OTT1- 2020 FIRST HALF RESULTS

OTT-ONE Plc. achieved sales revenue of HUF 6,818 million in the first half of 2020 and closed the period with EBITDA of HUF 123 million and pre-tax profit of HUF 727 thousand. Management has recently reviewed the Company's past operations and future opportunities and has decided to devalue certain self-developed assets as they do not fit into the Company's current and future development directions. These assets accounted for a total of HUF 167 million of write-downs. This write-down was covered by the first half-year profit generated in the ordinary course of business.

The global epidemic has made a vital change in the life of the Company, enabling on one hand to take advantage of the previously established business relationships in China, and, on the other hand, the Company has entered into significant contracts with government players to procure medical equipment and products. On March 26, 2020, the Company signed a contract in the amount of HUF 4.7 billion for the delivery of ventilators, which amount has already appeared in the first half-year sales revenue. The medical devices ordered from the State Health Care Center will be delivered in the second half of the year, which will increase the Company's sales revenue in 2020 by an additional HUF 7.7 billion.
The Company's sales revenue in the first half of the year amounted to HUF 6.82 billion, which was adjusted by HUF 4.7 billion from the sale of ventilators, thus, the Company's adjusted sales revenue is HUF 2.12 billion. Using the adjusted data, compared to the first half of 2019, the Company's sales will increase by 54% in the first half of this year.

Depreciation increased by almost HUF 82 million compared to the base period of H1 2019 (from HUF 70.1 million to HUF 151.9 million), mainly due to the depreciation accounted for the server park completed at the end of 2019. Depreciation in addition is the accounting for unplanned depreciation of licenses and other intangible assets created in the Company's books as a result of developments in previous years. As a result, total depreciation and amortization increased to HUF 241 million in the first half of 2020 from HUF 70 million in the base period.

thousand HUF	2020H1	2019H1
Sales revenue	6 817 931	1 376 241
Depreciation and amortization	241 092	70 135
Operating profit	-117 655	87 411
EBITDA	123 437	157 546
Net profit	-23 544	73 959

Source: OTT-ONE, MKB

The operating result was HUF -117 million, which is brought about mainly by the management's decision to devaluate certain assets with no planned further use. Without these accounting statements, the operating profit for the first half of 2020 would be HUF 50 million, which is HUF 37 million lower than in the same period of the previous year.

Profit before tax was HUF 727 thousand in the first half of this year, which is about HUF 87 million less than in the previous period. due to the significant exchange rate gain in the result of financial operations, the company was able to make a profit on the pre-tax profit line.

Due to the results for the first half of 2020, we are reviewing our model, therefore we put the target price under review, and we will publish a detailed analysis soon.

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Change from the prior research

Our first research was published on 31 August 2020. Our price target is HUF 296.

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Nyrt._-_OTT-ONE_initiation_report.pdf1

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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.