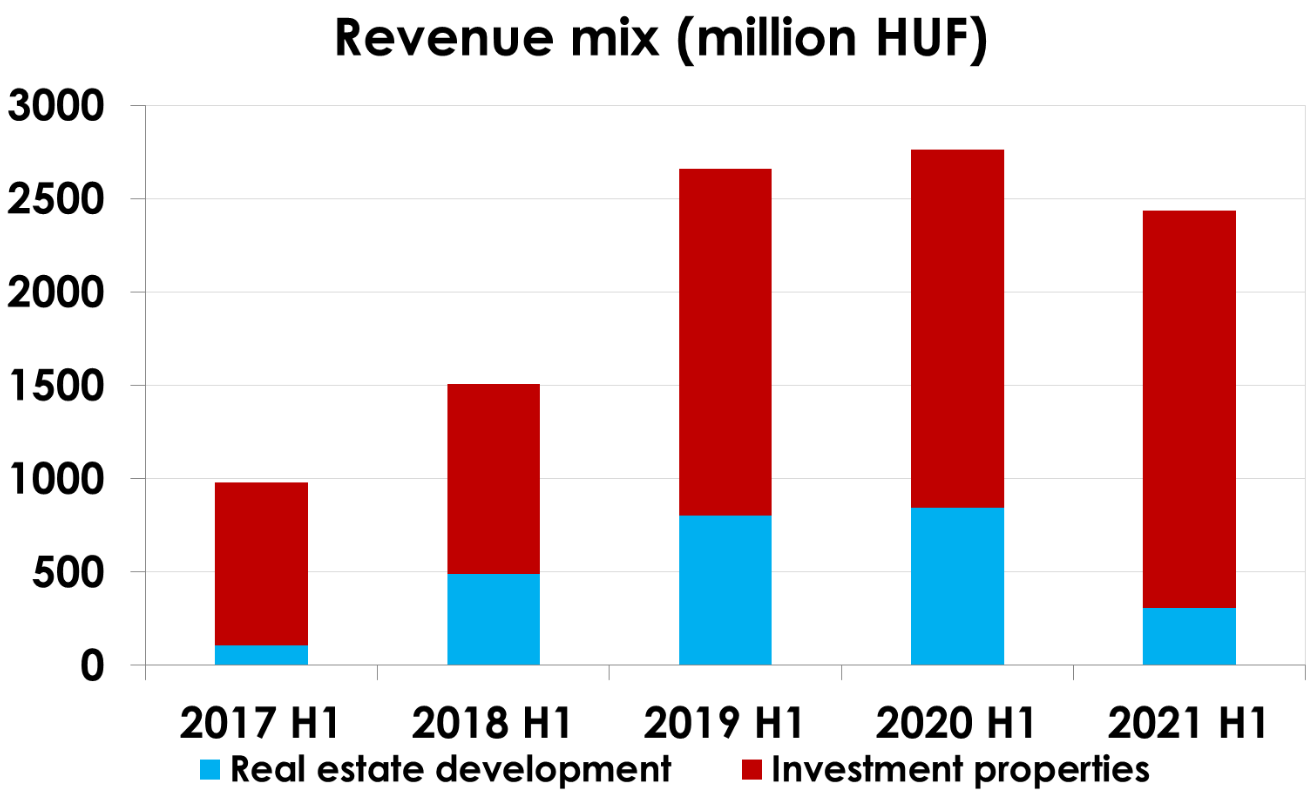
2021 H1 IN A NUTSHELL

BIF Nyrt. ("Company") has published its 2021 H1 report on 27 August 2021. The Company achieved a net sales revenue of HUF 2.436 billion which is 12 percent lower than net sales of HUF 2.761 billion in 2020 H1. The after-tax profit decreased to HUF 1.405 billion in 2021 H1 from HUF 1.799 billion in 2020 H1 (-22%). The decrease of the revenue and profit is due to the lower real estate development.

The results of the Company's segments were the following: the revenue of the investment property segment was HUF 2.129 billion which represents an 11% increase compared to the previous year (HUF 1.91 billion in 2020 H1). In recent years, BIF has raised the size of its rentable area significantly, which supported the revenue growth of the investment property segment. In the upcoming 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.

The real estate development segment earned HUF 306 million after the result of HUF 843 million in 2020 H1, which represents a 63% decrease. In recent years, the Company has finished the implementation of 8 residential apartments with 40 residential properties.

It's worth noting that the Company sold its Fenyőharaszti Kastélyszálló in 2020, which is a countryside hotel. To take into consideration the above-mentioned fact, the adjusted net profit shows an increase of 90% to the base period. The proceeds of the sale is other, non-recurring revenue, so one must adjust for it.



Source: Consolidated company fillings, MKB

2021 H1 (AND 2020) IN RETROSPECT

In the years of 2020 and 2021, the Company made several purchase and sale agreement and also several development constructions:

On 2 January 2020, the Company announced a sale and purchase agreement by and between the Company and Városmajor Projekt Ingatlanhasznosító Kft. concerning the property located at 35 Városmajor street, 1122 Budapest.

On 5 May 2020 the Company announced a sale and purchase agreement concluded by and between the Company and Magyar Posta Zrt. concerning the 511/1000 ownership ratio of the real property located at 1101 Budapest, Üllői street 114-116

On 12 May 2020, the Company announced an agreement, which was concluded by and between the Company as a seller and Kastélyszálló Vendéglátóipari és Szolgáltató Kft. as a buyer of the Fenyőharaszt Kastélyszálló.

On 2 December 2020, the Company announced an agreement, which was concluded by and between the Company as a seller and Országos Szlovák Önkormányzat as a buyer of that monument protected real property.

The Company ended the construction works of the luxury apartments of Attila99Loft at Attila Street in the first district of Budapest.

The Company sold its 8 building lands in the phase III. and IV. of the Harsánylejtő project in the second half of 2020.

To further information please read the previous flash notes: https://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/bif-elemzesek

2021 PLANS

According to the recent earnings report, the Company focuses in 2021 on the following tasks:

- Continuing the construction works on Városmajor 12. (Major Udvar). The project will be handed in Q1 2022. The total office space is 8,630 square meters.
- Leasing the vacant areas and elaborating the development concept of Városmajor 35 (Major Park). The office building will include 15 thousand square meters and 248 parking lots. According to the management, the project will be finished in Q2 2023.
- The sales and marketing works of the rental of the Attila99Loft and the opening works of the building’s bakery and restaurant and other services.
- Elaboration of the development concept for Bajcsy-Zsilinszky str. Office Building.
- Finalising the planned hotel concept for the Andrássy Út hotel property.
- Beginning the renovation works of Üllői str. Office Tower (Üllői street 114-116 old PostHotel); in the future: “BIF TOWER”; which will have ended by July 2022.

- In the case of the Üllői Road Education Centre (Üllői street 114-116), improvements/modifications depending on market trends.
- The lease work of BIF Hostel (Üllői street 114-116), which will operate as a hostel or student apartment in the future.

TARGET PRICE

Our one-year target price is unchanged at HUF 304 and our recommendation is buy. (To see more details please read our latest model update on 14 May 2021, link: https://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/bif-elemzesek).

DCF valuation

millions of HUF	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E
Total income	3805,6	3792,0	5288,3	6189,1	5842,7	5772,2	6143,6	6233,8	8801,3
Property related costs	-1341,3	-2335,4	-2616,1	-2254,2	-2921,3	-2308,9	-2457,4	-2493,5	-3520,5
Net interest costs	-103,0	-254,8	-190,5	-121,1	-250,0	-250,0	-250,0	-500,0	-500,0
FFO	2385,5	1352,6	2511,3	3603,3	3383,7	3440,7	3702,8	3509,5	5399,3
CAPEX	-8068,2	-680,9	-1117,6	-9512,2	-3643,7	-2000,0	-10000,0	-7000,0	-1500,0
AFFO	-5682,7	671,7	1393,7	-5908,8	-260,0	1440,7	-6297,2	-3490,5	3899,3

WACC	5,7%
Growth rate	2,5%

Enterprise value	89261,1
Debt	-19932,0
Cash	11565,0
Fair value of equity	80894,1
Shares outstanding	287,024

1 year target	304

Source: Consolidated company fillings, MKB

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Change from the prior research

Our first research was published on 29 June 2018, In that Initial Coverage our price target was HUF 2207 (before stock split), but the changes in fundamental factors justified the update of our model. Our new price target is HUF 304, which is 12% lower than the previous price target of HUF 345 published on 19 May 2020.

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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.