

Masterplast – Q1 earnings

After the loss-making fourth quarter, Masterplast closed the first quarter of 2023 with a loss on all profit lines. However, the figures did not surprise the investors, because the management spoke at the investor conference that Masterplast could be unprofitable in the first quarter of 2023. In the announcement following the quarterly report, the company's management confirmed that the goal is to end the entire year 2023 with a profit, which can be achieved even if the current level of demand remains. As a result of the significant decline in the construction market and lower demand, the company's revenue decreased by 27% compared to base in the first quarter. In response to the changed market conditions, the company focused on reducing operating costs, optimizing production and inventory levels, and more efficient energy management. The Company revised its EBITDA earnings forecast for financial year 2023 to EUR 8 million.

Q1 RESULT

The total revenue of the Group amounted to EUR 37602 thousand in Q1 2023, which was 27% lower than in Q1 2022. In Q1 2023, the gross margin was below the base period, with the margin rate on turnover also decreasing.

Production output from the Aschersleben fleece manufacturing unit decreased compared to last year's base. At the central site in Sárszentmihály, diffusion roofing foil production increased, but it still operated with loss as a result of low capacity-utilization level.

The personnel expenses of the Company decreased in Q1 2023 compared to the base, despite the wage increases. At the end of March 2023, the Group employed 1 428 people, compared to its 1 476 employees at the end of the base period. The company reported at its investor conference that they will implement a downsizing of nearly 10%.

The Group's EBITDA was a loss of EUR 2032 thousand in Q1 2023 compared to the EUR 5235 thousand (10,2% EBITDA ratio) in the Q1 2022 base period. The operating profit (EBIT) was a loss of EUR 3417 thousand in Q1 2023, compared to the EUR 3907 thousand level of the base period. The Group PAT (profit after tax) was EUR -5837 thousand in Q1 2023.

thousand EUR	Q1 2023	Q1 2022
Sales revenue	37602	51510
EBITDA	-2032	5235
EBITDA ratio	5.4%	10.2%
Profit after tax	-5837	3218
Net income ratio	-15.5%	6.2%

Source: Masterplast, MKB

As a result of unfavourable exchange rate movements for the Company, a loss of EUR 2203 thousand was recognised in other financial operations in Q1 2023, compared to a profit of EUR 176 thousand in the base period.

SALES BY PRODUCT GROUP

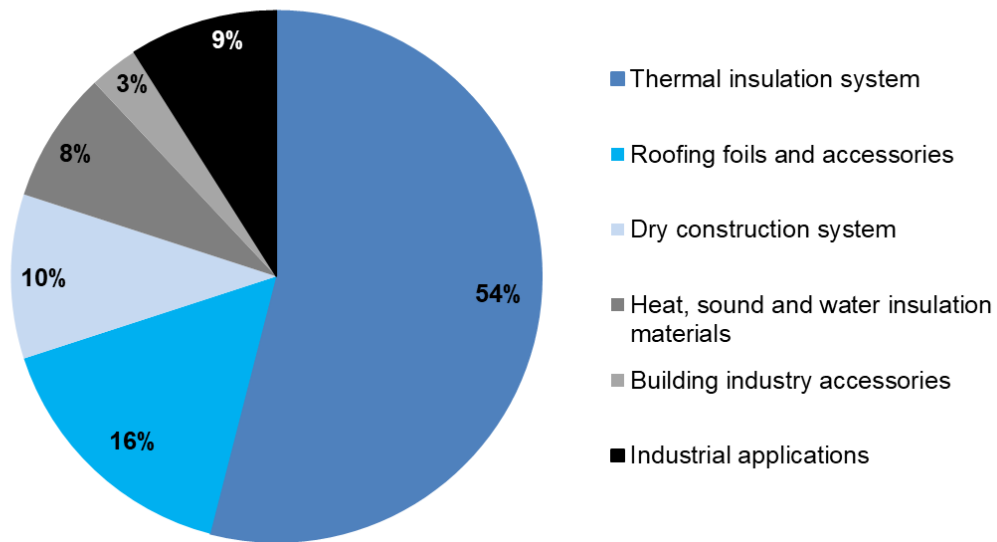
In terms of the revenue slate, **thermal insulation systems** provided the biggest share (54%): its sales decreased by 21% in the first quarter compared to the base period. Within this product group, sales of adhesives were strong, while sales revenue of other products was lower than a year earlier.

Turnover of **Roofing foils and accessories** in Q1 2023 was 20% lower than in the same period in 2022.

In the **Industrial applications product group**, sales closed 49% below the base level in Q1 2023. Sales of healthcare products closed at base level, the turnover of packaging products and non-strategic raw material trade also showed decrease.

In the **dry construction system** decreased in Q1 2023 by 37% compared to the base. Sales of drywall sheets and dry construction profiles were both lower than a year earlier. In the **building industry accessories**, the sale of products decreased by 23% in the first quarter of 2023. In the **Heat, sound and water insulation materials** product group the sales decreased by 27% in Q1 2023 compared to the same period in 2021.

Contribution of product groups in percentage to the total sales revenue



Source: Masterplast, MKB

SALES BY COUNTRIES

The Group has decreased its total sales by 27% in Q1 2023 compared to the Q1 2022 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.

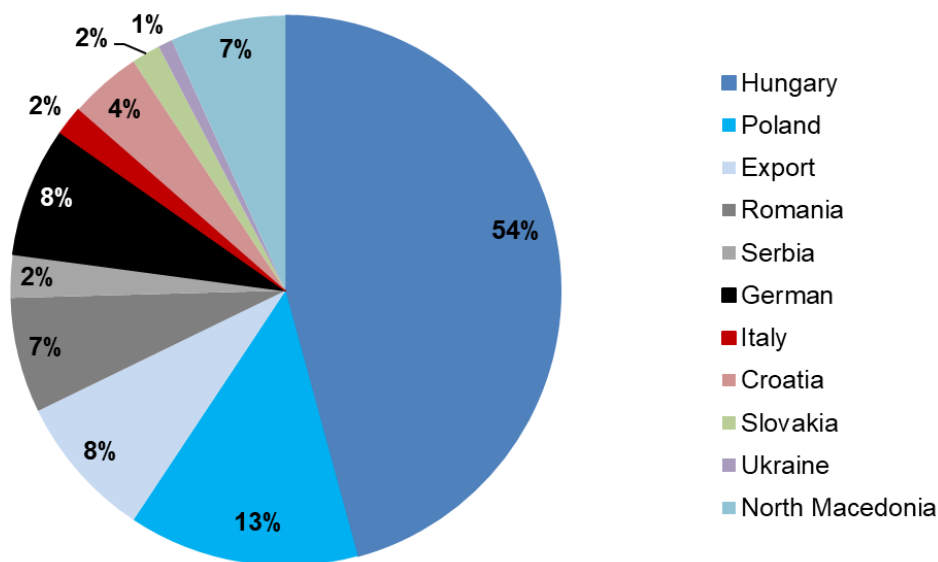
In the first half of 2022, the Company revised and changed the breakdown of its sales by country. With foundation of Masterplast Italia Srl. the Group reclassified the Italian market from the Export category to a separate category, as from H1 2022 Masterplast has own subsidiary in the country.

On the most relevant **Hungarian** market the turnover decreased by 35% in Q1 2023 compared to the base period. Sales declined in all product groups.

In the **Export** market in Q1 2023, the turnover fell by 10% 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 the turnover of heat, sound and water insulation materials and building industry accessories also decreased. At the same time, sales of self-produced diffusion roofing foils increased, and turnover of industrial applications also was above the baseline.

Sales in the **German** market fell by 41% in the first quarter compared to the corresponding period last year. The decline was caused primarily by lower sales of own-produced roofing foils and secondly by lower sales of medical raw material.

Contribution of countries in percentage to the total sales revenue



In **Italy**, sales fell by 53% compared to the very strong first quarter of last year, where the Italian state's tax refund action for thermal insulation renovation works strongly stimulated demand.

On the key **Romanian** market, sales fell by 24% in Q1 2023 compared to the base period. In terms of product groups, sales decreased in all of them in the quarter under review compared to a year earlier.

In **Serbia**, sales decreased by 29% in 2023 Q1. Sales of roofing foils and accessories increased significantly, but turnover decreased in the other product groups.

On the **Croatian** market the Group sales increased by 38% in Q1 2023 compared to the base term. On the **Polish** market the sales grew by 12% in Q1 2023 compared to the base. In the **Slovak** market, sales fell by 22% in Q1 2023.

In **Ukraine**, despite the war situation, first-quarter sales increased by 4% compared to the base in 2022.

Comment

After last year's weak fourth quarter, this year's profit figures may also be weak at Masterplast due to the sharp drop in demand. The goal of the management is to make the year 2023 profitable. According to the company's expectations, demand may increase again from 2024, the extent of which may depend also on

domestic and foreign home renovation and energy efficiency programs. And after 2025, sales of insulation materials may expand significantly due to the mineral wool business.

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 foresees the emergence of powerful building energy support programs in Europe. All these may ensure the growth of demand for insulation materials even in the midst of the deteriorating economic environment and the impending recession.

We have put our target price under review and will be publishing soon our updated DCF model and the new target price.

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- **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 review:** If new information comes to light, which is expected to change the valuation significantly.

7. Change from the prior research

Our target price is determined on a 12-month basis, without dividends, unless otherwise stated.

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 suspending our target price and will soon publish our model.

Prior researches

MBH 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):

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14. The valuation procedures used:

Discounted cash flow valuation

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).