BIF – MODEL UPDATE

We have updated our DCF model based on the 2018 H1 earnings report, the management guidance (see "Among the pioneers" on the webpage of the Company) and the recent capital increase by Magyar Takarékszövetkezeti Bank. Our new one-year target price of **HUF 2,290 per share** is based on the following assumptions:

- the total rentable area will reach 73,000 square meters by the end of the 2020;
- the average rents will grow in tandem with the rate of the Hungarian CPI;
- the occupancy rate will remain flat in the future (95% in average);
- the Company will be able to implement the whole land developing project of the Harsánylejtő;
- the equity/debt financing ratio will remain at 25/75%;
- the number of issued shares have increased to 28.67 million from 25.8 million;
- the terminal growth rate is 3%;
- the WACC is 7.6%;
- the effective tax rate is 0 percent because the Company is operating as a SZIE;
- we leave such scenarios out of account in which the Company sells one or more of its investment properties.

THE EFFECT OF CAPITAL INCREASE

Two weeks ago BIF announced a capital increase by issuing 2,870,244 pieces of new ordinary shares. The shares will be bought by Magyar Takarékszövetkezeti Bank Zrt. for a price of HUF 2,000 per share. The transaction supports the growth plan of the Company, which we already described in the Initiation Report on 29 June 2018 (see page 15-16). The investment pipeline and the guidance will not be changed by the deal.

The increased number of shares was updated in the model; however, our target price has not decreased. The capital increase of the newly issued shares is currently adding to the cash level, which increases the fair value of the equity in our model. As the management realizes the planned investments, the outstanding cash amount will decline in the future.

DCF valuation

millions of HUF	2013	2014	2015	2016	2017	2018E	2019E	2020E	2021E	2022E
Total income	2225,6	2217,2	2901,7	2754,9	3805,6	4717,9	5948,6	7998,3	7269,0	7396,4
Property related costs	-1247,2	-1366,3	-1804,9	-1430,7	-1341,3	-2058,0	-2643,6	-3052,2	-2603,9	-2651,5
Net interest costs	-522,4	-737,1	-141,9	-67,5	-103,0	-326,7	-437,2	-811,8	-750,0	-750,0
FFO	456,0	113,8	954,9	1256,7	2361,2	2333,2	2867,8	4134,3	3915,1	3994,9
CAPEX	-299,5	-45,4	0,0	-805,8	-8068,2	-2000,0	-5000,0	-5000,0	-1500,0	-300,0
AFFO	156,5	68,4	954,9	450,9	-5707,1	333,2	-2132,2	-865,7	2415,1	3694,9

WACC	7,6%
Growth rate	3,0%

Enterprise value	63833,9
Debt	-9900,0
Cash	6485,0
Fair value of equity	60418,9
Shares outstanding	28,67

1 year target	2290

Source: Consolidated company fillings, MKB

Target price scenarios

		Terminal growth						
		-2%	-1%	0%	1%	2%	3%	4%
WACC	5%	1583,3	1871,3	2274,4	2879,1	3886,9	5902,6	11949,7
	6%	1324,0	1533,9	1813,8	2205,6	2793,3	3772,9	5732,0
	7%	1123,5	1282,2	1486,3	1758,4	2139,3	2710,7	3663,1
	8%	964,2	1087,7	1242,1	1440,5	1705,1	2075,6	2631,2
	9%	834,8	933,1	1053,2	1203,4	1396,4	1653,8	2014,1
	10%	727,9	807,5	903,1	1020,0	1166,1	1353,9	1604,3

Source: Consolidated company fillings, MKB

Analysts:

Csaba Debreczeni
debreczeni.csaba@mkb.hu
Tel: +36-1-268-8323

Balázs Rácz
racz.balazs@mkb.hu
Tel: +36-1-268-7388

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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/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.