We updated our DCF model and raised our target price to HUF 7395

The basis of Masterplast's growth strategy is the intensive expansion of its own production, which it implements with the help of greenfield investments and acquisitions. The Company currently operates 8 production bases in 3 countries, which will be expanded next year with three new thermal insulation material production plants. The next significant step in Mastrplast's growth and future construction strategy is the start of the production of mineral wool thermal insulation materials.

Masterplast's share issue was successfully completed. The issue price of the new ordinary shares is HUF 4,100, and the Company will issue 2,249,352 shares. With this, Masterplast will raise more than HUF 9.2 billion in capital, which is within the range of HUF 8-10 billion previously targeted by the management.

The secondary issue of shares also means the dilution of shares because Company's action increases the number of outstanding shares and therefore reduces the ownership percentage of existing shareholders. The Company plans to spend the amount received from the issued shares on previously announced investments (mineral wool plant investment), but in the recent period, several capacity-expanding investments were announced, which means a faster expansion of income and margins than before. Therefore, despite the share issue, we raised our previous target price.

By the end of the decade, Masterplast aims to become a major regional player in the building materials industry as a major European producer of thermal insulation materials, while fulfilling the strategic role of the supply of healthcare textiles in Hungary as a dynamically developing healthcare industry manufacturer expanding into the European market as well. Relying on its strengthened market position and extensive manufacturing background, Masterplast can achieve significant organic growth in its core business while the development of a more profitable healthcare business continues. Also, production will start in the Modular business next year.

Briefly about the details of the SPO (secondary public offering)

The subscription procedure for the retail placement took place between 5 and 14 October 2022 and the auction procedure for the institutional placement took place between 10 and 14 October 2022. According to the subscription receipt issued by the distributor on 17 October 2022 with respect to the Public Offering, the Investors under the Simplified Prospectus have made commitments to accept newly issued ordinary shares in the aggregate amount of HUF 10.65 billion and to pay the cash consideration; 663,848 shares were requested by retail Investors and 1,933,500 shares by institutional Investors.

In view of the significant (almost 30percent) oversubscription received during the Public Sale, the Company's board of directors accepted a 12.47percent oversubscription. In addition to retaining the majority of the two main owners, the Company's board of directors decided to issue 2,249,352 new shares.

The issue value of the ordinary shares concerned by the capital increase is HUF 4,100 per share, in total of HUF 9.2 billion. The part of the issue value per share exceeding the nominal value - in total HUF 8.99 billion increases the Company's capital reserve pursuant to Article 36 (1) a) of Act C of 2000 on Accounting.

The number of ordinary shares is increased from 14,601,279 shares by the number of new ordinary shares issued in the context of the capital increase, 2,249,352 to 16,850,631 shares.

The Company announced the construction of two mineral wool factories.

Masterplast has made a strategic decision regarding the production of mineral wool thermal insulation materials, and the Company has also announced information about its potential production development investment plan. Masterplast will use the amount received from the share issue for this investment.

The new rockwool production plant, which is the subject of the tender and will be established in the settlement of Sremska Mitrovica in the southern part of Vojvodina, will have a planned annual capacity of 30,000 tons, and the energy supply of the plant will be based on electricity. The value of the project is in the order of EUR 20+5 million (an expansion of 5 million euros can be done immediately after the initial investment), and the Company plans to spend it from its own resources and from the non-refundable state aid provided in the framework of the HEPA program of the KKM. Putting the factory's capacities into context, there are currently 20-25 thousand tons of rockwool on the Hungarian market, the capacity of the new factory could be 30 thousand tons. Glass wool is used in roof insulation, not a substitute, but a complementary product to rock wool. It can be produced mainly using waste glass. The Company is currently planning the glass wool project, which will be realized if the SPO is successful. There is currently a shortage of these products in Hungary.

The Company chose Serbia because it seems very favorable compared to Europe in terms of energy security and price. A central Company supplies industrial companies at a much more favorable price than domestic ones. Currently, the country has an energy policy that goes against the EU sanctions policy. Serbia now sees an opportunity to break out of the energy crisis, it is better to build a factory with high energy demand there both from the point of view of energy security and price.

Based on the expectations of the Company's management, the two new factories can start up in 2024-25, and they can make a meaningful contribution to profit production from 2025-26.

Mineral wool is the elite category of insulating material production, with the highest investment requirements and a high entry threshold, which is why only a few companies in the world dominate the market. According to the Company's management, the margin of mineral wool materials is well above Masterplast's current Company-level profit rates.

What should know about mineral wool?

Glass and rock wool are collectively known as fiber insulation or mineral wool. Glass wool is used for insulation inside the building, but rock wool is also used for insulation inside and outside the building. Glass wool is mainly used to insulate attics, floors and partitions, while rock wool is used to insulate flat roofs and facades.

The final use of glass wool and rock wool is residential construction and non-residential construction projects (business centers, office buildings, public buildings). Residential users typically buy various kinds of mineral wool from building material dealers or DIY stores, these are the manufacturers' sales channels for residential use. For residential construction, DIY store chains are the second largest sales channel, but they generate a smaller demand in terms of volume compared to building material dealers. Retailers serving residential constructions purchase glass wool at a discount compared to the manufacturer's list price, the amount of the discount may vary by country, manufacturer and customer. In the case of non-residential construction, the manufacturer sells to the contractor, the concentration of demand depends on the concentration of the construction industry in the given country. In sales, long-term agreements fixing annual quantities are not typical.

The European market is dominated by four large international players, Ursa, Knauf, Rockwool and Isover Saint Gobain. Due to the fibrous structure of glass wool and rock wool, a significant part of the material is air, thus glass wool is a product with a low value density, and its specific transport costs are high. Due to the relatively high transport costs, Central European manufacturers typically sell their products within an average transport radius of 500 km from the place of production. Large manufacturers realize most of their profits by selling close to their production capacity. Market trends show that consumers are moving towards products with a higher thickness, which has a stimulating effect on the sales volume of manufacturers.

Due to its lower density, glass wool can be compressed, packaged and transported more easily than rock wool. The compression coefficient of glass wool can be as high as 9 in the case of a high lambda (thermal conductivity factor), as a result, 9 cubic meters of glass wool can be transported in 1 cubic meter of cargo space, which significantly reduces transport costs.

Glass wool and Rockwool

Glass wool is also one of the mineral fiber insulation materials, but it is based on quartz sand or glass. The final product has a looser structure and a softer feel than rock wool. It does not hold its shape during processing, it can be shaped.

Rockwools are mineral fiber insulating materials that are produced by melting and breaking down various rocks and rock derivatives (basalt, alkali oxides, kaolin, etc.) into elementary fibers. They are typically denser than glass wool and firmer to the touch. Like a quilt, it can be spread less, shrinks less during transport, but retains its shape, can be cut more easily and is more load-bearing.

About the competitors in brief

Rockwool

Rockwool is a Danish multinational manufacturer of mineral wool products headquartered in Hedehusene, Greater Copenhagen, Denmark. Rockwool has a total of 11 rockwool factories in Eastern, Central and Western Europe. Rockwool also has factories in the CEE region in Hungary, where 50-60,000 tons of rockwool are produced annually, in Croatia (its annual capacity is 120,000 tons) and in the Czech Republic.

Knauf Insulation

Knauf Insulation started its operations in 1978 and has grown to become one of the world's largest manufacturers of insulation materials. Knauf Insulation produces, among other things, glass wool, rock wool, wood wool and wool, and its product range provides solutions for the insulation of both residential and commercial buildings. The Company is based in Germany. Knauf Insulation is present in more than 40 countries and has 30 manufacturing sites in 16 countries. The Company also has a factory in Zalaegerszeg, Hungary, where they only produce wood wool. Knauf Insulation Slovakia produces 104,000 tons of rock wool. The Serbian subsidiary of Knauf Insulation produces 55,000 tons of mineral wool per year. The output of Knauf's factory in Slovenia is 110,000 tons of mineral wool. The factory located in Krupka in the Czech Republic has an annual production of 55,000 tons of mineral wool. The Company has two factories in Germany, the annual mineral wool capacity of the St Egidien plant is around 100,000 tons. The Company also has two factories in France, Illange has the capacity to produce more than 100,000 tonnes of our rock mineral wool solutions every year. The other French plant is located in Vise, where glass wool is produced, with an annual capacity of 120,000 tons. Knauf's factory in Croatia also produces rock wool.

Saint Gobain - Isover

Isover is a Company belonging to the Saint-Gobain group that produces building materials and materials for industrial use. Isover is considered one of the world's leading manufacturers of insulation materials, the Company provides insulation solutions for both residential and commercial buildings. The Company manufactures insulating foam, rock wool and mineral wool. Isover has a plant in Romania where they only produce glass wool, with an annual capacity of 30,000 tons. The Company's plant in Poland produces 60,000 tons of glass wool per year.

URSA

URSA Insulation S.A. is one of Europe's leading insulation material manufacturers. The Company operates 13 factories in 8 countries. In the region, there is a factory in Poland, where 30,000 tons of glass wool are produced per year. There is also a factory in Slovenia with an annual capacity of 25,000 tons.

With the increase in energy prices, the insulation of buildings has become urgent

The massive energy renovation of buildings has become inevitable due to the European energy crisis, which will significantly increase the demand for thermal insulation products. The strategic focus at Masterplast is to make the Company a dominant producer of insulating materials at the European level, and the product range would become complete with the production of mineral wool.

After the purchase of the German factory in 2020, Masterplast saw a serious growth leap both in terms of revenue and profit generation, which was contributed to by the favorable trends prevailing in the insulation material market. EBITDA, which is a good indicator of the Company's ability to generate profits, increased fivefold by 2021 compared to the period between 2012-16.

The events of the last few months have made the importance of insulation material production even more important, and now the insulation of buildings has become not only an environmental and economic issue, but also a strategic and political imperative. Europe will not turn back from the path of reducing Russia's energy dependence, and the results that can be achieved in a short time are currently limited by alternative energy production options. Insulation can be achieved with a relatively small investment and quickly, and the renovation of the European residential building stock can be completed in a few years.

According to the Company's management, two-thirds of Masteprlast's production-related energy costs are electricity. The higher gas price is included in the price of the products, but energy is not one of the biggest items in their cost structure, the price of raw materials and plastics still make up the majority.

What is currently positive is that the center of gravity of the Company's production is in Serbia and the gas and electricity prices in Serbia are significantly more favorable than those in the EU. Serbia has a stable Russian supply, there is a market price for gas at a different level, with a non-European logic, because the Serbian state gas Company sells gas to both companies and the population at a state-determined price.

The Company is currently active in three business lines

Construction

The reason for the dynamic growth since 2020 is that the Company has made several investments that have contributed to the expansion of sales and earnings. 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.

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 newly built buildings are already made with adequate insulation, and the insulation used during renovations in recent years can also be said to be effective, but with regards to the entire building stock, the proportion of those with adequate insulation is still low. Actually, at least the owners of buildings with level „BB" have only a chance to keep their consumption below the level supported by the overhead reduction. In the case of a typical "Kádár Kocka", a good thermal envelope can immediately reduce the energy demand of the building by up to 50percent, offering a real solution against the increase in overhead costs.

Energy standards are constantly tightening in Hungary and in other EU member states, and as a result, a new home can only be built with near-zero energy consumption. This can be achieved by applying thick insulation to the building, which also creates a market for Masterplast products.

In addition to rising sales prices, the cost of raw materials also increased steadily, but this factor did not significantly worsen the Company's profit margins. In order to curb the rise in raw material prices, Masterplast can explore new sources of raw material supply and increase its inventories when the price of raw materials shows a decrease.

Healthcare

Masterplast entered the healthcare industry in 2020 by purchasing the factory in Aschersleben, Germany. The factory produces special tiles and multi-layer membranes for the healthcare and construction industries. With the decline of the epidemic, the German factory returned to the production of roofing foil, but in the meantime built a factory in Hungary, where it is capable of producing 7,000 tons of a wide range of raw materials required for the production of protective equipment for the health industry. The Company also announced the production of finished healthcare products, which will contribute to sales from 2023.

A leader has also appeared in the management of Masterplast, Dr. Csaba Szokodi, who has serious references in the healthcare industry. Dr. Csaba Szokodi is responsible for leading the health industry division. Led by Dr. Csaba Szokodi, the dynamic growth of the healthcare industry may expand in the coming years. The healthcare business has undergone very significant development since its launch in 2020, and the Company plans to innovate more in the coming years. The following strategic points were presented at the investor conference:

- Increasing the output of hygienic raw materials
- Creation, production and sales of finished product portfolio
- Masterplast Medical brand
- Supplier partnership
- Collection and recycling of healthcare products

Masterplast's ambition is to grow in the disposable products market as traditional textiles will be replaced by disposable textiles. Most of these are now made in Asia, but due to logistical problems, narrowing of supply chains, everyone is looking for shortened supply chains that can serve the industry.

Modular technology

In response to both the challenges of the construction industry and the consumer demands, as a manufacturer Masterplast is entering modular architecture, the most promising and probably the fastest growing construction segment of the decade. Modular technology offers a more efficient solution than the traditional construction method in several respects.

Production can take place under controlled operating conditions during the 12 months of the year, even in continuous shifts. Many building types can be manufactured from standard building modules, which can be widely used. With the help of the technology, houses, summer houses, offices, dressing rooms, workers' hostels, medical practices, gyms or even catering units can be built very quickly with low demand for live labour on site. The Company's supplier relationship system, its own manufacturing background, manufacturing expertise and capitalization provide a significant competitive advantage. The first plant will be established in the area of Székesfehérvár, and production is scheduled to start by the end of 2022.

In Masterplast's Modulhouse system, the building modules are made with an extremely solid and rigid 3D steel frame structure system that is suitable for building 4-story buildings by themselves. Providing them with additional reinforcements, it is possible to construct medium-rise buildings with up to 12 floors, but in addition, a simpler, hybrid use is also possible, where a ready-made bathroom module is inserted into a traditionally built building.

Earnings revenue

Healthcare

Revenue from the healthcare business is currently recognized by the Company in the industrial applications segment. In 2020, the Company generated sales of EUR 17.1 million in industrial applications. In 2021, the sales revenue from the health industry division became exceptionally high, reaching EUR 44 million thanks to an one-time item of EUR 12.5 million. Based on the figures for the first half of 2022, the sales revenue from the health industry fell by half compared to the previous year. We expect a sales revenue of EUR 26 million for the whole of 2022, which may be followed by stable (around 10 percent) growth in the period between 2023-2026. According to an analysis by Grandviewresearch, the health textiles market could grow by an average of 4.9 percent per year (CAGR) by 2025.) However, at Masterplast, the healthcare business was formed in 2020, and due to significant investments, stronger growth is expected by 2025.

Modular construction

The Company also created a new business segment this year, modular construction. According to the plans, factory production will start from the beginning of 2023 and the market introduction of the construction system will begin. The advantages arising from the capabilities of the technology make the modular architectural solutions competitive in ever-expanding areas of use.

The goal is to produce 500 building modules in the first year which can result in sales of EUR 10 million in 2023 and by 2026, Masterplast can even reach EUR 25 million in sales. We have also built in the effects of this business segment into our DCF model.

According to an analysis by Grandviewresearch, the global modular construction market size was valued at USD 84.4 billion in 2020 and is expected to expand at a compound annual growth rate (CAGR) of 6.4percent from 2021 to 2028.

Construction

The largest part of the sales revenue comes from the construction business, and according to our expectations, this will not change in the period between 2022-2026. In the case of the Dry construction system, Heat, sound and water insulation materials, Building industry accessories product groups, a stable but moderate increase in sales is expected over the examined time horizon. In the case of the Roofing foils and accessories product group, a significant increase in sales revenue is expected. Due to the purchased factory in Germany, Masterplast has significant roofing foil production capacities. The Company has also introduced a new roofing foil product line, and Masterplast can sell the premium quality products made in Germany on the Western European market. According to our expectations, the Company can realize sales of EUR 35.4 million from the sale of roofing foils this year, and by 2026 the sales revenue of the Roofing foils and accessories product group can increase to EUR 54.2 million.

In Hungary the government introduced stimulus measures and subsidised credit schemes to stimulate housing demand. Within the construction industry, thermal insulation systems make up the largest part of the sales revenue. In 2021, the turnover of thermal insulation systems increased by 47percent compared to the previous year. The first half of 2022 was strong, Masterplast achieved a growth of 63percent, according to our expectations, the expansion could be 47percent for the whole year. The demand for thermal insulation systems has grown significantly in recent years.

46 percent of the total sales revenue came from Hungary, there is no available data on the domestic share of sales of insulation systems. In our opinion, domestic sales of insulation systems can be significant, so it is an important factor that the government-funded programs (e.g. home renovation support, the Family Housing Support Program (CSOK)) continue in the future. Subsidized loans will be of particular importance in the future, because the drastic increase in the domestic interest rate has made it significantly more expensive to take out a loan.

Due to the significant rise in energy costs, the demand for insulation systems may increase in the future. At present, the only effective alternative to reduce heating costs is adequate insulation of buildings. The Company has made several investments on the supply side so that the supply can keep up with the growing demand. For example, it has put into operation new factories in Hungary and Italy, so the Company increases its EPS (styrofoam) production capacity by a total of 600,000 tons. The Company will start XPS production in Serbia, with an annual capacity of 200,000 tons. Masterplast has also decided to build a mineral wool plant, the first phase of which will be the construction of the rock wool factory starting next year. Its annual capacity will be 30,000 tons. After that, the construction of a glass wool factory is also included in the plans, which can operate from 2025 with an annual capacity of 25,000 tons. The Company expanded the capacity of the glass fabric mesh factory in Subotica by 25percent to 150 million square meters per year.

In 2022, EUR 113.6 million sales revenue is expected from products related to thermal insulation, in our forecast for 2023-2026, sales revenue (thermal insulation systems) may increase to EUR 197.6 million by 2026, taking into account the above investments.

The forecast for the growth of insulation materials can be read in this analysis. According to the analysis, by 2026, insulation materials could expand by an average of 5 percent per year.

Risk

Masterplast has been facing rising raw material prices and steadily rising energy prices recently, and these trends may continue for the time being. Narrowing of supply chains has also been a characteristic process since the outbreak of the coronavirus. The Company has managed these difficulties well so far and in our opinion these factors will not adversely affect the Company's results in the future. Additional risks include rising wages, rising inflation, which means a steady increase in costs for the Company.

The European sanctions introduced in connection with the Russian-Ukrainian war can cause serious economic difficulties for individual countries. Because of this, lower GDP growth or even recession can be expected, which would also worsen the outlook of the construction industry. The Company also has a subsidiary in Ukraine, which accounted for 5.5percent of last year's sales. In the first half of this year, the subsidiary's share of sales decreased to 2.3percent. The Ukrainian subsidiary of the Company continues to operate, but the further development of the war is currently unpredictable, so there may be disruptions in the operation of the subsidiary in the future.

The end of the Bond Funding for Growth Scheme, a rising interest rate environment, means increasingly expensive financing for Masterplast.

In recent years, there have been many state grants available for the purchase or renovation of a home, both abroad and domestically. For the time being, it is uncertain what state support programs will be available from 2023, or whether a program specifically aimed at energy modernization will be launched. Without them, it is more difficult to finance a renovation, especially in an environment of sharply rising interest rates.

In the case of Masterplast, we can also identify growth risks. Many investments will start in 2023 (XPS factory, Italian EPS factory, modular construction business), the launch of new business segment and geographical growth also carry many risks, which may affect the future growth rate.

In addition, the company may soon enter new markets (mineral wool). Many uncertainties are faced when determining the future growth rate of the mineral wool business. (For example, does the company succeed in creating a stable customer base, how long does it take for stable demand for new products to develop). Entering new markets always carries more risk than expanding existing markets.

Peer Group

On the basis of P/E and EV/EBITDA, we examined the value of Masterplast in comparison with its peers in the sector. In the case of valuation indicators, we calculated the number of shares increased during the share issue.

On a P/E basis, Masterplast is cheap compared to its sector peers, even calculated based on the modified number of shares. Masterplast's forward P/E ratio for 2022 is 9.5 compared to the average of its sector peers of 11.81, and for 2023 it is 7.6 compared to 11.74.

The table shows that the pricing of Masteplast is also favorable on an EV/EBITDA basis, calculated with the data expected for 2022, 4.6 compared to 6.45, and calculated with the data expected for 2023, it is 3.7 compared to 6.83.

Masterplast valuation vs. Its peer group

Company	Market Cap (HUFmrd)	P/E (2022)	P/E (2023)	EV/EBITDA (2022)	EV/EBITDA (2023)	EBITDA margin (2021)
Median	**1042.05**	**11.81**	**11.74**	**6.45**	**6.83**	**16.62%**
Masterplast Nyrt.	60.2	9.5	7.60	4.60	3.70	11.92%
Kingspan	3830	14.28	15.10	10.62	10.97	13.75%
Lindab	374.1	8.65	10.41	6.68	7.38	20.48%
Rockwool	1710	14.11	13.07	6.21	6.28	19.49%
Saint Gobain	8770	6.76	7.35	4.35	4.60	13.72%
Steico	291.20	14.48	15.05	8.10	8.02	23.52%

Source: Masterplast, MKB

DCF model

We increased our 12-month target price to HUF 7395, and we amend the recommendation to buy for Masterplast shares.

We used the following parameters and methodology during our DCF calculations:

- Compared to our most recent model update, we expected increasing sales revenue and improving profit margins for the period 2022-2026. The following factors will also help the Company's growth in the coming years:
  - Establishment of rock wool and glass wool factory
  - Expanding manufacturing capacity of fiberglass mesh
  - Launch of XPS production
  - Construction of two new EPS (styrofoam) plants
  - Launch of modular business
  - Scaling up the production of medical raw materials and finished products
  - Capacity expansion, greenfield innovation, acquisition
  - Due to rising energy prices, there is a growing demand for insulation materials

- The share price was calculated in HUF, with 16.85 million shares and EURHUF at 400. In the DCF model, we have already calculated the number of 2.25 million new ordinary shares issued as part of the share capital increase.

- For calculating the target price, we used our own EUR/HUF, and 10 year Hungarian government bond yields forecast, which are available on this website.

- In the DCF model, we have not yet taken into account the effect of the state support related to the rock wool investment and the acquisition of 100 percent ownership of T-Cell Plasztik Kft.

DCF Model (EURmn)	2022	2023	2024	2025	2026
Sales	225 450	276 006	334 807	415 229	484 050
Sales growth	*50.79%*	*22.42%*	*21.30%*	*24.02%*	*16.57%*
EBIT	22 745	28 912	36 462	48 202	58 799
EBIT margin	*10.09%*	*10.48%*	*10.89%*	*11.61%*	*12.15%*
Tax rate	*15.0%*	*15.0%*	*15.0%*	*15.0%*	*15.0%*
Taxes on EBIT	*-3412*	*-4337*	*-5469*	*-7230*	*-8820*
NOPLAT	**19 333**	**24 575**	**30 992**	**40 972**	**49 979**
Free Cash flow to the Firm	**14 515**	**5 874**	**10 943**	**33 678**	**43 820**
WACC	**13.78%**	**12.77%**	**10.20%**	**10.20%**	**10.20%**
Discount factor	0.88	0.78	0.71	0.64	0.58
Discounted free cash flow	12 757	4 578	7 739	21 613	323 175
Enterprise value	369 862				
Net debt	58 349				
Equity value	311 513				
Number of shares outstanding (mn)	16 851				
Cost of equity	17.22%				
Fair value per share (EUR, HUF)	**15.56**	**6 225**			
12M target price (EUR, HUF)	**18.49**	**7 395**			

Source: Masterplast, MKB

Masterplast has announced the following investments between 2020 and 2022

On July 26, 2022, Masterplast announced that it would establish a new polystyrene production unit - commonly known as Hungarocell - at its production base in Kál, Heves county. The factory will be able to produce the entire range of polystyrene thermal insulation products of Mastrplast Nyrt. with an annual output of 300 thousand cubic metres. The investment, worth EUR 2.1 million, will be financed by the Company from its own resources and will increase its current output capacity by around 40percent. The new plant is scheduled to start operations in the first quarter of 2023 and will play a key role in the efficient supply of the Hungarian and Slovakian markets.

On April 13, 2022, Masterplast announced that it was founding a subsidiary in Italy with a 51 percent ownership share. The co-founders of the subsidiary are individuals with extensive experience and extensive business relationships in the local building materials market. On September 6, the Company announced they has decided that the new polystyrene thermal insulation materials production plant will be located in the north of Italy, in the province of Reggio Emilia, in the town of Calerno, on a site to be occupied under a long-term lease. Compared to the greenfield investment, the Company will install its production technology in an existing industrial facility, reducing the investment cost by EUR 2 million and shortening the investment time by 3 months. (According to the spring announcement, the total value of the green field investment would have been worth EUR 4.5 million, which is currently reduced to EUR 2.5 million.) The new factory will be ready to start production in March 2023 and subsequently to start sales once the necessary product certifications have been obtained, with an annual production capacity of 300,000 cubic metres and a planned production of 150,000 cubic metres of insulation material in the first year. The Company forecasts that the sale of the full capacity could generate additional sales of around EUR 15 million per year on the Italian market.

On June 25, 2021, the Company reported that it was launching a project to realize the production of XPS-based thermal insulation material in Subotica. Through the project, a new 3,600 square meter plant will be established at the production base in Subotica, which is planned to have an annual capacity of 200,000 cubic meters. To build the right-sized storage capacity, the plant will also be accompanied by the construction of a 2,000 square meter warehouse and a nearly 6,000 square meter outdoor warehouse, and a 400 square meter office building will be built for the workforce and the quality control lab. The value of the Project is HUF 5,05 billion, which will be financed by the Company from its own resources and from a 50percent non-refundable state subsidy provided under the HEPA program of the Ministry of Foreign Affairs and Trade. Production at the new plant is expected to start in early 2023.

On March 31, 2021, the Company announced the launch of another investment in the health industry, with the aim of creating the production capacity of finished products for personal protective equipment in the health industry, which is supported by the Hungarian State. The total value of the investment is HUF 2.6 billion, 80percent of which is non-refundable state subsidy.

On January 8, 2021, Masterplast announced that the Company is starting a project located at Subotica, with the subsidy of the Hungarian State, in order to further development of the production of fiberglass fabrics. With the Project, the glass fabric production capacity will be expanded by 25 percent, the existing weaving and coating machine park will be modernized, a modern warehouse base and a prefabrication department will be established. With the new machines based mainly on modern German technology and renewable manufacturing, logistics and assembly services, the Group will be able to serve the market of premium quality products with the highest quality. The 25 percent own resources of the EUR 7.6 million project is provided by funds raised from the growth bond program, the Prosperitati Foundation provides 39 percent, approximately EUR 3 million, of non-refundable state support, and the Company uses a bank loan for the remaining part. The production of the Group's glass fabric increased to 150 million m2 / year, which made the Masterplast Group the second largest producer of glass fabric in Europe and the third largest in the world.

On December 16, 2020, Masterplast announced the launch of a major investment in the health industry by establishing a production plant for the production of raw materials for the production of protective equipment, supported by the Hungarian State. The project was implemented at the Company's headquarters in Sárszentmihály, with the construction of a new production plant with a floor area of 7,700 m2 and the installation of a fleece production technology. The capacity of the fleece production technology: 7 thousand tons/year. The total value of the investment is HUF 9.5 billion, of which 80 percent is non-refundable state subsidy.

On March 12, 2020, Masterplast announced its investment in Germany. The agreement concerns the acquisition of the Aschersleben plant and its entire business, which includes real estate, technology, production capacity, manpower and a customer and supplier relationship, as well as technological know-how, innovation, certain trademarks and certificates. In the first step, the Company acquired a 50percent ownership share and exclusive management rights in the newly established joint venture for the purpose of the project. Ownership of the remaining 50percent of the business was purchased in October 2021.

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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. Based on the recent changes, we have revised our target price, the new target price is HUF 7395, which is 17 % higher than the previous target price of HUF 6291 (2022.august 01st).

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 50percent 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 10percent in the next 12 months.
- Neutral: Total return is expected to be in the range of -10 - +10percent In the next 12 months.
- Sell: Total return is expected to be below -10percent in the next 12 months.
- Under revision: If new information comes to light, which is expected to change the valuation significantly.