Masterplast – Q4 earnings

As a result of the significant decline in the construction market and lower demand, the company's revenue decreased by 16% compared to base in the fourth 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. Thanks to these measures, the fourth quarter was already profitable in terms of adjusted EBITDA. At the year end, the Company recognised an inventory impairment of EUR 3 845 thousand, for this reason, the results for 2023 show a significant loss. We have reviewed our DCF model and decreased our 12-month target price to HUF 4036, we reiterate the buy recommendation for Masterplast shares.

Q4 RESULT

The total revenue of the Group amounted to EUR 31476 thousand in Q4 2023, which was 16% lower than in Q4 2022. In Q4 2023 according to the company the margin was below the value under the base period, due to lower sales revenue and lower utilisation of production capacities, as well as the impact of raw materials purchased at higher prices. With higher priced raw material stocks running out in the previous quarter, the margin rate on turnover improved significantly compared to the average for the year.

In line with demand trends, production outputs at Serbia's EPS fiberglass mesh production plants decreased compared to a year earlier, but rose compared to the previous quarter. The output of the fleece production unit in Aschersleben also decreased compared to last year's base. The output of diffusion roofing foil production in Sárszentmihaly increased. In the Group's plant in Kál, the implementation of the equipment of the new EPS production line has been completed. The XPS investment in Subotica and the new EPS investment in Italy have also been completed, where production for market will start is the first quarter of 2024.

The personnel expenses of the Company decreased in Q4 2023 compared to the base, despite the wage increases and thanks to headcount optimization measures. At the end of December 2023, the Group employed 1138 people, compared to its 1 499 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 operating EBITDA in Q4 2023 was a profit of EUR 676 thousand (2.1% EBITDA margin) from normal business activities, and a loss of EUR -3 169, including inventory write-downs booked as a specific item, compared to a profit of EUR 1 230 thousand (3.3% EBITDA margin) in the base period. For the year as a whole, the Group's EBITDA was a loss of EUR 6 101 thousand. The operating profit (EBIT) was a loss of EUR 4932 thousand in Q4 2023, compared to the EUR 183 thousand level of the base period. The Group PAT (profit after tax) was EUR -5635 thousand in Q4 2023.

thousand EUR	Q4 2023	Q4 2022
Sales revenue	31476	37644
EBITDA	-3169	1230
EBITDA ratio	-	3,3%
Profit after tax	-5636	-1331
Net income ratio	-	-

Source: Masterplast, MKB

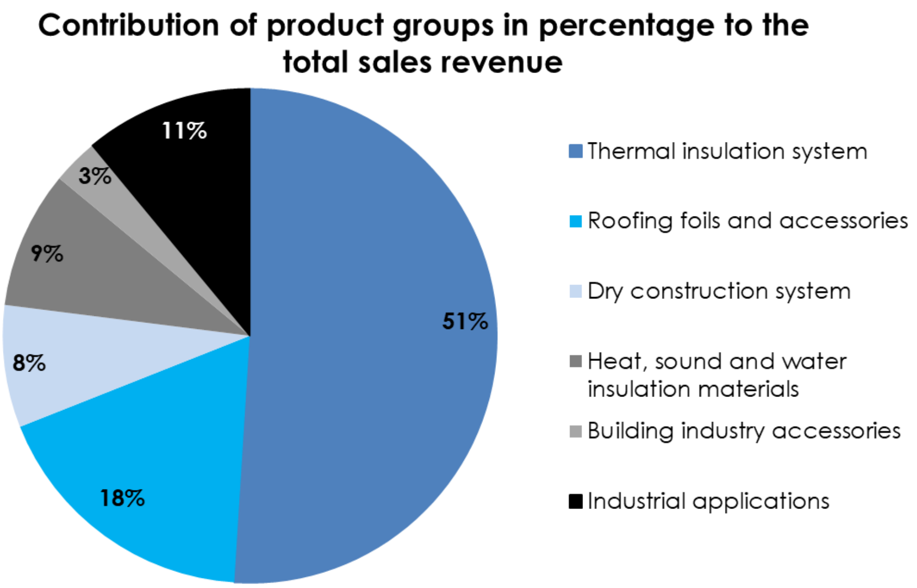
SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (51%): its sales decreased by 26% in the fourth quarter compared to the base period. Within this product group, sales of adhesives were decreased slightly, while sales of other products were significantly down on a year earlier.

Turnover of **Roofing foils and accessories** in Q4 2023 was 7% higher than in the same period in 2022. By market, roofing foil sales increased significantly, with the exception of the Croatian, Hungarian and Italian markets.

In the **Industrial applications product group**, sales grew by 23% in Q4 2023. Sales of healthcare products increased.

In the **dry construction system** decreased in Q4 2023 by 24% 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 20% in the fourth quarter of 2023. In the **Heat, sound and water insulation** materials product group the sales decreased by 12% in Q4 2023 compared to the same period in 2022.



Source: Masterplast, MKB

SALES BY COUNTRIES

The Group has decreased its total sales by 16% in Q4 2023 compared to the Q4 2022 base period.

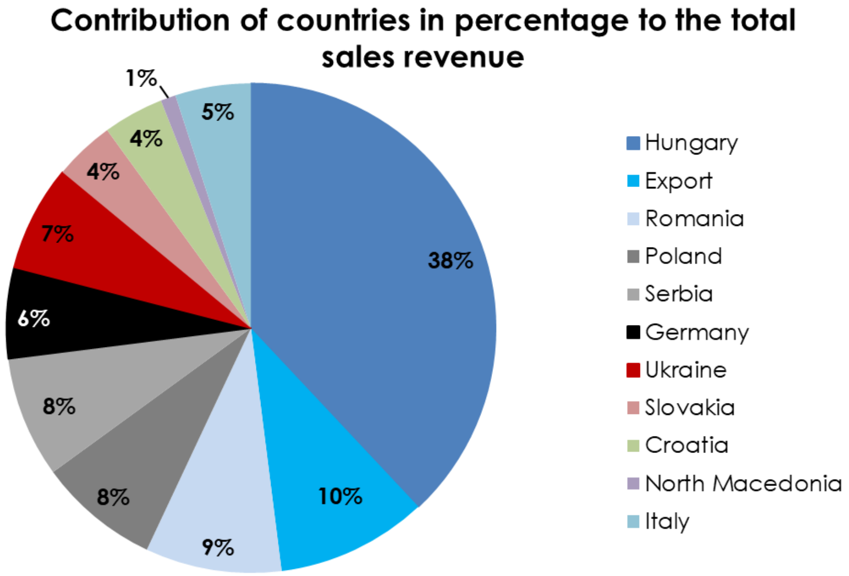
The breakdown of the sales by countries shows the revenue realized in countries where Masterplast has its own subsidiary, regardless of which subsidiary has registered the sales in the country. For countries where there is no Group subsidiary, sales are reported on the Export line.

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 25% in Q4 2023 compared to the base period. Sales declined in all product groups.

In the **Export** market in Q4 2023, the turnover fell by 10% compared to the same period of the previous year. Sales of roofing foils increased, all other product groups were affected by the downturn. In many export countries, fourth-quarter sales declined compared to the base quarter, while the Company achieved strong growth in several other markets, such as Austria, French and Greece.

Sales in the **German** market fell by 7% in the fourth quarter compared to the corresponding period last year. Sales revenue for the roofing foils product group increased. 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 39% compared to the fourth quarter of last year, mainly due to sales of the thermal insulation systems product group.

On the key **Romanian** market, sales fell by 12% in Q4 2023 compared to the base period. Roofing foils saw a slight increase in sales, while the other product groups showed a decline in the Romanian market.

In **Serbia**, sales decreased by 3% in 2023 Q4. Sales of roofing foils and accessories, heat, sound and water insulation materials increased significantly, but turnover decreased in the other product groups.

On the **Croatian** market the Group sales increased by 16% in Q4 2023 compared to the base term. On the **Polish** market the sales decreased by 17% in Q4 2023 compared to the base. In the **Slovak** market, sales increased by 5% in Q4 2023.

In **Ukraine**, fourth-quarter sales decreased by 2% compared to the base in 2022.

Comment

Last year's profit figures were very weak at Masterplast due to the sharp drop in demand. From 2024 demand may increase again, 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.

Due to the unfavorable macro trends, the rise in energy prices, the increase in inflation and the deterioration of the interest rate environment, the construction of new buildings fell significantly last year. At the same time, the renovation and energetic modernization of buildings is essential. 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. The increase in domestic demand this year can also be supported by the fact that the government is expected to launch related energy efficiency support programs.

The demand for construction products may begin to recover this year, so after last year's break, growth may start again at Masterplast. 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.

At the end of 2023, inflation forecasts across Europe showed a significant improvement, at the same time a strong wave of central bank interest rate cuts began, which is expected to continue in 2024. The improvement of the interest rate environment can have a stimulating effect on building investments, and previously frozen projects can be restarted. The market recovery is expected to be slow; forecasts predict a positive turn in the construction industry by 2025.

We have reviewed our DCF model and are lowering our earnings expectations for the next years. Due to last year's lower base, the profit forecasts for the following years have also decreased in our model. We decreased our 12-month target price to HUF 4036, we reiterate the buy recommendation for Masterplast shares.

By 2028, we expect a sales revenue of 382 million euros from Masterplast. However, this can only be realized if the investments in the mineral wool business segment are realized within the previously announced deadline and sales pick up quickly. The mineral wool projects treated as prority are progressing addording to plan.The glass wool factory investment in Szerencs will be implemented in strategic cooperation with Selena FM S.A., with a 50%-50% share, and the Halmajugra rock wool factory investment also will be implemented jointly with a professional co-investor, Market Építő Zrt. The start-up of the factories is expected in the first half of 2025.

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   - **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 4.036 (2024. March 5th), we reiterate the buy recommendation for Masterplast shares which is 2 % lower than the previous target price of HUF 4.113 (2023. October 30rd).

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

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12.

13. This publication is valid at the time of its publication.
The date of preparation of the publication: 05/03/2024

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).