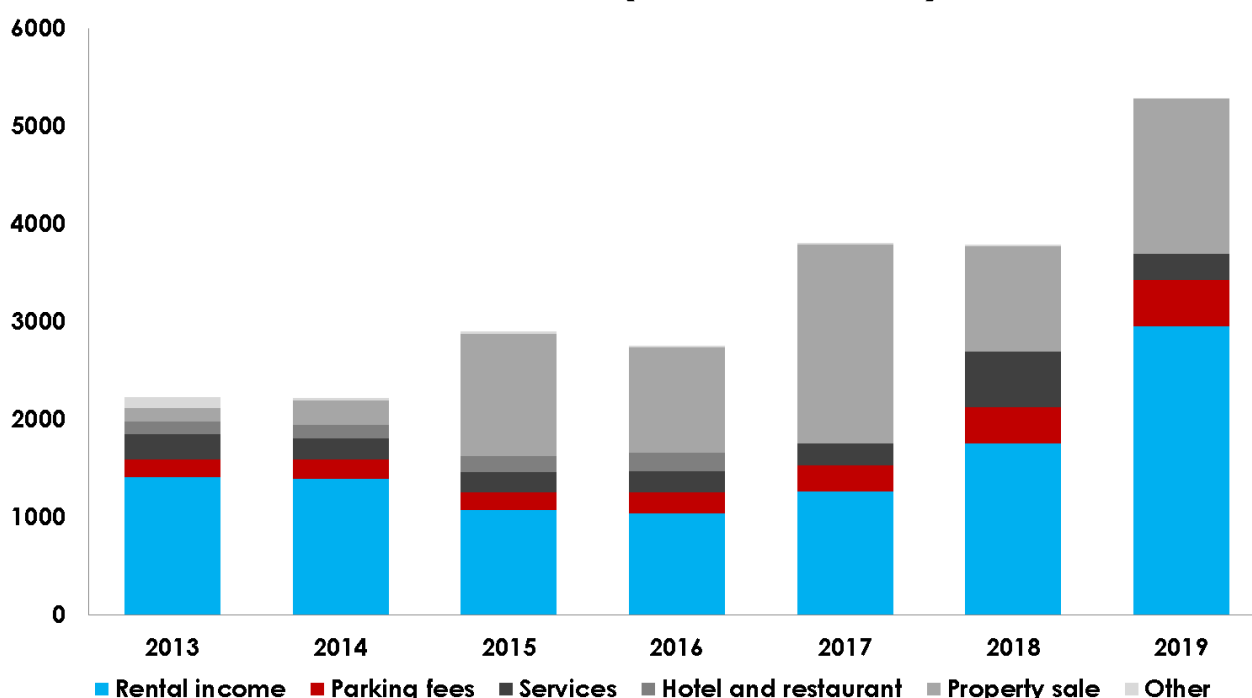


ABOUT 2019

The Company published its 2019 figures on 8 April 2020. The Company achieved an after-tax profit of HUF 2.72 billion in 2019, which is significantly lower than net profit of HUF 8.28 billion in 2018. However, both in 2017 and 2018 the fair values of the Company's investment properties have gained materially. Net profit after special items (gain in fair value of properties) has raised from HUF 1.58 billion to HUF 1.92 billion (+21%). Net sales revenue has gained from HUF 3.8 billion to HUF 5.3 billion (+40%).

Revenue mix (millions of HUF)



Source: Consolidated company fillings, MKB

The results of the Company's segments were the following: the revenue of the investment property segment was HUF 3.7 billion which represents a 37% increase compared to the previous year. In recent years BIF has raised the size of its rentable area by about 20.000 square meters which supported the revenue growth of the investment property segment. In the upcoming years BIF will be able to make further improvements on the existing properties such as the extension of the buildings or building additional parking lots. We believe that the total rentable area will reach approximately 85.000 square meters by 2024. For more details, please see previous flash notes.

The Harsánylejtő segment; which means the real estate development segment; earned HUF 1.58 million after the result of HUF 1 billion in 2019. Last year the Company has finished the implementation of 4 residential apartments with 20 residential properties. The Company has another three apartments projects in this area, along further development opportunities.

By our calculation the Company earned HUF 1.2 billion FFO (funds from operation).

million HUF	Revenue	
	2019E	2019
Investment properties	3698	3707
Real estate development (Harsánylejtő)	1408	1581
Total	5106	5288

Source: Consolidated company fillings, MKB

	2019E	2019
FFO	884	1248

Source: Consolidated company fillings, MKB

OPPORTUNITIES AND RISKS

In the coming years the Company will focus on the following important areas:

- On 11 November a general construction agreement was concluded by and between the Company and D.V.M. Construction Fővállalkozó Kft. regarding the restructuring, construction and installation works of the real property in district I, Budapest, on plot 6775, located at Attila str. 99.
- On 2 January 2020 the Company announced a sale and purchase agreement by and between the Company and Városmajor Projekt Ingatlanhasznosító Kft. concerning the property located at 35 Városmajor street, 1122 Budapest. According to the deal BIF acquires a 15,000 sqm office building which has a permit to develop a 7-story, parking garage with a capacity of 248 parking spaces in one of the most populated streets of District 12. According to the announcement, the total rentable office space can grow from the projected 70,000 sqm to 85,000 sqm and the parking lots will also grow significantly.
- Delivery of Stage II of the Harsánylejtő residential property (20 properties). In Stage III and IV 40 properties can be constructed in the future
- Designing the development concept of Bajcsy-Zsilinszky Office Building (raising the rentable area from approximately 3,600 square meters to about 30,000 square meters) and Városmajor Office Building with total development area: 6,000 square meters
- Designing the utilization and development concept of the property complex at 80-82 Andrásy street, Budapest, District VI. which will function as a 4-star boutique hotel from 2021

The COVID-19 pandemic means difficulty for several companies. In our opinion the pandemic situation will seriously affect many companies in the airlines, real estate, hotel & restaurant, travel, healthcare and financial industry. BIF drew attention to the risk of the pandemic:

- it is possible that some developments will be finished behind schedule
- it is possible that some lease contracts will be terminated or renegotiated

We can identify several risks that can affect our DCF model:

- after the pandemic, if the WFH (work from home) system has an appropriate efficiency, companies may reconsider the number of office space they require. If the data shows good efficiency it is imaginable that office spaces will be significantly reduced
- tourism is severely affected by the pandemic, which means hotels and restaurants utilization may decrease. BIF has hotel properties which are operated by third parties
- apartment prices can decrease in the near future, which is negative for real estate developments

MODEL UPDATE

For now it is hard to assess the negative effects of the pandemic, therefore, it is not easy to take into considerations the above mentioned factors in a DCF model. We have constructed multiple scenarios

- the rent income decreases by 0-20% and/or
- all of the developments are behind schedule by one year

Our one year target price has barely changed from HUF 335 to HUF 332 (mostly by the change of the WACC and the Hungarian risk-free rate)

DCF valuation

millions of HUF	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Total income	2225,6	2217,2	2901,7	2754,9	3805,6	3792,0	5288,3	6973,7	10726,2	12392,5	10368,9	11506,7
Property related costs	-1247,2	-1366,3	-1804,9	-1430,7	-1341,3	-2335,4	-2616,1	-3486,8	-5363,1	-4957,0	-4147,5	-4602,7
Net interest costs	-522,4	-737,1	-141,9	-67,5	-103,0	-254,8	-190,5	-507,9	-500,0	-500,0	-500,0	-500,0
FFO	691,2	176,6	1100,3	1288,5	2385,5	1379,5	2548,3	2711,2	4914,9	5548,5	5157,5	5830,8
CAPEX	-299,5	-45,4	0,0	-805,8	-8068,2	-680,9	-3000,0	-10105,6	-4000,0	-3000,0	-2000,0	-1500,0
AFFO	391,7	131,1	1100,3	482,7	-5682,7	698,7	-451,7	-7394,4	914,9	2548,5	3157,5	4330,8

WACC	6,0%
Growth rate	2,5%

Enterprise value	96554,3
Debt	-16133,0
Cash	8831,4
Fair value of equity	89252,7
Shares outstanding	287,024

1 year target	332
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Source: Consolidated company fillings, MKB

Target price scenarios

		Terminal growth						
		-2%	-1%	0%	1%	2%	3%	4%
WACC	5%	143	174	219	285	395	616	1279
	6%	113	136	167	209	273	379	592
	7%	91	108	130	159	200	261	364
	8%	73	86	102	124	152	191	250
	9%	58	69	81	97	118	145	183
	10%	47	55	65	77	92	112	138

Source: Consolidated company fillings, MKB

COVID-19 scenarios

Rent income decreased by / developments will be finished behind schedule	20%	15%	10%	5%	0%
Yes	218	241	264	287	310
No	235	259	283	307	332

Source: MKB

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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/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-zrt-bif-initiation-report>

The flash notes are 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.