Masterplast has published its updated strategy

Masterplast held an investor day on September 20, at which the management spoke about the updated strategy and profit expectations. They talked about the planned investments of the new business branch, the production of mineral wool, the share issue plans, the dividend, and the management also revised this year's profit expectations upwards.

Based on the updated profit figures, compared to the 2021. business year, revenue and EBITDA may increase by 17 percent, and profit after tax by 12 percent. This year's EBITDA margin may reach 12 percent.

The management adjusted the revenue expectation for 2022. by nearly 5 percent and the after-tax profit forecast by almost 10 percent compared to January, the EBITDA target increased minimally.

The company expects revenue to be 10 percent higher by 2023. and 15 percent higher by 2024. than in January. EBITDA expectations increased by 3 and 8 percent, respectively, and profit after tax expectations increased by 8 and 11 percent, respectively, compared to the management expectations published in January.

The company detailed plans for launching the mineral wool business. In Serbia, the rockwool factory can start with an investment of 25 million euros, which can start production from 2024. The planned capacity of the plant is 30,000 tons.

The start of glass wool production can also be an investment of 25 million euros and production can start from 2025. The planned capacity of the plant is 25,000 tons.

The company would partially finance the investments by issuing new shares and raising capital, according to the plans, an SPO (secondary issue) of HUF 8-10 billion may be possible.

For now, the management has not changed the dividend plan compared to January, the plan for this year is HUF 66 per share.

According to the company's management, the following factors can contribute to the expansion of sales and profit as well as to the growth of margins:

- Increase in the proportion of self-produced products, manufacturer's margin increase, decrease in fixed cost share
- Operational efficiency
- Higher efficiency of rock and glass wool production.

The company has made many investments in recent years, and now Masterplast is facing another milestone. We will update our DCF model with the numbers of the new business. Until then, we are suspending our target price and will soon publish our model updated with the numbers of the mineral wool business.

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Change from the prior research

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 updated with the numbers of the mineral wool business.

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

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.