MASTERPLAST – Q1 2019 SUMMARY

In Q1 2019 there were mostly positive trends in the building industry. Masterplast ("Company") has expanded its revenues by 19% compared to the base period mainly due to the outstanding performance on the Hungarian, Ukrainian, Slovakian and export markets, as both revenues and trade margins increased on a yearly basis. The trends and industrial climate in the Company's certain relevant markets are expected to remain favourable in the coming quarters. The target price is currently under review, we will soon publish our updated model.

The Hungarian government announced a seven point action plan in February. The first point of the plan is to support young couples, with each woman under 40 years old would be able to apply for a loan of up to 10 million HUF. After giving birth to three children, the loan would become a non-refundable support. Another point in the action plan aims to expand the beneficiary state-credit scheme set up by the government. These steps represent further growth potential to the Company.

IMPROVING RESULT

The total revenue of the Group amounted to 22,068 thousand EUR in Q1 2019, which was 19% higher than in the base period. In addition to the increase in turnover, the Company's gross trade margin also grew in Q1 2019 compared to the base period. With the increase in turnover, the trade margin value was increased almost to the same extent. The Group's trade margin was higher on the export, Polish, Slovakian, Croatian and Serbian markets in the quarter, but the realized margin volume grew in the Hungarian, Ukrainian and Romanian markets as well. The production output of fiberglass mesh and EPS grew Significantly in Serbia, while in Kal the foam factory production dropped on a lesser extent in Q1 2019 compared to the base quarter.

thousand EUR	Q1 2019	Q1 2018
Sales revenue	22 068	18 552
EBITDA	934	732
EBITDA ratio	4.2%	3.9%
Profit after tax	238	54

Source: Masterplast, MKB

Mainly due to the expanded production in Serbia, together with the increase in wages in Hungary, the personnel expenditures of the Company has increased by 5% in Q1 2019 compared to the base period.

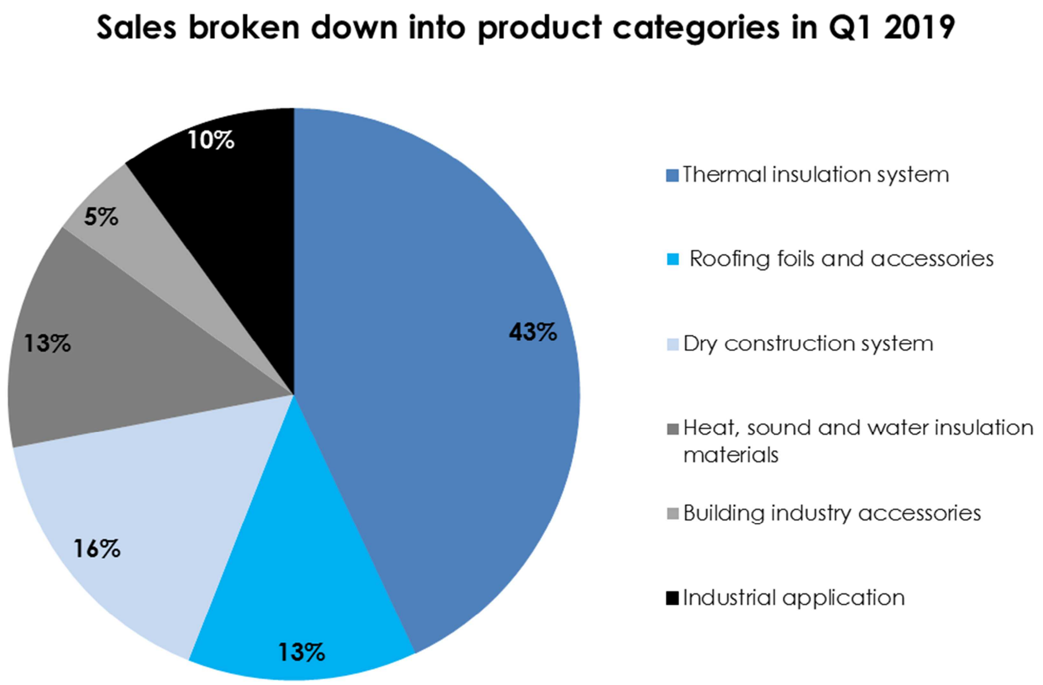
The Group EBITDA amounted to 934 thousand euros in Q1 2019 (4.2% EBITDA ratio) compared to the 732 thousand euros (3.9% EBITDA ratio) in the base period and the operation profit (EBIT) reached 396 thousand euros in Q1 2019.

Due to the higher utilized loan portfolio the interest expenditures has increased in the first quarter of 2019 compared to the base period. The Company has generated and booked

60 thousand EUR profit as other financial result which came from the favourable foreign exchange effects in Q1 2019 compared to the 110 thousand EUR loss of Q1 2019.

Sales by product group

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (32%), where the overall sales grow by 19% in 2019 Q1. The sales decreased by 8% in the **industrial applications accessories segment**, while in the **dry construction system** product group it grew by 4%. In the **heat, sound and water insulation materials** segment the sales in Q1 2019 increased by 18%, while a similar growth was reported in the **building industry accessories** sales compared to the base period in 2018. Regarding the **roofing foils and accessories products** the Group has achieved a 16% increase in turnover in Q1 2019 compared to the base period.



Source: Masterplast, MKB

RELEVANT MARKETS

On the most relevant **Hungarian** market a continuing industrial growth and even more robust economy trends had been reflected by the statistics. The labour shortage will have a relevant impact on the performance of the construction industry in the upcoming periods. Construction expectations remain positive for the new periods, although final withdrawal of the discounted VAT is expected to affect the starting of new investments, while the expanded "CSOK" starting in the summer can bring a lot of opportunities in the renovation market.

In **Romania** the demand in the construction market was decreasing. Compared to the same period of the previous year, the number of issued building permits increased in the first quarter. The planned government renovations were also postponed, and the completion of started projects was delayed due to the increased labour shortage. In **Ukraine** the economy performed well and the value of the finished construction works rose by 4% over the fourth quarter of last year. In **Poland**, economic growth continued. GDP growth was above 4%, demand on the domestic market increased, while on the export market the demand weakened slightly. In **Slovakia**, the construction industry performed well in the first quarter, the market participants reported a similar increase than those in the last year. The economic indicators have shown further improvement in **Croatia** in Q1 2019, the GDP grew, the unemployment decreased and wages increased. In **Serbia** in Q1 2019 the GDP has also grown by 2.3% compared to the base period in 2018. The National Bank has further pursued its price-stability policy and brought favourable conditions to the whole economy.

SALES BY COUNTRIES

Overall in the typically positive industrial environment the Group has increased its total sales by 19% in Q1 2019 compared to the base period. Remarkable gains in sales were achieved on the Slovakian, Ukrainian, export and Hungarian market. Excluding the Industrial applications, all product groups reflected higher turnover in the period compared to Q1 2018.

On the most relevant **Hungarian** market the turnover has grown by 28% in Q1 2019 compared to the base period. The Company was able to expand its turnover in all the product groups, where the largest growth was reported in the sales of the thermal insulation system related EPS product. The other product groups also performed well.

An increase of 18% was achieved on its **export** market sales in Q1 2019 compared to the base period. The Group has increased its sales in the Thermal insulation system group including the increasing revenues from fiberglass mesh products.

On the relevant **Romanian** market the sales increased by 8% in Q1 2019 compared to the base period. The Company has increased its sales principally in the fiberglass mesh products from the Thermal insulation system product group, but a growth has been reached also in the Roofing foils and accessories. The other product groups had a decrease in sales compared to the base period.

In **Ukraine**, growth in sales amounted to 30% in Q1 2019 compared to the 2018 basis. The Company increased its revenues in the most relevant Thermal insulation system product group. In **Serbia** the sales were increased by 7% in 2019 Q1. A growth in sales has been achieved regarding the Heat, sound and water insulation materials, the Thermal insulation system product group and the Roofing foils and accessories. On the **Croatian** market the Group sales grew by 11% in Q1 2019 base term. The revenue increase was the highest in the Thermal insulation system product group.

On the **Polish** market the sales were up by 10% in Q1 2019 compared to the base. The revenue increased especially in the diffusion roofing foils from the Roofing foils and accessories product group. The sales were up by 20% in Q1 2019 on the **Slovakian** market. Except in the Dry construction system, the turnover increased in all product groups compared to Q1 2018, prominently in the Thermal insulation system product group.

SUMMARY

The trends and industrial climate in the Company's certain relevant markets are expected to remain favourable in the coming quarters. The Company's improving manufacturing and operational efficiency, might help to achieve the targets set out in its strategic plans. In 2019 the growth may be sustained. **The target price is currently under review, we will soon publish our updated model**

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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

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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.

Change from the prior research

Our first research was published on 15 December 2017. In that Initial Coverage our price target was HUF 775, but the changes in fundamental factors justified the update of our model. Our new price target is HUF 805.