MASTERPLAST – Q1 2020 SUMMARY

The first quarter of 2020 set a record in terms of sales and EBITDA in the Company's operations. Masterplast has expanded its revenues in Q1 2020 by 13% compared to Q1 2019. The Group's financial result was worse due to the unfavourable exchange rate effects; however, the profit after taxation was EUR 272 thousand compared to the EUR 238 thousand base. EBITDA was EUR 1126 thousand (4.5% EBITDA ratio) in Q1 2020 compared to EUR 934 thousand (4.2% EBITDA ratio) in Q1 2019. Masterplast expected uncertain construction environment for the future, which may be mitigated and offset by Hungarian government's incentive programs.

MODEL UPDATE

We decreased our 12-month target price to HUF 825 from HUF 910 and maintained the Buy recommendation for Masterplast. Although we decreased our estimates for revenues due to the expected negative trends on the real estate markets, but the Hungarian government bond yields have decreased substantially during the recent months, that partly offset the negative effect of the revenue, operating, and net profit decrease on our DCF value. The forint has weakened sharply in recent weeks; therefore, we also modified the EUR/HUF rate used to calculate the target price, for which we used our latest forecast.

IMPROVING RESULT – Q1 2020

The total revenue of the Group amounted to EUR 24 952 thousand in Q1 2020, which was 13% higher than in Q1 2019. Compared to the increase in turnover, the increase in the trade margin value was higher in Q1 2020. The Group's trade margin was higher on the Ukrainian and Polish markets, but the realized margin volume grew on the Hungarian and Romanian markets, as well. The cost of materials and services – considering the change in the self-manufactured inventories as well – has increased (10%) less than the turnover expansion in Q1 2020.

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	Q1 2020	Q1 2019
Sales revenue	24952	22068
EBITDA	1126	934
EBITDA ratio	4.5%	4.2%
Profit after tax	272	238
Net income ratio	1.1%	1.1%

Source: Masterplast, MKB

The Group's EBITDA amounted to EUR 1126 thousand in Q1 2020 (4.5% EBITDA ratio) compared to the EUR 934 thousand (4.2% EBITDA ratio) in the base period, which showed a 21% growth. The operating profit (EBIT) reached EUR 494 thousand in Q1 2020, which rose by

25% compared to the EUR 396 thousand level of the base period. The Group PAT was EUR 272 thousand in Q1 2020.

The interest revenues also increased while an interest expenditures decrease was observable in Q1 2020 compared to the base period. With regardsto the other financial items, the Company has generated and booked loss in Q1 2020 compared to the profit of Q1 2019.

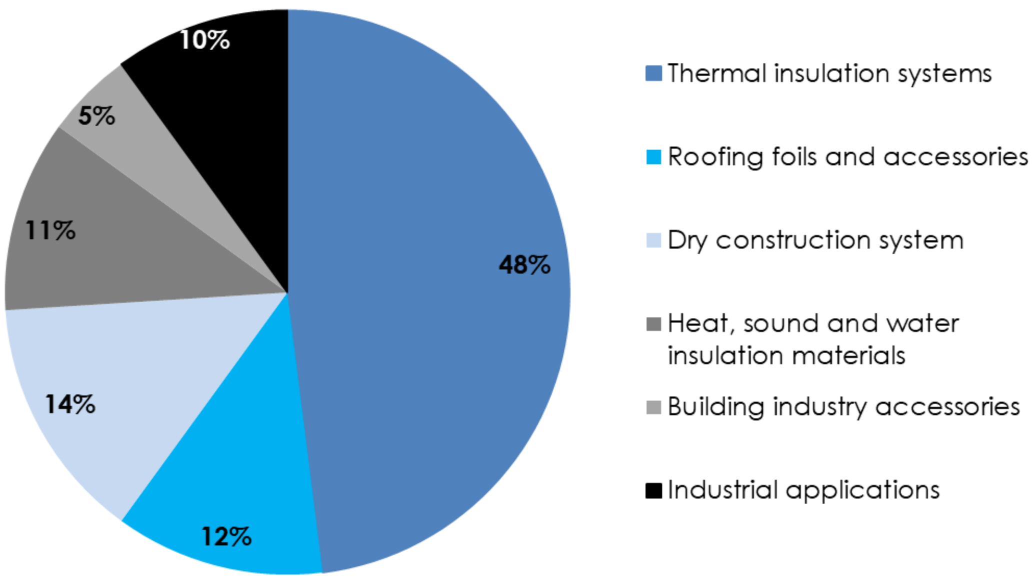
As the Company mainly realises its purchases in euro and USD and the sales are being generated in local currencies; therefore, the fluctuation of these currencies can have a remarkable effect on the Group's financial results. The Company had concluded EUR/USD and EUR/HUF based hedging deals in Q1 2020, 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 44 thousand loss as other financial result in Q1 2020 compared to the EUR 60 thousand profit of Q1 2019.

SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (48%): its sales increased by 14% in the first quarter compared to the base period. The most significant increase was recorded in the fiberglass mesh and in EPS sales. In the **dry construction system** product group sales increased by 12%. The turnover growth on the Hungarian and Serbian markets was the highest. In the **heat, sound and water insulation materials** segment the sales in Q1 2020 increased by 3%, the sales of foam products were smaller, while there was a growth in the turnover of glass and rock wool products, the XPS products and drainage ditch system. Turnover of the **Roofing foils and accessories** reached a 6% higher level in Q1 2020 as in Q1 2019. In all item groups the sales reached higher amount. In the **building industry accessories,** the sale of products increased by 2% in the first quarter of 2020.

In case of **Industrial applications product** group, Masterplast achieved 45% higher sales level in Q1 2020 compared to the base period due to the non-strategic trade of raw materials while the revenue from packaging related products also increased compared to Q1 2019.

Sales broken down into product categories in Q12020



Source: Masterplast, MKB

MOST RELEVANT MARKETS

Masterplast has faced slightly moderated but mostly favorable trends and industrial climate in its country portfolio in the first two months of Q1 2020. In March, economic actors, including Masterplast, typically had to cope with the global crisis caused by the Covid-19.

On the most significant **Hungarian** market, the positive construction mood remained intact in the first quarter of 2020. According to the data of the Central Statistical Office, the construction output increased in February compared to the same period of the previous year, but from the middle of March the number of new investments decreased slightly. The impact of the global health emergency and the resulting restrictions, unlike in other sectors, did not have a negative effect on the construction sector in the first quarter, and for this reason there was a huge demand for raw materials.

In **Romania,** the construction industry closed a strong quarter, the previously launched building insulation projects continued in January-February. In addition, the unusually favourable weather conditions also had a positive effect on demand. However, from the middle of March, emergency status has been announced due to the Covid-19 and major commercial activities and construction works were halted.

In **Serbia**, construction activity increased in the first quarter of 2020, while the number of building permits issued also increased significantly in the first two months of the quarter.

In **Ukraine**, the building industry performed well overall in Q1 compared to the same period in 2019. During the Covid-19 situation at the end of the quarter, no direct government measures were introduced to support the construction industry.

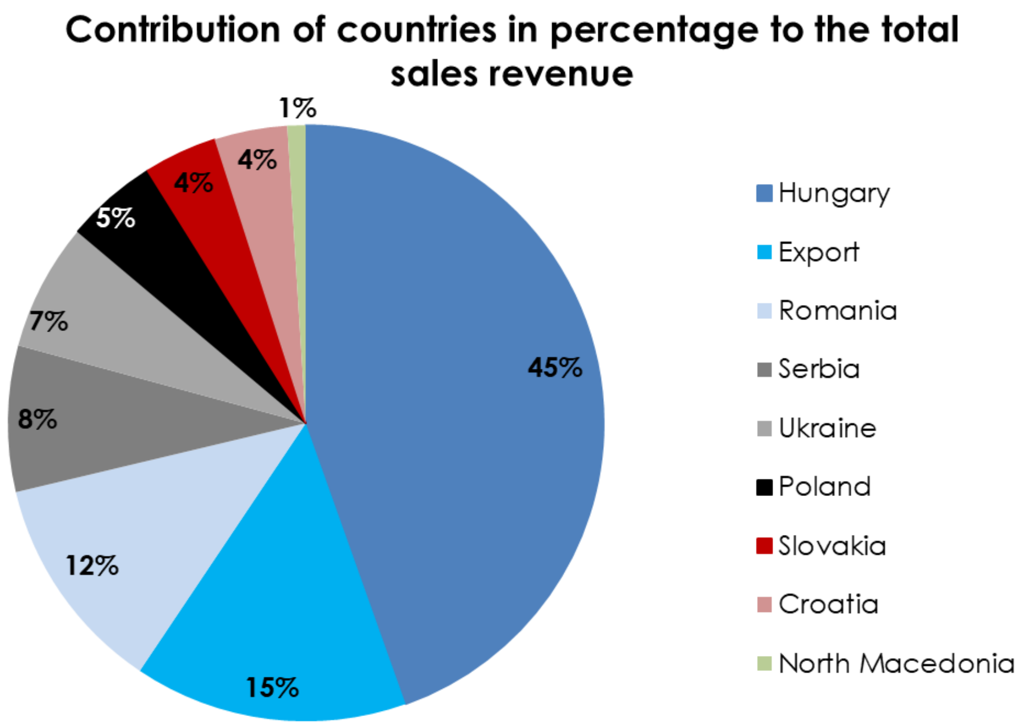
SALES BY COUNTRIES

The Group has increased its total sales by 13% in Q1 2020 compared to the base period. Remarkable gains in sales were achieved on the Romanian, Ukrainian, Serbian, Slovakian and Hungarian markets.

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 29% in Q1 2020 compared to the base period. Sales increased in all product group, but EPS and fiberglass mesh at the Thermal insulation system sales reflected the highest rates.

The European appearance of the COVID-19 had the greatest impact on the **Export** market, which decreased by 11% in Q1 2020 compared to the base period. Apart from the Building industry accessories, the Group had slightly decreasing sales in each product group. Considering its markets, the Masterplast reached a growth in the German, Cyprian and Austrian areas, while the biggest drop was in Italy, in Denmark and in Ireland.



Source: Masterplast, MKB

On the key **Romanian** market, sales increased by 31% in Q1 2020 compared to the base period. The sales of Thermal insulation system and within that the fiberglass mesh products increased the most.

In **Ukraine**, growth in sales amounted to 3% in Q1 2020 compared to the 2019 basis. The revenues increased 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 increased by 11% in 2020 Q1. A growth in sales was achieved regarding the Thermal insulation system, the Roofing foils and accessories and the Dry construction system product group. The turnover of the other product groups was smaller in the first quarter.

On the **Croatian** market the Group sales fell by 6% in Q1 2020 base term. On the **Polish** market the sales were down by 1% in Q1 2020 compared to the base. The sales increased by 3% in Q1 2020 on the **Slovakian** market.

MODEL UPDATE

Masterplast expected uncertain construction environment for the future, which may be mitigated and offset by government incentive programs. In addition to maintaining the financial stability, the Group is ready to handle the negative effects of the Covid-19 epidemic by keeping up a stable supply chain and a flexible logistic background, but the deteriorating environment may also have a negative impact on the Company's turnover and operating profit.

Mainly due to the excellent performance of the Hungarian market, the Company achieved record sales and earnings in Q1 2020. On the Group's main Hungarian market, the sales increased by 29% in Q1 2020, the share of the Hungarian market was 45% of the total turnover in the last three months. Therefore, it is very important how the domestic construction sector will perform for the rest of the year.

The company's management responded quickly with measures to mitigate the expected negative effects of the virus. In our view, a slowdown in the construction industry is inevitable (both in Hungary and in the region), even though there were no signs of a decline in January and February, but the March figures have already shown a decline in construction statistics.

The impacts of the virus on the global construction business might prove to be detrimental. Covid-19 affects both material and labour, key cost components of construction projects, and by doing so, challenge on-going project delivery, companies' liquidity and whole business models.

According to the Central Statistical Office (KSH), the volume of Hungary's construction output was 5.2% smaller in March 2020 than in February and 3.4% lower than the March 2019 print. The construction sector has not broken its stagnating trend lasting for a year now.

The figures reported by the Central Statistical Office and the characteristics of the sector suggest that the Covid-19 crisis will cause a gradual and slow contraction in construction rather than a sudden collapse observed in various other sectors.

The volume of construction contracts in Hungary in the first week of May was 18 to 20% lower than a year earlier, the National Federation of Hungarian Building Contractors (ÉVOSZ) said. According to an ÉVOSZ estimate, construction output between 1 January and 10 May was 3 to 5% lower than in the same period of 2019. This still beats the European average as at the end of April, the European Construction Industry Federation (FIEC) estimated construction industry output in EU countries to be between 80 and 85%.

Larger market participants remain optimistic because the government's previous and current measures (such as 5% VAT on housing in so-called rust zones, advance of public building renovations, launch of the hotel and restaurant renovation loan program) may boost the construction sector.

If the negative trend in the construction sector continues in the coming quarters (both in Hungary and in Eastern and Central European countries), it may also have a negative effect on Masterplast's sales revenue, so the sales growth trend we expected earlier would not be sustainable. However, the extent of the decline in sales in the current uncertain situation is very difficult to predict. Primarily a decrease in sales revenue is expected, the efficiency of the company's operations is not expected to deteriorate.

It is currently very uncertain how long would it take to normalize the situation in the construction industry. Further state subsidies for construction and building energy renovations are also needed to offset the persistently deteriorating industrial environment.

Despite the Covid-19, the following points will continue to help the company's profitability:

- Due to tighter environmental and energy standards, insulation aspects are changed, and their continuous integration into the regulatory environment will result in a permanent market expansion. The applied thermal insulation thickness in Hungary is close to 10 centimetres, which was only 5-6 cm 5 years ago. Meanwhile, the Western European average is 15 cm; hence, the market is expected to move in this direction.

- With the further increasing production output of the Company the own production segment has become more efficient and profitable. EBITDA and net profit margins are expected to continue to improve.

- Own products ensure profitable growth at Masterplast and the target is to increase their share of sales to 50% by the end of 2020 (from the current 41-45%). The Company's long-term goal is to have its own manufacturing in all strategic product lines, to further strengthen its market position and to have a 65% share of self-manufactured products by 2030.

Dividend

At an extraordinary general meeting in April, the board of directors decided to suspend dividend payments this year due to the need to preserve financial stability and the financial needs of the investments.

VALUATION

DCF valuation

We decreased our 12-month target price to HUF 825 from HUF 910 and maintained the Buy recommendation for Masterplast shares. Although we decreased our estimates for revenues due to the expected negative trends on the real estate markets, but the

Hungarian government bond yields have decreased substantially during the recent months, that partly offset the negative effect of the revenue, operating, and net profit decrease on our DCF value. The forint has weakened sharply in recent weeks; therefore, we also modified the EUR/HUF rate used to calculate the target price, for which we used our latest forecast (see below).

We used the following parameters and methodology during our DCF calculations:

- The discount rate we used to get the present value of future cash flows is 6.12%, however, we assumed a slightly higher rate (6.97%) for the terminal value based on an assumption of a higher yield environment in the medium term. We presumed that capital structure will remain stable in the future.
- Equity risk premium is assumed at 6% in the detailed period and in perpetuity.
- For calculating the target price, we used our own EUR/HUF, and 10 year Hungarian government bond yields forecast, which are available on this website: https://www.mkb.hu/sw/static/file/MKB_EK_Elorejelzesek_2020_aprilis.pdf

DCF Model (EURmn)	**2019**	**2020E**	**2021E**	**2022E**	**2023E**	**TV**
Sales	107104	109958	113305	115071	117179	118651
Sales growth	*10,03%*	*2,66%*	*2,66%*	*3,04%*	*1,56%*	*3,11%*
EBIT	5 244	5 113	5 559	5 725	5 950	6 209
EBIT margin	*4,90%*	*4,65%*	*4,91%*	*4,98%*	*5,08%*	*5,23%*
Tax rate	*7,0%*	*7,0%*	*7,0%*	*7,0%*	*7,0%*	*7,0%*
Taxes on EBIT	*-367,08*	*-357,93*	*-389,10*	*-400,77*	*-416,53*	*-434,60*
NOPLAT	**4 877**	**4 755**	**5 169**	**5 324**	**5 534**	**5 774**
Free Cash flow to the Firm	**17104**	**1571**	**2001**	**2112**	**2306**	**3038**
WACC	**6,12%**	**6,12%**	**6,12%**	**6,12%**	**6,12%**	**6,97%**
Terminal value growth						*1,0%*
Terminal value						51421
Discount factor	0,94	0,89	0,84	0,79	0,74	0,69
Discounted free cash flow	16117	1395	1674	1665	1713	37822
Enterprise value	60385					
Net debt	25969					
Equity value	34416					
Number of shares outstanding (mn)	14601					
Cost of equity	8,43%					
Fair value per share (EUR, HUF)	**2,16**	**756**				
12M target price (EUR, HUF)	**2,36**	**825**				

Source: Masterplast, MKB

Sensitivity (per share)

WACC	Terminal value growth: 0,0%	0,5%	1,0%	1,5%	2,0%
5,97%	825	907	1 007	1 129	1 281
6,47%	755	825	907	1 007	1 129
6,97%	695	755	**825**	907	1 007
7,47%	643	695	755	825	907
7,97%	597	643	695	755	825

Source: Masterplast, MKB

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

Change from the prior research

Our first research was published on 15 December 2017. Our latest price target was HUF 910, but the changes in fundamental factors justified the update of our model. Our new price target is HUF 825.

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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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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.