MASTERPLAST – Q3 2020 SUMMARY

In Q3 2020, despite the effects of the coronavirus, the Group's sales increased by a record 20%. The turnover of the German manufacturing subsidiary, which started its operation in July and largely sells to the healthcare segment, has also significantly contributed to the expanding construction turnover. In addition to the increase in turnover, the trade margin in the construction segment also increased, which was largely supported by the high capacity utilization of the Company's production units. With the production of industrial textiles in Germany, the Company has successfully entered the healthcare market, which has supported the Group's performance by generating higher profits next to sales. As a result, the Group's EBITDA (+ 59%) reached a record 4,2 million EUR in the third quarter, where both the construction and the healthcare segments achieved outstanding results.

IMPROVING RESULT – Q3 2020

The total revenue of the Group amounted to EUR 37 550 thousand in Q3 2020, which was 20% higher than in Q3 2019. The operation of the new German manufacturing subsidiary contributed greatly to the growth, but it is important to mention that the Company also achieved an increase in turnover in its core business. The increase in turnover, the trade margin and margin rate also increased in Q3 2020 compared to the base period. The Group's trade margin was higher on the Serbian, export and Hungarian markets, but the realized margin volume grew on the Romanian markets, as well.

thousand EUR	Q3 2020	Q3 2019
Sales revenue	37550	31408
EBITDA	4210	2652
EBITDA ratio	11.2%	8.4%
Profit after tax	2621	2097
Net income ratio	7%	6.7%

Source: Masterplast, MKB

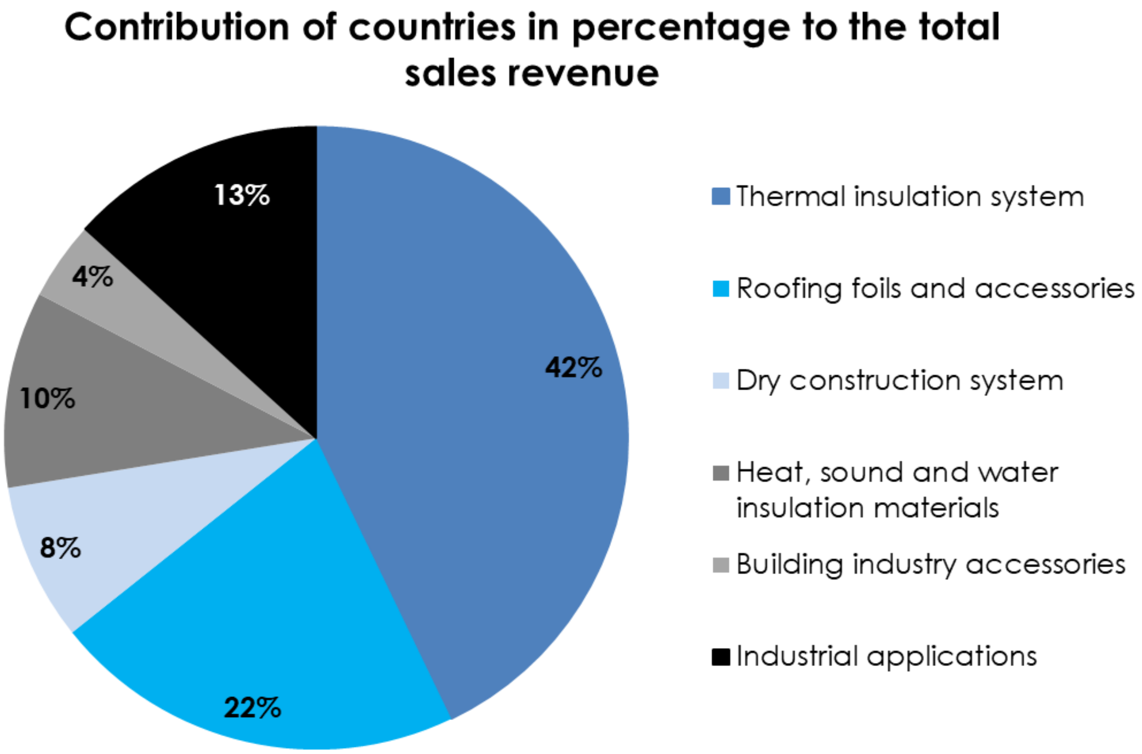
The Group’s EBITDA amounted to EUR 4210 thousand in Q3 2020 (11.2% EBITDA ratio) compared to the EUR 2652 thousand (8.4% EBITDA ratio) in the Q3 2019 base period, which showed an 59% growth. The operating profit (EBIT) reached EUR 3471 thousand in Q3 2020, which rose by 70% compared to the EUR 2042 thousand level of the base period. The Group PAT (profit after tax) was EUR 2621 thousand in Q3 2020.

The Company's interest revenues improved, both the interest expenses and interest income decreased in Q3 2020 compared to the base period, which was due to the positive effect of bonds issued in the previous year. With regards to the other financial items, the Company has generated and booked loss in Q3 2020 compared to the profit of Q3 2019.

As the Company mainly realises its purchases in euro and USD and the sales are being generated in local currencies; therefore, the fluctuation of these currencies can have a remarkable effect on the Group’s financial results. The Company had concluded EUR/USD and EUR/HUF based hedging deals in Q3 2020, and the results from the closure of these deals are also included among other financial profit/loss. Mainly because of unfavourable exchange rate effects, the Company has generated and booked EUR 145 thousand loss as other financial result in Q3 2020 compared to the EUR 397 thousand profit of Q3 2019.

SALES BY PRODUCT GROUP

In terms of the revenue slate, **thermal insulation systems** provided the biggest share (42%): its sales increased by 5% in the third quarter compared to the base period. The most significant increase (74%) was recorded in the **Roofing foils and accessories** sales. The turnover of diffusion roofing foils doubled to which the turnover of the production unit of Masterplast Nonwoven GmbH also contributed greatly. In case of **Industrial applications product group**, the Masterplast achieved higher sales level in Q3 2020 by 42% than those of the base period. Revenue from the German plant's healthcare products is reported here, which also contributed significantly to the product group's quarterly sales growth. In the **dry construction system** improved in Q3 2020 by 8% compared to the base. In the **building industry accessories,** the sale of products decreased by 2% in the third quarter of 2020. In the Heat, sound and water insulation materials product group the sales increased by 10% in Q3 2020 compared to the same period in 2019.



Source: Masterplast, MKB

SALES BY COUNTRIES

The Group has increased its total sales by 20% in Q3 2020 compared to the Q3 2019 base period.

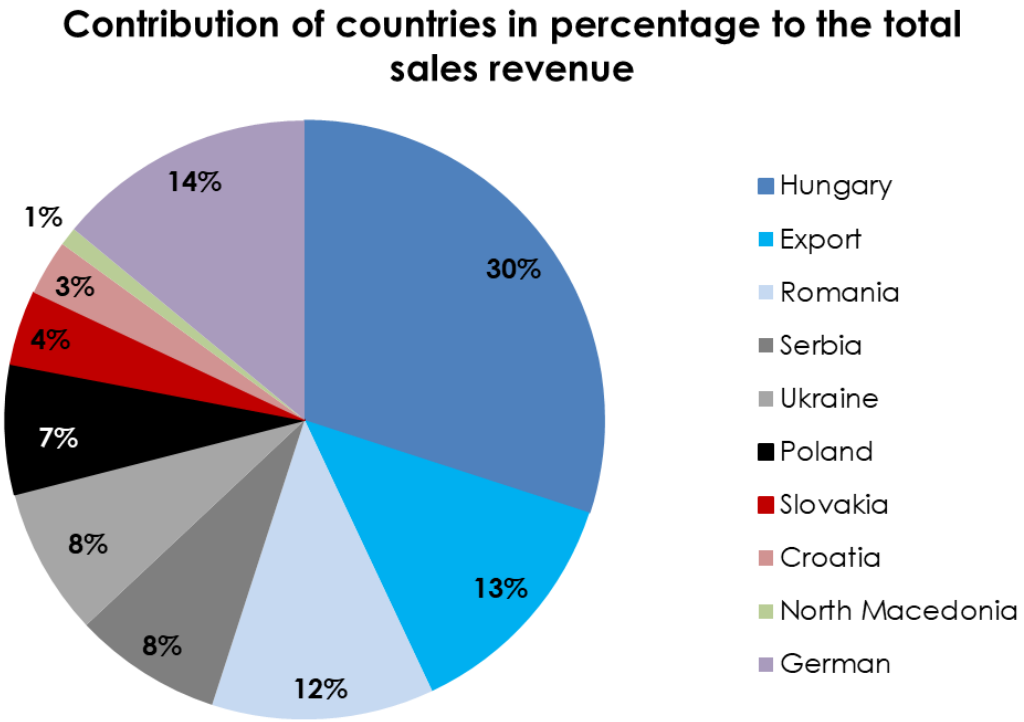
The breakdown of the sales by countries shows the revenue realized in countries where Masterplast has its own subsidiary, regardless of which subsidiary has registered the sales in the country. For countries where there is no Group subsidiary, sales are reported on the Export line.

In the first half of 2020, the Company revised and changed the breakdown of its sales by country. With acquisition of Masterplast Nonwoven GmbH, the Group reclassified the German market from the Export category to a separate category, as from H2 2020 Masterplast has own subsidiary in the country.

On the most relevant **Hungarian** market the turnover decreased by 7% in Q3 2020 compared to the base period. The decline in market turnover was due to the drop in the domestic raw materials trade.

In the export market in Q3 2020, the turnover increased by 18% compared to the same period of the previous year. The revenue of fiberglass mesh products from the Thermal insulation system product group and the sales of diffusion roofing foils from the Roofing foils and accessories product group increased the most, but sales of medical foils among Industrial applications also increased. Considering its markets, the Masterplast reached a growth in Englishand Portugal areas, while sales decreased the most in Estonia and in Norway.

The **German** market is reported separately compared to previous periods, because Masterplast has been present in the country with direct sales since H2 2020. Thanks to the new manufacturing company, turnover in the country has increased significantly. Masterplast Nonwoven's products are categorized in the product group of Roofing foils and accessories and in the Industrial applications.



Source: Masterplast, MKB

On the key **Romanian** market, sales increased by 14% in Q3 2020 compared to the base period. The sales of Thermal insulation system and within that the fiberglass mesh products increased the most.

In **Ukraine**, in Q3 2020 the sales landed on the same level as the 2019 base period was. The Company's revenue slightly increased in the most relevant Thermal insulation system product group, where the not self-produced fiberglass mesh sales accounted for most of the turnover.

In **Serbia**, sales increased by 12% in 2020 Q3. A growth in sales was achieved regarding the Thermal insulation system, the Roofing foils and accessories, the Heat, sound and water insulation materials and the Building industry accessories while the turnover of the other product groups was smaller in the third quarter.

On the **Croatian** market the Group sales increased by 8% in Q3 2020 compared to the base term. On the **Polish** market the sales improved by 31% in Q3 2020 compared to the base. The sales increased by 6% in Q3 2020 on the **Slovakian** market.

Masterplast is preparing for another bond issue

Masterplast may issue new bonds within the framework of the Funding for Growth Scheme announced by the Hungarian National Bank, up to a value of HUF 6 billion. Scope Ratings performed the credit rating related to the transaction, the rating of the bonds to be issued is B +, which meets the requirements of the bond program.

The Company plans to issue bonds by the end of December 2020. This is the third bond issue at Masterplast within the framework of the Funding for Growth Scheme G, the previous issue of last year was partly used by to replace more expensive loans. Masterplast plans to use the proceeds from the new bond issue for investments, acquisitions and refinancing of short-term loans, according to Scope Ratings.

SUMMARY

In an uncertain industry environment, the Company had a steadily improving third quarter. By the end of the third quarter, regional construction markets had largely restarted. Masterplast closed the most successful quarter of its existence, breaking its previous records one by one. The Company's sales and EBITDA in the third quarter of this year, as well as its after-tax profit, also surpassed the best quarterly figures so far.

The record numbers are due to the expansion of the Company's core construction wholesale business and manufacturing, and the Company's entry into the healthcare industry thanks to this year's acquisition in Germany. Following the completion of the acquisition, a new German subsidiary, Masterplast Nonwoven GmbH, was launched in June, which also produces specialty raw materials for healthcare. In Aschersleben, the German production unit started to produce healthcare raw materials, industrial fleets and membranes with high market utilization and high capacity utilization.

The management's revenue expectations for 2020 are EUR 120 million, EBITDA is EUR 10.2 million and profit after tax is EUR 6.2 million. Masterplast achieved 75 percent of full-year revenue, 79 percent of EBITDA and 76 percent of after-tax profit in the first nine months of 2020.

After an outstanding third quarter performance, we reviewed our DCF model. The Company's revenue and profit figures rose sharply in the third quarter, making management's forecast for 2020 available. Due to the expected higher base in 2020, the figures for the following years (sales revenue, operating profit may continue to grow. **Thus, we will increase our target price from the previous HUF 885 to HUF 929.**

DCF Model (EURmn)	2019	2020	2021	2022	2023	TV
Sales	107104	119184	125214	131039	137206	136745
Sales growth	*10,03%*	*11,28%*	*5,06%*	*4,65%*	*4,71%*	*4,35%*
EBIT	5 244	6 374	7 272	8 133	9 051	8 972
EBIT margin	*4,90%*	*5,35%*	*5,81%*	*6,21%*	*6,60%*	*6,56%*
Tax rate	*7,0%*	*7,0%*	*7,0%*	*7,0%*	*7,0%*	*7,0%*
Taxes on EBIT	*-367,08*	*-446,18*	*-509,02*	*-569,30*	*-633,60*	*-628,04*
NOPLAT	**4 877**	**5 928**	**6 763**	**7 564**	**8 418**	**8 344**
Free Cash flow to the Firm	**17104**	**1220**	**1870**	**2361**	**2909**	**3872**
WACC	**5,76%**	**5,76%**	**5,76%**	**5,76%**	**5,76%**	**6,60%**
Terminal value growth						*1,0%*
Terminal value						69885
Discount factor	0,95	0,89	0,85	0,80	0,76	0,71
Discounted free cash flow	16173	1090	1581	1887	2199	52300
Enterprise value	75231					
Net debt	36481					
Equity value	38750					
Number of shares outstanding (mn)	14601					
Cost of equity	8,43%					
Fair value per share (EUR, HUF)	**2,43**	**851**				
12M target price (EUR, HUF)	**2,65**	**929**				

Source: Masterplast, MKB

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

Change from the prior research

Our first research was published on 15 December 2017. Our latest price target was HUF 885, but the changes in fundamental factors justified the update of our model. Our new price target is HUF 929.

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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

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

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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.