MASTERPLAST – INVESTOR FORUM 2018

Masterplast held an investor forum on 6th December 2018, where the management of the Company presented the update of the strategy. The three most important pillars of the strategy are the following: **growth in sales, increased production output, improving profitability.** The management has published the following expectations regarding the external environment:

- Tightening energy standards
- Growing numbers of building renovations
- European Union and government incentives, subsidies in some countries
- Danger of world economic turmoil

The management is expected to further **strengthen the industrial division**, which may reduce the exposure to the construction industry and would create new market opportunities:

- Significant increase of PE foil sales, widening portfolio
- Reach new customer base
- Polystyrene and fiberglass mesh based products

Revenues may increase more dynamically in the coming years, compared to last year's projections:

	Sales (mln EUR)	EBITDA (mln EUR)	EBITDA (%)	Net income (mln EUR)	Net income (%)
2017	*89,3*	*4,9*	*5,5%*	2,7	3,0%
2018 forecast	*~98*	*~6,1*	*~6,2%*	~3,2	~3,2%
2019 forecast	*~107*	*~7,3*	*~6,8%*	~4,0	~3,7%
2020 forecast	*~115*	*~8,4*	*~7,3%*	~5,0	~4,3%
2021 forecast	*~124*	*~9,5*	*~7,7%*	~6,0	~4,8%

Source: Masterplast

The Company projected increasing dividends for the next few years. Dividend policy conditions: The dividend payment up to max. 50% of net income, depending of the change of industrial environment and future investments (2017 was the first year when the Company decided to pay dividend.)..

	Net income (mln EUR)	Max. dividend (%)	Dividend Share/HUF
2018 forecast	~3,2	*50%*	*34*
2019 forecast	~4,0	*50%*	*44*
2020 forecast	~5,0	*50%*	*55*
2021 forecast	~6,0	*50%*	*66*

Source: Masterplast

The management has set the following goals for production:

- **Efficiency**: Higher output, further improving quality, enhancing profitability
- **Innovation**: Upgrading existing product portfolio, tailor-made products on specified demand
- **Development**: Launch new manufacturing processes, strengthening existing portfolio, comprehensive automation.

Growth continued in 2018: The revenues have increased by 8% in 2018, which amounts to EUR 9M. Due to the performance on the Hungarian, Ukrainian and Polish market, the revenues and the trade margins have both increased. With the further increasing production output of the Company the own production have become more efficient and profitable.

The trends and industrial climate in the Company's certain relevant markets are expected to remain favourable in the coming quarters, according to the Company. 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.

The target price is currently under review, we will soon publish our updated model.

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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

https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_elemzoi_kommentar_-_2018.02.28..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_Nyrt._negyedeves_elemzes_-_2018.03.09..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Ltd-Masterplast-flash-note-20180323

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

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd-masterplast-flash-note-20180614

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd----masterplast-flash-note---2018-08-01

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-zrt.---masterplast-nyrt.-negyedeves-elemzes---2018.08.29.

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd-masterplast-flash-note-20180921

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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.