

Duna House

Recommendation: BUY

Target price (12M): HUF 800 (under revision)

Hun. Core HUF million	2023 Q2	2022 Q2	Ch (%)
Revenues	7.261	9.300	-22%
EBITDA	989	1.373	-28%
Cleaned core EBITDA	1.574	1.267	24%
EBIT	676	1.214	-44%
Profit	1.245	1.033	20%
EPS*	23,6	24,4	-3%
Cumulated EPS	43,4	38,7	+12%
Loan volume HUFbn	165	243	-32%

*after minorities



Share price close as of 01/09/2023	HUF 550	Bloomberg	DUNAHOUS HB
Number of shares [million]	34,6	Reuters	
Market capitalization [HUF mn/EUR mn]	19,000 / 50	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 350-560

The worst could be behind us?

In short:

DH's profit improved thanks to higher transaction (+21% qoq) & loan volumes (+17% qoq) on a quarterly basis. This lifted reported profit to HUF 838 million (-19% yoy; +20% qoq) or HUF 23.6 EPS. Clean core profit after tax reached HUF 569 million (-28% YoY, +84% QoQ) or HUF 17 EPS (H1: HUF 25 EPS). Out of that HUF 569 million core profit HUF 337 million is related to financial income.

Earning's cushions of financial income worked well, Ca.59% of the core profit stemmed from financial income vs. 108% in Q1.

Key positives of the Q2 report:

- We see a clear improvement in HU core, though from a very low Q1 basis
- Management reiterated its FY profit guidance of HUF 70 EPS vs. H1 HUF 43 EPS
- Housing demand should accelerate in H2 because of the phase out of some subsidized loans from 2024. Monthly transaction volume estimates for August confirms that momentum (-17% yoy; vs H1: -40% yoy)
- Polish operation is out of the red on EBITDA level

Key negatives of the Q2 report:

- DH's cash cushion decreased after the large dividend payout which will moderate its financial income potential going forward
- Sales of the Forest Hill project slowed

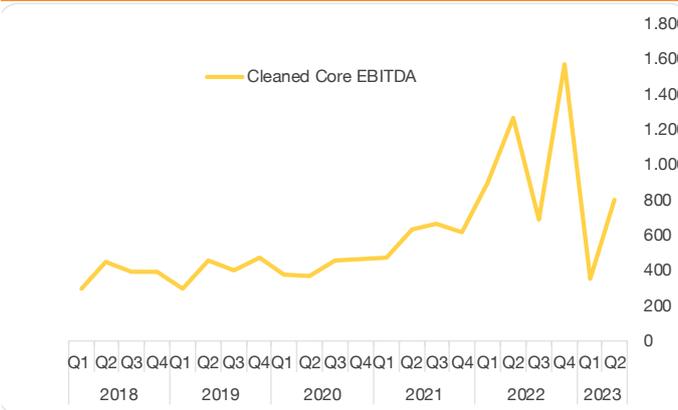
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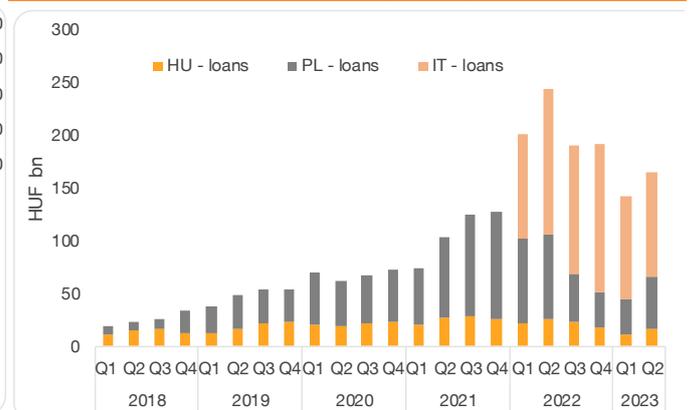
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Quarterly Cleaned Cored EBITDA Development

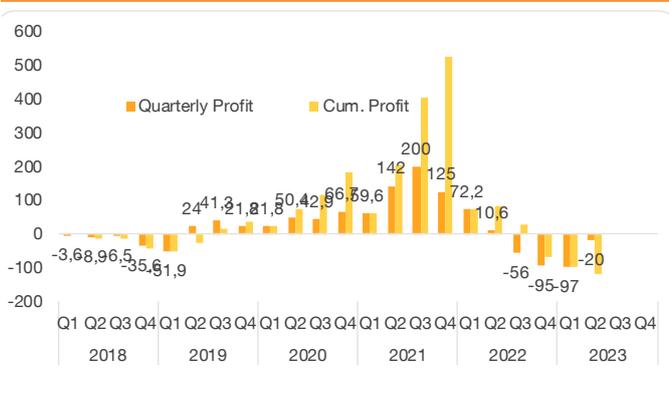


quarterly Intermediated loan volume [HUF bn]

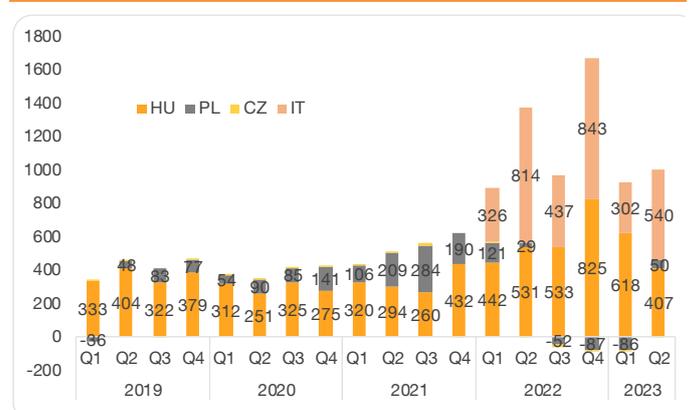


source: Concorde, DH

Poland's quarterly earnings development (profit)



quarterly EBITDA country breakdown



source: Concorde, DH

We see similar but slightly better patterns in Q2 compared to the previous quarter. DH managed to mitigate the fall of the earnings in core operation with the financial income earned on its vast cash reserves. In Q2 DH received interest income of HUF 337 mn vs. its profit from core operation of HUF 569 mn. However the cash level decreased to HUF 7bn because of the dividend payment, and the company may not be able to achieve that high level of interest, as NHB lowered the base rate by 200bps.

Country-wise, Polish operation turned to positive on EBITDA level thanks to the normalizing loan origination in the country: Q2: HUF 50bn vs. Q1: 33bn

“According to data from the Polish Credit Information Bureau (BIK), the mortgage market contracted by 49.1% in 2022 as a whole. The drastic fall is due to a product structure with a typically short interest period, rising interest rates, strict payment-to-income (PTI) rules and the disappearing creditworthiness of the population as a result. The Polish regulator (KNF) has eased PTI rules for fixed-rate loans, which increases the amount of credit that can be borrowed by an average of 20%. The impact of the change has seen mortgage disbursements double for the months of May-July 2023 from levels seen between October 2022 - February 2023. In addition, the Polish government plans to introduce interest subsidised loans for young first-time home buyers later this year, which could provide a further boost to the property and credit markets.”

This all suggests that a positive momentum may potentially gathering in Poland as well. In Hungary, core operation could be supported by an artificially created demand in the housing market in H2 which should help DH's earnings. Italian EBITDA reached HUF 540m -34% yoy. Please note that, 46% of the EBITDA arrived from Italy, and ca. 50% from Hungary - (which is distorted by the earnings from the development project).

Additionally, DH amended the accounting of the DD&A which artificially boosts the bottom-line. As a result of that mgmt, increased its FY profit guidance but kept its EBITDA guidance unchanged. After this change, DH should deliver HUF 2.46 bn or HUF 70 EPS minus (minority HUF 80 mn or HUF 2.5 EPS).

Valuation

	share price		550
	no. Of share	mn	34
	Market cap	[HUF mn]	18.913
-	Investment prop.	[HUF mn]	1.116
-	exp. cash inflow - Forest Hill	[HUF mn]	4.000
-	cash	[HUF mn]	7.217
+	debt	[HUF mn]	14.092
=	net debt	[HUF mn]	1.759
	minority *	[HUF mn]	6.600
	EV	[HUF mn]	27.272
	Core EBITDA'22	[HUF mn]	3.454
	Core Profit'22	[HUF mn]	2.290
	minority**	[HUF mn]	298
	Core Profit'22 to parent	[HUF mn]	1.992
	<u>Guidance'23 [midpoint]</u>		
	Core EBITDA	[HUF mn]	3.058
	Core Profit	[HUF mn]	2.460
	minority**	[HUF mn]	80
	Core Profit'23 to parent	[HUF mn]	2.380
	EV/EBITDA'22		7,9x
	P/E'22		9,5x
	EV/EBITDA'23		8,9x
	P/E'23		7,9x
	* earn outs + obligation to buy the remaining equity in Hgroup S.p.a		
	**HGroup 5%		

Source: Concorde, DH

DH trades at 8x P/E'23 vs. BUX index of 5.6x and vs. its' IPO valuation of 11x P/E.

Opinion: It's difficult to answer the question in the title. One thing is sure, in Q2 result, we see a clear signs of improvement in core operation in HU and in PL as well. In Hungary Core EBITDA (excluding gain from divestment) arrived to HUF 220m +63% qoq, while in Poland EBITDA turned positive. Other non-core operation such as divestment of investment properties are going well, but the sale of flats from the project Forest Hill slowed in Q2. Going forward, we believe that the change in regulation of the subsidized loans in HU from 2024, will affect the sentiment of HU housing in H2 and will bring some housing demand forward. However it would be unwise to extrapolate the momentum of H2 into 2024 as those momentum is "artificially created", not necessarily sustainable at current macro environment, in our view.

Maybe it is too early to speculate on dividends, but ordinary DPS could be around HUF 30 based on DH's dividend policy (payout ratio of 45%). On top of that DH could distribute additional extra money to investors in the range of 50 – 75 DPS totalling HUF 75 - 100 DPS or 13 – 18% dividend yield - depending on its M&A activity.

While we admit that Duna House has indeed a valuable option having such a huge cash (HUF 7bn) buffer that protects earnings via financial income and at the same time offers a growth option via acquisition if an opportunity arises. Admittedly, the macro headwind may help to acquire great companies at a reasonable price. We will update our target price soon.

DH'S SIMPLIFIED P&L

[HUF mn]	2022				2023		Ch (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Y-o-Y	Q-o-Q
Revenue	3.905	9.300	8.455	9.001	9.425	7.261	-22%	-23%
Operating revenue	3.862	9.079	8.385	8.938	9.391	7.175	-21%	-24%
Other income	43	221	70	63	34	86	-61%	151%
OPEX	3.423	8.086	7.711	7.751	8.841	6.585	-19%	-26%
Cost of materials	67	53	57	51	38	29	-45%	-22%
Cost of sold goods and services	555	557	542	388	493	303	-46%	-39%
Used services	2.337	6.270	5.853	5.995	4.789	5.045	-20%	5%
Personnel expenses	243	615	441	366	578	529	-14%	-9%
Depreciation and amortization	83	159	159	323	248	313	97%	26%
Other operating expenses	138	431	659	627	2.695	366	-15%	-86%
EBITDA	565	1.373	904	1.573	832	989	-28%	19%
Franchise	178	111	68	36	20	47	-58%	132%
Own Offices	85	30	-48	-21	-25	18	-38%	-175%
Loan intermediation	620	1103	593	1044	358	711	-36%	99%
Other related	-30	5	2	12	3	25	432%	658%
Real estate mgmt.	114	125	312	560	507	200	60%	-61%
Elimination	-78	0	-22	-57	-32	-12	-11600%	-64%
Cleaned Core EBITDA	893	1.267	685	1.574	351	802	-37%	128%
EBIT	482	1.214	744	1.250	585	676	-44%	16%
Financial income	51	189	269	385	573	618	226%	8%
Financial expense	128	141	162	248	293	245	74%	-16%
Revaluation	155	58	1	1	3	0	-99%	-86%
EBT	560	1.320	853	1.388	867	1.049	-21%	21%
Income tax expense	47	287	126	370	167	196	-32%	17%
Net income	513	1.033	727	1.018	700	838	-19%	20%
Transaction Number	39.156	35.289	27.926	22.800	19.893	24.094	-32%	21%
Intermediated loans [HUF bn]	201.900	243.800	190.000	191.700	142.100	165.600	-32%	17%
EPS [after split]	14,3	24,4	18,6	33,6	19,8	23,6	-3%	19%
EBIT margin	12%	13%	9%	14%	6%	9%	-29%	50%
EBITDA margin	14%	15%	11%	17%	9%	14%	-8%	54%

[HUF mn]	2022				2023		Ch (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Y-o-Y	Q-o-Q
EBITDA	565	1.372	904	1.574	832	989	-44%	19%
HU	442	531	533	825	618	407	-8%	-34%
PL	121	29	-52	-87	-86	50	-59%	-158%
CZ	2	-2	-13	-7	-3	-8	-594%	223%
IT	326	814	437	843	302	540	66%	79%

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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