

NEWS

Masterplast informed investors that on 20 May 2020 the Company concluded and entered into a binding agreement with German LHB GmbH & Co. Beschichtungs KG, and with Hartmut Layer (as a natural person) in order to acquire a plant in Aschersleben (Germany, Saxony-Anhalt Province). A deal without the precise details had been published before. The agreement consists of the acquisition of the Aschersleben plant and its entire business that includes real estate, technology, production capacity, manpower and a customer and supplier relationship, as well as technological know-how, innovation, certain trademarks and certificates.

In the first step, Masterplast Nyrt. will acquire a 50% stake and exclusive management rights in the newly established joint venture for the purpose of the project. The remaining 50% of the shares will be owned by Hartmut Layer, the founding owner of LHB. As a member of the Masterplast Group, the main activity of the newly established Company includes the production of special fleeces and multilayer membranes for the healthcare and construction industries.

The Company's expected annual sales could exceed 15 million euros. Masterplast Nyrt. will provide EUR 4 million for the implementation of the first phase of the transaction. The second phase of the transaction is aimed at the acquisition of a shareholding in the co-owner, for which the parties have entered into an option agreement. The buyout process will be completed within the framework of a pre-determined price range in the second quarter of 2023 at the latest, at the end of which Masterplast Nyrt. would acquire a 100% stake in the company.

The co-owner, Hartmut Layer, is a German businessman with significant professional experience. As the owner and leader of group of companies working in wide range scope of industry, he is expected to provide Masterplast Nyrt. with a significant opportunity to move forward in the business. The acquisition will support Masterplast Group in further expansion and development of its diffusion roofing foil manufacturing business; hence, it would become a player in the strategically important healthcare supplier sector, too.

COMMENT

Masterplast informed investors on 12 March 2020 that the Company was acquiring a plant in Aschersleben. In the current announcement, the Company described the details of the acquisition. The event is not only significant in the life of the Company, as it will be the largest acquisition in its history, but it is also important because the Company will enter the healthcare industry. The EUR 4 million funding for the first phase of the transaction has already been announced by the Company. Due to the needs of the financial resources required for the project and the expected economic crisis due to the outbreak of coronavirus, the Company will not pay dividends after 2019.

With this step, the Company also provides the raw material for the diffusion roofing foil production plant in Sárszentmihály from its own production (the production of diffusion roofing foil is also a new investment announced by the Company last December). 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. Thus, both the investment made last December and the current acquisition will help to achieve the long-term goals.

Demand for special fleeces and multilayer membranes has increased significantly due to the COVID-19 epidemic. Entering the healthcare industry would also open up new development prospects for the Company, and can partially offset the declining sales due to the expected weakness of the construction industry.

The announcement is positive, the Company has the opportunity to grow further in Western Europe, and strengthen its market position in the roofing foil segment. With the acquisition, the Company's industrial portfolio will also be significantly strengthened. By producing special membranes, masterplast can become one of the manufacturers of sanitary and hygienic raw materials.

We examine the impact of the acquisition on our DCF model, therefore, we put the target price under review,

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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 price target is under review.

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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-initiation-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 Plc. quarterly update - 2019.08.29..pdf1](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20Plc.%20quarterly%20update-2019.08.29..pdf1)

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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)

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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.