MASTERPLAST – Q4 2018 SUMMARY

In Q4 2018 there were mostly positive trends in the building industry. Masterplast ("Company") has expanded its revenues by 13% compared to the base period mainly due to the outstanding performance on the Hungarian, Slovakian, Export and Polish markets, as both revenues and trade margins increased on a yearly basis. Due to the wage inflation effects, the overall personnel costs have increased by 9% in Q4 2018 compared to the base period. Due the unfavourable exchange rate effects a significant loss was realized in the financial result. The trends and industrial climate in the Company's certain relevant markets are expected to remain favourable in the coming quarters. We reiterate our buy ratings for Masterplast shares, with a target price of HUF 805.

For the whole year the sales revenue increased by 10% to 97,928, against our 97,201 thousand EUR expectation. The trade margin as well as the output and efficiency of own production also improved. At the same time, the payroll costs, the depreciation and other expenses increased, but overall the Company's operating profit (24%) and profit after taxation (15%) have increased.

The government announced a seven point action plan in February. The first point of his plan is to support young couples, with each woman under 40 years old to receive a loan of 10 million HUF. After giving birth to three children, the loan would not have to be paid back, and would become a non-refundable support. Many details of this point are currently unclear, therefore, it is still difficult to estimate the real estate market effects. Another point in the action plan, aims to expand the beneficiary state-credit scheme set up by the government. These steps represent further growth potential for the Company.

IMPROVING RESULT

The total revenue of the Group amounted to 23,817 thousand EUR in Q4 2018, which was 2,805 thousand euros (13%) higher than in the base period. In addition to the increase in turnover, the Company's gross trade margin also grew in Q4 2018 compared to the base period. Notable expansion was achieved on the Ukrainian, Polish and Export markets; while growth in the realized margins was also achieved on the Hungarian and Croatian markets, as well. A remarkable increase could be observed in the production output of fiberglass mesh and corner profile with mesh in Subotica while slighter increase was achieved at the foam sheet production in Kal in Q4 2018 compared to the base period.

Mainly due to the expanded production in Serbia, together with the increase in wages in Hungary, the personnel expenditures of the Company has increased by 9% in Q4 2018 compared to the base period.

thousandEUR	Q4 2018	Q4 2017	2018	2017
Sales revenue	23,817	21,012	97,928	89,343
EBITDA	1,082	886	6,076	4,942
EBITDA ratio	4,5%	4,2%	6,2%	5,5%
Profit after tax	-62	680	3,074	2,682

Source: Masterplast, MKB

The Company has examined the possibility of restarting the polystyrene production at the temporarily (by the end of 2017) suspended Santu George site in Romania, but did not find it economically viable. The Company has sold its loss producing units, resulting 274 thousand EUR one-off losses for 2018.

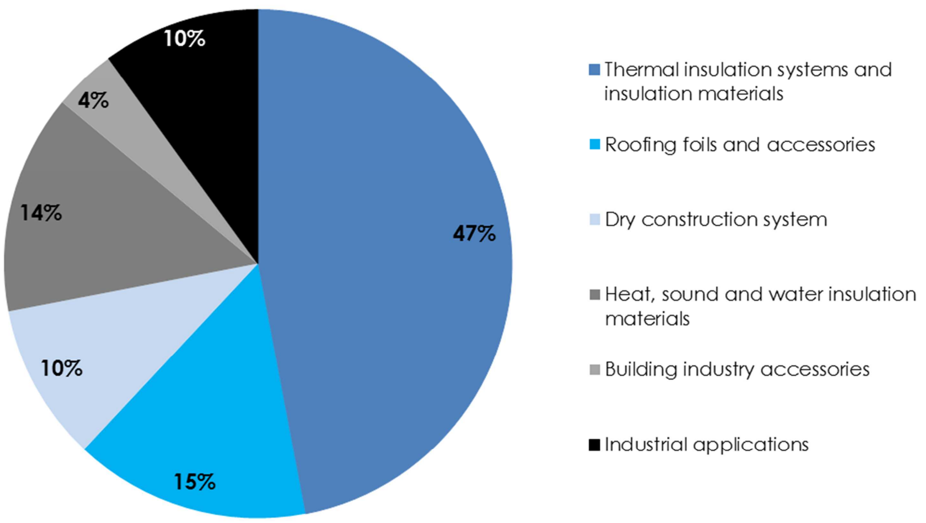
The Group EBITDA amounted to 1,082 thousand euros in Q4 2018 (4.5% EBITDA ratio) compared to the 886 thousand euros (4.2% EBITDA ratio) in the base period and the operation profit (EBIT) reached 553 thousand euros in Q4 2018.

As a result of strengthening HUF rate – the net FX positions (assets) – and the weaker ruble exchange rate at the sale of the Russian subsidiary the Company has generated and booked 378 thousand euros loss as other financial result in Q4 2018 compared to the EUR 277 thousand losses of the base period. (In December 2018, the Company sold its 100% shareholding in OOO Masterplast RUS.)

Sales by product group

In terms of the revenue slate, **thermal insulation systems** provided the biggest share, where the overall sales grow by 14% in 2018 Q4. The sales decreased by 2% in the **roofing foils and accessories segment**, while in the **dry construction system** product group it grew by 15%. In the **heat, sound and water insulation materials** segment the sales in Q4 2018 increased by 16%, while a 34% growth was reported in the **building industry accessories** sales compared to the base period in 2017. Regarding the **industrial applications products** the Group has achieved a 24% increase in turnover in Q4 2018 compared to the base period.

Sales broken down into product categories in Q4 2018



Source: Masterplast, MKB

Relevant markets

On the most relevant **Hungarian** market a continuing industrial growth and even more robust economy trends had been reported by the statistics. In Q4 2018, a similar growth (23%) was observed in the volume of construction production compared to the same period of the previous year. The sector is expected to reach the peak of the economic cycle in 2018-2019. The labour shortage will have a relevant impact on the performance of the construction industry in the upcoming periods.

In **Romania** the demand in the construction market was decreasing. The volume of constructions decreased compared to the same period of the previous year, and the flats construction and the number of new finished flats also decreased. The planned government renovations, were also postponed, and the completion of started projects was delayed due to the increased labor shortage. In **Ukraine** the economy performed well and the value of the finished construction works rose by 4% over the fourth quarter of last year. In **Slovakia** and **Poland** the economy continued to expand. The economic indicators have shown improvement in **Croatia** in Q4 2018, the issued building permits have doubled. In **Serbia** in Q4 2018 the GDP has also grown compared to the base period in 2017. The introduced reforms in the building sector had a positive impact on the investments, hence the number of issued building permits has also increased compared to the base period.

Sales by countries

Overall in the typically positive industrial environment the Group has increased its total sales by 13% in Q4 2018 compared to the base period. Remarkable gains in sales were achieved on the Polish, Slovakian, Ukrainian, Export and Hungarian market. Among the product groups (excluding the Roofing foils and accessories) a growth could be observed in the turnover.

On the most relevant **Hungarian** market the turnover has grown by 23% in Q4 2018 compared to the base period. The Company was able to expand its turnover in all the product groups, where the largest growth was reported in the sales of the thermal insulation system related EPS product. The other product groups also performed well.

An increase of 11% was achieved on its **Export** market sales in Q4 2018 compared to the base period. The Group has increased its sales in the Thermal insulation system group including the increasing revenues from fiberglass mesh products.

On the relevant **Romanian** market the sales decreased by 7% in Q4 2018 compared to the base period. In Romania the Company has introduced product portfolio and structural changes by the end of 2017, moderating the planned target figures as well. The decrease in the sales of the Thermal insulation system related EPS and adhesives were primarily due to these measures in 2018. However, the revenues from fiberglass mesh have grown remarkably and an increase was also experienced in the sales of Building industry accessories.

In **Ukraine**, growth in sales amounted to 9% in Q4 2018 compared to the 2017 basis. The Company increased its revenues in the most relevant Thermal insulation system product group. In **Serbia** the sales were increased by 3% in 2018 Q4, A growth in sales has been achieved regarding the Heat, sound and water insulation materials while the Thermal insulation system related EPS and fiberglass mesh sales has decreased slightly. On the **Croatian** market the Group sales grew by 9% in Q4 2018 base term.

The Group performed outstandingly well on the **Polish** market, where the sales were up by 21% in Q4 2018 compared to the base. The glass and rock wool products were introduced on the market in 2018 and contributed to their remarkable turnover figures of the latest quarter.

The sales were up by 23% in Q4 2018 on the **Slovakian** market. Save the Building industrial accessories, in all product groups the turnover increased compared to Q4 2017

SUMMARY

The trends and industrial climate in the Company's certain relevant markets are expected to remain favourable in the coming quarters. In Hungary, the Company's core market, the building industry is growing steadily, the number of the building permits also underlines an increasing tendency which, coupled with the Company's improving manufacturing and operational efficiency, might help to achieve the targets set out in its strategic plans. In 2019 the growth may be sustained; hence, we reiterate our buy ratings for Masterplast shares, with a target price of HUF 805.

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Prior researches

MKB 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://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_elemzoi_kommentar_-_2018.01.10..pdf1

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https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Ltd-Masterplast-flash-note-20180323

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Ltd-Masterplast-flash-note-20180327

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd-masterplast-plc.-quarterly-update-20180518

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd-masterplast-flash-note-20180614

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd----masterplast-flash-note---2018-08-01

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-zrt.---masterplast-nyrt.-negyedeves-elemzes---2018.08.29.

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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.

Change from the prior research

Our first research was published on 15 December 2017. In that Initial Coverage our price target was HUF 775, but the changes in fundamental factors justified the update of our model. Our new price target is HUF 805.