

MASTERPLAST

In the recent weeks Masterplast has published two news, as a result of which we have revised our DCF model and our target price.

The management of Masterplast published the medium-term profit forecast as part of the documentation related to the investor forum of 12 January 2021. In connection with the profit forecast for 2021, the Company informed its investors on July 1 2021 of the following news: In view of the better-than-expected result, the Company no longer considers the profit forecast for 2021 as a guideline and therefore intends to amend it. The Company will publish the revised 2021 profit forecast in September 2021, following the publication of the half-year report, as specified in the report data.

On June 25, Masterplast informed its investors that the Company is starting a project - with the subsidy of the Hungarian State - to implement XPS-based thermal insulation material production. Through the Project, a new 3,600 square meter plant will be established at the production base in Subotica, which is planned to have an annual capacity of 200,000 cubic meters. To build the right-sized storage capacity, the plant will also be accompanied by the construction of a 2,000 square meter warehouse and a nearly 6,000 square meter outdoor warehouse, and a 400 square meter office building will be built for the workforce and the quality control lab.

The value of the Project is HUF 5.05 billion, which will be financed by the Company from its own resources and from a 50% non-refundable state subsidy provided under the HEPA program (National Export Protection Program of the Hungarian Export Promotion Agency) of the Ministry of Foreign Affairs and Trade. Production at the new plant is expected to start in early 2023.

Following the development, Masterplast can also produce two important types of insulation materials for its thermal insulation system, Hungarocell and XPS, on a single production base, thus strengthening its service.

Masterplast currently sells significant quantities of XPS. It is therefore of strategic importance for the Company to take the supply chain into its own hands to be able to provide the amount of product needed to exploit its growth potential. It is also important to reduce the Company's exposure in a purely foreign-owned manufacturing environment.

The use of XPS (extruded polystyrene), a high load-bearing, low-water-absorbing, panel thermal insulation material, is currently expanding rapidly. Due to its favorable physical properties, it is excellently suitable for surfaces in contact with moisture or exposed to high loads, such as thermal insulation of plinths and civil engineering, thermal insulation of loaded substrates and flat roofs, as well as green roofs. XPS polystyrene is an important component of thermal insulation systems, and due to stricter building energy requirements, the market is expanding rapidly and there is no substitute product alternative.

MODEL UPDATE

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.

We have improved our revenue forecast. One of the reasons for this, despite the increase in prices, is the increase in demand in the construction industry. Therefore, the sales growth of the Company's construction business may also be stronger than previously expected. This was also confirmed by the Company, as it no longer considers the 2021 profit forecast as a guideline in view of the more favorable result. The healthcare business is also developing dynamically, so it can make an increasingly significant contribution to revenue growth.

In addition to sales revenue, profit figures are also developing favorably. In the case of the healthcare business, the Company can realize higher margins, so in the case of total sales, margins are constantly improving. Thus, the Company's operating profit is growing even more dynamically than sales revenue.

We increased our 12-month target price to HUF 4433, and we amend the recommendation to neutral for Masterplast shares.

We used the following parameters and methodology during our DCF calculations:

- The discount rate we used to get the present value of future cash flows is 8.51%,
- We expected a 1% increase in terminal value
- We presumed that capital structure will remain stable in the future.
- For calculating the target price, we used our own EUR/HUF, and 10 year Hungarian government bond yields forecast, which are available on this website: [MKB EK elorejelzesek 2021 julius.pdf](#)

DCF Model (EURmn)					
	2021	2022	2023	2024	2025
Sales	160 182	178 459	201 256	217 546	228 916
<i>Sales growth</i>	29,57%	11,41%	12,77%	8,09%	5,23%
EBIT	14 261	16 665	19 289	20 581	22 573
<i>EBIT margin</i>	8,90%	9,34%	9,58%	9,46%	9,86%
<i>Tax rate</i>	10,0%	10,0%	10,0%	10,0%	10,0%
Taxes on EBIT	-1426	-1667	-1929	-2058	-2257
NOPLAT	12 835	14 999	17 360	18 523	20 316
Free Cash flow to the Firm	3 641	7 524	16 041	18 235	21 048
WACC	8,51%	8,51%	8,51%	8,51%	8,51%
Discount factor	0,92	0,85	0,78	0,72	0,66
Discounted free cash flow	3 355	6 390	12 556	13 154	202 205
Enterprise value	237 660				
Net debt	53 789				
Equity value	183 871				
Number of shares outstanding (mn)	14 601				
Cost of equity	12,58%				
Fair value per share (EUR, HUF)	11,08	3 899			
12M target price (EUR, HUF)	12,59	4 433			

Source: Masterplast, MKB

		Terminal value EBIT margin				
		8,86%	9,36%	9,86%	10,36%	10,86%
WACC	7,51%	5 181	5 181	5 181	5 181	5 181
	8,01%	4 780	4 780	4 780	4 780	4 780
	8,51%	4 432	4 432	4 432	4 432	4 432
	9,01%	4 128	4 128	4 128	4 128	4 128
	9,51%	3 859	3 859	3 859	3 859	3 859

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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-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_Zrt._-Masterplast_Nyrt._negyedebes_elemzes_-2018.03.09..pdf1

<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-20180921>

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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.