NEWS

The Board of Directors of MASTERPLAST NyRT (8143 Sárszentmihály, Árpád u. 1/A.; „Company") hereby informs the Investors that 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 where all rights attached to the new shares shall be identical to the previously issued ordinary shares (series 'A") with nominal value of 100,-HUF per share, on issue price of 607,-HUF per share, and registered to the shareholder's name. The increase of the share capital took place against asset contributions (apport).

The asset contributions was provided by: Ács, Balázs (address: 8000 Székesfehérvár, Újlaki u. 2.) and Tibor, Dávid (address: 8000 Székesfehérvár, Pöstyéni u. 12.). 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. The claims were divided between Ács, Balázs and Tibor, Dávid to the followings: the amount of Ács, Balázs's claim was 217.772.727 HUF, the amount of Tibor, Dávid's claim was 303.227.273 HUF.

The asset contribution providers issued statements of commitment with regards to the handover of the shares and the fulfilment of the asset contribution by issuing af a legal declaration on the assignment of their acknowledged claims to the Company, and by this way their claim deemed as terminated. In consideration the capital increasing completed, the date of the modified Articles of Association is 18th of January 2018.

After the registration of the capital increase to the Company Registry and the creation of the new shares, the share of Ács, Balázs and Tibor, Dávid will change as follows: with the newly purchased 358.765 shares (added to his previously held 4.096.278 shares) Ács, Balázs, the Vice-Chairman of the Board will have a total number of 4.455.046 Masterplast ordinary shares, while Tibor, Dávid Chairman of the Board increased his number of Masterplast ordinary shares to 5.266.626 by purchasing 499.550 shares in addition to the previously held 4.767.076 shares.. As a result of the abovementioned transactions, Tibor, Dávid Chairman's share of the company will increase from 34,69 % to 36,07 % and Ács, Balázs Vice-Chairman's share will increase from 29,81 % to 30,51 %.

COMMENT

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. The share capital of the company has increased due the issuance of the new shares, while the liabilities have decreased.

From one point of view investors may consider this as a dilution. From another point of view, the two main shareholders could have decided to ask for repayment of their shareholder loans decreasing the financial strength of the company.

In our view, the capital increase improves financial strength, supports the investments and may improve the growth potential in the long term. Based on the news we updated our model with the new debt/equity ratios and share number. Therefore, the 1-year target price has lowered from HUF 775 to HUF 766. We expect neutral effect in the trading.

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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.

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

No change from the prior research