MASTERPLAST – Q2 2019 SUMMARY

In Q2 2019 there were mostly positive trends in the regional building industry. Masterplast ("Company") has expanded its revenues by 6% compared to the base period mainly due to the outstanding performance on the Hungarian, Polish and Export markets. With the further increasing production output of the Company, the own production became more efficient and profitable; hence, the trade margin value rose almost at the same extent as the turnover. Partly due to the own production, the company reported a profit increase of more than 10%.

Masterplast expects a net profit of approximately EUR 4 million for 2019, of which the company achieved EUR 2,061 million in the first half, while the second half of the year is usually stronger due to seasonality. The revenue and earning addition from the recently announced Masterplast acquisition (T-Cell Kft) is expected in the second half of this year.

IMPROVING RESULT

The total revenue of the Group amounted to 28 507 thousand EUR in Q2 2019, which was 6% higher than in the base period. With the increase in turnover, the trade margin value was increased almost to the same extent. The Group's trade margin was higher on the export, Polish, Slovakian, Ukrainian, Hungarian, Croatian and Romanian markets in the quarter. The production output of fiberglass mesh and EPS grew significantly in Serbia, while the foam factory production dropped on a lesser extent in Q2 2019 compared to the base quarter in Kal, Hungary.

thousand EUR	Q2 2019	Q2 2018
Sales revenue	28 507	26 839
EBITDA	2 409	2 067
EBITDA ratio	8.4%	7.7%
Profit after tax	1824	1653

Source: Masterplast, MKB

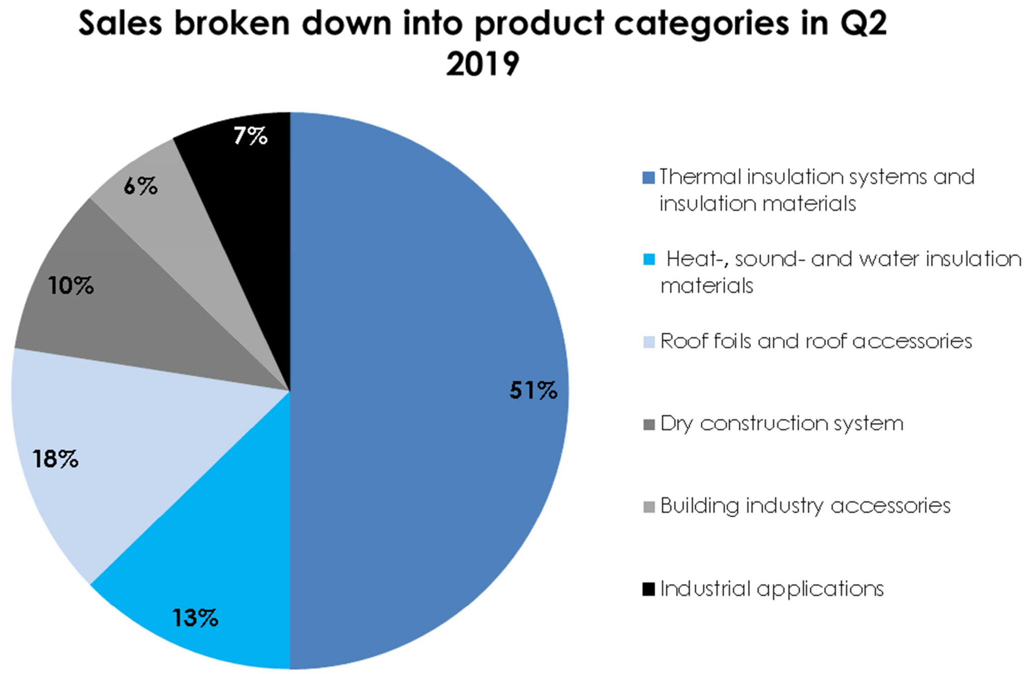
Mainly due to the expanded production in Serbia, together with the increase in wages in Hungary, the personnel expenditures of the Company have increased by 15% in Q2 2019 compared to the base period.

The Group EBITDA amounted to 2409 thousand euros in Q2 2019 (8.4% EBITDA ratio) compared to the 2067 thousand euros (7.7% EBITDA ratio) in the base period and the operation profit (EBIT) reached 1835 thousand euros in Q2 2019.

Due to the higher utilized loan portfolio the interest expenditures have increased in the second quarter of 2019 compared to the base period. The Company has generated and booked 179 thousand EUR profit as other financial result in Q2 2019.

SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (51%), where in the second quarter the sales increased by 15%. The sales increased by 5% in the **industrial applications accessories segment**, while in the **dry construction system** product group increased by 15%. In the **heat, sound and water insulation materials** segment the sales in Q2 2019 decreased by 5%, while in the **building industry accessories** products decreased by 15% in the second quarter of 2019. Regarding the **roofing foils and accessories products** the Group has saw a 6% decrease in turnover in Q2 2019 compared to the base period.



Source: Masterplast, MKB

RELEVANT MARKETS

On the most relevant **Hungarian** market, in Q2 2019 the construction industry was moderately increasing. The labour shortages had a major impact on the performance of the construction industry. Final withdrawal of the discounted VAT is expected to affect the starting of new investments, while the expanded "CSOK" (family housing benefit scheme) started in this summer can bring a lot of opportunities in the renovation market.

In **Romania** the demand in the construction market was decreasing is the second quarter of 2019. The planned government renovations were also postponed, the building insulation projects have been stopped. In **Ukraine** the economy performed well, and the value of the finished construction works in Q2 2019 rose by 26% over the second quarter of last year. In **Poland**, economic growth continued. Rising wages and higher building material prices as well as the continuous labour shortage marked the market in the second quarter. In **Slovakia**, the construction industry was stagnant; the building output fell back in Q2 2019. The economic indicators have shown further improvement in **Croatia** in Q2 2019, the unemployment decreased the construction industry continues to expand. In **Serbia** in Q2 2019 the National Bank has further pursued its price-stability policy and brought favourable conditions to the whole economy with the decreased interest rate.

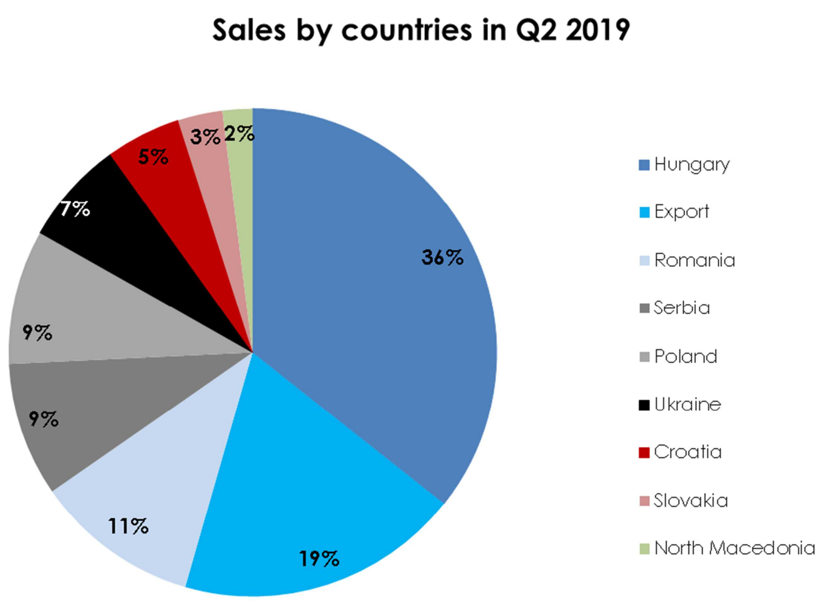
SALES BY COUNTRIES

The Group has increased its total sales by 6% in Q2 2019 compared to the base period. Remarkable gains in sales were achieved on the Ukrainian, Export and Hungarian market.

On the most relevant **Hungarian** market the turnover has grown by 12% in Q2 2019 compared to the base period. In the Roofing foils and accessories and in the Building industry accessories product group the sales decreased, while in the other product groups the increased.

An increase of 16% was achieved on its **Export** market sales in Q2 2019 compared to the base period. The Group has increased its sales in the Thermal insulation system group including the increasing revenues from fiberglass mesh products.

On the relevant **Romanian** market, the sales decreased by 12% in Q2 2019 compared to the base period. The Company has increased its sales in the Dry construction system product group and in the Roofing foils and accessories. The other product groups had a decrease in sales compared to the base period.



In **Ukraine**, growth in sales amounted to 18% in Q2 2019 compared to the 2018 basis. The Company increased its revenues in the most relevant Thermal insulation system product group. In **Serbia** the sales decreased by 7% in 2019 Q2. A growth in sales has been achieved regarding the the Thermal insulation system product group. The turnover of the other product groups was smaller in the second quarter. On the **Croatian** market the Group sales grew by 1% in Q2 2019 base term. The revenue increase was the highest in the Thermal insulation system product group.

On the **Polish** market the sales were up by 4% in Q2 2019 compared to the base. The revenue increased especially in the diffusion roofing foils from the Roofing foils and accessories product group. The sales were down by 3% in Q2 2019 on the **Slovakian** market.

SUMMARY

The Company's improving manufacturing and operational efficiency, and the T-Cell acquisition might help to achieve the targets set out in its strategic. **We reiterate our buy ratings for Masterplast shares, with a target price of HUF 874.**

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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

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

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

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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.

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 874.