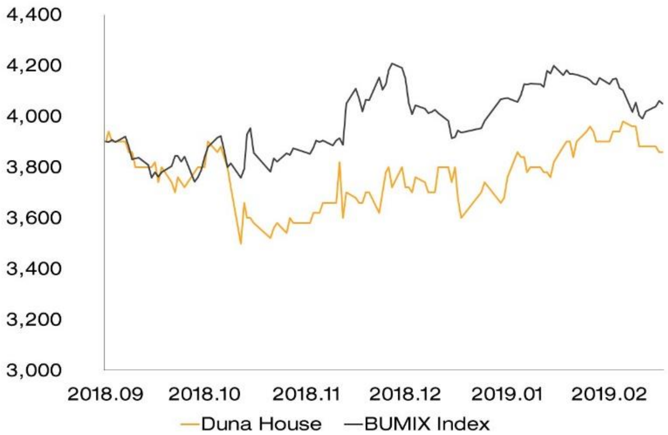
CONCORDE RESEARCH
CEE Equity Research | Hungary | Real Estate
27 February 2019

Duna House

Recommendation: Buy
Target price (12M): Under revision

Hun. Core HUF million	2018 Q4	2017 Q4	Ch (%)
Revenues	2,142	1,229	+74%
EBITDA	387	238	+63%
EBIT	360	218	+65%
Profit	256	173	+48%
EPS	74	50	+485
Cummulated EPS	502	272	+184%
P/E	8x	10x	
No. of transactions (ths)	34	33	+2%



Share price close as of 27/02/2019	HUF 4,000	Bloomberg	DUNAHHOUS 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

Strong outlook, finally a turnaround in Poland and generous dividend!

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In short: Duna House posted a strong quarterly results with which the company has reached a profit of HUF 1.7 bn **(EPS 502). With this amount DH has met its FY profit guidance.** What is more, management gave strong **profit outlook of HUF 2.3 bn (EPS 690)** made up of HUF 1.25 bn from Core Operation and HUF 1.05 bn from Development. Last but not least, Board of Directors will propose **DPS of HUF 250** to ordinary shares (6.25% on today`s closing price).

Our takeaway from the 2019 guidance is the followings:

- Management expects ca. **HUF 1,175 million** from Hungarian core operation, which seems relatively strong given the missing LTP segment. Basically they believe that growth will compensate the missing income from LTP segment.

ANALYST CERTIFIATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 7.

- Improving Polish operation (supported by the latest acquisition) will add growth to bottom-line in an extent of HUF 75 million.
- Management expects robust loan reimbursement to continue in the tune of 20 - 30%
- House prices are expected to climb by 5-10% coupled with 160-180k transactions.

Q4 profit and H1 results are expected to be muted due to the transaction costs of transactions of Gold Finance. Excluding these cost incurred in Q4 and the non-recurring items throughout the year, **profit excluding development should have arrived to HUF 1.26 bn ca. 7% higher vs. HUF 1.18 bn the actual number.**

Financials: Operation-wise, the last quarter was subdued as the new polish entity (Gold Finance) was consolidated, reaching 17% EBIT margin only, while in absolute term managed to grow significantly from HUF 218 m to 360 m (+65% y-o-y). As far as dividend concerned, DH proposes HUF 250 DPS ca. HUF 850 million implying a little **higher pay-out 56% vs. avg. of 47%** in the recent years from adjusted profit as the developments have contributed nicely in 2018 and expected to add significant sums in 2019 as well.

On the country breakdown, Polish operation remained in the red throughout the year (- HUF 56 million), but pushing significantly down on the back of the above mentioned one time transaction costs. The profit of united entity is expected to be climb to ca. HUF 75 million in 2019. This improvement should come from the lack of transaction costs, severance costs, and from synergies. **Since management expects ca. HUF 75 million profit from Polish operation, which should be materialize only in H2, the normalized FY profit should be in the range HUF 100 – 150 million, in our view which should be ca. 10 – 12% of the profit of Hungarian operation**.

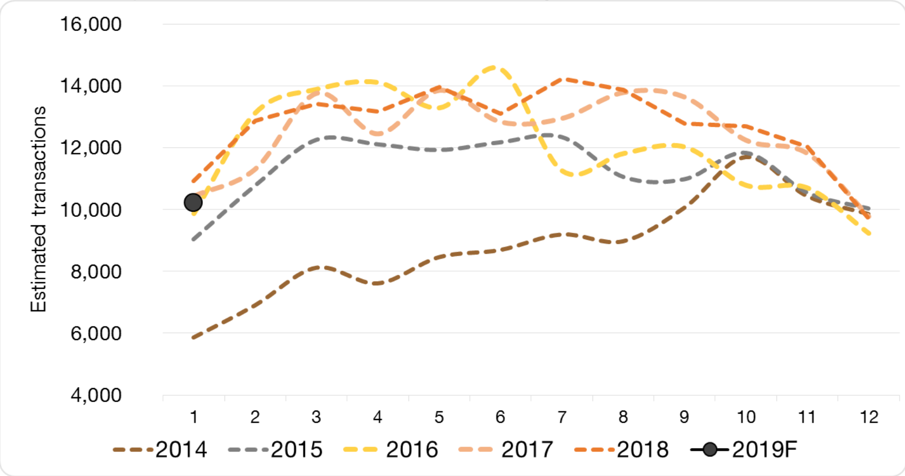
Core operation:

- **Financial intermediary**: The segment has performed weak this quarter due to 1), decelerating loan origination in Hungary (+15% in Q4 vs. 40% Q1-3); 2) the consolidation of Gold Finance in Poland. EBIT margin has fallen to 18% vs. 27% last year. Management noted that, cost optimization has already commenced which will have a positive effect only in H2 due to severance cost. Moreover, they expect improving profitability due to **synergies** and **better bargaining power** at banks as they become a sizeable player in the polish market, resulting in higher commissions.
- **Franchise segment** improved significantly thanks to better volumes and some optimisation steps. Management provided a

positive outlook for new office opening both in Hungary and in Poland. Quarterly segment EBIT margin climbed to 17% from 9% on a yearly comparison.

- **Own Offices** temporarily turned red on the back of elevated indirect cost.

Monthly transaction number according to DH's estimation



Source: Company reports

Transaction numbers came slightly higher (+3% y-o-y) in 2018 compared to 2017. We are in a view that the latest gov's measure to further support families should add impetus to transaction numbers but only after July when it comes to force. Until then, participants may await until the middle of the year to benefit from the new program deferring their purchase. Thus, a moderation in numbers could be expected in H1 which should not necessarily explained by slowing macro, in our view.

Developments:

- DH reached better than expected results on the Reviczky project, only one flat is remained to be sold.
- Plans to start the second phase of Forest Hill called Panorama as it will be subjected to 5% VAT. The project has unique, and exclusive characteristics thus it is expected to target high end customers. Based on the assumptions below we expect ca. HUF 180 - 200 per share value additions from this project.
- Last but not least, completion of the first phase of Forest Hill is delayed due to labour shortage to after 2019 Q2 (originally expected in 2019 Q1). Roughly 70% of the flats are already sold.
- MyCity Residence project is well on track, 71% of the flats are sold and the construction was commenced in January, and expected to be completed by the end of October.

Opinion: This quarterly result was full of information, mainly positive, in our view. We are definitely happy for the strong guidance for 2019 and for the generous dividend. **With the proposed DPS DH has ca. 6.3% dividend yield one of the highest in the Budapest Stock Exchange.** We also welcome forecasted operational improvements in Poland as the operation should make a turnaround from red (HUF -56 million) to black (HUF 75 million) in this year based on management expectations.

We expect positive share price reaction mainly due to the nice DPS proposal. Also we will incorporate the new guidance and operational KPI's into our earnings model, and release an update soon.

Quarterly P&L

	Q4 2018	Q4 2017	Ch (%)
Revenue	**2,142**	**1,229**	**74%**
Operating revenue	2,006	1,195	68%
Other income	136	33	311%
OPEX	**1,783**	**1,011**	**76%**
Cost of materials	18	19	-3%
Cost of sold goods and services	355	241	47%
Used services	1,145	1,285	-11%
Personnel expenses	194	154	26%
Depreciation and amortization	28	20	38%
Other operating expenses	43	-708	-106%
EBITDA	**387**	**238**	**63%**
EBIT	**360**	**218**	**65%**
Financial income	6	9	-29%
Financial expense	35	21	71%
Revaluation	12	1	1900%
EBT	319	206	55%
Income tax expense	-63	-33	91%
Net income	**256**	**173**	**48%**
Transaction Number	34,443	33,853	**2%**
Intermediated loans [HUF m]	34,428	18,807	**83%**
EPS	74	50	**48%**
EBIT margin	17%	18%	

Source: company reports

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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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