

MASTERPLAST – Q4 2022

Masterplast closed the fourth quarter with a loss, but the figures did not surprise investors because the management published a profit warning at the beginning of January. The EBITDA and the profit after tax even minimally exceeded the forecasts of the management. The company has not yet published a fresh profit forecast, it is expected that it will update its expectations after the second quarter.

Despite that during base quarter Masterplast with strategic inventory had strong position, in the current quarter holding higher inventory level was a disadvantage in market characterised by decreasing prices of raw materials and finished products driven by falling demand. The actions of market participants in relation to the stock reduction and sales price decrease also made the demand for the Company's products weaker and resulted lower margins.

Q4 RESULT

The total revenue of the Group amounted to EUR 37663 thousand in Q4 2022, which was 17% lower than in Q4 2021. However, total 2022 year revenue was 5% above the base thanks to a strong first two quarters performance. In Q4 2022, the gross margin was below the base period, with the margin rate on turnover also decreasing.

The two new EPS production plants expected to operate in the second half of 2023 (site in Kál and the plant to be established in the Italian county of Reggio Emilia) and the new XPS production plants (at the Serbian production base site) provide the opportunity to gain further opportunities in the Western European markets as well. Production output from the Aschersleben fleece manufacturing unit decreased compared to last year's base. At the central site in Sárszentmihály, diffusion roofing foil production was at the same level as a year earlier, while capacity at the fleece production unit is increasingly fulfilled with customer orders.

The personnel expenses of the Company increased in Q4 2022 compared to the base, due to the higher number of employees of the Serbian production plant and to the salary increase in line with market trends.

The Group's EBITDA amounted to EUR 1020 thousand in Q4 2022 (2.7% EBITDA ratio) compared to the EUR 3624 thousand (8% EBITDA ratio) in the Q4 2021 base period. The operating profit (EBIT) was a loss of EUR 358 thousand in Q4 2022, compared to the EUR 2251 thousand level of the base period. The Group PAT (profit after tax) was EUR -1385 thousand in Q4 2022.

thousand EUR	Q4 2021	Q4 2020
Sales revenue	37663	45376
EBITDA	1020	3624
EBITDA ratio	2.7%	8.0%
Profit after tax	-1385	1892
Net income ratio	-2.4%	4.2%

Source: Masterplast, MKB

As a result of unfavourable exchange rate movements for the Company, a loss of EUR 1 009 thousand was recognised in other financial operations in Q4 2022, compared to a profit of EUR 494 thousand in the base period.

SALES BY PRODUCT GROUP

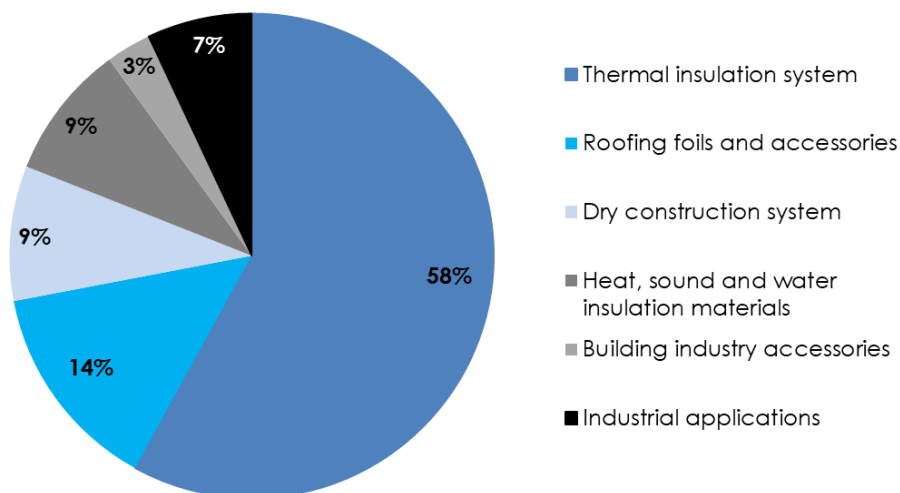
In terms of the revenue slate, **thermal insulation systems** provided the biggest share (58%): its sales increased by 7% in the fourth quarter compared to the base period. Within this product group, sales of Masterplast's own-produced EPS products were strong, while sales of fiberglass mesh also increased.

Turnover of **Roofing foils and accessories** in Q4 2022 was 22% lower than in the same period in 2021.

In the **Industrial applications product group**, sales closed 68% below the base level in Q4 2022. Sales of healthcare products decreased compared to the strong base, the turnover of packaging products and non-strategic raw material trade also showed decrease.

In the **dry construction system** decreased in Q4 2022 by 29% compared to the base. Sales of drywall performed well, while drywall profile sales were down year-on-year. In the **building industry accessories**, the sale of products decreased by 5% in the fourth quarter of 2022. In the **Heat, sound and water insulation materials** product group the sales decreased by 19% in Q4 2022 compared to the same period in 2021.

Contribution of product groups in percentage to the total sales revenue



Source: Masterplast, MKB

SALES BY COUNTRIES

The Group has decreased its total sales by 17% in Q4 2022 compared to the Q4 2021 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.

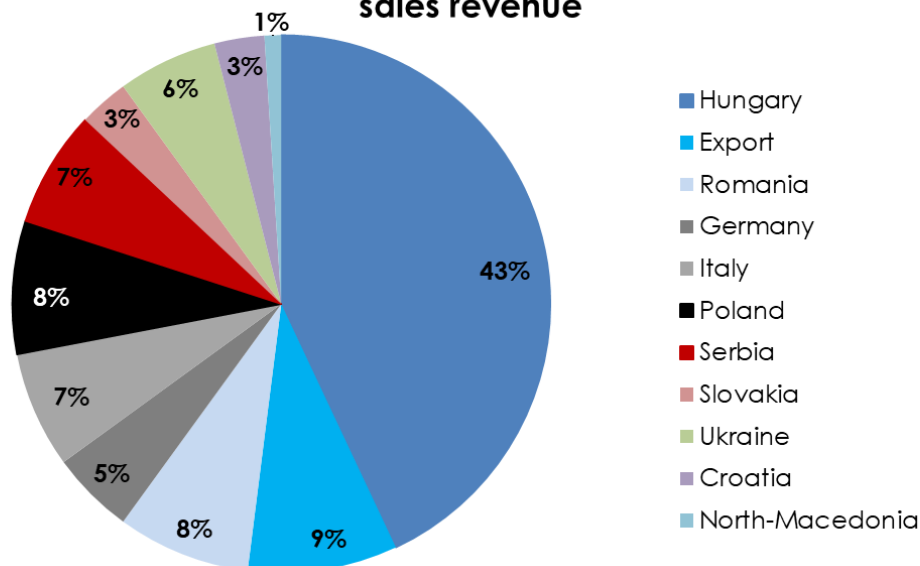
In the first half of 2022, the Company revised and changed the breakdown of its sales by country. With foundation of Masterplast Italia Srl. the Group reclassified the Italian market from the Export category to a separate category, as from H1 2022 Masterplast has own subsidiary in the country.

On the most relevant **Hungarian** market the turnover decreased by 22% in Q4 2022 compared to the base period. The decline in the last quarter was mainly driven by the sales fall of the industrial applications product group (packaging and healthcare products and non-strategic commodities trading). The performance of the construction product groups was in line with market trends, with the segment growing by 9% overall in the Hungarian market.

In the **Export** market in Q4 2022, the turnover fell by 19% compared to the same period of the previous year. Sales of own-produced fiberglass mesh, part of the thermal insulation system product group, were below the strong base level, and sales of roofing foils, heat, sound and water insulation materials and building accessories also declined. In the other product groups, the Company achieved growth. Sales in the Nordic countries and the Czech Republic were the main contributors to the quarterly decline

Sales in the **German** market fell by 40% in the fourth quarter compared to the corresponding period last year. The decline was caused primarily by lower sales of own-produced roofing foils and secondly by lower sales of medical raw material.

Contribution of countries in percentage to the total sales revenue



Source: Masterplast, MKB

On the key **Romanian** market, sales fell by 6% in Q4 2022 compared to the base period. Sales of heat, sound and water insulation materials increased, while sales of the thermal insulation product group stagnated.

In **Serbia**, sales decreased by 11% in 2022 Q4. Sales of roofing foils and accessories increased significantly, but turnover of building industry accessories was also higher than a year earlier.

On the **Croatian** market the Group sales increased by 8% in Q4 2022 compared to the base term. On the **Polish** market the sales grew by 56% in Q4 2022 compared to the base. In the **Slovak** market, sales fell by 27% in Q4 2022.

In **Ukraine**, the war situation led to a 23% drop in turnover in Q4 2022 compared to the base period. Given that sales activity in war-affected regions is severely limited, the sales shortfall affects all product groups.

SUMMARY

The quarterly results did not come as a surprise, as the company had already announced at the beginning of the year that their fourth quarter would be unprofitable. After Masterplast announced that their sales in 2022 will be below management's previous expectations, we updated our model. We published our model update on February 13, and we also calculated that the year 2022 was weaker than previous expectations, and we also reduced the company's expected results for the following years. We lowered our target price to HUF 6,401, maintaining our buy recommendation. The commentary including the model update can be found [here](#).

Despite that during base quarter Masterplast with strategic inventory had strong position, in the current quarter holding higher inventory level was a disadvantage in market characterised by decreasing prices of raw materials and finished products driven by falling demand. The actions of market participants in relation to the stock reduction and sales price decrease also made the demand for the Company's products weaker and resulted lower margins.

The unfavourable macro trends, rising energy prices, increasing inflation and the deterioration of the interest rate environment predict a decline in the desire to invest. As a result, a further decrease in sales related to the new building market is expected. At the same time, the renovation and energetic modernization of buildings is essential in dealing with the energy crisis. The framework of the EU's REPowerEU program foresees the emergence of powerful building energy support programs in Europe. All these ensure the growth of demand for insulation materials even in the midst of the deteriorating economic environment and the impending recession.

Besides operating in a crisis-resistant industry the Company's growth path is in line with its intensive investment strategy. In the thermal insulation materials market, the benefits of previous investments - the Hungarian and Italian EPS and the Serbian XPS production developments - could be felt in the coming years. The modulhouse business is expected to enter the market next year, the first trial modular office building will be installed in the last

quarter of this year. According to the Company's further development plan, a EUR 25 million investment in rock wool could start production from 2024, while the launch of glass wool production is also a potential investment plan of EUR 25 million, with production starting from 2025.

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- **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 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.

We are also reiterate our target price (HUF 6.401, 2023. Februar 13rd), we reiterate the recommendation to buy for Masterplast shares which is 13 % lower than the previous target price of HUF 7.395 (2022. October 28rd).

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/Tozsdetagoznak/Tozsdetagokek-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>

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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).