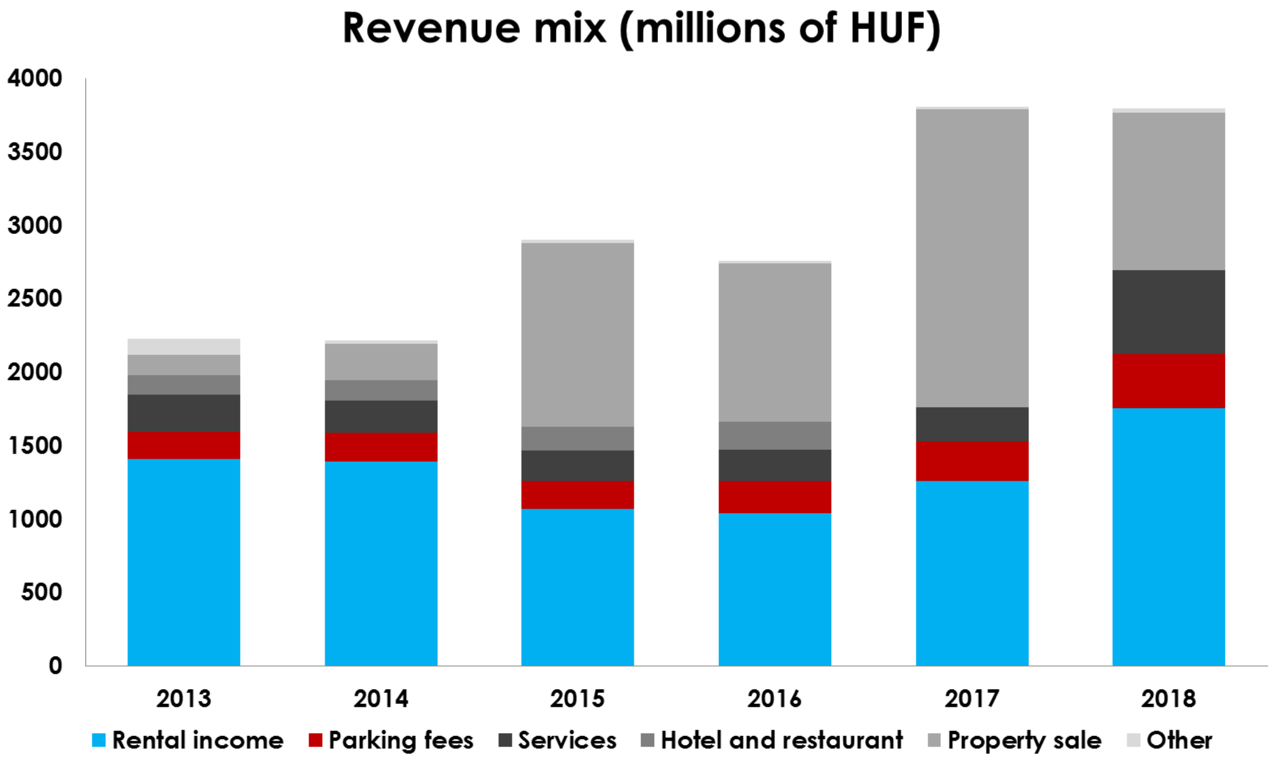
## ABOUT 2018

The Company published its 2018 figures on 8 April 2019. The Company achieved an after-tax profit of HUF 8.28 billion in 2018, which represents a decrease of about HUF 4.4 billion compared to 2017. Net sales revenue was flat at HUF 3.8 billion compared to the previous year. Other operating income in 2018 decreased by 37% to HUF 6.7 billion compared to the base period. The major part of the decrease in 2018 was caused by the change in the fair value of investment properties.




Source: Consolidated company fillings, MKB

The results of the Company's segments were the following: the revenue of the investment property segment was HUF 2.7 billion which represents a 50% increase compared to the previous year. BIF purchased and completed the full renovation and modernization of the Vigadó Palota, so in 2018 the Company has raised the size of its rentable area by about 15,000 square meters. In the following years BIF will be able to make further improvements on the existing properties such as the extension of the buildings or building additional parking lots. We believe that the total rentable area will reach approximately 70,000 square meters by 2022.

The Harsánylejtő segment; which means the real estate development segment; earned HUF 806 million after  the result of HUF 1 billion in 2017. The Company has finished the implementation of 4 residential apartments with 20 residential properties, but the occupancy permits for the built homes are delayed. We forecasted HUF 2.3 billion revenues in 2018 for this business unit, which would have been accurate had the permits been issued in time.

By our calculation the Company earned HUF 1.2 billion FFO (funds from operation) in 2018 (for more details please see Initiation Report, 29 June 2018.) The FFO decreased by approximately HUF 1 billion because of the delayed occupancy permits. If we adjust the revenue of the real estate development segment the FFO would have remained flat.

| million HUF | Revenue | |
|---|---|---|
| | 2018E | 2018 |
| Investment properties | 2364 | 2719 |
| Real estate development (Harsánylejtő) | 2354 | 1073 |
| | | |
| **Total** | **4718** | **3792** |

| | 2018E | 2018 |
|---|---|---|
| FFO | 2333 | 1201 |

*Source: Consolidated company fillings, MKB*

In 2019 the Company focuses on the following important areas:

- Sale of the available construction lots in Stage II in Harsánylejtő of which 90% is already sold (Stage I. is fully sold)
- Delivery of Stage I of the Harsánylejtő residential property (20 properties); delivery of the 4 residential apartments (20 properties) to be constructed in Stage II. In Stage III and IV 40 properties can be constructed in the future
- Designing the development concept of Bajcsy-Zsilinszky Office Building (raising the rentable area from approximately 3,600 square meters to about 30,000 square meters) and Városmajor Office Building with total development area: 6,000 square meters
- The Company acquired an ELMŰ property located at 99 Attila street, Budapest, District I. in the beginning of 2019. The Company plans to develop luxury loft properties there
- Designing the utilization and development concept of the property complex at 80-82 Andrássy street, Budapest, District VI. which will function as a 4-star boutique hotel from 2021

## MODEL UPDATE

After the annual report we had a discussion with the management about the guidance and the future plans. We took into account the above mentioned factors and we updated our DCF-model. The main drivers of our model are:

- The increasing rentable areas (from 40,000 square meters to about 70,000 square meters)

- The new luxury property development at 99 Attila street, Budapest, District I.
- The remaining property development at Harsánylejtő, which contains approximately 80 properties (20 are already built), 2,500 square meters of office complex, 3 condominiums with 135 apartments and 1,000 square meters of commercial unit. In our view, the construction of the 3 condominiums and the 3,500 square meters of office and commercial unit will start after 2023.

After the model update our one year target price increased from HUF 2,290 to HUF 2993.

## DCF valuation

| millions of HUF | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019E | 2020E | 2021E | 2022E | 2023E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total income | 2225,6 | 2217,2 | 2901,7 | 2754,9 | 3805,6 | 3792,0 | 6748,6 | 6653,5 | 11442,0 | 9463,8 | 10246,4 |
| Property related costs | -1247,2 | -1366,3 | -1804,9 | -1430,7 | -1341,3 | -2335,4 | -3374,3 | -3326,7 | -5721,0 | -3785,5 | -4098,6 |
| Net interest costs | -522,4 | -737,1 | -141,9 | -67,5 | -103,0 | -254,8 | -437,5 | -507,9 | -500,0 | -500,0 | -500,0 |
| FFO | 691,2 | 176,6 | 1100,3 | 1288,5 | 2385,5 | 1201,2 | 2637,8 | 2428,2 | 5089,8 | 4921,7 | 5093,6 |
| CAPEX | -299,5 | -45,4 | 0,0 | -805,8 | -8068,2 | -680,9 | -3000,0 | -4000,0 | -6000,0 | -500,0 | -500,0 |
| AFFO | 391,7 | 131,1 | 1100,3 | 482,7 | -5682,7 | 520,3 | -362,2 | -1571,8 | -910,2 | 4421,7 | 4593,6 |

| | |
|---|---|
| WACC | 7,0% |
| Growth rate | 2,5% |
| Enterprise value | 79665,9 |
| Debt | -9900,0 |
| Cash | 9850,0 |
| Fair value of equity | 79615,9 |
| Shares outstanding | 28,67 |
| 1 year target | 2993 |

*Source: Consolidated company fillings, MKB*

## Target price scenarios

| | | Terminal growth | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | -2% | -1% | 0% | 1% | 2% | 3% | 4% |
| WACC | 5% | 1997,4 | 2323,0 | 2778,8 | 3462,6 | 4602,2 | 6881,3 | 13718,8 |
| | 6% | 1686,2 | 1921,3 | 2234,8 | 2673,7 | 3332,0 | 4429,2 | 6623,6 |
| | 7% | 1446,3 | 1622,4 | 1848,8 | 2150,8 | 2573,4 | 3207,5 | 4264,2 |
| | 8% | 1256,0 | 1391,8 | 1561,5 | 1779,7 | 2070,6 | 2477,8 | 3088,7 |
| | 9% | 1101,9 | 1209,0 | 1339,8 | 1503,4 | 1713,6 | 1994,0 | 2386,5 |
| | 10% | 974,8 | 1060,8 | 1164,1 | 1290,2 | 1447,9 | 1650,6 | 1920,9 |

*Source: Consolidated company fillings, MKB*

**Analyst:**

Balázs Rácz
Tel: +36-1-268-7388
E-mail: racz.balazs@mkb.hu

Csaba Debreczeni
Tel: +36-1-268-8323
E-mail: debreczeni.csaba@mkb.hu

## DISCLAIMER

1. This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and MKB Bank Ltd. (registered seat: H-1056 Budapest Váci utca 38., company registration number: 01-10-040952, hereinafter: Investment Service Provider)

2. BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.

3. This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.

4. All information used in the publication of this material has been compiled from publicly available sources that are believed to be reliable; however MKB Bank does not guarantee the accuracy or completeness of this material. Opinions contained in this report represent those of the research department of MKB Bank at the time of publication and are subject to change without notice.

5. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Investors are advised to assess the nature and risks of the financial instruments and investment services. A well-founded investment decision can be made only in possession of all the relevant information, therefore investors are hereby explicitly advised to read carefully the information material, contractual provisions, conditions list and general business terms in order to be able to decide if the investment is in line with their risk bearing capacity. MKB Bank also recommends collecting information about the tax consequences and other relevant laws concerning investment services in the financial instruments mentioned in this document.

6. This document is provided for information purposes only, therefore the information provided in or derived from it is not intended to be, and should not be construed in any manner whatsoever as personalised advice or as a solicitation to effect, or attempt to effect, any transaction in a financial instrument (e.g. recommendation to buy, sell, hold) or as a solicitation to enter into an agreement or to any other commitment with regards to the financial instrument discussed. Any such offer would be made only after a prospective participant had completed its independent investigation of the securities, instruments, or transactions and received all information it required to make its investment decision. MKB Bank excludes any liability for any investment decision based on this document.

7. MKB Bank is entitled to provide market making, investment services or ancillary services regarding the financial instruments discussed in this document.

8. Content of this material enjoys copyright protection according to Act LXXVI. of 1999 on copyright, and may therefore be copied, published, distributed or used in any other form only with prior written consent of MKB Bank. All rights reserved. Unauthorized use is prohibited.

**Prior researches**

MKB Bank wrote an initiation report on 29 June 2018. The research is available on the web page of the BSE (Budapest Stock Exchange):

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-zrt-bif-initiation-report

The flash notes are available on the web page of the BSE (Budapest Stock Exchange):

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-zrt.---bif-elemzoi-kommentar---2018.09.12.

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_BIF_flash_note_-_2018.09.24._.pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_BIF_elemzoi_kommentar_-_2018.11.09..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_BIF_flash_note_-_2018.12.06..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_BIF_flash_note_-_2018.12.28..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_BIF_flash_note_-_2019.03.11..pdf1

**Methodology used for equity valuation and recommendation of covered companies**

The discounted cash flow valuation is a method of valuing a company (or project, assets, business, etc.) with the time value of the money. The model forecasts the company's free cash flow (free cash flow to firm) and discounts it with the average cost of capital (WACC). The cash flow is simply the cash that is generated by a business and which can be distributed to investors. The free cash flow represents economic value, while accounting metric like net earning doesn't. The WACC represents the required rate of return by the investors. If a business is risky the required rate of return, the WACC will be higher.

Discounted cash flow model (DCF): We analyze the companies using five year forecast period and set a terminal value based on the entity's long term growth or on different exit multiples like EV/EBITDA or EV/EBIT. In certain cases the forecast period may differ from five years. In this case the analysts must define the reason for difference. The cash flows are discounted by the company's WACC unless otherwise specified.

In the first step we have to forecast the company's cash flow. The free cash flow to firm (FCFF) is based on the earnings before interest and taxes (EBIT), the tax rate, depreciation and amortization (D&A), net change in working capital (which is based on the current assets and current liabilities) and the capital expenditures (CAPEX). The model requires a terminal value which can be based on the long term growth or on an exit multiple like EV/EBITDA, or EV/EBIT. Forecasting the terminal value is a crucial point because in most cases it makes up more than 50% of the net present value.

The discount rate (WACC): The average cost of capital of the company is dependent on the industry, the risk free rate, tax, the cost of debt and the equity risk premium. The cost of equity is calculated by the CAPM model, where the independent variables are the risk free rate, the industry specific levered beta, and the equity risk premium. The WACC is dependent on the capital structure, so the forecast of the equity/debt mix is crucial.

At the end we get the enterprise value (EV). The EV is the market capitalization plus the total debt and preferred equity and minority interest, minus the company's cash. In the last step we have to reduce the EV with the net debt. This figures divided by the shares outstanding we arrive at the target share price.

The discounted cash flow model includes sensitivity analysis which takes the effects of the change in the WACC, the long term growth or the used exit multiples on which the terminal value is based.

Our target price is based on a 12 month basis, ex-dividend unless stated otherwise.

Peer group valuation: For comparison we use peer group valuation. The analysis based on important indicators and multiples like P/E, EV/EBITDA, EV/EBIT, market capitalization, P/S, EBITDA margin, net debt to EBITDA, EBITDA growth, dividend yield and ROIC. If the industry justifies we may use other multiples. The peer group is compiled according to the companies' main business, with respect to the region (DM or EM market).

**Recommendations**

- Overweight: A rating of overweight means the stock's return is expected to be above the average return of the overall industry, or the index benchmark over the next 12 months.
- Underweight: A rating of underweight means the stock's return is expected to be below the average return of the overall industry, or the index benchmark over the next 12 months.
- Equal-weight: A rating of equal-weight means the stock's return is expected to be in line with the average return of the overall industry, or the index benchmark over the next 12 months.
- Buy: total return is expected to exceed 10% in the next 12 months.
- Neutral: Total return is expected to be in the range of -10 - +10% In the next 12 months.
- Sell: Total return is expected to be below -10% in the next 12 months.
- Under revision: If new information comes to light, which is expected to change the valuation significantly.