

Masterplast Nyrt.

BUY

One year target price: HUF 4036



| Thousand EUR | Q3 2024 | Q3 2023 | |
|--------------|---------|---------|------|
| Revenue | 35 721 | 38 301 | 7,2% |
| EBITDA | 1 500 | -439 | - |
| EBIT | -410 | -2 065 | - |
| Net profit | -1 291 | -598 | - |

| | | | |
|---------------------------------|-----------|------------------------------------|-----------------------|
| Price (08/11/2024) | HUF 2 630 | Net profit (Q3 2024, Thousand EUR) | -1 291 |
| Shares outstanding (thousand) | 16 851 | Bloomberg ticker | MASTERPLAST HB Equity |
| Free float | 50% | BÉT ticker | MASTERPLAST |
| Market capitalization (million) | 44 822 | 52 week min./max. | HUF 2 510-3 300 |

Source: BÉT, Bloomberg

Masterplast Q3 earnings

- The sales decreased slightly compared to the previous quarter, the EBITDA continued to grow. Despite a lower revenue level of around 10%, as a result of the more efficient operation, the Company's cumulative EBITDA profit of EUR 3,5 million was EUR 6,4 million higher than the year before.
- However, at the net profit level, the company made a loss in the third quarter. The wait-and-see attitude can be generally felt throughout Europe, the negative effect of which is reflected more strongly in the weaker sales performance of thermal insulation materials, while the sales result was more favorable in the recently introduced heat, sound and waterproofing materials containing the own produced XPS.
- **We confirm our 12-month target price at HUF 4036, we reiterate the buy recommendation for Masterplast shares.**

Q3 result

- A The total revenue of the Company amounted to EUR 35 721 thousand in Q3 2024, which was 7% lower than in Q3 2023.
- In the organization adapted to demand conditions, the own production capacities operate more cost effectively. The profitability of the Serbian fiberglass factory has improved significantly compared to a year ago,

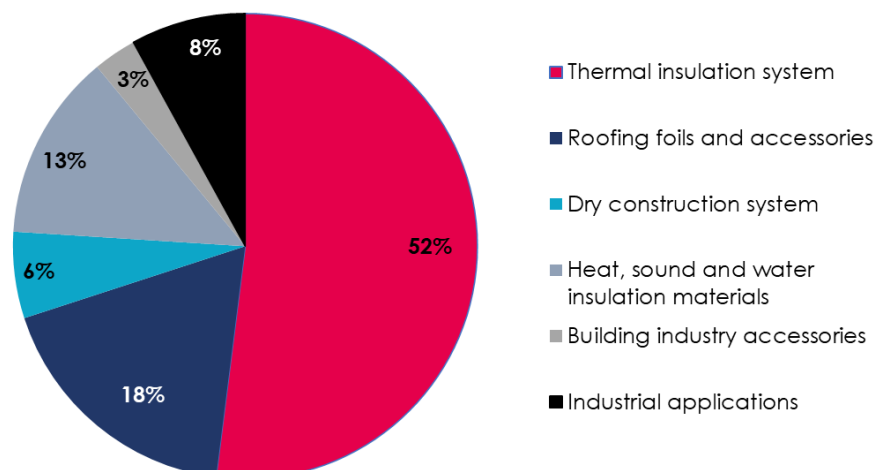
turning last year's loss-making operation back into profit. The EPS factories operated at a lower capacity utilization, while the non-woven textile plants operated at a higher capacity utilization in the quarter.

- The personnel expenses of the Company increased by 23% compared to last year's base, the closing headcount (1 281) was 111 more than a year earlier.
- The Group's operating EBITDA in Q3 2024 was a profit of EUR 1500 thousand. The depreciation increased mostly as a result of the recently launched XPS production unit. Taking depreciation into account, the operating result (EBIT) still showed a loss. The Group PAT (profit after tax) was EUR -1291 thousand in Q3 2024. Exchange rate movements had a neutral effect on the result, in contrast to the base period, where they significantly improved it.

Sales by product group

- In terms of the revenue slate, **thermal insulation systems** provided the biggest share (52%): its sales decreased by 12% in the third quarter compared to the base period. The sales of EPS insulation materials and fiberglass mesh have decreased significantly, as this product range is most affected by price competition.
- Turnover of **Roofing foils and accessories** in Q3 2024 decreased by 3% than in the same period in 2023.
- In the **Industrial applications product group**, sales decreased by 3% in Q3 2024. The performance of self-produced health industry raw materials improved, while the sales performance of other raw material commercial activities decreased compared to last year's base.
- In the **dry construction system** decreased in Q3 2024 by 26% compared to the base. In the **building industry accessories**, the sale of products decreased by 17% in the third quarter of 2024.
- In the **Heat, sound and water insulation materials** product group the sales increased by 3% in Q3 2024 compared to the same period in 2023. Masterplast's recently introduced self-produced XPS product achieved outstanding sales growth. Sales of glass and rock wool also improved.

Contribution of product groups in percentage to the total sales revenue



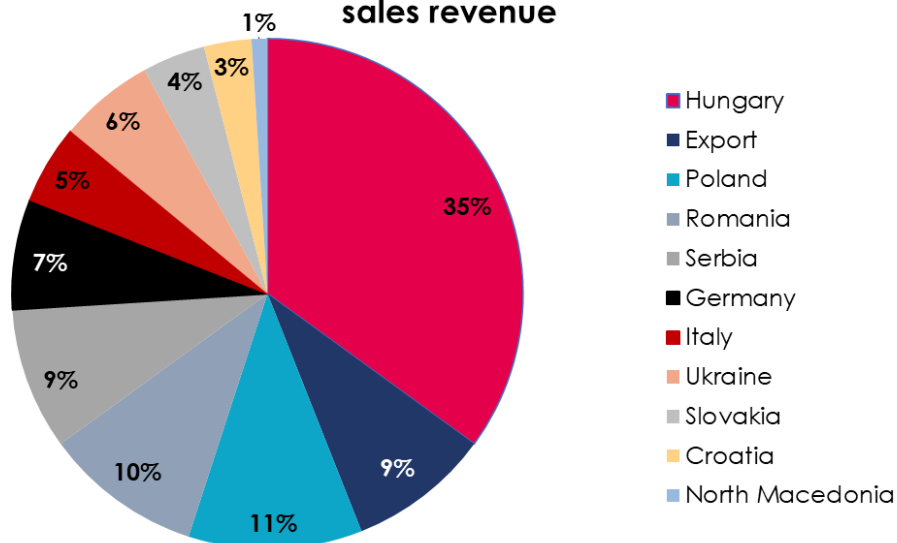
Source: Masterplast, MBH

Sales by countries

The Group has decreased its total sales by 7% in Q3 2024 compared to the Q3 2023 base period.

- The breakdown of the sales by countries shows the revenue realized in countries where the Company 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 2022, the Company revised and changed the breakdown of its sales by country. With foundation of Masterplast Italia Srl. the Group reclassified the Italian market from the Export category to a separate category, as from H1 2022 the Company has its own subsidiary in the country.
- On the most relevant **Hungarian** market the turnover decreased by 9% in Q3 2024 compared to the base period. Third quarter was characterized by a wait-and-see attitude towards renovation programs in our country.
- In the **Export** market in Q3 2024, the turnover declined by 15% compared to the same period of the previous year. Sales in the **German** market increased by 8% in the third quarter compared to the corresponding period last year.
- In **Italy**, sales decreased by 8% compared to the third quarter of last year. On the key **Romanian** market, sales fell by 4% in Q3 2024 compared to the base period. In **Serbia**, sales increased by 5% in 2024 Q3.
- On the **Croatian** market the Group sales decreased by 40% in Q3 2024 compared to the base term. On the **Polish** market the sales increased by 18% in Q3 2024 compared to the base, where self-produced fiberglass mesh revenue increased. In the case of Serbia, the self-produced XPS and diffusion roofing foil products achieved outstanding sales growth. In the **Slovak** market, sales decreased by 20% in Q3 2024. In **Ukraine**, third-quarter sales decreased by 19% compared to the base in 2023.

Contribution of countries in percentage to the total sales revenue



Source: Masterplast, MBH

Comment

- The framework of the EU's REPowerEU program foresees the emergence of powerful building energy support programs in Europe. All these may ensure the growth of demand for insulation materials. Demand in the construction industry remained subdued in the first nine months of the year, the wait-and-see attitude can be generally felt throughout Europe. In terms of the geographic distribution, the wait-and-see effect was more pronounced in the largest market, Hungary. The launch of the new home renovation programme in the Hungarian market in July is a significant business potential for the Company. Also significantly improves the prospects for the construction sector in Hungary that 10 of the 21 points from the New Economic Policy Action Plan support the construction industry and the housing market. The measures of the Action Plan will enter into force in the beginning of 2025.
- The Company expects the slow improving trend in profitability to continue in the next quarter, followed by a strengthening of the improving trend from 2025 onwards, and a strong market recovery and breakthrough earnings improvement in 2026.
- The Company is expanding its capacity in the field of styrofoam-based thermal insulation, and from 2025, the Company may also enter the market of fibrous insulation materials, and this may mean significant growth potential. The construction of the glass wool factory is progressing according to plans, production is expected to start in the first half of 2025. Bad news, however, is that the finalization of the financing structure and budget of the rock wool factory investment in Halmajugra, planned jointly with Market Építő Zrt, is still in progress. This may result in production starting at a different time instead of the originally planned second half of 2025.
- We last reviewed our DCF model in March and then lowered our earnings expectations for the next years. Due to last year's lower base, the profit forecasts for the following years have also decreased in our model. By 2028, we expect a sales revenue of 382 million euros from the Company. Due to the late launch of the Halmajugra factory, it is not necessary to update the model for the time being. In the current model, we expect a lower sales trajectory compared to the management's latest forecast. In my opinion, with the measures introduced for the EU's energy policy objectives, the Company's medium-term business prospects remain positive in the thermal insulation market. **We confirm our 12-month target price at HUF 4036, we reiterate the buy recommendation for the Company's shares.**

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

7. Change from the prior research

Our target price is determined on a 12-month basis, without dividends, unless otherwise stated.

Our first research was published on 15. December 2017. In that Initial Coverage our price target was HUF 775. The changes in fundamental factors and the operation in the Company required regular updates of our model and the target price. We decreased our 12-month target price to HUF 4.036 (2024. March 5th), we reiterate the buy recommendation for Masterplast shares which is 2 % lower than the previous target price of HUF 4.113 (2023. October 30rd).

Prior researches

MBH 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):

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14. The valuation procedures used:

Discounted cash flow valuation

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).

A saját utunkat járjuk.



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