REPORT IS STRICTLY PROHIBITED WITHOUT THE WRITTEN PERMISSION OF CONCORDE SECURITIES LTD.

DISCLAIMER 2.

This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and Concorde Securities Ltd. (registered seat: H-1123 Budapest Alkotás utca 50., company registration number: 01-10-043521, hereinafter: Investment Service Provider)

BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.

This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities.

Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.
