

MASTERPLAST – Company expand its market in Italy

Masterplast announced that the Company plans to start production in Italy after the launch of its trading subsidiary in Italy. In connection with this, the Company is examining several options, with an investment of approximately EUR 10 million in the case of a green field investment and more than EUR 20 million in the case of a possible acquisition. With the dynamic growth of its operations, Italy could become one of the group's most important markets, generating sales of more than EUR 20 million by 2023.

Masterplast also announced that has established the Masterplast Italia SRL in Italy, Barco with 51% business share of the Company. The co-founders of the subsidiary are individuals with wide experience and extensive business relationships in the local building materials market. The new company was set up to trade in thermal insulation materials in Italy with a share capital of EUR 200 000.

With the establishment of the new subsidiary, it will be able to provide its existing and new Italian partners with a wider product range, a higher level of services and greater geographical coverage.

In Italy, the state has recently launched a super-bonus scheme for individuals and public institutions. This works by giving the Italian state a super bonus of 110 % on thermal insulation investments, meaning that 110 % of the value of the investment can be written off from personal income tax in the five years following the investment.

These subsidies can be used for renovations where there is also energy development, such as insulating the house, replacing doors or windows, or converting a heating system to a renewable one.

Plenty of people in Italy have started living with this opportunity. Seeing this, the company's management decided that not only did they want to be indirect players in the Italian market, they thought it was the right time to appear with their own distributor company. In Italy, there were almost no heat - insulated buildings and the insulation market has now started very strongly.

For the Italian subsidiary, this year is more about the preparation, the structure, the creation of the structure, and the possible start of production. From 2023, it is expected that Masterplast Italia will be able to make a substantial contribution to the profit.

So far, Masterplast has had sales in Italy, which in the absence of a subsidiary have included revenues in its "export" revenues. The largest market for Masterplast is Hungary, where the company posted revenues of more than EUR 87 million in 2021, and the second largest market (where there is a local subsidiary) is Germany, which closed the year with revenues of EUR 15 million last year. The Italian subsidiary could be one of Masterplast's top markets with revenues in excess of EUR 20 million by 2023.

Masterplast held its investor conference on January 18th, where has presented its earnings expectations and medium-term business strategy. Masterplast significantly raised its

previous forecasts, so we also revised our target price and raised it to HUF 6,394. Masterplast expects sales of EUR 300 million by 2024 after EUR 191.5 million in 2021. The insulation industry and the healthcare industry also play a major role in the significant growth, but the company has also announced the launch of a new business.

The company's management also mentioned planned acquisitions and greenfield investment opportunities at the January investor conference. The current announcement is very positive and fits into the company's strategy, and will help achieve plans for the coming years. The independence of energy due to the war further enhances the importance of insulation in Europe. In the most likely scenario, a significant portion of the investment that can be financed by the Bond Funding for Growth Program. The company will not need significant external funding. (The investment amount is available from the company's previous bond issue.)

Due to the positive news, we are also reiterate our target price (HUF 6.394) and the buy recommendation.

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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. We are also reiterate our target price (HUF 6.394) and the buy recommendation, which is 24 % higher than the previous target price of HUF 5167 (2021.nov 22th).

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):

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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.