SUMMARY

BIF (hereinafter "Company" or "BIF") operates in the real estate segment, it owns and manages 7 office buildings (BIF has a total of 43,000 sqm office space in 2018), an apartment complex, two parking lots, a castle hotel and other facilities in Hungary. Our target price is HUF 2,207; which is based on the sale of the development lands of Harsánylejtő and the growing area of the Company's rentable office buildings in Budapest.

- Since October 2017 BIF has been operating as a SZIE, which is the entry point in the SZIT regulation. The SZITs have tax benefits. Minimum 90% of its taxable income has to be paid out to its shareholders.
- Compared to the peer group as a benchmark the Company's valuation is fair. BIF has a very low daily trading volume (1 thousand shares in average in the last 30 days), so we must calculate with the liquidity discount.
- There are many opportunities for the Company. BIF plans to improve some of its investment properties, develop a boutique hotel and search for new offices in the capital of Hungary.

Recommendation	BUY
12m target price	HUF 2,207 per share
Current price	HUF 1,900 per share
Trading range	HUF 580-2180
52 week performance	230%
Market capitalization	HUF 49,081 mn
Average daily turnover (number of shares)	929
Number of shares	25,832,200
Shareholder's structure	Pió-21 Kft. - 45.26% BFIN ASSET MANAGEMENT AG - 26.3% Treasury shares - 17.28%
Freefloat	11.16%
Tickers	Bloomberg: BIF HB Reuters: BIFR.BU
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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INVESTMENT STORY

BIF operates in the real estate segment and has been present in the Hungarian property market for 24 years. The Company owns and manages 7 office buildings (with a total of 43,000 sqm office space), an apartment complex, two parking lots, a castle hotel and other facilities. Shares of the Company were listed on the Budapest Stock Exchange in February 1998.

SZIT: is a Hungarian company form which is very similar to the well-known international REIT classification. Since October 2017 BIF has been operating as a SZIE, which is the entry point in the SZIT regulation. There are many existing criteria to become a SZIE and then SZIT, which will be described later. The SZIT's have generous tax benefits, so the Company can achieve higher net profits. In order to qualify as a SZIT, the Company is also obliged to pay out at least 90% of its annual taxable income to shareholders as dividends. Since 2008 the Company paid its first dividend in May 2018, which was HUF 94 forint per share. The dividend yield was 4.95% per share.

The future: There are many opportunities for the Company. BIF plans to improve some of its investment properties by quality and size, develop a boutique hotel and search for new offices in the capital of Hungary. According to the management, BIF focuses on the following areas: raising the occupancy rate, searching for performance improvements, acquisition of new buildings/properties and the completion of the development project of Harsánylejtő.

Valuation: The DCF-model is based on the generally accepted FFO calculation standards, because this metric shows the true residual cash flow; which is available to shareholders. Our one year target price is HUF 2,207.

Our projection includes the growth of the rentable area from 28,000 sqm (43,000 sqm with the Vigadó Palota) to near 70,000 sqm in the next few years.

Key risks: Many risk factors can be identified, which may significantly impact the operations of the Company: growing rental office space (this may affect both the pricing and rental fees); real estate industry cycles; economic downturn; strong competition in the development of residential homes.

FX: Debt is denominated in HUF and 95 percent of the income denominated in HUF so there is no FX risk.

BACKGROUND AND REGULATION

REITs (real estate investment trust) have already been operating in many developed countries. In the US in 1960 president Dwight D. Eisenhower signed a legislation that created a new approach to income-producing real estate investments, so REITs brought the benefits of commercial real estate investment to all investors. As of today the US REIT approach has served as a model for more than 35 countries.

Within the CEE region, REITs (SZITs) were first introduced in Hungary in 2011 under name of SZIT ("Szabályozott Ingatlanbefektetési Társaság"), however; it was almost impossible to meet the conditions set by the legislator. Therefore, no SZIT was created between 2011 and 2017. In the old regulation the minimum level of the capital was too high, it amounted to HUF 10 billion.

SZIT (REIT) is a company that owns and/or operates real estates which produce (rental) income, earns revenue and profit. Properties can be divided into the following categories: **residential** (apartments, homes, family houses), **commercial** (offices and retail), **storage and industrial**, **hotels** or **healthcare**. SZITs can also own special assets like data centers, parking lots, wireless infrastructures, prisons, timberland or advertising displays. The three **main pillars** of the Hungarian SZITs are office, retail and logistic.

The regulation changed in 2017 so we think a growing number of real estate companies will be able to apply to this SZIT designation. To become a SZIT the **main criteria** are:

- Equity capital of minimum HUF 5 billion;
- Operating as a public company, where 25% of the capital must be traded on a stock exchange and no more than 5% of the capital should be owned by a single owner/investor;
- Credit institutions and insurance companies are allowed to hold up to 10% of voting rights;
- Pay a minimum of 90% percent of its taxable income in the form of shareholder dividend each year;
- 70% of the total assets must be real estate-related.

Apart from the strict regulation, SZITs have **tax benefits**, so they are exempt from the corporate income tax (9% on pre-tax figures) and the local business tax (1-2% on revenues, depending on the location of the headquarter of the company). Moreover, SZITs must pay only 2% property acquisition duty, compared to the ordinary 4% burden. These cost reductions can raise the yield that SZITs can earn on its investment properties.

Due to the high dividend distribution requirement, SZITs (REITs) need to attract new capital in order to grow, so the repeated raising of new capital through the issuance of new shares is an essential part of their business. In the recent years BIF didn't issue new shares, but if the Company reaches the legally defined limits it would be necessary. SZITs (REITs) can grab external funding like issuing debt or taking out loans. It is necessary to choose a healthy equity-debt mix. Investors shouldn't be afraid of the capital increase via share issuance, because in the case of SZITs (REITs) it doesn't necessarily mean a dilution.

Moreover, SZITs (REITs) can sell their existing investment properties in order to raise funds and invest in another project.

BIF has been operating as a SZIE ("Szabályzott Ingatlanbefektetési Előtársaság") since 20 October 2017. This company form is the entry point for becoming a SZIT, according to the regulation. During the SZIE status the company doesn't fulfill all the conditions for SZIT, but pledges to fulfill them. BIF operates as an SZIE till 31 December 2018, the Company will get the SZIT status on 1 January 2019. The Company complies with all of the requirements excluding the minimum level of the free float, which is 11.16 percent now.

COMPANY PROFILE

History

Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. – using its well-known name: BIF – has been present at the Budapest property market for 24 years. The Company was founded in 1994. BIF operates in the real estate segment. The Company owns and manages 7 office buildings in Budapest, an apartment complex, two parking lots, a castle hotel and other facilities.

The Company was founded with a subscribed capital of HUF 2,363,220,000, and in August 1997 a capital increase took place in the amount of HUF 220,000,000. The Company's registered capital has not changed since then. On September 20, 2007 the face value of the Company's shares was changed from HUF 1,000 to HUF 100, thus the current share capital consists of 25,832,200 pieces of face value HUF 100 dematerialized ordinary shares. On February1998, the shares of the Company were listed on the Budapest Stock Exchange.

Business profile

BIF's real estate portfolio typically consists of category 'A' and 'B' office buildings in Budapest with excellent transport hubs, which generates 90 % of the revenue. As of 2018 the Company has a total of 43,000 sqm office space. The Company also owns some emblematic buildings, such as the Aranykéz Street parking garage, which is currently the largest downtown parking lot building, but a rural castle hotel is also included in the portfolio with a lesser weight. The office space occupancy – being above the market average – reaches 100%. The Company continuously develops its existing real estates, creating inter alia a 4-star hotel with 100% occupancy from the Madách square 'B' category office building, leasing it with long-term lease-agreement for more than 10 years. The office space at Városmajor Street has an additional 3,500 sqm of office development potential. On the Bajcsy-Zsilinszky Street, the Company plans to build a 25,000-30,000 sqm office building (currently operating as a 'B' category office building). In the Harsánylejtő suburban there are many development areas of the Company, where further condominiums, office buildings are being prepared for construction.

Vigadó Palace

The 16,500 sqm premium office building is in the most imposing part of District 5, in the direct vicinity of the Danube River. The building is currently undergoing complete renovation and modernization, according to the management the building will have been rented by the end of the third quarter of 2018.

Andrássy 80+82

Creation of a 4-star boutique hotel concept is in progress in the two neighboring lot properties with a total area of 1,442 sqm. As a result, a 90-room hotel development with exclusive internal park might be realized.

Bajcsy Office Building

The office building is in the direct vicinity of Nyugati Railway Station, it is easily accessible by public transport. There are Category 'B' office areas and areas suitable for warehousing in several buildings in the property. The office complex includes several buildings of different type and condition. The net overall area of the buildings is 6,000 sqm, including offices of 4,100 sqm, storage areas of 900 sqm and areas of 1,000 sqm serving other functions. The Company plans to renovate the building, in which 25,000-30,000 sqm office space would be developed.

Aranykéz Parking Garage

Downtown parking garage with 490 parking spaces, has been fully renovated.

Flórián Udvar

The Flórián Udvar office building and parking garage offers 10,300 sqm of premium category office area in the center of Óbuda, in Flórián tér. The former building of the Hungarian Royal Tobacco Factory had been transformed into an 'A' category office complex; the works were completed in June, 2008. The services of the office building include a parking garage with 240 parking spaces, a garden terrace, internal restaurant and café and an almost 2,000 sqm large landscaped inner yard.

Victor Hugo office building

The building is located in the central part of District 13, under the address 18-22 Victor Hugo Street. It offers Category 'B' offices. The building is home to the largest internet exchange center of Budapest, BIX, so the majority of the tenants are companies dealing in internet and server hosting services. Typically 18-20 sqm large offices with Street view can be leased in the traditionally arranged, 3,040 sqm middle corridor building.

Városmajor Office Building

The Company utilizes cell-designed category 'B' offices in this traditionally arranged, 3,750 sqm building. The building has been operating for several years with 100% occupancy. The rentable offices have an area of 20-60 sqm. The main edifice of the 2 building complex facing Városmajor

Street offers modern offices with convenient technical specifications. The Városmajor Office Building is located in one of the most dynamically developing parts of Dél-Buda.

Bihari Office Building

The building complex consists of 3 parts. The first, about 3,000 sqm building operates with a fixed-term contract until 30 November 2021 as a 3 star hotel. The second building also has 3,000 sqm floor area and it has been operating as an office building since the beginning of 2015. The Third, BIFLOFT Office Building offers modern loft offices. The building was undergoing complete renovation and modernization. The Company plans to lease loft offices of 120-450 sqm with open office areas and varied layout. Some of the area of the building has already been leased.

Madách tér

One of the most prestigious properties in the portfolio can be found in the city center on Madách tér. The property operates as exclusive 4-star hotel with a long term lease agreement.

Fenyőharaszt Kastélyszálló

Fenyőharaszt Kastélyszálló is 4-star hotel at the foot of the Cserhát, furnished with authentic furniture, with 26 double rooms and 4 apartments for 3 people.

Harsánylejtő

Exclusive apartment complex in the greenbelt area of Óbuda, at the foot of Hármashatárhegy, in which the Company offers 55-90 sqm apartments with garden access and terrace in 5 apartment buildings with elevators.

VALUATION OF SZITs

Valuation of a SZIT (REIT) has its own special features. Funds from operation (FFO) and adjusted funds from operation (AFFO) are two important metrics. In the case of U.S. GAAP, FFO starts with net income and adds back amortization and depreciation and subtracts the gains on the sales of depreciable property. We must subtract the latter because it isn't a recurring item and it doesn't contribute to the sustainable dividend paying capacity. Depreciation and amortization is always a non-cash item and does not affect the company's dividend-issuing capacity. AFFO subtracts capital expenditures (maintenance capex) and other amortization from the FFO. AFFO is the true residual cash flow which is available to the shareholders.

In the case of IFRS, there is no depreciation, but SZITs (REITs) mark their properties to market value and record the gains/losses in the income statement. To calculate FFO one must deduct the gain/losses of the property revaluation from the net profit. BIF follows the IFRS.

FFO and AFFO yield is the FFO or AFFO per share divided by the price of the company's share price. A high yield may indicate that the company is undervalued, but it may also imply that the company's real estate portfolio is deteriorating in quality.

The net asset value (NAV) is the current value of the real estates, development lands/projects and other intangible assets reduced by debt, other tangible liabilities and preferred equity. NAV is the mark-to-market value of a company's common equity calculated by applying an estimate of private market values to the company's real estate and other adjustments and deducting all liabilities, including preferred equity. NAV is often presented on a per-share basis. In case of IFRS, where the properties are valued to market, the P/BV (price to book value) ratio is fairly close to P/NAV. The P/BV (price to book value) value shows the amount of the multiplier applied to the Book Value of Equity Per Share (BVPS) to calculate the price at which the company is traded. The Book Value of Equity Per Share (BVPS) is calculated as a ratio of the share price, where the Book Value of Equity Per Share is derived as the difference between total assets and liabilities divided by the number of shares issued. To calculating the Price to Book Value (P/BV) we merely divide the amount of the book value by the number of shares issued.

In the case of SZITs (REITs) the dividend yield is a crucial factor, because the company is obliged to pay out a minimum of 90 percent of the taxable income.

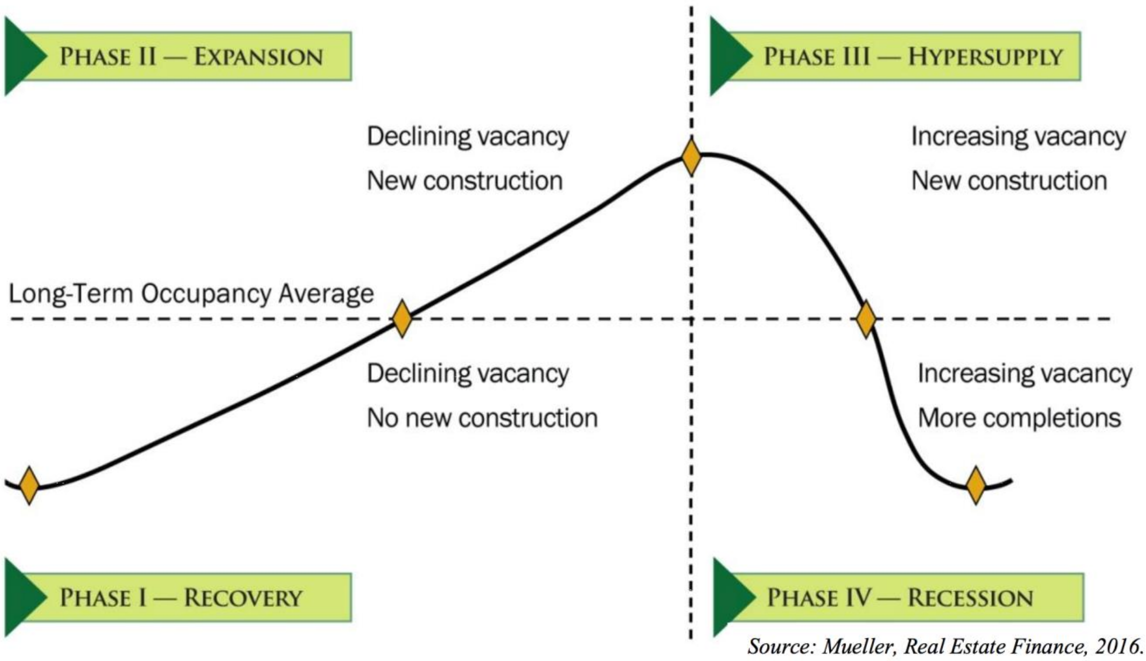
The cap rate is the ratio of the net operating income and the value of the investment properties. A higher cap rate means the properties do worth less. Usually the cap rates are between 5 to 10 percent, depending on the location and the type of the properties.

KEY RISK FACTORS

Many risk factors can be identified which may significantly impact the operations, the valuation as well as the future growth path of the Company.

The real estate industry is very cyclical. In phase one (recovery) the vacancies are declining, and there is no new construction. In phase two (expansion) the expansion begins, the vacancy rates are still falling, but new projects are being launched. In phase three (hypersupply) the vacancy rates are increasing and new constructions are considerably overwhelming. In phase four (recession) the vacancies are increasing and more and more projects are completed.

Market Cycle Quadrants



Source: Mueller, Real Estate Finance, 2016.

It is worth noting that the different types of real estates are affected in different ways by an economic downturn. For example hotels are more sensitive to economic activity than office buildings. Tenants in office buildings usually have long-term leasing contracts which can't be easily changed during an economic downturn. Therefore, it is important to know how many tenants have long-term contracts, because that can reduce the revenue loss in an economic downturn scenario.

Macroeconomic factors have great impact on the industry, because the rental and vacancy rates are partly dependent on the tenant's economic outlook. An economic downturn results in lower demand for office space and consequently brings about a spike in the vacancy rate. Higher interest rate is a hindering factor because real estate projects and constructions are dependent on external funding like bank loans, mortgages or corporate bonds. Higher interest rate means narrower financing position. The office market and consequently, the real estate property management segment may react sensitively to a change in the interest rates' path. Low interest rates may support the sector; however, growing interest rates may significantly influence the availability of external funds.

When it comes to financing investments, an appropriate capital allocation should be carried out by determining an optimum mix of capital and debts; because the cost of own equity will shape the amount of required return in order to create value. In the current low-interest-rate environment the cost of external funds is low; however, a phase of tightening has already started in the US. In Europe, the European Central Bank is unlikely to raise the interest rates before mid-2019. We assume that the interest rate environment in Hungary may be aligned to that trend.

Boom has been witnessed in the office market in Hungary during the recent years. Many investments or projects have started, many of them are in progress and numerous projects have been completed. Investment activities strengthened further in 2018. As a result, a large quantity of new offices may appear on the market in the next two-three years. Although it may seem that, with some exaggeration, everybody is constructing offices in the capital city, Budapest only has a total office space of 3.45 million square meters, a figure much lower than that of the capital of the neighboring Austria (Vienna), where nearly 11.06 million square meters of office space are available and prices are not much higher than in Budapest. In Warsaw there are 5.3 million square meters of office's space available. The 'prime rent', i.e. the rental rate of offices in the best location amounts to EUR 25.5/sqm in Vienna, while EUR 22/sqm in Budapest; and the average office rent in the Váci Road Corridor in Budapest is EUR 15.25, while office rents range between EUR 13.5 and 16.5 in downtown Vienna. In the central locations of Warsaw asking rents are EUR 21.5/sqm in average.

Real estate property managers may face new challenges, because, while rents are rising, the cost of labour force and other expenses (required for construction and operation activities) are also increasing. These circumstances may represent a challenge for real estate property operators. Tenants require more and more services and attention must be given to a proper work environment (design, modern equipment) and digitalization.

According to the managements of various real estate companies, the demand and supply are in balance in the Budapest office market currently, but a growing rental office space may affect both the pricing and rental fees.

The Company's balance sheet cannot be affected by the currency risk, because debt is denominated in HUF. 95 percent of the income denominated in HUF so there is no FX risk.

Harsánylejtő is a suburb of family houses and apartments that is the Company's residential development project. In recent months a lot of similar projects have been started, so the competition is strong in the development of residential homes. Nowadays, the construction sector is characterized by a lack of capacity (few professionals, higher material prices, etc.) which can lead to delays in deliveries.

The Company's free float (the shares, which are available to the public for trading) is too low. But according to the SZIT designation, 25% of the Company's capital must be traded on a stock exchange, so free float will change in the future. 17.25 percent of the shares are treasury shares, so it will be easy to comply with the SZIT rules.

HISTORICAL FINANCIAL ANALYSIS

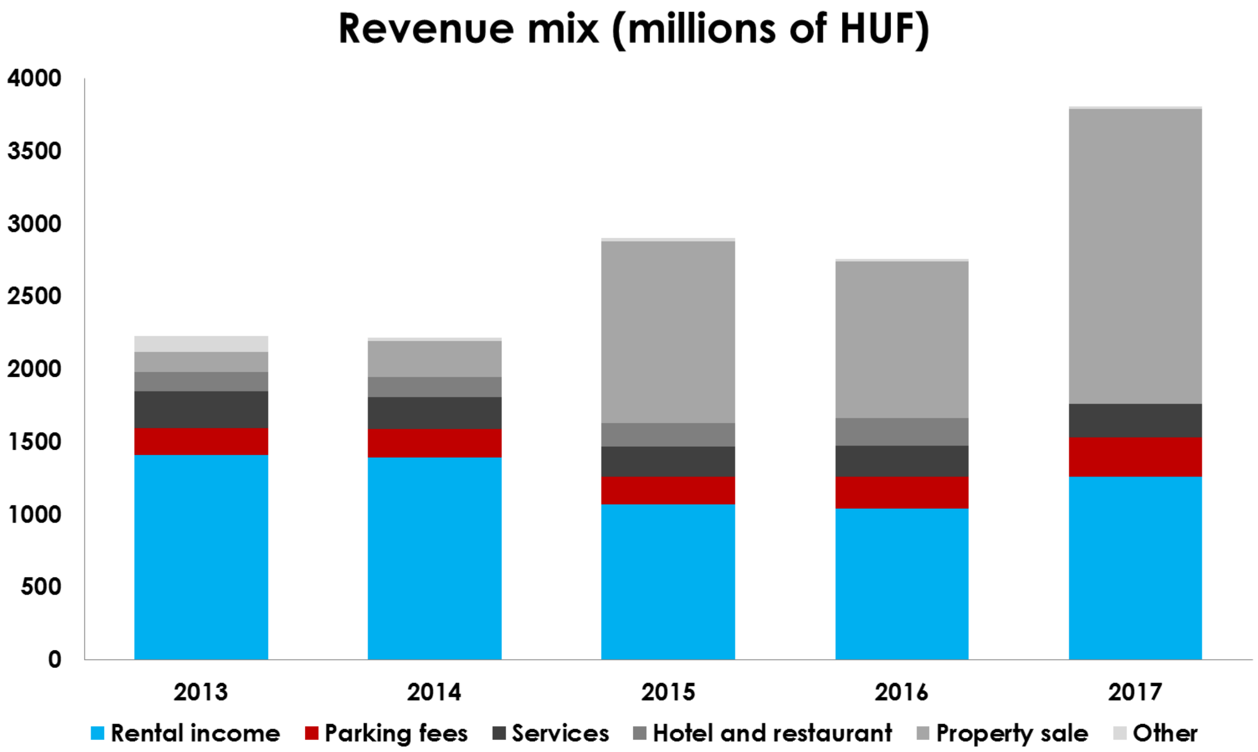
The Company owns seven offices (Vigadó Palota, BIFLOFT, Flórián Udvar, Bajcsy, Bihari, Városmajor and Victor Hugo) of which the Vigadó Palota will have been rented by the third quarter of 2018. The Andrássy 80. is a new entity in the portfolio, the Company investigated the use of this property and the Andrássy 82, which will be a boutique hotel with ca. 90 rooms. As of the end of 2017 the Company owns four office buildings in Category 'B' and three in Category 'A'. In our opinion Category 'B' may better withstand the effects of an economic crisis, but nowadays there is a great interest toward the Category 'A' and premium offices. The Vigadó Palota was bought by the Company in 2017, which has significantly contributed to the growth of the value of the investment properties.

The Company owns a parking lot in the inner city (Aranykéz Street), which will be able to operate as a parking lot for the Vigadó Palota. BIF previously owned a hotel (Fenyőharaszt Kastélyszálló) near the M3 highway sixty kilometers from Budapest. But according to the SZIT regulation, the Company can't operate hotels, so BIF sold its subsidiary, the Kastélyszálló Ltd. in 2017, but the building remained in the Company's portfolio. In the case of Andrássy 80. and 82. the operation of the boutique hotel will be outsourced, which will provide rental income to the Company.
The Madách Tér is an iconic building which operates as a hotel with a long term lease contract. On the Üllői Street another hotel is also operating. Its area is 3,000 sqm and operates under a long term lease contract until 2021. The hotels are operated by hotel operators through long term lease contracts.

The Company owns a church with a monument building of 2,250 square meters, which is used as a sport complex. BIF develops family houses and apartments and owns/sells lands in Budapest, Óbuda (Harsánylejtő Lakópark).

The Company's revenue has grown from HUF 2.2 billion to HUF 3.8 billion since 2013, which is equivalent to 14.3 percent CAGR. But other revenues are important, too. This item has grown from HUF 500 million to HUF 10.6 billion consisting of the gain/loss on sales of depreciable property and the gain/loss on fair valuation of the existing properties (according to the IFRS the Company marks its properties to market).

After breaking down the revenue mix we can conclude that most of it comes from the rents and property sales (Harsánylejtő). The latter was negligible in 2013, but today it represents a significant portion of the revenue. In the last four years the parking fees (CAGR of +10.2%) and the property sales (CAGR of +96.5%) grew significantly. The rental income didn't change materially and its ratio to the revenue decreased from 63 percent to 33 percent between 2013 and 2017.

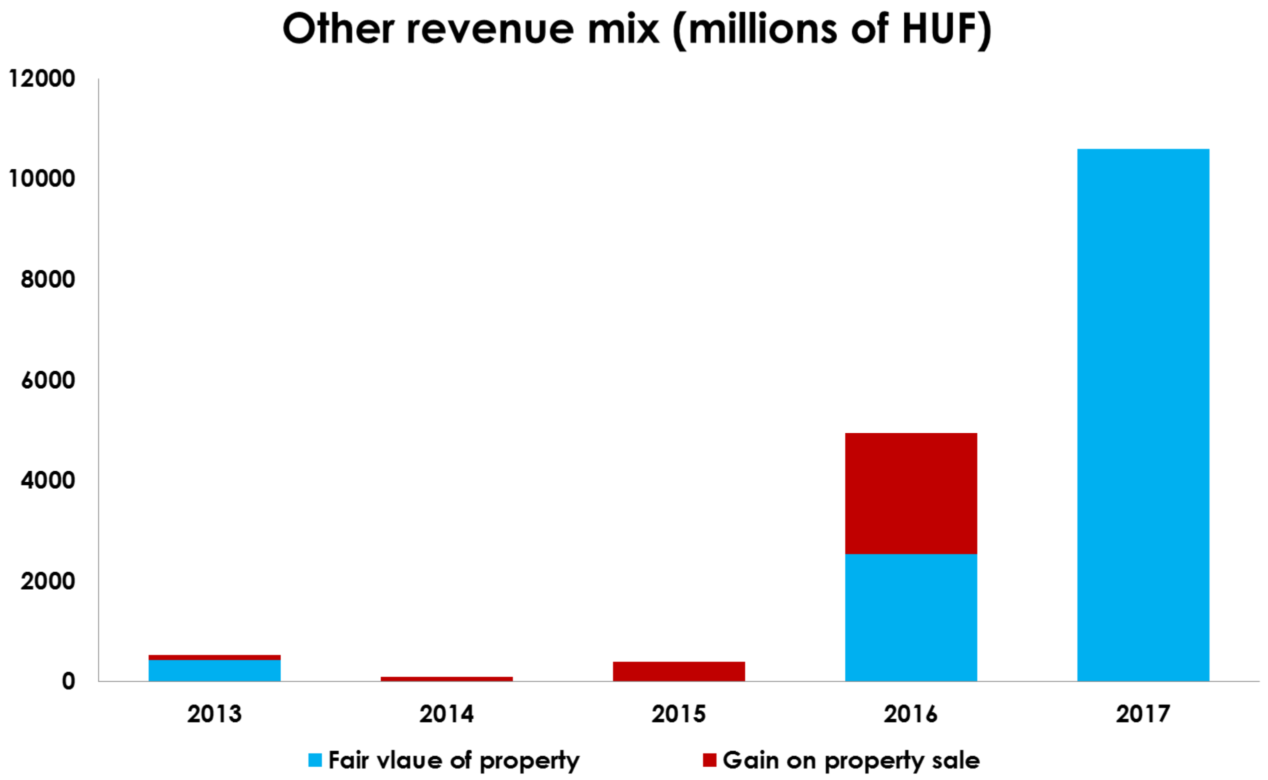


Source: Consolidated company fillings, MKB

Rental income was HUF 1.4 billion in 2013 vs. HUF 1.2 billion in 2017. Parking fees are roughly constant; it amounts to 7-8 percent of the revenues. The property sale segment has grown significantly: in 2013, it represented only 6 percent of the revenue, today it is 53 percent. Services include the public utility tariffs and telephone fees charged to tenants. Income from the hotel and restaurant segment represented 6 percent of the revenue in average, but in accordance with the SZIT regulation, the Company cannot operate hotels and restaurants so this item was derecognised in 2017. Instead the operator of the hotel pays a regular fee to the Company, which amounts to approximately HUF 200-230 million. Considering the above-mentioned factors, the hotel fee grew significantly, approximately CAGR of 15 percent.

The other revenue includes the gain/loss on sales of depreciable property and the mark to market valuation of the existing properties. In the last two years the latter rose significantly, from HUF 2.5 billion in 2016 to HUF 10.6 billion in 2017. The Company assesses each investment property at fair value in every quarter.

The valuation method takes into account international valuation standards like cost, market comparative and income approach. Therefore the fair value of the investment properties is based on prudence. The valuation of the properties is an important element, because it is a significant part of the Company's assets and it can have a big impact on the revenue and the profit, too. The difference arising from the change in the fair value of the investment properties is accounted against the other operating income. This can be seen in the chart below.



Source: Consolidated company fillings, MKB

Considering the financial figures, EBITDA of BIF was HUF 12.7 billion in 2017 and HUF 1.57 billion in 2016, and due to the mark to market valuation the net income rose from HUF 1.4 billion in 2016 to HUF 12.9 billion in 2017. It is worth noting that the change in the fair value of the investment properties can affect the net earnings significantly, in case of an economic downturn the revaluation of the investment properties can hurt the profit. Therefore the fair valuation can be a double-edged weapon.

The property sales appear in the revenue and in the other revenue items, too. The difference between the two is that the property sales in the revenues represent the sale of lands, family houses and apartments and the sales of the development projects (related to Harsánylejtő). The property sales in the other revenue represent the gain and/or loss on the sale of the existing depreciable investment properties.

In recent years the net income has been very volatile due to the fair valuation and the property sale segment.

FFO (funds from operation) represents the true residual cash flow which is available to the shareholders through dividend. The gain from the change of the fair value of the investment properties doesn't contribute to the sustainable dividend. To get a clear picture we must deduct the gain/losses of the property revaluation from the net profit. The FFO of the Company grew significantly in 2017 after many unsuccessful years, by our calculation it reached HUF 2.3 billion last year.

Financial data

million HUF	2013	2014	2015	2016	2017
Rental income	1409,1	1391,2	1070,9	1036,9	1260,5
Parking fees	183,9	196,8	184,7	219,0	270,8
Services	254,7	219,5	209,3	216,3	225,4
Hotel and restaurant income	131,7	136,6	161,9	188,0	0,5
Property sale	136,4	247,6	1250,9	1076,5	2031,9
Other	109,7	25,5	24,1	18,2	16,3
Total revenue	**2225,6**	**2217,2**	**2901,7**	**2754,9**	**3805,6**
Fair vlaue of property	429,6	0,0	0,0	2531,9	10595,5
Gain on property sale	87,2	83,5	395,0	2403,0	0,0
Other	81,6	18,8	6,2	18,1	12,1
Other revenue	**598,5**	**102,3**	**401,2**	**4953,0**	**10607,6**
Operating Expenses	-1777,5	-2051,8	-3064,7	-6167,3	-1717,6
Operating Income (Loss)	**1046,6**	**267,7**	**238,2**	**1540,6**	**12695,6**
Interest Expense, Net	-522,4	-737,1	-141,9	-67,5	-103,0
Pretax Income (Loss)	524,2	-469,4	96,3	1473,1	12592,6
Net Income	**510,8**	**-330,5**	**59,2**	**1395,1**	**12926,5**
Sahres outstanding	25,8	25,8	25,8	25,8	25,8
EPS	19,8	-12,8	2,3	54,1	501,0
EBITDA	**1122,3**	**325,3**	**400,7**	**1572,9**	**12720,3**
Depretiation amd amortization	-75,7	-57,6	-162,5	-32,3	-24,7
EBITDA Margin	39,7%	14,0%	12,1%	20,4%	88,3%
Operating Margin	37,1%	11,5%	7,2%	20,0%	88,1%
Profit Margin	18,1%	-14,3%	1,8%	18,1%	89,7%
FFO	456,0	113,8	954,9	1256,7	2297,0
FFO yield	**5,5%**	**1,3%**	**8,4%**	**10,3%**	**4,6%**
Stock price*	320	329	439	473	1950

Source: Consolidated company fillings, MKB

** the last closing price of the year, in 2018 closing price of 28.06.2018*

Since 2008 the Company has paid its first dividend in May 2018. The dividend was HUF 94 per share except for the treasury shares. SZITs (REITs) must pay out 90 percent of their taxable income, so the Company will keep this payout ratio in the future, too.

GUIDANCE FOR 2018 AND BEYOND

According to the management, BIF focuses on four key areas in the mid-term:

- raising the occupancy rate and searching for performance improvements, like extension of the buildings, building more parking lots, utilizing synergies of the neighborhood, etc.;

- sale of the assets that don't fit in the portfolio, acquisition of new buildings/properties;
- sale of the lands of Harsánylejtő (phase II.), closing the development project of the lands;
- completion of the first phase of the Harsánylejtő development area.

There are many opportunities for the Company. BIF plans to improve some of its investment properties, develop a boutique hotel and search for new offices in the capital of Hungary. Boom has been witnessed in the office market of Hungary in the recent years, but there are still many possibilities in Budapest, because the total office space of the capital city is 3.45 million square meters, a figure much lower than that of Vienna or Warsaw.

The Company owns a parking lot in the inner city (Aranykéz Street), which will be able to operate as a parking lot for the Vigadó Palota. The Andrássy 80. is a new entity in the portfolio, the Company investigated the use of this property and the Andrássy 82, which will be a boutique hotel with ca. 90 rooms.

The BIFLOFT is a new, youthful open office near the new headquarters of the Magyar Telekom. The office can benefit from the increasing number of young and technological employees who will be present in the area. Such synergies are expected in the future, too.

The Bajcsy building is now operating as a category 'B' office, with 6,000 sqm rentable area. But in the future the building can be improved to category A with a rentable area of 25,000-30,000 sqm. This development can significantly raise the value of the investment property portfolio. The rentable area of the Florián Udvar can be raised by 1,200 sqm or in other words with more than 10 percent of the actual size.

Taking into account the above mentioned factors, the rentable area of the office buildings can grow from 28,000 sqm (43,000 sqm with the Vigadó Palota) to near 70,000 sqm by our calculation. With regard to these developments of the future we think the estimated NAV of the company is near HUF 2,150.

Estimated NAV

millions of HUF		
Estimated sqm	65.000-70.000	sqm
Estimated rent	16,96	EUR/sqm
Occupany	93%	
Estimated rental income	4 057	HUF
Yield	6,5%	p.a.
Estimated value of the investment properties	62 420	HUF
Estimated value of the other properties	9 490	HUF
Estimated value of total assets	73 910	HUF
Estimated liabilities	18 477	HUF
Estimated NAV	55 432	HUF
Shares outstanding	25,8	
NAV per share	**2 149**	**HUF**

Source: Consolidated company fillings, MKB

SHAREHOLDER'S STRUCTURE

Shareholders of the Company	
Name	**Share %**
PIÓ-21 Kft.	45.26
BFIN ASSET MANAGEMENT AG	26.3
Treasury shares	17.28
Free float	11.16
Total	100

During 1998, Budapest Ingatlan Nyrt. registered its shares for trading on the Budapest Stock Exchange. The Company currently has 25,832,200 ordinary shares.

During 2017 there were several changes in the ownership structure of the owners owning more than 5%:

- The direct ownership of PIÓ-21 Kft. grew to 45.26% (its indirect ownership is 71.56% because PIÓ-21 Kft. is the 100% owner of BFIN ASSET MANAGEMENT AG).
- The amount of Treasury shares decreased to 17.28%. The Company signed a swap deal in April with Waybridge Estates Kft., according to which the parties swapped the ownership of real estate property owned by Waybridge Estates (Andrássy Street 80) for 400,000 pieces of ordinary shares owned by the Company. After the transaction, the rate of treasury shares decreased from 18.83 % to 17.28%.
- 11.16% of the stocks are held by other shareholders, whose holdings do not exceed 5%.

A minimum free float of 25% of the shares is required and no single investor is allowed to hold directly 5% or more of the shares of a SZIT. It can be seen, that BIF has a significant amount of treasury shares, the sale of which is planned by the Company. Private investors, institutional investors, mutual funds, financial institutions can also buy shares, so the free float will reach 25% as required by the law.

PEER GROUP ANALYSIS

There are two SZITs (or SZIEs) currently traded on the BSE (Budapest Stock Exchange): BIF and Graphisoft Park. (BILK, a logistic park developer and operator, will have been trading on the stock market by Q3 2018). The third company which has real estate exposure is Appeninn, but this company doesn't operate as a SZIT. In the region there are many real estate companies, but most of them don't operate as a REIT (SZIT). We can find more REITs in the western region, mostly in Germany and in the United Kingdom.

To make a comprehensive peer group comparison we focus on sales growth, dividend yield, price to book ratio (or NAV), FFO (funds from operation) and the FFO yield. In the case of SZITs (REITs) FFO is much more important than the general items like EBITDA, net profit and the standard ratios like P/E, etc. because FFO shows the true cash flow, which is available to the shareholders through dividend.

P/BV is usable when a SZIT follows the International Financial Reporting Standards (IFRS). In this case the company marks its property to market so the P/BV is fairly close to the NAV (net asset value).

The dividend yield is an important metric, because according to the rules, the SZITs must pay out 90 percent of their taxable income as dividend to its shareholders. We focus on the dividend and the FFO ratio to conclude how much percentage of the FFO will be allocated among shareholders. In average most companies pay out 70-90 percent of their FFO as dividends.

The peer group analysis shows that the Company grew its revenue more than the competitors and by our calculation has higher FFO yield. The P/BV ratio, based on the latest available data, is higher than the peer group on average, but BIF doesn't disclose quarterly reports so we don't have an up-to-date fair value of the properties. The next fair value will be calculated in August after the half year report. But we think, due to the rapid rise of the market price of the investment properties seen in Budapest the P/BV (so the NAV) could have been decreased in the last months. In the section (*GUIDANCE FOR 2018 AND BEYOND*) we calculated an estimated NAV based on the estimated investments in the future.

The debt/equity ratio of the Company is much more conservative than the peer group average. According to the management, the capital mix won't change in the near future (25% of debt and 75% of equity).

Peer group

Company name	Currency	Country	Market cap (local currency)	Dividend yield (%)	P/BV	FFO yield (%)	3 year sales growth (%)	Price/NAV	Weight of debt (%)	FFO payout ratio (%)
BUDAPEST REAL ESTATE PLC	HUF	HUNGARY	49 339 502 000	4,95	1,50	5,04	21,32	1,50	22	104,09
GRAPHISOFT PARK SE	HUF	HUNGARY	35 190 840 940	2,78	0,65	8,61	7,97	0,60	37	35,54
IMMOFINANZ AG	EUR	AUSTRIA	2 347 065 552	6,34	0,83	3,25	-9,68	0,72	53	88,56
S IMMO AG	EUR	AUSTRIA	1 168 373 945	2,36	1,23	3,68	0,24	1,19	56	62,69
GLOBE TRADE CENTRE SA	PLN	POLAND	4 420 852 938	3,66	1,08	1,08	0,89	3,85	51	330,21
CA IMMOBILIEN ANLAGEN AG	EUR	AUSTRIA	2 847 656 244	2,82	1,10	3,97	6,36	1,08	41	69,83
ATRIUM EUROPEAN REAL ESTAT	EUR	NETHERLANDS	1 483 426 446	6,96	0,78	6,52	-3,28	0,74	39	215,14
CAPITAL PARK SA	PLN	POLAND	591 601 745		0,58	6,47	36,11	0,60	66	14,82
INVL BALTIC REAL ESTATE AB	EUR	LITHUANIA	30 508 000		0,90	4,10	38,48	0,93	40	61,79
LEG IMMOBILIEN AG	EUR	GERMANY	5 959 909 609	3,22	1,43	4,96	10,66	1,13	43	65,05
VONOVIA SE	EUR	GERMANY	21 013 241 003	3,23	1,29	4,68	28,70	0,90	48	69,54
DEUTSCHE WOHNEN SE	EUR	GERMANY	14 527 255 183	1,99	1,45	3,00	7,70	1,11	35	65,63
CPI PROPERTY GROUP SA	EUR	LUXEMBOURG	5 678 737 255		1,55	2,50	13,97	1,29	38	
GRAND CITY PROPERTIES	EUR	LUXEMBOURG	3 585 806 094	3,36	1,23	5,12	29,68	0,94	47	67,58
ADO PROPERTIES SA	EUR	GERMANY	2 036 538 000	1,32	1,13	2,67	30,45	1,01	41	48,69
GAG IMMOBILIEN AG-PRF	EUR	GERMANY	1 209 896 963	0,69	2,04	7,66	3,96	NA	68	10,44
ADLER REAL ESTATE AG	EUR	GERMANY	853 535 817		0,88	4,09	45,86	0,68	78	
WESTGRUND AG	EUR	GERMANY	664 476 258		1,29	3,69	51,92	1,15	46	
Average				3,36	1,16	4,50	17,85	1,14	47,20	87,31
Median				3,22	1,18	4,10	12,31	1,01	44,31	65,63

Source: Company fillings, Bloomberg, MKB

The Company's valuation is in line with the average and median figures of the peer group. BIF has a very low daily trading volume (ca. 1,000 shares in average in the last 30 days), so a liquidity discount must be taken into account.

VALUATION

The DCF-model is based on the FFO of the Company because this metric shows the true residual cash flow which is available to the shareholders (described in the section *VALUATION OF SZITS AND REITS*). Our DCF-model is based on the following assumptions:

- The WACC (weighted average cost of capital) is 7.5%, where the cost of equity is 8.7% and the cost of debt is 4%. The reason of the high WACC is that the Company wants to maintain a 25% debt and 75% equity capital mix. Because the cost of the equity is higher, the WACC is high, too.
- The effective tax rate is 0 percent because the Company is operating as a SZIT.
- The company didn't grow its rental income significantly in the last years. At the same time the revenue from the sale of the lands of Harsánylejtő grew to 60 percent of the total revenue. This item can be very volatile, but we think it will remain significant in the near future.
- There are a lot of performance improvements, which are described in the section *GUIDANCE FOR 2018 AND BEYOND*. To justify the forecasts, these improvements must be implemented 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	4878,2	6255,2	7523,5	6788,4	6906,2
Property related costs	-1247,2	-1366,3	-1804,9	-1430,7	-1405,5	-2110,4	-2757,4	-2875,9	-2424,4	-2468,3
Net interest costs	-522,4	-737,1	-141,9	-67,5	-103,0	-344,4	-472,1	-757,7	-750,0	-750,0
FFO	456,0	113,8	954,9	1256,7	2297,0	2423,4	3025,6	3889,9	3614,0	3687,8
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	-5771,2	423,4	-1974,4	-1110,1	2114,0	3387,8

WACC	7,5%
Growth rate	3,0%

Enterprise value	59917,0
Debt	-9300,0
Cash	1800,0
Fair value of equity	52417,0
Sahres outstanding	25,8

1 year target	2207

Source: Consolidated company fillings, MKB

Target price scenarios

		Terminal growth						
		-2%	-1%	0%	1%	2%	3%	4%
WACC	5%	1417,6	1711,0	2121,8	2737,9	3764,8	5818,5	11979,7
	6%	1153,8	1367,6	1652,8	2052,0	2650,8	3648,9	5645,0
	7%	949,9	1111,6	1319,5	1596,7	1984,9	2567,0	3537,3
	8%	787,9	913,7	1071,0	1273,2	1542,7	1920,2	2486,3
	9%	656,4	756,5	878,9	1031,8	1228,5	1490,7	1857,9
	10%	547,6	628,8	726,2	845,3	994,1	1185,5	1440,6

Source: Consolidated company fillings, MKB

OFFICE MARKET OVERVIEW

Budapest

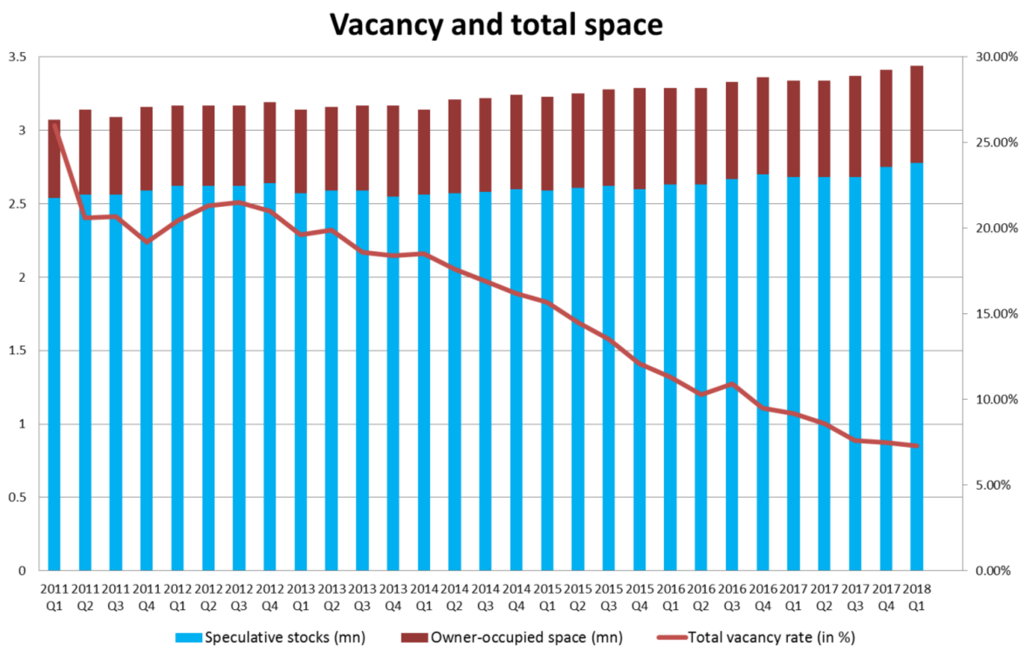
According to the Budapest Research Forum, the total modern office stock currently amounts to 3.45 mn sqm, consisting of 2.78 mn sqm category "A" and "B" office space as well as 1.66 mn sqm owner occupied space. Total demand in the first quarter of 2018 reached 91,100 sqm, representing a 36% increase year-on-year. New leases accounted for 59.4% of the total leasing activity, while renewals represented a 26.4% share.

The office market has been in a growing phase since 2012, which has accelerated further since 2014. The gradually decreasing vacancy rate is the best evidence for that: the ratio declined to 7.3% Q1 2018 from its peak of 21% in 2012.

According to CBRE, the average ask rates stood at EUR 11.4 sqm as of Q4 2017, up by 2.3% y-o-y. The registered average level amongst 'A' category buildings stagnated at EUR 14.13. Around 2012, when the vacancy was peaking, the average rents for 'A' category office space were at around EUR 11-13/sqm, down from around EUR 14-15/sqm. The rent levels for the market overall, including 'B' category offices stand at around EUR 11/sqm.

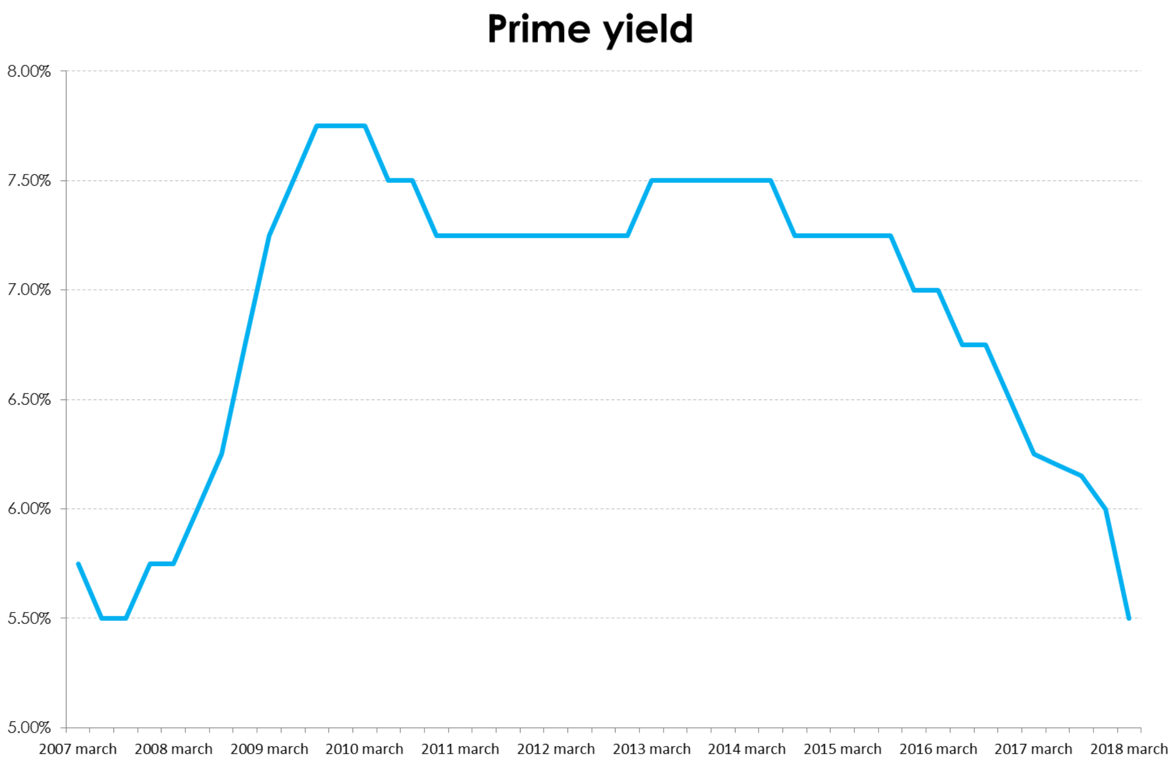
The total pipeline until the end of 2019 is approximately more than 460,000 sqm, 70% of which is expected to be handed over in 2018 with the largest share on Váci Corridor.

As visible in the chart below, the vacancy has compressed to a record-low level during Q1 2018. Compared to the developed office market, this level of vacancy may not appear particularly low. Until the end of next year a significant office space may be handed over. However, the vacancy rate may decrease further.



Source: MKB, BRF

In the spring of 2018 the prime office yields decreased to 5.5% in Hungary. This is still above the 3.75% and 5.2% quoted as the prime office yield in Vienna and Warsaw.



Source: Cushman&Wakefield, MKB

Prime yield: is a consistently achievable annual percentage income return for a well located high specification (grade A) property, long term and fully let to a strong covenant, within the predefined market area, assuming there is always existing demand and available supply. It is an indicator of the tone in the market.

Vienna

Supply of office space in Vienna amounted to 11.06 million sqm by the end of 2017. It is expected that around 280,000 sqm office space area will be completed in 2018. The population of the city is 1.8 million, while 2.6 million people are living within the metropolitan area. The existing office stock divided by the population means around 4.25 sqm modern office space per capita. Using the same calculations the result is 1.05 sqm per capita in Budapest.

The prime rental rates in 2017 were EUR 25.5/sqm in the best inner city locations and these remain unchanged compared to last year. In good office locations (inner districts) the rents have risen slightly compared to the year before, they now stand between EUR 13.5 to EUR 16.5/sqm. The rents in average or peripheral locations amounted between EUR 11 and EUR 13.5/sqm.

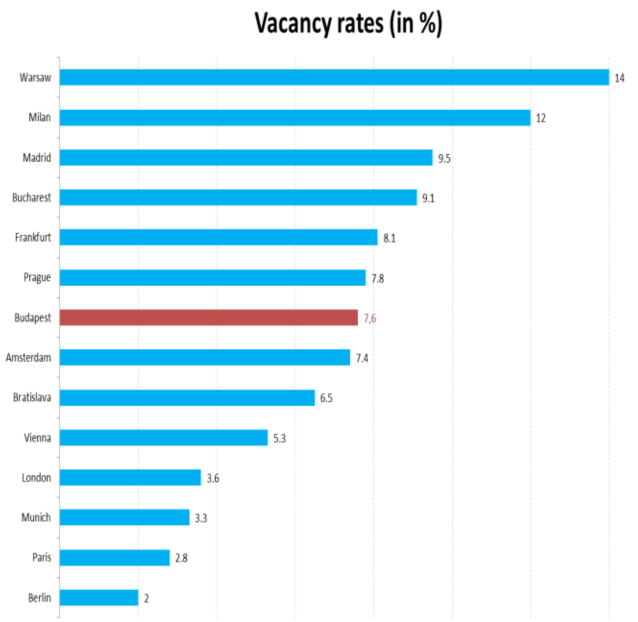
Top yields for office properties in Vienna are at 3.75%, showing a slight decline compared to 4% in 2017. A yield of about 5% could be achieved in the secondary locations, while for logistics and industrial real estate remains constant at 6.5% to 8%.

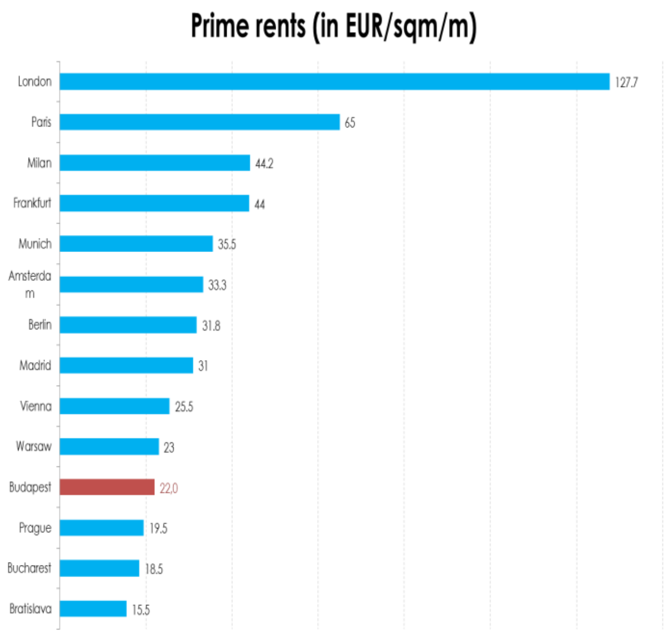
The vacancy rate has sunk to 5.3% in the first quarter of 2018. The low vacancy rate is due to the continuing high demand combined with limited completion capacity.

Warsaw

At the end of 2017 the total office stock in Warsaw exceeded 5.3mn sqm. Over the recent year 275,000 sqm was completed, there was 765,000 sqm office space under construction at the end of last year. The population of Warsaw and Budapest is the same size (1.7 and 1.8 million), while the population of the metropolitan area is estimated at around 3.1 and 3.3 million, respectively (1.7 sqm modern office space per capita in Warsaw).

Vacant office area at the end of 2017 totaled 11.7% of the total office area, which was 2.6 pp lower than in 2016. Warsaw rental situation remained stable, the asking rents in prime buildings ranged between EUR 20-23 per sqm, while asking rents in other central locations varied from EUR 13 to EUR 21 per sqm.





Source: EHL, MKB

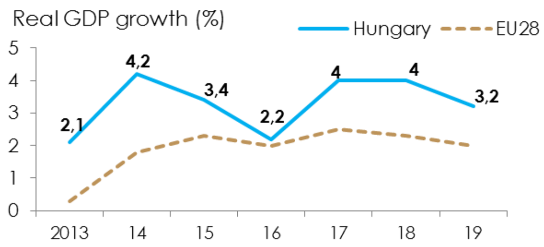
Macroeconomic outlook - Hungary

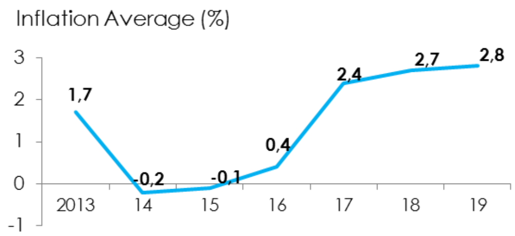
- Hungary GDP growth rate: we expect 4.0% in 2018 and 3.2% in 2019. Real GDP growth in Hungary is expected to exceed the EU28 average during the upcoming years driven by growing consumption, household financial savings and investments.
- Unemployment rate may stabilize around the current (low) level; however, labour shortage may further increase in some sectors

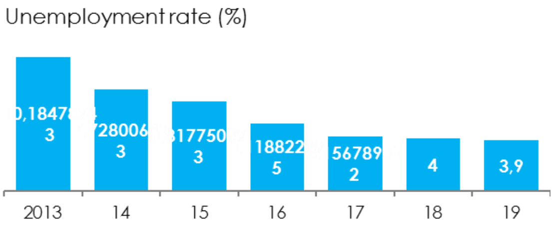
- In 2018 and 2019 inflation is likely to grow (2.7% and 2.8%, respectively) compared to 2.4% in 2017
- We expect further declining government debt-to-GDP ratio (from 73.6% in 2017 to 71.7% in 2018)
- Hungary is in investment grade with all three major credit rating agencies (Moody's, S&P, Fitch). Improving macroeconomic conditions could pave the way for further upgrades in the second half of 2018 and 2019
- Government bond yield curve could remain steep during 2018
-

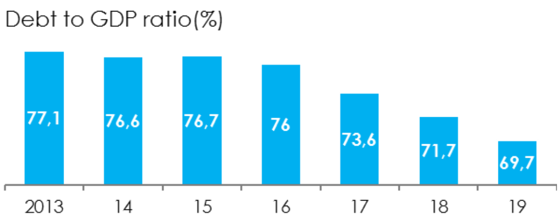
Forecast - MKB research	2018	2019
Real GDP (annual growth rate, %)	4.0	3.2
CPI (average; %)	2.7	2.8
Key policy rate (%, end of year)	0.9	0.9

Source: MKB (the forecast was last updated in April, 2018)









Source: MKB

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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.