



CEE Equity Research | Hungary | Real Estate
15 October 2018

Duna House

Recommendation: Buy

Target price (12M): HUF 4,750

Equity Note

Government proposes end to subsidy on Home Savings Account

While the bill is only a proposal as of now, one should assume with great certainty that it will be passed possibly on Tuesday (given the majority of the governing party). In our understanding, after the bill comes into effect, subsidy by govt will cease to exist on such accounts. Currently existing accounts are not affected.

Unfortunately, this proposal does not bode well for Duna House as ca. 35 - 40% of the core revenue (excluding development arm) derives from financial intermediary segment and this is the most profitable amongst segments (25 - 30% EBIT margin). Duna House receives commission after opening a new account, which segment practically might cease to exist, should the bill pass. The savings account business could have taken roughly 30% of the intermediary business.

In our calculation, ca. HUF 150 - 200 million profit is at risk – ca. 380 -500 per share negative effect, should the business itself diminish as a whole. We think the real impact should be on the lower end of that range, as it may increase the demand of mortgage loans and other financial products if there is no subsidy on LTP's.

Duna House discloses the earnings of home savings account (LTP) on the financial intermediary segment coupled with loan intermediation, however the company does not provide breakdown of the two. On our calculation, last year DH intermediated a total of ca. 90 billion loan and LTP together, out of this 72% came from loan intermediation and 28% from LTP. Applying this ratio for the gross profit of this segment (HUF 750 million) in last year, we arrived to HUF 200 million (22% of last year's profit). This is the potential amount cet. par. that might be lost from the next year.

Opinion: As of now, we see ca. 12 - 20% of the profit might fall from next year from core operation, implying ca. the middle of our estimated range HUF 440 per share impact. If the bill were to pass, we may adjust our earnings model accordingly, which might have an effect on our 12 months target price (dropping to ca HUF 4,310 per share).

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

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Prices are taken as of the previous day's close on the home market unless otherwise stated.

Valuations and risks:

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