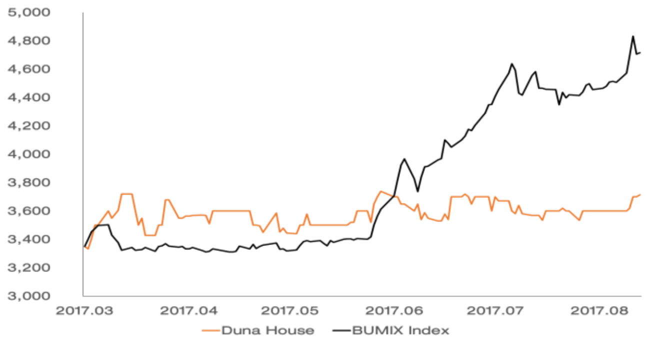
CONCORDE RESEARCH

CEE Equity Research | Hungary | Real Estate
12 December 2017

Duna House

Recommendation: Buy
Target price (12M): HUF 4,585

Hun. Core HUF million	2016	2017E	2018E
Revenues	3,900	3,017	3,306
EBITDA	945	1,062	1,258
EBIT	855	987	1,179
Net profit	1,195	916	996
EPS [HU]	347	266	290
Total EPS	347	387	632
P/E	10.1x	9.0x	5.5x
No. of transactions	144,674	150,000	165,000
Int. Loan (HUF bn)	28	30	35



Share price close as of 12/12/2017	HUF 3,500	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 3,550-4,000

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A diversified real estate play for the CEE

- We assign a HUF 4,585 12M target price for DH, implying 31% upside for the group. Duna House is currently trading at a 9x P/E and 6x P/E for 2017 and 2018 respectively if we calculating with the completion of Reviczky and Forest Hill developments in 2017 and 2018.

- Having only a single digit P/E ratio for the next two years, benign macro, a gradually recovering Polish operation, coupled with supportive political environment, Duna House a stock worth buying, in our view.

- Duna House is one of the best proxy to gain exposure on the Hungarian housing market as 1,) the franchise and own offices segments directly profit from every transaction they conduct on the secondary market 2,) the group targets the new flat market as well via four development projects. Investors also purchase interest in a restructuring story in Poland which has gained traction in the recent quarters (EBIT turnaround occurred in Q2). Given the long cycles of the real estate market, and that we are only at the early phase of the recovery, we expect the positive trend to continue in both of the markets.

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Investment case

Play to the Hungarian and Polish housing market

Duna House is one of the best proxy to gain exposure on the Hungarian housing market as 1,) the franchise and own offices segments directly profit from every transaction its involved on the secondary market 2,) the group targets the new flats market as well via four development projects. Investors also purchase interest in a restructuring story in Poland which has gained traction in the recent quarters (EBIT turnaround occurred in Q2). Given the long cycles of the real estate market, and that we are only at the beginning of the recovery, we expect the positive trend to continue in both of the markets.

Strong momentums are supporting DH in Hungary...

One of the main drivers of Duna House's earnings is the relentless credit growth in Hungary due to its superior margins (compared to other business lines. We believe the current loan disbursements and mortgage loan levels have still abundant room to grow. What is more, Hungarian borrowers traditionally insist on using low leverage (80% cash) when they decide to purchase a real estate, which might change in light of record low borrowing rates, adding an extra boost to credit demand. Last but not least, the government's measures (1) home purchase subsidy scheme, the so-called CSOK and (2) the reduction of home construction VAT will further fuel the Hungarian housing market (3) consumer friendly loans; all conveys the message that there is a strong political will to support real estate market further on.

..and in Poland as well

After purchasing Metro House, one of the biggest real estate agencies in Poland, the management is dedicated to implement the well-tested Hungarian business model. This is especially attractive as Metro House has not been really involved in credit intermediation and Polish borrowers generally tend to take out more leverage (50%+ compared to Hungarians) for buying houses. Taking into account (1) the scale of the Polish market, (2) the relentless demand for houses in the region, (3) the huge potential in the intermediated loan segment as the cross-selling of products had not been employed during the former management. So far the business model in Poland has proven to work well (EBIT margin has turn into black in 2Q).

Residental developments are going well, the first project could be completed in 2017 Q4

The first project (Reviczky) with 86 flats seems to be completed by 2017 Q4, and on our calculation it translates to HUF 400 million profit / 116 per share (calculating with 20% profit margin and fully sold flats). This one time profit boost, will be followed by the largest (Forest Hill) project in the group's pocket with 196 flats and the first phase is expected to be completed at the end of 2018. We would like to highlight that the ratio of pay-out of the income from Reviczky depends on the consideration of the management.

Asset managment will further strengthen the earnings of DH

At the end of October, Impact Asset Management - part of Duna House Holding – reached 8% yield which is outstanding given the prevailing interest rate environment. Despite the remarkable return, the management has yet to solve the issues related to the bottlenecks of one distributor/dealer. Being unable to reach a broad investor base and correspondingly higher investment flow, we believe the asset management arm of the group remains to be a deadweight with small negative contribution.

Extraordinary dividend may push dividend above DPS 160.

Duna House Group is willing to pay out minimum ca. 50% of the net adjusted profit as a dividend, which could equal 3 % dividend yield and has an embedded option of paying out large part of the earnings of the Reviczky Project adding an extra DPS 100 max, totalling a 5% yield, on our calculations.

Valuation

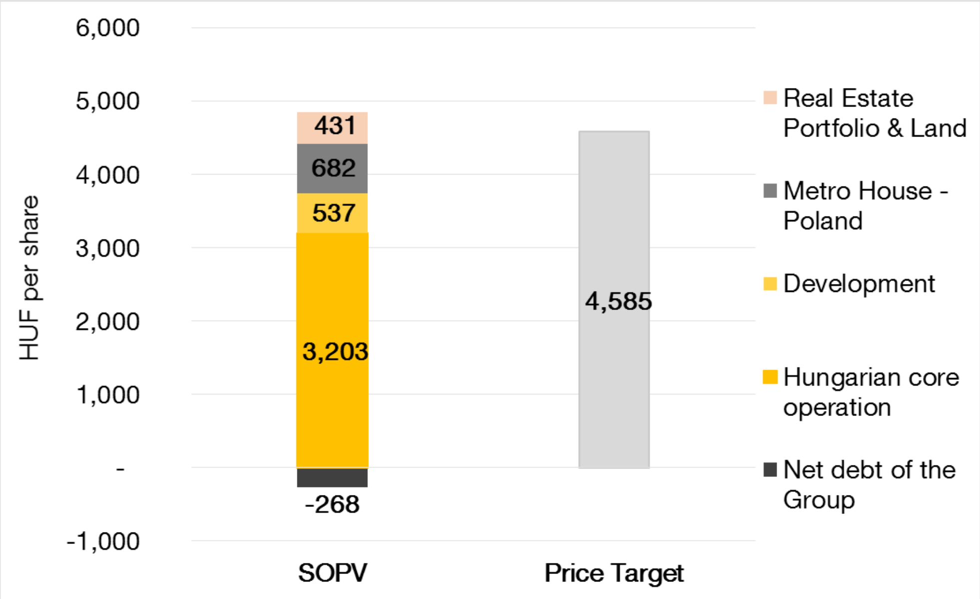
Putting all of our assumptions into our model, it gives a HUF 4,585 12M target price, implying 30% upside for the group. Duna House is currently trading at an undemanding 9x P/E and 6x P/E for 2017 and 2018 respectively if we calculating with the completion of Reviczky and Forest Hill developments in 2017 and 2018.

Having only a single digit P/E ratio, benign macro, a gradually recovering polish operation, coupled with supportive political environment, Duna House a stock worth holding, in our view

We used sum of parts valuation to appraise the fair value of Duna House Group. Since the group has so distinctive business lines, we found 5 parts to value.

1. Hungarian Core (DCF method)
2. Metro House (Restructuring story; assumed an EBIT convergence)
3. Developments (presume 13% average profit for the projects)
4. Real Estate Portfolio and land (Book Value)
5. Impact (assumed 0 value as of now)

SUM OF PARTS VALUATION



Source: Concorde estimates

Triggers for valuations gap to shrink is the continuation of better margin in Poland and or the extraordinary dividend payment which would draw investors attention toward the stock.

We see 30% upside potential for Duna House compared to our 12m target price. Investors assign relatively low value or ignore Metro House or/and to the development part of the group, given the lack of definite aims of efficiency gains of the recovery process of MetroHouse and the lack of track record for the development segment. Needless to say, as soon as more efficiency gains (better EBIT margins) for Metro House, and completions of the projects and consequently higher dividend materialise, rerating will occur, in our view. In relation to the above mentioned, the continuation of EBIT recovery in Poland and the pay-out of income from the projects could be seen as a trigger for investors to close / reduce the valuation discounts in the future.

Company profile

Duna House was established almost twenty years ago by the Dymschiz brothers. During this time, Duna House increased its operation and started several new segments. Currently, the company operates with more than 2,300 brokers and 233 locations throughout Hungary, Poland and Czech Republic.

Duna House operates not just as the market leader real estate agency in the Hungarian market but also franchises out its well-positioned brands to increase its network countrywide. Furthermore, Duna House expanded its service portfolio, thus currently almost half of the revenue comes from financial intermediary and other additional services. In 2015, the group made a strategic decision and looked for foreign expansion. A year later to follow its strategy, the group acquired the polish market leader real estate agency (Metrohouse), as it was relatively cheaper to grow inorganically in a foreign market. Retrospectively, the transaction seemed a rational choice because the ill-managed company had abundant room to increase its efficiency and at the same time had numerous offices country-wide, saving the build-up cost of country presence. More than one year after the transaction, the implementation of modus operandi has already been showing its results (in 2Q Metrohouse turned to black).

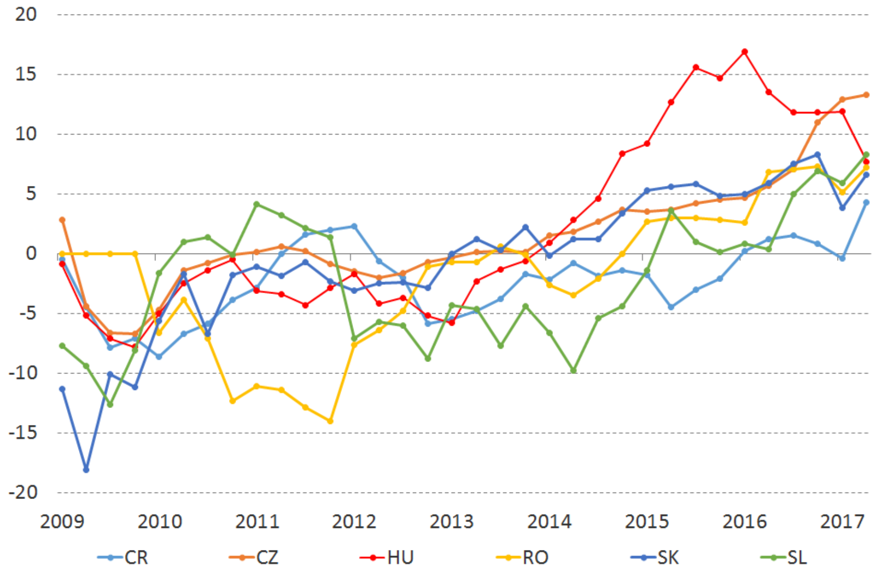
Apart from its core business lines, the group saw value opportunities in developing residential real estates in Budapest in the extent of 400 flats. In the early phase of the development, the idea proved fruitful as the plots have gained significantly (HUF 700 million; ca 200 HUF/ share). Last but not least, the group established Hungary's first residential real estate fund, which has yielded 9% (2017. October) since its inception. Despite the remarkable results, the fund has yet to big enough to contribute positively to the group.

Macro overview

The aftermath of the financial crisis weighed heavily on CEE economies' credit markets

Real estate markets drew limited attention from investors in Central and Eastern Europe in the several years prior to 2015. The aftermath of the financial crisis weighed heavily on these economies' credit markets, hence the availability of and appetite for mortgage loans for house purchases and construction dropped. With a contraction in demand, house prices fell sharply.

HOUSE PRICES INDICES (YOY GROWTH)



Source: Eurostat

Eurostat signalled y-o-y price increases in all CEE markets in the latest years

Eurostat signalled y-o-y price increases in all CEE markets in the last two years. Nominal prices are still only slightly off their decade lows, but the rate of price increases has fluctuated around 0-5%. Hungary experienced the quickest growth rate until this year, when the Czech market took over the leading position in the CEE landscape. The fundamental basis for home prices have much in common. The reaccelerating economic growth provides a basis for the expansion of households' disposable income, and the concurrent low yield environment makes the alternative investment choices less compelling.

ECONOMIC GROWTH IN THE REGION (YOY)

	2011	2012	2013	2014	2015	2016	2017*
Euro area	1.6%	-0.9%	-0.2%	1.3%	2.1%	1.8%	2.2%
Czech Rep.	1.8%	-0.8%	-0.5%	2.7%	5.3%	2.6%	4.3%
Croatia	-0.3%	-2.2%	-1.1%	-0.5%	2.2%	3.0%	3.2%
Hungary	1.7%	-1.6%	2.1%	4.2%	3.4%	2.2%	3.7%
Poland	5.0%	1.6%	1.4%	3.3%	3.8%	2.9%	4.2%
Romania	1.1%	0.6%	3.5%	3.1%	4.0%	4.6%	5.7%
Slovenia	0.6%	-2.7%	-1.1%	3.0%	2.3%	3.1%	4.7%
Slovakia	2.8%	1.7%	1.5%	2.8%	3.9%	3.3%	3.3%
Serbia	1.4%	-1.0%	2.6%	-1.8%	0.8%	2.8%	2.0%

* Forecasts by the European Commission
Source: AMECO

Given the current fundamental outlook of these economies, we see a strong likelihood that the recent pickup in home prices could continue during the years to come.

Growth is driven both by the cyclical improvement in the Eurozone, as well as the revival of domestic drivers. The growth rate is set to remain moderate by historical standards in the major economies, which is set to keep central bank interest rates low. In this environment – modest growth, low interest rates – the housing markets are set to revive further.

HUNGARIAN HOUSING MARKET

As the major market of Duna House, we pay special attention to the Hungarian market developments.

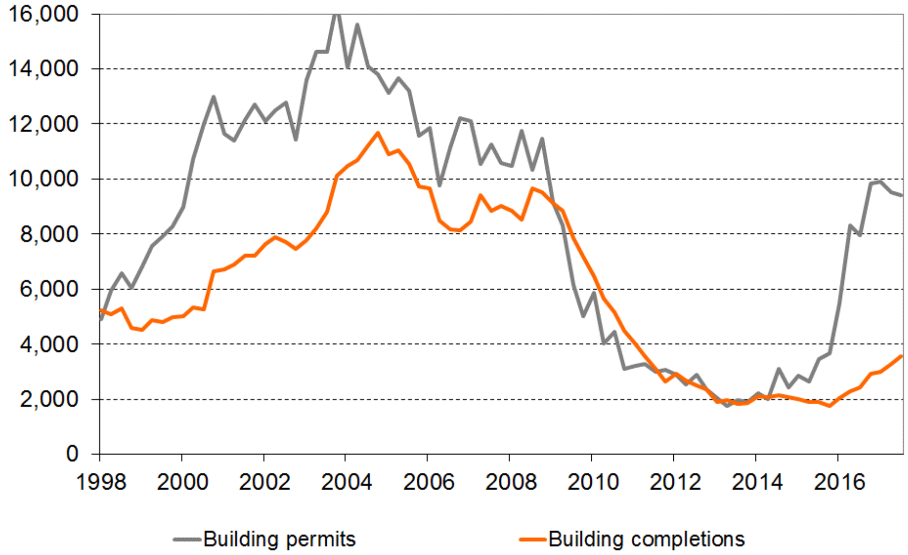
Hungary has been especially hit hard by the financial crises

Hungary has been especially hit hard by the financial crises. The steep growth in indebtedness and the unfortunate CHF-heavy composition of mortgage debt factored into this. Banks have been hit heavily by the imposition of sectoral taxes and the natural rise in the NPL ratio in the aftermath of the financial crisis. The financing sources of the real estate market grew heavily skewed towards cash and away from credit dominance that had characterized it prior to the financial crisis.

As a consequence, the turnover on the existing home market and the volume of new home buildings plunged, along with a severe drop in prices. Housing market activity has been suppressed for several years, with signs of a sudden pickup in market turnover appearing only recently.

As regards the new home market, we have not seen a rise in volumes yet. New completions reached 2,977 units in 2017 Q3, up 61% from a year ago. Meanwhile, as a sign of live intentions for more activity down the road, housing permits rose 18% y-o-y, to 8,588.

NEW HOUSE COMPLETIONS AND PERMITS (SA, QUARTERLY)



Source: KSH, Concorde

Latest subsidy lavish, high potential not exploited yet

The latest push to the momentum in prices and building permits came as the government introduced a lavish housing scheme in late 2015. Under the new regulation, people with three or more children are eligible to receive a grant for buying or building a new house. The subsidy is HUF 10 million, far exceeding the size of previous programs. In addition to that, the government provides subsidized loans of an equal amount to these households for a tenure of 25 years, with an interest rate of 3% at most.

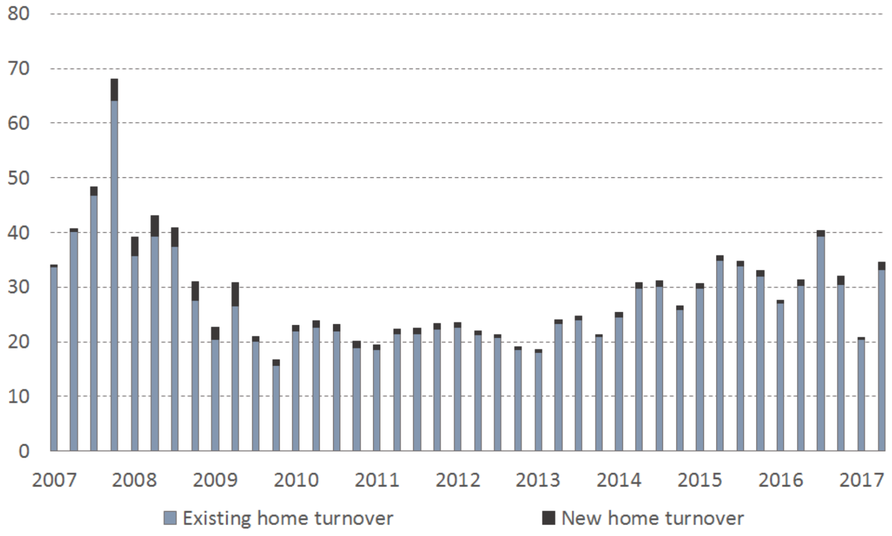
The large grant can be allocated also to families with less than 3 children, but who officially declare their intention to have three children within ten years, and also for families already having 3 or more children.

By the end of October, the number of applications for the CSOK reached 60 thousand. The program's allure is picking up. We expect the number of applications to pick up speed as housing projects accelerate. As the latest housing market report of the MNB indicates, new flats to be completed and built for sale could reach 7.7 thousand in 2018, up from 3 thousand in 2016 and 3.2 thousand this year.

Further pickup in housing sales

Transactions have improved lately, though remained more muted than the vigilance seen in the rise of prices. Following slow Q1, Q2 witnessed a marked rise again in activity, reaching levels seen in previous years, and well above the figures typical of the post-crisis years. We expect the transaction volume to trend higher, as more and more built-for-sale homes are completed, and as the wider availability of cheap mortgage loans allows demand to penetrate into laggard real estate markets (countryside, outer districts).

NUMBER OF TRANSACTIONS (THOUSAND, QUARTERLY)

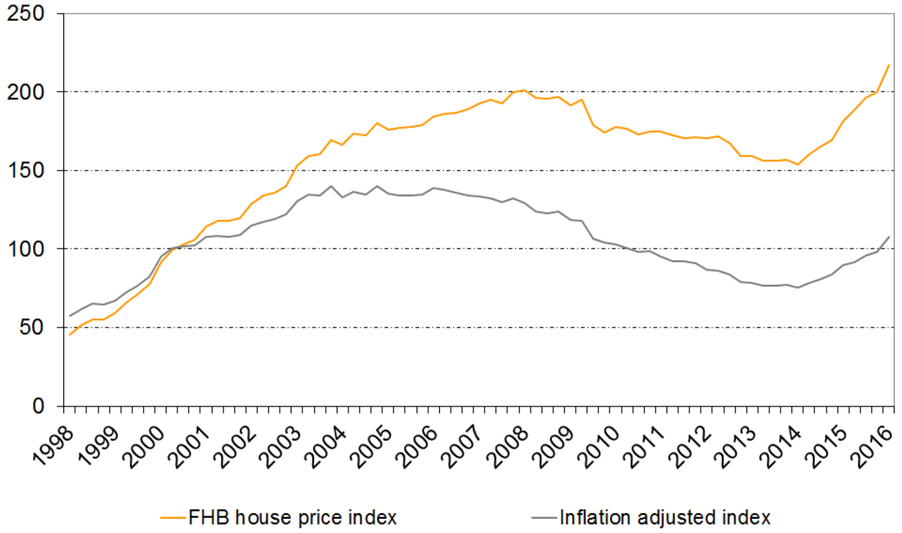


Source: KSH

The jump in existing home sales is a precursor of a pickup in activity in the new home market. A further underpinning of this change in the activity is reflected in the development of prices.

HOUSE PRICE INDEX (2000=100)

Further sign of a benign change in the activity is reflected in the development of prices



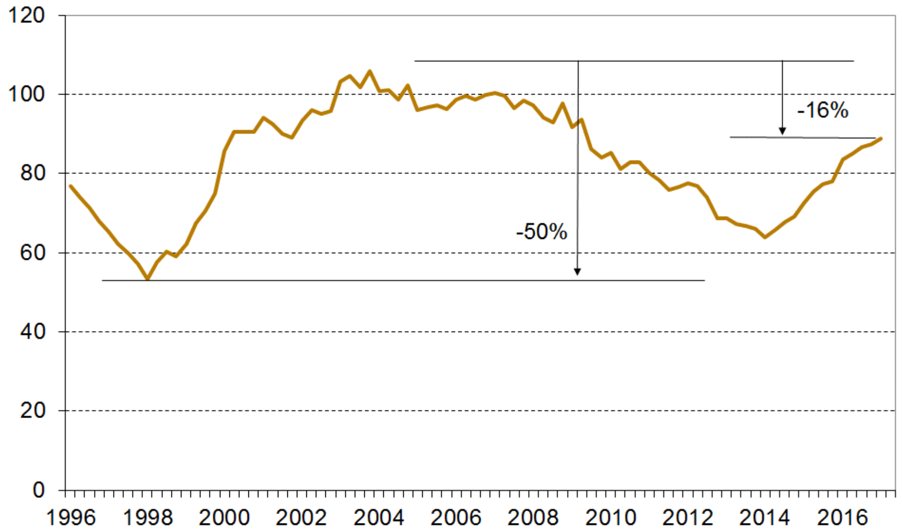
Source: FHB, Concorde

The latest FHB price index reveals that nominal prices exceeded the earlier peak in 2008. FHB measured a peak in nominal prices in early 2008, and registered a fall in prices equivalent to 23% through the trough in 2014 Q1. Inflation-adjusted prices reflected an even grimmer picture: a fall of 42% from peak to trough.

We believe that the recent increase in the housing price index could become a trend for several reasons. On the one hand, households' debt servicing burden as a share of disposable income has dropped from 13% in 2008, and stabilized at around 8% in recent quarters.

The income prospects of the population are promising: economic growth has been positive for the fifth year in a row, with the trend expected to continue for the years to come.

HOUSE PRICES ADJUSTED FOR CHANGES IN DISPOSABLE INCOME (2005=100)

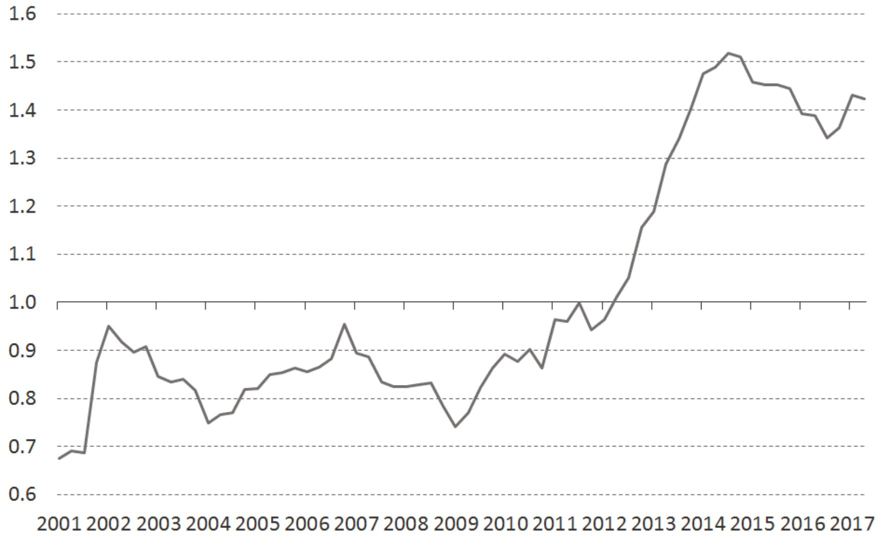


Source: MNB, FHB, Concorde

Supportive of the housing market, yields are expected to remain low for a while. The affordability of housing is still underpinned by the relative cheapness of flats:

adjusted for the changes in household disposable income, prices are still below the highs of the past two decades. The central bank's Housing Affordability Index underpins a good constellation in the market, though the structure reflects a relative cheapness of the countryside.

HOUSING AFFORDABILITY INDEX*

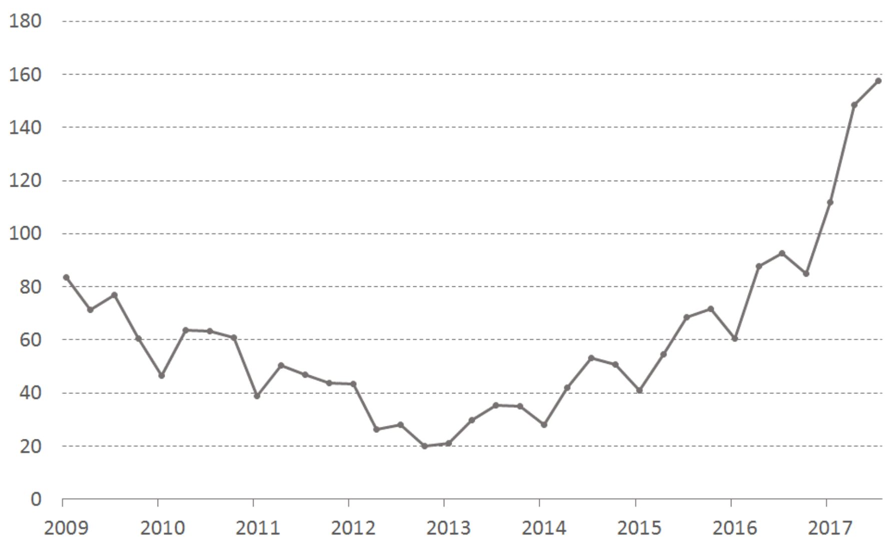


*Higher value indicates better affordability

Source: MNB, FHB, Concorde

Constraints on the market from the side of financing are easing. The latest statistics indicate a marked growth of gross lending for housing purposes. While 2011 and 2012 volumes were boosted by the one-off impact of a refinancing spree caused by the recent refinancing scheme, the series indicates a strong volume growth. 2017 Q3 witnessed HUF 158 billion in gross lending activity, eight times the levels experienced during the aftermath of the crisis.

GROSS LENDING FOR HOUSING PURPOSES (BILLION FORINTS)



Source: KSH, MNB, Concorde

With a significant fall in the debt service ratio, a rise in household income and a huge improvement in housing affordability, the recent pickup in mortgage borrowing could continue further.

Mortgage debt has dwindled as a share of GDP

Household debt has dwindled as a share of GDP since the financial crash in 2008. The low penetration of total indebtedness of households underscores the room for growth in lending in the years to continue.

The outlook for the major determinants of house prices and housing activity are summarized below (low yields; continuing economic growth; continuation of credit supply).

Economic growth

The economy has posted positive growth rates for the third consecutive year

The economy has posted positive growth rates for the fifth consecutive year. The pickup in the economy was partly the result of cyclical factors such as an improvement in terms of trade, beneficial settlement with banks over the issue of unjustified interest rate hikes, and a final spurt of EU fund-financed investment action. The MNB is continuously stepping up its support to the economy, among others by motivating banks to intensify mortgage backed lending to households.

With respect to the future, we see consumption growing on the back of

2016 will bring about a stark drop in the contribution of these one-off effects

- the drop in debt service costs;
- the low interest rate environment;
- the low inflation and large minimum wage hike boosting real household income;
- and the recovery in the economy that translated into a decent rise of employment recently.

To sum up, we see households remaining the main driver of growth, and investments growing mainly on the back of EU financing also positively contributing in the near future. The overall economic activity in the EU and Hungary‘s ongoing price competitiveness vs. the Western European economies provides a benevolent environment for further economic growth.

Yield environment

Yields on local government benchmarks have fallen significantly

Yields on local government benchmarks have fallen significantly as of late. The low yields reflect several important factors: on the one hand the low inflation environment, also the lack of robust economic growth, the muted international rate environment, and most importantly, the steep fall in the risks related to Hungary's external indebtedness.

The attitude towards the Hungarian economy has improved significantly, contributing to the aforementioned factors. The most recent actions by the MNB, of targeting a low yield environment on the longer part of the yield curve (through verbal intervention as well as cheap 5- and 10-year IRS) flattened the yield curve significantly. The central bank's program was inspired by the desire to lower the yields on longer maturities and hence make 5- and 10-year fixed mortgage loans cheaper.

In the international space, we see a chance that the turnaround in the major global central banks' balance sheet dynamics (we expect a shrinking cumulative balance sheet as of 2018 summer) could lead to higher yields. Given the central bank's policy, we think yields could temporarily remain below their fundamental value, naturally contributing to the activity in the housing market.

Credit supply

Banks are supposed to be supportive of the real estate market through abundant credit supply

In a moderate growth and low interest rate environment, banks are supposed to be supportive of the real estate market through abundant credit supply. The measures in the past, affecting the bank sector's profitability and targeting its fx mortgages, are expected to have reached their limit. With no new drastic measures expected, the sector's operating environment is more forecastable. Hence, the case for banks looking for lucrative lending opportunities could be alive.

Also, the central bank is keen on devising regulation to support the competition in the banking sector and its lending activity.

With indebtedness low in the private sector, consumers facing a long unseen low debt servicing cost, and the bank sector's own outlook stabilizing, we assess a good environment for credit supply to grow further.

As a consequence of the aforementioned, there is a strong likelihood that home prices could grow in excess of the rise in nominal GDP. The growth rate of nominal home prices could therefore remain in a medium-to-high single digit rate in the years to come.

Also, we expect to see the transaction volume to approach levels unseen since the financial crisis. These two impacts may hence result in low double-digit value growth in the existing home market.

Polish market outlook

The recent purchase of Metro House by Duna House raised the company's exposure to the Polish market significantly. We summed up the major comparisons of the Polish and the Hungarian operating environment to get a feeling about the current situation and the future prospects of the Polish operation in light of the Hungarian one.

MAJOR INDICATORS (FOR 2016, IF NOT INDICATED OTHERWISE)

	Hungary	Poland
Population (m)	9.8	38
GDP (EUR bn)	114	424
GDP (per capita, EUR)	11,572	11,176
GDP growth (2012-2016, average)	2.06%	2.60%
Unemployment (%)	5.1	6.2
Household debt (% GDP)	24.14%	37.44%

Source: GUS, KSH, NBP, MNB, Eurostat

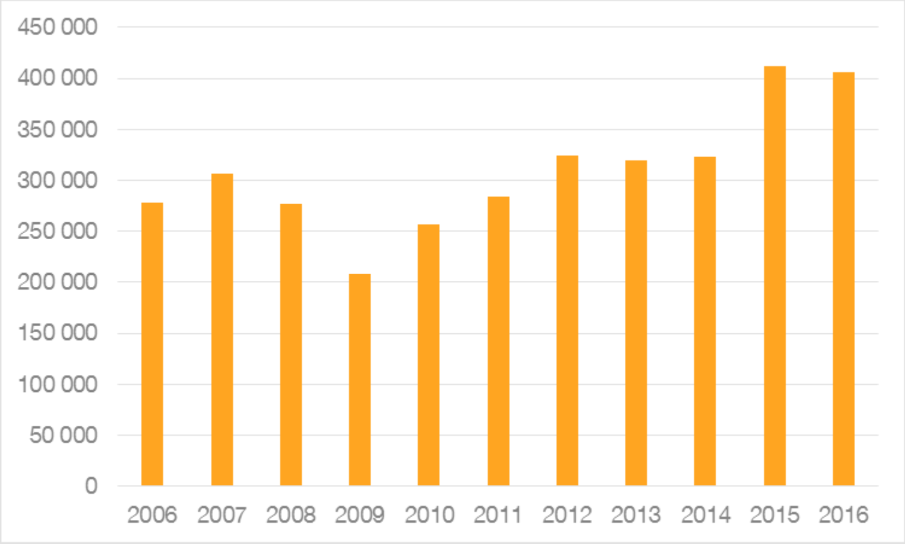
The parameters of the two economies reveal the potentially large size of the market in Poland relative to Hungary. Based on the population and the average GDP, the Polish market has a roughly 4x multiple relative to the Hungarian market.

Poland has achieved an imposing economic performance over the course of the financial crisis, mainly thanks to a fortunate timing (Poland's fx mortgage debt stock was in a relatively early phase of growth), and to ample fiscal space at hand to cope with the cyclical part of the downturn. Hence, credit market developments as well as income developments have been relatively stable, and accompanied by decent economic growth.

The yield environment has been aligned with the benign fundamentals and the yield compression in international markets. The 10-year yield dropped from 6.3% in 2011 to below 2% recently.

As a result, the volume of transactions on the real estate market has been resilient during the crisis, and rising since then. Total transactions reached 405.6 thousand in 2016.

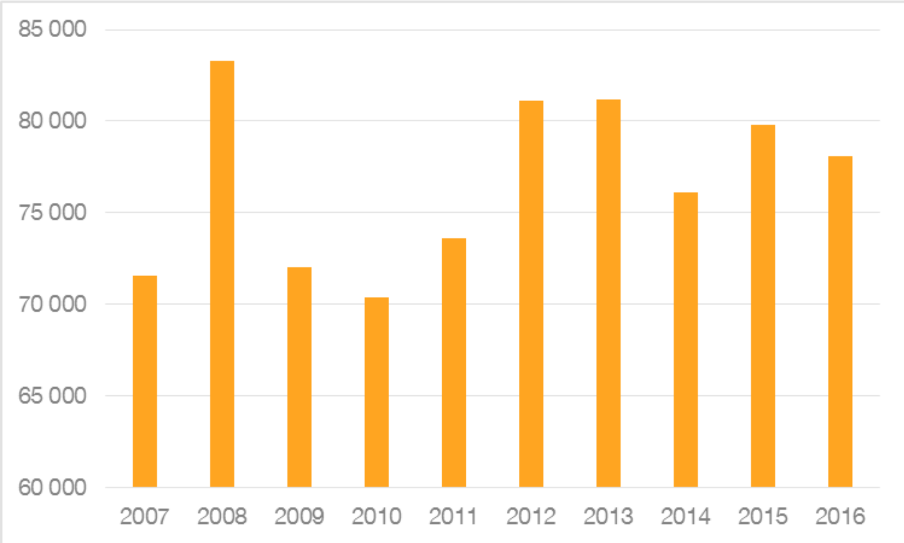
TRANSACTIONS (NUMBER OF FLATS)



Source: GUS

The pace of new home buildings has picked up lately, amounting to 76.7 thousand units last year.

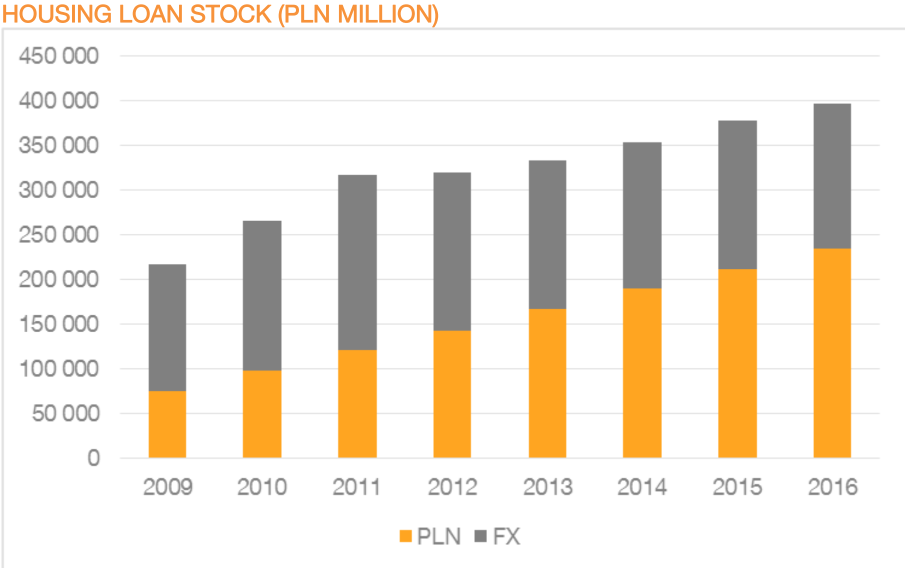
NEW HOME BUILDING (NUMBER)



Source: GUS

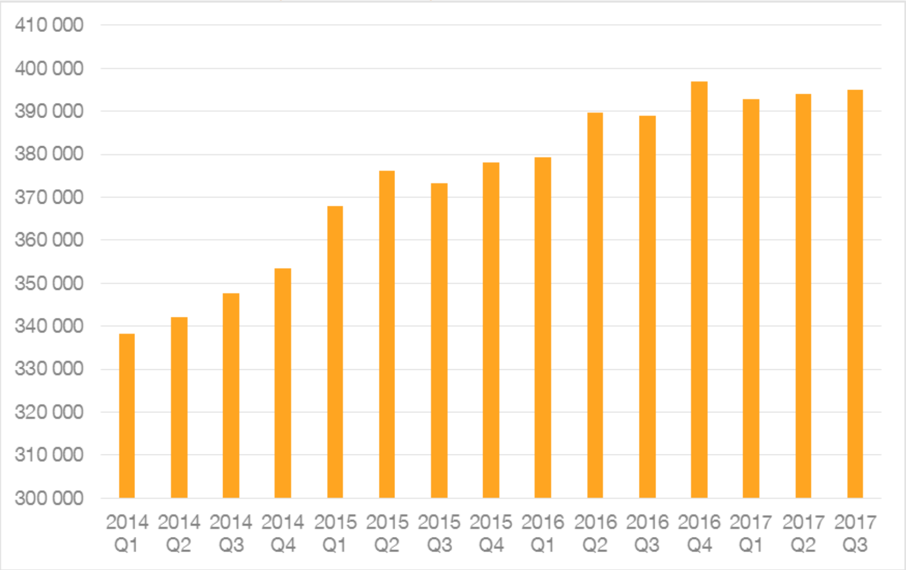
The still low indebtedness of households, the low interest rate environment and the continuous decrease in the unemployment rate stipulated the rise in the mortgage debt stock. The composition of the housing loan stock has been changing in favor of zloty denomination, given the bad experience of fx debtors in recent years. The proposed redenomination of mortgages could eventually lead to the virtual elimination of exchange rate risk from mortgage debt.

HOUSING LOAN STOCK (PLN MILLION)



Source: NBP

HOUSING LOAN STOCK (PLN MILLION)



Source: NBP

We foresee an economic growth rate of 3-3.5% annually in the years to come, with no clear threat of breaking the habit of low interest rates. Given the strong momentum in the economy and the low indebtedness, there is a strong likelihood that the environment will remain supportive of the real estate market.

Hungarian Core operation overview

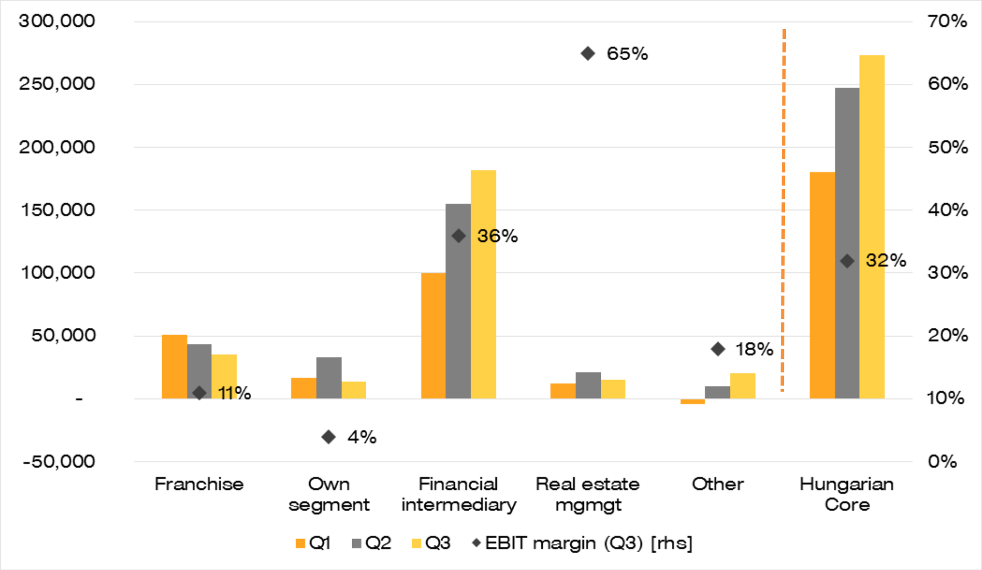
Duna House group consolidates all of its operations, however in order to shed some lights what is under the hood, we attempt to analyse the segments individually.

Profitability clashed in 2016 due to numerous one-time reasons.

Profitability seemed to take hit in 2016 as EBITDA margin practically halved from 41% to 18% in one year. In reality, lot of factors contributed to the weak performance, first and foremost the consolidation of Metrohouse (was in red), the loan intermediary fee cap (fees halved), low transaction volumes in 2016 H2, expenses related to the acquisition, GVH fee. In our view, EBIT margin bottomed out in 2016 and we expect significantly better margins in the upcoming years on the back of 1), strong efficiency gains at Metrohouse 2), lack of non-recurring expenses (eg. GVH fee, consultancy fees) 3), pick up in transaction numbers.

In the recent quarters, the Hungarian Core EBIT margin climbed to 29% from 24% as a result of higher volumes, especially in the financial intermediary segment. Amongst the business lines, real estate management has the highest EBIT margin (81%), though its absolute contribution was relatively small (HUF 20 million). Investors should focus on financial intermediary segment as it is the biggest component and thus driver of Hungarian core operation. One should also note, that due to the high operative leverage as volumes picks up it moves the EBIT margin upwards and vica versa.

HUNGARIAN CORE BUSINESS SEGMENTS & EBIT MARGINS



Source: DH

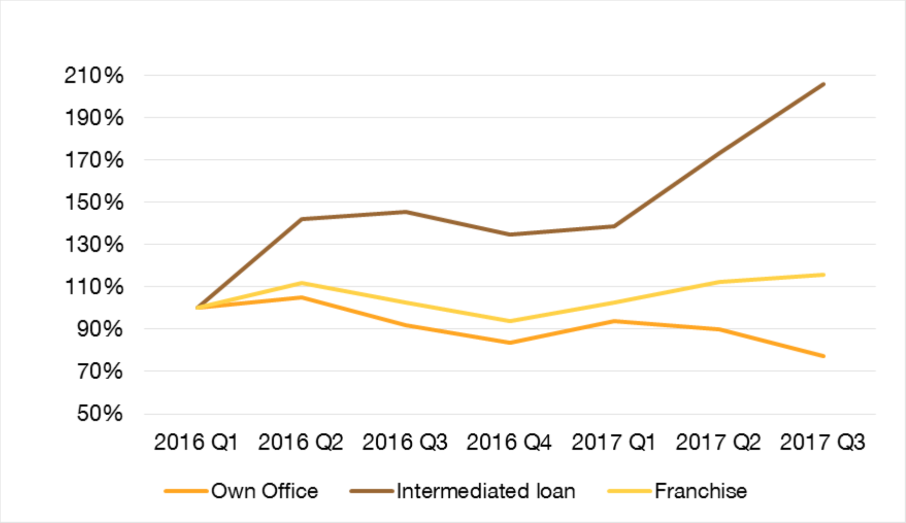
Franchise segment's revenue is a reflection of transaction numbers in the secondary market

The core operation has five important segments currently.The first is the **franchise segment**, which is the largest player in Hungary based on the number of offices. The franchise model creates the opportunity for Duna House to react quickly to the changing market environment. Furthermore, it also gives room to open new offices when the market goes up but just as rapidly enables Duna House to close these offices when the market shrinks. The business model allows the franchise partners to use Duna House's know-how, brand and database. The income of the franchise segment are from fixed and volume-based fees. Contracts with the franchise partners are usually pegged for five years. The fixed commissions consist of the entrance and the minimum turnover fees. Duna House has around 83 franchise partners who operate around 160 Duna House and Smart Ingatlan offices. Revenue from this segment in the last year, was merely flattish reflecting the development of transaction numbers.

Majority of own offices concentrates in Budapest

The company currently owns and operates 20 offices (October 2017), of which 14 come from the Duna House brand and 6 from the Smart Ingatlan brand. The main revenue of the segment comes from the commissions of the real estate transactions. Investors should note, that own offices mainly concentrated in the capital, thus the dynamics of this segment is a good reflection of the market situation in Budapest. However, in the last few quarter this segment's earnings was the weakest link due to management problems which issues has already been taken care of, and a new executives were appointed to recover the profitability of that segment.

HUNGARIAN CORE REVENUE DYNAMICS



Source: DH

Financial service division is the group's cash cow.

The Duna House Group offers financial intermediary services too which are mostly loan disbursements, home pre-saving contracts (LTP) and insurance services. As a result of putting a cap on loan intermediary fees at 2%, the loan origination sub-segment was heavily impacted, though it was mitigated by the intensive turnover of home pre-saving contracts (LTP). Furthermore, Duna House offers consulting services to choose the best option, but also takes care of administration. Despite the regulatory change, this division has remained the strongest contributor to the firm.

Real estate investment division

Duna House amassed a real estate portfolio prior to the IPO from which the group receives rental (ca. 8%). Initially management declared that the portfolio would not be larger than 2-2.5 billion forint by the end of 2017. However, this came before the Impact Residential Property Fund was established, and now it is said that these properties will be transferred to the fund, thus this segment will fade away. According to the latest financial reports, the book value of the portfolio in H1 2017 was around 1.2 billion which could serve as a cushion for a possible deleveraging. Using the book value of the properties and the revenue from this segment leads to an average 8% yield, which is impressive compared to the 6%-7% average rental yield in Budapest.

Hungarian Core: There is still room to grow…

Real estate market is in a growth phase and it is far from over.

The real estate market has been in an upswing for much of the last three years induced mainly by favourable credit and macro environment, and supportive political subsidies, which drivers are still fuelling the engine of the boom, thus we still see room to grow.

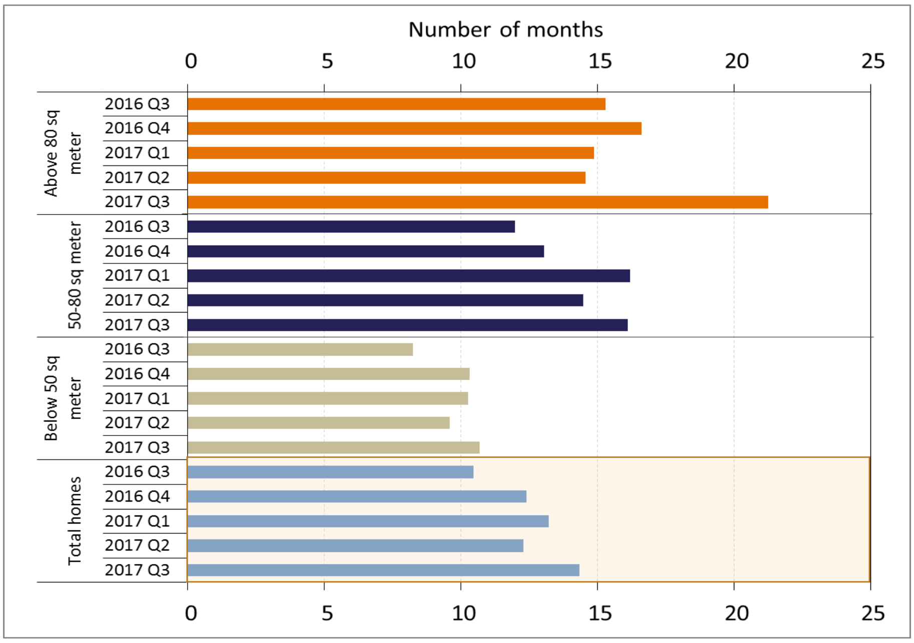
In the recent years, house prices have climbed in the fastest pace in the EU (ca 40% from the bottom) which dynamic should moderate and level off around 3-4% annual increase. Airbnb and foreign investors added to buoyancy mainly in Budapest where prices rose ca 70% from its bottom 4 years ago, while locations that were not in the spectrum of foreign capital such as municipalities and other cities prices rose only 32% and 15% respectively, during the same timeframe. Excluding these drivers,

Growth drivers will shift to domestic population, pushed by higher leverage, government subsidy schemes and fast wage growth.

dynamic would have been less intense. Looking ahead, as easy money has already been reaped, we expect that growth drivers will shift to domestic population, induced by double digit wage increase.

To support our view, it is worthwhile to take a look at the below graph which depicts the average day of sell of a certain types of flats. It can be clearly seen that there has been an increase in the time of transactions implying that buyers are rather take on loans which is a lengthier process than paying cash for the whole house.

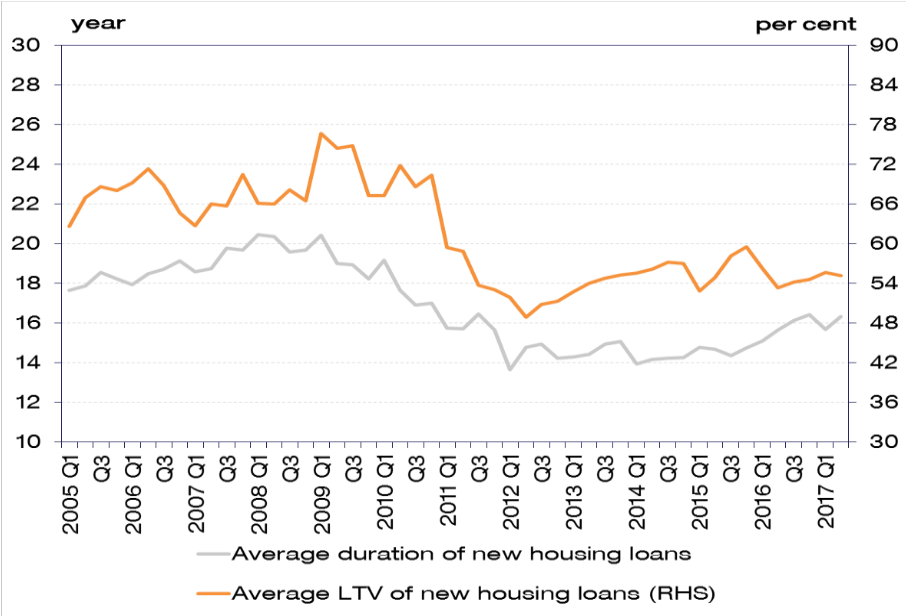
EXPECTED TIME TO SELL HOMES IN BUDAPEST



Source: MNB

Having 1,) record low interest rate - 5 years fixed interest rates for mortgages only at 3.5%; 2,) LTV ratio for new homes has still upside potential currently at ca. 54%; 3,) Average loan duration significantly under precrisis level for new homes (16yr vs. 20 yr) 4,) wage growth dynamic at double digits area (ca. 12% nominally) we believe this current conditions will prevail and further stimulate the real estate market.

AVERAGE CREDIT CONDITIONS

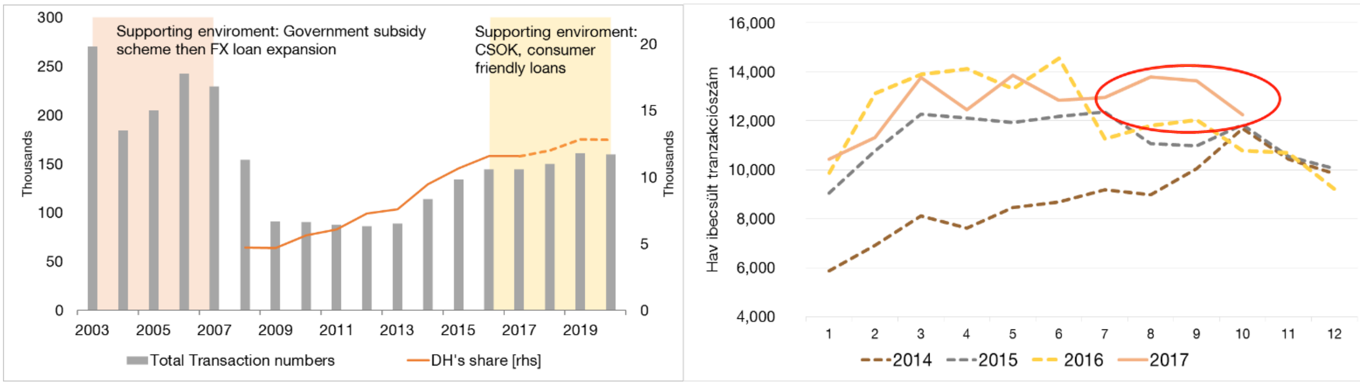


Source: Duna House, MNB

Transaction numbers on the secondary market will continue to trend upward, supporting the margins of franchise and own office segments.

As can be seen below, the number of transactions in the Hungarian housing market declined drastically, from 230,000 transactions in 2007 to slightly more than 91,000 transations over a few years. After the 60% drop, the number of transations remained more or less stable till 2014 when we saw a 28% increase in the numbers, and this has been on the upward trend ever since. In the chart below, we depicted the annually and a high frequency data showing the strong momentum of the market. Although we did not expect similar turnover as in the early 2000's the incentives are relatively stronger (wage dynamic;interest rates on mortg; price/income) nowdays than it was between 2003 and 2007, thus a convergence to the average (ca. 160.000) is not a far fetched notion, in our view.

NUMBER OF TRANSATIONS IN THE HOUSING MARKET



Source: Duna House, KSH

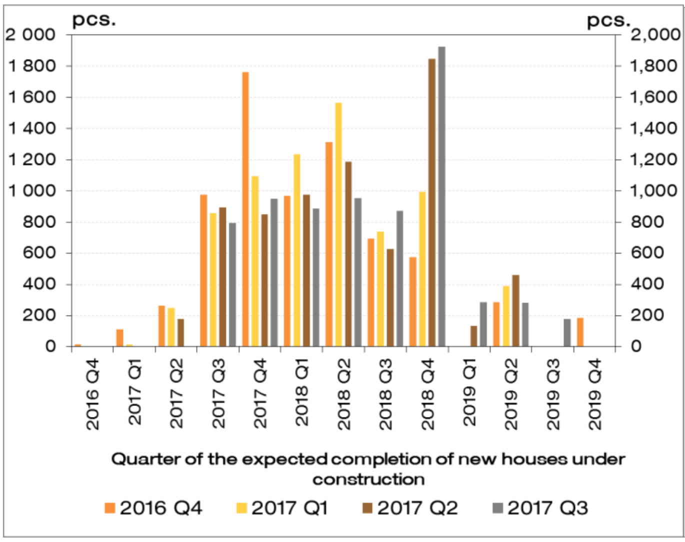
Greater upside in the case of loan disbursement

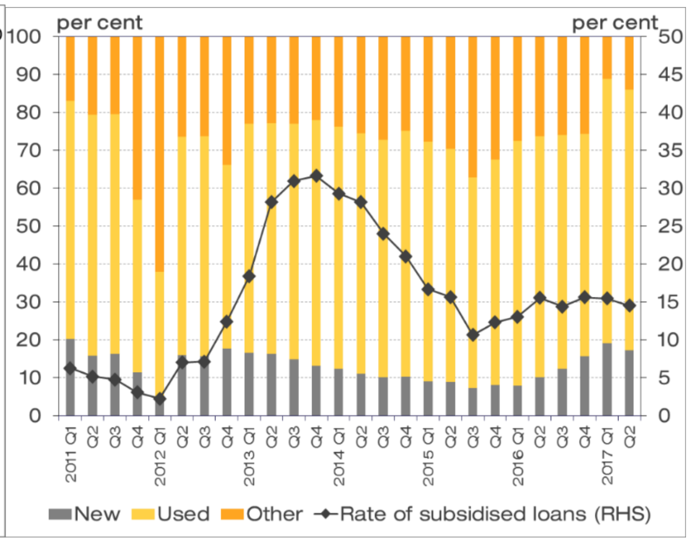
Although the share of financial services has decreased in total sales after the regulatory changes, we still see great upside, especially if we take into account the recovery in loan disbursements that has gained momentum (since 2014 the average quarterly loan disbursement growth is 52% y-o-y) recently, which may mitigate the effect of the drop in the loan intermediary fee. Obviously, we place higher emphasis on the analysis of this segment, as the EBIT contribution is the highest for the financial intermediary amongst the business lines.

We expect the loan disbursment to accelerate even from this current phase (+30%) on the back of acceleration of CSOK subsidy. Related to this we would like to stress two important thoughts:

1), Disbursement related to CSOK has represented relatively low share from mortgage loan origination so far (see below). We believe that it will grow significantly, as the wave of newly built houses come online and be available to move for families (thus has to proceed with the final installment of the purchase price, as the structure of the payment is back-loaded). We expect that credit growth will accelerate induced by the wave of new house completions in the next years.

ON AVERAGE 9-12MONTHS DELAY IS EXPECTED & DISTRIBUTION OF HOUSING LOAN DISBURSEMENTS BY LOAN PURPOSE

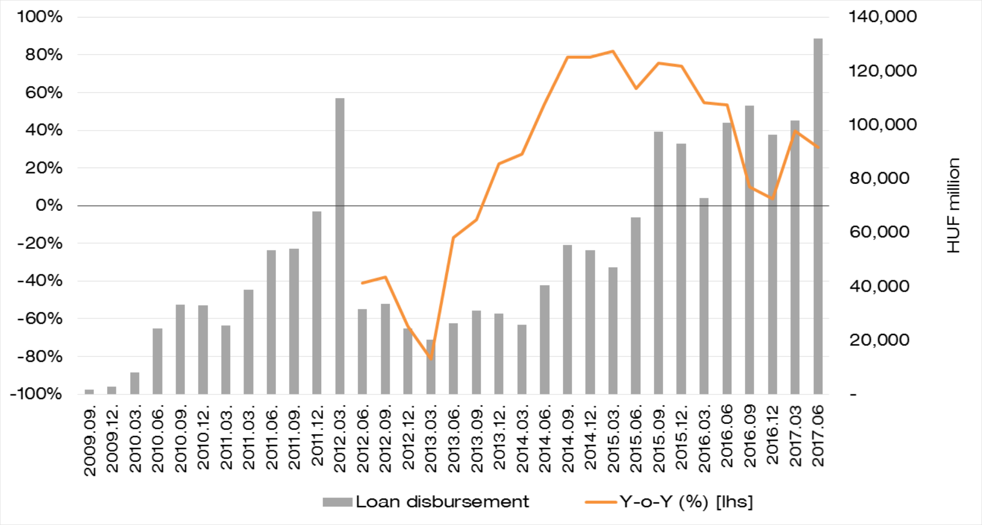




Source: MNB

2), Althought, the new house buyers are the main beneficiaries of the subdidy, we are in a view that it should have spillover effect on the secondary market. The reason behind this notion is that new house buyers will sooner or later sell their original house as they move to the new one. Furthermore, CSOK supports home buyers in the secondary market as well, though this amount is far less generous (for 3 children it is 2.5 million vs. 10 million). Therefore, DH is able to indirectly capitalise on the supportive shcemes.

CREDIT DYNAMICS



Source: MNB

One-stop shop strategy is the key growth opportunity

An even better opportunity is the One-stop shop strategy of Duna House. The strategy is very simple: increase the number of those customers who are not just using the real estate agency service but also taking out loans from Duna House as a related service. It is easier for customers to use this service than to find out on their own which bank gives the most advantageous conditions. Needless to say, this related service has a major impact on earnings since the margin on the financial service segment is also high.Further ahead, trend growth lies with the government and its ability to implement structural reform such as the CSOK program. The state supported CSOK program might increase transaction numbers. CSOK finances not only newly built homes but gives support for buying existing homes too. The amount of support depends on the following parameters: number of children, usable floor area, and the energy efficiency of the home.

Growth for multiple time horizon

Armed with long term and short term opportunites.

Apart from the Hungarian core operaton, Duna House has launched new routes to ride the consolidation of the domestic real estate market, to find new growth opportunities and, last but not least, to diversify its exposure. Excluding the real estate portfolio which will sooner or later be merged with Impact Asset Management, we consider the segments as growth opportunites, on two time horizons.

Inorganic growth is still on the table.

Poland can be seen as the new long-term engine of growth for the group; meanwhile development represents the short-term strength of Duna House that could take advantage of the shorter cycles, such as the substantial demand for newly built houses. It also worthwhile to mention that further M&A transactions could be on the table as a way for growth.

As regards Impact, its value is highly dependent on the investment flow it could entice, which is also an embedded option since the expenses occurred have already been incorporated into the group's financials.

In the next chapter we describe the above-mentioned segments and elaborate on the factors which meaningfully influence their values, and the approaches we applied to giving indicative value ranges.

Hungarian dance in Poland

They entered the Polish market

To finance the expansion, management wanted to use the cash from the first attempt of a public offering to grow non-organically in Poland. After the cancelled IPO, management managed to carry out the M&A transaction anyway, and purchased 100% of Metro House (the biggest real estate agency in Poland) for HUF 870 million.The deal had a mixed financing structure; it was partly financed by debt (HUF 340 million) and the remaining HUF 530 was paid equally by equity and equity swap.

Metro House operates in the same segments as Duna House in Hungary, though its financial service segment has been performing relatively weakly given its huge potential. Moreover, the company is the biggest real estate brokerage in Poland but has a large backlog in mortgage loan intermediation (only 6th in terms of the number of intermediated loans). If we put the Hungarian and Polish operation next to each other, the former is bigger in every aspect.

OPERATIONAL DATA [2016]

	Metro House	Duna House
Offices	81	151
Independent franchise partners	61	96
Real estate brokers	536	1,300
Average size of residential mortgage loan [HUF million]	16.2	7.6
Market saturation - transactions / 10,000 people	0.4	5.6
Mortgage loan market [EUR billion]	90.4	9.7

Source: Duna House, Concorde's estimates

Metrohouse is the catalyst of future growth of the group

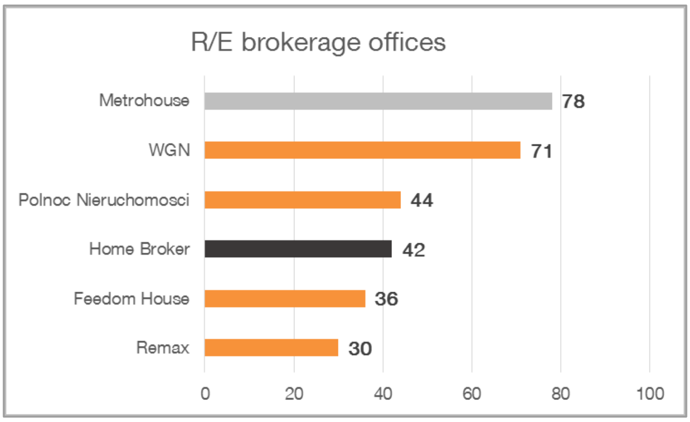
The above numbers confirms Duna House's strategic decision of looking for value in Poland: (1) the market is less saturated currently, offering expansion opportunities; (2) the mortgage loan market is ten times bigger compared to that of the Hungarian one, which is the result of a four-times-larger population and the less risk-averse financial behaviour of Polish people taking sizable loans (HUF 16.2 million vs. HUF 7.6 million). Taking into account the residental and loan markets we see that the macro side is supportive; thus it is all up to the management's ability to apply its expertise in Poland.

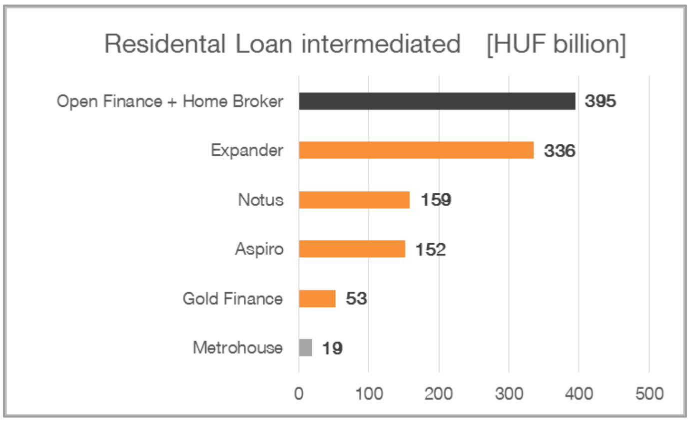
Financially, Metro House performed poorly over the past two year; its revenue dropped by 20% Y-o-Y to PLN 11 million (HUF 0.8 billion) in 2016 and the company ended up in the red (due to large impairments and write-downs), indicating an urgent need for restructuring.

Implementing the modus operandi achieved..

So far, management was able to steer back the company into EBIT positive territory in Q1 then turned into black in Q3 (4% profit margin). Given the similarities in the operation, one would expect similar margins for the Polish operation (ca.28%), which notion we share but handle it with a conservative manner. In our view, the focus should be on improving further enhancement in efficiency as EBIT margin is only at 7% in Q2 vs. Hungarian core of 29%. Thus we expect gradual continuation of margin convergence to our conservativ EBIT margin target of 25%.

CROSS-SELLING POTENTIAL COMPARED TO PEERS





Source: Duna House prospectus

The pace of EBIT margin convergence is the major question..

…existing franchise contracts have to be expired and renewed in order to implement the „Hungarian model" with its higher fees.

On average it took ca. 2years for the contracs to expire. That is the reason the convergence will be gradual.

The bar charts above depict the cross-selling potential that lies ahead of Metrohouse. If we take a look at the grey bars on both charts, it becomes clear that former management did not utilize the huge customer base to supply the loan intermediation segment. If we wish to quantify the upside, we can compare the number of loans intermediated by Home Broker (supported by Open Finance) with 42 offices to those of Metrohouse, which originated only 5% of those intermediated by Home Broker, albeit with twice the number of offices. Using this analogy indicates that Metrohouse should increase its current figures in that segment at least twenty-fold. This calculation comes with the caveat that we lack information regarding Open Finance's contribution to their joint performance, and should therefore be taken with caution.

Given the fact that the Dymschiz brothers built up the leading Hungarian real estate agency within less than two decades from basically nothing, we advance the trust that they will be able to turn Metro House into a profitable entity.

In accordance with this, we believe that it is fair to assume that after the know-how implementation Metrohouse should operate at a similar EBIT margin (ca. 20 - 25%) as the Hungarian operation. Although market differs from market we believe that management should be able to take advantage of its expertise garnered on the Hungarian market and apply this know-how in Poland. With the combination of recovery in margins and consolidation in sales in a market that is four-times bigger than Hungary, Duna House could tap into fertile soil.

We created a table that shows the enterprise value of caveat in light of the targeted EBIT margin and the timeframe in which it will be reached (2017 is a starting point). Our assumptions are the following:

- EBIT convergence is gradual and the target is 25%
- steady 5% annual sales growth in the explicit period and 2% at the terminal
- stable 5% capex / sales ratio – same as at DUNA HOUSE's core operation
- Cost of Equity of 15% - reflecting execution risk
- Expect that EBIT target will be reached in 3 years.

We can conclude that Metrohouse value range is from HUF 1368 million – 2,984 million. Although we think that this setting of value depicts a rather conservative approach, the majority of outcomes still indicate a higher price than the transaction value of HUF 870 million in April. Last but not least, we expect that profitabiltiy will converge to similar levels than the Hungarian operation in 3 years, however if it occurs sooner / later would increase / decrease our valuation by ca +- 150m. Sensitivity for the other factor (EBIT margin), is relatively weighs more, altering our valuation by +- 500m in case of 5% higher / lower EBIT margin compared to our base case scenario.

VALUE OF METRO HOUSE IN DIFFERENT SCENARIOS

		EBIT margin			
		15%	20%	25%	30%
Year of EBIT convergence	1	1,368	1,907	2,445	2,984
	2	1,278	1,787	2,296	2,805
	3	1,191	1,670	2,150	2,630
	4	1,108	1,560	2,012	2,464
	5	1,029	1,455	1,881	2,307

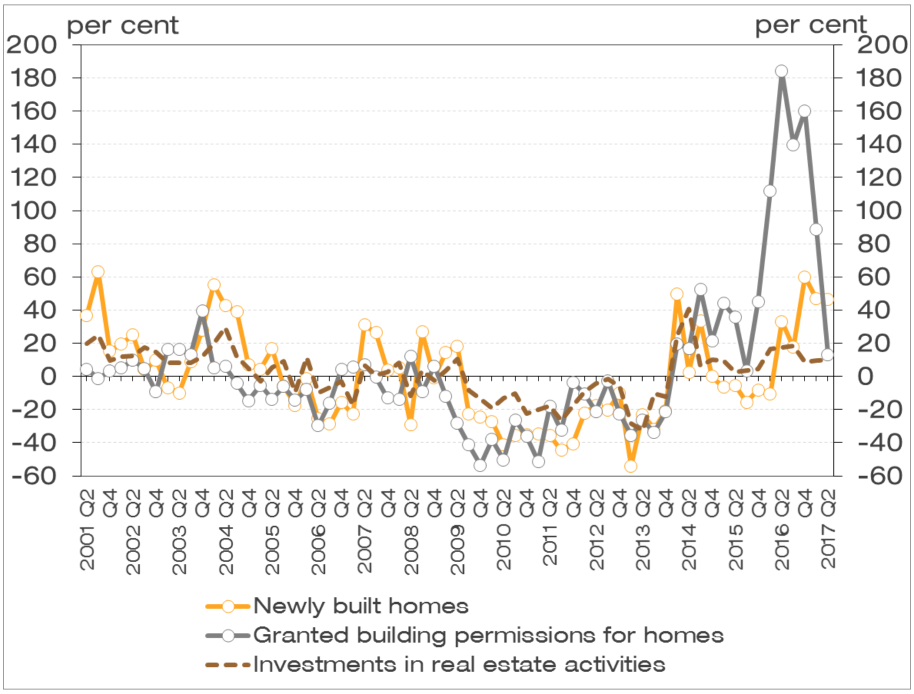
Source: Concorde's estimates

To translate the EBIT margins to profit, we expect ca. HUF 60m and HUF 120m profit contribution for 2017 and 2018 repsectively.

Development segment

In order to exploit the lack of new houses in Budapest and the massive demand, Dymschiz brothers launched a new line of business. Joining forces with other investors, they purchased four tracts of land with a total size of ca. 40,000 sqm to build residential real estate.

ANNUAL DYNAMICS OF THE NUMBER OF CONSTRUCTION PERMITS ISSUED, NUMBER OF COMPLETIONS AND REAL ESTATE SECTOR INVESTMENTS



Source: Duna House

Location is amongst the top in the priority list of home buyers, thus we start with that. The location of land are located in the 13th and 18th districts, with two sites in

The gigantic appreciation of the lands (ca. 200 per share) indicates the good location and better than expected sale prices

the 3rd district, and have already been valued at double their purchase price. In our view this signals three things: (1) there is still a hefty demand for bulky plots with a favourable location; (2) it confirms the expertise of the management in choosing the areas; (3) the additional land value can be considered as an indicative signal which translates into higher sqm prices that will fuel profit later on.

To capture the enterprise value of these projects we calculated the aggregated NPVs using various scenarios. Our model is based on two pillars, the estimation of revenue and the cost side.

- We estimated the **revenues** based on the weighted average sale price of HUF 580 ths / sqm which is the prevailing pre-sale offer price.
- On the **cost side**, our assumption is that total cost includes: (1) land purchase; (2) indirect costs (Architects and concept design, contingencies, sales commission, utility commission fees, legal fees); and (3) direct costs (building, material costs). Total expenses averages at ca. 70% of the sales. In the recent years, cost inflation was substantial due to labour constraints, which weighs on sales price in the newly built houses. In relation to that, management indicated that they have been able to increase pre-sale prices in order to offset cost inflation. Our opinion is that as long as the market is demand driven (double digit wage growth; CSOK subsidy; uncertainty about VAT extension for new houses after 2019) and not the other way around, inflation could be passed through to customers, leaving developers' margins relatively intact.

First project is close to finish and indicated to reach ca. 20% profit margin, based on management communication…

One should note that Duna House managed to purchase the land at a bargain price – which has already doubled in value as of now – which is the reason for the elevated margins.

.. however,we take the conservative way and assume only 13% profit margin for the next two projects, and value the the last solely on its land value.

DEVELOPMENT SEGMENT VALUATION

Profit margin	SZUM PAT [HUF m]		2017E	2018E	2019E
20%	2,928		409	1,885	444
18%	2,648		409	1,696	400
15%	2,238		409	1,414	333
13%	1,965		409	1,225	289
			fixed price building contracts for the first project		
DF			1.0	0.9	0.8
CoE	15%				
Profit margin	SZUM PAT [HUF m]	Per share		*dicounted*	
20%	2,384	693	409	1,639	336
18%	2,187	636	409	1,475	302
15%	1,890	550	409	1,229	252
13%	1,693	492	409	1,065	218

Source: DH, Concorde Estimation

Last but not least, management stated that they have no intention of further involvement in real estate development as long as the government neglects to clarify how long they intend to keep VAT at 5%.

Impact: Life starts above HUF 5.0 billion

More flexibility, broader diversification possibilities and primer information from the market

Duna House established its asset management in 2016, which started to under the brand Impact. The service of the fund is unique in the Hungarian real estate market since its core focus is residential buildings. If an investor wants to have a relatively liquid exposure in the Hungarian real estate market the fund is a better option than the traditional real estate investments due to the diversification effect and the fund manager's expertise. Obviously, the cost of operation is higher in the case of a residential portfolio than an office since it builds up smaller assets, but the bright side is also higher since the residential fund correlates more with the real estate boom than the office market. As usual in the case of real estate funds, there is a penalty fee if the investor wants to retrieve its investment earlier than 1 year (4%) or 2 years (3%).

Since the launch, it has yielded 9%

The expected return comes from two factors. First the price increase of the portfolio, secondly the net yield of the rents. In the past 15 years the Hungarian real estate market had a nominal 6.4% annual growth rate vs. the past year when the market boomed by ca. 17%. Net rent yields are around 5-6% on an average basis. The asset management business is very straightforward: the larger the NAV the greater the EBITDA. Since a large portion of the costs are fixed and the management fee is 2% of the NAV, earnings will jump if cash inflow increases. If the return of the fund is above the benchmark plus the management fee plus a percentage of the pass-through costs, the fund will receive an incentive fee which might give significant extra earnings. However, we assume that annual yield should be above 7% to receive the incentive fee.

The table below shows five scenarios in the case of different NAVs. Please note that the incentive fee is zero in each case since the fund has no track record yet. The fixed cost is around HUF 60 million when the NAV is low and will increase to HUF 100 million when the fund increases. It is important to note that Duna House Group paid the office cost in the past two years, thus one should reduce the other costs of the Hungarian operation. We used a 6x EV/EBITDA ratio to calculate the enterprise value for the different scenarios.

The bottleneck for Impact is the NAV it can allure

Currently the fund has no track record and the NAV is lower than the break-even (ca. HUF 5.5 billion), but we assume that Impact is a significant growth opportunity in the investment case. The incentive fee increases profitability exponentially, however, as long as there is no track record we cannot match probabilities to it.

SENSITIVITY ANALYSIS W/O INCENTIVE FEE

NAV [million HUF]	2,000	5,500	10,000	15,000	20,000
Management fee (+)	40	110	200	300	400
Incentive fee (+)	0	0	0	0	0
Trailer fee (-)	18	50	90	135	180
Fixed cost (-)	60	60	100	100	100
EBITDA	**-38**	**1**	**10**	**65**	**120**
Enterprise Value	**0**	**3**	**60**	**390**	**720**

Source: Concorde forecast

SWOT analysis

Strengths

- Diversified operation through the numerous main segments and via two countries
- High and equable margins in every segment
- Strong and well-known brands in the Hungarian and Polish market
- Low cost operation through franchise business
- Low yield environment
- Pure play to the Hungarian & Polish macro
- Solid dividend yield

Weaknesses

- Low free float
- Extremely low liquidity in the Hungarian market
- Dependence on banking sector

Opportunities

- Hungarian households debt-to-GDP is on a low basis
- Booming Hungarian housing market
- Merger and Acquisition deals will boost the business growth in foreign countries
- Polish extra loan disbursement due to the CHF conversion

Threats

- Political risk in Hungary and other CEE countries is extremely high, and may have a detrimental effect on valuation through increased risk aversion
- Illiquidity could affect the investment case
- Slower or no recovery in the housing market
- Awful willingness in the local market to take any kind of loans

Q3 earnings

- **Duna House Group posted its third quarter result on Monday, post market. The group's net profit reached HUF 206 million in Q3 and HUF 751 million in 9M, achieving 81% of management annual profit target (HUF 925 million). Hungarian Core was strong, Metrohouse posted weaker results than in Q2 but remained in a positive EBIT territory, last but not least we received the first preliminary estimation (HUF 650 million) of EBIT for the first development project, which is slightly above our forecast of HUF 400 million profit (EPS 116).**

- In nutshell, we believe Duna House posted solid results, 1),Hungarian division is able to surf the wave of strong macro pushing core operation's EBIT margin to 33% from 29% q-o-q; 2), Management reaffirmed its annual profit guidance; 3), We have received an HUF 650 million EBIT guidance for the first development project which is slightly above our estimation.

- **Hungarian operation** has managed to post strong quarter again. EBIT margin has improved from 29% to 33% on the back of hefty loan intermediation (+25% y-o-y) and a HUF 60 million on off. As for own office segment, its revenue climbed by 24% but due to the inefficiencies at Czech and Polish operations the incremental revenue did not managed to flow through to the bottom line.

- As for the **Polish operation**, revenue has slightly declined (-7% q-o-q) due to lower loan intermediation (-30% q-o-q) which should be attributed to seasonality. Despite the lower revenue, EBIT still on the black, reaching 4% a bit lower than in Q2. In this respect our forecast might be too optimistic, assuming 7% EBIT margin for the whole year. This might sound disappointing but we would like to highlight that if intermediated loan volume picks up EBIT margin will improve.

- This time the good news come from the **development** side, projects are well on track, what is more, management guided that EBIT from project Reviczky could hover around HUF 650 million, which is slightly above our estimation of HUF 400 million (EPS 116). For Project Forest Hill – the biggest part amongst the projects – is well on track according to the report. Main question in our view is the extent of the income from this project, management is willing to distribute to investors. To put this question into perspective, dividend could double (DPS 110 – 240) compare to last years if they were to pay out all of the profit, implying a 6.6% dividend yield.

P&L forecasts for the Hungarian core operation

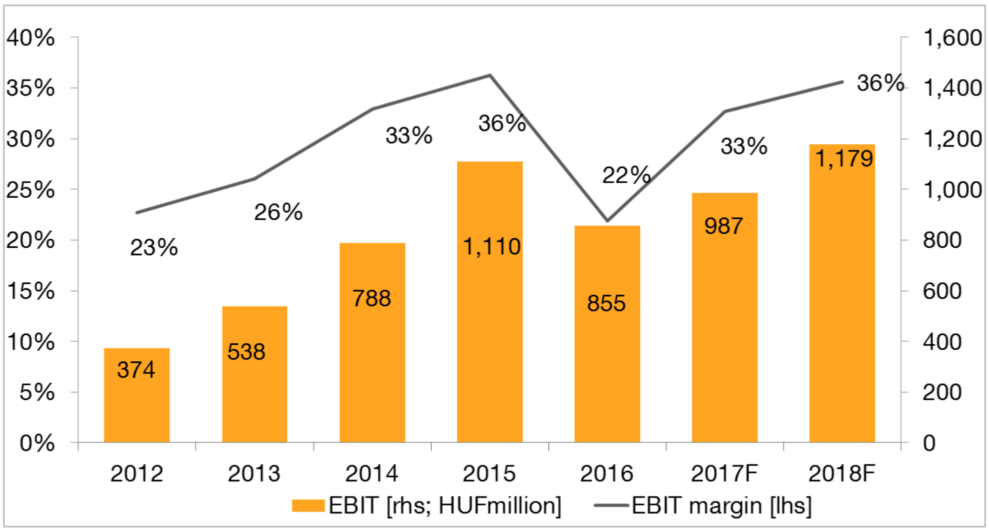
The current chapter goes through the major P&L lines and shows our forecasts for the forthcoming years for the Hungarian operation only. Currently, we see the core operation to be stable and assume that the impressive growth achieved by Duna House in the past will continue in the future, though at a bit more moderate pace.
We separated the core business from the new asset management division (Impact asset management), from the real estate development division, and from Metrohouse also. One should notice that financial results from 2017 H1 consolidates the Polish operation, however, we exclude it from our earnings trajectories in order to be more transparent.

Earnings prognosis

EBIT margin will improve on the back of higher transaction numbers

As a result of the high operative leverage and the continuation of higher transaction numbers, Duna House margin will improve on the back of higher number of transactions.

EBIT MARGIN AND EBIT FORECAST

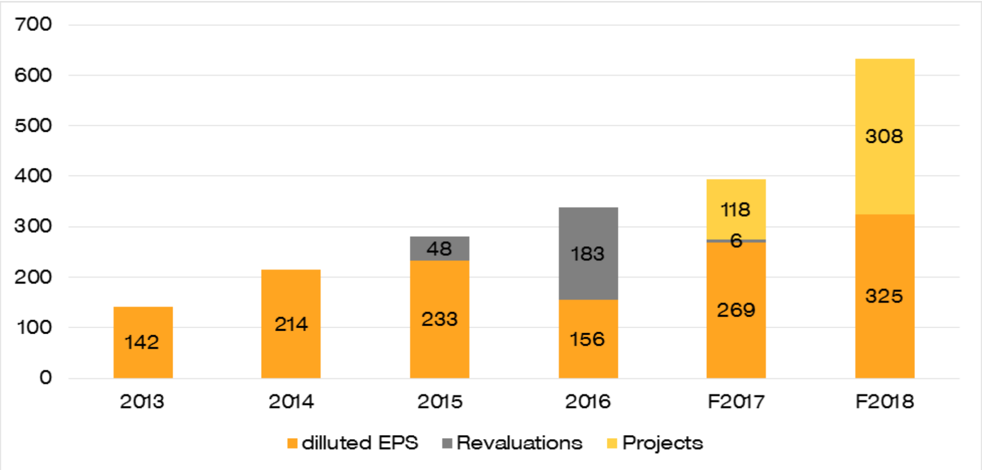


Source: Concorde's forecast

With the help of Forest Hill project, profit could double in 2 years.

Our profit forecast for 2017 for the Hungarian Core is in line with the management outlook of ca. HUF 850. On top of that comes the ca. HUF 60 million profit contribution from MetroHouse and the income from the Reviczky project if it finishes in 2017. In total this amount could be in the neighbourhood of HUF 1,300 million (assuming 100% sold flats at Reviczky), meaning ca. EPS 380 for the group and 9 x P/E for a valuations standpoint. For 2018, the growth in the Hungarian market will continue (HUF 900 million) and we expect further margin improvement for Metro House (HUF 120 million) , and last but not least the completion of Forest Hill project (196 flats; ca. 1,000 million – non recurring earnings). Adding all up, it means that profit could reach HUF 2,200 million, practically doubling profit in a year. However we would like to highlight that the skyrocketed performance hinges on the completion of the Forest Hill Project (scheduled to finish in 2018 October), without the development arm profit should hover around HUF 1,020 million.

EPS PROJECTIONS



Source: Concorde's forecast

We would like to emphasize that, our estimates is based on fact that all of the flats will be sold at a relatively short period of time, which might prone to unrealistic, thus portion of the income from the projects might be recognize in the following year.

One should raise the question, what is the intention of the management with this record high profit. Our view is that they will either pay-out large part of it or start to build a war chest by paying out relatively low amount in order to internally fund a potentially new acquisition.

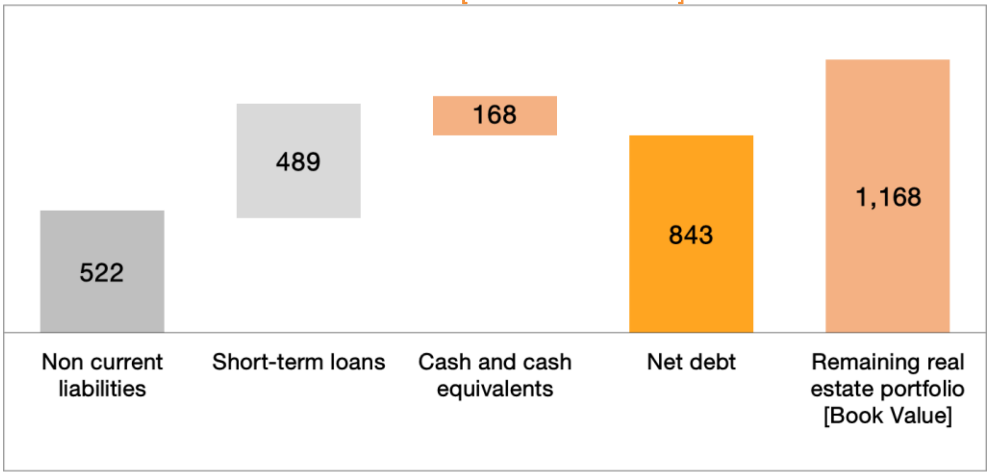
Leverage starts to build up

Duna House's balance sheet is thin compared to producer companies due to the franchise business model which doesn't need extra capital from Duna House. As a result of this, the return on assets are high. Between 2012 and 2015 the ROA ratio was 36% on average while ROE was 66%.

Debt could be lowered to zero by selling off the remaining real estate portfolio

Turning our attention to debt ratios, the Net debt to EBITDA ratio usually stays very low at below 1x net debt to EBITDA, though the consolidation of MyCity (development arm of the group) weighs on the debt part of the equation without adding any EBITDA. Thus in H1 it amounted to 1.5x net debt to EBITDA. Excluding the effect of consolidation, debt metric should be way below 1.0x net debt to EBITDA.

DEBT STRUCTURE EXCLUDING MYCITY [2017 HUF MILLION]



Source: Duna House

Temporarily, debt could spike, and reach even 5 times of EBITDA

Looking ahead, debt levels will definitely grow, as Forest Hill project progresses. One should note that, construction cost could easily mounts to HUF 4-5 billion at that activity, which will be financed heavily by debt and partly by pre-sale. Assuming an 80-20% funding structure, additional HUF 3.5 billion debt could easily come on top of current levels, reaching temporarily 5 times of EBITDA. Obviously, as the sales progresses debt level will normalize.

Dividend is expected to grow, the only question is the extent!

Acquisition or high dividends that is the question?

One of the strongest pillars in Duna House's business case is the dividend flow which the Company's management is willing to pay out to investors. Given the fact that the CAPEX need of the core operation is very low and the cash conversion ratio is very high the group could pay generous amount to investors in the absence of superior goal. In 2017 company distributed ca. 47% of its profit which translated to DPS 120 and ca. 3.2% dividend yield – calculating with the average stock price of the last 1 year.

Duna House paid out HUF 479 million as dividend in 2017 and HUF 247 million in 2016. Dividend in 2016 is not representative as the general meeting voted to plow back more money in order to finance the expansion in Poland.

Dividend could reach DPS 200 if management willing to pay out a large part of the income from project Reviczky

Looking ahead, management should arrive to a junction where they have to decide which path they would like to steer the company. They either choose to please investors and distribute large part of the income from Reviczky (ca. DPS 110 on our calculation) on top of the profit from business as usual (ca. DPS 100 – 120) or continue to seek growth opportunities in the form of acquisitions.

Since we see Duna House's stock as a long-term investment we appreciate the management's commitment to a minimum pay-out of 47% of the net adjusted profit.[1] It is also important that the management highlighted that in the long run they will pay out as much dividend as the operation does not need, thus we assume Duna House will pay out around 60% after 2017.However we would like to highlight that if any acquisition is seen at a reasonable price, management may consider the trade-off.

Risks to the investment case

Country risk materializes as political risk grows

We do not see the main risks as being posed by macro indicators; rather the unstable rules created by politicians are the real danger. Over the medium term, the policymakers' room for manoeuvre is unlimited, thus the risk to raise or create a new tax in any industry is also boundless. The same applies for Poland as well, although the political balance is less skewed to the governing party.

Sale prices of the new flats may come under pressure

We would like to draw investors' attention to the high sensitivity of development revenues to the sale price of flats. Given the hefty demand for newly built houses, a large number of real estate developments have been launched in response. This might create downward pressure on sale prices if a big amount of residential development comes to the market at relatively short notice.

Don't forget the execution risk!

Execution risk could also prove to be value destructive if management fails to implement know-how in a timely manner. Our calculation showed that a yearly delay in reaching targeted EBIT could deteriorate the value by 5% roughly.

Liquidity is a daunting challange

Liquidity risk is the major threat to the investment case. Generally, liquidity on the Hungarian market is very low and if we do not calculate with the four blue chips the liquidity is very low.

Technology risk

Technological changes are affecting almost every industry globally. The real estate agency market is no exception. We can observe the positive track record of on-line agencies and we assume that it is a noteworthy risk for the legacy agents. On the other hand, on-line platforms gives room for Duna House to use their database and advertise there too. To sum up, we assume new technological solutions will determine the industry and DUNA HOUSE should keep a close eye on them.

Management risk is high

Nonetheless we assume the management risk is very high, but not in the way that we normally view risk. Of course, risks that management is willing to take in executing

[1] Net adjusted profit excludes earnings and fair value estimates of the real estate investments of the group just as our current forecast. Also DH pay-outs of employee dividends amounts to 6% of after-tax profit.

a bad M&A deal or committing other mistakes in the operation is just as high as in the case of any other listed stocks, but we wish to highlight that the brand is built on the Dymschiz brothers.

Share overhang

As a part of the acquisition of the polish operation, the former owner received a 2% share of Duna House Group of which he purposes to dispose. In regards to that, the lock-up was extended until 21 April 2018 after it expired in November.

Conclusion

Core business is solid

We strongly believe that Duna House is a great proxy for the improving Hungarian housing market. Transactions in the local market could increase significantly, which will be supported in the forthcoming years by: (1) low interest rates, (2) the government subsidy for purchasing houses, (3) lower VAT for real estate developers, and (4) relatively high rental yield. Additionally, investors will also gain exposure to Poland via Metrohouse whose profitability is tied to the management's capability of implementing the Hungary-tested know-how.

Polish long-term growth

Although the regulatory change entails a severe hole in the revenue of the core operation, H1 data suggests that the growth of domestic business is able to outweigh the weak performance of the loan intermediary segment. What is more, Metro House has great potential to make up the missing revenues in that segment if management begins to utilize cross-selling across business lines. Despite Metrohouse having the largest customer base amongst R/E brokers in Poland it has intermediated the least number of residential mortgage loans recently, implying enormous untapped sources. Keeping the above-mentioned in mind along with the management's track record, we are sanguine about the Polish operation which theoretically has the chance to even outgrow the Hungarian operation.

Impact & Development are also promising..

As for the other new business segments, we see great upside in Impact Asset management if they entice enough attention and influx. For the development, it all comes down to the sale price, though pre-sale prices are encouraging.

..though take liquidity into account

Furthermore, we assume that Hungarian small caps should trade with a significant liquidity discount relative to their Western European or Central European peers since the local market is illiquid.

With 50% pay-out dividend yield should be in the neighbourhood of 3-5%

To compensate that risk, the management is willing to pay out ca. 50% of the net adjusted profit. In our view, the strong macro setup in Hungary, the improving polish operation, the huge profit boost from the development projects will all convey the message that dividend will be able to grow. What is more, pay-out ratio might increase in the following year if there is no potential inorganic growth target; thus Duna House is likely to become a dividend stock with an option at the end.

Appendix – Forecast includes only the Hungarian core operation

P&L [HUF MILLION]

	2013	2014	2015	2016F	2017F	2018F
Revenue	**2,066**	**2,393**	**3,065**	**3,900**	**3,017**	**3,306**
Operating revenue	1,662	2,287	2,833	4,011	2,817	3,156
Other income	404	107	232	250	200	150
OPEX	1,529	1,605	1,920	3,045	2,030	2,128
EBITDA	**589**	**830**	**1,184**	**945**	**1,062**	**1,258**
EBIT	538	788	1,110	855	987	1,179
EBT	559	836	1,121	1,381	1,094	1,188
Income taxes	-72	-101	-156	-161	-153	-166
Non-controlling interests	0	2	-1	25	25	25
Net income	**487**	**734**	**966**	**1,195**	**916**	**996**
Adjusted Net Income	487	734	966	714	916	996

KEY PERFORMANCE INDICATORS

	2013	2014	2015	2016	2017F	2018F
Number of credit intermediations	1,984	2,973	3,159	3,645	3,681	4,108
Number of home savings accounts	1,063	1,580	2,409	3,500	3,535	3,945
Number of properties sold	7,629	9,472	11,263	12,056	12,646	12,800
Offices operated by Duna House	18	17	19	20	19	21
Offices operated by Franchise partners	99	103	120	133	136	139

MARGIN AND MAIN RATIOS FOR THE HUNGARIAN CORE

	2013	2014	2015	2016	2017F	2018F
EBITDA margin	28.5%	34.7%	38.6%	24.2%	35.2%	38.0%
EBIT margin	26.0%	32.9%	36.2%	21.9%	32.7%	35.7%
Net profit margin	23.6%	30.7%	31.5%	30.6%	30.4%	30.1%
ROE	68.0%	82.2%	68.9%	56.1%	33.7%	32.0%

CONSOLIDATED BALANCE SHEET [HUF MILLION]

	2013	2014	2015	2016F	2017F	2018F
Intangible assets	20	14	53	53	53	53
Property	75	589	469	535	580	633
Equipment	54	102	47	47	134	134
NON-CURRENT ASSETS	311	833	1,974	2,040	2,172	2,225
Inventories	15	5	8	11	8	9
Trade receivables	101	94	76	97	75	82
Cash and cash equivalents	136	267	416	863	895	1,348
CURRENT ASSETS	829	1,171	977	1,447	1,455	1,916
TOTAL ASSETS	**1,141**	**2,004**	**2,951**	**3,487**	**3,627**	**4,141**
Share capital	3	150	153	153	153	153
Retained earnings	663	969	1,525	2,414	2,697	3,208
Non-controlling interest	1	0	0	0	0	0
TOTAL EQUITY	666	1,119	1,687	2,576	2,859	3,370
Long-term loans	0	221	495	132	0	0
NON CURRENT LIABILITIES	32	252	544	181	49	49
Short-term loans	0	36	114	114	114	114
Trade payables	27	12	35	45	35	38
CURRENT LIABILITIES	442	634	720	729	719	722
TOTAL EQUITY AND LIABILITIES	**1,141**	**2,004**	**2,951**	**3,487**	**3,627**	**4,141**

CONSOLIDATED CASH FLOW [HUF MILLION]

	2013	2014	2015	2016	2017F	2018F
EBITDA	589	830	1,184	945	1,062	1,258
Net cash from operating activities	309	1,095	865	834	926	1,088
Net cash from investing activities	258	-566	-1,027	-156	-121	-132
Net cash from financing activities	-541	144	614	17	-212	-72
Dividend paid to shareholders	0	-541	-302	-248	-562	-430
Change in cash and equivalents	26	131	149	447	32	453

DH Group

DH GROUP CONSOLIDATED P&L [HUF MILLION]

	2012	2013	2014	2015	2016	YTD2017
Revenue	**1,650**	**2,066**	**2,393**	**3,065**	**5,113**	**3,591**
Operating revenue	1,610	1,662	2,287	2,833	4,784	3,489
Other income	39	404	107	232	329	102
OPEX	1,275	1,529	1,605	1,920	4,310	2,898
EBITDA	**445**	**589**	**830**	**1,184**	**880**	**759**
EBIT	374	538	788	1,110	803	692
EBT	419	559	836	1,121	1,329	886
Income taxes	-59	-72	-101	-156	-161	-141
Non-controlling interests	14	0	2	-1	1	11
Clean Net income	**346**	**487**	**734**	**966**	**1,144**	**747**

Duna House Valuation [HUF MILLION]

	Base year	2018E	2019E	2020E	2021E	2022E	Terminal
Sales	**3,017**	**3,306**	**3,353**	**3,518**	**3,604**	**3,737**	**3,812**
Sales growth	*-22.6%*	*9.6%*	*1.4%*	*4.9%*	*2.5%*	*3.7%*	*2.0%*
EBITDA margin	35%	38%	35%	36%	34%	33%	33%
EBITDA	**1,062**	**1,258**	**1,179**	**1,252**	**1,209**	**1,227**	**1,251**
NOPLAT	849	1,014	943	1,001	961	972	993
(+) Depreciation	75	79	83	87	92	96	96
Working capital/Sales	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
(+/-) Working capital	0	0	0	0	0	0	0
CAPEX/SALES	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
(-) CAPEX	121	132	83	87	92	96	114
FCFF	**804**	**961**	**943**	**1,001**	**961**	**972**	**975**
Discount factor		0.92	0.84	0.77	0.70	0.64	0.63
DCF		880	792	768	672	620	6,366
Enterprise value DH Core	10,099						
Net debt	-843						
Metro House - Poland	2,150						
Development	1,693						
Real Estate Portfolio & Land	1,358						
Impact	0						
Equity value - Dec 31 2017	**14,457**						
Number of shares	3.44						
Adjusted cost of equity (NOV)	9%						
12M Target price	**4,585**						
Current price	3,500						
Upside/Downside	31%						
TR Upside/Downside	35%						

Source:Concorde's forecast

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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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