

## MASTERPLAST – DCF MODEL UPDATE

**Masterplast held its investor conference on January 18th, where has presented its earnings expectations and medium-term business strategy. The Company has had a year with outstanding success, and it is expecting a similarly favourable outlook. According to the medium-term strategy, turnover might exceed EUR 300 million in 2024 and the profit after tax could rise to more than EUR 26 million by more than 70 percent. Masterplast has revised its previous forecasts upwards, so we revised our DCF model and our target price for the Company and raised our one - year target price to HUF 6394.**

The company also published preliminary numbers for 2021 in the investor conference. Turnover increased to EUR 190.3 million after a 55 percent raise, while profitability expanded even more. EBITDA doubled and exceeded EUR 22 million, while the profit after tax was almost 2.5 times the base year's performance EUR 15.4 million. According to the company, the growth of the European construction and insulation industry and the company's market share stand behind the unprecedentedly successful year.

The company's management has published a new medium-term profit forecast, in which Masterplast aims to reach a new level. In 2024, the company's sales revenue might reach EUR 305 million, while its EBITDA margin could reach 13.4 percent and exceed EUR 40 million. The profit after tax could increase by 72 percent compared to the record profit expected in 2021, reaching EUR 26.5 million. As a result, earnings per share could rise over 1.8 euros in 2024. The company intends to implement new investments by using its expanding results, while maintaining a steadily growing level of dividends.

By the end of the decade, Masterplast aims to become a major regional player in the building materials industry as a major European producer of thermal insulation materials, while fulfilling the strategic role of the supply of healthcare textiles in Hungary as a dynamically developing healthcare industry manufacturer expanding into the European market as well. Relying on its strengthened market position and extensive manufacturing background, Masterplast can achieve significant organic growth in its core business while the development of a more profitable healthcare business continues.

### Construction

The reason for the dynamic growth since 2020 is that the company has made several investments that have contributed to the expansion of sales and earnings. The following investments were made by Masterplast:

- Raw material production for the healthcare industry – HUF 9.5 billion
- Production line for finished healthcare products – HUF 2.6 billion
- Development of fiberglass mesh production – HUF 2.7 billion
- Site and logistics developments – ~ HUF 0.6 billion

Besides the implemented developments, further investments are in progress. The previously announced development of XPS insulation material production in Subotica is progressing

according to plan, and the plant established with the investment of EUR 14 million will start production in 2023.

Sales of construction products increased significantly in 2021 compared to the 2020 base, according to preliminary management figures. Sales in the Thermal insulation system group increased from EUR 54.1 million to EUR 76.6 million in 2021 (an increase of 42%), and in the Roofing foils and accessories product group from EUR 20.2 million to EUR 29.5 million (an increase of 46%). ) and increased from EUR 12.4 million to EUR 17.8 million in the Dry construction system product group (an increase of 44%).

Demand for construction products has risen dynamically in recent years. In the case of Masterplast's strategic products (elements of drywall systems, thermal insulation systems, roofing films), there was also a clear expansion in the company's main market, the domestic market and most regional or Western European markets where Masterplast is present. The increase was due to two factors: on the one hand, there was an increase in sales volumes for insulation systems, drywall systems and roofing films, and on the other hand, prices also increased steadily. The construction segment of Masterplast was able to expand very dynamically in 2021. The increase in the sales volume of each product group is the result not only of the increase in prices, but also of the growing demand for the products and the continuous improvements seen at the company.

In addition to rising sales prices, the cost of raw materials also increased steadily, but this factor did not significantly worsen the company's profit margins. In order to curb the rise in raw material prices, Masterplast can explore new sources of raw material supply and increase its inventories when the price of raw materials shows a decrease.

The growth in the company's sales may be supported by other factors in addition to the expected increase in demand and further expected increases in prices. Production of the previously announced XPS is expected to begin in early 2023, but other upgrades are also planned that have so far only been disclosed, such as capacity expansion, greenfield investment and acquisitions. Knowing the innovative approach of the management and the ideas expressed at the investor conference, these can be expected to materialize.

The forecast for the growth of insulation materials can be read in [this](#) analysis. According to the analysis, by 2026, insulation materials could expand by an average of 5 percent per year.

Tightening energy requirements and government incentives for home creation and home renovation are expected to bring further significant growth in the demand for thermal insulation materials and renovation-related building materials. Roughly 40 percent of the company's sales come from Hungary.

Energy standards are constantly tightening in Hungary and in other EU member states, and as a result, a new home can only be built with near-zero energy consumption. This can be achieved by applying thick insulation to the building, which also creates a market for Masterplast products.

## Modular technology

In response to both the challenges of the construction industry and the consumer demands, as a manufacturer Masterplast is entering modular architecture, the most promising and probably the fastest growing construction segment of the decade. Modular technology offers a more efficient solution than the traditional construction method in several respects. Production can take place under controlled operating conditions during the 12 months of the year, even in continuous shifts. Many building types can be manufactured from standard building modules, which can be widely used. With the help of the technology, houses, summer houses, offices, dressing rooms, workers' hostels, medical practices, gyms or even catering units can be built very quickly with low demand for live labour on site. The company's supplier relationship system, its own manufacturing background, manufacturing expertise and capitalisation provide a significant competitive advantage. The first plant will be established in the area of Székesfehérvár, and production is scheduled to start by the end of 2022. The goal is to produce 500 building modules in the first year which can result in sales of 10 million euros in 2023. We have also built in the effects of this business segment into our DCF model.

## Healthcare

According to management, by 2030, profits from healthcare could reach the ones from the construction segment. The growth of the healthcare business for the coming years is based on the figures indicated by the management. Revenue from the healthcare business is currently recognized by the company in the industrial applications segment. In 2020, the company generated sales of EUR 17.1 million in industrial applications. In 2021 (based on preliminary figures from the company), the number of industrial applications, including revenues from the healthcare business, increased to 43.7 million, an increase of 155 percent. Management has made a forecast for sales until 2024, where the share of the healthcare business will increase year by year. Therefore, in our DCF model, we expect dynamic growth from the healthcare business by 2026. According to an analysis by [Grandviewresearch](#), the health textiles market could grow by an average of 4.9% per year (CAGR) by 2025.) However, at Masterplast, the healthcare business was formed last year, and due to significant investments, stronger growth is expected by 2025.

A leader has also appeared in the management of Masterplast, Dr. Csaba Szokodi, who has serious references in the healthcare industry. Dr. Csaba Szokodi is responsible for leading the health industry division. Led by Dr. Csaba Szokodi, the dynamic growth of the healthcare industry may expand in the coming years. The healthcare business has undergone very significant development since its launch in 2020, and the company plans to innovate more in the coming years. The following strategic points were presented at the investor conference:

- Increasing the output of hygienic raw materials
- Creation, production and sales of finished product portfolio
- Masterplast Medical brand
- Supplier partnership

- Collection and recycling of healthcare products

Masterplast's ambition is to grow in the disposable products market as traditional textiles will be replaced by disposable textiles. Most of these are now made in Asia, but due to logistical problems, narrowing of supply chains, everyone is looking for shortened supply chains that can serve the industry.

### Risk

The market environment is favourable, but there are risks, which should be mentioned. Masterplast has been facing rising raw material prices and steadily rising energy prices recently, and these trends may continue for the time being. Narrowing of supply chains has also been a characteristic process since the outbreak of the coronavirus. The company has managed these difficulties well so far and in our opinion these factors will not adversely affect the company's results in the future. Additional risks include rising wages, rising inflation, which means a steady increase in costs for the Company. The end of the Bond Funding for Growth Scheme, a rising interest rate environment, means increasingly expensive financing for companies. Due to previous bond issues, Masterplast has significant financial resources to implement its investment and acquisition plans.

### DCF MODEL

We increased our 12-month target price to HUF 6394, and we amend the recommendation to buy for Masterplast shares.

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

- Compared to our most recent model update, we expected increasing sales revenue and improving profit margins for the period 2022-2026. The following factors will also help the company's growth in the coming years:
  - Strong growth in the insulation sector
  - Scaling up the production of medical raw materials and finished products
  - Expanding manufacturing capacity of fiberglass mesh
  - Launch of XPS production
  - Launch of modular business
  - Capacity expansion, greenfield innovation, acquisition
- In addition to the above, the company is planning further investments and is looking for acquisition targets, but no further information has been published yet.
- The discount rate we used to get the present value of future cash flows is 9.71%.
- We expected a 1% increase in terminal value
- We presumed that capital structure will remain stable in the future.

<b>DCF Model (EURmn)</b>					
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Sales	211 062	256 889	289 488	313 246	339 499
<i>Sales growth</i>	12,25%	21,71%	12,69%	8,21%	8,38%
EBIT	20 658	26 007	30 106	34 132	38 228
<i>EBIT margin</i>	9,79%	10,12%	10,40%	10,90%	11,26%
<i>Tax rate</i>	14,0%	14,0%	14,0%	14,0%	14,0%
Taxes on EBIT	-2892	-3641	-4215	-4778	-5352
<b>NOPLAT</b>	<b>17 766</b>	<b>22 366</b>	<b>25 891</b>	<b>29 353</b>	<b>32 876</b>
<b>Free Cash flow to the Firm</b>	<b>11 209</b>	<b>21 587</b>	<b>25 711</b>	<b>29 501</b>	<b>33 398</b>
<b>WACC</b>	<b>9,71%</b>	<b>9,71%</b>	<b>9,71%</b>	<b>9,71%</b>	<b>9,71%</b>
<i>Terminal value growth</i>					1,0%
Terminal value					387 194
Discount factor	0,91	0,83	0,76	0,69	0,63
Discounted free cash flow	10 217	17 934	19 470	20 362	264 603
<b>Enterprise value</b>	<b>332 585</b>				
Net debt	67 349				
<b>Equity value</b>	<b>265 236</b>				
Number of shares outstanding (mn)	14 601				
Cost of equity	14,35%				
<b>Fair value per share (EUR, HUF)</b>	<b>15,71</b>	<b>5 530</b>			
<b>12M target price (EUR, HUF)</b>	<b>18,17</b>	<b>6 394</b>			

Source: Masterplast, MKB

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**Change from the prior research**

Our first research was published on 15. December 2017. In that Initial Coverage our price target was HUF 823. The changes in fundamental factors and the operation in the Company required regular updates of our model and the target price. Based on the recent changes, we have revised our target price, the new target price is HUF 6394, which is 24 % higher than the previous target price of HUF 5167 (2021.september 9th).

### 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-initiation-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..pdf](https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-Masterplast_elemzoi_kommentar_-2018.01.10..pdf)

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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.