



CEE Equity Research | Hungary | Real Estate
08 January 2020

Duna House

Recommendation: Accumulate

Target price (12M): Under Revision

DH continues its expansion in Poland

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

50 Alkotás Street,
Budapest
www.con.hu

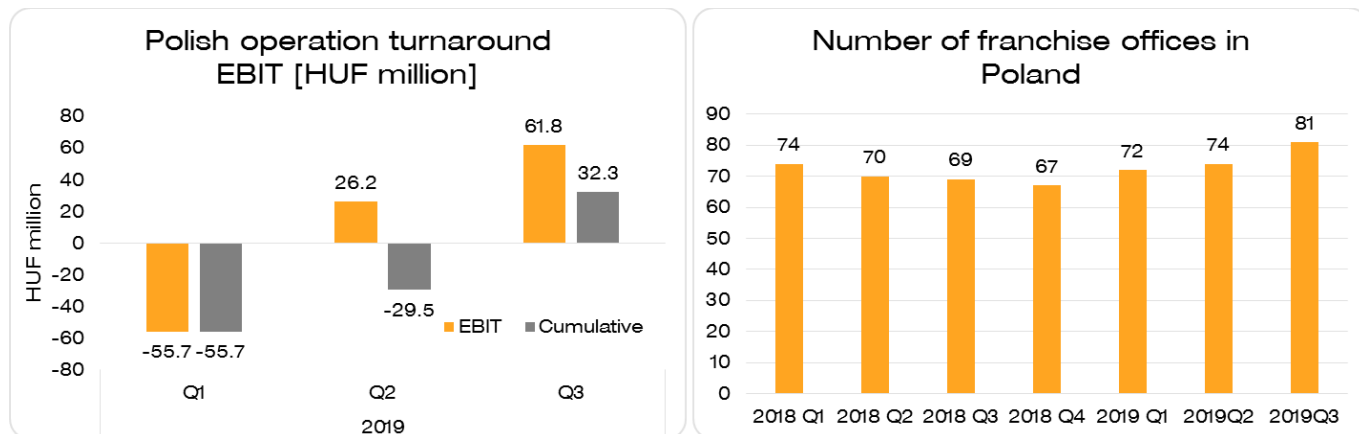
In short: Duna House announced an acquisition of another credit intermediary (so far the second) in Poland, which seems positive at first glance as the implied price is relatively low. Management indicated a payback period of 4 to 5 years implying a P/E multiplier of 4-5 which is lower compared to DH Group's overall '19 P/E (including the developments = 11.4x and calculating only with the core operation = 9.2x). The EV of the transaction amounted to HUF 340 million which was financed by debt, pushing debt level to HUF 1.6 billion implying a very comfortable net debt to EBITDA to 1x on our calculations (please note that we exclude the debts which is used to finance the development projects) and moving DH's capital structure into a more optimal level (please note Masterplasts has a net debt to EBITDA figure of 3x; and DH has investment properties with HUF 1.4 bn).

Given the transaction price and the transaction multiple we expect that the ATG – the acquired company - will add ca. HUF 70 million profit to the group's bottom-line (6% of F2019 FY profit).

After the transaction DH remains the 5th largest loan intermediary, and could be able to increase its brokered loans by ca 60% in Poland (*the 4th largest brokered amount is still double from here*). With the transaction, group's profit from Poland for the next year could potentially climb to HUF 180 – 220 million prior any synergies (vs. our previous HUF 130 million forecast), ca. 20% of the Hungarian Core profit.

As far as we understand the acquired company (ATG) does not need reconstruction (*please see our graph below*) as Gold finance did, and will contribute to profit positively from day one. We are of the view, that the ATG transaction could support the organic growth as DH will have an additional 40 office (mainly in North Poland) totalling in 120 offices.

POLISH OPERATION'S FINANCIAL TURNAROUND – MGMT GUIDES A FY 70 MILLION PROFIT FOR 2019



Source: DH, Concorde

On the dividend side, since the transaction is financed entirely by debt, dividend paying potential is intact and remains at ca. DPS 410 (DY: 10.5%) assuming that large part of developments (Forest Hill phase 1 and MyCity Residence) are completed until the AGM – *initially DH had planned to complete majority of projects by 2019 year end, but due to labour shortage they pushed the expected completion date to 2020 H1.* Alternatively, DPS should remain at HUF 130 per share (DY: 3%) in our view and special dividend (i.e. on top of the ordinary) may probably come later – *assuming no further acquisition.*

Opinion: All in all, DH continued its expansion in Poland with a relatively cheap acquisition that was financed by debt, therefore its dividend paying potential remain intact, in our view. Also, we appreciate the direction toward a more optimal capital structure, given the low debt level (net debt to EBITDA 1.0x) and the cheap financing – *please note that it is relatively low level and DH has ca. investment properties amounted to HUF 1.4 bn vs. total debt of HUF 1.6 bn that is linked to core operation.* We believe as long as dividend paying potential is not affected, investors may not react negatively.

To assess the effect on our target price we put DH under revision, but leave our recommendation at Accumulate.

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.

NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed Concorde Securities Ltd. located outside of the United States (a "non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker dealer, on behalf of Concorde Securities Ltd. only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Analyst Certification. Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) Concorde Securities Ltd. is the employer of the research analyst(s) responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analyst(s) is/are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Important US Regulatory Disclosures on Subject Companies. This material was produced by Concorde Securities Ltd. solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by Concorde Securities Ltd. or an authorized affiliate Concorde Securities Ltd. This document does not constitute an offer of, or an invitation by or on behalf of Concorde Securities Ltd. or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which Concorde Securities Ltd. or its Affiliates consider to be reliable. None of Concorde Securities Ltd. accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.

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.