



CEE Equity Research | Hungary | Real Estate
28 September 2018

Duna House

Recommendation: Buy

Target price (12M): HUF 4,750

Equity Note

Building permit received for the latest phase for Forest Hill

Duna House yesterday announced that the company received the building permit for the third phase of its Forest Hill project.

This means that 57 new flats and further 4600 sqm will be available for development (total of 196). Phase 1-2 of the Forest Hill project is comprised of 139 flats, with an estimated total profit of HUF 1.3 billion according to the management guidance - in our model we conservatively calculated with ca. HUF 1.2 billion for the total project (196 flats) reflecting our cautious stance on the profit margins and the low visibility of progress of the construction. Calculating with the same variables as the management, the entire project's profit would arrive to HUF 1.9 billion - significantly above our conservative estimation.

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However, there are two characteristics of the third phase of the project that differ from the first two:

1), the flats in the latest phase have superior panorama thus demands premium pricing.

2), As the timeframe for special VAT is approaching to the end (from 2020 VAT tax will return to 25% from 5%), we think that the sales of these will be subjected to the original VAT, putting profit margin under pressure.

Opinion: In our model, we conservatively value the project – even without phase 3 management guided ca. HUF 1.3 billion profit vs. our profit estimation for the total project HUF 1.2 billion. Although at the moment, the project is under analysis, we believe the effect of the three dynamics eg. 1), higher VAT 2), premium pricing 3), potentially lower construction cost due to significantly lower demand for new real estate development after 2020; would be rather positive. All in all, we leave our recommendation and target price unchanged.

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Buy	Total return is expected to exceed 20% in the next 12 months
Accumulate	Total return is expected to be in the range of 10-20%
Neutral	Total return is expected to be in the range of 10%-(-10%)
Reduce	Total return is expected to be in the range of -10-(-20%)
Sell	Total return is expected to be lower than -20%
Under Revision	The stock is put Under Revision if covering analyst considers new information may change the valuation materially and if this may take more time.
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Valuations and risks:

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