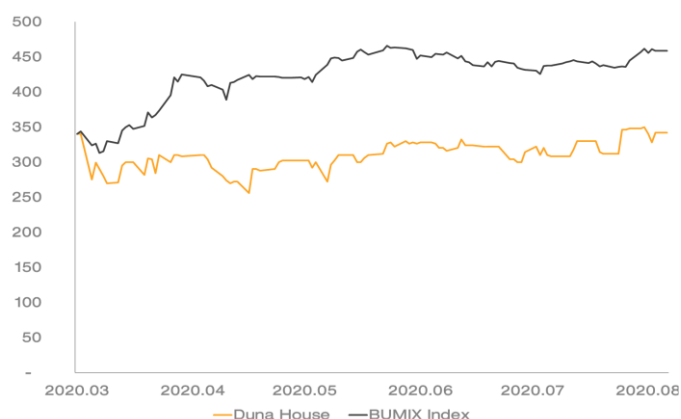


Duna House

Recommendation: BUY

Target price (12M): HUF 410

Hun. Core HUF million	2020 Q2	2019 Q2	Ch (%)
Revenues	1,939	2,115	-8%
EBITDA	342	453	-24%
EBIT	283	399	-29%
Cleaned Core EBIT	308	326	-6%
Profit	205	338	-39%
EPS	6	10	-39%
Cumulated EPS	13	14	-7%
No. of transactions (ths)	25.5	37	-31%



Share price close as of 26/08/2020	HUF 330	Bloomberg	DUNAHHOU5 HB
Number of shares [million]	34,6	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 270-450

Resilient results

In short:

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- Despite the nationwide lockdown, DH's core result was relatively resilient. **Group core EBITDA** in Q2 decreased by 5% y-o-y while on a H1 basis core EBITDA could even increase by +13% to HUF 738 million. This was mainly because of the structural improvement that has been undergoing in Poland and strong cost control at the Hungarian offices. As a result of that, EBITDA doubled in Poland (HUF 90 million vs. HUF 47.5 million in '19Q2 or HUF 143 million vs. HUF 11 million on a H1 basis).
- **Reported Q1 EBITDA** and **Q1 net profit** dropped by 24% and 39% y-o-y respectively, on the back of lower revaluation gains on properties and some negative item at the developments. Q2 EPS arrived to HUF 6 and H1 to HUF 13.
- **Developments** are progressing well, MyCity project (50 flats – adjusted for working interest) received occupancy permit therefore realization of the earnings should start in Q3 (one could expect large profit boost for this quarter) while for Project Forest Hill's permit is expected in Q4. In total we expect ca. HUF 3.5 billion cash inflow which should start to appear in the upcoming quarters.

- **DH is expected to issue a bond** in an extent of HUF 6.6 billion in the framework of NBH’s bond program which is expected to partly fund the inorganic expansions and the other part should go to refinancing purposes. Net debt to EBITDA’20 [excluding development] is at 0.75x w/ net debt at HUF 950 million (gross debt ca. 3.2 billion with a cash level of ca. HUF 2.2 billion). **After the bond issuance, gross debt level should jump to HUF 6.6 billion in our view, and DH’s war chest would grow to HUF 5 billion not calculating with the expected cash inflow from the development projects ca. HUF 3.5 billion with which net cash level could reach HUF 8.5 billion (ca 70% of the market cap).**
- **Management is on track to reach its recently reinstated guidance of HUF 860 million, +10% above our 2020 profit forecast. We did not receive any info on dividend, probably because of the uncertainties about the potential second wave or because of any M&A transactions that was highlighted in the strategic presentation.**

Financials: Headline figures do not show the improvement under the hood in our view. Investors should focus on core EBITDA which reflects purely the segments of loan intermediation, franchise, and own offices and excludes gain on property revaluation and any gain/losses from the development part of the group. Core EBITDA in Q2 decreased only by 5% y-o-y despite that curlew in the two countries, which is very decent result and confirms the continuation of strong performance of the Poland unit (Q2 profit doubled y-o-y).

SEGMENT BREAKDOWN ON EBIT LEVEL.

	Q2 2020	Q2 2019	Ch (%)
EBITDA	342	399	-29%
<i>Franchise</i>	60	116	-48%
<i>Own Offices</i>	20	18	12%
<i>Loan intermediation</i>	241	191	26%
<i>Other related</i>	20	41	-51%
<i>Real estate mgmt.</i>	14	100	-86%
<i>Elimination</i>	-12	-13	-3%

Source: DH, Concorde

On the country breakdown, as mentioned Poland’s performance was stellar thanks to the integration of ATG (latest acquisition). On an EBITDA level Poland’s unit reached HUF 90 million +91% y-o-y and a profit of HUF 50 million +108% y-o-y. While in Hungary, the EBITDA figure reflected better the significant drop in activity (transaction number fall by ca 30% y-o-y) due to curfew which was mitigated by the strong cost control (direct cost was cut by 40% y-o-y) resulting in a moderation of 35% y-o-y in EBITDA.

COUNTRY BREAKDOWN

in million HUF	Hungary		Poland		Czech Republic		Duna House Group	
	2020Q2	2019Q2	2020Q2	2019Q2	2020Q2	2019Q2	2020Q2	2019Q2
Net sales revenue	730.9	1,020.4	1,113.2	943.4	47.9	87.4	1,892.0	2,051.2
EBITDA	251.2	404.1	90.2	47.5	1.1	1.3	342.5	453.0
Operating income	210.9	371.0	70.6	26.2	1.1	1.3	282.6	398.5
Profit after tax	154.0	304.5	50.4	24.1	0.5	9.9	204.8	338.5

in million HUF	Hungary		Poland		Czech Republic		Duna House Group	
	2020Q1-Q2	2019Q1-Q2	2020Q1-Q2	2019Q1-Q2	2020Q1-Q2	2019Q1-Q2	2020Q1-Q2	2019Q1-Q2
Net sales revenue	1,673.5	2,000.6	2,554.3	1,732.4	123.5	149.8	4,351.3	3,882.8
EBITDA	563.0	736.9	143.4	11.1	1.9	1.7	708.3	749.8
Operating income	484.2	669.5	102.9	-29.5	1.9	1.7	589.0	641.6
Profit after tax	397.2	528.5	72.2	-27.8	0.4	3.9	469.8	504.6

Source: DH

Debt level is expected to increase on the back of bond issuance and potential M&A transaction. Assuming a HUF 4 billion transaction at a price of 7x EV/EBITDA, net debt to EBITDA'21 [beginning of the year] would increase to 1.7x. In this scenario we assume that DH will receive HUF 1 billion cash from the MyCity project and did not calculated with the cash flow from the year 2021. So in a nutshell, balance sheet still remains healthy post bond issuance and a potential transaction.

Opinion: Duna House posted very nice result mainly thanks the stunning performance in Poland and to the discipline cost control (indirect cost was cut by 44% y-o-y), despite the restriction in both countries. In H2 we are looking for to hear from either the potential transaction to fuel further growth or in the absence of that about the dividend. **In light of the Q2 performance, we reiterate our BUY recommendation and our TP of HUF 410 per share.**

DH'S SIMPLIFIED P&L

	Q2 2020	Q2 2019	Ch (%)
Revenue	1,939	2,115	-8%
Operating revenue	1,892	2,051	-8%
Other income	47	64	-27%
OPEX	1,656	1,716	-3%
Cost of materials	63	16	304%
Cost of sold goods and services	543	294	85%
Used services	1,169	1,701	-31%
Personnel expenses	155	199	-22%
Depreciation and amortization	60	54	10%
Other operating expenses	-334	-548	-39%
EBITDA	342	453	-24%
<i>Franchise</i>	60	116	-48%
<i>Own Offices</i>	20	18	12%
<i>Loan intermediation</i>	241	191	26%
<i>Other related</i>	20	41	-51%
<i>Real estate mgmt.</i>	14	100	-86%
<i>Elimination</i>	-12	-13	-3%
Cleaned Core EBIT	308	326	-6%
EBIT	283	399	-29%
Financial income	-20	-31	-36%
Financial expense	27	31	-15%
Revaluation	-11	-15	-27%
EBT	265	383	-31%
Income tax expense	-60	-45	32%
Net income	205	338	-39%
Transaction Number	25,557	36,807	-31%
Intermediated loans [HUF m]	57,132	49,122	16%
<i>EPS [after split]</i>	6	10	-39%
EBIT margin	15%	19%	-23%
EBITDA margin	18%	21%	293%

Source: DH

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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%
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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