

MASTERPLAST - Management has improved its earnings forecast for this year

Masterplast announced in May 2020 the largest acquisition in the Company's history, through which it acquired a factory in Aschersleben, Germany. After the first two months of operation of the German plant, the management of the Company has reviewed the forecast of the strategic result published on December 9, 2019 and amends it for 2020 as follows: improved sales by EUR 3 million from EUR 117 million to EUR 120 million, EBITDA could increase from the expected EUR 8.4 million to EUR 10.2 million in 2020. Profit after tax could increase to EUR 6.2 million instead of the expected EUR 5.5 million.

The expectations of the Company for the 2020 strategic result were improved by the favourable development of the core business and the impact of the results of the plant in Germany, which started its operation in July producing special fleeces and multilayer membranes for the healthcare and construction industries. The revision of the forecasts for the following years will be published after the update of the Company's strategic plan.

COMMENT

In the uncertain economic situation caused by the coronavirus, the news published by the Company is quite positive. Our DCF model, updated on July 29, already shows the positive earnings impact of the German plant. For this year and the following years, a higher result than the figures published in our previous model is expected due to the fact that with the start of the factory, the Company will also supply raw materials to the healthcare sector. In our latest [model update](#), we increased our 12-month target price to HUF 885 from HUF 825 and maintained Buy recommendation for Masterplast shares. **Thanks to the good news, we are also reiterate our target price and the buy recommendation.**

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Change from the prior research

Our first research was published on 15 December 2017. Our latest price target was HUF 825, but the changes in fundamental factors justified the update of our model. Our new price target is HUF 885.

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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_-_2018.01.17..pdf1

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<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Ltd-Masterplast-flash-note-20180323>

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[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast flash note - 2019.06.04.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20flash%20note-2019.06.04.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast model update - 2019.06.12.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20model%20update-2019.06.12.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast Plc. quarterly update - 2019.08.29..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20Plc.%20quarterly%20update-2019.08.29..pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast flash note - 2019.09.11.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20flash%20note-2019.09.11.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast flash note - 2019.10.10.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note-2019.10.10.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast Plc. quarterly update - 2019.11.18..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20Plc.%20quarterly%20update-2019.11.18..pdf)

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[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. Masterplast Plc. quarterly update 2020.02.27.](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20Plc.%20quarterly%20update%202020.02.27)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. Masterplast flash note 2020.03.16.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note%202020.03.16.pdf)

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.