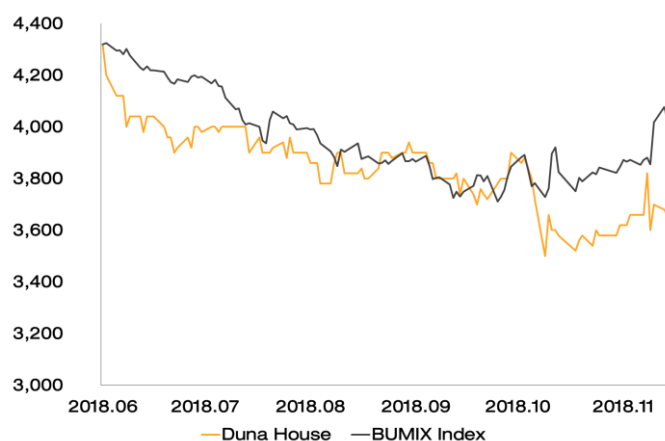


Duna House

Recommendation: Buy

Target price (12M): Under revision

Hun. Core HUF million	2018 Q3	2017 Q3	Ch (%)
Revenues	1,590	1,242	28%
EBITDA	392	299	31%
EBIT	369	273	35%
Profit	294	190	54%
EPS	85	55	54%
Cumulated EPS	323	214	51%
P/E * <i>annualized</i>	8.5x	13x	
No. of transactions (ths)	41	40	1%



Share price close as of 27/11/2018	HUF 3,700	Bloomberg	DUNAHHOUSE HB
Number of shares [million]	3,5	Reuters	DUNAHOUSE.BU
Market capitalization [HUF mn/EUR mn]	12,856 / 37	Free float	30%
Daily turnover 12M [EUR th]	1.46	52 week range	HUF 3,450-4,600

10% lift in FY profit guidance!

In short: Duna House increased the range of FY expected profit guidance by 10% from HUF 950m -1,150 m to HUF 1,050m – 1,250m on the back of better franchise segment and strong asset management. Unfortunately, in the third quarter Duna House was fined for HUF 17 million (barely 1% of the profit) due to some malpractice during the loan intermediation. Also, DH plans to start a new phase of Forest Hill with 57 flats, the project is subject to the lower 5% VAT as it has all the permits to go. On the back of the envelope calculation, the project may add HUF 180 - 200 per share value (*please see our calculation and assumptions later*). All in all, we see the results positive.

Financials: Profit came at HUF 294 million (+54% y-o-y), boosted by strong core operation. Cumulative profit reached HUF 1.5 billion vs. HUF 743 million last year. Profitability increased (EBIT margin climbed to 23% vs. 22%) on the back of higher volumes and the strong performance of asset management in the third quarter. EBITDA arrived to HUF 392 million (+31% y-o-y).

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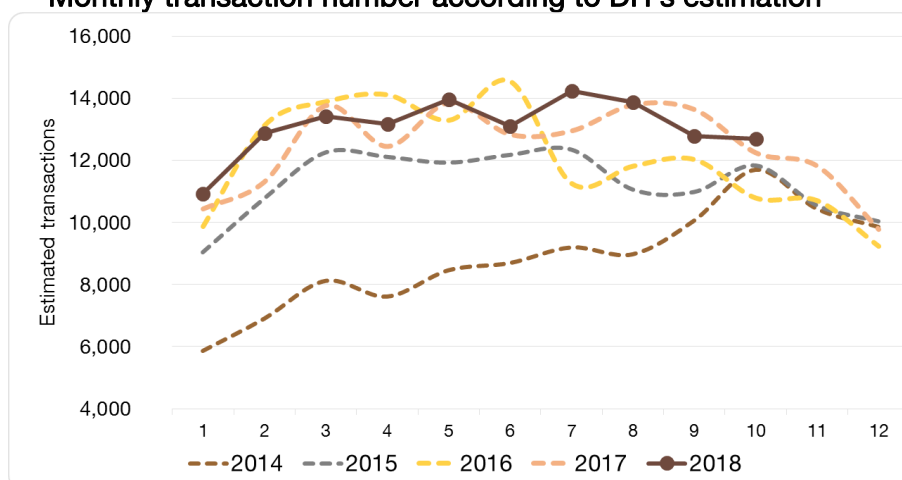
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Core operation: Although the core operation performed very well, but other related segment also added HUF 51 million increasing by 60% y-o-y on the back of strong asset management (*the YTD return of the fund is 11% and its NAV also has been increasing significantly helping not only to cover fixed cost but to contribute to the group results positively*).

- Financial intermediary: Loan intermediation was able to continue its stellar growth momentum, growing by 55% y-o-y. On the home saving accounts side, volume increased (+3% y-o-y), please note that the cancellation of subsidy scheme occurred in October which belongs to the last quarter. EBIT margin come down to 26% due to seasonal effects.
- Franchise segment improved significantly thanks to better volumes and some optimisation steps. Management provided a positive outlook for new office opening both in Hungary and in Poland. Quarterly segment EBIT margin climbed to 24% from 11% on a yearly comparison.
- Own Offices: Commission increased by 20% y-o-y in tandem with EBIT margin +8bps to 13%.

Outside Hungary: The Czech operation with three offices makes more profit (HUF 11 million YTD) than the Polish subsidiary that operates 70 offices (HUF – 20 million YTD). Nevertheless, management expects that the new acquisition on Poland would help to better capitalise on the economies of scale, which effect might surface after 2019 Q2.

Monthly transaction number according to DH's estimation



Developments:

- DH reached better than expected results on the Reviczky project (HUF 705 million vs. HUF 680 million).
- Plans to start the second phase of Forest Hill called Panorama as it will be subjected to 5% VAT. The project has unique, and exclusive characteristics thus it is expected to target high end customers. Based on the assumptions below we expect ca. HUF 180 - 200 per share value additions from this project.

PANORAMA project	
number of flats	57
average size [sqm]	80
price / sqm [HUF]	1,000,000
Total revenue [HUF]	4,560,000,000
profit margin	15%
Profit [HUF]	684,000,000
per share profit	198
discounted 1yr.	172

Source: DH, Concorde

- Last but not least, completion of the first phase of Forest Hill is delayed due to labour shortage to after 2019 Q2 (originally expected in 2019 Q1). Roughly 65% of the flats are already sold.
- We would like to flag that the delay of the cash flow from Forest Hill and the timing of the construction of the Panorama project, may make the generous dividend payment less likely in 2019 as management originally expected to receive the cash by AGM (middle of April).
- MyCity Residence project is well on track, 53% of the flats are sold and the construction was commenced in January.

Opinion: This quarterly result was full of information, mainly positive, in our view. We are definitely happy for the guidance upgrade and that DH intends to start the Panorama project which could add ca. HUF 180 - 200 per share value to the company. On the other hand, the regulatory fine, and the fact that Polish operation is still in the red still weighs on profitability.

Quarterly P&L

	Q3 2018	Q3 2017	Ch (%)
Revenue	1,590	1,242	28%
Operating revenue	1,564	1,206	30%
Other income	26	36	-29%
OPEX	1,220	969	26%
Cost of materials	11	15	-25%
Cost of sold goods and services	322	243	33%
Used services	1,026	986	4%
Personnel expenses	156	137	14%
Depreciation and amortization	23	26	-13%
Other operating expenses	-318	-438	-28%
EBITDA	392	299	31%
EBIT	369	273	35%
Financial income	4	1	214%
Financial expense	27	35	-22%
Revaluation	-13	-7	100%
EBT	333	233	43%
Income tax expense	40	43	-6%
Net income	294	190	54%
Transaction Number	40,902	40,377	1%
<i>EPS</i>	85	55	54%
EBIT margin	23%	22%	

Source: company reports

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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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