

WE INCREASED OUR TARGET PRICE TO HUF 3072

On April 26 2021, Masterplast entered into a contract with the National Directorate of Hospitals - which is authorized by the Operative Staff - for the supply of protective coveralls for the control of the coronavirus epidemic. Pursuant to the agreement, the Company will supply protective clothing with a total value of approximately HUF 4.464 billion to the Hungarian healthcare by September 2021. The control of the supply chain is ensured by the Company, in the present situation of deficiency of raw materials the MOL Group supplies polypropylene, from which Masterplast manufactures two-layer-breathable basic textile at its plant in Germany, and then the finished products are produced by nearly 50 domestic sewing plant.

The Company has not yet had an order of this volume, so it is a milestone. This is very positive news that will greatly help to achieve the 2021 profit targets. Due to the huge order, we have slightly modified our sales and earnings expectations for 2021. As a result, we improved our target price from HUF 2,915 to HUF 3,072.

DCF MODEL

We increased our 12-month target price to HUF 3072, 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 8.79%,
- 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: https://www.mkb.hu/sw/static/file/MKB_EK_elorejelzesek_2021_januar.pdf

DCF Model (EURmn)					
	2021	2022	2023	2024	2025
Sales	150 580	168 591	191 105	207 097	218 281
<i>Sales growth</i>	21.80%	11.96%	13.35%	8.37%	5.40%
EBIT	13 828	15 062	16 949	18 159	19 209
<i>EBIT margin</i>	9.18%	8.93%	8.87%	8.77%	8.80%
<i>Tax rate</i>	10.0%	10.0%	10.0%	10.0%	10.0%
Taxes on EBIT	-1383	-1506	-1695	-1816	-1921
NOPLAT	12 446	13 556	15 254	16 343	17 288
Free Cash flow to the Firm	1 683	9 352	12 006	13 982	15 846
WACC	8.79%	8.79%	8.79%	8.79%	8.79%
Discount factor	0.92	0.85	0.78	0.71	0.66
Discounted free cash flow	1 547	7 902	9 326	9 984	145 331
Enterprise value	174 090				
Net debt	46 672				
Equity value	127 418				
Number of shares outstanding (mn)	14 601				
Cost of equity	11.93%				
Fair value per share (EUR, HUF)	7.72	2 719			
12M target price (EUR, HUF)	8.73	3 072			

Source: Masterplast, MKB

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 Plc. (registered seat: H-1056 Budapest Váci utca 38., company registration number: 01-10-040952, hereinafter: Investment Service Provider or MKB Bank)

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.

8. Content of this material enjoys copyright protection according to Act LXXVI. of 1999 on copyright, and may therefore be copied, published, distributed or used in any other form only with prior written consent of MKB Bank. All rights reserved. Unauthorized use is prohibited.

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 3072, which is 5,39% higher than the previous target price of HUF 2915.

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

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._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>

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

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd-masterplast-plc.-quarterly-update-20180518>

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd-masterplast-flash-note-20180614>

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd---masterplast-flash-note---2018-08-01>

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-zrt---masterplast-nyrt.-negyedebes_elemzes---2018.08.29.

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd-masterplast-flash-note-20180921>

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-Masterplast_elemzoi_kommentar_-_2018.10.29.pdf1

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd--masterplast-flash-note-20181030>

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-Masterplast_Nyrt._negyedebes_elemzes_-_2018.11.19..pdf1

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd---masterplast-flash-note---2018.12.10>

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/mkb-bank-ltd---masterplast-modellfrissites---2018.12.21>

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-Masterplast_Plc._quarterly_update_-_2019.02.28..pdf1

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast flash note - 2019.03.06.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20flash%20note-2019.03.06.pdf)

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd.-masterplast-flash-note-2019.05.02>

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast Plc. quarterly update - 2019.05.20..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20Plc.%20quarterly%20update-2019.05.20..pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast flash note - 2019.06.04.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20flash%20note-2019.06.04.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast model update - 2019.06.12.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20model%20update-2019.06.12.pdf)

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

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Ltd. - Masterplast flash note - 2019.09.11.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Ltd.-Masterplast%20flash%20note-2019.09.11.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast flash note - 2019.10.10.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note-2019.10.10.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast Plc. quarterly update - 2019.11.18..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20Plc.%20quarterly%20update-2019.11.18..pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast flash note - 2019.12.09.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note-2019.12.09.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast flash note - 2019.12.12.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note-2019.12.12.pdf)

[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)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. Masterplast flash note 2020.03.16.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note%202020.03.16.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. Masterplast Plc. quarterly update 2020.05.18.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20Plc.%20quarterly%20update%202020.05.18.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. Masterplast flash note 2020.05.25.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note%202020.05.25.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast flash note - 2020.07.29..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note-2020.07.29..pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast Plc. quarterly update - 2020.08.27.pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20Plc.%20quarterly%20update-2020.08.27.pdf)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB Bank Plc. - Masterplast flash note - 2020.09.21..pdf](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB%20Bank%20Plc.-Masterplast%20flash%20note-2020.09.21..pdf)

<https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-plc.-masterplast-plc.-quarterly-update-2020.11.16>

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-plc.-masterplast-flash-note-2020.12.18.](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-plc.-masterplast-flash-note-2020.12.18)

[https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-
elemzesei/MKB_Bank_Plc._- Masterplast_flash_note_-_2021.01.18..pdf2](https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Plc._-_Masterplast_flash_note_-_2021.01.18..pdf2)

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.