

WE INCREASED OUR TARGET PRICE TO HUF 2628

During December and January, Masterplast made several important announcements, which necessitated an update of the DCF model and a review of the target price. In addition to large-scale investment plans, management has also published its updated strategy. In addition to construction, the Company's new business is the healthcare, which is facing dynamic growth in the coming years thanks to the announced investments. In addition to a significant increase in sales from the healthcare business, the Company can achieve higher margins compared to those of the construction industry. Our updated DCF model also includes the expected organic growth between 2021 and 2025 and the impact of the announced acquisitions. According to the management's information, further investments are planned in the coming years, therefore the growth of the Company's profit figures may be sustainable in the years 2023-2025 as well. Our updated DCF model therefore includes a significant target price increase, our new target price is HUF 2628.

MANAGEMENT HAS ANNOUNCED IMPORTANT INVESTMENTS

The essence of the announcement published in December: Masterplast Group is launching a major investment in the healthcare business by establishing a production plant for the production of raw materials for the production of protective equipment (fleece for masks and personal protective equipment), supported by the Hungarian State. The Project will be implemented at the Company's headquarters in Sárszentmihály, with the construction of a new production plant with a floor area of 7700 m² and the installation of a vlies production technology. The total value of the Investment: HUF 9,460,286,426. Source of the Project: 20% own resources and 80% non-refundable state subsidy. The amount of state subsidy is HUF 7,504,736,260. Scheduled start of production: June 2021. Planned sales of the healthcare business in 2021: EUR 15-20 million.

In January, the Masterplast Group also announced a significant investment. The main details of the announcement: Masterplast is starting a project to be implemented at the Company's subsidiary, located at Subotica, Serbia with the subsidy of the Hungarian State, in order to furtherly develop the production of fiberglass fabrics. With the Project, the glass fabric production capacity will be expanded by 25 percent. The 25% own resources of the EUR 7.6 million project are provided by funds raised from the Bond Funding for Growth Scheme Program of the Hungarian National Bank, the Prosperitati Foundation provides 39%, approximately EUR 3 million, of non-refundable state support, and Masterplast uses a bank loan for the remaining part. With the implementation of the Project, the production of the Group's glass fabric is planned to increase to 150 million m² / year, which makes the Masterplast Group the second largest producer of glass fabric in Europe and the third largest in the world.

MANAGEMENT EXPECTS SIGNIFICANT GROWTH

The Company unveiled its updated strategy in January 2021. The healthcare business is a new strategic line for Masterplast. According to management, by 2030, profits from healthcare could reach the ones from the construction segment. As already mentioned in

one of the paragraphs above, the Company will build significant manufacturing capacity to foster growth in the healthcare business. Currently the pandemic has increased the demand for the healthcare raw materials produced by the Company. Masterplast mainly produces special fleeces as a raw material for protective masks and protective clothing.

Masterplast wants to be a strategic manufacturer of hygienic textile-based products for the Hungarian healthcare. At the investor conference in January, the Company informed investors that in addition to raw materials, production of finished products would be launched soon. These can be mainly disposable textiles for hospitals (sheets, bedspreads). In addition to the investment announced in December, the Company has further healthcare investments in the pipeline.

HEALTHCARE BUSINESS

Masterplast announced in March last year the purchase of a factory in Aschersleben, Germany. An important element of the Company's strategy is to increase the proportion of self-manufactured products, especially in strategic product lines. Therefore, the acquisition of the factory was an important milestone, the main activity of the plant is the production of construction diffusion films and industrial membranes. Further to that, the Company announced its entry to the healthcare industry: As a member of the Masterplast Group, the main activity of the newly established company includes the production of special fleeces and multilayer membranes for the healthcare and construction industries.

Starting in the third quarter of last year, healthcare business figures have also appeared in the Company's quarterly report. Revenue from the German plant's healthcare products, in addition to packaging products, was reported under the Industrial Applications product group. Sales of industrial applications increased by 42% year-on-year (to EUR 5.067 million) in the third quarter last year and were the third highest-selling product group (after thermal insulation systems and roofing films), accounting for 13% of sales. The 2020 Q4 figures are not yet public, but the expansion of healthcare product sales is expected to continue in the fourth quarter.

THE HEALTHCARE BUSINESS CAN EXPAND DYNAMICALLY

The growth of the newly launched healthcare business for the coming years is based on the figures indicated by the management. Sales of EUR 15-20 million are expected in this area this year. Management has made a forecast for sales until 2023, where the share of the healthcare business will increase year by year. Therefore, in our DCF model, we expect dynamic growth from the healthcare business by 2025. According to an analysis by Grandviewresearch, the health textiles market could grow by an average of 4.9% per year (CAGR) by 2025. (Source: [grandviewresearch.com](https://www.grandviewresearch.com)) However, at Masterplast, the healthcare business was formed last year, and due to significant investments, stronger growth is expected by 2025.

Detailed data on the profitability of the healthcare business are not yet available. Management has indicated that significantly larger margins than in the construction industry can be realized. We created a peer group and examined the EBIT margin of the selected company. The table below shows the EBIT margins for the last 5 years, averaging each year, and averaging the numbers obtained, the EBIT margin is 15.72. In our DCF model, we used this margin to determine the operating result of the healthcare business between 2021 and 2025.

EBIT margin	2015	2016	2017	2018	2019
Sartorius Stedim Biotech	21.51	21.27	20.51	24.77	23.05
Ypsomed Holding AG	9.31	13.19	14.20	13.10	16.16
Medacta Group SA	-	22.60	20.30	22.56	6.31
Demant A/S	17.16	15.51	17.33	17.21	13.60
Steris Plc	12.28	9.51	8.71	15.40	14.79
IVF Hartmann Holding AG	14.33	14.65	14.31	11.92	10.30
Medtronic Plc	18.59	18.59	18.12	22.17	20.51
Gerresheimer AG	14.13	13.09	13.37	10.18	8.89
	15.33	16.05	15.86	17.16	14.20
Average EBIT margin:	15.72				

Forrás: Bloomberg

BUX MEMBERSHIP

The goal of the management is to be included in the BUX index, already in the spring of 2021. Due to the significant increase in Masterplast's turnover, BUX membership may be a realistic goal this year, which can generate additional turnover for the shares.

SUMMARY - STORY

By the end of the decade, Masterplast aims to become a major regional player in the building materials industry as a major European producer of thermal insulation materials, while fulfilling the strategic role of the supply of healthcare textiles in Hungary as a dynamically developing healthcare industry manufacturer expanding into the European market as well.

Relying on its strengthened market position and extensive manufacturing background, Masterplast can achieve significant organic growth in its core business while also launching and developing the higher-profitability healthcare business.

In the wake of the coronavirus crisis, the healthcare industry has become strategically important globally. Therefore, the management expects a sustained increase in demand in the healthcare sector, an expansion of the market for hygienic textiles and a further expansion of the use of innovative healthcare textiles, which will not decrease significantly after COVID-19.

As described earlier, in addition to the production of raw materials, Masterplast intends to appear in the higher-profit healthcare segment with finished products. Profits from the

Company's total healthcare business could reach the level of the construction industry by 2030, as expected by management.

Tightening energy requirements and government incentives for home creation and home renovation are expected to bring significant growth in the demand for thermal insulation materials and renovation-related building materials.

The 5% VAT brought back on new construction and the possibility of state support of HUF 3 million for renovations may have a significant demand-boosting effect in the domestic construction industry in the coming years.

Energy standards are constantly tightening in Hungary and in other EU member states, and as a result, a new home can only be built with near-zero energy consumption. This can be achieved by applying thick insulation to the building, which also creates a market for Masterplast products.

The construction industry was able to operate virtually undisturbed even during closures and proved to be particularly crisis-proof during the pandemic. Masterplast had a very strong third quarter last year in terms of construction. We expect Masterplast to perform well in the last quarter of 2020 as well, with the healthcare business already supporting the company in the third and fourth quarters.

DCF MODEL

We increased our 12-month target price to HUF 2628 and maintained the Buy recommendation for Masterplast shares. We modified our expectations for sales revenue and profit margin for the next 5 years.

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

- Due to the increase in the capacity of the fiberglass mesh factory in Subotica, we also reviewed our sales revenue expectations for the construction industry in our model. As a result, not only will the sales revenue from the healthcare business increase the previous numbers, but we are also expecting an increase in sales revenue in the construction products market compared to the previous numbers between 2021 and 2025.
- Due to the healthcare business, we expected higher margins compared to our latest model.
- 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	144 980	163 591	185 105	200 097	211 281
<i>Sales growth</i>	17.27%	12.84%	13.15%	8.10%	5.59%
EBIT	12 709	14 268	16 051	17 147	18 230
<i>EBIT margin</i>	8.77%	8.72%	8.67%	8.57%	8.63%
<i>Tax rate</i>	10.0%	10.0%	10.0%	10.0%	10.0%
Taxes on EBIT	-1271	-1427	-1605	-1715	-1823
NOPLAT	11 438	12 842	14 446	15 432	16 407
+ Depreciation	-3 045	-3 435	-3 887	-4 202	-4 437
+/- Change in working capital	-4 143	-3 176	-2 795	-2 264	-1 600
- Capital Expenditures	-10 200	-4 000	-5 000	-5 000	-5 000
Free Cash flow to the Firm	140	9 101	10 538	12 370	14 244
WACC	8.79%	8.79%	8.79%	8.79%	8.79%
<i>Terminal value growth</i>					1.0%
Terminal value					184 789
Discount factor	0.92	0.85	0.78	0.71	0.66
Discounted free cash flow	128	7 690	8 185	8 832	130 638
Enterprise value	155 474				
Net debt	46 481				
Equity value	108 993				
Number of shares outstanding (mn)	14 601				
Cost of equity	11.93%				
Fair value per share (EUR, HUF)	6.61	2 326			
12M target price (EUR, HUF)	7.46	2 628			

Source: Masterplast, MKB

		Terminal value growth				
		0.0%	0.5%	1.0%	1.5%	2.0%
WACC	7.79%	2 628	2 844	3 092	3 379	3 716
	8.29%	2 438	2 628	2 844	3 092	3 379
	8.79%	2 269	2 438	2 628	2 844	3 092
	9.29%	2 119	2 269	2 438	2 628	2 844
	9.79%	1 984	2 119	2 269	2 438	2 628

Source: Masterplast, MKB

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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 2628, which is 282% higher than the previous target price of HUF 929.

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_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.