MASTERPLAST – Q1 2018 SUMMARY

In Q1 2018 there were mostly positive trends in the building industry. Masterplast ("Company") has increased its revenues by 4% compared to the base period. The profit after tax has doubled in the seasonally weakest period, despite of the unfavourable weather conditions in March. The trade margins were increased significantly, mainly due to the great performance on the Hungarian market. The Company expect a boosting growth from Q2 2018.

IMPROVING RESULT

In the positive industrial environment the total revenue of the Company was 18 661 thousand EUR in Q1 2018, 4% higher than in the base period 2017. The Company has generated 54 000 euros profit after tax in the last three months, compared to the 27 000 euros result of the base period.

thousandEUR	Q1 2018	Q1 2017
Sales revenues	*18 661*	*17 990*
EBITDA	*732*	*573*
EBITDA ratio	*3,9%*	*3,2%*
Profit/loss after tax	*54*	*27*
Net income ration	*0,3%*	*0,2%*

Source: Masterplast, MKB

The gross trade margin grew in Q1 2018 compared to the base period. The strongest expansion was achieved on the Company's core Hungarian market, but significant growth in the margins was also achieved on the Ukrainian and Slovakian markets. Due to the rising output levels in Subotica the production efficiency has improved. As a result of these factors, the operation profit increased by nearly 50%.

The inflated wages in the area and the rapidly expanding production of the fiberglass mesh in Serbia resulted in a 20% increase in the personal expenditures in Q1 2018 compared to the base period. At the end of March 2018 the Company had 900 employees, compared to the staff level of 863 people at the end of March 2017.

110 000 euros loss were booked among other financial result in Q1 2018, compared to a loss of 36 000 euros in the base period, as a result of the unfavourable foreign currency movements.

Sales by product group

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 4% in Q1 2018 and reached the largest share (44%) compared to the total sales. The fiberglass mesh sales contributed the most to the increased revenues. The **Roofing foils and accessories** product group declined by 8% in Q1 2018, which was due to the decrease in sales and the reclassification of the Bituminous roof covering products. The revenue in the **Dry construction system** was up by 23% in the last three months, in the plasterboard systems group the sales showed an increase on all markets. The **Heat, sound and water insulation materials** product group reached an 8% sales increase compared to the base period. The Hungarian, Polish and Ukrainian market performed the most significant growths. The sales in the **Industrial applications** decreased by 8% in Q1 2018 on base term. The nonstrategic trade of raw material suffered a relevant sales decrease, which was just partly offset by the 21% sales increase of the packaging materials.

Sales by countries

On the Company's most significant **Hungarian market** the turnover has increased by 7% in the last three months compared to the base term. After the extraordinary increase in the first two months, the sales volume was heavily affected by the unusual winter time. The driving factors were the EU funded energy efficiency tenders and the state-subsidised home building schemes. The Company has reached a 3% growth on the **Export markets** in Q1 2018 compared to the base period. On the **Romanian market** the sales declined by 12% in Q1 2018 compared to the base period. 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 78% in Q1 2018, the revenue from the own produced fiberglass mesh had increased significantly. In **Serbia** the Company's sales decreased by 6% in 2018 Q1 compared to the base period, and the Thermal insulation system product group showed a decline as well. On the **Croatian market**, the sales were down by 13% (the economic indicators have shown a decline in Croatia), and in **Ukraine** the sales shrunk by 13% in the Q1 2018 on base term. On the **Slovakian market** and in Macedonia the sales were up by 2% 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 years. 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 Q2 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) .

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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

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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.