EQUILOR | 30 YEARS EXPERIENCE IN CAPITAL MARKETS

OPUS

| Company Data: | |
|---|---|
| Recommendation: | Buy |
| Target Price*: | HUF 395 |
| Price: | HUF 251 (22. Apr. 2021.) |
| 52 week range: | HUF 196-307 |
| Market cap (HUF, m): | 174 008 |
| Average daily turnover (number of shares): | 197 970 |
| Code: | OPUS HB |
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# Opus Global

## 2020 Full Year results

## Consolidated Results

As part of our end of year analysis, we updated the valuation model for the company and our Price Target is increased to **HUF 395 per share**. The increase is due to growing valuation of the Agricultural segments, higher than expected proceeds from sales of assets, slight adjustments to our WACC model, and higher cash holdings of the company. We decided to not value the Asset Management division separately, instead we used the Balance Sheet values on the comprehensive levels. The detailed analysis of the changes is included on the segment level discussion. Please note, that the Energy division is not included in the model, as it was not part of Opus Global at the end of year. We will update our Target Price, once more details about the division is published.

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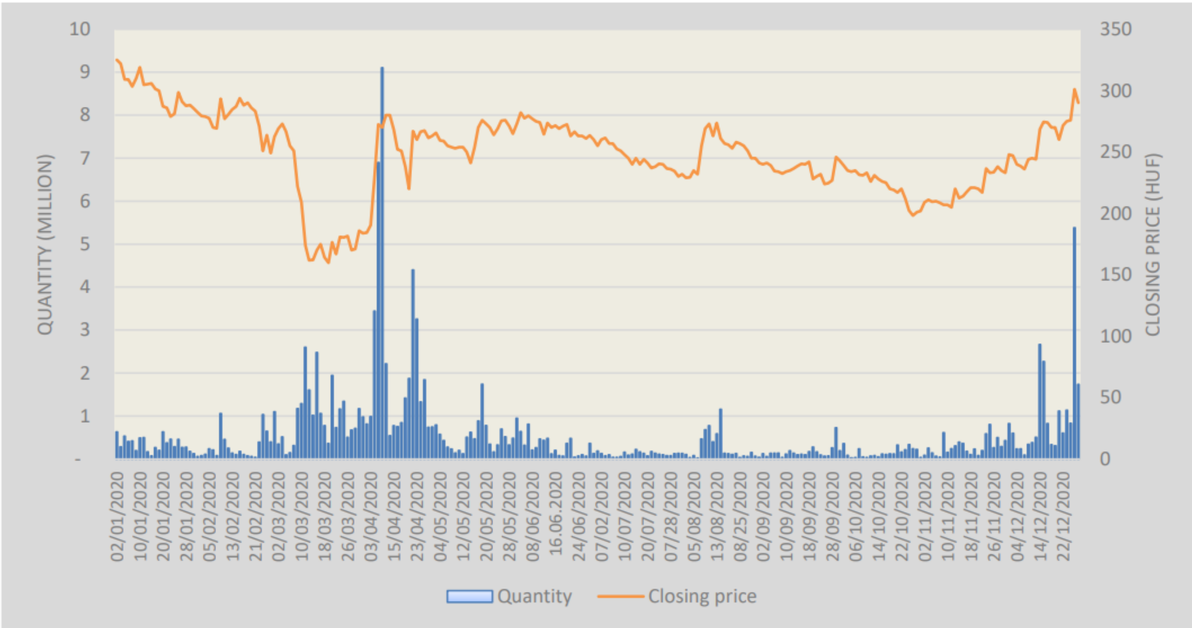
*The target price was based on the fundamental analysis of the company and it is not guaranteed that the price of the share will reach the given target price. Please note, that the Energy segment was not included in the valuation, as the financial details of the segment was not included in the year end results.*

| | |
|---|---|
| EV Industry | 249 003 593 |
| EV Turism | 122 978 819 |
| EV Agriculture | 121 310 849 |
| Total Value of operation | 493 293 261 |
| | |
| Conglomerate Discount | 15% |
| | |
| Non-controlling interests | 5 579 651 |
| Financial Investments | 5 857 568 |
| Deferred Taxes | 1 142 772 |
| Real Estate for investment | 2 457 000 |
| Cash and Eq | 127 825 377 |
| Total | 142 862 368 |
| | |
| Enterprise Value | 562 161 640 |
| | |
| Long term liabilities | 132 106 184 |
| Short term liabilities | 160 372 670 |
| Total Liabilities | 292 478 854 |
| | |
| Value for equity holders | 269 682 786 |
| | |
| Number of shares (thousand) | 701 646 |
| Number of own shares (thousand) | 19 708 |
| Number of shares outstanding (thousand) | 681 938 |
| | |
| **Target Price** | **395** |

*Source: Equilor*

For full year 2020 Opus reported a significantly smaller loss than in 2019. With the adjustments related to acquisition amortization the firm achieved a comprehensive income of HUF 11.0 bn which is a significant improvement from 2019, when they reported a material loss, even with the adjustments. The largest contributor to the improvement was the Agricultural division, and the Industry segment improved as well, the only negative contributor was the Tourism division, which was negatively impacted by the Covid pandemic.

**Closing rate and turnover of OPUS shares (BSE, 01.01.2020 -31.12.2020)**




*Source: Opus*

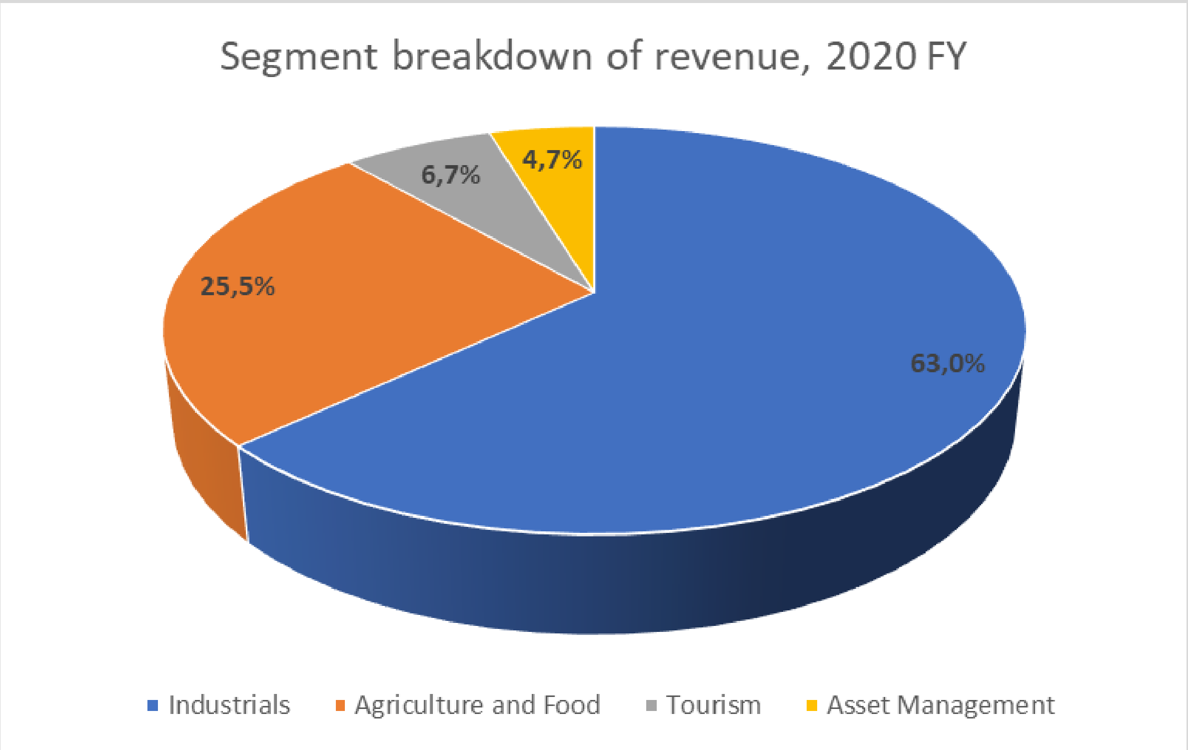
The revenue of Opus Global increased by 10% YoY, while the adjusted operating expenses grew by 8% YoY resulting in a significant improvement in adjusted operating profit. Without the adjustment the loss on operating EBIT decreased significantly.

| Consolidated | 2020 FY | 2019 FY | Change |
|---|---|---|---|
| Revenue | 227 891 882 | 207 295 667 | 9,94% |
| Operating expenses | 228 914 715 | 217 721 690 | 5,14% |
| Adjusted operationg expense | 212 337 613 | 197 010 831 | 7,78% |
| Operating EBIT | - 1 022 833 | - 10 426 023 | |
| Adjusted EBIT | 15 554 269 | 10 284 836 | 51,23% |
| Total comprehensive income | - 5 583 118 | - 40 866 368 | |

*Source: Opus, Equilor*

The sale of the Energetics segment also decreased the total balance sheet by 13% YoY. The cash and equivalents increased by 61% YoY, as the cash generation of the company, the sale of assets, and the issued bond increased the line. The available cash was probably used for the new acquisition targets in the Energy division, after the close of the books Opus Global acquired the 50% controlling interest of TIGÁZ Földgázelosztó Zrt. and will acquire the 50% controlling interest in E.ON Tiszántúli Áramhálózati Zrt. in H2 2021. Our analysis did not include the impact of the two acquisition, as they happened after the close of the books, we will update our model to reflect the acquisition as soon as financial numbers will be available.

The Covid-19 had a limited effect on the firm's operation in the last year, only the tourism segment had a significant setback. The revenue breakdown shows that in the first nine months the industry segment was the largest, with its 63% contribution, followed by the agricultural segment's 26% contribution. The most affected tourism segment contributed to only the 7% of the revenue, and was down significantly YoY.




*Source: OPUS, Equilor*

There were significant sales in the asset management segment. At the beginning of July Opus sold its stake in 4iG, which was held as a liquid investment, the profit on the sale was HUF 3.9 bn. After the quarter closed the management decided to sell the CIG Pannónia shares in a hybrid format, where in the five years starting from 2021, Opus is entitled for the share of the potential profit of the company.

Looking forward we adjusted our model to reflect the uncertainties related to the tourism division, as well as the earlier than expected improvements in the agricultural division.

| | Segments | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|
| Revenue | Conglomerate | 249 283 007 | 275 557 816 | 300 069 938 | 313 305 104 | 323 622 199 | 332 405 461 |
| | Industry | 165 833 699 | 176 141 280 | 185 608 967 | 194 012 885 | 200 871 604 | 206 897 752 |
| | Turism | 15 449 001 | 27 334 338 | 38 770 641 | 41 324 791 | 42 435 293 | 43 574 645 |
| | Agriculture | 68 000 307 | 72 082 197 | 75 690 331 | 77 967 429 | 80 315 302 | 81 933 064 |
| Adjusted operating expenses | Conglomerate | 228 291 669 | 243 151 875 | 261 135 644 | 273 126 602 | 281 216 150 | 289 374 150 |
| | Industry | 144 594 576 | 151 895 211 | 158 644 230 | 166 399 343 | 171 391 324 | 176 533 063 |
| | Turism | 20 100 259 | 24 287 415 | 32 372 159 | 34 606 632 | 35 644 831 | 36 714 176 |
| | Agriculture | 63 596 835 | 66 969 250 | 70 119 255 | 72 120 626 | 74 179 995 | 76 126 911 |
| FCFF | Conglomerate | 1 398 784 | 11 312 931 | 25 265 557 | 27 103 612 | 28 170 577 | 28 026 411 |
| | Industry | 9 030 724 | 11 019 946 | 13 825 343 | 14 533 968 | 15 777 570 | 16 175 898 |
| | Turism | - 11 207 229 | - 5 102 408 | 5 752 860 | 7 102 504 | 7 134 923 | 7 186 735 |
| | Agriculture | 3 575 288 | 5 395 393 | 5 687 354 | 5 467 140 | 5 258 083 | 4 663 779 |
| Cost of Debt | Conglomerate | 8 715 870 | 8 715 870 | 8 715 870 | 8 715 870 | 8 715 870 | 8 715 870 |
| FCFE | Conglomerate | - 7 317 086 | 2 597 061 | 16 549 687 | 18 387 742 | 19 454 707 | 19 310 541 |
| FCFE per share | Conglomerate | - 11 | 4 | 24 | 27 | 29 | 28 |

*Source: Equilor*

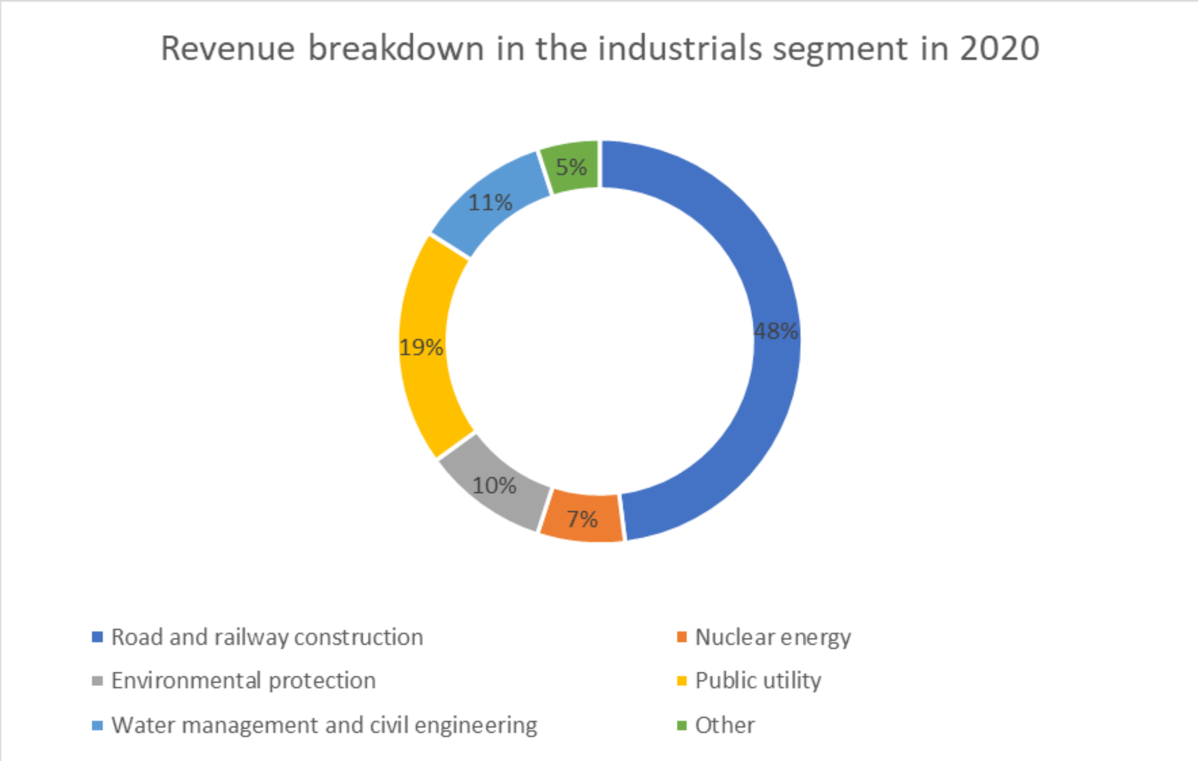
We still expect negative cashflows for 2021, without the Energy division, as the Capex requirement in the tourism division would require significant capital allocation. We expect stabilizing free cash flow from 2023, which means that we foresee the first dividend from the company in 2024. The addition of the free cash flow generating potential of the energy acquisition may improve the picture significantly. On the other hand, potential new acquisitions may consume significant part of the cash and cash equivalent lines.

## Industry segment

The industry segment is the most important segment of the firm and was only partially affected by the Covid-19 pandemic. The division's profitability improved significantly from 2019 and reported full year results in line with our expectations. The construction industry companies in the segment were able to operate in a full capacity, the only downside was the increased outstanding receivables, as the time to collect increased. Wamsler SE saw some disruptions, and with the lower orders in the 2019 high season, it planned more conservatively for the period. As a result, they are planning to partially restructure the business and Wamsler obtained the qualifications required for the production of welded steel structures.

In 2020 the segment reported full year revenue of HUF 154bn which is a 12% YoY improvement from 2019. The operating margin improved significantly and this resulted in a profit for the year compared to last year restated loss (due to changes in the accounting standard, part of the results was reissued for 2019).

The subsegment level shows that revenue from the construction arm increased by 14% YoY, while expenses only increased by 3% YoY resulting in significant margin improvement. The most important revenue source of the construction arm was road and railway construction with a 48% contribution, followed by the 19% contribution of public utility construction and an 11% contribution from water management and civil engineering.




*Source: Opus, Equilor*

The heavy industry subsegment, Wamsler Group suffered more from the pandemic. The revenue was down by 18%, while the costs only declined by 12%, resulting in a heavier loss for 2020 compared to 2019. The number of units produced was down by 43%, while the number of units sold were only decreased by 21%, as Wamsler only produced new units for order. The expense reduction for the year may improve the bottom line in the future, as we expect the demand will increase to 2019 levels after the pandemic.

All together the division achieved significant growth in top, and especially in bottom lines. The division was only partially affected by the Covid-19 pandemics and the signing of the Budapest-Belgrade railway line is huge step forward for the segment.

| Consolidated | 2020 FY | 2019 FY | Change |
|---|---|---|---|
| Revenue | 154 120 538 | 137 830 302 | 11,82% |
| Operating expenses | 154 555 002 | 152 428 107 | 1,40% |
| Operating EBIT | - 434 464 | - 14 597 805 | |
| Total comprehensive income | 14 234 379 | - 2 144 370 | |

*Source: Opus, Equilor*

Looking forward we did not change significantly our expectations related to the segment, our total valuation increased slightly, mostly due to the adjustments made to our WACC model. The enterprise value of the segment is HUF 249 bn based on our model.

## Agricultural and Food segment

The agricultural and food segment has a major importance within Opus Global. It became crucial last year, which was disrupted by the pandemic of COVID-19. The segment contributed about 27% of the consolidated revenue of the holding, up 7 percentage point from last year. The segments portfolio did not change significantly from YE 2019. It still includes agricultural company Csabatáj Ltd (74.18% ownership), food industry related VIRESOL Ltd (51% ownership) and KALL Ingredients Ltd (83% ownership) including all of their subsidiaries.

The pandemic also affected food producers, although the disruption was not as large as in some other segments of the economy. Most of the packaging materials come from China, the arrival of which has slowed significantly during the year. In addition, transport and logistics related costs have increased materially. The scale of the epidemic and the restrictions imposed worldwide have had a clear negative impact on the supply chain and global logistics routes, the segment have faced longer waiting times and increased risk in sourcing and selling raw materials and other materials.

The Balance Sheet increased by 15% YoY which was driven by plant investment and the EURHUF exchange rate. As Kall Ingredients has a major exposure to export the company keeps it books in euro which is exchanged to forint by the end of the year for consolidation purpose. The debt to total asset ratio decreased to 49% compared to 52% last year. The cash and cash equivalents increased by 33% YoY to HUF 11.71 billion.

As the new plantation of VIRESOL was activated in 2020 the revenue increased significantly to HUF 62.4 billion which represents a 47% top line growth YoY. EBITDA increased by 246% to HUF 6.4 billion.

In the segment, VIRESOL and KALL are more focused on the food industry, and are export oriented. Domestic sales account for 25% of the sector's total sales volume, up 4% from the previous year. In contrast, intra-EU sales represent 68% of total in 2020. In this region, the segment achieved 120% top line growth YoY. Non-EU countries contribute 7% of sales, achieving a very notable growth of more than 250%. Revenue is determined by the global market trends of products, which affects the profitability of companies in the future.

| Consolidated | 2020 FY | 2019 FY | Change |
|---|---|---|---|
| Revenue | 62 385 603 | 42 479 781 | 46,86% |
| Operating expenses | 59 436 294 | 44 057 942 | 34,90% |
| Operating EBIT | 2 949 309 | - 1 578 161 | |
| Total comprehensive income | 1 374 156 | - 3 396 306 | |

*Source: Opus, Equilor*

In terms of our valuation, we adjusted the growth trajectory as the new plant was activated in 2020 which led to a 47% top line growth and the EBITDA increased by 246%. In our projection we calculated with a high-single digit top line growth for the next year as process and plant optimization might support productivity and efficiency. There is still ongoing risk related to the pandemic and its aftermath, which might affect the raw material prices and the demand side of the segment end product. The WACC has been changed slightly as cost of debt was decreased to 2.98%, which was estimated using the only publicly traded fixed income instrument of the holding. We arrived at a WACC range of 6.7-7.5%. CAPEX will decline heavily in the next 2 years as the division finalized the production expansion related expenditures and then CAPEX will stabilize. We also adjusted the scenario probabilities and decreased the divergence from the scenarios, as the uncertainty decreased in the last year.

As a result, the calculated total enterprise value of the division is HUF 121.3 billion. This equals a per share enterprise value of HUF 173 for the agricultural and food division of OPUS Global which is an increase of 10.1% from the previous model.

## Tourism segment

The segment faces the largest difficulties due to the Covid-19 pandemic. The effect is universal and we observed unprecedented collapse in global travel which can affect the segment in the medium term as well.

To offset the negative effect the Hungest Group decided to participate in numerous government aid programs. The most important is the loan moratorium; this is the only arm of the firm which decided to enter the program. The Hungarian government also decreased employer contribution, which lowered wage costs for the segment. The tourism tax was suspended for the year and there were significant changes in the cafeteria program in Hungary, which will benefit the domestic tourism sector.

The foreign arm of the segment was hit first in Austria the hotels had to be closed in the 14th of March, and a onetime cost of EUR 110 thousand was occurred due to quarantine in one of the hotels.

Hungary was also partially affected, as management decided to close all but one of the hotels on the 22nd of March. The management also decided to advance the yearly maintenance work and decided to go ahead with firing some of the employees due to significant renovations in the future.

The summer season was the highlight for the segment, but the autumn bookings dropped again and Q4 was worse with the restrictions. Hungest was hit especially hard, the number of domestic guest nights decreased by 50% YoY, while the foreign guest nights were down by 78% YoY for the full year. This resulted in a 60% YoY drop in the number of rented rooms for 2020. The subsegment’s revenue was down by 56% YoY, which means that the actual room price was up YoY, partially helped by the VAT decrease, but the average gross room prices were also increased. The costs were only decreased by 37%, resulting in a significant drop in EBIT and total comprehensive income. EBIT was a loss of HUF 2.8 bn in 2020 compared to a gain of HUF 3.9 bn in 2019.

| | 2020 FY | 2019 FY | Change |
|---|---|---|---|
| Number of domestic guest nights | 581 249 | 1 168 981 | -50,28% |
| Number of foreign guest nights | 112 750 | 523 722 | -78,47% |
| Number of rooms available for rent | 590 759 | 1 188 679 | -50,30% |
| Number of rooms rented | 324 763 | 802 491 | -59,53% |

*Source: Opus, Equilor*

Balatontourist, the camping subsegment, was also affected from the pandemic. They usually open in April, while in 2020 they only opened on the 15th of May. The number of guest nights in the camping decreased by 27% YoY, while in the guest houses it was down by 13% YoY due to the shorter opening time and a significant drop in the nights spent by foreigners. Both numbers were smaller than in the average drop in the region, resulting in significant market share gain for the subsegment. As a result of decreasing guest nights, the revenue was down by 19% YoY, but the average price was up YoY and this subsegment was able to decrease expenses more, by 30% YoY. As a result, Balatontourist was able to report a significant bottom-line improvement, total comprehensive income was HUF 141 mn in 2020, compared to a loss of HUF 186 mn in 2019.

Looking at the division level revenue was down by 51% YoY, while expenses only decreased by 36% YoY. The revenue decrease can be explained by the closure of the hotels as a result of the pandemic, the summer was definitely a bright spot, but Q4 was extremely challenging.

## OPUS

| Consolidated | 2020 FY | 2019 FY | Change |
|---|---|---|---|
| Revenue | 16 452 200 | 33 805 957 | -51,33% |
| Operating expenses | 19 097 633 | 30 010 555 | -36,36% |
| Operating EBIT | - 2 645 433 | 3 795 402 | |
| Total comprehensive income | - 4 514 885 | 3 827 274 | |

*Source: Opus, Equilor*

In our model we made significant adjustments for the division, as the restrictions are still with us in the first half of 2021 and we expected the expenses to decline in a faster pace.

We decreased our expected occupancy rates for all scenarios, as we now expect the pandemic related affects in tourism to stay with us in the coming years. Currently, the largest uncertainties are around the foreign operation and about the number of foreign guest nights, especially for the hotel operations.

On the other hand, we increased the room price expectations, as it increased even in 2020. There were smaller adjustments for Balatontourist, as its performance was in line with our expectations and we see smaller risks for that subsegment.

Our model shows that this segment has the largest variance among our scenarios. There are still numerous risks related to the pandemic, but we decreased the weight of the pessimistic scenario, as we see less uncertainty compared to our initial report. As a result, we arrived at an enterprise value of HUF 123 bn for the segment.

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*Equilor's regulatory authority is the Hungarian National Bank.*

*The report was closed on the 26th of April.*

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