3rd of October, 2024

Opus Global Q2 2024 results

Company Data	
Recommendation	**Hold**
Target price*	**HUF 527**
Closing price	HUF 510
52-week range	HUF 323 - HUF 531
Market cap (HUF, mn)	356,173
Average daily turnover (12M, no. of shares)	532,374
Bloomberg code	OPUS HB

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Declining revenue, improving margins

On the morning of 30th September, Opus Global published its 2024 first-half flash report. At first glance, the numbers paint an interesting picture. Despite the fact that the group's consolidated turnover fell by 7.4 per cent during the half-year, the profits show a movement in the opposite direction. Opus's half-year earnings before interest, tax, depreciation and amortization (EBITDA) rose by 13.3 percent, while operating profit (EBIT), which includes depreciation and amortization as well, rose by 14.6 percent. This improvement can also be observed on the bottom line: profit after tax showed a significant increase of almost 28 percent, which also increased earnings per share to almost HUF 32.

A similarly interesting picture emerges when examining the quarterly figures. Although sales revenue fell marginally (0.6 percent) compared to the second quarter last year, EBITDA and EBIT showed an impressive increase of 40.3 percent and 67.5 percent respectively.

Overall, a number of factors contributed to this impressive growth in earnings, but **the main driver was the normalization of energy and grain prices**. The cost of energy (electricity and natural gas) shot up after the eruption of the Russo-Ukrainian War and grain prices increased due to the low crop yields in 2022, which weighed on the earnings of H1 2023. The cost of grains and energy have since then normalized and were no longer significant in the current first half-year.

Due to the significant rally in the shares, we change our recommendation to Hold. Since our last quarterly analysis, Opus has seen a spectacular rally, with the company's shares now trading above HUF 500. Opus entered the UK's FTSE Mid-Cap, All-World All-Cap and Total-Cap indices on 20 September 2024, which saw a periodic sharp rise in trade volume following the announcement. The average daily turnover between 20 August and 27 September was double that of the previous eleven months.

In the remainder of the analysis, we will discuss each of the four main business segments separately.

*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.

Conglomerate, HUF bn	2024 Q2	2023 Q2	Change
Operating income, total	156,8	157,8	-0,6%
Operating expenses	147,5	152,3	-3,1%
Operating EBIT	9,3	5,5	67,5%
EBIT%	*5,9%*	*3,5%*	*2,4p%*
EBITDA	22,9	16,3	40,3%
EBITDA%	*14,6%*	*10,3%*	*4,3p%*
P/L after Taxes	9,4	5,3	77,8%
Source: OPUS			

Assessment of Segments

INDUSTRIAL SEGMENT

The Industrial segment is Opus Global's largest business in terms of revenue. The segment gained momentum in the second quarter of 2024, but its good performance in the June-July months overall could not overcome the weak first quarter. In the January-June 2024 period, revenues increased by 3.9 percent year-on-year, but revenue growth was offset by a 7.2 percent increase in operating costs, mainly driven by the rise in material costs. The second quarter, however, seems to reverse the first quarter's trend, with a 4.1 percent increase in revenues outpacing the 1.6 percentage point rise in costs. This allowed the EBITDA margin to improve by 4.2 percentage points from around 10 percent in the previous quarter to 14.7 percent.

According to the half-year report, Mészáros & Mészáros Zrt., one of the leading companies in the Industrial Segment, has added two new projects to its ongoing works since the end of March, bringing the total number of projects it is working on to 24 (down from 32 projects in June 2023. There is a significant difference in size between the two new projects: one is the Nyíregyháza Industrial Park, with a total value of HUF 15.6 billion, and the other is NRHT's new access point project, with a value of HUF 0.3 billion, which supports the uncertainty in the materiality in the number of projects. R-Kord's revenues decreased by HUF 2.3 billion compared to the first half of last year, as the Ministry of Construction and Transport suspended the financing of one of the company's leading GSM-R radio network projects, which might threaten additional HUF 2.5 billion in revenue.

Current EBITDA in H1 2024 amounts to HUF 16.5 billion which is approximately the midpoint for the stated FY2024 EBITDA target of HUF 33 billion. In FY2021-FY2024 the H1 EBITDA amounted to approximately 47 percent of the annual EBITDA, based on this we see it probable, that the Industrial Segment can reach its EBITDA goal.

Industry, HUF bn	2024 Q2	2023 Q2	Change
Operating income, total	74,9	71,9	4,1%
Operating expenses	68,0	66,4	2,5%
Operating EBIT	6,9	5,6	23,7%
EBIT%	*9,2%*	*7,7%*	*1,5p%*
EBITDA	11,0	8,7	26,5%
EBITDA%	*14,7%*	*12,1%*	*2,6p%*
P/L after Taxes	12,0	26,9	-55,6%
Source: OPUS			

ENERGY SEGMENT

The Energy Segment is the Group's second largest business in terms of sales. It operates in a highly regulated market, where revenue prices are set by the Hungarian Energy and Utility Regulatory Office (MEKH). The decrease in the segment's revenue is mainly due to the decline in the electricity distribution business (TITÁSZ), as the new regulation from 1 January 2024 reduced the turnover-based tariffs, which accounts for the majority of the revenue of TITÁSZ. In addition to the reduction tariffs, management reported a reduction in the volume of energy distributed as well. The revenue of the gas distribution business (TIGÁZ) was stagnant compared to H1 2023, despite the reduction of the turnover-based tariffs in October 2023, probably thanks to the increase in the distributed volume.

A significant part of the segment's costs is attributable to energy prices, which compensates for grid losses. Energy prices have also normalized compared to H1 2023 and Q2 2023, which is reflected in the reduction of material costs, which decreased by almost 27 percent. The normalized energy costs led to a significant improvement in the bottom line. The segment's H1 2024 EBITDA more than doubled year-on-year and Q2 2024 EBITDA improved by 170 percent compared to Q2 2023.

The anticipated continuation of energy price normalization is expected to occur in the third quarter. However, the price of natural gas (TTF) generic contracts increased on average by 5.4 percent between July and September compared to the same period last year. This might indicate that margins in TIGÁZ will tighten during the quarter. A similar expectation could be made for TITÁSZ as well, where average cost of energy rose 21.4 per cent year-on-year in Q3. The management expects EBITDA of HUF 32 billion in FY2024, which is already 64,5 percent fulfilled in H1. In FY2022-FY2024 the H1 EBITDA amounted to approximately 46 percent of the annual EBITDA, this might suggest an outperformance of the annual goal, assuming no significant shift in energy prices.

Energy, HUF bn	2024 Q2	2023 Q2	Change
Operating income, total	48,3	51,4	-6,0%
Operating expenses	49,6	54,6	-9,2%
Operating EBIT	- 1,3	- 3,2	-60,2%
EBIT%	*-3%*	*-6%*	*3,6%*
EBITDA	5,8	2,1	270,1%
EBITDA%	*12%*	*4%*	*7,8%*
P/L after Taxes	0,2	- 0,4	n.a
Source: OPUS			

FOOD & AGRICULTURE SEGMENT

In H1 2024, the Food & Agriculture Segment was affected by market factors similar to those seen in the Energy Segment. According to the management's earlier commentary, the two leading companies in the segment, Kall and Viresol, are setting prices rapidly to include changes in commodity prices (grain, electricity and natural gas), which is reflected in the 17 percent decline in the segment's H1 2024 sales, as both energy and grain prices were significantly lower in H1 2024 compared with H1 2023. On a quarterly basis, however, sales are already 2.3 percent higher year-on-year.

The segment's performance indicators were also similar to those of the Energy segment, owing to the fact that both businesses are exposed to movements in energy prices. In terms of nominal values, both EBIT and EBITDA declined, but the H1 EBITDA margin improved by 2.3 percentage points and the EBIT margin by 0.8 percentage points compared to H1 2023. The margin improvement was mainly driven by the earlier mentioned input cost reductions, which shrunk material costs by 21.6 percent, despite a 24 percent increase in raw material volumes.

In Q2, however, the dynamics of both sales and profitability were already changing. The quarterly increase in costs was 0.7 percentage points higher than the 2.3 percent increase in revenue, eroding the quarterly EBITDA margin by 0.2 percentage points and the EBIT margin by 0.6 percentage points. In Q3 2024, energy prices started to rise (see Energy Segment review), while grain prices also increased compared to last year, mainly due to the poor summer weather. This is expected to increase the Food & Agriculture Segment's costs in Q3, but Kall and Viresol should be able to successfully pass on the raw material price changes in their prices, thus margins should not move significantly.

Compared to the FY2024 EBITDA goals the Food & Agriculture Segment seems to lag behind, the H1 EBITDA of HUF 9.1 bn amounts to 43 percent of the stated goal. In 2023 the H1 EBITDA was 48 percent of the annual earnings.

Food and Agriculture segment, HUF bn	2024 Q2	2023 Q2	Change
Operating income, total	29,2	28,6	2,3%
Operating expenses	25,9	25,1	3,0%
Operating EBIT	3,4	3,5	-3,0%
EBIT%	*11,6%*	*12,2%*	*-0,6p%*
EBITDA	5,1	5,0	1,1%
EBITDA%	*17,4%*	*17,6%*	*-0,2p%*
P/L after Taxes	1,8	- 0,5	n.a.
Source: OPUS			

TOURISM SEGMENT

In our opinion, Tourism was the best performing segment during the period. Not only did the segment deliver impressive revenue growth during the period, but it also significantly improved its profitability. At a national level, the number of overnight stays increased by 9.6 percent and revenues by 15 percent, as seen in the H1 2024 report. However, the exact performance of Hunguest Hungary, which accounts for the majority of the segment's turnover and profit. The 29.2 percent growth in turnover was almost double of the national average. This spectacular growth rate is probably not only due to improved occupancy rates and higher prices, as the renovation of Hunguest Gyula, Szeged and Saliris was only completed in H2 2023, which amounts to 22 percent H1 2024 room capacity. H2 2024 will be further supported by the addition of further capacity, as Hotel Flora and Hotel Béke will add 414 rooms to the business (an additional 13 percent increase on H1 2024 capacity).

At the profitability level, there has been a significant improvement: H1 2024 EBITDA margin rose to 15.3 percent from 9.4 percent in H1 2023 and 6.1 percent in H1 2022, approaching FY2023 profitability of 15.8 percent. This performance is also notable as the segment's strongest quarters in recent years have been the third quarter, which includes the July-August peak tourism months and has consistently delivered margins of around 29 percent. If the trend of the last two years, in which 40 percent of full-year revenues were generated in the first half of the year, continues, total annual revenues could reach HUF 50 billion. If the tourism segment can maintain an EBITDA margin of around 29 percent in the third quarter of this year, it seems likely that the Tourism Segment will exceed its EBITDA target of HUF 8 billion for 2024.

Tourism, HUF bn	2024 Q2	2023 Q2	Change
Operating income, total	10,8	8,5	27,5%
Operating expenses	9,8	8,4	15,5%
Operating EBIT	1,0	0,0	4116%
EBIT%	*9,7%*	*0,3%*	*9,4p%*
EBITDA	1,8	0,8	121%
EBITDA%	*17%*	*10%*	*7,1p%*
P/L after Taxes	0,5	- 0,7	n.a.
Source: OPUS			

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