

MASTERPLAST – Q2 2021 SUMMARY

In Q2 2021, despite the effects of the coronavirus, the Group's sales increased by a record 108%. The turnover of the new German manufacturing company and the sales of protective clothing started last December contributed to the jump, but the turnover in the core business also increased significantly compared to the low base. In addition to the increase in turnover, the trade margin in the construction segment also increased, which was largely supported by the high capacity utilization of the Company's production units. With the production of industrial textiles in Germany, the Company has successfully entered the healthcare market, which has supported the Group's performance by generating higher profits next to sales. After the first half of the year, the Company's after-tax profit exceeded its full-year 2020 result by more than 40%.

RECORD RESULT – Q2 2021

The total revenue of the Group amounted to EUR 57 138 thousand in Q2 2021, which was 108% higher than in Q2 2020. The operation of the new German manufacturing subsidiary contributed greatly to the growth, as well as the sale of medical protective clothing, which started last December, but it is important to mention that the Company also achieved an increase in turnover in its core business. The growth rate was boosted by the fact that the base quarter in 2020 was the period most affected by the coronavirus. The increase in turnover, the trade margin and margin rate also increased in Q2 2021 compared to the base period. The growth was largely driven by the operation of the new German manufacturing company and the emergence of the healthcare segment in the portfolio, but margins in the construction segment products also increased. The efficiency of own production has further improved.

thousand EUR	Q2 2021	Q2 2020
Sales revenue	57138	27499
EBITDA	8505	2757
EBITDA ratio	14.9%	10,0%
Profit after tax	6349	1838
Net income ratio	11.1%	6.7%

Source: Masterplast, MKB

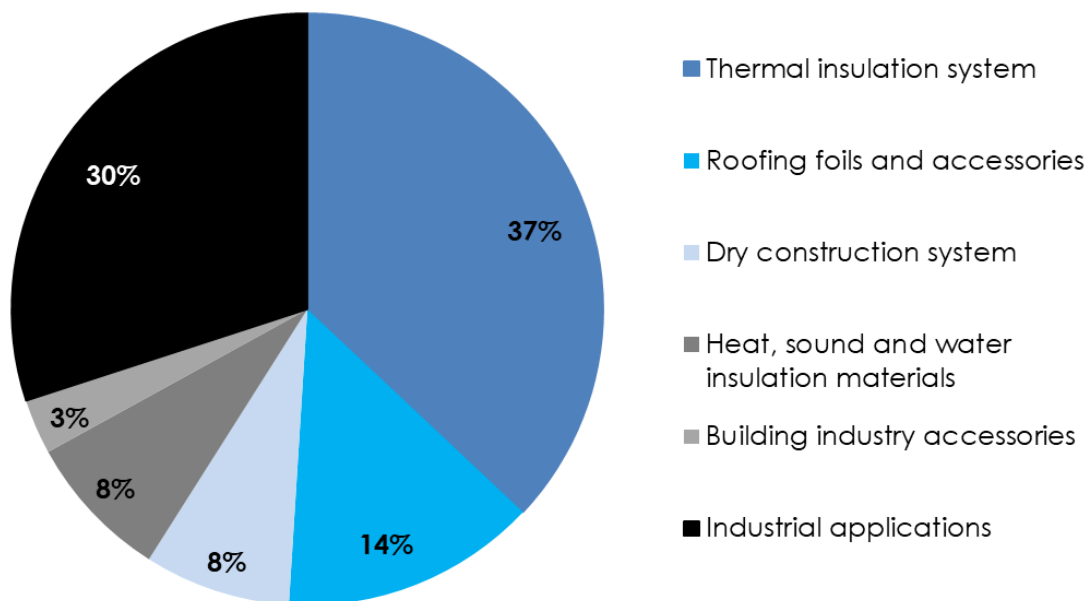
The Group's EBITDA amounted to EUR 8505 thousand in Q2 2021 (14.9% EBITDA ratio) compared to the EUR 2757 thousand (10% EBITDA ratio) in the Q2 2020 base period, which showed a 209% growth. The EBITDA from the core business increased due to efficient operations and the expansion of manufacturing, which was further improved by the higher profitability of the healthcare industry (German manufacturing and protective clothing sales). The operating profit (EBIT) reached EUR 7388 thousand in Q2 2021, which rose by 245% compared to the EUR 2140 thousand level of the base period. The Group PAT (profit after tax) was EUR 6349 thousand in Q2 2021.

SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (37%): its sales increased by 52% in the second quarter compared to the base period. One of the most significant increase (122%) was recorded in the **Roofing foils and accessories** sales. The turnover of diffusion roofing foils almost tripled, to which the turnover of the production unit of Masterplast Nonwoven GmbH, the jump in the sales to polish market, and the increase in the export territories contributed the most. The most significant increase was recorded in the **Industrial applications product group**, Masterplast achieved higher sales level in Q2 2021 by 721% than those of the base period. Revenue from the German plant's healthcare products is reported here, which also contributed significantly to the product group's quarterly sales growth, but income from packaging related products and revenue of non-strategic trade of raw materials also increased.

In the **dry construction system** improved in Q2 2021 by 53% compared to the base. In the **building industry accessories**, the sale of products increased by 6% in the second quarter of 2021. In the **Heat, sound and water insulation materials** product group the sales increased by 40% in Q2 2021 compared to the same period in 2020.

Contribution of product groups in percentage to the total sales revenue



Source: Masterplast, MKB

SALES BY COUNTRIES

The Group has increased its total sales by 108% in Q2 2021 compared to the Q2 2020 base period.

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.

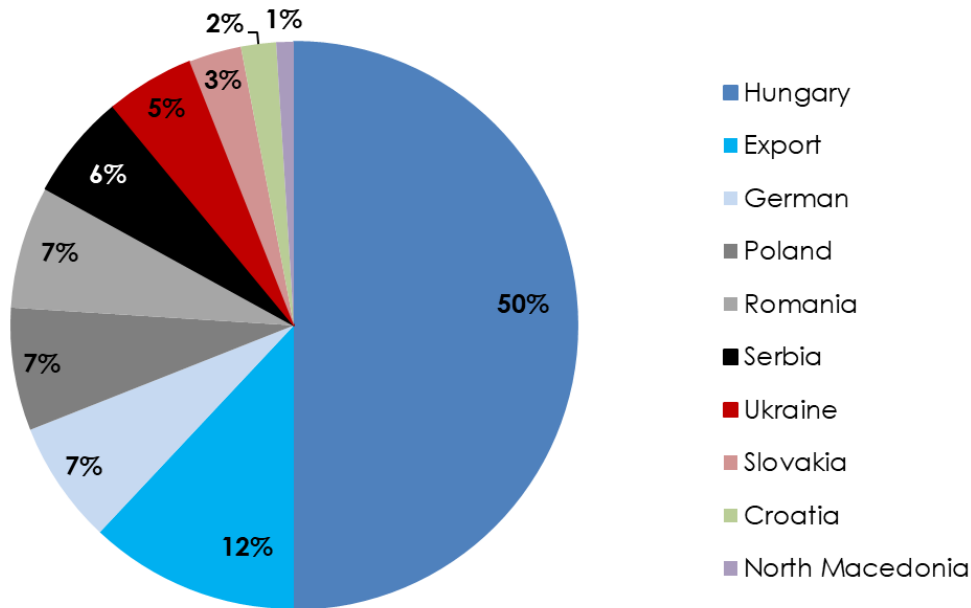
In the first half of 2020, the Company revised and changed the breakdown of its sales by country. With acquisition of Masterplast Nonwoven GmbH, the Group reclassified the German market from the Export category to a separate category, as from H2 2020 Masterplast has own subsidiary in the country.

On the most relevant **Hungarian** market, the turnover increased by 153% in Q2 2021 compared to the base period. The reason for this large growth partially was the entry into the healthcare finished products market. The sales of protective clothing to Hungarian healthcare started in the last quarter of last year in large quantities, and represented in the industrial applications product group. Company also achieved outstanding growth in the construction product groups in the Hungarian market.

In the **Export** market in Q2 2021, the turnover doubled compared to the same period of the previous year. The revenue of fiberglass mesh products from the thermal insulation system product group and the sales of diffusion roofing foils from the roofing foils and accessories product group increased the most, but with the exception of dry construction system, the sales of other product groups also expanded nicely. The increase in turnover in Italy, England, Latvia and France should be highlighted.

The **German** market is reported separately compared to previous periods, because Masterplast has been present in the country with direct sales since H2 2020. As a result of the new manufacturing company, turnover in the country has increased significantly. Masterplast Nonwoven's products are categorized in the product group of Roofing foils and accessories and in the medical foils in the Industrial applications. However, the Group is still presents in the German market with its other product groups, which sales also increased compared to the base period.

Contribution of countries in percentage to the total sales revenue



Source: Masterplast, MKB

On the key **Romanian** market, sales increased by 20% in Q2 2021 compared to the base period. Except for Dry construction system, The Company's turnover decreased in all product groups. Sales of roofing foils contributed the most to the growth, but the product group Heat, sound and water insulation materials also performed well. Only the sales of the dry construction systems decreased.

In **Serbia**, sales increased by 42% in 2021 Q2. Turnover increased in all product groups.

On the **Croatian** market the Group sales increased by 24% in Q2 2021 compared to the base term. On the **Polish** market the sales increased by 152% in Q2 2021 compared to the base. The turnover growth was the biggest at the Roofing foils and accessories product group, but the revenue of the Thermal insulation system product group also improved significantly.

SUMMARY

The coronavirus and the measures related to the current situation determined the living environment but did not fundamentally affect the operation of the construction industry. However, the shortage of raw materials at the beginning of 2021 and the related price increase has an impact on the operation in the Company's markets.

Despite the effects of the coronavirus epidemic, the Company reported strong numbers, its core business was not disrupted by the epidemic, and growth was largely due to the German manufacturing company that acquired last year, with which the Company entered the healthcare industry.

The strong quarterly numbers are due to the expansion of the Company's core construction segment, and the Company's entry into the healthcare industry thanks to last year's acquisition in Germany. Following the completion of the acquisition, a new German subsidiary, Masterplast Nonwoven GmbH, was launched in June 2020, which also produces specialty raw materials for healthcare. In Aschersleben, the German production unit started to produce healthcare raw materials, industrial fleets and membranes with high market utilization and high capacity utilization.

Due to the strong quarterly figures, we are also reiterate our target price (HUF 4433) and the neutral recommendation.

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Change from the prior research

Our first research was published on 15. December 2017. In that Initial Coverage our price target was HUF 823. The changes in fundamental factors and the operation in the Company required regular updates of our model and the target price. Based on the recent changes, our new price target is HUF 4433, which is 37 % higher than the previous target price of HUF 3213.

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>

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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.