MASTERPLAST – Q4 2019 SUMMARY

Masterplast has expanded its revenues in Q4 2019 by 7% compared to Q4 2018. The financial result of the Group slightly decreased, however, is the profit after taxation of Q4 2019 increased by 45%. EBITDA was 1275 thousand EUR (5.1% EBITDA ratio) in Q4 2019 compared to the 1040 thousand EUR (4.4% EBITDA ratio) in Q4 2018. Due to the payrises and the expanding headcount the payroll costs showed an increase, while depreciation decreased just as the other operating expenses.

The Group's annual revenues increased by 10% in 2019 versus the prior year. The EBITDA was 7 268 thousand EUR (6.8% EBITDA ratio) compared to 6 034 thousand EUR in 2018 (6.2% EBITDA ratio) which meant 20% growth. PAT increased by almost 1 500 thousand EUR, which constitutes a 45% growth compared to the base. With this performance, the Company achieved the sales and EBITDA level, while its PAT exceeded by almost 800 thousand EUR the previously published profit targets.

IMPROVING RESULT

The total revenue of the Group amounted to 25 151 thousand EUR in Q4 2019, which was 7% higher than in Q4 2018. Compared to the increase in turnover, the increase in the trade margin value was smaller in Q4 2019. The Group's trade margin was higher on the Ukrainian and Polish markets, but the realized margin volume grew on the Hungarian and Romanian markets as well. The cost of materials and services – considering the change in the self-manufactured inventories as well – has increased (3%) less than the turnover expansion in Q4 2019.

There was a growth in the production output of traditional fiberglass mesh and EPS, while the profile production in Serbia and the foam production in Kal dropped in Q4 2019 compared to the base quarter.

thousand EUR	Q4 2019	Q4 2018
Sales revenue	25 151	23 605
EBITDA	1 275	1 040
EBITDA ratio	5.1%	4.4%
Profit after tax	660	456
Net income ratio	2.6%	1.9%

Source: Masterplast, MKB

The Group's EBITDA amounted to 1275 thousand EUR in Q4 2019 (5.1% EBITDA ratio) compared to the 1040 thousand EUR (4.4% EBITDA ratio) in the base period, which shows a 22% growth. The operation profit (EBIT) reached 972 thousand EUR in Q4 2019.

Mainly because of the Hungarian forint – euro trend, the Company has generated and booked 82 thousand EUR loss as other financial result in Q4 2019 compared to the 137 thousand EUR profit of Q4 2018.

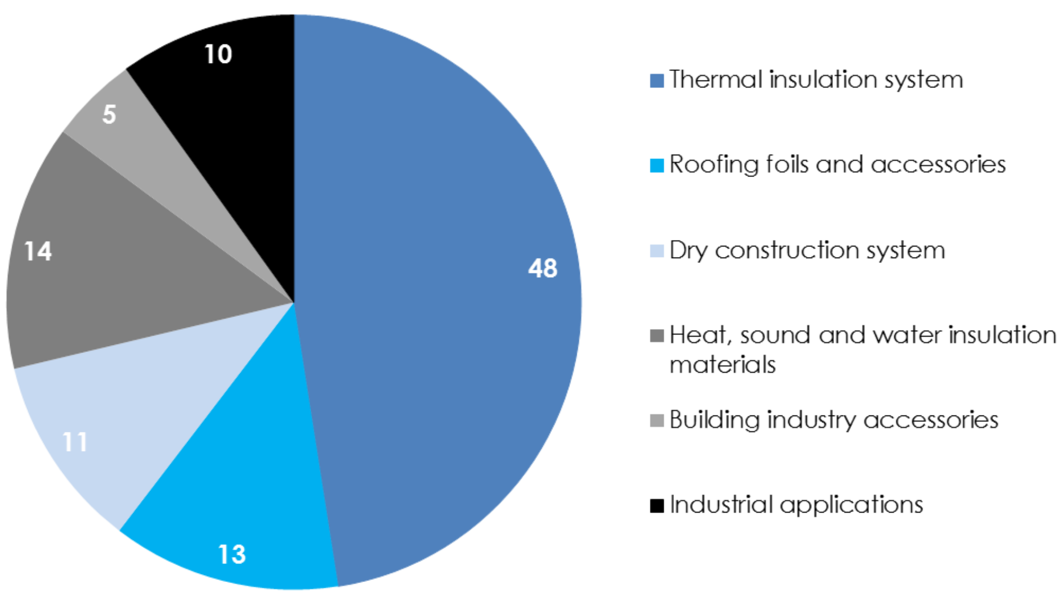
The Group's annual revenue increased by 10% in 2019 versus the prior year. The EBITDA was 7 268 thousand EUR (6,8% EBITDA ratio) compared to 6 034 thousand EUR in 2018 (6,2% EBITDA ratio) which meant 20% growth. PAT increased by almost 1 500 thousand EUR, which was 45% growth compared to the base

SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (48%): its sales increased by 12% in the fourth quarter. The sales volume grew in each group, but the most significant increase was recorded in the fiberglass mesh and in EPS sales. In the **dry construction system** product group sales increased by 12%. In terms of gypsum plasterboard systems, the turnover growth on the Hungarian market was the highest. In the **heat, sound and water insulation materials** segment the sales in Q4 2019 increased by 6%, the sales of foam products were smaller, while there was a growth in the turnover of glass and rock wool products, the XPS products and drainage ditch system. In the **building industry accessories** the sale of products decreased by 16% in the fourth quarter of 2019.

In the **industrial applications accessories segment**, Masterplast achieved the same sales level in Q4 2019 as in the base period. The sales of packaging-related products showed a smaller-scale decline, while the non-strategic trade of raw materials were growing compared to the base period.

Sales broken down into product categories of Q4 2019



Source: Masterplast, MKB

MOST RELEVANT MARKETS

On the most relevant **Hungarian** market, in Q4 2019 the construction industry was moderately increasing. The labour shortages had a major impact on the performance of the construction industry. Final withdrawal of the discounted VAT is expected to affect the starting of new investments, while the expanded "CSOK" (family housing benefit scheme) started during in the summer of 2019 can bring a lot of opportunities in the renovation market.

In **Romania** the demand in the construction industry showed an improving picture in the fourth quarter of 2019.

In **Ukraine** the building industry performed well and the value of the finished construction works in Q4 2019 rose by more than 20% over the fourth quarter of last year. In **Poland**, the construction industry slowed down. Rising wages and higher building material prices as well as continuous labour shortages dominated the market in the fourth quarter. In **Slovakia**, the construction industry dropped compared to the base period. The economic indicators have shown further improvement in **Croatia** in Q4 2019, the unemployment decreased, and the construction industry continues to expand.

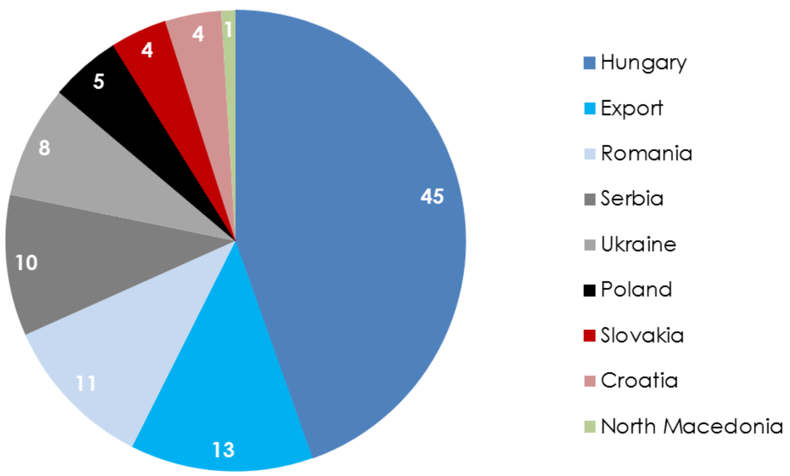
SALES BY COUNTRIES

The Group has increased its total sales by 7% in Q4 2019 compared to the base period. Remarkable gains in sales were achieved on the Romanian, Ukrainian and Hungarian market.

On the most relevant **Hungarian** market the turnover grew by 12% in Q4 2019 compared to the base period. In the building industry accessories product group, sales decreased, while in the other product groups sales increased.

A decrease of 1% was achieved on the **Export** market sales in Q4 2019 compared to the base period. The Group had slightly decreasing sales in each product group, expect for the Thermal insulation system group including the revenue of fiberglass mesh products, where an increase was recorded. Considering its markets Masterplast reached a growth in the Austrian, German and Estonian markets, while the biggest drop was seen in the Czech Republic, in the United Kingdom, in Russia and in Italy.

Contribution of countries in percentage to the total sales revenue



Source: Masterplast, MKB

On the key **Romanian** market, sales increased by 14% in Q4 2019 compared to the base period. The sales of Thermal insulation system increased the most.

In **Ukraine**, growth in sales amounted to 10% in Q4 2019 compared to the 2018 basis. The revenues decreased in the most relevant Thermal insulation system product group, where the non-own-produced fiberglass mesh sales accounted for most of the turnover.

In **Serbia** sales increased by 4% in 2019 Q4. A growth in sales was achieved regarding the Thermal insulation system and the Heat, sound and water insulation materials. The turnover of the other product groups was smaller in the fourth quarter.

On the **Croatian** market the Group sales fell by 1% in Q4 2019 base term. On the **Polish** market the sales were down by 11% in Q4 2019 compared to the base. The sales were increased by 2% in Q4 2019 on the **Slovakian** market.

SUMMARY

The Company published strong quarterly figures. The Company's improving manufacturing and operational efficiency and the T-Cell acquisition helped to outperform the targets set out in its strategic plan.

Last year, profitability continued to improve at the Company. The proportion of self-manufactured products is constantly increasing, as a result profit margins shows continuous improvement. Due to improved margins, EBITDA share and net profit share (compared to sales) may expand significantly over the next few years.

Based on the Company's dividend policy, dividend paid to the shareholders may amount up to maximum of 50% of the annual after-tax profit. The Company exceeded the 2019 earnings target, which may result in a higher dividend payment than originally planned.

On the most significant Hungarian market the expanded "CSOK" (family housing benefit scheme) started last summer can bring a lot of opportunities in the renovation market.

We reiterate our buy ratings for Masterplast shares, with a target price of HUF 910.

Analyst:
Balázs Rácz
Tel: +36-1-268-7388
E-mail: racz.balazs@mkb.hu

DISCLAIMER

1. This research/commentary was prepared by the assignment of Budapest Stock Exchange Ltd. (registered seat: 1054 Budapest, Szabadság tér 7. Platina torony I. ép. IV. emelet; company registration number: 01-10-044764, hereinafter: BSE) under the agreement which was concluded by and between BSE and MKB Bank Ltd. (registered seat: H-1056 Budapest Váci utca 38., company registration number: 01-10-040952, hereinafter: Investment Service Provider)

2. BSE shall not be liable for the content of this research/commentary, especially for the accuracy and completeness of the information therein and for the forecasts and conclusions; the Service Provider shall be solely liable for these. The Service Provider is entitled to all copyrights regarding this research/commentary however BSE is entitled to use and advertise/spread it but BSE shall not modify its content.

3. This research/commentary shall not be qualified as investment advice specified in Point 9 Section 4 (2) of Act No. CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities. Furthermore, this document shall not be qualified as an offer or call to tenders for the purchase, sale or hold of the financial instrument(s) concerned by the research/commentary.

4. All information used in the publication of this material has been compiled from publicly available sources that are believed to be reliable; however MKB Bank does not guarantee the accuracy or completeness of this material. Opinions contained in this report represent those of the research department of MKB Bank at the time of publication and are subject to change without notice.

5. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Investors are advised to assess the nature and risks of the financial instruments and investment services. A well-founded investment decision can be made only in possession of all the relevant information, therefore investors are hereby explicitly advised to read carefully the information material, contractual provisions, conditions list and general business terms in order to be able to decide if the investment is in line with their risk bearing capacity. MKB Bank also recommends collecting information about the tax consequences and other relevant laws concerning investment services in the financial instruments mentioned in this document.

6. This document is provided for information purposes only, therefore the information provided in or derived from it is not intended to be, and should not be construed in any manner whatsoever as personalised advice or as a solicitation to effect, or attempt to effect, any transaction in a financial instrument (e.g. recommendation to buy, sell, hold) or as a solicitation to enter into an agreement or to any other commitment with regards to the financial instrument discussed. Any such offer would be made only after a prospective participant had completed its independent investigation of the securities, instruments, or transactions and received all information it required to make its investment decision. MKB Bank excludes any liability for any investment decision based on this document.

7. MKB Bank is entitled to provide market making, investment services or ancillary services regarding the financial instruments discussed in this document.

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

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB-Bank-Ltd-Masterplast-flash-note-20180327

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

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_elemzoi_kommentar_-_2018.10.29.pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd--masterplast-flash-note-20181030

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-_Masterplast_Nyrt._negyedeves_elemzes_-_2018.11.19..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd.---masterplast-flash-note---2018.12.10

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Kibocsatok/mkb-bank-ltd.---masterplast-modellfrissites---2018.12.21

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_Masterplast_Plc._quarterly_update_-_2019.02.28..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_Masterplast_flash_note_-_2019.03.06.pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/mkb-bank-ltd.---masterplast-flash-note---2019.05.02

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_Masterplast_Plc._quarterly_update_-_2019.05.20..pdf1 https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_Masterplast_flash_note_-_2019.06.04.pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_Masterplast_model_update_-_2019.06.12.pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_Masterplast_Plc._quarterly_update_-_2019.08.29..pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Ltd._-_Masterplast_flash_note_-_2019.09.11.pdf1

https://bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Plc._-_Masterplast_flash_note_-_2019.10.10.pdf1

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 910.