## MASTERPLAST – Q2 2022

**Masterplast also posted strong numbers in the second quarter, and the company continued to grow in terms of key numbers. Sale of the company's own manufactured products increased the profitability, but significantly lower healthcare sales compared to the base period. Inparticular, the sale of thermal insulation materials increased significantly, with which the company was able to offset this year's decline in the revenues of the significant medical protective clothing project during the base period affected by the epidemic. EBITDA and operating profit decreased compared to the level of a year ago, but thanks to the profit generated on the financial line, the net profit increased by more than 30 percent and also set a record, significantly exceeding the highest value so far. The management provided further good news regarding the prospects: if the currency environment remains favourable for the company, in that case the annual profit may exceed the plan.**

## Q2 RESULT

The total revenue of the Group amounted to EUR 57597 thousand in Q2 2022, which was 35% higher than in Q2 2021. The gross margin in Q2 2022 was almost at the level of the base period amount thanks to the stable performance of the construction industry segment and the further rise of Masterplast's self-produced products, despite the significant decrease in the share of the healthcare segment with higher profitability.

The efficiency of Masterplast's own production has further improved. Output of the EPS and mesh edge plant in Serbia increased compared to a year ago, and fiberglass mesh production performed well above the strong emission levels of the base period. The foam unit in Kál produced at the output level of the base period, emissions from the Aschersleben plant decreased compared to the same period last year. According to the company, raw material supply disruptions, which have resurfaced due to the war situation, have been successfully managed in all the Company's factories, ensuring continuity of production.

The personnel expenses of the Company increased in Q2 2022 compared to the base, due to the new factory units established in Hungary, the higher number of employees in Serbia and the salary increase in line with market trends.

The Group's EBITDA amounted to EUR 8400 thousand in Q2 2022 (14.6% EBITDA ratio) compared to the EUR 8505 thousand (14.9% EBITDA ratio) in the Q2 2021 base period, which showed a 1% fell. The operating profit (EBIT) reached EUR 7047 thousand in Q2 2022, which declined by 5% compared to the EUR 7388 thousand level of the base period. The Group PAT (profit after tax) was EUR 9264 thousand in Q2 2022.

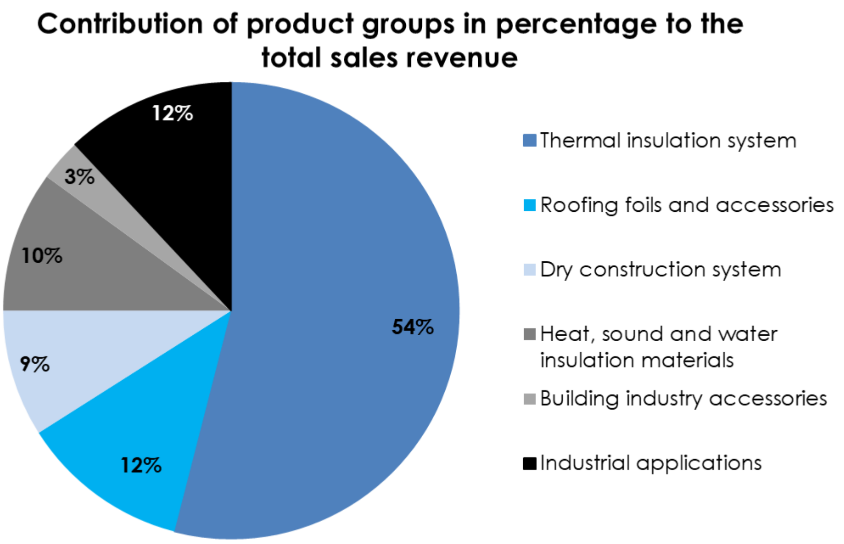
## SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (54%): its sales increased by 47% in the second quarter compared to the base period. Within this product group, sales of Masterplast's own-produced EPS products nearly doubled, while sales of fiberglass mesh and other insulation also increased.

Turnover of **Roofing foils and accessories** in Q2 2022 was 19% lower than in the same period in 2021. Within the product group, sales of Masterplast's both own-produced diffusion and conventional roofing foils declined, while sales of roof elements grew.

In the **Industrial applications product group**, the Masterplast achieved lower sales level in Q2 2022 by 58% than those of the base period. Sales of healthcare products decreased compared to the strong base, the turnover of packaging products and non-strategic raw material trade also showed a slight decrease.

In the **dry construction system** improved in Q2 2022 by 20% compared to the base. Sales of drywall performed well, profiles and accessories showing a smaller increase in the quarter. In the **building industry accessories,** the sale of products decreased by 6% in the second quarter of 2022. In the **Heat, sound and water insulation** materials product group the sales increased by 26% in Q2 2022 compared to the same period in 2021.




*Source: Masterplast, MKB*

## SALES BY COUNTRIES

The Group has increased its total sales by 1% in Q2 2022 compared to the Q2 2021 base period.

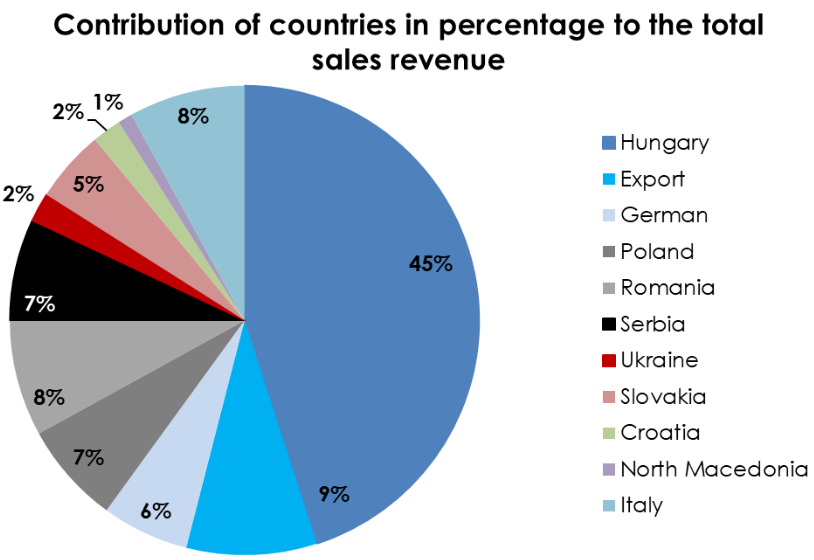
The breakdown of the sales by countries shows the revenue realized in countries where Masterplast has its own subsidiary, regardless of which subsidiary has registered the sales in the country. For countries where there is no Group subsidiary, sales are reported on the Export line.

In the first half of 2022, the Company revised and changed the breakdown of its sales by country. With foundation of Masterplast Italia Srl. the Group reclassified the Italian market from the Export category to a separate category, as from H1 2022 Masterplast has own subsidiary in the country.

On the most relevant **Hungarian** market the turnover declined by 8% in Q2 2022 compared to the base period. The Company achieved strong growth in the construction product groups. Government subsidies and renovation incentives continue to provide expanding demand, and price increases due to the war situation in Ukraine also resulted in additional demand due to pre-purchases. The turnover of finished products in the health industry decreased on the Hungarian market compared to the strong base.

In the **Export** market in Q2 2022, the turnover increased by 13% compared to the same period of the previous year. The sales revenue of the fiberglass mesh belonging to the product group of thermal insulation system increased the most, but the turnover of dry construction products, thermal, sound and water insulation products and industrial application also expanded. There was also a notable increase in the French, Czech and Greek territories, while the UK, Latvia and Ireland saw larger declines in export activity this quarter.

Sales in the **German** market fell by 5% in the second quarter compared to the corresponding period last year. Sales of diffusion roofing foils and fiberglass mesh also decreased.




*Source: Masterplast, MKB*

On the key **Romanian** market, sales increased by 14% in Q2 2022 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 15% in 2022 Q2. The turnover of the thermal insulation system elements product group increased significantly due to the increase in fiberglass mesh and EPS sales.

On the **Croatian** market the Group sales increased by 4% in Q2 2022 compared to the base term. On the **Polish** market the sales decreased by 11% in Q2 2022 compared to the base. In the **Slovak** market, sales grew by 45% in Q2 2022. Sales of EPS products in the thermal insulation systems product group grew strongly.

In **Ukraine**, the war situation led to a 47% drop in turnover in Q2 2022 compared to the base period.

## SUMMARY

Masterplast published strong second quarter results. Increasing supply difficulties and price rises as a consequence of the Russian-Ukrainian war, coupled with rising inflation, had a mixed effect on construction demand in the Company's markets. In Ukraine, the war situation since the end of February has put the economy, including the construction sector, out of action for the foreseeable future.

Rising energy prices have led to a pick-up in insulation works in the construction segment in several countries, and the demand side is also being boosted by government subsidies in many markets. In order to achieve its climate protection goals, the European Union provides significant financial resources for building energy renovation programmes, which, together with stricter energy regulations and high energy prices, will result in increasing demand for the Company's products in the longer term.

The Russian-Ukrainian conflict does not significantly affect the company's operations. The Ukrainian subsidiary has a small weight in the company's revenue and earnings, in Q2 2022 the Ukrainian subsidiary accounted for 2% of total sales.

After the first six months, approximately 70% of the planned after-tax profit for the entire year was achieved. Behind the significant increase in the after-tax result is a positive result of EUR 2 million booked in the financial result line. In the quarter, the company achieved a positive result on exchange rate effects, if the currency environment remains favorable for the company, in that case the annual profit may exceed the plan.

On July 26 Masterplast informed the investors that the Company is establishing a new polystyrene - commonly known as Hungarocell - production unit. The announced news is very positive and will clearly help the company achieve its sales and profit targets for the coming years. The timing of the news is also very good, after the government announced that residents will have to pay significantly higher gas prices for the part above the average consumption, many people are looking for a solution to reduce heating costs. The company will thus have the opportunity to serve the growing demand with its own-produced polystyrene.

Despite the generally deteriorating macroeconomic forecasts, a strong thermal insulation season is expected, and as a result of persistently high energy prices, energy restrictions and building energy modernization programs that are expected to start across Europe, demand is likely to pick up strongly in the long term.

## DCF model

We reviewed our DCF model, in which we left the sales and profit expectations for the following years unchanged. Due to the factors mentioned above, intensive growth can be maintained at the company. Due to the intense yield increases of the last period, we raised our forecast for the risk free rate in the WACC. For this, we used MKB Bank's official forecasts as a basis.

Due to the weakening of the forint, the target price calculated in euros must be converted to a higher forint exchange rate, and this offsets the decreasing target price due to the increase in WACC.

**After the model update, the target price drops slightly from HUF 6,394 to HUF 6,291. Masterplast shares remain a buy recommendation.**

| DCF Model (EURmn) | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| Sales | 211 062 | 256 889 | 289 488 | 313 246 | 339 499 |
| *Sales growth* | *12,25%* | *21,71%* | *12,69%* | *8,21%* | *8,38%* |
| EBIT | 20 658 | 26 007 | 30 106 | 34 132 | 38 228 |
| *EBIT margin* | *9,79%* | *10,12%* | *10,40%* | *10,90%* | *11,26%* |
| *Tax rate* | *14,0%* | *14,0%* | *14,0%* | *14,0%* | *14,0%* |
| Taxes on EBIT | *-2892* | *-3641* | *-4215* | *-4778* | *-5352* |
| **NOPLAT** | **17 766** | **22 366** | **25 891** | **29 353** | **32 876** |
| **Free Cash flow to the Firm** | **11 209** | **21 587** | **25 711** | **29 501** | **33 398** |
| **WACC** | **13,19%** | **11,36%** | **10,17%** | **10,17%** | **10,17%** |
| Discount factor | 0,88 | 0,79 | 0,72 | 0,65 | 0,59 |
| Discounted free cash flow | 9 903 | 17 125 | 18 514 | 19 282 | 238 057 |
| **Enterprise value** | 302 881 | | | | |
| Net debt | 67 349 | | | | |
| **Equity value** | 235 532 | | | | |
| Number of shares outstanding (mn) | 14 601 | | | | |
| Cost of equity | 18,15% | | | | |
| **Fair value per share (EUR, HUF)** | **13,47** | **5 251** | | | |
| **12M target price (EUR, HUF)** | **16,13** | **6 291** | | | |

*Source: Masterplast, MKB*

**Analyst:**
Balázs Rácz
Tel: +36-1-268-7388
E-mail: racz.balazs@mkb.hu

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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 775. The changes in fundamental factors and the operation in the Company required regular updates of our model and the target price. We are decrease our target price (HUF 6.291, 2022. August 01rd) and we maintain the buy recommendation, which is 1,5 % lower than the previous target price of HUF 6394 (2022. February 03rd)

**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://bet.hu/Kibocsatok/BET-elemzesek/elemzesek/masterplast-elemzesek

**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.