CONCORDE RESEARCH

CEE Equity Research | Hungary | Real Estate
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Duna House

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

Hungarian dance continues in Poland

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Duna House yesterday announced that it has acquired Gold Finance – a loan broker in Poland for PLN 3.9 million (HUF 294 million at current exchange rate). With the transaction Duna House will continue to strengthen its market position in Poland and will become the 5th largest player in the loan broker market in Poland according to the management.

To put the transaction into perspective, Metro Finance (Duna House subsidiary) intermediated last year ca HUF 25 billion (6th largest player on the Polish market), while Gold Finance intermediated HUF 63 billion (5th largest player on the Polish market), thus having the two company combined Duna House can easily at least triple its intermediated loan volumes in Poland. This transaction fits into the company's strategy to expand its operation and thus reach the optimum scale of economy and add impetus to further enhance polish operation.

Management stated several times that potentially large dividends (DPS 380) is subjected to acquisitions. Unfortunately, purchasing Gold Finance comes at the expense of dividends. Our back of the envelope calculation shows that, there was originally ca. DPS 380 on the table which is reduced by 90 – 110 per share due to the acquisition thus investors are left with DPS 270 – 290 (implying a 7.5% dividend yield).

On the funding side, it was entirely financed by equity and management expects the investment' payback period in 3-4 years implying a 20-25% return on equity which is way above Duna House cost of equity (ca. 10%). After the transaction, management sees a temporary (first three months) negative impact on the Polish operation and neutral on the second.

Opinion: Our initial thoughts on the acquisition that it is positive as the ROI (return on investment) is way above its cost of equity (ROI: 20-25% vs. CoE: 10%), based on the expectation of the management, therefore it is value creative. On the other hand, management purchase future growth at the

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expense of paying out large dividend, which might create temporary negative sentiment in the market as investor may have expected high dividends from Duna House in 2019, as developments turns to cash cow. Nevertheless we do not expect that investors will be left without dividend for 2019 but original expectation of DPS 380 is clearly off the table. Realistically, as mentioned the transaction could lower this amount by 90-110 per share.

To evaluate and quantify the exact effect of the acquisition we put the company under revision and consult the management for further information.

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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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