The company announced the establishment of a mineral wool insulation material manufacturing business

Masterplast informed the investors that the Board of Directors of the Company has decided at its meeting on 7 September 2022, in view of the market developments and the focus on insulation materials, to expand the activities of Masterplast Nyrt. to the production of mineral wool insulation materials by establishing a new strategic business unit.

Based on the new strategic direction, the Board of Directors has also decided that the Company intends to invest in the production of mineral wool thermal insulation materials both domestically and abroad. Masteplast Nyrt. will also consider the preparation of specific investment decisions in the light of available state support, the availability of electricity for operation and environmental sustainability considerations

Mineral wool is a fibrous thermal insulation material, which is used, among other things, for insulating attics and roofs, on facades, during the internal insulation of plasterboard walls, in all types of buildings, be it offices, industrial halls, family or apartment buildings. In recent years, the demand for mineral wool thermal insulation materials in Europe has been continuously expanding, which the currently available production capacities are only able to satisfy to a limited extent, only a few major players dominate the market.

The company has made many investments in recent years, and now Masterplast is facing another milestone. Masterplast will present the company's renewed strategy at the investor event to be held on September 20, where a new medium-term profit plan will be published in addition to the detailed description of the mineral wool division.

After the investor event, 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.

Analyst:
Balázs Rácz
Tel: +36-1-268-7388
E-mail: racz.balazs@mkb.hu

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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. After the investor event, 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.

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.