

## MASTERPLAST – Q3 2021 SUMMARY

Masterplast also posted strong numbers in the third quarter, and the Company continued to grow in terms of key numbers and margins. In the first nine months of the year, the Company generated sales of EUR 146.1 million, while net profit was EUR 14.2 million. In the first nine months of this year, the company realized an operating profit of 16.02 million euros. Thus, total sales have already exceeded the full year of 2020, and profit after tax is almost three times the value achieved in the same period of last year. According to updated forecasts published in September, Masterplast could close the full year with a revenue of EUR 190 million. The Company expects a profit of EUR 15.1 million for the full year, 93 percent of which has already been made by the end of September.

### Q3 RESULT

The total revenue of the Group amounted to EUR 50695 thousand in Q3 2021, which was 35% higher than in Q3 2020. According to a quarterly report from Masterplast, the turnover of core business increased more than the effect of higher level of prices, but sales from protective clothing, started in December last year, also slightly contributed to the strong revenue increase. The increase in turnover, the trade margin and margin rate also increased in Q2 2021 compared to the base period. The growth was largely driven by the product margins of core activities, furthermore by the expansion of healthcare segment in the portfolio. The efficiency of own production has further improved.

thousand EUR	Q3 2021	Q3 2020
Sales revenue	50695	37550
EBITDA	6330	4210
EBITDA ratio	12.5%	11.2%
Profit after tax	5032	2621
Net income ratio	9.9%	7.0%

Source: Masterplast, MKB

The Group's EBITDA amounted to EUR 6330 thousand in Q3 2021 (12.5% EBITDA ratio) compared to the EUR 4210 thousand (10% EBITDA ratio) in the Q3 2020 base period, which showed a 50% 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. The operating profit (EBIT) reached EUR 5126 thousand in Q3 2021, which rose by 48% compared to the EUR 3471 thousand level of the base period. The Group PAT (profit after tax) was EUR 5032 thousand in Q3 2021.

### SALES BY PRODUCT GROUP

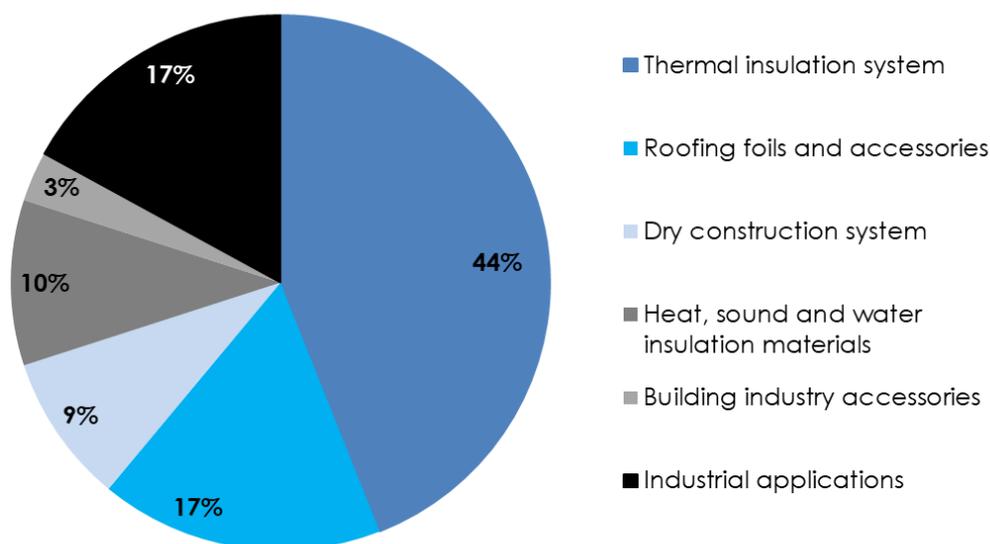
In terms of the revenue slate, **thermal insulation systems** provided the biggest share (44%): its sales increased by 36% in the third quarter compared to the base period.

Turnover of **Roofing foils and accessories** in Q3 2021 was 11% higher than in the same period in 2020. The turnover of diffusion roofing foils increased less than before due to the slowdown in the growth rate mainly of export markets German and Poland.

The most significant increase was recorded in the **Industrial applications product group**, Masterplast achieved 73% higher sales level in Q2 2021 than those of the base period. Overall, sales of healthcare products increased compared to the base due to sales of protective clothing to Hungarian healthcare, while sales from the German plant decreased compared to the same period last year. Income from packaging related products and revenue of non-strategic trade of raw materials also increased.

In the **dry construction system** improved in Q3 2021 by 49% compared to the base. In the **building industry accessories**, the sale of products increased by 7% in the third quarter of 2021. In the **Heat, sound and water insulation** materials product group the sales increased by 29% in Q3 2021 compared to the same period in 2020.

**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 35% in Q3 2021 compared to the Q3 2020 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

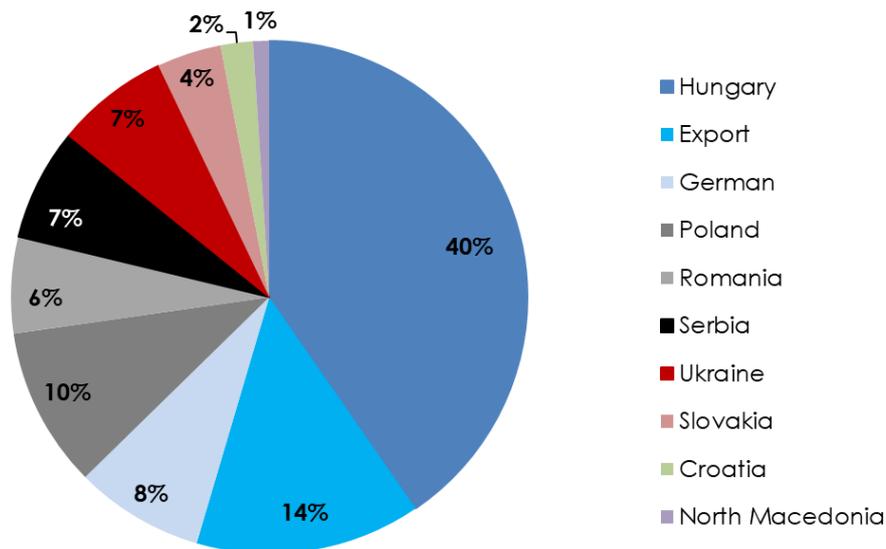
German market from the Export category to a separate category, as from H2 2020 Masterplast has own subsidiary in the country.

On the most relevant **Hungarian** market, the turnover increased by 79% in Q3 2021 compared to the base period. The reason for this large growth partially was the entry into the healthcare finished products market. The Company achieved strong growth in the construction product groups.

In the **Export** market in Q3 2021, the turnover increased by 60% compared to the same period of the previous year. The revenue of fiberglass mesh products from the thermal insulation system product group increased the most, but the sales of other product groups also expanded nicely. The increase in turnover in Italy, Latvia and Czech Republic should be highlighted.

The **German** market is reported separately compared to previous periods, because Masterplast has been present in the country with direct sales since H2 2020. Turnover in the German market decreased by 22% in Q3 2021 compared to the same period last year. The decrease was due to a decline in sales of medical textiles.

**Contribution of countries in percentage to the total sales revenue**



Source: Masterplast, MKB

On the key **Romanian** market, sales increased by 7% in Q3 2021 compared to the base period. Sales of thermal insulation systems and roofing foil product groups contributed the most to the growth.

In **Serbia**, sales increased by 14% in 2021 Q3. Turnover increased in all product groups expect roofing foils and accessories.

On the **Croatian** market, the Group sales decreased by 23% in Q3 2021 compared to the base term. On the **Polish** market, the sales increased by 19% in Q3 2021 compared to the base. Turnover increased in all product groups expect roofing foils and accessories.

**SUMMARY**

For the last quarter of the year, the Company also expects similar business environment, where the Group – relying on its stable production and on strong supply chain forecasts significantly higher turnover and profit generation compared to base year, so Masterplast could be able to achieve its targets presented in September, by closing a record financial year.

In our updated model, published on September 9, we expect sales of EUR 188 million for 2021 and operating income of EUR 18.17 million. In our view, the company could easily achieve this result, given the strong first nine-month figures and favorable fourth-quarter expectations. The updated strategy will be presented to shareholders by the Company at an investor conference on January 18, 2022.

**Due to the strong quarterly figures, we are also reiterate our target price (HUF 5.167) and the buy recommendation.**

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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 5167, which is 17 % higher than the previous target price of HUF 4433.

### 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-initiation-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%20Bank%20Zrt.%20-%20Masterplast%20elemzoi%20kommentar%20-%202018.01.10..pdf1)

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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.