MASTERPLAST: Improving market environment

We maintain our Buy recommendation on Masterplast with slightly increased 12-month target price of HUF 789. The further improving market environment might ensure to achieve the targets.

- In the last year there were mostly positive trends in the building industry. On the most significant markets favorable industrial climate is expected in the coming years.
- The Company increased its revenues by 12% in 2017, this dynamic expansion may continue in the next few years.
- The Company renewed the working method of the management. A new CEO has arrived at the head of the Group, which gave the Company new impetus, and might improve the growth potential in the long term.
- Approximately 30% of the products is produced by Masterplast, which is planned to be increased to 40% in the upcoming years. The Company will be much more competitive in both manufacturing and sales activities and will also be able to enter new markets.
- Our first research was published on 15 December 2017. The change in the role of analyst and in the fundamental factors justified the update of our model.

Recommendation	BUY
12m target price	HUF 789 per share
Current price	HUF 605 per share
Trading range	HUF 488-718
52 week performance	17%
Market capitalization	8 314 mn HUF
Average daily turnover (number of shares)	9 110
Number of shares	14 601 279
Shareholder's structure	Dávid Tibor - 36,07% Balázs Ács - 30,51% OTP Fund M. - 6,66 %
Freefloat	26,76%
Tickers	Bloomberg:MASTERPL HB
Contact	Balázs Rácz racz.balazs@mkb.hu Tel: +36-1-268-7388

SELECTED FINANCIAL METRICS AND RATIOS EUR / for the year of	2011	2012	2013	2014	2015	2016	2017
Sales	82 173 069	85 234 259	81 322 000	81 605 000	83 773 139	80 162 711	89 623 000
Gross profit	15 367 227	12 858 431	11 574 000	12 501 000	12 397 397	12 341 305	14 928 000
Gross margin	*18,7%*	*15,1%*	*14,2%*	*15,3%*	*14,8%*	*15,4%*	*16,7%*
EBITDA	5 420 564	2 265 542	4 232 000	5 038 000	5 117 064	4 582 400	5 222 000
EBITDA margin	*6,6%*	*2,7%*	*5,2%*	*6,2%*	*6,1%*	*5,7%*	*5,8%*
Depreciation and amorization	- 2 127 448	- 1 762 033	- 1 552 000	- 2 319 000	- 1 432 522	- 1 298 615	- 1 616 000
Operating profit	3 293 116	503 509	2 680 000	2 719 000	3 684 542	3 283 785	3 606 000
Operating profit margin	*4,0%*	*0,6%*	*3,3%*	*3,3%*	*4,4%*	*4,1%*	*4,0%*
Financing profit	- 1 395 759	- 1 667 975	- 1 484 000	- 1 657 000	- 369 147	- 675 063	- 700 000
Net profit	1 591 045	- 1 174 047	1 215 000	766 000	2 564 831	2 322 452	2 726 000
Net profit margin	*1,9%*	*-1,4%*	*1,5%*	*0,9%*	*3,1%*	*2,9%*	*3,0%*
ROE		*-5,9%*	*5,3%*	*3,4%*	*11,3%*	*9,5%*	*10,1%*

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INVESTMENT STORY

Masterplast Group is one of the leading business service providers focusing on **insulation materials** and **solutions** in the Central and Eastern European region. The cornerstones of the business strategy are strong control over production and reliable supply secured for more than 1000 trading partners mostly by the Company's own logistic fleet. The product slate ranges from low-price/low-quality leisure time products to **high-end materials** targeting small and medium-sized building material traders.

Masterplast is involved in the supply chain of Hungarian and regional **construction** activities, therefore the Group's operation are linked to the general industry developments. These allow the Group to profit from the recent upturn in the industry. In addition, the recent product upgrades will enable the Company to shift-off from the construction sector and increase its footprint in the **packaging sector** as a way of diversification. Furthermore, due its Serbian exposure the Group has a favorable structure, which might enable them to profit from the on-**going and upcoming transfers** of EU funds.

The growth potential of the Company can be divided into **external and internal factors**: on the one hand, the optimization of the Company's operation and the other hand the favorable domestic and international economic environment:

- **New operating structure**: the working method of the management was renewed just over a year ago. A new CEO has arrived at the head of the Company, who is responsible for operational management and the founders are involved in strategic work. This gave the company new impetus, and might improve the growth potential in the long term.

- **Increased output of self-manufactured product:** Approximately 30% of the products is produced by Masterplast, which is planned to be increased to 40% in the upcoming years. The efficiency of production can continue to improve in the coming years. Through optimization of processes, inventory management, and managing the labour market challenges, the Company will be much more competitive in both manufacturing and sales activities, and will also be able to enter new markets.

- **Market – industrial division**: Masterplast wants to **create a new business line**, which reduces the exposure of the construction industry and creates new market opportunities. The packaging industry, the non-construction related fiberglass mesh applications, and car industry are the market segments where the Company sees further growth potential.

- **Economic environment:** The trends and industrial climate in the Company's relevant markets **are expected to be favorable** in the coming years. In Hungary, the Company's most significant market, the building industry is growing steadily, the number of the building permits also underline an increasing tendency.

COMPANY PROFILE

History

The company was founded in 1997 by Dávid Tibor and Balázs Ács with their own equity of HUF 2 million. Due to the dynamic expansion in operation, Masterplast added international suppliers and sales partners to its distribution network. During 1998 the Company worked out an agreement with producing partners who used Masterplast raw materials to produce products specified by Masterplast.

Between 1999 and 2003 the Company established subsidiaries in Slovakia, Romania, Croatia, Serbia, the Czech Republic and Germany in order to increase its footprint within the region. In 2004 Masterplast acquired one of its rivals and in 2005 they set up a representative agency in Ukraine.

In 2005 Masterplast started its own production company in Kál, Hungary which produces foam underlay and other plaster profiles and accessories. It was followed by an even bigger capital investment into a factory producing EPS in Szabadka. In 2006 Masterplast Kft. changed its name to Masterplast Group International and became a private limited company with equity of HUF 20 million.

Due to the financial crises during 2007-2008, the Company was forced to close several subsidiaries in countries with marginal market presence and where it lacked significant competitive advantages.

The Group has a market presence with its main products, thermal insulation system, heat, sound and water insulation, roofing and dry construction. Its international production bases (own production and production under license) ensures that the Group's products reach the European markets and the markets outside Europe through its subsidiary companies and partners. Masterplast considers the aspects of sustainability, energy efficiency and environment protection of high importance in its internal processes as well as in production and innovation.

Consolidated companies as of 27 Februar 2018

Comapany	Places of business registration	Equity capital	Foreing currency	Ownership	Voting right	Activity
Masterplast Romania S.R.L	Romania	36 000	RON	100%	100%	Wholesale of building materials
Masterplast YU D.o.o	Serbia	192 557 060	RSD	100%	100%	Wholesale of building materials, EPS manufacturing
Master Plasts d.o.o.	Croatia	20 000	HRK	100%	100%	Wholesale of building materials
MasterPlast TOV	Ukraine	27 000	UAH	80%	80%	Wholesale of building materials
Masterplast Sp zoo	Poland	200 000	PLN	80,04%	80,04%	Wholesale of building materials
Masterfoam Kft.	Hungary	3 000 000	HUF	100%	100%	Foil manufacturing
Masterplast Kft.	Hungary	10 000 000	HUF	100%	100%	Wholesale of building materials
Masterplast D.O.O.	Macedonia	973 255	MKD	10%	10%	Wholesale of building materials
OOO Masterplast RUS	Russia	1 000 000	RUB	100%	100%	Wholesale of building materials
Green MP Invest	UKraine	33 223 500	UAH	100%	100%	Property management
Masterplast Hungária Kft.	Hungary	230 000 000	HUF	100%	100%	Wholesale of building materials
Mastermesh Production Kft.	Hungary	300 000 000	HUF	100%	100%	Wholesale of building materials
Masterplast International Kft.	Hungary	3 000 000	HUF	100%	100%	Wholesale of building materials
Indirect relations						
Masterplast D.O.O.	Macedonia	973 255	MKD	80%	80%	Wholesale of building materials
Affiliated company of the Group						
Masterprofil Kft	Hungary	3 000 000	HUF	20%	20%	Profile manufacturing

Source: Masterplast, MKB

Business profile

The two main activities of the Group are **sale and production** of insulation materials and other building materials.

1. Sales

Masterplast Group follows a business-to-business (B2B) strategy, which means that instead of selling products to end-users the Company provides them through business partners (brand-dealers, building material traders, DIY shops etc.). In the CEE region the Company built a network of more than 4000 stable customers.

- **Domestic sales:** sales within the borders of the respective subsidiary's country (Hungary, Romania, Serbia, Croatia, Ukraine, Slovakia, Poland, Austria, Macedonia, Russia)
- **Export sales:** sales into a country where Masterplast does not operate a subsidiary. Main export markets are Estonia, Lithuania, Latvia, Germany, Slovenia, Greece, Turkey and Italy.

2. Production

a) Self-production

The Company itself produces those products which are considered to be
- strategically important;
- difficult to ensure in constant quality or quantity;
- cheaper to manufacture than purchase.

Masterplast operates **three manufacturing factories:** one in Hungary, Serbia and Romania. The factory in **Kál, Hungary** started to operate in 2005 with 2 affiliates: Masterfoam Kft. producing **expanded polyethylene foam** sheets for construction and packaging and Masterprofil Kft. manufacturing **dry construction and facade profiles**. The production of facade profiles moved later to Serbia enabling space for the new MASTERNET PREMIUM fiberglass mesh production launched in 2012 by Masterplast Kft.

Production plant in Kál

Product of Kál factory - ISOFOAM

Source: Masterplast, MKB

The company opened its first ISOMASTER EPS insulation board factory in **Subotica, Serbia** in 2008. The biggest investment launched by the Serbian unit (Masterplast YU d.o.o.) during

the past years was the MASTERNET fiberglass mesh production facility, which in 3 phases will reach over 80 million m2 annual production capacity (top 3 in Europe) by 2017, employing over 200 new employees, it will be completed by 2018. The products produced in Subotica are made for the dynamically growing EU market.
Due to the rising energy prices and tightening environmental regulations the market demand has increased and that made the capacity expansion reasonable. Due to the new technologies the Company was able to manufacture products with higher and more stable quality.

The waste percentage and energy usage are much lower than that of an old plant. The less energy use does not only support a more economical production but also environmental aspects. In 2017 the company sold solely self-produced fiberglass mesh in the EU.

Production plant in Subotica, Serbia

Product of Subotica factory EPS

Fiberglass mesh

Source: Masterplast, MKB

Masterplast's third factory started its operation in **Sepsiszentgyörgy, Romania** during 2012. The plant produces **adhesive materials** - one of the components of the strategically important thermal insulation system - and **EPS**. In 2017 the Company temporarily suspended the activities in Sepsiszentgyörgy. Approximately 30% of the products is produced by Masterplast, which is planned to be increased to 40% in the upcoming years.

a) Manufacturing under license

The majority (approximately 70%) of the Company's products are produced by a second party, operating in Europe or in the Far-Eastern region. The product features, design, quality requirements and packaging details are specified by Masterplast.

Shareholder's structure

Shareholders of the Company with holding over 5%*	
Name	**Share %**
Dávid Tibor	36,07
Balázs Ács	30,51
OTP Fund Management	6,66
Free float	26,76
Total	100

During 2011 Masterplast Group registered its shares for trading on the Budapest Stock Exchange. In 2012, the Company raised its capital through an SPO where the shares were sold at HUF 630/share. Although the co-founders hold almost two-third of the total shares (66,58%), they have maintained their stakes for years.

There was only one sale auction back in 2015, where 400 000 shares were sold at a price of HUF549 during a public book-building process. On 15th of January 2018 the Board of Directors decided to increase the share capital to 1 460 127 900 HUF through private offering of 858 318 pieces of new dematerialized ordinary shares. The increase of the share capital took place against asset contributions provided by: Balázs Ács and Dávid Tibor. The asset contributions were claims in the amount of 521 000 000 HUF against the Company on the titles of purchase price and were acknowledged by the Company as debtor. This process is a debt to capital conversion where the former shareholder loans of the two main shareholders were converted to equity via a capital increase.

PRODUCT PORTFOLIO

Key Products

Masterplast sells wide range of products, thus competes with several companies across those categories. These are international manufacturing companies, as well as smaller local enterprises distributing construction materials.

Main product lines (and competitors)

- **Thermal insulation systems and insulation materials**: a whole system which includes insulation material, adhesive, plaster, retainers and other insulation accessories used during refurbishments and constructions. Due to the stricter energy-efficiency regulations, demand for heat-insulation materials is likely to increase in the future (main competitors: Baumit, Schwenk, Weber, STO and Knauf).

Masternet fiberglass mesh

ISOMASTER EPS

Source: Masterplast, MKB

- **Roof underlays and roof accessories**: the most important function of roof underlays is the drainage of the humidity passing through the roof covers and as a secondary function it also protects the structures and spaces underneath. In most cases they are used during constructions, roof refurbishments (main competitors: Juta, Foliarex, Marma, Dörken and CB).

Mastermax diffusion roofing foils

Metalized foils

- **Bituminous roof covering**: an economical and practical material for roofing with corrugated bituminous sheets and bituminous shingles. The corrugated roofing material manufactured is utilizing a base board produced from cellulose fiber, which is saturated with bitumen. Bituminous shingles are made with a base layer of glass fiber reinforcing mat. This mat is coated with asphalt, which makes the whole material waterproof. (main competitors: Ondulin, Gutta).

Bituminous shingles

Corrugated sheets

Source: Masterplast, MKB

- **Heat-, sound- and water insulation materials**: the products are used for external-, roof-, or floor insulations. (main competitors: Rockwool, Isover, Knauf, Austrotherm)

ISOMASTER XPS

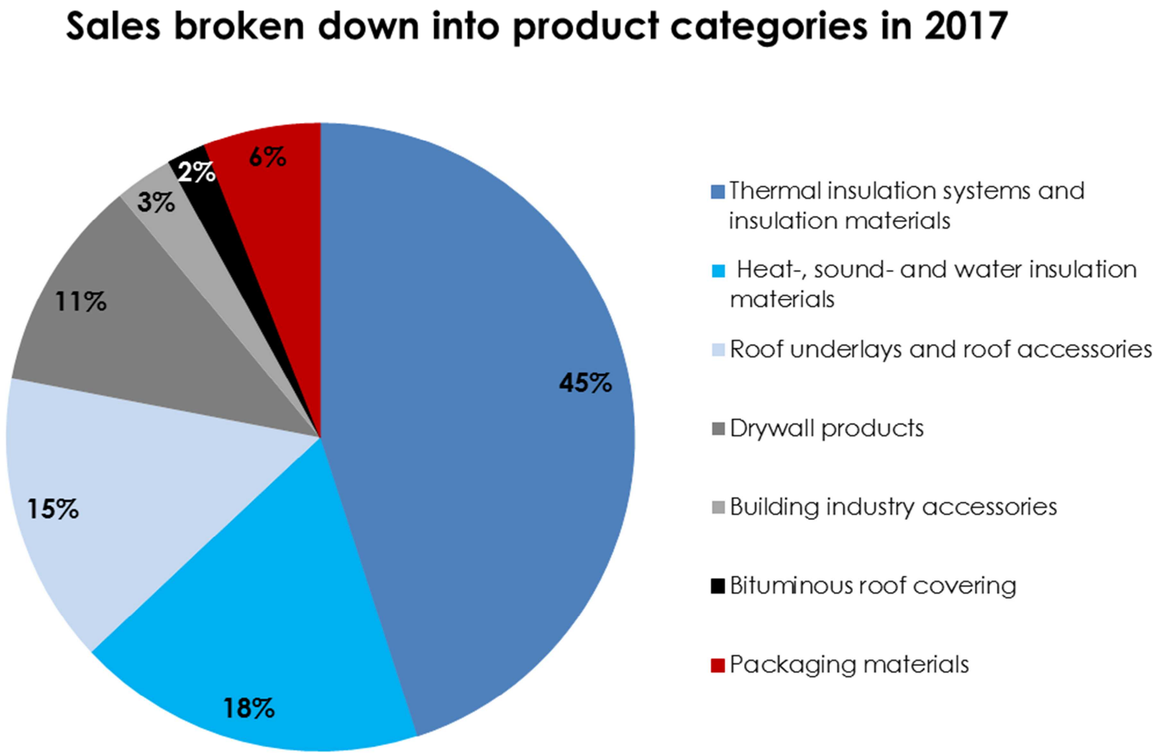
Modified bituminous membranes

Source: Masterplast, MKB

- **Drywall products:** Dry construction is an easy way to design the interior spaces and surfaces. (main competitors: Rigips, Lafarge, Knauf)
- **Plaster profiles and construction accessories**

BREAK-DOWN OF SALES

Considering the break-down of sales, more than 60% came from the building renovation markets related thermal insulation systems and insulation materials and heat, sound and water insulation materials. The sales volume increased in almost all product group elements, but mainly was due to the EPS (with lower margin) and fiberglass mesh sales growth. The fiberglass mesh production had been becoming more efficient with a positive effect on the operating profit level. With regards to the European Union markets, the Company solely supplies fiberglass mesh products made by own production. The Company's gross trading margin has increased in the Q4 2017 compared to the base period, however the increasing share of the low-margin sold EPS in the sales structure resulted in a lower scale margin expansion than the turnover gained.



Source: Masterplast, MKB

Regarding the geographical breakdown, the biggest proportion of sales comes from Hungary. It was 34% in 2017, while 14% came both from Romania and the export markets. Serbian sales made up 10%.

SALES BROKEN DOWN BY COUNTRIES	2011	2012	2013	2014	2015	2016	2017
Hungary	27%	26%	26%	26%	27%	30%	34%
Export	4%	7%	20%	15%	14%	15%	14%
Romania	26%	23%	11%	11%	15%	15%	14%
Serbia	12%	11%	6%	5%	12%	11%	10%
Ukraine	9%	11%	12%	10%	10%	9%	8%
Croatia	8%	7%	6%	5%	5%	5%	4%
Poland	4%	5%	6%	5%	6%	5%	6%
Slovakia	4%	4%	4%	10%	6%	4%	5%
Other	7%	7%	6%	6%	6%	5%	5%

Source: Masterplast, MKB

MAIN MARKETS

Currently, the sales of Masterplast products are closely linked to real estate market trends, especially to new constructions. Following the financial crisis in 2008, the number of new constructions dropped heavily in all CEE countries, except Poland. Permits for new constructions in Hungary started to pick up in 2014 and since then it has been increasing year by year, but the number is still below the pre-crisis level.

The Company expects to continue the upward trends on its main markets for the next periods besides increasing and harsh competition. Improving market trends and growing supply of self-manufactured products provide a stronger base for the Company to increase its sales and profitability. But the construction market is not a knowledge-intensive business, thus there is a low barrier to entry which can easily increase market competition

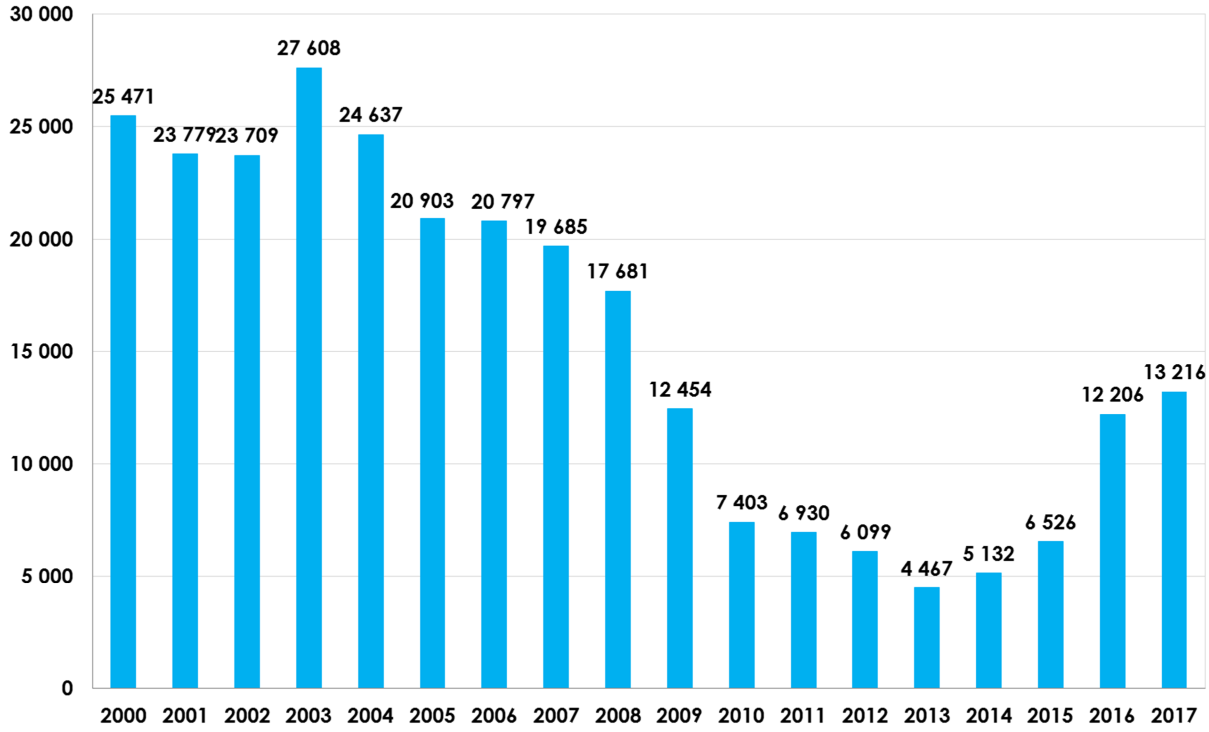
The Company successfully completed the third phase of the fiberglass mesh production investment in Serbia.

BUILDING PERMITS - PERCENTAGE CHANGE

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Bulgaria	61,3	21	-23	-59,2	-36,4	-14,5	-3,3	-15,7	29,1	8,9	5,2
Croatia	9,8	-3,1	-0,8	-31,7	-20,8	0,9	-27,2	-21,8	-1,7	-10,8	33,2
Hungary	-13,5	-0,2	-0,4	-34,1	-38,6	-32,1	-15,6	27,1	30,6	29,4	157,2
Austria	7,9	-2,4	0,6	-0,3	0,8	18,8	-11,2	13,7	4,1	1,6	5,9
Poland	38,5	47,5	-6,9	-23,6	-2	6,1	-10,7	-16	13,9	21,3	12,3
Romania	17,2	10,9	7,9	-20,1	-13,6	-6,6	-4	-0,2	-0,3	3,8	-1,2
Slovakia	3,1	-9,8	59,6	-30,2	-20,1	-19,5	-0,2	13,5	8,6	23,4	14,6

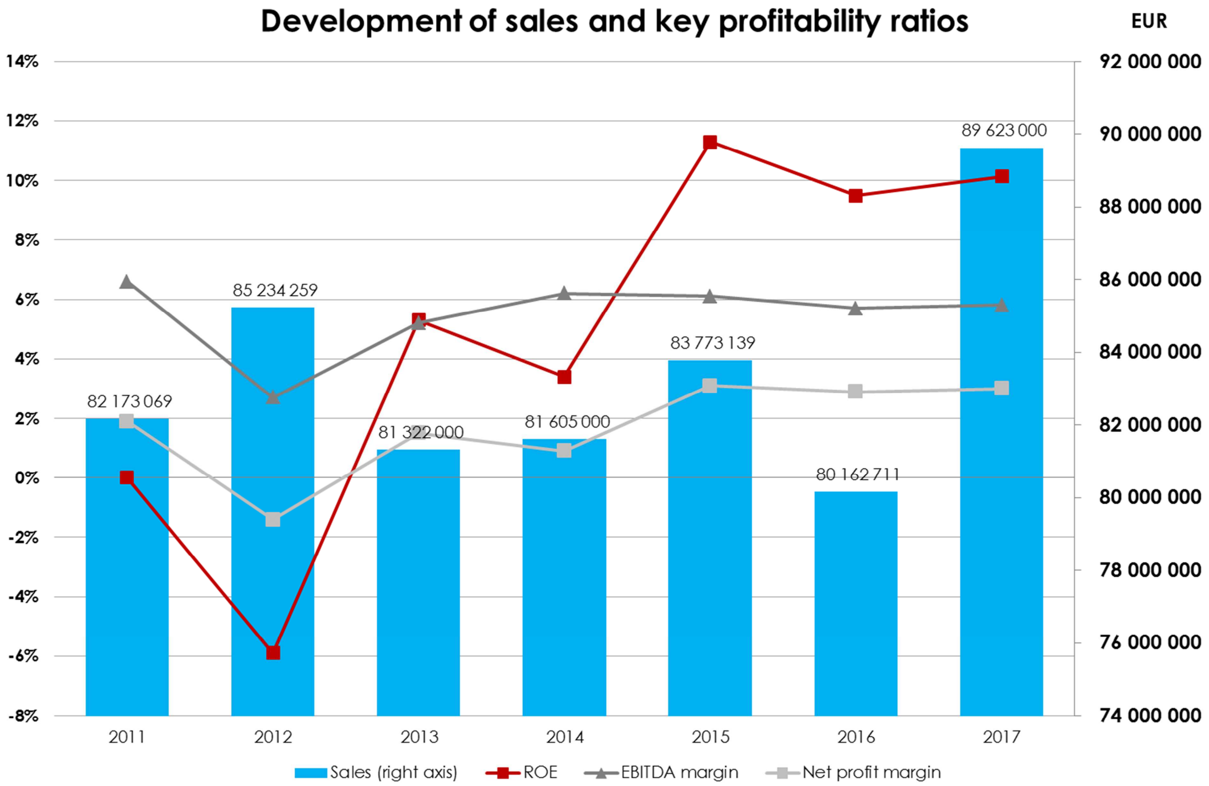
Source: Eurostat, Masterplast, MKB

Number of new constuction permits issued in Hungary



Source: Eurostat, Masterplast, MKB

Development of sales and key profitability ratios



Source: Masterplast, MKB

CYCLICAL OPERATION

From 2011, the average annual sales growth for Masterplast was 0%, which meant the Company struggled to increase its revenue despite the improving external environment. However, we saw a generous pick up in the number of new construction permits issued especially in the core market of Hungary. As products of the Company are usually needed in the middle stage of the building process, this will result in sales lagging the trend of new construction permits with a 1-2 year on average.

The Company managed to reduce other operating expenses, but mainly due to the fast expanding production of fiberglass mesh in Serbia the personnel expenditures and the amount of depreciation has increased. The Company had 934 employees at the end of December 2017 compared to the staff level of 800 people of the base period (December 2016). The operating profit margin remained stable around 4.1%. Average net profit margin from 2015 to 2017 was 3%.

Looking at the balance sheet the net debt slightly increased from 12.4 million EUR to 18.7 million EUR between 2012 and 2017, while in 2012 shareholder's equity jumped due to the SPO. Analyzing leverage ratios we could observe that net debt to equity and capital was quite stable around 60% and 35% respectively between 2012 and 2017. Net debt to EBITDA fluctuated around 3.6X. Quick ratio –which measures the short term liquidity situation of the Company by comparing the level of current assets to current liabilities – is well above 1X, which shows a healthy liquidity situation. However the quick ratio warns us that inventories – which are less liquid assets – are quite high among current assets, which could lead to liquidity problems later.

SELECTED BALANCE SHEET FIGURES (EUR) AND LEVERAGE RATIOS							
for the year of	2011	2012	2013	2014	2015	2016	2017
Current assets	27 699 308	29 886 897	28 299 779	33 316 512	35 851 353	35 160 535	39 263 000
Intangible assets	20 577 007	22 507 883	24 018 949	20 475 846	21 319 148	24 920 852	29 792 000
Current liabilities	25 132 767	24 296 560	21 999 281	25 568 437	25 284 601	25 701 114	34 411 000
Long-term liabilities	5 937 098	5 259 852	7 374 983	6 595 416	7 999 459	9 509 703	7 738 000
Shareholder's Equity	17 206 450	22 838 368	22 944 464	21 629 135	23 886 441	24 870 570	26 904 000
Net debt	12 354 680	12 281 170	12 737 107	14 463 259	11 116 004	14 645 692	18 696 000
Quick ratio	1,10	1,23	1,29	1,30	1,42	1,37	1,14
Net debt to Equity	0,72	0,54	0,56	0,67	0,47	0,59	0,69
Net debt to Capital	0,42	0,35	0,36	0,40	0,32	0,37	0,41
Net debt to EBITDA	2,28	5,42	3,01	2,87	2,17	3,20	3,58

Source: Masterplast, MKB
Quick ratio = current assets/current liabilities
Net debt = Total debt – Cash

SALES FORECAST

SALES BROKEN DOWN BY COUNTRIES													
	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	TV
Hungary	27%	26%	26%	26%	27%	30%	34%	36%	37%	37%	37%	37%	37%
Export	4%	7%	20%	15%	14%	15%	14%	13%	12%	12%	12%	12%	12%
Romania	26%	23%	11%	11%	15%	15%	14%	14%	13%	13%	13%	13%	13%
Serbia	12%	11%	6%	5%	12%	11%	10%	10%	10%	9%	9%	10%	10%
Ukraine	9%	11%	12%	10%	10%	9%	8%	7%	7%	7%	6%	6%	6%
Croatia	8%	7%	6%	5%	5%	5%	4%	4%	4%	4%	4%	4%	3%
Poland	4%	5%	6%	5%	6%	5%	6%	6%	6%	6%	6%	6%	7%
Slovakia	4%	4%	4%	10%	6%	4%	5%	5%	5%	5%	5%	5%	5%
Other	7%	7%	6%	6%	6%	5%	5%	6%	6%	6%	6%	6%	6%

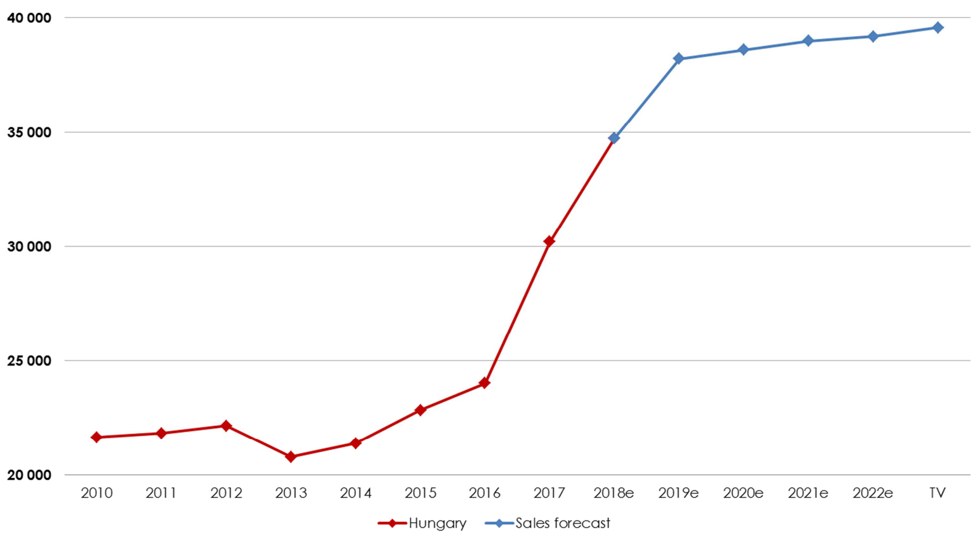
Source: Masterplast, MKB

Hungary

In Hungary, its main market, the Company meets with intensive market tendency according to the statistics over the past two years, the implemented government incentives already had an improving effect, which was reflected in the numbers of new flats built in the period. The insulation materials are built in the middle phase of the constructions, and this could improve both the Hungarian market's as well the Company's outlook on longer terms. The building permits in the region are growing most intensely in Hungary, which can boost further dynamic growth in sales and income for the future in the Company's largest market.

The overall turnover has grown by 28% in 2017, the sales increased almost in all the product groups, but the good achievement was mainly supported by the thermal insulation systems. The main expansive areas of the housing industry are the construction projects and investments carried out in Budapest and in the larger cities of Hungary, and an increasing demand had been detected in the private sector.

Sales forecast in Hungary (EURmn)

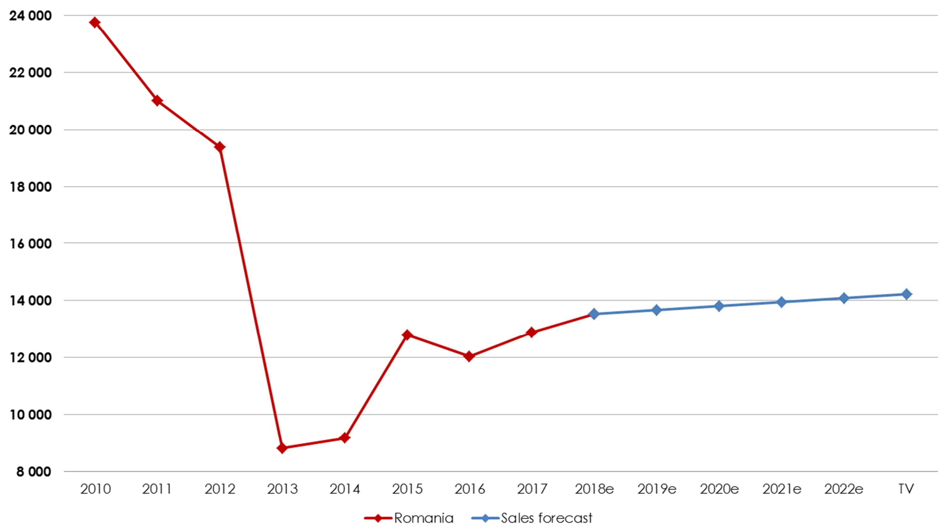


Source: Masterplast, MKB

Romania

A significant proportion of sales comes from Romania, although the trend has been continuously negative for many years. Revenue reached its lowest point in 2013, and since then a steady increase could be observed. In Romania the real GDP growth accelerated in 2017 and according to Eurostat growth is set to decelerate in the coming years. According to the latest data, after the 2016 fall, building permits have risen again last year. However we expect only modest revenue growth, because the construction industry has been performing very poorly since 2009, but the last year the output has grown by 8% comparing to base period. The building contractors faced with delays in the projects completions due to extreme lack of labour force and increasing wages.

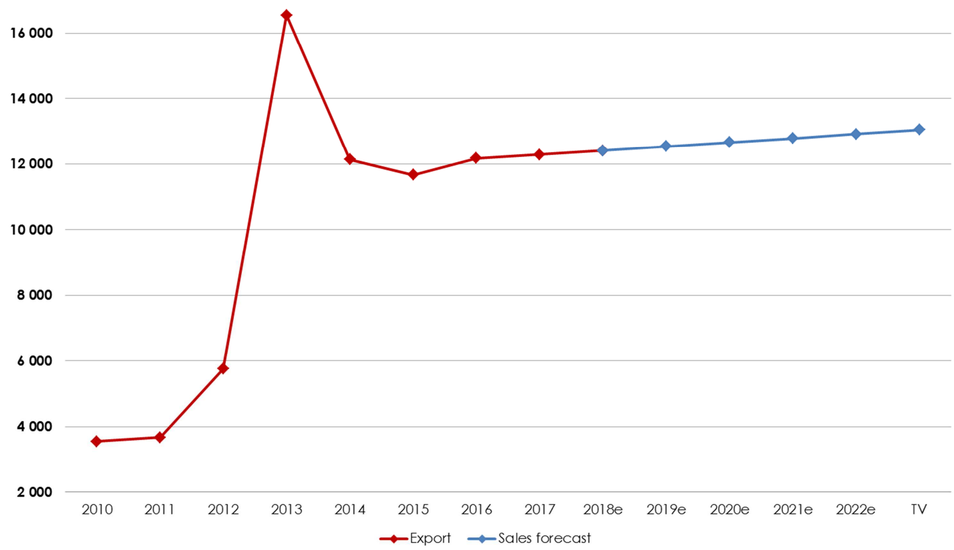
Sales forecast in Romania (EURmn)



Export

Sales into a country where Masterplast does not operate a subsidiary. Main export markets are Estonia, Lithuania, Latvia, Germany, Slovenia, Greece, Turkey and Italy. In the coming years the revenue can grow further.

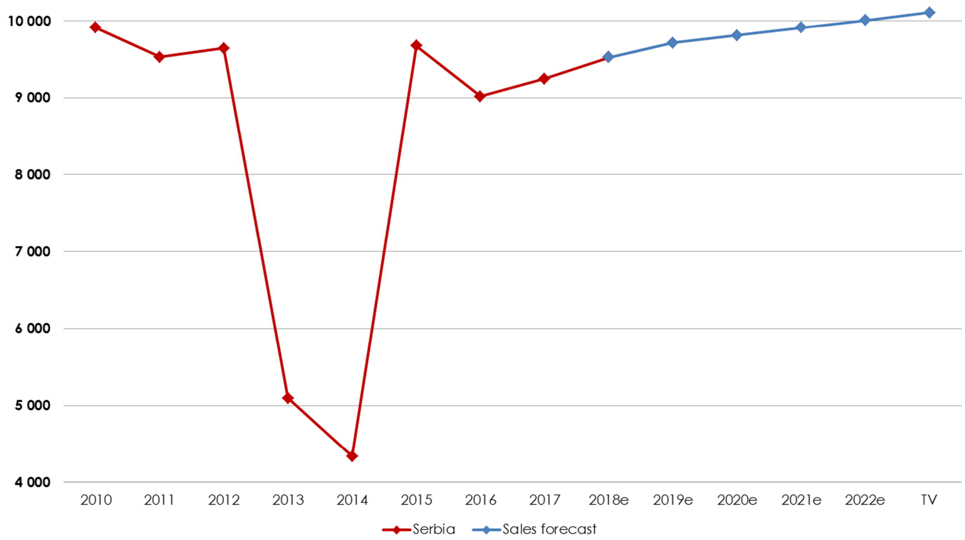
Sales forecast in Export countries (EURmn)



Serbia

The Serbian construction material market is currently quite underdeveloped, but it is expected to converge to the EU average, which serves as an opportunity for Masterplast to exploit. Serbia's construction market is a real success story. Building permits gained record-high in 2017 on the back of tailwinds from the permit reform launched in 2015. The introduction of e-permits shortened the procedure by 100 days (around from 250 to 150 day). Formerly the construction permit procedure in Serbia is often used as an example of public administration inefficiency. It is characterized by lengthy, unpredictable and complicated procedures with numerous steps and an uncertain outcome.

Sales forecast in Serbia (EURmn)

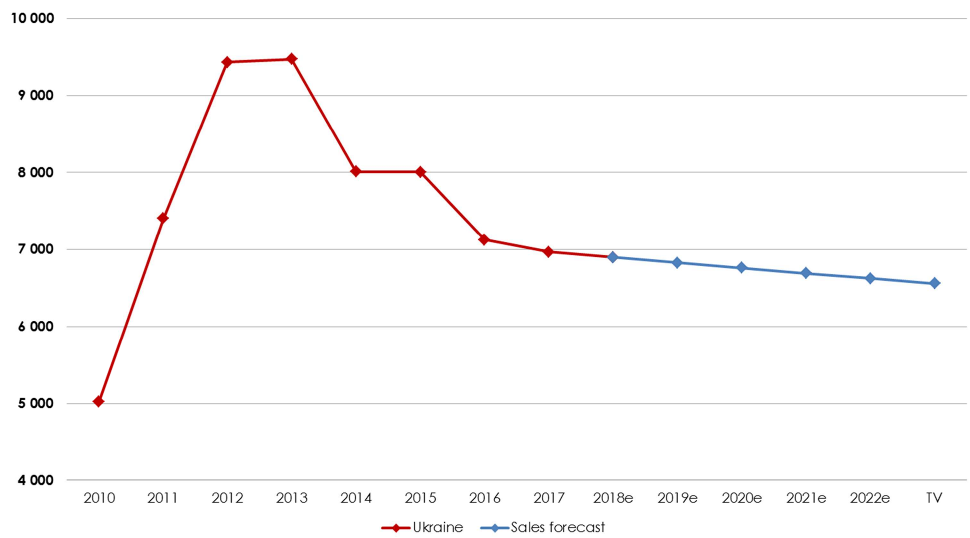


Source: Masterplast, MKB

Ukraine

The management foresaw a great performance on the Ukrainian market, which has been recovered and the output has also increased in the building industry. The Company presented 11% sales increase in Q4 2017, but for the whole year the sales revenue went down by 2%. Despite the latest favourable quarterly figures, we expect a modest revenue decrease in the coming years.

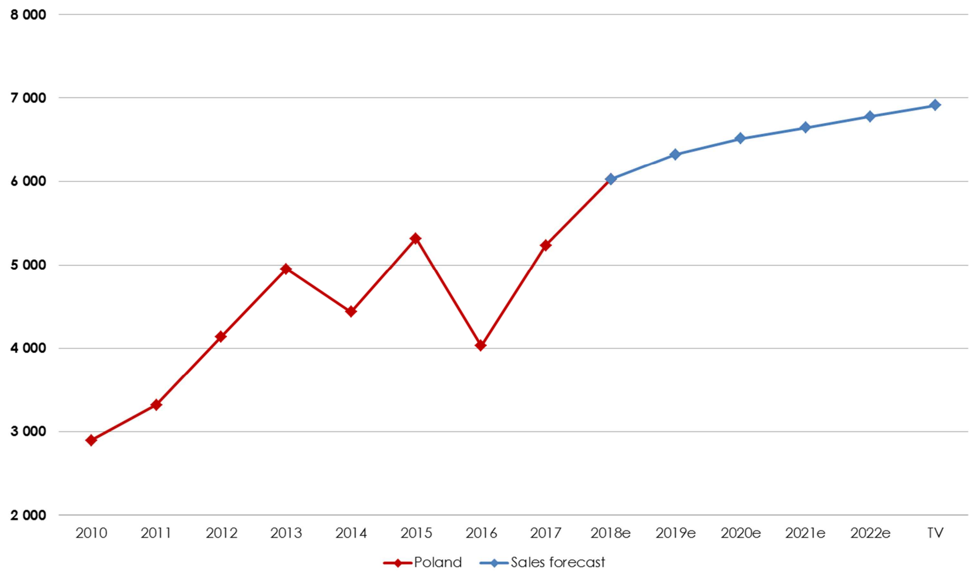
Sales forecast in Ukraine (EURmn)



Poland

The Polish market is already in a mature phase with numerous strong peers. The number of building permits in Poland has increased considerably in recent years, but the Company's revenue has only stagnated for several years. But in 2017 the Company's turnover grew well by 30%, an outstanding growth was reported in the thermal insulation systems and its elements, particularly due to the driven product, the fiberglass mesh sales. In the coming years the revenue can grow further.

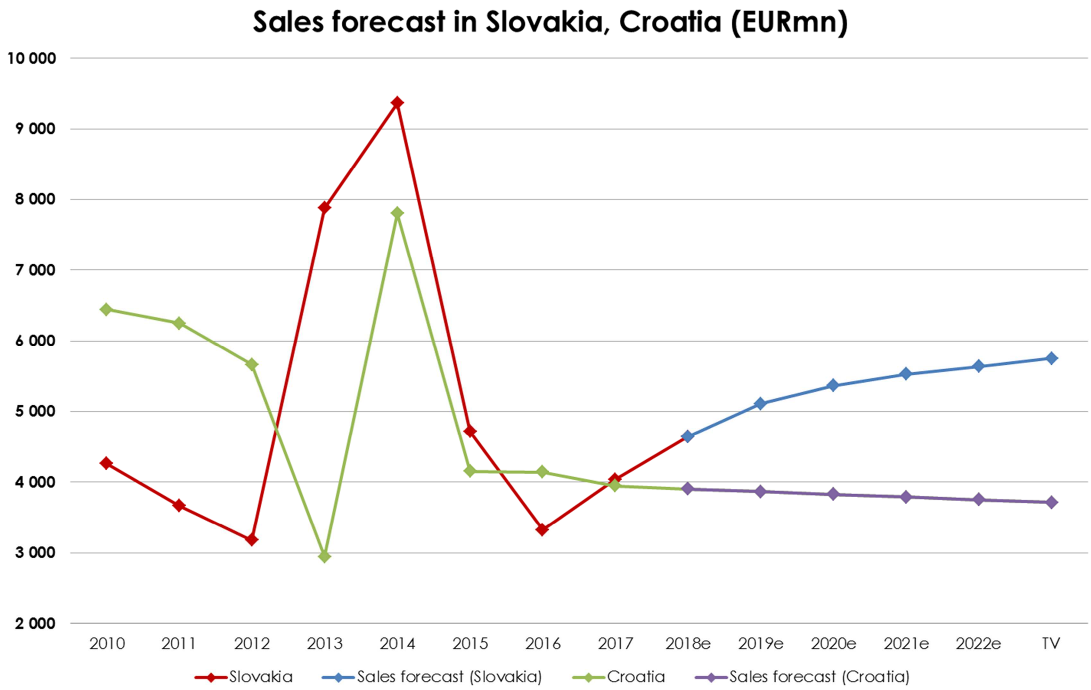
Sales forecast in Poland (EURmn)



Slovakia, Croatia

In Slovakia the construction sector has performed well in 2017, where the growth was supported by the thriving domestic demand, but the contribution to the total sales revenue is only 5%. We expect a considerable revenue growth in the coming years in Slovakia.

The overall economic indicators have shown a decline in Croatia. The lack of skilled labour force and the companie's poor financial condition might have a negative effect to the market for the upcoming quarters.



FX exposure

The other and financial related incomes and expenditures mainly represent the exchange related profits/losses. The Company mainly realizes its purchases in EUR and USD terms, the sales are being generated is local currencies, therefore the fluctuation of these currencies can have a remarkable effect on the Company's financial outcome. Since most of the local currencies are fixed to the EUR, the EUR/USD rate moves also have an influence – in case USD term purchases – on the profit/loss from exchange rate. The Company had concluded purchase related to its EUR/USD and HUF/USD based hedging deals, the results from closure and evaluation of this deals are also reflected among other financial profit/loss. The Hungarian entity, Masterplast Kft. carries EUR based working capital loans while the Serbian subsidiary holds EUR base investment loan as well.

VALUATION

DCF valuation

We slightly increased our 12-month target price to HUF 789 from HUF 766 and maintained the **Buy** recommendation for Masterplast. Although the Hungarian government bond yields increased in recent months, we slightly improved our estimates for revenues as a result of the positive trends on the real estate markets that partly offset the negative effect of the yield increase on our DCF value.

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

- Based on our assumptions sales will grow in the next years due to the anticipated positive trends on the real estate markets. In our view, market dynamics would change after 2020, thus we expect sales will not grow dynamically.
- In 2018 we foresee EBIT margin decreasing slightly to 3.82 % from 4.02% in 2017. We calculated 3.8-4.2% EBIT-margin on the longer term.
- To get net operated profit less adjusted tax (NOPLAT= EBIT *(1-tax rate) we used a 7% tax rate.
- Net CAPEX is the capital expenditures exceeding depreciation and amortization expenses. In 2018 the Company plans to invest 6.7 million EUR into the Serbian factory expansion 25% of which is own funding, and 1.7 million EUR 50% of which is own funding. Starting from 2019 we calculated with net CAPEX of 1.5 million EUR. For the terminal value we forecasted a perpetual growth rate of 1%.
- The discount rate we used to get the present value of future cash flows is 6.69%, however, we assumes a slightly higher rate (7.22%) for the terminal value based on an assumption of a higher yield environment in the medium term. We presumed that capital structure will remain stable in the future: 53% of equity and 47% of debt.
- The debt level of EUR 24.4 million is the current debt level, which contains the 2.7 million EUR loan (Serbian investment) and 0.85 million EUR loan.
- Equity risk premium is assumed at 6% in the detailed period and in perpetuity.
- We used 10-year Hungarian government bond yield as the risk free rate in WACC calculation.
- Minorities are deducted from DCF value.
- After deducting debt from FCFF, we get the equity value (FCFE) which - divided by the number of shares outstanding - leads us to a HUF 717 as the fair value of a share and HUF 789 as the 1-year target price.

DCF Model (EURmn)	2018	2019	2020	2021	2022	TV
Sales	97201	102060	103313	104366	105188	106219
Sales growth	*8,46%*	*5,00%*	*1,23%*	*1,02%*	*0,79%*	*0,98%*
EBIT	3 712	4 209	4 285	4 331	4 342	4 197
EBIT margin	*3,82%*	*4,12%*	*4,15%*	*4,15%*	*4,13%*	*3,95%*
Tax rate	*7,0%*	*7,0%*	*7,0%*	*7,0%*	*7,0%*	*7,0%*
Taxes on EBIT	-259,87	-294,66	-299,97	-303,18	-303,95	-293,80
NOPLAT	**3 453**	**3 915**	**3 985**	**4 028**	**4 038**	**3 903**
+Depreciation	1753	1840	1863	1882	1897	1915
+/- Change in working capital	-5604	-1220	-315	-264	-206	-259
- Capital Expenditures	-3900	-1500	-1500	-1500	-1500	-950
Free Cash flow to the Firm	**-4298**	**3035**	**4034**	**4145**	**4229**	**4610**
Risk free rate	2,7%	2,7%	2,7%	2,7%	2,7%	3,2%
Equity risk premium	6,0%	6,0%	6,0%	6,0%	6,0%	6,0%
Beta	1,1	1,1	1,1	1,1	1,1	1,1
Cost of equity	**9,25%**	**9,25%**	**9,25%**	**9,25%**	**9,25%**	**9,80%**
Cost of debt	4,1%	4,1%	4,1%	4,1%	4,1%	4,6%
Effective tax rate	7,0%	7,0%	7,0%	7,0%	7,0%	7,0%
After-tax cost of debt	3,80%	3,80%	3,80%	3,80%	3,80%	4,32%
Equity weight	53%	53%	53%	53%	53%	53%
WACC	**6,69%**	**6,69%**	**6,69%**	**6,69%**	**6,69%**	**7,22%**
Terminal value growth						*1%*
Terminal value						74829
Discount factor	0,94	0,88	0,82	0,77	0,72	0,67
Discounted free cash flow	-4029	2666	3321	3199	3059	53595
Enterprise value	61812					
Minorities	507					
Net debt	24400					
Equity value	36905					
Number of shares outstanding (mn)	14601					
Cost of equity	9,25%					
Fair value per share (EUR, HUF)	**2,30**	**717**				
12M target price (EUR, HUF)	**2,53**	**789**				

Source: Masterplast, MKB

Sensitivity (per share)

		Terminal value EBIT margin				
		2,95%	**3,45%**	**3,95%**	**4,45%**	**4,95%**
WACC	**6,22%**	716	862	1 008	1 155	1 301
	6,72%	622	756	889	1 023	1 156
	7,22%	543	666	**789**	912	1 034
	7,72%	476	590	704	817	931
	8,22%	419	524	630	736	842

		Terminal value growth				
		0,0%	**0,5%**	**1,0%**	**1,5%**	**2,0%**
WACC	**6,22%**	789	889	1 009	1 153	1 332
	6,72%	704	789	889	1 009	1 153
	7,22%	631	704	**789**	889	1 009
	7,72%	567	631	704	789	889
	8,22%	510	567	631	704	789

Peer group

Considering relative valuation, Masterplast has a discount to its regional and global peers from the construction sector. As a result of the wide range of products, Masterplast competes with several companies across those categories. But there are few companies with a similar product range, with whom the valuation can be compared.

Masterplast valuation vs. Its peer group

Company	Market Cap (HUFmrd)	P/E (current)	EV/EBITDA	Dividend 12M	ROIC	ROE	ROA	EBITDA margin	Operating margin
Median	331,25	19,24	9,43	2,17%	6,16%	9,41%	3,92%	6,01%	4,36%
Masterplast Nyrt.	8,3	10,86	8,22	4,07%	6,99%	9,58%	3,95%	5,71%	4,09%
SIG Plc.	303,7	-	-	2,17%	-14,67%	-27,11%	-9,77%	-1,79%	-1,95%
Grafton Group Plc.	624,73	17,28	9,03	1,92%	7,53%	9,66%	4,87%	6,30%	5,55%
GMS Inc.	331,25	23,46	10,51	-	6,25%	10,76%	3,92%	7,48%	4,63%
BMC Stock Holdings	332,92	21,21	9,83	-	5,91%	7,18%	3,40%	4,92%	3,60%
Beacon Roofing Supply Inc.	920,95	28,13	17,30	-	6,07%	9,25%	3,87%	7,60%	5,28%

Source: Masterplast, MKB

RISKS

Main market and company-specific risks are the following

- **Change in the macroeconomic fundamentals and in the construction market in Hungary and in the countries of subsidiaries:** In the recent years the low interest rate environment fueled housing and construction market activity globally which was beneficial for Masterplast. However an anticipated change in monetary policies in the region could result in higher interest rates, and by that cooling down housing market dynamics, creating a more difficult environment for Masterplast to operate in.
- **Financing risk, risk of credit market conditions:** change in interest rate environment could create refinancing risk, pushing cost of debt higher.
- **Foreign exchange risk:** the Company makes and receives payments in several currencies thus facing a significant foreign exchange risk. The company applies a quite flexible foreign exchange policy which is formed according to current FX environment and anticipation of the management, and also by taking into account the FX strategies of the competitors.
- **Legal, administrative and political risk:** EU-funds for energy-efficiency projects have a positive impact on demand for Masterplast products. A drop in these kinds of subsidies could result in lower sales.
- **Taxation risk:** the currently effective reduced rate of value added tax imposed on real estate transactions might be increased from 2020, which could temper real estate market activity. However, the Serbian unit will receive a 10-year tax holiday beginning from 2018.
- **Increasing competition:** construction market is not a knowledge-intensive business, thus there is a low barrier to entry which can easily increase market competition
- **Credit risk**: the Company operates with deferred payment conditions, with a 45-50 day payment terms on average

Income statement

IFRS EUR	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e	2021e	2022e	TV
Sales	**85 234 259**	**81 322 000**	**81 605 000**	**83 773 139**	**80 162 711**	**89 622 000**	**97 201 220**	**102 059 636**	**103 313 041**	**104 366 493**	**105 188 070**	**106 218 583**
Growth (%)		**-4,6%**	**0,3%**	**2,7%**	**-4,3%**	**11,8%**	**8,5%**	**5,0%**	**1,2%**	**1,0%**	**0,8%**	**1,0%**
Cost of sales	-72 375 828	-69 748 000	-69 104 000	-71 375 742	-67 821 406	-74 695 000	-81 649 025	-85 730 094	-86 782 954	-87 667 854	-88 357 979	-89 223 609
Gross profit	**12 858 431**	**11 574 000**	**12 501 000**	**12 397 397**	**12 341 305**	**14 927 000**	**15 552 195**	**16 329 542**	**16 530 087**	**16 698 639**	**16 830 091**	**16 994 973**
Administrative and general expenses	-9 100 214	-8 674 000	-7 405 000	-7 703 976	-8 386 951	-10 117 000	-10 521 680	-10 626 897	-10 733 166	-10 840 497	-10 948 902	-11 058 391
Depreciation and amortization	-1 762 033	-1 552 000	-2 319 000	-1 432 522	-1 298 615	-1 616 000	-1 752 663	-1 840 267	-1 862 867	-1 881 862	-1 896 676	-1 915 258
Changes in finished and unfinished goods	681 728	1 108 000	299 000	744 245	990 005	309000	330484	347003	351264	354846	357639	361143
Operating profit (EBIT)	**503 509**	**2 680 000**	**2 719 000**	**3 684 542**	**3 283 785**	**3 605 000**	**3 712 376**	**4 209 381**	**4 285 318**	**4 331 125**	**4 342 152**	**4 382 467**
EBIT margin	*0,59%*	*3,30%*	*3,33%*	*4,40%*	*4,10%*	*4,02%*	*3,82%*	*4,12%*	*4,15%*	*4,15%*	*4,13%*	*4,13%*
Net financial income	-1 667 975	-1 484 000	-1 657 000	-369 147	-675 063	-700 000	-487 720	-516 873	-547 532	-579 771	-613 672	-649 316
Income before income taxes	-1 162 051	1 196 000	1 062 000	3 317 244	2 614 454	2 905 000	3 224 656	3 692 508	3 737 786	3 751 354	3 728 480	3 733 151
Income taxes	-11 996	19 000	-296 000	-752 413	-292 002	-179 000	-259 866	-294 657	-299 972	-303 179	-303 951	-306 773
Net income for the year	**-1 174 047**	**1 215 000**	**766 000**	**2 564 831**	**2 322 452**	**2 726 000**	**2 964 790**	**3 397 851**	**3 437 814**	**3 448 175**	**3 424 530**	**3 426 379**
Net margin		*1,49%*	*0,94%*	*3,06%*	*2,90%*	*3,04%*	*3,05%*	*3,33%*	*3,33%*	*3,30%*	*3,26%*	*3,23%*

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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

MKB Bank wrote flash notes on 10 January 2018, on 17 January 2018, and on 28 February 2018. These researches 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.

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 789 which is higher by 3% than our first price target.

15 December 2017	775
18 January 2018	766
9 March 2018	789