

LAWSUIT AGAINST THE GENERAL CONTRACTOR

BIF informed the market participants 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.

ABOUT HARSÁNYLEJTŐ

The Harsánylejtő segment is the real estate development segment of the Company. The Company has finished the implementation of 4 residential apartments with 20 residential properties in 2018, and the occupancy permits for the built homes were issued this year, so the Company could realize large part of the revenue from Stage I of the development project this year. Occupancy permits of the properties in Stage II are expected to be issued in the first quarter of 2020.

The Company will construct two more residential properties (Stage III and IV) in the future, with 40 apartments in total.

UNCHANGED TARGET PRICE

The short announcement doesn't reveal any delay with regards to the project, so it is hard to assess the change of the revenue from the projects.

Our one-year target price is unchanged at HUF 293.

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	5105,7	6653,5	10394,0	11706,6	10246,4
Property related costs	-1247,2	-1366,3	-1804,9	-1430,7	-1341,3	-2335,4	-2552,8	-3326,7	-5197,0	-4682,6	-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	919,2	2594,4	5137,2	5614,9	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	-2080,8	-1405,6	-862,8	5114,9	4593,6

WACC	6,9%
Growth rate	2,5%

Enterprise value	80031,8
Debt	-9600,0
Cash	6950,0
Fair value of equity	77381,8
Shares outstanding	287,024

1 year target	293
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Source: Consolidated company filings, MKB

Target price scenarios

	WACC	Terminal growth						
		-2%	-1%	0%	1%	2%	3%	4%
	5%	216,5	254,4	307,4	387,0	519,6	784,8	1580,4
	6%	180,4	207,8	244,3	295,3	371,9	499,6	754,9
	7%	152,6	173,1	199,5	234,6	283,8	357,5	480,5
	8%	130,6	146,4	166,1	191,5	225,4	272,7	343,8
	9%	112,7	125,2	140,4	159,5	183,9	216,5	262,2
	10%	98,1	108,1	120,1	134,7	153,1	176,7	208,1

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/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. .pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-BIF_flash_note_-2018.09.24_.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Zrt. - BIF elemzoi kommentar - 2018.11.09..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-BIF_elemzoi_kommentar_-2018.11.09_.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - BIF flash note - 2018.12.06..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-BIF_flash_note_-2018.12.06_.pdf)

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[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - BIF flash note - 2019.03.11..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-BIF_flash_note_-2019.03.11_.pdf)

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.