

SUMMARY

On 3 September 2019; in accordance with the Company's 2019 first half (H1) earnings report; we modified our one-year target price. Since then, there have been some corporate events that required the model to be updated.

CORPORATE EVENTS

- On 3 September the Company informed the market participants that an amount of HUF 7.6 billion was provided to the Company by the MFB Magyar Fejlesztési Bank with maturity of 10 years and a fixed rate of 1.82% per annum. On 13 September 2019 the final payment of its investment loan outstanding at Magyar Takarékszövetkezeti Bank Zrt. was paid.
- On 7 November 2019 BIF informed the investors that two loan agreements were signed between the Company and MFB Magyar Fejlesztési Bank Zrt., according to which a fixed-rate loan in the amount of HUF 6.793.011.570 with a maturity of 10 year was granted to the Company for the purpose of real estate reconstruction/modernisation.
- BIF is currently examining the possibility of issuing bonds within the frame of the Funding for Growth Scheme (FGS) announced by the Magyar Nemzeti Bank (MNB). For participation in the FGS it is required for the bonds to be issued to obtain at least a B+ rating from a credit rating agency registered by the European Securities and Markets Authority (ESMA). On 18 November 2019, the Company informed the market participants that the rating of the Company became a B+/Stable/.
- On 6 November 2019, BIF informed the investors that a civil proceeding had been initiated by Harsánylejtő Ingatlanforgalmazó- és Kezelő Kft. (a BIF subsidiary) against RENESCO Építő Kft. The subject of the lawsuit is the breach of the general construction agreements, which is in relation to the building lands owned by BIF's subsidiary. The announcement does not reveal any delay with regards to the Harsánylejtő project.
- On 11 November a general construction agreement was concluded by and between the Company and D.V.M. Construction Fővállalkozó Kft. regarding the restructuring, construction and installation works of the real property in district I, Budapest, on plot 6775, located at Attila str. 99.
- On 2 January 2020 the Company announced a sale and purchase agreement by and between the Company and Városmajor Projekt Ingatlanhasználó Kft. concerning the property located at 35 Városmajor street, 1122 Budapest. According to the deal BIF will acquire a 15,000 sqm office building which has a permit to develop a 7-story, parking garage with a capacity of 248 parking spaces in one of the most populated streets of District 12. According to the announcement, the total rentable office space can grow from the projected 70,000 sqm to 85,000 sqm and the parking lots will also grow significantly.

UPDATING THE DCF MODEL

The news from the last half year is rather positive. On one hand, the total rentable area (office space and parking lots) will grow which means that the revenue will increase. On the second hand the new loans have lower costs, so the average cost of capital has decreased since the announcements.

In our opinion, the Company will raise the occupancy rate of the newly acquired buildings and improve them. In this way the total rentable area could grow by approximately 15,000 sqm from 70,000 sqm to 85,000 sqm and the Company will have a third important parking lot along with the Aranykéz street and Florián Udvar.

In accordance with the above, we have updated our DCF model and raised our one-year target price from HUF 293 to HUF 335.

DCF valuation

millions of HUF	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	2022E	2023E	2024E
Total income	2225,6	2217,2	2901,7	2754,9	3805,6	3792,0	5105,7	6973,7	10726,2	12392,5	10368,9	11506,7
Property related costs	-1247,2	-1366,3	-1804,9	-1430,7	-1341,3	-2335,4	-2552,8	-3486,8	-5363,1	-4957,0	-4147,5	-4602,7
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	-500,0
FFO	691,2	176,6	1100,3	1288,5	2385,5	1342,2	883,6	2711,2	4914,9	5548,5	5157,5	5830,8
CAPEX	-299,5	-45,4	0,0	-805,8	-8068,2	-680,9	-3000,0	-10105,6	-4000,0	-3000,0	-3000,0	-1500,0
AFFO	391,7	131,1	1100,3	482,7	-5682,7	661,3	-2116,4	-7394,4	914,9	2548,5	2157,5	4330,8

WACC	5,9%
Growth rate	2,5%

Enterprise value	98856,0
Debt	-15600,0
Cash	6900,0
Fair value of equity	90156,0
Shares outstanding	287,024

1 year target	335
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Source: Consolidated company filings, MKB

Target price scenarios

		Terminal growth						
		-2%	-1%	0%	1%	2%	3%	4%
WACC	5%	56,1	74,7	100,7	139,6	204,5	334,4	723,9
	6%	38,8	52,2	70,1	95,1	132,6	195,1	320,1
	7%	25,6	35,6	48,5	65,7	89,8	125,9	186,1
	8%	15,1	22,8	32,5	44,9	61,5	84,7	119,5
	9%	6,7	12,8	20,3	29,6	41,6	57,5	79,9
	10%	-0,2	4,7	10,6	17,8	26,8	38,3	53,7

Source: Consolidated company filings, MKB

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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/Kibocsatok/BET-elemzesek/elemzesek/bif-elemzesek>

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.