

MASTERPLAST – Updated forecast of 2022 results

Masterplast lowered its expectations for 2022 after the fourth quarter turned out unfavorably as a result of high raw material prices, declining sales volume and the development of foreign exchange rates.

Based on the preliminary summary data and trends of the fourth quarter and the 2022 business year, the management modified its annual expectations for 2022, which were set out in the investor information presentation on September 20 last year.

The Company's consolidated figures for the year 2022 forecast sales of EUR 202 million compared to the forecast of EUR 225 million, EBITDA of approximately EUR 20 million compared to the forecast of EUR 26.7 million, and a net profit after tax of approximately EUR 15.5 million compared to the forecast of EUR 18.1 million.

Negative market trends mainly affected products related to new housing construction, while sales of thermal insulation materials remained appropriate. The Company has a significant stock of raw materials, which gives it production certainty, but could still mean high average raw material prices in the first half of 2023.

In view of the building industry environment, the Company expects a decline in the first and second quarters of 2023 compared to the high base in the same periods of 2022, offset by the output of two EPS producers and one XPS producer new production plant already operational in the second half of 2023, as well as the availability of European-level refurbishment programs and subsidies that we expect to start.

Based on the assessment of economic developments, the Company plans to update its 3-year profit forecast, including its 2023 profit forecast, in the second quarter of 2023 and to present it in an investor conference with simultaneous announcement.

There has been no example of a negative profit warning at Masterplast for a long time, recently it revised its profit expectations upwards several times, most recently in September. Due to the negative news, we are reviewing our target price and will publish our updated DCF model soon.

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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 775. The changes in fundamental factors required updates of our model and the target price. We are suspending our target price and will soon publish our updated model.

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.bef.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://bef.hu/Kibocsatok/BET-elemzesek/elemzesek/masterplast-elemzesek>

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.