MASTERPLAST – Q3 2018 SUMMARY

In Q3 2018 there were mostly positive trends in the building industry. Masterplast ("Company") has expanded its revenues by 7% compared to the base period mainly due to the outstanding performance on the Hungarian, Ukrainian, Export and Polish markets, as both the revenues and the trade margins increased. Due to the higher manufacturing headcount and to the wage inflation effects, the overall personnel costs have increased. The trends and industrial climate in the Company's certain relevant markets are expected to remain favourable in the coming quarters. We reiterate our buy ratings for Masterplast shares, with a target price of HUF 789.

IMPROVING RESULT

The total revenue of the Group amounted to 28,478 thousand EUR in Q3 2018, which was 1,816 thousand euros (7%) higher than in the base period. In addition to the increase in turnover, the Company's gross trade margin also grew in Q3 2018 compared to the base period. Notable expansion was achieved on the Ukrainian and Export markets; while growth in the realized margins was also achieved on the Hungarian, Slovakian, Polish markets, as well. The production output of fiberglass mesh increased remarkably in Subotica, while slighter increase was achieved at the foam sheet production in Kal in Q3 2018 compared to the base period.

Mainly due to the expanded fiberglass mesh production in Serbia, together with the increase in wages in Hungary, the personnel expenditures of the Company has increased by 16% in Q3 2018 compared to the base period.

thousandEUR	Q3 2018	Q3 2017
Sales revenue	28 478	26 662
EBITDA	2 196	1 927
EBITDA ratio	7,7%	7,2%
Profit after tax	1 163	1 127
Net income ratio	4,1%	4,2%

Source: Masterplast, MKB

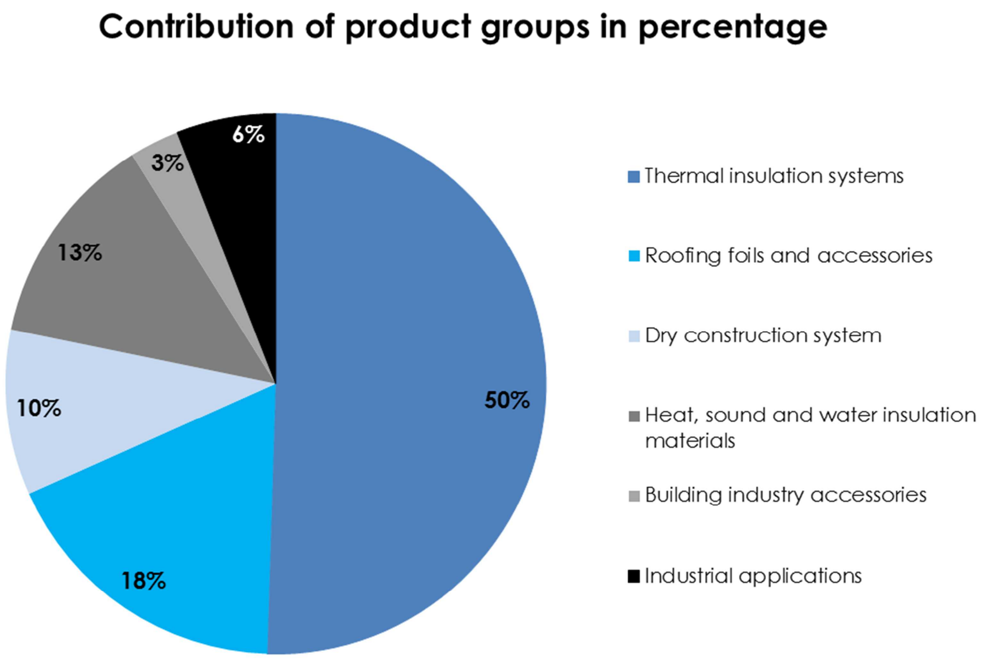
The Company has examined the possibility of restarting the polystyrene production at the temporarily (by the end of 2017) suspended Santu George site in Romania, but did not find it economically viable.

The Group EBITDA was 2,196 thousand euros in Q3 2018 (7.7% EBITDA ratio) compared to the 1,927 thousand euros (7.2% EBITDA ratio) in the base period. Excluding the sale of the Romanian production equipment the Group EBITDA was 2,470 euro (8.7% EBITDA ratio) and the operation profit (EBIT) reached 1,978 thousand euros in Q3 2018.

As a result of strengthening HUF rate – the net FX positions (assets) – and the substantial weakening of Ukrainian hryvnia the Company has generated and booked 337 thousand euros loss as other financial result in Q3 2018 compared to the EUR 119 thousand losses of the base period.

Sales by product group

In terms of the revenue slate, **thermal insulation systems** provided the biggest share, where the overall sales grow by 8% in 2018 Q3. The sales decreased by 4% in the **roofing foils and accessories segment**, while in the **dry construction system** product group it grew by 12%. In the h**eat, sound and water insulation materials** segment the sales in Q3 2018 increased by 26%, while a 15% growth was reported in the **building industry accessories** sales compared to the base period in 2017. Regarding the **industrial applications products** the Group has achieved a 14% decrease in turnover in Q3 2018 compared to the base period, where mainly the sales of the raw materials was significantly lower than in the base period.



Source: Masterplast, MKB

Relevant markets

On the most relevant **Hungarian** market still an industrial growth and even more robust economy trends had been reported by the statistics. In the first half of 2018, a similar growth (22.2%) was observed in the volume of construction production compared to the same period of the previous year. With this, the volume of construction production in 2018 expected to reach pre-crisis levels. The sector is expected to reach the peak of the economic cycle in 2018-2019. The labour shortage will have a relevant impact on the performance of the construction industry in the upcoming periods.

In **Romania** the demand in the construction market was negative. According to The Bureau of Statistics data it showed a decline in the construction industry, the number of the housing constructions has been remarkably moderated and the number of the new homes delivered decreased by 26%. The biggest challenge on the market was still the lack of the available labour. In **Ukraine** the economy performed well and the value of the finished construction works went up by 6% over the third quarter of last year. In **Slovakia** and **Poland** the economy continued to grow. The overall economic indicators have shown improvement in **Croatia** in Q3 2018, the issued building permits increased. In Serbia in Q3 2018 the GDP has also grown compared to the base period in 2017. The introduced reforms in the building sector had a positive impact on the investments and the number of issued building permits has also increased compared to the base period.

Sales by countries

Overall in the typically positive industrial environment the Group has increased its total sales by 7% in Q3 2018 compared to the base period. Remarkable gains in sales were achieved on the Polish, Slovakian, Ukrainian and Hungarian market, while within the product groups the revenues of the Heat, sound and water insulation materials product group grew at the greatest extent.

On the most relevant **Hungarian** market the turnover has grown by 18% in Q3 2018 compared to the base period. The Company was able to expand its turnover in all the product groups, with the largest growth were reported in the sales of the thermal insulation system related EPS product.

The Group saw a slight, 1% decline on its **Export** market sales in Q3 2018 compared to the base period.

On the relevant **Romanian** market the sales decreased by 21% in Q3 2018 compared to the base period. In Romania the Company has introduced product portfolio and structural changes by the end of 2017, moderating the planned target figures as well. The decrease in the sales of the Thermal insulation system related EPS and adhesives were primarily due to these measures in 2018.

In **Ukraine**, growth in sales was 19% in Q3 2018 compared to the 2017 base. The Company increased its revenues in all the product groups. In Serbia the sales decreased by 5% in 2018 Q3, on the **Croatian** market the Group sales grew by 2% in Q3 2018 base term.

The Group performed outstandingly well on the **Polish** market, where the sales were up by 43% in Q3 2018 compared to the base. The glass and rock wool products were introduced on the market this year and contributed to their remarkable turnover figures of the latest quarter.

The sales were up by 29% in Q3 2018 on the **Slovakian** market. In the entire product groups, sales were nicely increased compared to the base period.

The demand in the construction market in **Romania** was negative. According to The Bureau of Statistics data it showed a decline in the construction industry,

SUMMARY

The trends and industrial climate in the Company's certain relevant markets are expected to remain favourable in the coming quarters. In Hungary, the Company's core market, the building industry is growing steadily, the number of the building permits also underlines an increasing tendency which, coupled with the Company's improving manufacturing and operational efficiency, might help to achieve the targets set out in its strategic plans. In Q4 2018 the growth may be sustained; hence, we reiterate our buy ratings for Masterplast shares, with a target price of HUF 789.

Analyst:
Balázs Rácz
Tel: +36-1-268-7388
E-mail: racz.balazs@mkb.hu

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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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https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd-masterplast-plc.-quarterly-update-20180518

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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.