MASTERPLAST – Q3 2022

Masterplast reported an increase in revenue and profit after tax in the third quarter of 2022 compared to the same period of the previous year, thanks to the outstanding turnover of thermal insulation products. As a result of favourable exchange rate movements for the Group, the Company achieved its highest ever third quarter profit after tax (EUR 5 555 thousand), 10% above the base figures. The overall profit after-tax was EUR 17 031 thousand, 20% higher than a year earlier, which is 94% of the annual profit target published in September. If favourable currency movements for the Company continue to exist, with further strengthening of the insulation market in the renovation sector and reliance on Masterplast’s strong manufacturing base and stable supply chain could ensure achievement of the annual profit after-tax targets forecasted in September. In addition, low (~2%) interest rate loans, bonds of the Group and raised funds from market capitalisation after the quarter will allow implementation of strategic investments.

Q3 RESULT

The total revenue of the Group amounted to EUR 55029 thousand in Q3 2022, which was 9% higher than in Q3 2021. In Q3 2022, the gross margin was at the level of the base period despite industry-wide accumulated higher priced inventory levels and the increased operating and energy costs.

In line with the growth in demand in the insulation market the utilisation of EPS production plant in Serbia increased. Foam emissions decreased in Kal compared to the base year as the company sold its foam manufacturing equipment in September and started construction of the new EPS plant at that site. In response to the slowdown in the new building market, the other plants also operated at lower output levels, emissions from the Serbian mesh edge protection and fiberglass mesh plants, that of the Aschersleben fleece production units also decreased compared to the corresponding period last year. The fleece, sanitary raw materials and finished goods production units in Sárszentmihály are ready for serial production and obtaining health certificates.

The personnel expenses of the Company increased in Q3 2022 compared to the base, due to the higher number of employees of the Serbian production plant and to the salary increase in line with market trends.

The Group’s EBITDA amounted to EUR 5729 thousand in Q3 2022 (10.4% EBITDA ratio) compared to the EUR 6330 thousand (12.5% EBITDA ratio) in the Q3 2021 base period, which showed a 9.5% fall. The operating profit (EBIT) reached EUR 4358 thousand in Q3 2022, which declined by 15% compared to the EUR 5126 thousand level of the base period. The Group PAT (profit after tax) was EUR 5555 thousand in Q3 2022.
However, as a result of favourable exchange rate effects for the group, the company reported a significant financial result, as a result of which the profit after tax increased by 10% compared to the same period of the previous year.

SALES BY PRODUCT GROUP

In terms of the revenue slate, thermal insulation systems provided the biggest share (51%): its sales increased by 29% in the third 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 Q3 2022 was 21% lower than in the same period in 2021.

In the Industrial applications product group, sales closed at the base level in Q3 2022. 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 decreased in Q3 2022 by 17% compared to the base. Sales of drywall performed well, while drywall profile sales were down year-on-year. In the building industry accessories, the sale of products decreased by 1% in the third quarter of 2022. In the Heat, sound and water insulation materials product group the sales increased by 13% in Q3 2022 compared to the same period in 2021. Rockwool, XPS and waterproofing materials showed growth.

<table>
<thead>
<tr>
<th>Product Group</th>
<th>2022 Sales</th>
<th>2021 Sales</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thermal insulation systems</td>
<td>55029</td>
<td>50695</td>
<td>10.4%</td>
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<tr>
<td>Roofing foils and accessories</td>
<td></td>
<td></td>
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<tr>
<td>Dry construction system</td>
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<tr>
<td>Heat, sound and water insulation materials</td>
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<td>Building industry accessories</td>
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<td>Industrial applications</td>
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Source: Masterplast, MKB
SALES BY COUNTRIES

The Group has increased its total sales by 9% in Q3 2022 compared to the Q3 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 grow by 23% in Q3 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. The turnover of finished products in the health industry decreased on the Hungarian market compared to the strong base.

In the Export market in Q3 2022, the turnover fell by 4% compared to the same period of the previous year. Sales of own-produced fiberglass mesh, part of the thermal insulation system product group, were below the strong base level, and sales of roofing foils also declined. In the other product groups, the Company achieved growth. Sales in the UK and the Czech Republic were the main decliners in the quarter compared to the base quarter.

Sales in the German market increased by 15% in the third quarter compared to the corresponding period last year. Mainly sales of own produced fiberglass mesh and healthcare products increased sales, while roofing foils’ sales decreased compared to a year earlier.

Source: Masterplast, MKB
On the key Romanian market, sales increased by 2% in Q3 2022 compared to the base period. Sales of the thermal insulation product group increased, while sales of dry construction systems declined.

In Serbia, sales increased by 5% in 2022 Q3. 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 43% in Q3 2022 compared to the base term. On the Polish market the sales decreased by 5% in Q3 2022 compared to the base. In the Slovak market, sales grew by 5% in Q3 2022. Sales of EPS products in the thermal insulation systems product group grew strongly.

In Ukraine, the war situation led to a 21% drop in turnover in Q3 2022 compared to the base period. Given that sales activity in war-affected regions is severely limited, the sales shortfall affects all product groups.

**SUMMARY**

The unfavourable macro trends, rising energy prices, increasing inflation and the deterioration of the interest rate environment predict a decline in the desire to invest. As a result, a further decrease in sales related to the new building market is expected. At the same time, the renovation and energetic modernization of buildings is essential in dealing with the energy crisis. The framework of the EU’s REPowerEU program foresee the emergence of powerful building energy support programs in Europe. All these ensure the growth of demand for insulation materials even in the midst of the deteriorating economic environment and the impending recession.

Besides operating in a crisis-resistant industry the Company’s growth path is in line with its intensive investment strategy. In the thermal insulation materials market, the benefits of previous investments - the Hungarian and Italian EPS and the Serbian XPS production developments - could be felt in the coming years. The modulhouse business is expected to enter the market next year, the first trial modular office building will be installed in the last quarter of this year. According to the Company’s further development plan, a EUR 25 million investment in rock wool in Serbia could start production from 2024, while the launch of glass wool production is also a potential investment plan of EUR 25 million, with production starting from 2025. The Company intends to finance the developments through equity issues and equity raising.

On October 28, we published our latest model update, where we write more about Masterplast’s prospects. Due to the strong quarterly figures, we are also reiterate our target price (HUF 7.395) 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 775. On October 28, we published our latest model update, where we write more about Masterplast’s prospects. Due to the strong quarterly figures, we are also reiterate our target price (HUF 7,395) and the buy recommendation.

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):


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, 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% to +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.