

## WE INCREASED OUR TARGET PRICE TO HUF 2915

**Masterplast is launching a new investment in the healthcare industry to create a finished product manufacturing capacity for personal protective equipment for the health industry, supported by the Hungarian State. The Project will be implemented at the Company's headquarters in Sárszentmihály. With the creation of the new production capacity, it will be possible to produce finished health care products such as protective coveralls, medical gowns, disposable medical suits, foot bags, head protection and isolation sheets. Due to the new healthcare investment, we reviewed our DCF model and updated our target price. We raised our target price from HUF 2,628 to HUF 2,915.**

**Our previous model update can be found [here](#) where we wrote in detail about the healthcare business.**

The Project is closely related to the large investment in the production of raw materials for the healthcare industry, which started in December 2020. With the implementation of the two projects, the total value of Masterplast's manufacturing developments in the healthcare industry will exceed HUF 12 billion.

With the development of finished product production capabilities, integrated production will be realized in the Company's healthcare sector as well, within the framework of which Masterplast will control the entire production chain from raw materials to finished products. As a result of the production development, Masterplast will be able to produce products for which, according to industry forecasts, the healthcare industry will have a growing demand even after the end of the pandemic situation.

The value of the investment is HUF 2.6 billion (exactly 2,590,803,496), for the financing of which the Ministry of Finance, within the framework of the Health Support Program, provides 80 percent non-refundable support.

With its acquisition in Germany last year, Masterplast has successfully entered the healthcare industry, becoming one of the company's main profit drivers amid the pandemic and has now become a strategic business sector.

In December 2020, the largest production development investment in the Company's history was launched. The [updated strategy](#), published in early January this year, has already projected that the higher-profitability healthcare segment could generate additional sales of up to € 20 million in 2021, with profitability reaching the level of the construction business by 2030.

## DCF MODEL

We increased our 12-month target price to HUF 2915 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:

- 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](https://www.mkb.hu/sw/static/file/MKB_EK_elorejelzesek_2021_januar.pdf)

DCF Model (EURmn)					
	2021	2022	2023	2024	2025
Sales	146 980	168 591	191 105	207 097	218 281
<i>Sales growth</i>	18.89%	14.70%	13.35%	8.37%	5.40%
EBIT	13 009	15 062	16 949	18 159	19 209
<i>EBIT margin</i>	8.85%	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	-1301	-1506	-1695	-1816	-1921
<b>NOPLAT</b>	<b>11 708</b>	<b>13 556</b>	<b>15 254</b>	<b>16 343</b>	<b>17 288</b>
<b>Free Cash flow to the Firm</b>	<b>413</b>	<b>9 352</b>	<b>11 506</b>	<b>13 482</b>	<b>15 346</b>
<b>WACC</b>	<b>8.79%</b>	<b>8.79%</b>	<b>8.79%</b>	<b>8.79%</b>	<b>8.79%</b>
Discount factor	0.92	0.85	0.78	0.71	0.66
Discounted free cash flow	380	7 902	8 938	9 627	140 745
<b>Enterprise value</b>	167 591				
Net debt	46 672				
<b>Equity value</b>	120 919				
Number of shares outstanding (mn)	14 601				
Cost of equity	11.93%				
<b>Fair value per share (EUR, HUF)</b>	<b>7.33</b>	<b>2 580</b>			
<b>12M target price (EUR, HUF)</b>	<b>8.28</b>	<b>2 915</b>			

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 2915, which is 10,9% higher than the previous target price of HUF 2628.

**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_-_2018.01.10..pdf1)

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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.