NEW FIBERGLASS MANUFACTURING DEVELOPMENT

Masterplast is starting a project to be implemented at the Company's subsidiary, located at Subotica, Serbia with the subsidy of the Hungarian State, in order to furtherly develop 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 with premium quality products of the highest quality.

The 25% own resources of the EUR 7.6 million project are provided by funds raised from the Bond Funding for Growth Scheme of the Hungarian National Bank, the Prosperitati Foundation provides 39%, approximately EUR 3 million, of non-refundable state support, and Masterplast uses a bank loan for the remaining part. Construction work will begin in early 2021, and after the successful commissioning of the production units, production is expected to begin in early 2022. With the implementation of the Project, the production of the Group's glass fabric is planned to increase to 150 million m2 / year, which makes the Masterplast Group the second largest producer of glass fabric in Europe and the third largest in the world.

INVESTOR FORUM 2020

Masterplast held an investor forum on 12th January 2021, where the management presented an updated version of the Company's strategy The Company has updated its result expectations for 2021-2023. Masterplast entered the healthcare industry last year, opening up new markets for the Company. In addition to that, December also marked the announcement of a major investment in the healthcare industry, which will make an increasingly significant contribution to the Company's results in the coming years. According to the management, a higher profit margin is expected in the healthcare industry, so the profit may grow at a higher rate than the growth rate of sales in the coming years.

Last week, the Company also announced an other investment in the construction industry (details above), which could also contribute to dynamic revenue growth. The Company's management expects sales of EUR 151 million in 2021, EUR 176 million in 2022 and EUR 202 million in 2023. EBITDA is expected to be EUR 10.2 million in 2020, which could rise to EUR 25.6 million by 2023, bringing the EBITDA margin from 8.5% to 12.7%.

The Company projected increasing dividend payments for the next few years. Dividend policy conditions: dividend payout ratio of 50%, depending on the changes of the industrial environment and of future investments (2017 was the first year when the Company decided to pay dividend.) Based on the 2020 results, the Company did not pay any dividends, but it intends to pay dividends again after this year's result in 2022 in the amount of HUF 44 per share.

THE TARGET PRICE IS UNDER REVIEW

The Company announced important investments in December and last week, which are expected to boost dynamic sales and profit in the coming years. Following the December investment announcement, 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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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

https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_elemzoi_kommentar_-_2018.01.17..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.