CONCORDE RESEARCH

CEE Equity Research | Hungary | Real Estate

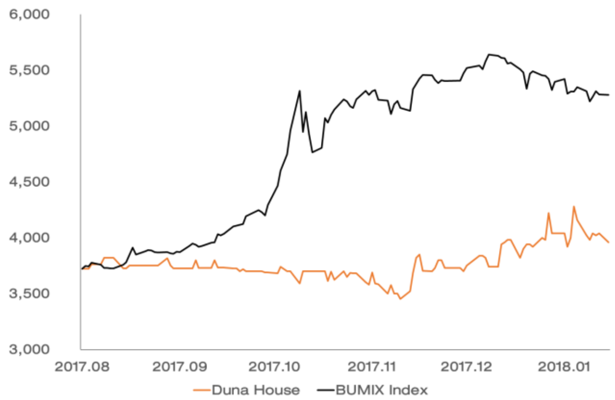
01 March 2018

Duna House

Recommendation: Buy

Target price (12M): HUF 4,751 (prev: HUF 4,605)

HUF million	2017 Q4	2016 Q4	Ch (%)
Revenues	1,229	1,160	6%
EBITDA	238	164	45%
EBIT	218	144	52%
Net profit	174	117	49%
EPS	50	34	49%
FY EPS	260	371	-30%
P/E	15	10.6	
No. of transactions (ths)	47.5	42.7	11%



Share price close as of 01/03/2018	HUF 3,960	Bloomberg	DUNAHHOUS HB
Number of shares [million]	3,4	Reuters	DUNAHOUSE.BU
Market capitalization [HUF mn/EUR mn]	12,856 / 37	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 3,550-4,400

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Decent Q4 result, profit is expected triple in 2018

Duna House reported its Q4 and its FY results Wednesday post market. Profit came at HUF 918 million in line with our forecast and adjusted profit (excluding MyCity) arrived into the high end of management guided range HUF 981 million (850-1,000 million). Performance of the core operation in Q4 was decent but investors will focus on the higher dividend (+35% to DPS 176) and on the next year guidance, in our view.

As for **2018 guidance** we can see a huge jump in profit, boosting by the completion of two developments (Reviczky and large part of Forest Hill) reaching HUF 2.8 billion (ca.HUF EPS 810). At the same time, core operation with Metrohouse seems to slightly improve to HUF 1,050 million (mgmt. guidance HUF 950 – 1,150 million) from current HUF 981 million, though this is the weak part of the guidance in our opinion. In nutshell, management guidance is significantly above our expected EPS for 2018 by 26% due to two reasons, which mainly related to developments:

1. We forecasted the completion of project Reviczky in 2017 vs. 2018; and assumed a fully completion of Forest Hill in 2018 vs. management guided 80% (phase 1)
2. We underestimated the profits from the developments by ca. 40%. To remain cautious we assumed ca. 13% profit margin but instead it should hover around 19%.

On the dividend side, management propose HUF **DPS 176** dividend for 2018, implying 35% lift compared to last year's meaning a 4.4% dividend yield.

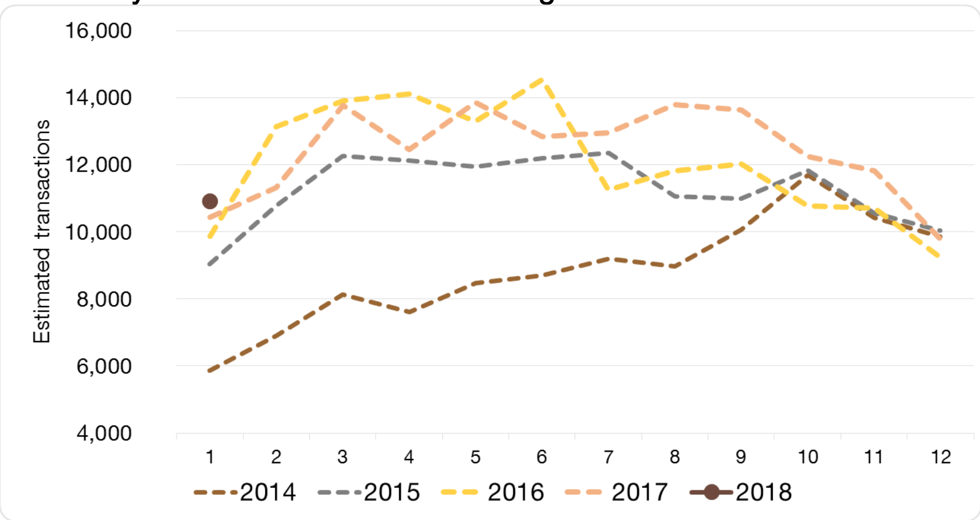
Core operation: Q4 result tends to be seasonally weak due to weather reasons, which is reflected in Hungarian EBIT margin (26% vs 33% in Q3) and in MetroHouse's EBIT margin as well (1% vs 4% in Q3). Nevertheless, strong macroeconomic tailwind – transaction volumes up by 11% - has boosted Duna House performance and achieved HUF 238 million EBITDA (+45% y-o-y) and HUF 174 million profit (+49% y-o-y).
On the segment breakdown, there was no huge surprise as we have already observed the preliminary KPI's.

- Financial intermediary: The cash cow segment of the group was strong again. Loan intermediation was robust again, loan volume has increased by 57% y-o-y, and pushed EBIT margin to 27% in Q4.
- Franchise: Commission from this segment improved by 9% y-o-y thanks to the Hungarian operation which boosted revenues by 15% y-o-y, while Metrohouse dragged down the performance due to lower number of franchise partner on a yearly comparison (79 vs. 74).
- Own Offices: Q4 commission was 4.1% lower y-o-y, predominantly due to weak results from Poland.

Metrohouse: Overall, we are a bit disappointed about the financial performance of Metro House as the operation added only HUF 20 million (2% EBIT margin) to the group total EBIT. If this trend continues in 2018 we might adjust our earnings forecast for the Polish operation, pushing the expected EBIT convergence one year later, which would lower our valuation for Metrohouse by HUF 100-150 million (43 per share).

Positive momentum continues for transactions. Total number of transaction came 3% above compared to 2016 and reached 148,896 based on DH's estimation. Which positive trend should continue as loose monetary conditions increasing wages and large number of new house completions this year should continue to fuel the momentum and lift the number of transactions higher in our view. In this respect, DH has already published its January estimation and it was 5% higher than last year which underpins our positive stance. What is more, management in its guidance shared its positive view on the economy as a whole and on the real estate market for 2018. They expect 15% more transactions, 5-10% house price increase, and bit moderated 15-20% loan volume growth than in 2017.

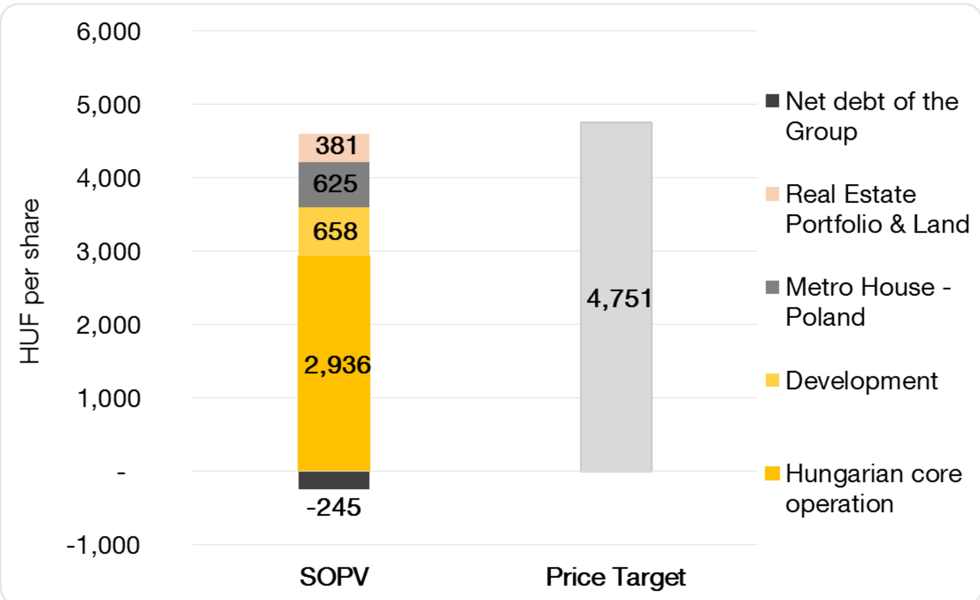
Monthly transaction number according to DH's estimation



Source: Company reports

Opinion: Duna House surprised us with strong result on developments which prompted us to revalue that business arm of the group, and thus lifted our price target by 3% to HUF 4,751 from HUF 4,605 predominantly because of the higher profit on projects Forest Hill and Reviczky (HUF 658 per share from HUF 492 per share). We would like to highlight that we remain cautious regarding the third development project and still assuming 13% profit margin with the value of 64 per share, as that project was started later with presumably at an inflated costs level. As for the core operation, Hungarian core was robust again boosted by strong loan volumes, but Metrohouse was meagre. With the new price target we see 19% upside in Duna House.

Sum of part Valuation



Source: Concorde Estimates

Quarterly P&L

	Q4 2017	Q4 2016	Ch (%)
Revenue	**1,229**	**1,160**	**6%**
Operating revenue	1,195	1,070	12%
Other income	33	90	-63%
OPEX	**1,011**	**1,017**	**-1%**
Cost of materials	19	19	-3%
Cost of sold goods and services	241	274	-12%
Used services	1,285	484	165%
Personnel expenses	154	146	5%
Depreciation and amortization	20	20	-1%
Other operating expenses	-708	73	-1072%
EBITDA	**238**	**164**	**45%**
EBIT	**218**	**144**	**52%**
Financial income	9	3	229%
Financial expense	21	19	7%
Revaluation	1	39	-98%
EBT	206	166	24%
Income tax expense	-33	24	-235%
Other	0	25	-100%
Non-controlling interests	0	1	-146%
Net income	**174**	**117**	**49%**
Transaction Number	47,492	42,744	**11%**
EPS	50	34	
EBIT margin	18%	12%	

Source: company reports

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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%
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.
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