EQUITY NOTE: ZWACK UNICUM

Recommendation: HOLD (unchanged)

Target price (12M): HUF 17,054 (revised)

27 May 2021

Equity Analyst:
Orsolya Rátkai

Phone:
+36 1 374 7270

Email:
ratkaio@otpbank.hu

We revised slightly down our 12M target price to HUF 17,054 from the previous TP of 17,083 HUF/share for Zwack Unicum (Zwack HB; ZWCG.BU).

As Zwack showed resilience in terms of revenues in January-March 2021 again, we revised slightly up our sales forecast for the coming years. The restrictions introduced last November – e.g. night curfew, and the prohibition of the on-site consumption – hit bars and restaurants again, and affected the whole calendar Q1 as Hungary slid into the third wave of pandemic from February. Vanishing on-trade sales however did not hammer down Zwack's revenues as they had done during last year's lockdown: strong consumer demand generated considerable growth in the retail segment even after a price increase from 1 January 2021 (early purchases supported revenue growth in October-December 2020, as one-off effect).

With mass immunisation at elevated level and reopening already having started, the outlook for economic recovery has improved. Q2 and Q3 are expected to witness considerable rebound as more and more industries contribute to the aggregate economic growth.

However, uncertainties for the short-term outlook are still high as the pandemic may still deliver surprises – this adds downside risks to our forecast. With this level of immunisation, Hungary's tourism & restaurant industry is expected to recover quickly (unspent cafeteria plan benefits also support demand) and Zwack will gain from this development.

Regarding profitability issues, Zwack had to tackle growing raw material costs due to weaker HUF. The recent change in the monetary stance of the MNB, who flagged the possibility of a future rate hike, could stop the long depreciation trend of the HUF. As a consequence, the expenses of imported raw materials may decrease, but at the same time, the strengthening HUF stops supporting Zwack's HUF-denominated export performance. Strengthening wage dynamics may also pose a risk to maintaining the usual profitability level.

We expect EBIT to increase to HUF 2.0bn in the current business year (1 April 2020 – 31 March 2022) from 1.8bn in 2020/2021. EPS is expected to increase to 743 HUF/share in 2021/2022 and HUF 924 in 2022/2023 from the previous year’s HUF 706. Changes in our yield forecast had a downside effect on the discounted cash flows.

Our current target price is 4.0% higher than the HUF 16,400 closing price on 26 May 2021, the day Zwack's earnings report was released. Expected total return is 8.0% on a 12-month horizon, supposing that dividend payment for the current business year also befalls in the next 12 months. We assumed 50% payout ratio from last year's profit.

Zwack Unicum's shares gained 2.5% yesterday, the day its earnings report was released, and the BUX added 1.3%. In terms of YTD performance, Zwack stands at -2.4% trading in the HUF 16,000–17,000 range, while the BUX index climbed 10.3% higher.

Summary/Earnings Highlights

- Zwack reported higher-than-expected HUF 2.1bn net sales revenue in January-March 2021. Top-line growth was 2.0% YoY, but revenues slumped 60% QoQ in due to seasonality.
- Domestic sales revenues rose by 1.4% YoY in a tough period when lockdowns hit again the catering industry throughout the quarter compared to the base period when the covid restrictions affected the bars and restaurants only partially.
- While the on-trade sale practically vanished during January-March 2021 as third wave of covid swept Hungary, domestic retail trade remained strong, especially in March.
- Export revenues in HUF terms gained 5% YoY, while on a quarterly basis, export sales have halved. The FX-effect had a significant role in HUF-denominated YoY export growth.
- Profitability was a mixed picture in the past quarter with HUF 1.3bn gross profit and 60% gross profit rate in line with our expectation, while negative EBIT has doubled and negative EBITDA has tripled YoY. Quarterly EPS fell to -HUF 203, after registering HUF -132 EPS one year before.
- In the past business year (FY 2020/2021), 4Q cumulated net sales revenues dropped 6% YoY with domestic revenues shrinking 7% and export losing 2%. Due to HUF-depreciation during the year (EUR/HUF climbed almost 7% YoY when comparing yearly averages) export sales' decline without FX-adjustment was even sharper.
- We maintain our domestic sales forecast and slightly revised up the forecast on export revenues in line with recent expectations of consumption growth in the EU and earnings releases of Zwack's European peers. Our updated model also reflects the significant rise in yields from January 2021. In the current business year, we expect net sales revenues to climb to HUF 14.2bn representing 9% top-line growth while bottom-line growth is estimated at 5%. The EPS of the current FY is expected to rise to HUF 743.
- The new HUF 17,054 target price reflects our expectations for the next 12 months, although risks related to new covid variants still lingers. We maintain our HOLD recommendation and we note that if Zwack maintains its regular payment, and dividend payout for the current business year will not be postponed to the next one, then shareholders may get dividends of two business years in 12 months' time.
- On May 26, 2021 Zwack released the invitation for its AGM scheduled to June 30, 2021. The AGM proposals are yet to be announced.

Financial highlights of Zwack's FQ4 2020 earnings report

Financial Q4 (HUFm)	Jan-Mar 2021	Jan-Mar 2020	YoY Change
Domestic sales	1 761	1 737	1%
Export sales	381	362	5%
Net sales income	**2 142**	**2 099**	**2%**
Material-type costs	861	802	7%
Gross profit	**1 281**	**1 297**	**-1%**
Employee benefits	827	669	24%
Depreciation	166	130	28%
Other operating expenses	813	774	5%
Total operating expenditures	**1 806**	**1 573**	**15%**
Other incomes	59	54	9%
EBIT	**-466**	**-222**	**110%**
EBITDA	**-300**	**-92**	**226%**
Pre-tax profit	**-463**	**-207**	**124%**
Tax	-49	61	-180%
After-tax profit	**-414**	**-268**	**54%**

Financial Q4 (HUFm)	Jan-Mar 2021	Jan-Mar 2020	YoY Change
EPS (HUF)	**-203**	**-132**	**54%**
4Q-rolling EPS (HUF)	**705**	**833**	**-15%**
Gross profit rate	**59.8%**	**61.8%**	**2.0 pp**
Operating profit rate	**-21.8%**	**-10.6%**	**-11.2 pp**
EBITDA rate	**-14.0%**	**-4.4%**	**-9.6 pp**
ROE	**-4.2%**	**-4.2%**	**-1.5 pp**
4Q-rolling ROE	**25.6%**	**25.6%**	**-3.8 pp**
ROA	**-2.2%**	**-2.2%**	**-0.6 pp**
4Q-rolling ROA	**14.7%**	**14.7%**	**-3.2 pp**

Sources: Zwack Unicum, OTP Research

Sales performance was resilient. Zwack reported higher-than-expected HUF 2.1bn net sales revenue in January-March 2021. Top-line growth was 2.0% YoY, but revenues slumped 60% QoQ in the quarter that is seasonally characterized by modest revenues.

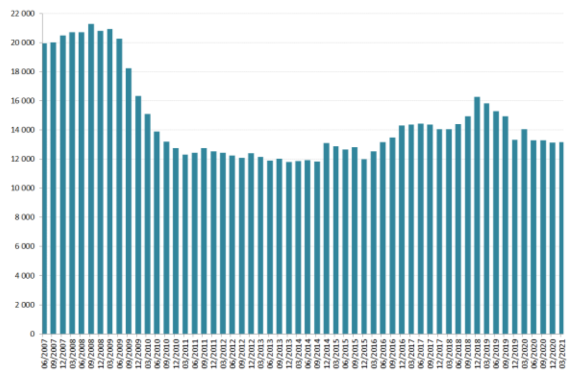
Domestic sales revenues increased by 1.4% YoY in a tough period when the lockdown hit the catering industry throughout the quarter, while in the base period pandemic restrictions affected bars and restaurants only partially. Zwack raised prices from 1 January, 2021, which supported sales in the previous quarter through early purchases by partners but was expected to set back revenues in Q1.

While on-trade sale practically vanished during January-March 2021 as the third wave of covid swept through Europe, domestic retail trade remained strong, particularly in March, Zwack said. The past quarter's market research data also confirm strong demand in the market of distilled beverages.

Export revenues in HUF terms gained 5% YoY, while on a quarterly basis, export sales have halved. Exports to Germany grew considerably in the January-March period, offsetting the decline of sales to Italy and the nosediving duty-free sales as pandemic-related restrictions curbed international tourism. FX effect had a main role in HUF-denominated export growth as the EUR/HUF increased by 6.5% YoY when comparing quarterly averages.

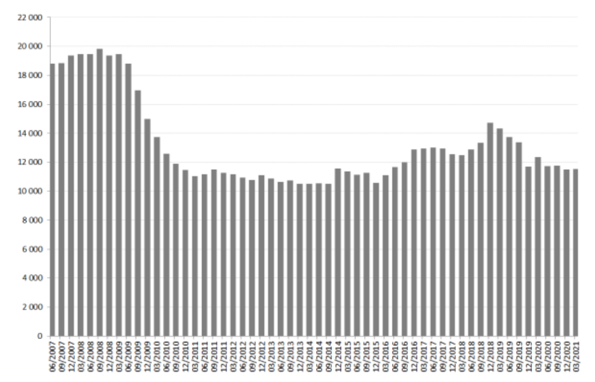
In the past business year (FY 2020/2021), 4Q cumulated net sales revenue dropped by 6% YoY, with domestic revenues shrinking 7% and exports losing 2%. Due to the HUF's depreciation during the year (the EUR/HUF climbed almost 7% YoY when comparing yearly averages), export sales' decline in FX terms was even sharper.

12M total net sales revenues (HUFm)



Sources: Zwack Unicum, OTP Research

12M domestic net sales revenues (HUFm)



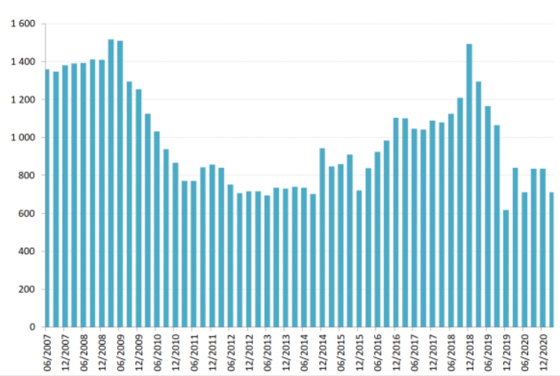
Sources: Zwack Unicum, OTP Research

Profitability was a mixed picture in the past quarter: the HUF 1.3bn gross profit and 60% gross profit rate was in line with our expectation, while negative EBIT has doubled and negative EBITDA tripled YoY. Material-type costs shaved off almost 40% of total net sales, the same as in normal times, even though raw material costs increased by 7% in yearly comparison. The HUF's weakening made imported raw materials more expensive, the company said.

Payroll expenses also dented quarterly profitability, with 24% YoY increase as wage dynamics further strengthened in the manufacturing industry. With higher depreciation due to accounting changes and higher other costs, EBIT fell to HUF -466m, from HUF -222m a year earlier.

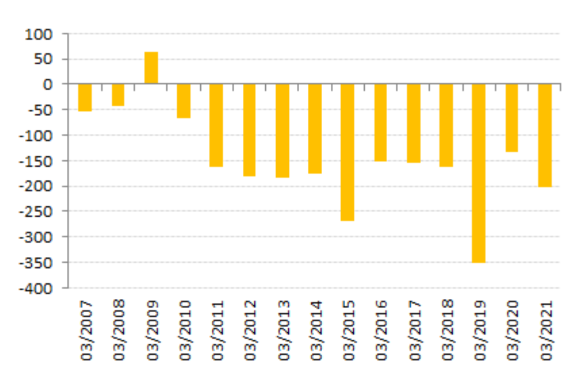
With the negative tax burden, after-tax loss moderated to HUF 414m compared to the pre-tax loss of HUF 463m. Quarterly EPS fell to -HUF 203, after registering HUF -132 EPS a year earlier. 12M-trailing EPS dropped to 705 HUF/share, the third lowest value in five years.

12M-trailing EPS was below the long-term average in the past few quarters (HUF)



Source: Zwack Unicum, OTP Research

Quarterly EPS in the past individual FQ4s (January-March periods)



Source: Zwack Unicum

Comments

- Zwack reported better-than-expected sales figures for January-March 2021, even as the covid restrictions were still in force in the first quarter of the calendar, which practically undermined the hospitality sector in Hungary. Although restrictions were similar to the lockdown in spring 2020 in terms of effects on bars and restaurants and Zwack's on-trade sales, the company ended the past quarter with stronger sales performance than in April-July last year.
- Consumer demand in the spirits' market showed resilience in the second half of 2020, after a temporary slowdown in April-June. The retail market of distilled beverages expanded by 8.2% in real terms and by about 13% YoY in current prices, market survey data for the April 2020 – March 2021 period show, after 4.7% real term and 9% nominal term growth in April-December.
- The QoQ plunge was usual at this time of the year, but Zwack managed to raise revenues YoY despite heavy early stockpiling due to the pandemic in the base period. On the other hand, the lack of on-trade sales, tourism demand and other restrictions in effect throughout this period hindered the recovery of Zwack's sales performance.
- The fact that immunisation reached an elevated level in Hungary and the steady easing of the restrictions are drastically changing the outlook, and help the battered hospitality and other service industries to recover, starting from the second half of calendar Q2 2021. Strong and pent-up demand is also supported by employees' yet unspent cafeteria plan benefits.
- Nevertheless, some uncertainty still lingers around the economic recovery in short- and medium-term. The pandemic has not ended, and it may have a longer-term effect on consumer demand. Future local and/or periodic lockdowns are not out of the question; higher unemployment and CPI, as well as more cautious consumer behaviour also add to downside risks.

Valuation

- We revised slightly up our revenue forecast to HUF 14.2bn in the current financial year (2021/2022) and to HUF 15.3bn in 2022/2023. We maintain our previous view that Zwack will definitely benefit from the quick recovery of domestic tourism and restaurant businesses. Besides, EU export markets also show signs of recovery as the latest earnings report of Zwack's European peers confirm. The return of international tourism and thus the revival of the duty-free segment would be the icing on the cake regarding Zwack's export sales.
- However, our forecast still bears some downside risks in terms of future sales growth as the emergence of new covid variants may undermine the ongoing recovery.
- With the Hungarian economy returning to the path of recovery, and inflation coming to the fore, the MNB recently flagged the possibility of June base rate

hike. That could stop the long depreciation trend of the HUF that has characterized the market. The tightening of monetary conditions may cause gradual HUF strengthening or sideways moves in the HUF, after one single step of appreciation. As a consequence, the strengthening HUF stops supporting Zwack's HUF-denominated export performance, while on the cost side it will have the opposite effect.

- Our estimate for the current and next business year's EBIT stands at HUF 2.0bn and 2.4bn, while EPS is expected to increase to 743 HUF/share (FY 2022/2021) and 924 HUF/share (FY 2023/2022).
- We revised slightly down our target price to 17,054 HUF/share from the previous 17,083 HUF/share. We modified the discount rate in our valuation models in line with the yield curve increase experienced this year. Accordingly, our DCF (FCFE) model indicates 17,394 HUF/share 12M target price, while the valuation from DDM reflecting future dividend payments suggests 16,969 HUF/share 12-month target price. In our DDM we assumed 50% theoretical payout ratio and HUF 353 DPS for the past business year (FY 2021/2020).
- Our target price of 17,054 HUF/share is 4.0% higher than the HUF 16,400 closing price on 26 May 2021, the day Zwack's quarterly earnings report was released. The 12-month estimated total return would be 8%.
- We maintain the previous HOLD recommendation.

Deduction of 12M TP

Zwack's valuation (HUFm)	Base Year 2019/2020	2020/2021	2021/2022*	2022/2023*	2023/2024*	2024/2025*	2025/2026*	FCFE in the explicit period
FCFE	2 264	2 818	-1 103	1 934	2 563	2 782	2 746	
Discount factor	0,92	0,92	0,91	0,91	0,90	0,90	0,90	
DCF	2 076	2 578	-1 002	1 591	1 905	1 860	1 652	6 005
Terminal Value (HUFm)								39 980
Net Present Value - FCFE (HUFm)								29 956
Net debt								-2 208
Equity value (HUFm)								32 164
Number of shares								2 035 000
Expected return on equity								10,0%
12M Target price (DCF)								17 394
12M Target price (DDM)								16 969
12M Weighted Target price (HUF) - Dec 31, 2021								**17 054**
Current price								16 400
Upside/Downside								4,0%
TR Upside/Downside								8,0%

Source: OTP Research

Profit & Loss Statement (HUF m)	2018/2019	2019/2020	2020/2021	2021/2022F	2022/2023F	2023/2024F
Domestic net sales	14 238	12 281	11 442	12 477	13 658	14 068
Export sales	1 501	1 679	1 641	1 740	1 571	1 645
Net sales income	15 739	13 960	13 083	14 217	15 230	15 713
Material-type costs	5 723	5 287	5 149	5 545	5 795	5 963
Gross profit	10 016	8 673	7 934	8 672	9 434	9 750
Total operating expenditures	7 355	6 965	6 509	7 102	7 564	7 686
EBIT	3 079	2 169	1 787	1 982	2 418	2 648
Pre-tax profit	3 310	2 184	1 780	1 963	2 441	2 629
Tax	460	488	344	452	561	605
Profit after tax	2 850	1 696	1 436	1 512	1 880	2 024
Dividend	2 442	611	718	756	1 692	1 822
EPS (HUF)	1 288	833	706	743	924	995
DPS (HUF)	1 200	300	353	371	831	895

Balance sheet (HUFm)	2018/2019	2019/2020F	2020/2021F	2021/2022F	2022/2023	2021/2022F
Property, plant, equipment	3 330	3 336	3 442	3 513	3 477	3 443
Intangible assets	84	102	85	83	75	100
Non-current assets	3 582	3 585	3 652	3 766	3 729	3 727
Inventories	2 386	2 661	2 800	3 002	3 282	2 775
Recievables and other current assets	2 115	3 007	2 617	3 396	2 923	3 292
Cash and cash equivalents	3 064	2 709	3 989	2 785	2 991	2 830
Current assets	7 565	8 377	9 406	8 527	9 159	9 035
TOTAL ASSETS	**11 147**	**11 962**	**13 058**	**12 294**	**12 888**	**12 762**
Share capital	2 000	2 000	2 000	2 000	2 000	2 000
Capital reserve	165	165	165	165	165	165
Retained earnings	4 915	4 011	4 847	4 151	4 996	4 344
Total Equity	**7 080**	**6 176**	**7 012**	**6 316**	**7 161**	**6 509**
Long-term loans and other liabilities	472	453	531	400	384	369
Non-current liabilities	472	453	531	400	384	369
Loans and credits	0	1 250	1 250	1 250	220	220
Payables and other short-term liabilities	3 567	4 071	4 255	4 253	5 049	5 583
Current Liabilities	3 595	5 333	5 515	5 577	5 342	5 885
TOTAL EQUITY AND LIABILITIES	**11 147**	**11 962**	**13 058**	**12 294**	**12 887**	**12 762**

CONSOLIDATED CASH FLOW (HUFm)	2018/2019F	2019/2020F	2020/2021F	2021/2022F	2022/2023F	2023/2024F
EBITDA	3 643	2 646	2 311	2 589	3 101	3 308
Cash flow from operation	3 215	1 482	3 414	-388	3 567	3 220
Cash flow from investment	-655	-480	-591	-701	-605	-659
FCFF	2 560	1 002	2 823	-1 089	2 963	2 561
FCFE	2 563	2 264	2 818	-1 103	1 934	2 563

Sources: Zwack Unicum, OTP Research

Risks surrounding Zwack's economic activity

Covid-effect: Although Zwack operates in the non-cyclical consumer sector, a considerable part of demand for Zwack products comes from the catering and event business, the sectors that took the biggest hit from covid-19. While the pandemic had a positive effect on Zwack's sales performance in the January-March 2020 period, April 2020 sales plunged. With restrictions lifted, Zwack's revenues showed quick recovery in Q3, but September was also somewhat depressed in the wake of the second wave of pandemic. With on-site consumption prohibited and night curfew introduced, the new restrictions implemented in November added a further blow to the restaurant industry. Zwack lost a considerable part of its on-trade revenue in the last two quarters of FY 2021/2020 while in terms of export, duty-free sales also plunged due to very subdued air travels. With mass immunisation at elevated level by May 2021 and reopening already having started, the outlook for economic recovery has improved. Q2 and Q3 2021 are expected to witness considerable rebound as more and more industries contribute to the aggregate economic growth. The hospitality sector is expected to revive and Zwack may easily be one of the recovery's beneficiaries. However, the pop-up of new covid variants may endanger the expected and persistent recovery and pose considerable downside risks to our forecast.

Regulatory risk: In recent years, regulatory changes in the industry caused headwinds to the company's profitability. The most notable was the liberalization of spirit distillation at home in small quantities in 2010. The EU lately expressed criticism of discriminative taxing policy of spirits in Hungary and threatened to start infringement process against Hungary. The latest regulatory changes (increase of NETA), which took effect on 1 January 2019, were aimed to resolve this conflict with the EU and increase budget revenues at the same time.

In the summer, the EU's decision-making body modified the initiative on the taxation of home-distillery of 'palinka'. According to the new regulation, every citizen of full age in the EU is entitled to distil tax-free 86 litres of fruit spirits a year. Hungary will introduce the new regulation from 1 January 2021.

Exchange-rate risk: As the company operates in foreign markets as well, and the share of exports among revenues is increasing, in case of HUF appreciation, the exchange rate risk can be an issue, if not managed properly. The HUF's weakening poses more risk on the cost side, as most of Zwack's raw material prices are EUR-denominated, so a significant depreciation of the HUF against the EUR could weigh on the company's profitability. That can be counterbalanced to a certain extent by the higher export revenue in HUF.

Cost-inflation risk: Due to the improving economic conditions and labour shortages in various industries, real wages started to increase significantly in 2016 and kept rising since then. With the imminent and fast post-covid recovery of the Hungarian economy, the unemployment accumulated due to the pandemic may get absorbed very quickly, and result in tight labour market. This will further strengthen wage dynamics, which did not really lose steam even in the period hit by the pandemic. Further increasing payroll expenses may dent profitability again.

Notes:

The initiation report, which contains the assumptions of the models used, is available here.

The valuation methodology used in this present equity research note to determine our price targets and recommendations is available here. (Also available in Hungarian)

This investment recommendation has not used proprietary models.

The risk warning, which includes the adequate explanations of the length of time of the investment to which the recommendation relates as well as a sensitivity analysis of the assumptions, is indicated in the part of this recommendation where the length of time and the risks of the investment are presented.

Any information relating to the date and time for the price mentioned in this recommendation is revealed in the part of the recommendation where the given price is indicated.

OTP Bank Plc's recommendations and price targets history for Zwack Unicum in the past twelve months:

Period	Recommendation	% of recommendations
Q1 2020	BUY	0
	HOLD	100
	SELL	0
Q2 2020	BUY	0
	HOLD	100
	SELL	0
Q3 2020	BUY	0
	HOLD	100
	SELL	0
Q4 2020	BUY	0
	HOLD	100
	SELL	0

Date	Recommendation	Target Price	Publication
21/05/2020	HOLD	HUF 15,214	Quarterly Earnings Update
05/06/2020	HOLD	HUF 15,214	News Comment
10/06/2020	HOLD	HUF 15,214	News Comment
07/08/2020	HOLD	HUF 15,407	Quarterly Earnings Update
15/12/2020	HOLD	HUF 17,083	Quarterly Earnings Update
05/02/2021	HOLD	HUF 17,083	Quarterly Earnings Update
27/05/2021	HOLD	HUF 17,054	Quarterly Earnings Update

The list of all recommendations made in the past 12 months is available here.

Disclaimer 1

This research/commentary was prepared by the assignment of the Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement that was concluded by and between BSE and OTP Bank Plc (registered seat: H-1051 Budapest, Nádor utca 16., Hungary, company registration number: 01-10-041585, hereinafter: OTP Bank or Investment Service Provider).

The BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/disseminate it without amending its content.

This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.

Disclaimer 2

1. Pursuant to the Commission-delegated regulation 2017/565/EU of the European Parliament, the content of this document shall be considered as an investment research, which recommends or suggests an investment strategy, explicitly or implicitly concerning one or more financial instruments or the issuers of financial instruments, including any opinion as to the present or future value or price of such instruments. The statements in this investment research contain objective or independent explanation. Furthermore, pursuant to Directive 2014/65/EU of the European Parliament and of the Council, this document shall be considered as investment recommendation. This document does not take into account investors' individual interests, circumstances, or objectives; therefore, in the absence of personal recommendation, it shall not be considered as an investment advice.
   OTP Bank intends to make this document available to its clients or to the public, or to make it accessible to other persons in a way that allows this document to be disseminated to the public.

2. Information herein reflects the market situation at the time of writing. It provides only momentary information and may change as market conditions and circumstances develop. Additional information may be available on request. Where a figure relates to a period on or before the date of communication, the figure relates to the past and indicates a historic data. Past performance is not a reliable indicator of future results and shall be not treated as such. OTP Bank makes no representation or warranty, express or implied, is made regarding future performance of any financial instrument mentioned in this communication. OTP Bank shall have no liability for the information contained in this for any loss or damage whether direct, indirect, financial, economic, or consequential, whether or not caused by the negligent act or omission of OTP Bank, provided that such limitation of liability shall not apply to any liability which cannot be excluded or limited under the applicable law.

3. The issuer of this report does not claim that the information presented herein is perfectly accurate or complete. However it is based on sources available to the public and widely believed to be reliable. Also the opinions and estimates presented herein reflect a professional subjective judgment at the original date of publication and are therefore subject to change thereafter without notice. Furthermore there can be no guarantees that any market developments will unfold as forecasted. Opinions and estimates constitute our judgment and are subject to change without notice.

4. The issuer(s) of the product(s) mentioned in this document do not hold more than 5% of OTP Bank's registered capital. OTP Bank is a market maker of the financial instrument that is discussed in this document. Neither was OTP Bank a lead-manager (organizer) or joint lead manager (organizer) of any public placement of the issuer's financial instruments (e.g. securities) in the previous 12 months. Regarding investment services defined in Sections A and B of Annex 1 of Directive 2014/65/EU, OTP Bank is not a party of the agreement with the issuer. OTP Bank maintains a conflict of interest policy and it keeps such records, and is has requirements that regulate the transmission of bank secrets and securities secrets, which requirements shall be considered as the effective internal organizational and management solutions as well as information barriers to prevent or manage conflicts of interest. The remuneration of the person(s) participating in preparing the recommendation is not directly related to the transactions carried out as part of the investment services specified in Sections A and B of Annex 1 of Directive 2014/65/EU, or to transactions carried out by them or by other legal entities of the same group or to trading fees that they or another legal person of the same group receive. OTP Bank does not hold net long or short positions that exceed 0.5% threshold of the issuer's total registered capital.

5. OTP Bank has developed appropriate internal procedures for (i) the personal transactions and tradings of financial analysts and other relevant persons, (ii) the physical separation of the financial analysts involved in the production of investment research and other relevant persons; moreover, information barriers have been implemented, (iii) for accepting and managing incentives and remuneration.

6. This communication does not contain a comprehensive analysis of the described issues; it is only for information purposes. No part, chapter, or the entirety of this information shall be considered as investment advice, not even if any part of this document contains a description of a certain financial instrument in terms of its possible price or yield development, and the related investment options. This information shall not be considered as legal, tax or accounting advice.

7. This information reflects the market situation at the time when the document was prepared. You may request more information from OTP Bank. This document was prepared based on publicly accessible information made available to OTP Bank from one or more sources. This document was prepared using data, facts and information from the following essential sources: Bloomberg, Reuters, Hungarian Central Statistical Office, Eurostat, Magyar Nemzeti Bank (Hungary's central bank), and European Central Bank (ECB). Although the information in this document has been prepared in good faith from sources that OTP Bank believes to be reliable, we do not represent or warrant its accuracy or completeness. This document represents the opinion and estimations of analysts at OTP Research, based on publicly available data. You may receive different recommendation from the staff of OTP Bank, in particular if you are provided investment advice based on an investment advice agreement. The content of this document is based on the opinion of OTP Research's analyst at the time when the document was prepared, and they may be subject to change at any time in the future without further notice.

8. Please be informed that, irrespective of the statements of this investment research, OTP Bank is entitled to deal or trade as market maker, acting in good faith and in accordance with the usual way of market-making, with the financial instruments distributed by the issuer(s) specified in this document, as well as to provide other investment activities or ancillary (investment) services, and/or other financial or ancillary financial services to the issuer and other persons.

9. This document shall not be a basis for any further analysis in relation to the financial instruments contained therein. Any reference in this document to the future distribution of a financial instrument shall be construed as indicative, preliminary and informative, and any analysis of such financial instrument is exclusively based on publicly available information listed in the respective prospectus or announcement. The content of this document shall not imply that OTP Bank acts as an agent, a fiduciary, or an advisor to, or on behalf on, any prospective purchaser of the financial instruments discussed herein.

10. For certain persons, access to the products and/or services discussed in this document may not be granted, or it may be limited. The act of preparing this document by OTP Bank, its uploading to the website, its publication may under no circumstances be considered as OTP Bank's intention to make available product and/or service information in the prospectus to persons whom any country or state prohibits from having or obtaining the given product and/or service, including the promotion and the advertisement thereof. This communication and any of the financial instruments and information contained herein are not intended for the use of private investors in the UK and US. OTP Bank is not allowed to provide direct investment services to US investors. Any individual decision or investment made based on this publication is made solely at the risk of the client and OTP Bank shall not be held responsible for the success of the investment decisions or for attaining the Client's target.

11. This publication contains generic presentation of information and knowledge, thus it does not take into account the individual clients' unique and special interests, financial condition, or their ability and willingness to take risks. Therefore please contact our staff or contact your banking consultant for advice before you make an investment decision. The assessment and the consideration of the individual circumstances is provided by the suitability and compliance tests that assess clients' financial knowledge, experience, risk-taking abilities, as well as the examination of the target market.

12. Before making an informed decision to invest and to use the services, please carefully read through all documents, including the documentation, prospectus, regulations, terms and conditions, announcements and key information documents for that product/service, and carefully consider the subject, the risk, the fees and costs of your investment, the possibility of any loss, and seek information about the tax regulations regarding the product and the investment. The prices of financial instruments and securities are changing, outrights sales are realized at then current market prices, which may involve losses.
    The information and opinions in this document do not substitute or take the place of the issuance documentation for the given financial assets (e.g. prospectus, fund management rules), or their brochures or announcements.

13. You assume total responsibility and risk for any specific decision or investment; OTP Bank shall not be held responsible for the effectiveness of investment decisions or for reaching your purpose, nor for the individual investment decision made based on this document or any part thereof, or for their consequences.
    Investments in financial instruments carry a certain degree of risk, which may affect the effectiveness of the investment decision, and investors may not receive the whole amount they had expected the investment to yield in their investment targets; they may not preserve even the invested amount, therefore the invested capital might even decrease, be wholly lost, or even lead to additional payment obligation.

14. Trading with leveraged products (such as foreign exchange contracts, or shares and indices that have underlying products) carries a considerable amount of risk, and these products are not suitable for all investors. Trading with leveraged products carries the risk of losing all capital, and it may incur losses that exceed the amount invested.

15. **The figures and information described herein refer to the past, and past performance is not a reliable indicator of future yields, changes, or performance.**

    The changes on money and capital markets, the fluctuation of prices, the development of investments and their yields are influenced by the combined effect of multiple factors; one important factor of them is the change in investors' expectations. **The development of prices, the future yield of financial assets, indices or indicators, the examination of their changes, trends, and future performance is based on estimations and forecasts, which forecasts do not allow reliable conclusions to be drawn about the future moves of prices, real future yields, changes, or performance.** For each product and service, please assess their tax accounting implications, and other tax consequences, taking into account that they cannot be precisely assessed without knowing the effective tax regulations of the client's individual circumstances; and these legislative provisions as well as the circumstances may change over time.

16. OTP Bank reserves the right to modify this document in the future, without prior notice.
The planned frequency of updates to the recommendation is quarterly. The initiation report preceding this research was published on 18 December 2017.

17. OTP Bank (business registration number: 01-10-041-585; registered seat: Nádor utca 16., Budapest H-1051, Hungary; authorised by Magyar Nemzeti Bank (former supervisory authority: Hungarian Financial Supervisory Authority, 'PSZÁF'). Supervisory authority: Magyar Nemzeti Bank (National Bank of Hungary – H-1054 Budapest, Szabadság tér 9); financial customer services: H-1013 Budapest, Krisztina krt. 39. The terms and conditions of this equity research and disclaimer shall be governed by and construed in accordance with Hungarian law.

18. Please note that the Internet is not a secure environment and OTP Bank does not accept any liability for any loss caused by the result of using this report in a form altered or delayed by the wilful or accidental interception, corruption or virus infection.

19. OTP Bank, in compliance with the applicable law, assumes no responsibility, obligation, warranty or guarantee whatsoever for any direct or indirect damage (including losses arising from investments), or for the costs or expenses, detrimental legal consequences or other sanctions (including punitive and consequential damage) sustained by any natural or legal person as a result of the purchase or sale of financial instruments or engaging investment services described herein, even if OTP Bank was warned of the possibility of such occurrences.

20. If you received this document from OTP Bank Plc, then it was sent to you with your previous consent. You may withdraw this permission by sending an e-mail to research@otpbank.hu or writing a letter addressed to 'Research Center', Hungary H-1051, Budapest, Nádor utca 21. Please refer to your name and e-mail address in both cases.

21. The personal data in this investment research are processed by OTP Bank. The legal basis for processing the data is the legitimate interest of OTP Bank. The detailed information about the processing of personal data and the related rights of data subjects is available here.

This document was prepared by:
Orsolya Rátkai
Senior Equity Analyst
OTP Research

This document was finalized at 11:51:28 PM on 27 May 2021