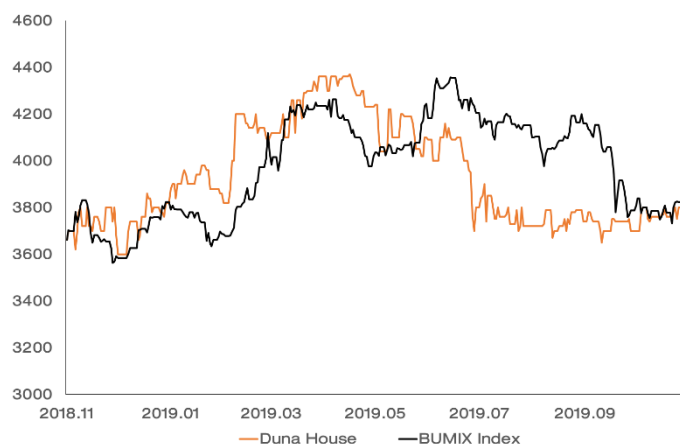


Duna House

Recommendation: Accumulate

Target price (12M): Under revision

Hun. Core HUF million	2019 Q4	2018 Q4	Ch (%)
Revenues	2,135	2,039	+5%
EBITDA	463	387	+19%
EBIT	410	360	+14%
Cleaned Core EBIT	344	315	+9%
Profit	265	256	+4%
EPS	77	74	+4%
Cumulated EPS	284	472	-40%
No. of transactions (ths)	34	33	-2%



Share price close as of 25/02/2020	HUF 3,800	Bloomberg	DUNAHHOU5 HB
Number of shares [million]	3,5	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 3,450-4,600

DPS 130 implying another M&A on the horizon

In short:

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

50 Alkotás Street,
Budapest
www.con.hu

- **Duna House Group met its FY profit guidance for 2019**, clean profit (excluding developments) arrived to HUF 1.16 billion (EPS 326) to the lower end of the range – broadly in line with our FY assumptions for core operation. Reported figure came lower to HUF 1.02 billion because of one-offs at the development arm of the group.
- **Management will propose HUF 130 per share (DY:3.4%) dividend for the AGM**, which implies that there should be a larger transaction in the pipeline as mgmt communicated that larger dividend is subjected to corporate transactions.
- Management expects ca HUF 3.9 billion (1,070 per share) inflow from developments vs our conservative projection of HUF 3.3 billion (780 per share) + 37% - expected to realise in large part of it in 2020.
- Last but not least, management gave flattish guidance for core operation (HUF 1,250 million) and HUF 2,550 million with developments. However the breakdown of the profit from core operation implies sluggish Hungarian (80%) and very strong Polish operation (20%).

- Cleaned Hungarian operation (excluding developments) reached an EPS of HUF 315, while Polish operation EPS could be around HUF 10 (should jump to EPS 70 in 2020).

Financials: Cleaned Q4 EBIT and Q4 Profit increased by 9% and 4% respectively on the back of strong loan intermediation which increased by +22% y-o-y largely thanks to strong Hungarian +70% y-o-y (large boost came from subsidized loans) and robust Polish volumes +45% y-o-y (Gold Finance acquisitions, but not yet fully included the latest acquisitions). We see weaker than expected numbers from the Hungarian operation (franchise & own office) due to slowdown (transaction numbers -2% y-o-y) and lower office number (rationalization), while polish operation was robust.

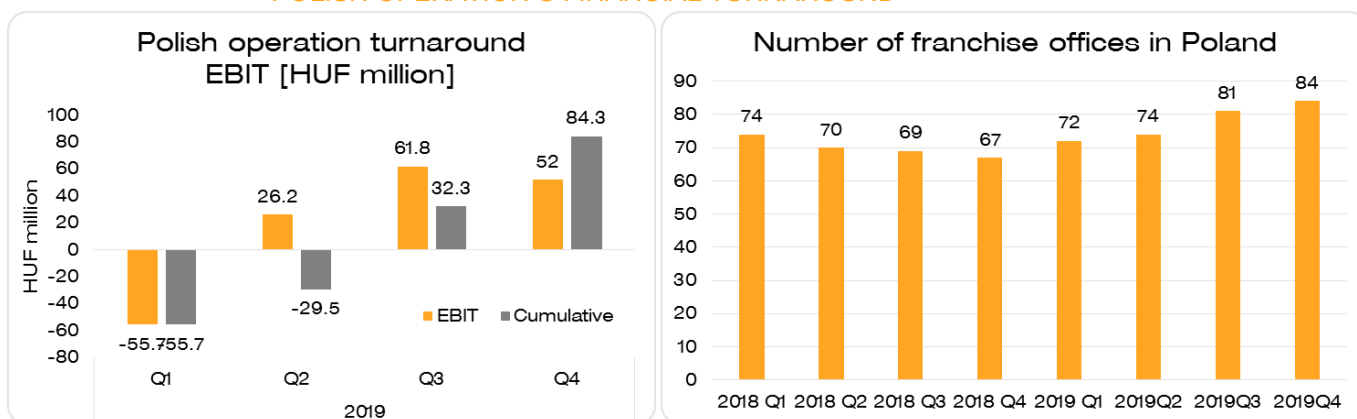
SEGMENT BREAKDOWN ON EBIT LEVEL.

	Q4 2019	Q4 2018	Ch (%)
EBIT	410	360	14%
<i>Franchise</i>	66	61	9%
<i>Own Offices</i>	-20	-16	20%
<i>Loan intermediation</i>	235	192	22%
<i>Other related</i>	43	36	19%
<i>Real estate mgmt.</i>	105	117	-10%
<i>Elimination</i>	-19	-30	-36%

Source: DH, Concorde

On the country breakdown, Polish operation showed the continuation of strong improvement in Q4 as well, posting HUF 52 million EBIT and HUF 22 million profit. FY profit arrived to HUF 35 million due some non-recurring items (ca. HUF 22 million). Comparing adjusted profit from polish operation (ca HUF 57 million) with management FY profit guidance of from the operation HUF 50-100 million, we can conclude that it is rather weak though what investors should focus on is the turnaround in Poland in our view. Additionally, management surprised us with its profit guidance for this segment as they expect a profit of HUF 250 million for 2020 even including a negative Q1 due to strong marketing program, the other part of the profit could stem from the normalization of the operation (ca. HUF 150 - 180 million) and on top of that the inclusion of the newly purchased credit intermediary (ca HUF 50 - 70 million). Nevertheless with this size of profit the polish operation will amount to ca 20% of group's core profit.

POLISH OPERATION'S FINANCIAL TURNAROUND



Source: DH, Concorde

Note: management expects a strong increase in office number for 2020 - > ca. +20% to 100

On the Hungarian operation side, core profit slowed by ca 14% on the back of lower commissions from own offices (-31% y-o-y; lower number of own offices (-16% y-o-y due to rationalizations) and from franchise (-9% y-o-y).

Guidance: Management gave a guidance of HUF 2.55 billion profit (EPS 710) supported significantly by the completion & realization of developments for 2020 and flattish core profit of HUF 1.25 billion (EPS 348) with a country breakdown of HUF 1 billion (EPS 278) from Hungary and HUF 250 million (EPS 70) from Poland. As for the assumptions to the guidance, mgmt. calculated with a 5-10% increase in intermediated loan volume; flattish transaction numbers and an increase in the price level of 5% for 2020.

Opinion: The numbers reflect mixed performance with weaker Hungarian and stronger Polish operation for the last quarter but DH could still reached its guidance. Lower than expected DPS of HUF 130 (DY: 3.4%) may not necessarily positive at first glance and may imply a potential transaction in 2020. On the other hand, polish operation has turned to black for the whole year, and its profit expected to increase significantly in 2020. Additionally, management guided the cash inflow from developments which is 40% higher compared to our estimation, excluding the new value of the developments (1,070 per share) from share price we end up at HUF 2,800 with an EPS of HUF 350 for 2020 a P/E of 8x.

We did not include Project Panorama, as it has not been started yet, including it to our calculation adjusted P/E would have been 7.5x.

Quarterly P&L

	Q4 2019	Q4 2018	Ch (%)
Revenue	2,135	2,039	5%
Operating revenue	2,040	2,006	2%
Other income	95	33	187%
OPEX	1,726	1,783	-3%
Cost of materials	81	18	350%
Cost of sold goods and services	502	355	41%
Used services	1,181	1,145	3%
Personnel expenses	210	194	8%
Depreciation and amortization	53	28	92%
Other operating expenses	-301	43	-798%
EBITDA	463	387	19%
Cleaned Core EBIT	344	315	9%
EBIT	410	360	14%
<i>Franchise</i>	0	61	-100%
<i>Own Offices</i>	6	47	-87%
<i>Loan intermediation</i>	191	167	14%
<i>Other related</i>	36	62	-43%
<i>Real estate mgmt.</i>	30	21	40%
<i>Elimination</i>	-11	-12	-11%
Financial income	15	6	142%
Financial expense	-44	35	-226%
Revaluation	-11	12	-189%
EBT	369	319	16%
Income tax expense	-105	-63	66%
Net income	265	256	4%
Transaction Number	34,254	34,443	-1%
Intermediated loans [HUF m]	51,805	34,872	49%
<i>EPS</i>	77	74	4%
EBIT margin	19%	18%	9%

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%
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