MASTERPLAST – Q3 2019 SUMMARY

Masterplast ("Company") has expanded its revenues in Q3 2019 by 11% compared to the Q3 2018. The financial profit of the group increased significantly, which resulted in an 80% increase in the profit after taxation of Q3 2019; hence, the amount of 4159 thousand EUR exceeded the 2019 earnings target. EBITDA was 2652 thousand EUR (8.4% EBITDA ratio) in Q3 2019 compared to the 2197 thousand EUR (7.8% EBITDA ratio) in Q3 2018. Due to the higher wages and the expanding headcount the payroll costs showed an increase, as well as higher depreciation was realized related to the manufacturing investments, while other operating expenses decreased.

IMPROVING RESULT

The total revenue of the Group amounted to 31 408 thousand EUR in Q3 2019, which was 11% higher than in Q3 2018. With the increase in turnover, the trade margin value increased almost to the same extent. The Group's trade margin was higher on the export, Polish, Slovakian, Ukrainian, Hungarian, Romanian markets in the quarter.

The production output of fiberglass mesh and EPS grew significantly in Serbia, while the foam production and the profile production dropped to a lesser extent in Q3 2019 compared to the base quarter in Kal, Hungary.

thousand EUR	Q3 2019	Q3 2018
Sales revenue	31408	28345
EBITDA	2652	2197
EBIT ratio	8.4%	7.8%
Profit after tax	2097	1164
Net income ratio	6.7%	4.1%

Source: Masterplast, MKB

The cost of materials and services has increased by a smaller rate (increased by 10% to 23358 thousand euros) than the turnover expansion in Q3 2019.

The Group EBITDA amounted to 2652 thousand euros in Q3 2019 (8.4% EBITDA ratio) compared to the 2197 thousand euros (7.8% EBITDA ratio) in the base period, which shows a 21% growth. The operation profit (EBIT) reached 2042 thousand euros in Q3 2019.

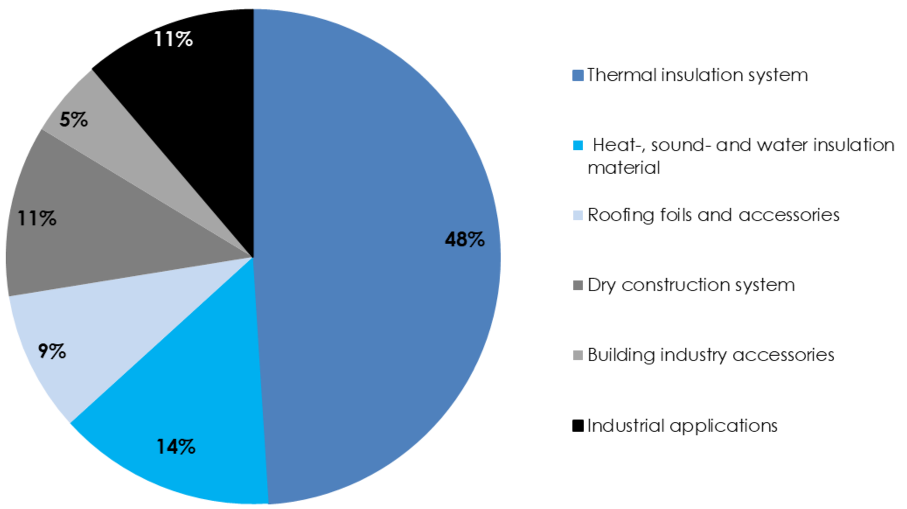
The Company has generated and booked 397 thousand EUR profit as other financial result in Q3 2019. The better result is due to the currency gains due to the weak Hungarian forint and the stronger Ukrainian hryvnia.

SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (48%), where in the third quarter the sales increased by 8%. The sales volume grew in each group, but the most significant increase was in the fiberglass mesh and at EPS sales. The sales increased by 126% in the **industrial applications accessories segment**, the sales of packaging related products showed a smaller scale decline, while the non-strategic trade of raw materials were significantly growing compared to the base period.

In the **dry construction system** product group sales increased by 4%. In terms of gypsum plasterboard systems, the turnover growth on the Hungarian market was the highest. In the **heat, sound and water insulation materials** segment the sales in Q3 2019 decreased by 2%, the sales of glass and rockwool products and the sales of foam products were smaller, while there was a growth in the turnover of XPS products and drainage ditch system. In the **building industry accessories** the sale of products decreased by 6% in the third quarter of 2019.

Sales broken down into product categories in Q3 2019



Source: Masterplast, MKB

RELEVANT MARKETS

On the most relevant **Hungarian** market, in Q3 2019 the construction industry was moderately increasing. The labour shortages had a major impact on the performance of the construction industry. Final withdrawal of the discounted VAT is expected to affect the starting of new investments, while the expanded "CSOK" (family housing benefit scheme) started in this summer can bring a lot of opportunities in the renovation market.

In **Romania** the demand in the construction showed an improving picture in the third quarter of 2019. The government has increased the number of planned investments.

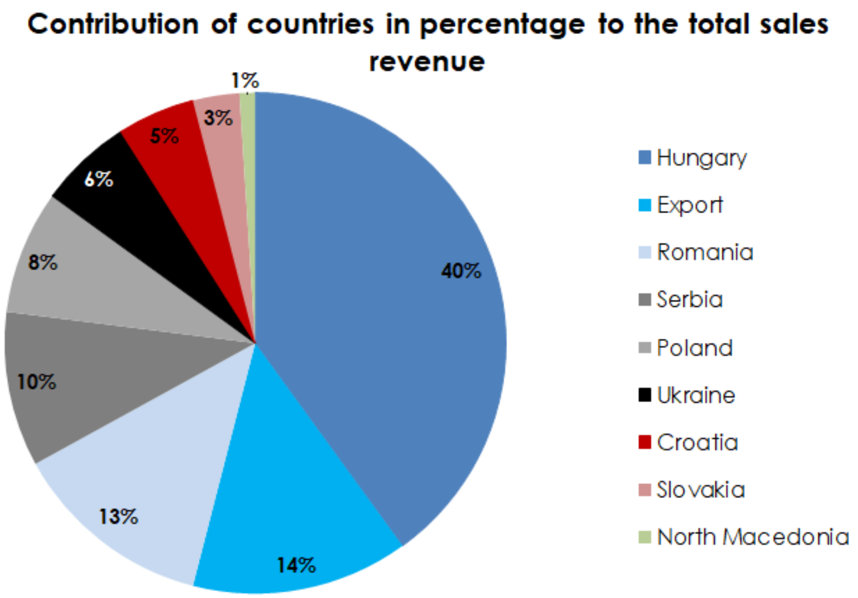
In **Ukraine** the building industry performed well and the value of the finished construction works in Q3 2019 rose by more than 20% over the third quarter of last year. In **Poland**, the construction industry slowed down. Rising wages and higher building material prices as well as continuous labour shortages domainted the market in the third quarter. In **Slovakia**, the construction industry was dropped compared to the base period. The economic indicators have shown further improvement in **Croatia** in Q3 2019, the unemployment decreased, and the construction industry continues to expand. In **Serbia** in Q3 2019 the National Bank continued to pursue its price-stability policy and brought favourable conditions to the whole economy with the decreased interest rate.

SALES BY COUNTRIES

The Group has increased its total sales by 11% in Q3 2019 compared to the base period. Remarkable gains in sales were achieved on the Romanian, Export and Hungarian market.

On the most relevant **Hungarian** market the turnover has grown by 32% in Q3 2019 compared to the base period. In the Building industry accessories product Group, the sales decreased, while in the other product groups the sales increased.

An increase of 6% was achieved on the **Export** market sales in Q3 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. Considering its markets Masterplast reached a growth in the Austrian, Greek, Norwegian and Czech territories.



Source: Masterplast, MKB

On the key **Romanian** market, the sales increased by 14% in Q3 2019 compared to the base period. The sales of Roofing foils and accessories increased the most.

In **Ukraine**, growth in sales amounted to 5% in Q3 2019 compared to the 2018 basis. The revenues decreased in the most relevant Thermal insulation system product group.

In **Serbia** the sales decreased by 4% in 2019 Q3. A growth in sales has been achieved regarding the dry construction system product group. The turnover of the other product groups was smaller in the third quarter.

On the **Croatian** market the Group sales fell by 6% in Q3 2019 base term. The revenue increase was the highest in the Thermal insulation system product group.

On the **Polish** market the sales were down by 22% in Q3 2019 compared to the base. The sales were down by 5% in Q3 2019 on the **Slovakian** market.

SUMMARY

The Company published very strong quarterly figures. By the end of September, the Company exceeded the 2019 earnings target, which was EUR 4 million. The Company's improving manufacturing and operational efficiency and the recent T-Cell acquisition helped to achieve the targets set out in its strategic plan.

With the increase in turnover in Q3 2019, the trade margin value increased almost to the same extent, while the cost of material and services has also been increased by a smaller rate than the turnover expansion. As a result, margins have also improved: EBITDA margin improved by 0.6pp and net income ratio improved by 2,6pp. The financial result of the group increased significantly, which resulted in an 80% increase in the profit after taxation in Q3 2019.

Based on the Company's dividend policy, dividend paid to the shareholders may amount up to maximum of 50% of the annual after-tax profit. The Company exceeded the 2019 earnings target, this may result in a higher dividend payment than originally planned.

On the most significant Hungarian market the expanded "CSOK" (family housing benefit scheme) started in this summer can bring a lot of opportunities in the renovation market. Overall, a positive construction environment is expected for the final quarter.

We reiterate our buy ratings for Masterplast shares, with a target price of HUF 874.

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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 874.