Masterplast

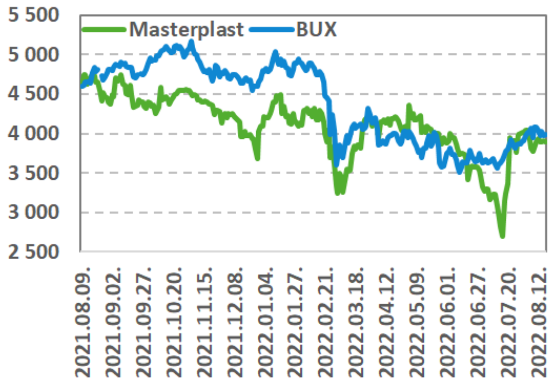
2022.08.22

- **With a 12-month target price of HUF 6050 and a buy recommendation based on our DCF model, we initiate coverage of Masterplast. We believe that at a share price of HUF 4000, investors price in a pessimistic outlook.**
- **The company has made a growth leap in recent years with a well-timed acquisition in Germany to enter the market for healthcare products with more stable revenue generation and higher margins, and with cross-cycle growth trends. The pandemic (and related one-off items) helped the segment's revenues materially in 2021, compared to which 2022 will see a decline, but sales of private label healthcare products starting in 2023, will help revenues to start to grow again.**
- **The deterioration in the macroeconomic outlook and the expiry of subsidy schemes this year could lead to a decline in revenues in the construction product segments. Thermal insulation systems, the largest contributor to revenue, may be an exception to this, as energy efficiency targets to meet EU climate targets and the sky high European energy prices could both provide sustained demand for insulation materials, while the company's ongoing manufacturing investments, starting from 2023, could also boost revenues.**
- **The entry into the German and Italian markets (with own production facilities) will open up further growth opportunities in Western Europe, while the company will also become more diversified on the product side, with the launch of its in house developed modular buildings in addition to healthcare products from 2023.**
- **Thanks to new business development steps, Masterplast should be able to keep its revenues on an upward trajectory even in a deteriorating economic environment (2022-26 CAGR: 10.6%), while an increase in the share of own production and a shift in the product mix towards higher margin products should also keep the EBITDA margin above the long-term average (11.4-13.5%). EBITDA could rise to over EUR 41 million by 2026, double the 2021 level net of one-off items.**
- **The company's indebtedness has increased in recent years, but is still at comfortable levels, with mostly low and fixed-rate (2-2.9%) bonds maturing in 2026-31 accounting for more than 80% of liabilities. Net profit could increase by 13.1% on average between 2022-26, and EPS could rise from EUR1.09 last year to EUR1.9 in 2026.**
- **With a payout ratio of 14-17%, the dividend payments indicated by management can be met. 2023: 66 HUF, 2024: 77 HUF, 2025: 88 HUF, 20026: 99 HUF, which means a dividend yield of 1.7-2.5%.**
- **Masterplast's forward P/E is lower than its sector peers (2022: 8.4, 2023: 8.9), but its higher debt level relative to peers means EV/EBITDA ratios of 7.9 (2022) to 6.9 (2023) are above the sector average, while the company's profit growth prospects are stronger, which partly justifies the higher multiples.**

Recommendation: Buy

12-month target price: 6050 Ft

Upside potential: 55%



Performance	3 months	6 months	YTD	1 year
Masterplast	-4%	-6%	-5%	-18%
BUX	0%	-14%	-15%	-18%

m EUR	2021	2022e	2023e
Revenue	191	220	246
EBITDA	22,8	25,8	28,0
EBIT	18,3	19,9	21,0
Net profit	15,9	17,4	16,4
EBITDA margin	11,9%	11,8%	11,4%
EBIT margin	9,5%	9,1%	8,5%
EPS (EUR)	1,1	1,2	1,1
DPS (HUF)	44	55	66
Payout ratio	31%	14%	14%
EV/EBITDA	9,2	7,9	6,9
P/E	9,2	8,4	8,9
Dividend yield	1,1%	1,4%	1,7%
Share price (2022.08.19):			3 900
Number of shares (m):			14,6
Market cap. (m HUF):			56 945
Free float:			36,8%
Daily turn. (m HUF):			62,57
Bloomberg:			MASTERPL HB

Dávid Sándor
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Analyst

Investment case

Masterplast manufactures and distributes building insulation materials and insulation systems, as well as sanitary textiles and hygiene products. It operates wholly owned subsidiaries in 10 European countries, where it operates several different production units in 7 locations. The company started as a distributor in 1997, serving end-users not directly but indirectly through more than 4,000 business partners, following a business-to-business strategy. Most of its revenues are generated in Central and Eastern European countries, but in recent years the company has also strengthened its presence in Western European markets such as Germany and Italy (currently in the process of being established a plant there). The company has also started to increase the weight of its own production in strategic product areas in recent years, with ~ half of its revenues now coming from its factories in Hungary, Serbia and Germany, which have been operating at full capacity in recent years thanks to a stable network of sales partners.

For the company, the acquisition of its German supplier in March 2020 has been the turning point for growth in recent years. The Aschersleben plant, which mainly produces roofing foils, has turned to the production of specialised nonwoven fabrics and multi-layer membranes for pandemic protection thanks to the opportunities offered by technology, which has also led to a significant increase in profits in 2020 (EBITDA +50%) and 2021 (EBITDA +106%) due to the significant revenue and higher margins for healthcare raw materials. In addition, the company has brought local technology to its Hungarian headquarters in Sárszentmihály, where it has installed state-of-the-art, highly automated nonwoven production lines. This will create an integrated manufacturing capability, with 80% of the investment financed by grants. The higher-margin healthcare segment, which is less sensitive to economic cycles and has fundamentally favourable long-term prospects, is a strategic priority for the company. The upturn in sales provides further revenue growth potential for the coming years (with the elimination of one-off items in 2021, 2022 could see a halving of revenues, followed by growth of around 10% in the following years), which could be leveraged by the appointment of a new manager with significant experience in the sector.

Construction products continue to account for the bulk of sales, with the macro environment turning negative (rising commodity prices, falling real income, deteriorating GDP growth prospects, expiring subsidy schemes in Hungary and Italy in 2022), which will weigh on revenue growth prospects for the years ahead. However, at EU level, increasing energy efficiency remains a subsidy-driven priority to meet EU climate targets, and the end of Russia's energy dependence and the resulting sky high energy prices will only reinforce this process. A critical element in increasing energy efficiency is to achieve adequate thermal insulation in residential buildings, an area where there is great potential across Europe. Masterplast is well positioned to capitalise on this trend across economic cycles, with thermal insulation systems accounting for 40-50% of revenues, while in Hungary, the main market, around two thirds of buildings are not adequately insulated. This year, further investments are being made in the segment, with the company expanding its insulation production capacities in Kál, Szabadka and Italy, which will contribute to revenue growth and enable higher margin production from 2023.

From 2023, the company will also expand into modular construction, which is still relatively new in the region but is already more common in the Nordic countries. Modular houses offer a higher quality than container houses thanks to new building materials and digitalisation technologies, while they can be installed faster, at lower cost and with less labour compared to traditional buildings, which is why industry forecasts expect them to gain weight and importance in the construction industry, with dynamic growth potential. With no meaningful manufacturing competition in the region, Masterplast could become a market leader with its proprietary technology, starting mass production in 2023. We estimate 23% revenue CAGR 2024-27.

The company has made a number of acquisitions in recent years and will expand its own production capacity, largely by the end of this year and to a lesser extent in 2023. Thereafter, no major additional spending requirements beyond maintenance-related investments are expected. For these investments, the company has been able to draw on a significant amount of non-repayable grants and to raise longer-term funds under the Funding for Growth Program (NKP) at a favourable fixed annual interest rate of 2-2.9% (fixed rate bonds represents >80% of the liabilities). This has enabled the company to finance higher inventories than in the past, which has allowed stable operations even in times of supply chain problems, and has also increased profit margins in the face of rising raw material and finished product prices. Overall, debt levels, although elevated, are at comfortable levels (net debt to EBITDA at 2.5), with Scope Ratings maintaining a BB- credit rating with a stable outlook.

Earnings outlook

Revenues: In 2022, we expect revenue to grow by 15%, following a 14% yoy realisation in H1 2022, seasonally strong autumn months and the end of year expiry of subsidies, which should strengthen the renovation market. In 2023, a material deterioration in the macro environment and expiry of subsidies will have a negative impact, but new investments will start to pick up (insulation manufacturing, healthcare products and modular housing), which should lead to a further 12% revenue growth.

EBITDA: Supply chain problems may ease, and the repricing process for products may end as the macro outlook deteriorates, so that the margin-boosting effect of high inventory levels may disappear, while the workforce is growing and wages are rising dynamically. As a result, we expect the EBITDA margin to decline from 11.9% in 2021 to 11.8% in 2022 and 11.4% in 2023. From 2024 onwards, margins could start to improve again to above 12-13% as the share of own production gradually increases thanks to new investments and the product mix shifts towards higher margin segments. EBITDA could thus grow at an annual average of 13.1% in 2022-26, rising above EUR 40 million by the end of the period (double the 2021 figure net of one-off healthcare revenues).

Net profit: interest expenditure rises as debt levels have risen, but interest income also strengthens at the end of the forecast horizon due to stronger free cash generation, in the absence of further significant investments, so net profit could rise by an average of 13.1% per year between 2022-26. EPS could rise to a high of EUR 1.9 by the end of the period from EUR 1.09 last year. The company can pay out up to 50% of after-tax profit in the form of dividends, so as we do not expect any significant new spending beyond the investments announced so far, we expect the dividend trajectory indicated by management (2023:66Ft, 2024: 77Ft, 2025: 88Ft, 20026: 99Ft), implying a payout ratio of 14-17% (at EURHUF 400).

DCF valuation

The fair value of the company is determined using a DCF model, which sets a 12-month target price of HUF 6050. This represents a significant upside potential of 55% compared to the current share price.

Assumptions used in the model:

- We expect continued earnings growth in the coming years, with high free cash generation (EUR 24.4 million by end-2026), and no significant additional spending beyond the investments announced so far.
- The long-term growth rate used to calculate the residual value was assumed to be 3%.
- The share price was calculated in HUF, with 14.6 million shares and EURHUF at 400, (the company reports its figures in EUR).
- The cost of equity is calculated using a risk-free rate of 7.5% for the 10-year Hungarian bond market yield in 2022-24, and a normalising rate of 4.5% from 2025. The value of beta was calculated using the unlevered betas observed in the industry (starting from the Damodaran collection), whose value decreases over the forecast horizon (from 1.5 to 1.38), in line with the reduction in the company's indebtedness. The equity risk premium is assumed to be 6.5%. Borrowing costs may range between 3-4% in the coming years due to the high weight of fixed rate bonds, with a risk-free rate +250bps in the residual period.

Masterplast WACC calculation						
	2022e	2023e	2024e	2025e	2026e	TV
Risk free rate	7,5%	7,5%	7,5%	4,5%	4,5%	4,5%
Levered beta	1,5	1,5	1,5	1,5	1,4	1,4
Equity risk premium	6,5%	6,5%	6,5%	6,5%	6,5%	6,5%
Cost of equity	**17,4%**	**17,2%**	**17,1%**	**14,1%**	**13,6%**	**13,6%**
Cost of debt	3,4%	3,3%	3,2%	3,3%	3,7%	7,0%
Tax rate	13%	15%	15%	15%	15%	15%
After tax cost of debt	**2,9%**	**2,8%**	**2,7%**	**2,8%**	**3,1%**	**6,0%**
D/E	56%	54%	52%	53%	42%	42%
WACC	**12,2%**	**12,2%**	**12,2%**	**10,2%**	**10,5%**	**11,3%**

Source: OTP Multi-Asset Strategies

Masterplast DCF-model						
m EUR	2022e	2023e	2024e	2025e	2026e	TV
EBIT	19,9	21,0	27,9	33,0	34,5	35,5
Tax	-2,7	-3,2	-4,2	-4,9	-5,2	-5,3
NOPLAT	**17,3**	**17,9**	**23,8**	**28,0**	**29,4**	**30,2**
D&A	5,9	7,0	7,3	7,3	7,4	7,4
Change in WC	14,3	3,4	7,4	7,2	4,8	3,4
CAPEX	15,4	11,9	7,8	7,5	7,5	7,5
FCFF	**-6,6**	**9,5**	**15,9**	**20,7**	**24,4**	**26,7**
TV growth						3,0%
TV						322,0
PV FCFF		8,5	12,7	14,9	16,0	210,2
EV (eoy 2022)	**262,2**					
Net debt	61,9					
Other	1,2					
Equity value	**199,0**					
Share count (million)	14,6					
Fair value (EUR/share)	**13,6**					
EURHUF	400					
Fair value (HUF/share)	**5452**					
Cost of equity	17,2%					
12-month target price (HUF)	**6050**					

Source: OTP Multi-Asset Strategies

Sensitivity analysis

We examined the effects of different scenarios on our DCF model based fair value estimate:

1, As the model is sensitive to long-term growth and WACC expectations, we have examined the impact of different scenarios on our 12-month target price. Based on these, the current share price of around HUF 4000 implies a significantly lower (<1.5%) long-term growth potential and a higher (>13.3%) WACC than we have used, so we think the market is currently pricing in a sufficiently pessimistic scenario.

DCF valuation sensitivity analysis (12-month target price HUF)							
	TV g						
TV WACC	*1,5%*	*2,0%*	*2,5%*	*3,0%*	*3,5%*	*4,0%*	*4,5%*
9,3%	6457	6922	7456	8075	8800	9662	10704
10,3%	5685	6048	6457	6922	7456	8075	8800
11,3%	5072	5363	5687	**6050**	6460	6926	7460
12,3%	4569	4808	5070	5361	5685	6048	6457
13,3%	4153	4352	4569	4808	5070	5361	5685

Source: OTP Multi-Asset Strategies

2, The company prepares its financial statements in euros, so the target price expressed in forint is also heavily influenced by the EURHUF exchange rate at any given time. If the exchange rate were to strengthen back to the top of the 2020-21 trading band (340-370), this would reduce our target price by 7.5% in HUF terms.

DCF valuation sensitivity analysis (12-month target price HUF)							
EURHUF	370	380	390	**400**	410	420	430
Target price	5596	5748	5899	**6050**	6201	6353	6504

3, Whether the company will be able to maintain the higher margins of recent years will have a major impact on profit generation and hence on the development of oure target price. If EBITDA margins were 50bp lower than we expect in 2022-26, this would reduce the target price by 8%, but margins 300bp lower, all else being equal, would lead to a halving of the target price. However, this is a very pessimistic assumption in our view, as both the rise in the share of own production and the increase in the weight of strategic product lines will improve margins in the coming years, despite the macro environment moving in an unfavourable direction. Based on management's forecasts for the coming years (as of January 2022), our expectations would result in a margin increase of roughly 100bp, which would give a target price for the stock above HUF 7000.

DCF valuation sensitivity analysis (12-month target price HUF)									
EBITDA-margin	-300bps	-200bps	-150bps	-100bps	-50bps	~	+50bps	+100bps	+150bps
Target price	3075	4062	4567	5061	5564	**6050**	6531	7034	7533

~Level of 2020
~Implied expectations based on current share price
~Level of 2021
OTP's expectation
~with the management's EBITDA forecast

4, In the company's most dominant segment, thermal insulation systems, the forecast of growth dynamics is subject to greater uncertainties. While the rapid deterioration of the macro environment is a downside risk, high energy prices are reinforcing the importance of increasing energy efficiency, which could provide a strong tailwind for the insulation market. If the segment is expected to grow at a CAGR of only ~2% between 2023-26, similar to other construction segments in our estimates, the target price will fall slightly below HUF 5000. However, the current share price level of around 4,000 forints would be consistent with an 8% annual average revenue decline in the segment, which we consider a rather pessimistic scenario. In addition, should additional subsidy schemes to increase energy efficiency be introduced to a sufficient extent, this could even give the segment's revenues a higher momentum, which could lift the share price above HUF 7000 in an optimistic scenario.

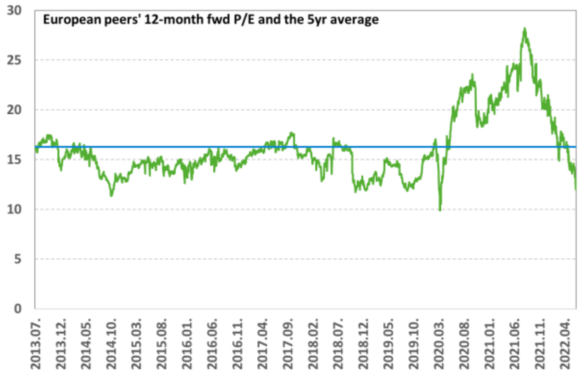
DCF valuation sensitivity analysis (12-month target price HUF)								
Thermal insulation system revenue growth (2023-26 CAGR)	-8%	-3%	2%	7%	**12%**	17%	22%	27%
Target price	4151	4525	4962	5468	**6050**	6715	7470	8322

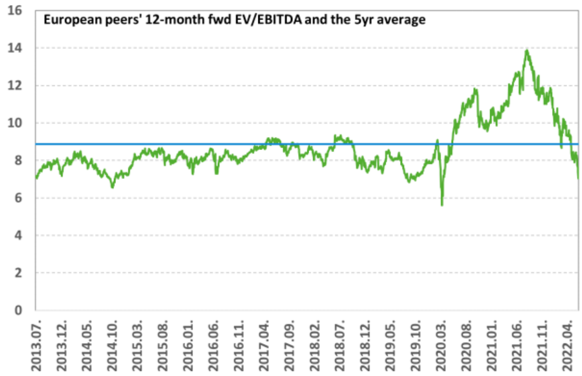
~current pricing, consistent with deep, long lasting recessionary period
OTP's expectation
~further subsidies to increase energy efficiency
~with growth expectations at other construction related segments

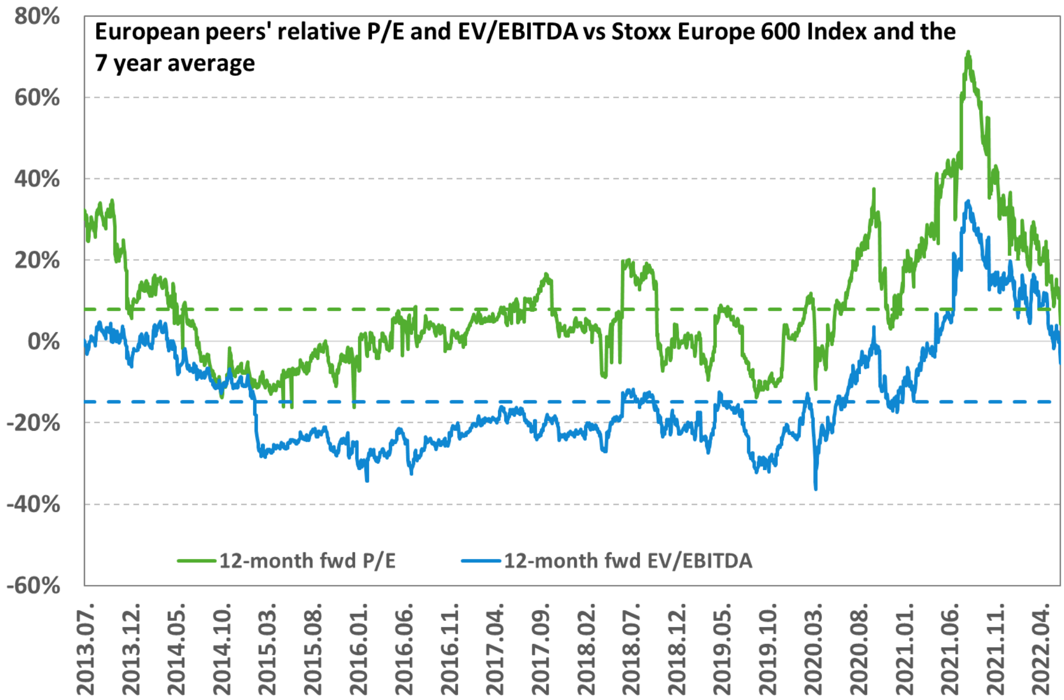
Peer group analysis

The company was compared to its sector peers using P/E and EV/EBITDA ratios. The competitors typically have a European or global presence and a significant part of their activities is related to insulation, roofing foils and other building materials.

The 12-month forward average valuation of companies in the sector (P/E: 11.8 and EV/EBITDA: 6.9) rose significantly following the coronavirus outbreak, with the average P/E multiple of sector peers nearly 30 times at the peak in 2021, but EV/EBITDA also jumped to nearly 14. However, the sharp rise was followed by a similarly rapid collapse, and since then the sector's stocks have been trading below its 5-year average (P/E: 16.25 and EV/EBITDA: 8.85). Compared to the European Stoxx 600 index, the sector as a whole typically/historically trades at a premium of 8% on a P/E basis and at a discount of around 15% on an EV/EBITDA basis. Following a price fall in recent months, the sector's shares are currently trading at a premium of only 3% on a P/E basis and a discount of around 9% on an EV/EBITDA basis compared to the broader European equity market. Overall, therefore, the sector's valuation has strongly normalised in recent months, returning to long-term average valuations.





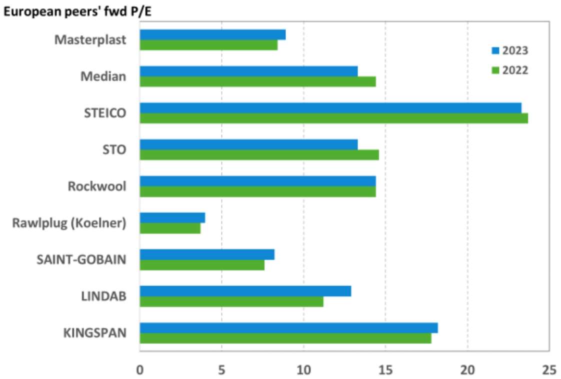


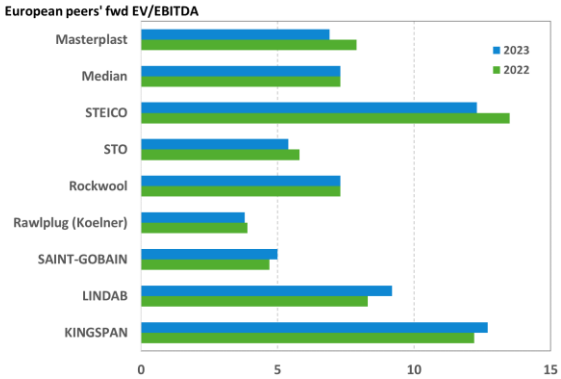
Source: Bloomberg, OTP Multi-Asset Strategies

On a forward P/E basis, Masterplast is significantly cheaper compared to the median average multiples of its sector peers (2022: 8.4 vs 14.4, 2023: 8.9 vs 13.3), but on an EV/EBITDA basis, the company is slightly more expensive compared to its peers (2022: 7.9 vs 7.3, 2023: 6.9 vs 7.3). It is worth noting, however, that there is a wide variance in both multiples across sectors, with EV/EBITDA ranging from 3.9-13.5 and P/E ranging from 3.7-23.7.

Masterplast's indebtedness (net debt /EBITDA) is significantly higher than its peers in the sector, although this is not particularly surprising for a rapidly expanding and growing company. The average growth in revenue, EBITDA and net profit expected for the company in 2021-23 is also outstanding and could be well above the sector peers' average, which could also justify the higher pricing multiples. However, the EBITDA margin is relatively more modest compared to the peer average (11.9% in 2021 vs. 18.9% in 2021).

Overall, Masterplast is not expensive relative to the peer group median valuations, and in fact, on a P/E basis, the stock is significantly underpriced. And following the recent fall, the sector is no longer overvalued, at least relative to the broader European equity market and historical averages. Masterplast's debt is relatively higher, but this is coupled with an exceptionally high growth rate, well above the average of its sector peers.





Name	EBITDA growth (CAGR 2021-23)	Net profit growth (CAGR 2021-23)	EV/EBITDA 2022	EV/EBITDA 2023	P/E 2022	P/E 2023
KINGSPAN	16,0%	18,4%	12,2	12,7	17,8	18,2
LINDAB	25,7%	29,6%	8,3	9,2	11,2	12,9
SAINT-GOBAIN	-2,2%	8,8%	4,7	5,0	7,6	8,2
Rawlplug (Koelner)	32,3%	53,4%	3,9	3,8	3,7	4,0
Rockwool	12,0%	14,8%	7,3	7,3	14,4	14,4
STO	1,9%	1,6%	5,8	5,4	14,6	13,3
STEICO	25,2%	38,3%	13,5	12,3	23,7	23,3
Sector median	**16,0%**	**18,4%**	**7,3**	**7,3**	**14,4**	**13,3**
Masterplast	**42,9%**	**51,5%**	**7,9**	**6,9**	**8,4**	**8,9**

Source: Bloomberg, OTP Multi-Asset Strategies

Name	Country	Price (Local Currency)	Market Cap (m EUR)	Net Debt/EBITDA (2022)	Sales growth (CAGR 2021-23)	EBITDA margin 2021	EBITDA margin 2022
KINGSPAN	IRELAND	62,64	11380	0,90	20,9%	13,8%	12,7%
LINDAB	SWEDEN	167,6	1266	0,74	12,8%	20,4%	16,4%
SAINT-GOBAIN	FRANCE	46	23923	1,05	9,6%	14,9%	13,9%
Rawlplug (Koelner)	POLAND	14,15	99	1,41	20,8%	19,6%	16,3%
Rockwool	DENMARK	1889	5408	-0,10	14,8%	19,5%	18,6%
STO	GERMANY	170	1166	-0,73	7,5%	12,1%	10,7%
STEICO	GERMANY	85,8	1208	0,91	19,3%	23,5%	20,6%
ETEX	BELGIUM	19,5	1615	-	-	18,3%	-
Sector median			**1441**	**0,90**	**14,8%**	**18,9%**	**16,3%**
Masterplast	**HUNGARY**	**3930**	**144**	**2,74**	**29,0%**	**11,9%**	**11,8%**

Source: Bloomberg, OTP Multi-Asset Strategies

Source: Bloomberg, OTP Multi-Asset Strategies

Risks

Macroeconomic environment: the company is primarily active in the pro-cyclical construction industry, which typically performs well under favourable economic conditions, but activity can decline significantly during recessionary periods. A downturn in construction activity means fewer new homes, which also has a negative impact on insulation demand. The recent sharp spike in European energy prices and the Russian-Ukrainian conflict and related sanctions are placing a heavy economic burden on the individual countries. Overall, this could lead to lower GDP growth or even a recession, which would also worsen the outlook for the construction industry.

Interest rate environment: a number of central banks have taken steps towards a tighter monetary policy and significantly raised rates to fight inflation. It cannot be clearly stated at this point that inflation is on a downward path, and in some countries it may not even have peaked yet. In Hungary, for example, the annual rate of inflation in July was 13.7%, while core inflation reached 16.7%. Depending on the path of inflation, there could be further central bank tightening, which would mean higher financing costs for companies and higher borrowing costs for consumers, discouraging construction related investments.

Availability of grants and schemes: in recent years, a number of state grants have been available both domestically and abroad, mainly to help people build, buy or renovate a home. In Hungary, these include the simple CSOK, the falusi CSOK, the 5% housing tax, the Home Renovation Support and the NHP Green Home Program. Among these, there is no deadline for the simple CSOK and the application of the reduced VAT rate for new builds has been extended. It is not clear, however, what will be the fate of the other programmes, and if they will expire, whether new state programmes will be launched in 2023 or whether a subsidy specifically targeting energy modernisation will be available. In the absence of these it may be more difficult to finance a deep renovation investment requiring several million forints, especially in a steeply rising interest rate environment. Of course, similar considerations apply to foreign demand as well.

Growth risks: the group has recently made a number of capital-intensive investments, including the entry into the healthcare industry, capacity expansions and the establishment of new plants. The company's modular construction business, the Italian EPS and the Szabadka XPS production are all expected to start in 2023. Launching a new product category or business segment, starting in-house production or expanding geographically comes with both opportunities and risks. These include construction and implementation risks, managing the investment and operational costs, attracting skilled labour, accurately forecasting expected demand, finding distribution channels, and so on. In turn, the materialisation of these risk factors can have an impact on future revenue trends, margins and profits.

Foreign exchange rates: the majority of the group's revenue is denominated in the local currency of the country of sale, while expenses may include items other than these. For example, a significant portion of the cost of materials is incurred in euros or dollars. The group prepares its consolidated statements in euros.

Concentration of ownership: the majority of the group is owned by the two co-founders, Dávid Tibor and Balázs Ács, who together hold 58% of the shares. The high ratio of founder ownership entails the risk that the interests of small investors may be neglected. Furthermore, the reduction or sale of their stake for any reason could have an impact on the share price, possibly sending a negative message to investors.

Increase in raw material prices: there has been a significant increase in raw material prices recently, resulting in higher purchase prices and increased production costs. In order to remain profitable, it is therefore necessary to pass on these cost increases to consumers and partners, which is not always easy (e.g. contractual obligations). In addition, higher prices, if cost pass-through is possible, may lead to weaker consumer demand.

In-house production risks: producing certain items in-house in the company’s own plants typically entail significantly higher risk than if they were simply purchased ready for resale by the group. There can be plant accidents, production equipment can break down, fixed cost ratios can become higher (operating leverage). And manufacturing bases are geographically fixed, so they are more exposed to regulatory risks, natural disasters or even armed conflicts.

New products and business segments: this could be also included under growth risks, but it is worth mentioning as a separate category. The production of a new product or the launch of an entirely new business segment is associated with even greater uncertainty than "simple" growth (e.g. volume expansion of known products). Potential consumers may be averse to the new product, it may be even more difficult to gauge real demand, it may take longer to develop an optimal production process or other unexpected problems may arise.

Ukraine: the company conducts business operations through its subsidiaries in Ukraine, where activities have been disrupted given the Russia-Ukraine conflict. The Ukrainian business had a 5.5% revenue share last year, which has fallen to 2.3% over the first half of 2022. There was a slow recovery following the initial shutdown in March, but further disruptions are possible.

Low liquidity: Masterplast is a mid-cap company, which is traded on the Budapest Stock Exchange and has a relatively low level of public float of 36,83%. The majority of the remaining stocks are owned by the co-founders, Dávid Tibor and Balázs Ács. The stock is less liquid (HUF 63m average daily turnover) as a consequence and significant price volatility is possible.

Business activities

Masterplast was founded in 1997 and its core business is the manufacture and sale of insulation materials and insulation systems for the building industry, as well as sanitary textiles and hygiene products. The group operates wholly-owned subsidiaries in 10 European countries, where it operates several different production units on 7 sites.

Sales can be broken down into six main product groups as follows:

Thermal insulation systems: this includes fiberglass mesh, EPS (expanded polystyrene) products, XPS and rock wool based insulation elements, as well as adhesives and coloured renders used to reinforce thermal insulation systems and plasters. The use of thermal insulation systems offers significant energy cost savings and helps to meet the increasingly stringent European energy requirements.

Roofing foils and accessories: the product range includes vapour diffusion permeable, vapour barrier and traditional foils and accessories.

Dry construction system: mainly includes different types of plasterboards used as sheathing material for fitted partition walls, suspended ceilings, front walls, loft divisions, as well as dry plastering. Also included are drywall accessories, plasters, screws and profiles.

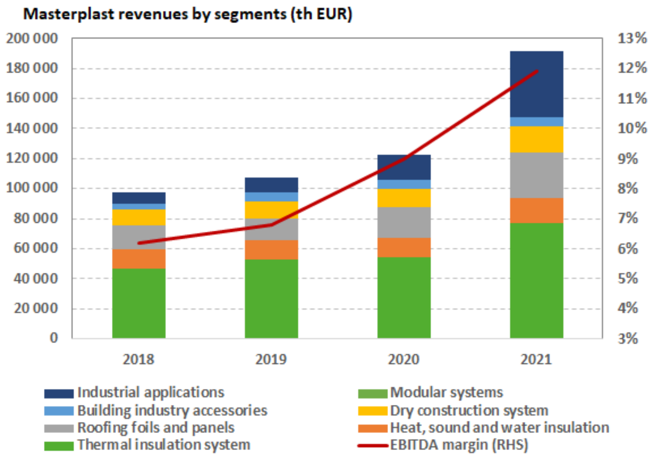
Heat, sound and water insulation materials: the group offers a wide range of EPS and XPS products, as well as glass wool, mineral wool and foamed polyethylene insulation materials in a broad range of types and sizes, mainly used for insulation works inside buildings (e.g. insulation layer under parquet flooring). Waterproofing product solutions ensure drainage of water around the building and protection of the insulation.

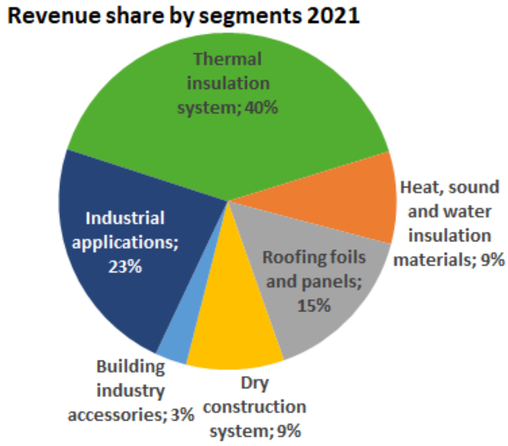
Building industry accessories: includes plastering profiles, geotextiles, fiberglass mesh, adhesives, foils and bags and woodwool amonhg other products.

Industrial applications: this segment includes products related to the healthcare business: special nonwoven fabrics, medical protective clothing for pandemic protection, masks, supply of raw materials for manufacturers of other hygiene equipment used in healthcare, finished healthcare products and hygiene textiles. Products for packaging and processing applications, such as foam foil and floor underlays, are also located here.

In recent years, healthcare products have accounted for a very significant share of revenue growth due to pandemic control. The industrial applications segment thus posted an average annual revenue growth of 67% in 2018-21 (vs a group-wide CAGR of 23%), but this also includes the positive impact of a number of one-off items. The segment's weight in revenues has thus increased from below 10% in the previous year to 23% in 2021, but with the one-offs out, its weight as % of revenues may also decrease in the future. Sales of healthcare materials are less sensitive to economic cycles and are sold at substantially higher prices, which played a big role in the company's EBITDA margin doubling from 6.2% in 2018 to 11.9% (the increase of the share of in-house production helped as well).

The largest share of revenues, however, is accounted for by the much more cyclical sales of construction-related products. Within this, thermal insulation systems have accounted for 40-50% in recent years, roofing foils and panels have accounted for around 15% (the acquisition in Germany playing an important role here), while heat, sound and water insulation materials have accounted for around 10%. In a favourable cyclical environment, each segment grew at an average annual rate of around 13-20% between 2018 and 2021, with revenue increasing despite the covid induced recession in 2020, but stagnating in years with prolonged weak economic growth (2011-15).





Source: Masterplast, OTP Multi-Asset Strategies

Wholesale Business

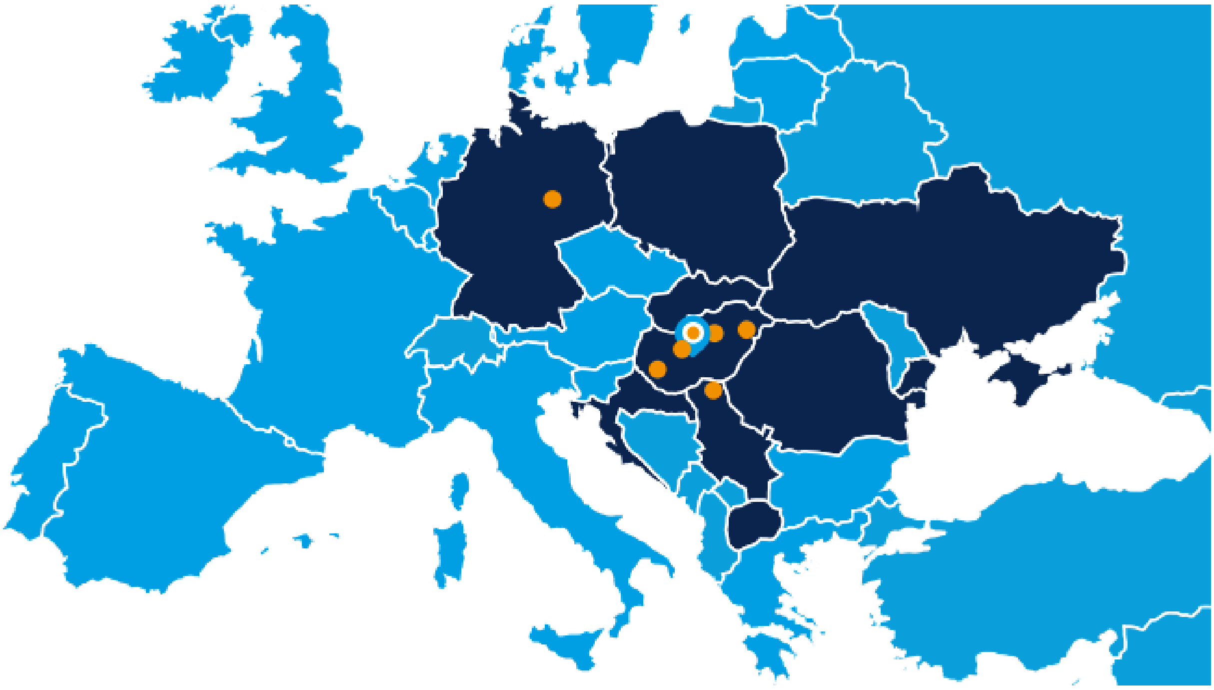
Masterplast started its operations as a distributor and although in-house manufacturing steadily takes a bigger slice of revenues along the strategic plans, wholesale still accounts for around half of that. The group's sales strategy is to serve end users (individuals and contractors) indirectly through its business partners rather than directly, in such a way that they are present in all segments of the building materials business. Following a business-to-business strategy, the company has built up a large and stable network of customers in the Central and Eastern European region in recent years, with more than 4 000 partners, which it serves through a large sales network of its own.

The partners can be segmented according to their type of activity and area as follows:

- Traditional partners (building material retailers, timber merchants, paint and DIY stores, and in recent years, to a greater extent, online stores).
- Individual dealer network (a network of partners exclusively distributing the group's products in the group's product groups).
- Procurement companies.
- DIY stores, international chains.
- Suppliers with whom the Group has reciprocal commercial activities.

The company operates in a fragmented market with many players, but the network of partners it has built up over the past few years is significant, which is also an advantage in terms of sales. Masterplast offers them a fast and reliable service, backed up by an efficient delivery system, largely thanks to its own logistics, and a constant stock of goods thanks to its warehousing capacity. The company tends to order larger quantities of stock from suppliers at a time (up to several months in advance), which both generates lower costs and has enabled it to serve its partners reliably, even in times of supply chain problems, thus further strengthening its market position. Strengthening professional competence and thus achieving expert status is a priority, while in the product areas, a broad product range and an evolving manufacturing background can mean increasing competitiveness. For partners, the good value for money, the stable quality of the products and the certifications that the company provides are of particular importance, thus strengthening its position.

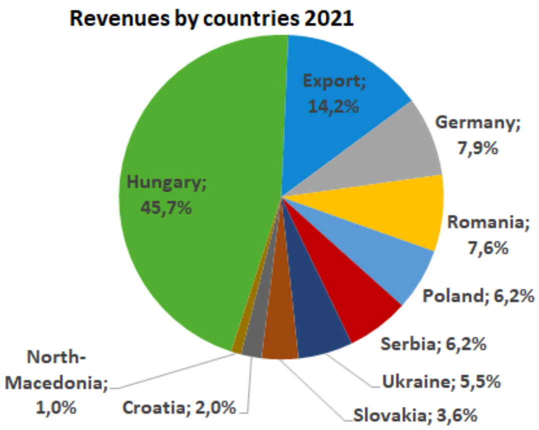
Masterplast typically operates wholly owned subsidiaries with local offices in countries with a higher proportion of sales. The business model is decentralised, which means that the management of the subsidiaries can pursue specific sales policies in response to local, country-specific needs. In 2021, 46% of revenues were generated in Hungary, one-off revenues in the healthcare segment significantly contributed to that, but domestic sales have typically dominated in previous years as well with a share of around 20-25%. The Hungarian market is supplied and serviced by **Masterplast Hungária Kft (100%)**, which distributes the group's full range of products and maintains a sufficiently large stock. The subsidiary is based in Sárszentmihály, which also serves as the company's headquarters, and uses its own logistics fleet to provide the majority of its services to its partners.

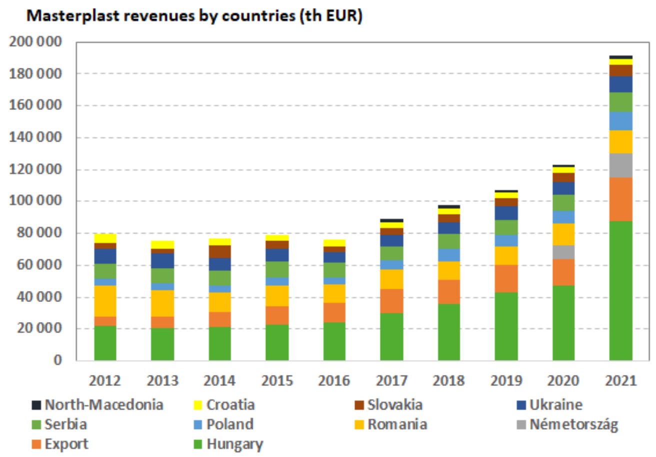


Source: Masterplast

The company is also present with its full product portfolio in Romania, Croatia, Slovakia and Serbia. Serbia accounted for 6.2% of 2021 revenues, with **Masterplast YU D.o.o. (100%)** operating in the local market, which is the largest subsidiary of the group thanks to its own production facility. Its main activity is serving the Serbian market from its production site in Szabadka and providing exports to neighbouring countries (Montenegro, Kosovo). The logistics service for sales in Serbia is largely provided by the company's own fleet. **Masterplast Romania S.R.L (100%)** has a partner base covering the whole country, with a share of 7.6% in total revenues last year. Its sales activities are organised on a regional basis, with customers being served from two company-owned work centres (Nagyvárad and Bucharest), largely with its own logistics facilities. The Slovakian **Masterplast S.r.o (100%)** serves its partners in Slovakia from its own headquarters in Diószeg and a leased workstation in Eperjes (provided 3.6% of revenues in 2021) and exports to the southern regions of the Czech Republic, close to Slovakia, while **Masterplast d.o.o (100%)** serves the Croatian market from Dályok partly with its own logistics assets, contributing 2% of last year's revenues.

The main activity of **Masterplast International Kft. (100%)** is to serve export partners (which accounted for 14% of total revenues last year) and to supply materials for the group's subsidiaries. It has sales partners in almost all European countries, mainly in the field of thermal insulation systems and roofing foils. The partners are typically served by external fleets. The company supplies its affiliated subsidiaries mainly with its own fleet, from its headquarters in Sárszentmihály. The Polish **Masterplast Sp zoo (80.04%)** sells from a single point of sale covering the whole country (6.2% of revenue in 2021), the company is headquartered in Rokietnica near Poznan, and uses partly its own logistical background and partly external logistics providers to serve its partners. The Ukrainian subsidiary **Masterplast TOV (80%)** is headquartered in Ungvár and owns its own logistics fleet. Following the escalation of the Russia-Ukraine situation, sales have shifted from the east to the west of the country (and the share of Ukrainian revenues has fallen from 5.5% last year to 2.3% in the first half of this year), with a slow recovery from the initial shutdown in March, with buyers paying in advance and stocks being repriced daily. **Masterplast D.O.O (indirectly 90%)** in North Macedonia serves customers from a single workpoint on its own property, with its own logistics fleet, contributing just 1% of revenue.

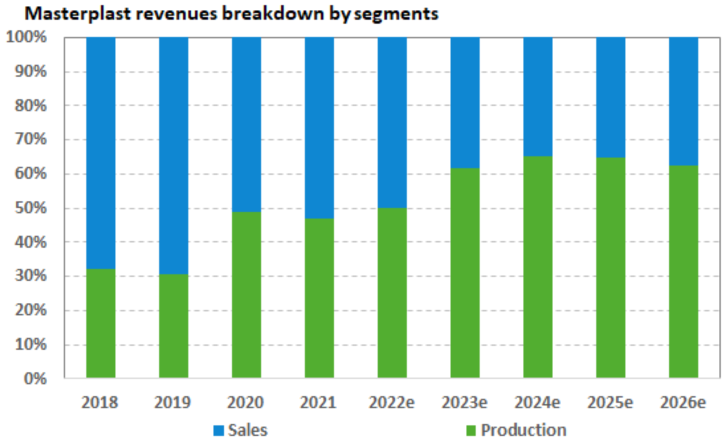




Source: Masterplast, OTP Multi-Asset Strategies

In-house production

Masterplast's strategic goals include a strong emphasis on covering as wide a range of products as possible as part of its in-house production, the importance of which has been reinforced by the supply chain issues of recent years. Significant progress has already been made, the share of in-house production increased from around 30% in 2017-19 to almost 50% by the end of 2021. In addition, investments announced in the last two years will further increase the share of in-house production, so it is possible that the 65% level, originally planned for 2030, could be reached earlier.



Source: Masterplast, OTP Multi-Asset Strategies

Thanks to the in-house production the company is able to meet the needs of its partners in a timely manner, which can be a competitive advantage, and it also allows Masterplast to offer a more stable quality standard. Having built up a significant network of partners over the years, this provides Masterplast with a stable market for its products, even if the factories are operating at full capacity. Currently, the factories are operating at maximum capacity, new shifts have been introduced in Serbia due to increased demand, but the factories were also operating at maximum capacity in the years prior to the exceptional situation of the last 3 years.

Source: Masterplast, January of 2022

Kál production base, Masterfoam Kft. (100%), Masterprofil Kft. (20%): production started in 2005 at Masterplast's first production base in Kál, where mainly polyethylene foam products are manufactured and processed using modern technology. In 2018, a new foam production line capable of producing high-quality products was launched within the unit, which doubled the capacity. The production units, which manufacture polyethylene foam and drywall profiles, operate under ISO9001 and ISO14001 TÜV quality assurance. Products include a variety of roll and slab foam foils and floor underlays, which provide sound and thermal insulation, among other things. **Masterprofil Kft.**, a 20% owned company, carries out plasterboard profile manufacturing activities at the site, supplying products to the group's subsidiaries. The products manufactured at Kál are used in the construction and packaging industries (e.g. physical protection of products), with a production and warehouse area of over 5,500 square metres. The products are partly sold within the group, but the company also sells its own products to third parties, both nationally and internationally. A significant proportion of the external customer base is in the packaging industry, but the company no longer sees much long-term potential in this segment, given the growing environmental awareness. As the demand for thermal insulation products may be stronger, the factory will be transformed by replacing the existing foam foil machinery – using the proceeds from that - with a new polystyrene (Hungarocell) production unit as part of a 2.1 million euro investment (to be carried out in 2022H2). This will mean an output of 300,000 cubic metres per year, increasing capacity by 40%. With experience in producing these products, production could already start in the first quarter of 2023 to serve the Hungarian and Slovakian markets (for EPS products, the efficient transport radius is 100-200 km), and the ramp-up of the plant could be rapid and within a year.

Szabadka manufacturing base, Masterplast YU D.o.o. (100%) and Masterplast Proizvodnja D.o.o. (100%): the largest unit in the group by headcount, where unit labour costs are also more favourable than in Hungary. In 2008, EPS polystyrene production started, and from 2015, following investments in production development, a fiberglass mesh production unit was established using traditional and state-of-the-art automated German technology, which, with a capacity of 100 million square metres, has made Masterplast the 3rd largest producer in Europe. The EPS production provides products for the Serbian, Croatian and Hungarian markets, while the mesh edge protection and fiberglass mesh factory products are mainly targeted at EU countries. The logistics services for sales in Serbia are largely provided by the company's own fleet. The group's second Serbian subsidiary, **Masterplast Proizvodnja D.o.o.**, is building a 3,600 square metre plant for the production of XPS-based thermal insulation material as part of a greenfield investment, with a planned annual capacity of 200,000 cubic metres. The plant will also include the construction of a 2,000 square metres warehouse and an open-air warehouse of almost 6,000 square metres. The investment is worth HUF 5.05 billion and will be financed by the company's own resources and using 50% non-refundable state aid under the HEPA programme (the majority part of this, 95%, will be ex-post financed). Production at the new plant is expected to start from the beginning of 2023 and, as the company has no practical experience with XPS production units, ramp-up could take up to 2-3 years.

Italian manufacturing base, Masterplast Italia (51%): announced in spring 2022, Masterplast is building a factory in Italy with 51% ownership share, the co-founders of the subsidiary are individuals with extensive experience and business connections in the local building materials market. The new company was established to trade insulation materials in Italy, but following the launch of the trading subsidiary, the group also starts a new greenfield EPS-based insulation material production site in Reggio Emilia province. The investment includes the purchase of the plant hall and site and the acquisition of the production technology. According to plans the investment is worth 4.5 million euro, with output of the new production unit expected to exceed 300,000 cubic metres and production expected to start in the first half of 2023, from which a rapid ramp-up is expected as the company already has experience in manufacturing the product.

Production sites in Aschersleben and Sárszentmihály, Masterplast Nonwoven GmbH (100%), Masterplast Medical Kft. (100%): the group produces medical (nonwoven) base textiles and finished products in two European plants. One of these is a plant in Aschersleben, Germany, which was acquired in two tranches in March 2020 and the remaining 50% in October 2021. All rights and obligations related to the business unit were transferred, including real estate, inventory, customer and supplier contracts, production machinery, professional staff and rights to certain intellectual properties (e.g. trademarks). The business unit's main activity is the production of diffusion foils and industrial membranes for the construction industry and, prior to the acquisition, it was a supplier to Masterplast in the roofing foils segment. The plant was acquired with good timing before a substantial recovery in demand for healthcare materials (for which the technology can be flexibly adapted) and this also helped to gain a foothold in an important Western European market with available in-house production. In the wake of the pandemic, the factory turned to the production of specialty nonwoven fabrics and multi-layer membranes with a significantly higher margin than construction products, which generated significant revenue growth as well (industrial applications segment). However, as the virus subsided, in the first half of 2022, the production of healthcare materials declined (50% revenue decline in the industrial applications segment) and the share of roofing foils production returned to pre-pandemic levels. The company brought home the know-how of the German factory when it started to build a 7,700 square metre plant in Sárszentmihály in December 2020 as part of a HUF 9.5 billion investment (for which it received 80% non-refundable subsidies), which produces nonwoven fabrics in a highly automated way, which are used as raw material for medical protective equipment, visitor capes, bed linen and blankets, among other things. The factory produces 7,000 tonnes of nonwoven fabrics per year with a headcount of 50 and started operations in summer 2021, but sales to the healthcare sector are expected to ramp up from late 2022 to 2023, once the necessary certifications are obtained. In March 2021, the company launched a new investment in Sárszentmihály, which will help it enter the market for finished healthcare products (such as protective overalls, medical capes, slings, leg bags, headgear and isolation sheets), thus creating an integrated manufacturing capability in this segment. The HUF 2.59 bn investment is also implemented with a significant 80% aid intensity. The ramp-up of production could start in 2023, following the acquisition of certificates and licences for the products, under the Masterplast MEDICAL brand.

Other manufacturing bases, Fidelis Bau Kft. (100%), T-CELL Plasztik Kft. (24%): Masterplast acquired 100% of Fidelis Bau through a sale and purchase agreement concluded in 2020 for a total purchase price of HUF 114.8 million. The company, founded in 2002, is a former supplier of Masterplast and a producer of "Thermobeton", a lightweight insulating concrete made from recycled raw materials. The company has the necessary official permits for the collection, transport and processing of polystyrene waste, as well as the production technology. T-CELL's main activity is the production of polystyrene, and it produces EPS insulation material in Hungary at two plants, in Hajdúszoboszló and Zalaegerszeg. Its products are sold on the Hungarian market, where it has a market share of more than 10%.

Masterplast Modulhouse Kft. (100%): a key part of the company's strategy is to launch the production of modular residential and non-residential buildings. A wide range of building types can be produced from standard building modules (residential, holiday home, office, changing room, work shelter, medical clinic, gym or even catering unit) under factory conditions, after which the on-site implementation is very fast and with low labour requirements compared to conventional construction. The quality of the modular units, essentially built around a steel structure, is substantially better than that of container houses. Modular construction has a significant cost advantage over conventional construction, the technology is already well known and accepted in Western European countries, and growth prospects are strong. Masterplast uses proprietary technologies developed by an in-house engineering team and has the adequate supplier and manufacturing background. The company is renting a hall near Székesfehérvár, where mass production could start in 2023, with a sales volume of 500 units (~10 million euros in revenue). There is no serious competition from manufacturers in the local market, the planned sales volumes are based on the company's market inquiries, and there may be export opportunities to Slovakia, the Czech Republic and Romania in addition to the Hungarian market. The investment needs of the plant are relatively low, while the labour requirements of the operation are higher (although still much lower than for traditional construction), but given the shortage of skilled workers in the construction industry the company would aim to reach a level of automation where skilled workers could carry out certain operations without specialists. The modular housing segment would represent a higher added value, with higher margins than construction products (although somewhat lower than in the healthcare segment).

Details about announced investments (production segment) in the last 3 years						
Place	Announcement	Product/other	Capacity	Production launch/consolidation	Investment value	Nonrepayabla grant's share
Sárszentmihály	2019. Dec	diffusion membranes	30 million m2/year	2020 Q2	EUR 1.3 m	34%
Aschersleben (50%)	2020. March	single layer nonwoven Spunbond nonwoven laminates (2-3 layers)	6000 t/year 8000 t/year	2020 Q2	-	0%
Fidelis Bau	2020. July	Thermobeton	-	2020 Q3	HUF 100-120 m	0%
Hungary	2020. July	logistics and infrastr. development	-		HUF 565 m	50%
Sárszentmihály	2020. Dec	flíz gyártó technológia telepítése	7000 t/year	2021 Q2	HUF 9.5 bn	80%
Szabadka	2021. Jan	Üvegszövet gyártás	150 million m2	2022 Q1	EUR 7.6	39%
Sárszentmihály	2021. March	egészségügyi késztermék	n.a.	2021 Q3	HUF 2.6 bn	80%
Aschersleben (50%)	2021. Sept	~	~	2021 Q3	-	0%
Announced investments, production will start in 2023						
Szabadka	2021. June	XPS+ raktárépületek	200 th m3/year	2023 Q1	HUF 5 bn	50%
~Sárszentmihály	2022. Jan	Modular construction	500 items 2023	2023 Q1	~EUR 1m	0%
Italy	2022. Apr	EPS	300 th m3/year	2023 H1	EUR 4.5 m	n.a.
Kál	2022. July	Hungarocell	300 th m3/year	2023 Q1	EUR 2.1 m	0%

Source: Masterplast, OTP Multi-Asset Strategies

Strategic plans

Building on its strong wholesale distribution experience, the company aims to strengthen and further expand its own manufacturing capabilities in strategic products, in order to develop efficient processes with a higher degree of automation, while improving quality and competitiveness. The strategy is based on three main segments:

- In the construction segment, the main focus is on the production of insulation materials and insulation system components, where not only greenfield investments but also acquisition growth are being considered.
- The production of modular buildings is a relatively new segment with high growth opportunities in the region, where the company is launching mass production through a greenfield investment.
- In response to the growing demand for single-use hygiene textiles in the healthcare segment, the company has an integrated operating model that includes raw material production and finished product manufacturing and recycling.

The company forecasts substantial growth in the medium term (expectations were set in January 2022, before the escalation of the Russian-Ukrainian situation), reflecting the impact of the investments announced in recent years (EPS production plant in Kál and Italy, XPS plant in Szabadka, modular production, finished healthcare product) in the strategically prioritised segments. Sales should increase by an annual average of 17% and the EBITDA margin is expected to improve as the share of own production increases, resulting in a 22% CAGR in EBITDA and 19% CAGR in profit after tax, according to management forecasts.

Management guidance	2021 fact	2022e	2023e	2024e	Average
Sales revenues (million euros)	191	215	255	305	
yoy change		*12%*	*19%*	*20%*	17%
EBITDA (million euros)	22,8	26,6	33,4	40,9	
yoy change		*17%*	*26%*	*22%*	22%
Profit after tax (million euros)	15,9	16,5	21	26,5	
yoy change		*4%*	*27%*	*26%*	19%
EBITDA margin (%)	11,9	12,4	13,1	13,4	13,0
Profit after tax margin (%)	8,3	7,7	8,2	8,7	8,2
EPS (euros/share)	1,09	1,13	1,44	1,81	
Dividends paid (forint/share)	55	66	77	88	

Source: Masterplast, OTP Multi-Asset Strategies

The company has been able to meet longer-term forecasts made at investor days in recent years. The market environment was supportive in both 2018 and 2019, but the company faced negative impacts from the covid virus in 2020, supply chain issues in 2021 and a significant increase in raw material prices and a decline in local sales due to the Russian-Ukrainian conflict in 2022, but managed these obstacles very well, which was also due to a good strategic focus.

Management revenues guidance vs actual revenues (m EUR)	2018	2019	2020	2021
Reported revenues	**97,3**	**107,1**	**122,7**	**191,5**
Guidance at Dec. of 2017	93,2			
Fact/expected	*4%*			
Guidance at Dec. of 2018		107	115	124
Fact/expected		*0%*	*7%*	*54%*
Guidance at Dec. of 2019			117	125
Fact/expected			*5%*	*53%*
Guidance at Jan. of 2021				151
Fact/expected				*27%*

Management EBITDA guidance vs actual EBITDA (m EUR)	2018	2019	2020	2021
Reported EBITDA	**6,0**	**7,3**	**11,1**	**22,8**
Guidance at Dec. of 2017	6,1			
Fact/expected	*-1%*			
Guidance at Dec. of 2018		7,3	8,4	9,5
Fact/expected		*0%*	*32%*	*140%*
Guidance at Dec. of 2019			8,4	9,5
Fact/expected			*32%*	*140%*
Guidance at Jan. of 2021				16,9
Fact/expected				*35%*

Source: Masterplast, OTP Multi-Asset Strategies

External environment

The segments that define the strategic time horizon (construction, healthcare products and modular buildings) have different characteristics, so it is worth examining the impact of the external environment on them separately.

I. Construction materials

The production and sales of insulation and other building materials, which are the main products of the company, are significantly affected by the external economic environment. The outlook of building materials and ancillary products is mainly related to the construction activity of new buildings, while the sales of insulation materials (mainly thermal insulation) is related to both the new construction and renovation markets.

New build properties

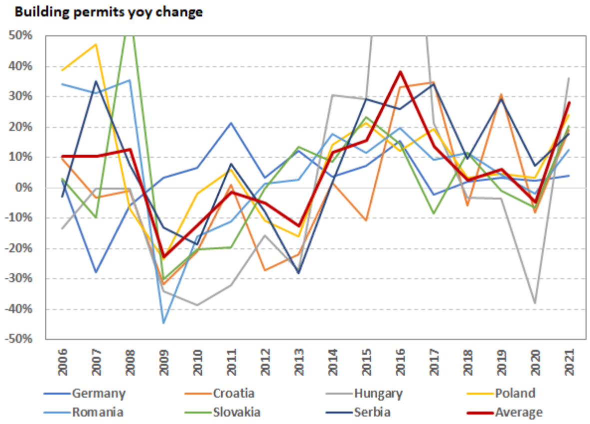
Housing is the largest asset of value for the average household and typically involves a significant amount of borrowing, making housing demand highly sensitive to real income developments, labour market uncertainty and credit supply, and therefore one of the most cyclical sectors. In Hungary, which is Masterplast's largest market, the macroeconomic environment (along with other regional countries covered) and economic policies have been very supportive of the housing market over the past 6-7 years. In addition to a very loose monetary policy, which kept nominal and then very low real interest rates negative, the government introduced more and more stimulus measures and subsidised credit schemes to stimulate housing demand, such as:

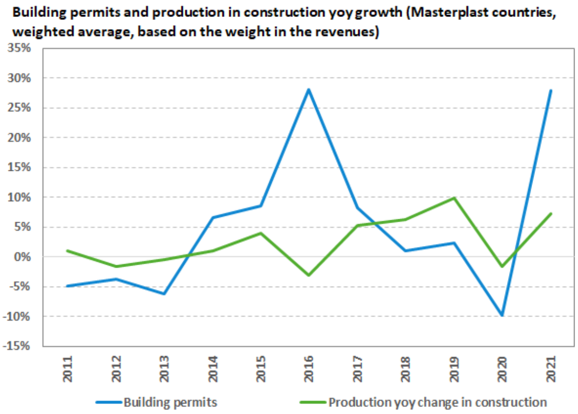
- **CSOK:** Originally, it was available from 1 July 2015, with a number of changes introduced with the amendment effective from 1 July 2019. The CSOK is a non-refundable subsidy for the purchase or construction of a new dwelling and for the purchase or extension of a second-hand dwelling for families with 2 or more children. The program does **not have an expiry date, and the government may keep it running** despite the already announced budget deficit cut measures.
- **Falusi CSOK:** can be applied for in settlements with a population of up to 5,000 inhabitants. The benefit can be used for the purchase and modernisation/expansion of a second-hand dwelling or house (50-50%) or for the modernisation/expansion of an existing property. The deadline for applying for the Falusi CSOK was extended in the summer to 31 December 2022, which means that **the scheme is expected to expire this year.**
- **Otthonteremtési Program (5%-os ÁFA):** the purchase of a property is subject to a reduced 5% VAT until **31 December 2024, the new deadline was extended** in the summer months, after it was originally due to expire at the end of this year.
- **Otthonfelújítási támogatás:** From 1 January 2021, a maximum of HUF 3 million, up to 50% of the renovation amount, is available as a subsidy for those with children under 25 years of age in their own property. **The aid can be applied for until 31 December 2022, after which it will expire.**
- **NHP Zöld Otthon Program:** Through the programme, the MNB provides a favourable loan at a fixed interest rate of 2.5% to help households purchase and build energy-efficient new homes (with an energy rating of at least BB) up to a maximum loan amount of HUF 70 million. In terms of loan applications, the programme is already practically full at banks and essentially no new applications are being accepted. The continuation is uncertain, with MNB Vice-President Csaba Kandrács saying that "the continuation of either the Green Home Programme or the Green Mortgage Certificates depends on the issue of price stability". So, inflation with much above the central bank’s target, **there is a small likelihood, the program will be maintained.**
- **Babaváró Program:** provides financial assistance to couples about to have children, with loans of HUF 1-10 million freely available. The loan is interest-free for the entire term of one child, 30% of the debt is waived for two children, and the entire outstanding debt (not overdue) is waived for three children. **The loan is available until 31 December 2022.**

In addition, beyond specific housing market subsidies, economic policy in the few years before Covid started to behave in a clearly pro-cyclical way, i.e. it intensified the upward economic cycle, leading to a strong tightening in the labour market and thus to significant wage increases. In this respect, 2022 could be the last really good year, as a number of subsidies and subsidised credit schemes are still running this year, and in addition, the income tax rebate in the beginning of this year, the significant minimum wage increase and the wage increases in the public sector promise very high income growth this year.

Looking ahead, however, the environment is clearly changing. Inflation has already accelerated much more than expected, reducing the real value of otherwise very rapid income growth already this year (compared with previous expectations) and forcing the central bank to raise interest rates aggressively, which could lead to a fall in demand for market-priced loans already this year. Another important development is that the real value of previously introduced housing subsidy schemes has been steadily declining in recent years due to the significant increase in house prices, forcing home buyers to supplement e.g. the CSOK subsidy with more and more market-priced loans. It is also important to underline that in a higher interest rate environment, not only the interest expenditure of the budget but also the fiscal cost of the subsidised loan schemes will increase.

Similar trends have been seen in other countries covered by Masterplast in recent years. Both in terms of housing permits and construction output, 2021 has seen a strong increase, with carry-over effects that could even help growth in 2022. Looking ahead, however, there are a number of headwinds, with higher interest rates, skyrocketing inflation and electricity and gas bills, falling real incomes, deteriorating economic growth prospects and the significant house price rises of recent years all pointing to reduced demand for new housing in the coming years.

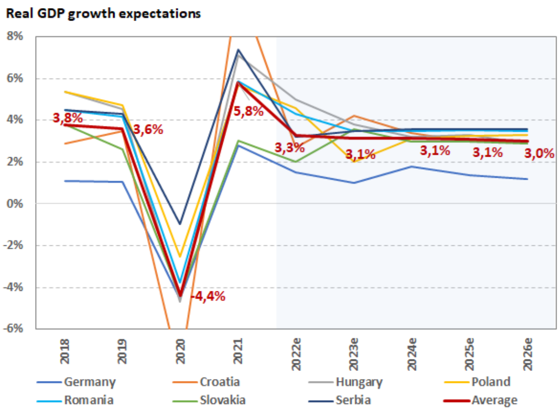


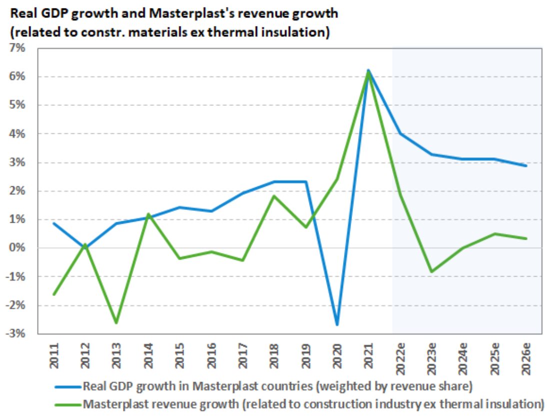


Source: Eurostat, OTP Multi-Asset Strategies

In recent months, analysts' GDP growth expectations for this year and next year have been steadily declining. Growth momentum is also expected to slow in the countries covered by Masterplast, but the consensus is for real GDP growth of around 3% in the coming years. However, there appear to be strong downside risks to this, with recessionary probabilities also very high due to the energy supply problems threatening the region in the winter months.

Compared to GDP growth expectations, we have therefore projected Masterplast's construction segments' revenue growth (excluding the thermal insulation segment) more conservatively in the coming years. Growth of 11% in 2022 (growth of 14% yoy has already been realised in the first half of 2022, and the autumn months are still seasonally stronger) could be followed by a 5% decline in 2023, stagnation in 2024 and then annual growth of 2-3%, which was the dynamic in the period before 2018.





Source: Bloomberg, OTP Multi-Asset Strategies

Renovation market

The segment of thermal insulation systems is treated separately, as in this case the development of the prospects for housing renovation is also an important revenue driver. The macroeconomic environment detailed for the other construction-related products also impacts the revenue generation potential of the segment, which will be basically restrained in the coming years, but there are factors that we believe could offset this impact.

The EU has already formulated a number of directives to reduce energy consumption, one of the key points of which is the energy efficient retrofitting of residential buildings. The EU is also providing dedicated funding to promote energy efficiency, and rising energy bills are likely to accelerate this process in the coming years. The energy use of residential buildings can be significantly reduced by insulating them, and in Hungary, the company's main market, nearly two-thirds of the building stock is not insulated, according to a study in 2020.

The European Union Directives:

One of the European Union's priorities is to tackle the threats posed by climate change. As part of this, a European Green Deal was put forward in 2019, outlining how the EU could become the first climate-neutral continent by 2050, while boosting the economy. To achieve these long-term, costly and ambitious goals, the EU has adopted a number of programmes, strategies and proposals in recent years. Some examples of these are shown below, which may relate to insulation or energy efficiency in buildings:

In October 2020, the European Commission published the "Renovation Wave" program, which aims to at least double the rate of renovation over the next 10 years, which could mean up to 35 million energy-efficient renovated building units by 2030. In the EU, 75% of existing buildings are not considered energy efficient, yet only 1% of them are currently subject to energy efficiency upgrades each year. It is worth noting that 85% of buildings in the EU were built more than 20 years ago and 85-90% of these are expected to be still standing in 2050. The retrofitting programme is therefore also necessary to bring the standards for old and new buildings closer together.

Last summer, the European Commission unveiled the so-called "Fit for 55" package as part of the European Green Deal, which aims to achieve a minimum 55% reduction in emissions by 2030 compared to the 1990 baseline by Member States, by revising existing regulations and introducing new ones. As part of this, it is proposed to increase the energy efficiency target (from 32.5% to 36% of final energy consumption by 2030 compared to the 2007 baseline), which would mean a 1.5% saving at Member

State level in each year from 2024 to 2030, instead of the previous 0.8%. In the public sector, a 3% annual public building renovation obligation would be introduced, and energy efficiency would be taken into account in public procurement. In addition, the Commission has proposed the creation of a Social Climate Fund for the period 2025-2032 as part of the package, which would also support energy efficiency renovation of residential buildings.

Last December, the European Commission proposed introducing minimum energy efficiency standards for the 15% worst performing buildings in Europe, which would be rated "G" on the EU energy efficiency scale, whether residential or not. All commercial or public buildings should be rated at least F by 2027 and E by 2030. The same applies to residential buildings with a 3-year delay.

This year, the European Commission presented the REPowerEU plan, which, among other things, encourages Member States to apply tax measures to promote energy savings, such as reduced VAT rates on energy-efficient heating systems, insulation, appliances and products. The European Commission also encourages the Parliament and Member States to further improve the July 2021 "Fit for 55" package of measures, including by stepping up national energy savings obligation efforts, extending minimum standards for energy efficiency in buildings and strengthening national energy requirements for new buildings.

This trend is not unprecedented, under a scheme introduced in 2020 the Italian government pays 110% of the cost of work on green measures such as insulation, solar panels and replacing boilers. The so-called „Superbonus” initiative is offset against taxes for the next 5 years. The scheme proved to be very popular and it has so far cost the government about 21 billion euro. The package is driving large demand for builders and materials and it pushed up construction prices in the country. Homeowners must pay for the work upfront and they will be reimbursed through taxes over the following year. However, the final deadline for single family homes is December 31, 2022. For work carried out on condominiums and by individuals on buildings consisting of 2-4 separate building units the deadline to access the superbonus is December 31, 2025. However, the amount that can be claimed back drops to 70% for 2024 and 65% for 2025. The bonuses only appy to improvements to existing buildings (not new construction).

Under the revised Energy Performance of Buildings Directive (2018/844), all Member States were required to develop a long-term renovation strategy to support the national stock of private and public buildings to become a highly energy efficient and decarbonised building stock by 2050 through renovation. Accordingly, our country has also prepared its Long-Term Renewal Strategy (HTFS).

However, it is important to see that REPowerEU funds will be channelled into the EU's Recovery and Restructuring Facility (RRF), but Hungary has not yet been able to access these funds due to EU concerns about the rule of law in Hungary and the corrupt allocation of funds. As we are increasingly running behind schedule, it is unlikely that Hungary will be able to access most of the available funds, although some of the funds could still come from here in the event of a positive outcome to the ongoing negotiations (which is also highly uncertain).

Hungary's long-term renovation strategy (study by the Ministry of Technology and Industry):

There are currently more than 3.7 million dwellings in Hungary, with a total floor area of approximately 274 million square metres. In addition, the number of public buildings with a floor area of more than 250 square metres is 24,000, with a total heated floor area of about 50 million square metres. Buildings are among the largest domestic carbon emitters and energy consumers. Around 27% of total final energy use is in residential buildings and 6% in public buildings. There is a particularly high potential for savings in this type of energy use, as Hungary is one of the top 10 energy consumers in the EU in terms of energy consumed per dwelling. Natural gas is the most common fuel, supplying 76% of the residential stock and 80% of the public stock. Although the renewal rate of the building stock is increasing, it is still low, with an annual renewal rate of around 1% for residential buildings.

HTFS's operative targets:

- 20% savings in the energy use of the domestic housing stock by 2030.
- A 60% reduction in carbon dioxide emissions from energy use in buildings by 2040 from the average level in 2018-2020.
- By 2050, the percentage of buildings meeting near-zero energy demand levels reaches 90%.
- For the total stock of residential buildings, a renovation rate of 3% per year by 2030.
- The objective is to reinforce the renovation rate for public buildings to 5% per year.

According to a survey carried out in 2020, 63% of detached houses, 52% of terraced houses, 63% of large apartment buildings and 77% of small apartment buildings are not insulated. While this is a significant improvement on 2012 figures, there is still plenty of room for improvement. The HTFS aims to ensure that as much of the building stock as possible reaches or approaches the near-zero energy building (BB) level. For the existing building stock, this can be achieved through deep renovation, but at a significant cost to the owner," the TIM study notes.

Proportion of insulated residential buildings in 2020 and 2012

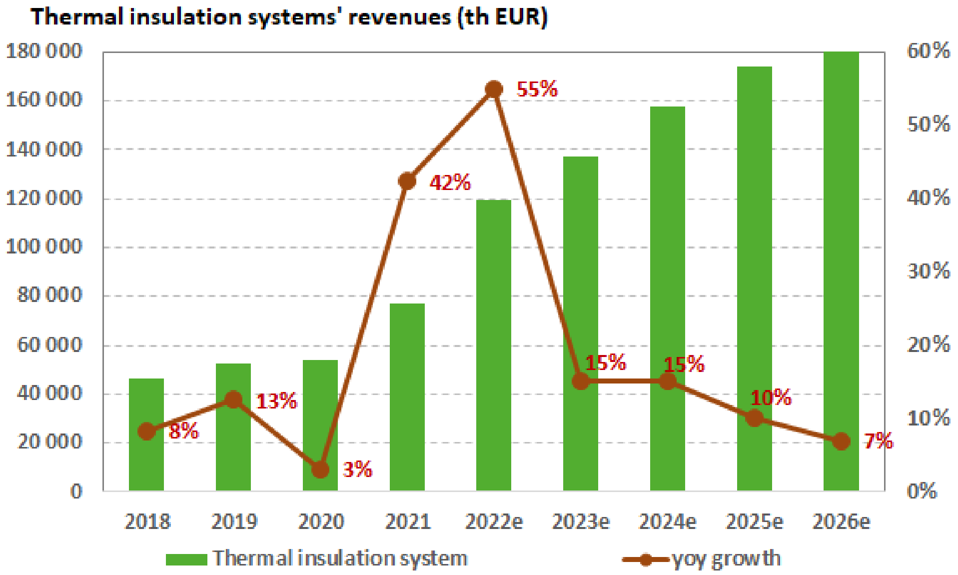
Thermal insulation	Family houses	Tower block	Big multihousehold buildings	Small multihousehold buildings
2020				
Insulated	33%	44%	26%	16%
Not insulated	63%	52%	63%	77%
Partially insulated	1%	4%	7%	6%
Not identifiable	4%	0%	4%	1%
2012				
Insulated	23%	37%	18%	16%
Not insulated	76%	58%	80%	82%
Partially insulated	1%	5%	1%	1%
Not identifiable	1%	0%	0%	1%

Source: MultiContact Consulting, TIM, OTP Multi-Asset Strategies

The study by the National Association of Building Contractors (ÉVOSZ) (which was presented by Tibor Dávid, President of the National Building Materials Manufacturers' Association (HÉT) in mid-July) models a typical 9x9 metre Kádár cube, whose thermal envelope will be created by insulating the plinth, the façade and the attic, and by replacing the façade windows and doors with triple glazing and plastic. The total investment will amount to a net investment of HUF 5 million, which will halve the overheads of the Kádár Cubes. Consumers who are fully covered by the subsidy will be able to make a return on their investment in 7-8 years, while those who will pay market prices for half of their consumption will be able to recoup their investment in 5 years. This could encourage people to renovate and insulate their homes despite the adverse macro environment.

Sales in the thermal insulation systems segment grew by 63% in the first half of the year. As the second half of the year, the autumn months, are seasonally stronger, and renovation spending is expected to remain strong before the end of the year when many subsidies run out, this implies strong growth for the full year. While high interest rates, fiscal tightening, falling real incomes or slowing economic growth could act as headwinds as early as the second half of the year, we still expect the segment to be able to deliver 55% growth in 2022.

The deterioration of the macro environment may become noticeable in 2023 with the expiry of the Hungarian subsidies, but these negative effects will be offset by the start of own production facilities in 2023 (Kál EPS, Szabadka XPS, Italian EPS), plus the high energy bills and the generally favourable regulatory environment resulting from EU directives, together with financing subsidies, implying a continued strong overall demand for insulation materials. As a result, we expect revenue growth of 15-15% in the segment by 2023-24, steadily declining to a long-term growth rate of 4% in the following years.



Source: Masterplast, OTP Multi-Asset Strategies

II. Modular construction

The company sees modular builing as a strategic product for the coming years, with mass production planned to start in 2023 and a strong upturn in sales expected. A 2019 study by McKinsey (Modular construction: from projects to products) looks at modular (prefabricated) building technology, its advantages and disadvantages, and its potential and risks.

1. Short description

Broadly speaking, modular construction involves the manufacture of standard building elements in an external factory and their assembly on site. Modular construction is a broad concept, including only the prefabrication of certain wall sections, the assembly of the whole structure in a factory, or even the construction and delivery of a complete house. Although it is not a new concept (see prefabricated housing), the method is attracting a lot of interest and investment. The method is best suited to elements that can be reproduced, transported by land and, of course, where the logistical costs do not exceed the savings from in-plant production.

2. Potential gains

The main benefits include reduced construction and subsequent renovation/maintenance costs, accelerated construction pace, less uncertainty in construction time and costs, and better quality of the finished buildings (both from a seismic and energy efficiency point of view). Modular construction can speed up construction speed by 20-50% (speeding up design by about 15% and allowing the foundations and panels to be built in parallel) and, under the right conditions, reduce costs by 20% compared to conventional construction.

3. **Trends**

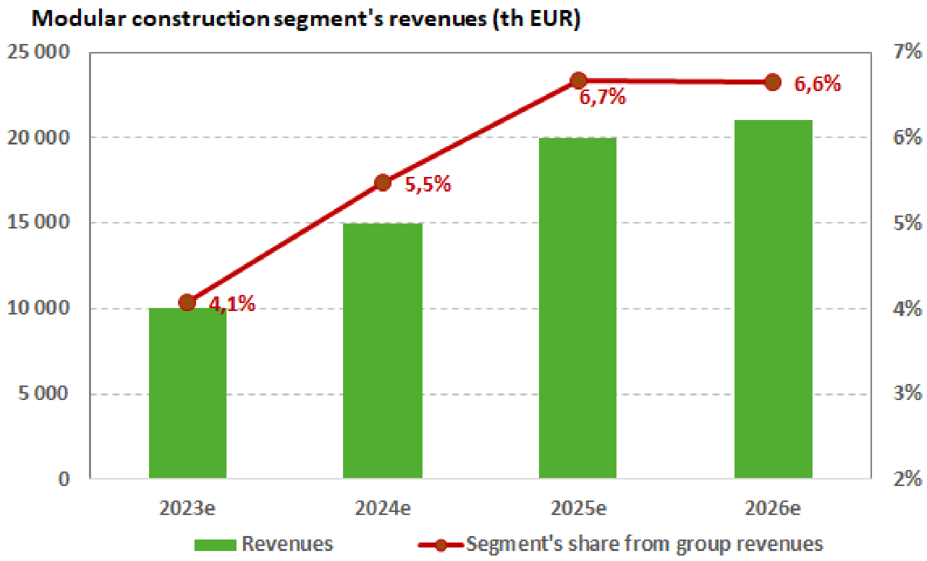
By 2030, modular construction could account for more than USD 130 billion of the new construction market in Europe and the US - by comparison, new construction spending in 2017 was around USD 1,027 billion - and annual cost savings could reach USD 22 billion. Globally, construction productivity lags behind other sectors by USD 1.6 trillion, so this development could provide a boost to a relatively underdeveloped industry. Modular construction technology has been firmly established in only a few countries, such as Scandinavia and Japan. However, thanks to new building materials and digitalisation technologies, quality and productivity have improved, as well as design and variety, so the current renaissance of modular technology could be more sustainable and widespread.

Factors contributing to the uptake of modular construction:

- standardised framework, buildings can be completed much faster, on time and to a much higher quality standard.
- a shortage of skilled labour, which drives up wages and costs and may encourage firms to switch to cheaper technology.
- other drivers include the need to simplify supply chains and logistics, the constraints of on-site construction, the availability of raw materials, and the perception of quality by consumers (e.g. modular construction is cost-effective, environmentally friendly, or sells well in hotels, municipal housing).
- and the final factor is regulation, as quality certification standards and guarantees make it much easier to build buyer (and investor) confidence, but governments' reliance on modular construction for public projects can also provide a stable demand.

The transition is more profitable for firms when they produce a minimum of around 1,000 units per year, with the next efficiency leap at around 5,000 units per year. Value chain integration, design optimisation, digitalisation and data harnessing, automation of factory production, and building capabilities (and specialisation) are also important. Companies that follow these guidelines can achieve cost reductions of up to 30% overall.

Modular construction is still in its infancy in Hungary and the region, and Masterplast is able to enter the higher-margin construction market at an early stage, without any significant competition. The longer-term trends are positive, there are already positive examples of the product in the West and, based on the company's market experience, there is a strong interest in modular buildings in the region. However, given the company's lack of substantial experience in this area and the lack of a sold product we expect a slower ramp-up, with the segment reaching 1,000 units and revenues of around EUR 20m by 2025 (which could account for 6.7% of total revenues by then), following sales of 500 units in 2023 (which was forecasted by the management).



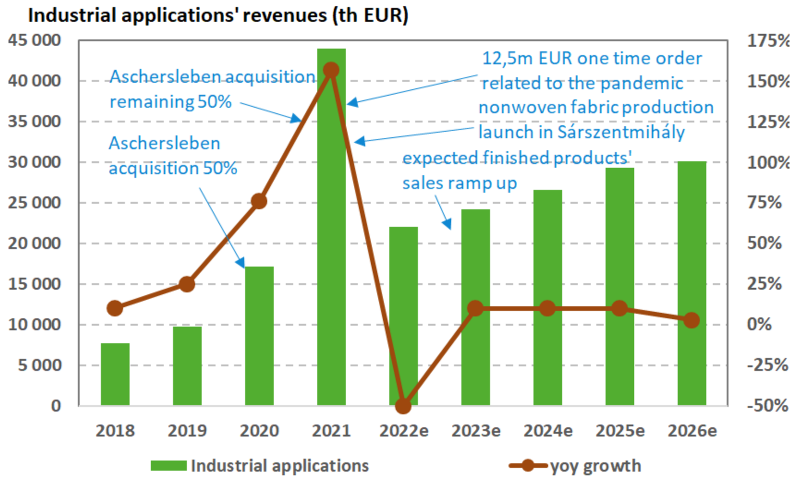
Source: Masterplast, OTP Multi-Asset Strategies

Medical Division

Masterplast Group's Healthcare business specialises in the production of healthcare textiles and finished products. It serves the needs of the healthcare industry with a wide range of single-ply nonwoven fleece fabrics, as well as film-combined, multi-layer nonwoven textiles and finished products, based on 25 years of manufacturing experience and a high degree of automation, from its factory in Aschersleben, Germany.

As the demand for medical masks and protective equipment made of nonwoven fleece materials increased significantly during the pandemic, the company achieved strong revenue growth in both 2020 and 2021. The industrial applications segment, which includes healthcare products, generated revenues of EUR 44 million in 2021, more than quadrupling the revenues generated in 2019. One-off items also contributed to this performance in 2021, as the Hungarian government ordered EUR12.5 million worth of protective overalls for epidemic control. With the pandemic winding down and one-off items boosting the base, a 50% drop in the segment is expected in the first half of 2022, with the German factory now back to producing a large proportion of roofing membranes at pre-pandemic levels.

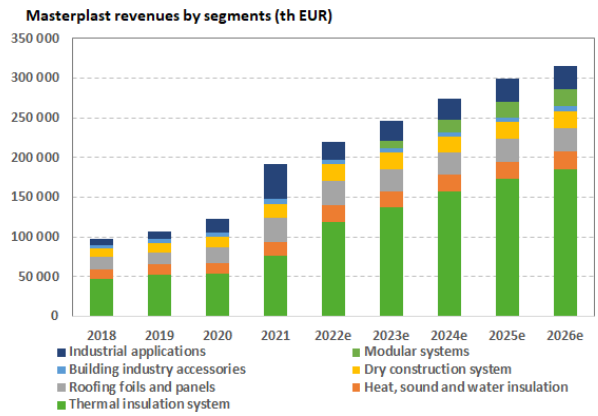
The production of finished healthcare products is expected to start to ramp up from 2023 onwards, once the necessary certifications are obtained, which should again generate stable revenue growth in the industrial applications segment, with an average growth of 8.3% expected for 2023-26. As the hygiene aspects of nonwoven fleece-based products (disposable bed linen and examination table covers, disposable sheets, moisture-proof bed mattress covers) could continue to show trend growth after the pandemic has passed, Masterplast could act as a substitute for imports for hospitals in Hungary, offering better value for money compared to foreign competitors (partly due to lower transport costs).

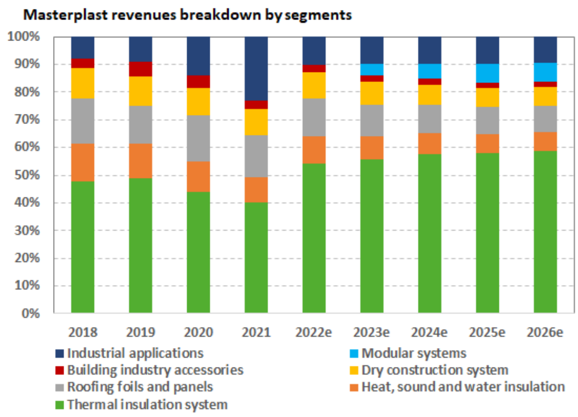


Source: Masterplast, OTP Multi-Asset Strategies

Earnings outlook

In the years ahead, the company's revenue dynamics will be driven by strategically prioritised product groups. We expect the thermal insulation systems segment to deliver the highest annual revenue growth in the coming years, while for other construction-related products we expect average annual revenue growth of less than 1% between 2023-26 due to the unfavourable macro outlook. Healthcare products are less cyclical, with stable growth driven by business development, and we expect growth in modular buildings in the coming years. The three product groups are expected to account for 75% of revenues by 2026.

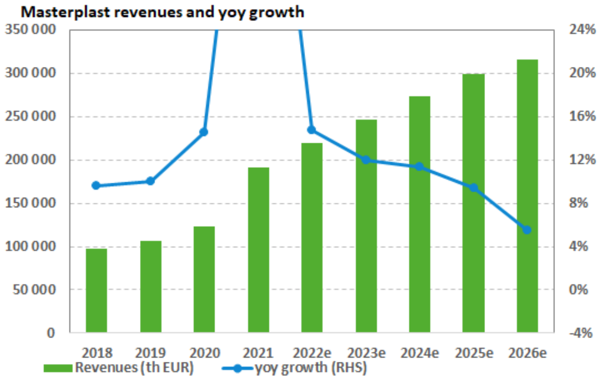


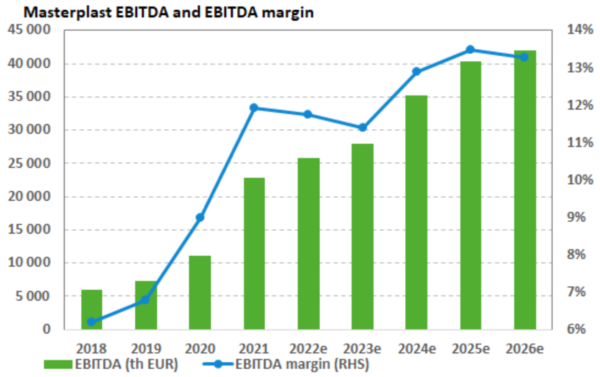


Source: Masterplast, OTP Multi-Asset Strategies

Revenue growth dynamics are expected to be strong in 2022, with a 14% increase in the first half of the year, mainly due to thermal insulation systems. Demand for the segment's in-house manufacturing capacity, which will start production in 2023, and for insulation materials will remain strong due to high energy prices, and the start of modular manufacturing and finished healthcare product sales should drive even stronger growth next year, after which we expect a gradual normalisation (2022-26 CAGR: 10.6%).

In the first half of 2022, the company realised an EBITDA margin of 12.5%, despite a halving of revenues in the healthcare segment (also explained by one-off orders for protective clothing in the base period), which provides a good basis for high margins for the rest of this year. However, high margins were also helped by higher advance stocking and, in the meantime, a rapid rise in product prices. However, this trend could reverse as economic growth slows, high prices erode demand for products and supply chain problems ease, leading to weakening margins in the next 1-1.5 years as headcount rises and wage developments (2021: 11.9%, 2022: 11.8%, 2023: 11.4%). In any case, in the coming years, the share of own production will increase and the weight of higher-margin segments in the product mix will grow, which could allow EBITDA margins above 12% to be achieved again from 2024. EBITDA could thus grow by an average of 13.1% per year in 2022-26.





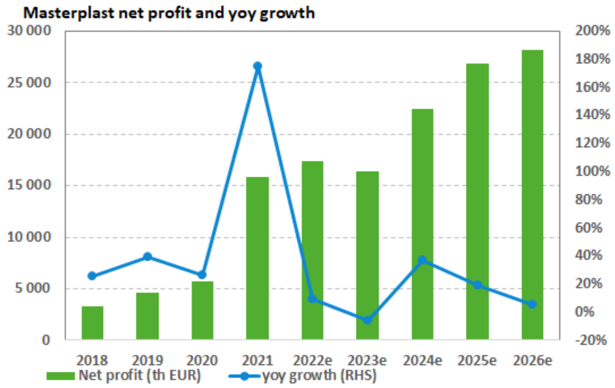
Source: Masterplast, OTP Multi-Asset Strategies

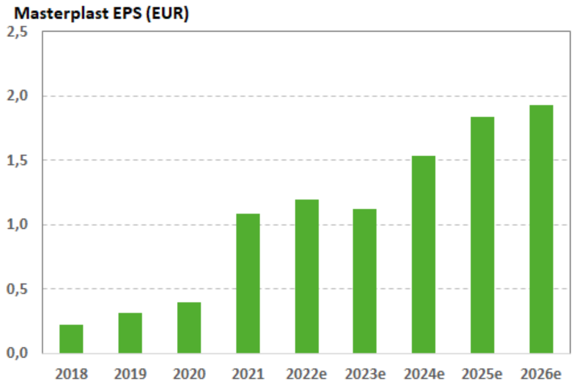
Our revenue growth expectations are 4% and 10% below management's forecast at the beginning of the year in 2023 and 2024, respectively, due to a negative macro outlook and a more conservative approach to modular production. For similar reasons, we are also slightly more pessimistic on the EBITDA margin, with our EBITDA expectation for 2023-24 already 14-16% below management's forecast.

Management guidance (January of 2022) vs OTP forecasts		2022e	2023e	2024e
	Masterplast	215	255	305
Sales revenues (million EUR)	OTP	220	246	274
	OTP vs Masterplast	**2%**	**-4%**	**-10%**
	Masterplast	26,6	33,4	40,9
EBITDA (million EUR)	OTP	25,8	28,0	35,3
	OTP vs Masterplast	**-3%**	**-16%**	**-14%**
	Masterplast	12,4%	13,1%	13,4%
EBITDA margin (%)	OTP	11,8%	11,4%	12,9%
	OTP vs Masterplast	**-0,6%**	**-1,7%**	**-0,5%**

Source: Masterplast, OTP Multi-Asset Strategies

The company's debt levels have risen over the past year, which will also increase interest expenses in the coming years, but by the end of the forecast horizon, strong free cash generation will also start to increase interest income on deposits, so we expect net profit to increase by 13.1% per year on average between 2022-26, but EPS could still rise to a high of EUR 1.9 by the end of the period. The company can pay out up to 50% of its after-tax profit in the form of dividends, so as we do not expect any further significant expenditure beyond the investments announced so far, we expect the dividend trajectory indicated by management (2023:66Ft, 2024: 77Ft, 2025: 88Ft, 20026: 99Ft), implying a payout ratio of 14-17% (at EURHUF 400). After 2022, the company will pay a dividend of HUF 55 on 10 October, with the last day to buy shares in the hope of a dividend being 29 September.





Source: Masterplast, OTP Multi-Asset Strategies

Financing structure

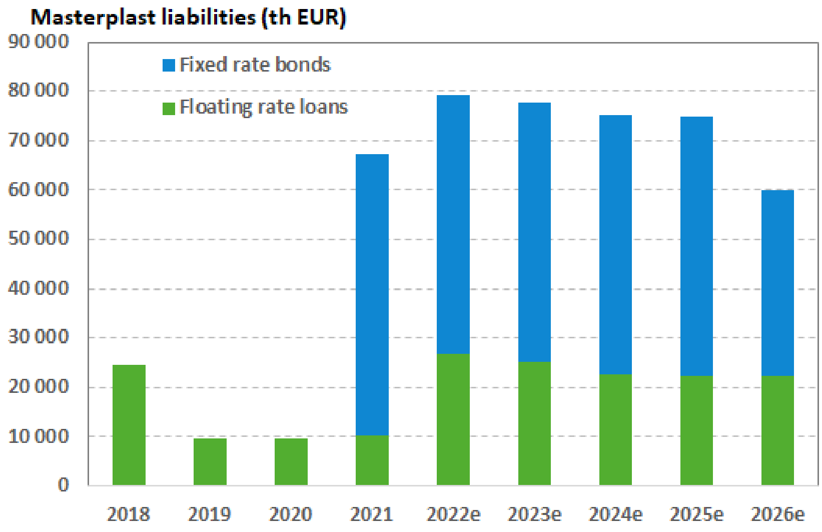
The Group participated in the Funding for Growth Program (NKP) announced by the MNB in 2019, 2020 and 2021, under which it issued a total nominal value of HUF 21 (6-6-9) billion in fixed rate (2-2.9% per annum) bonds.

Masterplast bond issuances under the Funding for Growth Program					
Settlement date	Short name	Maturity date	Nominal amount, HUF bn	Coupon (fix)	Margin (vs HUF swap), bps
2019.12.06	MPHUF26	2026.12.06	6	2,0%	100
2020.12.21	MPHUF27	2027.12.21	6	2,1%	84
2021.08.25	MPHUF31	2031.08.25	9	2,9%	10

Source: Masterplast, OTP Multi-Asset Strategies

- The funds raised from the 2019 issue were used to restructure the financing. The proceeds from the bonds issued in HUF were disbursed to its subsidiaries as a parent company loan in EUR, the whole of which was used by the companies to refinance their existing loans. In order to optimise the exchange rate effects resulting from the transaction recorded in different currencies and the interest costs, the Group entered into a CCIRS hedge in December 2019. The cash flows of the CCIRS transaction and the bond are matched in time and amount, hence the change in the value of the underlying product is fully compensated by the hedge and, as a result, the bond liability amount can be considered as a fixed rate euro liability of 1.08% in practical terms.
- The proceeds from the bonds issued in 2020 and 2021 will be used entirely to finance the Group's ongoing and future investments.

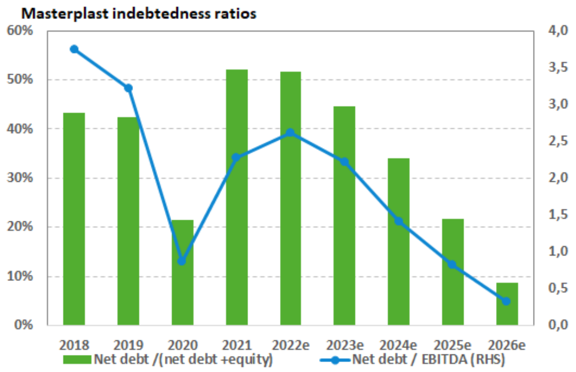
Thanks to bond issues, the company was able to raise funds at very favourable interest rates for the following years, with bonds with fixed annual interest rates of 2-2.9% accounting for nearly 85% of its liabilities by the end of 2021. In addition, Masterplast also has floating-rate loans in foreign currency (disbursement currency: euro, Serbian dinar, Romanian lei), which are either current, investment or working capital loans. The interest rate on euro loans is typically 200-250 basis points above EURIBOR, based on year-end last year data, with a premium of 333 basis points for the Serbian dinar loan and 100 basis points for the Romanian lei. Outstanding lease commitments are not significant.

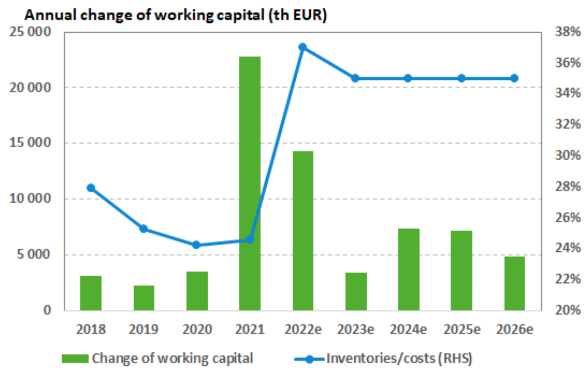


Source: Masterplast, OTP Multi-Asset Strategies

The company's indebtedness have risen in recent years, with the net debt to net debt + equity ratio climbing from above 40% in 2018-19 to above 50%, but the net debt/EBITDA ratio has declined from above 3 to a comfortable 2.5, with covenants on debt requiring a group-wide ratio of below 3.5. In the coming years, the debt ratios could decline further as profit generation rises (with no further substantial investment programme beyond what has already been announced). Accordingly, Scope Ratings affirmed its BB- investment grade rating with a stable outlook (Credit Ratings at the BB level reflect an opinion of moderate credit quality) in July.

The impact of the pandemic is to increase the need for stockpiling, which will imply a higher working capital requirement in 2021. Although inventory levels are expected to start to decline from the high levels seen in the first half of the year, the strengthening of in-house production will mean maintaining essentially higher inventory levels than seen in previous years.





Source: Masterplast, OTP Multi-Asset Strategies

Ownership structure and management

The company is still majority owned (58%) by the two founders, Dávid Tibor, Chairman of the Board and Balázs Ács, Vice Chairman of the Board, the CEO holds 0.7% and the free float is 36%.

Dávid Tibor – Chairman of the Board

Dávid Tibor is one of the founders of the company, CEO until 2017, then Chairman of the Board since 2008 and Chairman of the Board since February 2011. In 2007, he was named "Promise of the Future" in Ernst & Young's Business Person of the Year Awards. In 2008, he was named one of the three most creative business people in the world by Junior Chamber International in New Delhi. He is actively involved in further developing the Hungarian construction materials industry and increasing the efficiency of the logistics supply chain. He does this as the President of the National Construction Material Producers' Section of the National Association of Construction Contractors (ÉVOSZ). He is also a board member of the National Federation of Employers and Industrialists (MGYOSZ).

Balázs Ács – Vice Chairman of the Board

Balázs Ács is a co-founder of the company, he was involved in its predecessor as a company director between 1998 and 2008, he has been the Managing Director of Masterplast Ltd. since 2008, a member of the company's Board of Directors since 2008, and a member of the Board of Directors since February 2011, and Vice Chairman. He graduated in civil engineering from the Széchenyi College in Győr in 1999 and is a member of the National Construction Materials Manufacturers' Association (HAMM), established under the auspices of the National Association of Construction Contractors (ÉVOSZ). He has been involved in building and managing the logistics system, technical and manufacturing background.

Margaret Elizabeth Dezse – Member of the Board

Margaret is a former Partner of Ernst & Young (EY). She has spent a total of 35 years with the Big 4. Within that period, Margaret was a Partner for 20 years in the areas of Transactions Advisory and Corporate Finance, initially with PwC and the final 10 years with EY. She has been involved in hundreds of transactions as an advisor, assisting clients in a wide range of industries in making strategic and investment decisions over these 30 years. Further to Masterplast, Margaret is presently an Independent Member of the Board of Directors of Kometa 99 Zrt, as well as Independent Member of the Supervisory Board, and Chairman of the Audit Committee of Echo Investment S.A., and also serves as a member of Supervisory Board of United Way Hungary (a not-for-profit foundation) as well as of Impact Ventures, a social impact-oriented venture capital fund.

Dirk Theuns – Member of the Board

Dirk Theuns started his career as a sales and marketing manager at Atab, a leading roofing and waterproofing manufacturer in the Benelux countries. During the first decade of his career, he mainly focused on commercial and business development of Atab's home markets, and strongly developed the export business in Scandinavia, South-East Asia, central and eastern European countries. From 2002, he became the European business development manager of IKO. He is the CEO of several IKO companies in Belgium, the Netherlands, and France. He is a member of the Board of Directors of the Chamber of Commerce of Antwerp. He is the President of the 'Economic Plan 2020' project, supported by the Flemish Government, which aims to develop and support subsidiaries of Flemish multinationals and international group companies.

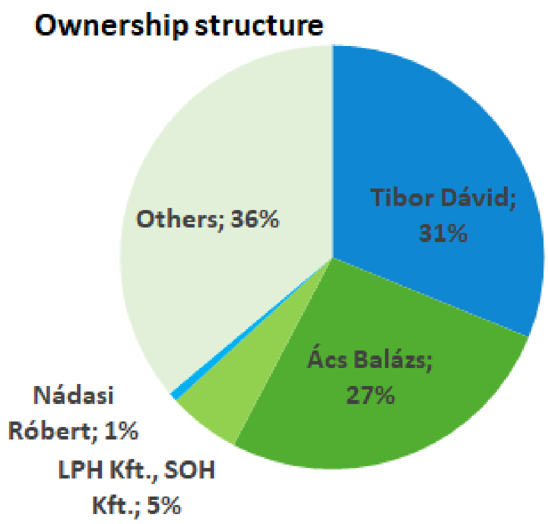
Bálint Fazekas – Member of the Board

Bálint leads day-to-day operations at Vöröskő Ltd. (Euronics Hungary), the largest Hungarian-owned electronics retailer. With 1,090 employees and 65 stores throughout the country, they provide expert advice to the consumers. He has led a strategic planning project for the senior management of Europe's largest CE buying group, Euronics International in Amsterdam, that incorporates over 20 billion EUR turnover across the continent. In 2017 he has taken over the first group of the family holding Euronics

Kft as a managing director, which is responsible for all international bonuses and marketing. As a first step in reshaping the 30+ years old family business, he has acquired one of the oldest electronic brands in the region to set foot in manufacturing with a very clear vertical integration intent.

Róbert Nádasi – CEO

Róbert Nádasi is a financially and business-minded manager with 17 years of experience as a business leader in a multinational environment. He worked at KPMG, then for seven years from 1993 to 2000 he was Finance and Accounting Director of PHILIPS Hungary Kft., and from 2000 to 2010 he was Finance and Accounting Director of Johnson & Johnson Kft. Head of Shared Services and CFO of the Medical business. He joined Masterplast's management in August 2010 as CFO and was responsible, among other things, for the management of the finance, accounting, controlling and IT areas, for the development of the Group's complex business plan and for the organisation, management and control of its financial activities.



Income statement (th EUR)	2020	2021	2022e	2023e	2024e
Sales revenues	**122 673**	**191 489**	**219 684**	**245 874**	**273 885**
Cost of materials and services	-95 790	-146 994	-170 491	-188 085	-207 296
Payroll costs and contributions	-16 197	-21 395	-28 527	-35 748	-38 268
Depreciation	-2 873	-4 556	-5 895	-6 998	-7 321
Change in inventories	970	4 173	4 561	5 958	6 949
Other operating result	-580	-4 442	600	0	0
EBIT	**8 203**	**18 275**	**19 932**	**21 001**	**27 948**
EBIT margin (%)	*6,7%*	*9,5%*	*9,1%*	*8,5%*	*10,2%*
Interest revenues	388	351	596	986	1 161
Interest expenses	-922	-1 451	-2 474	-2 526	-2 423
Other financial result	-334	1 136	2 045	0	0
Financial income/loss	**-868**	**36**	**167**	**-1 540**	**-1 261**
Profit/loss from assoc.	8	259	282	298	396
Profit before tax	**7 344**	**18 570**	**20 382**	**19 758**	**27 083**
Tax	905	2 499	2 743	2 964	4 062
Effective tax rate (%)	*12%*	*13%*	*13%*	*15%*	*15%*
Profit after tax	**6 439**	**16 071**	**17 639**	**16 795**	**23 020**
Minority	671	210	241	363	562
Net profit (attr. to owners of parent)	**5 768**	**15 861**	**17 399**	**16 432**	**22 459**
Net profit margin	*4,7%*	*8,3%*	*7,9%*	*6,7%*	*8,2%*
EBITDA	**11076**	**22831**	**25828**	**27999**	**35269**
EBITDA margin (%)	*9,0%*	*11,9%*	*11,8%*	*11,4%*	*12,9%*
EPS (EUR)	0,4	1,1	1,2	1,1	1,5
EPS (HUF)	144	401	477	450	615
DPS (HUF)	0	44	55	66	77
Payout ratio	0%	31%	14%	14%	17%

Revenues by product groups (th EUR)	2020	2021	2022e	2023e	2024e
Thermal insulation system	54 110	77 008	119 362	137 267	157 857
Heat, sound and water insulation	13 397	17 019	21 274	20 210	20 210
Roofing foils and panels	20 177	29 652	29 652	28 169	28 169
Dry construction system	12 351	17 969	21 563	20 485	20 485
Building industry accessories	5 499	5 824	5 824	5 533	5 533
Modular systems	-	-	-	10 000	15 000
Industrial applications	17 140	44 018	22 009	24 210	26 631
Total sales revenue	**122 673**	**191 490**	**219 684**	**245 874**	**273 885**

Balance Sheet (th EUR)	2020	2021	2022e	2023e	2024e
Land, buildings and equipments	48 904	89 624	106 393	111 301	111 740
Shares in related companies	299	553	835	1 133	1 529
Total fixed assets	**54 425**	**91 002**	**108 053**	**113 259**	**114 094**
Inventories	25 084	47 088	63 082	65 830	72 554
Trade accounts receivable	16 755	21 011	26 362	29 505	32 866
Liquid assets	33 267	15 382	12 160	14 281	24 694
Total current assets	**77 501**	**88 171**	**106 294**	**114 305**	**134 804**
TOTAL ASSETS	**131 925**	**179 173**	**214 347**	**227 564**	**248 898**
Subscribed capital	5 504	5 504	5 504	5 504	5 504
Reserves	23 837	28 606	42 459	57 449	71 070
Parent share of interests	5 768	15 861	17 399	16 432	22 459
Equity attributable to the owners of th	34 970	47 719	63 110	77 133	96 780
Minority interests	1 899	646	887	1 249	1 811
Total capital and reserves	**36 869**	**48 365**	**63 997**	**78 382**	**98 591**
Long- term loans	3 926	4 152	12 397	8 055	4 957
Bonds payable	32 772	56 836	52 500	52 500	52 500
Total long-term liabilities	**44 996**	**92 064**	**95 973**	**91 631**	**88 533**
Short-term loans	5 914	6 063	14 617	15 327	16 860
Trade accounts payable	13 306	16 790	23 869	26 332	29 022
Other short-term liabilities	24 828	4 678	4 678	4 678	4 678
Total short-term liabilities	**50 060**	**38 745**	**54 378**	**57 551**	**61 774**
TOTAL CAPITAL AND LIABILITIES	**131 925**	**179 174**	**214 347**	**227 564**	**248 898**
Net debt	9 614	51 968	67 653	61 901	49 922
Indebtedness	22%	52%	52%	45%	34%
Net debt / EBITDA	0,9	2,3	2,6	2,2	1,4
Liquidity ratio	1,5	2,3	2,0	2,0	2,2
Leverage ratio	28%	27%	30%	34%	40%

Cash Flow statement (th EUR)	2020	2021	2022e	2023e	2024e
CFO	8 542	-1 441	10 864	21 607	23 811
CFI	-15 219	-46 902	-22 068	-10 920	-6 599
CFF	35 546	29 236	7 982	-8 567	-6 799
CF	**28 868**	**-19 107**	**-3 223**	**2 120**	**10 413**

Source: Masterplast, OTP Multi-Asset Strategies

The valuation methodology used in this present equity research note to determine our price targets and recommendations is available here. (Also available in Hungarian)

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