EQUILOR | ELEMZÉS

20th of June, 2024

Opus Global Q1 2024 results

Company Data	
Recommendation	**Buy**
Target price*	**HUF 527**
Closing price	HUF 423,5
52-week range	HUF 119 - HUF 437.5
Market cap (HUF, mn)	297.147
Average daily turnover (12M, no. of shares)	1,086,358
Bloomberg code	OPUS HB

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Misleading decline, improving margins

On the morning of 14 June, OPUS published its results for the first quarter of 2024. The company had an outstanding performance in the 2023 financial year. However, at first glance, the first quarter results might appear disappointing by comparison. Quarterly revenue decreased by 13.8 percent, operating profit declined by 4.7 percent and EBITDA fell by 3.9 percent compared to last year's first quarterly report. In numerical terms, sales revenue dropped from HUF 167.1 billion to HUF 144.0 billion and operating profit decreased from HUF 15.1 billion to HUF 14.4 billion. **Despite the quarterly decline, the profitability indicators showed improvement**, with the operating profit margin improving by 1 percentage point to 10 percent and the EBITDA margin improved by 1.8 percentage points to 17.1 percent. These improvements occurred because operating costs declined more than the decrease in revenue during the quarter. Notably, material expenses, which accounts for 76 percent of operating costs, decreased to HUF 19 billion in Q1 2024, contributing to the overall reduction in operating expenses. On the contrary, personnel costs rose in the January-March period, thanks to a 3.1 percent increase in the number of employees and a 15.7 percent rise in wages.

A significant change is evident in the financial earnings line. The Q1 2023 financial loss of HUF 244 million transformed into a profit of HUF 29 billion, resulting in a substantial improvement of 3.6 percent in financial earnings. According to the company's management, this improvement is attributed to reduced interest charges and favorable foreign exchange rate developments.

Cash and cash equivalents constitute nearly a quarter of OPUS's balance sheet. A portion of these funds is utilized in the conglomerate's treasury activities, leveraging the highest available interest rate spread. On the liabilities side, there is no significant change, loans and borrowings decreased by HUF 345 million year on year to the total debt of HUF 130.2 billion.

*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.

Among the company's four business segments, the Energy segment made the largest contribution, accounting for 39.4 percent of quarterly revenues. It was followed, in order, by the Industrial, Food & Agriculture, and Tourism segments.

In the "Assessment of Segments" section, financial figures represent aggregated values specific to each business segment. However, these segment-level results may not directly align with the overall conglomerate-level results.

Conglomerate, HUF bn	2024 Q1	2023 Q1	Change
Operating income, total	144,0	167,1	-13,8%
Operating expenses	129,6	151,9	-14,7%
Operating EBIT	14,4	15,1	-4,7%
EBIT%	*10,0%*	*9,0%*	*1,0p%*
EBITDA	24,7	25,7	-3,9%
EBITDA%	*17,1%*	*15,4%*	*1,8p%*
P/L after Taxes	11,2	10,8	3,6%
Source: OPUS			

Assessment of Segments

INDUSTRIAL SEGMENT

The industrial segment remained a key business division within OPUS, accounting for 34.1 percent of consolidated sales. During the quarter, quarterly revenue increased by 4 percent, driven by the construction sector, which saw a 7.5 percent gain over the reported three months. Among the three leading subsidiaries in the construction sector, **RM International** (RMI) experienced robust growth of 35 percent, while **R-Kord** grew by 12 percent. However, **Mészáros és Mészáros** faced a 13 percent decline in revenue. In the first quarter, Mészáros és Mészáros completed several projects and is currently engaged in 22 ongoing projects. Notably, RMI, established for the Budapest-Belgrade railway development, maintained its expected revenue structure without significant reorganization. The company is poised to capture the largest share of the project's expected revenues this year. Specifically, this quarter, RMI contributed HUF 21.22 billion to the quarterly revenue, while R-Kord achieved HUF 8.5 billion.

Operating expenses outpaced revenues, growing 11 percentage points more, primarily due to a substantial 24.2 percent increase in material costs. Personnel costs remained relatively stable compared to the previous year, even though the employee count declined by 11.1 percent year-on-year, offsetting wage increases. The accelerated cost growth negatively impacted the segment's profitability. Specifically, the operating profit margin deteriorated by 9 percentage points, and EBIT more than halved year-over-year. Additionally, the EBITDA margin also declined by 11.6 percent. Beyond the construction sector, the heavy industry segment faced a significant decline, with revenue dropping by 33 percent during the quarter, resulting in an operating loss for the subsector.

The segment's financial earnings were adversely affected by the declining interest rate environment. Financial revenues decreased by HUF 2.5 billion, leading to a year-on-year decline in financial earnings to HUF 1.4 billion.

Industry, HUF bn	2024 Q1	2023 Q1	Change
Operating income, total	52,1	50,3	3,7%
Operating expenses	48,8	42,6	14,7%
Operating EBIT	3,3	7,7	-57,3%
EBIT%	*6,3%*	*15,3%*	*-9,0p%*
EBITDA	5,4	11,1	-50,9%
EBITDA%	*10%*	*22%*	*-11,6p%*
P/L after Taxes	4,2	10,0	58,2%
Source: OPUS			

FOOD & AGRICULTURE SEGMENT

As of the first quarter of 2024, the market environment for the two primary subsidiaries in the Food & Agriculture segment—**KALL** and **VIRESOL**—has normalized. In 2023, both wheat and maize yield averages were significantly higher than in 2022. In 2023, both wheat and maize yield averages significantly exceeded those of 2022. Consequently, the market prices for maize and grain declined from approximately EUR 300 per tons at the beginning of 2023 to the EUR 200 range per tons. Additionally, the price of natural gas—a crucial commodity in the segment—decreased from around EUR 50 per MWh in 2023 to the EUR 30 per MWh range. Raw material prices are factored into the segment's operating revenues and costs with a 3-6 month lag, resulting in a 30 percent decline in both revenues and operating costs. Although the volume of raw materials processed increased to 148,000 tons (22 percent higher than the previous year), material-related expenses within the sector decreased by 27.7 percent. Operating profit declined by 18 percent, while the operating margin improved by 1.2 percentage points, reaching 8 percent. Furthermore, EBITDA improved by HUF 0.3 billion, and the EBITDA margin increased by 5.3 percentage points.

The segment, which incurred a financial loss of HUF 3.3 billion last year, rebounded to a profit of HUF 0.3 billion. Notably, KALL and VIRESOL, due to their euro-based accounting practices, experienced a positive effect from exchange rate movements that impacted other segments negatively. As a result of these favorable developments, last year's after-tax profit increased to HUF 2.1 billion, surpassing the initial HUF 0.5 billion figure.

Agricultural and Food segment, HUF bn	2023 Q4	2022 Q4	Change
Operating income, total	29,0	41,6	-30%
Operating expenses	26,7	38,8	-31%
Operating EBIT	2,3	2,8	-18%
EBIT%	*8,0%*	*6,8%*	*1,2p%*
EBITDA	4,3	4,0	8%
EBITDA%	*15%*	*10%*	*5,3p%*
P/L after Taxes	2,1	- 0,5	n.a.
Source: OPUS			

TOURISM SEGMENT

The smallest of the four business segments continues to show a consistently strong performance. In Q1 2023, Hotel Akvarell commenced operations, and the renovation of Hunguest Szeged, Bük, Gyula, Saliris, and Helios was successfully completed. This renovation effort increased the total capacity of the segment by over 1,000 rooms. Although Hunguest Hotel Béke and Flóra remain closed, they are expected to reopen later this year. According to the company's management, hotel capacity increased by 38 percent after Q1 2023. However, despite this growth, capacity utilization declined, particularly for the new capacity. Guest nights at existing hotels increased by 11.5 percent during the same period.

The 25.4 percent increase in costs is directly tied to capacity expansion. Personnel costs rose by 31.1 percent due to a 25 percent increase in headcount. Material costs also saw a 14.4 percent increase, while depreciation and amortization expenses rose by 25.9 percent—likely a result of the capacity expansion. As a consequence, both operating profit and EBITDA improved by 4.7 and 4.4 percentage points, respectively.

Despite the significant improvement in operating profit, net income turned into a loss of HUF 187 million. This loss can be attributed mainly to a decrease in financial operations income, which plummeted from HUF 2.94 billion to HUF 56 million. The decline was primarily due to the exchange rate impact of euro-denominated loans. Meanwhile, financial operations expenses decreased by only HUF 133 million.

Tourism, HUF bn	2024 Q1	2023 Q1	Change
Operating income, total	9,4	7,1	32%
Operating expenses	8,9	7,1	25%
Operating EBIT	0,5	0,1	704%
EBIT%	*5,6%*	*0,9%*	*4,7p%*
EBITDA	1,3	0,6	96%
EBITDA%	*13%*	*9%*	*4,4p%*
P/L after Taxes	- 0,2	1,4	n.a.
Source: OPUS			

ENERGY SEGMENT

During the first quarter, OPUS's largest revenue-generating business presented a mixed outlook. The key subsidiaries in this segment—**TIGÁZ** and **TITÁSZ**—operate within a tightly regulated environment. System charges, which constitute the bulk of their revenues, are determined by the regulatory body MEKH.

On January 1st of this year, electricity tariffs underwent revision, resulting in a 17-50 percent reduction in turnover-based rates. This tariff adjustment is reflected in the electricity distribution business's operating revenues, which declined by nearly 25 percent compared to the same period last year. In contrast, the gas distribution business, with unchanged system charges, experienced a 5.7 percent increase. Together, the combined revenues of these two businesses decreased by 15.4 percent, amounting to HUF 58.3 billion.

Aligned with the revenue decline, operating costs decreased even more significantly—down 25.7 percent year-on-year. Among these costs, material expenses saw the most positive impact, decreasing by 36.8 percent. Despite a 4.9 percent reduction in headcount, personnel expenses increased by 13.8 percent. Thanks to a faster pace of cost reductions, the segment's profitability improved significantly. The operating margin rose by 12 percentage points this year, up from 4 percent last year. Additionally, in a context of declining interest rates, the segment's financial result improved by HUF 1.2 billion, reaching HUF 0.9 billion.

Energy, HUF bn	2024 Q1	2023 Q1	Change
Operating income, total	58,3	68,9	-15%
Operating expenses	49,1	66,1	-26%
Operating EBIT	9,2	2,8	230%
EBIT%	*16%*	*4%*	*12p%*
EBITDA	14,9	7,9	189%
EBITDA%	*26%*	*11%*	*14p%*
P/L after Taxes	4,9	- 0,3	n.a
Source: OPUS			

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