

Duna House

Recommendation: BUY

Target price (12M): HUF 800

Hun. Core HUF million	2022 Q2	2021 Q2	Ch (%)
Revenues	9.300	3.407	173%
EBITDA	1.373	511	169%
Cleaned core EBITDA	1.267	629	101%
EBIT	1.214	430	182%
Profit	1.033	270	283%
EPS*	24,4	8,1	201%
Cumulated EPS	39	16	+148%
Loan volume HUFbn	244	104	+135%

*after minorities



Share price close as of 01/09/2022	HUF 482	Bloomberg	DUNAHOUS HB
Number of shares [million]	34,6	Reuters	
Market capitalization [HUF mn/EUR mn]	16,870 / 42	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 350-560

Defying gravity

In short:

- Despite the skyrocketing interest rates, DH had its best quarterly results with the help of the Italian subsidiary. **Q2 EPS reached HUF 24.4 (+224% yoy), H1 EPS was HUF 38.7 (+148% yoy).**
- Thanks to the strong performance, **DHG confirmed its FY core profit guidance** (excludes profit from developments) of EPS 54 – 94 implying a P/E'22 of 6.4x on core earnings.
- DH started to book the profit from the development segment, but it was relatively low in size (HUF 86m in EBITDA only) and mgmt. expects ca HUF 4.7 bn CF from the project. The project loan has already been paid back.
- **All in all, despite the strong headwind from soaring interest rates, DH surprised us with such resilient earnings thanks to its diversified operation.** Going forward, we think the company's earnings will heavily rely on the Italian operation and the huge profit from the Forest Hill project. However, those earnings buffers are not sustainable (market share increase in Italy) and the number of flats in the Forest Hill project are also finite. Since investors expect relatively large DPS (HUF 50 – 100) from this year's profit, we do not expect share price would react meaningfully to the deteriorating macro environment. **DH desperately needs lower interest rate environment for loan intermediation to run at a healthy pace, because at prevailing mortgage rates, there are relatively low demand for mortgage loans. They could not defy gravity forever, we believe.**

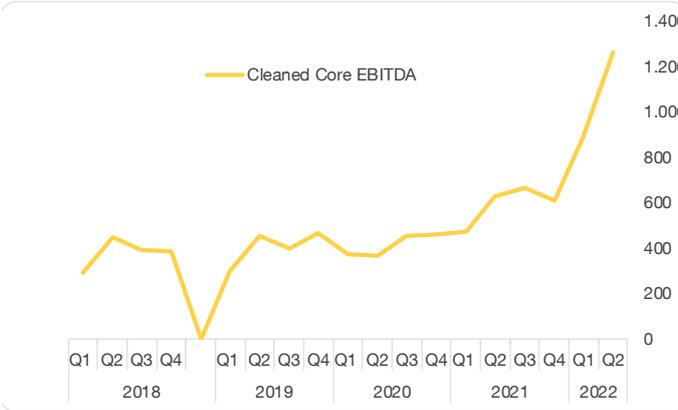
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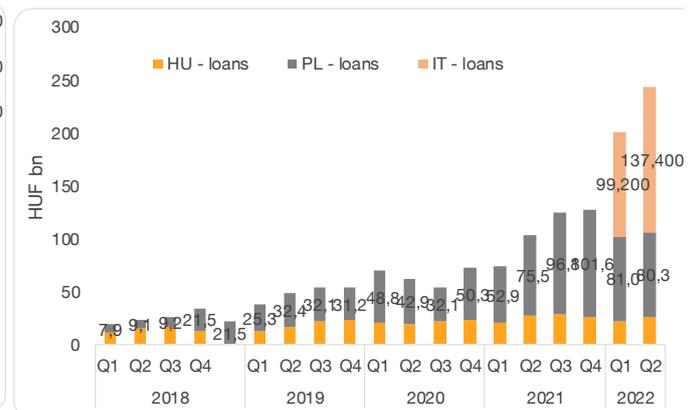
- **Key positives of the Q2 report:**
 - Despite the screaming headwinds, DH could report its best quarterly results.
 - Mgmt. kept its profit guidance despite strong headwinds (FY cleaned EPS: 65 vs. Q2: HUF 38)
 - Italian operation could increase its loan intermediation volume (+6% yoy) despite overall market shrank by 23% yoy, implying higher market share which should be further increased according to mgmt.
 - The handover of apartments of the Forest Hill project has continued which will serve as buffer for profit if core operation shows weakness.

- **Key negatives of the Q2 report:**
 - The headwinds are loud and clear in Poland where EBITDA fall by 86% yoy
 - All of the segment's EBITDA fell on yearly basis expect loan intermediation to where the Italian operation contributes

Quarterly Cleaned Cored EBITDA Development

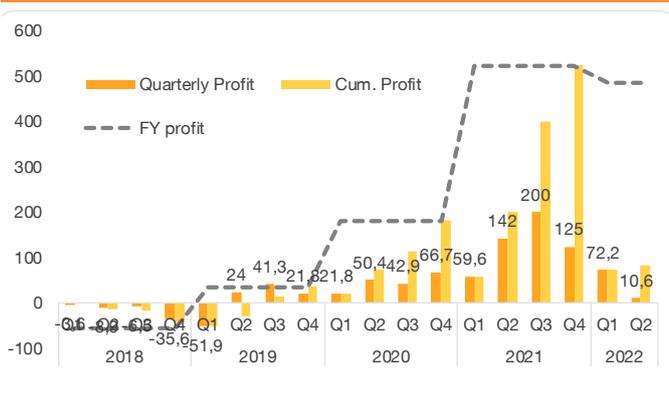


quarterly Intermediated loan volume [HUF bn]

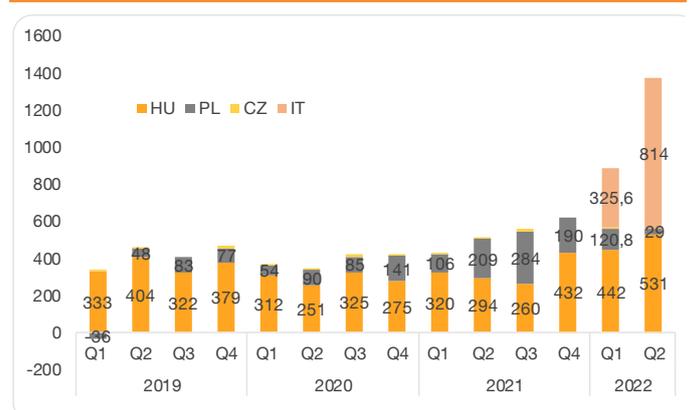


source: Concorde, DH

Poland's quarterly earnings development



quarterly EBITDA country breakdown



source: Concorde, DH

Opinion: DH surprised us with such a strong earnings, especially from Italy. Diversification indeed supported this quarter results, however DH desperately needs lower interest rate environment for loan intermediation to run at a healthy pace, because at prevailing mortgage rates, there are relatively low demand for mortgage loans. They could not defy gravity forever, we believe.

Nevertheless, investors could expect relatively large DPS in the range of HUF 50 – 100 from this year’s earnings which would support share price in the current headwinds in our view. Base DPS could be around HUF 35 which could be boosted by the CF from Forest Hill project in the maximum extent of HUF 135 (full realization of Forest Hill project) – *but the latter may not be paid out full, and also mgmt. does not expect to sell all of the flats of the project this year.*

In light of the Q2 development we reiterate our TP and Recommendation, but flagged that if Polish operation will not recover in the rest of the year our 2022 core profit forecast (HUF 2.4 bn vs. HUF 1.6bn in H1) may not be reached. In that respect, mgmt. is optimistic and believes that FY core profit guidance could still be attainable thanks to the strong Italian contribution. Also please note that, our earnings forecast implies a 10% decline for the next year core profit which we might adjust if macro environment further deteriorates, but it is difficult to judge it at this stage.

DH'S SIMPLIFIED P&L

[HUF mn]	2021				2022		Ch (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Y-o-Y	Q-o-Q
Revenue	2.721	3.407	3.842	4.789	7.984	9.300	173%	16%
Operating revenue	2.539	3.372	3.817	4.733	7.916	9.079	169%	15%
Other income	182	35	25	56	68	221	531%	224%
OPEX	2.351	2.977	3.372	4.253	7.246	8.086	172%	12%
Cost of materials	59	76	61	66	67	53	-30%	-21%
Cost of sold goods and services	455	602	665	496	627	557	-7%	-11%
Used services	1.652	2.105	2.560	2.654	5.774	6.270	198%	9%
Personnel expenses	191	212	216	222	522	615	190%	18%
Depreciation and amortization	63	81	93	86	152	159	96%	4%
Other operating expenses	-69	-99	-222	730	103	431	-535%	317%
EBITDA	433	511	563	622	890	1.373	169%	54%
<i>Franchise</i>	184	137	180	137	178	111	-19%	-38%
<i>Own Offices</i>	61	59	52	60	85	30	-50%	-65%
<i>Loan intermediation</i>	200	374	397	393	620	1103	195%	78%
<i>Other related</i>	15	17	15	23	-30	5	-72%	-116%
<i>Real estate mgmt.</i>	-16	-82	-102	37	114	125	-252%	9%
<i>Elimination</i>	-11	8	21	-28	-78	0	-99%	-100%
Cleaned Core EBITDA	471	629	667	611	893	1.267	101%	42%
EBIT	370	430	471	536	738	1.214	182%	65%
Financial income	22	5	81	117	60	189	3686%	213%
Financial expense	74	110	73	38	154	141	28%	-8%
Revaluation	24	17	70	46	22	58	240%	166%
EBT	343	342	549	661	666	1.320	286%	98%
Income tax expense	53	72	83	100	103	287	298%	178%
Net income	290	270	463	561	563	1.033	283%	84%
<i>Transaction Number</i>	41.384	40.874	34.296	33.970	39.156	35.289	-14%	-10%
<i>Intermediated loans [HUF bn]</i>	73.534	103.900	125.100	127.100	201.900	243.800	135%	21%
<i>EPS [after split]</i>	8,1	8,1	13,0	15,7	14,3	24,4	77%	-9%
EBIT margin	14%	13%	12%	11%	9%	13%	-32%	-17%
EBITDA margin	16%	15%	15%	13%	11%	15%	-30%	-14%

[HUF mn]	2021				2022		Ch (%)	
	Q1	Q2	Q3	Q4	Q1	Q2	Y-o-Y	Q-o-Q
EBITDA	433	512	563	622	565	1.372	182%	143%
<i>HU</i>	320	294	260	432	442	531	81%	2%
<i>PL</i>	106	209	284	190	120,8	29	-86%	-76%
<i>CZ</i>	6,8	8,5	19,1	-0,4	1,7	-2	-124%	-218%
<i>IT</i>					325,6	814		150%

Source: DH

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Buy	Total return is expected to exceed 20% in the next 12 months
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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Valuations and risks:

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