

SUMMARY

Masterplast Group is one of the leading business service providers focusing on **insulation materials** and **solutions** in the Central and Eastern European region. The cornerstones of the business strategy are strong control over production and reliable supply secured for more than 1000 trading partners mostly by the company's own logistic fleet. The product slate ranges from low-price/low-quality leisure time products to **high-end materials** targeting small and medium-sized building material traders.

KEY THEMES

Masterplast is involved in the supply chain of Hungarian and regional **construction** activities, therefore the Group's operation are linked to the general industry developments. These allow the Group to profit from the recent upturn in the industry. In addition, the recent product upgrades will enable the company to shift-off

from the construction sector and increase its footprint in the **packaging sector** as a way of diversification. Furthermore, due its Serbian exposure the Group has a favorable structure, which might enable them to profit from the **on-going and upcoming transfers** of EU funds from the Structural budget.

Company data:

Recommendation: Buy

Target price: HUF 775

Price: HUF 579 (14 Dec 2017)

52 week range: HUF 488 - 718

Market cap (HUF, m): 7,957

Average daily turnover (number of shares): 9,110

Code:

Bloomberg: MASTERPL HB

Reuters: MAST.BU

VALUATION

Our DCF model assumes a HUF 720 as the fair value for Masterplast shares and a HUF 775 as the 1-year target price.

BASIC FINANCIAL FIGURES

SELECTED FINANCIAL METRICS AND RATIOS						
EUR / for the year of	2011	2012	2013	2014	2015	2016
Sales	82 173 069	85 234 259	81 322 000	81 605 000	83 773 139	80 162 711
EBITDA	5 420 564	2 265 542	4 232 000	5 038 000	5 117 064	4 582 400
EBITDA margin	6,6%	2,7%	5,2%	6,2%	6,1%	5,7%
Depreciation and amortization	- 2 127 448	- 1 762 033	- 1 552 000	- 2 319 000	- 1 432 522	- 1 298 615
Operating profit	3 293 116	503 509	2 680 000	2 719 000	3 684 542	3 283 785
Operating profit margin	4,0%	0,6%	3,3%	3,3%	4,4%	4,1%
Net profit	1 591 045	- 1 174 047	1 215 000	766 000	2 564 831	2 322 452
Net profit margin	1,9%	-1,4%	1,5%	0,9%	3,1%	2,9%
ROE		-5,9%	5,3%	3,4%	11,3%	9,5%

Source: Masterplast, MKB

Analyst:

Akos Kuti

Tel: +36-1-268-7940

E-mail: kuti.akos@mkb.hu

HISTORY OF THE COMPANY

The company was founded in 1997 by Dávid Tibor and Balázs Ács with their own equity of HUF 2 million. Due to the dynamic expansion in operation, Masterplast added international suppliers and sales partners to its distribution network. During 1998 the Company worked out an agreement with producing partners who used Masterplast raw materials to produce products specified by Masterplast.

Between 1999 and 2003 the Company established subsidiaries in Slovakia, Romania, Croatia, Serbia, the Czech Republic and Germany in order to increase its footprint within the region. In 2004 Masterplast acquired one of its rivals and in 2005 they set up a representative agency in Ukraine.

In 2005 Masterplast started its own production company in Kál, Hungary which produces foam underlay and other plaster profiles and accessories. It was followed by an even bigger capital investment into a factory producing EPS in Szabadka. In 2006 Masterplast Kft. changed its name to Masterplast Group International and became a private limited company with equity of HUF 20 million.

Due to the financial crisis during 2007-2008, the company closed several subsidiaries in countries where its presence was marginal and lacked significant competitive advantages.

Consolidated companies as of 30 September 2017

Company	Places of business registration	Equity capital	Foreign currency	Ownership	Voting right	Activity
Masterplast Romania S.R.L.	Romania	36 000	RON	100%	100%	Wholesale of building materials
Masterplast YU D.o.o	Serbia	192 557 060	RSD	100%	100%	Wholesale of building materials, EPS manufacturing
Master Plasts d.o.o.	Croatia	20 000	HRK	100%	100%	Wholesale of building materials
MasterPlast TOV	Ukraine	27 000	UAH	80%	80%	Wholesale of building materials
Masterplast Sp zoo	Poland	200 000	PLN	80,04%	80,04%	Wholesale of building materials
Masterfoam Kft.	Hungary	3 000 000	HUF	100%	100%	Foil manufacturing
Masterplast Kft.	Hungary	10 000 000	HUF	100%	100%	Wholesale of building materials
Masterplast D.O.O.	Macedonia	973 255	MKD	10%	10%	Wholesale of building materials
OOO Masterplast RUS	Russia	1 000 000	RUB	100%	100%	Wholesale of building materials
Green MP Invest	UKraine	33 223 500	UAH	100%	100%	Property management
Masterplast Hungária Kft.	Hungary	230 000 000	HUF	100%	100%	Wholesale of building materials
Mastermesh Production Kft.	Hungary	300 000 000	HUF	100%	100%	Wholesale of building materials
Masterplast International Kft.	Hungary	3 000 000	HUF	100%	100%	Wholesale of building materials
Indirect relations						
Masterplast D.O.O.	Macedonia	973 255	MKD	80%	80%	Wholesale of building materials
Affiliated company of the Group						
Masterprofil Kft	Hungary	3 000 000	HUF	20%	20%	Profile manufacturing

Source: Masterplast, MKB

BUSINESS PROFILE

The two main activities of the Group are **sales and production** of insulation materials and other building materials.

1. Sales

Masterplast Group follows a business-to-business (B2B) strategy, which means that instead of selling products to end-users the company provides them through business partners (brand-dealers, building material traders, DIY shops etc.). In the CEE region the Company built a network of more than 4000 stable customers.

- **Domestic sales:** sales within the borders of the respective subsidiary's country (Hungary, Romania, Serbia, Croatia, Ukraine, Slovakia, Poland, Austria, Macedonia, Russia)
- **Export sales:** sales into a country where Masterplast does not operate a subsidiary. Main export markets are Estonia, Lithuania, Latvia, Germany, Slovenia, Greece, Turkey and Italy.

2. Production

a) Self-production

The Company itself produces those products which are considered to be

- strategically important;
- difficult to ensure in constant quality or quantity;
- cheaper to manufacture than purchase.

Masterplast operates **three manufacturing factories:** one in Hungary, Serbia and Romania. The factory in **Kál, Hungary** started to operate in 2005 producing **expanded polyethylene foam sheets** for construction and packaging.

Production plant in Kál, Hungary



Product of Kál factory - ISOFOAM



Source: Masterplast, MKB

The company opened its first ISOMASTER EPS insulation board factory in **Subotica, Serbia** in 2008. The biggest investment launched by the Serbian unit (Masterplast YU d.o.o.) during the past years was the MASTERNET fiberglass mesh production facility, which will be completed by 2018. The products produced in Subotica are made for the dynamically growing EU market.

Due to the rising energy prices and tightening environmental regulations the market demand has increased and that made the capacity expansion reasonable. Due to the new technologies the company was able to manufacture products with higher and more stable quality.

The waste percentage and energy usage are much lower than that of an old plant. The less energy use does not only support a more economical production but also environmental aspects. In 2017 the company sold solely self-produced fiberglass mesh in the EU.

Production plant in Subotica, Serbia



Product of Subotica factory
EPS



Fiberglass mesh



Source: Masterplast, MKB

Masterplast's third factory started its operation in **Sepsiszentgyörgy, Romania** during 2012. The plant produces **adhesive materials** - which is one of the element of the strategically important thermal insulation system - and **EPS**. Approximately 30% of the products is produced by Masterplast, which is planned to be increased to 40% in the upcoming years.

b) Manufacturing under licence

The majority (approximately 70%) of the Company's products are produced by a second party, operating in Europe or in the Far-Eastern region. The product features, design, quality requirements and packaging details are specified by Masterplast.

KEY PRODUCTS

Masterplast sells wide range of products, thus competes with several companies across those categories. These are international manufacturing companies, as well as smaller local enterprises distributing construction materials.

Main product lines (and competitors)

- Thermal insulation systems and insulation materials:** a whole system which includes insulation material, adhesive, plaster, retainers and other insulation accessories used during refurbishments and constructions. Due to the stricter energy-efficiency regulations, demand for heat-insulation materials is likely to increase in the future (main competitors: Baunit, Schwenk, Weber, STO and Knauf).

Masternet fiberglass mesh



Source: Masterplast, MKB

- Roof underlays and roof accessories:** the most important function of roof underlays is the drainage of the humidity passing through the roof covers and as a secondary function it also protects the structures and spaces underneath. In most cases they are used during constructions, roof refurbishments (main competitors: Juta, Foliarex, Marna, Dörken and CB).

Mastermax underlay for roofing



Source: Masterplast, MKB

- Bituminous roof covering:** corrugated bituminous sheets (Ondulin, Gutta)



Source: Masterplast, MKB



- **Heat-, sound- and water insulation materials** (main competitors: Rockwool, Isover, Knauf, Austrotherm)

ISOMASTER EPS



WOODWOOL – thermal insulation



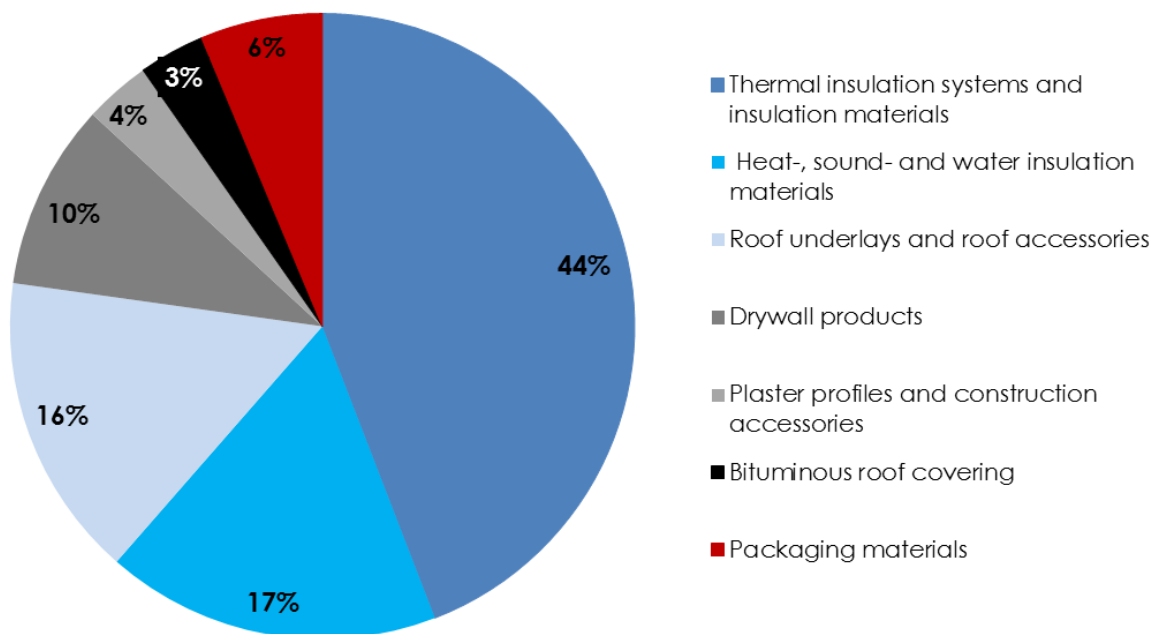
Source: Masterplast, MKB

- **Drywall products** (main competitors: Rigips, Lafarge, Knauf)
- **Plaster profiles and construction accessories**

BREAK-DOWN OF SALES

Considering the break-down of sales, more than 60% came from thermal insulation systems and insulation materials and heat, sound and water insulation materials.

Sales broken down into product categories in 2016



Source: Masterplast, MKB

Regarding the geographical breakdown, the biggest proportion of sales comes from Hungary. It was 30% in 2016, while 15% came both from Romania and the export markets. Serbian sales made up 11%.

The Serbian construction material market is quite underdeveloped yet, but it is expected to converge to the EU average, which serves as an opportunity for Masterplast to exploit. The management foresaw a great performance on the Ukrainian market as well, while the Polish market is already in a mature phase with numerous strong peers.

SALES BROKEN DOWN BY COUNTRIES

	2011	2012	2013	2014	2015	2016
Hungary	27%	26%	26%	26%	27%	30%
Export	4%	7%	20%	15%	14%	15%
Romania	26%	23%	11%	11%	15%	15%
Serbia	12%	11%	6%	5%	12%	11%
Ukraine	9%	11%	12%	10%	10%	9%
Croatia	8%	7%	6%	5%	5%	5%
Poland	4%	5%	6%	5%	6%	5%
Slovakia	4%	4%	4%	10%	6%	4%
Other	7%	7%	6%	6%	6%	5%

Source: Masterplast, MKB

MAIN MARKETS

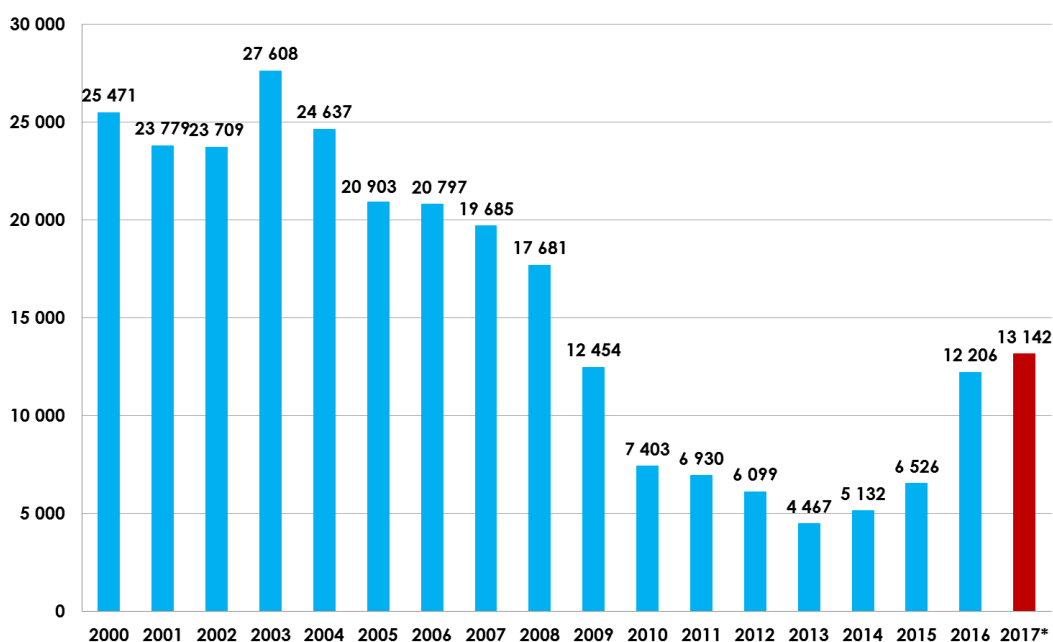
Currently the sales of Masterplast products are closely linked to real estate market trends, especially to new constructions. Following the financial crisis in 2008, the number of new constructions dropped heavily in all CEE countries, except Poland. Permits for new constructions in Hungary started to pick up in 2014 and since then it has been increasing year by year, but the number is still below the pre-crisis level.

BUILDING PERMITS - PERCENTAGE CHANGE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Bulgaria	61,3	21	-23	-59,2	-36,4	-14,5	-3,3	-15,7	29,1	8,9	5,2
Croatia	9,8	-3,1	-0,8	-31,7	-20,8	0,9	-27,2	-21,8	-1,7	-10,8	33,2
Hungary	-13,5	-0,2	-0,4	-34,1	-38,6	-32,1	-15,6	27,1	30,6	29,4	157,2
Austria	7,9	-2,4	0,6	-0,3	0,8	18,8	-11,2	13,7	4,1	1,6	5,9
Poland	38,5	47,5	-6,9	-23,6	-2	6,1	-10,7	-16	13,9	21,3	12,3
Romania	17,2	10,9	7,9	-20,1	-13,6	-6,6	-4	-0,2	-0,3	3,8	-1,2
Slovakia	3,1	-9,8	59,6	-30,2	-20,1	-19,5	-0,2	13,5	8,6	23,4	14,6

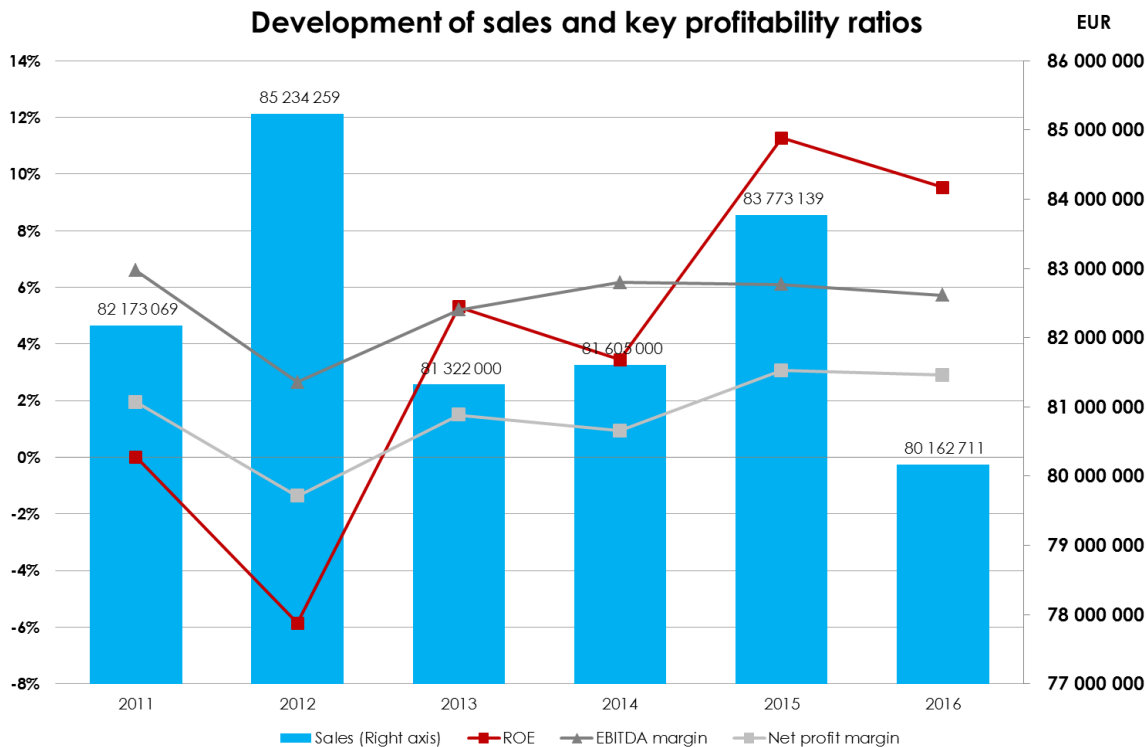
Source: Eurostat, Masterplast, MKB

Number of new construction permits issued in Hungary



*Estimation for 2017

Source: EUROSTAT, Masterplast, MKB



Source: Masterplast, MKB

CYCLICAL OPERATION

From 2011, the average annual sales growth for Masterplast has stagnated, which meant the company struggled to increase its revenue despite the improving external environment. However, we saw a generous pick up in the number of new construction permits issued especially in the core market of Hungary. As products of the Company are usually needed in the middle and final stage of the building process, this will result in sales lagging the trend of new construction permits with a 1-2 year on average.

The Company managed to reduce other operating expenses (such as salaries and administrative costs), and with depreciation also decreasing, operating profit margin remained stable around 4%. Average net profit margin from 2012 to 2016 was 1.5%, while average ROE came at 4.7%.

Looking at the balance sheet; the net debt slightly increased from 12.4 million EUR to 14.6 million EUR between 2012 and 2016, while in 2012, shareholder's equity jumped due to the SPO. Analyzing leverage ratios we could observe that net debt to equity and capital was quite stable around 50% and 35% respectively between 2012 and 2016. Net debt to EBITDA fluctuated around 3.2X. Quick ratio –which measures the short term liquidity situation of the Company by comparing the level of current assets to current liabilities – is well above 1X, which shows a healthy liquidity situation. However the quick ratio warns us

that inventories – which are less liquid assets – are quite high among current assets, which could lead to liquidity problems later.

SELECTED BALANCE SHEET FIGURES (EUR) AND LEVERAGE RATIOS						
for the year of	2011	2012	2013	2014	2015	2016
Current assets	27 699 308	29 886 897	28 299 779	33 316 512	35 851 353	35 160 535
Intangible assets	20 577 007	22 507 883	24 018 949	20 475 846	21 319 148	24 920 852
Current liabilities	25 132 767	24 296 560	21 999 281	25 568 437	25 284 601	25 701 114
Long-term liabilities	5 937 098	5 259 852	7 374 983	6 595 416	7 999 459	9 509 703
Shareholder's Equity	17 206 450	22 838 368	22 944 464	21 629 135	23 886 441	24 870 570
Net debt	12 354 680	12 281 170	12 737 107	14 463 259	11 116 004	14 645 692
Quick ratio	1,10	1,23	1,29	1,30	1,42	1,37
Acid test ratio	0,57	0,63	0,70	0,59	0,72	0,64
Net debt to Equity	0,72	0,54	0,56	0,67	0,47	0,59
Net debt to Capital	0,42	0,35	0,36	0,40	0,32	0,37
Net debt to EBITDA	2,28	5,42	3,01	2,87	2,17	3,20

Source: Masterplast, MKB

Quick ratio = current assets/current liabilities

Acid test ratio = (current assets – inventory) / current liabilities

Net debt = Total debt – Cash

SHAREHOLDERS' STRUCTURE

During 2011 Masterplast Group registered its shares for trading on the Budapest Stock Exchange. In 2012, the Company raised its capital through an SPO where the shares were sold at HUF 630/share. Although the co-founders hold almost two-third of the total shares (64,49%), they have maintained their stakes for years.

There was only one sale auction back in 2015, where 400,000 shares were sold at a price of HUF549 during a public book-building process. Since that the co-founders sold no stakes.

Shareholders of the Company with holding over 5%*	
Name	Share %
Dávid Tibor	34,69
Balázs Ács	29,8
OTP Fund Management	6,66
Free float	28,85
Total	100

*as of 30 September 2017

Source: Masterplast, MKB

VALUATION

Based on our assumptions sales will grow in 2017, 2018 and 2019 due to the anticipated positive trends on the real estate markets. In our view, market dynamics would change after 2020, thus we expect sales to drop between 2020 and 2022.

In 2017 we foresee EBIT margin decreasing slightly to 3.8% from 4.1% in 2016 due to the shift to lower margin products. We calculated with this 3.8% EBIT-margin on the longer term.

To get net operated profit less adjusted tax (NOPLAT= EBIT *(1-tax rate) we used a 10% tax rate.

Net CAPEX is the capital expenditures exceeding depreciation and amortization expenses. In 2018 the Company plans to invest 6.7 million EUR into the Serbian factory expansion 25% of which is own funding. Starting from 2018 we calculated with net CAPEX of 750 million EUR which is equal to a retention rate of approximately 30%.

For the terminal value we forecasted a perpetual growth rate of 1%, which is the multiple of the retention rate and the projected ROE of 3.4%.

The discount rate we used to get the present value of future cash flows is 6%, however, we assume a slightly higher rate for the terminal value (7%) based on an assumption of a higher yield environment in the medium term. We presumed that capital structure will remain stable in the future: 53% of equity and 47% of debt.

The debt level of EUR 23.5 million is the current debt level as of 30 September 2017 increased by the additional 2.7 million EUR loan needed for the Serbian investment.

After deducting debt from FCFF, we get the equity value (FCFE) which - divided by the number of shares outstanding - leads us to a HUF 720 as the fair value of a share and HUF 775 as the 1-year target price.

DCF Model	2014	2015	2016	2017	2018	2019	2020	2021	2022	TV
Sales	81 605 000	83 773 139	80 162 711	84 972 474	89 221 097	91 005 519	89 185 409	84 726 138	80 489 832	81 294 730
Sales growth		3%	-4%	6%	5%	2%	-2%	-5%	-5%	1%
EBIT	2 719 000	3 684 542	3 283 785	3 228 954	3 390 402	3 458 210	3 389 046	3 219 593	3 058 614	3 089 200
EBIT margin	3.3%	4.4%	4.1%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
NOPLAT	2 613 731	3 494 773	2 774 772	2 906 059	3 051 362	3 112 389	3 050 141	2 897 634	2 752 752	2 780 280
Net CAPEX	- 1 663 338	- 3 063 114	- 5 456 938	- 7 622 667	- 2 425 000	- 750 000	- 750 000	- 750 000	- 750 000	- 750 000
WC change	2 252 195	- 169 798	443 111	- 1 109 412	- 977 183	- 410 417	418 625	1 025 632	974 351	- 185 127
FCFF	- 1 301 802	601 457	- 3 125 277	- 3 607 196	1 603 545	2 772 806	1 881 516	1 122 002	1 028 402	37 292 674
Discount factor				1.00	0.94	0.89	0.84	0.79	0.75	0.75
PV of FCFF (EV)	30 973 015									
Net Debt	21 073 000									
Number of shares outstanding	13 743									
Fair value of a share	720									
1-year target price	775									

Source: Masterplast, MKB

RISKS

Main market and company-specific risks are the following

- **Change in the macroeconomic fundamentals and in the construction market in Hungary and in the countries of subsidiaries:** In the recent years the low interest rate environment fueled housing and construction market activity globally which was beneficial for Masterplast. However; an anticipated change in monetary policies in the region could result in higher interest rates, thus cooling down housing market dynamics, creating a more difficult environment for Masterplast to operate in.
- **Financing risk, risk of credit market conditions:** change in interest rate environment could create refinancing risk, pushing cost of debt higher
- **Foreign exchange risk:** the company makes and receives payments in different currencies thus facing a significant foreign exchange risk. The company applies a quite flexible foreign exchange policy which is formed according to current FX environment

and anticipation of the management, and also by taking into account the FX strategies of the competitors.

- **Legal, administrative and political risk:** EU-funds for energy-efficiency projects have a positive impact on demand for Masterplast products. A drop in these kind of subsidies could result in lower sales.
- **Taxation risk:** the currently effective reduced rate of value added tax imposed on real estate transactions might be increased from 2020, which could temper real estate market activity. However, the Serbian unit will receive a 10-year tax holiday beginning from 2018.
- **Increasing competition:** construction market is not a knowledge-intensive business, thus there is a low barrier to entry which can easily increase market competition
- **Credit risk:** the company operates with deferred payment conditions, with a 45-50 day payment terms on average

DISCLAIMER

1. This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and MKB Bank Ltd. (registered seat: H-1056 Budapest Váci utca 38., company registration number: 01-10-040952, hereinafter: Investment Service Provider)
2. BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.
3. This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.
4. All information used in the publication of this material has been compiled from publicly available sources that are believed to be reliable; however MKB Bank does not guarantee the accuracy or completeness of this material. Opinions contained in this report represent those of the research department of MKB Bank at the time of publication and are subject to change without notice.
5. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Investors are advised to assess the nature and risks of the financial instruments and investment services. A well-founded investment decision can be made only in possession of all the relevant information, therefore investors are hereby explicitly advised to read carefully the information material, contractual provisions, conditions list and general business terms in order to be able to decide if the investment is in line with their risk bearing capacity. MKB Bank also recommends collecting information about the tax consequences and other relevant laws concerning investment services in the financial instruments mentioned in this document.
6. This document is provided for information purposes only, therefore the information provided in or derived from it is not intended to be, and should not be construed in any manner whatsoever as personalised advice or as a solicitation to effect, or attempt to effect, any transaction in a financial instrument (e.g. recommendation to buy, sell, hold) or as a solicitation to enter into an agreement or to any other commitment with regards to the financial instrument discussed. Any such offer would be made only after a prospective participant had completed its independent investigation of the securities, instruments, or transactions and received all information it required to make its investment decision. MKB Bank excludes any liability for any investment decision based on this document.
7. MKB Bank is entitled to provide market making, investment services or ancillary services regarding the financial instruments discussed in this document.
8. Content of this material enjoys copyright protection according to Act LXXVI. of 1999 on copyright, and may therefore be copied, published, distributed or used in any other form only with prior written consent of MKB Bank. All rights reserved. Unauthorized use is prohibited.