

MASTERPLAST – Q1 2022 SUMMARY

Masterplast also posted strong numbers in the first quarter, and the company continued to grow in terms of key numbers. Sale of the company's own manufactured products increased the profitability, but significantly lower healthcare sales compared to the base period and lower performance of the Ukrainian subsidiary including working capital impairment impacted the results of the first quarter.

Q1 RESULT

The total revenue of the Group amounted to EUR 51510 thousand in Q1 2022, which was 35% higher than in Q1 2021. The increase in turnover, trade margin volume increased in Q1 2022 compared to the base period, but the margin rate declined due to a decrease in sales of higher-performing healthcare products.

In addition to more efficient production, the purchase price increase effect was handled effectively in the sales prices. The efficiency of Masterplast's own production has further improved. Output of the EPS and mesh edge plant in Serbia increased compared to a year ago, and fiberglass mesh production performed well above the strong emission levels of the base period. The foam unit in Kál produced at the output level of the base period, emissions from the Aschersleben plant decreased compared to the same period last year due to planned shutdowns. According to the company, raw material supply disruptions, which have resurfaced due to the war situation, have been successfully managed in all the Company's factories, ensuring continuity of production.

thousand EUR	Q1 2022	Q1 2021
Sales revenue	51510	38280
EBITDA	5235	4372
EBITDA ratio	10.2%	11.4%
Profit after tax	3218	2798
Net income ratio	6.2%	7.3%

Source: Masterplast, MKB

The Group's EBITDA amounted to EUR 5235 thousand in Q1 2022 (10.2% EBITDA ratio) compared to the EUR 4322 thousand (11.4% EBITDA ratio) in the Q1 2021 base period, which showed a 20% growth. The operating profit (EBIT) reached EUR 3907 thousand in Q1 2022, which rose by 11% compared to the EUR 3510 thousand level of the base period. The Group PAT (profit after tax) was EUR 3218 thousand in Q1 2022.

SALES BY PRODUCT GROUP

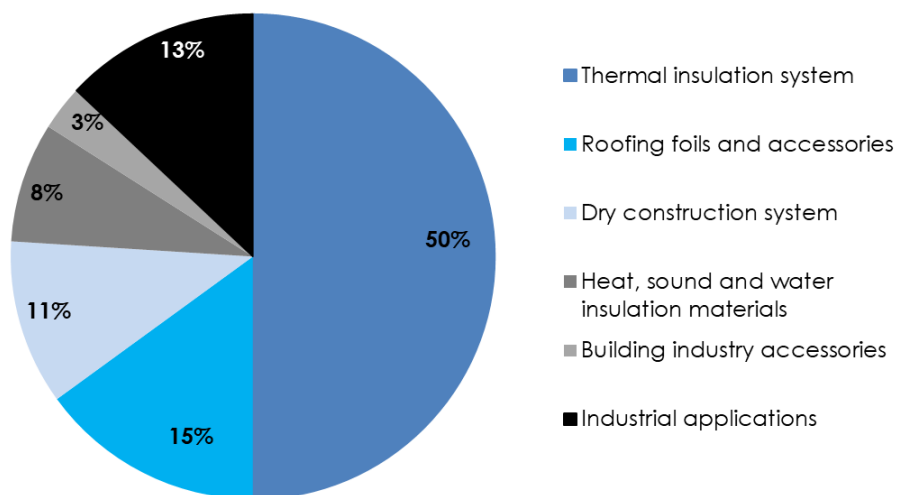
In terms of the revenue slate, **thermal insulation systems** provided the biggest share (50%); its sales increased by 88% in the first quarter compared to the base period.

Turnover of **Roofing foils and accessories** in Q1 2022 was 22% higher than in the same period in 2020. Within the product group, sales of own-produced diffusion roofing foils increased significantly, but sales of conventional roofing foils and roof elements also grew.

In the **Industrial applications product group**, the Masterplast achieved lower sales level in Q1 2022 by 32% than those of the base period. Sales of healthcare products decreased compared to the strong base, while the turnover of packaging products and non-strategic raw material trade increased.

In the **dry construction system** improved in Q1 2022 by 35% compared to the base. In the **building industry accessories**, the sale of products increased by 21% in the first quarter of 2022. In the **Heat, sound and water insulation** materials product group the sales increased by 31% in Q1 20212 compared to the same period in 2021.

Contribution of product groups in percentage to the total sales revenue



Source: Masterplast, MKB

SALES BY COUNTRIES

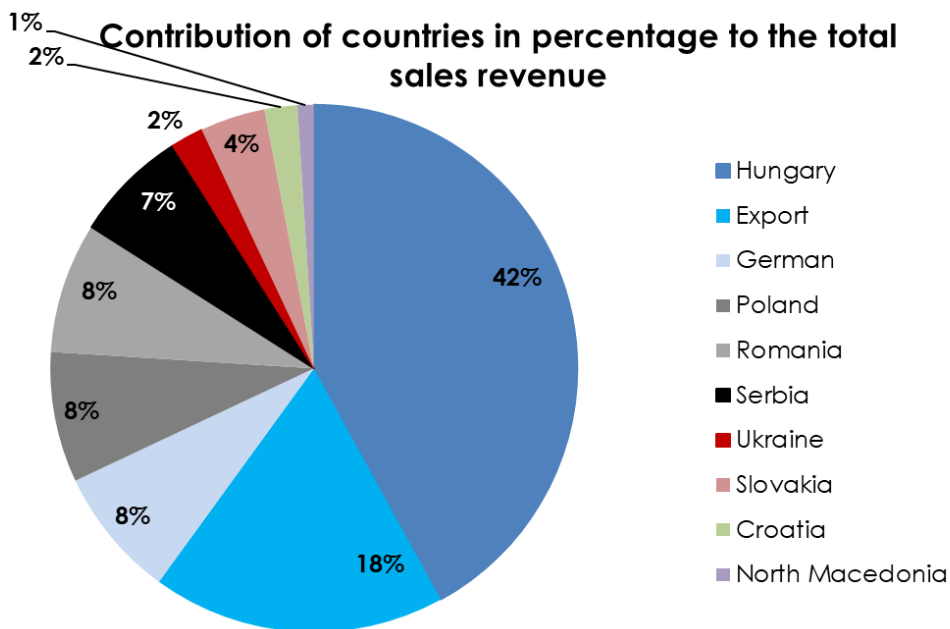
The Group has increased its total sales by 35% in Q1 2022 compared to the Q1 2021 base period.

The breakdown of the sales by countries shows the revenue realized in countries where Masterplast has its own subsidiary, regardless of which subsidiary has registered the sales in the country. For countries where there is no Group subsidiary, sales are reported on the Export line.

On the most relevant **Hungarian** market the turnover increased by 23% in Q1 2022 compared to the base period. The Company achieved strong growth in the construction product groups. Government subsidies and renovation incentives continue to provide expanding demand, and price increases have resulted in additional demand due to pre-purchases. The turnover of finished products in the health industry decreased on the Hungarian market compared to the strong base.

In the **Export** market in Q1 2022, the turnover increased by 88% compared to the same period of the previous year. The sales revenue of the fiberglass mesh belonging to the product group of thermal insulation system increased the most, but the turnover of dry construction products, thermal, sound and water insulation products and building accessories also expanded. There was also a notable increase in the French, Portuguese and Greek territories, while the UK, the Czech Republic and Spain saw larger declines in export activity this quarter.

Sales in the **German** market increased by 3% in the first quarter compared to the corresponding period last year. The increase was mainly due to the sales of diffusion roofing foils, but fiberglass mesh sales also increased in the thermal insulation systems group.



Source: Masterplast, MKB

On the key **Romanian** market, sales increased by 76% in Q1 2022 compared to the base period. Sales of thermal insulation systems and roofing foil product groups contributed the most to the growth.

In **Serbia**, sales increased by 47% in 2022 Q1. The turnover of the thermal insulation system elements product group increased significantly due to the increase in fiberglass mesh and EPS sales. But the drywall product group also performed well thanks to drywall profile sales.

On the **Croatian** market the Group sales increased by 20% in Q1 2022 compared to the base term. On the **Polish** market the sales increased by 42% in Q1 2022 compared to the base. Sales of roofing foils and accessories fell sharply compared to the strong performance of the base quarter. In the **Slovak** market, sales grew by 52% in Q1 2022. Sales of EPS products in the thermal insulation systems product group grew strongly.

SUMMARY

Masterplast published strong first quarter results. Increasing supply difficulties and price rises as a consequence of the Russian-Ukrainian war, coupled with rising inflation, had a mixed effect on construction demand in the Company's markets. In Ukraine, the war situation since the end of February has put the economy, including the construction sector, out of action for the foreseeable future. The Company's management considered to recognize an impairment loss of EUR 500 thousand on inventories and customers in the Ukrainian subsidiary involved in the Russian-Ukrainian conflict.

Rising energy prices have led to a pick-up in insulation works in the construction segment in several countries, and the demand side is also being boosted by government subsidies in many markets. In order to achieve its climate protection goals, the European Union provides significant financial resources for building energy renovation programmes, which, together with stricter energy regulations and high energy prices, will result in increasing demand for the Company's products in the longer term.

The Russian-Ukrainian conflict does not significantly affect the company's operations. The Ukrainian subsidiary has a small weight in the company's revenue and earnings, in Q1 2022 the Ukrainian subsidiary accounted for 2% of total sales. Masterplast has developed an emergency scenario. Should the situation worsen, the company will evacuate its supplies and goods from Eastern Ukraine to Western Ukraine.

We sent out our latest model update on February 3rd, which already included updated forecasts from Masterplast.

Due to the strong quarterly figures, 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, 2022. February 03rd) 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):

https://www.bet.hu/pfile/file?path=/site/Magyar/Dokumentumok/Tozsdetagoknak/Tozsdetagok-elemzesei/MKB_Bank_Zrt._-Masterplast_elemzoi_kommentar_-2018.01.10..pdf

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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.