CONCORDE RESEARCH

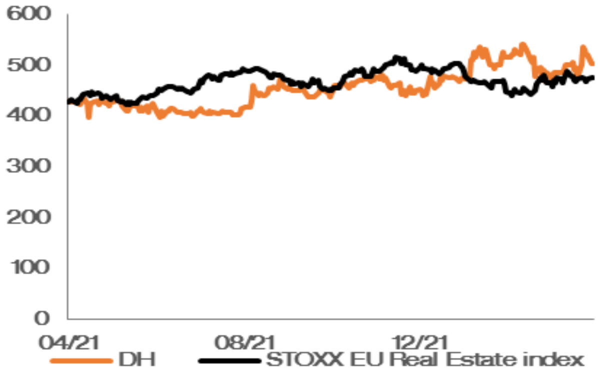
CEE Equity Research | Hungary | Real Estate
05 April 2022

Duna House Group

Recommendation: BUY

Target price (12M): HUF 800 (prev: HUF 560)

Cons. simplified P&L	2021A	2022F	2023F
Revenues	14,759	30,854	28,148
EBITDA	2,252	4,108	3,777
EBIT	2,023	3,778	3,447
Net profit excl. Min	1,586	2,363	2,107
EPS [HU]	46	68	61
P/E	7.9x	7.5x	8.4x
DPS	38	22	37
div. Yield	7%	4%	7%
Int. Loan (HUF bn)	429	460	485



Share price close as of 05/04/2022	HUF 520	Bloomberg	DUNAHHOUS HB
Number of shares [million]	34.6	Reuters	DUNAHOUSE.BU
Market capitalization [HUF mn/EUR mn]	17,640 / 47	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 350-500

Avanti ragazzi!

- **We increase our TP to HUF 800 per share from HUF 560 per share with BUY recommendation which is the combination of roll over of our previous price target, incorporating the Italian operation and improvement in CF from the Forest Hill development project .**The new target price implies 11x P/E'22 and 13x P/E'23 which should be compared to the IPO pricing of 11.5x P/E 6 years ago. However, today's DHG is larger in profit and more diversified geographically than 6 years ago.
- **DHG is a typical growth story.** Mgmt built out the Hungarian loan intermediation segment in 15 years, entered the Polish market in 2016 with negligible market share and 6 years later they have around 4-5% market share and generate ca HUF 500 mn EBITDA p.a. This modus operandi is what we could expect from mgmt. in Italy with the exception that the Italian assets now could generate ca. HUF 1.2 bn profit with 1-2% market share in loan intermediation.
- Although we see a moderation in mortgage demand dynamic in '22 vs '21 which is expected to bottom out in '23 (*NBH's forecast*), DHG's profit will reach new high because of the consolidation of Italian operation – **we see EPS for '22 and '23 HUF 68 and HUF 61 respectively –** close to mgmt profit guidance.
- **Valuation-wise**, based on reported EPS of '22 and '23 DHG trades on 7.5x and 8.4x P/E, however if we exclude the CF inflow from project developments and the potential divestment of group's real estate investment portfolio we **end up with multiples of 4.7x and 5.3x P/E'22 and P/E'22 respectively**. Even with reported EPS, the group valuation is significantly below the IPO valuation of 11.5x, however the group has diversified its CEE operation (EBITDA 50% arrives from Italy).

ANALYST CERTIFIATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

Investment thesis

Changing country exposure

After the Italian transaction, DHG (Duna House Group) managed to diversify its country exposure significantly, and now ca. 50% of EBITDA will be generated in Italy (*fully consolidated terms*), 33% in Hungary and 16% in Poland. At the same time increased its EBITDA fourfold in 5 years via organic and inorganic ways, and paid a total of HUF 2.5 bn (15% of current market cap) dividend yield.

Looking ahead, we like DHG's equity story because:

1. Compelling valuation despite the earnings risk of declining demand for mortgage loans because of higher rates (adjusting market cap for inflow from development and for the sale of the real estate portfolio, **P/E'22 would be 4.7x and P/E'23 would be 5.3x**)
2. DHG streamlines its profile, and divest its real estate portfolio worth of 1.8bn or 10% of market cap + better CF from development than we previously forecast (additional 60 per share effect ca 10% market cap)
3. Its capital structure improved - > with low interest rates (weighted avg interest cost of 3.7% & avg. debt duration of 9 years.)
4. DHG signed a great deal in Italy, they intend to purchase 70% of the Italian operation in the next 4 years. They paid an upfront for 45% stake but receives 70% of the dividend.

How could DHG grow and simultaneously pay handsome dividend at the same time? We see three reasons for it, firstly DHG used partly its non-core earnings from development (non-recurring), and secondly the group has minimal CAPEX requirements (ca HUF 300m p.a or 17% of EBITDA and mainly consist of IT services & equipment) and last but not least mgmt. steered the company towards a more optimal capital structure (net debt to EBITDA'22 2.0x vs. net debt to EBITDA'21 0.8x).

- **TOP-DOWN**: DHG's profit is chained to loan intermediation **as ca. 65% of gross profit'21 derives from that segment** (second largest contributor was franchise with 25%). This ratio for loan intermediation will become even more pronounced if we consolidate the new Italian subsidiary which main profile is loan intermediation.

Slowing mortgage loan dynamic…

Our calculation showed that last year combined new mortgage loan volume in Poland and in Hungary was around EUR 21 bn out of which **DHGroup intermediated EUR 1.2 bn implying a 6% market share** (HU: 8% PL: 5%). This amount should be supported by the Italian loan volumes of EUR 0.8bn, and should reach a pro forma EUR 2bn.
Our central question is whether organic growth (increase in market share in loan brokerage in Poland) mitigate / offset the slow in loan volumes because of rate hikes in the CEE. Hungarian and Polish base rate climbed by 440 and 350 bps in the last half year, pushing mortgage rates into upward and consequently decreasing the appetite for mortgage loans cet par. **We calculated that a 4.5% change in the volume of loan intermediation will have a 9% effect on segment EBITDA and 6% of group EBITDA.** But please note that in Hungary mortgage loan subsidies serve as a strong buffer.

..yet record profit is expected..

- **EARNINGS FORECAST:** 2022 profit expected to be robust and reach record high thanks to the new operation and the completion part of Forest Hill Project, we see **HUF 2.4 bn profit (EPS'22 68)** without development and excluding minority. While for 2023, loan growth is forecast to deaccelerate to HU: 5% y-o-y (from 2021: 15% y-o-y) PL: 8% y-o-y (from 2021: 12% y-o-y) which will drag profit down to HUF 2.1 bn.

Please note that last year profit was HUF 1.6 bn while the standalone Italian operation will contribute ca HUF 0.8bn (net of minority), so there will be a significant jump in the bottom-line.

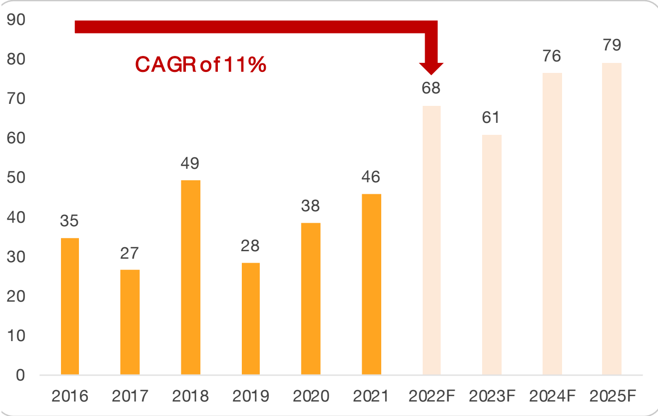
Italian operation – DHG (Duna House Group) entered the Italian loan brokerage market by acquiring 70% stake in the second largest company (HGroup). The company generated HUF 1.6 billion EBITDA which is expected to increase by 20% in 2022 based on mgmt's guidance. This implicitly means that mgmt. believes the new subsidiary will be able to outpace the market growth hence increase its market share. We have limited information on the financial figures of the operation, thus our forecast relies on DH's management guidance mainly for 2022 and flattish earnings later on.

DH plans to grow in order to reach a market capitalization to draw international investors' attention. While the real estate and credit growth exposure to the CEE is desirable, DH's current market capitalization of EUR 47 million and low liquidity is simply not enough. To address this deficiency DH targeted to increase profit and probably free-float as well in multiple years according to management outlook with this acquisition we think mgmt. is on a right path the achieve their target.

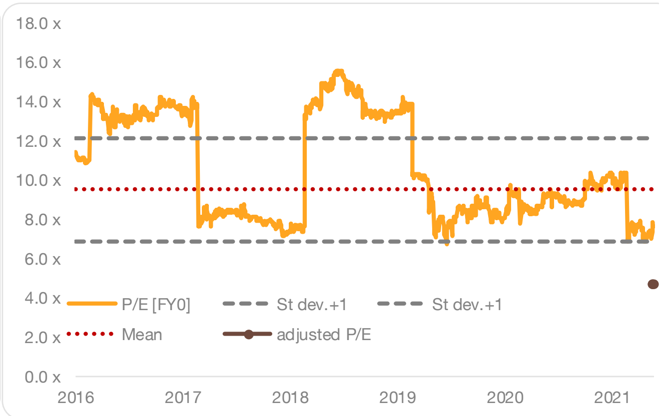
Investment thesis in Graphs

Decent growth in EPS & low valuation

EPS evolution



P/E historical valuation

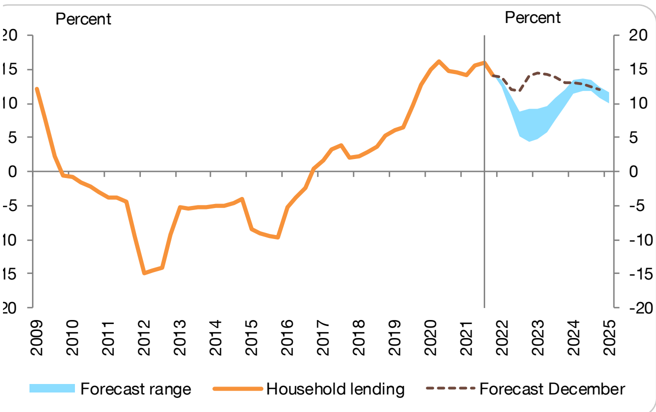


source: DH, Concorde, Bloomberg

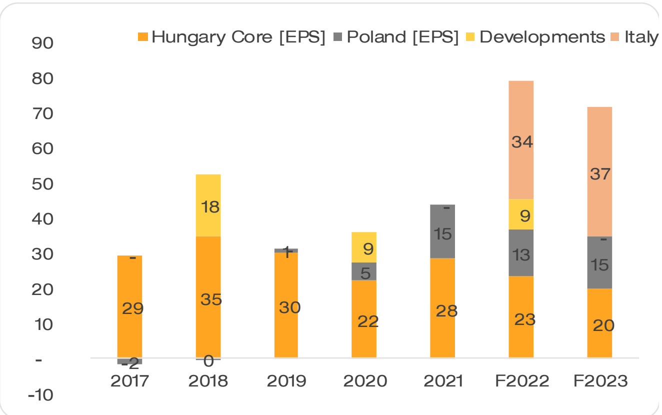
**adjusted P/E shows the effect of CF inflow from development & divestment of the RE portfolio*

HU loan growth will slow in 2023, which is a high margin business for DH..

Loan growth in HU forecast by NBH



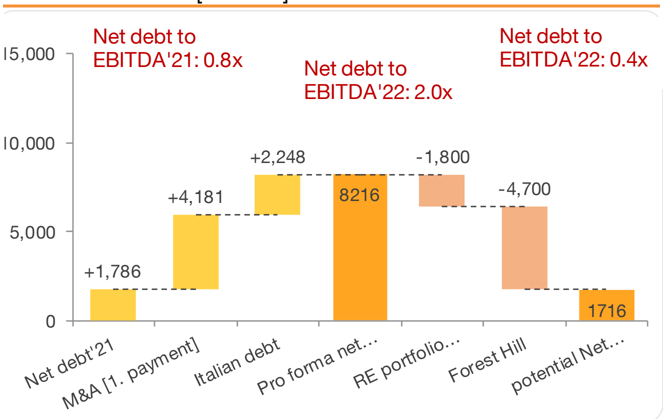
EPS development on a country level



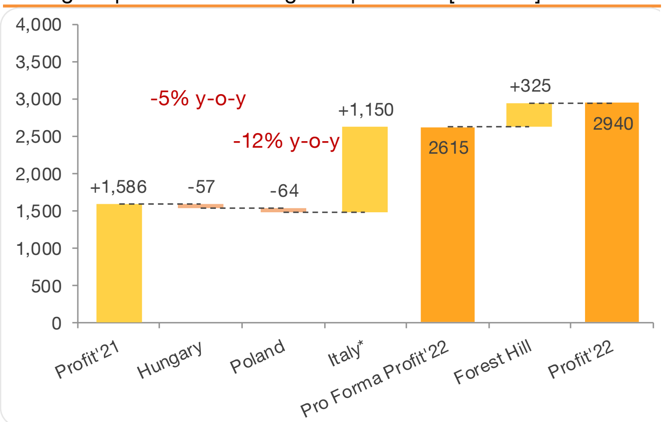
source: Concorde, NBH

Steps toward a more optimal capital structure and jump in profit

Net debt evolution [HUF mn]



Change in profit based on mgmt expectation [HUF mn]

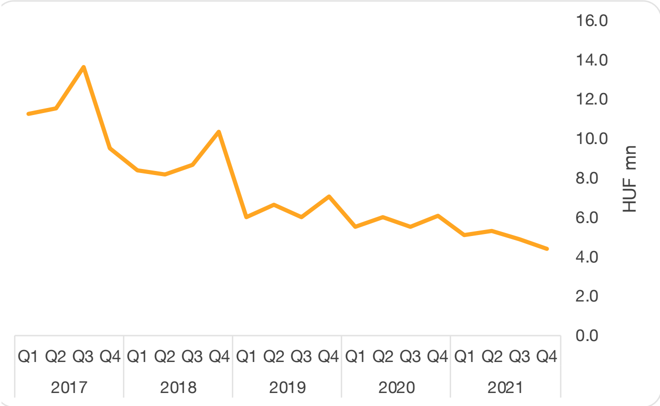


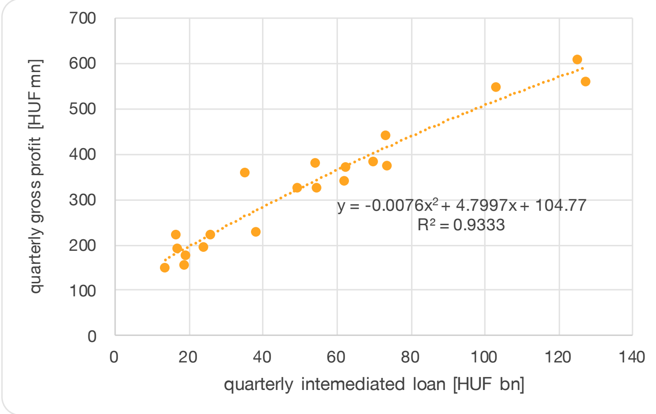
source: Concorde, DH

*please note that Italian profit is fully consolidated but DHG purchased only 70%

..loan volume growth came primarily from Poland where margin is lower..

Quarterly gross profit / intermediated loan & gross profit vs. Loan volume

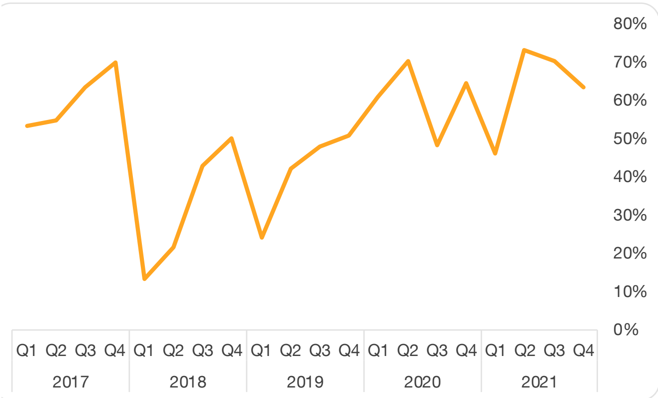


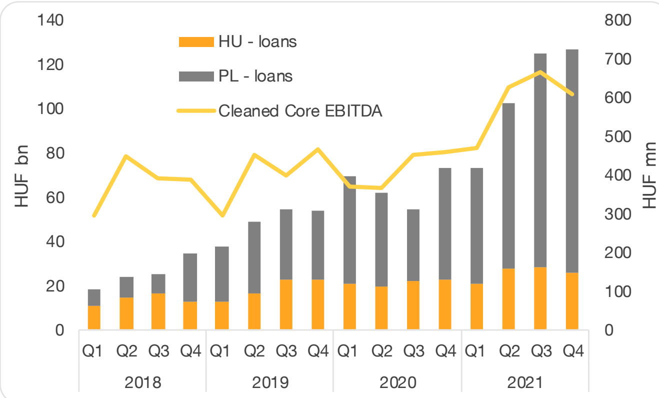


source: Concorde, DH

Most important segment is loan intermediation, and as mentioned, growth came from Poland..

Loan intermediation share in total EBITDA [2021-2018] & quarterly Intermediated loan volume [HUF bn] & quarterly EBITDA

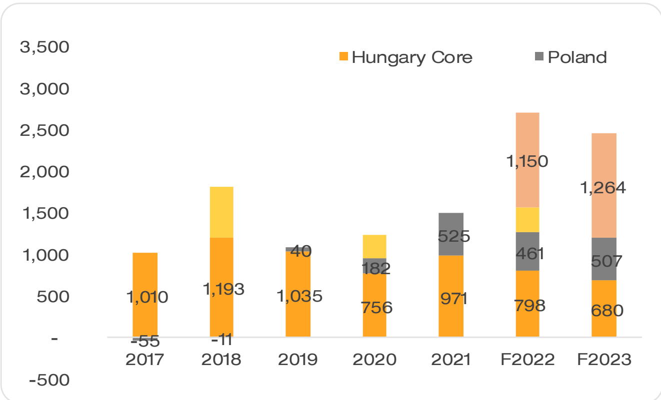


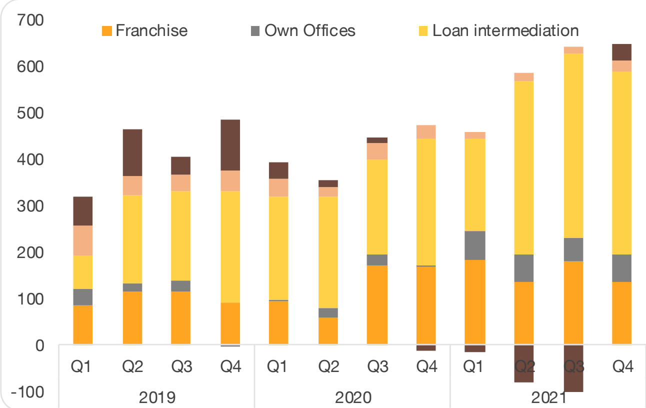


source: Concorde, DH

However the growth engine now will switch to Italy..

Italian operation becomes the largest earnings contributor to DH & quarterly EBITDA segment breakdown





source: Concorde, DH

Change in forecast and valuation

Change in forecast:

- We incorporated the earnings contribution of the Italian subsidiary ~ EBITDA of HUF 2 billion which is a midpoint of the management guidance.
- Assumes slowing loan origination (HU&PL) which will bottom out in 2023, and return to 10% growth in line with NBH's forecast
- CAGR 2% growth in number of total office network
- DHG has to pay a total of EUR 6.4 m (the exact figure depends on the trajectory of Italian EBITDA) in the next three years to purchase the 70% stake. Therefore CAPEX is pencilled to increase by that amount for the next three years.
- As a result we see profit to parent at HUF 2.4 bn and HUF 2.1bn in 2022 and 2023 respectively without any contribution from Forest Hill.

Change in valuation:

- Assumes HUF 4.7 bn cash inflow from Forest Hill project (previously we anticipated HUF 2.6 bn) -> additional 60 per share to TP.
- Adjust our risk free rate (4.1%) calculation in WACC to reflect the new EBITDA breakdown at the same time adjust WACC with the higher leverage.
- Gross debt increased by the new bond issuance of 6 billion and by the debt level of the Italian operation (ca. HUF 2.4 bn)
- Minority equals to 30% of the original purchase price of the equity (HUF 2.8 bn @ 8x P/E)

Macro highlights selected for housing and mortgage markets

Hungary

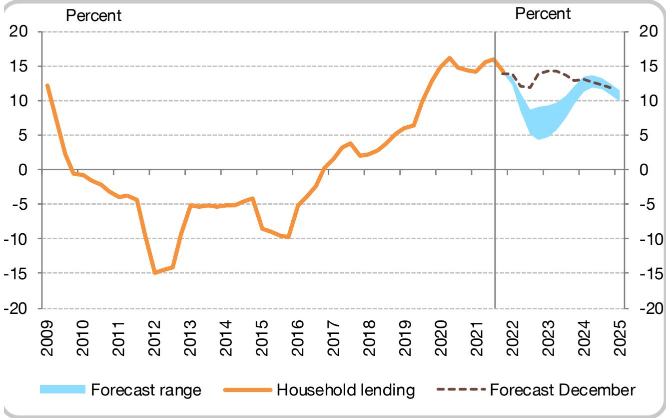
Data and forecast	2020	2021	2022F	2023F
GDP growth, %*	-4.4	7.3	3 - 5%	4 - 5%
CPI ann. avg. %	3.3	5.1	8 - 10%	4 - 6%
Cbank policy rate %	0.6	4.00*	7.5	6.0
10Y gbond yield	2.1	4.5	5.2	4.8

Source: Concorde

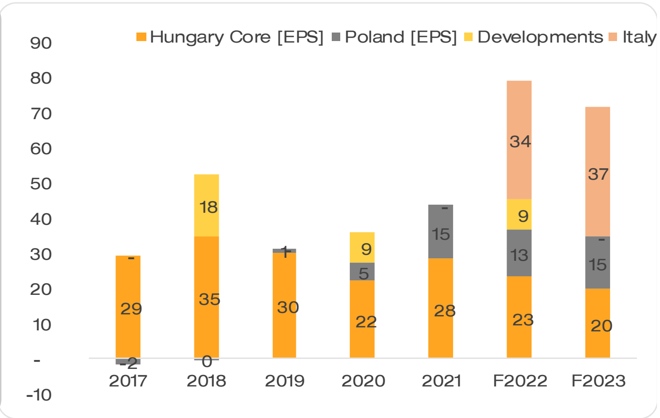
Following a relatively swift recovery after the Covid-19 recession, GDP-growth is set to slow down in 2022. The main factors are lower expected growth of Hungary's main export partners and lower domestic real wage growth due to high inflation. Also, while fiscal policy is set to remain accommodative, a significant correction of the 2020-21 deficit levels looks inevitable in 2022. Still, GDP growth is likely to arrive above 4% (our current point forecasts is 4.7%). The ongoing Russian-Ukrainian war and related energy supply and price issues have resulted in higher-than-average uncertainty of the GDP outlook, as well as the inflation outlook. The latter is also negatively affected by food prices in addition to energy costs (which are an increasing burden on CPI even despite the existing cap on households' energy prices and on certain car fuel types). Energy price cap on the other hand represents a growing burden on the state budget. The budget gap had already been boosted significantly by tax exempts, pension and wage rises in Q4 last year and Q1 this year. While real wage growth and rising input prices in construction exert pressure on housing, there's support from the central bank through cheaper lending facility, which is likely to be extended later this year. This is likely to include the so call 'green lending' (subsidised mortgage lending).

NBH expects slower loan growth which will influence loan origination

Loan growth in HU forecast by NBH



EPS development on a country level



source: Concorde, NBH

Sensitivity of loan volumes for DH's EBITDA

	Intermediated loans [HUF bn]	EBITDA loan intermediation [HUF mn]	Group EBITDA'21
Total'21	429	1,364	2,130
delta	20	129	129
	4.7%	9.4%	6.0%

Source: DH, Concorde estimation

Although Hungarian operation's earnings contribution proportionally declines after the international expansion, it is still the second largest exposure of the group on EBITDA level. Mgmt has been vocal that historically, they could increase market share during these downturns and later on they managed to keep that higher market share once environment turned more benign.

Poland

Data and forecast	2020	2021	2022F	2023F
GDP growth, %	-2.5	5.7	4.0	3.5
CPI ann. avg. %	3.4	5.1	9.3	7.0
Cbank policy rate %	0.1	1.8	5.2	4.4
10Y gbond yield %	1.2	3.7	4.7	4.3

Source: Concorde

Amid the ongoing recovery of the Polish economy, the growth rate of household loans in 2021 Q4 stabilised at the level of 4.9% y/y (after a significant rise in previous quarters) amid a moderate increase in consumer loans. The annual growth rate of housing loans in 2021 Q4 also remained relatively stable. Demand weakened (both the number of submitted loan applications and the value of granted loans were lower in 2021 Q4 than in 2021 Q3) and lending standards were slightly tightened. At the same time, the interest rates on housing loans were rising, in tandem with the rising central bank rate.

Italy

Data and forecast	2020	2021	2022F	2023F
GDP growth, %	-9.0	6.6	3.3	2.1
CPI ann. avg. %	-0.2	2.0	6.0	1.9
Cbank policy rate %	0.0	0.0	0.1	0.7
10Y gbond yield %	-0.6	-0.2	0.5	0.8

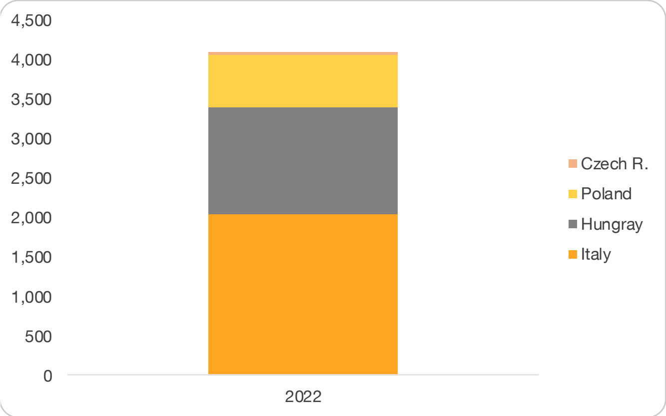
Source: Concorde

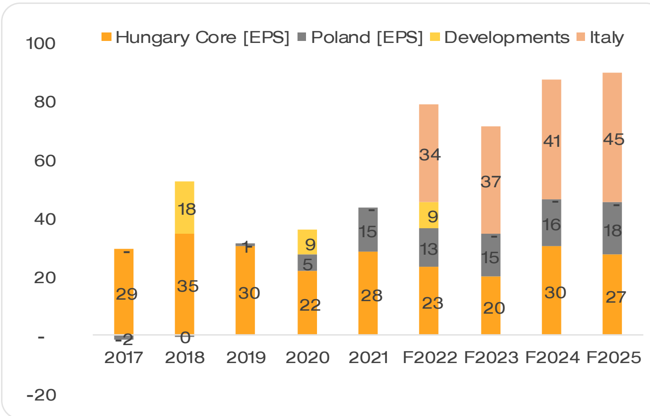
According to data of the Bank of Italy, growth in residential property sales continued in 2021 (a trend under way since Q3 2020). Based on BoI calculations using the listings on the Immobiliare.it online platform, demand for residential properties continued to grow in the latter part of the 2021, with greater intensity compared with the quarter prior to the outbreak of the pandemic. House prices accelerated sharply in the third quarter of 2021 for both new and existing housing. According to the Italian Housing Market Survey conducted in September and October on a sample of real estate agents, the outlook for the domestic market has improved further. Estate agents believe that the expansionary effects on the demand for houses stemming from the pandemic crisis will continue until mid-2022, and report growing signs of upward pressure on sales prices.

Ciao Italia

DHG purchased 70% of an Italian Group which (HGroup) is currently the second largest loan broker in Italy by network size. According to DHG's disclosure, the acquired entity's Revenue and EBITDA'21 was EUR 43 million and EUR 4.5 million respectively which is relatively large compared to 2021 DHGroup's revenue and EBITDA of EUR 38 million and EUR 5.7 million respectively.

EBITDA'22 country breakdown & EPS forecast





source: Concorde, DH

The purchase price was at 10.5x EV/EBITDA which is relatively high compared to DH's valuation of 8.6x EV/EBITDA'21 & 8x P/E'22 in the end of last year based on our calculation. However this time mgmt. purchased a well–operated entity with robust market position in the Eurozone with strong possibility to challenge the market leader. Also on the financing side, DHG issued a bond (HUF 6bn with a coupon f 4.5%) to finance the acquisition with which the company optimised its capital structure at a relatively low interest expense– *more on capital structure later.*

It is worthwhile to highlight that DH paid only 45% of the full equity with the remaining part to be paid as earn out payments in three deferred annual instalments in the next three years, each of which equal to 8,4% (total of 25,2%) of the Equity Value, to be calculated based on the respective actual Consolidated Adjusted EBITDA figures of

2022, 2023 and 2024. So there is a strong incentive for country management (owners) to execute the growth strategy and become the market leader in the Italian market. To put their ambitious target into perspective, Italian management could be replaced if they do not deliver at least 3 year CAGR of 18% in EBITDA ('22: 23% y-o-y ; '23:16% y-o-y; '24:14% y-o-y). We do not pencil material growth from this segment this would represent additional upside for our Target Price.

We expect EUR 2.3 million p.a for deferred annual payments for the next three years. Also, for the value of minority we assumed EUR 7.6 million as part of the valuation – 30% of equity value of the acquisition price.

Value creation via financing

We think DHG created shareholder value by purchasing the Italian entity at 10.5x EV/EBITDA adj. (EBITDA is adjusted for tax and there is no meaningful CAPEX requirement- thus can be translated to FCF yield 9.5%) because they found relatively cheap financing. DHG's estimated WACC for the transaction is significantly lower (*7.2% - see our calculation below*) in our view, hence they could have created value for shareholder.

Just before NBH would have terminated its bond program, DHG applied for the program and managed to issue a HUF 6bn bond with 4.5% coupon and 10yr maturity which is compared to 10yr HU GOV yield of 6.3%, is relatively low and therefore value accretive.

All in all we see ca. HUF 100 per share shareholder value creation because of optimal financing structure of the deal.

Value creation via financing		
EV/EBITDA adj.		10.5
implied FCF yield	= 1/10.5	9.5%
WACC DHG		7.2%
Diff		**2.3%**

Source: Concorde estimates

WACC calculation			
		net debt / EV - group	32%
rfr Italy [10yr]	2.1%	New bond coupon rate [HUF]	4.5%
beta	1.2	tax	9.0%
MRP	5.5%	after tax interest expense	4.1%
CoE	**8.7%**	**WACC**	**7.2%**

Source: Concorde estimates

Adj EBITDA	EUR m	3.2
EV based on DH WACC @ 7.2%	EUR m	44
Transaction price	EUR m	31
difference	EUR m	13
difference	HUF m	4,923
per share		142
per share [70%]		**100**

Source: Concorde estimates

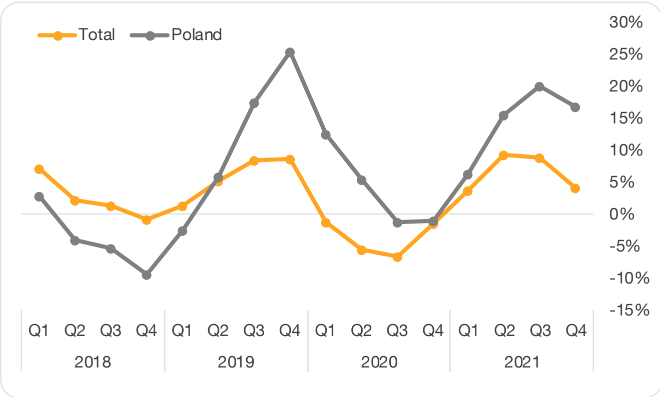
Growth continues in Poland

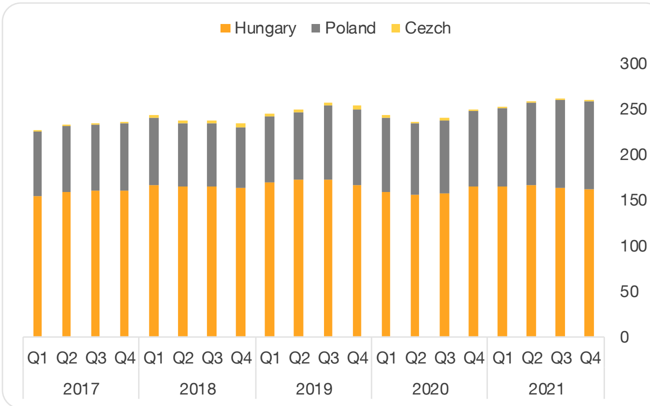
Last year's financial performance of the Polish operation was a success story. Profit increased by almost two fold from HUF 180m to HUF 525m on the back of strong volume growth +88% y-o-y and with the help of new office openings +17% (Q4/Q4).

From now on, office number growth and loan growth of the country will determine the financial performance of the subsidiary. For the former we expect the momentum to sustain and pencil ca. 4% CAGR growth while for loan volume we expect more robust deceleration in loan growth than in Hungary mainly because the lack of mortgage loan subsidies in Poland.

Growth momentum behind Poland franchise partners were strong..

Office breakdown & dynamics

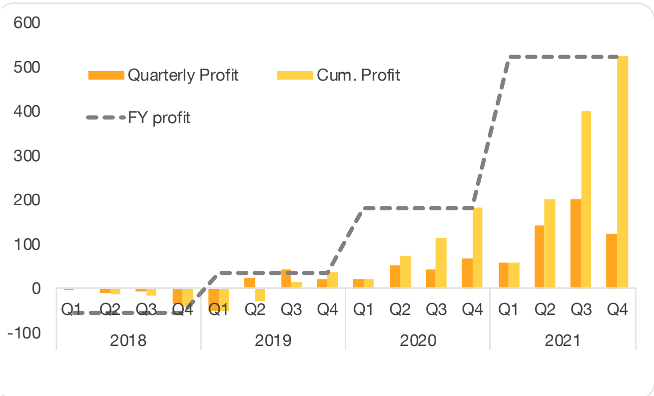




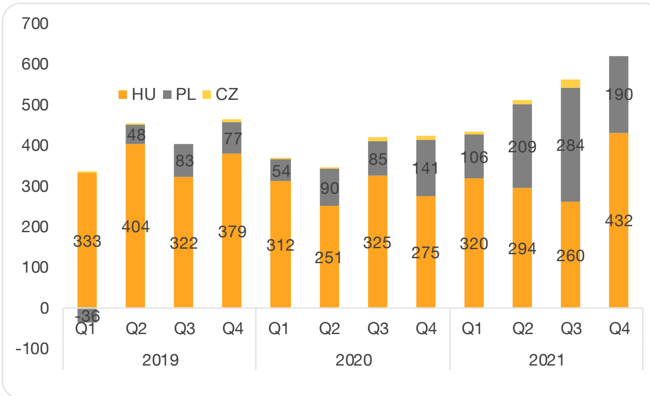
source: Concorde, DH

..EBITDA strongly increased on the back of efficiency gain & office number growth

Strong improvement in profitability in Poland



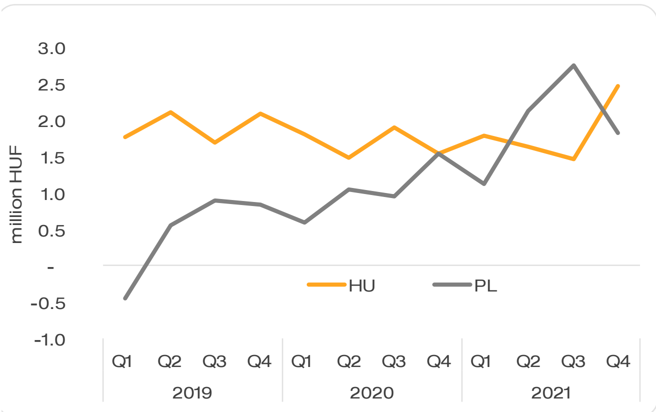
quarterly EBITDA country breakdown

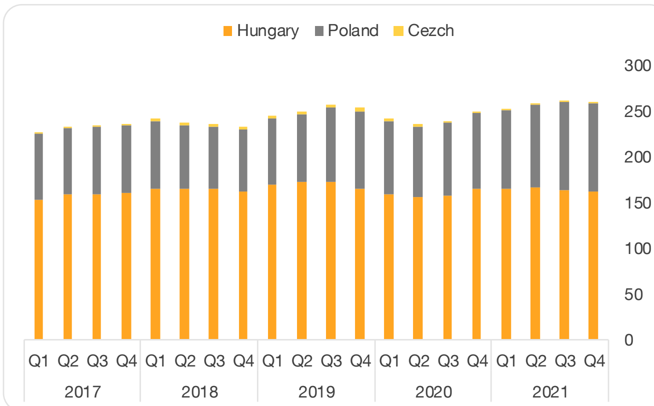


source: Concorde, DH

Efficiency has improved thanks to economies of scale

EBITDA / office

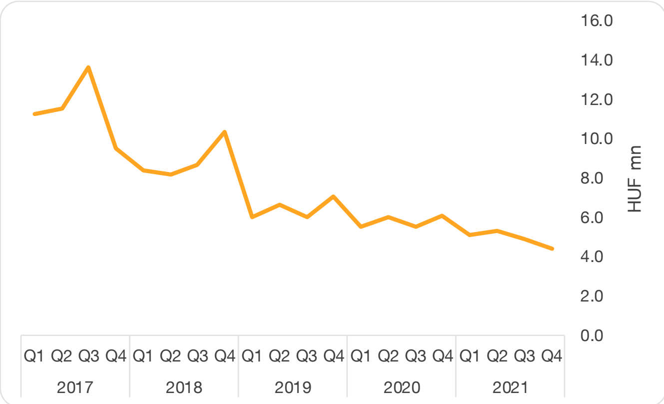


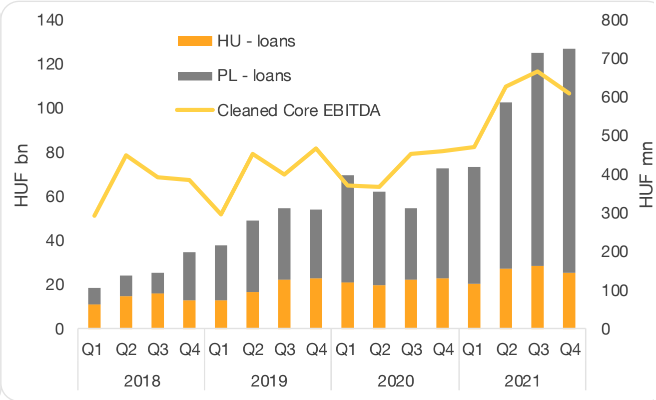


source: Concorde, DH

However margin on loan intermediation in Poland is lower than in HU..

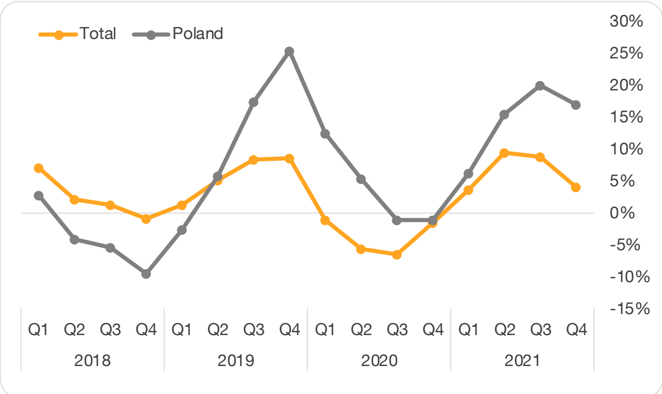
Quarterly intermediated loan/ gross profit & loan volumes

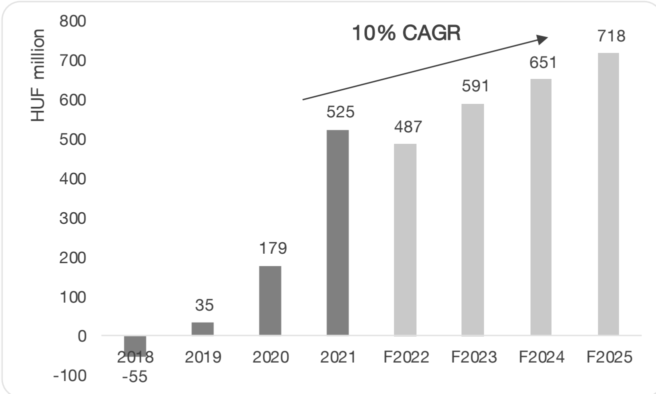




source: Concorde, DH

Growth in Poland will be fuelled by growth in office number & 6-7% loan growth





source: Concorde, DH

Going forward the key drivers for the Polish operation is firstly the mortgage loan growth of the overall market, secondly the momentum of office openings – i.e. whether DH will be able to increase its market share in the country. We expect high single digit growth of office number reaching 112 by the end of 2023 (2021Q4: 97), and a 2year CAGR 6%.

Momentum that fuelled growth in Poland

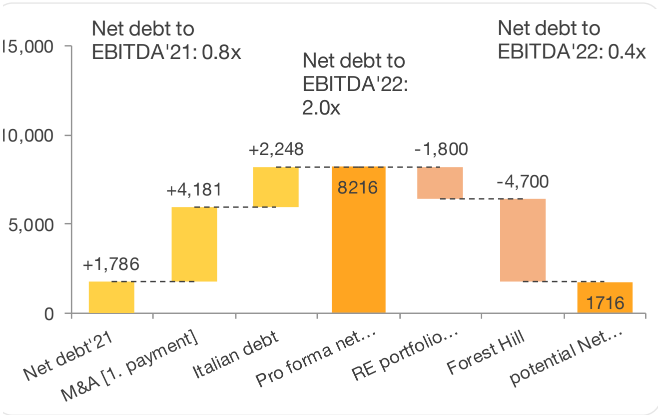
DH is in a unique position to exploit the current uncertainties in the Polish loan & home brokerage segment. The third largest player in the home brokerage segment went bankrupt last year (Home Broker) which has close ties with the second largest player (Open Finance) in the loan brokerage segment. Due to the bankruptcy of Home Broker, employees from Open Finance as well as from Home Broker started to flee as they assume that liquidity issues may spread over to the loan brokerage as well. This uncertainties has created opportunity for DH to increase its market share in Poland. Although this opportunity has a front loaded cost effect (ca HUF 100 million indicated by mgmt.) - as DH may poach employees – and will entail with temporarily lower commissions for the company but the long term gains (fewer market participants thus better leverage at banks to increase commission) will still outweigh the cons, in our view.

Group's Leverage stands at a more optimal level

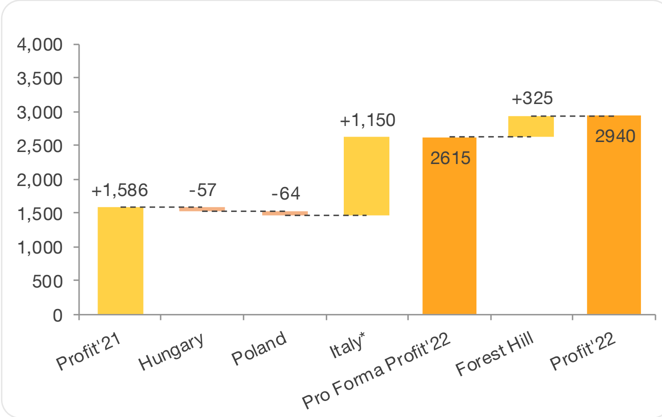
DH moved towards a more optimal capital structure at a relatively low interest rate of 3.7% which is fixed for 8-9 years. Prior to the Italian transaction net debt to EBITDA was around 0.8x which climbed to around 2.0x. We believe DH would stick to this debt level and will not redeem any of the two bonds as those are HUF denominated and bear relatively low coupon rates. Therefore any additional cash inflow would be either distributed or part of a war chest building for another transaction.

Below we show the net debt development of the Group, but please note that those figure includes cash, gross debt level would be much higher at HUF 15.4 billion (two bonds with a total value of HUF 13bn and the Italian subsidiary's debt). This all shows that currently DHG sits on a cash pile of HUF 5bn – which has been put into gov. bond and basically, returning large CF more on that investment (10yr Hu bond yield is at 6.2%).

Net debt evolution [HUF mn]



Change in profit based on mgmt expectation [HUF mn]



source: Concorde, DH

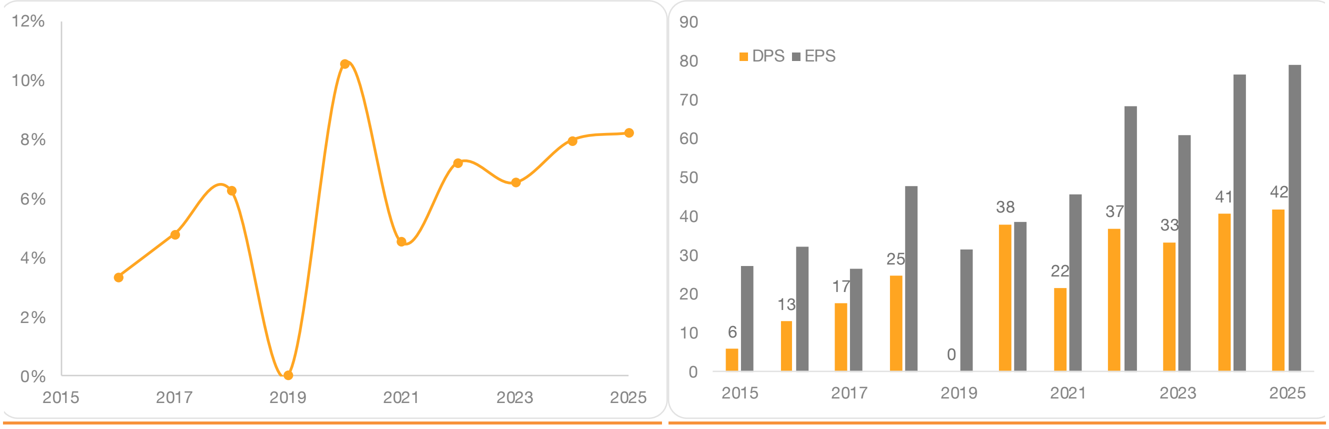
*please note that Italian profit is fully consolidated but DHG purchased only 70%

Bonds covenant is at 4x debt to EBITDA level, but as of now we are far from that level, loan growth should be deeply negative for such an event in our view.

Dividend

Based on the dividend policy - DH distributes 47% of the annual profit – and our profit trajectory DPS'21 should be around 22 and DPS'22 7.2% as Italian operation boosted the size of the dividend significantly. Please note that, despite the fact that DHG has paid only 45% of the Italian operation's stake they are entitled for 70% of the dividend. Obviously, dividend is subject to any M&A transaction, but we are sceptical that DHG would pursue any larger deal. It would be rational to consolidate and fully purchase the Italian entity then look for other targets.

EPS & DPS & historical dividend yield



source: Concorde, DH

Valuation

We valued DH by two approaches, one is the SUM OF THE PARTS method and the other is a DCF model using FCFF. The former concentrates on the short term earnings while the DCF focuses on the longer term. Therefore to reflect both the short term and the long term potential we gave equal weights to the two methods, with which our 12 month TP arrives to 800 HUF/sh. **Our TP implies 12x P/E'22 and 13x P/E'23 with 4.5% and 4.1% dividend yield. This should be compared with IPO valuation where P/E was 11x P/E and dividend yield of 3.2%. With the exception that now DHG is an entirely different entity with significant exposure towards Italy.**

- **Base case – Fair value at HUF 800 per share**
  - HU Loan growth in line with NBH's forecast
  - Total number of franchise offices grows CAGR 2% with Poland in the driving seat of 4% CAGR
  - TV growth at 2%
  - Liquidity discount of 10%

WACC CALCULATION

	2020	2021	2022	2023	2024	2025	2026	TV
Risk free rate	2.5%	4.0%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%
Equity risk pr	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Beta	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.3
Cost of Equ	9.1%	10.6%	10.7%	10.7%	10.7%	10.7%	10.7%	11.2%
Cost of debt	2%	2%	3.7%	3.7%	3.7%	3.7%	3.7%	4.5%
Effective tax	15%	15%	15%	15%	15%	15%	15%	15%
Cost of debt	1.7%	1.7%	3.1%	3.1%	3.1%	3.1%	3.1%	3.8%
Net Debt/EV	5.9%	9.2%	28.8%	31.6%	32.4%	33.2%	33.2%	25.9%
WACC	8.7%	9.8%	8.5%	8.3%	8.2%	8.2%	8.2%	9.3%

Source: Concorde

Our WACC calculation changed because of:

- With the new subsidiary ca. 50% of EBITDA arrives from Italy and as a result we incorporated this new ratio to the WACC calculation. **Italian risk free rate pushes the average risk free rate lower**

RFR CALCULATION

rfr	Weight	10Yr
HU	33%	6.5%
PL	16%	5.5%
IT	50%	2.1%
		4.1%

Source: Concorde

- **DH issued its second bond with 4.5% coupon rate with which the group average cost of debt**

bond exposure	coupon	HUF mrd
2030	3.00%	7
2032	4.50%	6
cost of debt		3.69%

Source: Concorde

CASH FLOW FOR VALUATION PURPOSES – OUR BASE CASE SCENARIO

HUF million		2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
EBITDA	-	951	2,214	1,613	1,550	2,130	4,108	3,777	4,414	4,510	4,510
tax		174	310	237	283	308	594	538	656	677	677
Other / minority							615	615	615	615	
OCF		777	1,904	1,376	1,267	1,821	2,899	2,623	3,142	3,218	3,833
CAPEX [M&A included]		-	344	347	439	- 271	4,581	1,177	1,177	1,177	450
CAPEX/DD&A			345%	160%	192%	-118%	1388%	357%	357%	357%	136%
FCFF		777	1,560	1,029	828	2,092	- 1,682	1,446	1,965	2,041	3,383
DF						*1.00*	*0.92*	*0.85*	*0.79*	*0.73*	*0.67*
PV					-		- 1,551	1,231	1,546	1,485	31,477

EV	**34,189**
Development	4,700
TOTAL EV	**38,889**
Net debt'22 [eoy]	8,373
Minority [30% x transaction price] ~ 8x P/E	2,800
Equity value	**27,716**
Per share Equity value	801
Liquidity discount	10%
Fair value per share	721
12months target price	**798**
Current share price	520
Upside	54%

	'22	'23	'24	IPO
P/E	11.7x	13.1x	10.4x	11.3x
EV/EBITDA'22	8.3x	9.1x	7.7x	
dividend yield'22	4.5%	4.1%	4.9%	3.2%

Source: Concorde

PT SENSITIVITY TO GROWTH RATE AND BETA

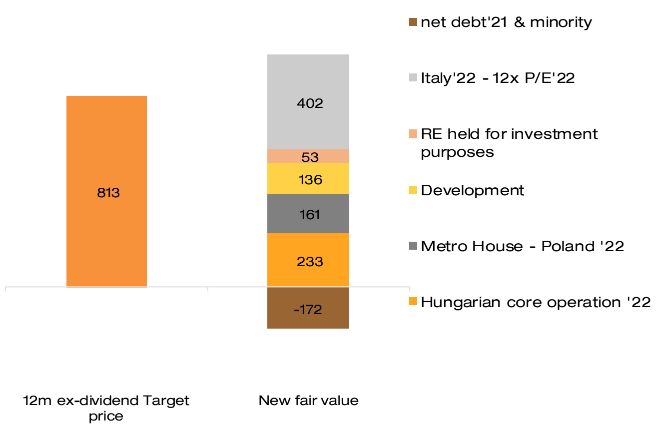
		Terminal growth			
		0.0%	1.0%	2.0%	3.0%
Beta in TV	1.0	704	827	992	1,222
	1.1	662	773	919	1,119
	1.2	624	725	855	1,030
	1.3	589	681	798	953
	1.4	558	642	747	885

Source: Concorde

SANITY CHECK - SUM OF THE PARTS VALUATION

To value the Italian and Polish operation we use 12x P/E'22 to reflect growth market for DH, while for Hungary we see limited room for further expansion in market share thus a 10x P/E'22 is more realistic in our view. **As a result of that method we end up with a target price of 798 per share.**

SUM - OF - THE - PART valuation



Comments:

Italian operation has large growth potential as they have only 1-2% market share - 12x P/E'22

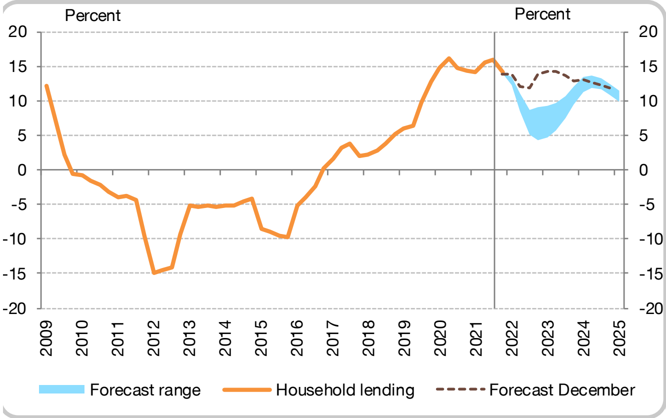
Polish operation has also 4-5% market share in loan intermediation thus has further room to grow. - 12x P/E'22

Hungarian operation has 7-9% market share in loan intermediation, we see limited room to grow. 10x P/E'22

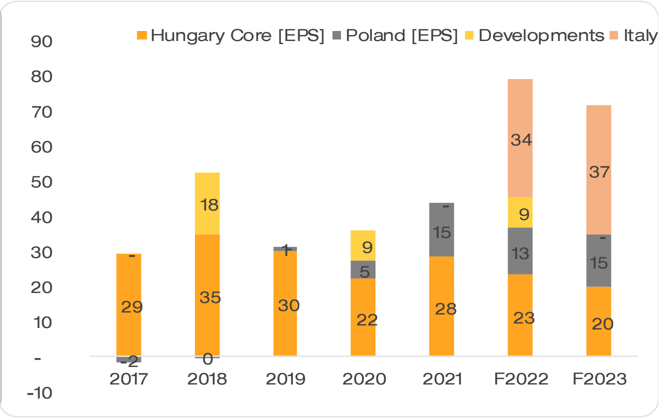
source: Concorde

1. **Hungarian Core – HUF 230 per share implying a 10x P/E'21.**
In Hungary, DH's market share has been flat and could not meaningfully increase, and we foresee a moderation of profit because of slowing mortgage demand. As we can see below, cyclically adjusted EPS should be around 28 EPS, yet we used HUF 23 to be on the cautious side of the valuation side.

Loan growth in HU forecast by NBH



EPS development on a country level



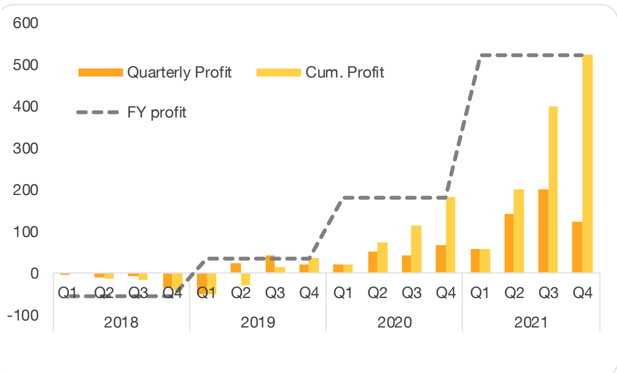
source: Concorde, NBH

2. **Development – 136 per share representing only the Forest Hill project**
Mgmt clearly stated their expectation about the incoming CF of the development, which was ca. HUF 2,000 bn higher than we had expected – *implying ca 60 HUF per share additional value.* This all thanks to the green mortgage loans which supercharged demand*.*

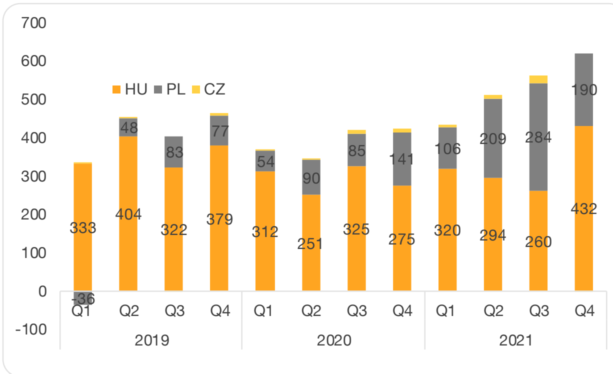
3. **Book Value of investment properties is 53 per share**
Management announced their plan to divest their real estate portfolio because investors do not value the business segment separately. Thus could not realise the higher multiple for that segment. As a result, mgmt. decided to crystallise the group's profile by divesting that asset. Based on the latest report the value of those properties are HUF 1.867 mn or 53 per share. Additionaly, there is a possibility that DH may sell its HQ which BV was HUF 424 mn (12 per share) in the end of 2021 this would also add to the extra dividend investor may receive until the streamlining lasts.

4. **Polish operation**
The Group's growth engine lies in the Poland operation. We forecast increasing profit for the next few years, which we valued at 12x P/E addressing its growth potential vs. the Hungarian operation multiplier of 10x P/E.

Strong improvement in profitability in Poland

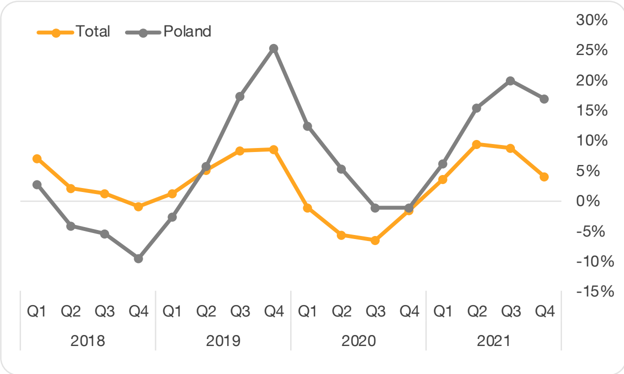


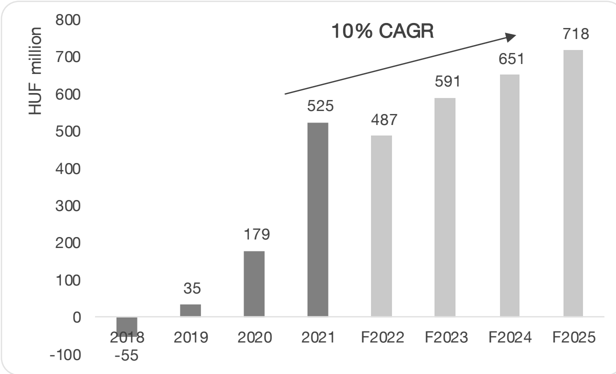
quarterly EBITDA country breakdown



source: Concorde, DH

Growth in Poland will be fuelled by growth in office number & 6-7% loan growth





source: Concorde, DH

5. **Italian operation**
Despite the fact that DH purchased the Italian asset at 8x P/E'22, the growth prospects (profit 3 year CAGR 18%) should demand higher multiple, in our view. Therefore we 12x P/E which embeds the asset growth outlook.

RISK

- **Regulatory risk** – as occurred in the past, commission and fee levels are subject to regulatory risk which may dent DH's profitability in the future.
- In Hungary residential real estate market is heavily supported by subsidies which will terminate in the end of 2022 – which could dent HU segment profitability-
- **Prolonged and deeper recession**. In our base case we applied a NBH's projection on mortgage loan growth ie 5% and 4% loan growth for 2020 and 2021 respectively then and acceleration to 7%. Therefore deeper and longer recession will risk our earnings trajectory.
- **New wave of the coronavirus.**
- **Higher interest rates may dent demand for mortgage loans –** ca 60% of the EBIT is derived from loan intermediation in 2020. The deceleration in loan growth has amplified effect on volumes of loan intermediation, consequently on DH's profit.

APPENDIX

Consolidated profit and loss [HUF million]

	2018A	2019A	2020A	2021A	F2022	F2023	F2024	F2025	CAGR 21'-25'
Revenue	**8,340**	**8,139**	**9,217**	**14,759**	**30,854**	**28,148**	**33,349**	**34,136**	
OPEX	6,225	6,743	7,666	12,736	27,076	24,701	29,265	29,956	
EBITDA	**2,215**	**1,616**	**1,550**	**2,252**	**4,108**	**3,777**	**4,414**	**4,510**	19%
- Hungary	2,239	1,508	1,162	1,463	1,327	921	1,475	1,481	0%
- Poland	-24	108	389	790	731	806	888	979	6%
- Italy					2,050	2,050	2,050	2,050	
EBIT	2,115	1,396	1,550	2,023	3,778	3,447	4,084	4,180	20%
EBT	2,014	1,295	1,615	1,894	3,303	2,990	3,646	3,761	
Income taxes	-310	-181	-283	-308	-594	-538	-656	-677	
Net income	**1,708**	**1,114**	**1,332**	**1,586**	**2,708**	**2,452**	**2,989**	**3,084**	18%
Net income to parent / adj. Profit		*1,074*	*912*	*1,586*	*2,363*	*2,107*	*2,644*	*2,739*	25%

KPI	2018A	2019A	2020A	2021A	F2022	F2023	F2024	F2025	
Total number of offices		250	248	259	267	270	274	279	2%
growth		9%	-1%	4%	3%	1%	2%	2%	
HU		166	165	162	165	164	164	164	
growth		2%	-1%	-2%	2%	-1%	0%	0%	
PL		84	83	97	102	106	110	115	
growth		*25%*	*-1%*	*17%*	*5%*	*4%*	*4%*	*4%*	
Total Intermediated loans [HUF m] [HU,PL]	102	195	259	429	460	485	544	597	12%
growth		*91%*	*33%*	*65%*	*7%*	*6%*	*12%*	*10%*	

DPS	25	0	38	22	37	33	41	42
EPS	48	31	38	46	68	61	76	79

Ratios

	2018	2019	2020	2021	2022	2023	2024	2025
EPS (HUF)	493	284	38	46	68	61	76	79
EPS growth (%)	85.6%	-42.3%	-86.4%	19.1%	49.0%	-10.8%	25.5%	3.6%
DPS (HUF)	183	268	0	39	22	37	33	41
Market capitalisation (HUF mn)	14,532	14,532	10,380	17,646	17,646	17,646	17,646	17,646
Number of shares (mn)	3.5	3.5	3.5	34.6	34.6	34.6	34.6	34.6

Valuation [cons. Group level]

	2018	2019	2020	2021	2022	2023	2024	2025
P/E	8.0x	13.9x	9.4x	11.1x	7.5x	8.4x	6.7x	6.4x
P/BV	2.5x	2.5x	1.8x	2.5x	1.6x	1.7x	1.8x	1.8x
EV/EBITDA	5.9x	11.2x	8.5x	9.1x	7.0x	8.0x	6.9x	6.9x
Net debt/EBITDA	0.0x	2.7x	0.5x	0.8x	2.0x	2.6x	2.3x	2.3x
dividend yield	6%	0%	11%	4%	7%	7%	8%	8%

Other ratios [cons. Group level]

	2018	2019	2020	2021	2022	2023	2024	2025
EBITDA margin (%)	26.5%	19.8%	16.8%	14.4%	13.3%	13.4%	13.2%	13.2%
EBIT margin (%)	25.4%	17.2%	14.3%	12.2%	12.2%	12.2%	12.2%	12.2%
Net profit margin (%)	20.4%	12.6%	14.5%	10.7%	8.8%	8.7%	9.0%	9.0%
ROE (%)	34.2%	18.6%	21.5%	22.9%	30.3%	23.4%	29.8%	31.2%
ROA (%)	15.4%	6.9%	6.2%	7.0%	8.8%	8.5%	10.7%	11.4%

Consolidated cash flow [HUF million]

	2018	2019	2020	2021	2022	2023	2024	2025
EBITDA	2,214	1,613	1,550	2,130	4,108	3,777	4,414	4,510
Net cash from operating activities	701	-836	-92	907	2,413	2,157	2,694	2,789
Net cash from investing activities	-344	-347	-439	271	-4,581	-1,177	-1,177	-1,177
Net cash from financing activities	-85	2,201	4,968	-2,188	3,981	-2,765	-2,451	-2,568
Dividend paid to shareholders	-632	-927	0	-1,339	-745	-1,273	-1,152	-1,405
Change in cash and equivalents	271	965	4,541	-1,010	1,813	-1,785	-933	-956

Consolidated balance sheet [HUF million]

	2018	2019	2020	2021	2022	2023	2024	2025
Intangible assets	1,387	1,405	1,718	1,820	9,376	9,376	9,376	9,376
Property	1,964	2,286	2,293	2,259	1,929	1,929	1,929	1,929
Equipment	171	250	316	316	316	316	316	316
NON-CURRENT ASSETS	3,984	4,654	5,269	5,238	12,573	12,573	12,573	12,573
Inventories	3,883	5,508	7,119	7,535	6,353	6,353	6,353	6,353
Trade receivables	711	849	888	2,102	2,102	2,102	2,102	2,102
Cash and cash equivalents	1,510	2,526	6,888	6,599	8,412	6,627	5,693	4,737
CURRENT ASSETS	7,094	10,151	16,152	17,495	18,125	16,340	15,407	14,451
TOTAL ASSETS	**11,078**	**14,805**	**21,421**	**22,732**	**30,698**	**28,913**	**27,979**	**27,023**
Share capital	153	153	153	153	153	153	153	153
Retained earnings	3,917	3,995	4,941	5,404	12,260	11,328	11,245	11,023
Non-controlling interest	-56	-63	-71	-71	2,800	2,800	2,800	2,800
TOTAL EQUITY	5,445	5,548	6,816	7,033	10,846	10,087	10,004	9,782
Long-term loans	236	6,049	6,945	6,945	12,945	12,445	11,945	11,445
NON CURRENT LIABILITIES	408	6,394	7,291	7,500	15,691	15,191	14,691	14,191
Short-term loans	2,746	331	4,730	2,365	1,577	1,051	701	467
Trade payables	599	790	859	859	859	859	859	859
CURRENT LIABILITIES	5,225	2,863	7,314	8,279	4,160	3,635	3,284	3,051
TOTAL EQUITY AND LIABILITIES	**11,078**	**14,805**	**21,421**	**22,813**	**30,698**	**28,913**	**27,979**	**27,023**

Cash flow for valuation purposes

HUF million		2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F
EBITDA	-	951	2,214	1,613	1,550	2,130	4,108	3,777	4,414	4,510	4,510
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Fair value per share	721										
12months target price	**798**										
Current share price	520										
Upside	54%										

	'22	'23	'24	IPO
P/E	11.7x	13.1x	10.4x	11.3x
EV/EBITDA'22	8.3x	9.1x	7.7x	
dividend yield'22	4.5%	4.1%	4.9%	3.2%

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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 on our website. (https://www.con.hu/wp-content/uploads/2016/04/Methodology_concorde_research.pdf?tstamp=201710021038)

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