Masterplast – Q2 earnings

After the loss-making first quarter, Masterplast closed the second quarter of 2023 with a loss on all profit lines. However, the figures did not surprise the investors, because the management spoke at the investor conference that Masterplast could be unprofitable in the second quarter of 2023. The company's management confirmed that the goal is to end the entire year 2023 with a profit, which can be achieved even if the current level of demand remains. As a result of the significant decline in the construction market and lower demand, the company's revenue decreased by 34% compared to base in the second quarter. In response to the changed market conditions, the company focused on reducing operating costs, optimizing production and inventory levels, and more efficient energy management.

Q2 RESULT

The total revenue of the Group amounted to EUR 37812 thousand in Q2 2023, which was 34% lower than in Q2 2022. In Q2 2023, as a result of the lower revenue and raw materials purchased at a higher price, the gross margin was significantly below the base period value.

Production output from the Aschersleben fleece manufacturing unit decreased compared to last year's base. At the central site in Sárszentmihály, diffusion roofing foil production increased, but it still operated with loss as a result of low capacity-utilization level. The XPS investment in Subotica has also been completed, where trial production started already in May.

The personnel expenses of the Company decreased in Q2 2023 compared to the base, despite the wage increases. At the end of June 2023, the Group employed 1 376 people, compared to its 1 551 employees at the end of the base period. The company reported at its investor conference that they will implement a downsizing of nearly 10%.

The Group’s EBITDA was a loss of EUR 463 thousand in Q2 2023 compared to the EUR 8400 thousand (14,6% EBITDA ratio) in the Q2 2022 base period. The operating profit (EBIT) was a loss of EUR 2215 thousand in Q2 2023, compared to the EUR 7047 thousand level of the base period. The Group PAT (profit after tax) was EUR -3475 thousand in Q2 2023.

thousand EUR	Q2 2023	Q2 2022
Sales revenue	37812	57597
EBITDA	-463	8400
EBITDA ratio	-	14.6%
Profit after tax	-3475	8258
Net income ratio	-	14.3%

Source: Masterplast, MKB

In response to the changed circumstances, the Company's management developed an action plan for three areas. The decision-making and operational structure of the management was transformed, effective headcount optimization will reduce the Group's workforce by around 200 people and as part of further cost reduction plans, the defined goal is to achieve annual savings of EUR 2 million.

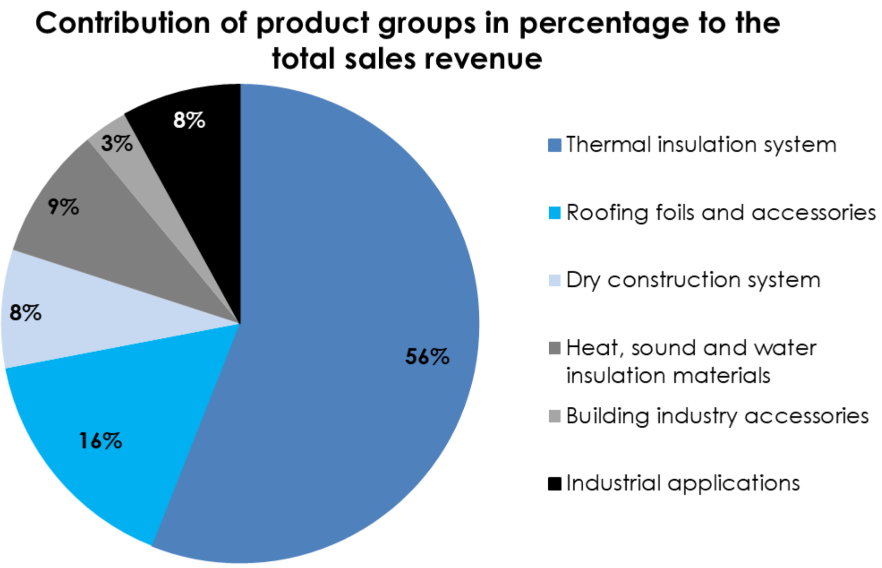
SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (56%): its sales decreased by 32% in the second quarter compared to the base period. Within this product group, sales of adhesives and own-produced fiberglass mesh products were decreased slightly, while sales of other products were significantly down on a year earlier.

Turnover of **Roofing foils and accessories** in Q2 2023 was 7% lower than in the same period in 2022.

In the **Industrial applications product group**, sales closed 60% below the base level in Q2 2023. Sales of healthcare products, packaging products and non-strategic raw material trade all fell significantly.

In the **dry construction system** decreased in Q2 2023 by 43% compared to the base. Drywall and drywall profile sales were both down year-on-year.In the **building industry accessories,** the sale of products decreased by 18% in the second quarter of 2023. In the **Heat, sound and water insulation** materials product group the sales decreased by 41% in Q2 2023 compared to the same period in 2022.



Source: Masterplast, MKB

SALES BY COUNTRIES

The Group has decreased its total sales by 34% in Q2 2023 compared to the Q2 2022 base period.

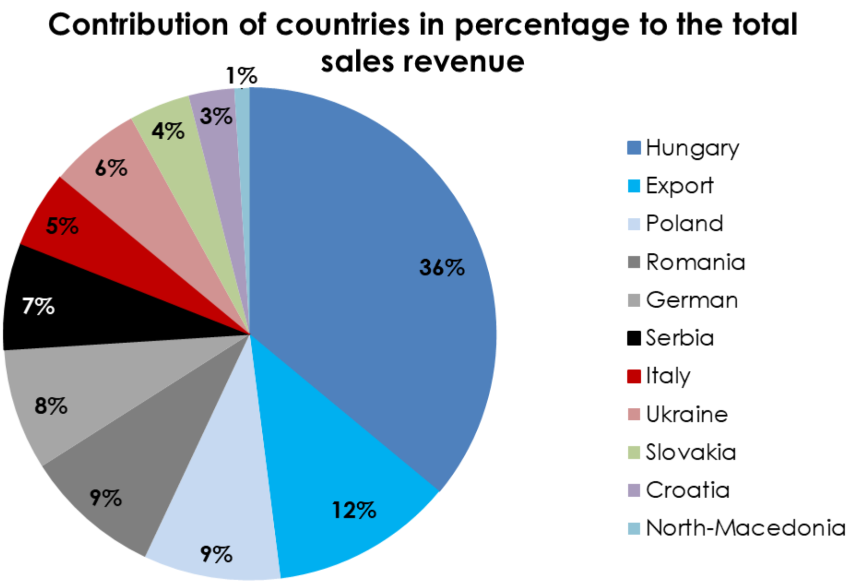
The breakdown of the sales by countries shows the revenue realized in countries where Masterplast has its own subsidiary, regardless of which subsidiary has registered the sales in the country. For countries where there is no Group subsidiary, sales are reported on the Export line.

In the first half of 2022, the Company revised and changed the breakdown of its sales by country. With foundation of Masterplast Italia Srl. the Group reclassified the Italian market from the Export category to a separate category, as from H1 2022 Masterplast has own subsidiary in the country.

On the most relevant **Hungarian** market the turnover decreased by 47% in Q2 2023 compared to the base period. Sales declined in all product groups.

In the **Export** market in Q2 2023, the turnover fell by 17% compared to the same period of the previous year. All product groups were affected by the downturn. Within this, the sales fall of own-produced fiberglass mesh (belonging to the thermal insulation system product group) and of roofing foils was smaller, while in the case of heat, sound and water insulation materials there was a significant lag compared to the base

Sales in the **German** market fell by 21% in the second quarter compared to the corresponding period last year. The turnover of the thermal insulation systems product group increased significantly, and the sales revenue of the roofing foils and accessories product group also showed a slight increase. Sales of the Dry Construction system product group, thermal, sound and water insulation materials, as well as sales of health-care raw materials, all showed a significant decline.



In **Italy**, sales fell by 54% compared to the very strong second quarter of last year, where the Italian state's tax refund action for thermal insulation renovation works strongly stimulated demand. In Italy, the majority of buildings are uninsulated, therefore new renovation programs is likely to be launched in the near future to meet the energy targets.

On the key **Romanian** market, sales fell by 24% in Q2 2023 compared to the base period. In terms of product groups, sales decreased in all of them in the quarter under review compared to a year earlier.

In **Serbia**, sales decreased by 37% in 2023 Q2. Sales of roofing foils and accessories increased significantly, but turnover decreased in the other product groups.

On the **Croatian** market the Group sales increased by 14% in Q2 2023 compared to the base term. On the **Polish** market the sales decreased by 14% in Q2 2023 compared to the base. In the **Slovak** market, sales fell by 44% in Q2 2023.

In **Ukraine**, despite the war situation, second-quarter sales increased by 65% compared to the base in 2022.

Comment

After last year's weak fourth quarter, this year's profit figures may also be weak at Masterplast due to the sharp drop in demand. The goal of the management is to make the year 2023 profitable. According to the company's expectations, demand may increase again from 2024, the extent of which may depends also on domestic and foreign home renovation and energy efficiency programs. And after 2025, sales of insulation materials may expand significantly due to the mineral wool business.

The unfavourable macro trends, rising energy prices, increasing inflation and the deterioration of the interest rate environment predict a decline in the desire to invest. As a result, a further decrease in sales related to the new building market is expected. At the same time, the renovation and energetic modernization of buildings is essential in dealing with the energy crisis. The framework of the EU's REPowerEU program foresee the emergence of powerful building energy support programs in Europe. All these may ensure the growth of demand for insulation materials even in the midst of the deteriorating economic environment and the impending recession.

In our model published at the beginning of July we significantly reduced the profit expectations for this year, but we also lowered the revenue and profit expectations for the following years compared to our previous forecasts. The demand for construction products may begin to recover next year, so after this year's break, growth may start again at Masterplast next year. The company is expanding its capacity in the field of styrofoam-based thermal insulation, and from 2025, Masterplast may also enter the market of fibrous insulation materials, and this may mean significant growth potential. In our latest model update, we decreased our 12-month target price to HUF 4407, we reiterate the buy recommendation for Masterplast shares.

DISCLAIMER

Disclaimer 1

This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1013 Budapest, Krisztina körút 55.; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and MBH Bank Nyrt. (registered seat: 1056 Budapest, Váci u. 38.; company register number: 01-10-040952, hereinafter: Investment Service Provider). This research/commentary was made with the joint, equally proportional financing of the BSE and the company that is the subject of this research/commentary.
The Investment Service Provider's policies and procedures ensure the independence of this research/commentary, and the Investment Service Provider has undertaken not to accept any instructions or additional remuneration from the company involved in the research/commentary.
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 shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify 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. This research/commentary cannot be deemed as an incentive to enter into contract or covenant.

Disclaimer 2

1. This publication was prepared by MBH Bank Nyrt. (registered seat: 1056 Budapest, Váci u. 38.; company register number: 01-10-040952; business registration no.: III/41.005-3/2001. ; member of the Budapest Stock Exchange; supervisory authority: Magyar Nemzeti Bank 55 Krisztina krt., 1013-Budapest, continuously: the Bank).

2. The findings presented in this document, as an investment analysis, are considered an objective or independent explanation based on Commission delegated regulation (EU) 2017/565, i.e. investment-related research, and an investment recommendation according to regulation 596/2014/EU of the European Parliament and the Council it counts as. The Bank intends to distribute this document to its customers or the public, or to give access to other persons in such a way that this document may be disclosed to the public.

3. The information contained in this publication does not constitute an offer to buy or sell, nor investment advice, nor does it constitute an incentive, invitation, offer to invest, enter into a contract or make an obligation, nor does it constitute tax advice. The information is not comprehensive, the data contained in the publication are informative. The publication does not constitute investment advice even if any part of the document contains a description of the possible price and yield development of a financial instrument. This document does not consider the unique needs, circumstances and goals of individual investors, so in the absence of a personal recommendation, it does not qualify as investment advice.
   The Bank excludes its responsibility for the potential use of the contents of this publication as an investment decision, for specific individual investment decisions, and for the resulting consequences, and therefore does not assume responsibility for any damages or losses that the investor may incur as a result of the decisions made on the basis of the contents of this publication, or in any other connection.

4. The information contained in the publication is based on sources considered to be authentic, however, the Bank has not received a guarantee of the veracity, accuracy, correctness and completeness of the information, therefore neither the authors of the document nor the Bank assumes responsibility for the completeness and accuracy of the information described in the document. The contents and opinions indicated in the publication reflect the professional judgment of the specialists who prepared the publication based on the market conditions existing at the time of the preparation of the publication, which may change without special notice or warning in the event of new information, changes in market conditions and economic conditions. The Bank reserves the right to modify the findings and recommendations contained in this document in the future without prior notice.

5. It is not possible to draw clear and reliable conclusions about future prices, returns, or performance from the past development of prices, yields, and other data. Investors must assess and understand the essence and risks of individual financial instruments and investment services on their own (or with the help of an independent expert). We recommend that investors carefully read the business rules, information, other contractual conditions, announcements, and list of conditions for the given financial instrument and investment service before making a decision to invest, because it is only with knowledge of these documents and information that it can be decided that the investment is in accordance with is it in line with the investor's risk tolerance and investment goals, and also carefully consider the subject of your investment, risks, fees, costs and possible losses and damages resulting from investments! We also recommend that you find out about the tax law and other legislation related to the product and investment, and before making your investment decision, contact our staff or visit your bank advisor!

6. **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 review:** If new information comes to light, which is expected to change the valuation significantly.

7. **Change from the prior research**
Our target price is determined on a 12-month basis, without dividends, unless otherwise stated.

Our first research was published on 15. December 2017. In that Initial Coverage our price target was HUF 775. The changes in fundamental factors and the operation in the Company required regular updates of our model and the target price. We decreased our 12-month target price to HUF 4407 (2023. July 6th), we reiterate the buy recommendation for Masterplast shares. Our previous target price is unchanged, we maintain the buy recommendation.

Prior researches

MBH Bank wrote an initiation report on 15. December 2017. The research is available on the web page of the BSE (Budapest Stock Exchange):

https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Masterplast-initation-report-20171215.pdf

The flash notes are available on the web page of the BSE (Budapest Stock Exchange):

https://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/masterplast-elemzesek

8. The Bank is entitled to provide price quotes, other investment services or additional services for the assets included in the publication. The Bank is still entitled in good faith and according to the usual method of market formation to trade, enter into transactions or trade as a market maker in accordance with the usual course of price quotation, as well as to provide other investment activities or additional services, or other financial or additional financial services to the issuer and to other persons.

9. The Bank has a Conflict of Interest Policy for the description of potentially arising conflict of interest situations related to investment service activities and the handling of such situations, as well as internal regulations for the handling and transfer of bank and securities confidential data, which measures are based on the European Commission 2016/958 are considered effective internal organizational and administrative solutions, as well as information limitations, created to prevent and avoid conflicts of interest. The remuneration of the persons participating in the preparation of the analysis is not directly related to the provision of investment service activities defined in Sections A and B of Annex 1 of EU Directive 2014/65 or to transactions carried out by the Bank or other legal entities belonging to the same financial group, or by the Bank or to the commission received by the company belonging to the same financial group.

10. The issuer of the product/financial instrument covered by this document does not have a share exceeding 5% of the total registered capital of the Bank. The Bank does not act as a liquidity provider with regard to the financial instrument that is the subject of this document. The Bank acts as a market maker with regard to the financial instrument that is the subject of this document. The Bank was not the lead organizer or co-lead organizer of any public issue of the issuer's financial instruments in the previous 12 months. The Bank is not a party to the agreement concluded with the issuer regarding the provision of investment services defined in Sections A and B of Annex I of Directive 2014/65/EU. The Bank does not have a net long or short position exceeding the threshold of 0.5% of the total subscribed capital of the issuer concerned in this document.

11. The Bank has established appropriate internal procedures regarding the personal transactions of (i) financial analysts and other interested persons participating in the preparation of investment-related research; (ii) to ensure the physical separation of financial analysts and other interested persons participating in the preparation of investment analyses; in addition, appropriate information limits were also set (iii) regarding the acceptance of incentives and remuneration.

12.

13. This publication is valid at the time of its publication.
The date of preparation of the publication: 01/08/2022

14. The valuation procedures used:

Discounted cash flow valuation

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).