# Masterplast – Investor Conference

**Masterplast held its investor meeting on April 27, at which the management published its profit forecasts. The company significantly lowered its expectations for the following years, according to plans the company will not pay dividends for two years and has started downsizing.**

## The first semester may bring weak numbers

The revenue may be EUR 175 million in 2023, the EBITDA may reach EUR 8 million, which may be a 61 percent drop compared to the previous year, and the profit after tax may decrease to EUR 1 million, which may be a 94 percent decrease compared to 2022. Compared to the previous forecast, the company reduced the revenue forecast by 38 percent and the EBITDA expectation by 77 percent. According to the management, the company may post a loss in the first half of this year.

In terms of both new housing constructions and housing market transactions, the market slowed down more than expected, and the high inflation and interest rate environment significantly changed the real estate market opportunities. Masterplast hoped that the 3+3 million subsidy would be extended in Hungary and expanded with a focus on energy efficiency, but no new subsidies appeared due to the budget situation. In Europe, due to lending interest rates, people have very strongly restrained their borrowing, the entire Western European market is waiting, they are waiting for interest rate reductions.

The demand for insulating materials showed a downward trend starting from the fourth quarter of last year, and in addition, the building material dealers also started reducing their stocks. Therefore, building material manufacturers faced even lower demand.

At the company's general meeting, a decision was made that the company will not pay dividends after 2022, and according to the plans, there will be no dividend payments after the expected weak results in 2023. According to plans, after 2024, Masterplast will pay a HUF 66 dividend.

## High inventories, weak demand

Falling demand had two important effects on Masterplast: strong competition developed and margins came under pressure. In addition, the high inventories of raw materials, which is typical at Masterplast due to production safety, has now appeared as a disadvantage. Production capacities are efficient if they can be close to full capacity, this is not true for the first half of this year, Masterplast's plants have been producing at a constantly decreasing capacity and will not be able to increase this year.

The development of the mineral wool business is still ongoing, the location of rock wool production will be in Halmajugra, which the company is building together with Market Építő Zrt., and production is expected to start in the first half of 2025. The total cost of the investment can be EUR 49 million, Market will have a 50 percent ownership share in the project.
Glass wool production started with the purchase of Pimco Kft., the company is looking for a co-owner. The total cost of the investment is EUR 47.5 million.

Downsizing has started, the company is laying off about 200 people at the company group level. At the end of 2022, Masterplast employed 1,499 employees, which means that a layoff of approximately 13 percent of the total workforce is coming.

## 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. According to the company's expectations, demand may increase again from 2024, the extent of which depends 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.

**We have put our target price under review and will be publishing soon our updated DCF model and the new target price.**

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   - **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 are suspending our target price and will soon publish our model.

**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

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12. 

13. This publication is valid at the time of its publication.
The date of preparation of the publication: 04/05/2022

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).