## MASTERPLAST – Q2 2018 SUMMARY

**In Q2 2018 there were mostly positive trends in the building industry. Masterplast ("Company") has increased its revenues by 14% compared to the base period. Mainly due to the outstanding performance on the Hungarian, Export and Polish markets, both the revenues and the trade margins increased and the logistics efficiency improved. With the further increasing production output of the Company the own production has become more efficient and profitable. Due to the higher manufacturing headcount and to the wage inflation effects, the overall personnel costs have increased. Mainly as a result of the intense HUF exchange rate movements in the last quarter, 296 thousand euros profit was booked among other financial result is Q2 2018. The EBIT of the Company has increased by 41% in Q2 2018, and the profit after tax has almost doubled compared to the base period. The Company expects a further growth from H2 2018.**

## IMPROVING RESULT

Due to the positive industrial environment the total revenue of the Company was 26 971 thousand EUR in Q2 2018, 14% higher than in the base period of 2017. The Company has generated 1 653 thousand EUR profit after tax in the last three months, compared to the 848 thousand EUR result of the base period.

| thousandEUR | Q2 2018 | Q2 2017 |
|---|---|---|
| Sales revenue | 26 971 | 23 679 |
| EBITDA | 2 067 | 1 558 |
| EBITDA ratio | 7.7% | 6.6% |
| Profit after tax | 1 653 | 848 |
| Net income ratio | 6.1% | 3.6% |

*Source: Masterplast, MKB*

The gross trade margin grew in Q2 2018 compared to the base period. The strongest expansion was achieved on the Company's core Hungarian and the Romanian markets. The fiberglass mesh and the EPS production output in Subotica have significantly increased. The manufacturing efficiency improved and the production output increased in Q2 2018 compared to the base period.

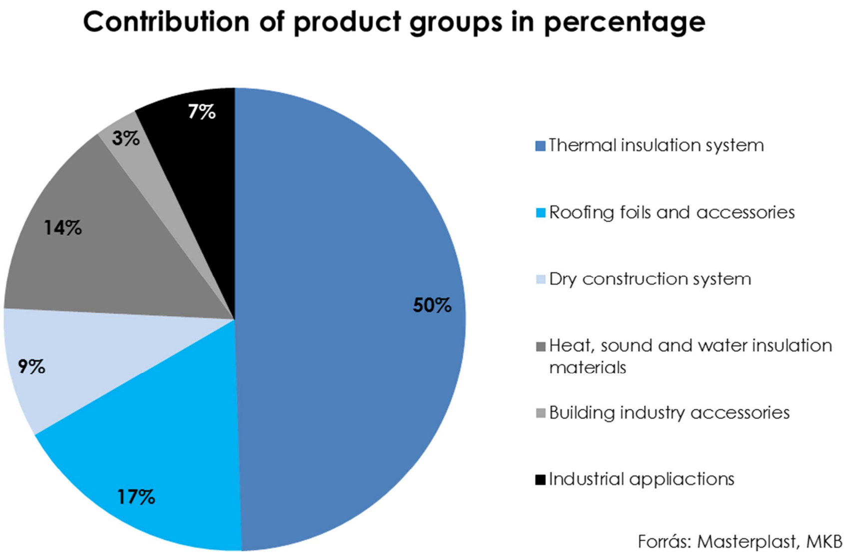
The expanding production of the fiberglass mesh in Serbia and the increase in wages in Hungary resulted in an increase in the personal expenditures in Q2 2018 compared to the base period The Company had 930 employees at the end of June 2018 compared to the staff level of 879 people in the base period. Mainly the investment in the new product lines in Serbia resulted in an increase in the amount of depreciation in Q2 2018.

The EBITDA was 2 067 thousand euros in Q2 2018 (7.7% EBITDA ratio) which represented a more than half million EUR increase.

**Mainly as a result of the intense HUF exchange rate movements in the last quarter, 296 thousand euros profit was booked among other financial result is Q2 2018. Considering the financial results as well, the Company has generated 1 653 thousand EUR profit after tax in Q2, which has almost doubled compared to the base period.**

## Sales by product group

From 2018 onwards the Company has reviewed and changed the reporting of the sales divided by the main product groups. The turnover of **Thermal insulation system** increased by 7% in Q2 2018 and reached the largest share (49%) compared to the total sales. The fiberglass mesh sales contributed the most to the increased revenues. The **Roofing foils and accessories** product group has increased by 12% in Q2 2018. The sales of the reclassified Bituminous roof covering products decreased, while the sale of the diffusive roofing foils remarkably increased. The revenue in the **Dry construction system** was up by 7% in the last three months, in the plasterboard systems group the sales showed an increase on the Hungarian, Serbian, Ukrainian and the Export markets. The **Heat, sound and water insulation materials** product group achieved a 34% sales increase compared to the base period. The sale of the fibre- and rock wool products increased in the greatest extent. The sales in the **Industrial applications** increased by 53% in Q2 2018 on base term, the packaging related products nearly grow by 30%.




## Sales by countries

On the Company's most significant **Hungarian market** the turnover has increased by 24% in the last three months compared to the base term. The largest growths were reported in the sales of the Thermal insulation system related EPS product. The Company has reached a 11% growth on the **Export markets** in Q2 2018 compared to the base period. On the **Romanian market** the sales declined by 1% in Q2 2018. The Company has reported product portfolio and structural changes by the end of 2017, moderating the planned target figures as well. On the **Polish market** the sales were up by 30% in Q2 2018. In **Serbia** the Company's sales have increased by 12% in 2018 Q2 compared to the base period. On the **Croatian market**, the sales were down by 12% (the economic indicators have shown a decline in Croatia), and in **Ukraine** the sales were up by 12% in the Q2 2018 on base term. On the **Slovakian market** the sales were up by 12% in the last three months.

## SUMMARY

The trends and industrial climate in the Company's relevant markets are expected to be favourable in the coming quarters. In Hungary, the Company's core market, the building industry is growing steadily, the number of the building permits also underline an increasing tendency which, coupled with the Company's improving manufacturing and operational efficiency, might help to achieve the targets set out in its strategic plans. In Q3 2018 the growth can continue, we reiterate our buy ratings for Masterplast shares, with a target price of HUF 789 (https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_Nyrt._negyedeves_elemzes_-_2018.03.09..pdf1) .

**Analyst:**
Balázs Rácz
Tel: +36-1-268-7388
E-mail: racz.balazs@mkb.hu

## 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.



**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

MKB Bank wrote flash notes on 10 January 2018, on 17 January 2018, and on 28 February 2018, on 9 March 2018. These researches 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

https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_elemzoi_kommentar_-_2018.02.28..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_Nyrt._negyedeves_elemzes_-_2018.03.09..pdf1

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

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Ltd-Masterplast-flash-note-20180327

**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.

**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 789 which is higher by 3% than our first price target.