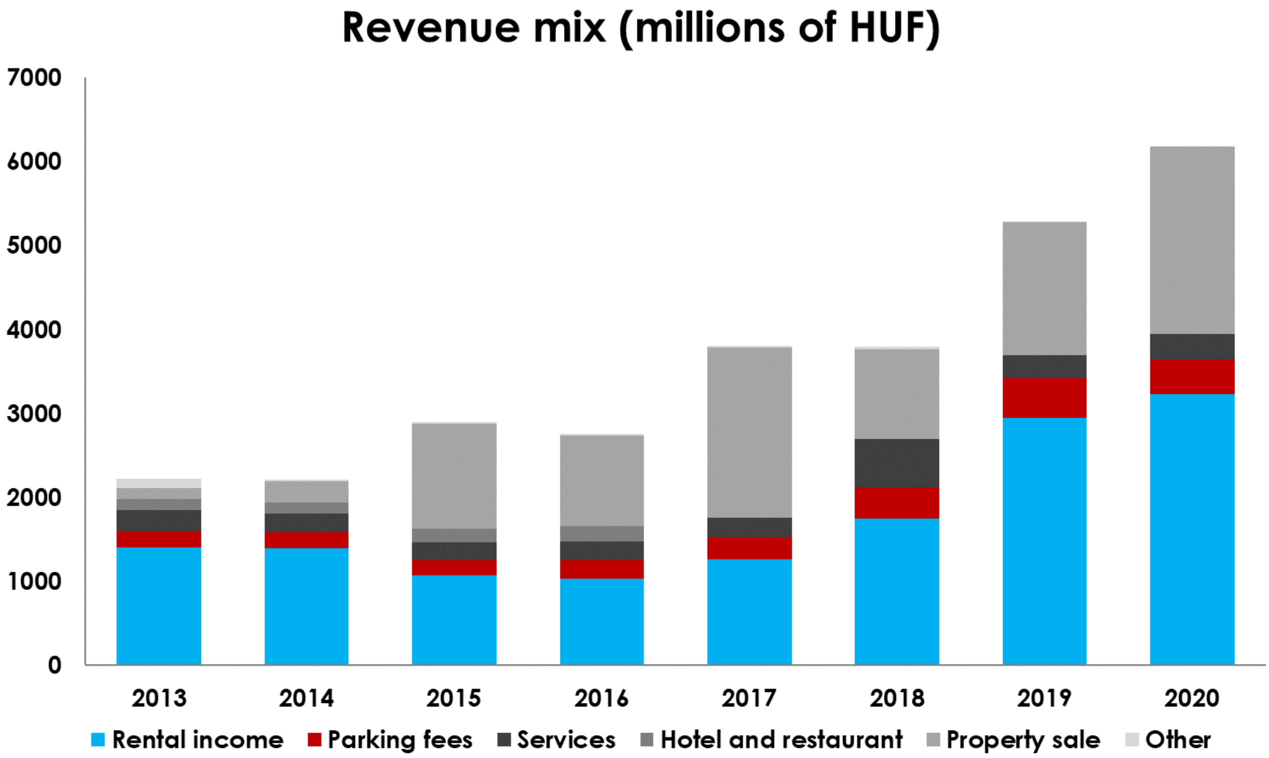
ABOUT 2020

The Company published its 2020 figures on 27 April 2021. The Company achieved a net sales revenue of HUF 6.19 billion which is 17 percent higher than net sales of HUF 5.3 billion in 2019.

The after-tax profit raised to HUF 4.95 billion in 2020 from HUF 2.27 billion in 2019 (+118%). However, it should be noted that in 2020 fair values of the Company's investment properties have gained HUF 2.67 billion and on 12 May 2020. The Company sold its countryside hotel: Fenyőharaszt Kastélyszálló. So, the Company earned other revenue of HUF 3.5 billion compared to the HUF 0.35 billion in 2019.



Source: Consolidated company fillings, MKB

The results of the Company's segments were the following: the revenue of the investment property segment was HUF 3.95 billion which represents a 7% increase compared to the previous year. In recent years, BIF has raised the size of its rentable area by about 20.000 square meters, 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. We believe that the total rentable area will reach approximately 85.000-90.000 square meters by 2024. (For more details, please see previous flash notes).

The Harsánylejtő segment; which means the real estate development segment; earned HUF 2.23 billion after the result of HUF 1.58 billion in 2019. In 2019 and in 2020 the Company has finished the implementation of 4-4 residential apartments with 20-20 residential properties. In the second half of 2020, the Company sold the development area of residential properties in phases III – IV. The Company has another three apartment projects in this area, along further development opportunities.

In 2020 the parking fees decreased from HUF 475 million to HUF 410 million because of the COVID-19 pandemic. This segment was impacted negatively by the free parking opportunities in Budapest.

In the case of REITs (real estate investment trust, in Hungary "SZIT") the best way to define the cash flow from a company's operations is the funds from operation (FFO). By our calculation the Company earned HUF 3.6 billion FFO in 2020.

million HUF	Revenue	
	2020E	2020
Investment properties	4407	3955
Real estate development (Harsánylejtő)	2435	2235
Total	**6842**	**6189**

Source: Consolidated company fillings, MKB

	2020E	2020
FFO	2915	3603

Source: Consolidated company fillings, MKB

OPPORTUNITIES IN 2021

In the coming years the Company will focus on the following important areas:

- In 2019 a general construction agreement was concluded by and between the Company and D.V.M. Construction Fővállalkozó Kft. regarding the restructuring, construction and installation works of the real property in district I, Budapest, on plot 6775, located at Attila str. 99. The Company will lease the building (Attila99Loft) which consists of 16 exclusive apartments, a wellness and spa, a bakery and 22 parking lots.
- In 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. According to the deal BIF acquires a 15,000 sqm office building which has a permit to develop a 7-story, parking garage with a capacity of 248 parking spaces in one of the most populated streets of District 12.
- Designing the development concept of Bajcsy-Zsilinszky Office Building (raising the rentable area from approximately 3,600 square meters to about 30,000 square meters) and Városmajor Office Building with total development area: 6,000 square meters.
- Designing the utilization and development concept of the property complex at 80-82 Andrássy street, Budapest, District VI. which will function as a 4-star boutique hotel. But it is worth noting that the hotel segment's condition has changed a lot since the COVID-19 pandemic.

- Investigating the possibilities of the sale and/or construction in the Harsánylejtő Projekt.

MODEL UPDATE

We put our one year target price under review to assess the impact of the recent earnings report.

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Change from the prior research

Our first research was published on 29 June 2018. In that Initiating Coverage our target price was HUF 2200 (before stock split). The changes in fundamental factors and the operation in the Company required an update of our model and the target price. Based on changes mentioned above, our recent target price (1 September 2020) was HUF 345 which represents a 4 % change to the previous target price published on 4 April 2020. Based on the news mentioned above, we do not currently have a valid target price for the Company's shares, as we put our price target under review.

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.