SALE AND PURCHASE AGREEMENTS

BIF Nyrt. ("Company") has made several sale and purchase agreements in recent weeks:

On 5 May 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. In the summer of 2019, we could read about that BIF could buy the building, part of which is already owned by the Company (51%). The expert's studies noted that the building's structure is intact, but it needs serious and expensive renovation and reconstruction. At that time, the expected purchase price was between HUF 1.2 and HUF 1.6 billion, depending on the details of sale agreement, such as the leaseback of the post office which is operating in the building.

On 12 May the Company announced another 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. The sale price of the property was determined approximately at twice the amount of the registered real estate book value as per the basis of IFRS (International Financial Reporting Standards) Fair Value Modeling in IAS-40. The latter is irrelevant from the DCF model point of view because the balance sheet does not give exact answer to the registered value, so we must calculate the estimated sale price on our own.

ABOUT THE PROPERTIES

As we mentioned above the structure of the property located at 1101 Budapest, Üllői street 114-116 is intact but it needs serious renovation and reconstruction. The buying agreement contains four buildings and a parking lot for approximately 90-100 cars. At the time of writing, the buildings are empty. Currently we do not know the exact plan of the management with regards to the building, but there could be several exploitation strategies, like office, student apartment, hotel, or worker's hostel to name a few. However, there can be large differences in the profitability of each strategy, so our DCF model is able to take into consideration the expected cash flow from the property only with a high error rate. Furthermore, we think the purchase price was lower than what has been circulating for the past year. We asses that the building will be able to operate from 2023 or 2024.

Fenyőharaszt Kastélyszálló is a 4-star hotel at the foot of the Cserhát, furnished with authentic furniture, with 26 double rooms and 4 apartments for 3 people. 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 and was operated by a third party or a fee. Now the building is also on the sale. The expected date of the closure of the transaction at the latest is 12.07.2020. So, from the closure date we cannot take into account the cash flow from the lease of the property, but this amount was not significant. On the other side, the Company receives a one-time large sum. This transaction can also be considered as a swap of a lower profitability item to a higher one.

TARGET PRICE REVIEW

To take consideration of the above and the recent changes in the risk-free rates, equity risk premiums, sector betas, long-term growth rates and the changes in the Company's net debt, our new one-year target price is HUF 345.

DCF valuation

millions of HUF	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E	2023E	2024E
Total income	2225,6	2217,2	2901,7	2754,9	3805,6	3792,0	5288,3	7090,2	10741,1	12407,3	10491,0	12399,9
Property related costs	-1247,2	-1366,3	-1804,9	-1430,7	-1341,3	-2335,4	-2616,1	-3545,1	-5370,5	-4962,9	-4196,4	-4960,0
Net interest costs	-522,4	-737,1	-141,9	-67,5	-103,0	-254,8	-190,5	-507,9	-500,0	-500,0	-500,0	-500,0
FFO	691,2	176,6	1100,3	1288,5	2385,5	1352,6	2511,3	2915,0	4996,9	5774,8	5168,1	6279,8
CAPEX	-299,5	-45,4	0,0	-805,8	-8068,2	-680,9	-3000,0	-10105,6	-4000,0	-3000,0	-4000,0	-1750,0
AFFO	391,7	131,1	1100,3	482,7	-5682,7	671,7	-488,7	-7190,6	996,9	2774,8	1168,1	4529,8

WACC	6,0%
Growth rate	2,5%

Enterprise value	99940,5
Debt	-16133,0
Cash	8831,4
Fair value of equity	92638,9
Shares outstanding	287,024

1 year target	345

Source: Consolidated company fillings, MKB

Target price scenarios

		Terminal growth						
		-2%	**-1%**	**0%**	**1%**	**2%**	**3%**	**4%**
WACC	**5%**	147	180	226	295	411	642	1335
	6%	116	140	172	216	283	394	617
	7%	93	110	133	164	207	271	378
	8%	74	88	105	127	157	198	260
	9%	59	70	83	100	121	150	189
	10%	47	56	66	79	95	116	143

Source: Consolidated company fillings, MKB

Analyst:

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

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 and the latest acquisition justified the update of our model. Our new price target is HUF 345 which is 4% higher the previous price target published on 4 April 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.