

EQUITY NOTE: ZWACK UNICUM

Recommendation: HOLD (unchanged)

Target price (12M): HUF 15,685 (unchanged)

4 February 2020

Equity Analyst:
Orsolya Rátkai

Phone:
+36 1 374 7270

Email:
ratkaio@otpbank.hu

We maintain our **HOLD** recommendation for Zwack Unicum (Zwack HB; ZWCG.BU) with a **12M target price of 15,685 HUF/share**. Higher taxes still weighed on sales performance in the Christmas high season, and the profit outlook is somewhat subdued in the challenging business environment in the short and medium run. The target price is 11% below the HUF 17,600 closing price on 4 February 2020. Due to possibly subdued performance in the coming business year, investors can expect more modest dividend payment than previously, unless the profit reserves are tapped.

Shares of Zwack Unicum added 0.3% on 3 February 2020, on the day when the earnings report was published while the BUX increased by 0.7%.

Summary/Earnings Highlights

- In line with our expectation, Zwack Unicum remained on the track of subdued sales performance after higher levies on certain food groups and beverages including Zwack's flagship product Unicum (the tax called 'NETA' in Hungarian) took effect on 1 January 2019.
- The decline in the quarterly domestic sales revenues steepened in the last quarter of the year, with gross sales revenue falling 12% and net sales revenues plunging 23% YoY. Domestic sales revenue dropped even more: inland sales revenues shrank near 25% in a year. Both self-manufactured production and sales revenues from the distributed portfolio declined, the former by 27% and the latter by 7% YoY. At the same time, exports increased only slightly in the past quarter, mainly supported by the weakening forint. Without FX effect, quarterly exports decreased about 3% YoY.
- Falling revenues in the self-manufactured production with higher profit margin hurt profitability, but the company tries to fend off its effects. Quarterly EBIT fell more than 20% in the past quarter, as EBIT and EBITDA margins considerably deteriorated in a year.
- Quarterly EPS plunged to HUF 641 from HUF 1,086 the year before.
- Zwack Unicum maintains its earlier forecast of HUF 1.4bn after-tax profit with net sales drop of over 10% in the current business year. The company expects nominal after-tax profit to return to the HUF 2bn level by 2021/2022, Zwack announced earlier.
- We maintain our somewhat more conservative forecast. We expect this year's sales revenue to decrease to HUF 13.9bn, while EBIT may drop to HUF 1.6bn. EPS may decline to HUF 679 in the current business year. In our view, there are still uncertainties as to how long the levelling off may take. According to our model, after-tax profit is expected to return to the level of HUF 2bn after the financial year of 2021/2022.

- As our forecast remained unchanged, we see no reason to modify the valuation models (neither DCF nor DDM). We maintain our earlier target price of 15,685 HUF/share, and the HOLD recommendation.
- We also note that some new risk factors have emerged since our latest report. Brexit became a reality from 1 February 2020, with uncertainties regarding the future trade relationship between the EU and the UK. The World Health Organization declared coronavirus a global emergency on 30 January 2020. Concerning the economic effect of such global epidemic, depending on the severity of spread, global or regional supply chains may come under pressure.

Financial Q3 (HUFm)	2019 Sep-Dec	2018 Sep-Dec	YoY Change
Domestic sales	4 920	6 536	-25%
Export sales	474	473	0%
Net sales income	5 394	7 010	-23%
Material-type costs	2 191	2 567	-15%
Gross profit	3 203	4 443	-28%
Employee benefits	810	844	-4%
Depreciation	92	127	-28%
Other operating expenses	921	1 131	-19%
Total operating expenditures	1 823	2 102	-13%
Other incomes	162	156	4%
EBIT	1 542	2 497	-38%
EBITDA	1634	2624	-38%
Pre-tax profit	1 542	2 497	-38%
Tax	237	287	-17%
After-tax profit	1 305	2 210	-41%

Financial Q3 (HUFm)	2019 Sep-Dec	2018 Sep-Dec	YoY Change
EPS (HUF)	641	1086	-41%
4Q-rolling EPS (HUF)	613	1 479	-59%
Gross profit rate	59.4%	63.4%	-4.0 pp
Operating profit rate	28.6%	35.6%	-7.0 pp
EBITDA rate	30.3%	37.4%	-7.1 pp
ROE	22.5%	33.0%	-10.5 pp
4Q-rolling ROE	17.5%	40.3%	-22.8 pp
ROA	11.2%	16.8%	-5.6 pp
4Q-rolling ROA	8.9%	21.5%	-12.6 pp

Sources: Zwack Unicum, OTP Research

Higher taxes put a break on net sales' increase. After a strong inventory building at the end of 2018 ahead of a major tax increase, domestic net sales fell significantly in every quarter of 2019. After double-digit drops in the first three quarters of 2019, earlier heavy stock building coupled with higher gross prices due to the tax hike effective from the start of 2019 prevented Zwack Unicum from improving sales performance in the Christmas high season in 2019. Net sales revenues declined 23% YoY in the October-December period of last year – in line with our expectation –, after decreasing 11% YoY in the previous quarter.

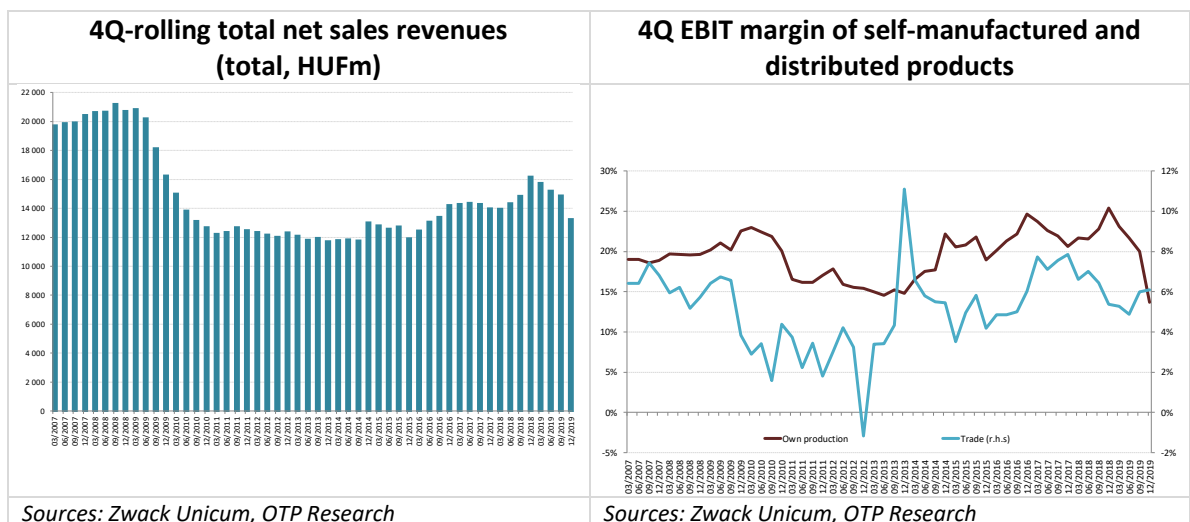
It was mostly domestic sales that suffered the blow; quarterly revenues fell 25% YoY with domestic sales of self-manufactured products declining near 30% YoY. The segment of distributed products could not avoid the decline either; net sales dropped more than 6% YoY in the October-December period of 2019. It was partly the consequence of the termination of the distribution of Moët-Hennessy products from 1 March 2019, but also the result of higher revenues growth of the Diageo portfolio.

Stable consumer demand, growing domestic retail market, but decreasing sales revenues for Zwack. In the meantime, the retail market of distilled beverages expanded in April-December, the market research survey shows. The retail market increased by 10.9% in value and only by 0.3% in real terms, Zwack announced based on survey data. Retail trade statistics of alcoholic beverages from KSH (Hungarian Central Statistical Office) also underpin persistent consumer demand. However, Zwack still struggles to keep pace. Not only their net sales but gross sales revenues also dropped in October-December, both in nominal and real terms. The growing market size but declining sales revenue in the course of last year would suggest decreasing market share for Zwack in 2019, but unusually large

stocks may also help the company to maintain its position in the retail market. Anyway, market share data from the company itself or from other sources are not available.

Zwack's sluggish sales performance in the domestic market in 2019 was no surprise after higher levies on food and beverages deemed unhealthy (tax called 'NETA') took effect on 1 January 2019. Zwack is affected not only by higher taxes but also its flagship products Unicum and 'pálinka' became taxable. Zwack built the higher levies into the gross sales prices, which resulted in significant changes in the sales volumes. Lower volumes meant somewhat lower gross sales revenues, but due to the relatively higher taxes, the decline in net sales revenues was more severe. What is more, gross sales revenues also declined about 12% YoY in the October-December period after having increased 5% in the previous quarter.

Exports growth lost momentum lately. HUF-denominated export revenues added only 0.2% YoY in the past quarter, after 13% sales growth in the April-June period and 7% increase in July-September. The weaker HUF contributed mainly to exports growth: on average, the EUR/HUF rate was 2.8% higher in Q4 2019 than a year earlier. Without the FX-effect, export revenues dropped 2.5% YoY in October-December 2019 after adding 12 and 6% in the previous two quarters.



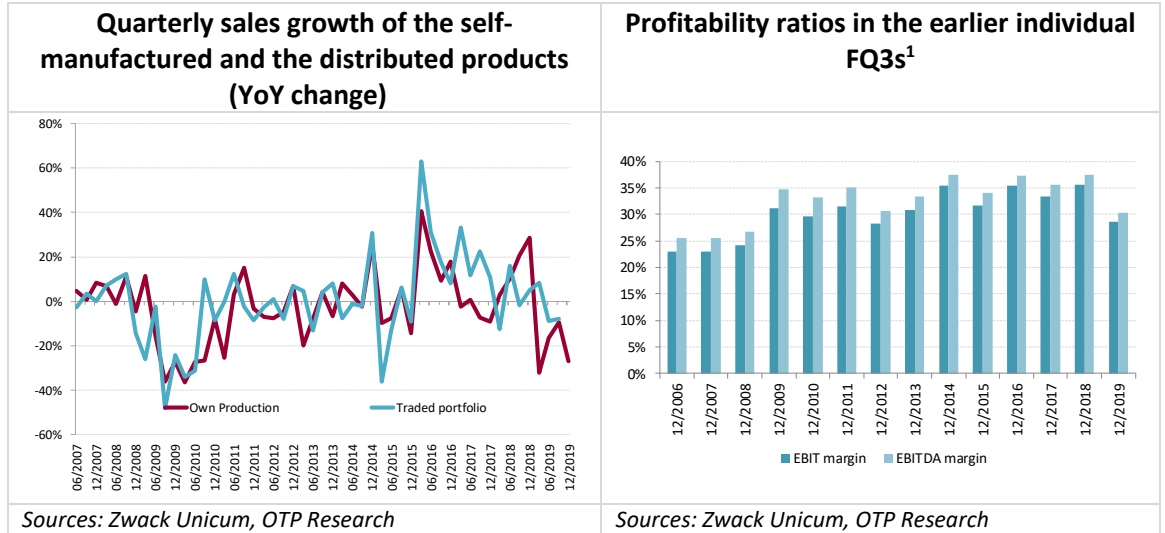
Profit rates showed a mixed picture. Falling sales revenues of self-manufactured products (27% YoY) – with higher profit margins – resulted in lower profit figures. Quarterly gross profit declined to HUF 3.2bn, by almost 28% YoY, the highest rate in a year, while quarterly EBIT and EBITDA fell to 1.5bn and 1.6bn, respectively, by 38%-38% in a year.

Profitability deteriorated, all but one profit rate decreased. Gross profit margin declined below 60% from the 64–65% in the previous quarters of the current business year. In yearly comparison, the rate slightly improved, although material-type cost fell much less than net sales revenues. Although other expenses considerably decreased, and personnel costs also dropped somewhat on a yearly basis, EBIT and EBITDA rates failed to improve to the level reported one year ago. EBIT rate was at 28.6% in October-December 2019, while EBITDA margin stood at 30.3% in the same period. However, compared to the previous quarters of the present business year, the improvement was spectacular.

After-tax profit fell by 41% YoY to HUF 1.3m, while quarterly EPS plunged to HUF 641 from HUF 1,068 a year before.

Zwack announced some changes to its accounting policy, effective from the start of 2019. The modifications affect mainly the accounting of material-type costs, other incomes and

other costs, while some changes in the accounting of certain allowances (bonuses for long service and retirement bonuses) have direct effect on retained earnings. Zwack publishes the financial report in accordance with the new accounting rules, but only enables YoY comparison for the base periods (financial Q4 2017/2018 and the consecutive quarters). Therefore, long-term comparisons cannot be made.

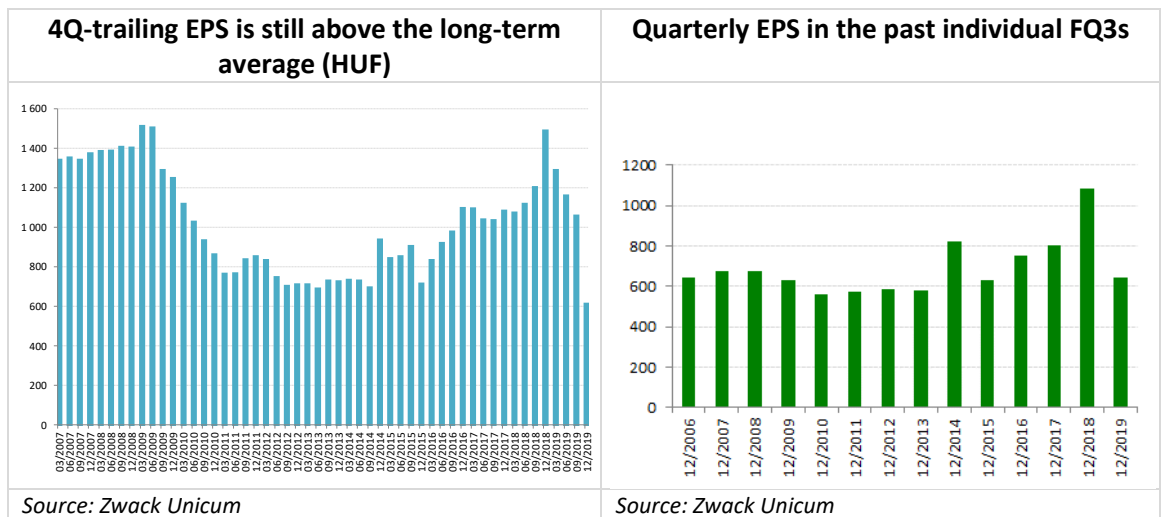


Zwack expects recovery soon. Zwack Unicum maintains its earlier forecast of a much less prosperous current business year as the developments of the past quarters fulfilled this expectation. Due to falling sales volumes –a consequence of tax-related price increase–, Zwack Unicum expects sales revenues in the present business year to decline by more than 10%. Total net profit may decline by more than 40% in the 2019/2020 business year, Zwack Unicum announced and maintains its HUF 1.4bn net profit target.

The company also expects recovery to start in the current quarter. As the effect of strong inventory building drops from the base data, sales revenues in the present quarter are expected to show some growth compared to January-March 2018. However, it still remains to be seen how quickly net sales revenues will return to the levels reported before 2019.

We maintain our somewhat more conservative forecast. We expect this year’s sales revenue to decrease to HUF 13.9bn, while EBIT may drop to HUF 1.6bn. EPS may decline to HUF 679 in the current business year. In our view, there are still uncertainties as to how long the levelling off may take. According to our model, after-tax profit is expected to return to the level of HUF 2bn after the financial year of 2021/2022.

¹ Financial data for April-June 2017 or earlier are not revised in line with the changes in the accountancy policy implemented as of January 1, 2019



Conclusions

- Zwack's sales figures in the October–December period of 2019 (financial 3rd quarter of the 2019/2020 business year) was in line with our quarterly forecast. Domestic sales figures in the April-June and July-September periods reflected the gradual shrinking of the inventory piled up ahead of the 20% hike of public health product tax (NETA in Hungarian) from 1 January 2019. As we noted before, from that day 'Unicum' and 'pálinka' also have been taxed, marking the end of the tax exemption the company benefited from in recent years.
- The decline in domestic sales steadily slowed in the first two quarters of the current business year, but this positive development discontinued in the last quarter. As the inventory building before the tax hike concentrated in Q4 2018, Zwack's domestic sales revenues in Q4 2019 could not exceed the unusually strong sale performance a year earlier.
- Zwack's profit figures and profit rates in the last quarter were in line with our expectation. However, it still remains to be seen how much time the levelling off may take. In our forecast, we apply a more conservative scenario than that of Zwack Unicum. We expect after-tax profit to return to the HUF 2bn target after the business year of 2021/2022.
- We maintain our earlier forecast and our previous 12-month target price HUF 15,685/share. We also maintain the HOLD recommendation.
- The new target price is 10.9% down from the HUF 17,600 closing price on 4 February 2020. Estimated total return downside is 3.8% on a 12M-horizon, due to the subdued dividend payment in the medium run unless the management proposes the AGM to tap profit reserves as well. The dividend yield is expected to decrease to 3% from the 6–7% yield paid in the past years.

Risks surrounding our forecast

- As Zwack does not publish product level data or data on sold quantities, the uncertainty regarding our sales forecast is moderate to high. When analysing different scenarios, we suppose the demand's price elasticity is near -1 but, due to lack of information, we did not factor in the probably existing substitution effect among different products or different brands. The substitution effects can play a role as the relative price of Unicum products will be higher after the tax changes

compared to competitors' products. And in this environment Zwack Unicum even may have to face the possibility of decreasing market share. No information is available, even though there is also a risk: whether the management can assess the danger caused by the persistent decline in the market share, induced by higher prices. In the long run, domestic consumption growth is expected to slow, wage dynamics may falter while the external economic environment is also challenging (global trade war, Brexit, sluggish economic growth in the eurozone, negative economic effects of a global epidemic).

- A possible excise tax hike from 2020 (published in the media but not officially confirmed) also adds to the risk factors surrounding future sales performance and our forecasts, but exact information is yet to be announced.

We emphasize that, for the lack of available data, the forecast bears a considerable uncertainty both to the downside and the upside.

Profit & Loss Statement (HUF m)	2016/2017	2017/2018	2018/2019F	2019/2020 F	2020/2021F	2021/2022F
Domestic net sales	12 854	12 418	14 209	12 319	12 935	14 068
Export sales	1 427	1 540	1 602	1 561	1 592	1 624
Net sales income	14 281	13 958	15 810	13 880	14 527	15 692
Material-type costs	6 044	6 032	6 663	5 552	5 811	5 806
Gross profit	8 237	7 926	9 147	8 328	8 716	9 886
Total operating expenditures	6 021	6 051	6 563	7 170	7 409	8 403
EBIT	2 959	2 580	3 270	1 624	1 855	2 076
Pre-tax profit	2 940	2 582	3 271	1 626	1 857	2 078
Tax	714	378	455	244	279	312
Profit after tax	2 226	2 204	2 816	1 382	1 579	1 766
Dividend	2 137	2 137	2 544	1 323	1 475	1 628
EPS (HUF)	1 094	1 083	1 384	679	776	868
DPS (HUF)	1 050	1 050	1 250	650	725	800

Balance sheet (HUFm)	2016/2017	2017/2018	2018/2019	2019/2020F	2020/2021F	2021/2022F
Property, plant, equipment	2 891	3 205	3 330	3 710	3 803	3 613
Intangible assets	106	89	84	103	103	93
Non-current assets	3 157	3 447	3 582	4 051	4 154	3 970
Inventories	1 862	2 185	2 386	2 584	2 466	2 818
Receivables and other current assets	2 208	2 275	2 115	2 282	2 229	2 789
Cash and cash equivalents	2 809	2 770	3 064	3 162	3 214	2 681
Current assets	6 879	7 230	7 565	8 028	7 908	8 288
TOTAL ASSETS	10 036	10 677	11 147	12 078	12 062	12 258
Share capital	2 000	2 000	2 000	2 000	2 000	2 000
Capital reserve	165	165	165	165	165	165
Retained earnings	4 558	4 662	4 915	5 542	5 834	5 636
Total Equity	6 723	6 827	7 080	7 707	7 999	7 801
Long-term loans and other liabilities	427	410	472	389	389	389
Non-current liabilities	427	410	472	389	389	389
Loans and credits	0	0	0	23	11	19
Payables and other short-term liabilities	2 889	3 384	3 567	3 935	3 641	3 993
Current Liabilities	2 886	3 440	3 595	3 983	3 675	4 068
TOTAL EQUITY AND LIABILITIES	10 036	10 677	11 147	12 078	12 062	12 258

CONSOLIDATED CASH FLOW (HUFm)

	2016/2017	2017/2018	2018/2019F	2019/2020F	2020/2021F	2021/2022F
EBITDA	3 474	3 049	3 643	2 207	2 466	2 768
Cash flow from operation	2 601	2 854	3 388	1 965	2 061	1 930
Cash flow from investment	-371	-765	-631	-1 032	-693	-488
FCFF	2 230	2 089	2 757	933	1 368	1 442
FCFE	2 232	2 091	2 757	958	1 358	1 452

Sources: Zwack Unicum, OTP Research

Deduction of 12M Target Price

Zwack's valuation (HUFm)	Base Year						FCFE in the
	2019/2018	2020/2019	2021/2020	2022/2021	2023/2022	2024/2023	explicit period
FCFE	2 563	2 192	1 514	2 707	1 810	1 889	
Discount factor	0,92	0,92	0,92	0,92	0,91	0,91	
DCF	2 357	2 010	1 389	2 479	1 651	1 723	9 253
Terminal Value (HUFm)							27 476
Net Present Value - FCFE (HUFm)							26 620
Net debt							-1 997
Equity value (HUFm)							28 617
Number of shares							2 035 000
Expected return on equity							9,1%
12M Target price (DCF)							15 336
12M Target price (DDM)							16 035
12M Weighted Target price (HUF)							15 685
Current price							17 600
Upside/Downside							-10,9%
TR Upside/Downside							-3,8%

Source: OTP Research

Risks surrounding Zwack's economic activity

Regulatory risk: In recent years regulatory changes in the industry caused headwinds to the company's profitability. The most notable was the liberalization of spirit distillation at home in small quantities in 2010. The EU lately expressed criticism on discriminative taxing policy of spirits in Hungary and threatened to start infringement process against Hungary. The latest regulatory changes (increase of NETA) which took effect on 1 January 2019, were aimed to resolve this conflict with the EU and increase budget revenues at the same time.

Exchange-rate risk: As the company operates in foreign markets as well and the share of export among revenues is increasing, in case of HUF appreciation, the exchange rate risk can be an issue, if not managed properly. The HUF's weakening poses more risk on the cost side, as most of Zwack's raw materials' prices are EUR-denominated, so a significant depreciation of the HUF against the EUR could weigh on the company's profitability. That can be counterbalanced to a certain extent by the higher export revenue in HUF.

Cost-inflation risk: Due to the improving economic conditions and labour shortages in various industries, real wages started to increase significantly in 2016 and kept on rising since then. This landscape is hardly expected to change in the near future. As Zwack's business is rather labour-intensive (the share of personnel cost in total costs is around 20%), it will be heavily affected by persistently high wages, which could dent profitability.

Brexit: As the United Kingdom left the European Union on 31 January 2020, a new provisional era started. The framework of the future economic relationship must be worked out, negotiated, and agreed between the UK and the EU in the transitory period scheduled to end by December 31, 2020. Due to the uncertainties surrounding Brexit, Zwack Unicum already acted, e.g. increased the inventory of the products imported from the UK through its cooperation with Diageo. If the UK fails to receive the same trade preferences as it enjoyed as a EU member country, that may harm the sales of Diageo products in the EU due to higher prices raised by the implemented tariff.

Notes:

[The initiation report, which contains the assumptions of the models used, is available here.](#)

[The valuation methodology used in this present equity research note to determine our price targets and recommendations is available here. \(Also available in Hungarian\)](#)

This investment recommendation has not used proprietary models.

The risk warning, which includes the adequate explanations of the length of time of the investment to which the recommendation relates as well as a sensitivity analysis of the assumptions, is indicated in the part of this recommendation where the length of time and the risks of the investment are presented.

Any information relating to the date and time for the price mentioned in this recommendation is revealed in the part of the recommendation where the given price is indicated.

OTP Bank Plc's recommendations and price targets history for Zwack Unicum in the past twelve months:

Date	Recommendation	Target Price	Publication
03/08/2018	HOLD	HUF 17,046	Earnings Update
13/09/2018	HOLD	HUF 17,046	News Comment
07/11/2018	HOLD	HUF 16,806	Quarterly Earnings Update
06/02/2019	HOLD	HUF 16,271	Quarterly Earnings Update
23/05/2019	HOLD	HUF 16,056	Quarterly Earnings Update
30/05/2019	HOLD	HUF 16,056	Comment
07/08/2019	HOLD	HUF 15,882	Quarterly Earnings Update
08/11/2019	HOLD	HUF 15,685	Quarterly Earnings Update
04/02/2020	HOLD	HUF 15,685	Quarterly Earnings Update

Period	Recommendation	% of recommendations
Q1 2019	BUY	0
	HOLD	100
	SELL	0
Q2 2019	BUY	0
	HOLD	100
	SELL	0
Q3 2019	BUY	0
	HOLD	100
	SELL	0
Q4 2019	BUY	0
	HOLD	100
	SELL	0

[The list of all recommendations made in the past 12 months is available here.](#)

Disclaimer 1

This research/commentary was prepared by the assignment of the 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 that was concluded by and between BSE and OTP Bank Plc (registered seat: H-1051 Budapest, Nádor utca 16., Hungary, company registration number: 01-10-041585, hereinafter: OTP Bank or Investment Service Provider).

The 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 is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/disseminate it without amending 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.

Disclaimer 2

1. Pursuant to the Commission-delegated regulation 2017/565/EU of the European Parliament, the content of this document shall be considered as an investment research, which recommends or suggests an investment strategy, explicitly or implicitly concerning one or more financial instruments or the issuers of financial instruments, including any opinion as to the present or future value or price of such instruments. The statements in this investment research contain objective or independent explanation. Furthermore, pursuant to Directive 2014/65/EU of the European Parliament and of the Council, this document shall be considered as investment recommendation. This document does not take into account investors' individual interests, circumstances, or objectives; therefore, in the absence of personal recommendation, it shall not be considered as an investment advice.
OTP Bank intends to make this document available to its clients or to the public, or to make it accessible to other persons in a way that allows this document to be disseminated to the public.
2. Information herein reflects the market situation at the time of writing. It provides only momentary information and may change as market conditions and circumstances develop. Additional information may be available on request. Where a figure relates to a period on or before the date of communication, the figure relates to the past and indicates a historic data. Past performance is not a reliable indicator of future results and shall be not treated as such. OTP Bank makes no representation or warranty, express or implied, is made regarding future performance of any financial instrument mentioned in this communication. OTP Bank shall have no liability for the information contained in this for any loss or damage whether direct, indirect, financial, economic, or consequential, whether or not caused by the negligent act or omission of OTP Bank, provided that such limitation of liability shall not apply to any liability which cannot be excluded or limited under the applicable law.
3. The issuer of this report does not claim that the information presented herein is perfectly accurate or complete. However it is based on sources available to the public and widely believed to be reliable. Also the opinions and estimates presented herein reflect a professional subjective judgment at the original date of publication and are therefore subject to change thereafter without notice. Furthermore there can be no guarantees that any market developments will unfold as forecasted. Opinions and estimates constitute our judgment and are subject to change without notice.
4. The issuer(s) of the product(s) mentioned in this document do not hold more than 5% of OTP Bank's registered capital. OTP Bank is a market maker of the financial instrument that is discussed in this document. Neither was OTP Bank a lead-manager (organizer) or joint lead manager (organizer) of any public placement of the issuer's financial instruments (e.g. securities) in the previous 12 months. Regarding investment services defined in Sections A and B of Annex 1 of Directive 2014/65/EU, OTP Bank is not a party of the agreement with the issuer. OTP Bank maintains a conflict of interest policy and it keeps such records, and is has requirements that regulate the transmission of bank secrets and securities secrets, which requirements shall be considered as the effective internal organizational and management solutions as well as information barriers to prevent or manage conflicts of interest. The remuneration of the person(s) participating in preparing the recommendation is not directly related to the transactions carried out as part of the investment services specified in Sections A and B of Annex 1 of Directive 2014/65/EU, or to transactions carried out by them or by other legal entities of the same group or to trading fees that they or another legal person of the same group receive. OTP Bank does not hold net long or short positions that exceed 0.5% threshold of the issuer's total registered capital.

5. OTP Bank has developed appropriate internal procedures for (i) the personal transactions and tradings of financial analysts and other relevant persons, (ii) the physical separation of the financial analysts involved in the production of investment research and other relevant persons; moreover, information barriers have been implemented, (iii) for accepting and managing incentives and remuneration.
6. This communication does not contain a comprehensive analysis of the described issues; it is only for information purposes. No part, chapter, or the entirety of this information shall be considered as investment advice, not even if any part of this document contains a description of a certain financial instrument in terms of its possible price or yield development, and the related investment options. This information shall not be considered as legal, tax or accounting advice.
7. This information reflects the market situation at the time when the document was prepared. You may request more information from OTP Bank. This document was prepared based on publicly accessible information made available to OTP Bank from one or more sources. This document was prepared using data, facts and information from the following essential sources: Bloomberg, Reuters, Hungarian Central Statistical Office, Eurostat, Magyar Nemzeti Bank (Hungary's central bank), and European Central Bank (ECB). Although the information in this document has been prepared in good faith from sources that OTP Bank believes to be reliable, we do not represent or warrant its accuracy or completeness. This document represents the opinion and estimations of analysts at OTP Research, based on publicly available data. You may receive different recommendation from the staff of OTP Bank, in particular if you are provided investment advice based on an investment advice agreement. The content of this document is based on the opinion of OTP Research's analyst at the time when the document was prepared, and they may be subject to change at any time in the future without further notice.
8. Please be informed that, irrespective of the statements of this investment research, OTP Bank is entitled to deal or trade as market maker, acting in good faith and in accordance with the usual way of market-making, with the financial instruments distributed by the issuer(s) specified in this document, as well as to provide other investment activities or ancillary (investment) services, and/or other financial or ancillary financial services to the issuer and other persons.
9. This document shall not be a basis for any further analysis in relation to the financial instruments contained therein. Any reference in this document to the future distribution of a financial instrument shall be construed as indicative, preliminary and informative, and any analysis of such financial instrument is exclusively based on publicly available information listed in the respective prospectus or announcement. The content of this document shall not imply that OTP Bank acts as an agent, a fiduciary, or an advisor to, or on behalf of, any prospective purchaser of the financial instruments discussed herein.
10. For certain persons, access to the products and/or services discussed in this document may not be granted, or it may be limited. The act of preparing this document by OTP Bank, its uploading to the website, its publication may under no circumstances be considered as OTP Bank's intention to make available product and/or service information in the prospectus to persons whom any country or state prohibits from having or obtaining the given product and/or service, including the promotion and the advertisement thereof. This communication and any of the financial instruments and information contained herein are not intended for the use of private investors in the UK and US. OTP Bank is not allowed to provide direct investment services to US investors. Any individual decision or investment made based on this publication is made solely at the risk of the client and OTP Bank shall not be held responsible for the success of the investment decisions or for attaining the Client's target.
11. This publication contains generic presentation of information and knowledge, thus it does not take into account the individual clients' unique and special interests, financial condition, or their ability and willingness to take risks. Therefore please contact our staff or contact your banking consultant for advice before you make an investment decision. The assessment and the consideration of the individual circumstances is provided by the suitability and compliance tests that assess clients' financial knowledge, experience, risk-taking abilities, as well as the examination of the target market.
12. Before making an informed decision to invest and to use the services, please carefully read through all documents, including the documentation, prospectus, regulations, terms and conditions, announcements and key information documents for that product/service, and carefully consider the subject, the risk, the fees and costs of your

investment, the possibility of any loss, and seek information about the tax regulations regarding the product and the investment. The prices of financial instruments and securities are changing, outright sales are realized at their current market prices, which may involve losses. The information and opinions in this document do not substitute or take the place of the issuance documentation for the given financial assets (e.g. prospectus, fund management rules), or their brochures or announcements.

13. You assume total responsibility and risk for any specific decision or investment; OTP Bank shall not be held responsible for the effectiveness of investment decisions or for reaching your purpose, nor for the individual investment decision made based on this document or any part thereof, or for their consequences. Investments in financial instruments carry a certain degree of risk, which may affect the effectiveness of the investment decision, and investors may not receive the whole amount they had expected the investment to yield in their investment targets; they may not preserve even the invested amount, therefore the invested capital might even decrease, be wholly lost, or even lead to additional payment obligation.
14. Trading with leveraged products (such as foreign exchange contracts, or shares and indices that have underlying products) carries a considerable amount of risk, and these products are not suitable for all investors. Trading with leveraged products carries the risk of losing all capital, and it may incur losses that exceed the amount invested.
15. **The figures and information described herein refer to the past, and past performance is not a reliable indicator of future yields, changes, or performance.**

The changes on money and capital markets, the fluctuation of prices, the development of investments and their yields are influenced by the combined effect of multiple factors; one important factor of them is the change in investors' expectations. **The development of prices, the future yield of financial assets, indices or indicators, the examination of their changes, trends, and future performance is based on estimations and forecasts, which forecasts do not allow reliable conclusions to be drawn about the future moves of prices, real future yields, changes, or performance.** For each product and service, please assess their tax accounting implications, and other tax consequences, taking into account that they cannot be precisely assessed without knowing the effective tax regulations of the client's individual circumstances; and these legislative provisions as well as the circumstances may change over time.

16. OTP Bank reserves the right to modify this document in the future, without prior notice. The planned frequency of updates to the recommendation is quarterly. The initiation report preceding this research was published on 18 December 2017.
17. OTP Bank (business registration number: 01-10-041-585; registered seat: Nádor utca 16., Budapest H-1051, Hungary; authorised by Magyar Nemzeti Bank (former supervisory authority: Hungarian Financial Supervisory Authority, 'PSZÁF'). Supervisory authority: Magyar Nemzeti Bank (National Bank of Hungary – H-1054 Budapest, Szabadság tér 9); financial customer services: H-1013 Budapest, Krisztina krt. 39. The terms and conditions of this equity research and disclaimer shall be governed by and construed in accordance with Hungarian law.
18. Please note that the Internet is not a secure environment and OTP Bank does not accept any liability for any loss caused by the result of using this report in a form altered or delayed by the wilful or accidental interception, corruption or virus infection.
19. OTP Bank, in compliance with the applicable law, assumes no responsibility, obligation, warranty or guarantee whatsoever for any direct or indirect damage (including losses arising from investments), or for the costs or expenses, detrimental legal consequences or other sanctions (including punitive and consequential damage) sustained by any natural or legal person as a result of the purchase or sale of financial instruments or engaging investment services described herein, even if OTP Bank was warned of the possibility of such occurrences.
20. If you received this document from OTP Bank Plc, then it was sent to you with your previous consent. You may withdraw this permission by sending an e-mail to research@otpbank.hu or writing a letter addressed to 'Research Center', Hungary H-1051, Budapest, Nádor utca 21. Please refer to your name and e-mail address in both cases.

21. The personal data in this investment research are processed by OTP Bank. The legal basis for processing the data is the legitimate interest of OTP Bank. The detailed information about the processing of personal data and the related rights of data subjects is available [here](#).

This document was prepared by:

Orsolya Rátkai

Senior Equity Analyst

OTP Research

This document was finalized at 4:51:09 PM on 04 February 2020