

MASTERPLAST - SUMMARY

We maintain our Buy recommendation for Masterplast shares with an increased 12-month target price of HUF 874. The further improving market environment might support the Company to achieve its targets.

- On the most significant markets favorable industrial climate is expected to sustain.
- The Company increased its revenues by 19% in Q1 2019, this dynamic expansion is expected to continue in the next few quarters.
- We improved our estimates for revenues.

Recommendation	BUY
12m target price	HUF 874 per share
Current price	HUF 704 per share
Trading range	HUF 670-720
52 week performance	16%
Market capitalization	10 279 mn HUF
Average daily turnover (number of shares)	18 750
Number of shares	14 601 279
Shareholder's structure	Dávid Tibor - 31.15% Balázs Ács - 26.55% OTP Fund M. - 6.70 % SOH and LPH Kft. - 5.34%
Freefloat	27.74%
Tickers	Bloomberg:MASTERPL HB
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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 centimeters, 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.

In the next 2-3 years, one of the most dynamically growing segments can be the export activity, which means typically Western and South European exports. The largest export market is Italy, but the German and the UK presence have been growing steadily.

Besides the 8 subsidiaries, Masterplast does not plan to establish new subsidiaries. In Serbia and Macedonia, convergence in the European Union can contribute to further growth, Croatia's tourism investments may support the insulation industry, while in Hungary and Slovakia, the construction activity is anticipated to remain significant.

THE COMPANY'S MAIN MARKETS

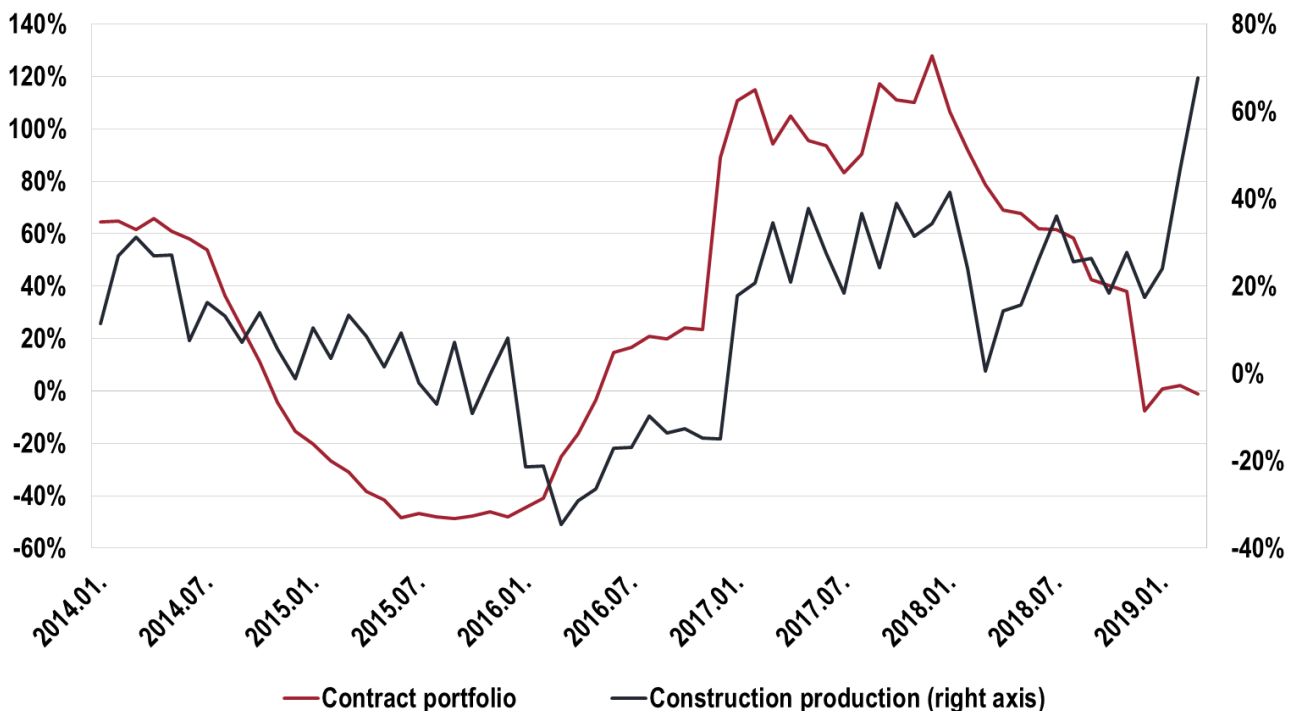
The external economic and industrial environment has a significant effect on the production and sale of the insulation and other construction materials which is the main activity of the Masterplast. While the sale of the constructional products is mainly in relation with the new buildings market, the insulation related materials (primarily the heat insulation) is driven by both new the building and home improvement markets.

Hungary

Majority of the revenue growth came from Hungary, partly due to the extension of the discounted flat VAT rate, and the new CSOK regulation; hence, construction activity may continue to foster. Masterplast will strengthen the services that have been expanded in the recent years, for example the company undertakes precise delivery to its own vehicles, even in small quantities from a substantial stockpile with a minimum waiting time, this has been really important for customers.

In Hungary, on the Group's most significant market the statistics have reported generous construction sector growth and a stronger economic developments compared to preceding years. There is also a warning sign about the future performance of the construction industry. The volume of the contract portfolio of construction companies shows a downward trend, which will sooner or later appear in the volume of construction output. Labor shortages will have a major impact on the performance of the construction industry in the next periods, too.

Construction sector
(compared to the same period last year)



Source: KSH

Construction expectations remain positive, although final withdrawal of the reduced VAT is expected to affect the starting of new investments. The reduced tax rate of 5% can be applied for the sale of new residential properties supplied until 31 December 2023 provided that the construction is subject to a building permit of the competent building authority and the relevant final building permit was issued until 1 November 2018, at the latest.

The Hungarian government announced a seven point action plan in February, 2019. The first point of the plan is to support young couples, where each woman under the age of 40 years would be able to apply for a loan of up to 10 million HUF. After giving birth to three children, the loan would become a non-refundable support. Another point in the action plan aims to expand the beneficiary state-credit scheme set up by the government. In addition the Hungarian government is expanding the „CSOK” family housing allowance programme. These steps represent further growth potential for the Company, because, on one hand, these funds can also boost the renovation of family houses, while on the other hand, new family house construction may also be supported. For example, in the renovation of a family house, typically it is the first step to isolate the building.

Romania

A significant proportion of sales comes from Romania. The improved macroeconomic situation will therefore be accompanied by positive growth in the construction sector. The outlook for 2019 and following years is indicative of a gradual recovery across the industry, supported by a buoyant economic context.

The house building segment will be one of the main drivers of the recovery of the Romanian construction sector, as supported by a combination of governmental housing schemes, increasing household spending power and a more attractive mortgage market. Indeed, residential construction is expected to grow at an average rate of 4.9% until 2020. Moreover, renovation and thermal rehabilitation of residential buildings also marks an important market potential, as around two-thirds of the dwellings are older than 35 years and lack efficient thermal insulation. (Source: European Construction Sector Observatory)

Serbia

The Serbian construction material market is currently quite underdeveloped, but it is expected to converge to the EU average, which serves as an opportunity for Masterplast to exploit. Serbia's construction market is a real success story. Building permits gained record-high in 2018 on the back of tailwinds from the permit reform launched in 2015. The introduction of e-permits shortened the procedure by 100 days (around from 250 to 150 day).

Residential construction in Serbia is reported to be performing extremely well, and a long-awaited recovery is now well underway, with 2018 volumes again surpassing initial expectations.

Ukraine

The management forecasted a great performance on the Ukrainian market, which has been recovered and the output has also increased in the building industry. This seems to

be true, because In Ukraine, the growth in sales was 30% in Q1 2019 compared to the base period.

THE COMPANY ANNOUNCED AN ACQUISITION

Masterplast acquired a 24% stake in T-cell Kft. while the remaining 38-38% of the company was purchased by Zolt Sinkó and Dr. Marcell Lakatos as financial investors. The main activity of T-cell is polystyrene producing in two Hungarian plants – in Hajdúszoboszló and Zalaegerszeg – that can annually produce 300,000 m³ EPS per annum. The company has a market share of around 10%.

According to the Company, the revenue and earning addition from the announced Masterplast acquisition is expected in the second half of this year. With this collaboration, Masterplast's existing manufacturing background will be further strengthened. Masterplast can support the company with its existing manufacturer knowledge base, raw material supply, and distribution and logistics background.

The acquisition can help Masterplast in the following areas

- T-cell will buy the raw material for the production of thermal insulation from the Masterplast, which will result in a large, but low margin increase in revenue for the Company.
- T-cell manufacturer's product background can further strengthen Masterplast's sales and results.
- Capacity increase and favourable manufacturer logistic capabilities can help Masterplast.

BUX INDEX: LONG TERM GOAL

The entry into the BUX index basket is a long-term goal, but on one hand the increase in the exchange rate, on the other hand the decline in the ownership of large shareholder is also required, and the free float based market capitalization should be considerably higher to meet the BUX criterion.

DCF VALUATION

We increased our 12-month target price to HUF 874 from HUF 805 and maintained the Buy recommendation for Masterplast.

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

- Based on our assumptions sales will grow in the next years due to the anticipated positive trends on the real estate markets.
- The discount rate we used to get the present value of future cash flows is 7.02%, however, we assumed a slightly higher rate (7.22%) 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 an EUR/HUF technical analysis, which available on this website: www.mkb.hu/elemzesek/reszvenyiaci-elemzesek/2019-06-12-1

DCF Model (EURmn)						
	2018	2019	2020	2021	2022	TV
Sales	97339	106630	110099	111163	111973	113013
<i>Sales growth</i>	8,61%	9,55%	3,25%	0,97%	0,73%	0,93%
EBIT	3 732	4 874	5 272	5 319	5 328	5 370
<i>EBIT margin</i>	3,83%	4,57%	4,79%	4,78%	4,76%	4,75%
<i>Tax rate</i>	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%
Taxes on EBIT	-261,27	-341,17	-369,02	-372,33	-372,99	-375,91
NOPLAT	3 471	4 533	4 903	4 947	4 955	4 994
Free Cash flow to the Firm	-4093	2123	4017	4684	4771	5271
WACC	7,02%	7,02%	7,02%	7,02%	7,02%	7,22%
Discount factor	0,93	0,87	0,82	0,76	0,71	0,66
Discounted free cash flow	-3825	1853	3277	3571	3399	58465
Enterprise value	66741					
Net debt	26867					
Equity value	39874					
Number of shares outstanding (mn)	14601					
Cost of equity	9,59%					
Fair value per share (EUR, HUF)	2,47	791				
12M target price (EUR, HUF)	2,73	874				

Source: Masterplast, MKB

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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](https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-Masterplast_elemzoi_kommentar_-_2018.01.10..pdf1)

[https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Zrt. - Masterplast elemzoi kommentar - 2018.01.17..pdf1](https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-Masterplast_elemzoi_kommentar_-_2018.01.17..pdf1)

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[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast Plc. quarterly update - 2019.02.28..pdf1](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-Masterplast_Plc._quarterly_update_-_2019.02.28..pdf1)

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[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast Plc. quarterly update - 2019.05.20..pdf1](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-Masterplast_Plc._quarterly_update_-_2019.05.20..pdf1)

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.



MASTERPLAST MODEL UPDATE

12 June 2019 RESEARCH MATERIAL

- Under revision: If new information comes to light, which is expected to change the valuation significantly.

Change from the prior research

Our first research was published on 15 December 2017. In that Initial Coverage our price target was HUF 775, but the changes in fundamental factors justified the update of our model. Our new price target is HUF 874.