MASTERPLAST – Q2 2020 SUMMARY

The decline in sales in April was followed by two stronger months, as a result of which the Group's second quarter sales were only 4% lower than in the base period. Despite the decline in revenue, Masterplast reported increasing profits on all profit lines. In the uncertain economic and market environment caused by the coronavirus the Company has rationalized its operations, therefore the second quarter of 2020 set a record in terms of EBITDA margin (it rose to 10 %). The financial result became negative in the second quarter, so the Company could not report double-digit growth at the level of pre-tax and after-tax profit.

IMPROVING RESULT – Q2 2020

The total revenue of the Group amounted to EUR 27 499 thousand in Q2 2020, which was 4% lower than in Q2 2019. Despite the decrease in turnover, there was an increase in the trade margin in Q2 2020. The Group's trade margin was higher on the Ukrainian and Serbian markets, but the realized margin volume grew on the Hungarian and Romanian markets, as well.

There was a growth in the production output of traditional and German technology fiberglass mesh, just as in profile production, while the EPS production in Serbia and the foam production in Kal dropped compared to the base quarter.

thousand EUR	Q2 2020	Q2 2019
Sales revenue	27499	28507
EBITDA	2757	2409
EBITDA ratio	10.0%	8.4%
Profit after tax	1838	1824
Net income ratio	6.7%	6.4%

Source: Masterplast, MKB

The Group's EBITDA amounted to EUR 2757 thousand in Q2 2020 (10% EBITDA ratio) compared to the EUR 2409 thousand (8.4% EBITDA ratio) in the Q2 2019 base period, which showed a 14% growth. The operating profit (EBIT) reached EUR 2140 thousand in Q2 2020, which rose by 17% compared to the EUR 1835 thousand level of the base period. The Group PAT (profit after tax) was EUR 1838 thousand in Q2 2020. The financial result became negative in the second quarter, therefore, profit after tax has risen by only less than 1 % from the level a year ago.

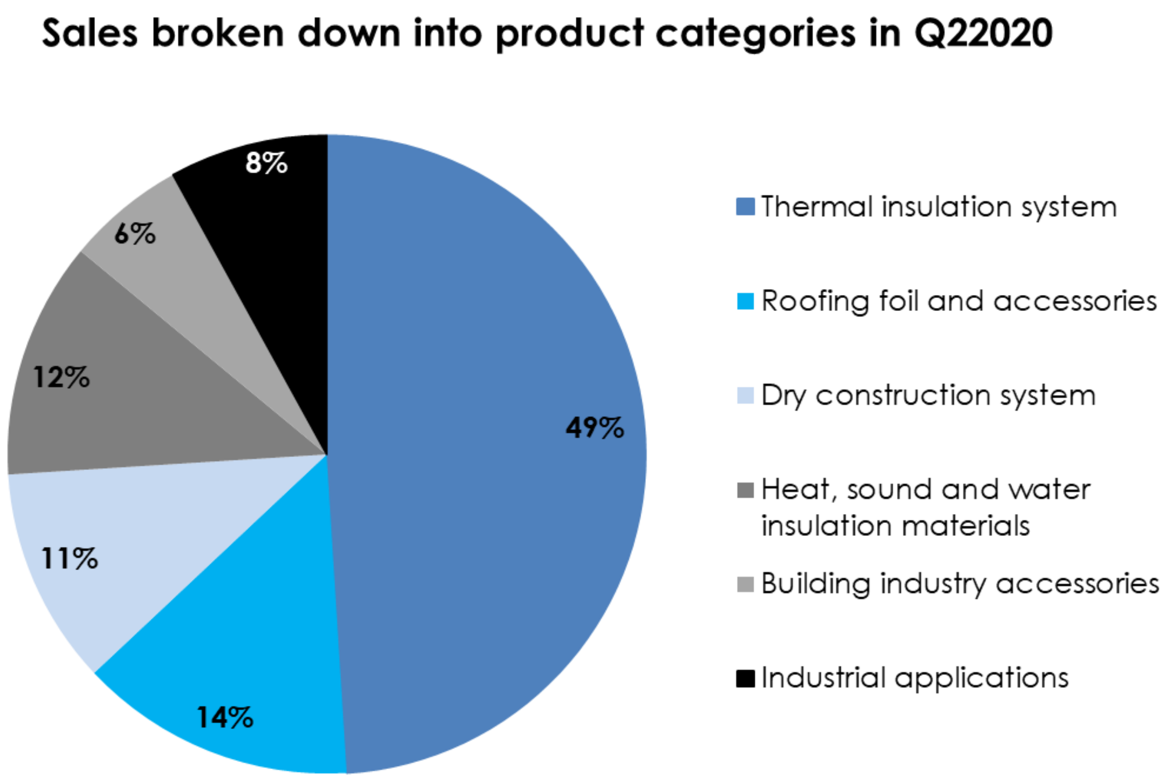
Interest revenues and interest expenditures decrease was observable in Q2 2020 compared to the base period of Q2 2019. With regards to the other financial items, the Company has generated and booked loss in Q2 2020 compared to the profit of Q2 2019.

As the Company mainly realises its purchases in euro and USD and the sales are being generated in local currencies; therefore, the fluctuation of these currencies can have a remarkable effect on the Group's financial results. The Company had concluded EUR/USD and EUR/HUF based hedging deals in Q2 2020, and the results from the closure of this deals are also included among other financial profit/loss. Mainly because of unfavourable exchange rate effects, the Company has generated and booked EUR 98,5 thousand loss as other financial result in Q2 2020 compared to the EUR 179 thousand profit of Q2 2019.

The traditional fiberglass production is operating at full capacity and an increase is expected in foam production by the second half of 2020. Due to rising production, Masterplast expects growth in all major markets for the second half of the year.

SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (49%): its sales decreased by 5% in the second quarter compared to the base period. The most significant decrease (7%) was recorded in the **heat, sound and water insulation materials** sales. In the **dry construction system** product group did not change in Q2 2020 compared to the base. Turnover of the **Roofing foils and accessories** reached a 1% higher level in Q2 2020 as in Q2 2019. In the traditional roofing foil item group, the sales reached higher amount. In the **building industry accessories,** the sale of products decreased by 2% in the second quarter of 2020. In case of **Industrial applications product** group, Masterplast achieved the same sales level in Q2 2020 compared to the base period of Q2 2019.



Source: Masterplast, MKB

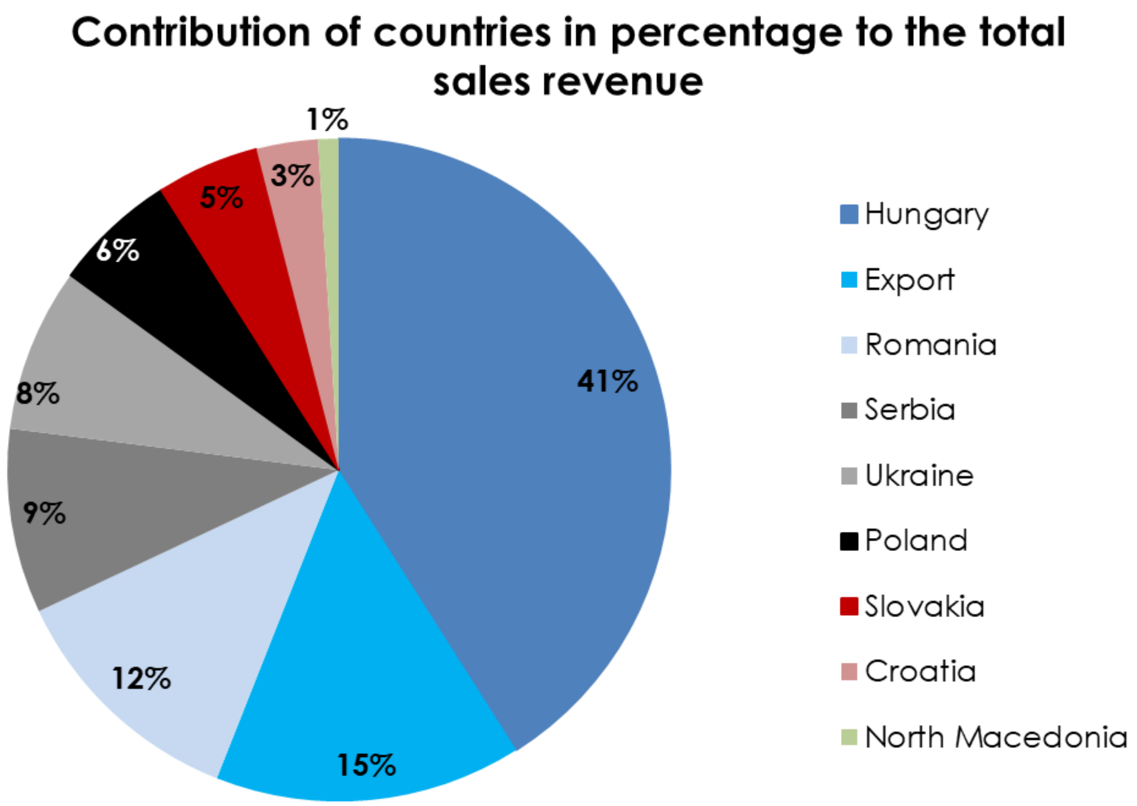
SALES BY COUNTRIES

The Group has decreased its total sales by 4% in Q2 2020 compared to the Q2 2019 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.

On the most relevant **Hungarian** market the turnover grew by 9% in Q2 2020 compared to the base period. Except for the heat, sound and water insulation materials, sales increased in all product group, but EPS and adhesives at the Thermal insulation system sales reflected the highest rates.

The European appearance of the coronavirus had the greatest impact on the **Export** market, which decreased by 23% in Q2 2020 compared to the base period. Apart from the dry construction system products, the Group had decreasing sales in each product group. Considering its markets, the Masterplast reached a growth in Norway, and Portugal areas, while the biggest drop was in Italy, in Greece and in Czech Republic.



Source: Masterplast, MKB

On the key **Romanian** market, sales increased by 7% in Q2 2020 compared to the base period. The sales of Thermal insulation system and within that the fiberglass mesh products increased the most.

In **Ukraine**, the drop in sales amounted to 19% in Q2 2020 compared to the 2019 basis. The revenues decreased in the most relevant Thermal insulation system product group, where the not self-produced fiberglass mesh sales accounted for most of the turnover.

In **Serbia** sales decreased by 2% in 2020 Q2. A growth in sales was achieved regarding the Thermal insulation system, while the turnover of the other product groups was smaller in the second quarter.

On the **Croatian** market the Group sales fell by 6% in Q2 2020 base term. On the **Polish** market the sales were down by 15% in Q2 2020 compared to the base. The sales increased by 5% in Q2 2020 on the **Slovakian** market.

SUMMARY

In an uncertain industry environment, the Company had a difficult but steadily improving second quarter. By the end of the quarter, regional construction markets had largely restarted. Although the Company experienced some decline in sales, the Group delivered outstanding figures in terms of profitability in the second quarter.

With the launch of Masterplast Nonwoven GmbH, the Group has entered the healthcare products market, which can bring further improved profitability to the company. The Company has set as an important goal the further strong development of its own online presence, in our opinion, this could be a good direction for the future.

The second wave of the coronavirus in the fall may have an uncertain effects to the Company's performance. By the end of the first half of the year, sales had already risen after the April weakening, but for the second half of the year, weaker months are expected again.

Overall, the Company has favourable operational processes, and thanks to the measures taken during the coronavirus, a possible second wave can only cause a minor and temporary decline for the group.

We reiterate our buy ratings for Masterplast shares, with a target price of HUF 885.

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Change from the prior research

Our first research was published on 15 December 2017. Our latest price target was HUF 825, but the changes in fundamental factors justified the update of our model. Our new price target is HUF 885.

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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):

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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.