NEWS

In a further improving market environment **Masterplast Nyrt.** increased its revenues by 17% in Q4 2017, mainly as a result of the outstanding sales on the Hungarian and other main markets of the Company, which coupled with increasing trade margins. The production output of has increased and the fiberglass mesh production had been becoming more efficient, which had a positive effect on the operating profit level of the Company. As a result of the growing manufacturing headcount, the overall personnel costs increased and the other expenditures also showed a slight increase. The growing revenue, supported by the favourable industry environment, the increasing margin on sales and the improving production efficiency resulted in a more than 180% overachievement of the base period's EBITDA in Q4 2017. Due to the excellent performance of the last period of 2017 – combined with the higher revenue – the Company has met the planned operating profit targets. Taking the financial results into consideration, the Group's cumulative profit after tax exceeds the base period's result by more than 400 thousand EUR (17%) in 2017.

COMMENT

There were mostly favourable trends in the development of the Company's portfolio in its single markets. The total revenue of the Company was 21,101 thousand EUR in the Q4 2017, 17% higher than in the base period of 2016. The accumulated sales amounted to up 89,623 thousand EUR, which is a 12% increase compared to the 80,163 thousand EUR realised in the base period. The Company has achieved good performance in all main product groups in Q4 2017. The EPS production output in Subotica has increased significantly, while the fiberglass mesh production in Kál plants and the EPS output in Sfantu Gheorghe increased in a lesser extent. The fiberglass mess production output in Subotica has even over-delivered the targets in the Q4 2017.
In addition to the increase in turnover, the Company's gross trade margin has increased considerably in Q4 2017 compared to the base period. The EBITDA was 975 thousand euro in the Q4 (4.6% EBITDA ratio), and the Company has generated 724 thousand euros profit after tax in the Q4 period, while the cumulated profit after tax was 2726 thousand euros in 2017.
The industrial climate was already favourable in Q3 2017; therefore the good performance was expected over the last three months. Further improving industry environment is expected for the next few years, which coupled with the Group's improving manufacturing and operational efficiency might help to achieve the targets set out in its strategic plans. To take this into consideration we will update our DCF-model in the next week.

Price target: under review

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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