

CAPITAL RAISING

BIF (the “Company”) announced a capital increase by issuing 2,870,244 pieces of new ordinary shares. The shares will be bought by the Magyar Takarékszövetkezeti Bank Zrt. (the “Bank”) for a price of HUF 2,000 per share. The value of the deal is HUF 5,740,488,000. After the transaction the number of the total shares will increase to 28.7 million shares.

COMMENT

The transaction supports the future growth plans of the Company, which we already described in the Initiation Report on 29 June 2018 (see page 15-16). After the deal the weighted average cost of capital will not change significantly. We believe that the financing mix of 25 percent debt and 75 percent equity will remain intact. The investment pipeline and the guidance will be not changed by the deal.

The transaction changes the shareholders’ structure. The chart below describes the new proportions. After the deal the Bank will have 10 percent stake, which is the maximum ratio allowed by the SZIT regulation for credit institutions and insurance companies. The free-float will decrease to 14.53 percent which is still below the minimum threshold of 25 percent.

We believe the aim of the recent transaction was not to increase the free-float, rather than to facilitate growth. The ratio of the free-float is the only requirement which is not fulfilled by the Company to become a SZIT (REIT), so we expect more announcements this year.

Shareholders of the Company	
Name	Share %
PIÓ-21 Kft.	59,91
Treasury shares	15,55
Free float	14,53
Magyar Takarékbank	10,00
Total	100

Source: MKB, BIF

By the regulation the Company will have to publish its first half earnings by the end of September. We put the target price under review until the earnings report will have been released.

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Prior researches

MKB Bank wrote an initiation report on 29 June 2018. The research is available on the web page of the BSE (Budapest Stock Exchange):

<https://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/bif-elemzesek>

Methodology used for equity valuation and recommendation of covered companies

The discounted cash flow valuation is a method of valuing a company (or project, assets, business, etc.) with the time value of the money. The model forecasts the company's free cash flow (free cash flow to firm) and discounts it with the average cost of capital (WACC). The cash flow is simply the cash that is generated by a business and which can be distributed to investors. The free cash flow represents economic value, while accounting metric like net earning doesn't. The WACC represents the required rate of return by the investors. If a business is risky the required rate of return, the WACC will be higher.

Discounted cash flow model (DCF): We analyze the companies using five year forecast period and set a terminal value based on the entity's long term growth or on different exit multiples like EV/EBITDA or EV/EBIT. In certain cases the forecast period may differ from five years. In this case the analysts must define the reason for difference. The cash flows are discounted by the company's WACC unless otherwise specified.

In the first step we have to forecast the company's cash flow. The free cash flow to firm (FCFF) is based on the earnings before interest and taxes (EBIT), the tax rate, depreciation and amortization (D&A), net change in working capital (which is based on the current assets and current liabilities) and the capital expenditures (CAPEX). The model requires a terminal value which can be based on the long term growth or on an exit multiple like EV/EBITDA, or EV/EBIT. Forecasting the terminal value is a crucial point because in most cases it makes up more than 50% of the net present value.

The discount rate (WACC): The average cost of capital of the company is dependent on the industry, the risk free rate, tax, the cost of debt and the equity risk premium. The cost of equity is calculated by the CAPM model, where the independent variables are the risk free rate, the industry specific levered beta, and the equity risk premium. The WACC is dependent on the capital structure, so the forecast of the equity/debt mix is crucial.

At the end we get the enterprise value (EV). The EV is the market capitalization plus the total debt and preferred equity and minority interest, minus the company's cash. In the last step we have to reduce the EV with the net debt. This figures divided by the shares outstanding we arrive at the target share price.

The discounted cash flow model includes sensitivity analysis which takes the effects of the change in the WACC, the long term growth or the used exit multiples on which the terminal value is based.

Our target price is based on a 12 month basis, ex-dividend unless stated otherwise.

Peer group valuation: For comparison we use peer group valuation. The analysis based on important indicators and multiples like P/E, EV/EBITDA, EV/EBIT, market capitalization, P/S, EBITDA margin, net debt to EBITDA, EBITDA growth, dividend yield and ROIC. If the industry justifies we may use other multiples. The peer group is compiled according to the companies' main business, with respect to the region (DM or EM market).

Recommendations

- Overweight: A rating of overweight means the stock's return is expected to be above the average return of the overall industry, or the index benchmark over the next 12 months.
- Underweight: A rating of underweight means the stock's return is expected to be below the average return of the overall industry, or the index benchmark over the next 12 months.
- Equal-weight: A rating of equal-weight means the stock's return is expected to be in line with the average return of the overall industry, or the index benchmark over the next 12 months.
- Buy: total return is expected to exceed 10% in the next 12 months.
- Neutral: Total return is expected to be in the range of -10 - +10% in the next 12 months.
- Sell: Total return is expected to be below -10% in the next 12 months.
- Under revision: If new information comes to light, which is expected to change the valuation significantly.