CONCORDE RESEARCH

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01 March 2023

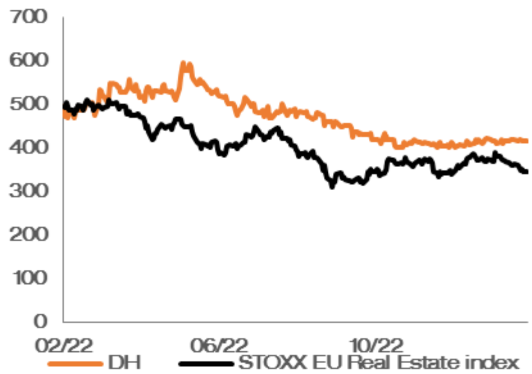
Duna House

Recommendation: BUY

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

Hun. Core HUF million	2022 Q4	2021 Q4	Ch (%)
Revenues	9,001	4,789	88%
EBITDA	1,573	622	153%
Cleaned core EBITDA	1,035	611	69%
EBIT	1,250	536	133%
Profit	1,018	561	82%
EPS*	33.6	15.7	114%
Cumulated rep. EPS	91	51	78%
Loan volume HUFbn	191	127	51%

**after minorities*



Share price close as of 01/03/2023	HUF 494	Bloomberg	DUNAHOUS HB
Number of shares [million]	34,6	Reuters	
Market capitalization [HUF mn/EUR mn]	17,200 / 46	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 350-560

MONSTER dividend is coming

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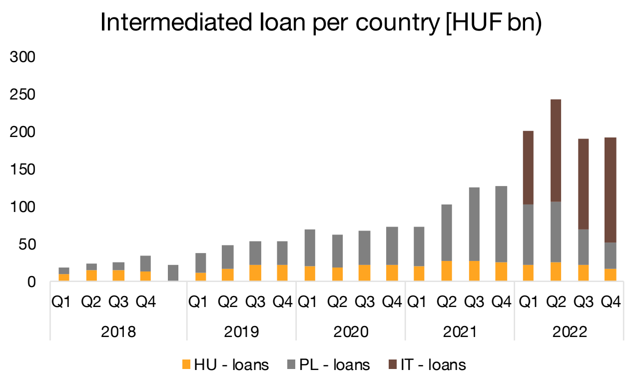
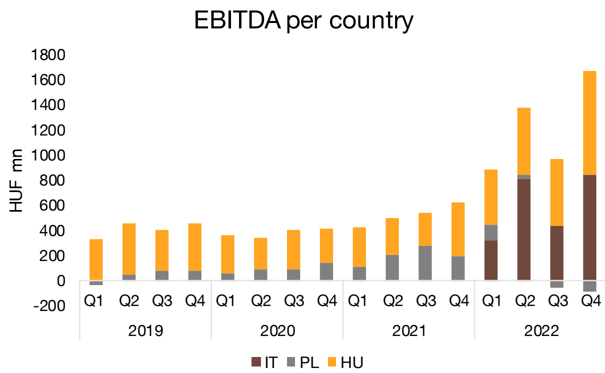
In short:

- **DHG surprised investors with a DPS proposal of HUF 107 implying 26% dividend yield with yesterday's closing price.** Roughly 50% of that amount comes from the underlying operation the remaining from two sources: 1), development project and 2), divestment of the real estate portfolio. The latter two represents 230 per share value that is not related to the main underlying operation. So investors still have ca HUF 180 per share for a potential for extraordinary dividend above core operation, meaning that share price is still offering hidden value as ex-dividend share price stripped from non-core assets is trading at 4x P/E'23 (vs. IPO valuation of 12x).
- Quarterly core EBITDA was surprisingly strong +51% q-o-q as Italian operation was outstanding while Polish and Hungarian were weaker. **FY core EPS arrived at HUF 65**.
- Undoubtedly outlook is fragile investors would think but **DHG management came up with a relatively robust core guidance for 2023.** They expect core EPS to be in a range of HUF 44 - 60 implying an 8-27% y-o-y decline only. We would take it with a grain of salt as loan intermediation crashed in Q4 (HU: - 54% y-o-y; IT: - 23% y-o-y; -70% y-o-y). However, the silver lining is that DHG could earn ca. 16-17% interest on its vast amount of cash (HUF 10bn in Q4), which means an annualized interest income of HUF 1.7bn or an EPS of 48. So if that financial condition persists, DHG could achieve its FY guidance easily.
- **So in nutshell, crystallization of asset value is underway with 180 per share hidden value still there, and DHG has a huge income buffer from interest income as long as the storm calms down, then could come the reacceleration of earnings.**

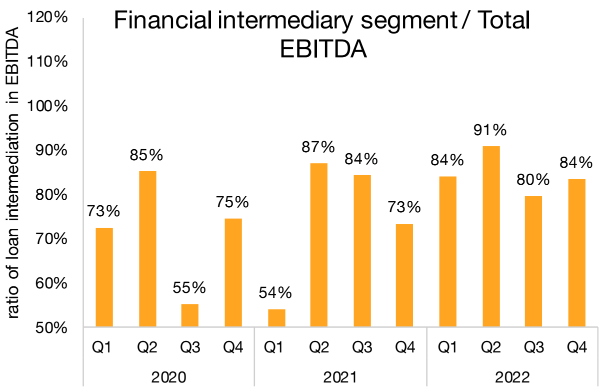
- **Key positives of the Q4 report:**
  - HUGE dividend proposal of HUF 107.3 DPS
  - Italian operation posted stellar financials as it grew by 93% q-o-q, mainly because of seasonally weak Q3.
  - Mgmt. gave a robust guidance for 2023 which implies an 8 – 27% y-o-y decline in profit – large thanks to interest income from its vast amount of cash.

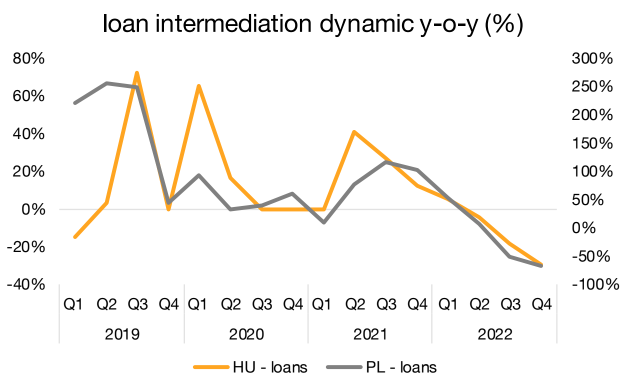
- **Key negatives of the Q4 report:**
  - The robust guidance is largely depends on high interest income earned from one day deposit which is obviously not sustainable, though it came handy at time of severe market conditions.
  - Loan intermediation plummeted across the regions:
    - HU – 54% y-o-y; DH: -30% y-o-y
    - IT – 23% y-o-y; DH: +3% y-o-y
    - PL - FY -50% y-o –y; Q4: DH: - 67% y-o-y





source: Concorde, DHG





source: Concorde, DHG

As for outlook, mgmt. shared its view on the next year's most probable earnings trajectory. In general they guided lower core profit in the neighbourhood of 18% an EPS of 50 HUF. However the breakdown of dynamic is interesting as they expect Polish operation (EBITDA level) to remain in the red along with the tiny Czech operation, while indicate flattish financial results from Italy, and 20 – 30% lower EBITDA from Hungary.

Opinion: We had flagged in our latest (Q3) Instant Earnings Comment that there could be room for a large DPS which indeed occurred:

> *"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."*

The dynamic of the loan intermediation indeed looks gloomy at the moment as lot of KPI's from the market (transaction numbers, loan intermediation, house prices) are indicating significant deceleration, and DHG's core operation is not immune to that. However as mentioned, DHG could easily survive this severe storm by earning up to HUF 1.5 – 1.6 bn p.a *(vs. core profit'22 of HUF 2.3 bn)* by parking its cash on a one-day-deposit (at NHB) assuming that one-day-deposit persists throughout the year. We admit this financial product may not sustainable, but as of now definitely serves as a cushion for DHG. Going forward we expect the loan intermediation market to bottom out in the next quarters and then will start a slow gradual recovery.

We further believe that DHG share price offers upside, as the company trades at ca. 4x P/E'23 (vs. IPO valuation of 12x), but at this time it is uncertain when earnings could improve meaningfully – *when will interest rates fall to that level that would stimulate housing market.* In the meantime, investors could receive the extraordinary dividends from non-core assets (development & divestment of the real estate portfolio) and have a temporary cushion from high interest income. **Mgmt. has navigated DHG's ship pretty well since DHG's IPO in our view, as the group has paid out ca. 2/3 of its IPO market cap (with today's div. announcement included) and at the same time has increased revenue and EBITDA 7.5x times and 4.5x times respectively.**

In light of the results, we reiterate our BUY recommendation and assess the credit market dynamics to put a target price to DHG.

DH'S SIMPLIFIED P&L

[HUF mn]	2021	2022				Ch (%)	
	Q4	Q1	Q2	Q3	Q4	Y-o-Y	Q-o-Q
Revenue	**4,789**	**7,984**	**9,300**	**8,455**	**9,001**	**88%**	**6%**
Operating revenue	4,733	7,916	9,079	8,385	8,938	89%	7%
Other income	56	68	221	70	63	12%	-10%
OPEX	**4,253**	**7,246**	**8,086**	**7,711**	**7,751**	**82%**	**1%**
Cost of materials	66	67	53	57	51	-23%	-11%
Cost of sold goods and services	496	627	557	542	388	-22%	-28%
Used services	2,654	5,774	6,270	5,853	5,995	126%	2%
Personnel expenses	222	522	615	441	366	65%	-17%
Depreciation and amortization	86	152	159	159	323	276%	103%
Other operating expenses	730	103	431	659	627	-14%	-5%
EBITDA	**622**	**890**	**1,373**	**904**	**1,573**	**153%**	**74%**
Franchise	*137*	*178*	*111*	*68*	*36*	*-74%*	*-47%*
Own Offices	*60*	*85*	*30*	*-48*	*-21*	*-135%*	*-57%*
Loan intermediation	*393*	*620*	*1103*	*593*	*1044*	*165%*	*76%*
Other related	*23*	*-30*	*5*	*2*	*12*	*-50%*	*673%*
Real estate mgmt.	*37*	*114*	*125*	*312*	*560*	*1396%*	*79%*
Elimination	*-28*	*-78*	*0*	*-22*	*-57*	*99%*	*158%*
Cleaned Core EBITDA	**611**	**893**	**1,267**	**685**	**1,574**	**157%**	**130%**
EBIT	**536**	**738**	**1,214**	**744**	**1,250**	**133%**	**68%**
Financial income	117	60	189	269	385	228%	43%
Financial expense	38	154	141	162	248	552%	53%
Revaluation	46	22	58	1	1	-97%	100%
EBT	661	666	1,320	853	1,388	110%	63%
Income tax expense	100	103	287	126	370	270%	194%
Net income	**561**	**563**	**1,033**	**727**	**1,018**	**82%**	**40%**
Transaction Number	*33,970*	*39,156*	*35,289*	*27,926*	*22,800*	***-33%***	***-18%***
Intermediated loans [HUF bn]	*127,100*	*201,900*	*243,800*	*190,000*	*191,700*	***51%***	***1%***
EPS [after split]	15.7	14.3	24.4	18.6	33.6	**114%**	**81%**
EBIT margin	11%	9%	13%	9%	14%	**24%**	**58%**
EBITDA margin	13%	11%	15%	11%	17%	**35%**	**64%**

[HUF mn]	2021	2022				Ch (%)	
	Q4	Q1	Q2	Q3	Q4	Y-o-Y	Q-o-Q
EBITDA	**622**	**565**	**1,372**	**904**	**1,574**	**133%**	**74%**
HU	*432*	*442*	*531*	*533*	*825*	*91%*	*55%*
PL	*190*	*121*	*29*	*-52*	*-87*	*-146%*	*66%*
CZ	*-0.4*	*2*	*-2*	*-13*	*-7*	*1675%*	*-45%*
IT		*326*	*814*	*437*	*843*	*n.a*	*93%*

Source: DH

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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.

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Valuations and risks:

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