

MASTERPLAST – Q4 2020 SUMMARY

In Q4 2020, despite the effects of the coronavirus, the Group's sales increased by a record 20%. The turnover of the German manufacturing subsidiary, which started its operation in July and largely sells to the healthcare segment, has also significantly contributed to the expanding construction turnover. In addition to the increase in turnover, the trade margin in the construction segment also increased, which was largely supported by the high capacity utilization of the Company's production units. With the production of industrial textiles in Germany, the Company has successfully entered the healthcare market, which has supported the Group's performance by generating higher profits next to sales. The Group's EBITDA (+ 105%) reached a record 2,73 million EUR in the fourth quarter, where both the construction and the healthcare segments achieved outstanding results. In terms of annual figures Masterplast has record turnover and profitability.

IMPROVING RESULT – Q4 2020

The total revenue of the Group amounted to EUR 32 672 thousand in Q4 2020, which was 30% higher than in Q4 2019. The operation of the new German manufacturing subsidiary contributed greatly to the growth, but it is important to mention that the Company also achieved an increase in turnover in its core business. The increase in turnover, the trade margin and margin rate also increased in Q4 2020 compared to the base period. The growth was largely driven by the operation of the new German manufacturing company, but margins in insulation and construction auxiliary products also increased.

thousand EUR	Q4 2020	Q4 2019
Sales revenue	32 672	25 121
EBITDA	2 728	1 333
EBITDA ratio	8.3%	5.3%
Profit after tax	1 505	602
Net income ratio	4.6%	2.4%

Source: Masterplast, MKB

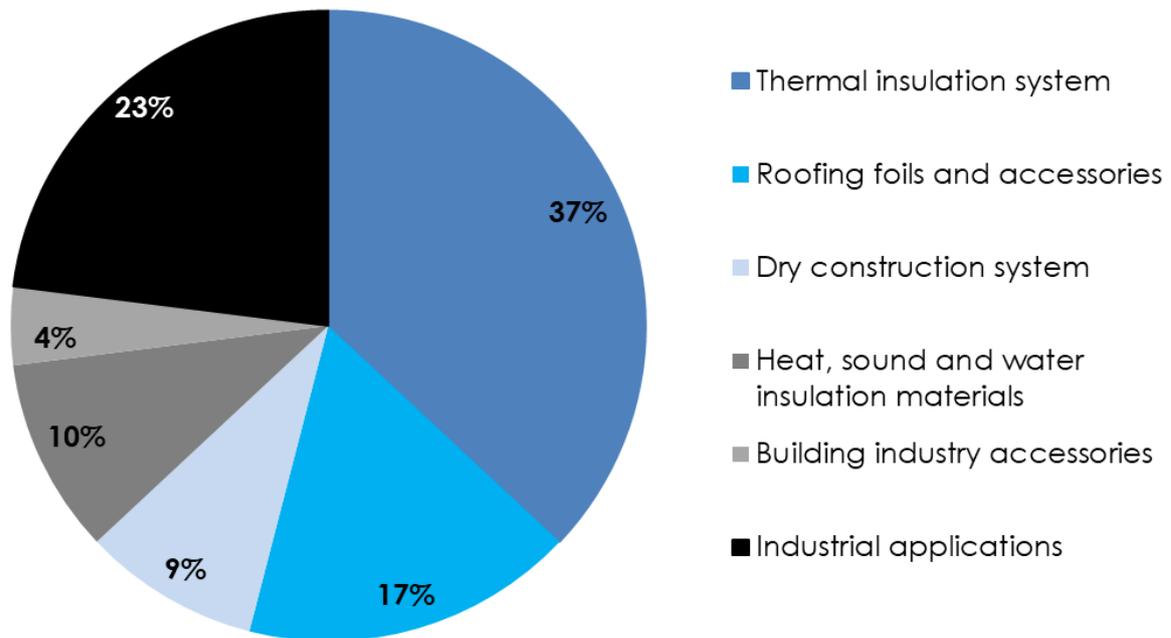
The Group's EBITDA amounted to EUR 2728 thousand in Q4 2020 (8.3% EBITDA ratio) compared to the EUR 1333 thousand (5.3% EBITDA ratio) in the Q4 2019 base period, which showed an 105% growth. The EBITDA from the core business increased due to efficient operations and the expansion of manufacturing, which was further improved by the higher profitability of the healthcare industry (German manufacturing and protective clothing sales). The operating profit (EBIT) reached EUR 1890 thousand in Q4 2020, which rose by 95% compared to the EUR 969 thousand level of the base period. The Group PAT (profit after tax) was EUR 1505 thousand in Q4 2020.

The efficiency of the Company's own production has further improved. The production of the Serbian fiberglass mesh factory and EPS factory – the latter due to the purchases from T-Cell Plasztik Kft. in Hungary - lagged behind the base, but the mesh edge production expanded, as did the output of the foam plant in Kál which is in an already improving trend. The German fleece unit was operating at high-capacity utilization in the last quarter of 2020.

SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (37%): its sales increased by 1% in the fourth quarter compared to the base period. One of the most significant increase (72%) was recorded in the **Roofing foils and accessories** sales. The turnover of diffusion roofing foils doubled to which the turnover of the production unit of Masterplast Nonwoven GmbH also contributed greatly. In case of **Industrial applications product group**, Masterplast achieved a sales level 216% higher in Q4 2020 than those of the base period. Revenue from the German plant's healthcare products is reported here, which also contributed significantly to the product group's quarterly sales growth. Sales in the **dry construction system** improved by 7% in Q4 2020 compared to the base period. In the **building industry accessories**, the sale of products decreased by 2% in the fourth quarter of 2020. In the Heat, sound and water insulation materials product group the sales decreased by 6% in Q4 2020 compared to the same period in 2019.

Contribution of product groups in percentage to the total sales revenue



Source: Masterplast, MKB

SALES BY COUNTRIES

The Group has increased its total sales by 30% in Q4 2020 compared to the Q4 2019 base period.

The breakdown of the sales by countries shows the revenue realized in countries where Masterplast has its own subsidiary, regardless of which subsidiary has registered the sales in the country. For countries where there is no Group subsidiary, sales are reported on the Export line.

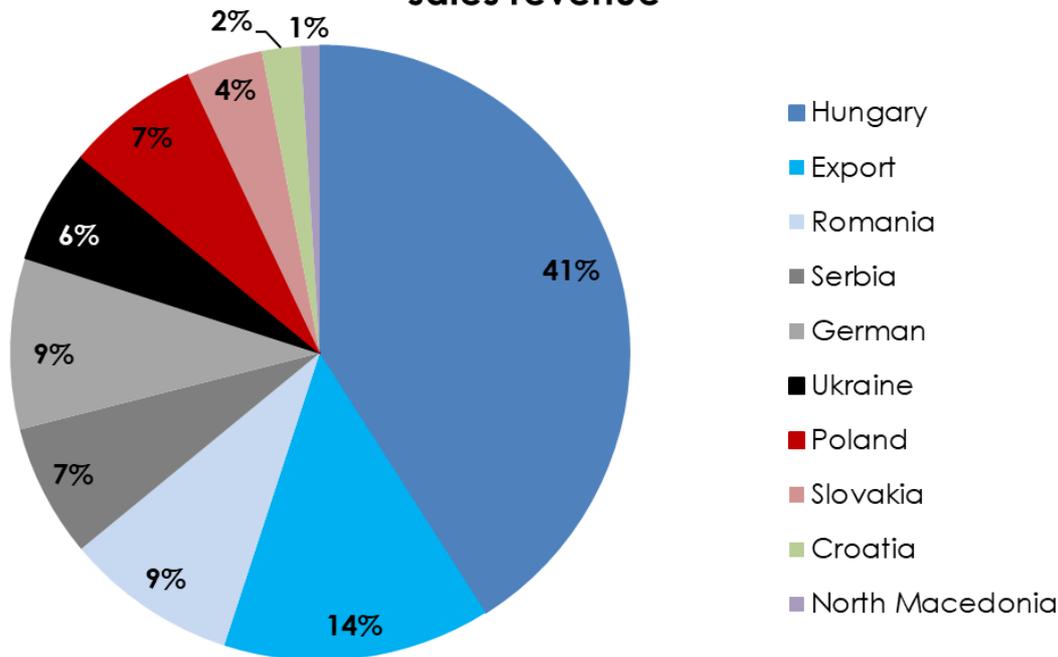
In the first half of 2020, the Company revised and changed the breakdown of its sales by country. With acquisition of Masterplast Nonwoven GmbH, the Group reclassified the German market from the Export category to a separate category, as from H2 2020 Masterplast has an own subsidiary in the country.

On the most relevant **Hungarian** market the turnover increased by 18% in Q4 2020 compared to the base period. The reason for its growth was the entry into the healthcare finished products market, as 450 thousand pieces of protective clothing belonging to the industrial applications product group was sold to Hungarian healthcare in the last quarter. With the exception of the Thermal insulation system product group and Building industry accessories, the quarterly revenue increased in all product groups compared to the base period.

In the **export** market in Q4 2020, the turnover increased by 51% compared to the same period of the previous year. The revenue of fiberglass mesh products from the Thermal insulation system product group and the sales of diffusion roofing foils from the Roofing foils and accessories product group increased the most, but sales of medical foils among Industrial applications also increased. Considering its markets, Masterplast reached a growth in English, Italian and Dutch areas, while sales decreased the most in Estonia, Lithuania and Bulgaria.

The **German** market is reported separately compared to previous periods, because Masterplast has been present in the country with direct sales since H2 2020. Thanks to the new manufacturing company, turnover in the country has increased significantly. Masterplast Nonwoven's products are categorized in the product group of Roofing foils and accessories and in the medical foils in the Industrial applications. However, the Group is still present in the German market with its other product groups, where sales of Dry construction system products and Heat, sound and water insulation materials increased, but the sales of Thermal insulation system products decreased compared to the base period.

Contribution of countries in percentage to the total sales revenue



Source: Masterplast, MKB

On the key **Romanian** market, sales increased by 9% in Q4 2020 compared to the base period. The sales of Thermal insulation system and within that the fiberglass mesh products and the income of Building industry accessories decreased. The sales revenue was growing in all product groups compared to the base.

In **Ukraine**, in Q4 2020 the sales decreased by 3% as the 2019 base period was. The Company's revenue slightly decreased in all product group except of the Roofing foils and accessories and the Dry construction system versus last quarter base year.

In **Serbia**, sales decreased by 3% in 2020 Q4. A growth in sales was achieved regarding the Thermal insulation system, the Roofing foils and accessories, and the Dry construction system products, while the turnover of the rest product groups was smaller in the quarter this year than in Q4 2019.

On the **Croatian** market the Group sales decreased by 15% in Q4 2020 compared to the base term. On the **Polish** market the sales almost doubled (98% growth) in Q4 2020 compared to the base. The turnover growth was the biggest at the Roofing foils and accessories product group, but the revenue of the Thermal insulation system product group also improved significantly.

SUMMARY

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. Masterplast closed a record year and was able to outperform previous management

forecasts for 2020. Masterplast expects sales of more than 150 million EUR, EBITDA of nearly 17 million EUR and profit after tax of over 10 million EUR for the 2021 business year.

Despite the effects of the coronavirus pandemic, the Company reported strong numbers, its core business was not disrupted by the effects of COVID-19, and growth was largely due to the German manufacturing company that acquired last year, with which Masterplast entered the healthcare industry.

The strong quarterly numbers are due to the expansion of the Company's core construction segment, and the Company's entry into the healthcare industry thanks to the acquisition in Germany concluded in 2020. Following the completion of the acquisition, a new German subsidiary, Masterplast Nonwoven GmbH, was launched in June, which also produces specialty raw materials for healthcare. In Aschersleben, the German production unit started to produce healthcare raw materials, industrial fleets and membranes with high market utilization and high capacity utilization.

In 2020, the company released figures at all levels that exceeded management's previous expectations. Revenue exceeded EUR 122 million, while the last forecast was EUR 120 million. Annual EBITDA was EUR 10.8 million, compared to the expected EUR 10.2 million, while the Company reported a profit after tax of EUR 6.23 million, with a forecast of EUR 6.2 million. All three numbers represent a record in the company's history.

Masterplast also announced significant investments last December and January this year, therefore, we reviewed our target price and published our updated model on February 15th. We reiterate our target price of HUF 2,628 and the “Buy” recommendation, which is also included in the latest analysis, due to the strong quarterly figures.

Analyst:

Balázs Rác

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 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

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.