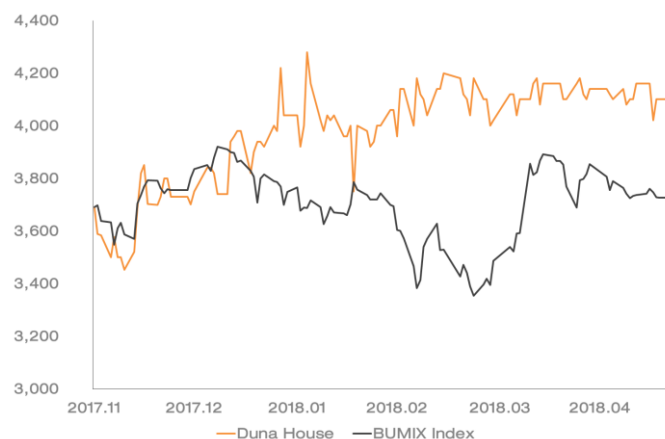


Duna House

Recommendation: Buy

Target price (12M): HUF 4,751

Hun. Core HUF million	2018 Q1	2017 Q1	Ch (%)
Revenues	2,618	1,081	242%
EBITDA	790	188	420%
EBIT	769	166	463%
Profit	663	279	237%
EPS	192	81	
FY EPS	735	260	282%
P/E	5	14	
No. of transactions (ths)	37,211	35,523	5%



Share price close as of 28/05/2018	HUF 3,960	Bloomberg	DUNAHHOU 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 3,550-4,000

Profit soars on project completion

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Duna House reported its Q1 results on Monday post market. Profit came at HUF 663 million, boosted significantly by profit from development project Reviczky (HUF 517 million). Excluding that, profit would have arrived at HUF 157 million which still exhibits a positive dynamic compared to last year cleaned profit of HUF 120 million, mirroring a strong real estate activity in the CEE region. Moreover, management confirmed its profit guidance for both total profit HUF 2.8 billion (EPS 809) and for profit excluding development HUF 1.05 billion. Due to the decent profit from development and robust underlying operation we maintain our BUY recommendation with the target price of HUF 4,751 implying 20% upside from yesterday's closing price.

Financial performance: Cleaned revenue growth was healthy with 21% y-o-y; EBIT excluding development has arrived to HUF185 million 12% higher compared to year ago, but with a slightly lower EBIT margin 22% vs 24% due to elevated cost in Poland and some forwarded expenses booked in Q1.

Development: We believe the market will focus on the financial results of this segment, as the underlying operation seems solid excluding one-offs.

- Duna House has completed project Reviczky and has already sold ca. 83% of the flats from this project (booked only 70% in Q1) and has received HUF 518 million out of the total guided profit of HUF 680 million so far.
- As for the remaining projects, Forest Hill (50% flats sold) is well on track, management confirmed its positive outlook of HUF 1.06 billion profit for this year. We would like highlight that this is only the first phase of the project with 148 flats (out of 196), and management expect to complete and book roughly 80% of this phase in this year (1.06 billion). In our model, we calculated only with the completion of this phase, leaving further upside if management would initiate the second phase (48 flats, currently W/O building permit).
- Last but not least, Project MyCity Residence, the construction has already started, ca. 40% of the flats has already been purchased and the planned completion should be in 2019 Q3.

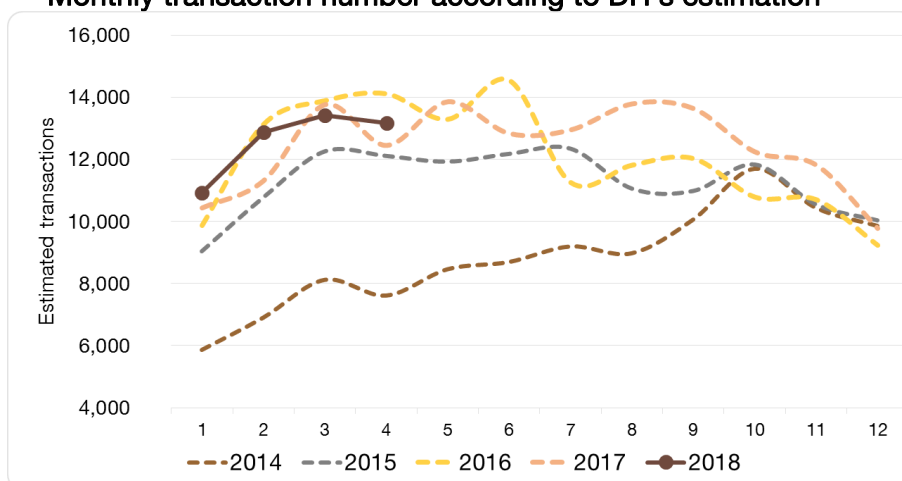
Core operation: Q1 result tends to be seasonally weak due to weather reasons, however cleaned revenue growth was decent at 21% y-o-y. As mentioned previously, despite the powerful growth in top line, subdued EBIT margin took its toll on EBIT level that and increased only by 11% y-o-y.

- Financial intermediary: The cash cow segment of the group has performed weaker in terms of EBIT margin (32% vs 40% year ago) due to temporary reasons, which will reverse later during the year. Loan intermediation was robust again, loan volume has increased by 38% y-o-y, pushing EBIT 4% higher on a yearly basis.
- Franchise: Higher fixed cost (active marketing, education) took its toll on profitability. EBIT, and EBIT margin came lower 20% (HUF 41 million vs. 51million year ago) and 400bps respectively, despite the good 11% revenue growth. Total number of office has increased by 16 across the three countries to 243.
- Own Offices: This segment has slightly improved in terms of EBIT margins and in absolute terms as well, adding HUF 23million to EBIT.

Metrohouse: Overall, we are a bit disappointed about the financial performance of Metro House as it turned again to red on EBIT level (-HUF 2million). One should note, that management priority in Poland is to growth its franchise business, and profitability will follow as majority of the old franchise contracts will be renewed in two years.

Positive momentum continues for transactions. The development of transaction numbers are in line with our assumptions. We have expected 6-7% higher figures, for 2018 reaching 160,000 after 149,000 in 2017. To put this in perspective the long term average of transaction numbers is at 157,000 according to the latest report of MNB about the residential market. Thus, our assumption is not far-fetched and rather conservative, in our view.

Monthly transaction number according to DH's estimation



Source: Company reports

Opinion: The focus for investors is on the development now, and the question is what management intends to do with the proceeds from that business line. So far, they have declared that DPS will be increased from 130 to 176 for 2018 and will be paid in the early summer (last ex div date was 17. Jun). As for the future, they guided EPS 810 for 2018, applying their current dividend policy (47% of profit excluding revaluations), we see DPS 380 for 2019. However, dividend payout ratio is subject to any M&A transaction or further potential developments (assuming that special VAT for development will be extended). In this point, it is worthwhile to highlight that management intends to reach EUR 100 million size (currently EUR 45m) to gain international investors attention - *as they often have investment policy that restricts to invest in companies with "low market capitalization"* - and at the same time feed yield hungry investors with dividend.

All in all, strong profit from development and temporarily subdued EBIT margin on core operation characterized the first quarter of Duna House. The results matches our forecast, and confirmed us in our positive view on Duna House.

Quarterly P&L

	Q1 2018	Q1 2017	Ch (%)
Revenue	2,618	1,081	142%
Operating revenue	2,576	1,052	145%
Other income	42	29	47%
OPEX	1,849	914	102%
Cost of materials	18	15	18%
Cost of sold goods and services	347	198	75%
Used services	1,322	497	166%
Personnel expenses	170	153	12%
Depreciation and amortization	22	22	-2%
Other operating expenses	-28	30	-194%
EBITDA	790	188	320%
EBIT	769	166	362%
Financial income	7	151	-96%
Financial expense	24	-7	-446%
Revaluation	-3	-21	-83%
EBT	748	290	158%
Income tax expense	-111	-23	375%
Other	22	11	100%
Non-controlling interests	-4	-2	100%
Net income	663	279	138%
Transaction Number	47,492	42,744	11%
<i>EPS</i>	192	81	138%
EBIT margin	29%	15%	

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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Valuations and risks:

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